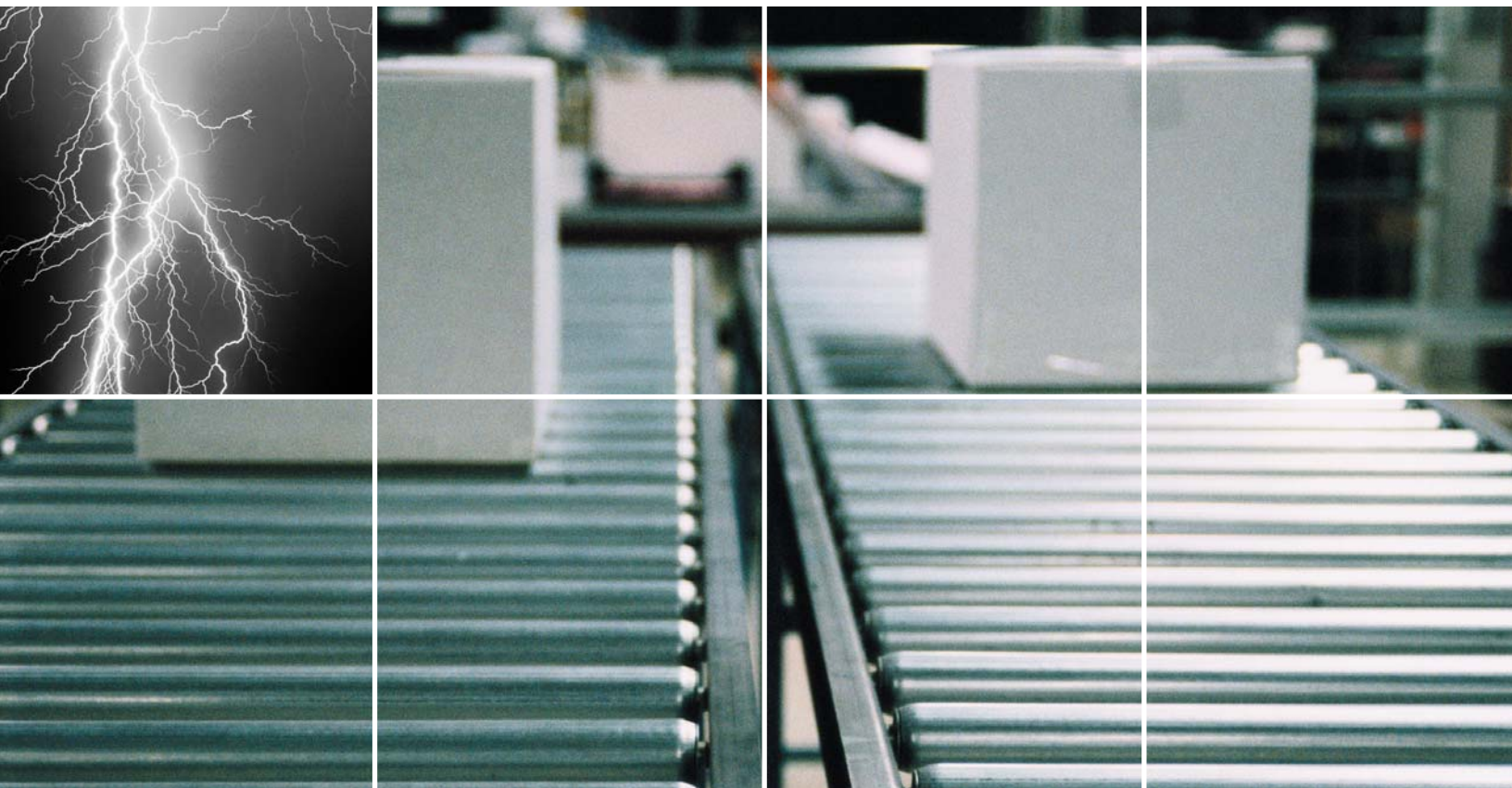


Energize your supply chain network – A European perspective

New competitive advantage from existing investments



An IBM Institute for Business Value executive summary

IBM Business Consulting Services, through the IBM Institute for Business Value, develops fact-based strategic insights for senior business executives around critical industry-specific and cross-industry issues. This executive brief is based on an in-depth study by the Institute's research team. It is part of an ongoing commitment by IBM Business Consulting Services to provide analysis and viewpoints that help companies realize business value. You may contact the authors or send an e-mail to iibv@us.ibm.com for more information.

