

■ INDUSTRY INSIGHT

Where are the pioneers?

'Cringe factor', 'black holes in supply' - Australia is well-known for its pioneering spirit but has this been lost along the supply chain? By **Rowena Hawksley**

Australia's demographics are most peculiar. With a population density of only 2.6 per sq km and a remote world position its logistics task is quite unique. Compare that to 30.4 in the US, 246 in the UK and a staggering 17,531 in Macao, then place 70 per cent of them in coastal regions and you have an interesting logistical challenge.

Logistics magazine asked Dr John Gattorna for his viewpoint on how Australia stacks up on the international scene.

Q HOW DOES AUSTRALIA'S LOGISTICS INDUSTRY COMPARE ON A GLOBAL SCENE?

JG "Mid-Atlantic is the phrase that I would use in terms of Australia's sophistication. I don't think we are as sophisticated as some European countries such as the UK and particularly the Nordic countries. We have been well down the logistics learning curve for a long time, though we're beginning to look at the supply chain in a much more holistic way in patches.

"The problem in the US is that while you would expect them to be leading in terms of sophistication, and they are on the face of it, their markets are so much bigger they tend to have a lot more specialisation and compartmentalisation, so it's ironic but the

Government is putting a lot of money into research, as are some Commonwealth Government boards and committees, but you don't see a lot coming out.

"For a country that lives or dies on its logistics and its part in the supply chain of the world, we haven't done a lot. I don't think we have enough knowledgeable people to give the appropriate guidance, so it's really about developing leadership in the right places. We are getting there but a lot more slowly than I would like."

Q WHAT ARE THE GREATEST CHALLENGES FOR AUSTRALIA?

JG "There's a real limit to just doing what we're doing better. I look at logistics and supply chain performance on three levels. The first level is where you just aim for operational excellence - you run your factories to their limits, you optimise your warehouses, you achieve good metrics on your transportation, and you try to do what you are doing now - without doing anything new or innovative. I think a lot of Australian companies are still on that curve and they tend to think that if they keep going on that curve, that it will take them somewhere. The trouble is that you get a diminishing returns effect. There's also a limit to how far you can



relationships with my third party providers?', 'how can I have a more collaborative culture?', 'how can I manage relationships and partnerships rather than just achieving some gains where I win, you lose?'. So it's really the world of collaboration and integrating systems and partners inside the company and across the company.

"There are a number of companies in Australia who are certainly trying to get to that curve, but it's a bit like a sand hill - three steps forward, two steps back. They're struggling a bit. Certainly a lot of them are spending money on technology but they're just not really getting the value extracted for the money invested and a lot of boards would agree. And it's nothing to do with the technology, it's to do with the way it has been implemented, a lack of process re-engineering underneath the technology and the way it is driven.

"The third level is the world of the virtual networks where companies start to work together in consortia. This is really the big challenge Australia is facing - we've got to get more companies up through those three levels and to do that we've got to have a more innovative culture. We need people who understand there's a black hole out there where there's a lot of value to be had - people who are prepared to experiment, try new things and join up with other parties who have other capabilities.

"If we create consortia and bring a portfolio of capabilities together we can end up being as good as any European or US

