

# Building up strong links on road to success

More and more firms are discovering the benefits of outsourcing their supply chain. But strong relationships and good communication are key to making it work, writes **Emmet Ryan**

**N**O BUSINESS is an island and no better way is this demonstrated than in a supply chain. In order to maintain order, drive and efficiency, firms need to get the right blend of other partners in their chain of supply.

Failure to do so can result in delays leading to increased costs and loss of business. Avoiding such a scenario requires the ability by management to choose the right partners and maintain the firm's end of the supply chain bargain. The cliché about weak links in chains is true in this regard.

"It is critical that there are good relationships along the chain," says Kevin Vaughan, business development director at SerCom Solutions.

"You have to be sure all of the pieces stack up. If somebody lets part of the chain down, it can have knock-on effects," says Vaughan. Despite this risk, the importance of supply chain management (SCM) to business processes is not fully realised by many Irish businesses, according to Nigel Devenish, commercial director of DSV Solutions.

"A characteristic of Irish supply chain is that this function is often

within the domain of financial directors and not yet seen as a critical executive enabler," he says.

Many firms however are finding an alternative fix. Rather than focusing on resolving supply issues in-house, businesses are bringing in assistance from outside the company. "The general trend which we have seen in recent years is the outsourcing of various elements of supply chain functionality to third parties," says Edward Sweeney, director of learning at the National Institute of Transport and Logistics.

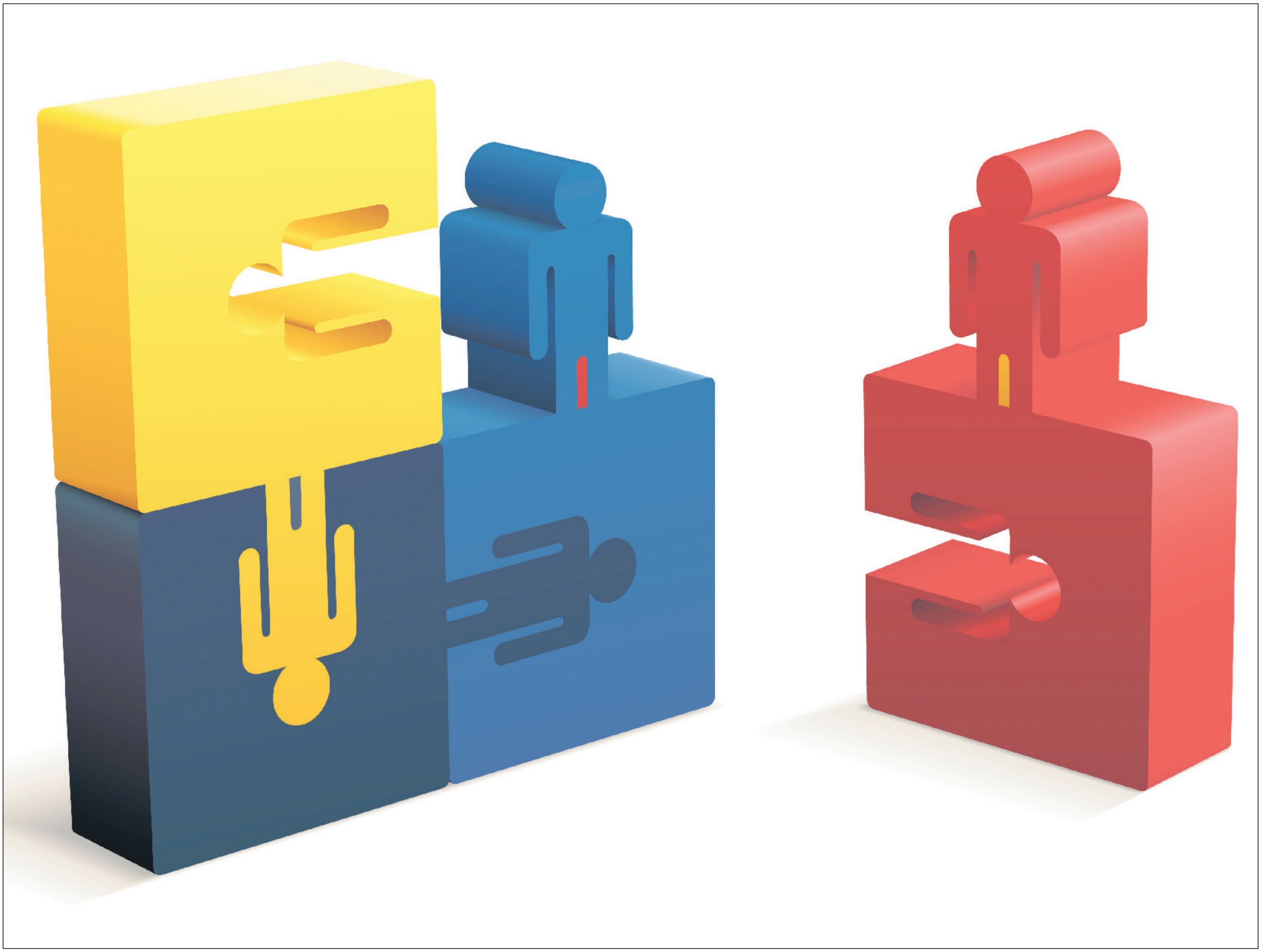
The benefit is that companies can focus on managing the core business of a firm while leaving the other aspects in the hands of external experts.

