



Case study: CPG Co. Supply Chain Audit and Opportunity Assessment

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CPG Co. Engagement History

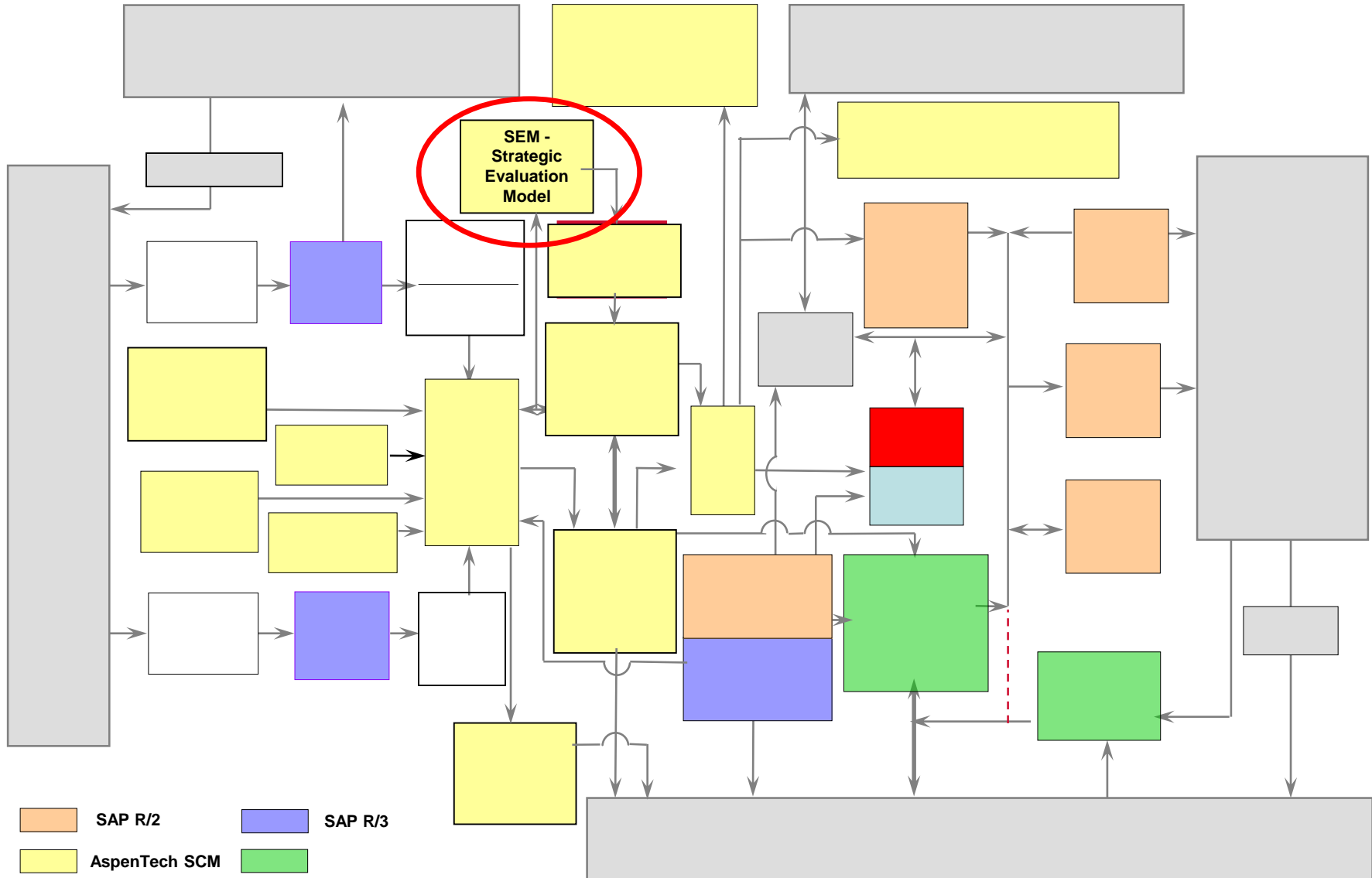
- A leading CPG company with global operations and premium, category-leading brands
 - Sophisticated supply chain planning capability; in-house domain expertise
 - Increasing competitive pressure on margins forcing a need for increased operational efficiency
- Cayuga Partners proposed a 4-phased process to improve the performance of manufacturing and supply chain operations:
 1. Education and Strategy Sessions
 2. Supply Chain Audit and Opportunity Assessment
 3. Pilot Implementation
 4. Continuous Improvement

1st Law of Supply Chain Physics

“Local optimization results in global disharmony”

