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Risk and reward

As bringing goods to market becomes both increasingly risky and costly, are supply chain managers the real business innovators?

By Marc Beishon

A GENERATION AGO, issues such as risk in the supply chain didn't keep managers awake at night. That was simply because there was no such term as "supply chain". There were operations and logistics managers, but the concept of end-to-end supervision of all the processes that make up the modern-day supply chain was not yet a strategic priority.

The change over the past 15 years has been dramatic. The contribution to boosting margins by integrating the supply chain "lifecycle" has been recognised, not least with board-level appointments for a new wave of professionals. And now, as KPMG supply chain expert Andrew Underwood says, there is more risk in bringing products to market than at any time since the Second World War.

"Recent events in Japan, ongoing economic turbulence and international political volatility are conspiring to open up holes in organisations' global supply networks, creating unprecedented supply risk," he says.

KPMG's recent survey, *Supply Chain Complexity: Managing Constant Change*, found the combination of an increasingly global marketplace and the rapid adoption of digital technologies has spawned new business models and distribution channels, not to mention intensified competition – and some companies simply do not have supply chains that can keep up with the pace of change.

The key now is flexibility rather than a preoccupation with cost. Alan Braithwaite, chairman of LCP Consulting and a visiting professor at Cranfield University, says: "A long period of just focusing on low-cost producer strategies, often with extended lead times, to be more competitive with low prices is now too inflexible because it can drive excess inventory and waste further up the supply chain.

"The drivers for successful trading are to allocate inventory when a customer wants it – and not to stock too much of it – so as to respond to changes in demand," he says. Concepts such as agility, reliability, adaptability and resilience are becoming much more than just business speak, he adds.

Flexibility can win over cheaper labour, although there are other low-cost markets closer to home in Europe than Asia. Charles Davis, partner at management consultancy AT Kearney, says: "Some companies are starting to move manufacturing from Asia to low-cost European locations as this cuts lead times."

Braithwaite's recipe for supply chain success is based in what he calls the "new normal" of continuing uncertainty. "First, you need to increase the 'clock speed' of the business by better planning and shorter lead times – there's a huge amount of waste by not being lean and agile in internal processes. In turn, that means being more responsive and rehearsing contingency – and that militates against single source supply.

"And a particular bee in our bonnet is the companies that maintain unprofitable complexity, for example, through their channels. In retailing, a prime example is the cost to serve smaller outlets, which could be five times higher than the multiples. If you sustain that situation without understanding the impact you will lose margin."

Collaboration is very much the theme, and not just in the single supply chain. Braithwaite says: "One way to take out cost and increase resilience is to collaborate and make the supply chain more transparent. Nestlé and Kimberly-Clark are collaborating on transport, for example – people have been precious about this but attitudes are changing."

There are issues, however, about information flow. A report by supply chain standards body GS1 found an 80 per cent inconsistency in master data between retailers and manufacturers. And 45 per cent of shipping containers don't arrive on schedule.

GS1 chairman Jim Spittle says the information attributes of products have grown massively, and it is becoming crucial to try to gain an end-to-end, single view of the supply chain. This is for many more reasons than just a smooth flow including brand reputation, safety regulations, green and sustainability issues, and combating counterfeiting and theft, he says. "It isn't just for retailing and manufacturing – we're helping organisations such as the NHS track blood products and even patients."

And it's certainly about the bottom line, too. "In the 'data crunch', we identified potential savings of up to £1 billion for the retail industry by ironing out data inconsistencies in its supply chain, typically arising from multiple versions of product data held by different stores, distributors and suppliers," says Spittle.

The principles of supply chain optimisation are applicable across most industries, adds Braithwaite, who considers that rigorous application of his 'recipe' can yield 2 to 4 per cent on margin. "Most CEOs would kill for that," he says – and also for the competitive advantage.

Boeing is now said to be testing its supply chain to see if it can handle a ramp up in building 787s – and in two or so years' time, people may just be taking to the air on time thanks to a multiple source of a rivet that the entire plane depends on.

Krafty moves

Speed and flexibility are the name of the game for Kraft Foods' complex yet efficient supply chain

Fast-moving consumer goods companies such as the food giant Kraft have to manage many different products moving at "high velocity", according to UK logistics director Marcus Dunsmore.

"The critical thing about our industry is variability, owing to consumer demand. There's a lot of promotional activity and much competitiveness – it's complex and volatile," he says.

"And you wouldn't believe the myriad of suppliers that go into making Cadbury's Dairy Milk – from the cardboard outer, to the packaging and the raw materials, plus managing lead times in different geographies and getting materials to the right places, scheduling factories for demand, and delivery to many different customer locations."

In one of Dunsmore's key sectors, chocolate – he's responsible for integrating Cadbury's with Kraft (right) – there are 85 chocolate factories in Europe and 18 in the UK, which gives an indication of the scale of the supply chain.

The critical change that Dunsmore has seen – and he has also worked in a long spell at Unilever – is the integration of functions that were in separate silos, such as sales, procurement and manufacturing, as well as logistics.

"For Kraft, the supply chain challenges drop into three buckets. The first is ongoing management of assets and capital, which we have to do efficiently," he says. "Second is service – in our industry it means availability on the shelf, in a way customers can use such as in shelf-ready packaging for example. And third is sustainability – it's heavily influencing how we deploy resources."

E-commerce technology is key for Dunsmore, who last year joined the UK standards body GS1. He highlights data synchronisation: "It's where we publish data into a virtual pool that customers can pull down – instead of sending paper that introduces errors and costs time – and it applies to master data at any point in the supply chain," he says.

"When I ship a product from A to B I know how many units are on the pallet, what its weight is, the height of the pallet so it can be stored in the right slot, and so on – the whole agenda is massively underpinned by data accuracy."

Kraft, adds Dunsmore, uses SAP software, and runs its European operations on a "single instance" basis in which there is a single implementation of the main program. "All elements of orders-to-cash are on the system, plus all planning activities including forecasting and manufacturing planning, all elements of physical locations, and integration of the salesforce with mobile terminals, as well as customers, who shape demand."

On the procurement side, after developing scale and consolidating suppliers, Dunsmore says that collaboration is now the most important current trend, adding: "They have ideas and innovation for our products."