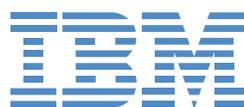


# The GMA 2010 Logistics Benchmark Report

## Performance reaches all-time high during economic depression





### **Grocery Manufacturers Association**

The Grocery Manufacturers Association (GMA) represents the world's leading food, beverage and consumer products companies. The Association promotes sound public policy, champions initiatives that increase productivity and growth and helps ensure the safety and security of consumer packaged goods through scientific excellence. The GMA board of directors is comprised of chief executive officers from the Association's member companies. The US\$2.1 trillion food, beverage and consumer packaged goods industry employs 14 million workers, and contributes over US\$1 trillion in added value to the nation's economy. For more information, visit the GMA Web site at [www.gmaonline.com](http://www.gmaonline.com).



### **IBM Global Business Services**

With consultants and professional staff in more than 170 countries globally, IBM Global Business Services is the world's largest consulting services organization. IBM Global Business Services provides clients with business-process and industry expertise, a deep understanding of technology solutions that address specific industry issues, and the ability to design, build and run those solutions in a way that delivers bottom-line business value.

The Grocery Manufacturers Association and IBM are pleased to bring you the 2010 Logistics Benchmark Report.

## FORWARD

The consumer packaged goods (CPG) industry's challenges in 2009 and 2010 have prompted GMA and IBM to issue the most wide-ranging and comprehensive logistics survey report in the history of this semi-annual research initiative commissioned by the GMA Logistics Committee and conducted by IBM. Inside you'll find the latest practices, trends and operational benchmarks in key areas of CPG manufacturers' supply chain operations. As we have done in previous years, we have included analyses of more than 50 questions answered by supply chain leaders at 26 top-tier CPG manufacturing companies. We have also incorporated a review of specific causes and trends that affect those responses.

The GMA 2010 Logistics Benchmark Report was conducted by IBM as commissioned by the GMA Logistics Committee. It focuses on issues pertaining to operational planning, inventory management, outsourcing strategies, distribution, information technology and strategic supply chain practices. As you'll read, supply chain initiatives are working, and supply chains have become more efficient since our last survey report was published in 2008. You will also see that there is no one-size-fits-all solution to challenges. Each logistics operation has its own set of opportunities and challenges – compelling supply chain leaders to pursue new practices across the board.

There is certainly much happening in terms of successful supply chain practices in the CPG industry, and we hope you will find this report informative and insightful. GMA and IBM look forward to discussing these findings, issues and analyses.

### **Karen Butner**

Supply Chain Management Global Leader  
IBM Institute for Business Value

### **Jeanne Iglesias**

Senior Director, Supply Chain and Technology  
Grocery Manufacturers Association

## TABLE OF CONTENTS

<b>Introduction</b>	1
<b>Executive Summary</b>	2
<b>Supply Chain Performance Improved In All Categories: Cost, Service and Time</b>	4
<b>Logistics Costs Are Down – But Freight Costs Remain High</b>	5
<b>Customer Service Is Improving. So Why Aren't Customers Satisfied?</b>	9
<b>Inventory and Demand Management Practices Are Working – and Well</b>	11
<b>Key Performance Indicators Reach an All-Time High – But What Will the Decade Bring?</b>	13
<b>Conclusion</b>	16

## INTRODUCTION

The GMA 2010 Logistics Benchmark Report examines and highlights emerging practices, trends and operational benchmarks in crucial areas of CPG manufacturers' supply chain operations. IBM Global Business Services conducted the survey in conjunction with the Grocery Manufacturers Association beginning in December 2009 through January 2010. The survey included more than 50 questions to supply chain leaders of top-tier CPG brands – focusing on issues such as strategic supply chain objectives, distribution and transportation practices, outsourcing strategies, alliances, information technology, demand planning and inventory management.

### Profile of respondents

The GMA 2010 Logistics Benchmark Report was completed by logistics executives at 26 GMA member companies. The survey included 21 respondents who also participated in the 2008 survey, as well as five new participants. Companies responding to the 2010 survey ranged from those with annual revenue of less than US\$500 million to more than US\$14 billion in annual revenue. The largest number of respondents represented businesses in the US\$1 billion to US\$10 billion range. The average annual revenue among all respondents was US\$5.8 billion. Most of the respondents represented the following product categories: dry (83 percent), refrigerated (33 percent) and frozen (29 percent). Others categories represented included food service, HBC and cosmetics, and dairy. The majority of the revenue represented (57 percent) was comprised of dry grocery.

### Acknowledgments

We wish to thank the members of the GMA Logistics Committee who were involved in the survey design and review of the results. We especially want to thank all of our respondents who completed the 2010 GMA Logistics survey, as well as our 2008 participants. The combined results are used for comparative trend analysis.

## EXECUTIVE SUMMARY

The word “volatile” has been widely used by both the financial and mainstream media 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 0.8 percent in 2009.<sup>1</sup> Yet in the midst of this global recession, when volatility and customer demand variability are challenging all companies and all industries around the world, the CPG manufacturers and distributors we surveyed report all-time high performance. Congratulations!

The GMA 2010 Logistics Benchmark Report confirms that a vigilant focus on customers and a keen eye on the bottom line can ultimately drive business performance.

For many companies, the past two years have been all about cost containment and reduction. CPG manufacturers and distributors managed to improve logistics costs in many categories while simultaneously improving customer service levels. What’s more, they also improved days of inventory, the associated working capital expense and collection cycle times.

