

Which switches to take out cost? Eight supply chain and operations levers that matter in a downturn

Cutting supply chain costs without focusing on both your core business today and where your core business will be tomorrow, is like running a race blind-folded. You may have a chance to win, but you're more likely to run off the track. To get cuts right, focus first on products and customers. That's an effective way to distinguish bone and muscle from fat. Cutting less profitable customers and products might drive savings, but only if you know whether those customers and products are expendable or expandable. The wrong moves could sacrifice revenue in the short run – and limit your ability to thrive over the long haul.

For most companies, the opportunities to drive out costs will come from focusing on eight key areas. Here's how to think about them.

1. Reduce working capital

Working capital improvements can deliver significant amount of cash to the business in a relatively short period of time, without the pain that comes with large change or restructuring programs. But it's not without risks. Customers won't like being subjected to aggressive terms and declines in service. Negative publicity from disgruntled suppliers is likely. So be careful as you take action in these areas:

- Negotiate accelerated payment discounts if you're in a position to pay early
- Collect sooner, pay later – days matter
- Increase vendor-managed and vendor-owned inventory
- Optimize inventory levels across the enterprise

2. Aggressively reduce direct materials costs

The developing world's rising demand for raw materials has driven up commodity costs in almost every industry and materials category. The downturn may temporarily temper global demand, but commodity price volatility will likely remain. Keys to success:

- Consolidate spend to command preferential pricing
- Conduct preemptive negotiations with suppliers – with your leadership at the table
- Simplify products, reducing features that customers are unwilling to pay for
- Rethink make vs. buy. Consider contract manufacturing and other ways to improve per-unit profitability.

3. Cut discretionary spend and enforce compliance

You've probably already done this. Just make sure you enforce compliance or cost savings may not materialize. Five areas that should get immediate attention are travel and entertainment, office supplies, facilities, IT, and telecom.



4. Lean out operations

This is the time to make operational improvements you should have been making all along. In addition to tackling manufacturing, lean operations can help companies improve in transactional areas such as order management and customer service. Focus first on shortening cycle times – and then on improving flexibility.

5. Improve key cross-functional planning process

Revisit supply/demand balancing and inventory management to improve efficiency across functions as most companies are competing in a market where consumers are more demanding and selective. Keys to success:

- Collaborate with customers to incorporate intelligence around new products into enterprise forecasts
- Provide timely visibility to intelligence provided by each function (e.g. sales, marketing, supply chain and finance)
- Develop demand sense and respond capabilities to incorporate customer demand into planning processes

6. Reconfigure your product portfolio for growth

The challenge is to adjust product portfolios to stay lean and profitable, without sacrificing the flexibility to scale and capture market share in the upturn. That requires effort in three areas:

- Evaluate products using a competitive lens, avoiding head-to-head positioning when your costs are higher
- Rationalize your SKU mix, eliminating non-strategic and unprofitable SKUs
- Manage volume and mix for profitability – which may mean moving away from spreading SG&A costs across the portfolio

7. Restructure your manufacturing and supply chain network

This is a good opportunity to re-examine your network. That means leaning out assets, focusing on profitable customers, aligning conversion costs, and synchronizing supply with demand. Manufacturing optimization can not only drive efficiency improvements, it may also help you reduce inventory and improve asset efficiency.

8. Targeted product innovations and time-to-market reduction

Getting this requires a balanced mix of innovation strategy, process simplification, technology enhancements, and organization alignments. Based on our experience, by identifying and focusing on your core competency, product development process improvements can yield labor savings of as much as 30-50 percent, and cycle time reductions of as much as 50 percent.

Think bigger

Though most companies have multiple cost reduction initiatives under way, many fail to unleash them in a manner that drives real bottom line improvements. That's because they lack executive support, dedicated resources, organizational discipline and willingness to take on complex projects. Make sure you have an executive steering committee committed to taking action across the enterprise, and a willingness to work in close partnership with finance. If you're relentless and focused, there's a good chance this effort will drive shifts in your organizational culture – creating an environment that embraces the inherent value of spending management and cost-reduction.

Clear links to value

For some companies in some sectors, actions in these eight areas may not be sufficient to meet the need for dramatic improvements. Additional opportunities can be found in Deloitte's Enterprise Value Map and integrated supply chain DISC model – a comprehensive framework outlining the elements of shareholder value in a way that helps executives prioritize their improvement efforts.

Sample cost take out opportunities across the supply chain and operations process

Plan	Source	Make
<ul style="list-style-type: none"> • Business Model/Organizational Rationalization • Working Capital Optimization • Tax Advantaged Supply Chain • KPI Alignment & Effectiveness • Planning Effectiveness • AP & AR Management 	<ul style="list-style-type: none"> • Supplier Rationalization • Low Cost Country Sourcing • Specification Compliance • Procurement Shared Services • Indirect Sourcing & Procurement • MRO Sourcing & Procurement • Commodity Strategy & Sourcing • Supply Risk Mitigation • Global Sourcing Strategy 	<ul style="list-style-type: none"> • Make/Buy Rationalization • Plant Network Rationalization • Line Rationalization • Fixed-to-Variable • Postponement • Operating Equipment Efficiency • Far-to-Near Shore Manufacturing • Lean Production
Deliver	Return	Design (Product Development)
<ul style="list-style-type: none"> • Deliver/Outsource Rationalization • Logistics Network Rationalization • DC/Warehouse Rationalization • Strategic Sourcing • Mode Optimization • Load Factor Improvement • Transportation Rate Management 	<ul style="list-style-type: none"> • Returns & Service Rationalization • Warranty & Returns Practices and Policies • Service Parts Inventory Management • Reverse Logistics Optimization • Services Pricing Optimization 	<ul style="list-style-type: none"> • Design/Buy Rationalization • Parts/Mix Rationalization • Development Pipeline Rationalization • Low Cost Country Development and Outsourcing • SKU Rationalization • End-of-Life Management • Pricing Optimization

Find out more

No two companies face the exact same challenges when it comes to driving supply chain and operations improvements. In fact, the most effective levers for one business could be dangerously off-base for another. Knowing which are which requires intimate knowledge of your industry – and asking a lot of tough questions. That’s where we can help.

Frank Burkitt
Principal
Deloitte Consulting LLP
National Service Line Leader Supply Chain & Operations
fburkitt@deloitte.com

Bob Boehm
Director
Deloitte Consulting LLP
Telecommunications Media & Technology
bboehm@deloitte.com

Additional information on supply chain management

For online version, links to: Supply Chain & Operations practice overview

http://edgeperspectives.typepad.com/edge_perspectives/2008/12/pareto-power-and-leveraged-growth.html

http://edgeperspectives.typepad.com/edge_perspectives/2008/11/pareto-paring-.html

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