LOGISTICS

THE STRATEGIC RESOURCE FOR AUSTRALIAN SUPPLY CHAIN PROFESSIONALS

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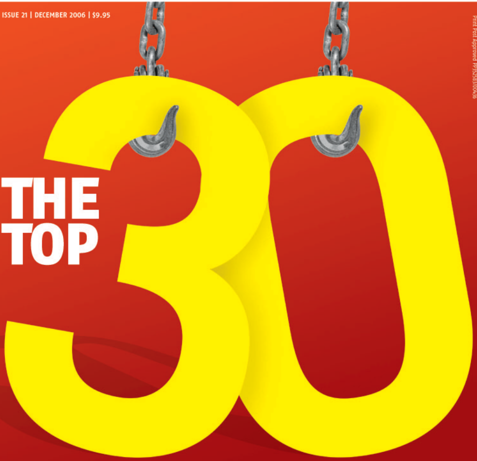

THE TOP 30

AUSTRALIAN SUPPLY CHAINS

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AUSTRALIA'S TOP 30

In a first for Australia, Logistics Magazine presents a list of the nation's top 30 supply chains. Inspired by US based AMR Research, which publishes a list of the top 25 global supply chains annually, we have ranked the leaders according to ten industry sectors.

Our method involves a two-pronged approach. Initially, IBISWorld Research has selected 6-10 of the top financial performers in each sector according to revenue, net profit after tax, assets, liabilities, shareholder funds and number of employees. Secondly, Logistics Magazine has teamed with expert supply chain thinker John Gattorna to distil the list further based on general metrics such as supply chain costs as a percentage of net revenue, inventory turns and cash to cash cycle times. Gattorna applies Total Return to Shareholders (TRS) – the value of discounted cashflow to shareholders. Measured over 1-5 years, TRS is a combination of the spread between Return on Invested Capital and the average weighted cost of Capital X growth in cashflow from operations. "The connection I make between supply chain performance and overall business performance is based on the assumption that 80 per cent of invested capital is tied up in logistics operations (including manufacturing and processing assets) and that up to 50-60 per cent of all types of working capital is ties up in inventory," Gattorna says. "It's hard to imagine a company having a good TRS if it doesn't have a top performing supply chain, including logistics operations, procurement, customer and supplier relationships."

"An industry first, Logistics Magazine has devised a list of Australia's top supply chains"

Our special report also includes an analysis of the cutting edge global supply chain trends, how Australian companies are performing overall along with expert projections for the future. In addition, executives from 9 organizations appearing on the list of leading supply chains discuss the key elements of their success strategies, and on the ground views from nine highly competitive and vibrant industry sectors.

As a relatively small economy, Australia has to get cunning at putting together industry solutions to develop the scale and critical mass needed to compete on a global scale. One pressing factor for change is that operational excellence has a diminishing returns effect. After a period of time, the elements combining to drive performance such as transportation and warehouse management yield fewer profits – even with continuing, or greater investment. Along with increasing complexity through organic growth, merger and de-merger activity is driving firms to stand back and look at their supply chain from an operating model point of view. We're increasingly asking ourselves which customer segments are served from which part of the business. While our business culture has traditionally been to barricade ourselves from competitors, successful companies may need to find creative ways to collaborate with them. Collaboration with competitors across the supply chain would never cross anyone's mind in the US, but such opportunities abound in Australia.

In his latest book, *Living Supply Chains*, John Gattorna argues that we need to develop the dynamic supply chain - one that has 3-4 configurations of processes to allow for changing buying patterns. "Dynamic alignment is about re-jigging what you do internally to face up to your market better," Gattorna says. "But even having done this there's still a limit to how far you can go."

We need a quantum leap to move forward.

In order to prevent short term operational goals from getting in the way of strategic thinking, Australia needs to explore new business models which allow alignment on an equity basis with suppliers, customers or even competitors. Once a fluid exit strategy and power balances are achieved, we might then add the capabilities we need to quickly build scale without the costly integration issues of acquisition or the constraints and limitations of contractual relationships.

