SUPPLY CHAIN MANAGEMENT

Smarter strategies for managing the global supply chain

Over the past decade, businesses have increasingly relied on contract manufacturing and outsourced supply chain services to make and move the goods they sell. Today, **$751 billion in goods**[1] are produced and imported from offshore trading partners into the US. Meanwhile, **US logistics costs amount to nearly $1.15 billion**[2]—or 7.7% of the US GDP. Many manufacturers and retailers rely on a vast network of both production and logistics partners to keep the supply chain moving.

With so many dollars at stake, inefficiencies anywhere in the supply chain can have an impact on a company's bottom line. Extra overhead at the top of the supply chain can easily cascade, affecting costs all the way down the supply chain. Which is why successful manufacturers and retailers are evolving the way they do business, rather than allowing problems to shift elsewhere in their supply chain network. Read on to learn what manufacturers and retailers can do today to help keep their entire end-to-end supply chain operating at peak efficiency.

Four areas where businesses can improve the supply chain

A successful supply chain depends on three things: the right people, processes, and technology. A manufacturer or retailer's in-house supply chain experts can effectively plan and collaborate with partners. And an accessible, real-time supply chain solution that allows everyone to instantly access and share the same data, means that accurate and up-to-date information is instantly available across the entire supply chain network. When this is put into practice with tools that focus on transportation execution, supply chain visibility, supplier management, and payment and invoicing, manufacturers, retailers, and their suppliers can all benefit from the improved collaboration, efficiencies, and visibility.

Transportation execution

For years, manufacturers and retailers primarily sourced products in developing regions to sell into western markets. More recently, there's growing sales potential in emerging and remote markets, while the rise of e-commerce puts additional pressure on fulfilling orders in established markets. When companies start selling to new regions or via new channels, they might not know who the carriers are, what the rates should be, or how to route shipments. As a result, companies might outsource everything to a 3PL or 4PL. However, implementing the same processes in new markets simply because they worked elsewhere can lead to a loss of control over planning and decision-making. Manufacturers and retailers outsource transportation strategy and execution in hopes of reducing costs while increasing service, but they sacrifice the system of checks and balances they would otherwise get from their own in-house expertise.

Well-defined processes, along with effective 3PL and supplier execution strategies, help improve end-to-end efficiencies.

When companies keep supply chain strategy in-house and monitor it through exception-based management or digital score-carding, they can ensure that execution stays on course. Manufacturers and retailers can also retain greater control over how much they pay partners, the routing guides, the rules, and the length of each step in the process. Then, the 3PLs can do what they do best—execute and manage according to the plan. The difference in this approach is that it's about building partnerships, rather than outsourcing quick fixes.

Supply chain visibility

For most companies, ensuring on-time delivery of goods is both a challenge and a top priority. Many manufacturers and retailers rely on groups of order dispatchers to check the status of customer orders and ensure delivery dates are met. While outsourced dispatch call centers in offshore locations are cheaper to operate than those in US cities, these types of phone check-ins can actually be eliminated altogether when companies enlist true supply chain visibility capabilities. Full supply chain visibility is not guaranteed, even when a company uses an ERP system and 3PL track-and- trace capabilities. 3PLs can locate shipments, but the process is manual and slow, and has to be initiated with a query for any particular shipment.

True supply chain visibility is when a solution can provide a real-time picture of where inventory is, when it will arrive, and how the supply chain is performing. The right solution enables manufacturers and retailers to manage by exception, so they need only spend time in areas that currently have or are predicted to have actual problems. For example, even if a shipment isn't due for five more days, an alert is automatically raised in advance if the shipment should have passed through customs, but it didn't. No one has to monitor milestones or documentation, looking for potential problems; no one has to guess if there is a delay; no one needs to make just-in-case phone calls. Full supply chain visibility eliminates these processes altogether, which would ordinarily be outsourced.

Supplier management

Delivering new products and services to customers is made even more challenging for manufacturers and retailers, as they already face day-to-day pressures around fulfillment, delivery costs, quick-changing trade laws and tariffs, and more. Collaborating closely with suppliers can help ease some of these pressures.

Suppliers can act as an extension of a manufacturer or retailer's brand. For instance, co-innovation programs between buyers and suppliers can expedite new product innovation and help empower the personalization and mass customization of goods. In addition, digital factory management tools can allow suppliers to ship finished goods direct to the final destination—whether it's a distribution center, store, or end-consumer. And quality assurance applications can empower quality managers to digitize processes, standardize audit types, rapidly identify potential issues, and capture performance data for immediate analysis.

Leading manufacturers and retailers recognize that significant value and expertise reside in their supply base. Partnering and collaborating with suppliers can deliver greater product innovation and value to customers.

Payment and invoicing

It's not uncommon for manufacturers and retailers' physical and financial supply chains to be managed separately. Procurement aims for the lowest part price, while finance tries to extend payment terms out as far as possible. When manufacturers and retailers maintain this information in silos, it places increased pressure on suppliers.

This disconnect can make it difficult for suppliers to get paid in a timely manner and maintain good relationships with buyers. In some instances, extended payment terms can financially strangle a supplier. There are a number of tools that can heal this divide. For instance, the procure-to-pay process can be greatly improved when a manufacturer or retailer uses a system that's capable of digitally managing everything from initial forecast to purchase orders to settlement. And financial supply chain tools can help automate the three-way match process, speed up the payment process, allow suppliers to check in on statuses at any time, and eliminate work that requires an outsourced BPO center.

In the past, manufacturers and retailers have hesitated to invest in these types of tools because they didn't see the direct benefit. But today's manufacturers and retailers have come to realize that the health of their suppliers has direct implications on their brands, products, and profitability.

You can't outsource inefficiency

Supply chain strategy isn't about cost cutting or passing inefficient processes or problems to partners. It's about pairing a manufacturer or retailer's strengths with their suppliers' strengths to become more efficient and cost effective—and most importantly, to deliver new forms of value to the end customer. While companies will (and should) continue to focus on reducing supply chain costs, they need to be mindful of the hidden pitfalls of indiscriminately focusing on cost cutting. It's critical for manufacturers and retailers to build nimble, dynamic supply chains that can deliver value, while preserving margins and profitability. This starts by placing the focus on people, processes, and technology that can truly support a dynamic, multi-enterprise global supply chain.

Learn more ›

1. Alex Abraham, Brooks Levering, Johan Gott, and Patrick Van den Bossche; Reshoring in Reverse Again; A.T. Kearney; 2018.
2. Council of Supply Chain Management Professionals, "CSCMP's State of Logistics Report Shows Stronger U.S. Economy Fueling Supply Chain Innovation and Opportunities," June 19, 2018, press release.

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