Sharing Information Across The Supply Chain

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CILT Supply Chain management
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Weathering the Storm?

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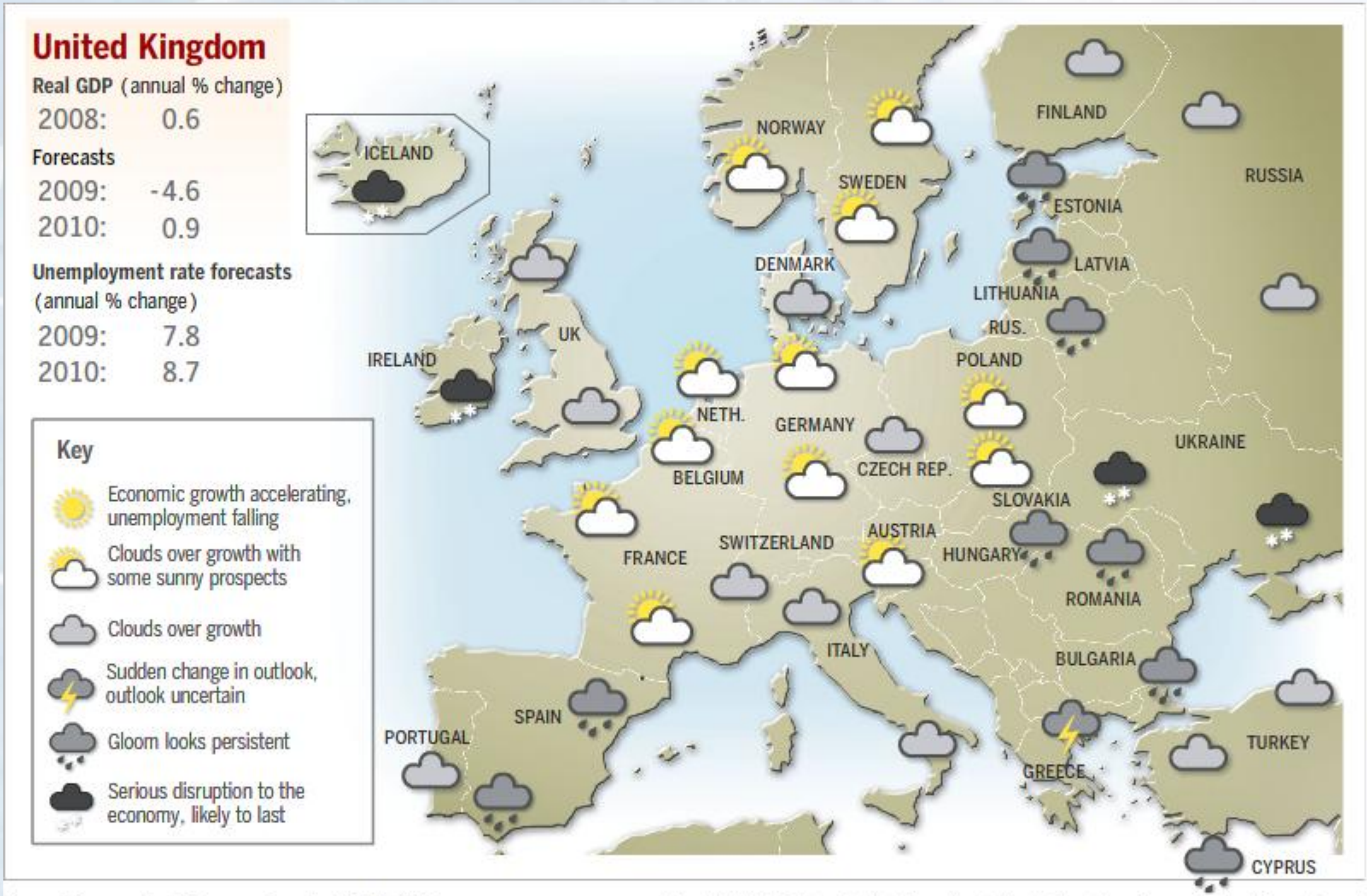
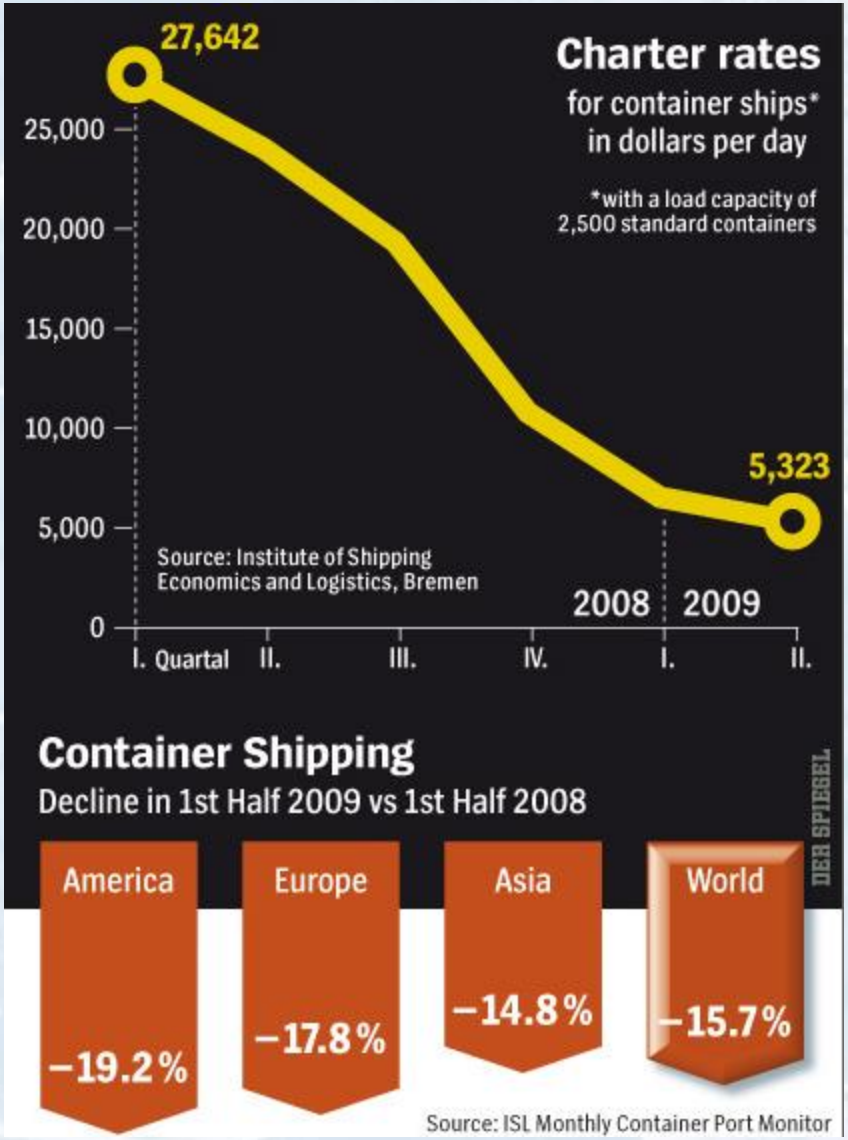


