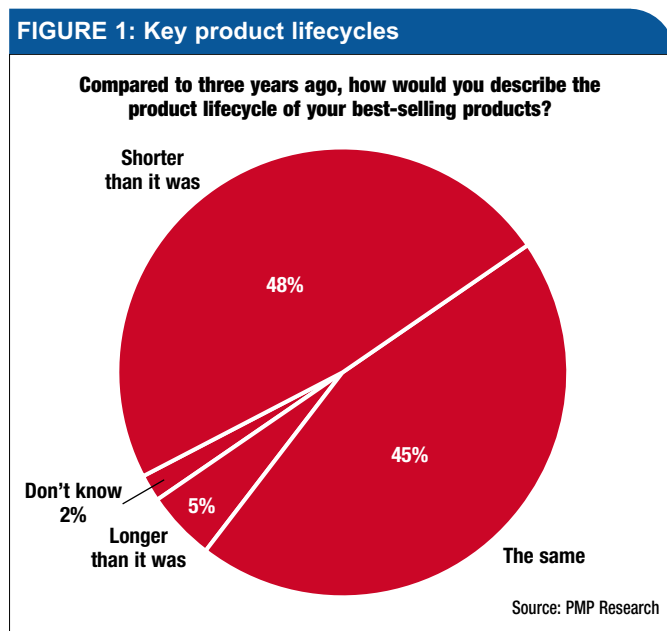


# WAITING FOR THE PAYBACK

*Companies continue to invest in supply chain technology despite uncertain benefits, says Pat Sweet, analysing our latest PMP research.*

Anyone viewing the TV footage earlier this year of cargoes of motorbikes and nappies washed up on a Devon beach had a vivid illustration of the chaos that can happen when the supply chain breaks down for whatever reason. But it is not just natural disasters which pose a threat to supply chain planning – globalisation, cut-throat competition and increasingly demanding customers can also cause havoc. These three factors were top of the list when we asked the organisations taking part in this year’s PMP Research survey to identify the main pressures on supply chain and manufacturing requirements.

Competition, cited by 50%, is hotting up as technology offers new entrants a way into established markets. Globalisation (41%) allows companies to switch manufacture to lower-cost economies, which may help them stay competitive, but there remains the problem of customer order patterns (48%). Almost half the respondents (48%) reckon that the product lifecycle of their best-selling items is now shorter than it was three years ago (see Figure 1). This is nearly twice the proportion (26%) who took this view in our last survey 12 months ago.



Of the remainder, the biggest proportion (45%) say that product lifecycles are the same as before, but only 5% estimate they now have the luxury of selling the same item for a longer period. Similarly, 81% of those polled tell us their products are now becoming more customised or personalised compared to the situation a couple of years ago, and they are committed to offering a greater choice of options.

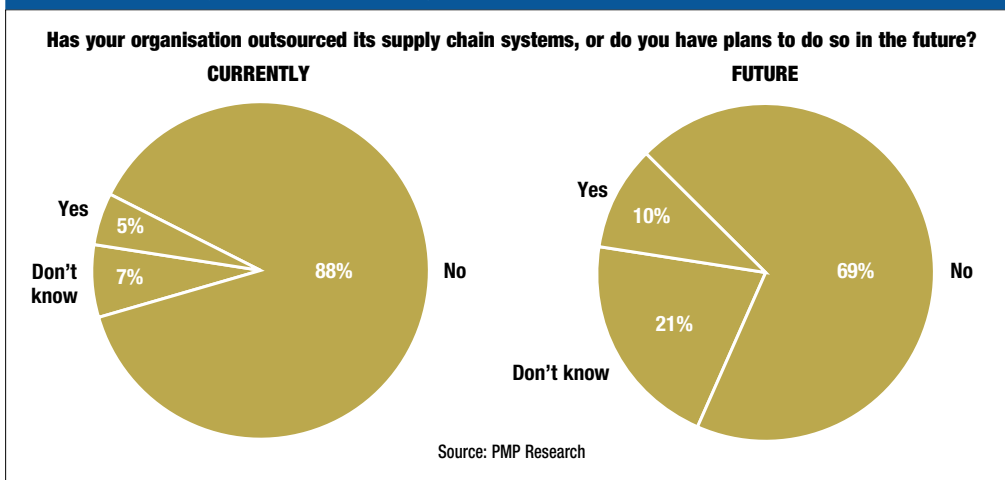
The pressure to constantly adjust in order to meet new requirements is clearly having an impact on supply chain systems. Interestingly, only a third of the sample (36%) claim to have a five-year strategy for supply chain systems and technology. In contrast, 46% plan to revise their supply chain strategy annually, while 27% review the situation every six months. The proportion who are happy to leave things unchanged is much smaller (14%).

