

# The GMA 2008 Logistics Survey

## Improving efficiency in the face of mounting logistics costs





### **Grocery Manufacturers Association**

The Grocery Manufacturers Association (GMA) represents the world's leading food, beverage and consumer products companies. The association promotes sound public policy, champions initiatives that increase productivity and growth and helps to protect the safety and security of the food supply through scientific excellence. The GMA Board of Directors is comprised of chief executive officers from the association's member companies. The US\$2.1 trillion food, beverage and consumer packaged goods industry employs 14 million workers, and contributes over US\$1 trillion in added value to the nation's economy. For more information, visit the GMA Web site at [www.gmaonline.com](http://www.gmaonline.com).



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## FORWARD

The Grocery Manufacturers Association (GMA) and IBM are pleased to bring you the 2008 Logistics Benchmarking Survey Report.

The industry's challenges in 2007 and 2008 have prompted us to issue our most wide-ranging and comprehensive report to date. Inside you'll find the key practices, trends, and operational benchmarks in key areas of grocery manufacturers' supply chain operations. As we have done in previous years, we have included analyses of more than 50 questions answered by supply chain leaders in 45 top-tier grocery brands. We also include a review of specific reasons and trends that affect those responses.

The report focuses on issues including operational planning, inventory management, outsourcing strategies, distribution, information technology and strategic supply chain practices. You will find that supply chain initiatives are working and supply chains have become more efficient since our last survey report in 2005. You will also find that there is not a one size fits all solution. Supply chain leaders are trying new practices across the board with each logistics operation having its own set of opportunities and challenges.

The 2008 Logistics Benchmarking Survey was conducted by the GMA Logistics Committee.

There is certainly much happening in successful supply chain practices in the CPG industry, and as you read through the report, we hope you will find it informative and insightful. GMA and IBM look forward to discussing these findings, issues and analyses.

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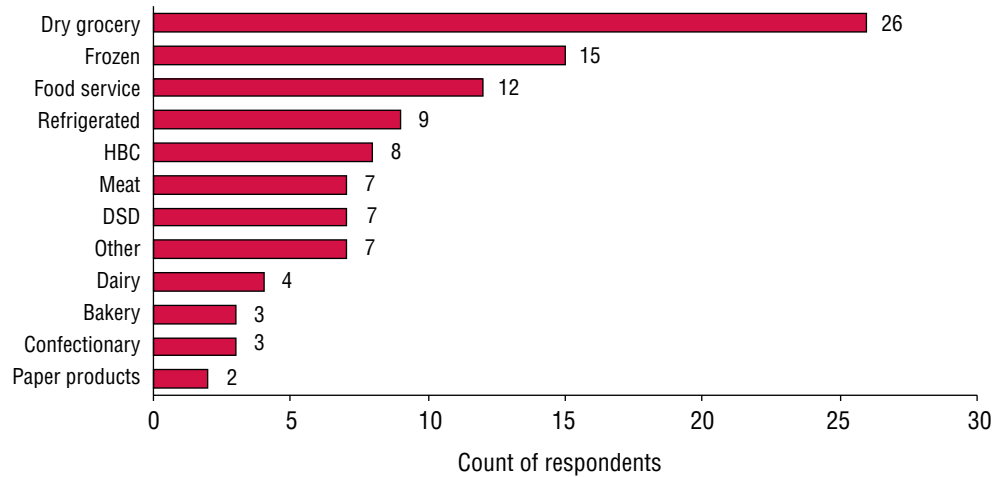
## INTRODUCTION

The GMA 2008 Logistics Survey explores and illuminates key practices, trends and operational benchmarks in key areas of grocery manufacturers' supply chain operations. IBM Global Business Services conducted the survey in conjunction with the Grocery Manufacturers Association in the fall of 2007. The survey, which included more than 50 questions to supply chain leaders of 45 top-tier grocery brands, focuses on issues such as strategic supply chain objectives, distribution and transportation practices, outsourcing strategies, alliances, information technology, operational planning and inventory management.

### Profile of respondents

The GMA 2008 Logistics Survey was distributed to logistics executives at 45 companies within the GMA's membership. The survey included 13 more respondents than in 2005. Out of the 45, only 17 are repeats from 2005 and thus 28 are new. As shown in Figure 1, a cross section of companies participated, with the largest representation in the dry grocery sector, but with good representation across most categories.

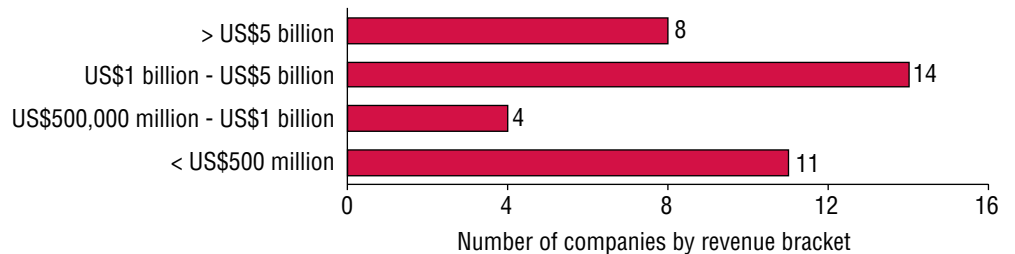
**FIGURE 1:**  
Product categories



Source: IBM Institute for Business Value, 2008 GMA Logistics Survey.  
Note: Multiple categories possible for each respondent.

Companies responding to the 2008 survey ranged in size from less than US\$500 million to over US\$20 billion in annual revenues. Figure 2 shows that the largest number of respondents represented businesses in the US\$1 billion - US\$5 billion range. The average annual revenue among all respondents was US\$3 billion.

**FIGURE 2:**  
Total annual revenue



Source: IBM Institute for Business Value, 2008 GMA Logistics Survey.  
Note: Eight respondents did not provide revenue information.

## Acknowledgments

We wish to thank the members of the GMA Logistics Committee who were involved in the survey design and review of the results. We especially want to thank all 45 of our respondents who completed the 2008 GMA Logistics survey.

