

Supply Chain Performance: How do you know you're improving?

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16th July 2008

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A member of the  *Logistics Bureau* group.

What do we do?

→ Benchmarking Success (BMS) is about **Supply Chain development and improvement** utilising;

- a **Supply Chain Diagnostic and Audit tool**, and
- an interactive information exchange through **Business Improvement Peer Groups**,

→ where performance is compared to a **Supply Chain Best Practice Model**,

→ to create a strategic supply chain overview that assesses current and best practice performance where...

- **Service** delivered by and through your supply chain,
- **Costs** incurred across supply chain to deliver that service, and
- **Management inputs** deployed that drive performance,

are **benchmarked with World Class Supply Chains** from our database.

Benchmarking Success database contains over 800 Supply Chains

Over 300 companies have participated in BMS Business Improvement Peer Groups

Why do I need to know my supply chain performance?

Creates:

- A starting point
- Understand strategy fit
- Supports comparison
- Focuses improvement
- Quantify the opportunity

Issues:

- Creating visibility
- Alignment
- Consistency
- Understanding opportunity

Gross Margin Return on Inventory Investment - GMROI

Turn & Earn KPI

- Business profitability is determined by many factors. One **critical trade off is the margin earned by a SKU and how often that SKU turns over**. An antique dealer traditionally has very low stock turns so needs high margin products to be profitable. In contrast a grocery retailer has very fast stock turnover and can be profitable with low product margins.
- **Turn & Earn [T&E]** measures the combined effects of gross margin profitability and the quantity of inventory being held / turned through the business.
- **T&E** multiplies the gross margin as a percentage of Sales (sales less cost of goods sold divided into sales) by the annual stock turn number.
- It is a gross **measure of profitability of an item, line, category or total business. It identifies areas of stock that are not covering their costs.**
 - Where the margin can't be increased there is a need to reduce inventory to ensure each item at least pays for itself.
 - The larger the number the better the effect on profitability.

T&E - Calculations

- Turn & Earn Calculations

	Current (\$m)
Revenue	172.6
COGS	86.9

Gross Margin	85.7
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Inventory	17.1
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Gross Margin %	49.7%
Inventory Turns	5.1
Days Inventory	72

T&E Index	252
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T&E - Calculations

- Turn & Earn Calculations

	Current (\$m)	Scenario 1 (\$m)	Scenario 2 (\$m)	Scenario 3 (\$m)
Revenue	172.6	172.6	172.6	172.6
COGS	86.9	77.7	73.4	69

Gross Margin	85.7	94.9	99.2	103.6
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Inventory	17.1
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Gross Margin %	49.7%	55.0%	57.5%	60.0%
Inventory Turns	5.1	4.5	4.3	4.0
Days Inventory	72	80	83	87

T&E Index	252	252	252	252
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If we assume that the figure of 250 is to be maintained to keep the company at least as profitable as it is now, and the GM will increase from moving manufacturing off-shore;

the maximum inventory increase is shown for incremental improvements in GM %

T&E - Calculations

- Turn & Earn Calculations

	Current (\$m)	Scenario 1 (\$m)	Scenario 2 (\$m)	Scenario 3 (\$m)
Revenue	172.6	172.6	172.6	172.6
COGS	86.9	77.7	73.4	69
% Reduction in COGS		11%	16%	21%
Gross Margin	85.7	94.9	99.2	103.6
Inventory	17.1			
Gross Margin %	49.7%	55.0%	57.5%	60.0%
Inventory Turns	5.1	4.5	4.3	4.0
Days Inventory	72	80	83	87
Days Increase in Inventory		8	11	15
T&E Index	252	252	252	252

