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An Analysis of Supply Chain Management and Competitive Solutions for the Island of Ireland

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An Analysis of Supply Chain Management and Competitive Solutions for the Island of Ireland

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Agenda

• NITL
• Introduction - What is SCM?
• SCM Excellence
• Diffusion of SCM in Ireland
• Re-engineering Supply Chains
• Some Concluding Comments
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- NITL
- Introduction - What is SCM?
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History of NITL

- Report “World Class to Serve the World”
- National Centre for Supply Chain Excellence
- Supported by the National Development Plan, managed by the Department of Enterprise, Trade and Employment, set up at the DIT
- April 1998
NITL Structure / Activities
Agenda

- NITL
- *Introduction - What is SCM?*
- SCM Excellence
- Diffusion of SCM in Ireland
- Re-engineering Supply Chains
- Some Concluding Comments
What is SCM?

- SCM provides the end customer with the right product at the right time, priced at the right level, in the right quantity and quality
- SCM as a major source of competitive advantage
- NITL’s *Four Fundamentals* of SCM
Supply Chain Management aims to achieve competitive advantage through:

- **Enhanced Customer Service**
- **Optimised Costs and Investments**
A product reaches the final consumer through a chain of companies which will typically include suppliers, processors, distributors and retailers.
The Weakest Link

• Without the right companies across the supply chain to work with, a company will never achieve true competitive advantage. In other words

• The supply chain is only as strong as its weakest link.
What is Supply Chain Management?

Traditionally these functions are managed in isolation and often operate at cross purposes.
Supply chain management integrates these functions by holistically managing the information, material and financial flows.

What is Supply Chain Management?

Buy | Make | Store | Move | Sell

Information and Money

Information and Materials
What is Supply Chain Management?
Fundamental 3 - Management of the Flows

Supply chain management integrates these functions by holistically managing the information, material and financial flows.

Information and Money

Buy  Make  Store  Move  Sell

Information and Materials
Fundamental 4 - Management of the Flows

Re-assessment of internal and external customer/supplier relationships.

SCM is not a “zero-sum game” based on adversarial relationships

SCM is a “win-win” game based on partnership relationships?
Why is SCM Important?

“Effective supply chain management can cut costs, improve service and enhance revenues and that’s just the beginning”

Prof. P. Metz, MIT

MIT Survey: Implementation of ‘supply chain management’ in US resulted in:
- 50% reduction in inventory
- 40% improvement in on-time deliveries
- 27% reduction in order cycle time
- Nine-fold reduction in out of stocks
Why is SCM Important?

“Supply chain management lies at the heart of the Dell Direct model and, therefore, at the heart of Dell’s business performance”
Michael Dell
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Characteristics of SCM Excellence
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- Identification and measurement of customer service
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- Identification and measurement of customer service because customer service ‘sets the spec’ for SC design
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- Identification and measurement of customer service because *customer service ‘sets the spec’ for SC design*
- Integration of supply chain activities and information
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- Integration of supply chain activities and information because many supply chain NVAs are caused by fragmented supply chain configurations
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Characteristics of SCM Excellence

- Identification and measurement of customer service because *customer service ‘sets the spec’ for SC design*
- Integration of supply chain activities and information because *many supply chain NVAs are caused by fragmented supply chain configurations*
- SCM a senior management function because *SCM is a strategic activity*
- Establishment and measurement of supply chain KPI’s
Characteristics of SCM Excellence

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- SCM a senior management function because *SCM is a strategic activity*
- Establishment and measurement of supply chain KPI’s because *what gets measured gets done!*
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The Evolving Strategic Context

- Internationalisation (or globalisation) of supply chains
- Vertical disintegration
- Changing role of the SC in strategic differentiation
Context: importance of SCM in Ireland

- Potential operational benefits (supply chain economics and customer service)
- Open economy (imports/exports proportion of GDP)
- Transport only one, and not most important cost, therefore location not a significant disadvantage
- Relatively small companies often part of a global supply chain
- Can manage ‘virtual’ supply chains from Ireland
How Do Irish Companies Measure Up?

- Less than 50% measure customer service formally and those have very limited measurements.
- Companies score low in relation to having the latest supply chain IT and having them integrated across the supply chain.
- Less than 20% have a formal logistics position and in less than 4% is it at Board Level.
- Few companies had clearly defined SCM KPI’s (Source: NITL SCM Barometer, 2004).

SCM Barometer - Methodology

Survey instrument sent to sample frame of 1,655 companies across all sectors in Ireland; Response rate is 65% (1073 organisations).

Sample characteristics:

- 85% of the sample are small and medium size enterprises;
- 75% are indigenous firms;
- The food and consumer sector represents 25% of the total sample;
- Industrial products represent 47%;
- International services represent 25%.

<table>
<thead>
<tr>
<th>Number of Employees by Firm</th>
<th>ROI Percent</th>
<th>NI Percent</th>
<th>Total Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 10</td>
<td>13.6%</td>
<td>29.3%</td>
<td>18%</td>
</tr>
<tr>
<td>From 10 to 19</td>
<td>17.4%</td>
<td>22.2%</td>
<td>18.7%</td>
</tr>
<tr>
<td>From 20 to 49</td>
<td>24.9%</td>
<td>17.5%</td>
<td>22.8%</td>
</tr>
<tr>
<td>From 50 to 249</td>
<td>28.9%</td>
<td>20.5%</td>
<td>26.6%</td>
</tr>
<tr>
<td>250 and more</td>
<td>15.2%</td>
<td>10.4%</td>
<td>13.9%</td>
</tr>
</tbody>
</table>