- Alberto Culver
- Authentic Specialty Foods, Inc.
- Bayer HealthCare
- Bumble Bee Foods
- Bush Brothers & Company
- Campbell Soup Company
- Celebration Foods
- Church & Dwight Co., Inc
- Coleson Foods, Inc.
- Continental Mills, Inc.
- Furman Foods Inc.
- General Mills, Inc. - US Retail
- Hirzel Canning Company
- Hormel Foods - CPS Meat Products
- Hormel Foods - CPS Grocery Products
- HP Hood
- Johnson & Johnson
- Johnsonville Sausage
- Kimberly-Clark Corporation
- Kraft Foods
- MaMa Rosa's LLC
- Mars Petcare - US
- Mars Snackfood - US
- Mars Snackfood US-Ice Cream
- McCain Foods USA
- McCormick
- Musco Family Olive Co.
- Nestlé Purina
- Nestlé USA
- PepsiCo - Frito-Lay NA America
- PepsiCo - Quaker/Tropicana/Gatorade
- POM Wonderful, LLC
- Procter & Gamble - NA Product Supply
- Red Gold LLC
- Reily Foods Company
- Rich Products Corp.
- SC Johnson
- Sun-Maid Growers
- Tasty Baking Company
- The Clorox Company
- The Dial Corporation
- The Hershey Company
- The J.M. Smucker Company
- Unilever
- Welch Foods

## EXECUTIVE SUMMARY

Savvy supply chain leaders face a continual challenge to meet performance objectives in the face of soaring transportation and distribution costs. The GMA 2008 Logistics Study confirms that a vigilant focus on customers and a keen eye on the bottom line ultimately drive business performance. The good news is that supply chain leaders in this industry are doing a better job on a tougher playing field.

- *Supply chain performance “keeps up” with the cost equation despite rising logistics expenses.*

While reducing logistics costs and increasing customer responsiveness are still the top priorities, logistics managers are now more focused on cost control. Unfortunately, thanks to commodity-based prices and rising expenses like fuel that are beyond companies' control, there are fewer levers to pull. Many supply chain leaders must continue to find margin in developing improvements in areas like process reengineering, labor strategies, automation and information technology. Increasing operational efficiency and working smarter seem to only offset the challenges brought about by higher expenses and rising customer demand.

- *Steady service performance misses ever-stretching goals.*

Either a strong steady state was achieved or minor improvements were made while missing some customer-focused goals. Several key metrics saw modest to good improvements, such as year-to-year improvement in on-time delivery rates. Most impressive were increases in average order-to-delivery time. In 2005 no respondents were able to achieve better than a four-day delivery cycle time. In 2008, several leaders are bringing that down to a day – setting some potentially new benchmarks for the industry. Despite the successes, extra attention may be required for those who hope to meet or exceed their strategic goals.

- *Most inventory control operations desire more agility than they currently have.*

Overall, inventory turns dropped and days of inventory increased since 2005, showing a slight degradation in agile inventory-management controls. This decline may be attributed to the need to achieve aggressive customer-service goals and deal with shifts in order and shipment size. There was also an unbecoming drop in forecasting accuracy as the Mean Absolute Percentage Error (MAPE) rose significantly.

- *Customer connectivity leads maturing information practices and initiatives.*

There are few operational practices that seem universally embraced by supply chain leaders. Those that do fall into this category are generally considered effective, with nearly every practice considered to rank in the top 75 percent or better in effectiveness. Many were viewed in the 90 percent-plus effective rating or as achieving outright perfection (100 percent). The only exception was the beleaguered RFID, which not only had a poor adoption rate, but was also generally seen as ineffective.

Different forms of information-sharing and collaboration continued to grow, with “Enhanced customer visibility” dominating the initiative list focused on trader relationships, and customer satisfaction ranking as the top reason for developing customer alliances.

Non-information-based practices continued at a relative steady state. While pre-assembled, floor-ready displays and custom pallets are the most widely used practices, they are adopted by less than half of all respondents – showing that many companies are doing many things, but few have adopted a standard bundle of operating procedures. Intermodal shipping trended upward compared to 2005 data. Outsourcing of transportation and warehousing is still executed extensively but has declined since 2005. Outsourcing in general was considered very effective by those who use it – often deemed perfectly effective (100 percent) in many functions.

### **Taking action: What supply chain leaders should consider going forward**

Optimizing supply chain performance, productivity and responsiveness are increasingly important to achieving cost-containment and service-level objectives. Key recommendations derived from this survey include:

- Supply chain leaders should continue to assert themselves as peers and contributors to enterprise-level business strategies.
- Look for the win-win in balancing service and cost objectives.
- Evaluate ROI and trade-offs in the pursuit of perfection.
- Pursue collaboration and visibility beyond customer-satisfaction strategies.
- Keep exploring and expanding the role of outsourcing for various functions.
- Assess your role as a leader or follower in RFID and other emerging technologies.

Since every company and logistics operation has its own mix of opportunities and challenges, a thoughtful, customized plan of action should be devised for each unique situation. The findings in this study can offer new insights, confirm long-held beliefs, and present an industry baseline that can provide valuable input to a company's specific plan of action.



**SUPPLY CHAIN  
PERFORMANCE  
“KEEPS UP” WITH  
THE COST EQUATION  
DESPITE RISING  
LOGISTICS EXPENSES**

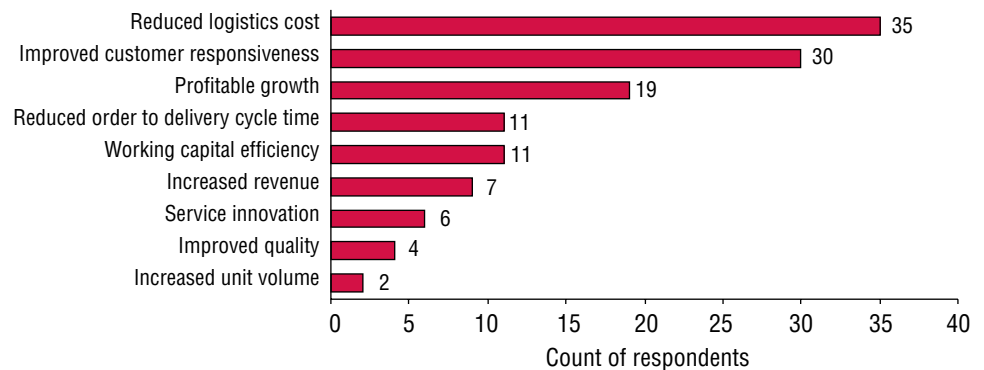
Consumer-product supply chain operations continually feel the pressure to manage the cost equation – all while meeting the strategic objectives of providing superior customer service and driving growth within the business. If we consider the modern enterprise’s entire value proposition and value chain, leadership must balance a precarious profitability equation – hoping that product development, marketing and distribution partners can continue to drive revenue while they lean heavily on areas like logistics and procurement to control the cost side of the equation.

This presents the supply chain leader with an increasingly shrinking number of levers to pull as they continue to battle commodity prices and other rising expenses such as fuel – expenditures that are beyond their control. Many must continue to find margin in developing improvements in the areas of process reengineering, labor strategies, automation and information technology.

In general, the supply chain operations of the companies we surveyed often find themselves one step forward in operational effectiveness as the industry environment pushes them one step back. In other words, improvements in operational efficiency and working smarter seem to only offset the challenges companies face in managing rising expenses and stepping up to customer expectations. Although this state of “keeping up” may at first feel like a bit of a struggle, the good news is that supply chain leaders are doing a better job on a tougher playing field.

“Reduced logistics costs” and “increased customer responsiveness” still rank as first and second responses, as they did in 2005. However, as Figure 3 shows, the gap between the two responses increased slightly – suggesting that managers are more focused on cost than they were four years ago.

