Capgemini Consulting

The 2011 Global Supply Chain Agenda

**Market and demand volatility drives
the need for supply chain visibility**

The Supply Chain agenda in 2011

Contents

The supply chain agenda in 2011:
Volatile environment drives the need for visibility

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> Growth in China and Latin America is promising but demand in Europe and the US is not that certain yet. At the same time availability, security and costs of raw materials is being jeopardized. Suppliers have gone due to the crisis and the challenge is now how to secure this again against competitive prices
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These are the results of Capgemini Consulting's annual international supply chain survey. The study assesses the views of supply chain executives around the world on their key priorities.

Although the general economic outlook at the start of 2011 seems positive, a significant number of the respondents to this year's supply chain survey, indicate they are uncertain about market demand in 2011. This year's survey reveals that operating a reliable supply chain in a volatile environment, while simultaneously dealing with rising material costs, will be the primary challenge for supply chain managers in 2011. This challenge entails improving control of both the internal and external supply chain. Consequently, improving supply chain visibility ranks as the top type of supply chain project planned for 2011. 45% of the respondents recognize supply chain visibility as the main focus area for the coming year. Business process redesign (44%), business innovation (41%) and improving long term (demand) forecasting and planning (41%) follow close in the list of most important supply chain projects for 2011.
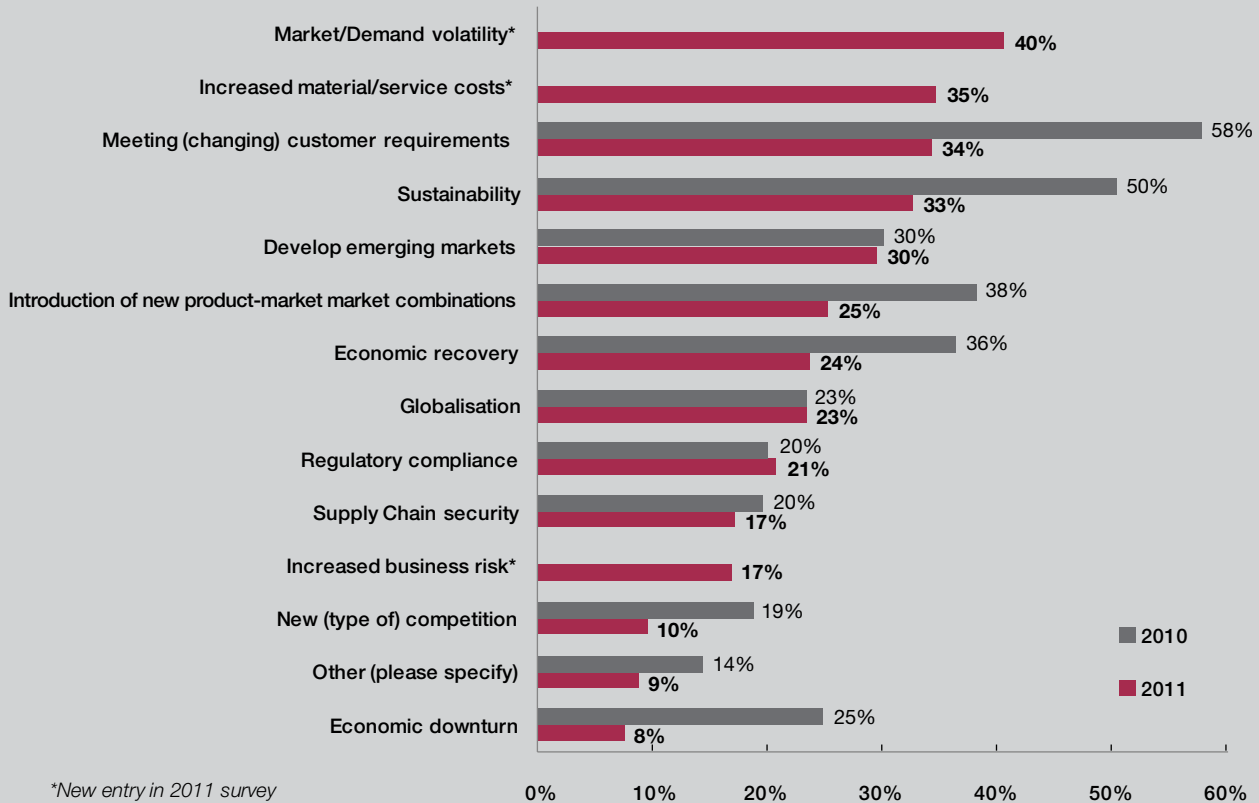
300 respondents shared their supply chain agenda with Capgemini Consulting
In this year's edition of Capgemini Consulting's annual international supply chain study, 300 leading companies participated from Europe (59%), the US and Canada (25%), Asia-Pacific (10%) and Latin America (6%). In addition to the survey, we conducted face-to-face interviews with supply chain senior executives, which provided additional insights.

