

Driving improved supply chain results

Adapting to a changing global marketplace



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Introduction

Today's business environment for large, global companies is more fluid and complex than ever before. Companies are adapting their supply chains to respond to increasingly competitive market conditions and to deliver higher revenue and greater value to their shareholders and customers.

In this report, we analyze the issues facing businesses as they position their supply chains to take advantage of the challenges and create new opportunities in the marketplace. As part of this report, Ernst & Young and the Economist Intelligence Unit (EIU) surveyed more than 225 supply chain and corporate executives from global companies with annual revenues exceeding US\$3b.

Our report shows that companies are responding to these challenges in two key ways:

1. They are adapting their supply chains to support rapid expansion and capitalize on the growing number of middle-class buyers in emerging markets (EMs).
2. Secondly, they are further developing their existing supply chains to drive cost efficiencies and boost margins in their mature market operations.

Within these two areas, we have identified seven interconnected items on the supply chain agenda. This paper looks at each individually, within a setting of either emerging or developed markets.

Ernst & Young Supply Chain Agenda

With slow revenue growth in mature markets, the supply chain must create sustainable cost savings to support margins and to help pay for growth elsewhere.



The supply chain must enhance its core competency to become a strategic business enablement vehicle to drive top-line growth.

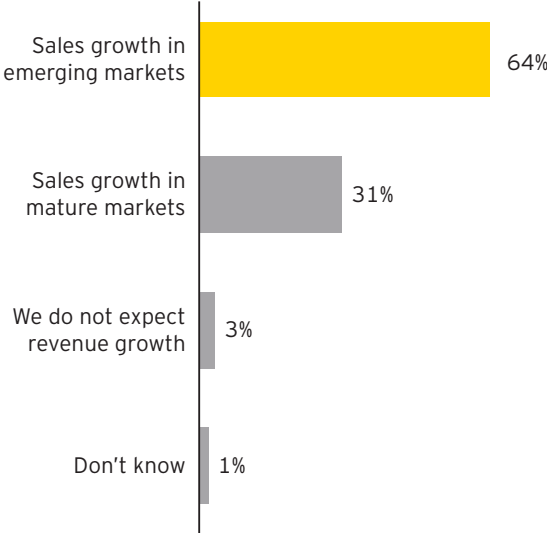
A catalyst for growth in emerging markets

With the economic downturn hampering growth in developed markets, many companies are shifting their attention to new revenue opportunities presented by the fast-growing EMs. Supply chain management is increasingly viewed as a powerful catalyst for helping companies secure new market share and drive revenue growth in these markets.

The figures certainly suggest that EMs such as the BRIC countries (Brazil, Russia, India, China) hold the key to future growth for many global companies. According to the International Monetary Fund (IMF), the average EM growth rate (GDP 2010 – 15) will be 6.65% compared with 2.5% in mature markets. In fact, *The Economist* estimates that 70% of global growth over the next few years will come from EMs, with about 40% coming from China and India alone.

By 2014, IMF estimates show that EMs will account for the majority of global GDP. By 2040, China will be the world's largest economy, while India, Mexico, Russia and Brazil will all feature among the 10 largest global economies.

Where do you expect the bulk of your company's revenue growth in three years to come from?



(Note: Numbers may not add up to 100 due to rounding.)



Significantly, 64% of executives expect that the majority of their revenue growth will come from EMs within three years. But while the impetus for strong growth in EMs has increased stakeholder expectations of the supply chain, it has also generated new

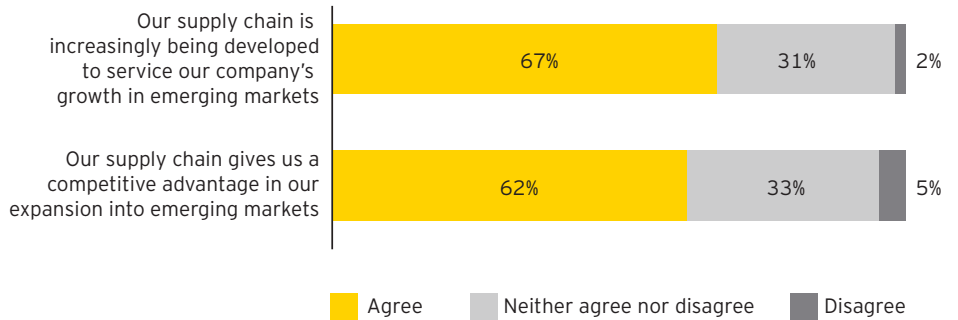
uncertainties and risks. We believe companies can manage the challenges and capitalize on these emerging market growth opportunities by focusing on three core areas of the supply chain:



Establishing an effective supply chain model and infrastructure

An optimized supply chain and infrastructure lie at the heart of the drive to boost EM revenues. Our study shows that 67% of respondents are developing their supply chains to support growth in EMs, with more than three out of five confident that their supply chains give them a competitive advantage in these markets.

Please state whether you agree or disagree with the following statements.



As your company expands in emerging markets, how important will it be for your supply chain to help achieve the following?

