



LEADERSHIP THROUGH TRANSITIONS: OPTIMIZING YOUR SUPPLY CHAIN

Is it time to make major changes in suppliers and supplier relationships?

Your company has matured to the point where you have a significant number of outside suppliers of materials and services. If they are either not meeting cost goals or contributing to your strategic intent, it may be time to navigate to new suppliers and/or supply arrangements. Unless you make



this transition successfully, you'll likely miss valuable opportunities.

In this edition of *Executive Issues & Insights*, we explore key

insights drawn from the extensive C-suite and Board experiences of the NextLevel team on how to optimize your supply chain for competitive advantage.

NEXLEVEL CASE STUDY

Manufacturing company turns supply chain into a competitive weapon

A midmarket manufacturing company was squeezed between market pricing pressure and rising costs. It was spending 70 percent of its cost of goods on outside procurement but focusing the most improvement attention on labor costs. The company had difficulty prioritizing improvement for its many commodities and vendors while keeping up with day-to-day order flows and operating pressures.

A new CEO with deep supply chain experience, now a NextLevel team member, made supply chain a priority by using a targeting matrix. The matrix tool highlighted on one page the critical attributes of procured goods and service agreements and their business impact. It readily targeted opportunities with maximum improvement potential across direct costs, indirect costs, and company strategy. Indirect costs (those not on purchase orders, such as inspection hours,

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NEXLEVEL INSIGHTS

Regularly devote time and resources to supply chain improvement

How long has it been since you assessed the effectiveness of your supply chain? If you're just keeping up with operations, you are missing valuable opportunities to use your supply chain to competitive advantage. These opportunities can be easily missed unless you're intentionally devoting a percentage of the organization's time and resources toward periodic assessments and improvement.

Do a thorough analysis of your procurement categories

The first step in assessing your supply chain's effectiveness is to analyze supply categories against a common set of attributes. Some of these could be spend amount, spend increase over time, number of vendors, agreement type, and quality factors such as number of recalls. This analysis will highlight areas where you can make quick improvements, which often result in cost savings to fund larger initiatives. An outside expert can often save valuable time in doing the analysis and quickly point out areas ripe for improvement.

Look at total cost

Any assessment of supply chain should look not only at price, but total cost, including direct, indirect, and operations spending. Direct spending shows up on the purchase order. Indirect spending doesn't go through the procurement process

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vendor certification, customer claims, etc.) had a sizable impact and were a key element of the matrix targeting. Also, by highlighting the impact of certain supplier relationships, the matrix approach played a key role in identifying potential initiatives, such as renegotiating some existing agreements and seeking new vendor partnerships.

Executing these initiatives increased company profit by 14 percent. The cost savings from several near-term opportunities also helped pay for implementing larger, medium-term initiatives. Many of these more direct cost reductions came with reduced vendor counts, increased quality of received goods and services, and cuts in both inventory and receiving transactions, thereby reducing waste and inefficiency. Working capital reductions provided additional first-year cash flow, and one of the initiatives also led directly to the creation and launch of an important new product line. The company's supply chain, previously a suboptimal flow of procurement transactions, became a highly focused weapon in its competitive arsenal.

but still impacts it. This can be spending on quality issues, delays, increased utility or energy costs, rework, and waste, such as when material goes obsolete or expires. Operations costs include running warehouses and managing inventory logistics. When assessing supply chain effectiveness, an outside view can help include all costs in your analysis.

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Link supply chain management to strategy

A proactive supply chain management system has a strong link to company strategy. The best procurement personnel will notice a vendor's new technology or capability that could help advance company strategy. Top companies will not only signal a new direction to employees but also ask what suppliers, experts, or ideas the company can tap into for help with the initiative. In both cases, the people who work on supply chain relationships are helping move company strategy forward. Incentivize this link via a reward system that encourages contributions to strategic intent.

Look for strategic partners among suppliers and incentivize them effectively

Identify the key suppliers that most affect your competitive advantage. Choose long-term suppliers that are most important to your strategic intent in terms of quality, price, indirect costs, and service. Choose incentives built into agreements that make them care more about you than their other customers, especially your competitors. Such incentives might include payment terms, length of contract, or even profit participation. This is an extremely powerful and cost-effective tool.

KEYS TO OPTIMIZING YOUR SUPPLY CHAIN FOR COMPETITIVE ADVANTAGE

- **Your supply chain effectiveness:** Are you regularly assessing it and looking for ways to use it as a powerful tool?
- **Your spending categories:** Have you analyzed them thoroughly against a set of common attributes?
- **Your total costs:** Have you included direct, indirect, and operations spending in your analysis?
- **Your supply chain management personnel:** Are they thinking about company strategy?
- **Your supplier incentive programs:** Are you creating key relationships with vendors who can be strategic partners?

“SUPPLY CHAIN MANAGEMENT IS NOT JUST ABOUT DIRECT COST SAVINGS.”

It's about relationships that deliver better total costs, quality, and service than your competitors.

More Information

To learn more about how NextLevel can help you optimize your supply chain for competitive advantage, call us at (800) 833-NEXT or email info@nlbev.com.

