Supply Chain Benchmarking Survey
Private Sector Competitiveness

Georgia Economic Prosperity Initiative (EPI)

July 16, 2014

Contents

Introduction

Outcomes of this initiative contribute to improving overall Georgian economic competitiveness

The purpose of this task was to assist the Georgian Logistics Association (GLA) in benchmarking private sector supply chain management capabilities in Georgia.

Key Objectives

- Establish a repeatable survey process that can be administered on an annual basis
- Determine baseline performance for supply chain processes, skills and performance metrics
- Target industries that significantly contribute to economic growth
- Present apples-to-apples comparisons across all supply chain process areas
- Provide relevant industry-specific peer comparisons
- Introduce leading practices and standards employed by U.S. and EU markets to enhance the competitiveness of firms

Scope

A phased approach was employed to implement a repeatable survey process for the GLA

	Process & Skills	Performance
Objectives	• Benchmark supply chain practices to identify bottlenecks, gaps and limitations	• Benchmark supply chain performance where metrics are available
Activities	• Identify industries and participants • Develop and administer survey • Analyze maturity	• Assess availability of performance metrics • Collect and validate data • Analyze performance
Deliverables	• Analysis of industry practices, capabilities and determinants of strong/poor performance	• Performance gap analysis • Industry benchmarks

Survey questions cover the standard set of SCC SCOR[1] processes to enable comparisons among participants

	Plan	Source	Make	Deliver	Return
Process Areas	• Develop inventory strategy • Perform demand planning • Perform integrated business planning (S&OP) • Perform production planning • Perform inventory planning • Perform material requirements planning • Perform distribution requirements planning	• Develop procurement strategy • Enable business initiatives • Perform strategic sourcing • Perform operational procurement • Manage and develop suppliers • Manage contracts • Manage commodities	• Develop manufacturing strategy • Schedule production and manage material availability • Manage production • Manage product quality • Manage maintenance • Manage sanitation • Manage engineering	• Develop fulfillment and logistics strategy • Process orders • Manage warehousing • Manage transportation • Process returns and recalls	• Authorization • Receive • Process • Distribute

Survey covers up to 30 processes across 5 categories that are based on the SCOR model

1. Supply Chain Council Supply Chain Operations Reference Model

Key performance metrics were selected and aligned to SCOR processes to establish industry baselines

	Plan	Source	Make	Deliver	Return
Metrics	• Forecast accuracy as a percent of units • Active SKU count (nearest hundred) • Percent of revenue from Make to Stock products	• Sourcing Cycle Time • Contract Cycle Time • PO Cycle Time • Percentage of direct material spend with domestic suppliers • Percentage of direct material spend that is under contract • Supplier on-time direct material • Percentage of acceptable products received from suppliers • Percentage of spend allocated to top 20% of vendors	• Manufacturing capacity utilization percentage • Schedule adherence • Defects per unit	• Receive, Configure, Enter and Validate an Order Cycle Time • Pick to Ship Cycle Time • Ship Cycle Time • Percentage of transportation outsourced • Transportation cost as a percentage of revenue • Fleet Utilization • Order fill rate • Percentage of Orders Delivered in Full • Delivery Performance to Commit Date • Documentation Accuracy • Perfect Condition	• Customer returned product as a percentage of total revenue • Returns Cycle Time

Key sectors were identified based on market size and relevance of supply chain operations

Life Sciences

Pharmaceutical manufacturers and distributors

Food & Beverage

Food and beverage manufacturers and distributors

Retail & Distribution

Electronic product distributors

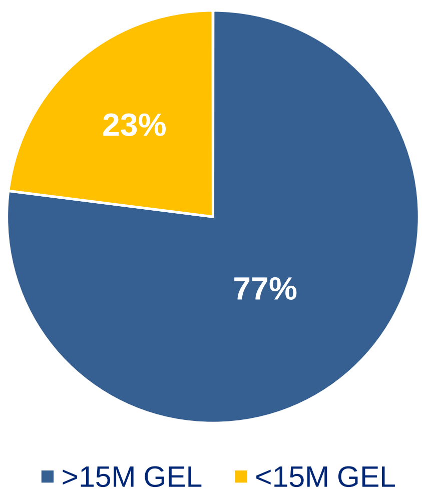
Supermarkets and hypermarkets

Personal care product distributors

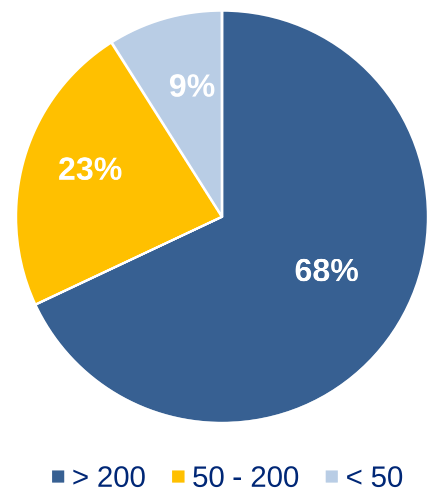
50 Companies were identified based on sector alignment and peer groupings

45% of identified companies participated in the qualitative process maturity survey

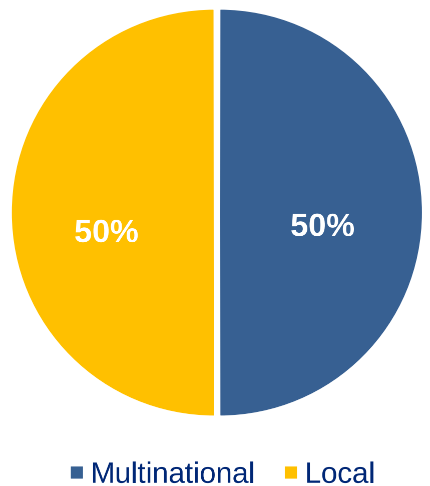
Companies by Annual Revenue



Companies by Organization Size



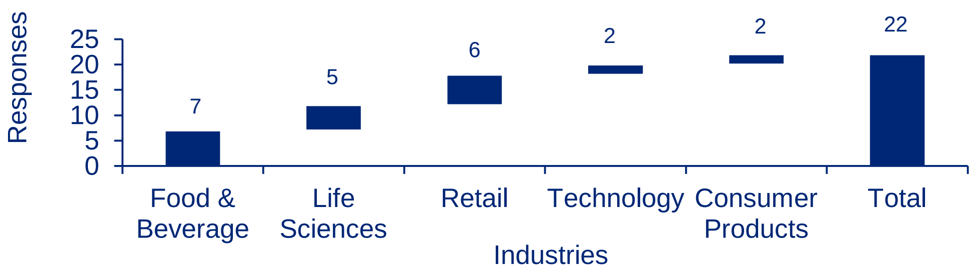
Companies by Firm Type



Overall Response Rate

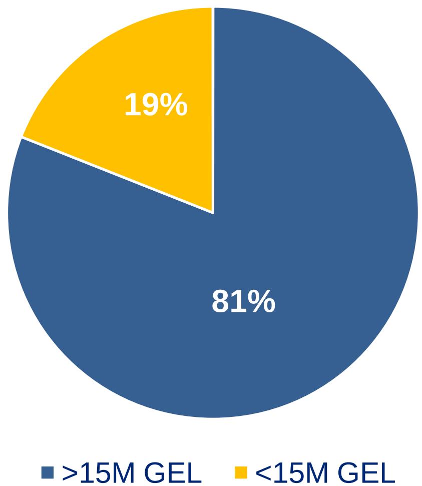
45%

Response By Industry

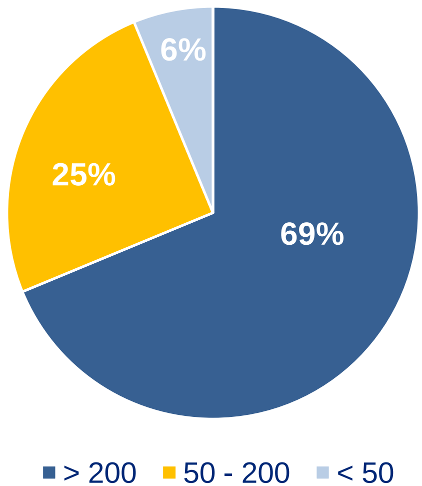


32% of identified companies participated in the quantitative performance metric survey

