Moving to a Value-Driven Supply Chain

Executive Summary

Cost reduction does not drive business growth. Managing to a healthy margin is critical for business operations; however, achieving sustainable business growth requires a value-based approach. Middle market companies (those with annual revenue between $50M and $1Bn) should look to their supply chains to create value beyond simple cost management in order to remain as nimble as their smaller competitors and as relevant as their large ones.

Repositioning supply chain strategies to focus on adding value to a company's bottom line can take some time, but it's important to consider how to add value at every step of the supply chain. Companies that view the supply chain as a cost center instead of a value center might not be growing—they can just as easily be in a steady state or in market share decline.

Supply chain performance matters—this often-overlooked area of a business can make or break corporate performance. Value-based supply chain principles, practices, and methods have great potential to improve a business. Taking the necessary steps to enable the supply chain to work toward providing value to the company and its bottom line should be one of a company's highest priorities.

TAKE
SUPPLY CHAIN

Introduction

Supply chain methods and principles have significant potential to improve middle market business. The supply chain is rapidly becoming the lifeblood of the organization, offering many advantages to drive opportunities for growth, beyond operations optimization and cost controls.

The economy is moving from recession into recovery, yet margin management remains a high-priority topic among most middle market organizations while growth can seem to be on a distant horizon. In this recovery landscape, the companies that best weathered the storm took a hard look to discover and nurture hidden value centers, such as the supply chain.[1,2]

Supply Chain Insights has analyzed supply chain ratios over the last two decades to understand how practices impact value networks. They found that while most companies have increased efficiency, traditional "best practices" have moved costs and waste into the supply chain, effectively destroying value. They discovered that the buy- and sell-side transactional relationships typical to industry have eroded value. To move forward, companies should unlearn yesterday's best practices and begin following emerging value-based practices.[3]

The supply chain is swept along as the world shrinks more each year: economics and technology, as well as environmental and political issues become increasingly complex and interconnected. Globalization, risk management, outsourcing, and the technology to automate and control it all continually add new facets to manage—as well as optimize and leverage.

This paper describes benefits and the process of transition from a cost-based to a value-driven supply chain, and why companies should make the move as quickly as possible.

The paper will also address functional areas of the supply chain to evaluate and optimize that can help a middle market business both increase value and decrease wasteful spending.

Making the Move to a Value-Driven Supply Chain

In the 2013 Global Supply Chain Survey conducted by PricewaterhouseCoopers, a good supply chain is described as predictable, efficient, flexible, and transparent; these attributes allow business to "serve their customers reliably in turbulent market conditions." The report also indicates that companies that position their supply chain as a strategic asset deliver 70% better results than their peers.[4]

Supply chain principles, practices, and methods have great potential to improve a business, so taking the necessary steps to make the supply chain work to provide value to the company should be a top priority. Unfortunately, determining how and where to start can present a challenge of its own. Will it be best for the business to create and achieve smaller initiatives that require shorter timeframes yet gain moderate results? Or should the company begin with the big picture, addressing the supply chain end-to-end all at once?

Small steps can certainly help a company achieve modest goals, but many organizations need to see more profound change paired with the shortest possible turnaround time.[5] Each company will need to make decisions based on redefining its business goals with a new focus on value, including improving customer service, developing talent, innovation, and implementing new strategies that support business growth.

REDUCING COST ≠ GROWTH:
POTENTIAL CONSEQUENCES OF MAINTAINING A COST-DRIVEN MINDSET

Companies stuck in the cost-based supply chain mindset rather than an innovative, value-based supply chain mindset could be inadvertently risking — or even preventing—growth. Improving supply chain efficiency in a single area can help; however, without a holistic approach, a company might not realize the intended results: for example, measuring keystrokes and collecting the number of purchase orders processed per hour can help optimize workflow. However, even businesses with optimized processes can just as easily find themselves in a steady state — or even in market share decline.