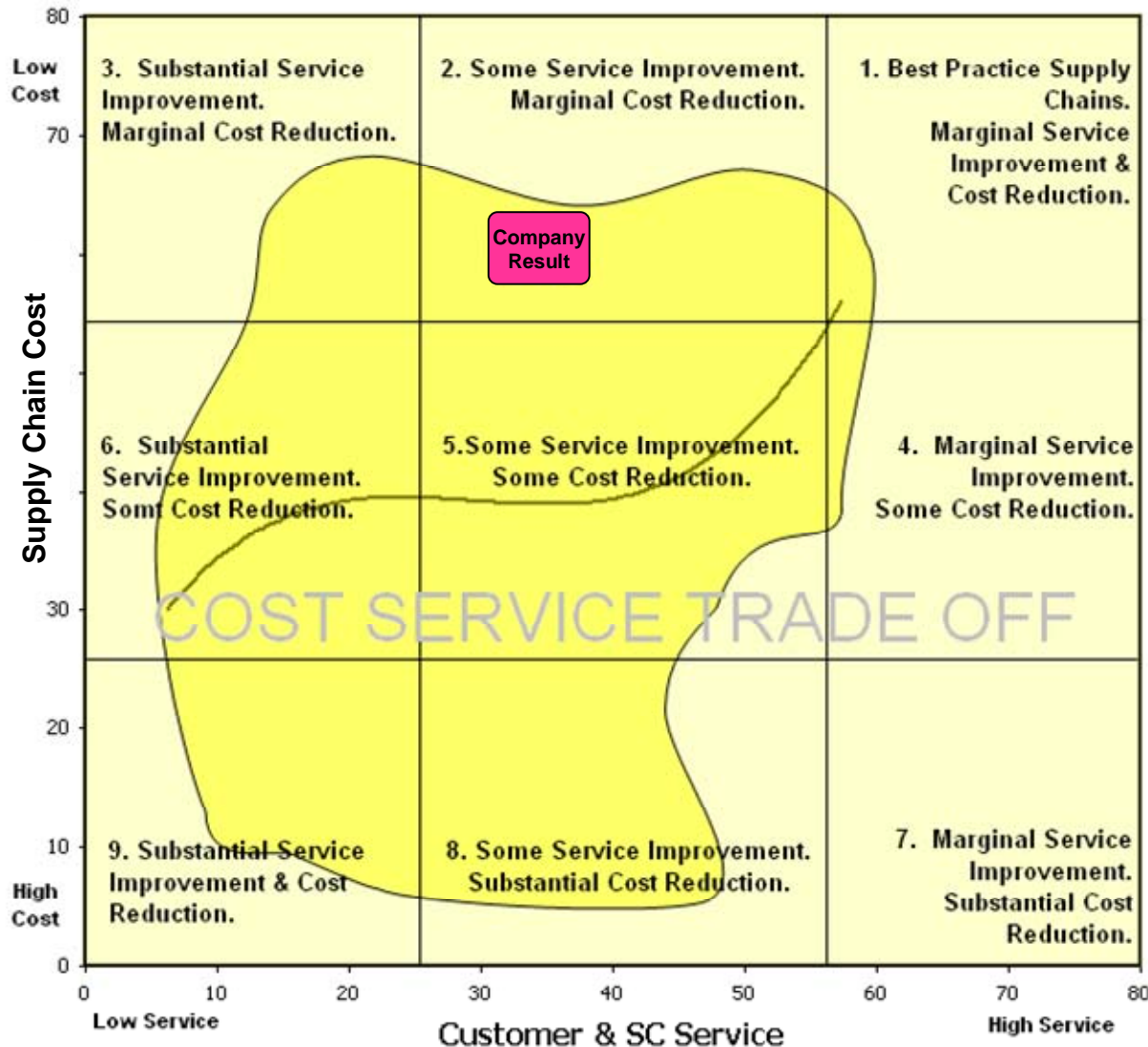
Note the reduction in COGS that is needed to match the increases in Gross Margin

Also note the maximum increase in inventory days that can be absorbed to suit these improvements

What BMS processes do?

1. <u>Health check</u> of Supply Chain – overall well being of organisation	Organisation can strategically answer - Is this where we want to be?	BMS Outputs Relevant – Service & Cost Cloud, Inputs & Outputs Cloud, Level 1 SC KPIs.

