CORPORATE TRANSFORMATION SERVICES
FROM THE INSIDE OUT

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Supply Chain's Role in Transformation

When supply chains are vulnerable to disruption, active monitoring helps keep a lid on costs

Where businesses choose to source or manufacture their products has become a highly politicized subject - from the escalating tariffs between the U.S. and China, to uncertainty over the terms of trade between the UK and the European Union in a post-Brexit world. Meanwhile, e-commerce is shaking up the final links of the supply chain as digital channels increasingly determine how businesses and consumers buy and receive products.

Yet, the impact of supply chain disruption on costs and profitability is still being overlooked by businesses, says Tim Waters, Managing Director with Alvarez & Marsal's Corporate Transformation Services practice in London. "I'm constantly amazed at how many companies don't have a handle on what drives costs in their business. There are things they regard as necessary evils, part of the cost of doing business, which are nothing of the sort. When they identify a change in profits, the tendency is to focus on cutting overheads, usually through reducing headcount," he adds. "This fails to address the root cause of the problem, which is very often found somewhere within the supply chain."

Both gradual and sudden changes are impacting supply chain economics – for example rising labour costs in China and southeast Asia are steadily impacting western clothing chains who manufacture in the region; meanwhile steel import tariffs have raised the cost of inputs for some U.S. manufacturers and construction companies. "Geopolitical issues are driving greater complexity in supply chain decision making, and a seemingly sensible decision taken in response to a market change can have a major impact downstream," says Mr. Waters. "Businesses we work with are wrestling with these issues and are constantly striving to optimise their costs and offer the best service and lead times to customers."

To help them achieve this, Alvarez & Marsal works with companies to analyse their supply chain from end to end - that is to say, from buying the raw materials to customers receiving the goods – to understand where costs occur and where they can be reduced or eliminated. "We carry out a high-level assessment first, identify where costs look disproportionate and carry out some quick-win changes, which often pay for the analysis," says Mr. Waters. "We then take a wider, deeper look. As part of a transformation program, continuous monitoring of the supply chain should become part of the day job."

Accurately identifying where costs are out of kilter prevents knee-jerk decisions which can make the problem worse. “Companies will often respond to falling profits by cutting head-office staff, but if the problem is in the supply chain, these are the people who should be looking at ways to solve it,” says Mr. Waters. “If they’re gone and the root cause is not solved, it becomes a vicious circle.”

Common sources of supply chain costs include having too many factories after a series of acquisitions, having too few sites to serve the geographical area the company sells to or running an overly complicated portfolio of products.

For retailers specifically, customer habits have changed far faster than supply chains have adapted, and the cost of home deliveries and returns must now be part of their end-to-end analysis. “Conventional store thinking does not help them meet the challenge of people ordering 10 things online and then returning nine of them, which skews sales and leads to over-stocking and discounting,” says Mr. Waters.

The good news is that digital tools exist to help companies continuously monitor and adapt. Cloud-based systems that can manage and analyse data from every part of the business are replacing fragmented and decades-old IT systems. Robotics are making warehouses more efficient and cheaper to operate, and devices such as the radio-frequency identification (RFID) tags on clothes can hold much more than stock-taking information now. They can improve transparency throughout the supply chain by storing information about where clothes were made, making it available when the tag is scanned by a smart phone. A more efficient and traceable supply chain can also improve revenue as well as reduce costs. “If one in every eight orders is wrong or late, that clearly becomes damaging for the top line,” says Mr. Waters.

Constant monitoring of their supply chain helps companies identify quickly why such problems are happening, whether it is an issue at a particular factory or with a particular supplier or source of raw materials. “Customer expectations are placing huge demands on supply chain teams to operate on tighter schedules, across more locations and with an increasing number of suppliers,” says Mr. Waters. “Regular reviews across the supply chain provide the necessary data and insight to help businesses understand where their cost drivers are and identify the right options to remedy the changes.”

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