



SupplyVelocity®

The Pillars of Supply Chain Strategy

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The Need for a Supply Chain Strategic Plan

For many years, Supply Chain Management was an overlooked aspect of business. Everybody just expected supply chains to deliver. The pandemic and the Ukraine-Russia war changed the status quo while other big disruptions were already underway. Amazon fundamentally changed the consumer economy (and soon the industrial economy) when they built their supply chain to deliver a vast array of products incredibly quickly. The China-US trade war created the foundation for both inflation and a move to regional supply chains. Now everyone is interested in supply chain management and realizes that their business can be disrupted due to not having a supply chain strategy.

Equally important is the recognition that service companies also have supply chains. Sometimes service companies have physical supply chains, such as for construction, hospitality, field repair and retail. Others are information-based such as for accounting firms, banks, financial services, testing companies and many others.

Business leaders need supply chain plan to make sure they are not disrupted in the future. Instead they can make their physical and service supply chains a strategic advantage to profitably fulfill customer demand.

The Pillars of Supply Chain Management

Supply chain strategy is built by creating processes that support the key pillars of supply chain management. These pillars come from the proven Supply Chain Operations Reference (SCOR) model, which provides a straightforward way of thinking about supply chain management at your company. What I like most about using the model is it takes the term “supply chain management” and turns it into something you can do.

The 6 process elements are:

- Plan – Processes that balance demand and supply to develop a course of action that maximizes supply chain performance
- Source – Processes that acquire labor, materials or services, and manage suppliers of those resources, to meet demand
- Make – Processes that transform inputs to a product or service to meet demand
- Store – Processes that store resources or capacity to meet demand when needed
- Deliver – Processes that provide goods and services to customers
- Return – Processes associated with returning, or receiving returned products, for any reason



Plan

Planning involves some type of forecasting and calculation of your capacity to understand if and when you need to add or reduce resources, such as labor, inventory or capital equipment. In many manufacturing and distribution companies this is done by running a Sales & Operations Planning (S&OP) process.

<https://www.supplyvelocity.com/services/sales-and-operations-planning/>

However, even service companies can use S&OP for their critical business processes such as processing loans (banks), conducting audits (accounting firms), getting materials and labor to a construction site (construction companies) and many other examples. Any critical business process needs a plan to balance supply and demand in order to maximize performance of that process.

An overview of S&OP is shown below in Figure 1.



