

# Supply On Demand

*Ireland is now firmly established as a centre of supply chain management excellence. But where now for the industry as the Celtic Tiger fades into distant memory? Kieran O'Daly speaks to Kevin Henry, Managing Director of SerCom Solutions, one of the country's leading supply chain exponents, about the prognosis for the industry and our prospects of attracting much-needed inward investment from overseas.*

The supply chain management industry is relatively new. Obviously, many of the processes involved have existed for as long as two companies or even two people have traded goods, but it is only quite recently that it has emerged as a key strategic discipline in its own right. The reasons for this are twofold: the vast majority of companies are more interested in developing and selling products and prefer to leave non-core activities such as assembly and shipping to someone else, and, perhaps more significantly, it is only within the

past decade or less that it has been identified as an area of opportunity for the creation of value and competitive advantage. This combination of factors has created a niche along the supply chain between producer and customer that specialist companies such as SerCom Solutions, Banta Global Turnkey, Modus Media, Exel, IKON and others have been quick to fill.

In Ireland, the supply chain management industry can trace its origins back to the relationship that

existed in the 1980s and 1990s between the printing sector and the big IT multinationals. Many of these printing companies enjoyed fruitful relationships with the multinationals and supplied a significant proportion of what at the time was a sizeable print requirement. Times change and much of the information that accompanied PCs and software packages a decade ago is now delivered online or in CD format. This change of direction created a major over-capacity problem for the print industry here - many companies went under, while the more proactive and progressive were forced to adapt and expand their product offerings to suit changing requirements. It is these former print providers, along with a number of logistics and EMS organisations, who are primarily responsible for Ireland's burgeoning reputation for supply chain excellence.

"An awful lot has happened in a very short space of time," Henry says. "The supply chain industry developed very quickly on the back of the boom of the late 1990s. However, the economic landscape has changed completely since then and it is probably now time for reflection for the sector as a whole. The industry was built up in the good times and is presently operating at around 20% under capacity. Obviously, that can't continue and we may now witness a period of consolidation across the sector. What we have seen over the past few years in the industry, of individual companies continually expanding their range of services to suit customer needs, could well change in future. It's a low margin business and that approach may not be sustainable in the long run. As a result, what we may see is different organisations concentrating on particular areas of expertise and

partnering with former competitors to meet customers' total supply chain requirements."

## Opportunities

Changing economic times shouldn't necessarily spell bad news for the sector though, as many of these companies have survived greater challenges in the past. Henry is quick to point out that the scale of investment in plant, staff expertise and IT infrastructure throughout the industry over the past few years augurs well for the future and will play a key role in attracting international investment in the years ahead. He sees two significant opportunities here. "Ireland's supply chain capability represents an attractive prospect for smaller, growing US software companies looking for a low cost route into the EMEA market," he says. "Our established systems and networks are ideal vehicles through which to establish a 'virtual' presence here at a fraction of the cost associated with the usual type of investment in plant and infrastructure. Why should these companies invest in costly infrastructure in this part of the world when it already exists? Most importantly, using Irish-owned and managed technology and skills would also help to create sustainable indigenous jobs for the local economy and will help us to recover some of the ground that has been lost over the past few years."

The second opportunity for Irish supply chain management organisations is in back office process support in areas such as purchasing, finance and logistics for manufacturing operations in Eastern Europe and the Far East. "As a relatively high cost labour economy, we've lost a lot of our lower value manufacturing operations over the past few years to economies with more competitive labour cost structures. Many multinationals have moved their operations to the likes of Hungary, Poland and other former Eastern Bloc countries. As costs in these countries have increased, some of these companies are now looking even further afield to the Far East," Henry explains.

"The important lesson to be learned here is that each location has a relatively short life cycle in terms of cost competitiveness. For instance, labour costs in Hungary increased by 13% in 2002, with the result that many of the companies who might have been inclined to establish operations there are having second thoughts because they feel that it will be difficult to get a return on their investment before labour costs make the location uncompetitive. Because we have already invested in the necessary infrastructure and expertise, there is an opportunity for Irish companies to partner potential investors in these locations to manage their back office processes for them. It's a case of risk sharing, of leveraging rather than replicating existing investment in technology and skills. It might mean employing expeditors and logistics personnel on the ground - but it's a definite opportunity and I think we'll see more of this type of activity in future. The medical devices sector also represents another largely unexplored area of opportunity for the supply chain industry here."

The supply chain sector is at something of a crossroads right now, Henry feels. "It is set up for higher output. Until that happens, we must find a different way of doing business. That means identifying and exploiting new opportunities."

## Inward investment

As regards the Irish economy in general, the death of the Celtic Tiger makes the task of attracting viable, long-term international investment more urgent than ever. However, the high cost of communications and the slow roll-out of broadband are major obstacles in this. "Dublin is now ranked close to the bottom of 14 worldwide capital cities in terms of e-infrastructure, according to the Dublin Chamber of Commerce e-City working group 2002 report - and we are in danger of slipping further behind each year! The good news is that Ireland is finally seeing some real action and deployment of broadband connectivity and cheaper

internet access products but this must continue at pace if we hope to attract much-needed foreign investment," Henry points out. "We must also work to improve links between industry and academia to exploit the opportunity for commercially-viable research and development."

Another issue of concern is the fact that although seven of the world's top ten leading IT companies have their European headquarters in Ireland, compared to other countries in similar positions, we have a very poor record when it comes to translating that presence into business for local companies. In his role as chairman of the "ICT Ireland Working Committee on Business Helping Business", Henry and the committee are charged with, amongst other things, encouraging linkages between indigenous and foreign-owned IT multinationals wherever possible by examining successful partnership initiatives in other clusters and trying to implement them here.

Established earlier this year, and operating under the auspices of IBEC, the ICT Ireland Committee also aims to identify opportunities for the transfer of knowledge between foreign and local firms and to create a business 'angels' forum whereby successful entrepreneurs would advise up and coming companies within the sector on key strategic decisions.

## Future prospects

The overall prognosis for the next few years for the supply chain sector and industry in general in this country is fairly good, Henry feels. "We have the infrastructure and the expertise that we need to provide higher value services to a wide range of industries and there is no real reason why we can't attract the scale of foreign investment necessary to sustain a healthy economy in the years ahead."



Kevin Henry.