2. Champions Challengers® - Fig 2.1 Cost & Service



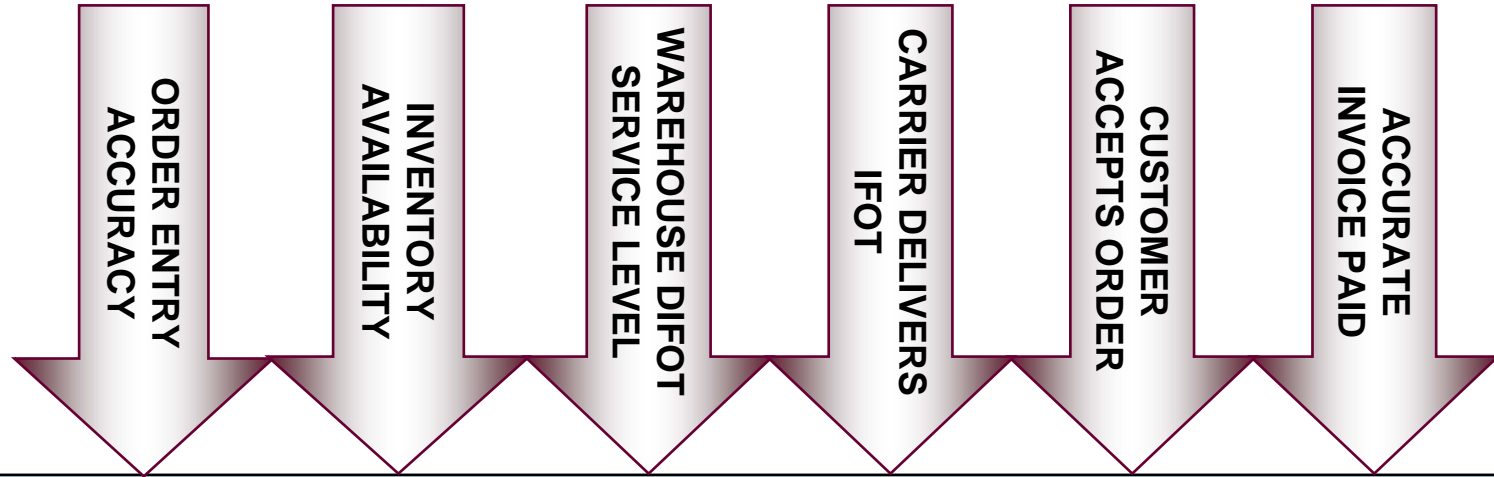
- Understanding the high level performance of my supply chain.
- Making a decision if strategically this is where I want to be.
- What is the benefit of changing service and/or cost performance?

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2. <u>Where to Look</u> in Supply Chain to confirm health?	Functions & processes in SC. Organisation see.	Radars – Outputs and Inputs, Probability of a Perfect Order, Level 1 KPIs.

The Perfect Order

Delivery In Full, On Time & In Specification with Accurate Paperwork



Total

98%

80%

90%

98%

95%

98%

Total
64%

What does this mean?
How do I get improvement?

What BMS processes do?

<p>1. <u>Health check</u> of Supply Chain – overall well being of organisation</p>	<p>Organisation can strategically answer - Is this where we want to be?</p>	<p>BMS Outputs Relevant – Service & Cost Cloud, Inputs & Outputs Cloud, Level 1 SC KPIs.</p>
<p>2. <u>Where to Look</u> in Supply Chain to confirm health?</p>	<p>Functions & processes in SC. Organisation see.</p>	<p>Radars – Outputs and Inputs, Probability of a Perfect Order, Level 1 KPIs.</p>
<p>3. <u>What to focus on</u> to improve your health.</p>	<p>Organisation can identify what to focus on.</p>	<p>Level 1 KPIs, Cost histogram – current average, best, possible = prize], Perfect Order, Radars.</p>

Champions Challengers™ - Level 1 Metrics

Table 1.1 Relevant Level 1 KPI Comparisons [Sample only]

KPI	-----Performance-----			BEST PRACTICE
Delivery in-full (by line)	< 90%	90 - 97%	> 97%	
Delivery on-time	< 90%	90 - 97%	> 97%	
DIFOT (in-full x on-time)	< 80%	80 - 95 %	> 95%	
Total Supply Chain Management Cost	> 13%	13 - 8%	< 8%	
Cash to Cash Cycle Time	> 100 Days	100 to 40	< 40 Days	
Stockturns (Finished Goods)	< 4 Turns	4 - 12	>12 Turns	
	Disadvantage	Parity	Advantage	

Comparisons with Database e.g. including:

CUB, Arnott's, HP, Dulux, Matte, IBM, 3M, Honeywell, Mars, Siemens, Kodak, Nestle, BHP, Smorgons, Unilever, Mayne Health, Jeans West, Amcor, etc

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<p>4. <u>How to improve your health</u> - fix current issues [specialisation takes over].</p>	<p>Aggregate / process level by BMS, e.g. CS Pol. / Inv Pol. / Pareto of inventory. Then transactional analysis.</p>	<p>BMS can assist, Re: Difot, S&OP. Consultants - order profile analysis, cost to serve, transport contracts, move / close DCs, etc.</p>

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<p>5. How do I <u>keep improving</u> my SC?</p>	<p>Cloud review of scar report, updates of cost histogram, perf order.</p>	<p>Accompany on journey with like minded Peers via BMS Group.</p>

Business Improvement (Benchmarking) Peer Groups

→ A **BMS peer group consists of up to 10 non-competing companies** from various industries that,

- have regular face-to-face meetings (four per year), and
- participate in the exchange of best practice information and ideas.
- The group has a commonality that links the companies together and makes benchmarking (both KPI and process) relevant.

