

Supply chain considerations for growth

Transcript

SPEAKERS:

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WADE KRUSE: Taking a deeper dive into operations in general, we are spending time talking about human capital. We are spending time here in this growth series talking about technology and cyber. Let's talk a little bit about supply chain. Let's dive in there. Big disruptions over the last few years. Costs now are through the roof. It's crazy. How does a company think about supply chain, how to get out in front of that and manage those rising costs when they think about their business and where they want it to be.

JONATHAN EATON: That's a great question. It's been incredible what we've seen in the last 24 months from a supply chain perspective, whether it's disruption, whether it's labor issues, whether it's cost to serve, which is frankly one of the biggest issues facing companies today, rising supply chain cost to serve as a percent of net sales.

I saw an interesting graphic recently that shows that Amazon's cost of service as percent of net sales is double what it was a decade ago. Double. Having been in some of the Amazon facilities and seeing the level of automation they have, the level of sophistication they have, in terms of how they distribute and how they push product out, and thinking about many of the companies that are out there today that don't have the level of maturity that Amazon has.

How much more significant is the exponential increase in supply chain cost to serve versus what it would be for a company like Amazon? So you take a step back and you think about that. Well, what are the root causes? What are the drivers of that? There are labor shortages in manufacturing and distribution. There is a shortage of truck drivers in particular, especially for long haul, for truckload shipments, which are one of the major

ways things go from ports into distribution centers throughout the country. Fuel prices are up, and then there are space constraints. So the cost of space in general is high. It's very hard in some cases to find warehouse space in some of the key markets, some of the key places you would want to have. And so you think about how supply chain cost to serve continues to go up and the question becomes, what do you do about that? How do you address that. And I think one of the most important things companies can do is take a step back and look at, on a recurring basis, how they're going to market and look at those flow paths of how they get product from point A to point B and use the concept of what we call a digital twin.

A digital twin is essentially a real-time view of cost to serve that you would look at on a recurring basis so that you can make better decisions about how you push product to market, what product you're going to sell or not sell. What are the minimum order quantities? What's the order fulfillment logic? All those type things.

Interestingly, Gartner puts out a list of the top 25 supply chains every year. Twenty-three of the top 25 in the latest list all use digital twin technology and have been through what we call distribution network optimization — studies to best calibrate where their distribution capabilities should be. So if you look at the trend with cost to serve going up, using Amazon as an example and thinking about other organizations and how they're struggling with that, those are wise investments and those are things that are critical.

I think the other supply chain issue that's so pervasive right now has been labor. There's a significant issue finding labor for manufacturing and for distribution, and we've seen some really creative strategies around that. And then I think the other one would be COGS, cost of goods. Cost of goods is rising faster than it ever has. And I think companies have obviously got to think about new strategies, whether it's dynamic pricing, commodity-based pricing, using pricing indexes to make decisions on how they price products to account for those increases in cost of goods sold.

WADE KRUSE: Thank you. That's a lot to digest there, but that's good stuff.

SCOTT MCGURL: To add on to your thought about Amazon, they do a great job of fulfillment and distribution, no question about it. At times like these, organizations need to take a step back and look from a strategic standpoint, is that a core capability? Is it something they do really well? Should they be doing it really well? If not, then they need to look at that decision as to whether or not it makes more sense to leverage a

third party for it and double down on your investments on things that you're more effective at and more efficient at that are more important for the outcomes for your customer base as opposed to something that you can leverage a third party to be able to do better at a lower cost to serve.

JONATHAN EATON: Great insight, Scott, and just to build on that, we see a lot of clients, a lot of organizations today that own their own fleet. And every time, without fail, that we've ever thought about what's the return on investment for owning your own fleet versus using a third party, the decision is always, always, sell those assets and lease them back, because 3PLs, 4PLs can always provide better service than you'll ever provide on your own, and it's typically not a core competency. So it's a great example.

Another example of that is warehousing. Do you want to own your own warehouse, or are you better off, instead of having that real estate footprint, are you better off leasing, which gives you some optionality in terms of where you might want to be and when. And as your business evolves, and as you grow organically but also inorganically, where you need to be can change. And so if you don't own that real estate footprint, you're not married to that, and there are typically outs in those leases. And so you've got better capability to evolve with changes in the business and evolve with changes that are growth-related when you do exactly what Scott said and outsource some of that.

WADE KRUSE: Right, right. In some cases, that involves outsourcing it to the competition. I believe Chris Smith talked on an earlier session about co-opetition and how he received an Amazon package delivered by Walmart. So I guess, what I'm hearing from you, is kind of what we've heard throughout the whole Growth Series is, put the client first or the customer first; care about the customer. If that's your guide light, then all things will fall into place.

SCOTT MCGURL: Look at the entire value chain and understand where you differentiate and where you can focus to win in that value chain.

