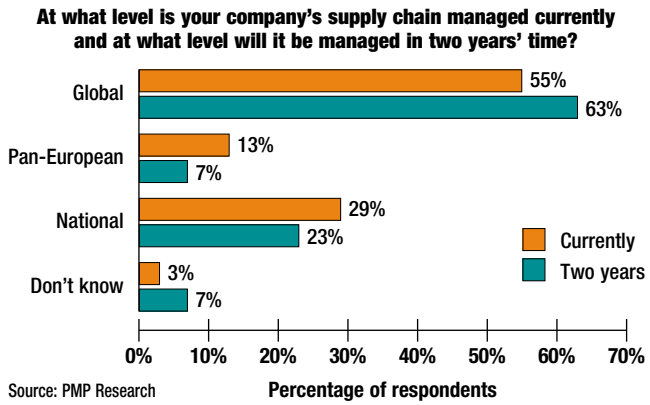
NEVER-ENDING SUPPLY

Companies continue to pour money into supply chain technology despite patchy results. Cliff Mills looks at what's going right and wrong.

Supply chain management refers to the supervision of all business processes and inputs that are used by companies to produce the goods or services that they sell. The better an organisation is at managing its entire supply chain, the more efficiently its operations will run and the more cost-effectively it can produce and market its products. So the drivers for getting it right are compelling.

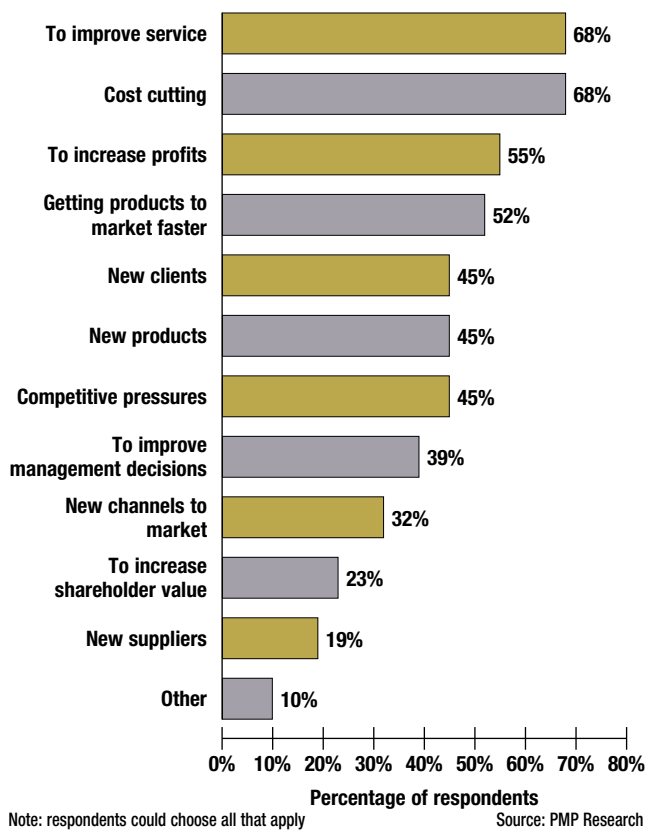
The theory behind optimising your supply chain is not new but the real problem is how best to implement the theory and deliver true business benefit.

FIGURE 1: Level of supply chain management



Source: PMP Research

FIGURE 2: Key reasons for re-engineering supply chain



Note: respondents could choose all that apply

Source: PMP Research

The challenges are not diminishing: companies are now faced with managing the extended supply chain to include suppliers, partners and customers; getting an accurate picture of demand so this can be mapped into their operations; and responding to the increasingly pressing environmental challenge.

The good news is that, according to our latest survey, most companies have risen to the challenges – 77% have defined a clear strategy for their supply chain & manufacturing systems, compared to 13% who are still struggling to do so.

A further complexity has been the globalisation of business, and the majority of companies (55%) now manage their supply chain requirements on a worldwide basis (see Figure 1). This figure is projected to grow to 63% over the next two years. Correspondingly, there has been a fall in the number of organisations who handle their supply chain purely nationally (from 29% to 23%) and on a pan-European basis (from 13% to 7%).

