

Surviving in the downturn and thriving in the upturn

The Royal Institution of Great Britain, 2 April 2009

An audience of over 80 supply chain professionals from across Europe packed the library of the Royal Institution on 2nd April for the second annual LCP Executive Briefing. The great turnout was especially pleasing considering the need to brave both the turmoil of London logistics and the G20 summit!

The Briefing is a chance for clients and friends of LCP to share experiences and learning in a convivial atmosphere. We are pleased to say the feedback was universally positive – and so we will start planning the Briefing for 2010.

The presenters this year covered many aspects of '*Surviving in the downturn and thriving in the upturn*' from across the practitioner and academic spectrum.

Topics covered – the 5 Supply Chain Maxims to Survive and Thrive; reducing working capital and generating cash; practical design & implementation of S&OP; creating visibility from 'field to fork'; supply chain planning; the 'T' shaped person in collaboration and making decisions using both 'Carbon and Cost' - a true illustration of the diversity involved in developing and operating today's supply chains.

The eight excellent presentations came from:

- Professor Alan Braithwaite, LCP Chairman – a viewpoint on '*Surviving in the downturn and thriving in the upturn*'
- Professor Martin Christopher – Managing Supply Chains in Turbulent Times
- Christian Borel, Head of Supply Chain Integration, Merck Serono – Supply chain integration and the role of S&OP
- Jerome Saint-Marc, Logistics Development Director, Wm Morrison Supermarkets plc – Field to fork, creating visibility in a vertically integrated supply chain
- Professor Richard Wilding, Cranfield School of Management – Achieving supply chain resilience through collaboration
- Atle Pedersen, Factory Manager, Rieber & Son ASA-Toro – Practical experience in implementing sales and operations planning
- Emile Naus, Network Strategy Lead, Marks & Spencer plc – Planning in an uncertain world
- Rob Hollis, Director Regional Supply Services and Production, Fosters Wine Group – Reducing CO2 emissions in the wine supply chain.

About LCP Consulting

LCP Consulting is a leading specialist in customer-driven supply chain management. With over 20 years' experience in the field, we identify where supply chains make major contributions to how businesses operate profitably and compete effectively. We support businesses review, re-design and implement changes to their end-to-end operations. Our fact-based diagnostics pin point exactly where & how to cut costs, enhance operational efficiency and invest for the future.

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Summary of presentations

Professor Alan Braithwaite, Chairman of LCP Consulting, opened with a view that even six months ago the pace of the global economic crisis could not have been foreseen.

The situation was unprecedented, but Professor Braithwaite told the audience that in Chinese “crisis” was made up of a combination of two characters – “danger” and “hidden opportunity”. The businesses that will survive the downturn and thrive in the upturn are those that can identify and exploit the hidden opportunities in their supply chains. To

Alan explained the importance of identifying the right supply chain levers that would generate supply chain improvements. He told the audience that the supply chain needed to be thought of as a system encompassing business processes, organisation design, ways of working, information technology and physical infrastructure. This meant that in order to make a substantive change all parts of the business needed to pull together.

The 5 Maxims have been adopted by the Management Consulting Association (MCA) as a major element of their campaign on Supply Chain Developments for the Downturn.

Professor Martin Christopher started his talk by pointing out a copy of Alvin Toffler’s book *Future Shock* which was at hand in the library. Martin reminded the audience that when the book was written, in 1970, Toffler’s definition of the term future shock was “*too much change in too short a period of time*”. Martin’s view was that the 1970 “shock” was little more than a 10 Volt tingle compared with what we are experiencing now.

Martin’s presentation focused on the importance of reducing working capital and generating cash. He told the audience that the supply chain could be a key generator of cash for businesses and likened it to “the bank of the supply chain” – unfortunately many businesses had “lost the key to the bank”. In order to identify the opportunity it was important to measure the cash-to- cash cycle time at product level. Armed with this understanding businesses could then identify and manage the supply chain trade-offs of availability and inventory to maximise cash.

Martin highlighted a number of opportunities to reduce working capital such as focusing on time compression within the supply chain and sharing logistics assets – potentially with competitors. He also highlighted the need to reduce complexity in all its forms – including the number of nodes in the supply chain, number of products, number of different service options offered to customers – and advocated the need to “bring product design into the supply chain” as a way of optimising product life cycle requirements.

“I just wanted to say that I thoroughly enjoyed the afternoon, it was very useful for us and demonstrates just how far we have to go in getting our own Supply Chain improved.”

help businesses achieve this LCP Consulting has launched 5 supply chain maxims:

1. Reduce unprofitable complexity by truly understanding how both customers and products erode margin
2. Build customer service excellence into your supply chain
3. Become the preferred customer of your key suppliers
4. Design, plan and execute for agility
5. Synchronise and integrate to eliminate waste and cost.

