



MANAGEMENT REPORT

**THE LAWSON GLOBAL FOOD
AND BEVERAGE SUPPLY CHAIN
MANAGEMENT SURVEY**



Introduction

Lawson is a world-leading enterprise application provider to the mid-market global food and beverage industry. The company has an acknowledged reputation for utilizing best practice industry standards, and develops solutions that create outstanding production agility and responsive, demand-driven supply chains.

In keeping with this role, during the fall of 2005 and into 2006 the company undertook an Internet-based research project, the "Global Food and Beverage Supply Chain Management Survey" of leading food and beverage companies. The survey set out to identify the working practices and processes of companies within three key regions—Europe, Asia and Australia/New Zealand—and to compare one with the other.

The results show marked differences between regions, both in the operational requirements of each market, and in the use of technology—or lack of it—by companies to create greater planning and operational efficiencies.

Key Results

- Companies in Europe are ahead of counterparts in Asia and Australia/New Zealand in the use of the latest software for forecasting and planning sales, production and purchasing.
- Many companies in Australia/New Zealand rely on just one to five customers for two thirds of their business whereas in Europe and Asia companies spread the risk over a larger customer base.
- Phone/fax and EDI dominate as the preferred method for receiving orders, but Asia leads in adopting the Internet.
- The biggest challenge for companies in Asia and Australia/New Zealand is forecasting and promotion management. In Europe, the biggest challenge is product/material wastage.
- An optimized cost of operations is the top business improvement target for companies in Asia and Australia/New Zealand. In Europe, by contrast, the top business improvement target is improved lead times.

While regional variations prevail, with various methods being preferable and more successful in different areas, the findings of this study show that forecasting and planning tools make a real difference in supply chain efficiency and in fulfilling business targets.

Lawson and Intenia

In April 2006, Lawson Software and Intenia merged to form Lawson, a new global power in enterprise applications. Some documents published before the merger will continue to use the names "Intenia", "Intenia Application Suite" and "Movex".

Global Supply Chain Management Survey

Summary by Geography

Survey findings are presented below according to the three regions in which this survey was conducted: Australia/New Zealand, Europe and Asia. Bar graphs allowing for easy comparison between the regions are included in an appendix to this summary.

Australia/New Zealand

Sales forecasting and planning

Spreadsheets are still by far the most popular method for planning, used by 56 percent in Australia/New Zealand (ANZ). Six percent use paper to perform sales forecasting and planning, while 36 percent of companies in ANZ use planning software packages.

Companies that rely on paper and spreadsheets run a higher risk of producing forecasts that are significantly flawed. Manually gathered and manipulated data has a higher risk for errors, takes longer to process and, as a result, creates a gap between perceived and real customer demand.

Production forecasting and planning

Spreadsheets are still the favored method, used by 46 percent in Australia/New Zealand.

However, for production planning there is, encouragingly, greater use of technology across all three regions. In fact, almost as many companies in Australia/New Zealand (35 percent) use material requirements planning software as do those in Europe (37 percent). Just 14 percent in Australia/New Zealand use the latest advanced planning tools.

Many companies operate in a fast-moving and dynamic environment. Those with inadequate planning capabilities may potentially put the business at risk of serious failure as a result of over- and/or underproduction, stockouts on some lines, and excesses on others, leading to product expiry.

Purchase forecasting and planning

Much the same result is revealed in purchase forecasting and planning. Spreadsheets are also predominant in Australia/New Zealand (46 percent). There is a fairly even spread in the use of material requirement planning with Australia/New Zealand 40 percent, Europe 39 percent, and Asia at 31 percent. In ANZ just eight percent use advanced planning software tools.

In the absence of adequate planning resources, it can take considerable time and effort to identify an optimum purchasing plan that takes into account, for example, ingredients with long lead times and others that are highly perishable. The capital and holding costs of raw materials is high, and there is also the inherent danger of over-ordering expensive promotional packaging that is of little use when a promotion is finished.

Customer base numerics

A significantly greater number of companies (38 percent) in Australia/New Zealand rely on between one and five customers for up to two thirds of their business. At the other end of the scale, 19 percent in Australia/New Zealand rely on between 11 to 30 customers for two thirds of their business.

Companies with more than 30 customers accounting for two thirds of their business are the most dominant, however, with 23 percent in Australia/New Zealand.

