IBM Business Consulting Services

The GMA 2005 Logistics Survey

Supply chain performance in food, grocery and consumer products

An IBM Institute for Business Value executive brief

IBM Business Consulting Services, through the IBM Institute for Business Value, develops fact-based strategic insights for senior business executives around critical industry-specific and cross-industry issues. This executive brief is based on an in-depth study by the Institute's research team. It is part of an ongoing commitment by IBM Business Consulting Services to provide analysis and viewpoints that help companies realize business value. You may contact the authors or send an e-mail to iibv@us.ibm.com for more information.

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Introduction

IBM Business Consulting Services conducted the GMA 2005 Logistics Survey in January 2005, in conjunction with the Grocery Manufacturers of America. This survey identifies current practices, captures significant trends and establishes operational performance benchmarks in several key areas of supply chain logistics: strategic objectives, distribution and transportation practices, benchmarks and trends, outsourcing, alliances and information technology, forecasting and inventory management.

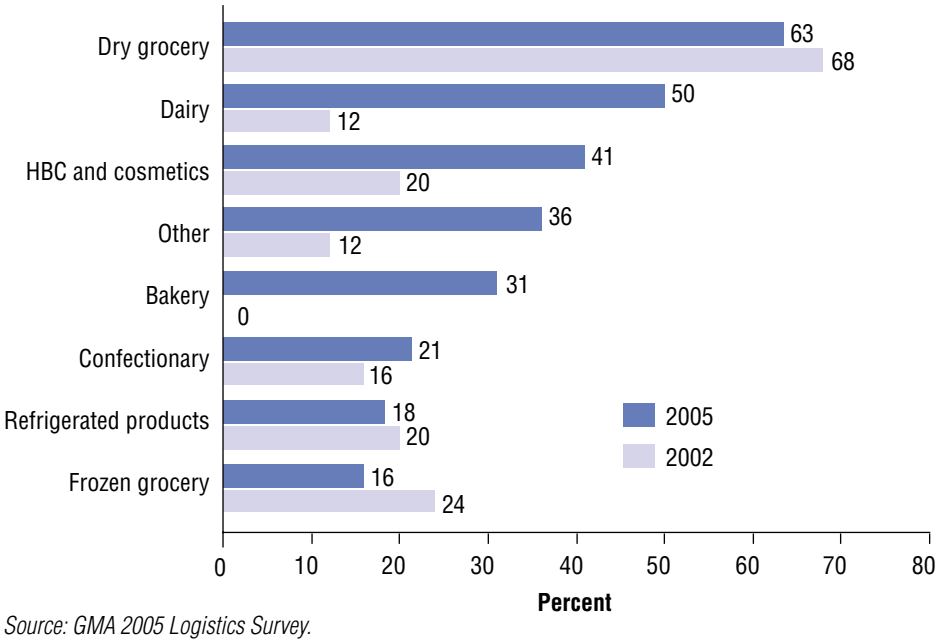
The GMA 2005 Logistics survey was performed to better understand where supply chain logistics is today and how it is evolving. The survey provides insight into the adoption of leading practices. By capturing significant trends and operational performance benchmarks, it also places the research findings into an overall context and provides perspective on the continuing evolution of supply chain management principles and trends.

Respondents profile

The GMA 2005 Logistics Survey was distributed to logistics executives within GMA's membership. A cross section of companies participated, mostly in the food and beverage sector (86 percent), with the remainder from the health and beauty care sectors (14 percent).

Company sizes of the 32 total respondents varied. Shown below, in Figure 1, is the percentage of revenue by product category. Average annual revenue, among all respondents was US$3 billion.

Figure 1. Percentage of revenue by product category.



Source: GMA 2005 Logistics Survey.

Responses were used to compare current supply chain logistics practices and performance measurements to the results of similar surveys conducted in 1993, 1996, 1999 and 2002.

Executive summary

Competing in today's tough market environment is quite a challenge – especially in the consumer products marketplace. This past year has seen sharply rising transportation costs, carrier capacity shortages and the continued push by customers for higher levels of service. All of this typically leads to logistics uncertainty, increased cycle time, a deterioration in customer service, excess inventory and lost profits.

The 2005 GMA Logistics Survey revealed that supply chain executives are concentrating on operational excellence while meeting profitability and other business performance objectives. Key insights into the logistics operations of today's food, grocery and consumer products supply chain include the following:

Transportation is driving overall cost increases

Companies in the consumer products industry, like other industries, are battling the spike in transportation costs that occurred in 2004. Cost increases, driven primarily by fuel prices and combined with a capacity shortfall, have led to a significant rise in transportation costs. Transportation costs per mile have gone up 23 percent in the past three years, to an average of US$1.69 per mile. Shippers are responding by shifting modes where possible, as evidenced by increased volume in truckload and intermodal with a decrease in less-than-truckload moves. Many are utilizing more continuous moves, improving trailer utilization, increasing the use of drop trailers and partnering with carriers to secure capacity.

Distribution/warehousing costs are stable, but customers continue to demand additional services.

Distribution costs are relatively stable, and in some instances are declining slightly. The primary driver of increased cost in distribution operations is the continuing trend for retailers to push value-added services upstream to the manufacturers and request customized products and services, such as floor-ready displays, pallet programs and promotional packaging. Consumer products companies have managed these distribution costs by increasing outsourcing (both usage and satisfaction levels are trending upward), providing incentives for customers to buy standard product configurations and adjusting pricing to include compensation for additional services.

Customer service levels for delivery and overall satisfaction are down

Service is a major focus area: 78 percent of the companies report improvement of customer service as one of their top three objectives. Primary measures of service continue to be on-time delivery (OTD) and percentage shipped complete. There was a significant drop in OTD performance from 89.6 percent in 2002 to 79.4 percent in 2004. On-time performance issues were impacted by both carrier capacity constraints and tougher customer targets, resulting in a higher frequency of late deliveries. Most respondents are reducing order-to-delivery cycle times to less than four days on average and are targeting even shorter cycle times of three days.

Optimizing supply chain performance, productivity and responsiveness are increasingly important to achieve cost containment and service level objectives.

Key recommendations derived from this survey include:

- Integrate planning and forecasting with suppliers and logistics service providers to provide differentiated customer segment product and service bundles and superior customer service levels
- Continue to outsource non-differentiating transportation, distribution and information technology functions to better manage end-to-end logistics costs, while providing greater levels of OTD, fill rate and other customer performance levels
- Condition demand through planning and forecasting to better serve customers' specific requirements for promotions, special packaging and other value-added services
- Continue to rationalize distribution networks with regionalization for specific customer requirements; increase the use of flow-through or cross-docking and direct-to-store strategies by various product and customer categories
- Implement advanced collaborative planning and forecasting with customers, including continuous replenishment programs and shared management of inventory
- Optimize product pricing based upon profitability of segments.

The insights presented in this report provide a framework for consumer products companies to begin redefining strategies and fine-tuning performance objectives to position themselves to deliver superior performance and increased profitability.

