Media Room Article
“Six Big Ideas for your Supply Chain”

Article by: Chris R Deans CPA, CPIM

Chris has been in Supply Chain Management over 20 years. He has crafted SC strategy and managed large-scale operations for several Fortune 100 companies and FEMA. Currently per-forming Lean consulting in Asia, Chris also teaches Supply Chain Management for Webster University's EMBA program and is a published author.

In an economy experiencing the type of growth China has over the past decade, the primary focus of business becomes managing growth and increasing market share. Best-practices are often sacrificed for expediency, resulting in extra cost and risk. Although gross profit may be increasing, profit margins definitely are not. Eventually growth comes to an end, whether by competition or economic conditions, and companies scramble for cost containment. This edition of 'Supply Chain 101 - Back to the Basics.' a regular CHaINA column, outlines six non-capital intensive ideas you can consider to get control of your costs and quickly improve profitability.

1 Align the Organization

In the frantic scramble to eliminate cost, one of the most critical responsibilities of Senior Management is to map out a sustainable strategic plan. But merely having a plan is not enough. Not only must it be understood throughout the entire organisation, rewards mechanisms must be quickly installed to reinforce it and ensure alignment throughout the value chain. Internal and external functional entities must be aware of their respective roles and how each relates to the others. Communication should be copious and corrective action swift and precise.

2 Process Mapping

W. Edwards Demming said, "A bad process will beat a good person every time". The first step is to clearly understand the desired end state. Then mapping a process can be as simple as diagramming an operation by observation; interviewing, no matter how sincere, is never accurate. Often merely creating the diagram will reveal some wasted steps. The final step is to thought-fully compare the diagram with the desired end state, eliminate superfluous steps and modify the process to close the gaps.

3 Partner with Suppliers

Suppliers should be considered esteemed upstream partners of the value chain. Quickly renegotiate supplier contracts to reflect the new economic realities. Offset IP risks with frequent visits, close relationships, collaborative forecasting and mutual planning. Capture vendor's loyalty by tying their success to yours. New cost savings must be shared with upstream partners as you are both investing in mutual survival.

4 Manage Inventory

Think about inventory in new ways. Categorize inventory based on its application then consider how to deal with entire categories. Review EOQ calculations based on the new economic realities. Inventory is a function of time and information: cutting lead times or getting more accurate information has a direct impact in inventory balances. True kanban will slash WIP. Re-think kanban container/lot sizes. Stress manufacturing processes to reveal bottlenecks and islands of WIP. Partnering with suppliers will reduce RM and components. Start cycle counting. Ratio-nalize/optimize transportation networks and pipeline inventories. Apply Lean ideas to DRP (Distribution Resource Planning).

5 Rationalize Customers

Perform a Pareto analysis on your customers based on net profitability. Total cost-to-serve must be thoughtfully allocated in an equitable manner. A careful analysis of 'C' customers will reveal net losers which should be shed from your customer port-folio: let your competitors deal with the high-maintenance, costly customers.

6 Apply Lean Manufacturing Principles

The principles of Lean Manufacturing are universal. The first step in any Lean initiative should be to know the customer and clearly and unequivocally understand what s/he values. This is the fulcrum of any profitable business transaction. Without it, you cannot know what is a value-add and what is waste.