Anna Game-Lopata
Editor: anna.game-lopata@reedbusiness.com.au

PUBLISHING DIRECTOR
Bud Keegan

GROUP PUBLISHER
Chris Williams

EDITOR
Anna Game-Lopata
t 02 9422 2645
e anna.game-lopata@reedbusiness.com.au

GRAPHIC DESIGNER
Lindsay Pieterkosky
t 02 9422 2708
e lindsay.pieterkosky@reedbusiness.com.au

NATIONAL SALES MANAGER
Peter Thompson
t 02 9422 2821
m 0424 783 330
f 02 9422 2722
e peter.thompson@reedbusiness.com.au

QLD SALES MANAGER
Sharon Amos
t 07 3261 8857
m 0417 072 625
f 07 3261 8347
e sharon.amos@reedbusiness.com.au
PO Box 3136, Bracken Ridge, Qld 4017

SA SALES MANAGER
David Murray-Smith
t 08 8371 5800
m 0411 748 213
f 08 8371 5900
e david@agsmedia.com.au
AGS Media, Unit 2, 497 Marion Rd,
South Plympton, SA 5038

WA SALES
Greg Leech
t 08 9315 3600
m 0419 048 507
f 08 9315 3599
e greg@fulcruminternationalmedia.com
Fulcrum International Media,PO Box 1101,
Canning Bridge WA 6153

PRODUCTION CO-ORDINATOR
Laura Panameno
t 02 9422 8772
e laura.panameno@reedbusiness.com.au

SUPPLY CHAIN & LOGISTICS ASSOCIATION OF AUSTRALIA
David Doherty, Nerida Kelton,
Steve Macpherson

LAA ASSOCIATION EDITOR
Nerida Kelton
e editor@sclaa.org.au
*SCLAA Qld, SA, VIC, WA and NSW

SCLAA SUPPLY CHAIN & LOGISTICS ASSOCIATION OF AUSTRALIA

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Tower 2, 475 Victoria Avenue,
Chatswood, NSW 2067 Australia
t 02 9422 2999
f 02 9422 2966

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AUSTRALIA'S TOP 30 SUPPLY CHAINS

