



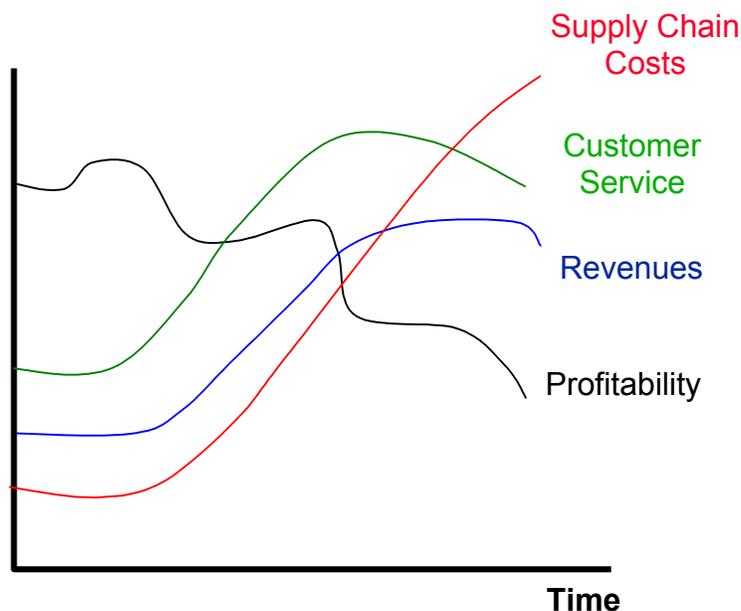
# Applied Systems Thinking

Use the Power of Structure to Create Lasting Change

## Reducing Supply Chain Costs A Case Example by David Peter Stroh

### Background

Senior management of a major consumer products company led the reengineering of seven key business processes to improve profitability, reduce costs, and improve customer service. Management especially wanted to know, **“Why are our supply chain costs the highest in the industry?”**

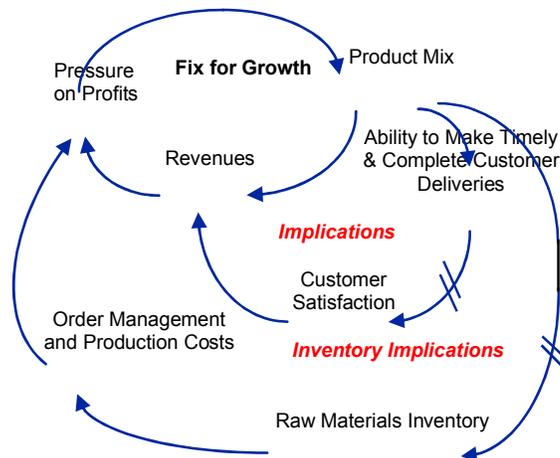


### Systemic Analysis

Management wanted to ensure that the supply chain redesign team would not “lose sight of the forest for the trees”, so they brought the team together with representatives of each of the other redesign

teams to develop a systemic analysis of the bigger picture within which supply chain problems were embedded. The systems map below revealed that the root cause of the company's high supply chain costs was ongoing effort by the sales and marketing organizations to increase product mix to improve profitability (a Fix for Growth). **Increasing product mix led to many unintended consequences that both increased supply chain costs and eventually reduced revenues as well.**

multi-functional perspectives on the problem. The Fix for Growth represents Marketing's and Sales' approach to the problem. Inventory Implications is a Manufacturing and Distribution problem. Revenue Implications begin as a Customer Service problem.



### Outcomes

As a result of the analysis, senior management ordered a review of all of the company's SKU's to determine the revenues and profits derived from each product. The data revealed a high number of products with low or even negative profitability. **Management streamlined its product line as a result and achieved both higher revenues and lower costs.**

A complete description of this case example, is available at

[http://www.appliedsystemsthinking.com/sd/Leveraging\\_Power.pdf](http://www.appliedsystemsthinking.com/sd/Leveraging_Power.pdf)