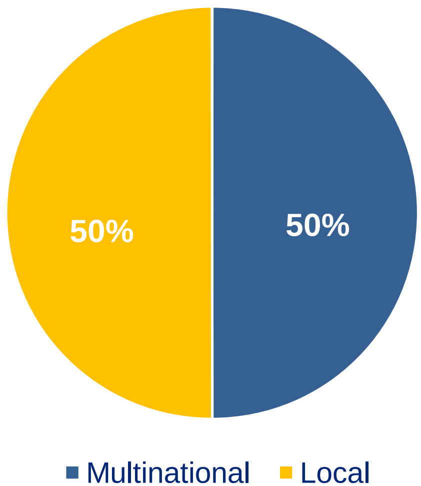
Companies by
Annual Revenue



Companies by
Organization Size



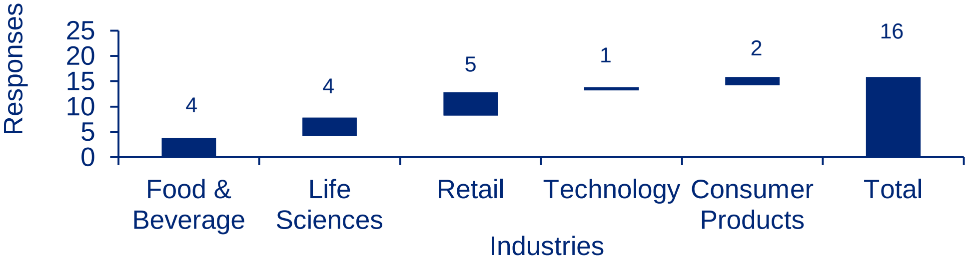
Companies by
Firm Type



Overall Response Rate

32%

Response By Industry



Findings

Survey findings reveal opportunities to improve private sector competitiveness through industry practices

Key Opportunities

- Defined career paths for supply chain staff and rotational programs can increase employee commitment and cross-functional collaboration
- Increased automation of payment collection and supply chain processes can reduce errors and increase efficiency
- Consistent application of enterprise forecasting practices will support improvements in order fill rate in line with international benchmarks
- Implementation of basic supplier monitoring and management practices can improve performance and relationships
- Improved inventory management practices can increase cash-on-hand for investment in growth

The World Economic Forum identified 12 Pillars of Competitiveness that are determinants of economic growth

12 Pillars of Competitiveness

- Institutions
- Infrastructure
- Macro-Economic Environment
- Health & Primary Education
- Higher Education and Training
- Goods Market Efficiency
- Labor Market Efficiency
- Financial Market Development
- Technological Readiness
- Market Size
- Business Sophistication
- Innovation

Three pillars are particularly relevant to our survey and heavily influence firm-level competitiveness in supply chain operations

Source: World Economic Forum , The Global Competitiveness Report 2013-2014

Within these pillars we identified six supply chain drivers of competitiveness at the firm-level that align to our survey findings

Pillars of Competitiveness

- Higher Education & Training
- Technological Readiness
- Business Sophistication

Supply Chain Drivers

Workforce Development increases resource skills and productivity

Technology Use automates processes and improves efficiency

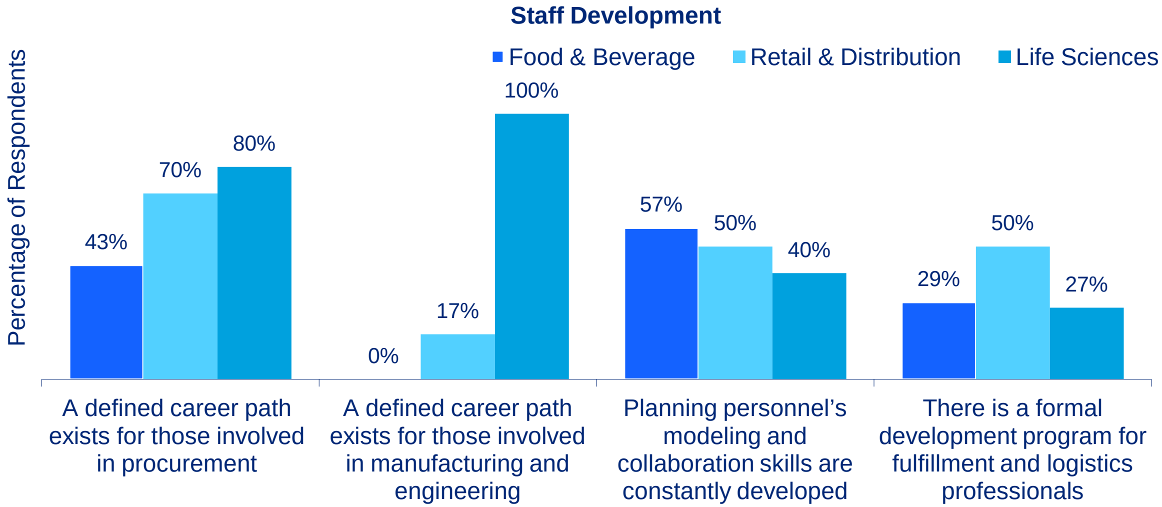
Customer Demand Insight improves service levels

Supplier Relationships create a competitive advantage

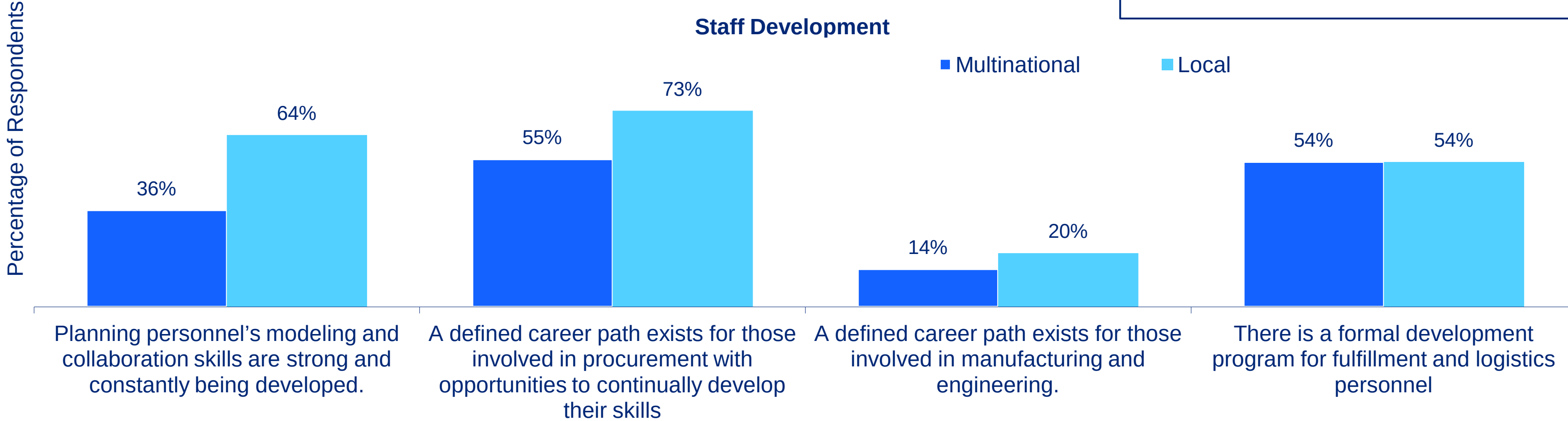
Access to Working Capital facilitates investment and growth