Sources: FT correspondents; Consensus Economics; EIU; EC; OECD

Artwork by Natalie Croker • Flash design and production by Cleve Jones, Shannon Bond and Steven Bernard

Impact on Supply Chain



15% decline in container shipping 08-09

Impact on Supply Chain

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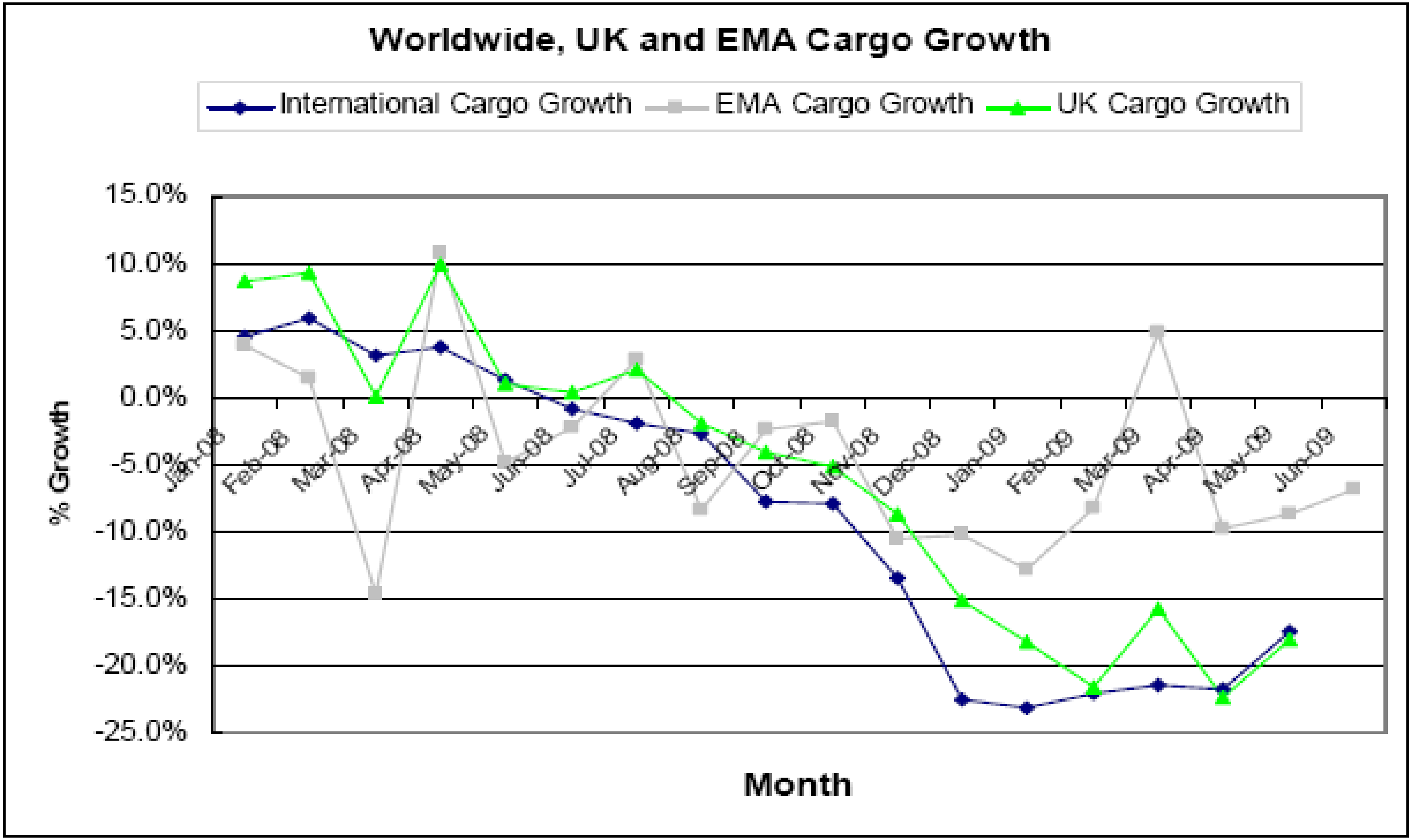

