

Response time

It's an unpredictable world. In recent months alone, UK purchasers have had to react to the impact of terrorist attacks, increases in oil prices and changes to textile quotas.

Products too have shorter life-cycles; there is more technological innovation and a growing demand for tailored products.

Faced with such a turbulent marketplace, says Professor Martin Christopher, professor of marketing and logistics at Cranfield University, it is no longer possible for purchasers to make a forecast, order goods and sit back and expect them to arrive on time or in the right quantities to meet future requirements.

Instead, he suggests, purchasers and supply chain managers need to be driven by demand. But to do this, they must be able to move quickly and have what he describes as an agile, or responsive, supply chain.

He says the challenge is greater still, now that companies have moved manufacturing and assembly offshore, or have outsourced supply to third-party companies. But he is confident there are changes companies can make to meet the demands of the modern business environment.

Taking a broader role

To start, he says, purchasing people have to become supply chain people. This means focusing not just on how to buy, but on how to manage whole supply chains.

"Supply management is increasingly about relationship management and supplier development - identifying who companies want to partner with; who can enable them to become more responsive; and who they want to become part of their extended enterprises - to such an extent that they can't even see the seams."

Purchasers should work on the basis of sharing the pain and the gain, and instead of looking for the lowest-price supplier, they should be looking for the one that will work most closely with them and reduce the impact of risk in the supply chain.

In the future, he believes, the preferred suppliers will be the ones that have aligned their processes to the purchasing organisation. "We are competing not through the quality of the product, or even through the price, but through our capabilities, and in particular our ability to do things in shorter time frames.

"The only way this is going to work is if you have a much higher level of collaborative planning and if you share information on things like demand and inventory availability," he says.

"One of the reasons why any company has inventory is because of uncertainty. If you can reduce that uncertainty, you can reduce the need for inventory. This can be achieved by better visibility or better information. So the smart companies are those that are not so much inventory-based as information-based."

But Christopher acknowledges this change is demanding. "I don't think the barriers are technological. We can connect companies to every other if we wish to, at a relatively low cost. What really stops this is the mindset - do I really want to get this close or this dependent on my suppliers?"

But there are already signs of change in this mindset - for example, in the form of collaborative planning forecasting and replenishment in the fast-moving consumer goods industries.

"Look at Tesco - 10 years ago it would have never contemplated sharing its point-of-sale data with suppliers. Now it does so readily over the internet."

"Suppliers are able to see what is moving off the shelves and they are in a much better position now to replenish automatically."

However, supply chains don't stop at the purchase, says Christopher. His research is, as he puts it, at the interface of marketing and logistics. Bringing these two aspects together requires organisations to look downstream at customers, as well as upstream at supply. After all, the downstream markets have a direct impact on the upstream supply.

Start with the customer

In the past, supply chains have been designed from the factory outwards and production has been optimised to ensure a steady flow of supply. But now, he says, companies should design the supply chain from the customer backwards and optimise responsiveness to customer demands.

Christopher uses Nokia as an example. The mobile phone industry is fast moving and is dependent on ever-changing technology and fashions. Nokia recognised that it needed a better connection between marketing and logistics to manage processes and ensure order fulfilment. The company, he says, recognised that supplier development isn't just the responsibility of procurement - it is cross-functional.

This era of the complex supply chain will require organisations to apply more control through what he calls better supply chain orchestration.

"We have got a very complex network now - myriad suppliers, we've outsourced all these activities, we have got multiple supply chains in terms of distribution channels.

"To manage that network we may require the services of some speciality logistics or supply chain service providers." This service, he believes, will be supplied by the large logistics companies and will manage the pipeline from supplier to the final market place by using integrated information systems. "This is an interesting trend that I see emerging now, this role of a supply chain orchestrator or co-ordinator."

Price vs responsiveness

One major barrier to agility and collaboration is the still-growing strategy of low-cost overseas sourcing. But Christopher believes that this trend cannot sustain itself for much longer.

"I am convinced that offshore sourcing will, in many cases, prove to be a big mistake."

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Companies have done it for what they believe to be sound financial reasons, but what they are actually doing is being less responsive."

Costs, he believes, go far beyond just what you pay a supplier. "If there are longer lead times, you need more inventory to cover yourself during that time."

As a result, companies' agility is reduced and there is a cost to not being able to respond quickly to demand. "I might find that I have greater demand for a product than I anticipated, but that's too bad, there's no way I can reorder."

On top of this, the cost of transporting the goods continues to rise. "The cost of making things has never been as cheap, but the cost of moving things has never been as high and will get higher."

Quite apart from the increase in the price of fuel, he sees prices set to rise owing to environmental charges and taxes. "Air transport is one of the biggest sources of global warming, so soon we will have to take this far more seriously. But at the moment, no excise duty is levied on aviation fuel, so the cost of moving things around is artificially low."

One example of a company that has sought to reverse the trend for long-distance transport of goods is computer company Dell, which has moved its manufacturing closer to its main markets. Other companies, such as the clothing retailer Zara, also now use low-cost sources for goods with predictable demand and local sources for producing the more volatile or less predictable products.

"Companies are going to have to put aside many of the preconceptions that they have been working to. I believe that tomorrow's supply chain might actually find a return in some instances to more local sourcing."

*Taken from Supply Management magazine, features, 8
September 2005*