NAME	TOTAL REVENUE	NPAT	S/HOLDERS FUNDS	RETURN ON SH FUNDS	TOTAL ASSETS	TOTAL LIABILITIES	EMPLOYEE NUMBER
AGRICULTURE							
Futuris Corporation Limited	3,483,653	87,439	1,227,925	7.10	3,352,602	2,124,677	N/A
Australia Meat Holdings Pty Ltd	3,142,676	141,866	540,470	26.20	736,766	196,296	4,944
GrainCorp	699,634	12,11	396,216	0.00	831,117	434,901	939
APPAREL							
Just Group Limited	699,881	57,205	97,295	58.80	252,884	155,589	5,000
Retail Holdings Pty Ltd	497,439	38,498	65,421	58.80	201,958	136,537	2,072
COLORADO group ltd	472,696	35,557	125,352	28.40	174,089	48,737	N/A
AUTOMOTIVE							
Toyota Motor Corp Aus Ltd	7,735,881	54,911	976,811	5.60	2,346,283	1,369,472	N/A
Inchcape Motors Aus Ltd	1,476,609	55,626	134,586	41.30	517,128	382,542	870
BMW Aus Ltd	1,349,303	70,731	142,200	49.70	491,330	349,130	382
HIGH-TECH /ELECTRONICS							
IBM Aus Ltd	3,466,227	130,269	725,293	18.00	2,363,153	1,637,860	9,277
Hewlett-Packard Aus Pty Ltd	2,809,864	75,590	293,110	25.80	1,041,384	748,274	2,732
Siemens Ltd	1,336,178	65,362	129,187	50.60	606,561	477,374	2,013
FOOD AND BEVERAGE							
Foster's Group Ltd	5,119,800	1,166,200	4,481,700	26.00	10,439,100	5,957,400	10,100
Fonterra Co-operative Grp Ltd	13,001,000	12,000	5,145,000	0.20	13,080,000	7,935,000	17,400
Coca-Cola Amatil Ltd	4,160,200	320,500	1,424,800	22.50	5,246,400	3,821,600	18,872
HEALTHCARE/ PHARMACEUTICALS							
Symbion Health Ltd	3,445,359	-8,044	819,557	-1.00	2,164,481	1,344,924	10,586
Pfizer Australia Pty Ltd	1,370,285	52,510	270,974	19.40	1,165,824	894,850	1,569
AHP Holdings Pty Ltd	571,216	38,316	140,278	27.30	336,330	196,052	494
HOUSEHOLD GOODS							
Harvey Norman Holdings Ltd	2,202,212	229,558	1,442,925	15.90	3,030,364	1,587,439	4,383
Electrolux Home Products Pty Ltd	912,656	43,431	335,689	12.90	666,059	330,370	2,742
Fisher & Paykel Appl Holdings Ltd	31/03/2006	1,209,117	63,945	601,851	10.60	1,560,651	958,800
INDUSTRIAL PRODUCTS /CHEMICALS							
Caltex Australia Ltd	16,819,862	594,572	2,138,455	27.80	4,078,548	1,940,093	3,046
Shell Australia Ltd	15,946,200	533,000	1,783,300	29.90	4,216,600	2,433,300	2,759
Leighton Holdings Ltd	10,033,594	276,069	1,103,269	25.00	3,803,288	2,700,019	25,405
MINING/RESOURCES							
BHP Billiton Ltd	53,568,000	14,317,000	33,505,000	42.70	66,470,000	32,965,000	33,184
Rio Tinto Plc - Rio Tinto Ltd	28,422,000	7,146,000	21,567,000	33.10	40,838,000	19,271,000	31,854
Alcoa of Australia Ltd	3,772,500	763,000	2,978,000	25.60	4,325,300	1,347,300	N/A
RETAIL							
Woolworths Ltd	37,977,900	1,014,600	4,257,600	23.80	13,346,400	9,088,800	94,408
Coles Myer Ltd	34,303,800	1,163,600	3,598,000	32.30	9,135,300	5,537,300	94,000
Metcash Ltd	8,251,646	81,178	1,032,867	7.90	3,104,020	2,071,153	7,033

Research by IBISWorld, Logistics Magazine and John Gattorna

LEADING VISION

Top Australian supply chains are supporting both cost reduction and profitable growth, reports Anna Game-Lopata

Historically, Australian supply chains have focused on cost alone, however, signs are now emerging that businesses are starting to blend the front end of their business more harmoniously with operations at the back end.

According to Accenture partner for Supply Chain in Australia and New Zealand Ming Tang, Australia presents comparative cost constraints because of its geography and the lack of critical mass in the marketplace. "Companies are always trying to balance getting the right products to the right customers at the best price," she says. "The change I've seen in the last year is that supply chains are coming out of the cost constraint view, and driving profitable growth."

Most would agree superior supply chains employ a combination of the right people, systems and processes, but how do the top companies actually achieve this in practice? According to GRA partner Carter McNab, organisations that take a forward view and make supply chain decisions based on their business plans perform better in the long run. "Supply chains that develop in an ad hoc manner in response to organic growth often aren't well aligned with the business's actual value proposition," he says.

In his new book, Living Supply Chains (Pearson Education, London, 2006), thought leader John Gattorna argues that supply chains are living networks driven by human beings, including customers, suppliers and employees. "If we can understand more about the behaviour of people, along with customer buying patterns and all the enablers such as technology, we'll be able to rise to a whole new level of supply chain management," he tells Logistics Magazine.

Previously co-director of the Centre for Supply Chain Research at the University of Wollongong, Gattorna believes the softer science of human behaviour isn't tackled well in supply chain thinking. "We've been working hard on technology and asset utilisation over the years, introducing techniques like six sigma and lean to help improve our processes and take out cost, but we're only working on half the engine," he says.

