

Managing the business from top to bottom

In the new globalised marketplace, it is the companies that excel at supply chain management that will succeed – and outsourcing will allow them to concentrate on their core skills. **Barry McCall** reports

SUPPLY CHAIN management may not be a term to set the heart racing, but it is playing a central role in the ability of modern companies to compete. This is because it has evolved from simply organising supplies of raw materials and the distribution of products to something that encompasses almost every part of the product life cycle, from design through to delivery.

"It's a phrase that's often wrongly used," says Martin Christopher, professor of marketing and logistics at Cranfield Business School in the UK.

"We used to talk about it as distribution and logistics, and in the past, we typically talked about optimising our activities. But organisations are now operating within much wider networks which are a lot more complex.

"Modern supply chain management is about the management of

relationships in that network." The focus has also changed. "The traditional way of viewing supply chain management was as a means of controlling costs," says Christopher.

"But now it is seen as something that can create value and serve the customer. At the end of every supply chain is a customer, and we have to make it more responsive to customer needs in a changing marketplace."

This change is leading to a move towards more flexible – or agile, as Christopher says – supply chains. "We're looking at flexible supply chains that can do lots more at low cost," he says. "This used to be seen as a trade-off, that increased service meant increased cost, but it is no longer possible to increase prices like that."

He cites the example of a supplier to the grocery trade. The dominance of large retail multiples means that the customer is

firmly in the driving seat. He also argues that markets are moving so quickly that the entire supply chain is being re-engineered.

"Companies used to design products and optimise their processes to meet their own needs. Now they have to do it for the customer – the supply chain has to be organised from the customer backwards."

What he is referring to is the mass customisation manufacturing techniques being used by BMW, among others.

Customers are able to order their cars with an almost limitless number of personal specifications and the production line is able to accommodate that, with the car delivered according to normal schedules.

"It is no longer acceptable to behave like Ford, years ago: Model T's in any colour, so long as it was black," says Christopher. "The car industry is moving from a model where it made forecasts of demand and manufactured accordingly, to one where it is assembling to order."

"And customers won't wait three months for their car – they'll go somewhere else. This requires an agile supply chain."

The agile supply chain is one which can respond rapidly to changes in the marketplace.

According to Edward Sweeney of the National Institute of Transport and Logistics (NITL), this agility will be a key success factor. "We have done a lot of work in looking at what will be the successful business models of the future," he says.

"If you do new product introduction well, you'll get those products to the market in a timely fashion. But you won't be able to do this if you don't get your supply chain management right."

This has opened the way for the creation of the so-called virtual corporation – one that designs and



Effective supply chain management ensures that a company has control over every facet of its operations
Illustration: Getty Images

a competency that they don't have," says Peter Smyth, head of supply chain with Accenture in Ireland. "It's a bit like a small Irish company exporting to Europe buying space on a container rather than buying a truck themselves."

For larger companies, it's a question of where they see their core competencies. But whether they keep it in-house or choose to outsource, Ireland is a good location for this activity.

"There are real opportunities for basing strategic supply chain management functions here," says Kevin Vaughan of supply chain management outsourcing specialist, Sercom Solutions.

"We have customers in the US who are selling to UK customers. We source product in China for them from Ireland, and have it delivered to those customers. This is the concept of the virtual factory, which allows companies to concentrate on their core skills while companies like Sercom manage the supply chain for them."

In other words, it matters little where products are manufactured – the supply chain management is located wherever the expertise lies. In this case, it is Ireland.

And it looks like the need for this expertise will keep growing, thanks to rising oil prices.

"As oil heads for \$200 (about €127) a barrel, all the rules are changing," says Smyth. "A \$10 (about €6.40) increase in oil adds four cent per mile to distribution costs in the US and between seven and nine cents per mile in Europe. This means companies are going to manufacture more product closer to their customers and have more distribution centres to serve them."

In the case of a European company, supply chain costs would rise by 14 per cent if oil prices rose from \$100 to \$200 and they did nothing about it. However, by changing their manufacturing strategy and increasing their number of distribution depots they could reduce this to just 3.5 per cent. And this increase includes the costs of putting in extra production lines."

These changes are driving the need for increased agility, and with Ireland already home to the supply chain management bases of many major multinational companies as well as specialists like Sercom and PCH International, this may present more opportunities and challenges for our economy.

