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Excelling in Supply Chain Management

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EXCELLENCE IN A VOLATILE GLOBAL ENVIRONMENT.

Notwithstanding the difficulties associated with the current economic turbulence domestically and globally, the food and drink sector in Ireland continues to play a key role in the economy and represents a significant proportion of overall GNP, exports and employment. The challenges presented by recent changes in the business environment have sharpened the focus on the need for robust approaches to logistics and supply chain improvement.

This article, based on the theme of the recent Logistics Ireland 2009 conference, sets out the key changes in the strategic context of supply chain management (SCM) in a global and an Irish context. It goes on to outline some of the key characteristics of SCM excellence in the food and drink sector, based on the author's experience and on documented evidence in the literature.

The performance of Irish firms in relation to these key characteristics is discussed, with reference to NITL's ongoing research in this area. From this, a number of critical success factors for effective supply chain re-engineering in the sector are identified and some key conclusions drawn.

THE EVOLVING STRATEGIC CONTEXT

A number of key issues are changing the SCM strategic landscape.

Arguably, the three most significant such issues are:

1. Internationalisation (or globalisation) of supply chains;
2. Vertical disintegration;
3. The changing role of the supply chain in strategic differentiation.

Each of these drivers is adding complexity to food and drink supply change. A recognition of the strategic role of SCM in this evolving context is critical to the continuing success of Irish firms in this sector.

A significant proportion of the overall cost base of food and drink companies is in the supply chain. Hence, any worthwhile improvement strategy needs to focus on the optimisation of total supply chain costs and the elimination of non-value adding activities (NVAs), a key objective of SCM.

Customer service is becoming a key order winning criterion in many sectors. Its importance relative to product quality (now often largely an order qualifier) and price (largely determined by the dynamics of supply and demand in the market and subject to downward pressure in many sectors) has increased. Food and drink companies have long recognised that customer service excellence is delivered by the supply chain. In this way, the supply chain itself has become a key determinant of competitive advantage. In short, a company pursuing a cost leadership strategy, a differentiation strategy or some hybrid of these

two, can leverage the supply chain as a fundamental element of their effort to improve competitive performance.

THE IRISH CONTEXT: THE IMPORTANCE OF SCM

In addition to the evolving strategic context and to the potential operational benefits in terms of customer service and supply chain economics, SCM is of particular importance in an Irish context for several reasons. Ireland is one of the most open economies in the world, with both imports and exports representing a significant proportion of overall economic activity.

Indeed, the export-orientation of the Irish economy was the principal driver of overall economic success in the early years of the Celtic Tiger. Logistics and SCM are key activities in this context.

Given Ireland's relative geographical peripherality and the resulting transportation cost disadvantage faced by companies located here, it is important to note that transportation costs are only one, and often not the most significant, element of total supply chain costs. Furthermore, small companies are increasingly recognising their role as part of, often global, supply chain configurations. This is important, as the great majority of companies in the Irish food and drink sector are small and medium-size enterprises (SMEs).

CHARACTERISTICS OF SCM EXCELLENCE

So what are the characteristics in evidence in companies that might be regarded as world class? 'World Class' in this context means companies that have been successful in tough, competitive international markets over a sustained period of

time. It is impossible to develop an exhaustive list of the characteristics of SCM excellence but the following four elements appear to be of critical importance for most companies in the food and drink sector:

- Identification and measurement of customer service because customer service 'sets the spec' for supply chain design;
- Integration of supply chain activities and information because many supply chain NVAs are caused by fragmented supply chain configurations;
- SCM and logistics is a senior management function because SCM is a strategic activity;
- Establishment and measurement of supply chain key performance indicators (KPIs) because what gets measured gets done.

This is based on documented evidence of SCM "best practice" and allies with the author's experience. It is worth exploring the performance of companies in Ireland in relation to these issues.

HOW DO COMPANIES IN IRELAND MEASURE UP?

NITL carries out research aimed at assessing the supply chain capability of companies in Ireland across all major sectors of the economy, including food and drink. A number of interesting facts are evident from this research in relation to the four key characteristics of SCM excellence outlined in the previous section:

- Approximately 50% of companies measure customer service formally and these tend to have very limited

measurements;

- Companies score poorly in relation to having the latest supply chain information and communications technology (ICT) and having them integrated across the supply chain;
- A small minority of companies have any formal SCM position;
- Few companies use clearly defined SCM KPIs.

Overall, analysis of the research findings indicates that, whilst pockets of excellence undoubtedly do exist, there is significant room for improvement in these key areas. A number of possible barriers to SCM excellence have also been identified and will be explored as part of the ongoing research and associated analysis. These include:

- Inefficiencies are often built into the supply chain;
- Communication structures are often ineffective and exchange of information poor;
- Corporate culture often makes effective inter-firm collaboration difficult;
- There is an excessive reliance on forecasting and stockholding;
- Problems are often managed, rather than being solved by identifying and eliminating their causes.

It is important, therefore, that any robust approach to supply chain improvement and re-engineering at least addresses these areas meaningfully.

SUPPLY CHAIN RE-ENGINEERING

Improving supply chain performance through re-engineering involves: analysis of internal and external parameters using relevant data which has been collected; the identification and evaluation of possible alternative improvements and their detailed planning; and the implementation of planned improvements, including the associated change management. In short:

Re-engineering = Analysis + Planning + Implementation.

It is important to bear in mind that, in supply chain re-engineering, no panacea or 'magic solution' exists. Furthermore, as every company and every supply chain is unique in some respect, it is inappropriate to attempt to copy or imitate companies regarded as being exponents of good practice. The uniqueness could be with respect to products or services supplied, processes, customer expectations, people and cultural issues, systems, or any one of a number of other factors. However, there is a logical and systematic way of addressing these challenges, based on established methodologies and associated tools and techniques.

CONCLUDING COMMENTS

The changing dynamics of the sector globally have resulted in a situation where the effective management of food and drink supply chains is becoming increasingly regarded as a major source of competitive advantage. In short, the potential exists across the industry to significantly enhance shareholder value through the adoption of SCM thinking.

The specific environment in which the industry operates brings its own particular challenges but these are not insurmountable – rather, they require that creative SCM strate-

gies be developed and then executed superbly, with strong attention to detail.

Finally, the author's experience indicates that the real critical success factors in any supply chain re-engineering or change process in the sector relate to the people dimension, and specifically to the need to enhance knowledge and skill levels through effective education and learning. ●

ABOUT THE AUTHOR

Edward Sweeney is Director of Learning at the National Institute for Transport and Logistics (NITL). He has held full-time and visiting academic positions in universities in Ireland, the UK and Asia, and has worked with several leading Irish and multinational companies.

The National Institute for Transport and Logistics (NITL) based at the Dublin Institute of Technology (DIT), works with individuals and organisations throughout Ireland and further afield through its education, research and consultancy activities in logistics and SCM.

'Supply Chain Management and Logistics in a Volatile Global Environment' by Edward Sweeney and friends was published recently by Blackhall Publishing in Dublin and is available from the publisher, amazon.co.uk and all good bookshops.



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and Logistics in a Volatile
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edited by
Edward Sweeney



NITL's Edward Sweeney is pictured chatting with Ingrid Miley of RTE at the recent Logistics Ireland conference.



Edward Sweeney of NITL is pictured (third from left) at Logistics Ireland 2009, with (l to r): Professor Martin Christopher, Dr Daniel Park, Dr Claudia Wagner, Colm Ryan and Professor David Grant.

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