

New Publication In BrainNet Science Edition

How Prepared Are Midsize Companies For Volatile Markets? New Study by SMI and Lünendonk

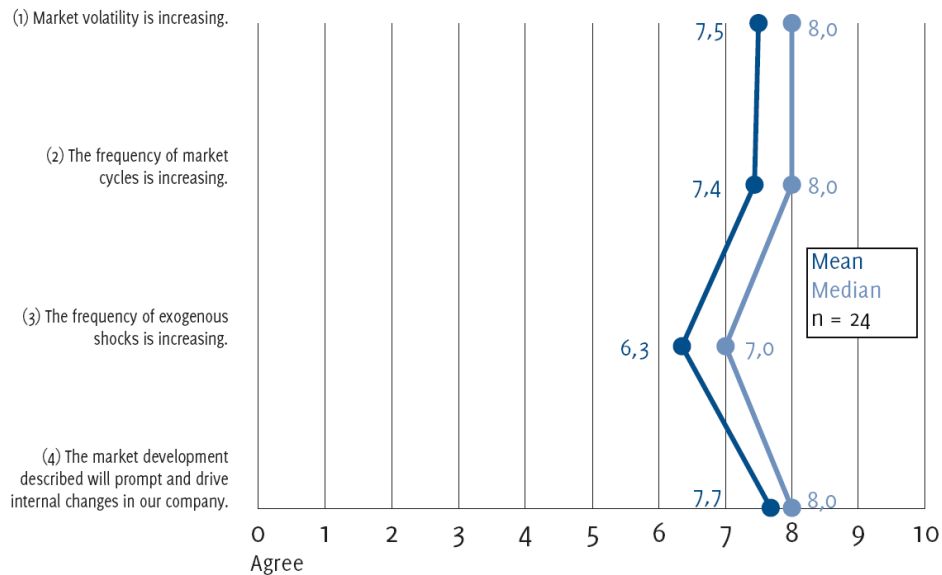
Bonn, August 30, 2010 – The volatility of the markets has risen dramatically in recent years, confronting the managers of global value creation chains with a whole new set of challenges. Germany’s upper-tier midsize businesses are generally seen as winners in the globalization game – but are they suitably armed for the new challenges awaiting them in supply chain management? That’s the question posed in “*Breathing supply chains: How prepared are Germany’s upper-tier midsize companies for volatile markets?*”, a study by SMI and Lünendonk which has just been published in the BrainNet Science Edition.

How can businesses stand firm in volatile markets and protect their value creation chains from the impact of crisis by utilizing new tools and methods in management and planning? This was the question posed in a joint study carried out by the Supply Chain Management Institute (SMI) at the European Business School and market research firm Lünendonk and now published in the BrainNet Science Edition. The authors interviewed senior decision-makers from leading German midsize companies on market volatility, exogenous shocks, long-term planning and SCM strategies. The key findings are summarized here:

- *Increasing volatility and major shock impacts:* Businesses are anticipating a dramatic rise in market volatility and more frequent market and economic cycles. Suppliers, raw materials, customers and the intensity of the competition are subject to a fast rate of change, representing potential sources of trouble from an SCM perspective. They expect to see much stronger impacts from exogenous shocks, particularly as a result of the global operating area and high integration of value creation chains.

“The results of this study clearly show that volatile markets are evolving into a new paradigm for supply chain management. This development demands a rethink of global value creation chains. They need to be more flexible and adaptive – more agile,” says Sven Marlinghaus, Partner and Managing Director at BrainNet and publisher of the BrainNet Science Edition. “Achieving this will depend on new tools and competencies, adapted skills profiles and above all a new management approach that incorporates flexibility, intuition and a willingness to think in terms of alternatives and scenarios.”