Gartner's supply chain studies discovered some trends over the past several years. As the recession began in 2008 and 2009, companies focused primarily on reducing costs: layoffs, cutting inventory, and slashing costs. By 2010, it became obvious that those same companies were suffering from having gutted themselves: they could only survive so many rounds of slash and burn cuts. Timothy McVittie, senior director of logistics for USG Building Systems, told The Economist, "Considering that industry demand is as low as it is, the marketplace has little patience for manufacturers who cut too deep and can no longer effectively service their customers."[6]

[1] http://wpcarey.asu.edu/sites/default/files/uploads/journal-operations-management/essay14-lessonsfromthegreatrecession.pdf
[2] https://www.pnc.com/content/dam/pnc-com/pdf/smallbusiness/IndustrySolutions/Whitepapers/Driving_SupplyChain_Svgs_1110.pdf
[3] http://www.supplychainshaman.com/big-data-supply-chains-2/yes-i-am-a-zealot-i-still-believe-do-you/
[4] http://bizmology.hoovers.com/predictive-analytics-for-supply-chain-management
[5] http://www.deloitte.com/assets/Dcom-UnitedStates/Local%20Assets/Documents/Consulting%20MOs/us_consulting_mo_sapsupplychaintransformation_010711.pdf
[6] http://www.economistinsights.com/sites/default/files/Resilient%20supply%20chains.pdf

In 2012, the landscape began to change; organizations began to focus on the long game, implementing many of the value-based concepts presented in this white paper.[7] Once a company makes the decision to move to a value-based supply chain, expect measurable results to take some time to appear. Supply Chain Insights suggests it takes at least three years to recognize supply chain progress, and that significant change can take up to five years.[8]

Taking proactive steps to increase agility and resiliency, such as creatively implementing innovative strategies and technologies, can help increase value in the supply chain — propelling the organization toward better decisions and more swift adaptation to constantly changing business conditions.

Value Targets in the Supply Chain

This section uncovers a variety of concepts that can help add value to the supply chain, as well as some common areas where the supply chain may be diminishing value.

According to J. Paul Dittman, Ph.D., the executive director of the Global Supply Chain Institute at the University of Tennessee, thousands of companies never consider their supply chain when they create business plans, although the supply chain accounts for approximately 60% of a firm's total costs, 100% of its inventory, and is crucial to providing the customer service that drives sales.[9]

Moving to a value-based supply chain is a paradigm shift that requires rethinking the supply chain from end to end. Companies that want to move to a value-based supply chain should evaluate all the areas that contribute to margin: relationships with trading partners or customers, individual departments, cross-function areas, etc., and measure the impact for each area as well as together.

Another facet of the paradigm shift is determining how each link in the supply chain contributes to the bottom line — many companies discover that one area's lower margin helps trigger a better margin contribution in another area.[10]

THE SUPPLY CHAIN EVANGELIST

This section describes the importance of a supply chain executive that invests the time to promote the supply chain's value — a supply chain evangelist—along with significant benefits such a role can deliver.

A PricewaterhouseCoopers report suggests that the inherent value of the supply chain remains widely misunderstood in the boardroom: Even supply chain executives themselves often are unaware of the full value they can contribute to an organization; most are primarily focused on day-to-day operations. In other words, supply chain leaders are busy. They are developing collaborative relationships with other departments as well as with trading partners, responding to pressure from the competition, and developing their teams. These functions leave little time to promote the value of the supply chain to their superiors or their team members.[11]

Failing to communicate the role of the supply chain to all involved parties obviously can have undesirable consequences. A recent McKinsey survey indicated that functional groups that did not recognize how they influenced each other is the most frequent obstacle to collaboration when negotiating the major supply chain tradeoffs.[12] When business executives and other stakeholders understand that a value-based supply chain can be not only a value center but also a competitive weapon, it can be easier to persuade them to make the investments that help the supply chain leaders improve the supply chain from end to end.