### **Logistics costs are down, but freight costs remain high**

Logistics costs as a percentage of sales were down from the past four years – hovering at 6.9 percent. At first glance, we might attribute this statistic solely to increases in manufactured product prices. While it is true that prices rose in many categories, costs were lower when measured by cost-per-case and hundredweight. But the big surprise, given the overall decrease in logistics costs, was that freight costs continue to climb – up 11 percent from 2008. Distribution and transportation practices reveal continued high effectiveness ratios in outsourcing, intermodal transportation and IT investments in Warehouse Management Systems (WMS), Transportation Management Systems (TMS) and other technologies.

### **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 at 36.4 on average, down from 45. 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 reach an all-time high – but what will the decade bring?

Optimizing supply chain performance, productivity and responsiveness are increasingly important to achieving cost-containment and service-level objectives. As we begin a new decade, where should supply chain leaders direct their attention? This study revealed 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 – from inception to delivery – with the entire global network focused on the end shopper/consumer.
- **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 enhances visibility to events, suppliers, service providers, customers and other key connections.
- **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.

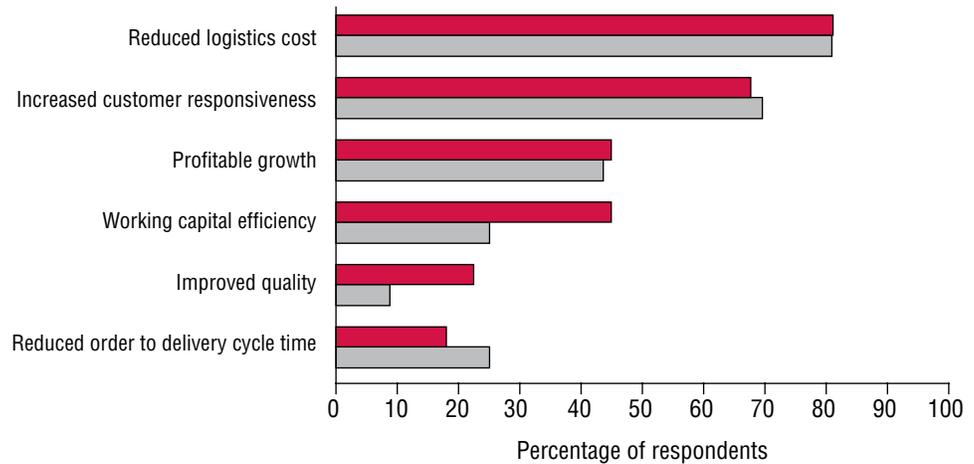
**SUPPLY CHAIN  
PERFORMANCE  
IMPROVED IN ALL  
CATEGORIES: COST,  
SERVICE, TIME**

Consumer-product supply chain operations continually feel the pressure to manage the cost equation – all while meeting the strategic objectives of providing superior customer service and driving growth within the business. At a time of global recession, the pressures are even greater. Consider the modern enterprise's entire value proposition and value chain. Leadership must balance a precarious profitability equation – hoping that product development, marketing and distribution partners can continue to drive revenue through volume, pricing or both while leaning heavily on areas like logistics and procurement to control cost. This presents supply chain executives with fewer levers to pull as they continue to battle commodity prices and other rising expenses such as freight costs – expenditures that are beyond their control. There is a constant “juggling” act that must take place in balancing rising expenses and constantly increasing customer expectations.

Reduced logistics costs, increased customer responsiveness and profitable growth still rank as the top three objectives for supply chain executives, just as they did in 2005 and 2008. However, as Figure 1 shows, 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 our study were also positive about the impact of their various supply chain initiatives in the past two years: to decrease costs (62 percent), improve efficiency (58 percent) and raise customer service levels (44 percent).

**FIGURE 1:**  
Top three supply  
chain objectives

■ 2010  
■ 2008



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

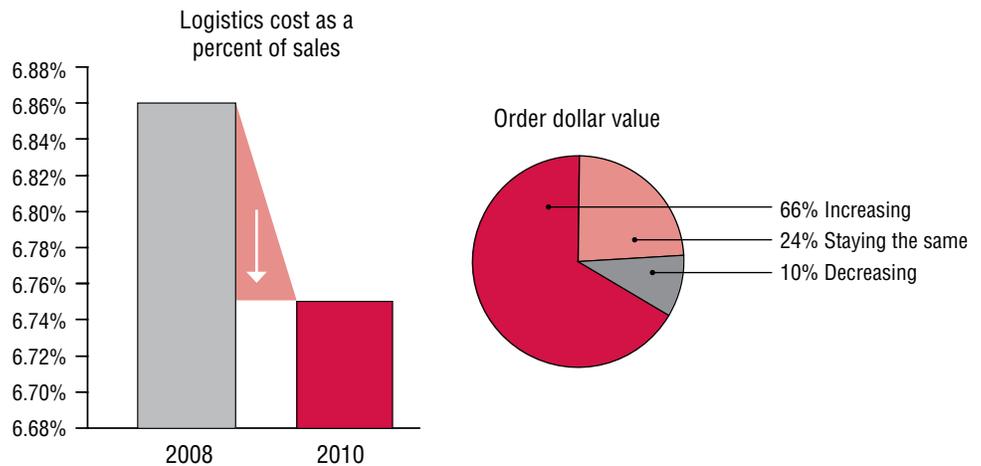
**LOGISTICS COSTS ARE DOWN – BUT FREIGHT COSTS REMAIN HIGH**

The supply chain executives we surveyed have hit a grand slam. These manufacturers and distributors report having improved:

- Logistics costs
- Service levels for on-time delivery and case fill rates
- Order size and shipment size
- Outsourcing ratios and effectiveness
- Inventory days of supply and turns
- Forecast errors
- Cash-to-cash cycle time and days sales outstanding

Since 2008, logistics costs as a percentage of sales have decreased significantly – to 6.75 percent. In 2005 and 2008, they hovered at a flat 6.9 percent of sales. One’s first reaction might be that surely, manufactured product price increases have served to mask the impact of rising logistics costs. To some degree this is true, as indicated by the overall order dollar value increasing (see Figure 2). Not only have revenues risen from price hikes; both average order size and average shipment sizes have increased by a consistent 4 percent, which would also indicate that consolidated order-shipment practices (versus smaller shipments more frequently) have remained intact during this period.