Improved Practices increase productivity gains

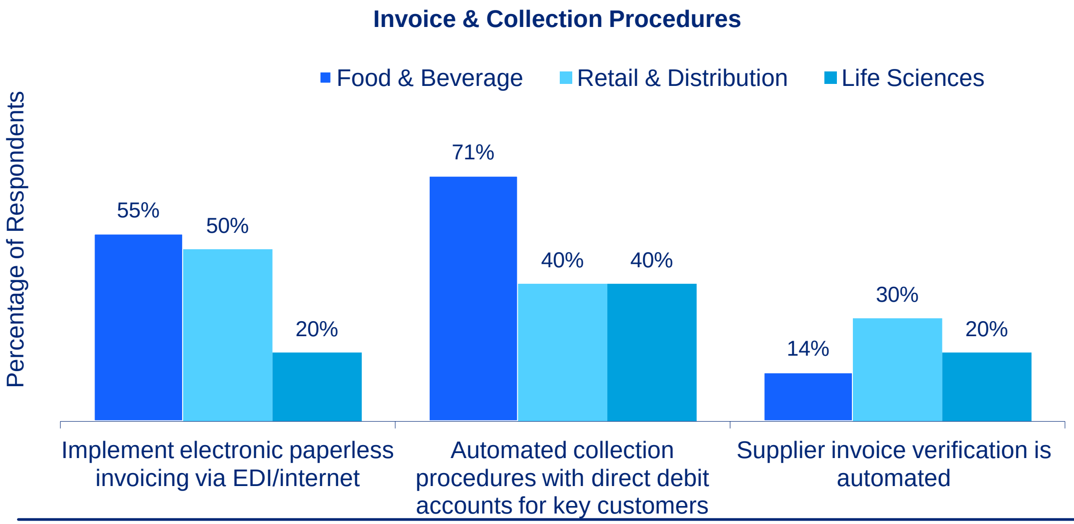
Across industries, opportunities exist to increase employee loyalty and productivity through training and career development



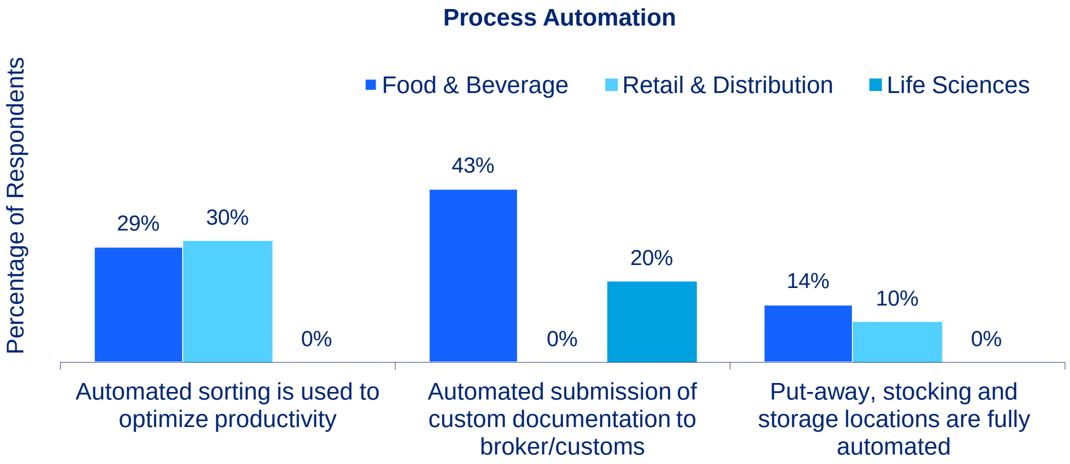
- Life Sciences was an industry leader in providing staff with a defined career path, which leads to greater employee commitment
- 64% and 73% of local firms invested in skill building and career development for planning and procurement staff, respectively, which enables them to adapt to new technologies and market needs



Increased use of technology to automate processes can accelerate efficiency and performance gains

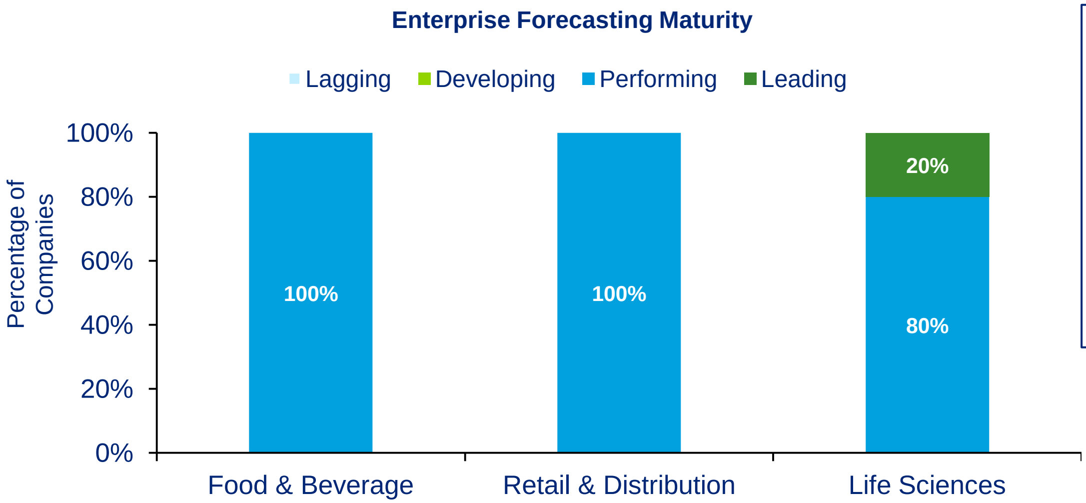


- Less than 50% of firms in Retail and Life Sciences leverage automated invoicing and collection to increase probability of payment receipt and accelerate collection process
- The majority of firms rely on manual verification and settlement of invoices which can lead to inconsistencies and error-prone results

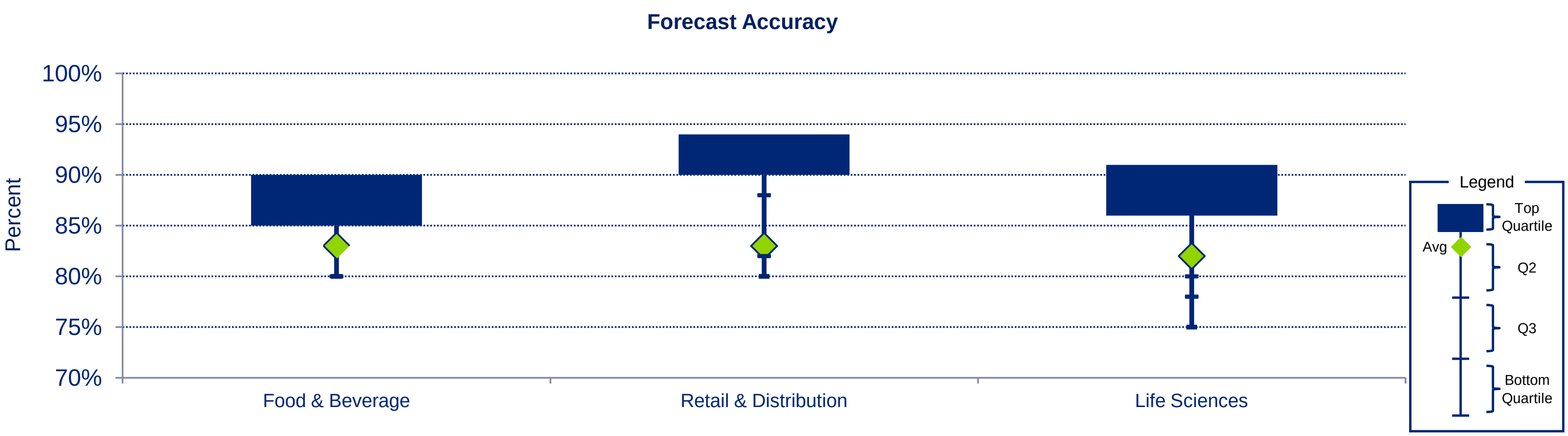


- Less than 30% of firms across all industries are using automation of customs documents to reduce manual intervention and the subsequent errors and discrepancies that can arise
- Majority of firms rely on potentially inefficient and sub-optimized manual warehouse processes

All firms indicated use of mature processes to forecast customer demand and a majority measure forecast accuracy



- 100% of all firms indicated they were implementing mature enterprise forecasting processes
- 80% of participating firms are measuring forecast accuracy, which averaged 85% across all industries



On average, the ability to meet customer needs across industries leaves room for improvement

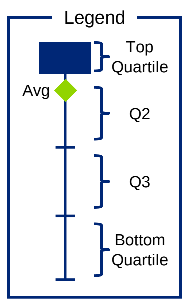
Customer Service

- The top quartile of performers across industries are performing at international benchmark standards
- Retail & Distribution has the biggest spread for fill rate performance, with the lowest quartile achieving less than 80%
- Retail & Distribution and Life Sciences have opportunities for improvement in meeting customer requirements