In this report we will first look at the business drivers for companies in 2011 and consequently the resulting supply chain project calendar. Secondly we will give insight in why the project calendar of last year was not executed as planned and the implications of this for the position and development of the supply chain function. Finally we will look at what we can learn from leading companies on the topics mentioned in this report.

Business Drivers 2011 vs 2010

Business Driver	2010	2011
Market/Demand volatility*		40%
Increased material/service costs*		35%
Meeting (changing) customer requirements	58%	34%
Sustainability	50%	33%
Develop emerging markets	30%	30%
Introduction of new product-market market combinations	38%	25%
Economic recovery	36%	24%
Globalisation	23%	23%
Regulatory compliance	20%	21%
Supply Chain security	20%	17%
Increased business risk*		17%
New (type of) competition	19%	10%
Other (please specify)	14%	9%
Economic downturn	25%	8%

*New entry in 2011 survey

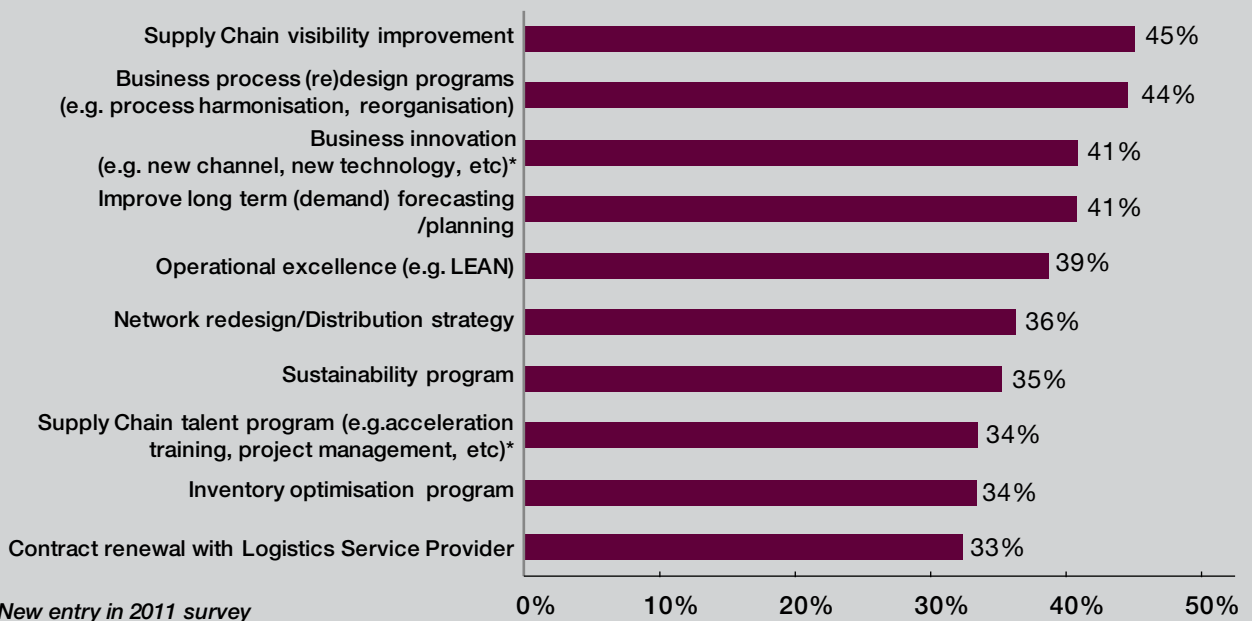**Dealing with market volatility is the key business driver for 2011**