This situation makes ANZ companies more vulnerable to the loss of major customers.

Receiving orders – preferred options

Overall, telephone/fax and EDI (electronic data interchange) are by far the most favored methods for receiving orders in all three regions. The Internet comes in a very poor third. Eighty-one percent of companies receive orders via the Internet, but this accounts for less than 20 percent of total orders.

Six percent of the ANZ companies surveyed receive more than 40 percent of total orders via the Internet. Furthermore, 37 percent of ANZ companies receive more than 40 percent of total orders via EDI. Australia/New Zealand makes the biggest use of phone/fax ordering where 73 percent of companies receive more than 40 percent of total orders via phone/fax.

The big challenges

The top challenge cited is forecasting and promotion management, followed by product/material wastage and PLM/product innovation.

In Australia/New Zealand the markets are less mature in their use of advanced planning tools. This is reflected in their desire to manage these areas better, as they are causing pain today through high inventory costs, wastage, and unsatisfactory promotions. Only 16 percent of ANZ companies reported realizing a sales increase over 50 percent on their last promotion, with 45 percent reporting a sales increase of 25 percent or less.

Targets for operational improvement

In Australia/New Zealand the top target is optimized operational costs, while lead times come a distant fourth. Inventory is second and product lifecycle management (PLM)/product innovation third in their list of priorities.

PLM and product innovation can be seen as ways to differentiate and lift products out of the commodity market in order to achieve higher margins. This is borne out by the focus on optimizing operational costs in what is a low-margin, high-volume industry.

Also, there is clearly still room for inventory improvement, even when many companies have already made major strides. Getting the balance right between inventory levels and customer service levels is still a primary focus.

Europe

Sales forecasting and planning

As compared with companies in ANZ and Asia, companies in Europe account for the biggest use (58 percent) of planning software packages.

Planning software offers great advantages over manual methods in terms of increased efficiency and accuracy.

Production forecasting and planning

Twenty one percent of companies in Europe use spreadsheets. However, for production planning there is, encouragingly, greater use of technology across all three regions. In fact, 37 percent of European companies use material requirements planning software. Europe outstrips the other two regions in the use of the latest advanced planning tools, with 34 percent of companies using this method.

Purchase forecasting and planning

Europe shows similar results in this area as with other forecasting and planning processes. In Europe just 19 percent use spreadsheets. While material requirements planning shows the noted even spread across the three regions, when it comes to advanced planning software tools, Europe is way ahead with 32 percent.

Customer-base numerics

Twenty-two percent of European companies rely on between one and five customers for up to two thirds of the business. At the other end of the scale, 33 percent of companies in Europe rely on between 11 and 30 customers for two-thirds of the business. Companies with more than 30 customers accounting for two thirds of the business are, however, the most dominant—26 percent in this region.

It is generally believed that companies in Western Europe tend to rely heavily on just a few major supermarket customers. These survey results seem however to suggest the reverse, that many companies in Europe and other regions are good at spreading the risk and deriving a sizable portion of their business from a large and diversified group of customers.

Receiving orders – preferred options

In Europe just 11 percent receive more than 40 percent of total orders via the Internet. EDI is most favored in this region. Fifty-seven percent of companies receive more than 40 percent of total orders via EDI.

EDI has been established throughout Europe for many years and the larger food producers have made considerable investments in the technology. The market is dominated by large supermarkets that demand EDI.

The big challenges

In Europe, the biggest challenges are product/material wastage, reducing downtime cost and forward/backward traceability.

Traceability has been a major issue in Europe, driven by increasingly educated consumer demand. This has played a role in the EU introducing strong legislation that specifies and governs how companies will trace food ingredients. This is not the case in the other regions.

The current expense of radio frequency identification (RFID) makes it extremely difficult to justify the use of this technology. The unit cost of RFID prohibits installing a chip on a can of beans or a packet of chewing gum, for example. If and when RFID is eventually adopted, it is likely initially to be for returnable containers/pallets.

Targets for operational improvement

The top three improvement targets in Europe are lead times, PLM/product innovation and inventory improvement. This suggests that most European supply chains have already improved efficiency through squeezing out much of the operational waste and are now looking for an opportunity to drive demand.

