



Time to take stock?

Supply chains and the FTSE 100

September 2011

Research from The Chartered Institute of
Purchasing & Supply



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Foreword

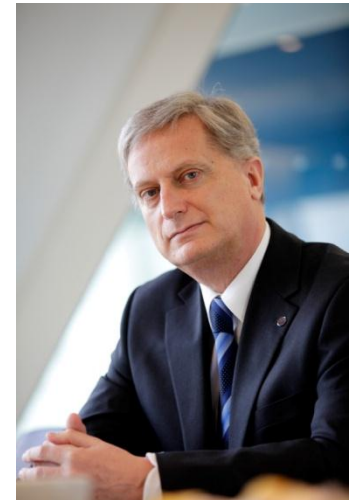
David Noble, Chief Executive, CIPS

Failure to effectively manage supply chain risks through robust procurement and *supply management* activity can have a dramatic impact on how businesses cope in a crisis.

The occurrence and impact of natural disasters such as the tragedy in Japan earlier this year are by their very nature hard to predict, but they will have served as a wake-up call for many businesses about the need to manage their supply chains. Stretching far and wide across continents, supply chains need to be maintained to allow businesses to remain flexible and responsive to unfolding events.

The uncertainties weighing on the global economy make this need even more apparent, particularly as companies battle to reduce costs and improve business efficiencies.

continued...





Foreword, continued

It is encouraging that recent surveys of CIPS members have found that the influence of the procurement department is expected to grow in the next few years. An overwhelming 86% of respondents to the Supply Management Profile of the Profession survey, in Spring 2011, reported that they are undertaking a greater level of activity than they did five years ago, and almost two in five respondents are reporting to a higher level within the company.

We'd hope that this increased recognition leads more companies to follow the example of Apple by appointing CEOs like Tim Cook, who has a strong background in procurement. However, it's clear from our research of FTSE 100 firms, that many still have a long way to go.

In changing times, companies of all sizes need to look to reduce costs and achieve greater efficiencies, but in many cases this needs to address the entire procurement function within the business. This is based on a deep understanding of the value suppliers add to the reputation and success of the organisation, and the risks attached to the purchases made.

Now is the time for businesses to start focusing on their procurement processes and getting the right people in the right positions to bring value to purchasing practice. I trust you will find this report as informative and insightful as we do.

David Nolle





Executive summary

Recognition of procurement and supply as a business function

CIPS' research of FTSE 100 annual reports between 2008-2010 shows that there is relatively low recognition given to procurement and supply, in contradiction to its critical importance to the bottom line; something which investors and analysts should note.

In comparison with other key business issues such as emerging markets, risk management, sustainability and skills, supply chain issues showed the lowest increase out of all the terms researched with only a 14% increase.

Retail and consumer, aerospace and automotive, and food and drink companies lead the way, with companies such as Burberry, Rolls Royce and Unilever reporting most on relevant issues. Surprisingly, technology companies, which often have a broad and complex supply chain network, have amongst the least mentions in their reports, with eight out of twelve other sectors analysed having a greater number.





Methodology

CIPS undertook research based on FTSE 100 annual reports for the three years between 2008-2010

To assess the level of attention paid to procurement, purchasing, sourcing and supply chain management during this period, the number of mentions of these in each company annual reports were counted for quantitative analysis by company and sector.

These terms are often used to describe the same or similar functions within different organisations, with some terms more widely favoured in certain sectors or for legacy reasons. Grouped together, they provide a more realistic picture of the 'whole' level of awareness of important procurement and supply chain issues across the FTSE 100.

Grouping the terms together also allows more meaningful comparison with other critical corporate and functional business issues, including skills, regulation, sustainability and Corporate Social Responsibility. These terms were also included in our research.

The FTSE 100 covers a total of 31 different industry sectors. In order to allow more meaningful comparison between sectors, these were grouped into thirteen categories (the appendix lists descriptors and the companies included in each category).

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Methodology, continued

This, and further qualitative analysis, allowed us to identify the companies who are 'leaders' in their sector and those sectors which pay most (or least) attention in terms of their reporting on procurement and supply chain issues, and by implication those who recognise most the importance of these issues to the performance of their businesses and the bottom line.

