
Capacent

_Supply Chain Trends & Challenges 2013

Mapping Out the Supply Chain Agenda



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About the Study

The study focuses on companies in the Nordic region within four main industries: Wholesale and Retail Sales, Production and Manufacturing, Construction and Waste Management and Logistics Services.

Answers in the study were collected from 70 companies where participation was requested from both large scale operations and smaller businesses. Respondent companies in the study are in total accounting for a net sale representing about 10 % of Sweden's gross domestic product. The companies' revenues range from 50 MEUR to more than 1000 MEUR, of which most of the companies range between 100-500 MEUR.

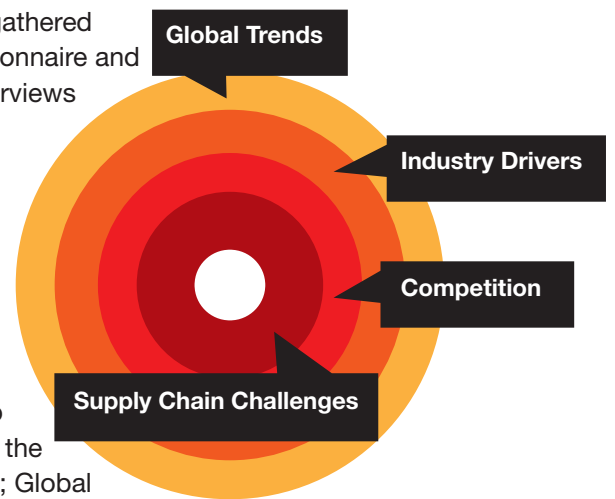
In order to identify supply chain related trends and challenges that companies in the Nordic face in 2013, Supply Chain professionals was contacted.

Respondents' roles within the companies are mainly supply chain and

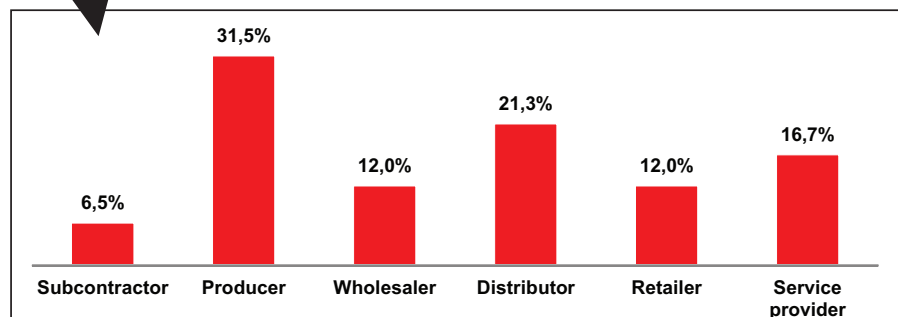
logistics executives and directors. All parts of the supply chain are represented in the study: Sub-contractors, Producers, Wholesalers, Distributors, Retailers and Service Providers, see figure at the bottom of the page.

Primarily information was gathered through a web-based questionnaire and additional face-to-face interviews were conducted to reflect additional insights.

In this report the general and main trends and challenges for 2013 are discussed and presented. These findings are based on respondents answers to questions related to one of the following four perspectives; Global Trends, Industry Drivers, Competition and Supply Chain Challenges.



Distribution among supply chain roles participating in the study.



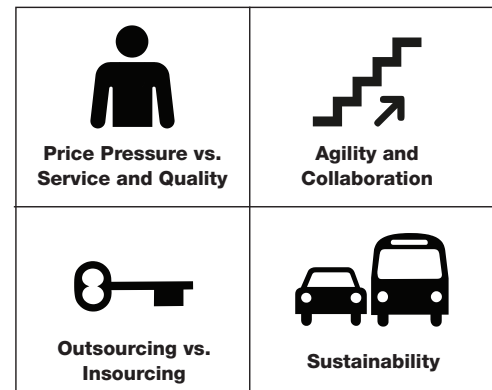
Introducing the Identified Areas in the Study

What the study reveals is that the business environment is becoming increasingly complex and the competition fiercer. Shifts in economic power and Changes in the Business Cycles are two of the main global trends respondents believe will impact their industry the most in the next three years. Also an Increasing Global Competition is seen as one of top three drivers for their industry. This forces companies to be even more efficient and the demand for excellence is constantly growing.