First we asked the participants the question: "What business challenges drive your supply chain agenda for 2011". 40% of the respondents answered that dealing with market/demand volatility is now the most important challenge. Dealing with demand uncertainty after the recession is now playing a key role in the supply chain manager's business decisions. Second in the list of business drivers is increased material/service costs with a score of 35%. Both topics are new in the list in comparison to last year's survey.

Meeting (changing) customer requirements, the number 1 business driver in the 2010 survey, now ranks the number 3 position. Sustainability remains high on this list, and respondents reported more green initiatives for the coming year. We are excited to see what these initiatives will be.

With the global economy improving at the beginning of 2011, the economic downturn has now moved all the way down to the bottom of the

Top 10 Supply Chain Projects 2011

Project	%
Supply Chain visibility improvement	45%
Business process (re)design programs (e.g. process harmonisation, reorganisation)	44%
Business innovation (e.g. new channel, new technology, etc)*	41%
Improve long term (demand) forecasting /planning	41%
Operational excellence (e.g. LEAN)	39%
Network redesign/Distribution strategy	36%
Sustainability program	35%
Supply Chain talent program (e.g.acceleration training, project management, etc)*	34%
Inventory optimisation program	34%
Contract renewal with Logistics Service Provider	33%

New entry in 2011 survey

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We want to get more grip on our external manufacturing partners. Visibility on their order status and the quality of production batches is key to this
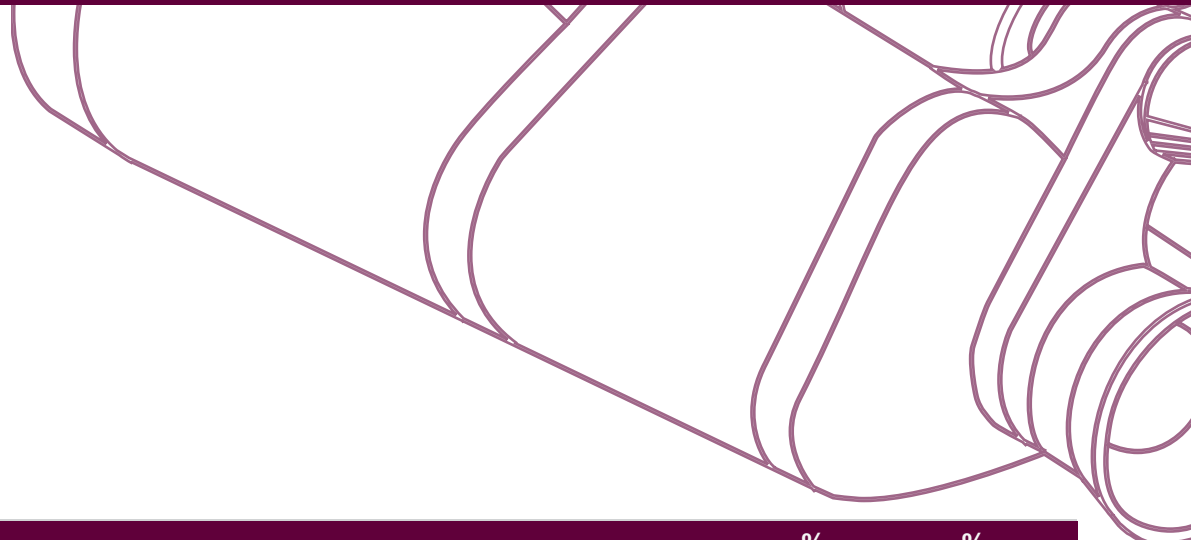
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agenda, although it is still mentioned by 8% of the respondents. When looking back at last year's survey, we reported that one year on from the start of the global financial crisis, the customer was back on top of the supply chain agenda for 2010. But the results of this year's survey show that last year's intentions were not necessarily that well executed in the eyes of customers: many companies experienced a drop in service levels during 2010 while some companies reported to be proud that they were just able to keep service levels stable.