**FIGURE 3:**  
Top three supply  
chain objectives



Source: IBM Institute for Business Value, 2008 GMA Logistics Survey.  
Note: Multiple categories possible for each respondent.

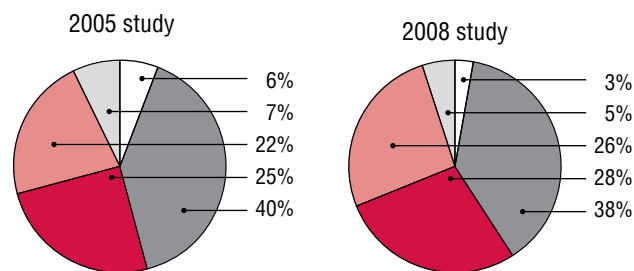
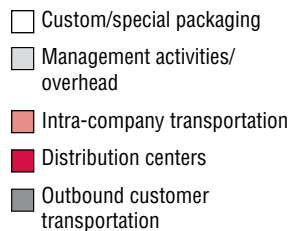
As the leading responses, these two goals present an interesting conflict and juxtaposition, since customer service levels are one of the most controllable levers of cost control within the logistic manager's toolbox. The drive to improve customer responsiveness should be tendered with more complex goals in the overall profitability equation, meaning that the supply chain manager must understand how service levels impact price negotiations, customer relationships, store inventories and even customer brand preference – all factors that reside well beyond the immediate authority of the logistics manager.

These top two objectives – to reduce logistics costs and improve customer responsiveness – create an interesting emergence of the third, “*Profitable growth*”, which could be construed as the successful combination of the first two. The supply chain leaders' focus on growth suggests that they have elevated their position within the enterprise as strategic participants at the executive table – not just an operational cost center. Other more traditional growth levers, such as revenue and quality, are lower priorities for the supply chain leaders – perhaps suggesting that their most important contribution to growth is in customer service.

### Change in cost attribution is flat

The average logistics cost as a percentage of sales remained at 6.9 percent – unchanged since 2005. This further suggests that efficiency improvements are doing well enough to keep up with rising expenses and increasing customer demands. In 2008, the largest component of logistics cost is *outbound customer transportation* at 38 percent (see Figure 4). *Outbound and intra-company transportation* combined account for 64 percent of total logistics cost, which is relatively equal to the 2005 combination of these categories (62 percent). *Distribution center operations* (28 percent), the next most significant cost category, is slightly up from 2005, when it was at 25 percent. *Custom/special packaging* and *management/overhead* decreased from 2005. This can likely be attributed to a focus on cost management in these categories.

**FIGURE 4:**  
Logistics cost  
distribution by function



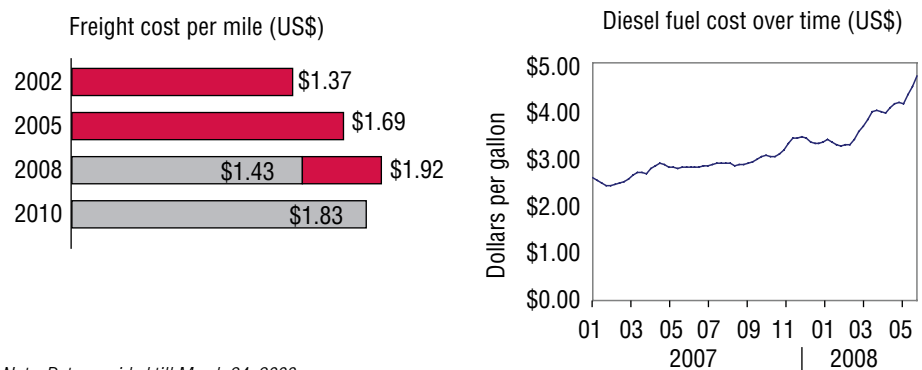
Source: IBM Institute for Business Value, 2008 GMA Logistics Survey.

## Fuel costs rise

Freight costs per mile continue to increase – climbing to US\$1.92 in 2008, which is up 14 percent from the 2005 level of US\$1.69 (See Figure 5). This increase is primarily driven by fuel cost. Diesel rose throughout 2007. Since January 2007, the cost of diesel is up 29 percent, and up 19 percent in the first quarter of 2008. Since 2005, when the last survey was conducted, the cost of diesel has increased 63 percent. The fact that transportation costs overall have only increased two percent within the mix since 2005 suggests that rising fuel costs are being offset by efficiencies in other areas. The wide discrepancy between actual and projected/goal freight costs suggests that logistics managers need to retool their expectations and likely increase the severity of fuel-cost fluctuations in their risk planning.

**FIGURE 5:**  
Diesel fuel costs and cost per mile on the rise

■ Actual  
■ Goal



Note: Data provided till March 24, 2008.

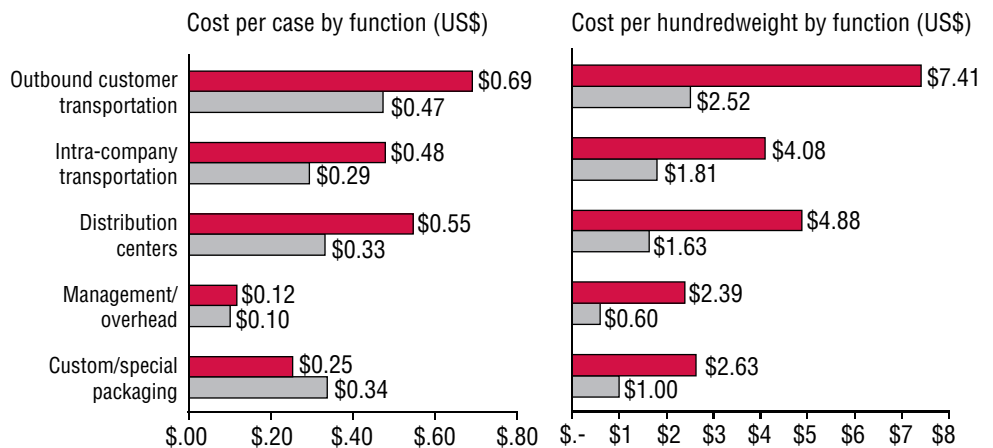
Source: IBM Institute for Business Value, 2008 GMA Logistics Survey; Energy Information Administration as of March 25, 2008.

## Unit costs increase despite flat overall costs

While logistics costs as a percentage of sales remained the same, *cost per case and cost per Cwt* (hundredweight) increased. Only *custom/special packaging* saw a reduction in cost across cost per case by function (See Figure 6). Most alarmingly, when analyzed by Cwt, nearly every function sees a doubling or more in cost, with *management and overhead* nearly quadrupling.

