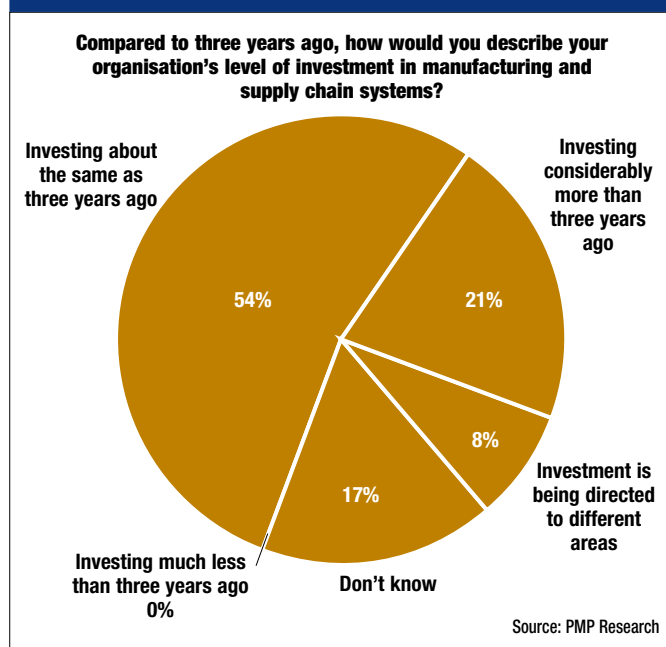


WHY SUPPLY CHAIN IT'S IN DEMAND

The need for agile supply chains is continuing to drive companies to invest in new technology, reports Pat Sweet.

Shorter product lifecycles and increased competition from low-cost economies are making life extremely difficult for many UK manufacturing and supply chain companies; now there is almost always someone who can provide the same item cheaper. The need to react quickly as market conditions change means a flexible supply chain is essential in the battle for market share. But many companies find they are trying to hit a moving target.

FIGURE 1: Investment trends



This year's *Evaluation Centre* survey of trends in supply chain technology emphasises just how big a challenge this can be. The majority of respondents (82%) agree that their supply chain and manufacturing systems have become much more flexible over recent years.

But a more responsive supply chain comes at a price: one in five (21%) of the sample say they are investing considerably more in their supply chain and manufacturing systems than they did three years ago (see Figure 1). Half (54%) estimate their investment remains at about the same level, with 8% shifting spending to different areas.

Significantly, not a single one of our respondents admits to investing less in supply chain systems now than they did three years ago, despite the fact that many operate in sectors which have experienced substantial pressures to keep a lid on spending during tough trading conditions.

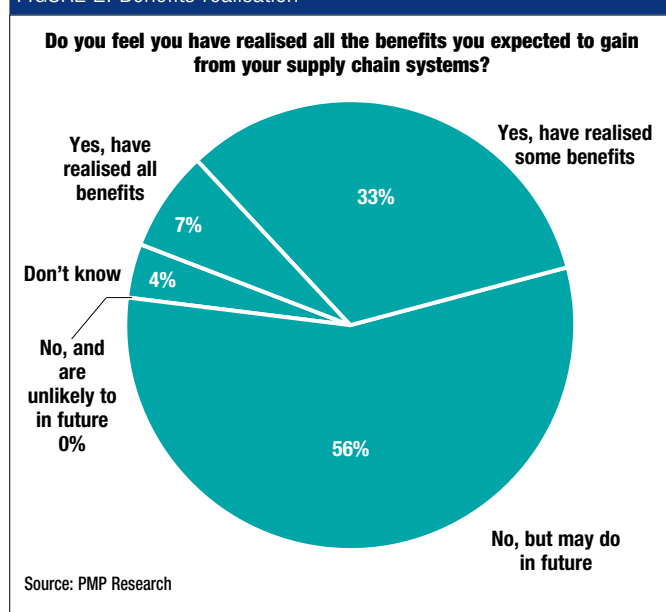
There is further evidence of how important managing the supply chain has become, with the finding that half of organisations either have a dedicated supply chain director (18%) or another board director who takes responsibility for supply chain operations (30%). A similar proportion (48%) also have a five-year strategy in place for their supply chain and manufacturing systems.

