AS BROAD AS IT'S LONG

Companies have a massive task managing their extended supply chains. Cliff Mills finds out how they are doing.

Supply chain management includes the supervision of processes from the design stage through to the purchasing of inputs such as raw materials, parts and contract labour, production, transport and logistics and order management and fulfilment. This highlights the complexity inherent in trying to gain optimal performance across the whole supply chain.

The aim, in most cases, is to make the end-to-end operation as cost-effective as possible while achieving the highest level of service. This is clearly difficult to achieve and our accompanying Expert Opinion article underlines, for instance, the challenges in balancing inventory handling and the trade-offs that have to be constantly made and re-evaluated.

But as the economy continues on a precarious track, the task of keeping the supply chain running smoothly and cost-effectively will become even more challenging. And the need to manage the extended supply chain, balance sales forecasts with supply capability and satisfy the demand to be more environmentally friendly just adds to the complexity.

If all this calls for careful forward planning and the ability to respond rapidly to changing situations, how well are companies achieving this?

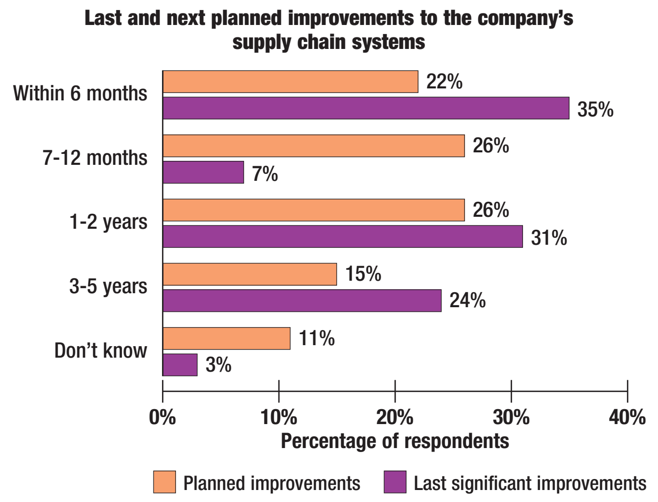
Our latest *Evaluation Centre* survey shows that the majority of the organisations (73%) have a well-defined strategy for their supply chain and manufacturing systems, which should stand them in good stead in the current economic situation. This compares to 20% who are adopting a more ad-hoc approach.

The complexity of the supply chain is indeed growing, as more companies source products on a global basis (43%). This is expected to rise to 48% over the next two years. The number of companies operating on a pan-European basis is also expected to grow from 10% now to 21% in two years' time. Correspondingly, the number of companies who manage the supply chain nationally will drop from 47% to 28% in the next two years.

Investment

No doubt partly due to this globalisation, organisations have invested significantly to improve their supply chain operations. Major improvements have been made by 42% of companies in the last year and 31% in the past one to two years (see Figure 1). This rate of investment is set to continue, with 48% planning further enhancements in the next year and 26% over one to two years. Slightly less than a quarter of companies (24%) have left their supply chain systems unchanged for more than two years.

