Gartner for Supply Chain

5 Levers for Optimizing Supply Chain Costs
Supply chain cost management models remain short-term and functionally focused. Short-term cost goals are prioritized over long-term business value, and a narrow, function-specific focus limits the ability to pursue big change and meet full performance potential. Reducing supply chain costs is further complicated by supplier substitution, outsourcing, supplier refinancing and inventory changes.

### Cost management remains short-term and functionally focused

**Percentage of respondents**

<table>
<thead>
<tr>
<th>Problem Description</th>
<th>1st choice</th>
<th>2nd choice</th>
<th>Sum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short-term cost goals prioritized over long-term business value</td>
<td>34%</td>
<td>23%</td>
<td>57%</td>
</tr>
<tr>
<td>Functional focus limits ability to pursue big change</td>
<td>25%</td>
<td>18%</td>
<td>42%</td>
</tr>
<tr>
<td>Cost-cutting “fatigue”</td>
<td>14%</td>
<td>16%</td>
<td>30%</td>
</tr>
<tr>
<td>Managers protecting individuals and/or parts of the organization</td>
<td>14%</td>
<td>10%</td>
<td>25%</td>
</tr>
<tr>
<td>Unclear measures of success</td>
<td>7%</td>
<td>13%</td>
<td>20%</td>
</tr>
<tr>
<td>Poor financial transparency across the enterprise</td>
<td>5%</td>
<td>12%</td>
<td>17%</td>
</tr>
</tbody>
</table>

n = 203

*Base: All respondents*

*Note: Percentages may not add up to 100% because of rounding.*

*Source: Fall 2018 Agenda Poll Supply Chain Leaders*

*Q. Please select up to two of your most pressing problems for: Driving cost optimization across the enterprise.*
Not only do the best supply chain leaders control supply chain costs in the face of disruptions like pandemics, recessions and geopolitical shifts, but they also consider the relationship between diverse resources and networks. Instead of reduction targets, these supply chain leaders and their key stakeholders focus on aligning and collaborating around key operating outcomes to optimize supply chain costs.

**Align stakeholders on efficient operation outcomes**

- **Individual cost center control**
  - High rigor
  - Isolated analysis
  - Static assumptions

- **Cost management continuum**
  - Strategically aligned
  - Measurable and discrete
  - Repeatable and sustainable

- **E2E cost optimization**
  - Highly ambitious
  - Complex modeling
  - Limited actionability

Source: Gartner

To optimize supply chain costs, it’s important to align business value (customer experience, profitable growth, compliance and sustainability) with efficient supply chain operating outcomes (demand fulfillment, product supply and new products/business).

**Optimize operating outcomes to support strategic value imperatives**

- **Strategic imperatives**
  - Customer experience strategies
  - Profitable growth with superior return on investment
  - Responsible use and protection of resources

- **Operating outcomes**
  - Efficient demand fulfillment
  - Cost-optimized product supply
  - Risk-optimized new business/products

Source: Gartner
Supply chain leaders must adjust how they engage with their key stakeholders and propose initiatives that achieve breakthrough cost improvements. Ground supply chain cost performance in the following framework, which identifies five levers to manage in pursuit of end-to-end cost optimization.

**Five levers for supply chain cost optimization**

1. **Deals**
   - Minimize pricing waste
   - Adjust tactics for optimal supply-demand balance

2. **Operating tactics**
   - Design and enable processes and roles for efficient network operation

3. **Processes and roles**
   - Align supply and distribution network to product and service demand

4. **Networks**
   - Align product and service offerings with customer value and market competition

5. **Portfolios**
   - Align supply and distribution network to product and service demand

Operationalize the framework by taking the following three actions:

1. Drive collaboration and innovation around cost-optimized operating outcomes.
2. Develop cost analysis models that align to the scope and performance objectives of specific operating outcomes.
3. Justify investments based on their potential to improve specific operating outcomes.
Actionable, objective insight

Position your supply chain organization for success.
Explore these additional complimentary resources and tools for supply chain leaders.

**Research**
Total Cost of Ownership
Practical tips for moving beyond simple/unit price.

**Checklist**
Supply Chain Cost Management Checklist
Five actions to manage supply chain costs efficiently and drive innovation.

**Benchmarking**
Supply Chain Budget & Efficiency
Compare your supply chain costs against true peers.

**Webinar**
Optimize With a Stronger CSCO-CFO Partnership
Optimize resilience and cost through supply chain-finance alignment.

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