

Best Practices in European Supply Chains

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Insights



I am

- **Simon Ellis, Practice Director, Supply Chain Strategies**

- Supply Chain Strategies Lead – Modern Supply Chain, SC Execution, Global Sourcing
- Specializes in advising clients on LCS (Low Cost Sourcing), RFID, Data Synchronization, Lean, and Six Sigma
- Expert in brand-oriented and technology-oriented value chains
- Over 20 years' experience – most recently as Supply Chain Strategy Director/Futurist for Unilever North America



About IDC and Manufacturing Insights

IDC

- Founded 1964
- Leading provider of **fact-based market research**, custom research and **strategic advisory services**
- 900+ analysts
- Located in 90+ countries
- **Survey** more than 250,000 decision makers and technology users **worldwide**, every year

Manufacturing Insights

- An IDC Company
- Focus on the strategic business **application of information technologies** for manufacturing companies
- Provide unique insights on how to **improve business processes** through the use of technology
- **Cross the gap** between IT and business with a **global** perspective

IDC Manufacturing Insights' areas of worldwide research



Value Chains

Asset Oriented Value Chain



Chemicals, Pharmaceuticals,...

Engineering Oriented Value Chain



Automotive, Aerospace, Machinery, ...

Technology Oriented Value Chain



High-tech, Semiconductor,...

Brand Oriented Value Chain



Fashion, Food&Beverage,...