The research was conducted in July/August 2011.

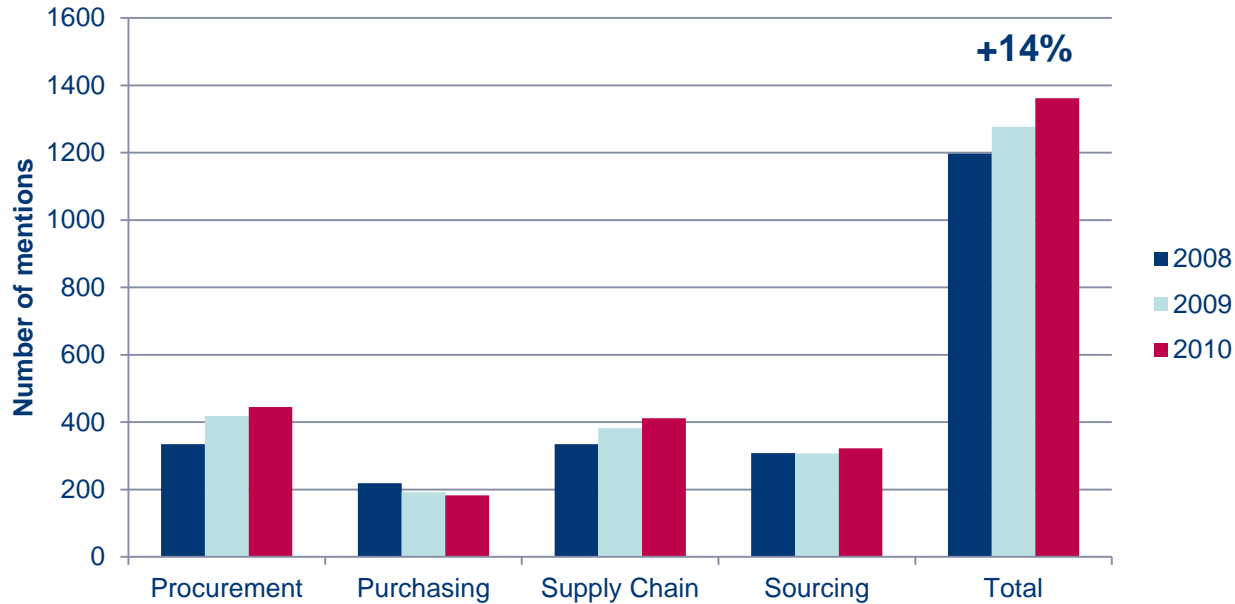




Key findings: all mentions

The number of mentions of procurement and supply chain issues rose by 14 per cent between 2008 and 2010.

