2004

Quest West Conference

Best Practices: Mastering the Complexities of the Supply Chain

Session B7580

Presented by:

Kirk D. Zylstra

Principal, Supply Chain Strategy Practice

Deloitte Consulting

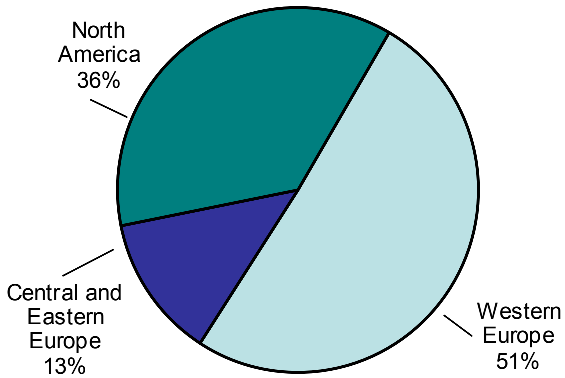
Agenda

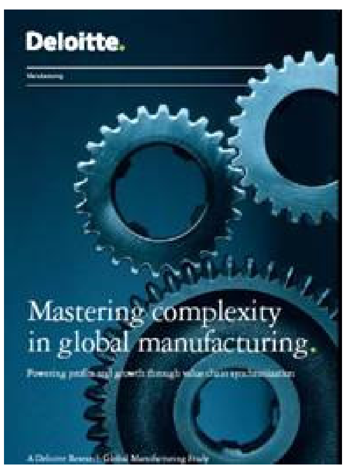
- Benchmarking Survey Pinpoints Opportunities
- Supply Chain Complexity Creates Paradoxes
- Complexity Masters Are More Profitable
- Complexity Masters Are Different
- Conclusion
- Questions…

Quest West Conference

Benchmarking Survey Pinpoints Opportunities

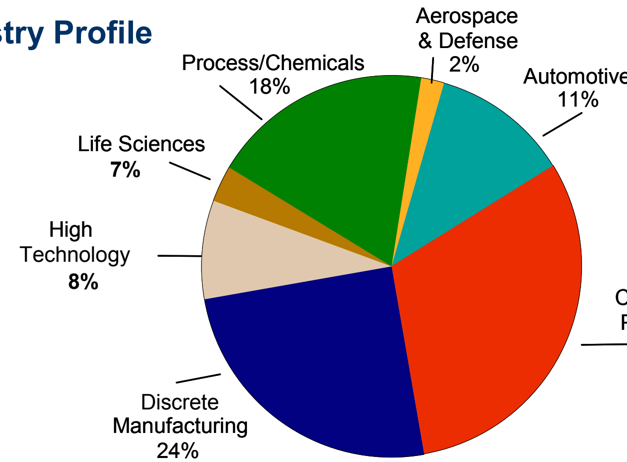
Regional Profile



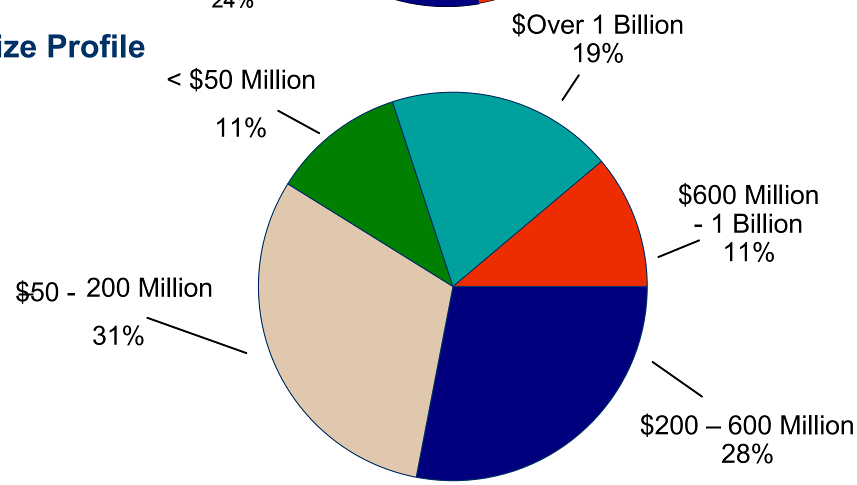


Over 600 Manufacturers Participated

Industry Profile



Size Profile



Quest West Conference

Benchmarking Survey Pinpoints Opportunities

Summary Metrics

Category	Metric	Median	Range*
Customer Service	On time delivery rate	88%	85 - 98%
	Order fill rate	96%	90 - 99%
Inventory	Total inventory turns	6	4 – 11
	Finished goods inventory turns	10.7	5 – 20
	Obsolete inventory	3%	1 – 8%
Supplier Performance	On-time supplier delivery	92.5%	85 – 97%
	Supplier delivered material defects	2%	0.8 – 4%
Operations	Warehouse costs as a percentage of sales	2.7%	1 – 3%
	Outbound freight cost as a percentage of sales	2.3%	1 – 4.1%

