Five Ways to Improve Supply Chain Resilience in the First Mile

Most supply chain professionals want everything to return to normal. But there is no static definition of 'normal' anymore.

The coronavirus pandemic is what's known as a black swan event,[1] a term for a global event so catastrophic that it forces entire industries to rethink the way they operate. While COVID-19 may have exposed flaws and weak points in virtually every supply chain, that potential for disruption has always been present. With the way the pandemic has dominated headlines, it's often easy to forget that disruptions have been a thorn in the supply chain's side for a long time.

Even before 2020 and the pandemic shook the supply chain, trade wars, hurricanes, shortages of truck drivers, port strikes, earthquakes, capacity shortages, wildfires and countless other events caused a nearly continuous stream of smaller disruptions for supply chain professionals to contend with. Rather than pursuing a return to what we used to consider normal, most supply chain experts recommend moving toward a "new normal" instead[2] — a normality where agility and resiliency will help to predict disruptions earlier and mitigate the effect of disruptions of all sizes.

C-Suites execs, supply chain leaders and even board rooms are searching for ways to build resiliency and foster better collaboration with their suppliers, vendors and partners. While it may be impossible to predict every facet of this new normal, company leaders can develop and adopt supply chain practices that will help to better withstand and recover from disruptions.

The last mile seems like an obvious place for improvement because that's where a business meets its customer. If the last-mile experience is bad, that can reflect badly on a company's brand. In striving to improve every inch of the last mile, however, many businesses forget to look closer to home.

In this playbook, we offer the following tips on building better resiliency in the first mile as a means to shield against disruptive forces and improve overall supply chain performance.

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Tip #1: Consider the Financial Risks in Your Supply Chain — And the Risks of Doing Nothing

Purchase orders change drastically between customer order and supplier fulfillment, making it nearly impossible to successfully track all the changes. This leads to downstream consequences such as late deliveries, missed orders, tarnished brand reputations, upset customers and other factors that may have negative financial implications.
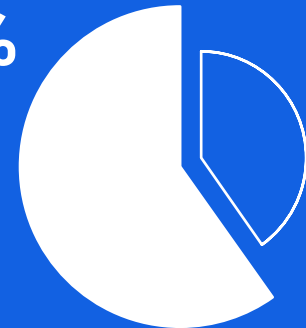
> It's been a constant over the last four or five years that 40% of purchase order lines would experience some sort of disruption ... Through COVID-19, that number has jumped to 60% or greater."

Tom Kieley, CEO and co-founder of SourceDay

40%

60%
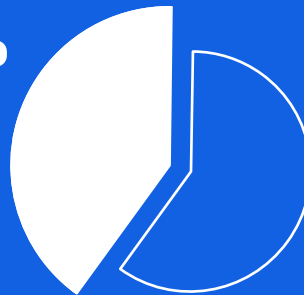
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While enterprise resource planning systems automatically generate purchase orders (POs), buyers have to update all price, date, and quantity changes by hand. **Some of the most common financial risks posed by these manual processes include:**

OPERATIONAL WASTE

Parts must arrive when expected or production operations can grind to a halt, resulting in costly, unexpected downtime as technicians wait for critical components.

> ❝ **It's very difficult and very expensive for us to have a late product. We needed something that was going to give buyers more visibility."**
>
> Tina Grow, IT director at Rocore Thermal Systems

EXCESS INVENTORY

Swinging too far away from just-in-time (JIT) inventory practices will dramatically increase warehousing costs. While some safety stock may be prudent, it's better to address risks and threats to incoming inventory to avoid stockouts in the first place.

"When you're a huge organization, you can strong-arm suppliers to do things, but the majority of organizations can't do that. When you compare JIT to safety stock, it needs to be analyzed using true supplier-performance data and their ability to meet your demand. Without that visibility, you have to rely on overbuying," Kieley said.

MISSED REVENUE

An organization's supply chain must keep pace with rapid changes in demand or lose customers to its competitors. In the back office, buyers spend most of their time fielding PO line updates in phone calls, emails, instant messages and text messages, instead of pursuing cost-saving opportunities.

Manufacturers, distributors and retailers must establish more variable inventory and procurement practices that include a mixture of Lean methods, safety stock and supplier redundancies. When driven by technology, these methods will provide a buffer against unexpected shortages and keep production lines running.

> "We've gone from being continually short parts and having to rearrange manufacturing to not remembering the last time we've been short a part. This has not only optimized manufacturing, it's optimized planning. It's optimized buying decisions. It's reduced our warehousing footprint and increased our manufacturing footprint."
>
> Spike McBride, Senior Director of Materials and Logistics at Chatsworth Products

Tip #2: Don't Treat Direct and Indirect Spending the Same

Developing quality spend-management capabilities is essential for building operational and financial efficiency into the first mile. There are two primary types of spending:

- **Indirect spend.** Many spend-management solutions seek to improve the management of indirect spend, such as limiting the purchases of office equipment, reducing travel, improving maintenance to mitigate repairs or scaling back on staffing.