Given all the challenges companies face in managing their supply chain systems, it is surprising that just 5% have currently decided to outsource applications (see Figure 2, next page). And while double that figure (10%) expect to outsource in the future, 69% have decided against such a move. Handing over supply chain problems to someone else can seem a seductive option, but this is a solution which risks producing almost as many problems as it solves.

There are also marked changes in the ways organisations are attempting to manage their supply chain. Currently, the majority (69%) look after their supply chain requirements on a national level. One in five (19%) do so on a global basis and just 7% handle their supply chain at a pan-European level. Looking to the future, this picture changes radically. Over the next two years, the proportion managing their supply chain at a national level is set to halve, dropping to 38%. Over the same timeframe, around a third (31%) expect to manage their supply chain globally and 19% anticipate a pan-European implementation.

Given this background, it is not surprising to find that a quarter of companies re-engineer their supply chain every one or two years. The survey findings suggest quite a bit of activity in recent months, with 9% of the sample saying they last re-engineered their supply chain less than six months ago and 12% in the past year. A further 26% have done so during

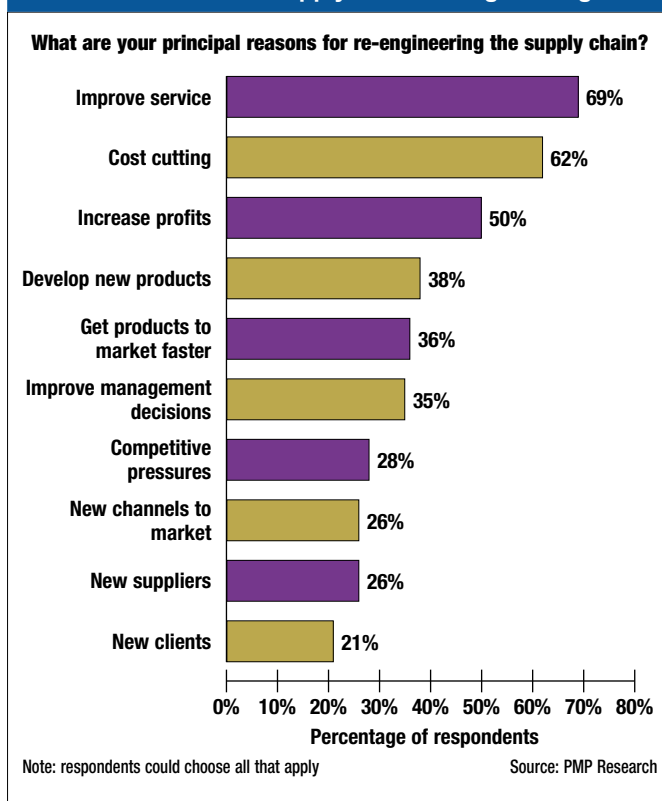
**FIGURE 2: Supply chain outsourcing**



the past two years. This trend is set to continue, with 13% indicating they intend to re-engineer their supply chain in less than six months' time and 11% planning to do so during the next year. A further 27% are aiming at a one to two-year time horizon.

Such findings initially suggest that many supply chain implementations must be in an almost constant state of flux. However, only 10% expect to re-engineer the whole of their supply chain during such revamping exercises. The majority (56%) will be re-working some part or parts of their supply chain and the supporting applications. As Figure 3 shows, the two key reasons for re-engineering emerge as the desire to improve service, cited by 69%, coupled with the need to cut costs (62%). These requirements are rated as more urgent than being able to introduce new products (38%) or getting products to market faster (36%). Given this background, two-thirds of the sample (67%) believe that improving communication and/or collaboration along the supply chain is now more important than it was two years ago.