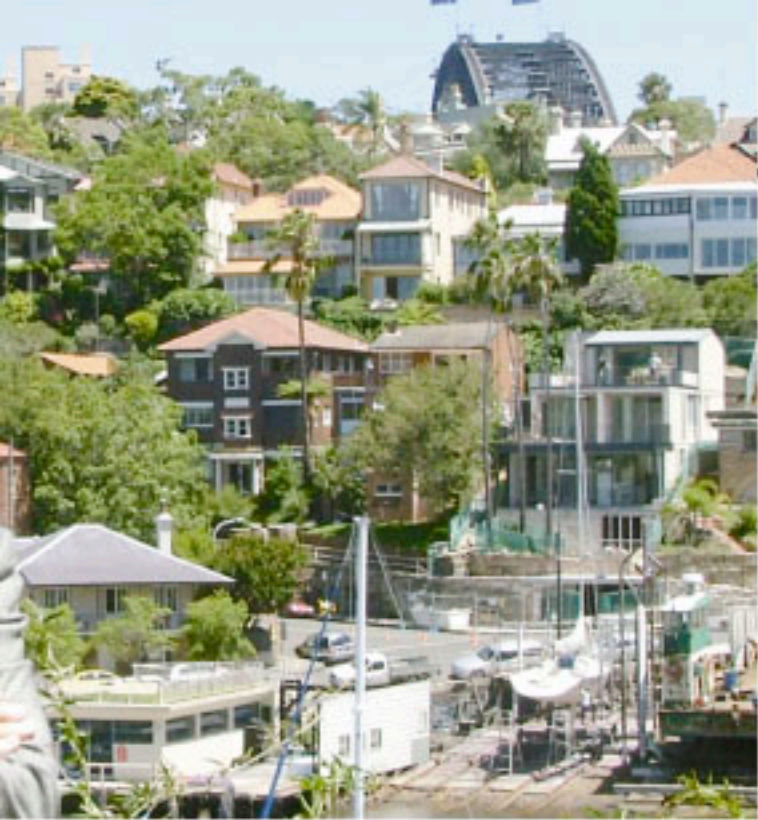
"For a country that lives or dies on its logistics and its part in the supply chain of the world, we haven't done a lot"

most sophisticated country ends up being less sophisticated because it has more specialisation.

"In Australia we are somewhere in between Europe and the US. We've got islands of sophistication mainly built around companies. I don't think the Government has really got the message yet. The Victorian

go down that route because we just don't have the scale.

"The second curve, and the better companies of which there are a few in Australia and many in Europe have jumped to it, takes you down the route of 'how can I use technology?', 'how can I integrate that?', 'how can I be more mature in my



company in the world. Even though we don't have the scale we can artificially create scale with industry integration and cut a lot of the unnecessary duplication out. We have a great chance to do that because we are small enough to try it, whereas in Europe and the US they are finding it difficult [to move to that level] because there are too many other rich pickings to be had simply by working at level one."

Q WHY THREE STEPS FORWARD AND TWO STEPS BACK?

JG "Too few people understand, or have a map of, where they want to go. They may have tried but perhaps haven't put the right amount of resources into it, or the right amount of effort, or it is underfunded, or it's not really in the true spirit of innovation. It's stumbling forward a bit, spending a lot of money putting in an ERP system for instance, but in a sense it doesn't connect things together. In other words the foundation has been set but we haven't gone any further.

"We don't have a critical mass of thought leaders in this industry in Australia. We need a

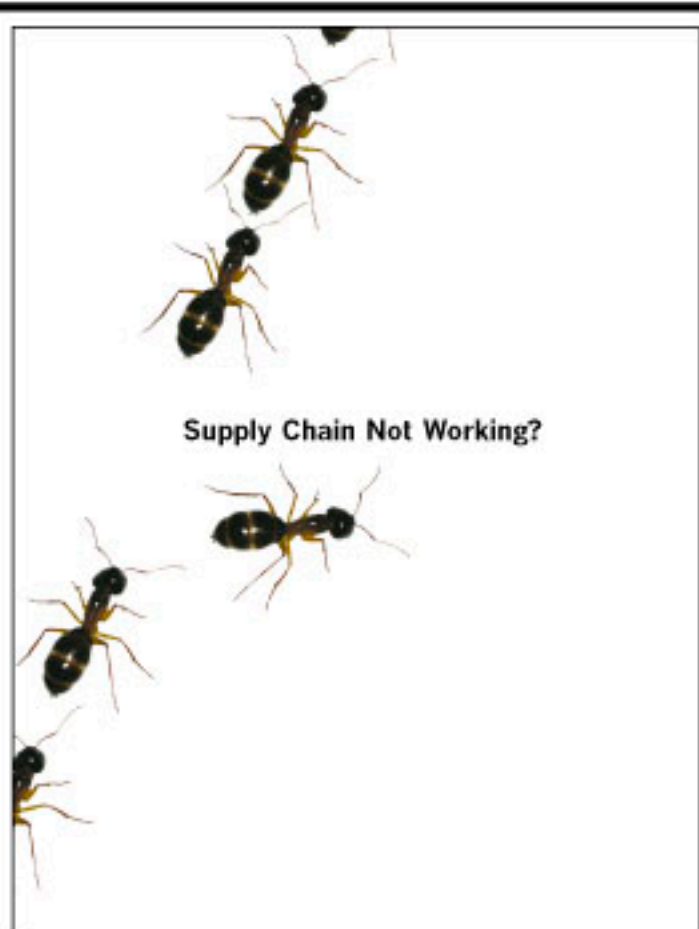
new generation of thinkers coming up who will be multi-disciplined - they might have accounting or marketing degrees and they are now thinking of the supply chain. Bringing multiple disciplines to bear on the subject is really what we need."

