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Press Release

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European supply chains: regional setup needed

'Excellence in Logistics 2008': benchmarking study by the European Logistics Association (ELA) and A.T. Kearney identifies success factors for supply chains amidst the crisis

After many years of continuously flagging logistics costs, the trend has now turned around. Across Europe, logistics costs have risen by almost 20 per cent since 2003 and are likely to continue to increase through to 2013. In order to meet the current challenges of the global economic crisis, supply chains have to change. The key success factors consist of regional network structures, enhanced flexibility, stringent risk management and the systematic controlling of net working capital. This is apparent from the latest 'Excellence in Logistics' study, which has been conducted at five-year intervals since 1982 by the European Logistics Association (ELA) and the top management consultancy A.T. Kearney. The study combines the development of the traditional cost and performance benchmarks in supply chain management, which have been recorded and evaluated throughout the period 1982 to 2008, with the focal theme of 'Supply chain excellence amidst the global economic crisis'. Companies from a total of 18 European countries and eight branches of industry took part in the study.

"On the one hand, supply chain cost and tied-up working capital, including inventories, must be kept as low as possible. On the other hand, though, customer requirements in terms of delivery lead times, product availability and delivery reliability are increasing. Finding the right strategic solution to this conflict of objectives is more important than ever in times of economic crisis if you want to improve your competitive position and emerge from the crisis stronger than before", says Dr. Stephan Mayer, partner at A.T. Kearney and head of the project team.

Rising costs and high stock levels

Between 2003 and 2008, logistics costs – one of the most important key metrics for supply chain performance – rose by almost 20 per cent, from 6.1 to 7.3 per cent of net sales, with an unchanged industry mix. The rise is evenly distributed between three cost components: transport costs, warehousing costs and inventory costs.

Transport costs rose by 35 per cent between 2003 and 2008. This trend can be attributed to the further advance of globalisation, which has the effect of making haulage distances longer, and to rising toll charges and fuel costs. “While it is true that costs are currently declining on account of shrinking freight volumes as a consequence of the economic crisis, in the medium term we are expecting that transport costs will shift in proportion to the overall economic trend and will start to rise, for example because of further advancing globalisation and the growing significance of the issue of sustainability”, forecasts Cay Bernhard Frank, Principal at A.T. Kearney.

Relative to net sales, warehousing costs have risen by roughly 0.3 percentage points and inventory costs by 0.4 percentage points. By 2013, however, the experts are expecting a notable reduction in inventory costs. “Tied capital in the supply chain can be found in the form of inventories at the various value-added levels within a company. This matters in times of economic crisis in particular, because inventories are capable of absorbing considerable volumes of urgently needed cash. In the short and medium term, companies will be called upon more than ever to make concerted use of all possibilities to improve their cash position and capital structure through optimising inventories”, according to Erik Thiry, Principal at A.T. Kearney.

For 2013 the experts consequently anticipate a slight decline of the same order of magnitude in all three inventory categories: raw materials, semi-finished products and finished goods stocks.

“All in all, inventories in the various inventory categories are currently at a relatively high level, even if there are industry-specific differences. There is need for action here. A reduction in inventory costs and storage costs can only be achieved, though, through an end-to-end optimisation and harmonisation of the supply chain”, maintains Thiry.

Globalisation is continuing

The study also showed that the issue of globalisation will continue to have an absolutely central role to play in supply chain management in the future. Over the past decades, globalisation has been one of the biggest drivers of wealth outright: in conjunction with growing population, world exports per inhabitant rose from $450 in 1980 to over $2,000 in 2007. Export-oriented countries such as Germany have benefited from this in particular.

The effects of globalisation also become apparent in the supraregional interdependencies of suppliers and customers among European companies: the movement of goods, the underlying measure of globalisation of the supply chain, increased significantly from 2003 to 2008, by about 10 per cent per year on the purchasing side and about 11 per cent on the market side. The increasingly global nature of the supply chains is also reflected in the scope of sales & operations planning (S&OP): a quarter of those surveyed stated that they are applying S&OP on a global basis.

“The economic crisis together with the stimulus packages and subsidy arrangements put in place by individual governments in Europe have recently suggested that there is a reversal of the globalisation trend. This was not confirmed by the latest study, however. Although a temporary slowing of the globalisation dynamic is taking shape as a consequence of the economic crisis, we are still nowhere near anything that might be called deglobalisation", says Cay Bernhard Frank.

According to the surveyed companies, the most important drivers of globalisation are the factors that are directly connected to purchasing and procurement, followed by drivers on the market side. Among the cost-oriented drivers, personnel costs are attributed the biggest significance, ahead of energy and transport costs. The participants in the study are united in assuming that the significance of all globalisation drivers will continue to increase through to 2013.

"Strengthening global competitiveness is still the top priority for companies in all sectors. Excellent supply chain management can make a considerable contribution to achieving this, through optimised, regional arrangement of the supply chain network structures, a higher degree of flexibility, tight risk management and systematic control of net working capital", is the summary put forward by Dr. Stephan Mayer.