Need for visibility tops the supply chain agenda

Next we asked the participants about their planned supply chain projects for 2011. The outcome is that supply chain

visibility improvement tops this year's agenda. In the interviews, both internal and external visibility are mentioned as key elements for realizing a reliable supply chain. Visibility was reported as knowing where products and inventories are, being able to monitor order progress and being able to anticipate to unplanned events, like delayed transport or non-conformance quantities in the production process of subcontractors.

The interview participants indicated to have different understandings of supply chain visibility. Transport oriented people define visibility as insight in the material and order flow in the distribution network while manufacturing oriented people define visibility as insight in stocks, production

Rank 2011(2010)			Project	% 2011	% 2010
1	(4)	▲+3	Supply Chain visibility improvement	45%	48%
2	(1)	▼-1	Business process (re)design programs (e.g. process harmonisation, reorganisation)	44%	55%
3		NEW	Business innovation (e.g. new channel, new technology, etc) *	41%	-
4	(3)	▼-1	Improve long term (demand) forecasting /planning	41%	49%
5	(2)	▼-3	Operational excellence (e.g. LEAN)	39%	54%
6	(5)	▼-1	Network redesign/Distribution strategy	36%	40%
7	(9)	▲+2	Sustainability program	35%	34%
8		NEW	Supply Chain talent program (e.g.acceleration training, project management, etc)*	34%	-
9	(8)	▼-1	Inventory optimisation program	34%	35%
10	(6)	▼-4	Contract renewal with Logistics Service Provider	33%	40%

quality and monitoring of production order progress in the supply network.

To realize visibility supply chain managers need to establish trust among supply chain partners, support cross-department coordination, utilize technologies to share information, simplify and synchronize supply chain activities. To achieve this goal, companies need to optimize their ways of working, remove unnecessary process steps and improve the collaboration between up and down stream business partners.

Compared to 2010, the number one project from last year – business process (re)design programs – has moved to second position with a score of 44%. Business innovation is the highest new-comer with a score of 41%. Business innovation is not only about exploring new channels, new markets or new business models but also about utilizing new technologies like Software-as-a-Service (SAAS), collaborative transport platforms (supply chain control tower) and other technologies to transform the supply chain. Improving long term forecasting/planning, and operational excellence initiatives have slightly dropped, but remain in the top five projects list. Planning processes like Sales & Operations Planning continue to be seen as essential to balancing demand, investment and supply. Most of the managers expressed the urgency and importance of improving their planning processes and forecast accuracy.

Reflections on 2010 and the 2011 outlook:

Developing the supply chain function

> " Unfortunately, it is still a common belief in our company that Supply Chain Management is a cost driver, not a business opportunity

> I would like to get all our key leaders and line managers aligned behind our vision so they lead themselves "

We also asked the participants to look back to 2010. The biggest gaps in implementing a supply chain strategy occur in improving long term (demand) forecasting and planning and centralizing/decentralizing supply chain functions. Finding or implementing transport management solutions is also a weak spot for companies.

Looking at the cause, over 40% respondents identify non-supply chain business priorities as the major bottleneck for not fulfilling supply chain plans: supply chain executives are often faced with business priorities that do not support their objectives. In addition, IT capability and lack of people talent also raise alerts.