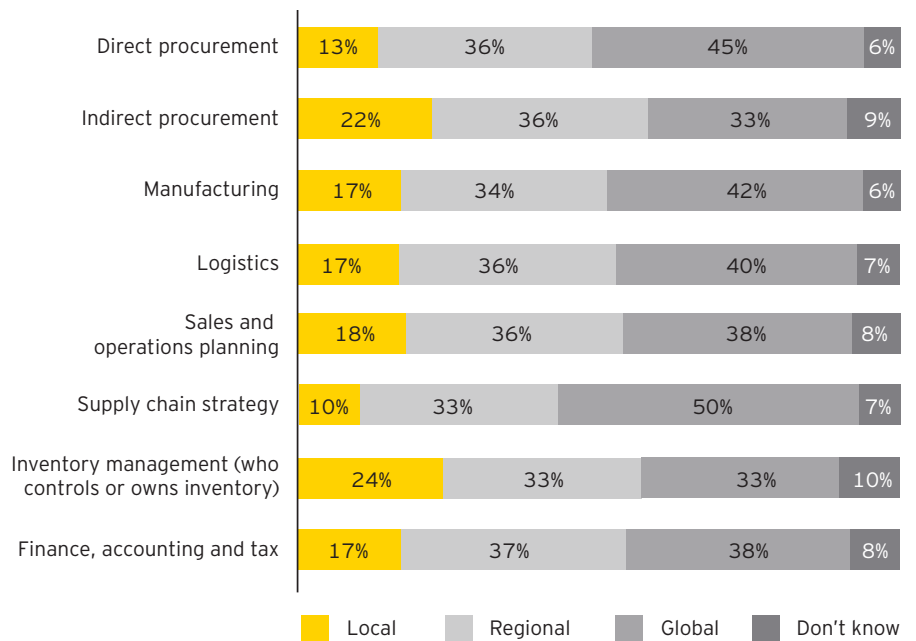


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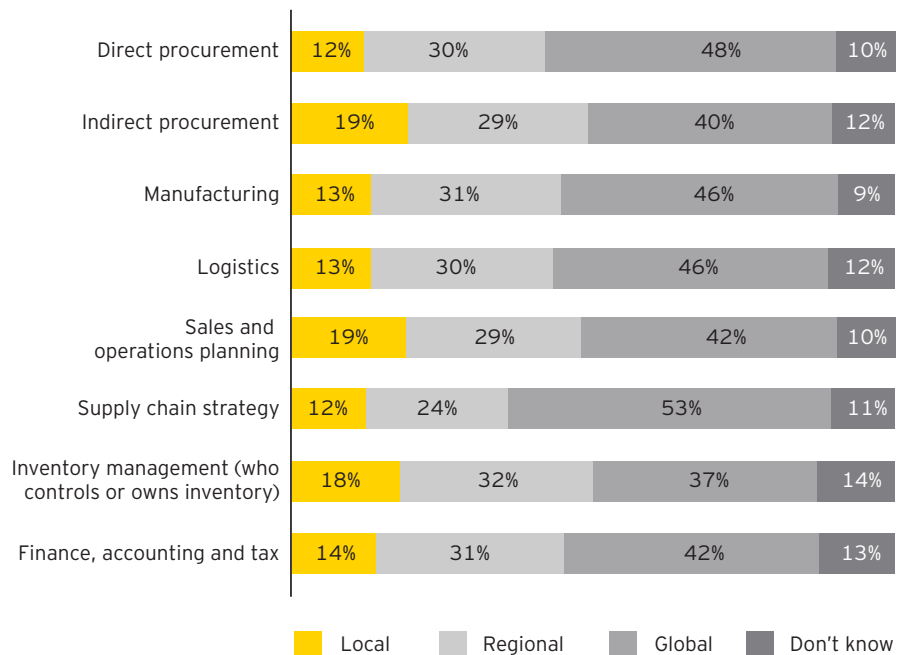
When considering their overall supply chain operating model for EMs, most respondents believe it is “very important” or “important” for the supply chain to help achieve the following in EMs: revenue growth (97%), effectively managing total delivered cost (92%), procurement efficiency and effectiveness (92%), product innovation (87%) and manufacturing excellence (87%).

The question of whether supply chain operating models should be centralized at a global, regional or local level continues to divide opinion. Most respondents anticipate moving toward a more centralized “above market” global approach in three years’ time as a way to realize critical benefits of scale or process across their organizations.

Which management structure does each of the following functions use today in your company?



How will the same functions be managed in three years’ time?

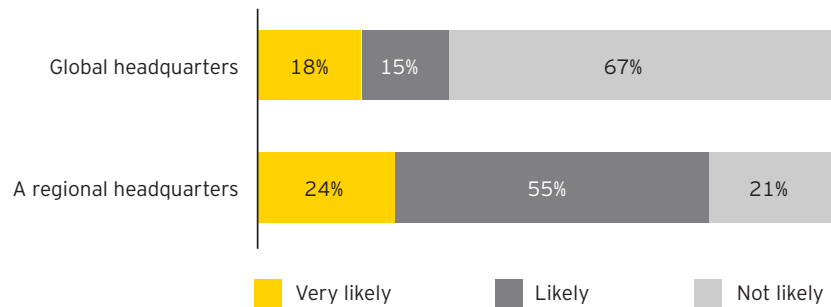


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In recognition of the trend toward global and regional supply chain management, one-third of the executives surveyed stated they are “very likely” or “likely” to move their global headquarters to an emerging market in the next three years. Almost four out of five

respondents said they are “likely” or “very likely” to relocate a regional headquarters to an emerging market. These findings support both the significance of emerging markets to the corporate growth agenda and the move toward global and regional centralization.

