

The cost of business

How reviewing your supply chain could improve your bottom line **Interviewed by Meredith McKenzie**

The recession has forced many companies to take a hard look at ways to save money as sales continue to decline or remain stagnant. One place to look at cutting costs is in supply chain processes, which consist of materials and information exchanges.

The supply chain looks at everything from the acquisition of raw materials to delivery of finished goods and purchase by or delivery to end users. All vendors, service providers and customers are links in the supply chain.

The supply chain is made up of several elements, but there are core factors, including network optimization and transportation, that help reduce the cost of goods sold.

"You can run the risk of not minimizing your costs to produce products by not analyzing your supply chain," says John M. Lisowski, the industrial brokerage manager, of the Global Supply Chain Solutions Group at Grant Street Associates, Inc. "This will then decrease your overall profitability."

Smart Business spoke with Lisowski about how to analyze your supply chain and ways to cut costs.

What is the most strategic aspect of a supply chain, and how does it work?

The most strategic aspect is network optimization. Supply chain effectiveness relies on the ease with which goods and information flow from suppliers to production to distribution to the end customers. In the past, real estate location was not viewed as an important factor in optimizing your network strategy, but it does play an integral role in an effective network. The easier it is to transfer goods from one process to another, the greater the opportunity to save time and money. Real estate involves anything from the location of the supplier, the production facility, the distribution center or the end user. Any of these locations plays an important role in the network's overall efficiency.

You can identify effectiveness by closely analyzing the flow of goods and information through the process. This is done through an in-depth analysis or study by unbiased, third-party, trained professional consultants. Depending on what you consider to be an integral part of your infrastructure, you may want to do a network optimization analysis. This takes a look at the entire supply chain, including suppliers, real estate, shippers, and customers. It will also review all aspects of the network to see if efficiency is at its peak or if corrective measures need to be taken.



John M. Lisowski

Industrial brokerage manager, Global Supply Chain Solutions Group
Grant Street Associates, Inc.

What are other ways to help cut costs?

An inventory optimization study is one option for existing facilities. There are also several studies to perform if you are considering building a new facility. These include site selection analysis, incentives analysis and negotiations, work force profiling, supply chain execution system analysis, or distribution or manufacturing facility design.

Are the cost and time of moving goods from one process to the other important factors?

The cost of transporting goods has always had an effect on the cost of goods sold. In the past, when fuel costs were relatively inexpensive and supply was abundant, transportation of goods was a minor contribution to the overall cost of goods sold. But the percentage amount that transportation contributes has dramatically increased due to the drastic rise in oil prices. This plays a significant role in optimizing your network and managing your cost of goods sold. Leading economists believe that this cost factor will continue to rise in the future.

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How can you minimize the increasing cost of transportation?

Companies generally do not have a direct influence on the whims of the oil market, but can minimize costs through a transportation diagnostic analysis. There are different transportation models for companies, including operating your own fleet of trucks or using a common carrier or third-party logistics provider. No matter which route you choose, an in-depth analysis should be completed every few years to assess whether or not you are effectively controlling transportation costs.

An analysis should include these questions:

- Is running your own fleet the most cost-effective choice for your transportation needs?
- Is the use of a common carrier or 3PL more cost-effective in the overall scheme?
- Is the 3PL adhering to contract terms and performing at an acceptable level or better than other 3PLs or common carriers?

What can single facility operators do to control costs?

Single-facility operators are still affected by the supply chain process, in relation to their suppliers' network and general transportation services. Both single-facility and multi-facility operators can analyze their individual warehouse and manufacturing operations through a warehouse and manufacturing audit and assessment. This will help you determine whether you are effectively operating your business as well as if your current manufacturing process is performing at optimal levels. You can also determine if you are occupying too much or too little space and if your receiving/production/distribution process is as efficient as it can be.

What are the benefits of analyzing your supply chain?

The analysis will serve as a guideline to help peak performance. It will also help reduce and contain your costs, which will, in turn, increase profits. Profitability of a company is determined by what it costs to produce the products, or cost of goods sold. The less it costs, the more profitable you are. <<

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