How to transform your supply chain into a valuable asset

NextLevel
Building Enterprise Value

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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 not meeting cost goals or contributing to your strategic intent, it may be time to navigate to new suppliers and/or supply arrangements. With thoughtful analysis and execution, you can take advantage of valuable opportunities. In this edition of Executive Issues & Insights, we leverage the extensive C-Suite and Board experiences of the NextLevel team to learn about effective supply chain optimization for competitive advantage.

Case Study

Manufacturing company increases profit by 14% through supply chain optimization

This mid-market manufacturing company was squeezed in the familiar space between market pricing pressure and rising costs. The business was spending 70% of its cost of goods on outside procurement—but despite significant waste, the manufacturer had difficulty prioritizing improvement for its many commodities and vendors.

That all quickly changed when a new CEO with deep supply chain experience, now a NextLevel team member, made supply chain optimization a top priority. Using a targeting matrix, the CEO highlighted on one page the critical attributes of procured goods and service agreements—and their associated business impact. This matrix clearly identified opportunities with maximum improvement potential across direct costs, indirect costs, and company strategy.

It quickly became apparent that indirect costs (those not on purchase orders, such as inspection hours, vendor certification, customer claims, etc.) had a sizable financial impact. The matrix also played a key role in identifying vendor partnerships that needed attention, such as renegotiating agreements or seeking new partners altogether.

Supply chain optimization initiatives led to significant improvements:

- Reduced waste and inefficiency by cutting both inventory and receiving transactions
- Reduced vendor counts
- Increased quality of received goods and services
- Increased company profit by 14%

The cost savings from several near-term opportunities also helped pay for implementing larger, medium-term initiatives. 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.

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. It's easy to miss these opportunities 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—spend amount, spend increase over time, number of vendors, agreement type, quality factors such as number of recalls, etc. 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 save valuable time in doing the analysis and quickly pointing out areas ripe for improvement.

> **"Supply chain management is not just about direct cost savings."**
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> **It's about relationships that deliver better total cost, quality, and service than your competitors.**

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 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. An outside perspective can help identify blind spots in your analysis.

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 have the most impact on 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.

Optimize Your Supply Chain ASAP

Don't let profit and opportunity continue to leak out of your bucket. NextLevel can help you optimize your supply chain as a competitive advantage.

Call us at (800) 833-NEXT or email info@nlbev.com for more information.

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