How likely is your company to relocate the following to an emerging market in the next three years?



Ernst & Young perspectives

A regional approach keeps companies close to their customers

Many companies that want to stay close to their markets but improve supply chain performance are creating regional or sub-regional supply chain hubs to combine local execution with regional and global management. This approach also offers greater control over managing responsibility for profit and loss, as well as for individual country strategies. In addition, it improves the responsiveness and expertise at the regional supply chain level. A regional management function can also deliver significant cost savings through internal shared services such as marketing, finance and human resources support to individual markets.

Find the market that strikes the right balance

For any company venturing into new markets, the choice of operating model is a crucial consideration. Some organizations may opt for a joint venture as a lower-risk strategy, while others will choose to penetrate their new territories by acquiring local companies. Alternatively, they

may decide that going it alone is the most logical option. They will also have to decide whether to configure their structure to fit into existing regional or global supply chain operating models by establishing the optimum balance between leveraging regional synergies while maintaining local flexibility.

Employ strong local talent throughout the supply chain

In EMs, the ability to foster strong working relationships based on trust is critical for the success of the supply chain, from employees through distribution and channel partners. However, recruiting and retaining high-caliber staff with appropriate experience and language skills is often challenging.

Companies that make an early commitment to building a solid base of local talent, backed by trustworthy local suppliers that can meet quality and delivery requirements, will find that their investment pays dividends over the long term through reduced operational costs.

Case study

Ernst & Young was engaged to help a global consumer products company address some critical challenges in its supply chain. The company had reached critical mass in its established markets and needed to boost revenue by growing in new emerging territories. The organization elected to focus on Africa and three critical markets that offered the strongest existing demand, the greatest potential for future growth and the most lucrative trade bloc incentives: Kenya, Nigeria and South Africa.

After a period of rapid growth, it ran up against several stumbling blocks in the supply chain. Like many businesses operating in EMs, the initial operational focus had been simply on volume – manufacturing and distributing enough goods to keep pace with markets experiencing double-digit growth. However, inflexible processes and a lack of visibility at a regional level left the company wrestling with unpredictable demand, stock-outs and long lead times. The organization urgently needed to find ways to combat its operational complexity and better serve its customers.

Ernst & Young recommended that the company create a regional supply chain hub to improve customer service and potentially reduce costs by moving critical supply chain functions “above market” and providing tighter integration between the market-based operating companies and regional management team. Under the new model, plants in the three core territories combined their manufacturing capability and strong local logistics presence with central supply chain planning to enable the company to adjust the flow of goods and inventory holding in response to changing market conditions. In addition, sales organizations were strengthened within each operating unit to manage relationships with the company’s large retail customers, independent distributors and other trading partners.

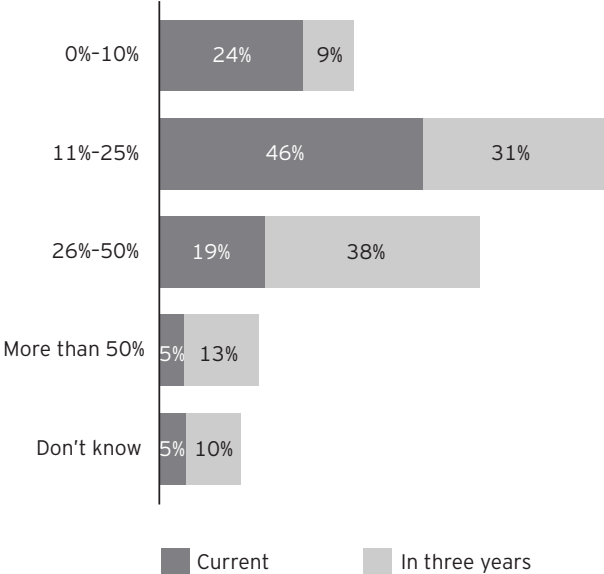
Beyond simply redesigning the company’s operating model, the Ernst & Young team encouraged the manufacturer to introduce a greater focus on systems discipline, redesign its sales and operational planning processes and automate key processes to streamline the supply chain and realize cost efficiencies. We also helped the company to understand the importance of recruiting and incentivizing highly skilled local talent to support its regional hub, as well as developing long-term business relationships with local suppliers and channel partners.

Enabling new revenue sources

Using the supply chain to drive new revenue opportunities in EMs is a top priority for executive leadership. Our survey shows that the number of companies expecting 50% or more of their total revenues to come from EMs will nearly triple over the next three

years (from 5% of all companies to 13%). In addition, the second quartile (those companies seeing EM revenues grow from 26% to 50% of total revenues) will double from 19% to 38% over the next three years.

What percentage of your company's revenue currently and in three years' time comes from emerging markets (other than any that may be your company's home market)?



Case study

Ernst & Young supported a major pharmaceutical company with a sustainable and commercially viable “global access strategy” to serve developing markets with limited access to medicine. The team worked with internal and external stakeholders to pinpoint the main barriers to global access and estimated the market opportunity based on the company’s portfolio and spend. In addition to identifying US\$1.2b in potential incremental revenues over a three-year period, Ernst & Young’s global access strategy also helped the company improve its reputation among key stakeholders within the pharmaceutical industry.

