

Logistics Management

MARKET LEADER



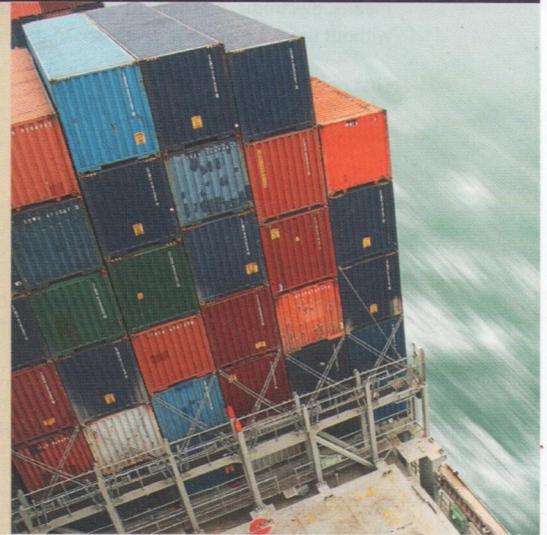
Business English

Adrian Pilbeam and Nina O'Driscoll



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This unit explains why an efficient supply chain is important for the success and profitability of a company.

BEFORE YOU READ

Discuss these questions.

- 1 How would you define a *supply chain*?
- 2 What makes a supply chain efficient?
- 3 What problems can be caused when a supply chain does not work efficiently?
- 4 How would you define *vertically integrated production*?
- 5 What do you understand by *tier-one suppliers*? And what are *tier-two*, *tier-three* or *tier-four suppliers*?

READING

A Understanding the main points

Read the article on the opposite page and answer these questions.

- 1 What kinds of company already have efficient supply chains?
- 2 Why is having an effective supply chain so important, especially in this period of globalisation?
- 3 What can be the result of supply-chain problems?
- 4 Which industry sectors have less-developed supply chains?
- 5 When does the supply chain become especially critical for manufacturers?
- 6 Why is supply-chain management so important to the aerospace industry?

B Understanding details

Read the article again and answer these questions.

- 1 Why is an efficient supply chain a prize worth working for?
- 2 Why is it difficult for consumer goods and retailing companies to make improvements to their supply chains?
- 3 Give two examples of what can result from mistakes in the supply chain of retailing companies.
- 4 Who does Hewlett-Packard's supply chain expert need to communicate with in its supply chain?
- 5 What do supply-chain managers increasingly need from their supply chains?

Control of the supply chain turns critical



by Stephen Pritchard

A An efficient supply chain is a prize worth working for. According to the consultancy firm Accenture, 'supply chain leadership' can increase a company's market value by between 7 and 26 per cent above the industry average. But for a business, even competing for that prize demands a significant investment in resources. In sectors such as consumer goods and retailing, established companies have already achieved the easiest supply-chain efficiencies. Making further improvements is much more difficult.

B Nonetheless, an efficient supply chain is a must for a widening range of businesses. Fashion, hi-tech and grocery retailers realised early on the

or indeed shelves of last season's mobile phones in the weeks before Christmas. But the supply chain is now moving up the agenda in slower-moving sectors, such as heavy manufacturing.

C Effective supply-chain management is the only way to make efficient use of global sourcing strategies, and especially the huge manufacturing capacity of China and south-east Asia. Although globalisation has reduced production costs in a wide range of sectors, the trend to source components or even finished goods from China and elsewhere has made the supply-chain manager's task far harder. 'Our internal systems handle more than 700 suppliers,' says Christian Verstraete, worldwide supply-chain expert at Hewlett-Packard. 'We have to be able

of what is happening in their supply chains and faster access to more accurate data. This means that if there is an unexpected event, such as storms affecting shipping or a production shortfall, companies can divert stocks or bring in alternative suppliers. 'Companies are not just asking suppliers why there is a problem with an order,' says Sanjiv Sidu, President of i2, a vendor of management software for supply chains. 'They are asking: "When did you first know, and why did you surprise me?"'

