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.

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

**Percentage of respondents**

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

**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.

Reducing supply chain costs is further complicated by supplier substitution, outsourcing, supplier refinancing and inventory changes.
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**

![Efficient operation outcomes diagram](image)

- High rigor
- Isolated analysis
- Static assumptions
- Strategically aligned
- Measurable and discrete
- Repeatable and sustainable
- 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**

![Optimize operating outcomes diagram](image)

**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
2. **Operating tactics**
   - Adjust tactics for optimal supply-demand balance
3. **Processes and roles**
   - Design and enable processes and roles for efficient network operation
4. **Networks**
   - Align supply and distribution network to product and service demand
5. **Portfolios**
   - Align product and service offerings with customer value and market competition

Operationalize the framework by taking the following three actions:

- Drive collaboration and innovation around cost-optimized operating outcomes.
- Develop cost analysis models that align to the scope and performance objectives of specific operating outcomes.
- Justify investments based on their potential to improve specific operating outcomes.
Optimizing Supply Chain Costs: How We Help

Supply chain cost management models remain short-term and functionally focused. To optimize supply chain costs, it’s important to align business value with efficient supply chain operating outcomes. Partner with Gartner to create a supply chain cost management vision that drives tangible performance improvements while also increasing your leadership effectiveness, scope of business influence and strategic relevance. Visit gartner.com to learn more about how Gartner helps supply chain leaders optimize their costs.