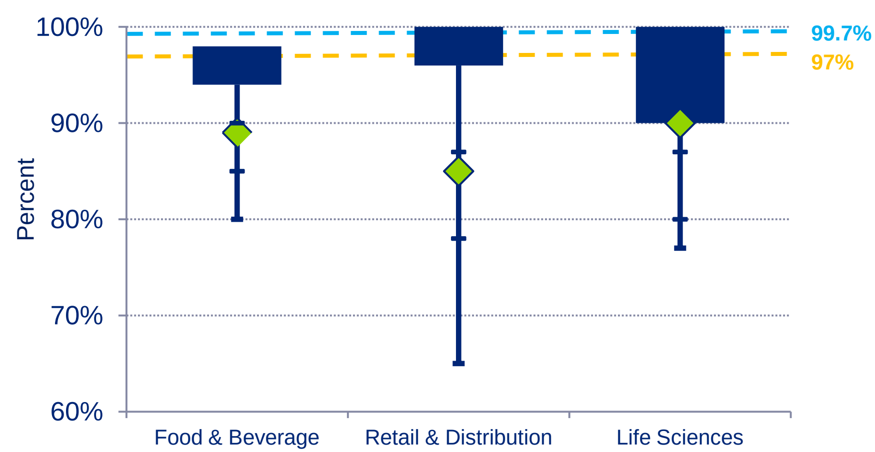
Benchmark – Top 20%

Benchmark - Median

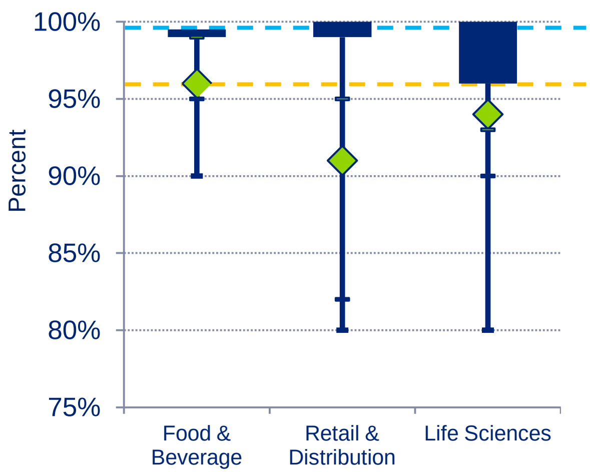
Source: Warehousing Education and Research Center Measures Study, 2014



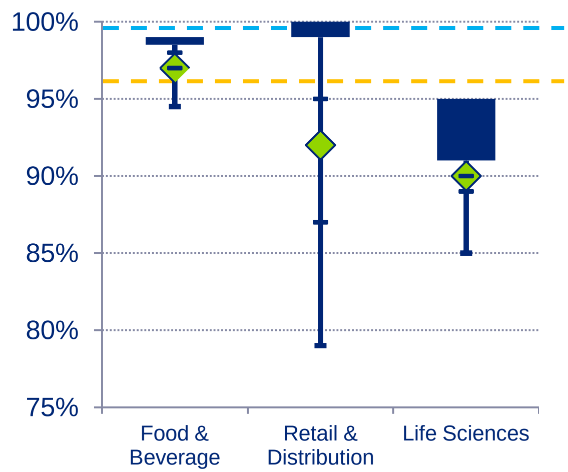
Fill Rate



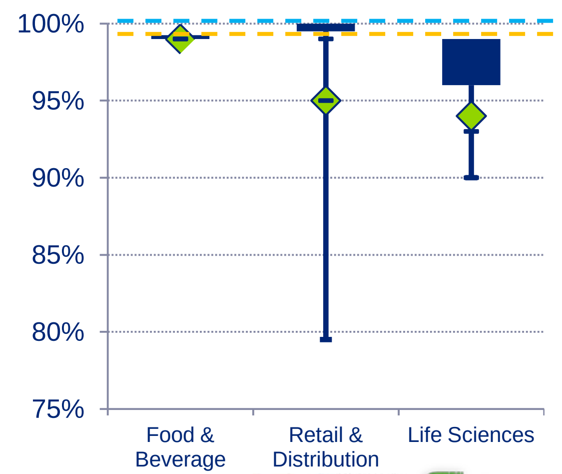
Delivered in full



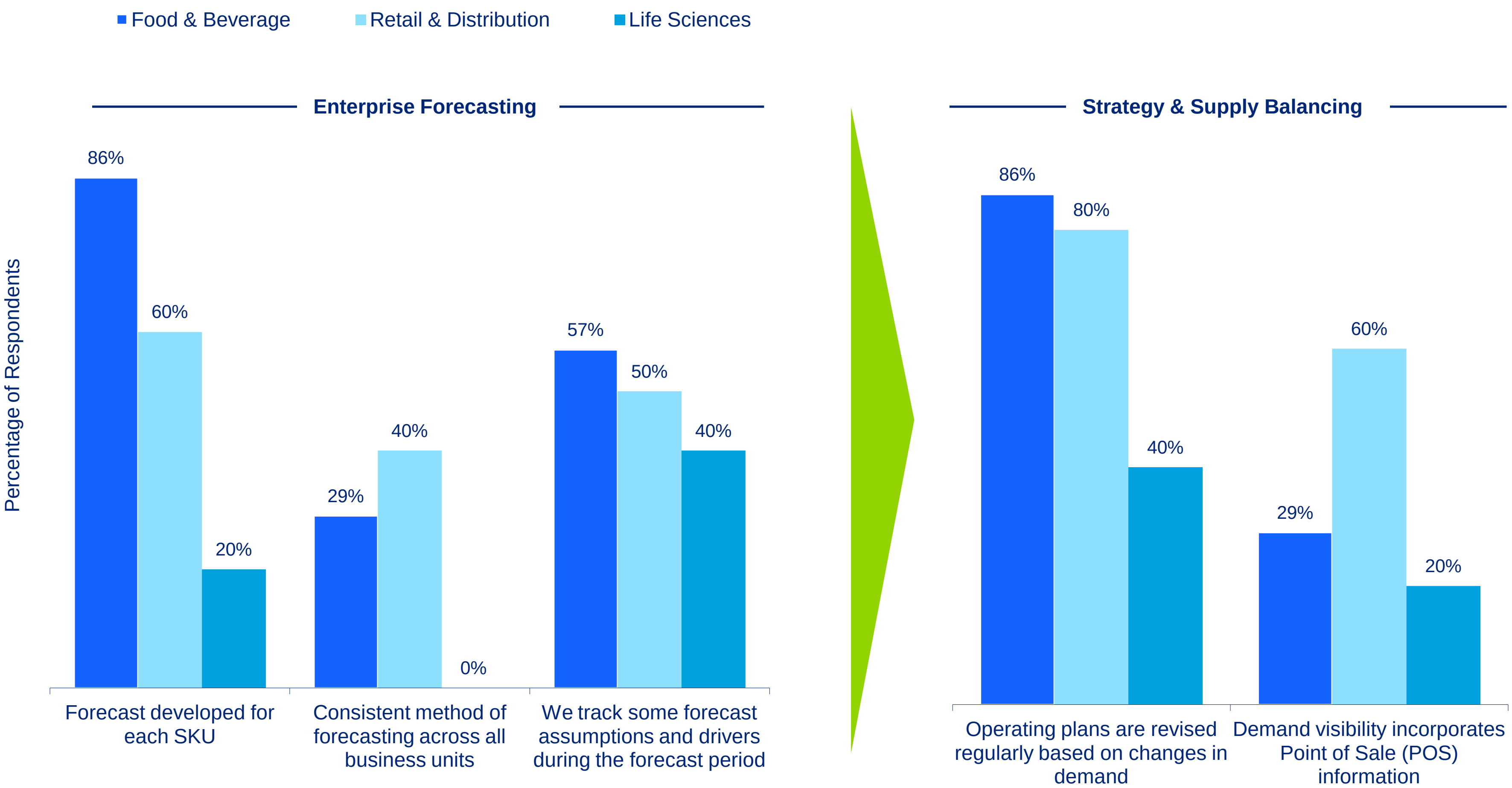
On-time delivery



Documentation accuracy



Opportunities exist for firms to improve practices in enterprise forecasting and use of demand data to inform planning