**FIGURE 2:**  
Logistics cost as a percentage of sales has decreased

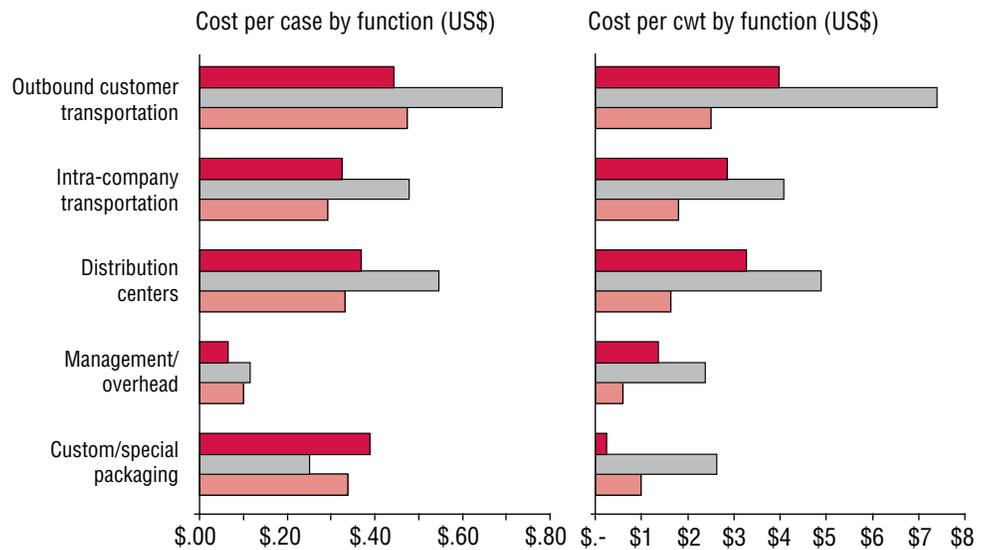


Source: IBM Institute for Business Value, 2010 GMA Logistics Survey.

At the same time, there have also been remarkable improvements in cost management. Case cost has decreased to levels comparable to 2005, and the same is true for cost per hundredweight. This applies in all categories: outbound customer transportation, intra-company transportation and distribution center activities. Cost per case averaged 47 cents in 2005, 69 cents in 2008, and was down to 44 cents in 2010. Costs per hundredweight were US\$2.52, US\$7.40 and US\$3.98 respectively. The only product cost category that was higher than in 2008 was custom packaging – a result of key customers' increasing requirements for specialized packaging.

**FIGURE 3:**  
Cost per case and cost per cwt have decreased to levels that more closely resemble 2005

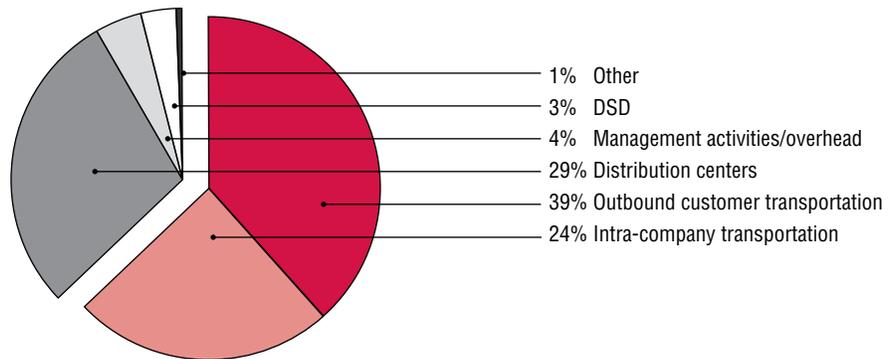
- 2010
- 2008
- 2005



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

Transportation costs account for the largest percentage of total logistics costs, the allocation of which has not changed significantly from 2008. Outbound customer transportation and intra-company transportation remain the largest categories, with only a 1 percent change from 2008, which was 64 percent combined. Distribution costs are the next highest category. (See Figure 4).

**FIGURE 4:**  
Logistics cost by function



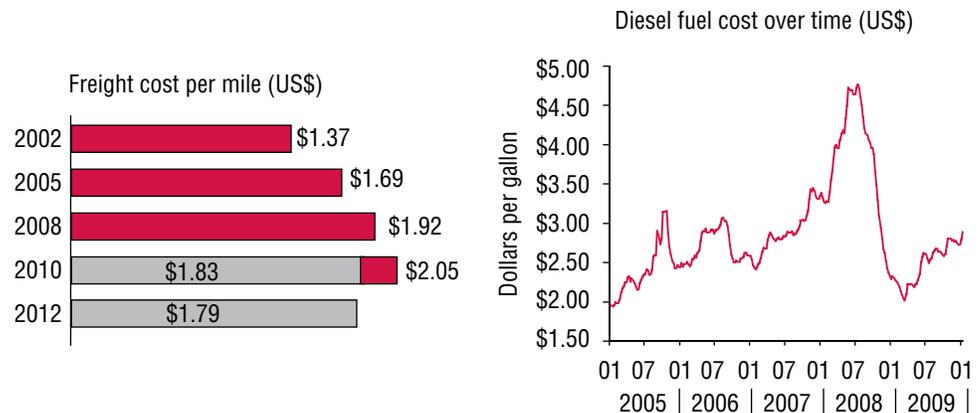
Source: IBM Institute for Business Value, 2010 GMA Logistics Survey.