Process Domains

Operations

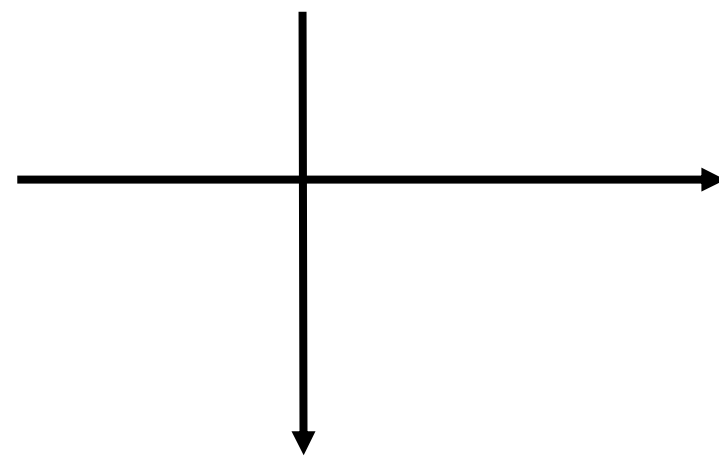
Supply Chain

Product Lifecycle

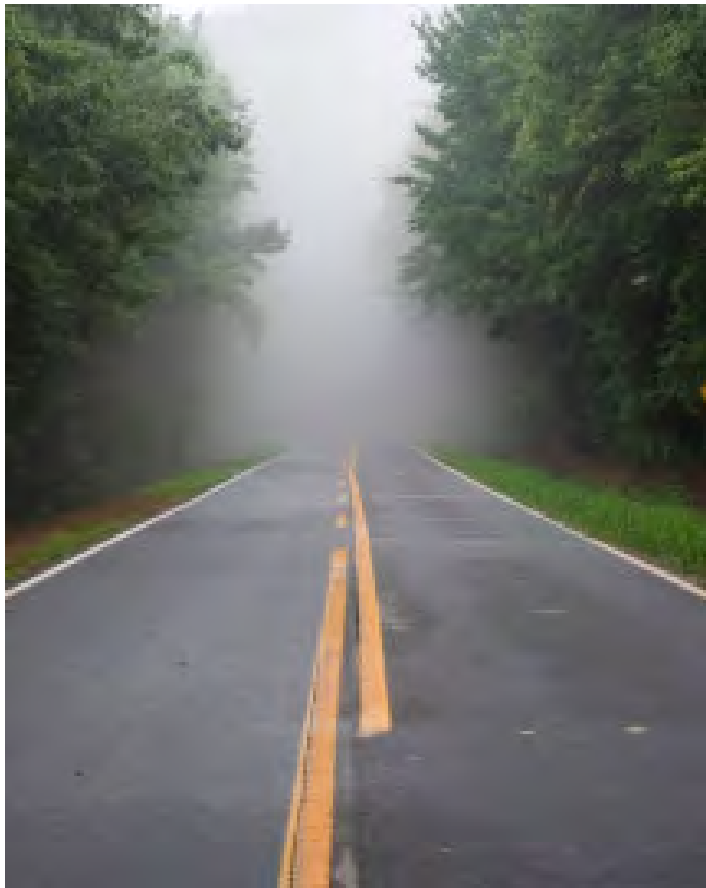
Sustainability

Look at a segment across domains

Look at a domain across segments

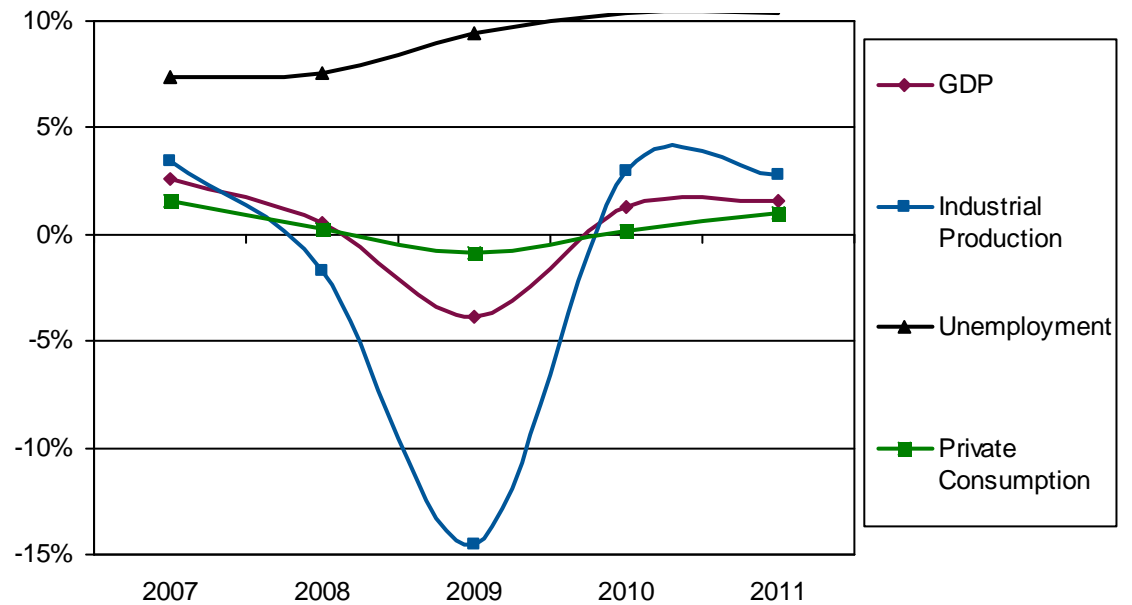


Situation Overview



Sources: Consensus Economics (January 2010), European Commission (December 2009), Markit Economics (January 2010).

Eurozone Indicators	2007	2008	2009
Economic Sentiment Indicator (ESI)	103.4	67.1	94.1
Manufacturing PMI Index	52.6	33.9	51.6



Is Talk of Recovery Premature?

I see a recovery that will gain some traction, but gaining momentum is going to take some time. America is an area that is always rather punchy when it rebounds, but it's not going to be a big jump. It's going to be slow but firm. Europe was softer going in but will be softer going out. It will never be at a level you would expect in the U.S.

Paul Bulcke, CEO, Nestlé

Is talk of recovery premature?

Fast response to recession: did we cut too much?