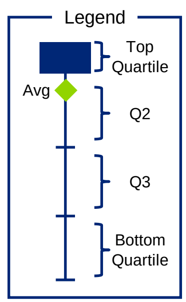


The consolidation of procurement with a rationalized set of suppliers and use of pre-existing contracts strengthens supplier performance

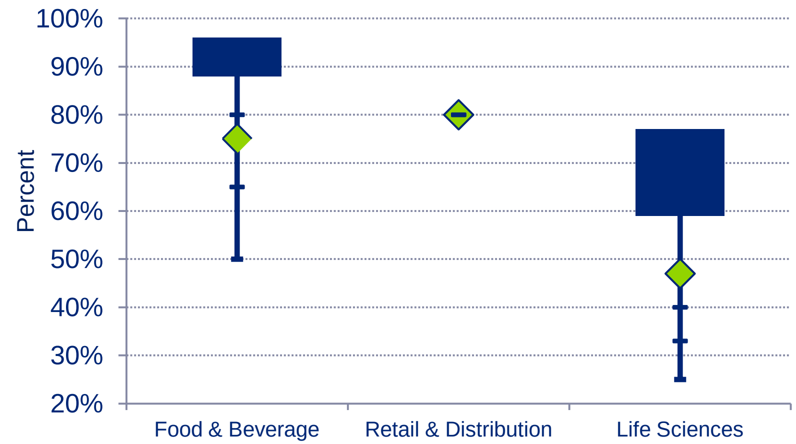
Sourcing

- Life Sciences averaged 47% of their spend with the top 20% of vendors, highlighting a potential opportunity to rationalize their supplier base and increase spend with key suppliers to improve pricing
- Retail and Life Sciences averaged less than 60% of their spend under existing contracts
- Food & Beverage and Retail realized better than average supplier on-time delivery performance relative to Life Sciences

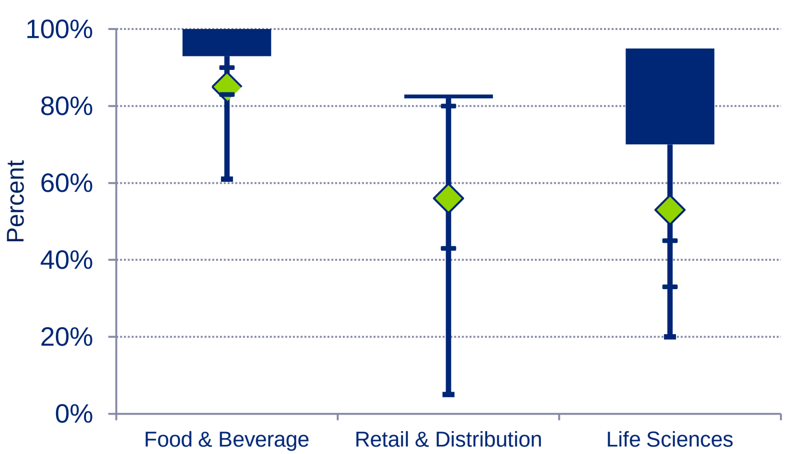
Benchmark – Top 20%
Benchmark - Median



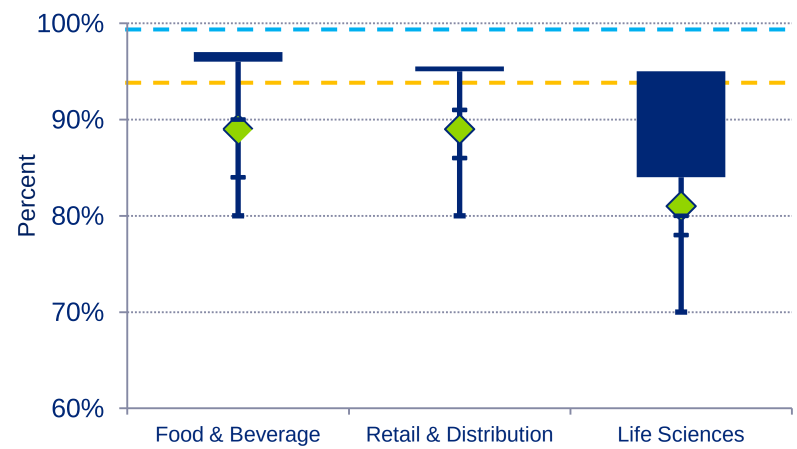
Percentage of spend allocated to top 20% of Vendors



Percentage of direct material spend under pre-existing contracts

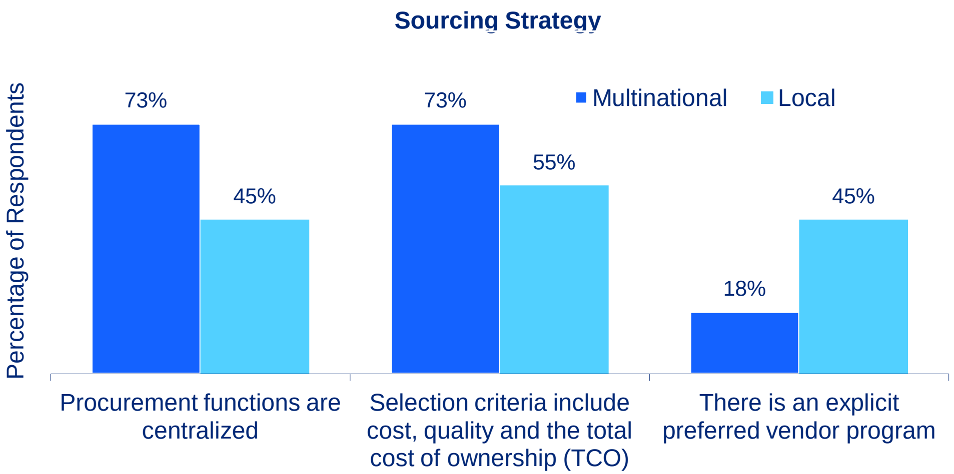


Supplier on-time performance

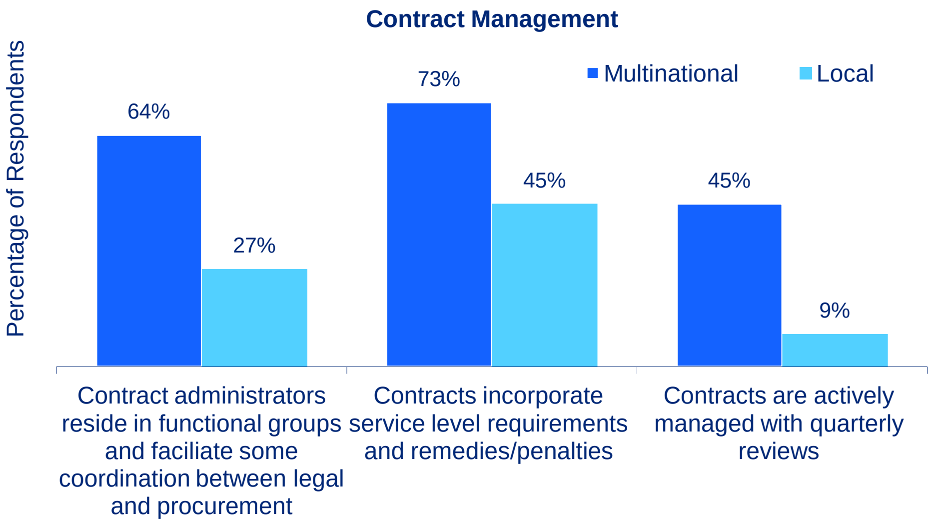


Source: WERC Measures Study, 2014

Sourcing strategies and contract management processes can improve supplier responsiveness and price