**FIGURE 6:**  
Case and hundredweight cost analysis by function

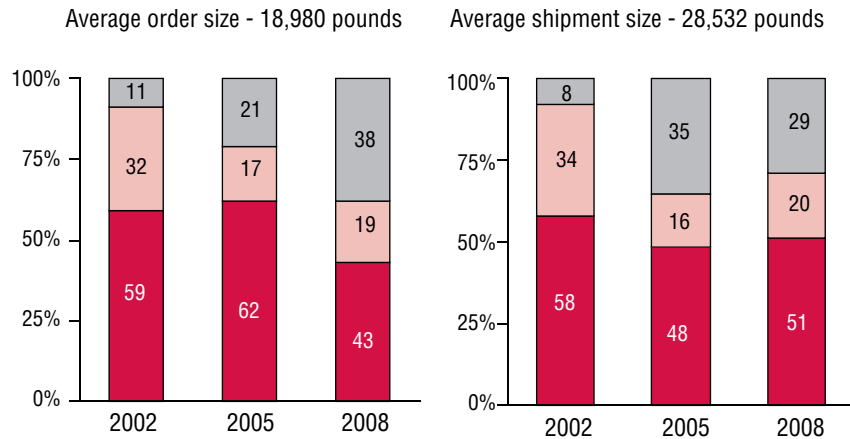
■ 2008  
■ 2005



Source: IBM Institute for Business Value, 2008 GMA Logistics Survey.

**FIGURE 7:**  
Order and shipment size trends

Decreasing  
 Same  
 Increasing



Source: IBM Institute for Business Value, 2008 GMA Logistics Survey.

While the mix of respondents who perceived their order and shipment sizes to be increasing or decreasing varied, both average order size and average shipment size among respondents remained relatively equal compared to the 2005 averages. Smaller order and shipment size reflect better customer service, as well as more agile management of inventory and inventory levels. Most companies are experiencing one of two trends:

1. *Increases in both shipment and order size:* Attributed to many companies more strictly enforcing their order minimum and bracket pricing policies to help ensure order sizes remain high.
2. *Decreases in both shipment and order size:* Smaller order sizes were attributed to customers trying to lower their inventory levels, thereby placing smaller, more frequent orders. Presumably, these customers would pay a higher logistics price in a trade-off for better or more efficient inventory management in-house.

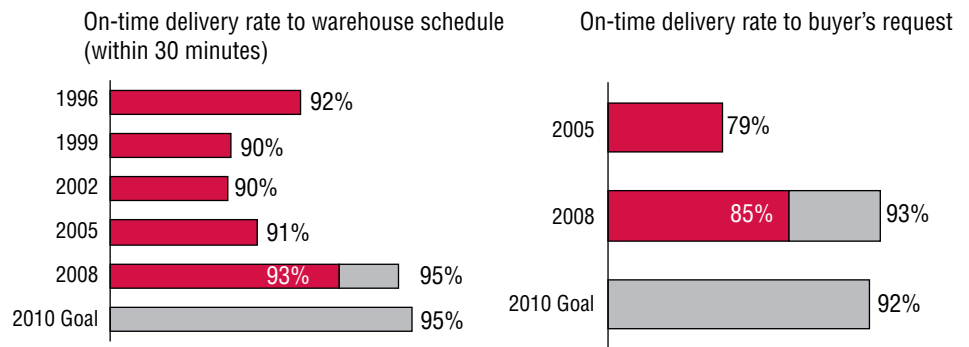
Some respondents cited that they were able to achieve high levels of efficiency by consolidating low average order sizes into large shipment sizes – creating a win-win for both their customers and their bottom lines. Other companies can also optimize their orders and shipments because they create their Vendor Managed Inventory (VMI) practices and maintain better visibility to actual inventory and replenishment needs.

## STEADY SERVICE PERFORMANCE MISSES EVER-STRETCHING GOALS

Despite missing goals, some key metrics saw modest to good gains. These included year-to-year improvements in on-time delivery (OTD) rates, with a 2.7 percent increase from 2005 in warehouse schedule within 30 minutes, and a significant 6.9 percent increase from 2005 in buyer requested delivery date (see Figure 8). Most impressive were increases in average order-to-delivery time. In 2005, no respondents were able to do better than a four-day delivery cycle time. In 2008, several leaders are able to get that down to a day – setting some potentially new benchmarks for the industry. In light of some of the improvements made, extra attention may be required for those who hope to meet or exceed their goals. For example, the 2010 goal for OTD to Buyer's Request cannot be achieved at the current improvement rates held by our average respondent. Supply chain leaders will need to evaluate the specific ROI of each operational improvement investment to determine whether the cost of improving operational performance justifies the incremental increase in service improvement.

**FIGURE 8:**  
On-time delivery achievement

■ Actual  
■ Goal

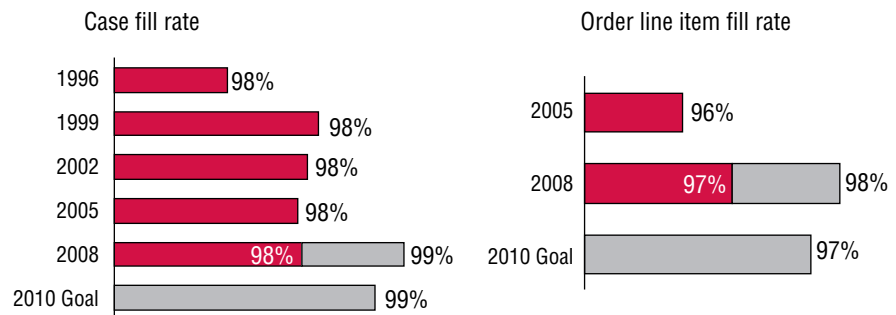


Source: IBM Institute for Business Value, 2008 GMA Logistics Survey.

Fill rates remained stable and did not meet 2008 expectations; respondents reevaluated two-year goals

**FIGURE 9:**  
Case and order fill rate achievement

■ Actual  
■ Goal



Source: IBM Institute for Business Value, 2008 GMA Logistics Survey.

Case fill rates told a similar story. From 2005 to 2008, respondents achieved small year-to-year improvements for case and order line item fill rates. Case Fill was up 0.1 percent while Order Line Fill was up 0.5 percent (see Figure 9). Despite improvements, fill rates did not meet 2008 expectations; 2010 goals have been reduced from 2008 levels but remain a “stretch.”