Government stimulus was effective, but creates false activity

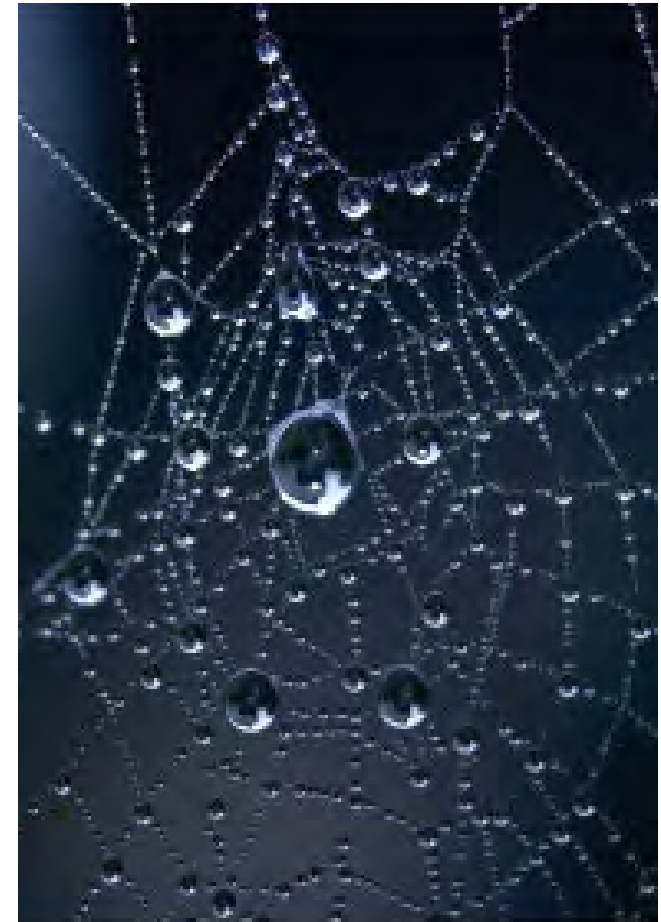
Beware the inflation monster

Job creation?

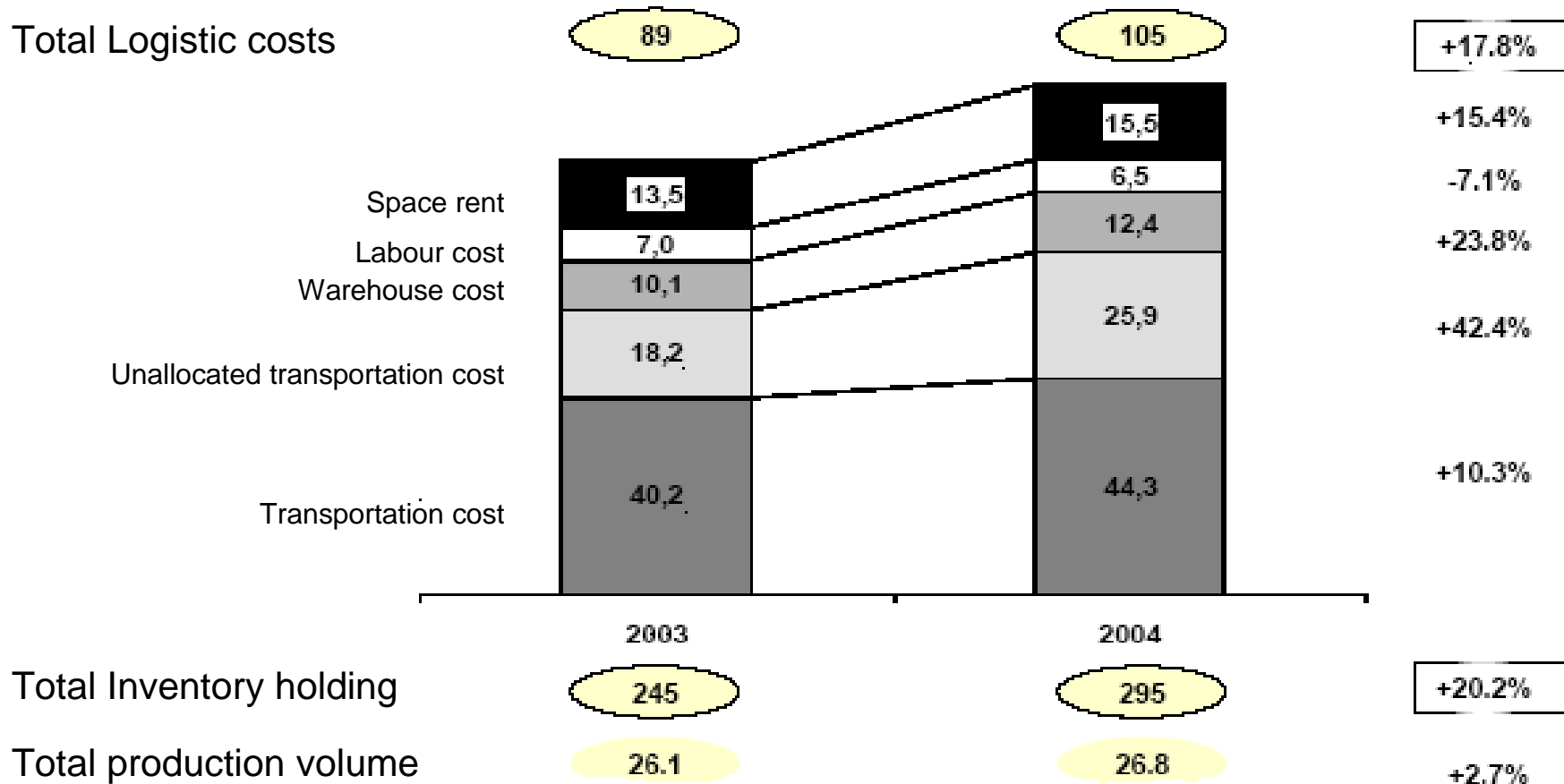
Key strategies during the last 5-10 years