The balance between cost and service is the greatest challenge for consumer products companies

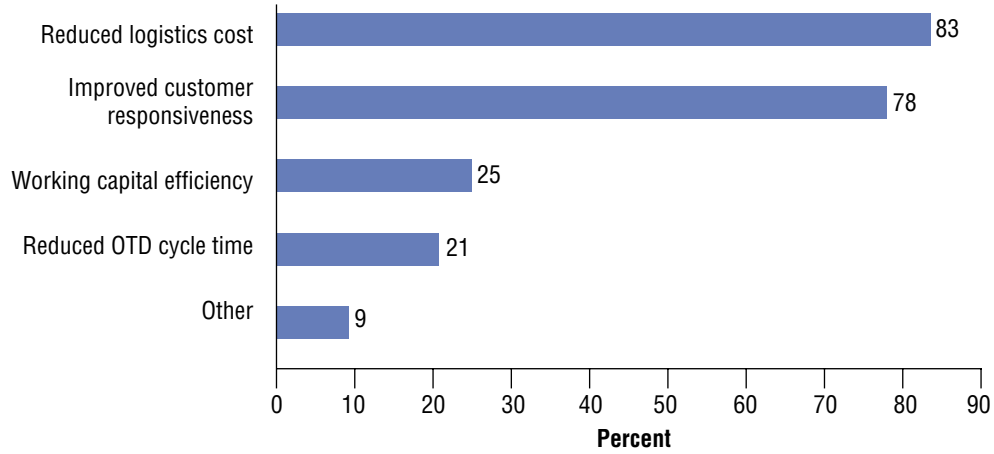
"Customer's expectations have become increasingly difficult to manage as they continue to shift challenges within the supply chain to their suppliers."
– VP, Logistics

Traditionally, supply chain management focus for most consumer products companies has been fixed heavily on cost reduction. Current margin pressures are severe, and supply chain performance is centered more and more on the overall business impact and shareholder value. As a result, companies are reducing the fixed costs and capital requirements of supply chain operations and moving to a more "variable" cost structure that can be controlled and managed in direct relationship to customer demand and service requirements.

Cost

Overwhelmingly, survey participants agree that their primary objectives are to reduce logistics costs and improve customer responsiveness (see Figure 2). Almost all respondents report reducing costs and improving customer responsiveness as key goals of logistics, but the majority fail to track, and therefore monitor, customer-level profitability and associated costs.

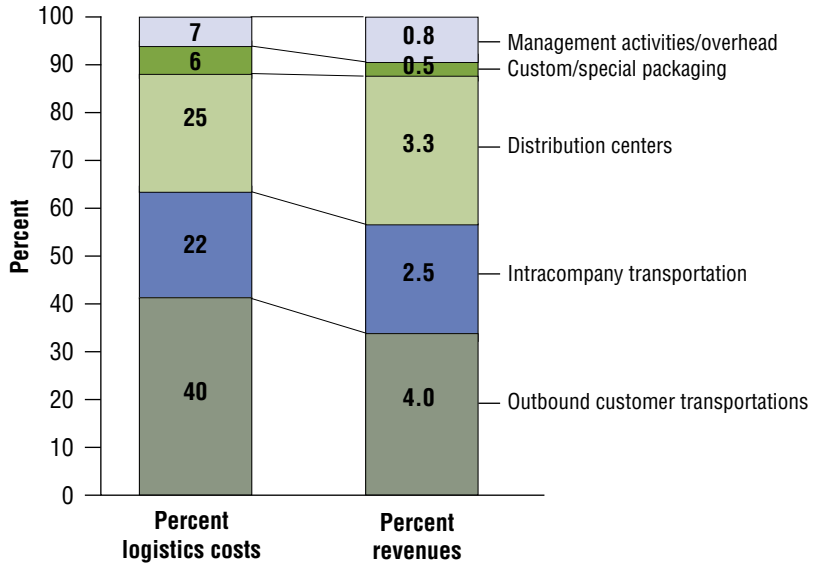
Figure 2. Top three strategic objectives.



Source: GMA 2005 Logistics Survey.

Among GMA member companies surveyed, total logistics costs as a percentage of sales averaged 6.86 percent. This year's cost ratios are based upon gross sales, representing 11 percent of corporate revenue. Through interviews, companies generally indicated an increase in total logistics costs over the last two years. The largest cost categories were in outbound transportation to customers and intra-company moves, representing 66 percent of total logistics costs. The next highest cost category was distribution centers (DCs).

Figure 3. Logistics cost profile.



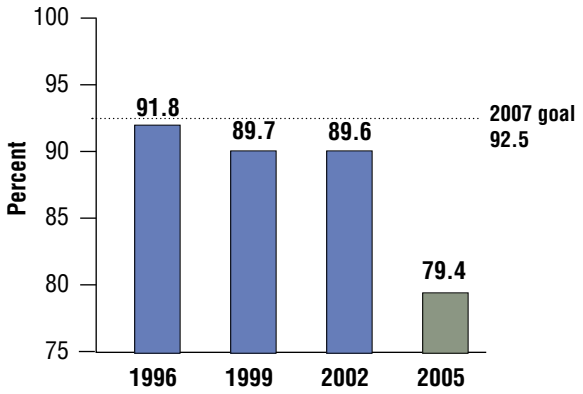
Source: GMA 2005 Logistics Survey.

Service

Respondents report that customer service levels are down, relative to previous years. Only 82 percent responded that they consider customer service levels satisfactory or better, which is considerably under the goal to achieve 95 percent satisfaction ratios.

On-time delivery and complete shipments continue to be the primary customer satisfaction measurements. Relative to customer expectations, most respondents have experienced a sharp drop in OTD performance. OTD rate has deteriorated to an all time low of 79.4 percent this year, from almost 90 percent in 1999 and 2002. Although the consumer products industry's OTD is suffering from transportation capacity constraints and rising costs, other industries are maintaining higher OTD rates despite these same challenges. In fact, cross-industry OTD results were much higher (91 percent). Most respondents are anticipating improvements by 2007 (see Figure 4).

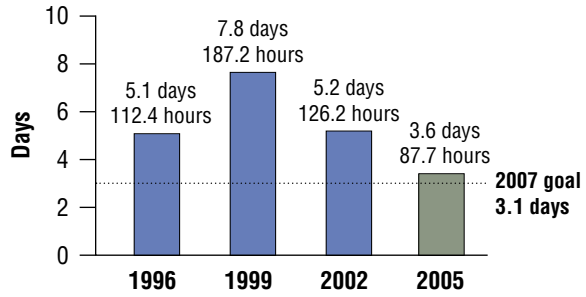
Figure 4. On-time delivery.



Note: On-time delivery is defined as meeting the customer receiving location's requested appointment date, plus or minus 30 minutes.
Sources: GMA 2002 Logistics Survey, GMA 2005 Logistics Survey, 2004 IBM Value Chain Study.

Order-to-delivery cycle times continue to shorten to less than four days on average but still lag behind levels for vendor-managed inventory (VMI) and collaborative planning, forecasting and replenishment (CPFR) accounts (see Figure 5).

Figure 5. Order-to-delivery.

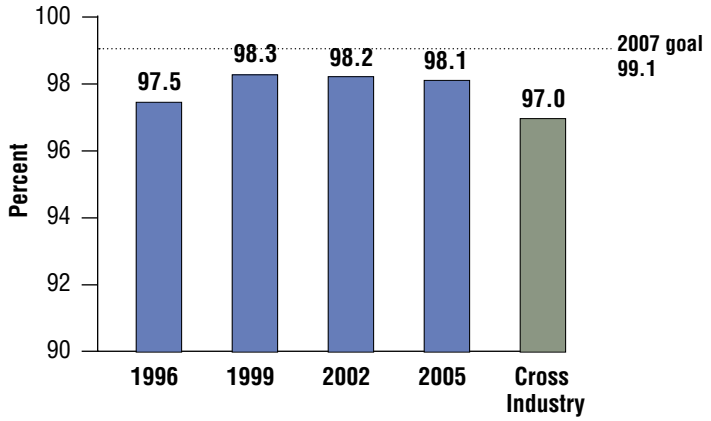


Sources: GMA 2002 Logistics Survey, GMA 2005 Logistics Survey.