E In sectors such as retail, supply-chain problems lead to 'stock-outs' or empty shelves, which send customers elsewhere. In heavy or complex manufacturing, supply-chain problems can lead to cancelled orders running into billions of dollars, or severe penalties for late delivery.

F As manufacturers move away from vertically integrated production, where all steps of the production process are controlled in-house, the supply chain suddenly becomes critical. 'In aerospace and defence, we are 10 years behind the hi-tech or even automotive sectors, and how we improve the performance of our supply chain is quite a challenge,' explains Bill Black, Chief Quality Officer at aerospace manufacturer EADS. 'The cost of running our supply-chain logistics is minor, set against the \$100m cost of an aircraft. But the cost of failure is enormous.'

G 'About 80 per cent of the cost of an aircraft is accounted for by suppliers and partners,' says Black, making EADS 'a co-ordinator of complex products'. 'I need to know if an event can affect our master schedule, and that means that I need to know what is happening, not just with my tier-one suppliers, but with tier-three, -four or -five suppliers as well.'

VOCABULARY

A Word search

Find words or phrases in the article which fit these meanings.

- 1 companies which sell products to the public (paragraph B) *retailers*
- 2 goods or products which are stored and waiting to be sold (paragraph B) *stock*
- 3 another name for a shop (paragraph B) *store*
- 4 a place to store goods (paragraph B) *warehouse*
- 5 to buy or get materials, components, etc. (paragraph C) *to source*
- 6 when not enough goods are produced by a manufacturer (paragraph D) *shortfall*
- 7 send to a different destination (paragraph D) *divert*
- 8 a company that sells to another company (paragraph D) *vendor*
- 9 when shops have empty shelves (paragraph E) *stock-outs*
- 10 financial punishments (paragraph E) *penalties*
- 11 direct suppliers to a customer (paragraph G) *tire-one suppliers*
- 12 suppliers to the suppliers of a company's direct suppliers, suppliers to those suppliers, etc. (paragraph G)
two-one-11-, three-one-11-

B Words often confused

- 1 Look at the use of *efficient* and *effective* in this sentence and choose the best definition (a or b) for each word.

Effective supply-chain management is the only way to make **efficient** use of global sourcing strategies.

- a) when something works well, especially in terms of time and costs *efficient*
 - b) when something works well and produces a good result *effective*
- 2 Complete these sentences with either *efficient* or *effective*.
 - 1 To remain competitive, companies need to have highly *efficient* supply chains.
 - 2 Companies that manage their core processes in a more cost-..... *effective* way than their competitors will gain the advantage in the marketplace.
 - 3 Suppliers and customers need to have *effective* communication systems in order to share information about production needs.
 - 4 A well-run supply chain can make a company more, leading to significantly reduced production costs. *efficient*

C Word partnerships

Match these words to make noun-noun partnerships from the article.

D Verbs and prepositions

Complete these sentences using the prepositions in the box.

against away for for for for from in into to up

- 1 An efficient supply chain is a prize worth working *for*.
- 2 It needs a lot of resources to compete *for* the prize of an efficient supply chain.
- 3 The importance of the supply chain is moving *up* the agenda.
- 4 Supply-chain managers are looking *for* faster access to information.
- 5 In cases of production shortfalls, companies may need to bring *in* alternative suppliers.
- 6 In the retail sector, supply-chain problems can lead *to* empty shelves.
- 7 The cost of cancelled orders can run *into* billions of dollars.
- 8 Manufacturers are moving *away from* vertically integrated production.
- 9 The costs of running supply chains in the aerospace industry are small when set *against* the cost of building an aircraft.
- 10 About 80 per cent of the cost of an aircraft is accounted *for* by suppliers and partners.

E Vocabulary development

Match these words and phrases (a–j) with the verbs + prepositions in Exercise D that they can replace (1–10).