In addition to awareness of supply chain components like forecast planning and logistics, companies should also consider the supply chain strategically over the long term. An integrated business planning approach should extend past balancing supply and demand; aligning financial and operations strategies with a company's overall operational plans. A supply chain evangelist has keen understanding of the true value of the supply chain, and can help executives more accurately set goals and expectations for a variety of areas, from inventory to sales and marketing, all the way to capital expenditure plans.

A supply chain evangelist can also help the entire supply chain team understand the value of his or her roles and responsibilities in the supply chain. This can help team morale and dynamics: team members can feel more engaged and productive; in other words, loyal employees who feel validated and appreciated.[13]

Additionally, a supply chain evangelist — whether as an informal role, a full-time company employee, or a consultant — can assist with evaluating and recommending the right technology for the company's business goals, aids in optimizing processes to manage what matters, and can help the company realize value beyond cost management.

TECHNOLOGY

Creative uses of technology contribute to the transformation of a middle market organization's supply chain infrastructure as the organization adds more value to the supply chain. By implementing both innovative practices and technologies, supply chains will become faster and more nimble, enabling better-informed decisions and rapid-fire adaptations to accommodate changing conditions.

Two of the most important areas where technology can best serve the supply chain are supply chain management systems and business intelligence.

[7] http://www.palletcentral.com/business-growth-trends-transforming-the-supply-chain-infrastructure
[8] http://supplychaininsights.com/the-supply-chain-index-evaluating-the-industrial-value-network/
[9] http://www.palletcentral.com/business-growth-trends-transforming-the-supply-chain-infrastructure
[10] http://www.priceofbusiness.com/brad-huff-the-biggest-challenges-facing-mid-market-companies-today/
[11] http://www.pwc.com/gx/en/consulting-services/supply-chain/global-supply-chain-survey/assets/pwc-next-generation-supply-chains-pdf.pdf
[12] http://www.mckinsey.com/insights/operations/is_your_top_team_undermining_your_supply_chain
[13] http://www.customerservicegroup.com/pdf/allegianceincreaseloyalty.pdf

SUPPLY CHAIN MANAGEMENT (SCM) SYSTEMS

A supply chain management system should have features and functions that align closely with supply chain goals as well as business objectives. In other words, companies should not invest in a system that doesn't do enough of what is needed. They also should be careful not to pay for features beyond what will be used either now or within the next 18 – 36 months. A Supply Chain Management (SCM) system that facilitates collaboration between a middle market company and its trading partners helps provide value by increasing visibility into the supply chain in real time.

An important step in evaluating technology is to understand the current system's capabilities as well as its shortcomings, then compare the data with currently available systems. If it costs more each year to maintain personnel and a support contract on a legacy system than it would cost to upgrade to a newer technology, a company should consider investing in an upgrade.

Companies should also consider that more than one system may be needed to achieve the goals set for the supply chain as well as the business; implementing a system that allows connections between the company and its trading partners can save considerable time for both parties.

BUSINESS INTELLIGENCE (BI)

Many supply chain management systems are very good at facilitating collaboration and providing process automation; however, they rarely provide true Business Intelligence — the transparency and future-faced analytics the supply chain team really needs to excel.

Technology plays a crucial role in removing uncertainty from the supply chain, helping companies plan and schedule more accurately. Data integration and collaboration open a window into the big picture, enabling a middle market organization to make better informed decisions. Leveraging the right business intelligence tool can provide a supply chain team with the tools they need to become a value center for the company as well.

With business intelligence tools, buyers and suppliers are able to identify and correct issues before they become problems. Planners can optimize resources in real time, allocating assets where and when they are needed. Forecasters can analyze supplier productivity, demand cycles, price volatility, and avoid potential disruptions to prepare buyers to efficiently meet customer demand. Logistics managers can direct resources, optimized to reduce wasteful storage or delivery spending.

C. Dwight Klappich, Vice President of Research at Gartner, summarizes: "You can't expect to run a report once a week and that be enough to tackle an environment where things change on an hourly basis."[14] As a brief example, imagine the system collects the data and determines that Thursday will be a heavy receiving day. If the system sends the manager an alert on Tuesday — instead of Thursday morning — that manager will have enough advance notice to make staffing adjustments for Thursday. In other words, companies that have the resiliency to quickly make decisions and workflow alterations are better positioned to increase value throughout the supply chain.