Similarly, *order-to-ship* cycle times are also decreasing, averaging close to three days for most respondents. For VMI and CPFR customers, most are achieving two days, on average.

Another key performance indicator is *case fill rate*. Case fill rates have remained relatively flat, hovering at approximately 98 percent since 1999 (see Figure 6). The 2007 goal is to reach a much higher fill percentage. On average, consumer products companies are leading the cross-industry benchmark.

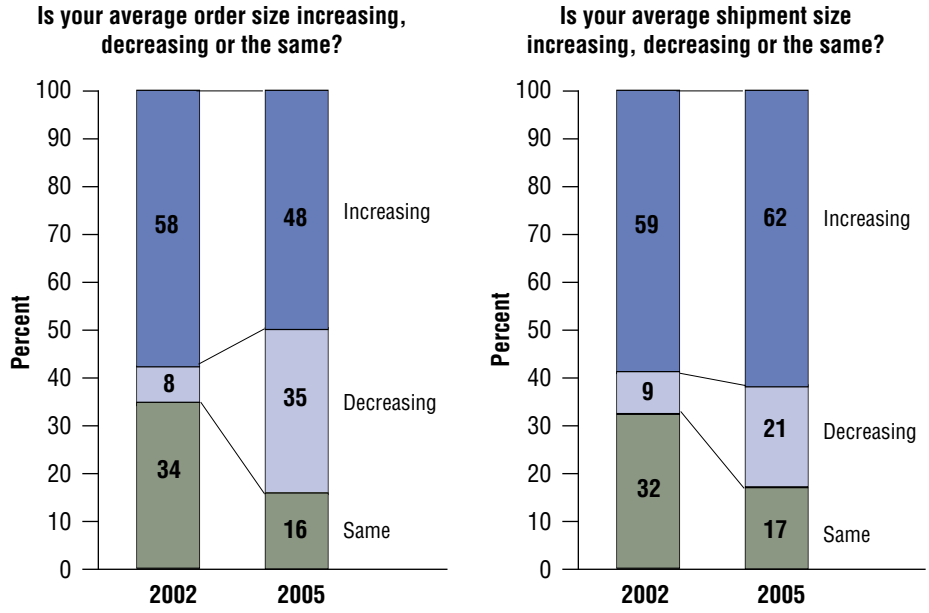
Figure 6. Case/unit fill rate.



Sources: GMA 2002 Logistics Survey, GMA 2005 Logistics Survey, 2004 IBM Value Chain Study.

The supply management efforts of some specific customers are driving smaller, more frequent replenishment orders (see Figure 7). With the need to process customer orders faster to meet customer VMI and CPFR requirements, the trend toward smaller order sizes continues. More respondents saw order sizes decrease, but CP companies have aggressively managed shipments to limit the impact of this shift in order profile.

Figure 7. Order and shipment size.



Source: GMA 2005 Logistics Survey.

Increased profitability, cost reduction, customer responsiveness and quality improvement are top drivers of logistics performance. There is renewed attention on optimizing supply chain performance effectiveness to support profitability objectives. Supply chain performance is being monitored for "perfect order" attainment (on-time, right product, right price, damage free), cycle time reduction and customer product delivery. Productivity initiatives and performance objectives continue to target improvements in OTD, cycle times and inventory turns.

Transportation management: Anything but "business as usual"

"In the last 2 years, we have had to deal with more changes in the transportation industry than we had in the previous decade."
– Director of Transportation

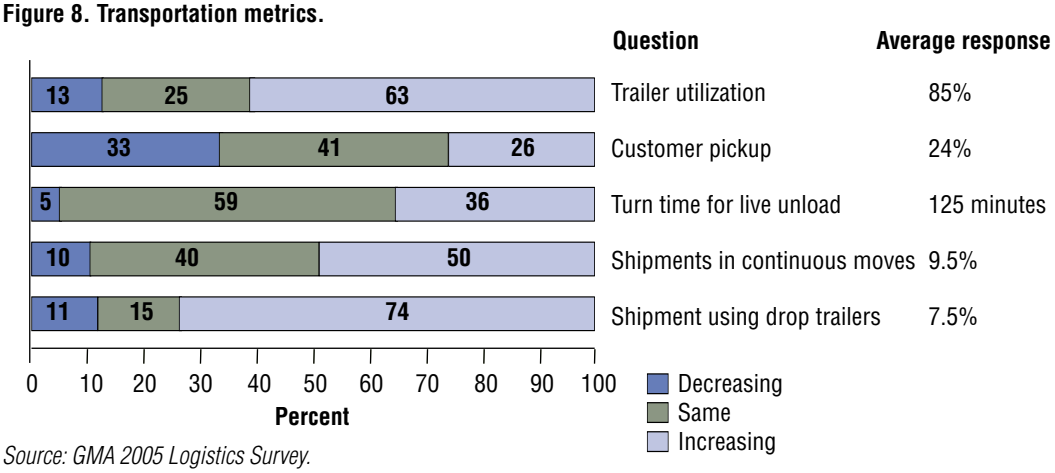
Transportation became the hot topic in 2004 as rapidly rising costs and capacity shortages presented significant challenges. Cost increased by 23 percent over three years to an average of US$1.69 per mile. *Outbound* and *intrafacility transportation* combined now make up 6 percent of gross revenue, or 62 percent of logistics costs. Shippers saw huge fuel surcharges, increases in rates and increases in accessorial fees, and found themselves booking premium-priced carriers more often in order to move loads.

Changes to the Hours-of-Service regulations reduced the average distance drivers could cover in a day. As a result, overall capacity dropped, and carriers had a more difficult time retaining drivers. Truckload capacity issues contributed to a severe drop in OTD performance. Several respondents reported that customers have reduced the level of freight they will pick up at the manufacturer's DC. Customers are less eager to take on the headaches of moving freight in today's difficult environment and are more willing to let the manufacturers deal with the challenge.

Transportation management initiatives

Survey responses reflect the intensifying focus consumer products companies are placing on transportation. Companies are looking to squeeze more out of their transportation dollars by better utilizing trailers, taking advantage of continuous move opportunities and utilizing more drop trailers (see Figure 8).

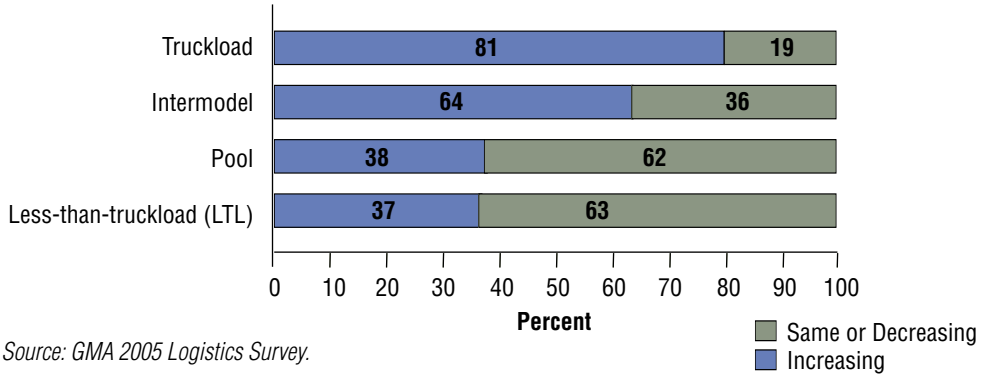
Figure 8. Transportation metrics.