Sample

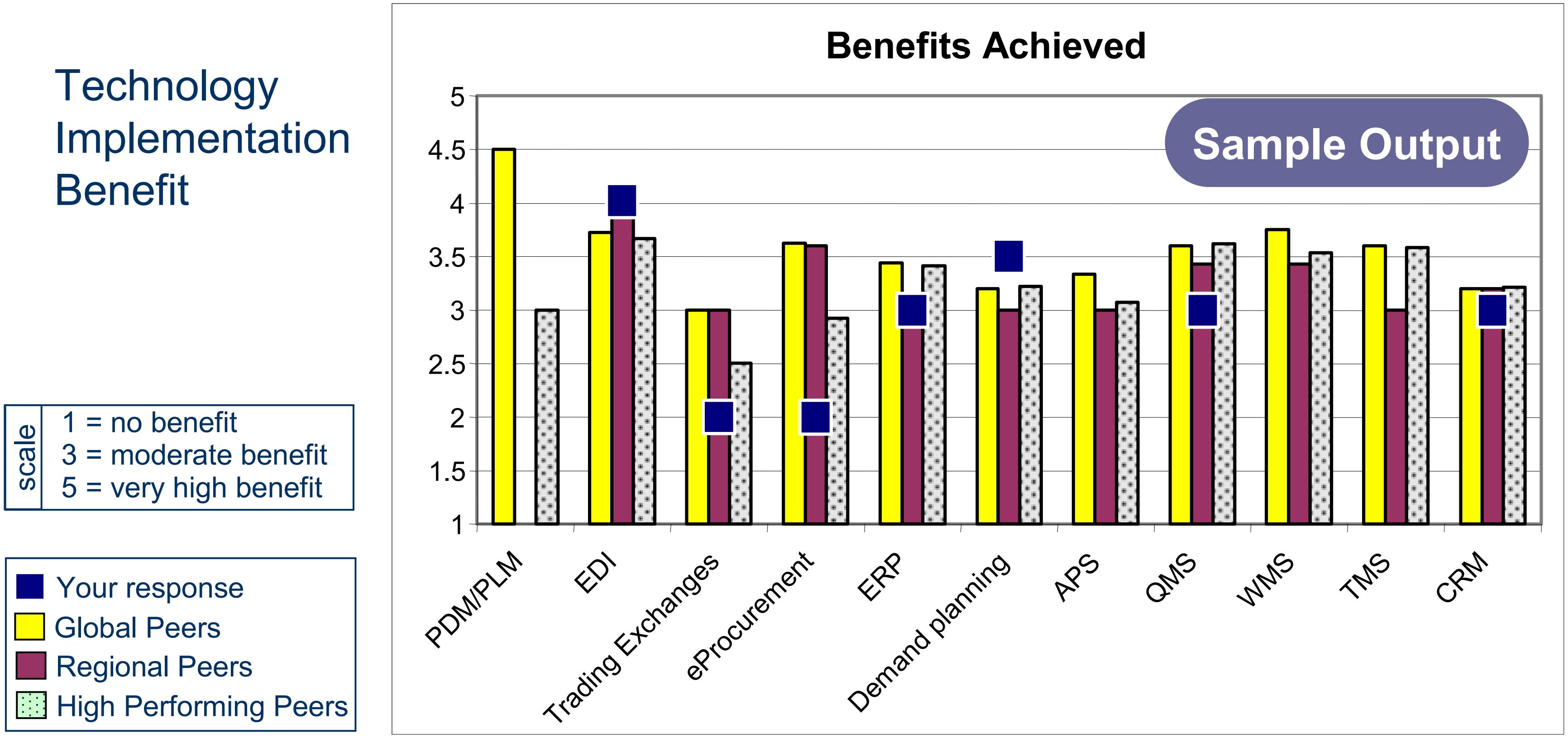
Peer Groups	Revenue	Industry	Sample Size	Chart Color
Global	$1 - 5 Billion	Food & Beverages	12	
Regional	$600 Million to $10 Billion	Food & Beverages	9	
High Performing	All revenue ranges	Food & Beverages	23	

* - Range is for top quartile to bottom quartile

Benchmarking Survey Pinpoints Opportunities

Technology Implementation Benefit

scale	
	1 = no benefit
	3 = moderate benefit
	5 = very high benefit



Reference 1.6

Supply Chain Complexity Creates Paradoxes

What is increasing complexity?

