Capgemini Consulting

Customer back on top of the supply chain agenda in 2010

From financial crisis to recovery: does the financial crisis still dictate supply chain agendas?

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CUSTOMER BACK ON TOP OF THE SUPPLY CHAIN AGENDA IN 2010

Over a year after the start of the global financial crisis, the customer is back on top of the supply chain agenda for 2010. Over 58% percent of the supply chain managers surveyed say their main business driver for 2010 is "Meeting (changing) customer requirements". The economic downturn is no longer the most important business driver and is now surpassed by economic recovery in the list of top business drivers for 2010. Projects focusing on the improvement of customer service and supply chain processes are high on the agenda for 2010. With a 16 % increase, sustainability is the second most important business driver for 2010. However this has not yet directly translated into a significant increase in supply chain sustainability projects. These are the results of Capgemini Consulting's international study of 300 leading companies. The study reflects the most important factors that influence the supply chain agenda in 2010 and compares this with the results of the 2009 study.

300 respondents shared their supply chain agenda with Capgemini

The study was conducted by means of a survey, which was completed by over 300 respondents in Europe (61%), the US and Canada (22%), Asia-Pacific (13%) and Latin America (5%). In addition to the survey, various supporting interviews with Supply Chain Managers were conducted.

Focus on customers the most important business driver for 2010

In response to the question: what business challenges drive your supply chain agenda for 2010, 58% of the respondents answered that meeting customer requirements is now the most important challenge. After a year that was dominated by cost-cutting and working capital reduction companies have shifted their focus back to their customers again.