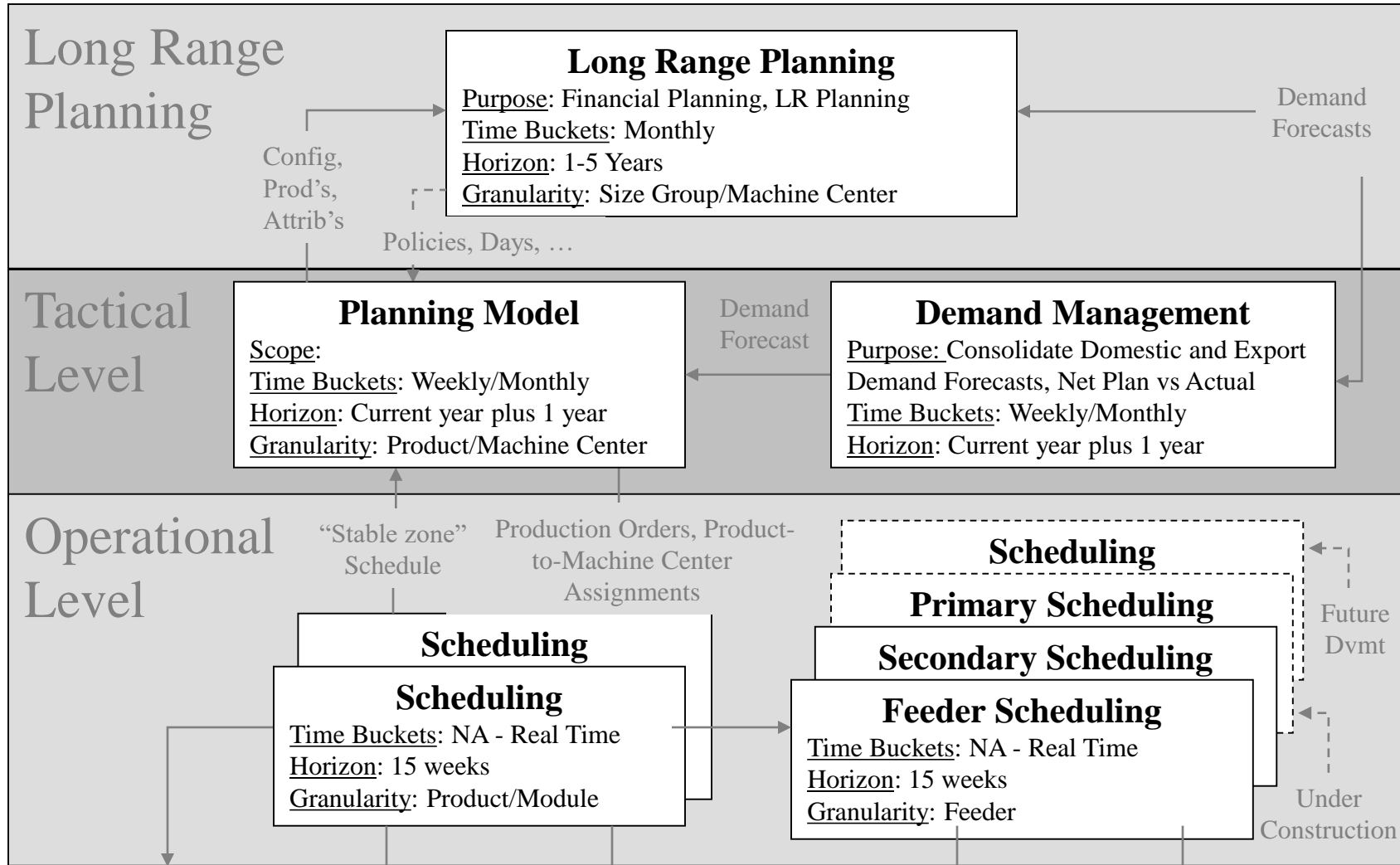
How does this apply to CPG Co.?

Supply Chain Mgt. Systems @ CPG Co.

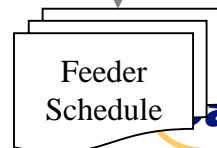
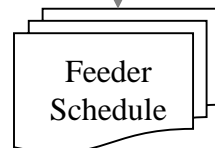
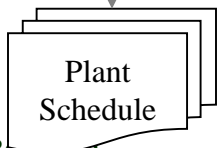


