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Supply Chain Management: SCM Key to Competitiveness

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SCM KEY TO COMPETITIVENESS

Any meaningful attempt to eliminate waste and improve cost competitiveness in the Irish packaging sector must have a strong focus on how the supply chain is designed and managed, writes Edward Sweeney, NITL.

THE recent economic volatility has placed the Irish packaging industry under intense competitive pressure. The industry serves a variety of demanding customers, with food and beverage, pharmaceuticals and health sciences, the public service and the industrial sector constituting the majority of its turnover. The export sector has been one of the few positives in recent years, as the recession has taken hold. Economic recovery can only be achieved by Irish firms – indigenous and multinational – continuing to succeed in highly competitive global markets. It should be recognised that packaging represents a significant component of many of the products exported from this island and that the success of the sector has, therefore, a key role to play in terms of wider economic recovery.

The customers served by the Irish packaging sector have become more discerning and are demanding ever higher levels of value from their suppliers. Furthermore, international competition has become more intense, requiring firms in the sector to adopt innovative approaches in all aspects of their operations. This innovation relates to technology (both in products and processes), marketing and branding, new product development and a range of other issues.

The sector has generated significant productivity and other improvements in recent years. Its competitive product offerings have enabled it to prove remarkably resilient in addressing the challenges it has had to face. There is an increasing recognition that the effective adoption of supply chain management (SCM) thinking represents a significant opportunity to build on what has been achieved to date.

THE WIDER SUPPLY CHAIN

All packaging firms, big and small, are part of wider and increasingly global supply chains. The success of the firms comprising these chains depends not only on what happens within the four walls of their organisations but also on the way in which the wider supply chain is designed and managed. All products reach the final customer through a



chain of organisations (i.e. the supply chain) and ensuring that this chain operates as smoothly as possible is in essence what SCM thinking is about.

Without the right companies up and down the chain, and without the right customer-supplier relationships in place, no company can achieve its true competitive potential. Furthermore, a large proportion of the overall cost base of packaging firms is tied up in the supply chain. Any meaningful attempt to eliminate

waste and improve cost competitiveness must, therefore, have a strong focus on how the supply chain is designed and managed.

Several firms in the sector have embraced SCM initiatives such as vendor-managed inventory (VMI), consignment stocking and lean production as part of this. It should also be noted that it is the supply chain that delivers customer service as measured using key performance indicators (KPIs) such as order-to-delivery cycle time and delivery reliability. Given that customers are continuously seeking improved performance in this regard, SCM is essential in maintaining and increasing profitable market share.

PACKAGING SECTOR LAGS BEHIND

While there is evidence that some firms have been attempting to adopt contemporary SCM thinking, it appears that the majority of companies in the sector have yet to develop an innovative approach based on our evolving understanding of the principles of world class supply chain operating practice.

This phenomenon is not unique to the packaging industry. Ongoing research by NITL into operational management practices across Irish industry suggests that while pockets of excellence undoubtedly exist, there is still significant room for improvement. The packaging sector is one where the potential for further improvement appears greatest, given the nature of competition and the strong pressure from customers for greater added value.

Research also suggests that SCM has fallen into the “lip service” trap in the sense that if we talk about it for

CHANGE TO SURVIVE

long enough, then we begin to believe that we are actually doing it! This is indicative of the fact that awareness of SCM concepts and principles has become more prevalent, but that there are difficulties in implementing these ideas in practice. There are many reasons for this, but a critical one relates to the management of change processes in firms and across the wider supply chain. After all, any plan is only as good as a firm's ability to implement that plan in practice.

ADOPTING SCM THINKING

The adoption of SCM thinking calls for change. The key to success is based on developing competitive supply chain strategies that provide a basis for meaningful change across the supply chain. Failure to change will almost inevitably result in decline (i.e. "standing still = falling behind"). However, it is not about change for the sake of change; rather, it is about carrying out supply chain processes in a different and more innovative manner. The word 'innovation' - derived from the Latin 'novus' meaning 'new' - is about identifying new and better ways of doing things in all aspects of an organisation's activity.