Source(s): www.iata.org, www.caa.co.uk, EMA Monthly Stats

Impact on Supply Chain

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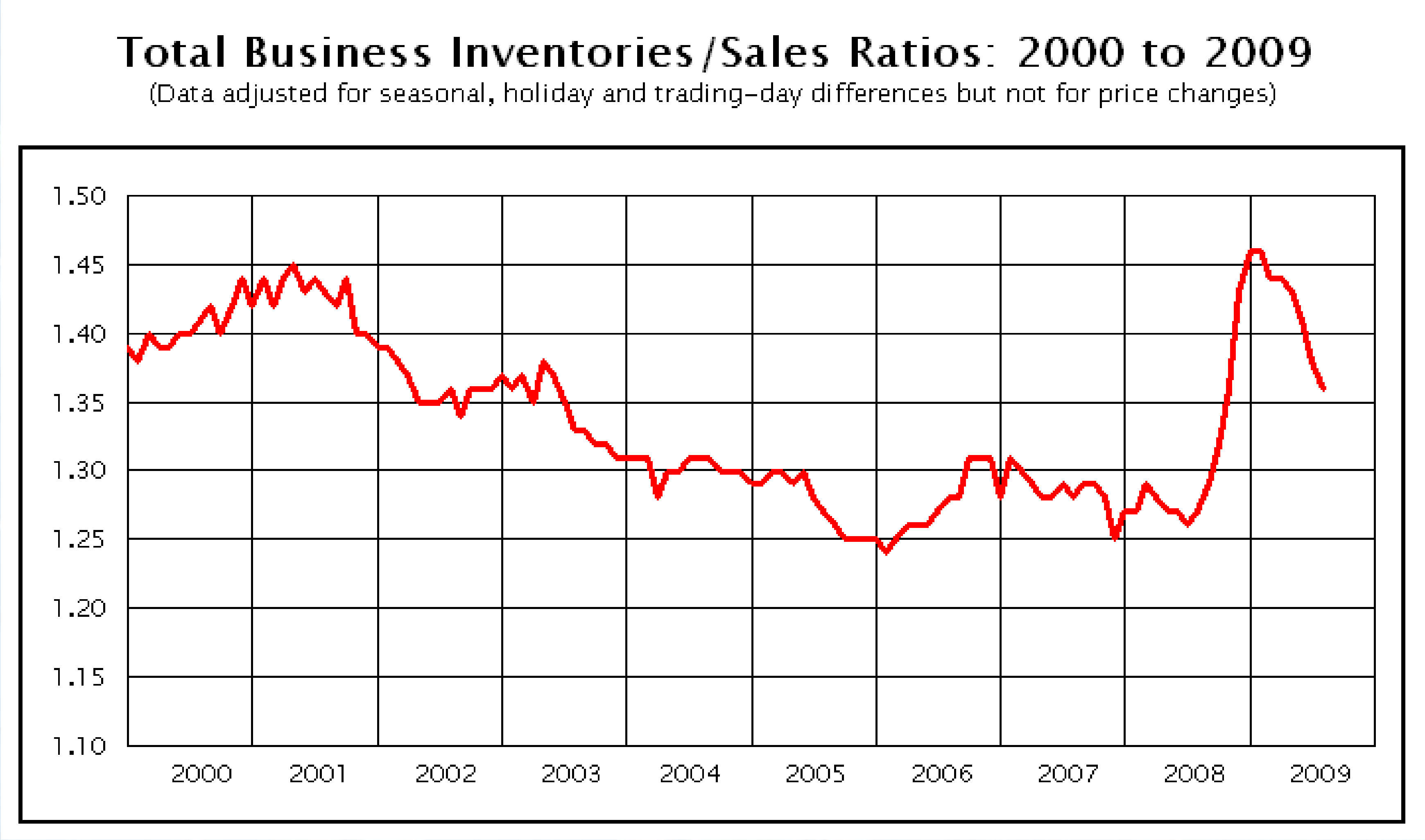
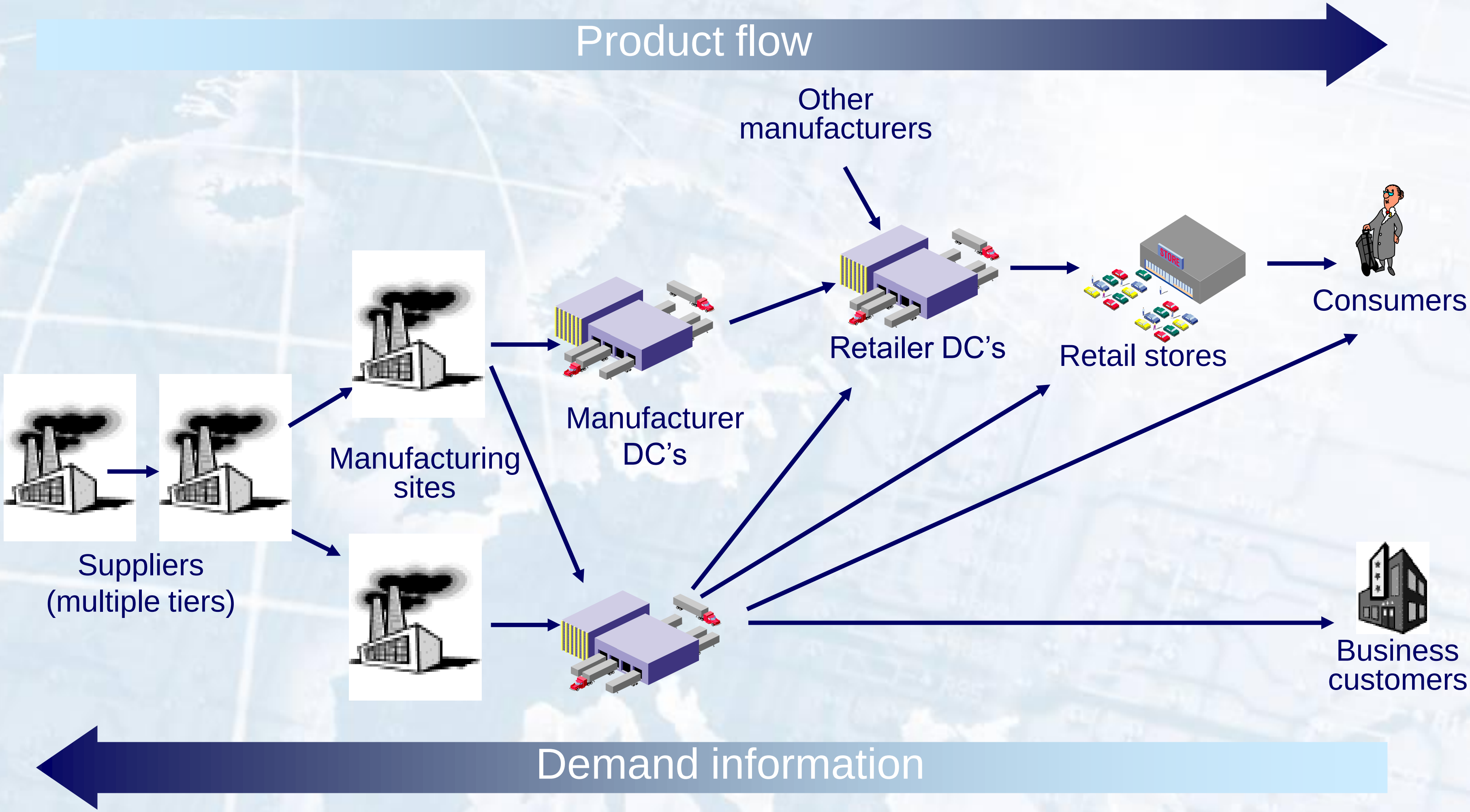


