

Introduction

- » **Oracle and IBM collaborate** on a value chain planning applications suite and services solution designed to help organizations sense and shape demand profitably, synchronize supply with demand, and optimize their inventory and supply chain networks.

In January, 2009, Supply Chain Management Review magazine conducted a survey among top supply chain executives on behalf of Oracle and IBM to better understand the impact the recession is having on business' activities, and, in particular, their supply chain operations. The survey further examines the adoption and significance of Sales and Operations Planning (S&OP) initiatives that supply chain organizations are undertaking.

About The Respondents and Their Facilities

Respondents to the study are predominantly supply chain management (30%), sourcing and purchasing executives (20%) and logistics management (21%); nearly all respondents are executive or managerial level. Nearly one-half of respondents work in manufacturing (49%) while others are employed in distribution and wholesale (17%), are 3PLs (11%) and in retail (6%). Most organizations are centralized (51%) while the other one-half are either decentralized (29%) or center-led (18%). These companies employ, on average, 2,510 individuals. Details of the survey methodology appear at the end of this brief.

Research Findings

Summaries of findings show:

- Businesses are placing greater emphasis on those initiatives that will help them persevere during these times of economic uncertainty. These strategies are primarily targeting cost management and spending, inventory control, planning and scheduling, and customer service. Most companies are, at present, backing off plans for growth and development.
- The recession has further caused companies to alter their supply and demand objectives, which are now geared more toward lowering expenses, improving cash flow, and more efficient planning and scheduling. The faltering economy has additionally sparked a greater sense of urgency on businesses' critical demand planning decisions.
- S&OP serves as a solution to enable companies to achieve supply and demand goals through greater optimization of inventory management, forecasting, and customer service.
- Overall, organizations' S&OP programs are viewed as a vital solution for supply chain networks. Most claim that S&OP is at the very least, a very important program to their organization; and, many in the survey declare their program to be a success.

Impact of the Recession on Business

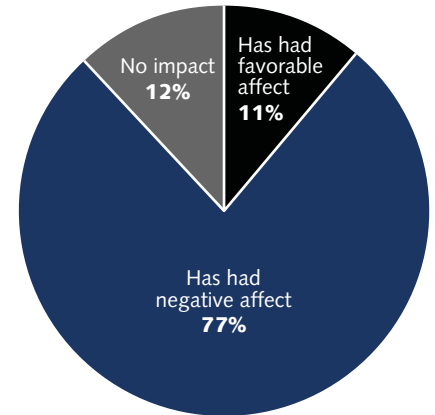
Heading into 2009, the majority of respondents (77%) claim their company has been negatively impacted as a result of the recession.

As ways of coping with the economic downturn over the next year, businesses will largely focus on measures that will allow them to reduce costs, improve their abilities to manage inventory levels, and increase profit margins. Companies are, additionally, looking to upgrade customer service, and improve cash flow, as means of weathering economic conditions. Initiatives requiring any investment or those that may not perceptibly impact a company's bottom line such as marketing, green and global expansion are not presently seen as priorities.

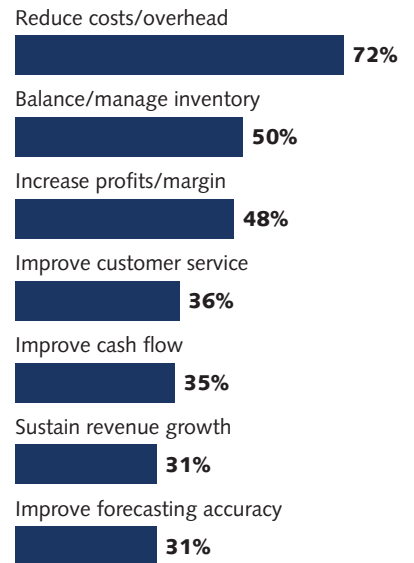
"We are reducing our workforce, there will be no merit raises, and there is a reduction in 401k matching. We are simplifying our product offering, and optimizing our transportation spend (3rd largest company expense)."

