

Getting the Most from Supply Chain Strategic Planning

INTRO

It's a common refrain, especially in today's volatile economy – you have decided to “optimize” your supply chain but you do not know where to begin. Do you begin by looking at transportation or warehousing? What about inventory? Demand forecasting? Low-cost country sourcing?

To achieve significant improvement in supply chain performance, a company must take a holistic approach to Strategic Planning. While no single approach is applicable to every company, it is possible to identify best practices that have enabled other companies to achieve success.

Strategic supply chain decisions generally involve two fundamental elements – Structure and Policy. The objects (products, sites, and links between them) that make up the system can be considered a supply chain's structure. These objects all interact with each other, and how they do so is governed by the rules, or policies, that the objects follow. Policies can be rules that govern how much inventory is stocked at a given site, how a site reacts when an order is received, or how product is allowed to flow through the supply chain to reach the end customer.

With these concepts in mind, here are some tips on how to approach your next supply chain strategic planning effort:

1. Start with the end in mind. Faced with the complexities of a global supply chain, companies often struggle to launch a strategic planning effort. Even when overall business strategy has been decided, it can be difficult to determine where to start. The simple answer is that a company should start where they perceive the greatest short-term return. Most often, a company embarks on an initiative with a specific objective in mind, e.g., reducing transportation costs, or offshoring to lower-cost manufacturing facilities. When such a project exists it is the ideal starting point. You should also decide whether a wholesale redesign of your network structure is under consideration, or if the true focus is on optimizing business policies within the existing network.
2. Select the appropriate tool for the job. There are many different technologies and models available in the market – and while they can use the same language and sound similar they are often not the same. From Excel spreadsheets to sophisticated optimization software, each tool can add value to your decision-making process when applied appropriately. Network optimization software is focused on opening/closing facilities to optimize fixed costs and variable costs such as manufacturing and transportation. Inventory optimization models assume the network, demand, and manufacturing lead times stay the same and optimize the positioning of inventory. Supply chain planning optimization models focus on optimizing the matching of demand and supply over time given a fixed network and defined inventory positioning policies. All of these solutions sound similar but solve different problems. No one model can solve all of your problems. Selecting the right approach to solve your problems, understanding the limitations of the technology you are using, and asking appropriate questions based on the type of model you have developed are critical to successful results.

3. Spend time in preparation. As much as you will want to dive into solving problems and developing models, it is critical to invest sufficient time in preparation. Understand your motivation for entering into the strategic planning exercise. Clearly define the project scope and objectives. Resist the rush to produce results. Investing just one additional week up front can dramatically improve end results and shorten the overall project timeline.
4. Resist the temptation to strive for “perfect” data. You will spend a great deal of time in identifying, collecting and manipulating data to build your model. It is easy to get caught up in the search for ever-more accurate and complete data. Given that you are using historical data to develop a model to evaluate strategies for a highly uncertain future, it is okay, and even desirable, to accept data that is “good enough.” Collect the best data you can, spend time resolving discrepancies and inaccuracies, and then use reasonable assumptions and approximations to fill in the gaps.
5. Maintain a process focus. Your goal is to evaluate your supply chain and make a decision that helps achieve your business strategy. Do not let the software or model you have at-hand dictate your approach. Use the technology as an input to the decision-making process, making sure to balance quantitative and qualitative factors. No analysis or tool can capture all relevant business issues.
6. Consider quick-hit policy changes to deliver short-term results and gain momentum. Optimizing inventory stocking policies or the flow of products through the network can deliver fast results without the significant timeline and capital requirements typically associated with major structural changes.
7. Take time to test your results under varying assumptions. It can be tempting to take model results at face value. After all, you may have spent months validating input data and assumptions and fine-tuning your model. However, the results from a model represent the output of just a single set of data and assumptions. It is critical to test the performance of your selected strategy under a variety of assumptions to ensure that it is robust enough to deliver results under the widest possible set of environmental and business conditions.
8. Take appropriate action. Sometimes the right action is to do nothing. Not all strategies can or should be implemented. You must recognize that the decision to reject a strategy or to do nothing does not define a failure of the process; it defines success. And sometimes it is more reasonable to select the second-best (or fifth-best) alternative because that solution can be implemented more easily and quickly. Do not let a focus on “optimal” override good business judgment.

9. Regularly evaluate your network. In the past, it was common to perform strategic network analysis perhaps once every several years. With today's modeling software and an effective data management process, you can make network optimization a continuous process. Most of the effort in network optimization is in the initial model build and validation. Once this has been completed, regular updates to the underlying data are not difficult. Frequent use not only prevents your analytical "muscles" from atrophying, it also fosters a culture where modeling and optimization become a routine part of decision making.

For more information on Spinnaker's approach to Supply Chain Strategic Planning, go to: www.spinnakermgmt.com.



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Denver • Boston • Memphis

www.spinnakermgmt.com

US +1 877-476-0576

International: +1 720-457-5500

info@spinnakermgmt.com