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Introduction

IBM® Business Consulting Services conducted the 2004 IBM European supply chain survey in partnership with *L'Usine Nouvelle* magazine. This survey identifies current practices, captures significant trends and establishes operational performance benchmarks in five key areas of supply chain management (SCM): new product development, supply chain planning, customer order management, procurement and logistics.

IBM and *L'Usine Nouvelle* have identified potential participants (based on the function in their company) and invited them to participate in the relevant on-line survey. Over 8,000 *L'Usine Nouvelle* subscribers throughout Europe have been contacted by the magazine to participate.

Surveys included 18 to 24 questions about overall business objectives, enabling technologies and current practices, as well as core performance data, such as level of resources (full time equivalent), cycle times or efficiency rates. There were a total of 1,174 respondents, the majority from the consumer products and industrial products industries, with limited representation from distribution and transportation, high technology, energy, services, retail and wholesale industries.

This major research project was performed to better understand where SCM is today in Europe and how it is evolving. This report places the research findings into an overall context and provides perspective on the continuing evolution of supply chain management principles.



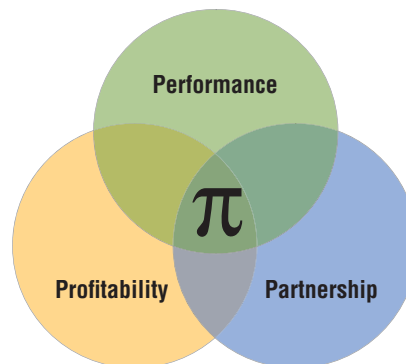
New competitive advantage from existing investments: Profitability, performance, partnership

The continuous global and local economic fluctuations have increased the stress on manufacturing businesses. SCM processes are challenged to provide operationally excellent, lean, cost-effective and rapid delivery of products and services globally. Product lifecycles are becoming ever shorter as customer demand is becoming increasingly volatile. Markets, supply and operations are becoming progressively more global.

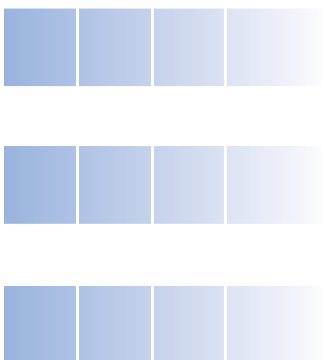
These supply chain challenges open up competitive advantage opportunities to those able to execute with partners at a high level of performance. Traditional supply chain business models are giving way to the emergence of new horizontally integrated, high-performance, on demand value chain networks.

In the past, companies have focused on supply chain improvements with initiatives centered on operational excellence (rapid return on investment) and cost reduction. New supply chain business models are required to meet the expected levels of profitability, performance, and partnership. Supply chain executives and managers are now concerned about focus areas for SCM success: profitability, performance and partnership (see Figure 1).

Figure 1. Supply chain management success criteria: The three π model.



Source: IBM Business Consulting Services.



Profitability

Survey participants representing cross-industry sectors agreed that their main objectives were to increase profitability, reduce costs and increase revenue, but also to increase customer responsiveness to cope with greater uncertainty and volatility of demand. Increased customer responsiveness was also important for respondents. Research and development executives also highlighted innovation as one of the top priorities to support profitability.

Traditionally, most companies have focused their SCM initiatives on cost reduction. Margin pressures are becoming increasingly severe, and supply chain performance is centered more and more on the overall business impact and shareholder value.

