



GRAND & TOY 2012

SUPPLY CHAIN & PROCUREMENT INSIGHTS REPORT

CANADA, ARE WE FALLING BEHIND?



Research conducted by **Leger**
MARKETING

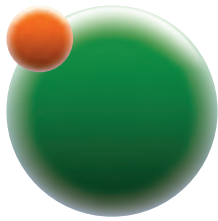


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OVERVIEW

With an ever-changing global market, deploying agile and responsive supply chain and procurement processes has become a strategic imperative for organizations that wish to maintain their competitiveness. The resulting complexities created by globalization make supply chain and procurement visibility and the ability to meet customer demand and control costs at the same time, more critical than ever. As important as cost reduction or obtaining the best purchase price is, the new imperative for supply chain and procurement is to balance objectives equally across risk management, new business generation, customer experience and the traditional tactical goal of reducing costs.

This report is based on live interviews with leading Canadian supply chain and procurement executives and a Canada-wide quantitative survey of more than 500 Canadian supply chain and procurement decision makers at organizations with a minimum of 500 employees. The survey focused on current and future state challenges & priorities for these executives as well as Canadian procurement and supply chain organizational preparedness and global competitiveness. It was conducted by Leger Marketing between January and March 2012.

KEY FINDINGS

Canadian supply chain and procurement is tactically focused at a time when globalization demands tactical-to-strategic supply chain and procurement transformation. Supply chain and procurement needs to function at a strategic level, but there are significant barriers to this transformation that must be overcome:

- Limited end-to-end supply chain and procurement communication and collaboration
- An inward orientation toward risk identification
- Higher cost structure in the supply chain
- Performance visibility and risk preparedness challenges

Yet there are many cases of outstanding strategic success. Canadian organizations that have successfully achieved tactical-to-strategic supply chain and procurement transformations identify two key building blocks:

- Measurement, metrics and reporting
- Communication/ Collaboration

These areas of focus support a shift in strategy — evolving from a strict emphasis on cost reduction to an emphasis on overall risk mitigation and constant supply chain and procurement development.

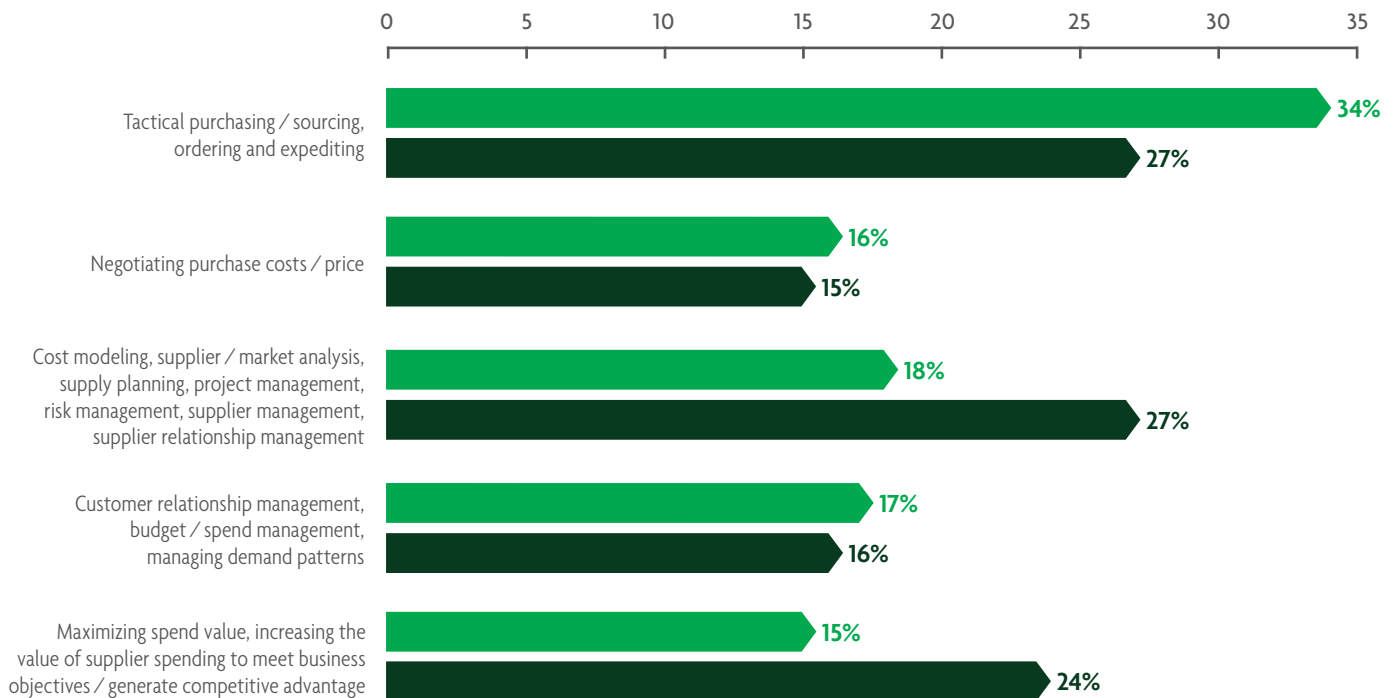
PROCUREMENT — TACTICALLY FOCUSED BUT EVOLVING

Although a large percentage of the organizations surveyed in the quantitative portion of the research have a tactical view of procurement, many organizations are shifting their emphasis to a more strategic role.

