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Competitive Paper

**Lean Supply Chain Management – A Clear Path to Profit  
Improvement**

## Lean Supply Chain Management – A Clear Path to Profit Improvement

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### INTRODUCTION

Being responsible for achieving your company's goals and objectives you continuously ask the question, "What is it going to take to get ahead and stay ahead of your competition?"

The answer to that question is, of course, "Excellent Results in All Phases of Your Operation".

Most companies today are faced with domestic and global competitive pressures to compete in a new world economy. They are forced into strategies that continue to put downward pressure on their prices which in turn puts equal pressure on their profits. Companies must strive to uncover ways to reduce cost as a weapon against profit erosion.

One of the most aggressive approaches in achieving excellence in operations is to develop and implement a superior Supply Chain Management Process.

The best in class Supply Chain companies are realizing financial and operating advantages over their competition. They are:

- More responsive to Customer Needs
- More responsive to Market Changes
- More effective in Controlling Cost
- More Profitable

Supply Chain Management is a major shift in how an organization manages the interface between their customers and suppliers. Companies must manage their Supply Chain from their supplier's supplier to their customer's customer.

Companies that have an unbalanced Supply Chain will see a negative impact to their overall profitability. When the balance between the Supply Chain and customer demand is inconsistent a company will incur costs above the standard cost for the product. These extra costs are in the form of:

- Cost to expedite materials
- Cost of premium freight
- Cost of excessive inventory

- Cost of excessive set-up charges
- Cost to expedite customer orders
- Lost revenue

With customer demand patterns being unpredictable and forecasts not always reliable it becomes critical to manage your Supply Chain to gain the ability to flex with demand inconsistencies.

Historically, companies did not view suppliers and customers as partners. Traditionally, companies managed their supply base with caution, never wanting to give up information that they felt would be used as leverage for pricing. It was also true with their customer base. A company was very careful with information that they felt would give the customers an unfair advantage during the sales cycle.

The power of true Supply Chain Management is the integration of your suppliers and customers into the management of the Supply Chain. Supply Chain Management requires an unprecedented level of cooperation between all the members of the Supply Chain.

## **WHAT IS SUPPLY CHAIN MANAGEMENT?**

Lean/Agile Supply Chain Management is the fundamental rethinking and radical redesign of business and Supply Chain processes to achieve dramatic improvements in critical measures of performance, such as speed, cost, quality, and service.

Supply Chain Management is the management of activities that transforms raw materials into intermediate goods and final products, and that deliver those final products to customers. Companies must manage this chain from the suppliers' supplier to the customers' customer. The activities of the Supply Chain involve sales and marketing, purchasing, manufacturing, logistics, distribution and transportation.

For most companies, a Supply Chain that rapidly flows information and material can be a significant competitive differentiator. Supply Chain Management is getting lots of attention because forward-thinking management knows it is the best strategy to:

- Increase Market Share
- Reduce Cost
- Reduce Inventories
- Improve Profits

Most companies are facing massive competitive pressure, continued requirements to reduce cost, and the reality that all customers expect nothing less than 100% quality. Executives are now aggressively assessing how their companies do business, especially in Supply Chain activities. They often find that there are no Supply Chain business rules in place, and that the Supply Chain lacks processes, systems, and measurements.

The steps to success are based on effectively integrating information and material flow within the demand and supply process. To effectively accomplish this, a company needs to compress the order to cash cycle. We know we have to have high quality; low cost and short lead times. But we also need to level load our factory, dramatically reduce inventory and communicate timely information up and down the Supply Chain.

Companies need to review their processes and ask these questions.

- Does your company understand the principles of Supply Chain Management and its impact on your operations?
- Do you understand what your customers and suppliers require?
- Do you understand the roll of logistics in a finely tuned Supply Chain?
- Do you understand the operational and financial impact of Supply Chain Management?
- Is your company committed to embrace Supply Chain Management as both a strategy and a process?
- Do you have the systems, organization and expertise in place to maximize your Supply Chain efforts?

#### **KEY CONCEPTS OF SUPPLY CHAIN MANAGEMENT:**

- Logistics
- Demand Management
- Sourcing and Procurement
- Order Processing
- Production
- Inventory Management
- Customer Service

- Information Management
- New Product Introduction
- Quality
- Cost Management

The management of these concepts from your supplier's supplier to your customer's customer is the goal. The Supply Chain of any company is made up of many different departments. These departments range from Procurement to Shipping and Customer Service.

Supply Chain Management is all about linkage. This linkage occurs from the start of the Supply Chain and continues, link for link, until the Supply Chain is complete. The management of this chain requires companies to re-think their processes and information flow. Companies are required to review and adjust the rules that they use to manage the flow of information and material. They need to embrace and use all the new Supply Chain tools and rules at their disposal.

## **TOOLS AND RULES:**

### **SUPPLY CHAIN TOOLS:**

- Supply Chain Analysis (Value Mapping)
- Consignment
- Vendor Managed Inventories
- Implants
- Relocating Suppliers
- Supplier Audits
- Transportation Management
- Target Costing
- Buying Capacity
- Portals

### **SUPPLY CHAIN RULES:**

- Information Sharing
  - Costs
  - Margins
  - Lead-Times
  - Open Systems Development
  - New Product Introduction
- Risk Reduction
- Partnership Management

The use of these tools and rules are key to the success of excellent Supply Chain processes and key to maximizing the effects on profit improvements. Companies need to evaluate their ability to apply these tools and rules as they begin the implementation of Supply Chain Management. Some will find that the basic controls in key areas are missing and before attempting the implementation of Supply Chain Management, it will be necessary to address the missing components.