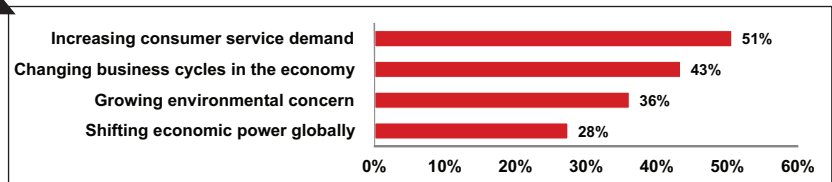
Identified as top global trends, impacting the businesses, are an Increasing Consumer Service Demand and a Growing Environmental Concern. This, along with the top industry driver identified, Increasing Price Pressure, creates a picture that customers are demanding higher service and value from their suppliers which will operate under more price pressure.

So how should companies tackle the customers' increasing demand for value and service, while keeping a price that correlates to the expectations and demand of the market; this in a situation when competition is increasing and becoming more global?

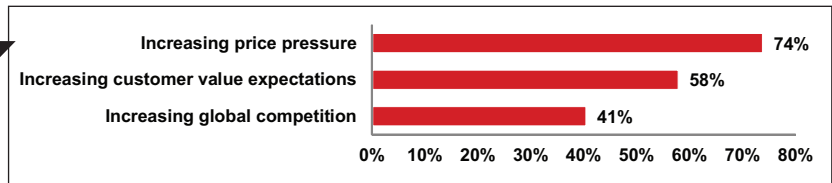
No doubt, there is no single answer to these questions. However our intention is that this report can shed some light on the issue. By addressing four main areas of findings connected to global trends impacting and driving the business of the respondent companies.



Top Global trends respondent believe will impact their industry most in next three years.



Top Industry drivers for respondent companies in the next three years.





Price Pressure vs. Service and Quality – The Counterparts

Increased Price Pressure and Increased Value Expectations are two factors that half of all respondents consider to be important drivers for their business.

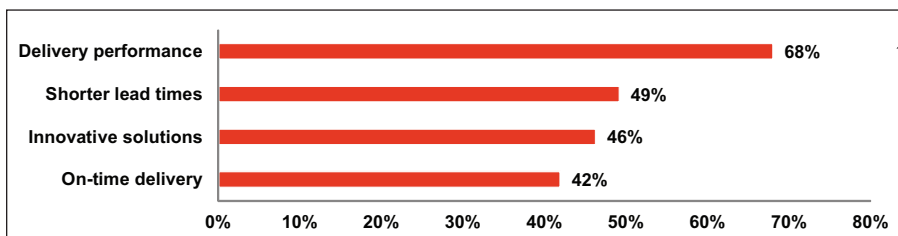
These trends have strongly influenced companies' agendas and the top two objectives are to increase customer satisfaction and reduce costs. It seems however that reduced costs might not automatically lead to reduced customer prices, and it might not even be desirable.

When companies were asked what they thought their customers' main expectations were, reduced prices was not among the top expectations.

However, increased value in terms of Delivery Performance, Shorter Lead-times and On-time Delivery was believed to be very important for customers, see figure.

So the price pressure seems to be a way to keep prices at current levels while delivering greater value to the customer.

Price pressure and Increased Customer Value Expectation may be derived from numerous things, but increased global competition is believed to be an important driver along with more rapid business cycles.



What the companies think will be their customers' main expectations during 2013.



So how prepared are companies in meeting these challenges?

Price pressure seems to be difficult for most companies to cope with. Almost 40 % of the respondents consider themselves “not capable” to respond to the expectations, of lowering their prices.

When it comes to Increased Customer Value Expectations, companies generally consider themselves to be rather capable. For On-time Delivery and Delivery Performance, almost 20 % consider themselves to be extremely capable and also looking towards Shorter Lead-times. Only very few consider their capability to be insufficient.

