

Should We Invest Or Cut Costs In Supply Chains? Why Not Do Both

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Companies are currently focussing on cost cutting but will failure to invest in supply chains cause future problems and is now an opportune time to invest? The answer, according to five leading supply chain experts speaking at the sixth annual SCALA Logistics Debate is –“Companies Should Do Both”.

John Perry, Managing Director of SCALA (<http://www.scalagroup.co.uk>) said a recent survey conducted by SCALA showed 62% of the companies surveyed indicated that in fact their trading volumes were up. Only 18% said they had fallen. Despite this there was a massive reduction in capital investment with 54% of companies reducing capital expenditure. “This reflects lack of confidence and caution by both the consumer and business.”

Beth Cauldwell, Director of supply chain recruitment company Snowden Tate, said it was critical to see people as part of the solution – not just part of the problem. “We have moved from supply chains which were focused on cost reduction to ones which are customer driven. If we do not invest in people there is a danger that we will revert to cost cutting supply chains. The effectiveness of supply chains depends on the effectiveness of its people.”

Steve Eastham, Operations Director, Tetley Tea said to determine what to do in current conditions it was essential to link the objectives of people in the supply chain to the business strategy. “We should also look at tying in cost reduction to environmental improvement – we are increasing to a real 95% vehicle cube utilisation. That means fewer miles and fewer vehicles – and that is good for our costs and good for the environment. Make the environment part of your strategy – and then make it part of our team’s objectives”.

John Boulter, Managing Director DHL Supply Chain, said “Investment is one extreme and cost cutting is another. These are not mutually exclusive. Customers expect us to invest in technology which is smart and efficient; allows customers to share assets; show visibility of waste in order to eliminate it. We should invest to achieve these goals – and look for a reasonable payback”. He also thought it important to tie environmental goals into the business and this was also an area for investment. “The green agenda clearly matches the business one. We must invest in more time with, and become intimate with, our customers: become better listeners, cut down on direct selling and understand their pressures.”

Peter Surtees, Director European Supply Chain Consumer Products, Kimberly Clark said that the reality was that in today’s trading environment more than two thirds of consumers were looking for deals and promotions.

“We must cut costs if necessary – but we must realise the need to invest. We need a lower cost base – but we must not cut too much. Take out as much excess costs as you can, but only with an eye to the future. Invest wisely and make your cash work harder. There are currently excellent investment opportunities – for instance in warehousing facilities where there are deals with up to three years rent free. Now is the time to train your people. Many of them do not understand what a recession is.

Peter also indicated that having invested in a major ERP roll out across Europe he was now improving his Supply Chain IT capabilities outside of ERP by using pay as you use Software as a Service (SaaS)

solutions without the need for capital investment.

John Potter, Senior Partner SCALA Consulting believes that consumer behaviour has changed significantly. "You cannot look at history for lessons – this is different. If you have products or services which people are learning to do without, and do not add value, then cut investment. If consumers find their life is worse without your products, invest now"

"There is a lot of room for improvement in our supply chains. I doubt if many are fully optimised, whether we look at internal or extended supply chains. There is much room for improvement in S&OP and supply chain systems and processes. There are huge opportunities to improve – but do it very intelligently and invest intelligently to improve margins".

John Boulter agreed that there was a lot more scope for shared user operations and a lot more to be done. "The main activity at the moment is in shared transport. Suppliers find it acceptable to share deliveries in white vehicle fleets. We also have several consolidations centres around the country – the model works but we must attract more customers".

John Potter believed that for collaboration and shared operations to truly work and maximise benefits customer orders needed to be consolidated at the point of demand.

About SCALA

Founded by John Perry in 2001, SCALA Consulting has earned an excellent reputation for providing high quality experience and solid expertise in Supply Chain and Logistics Consulting and Interim Management.

SCALA has successfully moved towards the top of supply chain & logistics consulting because we understand the need for delivering real tangible business benefits. Supply chain improvements are only worthwhile if they result in business advantage. Whilst our specialists focus on the detailed solutions, SCALA's Senior Partners firmly focus on the board level viewpoints and ensure competitive advantages are successfully achieved.

HIGH QUALITY EXPERIENCE

The Company comprises ten Senior Partners plus a team of highly capable and proven consultants. All the team:

- are Senior Experienced Professional Consultants
- specialise in Supply Chain & Logistics
- have Strong Management Backgrounds
- have worked at Senior Board Level through to Detailed Operations Implementation

SCALA has established an impressive client base that repeatedly chooses us because of the quality and experience of our consultancy team

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