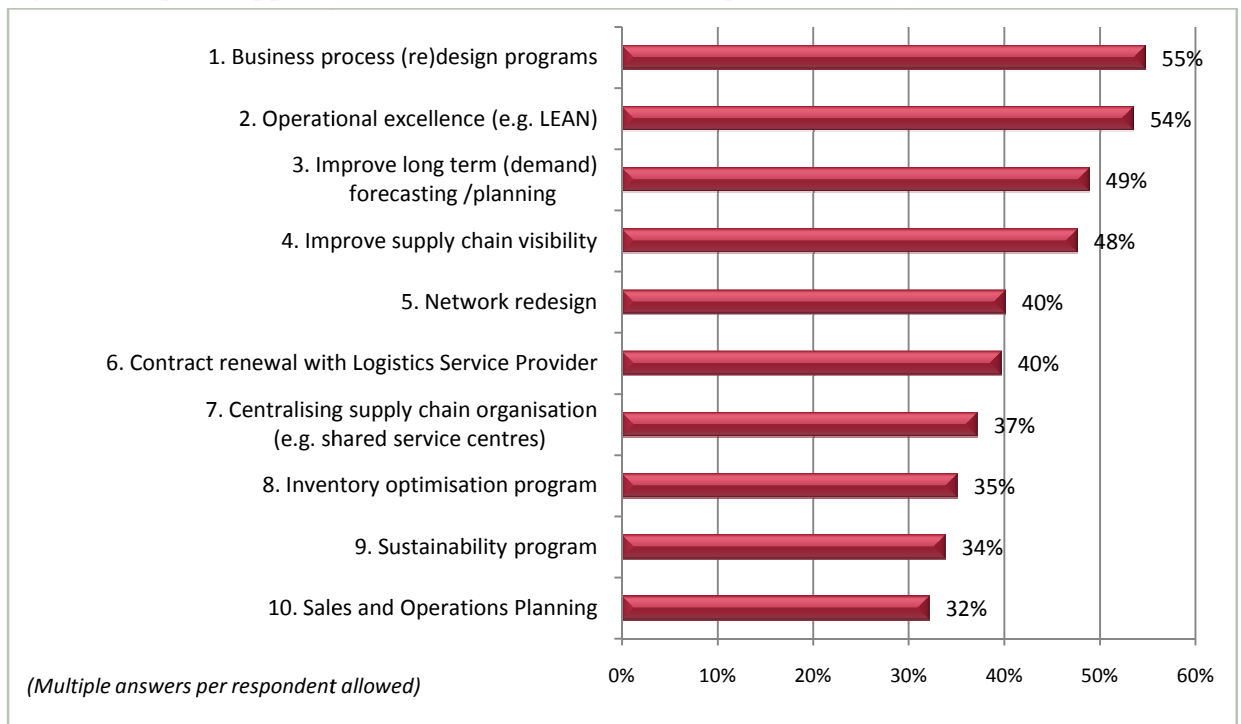**Figure 1: Business drivers 2010 and 2009 compared (% of respondents)**
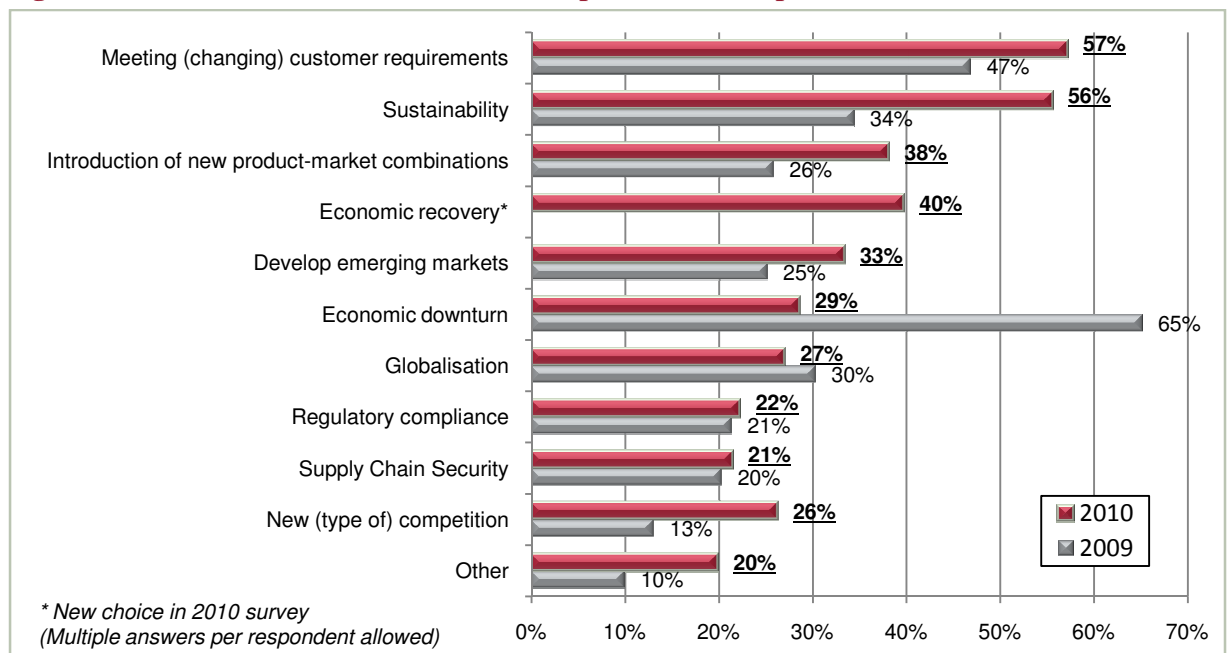
Sustainability recorded a very solid second position on the list of top business drivers and increased significantly (+16%) compared to 2009's results. Last year's number one business driver, the economic downturn, has not disappeared from the list but moved down to sixth position. Corollary to this, the majority of the supply chain managers now believe business activities should be focused on economic recovery, which is ranked on the list at number four. Consequently it appears that the financial crisis is no longer dominating the supply chain agenda.

TOP 10 SUPPLY CHAIN PROJECTS 2010

The top business drivers have direct influence on the activities and projects that supply chain managers will execute in the coming period. The study provided insight into the most important projects in the area of supply chain strategy, sourcing of logistics services, transportation, warehousing and supply chain planning and control. The graph below shows the projects that supply chain managers most frequently intend to undertake in 2010.