The business prioritization bottleneck is more cause for concern than the often recurring IT capability bottleneck. For the supply chain manager this means he/she must get a bigger say in the overall company's business agenda. Supply chain managers must also gain a broader influence. The reason for this is that at the current level of "operational excellence", factors outside of the

supply chain, such as agreements made with customers, the supply foot-print and manufacturing policies determine the service level to a large extent.
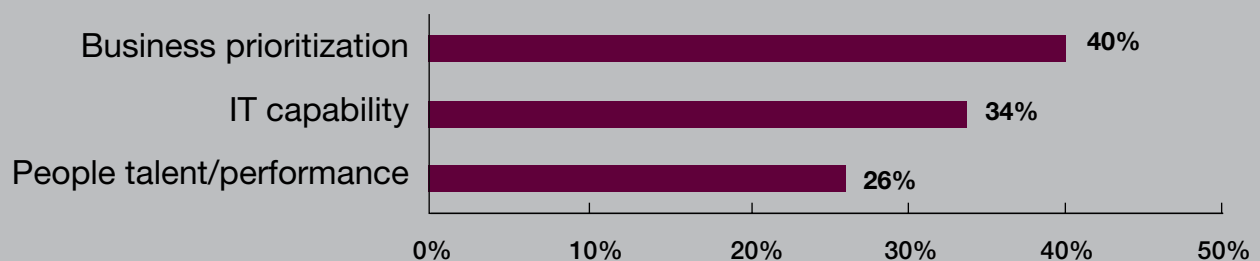
In the interviews, most supply chain managers see the role of the supply chain function as becoming increasingly important. As a result of this, it was often stated that supply chain managers are increasingly being added to the management team or seeing their management scope increased.

Do we really develop our supply chain people?

The changing position of supply chain management also puts new requirements on people working in that function. After a period dominated by running the show and keeping costs under control, expectations are now changing. This reflects to the third bottleneck mentioned which is about having sufficient talent in the organization. 34% of companies therefore plan to launch a supply chain people development program in 2011. One of the participants said "I would

Top 3 bottlenecks for implementing a Logistics/ Supply Chain Strategy

Bottleneck	Percentage
Business prioritization	40%
IT capability	34%
People talent/performance	26%

like to have more staff with the right capabilities." In the interviews the ability to understand supply chain dynamics, to coordinate between value chain partners and to innovate end-to-end supply chain processes are mentioned as the main required key supply chain management competencies.

Learning from leading companies

All in all 2011 is going to be an interesting year with a dual agenda. On the one hand, traditional management of costs and efficiency will still be required although the era of major restructuring is hopefully behind. At the same time the supply chain function must increase its role as an innovating entity, capable of supporting the organization as it enters new markets and new (e)-channels and adopts an increasingly sustainable way of working. To be successful in the

execution of the planned supply chain projects in 2011, there are some interesting insights from leading companies to overcome the implementation gaps for 2010.

First, implementing supply chain visibility will drive the benefits in cutting the waste hiding in the processes, lowering pipeline inventories, and improving overall cost efficiency. Visibility will give you all the information you need to improve planning, to make business decisions at the right time, and to better anticipate to unplanned events in the internal and/or external supply chain. Recent implementations of for example logistics control towers show this.

Second, any business transformation is founded on process, technology and people. Usually, the improvement efforts are concentrated on process and IT, and forget the people aspect. Leading companies are investing in their people. Supply chain

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SCM has proven to be a
differentiator in the past
and will continue to be so
in 2011. It will play a
major role in achieving
my company's goals for
the year to come

Companies don't compete.
Supply chains compete

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communities and training programs
are initiated in order to assimilate
knowledge and improve
understanding of the supply chain
dynamics. An exchange of people
from other functions into the supply
chain function (and vice versa) should
therefore be encouraged.

Third, in most companies supply
chain topics still don't reach the board
room. This leads to the question
where the supply chain function
should be positioned in a company.
Since the supply chain function
cannot stand alone in an organization,
supply chain managers struggle to
improve operational excellence
without senior management support.
When organization structures are not
that easy to change a clear road-map
for supply chain development, which
translates the business agenda into
supply chain initiatives, can support
these efforts.