KEY ROLE OF PROCUREMENT

PAST 3 YEARS

NEXT 5 YEARS



Q. Which of the following best describes the key role of your organization's procurement function over the past three years? What do you think the key role of your organization's procurement function will be over the next five years? Source: Leger Market Research, 2012

50%

of the organizations surveyed describe the key role of procurement at their organization over the past three years as "tactical purchasing / sourcing, ordering and expediting" or "negotiating purchase costs / price"

42%

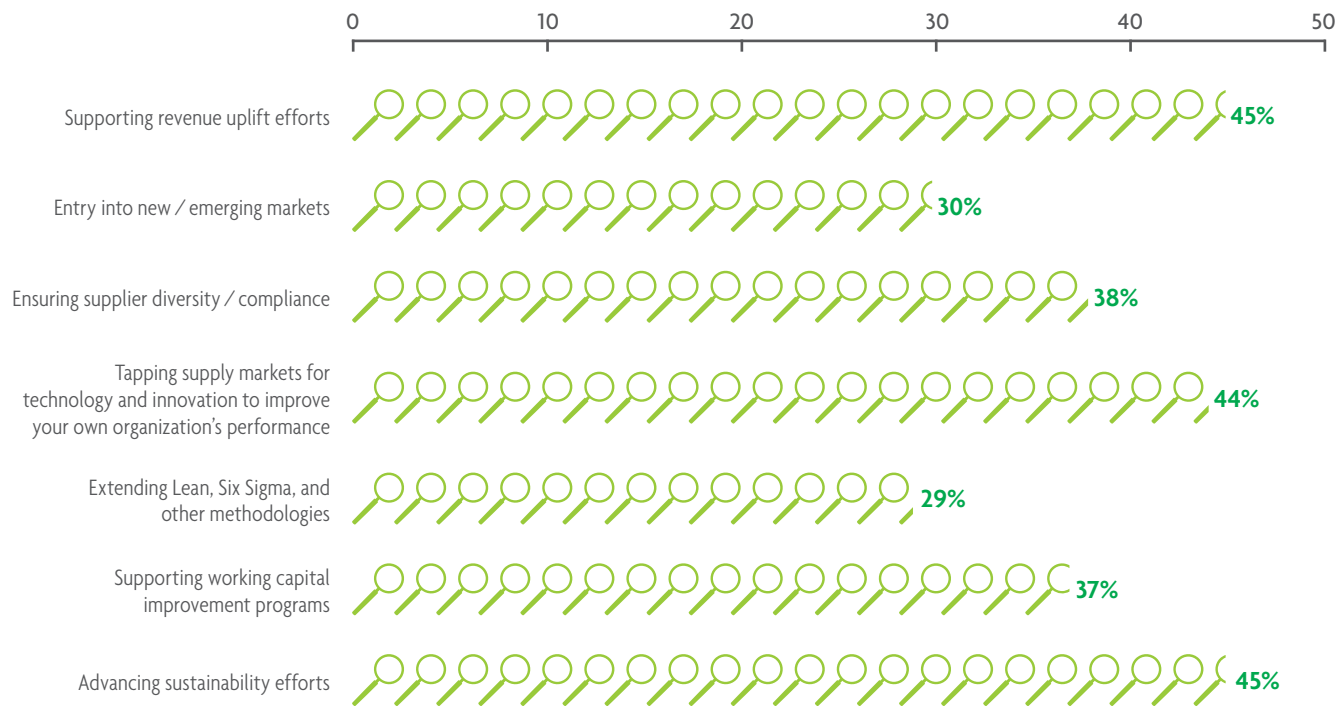
see the procurement function at their organization continuing to focus on these tactical roles over the next five years

24%

indicate procurement will have a strong strategic role at their organization over the next five years — a significant increase from 15% in the past three years

In one-on-one interviews with procurement executives who have led tactical-to-strategic procurement transformation, strategic procurement was described as contributing to the organization in many ways other than simply reducing purchase costs. It is these contributions that create a strategic link between procurement and the business. This alignment of procurement with business objectives is defined as strategic linkage. What emerged is that Canadian procurement organizations are not performing as strongly as they could in contributing to key procurement business strategic linkage areas.

PROCUREMENT’S CONTRIBUTION TO KEY STRATEGIC LINKAGE AREAS



Q. Which of the following does your procurement function currently contribute to? Source: Leger Market Research, 2012

The strategic linkage performance and emphasis on tactical roles for procurement indicates that organizations are satisfied with procurement delivering value at the most basic level of procurement functionality — reducing purchase costs.



COMMUNICATION AND COLLABORATION

As economic globalization expands, deploying sophisticated, agile and responsive supply chain processes has become a critical future success factor for all organizations. At the same time that supply chains are being extended geographically, they are also being extended to more participants — further increasing complexity and risk and elevating the need for constant communication and collaboration as a strategic imperative for success.

In both supply chain and procurement, the research findings indicate a possible lack of end-to-end communication and collaboration that is at odds with this strategic imperative:

PROCUREMENT

- Only **24%** of the organizations surveyed use cross-functional teams across the **sourcing strategy and analysis phase** of procurement as a standard practice
- Only **16%** of the organizations surveyed use cross-functional teams across the **sourcing execution phase** of procurement as a standard practice
- Only **19%** of the organizations surveyed

use cross-functional teams across the **supplier partnering and development phase** of procurement