FIGURE 1: Frequency of supply chain investment



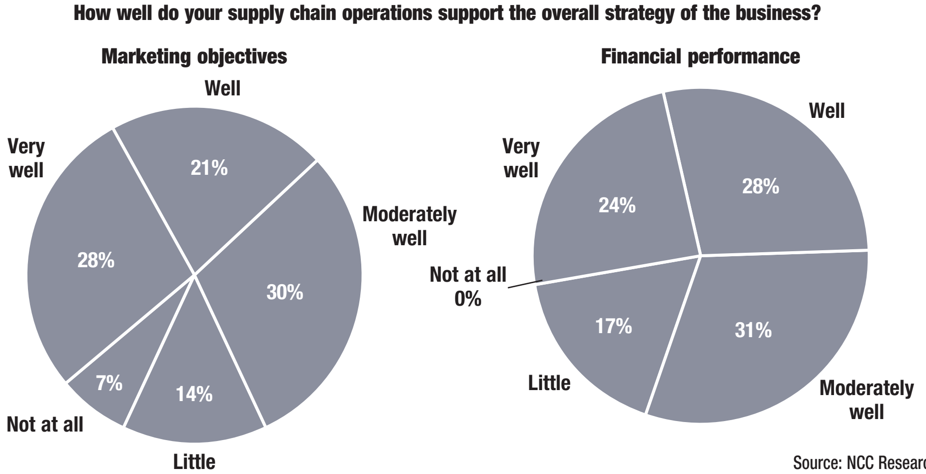
Source: NCC Research

The principal drivers for supply chain re-engineering are to reduce costs (80%) and improve overall service levels (70%). Other reasons given are to improve management decisions by having a clearer view of the whole supply chain operation (40%), and the need to boost profits (40%).

The influence of new clients is again cited by 40% of respondents, while developing new channels to market is mentioned by 37% and getting products to market faster by 33%. Other areas noted are improving material availability (30%), the effect of new product introductions (30%), competitive pressures (23%) and the requirements of new suppliers (20%).

A particular issue for organisations today is making sure their supply chains are designed to support the overall strategy of the business, both in terms of driving and supporting marketing objectives and financial performance.

FIGURE 2: Supply chain alignment with strategy



Source: NCC Research

From the survey, 28% think their supply chains support their marketing objectives 'very well' and 21% 'well' (see Figure 2). This compares to 30% who feel they are moderately well-supported and 14% who see little support. In terms of financial performance, 24% feel this is 'very well' and 28% 'well' supported, whereas 31% only see it as moderately well-supported, with 17% seeing little support.

The main pressures on the supply chain and manufacturing requirements are from increasing competition (53%) and supply chain globalisation (37%). The rise in e-commerce and e-business is also having a significant effect and is mentioned by 37% of respondents.

Transportation costs are again an issue for 33% of respondents, as is the drive to be more environmentally friendly, also cited by 33%. Customer order patterns (30%) and new product introductions (27%) are a problem, as is the cost of raw materials (23% of respondents).

Looking beyond

The supply chain is no longer managed within the walls of a single organisation and the extended supply chain, including partners and customers, has become the normal way to operate. With the technologies available today, collaborative relationships between supply chain partners can be forged to share information and improve the visibility and efficiency of supply chain operations.

To date, 17% of companies have established this extended relationship with all their partners, while the majority (73%) have done so with just their key suppliers. Only 3% of companies have failed to establish collaborative relationships.

The free flow of information across an organisation and its systems is vital in making timely information available to support more informed decisions and improve the organisation's overall performance. So the integration of supply chain and manufacturing systems with other internal systems should be a key aim.

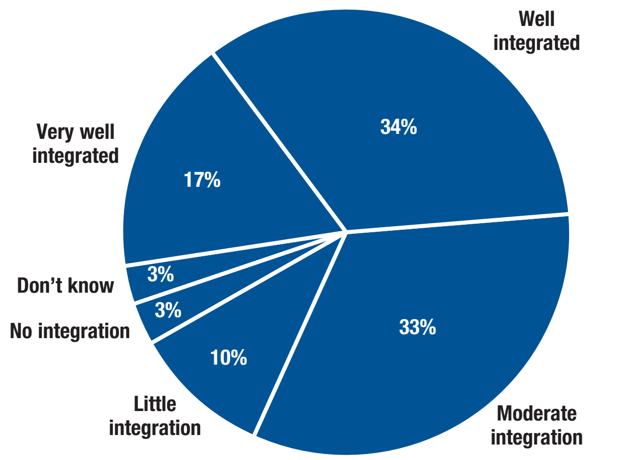
SURVEY STATISTICS

We surveyed a broad range of companies, including those from the manufacturing sector (26%) and the retail industry (20%) where supply chain issues are particularly important. In addition, companies responded from IT & telecoms (16%), distribution & logistics (10%) and business services (9%).

The respondents represent a spread of different sized companies, with 23% having in excess of £5 billion turnover, 10% in the £1 billion to £5 billion bracket, and 3% in the £500 million to £1 billion range. In the mid-market, 17% have between £100 million and £500 million turnover and 12% from £50 million to £100 million. At the smaller end, 20% have a turnover of £10 million to £50 million and 15% £5 million to £10 million.