Example: Current CPG Co. Models

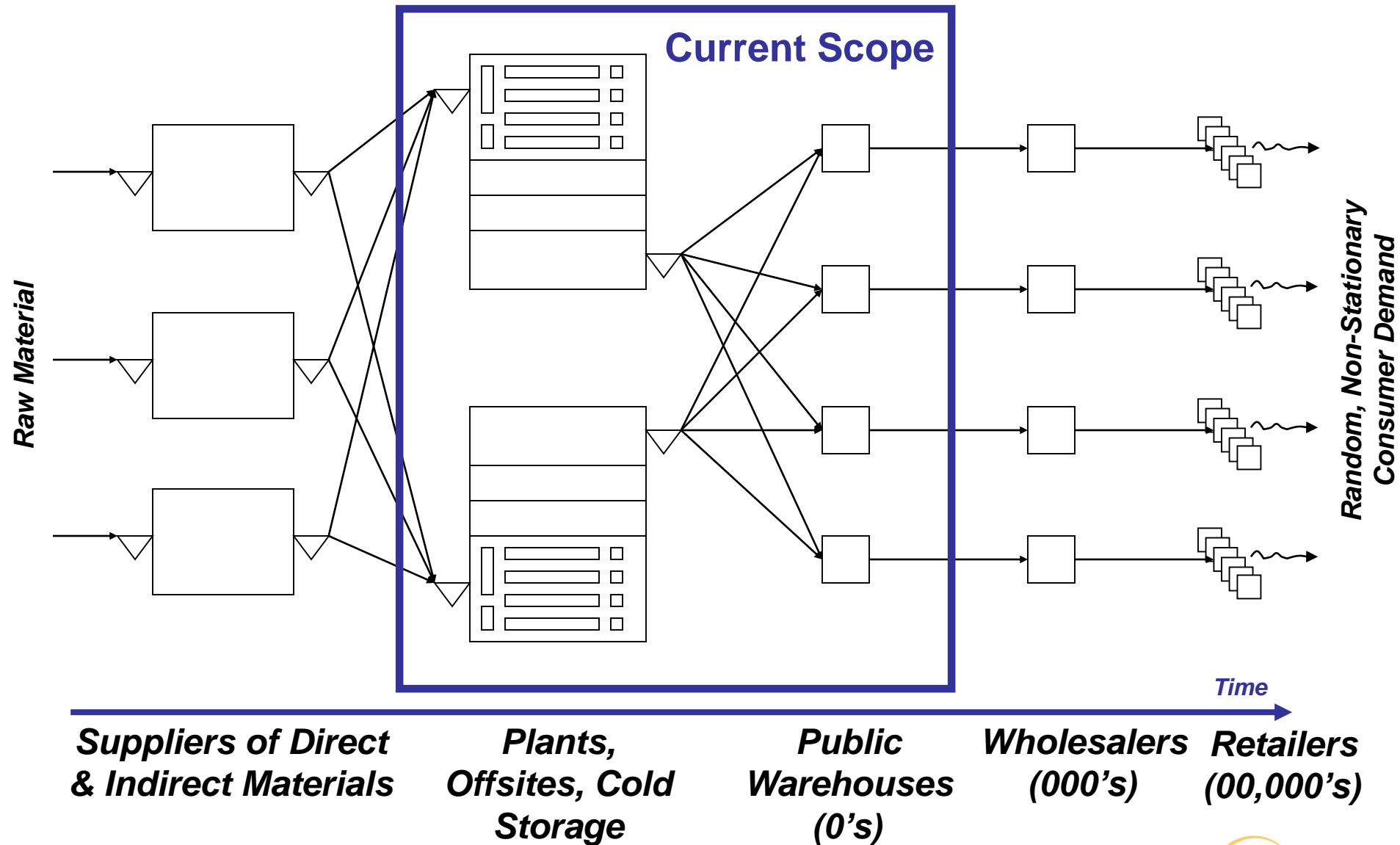
↑ Longer Horizon
 ↓ More Detail



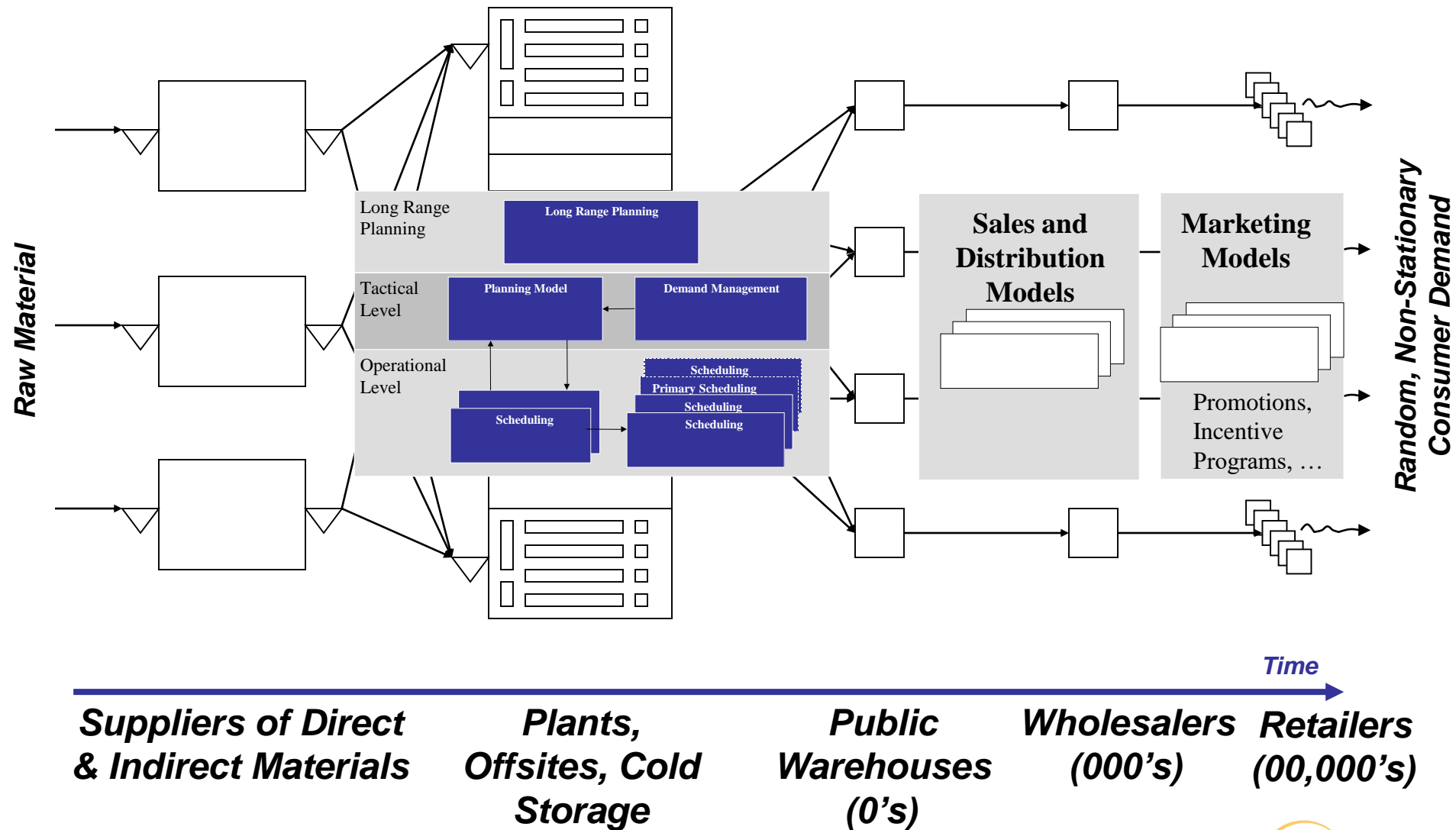
To SAP/MRP for Direct and Indirect Materials Purchasing



