

## Ride the downturn and prosper in the recovery: the 5 supply chain maxims

**Alan Braithwaite, Executive Chairman**

As the economic conditions get harder, there will be just one mantra for CEOs and their Boards: “manage for cash”. We believe that how organisations manage their supply chains against this objective will be a critical success factor for their survival and profitability in the next few years.

Companies use a variety of terms to express their renewed drive for cash, talking about “releasing tied up capital” and “freeing up cash flow”. But the focus is, simply, getting and keeping as much cash as possible.

Along the chain, customers are demanding faster delivery in smaller lots with extended credit terms, aiming to reduce inventory and pay later to release cash. At the same time they are trying to protect margins by avoiding obsolescence and write-offs. Suppliers are getting squeezed on volumes, as their customers de-stock, leading to reduced manufacturing and supply efficiencies. As this experience cascades through the supply chain there is a real risk that some companies will simply stop trading. In general the commercial risks have increased as supply chains have become globally sourced, extended in time and geography. Today's supply chains are intrinsically more vulnerable to invisible hazards, such as unexpected bankruptcy, capacity withdrawal, changes in service terms and regulatory change.

These challenging conditions are a result of the sudden downturn but the recovery phase may be equally traumatic. As production and distribution capacity exits the market in response to poor conditions, there will be shortages during the upturn which may be exploited through rapidly rising prices.

Supply chain actions provide the potential to overcome many of the issues faced by companies; these actions are not new, they have simply not been extensively or well enough applied. Now more than ever, business leaders should be thinking about how to convert today's challenges into opportunities.

We have distilled the key actions into 5 supply chain ‘maxims to ride the downturn and prosper in the recovery’ – delivering a range of benefits including more free cash due to less inventory and assets, better trading margins and lower operating costs.

### We have defined the five maxims for success:

#### 1. **Reduce unprofitable complexity:**

It is crucial to truly understand how both customers and products erode margin: Our experience is that 15% of either or both customers and products erode more than 50% of the profit potential. Designing this group out or designing their profitability back in is a key step to connect the supply chain to the company's performance. We also find that these unviable activities often detract from profitable activities as well as creating losses in their own right.

#### 2. **Build in customer service excellence:**

Service excellence is often discussed as a marketing imperative, but seldom connected to the true cost of non-performance both in sales and recovery costs. Outstanding performance protects the customer base that you want to keep and avoids the costs of replacing them when they leave, as well as making good your mistakes. Operational excellence led by supply chain design and planning is a critical capability.

#### 3. **Design, plan and execute for agility:**

In the current climate, demand will be unpredictable and volatile; companies must be able to respond without lots of inventory and huge capacity and asset surpluses to cope with change. Agility is about fast flexible processes to meet real customer demand and put in place only inventory that will not be a risk to the business. Speed is the key; fast and accurate processes have been shown to improve customer service and reduce inventories and manufacturing assets.

#### 4. **Synchronise and integrate to eliminate waste:**

In our experience lean management methods can cut waste and cost along the supply chain, streamlining flows and making operational performance a central focus. Companies that have applied this generally admit that there is still much more to play for; however they are in a strong position entering the downturn.

# a thought leadership Insight

## 5. Collaborate to leverage performance:

Companies cannot survive without their key suppliers and customers as well as their service providers. In the downturn there will be further aspects of their operations that they can no longer afford to try to control directly. Building and nurturing key relationships along

the supply chain will help them give you more for less; whereas if you just negotiate on price you will miss out on benefits and they will leave you high and dry when times get tough. For many this will be a new skill and mindset. The future will be about co-operating and competing through shared supply, manufacturing capacity, and distribution and logistics; service providers will need to create blocks of scale and give a level of cost and service transparency that has been lacking.

## Where to focus for benefit - applying a proven set of fact based diagnostics

Together, the application of these maxims will release cash from stock and assets, protect the profitable parts of the business and create the focus that will be needed to thrive in the recovery. They are a proven formula that too few companies have applied.

There is real urgency for companies to take both short term actions on current conditions, but also to think positively about future opportunities across their supply chains. LCP's RapiSCAN® methodology is designed to fast-track opportunity identification at both of these levels so that companies can move on. RapiSCAN® deploys a range of analytical tools over just a few weeks and can point to the short and medium term actions that a company can take to move on assertively in the face of the downturn.

Clearly, a company that takes this approach will be better placed to exploit the upturn.

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## About LCP Consulting

LCP Consulting is a leading specialist in customer-driven supply chain management. With over 20 years' experience in the field, we identify where supply chains make major contributions to how businesses operate profitably and compete effectively. We support businesses review, re-design and implement changes to their end-to-end operations. Our fact-based diagnostics pin point exactly where & how to cut costs, enhance operational efficiency and invest for the future.

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