

# Supply Chain Management: Best Practices

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PROCUREMENT & MATERIALS  
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# Supply Chain Management (SCM)– What does it mean to YOU?

SCM is a broad topic that can be defined in many ways

- Complexity varies significantly - based largely on business model
  - The complexity of SCM is much different for a tooth pick or candle manufacturer than it is for a transit bus manufacturer

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# SCM – What does it mean to YOU? (con't)

- Toothpick manufacturer – BOM consists of birch wood and packaging
- Candle manufacturer – BOM is acid, wax, wicks....MAYBE dye, MAYBE fragrance oil
  - Very likely neither have a complicated supply chain
- Transit bus manufacturer – average BOM has 3000+ parts
  - Make parts (require various raw materials)
  - Buy Parts
    - US suppliers
    - Global suppliers (longest current lead time is 30 weeks)
  - Product is built to order – custom specifications provided by transit authorities
  - Result is a MUCH more complicated SCM process

# SCM – What does it mean to YOU? (con't)

- Examples are meant to illustrate the wide spectrum of potential supply chain systems
  - *Where do you fall in the spectrum?*
- Since there isn't a “one stop shopping” method that will work for all, my concentration today will be on five “best practices”
- Most can be applied to every portion of the transit industry
  - Component supplier, bus manufacturer, transit authority, service provider

# SCM – Five Best Practices

1. Supply chain system should be aligned with overall company strategy
  - If a company goal is to improve inventory turns, your supply chain may not want to bring in a container of raw material that it will take 12 months to consume
  - The most successful supply chains are in complete sync with the long term company strategy and the annual business plan

# SCM – Five Best Practices (con't)

2. Ensure you have a strong supply chain group with the “right” skill set
  - Years ago, this meant a buyer with a strong personality who enjoyed “beating up” suppliers. Today, its much more.
    - » Relationship management skills (internal/external)
    - » Ability to think strategically
    - » Understand and focus on value creation (actions that create the worth of goods or services)

# SCM – Five Best Practices (con't)

3. Understand the importance of supplier relationship management
  - This used to be one sided – *TELLING* the supplier what to do
  - A “relationship” creates..
    - » A platform for problem resolution
    - » More successful joint CI initiatives
    - » Performance measurements that are met more often
    - » Strategic thinking in a collaborative way

# SCM – Five Best Practices (con't)

4. Focus on Total Cost of Ownership (TCO)
  - The days of “3 bids and cheapest price wins” is over
  - TCO looks at the entire direct and indirect cost of procuring the material
    - » Actual price of material
    - » Training/maintenance/special tools
    - » Transportation
    - » Warehousing
    - » Cost of quality/warranty



# SCM – Five Best Practices (con't)

5. Reduce inventory – run a “lean” organization
  - The days of “more is better” are over
  - Cost of inventory is a major focus in most organizations
    - » Can't just include carrying cost of material
      - Cost of insurance, taxes, obsolescence potential, warehousing, floor space consumption should all be considered
  - Best in class operations are putting more emphasis on better planning and forecasting

# SCM – Next Steps

Your homework assignment is to go home and think about where you fall in the SCM spectrum.....

- If you are a toothpick or candle manufacturer, you probably don't need to concentrate any further on your supply chain
- If you fall anywhere else in the spectrum, I suggest you consider implementing these best practices in your organization