

SUPPLY CHAIN TRENDS AND ISSUES

As we noted last week, 2010 promises to be perhaps the most challenging year ever in terms of supply chain planning and forecasting.

Play it highly conservative, and if the economy strongly rebounds, as some predict, a company could not only lose revenue and profits, but possibly some market share on a permanent basis. Play it too aggressive and if we instead experience weak economic growth, it could have a devastating impact on cash flow and the bottom line - and maybe send a company back towards the abyss if we see a double dip recession. (See [The State of Demand Planning 2009](#).)

Clearly, the overall supply chain theme of 2009 has been massive cost cutting - inventory, people, procurement - a result consistent with the toughest year economically seen since the great depression.

So how are companies thinking about 2010 supply chain plans and investments? For the third year in a row, SCDigest is partnering with the researchers at Gartner on a study to understand how companies are thinking about these topics for the coming year. We ask you to please take the brief, confidential survey by going to [Gartner-SCDigest survey](#). Participants will receive one of four excellent Gartner research reports - a \$300.00 value.

Last year, respondents clearly anticipated a year of cost-focused strategies in the supply chain, even though the financial crisis was just a couple of months old when the surveys were completed last December.

As shown in the chart on page 2, 61% of respondents even then listed Reducing Operating Costs as one of their top three priorities (the colors showing whether it



Will 2010 be Another Year of More Supply Chain Cost Focus, or Will Companies Get More Strategic with Supply Chain Goals?

was rated 1, 2 or 3), followed closely by the related category of Improved Efficiency/Productivity, which jumped from fourth place to second in last year's survey.

While Reducing Operating Costs was also at the top of the 2008 priorities in the survey for the year, the numbers really jumped, with just 41% listing that as a top priority for 2008 versus 61% for 2009.

Chad Eschinger, a Gartner analyst, notes that "This focus on short-term tactical issues around cost reduction, while necessary for many businesses, could widen the gap between the best-performing organizations and lower-performing organizations once the economy starts to pick up again" in 2010.

Top Supply Chain Challenges

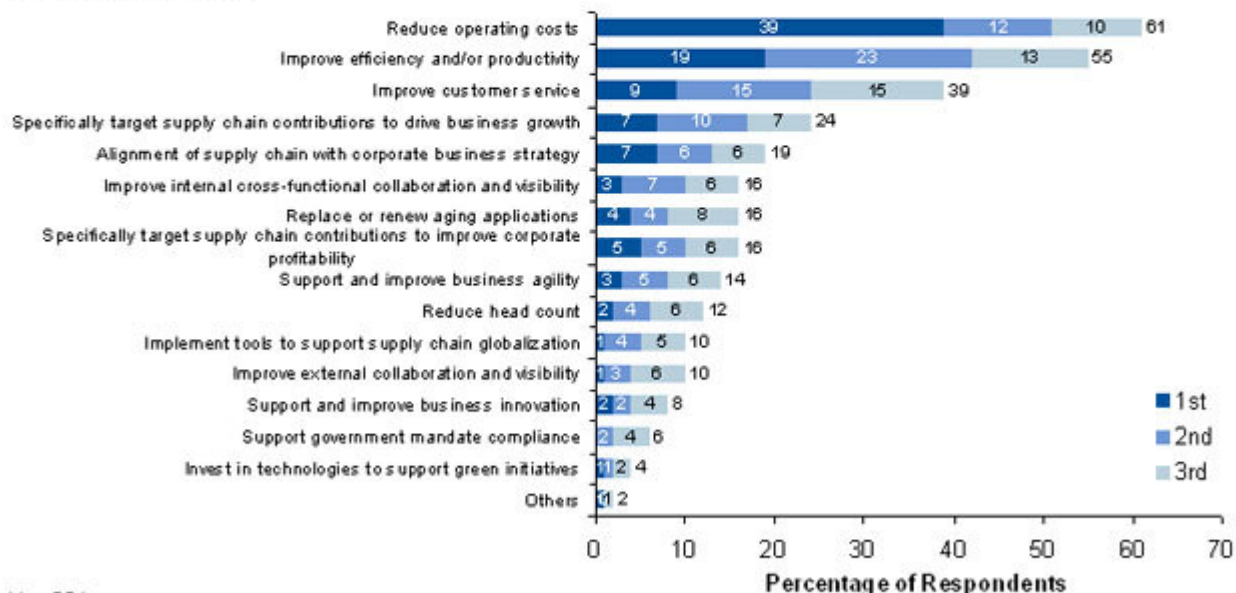
In terms of supply chain challenges, the dynamic nature of today's market and SCM environment top the list.