FIGURE 3: Integration with other systems

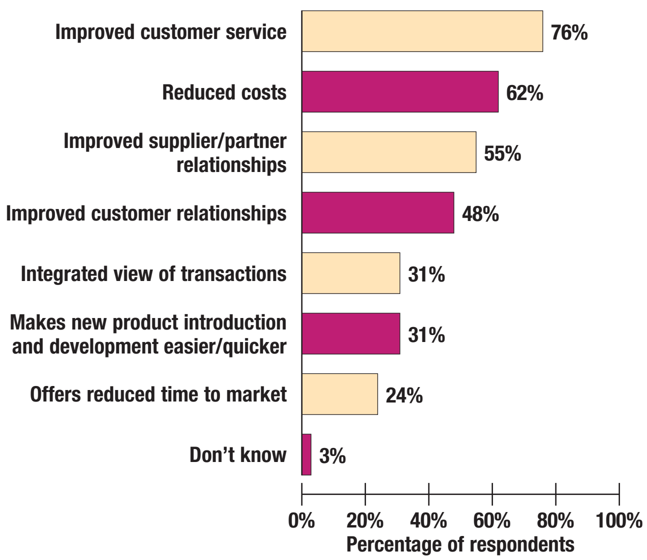
How well are your supply chain and manufacturing systems integrated with other internal departments' systems?



Source: NCC Research

FIGURE 4: Key reasons for using online services

What do you identify as the main business drivers for using the web?



Note: respondents could choose all that apply

Source: NCC Research

Yet, as Figure 3 shows, only 17% of companies are 'very well' integrated, 34% 'well integrated' and 33% 'moderately integrated', while 13% see little or no integration.

To improve their operations, companies need to understand both the demand and supply sides of their business. By understanding customers' future requirements, these can be fed into a sales and operations planning (S&OP) system.

S&OP has been developed in order to manage this balancing act; it provides a set of planning and decision-making processes that link day-to-day operations with business goals and operational and financial planning. S&OP has now evolved into a powerful integrated business management tool that enables companies to create a single operating plan that can allocate critical resources to achieve corporate performance targets.

To date, 41% of companies are using an S&OP planning system, with 13% intending to implement one and a further 3% evaluating the option. This leaves 30% with no immediate plans to move in this direction.

For those companies that have either implemented or plan to adopt S&OP, the majority (62%) have installed a specific software application to manage the process. A further 13% are planning to deploy a solution and 6% are evaluating the option.

Companies are also starting to use diagnostics to help them determine if there are any problems, inefficiencies or improvements needed in their supply chain. So far, 45% have adopted diagnostic tools with a further 14% considering this option.

Going online

The internet is no longer a novelty and companies have embraced it for many of their business processes – from online purchasing (81%) and sales (78%), through to customer management (63%), order management (58%) and order status (57%). Areas that are expected to show increased adoption in the future are order status (30%), supplier management (28%) and order management (25%).

As Figure 4 shows, the key benefits of using online services are seen as the opportunity to improve customer service (76%) and to reduce costs (62%). Many companies (55%) view it as a way to improve supplier and partner relationships, as well as customer relationships (48%).

Lower down the scale, providing an integrated view of all transactions is important for 31% of respondents, while 31% also think that online working makes new product introductions easier and quicker, and 24% say it offers reduced time to market.

RFID take-up

RFID has long been seen as a technology that can potentially increase operational efficiency, provide total supply chain visibility and keep track of assets. However, it has yet to prove to be a universal panacea and companies still seem very wary of adopting RFID technology in their business operations.

No company is adopting RFID extensively while 17% are deploying it in some areas of their business, and a further 10% will only use it if mandated by their customers. The largest number of companies (47%) have no investment plans for the technology, while 13% might use it in the next two years.

The main disadvantages of RFID technology are lack of technology standards, mentioned by 30% of respondents, and its high cost, cited by 30%. A lack of consumer understanding and a level of customer distrust are also seen as obstacles to adoption by 23% of companies.