Source: GMA 2005 Logistics Survey.

Shippers also looked to shift freight into more efficient modes (see Figure 9).

Figure 9. Transportation modes.



Source: GMA 2005 Logistics Survey.

The dramatic changes seen in transportation last year drove some very significant supply chain management behavior changes. Many efforts are aimed directly at freight:

- Shifting modes, where possible
- Utilizing more continuous moves
- Improving trailer utilization
- Increasing use of drop trailers for outbound shipments
- Partnering with carriers to secure year-round capacity.

Shippers are also reevaluating entire logistics networks to reflect service pressures and the shift in balance between transportation, DC operations and inventory carrying cost:

- Increasing the number of DCs
- Increasing DC inventory
- Adjusting sourcing assignments.

For the most part, shippers did not look to partnering with carriers with performance-based incentive programs – only 10 percent indicated increases in this practice; 75 percent actually reported decreases.

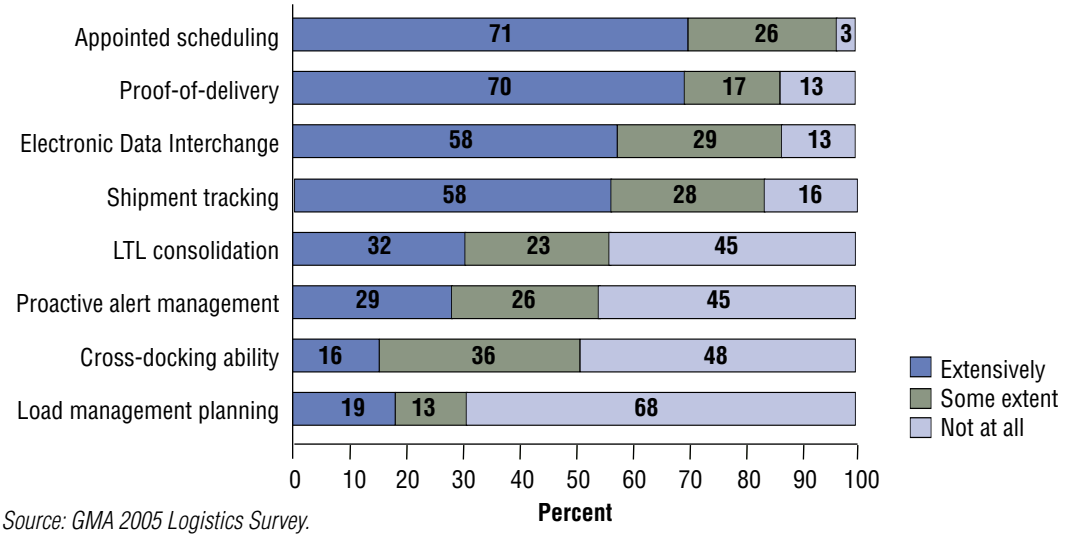
When asked what average cost-per-mile expectations are within the next two years, respondents indicated that they are expecting a decrease from US$1.69 to approximately US$1.43. Analyst's views for the future are mixed, but high transportation costs and capacity shortages will likely continue through 2005.

Consumer products manufacturers must evaluate their supply chains to verify that higher freight costs are considered in strategic plans. Strategic network design, inventory deployment, sourcing and transportation strategies should all be closely evaluated to reflect the relative cost of freight in the supply chain.

Carrier Services

Carriers continue to provide traditional services such as scheduling, but to a lesser degree provide cross-docking and load planning or optimization services (see Figure 10). Also, carriers are providing information technology services for proof-of-delivery, shipment tracking and Electronic Data Interchange (EDI). Fifty-five percent are receiving proactive alert notifications for carrier delivery. This may be a trend toward improvement of OTD to customer request date.

Figure 10. Services provided by transportation carriers.



Source: GMA 2005 Logistics Survey.

Customer demands for specialization are becoming increasingly complex

"As retailers attempt to differentiate themselves with unique strategies, suppliers' product lines and processes become more convoluted."
– VP, Supply Chain Management

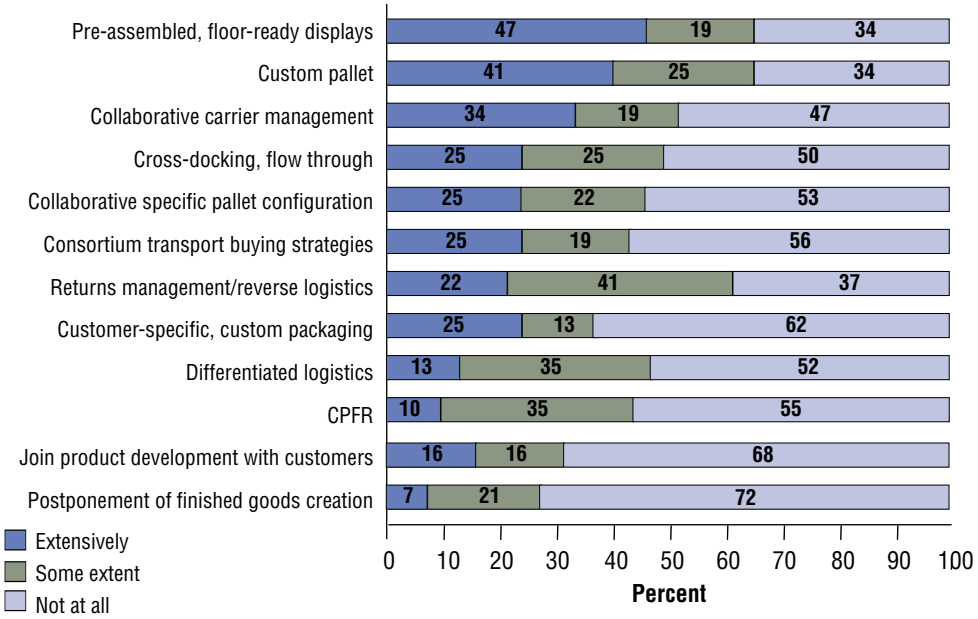
As retailers struggle to differentiate themselves in a competitive marketplace, consumer product companies are increasingly being asked to do more to support specialized processes. Respondents have noticed an increase in the number of floor-ready displays, customized packaging and store-ready, cross-dock pallets. They are also being pressured for shorter order lead times as retailers manage inventory levels more tightly.

According to survey results, companies are continuing to focus efforts on partner collaboration and the need to coordinate/integrate supply chain activities to reduce costs and improve performance. Alliances with key customers are used to achieve long-term strategic objectives, such as customer satisfaction, competitive differentiation and inventory reduction.