Sourcing/Procurement Manager/Executive

Businesses affected by the economy



Top goals for 2009



To best achieve their objectives for 2009, businesses are embracing tactics to better manage expenses, improve inventory management and forecasting, and run their business operations in a leaner, efficient, flexible and responsive manner.

"We are balancing inventory levels against demand. Additionally we are seeking ways to improve our forecasting process for new open stock orders to avoid overstock. We hope to gain greater control over our supply chain process through KPIs and Balance Scorecard."

Sourcing/Procurement Manager/Executive

"We are undergoing supplier reduction, outsourcing pick and pack operations, lean supplier collaboration and improving utilization of supply chain systems."

Supply Chain Manager/Executive

"At this point, we will not purchase any more technology until we are sure of our processes and the impact of what we now have in place as best practices. Once we have gathered the necessary analysis and re-evaluate what we are doing, we will then move forward and advance in our international needs."

Sourcing/Procurement Manager/Executive

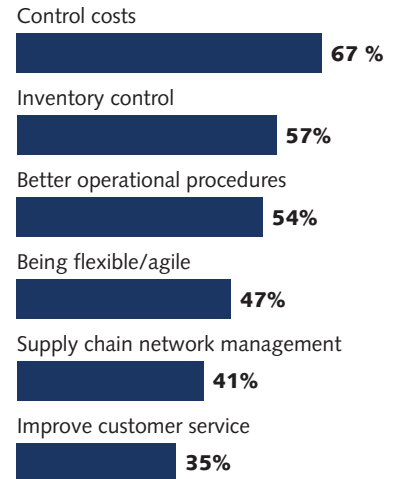
"We are de-stocking inventory, reducing overhead, cutting overtime, etc. We are establishing a more fluid workflow between plant and warehouse personnel and are closing non-performing DCs. In addition, we are reducing transportation expense through re-negotiation of contracts."

Sourcing/Procurement Manager/Executive

"We are executing lean manufacturing initiatives, implementing and installing an ERP package, and hiring fresh, functional talent."

CEO/COO/President

Top ways of addressing business challenges



The Impact of the Economy on Supply Chain Operations

Two out of three respondents (63%) believe the recession is necessitating changes to their company's supply chain network.

The changes most likely to occur will directly impact suppliers. Companies not only plan to closely evaluate the relationships they maintain with their partners but also expect to reduce the number of vendors with whom they work. The economy is further prompting companies to bring tasks back in-house or to be outsourced closer to home (near-sourcing).

"All non-group vendors have been asked to either reduce cost with view to enhancement of products or face losing the business to the group vendors where we can obtain economies of scale at same time either maintaining the same level of service to our customers or increase it."

Procurement Specialist

"We will find a broader range of industry partners tied to new service offerings and require service partners to match our level of sophistication to provide seamless service. We will hire specific skill sets in key positions, use new cost savings equipment, and increase the presence of software operations in critical areas to support customer service."

Logistics or Transportation Manager/Executive

"Our changes will mainly be in procurement and looking at where products are sourced from in relation to our main locations in terms of transportation costs. We'll be developing new relationships between our clients and our vendors providing these products in terms of lowering costs. The difference is bringing together these two elements along with our business as opposed to each working independently from one another. The mood appears to be just that - everyone is open to improving and changing the ways we do things as everyone is basically in the same boat. Dialogues appear to be very open."

Logistics or Transportation Manager/Executive

Businesses are further looking to optimize their network to promote greater efficiencies within the supply chain.

"Network optimization is where we are centralizing to one global PDC with 3 small "satellite" PDCs. We are slowing down transportation by using deferred air, cross-docks, and sea for selected shipments and locations."

Supply Chain Manager/Executive

"We will improve supply chain integration through enhanced visibility, improved service reliability through carrier consolidation. We are evaluating our entire supply chain as well as non-traditional transportation related costs associated with process optimization/process improvement."

CEO/COO/President

"We'll make our supply network leaner. We have to improve forecast & consequently optimize supply to minimize cash being tied up in inventories."

