MAXIMIZE YOUR SUPPLY CHAIN: UNDERSTANDING YOUR TRUE COSTS

By Paul Ibanez

Success in the smart meter market requires smart products and smart management. As the world continues to shrink due to globalization, customer demands and expectations continue to expand. Companies that succeed in this new economy need to develop ways to build smart value chains.

Throughout the last decade, the discipline of supply chain management has emerged as a focal component of business operations. The advent of the internet and global commerce have only served to ignite the speed at which companies must manage their supply channels to meet the needs of the customers – who often have no concept or interest in how the product arrived on the shelf or at their doorstep. The Japan earthquake of 2011 sent shockwaves throughout the world's distribution channels as companies and, ultimately customers, noticed directly how events in one part of the world affect delivery of products to their stores thousands of miles away from the quake's epicentre.

In today's global economy, often a single good may require assemblies from tens or hundreds of different companies – many of which never come closer than 2-3 degrees of separation from the end-user. As an example, Boeing reports that their new 787 Dreamliner is being built collectively by at least 50 different companies, in 17 US states, from 11 different countries across 4 continents. The ultimate end-user of this product (airlines and indirectly the flying public) often never knows who built which part of their aircraft and don't care. However, they do care when something isn't right and their blame will be directed back to Boeing. That said, it's incumbent upon companies to manage suppliers as value creators, rather than simply product manufacturers. Whether you're designing a next generation aircraft or a next generation smart meter, the philosophy is still the same. The focus is no longer on managing supply chain but rather on managing suppliers to reduce costs and increase value.

FROM CREATING SUPPLY TO CREATING VALUE

In the 1990s as the global economy began to take hold, business schools focused heavily on the discipline of supply chain management. Textbooks and lectures focused heavily on managing products through the plan, source, make, deliver, and return phases of the supply chain. Supply chain managers focused on evaluating a variety of equations and cost controls such as cost of goods sold, inventory turns, aggregate value of inventory, days of supply, etc. While each of these terms is still valid in managing supply in 2012, it is imperative that companies begin to challenge their suppliers to create more value for the ultimate end-users. This is fast becoming the new differentiator in the market of business-to-business (B2B) manufacturers.

THREE FACTORS THAT IMPACT YOUR TRUE COST

As companies begin to broaden the focus of their supply chains to the wider lens of value chain management, there are three critical factors they should consider. Each of these factors impact not only the value created and delivered for the ultimate end-user, but also directly impact the bottom line.

Flexibility

To what degree do you lead your suppliers and to what degree do they lead you on ideas to maximize value for their products? While your company owns the relationship with your customers, your suppliers' core competency is the product they provide to you to meet your customers' needs. Flexible suppliers understand how to think beyond the immediate needs of their customers to develop innovative products and solutions to help clients expand their business and customer relationships. This might involve having the ability to adapt quickly to market conditions, product modifications, as well as the ability to create vertically integrated solutions.

Remember mobile phones prior to the year 2000? Back then they were simply phones. Yet now companies are competing to integrate photo, video, scanning, and other technologies into these devices. Customers continually demand better performance, efficiency, and integration, and the smart meter market is not immune to these types of market demands. However, the demands of the metering industry make it complicated to remain flexible in the face of unpredictable political, regulatory, and technical pressures. It is typical within the industry to begin work on a project only to have it delayed for weeks and months on end. Then all of sudden, the project is rapidly approved, requiring a large and immediate ramp up coupled with continuous downward cost pressures.

To succeed in this market, suppliers must truly understand their customer's business environment and structure their business in the most effective way to meet the needs of their customers. On-demand production is becoming a more efficient practice in today's economy. Rather than the traditional build-then-sell philosophy, companies are moving towards selling ideas and then building the solutions. The ability to keep inventories low, ramp-up as needed, and provide vertically integrated solutions is fast-becoming a key differentiator in the market.

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Reliability
Product quality is generally the primary focus of a properly managed supply chain. Companies need to ensure that the products they purchase for assembly into their final product operate to agreed upon specifications. If quality is low and inconsistent, eventual product failures create dissatisfied customers, schedule delays, costly truck rolls, which ultimately decrease customer retention and brand equity. In the end, this results in more dollars needed to replace defective products, develop/qualify new suppliers, and ultimately to handle public relations, crisis advertising, and brand redevelopment. These are often the hidden costs of a poorly managed supply chain.

