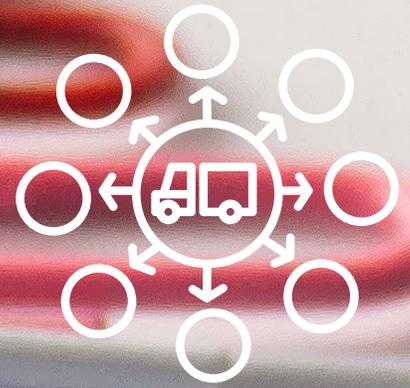




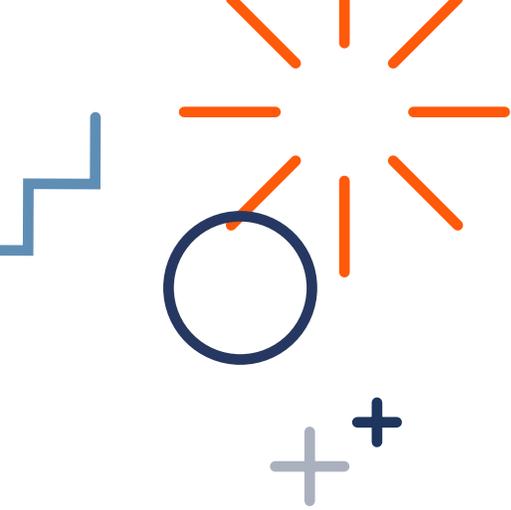
# From Chaos to Control:

**6 Ways to Simplify Your  
Supply Chain**



**Navigate**





When it comes to business disruption, COVID-19 blows other modern “disruptive” events out of the water. Widespread lockdowns and closures derailed logistics and transportation, which in turn brought many of our global supply networks to a grinding halt. In fact, [75% of businesses have reported capacity disruptions](#) in their supply chains as a result of coronavirus-related transportation restrictions.

As supply chain horror stories dominate headlines and capture consumers’ attention, business leaders are taking note, too. Supply chain management is moving beyond the newsroom to the boardroom, as C-level leaders focus on future-proofing their supply networks to prevent further disruption and profit loss.

For supply chain professionals, the pressure may be on, but the opportunities are endless. With newfound buy-in from the top

**FOR SUPPLY CHAIN PROFESSIONALS, THE PRESSURE MAY BE ON, BUT THE OPPORTUNITIES ARE ENDLESS.**



brass, supply chain specialists can really dig in, using simplification as a wedge to improve performance.

To understand where these opportunities lie, it's important to dive deeper into what drives supply chain complexity and how you can use it to your organization's advantage.

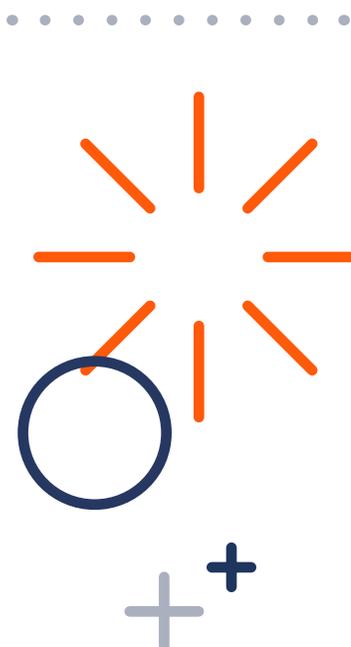
CONSUMERS WANT EVERYTHING TO BE BETTER, FASTER AND EASIER TO ACQUIRE THAN IT WAS YESTERDAY, WHICH HAS CAUSED A WAVE OF INNOVATION.

## Supply Chain Complexity—It's...Complicated

As the adage goes, complexity is the enemy of efficiency—complexity counters economies of scale and reduces profitability. It also makes ongoing performance and growth increasingly difficult. The problem with supply chain complexity is that it's not only a significant driver of cost, but it continues to fuel variability and uncertainty. Companies cannot outgrow complexity, and traditional cost containment and standard process improvement approaches flat out don't work.

So, what's behind all this complexity in the first place? One of the biggest influences is the customer, and expectations in that department are on the rise. Consumers want everything to be better, faster and easier to acquire than it was yesterday, which has caused a wave of innovation, particularly around:

- **Faster lead times for product/order delivery:** This used to be a competitive advantage, but today it's a given.
- **Strict delivery expectations:** Customers want to know where their order is and precisely when it will arrive. These pressures



extend well beyond consumer delivery as more companies demand the same tight delivery forecast and execution for their suppliers.

→ **Expanded products and services:** Mass customization has expanded product lists for partners across the entire supply chain. In short, more stock keeping units (SKUs) = more complexity.