Supply Chain Manager/Executive

"We are putting supply chain metrics in place and evaluating suppliers that are a better fit for our goals and objectives. We're eliminating unnecessary suppliers. My personal thought is to have the right supplier in the right place at the right time."

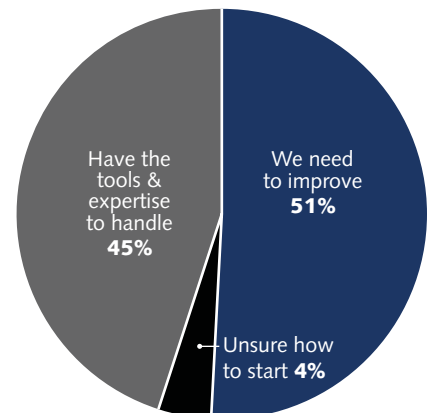
Supply Chain Manager/Executive

While many (45%) feel they now have the tools and expertise to evaluate and reconfigure their network, just over one-half (51%) claim they need to improve in this area; only a handful (4%) say they are not sure where to begin the process.

"The concentration of the organization has been on improving and enhancement of certain material replenishment activities. Another key factor is that the organization needs to be educated on the benefits of a formal S&OP program."

Sourcing/Procurement Manager/Executive

Ability to evaluate & reconfigure supply chain network



Supply and Demand

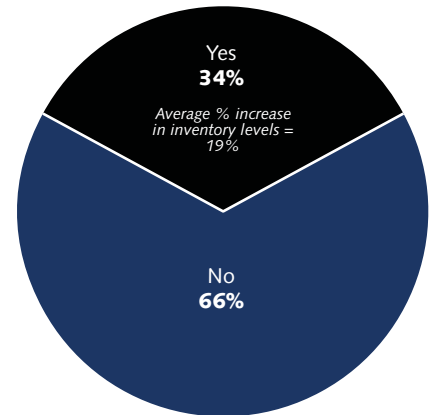
One out of three respondents assert their inventory levels have increased, in large part, as a result of the recession. At these companies, levels have grown almost 20%, on average.

Nearly twice as many companies (61%) have noticed changes in overall demand mix versus those who are not experiencing any shifts in product demand.

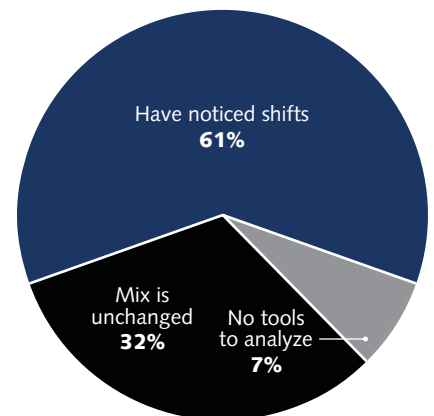
Efforts to better manage inventory should help address the unpredictable product demands many are facing. Two out of three companies are experiencing a drop-off in demand for their company's products as roughly one-half are experiencing a uniform drop-off in demand across all products while others see a shift in demand toward value; one out of four can't identify any pattern to changes.

Many businesses estimate that it will take, on average, more than five weeks for inventory levels to match demand. However, some companies (28%) feel adjustments in their inventory-to-demand ratio will happen quickly, and occur within a four-week span. Nearly one-half (47%) believe it will take over a month to equalize supply with demand; and, an alarming percentage (25%) are not quite sure how long it will take for their inventory to balance out.