Within the business, aggregating metrics shared across departments helps promote alignment and collaboration when department members understand how they interrelate. These shared metrics can include inventory turns, customer service levels, or overall profitability of the business. Many companies have begun using integrated business planning, also known as sales and operations planning (S&OP), that provides visibility into the company's collaboration framework to track shared metrics and promote accountability across the organization. Using an effective S&OP process helps measure growth objectives to ensure those objectives are met profitably.

Supply chain transformation can be extremely complex: changes made to each part of the supply chain can trigger direct and indirect effects on a business. Leverage business intelligence tools and data to help predict those changes and enhance operational agility. Develop simulations that include the particulars of the company's unique supply chain state: constraints, core assumptions, processes, and other circumstances.

Using business intelligence metrics allows a company to simulate or mimic varying business conditions without actually deploying or risking any assets. Manipulate the scenarios in various ways to generate many possible scenarios along with the probabilities of their occurrence. Simulating the environment and the experience for a diverse range of situations not only prepares the supply chain team to handle a range of circumstances, it also helps with identifying areas of waste that can be converted into value centers.[15]

[14] http://www.palletcentral.com/business-growth-trends-transforming-the-supply-chain-infrastructure
[15] http://www.ups-scs.com/solutions/white_papers/wp_supply_chain_value.pdf

Optimizing Processes/Managing What Matters

For most companies, the primary focus is delivering quality products and services to its customers for the best possible margins. Extracting value from the supply chain might seem like a great idea that the company doesn't have the time to thoroughly consider.

This section addresses specific areas to add value by evaluating and optimizing practices and processes that matter the most within the organization. Identifying and enhancing these vital areas of the business can add value to the supply chain from end to end.

CUSTOMER SERVICE

Significant opportunities exist for companies to extract greater value from customer service operations. Building and sustaining excellent customer service practices builds brand loyalty through repeat purchases and reputation building. Excellent customer service can enhance cost efficiency, maximize capital utilization, increase profitability, and even improve brand image.

It's important to remember that every product and service a company offers services a customer — and to your suppliers, you are the customer. So, moving materials and products through the supply chain: getting the right product, in the right condition, to the right place, at the right time, at the right price are all points where including customer service practices can make a difference in how the company is perceived.[16]

Responding to customer service issues is just as important to the supply chain as addressing supply chain disruptions because customers directly influence demand. Customers evaluate how well services are delivered, and they care most about product availability and condition, quality of order information and communications, timely delivery, returns, and disputes. How you respond to each of these scenarios plays a key role in your customers' perception of your company's brands and business.

TALENT

A supply chain team can be a hidden gold mine — or a stealthy black hole — when it comes to your customer relationships. Target Training International reports that more than 60% of all customers cease operations with a company when they perceive indifference on the part of an employee.[17] Interpersonal communications are a key customer service issue, so it's important to ensure the team is properly trained and well-prepared to always deliver sterling customer service.

The supply chain can make a difference to a company's bottom line; however, it's common to overlook its strategic significance of the level of talent entrusted in its operations, perceiving the supply chain merely as a means to move material from one place to another. Even team members themselves might share this perception — erroneously perceiving their roles are not relevant to the overall supply chain strategy — but the supply chain team can add considerable value to the bottom line.

Along with the organization as a whole, supply chain team members and leaders need a paradigm shift to move into a value-based supply chain mindset. While it can be challenging to effect the scale of change required to move toward a value-based supply chain, training the supply chain team to better understand the big picture can go a long way toward shifting perception toward value.

