Your Supply Chain Keeps Your Customers

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Prime Advantage, a leading group purchasing organization for midsized manufacturers, recently conducted a survey revealing the financial projections and top concerns of manufacturing executives. Items topping the priority list for 2017 have shifted from 2016, with 68 percent of respondents mentioning the importance of growth in existing markets (up 8 points from 2016). Sixty-three percent said success is likely to come from new products and services. And cutting operational costs rounds out the top three at 54 percent. Yet cost cutting is down 5 points from last year. And upon further review, the focus on cost cutting has been in steady decline since 2013 when it peaked at 68 percent.

Twenty years ago, when the term "supply chain excellence" first hit the mainstream vernacular, the function was more or less linked to the cost of getting the company's product into the customer's hands. Most thought of the logistics and supply chain functions interchangeably. However, as construction has picked up following the Great Recession, the concrete producer's supply chain is arguably its biggest secret weapon, but not for the usual reasons. Ultimately, it is the supply chain that keeps or loses customers. CEOs are baking this truism into their corporate strategies by taking a broader definition of the supply chain – one that includes planning, decision analysis and value-adding activities from end to end – rather than just logistics.

A Different Point of View

However, there are a few inherent reasons that real supply chain excellence remains elusive in most concrete and cement manufacturing businesses. For one, the term "manufacturing" by itself implies a high intensity of fixed costs, which encourages high volumes and inhibits production flexibility. Secondly, some chains are part of a global supply network with complicated communication channels that tend to mask the root causes of hiccups and impede coordination activities. Thirdly, pressure is growing from an increasingly impatient customer base that wants its products faster and cheaper – with diminishing lead times afforded to the producer.

Despite these obstacles, the business case for improving the supply chain's reach is an attractive one. Exhibit 1 contrasts the customer experience between a low and high performing manufacturing supply chain. Based on client experience in the building materials industry, improvement in customer service levels can lead to increases in revenue by up to 10 percent. Examples of improved service include: a) new order confirmations within a few hours; b) trackable order status; c) differentiated delivery options depending on criticality of supply need; or d) early warnings of potential delivery delays coupled with mitigating suggestions.

On the cost side, some producers with integrated visibility can toggle between mix designs based on the fluctuating cost of received materials. And from a working capital perspective, some market leaders in the U.S. have reported 20 percent reductions in inventory holding costs resulting from better forecasting processes. In the Exhibit 2 example, an integrated fulfillment schedule utilizes economic order quantity intelligence, which results in the on-hand reduction of slow-moving products. Not only does this help on turning the inventory, but the freed-up schedule can be allocated to the production of more urgent or growing demand. It's not hard to imagine what sort of strategic opportunities this creates for a business competing in a low margin, highly fragmented competitive environment.

So why don't more producers reap these rewards? The status quo exists, in part, because of how most measure supply chain effectiveness. In the past, cost leadership was a legitimate lever to pull; now technology has most everyone running pretty lean. Does it still make sense to continually view cost reductions as THE benchmark in supply

Exhibit 1

Documented supply chain experience for building product distributors

- Delivery volumes and timing are set up to 1 year in advance
- They organize their own transport for delivery
- They have no options for urgent orders; instead the order goes into the queue in the next available plant run (up to 3 months away)
- 30% of the time the product is not available to be released for shipment at the agreed upon time

Who would you do business with?

Best in class supply chain experience for building product distributors (real example)

- They get a confirmation of the order creation and are able to track progress of the production batch
- For an extra fee, the distributor can place rush orders
- Product is delivered to the jobsite or warehouse within 2 hours of scheduled time
- 90% product availability rate

chain excellence when there is real market-moving potential to be had? Measuring supply chain success purely on cost-per-ton-mile or on-time delivery might leave your business exposed to three deadly issues:

1. **Over-generalized customer segmentations** impair the ability to uncover disparities in value/work ratio and which customer types would pay premiums for specific add-on services.
2. **Guessing on what's best**. What impact would closing a distribution center or supplying a customer from a different source have on the rest of your network? When is the best time to switch transport modes on which route? Who should be favored in times of allocation and what inventory levels should the plants be run to prior to annual shutdowns? These decisions should and can all be optimized.
3. **Low forecasting accuracy** is a symptom of insufficient customer collaboration, disconnected processes and incenting volume over credible estimates. The results can mean whip-saw inventories and customer defections.