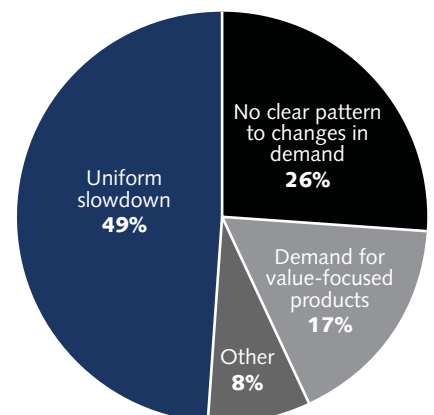
Companies experiencing increased inventory



Perceived shifts in product demand



Demand activity

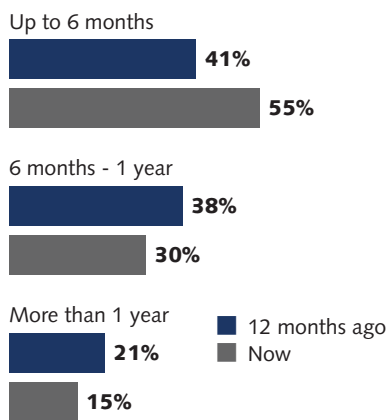


Organizations possess a greater sense of urgency on critical decisions pertaining to demand planning. The current time period of the planning cycle is, on average, seven months, which is reduced from a year ago when the average timeline was nine months. More than one-half of these companies now operate within a 6-month cycle.

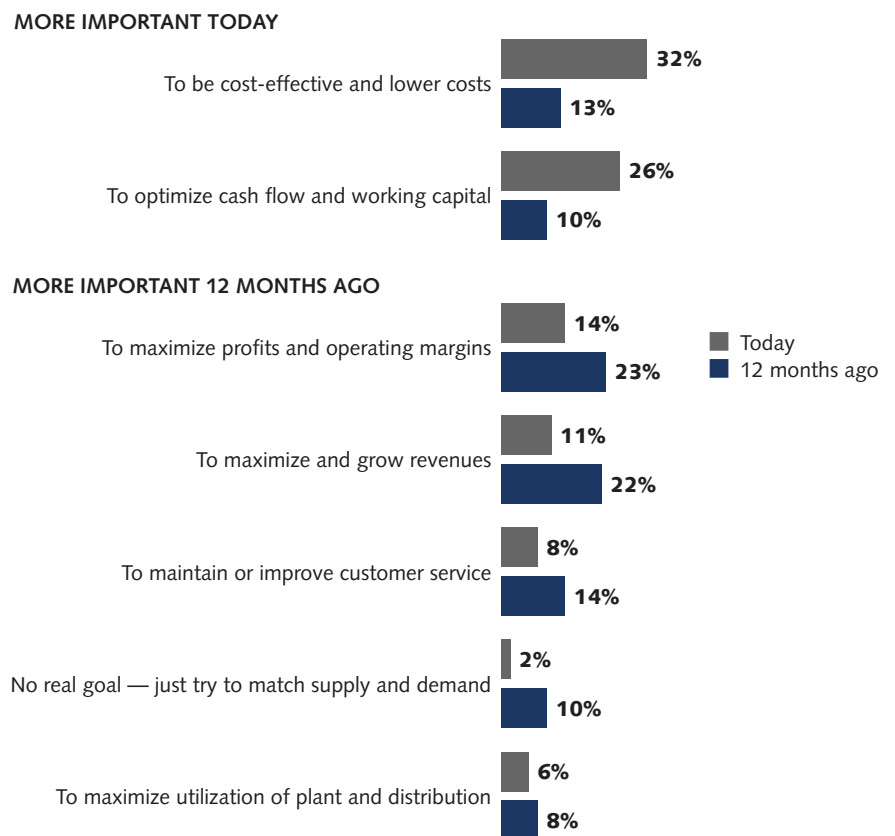
Over the last 12 months businesses have altered their goals regarding supply and demand requirements. A year ago, maximizing profits and revenue growth were the primary reasons for balancing supply with demand.

Today, however, there's greater emphasis on being financially prudent as lowering costs, optimizing cash flow, and planning and scheduling are more critical.

Timeline for demand planning cycle



Supply and demand objectives



The focus for many businesses continues to be on production and operations management with growing importance being placed on inventory replenishment. As further validation that companies are holding down expenses, fewer appear to be in growth mode.

There has also been a change over the last year on the nature of ‘what if’ modeling analyses businesses are conducting. Companies now appear less interested in risk management issues regarding competitive, outsourcing and new product launch possibilities, and are spotlighting those issues that are centered on the uncertainties in demand forecasting.

