INDIRECT SUPPLY CHAIN

Uncover Hidden Savings In Your Manufacturing Operations

AFFLINK

MORE THAN JUST A BUZZWORD

Over the past decade or so, supply chain management has become more than just a buzzword. It has evolved to become as integral a process to the overall profitability of a manufacturing company as, say, quality control. In today's global economy, US manufacturers are fiercely competing to maintain razor thin margins and control rising production costs in order to survive. And especially since the downturn in 2008, when everyone began searching the couch cushions for coins, supply chain management made its way to the forefront of many businesses.

Manufacturers are fiercely competing to maintain razor thin margins and control rising production costs just to survive."

Not surprisingly, the world's most prosperous manufacturers refused to settle for "mere survival" however, and instead tirelessly searched for new ways to drive efficiencies in and operational costs out of their systems without sacrificing core business objectives like quality, safety, and sustainability. Trimming the fat, so to speak, they began analyzing and monitoring their direct supply chains in order to uncover savings that previously had been overlooked.

The good ones continue to find opportunities in how they source raw materials, improve negotiations with key suppliers, and meticulously comb through logistics. And now thanks to big data, technology enhancements, and predictive analytics, strategic sourcing is an attainable goal for most manufacturers.

But if supply chain optimization has now become the standard, then how do these front runners continue to proverbially squeeze more water from a stone? They find another stone — that's how.

A company's direct supply chain is the obvious starting point when looking for ways to lower expenses. But when that component has been maximized, it's time to turn to the indirect supply chain. This less conspicuous segment of your operation is easily the most overlooked component when calculating the total cost to produce a good or service. Yet, it can have a significant impact on your company's bottom line.

How do these front runners continue to proverbially squeeze more water from a stone? ”

AFFLINK helped us identify cost-savings opportunities and implement new products, processes, and programs saving us $634,900 across 14 locations.

- ZODIAC AEROSPACE

WHAT IS THE INDIRECT SUPPLY CHAIN?

Before you can optimize your indirect supply chain, you first need a better understanding of what it is, why it might be inefficient, and how you can improve it to drive down operational costs.

Your indirect supply chain encompasses all the tangible and intangible items (often called consumables or commodities) you use to keep your business up and running. For example,
if you make car parts, the steel you procure for the parts belongs to your direct supply chain. But the tools your employees use to assemble the parts, and the safety gear they wear to protect themselves on the line, belong to your indirect supply chain. These are examples of tangible items, but your indirect supply chain is also made up of intangibles, like orders, inventory, and labor costs associated with the delivery and handling of these items.

Indirect supply items aren't often linked to a product's profit margin. And because of that, they frequently fall below the radar. But that doesn't mean they are any less significant. In fact, some studies show that as much as 40% of your total annual procurement expenditures can be attributed to consumables and the indirect supply chain. And that doesn't even take into account the below-the-waterline labor associated with acquisition, possession, and application costs.

FURTHERMORE:

Global inventories of maintenance, repair and operations (MRO) items grow by 9% each year

Yet, 55% of MRO inventories haven’t moved in three years

And 30% of the items currently in stock will never be used

These statistics tell a sad story about the health of many indirect manufacturing supply chains. Namely, that order points are wrong, quantities are inaccurate, lead times are off, and the entire indirect supply segment is misunderstood or undervalued.

How to Reduce Your Indirect Supply Chain Spend

The only way to reduce your indirect supply chain spend is to strategically manage it in the same way as you do your direct supply chain — using data and analytics to eliminate assumptions and drive decisions based on the facts.

