Is your supply chain adapting to the oil market roller coaster?

The price of crude oil has dropped almost 40% since this last summer and, depending on whom you listen to, the bottom is not yet in sight. These ups and downs, which have become more and more frequent since the turn of the century, have a major impact on supply chain costs and hence on how to operate them cost-effectively.

Even though individual organizations have absolutely no control over these market 'tsunamis', those that are able to adapt will mitigate the impact and improve their relative competitiveness.

Adapting Takes Work….

Adapting means analyzing your end-to-end supply chain and identifying what adjustments have to be made in order to operate cost-effectively under these new market conditions.

This can be done in two steps.

First, you have to determine what impact these market shifts are having on your major cost categories such as freight and manufacturing.

Then, with this revised set of cost data you must re-evaluate existing plans and identify what changes are required to remain cost-effective without impacting sales or service. Depending on your industry, this could impact sourcing, production, distribution (internal and external) and routing decisions.

Conceptually, the approach above does makes a lot of sense. However, as we all know so well, concepts are easy to understand but often difficult to implement, mainly due to insufficient resources or the time to do so.

Take for example the first step described in the paragraph above – evaluating the impact of market shifts on your current cost categories. This requires a complete recalculation or update of unit costs (freight, manufacturing, etc.), an exercise that can quickly evolve into a very laborious and time consuming one.

Picture by Derek Chappell @ www.derek3d.com

Supply Chain Planning Technology Can Do Most of the Hard Work For You

This is where a supply chain network planning tool can become the ideal 'partner' and, if well designed, can truly work wonders for your organization.

Some of you will have surely been exposed to these types of tools. They come in different shapes and forms, from relatively simple spreadsheet-based models to more complicated and expensive (but not necessarily better) software packages.

As is usually the case in the planning and optimization field, there is no 'one size fits all' option.

The right tool will depend on the type and complexity of the operation to be modeled (restrictions, business rules, etc.) and its physical dimensions (the number of facilities, products, customer destinations, time periods to be modeled, routes, etc.). Regardless of your industry or the specifics of your operation, it has to be able to:

- Adapt to your supply chain needs, rules and restrictions
- Make your work more efficient, by automating as much as possible all data manipulation functions (such as the recalculation of freight costs)
- Make your work more effective by allowing you to build, solve and analyze scenarios in a matter of minutes
- Accomplish all of this with an ROI that you can measure in days or weeks, rather than months or years

A well designed supply chain planning and optimization solution can become an invaluable asset to your organization and help it stay ahead of the curve. In coming posts we will explore these tools in more detail, as well as what to look for when evaluating different options and how best to implement them.