

## Supply Chain Cost Management:

Ask the majority of Supply Chain Leaders what are their top three challenges and they will most likely say: 1. Reduce Cost, 2. Reduce Cost, and 3. Reduce Cost. In saying this, they are not indicating they don't value customer satisfaction or other important goals of the Supply Chain function. It is rather recognition that managing cost, and in particular reducing cost, is often the most difficult aspect of improving a firm's supply chain. Even when the organisation's goal is to be a highly differentiated full service provider the supply chain leadership is still challenged to complete this task at the lowest possible cost. Part of the challenge is the need for the reductions to be sustained over time; the market does not value once off savings (or revenue growth) that is not repeatable. Most of us are aware that demanding reductions from service providers is not sustainable, using volume leverage (reducing the supplier base) or continually undertaking competitive reviews is likewise a process that has a limited life span.

So what are organisations to do when faced with the challenge to deliver sustainable cost reductions? **AD Supply Chain** can assist firms in delivering on this goal. The first step is to understand where the firm is starting out from. A firm that has been using traditional leverage methods for years needs to adopt different strategies from a firm just starting out on the cost reduction journey.

It is important to remember that merely cutting costs is not sustainable. Doing so either means capability is compromised or that the costs return to previous levels over time. To be sustainable the way the business operates must change to a lower cost method. Cost Management is therefore about organisational change!

To deliver sustainable savings, firms need to move from leveraging volume and competition towards leveraging ideas. This involves working cross functionally and collaboratively on



addressing the key cost drivers in the firm's supply chain.

The first step is to ensure the firm's supply base is appropriately set up to support its supply chain strategy. This review may identify gaps that need closing and often will identify some initial savings. The

next step is to conduct an analysis of the supply chain's cost base, including a high level review of the cost drivers. This analysis will then inform which cost element will be the subject of a detailed review. In the review, stakeholders from affected functions within the organisation and potentially from service providers are brought together. Using a variety of tools, such as guided brainstorming (brain steering), force field analysis and problem solving, the teams will identify cost reducing solutions for the chosen cost element. The changes are then project managed into place and results monitored. Assuming that no remedial actions are required, the process then moves onto the next cost driver.

If your organisation needs to make cost savings in your supply chain, or have found existing programmes have failed to deliver results, then contact us for a discussion and review. **We can help you unlock the value in your supply chain.**

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