It seems companies’ rank activities associated with Price Pressure and Increased Customer Value Expectations

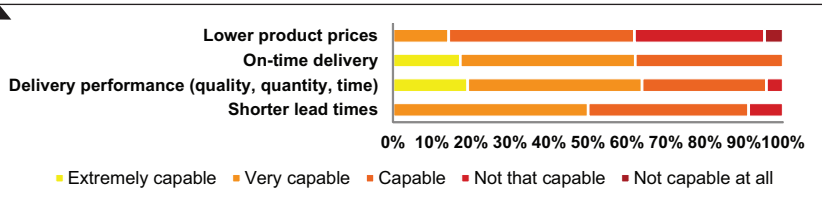
high on the strategic agenda and also execute these activities to a high degree.

Half of the responding companies have either implemented or are implementing order fulfillment and lead time reduction related projects, and another 25 % have plans to implement.

So, most companies appear to be both capable and prepared to meet customers’ increased value expectations. However, 25 % of the respondent companies have no plans to implement projects related to order fulfillment and lead time reduction.

Price pressure however seems to be more difficult and is an important challenge for companies to tackle. However, given that companies deliver greater value, lowering prices seems to be secondary for customers.

Respondents’ capability to respond to identified customer expectations.





Agility and Collaboration

– Foundation of True SCM

Agility and flexibility is believed to be the top supply chain trend caused by Global Trends, closely followed by Continuous Improvement and Collaboration with both Suppliers and Customers.

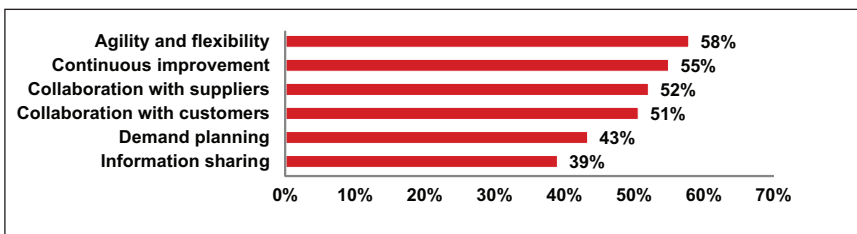
Companies in the survey generally consider themselves well prepared for the challenges associated with flexibility and collaboration, such as; Strategic Alliances with Suppliers, Visibility and Traceability in the Supply Chain as well as an Agile Supply Chain.

When it comes to projects within the supply chain related to Agility and Collaboration, there seem to be great activity among the companies. Half of the companies have already implemented or are implementing

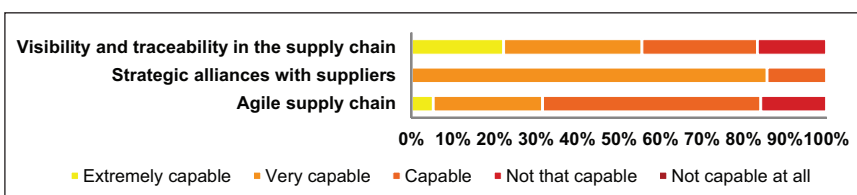
projects associated with agility and collaboration.

There are, however, still several companies with no plan to implement projects associated with this; especially when it comes to Collaboration and Information sharing with suppliers and customers. This could be considered rather contradicting given the impact on supply chain trends.

Overall, companies' seem to be capable in meeting the Agility and Flexibility trend by improving their own supply chain to be more agile. Given the impact of the customers in industry trends, managing customer collaboration might be an important challenge to meet in order to be successful.



What respondents believe will be the **Supply chain trends** because of Global trends.



Respondent companies **capability to respond** to identified trends and expectations.



Outsourcing vs. Insourcing – The Equilibrium

The ever increasing pressure from customers in terms of Increased Value Expectations and Price Pressure drives the companies to initiate big efforts to become more cost efficient. One solution has for a long time been to outsource certain competence areas with the rationale that another party can do it for less money and with the same, or greater, quality.

