SYMPTOMS OF AN UNDERPERFORMING SUPPLY CHAIN

IDENTIFYING AND UNDERSTANDING THE SIGNS

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Supply chain networks have grown increasingly complex, involving many functions in the organization.

This unavoidable complexity creates challenges that sometimes make it hard to determine its weaknesses and pinpoint improvement opportunities.

To keep up with the speed of changes in the modern business world, supply chains must be faster and more agile than ever. Consumers today expect items to be delivered quickly and seamlessly regardless of where they purchased the goods.

There are indicators, symptoms, that indicate inefficiencies in the supply chain network. These symptoms, properly identified and analyzed, lead us to the areas and functions in the supply chain that must be improved.

Following is a short list that indicates supply chain problems that can become real killers if not treated properly and timely:

1. **Supply chain activities and goals are not fully aligned with the general business strategy.** Strategic alignment is one of the key differences between organizations that perform well and those that do not. Having a strategy is not enough. In fact, research suggests that having a strategy has no real effect on the performance of your business. It is aligning your activities to your strategies that makes the difference.

2. **Communication between the different departments in the supply chain is inefficient.** Business success can be attributed, in large part, to effective communication, collaboration, and teamwork. Miscommunication and inefficient dialogue can result in great failures which can cost your company a lot of money.

3. **Information flow is too slow**. As a result, the information in your systems **DO NOT** match reality. This is particularly bad when it comes to inventory management as inaccurate system information may trigger purchasing actions for products of which there is enough inventory causing, among other things, misallocation of financial resources.

4. **There are no written processes.** This implies lack of standardization; the same problem or activity may be handled differently thus producing different results. Process variability goes through the roof and the chances for operational mistakes impacting customers increases significantly.

5. **There are no Best Practices in place.** Without best practices in place it is difficult to develop a culture aimed to increase efficiency and accountability.

6. **Your forecast of requirements is way off target.** This simply means that customers' requirements are a big unknown. An off target forecast of requirements means that there is too much inventory and the company sacrificed financial resources to acquire unneeded inventory, or too little inventory which produces unhappy customers, loss of sales, damaged reputation due to customers' poor perception on the company's capacity to fulfill their requirement, etc.

7. **Product reorder points and quantities are not well defined.** Clearly vendors lead times are not been given proper consideration as reorder points and quantities are established to counter the operational impact product lead times have on the organization.

8. **Inventory levels in your DCs are too high.** Too much capital tied to inventory.

9. **Stored products in warehouses are not trackable.**

10. **Production schedules are changed constantly due to lack of raw materials or components.**

11. **Production is far greater than sales.** Typical of a push system that creates unnecessary work, misuse of resources, and different types of other wastes and risks.

12. **Production quality varies out of control due to inadequacy of raw materials or components.**

13. **Stock outs in your point of sales occur frequently.** This usually occurs when communication between points of sales and main storage/distribution center is not adequate. Customer dissatisfaction escalates rapidly impacting bottom line and increasing customer migration to the competition.

14. **Your inventory becomes obsolete faster than you can sell it.** Usually the result of bad forecasting, the company bought more than they thought they would sell or use. This problem may also indicate lack of knowledge of the market and the competition.

15. **Physical inventory does not match system records.**

16. **Lack of a product location system in your warehouse.** This contributes to:
    a. Longer than required time to process orders from customers
    b. Inventory inaccuracies
    c. Drop in efficiency in operations (product reception, storage, picking and dispatch, etc.)
    d. Increase in pilferage and product damage
    e. etc.

17. **Inventory rotation is too low and creates lots of dead and slow-moving inventory.**

18. **Deliveries from vendors are not on time**. Is your VRM adequate to secure your requirements will be attended satisfactorily by your vendors? Is your purchasing organization doing enough to convey to vendors the importance of on-time delivery? Do you have a program in place to communicate with vendors so that problems can be solved promptly and in an adequate and permanent way?

19. **Vendors do not comply with terms in purchase order.** You regularly detect differences vs what was agreed with the supplier. Anomalies like:
    a. Price changes
    b. Lead times
    c. Quantities ordered
    d. Product characteristics
    e. Product quality level
    f. Payment terms
    g. Delivery schedules

20. **Procurement savings do not show up in your financial statements.** This implies there is no solid procurement strategy in place, one that measures performance and benefits obtained. It may also indicate a weak communication process with the finance team to obtain validation and acknowledgement of the savings harvested through the purchasing process.

21. **Operations are not focused on the end customer.** All processes must be designed in a way that all supply chain operations move in the most efficient and cost-wise way but always with only one thing in mind, the customer. Focus on the customer is fundamental for any supply chain and organization to fulfill its mission.

22. **Lack of visibility across your supply chain.** Visibility gives understanding and enables control.

23. **Response time to changing customers' demands is too long.**

24. **Inadequate returns management strategy.** This can be a real killer as it may give customers the impression that once they paid for the products, they are no longer important. Companies need to respond to any issue their products may present to customers, and they must do it in a prompt and adequate way.

25. **High number of customer claims.** This may cause customer migration to the competition. Customer complains usually come from product quality or lack of product at the point of sales. Is your reverse logistics process adequate to manage promptly and efficiently your customers claims on quality? Is your lead time to supply goods to the point of sales adequate? Is communication between the point of sales and the distribution center efficient?
26. **Installed supply chain technology does not meet requirements.**
    a. Are your systems function-specific (purchasing system, inventory system, sales system, etc.) requiring a lot of human interference and lots and lots of written reports?
    b. Are your systems interconnected and automatically performing tasks based on daily activities?
    c. Are your systems parametrized according to the company's vision, mission, and strategy?

27. **Personnel training is nonexistent or deficient**. Even if processes are properly documented, and are easily available, if employees are not adequately trained mistakes and variations that impact customers will occur.

28. **There is no S&OP strategy in place.** Communication between sales and operations is deficient.

29. **Lack of KPIs.** No KPIs mean you cannot detect process variations or their nature, you can not identify process weaknesses, establish corrective actions, or prioritize areas that require immediate transformation. It is difficult to improve something that it is not measure.

30. **Lack of benchmark.** How does your performance and costs compare to the competition?

The supply chain is a system that is constantly evolving, this needs to be so to meet every new market trend and challenge that comes up. **Change is a constant in supply chain.**

If you see any of these signs then, there is room for improvement. Not addressing them will take away your supply chain flexibility and visibility and consequently you will lose your capacity to adapt and add value to your customers.

From sourcing to procurement, from inventory and warehouse management to distribution and everything else in between, understanding the supply chain network determines the difference between experiencing great profit losses or achieving significant savings and improved efficiency.

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