Traditionally two broad forms of change have been identified as shown in Figure 1 (below).

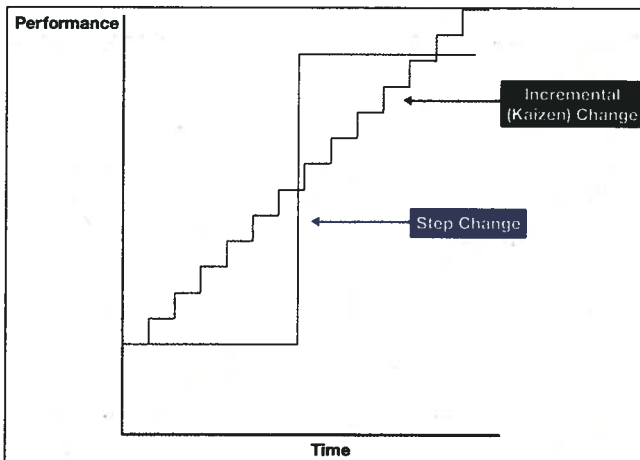


Figure 1: Forms of Change

Step Change, often the objective of supply chain re-engineering processes, recognises that dramatic improvement is required for a firm to survive. This form of change requires that business processes be re-thought in a fundamental way and radically re-designed. However, most change is a series of incremental improvements achieved over time (i.e. incremental (Kaizen) change). Kaizen, with its origins in Japanese automotive supply chains, is derived from the Japanese words 'kai' and 'zen' meaning 'continuing' and 'improvement'. It recognises that a culture of change needs to be nurtured in a business and that effective change can come from all levels in the firm (i.e. not just from senior management). Successful firms have embraced this concept and built this change culture into the DNA of their organisations.

As in other sectors, firms in the packing industry need to change to survive and prosper. NITL's work suggests that a number of things are important. Firstly, there must be a clear vision of change. In other words, we can not expect to be successful unless there is clarity in relation to how a firm needs to change.

Development of this vision is based on clearly understanding how the competitive environment is changing, as well as on what a firm's current relative strengths and shortcomings are. The latter often requires that existing operations are examined in a critical way, with a strong focus on identifying non value adding activities (NVAs), i.e. activities that consume time and cost, without necessarily adding value from a customer perspective. A clear vision will also determine the extent of change that is required (i.e. step change or incremental change or some hybrid of both).

Secondly, the capacity for change must exist. Many firms know what they want to achieve and where they want to get to (i.e. they have a clear vision) but lack the capability to realistically achieve the aspirations set out in the vision. Much of this capability – often referred to as 'cultural capability' – relates to the people dimension of the business. For example, irrespective of the clarity of the vision for supply chain change, if strong resistance to change exists among employees, it is unlikely that sustainable improvement can be put into place.

Thirdly, the author's experience suggests that first-up actions and pilot projects are a fruitful way to demonstrate the benefits of positive change and to achieve the required buy-in from staff. Lessons can also be learned from such actions and projects, thus providing some direction for further change implementation in the future.

CONCLUSION

In conclusion, there is room for improvement in terms of how packaging supply chains are managed. The key is to identify the form of change that is needed and to then implement this change in a logical and systematic fashion. Available evidence suggests that it will be those firms that embrace this change culture throughout their supply chain operations that will survive and prosper in the future.

ABOUT THE AUTHOR



EDWARD Sweeney is Director of Learning at the National Institute for Transport and Logistics (NITL), based at the Dublin Institute of Technology (DIT). NITL supports companies of all types and sizes in their supply chain change endeavours through its education, training, consultancy and research activities. For further information, visit www.nitl.ie. The author can be contacted at edward.sweeney@dit.ie.