Strategic planning decisions

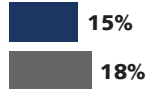
Production and Operations Scheduling



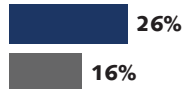
Inventory Replenishment



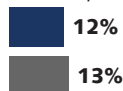
Buying or Procurement Needs



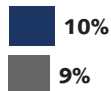
New Product Launches



Plant Capacity Planning (e.g. use of overtime)

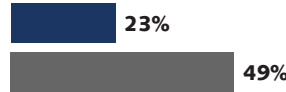


Outsourcing Plans

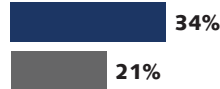


‘What if’ analyses

Uncertainty in the demand forecast



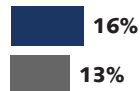
Competitive Risks



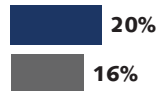
Outsourcing Risks



New Product Risks



In-House Production or Operations Uncertainties



Adoption of an S&OP Program

Roughly two out of three companies (62%) currently have a formal S&OP program. This initiative typically involves many lines of business; Finance, Operations and Corporate Management, Supply Chain and Logistics, Sales and Marketing, and Manufacturing are all among those departments regularly represented. Supply chain executives (42%) and corporate management (31%) are largely cited as their companies S&OP project leader.

While many companies are running an S&OP plan, more than one out of three are not. Among those presently without an S&OP initiative, roughly one-half (47%) claim they are quite likely to evaluate an S&OP solution within the next 12 to 18 months.

Those without a strategy contend they either currently lack the resources (manpower, proper skill sets, tools and technology, etc.) necessary to run an S&OP initiative or that they don't understand or see the value with an S&OP plan. Others feel that their firm is just not large enough for the program.

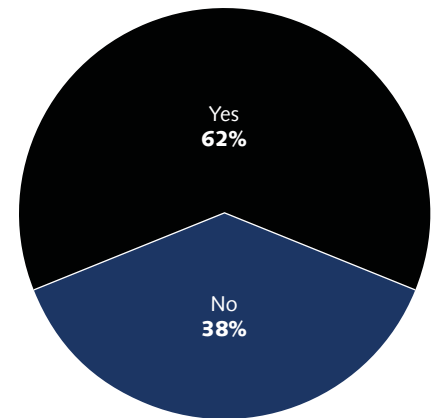
"As a small family-owned business we have not typically looked at a lot of the more widely used tools, etc. This is now changing as we have to improve our business practices in order to survive this economic downturn."

CEO/COO/President

"I have that very same question!!"

Supply Chain Manager/Executive

Organizations running S&OP



S&OP Implementations

Among companies operating an S&OP program, schedules are somewhat rigid and resulting in regularly held meetings. Roughly three-fourths (73%) hold meetings at least once a month.

"We are in the early stages of developing a consistent formal methodology and format with proper metrics. Previously, this was done informally."

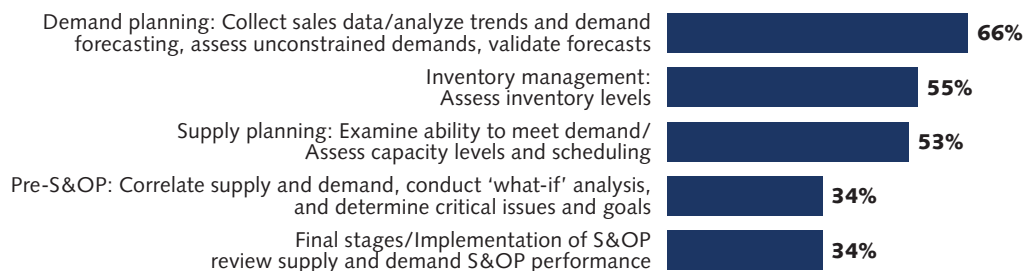
Supply Chain Manager/Executive

While many companies have kept their S&OP structure intact over the last year, others have re-engineered their initiative to better meet the challenges presented by the recession. Modifications to S&OP programs have been fashioned to primarily address:

- Adjustments in procurement
- Greater emphasis on inventory and forecasting
- Changes regarding line of business responsibilities
- Adoption of a lean strategy
 - » Cuts in spending and outsourcing
- Increased frequency in adjustments and S&OP planning cycle
- A more formalized approach to their S&OP

Within a 30-day span, a majority of companies (66%) are able to execute the demand planning process stage which entails gathering sales and trending information as well as forecasting data. Many are also able to conduct inventory management assessments (55%) and supply planning demand reviews (53%) during this time period.

Processes done in a 30 day cycle



S&OP is perceived as a solution to forge greater accuracies and efficiencies in the areas of inventory optimization, customer service, forecasting accuracy, supply and demand balancing, and profitability.

"We want to be able to react faster to changes in the market-place. We want to assure Operations that they are working on the correct priorities. We are looking for a communication of actions being taken in the Supply Chain to improve responsiveness and cost. We want to properly balance budgets, forecast and production."

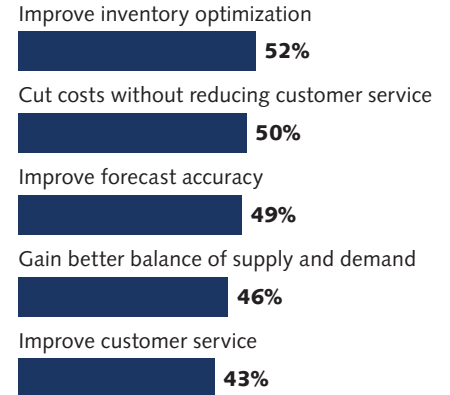
Sourcing/Procurement Manager/Executive

"We measure the effectiveness of the program with "Delivery on Time" (for customer and suppliers) and also with inventory turns. All of these indicators have their goals and we review them on a weekly basis."

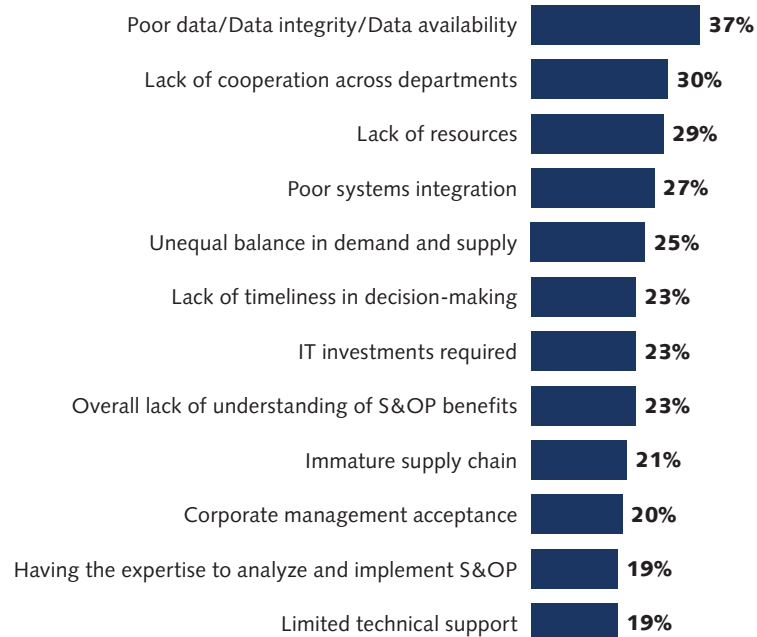
Logistics or Transportation Manager/Executive

As is common with any major corporate enterprise initiative, some encountered setbacks in their S&OP plan during the adoption and implementation stages. Data integrity, lack of cooperation across departments, and limited resources are among the more common hurdles businesses faced.

