

FROM COST CENTRE TO COMPETITIVE WEAPON

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A defining driver of success for many companies around the world is a focus on the supply chain. These companies excel at integrating functions within their businesses and working with their trading partners to deliver superior performance year after year. Supply chain as a discipline involves many activities, but the experiences of three successful businesses highlights three main areas of importance: resilience in the face of disruption, excellence in execution, and end-to-end supply chain collaboration. Together, they transform the supply chain from cost centre to competitive weapon.

Resilience at McCormick & Company

The global nature of today's supply chains makes them more vulnerable to disruption. When not properly planned for and managed, disruptions can severely curtail a company's ability to deliver to customers whilst incurring additional costs as the 'fire fighting' gets underway.

One company that successfully navigated a series of severe disruptions was spices and flavourings producer McCormick & Company. In 2011, its supply chain was hit with three major disruptions. First was the political uprising in Egypt, which affected suppliers of key ingredients for several products. Then devastating floods in Thailand, the worst in 50 years, affected the company's manufacturing facilities in the region, as well as those of its co-packers and bottle manufacturers. Last was comparatively less extreme, but no less disrupting: a key supplier defaulted on shipments of capsicum, affecting several products.

What actions did McCormick take to deal with such disruption and maintain service to customers? The first was proactive: the year before, McCormick centralised the supply planning team to ensure cooperation between different business units all relying on the same resources. As the emergencies unfolded in 2011, this was crucial, as it prevented scarce resource hoarding by different business units and kept

the focus on priority customers and products. The second was a key aspect of supply chain risk mitigation: utilising cross functional teams to manage each disruption, ensure a coordinated response and keep communication flowing amongst different participants. The result? In 2011, McCormick's net sales rose 11% to USD \$3.7bn while net income rose 5%.

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Execution at Amazon

Supply chain execution is a key component of competitive advantage, especially in today's retail industry. The ability to offer flexibility, convenience and be responsive to customer needs is becoming the rule rather than the exception in a retail environment where the growth in online shopping continues to outperform that in more traditional bricks-and-mortar settings. At the forefront of this change is Amazon. Its work on executing same-day delivery in conjunction with free shipping in the United States, and making this cost-effective in the process, is literally redefining the customer shopping experience while setting the benchmark that competitors will have to follow.

Most Australian retailers are woefully unprepared for this emerging reality, but a select few are taking notice and taking action. For example, you can order products online from Officeworks before 11AM and receive them the same afternoon. With reports towards the end of 2012 indicating that Amazon was looking to invest in a new Australian distribution centre, it is imperative that Australian retailers understand

the need to work backwards from customer expectations and design their supply chain execution response accordingly.

Collaboration at Del Monte Foods

At its heart, supply chain is about the interconnected nature of business, that a business is a system of connected activities, operating in a larger network of suppliers and customers. As such, company performance is in many ways dictated by the performance of the supply chain as a whole.

To ensure the performance of the end-to-end supply chain, companies must collaborate with trading partners, both upstream towards suppliers and downstream towards final customers. A good example of such collaboration is food and pet products producer Del Monte Foods. It works closely with key retail partners, gathering downstream data from retailers to create a demand signal repository (a data warehouse of integrated and cleansed demand information from point-of-sale sources) to improve forecasting and promotions planning, and providing a data set for more advanced analytics that improves planning. In addition, Del Monte account teams have strong relationships with retail partners and have access to retailer store replenishment settings, allowing them to identify inefficient or incorrect settings that are causing headaches upstream from the retailer.

As a result of this effort to work collaboratively, Del Monte has achieved an in-stock service level greater than 98% at the retail shelf (where it matters most), while helping key retail partners improve operational cash flow as products move faster to consumers than the payment terms agreed with Del Monte. In addition, the work done on improving replenishment across the supply chain allowed one retail partner to remove 44% of Del Monte inventory out of its warehouses.

Lessons for your business

Each of the companies above exemplifies the benefits a supply chain focus has on business

performance. Their experience provides a framework for businesses in Australia to improve supply chain productivity, which leads to a positive impact on the bottom line. That framework is characterised by resilience in the face of disruption, excellence in execution and improving the supply chain end-to-end via collaboration. Take a moment to think about your business and answer the following questions:

Resilience in the face of disruption:

- What impact does the weakest link in our supply chain present? Is this business-critical or can we cope?
- Have we tested our risk mitigation strategies? Do we know they work? Would they still work if they were developed some time ago?
- Do we have the tools, processes, structures and disciplines to work cross-functionally if we don't already? Could we realistically do this in the face of an emergency?

Excellence in execution:

- Are the service expectations of our customers changing? Can we rise to the new expectation in a cost effective way? What are our competitors doing in relation to changing our customers' service expectations?

- What parts of our supply chain significantly impact customer service levels? What have we done to address these?

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End-to-end improvement via collaboration:

- What actions have we taken to build a relationship with our key trading partners? Have we conducted a collaboration workshop, or instituted engagement between our senior leadership teams in order to align strategic goals?
- What level of information sharing occurs between us and our trading partners? What specific data do they provide us, and how do we use it to improve our planning and execution? Alternatively, what data do we provide

them, and how does that improve the way we work together?

- To what degree do we leverage emerging technology to improve collaboration with our trading partners? Do we use technology to improve our visibility of the end-to-end supply chain?

Conclusion

Businesses can improve their productivity and bottom line performance by maintaining a supply chain focus that emphasises resilience, excellence in execution and collaboration. Your answers to the questions above give you an insight into the level of supply chain focus in your business. A lack of focus leaves you vulnerable to disruptions, weakened in the face of changing customer expectations and isolated in a disconnected supply chain. Maintain that state of affairs for too long, where your supply chain is merely another cost centre instead of a competitive weapon, and you can forget about focus. There will be no business to focus on.

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