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Take the pain out of the chain

Companies that use IT skilfully to develop sustainable supply chains will gain an advantage



Before the Japanese earthquake and tsunami, most logistics experts would have told you that the move towards truly global supply chains was unstoppable. Then, after the disaster, car and electronics factories in Europe and the US ran short

of Japanese-sourced components, and those experts weren't so sure. Add the volatility of petrol costs as a result of the "Arab spring", and directors are wondering whether it isn't wise for more firms to adopt local sourcing.

There are no clear answers to these big questions. Which makes it vital that supply chain management ought to feature more on directors' radar. A firm's competitiveness is determined not only by its own activities, but by those of every organisation in its inbound and outbound supply chains. That means directors must make the right decisions about how they structure supply chains—centralised or local?—and which organisations to partner.

They need to balance providing good service with cutting costs, which means becoming more skilled at holding the right stock in the right quantities in the right places. And they must become greener. Giants such as BT and Tesco are boosting sustainability credentials and expect companies they work with to do likewise. For small firms that won't be easy but there is software that can help. Firms that address these issues well will use supply chains to develop more competitive advantage. And there's plenty of wisdom in that.

Steve Tattum *product manager, Sage ERP X3 & Sage Manufacturing at Sage UK*

Keeping ahead of catastrophe

Worldwide disasters such as the tsunami in Japan have shown to devastating effect how quickly business operations and the supply chain can be damaged

Days after an earthquake damaged a chemical plant in Sendai, Japan, manufacturers worldwide started to worry about their supply chains. The plant produces a unique resin that is used to manufacture half of the world's semiconductors. And semiconductors are a vital component in products as varied as cars and clocks.

As Iain Bowles, a market analyst at computer company Probrand, explains: "IT materials are at the start of the supply chain.



An issue at this birthing stage of products has a knock-on effect further down the chain globally."

Around the world, companies found themselves struggling to repair fracturing supply chains in the wake of the

disaster. Among the worst hit, carmakers such as Ford and Volvo fretted over the supply of parts. Analysts claimed the supply of as many as 500 components could be affected, which could cut world car production by 30 per cent in the short term.

Few catastrophes create such global concern as Japan's disaster. But all supply chains are vulnerable to natural and man-made events that can disrupt business—and in the worst cases drive a company to the wall. The rise in threats to supply chains means that directors need to pay more attention to how to keep their own supply chain functioning if the worst happens.

But as Lyndon Bird, technical director at the Business Continuity Institute, points out, identifying the risks in an extended supply chain is complicated. "The length of

“ PARTS OF A
SUPPLY CHAIN
CAN BE IN
REGIONS WHERE THERE
IS A RISK FROM **NATURAL**
DISASTER, POLITICAL
UNREST OR **BAD**
WEATHER ”

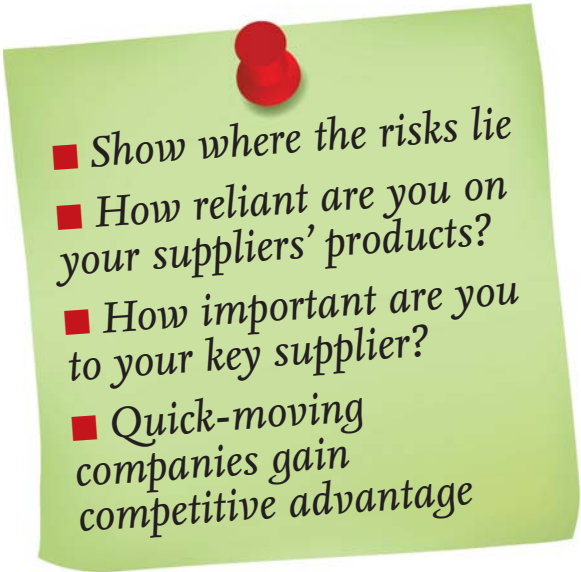
the supply chain and the fact that parts of it can be in other regions of the world where there is more risk from adverse weather or other natural disasters or the possibility of political unrest makes the job more complex,” says Bird.

Yet that doesn’t mean that it’s impossible to devise a sensible business continuity strategy for the supply chain. The first step is to identify where the biggest risks lie. “The key bottlenecks may not lie with your immediate supplier but further up the supply chain,” says Bird.

Last year, Nissan had to suspend production on assembly lines for a time because Hitachi, which supplied some engine parts, could not get enough chips from its supplier.

To try to understand the level of risk it’s important to consider not only the factors that might disrupt a supplier but how reliant you are on its products, argues Bird. “It’s naïve to expect a company to hold

“ **IF YOU’RE SCRAMBLING AROUND YOU’LL BE BEHIND PEOPLE WHO’VE ALREADY PLANNED WHAT THEY’RE GOING TO DO** ”

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- Show where the risks lie
 - How reliant are you on your suppliers’ products?
 - How important are you to your key supplier?
 - Quick-moving companies gain competitive advantage

larger inventories of every part or component but it should be possible to hold larger buffer stocks where the risks are highest—for example, where there is a single supplier for a critical item.”

