



## Vital links in the chain

**F**REIGHT logistics, long the ugly sister of management theory and practice, is coming into its own as a major determinant of business success.

Nice example: a manufacturer client of Melbourne-based supply chain consultants GRA attracted the favourable attention of one of Australia's major supermarket chains because its deliveries were always on time and in good order.

After examining records showing this superior performance over a 12-month period, the chain offered the manufacturer a substantial private-label contract that expanded its business profitably. The consistency of delivery was recognised as a significant benefit, and promise of superior future performance.

Would that things were so nice all the time. In many cases, they're not.

Each supply chain deficiency reflects poorly on the supplier's ability to attract and serve its markets. And the nation's increasing reliance on international suppliers makes greater demands than before for medium and long range planning to ensure on-delivery to their own markets matches their customers' needs. And is profitable.

Australian businesses need to play international logistics to a set of rules entirely new to most.

Example: The Australian division of a foreign carmaker is required to place daily orders to the parent company's factories to conform to the foreign manufacturing schedules.

The foreign factory has a zero inventory policy, and ships its cars as they're made. This works fine in the host company nation, but presents problems in Australia. The cars ordered last Wednesday won't be here for up to three months.

Money the parent company saves through zero inventory, the Australian office loses in ordering, purchasing, receipting and transport costs.

Even worse is the situation of the Australian arms of foreign companies that impose a minimum ordering requirement. Ours is a small market to many large corporations, and few see any reason to disrupt their systems to meet our needs. A minimum order in their terms can amount to 12 months' supply at this end of the chain. The capital drag to the cost of local inventory is obvious.

**A**re there releases from international same-brand clashes such as these? There are, and only sophisticated long range planning can identify them.

"Domestic operations find it increasingly difficult to remain competitive, responsive and efficient when these constraints and cost structures aren't constantly optimised and

managed effectively," says Mr Carter McNabb, GRA partner. "To profit from the opportunities created by globalisation rather than be hindered by its risks, Australian businesses must dramatically improve long range demand and supply planning to better match supply to demand and consistently have themselves with the right item, right location, right quantity at the right time.

"Doing nothing [to change traditional rules-based supply chain practice] will not be a viable option for very long."

While many supply chain specialists offer valuable toolsets to reform traditional supply chain practice, GRA believes effective reform comes to organisations that blend scientific study and smart tools with internal cultural issues.

**M**r McNabb says: "Supply chain practice here has grown out of logistics and transport services. More sophisticated skills are needed for successful forecasting and other benefits, and to this point, they're little understood here.

"Our approach builds on designed and adopted standards of customer service, rather than rules-based practices."


Rules-based supply principles such as keeping a rigid amount of inventory on hand can lead to serious customer disappointment.

The classic illustration is the unsynchronised promotion: sales and marketing employees discount a product to attract customers. This works, but when demand hasn't been synchronised with supply, stocks run out. Playing catchup, the supply team expedites new stock at a higher cost. All too often, it arrives only after disappointed customers have lost interest in buying the item. Overall result of the promotion: unforeseen loss.

"Australian businesses must improve their ability to accurately forecast demand and plan supply into the future," Mr McNabb says. "In today's supply chain environment, what you don't know can hurt you. It's dangerous and potentially costly to commit resources to a project where the underlying assumptions aren't fully tested, and where the expected benefits and outcomes aren't clearly defined.

"This is the difference between luck and skill."

GRA's clients include QANTAS, Carlton & United Breweries, Smorgon Steel and Super Cheap Auto. Their optimisation program, GAINS, is designed to introduce planning and synchronisation principles enabling users to improve customer services while reducing production costs and capacity.



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