Supply Chain: EBITDA Accelerator or Inhibitor?

Prior to the eCommerce movement, many considered the supply chain a second-tier operational cost driver most commonly synonymous with corporate procurement functions. Today, it is typically the second-largest cost driver of any distributor business model and, often, the most under-evaluated and under-capitalized function of a deal. Yet the supply chain can have a significant impact on accelerating EBITDA in the first 100 days and beyond.

Globally, consumerism has rapidly developed an “order today, deliver tomorrow” expectation. While traditionally founded in retail and consumer product markets, this expectation now transcends all industries whether customers are purchasing clothing or drill rig parts online. It requires investors to consider the significant shifts in capital and operating intensity necessary to meet the ever-increasing demand upon the supply chain while designing and deploying deliberate and measurable performance improvement strategies that capture valuation multiples early in the relationship.

Here are three pointers to ensure your supply chain gains the proper relevance in your investment strategy.

1. Supply chain evaluation as a deeper function of deal due diligence — Financial engineering during deal due diligence often provides a nearsighted view of what is operationally required to fully leverage the supply chain and its impact on achieving investor growth strategy. Understanding supply chain operational health and wealth early in the deal cycle, its ability to scale and deliver to new markets quickly at a competitive price point, as well as the capital and resources required to do so will be paramount in realizing the investment growth strategy.

2. Supply chain as a key value creation strategy component — When supply chain performance is influenced by multiple functions in an organization, it can be difficult to attribute its true cumulative bottom-line impact. Today’s most prominent catalysts of supply chain operational performance are marketing and logistics. It is important to analyze quick, free delivery implications, including super-regional distribution points, technology alignment and automation, as well as the ability to pinpoint accuracy in total landed cost. By valuing supply chain as a priority lever early in the acquisition cycle and funding supply chain engineering and optimization to align with investment growth strategy, you can proactively transform its capabilities to deliver with ease, speed, and at a lower cost.

3. Supply chain resilience and sustainability — Beyond acquisition integration, supply chain designs should evolve with growth, markets, and economic volatilities. Older designs once operating at peak performance erode with time and require constant monitoring and re-engineering to sustain the gains obtained from the initial supply chain investment.

Having proper operational practices and performance metrics across all supply chain functions impacting the organization is critical for long-term sustainability and IRR maximization.

Markets will continue growing at greater scale and with more complexity to meet rising consumer demands. Logistics leaders should focus sharply on strategizing through due diligence to remain resilient. Those who design agile supply chains can be better prepared to respond to an ever-changing industry landscape.

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