

January, 2012

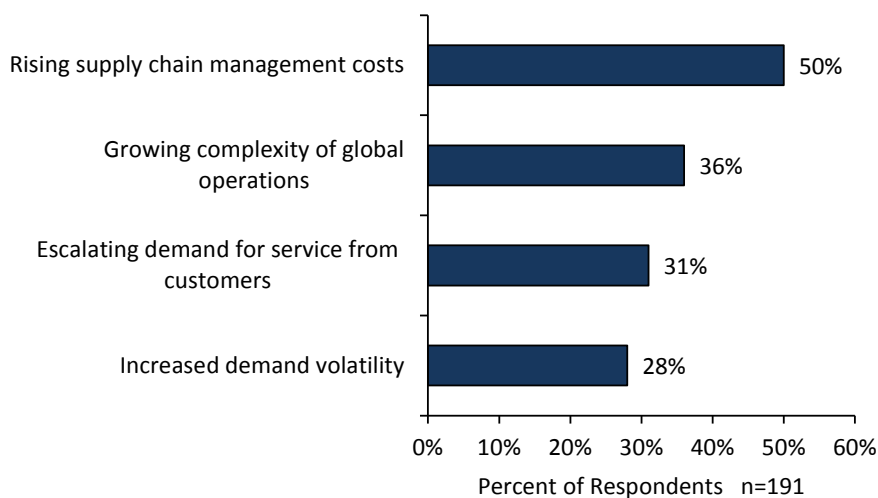
Cost and Complexity: Top Challenges of Today's Chief Supply Chain Officer

In a survey of 191 Chief Supply Chain Officers (February 2011), 40% indicated that they are redesigning their entire domestic supply chain network. Additionally, 34% of supply chain officers are redesigning their international supply chain network. This research document will seek to understand the pressures driving CSCOs to make this change, and offer best practices collected through our surveys and interviews with leading supply chain professionals.

Rising Costs and Complexity within the Supply Chain

In a recent survey, 191 chief supply chain officers indicated that their top business pressures were the rising cost of supply chain management (50%) and the growing complexity of the supply chain (36%). While cost is always a top pressure for supply chain professionals when complexity is added, the impact on supply chain goals and objectives can be overwhelming.

Figure 1: Pressures Driving Supply Chain Transformation



Source: Aberdeen Group, January 2012

As the cost of supply chain management and the overall complexity of the supply chain grow, the supply chain officer must find ways to mitigate risk within this supply chain. One way to achieve this is to establish better communication and collaboration throughout the value chain. However, the best place to start improving your collaboration and communication is

Sector Insight

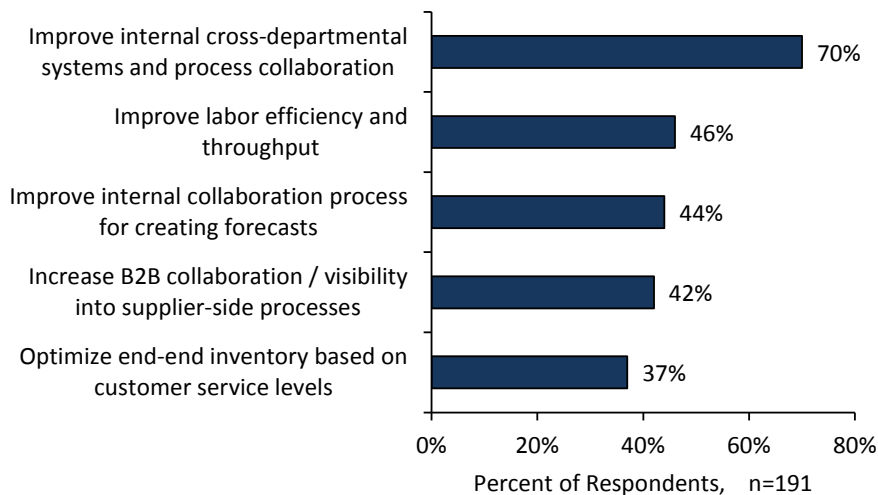
Aberdeen's Sector Insights provide strategic perspective and analysis of primary research results by industry, market segment, or geography

"We plan to implement a supplier web portal (SupplyWeb) to do business with our key suppliers - with the primary focus on Vendor Managed Inventory to optimize the inventory in the supply chain. Challenge is "time" - we are operating with a very lean office. We also have a S&OP team in place to address system fundamentals of the Order Fulfillment Process, such as ensuring data integrity in our ERP system, documenting key processes and monitoring key metrics."