But despite these impressive levels of commitment, backed up by continuing investment, only a small number of companies appear to have made major advances. Just 7% of our sample reckon they have realised all the benefits expected from their supply chain systems (see Figure 2).

However, it is worth noting that this is almost twice the proportion who reported a positive outcome when we asked the same question last year (4%). And that 2005 figure, too, is double the proportion from the previous year's findings.

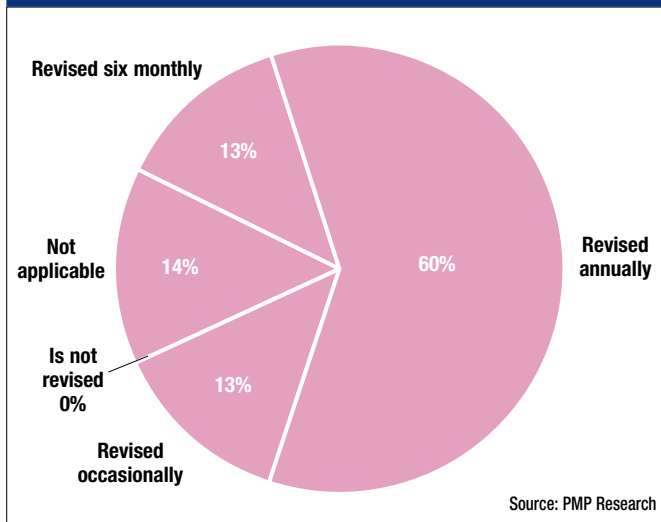
Many organisations evidently feel they are on track for success in the longer term, even though they have little to show for their efforts just now. A third of this year's

FIGURE 2: Benefits realisation



respondents, for example, have realised some benefits, while the majority (56%) are confident they may well do so in the future. None of them believe that achieving these benefits is unlikely – just part of a lengthy process.

FIGURE 3: When supply chain systems strategy last revised



We asked the respondents to assess what main barriers they face in achieving all the gains expected from their supply chain systems. Top of the list comes the difficulty of changing internal processes, which 37% feel are too inflexible.

But many confirm the view that they are running a marathon rather than a sprint, with a third (33%) saying it is simply too early to declare how many of their goals have been met. This is partly because the ground that such systems are required to cover is shifting constantly. Compared to the way they operated three years ago, the vast majority of organisations (86%) feel their products are becoming more customised or personalised. A quarter (26%) also report that the lifecycle of their best-selling products has become shorter than before.

The picture that emerges is one where companies are having to adjust constantly to meet new requirements. Products not only change more frequently, there are a greater number of options or choices around each offering, which adds to the complexity. As a result, three-quarters of our sample revise their supply chain systems strategy on a very regular basis – 13% do so every six months, while 60% plan an annual overhaul (see Figure 3). None of the companies leave their supply chain technology untouched for any length of time.

Nor is this just an academic exercise, as the survey reveals that getting on for half the respondents are planning significant changes to their systems in the next 12 months – 22% expect to re-engineer their supply chain within six months and the same proportion will do so in the course of the year. Around a third (30%) are not sure of their intentions, while 19% plan to leave any changes for up to two years, with 7% aiming to wait between three and five years before taking action.

These findings suggest some supply chain implementations are in an almost constant state of flux. However, it is worth noting that the majority (52%) expect to be re-engineering some part or parts of the supply chain, rather than the whole suite of processes. Even so, making these kinds of changes on a regular basis must present a significant challenge for some companies. Despite the fact that 82% feel their supply chain and manufacturing systems are now more flexible than ever, only 37% claim to be able to make incremental adjustments to any part of their systems, rather than wholesale re-plans. The majority (59%) say they can make adjustments in some areas, but not necessarily all.

The main reason for re-engineering all or some of the supply chain is the need to cut costs, cited by 70%, followed by the desire to increase profits (59%). There is no doubting companies' determination to develop a leaner approach to their supply chain, particularly since most (66%) see the threats posed by the competition as the main pressure on their supply chain requirements.