Evaluation of Statements in Relation to Market Environment – All Companies



Source: Supply Chain Management Institute / Lünendonk:

Breathing Supply Chains: How Prepared Are Germany's Upper-Tier Midsize Businesses For Volatile Markets?, 2010

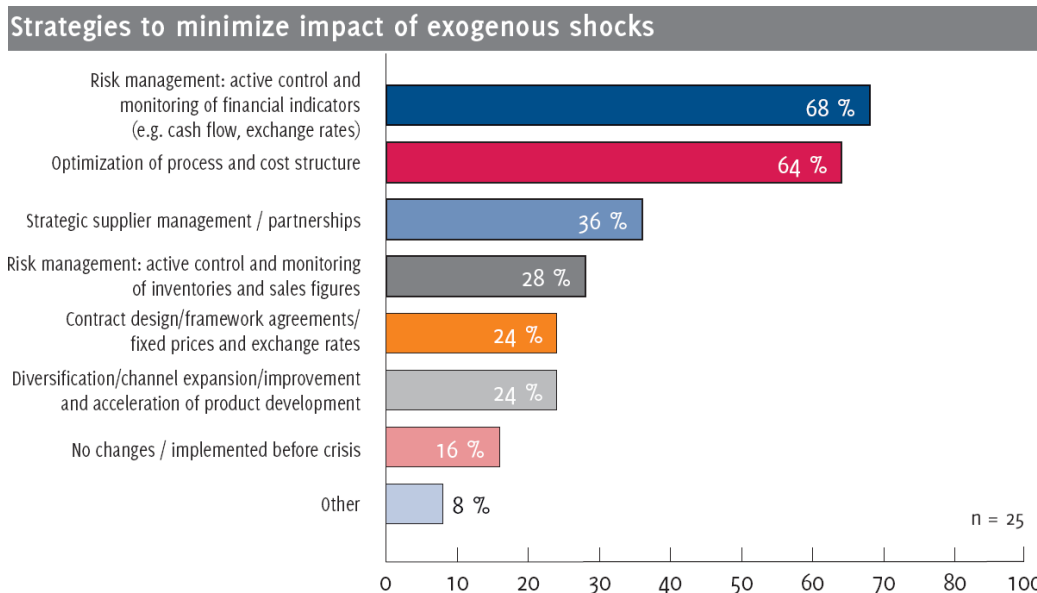
- **SCM on the directors' agenda:** The growing importance of supply chain management to a company's overall performance can be seen in the way SCM is interacting more closely with other areas of the company and being given more management attention. However, this importance is not sufficiently reflected in the organizational structure.
- **New strategic tools and methods:** The majority of companies are currently adapting internal processes and structures to global trends. There is growing interest in innovative planning techniques (scenarios, roadmapping, future workshops) as a complement to traditional approaches (forecasts, trend extrapolations) to prepare more effectively for a complex and volatile market environment. Companies also admit to major deficits in financial supply chain risk management and performance measurement systems.

“One important lesson we learned from the economic and financial crisis is that midsize companies are often worse hit by and less prepared for external shocks than large corporations,” says Dr. Heiko von der Gracht, Director of the Center for Future Studies and Knowledge Management at SMI and co-author of the study. “An efficient, flexible and strategically managed supply chain is one way of surviving turbulent times without long-term asset erosion, enabling even smaller players in the value creation chain to weather the storm.”

“The fact that upper-tier midsize companies are already showing such a marked interest in new management methods and tools reveals that they have recognized the fundamental

changes taking place in their market environment and are systematically adapting to them,” adds Jörg Hossenfelder, Managing Director of Lünendonk GmbH and co-author of the study. “This places them in a good position to play in the major league of the global economy.”

- **Supplier integration takes top priority:** Integrating suppliers and customers in supply chain optimization is viewed as the most important means of survival in volatile markets. More than one third of companies also count strategic supplier management as essential to being better prepared for exogenous shocks.
- **Flexibility is imperative:** Companies are busy optimizing their process and cost structures, particularly with respect to the flexibility and adaptivity of their supply chains.



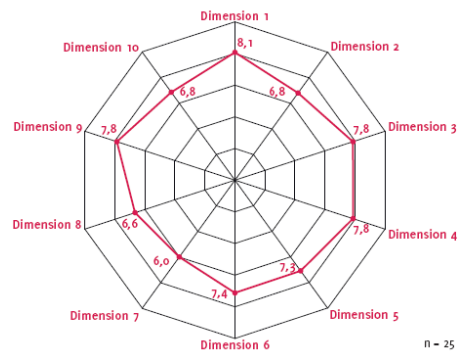
Source: Supply Chain Management Institute / Lünendonk:

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- **Balance between global and local:** Upper-tier midsize companies believe they are well-equipped to implement supply chain resources and structures locally in global markets and maintain a balance between implementing central policies and locally adapting them.
- **Underestimated future issues:** Acquiring and developing high potentials for SCM and building ecologically and socially sustainable supply chains ranks low on the list of strategic priorities for the companies surveyed. These two issues also manifest the lowest maturity level of all SCM dimensions analyzed.