First, let's define what the most common consumable supplies are that all facilities use in varying degrees to run their day-to-day operations:

1	**Packaging** Adhesives, corrugated boxes, equipment, bags, labels, shrink and stretch films
2	**Facilities Maintenance** Towels, tissue, cleaning chemicals, trash can liners, and soaps and sanitizers
3	**Safety** Hand, eye, face and head protection, safety ID & signage, eye wash stations, and first aid kits
4	**Food Service** Cups and lids, bowls and plates, napkins, trays, cutlery, towels, and commercial food packaging
5	**Office Supplies** Desk accessories, binders, clips, mailroom and shipping supplies, copy paper, and pens
6	**MRO Supplies** Pumps, abrasives, HVAC, power tools, welding supplies, security, fasteners, filtration, and clamps and straps

Once again, it's worth noting here that your indirect supply chain also encompasses intangibles, like ordering, inventory and labor costs associated with these items.

Why Are Indirect Supply Chains an Unsolved Mystery?

It can be for a myriad of reasons that some companies have yet to perform a thorough analysis of their indirect supply chain spend, but some of the more prevalent include:

1. FOCUS

When examining indirect supply chains across the country, the most frequent source of inefficiency lies in the organization's strategic focus. Optimization efforts are usually centered on the direct supply chain since its connection to the bottom line is extremely clear. As a consequence, the indirect supply chain is overlooked, and in most cases, forgotten completely.

2. LIMITED VISIBILITY

Management is quite good at gleaning the cost of ownership for their finished product, but they rarely apply the same calculations to the indirect commodities they used to get there. Nor do they have the proper mechanisms in place to collect the information needed to make sound, strategic decisions about their spend in these categories.

3. LACK OF STANDARDIZATION

Indirect supply procurement is often localized instead of centralized, which means managers are dealing with variations in budgets, suppliers, products and processes. Having a decentralized procurement platform also limits bargaining power to gain maximum synergies across multiple locations.

4. IT'S NOT MY PROBLEM

Looking at an organizational chart, indirect spend can sometimes fall outside the responsibility of the direct sourcing personnel, and is typically placed on mid-tier managers that aren't in tune with (nor have the ear of) the executive leadership teams. This scenario is often exacerbated by directives that get handed down that are incongruent with the overall vision or goals of the corporation.

5. COST OF CONSULTANTS

There are organizations out there today that will not only come in and analyze, but also manage the outsourcing of your indirect spending. But, as you might expect, they come at quite a cost. There are, however, online software solutions that exist today where a company can input their own spend data to get outputs that provide a roadmap toward supply chain savings. Some like elevateprocess.com are even offered at no-cost to the company.

Next, let's take a look at 7 actionable steps you can take to uncover cost savings and reduce your indirect supply chain spend:

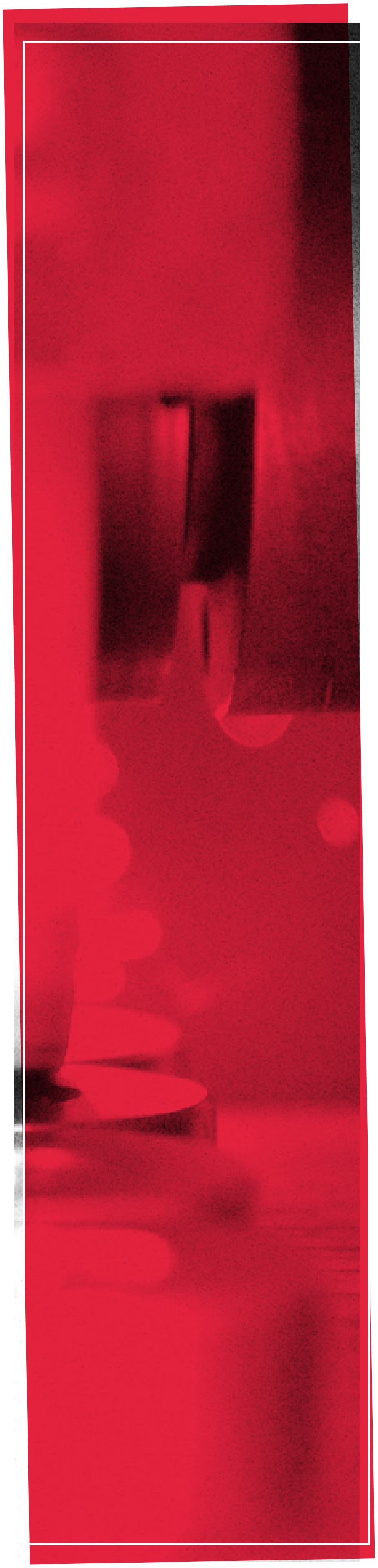
By optimizing, you will have a finger on the pulse of your entire facility — not just the direct influencers"

