

**ATS**

Advanced Technology Services, Inc.



## Three Causes of Hidden Supply Chain Costs

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### Costs can sneak up if these things are left unchecked. Here's what they are and how to address them.

When it comes to your supply chain, even the slightest redundant inefficiency can compound over time to create significantly increased costs. That's why it is vitally important to stay attuned to the nuances of your supply chain operation, and the ways those seemingly slight inefficiencies can get out of hand – and threaten your operation's big-picture productivity.

Below are three ways that hidden costs can, if left unchecked, eat away at supply chain efficiency and productivity, as well as solutions to help you prevent those costs from having a major effect on the bottom line.

#### 1. Scope creep of employee responsibilities.

So, a machine on the production line breaks down and a part is needed that's not currently in your inventory. The technician on duty spends time on

the internet looking for the part, then goes out to retrieve it, thinking that's the quickest and most efficient way to get things back up and running. But is it really? It may seem like the obvious solution, and this scenario plays into the employee's natural instinct to want to help and solve the problem. But in reality, the addition of the "parts procurement" responsibility to the technician's already robust list of duties is costing the company in the long run.

How? Your technicians are undoubtedly compensated at a higher rate than a supply chain inventory manager or parts buyer would be. If it takes the technician and the buyer the same amount of time to complete the task of locating and buying the part, it is simply more expensive for the task to be done by the technician. What's more, the more "procurement-experienced" buyer could

**Lack of visibility is increasing the risk of supply chain disruption which can dramatically impact business performance.**

*Source: KPMG's Global Manufacturing Outlook*

probably complete the task much more quickly, representing an even greater efficiency for the company in terms of value for energy expended.

How do you solve this problem of employee responsibility scope creep? It begins with the clear definition of roles and responsibilities for each and every facility employee. Then, it must be made clear that employees will be held accountable for sticking to – and not straying from (tempting as it may be) – the responsibilities outlined for their position.

## **2. Process inefficiencies.**

Process inefficiencies related to supply chain activity are often an outgrowth of employee responsibility scope creep. When supply chain processes are not clearly defined and documented, employees may be performing actions that are incorrect, redundant, outside of their realm of responsibility, or simply counter-productive to overall process goals. This can result in not only significant inefficiencies, but also lead to unnecessary downtime and repair – resulting in significant costs over time.

How do you minimize process inefficiencies and their consequences? Documentation of process steps and procedures – whether they be in the form of checklists, comprehensive written guides, videos, etc. – is vital. Having proper process procedures clearly spelled out for every aspect of the supply chain operation is key to literally getting everyone involved “on the same page” when it comes to meeting overall goals.

Once that documentation is complete, it is also vital these materials be easily accessible to every facility employee. It should be stored in a central location

and readily available no matter if a new employee is following it closely during their training stage, or a long-time employee is making quick reference to it as a cautionary action.

## **3. Manual reporting.**

The reliance on manual reporting can lead to hidden costs in the form of huge time inefficiencies. Performance measurement and improvement must be a regular, ongoing process in order to uncover trends and gain insights into an operation and its potential. Manual reporting that’s inherently slow and laborious, or done haphazardly and irregularly rarely yields valuable information on which to act.

The good news is that the technology revolution has produced a wide variety of tools to facilitate a fruitful reporting process. A simple Excel spreadsheet applied to the procurement process utilizing macros, for example, imparts a valuable level of sophistication to data compilation and analysis. Going a step further, powerful business information management tools that interact with existing systems can even compile data in real time and generate copious valuable reports in a few hours that might take months for an army of people to generate manually.

Clarity in defined roles. Accessible documentation of processes. Taking advantage of today’s reporting technology. These are just a few ways to eliminate hidden costs that may be undermining your supply chain’s efficiency and productivity. Begin incorporating these techniques now, and you’ll be well on your way to contributing to your company’s bottom line health, as the marketplace becomes increasingly competitive in the future.