

SUPPLY CHAIN MANAGEMENT



The cash chain

Supply chain leaders will prevail in the current economic climate. Risk assessment and mitigation are of paramount importance and supply chain is now as it should be – on the boardroom agenda, writes **Malory Davies**

Supply chain is often unglamorous, regularly misunderstood and sometimes forgotten, but it is the largest untapped source of cash available to the finance director in many organisations today. 2009 is the year that the cash chain came of age.

The banking crisis and recession has put the focus firmly on managing cash within the business and at the same time ensuring that important suppliers do not collapse. As a result supply

chain has moved up the boardroom agenda over the past 18 months.

The threat of supplier bankruptcies has been highlighted in a recent survey of global supply chain leaders which found that 75 per cent of participants had recently helped at-risk suppliers to ensure deliveries. The survey by PRTM, the management consultancy, also found that 45 per cent have provided financial support to suppliers in the form of revised payment terms or risk financing.

Changes in the way supply chains are organised have exacerbated the problem. Companies have seen big cost savings from moving manufacturing to third parties in the Far East at the same time as reducing stock levels. This also leads to less resilience in the supply chain. Up until now this has not been a major problem, but the scale of manufacturing closures in China has been ringing alarm bells around the boardrooms of Europe.

Gordon Colborn, director at PRTM, says: "Risk assessment and mitigation

are now top of the agenda. Global companies can't afford to have key suppliers go under. This is a major risk to supply chains."

Will Bruce, risk specialist at Marsh, the insurance broker, has seen an upsurge in the number of companies trying to gauge the risks in the supplier base before problems turn into crises.

This is still a qualitative process for many – mapping out the critical suppliers and understanding what could go wrong. Leaders in this area are now starting to quantify the impact on sales, he says. The aim must be to put in place sensible and efficient plans to mitigate the effects of a failure somewhere in the chain. There are also new supply chain insurance products coming to the market. Another way of managing risk is to use a company like Achilles, which works to identify, qualify, evaluate and monitor suppliers on behalf of major organisations worldwide.

The need to improve cash flow through the chain has also prompted companies to look at new approaches to finance. Tom Dunn, chairman of Orbian, the supply chain finance specialist, says the market changed fundamentally in 2008 as suppliers found their traditional sources of finance being squeezed.

"Suppliers became very eager to find new sources of liquidity and started approaching their customers to work with us to develop a supply chain finance strategy," he says. "Now every major corporation is looking at SCF programmes."

The aim of companies like Orbian is to replace the old-style factoring model which they see as inefficient with uncertain cash flows, low advance rates and unfavourable interest rates. Orbian reckons that SCF can reduce a supplier's financing costs by more than

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Risk on the rise

Discover what strategies are being deployed to mitigate risk and complexity in the Supply Chain. **page 7**

Roundtable discussion

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A survival tool

Sustainability is vital to business survival – balancing the economic, social and environmental impacts of companies' operations. **page 12**



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50 per cent over traditional methods. This year the company expects growth of 50-60 per cent in this area.

More companies are also looking at trade disruption insurance. Paul Culham of Kiln, the underwriting group, points out that traditional insurance products tend to focus on risks to property and are not well suited to the more intangible nature of supply chain risk.

Trade disruption insurance is particularly bespoke, being tailored to individual needs and covering a range of risks from contractual issues to transport disruption, he says. For example, in the fashion industry, which is very seasonal, sales will be lost if garments are not in store at the right moment whether it is because of a failure at the factory in the Far East or during the journey to the retailer.

Easing the financial burden on a supplier is one thing; full-blown collaboration is quite another. But research by LCP Consulting in the UK earlier this year found that two out of three companies were starting to collaborate with their key suppliers. Even so, it is not always enthusiastically embraced. "No-one likes to collaborate, but when it comes to survival you don't have a choice," says Andrew Kirkwood of RedPrairie, the supply chain software specialist.

Some companies believe it means giving up a measure of competitive advantage. "This is old fashioned thinking. Companies that collaborate to save supply chain costs will have a competitive advantage over those that don't," argues Alan Waller, vice president at consultancy Solving Efeso.

Waller argues that companies are often too internally focused and he has been instrumental fostering collaboration through an organisation called ELUPEG (European Logistics Users Providers and Enablers Group).

"The recession has pushed down volumes leaving the fixed costs exposed... companies must either take out fixed



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costs or increase volumes," he says. "And the best way to do that is to collaborate with other organisations. There are huge opportunities, but you only get those opportunities by focusing externally."

Collaboration can involve suppliers, other businesses with similar needs and even competitors. The most successful collaborative strategy in Europe has come from Kimberly-Clark which is working with both Unilever and Kellogg's. It has powerful reasons

to seek out other companies to work with. Lavatory paper is a high volume, low value product and consequently transport costs account for up to six per cent of the net sales value.