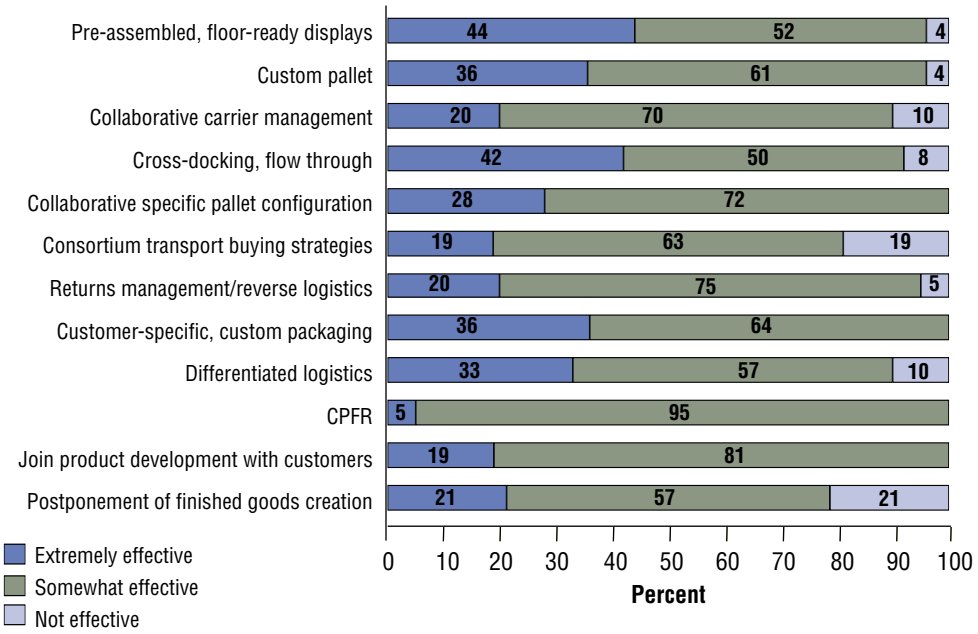
Respondents also are developing standard offerings to reduce the number of "one-off" requests and to establish processes within their DCs (see Figure 11). There is continued emphasis on specialized and value-added logistics services based upon customer segmentation. Tactical practices – such as pre-assembled displays and custom pallets – continue to have a higher degree of effectiveness than the more involved strategic initiatives, such as postponement.

Figure 11. Distribution practices.

To what extent have the following practices been implemented?



How effective have these practices been in meeting objectives?



Source: GMA 2005 Logistics Survey.

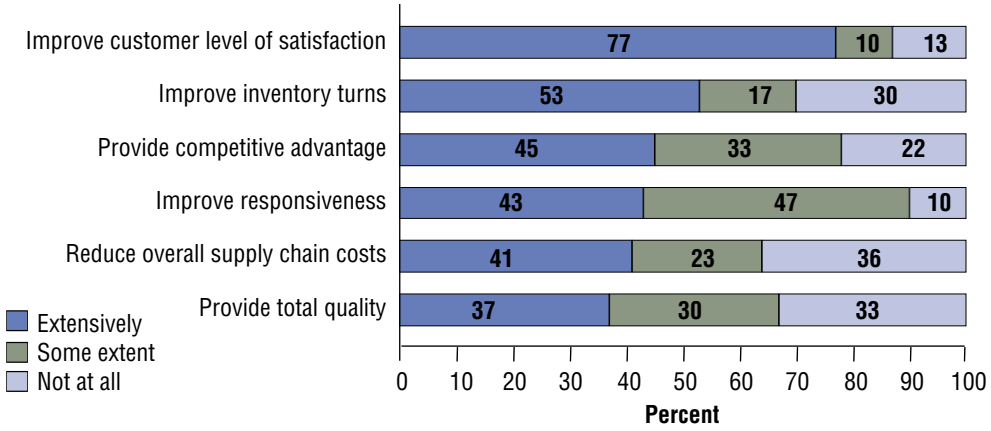
Most respondents are collaborating now more than ever with partners on strategic issues such as customer visibility to point-of-sale, forecasts, inventory and promotions, collaborative decision-making and performance scorecards with logistics providers. They are sharing information about plans, issues and actions to:

- Enable rapid decision-making in collaboration with partners and logistics service providers, and
- Proactively manage logistics activities with scorecards and event monitoring of exceptions.

Often, dashboards are used to display performance measurements results/ scorecards. Many companies are establishing a collaborative knowledge base with historical performance data to identify trends and recurring issues.

A large majority, 93 percent, responded that alliances and/or partnerships with key logistics providers have impacted their business processes, whereas 80 percent report that alliances with key customers have impacted business processes (see Figure 12).

Figure 12. Alliances with key customers.



Source: GMA 2005 Logistics Survey.

Respondents indicated that their top initiatives to enhance trading relationships are:

- Enhanced customer visibility (63 percent)
- Collaborative decision-making (53 percent)
- Performance scorecards with logistics providers (50 percent)
- Dashboards to manage performance (35 percent).

Initiatives to enhance product/service differentiation, information visibility or to enhance customer return processes or controls were cited to a lesser extent.

Related practices in differentiated logistics strategies are based upon customer segmentation – customizing service levels and inventory planning by various customer classifications. Also, profitability objectives may be aligned through segmentation of customer product/service strategies with pricing optimization.

Surprisingly few of these large consumer products companies are using customer segmentation techniques and margin analysis to make inventory planning and deployment decisions (customer cost and profitability are tracked extensively by only 24 percent).

Companies are satisfied and continue to outsource logistics

"3PL's have become more sophisticated, more professional, and are better at managing logistics services."
– Director of Distribution

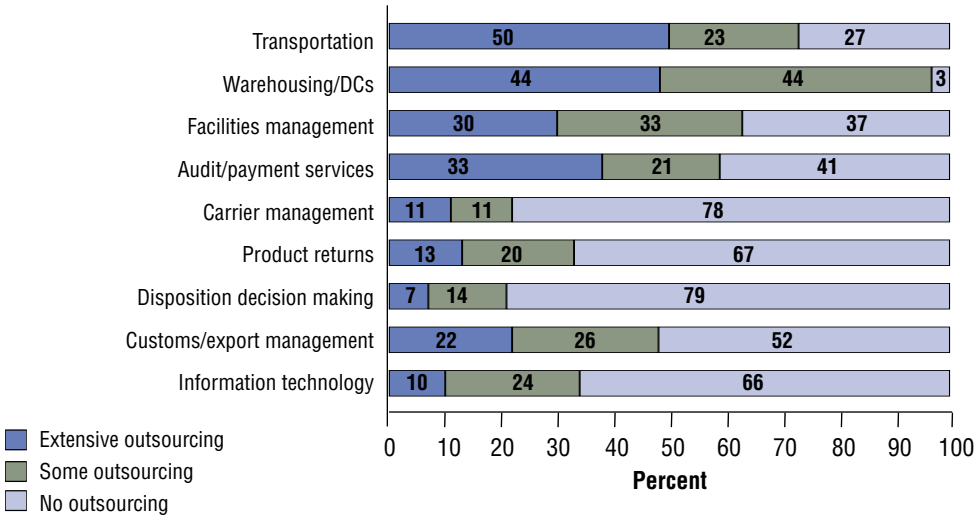
Transportation and DC operations continue to be heavily outsourced in this segment and respondents are generally satisfied with third-party logistics providers' (3PL's) performance. Respondents report that 3PLs are more sophisticated, more professional and frequently better suited to manage these functions. Beyond freight audit/payment, adoption of other 3PL services has been much slower. Many respondents are considering outsourcing additional distribution facilities, but few are planning to increase the scope of services handled by third parties.

Most companies are still performing traditional supply chain logistics functions such as transportation, distribution and inventory management, but many are expanding the end-to-end supply chain reach to include customer service and planning functions.