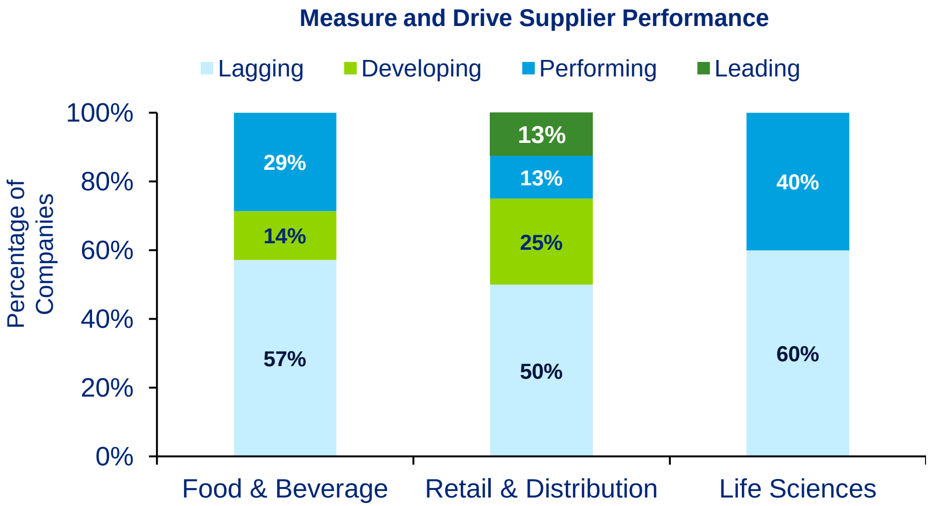


- A centralized procurement function facilitates greater coordination with business units and visibility into emerging needs
- Greater emphasis on TCO by multinationals indicates more mature sourcing perspective than just reliance on lowest price
- Local firms were more likely to deploy a preferred vendor network, which contributes to more advanced forms of collaboration in product development, supply chain efficiencies, and higher service levels

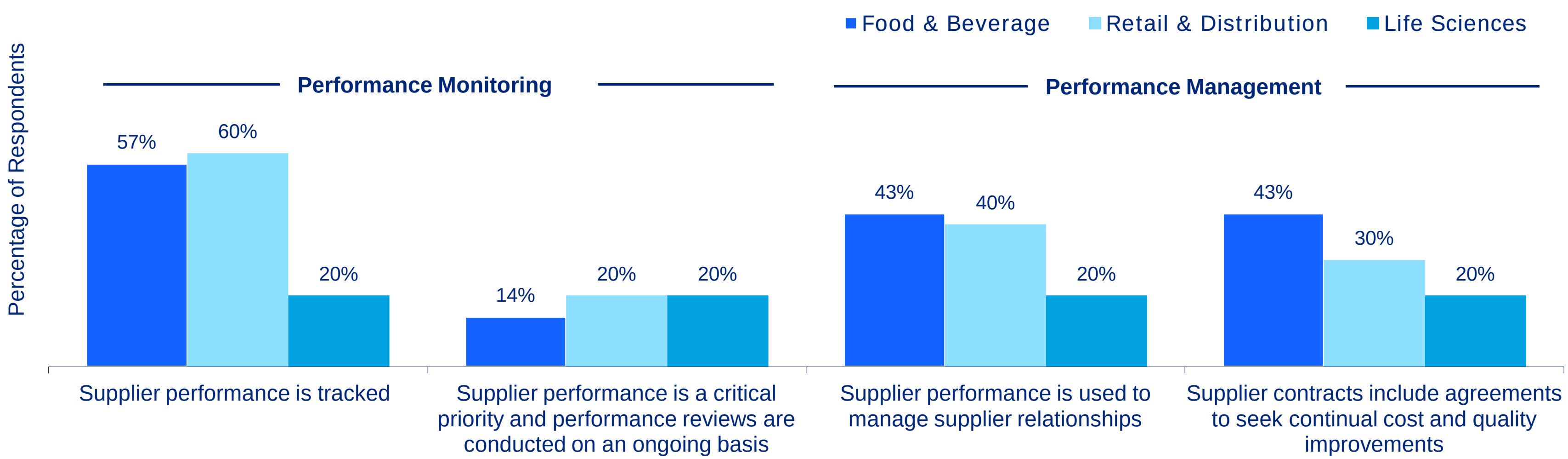


- The deployment of contract administrators into functional units optimizes contact decision making
- The use of Service Level Agreements and remedies/penalties help to set supplier expectations and can prevent implementation issues
- Active management of contracts ensure accountability of the supplier

The majority of firms can realize immediate gains in supplier performance through enhanced monitoring and management



- At least 50% of all firms exhibited supplier performance management capabilities consistent with lagging organizations
- Despite tracking supplier performance, only 20% of firms across industries indicated that supplier performance was a priority
- Less than 45% of firms actually use supplier performance data to inform engagement

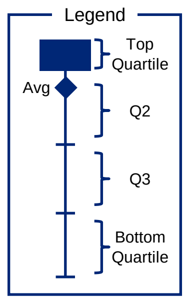


Local firms have an opportunity to increase the availability of cash for investments in growth

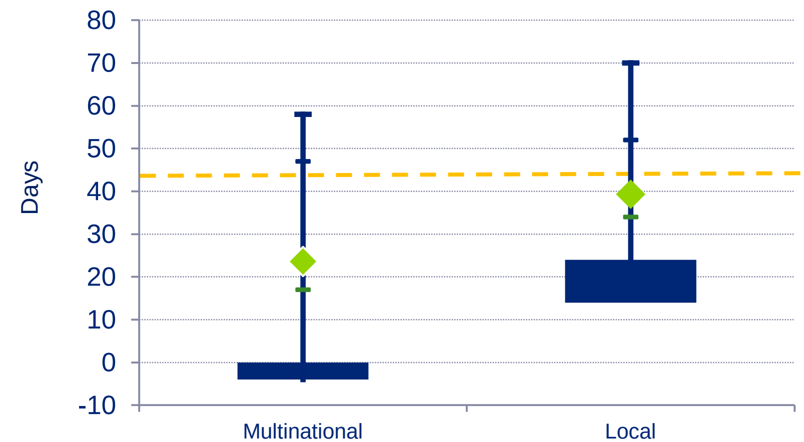
Cash Management

- 50% of multinational firms had a cash-conversion cycle of less than 18 days
- 50% of multinationals had fewer days sales outstanding that all participating local firms
- Local firms have delayed vendor payments longer than multinationals, though impact on vendor relationships is unclear
- Local firms averaged 52 days of inventory on hand versus 38 days for multinationals