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- Primarily focus on supply chain and manufacturing efficiency
 - Additional productivity gains, thanks to continuous improvement processes and IT tools (SCM, Scheduling, MES, etc.)
 - Production outsourcing and off shoring, leveraging low-cost country opportunities
- Results are
 - Elongated multi-tiered supply chains
 - Lack of visibility, disruptions, inflexibility
 - The “productivity-vise” effect is calling for further productivity
 - Risks connected to off shoring (so being too far away from sources of demand)



Risks of off shoring as pure cost-mitigation policy



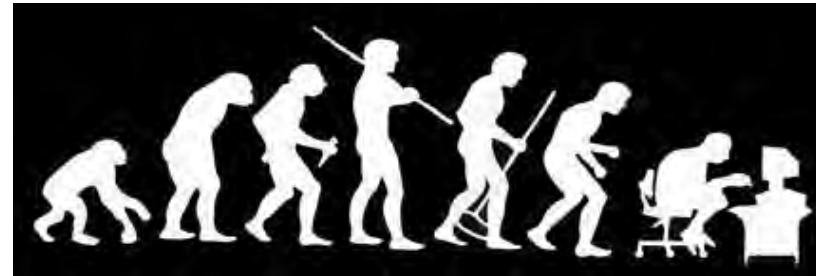
Profitable proximity sourcing

- “Low-cost country sourcing” as a primary cost-mitigation strategy is coming to an end
- Profitable proximity sourcing, as opposed to low cost country sourcing
 - Profitable proximity does not eliminate low-cost country sourcing.
 - Sourcing strategy that look at balancing cost with agility, quality, sustainability, financial implications and customer service, while recognizing the evolving nature of global demand
- Shift from traditional hierarchical supply chain to a collaborative value network
 - A strategy of multiple sourcing channels using local, near-, and far-shore suppliers can create more effective supply chain strategies and provide more responsiveness and resilience
- Emergence of Sustainability
 - Suppliers problems become your own, and enterprises call for more visibility into their suppliers’ operations



Savvy manufacturers have recalibrated operations and set their sights on what comes next

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- Most companies have already taken short-term actions focused on cost containment and capital expenditure cutbacks, aimed at keeping cash in the business
- Savvy European manufacturers went beyond cost cutting and restructured their business in 2009
- An economic downturn is like a natural process of evolution, where only the strongest individuals survive by adapting to new external conditions
- The downturn represents/ed an opportunity for manufacturers to recalibrate their operations and focus their strategies on what comes next

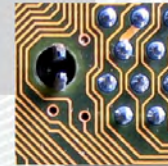
Overall Supply Chain Theme for 2010



Manufacturing companies will begin the process of fundamentally rethinking their supply chain structures, evolving from a fixed-cost-driven supply network to a variable-cost-driven value network.