Its first collaborative project started eight years ago in The Netherlands in response to retailer demand. It now shares a warehouse with Unilever's home and personal care products. Peter Surtees, director of European supply chain, says that about 80 per cent of its total volume for The Netherlands is now handled through the partnership.

That success led to the arrangement with Kellogg's, which involves sharing space at each other's depots along with some shared deliveries. Bringing in the pallet supplier, LPR, and third party logistics supplier, TDG, has added to the costs savings. And Surtees points out that there is also an environmental saving of some 560 tonnes of carbon dioxide a year.

Finding the right partner is not easy, says Surtees. "The formal benefit case is the easy bit. The real trick is to find a partner that shares your company values and understands what you are trying to achieve. It's that cultural trust and fit that drives the results."

Effective planning can play a big part in reducing the cash-to-cash cycle time – the time between paying suppliers and taking payment from customers. Andrew Kinder of Infor, the software

house, says: "Measures of performance historically have tended to be operational – inventory levels, order fill rates and so on. But now the cash-to-cash cycle time could become the barometer of the health of the supply chain."

Good sales forecasting at a generic level also opens the way for techniques such as postponement where goods are not customised for a particular market until the very last moment, says Mike Branigan, chief executive of third party logistics provider TDG. This can result in significantly lower overall stock levels at a time when financing stock is a major drain on a company's resources.

However, PRTM's survey found that the recession has sharply degraded the reliability of demand and supply forecasts beyond a three-month window, and some 60 per cent plan to redesign their Sales & Operations Planning (S&OP) processes to help them get through the recession.

Technology is an important enabler to planning but, says Patrick

Crampton-Thomas, supply chain specialist at SAP, the software giant, the first priority is to ensure that the planning process encompasses all the key departments. "You have to ensure that supply chain execution strategy is aligned with the company's strategy."

And he argues that effective S&OP requires organisational change. It is a cross line-of-business topic and it is important that the lead comes from the top. "It must be sponsored by the chief executive."

The recession is forcing companies to focus on the supply chain to gain competitive advantage by improving cash flow, minimising risk, forming strong collaborative partnerships, and strengthening planning processes. But will that all be forgotten when the economy begins to pick up?

It is just possible that we are witnessing a sea change in the way supply chain is viewed, and now is the moment for it to take its rightful place at the heart of corporate strategy.

WHAT IS A SUPPLY CHAIN?

Before the railways, most supply chains were quite simple – goods were generally produced locally and sold in the town market. Fast, cheap transport changed all that. Goods can be made wherever it is cheapest to do so, and transported hundreds or thousands of miles to the customer.

The ability to do that has spawned the modern concept of supply chain which describes the network of organisations, people, technology and information involved in getting a product or service from supplier to customer.

A manufacturer might source components from suppliers in the Far East. They then have to be shipped to the assembly plant and stored before they are taken to the line. Finished goods have to be checked and packed prior to delivery to the customer. The process might take in transport by sea, air and road, plus a series of stops in warehouses along the way.

It takes a lot of planning to get it right. Visibility, knowing where components and finished goods are in the chain, is also vital. Consequently, companies are investing in sophisticated computer and communication systems oversee to the whole process.

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PROMOTIONAL FEATURE

The Co-operative gets a voice



In a market as competitive as grocery, customers will look elsewhere if a retailer can't meet their needs

Jessica Davies looks at how the world's largest consumer co-operative has embraced technology to improve the performance of its supply chain

It's a British institution, but three years ago The Co-operative Group was feeling the pressure of running three separate distribution networks (one for ambient, another for frozen and a third for multi-temperature products) with no clear national infrastructure in place.

Today it is well on the way to its target of providing seven mixed-temperature deliveries a week to every store in the country. And part of this turnaround is the result of bringing in advanced computer systems to manage the giant distribution centres that feed the stores.

This was some challenge for what is the world's largest consumer co-operative, with 4.5 million members, and an annual turnover of £10 billion, £4.5 billion of which comes from the food retail sector. And that is without factoring in Somerfield, which it took over last year for some £1.57 billion.

From its foundation in 1844 the group comprised small co-operative societies which gradually merged into larger ones. One of the most significant mergers came in 2007 when the Manchester-based Co-operative Group merged with United Co-operatives which was headquartered in the spiritual home of the movement, Rochdale, to create, for the first time in the Co-operative movement's history, a truly national co-operative food business.

But, as a result of all these mergers, its distribution network developed without a clearly planned national

infrastructure. Delivery zones overlapped, some distribution routes were illogical and many warehouses were strapped for space. The flows were complex and stores were receiving a high frequency of ambient deliveries but few of chilled goods. The challenge was to streamline the delivery process, ideally serving each store where appropriate with a single, multi-temperature lorry while improving the availability of goods in the stores.

Trevor Ashworth, director of food retail logistics at The Co-operative Group, says: "We knew that we were notching up a lot of unnecessary mileage with our deliveries and we had to find a way of fixing this problem while ensuring that product availability improved at the same time."

