7 Principles of Supply Chain Management

TakeAway Points
1. Segment customers based on service needs and profitability
2. Customize logistics network to market requirements
3. Synchronize, cross-functional demand forecasting
4. Shorten lead times, postpone differentiation
5. Purchase strategically based on lowest total cost
6. Leverage technology for supply chain visibility
7. Adopt aligned ‘channel-spanning’ metrics
1. Segment customers based on service needs .... and profitability

- Relative value, willingness to pay
  *Idiosyncratic by customer, “sweet spot” clusters*

- Portfolio of services, menu-driven
  *Tech support, account planning, fast delivery, customized packaging, etc.*

- Activity based cost management
  *Precise cost to serve*

- Customer & segment profitability
  *Pricing vs. cost to serve, retention*

- Appropriately aligned investment
  *ROI, EVA based*
2. Customize logistics network to market requirements

• Monolithic approaches geared to average or toughest customers … too little or too much

• Successful companies:

  *Multi-level logistics systems, e.g central DC with local quick response centers*

  *Strategic inventory deployment, e.g. fast movers closer to the market*

  *Flexible, third party alliances, sometimes with competitors*
3. Synchronized, cross-functional demand forecasting

- End use visibility … ‘pull’
- Collaborative planning
- Coordinated scheduling
- Capacity management
- Vendor managed inventory
4. Shorten lead times, postpone differentiation

- Fast set-up & changeover
- Cellular & JIT manufacturing
- Mass customization
  …Modular design, standard parts
- Postponement
  …End of line customization
- Package to order
5. Purchase strategically based on lowest **total** cost

- **Acquisition cost plus operating cost**
  
  *Highly fact-base dependent*

- “**Supplier’s costs are your costs**”
  
  *Don’t confuse cost cutting & cost shifting*

- **State-of art: gain sharing**
6. Leverage technology for supply chain visibility

- Enterprise wide systems
- Electronic connectivity among partners
- “Open books” mindset

7. Adopt aligned ‘channel-spanning’ metrics

- Both service & financial metrics
- Heroic objectives: 6 sigma, perfect orders
- Customer-focused report cards
- Consistently applied measurement
## Supply Chain

### Success Factors

<table>
<thead>
<tr>
<th>Unsuccessful</th>
<th>Successful</th>
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<tbody>
<tr>
<td>• Tactical</td>
<td>• Strategic &amp; tactical</td>
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<tr>
<td>• Functionally defined</td>
<td>• End-to-end</td>
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<tr>
<td>• Narrowly focused</td>
<td>• Holistic</td>
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<tr>
<td>• Local optimization</td>
<td>• Global optimization</td>
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<tr>
<td>• Stop gap</td>
<td>• Sustainable</td>
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