Company Ownership

<table>
<thead>
<tr>
<th></th>
<th>ROI Percent</th>
<th>NI Percent</th>
<th>Total Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Irish company</td>
<td>69.6%</td>
<td>87.5%</td>
<td>74.6%</td>
</tr>
<tr>
<td>Subsidiary of company with HQ outside of Ireland</td>
<td>27.3%</td>
<td>12.1%</td>
<td>23.1%</td>
</tr>
<tr>
<td>Semi-state/government/co-op</td>
<td>2.7%</td>
<td>0.3%</td>
<td>2.1%</td>
</tr>
<tr>
<td>Other</td>
<td>0.4%</td>
<td>0%</td>
<td>0.3%</td>
</tr>
</tbody>
</table>

Business Sector

<table>
<thead>
<tr>
<th></th>
<th>ROI Percent</th>
<th>NI Percent</th>
<th>Total Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food and Consumer</td>
<td>25.5%</td>
<td>24.9%</td>
<td>25.3%</td>
</tr>
<tr>
<td>Industrial Products</td>
<td>44.6%</td>
<td>54.5%</td>
<td>47.3%</td>
</tr>
<tr>
<td>(International) Services</td>
<td>27.7%</td>
<td>18.9%</td>
<td>25.3%</td>
</tr>
<tr>
<td>Other</td>
<td>2.2%</td>
<td>1.7%</td>
<td>2.1%</td>
</tr>
</tbody>
</table>
Some Key Findings

• Less than 57% measure customer service formally and those have very limited measurements.
• Companies score low in relation to having the latest supply chain ICT and having them integrated across the supply chain.
How Do Irish Companies Measure Up?

- Less than 50% measure customer service formally and those have very limited measurements.
- Companies score low in relation to having the latest supply chain IT and having them integrated across the supply chain.
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- Few companies had clearly defined SCM KPI’s.

(Source: NITL SCM Barometer, 2004)

Some Key Findings: integration of SCM activities

| Activity                          | Percentage
|----------------------------------|-------------
| Customer Service                 | 60%         
| Sales Order Processing           | 70%         
| Procurement/Purchasing           | 50%         
| Production Planning and Control  | 40%         
| After Sales Service              | 30%         
| Customer Relationship Management | 20%         
| Outbound Transport               | 10%         
| Inventory Management             | 0%          
| Warehousing                       | 0%          
| Inbound Transport                 | 0%          
| New Product Introduction         | 0%          
| Demand Forecasting               | 0%          
| Total                            | 100%        

1 - not at all integrated
2 - partially integrated
3 - moderately integrated
4 - primarily integrated
5 - fully integrated

*Image of bar chart showing integration levels of various SCM activities.*
Some Key Findings

- Less than 57% measure customer service formally and those have very limited measurements.
- Companies score low in relation to having the latest supply chain ICT and having them integrated across the supply chain.
- 9% have a formal SCM position.
- Few companies had clearly defined SCM KPI’s (e.g. 59% of companies do not know their total supply chain costs).
Some Key Findings

• Overall: SCM positively related to overall company performance
• Pockets of SCM excellence but much room for improvement
• Excellent or good SCM practice: <10%; Reasonable: ~30%; yet to establish SCM programme: ~60%
• Large MNC vs. Indigenous SME
• Future plans?
Some Barriers to SCM Excellence

• Inefficiencies are often built into the supply chain
• Communication structures ineffective and exchange of information poor
• Culture inappropriate
• Excessive reliance on forecasting and stockholding
• Managing problems, rather than eliminating their causes
Future Challenges

• Ireland moving into 2nd Generation SCM
• SCM moving “up the value hierarchy”
• Supply chain: becoming more virtual and international
• Need for robust supply chain design/re-engineering
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Re-engineering Supply Chains

• Re-engineering = analysing + planning improvement + implementing improvement
• There is no “magic” solution
• Beware of copying inappropriate solutions
• BUT!
• There is a logical and systematic way of addressing the issue
Understanding Customer Service

Market Driven Customer Service Strategy

Performance Specification for Integrated Supply Chain Management

The basis of effective re-engineering and change
Supply Chain Organisation

The organisational shape of the future?

Internal network arrangements

External network arrangements

Shared Services

Think process and effectiveness NOT function and efficiency
Technology: the great enabler?

• Key role as an integration enabler
• Piecemeal and tactical approach to integration and to IT/IS development
• Multiple standards, processes and platforms
  – Internally
  – Across the supply chain
Does IT Matter?
Information Enablers and Drivers

Most IT solutions are no longer likely to provide strategic advantage, but simply the business basics (*IT is imitable*)

The competitive advantage for companies will originate from developing creative information technology strategies and implementing them superbly

*Focus on process and people NOT on systems and hardware*
<table>
<thead>
<tr>
<th>Supply Chain KPIs in World Class Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>• relates to company strategy (and stakeholders)</td>
</tr>
<tr>
<td>• incorporates non-financial measures</td>
</tr>
<tr>
<td>• limit the number of measures</td>
</tr>
<tr>
<td>• measures change over time</td>
</tr>
<tr>
<td>• measures simple and easy to use</td>
</tr>
<tr>
<td>• fast feedback to staff</td>
</tr>
<tr>
<td>• “learning” experience</td>
</tr>
</tbody>
</table>

**KPIs: the only rational basis for continuous improvement**
Towards A Supply Chain Re-engineering Roadmap

- Market Driven Customer Service Strategy
- Performance Specification for Integrated Supply Chain Management
- Internal network arrangements
- External network arrangements

The only rational basis for continuous improvement

Think process and effectiveness

Focus on process and people
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Some Concluding Thoughts

- Standing still = falling behind
- Innovation in all aspects is the key to survival
- Remember that most innovation is a series of small steps
- Re-engineering must focus on service delivery, integration, organisation and performance measurement
- People and learning are critical success factors