As in Australia/New Zealand, in Europe there is also clearly still room for inventory improvement.

Asia

Sales forecasting and planning

A large number (25 percent) of Asian companies still use paper to perform sales forecasting and planning, compared to just six percent in Australia/New Zealand and one percent in Europe. Spreadsheets are still, by far, the most popular method for planning, used by 47 percent in Asia. Only 13 percent of companies in Asia use planning software packages.

Production forecasting and planning

Twenty-three percent of companies in Asia use paper for production forecasting and planning. Spreadsheets are still the favored method, used by 32 percent of companies in Asia.

However, for production planning there is, encouragingly, greater use of technology across all three regions, with 29 percent of Asian companies using material requirements planning software.

Asia lags far behind Europe, with only six percent using the latest advanced planning tools.

Purchase forecasting and planning

In Asia, 25 percent of companies use paper. Spreadsheets are also predominant in this region (34 percent).

Asia lags behind the other regions also when it comes to use of advanced planning software tools, with only three percent of companies using this type of software.

Customer-base numerics

Thirteen percent in Asia rely on between one and five customers for up to two thirds of the business. At the other end of the scale, 26 percent in Asia rely on between 11 to 30 customers for two thirds of the business.

Companies with more than 30 customers accounting for two thirds of the business are, however, the most dominant—35 percent in Asia, 26 percent in Europe and 23 percent in Australia/New Zealand.

Receiving orders – preferred options

Asia is embracing the Internet. Thirty-two percent of companies receive 40 percent of total orders via the Internet, with 14 percent receiving more than 80 percent of total orders.

In Asia, 66 percent of companies receive more than 40 percent of total orders via phone/fax.

As a less mature market, Asia has not yet undergone any significant consolidation. Therefore companies tend to be smaller and are unable to justify the high level of investment required in EDI. These companies tend to use the Internet instead. In addition, compared with Europe, the market in Asia is not as dominated by the large supermarkets that demand EDI.

The big challenges

The top challenge in Asia is forecasting and promotion management, followed by PLM/product innovation and product/material wastage. In this region the markets are less mature and therefore more receptive to forecasting and promotion management as a key plank of sales development strategy.

Targets for operational improvement

In Asia the top target is optimized operational costs, while lead times come a distant fourth. The second and third most important targets are customer delivery service and inventory.

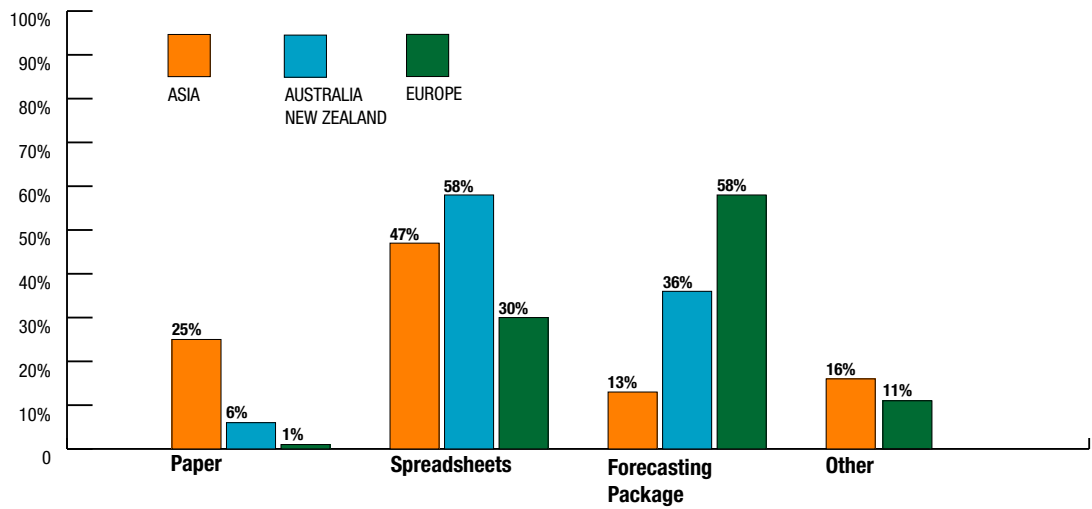
As in the other regions there is clearly still room for inventory improvement, even when many companies have already made major strides. Getting the balance right between inventory levels and customer service levels is still a primary focus.