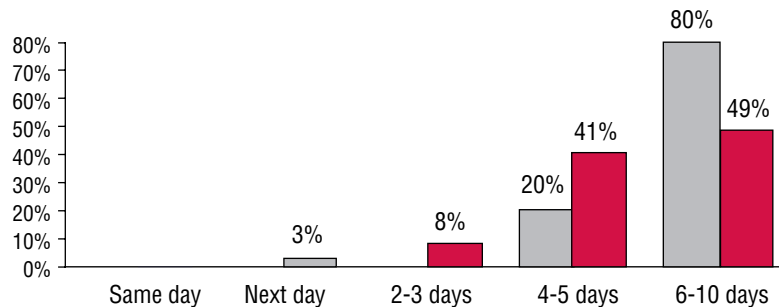
A key challenge for supply chain leaders will be to maintain stable fill rates. Low improvement rates matched with high 2010 goals will likely make achieving this objective very difficult. While the gains seem small, the error rate associated with missing a goal by 0.8 percent means that the company has almost doubled the number of missed fills compared to the goal (ten out of a thousand missed shipments as a goal, but in reality currently misses 18 per thousand shipments).

### Order-to-delivery cycle time has improved from 2005 and has met expectations

As Figure 10 shows, there has been a significant year-to-year decrease in the percentage of respondents in the six- to ten-day order-to-delivery cycle time range, with 31 percent fewer respondents claiming to be in that category (80 percent in 2005 vs. 49 percent in 2008). There was also a year-to-year increase in the percentage of respondents in all other shorter time ranges, with a few respondents breaking into cycle times as short as next-day. The 2008 results closely align with the goals set in 2005.

**FIGURE 10:**  
Average order-to-delivery cycle time performance

■ 2005  
■ 2008



Source: IBM Institute for Business Value, 2008 GMA Logistics Survey.

**MOST INVENTORY CONTROL OPERATIONS SEEK MORE AGILITY THAN THEY CURRENTLY HAVE**

Since 2005, inventory turns dropped and days of inventory increased overall, showing a slight general degradation in agile inventory management controls. This decline may be attributed to the need to achieve aggressive customer service goals and deal with shifts in order and shipment size.

There was also a drop in forecasting accuracy as the Mean Absolute Percentage Error rose monthly from 24 percent in 2005 to 31 percent in 2008. Forecasting improvement efforts do not go without reward, though. There is a correlation between significantly higher forecast errors among those respondents who have only implemented Collaborative Planning Forecasting and Replenishment [CPFR] techniques to a small extent or not at all, compared to those that use CPFR to a larger extent. This correlation may not be adequately reflected in the 81 percent effectiveness rating for CPFR as a distribution initiative.

**Inventory days of supply increased from 2005 while the future goal remained aggressive**

Inventory days of supply increased from 42 days in 2005 to 45 days in 2008. In correlation with the days of supply, annual inventory turns among respondents averaged 8.1 turns per year – down from 8.7 turns per year in 2005. The goal for 2008 of 36 days of supply and 10.1 turns was not achieved, and remains the aggressive goal for 2010 (see Figure 11).

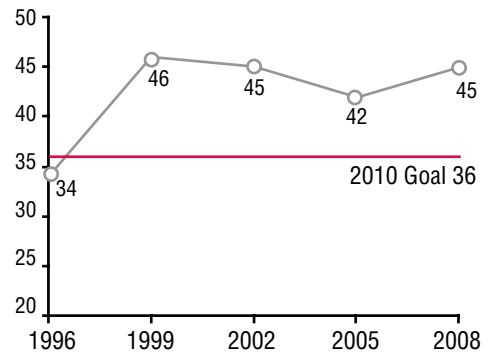
**FIGURE 11:**  
Finished goods inventory trends

What is your finished goods inventory performance? Historical inventory days of supply

	2008		2010
	Average	Median	Goal
<b>Days of Supply</b>	45	43	36
<b>Annual turns</b>	8.1	8.5	10.1

	2005		2008
	Average	Median	Goal
<b>Days of Supply</b>	42	40	36
<b>Annual turns</b>	8.7	9.1	10.1



Source: IBM Institute for Business Value, 2008 GMA Logistics Survey.

**FIGURE 12:**  
Average MAPE trends

## Forecast errors have increased across the board

The survey data supports an increase in all forecast errors (monthly or weekly and by national, shipping location or product family dimensions) from 2005. Repeat respondents reported increases in all forecast error dimensions that were similar to the entire population (see Figure 12).

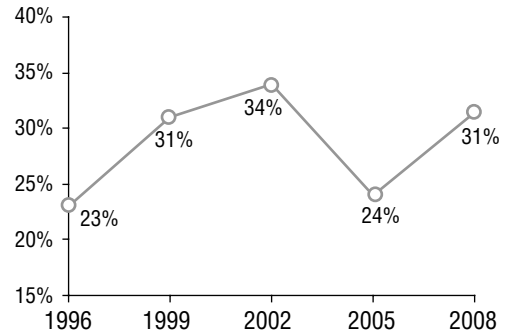
What is your average monthly forecast measured as Mean Absolute Percentage Error (MAPE)?

2008	Monthly	Weekly
Nationally	31%	41%
By Shipping Location	37%	45%
By Product Family	33%	45%

2005	Monthly	Weekly
Nationally	24%	25%
By Shipping Location	33%	42%
By Product Family	21%	30%

Historical forecast error



Source: IBM Institute for Business Value, 2008 GMA Logistics Survey.

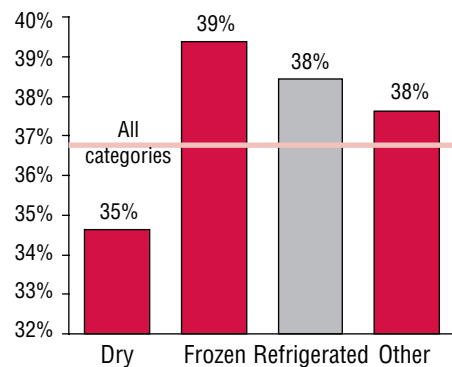
## Dry product categories experience lower forecast errors while frozen products experience higher

Across each forecast MAPE (Mean Absolute Percentage Error) dimension compared to all categories, dry products experience lower forecast errors, while frozen product producers experience higher forecast errors (see Figure 13). Arguably, the dry category may have much easier inventory control challenges without having to deal with the availability of refrigerated logistics capabilities. All the same, the forecasting practices of the dry category may be more sophisticated – and an area of exploration for providers in lower-performing categories.

**FIGURE 13:**  
Average MAPE by category and shipping location

2008	Monthly	Weekly
Nationally	31%	41%
By Shipping Location	37%	45%
By Product Family	33%	45%

Average monthly forecast MAPE by shipping location by category



Source: IBM Institute for Business Value, 2008 GMA Logistics Survey.



## CUSTOMER CONNECTIVITY LEADS MATURING INFORMATION PRACTICES AND INITIATIVES

There are few operational practices that seem universally embraced by supply chain leaders. Those that are adopted are generally thought to be effective, with nearly every practice considered to rank in the top 75 percent or better in effectiveness, with many being viewed in the 90 percent-plus category or achieving outright perfection (100 percent). The only exception was RFID, which was not only poorly adopted, but also generally seen as ineffective (only 46 percent effective by those who use it). (See Figure 16).