The CPG Co. Supply Chain



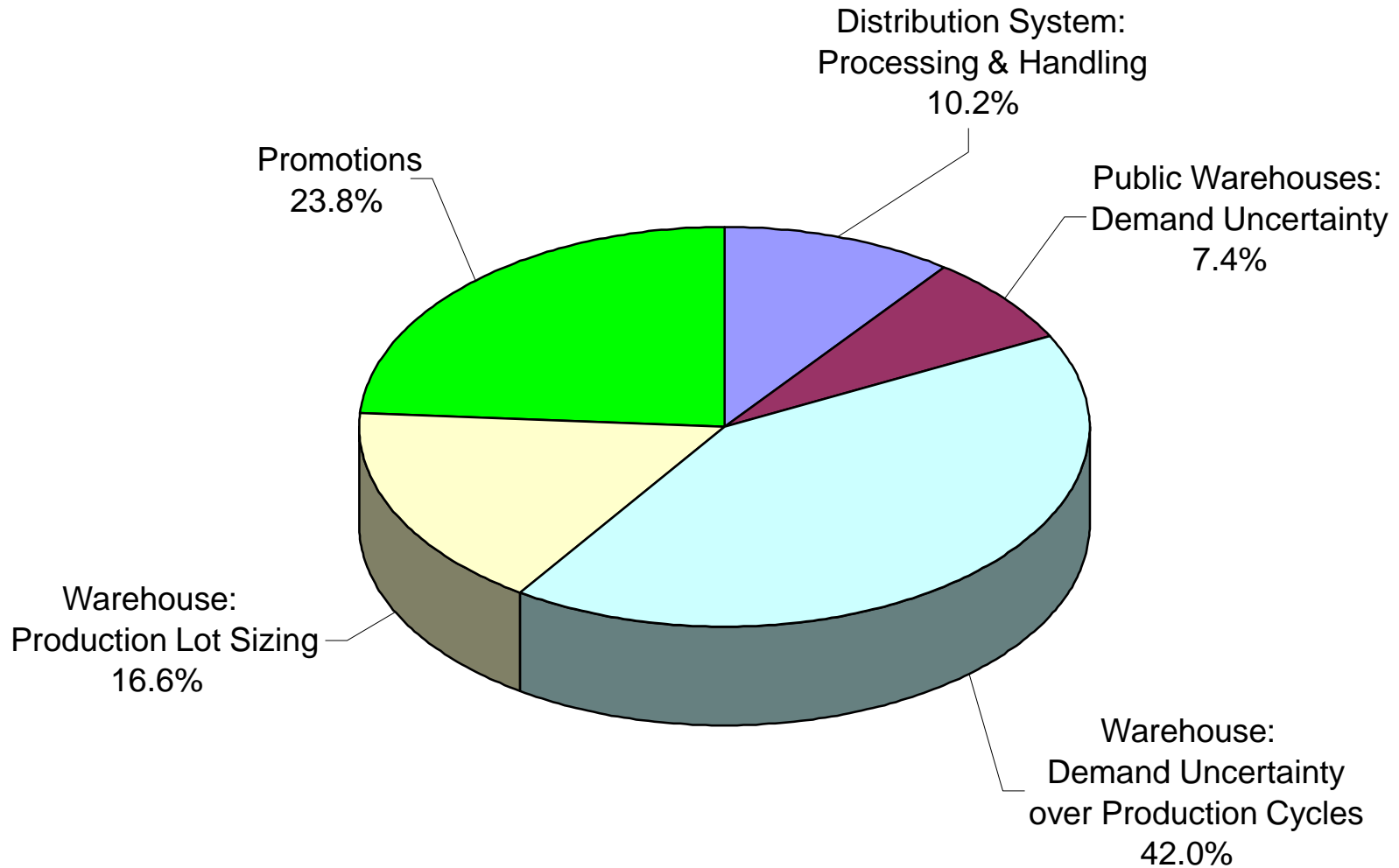
Example: Current CPG Co. Models



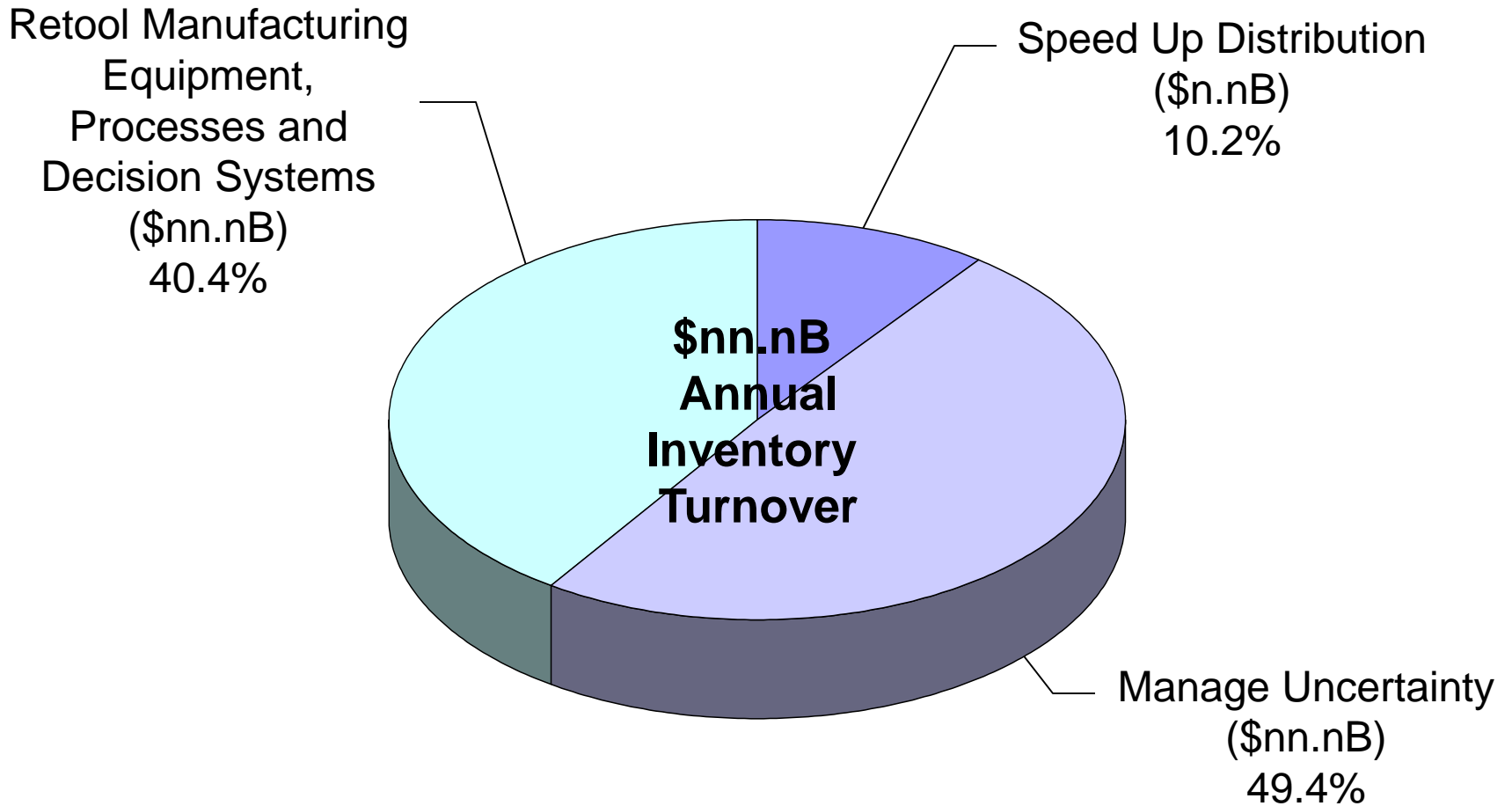
3rd Law of Supply Chain Physics

“Inventories are a consequence of supply chain design and customer service objectives”