But when we dig a bit deeper into the transportation cost equation, we find that despite the great news of decreased total logistics costs as a percentage of sales and case cost reductions, freight costs continue to climb – up 11 percent from 2008, at US\$2.05 cost per mile against a goal of US\$1.83. This occurred at a time when diesel fuel prices plummeted and remained relatively low at 2005 levels. (See Figure 5).

To what can we attribute this rise in freight costs? According to the American Trucking Association, there has been a shortage of qualified truck drivers, which has resulted in increasing wage rates. In 2008, more than 2,300 trucking companies went bankrupt, including some sizable businesses. There was a period when resources were scarce versus demand. Other factors prevail here as well. Trucking companies are under pressure (their form of higher customer demands) to provide more value-added services, such as integrated scheduling, track and trace, and GPS capabilities. Also, insurance rates have increased. All of these factors are being passed on to the manufacturer/distributor and likely to the end consumer.<sup>2</sup>

**FIGURE 5:**  
Freight costs continue to climb – up 11 percent from 2008, while fuel prices dropped during the same time

■ Actual  
■ Goal



Source: IBM Institute for Business Value, 2010 GMA Logistics Survey; U.S. Energy Information Administration.

Among the transportation strategies that companies are using to better control costs while maintaining service levels is to ship directly to the customer from the plant or plant warehouse, as opposed to using intermediate storage and incurring additional handling time and costs at the distribution center. Others are increasing trailer utilization and the use of drop trailers. Customer pick-up is also increasing. Premium freight charges are down. On average, empty truck mileage percentages are lower. Some of these improvements are due to management practices, but a lot of the credit may be attributable to improvements in information technology (IT). The predominance of IT spending has been in transportation management systems and warehouse management systems, exceeded only by IT expenditures in electronic data interchange. Vendor-management inventory programs and advanced ship notification are other areas that are proving to be highly effective in terms of value received for the IT dollars spent.

Outsourcing of transportation and warehousing/distribution centers is showing very high growth – with over 50 percent of companies extensively outsourcing transportation. Other growth areas for outsourcing are facilities maintenance and customs/export management. IT outsourcing for logistics processes is slightly on the rise, but what is interesting here is the increase in effectiveness – up from 86 percent in 2008 to 100 percent in 2010. Other outsourcing activities received a 100 percent effectiveness ratio except for audit and payment services, which came in at 94 percent. This would lead to the recommendation to continue to explore and expand the role of outsourcing for various functions.

When choosing transportation providers, carrier selection is based primarily upon service level attainment (95 percent), capability (90 percent) and then unit cost (86 percent). With diesel fuel prices on the rise again, manufacturers/distributors may need new tactics to manage overall transportation cost. One approach is mode shift. Over-the-road and truck load usage is decreasing. Pool shipments are a bit higher, but intermodal is leading the pack, continuing to increase year-to-year – up 5 percent from 2008. The rail industry reduced prices for the past three quarters of 2009, which resulted in a 5.8 percent overall price cut in 2009. However, the industry is forecasting that rail prices will trend upwards this year – assuming that consumer spending also increases as the economy recovers.

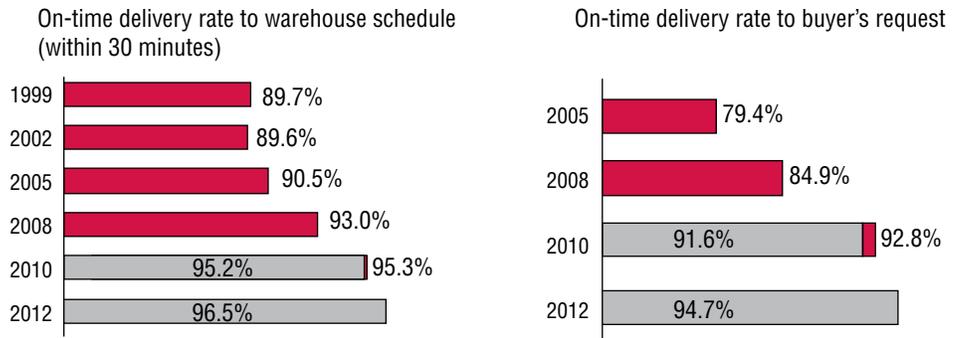
What does the future hold for companies continuing to juggle service goals and costs? The 2012 goal for truckload freight cost per mile is US\$1.79, which may continue to be a bit aggressive considering the US\$2.05 average cost per mile this year. But not for the top 20th percentile. Top performers managed freight costs to achieve US\$1.53 cost per mile!

## CUSTOMER SERVICE IS IMPROVING. SO WHY AREN'T CUSTOMERS SATISFIED?

**FIGURE 6:**  
There have been significant improvements in on-time delivery rates to exceed 2010 targets

■ Actual  
■ Goal

There have been significant improvements in on-time delivery rates – actually exceeding 2010 targets. On-time delivery to warehouse schedules have improved more than two percentage points from 2008 – surpassing the goal of 95.2 percent. The top performers (those in the top 20th percentile) achieved 98.6 percent in on-time delivery to scheduled promise time within 30 minutes. Even more impressive: on-time delivery to the customer's requested date and time was up almost 8 percentage points from 2008. (See Figure 6).