The drive for supply chain efficiency is demonstrated by the fact that most organisations (52%) have made significant improvements in their operations within the past year and 26% in the last one to two years. This pace of change is set to continue with 45% planning significant improvements in the next year and 36% in the next one to two years. Only a minority of companies (16%) have left their supply chain significantly unchanged for more than two years.

As Figure 2 shows, the principal reasons for this continual change are the desire to improve service levels, coupled with the ever-present need for cost saving (both mentioned by 68% of respondents).

The need to cut costs is also reflected in the fact that 55% have re-engineered their supply chain to boost profit margins and 52% to get products out to the market faster. Other important drivers are meeting the demands of new clients (45%), new product introductions (45%) and general competitive market pressures (45%).

The pressure to provide ever-better service and response times also continues to build as businesses try to keep stock holding to a minimum and require suppliers to be ever more responsive. A particular issue for businesses 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.

From the survey, 32% think their supply chains support their marketing objectives 'very well' and 39% 'well'. This compares to only 19% who feel they are moderately well supported and 7% who see little support. In terms of financial performance, 23% feel this is 'very well' and 38% 'well' supported. But 29% see it as only moderately well supported, with 7% seeing little support.

The main pressures on the supply chain and manufacturing requirements are identified as customer order patterns (58%) and increasing competition (55%). The increase in e-business is also having a significant effect, cited by 55% of respondents.

The introduction of new products has an impact for 45% of the sample and the increasing complexity from globalisation is also mentioned by 45% of respondents. Environmental issues are starting to make a significant impact for 32% of the sample as are raw material prices, mentioned by 29%.

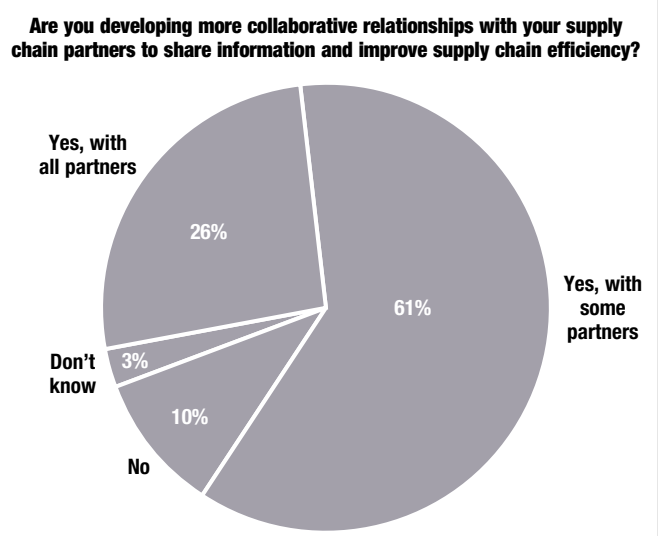
Managing the supply chain is no longer contained within the walls of a single organisation and the extended supply chain is now a normal way of operation. With the technologies available today, collaborative relationships between supply chain partners can be set up to share information and improve the visibility and efficiency of supply chain operations.

Just over a quarter of companies (26%) have established this extended relationship with all their partners (see Figure 3), while the majority (61%) have done so with just their key suppliers. Only 10% of companies have yet to move in this direction. However, it is equally important that information is rapidly and accurately shared between a company's internal systems, as this can provide a marked improvement in the operational efficiency of the organisation.

Just over half the companies think their supply chain & manufacturing systems are 'very well' (29%) or 'well' (23%) integrated with other internal departmental systems. The largest group (31%) feel there is only moderate integration and 10% see little or no integration.

It is increasingly important for organisations to work closely with customers in order to understand their future requirements, so they can manage the demand and supply sides of their business more effectively. Sales and operations planning (S&OP) has developed to help 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.

