AN INTERVIEW WITH TBM

RESPONDING TO DEMAND CHANGES, THE IMPACT OF TARIFFS, ANALYTICS CAPABILITIES, AND THE MOST EFFECTIVE S&OP PRACTICES

Ahead of the American Supply Chain Summit 2019, Generis Group spoke with TBM Consulting to discuss the impact of tariffs, responding to demand changes, analytics capabilities and the most effective S&OP practices. In this Q&A, we address the most pressing supply chain challenges manufacturers are dealing with today, the impact of trade tariffs with the United States and other countries, and how the S&OP demand planning process can be improved.

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Ken Koenemann is the Vice President of Technology and Supply Chain at TBM Consulting Group. Ken is responsible for driving TBM's technology strategy, creating value-added technologies and services for client business operations. He is widely recognized for his expertise in translating lean principles to supply chain and customer-facing processes in manufacturing and service organizations. During his career, Ken has consulted with leading companies including Pella Corporation, WIKA Instrument Corporation, Owens Corning, Dell, Saint-Gobain and Carlisle Companies. Ken has specific expertise in value chain visioning, rapid deployment of improvement initiatives and working capital management.

Brian Cromer is the Managing Director of the Global Supply Chain Practice at TBM Consulting Group. He has 20 years of experience in consulting and industry with comprehensive knowledge of general management, supply chain management, lean business systems, and cost accounting. One of his key areas of focus is to help our operations and supply chain clients to navigate the emerging technology landscape by working with them to leverage enabling technologies to improve operational performance and profitability. Brian has cross-disciplinary experience in accounting, business management, operations management, and supply chain process improvement. He has experience driving strategy deployment, conducting operational diagnostics, optimizing inventory, improving quality, managing a P&L, aligning performance improvements to financial metrics and implementing lean-based management systems.

What are the most pressing supply chain challenges that manufacturers are dealing with today? What are the most effective tactics for addressing those challenges?

The global economy is increasingly dynamic and volatile. Manufacturers must be responsive. They need to be agile. That word has been tossed around for years now, decades really, but that doesn't make it any less important.

Some companies can rapidly flex their supply chains in response to changes in customer demand, ramping up or ramping down their manufacturing activity. But most manufacturers still have a lot of work they could do in this area.

With all of the talk about the potential for the next recession, manufacturers need to prepare for the possibility of a downturn while continuing to manage growth, which is where they've been focused for a number of years now. If there's a steep decline in business volume, how prepared is your supply chain to respond?

Analytical capabilities and what-if modeling can really help here. If demand dropped by 20%, what should you do? Should you cut a shift? Should you shut down a plant? Operations leaders can use analytics and scenario analysis to think about what they might do so they're not stuck figuring it out after it happens. Those companies that have thought through their strategy and modeled various scenarios will be ready to take action if demand does decline.

What impact are the trade tariffs between the United States and other countries having on manufacturers' supply chain decisions?

The ongoing trade tension has highlighted some of the supply chain risks many manufacturing leaders hadn't fully considered. Companies are starting to see the full-year impact of the tariffs on their annual income statements. For some, the tariffs have taken a large bite out of earnings.

We've had a number of clients talk to us about moving production out of China into more favorable countries. While this could solve the short-term issues, it may only be a temporary relief. Other factors – labor cost and availability, transportation and long lead-times – still present clear supply chain risks.

If you believe the tariffs are temporary, then the best strategy in the short term is to weather the storm and dual source critical parts and materials. If you think there's been a fundamental shift in trade policy, then it's time to take a deeper look at your supply chain.

For example, one company we're talking to manufactures some of their products in China. It's now getting hit with a 25% tariff. They also have a plant in the United States. They are trying to evaluate all of variables that go into their total cost to serve customers. Previously, they mostly just looked at the purchase price costs. They are trying to figure out if they should move production back to the U.S. and what the impact would be on gross margins versus paying the tariff.

There are other options too, and questions. Do they do the basic fabrication work in Mexico, and then ship it to the U.S. for final assembly? Should they do that across all product lines (or by SKU), or only for certain product lines? To find answers and model the various options requires a lot of data, which supply chain managers often try to figure out with spreadsheets.

More sophisticated analytics solutions are making it easier to answer such questions. How can such tools be used to find the optimum answers to supply chain challenges?

Most leadership teams can talk their way through what they might do in crisis situations. What they cannot do is model the potential impact of decisions and various what-if scenarios on their financial performance because they do not have a good analytical model of their business.

Making the best strategic decisions increasingly requires an ability to use data – most of which is readily available – to look at multiple potential outcomes. Within a sourcing organization, such optimization models can help evaluate the risks and financial impact of various manufacturing and fulfillment options.

Going back to the above example, if the company does bring production back to the United States, what will that do to utilization? Will they need to add a full second shift? Do they have sufficient capacity at their key constraints? Those questions can be answered using these optimization tools.

Sales and operations planning (S&OP) can be an effective way to balance supply and demand. Why does the effectiveness of S&OP initiatives vary drastically between organizations?

It's amazing to see how many companies still struggle to get the sales team to sit down and have a meaningful discussion with the operations team. The sales organization is always very optimistic, pushing inflated sales projections that create a tremendous strain on the business.

At its heart, an S&OP program is about having realistic discussions around the actual demand coming into the business. For a public company this is a big deal. They need to understand what their financials are going to look like so they can provide accurate guidance to investors.

Typically, companies are doing some form of demand planning, but it is not connected to any supply planning. Bringing those together will drive inventory levels down and improve service levels at the same time.

How can the S&OP demand planning processes be improved?

Demand data comes from multiple channels. You can get market trends, point-of-sale data, online sales and so on. Manufacturers need to start with the information that they have, then figure out what data is needed to be able to create the most accurate forecasts.

We start with a diagnostic so we can understand the strength of the client's current S&OP practices to identify any of the gaps and handoffs that are missing. What we typically see are silos. The demand-planning team is working in a silo, supply chain is working in another silo, and finance in another. When demand fluctuates, there's no connectivity to make sure everyone moves in the same direction.

One thing that helps get everyone on the same page is having an unbiased person to manage just the S&OP process, someone who can keep that alignment and continuity across the organization. There's always a debate whether S&OP should go under operations or supply chain or finance, which can be the least biased.

TBM Consulting specializes in operations consulting and supply chain consulting for manufacturers and distributors. We push the pedal down in your operations to make you more agile. And we help you accelerate business performance three to five times faster than your peers.

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