DEMAND DRIVEN SUPPLY CHAIN MANAGEMENT

An Interview with Markus Geutler,

Partner, Supply Chain & Operations

Camelot Management Consultants

Markus is a Partner for Supply Chain Management and Operations within the CAMELOT Consulting Group, based out of Philadelphia. With 15 years of business consulting experience, he has led major Supply Chain Transformation projects at various global companies in the life sciences, chemicals, consumer goods and industrial manufacturing industries.

Markus is a SCM thought leader with a passion for applying innovative approaches and solutions that make a real difference to his customer's value chains.

What are the problems with traditional Supply Chain Management (SCM) systems, especially those based on MRP/ERP systems?

The problem with traditional MRP/ERP is that they use forecasts of demand to drive replenishment through supply schedules.

Unfortunately, even if a company is achieving a world-class level of forecast mix accuracy (e.g. 80%, a number which is skewed by the highly accurate high-volume item forecasts), the majority of items (lower volumes/higher variability) will be achieving accuracy of below 60%, which leads to unbalanced stocks and service threats. This, in turn, leads to expediting and firefighting, which uses up unplanned capacity, causes lead times to be extended, and requires yet more inventory without resolving the real problem, which is that the supply chain is being driven by the wrong demand signal: an inaccurate forecast instead of actual demand.

Why are these forecasts so often wrong?

Because the supply world we operate in is characterised by tremendous levels of volatility, uncertainty, complexity, and ambiguity (VUCA), due to many factors, including increasing levels of competition, SKU proliferation, promotions, global trade, long lead-time parts, product complexity and customization, and the trend toward omni-channel experiences.

The greater the level of demand volatility, the lower forecast accuracy will be at the item level or week/month level.

Video: *How does Demand-Driven MRP Work?*

If Demand Driven SCM isn't trying to supply what's predicted to sell, how does it work and why is it so much better than traditional MRP?

DDSCM positions planned, but independent stocks at strategic locations through the supply chain, which are sized and regularly re-calibrated to reflect average demand and variability over the lead time/cycle. The stock is replenished using a dynamic re-order point/cycle mechanism. Materials thereby autonomously flow in line with demand through the supply chain without need for the performance destroying expedites and interventions from Planners.

As a result, planned service levels are met from right-sized inventories using significantly less capacity and with shorter, more stable lead times.

How does DDMRP deal with major events such as tenders, TV campaigns, plant shut-downs, seasonality, or new product launches?

These events need to be actively managed by planners as the inventory positions are not designed to accommodate them. Such exceptional and extreme events require advanced stock builds and this becomes one of the key focus areas for Planners now that they do not have to spend so much time expediting.

How does DDMRP fit with the S&OP/IBP?

Demand Driven MRP is effectively an end-to-end replenishment execution process but Planning is still very important.