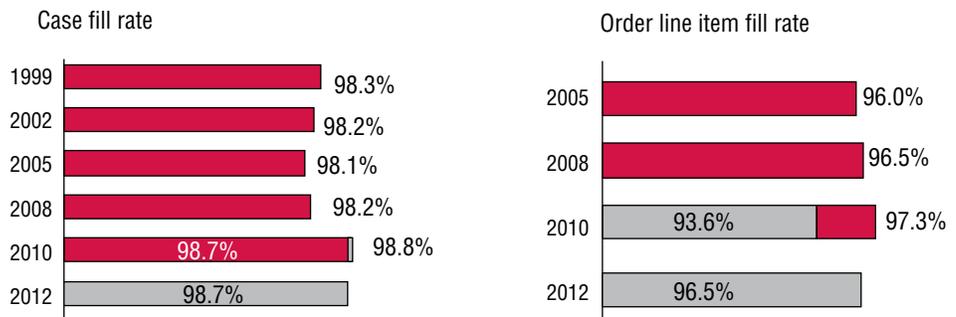
Source: IBM Institute for Business Value, 2010 GMA Logistics Survey.

Order-to-delivery cycle time has improved consistently year-to-year from 2005. The percentage of respondents in the six- to ten-day range has remained constant at 48 percent; however, 7.3 percent more are delivering in four to five days. Next-day deliveries are up as well.

Case fill rates are also at historic highs. Hovering since 1999 in the low 98 percent range, they are up to 98.7 percent. (See Figure 7). The leaders (the top 20th percentile) did even better at 99.3 percent. With this achievement in case fill rates, the surprising news is the order line item fill rates. With both order values and average order size increasing (from 18,979 lb in 2008 to 19,837 lb in 2010) order line item fill rates have declined by 2.9 percent from the last reporting period! But once again, there is a clear distinction among the leaders, who reported 99.1 percent rates – a 2.6 percent improvement from 2008 averages.

**FIGURE 7:**  
Case fill rates reach historic highs, but order line item fill rates significantly miss 2010 goal levels

■ Actual  
■ Goal



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

Despite these marked improvements in customer service levels, customers are still not satisfied. Customer satisfaction is primarily derived from on-time delivery of goods, shipped complete and damage-free. It is also measured through statistics and surveys. According to customer satisfaction statistics, satisfaction is down over 13 percent – from 92 percent in 2008 to 88.7 percent today. Do we differentiate services by customer segments? Not really. Most companies do not treat various customers or segments differently when it comes to providing logistics services. When they do differentiate, it is predominately based upon sales volume and growth potential. There is little to no differentiation based upon account profitability.

Ironically, customer alliances are primarily driven towards the goal of improving customer satisfaction, in addition to reducing overall supply chain cost and improving responsiveness – the same objectives that have resonated throughout this year’s data. Goals continue to be set higher for 2012 for most of the major customer service metrics. One important additional measurement is perfect order, which is defined as the percentage of customer orders that are “perfect.” For this study, perfect order is the success of the supply chain in delivering the correct product, to the correct location, at the correct time, in the correct package, in the correct quantity, with the correct documentation, to the correct customer (of course) with a correct invoice. It’s hard to be perfect. Perfect order rates came in at 79.8 percent against a goal of 83.4 percent – actually up seven points from 2008. Again, the leaders have attained even greater achievement at 89.5 percent.

**FIGURE 8:**  
 Perfect order okay,  
 but not to goal.  
 Customer satisfaction  
 is DOWN!

■ Actual  
 ■ Goal



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

**INVENTORY AND DEMAND MANAGEMENT PRACTICES ARE WORKING – AND WELL**

So, with perfect order, on-time delivery and fill rates climbing, what will it take to make customers satisfied? Customer satisfaction levels have not met expectations recently – averaging 88.7 percent in 2010 as compared to 92 percent in 2008. This was also significantly under the goal of 96.8 percent. From a trending perspective, customer satisfaction hit a low point in 2005 – falling in the low eighties.

However, perhaps all is not in vain. The leaders (those in the upper 20th percentile) are paving the way, with perfect order performance of 89.5 percent and customer satisfaction at 98.6 percent – up from 2008 averages. No doubt their customers are happy.

Stellar improvements have been made in inventory days of supply from 2008. Days of supply are at 36.4 on average, down from 45 days. The historical days of supply reached an all-time low in 1996 at 34.8 days, and maintained over forty days from 1997 until this year (see Figure 9). This year’s average attainment of 36.4 is pretty close to the goal of 35.9 and the continued stretch goal of 2012. During this economic downturn, it is obvious that supply chain managers have turned their attention to finished goods inventory in the pipeline – from plant through the distribution center to final delivery. Although we learned earlier that transportation costs were up, prudence has paid off in reducing inventory levels. Another case in point (case fill rates are up too!) is inventory turns. Here again, we see vast improvements from 2008 – coming in on average at 10 turns as opposed to 8.1 turns.

Make-to-stock remains the predominant strategy for inventory management. There is some growth in vendor managed inventory (VMI), and a bit of an increase in continuous replenishment programs that are linked to actual consumption or point-of-sale (POS) data.

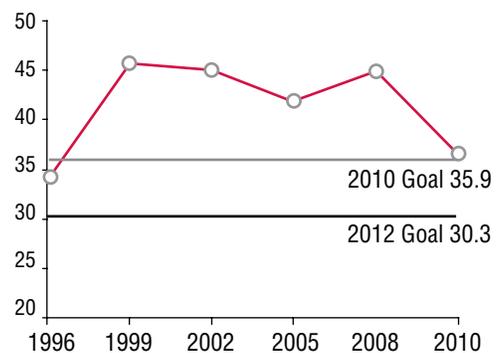
**FIGURE 9:** Stellar improvements have been made in inventory days of supply but aggressive goals remain

Finished goods inventory performance

	2010		2012 Goal
	Average	Median	
Days of supply	36.4	34.9	30.3
Inventory turns	10.0	10.5	12.2

	2008		2010 Goal
	Average	Median	
Days of supply	45	43	35.9
Inventory turns	8.1	8.5	10.2

Historical inventory days of supply



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

So what distribution practices are CPG manufacturers using to realize these performance improvements in inventory management?