Respondents realized a significant drop in perceived effectiveness in CPFR, despite its adoption by a much larger population (See Figure 18). Other forms of information-sharing and collaboration continued to grow, with enhanced customer visibility dominating the initiative list focused on trader relationships (See Figure 15), and customer satisfaction being the top reason for developing customer alliances (See Figure 14). EDI leads in data exchange (See Figure 16).

### Distribution Practices

Operationally, *pre-assembled, floor-ready displays* and *custom pallets* are the most widely employed practices (See Figure 18). However, they are only adopted by less than half of all respondents – showing that many companies are doing many things, but few have adopted a standard bundle of operating procedures.

### Transportation Modes

Intermodal shipping trended upward compared to 2005 data (See Figure 19). Outsourcing of transportation and warehousing is still executed extensively but has declined since 2005.

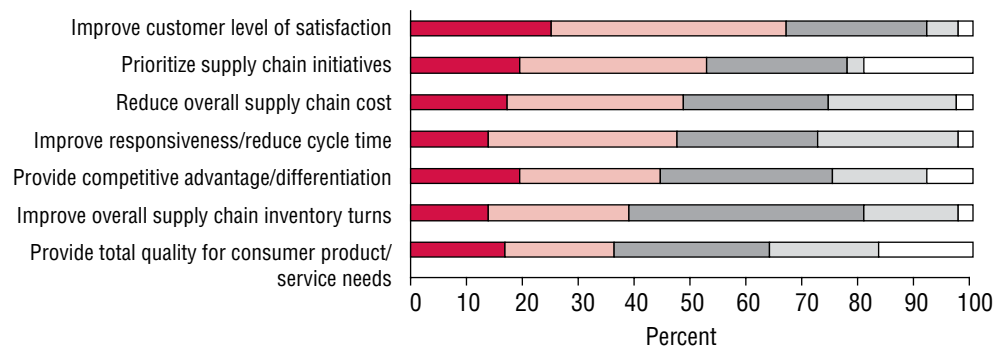
### Outsourcing

Outsourcing in general was considered very effective (often perfectly effective – 100 percent – in many core functions) by those who use it (See Figure 20).

## Key customer alliances are primarily driven by the goal to improve customer satisfaction

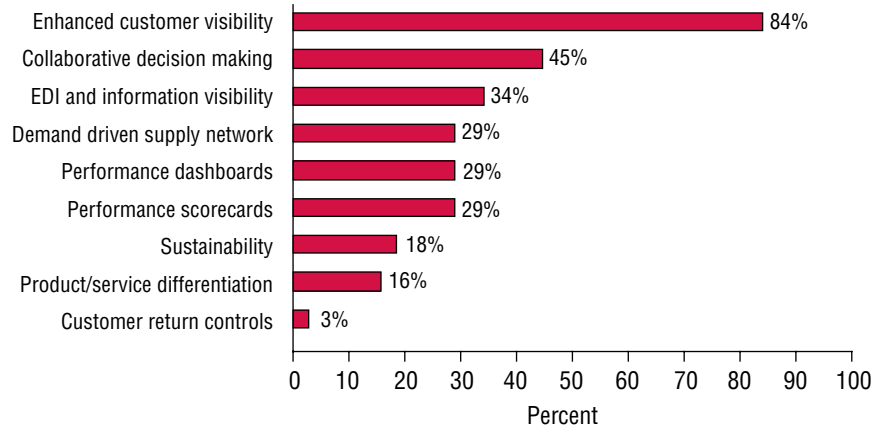
The use of key customer alliances is primarily driven by the goal to *improve customer satisfaction*. This “macro” category, which could include improving customer service performance, underscores that customer alliances are first and foremost focused on the customer, and are not internally focused priorities. Respondents chose *Prioritize supply chain initiatives* and *Reduce overall supply chain cost* as close seconds (see Figure 14). These responses are very similar to 2005 results.

**FIGURE 14:**  
Customer collaboration objectives



Source: IBM Institute for Business Value, 2008 GMA Logistics Survey.

**FIGURE 15:**  
Customer and partner collaboration initiatives



Source: IBM Institute for Business Value, 2008 GMA Logistics Survey.

### Enhanced customer visibility remains the dominant initiative for enriching trading relationship.

*Enhanced customer visibility* far and away exceeds any initiative to enhance trading relationships – nearly doubling the next response with 84 percent of respondents (see Figure 15). This was 15 percent more respondents from 2005, representing a 22 percent increase. In many ways, the top three answers all pointed towards more information-sharing to improve relationships, with *collaborative decision making* and *EDI and information visibility* being second. Perhaps surprisingly, *product/service differentiation* was not viewed as an important lever in trading relationships by supplier logistics managers, despite being central to most companies' value proposition. This may be because of the mature relationships CPG retail companies have with their vendors, or because the logistics manager is seldom charged with the task of product differentiation.

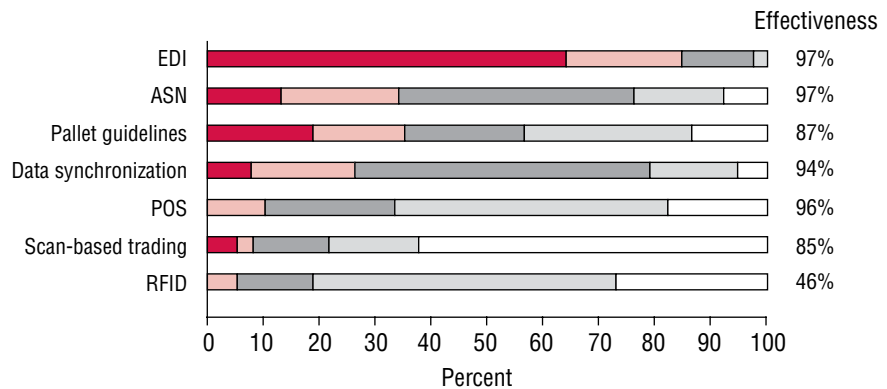
*Performance scorecards*, *product/service differentiation* and *collaborative decision making* experienced significant decreases from 2005 as top initiatives, with differences of -26 percent, -19 percent and -14 percent of respondents respectively (or changes down 48 percent, 54 percent and 24 percent respectively).

### Information exchange remained unchanged; EDI is predominantly used and executed effectively

Since 2005, there has been very little change in both usage and effectiveness across all categories in information exchange. EDI remains the predominant medium used among the group with total adoption across respondents, and is done most effectively at 97.37 percent. Scan-based trading has the lowest usage among the group – only used by 38 percent of all respondents (See Figure 16).

RFID remains one of the least-used items among the group; most respondents reported using it not at all (27 percent) or to a small extent (54 percent). The reason may be because many have problems implementing RFID effectively (its low effectiveness rating of 46 percent among the group demonstrates this finding). (See Figure 16).

