

Hidden Profits in Your Supply



Bill Standish
Stangate Management, Inc.

Contractors know a great deal about every aspect of their business, but one area of operations that they frequently do not get involved in is their supply chains that deliver materials to their projects. The supply chain can include hidden costs for unnecessary freight, extra costs for excessive material handling on projects and reduced labor productivity losses because of missed deliveries. It has been shown that in some situations freight cost can be reduced nearly 50% and material handling labor can be cut by over 40%. While you can't expect these kinds of returns on every project, you can reasonably expect to see an overall reduction in materials and handling cost which in turn will make you more competitive.

By using improved Supply Chain Management, one local contractor increased their historical contract award rate from 15% to 80%, which resulted in added immediate volume and profit, but equally important, they realized additional benefits by increasing their plant capacity utilization, overhead spread and labor productivity.

What is Supply Chain Management?

Activities like these contribute to reducing logistics cost:

- *Reducing costs for freight and storage of materials*
- *Analyzing sourcing patterns to identify opportunities to consolidate multiple small expensive shipments*
- *Controlling supplier activity to the advantage of the contractor instead of the supplier*
- *Tracking and staging materials with specific appointments for delivery timing and location.*
- *Using an online database for planning and scheduling deliveries with communications and data sharing to the whole team, even suppliers*
- *Applying innovative approaches like special shipping frames and containers that reduce freight cost and/or labor costs*
- *Using advanced technology tools like bar codes and RF tags to track materials, tools and equipment*

In many cases, the old adage “out of sight, out of mind” aptly describes supply chain costs in commercial construction. Supply chain cost can be 10-20% of the cost of every material, yet many contractors do not know what these costs are and defer the control to suppliers. So **the first step towards supply chain management is to identify the costs.**

The **second step** towards supply chain control **is establishing basic expectations of all suppliers** and determining what specific improvements suppliers can do to add more value to your business. This can include better service, better information and communication, and more timely deliveries. In manufacturing, suppliers are expected to work with their customers on logistics options. It's time that the construction industry gets this same level of service from their suppliers.

A **third area** for improvement is the creation of a **lean (very efficient) supply chain through the elimination of non-value added work.** The perfect example is material movement on a jobsite. Data we have gathered shows that materials are moved an average 4.5 times from arrival unloading to final installation. Through tighter controls and planning of deliveries this average could be significantly reduced on every jobsite driving down labor cost.

Taking control of your supply chains can have a positive impact on your companies overall performance with many direct and indirect benefits. Since Supply Chain Management is relatively new in construction, most likely your competition hasn't started working on it yet. So this opportunity is there for the taking and the first to act will benefit the most.

Best of all, supply change management can be implemented without changing your current approaches to project management. Since the improvements can be managed by Supply Chain specialists that work directly with your suppliers and shippers, there doesn't need to be any changes in your normal purchasing practices. In summary, supply chain management is a large untapped area of operations that can yield more profits on each job by improving the control of materials and your supply chains.

If you want more information about Supply Chain Management, please contact Bill Standish at Stangate Management, Inc. 513-300-7385 or bstandish@stangate.com.