The most common distribution tactic is the use of pre-assembled, floor-ready displays and custom pallets. The current spend on pallets in general (distribution center to customer) is US\$6.7 million – up 52 percent from 2004. Most pallet usage is CHEP pooling, white wood and iGPS pooling in all categories of usage (production, internal shipments, customer shipments). Use of plastic pallets has only slightly increased in the past few years. Another category of predominant IT spend is in pallet guidelines, with a 100 percent effectiveness ratio.

Collaborative planning, forecasting and replenishment programs (CPFR), collaborative carrier management programs and reverse/differentiated logistics services are all high on the list, with excellent effectiveness ratings. Growing from 2008 is the effectiveness ratio of CPFR – up to 100 percent from 81 percent.

Speaking of collaboration, let's take a look at customer collaboration and forecasting performance. Forecast errors have decreased across the board. Mean Absolute Percentage Error (MAPE) has improved from 2008 in all product categories: nationally (25 percent from 31 percent), by shipping location (34 percent from 37 percent) and by product family (29 percent from 33 percent). Historically, monthly 2010 error rates are more closely resembling 1996 and 2005 numbers, which were both 25 percent or lower. To what can we attribute this improvement in forecasting? Clearly, S&OP practices have evolved. There is more involvement of sales and marketing with all of the supply chain process owners, senior management and finance in demand management consensus building. Another interesting trend is the greater reliance on capturing actual sales orders, including point-of-sales, instead of relying on historical sales trends to more accurately forecast customer demand patterns.

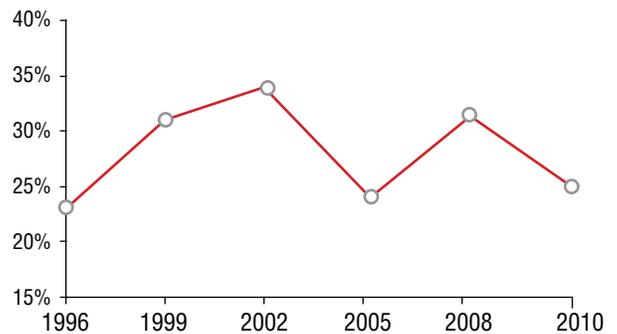
**FIGURE 10:**  
Forecast errors have decreased across the board

Mean Absolute Percentage Error (MAPE)

2010	Monthly
Nationally	25%
By shipping location	34%
By product family	29%

2008	Monthly
Nationally	31%
By shipping location	37%
By product family	33%

Historical monthly forecast error

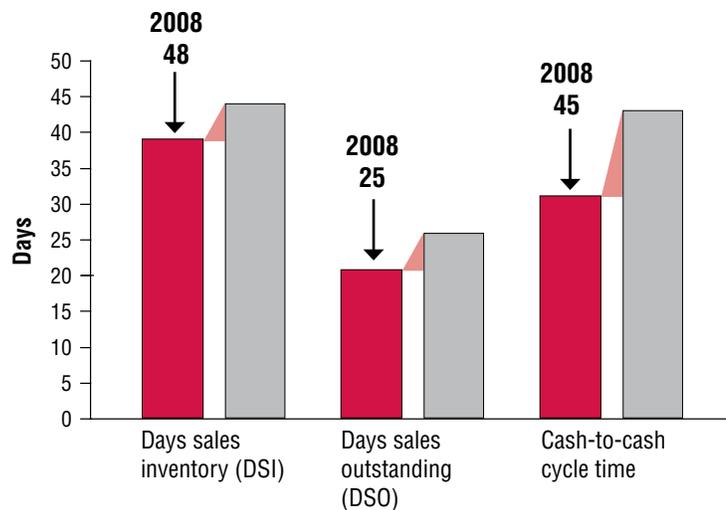


Source: IBM Institute for Business Value, 2010 GMA Logistics Survey.

**KEY PERFORMANCE INDICATORS REACH AN ALL-TIME HIGH – BUT WHAT WILL THE DECADE BRING?**

**FIGURE 11:** Supply chain key performance indicators are tracking well from year-to-year trending and exceed goals!

Actual  
Goal



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

A demand and inventory management trend that we have observed in other industries is the use of advanced planning and scheduling methods and modeling tools to provide integrated and statistically relevant business intelligence to planning processes. Many focus on applying advanced analytics to S&OP and forecasting processes, as well as modeling and simulation techniques, to optimize inventory throughout the pipeline while better synchronizing supply and demand at the case level.

Integrated and decision support-based planning practices are clearly meeting objectives to support:

- Financial stability (100%)
- Working capital efficiency (94%)
- Capacity utilization (100%)
- Lowering total delivered cost (85%)
- Profitable growth (95%)

Achieving high performance in the midst of unprecedented economic struggles is a compelling enough story. However, there is even more good news to report. Collection cycles have tightened – all better than the goal, and improved from 2008. Days sales inventory (DSI) is down, days sales outstanding (DSO) is down and cash-to-cash cycle time is also down. (See Figure 11). With such enviable performance, the leaders (those in the top 20th percentile) have clearly raised the bar – with all key performance indicators hitting all-time high levels against goals. (See Figure 12).