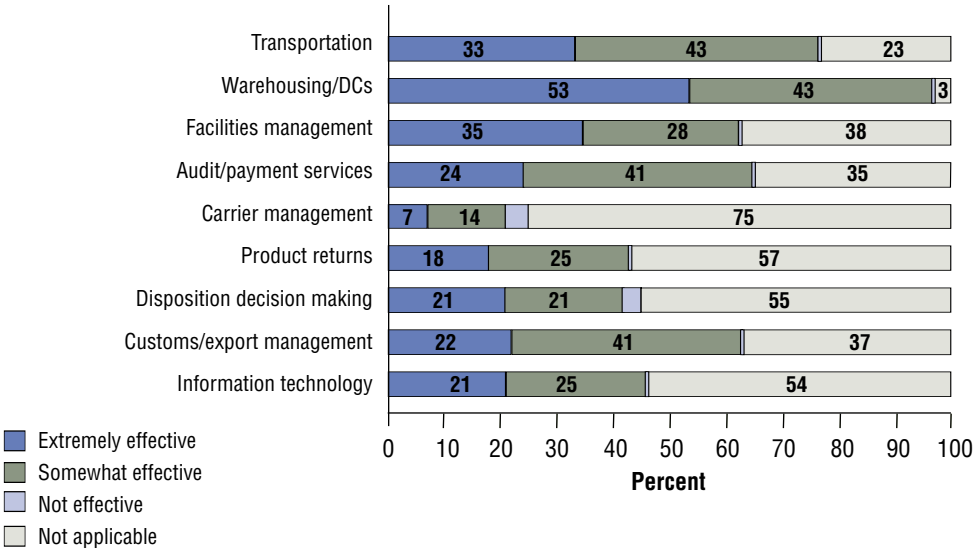
Outsourcing of logistics functions continues predominantly in the traditional transportation, warehousing and facilities management services (see Figure 13). This trend appears to be consistent over the past three years. Of those functions that are outsourced, most responded that they have been effective in reaching the desired objectives. The only areas of dissatisfaction – albeit slight – are in *carrier management* and *product return disposition management*.

Figure 13. Outsourcing of logistics functions.

To what extent has each of the following functions been outsourced?



If outsourced, how effective has each outsourced business function been in reaching desired objectives?

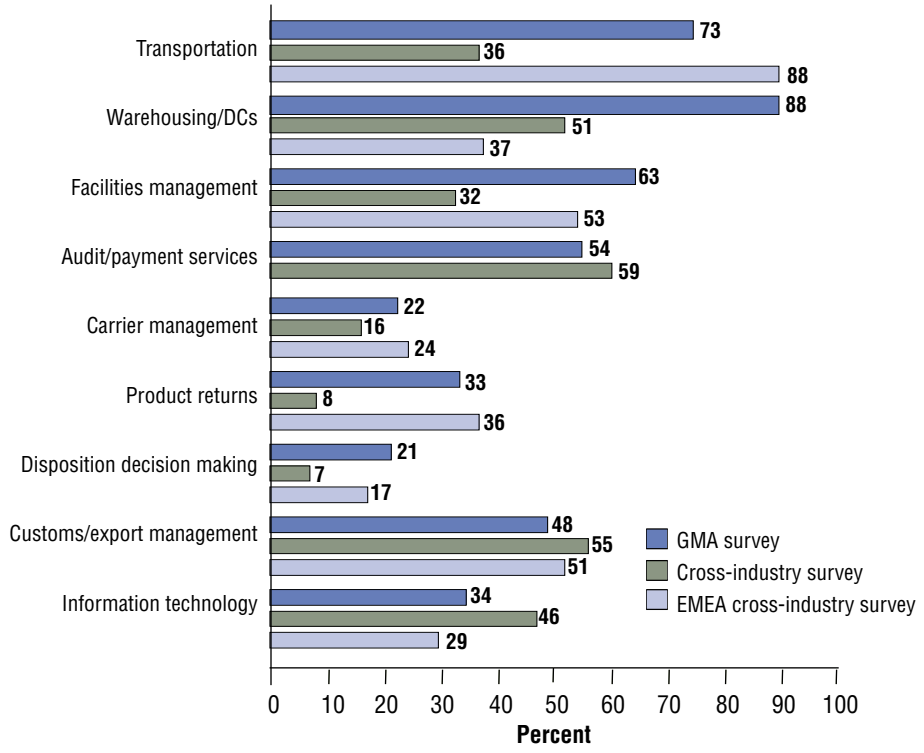


Source: GMA 2005 Logistics Survey.

Figure 14 compares GMA survey responses to two other cross-industry benchmarks, one in the Americas and one in Europe, Middle East and Africa (EMEA). This comparison of the three groups shows:

- GMA respondents had the highest rate of outsourcing in warehousing/DCs, facilities management, product returns and disposition functions
- Information technology was more highly outsourced by cross-industry companies in America than the other two groups
- Customs and export management are similar in all three surveys, averaging about 50 percent outsourcing of these functions.

Figure 14. Outsourcing of logistics functions.



Source: GMA 2005 Logistics Survey.

Demand visibility improves forecast accuracy

"As each customer is requesting unique SKU's, we lose any room for error and must be better at forecasting."
– Director of Planning

Traditional forecast planning is largely guesswork about customer buying preferences. Demand management, on the other hand, is about shaping and influencing what customers want to purchase by gathering intelligence on consumer trends, and then building marketing and promotional campaigns around product/service bundles to drive sales.

The GMA 2005 Logistics Survey shows that sales and marketing remains responsible for demand forecasting, in collaboration with supply chain execution process owners. More noteworthy, however, is that only 7 percent of the respondents receive customers' forecasts and demand plans. Collaborative planning and forecasting with customers includes continuous replenishment programs and shared management of inventory with visibility. Forecasting remains to a large degree historically based, with variations on the use of actual sales orders and customer estimates. Short-term operational forecasts are used primarily as input to manufacturing planning and production for inventory management, and deployment planning as input to distribution planning.

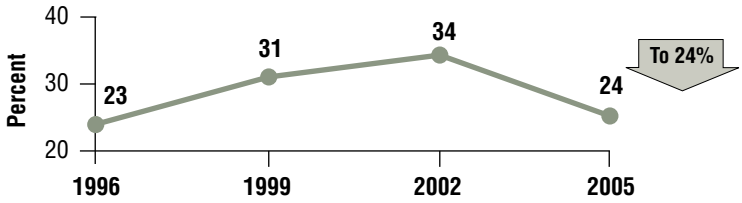
Demand forecast accuracy helps create high responsiveness and cuts cost inside the supply chain through the integration of planning and scheduling with logistics execution. Recent research by AMR reported that "Companies that are best at demand forecasting average 15 percent less inventory, 17 percent stronger perfect-order fulfillment, and 35 percent shorter cash-to-cash cycle times, while having a tenth of the stockouts of their peers."[1]

Forecasting has improved, with Mean Absolute Percentage Error down to 24 percent accuracy, near levels experienced in 1996 (see Figure 15). This may be linked to the emphasis on improving supply chain efficiency and inventory turns through enhanced planning, as integrated inventory management is also the second-largest information technology category.

Figure 15. Forecast error rates.

What is your average monthly forecast measured as Mean Absolute Percentage Error (MAPE)…

	Monthly	Weekly
Nationally?	24%	25%
By shipping location?	33%	42%
By product family?	21%	30%



Source: GMA 2005 Logistics Survey.

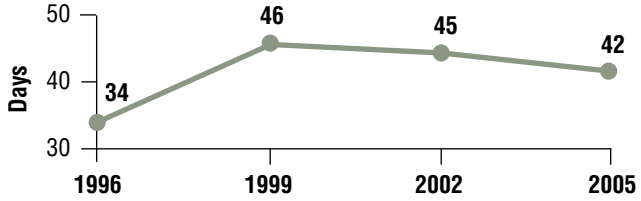
Advanced inventory management methods, such as actual consumption driven (point-of-sale) continuous replenishment and postponement techniques are not widely used – even VMI and comanaged methods are being used by less than 50 percent of those surveyed.