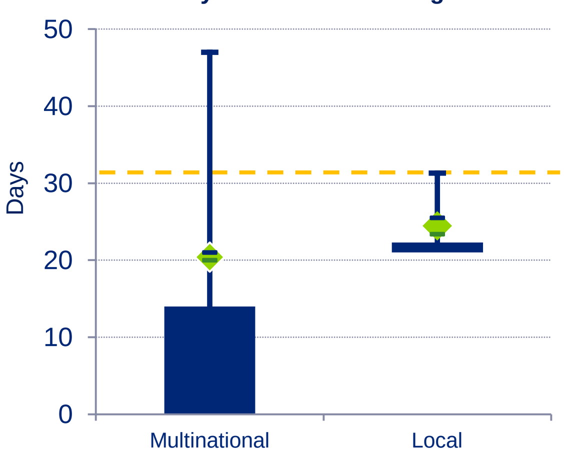
Benchmark - Median



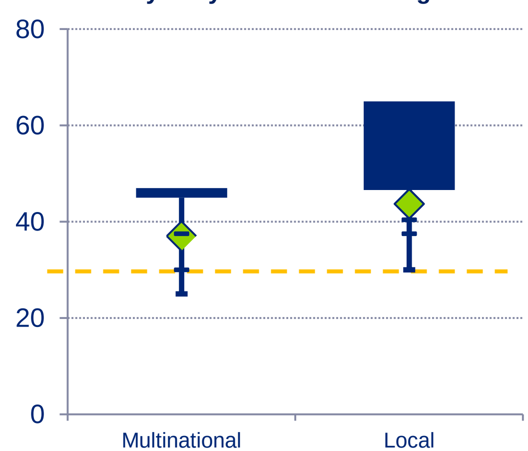
Cash-to-Cash Cycle Time



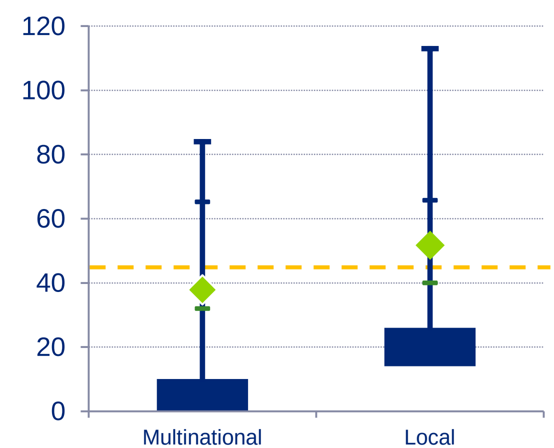
Days Sales Outstanding



Days Payables Outstanding

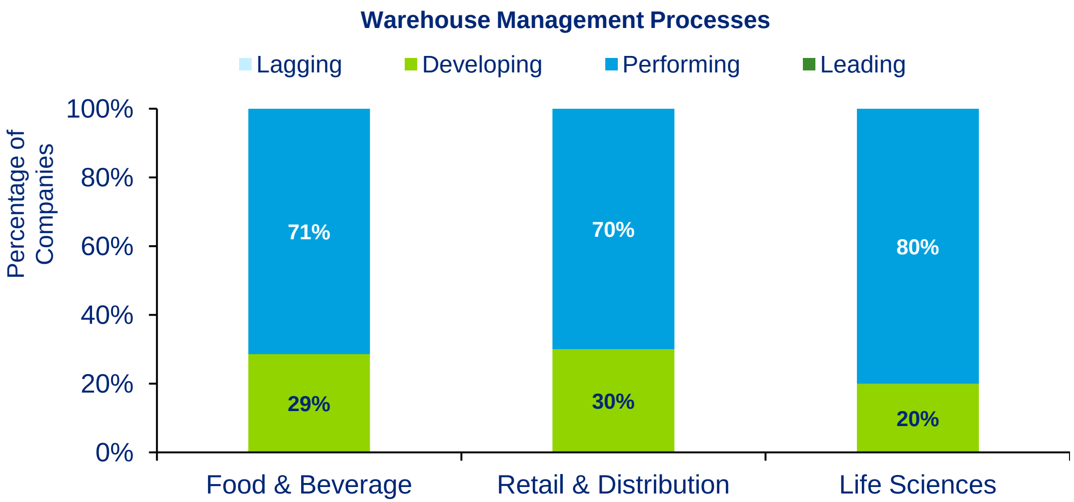


Inventory Days of Supply

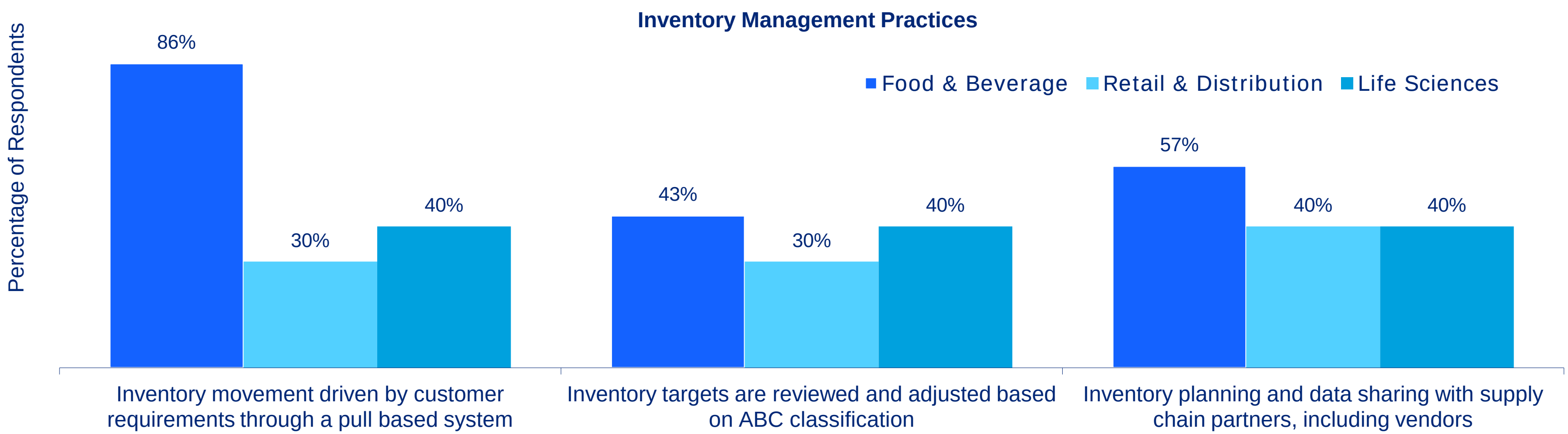


Source: WERC Measures Study, 2014

While the majority of firms demonstrated mature warehouse practices, there is an opportunity to improve inventory productivity



- Over 70% of all firms were implementing warehouse management practices consistent with a Performing organization
- Less than 40% of Retail and Life Sciences firms were implementing key leading practices in inventory management - may contribute to less efficient operations and higher costs

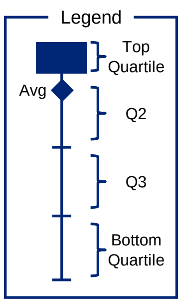


Implementing leading transportation management practices to optimize resources and capabilities can drive down costs

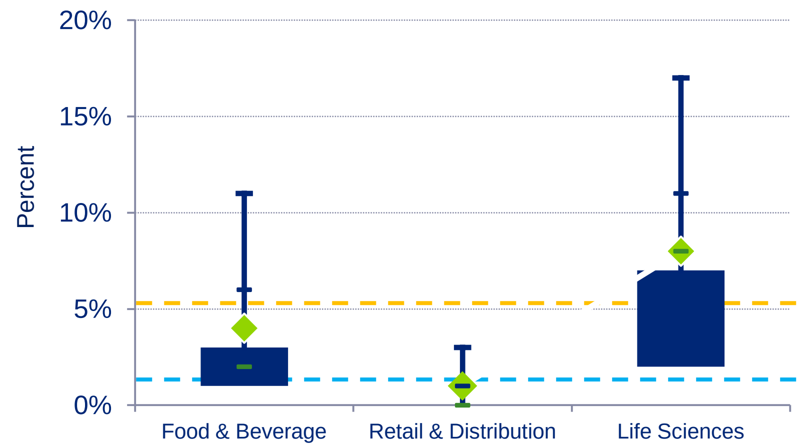
Transportation

- Outbound transportation costs represent, on average, 8% of total revenue for life sciences firms compared to a typical range of 3-5%
- More than 50% of outbound transportation is outsourced by Food & Beverage and Retail firms, compared to 25% for Life Sciences
- All firms that manage their own transportation fleet averaged 80% fleet utilization, with a range from 40% - 94%

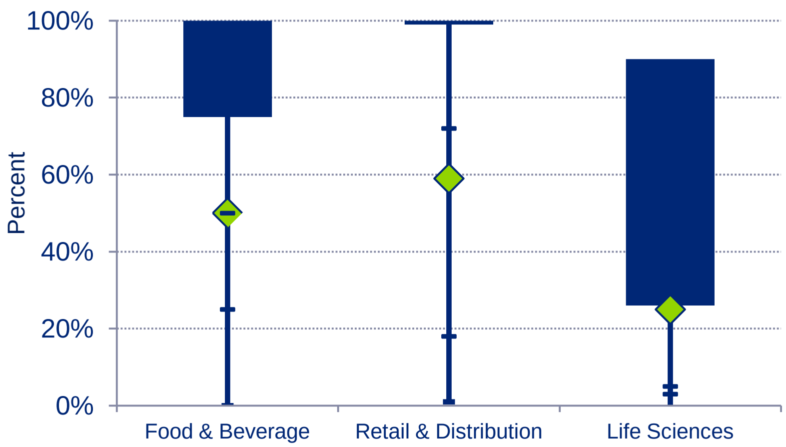
Benchmark – Top 20%
Benchmark - Median



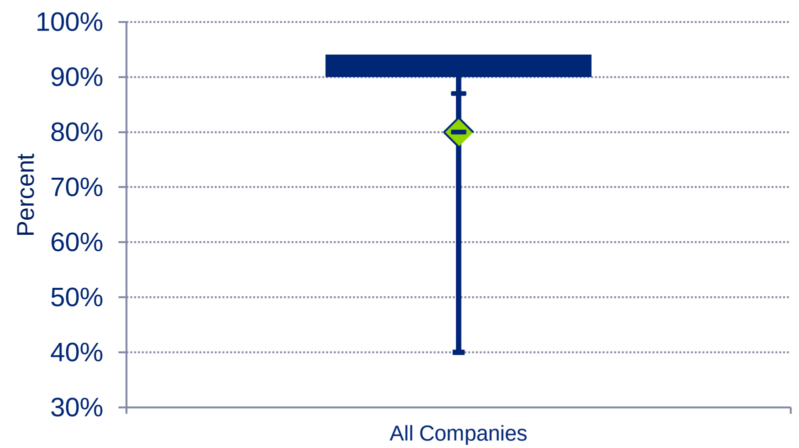
Outbound transportation cost as a percentage of revenue