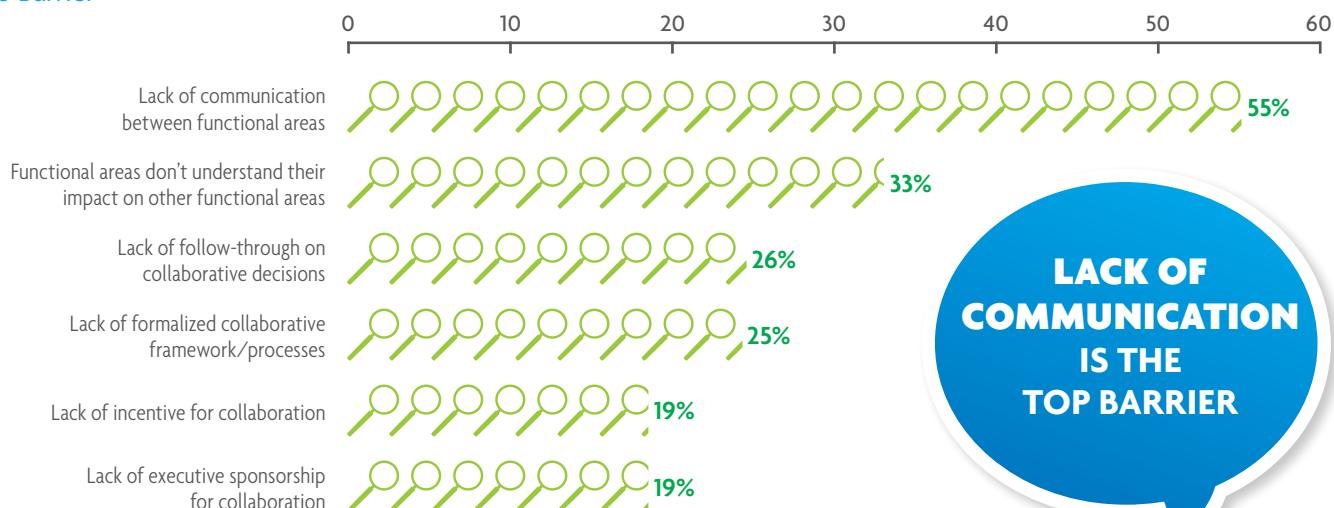
SUPPLY CHAIN

- **75%** of the organizations surveyed do not share their supply chain strategy with partners — indicating a possible lack of end-to-end communication/collaboration
- **55%** say a lack of communication between functional areas is the biggest barrier to cross-functional collaboration at their organizations
- **33%** say functional areas not understanding their impact on other functional areas is the second biggest barrier

Taken together, these data points indicate the framework and organizational processes for cross-functional communication and collaboration (internal and external) are either not present or not strong enough at a significant percentage of large Canadian organizations.

BIGGEST BARRIERS TO COLLABORATION

Top Barrier



Q. What is your organization's biggest barrier to collaboration? Source: Leger Market Research, 2012

AN INWARD ORIENTATION

In one-on-one interviews with executives who have led tactical-to-strategic supply chain transformations, supply chain is described as having an end-to-end view. To summarize the comments and feedback: supply chain is not a study of the internal only. It is about competitors, benchmarking, data gathering, collaboration, knowledge, customers, suppliers, logistics and everything else in a true end-to-end view. Supply chain is an exercise in studying everything across functions end-to-end. And for an organization to do this, it must know its internal and external customers, partners and supply chain relationships. When organizations only focus on their internal processes they fail to identify opportunities and risk.

Given the limited supply chain extension to external partners and cited communication/collaboration barriers, it is perhaps unsurprising to find the majority of large Canadian organizations appear to have an inward orientation towards supply chain challenges and risks.

When asked to identify their organizations' top five key supply chain challenges over the past three years, and what they expect their top five challenges to be over the next five years, Canadian organizations place limited emphasis on challenges and risks stemming from globalization (See Chart "Supply Chain Management Challenges" on page 8).

Canadian organizations' top five supply chain challenges over the past three years are generally the same as their top five anticipated challenges for the next five years. Furthermore, no other challenge is identified as of growing importance over the next five years' expectation.

This contrasts markedly with worldwide survey results. In a McKinsey & Company global survey entitled "*The Challenges Ahead for Supply Chain*", increasing volatility of customer demand is the most frequently cited challenge of the past three years, but:

LOOKING AT CHALLENGES OVER THE NEXT FIVE YEARS, THE FOCUS SHIFTS; RESPONDENTS MOST FREQUENTLY CITE INCREASING PRESSURE FROM GLOBAL COMPETITION AS THE TOP CHALLENGE.²

In the McKinsey survey, the challenges that increased most significantly from the past three years' experience to the next five years' expectation include increasingly global markets for labour and skillsets, geopolitical instability and pressure from global competition.

The contrast implies some Canadian organizations may be at risk of isolating themselves from the increasingly globalized view of risk held by their worldwide competition — competition they will see more and more of in the future even within domestically focused markets.

“Global supply chain leaders focus on cross-functional collaboration between key functions and they see end-to-end supply “networks” or “ecosystems” in which the actions of each member have a direct bearing on every other member.¹”

