

Truths and tools for the modern supply chain: An FD's guide

A White Paper by Pegasus Software



SCM: a definition

A supply chain is a system of organisations, people, activities, information, and resources involved in moving a product or service from supplier to customer. Effective management of the supply chain requires the commitment of supply chain partners to work closely to co-ordinate order generation, order taking and order fulfilment. A supply chain is a system of organisations, people, activities, information, and resources involved in moving a product or service from supplier to customer. Effective management of the supply chain requires the commitment of supply chain partners to work closely to co-ordinate order generation, order taking and order fulfilment.

Changing landscape

Until relatively recently, supply chain priorities were operationally focused, with costs and efficiency dominating. But the last ten years have seen a very different set of challenges and models emerge.

In the wake of a number of major natural disasters such as the Icelandic volcano eruption, Fukushima earthquake and Hurricane Katrina, alongside a turbulent global political climate, organisations have witnessed first hand the full extent of the risk supply chains are exposed to.

This in turn has resulted in a shift in the way the supply chain is viewed, putting it firmly on the FD's agenda. In fact, according to a leading risk barometer¹, business interruption, including supply chain disruption and vulnerability, is the top concern of global businesses. In line with this, recent research² undertaken amongst global supply chain professionals highlights that while cost containment still features as a priority, ensuring on-time, in-full delivery, improving product availability and increasing visibility are key to supply chain success.

A delicate balancing act

The problem is that supply chains are both immensely complex and precariously fragile, with Gartner highlighting that 63% of supply chain leaders report "increasing supply chain complexity" as the highest risk to business continuity.

Efforts to strip out costs from the business have resulted in the rationalisation of suppliers, and often manufacturers rely on just a couple of key suppliers, which increases risk if one, or indeed both, cannot supply. Conversely, manufacturers who rely on a greater number of suppliers face risk through managing a bigger, more convoluted supply chain. In fact, some argue that one of the biggest supply chain risks is that you don't always know who you're doing business with and the extent to which they share the same ethical codes and standards. Fast fashion in particular has dominated headlines in this respect, with suppliers' working conditions exposed as unacceptable, risking brand damage and customer defection.

The challenge for an FD is to analyse the degree of vulnerability and risk faced through supply chain activity, and ensure that sufficient measures and resilience are built in to mitigate this risk as far as is possible.

Growing pains

As markets report cautious signs of recovery, balancing supply chain resilience with investment in innovation and growth only seeks to exacerbate the challenge. In fact, 57%³ of global supply chain professionals now see their supply chain as a source of competitive advantage, with two thirds investing between 5-15% of their turnover on it.

¹ Allianz Risk Barometer 2018 report

² GEODIS 2017 Supply Chain Worldwide survey

³ GEODIS 2017 Supply Chain Worldwide survey

Joining the links

Technology has a pivotal role to play in addressing this balance. It can enable a holistic understanding of exactly what is going on in the supply chain, providing highly detailed status updates on production, including configured assembly, engineer-to-order, make-to-order, make-to-stock and repetitive manufacturing, and allows flexibility in production with work orders, subcontracting and production schedules.

However, many SCM systems operate in isolation, facilitating visibility of the supply chain itself but failing to fully factor in critical interdependent processes such as finance, production, CRM and business intelligence.

In order to achieve a cohesive picture of the status of the supply chain and, more importantly, be able to respond and react quickly to issues and changes to plans as they emerge, it is vital that supply chain systems are fully integrated with CRM, financials, production, document management and business intelligence, which provides a live, comprehensive view of operations at any given time. The linking of SCM with finance systems streamlines internal processes and enables both FDs and supply chain staff to take a more comprehensive, informed and strategic view of the business.

For example, through integrating supply chain and finance systems, the true cost of stock can be established. The actual unit price of stock is only part of the picture; for its true cost to be calculated, additional fees that are incurred to source goods from a supplier, such as freight costs, insurance, customs duties and other taxes that are levied on a shipment. These are crucial in calculating the 'landed' cost in order to calculate what it can be sold for. This insight is critical in ensuring profitability; without it, margin calculations are merely guesstimates.

10 questions

In order to ascertain the resilience and effectiveness of the supply chain, it is important for an FD to know the answers to the following questions:

- 1) How can the business keep inventory low while still servicing demand?
- 2) What would be the impact of labour issues, including strikes and illness?
- 3) How do we account for any outsourced components of production, manufacture or distribution?
- 4) What happens if a major supplier fails to deliver, or if quality issues arise?
- 5) What happens if we sell too few products or the customer orders too much?
- 6) Are our production facilities and distribution channels, and those of our suppliers, suitably resilient against natural disaster, adverse weather or terrorism?
- 7) Are we dependent on too few or too many suppliers?
- 8) What is the likelihood of supplier downtime?
- 9) What happens if our product quality/yield dramatically drops?
- 10) What happens if there is deviation from expected lead times?

A 360-degree perspective

Events which have occurred in the last few years have highlighted that finance directors need to step outside of the core finance function, and take time to re-appraise the supply chain risks and challenges facing the business.

The role of technology is critical in helping to achieve this understanding. In fact, it is impossible to address the complex framework of supply chain issues, facilitate visibility, automate processes, analyse critical business data and plan for "what-if" scenarios without robust integrated software. By achieving this 360-degree visibility of the supply chain and its impact on all other business processes, FDs can manage growth, achieve profitability, manage variability and reduce risk in their supply chains, regardless of future uncertainties.



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