

10**SUPPLY
CHAIN**

START COUNTING

Reducing supply-chain costs can transform an also-ran operation.

Report: Anthony Sibillin

● "Fundamentally evil" is how Tim Cook, chief operating officer of Apple – the United States consumer-electronics company known for sleek gadgets, not a slender supply chain – describes inventory.

On Cook's watch, Apple holds just 10 days of total inventory. This, and not just the high price of iPods and iPhones, is why Apple has a 16 per cent profit margin, twice that of rival HP. It is also why businesses are being urged to be more like Apple to see out a tough year ahead.

Transforming an also-ran transport, purchasing and warehousing operation into an industry-beating one can halve supply-chain costs as a percentage of sales, a partner at Melbourne supply-chain consultancy GRA, Carter McNabb, says. "A lot of businesses, when things get tough as they are at the minute, often look at short-term fixes," he says. "They reduce headcount, freeze expenditure or don't run promotions. But if they do things smarter in the supply chain, there is typically quite a bit of opportunity there. And the reason being is that supply chains, by their nature, are complex – lots of transactions, lots of products, lots of locations, lots of customers – so most businesses tend to manage their supply chains with reasonably unsophisticated approaches."

A common example is to manage inventory by holding a supply of stock, based on historical demand. "The problem with that is it is an averaging technique," McNabb says. "You end up with too much in some lines and too little in others."

A better approach is to exploit advances in supply-chain planning, optimisation and execution technology to work backwards from a service-level goal for satisfying customer demand, he says. "[You] typically have an opportunity, from an inventory perspective, to extract a fair amount of cash and return it to the business, while at the same time improving stock availability or level of service."

Good times tend to divert management attention elsewhere, notes Salil Parekh, Asia-Pacific head of Capgemini, a business-technology consultancy. "There was so much growth to be had in the last three or four years for companies at large, there was great focus on time to market and catch-up with the growth; less on efficiency," he says. The trouble is that since growth has stalled, management has the attention but not the spare cash to devote to the supply chain.

McNabb's rule of thumb is that businesses turning over \$50 million or more annually should beg, borrow or steal to buy the necessary tools, given the potential gains. For smaller businesses, it depends on what they do. So even a \$25 million-a-year logistics business should keep putting advanced warehousing and scheduling systems high on its to-do list.

There are things all businesses can do at minimal cost. One is renegotiate supplier contracts. Online auctioneer GraysOnline.com.au recently consolidated multiple delivery contracts into a single one with Australia Post.

Another is to review existing production and distribution arrangements. Would making a certain product in a different workshop save money? Would another warehouse cut delivery time? "When you are dealing with transport, inventory or operating modes, you don't have to do much other than change your decision-making process with better information, and that can yield very significant benefits," McNabb says.

Importantly, these benefits don't have to come at the expense of others along the supply chain. As Simon Harper, Amit Kapoor and Marco Kesteloo of consultancy Booz & Company write in relation to the retail sector: "All too often, buyers walk away from a negotiation feeling successful, unaware that their victory may well have been compromised by their failure to deal with issues that could have much more impact on retailer and supplier profits, such as in-store availability. The shelves still won't be fully stocked and what seemed like a highly profitable day's work is actually only a slightly larger share of a smaller pie. By contrast, building holistic relationships with selected suppliers across the value chain that can create higher revenue and lower costs than the old haggling habits requires collaboration and cross-functional participation."

Capgemini Australia managing director Paul Thorley says collaboration across and within sectors is the way to eke more out of investments. "The amount of technology out there is incredible," he says. "But what has not really happened is the interconnection between different segments of the economy." For example, Capgemini, together with leading global retailers and manufacturers such as Tesco, Johnson & Johnson and Nestlé, are investigating the idea of "collaborative transport" as a way of reducing truck movements and cost.

The challenge is to put some urgency into supply-chain management, Cook says. "You kind of want to manage it like you're in the dairy business. If it gets past its freshness date, you have a problem." **BRW**