Contact us

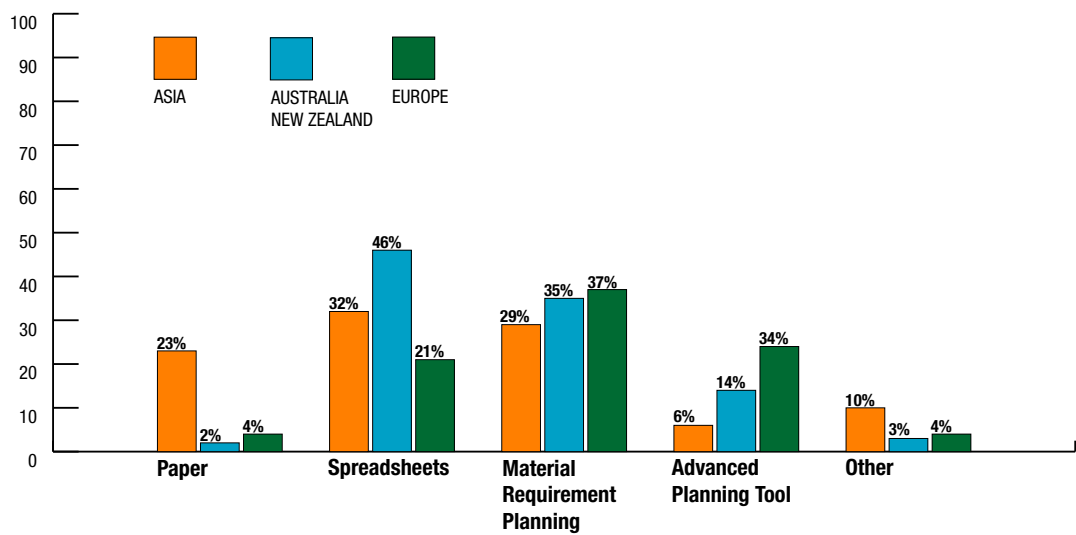
This management report is a brief summary of the key results. More detailed results can be obtained on request by contacting Vicki Griffith, vicki.griffith@us.lawson.com

Appendix

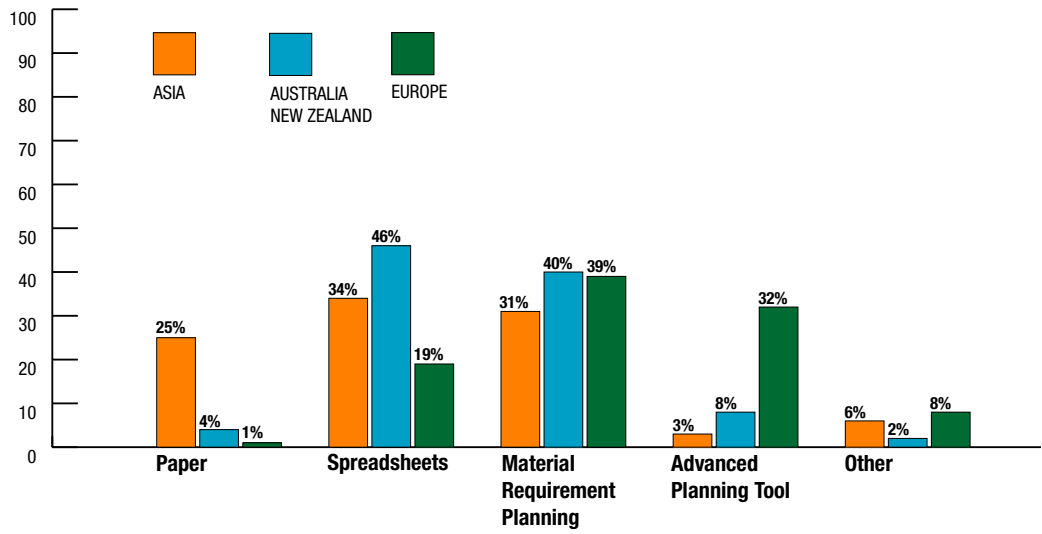
How do you forecast and plan sales?