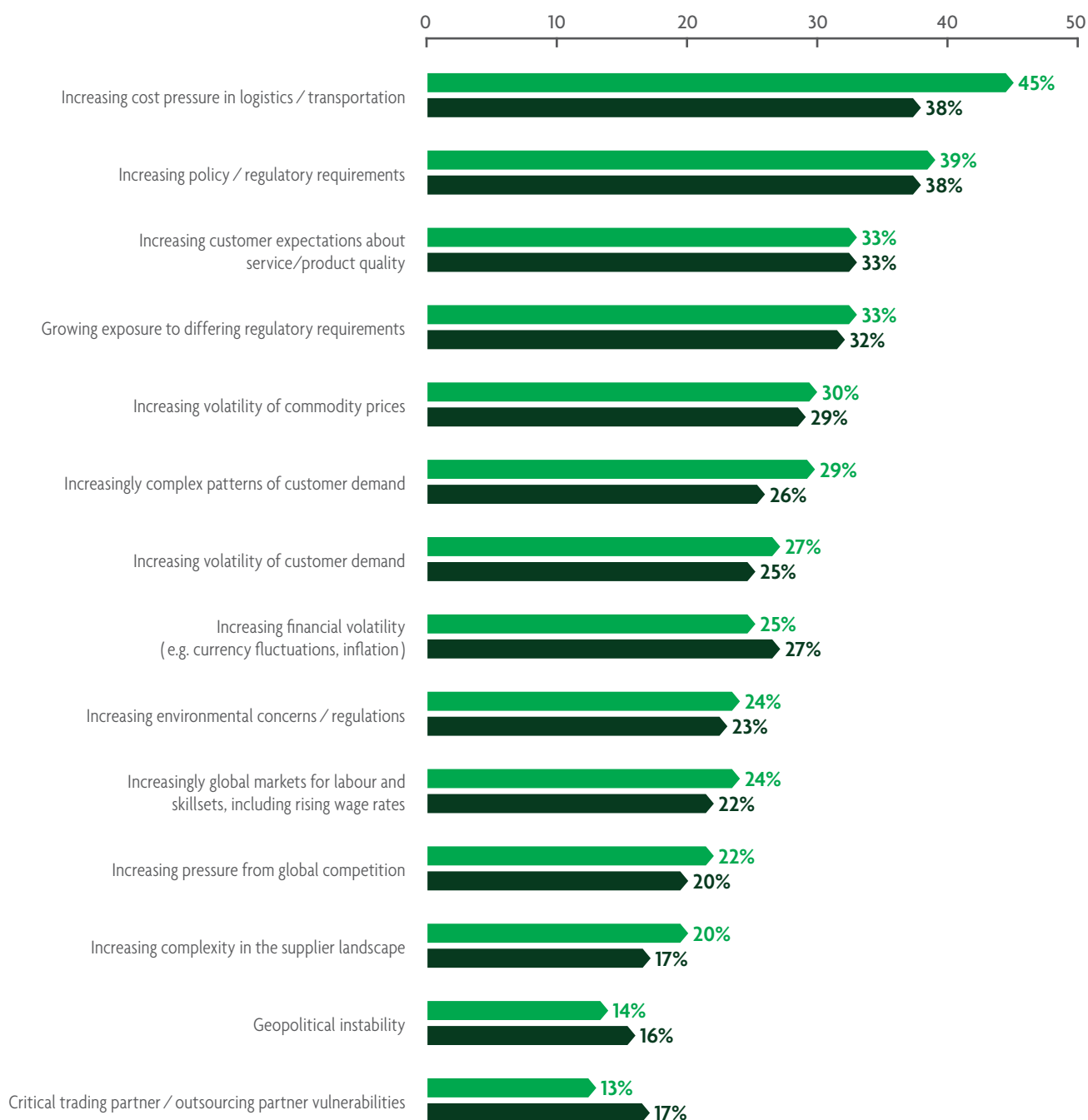
¹ Supply Chain Survey: Where Supply Chain Managers Go Wrong, Bain & Company

² McKinsey Global Survey Results: The Challenges Ahead for Supply Chains, McKinsey & Company, November 2010

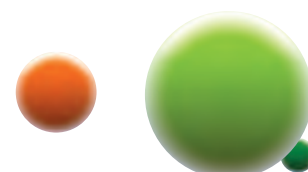
SUPPLY CHAIN MANAGEMENT CHALLENGES

PAST 3 YEARS

NEXT 5 YEARS



Q. What have been your organization's key challenges in supply chain management over the past three years? What do you feel will be your organization's key challenges in supply chain management over the next five years? Source: Leger Market Research, 2012