Christian Borel from Merck Serono, a €4.9 billion pharmaceutical business, described the process of integration following the acquisition of Serono by Merck in 2006, and the importance of S&OP as a key enabler.

The key goals following the merger were:

- No stock outs
- A clear integration plan
- Sharing of best practice.

Christian talked about the differences between the two businesses and the development of a joint supply chain change team developing the future vision. The programme identified the key elements of integration as:

- Planning Processes
- Supply Chain Execution
- ERP/MES Processes
- Inventory and Performance
- Supply Chain Organisation
- Change Management.

A “Supply Chain Together Program” had the responsibility for implementing the changes across the two businesses to create the new supply chain operation.

As of the end of March 2009 the new Merck Serono supply chain organisation is up and running and the focus going forward is on implementing a “Best Pharma, Best Supply Chain”. As a starting point the business has developed a supply chain balanced score card measuring: inventory availability; inventory levels; and sales forecast accuracy. Christian said that there was agreement in the pharmaceutical industry that supply chain management was not best practice. However, Merck Serono had the intention of reaching FMCG benchmarks of supply chain performance.

“I just wanted to send a quick note to thank LCP for the organisation of this Briefing .I certainly came away with a number of thoughts and reflections on our own business model which is a credit to the speakers.”

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Jerome St Marc, Supply Chain Development Director of Morrisons presentation was entitled “Field to Fork, Creating Visibility in a Vertically Integrated Supply Chain”.

Morrisons has a turnover of £14.5 billion and over 130,000 employees and as well as being the UK's 4th largest retailer it is also the UK's 5th largest food producer. This level of vertical integration means that the “field to fork” supply chain provides a significant level of competitive advantage. However, in order to exploit this advantage it is necessary to understand all of the trade-off levers across the entire supply chain. The supply chain has to support the Morrisons' operational maxim “Plan for Capacity – Execute for Demand”. In order for this to happen, Morrisons' supply chain ethos can be summarised as:

- Move from reactive supply chain management to scenario planning, then execute and adapt the strategy based on real time trends
- Do not equate technology with supply chain. A great system does not make an effective or efficient supply chain
- Supply chain management is not just cost containment but innovation and value creation
- Cross functional involvement is paramount in achieving the planned results.

Jerome highlighted the work that Morrisons has been doing with LCP on supply chain Flow Cost-To-Serve® modelling. This has enabled Morrisons to understand the trade-off between cost, service and capacity and has provided a tool “to take the emotion out of supply chain decision making” and underpin the Morrisons' supply chain ethos.

The Flow Cost-To-Serve® modelling has enabled visibility of the trade-offs across the supply chain and is having a positive impact on all of the key business areas:

- Trading – better visibility of volume variable cost to support more efficient promotional effectiveness
- Corporate – a more commercially minded view of the end-to-end paradigm of cost vs. service
- Manufacturing – a deeper understanding of the net-net contribution from the internal Make vs. Buy decision
- Transport and Warehousing – a capacity led view of the cost base informed by throughput
- Stores – a complete view of where best to invest/change (front end vs. back end) in delivering value to both the customer and the business.

Professor Richard Wilding from Cranfield University then gave a presentation entitled “Achieving Supply Chain Resilience through Collaboration”.

The central idea of the presentation was that if businesses were to succeed they needed to implement ‘C3 behaviours’ - move from supply chain **Cooperation** to **Coordination** and finally to **Collaboration**.

Richard's view was that in order to achieve this goal the people working in supply chain management needed to be more “T” shaped. He said that many people working in supply chain management were “I” shaped – in that they only understood their own function. Whereas “T” shaped people understand not only their own function but also the process that they are part of. He illustrated the strength of “T” shaped people in the supply chain by getting everyone in the audience to stand up and put their arms out to make a “T” and then to rest their arms on the shoulders of the people either side. Not only did this require less effort but it also provided a more secure “chain”. You had to be there to experience it!

However, achieving collaboration is not easy and required organisations working together over a long time period making many small wins to gain trust and confidence in the relationship. In order to achieve this there is a need for organisations to develop new skills and ensure that people working in supply chain management have emotional intelligence. In this way it is possible to improve relationships internally and externally. A problem facing many organisations is that they have no way of measuring the strengths of these internal and external relationships.

As part of this process businesses should try to measure the strengths of their relationships with customers and suppliers because, quoting Lord Kelvin “if you can not measure it, you can not improve it”. In order to support this process Cranfield University has developed a Supply Chain Collaboration Index (SCCI®) that measures the level of collaboration between organisations in the supply chain. This then allows businesses to focus attention on where it is needed and ensure that poor relationships are addressed before they become a source of supply chain risk.

