Department level Supply Chain goals and how they adversely impact a company's bottom line performance

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Although meant with good intentions, department level decisions consistently impede a company's forward progress of improved bottom line performance by making unenlightened decisions that impact the logistics, supply chain, and customer service processes. Making unilateral decisions that only take into consideration one department's goals most often adversely impacts another department's efforts and the entire company's performance.

Almost every company seems to be plagued with these problems, yet few do anything to change this phenomenon. To substantiate this claim, just consider for a moment the age old battles which seem to exist between departments within every company.

Sales an Accounts Receivable:
The Sales Department's job is to sell as much product as possible, (even if it's not available), while the Accounts Receivable department is responsible for insuring cash flow and reducing bad debt. Many times these two departments butt heads as both try to meet their own department goals and objectives. What sales person hasn't gone to their boss at one point to complain that the Accounts Receivable department has put an existing customer on credit hold due to past due balances, especially when the customer is in desperate need for more product? The issue could certainly be because the customer is just late, but just as many cases the reason for lack of payment has nothing to do with the customer's ability to pay.

Suppose a past due invoice is for a partial order but the customer had originally demanded complete orders only so they can meet their own customer's demand. There's a chance the customer is holding payment of the first partial order in anticipation of receiving the second. Yet, the Accounts Receivable department is holding up the second partial because this additional amount would put the customer over their credit limit. The question shouldn't be to ask the customer why they didn't pay, but why a partial shipment was made in the first place.

Sales and Credit:
As stated earlier, it's the Sales Department's goal to sell as much product as possible. If a purchase order comes in, the Sales Department wants it processed. On the other hand, the Credit Department's goal is to protect the company from making poor financial decisions on who to sell to. The Credit Department must consider the unique risks inherent with foreign orders before blindly allowing any order to be received.

Not only is establishing a credit history for a foreign customer more difficult, the Credit Department must also take into consideration the country's current political and economic situation. Many times, the Credit Department's decisions are pre-determined due to standing corporate foreign credit policies.

Unfortunately, to remain competitive in the global market, companies need to be more flexible and find more inventive ways to get around the risk issue. Otherwise the sale will be lost to a competitor.

Planning and Manufacturing:
The Planning Department is to meet customer's needs by determining what, where, and when to make product based either on demand or more commonly based on a sales forecast. The Manufacturing Department's goal is to gain as much capital asset utilization as possible. Although Planning's goal is to insure the company can meet customer demand but at the same time avoid overstocking inventories, manufacturing may overbuild simply because of current capacity and capability. Most manufacturing sites run in shifts and each shift is tasked with meeting minimum output goals, and many times are encouraged, and even rewarded, if they beat these output numbers. Very few shift managers or Manufacturing Department heads would shut down a line half way through a shift because Planning's goals have been met. The result is more finished goods sitting in distribution. With such a scenario, if the planning process is based on a build to stock methodology, overbuilding could lead to obsolete or overstocking conditions.

Planning and Procurement:
As stated earlier about the Planning Department's goals, the Procurement Department's goal is to purchase product at the lowest possible cost. Most Procurement Department's goals are based on maintaining or beating pre-determined cost budgets. So it's not uncommon that if given an opportunity to purchase a larger quantity of a commonly consumed product to get a lower price, the Purchasing Department will over buy to help meet their annual cost budgeting goals. Unfortunately, this over purchasing practice has numerous financial and functional impacts not only with planning, but other departments as well.

The first issue will become evident if the manufacturing warehouse runs short of space to warehouse the larger than expected order. This may require some or all of the order to be moved to a different storage location or facility which will require additional handling and ultimately to transfer the goods back to manufacturing once it is needed. Purchasing may have saved a few dollars by purchasing in large quantities, but how much of that cost savings was eaten up in additional transportation and handling costs?

Procurement and Sales, and Logistics:
Both the Procurement and Sales Department's objectives have been noted before. The Logistics Department is typically tasked with arranging the transportation of products at the best possible price while maintaining tight control on cycle times. The Logistics department's goals are typically tied to how well they stay on budget, and by controlling landed cost.

But how many times is the logistics department's goals upset because of another department's emergency?

Perhaps Purchasing changed to a new vendor and that vendor is falling behind on providing components on time. Logistics may be required to expedite the shipping of this product using a premium priced service.

The same holds true for the Sales Department. Typically at the end of every month, quarter, and fiscal year the Sales Department pushes to fill and ship as many orders as possible. This last minute crush can inflate the Logistics Departments transportation cost, even if it's just to arrange to move products off of their warehouse floor so the sale can be recorded.

All of the above scenarios happen very frequently and across all industries. Many of these problems could be avoided if the company would look outside their departmental boxes and contrive a logistics process that better supports the company's ultimate goal which is to sell more products and make more money.

To make such changes, companies must be willing to throw conventional practices to the wind and rethink how they want to monitor and measure internal performance and goals. It doesn't make sense to reward the Purchasing Manager with a year end bonus for beating his annual budget when his purchasing practices drove up the Logistics Department's transportation and warehousing costs.

A conscience effort must be made to avoid a domino effect when a department makes a decision. This can only happen with changing current conventions, reestablishing corporate goals, and opening new lines of cross functional communication so the entire enterprise is working together to improve supply chain performance.