~ Small North American Industrial Manufacturer

within your own company, across departments, geographic regions or business units. In fact, 70% of supply chain officers surveyed listed improving internal cross-departmental systems and process collaboration as their top strategic action for improving supply chain functionality. Another 44% listed improving the internal collaboration process for creating forecasts, pricing and promotion plans, and making mid-course corrections as their top strategy.

Figure 1: Top 5 Strategic Actions among CSCOs



"We continue to focus on improving inventory management through use of advanced planning & forecasting systems to insure we have the right inventory in the right place at the right time."

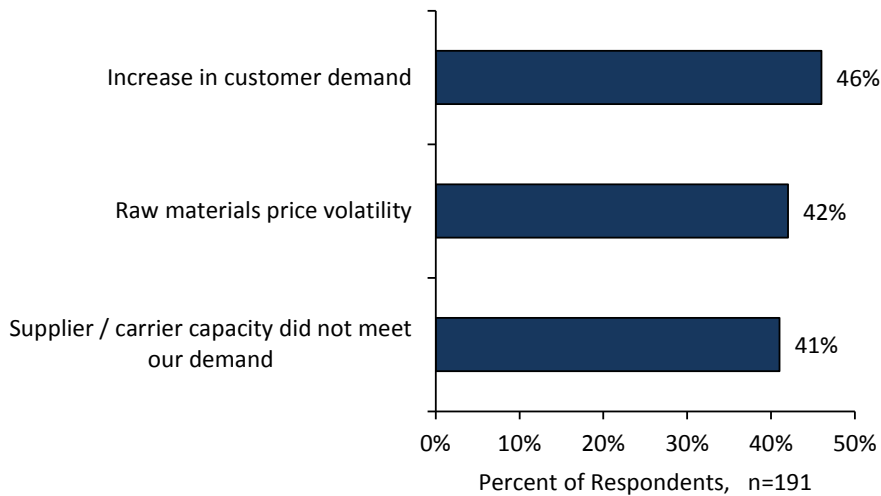
~ Large European Industrial Manufacturer

Source: Aberdeen Group, January 2012

The data in the chart above indicates that improving internal communication / collaboration is top of mind among supply chain officers. "First, the most intense pressure for us is improving internal collaboration. We have begun in-depth and comprehensive training of how to collaborate with the end-to-end supply chain. Once we have the internal addressed then we would go for B2B collaboration. Our goal is to make our supply chain more lean and agile," says Anuj Kumar Gehlot, Senior Logistics Manager at a small specialty retailer.

Recent events in Japan and the Middle East highlight the need to improve collaboration and integration internally and externally. Natural disasters and social reform have caused supply disruptions, due to constrained supplier capacity, raw material price increases, and rising logistics costs due to fuel price increases. When asked which event most disrupted their supply chain in 2011, respondents listed supplier capacity and raw materials costs as two of the top three--chosen by 42% and 41% respectively (Figure 2).