Ernst & Young perspectives

Build a strong market presence by understanding the consumer profile

A deep understanding of the demographics, spending habits and preferences of the local market enables companies to create products that are designed for purpose, thereby stripping out unnecessary operational and administrative costs. Co-developing products alongside suppliers, or acquiring competitors with complementary products, can also help companies to boost their market share and achieve substantial cost savings.

However, it is important that companies understand the differences between product life cycles in the developed and developing markets. Relative to the mature markets, EMs tend to have a longer product life cycle. This creates

a strong impetus for companies to ensure they are geared up to match or beat their competitors’ speed to market for new technologies and product innovations. With unpredictable demand making inventory hard to plan, companies are also focusing on incorporating a robust demand forecasting capability into their processes.

Plot the optimal route to market

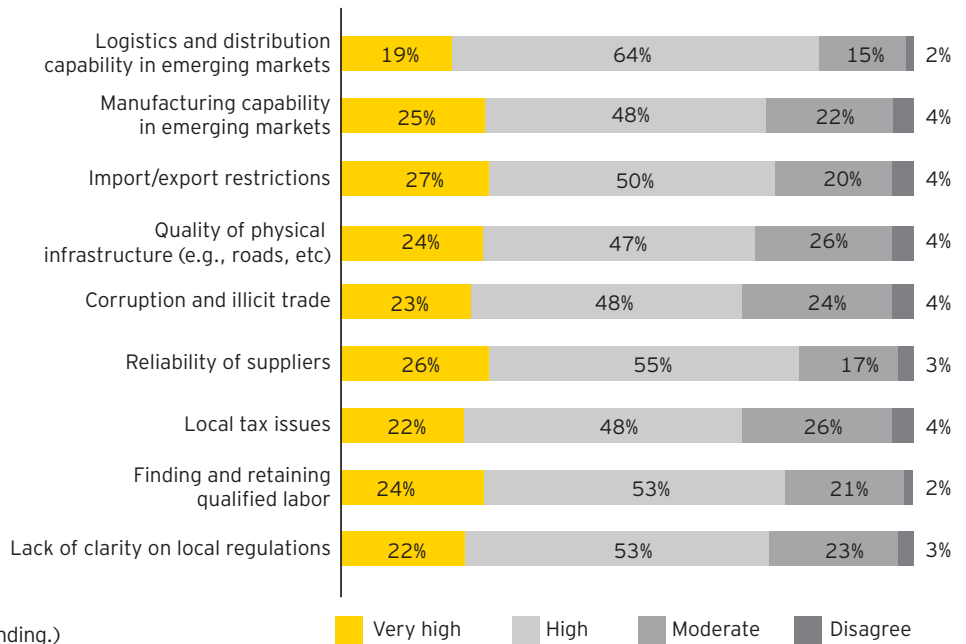
In developing markets, local conditions – such as the lack of a strong retail network – and rapid regulatory, tax and legislative change can complicate a company’s route to market. Companies that use applied research to identify emerging trends and assess potential regulatory issues are carving out a “first-mover” advantage in fast-growing local markets.

Managing operational, tax and regulatory risk

For companies expanding their operations into the EMs, the success of their global supply chain initiatives is determined by the rigor of their approach to managing operational, tax and regulatory risks in these jurisdictions.

As a reflection of continued concern over challenges facing companies in EMs, more than 70% of respondents rated the risks of operating in this region as “very high” or “high.” The risks that ranked highest included: logistics and distribution capabilities (83%), reliability of suppliers (81%), finding and retaining qualified talent (77%) and import/export restrictions (77%).

What level of risk does each of the following pose to your company when planning or implementing expansion in emerging markets?



Ernst & Young perspectives

A positive approach can turn tax risk into opportunity

Expansion into emerging markets can put tax issues high on the agenda. However, companies are increasingly seeing tax as a driver of tangible value at the heart of their businesses. Above all, managing tax risk should be viewed as a dynamic, positive way to embed business change and optimize the overall supply chain.

A robust approach to tracking regulatory issues is vital to monitor and anticipate potential tax issues or disputes arising from changes in customs and excise taxes, import/export restrictions and local taxes. Organizations must back their commitment to tackling tax issues with a transparent global compliance and reporting process to communicate performance to all key stakeholders.

Address and mitigate supplier and channel risk

Distressed suppliers can cause serious disruption to the supply chain if problems are allowed to go undetected for any length of time. Organizations can tackle this threat by incorporating risk dashboards into their overall supplier relationship management to provide early warning alerts of potentially failing suppliers. “Risk of failure” should form a key element in the supplier selection and approval process, with companies developing comprehensive contingency strategies – such as dual-sourcing – to mitigate risk in the event of a supplier loss.

Distribution channels are also vulnerable to a number of potential risks, including warranty claims processing, floor-planning and customer satisfaction surveys. Companies therefore need to establish appropriate audit procedures to protect their financial interests and safeguard their brand.



Enabling margin enhancement in mature markets

Faced with sluggish revenue growth in mature market countries, many global companies know that optimizing the operational efficiency and cost-effectiveness of their supply chain can generate sustainable cost savings and increase profit margins – as outlined in the segments of the upper half of the Ernst & Young Supply Chain Agenda wheel.

With companies focusing on driving costs out of mature market operations, there is an ongoing emphasis on local, regional and global operating model considerations and on managing costs as

they expand into EMs. This section outlines the challenges that must be addressed to position the supply chain as an enabler of margin enhancement – both in mature and emerging markets.