The most effective supply chain leaders are focused on building agile cross-functional teams that can help provide value throughout the supply chain. An ideal leader would be well rounded, with skills and understanding that include industry knowledge, business savvy, global perspective, strategic orientation, analytical skills, and financial acumen.[18]

PLANNING AND FORECASTING

Planning and forecasting to optimize inventory is one area to make business intelligence data work in a way that directly impacts the value of the supply chain. Use BI reports to measure stock levels, establish stock turnover — while also considering what affects those levels, such as seasonal demand or safety stock. Optimize for different scenarios, based on assumptions around demand, costs, lead times, and availability.

[16] http://www.scmr.com/article/the_service_side_of_supply_chain_management
[17] http://www.customerservicegroup.com/pdf/allegianceincreaseloyalty.pdf
[18] https://www.spencerstuart.com/research-and-insight/meeting-the-demand-for-a-best-in-class-supply-chain-team

"When solving problems, dig at the roots instead of just hacking at the leaves"

Anthony J. D'Angelo

Business intelligence reports can also provide information about supplier performance, like order fulfillment times, fill rates, and product volume. Leveraging this information to more accurately forecast demand for product allows a company to reduce overall stock levels: lowered overall inventory and less safety stock of slower selling items help make the most effective use of inventory investments. Forecasting materials sourcing based on landed cost in lieu of item cost enables planners to consider transportation and logistics costs into the overall price of an item. "Projecting heavy" can increase risks for waste or loss, squander warehouse space, and can even raise taxes. "Projecting light" can cause the supply chain to stumble on sourcing and procurement, which can dramatically increase transportation and freight costs.[19]

A company looking to add value in the supply chain in the forecasting and planning stages fine-tune order quantity and type, then carry only the items needed to fill recurrent orders, reducing or eliminating costs of storing physical inventory on the production floor, in warehouses, or on retail shelves. Regularly review inventory versus current product offerings across the entire supply chain to keep stock levels optimally aligned with current consumer demand.

Once planners have calculated the forecast, they plan for replenishment. Using a supply chain management (SCM) system that automatically optimizes the replenishment options can help save the time and money of manual efforts. Value can be increased in this step if the system can also use different replenishment rules for various products to achieve optimal safety stock levels — combining low stock levels with low replenishment costs.

PROCUREMENT

Sourcing and procurement can bring increased value to a company when its methods are aligned with the business's overall goals and objectives instead of concentrating solely on the lowest costs for goods and services. The journey toward balancing long-term vision and planning with short-term agility can be difficult, but the rewards are clear: Organizations with strategies in place to endure procurement trouble such as market volatility, shifts in strategy or product mix, or supply disruption can continue doing business even if its primary suppliers unexpectedly become unavailable.

Collaboration is key when building and nurturing trading partner relationships. This includes incorporating key suppliers in efforts to increase revenue, seeking ways to balance risks and costs, and collaborating to reduce buyer costs while helping key suppliers maintain and even improve their profit margins.

Simplifying the supply chain — such as using standard components in a variety of products — is another powerful procurement strategy. Brian Hancock, vice president of supply chain at Whirlpool Corp. indicated "In the old days, 20 washers could have 20 different controls…Now you might have only four different controls for 20 models." When a company procures fewer parts for its products, each step in the supply chain can be affected — from product design, to raw materials, to manufacturing, to logistics — even repairs can be simplified using this strategy.

Companies and trading partners that collaborate using an SCM system enjoy improved productivity and profitability. These systems typically allow partners to share purchasing information and capabilities such as acknowledging, reviewing, and monitoring orders in real time. Each partner can use a "single pane of glass" to manage procurement with visibility into each step of the process that saves time while also reducing the possibility of error as well as unauthorized orders. Workflows can be automated to expedite and simplify approvals and updates. By decreasing the time spent on each order and increasing efficiency, an automated procurement process can add value into the supply chain.