Consolidation, regionalisation, flexibilisation

Important competitive advantages can be obtained through consolidation and regionalisation of the supply chain. The experts anticipate that the number of production and storage locations will decline markedly in the coming years and that the entire supply chain 'footprint' will be consolidated. "In the course of the economic crisis this development will accelerate significantly", says Erik Thiry. The experts expect there to be a streamlining of the production network of around 20 per cent by 2013.

It is also expected that the structure of the production networks will shift towards a more regional arrangement: In future, most production locations will serve regional markets, while the absolute number of locations and the proportion of those that supply only locally or globally will decline at the expense of these regional core plants. A similar picture is emerging for inbound and distribution logistics. There is expected to be a reduction of about one third in incoming stores by 2013, and roughly 20 per cent in distribution stores.

The growing regionalisation of supply chains will also be further bolstered by the issue of sustainability. According to the experts, this will become considerably more significant by 2013 and will also encourage the use of CO_2-efficient means of transport wherever possible. This relatively new issue for the supply chain has become part of the agenda for 60 per cent of the surveyed companies in the meantime, although in the experts' view there is still considerable need for action in this regard if sustainability is also to be put into practice in everyday company reality. This applies in particular to the issue of the CO_2 footprint, where logistics along with production is typically one of the major sources of CO_2 within any company.

Switching from push to pull

"There is also unexploited potential to be found in further flexibilisation of the supply chain. In a strained economic situation such as the present one, it is inherently important that companies enhance the reaction capability of their supply chain so as to be able to respond quickly to fluctuating market demand. 'Pull instead of push' is the order of the day, which means producing on a customer-specific basis instead of just for the warehouse", explains Dr. Stephan Mayer.

The study did reveal, however, that the majority of those surveyed do not yet have a consistent pull supply chain at their disposal. As a consequence of the recent boom years, in 2008 it was even possible to observe a slight rise in ‘push’ production compared with 2003, towards more ‘make-to-stock’.

The branches of industry covered by the study do exhibit major differences, however. Although the automobile industry can be considered a trailblazer in the implementation of new production philosophies, there are currently about 20 million ‘push vehicles’ in storage waiting to be sold. In the fast moving consumer goods industry and in retail, production for stock and sale from stock dominate almost exclusively.

“Especially in times of crisis, goal-oriented, flexible management of the supply chain becomes particularly important. Consequently, in the medium term we are expecting a noticeable upturn in the trend towards pull supply chains, which help to prevent building up stocks of products which are no longer in demand in the crisis. When changing the supply chain to the pull model, though, the companies should not take sweeping action but instead follow a segmentation logic. In particular, segmentation according to demand behaviour and customer structure is a vital key to success”, adds Dr. Stephan Mayer.

Maximise liquidity, minimise risks

“In times of economic crisis, active management of net working capital, in other words of inventories, receivables and payables, is one of the core tasks of supply chain management. Companies should now make use of every opportunity to release capital in the short term in order to improve their cash position. Controlling net working capital is often a neglected instrument for doing this”, states Erik Thiry. By reducing stock ranges, German factories alone can release a total of about 40 billion euros of tied-up capital.

What is important for the people in charge of supply chain management now is that they reduce their inventories, perhaps by systematically restructuring the supply chain to become a pull supply chain”. In addition, they should examine their receivables management for opportunities for optimisation and shorten the cash-to-cash cycle, for example by fast and error-free delivery and invoicing.

Equally important in a crisis is a properly functioning supply chain risk management, by means of which payment and credit risks are controlled. In this respect, too, there is potential for improvement: at present, only one third of the surveyed companies operate supply chain risk management. “It is important to create transparency regarding the performance capability of the supply chain processes and to continue improving them all the time”, insists Cay Bernhard Frank.

Excellence in Logistics

The ‘Excellence in Logistics’ study has been conducted at five-yearly intervals since 1982 by the European Logistics Association (ELA) and the top management consultancy A.T. Kearney. It provides meaningful benchmarks relating to costs, speed, level of service and risks in a comparison of European countries and industries. It also draws attention to significant development trends. 150 companies from 18 European countries and eight industries took part in the latest study, including companies in the consumer goods, automotive and chemical industries and in mechanical engineering, electronics and telecommunications.

The study builds on the results from the previous studies, which focused on the issues of ‘Costs’ (1982), ‘Productivity’ (1987), ‘Service levels’ (1992) ‘Supply chain integration’ (1998) and ‘Differentiation’ (2003). Thanks to its unique database and history, and the broad, Europe-wide spectrum of participating companies from various branches of industry, this study has become internationally established as the most important benchmarking study for supply chains and logistics. Further information is available at www.logistics-excellence.com.

About A.T. Kearney

As one of the world's leading top management consultancies, A.T. Kearney combines strategic foresight with operational experience. Decision-takers at industrial heavyweights and SMEs alike, from all branches of industry as well as the public sector, use our international teams of consultants to find and implement solutions to improve their long-term competitiveness. A.T. Kearney was founded in 1926 in Chicago and now employs a workforce numbering more than 2,500 located across 30 countries. Further information can be found on the internet at www.atkearney.de.

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