FIGURE 3: Supply chain collaboration



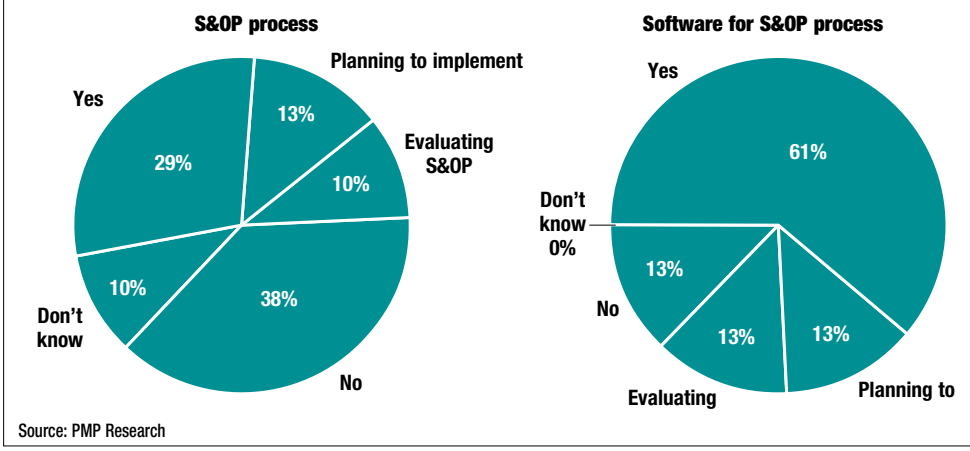
Source: PMP Research

S&OP has now evolved into a powerful integrated business management tool that enables a single operating plan to be created so that critical resources can be allocated to achieve corporate performance targets.

So far, 29% of companies have implemented a sales and operations planning process (see Figure 4, next page), with 13% planning to and a further 10% evaluating S&OP. This leaves 38% with no immediate plans to move in this direction. For those companies who have either implemented or plan to adopt S&OP, the majority (61%) have installed a specific software application to manage the process. A further 13% are planning to deploy a solution and another 13% are evaluating this option.

The perception among some respondents is that the lifecycle of their best-selling products is falling compared to three

FIGURE 4: Use of S&OP



Source: PMP Research

years ago, with 10% seeing it as much shorter and 26% as a little shorter. Of the remainder, the biggest proportion (42%) say that product lifecycles remain unchanged and a few (3%) see them as longer.

The majority of those polled (74%) tell us that their products are now becoming more customised or personalised compared to only a few years ago, and they are committed to offering a greater choice of options.

Companies have also turned to the web for many of their supply chain activities. Their ambitions in this respect cover everything from online purchasing (80%) and selling (71%), through to supplier management (56%), order management (52%) and order status (50%). Areas that promise strong growth in the future include online customer management (27%), supply and demand management (25%) and track and trace (27%).

Maybe slightly surprisingly, the key benefit of using online services is seen as the opportunity to improve supplier and partner relationships (mentioned by 81% of respondents). This is regarded as more important than improved customer service (71%), cutting costs (65%) or improving customer relationships (65%).

RFID

The proponents of RFID have long sung its praises as a technology that can 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 our respondents still seem wary of adopting RFID technology, particularly on a large scale.

Only 3% of companies are using RFID extensively while 19% are deploying it in some areas. A further 3% only use it if mandated by their customers, while 16% are planning to use it in a few areas. The largest proportion of companies (26%) have no investment plans, or at best 26% might use it in the next two years.

SURVEY STATISTICS

We surveyed a broad range of companies, including those from the manufacturing (32%) and retail sectors (17%) where supply chain issues are particularly important. In addition companies responded from distribution & logistics (13%), energy & utilities (10%) and IT & telecoms (6%).

The respondents represent a spread of different-sized companies, with 16% having in excess of £5 billion turnover, 7% in the £1 billion to £5 billion bracket and 13% in the £500 million to £1 billion range. In the mid-range, 20% have between £100 million and £500 million turnover, and 10% £50 million to £100 million. At the smaller end, 16% have a turnover of between £10 million and £50 million, and 18% £5 million to £10 million.