- IT proves itself in recession
- Supply Chain modernization accelerates out of the recession
- Uncertainty creates a need to hedge at a design level
- What is the “new normal”?
- Increasing customer segmentation will put focus on service levels
- Cost versus Service – 2010 Style!

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What We Are Seeing



Achieving Operational Excellence Is Essential to Take Advantage of the Soft Upturn

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- Manufacturers continue to reassess their business strategies, processes, and practices
 - Operations must support this strategy, and manufacturers should focus on **Operational Excellence** to compete successfully
- "Operational Excellence is demonstrated by results that reflect:
 - Sustained improvements over time
 - Improvement in all areas of importance
 - Performance at a level with best in class organizations" (Source: Great Systems, based on Baldrige Quality Award criteria)
- Operational Excellence takes many forms
 - **Fulfillment Excellence**
 - **Environmental Excellence**
 - **Maintenance Excellence**

Real-time, Intelligent Value Chains Help Manufacturers Achieve Operational Excellence

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- Lack of real-time visibility and intelligence
 - The issue is not the ability of collecting data, the issue is **lack of understanding** of what data represents
- Operate over an intelligent value chain, in real-time:
 - **Instrumented**: information is captured at point of activity and available in real-time
 - **Interconnected**: greater degrees of transparency and communication
 - **Intelligent**: information is assimilated and analyzed so that corrective actions can be taken
 - Final goal: Smarter people, factories, and supply chain
- IT essential to support the goal
 - Invest in the reengineering of decision-making processes
 - Analytics and business performance measures
 - Enterprise Manufacturing Intelligence (EMI)
 - Significant driver for overall IT innovation
 - Cloud, Mobility, Social-ytics

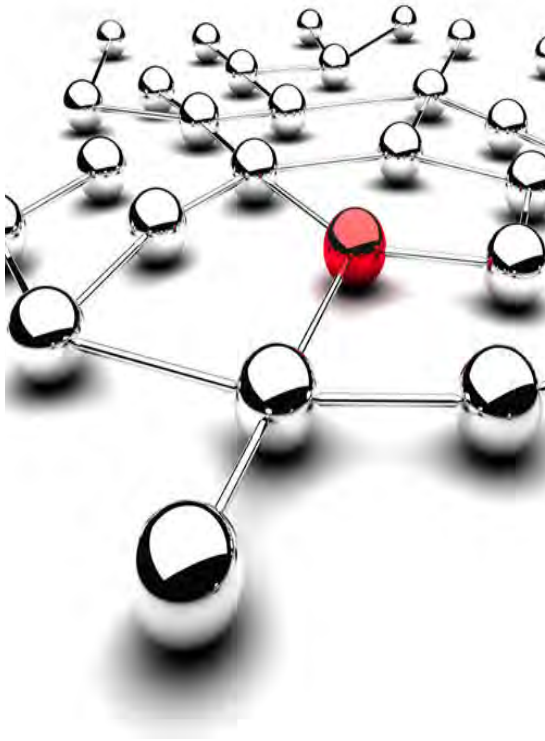
Manufacturers are Applying Lean Innovation principles to Support Business Strategy



- The importance of innovation is raising in Europe respect to past years
 - However, during 2010, the approach to innovation will be extremely pragmatic
- Lean innovation, the right balance of
 - Invest in “core” innovation, to create IP and leadership
 - Reuse IP in new products, reverse innovation in “adjacent markets”
- Manufacturers better align innovation processes with business strategy
 - IT is an essential element to support this goal
 - Streamlining "new product design and introduction" (NPDI) process is of paramount importance
 - Manufacturing companies are more mature in their use of enterprise PLM applications

Manufacturing Companies Increasingly See Factory Assets as Part of a Fulfillment Network