→ **Growth targets and supply chain expansion:** Expanding an organization's footprint means expanding the supply chain's capabilities and footprint, too, including new locations and acquisitions. As you expand the businesses and markets you serve, you add an incredible amount of stress on your supply chains.



While the customer experience is a significant piece of the puzzle, CX isn't the only factor driving supply chain complexity. There are plenty of nuanced, supply-specific issues at play, as well.

ALL WORK IS A PROCESS, AND THAT INCLUDES PROCESSES THAT ARE HANDLED INTERNALLY AS WELL AS ONES MANAGED BY UPSTREAM AND DOWNSTREAM SUPPLIERS.

## NETWORK COMPLEXITY

The more supply chain nodes and links in a network, the more complicated the network itself becomes. Further outsourcing of non-core activities leads to more reliance on external suppliers—meaning those external suppliers are also dependent on a web of second- and third-tier suppliers.

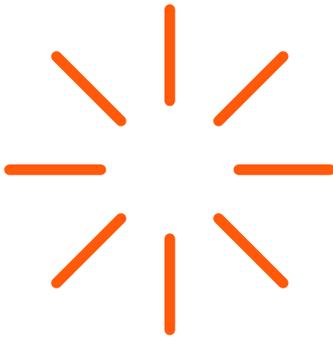
## SKU PROLIFERATION

As consumers, we've become picky—spoiled, even. In a world where there's a tool or a product for nearly everything, there's also bound to be waste. The truth is, not all products are winners. But although most companies have no qualms with raising their SKU count, they are reluctant to “sunset” slow or dead products that require infrastructure and costs to maintain. The rate of introduction of new products or services, new pack sizes or extensions far outpaces the rate at which existing products or services are eliminated. Typically, the more product variations added to a product range, the more variances exist with a subsequent impact on forecast accuracy.

## PRODUCT COMPLEXITY

The supply chain is truly the start of a product's lifecycle, which begins with decisions around raw materials, components, suppliers and more. Product design starts getting complex when the number of components or subassemblies increases, and when the bill of materials (BOM) differs across products. If a BOM doesn't contain enough common components, varying the product mix or volume becomes difficult, if not impossible.





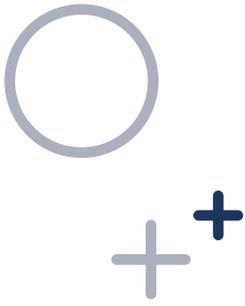
## PROCESS COMPLEXITY

All work is a process, and that includes processes that are handled internally as well as ones managed by upstream and downstream suppliers. These processes are often constructed without a bigger picture optimization framework in mind, allowing them to continue growing in complexity over time as business expands. And those delivery expectations we mentioned earlier? They get more complicated as process complexity grows, making it far more difficult to streamline operations and meet faster lead times or strict delivery expectations.

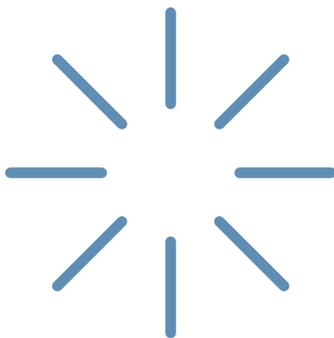
## CUSTOMER COMPLEXITY

Customization—a byproduct of our modern supply chain structure—is a beautiful thing. Customers like to have options, and each customer will have different order patterns and delivery requirements that suit their preferences. Although the sales and marketing team might see offering a large range of options as a competitive advantage, these decisions are often made without detailed knowledge of their cost implications.





**FOCUSING SOLELY ON FUNCTION CAN CAUSE SOME ORGANIZATIONS TO LOSE SIGHT OF THE PURPOSE OF THE BUSINESS: TO WIN AND KEEP PROFITABLE CUSTOMERS.**



## SUPPLIER COMPLEXITY

As your business grows, you'll inevitably need to bring on new suppliers to support your expansion into new terrain. The size of your supplier base can add an additional layer to your supply chain by simply increasing the number of relationships that you'll need to proactively manage—not to mention an increase in the total number of transaction costs.

## DATA COMPLEXITY

Access to data is crucial, especially when making decisions around supply and demand execution. Gaps in data form as more systems and partners are added to the mix, and information is filtered and modified as it moves from one business entity to the next. This causes you to develop blind spots throughout the supply chain, which can drag efficiency and productivity levels down significantly.