As a result, companies need to reduce the fixed costs and capital requirements of supply chain operations and move to a more "variable" cost structure that can be controlled and managed in direct relationship to customer demand. Companies are focusing their efforts on their customers to deliver higher profits. This is true for all supply chain activities, including the development of new products.

Performance

There is renewed attention on optimizing supply chain performance effectiveness to support profitability objectives. Performance objectives – when viewed from an end-to-end supply chain perspective – require realtime integrated visibility of key functions and processes with a multitude of supply chain network partners.

By creating an environment of viable information, supply chain activities are proactively managed through:

1. Realtime access to transactional information to quickly identify root causes of issues
2. Shared information about plans, issues and actions that enables rapid decision making in collaboration with partners and service providers
3. Exception management through inter-company alert messaging, proactively warning a decision-maker if an action must be taken or a trend is emerging
4. Standardized and aligned measurements to monitor and assess daily performance
5. Scorecards and trend analysis of historical data to identify performance trends and recurring issues.

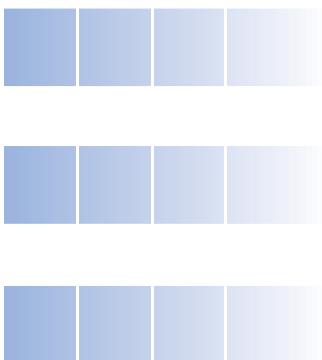


The survey shows that supply chain performance is being monitored for: "perfect order" attainment (on-time, right product, right price, damage free); cycle time reduction in new product time-to-market; and customer product delivery. Productivity initiatives and performance score-carding continue to target improvements in customer fill rates, retention, stock-outs, supplier order fill rates and lead times and inventory turns.

Partnership

More and more, successful companies are organizing their supply chains horizontally (as opposed to the traditional functional silos) and are orchestrating end-to-end, extended supply chains (supply chain networks), integrating inside and outside of the four walls to the extended enterprise. As businesses focus on their core capabilities, non-core supply chain processes are increasingly being outsourced. The use of outsourcing partners for cost and capability reasons has increased dramatically, expanding the number of players involved in delivering value to a customer. As the number of players increases, so do the complexities. To optimize efficiency and enable effective and responsive customer value delivery across the extended enterprise, collaboration, process and information integration and visibility with strategic supply chain partners is imperative.

According to survey results, many companies are continuing to focus efforts on partner collaboration and the need to coordinate/integrate supply chain event management to reduce latency and end-to-end supply chain cycle time. Supply chain managers are concerned about latency in the extended supply chain, which is the time from the occurrence of an unexpected event until resolution. Many companies are decreasing latency, as they focus on the synchronization of demand/ supply and execution activities.



Survey results highlight need for energized supply chain to help increase profitability, performance and partnership

Results of the 2004 IBM European supply chain survey show that key trends are emerging and evolving:

1. Supply chains increasingly include outsourcing and partnerships, presenting ever greater challenges in managing demand and supply, and controlling logistics spend.
2. Realtime and accurate access to relevant customer and supply chain operational data, such as inventory, orders and shipments is essential to meet customer service level requirements.
3. Pure product innovation is lessening in importance as focus moves toward the product time-to-market and lifecycle management to support higher sales and profitability objectives. There is also increased importance being placed on product "afterlife" management.
4. Optimizing supply chain performance, productivity and responsiveness is increasingly important to achieve cost- and service-level objectives.
5. Technology components with proven and rapid return-on-investment are favored to support critical supply chain processes, such as leaner manufacturing processes, consumer-driven supply chains and customer responsiveness. New technologies, such as radio frequency identification (RFID), are changing the game in SCM.