Causes of Inventory



Opportunities

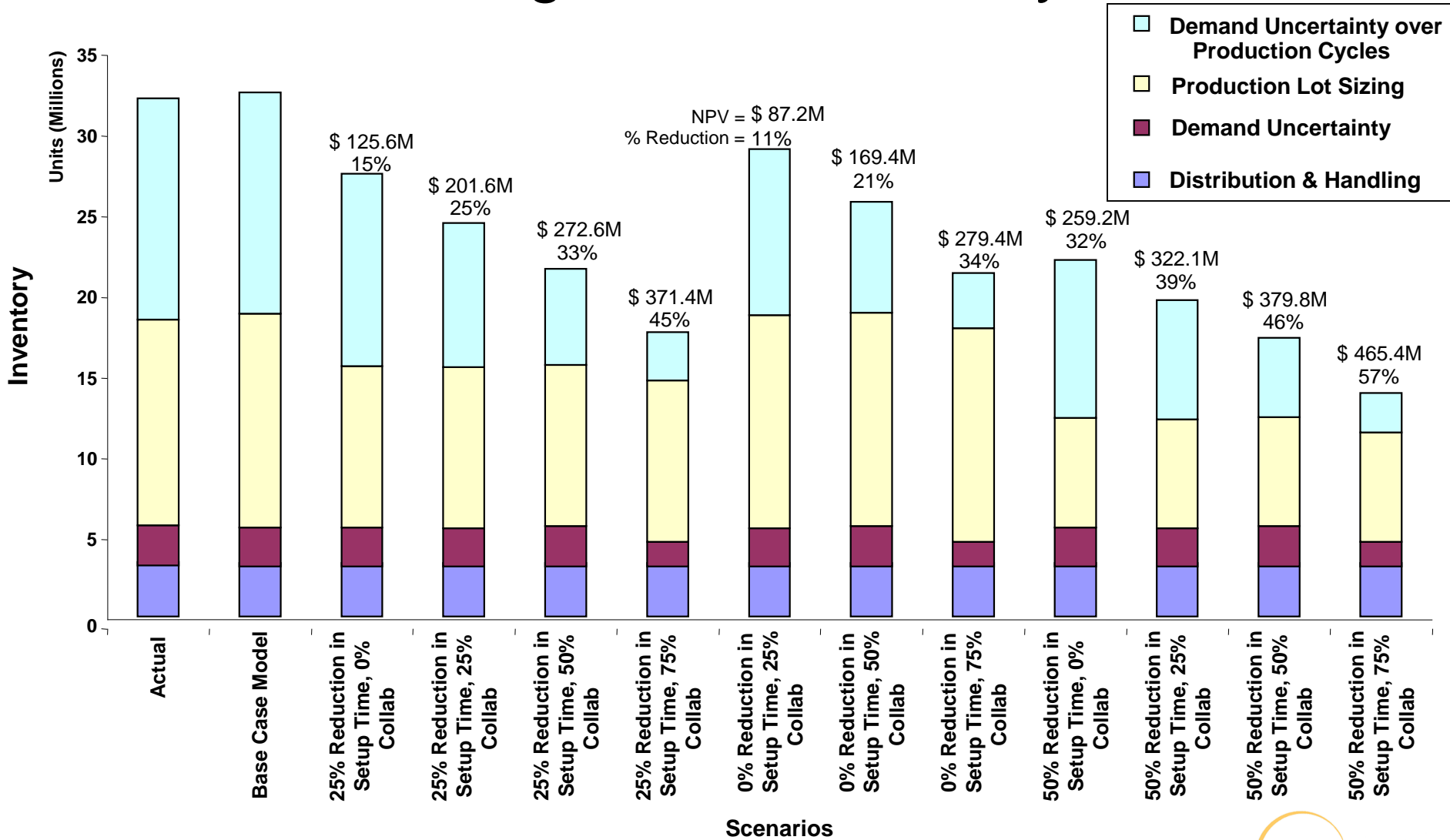


5th Law of Supply Chain Physics

“Effective supply chain design will reduce uncertainty dramatically, and improve operational and financial performance significantly”

