

IBM Institute for Business Value

The GMA 2010 Logistics Benchmark Report

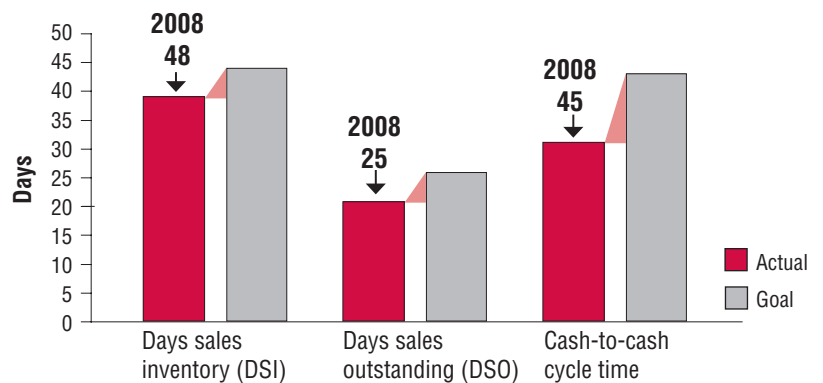
Performance reaches all-time high during economic depression



Overview

The consumer packaged goods (CPG) industry's challenges in 2009 and 2010 prompted the Grocery Manufacturers Association (GMA) and IBM to issue the most comprehensive logistics survey report in the history of this semi-annual research initiative. Commissioned by the GMA Logistics Committee and conducted by IBM, the report explores the latest practices, trends and operational benchmarks in key areas of consumer product companies' (CPG) supply chain operations. Included are analyses of more than 50 questions answered by supply chain leaders at top-tier CPG manufacturing companies.

The word "volatile" has been widely used to describe our global marketplace. In such an environment, companies must dig deep across their supply chains to optimize operations, heighten efficiencies and combat the impact of a challenging economy. Due in large part to downward sloping production, disposable income, employment and consumer expenditures, worldwide gross domestic product (GDP) growth was down in 2009. Yet in the midst of this global recession, the CPG manufacturers and distributors we surveyed report all-time-high performance. Supply chain initiatives are working, and supply chains are becoming more efficient. At the same time, each logistics operation has its own set of opportunities and challenges – compelling supply chain leaders to pursue new practices across the board.



Source: IBM Institute for Business Value, 2010 GMA Logistics Survey.

FIGURE 1: Supply chain key performance indicators are tracking well from year-to-year trending and exceed goals!



Supply chain performance improved in all categories: Cost, service and time

Reducing logistics costs, increasing customer responsiveness and enabling profitable growth still rank as the top three objectives for supply chain executives. However, in the midst of a global economic downturn, much more emphasis is being placed on taking inventory out of the pipeline to improve working capital efficiencies. The respondents in this study were also positive about recent supply chain initiatives to decrease costs, improve efficiency and raise customer service levels.

Logistics costs are down, but freight costs remain high

Logistics costs as a percentage of sales were down to 6.75 percent after hovering at 6.9 percent for the past four years. But the big surprise, given the overall decrease in logistics costs, was that freight costs continue to climb. Distribution and transportation practices reveal continued high effectiveness ratios in outsourcing, intermodal transportation and IT investments.

Customer service is improving. So why aren't customers satisfied?

On-time delivery performance has reached paramount levels and exceeded targets. Case fill rates are up. Perfect order levels are higher. Yet customer satisfaction ratios have decreased from 2008. Are customers' requirements more difficult to satisfy in these trying times, or are manufacturers' scorecards in need of adjustment? Top-performing manufacturers have a different story to tell.

Inventory and demand management practices are working – and well

Agile inventory-management controls and attention to demand variability were at an all-time high during this economic recession period. Days of supply are down. Turns have improved. Sales and operations planning (S&OP) processes and integration are credited for improving forecast accuracy. While make-to-stock strategies dominate this industry sector, continuous replenishment and vendor-managed inventory programs linked to point-of-sale are growing initiatives.

Key performance indicators are at an all-time high – but what will the decade bring?

As we begin a new decade, where should supply chain leaders direct their attention? This report reveals four key focus areas:

- *A demand-driven supply network:* Accurately predict demand and be in a position to react to demand variability through dynamic sourcing and allocation of all needed resources. The integration of customers' wants and needs must permeate the supply chain – with the entire global network focused on the end shopper/consumer.

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- *Enhanced visibility:* Move beyond realtime communication to open collaboration – allowing people across the supply network to connect and communicate faster, share decision making and work transparently in a virtual, secure, globally integrated environment that broadens visibility.
- *Sustainability:* The best results in terms of cost and efficiency can be achieved by balancing the mix of cost and service globally, while sustaining the health of the company and the planet.
- *Risk management:* Risk management policies and programs are inclusive, and should be adjusted in situations where there is a probability of an event occurring. Mitigation strategies should be in place and known by all to help ensure immediate response.

As companies develop their supply chain transformation agendas for the next decade, the findings of this study should provide new insights, confirmation of widely-held beliefs, and a valuable industry baseline against which companies can measure their performance going forward.

How can IBM help?

IBM's Supply Chain Management consulting practice includes over 8,500 practitioners worldwide, with the expertise to help our clients build smarter supply chains. Service competency areas include Strategy, Planning, Global Sourcing, Logistics, Production Operations, Asset Management and Product Lifecycle Management.

Our services, accelerators and solutions for Supply Chain Transformation are comprehensive and leading edge:

- ILOG® – IBM's recent acquisition of the leading supply chain strategy and optimization team and suite of proven supply chain software tools.
- IBM has improved 18 of the top 25 supply chains – leveraging its experience in over 17 industries.
- The Supply Chain Innovation Center in Beijing drives client success in the globally integrated supply chain enterprise.
- The IBM Integrated Supply Chain (ISC) Group runs the second largest supply chain in the world, is a recognized industry leader, and shares its vast knowledge with SCM clients.
- The Center for Business Optimization is dedicated to researching new techniques that help drive operational efficiency with over 14 supply chain-related patents.

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