Why Lead Times Matter

In the case of my sofa, it is clear why a 12-week wait (it actually ended up taking 20 weeks!) might matter. However, many businesses might say, “Who cares? I am paying half the price so I am prepared to wait.”

In fact, long lead times are the driver of many of the evils that bedevil supply chains. The longer the lead time is, the more inventory you will need to hold and the greater the risk that you will have shortages of the things you really need. This is because the longer the lead time, the more likely it is that the product you thought you needed when you ordered it is no longer the product you need when it arrives.

Supply Chain Software is Not the Solution

Many companies try to overcome this problem using ERP systems, demand management tools and other advanced software. However, no matter how advanced your forecasting software, humans’ ability to forecast the future is very limited, and accurately forecasting down to the item level months in advance is simply not possible.

Why Are Lead Times So Long?

I am frequently surprised by how few people ever ask this question about their supply chain. Companies frequently seem to accept long lead times as a given fact. In most cases geography is not the problem. The time to ship the goods from your supplier on the other side of the world to you is usually only a fraction of the total lead time. For example, to ship goods from China to the U.S. or Europe only takes three to four weeks, yet lead times from order to delivery can be 20 weeks or more (and are rarely less than 12 weeks). Therefore, factors other than geography are driving the lead time. There are many of these factors, including:

- Delays processing orders (at your end and the suppliers’ end).
- Delays associated with arranging payments.
- Suppliers not ordering raw materials until they receive your purchase order—which means their supplier’s lead time is added to their own lead time.
- Suppliers batching up orders to run them together in a large run.
- Delays in arranging shipping.
- Consolidation delays (where goods wait to be consolidated with other goods into a single shipment).
- Delays at crossdocks and ports.
- Short-term capacity issues at your suppliers.
- Poor communication and errors. Unlike geography, which you can do nothing about (unless you reshore the product), all these other factors are controllable.

In other words, the majority of the lead time from your overseas suppliers is caused by factors that can be changed.

What Are the Steps to Reduce Lead Time?

To create a lean supply chain with the minimum lead time you need to apply lean thinking. Therefore, you need to create a value stream map of your supply chain to understand the drivers of your lead time.