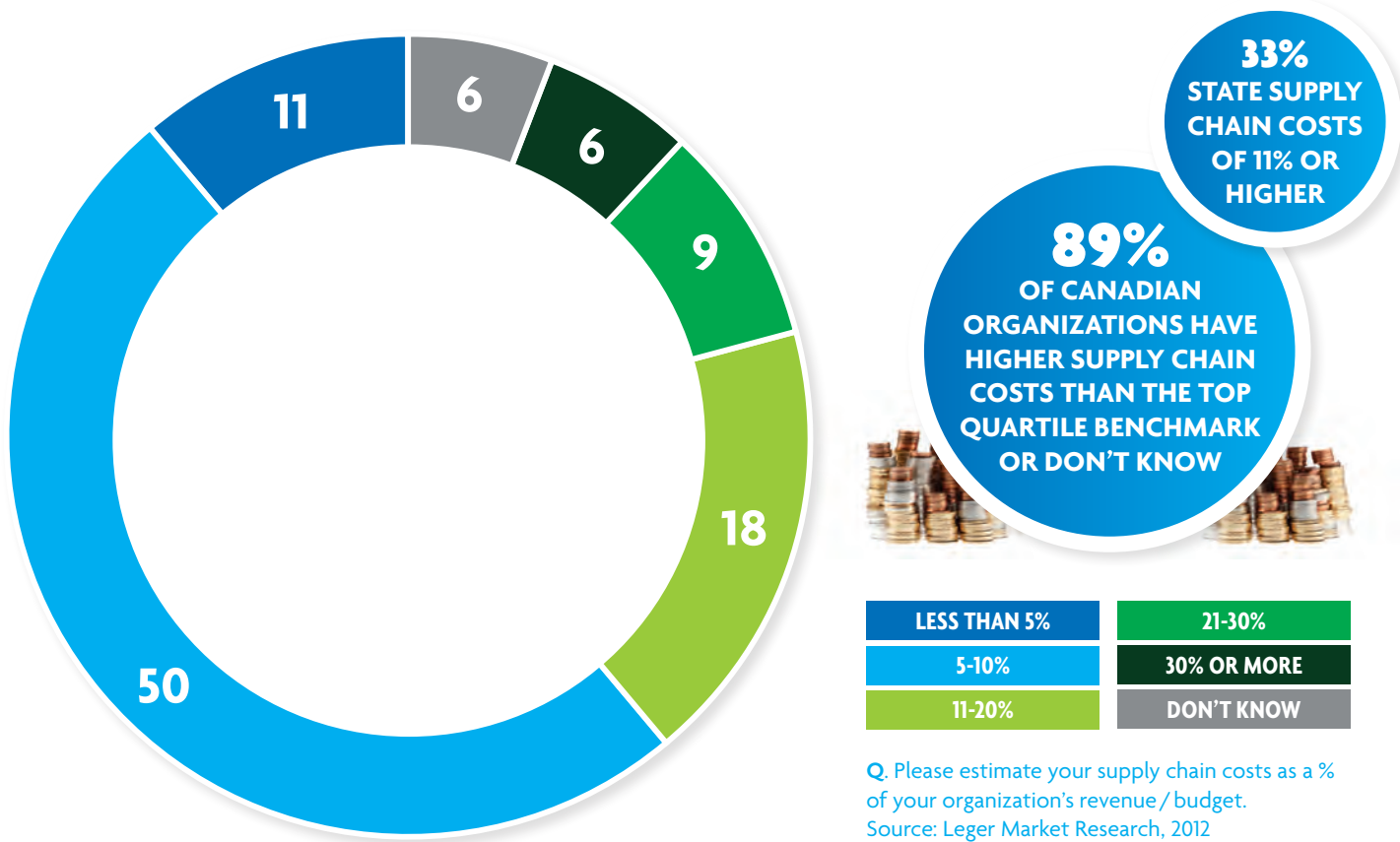


HIGHER SUPPLY CHAIN COST STRUCTURES

A key indicator of performance used in numerous supply chain studies is supply chain cost as a percentage of revenue.

PwC Performance Measurement Group benchmarking shows top-quartile global supply chain performers are spending 4.2% of revenue on supply chain costs (3.4% to 5.5% of revenue on supply chain costs across various industries).³ By comparison, 33% of Canadian organizations indicate their supply chain cost as a percentage of revenue to be 11% or higher and 89% indicate it to be 5% or higher. In other words 89% of Canadian organizations have significantly higher supply chain costs than the top-quartile benchmark.

SUPPLY CHAIN COSTS AS A PERCENTAGE OF REVENUE



These findings closely align with the focus on reducing operating costs which was predominately given as a key supply chain priority for Canadian organizations. (See Chart “Supply Chain Goals” on page 10)

By contrast in the McKinsey & Company global survey “*The Challenges Ahead for Supply Chains*”, reducing operating costs fell from being the top supply chain management goal of 61% of respondents over the past three years to being only 41% of respondents top supply chain goal for the next five years.⁴

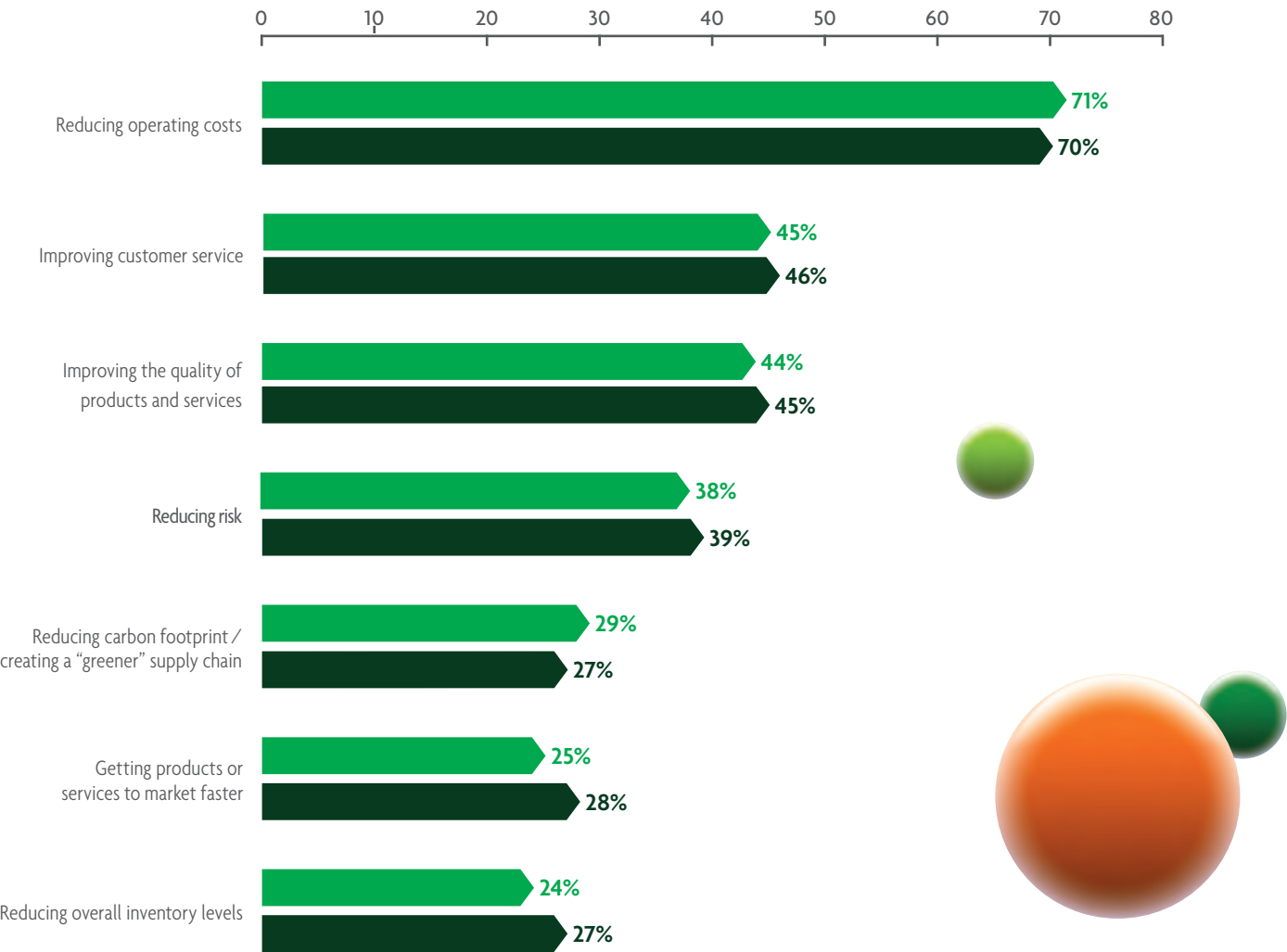
³ PwC PMG Global Supply Chain Management Benchmarking, PwC PRTM Performance Management Group, May 2009