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- Raising importance for **manufacturing operations**
 - Manufacturers return back to the basics of their manufacturing roots
 - Governments better understand that an economy purely based on service industries alone can't survive in the longer run
- Move away from the optimization of a single plant
 - Uncoordinated manufacturing operations might be the bottleneck of supply networks
 - Any supply chain process improvements will be for nothing if manufacturing cannot keep pace
- Factory assets as part of a **fulfillment network**
 - During 2010, the ability for manufacturers to achieve **customer fulfillment excellence** will become the new guiding principle

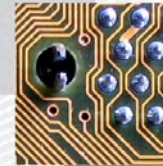
Manufacturing and Supply Chain Execution Investments are Converging in a Single Fulfillment Execution System



- Information technology is essential to support manufacturers in achieving fulfillment excellence
 - Manufacturers should better integrate plant floor technologies to other execution processes, particularly order management
 - This will drive the convergence of manufacturing and supply chain execution investment
- **Fulfillment execution system (FES)**
 - FES provides closed-loop management of inbound material, production capacity, and order fulfillment
 - The technology component for FES investment will have to reconcile what is frequently a mash of applications across silos of process domains
- Fulfillment execution system investments to move up the priority list in 2010 and over the next five years
 - Worldwide spending growth for Operations and Manufacturing Applications of 4.2% in 2010, outpacing average growth for other applications



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**What We Are Expecting
to See**

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Manufacturers are Rethinking Their Global Supply Chain Structures, Embracing the Profitable Proximity Sourcing Approach

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- To respond to a great deal of uncertainty, manufacturers will be rethinking supply chain structures
 - More dynamic supply chains
 - Moving from fixed costs to variable costs
 - Better understand local market demand
- **Profitable proximity sourcing**
 - Balancing supply chain costs with customer service
 - Add unconsidered, hidden, or intangible costs: inventory holding, supply chain disruption, quality, sustainability, etc.
 - Shift from traditional hierarchical supply chain to a collaborative value network
 - Multiple sourcing channels using local, near-, and far-shore suppliers
- Adoption of SCM applications able to deal with total supply chain costs and risks
 - Dynamic network design, Inventory optimization, S&OP
 - Supply chain and manufacturing execution convergence
 - Real-time suppliers integration

Enterprises Will Move Beyond Mere Compliance and Will Consider Sustainability a Business Priority



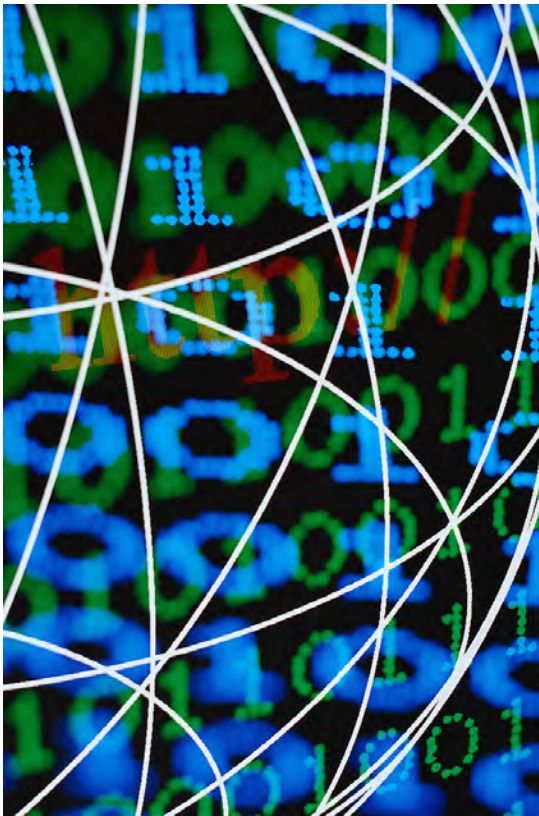
- Green as a business priority
 - Move beyond being compliant as a costly necessity and consider opportunities to capitalize on green strategies
- Types of initiatives
 - Design for sustainability
 - Cradle to Cradle
 - Green and lean
 - Greening the supply chain
- IT plays an important role
 - Data exists, need to create visibility and intelligence
 - Data acquisition and data sharing in real time
 - Most of existing applications should incorporate sustainability data (SCM, PLM, BI, MES)

