



No capital budget? How will you improve your supply chain now? Improving Supply Chain Without Capital

By JEFF BOUDREAU

We are a professional services firm, and we provide supply chain consulting, labor management and sustainable operations services for companies, primarily those with labor-intense operations or complex supply chains. I think that traditionally executives look for strategy, process and technology to improve their supply chain. Oftentimes there might be a software, technology or hardware piece behind that. Therefore, they try to project in their budgets for the following year what they might need and what they anticipate spending. What we have seen this year, and what we have heard pretty much across many industries, is that there are no capital budgets left for this year. They've been capped, or in more cases than not, they have just been cut off. As a result, we are finding executives have operating budgets, but they have no Cap X budget to spend or invest in new upgrades for their supply chain.

However, at the same time we are seeing, coincidentally with the downturn in the market, that super-sizing has slowed down. This is really a year to pause, breathe and catch up. Now they can optimize their supply chain rather than super-size their supply chain. Without this capital budget, we are seeing a couple things:

1. Project Approval Process Changes

We are seeing that initiatives are getting elevated to get approval. In the past, a vice president could approve a project. Now it is getting elevated to a senior vice president, an executive vice president or perhaps even the chief financial officer. We are certainly seeing a lot more active CFO involvement even in modest initiatives.

2. No Technology Spending

The second thing we are seeing is that there is almost no spending on new technology. During the past few years of rapid growth, on the other hand, there had been so much spending on new technology and there were tight time frames to get it in and working. There has been a massive overlook in getting these technologies and processes optimized. As a result, we are seeing that it is now time to optimize and not super-size.

3. Fund from Existing Operating Budgets

The third thing that we are seeing is that CFOs are being very receptive to scheduling an initiative or a new supply chain improvement to become funded directly from existing operating budgets. A few examples for that might be that they have a ten-million-dollar annual labor budget. They can get a performance improvement project started that might include some software, some engineering, some training and performance management. All of that would need to be funded right out of that labor budget. Therefore, it takes a little different tack on how they go about doing this, where month-by-month cash flow, the savings, are matching or achieving the expenditures to get the project done. This can happen in labor and transportation. Alternatively, they can optimize processes around transportation; they can negotiate their transportation rates again even if they have just done it. We are now seeing increased use of outside professionals to help negotiate transportation rates.

4. Inventory Reductions Gone Too Far

A fourth thing is inventory. Actually, I think the U.S. has done almost too good of a job here, where they have done massive reductions and inventory positions, freeing up all kinds of capital, really creating an instant line of credit. However, it is almost at a risk of destroying their supply base. We are seeing a lot of ripple effects with contract manufacturers; it's completely drying up. I'm not sure if it's gone too far, if they're trying to match demand, and I think their thinking is that they'd rather lose the sale than carry a high inventory position. It's just that this has been so quick to respond to in this downturn more than any other downturn in the past that it's created a massive disruption to the supply base like they've never seen before. In other countries, there are hundreds of thousands of workers in the low-cost countries doing a massive migration back to their home towns.

5. Bundled Initiatives and Contract Re-Negotiations

A fifth thing we are seeing is a technique which has been used in the past, but I think it's more important now. The technique is to actually bundle several initiatives together so that the savings from one part of the initiative can actually fund another. An example might be a labor or management program that kicks off a lot of labor savings; then they use that to pay for a new supply chain execution or warehouse management software installation. Or we are seeing executives go back and negotiate just about every contract they have, from telecom and support services to rent, and then use those savings to pay for upgrades or new technology.

6. Outsourcing of Day-to-day Activities

The sixth thing we are seeing is that there has been a big increase in outsourcing day-to-day activities. Transportation has been outsourced for decades; you've seen 3PLs do a lot of outsourcing of inventory, warehousing, pick, pack and ship. However, I think it is even more important now to maintain day-to-day activities and outsource special projects or one-off initiatives that require a lot of distraction and outside expertise. With the explosion of available experts out there—just look at LinkedIn—we are seeing more and more people engaging experts on one-off initiatives. More people are actually taking short-term gigs to help a company with a project. And we are seeing a big shift away from the big consulting firms and more toward the network of experienced, specialized professionals to help out with pretty big projects at big companies.

We are certainly seeing a "use what we've got" mentality. I think the cost to upgrade or the useful life of technology and applications was considered so short. A lot of companies rarely realized the full functionality of their technology, their software and their systems. There has been a lot of turnover in companies in the past. People moved around to different jobs. Now we are seeing that voluntary turnover has just about stopped. There is now an opportunity to really build expertise with folks learning how to better use the business systems and technologies to optimize and run their business. I think this is a unique opportunity that hasn't been around for quite a long time.

Improving Cash Flow and Working Capital Through Labor Management

There is a big untapped opportunity for companies to understand how to transform their labor-intense operations to a performance-focused culture. If I look at all the supply chain initiatives or strategies companies can take, labor typically floats to the top in terms of highest ROI.

This is applicable to labor-intense businesses, such as retail and consumer products distribution, high-tech refurbishing and kitting, field service operations and customer care operations. There are new technologies that can help companies report on performance versus expectation. We can compare their actual performance versus the performance goal. We can then report that to management in terms of a score, and use that to evaluate, motivate and even provide an incentive for people to take charge of their own performance.