- a) result in *6*
- b) taken up *10*
- c) trying hard to get *1*
- d) use / work with *5*
- e) leaving / changing from *8*
- f) try to win *2*
- g) compared with *9*
- h) want *4*
- i) amount to *7*
- j) becoming more important on *3*

OVER TO YOU

- 1 Based on the information in the article and your own experience, explain why an efficient supply chain is essential for all kinds of businesses. Give examples.
- 2 Why is effective supply-chain management so important for European companies

This unit describes how Procter & Gamble is using its supply chain not only to improve profits but also to increase sales growth.

BEFORE YOU READ

Discuss these questions.

- 1 In what ways do you think a company producing consumer products can use its supply chain to increase sales growth?
- 2 What are the benefits to retailers if their suppliers have efficient supply chains?
- 3 How can deliveries to the distribution centre of a retailer be made more efficient?

READING**A Understanding the main points**

Read the article on the opposite page and choose the statement that expresses the ideas in the article most accurately.

- 1 Suppliers need to reduce their supply-chain costs because of increased transport costs.
- 2 By reducing supply-chain costs, Procter & Gamble (P&G) is achieving higher profits.
- 3 P&G is using its supply chain to increase sales growth.

B Understanding details

Read the article again and answer these questions.

- 1 What is Keith Harrison's job, and when did he start it?
- 2 How big is P&G's supply chain?
- 3 What pressure are retailers and suppliers under?
- 4 What is one thing that P&G is trying to do with its supply chain?
- 5 What else is P&G trying to do with its supply chain?
- 6 How does supply-chain management usually operate in a company?
- 7 How can a supplier's effective supply chain help retailers?
- 8 What does P&G want from its customers if it improves its supply-chain performance and reduces their out-of-stocks and inventory levels?

Adding value with the supply chain

by Jonathan Birchall

A As the manager in charge of the world's largest supply chain, Keith Harrison believes the time has come to give the business of logistics more credit. The Head of Global Product Supply at Procter & Gamble believes the search for a competitive edge will focus more on supply-chain efficiency as retailers and suppliers battle huge increases in raw material and energy costs. 'Today you have road congestion, you have freight costs, driver shortages, capacity issues. Working capital is at a premium. Competition among retailers and vendors is higher. All of this is putting pressure on having a more efficient supply chain. This is more critical than it has been before.'

B Since his appointment in 2001, Mr Harrison has been at the forefront of efforts to drive costs from P&G's supply chain, helping the company meet its long-term sales and earnings growth targets, in spite of surging input costs. But he says P&G has also been looking increasingly over the past three years at ways to turn improvements in the supply chain into top-line sales growth. 'We're trying to make the supply chain into a growth engine for the company,' he says. 'A lot of the time, supply-chain management is reactive, or passive, cost control. But we think there's also an opportunity for us also to use the supply chain to create top-line growth as well as bottom-line performance.'

C An effective supply chain helps manufacturers by reducing a retailer's 'out-of-stocks', which in turn prevents lost sales. Those sales also benefit the retailer, while efficient delivery of products to meet demand can also reduce the costs of holding inventory to the retailer.



D customer's inventories, I want more than just the "supplier of the year" award,' he says. 'How do we get that value that we've created at least partially reinvested in growing our business? Do we get sharper pricing, better features, more display, better shelving?'

E As an example of the potential benefits, Mr Harrison gives the example of a pilot project with Wal-Mart in the US, whose worldwide stores account for 15 per cent of P&G's overall sales. The two established a cooperative relationship in the late 1980s, starting with Wal-Mart's decision to allow P&G and other suppliers access to the customer sales data collected by its Retail Link computer system.

F deliveries on a store-by-store basis for a single test product. Rather than shipping the required volume to a distribution centre, where it is then divided up for each store, the shipments are instead prepared at the factory for the right store. When the goods arrive at the Wal-Mart distribution centre, they are moved directly from P&G's truck to the appropriate Wal-Mart truck, with no time in storage. 'It is assembled for a store, and it is just flowing through the system,' says Mr Harrison.

G Kevin O'Marah, a logistics consultant at AMR Research, believes P&G is the first consumer goods company to use the Retail Link data in this way.