## ORGANIZATIONAL COMPLEXITY

Most companies are organized around functions and departments rather than business processes. Unfortunately, supply chain business processes know no organizational boundaries and require overall process optimization, **not** functional optimization. In many cases, focusing on optimizing a function tends to sub-optimize the entire supply chain. What's more, each function is usually rewarded for different functional objectives versus overall supply chain performance, which—you guessed it—adds another layer of complexity and suboptimization. Over time, these functions

can cause leaders to get tunnel vision and lose sight of the fundamental purpose of the business: to win and keep profitable customers.

When you tease out each of these components and their related intricacies, it's easy to see how a company can evolve from a seemingly simple enterprise into an entire ecosystem of partners and products, services and suppliers. It also becomes clear that any break or weak link in the chain can lead to disaster.



## COVID-19, That's Your Cue

The coronavirus pandemic came into Q2 swinging, and it's since landed several crippling blows to global supply chains. Procurement teams struggle to cope with COVID's impact on sourcing and securing materials and components while protecting key supply lines. Many companies were blindsided by the virus, and their responses have been scattered and uncoordinated. Despite numerous global disasters over the last



decade—the Fukushima nuclear disaster, flooding in Thailand, massive hurricanes and an array of other natural events—most organizations found themselves ill-prepared to battle the coronavirus.

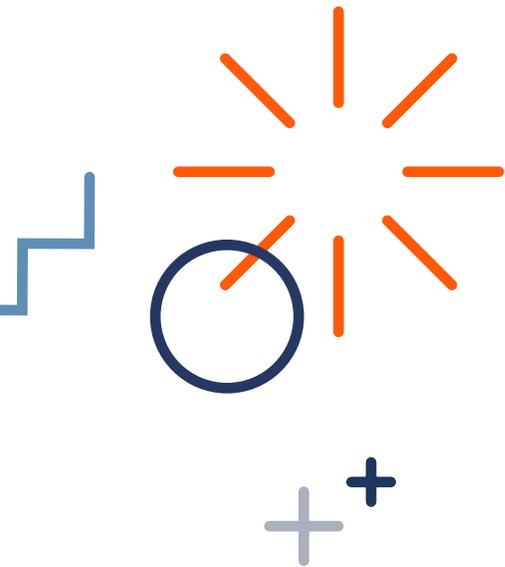
Unlike other business functions, procurement is typically measured on cost savings, not revenue assurance. Simply put, obtaining supplies at the lowest possible total cost is Priority One. When procurement teams must resort to extraordinary measures to secure products on time by expediting shipments or purchasing materials at a premium, these added costs are often assigned to other parts of the organization, such as logistics. Despite these increases in cost, very few ask, “why are we expediting in the first place?”

Without a properly mapped supply chain network, it’s difficult to find breaks in supply lines or issues with specific suppliers. That’s why, when the crisis first struck, it took several weeks for organizations to even surface their problem areas.

## Supply Chain Simplification: If Not Now, When?

Pandemic or no pandemic, large and complex organizations must take the time to reevaluate and reimagine their supply chain strategy. This will not only ensure a swift recovery, but it will help you prepare for future disruption, growth—or both.

THE COMPANIES WHO  
EMBRACE COMPLEXITY  
WILL FARE FAR BETTER  
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## 1. EMBRACE THE COMPLEXITY CHALLENGE

Supply chains are inherently elaborate, so there's no use trying to run away from the problem. The companies who embrace complexity will fare far better than those who do not confront the challenge head on. It's also important to recognize that



confronting this complexity must become a normal occurrence for supply chain professionals. The supply chain will forever be in conflict—running towards conflict with the goal of resolving it is all part of the job.

## 2. MAP YOUR ENTIRE SUPPLY CHAIN NETWORK

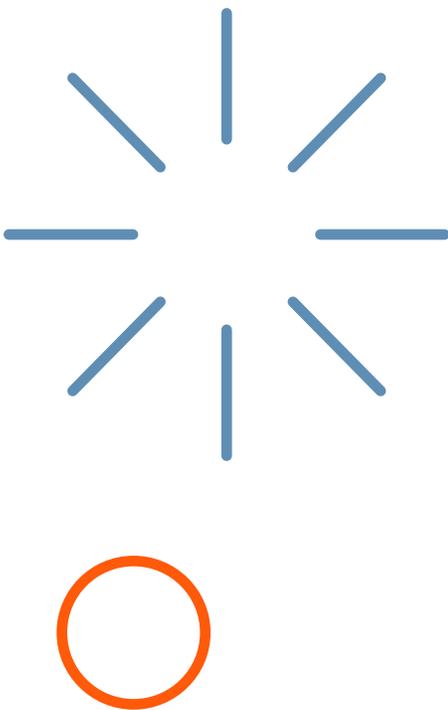
We won't try to sugarcoat it: Mapping out your supply chain will be hard and it will take time, but you can't just opt out of the process. COVID-19 has exposed the fact that many companies lack insight into critical supply lines or potential issues, which bars them from being nimble and reacting before supply is interrupted. You must go beyond tier one suppliers and include tiers two and three where appropriate. It's also important to continuously

identify blind spots and understand your supply chain's reliance on external partners. Identify all value-add and non-value-add nodes and differentiate them to show where complexity originates. If you don't know where to begin, start with a supply chain risk assessment. This tool can help you spot your highest-risk areas and value-chain nodes with the greatest potential for failure, allowing you to monitor threats and assess risks before they become problematic.