**FIGURE 16:**  
Information  
integration initiatives



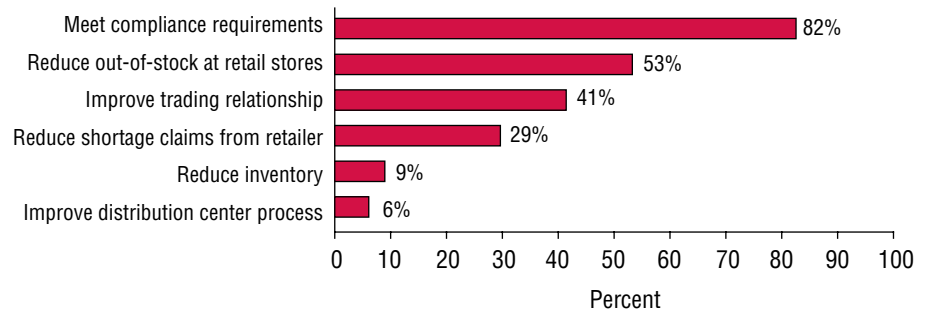
Source: IBM Institute for Business Value, 2008 GMA Logistics Survey.

### A closer look into RFID

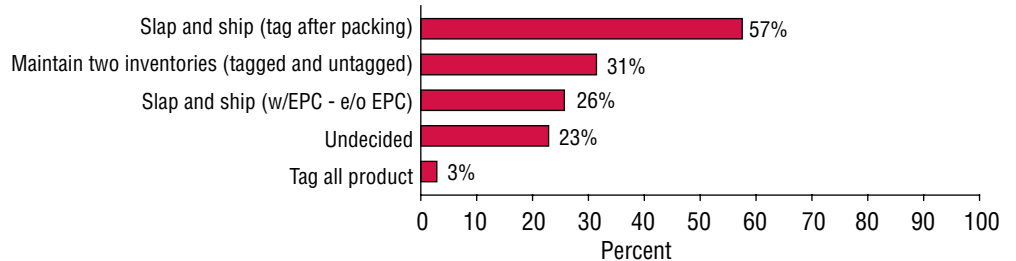
Despite low adoption, RFID remains a focused initiative. As shown in Figure 17, respondents view the primary benefits of RFID to be *Meeting compliance requirements* and *Reducing out of stock at retail stores*. In the short term, respondents are predominantly planning to use *Slap and ship* (tag after packing) as a tagging strategy to primarily meet compliance requirements.

**FIGURE 17:**  
RFID initiatives  
support compliance

What are the largest benefits to RFID?



What is your short term RFID tagging strategy?



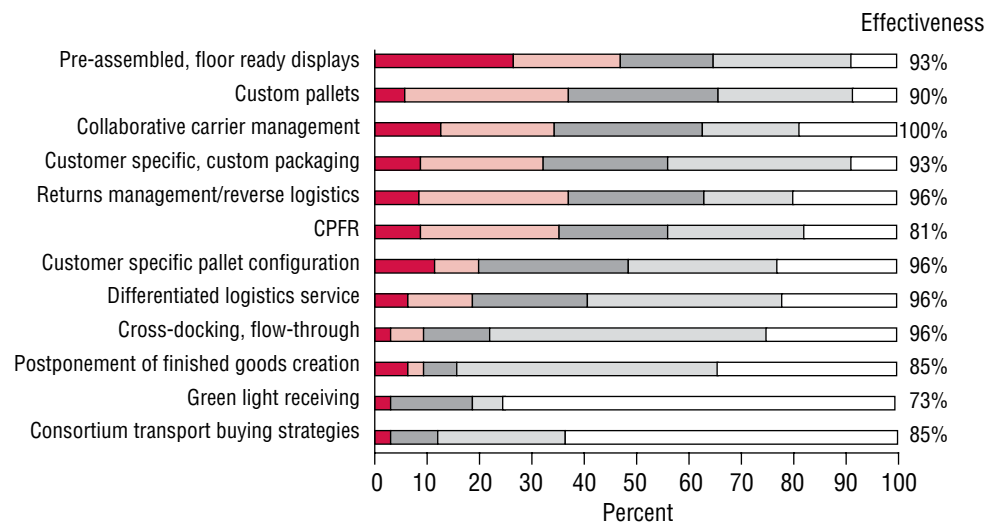
Source: IBM Institute for Business Value, 2008 GMA Logistics Survey.

## DISTRIBUTION PRACTICES FOUND EFFECTIVE

### Distribution practices found highly effective (but not used by everyone)

In general, there were few distribution practices that held wide adoption. *Pre-assembled, floor-ready displays* and *custom pallets* were the most widely used practices, with fewer than half of respondents employing these tactics (see Figure 18). These two practices in particular may favor the high number of dry category respondents. *Custom packaging* experienced the largest increase in usage from 2005 – up 14 percent. *Custom packaging* as a percent of total cost was reduced by 50 percent, perhaps because higher adoption and demand have driven prices from the packaging manufacturers down. *Consortium transport buying strategies* and *cross-docking, flow-through* increased in usage from 2005 by 18 percent and 25 percent respectively.

**FIGURE 18:**  
Distribution practice initiatives and effectiveness



Source: IBM Institute for Business Value, 2008 GMA Logistics Survey.

Overall, any particular tactic used to a great extent was found effective; even *Green light receiving*, though it scored the lowest, received a positive effectiveness rating of 73 percent. Curiously, CPFR had the largest effectiveness drop (-18.5 percent) from the last survey, in which it was viewed as 100 percent effective. This should be tendered with CPFR's much broader adoption: In 2005, only 45 percent of respondents were using it to any extent – rising to 82 percent in 2008. Its perceived drop in effectiveness may be attributed to the high number of newcomers and increasing expectations for what it can deliver.

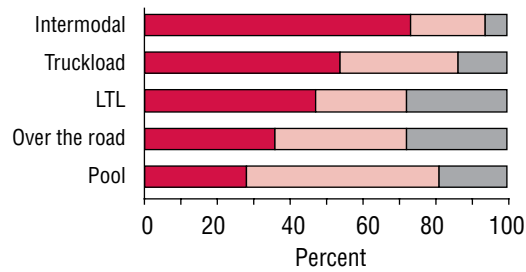
## Intermodal shipments display a heavy increasing trend

Logistics managers feel transportation modes are either increasing or staying the same across the board. Intermodal transportation is the largest increasing category (see Figure 19). Results supported a larger percentage of respondents moving from “decreasing” or “staying the same” from 2005 to “increasing” in 2008 – displaying an upward trend towards intermodal and full truckload modes.

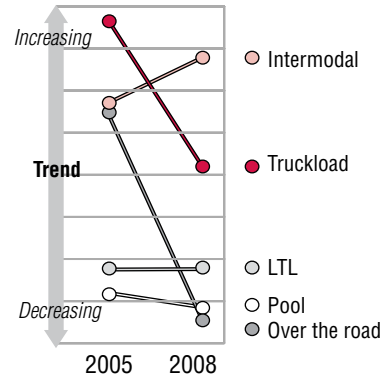
**FIGURE 19:**  
2008 findings

- Increasing
- Staying the same
- Decreasing

Change in shipments by transportation mode



Year to year trend of transportation mode



Source: IBM Institute for Business Value, 2008 GMA Logistics Survey.