The first step was to build a national distribution centre in Coventry, which instantly gave each of the regional sites a 25 per cent boost in capacity. But on top of that it needed a new a warehouse management system. This is a computer system that keeps track of all the products as they come into the warehouse and allocates positions on the racking.

When an order is placed, the warehouse management system (WMS) creates a picking list and directs the picker to the right location to find each product on the list. It also updates the inventory status so that stocks of a product can be replenished before they run out.

The Co-operative also wanted a system that could support further development of the network's physical infrastructure, and that would be capable of running its complex, nationwide network.

After reviewing a number of different models employed by several other organisations, from large supermarket chains to small convenient stores, it chose Manhattan Associates' Warehouse Management solution in an open systems architecture which includes IBM's AIX (UNIX) operating system. This enables the Manhattan technology to run on a robust, reliable, scalable and flexible server platform.

The South East region acted as the guinea pig for the system, having been pinpointed as the Co-op's worst-performing area. And so in 2006 a 325,000 sq ft regional distribution centre was built at Thurrock in Essex, to serve 700 stores handling some 50 million cases per year.

The warehouse management system integrates with voice technology developed by Vocollect and supplied by Zetes. Voice technology has grown dramatically in popularity over the past few years. Picking staff carry small units with headsets through which to communicate with the warehouse management system. The computer tells the picker where to go and what to pick, and it will not let the picker move on until he has confirmed the accuracy of that pick.

The main benefit of this is in the accuracy of the picking process – it is substantially more accurate than paper based systems. It has the added benefit that the picker does not need to speak English – the system works just as well in Polish or Urdu. A plan to streamline the local network of warehouses was also put into action.

The aim of the Thurrock DC was to address all problems associated with stock-outs in its stores in the south eastern region, where deliveries were at times hindered as a result of congested roads.

Just about the biggest crime in retail logistics is stock-outs – not having the goods on the shelf when the customer wants to buy. It is not just the loss of that single sales opportunity, it is the effect it has on the customer. In a market as competitive as grocery, customers will soon look elsewhere if one retailer can't meet their needs.

Other goals included increasing the frequency of deliveries to stores, improving order lead times, and reducing the shipping and order errors.

The new warehouse management system covers everything from receipt of products and storage, through to picking, and dispatch. The system enables the depots to pick for any combination of products, taking into account the need for security, temperature control or location.

A year on from the pilot, the South East had transformed into the company's best-performing region. An since the Thurrock warehouse opened, on-shelf availability has improved dramatically.

One of the main benefits of the solution is that it can apply the same functionality across multiple product groups with different characteristics.

"So far we have seen a ten per cent improvement in productivity at all the sites which have gone live with the system," says Ashworth.

Another of the major benefits gained by the system is the fall in shipping errors, which Ashworth says has had a "significant" impact on in-store availability, and this in turn has reduced the administrative burden on staff.

The Thurrock centre has acted as the blueprint for all later roll-outs. Coventry and Nottingham were next in line to go live with the system, swiftly followed by Chelston in Somerset, Thetford in Norfolk, and Birtley in the North East. Combined, these serve 1,500 stores, with the view to serving its total 3,300 stores by 2012.

The £15 million depot at Birtley in County Durham opened a couple of months ago. It is a 280,000 sq ft warehouse and will pick more than 500,000 cases per week using voice recognition technology, for distribution to 260 Co-op food stores across the north.

In line with these more environmentally aware times, the new building incorporates a number of energy efficient features, including rainwater harvesting for refrigeration and vehicle washing. In addition, office lighting is movement activated and has a daylight-dimming feature, which lowers brightness depending on the level of light during the day. The site has received an "A" rating Energy Performance Certificate from the government.

The project's pay-back was estimated to be less than three years when it started, and Ashworth says the results are well within this target. "But it's the productivity gains that have been most important for us," he says.

He also points out that the pay-back has been such that the Manhattan solution has been installed across centres that face being discontinued in the future. Manhattan provided consultancy services during the first implementation. "This was so good," says Ashworth, "that since then we've been virtually self-sufficient. We've done the last four to five implementations off our own steam."

Ashworth reckons one of the main challenges is deciding which sites to install it next. Ultimately, the entire national network will be managed by these warehouse management systems.

"We are well on the road to achieving our ideal network – multi-tiered, composite and strategically located. And thanks to Manhattan Associates we have a framework that gives us visibility and control of stock and the flexibility we need to grow," says Ashworth.

The focus for the next few years will be on rolling the system out across the entire network. Completion date for entire network roll-out is 2012, and by that time Ashworth says there will be nine multi-temperature regional distribution centres, one national, and three out-bases to manage cross-docking.

Scotland is most likely to be next in line for installation, and Ashworth says he is looking at the possibility of using the system at some of the Somerfield sites.

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