Lessons from the coal-face:

Supply chain strategy optimisation

Call us old-fashioned, but we like to think that twenty-five years of optimising supply chain infrastructures for the biggest names in manufacturing and retail earns us the right to be called experts in our field.

So, having recently reviewed over 15 case studies from Sequoia's back catalogue of network design assignments, we're delighted to share some standout findings...

Why do a restructuring programme?

Simply put, your network is the foundation your supply chain is built on. It is a key determinant of your cost to serve and the ease with which you can provide great service to your customers. So it makes sense to ensure it's in the best possible health.

Our findings confirm that, unfortunately, there aren't many incumbent networks that could be considered 'optimal': most have an element of 'historical accident' about them.

When we delved deeper and looked at why clients have undertaken network strategies, three key areas diagnosed themselves; to minimise cost (45% of studies), deliver growth ambitions (36%), or some combination of the two (18%).

The good news is there can be significant operating cost savings from network optimisation: up to 25% for some clients, with typical savings in the 10-15% range.

While cost saving is an obvious motivator, it is often the case that a specific 'event' is the catalyst necessary to review a network. Be it an acquisition, an impending decision on a property lease extension or an incremental investment decision to expand capacity, one seemingly minor choice can trigger a whole raft of questions and in turn, opportunities.

Our growth-driven studies have tended to be linked to either a clients' expansion into developing markets or new channel development, such as online grocery within the UK.

Perhaps growth isn't the initial rationale for the study but becomes an integral part of the preferred scenario: e.g. if there is a technology investment with a higher scale economy that brings capacity expansion and new growth opportunities.

What do restructuring programmes cost?

The level of incremental capital investment required for a restructuring programme can vary from zero to £350m! Typically, manufacturing strategies incur higher capital than distribution strategies, although the latter can reach similar levels if there is a high degree of automation.

From a payback perspective, the key phrase here is 'incremental capital', i.e. the additional capital needed over and above what would be needed to keep the 'as is' scenario operational for a ~10 year period.

If keeping your existing network going for another 10 years comes with a substantial capital cost anyway, then it could be wise to throw your hat into the restructuring ring, as the incremental capital may well deliver significant operating cost improvement for relatively low additional spend.

An extreme example of this was when Unilever acquired Bestfoods in 2000. The capital to keep the excess of production lines going was more than the capital required to consolidate the networks.

What is the typical payback period?

One of the biggest lessons we've learnt is just how difficult it is for businesses to pan the camera back and think strategically about the long term given the inevitable pressure to deliver short-term financial performance. By definition, long-term restructuring plans take years to implement and involve longer paybacks (more than 5 years) than a typical short-term operational investment.

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A cautionary tale: we've had multiple experiences where a publicly listed company has shied away from a game-changing investment (against our advice, we might add!), only to see a privately owned competitor play the same hand and decimate our clients' manufacturing base.

What are the risks?

By definition, long-term infrastructure reviews are an infrequent event for a business, taking place every five-to-ten years. Consequently, even experienced supply chain professionals may have had little, if any, direct exposure to a network design review.

This aversion to the perceived upheaval and instability of change has clear drawbacks. We've seen clients plump for what they thought was the safe 'as is' option, only for it to precipitate the demise of the core business.

We understand that investments of £x00m may seem risky. But having worked with clients facing these fundamental decisions for 25 years, we now know for sure that the biggest risk is what your competitors will do if you don't act – timeliness is all. If your competitors take the 'risky' path and make a step-change in competitiveness, they can stay ahead of the curve and leave you handcuffed to an obsolete network.

New technologies can deliver huge economies of scale that come hand-in-hand with substantial capacity gains. The early adopter advantage that comes with these capacity gains can effectively lock out the competition. Think about it: if the market can't sustain two firms with that level of capacity without creating a value-destroying price war, the investment rationale for the second-place mover evaporates.

Sequoia's tried-and-tested approach, developed and honed through integrity, hard graft and a quarter of a century of coal-face experiences, provides clients with the framework and modelling support needed to jump the tracks and future-proof their supply chain business.