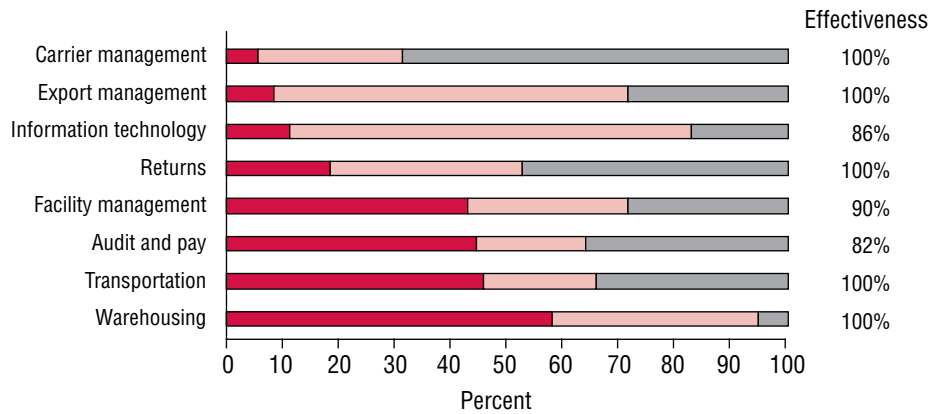
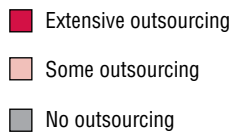
Respondents' opinions on changes in *LTL (Less than Truckload)* remained relatively unchanged from 2005. All other transportation modes (TL, Over the Road and Pool) display a decreasing trend in shipment usage since 2005, with *Over the Road* shipments experiencing the largest decline.

## OUTSOURCING TRENDS

### Outsourcing seen as being very effective, with transportation and warehousing still most popular

*Outsourcing of Facility Maintenance, Audit and Payment Services, Returns Management and Information Technology increased since 2005. Information Technology increased the most – up 47 percent from 2005 (a majority of respondents moved from “no outsourcing” to “some outsourcing”), followed by Returns Management up 31 percent in outsourcing. Even though it was still identified as effective, Transportation, the only area with an overall decrease in outsourcing, dropped 10 percent. Warehousing decreased slightly from 98 percent in 2005, but those companies that were outsourcing were doing it more extensively. Both Audit and Payment Services and Information Technology were rated less effective than in the previous study, but respondents generally found all outsourcing to be effective (see Figure 20).*

**FIGURE 20:**  
Outsourcing trends and effectiveness



Source: IBM Institute for Business Value, 2008 GMA Logistics Survey.

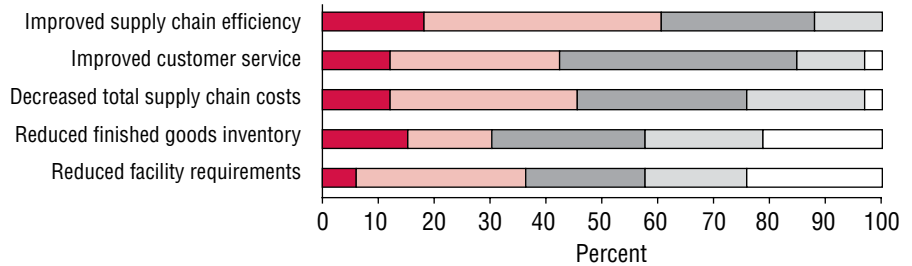
## CONCLUSION

**FIGURE 21:**  
Objectives for supply chain initiatives



## Supply chain initiatives are working

Since our last study in 2005, most respondents believe that their initiatives to improve supply chain efficiency are working, with 60 percent agreeing that these efforts were improved by a great or very great extent, and 100 percent agreeing that their efforts improved to some extent. In all responses, over three-quarters of survey participants agreed that their supply chain initiatives improved to some extent (see Figure 21).



Source: IBM Institute for Business Value, 2008 GMA Logistics Survey.

## Taking action: What supply chain leaders should consider going forward

Given their general enthusiasm for the success of their supply chain initiatives, logistics leaders should look to their current and upcoming portfolio of distribution initiatives for the next round of improvements and successes. Top-level areas of recommended exploration derived from this survey include:

- *Supply chain leaders should continue to assert themselves as contributors to enterprise-level business strategy.* Customer satisfaction and profitable growth are key objectives of the logistics manager – separating these areas from a traditional cost-center and margin-control role. Supply chain leaders now tasked with strategic responsibilities should continue to assert their knowledge, authority and participation in the strategic conversation of enterprise business growth – working as a partner with leaders from manufacturing, product development, marketing, finance and the executive office.
- *Look for the win-win in balancing service and cost objectives.* As many companies balance a continual trade-off between hitting a service level and controlling cost, savvy leaders will strive to find the “sweet spot” where they achieve both simultaneously. Evaluate collaborative planning strategies, order and shipment size strategies and creative transportation modes to continually refine this equation to achieve a win-win, not a compromise.

- *Evaluate ROI and trade-offs in the pursuit of perfection.* Common wisdom says that setting and meeting aggressive customer service goals is a good strategy. Nonetheless, be sure to understand the level of investments that are needed to meet lofty satisfaction goals. Consider the potential benefits of incremental improvements in customer satisfaction. ROI planning acumen is central to this concern.
- *Pursue collaboration and visibility beyond customer satisfaction.* Information visibility across the supply chain can provide a valuable service to customers, and reduce customer-facing cost drivers like dealing with status calls. However, the true power of integrating information is to drive a more effective, more efficient supply chain. Continue to encourage collaboration and information visibility in support of effectiveness measures, even if that requires adopting practices like collaborative forecasting, which could be problematic in the short-term.
- *Keep exploring and expanding the role of outsourcing for various functions.* According to our study, most forms of outsourcing are highly effective for those organizations that use it, regardless of function. Continue to explore new areas of outsourcing, keeping in mind that effectiveness is achievable in many areas – not just those you are using today.
- *Understand your role as a leader or follower in RFID and other emerging technologies.* New technologies provide an opportunity for managing risk, staying ahead of competitors and redefining operating models. These assets can also pose risk and costs for organizations that are not “the right fit.” Evaluate your company’s appetite for market leadership vs. its desire to determine how to use and exploit new technologies. Move cautiously and pilot often; those who are fast learners will also be the quickest to succeed while lowering their overall risk.

As every company and logistics operation has its own special mix of opportunities and challenges, a thoughtful, customized plan of action must be devised for each unique situation. The findings in this study should provide new insights, confirmation of well-known beliefs, and an industry baseline that can offer valuable input to a company’s plan of action.



## About the author

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