- Pressure to continually drive down supply chain and operations costs
- Expansion of markets and channels
- Quickening pace of product innovation

Result:

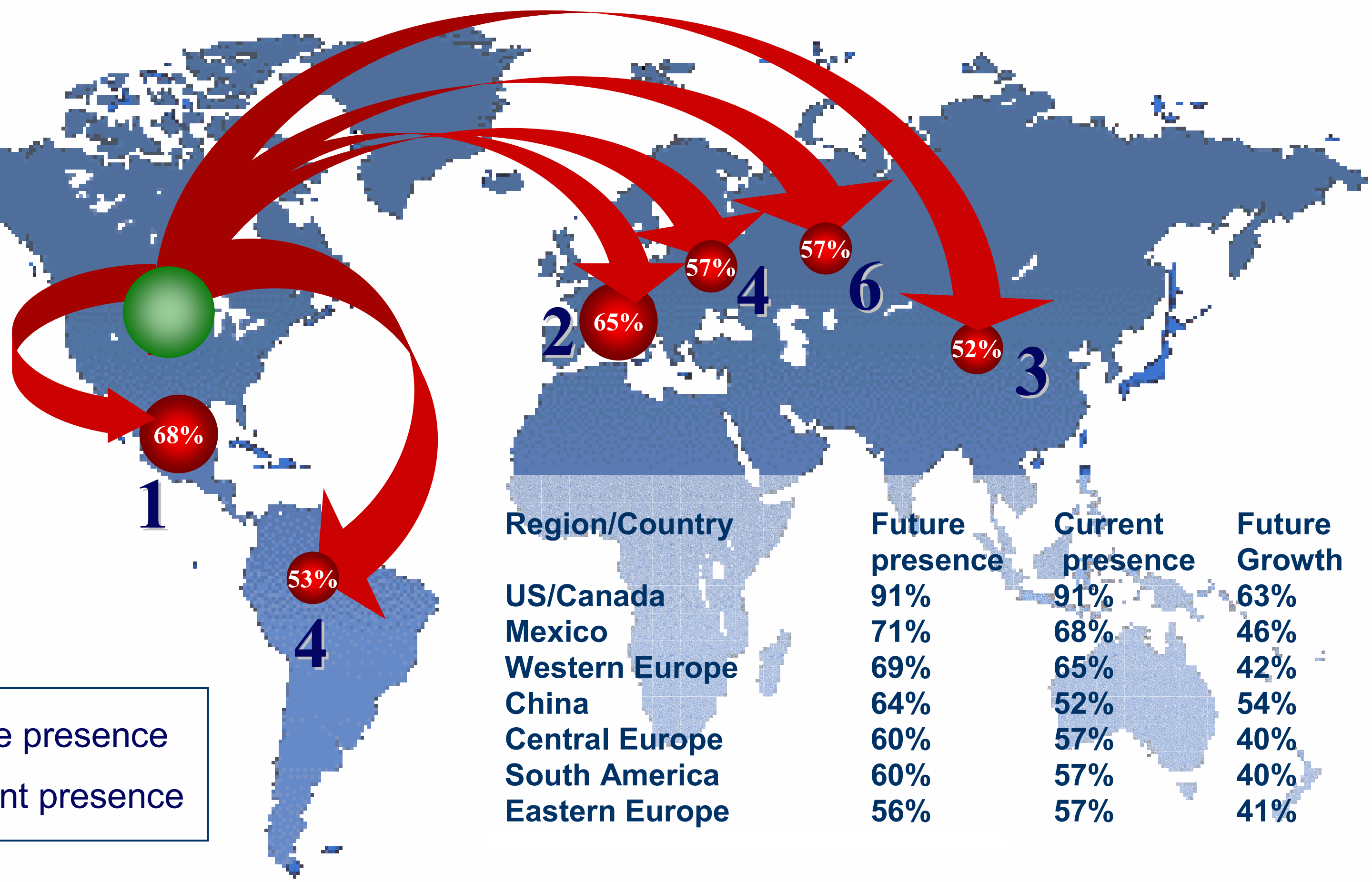
- Increased complexity across the Value Chain:

$$\textbf{Complexity} = f\ \frac{\textbf{(Products * Customers * Locations)}}{\textbf{(Information * Organization * Processes)}}$$