Q IN THE MEANTIME WHAT IS THE SOLUTION?

JG "There are people out there. Probably the best and the brightest young people at the moment in Australia are more attracted to consultancies and industry has got to be prepared to use those resources.

"There exists in Australia the 'cringe factor' - in some leading companies there exists a 'do it yourself syndrome' and in today's environment where we've got so many different specialisations that have to be married together to get the desired result, then 'do it yourself' is not going to work in the long-term.

"There are some very talented people in consultancies. And for supply chain and logistics we have to go beyond the general consultants. We've got to tap CONTINUED OVERLEAF



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Ian Urquhart
GM, Business Support Group,
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*Georgia Tech. Research News, 2004

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into consultants that have got international networks, and global practices and knowledge exchanges and share the knowledge amongst their consultants around the world."

Q HOW DO WE LEVERAGE TECHNOLOGY?

JG "The industry must understand how technology and the people factor can be more closely integrated. Some of the major failures in technology are not the technology but the way it is applied. 'We put something in but we didn't tell our suppliers', or 'we didn't properly train our staff' or 'we just slung technology in and didn't take the opportunity to do the re-engineering in our business and simplify things so that the technology could run it faster and better'.

"Certainly we've got some struggles at the moment. If you refer to the J Sainsbury experience in the UK where, again, it's not the technology but other things that are causing it to be blamed. On the other hand, electronic,

high-tech companies like Dell and Cisco had the advantage of starting with a blank sheet of paper 20 years ago. One of the biggest problems that we have with our old bricks-and-mortar companies like Billiton or Bluescope, is that in trying to get into the e-world they have had to overcome enormous resistance internally. The high-tech companies have generally been well led, they've had access to the best technology, they have an innovative culture and they've gone after it, that's why they've done the best."

Q WHAT SHOULD WE BE AIMING FOR?

JG "A gleaming example [of an excellent supply chain] would be Zara, the Spanish fashion retailer. They have been an inspiration, they have been forced because they are in the fashion industry to look at ways to respond quickly to the customer. They've rewritten a lot of the rules and the principles of the supply chain which we were leaning on 10-12 years ago simply because

they are in a business that requires incredible responsiveness. The companies that are doing best today are in the industries that have the greatest demand. Look at the mobile phone market, companies like Ericsson, Motorola, and look at the computer industry, Dell and Cisco - they have all been under pressure to re-think the way they do their logistics. The big old industrial companies, and to some extent some of the pharmaceutical companies, who may have had big margins have been slow and apathetic. They are now starting to realise that the world is closing in. There is a correlation between the pressure to change coming from the marketplace and the success stories among the companies that are meeting that challenge." ■

Dr John Galloma's new book with the working title *Living Supply Chains* will be published in late 2005 - this book is specifically designed for C-level executives in major enterprises.

► Find out more about Dr John Galloma at www.johngalloma.com

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