### 3. RATIONALIZE YOUR SKUS AND SERVICE OFFERINGS

The typical SKU breakdown mimics the rule of thirds: one third of SKUs are profitable, one third break even and the final third lose money. One size doesn't fit all, so it's important to understand the cost to maintain these SKUs in your supply chain and the corresponding value they are providing or detracting from your business.

Don't be afraid to simplify and eliminate SKUs that are not driving bottom-line value to your business! Segmenting your SKUs





**DON'T BE AFRAID TO SIMPLIFY AND ELIMINATE SKUs THAT ARE NOT DRIVING BOTTOM-LINE VALUE TO YOUR BUSINESS.**

is an important first step, as it will allow you to reduce complexity while maximizing customer service and profitability. To segment SKUs into their proper “bucket” or category, consider value as defined by volume, revenue and profit margin. This will help you drive specific, segmented SKU strategies to optimize performance. Understanding your SKU mix is one of the most important but often overlooked aspects of minimizing supply chain complexity and optimizing profitability.

Currently, many progressive companies are going through a rigorous assessment of their SKUs and purging their portfolios to focus on the “right” ones. With the proper analytics tools in place, opinions can be put aside to focus on revenue growth, costs and profits. This includes service offerings, too. As consultants, we often encounter clients who have numerous service offerings but no way of measuring the bottom-line impact of these offerings. In the end, the only complexity that can be justified is the one which delivers real value that customers are willing to pay for.



#### 4. REDUCE SUPPLIER COMPLEXITY

When disruption occurs, everyone in the supply chain suffers—buyers and suppliers alike. To mitigate disruption, procurement organizations need to move beyond basic product cost as the main driver of performance. Now is the time to revisit your entire master list of suppliers and develop a spend analysis that shows who you’re doing business with, where they’re located and what the potential risks are.



THE PANDEMIC ISN'T THE FIRST EVENT TO TEST THE RESILIENCE OF OUR GLOBAL SUPPLY CHAIN STRUCTURE, AND IT WON'T BE THE LAST.

It's important to note that although cutting the number of suppliers can certainly reduce transaction costs, this approach can also introduce unforeseen risks into your supply chain. Before you start rearranging suppliers or cutting them entirely, you need to evaluate the distribution of spend to understand optimization potential, the degree of differentiation between suppliers and the level of relationships between suppliers. For instance, if you have 25 suppliers for a particular category and each one has varying levels of technical capabilities or different operational practices, then it is much harder to coordinate and manage all 25 suppliers effectively and consistently.

Lastly, don't focus solely on purchase price, as this won't give you the total cost picture. Purchase price hides the inefficiencies of supplier management cost within your own organization, and you can't make improvements unless you highlight and measure those costs.

## 5. ELIMINATE BLIND SPOTS

To ensure your organization isn't caught off guard by the next disruptive event, you should focus on substituting information where there are blind spots in your supply chain. A sound data strategy will seek out these blind spots and work diligently to eliminate them.



## 6. ENABLE A HIGH PERFORMING SUPPLY CHAIN TEAM

Now, we're not talking about organizational changes—a supply chain goes well beyond functional silos and organizational boundaries. However, pros in logistics, finance, distribution, operations, demand planning and procurement must come together on a frequent basis to talk about performance and key gaps around tools, information, people and processes. They must work together in new ways to fix these gaps and protect the company from disruptive events in the future.



The pandemic isn't the first event to test the resilience of our global supply chain structure, and it won't be the last. Identifying and understanding the impact of supply chain complexity will help you focus and target your improvement areas, and with any luck, it will help prevent you from improving what you shouldn't be doing in the first place. By embracing the challenge, mapping your networks, eliminating blind spots and reducing complexity whenever possible, even the largest enterprise organizations can simplify and strengthen their supply chain strategy.

### ABOUT NAVIGATE

Management consulting, done differently. At Navigate, we tackle pressing problems for large and complex companies. Our work goes well beyond strategy. We're hardwired to deliver measurable, sustainable impact by focusing on what ultimately drives business performance: the way people work together. [www.navigatecorp.com](http://www.navigatecorp.com)