Quest West Conference

New Markets Increase Complexity

Top Destinations for North American firms



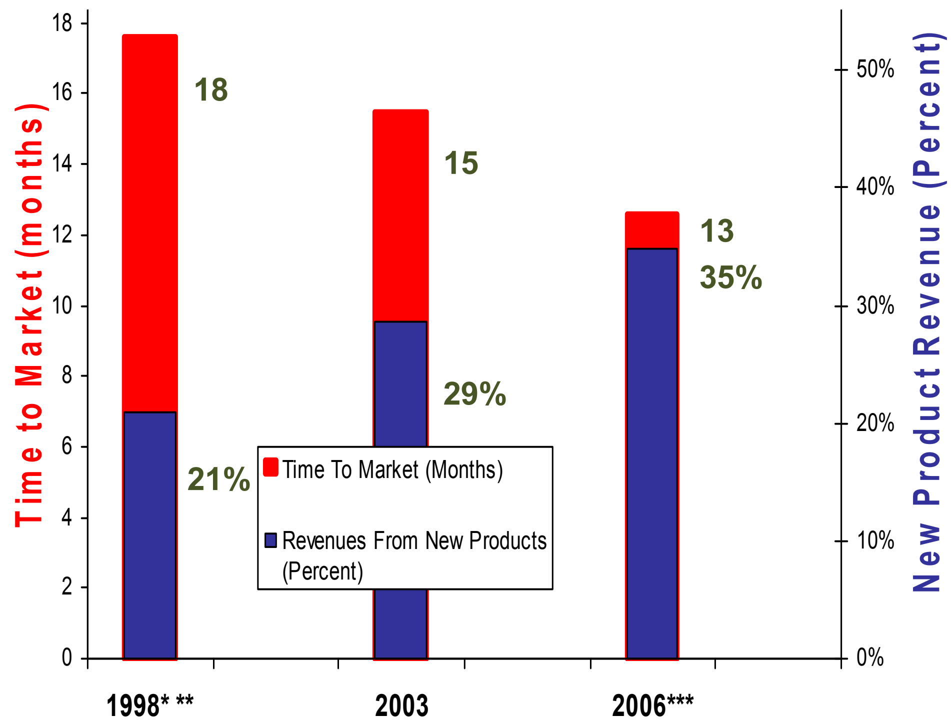
Legend

1	Future presence
53%	Current presence

Region/Country	Future presence	Current presence	Future Growth
US/Canada	91%	91%	63%
Mexico	71%	68%	46%
Western Europe	69%	65%	42%
China	64%	52%	54%
Central Europe	60%	57%	40%
South America	60%	57%	40%
Eastern Europe	56%	57%	41%

New Products Increase Complexity

- New Products/Service ranked as the No. 1 factor driving revenue growth
  - New product share of revenue to increase by 21 percent over next three years
  - Time-to-market falling 22 percent over next three years