Monthly Process

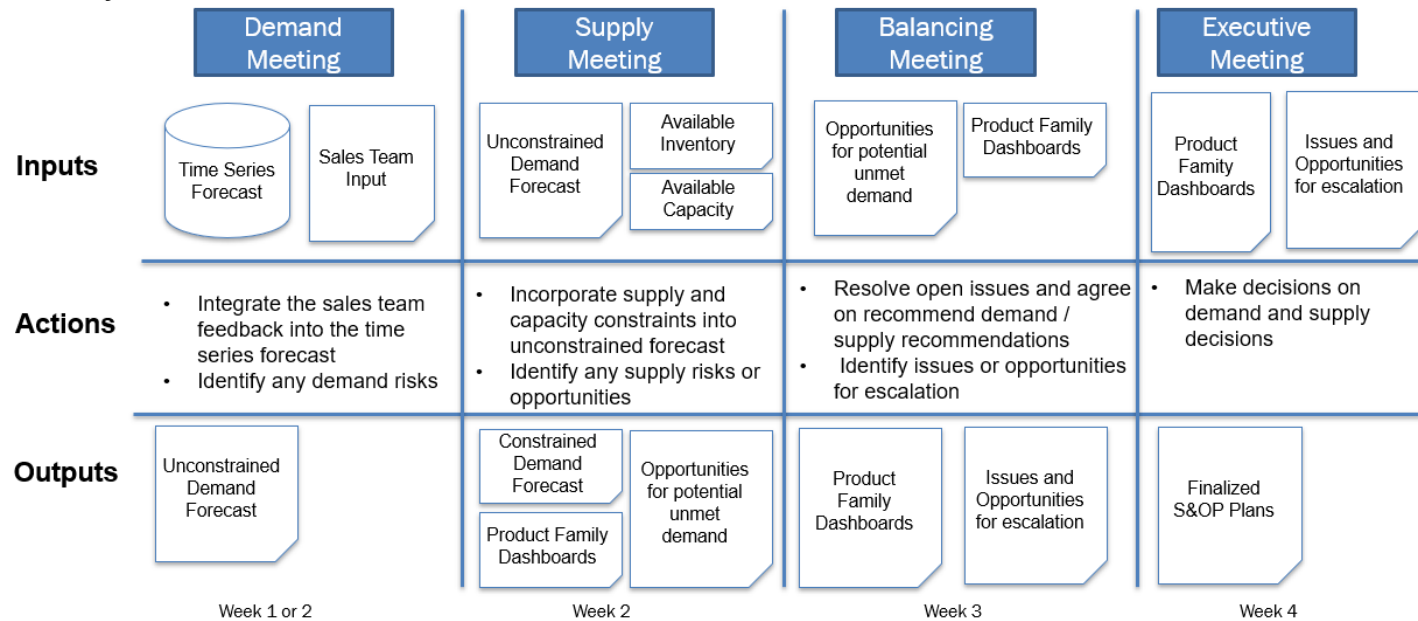


Figure 1: Sales & Operations Planning Monthly Process



Source

Sourcing is the spectrum of how you manage and partner with suppliers. The model we use, which was developed by supply chain academics, is shown on the next page (Figure 2: Spectrum of Supplier Management). There are 7 levels of supplier engagement in the model. Knowing which level suppliers are part of can help drive sourcing decisions.

At the top of Figure 2 is the least engaged supplier relationship, where you are buying from suppliers in a transactional fashion. Most of your suppliers (20/80 or the 80% of the suppliers that are 20% of your spend) will fit into the top section of the spectrum. They are not important enough to your business to invest the effort to create a partnership.

Your most important supplier relationships should be set up on a relational basis (middle of Figure 2). Suppliers share openly and seek to make their customer successful through their products or services. They may take over parts of the customer's business, such as inventory management, business process or IT outsourcing. There are incentives to perform and for the supply chain to succeed.

Sourcing for Critical Business Processes – Capital Equipment

Most supply chain management professionals think of sourcing around physical goods that they use in production or that they distribute. Another way of considering sourcing is how the company sources labor and capital equipment. Capital equipment requires large investments, but very rarely. Often this makes them transactional with infrequent but difficult negotiations. However, by standardizing on certain capital equipment there can be significant savings in maintenance, spare parts and training. One of the most well known examples of capital equipment standardization is Intel's Copy-Exact program, which requires all semiconductor fabrication plants to use identical equipment. This has allowed them to achieve high levels of performance very quickly when commissioning a new fabrication plant. Capital equipment suppliers should therefore be part of your sourcing strategy.

Sourcing for Critical Business Processes – Labor

Since the pandemic accelerated the "war for talent", many companies realized they need a sourcing plan for labor, including direct administrative or operational positions, professional, management and executive. What sources does your firm use to find the labor you need for your business to operate? Where should it fit into the supplier management spectrum in Figure 2? Are you using recruiting firms that are always looking for people to fill potential openings at your company? Is your recruiting or human resource department doing this continually, or only as needed? In today's labor environment, recruiting needs to be an ongoing process. If you don't have openings, perhaps you should have "on deck" talent that you can bring into your company quickly, when needed.



Transactional	Basic Provider	Transaction-based model where there are numerous suppliers, prices are readily known and there is little differentiation among offerings.
	Approved Provider	Goods and services are purchased from suppliers that meet pre-defined qualifications such as quality and service-performance. Usually a supplier in this category can be readily replaced.
	Preferred Provider	Like an Approved Supplier, however the buyer has chosen to move to a more strategic and relational approach. This can result in a streamlined buying process.
Relational	Performance Based	These involve longer-term and more formal supplier agreements that require achieving performance or savings targets.
	Vested Business	Highly collaborative relationships that create value for the buyer and supplier. Ideally, entire supply chains would involve a vested business model across the chain
	Shared Services	In this model the company keeps the capability in-house, usually in a centralized organization, and offers these services, for a fee, to the company's business units.
Investment	Equity Partnerships	If an organization does not have the internal capability, but wants some control, it can enter into an equity partnership with a supplier to fund a shared-services organization.

Figure 2: Spectrum of Supplier Management



Make

Make, which originally was meant as “manufacturing” should be thought of as the key value-adding operation in your company. There are many types of value-added operations:

- Physically transforming materials into a finished product
- Picking and packing items in a warehouse
- Processing claims at an insurance company
- Delivering education by a training firm
- Taking a lead and creating a quote
- Routing vehicles to meet customer time-windows and minimize distance travelled
- Designing products
- Coding software
- Field equipment maintenance and repair
- And many more

These key value-added processes should be the most streamlined, productive and fast processes in your company. This happens by applying Lean Process Improvement and by identifying and eliminating non-value-added steps. Figure 3 below shows a Current State Process Flow Map. The red dots on the post-its represent non-value-added steps. There are 73 steps in this process and 22 of them were identified as non-value-added and should be eliminated. This represents almost 30% of all steps in this process, which directly correlate with cycle time reduction.

