

Bauer Supply Chain Center – Spring 2015 Keynote Address Abstract

Understanding and Managing Complexity in Your Supply Chain

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The world has changed. Throughout most of the 20th century a company's cost structure and competitive advantage was driven by scale—larger operations typically had lower costs and could dominate their industries by offering consumers better products at lower prices. However, that is no longer the case. Complexity, driven by SKU growth, increased number of channels, lengthened supply chains and globalization, is now the most significant driver of most companies' ability to compete. Risk and cost both rise exponentially with complexity, but most companies are ill-equipped to recognize, manage and remove the complexity that is inhibiting their success.

The first step in managing complexity is understanding it—where it comes from, how it manifests itself and knowing the difference between good and bad complexity. Doing so requires taking a different view of accounting for complexity; applying *Square Root Costing* to complexity-driven, NVA costs paints a truer picture of complexity's impact. This understanding supports important decisions around product offerings, pricing, production scheduling, inventory levels, vendor selection, component rationalization and process standardization.

The adoption of a single management system to define key controls processes addresses a company's organizational and process complexity by driving standardization and consistency and removing NVA complexity to drive performance. And the success of a management system is dependent on a well-defined and purposefully-managed culture that supports it.

Developing a true understanding of the sources and impacts of complexity and then addressing complexity in a systematic, thoughtful way will eliminate risk, decrease costs, improve service levels and prepare companies to compete in the 21st century.

In this presentation we will:

- Explore the sources of supply chain complexity
- Discuss how supply chain complexity manifests itself in high costs and poor performance
- Explain the *Square Root Costing* approach for properly allocating the costs of complexity
- Review strategies for eliminating NVA complexity and managing value-added complexity