Source(s): www.census.gov

What are people doing?

- Cash flow
  - Debt collection
  - Payment terms
  - Inventory reduction
- Reduce cost
- Variabalise cost
- Supply Risk management
- Multi sales channels
- Service offering
- Supply chain collaboration

The supply chain



Each industry has its own supply chain structure and issues, but many principles are common …

Variability in the automotive industry

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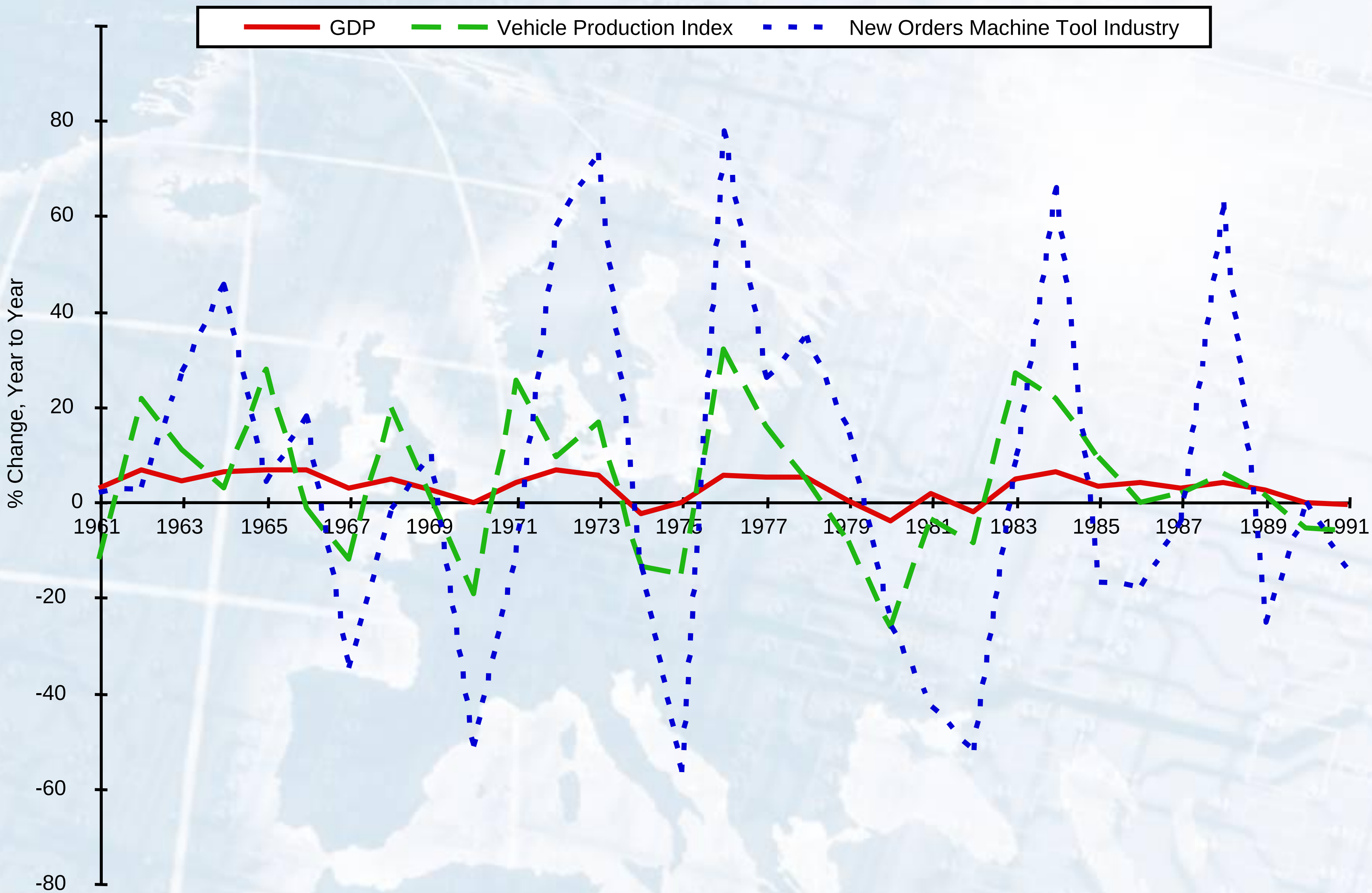
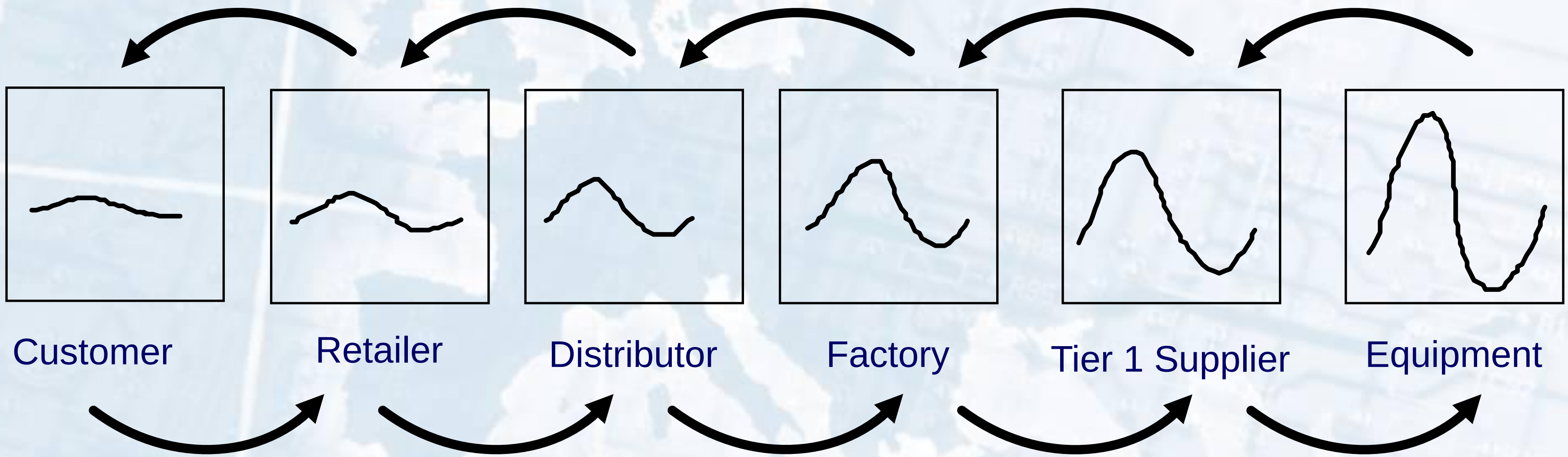


