Best Practices in Supply Chain Management

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Despite the turmoil of U.S. economy, companies that have a winning strategy and a business model that utilizes best practices in supply chain management (SCM), will remain strong and continue to grow in marketplace.

“Supply chain management encompasses the planning and management of all activities involved in sourcing and procurement, conversion, and all logistics management activities. Importantly, it also includes coordination and collaboration with channel partners, which can be suppliers, intermediaries, third party service providers, and customers,” according to the Council of Supply Chain Management Professionals (CSCMP), the premier supply chain management association. “In essence, supply chain management integrates supply and demand management within and across companies.”

In most corporations, SCM is important from both a cost and revenue perspective. It is not unusual for supply chain costs to represent 50 percent to 75 percent of the total expenditures. Thus, properly managing the supply chain can create a competitive advantage.

According to academic researchers in the Department of Supply Chain Management and Marketing Sciences (SCMMS) at the Rutgers Business School, the following 10 best practices, if implemented properly, can create a strong competitive advantage for a firm in today’s dynamic market.

#1) Begin with your customers. The goal of a supply chain is to deliver products or services to customers when and where they are needed. An enlightened supply chain manager understands the needs and service requirements of the organization’s customers. A strong supply chain always collaborates directly with its customers on the forecasting of demand, replenishing of supplies, and on the development of innovative products, services and business processes. Allowing the market demand to drive the operations of all partners involved reduces the needs for forecasting, the level of forecasting errors and the wastes caused by forecasting errors (e.g. poor customer service, poor capacity utilization, excessive inventory). Working directly with customers creates real value for every business partner in a supply chain.

#2) Engage senior management. You need to ask yourself, “Does SCM have a seat at the senior management table?” If not, you need to engage senior management in the important role that SCM can play in achieving your organization’s strategic objectives. While the trend has been positive in recent years, many CEOs still view SCM as a “cost.” Reducing costs is all that matters to them. Supply chain management can create real value for a firm but, to be really successful, SCM needs a seat at the management table.

#3) Manage and recruit SCM talent. Many supply chain best practices are well known, but how you implement them requires talented people. Importantly, there is a real shortage of talented SCM professionals available. As an expert from Rutgers’ Center for Supply Chain Management points out, “We get lots of resumes but few that are exceptional.” Top management must take a leadership role in the acquisition and development of highly skilled supply chain professionals.

#4) Build your supply chain with intelligence. Today’s supply chains are very complex and quite large in scope. In order to be efficient and effective in managing these supply chains, one must implement a world class Enterprise Resource Planning (ERP) system to support its information flows. Best-in-class companies implement business process best practices in conjunction with ERP systems. In a recent PRTM consulting group study, implementing business best practices in conjunction with a best-in-class ERP system, increased the profitability of the firms by 75%. ERP is an important enabler to optimize customer service and inventory, logistics execution and increased visibility across the supply chain with both internal and external partners.

#5) Optimize your IT network. Some of the most strategic SCM issues are where plants and warehouses

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should be located, how big they should be, and how to get the right balance between costs and service. While it is a very complex problem, software is available to solve this dilemma. Based on the authors’ personal experience, implementing this strategy has the potential to dramatically reduce costs and improve customer service.

#6) Outsource non-core functions and processes. Whether we like it or not, the trend of outsourcing and offshoring is here to stay. While it always has to be addressed strategically, outsourcing has to be considered, particularly for non-core functions or processes. If strategically aligned and properly managed, outsourcing has the potential to dramatically lower costs, increase flexibility, and allow you to focus on your core competencies. A good example is the Apple i-phone, which has been completely outsourced to Asia while Steve Jobs and his company focus on innovation and marketing.

#7) Adopt and implement a best-in-class sourcing strategy. Although it varies from industry to industry, a typical manufacturing company has approximately two-thirds of their total cost of goods sold in purchased raw materials, components and packaging from outside suppliers. Implementing a professional procurement organization and strategic sourcing initiatives that consolidate suppliers is the fastest way to save money, increase margins and improve operating profits. For this reason, executives rank strategic sourcing as the number one action being taken to reduce costs. Additionally, by identifying and working with your key suppliers (or partners), you have the potential to deliver 2-3 times more value for each dollar spent in purchasing.

#8) Manage risk. As businesses continue to expand globally, increased outsourcing and off-shoring, and practicing lean manufacturing techniques (with minimal inventories), drastically increases risks. It is extremely important to manage these risks and implement plans to mitigate major exposures where possible. As Warren Buffett says, “It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you’ll do things differently.”

#9) Establish key performance indicators/metrics. It goes without saying that you can’t expect to improve what you don’t measure. It is critical that SCM has a robust set of metrics or key performance indicators (KPIs) that drive the right behavior. Too many times we see too many metrics that are not driving the right behavior or, worse, no one is paying attention to them. Lastly these KPIs must be directly linked to individual performance appraisals to drive accountability.

#10) Build your sustainability. Every supply chain is facing furious challenges today. These challenges will only become worse in future years. How do you develop a business strategy so you can stay strong? Building your supply chain sustainability is a key. The Institute for Supply Management (ISM) defines sustainability as “The ability to meet current needs without hindering the ability to meet the needs of future generations in terms of economic, environmental and social challenges.” In short, supply chain strategies must not only consider how to meet immediate business objectives, but also evaluate if these strategies enable a strong economic, environmental and socially responsible future.

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References