



Logistics Association of Australia Ltd

US SUPPLY CHAIN PRIORITIES – STATE OF PLAY

Following is the first in a series of articles from Paul Walton, winner of the Logistics Development Award 2001, sponsored by CHEP Australia and supported by TMP Worldwide.

The CLM conference and US study was an outstanding feature of my professional life.

The conference theme for 2001 was ***Collaborative Relationships in a Changing Economy***. Perhaps the greatest highlight was the overwhelming positive attitude to moving forward after both the economic slowdown and the September events, and the role worldwide supply chain professionals have in working together to ensure this happens.

Over the next six newsletters I will be compiling a set of articles which embrace the highlights of the study tour and will review topics including:

- ❑ US Priorities - State of Play
- ❑ Collaborative Successes
- ❑ Mass Customisation
- ❑ Collaborative Themes
- ❑ Technology Solutions
- ❑ Materials Handling and Innovation

US Supply Chain Priorities – State of Play

During my travels I was fortunate to spend time with Deloitte Consulting in Texas. The basis of our discussion was the state of play in US supply chain priorities.

The key themes were:

- The economic slowdown
- A revised view of advanced capability initiatives
- A recent shift to value initiatives
- The key areas of future opportunity
- Lessons to be learnt for Australia

Slowdown in Perspective

The last eighteen years has seen relentless growth in the US economy. Capital has been readily available for any supply chain initiative that complemented growth programs.

For many involved in US logistics management the economic downturn of the past year has been an unpleasant shock, representing the first significant external business impact in their management career.



Figure 1: US Executive

More than just Capability

The technology boom and shareholder growth expectations have meant that over the past five years the US has invested an enormous amount in advanced capability supply chain initiatives.

Advanced capability initiatives provide a technology platform for growth and improvement through enhanced communication and greater flexibility. They have primarily involved electronic commerce, advanced planning systems and advanced collaborative commerce.



Figure 2: Advanced Capability

In some cases projects were conceived and justified quickly as a “*must do*” to continue competing in *the “New World”*, and were not developed to a solid

business model as would usually be the case. ***The sharp US economic slowdown has put subsequent pressure on both company cashflows and profits, jeopardising capital availability for advanced capability projects.***

Further dampening enthusiasm are surveys from research firms such as AMR which suggest that near 60% of the projects have not been considered a success. Another survey from Accenture suggests that the biggest highlight of the “bubble burst” (over 50% of respondents) has been the return to valid business models.

The net result has been a noticeable reduction in advanced capability initiatives due to:

- ***a perception of high risk***
- ***the deferment of spend until better business conditions***
- ***a natural “breath” after a sustained period of high investment***

Value, Value, Value

Whilst certainly reducing their overall capital spend in an adverse economic environment, ***it is pleasing to hear that US companies are continuing to invest proportionately in logistics initiatives.***

The funds appear to have been diverted away from advanced capability initiatives and redirected into value initiatives. ***No longer is growth capability alone a valid business case since value initiatives demand a shorter term, clear payback.*** These value projects include the traditional logistics priorities of:

- inventory optimisation
- optimised networks and W&D
- conventional capability programs including ERP and forecasting projects

In many cases these traditional priorities had been out of focus in the quest for growth related advanced capability projects.

Importantly, for many companies value initiatives will also continue to be classified as advanced capability.

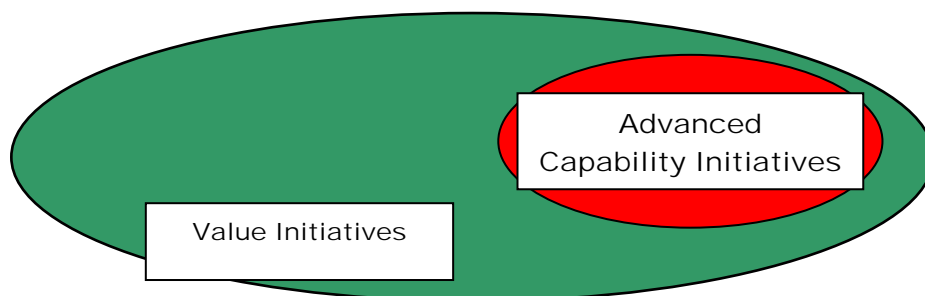


Figure 3: Revised Priority Paradigm

Although it is true that 60% of capability projects have not been successful, it is also true that 40% met or exceeded expectations.

Successful projects can be simply distinguished from the others:

- Rigorous commercial business models were first established
- Participation partners were chosen selectively and strategically
- Trust, relationships, and process were given higher priority than technology

The Crystal Ball

Not surprisingly, logistics opportunities for the future can be identified from the key drivers of shareholder value:

Key Logistics Drivers of Shareholder Value	
Grow Revenue <ul style="list-style-type: none">• Advanced capability initiatives• Mass customisation capability• CRM initiatives• Collaborative product planning to decrease time to market	Decrease Cost <ul style="list-style-type: none">• Optimising operations• Improving planning and forecasting• Strategic procurement
Reduce Assets <ul style="list-style-type: none">• Outsourcing• Inventory reduction, with a focus on the extended supply chain• Network optimisations	Consistent Results <ul style="list-style-type: none">• Application of supply chain principals to market pricing and real demand management

Key: Black = Traditional areas of LM
Green = Advanced areas of LM
Red = Experimental areas of LM

Lessons for Australia

The US experience teaches Australian supply chain professionals four key lessons:

1. FOCUS ON AREAS OF GREATEST VALUE

- For many this may continue to be traditional priorities

2. RIGOROUS BUSINESS MODELS ARE MORE IMPORTANT THAN THE TECHNOLOGY USED

- Understanding of value priorities and future direction are essential

3. BED IN CORE PROCESSES BEFORE STARTING MORE ADVANCED PROJECTS

- Leading edge initiatives require a solid base to execute effectively

4. LOOK FOR THE NEXT OPPORTUNITY

- Companies such as Dell have proven that there is real business value in extending the limits of logistics and out-competing through the supply chain

Parting Thoughts

The conversation was refreshing. It reassured me that the new business world is still within my intellectual grasp.

Whilst there are now some fantastic technological tools which can help with business relationships, communication and complex planning ***the key to running a successful supply chain continues to be the development of a comprehensive business model, and the application of effective management to attain this vision.***

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