Reconfiguring the supply chain to create cost competitiveness

Companies are actively seeking ways to drive value from their supply chain, creating pricing advantages that help them secure new customers and using procurement and operating efficiencies to enhance profit margins. For many of these organizations, the journey toward an optimized supply chain begins with a fresh look at their network design: are we close enough to our customers and end markets to understand and service them properly, and is the extended supply chain delivering the required cost advantages needed while managing geo-political risk, and sensitivity to commodity price volatility?

Cutting costs is never easy, especially as many companies have already implemented a series of cuts to help them through the recession. Their big challenge is to decide how and where further

cuts can be made – either temporary or permanent – without damaging service levels and future growth. Some companies are focusing on reconfiguring their physical supply chains to achieve sustainable cost reduction. When reconfiguring their supply chain, companies should consider customs duties and fuel price sensitivity (e.g., oil at \$80, \$100 and \$150) as well as warehousing and transportation costs in order to lower total delivery costs and enhance margin.

Other companies are developing mixed supply chain models to strike the right balance between far-shore, near-shore and onshore sourcing and production as well as relocating operations to generate cost savings and increase their proximity to customers, reduce the effective tax rate and help drive sales growth.

Case study

Ernst & Young's deep experience of international free trade agreements was brought into play when we were approached by a leading manufacturer of fast-moving consumer goods. The company wanted to re-examine its factory footprint and reassess how its supply, inventory and manufacturing locations serviced each market. Ernst & Young combined its network design and customs and international trade competencies to identify opportunities to reduce total landed costs, materials and finished goods inventories and manufacturing assets.

Rather than focusing exclusively on freight costs, Ernst & Young helped the manufacturer to investigate available free-trade agreements and duty issues for its product range. The team discovered that by relocating the source of supply for one component to a manufacturing plant in a neighboring country, customs duties could be cut by around £0.5m per year. Given that the manufacturer operates in more than 120 markets worldwide, the potential cost savings across its global network are highly significant.

Ernst & Young perspectives

Streamline costs by optimizing cash and working capital

As supply chains stretch to accommodate rising demand, managing transparency of cost and risk becomes more important than ever. A realistic view of costs at the product and category levels depends on a proper understanding of the true total delivered cost (TDC), cost of goods sold (COGS) and cost to serve (CTS) to gain greater transparency and enable fact-based decision-making.

Costs can also be identified and reduced through improving visibility of previously hidden capital such as real estate, supply chain financing, floor-plan expense, recoverable tooling and engineering costs. Furthermore, moving overhead costs to variable costs (for example, through

flexible labor and outsourcing) and aligning fixed cost decisions with corporate strategy, represent critical steps toward improving the balance between cash and working capital.

Using free trade agreements to generate cost savings

When reconfiguring the supply chain network, leading practice is to include the cost of customs duties in addition to warehousing and transportation because they can represent a significant cost burden. By understanding and making the most of available reliefs and tariffs, companies can mitigate their impact. Indeed, the recent proliferation of free trade agreements is benefiting many companies, which are incorporating them into their procurement strategy to drive down landed costs.



Optimizing global spend

With resources and budgets under mounting pressure, companies are looking closely at effective ways to optimize their procurement function, enhance global trade flows and convert tax obligations into opportunities.

We estimate that a 1% reduction in costs, achieved through a sophisticated procurement strategy, is equivalent to a 10% increase in sales. Companies can gain a distinct competitive advantage over rivals simply by producing their goods or services more cheaply.

Low cost economies are likely to offer cost savings in materials procurement, but the calculation involves more than simple geography and price. Companies must determine the net impact of relocating manufacturing facilities while considering factors such as logistics, taxation, and labor costs. Often the approach is to set up a procurement presence in a location that has easy access to relevant markets as well as legislation conducive to working across borders. (i.e., an international procurement office in Shanghai, Singapore or Hong Kong servicing the Asian region).

Many companies are establishing global and regional procurement centers that enable them to leverage economies of scale and hedge against unplanned price movements for high-spend commodity items such as key raw materials. This hedging function is typically coupled with a centrally coordinated source-to-pay capability, that

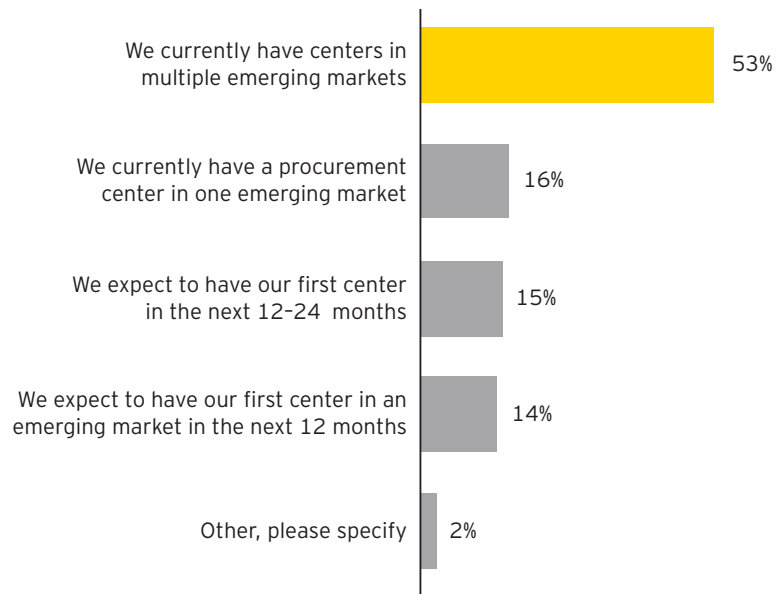
focuses sourcing efforts where there is greatest opportunity and ensures the spend of the organization is effectively leveraged in the supply market.

