Tips for Developing a Business Case for a Supply Chain Optimization Project

There’s a strong possibility that you may uncover the key to significant improvements in your supply chain design through network optimization, but unless you can put together a convincing business case for the project, the opportunity may go unrealized. Here are some ideas to help you build yours.

Supply chain design can enable businesses to keep up with the pace of change and to sustain a competitive advantage by significantly improving in the areas of cost, service and risk. But how do you get there? There are a lot of possibilities and demands for the organization’s limited resources. Executives are short on time and justifiably skeptical of proposals to commit resources unless they can see clear resulting value. And without those resources, your project will never leave the ground.

A well-developed business case provides the motivation, alignment and commitment from organizational leadership to pursue an effort with sufficient monetary and resource support for it to be successful. Your business case need not be an agonizing project in itself that takes months to develop. With the right information, resources and motivation, you’ll have what you need to win them over.

How Do You Know You Need Supply Chain Optimization?

Business leaders will be looking for the specific business needs your project will address, so be sure you’ve carefully considered the basis for your project. The most common business drivers for optimization projects include:

- **A business or supply chain performance issue that needs to be addressed** (e.g. production, transportation or material costs have changed significantly, service level agreements for customers are not being met)

- **A potential problem has been detected and the business needs to identify a way to get out ahead of it** (e.g. demand has changed significantly in a region or for a product group, costs are rising to service a particular customer group, nearing capacity in a manufacturing facility)

- **There has been a fundamental change in the business** (e.g. the business is considering marketing product in a new region, a reorganization, merger or acquisition or divestiture)

- **Risk mitigation** (e.g. over-burdened profit centers, lack of redundancy, currency volatility, unstable political environments)
What are the Components of a Typical Business Case?

You will be building a business plan justifying the costs and resources required to execute and implement the optimization project. Be sure you know who will be making the final decision on your business case and consider what information and style of delivery will be most suitable to that person or group. Then consider including these primary components in your case:

- **The one-sentence summary**—Give the stakeholders the bottom line up front—don’t make them read the entire plan to figure out what exactly you’re proposing. An example might be, ‘This plan proposes a network optimization project to be initiated in the coming year by the supply chain design team, with an estimated opportunity of $10 million in savings and a project cost of $25,000’. After you’ve laid out your main point, then you can get into the supporting details.

- **Link to business strategy**—It is imperative to link your potential project to the overall organizational strategy and goals. Depending on the nature of the project, it may also be appropriate to associate it with a particular business unit’s strategy, as well as the supply chain functional area strategies. For example, you could word this section as, ‘Our cost-to-serve measures are not competitive and don’t align with our key strategy of winning with top customers. There is a strong belief that a comprehensive analysis of the network would yield significant savings…’

- **KPIs vs. Targets**—If your business adheres to a set of key performance indicators (KPIs), explain how this project will help the company meet them. If not, explain the structural issue or operational basis for the project.

- **Compelling Business Need**—You’ve already explained why, based on link to business strategy and goals, the project needs to be done. But why is now the right time to do it?

- **Estimate Impact**—What’s your best estimate, based on available data, of the potential results? Impact can be measured in four different ways, and you should consider each of these when estimating the results of your project:
  1. Cost
  2. Service
  3. Overall cash flow
  4. Capital investment

Whether you’re planning a network, transportation, inventory or capacity-related project, you can find data and benchmarks to help estimate the benefit that could be achieved for each of the four main areas above. A few ideas to consider:

- For network optimization studies, you can normally estimate between 5-15 percent cost savings if the network hasn’t been analyzed in the last 3-5 years
- Technology vendors like LLamasoft can provide anecdotal benchmarks based on a wide view of similar projects and ROI surveys
- Investigate supply chain organizations such as CSCMP (Council of Supply Chain Management Professionals) for survey benchmarks
- There are numerous supply chain consultancies that can pull benchmark benefit data together based on competitive analyses, transportation indices and trends, industry research and other sources

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How to Deal with Bias in Your Information Gathering

You’ll naturally encounter bias wherever you look, so take care to prepare your benefit case based on ranges rather than point estimates. Set up your benefit estimates by providing the context, e.g. ‘Here is the range of conditions we predict. As long as we are in this range, we believe our analysis will prove correct. If the conditions are outside this range, we are less certain and the risk increases’. Focus on the business problem and business strategy, and leave the decisions in the stakeholders’ hands. This also sets appropriate expectations and further justifies the effort required for a more detailed analysis.

Considerations when Dealing with Different Regions of the World

In many countries it’s important not to communicate about projects that may impact staffing due to many factors including culture, labor union policies and local legislation. Each environment may dictate different approaches to communication and documentation for your project. If you have any question or doubt, it’s a good idea to talk with appropriate HR and senior management before proceeding with your communication plans.
What Will It Take to Get There? Include in your business case your educated estimate of how long the project will take and what resources will be required, including money, staffing and other impacts to the business.

Get the Right People Involved

Once you’ve identified the key business case components, you need to secure the right people to help gather the information needed to build out those key assumptions and drivers for your case. Some functional areas you may need to work with to glean this data include:

- **Finance**—This is the group you want as your best friends as you build your case. They will provide much of the data to help justify the need, as well as provide an objective view of your rationale.

- **Sales**—Depending on the project type, you may need the sales team involved to understand service requirements as well as who is buying transportation and third-party logistics services.

- **Planning and Manufacturing**—You’ll need help from this team to understand current and planned changes to production plans or changes to materials sourcing and co-manufacturing services that are being procured.

- **Engineering and R&D**—This group may be needed for information on capital investments and planned product initiatives.

We Got the Green Light! Now What?

Leadership agrees it’s a good idea. Now what? Be prepared to provide immediate next steps with a sense of urgency. Come back with more detail on:

- What resources will you need to succeed?

- Communication plan to stakeholders

- What do you expect from leadership in support?

- Timing: Kick-off, funding cycle, overall project milestones

You Can Do This!

It can be daunting to sit down and look at a blank computer screen wondering how you are going to convince senior leadership that your idea has great potential results for the business. Take a deep breath and start by outlining your steps using these basic recommendations. With the right preparation and information, your business case can be an effective and persuasive tool to gain approval for your project.

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