**FIGURE 12:**  
Supply chain  
performance  
benchmarks –  
The top 20 percent

Performance measure	Median	Top 20 percent
Logistics cost as percent of sales	6.75%	4.9%
On-time delivery to schedule	95.3%	98.6%
On-time delivery to request	92.8%	97%
Case fill rate	98.7%	99.3%
Order line item fill rate	93.6%	99.1%
Perfect order percent	79.8%	89.5%
Premium freight charges	.3%	.5%
Inventory days of supply	36.4	21.4
Inventory turns	11.8	16
Monthly forecast: MAPE		
Nationally	25%	12.0%
By shipping location	34%	25%
By product family	29%	12%
Customer satisfaction	88.7	98.6%
Days sales outstanding	21.5	16.6
Cash to cash cycle time	30.9	14.4

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

Continuous improvement is never out of focus with these supply chain leaders. Survey respondents report that initiatives next on the horizon, either planned or currently engaged, include:

- Demand-driven supply networks
- Enhanced visibility
- Sustainability
- Risk management

**Demand-Driven Supply Networks:** Intricate synchronization of supply and demand requires collaboration across all supply chain functions – necessary to bring innovative products to market while meeting more demanding customer requirements. Being “demand-driven” requires sensing customer demand and responding immediately to deliver the right product to the right customer when they want it. Collaboration among supply chain partners enables manufacturers to produce exactly what the customer desires to buy.

*Accurately predict demand and be in a position to react to demand variability through dynamic sourcing and allocation of all resources. The integration of customer wants and needs must permeate the supply chain – from inception to delivery – with the entire global network focused on the end customer/consumer.*

**Enhanced Visibility:** Supply chain visibility remains the number one challenge of supply chain executives worldwide.<sup>3</sup> We found that visibility in and out of the supply chain is really key. This includes visibility to suppliers, transportation and logistics providers and, of course, customers. However, it also applies to visibility to other parties that are considered outside of the supply chain, such as financial institutions and government agencies for compliance reporting. What we also learned is that there is a need for more interaction and integration in the supply chain. What is lacking is the ability to make sense out of the myriad of supply chain data. This is a growing concern as companies penetrate emerging markets and must meet increasing requirements for compliance and traceability reporting.

*We're beyond realtime, and now need to build "open collaboration" – with broad visibility to events, suppliers, service providers, customers and others.*

**Sustainability:** The demanding economic environment requires enterprises to drive greater efficiencies, compete more effectively and be proactive when it comes to energy conservation, environmental stewardship and operational sustainability. Empowered consumers – along with employees, stakeholders and business partners – are also demanding more responsible business practices in package and product design. Many companies are developing a "green" strategy to enhance their competitive position, protect and enrich their brand, improve customer communications and create a "greener" customer experience. Government regulations and compliance standards are, of course, driving the green agenda for many. A cost-efficient sustainability strategy balances trade-offs to optimize efficiencies.

*The best results in terms of cost and efficiency can be achieved by optimally balancing the mix of cost and service from a global perspective, while sustaining the company AND the planet.*

**Risk Management:** This study shows that risk management to date is compliance-focused – on the Food and Drug Administration (The FDA), the Customs Trade Partnership Against Terrorism (C-TPAT) and Free and Secure Trade (FAST) initiatives – with an average spend of US\$70,000 annually. This is a very broad topic. Some think of financial controls as a way to avoid financial risks. Others are concerned about unforeseen, catastrophic events or even workplace efficiencies that could otherwise lead to workers' compensation are considerations. However, most supply chain managers think of risk as those day-to-day supply chain disruptions that interfere with meeting customer service requirements while managing costs and other key performance criteria.

*Our insights show that leading companies develop risk management policies and programs that are inclusive, and adjusted for the probability of an event occurring. Mitigation strategies are in place and known by all – for immediate response.<sup>4</sup>*

## CONCLUSION

Our “new normal” global economy has certainly put a strain on most industries, as well as companies, in the past two years of downward sloping production and consumption. Many have “tightened the belt” and focused primarily on cost-reduction initiatives. Some have placed their attention on pipeline inventory optimization, distribution network alignment, and better synchronization of supply in light of highly variable demand.

The CPG manufacturers and distributors represented in this year’s study have certainly realized the benefits of focused management attention during trying economic times. We saw that supply chain performance improved in all categories of costs, service and time. Key performance indicators, such as cash-to-cash cycle time, days supply of inventory, on-time delivery, case fill rates and days sales outstanding (DSO) all improved tremendously from 2008 performance and achieved 2010 targets.

Logistics costs as a percentage of sales were at all-time lows – indicating that management is fine-tuning the delicate balance between sales and product pricing and logistical activities to get the right products to customers. We also observed that demand management practices are responsive to better integration of systems and processes in sales and operations planning, which was reflected in the improvement in forecast accuracy and inventory positions.

While customer service levels around perfect order and other indicators were up, we found that customer satisfaction recorded lower than in 2008. Some might say that customers are never satisfied. However, the leaders (those in the top 20th percentile) consistently reported high rankings in ALL categories, including customer satisfaction.

As we embark on a new decade, the challenges may change. Managers’ attention may need to shift: to sustainability for compliance and customer satisfaction, to risk management in all categories (while continuing to build smarter supply chains with enhanced visibility) and to a demand-driven supply network point-of-view.

This will require continuous supply chain transformation. The findings in this study should provide new insights, confirmation of widely-accepted beliefs, and an industry baseline against which companies can measure the performance of transformative supply chain initiatives going forward.

### About the author

Karen Butner is the Supply Chain Management Global Leader with the IBM Institute for Business Value and an associate partner in IBM Global Business Services. She can be reached at [kbutner@us.ibm.com](mailto:kbutner@us.ibm.com).