Sixty-nine percent of survey respondents already have procurement centers in one (16%) or multiple (53%) emerging markets, with an additional 29% expecting to open their first center over the next 24 months.

Companies also need to decide whether procurement should be local, centralized, outsourced or a hybrid of these. Because many large organizations have grown through M&A activity, they typically have a plethora of legacy procurement systems. A global mining company, for example, may source its materials in southern Africa but collocate its buyers in the headquarters in London. This may work well, but equally the best person for the job may be located in Peru, or in Australia. Price differentials can be extremely high, with some materials available in low-cost economies for perhaps one-tenth of the equivalent in Europe and the US.

Tax is also an integral part of any supply chain transformation. Interestingly, 81% of our respondents stated that tax plays an "important" or "very important" role in the supply chain, yet the figures reveal that only slightly more than one-third (35%) backed this statement with a belief that tax is an integral part of the supply chain.

Which of the following best describes the status of emerging market procurement centers within your organization? Please select one.



Ernst & Young perspectives

Transform the procurement function

In order to manage enterprise risk, companies must adopt the most appropriate strategic sourcing model for their business, leveraging economies of scale and standardizing contract terms across product platforms and customers wherever possible. In many cases, companies are revisiting how both direct and indirect categories are managed across geographies and are realigning their procurement teams to best be able to manage this spend across their widening footprint. In many cases this may unlock potential tax benefits from establishing a centralized coordination and decision making procurement management function.

When companies source goods from a supplier, they may inadvertently be taking on invisible costs from their supplier's parent company. This extended supply chain means that direct costs are added to inherited duty costs, which are then embedded in the overall cost to the company. By implementing strategic customs planning and reviewing the end-to-end supply chain from sourcing to customer, companies can significantly reduce their raw material and product costs by identifying a wide range of import tax savings opportunities.

Sourcing of key materials should be based upon leading spend, supplier material markets and market analyses, and value engineering programs. At the same time, a more streamlined procurement function relies on the quality of its processes to underpin performance monitoring and decision making. Any gaps in this system must be identified and addressed to ensure timely and relevant supply chain metrics and data.

Understanding tax is critical to optimizing global trade flows

Perceptions of the role of tax in the supply chain have altered significantly, as companies recognize the need to take a holistic view of the complex tax and compliance landscape. There has been a tangible shift in attitude at leadership level, with organizations now looking at tax as an opportunity to drive value for their business rather than an obligation to be managed. However, surprisingly few companies have true visibility on the import duty and freight costs incurred by their business, largely because these are often hidden in COGS.

Understanding further nuances of trade agreements on a country-by-country basis is key to optimizing global trade flows, with companies reviewing tax strategy in each geography to minimize unnecessary costs and disputes and deliver value-added tax opportunities. For example, customs duties can be mitigated by classifying products in the optimum category and selling them through optimum trades routes, based on factors like volume of trade and ease of transportation.

Changing tax incentives are another factor causing companies to rethink their supply chains, with many relocating headquarters or regional offices to more tax-efficient jurisdictions such as Switzerland. Furthermore, India is attracting foreign investment through tax incentives like the Special Economic Zone (SEZ), which has been adapted to benefit export activities.



Improving operational agility and responsiveness

Customers are becoming more demanding, and demand itself is becoming more unstable, even in developed markets where additional volatility is often added by mechanisms such as promotions and tenders. In addition, supply chains are under pressure from rising energy and transportation costs, fluctuating commodity prices, changing labor conditions and new environmental regulations. The supply chain has traditionally responded by focusing on cost control and maintaining service through holding high inventories. However, to stay competitive today's supply chains must optimize costs, minimize inventories and maintain high service levels – all at the same time, and all within a more agile and responsive supply chain.

Operational agility in developed markets: manufacturing

A leading consumer products company had quality and productivity issues on its packaging lines. This resulted in high costs, poor resource utilization and high inventories to maintain its customer service levels. With our support and operational effectiveness toolkit, the company was able to improve availability and performance levels, as well as right first-time quality measures by producing the same output in a shorter time, reducing changeover times, making products more frequently in smaller batches, reducing overall inventories and increasing its operational agility.

Ernst & Young perspectives

Agility: the ability of the supply chain to thrive in a continuously changing, unpredictable business environment

The effectiveness of an agile supply chain hinges on its ability to rapidly respond to fluctuating demand. However, a rapid response alone is not enough; an agile supply chain must exhibit four elements:

- ▶ Speed of sensing and responding to demand changes
- ▶ Ease of response
- ▶ Predictability
- ▶ Consistent high quality

True agility allows companies to drive down costs and rationalize inventory by anticipating demand as effectively as possible. Building an agile, resilient supply chain is not necessarily the lowest-cost option for a company, but as a truly 'lean' option, it delivers a predictable supply chain with the optimum balance between speed, quality and value.