Inventory planning and deployment is primarily based upon category or product line (68 percent) and unit volume (61 percent), followed by geography. Only 39 percent of the respondents extensively use ABC inventory classification for inventory placement.

Inventory total days of supply has been decreasing slowly during the past five years, but with room for improvement toward the goal of returning to 1996 levels (see Figure 16). Turns are lower than desired, in part due to the proliferation of custom items and item configurations demanded by retailers (which are more difficult to forecast) and potentially to a lack of point-of-sale information to determine replenishment requirements of faster-turning items.

Figure 16. Inventory: Days of supply and turns.

	Currently		Goal within 2 years
	Average	Median	
What is your finished goods inventory in total days of supply?	**42 days**	**40 days**	**34 days**
What is your finished goods inventory turns?	**11.8/year**	**8.3/year**	**12.9/year**



Source: GMA 2005 Logistics Survey.

Demand management processes and tools help to synchronize demand with supply, and therefore accelerate cycle time and improve forecast accuracy and customer service.

Compliance and information management initiatives: Helping CP firms achieve business objectives

Several questions were added to this year's survey to uncover how information management and compliance initiatives impacted survey participants' business performance. Executives participating in interviews confirmed the following findings on key industry initiatives.

- Radio Frequency Identification (RFID) continues to be implemented within only a small percentage of grocery manufacturers' operations, with the majority incurring the least possible investment to comply with retailers' requirements. Only 10 percent of respondents stated that RFID was extremely effective in meeting business objectives.

- Significant progress is being made in the implementation of data synchronization initiatives, with the majority of respondents (52 percent) reporting a moderate to high level of adoption.
- Sarbanes-Oxley impacts business process controls, primarily in the areas of trade promotion, freight payment, inventory control and customer invoice audits.
- Information management initiatives are critical in supporting all logistics functions, with extensive process performance enhancement underway in customer service, inventory management, and distribution and supply chain planning functions.

"Data synchronization is difficult, as retailers are not fully automating their integration, but CPG companies are making strides."
– Manager, Logistics Information Systems

Radio Frequency Identification

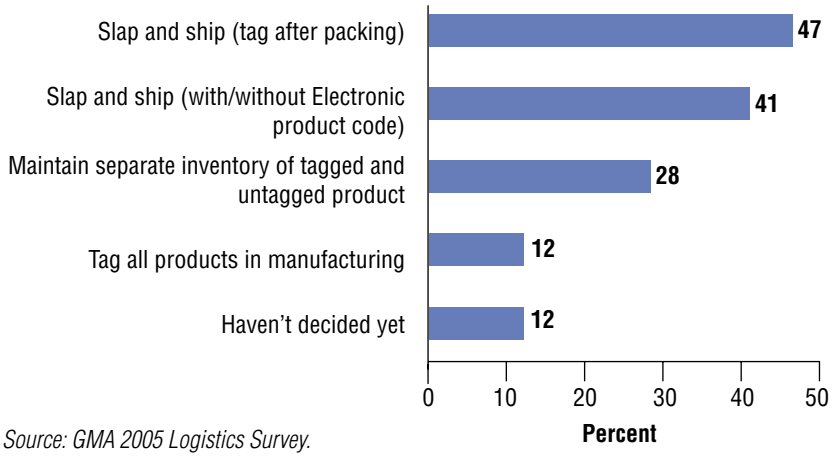
Several questions focused on the usage and anticipated return on investment (ROI) of RFID. RFID implementations are complete in only a small percentage of manufacturers, with the majority performing just enough to meet retailer compliance requirements (69 percent). This finding is consistent with a cross-industry value chain survey conducted by IBM, which found that more than 70 percent of the respondents had not yet planned the implementation of RFID.[2]

The most significant expected benefits from implementing RFID technologies were the following:

- Meet compliance requirements (68 percent)
- Reduce out-of-stock at retail stores (59 percent)
- Improve trading relationships (53 percent)
- Reduce shortage claims from retailers (44 percent).

To meet retailer compliance requirements, respondents are employing a variety of tagging strategies (see Figure 17). The majority (88 percent) are implementing "slap and ship" tagging strategies (keeping RFID compliance costs down by tagging only the goods headed to selected customers).

Figure 17. RFID tagging strategies.



Source: GMA 2005 Logistics Survey.

Respondents are mixed on the longer-term impacts or ROI associated with RFID initiatives, with 53 percent expecting some positive impact where benefits will exceed costs, and 44 percent expecting a negative ROI. These perceptions are consistent with data from a recent RFID survey conducted by GMA and IBM, which found that the actual costs per case outweigh the benefits for virtually all product categories and distribution methods.[3]

Figure 18. Average benefits and costs per case (normalized).

Category		Average per cases shipped to RFID-enabled retailers		Average per case of total volume	
		Benefits (US$)	Costs (US$)	Benefits (US$)	Costs (US$)
DC	Grocery - Dry goods (food)	0.20	0.40	0.04	0.14
	Grocery - Dry goods (non-food)	0.24		0.10	
	Grocery - Frozen, refrigerated	0.11		0.03	
	HBC/OTC	0.19		0.12	
DSD	Carbonated soft drinks (CSD), snacks	0.15	0.46	0.08	0.21

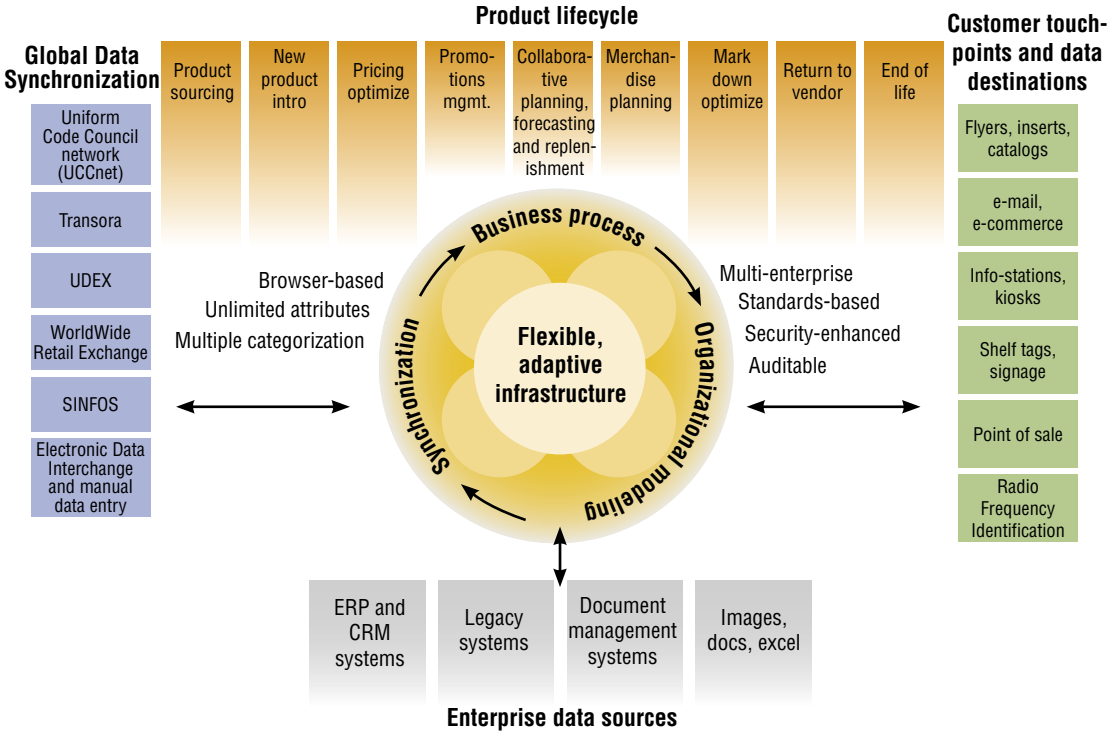
Source: IBM and A.T. Kearney business case studies. Normalized results.