It is important to understand how important you are to your key suppliers, adds Bird. “If something goes wrong and supplies are in short supply, will they give priority to your company or another?”

When there is a supply chain problem, companies that respond fastest often gain a competitive edge over their slower-footed rivals. “If you’re scrambling around after a problem, you’re going to be behind people who’ve already planned what they’re going to do,” says Bird.

Good planning and looking ahead are keys to sound supply chain management.

The chain gang

If you're responsible for running the supply chain in your company, what key issues should you bear in mind? And what should you know about your suppliers?




- Think about the reliability of supply
- Are goods delivered on time? What's the quality like?
- Talk to customers

When members of the Chartered Institute of Logistics and Transport (CILT UK) were asked what concerned them, they mentioned issues such as carbon emissions and reporting, planning and transport management systems, cost-saving measures, waste, vehicle routing, and planning for bad weather.

Supply chains are becoming increasingly complex, which means it's more difficult to focus on those issues that make a real difference. One way to look at the problem is to consider the supply chain as a game of two halves—inbound and downstream. The inbound half covers the goods coming from suppliers into your company. The downstream half is about how you take your product from your premises to your customers.

One of the top inbound issues that directors ought to be concerned about is reliability of supply, says Steve Agg, chief executive of CILT UK. That's not just about goods being delivered on time. It includes issues such as quality. "But it may be more difficult to monitor quality at arm's length. For example, if your products are being manufactured in the Far East," says Agg.

It used to be straightforward to have goods made where costs were lowest—and that usually meant China and elsewhere in the Far East. But rises in labour costs in eastern China and fuel

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- *Should you source key components locally?*
 - *Just-in-time techniques increase the risk of running out of stock*
 - *Assess where to manufacture key parts*

costs around the world mean that is now not necessarily the best option. Add in increased risk that comes from transporting goods long distances and it could be that directors should take a fresh look at where to manufacture or to source key parts or components.

The downstream supply chain also throws up issues that may need fresh thought. “There’s a headlong pursuit to reduce inventory using just-in-time techniques,” says Agg. “But it’s important to remember that inventory is there for a purpose—to provide safety stock—and cope with the vagaries of unstable demand. If you drive out inventory, you drive out costs such as warehousing but you increase the element of risk and of running out of stock when business does peak.”

When it comes to stock planning, nothing

beats intelligence derived from sound research about what customers want and when they’re likely to need it, says Agg.

Internet shopping means new challenges for supply chains. Directors should plan for a “reverse supply chain” so that customers can return goods they’ve ordered but decided they don’t want. “There’s a significant element of cost in returning and reprocessing goods, which you need to build in to your business model,” Agg warns.

Most SMEs need to rely on third-party suppliers for parts of their downstream supply chain, such as warehousing and van deliveries. But that means they can hire specialised firms and provide the kind of service levels customers demand, such as shorter “delivery windows”.

Increasingly, a company’s competitive edge derives not just from its own efforts but from those of supply chain partners. So decisions about which other firms to choose as supply chain partners are critical.

“ DRIVING OUT INVENTORY MEANS YOU INCREASE THE RISK OF RUNNING OUT OF STOCK AS BUSINESS PEAKS ”

The natural solution

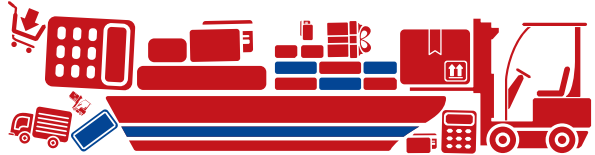
An automated supply chain system has helped one company become more agile, more responsive and better equipped to serve its customers

Business Neal's Yard Remedies
Sector Health and beauty products
Head of IT Jason Cook

When it comes to supply chains, Neal's Yard Remedies, which manufactures organic health and beauty products, has one that is about as long as they get. The company's head office and factory is in Gillingham, Dorset. And as Jason Cook,

head of IT at the company, explains: "Some of our products originate with raw ingredients which we source from as far as New Zealand and Australia." Others are grown closer to home in the UK.

The challenge for the company is to order its natural ingredients from many locations, turn those ingredients into products, and



“ THE IT SYSTEM TELLS US WHAT PRODUCTS WE NEED TO MAKE AND WHICH INGREDIENTS WE NEED TO BUY THAT AREN'T IN STOCK ”

then distribute them to customers across the UK. Neal's Yard Remedies' automated supply chain ensures that the right products get to the right shops in the right quantities, says Cook. At the heart of it lies an integrated IT system running Sage software.

"The IT system tells us what products we need to make and which ingredients we need to buy that we haven't got in stock. So without it, we wouldn't be able to understand what we need to buy," says Cook.