Atle Pedersen from TORO, part of the Rieber Foods Group, based in Bergen started by giving some background information about TORO and the Norwegian grocery retail market.

He told the audience that every household in Norway buys two products from TORO every week. The business has over 500 SKUs ranging from long shelf life products like tinned fish to short shelf life products like microwaveable chilled rice pudding.

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In late 2007 the business made a decision to invest in developing supply chain management capabilities following the implementation of SAP. Atle said that he had recently seen an advertisement saying that “Porsche runs SAP” but from TORO’s perspective it often felt like the other way around!

TORO worked with LCP in early 2008 on a supply chain diagnostic project that identified a number of opportunities to improve supply chain performance. From this work two key projects were identified:

- Definition and implementation of supply chain KPIs and reporting
- Definition and implementation of Sales and Operation Planning processes.

Atle then went on to discuss how TORO and LCP have implemented the projects using a “Keep It Smart and Simple” approach. Both projects had been successfully implemented and were delivering benefits to the business. In addition, the KPIs developed for TORO have now been implemented across the whole Rieber Group.

Emile Naus from M&S presentation was titled “Planning in an Uncertain World”.

Emile started by reminding the audience of how the UK economy has changed in last 12 months. In the retail sector planning has traditionally been thought of as being driven either by financial needs, “long term”, or capacity requirements, “short term”. Emile said that in the current economic climate not much long term planning was taking place as no one was prepared to say when the recession will end. However, there is lots of short term planning taking place as retailers focus on maximising existing capacity and look to take advantage of any opportunities wherever they might be found – from increasing sales revenue through

end-to-end wine supply chain. For example, as Foster’s sell over 120 million bottles of Australian wine in Northern Europe every year then the emissions from freight movements were thought to be significant. Environmental concerns are a big issue for Foster’s and there are a variety of sustainability initiatives running around the world – from the introduction of a “Global Environment Management Database” to on the ground activities such as using light weight glass bottles and sharing freight transport with customers.

Rob said that, like the majority of organisations, Foster’s had only a limited understanding of the CO2 emissions associated with the wine supply chain. Whilst some work

promotional activity to signing property deals with rent free incentives.

Whilst short term planning was crucial Emile warned against only focusing on the short term and not doing any long term planning. Although the future retail picture was uncertain it is important to make sure that long term business goals are not neglected. He told the audience that the best approach to take was to:

- Understand the lead time implications
- Do not lose sight of the long term goals of your business
- It is easy to fall into the trap of just focusing on short-term cost savings.

He concluded with a reinforcement of Professor Wilding’s viewpoint about the importance of collaboration – both internally and externally. It was vitally important that the commercial, logistics, store operations and finance teams all collaborated to ensure the best possible short term plans were produced. It was also important that key suppliers were involved in long term planning to ensure that future supply chain solutions were robust enough to cope with any economic eventuality.

“Just to say thank you for last weeks conference. It was excellent all round and very relevant”

The final speaker was **Rob Hollis**, from Foster’s Wine EMEA, whose presentation was entitled “Reducing CO2 emissions in the Wine Supply Chain”.

Rob told the audience the good news that grapes absorb significantly more CO2 when they are growing than they give off in the fermentation process. Unfortunately there are lots of other sources of CO2 emissions associated with the had been undertaken in Australia looking at the emissions during grape growing and the fermentation process there was no clear picture of the total supply chain carbon footprint. Without this it was impossible to prioritise initiatives to reduce CO2 emissions. In order to develop an end-to-end supply chain carbon footprint Foster’s commissioned LCP to undertake a Carbon-to-Serve® analysis. The scope of the project was all activities involved from growing grapes in Australia through to delivering a bottle of wine to a retail store in the UK.

The analysis was a full supply chain Carbon-to-Serve® that enabled the comparison of four different supply chain scenarios:

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- shipping bottled wine from Australia into the UK, the current supply chain
- shipping wine in bulk from Australia and bottling in the UK in glass bottles
- shipping wine in bulk from Australia and bottling in the UK in PET bottles; and a hypothetical scenario
- growing wine in France and shipping to the UK in glass bottles.

Based on the outputs from LCP's Carbon-to-Serve® analysis Foster's now understood the CO2 emissions of the current supply chain and the different scenarios for decision making. Rob showed the outputs of the analysis to the audience but stressed the confidential nature of the detailed emissions.

Rob concluded by saying that it would be great to work with competitors, bottle suppliers and customers to standardise on bottle specifications as this would have both cost and emissions advantages for the industry.