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Six Steps to Improved Cost Justification for Supply Chain and Logistics Initiatives

Too Many Efforts Fail Because of Too Much or Too Little Detail; Using the Numbers to Tell a Story

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Many companies struggle to get supply chain and logistics projects approved, or go through multiple cycles, sometimes taking years, before they develop an acceptable ROI analysis and see capital funding allocated to the project.

Sometimes, of course, the problem is simply that the ROI from the project is dubious or not as compelling as other potential company investments. However, many individuals or teams also make mistakes in the cost justification process that hinder their chances of getting even projects with solid financials approved.

The following six guidelines can help maximize the likelihood of getting a specific project approved and funded.

1. **Understand Your Company's Investment Analysis Model:** Every company has its own approach to how it looks at the returns from capital project proposals. This partly involves the type of financial calculations used (Internal Rate of Return, Payback Period, Net Present Value, etc.) and also the preferred/ required structure of supporting documents and presentations. Be sure to ask what the current standards are (they can change, especially when there has been a change in the CFO position), and ask for example documents for project proposals that were approved, regardless of the area of the company that generated them.

2. **Link Funding Requests to Key Corporate Strategies and Objectives**: New projects don't live in a vacuum, and are rarely approved based solely on ROI. If a supply chain or logistics project can be clearly linked to larger company strategies and objectives, so that it has both a financial and strategic fit, it has a much better chance of being approved. Supply chain managers often fail to see that what is important to them or what may seem like a "no brainer" financial investment just isn't at the top of the executives' priority list no matter how strong the ROI. You must make the linkage to what's important to them.

Simple mistakes in just one area can sabotage the credibility of the entire financial analysis. If a single math or spreadsheet error is not caught, for example, it can cause reviewers to consciously or unconsciously look with suspicion at all the other numbers.

3. **Develop a Strong Summary with Detailed Back Up**: Requests for funding often get derailed by not getting the level of detail right. Usually, this is caused by putting too much detail in executive presentations. Bored, and unable to distinguish the forests from the trees, executives can't really focus on the numbers from their vantage, or understand what is truly driving the need for the project. Conversely, sometimes presentations are harmed by not having enough back-up detail, just in case some executive decides he or she would like to understand what is really behind a summary savings calculation. You need both, placed appropriately in documents and presentations.

4. **Use the Numbers to Tell a Story**: In most cases, the numbers alone are not enough to

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get a project approved. Every company has multiple investment opportunities, each of which wouldn't make it very far if the ROI did not appear to be strong. Yet, not all of these projects will be funded. It is as important to get the "narrative" of the project right as it is to show a strong return on investment. After you have crunched the numbers, work just as hard on what the story behind the project is – why the company should be enthused about this project going forward, and the commitment of the team to make it happen.

5. **Review Preliminary Justification with Key Stakeholders**: No one directly impacted by the numbers should be surprised by the formal ROI presentation. If so, that risks a disagreement with the numbers or assumptions that can undermine the entire presentation and effort. Don't assume, for example, that if the analysis shows transportation costs can be reduced by 3% as a side benefit to another project impacting inventory levels that the Director of Transportation will buy into that number without a long dialog first. A new Warehouse Management System proposed not long ago for a major beer manufacturer was delayed because the logistics team made estimates of the savings that would be achieved in plant warehouses – a level of savings that one key plant manager disputed during the first formal presentation.

6. **Triple Check to Eliminate Math Errors and Risky Assumptions**: Simple mistakes in just one area can sabotage the credibility of the entire financial analysis. If a single math or spreadsheet error is not caught, for example, it can cause reviewers to consciously or unconsciously look with suspicion at all the other numbers. Even worse can be an error in an assumption or the basis of the ROI calculations. For example, if the analysis is based on a plant or distribution center working a given number of shifts, and it turns out some facilities operate differently, the foundation of the ROI calculations can be impaired, causing the whole effort to go back to the drawing board.

By remembering these guidelines, supply chain and logistics managers can maximize the chances that a good project with strong financial returns receives the funding required to bring the project to fruition.