Overall increase in attention

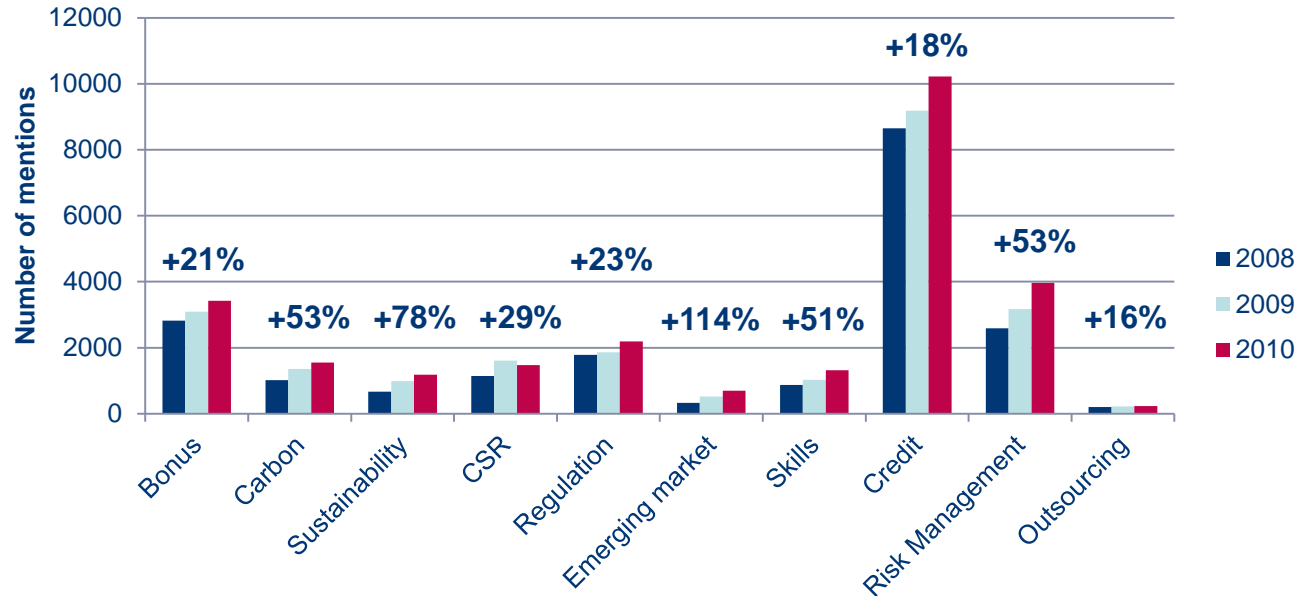




Key findings: all mentions

However, the number of mentions of other issues such as sustainability, skills and risk management has risen at a higher rate.