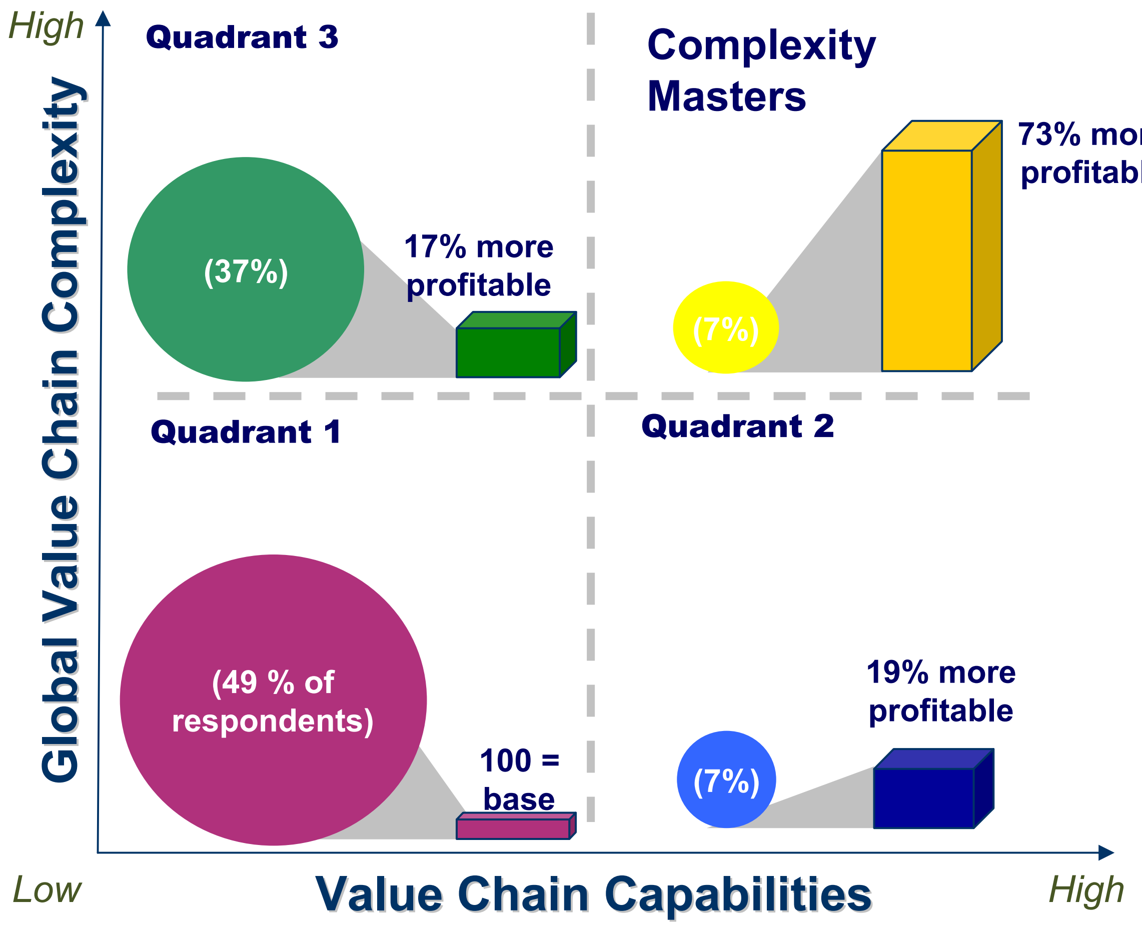
Note:* Data on revenues from new products are based on Deloitte Research, *Global Report – Vision in Manufacturing* (New York: Deloitte Research, 1998).

** Data on time to market refer to year 2000. ***Expected.

Supply Chain Complexity Creates Paradoxes

1. **The Optimization Paradox**
   - *Most Companies optimize locally, not globally*
2. **The Customer Collaboration Paradox**
   - *Only a small % report a strong commitment to customer collaboration*
3. **The Innovation Paradox**
   - *Product innovation is the #1 factor for revenue growth, yet is the lowest of the supply chain priorities*
4. **The Flexibility Paradox**
   - *Cost reduction focus is driving behaviors that inversely impact flexibility*
5. **The Risk Paradox**
   - *Keeping quality high is a #1 priority, yet supply chain changes can increase the risk profile*

Complexity Masters Are More Profitable



Note: Size of circles represent share of companies surveyed

Complexity Masters Are Different

- Qualifiers — "Binary Supply Chain Management"
  - Outsourcing manufacturing and distribution
  - Low cost country manufacturing
  - Quality certifications
  - Work force right sizing
  - Supplier scorecards
  - Product rationalization

Most firms show these attributes

- Differentiators — "Precision Supply Chain Execution"
  - Customer collaboration and segmentation
  - Integrated supply chain planning
  - Relentless pursuit of commonality
  - Rapid manufacturing changeover / focused factories
  - Designing for quality, manufacturability and maintenance
  - Cross functional design teams
  - Decision support tools