**FIGURE 3: Drivers for supply chain re-engineering**

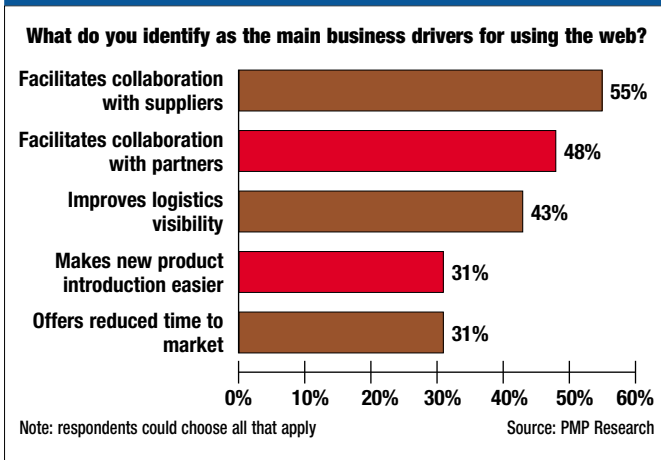


There is also broad agreement about the benefits of introducing online working. The majority (86%) already use the web as a means of communication within the supply chain, although there is still room for more old fashioned methods – half (52%) of the sample continue to use EDI, for instance, and 62% remain faithful to fax technology. Nonetheless, three-quarters of companies (76%) plan to use the web for supply chain activities in the future. Their ambitions in this respect cover everything from online purchasing (67%) and selling (62%), through to order management (55%) and customer management (48%).

The most obvious benefit of opting for online service is the chance to cut costs, which is mentioned by 76%. This is viewed as a more significant benefit than the opportunity to improve customer relationships (55%) or supplier relations (40%). It is also a more attractive goal than becoming more responsive (43%) or being able to slash timescales (43%).

The biggest hurdle to overcome in moving to web-based applications is the issue of security, which is raised by 55%. There is also the need to re-engineer

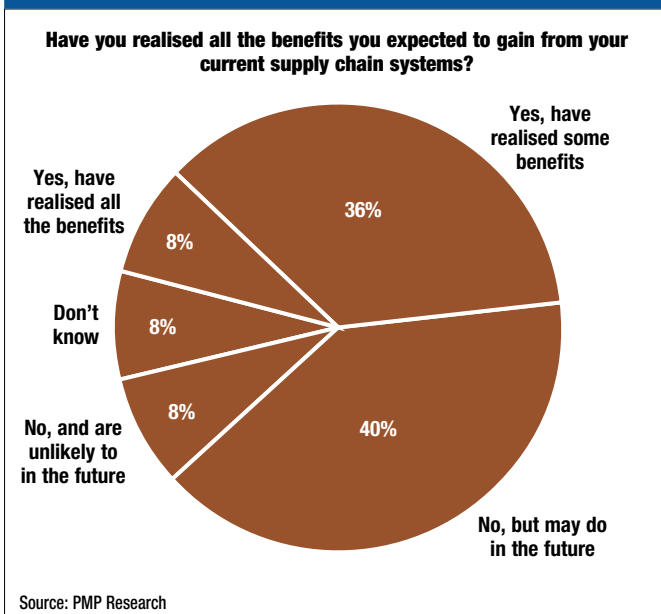
**FIGURE 4: Use of the internet**



business processes (40%), particularly when balanced against concerns about lack of take-up of online services amongst suppliers (38%) and customers (31%). In addition, a third of companies (33%) are worried about the costs of online implementation.

Interestingly, in view of the trend towards greater personalisation of products which is highlighted in this survey, at least one respondent believes this can cause problems when moving online and comments that “customer-specific products are not suitable for web sales”. Despite such misgivings, most companies indicate they will continue to switch to online offerings, not least because of competitive pressures or, as one reply puts it, “everyone is using it so we have to”.

**FIGURE 5: Supply chain technology benefits**



As Figure 4 shows, the main business drivers for using the web identified in the survey include the need to collaborate more easily with suppliers (55%) or partners (48%), the desire to improve logistics visibility (43%) and the need to reduce time to market (31%).

Online enthusiasm only takes companies so far in the operations cycle, however. Although there has been considerable publicity about the potential for making substantial cost savings by using a B2B marketplace for activities such as procurement, only a quarter (25%) of companies have so far signed up for such an option. The remainder are divided on the wisdom of going down this route, with 29% indicating they may do so at some point in the future and the same proportion (29%) ruling it out altogether.

