

Supply Chain Management for Cost & Profit optimization - Dr Kanak Madrecha (15-4-2020)

The Supply Chain & Logistics (SC&L) function can contribute significantly to improve profitability of an organization by cost optimization across the full supply chain i.e. optimization of raw materials, machines, spare parts, transport, energy, office & other rent costs etc. Here is an example.

Sl. No.	Revenue/Cost Head	Before	After	% Increase	Recommended Supply Chain & Logistics Cost Optimization Initiative
1	Sales Revenue	100	100	0	No revenue improvement assumed by better delivery of finished goods to customers
2	Material Costs	40	35	-12.5	Global Material Procurement Negotiation
3	Manpower Costs	15	14	-6.7	Negotiation of Outsourcing Manpower
4	Supply Chain & Logistics Costs	10	8	-20	Negotiation with transport companies & transport route optimization
5	Machine Costs	10	9	-10	Negotiation with machine/equipment & spare parts suppliers
6	Overheads	10	9	-10	Negotiation with supplier of office & other building/facilities related services' suppliers
7	Interest Costs	5	5	0	
8	Total Costs	90	80	-11.1	Above 5 costs are improved by SC&L.
9	Net Profit	10	20	100	Net Profit is doubled by cost optimization carried out by supply chain & logistics function

In my opinion-following are **Top 25 Supply Chain & Logistics Considerations to optimize future supply chains (POST COVID-19) & optimize the supply chain costs:-**

1. Material Cost at source (at Vendor's Factory)
2. Material Quality at source (at Vendor's Factory)
3. Material Packaging Quality
4. Material Shelf Life (Days or Weeks or Months or Years) if any
5. Material Brand Name/Company Brand Name (of the Vendor)
6. Number of years of successful supply history of the Vendor for the same material
7. Transportation Cost (AED/Unit) from factory to consumption point
8. Minimum Batch Quantity required for production or for transportation
9. Customs Duty (%) for imports
10. Delivery Lead Time (Days or Weeks)-Average
11. Delivery Lead Time (Days or Weeks)- Standard Deviation
12. Number of available suppliers for any item - locally, regionally & globally
13. Local Government restrictions on imports
14. Local Government incentives on manufacturing locally
15. Company Policy to go for local sourcing, select vendors, open tendering (within country / across the globe)
16. Quantity & Expertise of Inspection Effort required at Vendor's Site
17. Vendor's Customer Service/Flexibility to change order quantity at short notice
18. Payment Terms offered by Vendor
19. Strategic Importance of the item for country's supply chain security
20. Language Expertise of the Vendor
21. Vendor Factory Location (City/Country)
22. Vendor HSE Track Record
23. Vendor Human Rights Record
24. Vendor Mgmt System Certifications (ISO 9001/10002/14001/45001/27001/28000 etc.)
25. Vendor winning prestigious excellence Awards (Locally, Regionally & Globally)

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