The companies in the survey seemed satisfied with the distribution between insourced and outsourced functions which can indicate a state of equilibrium between in- and outsourcing. Activity levels associated with in- and outsourcing are generally low, with 80 % of the respondents not having any planned changes to their current set-up.

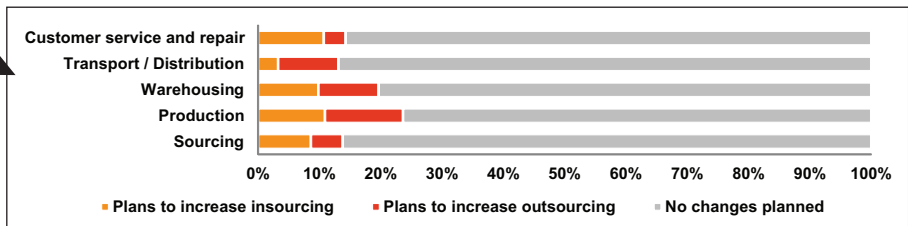
Generally, it is more common to have functions insourced than outsourced; except for transports and distribution which is a competence area that historically has been outsourced to a high degree.

Nine out of ten of the companies in the survey have their transport and distribution totally or partly outsourced.

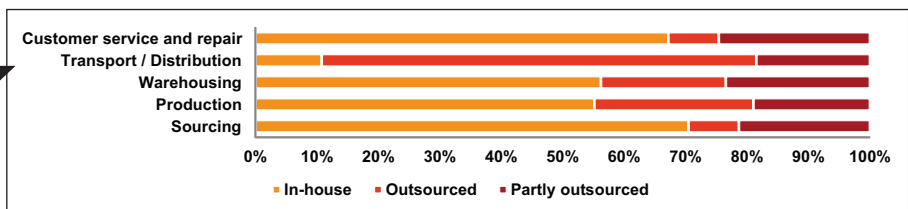
Transportation is the part of the supply chain that in most cases is closest to the end-customer. Outsourcing transportation to a third-party, where this part handles the interface with the customer, puts great demand in choosing the right partner. Especially since customers are having increasing value expectations, especially on delivery performance and lead times. This may be a challenge for companies to meet when having transport and distribution outsourced.

More parties involved in the supply chain require greater focus on collaboration and information sharing in order to be efficient and to meet the customers' requirements. To be able to reach full potential of the supply chain, companies must fully utilize and secure current supply chain set-up and focus on realizing the values with outsourcing.

Respondent companies outlook on insourcing and outsourcing.



Respondent companies current supply chain set-up.





Sustainability – Moving Towards Execution

The sustainability issue has long been on anyone’s agenda, but how much have been done to take a serious action in the field? Are the cost focus at the end of the day the upper hand and with down turn in the economy does the sustainability concern run a greater risk to be reduced to the compulsory bullets on the corporate agendas?

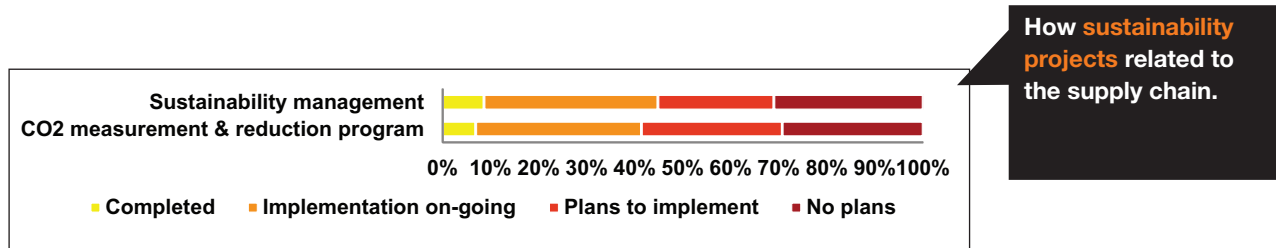
Also, Growing Consumer Concerns about Sustainability was ranked top three when the companies were asked what global trends that will have greatest impact on the industry. So, are these just the conscientious answers reflecting what ought to be the focus, or is there substance related to the area?