Figure 2: Top 3 Supply Chain Disruptions



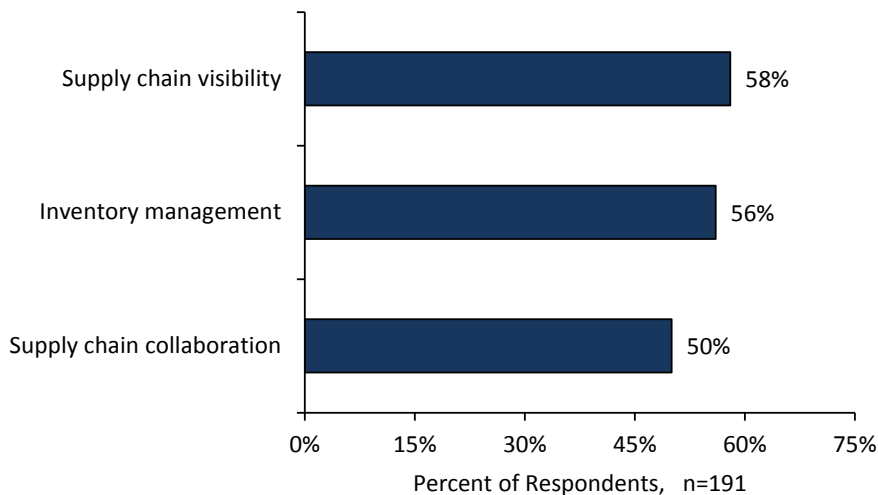
"The main company initiative is driven towards reduction in inventory durations, which is affected by the variations in supplier lead time on deliverables."

~ Large North American Manufacturer

Source: Aberdeen Group, January 2012

Constraints in supplier capacity and rising raw materials prices are not going away. Supply chain officers must increase visibility into inventory level decisions to support servicing new orders. Fifty-eight percent (58%) of supply chain officers surveyed listed supply chain visibility as their top area targeted for improvement in 2011 (Figure 3).

Figure 3: Top Areas Targeted for Improvement in 2011



Source: Aberdeen Group, January 2012

Visibility into inventory and new purchase orders can help your company respond more quickly and accurately to disasters, and mitigate the risk of inventory obsolescence and overstock. These benefits are driving renewed focus on collaborative execution (*[Collaborative Execution: Closing the Loop on Supply Chain Planning and Execution](#)*; October 2011).

Recommendations

Today's supply chain officer must contend with the rising costs of supply chain management and the growing complexity of globalized supply chains (Download the podcast "*[Globalization of the Supply Chain and the Rise of the CSCO](#)*").

Many have sought to transform their supply chain to meet the demands of the market. Here are some of their best practices:

- **Understand Demand** - Customer demand is one of the most unpredictable variables in the "supply chain equation." However, top companies can create demand forecasts that come closer to true customer demand. Top companies boast average forecast accuracy of 83%, compared to 61% for all other companies. Additionally, 75% of these top companies can segment demand by key customer characteristics. By better understanding demand, companies can plan production capacity and inventory level in a more accurate fashion, minimizing the risk of lost sales opportunities.
- **Collaboration and Integration** - The ability to share information between departments within the business is essential to improving supply chain. In the February 2011 Chief Supply Chain Officer Survey, 39% of those surveyed revealed that the top challenge they faced when trying to improve their supply chain was the lack of cross-functional processes and teams (the number one challenge overall). Without the internal communication processes in place, the company as a whole cannot effectively collaborate with outside entities, whether they are supplier or customers.
- **Inventory Management** - Increased visibility into inventory decisions can help ensure the product is available at the right place and the right time. Among those surveyed, the top two areas targeted for improvement in 2011 were supply chain visibility (58%) and inventory management (56%). This indicates that supply chain officers understand the importance of visibility and inventory management, and also suggests that these two goals may be linked. Knowing what you have and where it is (in-stock vs. in-transit) may help decrease stock-outs and inventory obsolescence.

For more information on this or other research topics, please visit www.aberdeen.com.

Changing attitudes from over-bearance on logical numbers and today/now thinking to recognize what is also needed are emotional/relationship aspects and a longer view forward.

~ Small North American
Retailer

Related Research

[Globalization and Global Trade Drive Renewed Focus on Supply Chain Visibility;](#)
September 2011

[Collaborative Execution: Closing the Loop on Supply Chain Planning and Execution;](#)
October 2011

[Top Three Initiatives to Drive Supply Chain Transformation;](#) December 2011

[State of Cross-Channel Retail Supply Chain Execution: Reduction in Inventory Holding Costs and Out-of-Stock;](#)
December 2011

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