The bullwhip effect

- Demand variability is amplified in the supply chain: upstream echelons face higher variability

- What you see is not what they face



Consequences of the bullwhip effect (1/2)

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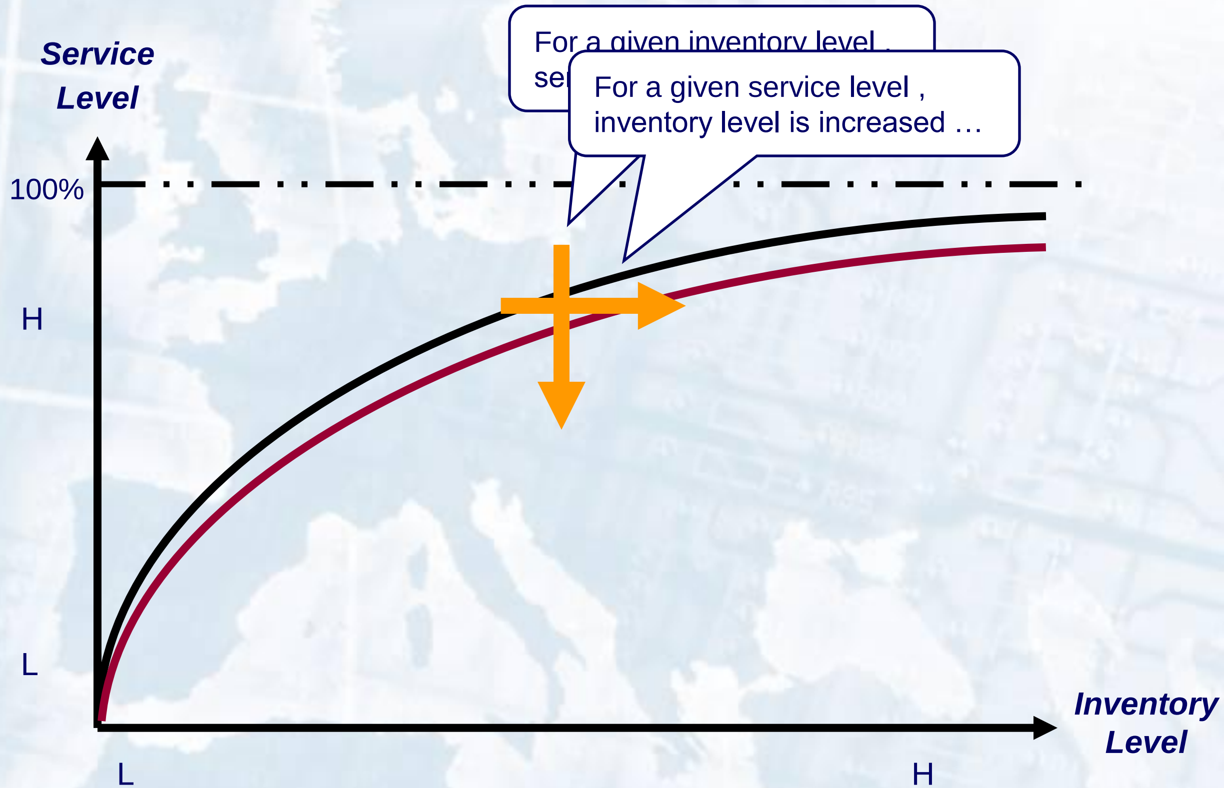
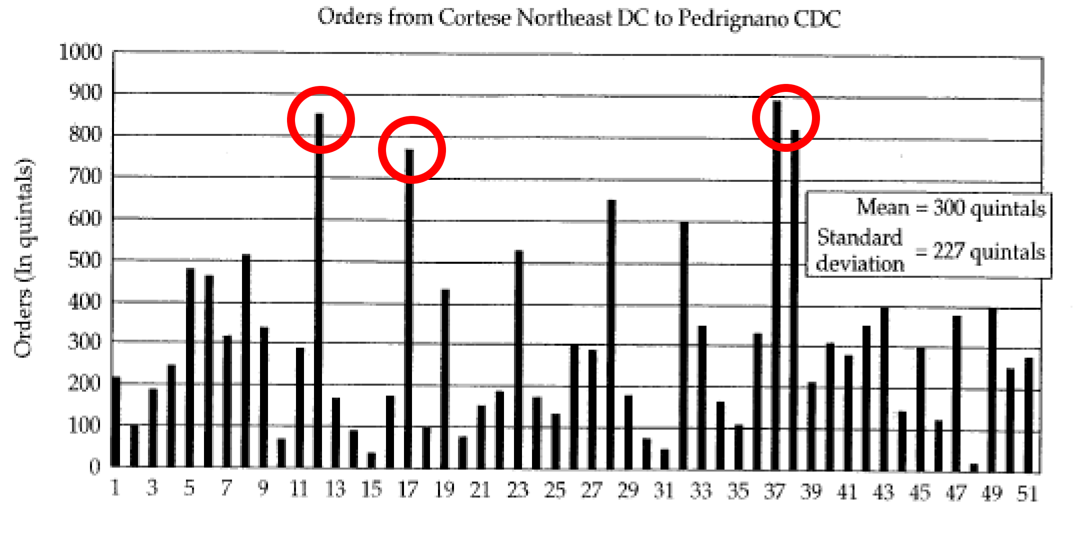
- Increased safety stock
- Reduced service levels



Consequences of the bullwhip effect (2/2)

- Increased safety stock
- Reduced service levels
- Inefficient allocation of resources
  - transportation, storage, handling etc.



Causes of the bullwhip effect (1/2)

- Demand forecasting
  - by each stage of the supply chain
  - based on orders from the next
  - without visibility of end-customer demand
  - mistaking behavior for trend

Chinese whispers

Causes of the bullwhip effect (2/2)

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- Lead times
  - The longer the forecast horizon the worst is the forecast
- Batch ordering
  - volume discounts
  - transportation discounts
  - sales quotas / incentives
  - invoicing payment terms (e.g. EoM T+30)
- Price fluctuations (e.g. promotions)
  - stock up when prices are low
- Shortage gaming
  - “fair share” logic
  - artificially inflated orders during shortage periods

Coping with the bullwhip effect (1/2)

1. Information sharing
   – Visibility of end-customer demand
   – Visibility of channel stock
   – Supply Chain Collaboration (CPFR)

2. Reducing lead times
   – Physical lead times
     – production
     – shipping
   – Information lead times
     – order taking/processing (e.g. EDI)
     – forecasting, planning