"The ability of third-party logistics firms to provide specific services is one of the bases of competition in the market," says Bruce Horton, senior executive within Accenture's SCM practice.

"Organisations look for suppliers who can provide specific services in relevant geographies such as suppliers who can handle import and export documentation or who can provide parcel, pallet, less than truck load or full truck load deliveries," he says. "Economic access to these types of capabilities is the biggest driver for small to medium-sized companies."

Sweeney explains that this trend means the in-house approach to SCM is now mainly concerned with the management of relationships with external organisations. The aim is to avoid a drop in standards across the chain after outsourcing.

"Although companies are willing to outsource these functions, they are keen to maintain quality standards while looking to constantly challenge their cost base," says Conor McNamara, consultant in advisory performance improvement with PricewaterhouseCoopers. "If a brand man-



ager is unable to get an accurate idea of a delivery date for one of its product components, this can compromise the overall responsiveness of the supply chain," says McNamara.

With speedy delivery of goods to market essential, many contracts now account for potential lapses in the chain.

An increased emphasis is being placed on the importance of SCM. "A number of manufacturers are now being forced to sign pen-

alty clauses, making them liable financially, if they fail to meet an agreed delivery date," says McNamara.

"This places extra focus on internal supply chain processes as a failure to meet the agreed delivery date can have immediate cost implications." Clear communication is necessary in order to ensure that business across the chain functions in tandem and avoid such punitive measures. "Everyone has to be clear on

**'You have to be sure all of the pieces stack up. If somebody lets part of the chain down, it can have knock-on effects.'**

Photograph: iStockphoto

**Successful relationships are based on partnerships and not master and servant**

what is required," says Vaughan. "You might e-mail an Asian partner and find that they don't understand your west Limerick style of writing."

On top of overcoming language barriers, business people need to improve communication to keep each other in the loop and point out potential road blocks ahead.

"Giving early notice of problems to partners can help in resolving issues," says Vaughan. "It allows everybody to rally

round." By informing partners of a firm's own potential glitches, a business demonstrates respect for the needs of other parties in the supply chain.

"This understanding and acknowledgement is crucial to building dependable relationships. Successful relationships are ones based on partnerships and not master and servant," says Devenish.

"The relationships that accord open and transparent reporting and communication are the ones that deliver expedient cost savings allied to improved service levels."

Information is a valuable commodity. By showing a willingness to share knowledge with partners in a supply chain, businesses can exploit this value and drive efficiency.

Maintaining productivity in a supply chain is vital and with potential penalties for failure, firms can ill afford to make mistakes. Developing relationships with the right partners enable firms to retain control, reducing delays and expenses.



**Kevin Vaughan, business development director at SerCom Solutions**



and culture are huge," says Barry Collins (pictured right), sales director with PCH. "You need people to bridge that gap."

PCH has been operating in China for 12 years.

During this time, the company has developed a good understanding of how business works there by hiring staff with first-hand knowledge of the environment.

"We have a mixture of Chinese and western people in the organisation. There's a great mix of cultures," says Collins.

Complex issues such as managing regulatory requirements are all taken care of as part of the service.

