

Supply Chains Are Key to Profitability

Strategize, Measure, and Optimize Your Supply Chain for Greater Business Value



by **Ed Elsbury**, Associate Partner, Reveal

The financial health of a business is directly affected by the efficacy of its supply chain: According to David Malenfant, Director of Texas Christian University's Center for Supply Chain Innovation, 70% of profitability can be tied to its performance, while up to 90% of overall business costs are generated by the supply chain.¹ Given its importance, the supply chain requires a forward-thinking, strategic plan that is aligned to the business. But it doesn't end there — companies must also measure key elements of the supply chain's performance to maintain profitability and continuously improve the business. By optimizing people, processes, and data, companies can ensure their supply chains run more efficiently to help the business achieve commercial goals.

By addressing these three tasks — setting up a strategy, measuring results, and optimizing performance — companies are best set up to deliver financial value from their supply chain.

The Strategy

A solid supply chain strategy accounts for all the moving parts within a company. The strategy should specifically address business activities that are value drivers, including:

- Demand and supply planning
- Balancing lean (efficient) and agile (responsive) support structures
- Automation and SAP system utilization
- Network design
- End-to-end integration within the organization

Review your own supply chain strategy and consider how it supports the business. Any misalignment with the business's objectives indicates an opportunity for improvement.

Measuring Performance

By measuring the performance of the supply chain, organizations can get a sense of where they are excelling and where they need improvement. Take suppliers, for example. SAP provides supplier scorecards and reports, which can be found using the MC\$ transaction codes, including MC\$8 for measuring vendor quantity and MC\$K for measuring vendor on-time deliveries. Yet during Reveal's Supply Chain Wellness Assessments, we typically find that less than half of organizations use these valuable tools, impeding their ability to measure and manage supplier performance. Other examples of performance measurements include on-time and in-full to

customers (perfect order); inventory turns; inventory levels; exceptions or alerts; production schedule attainment; and purchase order (PO) automation.

Use the data and analytics in your SAP system as the one source of truth to rally around. Measure the operational elements in the supply chain that affect customer experience — after all, satisfied customers are key to profitability.

Optimizing People, Processes, and Data

When optimizing supply chain performance, focusing on improving people, processes, and data can improve results. Start with people: Do they leverage SAP systems to plan and analyze, or are they working in spreadsheets? Are they managing by exception, or is constant fire-fighting the operating model? Does the organization have a culture of continuous improvement or is it consumed with activities just to meet demand? Optimization is about enhancing the skills of employees and putting them in a position to collaboratively work smarter, not harder.

When reviewing current processes across the supply chain, examine if they support business objectives. Are forecasts loaded in the SAP system? Are processes in place to address exceptions across the supply chain and elevate key issues requiring management attention? What is the process to review performance and accountability of employees? Streamlined and targeted processes help the company operate more smoothly as a whole.

Think about the reliability of data. Does the SAP system have clean data for decision making and business management? Do the rules in the system and master data support how the business runs? As digital transformation continues — and the amount of data proliferates — it becomes imperative to invest in education to help team members learn how to leverage this data to make better decisions. Invest in the skills of employees to perform at a higher level and develop a culture that continuously reviews and adjusts processes and data to achieve desired business outcomes.

Learn More

Without a proper supply chain strategy and a way to measure success, organizations will find themselves struggling to keep pace with competitors. People, processes, and data are the key to optimizing business workflows and simplifying the supply chain. If these challenges sound familiar to you, then consider partnering with a trusted advisor like Reveal to find out how to continuously improve the business. To learn more about Reveal's ongoing VALUE optimization (oVo) approach, visit www.RevealValue.com. ■

¹ David Malenfant, "The Future of Supply Chain Management" (2017; ASUG Fall Focus Conference).