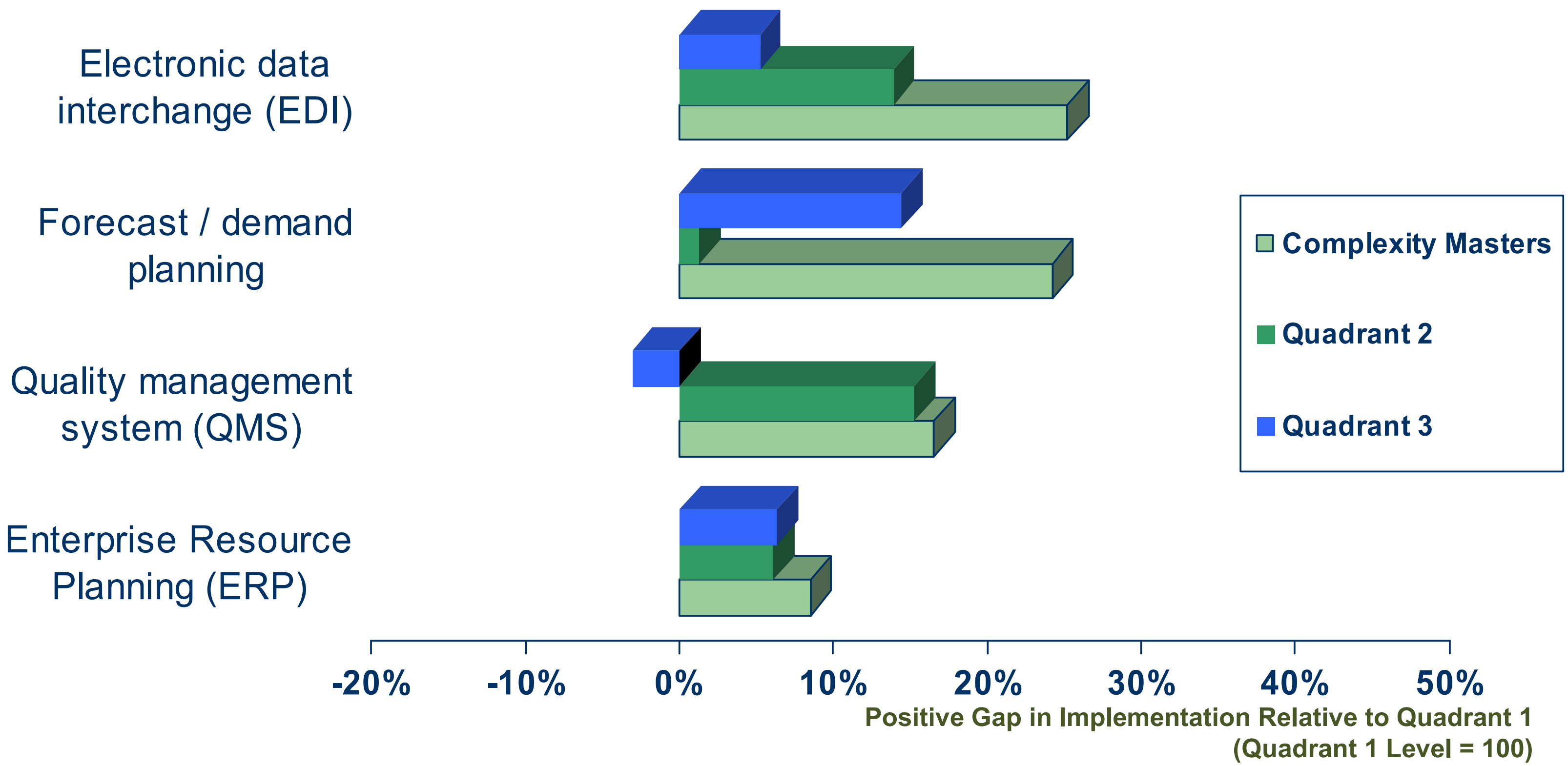
High performers show more of these attributes