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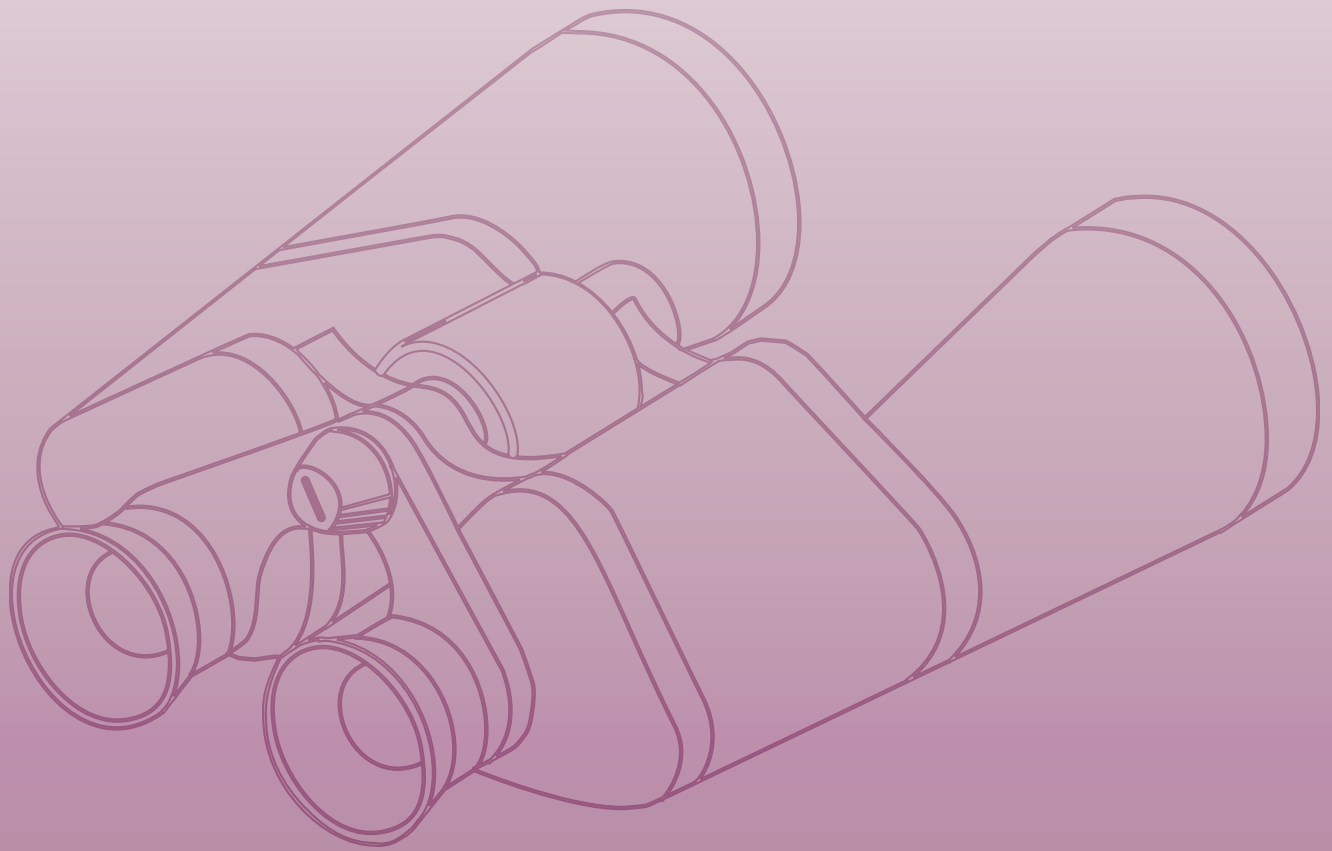
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