Lean evolves

According to British lean enterprise expert Peter Hines, who recently visited Australia. lean thinking has evolved beyond its roots on the automotive shop floor. "Major weaknesses of lean manufacturing included a limited appreciation of how to handle demand variability," says Hines, who is professor of supply chain management and director of the Lean Enterprise Research Centre at Cardiff Business School in the UK. "Implementation was entirely tool-focused, and generally neglected the human aspects of the high-performance work system core to the lean manufacturing approach."

The current leading edge lean thinking involves utilising 'value streams' or lean value systems which encompass business at a strategic rather than purely operational level. "It's about looking at strategy formation and deployment holistically and includes processes such as order fulfillment, new product development and supply chain integration," Hines says. "Once the processes have been defined they can be 'leaned out'."

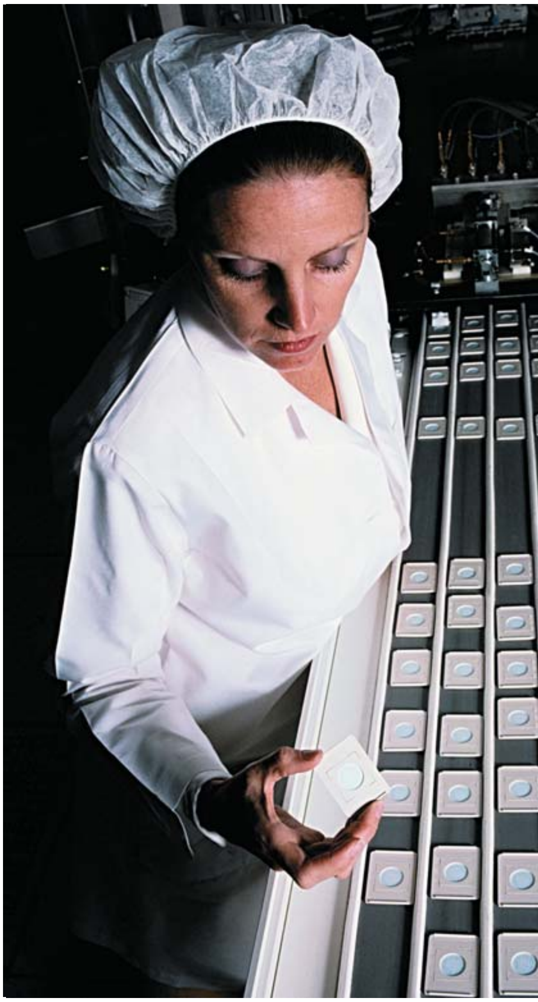
Hines has been working with the UK supermarket group Tescos in the UK for 12 years. He says best practice organisations no longer talk about lean. Rather, lean has become the culture within their business. "Tesco has increased turnover by a factor of 3.5 and profit by a factor of 4.5 since 1993. Those are big numbers for a large organisation working in a difficult market."

While Hines believes waste elimination is important, creating value is first on the agenda. "You need to grow the business in terms of people at the same time or faster than you're winning business and taking out waste. In essence, lean is about profitable growth."

Dynamic alignment

John Gattorna points to 'dynamic alignment' as the concept leading supply chains are now embracing. "You can't set up your supply chain on the assumption that customers will always buy products the same way, even staple products like milk, because situations change," he says. "What you need to do is hardwire your organisation with 3-4 different supply chain configurations made of tailored combinations of standard components. Then if a loyal customer suddenly has a break down and wants you to turn yourself inside-out to solve the problem, you've got the capability. You can then revert to the original, low cost lean supply chain when the crisis is over."

> **"Supply chains are living networks driven by human beings"**

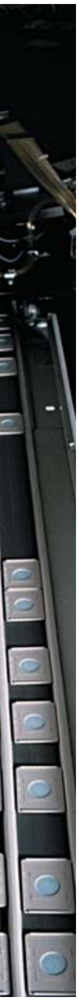


Further, Gattorna explains the process of detailed customer segmentation, a concept gradually gaining traction in Australia. "Human behaviour is not chaotic, it has patterns," he says. "Unless you start with a frame of reference, your operations strategy and everything you're doing in terms of transformation is effectively a guess. The only absolutely accurate frame of reference is a complete understanding of what customers expect when they buy products and services."

