

Aberdeen Study Analyzes ERP Effect on Supply Chain

With realities of rigid regulations and compliance requirements that are faced by manufacturers in process-related sectors, and distributors across many industries, the right control over the manufacturing – or distribution process is not an option, according to the Aberdeen Group, Boston.

Its recent study, “ERP Plus in Process Industries,” written by Cindy Jutras, vice president and group director, and made available to ID, Aberdeen notes that ERP – enterprise resource planning – provides the essential infrastructure, as well as transactional detail and system of record, which manufacturers as well as their supply-chain partners need to run their businesses.

“With growth expectations high, companies in food and beverage industries turn to enterprise resource planning (ERP) and complementary applications to respond to both challenges as well as opportunities. Rigid regulations and compliance requirements spawn the need for specialized features and functions, yet incomplete implementations prevent manufacturers and distributors in this sector from achieving best-in-class performance,” the study says.

The researchers took for granted that growth, generally speaking, is generated by a combination of several factors, including: new products and new packaging; expansion into new markets either by entering new geographic territories or opening up new market segments within existing regions (territory penetration); and customer growth or selling more to existing customers (account penetration).

Additionally, changing consumer habits, the study said, directly impacts food and beverage suppliers.

Industry and societal trends show that consumers cook less, spawning the need for more convenience foods and different food processing and packaging. Consumers are purchasing less food and beverages in grocery stores and more in alternative outlets such as convenience stores and gas stations.

“While these changing behaviors create new multi-channel environments, they may also present new challenges to growth, resulting in new business models and processes arising from a proliferation of products and packaging which can in turn require re-tooling and cause an increased number of setups. Long production runs of a small number of products are replaced with shorter runs and a wider variety of products,” the study authors said.

“Even foodservice distributors will need some of the specialized functionalities and modules that process manufacturers seek in their ERP systems.” Rising costs of raw materials and commodities, combined with limited opportunity to raise prices, due to supply chain and operator resistance, results in profits being squeezed, the researchers pointed out. In addition, as the cost of raw materials rise, these manufacturers and others downstream increasingly seek lower cost sources, which also lead them to low-cost providers, offshore or lowering quality, thereby increasing the complexity of the supply chain, and compounding cost increases with rising energy, fuel, and transportation costs.

These factors combine to increase the importance of monitoring profitability of operations. Yet only 56% of food and beverage suppliers are able to measure profitability by products or product lines and 59% are able to measure it by individual customers or customer groups, which limit their ability to make informed decisions to fuel growth strategies.

ERP and the study results are relevant to the foodservice distribution industry because it is an important part of the food and beverage supply-chain, the authors noted.

“For example, many FDA regulatory standards and restrictions apply throughout the supply chain and not just on the food and beverage manufacturer. The most obvious common denominator is traceability of the food or beverage from the consumer back to the raw materials and its manufacturers. Therefore, even foodservice distributors will need some of the specialized functionalities and modules that process manufacturers seek in their ERP systems. This benchmark report is relevant to foodservice distributors because they face similar issues, and especially so for food and beverage companies that own the entire supply chain from end-to-end – manufacturing, packaging, and distribution,” the authors said.

Aberdeen discovered that best-in-class companies produce 400% more improvements in order cycle times than laggards through ERP implementation. Best-in-class companies also achieve 97% complete and on-time shipments and 96% perfect orders.

- ID readers can receive a complimentary copy of the report by accessing ERP in Process Industries.