

MOVING GOODS EFFICIENTLY

Business Today puts some key questions about supply chain optimisation to logistics industry veteran, **GIDEON HILLMAN**

What is supply chain optimisation?

The supply chain encompasses sourcing and procurement of raw materials, inbound logistics to the processing and production plants, warehousing and distribution of finished goods to the final customer.

Supply chain management and optimisation is the strategic coordination of the business functions (finance, administration, purchasing, production & manufacturing, logistics, sales and marketing) within a company with the aim of achieving the most efficient movement and storage of goods from point of origin to point of consumption.

What are the key mistakes organisations make where supply chains are concerned?

Many organisations fail to truly coordinate their supply chains and often ‘sub optimise’ by treating each supply chain function as a silo e.g. targeting reductions in finished goods inventory without balancing the implications on economic production batch sizes, or bulk purchasing raw materials without considering the impact on working capital. Consequently, where one cost is driven down, another is increased.

During good economic growth businesses can prosper and grow financially focusing on sales and revenue, without perhaps the operational focus to ensure that best supply chain practice is implemented as the business grows. It is only when the growth slows down and the business is analysed in more detail that one realises that the supply chain has become fractured, cumbersome and expensive.

Does a business need to reach a certain critical mass before it is worth investing in an outside organisation taking a strategic look at their supply chain management?

It isn’t the size of the business or the complexity of the supply chain that drives the need for external expertise to review the supply management strategy; but the skill



set and resource available within the business. It is often the case that the mistakes referred to above have been made and that it is only when the business and its supply chain is reviewed as a ‘whole’ that it can be truly analysed and optimised.

What is the starting point of the supply chain optimisation process?

The starting point is always data. You can’t start to make improvements without creating a baseline of how the supply chain currently performs. You also need to understand how the business wants the supply chain to perform in future, and what growth plans are targeted. The key members of the business to establish this information are normally sales, operations and finance. You need to work with these members to gain cross-functional consensus on what the data is telling you about today, but also a consensus view of future growth plans.

What, typically, are the kinds of benefits that can be gleaned by optimising supply chains?

The result of a ‘sub optimised’ supply chain is often limited visibility, hidden costs and fragmented teams working against each other. If a ‘sub-optimised’ supply chain is optimised correctly the benefits should include reduced operating costs, reduction in capital requirement and improved service levels to customers.

Is supply chain optimisation a relatively new phenomena?

Supply chains have always been around and there has always been a desire to ensure they are optimised. However, with the increased complexity of a truly global market place and an increase in global sourcing from Eastern Europe and the Far East it has become more of a challenge to optimise the supply chain. This in itself has proven that a supply chain management strategy with a proper process for regular review and change is more important now than ever and will continue to be so.

How has the economic downturn impacted on supply chain optimisation?

Never has so much attention been focused on taking cost out of all aspects of the supply chain as well as reducing the effects on the environment, whilst of course achieving higher levels of customer satisfaction – a tall order for any business especially in what are still considered in some sectors as uncertain economic times ahead.

The economic downturn has forced a number of businesses to reduce or integrate resource and infrastructure in some areas to such an extent, in an effort to minimise costs that they are now finding they are unable to operate to maximum efficiency and potential. This in most cases has provided a short term cost saving solution, but unfortunately has the medium to long term adverse effect on the business as the supply chain optimisation and the key business objectives are diluted; reducing their effectiveness and worth, preventing the business from achieving a fully optimised supply chain.

Gideon Hillman FCILT MIC has over 20 years’ European supply chain and logistics industry experience specialising in supply chain and logistics solution design and implementation for major manufacturers and household brand names in the automotive, food production, grocery and non-grocery retail, home delivery networks, utilities and general industrial and manufacturing sectors.