<https://www.supplyvelocity.com/services/lean/lean-process-improvement/>

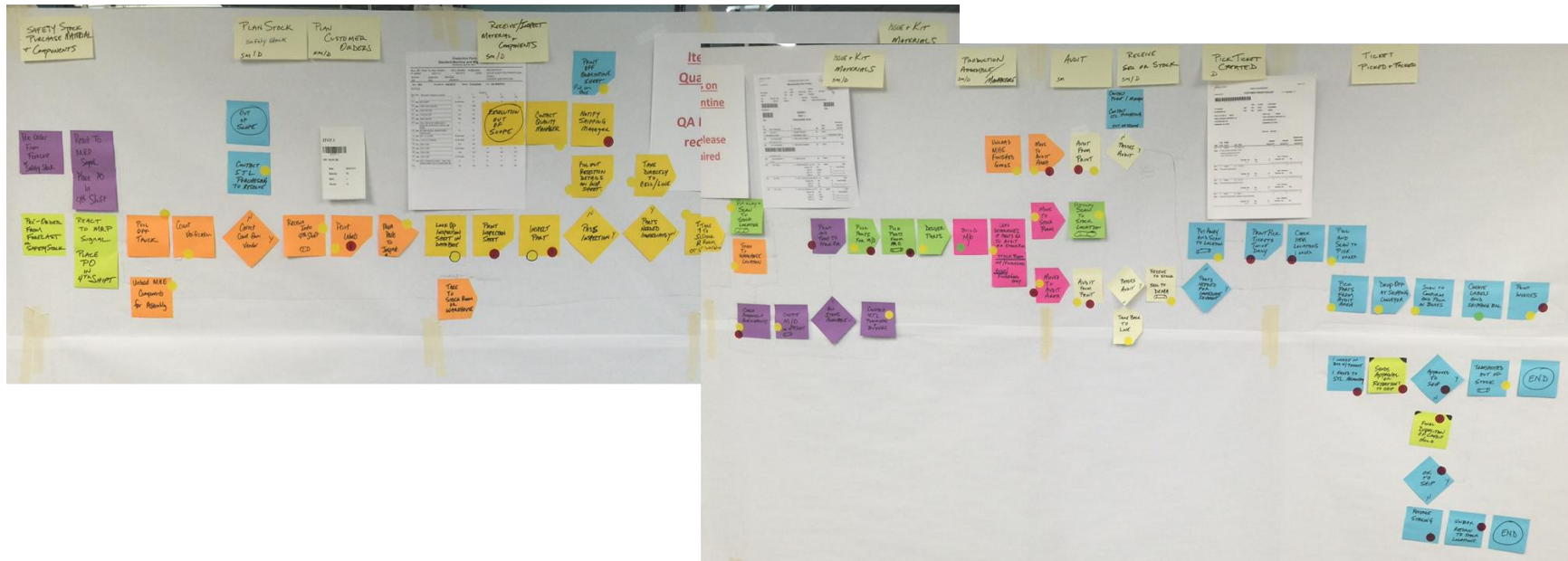


Figure 3: Lean Process Improvement – Current State Process Flow Map



Store

Storage in a physical supply chain is your warehousing and inventory strategy. This includes warehouse layout optimized for productivity or designing it to accommodate ecommerce (omnichannel) demand. Inventory optimization follows a specific methodology to ensure you are classifying your SKUs based on importance, using the most accurate forecast and calculating safety stock to ensure maximum customer service and minimum obsolescence. This is a deep topic and more information is available at these links.

<https://www.supplyvelocity.com/creating-a-lean-warehouse/>

<https://www.supplyvelocity.com/ecommerce-and-omnichannel-supply-chain-management/>

<https://www.supplyvelocity.com/services/supply-chain-management/inventory-optimization/>

<https://www.supplyvelocity.com/services/supply-chain-management/demand-forecasting/>

For a service company, “Storage” means building in capacity-flexibility for critical business processes so you can quickly respond to demand spikes. If you have a physical supply chain you can store inventory to buffer demand ups-and-downs. If you have a service supply chain you need to design your labor, IT or equipment capacity to flex up and down productively. This is more challenging than having a warehouse and storing inventory but it is needed for your service supply chain to profitably fulfill customer demand.

Deliver

Deliver is how you get your product or service into your customers’ hands. In physical supply chains delivery is transportation, which has many modes. Delivery can happen via ship, barge, railroad, large trucks, local delivery trucks, couriers and drones. Today the gig-economy also opens up alternative delivery options and many 3PL trucking firms are trying to be the “Uber of freight”, including Uber, which bought a 3PL company.

In service supply chains delivery is often email but it can also be a portal to provide a self-service option for customers. Portals require significant investments but make your company “easy to do business with” for your customers.

Return

The final pillar is return. This encompasses physical returns by your customers who are not happy with the product, or a reuse and recycle plan that you make available for your customers. Even service supply chains have returns, which is how you recover from a customer complaint or service failure.