Companies used to design products and optimise their processes to meet their own needs – now they have to do it for the customer

Apple is a modern-day Cinderella story of supply chain management excellence, and a model for the future of Irish business. **Barry McCall** reports



A boy celebrates after buying one of the first iPhones following their launch last year. Apple's excellent supply chain management ensured that no shortages of the iPhone occurred after its US launch, and the product fell in price following its release. Photograph: Getty Images

APPL E COMPUTERS was recently named the world's top supply chain manager by international research firm AMR Research. The iconic computer and high-tech device maker topped a league that included household names such as Nokia, Dell, Procter & Gamble, IBM, Toyota, Tesco and Nike.

Having come in second to Nokia last year, Apple swapped places with the Finnish phone maker thanks to its handling of the potential supply chain headaches that followed the introduction of the iPhone.

"With its iPhone, Apple could have stumbled meeting demand, or failed on quality. It did neither. Behind-the-scenes moves like tying up essential components well in advance and upgrading basic information systems have enabled Apple to handle the demands of its rabid fan base without having to fall back on their forgiveness for mistakes," the AMR report said.

Indeed, there are many out there who wish Apple hadn't been so good at this. In the immediate aftermath of the US launch of the iPhone, speculators attempted to buy as many handsets as they could in the belief that a market shortage would drive up the price on the resale market. Sadly for them, Apple's supply chain managers ensured that no such shortages occurred, and prices actually fell following the launch.

However, Apple's supply chain excellence is about more than just accolades and product availability. Many industry insiders believe it is

How Apple bit back

central to its resurgence and transformation in recent years.

It may seem hard to believe now, but the maker of the iPod and the iPhone was seen as an industry basket case in the 1990s. In 1997, Apple reported losses of almost \$2 billion and its share price languished around the \$10 mark. Two years later, it was turning in profits of over \$300 million and its share price had almost quadrupled.

Many Apple disciples attribute this near miraculous turnaround to the return of its talismanic founder, Steve Jobs, in 1997. And it is true that Jobs deserves a fair share of the credit. When he retook the reins, Apple was manufacturing 19 different product lines – many of them, like the Newton PDA, chronic loss makers. Jobs slashed 15 of these lines, cut thousands of jobs and closed production plants around the world.

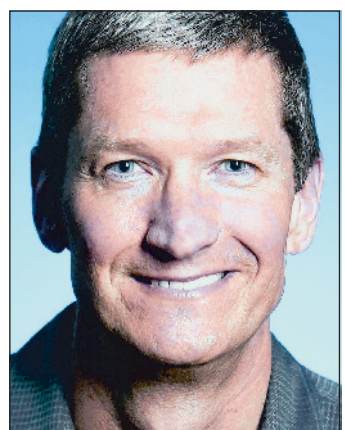
But he also made some additions. Many consider the most vital of these his recruitment of former Compaq computer purchasing executive Timothy Cook. Supply chain had been one of Apple's greatest weaknesses, with the company faring poorly in matching production to demand. As a result, the company either missed out on sales because it couldn't fulfil demand, or piled up huge stocks that later had to be written off at a crippling cost.

Apple is a classic example of a company that started to get the three key areas of new product introduction, marketing and supply chain management right at the same time

agement in Apple's recovery is not spoken about at all enough," says Edward Sweeney of the National Institute for Transport and Logistics (NITL). "Apple is a classic example of a company that started to get the three key areas – new product introduction, marketing and supply chain management – right at the same time. The company now concentrates on the higher-value activities of new product design and marketing, through excellent supply chain management."

Apple's Cork plant has seen a similar transformation. "When we set up the NITL in 1998, one of our first meetings was with Apple in Cork and we have maintained close contact ever since," says Sweeney. "Back then, the plant was all about manufacturing. Now, there is almost no manufacturing there. It is now engaged almost entirely in innovation and supply chain management."

"Apple is a great case study, almost a microcosm of the Irish economy: how things have developed until now and how we might make things better through engaging in higher value activity," he adds. "Some people look at Apple today and think it has been an overnight success. But it has only been an overnight success after more than five years of hard work on transforming its entire supply chain."



Timothy Cook, under whose stewardship Apple's processes have been transformed

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