Maturity of supply chain dimensions

- 1) We view the development of the supply chain strategy as a senior management task (board of directors, management board).
- 2) We are able to quantify the impact of supply chain excellence on ROCE, EBIT and growth in sales.
- 3) We can make our resources flexible enough to respond to fluctuations in demand.
- 4) We are able to implement our supply chain resources and structures locally in global markets.
- 5) We are able to adapt our supply chain structures to market requirements.
- 6) We successfully integrate customers and suppliers in supply chain optimization measures.
- 7) We systematically recruit and develop high potentials on the basis of our strategic objectives and with due regard for their future needs.
- 8) We have a supply chain governance code (encompassing sustainability, ethics and compliance) which is supported by management and the implementation of which is evaluated by internal and external auditors.
- 9) We proactively manage the financial aspects of our supply chain (taxes, working capital, supply chain finance etc.).
- 10) We successfully integrate our functional strategies in our overall supply chain strategy at company level.



Source: Supply Chain Management Institute / Lünendonk:

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“Apart from market volatility, the trends that will have the greatest impact on supply chain management over the next few years are strategic qualification and the alignment of value creation chains with ecological and social criteria. This is an area where German companies are setting standards,” says Prof. Christopher Jahns, President of EBS. “But energetic efforts are needed to sustain this leading role into the future. This requires people in industry, research, teaching and politics to work together.”

For further information about the study and photo material, please contact brainnet@maisberger.com

More publications in the BrainNet Science Edition can be found at www.brainnet.de

About the BrainNet Supply Management Group AG

BrainNet is one of the leading international brands for supply chain management consultancy. Employing 240 members of staff, BrainNet turns over CHF 50 million globally. BrainNet develops and realizes tailored solutions for more than 90 of the companies listed in the Global Fortune-500 and around 300 fast growing SMEs. For years, BrainNet has had offices in Bonn, Boston, Budapest, Chicago, London, Mumbai, Munich, São Paulo, Shanghai, St. Gallen, Stockholm, Tampa and Wrocław.

The Lünendonk® list “The top 25 management consultancy firms in Germany 2009” ranks BrainNet as the only provider specializing in procurement and supply chain management (SCM) among Germany’s 25 biggest management consultancies.

The study “Hidden Champions of the Consulting Market” by the Scientific Society for Management and Consulting (WGMB) puts BrainNet as the number 1 purchasing consultant in Germany. The company is – together with Roland Berger – also the only consultancy to be listed in the Hidden Champion top 5 ranking in all the supply chain management disciplines (purchasing, internal supply chain & processes and distribution logistics). The study also confirms BrainNet the best specialist knowledge and the best price/performance ratio in the discipline of purchasing and SCM.

Through its close collaboration with the Supply Chain Management Institute (SMI) at the European Business School (EBS), BrainNet offers a totally unique value-creation chain ranging from research and training young talent at leading business schools to implementing consultancy projects and strategic qualification of top managers and supply chain managers.

For more information about BrainNet, please go to www.brainnet.com

BrainNet – people creating connected solutions

BrainNet Company Contact

BrainNet Supply Management Group AG
Sven Marlinghaus, Partner
Teufener Strasse 25
CH-9000 St. Gallen
t + 41 (0)71 - 226 10 60
f + 41 (0)71 - 226 10 69
m + 49 (0) 175 - 9395032
s.marlinghaus@brainnet.com
www.brainnet.com

PR Contact / Graphical Material

Maisberger, Gesellschaft für strategische
Unternehmenskommunikation mbH
Dimitrij Naumov/ André Nowak
Kirchenstrasse 15
81675 München
t +49 (0)89 41 95 99 -63 / -15
f +49 (0)89 41 95 99 -12
brainnet@maisberger.com
www.maisberger.com