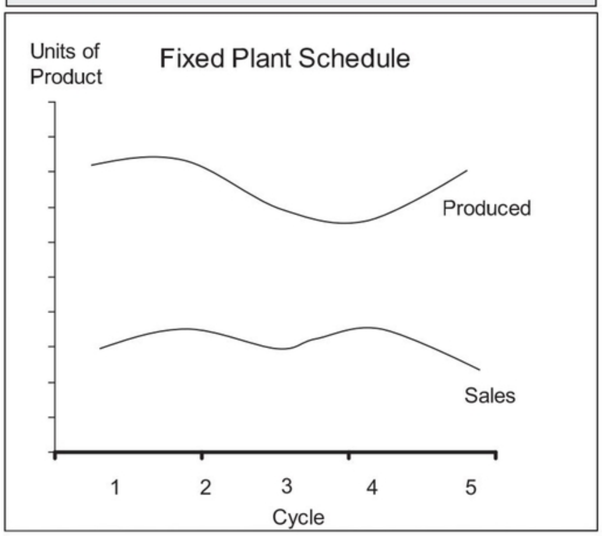
Separating Excellence vs. Merely Good

Improved performance in these three categories is the surest way for companies to redefine their customers' expectations of service

Exhibit 2

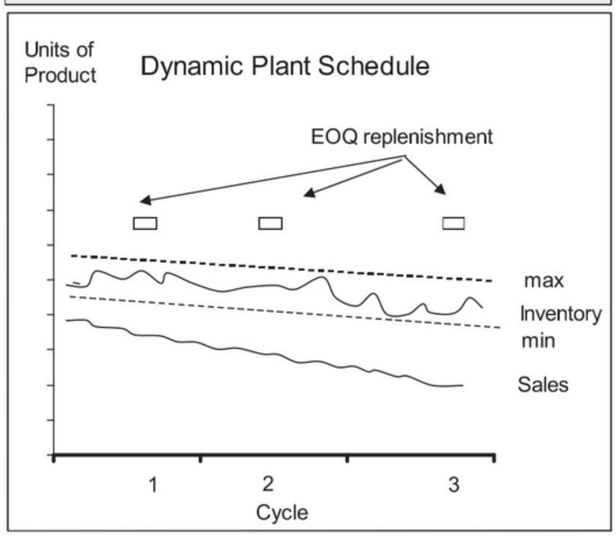
THE NATURE OF 'FIXED' VS. DYNAMIC SCHEDULING

Popular Product Y
Margin = $140/ 1000 units



Hard set schedules: Higher than necessary inventory and opportunity cost of not making what customer really needs

Popular Product Y
Margin = $140/ 1000 units



Switching to a stock replenishment strategy (using EOQ) reduces inventory costs and responds to demand

and preserve working capital cash, thereby turning their excellence in supply-chain execution into a powerful source of competitive advantage. But the well-known business axiom states that you can't improve what you can't measure. In the event your operation's metrics aren't aligned to achieving market growth, consider harvesting these best practice measures from the supply chain champions:

- Product mix forecast accuracy (three-month window).
- Stability of supply for "A" products and key customer SKUs.
- Distribution excellence for new products.
- Agility in scaling up or down in market volatility without bullwhip effects or disrupting key customer segments.
- Differentiated service levels with targeted upgrade options.

If you are an executive exploring whether supply chain excellence will help your company raise its level of competitive play, there's no need to sign up for a crash course in supply chain management. Begin by asking a few qualifying questions, such as:

- For which specific customers, segments and products do you reserve the best services?
- Where do you optimize for cost rather than service?
- How does a customer's experience with your order process differ from that of your biggest competitor?
- Is your network agile enough to respond to or take advantage of changes in demand? How sensitive are your costs to rail car availability or variability in trucking companies?
- When and how are you forecasting? How accurate are the forecasts?

How would your competitors answer these? Where do your customers wish you would answer differently? Market share is in play. Sustaining growth in existing markets is the number one concern among manufacturing companies, with new services and products leading the way. A company that improves the reach of its supply chain can certainly deliver superior performance and capture this growth. What are you doing today to turn your supply chain into a powerful source of competitive advantage? ■

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