When the products arrive at Neal's Yard, they are booked into the warehouse with the

help of goods-in and goods-received modules that check which purchase orders were used for the goods.

Cook explains: “When the ingredients are ready to go into our factory, we use another part of the system to list which of them are needed to make a product. After manufacture, the products will move into our packing department and the software helps us to schedule our works orders to ensure that we are packing the right products at the right time—so that we don’t run out of products on the shelf, in the shops or at our distributors.

“In the warehouse, the Sage software helps us control the flow of those finished goods

The system also supports website sales. Cook adds: “One of the main benefits of the IT system is that we have a central place for all of our data. We can analyse information across our business right from when we’re buying our raw ingredients, and we can track those ingredients when they come into our business all the way through to when we sell our products.

“If we ever had to do a product recall—we’ve not done one yet—then the information in the system would enable us to say with quite an amount of certainty where the raw ingredient came from, when it arrived with us, what batch of product it was used in, and which of our customers have now got those bottles of product.

“The system helps us all the way through from when the flowers are grown to the time the product is used on somebody’s face.”



to our distribution house at Wincanton, where the majority of our stock is held.”

Orders arrive at Neal’s Yard either through EDI links or through the business-to-business module, developed by Sage Business Partner FD Systems, which integrates seamlessly into Sage.

“Shops can come on to our b2b system and place their orders,” says Cook. “Information is shared with other parts of the system automatically, such as the sales ledger, purchase ledger, management of the budget, production of invoices and so on.”

“ THE SYSTEM HELPS US ALL THE WAY FROM WHEN FLOWERS ARE GROWN TO THE TIME A PRODUCT IS USED ON SOMEBODY’S FACE ”

Fit for the future

As resource pressures begin to affect the supply chain, smart businesses are learning to build more sustainable relationships with suppliers as well as their competitors

When restaurant group TGI Friday's UK announced that it planned to have its waste cooking oil turned into bio-fuel for use by the delivery vehicles of logistics partner 3663, it sent a message about the future of many supply

chains. "Recycling cooking oil to high quality bio-fuel can help us reduce carbon emissions by up to 90 per cent," says Alyson Scott, head of supply chain at TGI Friday's.

Green issues will be increasingly important in supply chains, agrees Richard Wilding, professor of supply chain strategy at the Centre for Logistics and Supply Chain Management at Cranfield University School of Management.


He points to projects such as collecting rainwater run-off from the roofs of giant warehouses and using it to create wetland areas, which can encourage biodiversity.

Wilding points out that companies will also increasingly need to consider biodiversity as they source raw materials and commodities from other parts of the world. "Sourcing from some regions of the world, such as cotton from areas with water shortages, could have a major impact on biodiversity," he says.

But the biggest threats to the future of supply chains will come from resource pressures, Wilding warns. "Every critical resource is becoming resource-pressured, such as energy, oil, food, some metals—even people with the right skills."

Basic front-line skills, such as those needed in warehouses, are in short supply. But the biggest problems lie with mid- to senior supply chain management, says Wilding. He draws a distinction between the IQ of a supply chain and its EQ.

- *"Co-opetition" will become more important*
- *Which processes support competitive strategy?*
- *Is your infrastructure fit to support customers?*

- 
- *What technology do you require?*
 - *How do we organise a robust supply chain?*
 - *How can suppliers support customers?*

The IQ measures the hard skills, such as how to manage inventory or plan a delivery vehicle's optimal route.

"But these days, those skills are just a qualifier for you to operate," says Wilding. More important are the EQ—emotional intelligence quotient—skills. These include how to build relationships not only up and down the supply chain, but also horizontally with competitors.

He points out that "co-opetition"—collaborating with a competitor for mutual advantage—will become more important in the supply chains of the future. He uses Nestlé and United Biscuits, which share elements of their lorry transport even though they are competitors, as an example. "It saves both of them costs and carbon emissions," he says.

Wilding blames the shortage of supply chain EQ partly on the small numbers of

women in the logistics profession.

Women can be especially effective in the softer EQ management skills such as relationship building, he claims. But Women in Logistics UK, a networking organisation set up in 2008, is seeking to change that perception. It has already recruited more than 1,500 members.

As directors plan supply chains fit for the future, Wilding suggests they ask themselves four key questions. What are the processes to support my competitive strategy? What is the infrastructure we need to service customers? What information systems do we need? How do we organise people and suppliers to support those customers?

"You need to create a supply chain society," says Wilding. "Competition is no longer between individual companies—it's between the supply chains they're part of. Organisations must come together to create robust supply chains."

“ **EVERY CRITICAL RESOURCE IS BECOMING RESOURCE PRESSURED, SUCH AS ENERGY, OIL, FOOD, METALS—EVEN PEOPLE WITH THE RIGHT SKILLS** ”



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