Manufacturers Will Foster Business Mobility to Exploit Emerging Markets and Become Truly Global



- Mobility of business
 - Closer to customers in emerging markets
 - Streamline business processes
 - Intelligence and decision making in real-time
 - Mobility enables employment flexibility and efficiency and helps reduce unnecessary costs
- The number of mobile workers in Western Europe will dramatically increase
 - Although active workers are declining, mobile workers are growing and will reach 99 million in 2012, corresponding to 51% of total workforce
- During 2010, we expect high priority in IT projects aimed at introducing more business mobility
 - Line-of-business executives will pressure CIOs to mobilize current IT applications
 - CIOs will be careful and will be looking for investments justification

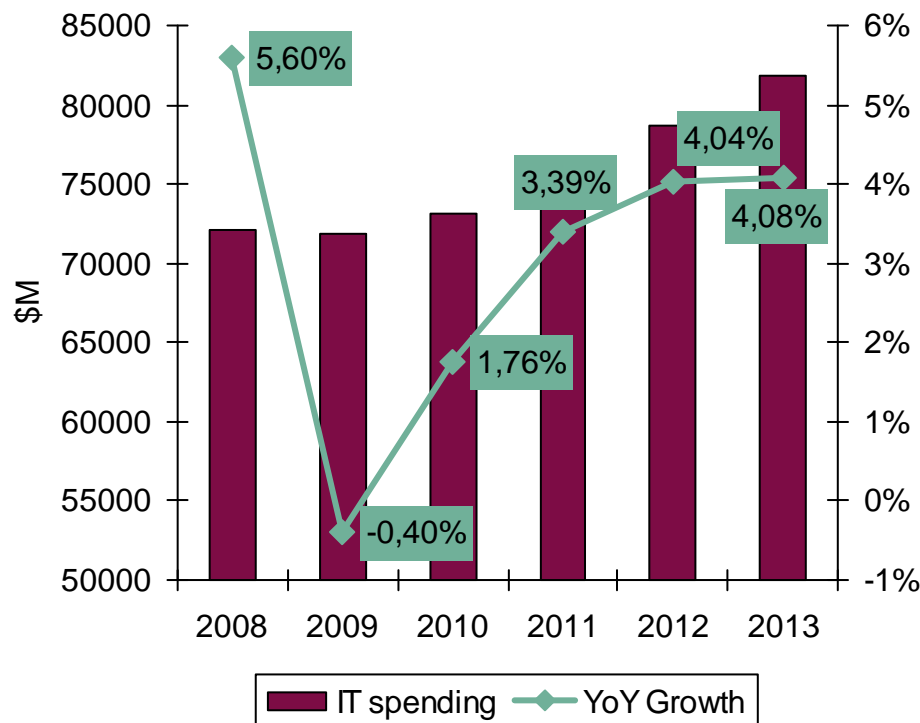
CIOs Will Be Looking to More Consumption-based Cost Models for IT Budget Spending



- Significant pressures on ICT costs
 - IT budgets started the decade averaging 3.7% of revenue at large enterprises and ended 2009 at around 2.3%
 - In 2009 the IT budget was under the microscope
 - IT organizations should target a 20% reduction in costs over the next five years
- Frustration of LOB with traditional IT
 - LOB are pressuring CIOs to invest in new applications and demonstrate ROI ...
 - ... but 60% to 80% of IT budget is spent in licenses, maintenance, routine infrastructure upgrades
- New cost strategies will allow IT organizations to more directly support new business models
 - Short-term, growing adoption of SaaS approach
 - Long-term:
 - Cloud computing
 - Virtual ERP
 - Social-ytics

IT Spending Growth Will Rebound in 2010, Although Pre-crisis Growth Rates Will Remain a Memory for a While

Total IT spending forecast, Western Europe, Manufacturing (SW and Services - No HW)