. . . however, residual uncertainty will still exist and must be effectively considered in a decision support environment

Potential economic benefits of supply chain structural change and uncertainty reduction



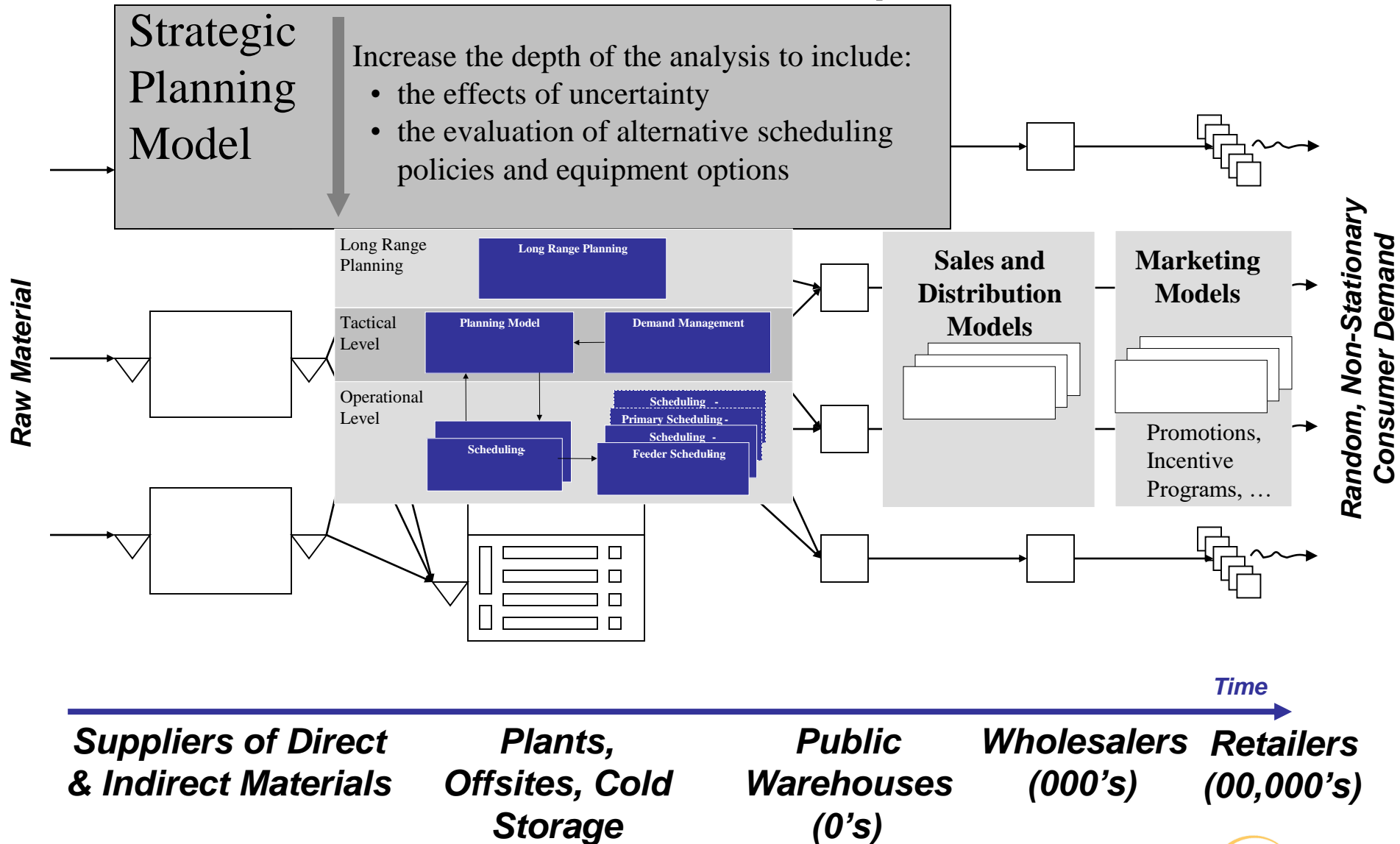
Upon further analysis . . .

- Net Present Value of *high return, lower risk opportunities*
 - Managing production capacity **\$ 59 million**
 - Reducing demand uncertainty **\$ 34 million**
 - Coordinating promotions **\$ 53 million**
 - NPV of combined opportunities **\$ 97 million**
- Other opportunities:
 - Better coordination of manufacturing and distribution
 - Modifications to the physical operating environment
 - New production, distribution, and procurement policies
 - *These additional opportunities are likely to have an NPV at least as large as those identified to date*