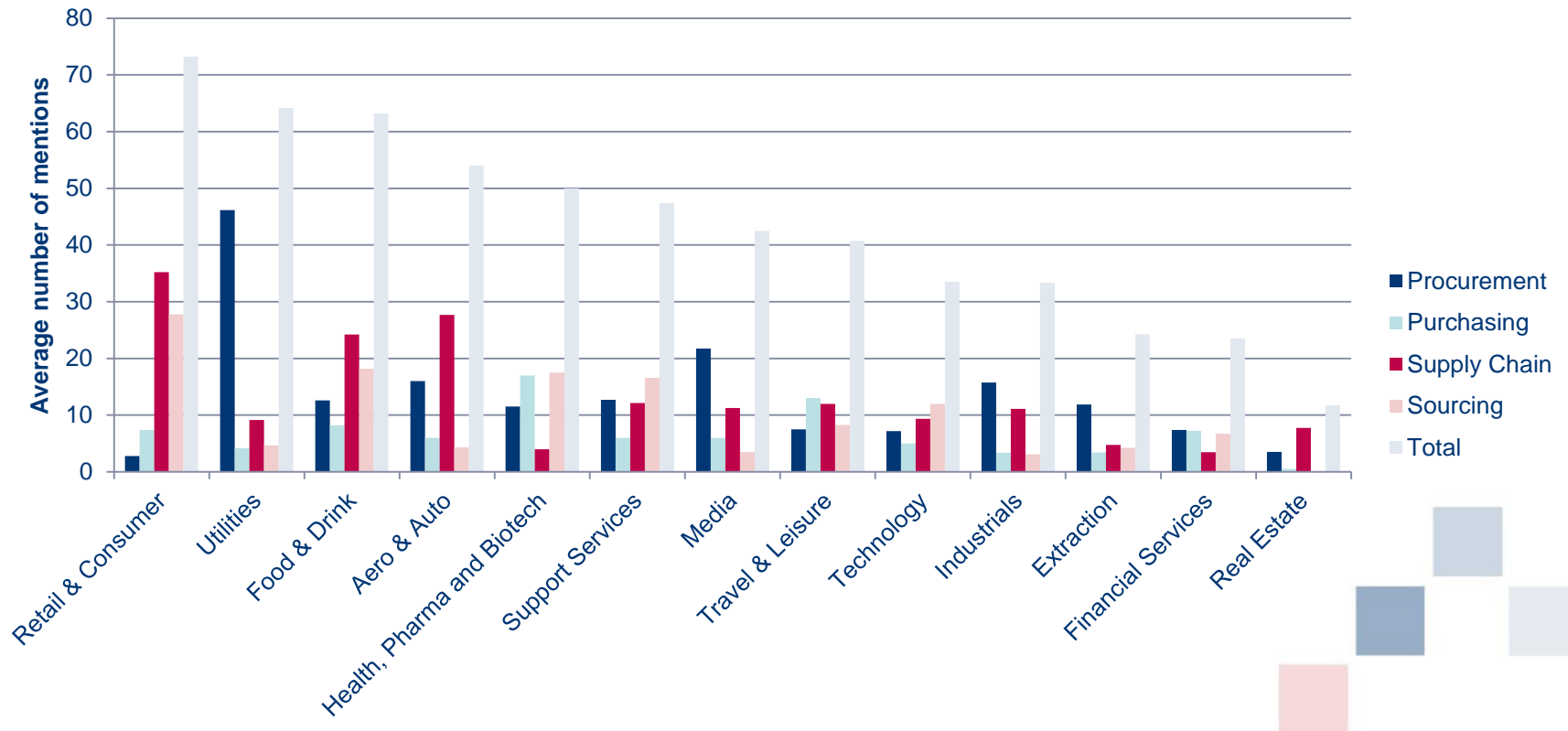
Overall increase in attention





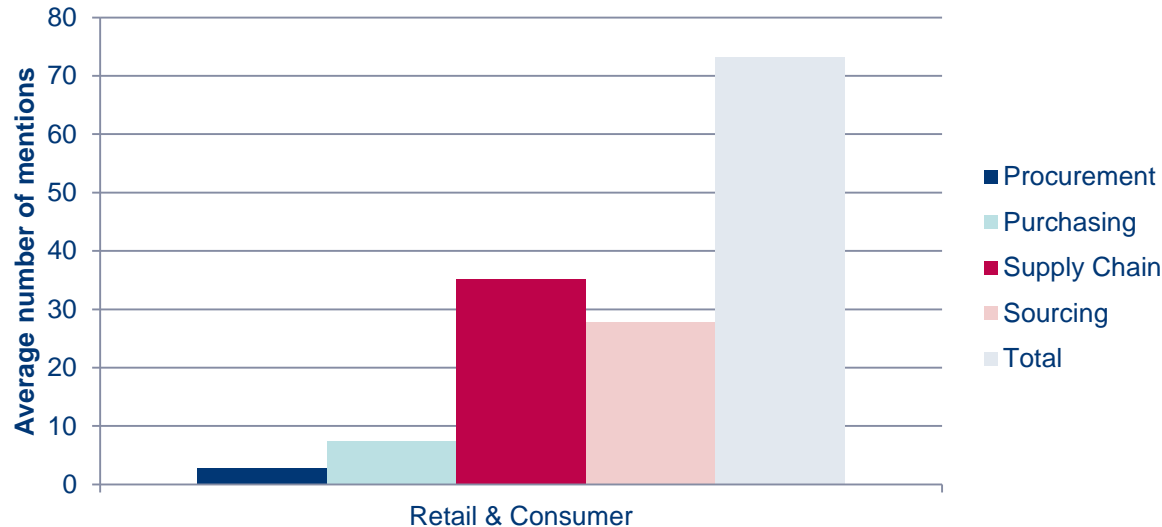
Key findings: all mentions by sector

The chart below shows, by sector, the average number of mentions for specific search terms.