FIGURE 5: Green issues

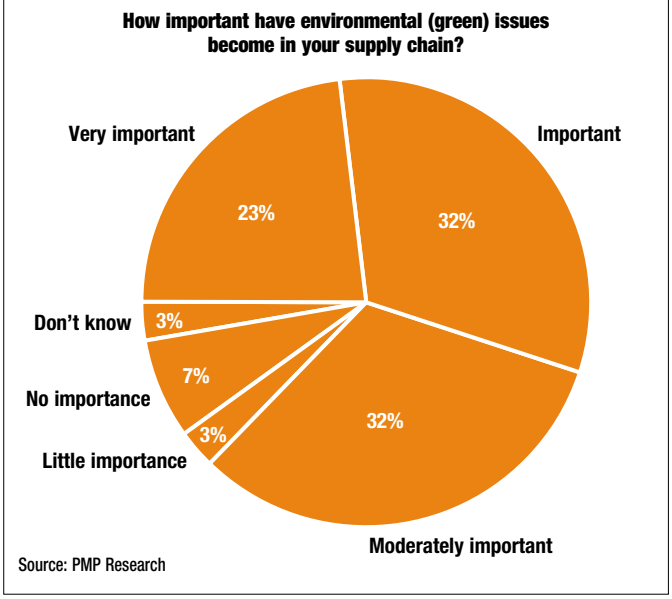
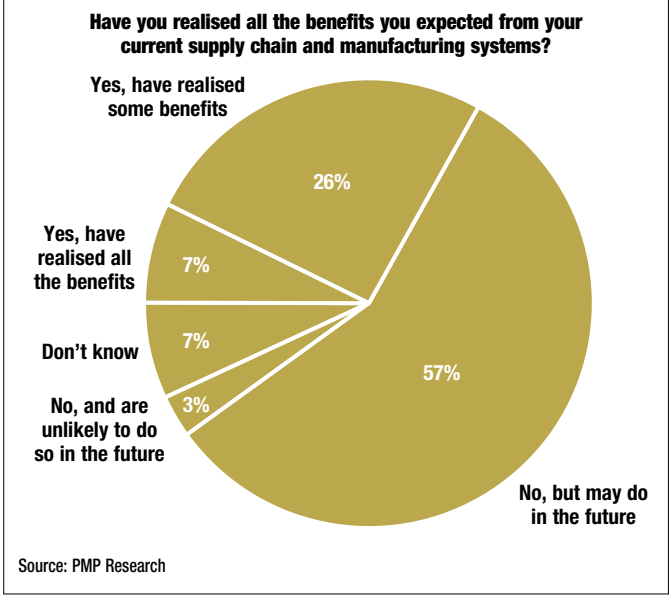


FIGURE 6: Benefits realisation



The main disadvantage of RFID technology is still seen as its cost, cited by 42% of respondents, while a lack of technology standards is mentioned by 32% and a lack of consumer understanding or distrust by 23%.

A general cause of concern nowadays is the impact of any business on the environment and this is particularly true of the supply chain. As Figure 5 shows, over half the companies say that environmental or green issues are either very important (23%) or important (32%). A further 32% see them as moderately important while only 10% see this issue as having little or no importance.

In addition, 67% of companies are having environmental requirements placed on them by customers and partners. Only 26% say they have not experienced any 'green' demands.

In general, companies are still at an early stage in defining the environmental approach they will adopt. The most prevalent measure is to review their transport use both locally and on a global scale; this has resulted in optimising delivery schedules, use of hybrid vehicles, purchasing new vehicles and generally cutting down on transport movements.

In addition, re-usable packaging has been introduced to reduce landfill while some companies are actively monitoring their energy usage.

The range, complexity and the almost constant state of change that we have seen means that only 7% of respondents feel they have fully realised all the benefits from their supply chain & manufacturing systems (see Figure 6), while 26% have achieved some of the benefits from the systems.

The majority (57%) feel they are still some way from meeting all their objectives but are optimistic they may do in the future. Only 3% believe they will not achieve all the benefits originally expected.

For those companies yet to realise all the benefits, the largest proportion (42%) say it is too early in their implementation cycle to fully judge the impact of the system. Others think that the main barriers are lack of management commitment (26%), external influences on the system (23%) and the fact that internal business processes are too inflexible and difficult to change (23%).

In summary, supply chain systems are critical to the success of many organisations. Getting them wrong can have serious consequences for a company's image, competitiveness and profitability. But getting them right can boost both their competitiveness and profitability.

This is why companies are prepared to invest so much money in them and even though few have reaped all the benefits, hopefully the rewards are not too far away.

● *Cliff Mills is research manager for Conspectus publisher PMP. If you are interested in this study, please contact Cliff on +44 (0)870 908 8767. Email cliffm@pmpresearch.co.uk.*