



A Supply Chain Solution Guide

Iguana Business Consultancy Ltd



Introduction

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This document is an overview of the issue and challenges raised by our survey: How agile are the supply chains of SME food & beverage manufacturers in meeting the requirements of their customers? It is intended as a checklist and guide for manufacturers to target the specific issues they face and assist in identifying where to look for solutions.

The research also sought to understand whether, within the current economic climate, SME manufacturers are planning supply chain improvement initiatives and, if so, are they designed to more closely align internal performance with the requirements of their customers. The reality is that businesses have three options during recessionary periods:

- 1 Cut costs
- 2 As demand and throughput reduces, take the opportunity to redefine and improve supply chain processes to minimise the impact
- 3 Re-segment the supply chain in line with the changing customer demands to better reflect supply chain flows

While improvement initiatives are often associated with supply chain optimisation, it is not uncommon for such actions to sub-optimize performance. An example of this might be the procurement team securing a large discount for bulk purchases which impacts the capability of the warehouse function both in storage capacity and stock holding cost, who incidentally, are targeted on reducing inventory. The research conclusions were that much of the supply chain activity was designed to improve internal performance and while there is no evidence to suggest that these initiatives are sub-optimal, there was equally little evidence to support the premise that there was a focus on aligning performance more closely with the customer's needs.

While the assumption is that all organisations seek to optimise their internal processes, successful businesses understand the differing customers requirements and segment the supply chain flows accordingly. The objective of segmenting the supply chain should be to:

- Reduce supply chain complexity
- Understand and reduce supply chain risk
- Develop a sustainable supply chain model
- Create visibility of customer profitability

This approach is recommended as supply chain best practice.

Creating a customer focused supply chain: solutions

- **Mapping the supply chain** from source to customer in order to understand the differing service criteria, resource requirement and associated cost. Most companies will have not one but a number of supply chains i.e. delivering to a customers central distribution warehouse will have a different cost association (driven by service and resource requirements) compared to deliveries to individual retail or catering outlets.
- **Ensuring supply chain metrics** are in place and relevant to your business, both internally and from a customer perspective without creating challenges between functions in conflict, for example: the Production team performance measure is based on production line utilisation while the warehouse team are measured on reducing inventory – a clear and very common conflict of interest.
- **Benchmarking service and performance** against competitors allowing decisions to be made around where to match service and where to exert competitive advantage.
- **Communication with customers** supply chain functions are formalised, where possible, to consistently assess performance and gain early insight into changing demands. Larger customers may already have this in place, but if not, an opportunity exists to proactively initiate such reviews. Feedback from customers suggests that this would be positively received.

One way of quickly assessing the capability & effectiveness is to conduct a **supply chain health check**. This is a cost effective method of assessing processes, systems, resources, skills and capability.



Issues and challenges of managing your supply chain: solutions

The issues and challenges identified by the research can be categorised within the following sections.

1 Supply Chain Planning

- Map planning process highlighting process bottlenecks & constraints.
- Access the demand data available from customers and integrate into the planning process.
- Analyse product data (recommendation is to use Pareto analysis) and differentiate based on volume and demand. Developing this level of understanding will free up the business to focus their efforts on managing the availability of the critical products and plan the optimum inventory levels.
- Differentiate between products driven by demand (pull) and products driven by forecast (push):
 - Demand management: driven by customer requirement. The closer this can be matched to production the lower the need for inventory and the greater the supply efficiencies become
 - Forecast: a prediction of what customers may take in the future. Demand patterns for products can range between those that are stable & highly predictable and those that are extremely volatile & unpredictable. Understanding this will assist in determining where to focus time & planning resource and in the development of inventory optimisation strategies
- Improve forecast accuracy utilising existing system capabilities or, and probably more relevant for most SME manufacturers, using spreadsheet based models that predict future demand peaks and troughs based on historic data.

2 Inventory

- Develop a strategy that incorporates the key inventory drivers:
 - Safety stocks: customer service levels; forecast accuracy; supply variability
 - Cycle stocks: supply cycle; seasonality; supply batch-size
- Analyse product profiles to define optimum inventory levels.
- Introduce continuous improvement initiatives to minimise stock holding and maximise availability.
- By understanding minimum and maximum sku inventory levels, introduce replenishment trigger points that are visible to, for example, production planners and suppliers.

3 Logistics

- Where logistics is in-sourcing, benchmarking cost and service against an outsourcing option would provide valuable insight into current value and options.
- When planning to outsource, ensure that current service and cost is clearly understood, a service specification is prepared and a short list of service providers that can meet the requirements is drawn up. Also consider and plan for the change management demands on the business.
- Increasingly businesses are reconsidering their decision to outsource and moving logistics back in-house. As with outsourcing, ensure that the process is well planned and the business is prepared for the change management demands.
- Where logistics is outsourced, an effective management process is still required to ensure that the service provider complies with the performance and cost criteria.
- Optimising warehouse and distribution assets is a critical requirement with inefficiencies placing a significant & unnecessary cost burden on a business. Ensure that warehouse and transport planning tools are effective for the required job and that people are properly trained on the systems and processes.

4 Systems & Processes

- Are business processes sufficiently defined, understood and actioned?
- Develop a continuous improvement approach to amend and improve processes (techniques to consider are mapping the physical process flow or time based process mapping).
- Establish whether systems are supporting businesses processes or whether business processes are being bent to fit the system.
- Establish whether system functionality is being fully exploited.
- Where systems gaps exist, implement programmes to define requirements and develop specifications to fill them.
- Where a new system, or system upgrade is required, establish a project management team at an early stage with the remit to develop a detailed implementation plan (a critical point which is often

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ignored or insufficiently resourced); manage the implementation and optimise performance post go-live. Bear in mind that, statistically, 90% of implementations initially fail, with all the business disruption and cost implications, due to lack of upfront preparation!

- Develop a detailed plan to manage the business through the change management process.

5 Financial supply chain

- Develop strategies to minimise impact of customers extending payment terms.
- Where capital investment is required, invest time and expertise in building the business case.
- Where capital is required for an investment programme, external assistance may be of value in investigating alternative sources.
- Where investment capital is available, research how to ensure maximum value is leveraged from the programme. Plan in detail in order that benefits can be prioritised and success can be understood & measured.

- External expertise may be a shrewd investment when, for example, equipment & machinery requirements need to be specified & sourced or meeting implementation timelines are critical.
- Developing 'cost to serve' models to based around customer, product and supply chain segmentation.

6 People management

- Developing an in-house project management capability will pay dividends, particularly where there are continuous improvement programmes in place.
- Develop programmes to continuously develop the skills and capabilities of the supply chain teams.
- Developing in role coaching & mentoring programmes will also add value to the capability of individuals, particularly where succession planning would be of value.
- Where significant supply chain initiatives are planned, ensure that appropriate change management programmes have been designed and effectively implemented.



Summary

The purpose of this document is to provide a summarised insight into many of the issues highlighted during the research. For further information on any of the topics raised or for further information on any other supply chain related topic, please contact Iguana Business Consultancy Ltd.

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