⁴ McKinsey Global Survey Results: The Challenges Ahead for Supply Chains, McKinsey & Company, November 2010

SUPPLY CHAIN GOALS

PAST 3 YEARS

NEXT 5 YEARS



Q. What have been your organization's key goals for supply chain management over the past three years? What do you feel your organization's key goals for supply chain management will be over the next five years? Source: Leger Market Research, 2012

In the McKinsey global survey there is also a significant shift in top supply chain goals toward more outward facing priorities such as getting products or services to market faster and improving customer service. This results in bringing cost reduction into alignment with new business generation and customer experience priorities.

In the qualitative research portion of this report, supply chain leaders at Canadian organizations who have successfully implemented tactical-to-strategic transformations confirm that when supply chain organizations are functioning strategically they are focused just as much on new business generation and customer experience as they are on cost reduction. This “equalization” of emphasis on key goals across new business generation, customer experience and cost reduction appears to be both a challenge and an opportunity for the majority of large Canadian organizations who are focused on reducing operating costs above all else.

PERFORMANCE VISIBILITY CHALLENGES

Even though reducing operating costs has been, and continues to be a major focus, the survey indicates a majority of Canadian supply chain organizations have struggled in achieving their objectives in this area over the past three years.

ONLY
34%

OF THE CANADIAN SUPPLY CHAIN ORGANIZATIONS SURVEYED HAVE BEEN SUCCESSFUL AT MEETING THEIR GOALS FOR COST REDUCTION OVER THE PAST THREE YEARS

The low success rate in achieving cost reduction objectives makes sense when Canadian organizations' lack of hard information on costs is taken into account. It was found that many Canadian organizations do not know all their incremental costs in the areas of new sources of supply, personnel and the supply chain costs associated with serving new customers. This creates a lack of performance visibility that makes setting and meeting realistic objectives difficult.

ONLY
18%

KNOW, **IN DETAIL**, THEIR **NEW SOURCES OF SUPPLY COSTS** ASSOCIATED WITH ADDING NEW PRODUCTS, PRODUCT VARIANTS OR SERVICES TO THE ORGANIZATION'S PORTFOLIO

33%

SAY THEY HAVE ONLY **LIMITED** QUANTITATIVE OR ONLY A QUALITATIVE UNDERSTANDING OF THEIR COSTS IN THIS AREA — OR DON'T ASSESS THESE COSTS AT ALL

ONLY
23%

KNOW, **IN DETAIL**, THEIR **PERSONNEL COSTS** ASSOCIATED WITH ADDING NEW PRODUCTS, PRODUCT VARIANTS OR SERVICES TO THE ORGANIZATION'S PORTFOLIO

31%

SAY THEY HAVE ONLY **LIMITED** QUANTITATIVE OR ONLY A QUALITATIVE UNDERSTANDING OF THEIR COSTS IN THIS AREA — OR DON'T ASSESS THESE COSTS AT ALL

ONLY
25%

KNOW, **IN DETAIL**, THEIR **SUPPLY CHAIN COSTS ASSOCIATED WITH SERVING CUSTOMERS / CLIENTS**

39%

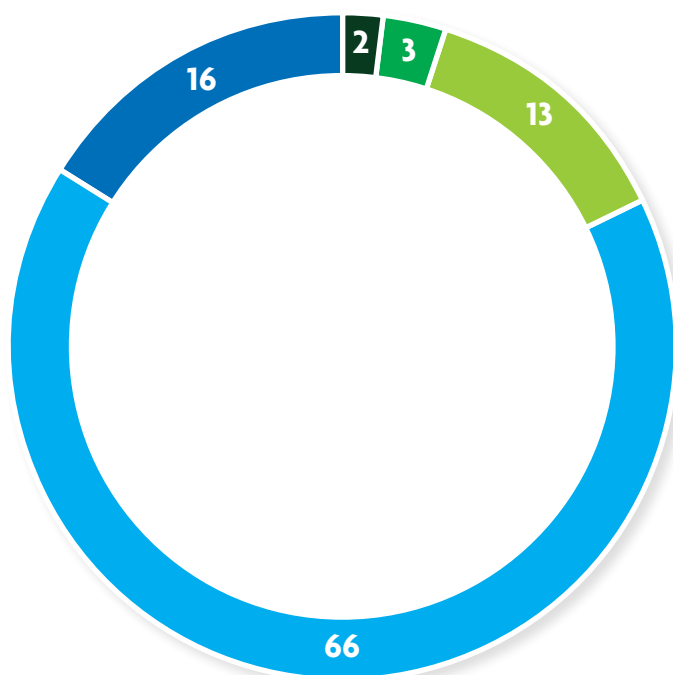
SAY THEY HAVE ONLY **LIMITED** QUANTITATIVE OR ONLY A QUALITATIVE UNDERSTANDING OF THEIR COSTS IN THIS AREA — OR DON'T ASSESS THESE COSTS AT ALL

RISK PREPAREDNESS AND VISIBILITY

82%

of the surveyed supply chain and procurement executives say their organization is at best “somewhat capable” of mitigating their key supply chain risks.