Figure 2: Top 10 Supply Chain Projects in 2010 (% of respondents)

Project	%
1. Business process (re)design programs	55%
2. Operational excellence (e.g. LEAN)	54%
3. Improve long term (demand) forecasting /planning	49%
4. Improve supply chain visibility	48%
5. Network redesign	40%
6. Contract renewal with Logistics Service Provider	40%
7. Centralising supply chain organisation (e.g. shared service centres)	37%
8. Inventory optimisation program	35%
9. Sustainability program	34%
10. Sales and Operations Planning	32%

(Multiple answers per respondent allowed)

The list of the top 10 supply chain projects is consistent with the top business driver of meeting (changing) customer demands. Top project types like Business Process Redesign, Operational Excellence and Supply Chain Visibility are typically the types of projects that allow businesses to more effectively respond to customer demand while simultaneously creating efficient internal business processes.

> *"…Harmonisation and optimisation of processes are key to satisfying customers, motivating our employees and creating value for our shareholders…"*

Focus of supply chain managers moves away from working capital reduction

Compared to last year's results, some significant shifts appear in the focus of supply chain managers. The most striking example of this relates to last year's number one project type, inventory optimization. In 2010, this project type dropped seven positions ending up at eighth position. Inventory optimisation is still a hot topic but most shipping companies - influenced by the financial crisis - have reduced their inventory in the last year. This is further illustrated by the decline in the ranking of sales and operations planning in the 2010 agenda. S&OP dropped four places from sixth to tenth position.

> *"2009 was all about improving our planning processes, reducing inventories and eliminating costs. 2010 will be about using these improved planning processes and a lower cost base to leverage the most out of the economic recovery"*

Table 1: Shift in top 10 supply chain projects (2010 vs. 2009)

Rank (rank last year)		Project	%2010	%2009
1 (2)	↑ +1	Business process (re)design programs (e.g. process harmonisation, reorganization)	55%	45%
2 (-)	NEW	Operational excellence (e.g. LEAN)	54%	
3 (3)	=	Improve long term (demand) forecasting/planning	49%	44%
4 (5)	↑ +1	Improve supply chain visibility	48%	39%
5 (4)	↓ -1	Network redesign	40%	41%
6 (7)	↑ +1	Contract renewal with Logistics Service Provider	40%	35%
7 (-)	NEW	Centralising supply chain organizational functions (e.g. shared services centres)	37%	-
8 (1)	↓ -7	Inventory optimization program	35%	48%
9 (9)	=	Sustainability program	34%	30%
10 (6)	↓ -4	Sales and Operations Planning	32%	36%

Traditional logistics projects that typically occur annually like contract renewals, network redesign and improved forecasting populate the list and have similar positions to last year.

Based on developments in the market, a few projects were added to the long list for 2010. Two of them immediately appear in the top 10, including operational excellence at number two. More than 50% of the participating companies indicate they will start up or continue with operational excellence initiatives to drive continuous improvement and further optimise their supply chain processes