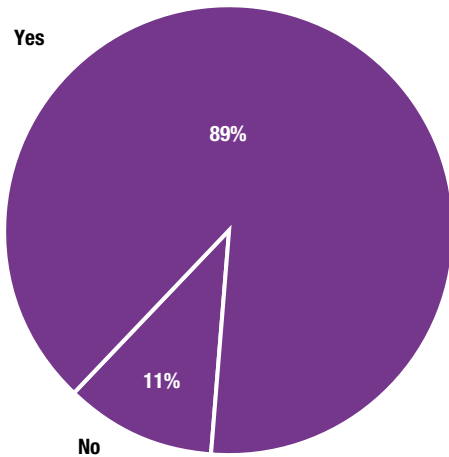
SURVEY STATISTICS

We spoke to a broad range of companies for this year's survey of trends in supply chain technology. While the biggest slice of the sample (40%) are from the manufacturing industry, 11% are from the retail sector, where the need to provide very fast stock turnaround on the shelves has produced major supply chain challenges. As well as these two key areas, 4% of respondents are from the automotive industry, 4% from the telecoms sector, and 4% from the energy & utilities industry, amongst others.

The organisations polled are equally varied in size. While a quarter (26%) post annual turnovers of between £150 million and £1 billion, smaller companies are also represented, with 15% of the sample reporting a turnover in the range of £5 million to £10 million. At the other end of the scale, 4% have a turnover in the £1 billion to £5 billion bracket, and 11% top the £5 billion mark.

FIGURE 4: Supply chain integration

Is improved communication/collaboration along the supply chain, and with manufacturing operations, more important now than two years ago?



Source: PMP Research

Yet few organisations operate in isolation, so it is not surprising that 89% feel improving communication and collaboration along the supply chain and with manufacturing operations is now more important than it was two years ago (see Figure 4).

The big change here is the overwhelming importance of internet and web technologies, with 92% reporting that they use online services for communication, compared to the 85% who continue to use fax and 61% who favour EDI. Nor is this a mere flash in the pan, since 82% say they plan to increase their use of the web over the next 12 months.

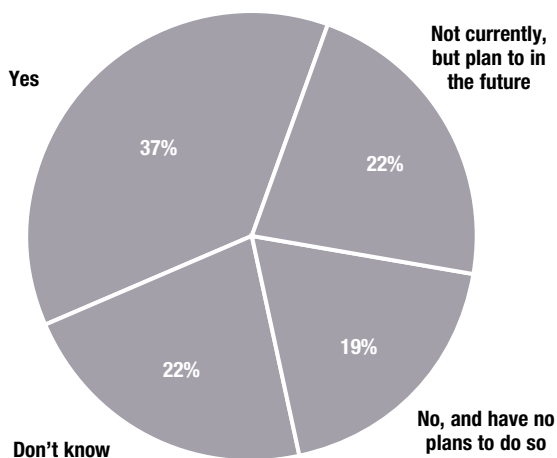
Adoption of online services seems fairly widely spread, with 66% aiming to web-enable their purchasing, 63% supplier management, 59% selling and 59% order status applications.

The main benefits of this approach are identified as reduced costs (77%), along with improved service (63%), greater responsiveness (63%) and improved supplier relationships (63%). In other words, companies expect that online services will make it easier for them to get closer to the key elements in their supply chain, but without spending a fortune doing so. Indeed, better collaboration with suppliers (55%) is viewed as the main driver for going down this route.

This is likely to provide benefits for all the parties involved – one respondent points to the fact that offering direct access to information via the web provides greater assurance of data integrity, since there is no risk of a third party mis-keying data.

The list of the main difficulties companies face in using the web is headed by the common worry about security issues, mentioned by 55%. There is also a feeling that lack of take-up of online services amongst suppliers is causing a problem (51%), since as many players as possible need to come onboard to make such implementations productive. Concern about the cost of such implementations is much less of an obstacle (25%).

FIGURE 5: Does your company use B2B marketplaces?