Looking toward companies’ plans and actions to implement sustainability and environmental related systems we see that even though the picture is somewhat differentiated, a majority of respondent companies have started the trip. Barely 10 % have Sustainability management and CO2 measurement and reduction programs in place, but on the other hand, 30 % state that they

are in the implementation processes and another 30 % states that they have plans to implement such systems. So in accordance with the study, it might soon be a shift in what actually takes place, and the actions will be more in line with what is talked about.

However, lower cost and sustainability can in many cases be a joint goal. For example, lowering the CO2 emissions by increasing transport efficiency with higher fill rates, route optimization and intermodal transports can also result in a lower cost. This should and can be a way to move forward in order to increase the awareness and importance of moving towards a sustainable business. Especially since Price Pressure is the main industry driver according to the companies in the survey.

Through the study a trend shift has been identified in the area of sustainability, where companies move from merely talking about change to actually executing change.



Summary

The study has shown the customers' great impact on the supply chain. The customers' Increased Value expectations as well as a general Price Pressure is believed to be the root cause for other industry and supply chain trends as well as the actions taken by the companies.

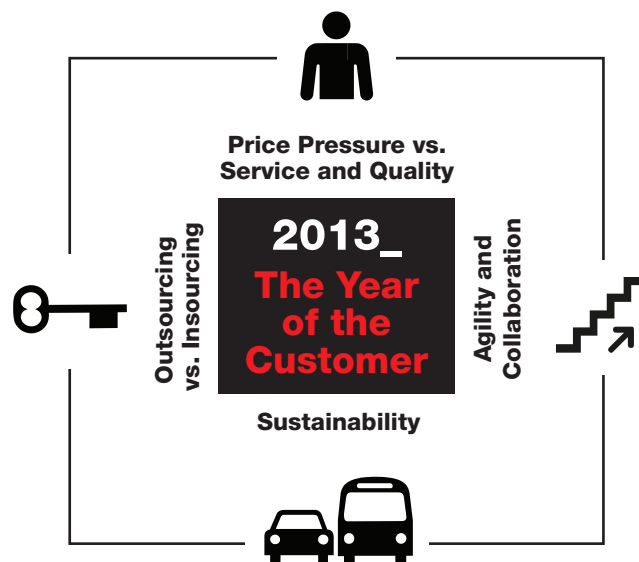
The study has shown an increased focus on developing an Agile Supply Chain as well as Increasing Collaboration throughout the supply chain. This is believed to be an effect of companies trying to increase their agility and flexibility in order to meet the increasing demands from customers while keeping prices at a steady level.

The focus on collaboration is also believed to be associated with outsourcing, where more parties involved requires more sophisticated collaboration and control. Outsourcing itself is driven by the need to find a more cost efficient solution, which

is believed to be derived from price pressure. However, in order to be successful in reaching the potential benefits of outsourcing, continuous improvement is essential.

The survey has also indicated that concern about sustainability and the environment is starting to bear fruit and that companies are starting to actually execute actions associated with this area. Sustainability can also be linked to customer requirements, where an environmentally responsible company is more attractive.

Therefore, 2013 is believed to be the year of the customer, where the winner will be the company that manages to deliver great value while keeping prices at a steady level. Furthermore, companies working with sustainability are likely to be favored in front of those who do not.



About Capacent

Capacent is management consulting – the Nordic way. Our business concept is rooted in our company's Nordic heritage and world view. This implies strategic insight, tailor-made solutions and concrete implementation. We have the necessary expertise and services to deliver the promised value. Short term and long term.

Capacent delivers results, not recommendations. We truly differentiate ourselves from other consulting firms through our way of managing change - it's all about execution. We guarantee results and we are ready to tie our fee to the value generated. Our track record is exceptional.

Our more than hundred consultants operate across the Nordic region as well as in China and Russia. You'll find our clients among consumer-oriented companies as well as B2Bs, private equity firms, financial institutions and organizations within the public sector.