Several interviewed executives report being in a "wait and see" mode as to whether a positive ROI can be achieved and are hopeful, given industry data, that RFID costs will continue to decrease.

Data synchronization

Sixty-eight percent of survey respondents indicate that data synchronization initiatives are underway, with 73 percent of those companies noting moderate to high effectiveness in meeting business objectives. Significant inroads have been made aligning product information with trading partners, with pricing and promotion data synchronization efforts planned or partially underway. However, few executives think their organization has implemented a comprehensive global data management solution, as illustrated in Figure 19.

Figure 19. Data management and synchronization.



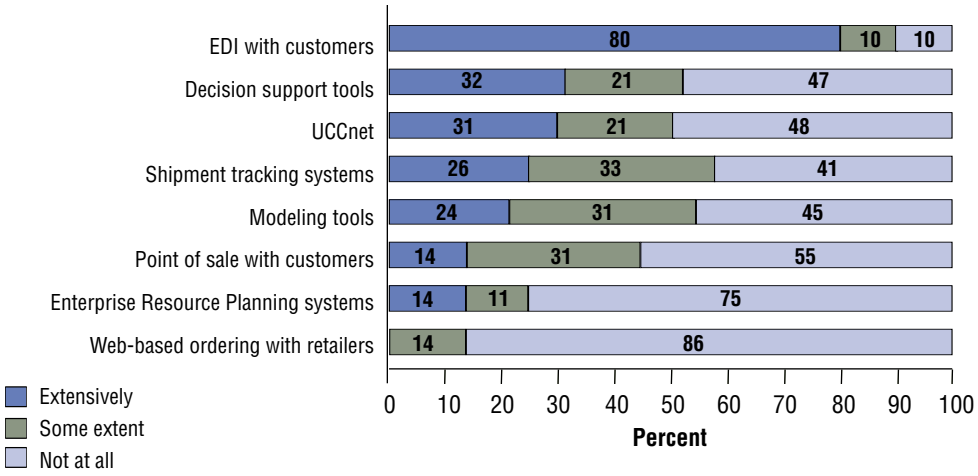
Source: IBM Institute for Business Value, "Global Data Syncrhronization: Building a flexible approach." IBM Corporation. December 2004.

Information management

Information management initiatives are critical in supporting logistics functions, providing extensive process performance enhancement in customer service, inventory management, and distribution and supply chain planning functions. A majority of respondents (83 percent) state that they have timely information across the supply chain, and 80 percent report a high level of information integrity and accuracy.

EDI continues as the predominant and effective means of information exchange with logistics partners, used by 91 percent of survey participants (see Figure 20).

Figure 20. Information technology application profile.



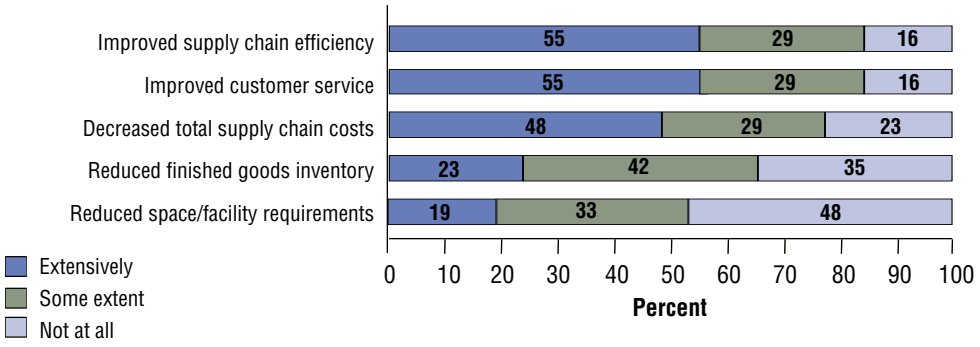
Source: "A Balanced Perspective: EPC/RFID Implementation in the CPG Industry." Report by IBM, AT Kearney and Grocery Manufacturers of America. October, 2004.

While EDI is the predominant technology for sharing information, the usage of UCCnet has increased from 22 percent in 2003 to 52 percent in 2005. Shipment tracking applications are used by 59 percent (provided, for the most part, by logistics service providers). Modeling and decision support tools are used to a lesser degree, and primarily for occasional network planning and optimization. A surprising finding – given that profitability and customer responsiveness were noted as the two leading objectives for 2005 – is that few respondents are leveraging customer point-of-sale data to drive demand-based replenishment.

Conclusion

Since the last GMA Logistics Survey was performed two years ago, consumer products companies report making progress in key supply chain performance initiatives such as improving supply chain performance and improving customer service (see Figure 21).

Figure 21. Improvement initiatives.



Source: GMA 2005 Logistics Survey.

However, as this report demonstrates, challenges remain in balancing cost and service level objectives while meeting profitability targets. To assist in evaluating and improving your own company's logistics initiatives, we recommend the following:

- Integrate planning and forecasting with suppliers and logistics service providers to provide differentiated customer segment product and service bundles and superior customer service levels
- Continue to outsource non-differentiating transportation, distribution and information technology functions to better manage end-to-end logistics costs, while providing greater levels of OTD, fill rate and other customer performance levels
- Condition demand through planning and forecasting to better serve customers' specific requirements for promotions, special packaging and other value-added services
- Continue to rationalize distribution networks with regionalization for specific customer requirements; increase the use of flow-through or cross-docking and direct-to-store strategies by various product and customer categories
- Implement advanced collaborative planning and forecasting with customers, including continuous replenishment programs and shared management of inventory
- Optimize product pricing based upon profitability of segments.

Today's business environment is rapidly changing. Leading consumer products companies are demonstrating that supply chain logistics not only concerns cost reduction objectives, but is focused more and more on developing new strategies to outperform the competition and to satisfy customers.

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H.P. Hood, Inc.
Kellogg Company
Koch & Associates
Land O'Lakes, Inc.
Marine Harvest USA, Inc.
McIlhenny Company
Nestlé Purina PetCare Company
Nestlé USA
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Reckitt Benckiser, Inc.
Reily Foods Company
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The Dial Corporation
The Gillette Company
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About the author

Karen Butner is the Supply Chain Management Americas Leader with the IBM Institute for Business Value and an associate partner in IBM Business Consulting Services. She can be reached at *kbutner@us.ibm.com*.

Contributors

Paul Huppertz, is a Partner in IBM Business Consulting Services, Supply Chain Management Services. He can be reached at *paul.f.huppertz@us.ibm.com*.

Georgeann Fears, is a Managing Consultant in IBM Business Consulting Services, Learning and Knowledge, Supply Chain Benchmarking. She can be reached at *georgeann.fears@us.ibm.com*.

About GMA

The Grocery Manufacturers of America (GMA) is the world's largest association of food, beverage and consumer product companies. Led by a board of 42 Chief Executive Officers, GMA applies legal, scientific and political expertise from its more than 120 member companies to vital public policy issues affecting its membership. The association also leads efforts to increase productivity, efficiency and growth in the food, beverage and consumer products industry. With U.S. sales of more than $500 billion, GMA members employ more than 2.5 million workers in all 50 states.

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