Coping with the bullwhip effect (2/2)

3. Reducing demand variability
   – Reduce price promotions (every day low pricing)
   – Use moving average sales quotas
   – Modify invoice payment terms (e.g. T+30)

4. Strategic partnering
   – Change the way information is shared and inventory is managed e.g. Vendor Managed Inventory (VMI)
     - Manufacturer manages its inventory at the distributor based on previously agreed parameters
     - Manufacturer does not rely on orders by the distributor, thus avoiding the bullwhip effect entirely
   – Various degrees of sophistication possible

The future of supply chain collaboration

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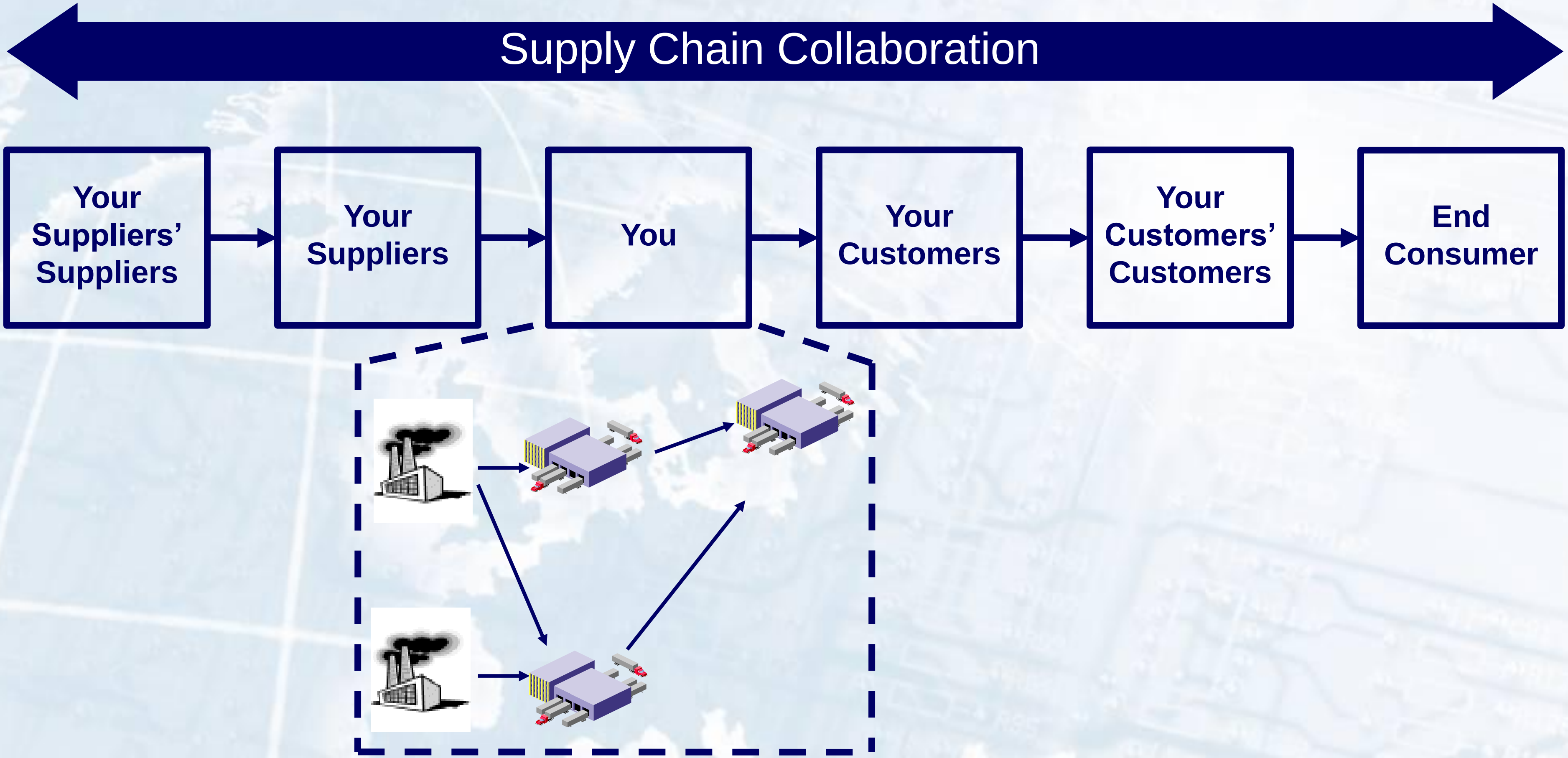

You ability to compete in the market is not only based on your supply chain capabilities, but also on those of your partners!

Questions?

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