Going green

The effect on the environment of an organisation's operations is now very high on the priority list and companies are adopting a number of strategies to reduce their carbon footprint.

From the survey, 34% of organisations say that environmental issues have now become 'very important', 30% that they are 'important' and 33% that they are 'moderately important' (see Figure 5). Only 3% see this issue as of 'no importance'.

In addition, 73% of companies are having environmental requirements placed upon them by customers and partners. Only 26% have experienced no 'green' demands.

Organisations are adopting a range of measures to become more environmentally friendly. Some have undertaken or are in the process of undertaking an environmental audit – this allows them to measure their carbon footprint and then implement and manage a continuous reduction programme.

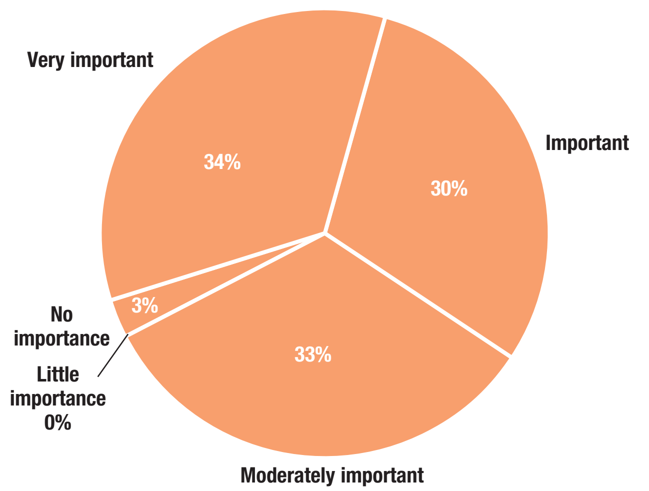
Other companies have introduced waste management and energy consumption programmes, reduced packaging, and increased recycling and optimised transportation of goods.

Yet with the level of investment and change going into the supply chain, only a few companies (3%) feel they have yet realised all the benefits from their systems, while 30% have reaped some of the anticipated benefits. The majority, 60%, feel they are still some way from meeting all their objectives but are optimistic they may do in the future. Only 7% believe they will not achieve all the benefits they originally expected.

For those companies yet to realise all the benefits, the largest number (47%) say it is too early in their implementation cycle to fully judge the outcome of the system (see Figure 6).

FIGURE 5: Importance of environmental issues

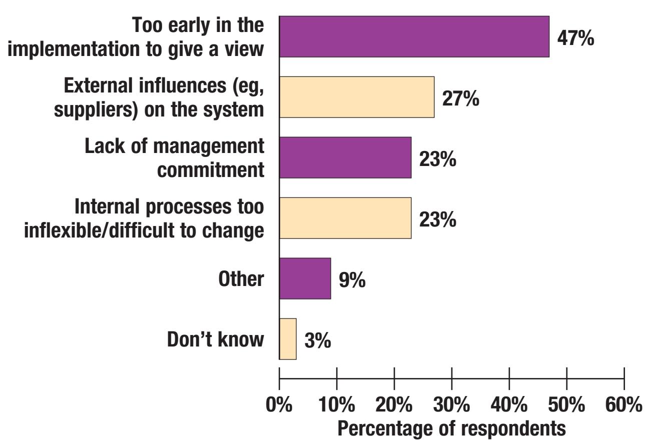
How important have 'green' issues become in your supply chain?



Source: NCC Research

FIGURE 6: Main IT problems

What are the main barriers to achieving all the benefits expected from your supply chain system?



Note: respondents could choose all that apply

Source: NCC Research

Others think that the main barriers are due to external influences on the system (27%), lack of management commitment (23%) or the fact that their internal business processes are too inflexible and difficult to change (23%).

In summary, managing the supply chain in 2009 will be a difficult balancing act. Organisations must focus on managing their costs, but they still need to maintain good service levels, or risk losing customers in an increasingly competitive market.

Those companies that have already invested in developing a well-managed supply chain operation should see it pay dividends over the next few years.

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