

# Supply Chain Link to the Bottom Line Debunking 5 Myths

By Dan Ross

START

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Let's put this on the table: American manufacturing is unmatched. When it comes right down to it, I'll assert that no other country or industry matches our work ethic and our eagerness to improve productivity through new technologies. Whether you love the acronyms or hate 'em, our production lines and value chains have improved exponentially as a result of EDI, MRP, ERP, SCM, and APS. However, a case can be made that manufacturers can still extract tremendous value out of these systems by re-thinking and re-designing their supply chains with innovative inventory strategies. And in today's unforgiving economy, leading companies realize that the supply chain is a key area to examine for improved efficiency.

There are five 'myths' that represent major challenges for operations and supply chain managers. These myths include misperceptions about corporate economic performance and customer satisfaction, along with a sprinkling of rules of thumb. However, there are strategies that companies can implement – today – that will have a measurable, positive effect on their supply chain performance, and ultimately, the bottom line and shareholder value.

**Myth #1:** The supply chain never travels along Wall Street.

**Reality:** Supply chain glitches go straight to the bottom line. A Georgia Institute of Technology study found that, after a supply chain disruption, a company stock price plunges an average of 8.6 percent and shareholder wealth falls by \$120 million.

**Imperative:** The supply chain is a strategic weapon – start using it like one.

**Myth #2:** Improving customer service levels means carrying inordinate amounts of inventory.

**Reality:** There are new innovative inventory placement strategies that can actually reduce inventory costs and increase service levels (and profits) – simultaneously. By understanding the cost structures of each component of your supply chain (lead times, work-in-progress, finished goods, demand uncertainty) and dollarizing them, you understand and control their ripple effect across the global supply chain.

**Imperative:** Leverage the “cost versus service” tradeoff to your advantage.

**Myth #3:** Global supply chains, by their very nature are too unwieldy to manage.

**Reality:** As with any large project, it's best to divide the task into manageable chunks. Prioritize the most pressing supply chain problems to solve and dollarize them. Pick one portion of the supply chain or product line to improve and dig in. Use the ROI and lessons learned from that project to implement another phased improvement. The trick is to find a solution that leverages existing data and demonstrates results on an initial challenge that can be repeated at multiple levels of the organization.

**Imperative:** Focus on a point solution that will bring substantial results in one or two quarters.

**Myth #4:** There's no way you can recession-proof a supply chain.

**Reality:** Not only can you recession-proof a supply chain, but you can also design your supply chain as a competitive business weapon with sensitivity to demand uncertainty. Every corporation, especially in a sluggish economy, has the opportunity to grab market share away from their competitors. You know the expression “showing up is half the battle”? The same can be said of efficiency indicators within supply chain operations: getting on the shelf is half the battle! You can't make the sale if the customer doesn't find your product on the shelf.

**Imperative:** Internal improvements are even more strategic in a recession.

**Myth #5:** As long as I select the lowest priced option, I'm helping the bottom line.

**Reality:** This practice can lead to higher inventory carrying costs, greater risk of inventory write-downs and long cycle times. The micro view creates inflexible supply chains, ignores potential inventory exposure, and can even lead to additional expenditures that eat away at overall profits as products get closer to market. In today's aggressive business environment, where more products proliferate and product life cycles contract, inventory holding costs and time-to-market considerations must be addressed as part of supply chain design.

**Imperative:** Get supply chain stakeholders on the same page in order to make intelligent, data-driven supply chain decisions that meet key business objectives.

## The Truth Will Set You Free

As an economic turnaround remains just over the horizon, manufacturers need to rethink certain assumptions about building and managing supply chains. By staying true to overall business strategy when designing the supply chain, companies can move toward better competitive advantage and stronger financial performance.

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