Agility should be built into specific parts of the supply chain

As companies strive to create more agile supply chains, they need to consider targeting agility at three levels: structural, planning and execution. Building in structural agility is answering the question of "where in the supply chain do you need agility to meet your business strategy?" Companies typically focus on procurement, manufacturing and logistics,

but should not forget areas such as product development and launch. At the planning level the sales and operations planning process is key to exhibit agility, where decisions can be made to incorporate demand and supply shocks into the supply chain. The third level is execution where day-to-day operational activities need to be agile to produce right first-time and quality output regardless of other operational pressures.

Greater agility underpins a leaner distribution model

The drive toward a more agile supply chain is leading companies to look at using flexible assembly platforms and techniques such as postponement to optimize production costs, minimize inventories and make the supply chain as responsive as possible. For example, postponing specific market labeling (until the demand requirement is known) is becoming a key part of the pharmaceutical supply chain agility strategy and infrastructure.

The supply chain must be configured to meet all the requirements placed upon it. This has led some companies to streamline previously complex and geographically diverse supply chains to allow them to get closer to their consumers. Others are using new supply chain models such as near shoring and home shoring to deliver products quickly and cost-effectively. Whatever the required configuration of the supply chain, meeting the need for agility and responsiveness will be an increasing requirement for the supply chain leadership.

Managing environmental and sustainability issues

Questions for supply chain executives

- ▶ **Strategic planning:** Are the right supply chain leaders fully integrated into the organization's strategic planning efforts for climate change and sustainability?
- ▶ **Performance management and reporting:** Are performance measures and reporting aligned with industry standards for compliance and transparency with stakeholders? Are supply chain leaders involved in the organization's external reporting and disclosure efforts on climate change and sustainability?
- ▶ **Risk management:** Does the organization fully understand the strategic implications of climate change risks for the supply chain? Does the organization have the necessary skills and resources to assess and mitigate the key stakeholder and regulatory climate change risks? Are these risks incorporated into the enterprise risk dashboard and/or internal audit plan?
- ▶ **Involvement:** Are the right supply chain team members involved in researching, designing and developing new products/services? How effectively does the supply chain team collaborate with other stakeholders across the product life cycle to identify opportunities outside of the company's "four walls"?

With sustainability high on the corporate agenda, companies are under regulatory pressure to develop – and demonstrate – robust policies on issues from the ethical sourcing of raw materials, to carbon reduction measures, human rights and waste management.

Clients, shareholders and investors are also pushing organizations for an unequivocal public commitment to embedding sustainability into their business-as-usual operations. Many companies understand that failure to demonstrate a deep engagement with sustainability issues can leave them exposed to financial loss, serious reputational damage and tarnished brand equity.

Furthermore, they know that robust policies on sustainability issues can drive real change at the supply chain level and represent a tangible source of growth and revenue in a highly competitive market.

The success of sustainability initiatives hinges on a holistic, end-to-end approach that covers every part of the product and service life cycle. It is also conditional upon deep engagement from leadership that stretches across all key business functions including R&D, product development and procurement.



Case study

A growing number of companies have made a firm public commitment to reducing the carbon footprint and overall sustainability impact of their products and have implemented rigorous policies that will replicate those benefits throughout the supply chain.

Global consumer products giant Unilever has paved the way with its comprehensive Sustainable Living Plan. By 2020, the company has committed to achieve three major goals:

- ▶ Halve the environmental impact of its products
- ▶ Improve the health and well-being of more than 1 billion people
- ▶ Source all of its agricultural raw materials in a sustainable manner.

Ernst & Young perspectives

Take a cradle-to-grave approach to sustainability

The success of any sustainability program lies in clear visibility of exposure to sustainability and climate change risks - including reputational risks - throughout the supply chain, and effective standards to mitigate them.

Sustainability risk begins not with a company's products, but with its suppliers. Without understanding this very early stage of the supply chain, organizations may miss unethical working practices or unsustainable processing, packaging or transportation activities that could damage their own reputation by association.

Companies are building in sustainable values right from the product design level, focusing on issues like product life cycle management, identity and labeling, and sustainable component suppliers to reduce environmental impact during manufacture.

Mitigate the environmental impact of logistics

Organizations are examining their production and manufacturing processes to identify ways to reduce wasted materials and energy, reuse production materials and improve the overall efficiency of production technologies.

The environmental impact of both inbound and outbound logistics is also under inevitable scrutiny, with companies keen to streamline factors like distance, modes of transportation, number of shipments and batch size when sourcing and developing key relationships. Companies can also realize financial savings by exploring tax rebates and incentives for using alternative fuels, production technologies and energy-efficient appliances.