ABILITY TO MITIGATE RISK



EXTREMELY CAPABLE

SOMEWHAT CAPABLE

SLIGHTLY CAPABLE

NOT VERY CAPABLE

NOT AT ALL CAPABLE

DON'T KNOW

Q. How would you assess the capability of your organization to mitigate the key supply chain risks it faces right now?

Source: Leger Market Research, 2012

Only a small percentage of Canadian organizations assess threats to their supply chain through detailed models of cash flow at risk — the standard for assessing risk.

- **16%** assess risks to their supply chain with detailed models of cash flow at risk
- **38%** assess risks to their supply chain with quantitative estimates
- **23%** assess risks to their supply chain qualitatively/intuitively
- **19%** do not formally assess risks to their supply chain

The qualitative research portion of the report, conducted with Canadian organizations who have successfully implemented tactical-to-strategic supply chain and procurement transformations, points to visibility being the key element in risk mitigation.

Specifically, visibility requires an end-to-end supply chain view that gathers risk knowledge through cross-functional communication and collaboration (internal and external); and quantification of risk requires a solid foundation of metrics, measurement and reporting functionality in order to quantify and model risk and its potential impact. What we are seeing in the quantitative portion of the report is that many large Canadian organizations do not have or possess limited basic foundations of communication/collaboration and measurement, metrics and reporting fully in place. Canadian organizations' top ranked areas for supply chain improvement all relate to these two fundamental building blocks indicating they are still working on building the basics to support strategic supply chain and procurement management.

RECOMMENDATIONS AND OBSERVATIONS FROM CANADIAN SUPPLY CHAIN AND PROCUREMENT LEADERS

RECOMMENDATIONS — KEY BUILDING BLOCKS

In the one-on-one interview portion of the research, Canadian supply chain and procurement leaders who have successfully managed tactical-to-strategic transformations identify two key building blocks for success:

1. Measurement, Metrics and Reporting
2. Communication / Collaboration

1. Measurement, metrics and reporting

According to the leaders interviewed, the foundation of strategic supply chain and procurement is performance visibility. Without solid performance measurement capabilities, metrics and reporting it is difficult to transform and evolve.

Measurement, testing, evaluating performance and hard evidence of this performance is required. Supply chain is always hard evidence based.

2. Communication / collaboration

Communication / collaboration is an essential element in gauging and mitigating risk. Supply chain partnerships that enable risk mitigation are developed through structured communication and collaboration.

Establishing true cross-functional supply chain and procurement teams (including external partners) is imperative to align business, supply chain and procurement strategies. Collaboration also helps maintain risk visibility and response through end-to-end supply chain knowledge.

OBSERVATIONS — STRATEGIC EVOLUTION

These two key building blocks support further strategic supply chain and procurement development from a heavy emphasis on cost reduction to a higher concentration on overall risk mitigation and constant supply chain and procurement development.

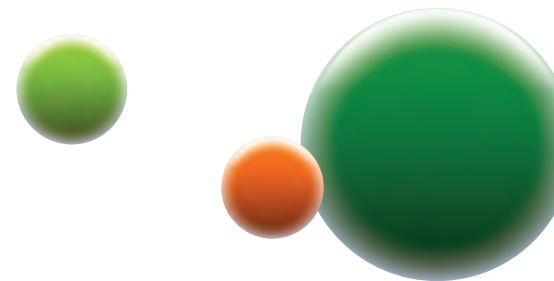
Constant development

Strategic supply chain and procurement are agile and responsive to changing market and competitive conditions. They are always in a state of constant, iterative development and evaluation / re-evaluation based on actual and anticipated conditions.

Risk mitigation

Interview feedback reinforced that strategic supply chain's key role is risk mitigation versus the tactical objectives of reducing operating costs or obtaining purchase cost savings. Risk encompasses all areas that may affect the supply chain from pricing, to competition for skillsets, to supply complexity, to customer demand patterns, to competition, to logistics, etc.

The most important part of supply chain is being able to identify risk. This risk can encompass anything that impacts the supply chain.



LEADERS HAVE POINTED THE WAY— CANADIAN ORGANIZATIONS NEED TO FOLLOW

During the qualitative portion of this report, top supply chain and procurement leaders at many of Canada's most successful organizations were interviewed for their thoughts and feedback on the “future of supply chain and procurement” and the key drivers affecting how Canadian organizations must evolve to maintain their competitiveness.

