3 SUPPLY CHAIN PITFALLS AND TIPS FOR NAVIGATING THEM

Waypost Advisors

By Emily LeVasseur
May 2021

Would you consider your business successful if you could say "our customers are and hungry for more and we make good money serving them"? We think the same way about a Supply Chain.

Defined as the activities, people and assets required to create and deliver products to a customer - from forecasting, purchasing, production, inventory management, warehousing and transportation – the Supply Chain is what literally executes your business.

At Waypost Advisors LLC we work with clients across all types of industries that endeavor to delight their customers with their goods, whether they make and ship product themselves, or buy and distribute. We help clients execute their best by giving them access to expertise that helps improve their execution and results. We provide talented project management resourcing for key initiatives, help them design the best technology solutions as they modernize their companies with ERP systems, and enable them to drive waste out of their business operations.

We've seen a lot of different businesses and common pitfalls that plague many supply chains. Read on for helpful insights!

Pitfall #1: Your Purchasing Isn't So Strategic

Many businesses start with a good idea and grow from there, leveraging existing networks or rushing to find ways to execute and keep up with customer needs. We frequently hear this is how we've always done it. We've always worked with this vendor. They know our business and our needs. We don't have a reason to change. All of these statements are likely true except that you may be leaving a lot of money on the table, and you may have unintentionally blinded yourself to risks within your supply base or other options that may enhance your good or service.

Suggestions to help determine if you have an opportunity to improve your Purchasing:

Run a market analysis for the goods you're purchasing: Understanding the size of the market, the utilization (ie, how much demand there is for the products, relative to the supply) and the regional pricing drivers can be a very powerful way to understand where you have leverage and where you have risk. This can help you negotiate better pricing and proactively source alternatives for constrained materials.

Put your key products out to bid: Once you understand the markets for your materials you can create some price competition by "bidding-out" your business. This will entice incumbent and potential suppliers to sharpen their pencils on pricing and service offerings.

Have a strategy: It can be helpful to map your purchases into groups that have unique strategies. Perhaps you have components that are more like commodities – they are amply available and fairly standard with a lot of purchasing options. You probably have other materials that are highly specialized or rare and expensive. You will likely have 2 very different strategies and objectives for managing the vendor relationships and purchasing of these 2 types of materials.

Pitfall #2: Your Inventory Isn't Thoughtful

Inventory is a tricky aspect of supply chain management. It is a key lever in the total product cost and service level performance to customers. You have to pay for your inventory and then wait for a period before you sell it (and get paid), which ties-up your cash. If you have too much or incorrect inventories, you risk having to invest more money in the inventory and potentially taking losses on write-downs. Too little inventory and you may not have product available to capitalize on sales opportunities.

If you've been dissatisfied with your inventories (ie, you recently took a big write-down or foregone sales due to lack of product availability), read on!

Inventory management is fairly simple; "It's just math". But it's not easy. Knowing the factors in the equation is helpful in understanding how to improve.

Know the levers: Inventory management is fairly simple – as we like to say: "It's just math". But it's not easy. Knowing the factors in the equation is helpful in understanding how to improve.

Replenishment Leadtime: This is how long it takes you to get new product from the moment you confirm the need (place a purchase order, confirm production, etc) until you have it ready to use. It could include the required order leadtime from the vendor, transit time from port to door, customs clearance time, receipt and put-away at the warehouse, etc. Imported products will take more time to receive and require you to have higher total inventory pipelines (ahem, and spend more money). Local-sourcing may be more expensive at the unit-cost level, but when you consider how much cash flow you tie-up for long leadtimes, offshore sourcing may not be as beneficial as you think.

Anticipated demand in replenishment leadtime: This is your forecast, however you create it. Whether you use sophisticated models or a simple moving average, you need some sense of what you will think you will sell during the period where you are waiting for new product. For example, if it takes you 2 months to get new product from the moment you place a purchase order to a vendor, you need to know how much you think you will sell during those 2 months so you protect that quantity of inventory when you place the new PO.

Variability of your demand and your replenishment leadtime: This is where things get a bit more "mathy". No supply chain runs exactly as it should (or we wouldn't have jobs, #amiright?). If your average replenishment leadtime is 8 weeks, surely there are cases where sometimes it's 5 weeks and other times it's 12 weeks. The same is true for demand; you may sell an average of 100 units per month but the reality is sometimes you sell 50 and sometimes you sell 150. Understanding these variables is critical to calculating effective "Safety Stock". This is a buffer of inventory that can be set to cover the variation. You determine the percent you want to cover, but be forewarned, higher confidence requires exponentially more inventory to achieve, and 100% is not possible.

Target Service Level (confidence interval): In plain terms you can think of this as "I want to have inventory available for X% of my orders". Remember, 100% is not achievable because it would require infinite inventory. You could say 98% or 90%, but each incremental percentage point improvement requires an exponential change in your level of inventory (and, ahem, the cost). It is MUCH more expensive to get from 90% to 95% than it is to get from 70% to 75%. It is important to understand what is truly required to serve your market and not to over-engineer the service.

Early detection is key: As with many ailments, being able to detect and react quickly will help mitigate negative impacts when something changes. For example, your historical import leadtimes from China were 4 weeks from port to your door. Suddenly a pandemic turns supply chains upside-down and your leadtimes slow to 12 weeks. You might be caught short on your inventory but the sooner you modify your purchasing habits, the less time you'll spend with product outages.

Which brings us to the final pitfall:

Pitfall #3: Your Processes & Systems are Not Aiding Your Success

Many companies are modernizing their data and information flows with Enterprise Resource Planning (ERP) systems, and many are still running on spreadsheets. Either method can work and by no means are we dumping on spreadsheets. They are a powerful tool. Either way, there are 2 key things we've observed that can be the difference between successful execution or painful, daily fire-fighting.

"Love your data": A system (even a spreadsheet automation) can reduce the time you spend on a task if you let it. We worked with a client who was spending 4-6 painful hours per week finding and cleaning data and putting together analyses to determine what inventory to send to their remote warehouses in their weekly truck. They implemented a system that literally did this math in 60 seconds. However, they struggled to trust the suggested transfers because there was something that always looked wrong. They would say "the system doesn't work" so they went back to calculating the transfers by-hand. Sound familiar?

Trust us, the system works. But if you give it incorrect settings or bad data, it's going to solve the wrong problem correctly. When you implement a system, your role and responsibility changes from being the mathematician to being a programmer. You're no longer the calculator. You've been replaced. You need to employ a programmer mindset – you have to tell the system the right way to solve the problem. Many people struggle to make the transition, and it's costing them precious time and wasted dollars.

Know your processes: The other error-trap we observe is that business processes are scattered or undefined. For example: If you have 5 buyers on your team and each one manages 20 vendors, and each one has a slightly different process for how they plan/submit/track purchase orders and pay vendors, you have some work to do. A system can be designed to only accommodate one way. Everyone has to move to the same process. Your teams will need to define the best process, address change management challenges, and re-train.

If you allow drift in your processes, you will inevitably end-up with a system that cannot be used very well. Companies we've seen that have not been able to capture the value of a system implementation did not do the front-end work to affirm their processes before they designed a system. As a software developer once said: "You cannot automate bad processes."

You can undoubtedly overcome these pitfalls with the right talent and expertise in your teams. We highly recommend partnering with organizations that have deep experience in these activities and are able to quickly understand your business, help you fix problems, and enable you to solve the problems independently when they leave.

Check out waypostadvisors.com or our LinkedIn page at Waypost Advisors LLC to get connected and for a free consultation with a knowledgeable advisor.

Waypost Advisors