

The Missing Piece of the Profit Economy

Victor Allis is chief executive officer of Quintiq (www.quintiq.com), a provider of supply chain planning and optimization software.

BY VICTOR ALLIS

The profit economy. You won't get a lot of results if you Google the words. It's not a commonly heard term in the business world. You might even ask if it makes any sense. Isn't the economy all about profit?

Think of the word "economy" in two ways. One is the all-encompassing world of production, consumption, goods and services. It's what makes the world go round.

But an individual business is an economy, too – in miniature. Each company has its own set of rules, its own complex supply chain for meeting the needs of the customer. And, you might assume, its own benchmark for profit.

A business, of course, can't function unless it makes money. Everything else—corporate image, employee policies, environmental record—comes second to profit. But this raises the bottom-line question: Are companies really acting in such a way as to maximize their profit potential?

The unfortunate answer is no. Examine the lifecycle of a typical product, from design to raw materials procurement, production and sale. Too often you'll find that a lot of money is being left on the table.

Companies try to address the challenge with complex tools such as enterprise resource planning (ERP) software. Or they'll embrace tactics such as BYOD and the use of smartphones, to get faster access to key business intelligence. Much of the time, however, they're leaving out a critical piece of the puzzle.

Think of products as passing through four distinct stages: design and introduction, scaling up production to meet demand, battling lower-priced

competition in a mature market, and managing the end of life. The stages of scaling and managing a mature market, where the real money is made, require supply chain mastery to yield the greatest efficiencies – and profit.

That's not an easy challenge to tackle. But too many companies today are relying on their ERP systems to guide critical decisions. What they're doing, in essence, is looking backward. For example, a logistics provider can't maximize future truck efficiency solely by determining how many empty miles it drove last week.

Say that a company has 100 vehicles and delivers to 300 locations per day. The number of possible options for the daily plan is virtually infinite. A planner can't possibly consider them all. However, just selecting one possible solution is not good enough. The difference between "possible" and "optimal" can mean 10 percent to your bottom line. And history won't provide the answer.

Most businesses operate on a transactional level, whether they're logging driver hours, cutting invoices or receiving customer orders. They simply don't know whether they're getting the most out of their limited resources. And if they do, it's out of hindsight analysis. In short, they lack the proper tools to analyze and optimize their supply chains.

Optimization technology allows companies to really optimize their supply chains. They can review "what-if" analyses of various scenarios, tied to key performance indicators that measure success on an ongoing basis. They can find (near) optimal solutions from the virtually infinite number of possible options. And with a clear set of future-oriented





Supply chain planning and optimization calls for a platform that embraces the end-to-end supply chain. To be sure, suppliers need to get products to customers on time—but they ought to be able to meet that goal with maximum efficiency at every step.

KPIs—planning KPIs—they can measure tomorrow’s performance before it happens. Shouldn’t every business know what the future holds?

The problem for most businesses is that their ERP systems cannot address all of the unique aspects of planning a company’s production, logistics and workforce. Nor do they possess the optimization capabilities needed to find great solutions. As a result, they are poorly optimizing what in essence is a fantasy world that only has an 80-percent overlap with the real world. The resulting fantasy solutions are virtually unusable, and trying to close the 20-percent gap is almost as difficult as starting from scratch. A true supply chain planning and optimization platform generates results that don’t just look good in theory—they work in the real world.

The technology can be applied to just about any kind of business. Take a metal manufacturer that sells multiple products in a variety of sizes. In order to optimize, a solution is required that is configured to account for the specific environment—

machine capabilities and alternatives per product, production sequence including sequence-dependent changeovers, specific site constraints, inventory limitations, replenishment options, and so on. And it must be able to respond to changes in real time. The wrong answers can mean longer lead times, excess inventory, loss of business and lower profit.

Workforce planning is yet another area that’s ripe for optimization. Whether a company is overseeing drivers, air traffic controllers or retail clerks, it needs to tie staffing to the busiest periods of activity, align skills to needs and account for constraints—be they legal, union or employee preferences. Many organizations, however, are unable to match labor supply with demand. They lack the forward-looking view that is key to eliminating every bit of waste from their operations.

It’s not about finding the right point solution. Supply chain planning and optimization calls for a platform that embraces the end-to-end supply chain. To be sure, suppliers need

to get products to customers on time—but they ought to be able to meet that goal with maximum efficiency at every step.

In today’s profit economy, “good enough” isn’t good enough. Businesses have become accustomed to a certain amount of inefficiency, but even a few percentage points of waste carry a price tag that few can afford. The algorithms and technology that make up a modern-day optimization solution can help to close that significant gap.

The missing piece of the profit economy provides insight into your future, to maximize profit potential. Call it the 100-percent-fit solution. For the successful manufacturer, logistics company or service provider, it’s the difference between repeating yesterday and succeeding tomorrow. ○

To access this article online, visit
www.SupplyChainBrain.com.

Resource Link

Quintiq, www.quintiq.com