- **Direct spend.** Direct spend management focuses on lowering the direct costs of production through optimizing procurement of the materials and components needed for production and assembly of final goods.

DIRECT SPEND
raw materials and parts for finished goods

INDIRECT SPEND
office equipment, travel, etc.

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Effective direct spend management comes largely from comprehensive management of supplier relationships. Better communication and collaboration with suppliers contribute to more streamlined direct-spending processes. Managing these relationships requires visibility to critical data, such as:

How often do purchase orders go unacknowledged?

How often do key changes to the PO fail to get updated in your ERP?

How many orders arrive on-time and in-full?

How often does the supplier get overpaid because of inaccurate invoices?

By gathering more reliable supplier data, procurement specialists can benchmark supplier performance and determine how it affects overall operations.

> **When you don't know if parts are delayed or on order or missing, you don't know how much of your inventory is actually shippable in any given week or month. Many businesses are actually pretty unaware of the true costs associated with things such as overbuying, overpayment and expedited shipping that result from poor data because they can't really quantify it at the speed they need to move."**
>
> **Tom Kieley, CEO and co-founder of SourceDay**

Tip #3: **Forget Digital Transformation — Prioritize Digital Progress**

As many manufacturers and suppliers who operated through the recent trade war and the pandemic can attest, it's difficult to see disruption coming without advanced digital capabilities. While last-mile logistics has pursued digital transformation for some time, procurement has traditionally lagged behind in this area.[3] Purchase orders are often still tracked using spreadsheets that get manually populated by data from disparate systems.

> " **Like many suppliers, I have been using four separate systems to keep track of all the orders, acknowledgments and communications with my customers — spreadsheets, email, phone and texts. While the combination of systems works, I am limited with what I can do to manage open orders and communicate with my customers."**
>
> Kenny Zielinski, Account Representative at SMC Corporation of America

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Even when manufacturers have ERP systems to help them collaborate with suppliers, many of these systems still rely on manual input garnered through outdated means of communication. The PO generated by the ERP shouldn't be considered the final step of the order. Just because the ERP tells the supplier that it needs 100 parts of a certain type by a certain date, that doesn't mean the supplier can deliver on that order. In addition, ERP web portals are rarely user-friendly for suppliers, even on more advanced ERP systems.

Fixing these issues is a light lift in the larger conversation around digital transformation and should be the first step before bigger overhauls take place. It's important to bring digital capabilities to the first mile to bridge the gap between buyer ERPs and down-tier suppliers that provide direct materials and critical parts.

By implementing a user-friendly digital solution that encourages supplier participation and compliance, manufacturers can significantly streamline the purchase-order process and mitigate the chaotic effect of manual data entry on the overall operation.
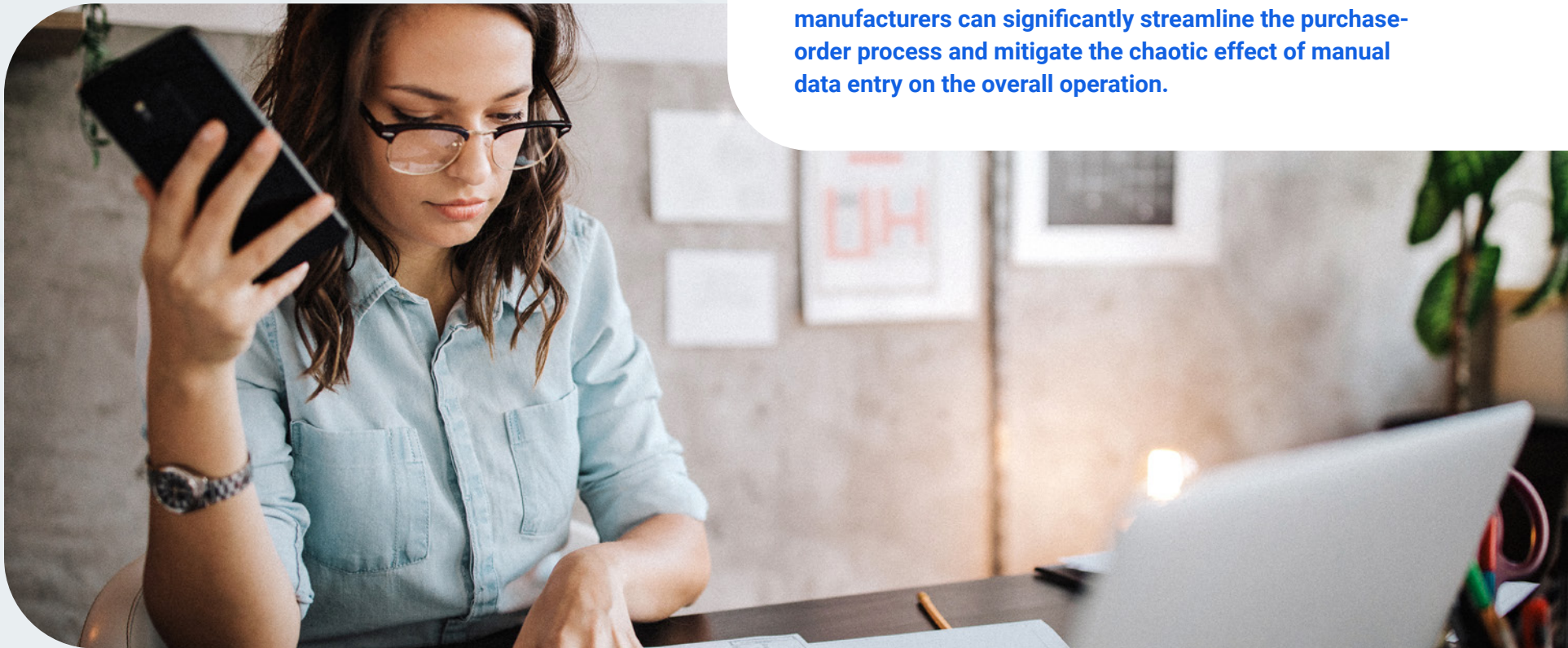
Tip #4: Push Buyer-Supplier Collaboration Into the Cloud