There are many compelling reasons for companies to move down the path of Supply Chain Management. These reasons can be both long-term and short-term. There are also strategic and operational decisions that push companies into the Supply Chain Management realm. It is very important for companies to blend their existing programs and plans into the overall Supply Chain Management process. The fact that Supply Chain Management is linked processes requires careful consideration to these new and dynamic business forces of Supply Chain Management.

### **SUPPLY CHAIN MANAGEMENT BUSINESS FORCES:**

- Cost Management and Reduction
- Demand Management:
  - Lead Time Reduction
  - Agility
  - Competitive Pricing
  - Global Sourcing
  - Outsourcing
- Software Sophistication
- Customer Satisfaction
- Risk Management
- Market Share and Margin Improvements

In business today, a company that is concentrating on Supply Chain forces has the opportunity to meet and exceed strategic and operational goals, to defend and enhance its market share and to earn the profits that are due a company that is competing on such a high level. Companies who have achieved excellence in Supply Chain Management are enjoying big financial and operational advantages over their competition:

- They are more responsive to customer demand
- They have the agility to flex with market changes
- They excel at cost reduction and cost management

In a study completed by the Performance Measurement Group (PMG), based on a two-year benchmarking study of more than 110 participants the following results were found:

Manufactures	Delivery performance to request Percentage of orders filled on the customers request date		Material Flexibility and Availability The number of days to achieve an unplanned 20% increase in production		Total Supply Chain Cost Total cost as a percent of sales to manage order processing, acquire materials, Manage inventory etc.		Cash-to Cash Cycle Time The number of days between paying for raw materials and getting paid for product	
	SCM Excellence	Median	SCM Excellence	Median	SCM Excellence	Median	SCM Excellence	Median
<b>Electronics</b>	94.3	72.6	4.3	30	4	8.3	28.7	75.1
<b>Consumer - Goods</b>	97.6	81.2	8.3	42	4.9	9.2	24.7	66.6
<b>Defense-Industrial</b>	97	68.9	10	30	4.3	10.2	18.5	67.6
<b>Pharmaceuticals</b>	99	79	6	30	3.9	11.2	33.4	91.2
<b>Tele-communications</b>	93.9	77	2.6	25.5	3.3	8.3	44.4	100.2

The improvements shown in this study are dramatic evidence that implementing Supply Chain Management process can enhance the bottom line profitability of any company.

There are many more savings to be realized by implementing an aggressive Supply Chain Management process:

- Negotiated cost reduction by product line
- Overhead reallocation with programs like(VMI, KANBAN, Consignment)
- Reduction in the cost of purchase order administration with the use of Portal tools
- Reduction of obsolete and slow moving inventory
- Reduction of inventory storage space
- Quality improvements

To help realize the savings and profit enhancements companies must rely on their IT department. Supply Chain Management requires information from the point of end-use and linking information resources throughout the Supply Chain for quick transfer on data.

In today's highly competitive and global economy, new strategies and tactics to increase business velocity is needed. To stay competitive in this environment, companies are required to address the:

### **E-BUSINESS MODEL**

#### Existing Model

- Order Large lot Sizes
- Formal Scheduled Orders
- Supply Driven Push System
- Weekly Flow of Information
- Rigid Schedules
- Fixed
- Standard
- Sneaker-Net

#### Emerging Model

Small lot sizes with frequent delivers  
Instant and Real-Time Replenishment  
Demand Pull Systems  
Daily/Hourly Information Flow  
Agile and Flexible Schedules  
Variable  
Customized  
Internet

In today's economic environment it is critical for companies to control cost and maintain or increase profits. As we discussed in this article, Supply Chain Management plays a major role in making this happen.

A company's management team must focus on controlling the Supply Chain from their customers all the way back to their supplier's supplier. Management needs to embrace all the new tools and rules to control the Supply Chain and they need to develop plans and new organizations that will allow for the change and management required to reap the benefits of complete Supply Chain Management. A very true quote from Tom Peter (Thriving on Chaos, p.3)

**'No company is safe...** There is no such thing as a "solid," or even substantial, lead over one's competitors. Too much is changing for anyone to be complacent. Moreover, the "champ to chump" cycles are growing even shorter.'

There is no mystery in making Supply Chain Management work. There is however a great deal of detail, planning, organizing and measuring, and change that must be done to achieve excellence.

Dan Marino is a Senior Partner of Marino Associates, LLC; Mr. Marino has more than twenty-five years in materials and manufacturing with experience in ERP, Lean/Agile Manufacturing process JIT, MRP II, Capacity Planning, Supply Chain Management, and Global Procurement. Dan has a degree in Business Management and Industrial Engineering. He is a Certified Instructor for Boston University in their Lean Certification program and certified Six Sigma Green Belt. Dan is a frequent speaker and educator on the local, national and international level.