

A blurred background image showing several people in business attire (white shirts, ties) gathered around a table, with their hands visible as they interact with documents or devices, suggesting a collaborative meeting.

A Collaborative Approach to Solving Supply Chain Optimization Problems

Content Outline

Here's What to Expect:

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Introduction

Supply chain optimization involves the integration of decision-making processes to manage the production and flow of products and services from the source to customers. It requires companies to automate transaction processes and capture data related to supply chain and logistics operations. However, it is neither easy nor cheap but offers the biggest opportunity for most companies to improve their performance and significantly reduce costs. For most supply chain and logistics operations, there is an opportunity to reduce costs by 10% to 40% by making better decisions. This article will help companies to better understand supply chain optimization problems and the steps they should be taking to significantly reduce their costs and improve performance.

Supply chain optimization problem

#1

Location

Location plays an important role when it comes to supply chain optimization. Location decisions depend on market demands and the customer base. Strategic decisions must be focussed on the placement of production plants, distribution, and stocking facilities in prime locations. Once customer markets are determined, locating production and stocking facilities close to consumers is one of the key supply chain optimization problems that companies face today.

In industries where components are lightweight and market-driven, facilities should be located close to the end-user. In the heavy industry segment, companies must determine where plants should be located to keep the distance to a minimum. Also, tax and tariffs should be taken into consideration, especially during inter-state and worldwide distribution.

Key decisions regarding the production process are based on customers' preferences and market demands. This is one of the major supply chain optimization problems affecting companies of today since they fail to analyze market demands accurately. With the rising complexity, companies lose supply chain visibility and do not have a clear idea of how many products to produce. Also, they face difficulties in determining which parts or components should be produced at which plants or outsourced to capable suppliers.

Such strategic decisions regarding the production of products must focus on capacity, quality, and volume of goods, ensuring that the customers' demands are met. Furthermore, operational decisions such as scheduling workloads, maintenance of equipment, and meeting immediate client/market demands, should necessarily be taken into consideration while developing a supply chain optimization model.

Supply chain optimization problem #2

Production

Supply chain optimization problem

#3

Inventory accuracy

Inventory management is a critical issue in supply chain management optimization. Companies must have 100% inventory accuracy as it costs anywhere between 20-40% of their value. Also, without 100% inventory accuracy, companies will not be able to ship to customers on-time.

Implementing a warehouse management system or resources planning system to maintain optimal levels of stock at each location is important to ensure customer satisfaction. Correct levels of supplies at order and reorder points should be determined by control policies to ensure smooth functioning of day to day operation of organizations.

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Tier 2 suppliers are the suppliers who provide components, raw materials, and, at times, services to suppliers. However, companies do not possess much knowledge about such suppliers, the products they supply, their pricing strategies, and lead times - creating numerous supply chain optimization problems.

Businesses should build a relationship with Tier 2 suppliers, negotiate with them, and develop strategies to lower cost of goods and lead times. Many times, a

Tier 2 supplier supplies more than one of Tier 1 suppliers. Negotiating volume pricing should also be done to optimize the supply chain.

Supply chain optimization problem

#4

Tier 2 Suppliers

Supply chain optimization problem

#5

RFXs

Requests for Proposals (RFPs), Requests for Quote (RFQs), and Requests for Information (RFIs) are the key metrics for businesses to ensure that their suppliers are providing the highest quality products at the lowest costs. However, measuring such metrics can be difficult for companies.

The infrastructure, financial strength, and capabilities of new suppliers should be evaluated through RFI to identify new potential suppliers. After that, RFQ should be reviewed to get the best prices to drive down process costs, and to ensure quality and ongoing supply.

Transportation decisions are closely related to inventory decisions as well as meeting customer demands. If the goal of the company is to ship what customer wants, when that customer wants it, then they might fall into the trap of relying on expedited and overnight shipping fees to make up the delays in production or purchasing process.

Robust demand planning and selecting the right mode of transport is critical to minimize the amount of money spent on logistics expedite. The transportation mode must be chosen in a way that customer service levels are met and logistics costs are reduced. Developing dynamic supply chain network optimization capabilities, understanding lead times, and having access to long-term demand are a few methods to optimize the supply chain.

Supply chain optimization problem #6

Distribution and transportation



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Supply chain optimization problem

#7

Demand Planning

Customers might send forecasts or long term orders, but they might not exactly know what they want and when. This is one of the biggest supply chain optimization problems faced by companies. If the customer data is not accurate and/or it is not received in time to include it in the optimization, the resulting solutions will obviously be suspect. For optimization that focuses on execution, the data must also be comprehensive.

Customers' demand information (forecasts, orders) should be considered as a starting point to understand what customers want in a better way. Supply chain optimization model should also be developed to utilize history, market analysis competitive landscape, and other factors that drive the costs up in the supply chain.

Contact Info

SpendEdge delivers robust, real-time procurement market intelligence solutions to help sourcing and procurement professionals to manage supply chain. Our innovative procurement solutions help enterprises to transform the structural capabilities of businesses and improve execution efficiency. Our state-of-the-art procurement solutions also help enterprises to transform structural capabilities, improve execution efficiency, and achieve better cost savings. We provide businesses with actionable insights and techniques to improve their supply chain management capabilities.



PHONE NUMBER - US

+1 630 984 7340

PHONE NUMBER - UK

+44 148 459 9299