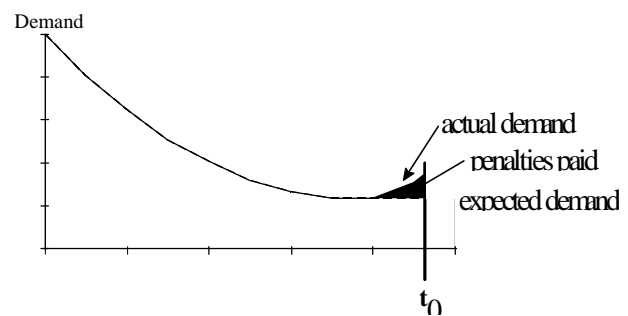


Case Study: Supply Chain Management

Industry: Commercial Engine Manufacturer

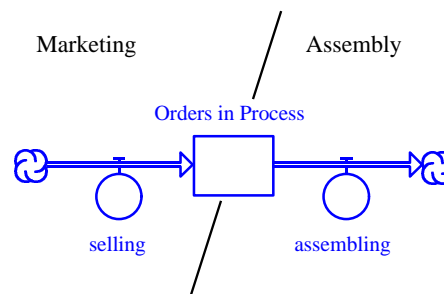
The Issue

The company, a market leader, has spent the past seven years restructuring its installed capacity and reducing its cost base in an effort to raise efficiency. Since management expected demand to remain flat, they have continued to focus on these areas. However, the market recently responded with a sharp upswing in demand. Management planned to capture a large percentage of this growth and use the profits from these sales to finance the additional capacity that this surge would require. The impact on the company was a large and increasing backorder, an overworked production team, irate customers, and a corresponding increase in late delivery penalties. Management responded by creating a large group within the firm dedicated to expediting “important” orders to minimize the penalties for late delivery.

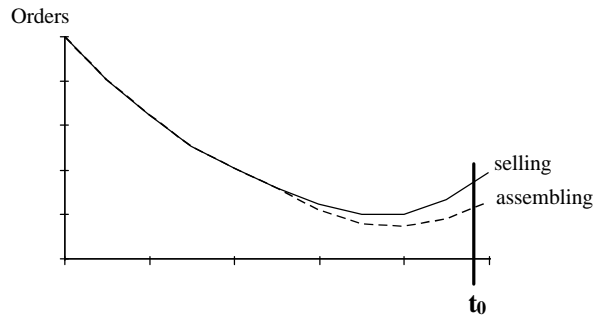


The Approach

The company brought in Strategic Clarity to help understand how their business policies affect their ability to take advantage of this changing demand. Together with the client, Strategic Clarity developed a model that shows the basic dynamic that frustrates the firm’s ability to satisfy its clients’ on-time delivery requirements. Each operational area had its own incentives. The marketing VP was charged with selling as much as he could to maintain or grow market share during this boom period. The production VP, just finishing up a five-year initiative to reduce costs, had eliminated all excess assembly capacity from the system and would bring on additional capacity cautiously.

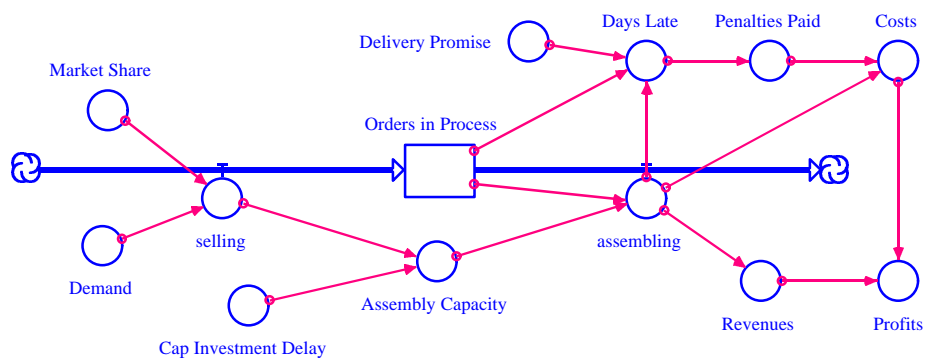


Strategic Clarity’s analysis exposed management to the conflict between these policies and how this drove the company to the situation they were suffering. In addition, the modeling process highlighted a critical underlying assumption for management, that assembly capacity grows with sales, which in their reality is not true, since all excess capacity had been “streamlined” out of the system.



The Results

After validating the model with management, by showing that it accurately replicated the historic results leading up to the present situation, Strategic Clarity worked with the client in using the model to simulate into the future. The simulations showed that, under current policies, sales could increase over the near term but with minimal profit, due to the high cost of expediting and heavy penalties for late orders.



Small profits would limit the company’s ability to invest in additional capacity and, with sales increasing and assembly stabilizing, orders would be later and later. Increasing late orders would reduce sales in the future, leaving the newly installed capacity idle. By enabling senior management to visualize the impact their policy decisions might have on the company’s future performance, Strategic Clarity provided the tools and the insight necessary for the company to help create the future it wants. The company used these results to reformulate their sales policy and adjust their investment programs to create a more balanced approach to their challenges of the future.

For more information regarding Strategic Clarity, please visit our website at www.strategic-clarity.com, or contact us at info@strategic-clarity.com