Companies are also struggling with other possible developments of their supply chain applications. The majority (59%) say their supply chain and

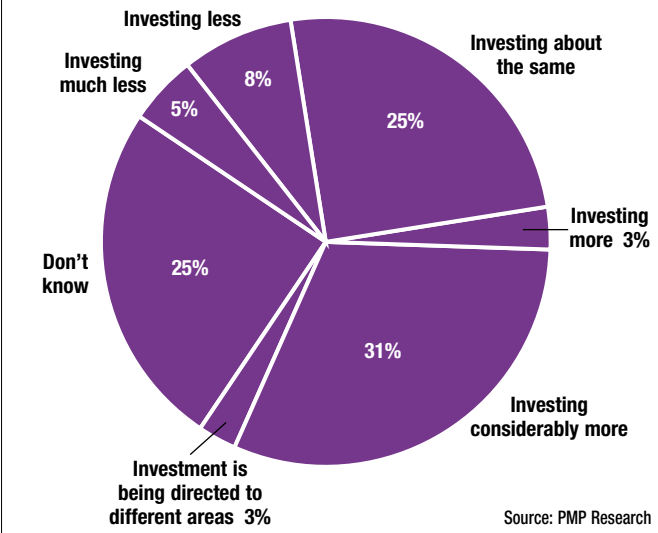
manufacturing systems are not currently integrated with other internal departments such as design, even though there are good reasons for developing such links. In response, 61% are making more use of integration tools to link together internal applications than was the case two years ago.

Only one in five companies (21%) have the ability to reflect the impact of business events immediately in their forecasting systems, leaving the majority (60%) in the dark if something changes dramatically. Meanwhile, half (50%) have projects in place to improve the quality of the data held in their supply chain or manufacturing systems. And while 62% profess themselves happy with their data quality, which they describe as ‘good’, the remainder feel their data is either ‘poor’ (29%) or ‘very poor’ (9%) and none label it ‘excellent’.

In light of these problems, it is not surprising that companies are divided on whether their supply chain systems have become more flexible in recent times, with 47% agreeing this is the case and 43% suggesting it is not. As in previous surveys, companies have yet to see substantial gains from implementing supply chain technology. Just 8% reckon to have realised all the benefits they expected from their current systems, while a third (36%) have seen some progress in benefits realisation (see Figure 5).

**FIGURE 6: Supply chain investment**

**Compared to the situation three years ago, how would you describe your organisation's current level of investment in supply chain systems?**



However, the biggest proportion (40%) do not feel their systems have delivered clear wins thus far, though they expect this to change in the future. A further 8% have resigned themselves to seeing no benefits, with the remainder (8%) unsure. For a third of companies (31%), the main barrier to achieving benefits is the inflexibility of internal processes and the difficulties of making changes. Lack of management commitment to supply chain technology (26%) emerges as another factor, but a similar proportion (24%) simply feel it is too early to say how well such systems may perform.

Significantly, individual responses highlight strong disappointment with the performance of supply chain software, and in particular with the 'over-sell' of potential benefits by vendors. Asked to comment on current levels of investment in this area, one respondent maintained that "systems which simply do not perform anywhere near the suppliers claim they

would" is a significant factor in a recent drop-off in spending. This is a minority view, however, as a third (34%) of companies are now investing either 'considerably more' (31%) or 'more' (3%) in supply chain software than they did three years ago (see Figure 6). In contrast, 13% are spending either 'less' (8%) or 'much less' (5%) than previously. A quarter (25%) have maintained the same level of investment.

New technologies such as RFID are also starting to win fans. A quarter (26%) have already invested in this technology and a similar proportion (24%) say they may follow suit in the next couple of years. The benefits of RFID are identified as better stock control and inventory management, cited by 71%, along with an improved ability to track orders or products (64%) and better protection against loss (45%). Cost emerges as the main disadvantage of opting for this technology among 60% of those questioned, especially given the concerns already expressed about software performance.

In summary, supply chain systems are here to stay. But while our survey confirms that companies remain very active in this area, there are still significant problems in achieving clear benefits from the often considerable investments made in such technology. For the moment, organisations are prepared to wait to reap what they have sown, but some at least must be hoping that patience will soon be rewarded.

● *Pat Sweet is the PMP research analyst. If you are interested in this study, please contact Cliff Mills at PMP Research. Email: [cliffm@pmpresearch.co.uk](mailto:cliffm@pmpresearch.co.uk).*

## SURVEY STATISTICS

We surveyed a broad range of companies, including those from the manufacturing sector (17%) and the retail industry (12%), where supply chain issues are critical. As well as these two key areas, 7% of respondents are from the chemical & pharmaceutical business, 5% from distribution & logistics and 5% in engineering. The organisations polled are equally varied in size. At the top end of the range, 22% have an annual turnover in excess of £5 billion, while 7% fall into the £1 billion to £5 billion bracket. The biggest group (29%) have a turnover of between £5 million and £10 million, while 15% are in the £10 million to £50 million range and another 5% report a turnover of £100 million to £150 million.