Retail



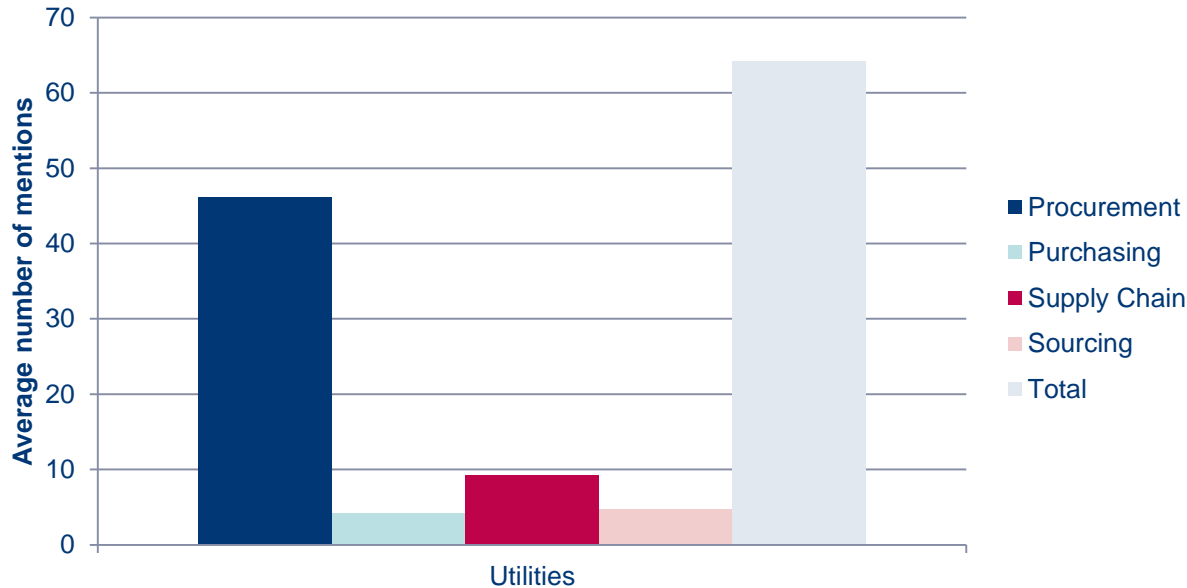
The Retail & Consumer sector pays the most attention to relevant issues in their reporting, particularly in relation to supply chain management and sourcing. Highlights include:

Mentions of supply chain management increased by 78% in British American Tobacco annual reports between 2008-2010. At Marks & Spencer, there was an increase was 60%.

Kingfisher had 31% more mentions of sourcing in their 2010 annual report, compared to 2008.



Utilities



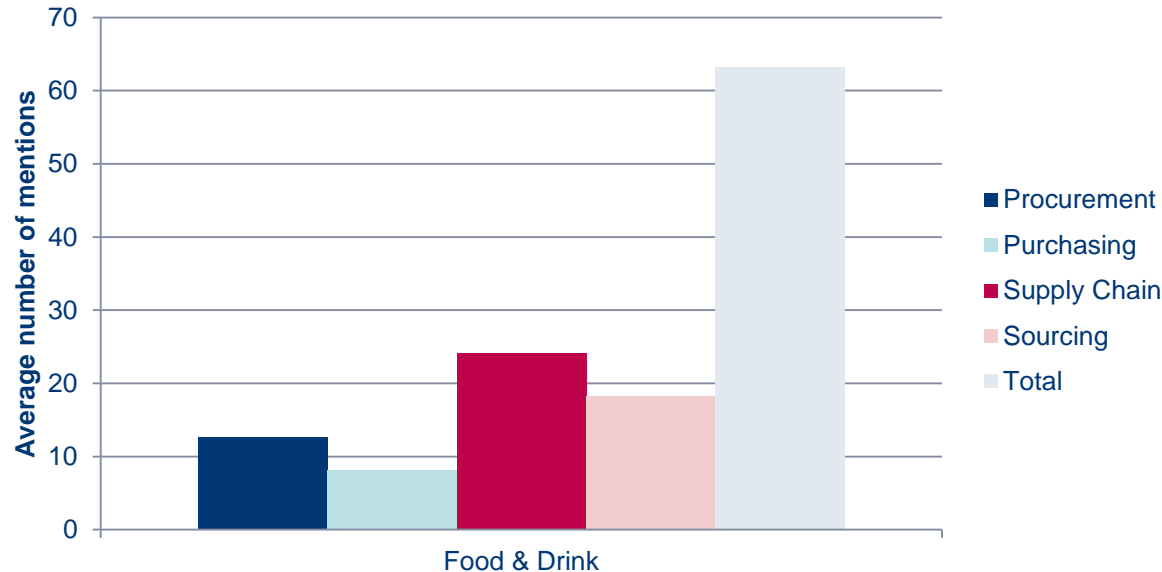
This is followed by the Utilities sector, where the main focus is on 'procurement'.