Top reasons for implementing S&OP



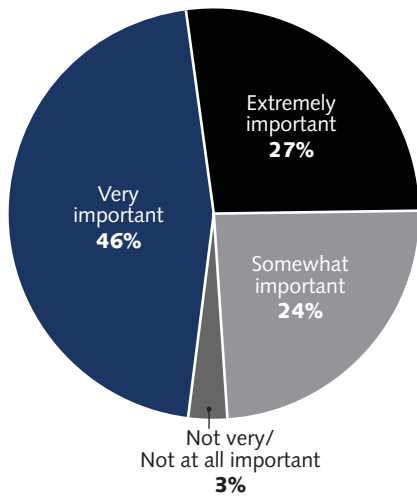
Challenges when implementing S&OP



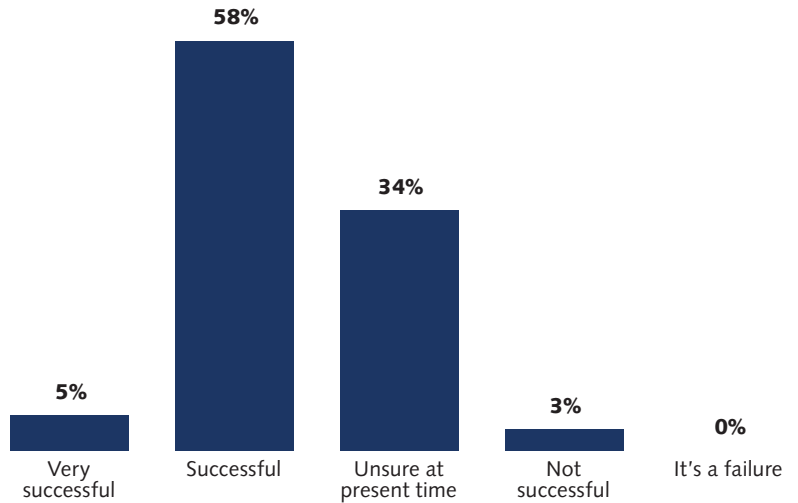
Overall, organizations' S&OP programs are considered to be a vital platform in attaining the overall goals of their business. Three out of four contend that it's, at least, very important while fewer than 5% say their program is of little value.

Most companies (72%) analyze or measure their S&OP program performance. Overall, businesses' S&OP programs are recognized as a success. While the "jury is still out" for one-third, the majority (63%) say their S&OP plan is working.

Importance of S&OP initiatives



Effectiveness of S&OP programs



Methodology

This research was conducted on behalf of Supply Chain Management Review (SCMR) magazine for Oracle and IBM, by RBInteractive Research Group. This study was executed in January, 2009, and was administered over the Internet among subscribers to SCMR. Respondents were qualified for being involved in decisions regarding their company's supply chain business management processes such as Sales and Operations Planning (S&OP), demand management, etc. In total, 537 supply chain executives were interviewed.

About IBM & Oracle Partners

Since 1986, IBM and Oracle have partnered to create smart, serious innovation that's helping shift the world. More than 100,000 joint customers benefit from the strength and stability of the Oracle and IBM alliance, which offers technology, applications, services, and hardware solutions that mitigate risk, boost efficiency, and lower total cost of ownership.

About IBM

IBM recognizes that the goal of its clients is to build more innovative enterprises through the integration of information technology and business processes. By combining the functionality of Oracle's application and technology solutions with IBM's unequaled breadth of technology, services, and industry-specific experience, IBM helps clients produce real business benefits.

IBM's comprehensive Supply Chain Management offerings address every phase of the supply chain, from design to source to plan to build to distribute. IBM helps clients address the full supply chain spectrum — providing results-oriented solutions focused on customer service, product quality, cycle time, asset utilization, operational flexibility, supply/demand synchronization and financial performance improvements — and help move companies from a lagging to a leading position in their industry.

About Oracle

Oracle Supply Chain Management (SCM) is the best-in-class, complete, open, integrated solution that powers information-driven supply chains. With Oracle SCM, companies can predict market requirements, innovate in response to volatile market conditions, and align operations across global networks. Oracle SCM provides industry-specific solutions based on best-in-class applications that span product development, demand management, sales and operations planning, transportation management, and supply management.



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