

Executive Comment: Ten Steps to Supply Chain Success



By Marcus Ruark
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The move is on for enterprises of all sizes to collaborate, connect, and share information to improve supply chain efficiencies.

Customers, suppliers, and distributors are evaluating and deploying dozens of component solutions that address specific aspects of supply chain management -- design, planning, sourcing, scheduling, and execution. The common goal of each of these elements: supply chain optimization.

Companies still sitting on the sidelines wonder whether optimization technologies are too complex or cost-prohibitive to implement. In truth, optimization solutions can be rolled out like any other new technology, with pilots that demonstrate a clear-cut path to return on investment (ROI).

These guidelines for delivering tangible results are based on dozens of real-world manufacturing experiences with supply chain optimization.

- 1) Start at the source. The best place to begin optimizing the supply chain is during design and sourcing, where 80% of a company's supply chain costs are irretrievably locked in.

For example, a company considering two prequalified sources for a component often chooses the supplier with the lowest purchase price, irrespective of other dimensions like lead time and quality. Why are these other dimensions important? The inventory costs associated with an inflexible supplier can nullify any of the original "lowest cost per component" savings. These complex interactions must be considered when designing and sourcing the best possible supply chain.

- 2) Keep your eye on the prize. Understand which key strategic goals speak most closely to overall company objectives. Are the objectives to reduce total cost, cut cycle time, or improve customer service levels? Optimize the supply chain to achieve these goals.
- 3) The whole is greater than the sum of its parts. Focus on total system performance rather than functional or departmental performance, particularly in complex, multi-enterprise supply chains. The most compelling benefits come to the company that treats its entire, end-to-end supply chain with a holistic-rather than local-optimization approach. Think of the supply chain as an interdependent network, not individual silos; enhancements will have a ripple effect that positively affects other areas of the company.
- 4) Plan for the unexpected. Factor in demand and supply uncertainty, and ensure the flexibility to test dynamic "what if" situations across the entire chain. Some of the more robust optimization models now accommodate this unpredictability, which is still outside the realm of daily planning and execution solutions.

- 5) Use reality as the basis. Make sure that the supply chain optimization strategy can handle real-world constraints, including policies, implementation barriers, or other organizational constraints. A solution that addresses 80% of inefficiencies in the supply chain and delivers benefits today is infinitely more practical than a "perfect" solution that, in reality, is impossible to deploy. Additionally, seek solutions that succeed with the data already on hand.

- 6) One small step is a giant leap. Understand the metrics for quantifying a rapid, demonstrable ROI. Build agreement about what "rapid" means at the outset. Pursuing shorter-term objectives that can significantly improve financial performance today drives endorsement for future initiatives and the savings to fund them. This tangible payback ensures visibility at the executive level, which increasingly considers supply chain performance as a strategic imperative because of its impact on the bottom line.

- 7) Open the lines of communications. Break down organizational barriers with online collaboration tools that enable more effective decision-making across the entire supply chain. An added benefit: This collaboration supports company wide sharing of transferable skills and knowledge.

- 8) Keep it simple. In order to deliver positive results, supply chain optimization solutions must be easy to use and implement. Ensure that the people who will use the system can understand it and are equipped to modify and update it as needs change. Leverage solutions that require minimal training and integration time; this yields faster results and frees up employees for higher-value projects.

- 9) Does it play well with others? The most effective supply chains ensure a comprehensive, integrated approach, from design through sourcing, ERP, and logistics. If beginning with a single best-of-breed solution, ensure that it will support other supply chain and enterprise applications already in place.

- 10) The time is now. A poorly designed supply chain can be a real business risk to operations and to a company's position in the industry. The wrong inventory levels, suppliers, and contract terms can add unforeseen costs that multiply every day, severely damaging the bottom line.

Powerful solutions to the challenges of optimizing supply chain performance are here now. Companies that make the most of these technologies today will dominate their markets tomorrow.

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