Centrica was by far the leader in this sector, with an average 66 mentions of 'procurement' per annual report'. There were 9 mentions on average per report from Scottish and Southern Energy, the nearest in comparison.





Food & Drink



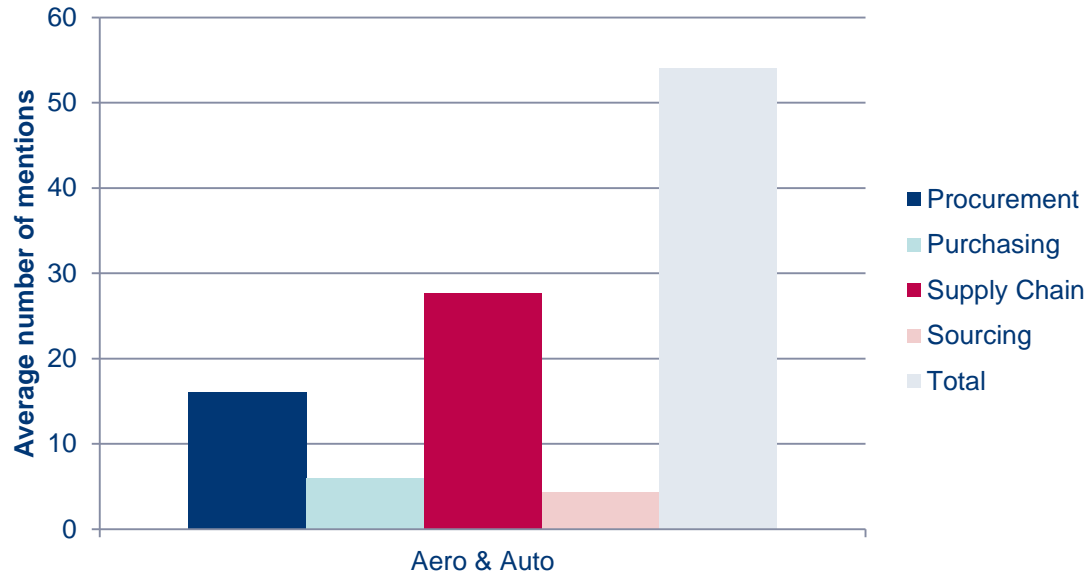
The Food & Drink sector is third overall, with companies like Unilever mentioning relevant terms the most, on average 42 times per report.

At Unilever, mentions were predominantly of supply chain management, on average 26 mentions per report. Meanwhile, at SAB Miller, mentions of procurement increased by more than 500% between 2008-2010.





Auto & Aero



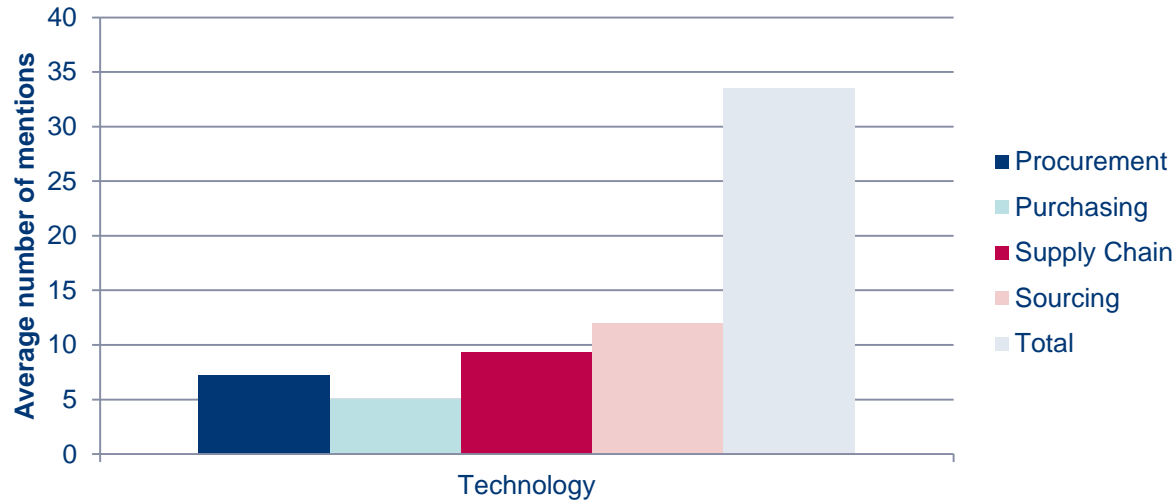
Although Auto & Aero was fourth overall, the sector paid the second highest level of attention to supply chain issues compared with others.