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.. "Labor management has really started to get some traction in the past six to seven years. Although the concept is well over a hundred years old, and has been a mainstay in manufacturing for decades, it has only been getting traction in supply chain in the last 10 to 15 years." --- Jeff Boudreau on Logipi

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Traditionally, this has been somewhat difficult to do in jobs that are not direct labor. However, there are new techniques now to look at what we call white-collar and support operations, where there might be some thought intensity or there might be time in task, there might be customer interaction. It is not a directly measurable amount of work, and those have always classically been a challenge for engineers to figure out what is good performance for that person over some period of time. We can use new techniques out there that have become a more prevalent, more widely used, and use them as a part of a comprehensive performance-management program - what we like to call workforce motivation.

In India it's pretty much the norm in distribution operations to pay for performance—by far the most prevalent way of compensation. In Western Europe it is a little bit more complicated, though we are seeing some changes there, and it is primarily because of regulations from the states and how they compensate people. We are seeing the ability to engage people and let them take part in a true taste of capitalism, where they can actually, in a small way, be in business for themselves when they are actually at work as an employee for a company.

Finding the Money

Look at where the big operating budgets are, and those are most likely your biggest opportunities from which to fund an initiative. It is likely going to be your labor and transportation budgets. There are also additional outside expenses and technology and support and services. Go where the money is—that would be the first place to look. If it's related to labor, workers may misunderstand and think you are changing the way that the value they add to their workday is perceived. It is all about the people, and it is all about creating the right culture and the right workforce strategy. Unfortunately, we are seeing this pushed or promoted as a software initiative or as an engineering project. Those are two important and necessary components of a labor and management project. However, they are certainly not the overarching emphasis or the underlying theme for what these programs need to be to be successful.

One of the biggest risks of doing a program like this is that in the past, when you had to buy a new piece of technology or a new piece of automation or a new software system, you had to get those things working to run the business. If you put in a new warehouse management system, you had no choice but to get it to work or else the business would fail. With a labor-management program or paid-for performance, it's clearly optional. It is like going to the gym; it's not something you have to do, but if you do it, you get great results. Since it is optional, therein lies its greatest risk.

“The risk is that once the economy turns around, or there is a merger or divestiture, or something else that takes management’s attention, management will think that they have got the management program licked and they take all their attention away from it. These programs can easily wither on the vine and die.”

It is a big opportunity for companies to improve their supply chain without any capital, but they need to understand the commitment they're going to make once they head down that road. We did research for a supply chain national convention a few years ago, the CFCNT meeting. We interviewed dozens of executives who had done this program recently. Many years ago we had a variety of folks who had experience from all different angles. The average performance improvement that we saw across all those programs was about 45%. Then when we looked at the top ten—the top-tier programs, the ones who had done just about everything right. We came up with some qualifications for what defined a top-performing program in terms of coverage, technical expertise, executive support etc. Those top-performing companies that use these programs averaged a 62% productivity improvement. A 62% improvement means that if the facility is pumping out 100 units per hour, at the end of the program, they are getting 162 per man hour. So it is a tremendous improvement; either they are getting far more output with the same people or they are getting the same output with fewer people.

We are also seeing a lot of qualitative improvement to the supply chain in terms of strengthened and bolstered management skills. We're seeing lower turnover. We are seeing a shift over time to a higher mix of people in the workforce. So think of it going from a rec soccer team to the travel club soccer team. The mix of players on the team has been elevated over time; so the folks who are drawn to that type of environment tend to stick around.

Importance of People

We are also seeing an interesting side effect. We found that all the prior investments in software technology automation became improved. We heard material handling companies say, 'We've got this great installation with the latest technology and sorting and storage and retrieval, but, frankly, we're disappointed with our customer. We don't even think they're qualified to have the keys to run it.' After a program like this, even with voice-picking technology, it improves the utilization, the throughput, the compliance, and the intention of doing a good job. They get much more return on assets or much more utilization out of their existing infrastructure.

It is always a surprise when doing a people-focused program. For example, we approached a retail distribution labor-management program a few years ago. It had fairly average performance in the facility and we started in one department and the CEO cautioned us by saying, "Look, the manager of this department, I'm not sure he's going to make it. He's got one foot out the door. We've been counseling him, so we can give it a shot there, but I'm not sure he's gonna be our greatest supporter."

Six months later, after working with him and giving him new tools on how to operate and run his department, giving him all the feedback and performance scores from which he could now coach his associates for higher performance, and giving him the training on how to become a coach, he became the most effective manager, or most effective coach, in the entire building. He went from nearly being out the door to being the best coach in the building because we and the management gave him a new set of tools, grabbed him by the collar, pulled him up and showed him how to be successful. It completely transformed his personal life and his professional life.

In his role as a labor management consultant and supply chain sustainability / optimization specialist, Jeff has provided performance consulting in services ranging from strategy, planning, design and implementation support to deep expertise in analytically-based labor management programs across a wide range of business functions.

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