In this day and age, forward thinking value chain managers are leveraging information systems to manage vendor performance. In this instance, knowledge is power and helps to reduce mistakes and delays that occur due to lack of information and coordination. While there is a cost to build an effective information system across the supply chain, the benefits of proactive management far outweigh the hidden cost of reactive management. The former allows your company to stay in control and identify opportunities as they emerge, whereas the latter requires you to constantly react to situations, thereby minimizing your flexibility to identify and capture new opportunities.

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Dependability
Your ability to depend on your suppliers extends beyond receiving shipments on time. Over time you depend on your suppliers to continue to maximize their business and develop ways to improve quality and performance while reducing their overall cost, which allows you to reduce the cost to your customers. Suppliers should consistently build strategies to reduce the cost of production and delivery of mature products, while having the flexibility to develop the resources and infrastructure needed to use newer technologies and produce new products.

Acquiring new suppliers and building new relationships is a costly venture. The qualification process alone, with all its meetings, proposals, and travel related expenses can effectively exhaust budgets for new product opportunities, if companies consistently need to find new suppliers for established products. The degree to which your suppliers build their business around their core competency, continuously improve their reliability and flexibility, and see beyond your needs, directly affects your bottom line. Your ability to depend on your suppliers for current needs helps to solidify a long-term partnership towards future product development.

KG TECHNOLOGIES: A COMPANY WITH A SMART VALUE CHAIN
KG Technologies, Inc., a leader in switching solutions for the world's energy management market, prides itself on developing reliable latching relays and ensuring dependable manufacturing and distribution of its innovative products. Beyond relays, KG Technologies offers highly integrated value-added assemblies effectively streamlining its customers' supply chain and reducing overall the cost of procurement. The Cotati, California-based company looks beyond the current needs of the market to develop solutions that help the world switch to a greener tomorrow. To do so, KG Technologies focuses on building key relationships at both ends of its value chain – delivering reliable products to its B2B customers and partnering with its suppliers to explore opportunities for future technologies.

KG Technologies believes in the importance of managing an effective value chain and has set the bar even higher in 2012. As the company continues to look ahead to the future needs of the smart energy market, it understands the value of reducing failure rates, maintaining consistent lead times, and delivering a cost-to-performance benefit that is unmatched in the industry. The company is building relationships in the market around these key objectives, which enables it to remain agile and provide flexible design solutions for the evolving smart meter market. In adhering to the fundamentals of maximizing its supply chain, KG Technologies achieves its core customer service motto of working with you so that their products work for you. MI

THE INTANGIBLES

Oftentimes, as mentioned throughout this article, there are a host of decisions and actions along the value chain that can create hidden costs. These costs are frequently unaccounted for in the balance sheet. However those companies that are mindful of their actions and how those actions affect costs down the line are in better control of the intangibles. One of the largest intangible costs involves lost customer confidence through unmet expectations, thereby reducing brand equity and increasing costs to maintain and/or reacquire customers.

Being flexible involves non-standard work, which comes at a cost. Accelerated ramp-ups, rescheduled and rearranged manufacturing processes, and follow up customer support to manage expectations are typical activities that increase intangible costs across the value chain. These costs tend to be easier to extrapolate when acquiring new customers, yet companies lose sight of these costs once it's a matter of everyday business operations. Should your customer start to lose confidence in your company's ability to produce reliable products, they will start to seek supplemental vendors or, worse yet, a completely new vendor. At that point, it becomes a question of lost brand equity and shifts from customer management to customer reacquisition – which is always more costly.

Therefore finding ways to leverage customer feedback, monitor supplier quality, and work with suppliers who have complementary value chain philosophies, is of the utmost importance to companies seeking to limit the intangibles.

ABOUT THE AUTHOR:
Paul Ibanez is a value chain champion with global expertise delivering competitive supply chain advantages to a variety of fast growth environments, ranging from start-ups to Fortune 50 multi-nationals. He brings an extensive background of strategic competitiveness in the areas of supply chain, logistics, and transportation operations to his role as Supply Chain Manager at KG Technologies. Prior to joining KG Technologies and the metering industry, he was at the forefront of delivering iPods, iPhones and then iPads to the global consumer marketplace.

ABOUT THE COMPANY:
KG Technologies, Inc. is a leader in switching solutions for the world's energy management market. We have developed patented latching relay technology for the smart grid that changes how the world handles high current, high voltage switching. Utilizing one of the largest, state of the art factories in the industry, we ensure high volume production, timely delivery and competitive pricing.
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