

Accenture Australian Business Agenda 2008 Video Series



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Supply Chain Management

Managing production across national borders

Michael Pain

Hello and welcome to the Australia Business Agenda 2008 Video Series, a series of interviews with senior executives within Accenture's Australian Management Consulting and Integrated Markets practice. The Series tackles some of the key challenges facing organisations operating in Australia today.

One of the continuing trends impacting the Australian economy in recent years has been the increase in offshore production. The rapid emergence of multiple low cost markets in Asia has forced many Australian manufacturers to relocate or outsource production to the Asia Pacific region and, commonly, China.

In this interview Zeljko Nikolic, co-lead for supply chain within Accenture's Australian Management Consulting and Integrated Markets practice, discusses the challenges and key strategic considerations for organisations managing supply chains that cross national borders.

Question

What are the issues facing Australian manufacturing organisations?

Zeljko Nikolic

Clearly organisations that are in the manufacturing sector in Australia are faced with much greater pressure on costs and operations, globally and locally. There is pressure on the access to talent and resources in the Australian marketplace given how strongly our economy is running and the constraints across the economy. Offshore production and moving production to the markets beyond Australia is now becoming much more of a reality than it was the past, because of the competition and the impact of the global economy, but also because it is more accessible than it has been in the past.

Question

What are the challenges associated with offshore production?

Zeljko Nikolic

There are a whole range of challenges in offshoring. It is easy to downplay or not fully appreciate some of those challenges when faced with competitive pressures and also the magnitude of some of the potential benefits in terms of the lower costs of production. The challenges are really driven by the increased complexity of the supply chain, so the lead times for delivering products are much greater. There are different tax implications, there are different customs protocols, and such foreign exchange

implications need to be factored into the supply chain.

There is also a lot more effort required to ensure security of supply and also the quality of the product. We have seen examples globally such as some of the toy manufacturers recently who have had massive recalls for products because of lead in the paint on the toys. This has involved huge cost not only in terms of product recalls but also in brand damage. These sort of subtleties, if you like, can be forgotten in the process of moving production offshore or looking for sourcing offshore.

One of the things that we encourage our clients to do when they are considering moving production offshore or sourcing offshore is some very rigorous upfront analysis to understand all the implications of the various options. There is no guarantee that that will cover all the challenges but certainly it makes organisations a lot better prepared for dealing with the challenges that come for these sort of operations and these sort of shifts.

Question

What are the issues relating to the environment?

Zeljko Nikolic

This is a very interesting and topical question at the moment. Two elements we have seen come to the fore recently include costs of transportation with rising fuel prices, and greater awareness in consumer markets about sustainability of the products that they purchase and the services that they use. Our clients are putting much more effort and focus into the various elements of their supply chain and how that impacts the environment.

Sustainability has been one element but there are others at play. For example, we are seeing a lot of organisations shift their sourcing operations nearer to their home markets than perhaps was done a few years back. Particularly in North America, many organisations are shifting some of their sourcing decisions from China to Mexico or Latin America. Having a hybrid is another option. It

offers greater flexibility, it gives them ability to better manage their risks in their operations but it also has an impact in terms of the sustainability of their supply chains.

Question

What advice would you give to an Australian organisation?

Zeljko Nikolic

There are a couple of things that really come to mind around that. There has been a lot of commentary in the market given the subject is topical. From our experience, two things really come to mind. One is to really take the time to do the research up front and understand the potential partners and build a relationship with them. It is important when going into markets like China to be culturally aware, to understand different cultural expectations and taking those to heart and putting them into practice when meeting - whether it is at trade fairs or site visits. This is critical in terms of building a long-term sustainable relationship with offshore manufacturers and suppliers.

The second element concerns how organisations establish the different set of capabilities that they require to manage a multinational supply chain. Think about the speed required to build those capabilities and consider the options for putting those capabilities in place. As an example, Accenture has in place an international procurement organisation to help our clients with the experience and local market presence in a number of product categories that we source for other clients. It gives them a ready made capability that they can plug into, to reduce the time-to-market or the time to rapid transition to manufacturing offshore or sourcing offshore. Of course, such an international procurement organisational capability could be accessed through a facility like Accenture's or built in-house. We have found through recent research, particularly in China, that organisations that leverage those international procurement organisations internally typically achieve in excess of 30 percent greater cost savings on their

products that they source out on that mark than other organisations. Retail organisations in Australia have certainly had a very strong international procurement organisational presence in China and other markets and they have leveraged those heavily; it is a big part of their competitive positioning.

Question

Is offshoring a silver bullet solution for Australian manufacturers?

Zeljko Nikolic

Most definitely it is not. Like a lot of things, it needs to be part of a broader solution set. Organisations need to be very clear about what it is that they are trying to achieve and the problem that they are trying to address. We find that there are typically three drivers for organisations to move manufacturing offshore or to source from offshore. The most obvious one is the cost efficiencies that exist. Another is access to new markets and a lot of companies will set up the operation overseas to access some of those growing markets. We have seen from our research that future momentum is in these emerging markets like China, India and Brazil.

The third element is really access to resources that are in short supply. Australia, as is true of all the western developed economies, is changing in the demographics and the aging of the population. This brings about a restriction in terms of access to talent that is often required in the operations, so going offshore and sourcing from emerging markets can often address those sort of issues as well. It is important for an organisation to be clear about where offshoring fits into its broader business strategy and be clear about what it can and can't achieve, particularly in light of some of the challenges that we have discussed. Certainly not an easy option.

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