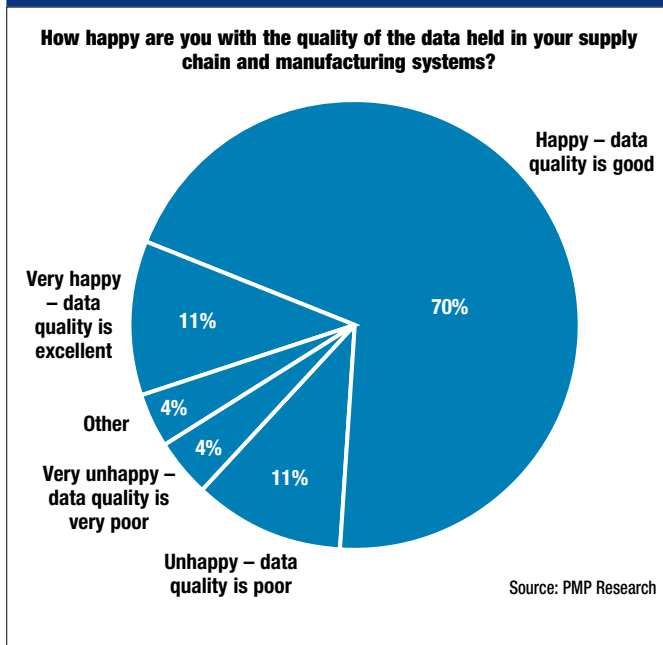
Source: PMP Research

When it comes to online working, companies seem to be happier making their own arrangements rather than joining a consortium-style development. Certainly, their participation in B2B marketplaces is limited, with only a third (37%) having signed up with such initiatives, while one in five (19%) have no plans to get involved (see Figure 5). Although 22% plan to sign up in future, the same proportion (22%) declare themselves undecided.

Where companies are making strides is in linking together their own internal departments. This is an important step in the process of creating a more tightly coupled supply chain so that, for example, the implication of changes in the design of a product are reflected more immediately down the line. Companies are moving towards the creation of a 'virtual' supply chain, where all elements have equal weight, rather than the more typical 'vertical' supply chain, in which processes are seen as being in a hierarchy and change happens one step at a time.

Three-quarters (74%) of our sample say they are now making greater use of integration tools or technology to link together internal applications than they did two years ago. However, only a third (37%) reckon to have integrated supply chain and manufacturing systems with other departments, such as design. Of course, such efforts will be in vain if all the integration

FIGURE 6: Supply chain data quality



achieves is to spread confusion and misinformation. Such projects are notorious for revealing inconsistencies in the information held in different systems.

In light of this, three-quarters of companies (74%) currently have projects in place to improve the quality of the data in their supply chain and manufacturing systems. However, the problem is evidently not too acute, since the majority feel their current data quality is either 'excellent' (11%) or 'good' (70%). Those who label their data 'poor' (11%) or 'very poor' (4%) are in the minority (see Figure 6).

Looking to the future, companies are not content with just improving the performance of the systems they already have in place. A third of the sample (35%) have invested in advanced planning systems (APS), with another 15% indicating they may do so in the next two years.

A similar proportion are thinking about the potential of another new technology, radio frequency identification (RFID). Take-up of this technology, which offers superior track and trace

facilities, is so far limited to a minority, with only 19% currently signed up. However, a third (35%) say that they may consider this option in the near future. The cost of the technology emerges as one of the main disadvantages, cited by 55%, along with some concerns about reliability and performance.

But as this year's survey makes clear, organisations do not lack for appropriate supply chain technology. The constant re-working of applications which our survey uncovers does not signal widespread dissatisfaction with the performance of the software. Rather, it is an admission of the difficulties of meeting emerging requirements.

In order to handle the very fast rates of change that are now commonplace in many industries, companies need to examine how to tie together the elements of their supply chain more closely. Longer term, they are planning for an agile supply chain implementation, which will enable them to anticipate such developments. All the signs are that many companies have set a course which will allow them to do this, though it will take time for them to reach their ultimate destination.

● *Pat Sweet is the research analyst on Evaluation Centre. If you are interested in this study, please contact Cliff Mills at PMP Research. Email: cliffm@pmpresearch.co.uk.*

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