Supply-chain management

Thriving companies work with suppliers and software to understand and meet the needs of their customers.

From vendors to customers, executives need to keep a close eye on an often fluid environment known as the supply chain. As Stephen Covey might put it, supply chain management should "begin with the end in mind." That is, it starts with understanding the customer. Every decision made along the supply chain continuum, including those regarding the products and services that companies provide, should be based on supporting the needs and values of the end user.

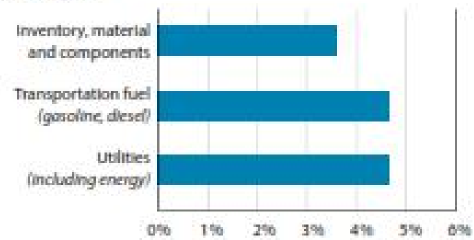
Thriving companies know they need to maintain good relationships with their customers—and they act on this knowledge. A greater percentage of thriving companies make more effective use of their IT systems to improve customer satisfaction than other companies (33 percent and 27 percent, respectively). Leveraging customer relationship management systems to get an understanding of what customers want helps drive the supply chain strategies of manufacturers and distributors.

One manufacturer of diapers, for example, is test marketing in Brazil a diaper that uses sensors to let parents know when their infant's diaper needs changing. The sensor also triggers a distribution process to keep the family supply of diapers fully stocked. Understanding what the consumer needs and finding creative solutions to address those needs are the hallmarks of a company that manages its supply chain.

Working with suppliers

Supply-chain management is more important than ever, with cost increases for most inputs expected to outpace inflation (Figure 12). The key for executives in dealing with goods and services suppliers—as in dealing with customers—is to establish relationships in which value is created for both parties.

Figure 12. Average expected cost increases in next 12 months



Vendor management is increasingly paramount to maintaining stable operations. The risks can extend beyond financial issues to include reputation, sustainability, legal, regulatory and other operational issues. Knowing your vendor and developing a risk assessment and monitoring program to examine outcomes leads to stronger vendor performance.

Thriving companies know the importance of the vendor relationship; nearly three-quarters of the thriving Monitor participants found that working with suppliers to improve processes and lower costs is an effective means to maintaining or improving profit margins.

A first step taken by many executives developing improved supplier relationships is to precisely determine what they are spending with whom. In the lean manufacturing lexicon, this is called a "plan for every part," where management clearly understands what and why they buy from each supplier. The aim is to establish a "total delivered cost" perspective, rather than focusing solely on unit price. Consideration is typically given to factors such as inventory carrying costs, transportation charges, cost of potential delays, and staff and management labor and training.

A rigorous supply assessment can drive executives to re-evaluate supplier relationships. In addition to perunit costs, there are a number of issues to consider—cycle times, customer demand, product quality, among others—when proactively managing a supply chain. Approximately 16 percent of U.S. companies in the Monitor survey, for example, purchase half or more of their goods and services from non-U.S. suppliers. Alternatively, 36 percent of companies feel it is important to have their operations in physical proximity to their supply chains—and, in fact, have made it a competitive advantage.

Many companies have brought (or are looking to bring back) operations to the United States (often called onshoring), but there is a balance between those companies that are onshoring (Figure 13) and those offshoring. Each company's supply chain is unique, and analysis of current spend, total-cost data, and emerging supplier opportunities contribute to onshore and offshore decisions, as do the efficiencies to be gained by having activities physically closer to the customer (Figure 14).

As the financial incentives for domestic production become more attractive, high-profile initiatives— such as those advanced by retail giant Walmart—are encouraging suppliers and manufacturers to invest in domestic manufacturing projects. From televisions to light bulbs to bicycles, these onshoring investments are bringing much-needed jobs to communities, reducing assembly and delivery cycles, and boosting local economies.[1]

A food manufacturer and distributor based in Baltimore, for example, noted that food safety concerns in general, and the Food Safety Modernization Act in particular, are driving the responsibility for U.S. distributors to ensure the safety of their food sources. As a result, the company is considering making investments to source and manufacture certain products domestically rather than try to control quality and safety coming from a source offshore.

Figure 13. Offshoring and onshoring trends

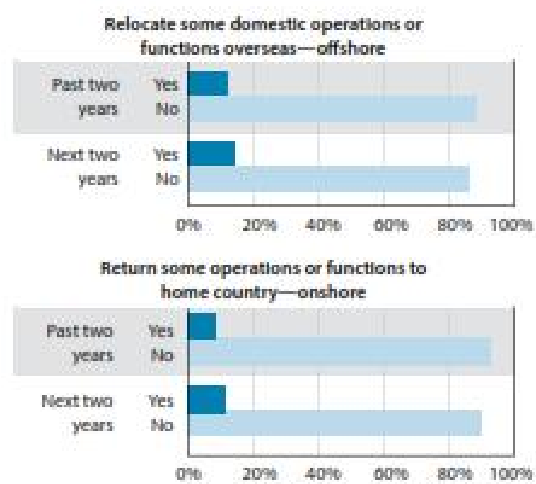
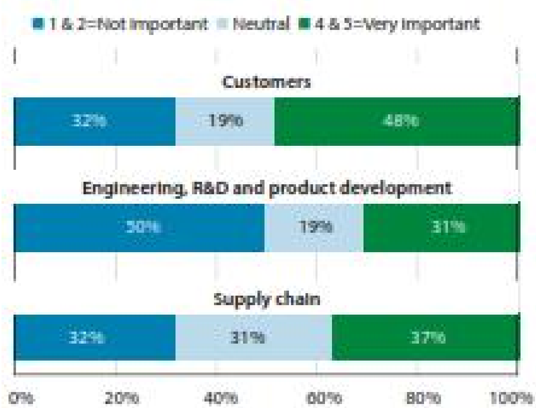


Figure 14. Importance of operations in physical proximity



1- "Walmart, Suppliers and Government Officials Accelerate Job Growth and Production Opportunities at U.S. Manufacturing Summit," Aug. 22, 2013, Wal-Mart press release.

The top circumstances most likely to trigger when to bring operations back home:

- To be closer to customers and markets with better lead times: 27 percent of companies
- To improve logistics costs: 25 percent
- Seeking a less costly and burdensome regulatory environment: 17 percent
- To reduce inventory carrying costs: 16 percent
- To decrease supply-chain cycle times: 15 percent
- To improve product and process quality: 15 percent

Approximately 44 percent of respondents indicate they would not move significant operations under any circumstances. Among them, those companies that have an operations presence or joint venture offshore understand it can be cost prohibitive to leave a country. In China, for example, it can be difficult just to get physical materials and equipment out of the country— and the severance costs can be quite high.

Also contributing to sourcing decisions are customers' perceptions of supplier locations: 75 percent of executives report that it is important to their brand that their products are made domestically, and 34 percent believe that domestic demand increased because products were made domestically. Notably, some focus group participants pointed out that products made in the United States enjoy a reputation for quality around the world. Depending on the market, the value that customers place on these products can translate into premium prices and profits.