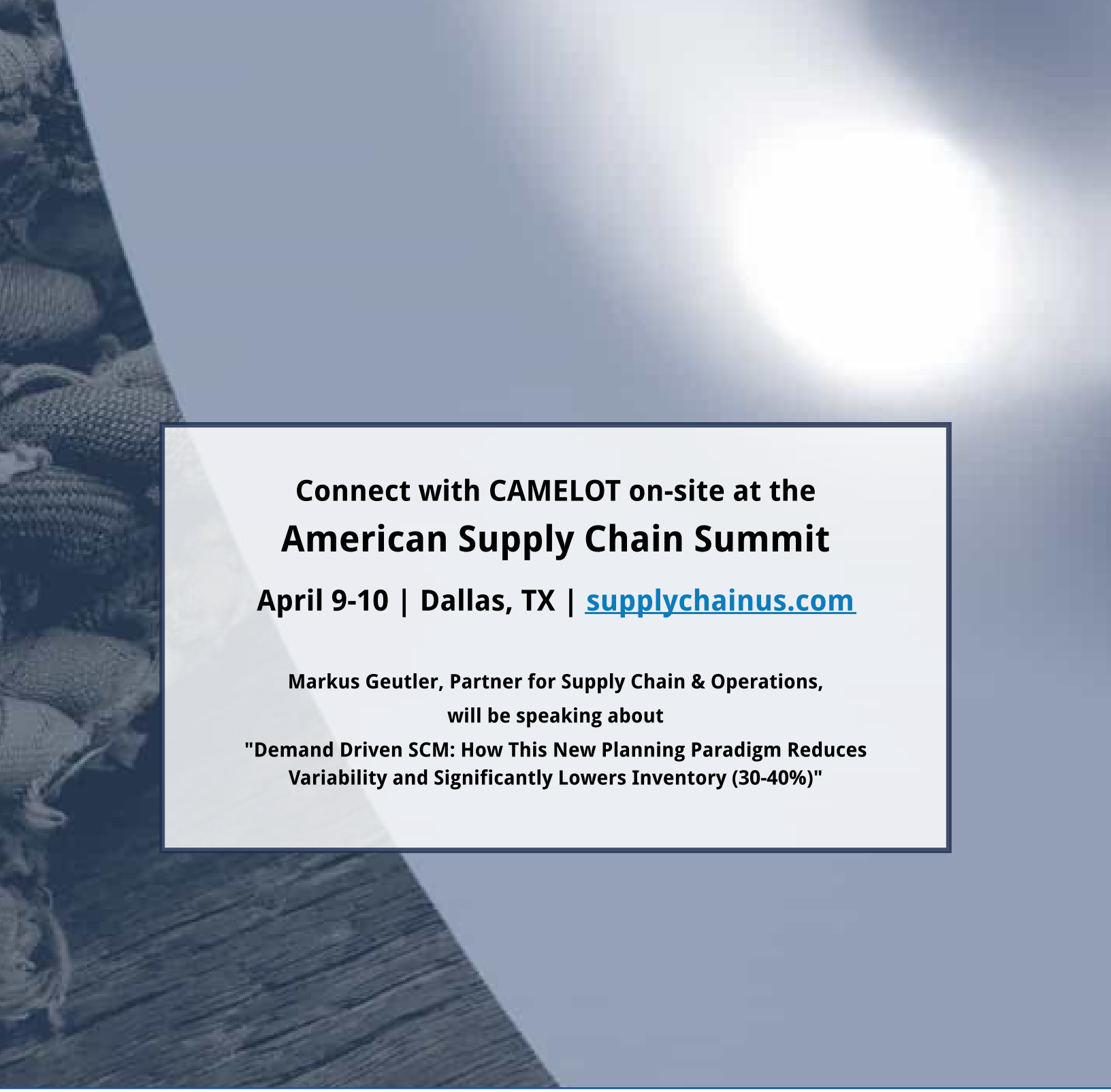
Demand Driven S&OP is all about the inventory strategy - where should we locate the inventory positions? What should their size be? - as well as the traditional capacity planning, the event management, and, of course, the synchronization of the supply chain with strategic objectives.

Now that the supply chain is able to achieve its planned service from right-sized inventories, the new (Demand Driven) S&OP process is no longer over-run by today's performance issues and can concentrate on these more important issues!

Aside from improving supply chain performance, how does DDMRP impact the supply chain - its organization, roles and responsibilities, and key performance indicators?

Because DDMRP is an end-to-end supply chain process, it often facilitates an organizational structure and roles that are focuses on the E2E value chain. And because there is considerably less expediting and firefighting, the supply chain planning role becomes a great deal more efficient and strategic in nature, making it a greater value-add.

Performance measures become oriented towards motivating and rewarding activities that reward material flow - reliability, stability, and velocity.



Connect with CAMELOT on-site at the

American Supply Chain Summit

April 9-10 | Dallas, TX | supplychainus.com

Markus Geutler, Partner for Supply Chain & Operations,

will be speaking about

"Demand Driven SCM: How This New Planning Paradigm Reduces Variability and Significantly Lowers Inventory (30-40%)"

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About Camelot Management Consultants

CAMELOT Management Consultants is a globally-leading consulting specialist for value chain management in the life science, chemical, consumer packaged goods and industrial manufacturing industries.By delivering innovative concepts and solutions along the entire value chain, we sustainably improve our clients' performance and market position, from strategy to measurable results. Through close collaboration with renowned technology specialists within the CAMELOT Group we are able to offer an integrated consulting approach, which is based on the close dovetailing of management, process and organizational consulting, right through to technical implementation – along the entire value chain, worldwide. Innovative thinking and our partnership with the Demand Driven Institute has led to creating the revolutionary concept of Demand Driven Supply Chain Management, which marks a paradigm shift in traditional supply chain management. For our customers this means significantly reduced variability within operations leading to significant inventory reductions (30-45%).

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