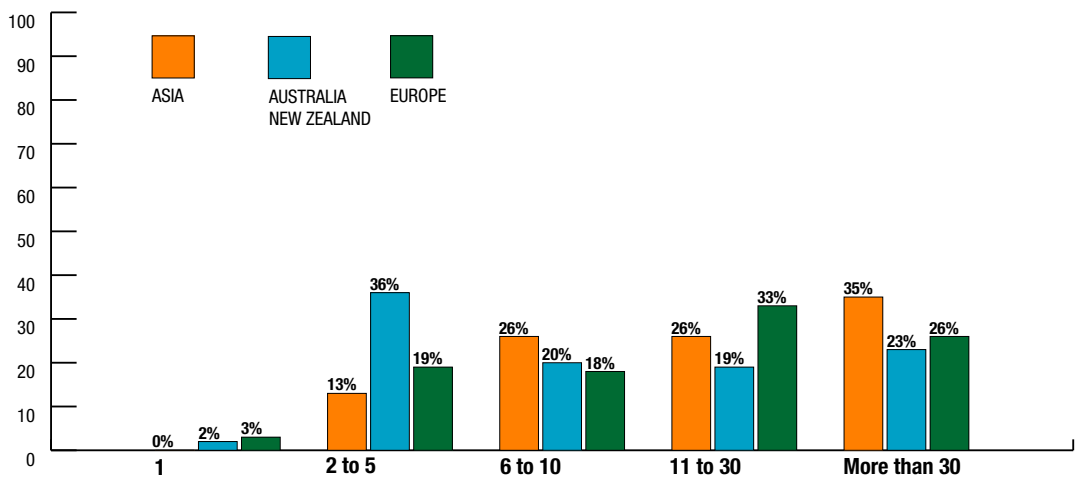
How do you forecast and plan production?



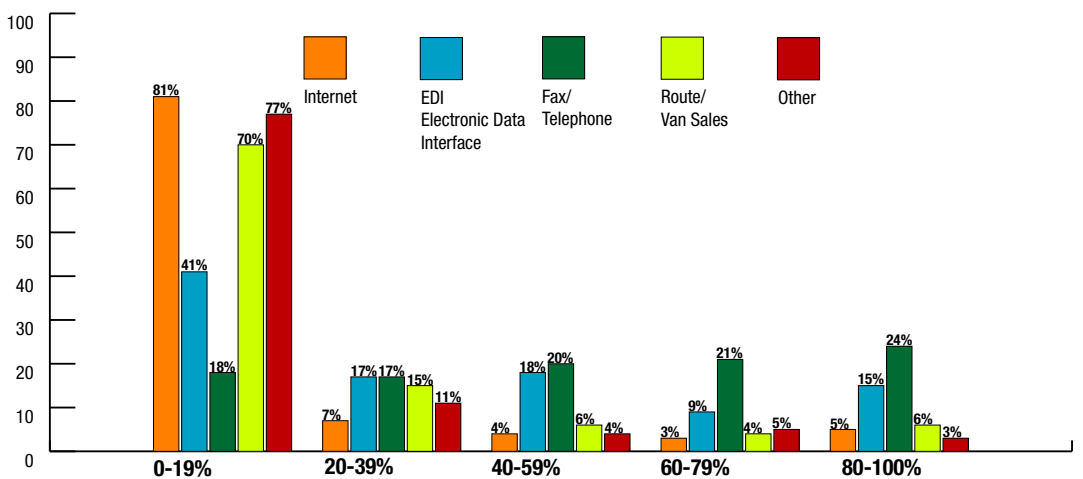
How do you forecast and plan purchasing?