Buyers are under significant pressure to keep purchase orders updated. This is very stressful and also leads to significant opportunities for human error. As much as 61% of line items change on an average purchase-order[4] document throughout the life of an order, creating significant potential for critical data and changes to fall through the cracks.

Implementing a cloud-based supplier-management tool creates beneficial effects for supply chain, operations, finance and procurement by pulling supplier quotes, purchase-order changes and accounts payable into a single source of truth.

> If your organization lives and dies by data that's in the business system, you must understand it and make sure your data is good data. A centralized location makes vendor updates easily accessible, promoting users to be accountable for ensuring data is up to date and accurate. Buyers are thus empowered to be more effective and productive."
>
> Brian Maden, Global Supply Chain Manager at Universal Electric Corporation

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With so much focus on distribution, fulfillment, and the last mile, supply chain performance has suffered because the first mile has received less focus and technology investment.

> **All this manual data entry isn't a buyer's strategic function. Moving supplier interactions into a cloud platform lets them do what they were hired to do. They have more time to negotiate price breaks based on volume and growth, focus on improving supplier relationships, qualify additional suppliers and realize true hard-dollar savings by improving overall supplier performance."**
>
> Tom Kieley, CEO and co-founder of SourceDay

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Tip #5: Set Your Team Up for Remote Work

When data and communication move into the cloud, remote work now becomes possible. By facilitating remote work, employers can facilitate easier social distancing within their facilities during COVID-19.

> " Some industries may become permanently remote for quite a while. Having the ability to work anywhere is going to be a requirement for the future to give buyers the tools to do their job effectively."
>
> Tom Kieley, CEO and co-founder of SourceDay

Beyond the pandemic, distributed workforce capabilities will enable procurement teams to seek top talent in any geographic location, save money on real estate, locate personnel near key suppliers and partners, and more.

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The Future of the First Mile

With so much focus on distribution, fulfillment and the last mile, back-office functions have suffered in terms of investment and technological process for years. Organizations that fail to address issues in the first mile are ultimately setting themselves up to overspend while losing customers to competitors.

Digital tools are now available to identify and mitigate hidden costs associated with procurement, enabling companies to increase their competitiveness by streamlining their first-mile processes.

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SourceDay is a supply chain performance software that bridges the gap between the ERP and the supplier network, making it easy to manage changes throughout the direct spend lifecycle. For too long, change has been the only constant for manufacturers, distributors, and CPG brands relying on legacy processes to manage suppliers. With SourceDay's suite of collaborative products, entire teams can trace a single part from RFQ to PO to receipt, giving organizations unprecedented command and control over their businesses. SourceDay has helped thousands of businesses prevent surprises in their supply chains and, in doing so, enabled them to ship billions of parts on time, uncover new cost savings, safeguard revenue, optimize operations and protect sacred customer relationships. For more information, visit www.sourceday.com.

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