The other new project in the top 10 confirms the ongoing trend towards the centralisation of supply chain functions. Many multinational companies are creating supply chain or logistics shared service centres across regions and business units to integrate their supply chain, leverage capabilities and drive innovation.
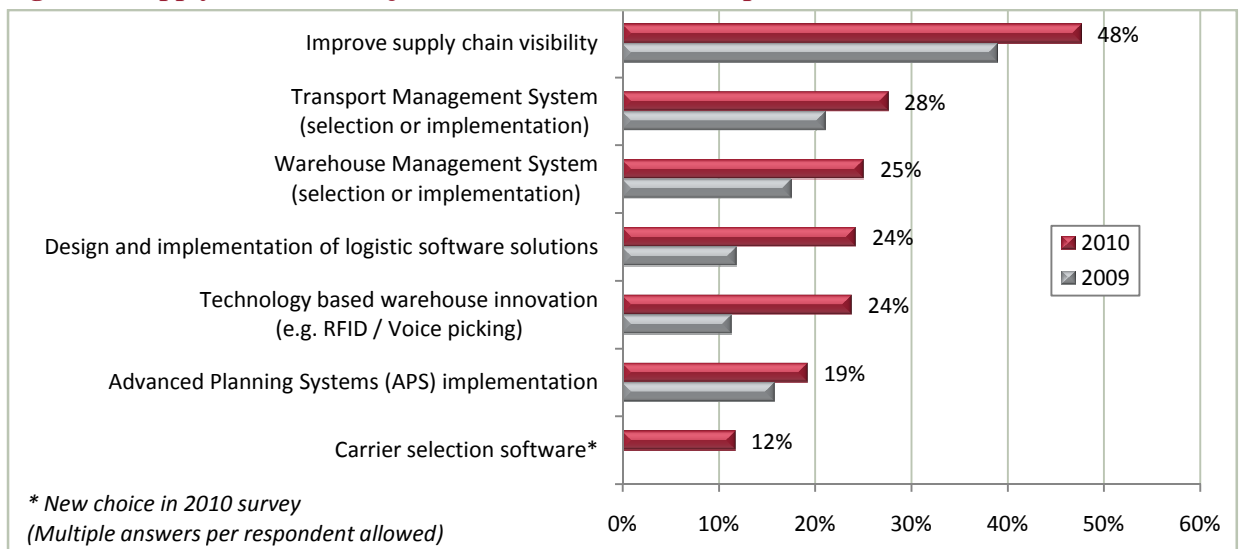
> *"Lean and centralised SC management with help of better processes and end to end visibility of all SC components"*

IT investments are back on the radar

Longer term IT investments are, once again, back on the agenda of most companies. After a drastic drop in IT plans at the start of 2009, the expected level of IT investment is rising again in 2010. Improved supply chain visibility is a priority for both shipping companies as well as for Logistics ServiceProviders. However, other supply chain IT projects like TMS and WMS implementations are also showing a clear increase.

> *"...more visibility brings double digit savings in your transportation management..."*

Figure 3: Supply Chain IT Projects 2010 vs. 2009 (% of respondents)

	2010	2009
Improve supply chain visibility	48%	
Transport Management System (selection or implementation)	28%	
Warehouse Management System (selection or implementation)	25%	
Design and implementation of logistic software solutions	24%	
Technology based warehouse innovation (e.g. RFID / Voice picking)	24%	
Advanced Planning Systems (APS) implementation	19%	
Carrier selection software*	12%	

* New choice in 2010 survey
(Multiple answers per respondent allowed)

> *"…Supply Chain IT solutions will not only help us improve our service but will allow us to take control of our logistics needs and improve them…"*

Sustainability as an important business driver does not result in an increased number of supply chain projects

Although sustainability is the number two business driver and increased by 16% this year, this is not reflected by an increase of sustainability projects in 2010. The number of companies starting a sustainability project in 2010 is stable compared to 2009. We see different reasons for this development. In our experience we see many companies where the sustainability ambition only exists at top level and is not cascaded to the rest of the organisation. Secondly departments other than supply chain (e.g. manufacturing) can often be responsible for realising the sustainability ambition. In addition, we often observe that companies have problems in defining concrete projects that embody their sustainability strategy.

HOW DO YOU WIN THE BATTLE FOR YOUR CUSTOMER?

Although the risks of the financial crisis still exist, the supply chain manager's challenge for 2010 will be to innovate and optimise supply chain processes and align them with customer requirements. Effective and efficient processes will be key for 2010. Operational Excellence and Business Process Redesign projects will ensure alignment of processes and can save money by eliminating waste and unnecessary activities. Not only are these projects of strategic importance they will keep the right focus within the company given all the uncertainties still around us in 2010.

> *"...With the economic downturn, 2009 triggered many necessary changes to the supply chain. Many of those have started to provide benefits, which will not stop as the economy is expected to improve. Even more, 2010 will be the time to continue in the same direction to further improve our supply chain efficiency..."*

The challenge for 2010 will also be to safeguard the results of 2009's efforts. By optimising your supply chain processes you can make last year's improvements sustainable. This enables you to maintain inventory on 2009 levels and control your costs even if the prices (e.g. transportation) start rising again.

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