Transparent communication underpins a sustainable supply chain

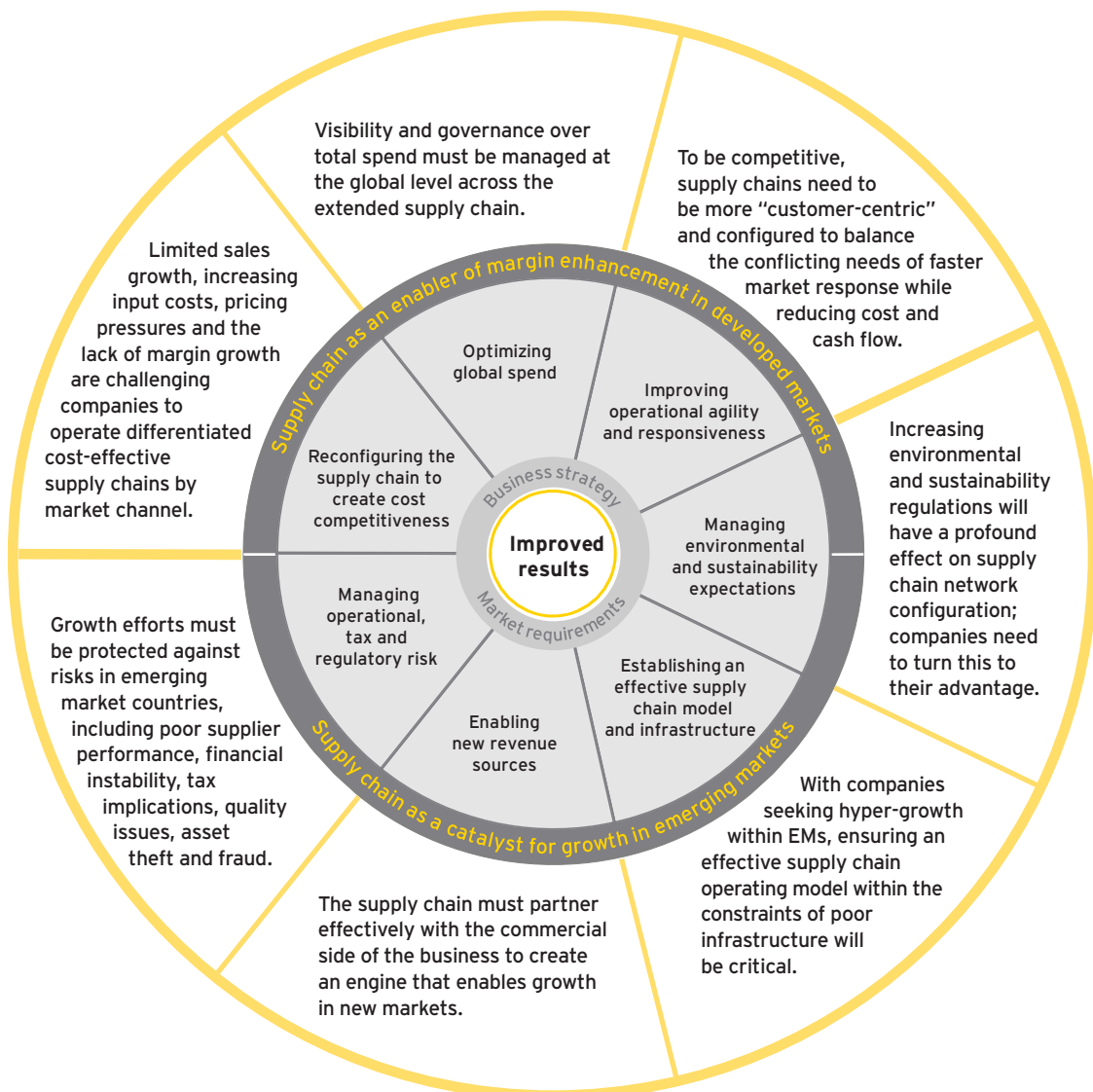
Rigorous policies are the first step toward incorporating sustainability into the supply chain, but they must be underpinned by transparent and efficient mechanisms for monitoring and measuring performance on sustainability issues. This performance should be benchmarked against internal standards and those of competitors and peers. Crucially, companies must develop effective ways to communicate performance both to internal stakeholders and the market in order to build trust, confidence and credibility.

Conclusion

Leading companies view the supply chain as a competitive differentiator on the corporate strategic agenda. The concept of the supply chain itself has undergone a radical revolution in recent years. It is no longer a simple matter of “logistics” or “product delivery,” as large, global companies now recognize that agile, optimized supply chains drive improved corporate customer service, higher margins and increased revenue growth.

What steps are companies taking to drive improved supply chain results? Leading companies are aligning their supply chain efforts with their business strategy and market requirements to

address the seven key challenges outlined in the segments of the Ernst & Young Supply Chain Agenda wheel:



About Ernst & Young

We recognize that the specific supply chain issues facing companies may require strategic and/or tactical responses, as well as the need to rely on existing long-term organizational investment strategies or build support for broader transformational change. We focus on helping clients achieve sustainable improvements that will make a difference to both their business performance and supply chain operations.

We accomplish this through Ernst & Young's integrated, cross-disciplinary approach. Some of the specific ways in which we help companies include:

- ▶ **Tax effective supply chain management** – combining advisory (supply chain, finance, customer and IT), direct tax, indirect tax, customs, legal and human capital services
- ▶ **Procurement** – leveraging advisory (supply chain, finance, customer and IT), risk, internal controls, internal audit and other services
- ▶ **Supply chain management and assurance** – combining services such as global trade optimization, sales and operations planning, sustainability/low-carbon supply chain and supplier stability and risk services
- ▶ **Operational strategy and performance improvement** – integrating supply chain and operational due diligence, performance improvement services, IT advisory, data analytics and other disciplines
- ▶ **Supply chain cost reduction** – combining advisory (supply chain, finance, customer and IT), direct tax, indirect tax, risk, performance improvement, internal controls and other services

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*Ernst & Young Caribbean refers to the Caribbean organization of member firms of Ernst & Young Caribbean Limited, each of which is a separate legal entity.

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EYG no. AU0831



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