

Bill's Building Blocks

Making the Numbers

My general manager at Hewlett-Packard taught me a great deal about "making the numbers." Back in the day when smoking was allowed on the factory floor Jon would start his morning by bumming cigarettes from any number of line workers gaining up-to-the minute information about production issues, material shortages, a poorly conceived Engineering Change Order, and broken test sets. Jon would walk around the floor noticing piles of inventory clogging the aisle. He would then move to the shipping department where Isabelle prepared our shipping documents including a card deck, one card for each unit to be shipped. Being an engineer, Jon knew that for every inch of card deck, he could measure with his pocket ruler, daily plant revenue would average \$12,000. Finally, Jon would stop by my desk to ask, "how's it going, Bill?" It didn't take long to realize that it was a career decision to fib in my response to Jon.

HP's "managing by wandering around" philosophy was focused on three vital signs used to measure the long-term viability of the business. When a business underperforms in any of these areas, alternative solutions can be found in rethinking your supply chain.

- **Revenue Growth** – Revenue from newer products to profitably support a cost structure.
- **Profitability**- Without revenue growth year over year inflation of raw material costs, wages, employee medical benefits, and logistics costs work to erode profit.
- **Cash Flow** – Timely cash inflows from customers and sustained inventory turns must cover all the cash outflows to run the business. Otherwise a business will go bankrupt.

How can your supply chain network yield higher revenue growth? Revenue improves with higher throughput when more product flows end-to-end through the network and when the breadth of the network reaches more customers. The product offering can be expanded by designing or licensing new products. Network breadth can be expanded by adding more sales representatives, more stores, and/or additional fulfillment channels such as B2B, B2C, or B2G.

How can your supply chain network yield higher profitability? Profitability improves when costs go down and volumes go up. Product bills of materials can be rationalized against the supply base consolidating higher volume purchases for fewer parts from fewer suppliers. Product with high labor content can be outsourced to a country with a lower labor rate but watch the tariffs.

How can your supply chain network improve cash flow? Cash flow velocity improves when your customer pays before you must pay your supplier. You can set an expectation that your customers will prepay at least a portion of the sales price. You can negotiate with your key suppliers to extend their credit by invoicing you after the sale. Where the competitive environment allows, converting your operating strategy from build-to-stock to build-to-order will free up cash otherwise tied up in inventory assets.

Making the numbers is all about ensuring revenue growth for profitability with high cash flow velocity. When these vital signs are routinely monitored, you can have good control over your business and know when your supply chain network may need to be adjusted.

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