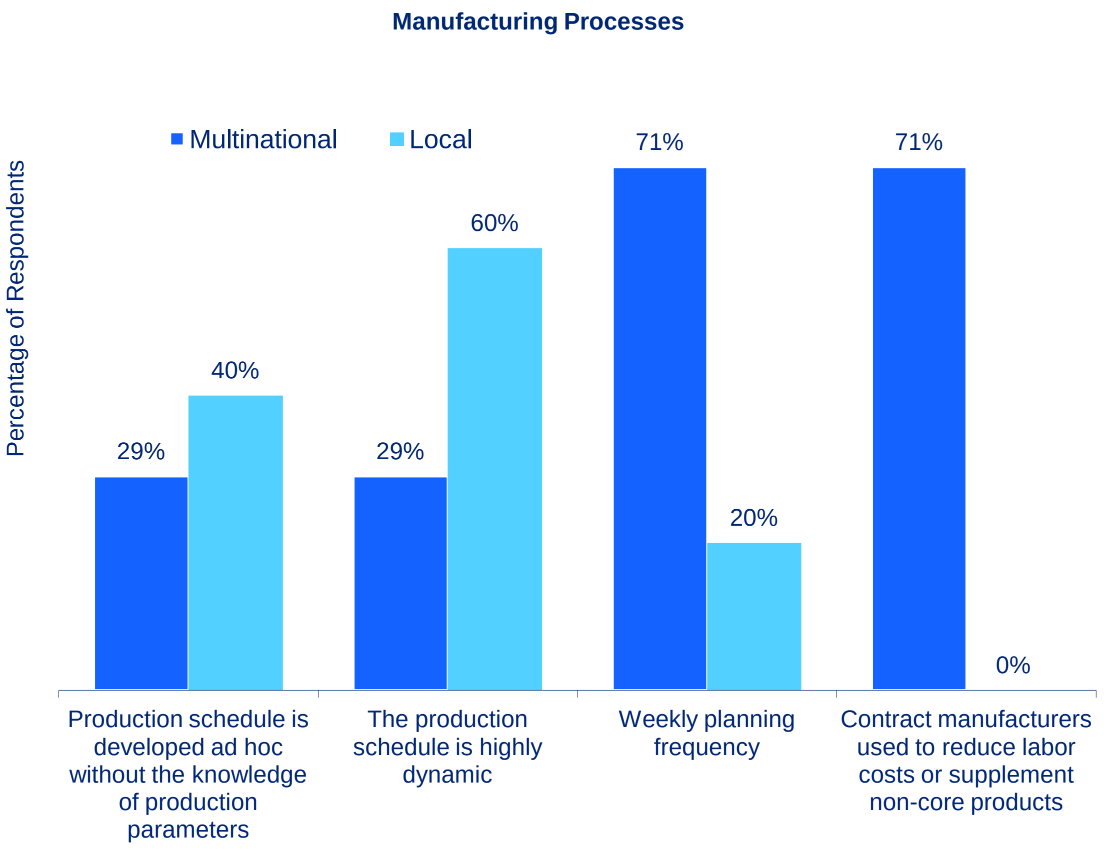
Percentage of outbound transportation outsourced



Outbound fleet utilization

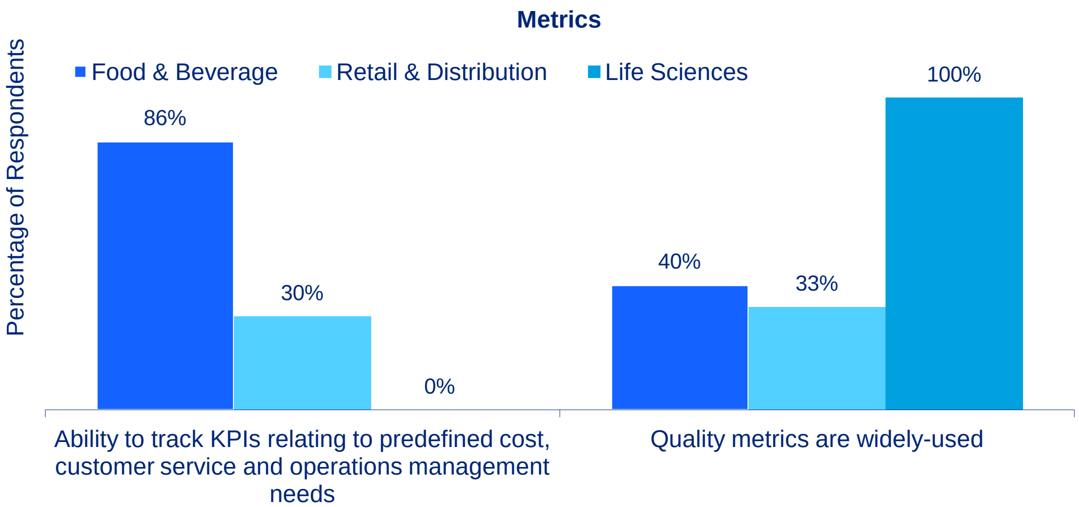


Structured, frequent production planning leads to more stable schedules and enables efficient use of contract manufacturers

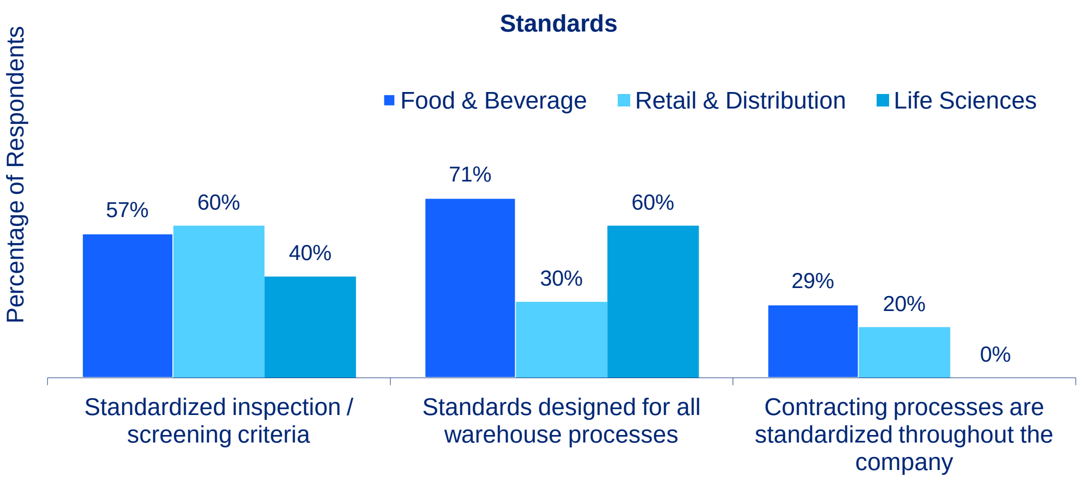


- The ad hoc nature of production planning and highly dynamic schedule for local firms can contribute to inefficient use of resources and a lack of visibility for workers
- 71% of multinational firms implemented weekly planning enabling them to better adapt to changes in the market and meet customer demand
- 71% of multinationals used contract contract manufacturers a practice consistent with meeting growing demand at the lowest total cost within quality and service expectations

Improving use of standards and performance metrics in a consistent manner can promote growth and sustainability



- Less than 30% of firms in Retail & Distribution and Life Sciences were able to track holistic performance metrics
- Life Sciences is the only industry to implement quality metrics across a majority of firms
- There is a significant opportunity to use performance data to manage suppliers



- Limited use of standardized processes undermines the consistent application of leading practices across the organization

Questions

If you have any questions regarding the survey, would like to participate in the next annual survey, or would like further information, please contact us:

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