### For more information

Jeanne Iglesias  
Senior Director, Supply Chain & Technology, GMA  
202-295-3949  
[jiglesias@gmaonline.org](mailto:jiglesias@gmaonline.org)

## The GMA Logistics Committee

Name	Company	Title
David Adoutte	Ferrero USA, Inc.	Director, Supply Chain and Logistics
Denny Armstrong	The J. M. Smucker Company	Vice President, Logistics & Operations Support
Donald Biggs	Welch Foods, Inc.	Director of Customer Logistics
Dale Brockwell	Kraft North America	Senior Director, Industry Relations, Supply Chain
Sally Brooker	General Mills, Inc.	Director, Customer Supply Chain
Randy Brown	Cargill, Incorporated	Vice President, Transportation and Logistics
Joseph Burton	Mars Petcare US, Inc.	Director - Supply Chain
Allison Campbell	Johnson & Johnson SLC	Director, Logistics
Beth Caron	The Procter & Gamble Company	Supply Chain Leader- Grocery Channel
Scott DeCarlo	Unilever	Director, Customer Supply Chain
Dennis Donelon	PepsiCo Chicago	Director, Customer Service
James Duncan	The Sun Products Corporation	Senior Vice President, Supply Chain & Logistics
Lee Falk	Dean Foods Company	Vice President of Distribution & Logistics
Jim Farnan	Johnson & Johnson SLC	Director, Distribution and Logistics Strategy
Jennifer Finci	Grocery Manufacturers Association	Coordinator, Supply Chain and Technology
Timothy Fischer	Bumble Bee Foods, LLC	Senior Vice President, Supply Chain
Robert Gordon	S.C. Johnson & Son, Inc.	National Supply Chain Manager
Thomas Gravelle	Hormel Foods Corporation	Director, Logistics, Transportation & Customer Service
Julie Grove	StarKist Company	OSA Consultant
Bruce Hancock	The Hershey Company	Director, Customer Supply Chain Management
Mark Hojnicky	ConAgra Foods	Director, Customer Supply Chain
Jeanne Iglesias	Grocery Manufacturers Association	Senior Director, Supply Chain and Technology
Mary Long	Campbell Soup Company	Senior Director, Collaborative Supply Chain Solutions
Louis Martire	Energizer Holdings, Inc.	Vice President, Trade Development
John McKillop	Nestle Purina PetCare Company	Director, Product Supply Excellence
Craig McLaughlin	Cadbury Adams USA LLC	Vice President, Logistics & Customer Operations
Leona Meikle	Land O'Lakes, Inc.	Director of Logistics
Jim Mentone	Johnson & Johnson SLC	Director Distribution Operations & Strategic Planning
Donna Olszowka	Georgia-Pacific LLC	Vice President of Customer Solutions
John Phillips	PepsiCo, Inc.	Vice President, Customer Supply Chain & Logistics
Laura Poljanac	ConAgra Foods	Senior Director, Supply Chain
Bob Richardson	The Clorox Company	Director of Sales, Customer Development
Jack Ryan	Nestle USA, Inc.	Director of Customer Logistics, Brands and Prepared Foods
Todd Schultz	Bush Brothers & Company	Director of Logistics
Stephen Sibert	Grocery Manufacturers Association	Senior Vice President, Industry Affairs
James Skiles	Grocery Manufacturers Association	Vice President and General Counsel
Steve Smith	Kellogg Company	Director of Production Planning
Dan Stone	Flowers Foods, Inc.	Vice President of Logistics
Jan Tharp	StarKist Company	Senior Vice President, Supply Chain
Christopher West	McCormick & Company, Inc.	Director, U.S. Transportation
Jeffrey Wilke	The Dial Corporation	Director of Distribution Services
Steve Zaffarano	Diamond Foods, Inc.	Vice President, Supply Chain Management and Customer Service

## References

- 1 Research Bulletin. IC Insights. January 11, 2010. <http://www.icinsights.com/news/bulletins/bulletins2009/bulletin.html>
- 2 Occupational Outlook Handbook, 2010-11 Edition. Bureau of Labor Statistics, United States Department of Labor, American Trucking Association. February 4, 2010. [http://www.bls.gov/oco/oooh\\_index.htm](http://www.bls.gov/oco/oooh_index.htm)
- 3 IBM Global Chief Supply Chain Officer Study: The Smarter Supply Chain of the Future. IBM Institute for Business Value. February 2009. <http://www-935.ibm.com/services/us/gbs/bus/html/gbs-csco-study.html>
- 4 Ibid.





---

© Copyright IBM Corporation 2010

IBM Global Services  
Route 100  
Somers, NY 10589  
U.S.A.

Produced in the United States of America  
March 2010  
All Rights Reserved

IBM, the IBM logo and [ibm.com](http://ibm.com) are trademarks or registered trademarks of International Business Machines Corporation in the United States, other countries, or both. If these and other IBM trademarked terms are marked on their first occurrence in this information with a trademark symbol (® or ™), these symbols indicate U.S. registered or common law trademarks owned by IBM at the time this information was published. Such trademarks may also be registered or common law trademarks in other countries. A current list of IBM trademarks is available on the Web at "Copyright and trademark information" at [ibm.com/legal/copytrade.shtml](http://ibm.com/legal/copytrade.shtml)

Other company, product and service names may be trademarks or service marks of others.

References in this publication to IBM products and services do not imply that IBM intends to make them available in all countries in which IBM operates.



Please Recycle

---



© 2010 by the Grocery Manufacturers Association (GMA). All rights reserved. No part of this publication may be reprinted or reproduced in any way without written consent from GMA.

Grocery Manufacturers Association  
1350 I Street, NW, Suite 300,  
Washington, D.C. 20005, U.S.A.

GBE03287-USEN-00