

# Excellence in Logistics

## Supply chain success during the crisis

*After years of flagging logistics costs, the trend has reversed. Across Europe, costs have risen by almost 20 percent since 2003, an increase expected to continue through at least 2013. And amid a global economic recession, more companies are searching for ways to optimize their supply chains to meet the ongoing challenges. In the sixth Excellence in Logistics study, A.T. Kearney and the European Logistics Association (ELA) identify the success factors that are playing a pivotal role in helping companies survive the crisis.*



Staying competitive in the economic downturn is a priority for companies in all sectors, and having a balanced supply chain is a major success factor. Supply chain costs and working capital must be kept at a minimum, even as customers demand more in terms of product availability, delivery lead times and reliability. Amid these challenges, A.T. Kearney and the European Logistics Association issued their sixth Excellence in Logistics study of supply chain trends (see sidebar: *Excellence in Logistics on the following page*).

This paper summarizes the 2009 findings, specifically the five leading trends in supply chain management (see figure 1 on the following page).

### 1. Costs and Inventory Levels Rise

Between 2003 and 2008, supply chain costs—a major performance metric—increased by almost 20 percent, from 6.1 percent to 7.3 percent of net sales. The rise is spread across three cost

components: transport, warehousing and inventory (see figure 2 on the following page).

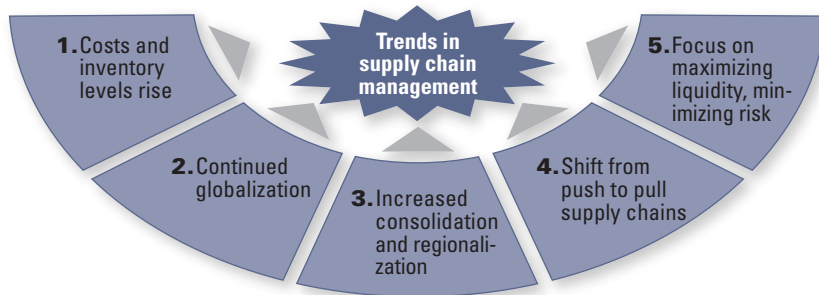
The biggest increase came in transport costs, which rose by 35 percent between 2003 and 2008. This period was marked by rapid globalization, which brought longer hauling distances and higher toll and fuel costs. Although costs are declining as freight volumes shrink (because of the downturn), survey participants expect costs to increase in proportion to macroeconomic trends, as globalization continues and sustainability becomes more significant.

Relative to net sales, warehousing costs have risen 0.3 percent, and inventory costs 0.4 percent. By 2013, study participants expect only a slight increase in inventory costs, but they consider this an area that can be improved significantly. When inventory is tied up in supply chains so is urgently needed cash.

This year, more than 75 percent

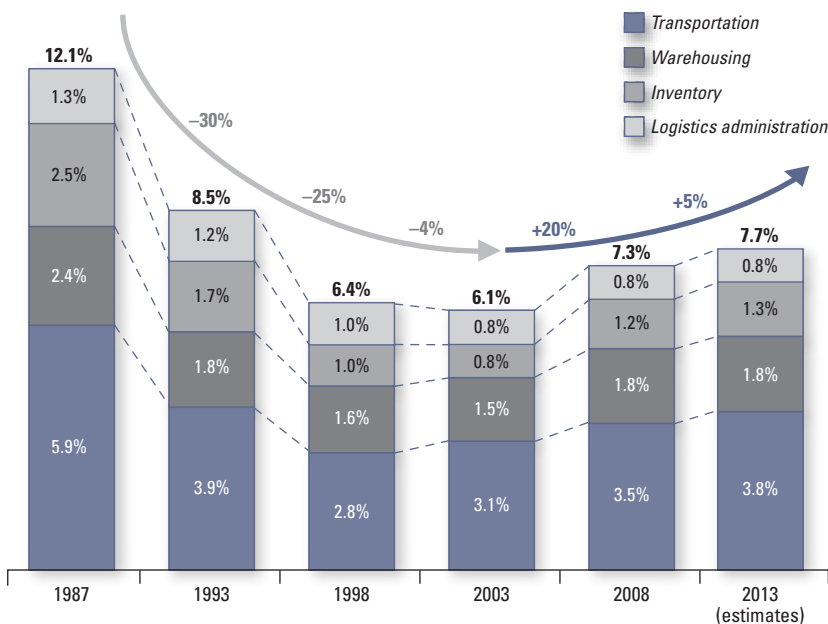
*In a downturn, supply chain costs and working capital must be kept at a minimum, even as customers demand more of everything—from product availability and reliability to better delivery lead times*

**FIGURE 1: Five trends in supply chain management**



Source: A.T. Kearney and European Logistics Association Excellence in Logistics Study, 2009

**FIGURE 2: Supply chain costs are rising**



Source: A.T. Kearney and European Logistics Association Excellence in Logistics Study, 2009

of survey participants say they are taking short- and medium-term measures to optimize inventories and improve their cash flow and capital structure. As a result, supply chain experts anticipate a slight decline in all three inventory categories by 2013: raw materials, semi-finished products and finished goods stocks. However, to date, inventories in each category are still relatively high.

## 2. Continued Globalization

Globalization will remain a central trend as more customers are served over more locations. For the past few decades, globalization has driven wealth, particularly in export-oriented countries such as Germany. While the population grew, world exports rose from \$450 per inhabitant in 1980 to more than \$2,000 per inhabitant in 2007.