1. Identify Your Business Priorities

What's most important to your business? Seems like a simple question to answer. But while all businesses may share similar needs, their order of importance will likely vary from industry to industry, or even company to company. At a manufacturing plant, productivity may be of utmost importance, while at a Healthcare facility the focus may be more on hygiene and safety. Government and Education may look to achieve sustainability benchmarks and Class-A office buildings want to attract image-conscious tenants. Understanding how your organization prioritizes these goals will help dictate how costs are controlled, and how spending is re-allocated to align with those objectives. The idea being that every decision you make about your indirect supply chain is in support of your most desired business outcomes.

2. Classify Spend Data

Look at every single item you purchase, and categorize the commodities using the main areas of your indirect supply chain (listed above). This step will help you better understand which areas you are using the most vs. where you are spending the most money. At this time, you will also want to define how you purchase a product, how much it costs, how many vendors you use, and how it's being stored.



3. Monitor and Track Inventory

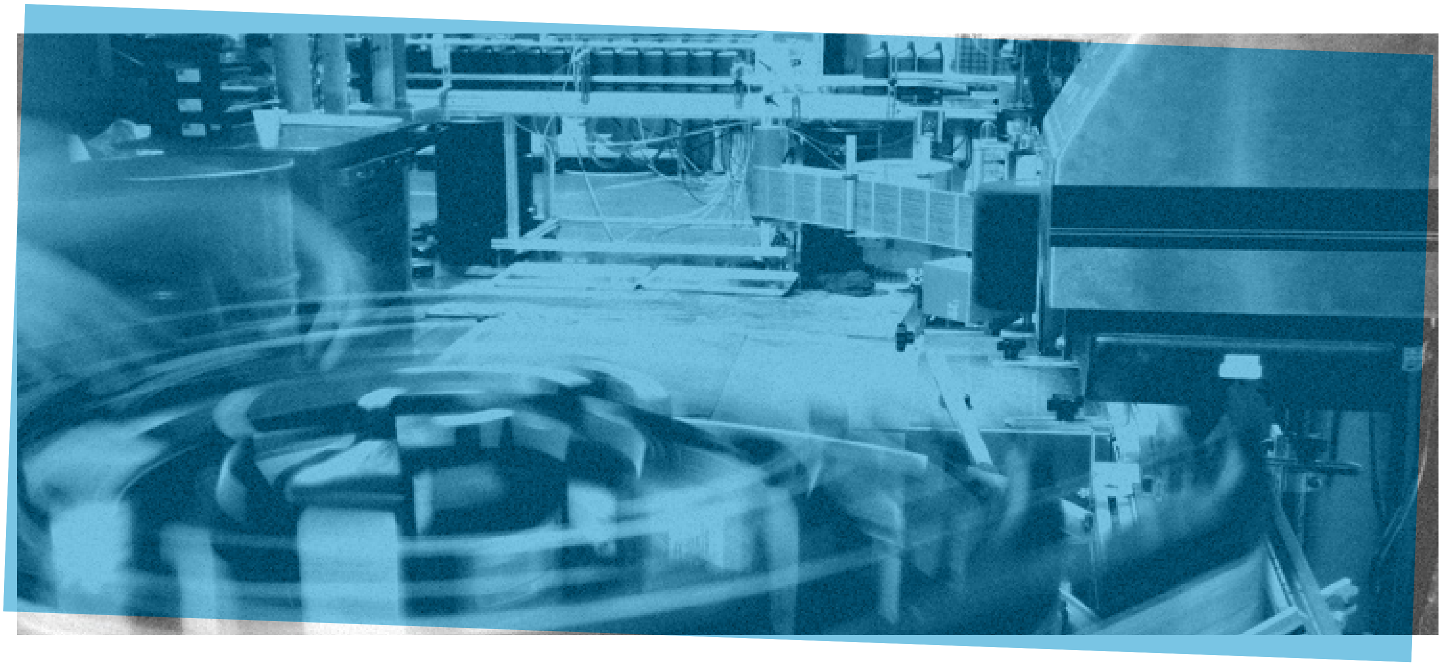
It is impossible to control costs without first understanding how much indirect supply is necessary to support operations, and likewise how much is wasted. If you don't already have analytics in place to monitor the utilization of your commodities, it's probably time to perform a supply chain audit on your indirect spend. There are ways to dollarize these "soft costs" with calculations based on industry standards and your own gathered data in regards to carrying costs and inventory turns. Monitoring and tracking inventory will ensure order accuracy and will help managers forecast when orders need to be made – leaving less stock on the shelves to just gather dust.