The survey revealed that supply chain executives are concentrating on operational excellence while meeting profitability and other business performance objectives. In each of the major process areas, responses indicate:

- *New product development (NPD) – Cost and time are paramount, driving the NPD strategy.*

Product innovation management is essential to optimize the return on investment for NPD. Companies are developing strategies for cost reduction, such as increasing the level of commonality of components, platforms and assets for reuse and for revenue growth, such as improving speed-to-market. Also, many are implementing integrated, collaborative processes with partners to manage product change and new, derivative product launches.



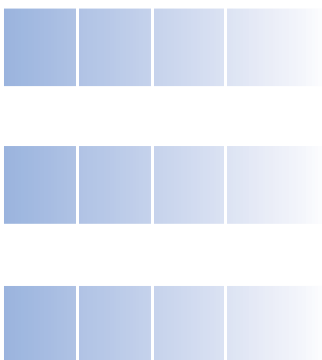
- Supply chain planning – It's all about sensing and responding.*

Advanced planning systems and leading supply chain practices have been implemented or piloted to increase the responsiveness to customer demand. The complexity of products and markets results in companies extending their strategy to their end-to-end extended supply network. Leaders are increasing their capability to sense market changes while developing capabilities to respond faster through collaboration with partners.
- Customer order management – Realtime processing leads to superior customer experience.*

Order management processing is paramount to attainment of superior customer service and perfect order standards. On-time delivery and inability to fulfill sales orders due to out-of-stock continue to be challenges in meeting customer responsiveness and satisfaction targets. Companies are slow to embrace leading customer relationship management (CRM) practices of self-service, automated cross-selling and up-selling and purchasing customer focus groups.
- Procurement – Globalizing to go to the next level of advantage.*

The trend toward global sourcing is on the rise, with growth rates of over 20 percent from three years ago. Attainment of perfect order delivery to original request date is growing rapidly, but supplier lead times have remained somewhat static. Greater than 34 percent of the respondents indicated average supplier lead times of 20-plus days. Information technology focus is on integration of internal procurement and supplier management functions, as well as external integration with trading partners.
- Logistics – Focusing on differentiating competencies through outsourcing.*

Specifically in logistics transportation, warehousing/distribution and handling of product returns, outsourcing was a theme for the respondents. Companies are implementing flow-through strategies (cross-docking, merge-in-transit) to provide specialized logistics services by customer segment. Only 30 percent of the respondents are achieving order fill rates of 97 percent or greater and only 30 percent of the respondents are achieving ontime delivery rates of 97 percent or greater. New technologies, such as RFID, are creating significant change in logistics performance and inventory control.



Conclusion

Today's business environment is rapidly and dynamically changing. Leading companies have demonstrated that supply chain management not only concerns operational excellence and cost reduction objectives, but more and more are focused on developing new business strategies. By managing these new business models, companies are able to outperform competition and to satisfy customers, while contributing to shareholder value.

The survey provides insight into the adoption of leading practices by capturing significant trends and operational performance benchmarks. The insights presented in this report provide a framework for companies to begin redefining their strategies, fine-tuning their performance objectives, and continuing the transformation journey of supply chain evolution towards maturity – thus, energizing the supply chain to delivery superior performance and increased profitability.



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About IBM Business Consulting Services

With consultants and professional staff in more than 160 countries globally, IBM Business Consulting Services is the world's largest consulting services organization. IBM Business Consulting Services provides clients with business process and industry expertise, a deep understanding of technology solutions that address specific industry issues and the ability to design, build and run those solutions in a way that delivers bottom-line business value.

About the IBM Benchmarking Program

The IBM Benchmarking Program understands the importance of benchmarking as a step towards performance improvement. The program offers a structured approach to benchmarking in supply chain, finance and human resources processes. The IBM benchmarking program has existed since 1992 and has helped thousands of organizations in more than 50 different countries with their benchmarking needs.

About L'Usine Nouvelle

Created in 1891 in France, *L'Usine Nouvelle* gives corporate decision-makers all the information they need about people, businesses, markets and technologies. *L'Usine Nouvelle* has an audited circulation of 412 000 executive readers in companies.





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