Likewise, globalization has become an issue as European suppliers and customers have become more interdependent across all regions. The movement of goods—the underlying measure of supply chain globalization—increased by about 10 percent per year in purchasing and about 11 percent in the market from 2003 to

## Excellence in Logistics

Since 1982, A.T. Kearney and the European Logistics Association have joined forces for the Excellence in Logistics study of supply chains. This sixth edition builds on the results of the previous studies, which focused on costs (1982), productivity (1987), service levels (1992), supply chain integration (1998) and differentiation (2003).

The study benchmarks trends, costs, speed, level of service and risks for European companies and industries. Executives

from 150 companies and eight industries—including consumer goods, automotive, chemical, mechanical engineering, electronics and telecommunications—in 18 European countries took part in the 2009 study, which focuses primarily on aspects of each company's organizational structure, supply chains, logistics costs and service levels.

For more information about the study findings, please visit: [www.logistics-excellence.com](http://www.logistics-excellence.com).

2008. The rise in globalization is reflected in sales and operations planning (S&OP) as a quarter of executives say their firms conduct global S&OP.

With the economic crisis and government stimulus packages, some suggest globalization might slow down. However, 80 percent of study participants say their firms will continue globalizing, driven by purchasing and market factors, and labor costs.

### 3. Increased Consolidation and Regionalization

Logistics experts and executives who participated in the ELA-A.T. Kearney Supply Chain Roundtable agree that supply chain consolidation and regionalization offers a competitive advantage as it reduces costs (compared to local logistics) and helps companies meet their global needs.<sup>1</sup>

As the supply chain footprint consolidates so does the number of production and storage locations, particularly in an economic downturn. Logistics experts believe production networks will be streamlined by 20 percent by 2013, as regional networks replace local arrangements. Study data reveals further consolidation and regionalization of inbound and distribution facilities, with a reduction of about one-third in incoming stores and 20 percent in distribution by 2013.

With increased regionalization, sustainability will continue to be an important issue. Sixty percent of survey respondents say this is an issue for their companies, and by 2013 more companies will implement CO<sub>2</sub>-efficient means of transport wherever possible. Still, there is plenty more to be done to reduce the CO<sub>2</sub> footprint.

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### 4. Shift from Push to Pull Supply Chains

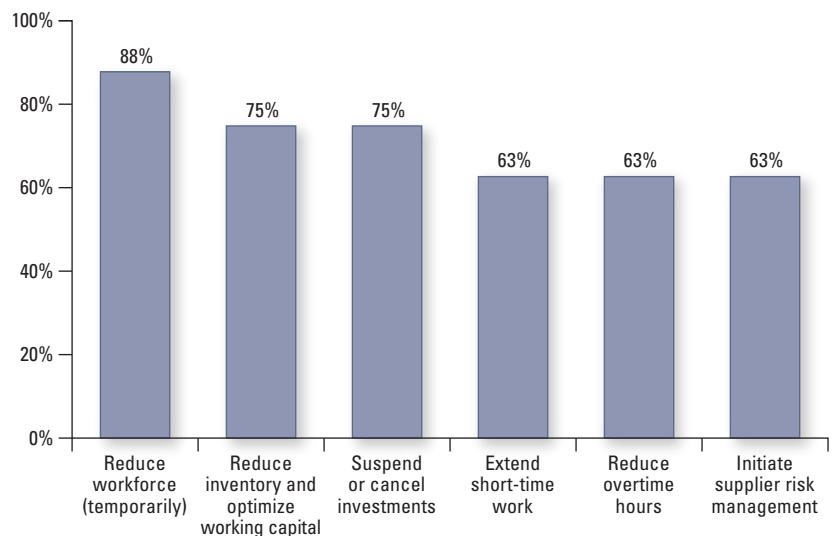
In an economic downturn, companies must be more flexible to fluctuating market demand as “pull” instead of “push” is the order of the day—which

means producing on a customer-specific basis rather than simply trying to meet warehouse numbers. Yet most companies currently lack the capabilities for a consistent “pull” supply chain. Even as the boom years ended, there was slightly more “push” production in 2008 than in 2003.

The differences among industries are striking. For example, as the automotive industry, which pioneered new production philosophies, now has millions of unsold vehicles sitting in storage; and the fast-moving consumer goods and retail industries, where push production dominates, is shifting to pull.

Seventy-five percent of study participants say their firms will respond with more pull-oriented supply chains to reduce stock build-ups and delivery times, and get more flexibility. With one caveat: Logistics experts say success depends on managing change

**FIGURE 3:** Common short-term supply chain strategies



Source: A.T. Kearney and European Logistics Association Excellence in Logistics Study, 2009

<sup>1</sup> Study participants and logistics experts were invited to discuss the findings at a Supply Chain Roundtable in Stuttgart, Germany.

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according to demand and customer structure so a phased shift to the pull model is essential.

## 5. Focus on Maximizing Liquidity, Minimizing Risk

During economic downturns, when cash is king, most study participants say they have taken steps to manage their inventories and cash positions. By reducing stock, German factories alone could release about \$60 billion in tied-up capital. Reducing inventories can be accomplished via a pull-oriented supply

chain and by improving invoicing and delivery to shorten the cash-to-cash cycle. Supply chain risk management can also control payment and credit risks. Yet just one-third of companies operate comprehensive, transparent risk management in their supply chains, while more than 60 percent of participants use risk management to evaluate their suppliers' performance.

### Where Do We Go from Here?

As sales have plunged in most industries during the downturn—with

almost three-quarters of study participants experiencing a 15 percent or more decline in sales—companies have been forced into action. Improving supply chain management is among several short-term strategies for confronting the crisis (*see figure 3 on the previous page*). When the crisis subsides, and it is time once again to pursue new opportunities, companies with the most flexible and balanced supply chains will be ready for success.

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