Complexity Masters Are Different

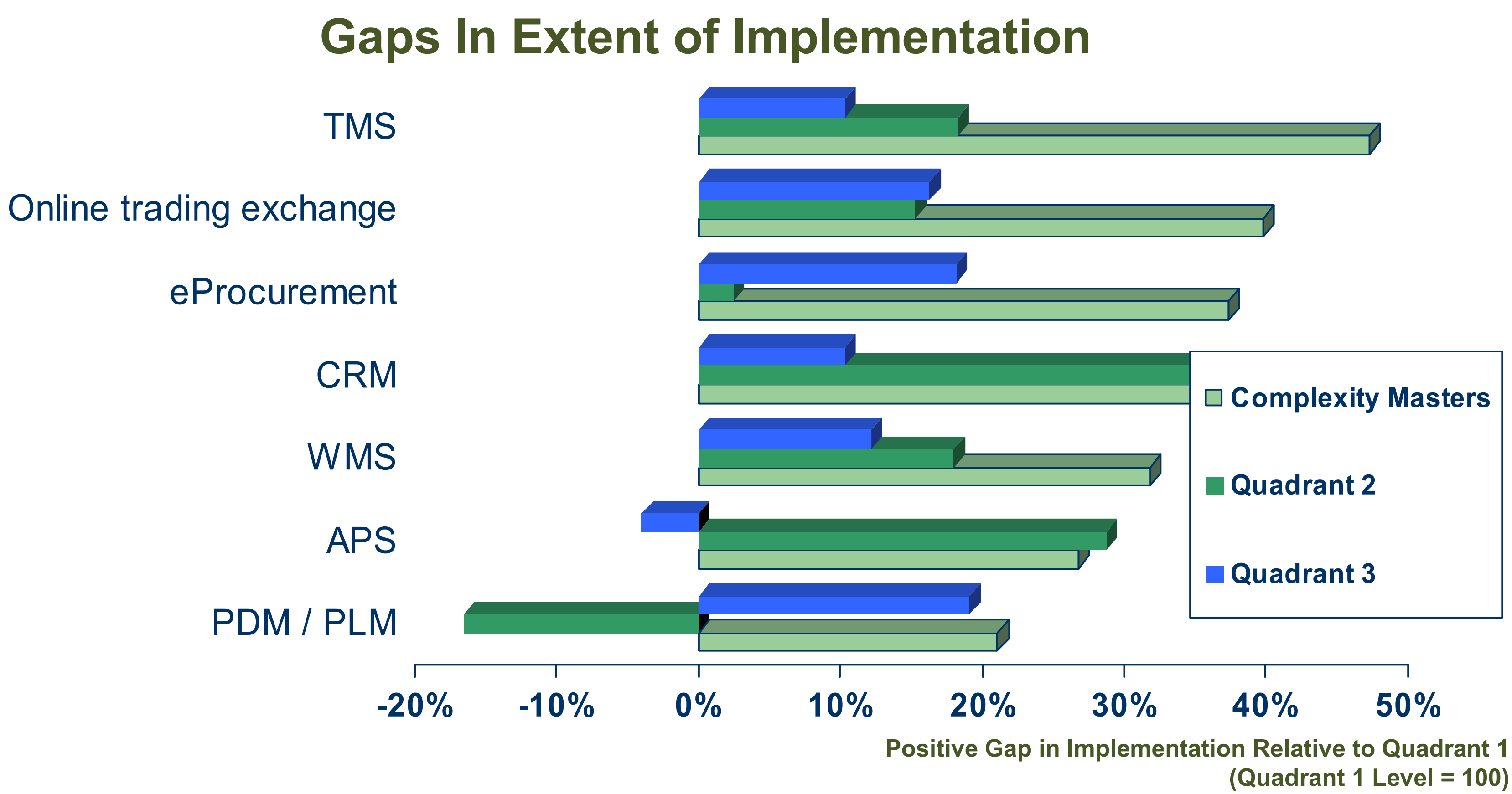
	Complexity Masters Lead in These Areas
Collaboration	Collaborate internally - cross functional design teams Collaborate with customers - product requirements Collaborate with suppliers - design components / new materials
Flexibility	Flexible capacity to shift manufacturing load Rapidly change production volumes Rapidly change product mix Change/modify products to meet market demands
Visibility	Scenario planning Product profitability Manufacturing cost Distribution/logistics cost
Technology	Customer Relationship Management Advanced Planning and Scheduling Transportation Management