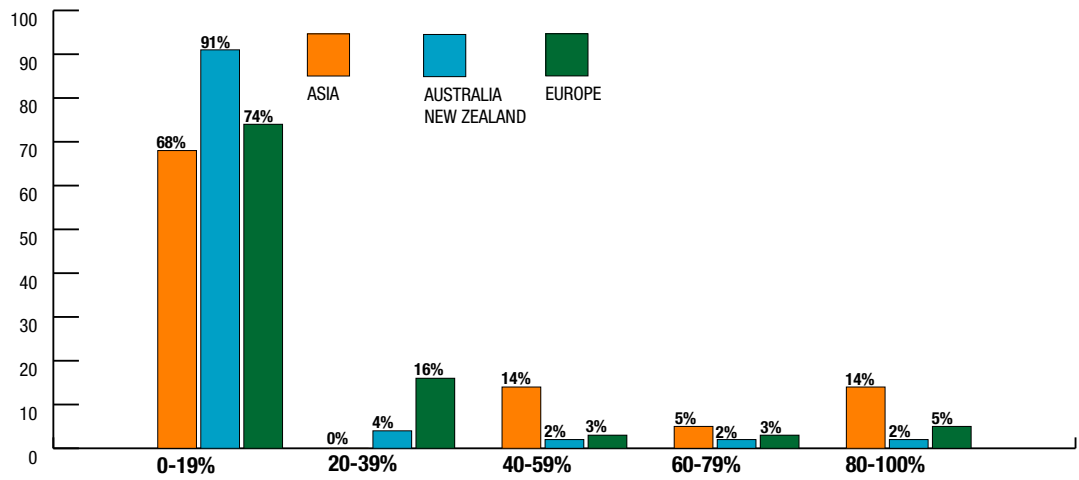
How many customers make up two-thirds (66%) or more of your revenue?



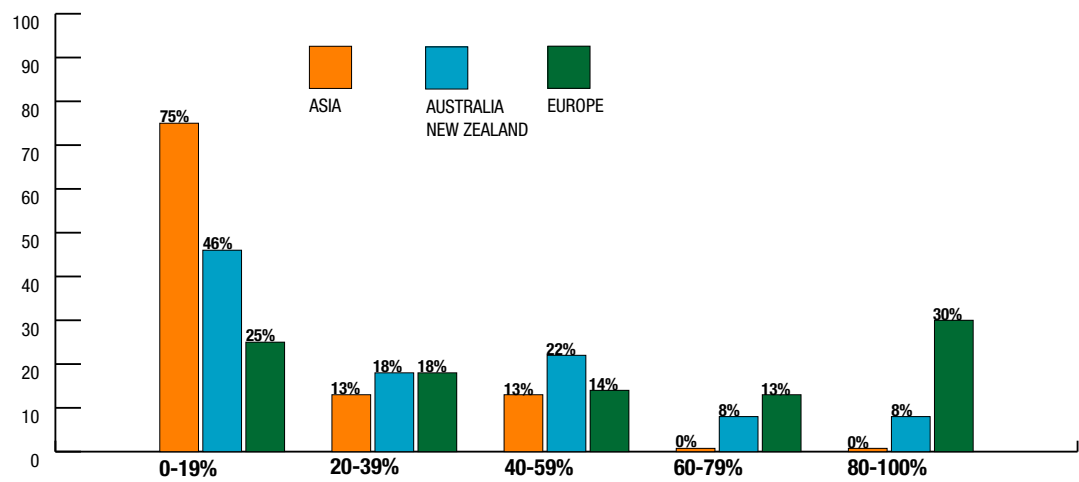
What percentage of your orders are received by the following?



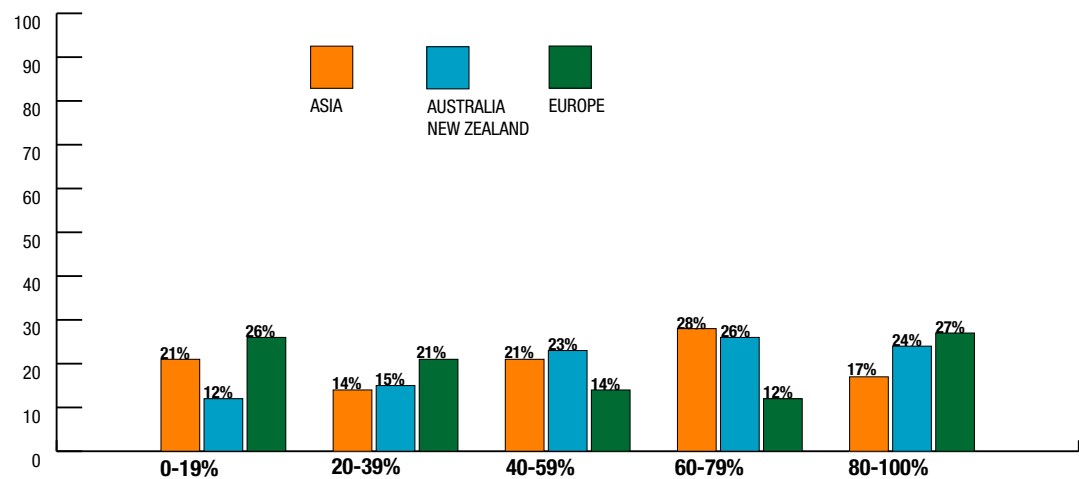
What percentage of your orders are received by Internet?