This means that companies can enter the Chinese market quickly without getting tangled in reams of red tape.

## The Tao of boundary pushing Making connections in China

Managing relationships in unfamiliar surroundings can be difficult so it is important to have the right expertise helping you to do this.

Cork-based PCH has developed a supply chain management (SCM) service aimed at managing the entire SCM needs of clients doing business in China. The firm handles the

nitty-gritty work like finding partners on the ground in China and managing the day-to-day relationships with customers and suppliers.

Using such a combined SCM service is not simply about saving time but a partner with experience in the region, such as PCH, also has knowledge of the business environment. "The complexities of distance

# Chinese puzzles for the world's sales markets

Western companies are starting to manufacture their goods at home instead of China due to rising fuel prices. **Barry McCall** reports

**C**HINA HAS been seen as the world's manufacturing super-market for the past two decades. The vast country's burgeoning manufacturing sector, coupled with its specially created economic zones, made it a prime destination for companies looking to outsource manufacturing activities and source low-cost components and raw materials.

But change is afoot due both to the evolution of the Chinese economy and rising fuel costs. "If you go back two or three years, we still had clients talking to us about going to China to get things manufactured and then bringing them back here," says Peter Smyth, head of supply chain for Accenture in Ireland. "This was a pure arbitrage play with companies looking to a low-cost country sourcing strategy. But things have changed greatly since then."

Among the changes he refers to are the rapid increase in the price of oil, growing congestion in China's transport system - particularly its seaports - and the impact of climate change, which is causing increased weather disruption to deep-sea shipping. There is also the growing wealth of the country itself.

"There is an up-and-coming middle class in China with money to spend," Smyth points out. "This

is creating internal demand and we see clients now going to China to sell rather than to manufacture and bring home. Also, the cost of fuel changes the reality about low-cost country sourcing. It changes the economics of distance quite dramatically. Manufacturing is now moving closer to demand as a result."

He cites Spanish fashion giant Zara as an example of this. "Zara has moved a lot of its manufacturing back to Spain from Asia as a result of this," he notes.

"If a fashion retailer manufactures in China, they have to commit to very large volumes and they could be left with a lot of stock on their hands as a result of market changes. By moving closer to home, they can be more responsive to these market changes and they are cutting back on transport costs."

Another company moving out of China and Asia is American elec-

**You have to ask if you want to move low-value goods great distances across the world in times of rising fuel costs**



**Shanghai: one of China's thriving cities, and now with a burgeoning middle class that is creating internal demand for items manufactured in the country**

tronics firm Sharp. "They have taken their flat screen TV production out of Asia and back to Mexico. That has cut its delivery lead times from 40 days to seven days. Not only are they saving on fuel costs, but the way prices are falling for flat screen TVs now, they are also saving on the loss of value that would have been incurred while the products were sitting on a ship on the Pacific."

Martin Christopher, professor of marketing and logistics at Cranfield School of Management, agrees with these points. "China is no longer low cost," he argues. "You have to ask if you want to move low-value goods great distances across the world in times of rising fuel costs."

"I know of no scenario which predicts oil prices going down, so there is going to have to be a lot of rethinking of sourcing strategies." There is also another factor

impinging upon China's role as a global manufacturing base, according to Edward Sweeney of the National Institute for Transport and Logistics.

"The issues of sustainability generally and the greening of the supply chain are now coming to the fore," he says. "We are now starting to see the localisation of supply chains with manufacturing being brought close to demand. The whole corporate social responsibility agenda of many companies means that it is increasingly unacceptable to move goods over such massive distances."

But he agrees with Smyth in relation to China's future. "The rate of development has been phenomenal in China. There are now 200 million people in the Chinese middle class and it is still growing rapidly. China is now a market opportunity in itself, rather than a source."

"We are now seeing western manufacturers going to China to supply the local market," says Smyth.

"We have to recognise that we have seen the bottom of the low-cost curve now in countries like China. We are already seeing higher than expected wage inflation in countries in Eastern Europe since accession to the EU, and the same is happening in China. The very presence of western companies in China has helped create a new middle class there and this in turn creates demand. The internal flywheel of the economy is now in a spin there and this is causing fundamental changes in the market."

With rising fuel costs changing the very nature of global supply chains, it now appears that companies will not be discussing how to get product out of China but how to get it into the country.

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