→ The **BMS peer group is an advanced learning program.**

- It educates members about applied supply chain concepts, and
- the BMS world-class best practice model is reviewed and discussed at peer group meetings.
- Peer Groups are used to verify developments in supply chain performance assessment

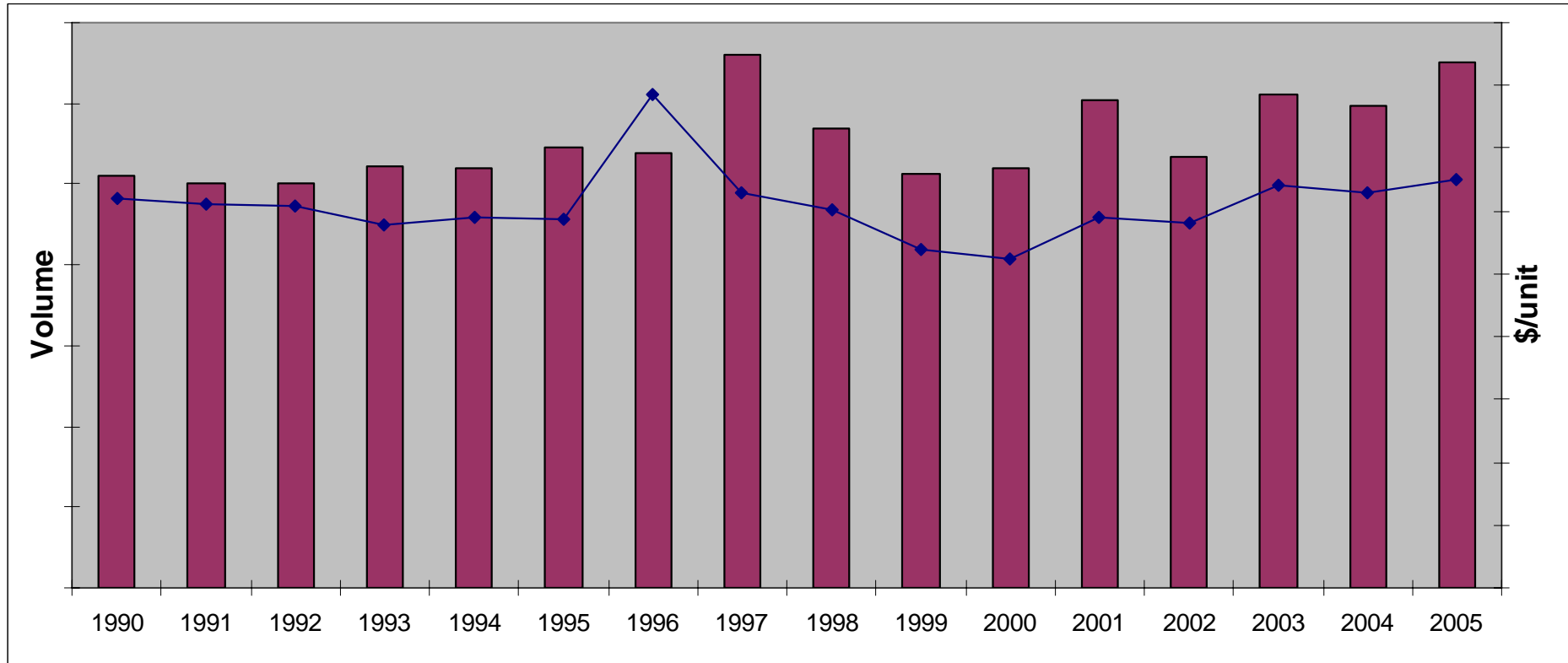
→ **BMS has developed and managed over 20 peer groups**, mostly external groups (a mix of up to 10 different companies) but also manages internal peer groups (managers from the same company from different regions or states or countries).

→ **Over 300 companies** have participated in BMS Business Improvement Peer Groups.

“how good can we be and how quickly?...”

“learn the best from the best!”

Understanding how you compare is only the start of the journey!



Over the same period transport cost index rose 35% and CPI >42%