Key conclusions from these interviews point to a belief that Canadian organizations must further develop a global view of competition and risk:

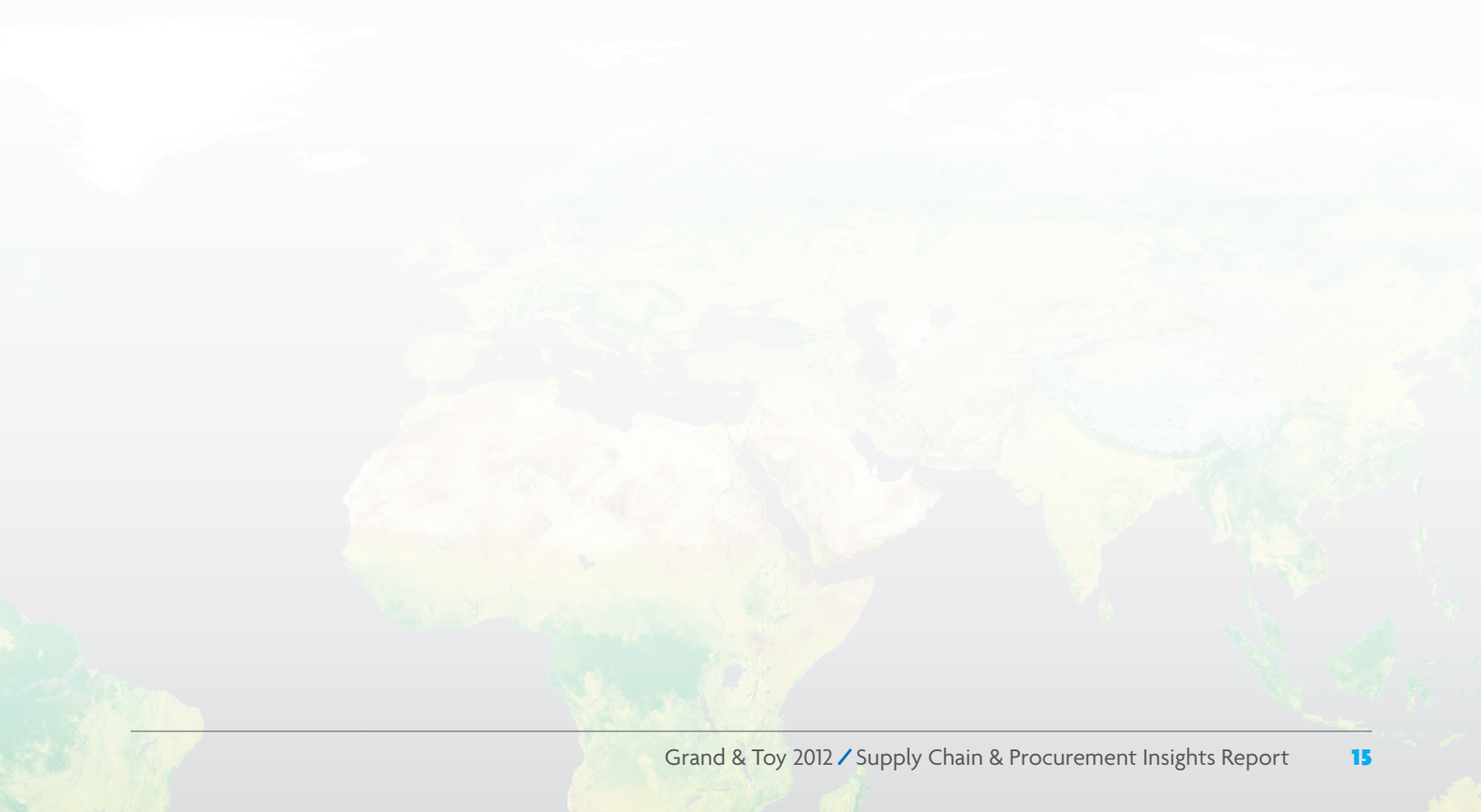
- Canadian businesses need to more extensively look beyond our borders — beyond the traditional Canada-centric view
- Canadian businesses need to continue to make strategic adjustments to prepare for globalization and compete in a global economy
- Canadian businesses need to adopt a broader global view of opportunity and risk

An almost universal point made in the interviews is that strategically integrated supply chain and procurement is a basic requirement for competing globally, but Canadian organizations as a whole appear to be behind the standard set by international and multi-national competitors when it comes to tactical-strategic supply chain and procurement transformation. Some organizations appear to have a

limited focus on globalization which may be affecting their sense of urgency in prioritizing end-to-end supply chain and procurement and cross-functional communication and collaboration (internal and external).

The quantitative research results show that the majority of Canadian supply chain organizations have yet to achieve the maturity level necessary to deliver an agile and responsive end-to-end supply chain. And without the basic foundation of metrics/measurement/reporting & communication/collaboration (internal and external) fully in place, many Canadian organizations lack full performance and risk visibility and are not yet capable of competing against world-class supply chain cost structures; nor are they fully capable of properly quantifying and assessing risk and its impacts.

Without a clear vision of supply chain and procurement, businesses' ability to recognize and profit from growth opportunities is missed. Promising developments are being made but perhaps not at a fast enough rate. An overarching conclusion of this report is that by focusing supply chain and procurement transformation efforts to include greater visibility, communication, strategic linkages and expanding viewpoints from a too-focused inward orientation to a broader, global outlook, Canadian organizations will better prepare themselves to take on the challenges and opportunities of the future.






Leger Marketing is the largest Canadian-owned polling and market research firm. Founded in 1986, the company now has over 650 employees, including more than 115 professionals specializing in marketing research, communication effectiveness and public opinion polling. Our professionals are located in Montreal, our head office, Quebec City, Toronto, Edmonton, Calgary, Philadelphia, and Zurich. Leger's team of multidisciplinary professionals consists of experts in marketing, psychology, economics, communications and public affairs.

Leger has obtained Gold Seal certification from the Marketing Research and Intelligence Association (MRIA) in Canada. Gold Seal certification is awarded following an audit by Deloitte of the company's quality control and business processes.

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