The Weak Links: Where Does Your Supply Chain Fall Short?

To make the most of forthcoming policy changes, manufacturers need to show some areas of their supply chain a little love. Find out where the weak links exist, and how your organization can make your supply chain future-ready.

To Really Be Ready for Policy Change, Your Supply Chain Capabilities May Require a Few Nips and Tucks

As part of the supply chain research we recently conducted with Aberdeen Group Supply Chain Research, we asked manufacturers to tell us which supply chain competencies will be most critical to addressing the potential policy changes on the horizon. Then we asked just how future-ready these key competencies are. What we found is several weak links: supply chain capabilities that are considered essential for future success, but that may be lacking in some critical area, such as process, technology, or people.

Here is a closer look at the weak links we turned up, where the specific problems lie, and what you can do to better ready your supply chain capabilities to respond to the proposed tax, regulatory, and trade policy changes headed out way.

Weak Link #1: Supply Chain Network Design – Process Challenges

Manufactures ranked supply chain network design as their number two priority, just behind S&OP. But unlike S&OP, where most manufacturers are quite confident in their capabilities, many believe they have some work to do in the supply chain network design area, especially in terms of processes.

Part of the problem is that companies often establish a supply chain network, and then think the job is done. But it is important to have processes in place for regularly reviewing and measuring all areas of network, including supplier costs, locations, distribution network, and inbound and outbound freight. Without these processes in place, it is almost impossible to enforce and measure the effectiveness of the supply chain network design and to make appropriate adjustments when required.

While it's challenging to develop robust processes related to supply chain, it's important for companies to have clearly defined rules around when and how they will review their supplier networks. This should include carful consideration of all costs, such as part cost, inbound freight, production capabilities inside the network, intercompany logistic costs, and outbound freight. Establishing a schedule and clearly defined processes for evaluating cost fluctuations can help companies know when and where they need to make changes.

Weak Link #2: Inventory Planning and Optimization—Technology Challenges

Inventory planning and optimization is another high-priority for manufacturers. But many say they feel less than ready in this area, and a lot of their uncertainty has to do with technology. While companies often believe that their MRP or ERP system will optimize inventory, that's rarely the case without engaging in a painstaking amount of customization first. As a result, some companies resort to using Excel spreadsheets. But this often leads to manual errors that contribute to over and under planning, inconsistent calculations, and updates that are out of date by the time they're

distributed.

A much better solution is to use enhancement software designed for inventory optimization. Many software products can work with your MRP system in order to continuously monitor and change the settings in your MRP software. A good software program will ultimately ensure you maintain just the right amount of inventory, in the right place, at the right time to facilitate production and delivery.

Process plays a role here, too. Establishing rules for regularly reviewing and updating inventory target levels and for measuring execution against defined parameters will go a long way toward helping your organization realize its inventory optimization goals.

Weak Link #3: Inbound Logistics—People Challenges

Inbound freight is a major expense for manufacturers, and the costs can be challenging to monitor. In many cases, the personnel responsible for ordering materials are not in touch with the freight costs associated with the order. They don't know if their company is paying for the freight, or if the supplier is on the hook for the costs. And when the manufacturer is footing the bill, suppliers have little motivation to optimize loads and ensure cost-efficiency, which can add up to unnecessary additional expenses for your business.

Properly training and educating the people responsible for placing orders is a good first step. These individuals should be made aware of the impact of freight charges and empowered to play a role in helping control those costs. Developing and implementing robust processes for training as well as for executing orders and managing costs can further ensure more efficient loads while creating a culture where all your people can contribute to continuous improvement.

Weak Link #4: Strategic Sourcing –Process Challenges

Strategic sourcing is one of the areas in which manufacturers feel the least confident in their readiness for the future. Many companies fail to clearly define processes for strategic sourcing, and they often confuse the practice with procurement, or the day-to-day execution of replenishment.

To be effective, strategic sourcing must first be differentiated from procurement and tactical execution. Companies then need to put clearly defined processes in place for indentifying appropriate suppliers and considering critical factors including component cost, lead times, flexibility, alternate sourcing, and logistic costs. Finally, they need processes for reviewing and measuring their sourcing effectiveness. Companies that formalize strategic sourcing activities will be in a much better position to make any necessary changes once new trade policies or changes to existing policies go into effect.

Weak Link #5: Outbound Logistics—Technology Challenges

Although less of a priority than inbound logistics, manufacturers feel their outbound logistic capabilities need some attention too. Technology is a key issue here, as most companies rely on an NTS system (National Transportation System) to optimize delivery results and ensure trucks are used as efficiently as possible.

Like most software systems, an NTS requires maintenance. And its output is only as good as the integrity of the input data. When people don't consistently use the system, or when the input data is not accurate, employees end up circumventing the software and manually scheduling loads, which almost always results in higher costs.

To get the most value out of an NTS system, the first step is to make sure your system meets your business' needs as well as the needs of the end user. If it's too cumbersome or time-consuming, the system becomes more of a hindrance than a help. Keep in mind, however, that it is not always the system's fault. Users must be properly trained and processes put in place to ensure data integrity and upkeep.

Learn more about making your supply chain future ready.

Our Supply Chain Readiness Research Report provides details on the potential impact of impending governmental trade policy, tax reform, and regulatory changes along with insights on the readiness of manufacturing companies to respond to such changes. Download the TBM Aberdeen Supply Chain Readiness Report

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