As can be seen from the graphic on page 3, the closely related categories of Forecast Accuracy and Demand Volatility are number 1 and 2 on the list from SCDigest respondents to the Gartner survey, while how to actually meet the pressure from the top to reduce SCM costs came in third last year.

"Even with the pervasiveness of forecasting, demand planning, and supply chain planning (SCP) applications, forecast accuracy and demand variability remain significant

2009 Priorities Focus on Cost, Customer, and Efficiency

What are the top-three priorities for investment in your organization's SCM function today?



N = 201

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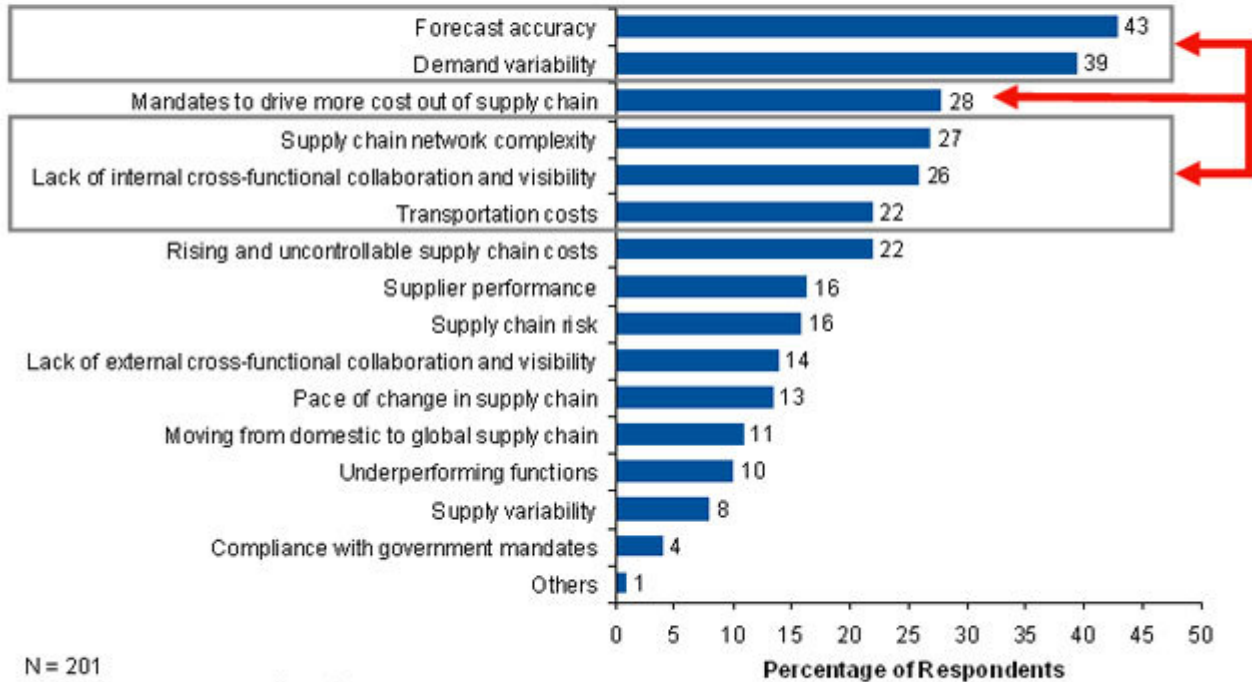
issues for respondents and are likely contributors to higher-than-necessary supply chain costs," says Gartner's Dwight Klappich. "Supply chain complexity and a lack of internal cross-functional collaboration are also contributing factors in challenging organization to meet their goals for high service, operational effectiveness, and low-cost supply chain operation."

Going into 2009, it was clear that the economy was going to be in the toilet for most of the year. 2010 is another matter. The economy is already showing signs of rebound, and some think that the economy could sharply increase, as history shows the sharper the fall, the more rapid the recovery. But there are

still worries aplenty, and many concerned the fragile recovery will stall next year.

This will make 2010 another year unlike any we've seen in awhile - the safe bet here is that half will choose wrongly - we just don't know which direction that will be.

Demand Predictability and Cost Control Remain Key Challenges to Achieving Supply Chain Objectives



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Note: Three responses allowed

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