4. Reduce Number of Vendors

If the classification in step 2 revealed a muddle of vendors, it's time to evaluate contracts and look for opportunities to renegotiate or consolidate suppliers. You may be getting competitive pricing by shopping around through numerous vendors, but you're also increasing the number of shipments and the complexity of the ordering process, which wastes time and resources — especially if an order is wrong and must be corrected. Oftentimes these inefficiencies can end up costing more than the discounted products.

5. Centralize Processes

If you have multiple locations and haven't centralized the procurement process of those branches yet, take a moment and think about how doing so could greatly impact your bottom line. Considering just the costs associated with processing an invoice, which some experts place anywhere between $13-$49 each, can mean big dollars in savings if you can consolidate. These costs include the labor functions of order processing, order placement, management approval, and vendor interaction. Eliminating redundancies across the enterprise in this process reap immediate benefits in the indirect supply chain.



__The problem:__ No mechanism in place to track and monitor indirect supply orders, inventory, and labor utilization. And the more you spend on consumable supplies, the greater the final cost of producing a product will be.

__The good news:__ If your indirect supply chain has never been optimized, you're looking at an untapped reservoir filled with cost savings opportunities. More importantly, you're about to gain a true and accurate depiction of the ROI for your entire facility.

6. Consolidate and Standardize Product Lines

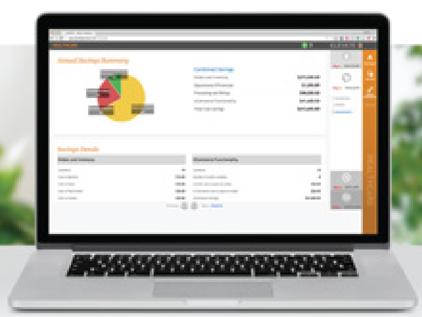
Some indirect products are highly differentiated while others are not. Take items like trash can liners, hand towels, and safety gloves, for example. You may be using several different skus or multiple variations of these products across your manufacturing plant for no legitimate business reason. By consolidating each one into a single type that is most commonly used or rationalizing any unnecessary product variations, you can reduce the cost and complexity of orders, and slim down on indirect supplies that are not critical to the overall performance of your facility.

7. Mandate eCommerce Efficiencies

Now that you know what to buy, where to buy it, and how often to order it, it's time to close the loop with an enterprise-wide ecommerce platform that is easy to use, reflects an agreed-upon national pricing contract, prevents maverick spending, and offers the analytics needed to track budgets in real time.

Don't waste another dime on an inefficient indirect supply chain.

Start your savings quest today by giving ELEVATE a try. You'll walk away with specific cost saving opportunities in hand to start changing the way you fuel your manufacturing operation.



UNCOVER THE HIDDEN SAVINGS

In Your Indirect Supply Chain

START OPTIMIZING

AFFLINK

www.afflink.com