When a company and its trading partners can work effectively to mutual benefit by developing joint processes and coordinating workflows; sharing goals, responsibilities, and business information; and creating common business strategies, those partnerships can create a competitive weapon that can help drive market share, sales, and margins.[20]

[19] TAKE Supply Chain, Avoiding Hidden Margin Erosion in Mid-Market Supply Chain Operations
[20] TAKE Supply Chain, Strengthen Mid-Market Supply Chain Performance with the Right Tools, Talent, and Processes

TRANSPORTATION AND LOGISTICS

The logistics piece of the supply chain puzzle is often neglected, not typically landing high on the priority list when it comes to strategy and planning. However, when optimally managed, logistics can be one of the biggest areas to add value to the supply chain — in this case, by cutting wasteful spending.

A regional sourcing model is one segment that can quickly add value to the supply chain: being physically located nearer to customers can help increase the speed to market for improved customer service levels. It is certainly preferable not to need a contingency plan if a tsunami or earthquake hits a supplier's geographical area, or avoiding a labor strike that affects the main port of entry into the US. Additionally, being closer to suppliers and customers also reduces complexity and costs — for example, freight spending can be reduced by eliminating the necessity of transporting materials and products across the ocean. And, with a regional sourcing model, a company might also be able to optimize manufacturing cycles that better meet customer demand.

Moving and storing inventory is another opportunity for a company to cut costs and add value. Using the concept above of regionally optimized manufacturing, consider that reducing inventory on a regular basis saves the expenses of storing items in a warehouse for weeks or months at a time. Many companies want to believe filling a warehouse with product ensures order fulfillment and customer demand. But excess inventory requires additional storage space that can increase overheads, keeping valuable warehouse real estate stocked with expired or obsolete goods that could otherwise be used for current products generating revenue. On the other hand, understocking can cause problems as well — low service levels lead to dissatisfied customers, and can even increase costs over time by incurring repeated expedited delivery charges.[21]

Be aware of trading partners' delivery terms to avoid incurring fees and penalties for deliveries outside the proscribed window. This can be a subtle way the supply chain is robbed of value: deliver too early and the company or its trading partner must absorb the cost of storing items until the trading partner is ready for the delivery; shipments that are late for one point in the supply chain could incur added costs to expedite the delivery. These scenarios can be reduced or eliminated by improving and optimizing your company's planning and forecasting abilities.

ACCOUNTS PAYABLE

Automating workflow tasks in accounting can save time and money. This is another functional area where cutting costs can add considerable value to the bottom line when done logically.

When a company and its trading partners collaborate electronically on purchase orders, invoices, receipts and the like, all involved parties can save a considerable amount of time: efficiency improves, errors are reduced, suppliers are paid more quickly, and agility increases.

But when systems communicate and automate 3- and 4-way matching, approvals can be processed automatically, without involving any interaction from accounting staff. Only documents that don't meet established requirements need to be reviewed by staff, who will be able to "manage by exception" rather than reviewing and approving each and every document.

Eliminating paper-based accounting adds value to the supply chain by reducing the cost for each transaction while improving accuracy and visibility throughout the company and trading partner network.

Value Beyond Cost Management

This section focuses on value with benefits less tangible than just a financial bottom line. Companies are not defined solely on their finances; there are other attributes like customer relationships, flexibility, and culture that are certainly worth nurturing and developing within the company as well as with trading partners and other allies.

Supply Chain Insights describes a value network as "a collection of industry-specific supply chains spanning across companies to deliver value to a common customer."[22] To transform the supply chain from a cost center to a value network may mean redefining business models, identifying new revenue streams, or expanding into new geographies to foster new business opportunities.

THE IMPORTANCE OF TRADING PARTNER RELATIONSHIPS

This section focuses on the importance of understanding how trading partners conduct their business, so all parties can align goals and objectives. It's in the best interests of the supply chain members to grow the business of the entire chain, so building solid relationships with trading partners can benefit both parties over time.

Below are just a few of the questions a company and its trading partners should consider while moving together toward a value-based supply chain. The questions that matter most to a specific business might be different than the suggestions presented here; they are suggestions that can help a company to learn more about its trading partners, and also how well their operations, practices, and processes align to the company's business goals and strategies.