Complexity Masters Leverage Technology

Gaps In Extent of Implementation



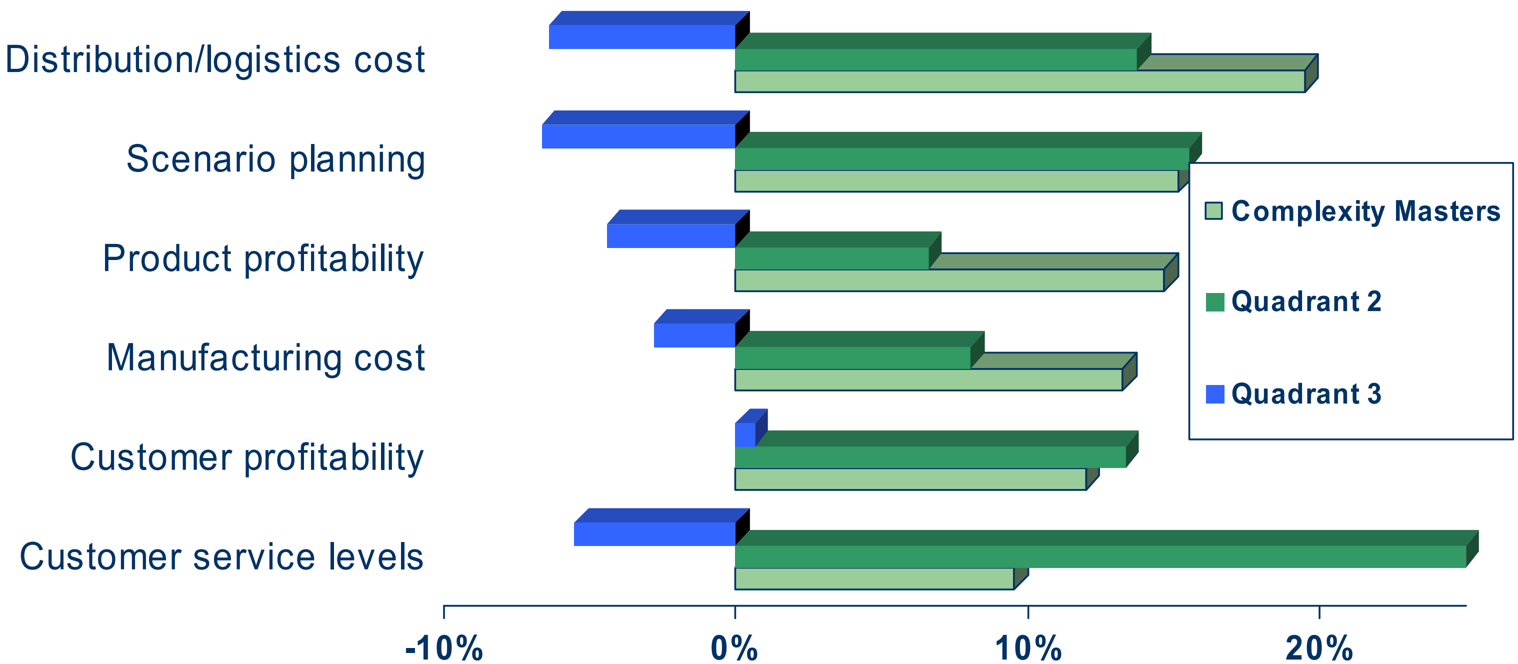
Complexity Masters Leverage Technology



Quest West Conference

Complexity Masters Leverage Technology

Gap In Visibility Into Operational Data



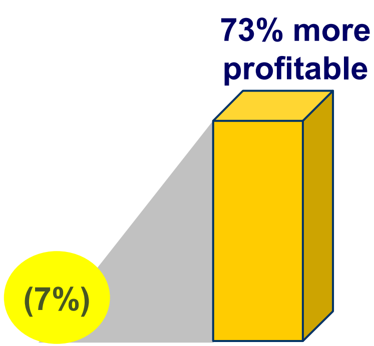
Positive Gap in Satisfaction of Visibility into Key Areas
Relative to Quadrant 1 (Quadrant 1 Level = 100)

Conclusion

Cost	Initiatives tend to increase supply chain complexity
Market Expansion	Often fragments the supply chain and leads to increased complexity.
Innovation	Complexity is here to stay… but there is a roadmap for building supply chain capability and creating value.

Conclusion

Complexity Masters



Differentiated by focus on synchronizing the supply chain:

- **Customers –** collaboration beyond quality & service
  Develop customer segmentation strategies to drive loyalty and customer profitability
- **Products –** product innovation driving revenue growth
  Leverage common product platforms. Collaborate to gain time-to-market advantage
- **Supply Chain –** network optimization
  Excellence in operations. Performance enhanced by flexibility and visibility gained from collaboration and effective use of technology
- **Technology –** implementation and benefits
  More completely implements and gains higher benefits. Focuses on differentiating technology.

Questions????

Kirk D. Zylstra

206 838-6366

Kzylstra@deloitte.com

Leave a business card or email for a copy of the complete report and to receive custom survey results!