"Once you understand the buying patterns for any product or service then it's not difficult to reverse engineer KPIs, organisational design, processes, technology configurations and internal communication - all the things you need to shape the subcultures within the business that drive your particular supply chains in to the market place."

Collaborative opportunity

The nature and method of collaboration is also a burning issue for top supply chains. Leading software company Infor's CTO Bruce Gordon points to successful strategies employed by Japanese companies, in which genuine collaborative partnerships exist between suppliers and customers. "If you've got a two or three tier supply chain, partnerships can help carry the risk along with offering the communication required for better planning," he says. "In other parts of the world, the big OEMs tend to push the burden of risk down the chain. Companies are not so willing to share data so inventory management is less optimised."



According to Ming Tang, the resource sector is actively collaborating by finding ways to share information and even contracts to optimise transportation, but Australia is in a unique situation given the concentration of the market. “When companies share networks, there’s a concern they may be seen to be colluding. They should seek advice from the ACCC to ensure competition rules are not broken.”

In Carter McNab’s experience, competing interests can make collaborative relationships difficult. “Sometimes to optimise a supply chain you have to sub-optimise a component of it,” he says. “For example, a distribution business might be struggling with unnecessary stock as its manufacturing facility pushes through ever more product per run to increase asset utilisation. It’s difficult to make a business case using traditional financial metrics to sub-optimise one supply chain component to optimise another, so collaboration can’t go very deep. As yet there are still impediments to developing the systems maturity and people skills to leverage the technology and change management required.”

“Many companies are still challenged by functional silos,” adds McNab. “It’s not unusual for groups such as finance, sales, marketing and category management, and supply chain and logistics to operate as separate silos with their own processes and sets of numbers. That creates additional cost and poor performance in the supply chain.”

As globalisation continues to elongate our supply chains, Australia’s leading companies are investing in sophisticated tracking tools and technology. Carter McNab believes while a lot of time and money is spent on the execution of tracking and tracing, the real power comes from planning. “Knowing that you’re in short supply today is useful, but not nearly as useful as knowing it in advance,” he says. Visibility from the perspective of planning allows you to foresee your risks and decide how to manage them before they become a problem. We’ve seen some of the leading companies taking on this challenge.”

“Lean thinking has evolved beyond its roots on the automotive shop floor”

Looking ahead

So what are the trends of the future for Australian supply chains? Ming Tang says dynamic pricing, the process of pricing in real time according to external factors, will become the next leading edge process. “Australia hasn’t yet picked up the tools, but I suspect once the infrastructure is there along with a better understanding of the cost of doing business, the opportunity to maximise profits through dynamic pricing will be realised.”

Infor’s Bruce Gordon believes despite the constraints of the Australian context, we are on par with other countries in terms of supply chain innovation. “Australia is an early adopter of technology, and makes it work earlier than many other countries,” he says. “Australian management understands its business very well and being close to the coal front, is able to take actions that would be considered too risky elsewhere.”

John Gattorna has a different view. He says too many people look for a one dimensional responses to a complex operating environment. “We’re trying to simplify the management of our supply chains using standard processes which only provide around a 10 per cent fit with our business. we then end up facing up to 90 per cent exceptions. I’m arguing that a multiple alignment process allows for an 80 per cent fit but we’ll only get there if our chief executives learn to see and merge the whole picture.”

Gattorna also argues the energy and thought that’s gone in to competitive analysis has been excessive, taking the collective eye away from the delivery of strategy. “This area of darkness inside the business has to be opened up by people who aren’t afraid of what they might find. Rather than being distracted by competitors, we need to develop the necessary subcultures and ‘genetically re-engineer’ our businesses internally.”