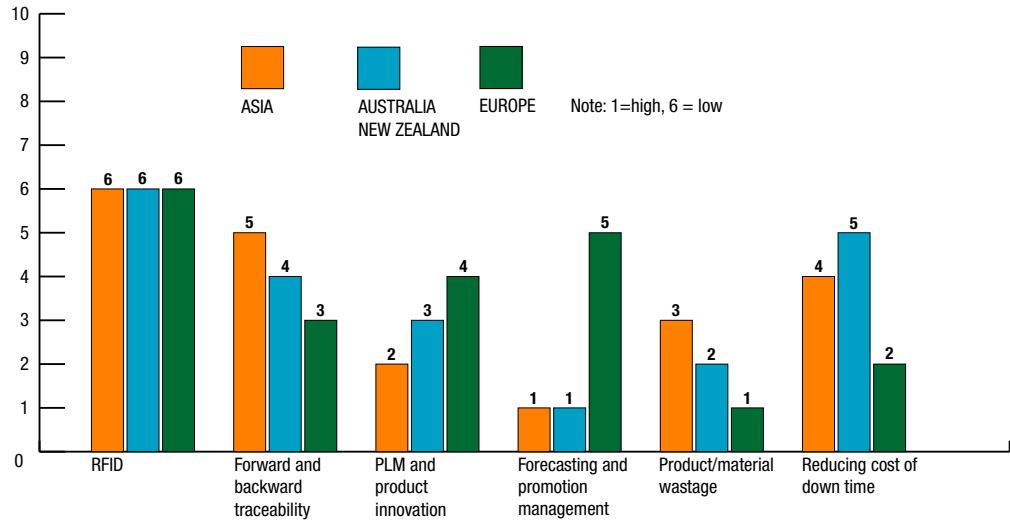
What percentage of your orders are received by Electronic Data Interchange(EDI)?



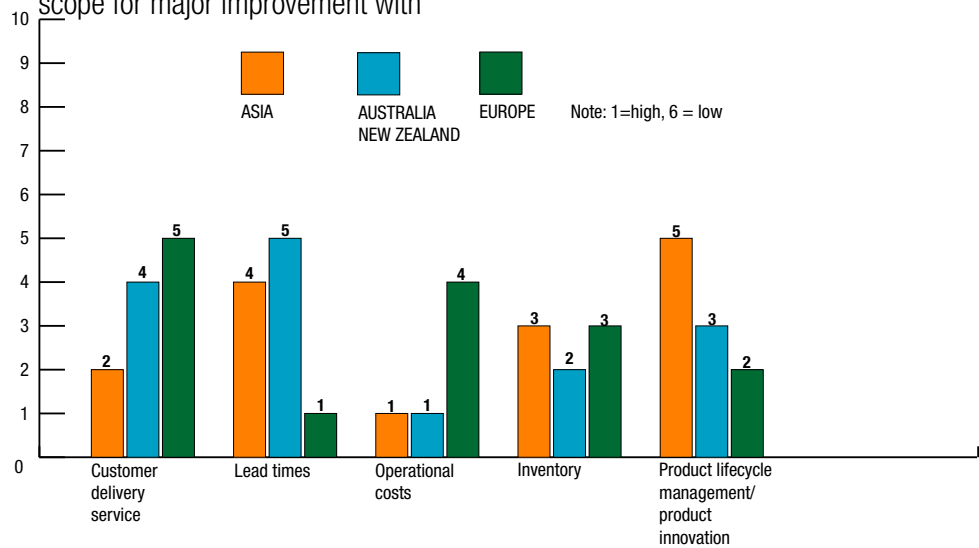
What percentage of your orders are received by fax/telephone?



What's the most significant challenge at this moment? (Rate 1 to 6)



Which of the following areas do you believe there is the greatest scope for major improvement with



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