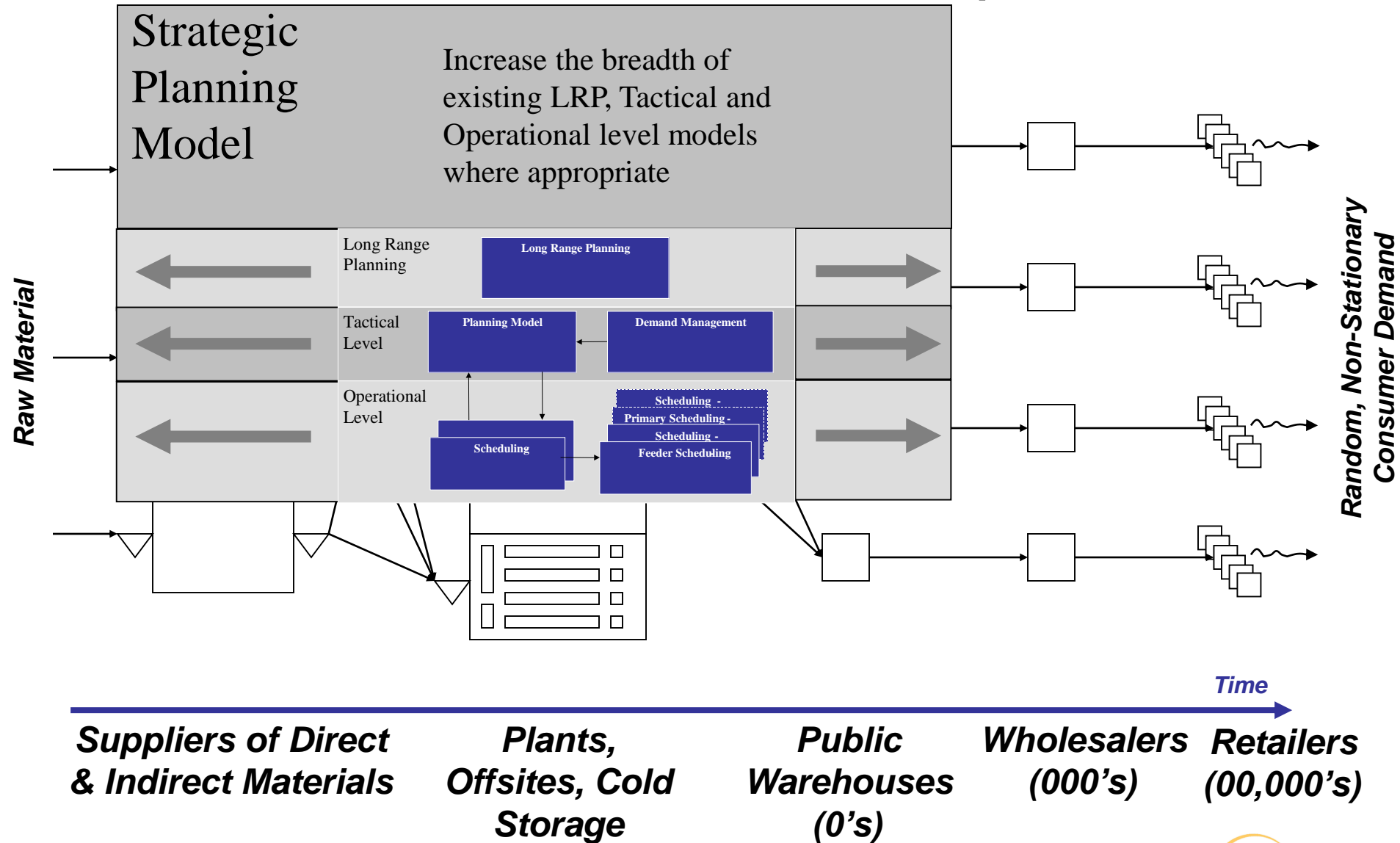
CPG Co. Opportunity Assessment Summary

- Findings
 - There are large and immediate opportunities to improve supply chain and manufacturing operations performance
 - Further analysis is needed to validate, quantify and prioritize some of these opportunities
- Recommendations
 - Pilot the “*No B/C*” *Strategy* and other recommended improvements
 - Incorporate missing operational dynamics (i.e., distribution, retail) in the *Supply Chain Evaluation Model*; further evaluate scenarios, define KPI’s, validate impact of uncertainty; develop, prioritize business cases