If a company is unable to answer questions like these, it is possible the business is not realizing enough value from its supply chain — a poorly managed or unoptimized supply chain is expensive to maintain, and surely prevents growth.

[21] http://www.ibs.net/global/pdf/plan-demand-for-profit.pdf
[22] http://supplychaininsights.com/the-supply-chain-index-evaluating-the-industrial-value-network/

Unfortunately, that's not all. Companies need to avoid the possibility of breaks in the supply chain like data loss, natural disasters, procurement issues, poor manufacturing, unauthorized production, counterfeits, or tampering. To do this, a company doesn't just need visibility into its top suppliers, it also needs visibility into subcontractors and their subcontractors.

To build a solid value-based supply chain, each link must be examined, analyzed, and optimized. Companies need to know their trading partners' business practices as well as their own. By doing so, they learn how the raw materials and technology they acquire is sourced, developed, integrated, manufactured, and deployed — as well as the practices, processes, and procedures trading partners use to assure the quality, security, integrity, and resilience of their products and services.

Sourcing and Manufacturing

- Are suppliers able to obtain raw materials from more than one source?
- What is the capacity of each supplier?
- How many alternate suppliers are needed to remain responsive to the market?
- Do suppliers operate in areas prone to disaster or conflict, or other areas of possible disruption?

Visibility and Efficiency

- What is the status of the company's environment and operating assets?
- Can inventory for a particular item be quickly determined?
- Which governmental or industry regulations constrain suppliers?
- How flexible are the company's supplier contracts?

Adaptability and Resilience

- Do all suppliers have plans in place for disruptive future events?
- Can suppliers recognize early warning signs for disruption?
- How many suppliers have disaster recovery and/or business continuity plans in place?
- How reliable is the technology the company and its trading partners use to conduct day-to-day operations?

As these questions are answered, a company will likely discover other, related areas where they can work with trading partners to improve performance, reduce wasteful spending, and add value. This process can be used to strengthen relationships with trading partners — trusting relationships can make it easier for both parties to come to mutually beneficial terms and achieve better value together.

"All we are doing is looking at the time line from the moment the customer gives us an order to the point when we collect the cash. And we reduce that time line by removing non-value-added wastes."

Taiichi Ohno

RESILIENCY AND RISK MANAGEMENT

Just to clarify, resiliency and risk management are not the same, and this section will briefly illustrate the difference between the two. A resilient company likely has excellent risk management strategies in place; however, they are also adaptable enough to handle risks that have not been identified. On the other hand, risk management is a process that identifies and assesses risks and creates plans to mitigate those risks.

As an example, a person thinking only about risk management might get an annual flu shot — potentially reducing one risk, while a resilient person might not only get the shot, but also maintain a healthful lifestyle — potentially reducing multiple and possibly unforeseen risks.

Risk management and resiliency are both important to add value to the supply chain and work best hand-in-hand. Breaks in the supply chain can negatively affect a company's revenue, inflate costs, decrease its market share, or threaten production and distribution.

For example, planning for secondary or even tertiary suppliers for raw materials where the primary supplier is located in an area that often experiences earthquakes both demonstrates resiliency as well as being a good risk management strategy.

After all, a company that plans for adaptability in uncertain times can continue business operations — although potentially with some delays — while its competitors stall or stop completely.

Conclusion

All organizations face challenges to remain competitive in today's fast-paced business environment. Uncovering and taking advantage of hidden value centers in the supply chain can be a multi-year project, but getting the process underway sooner rather than later will ultimately affect the company's bottom line.

Adding critical insight into each link of the supply chain, looking at current beliefs and perspectives can help create a thoughtful plan for adding value. When the supply chain is viewed and implemented from a value-based perspective, a company ultimately makes an impact on each link in the supply chain. Over time, it will become natural to leverage the areas of the business — and quickly recognize and eliminate the kind of wasteful spending — most likely to add value not only to the supply chain but also contribute to measurable improvements in margins as well.

"Creating value is an inherently cooperative process, capturing value is inherently competitive."

Barry J. Nalebuff

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