Source: IDC Manufacturing Insights, January 2010

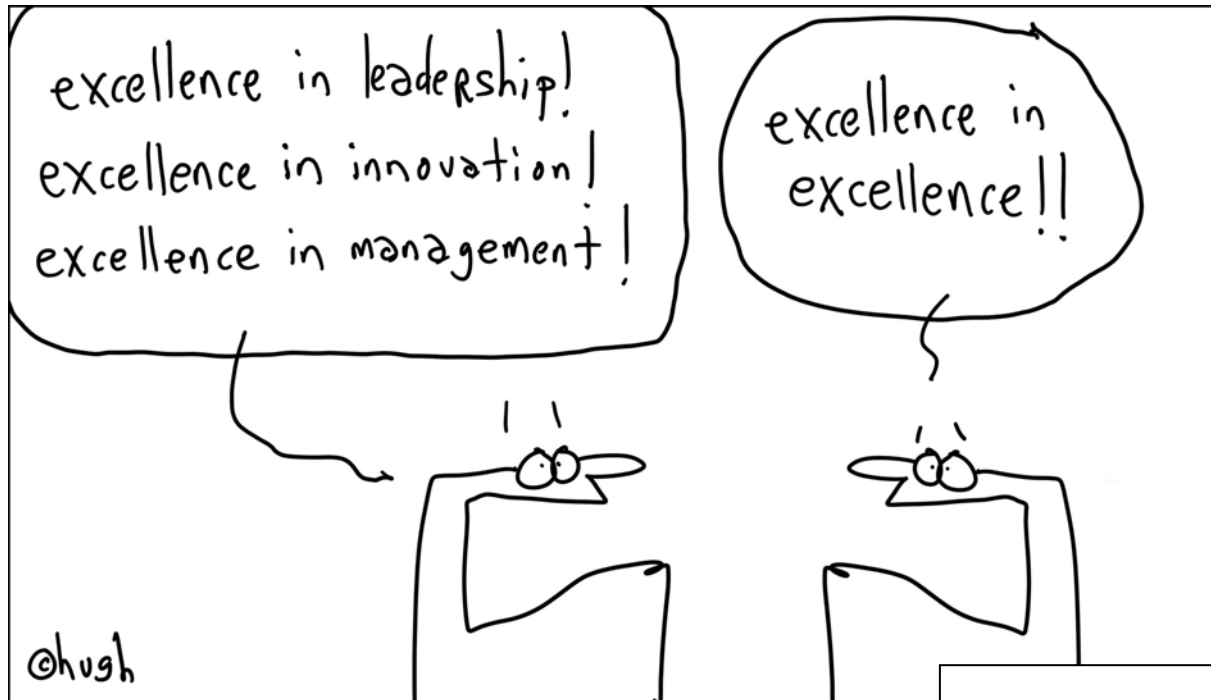
Industry	2009 growth on 2008	2010 growth on 2009
Aerospace	-0.5%	2.0%
Automotive	-1.5%	1.0%
Electronics and electrical equipment	-0.3%	1.4%
Industrial machinery and equipment	-0.4%	1.7%
Chemicals	-0.6%	2.6%
Food, beverages and tobacco	0.7%	2.7%
Metal	0.0%	2.2%
Pharmaceuticals	1.1%	3.4%
Wearing apparel	-1.1%	0.6%

Source: IDC Manufacturing Insights, January 2010

Concluding Observations

- The business outlook for 2010 is positive but cautious.
 - The expectation is for a soft upturn in Europe.
 - Targeted IT spending
- In order to prosper in the soft upturn, manufacturers need to aim at achieving excellence in all key business processes
 - The way to achieve that goal is becoming a smarted manufacturer: visibility and intelligence for people, factories, supply chain
- In the soft upturn, competition will be still tough
 - Innovation is essential: pragmatically apply the principles of lean
 - Emerge through fulfillment excellence, and avoid just making cost cutting your unique strategy (it doesn't work!)
 - Stop managing factories as isolated entities, and see them as part of a fulfillment network
 - Respond to demand volatility through Profitable Proximity sourcing
 - See sustainability as a corporate priority and a competitive advantage
- IT is an essential driver for most of the above initiatives
 - Look for new cost models for IT spending, and target –20% in 5 years
 - Consider SaaS opportunities in the short term, and cloud-based virtual ERPs in the mid to long terms
 - Start mobilizing your IT applications in 2010

Questions ?



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