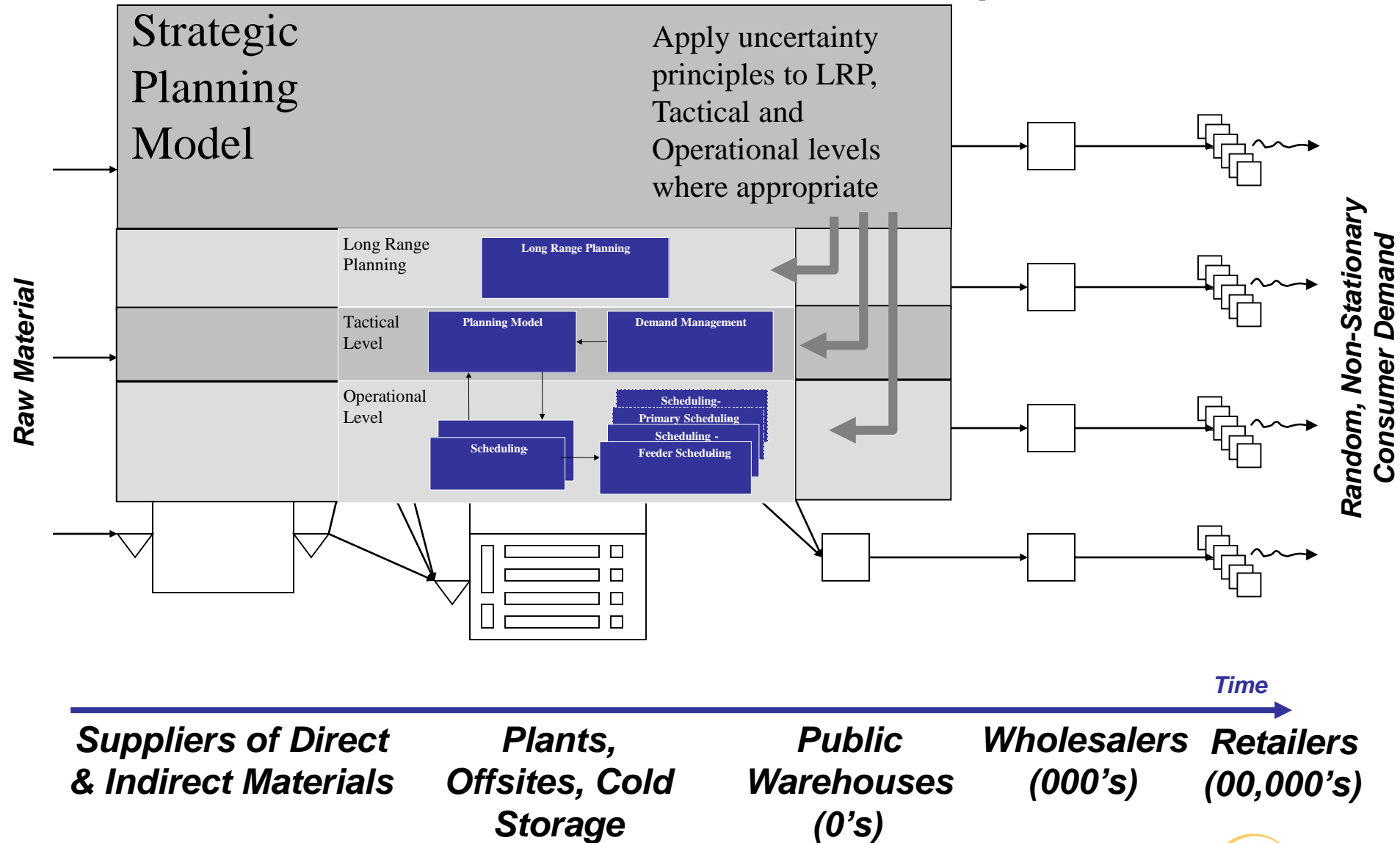
A Broader Viewpoint



Potential Future Development



Potential Future Development



Observations

- Advances in technology continue to drive the transformation of operational requirements and capabilities, and the disintermediation of traditional organizational structures and business processes
- Despite widespread deployment of ERP and APS technology in large manufacturing enterprises, *local sub-optimization* presents substantial opportunities for improved supply chain efficiency and competitive advantage
- Corporate strategy is typically not well aligned with operational capabilities, limiting ability to execute to plan
- Shared vision, a holistic supply chain view, new policies and performance metrics, common nomenclature and a framework of operating principles are needed to enable the necessary change

5 Principles of Collaborative Supply Chain Design and Operation

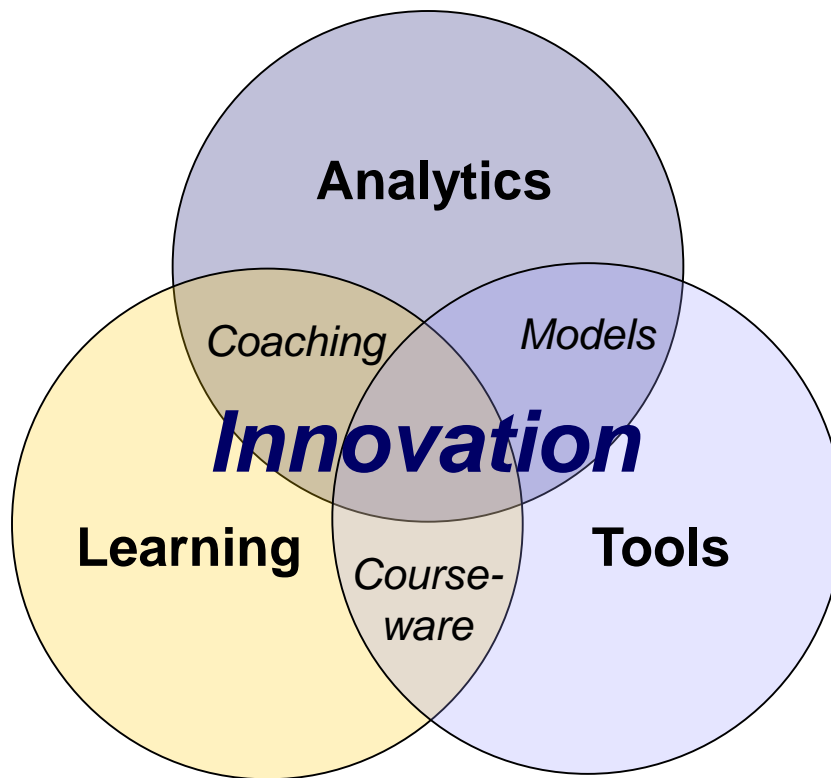
1. Know your customers' requirements
2. Construct a lean supply chain organization
3. Build tightly-coupled information infrastructures with your suppliers and customers
4. Build tightly-coupled business processes
5. Construct tightly-coupled decision support systems based on understanding the total supply chain



EDUCATE . . .

SIMULATE . . .

INNOVATE!



Program Elements

Cayuga Partners'
***Supply Chain Innovation
Program™***

1. Education and Strategy
2. Supply Chain Audit and Opportunity Assessment
3. Pilot proof-of-concept projects
4. Implement with on-going Education, Simulation and Consulting for Continuous Improvement

“There is nothing more difficult to plan,
nor more dangerous to manage,
nor more doubtful of success,
than the creation of a new order of things.
For the reformer has fierce enemies in all who would
profit from the preservation of the old,
and only lukewarm defenders in those who would gain
from the new.

This lukewarmness arises partly from the fear of their
adversaries, who have law in their favor, and partly
from the incredulity of mankind, who do not truly
believe in anything new until they have had an actual
experience of it.”

- Niccolo Machiavelli - 1513