The company with the highest number of relevant terms mentioned, with an average of 24 mentions per report, was Rolls Royce - the majority of these relating to supply chain management. BAE Systems annual reports had a four-fold increase in the number of mentions on procurement between 2008-2010.





Technology



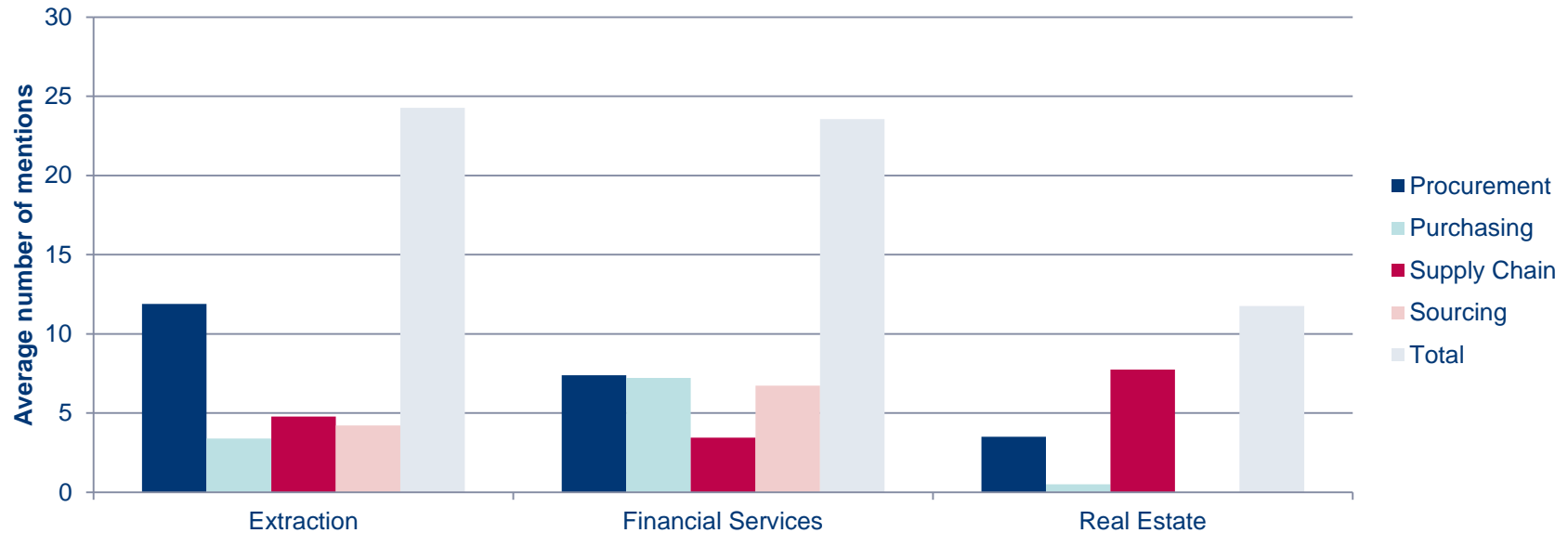
Technology companies, perhaps surprisingly, scored relatively low overall.

BT Group had the highest number of overall mentions in annual reports – 30 on average per year. There was a noticeable shift away from the term ‘sourcing’ towards ‘procurement’ across the three reports. Although Vodafone was only second to BT Group, there was a noticeable decline in overall mentions during this period. Mentions of supply chain management decreased from 16 in 2008 down to just nine in 2010.





Extraction, Financial Services, and Real Estate



Whilst procurement and supply chain best practice still have a valuable role to play in the success of businesses in the Real Estate, Financial Services and Extraction sector, these paid the least attention across all of the search terms.



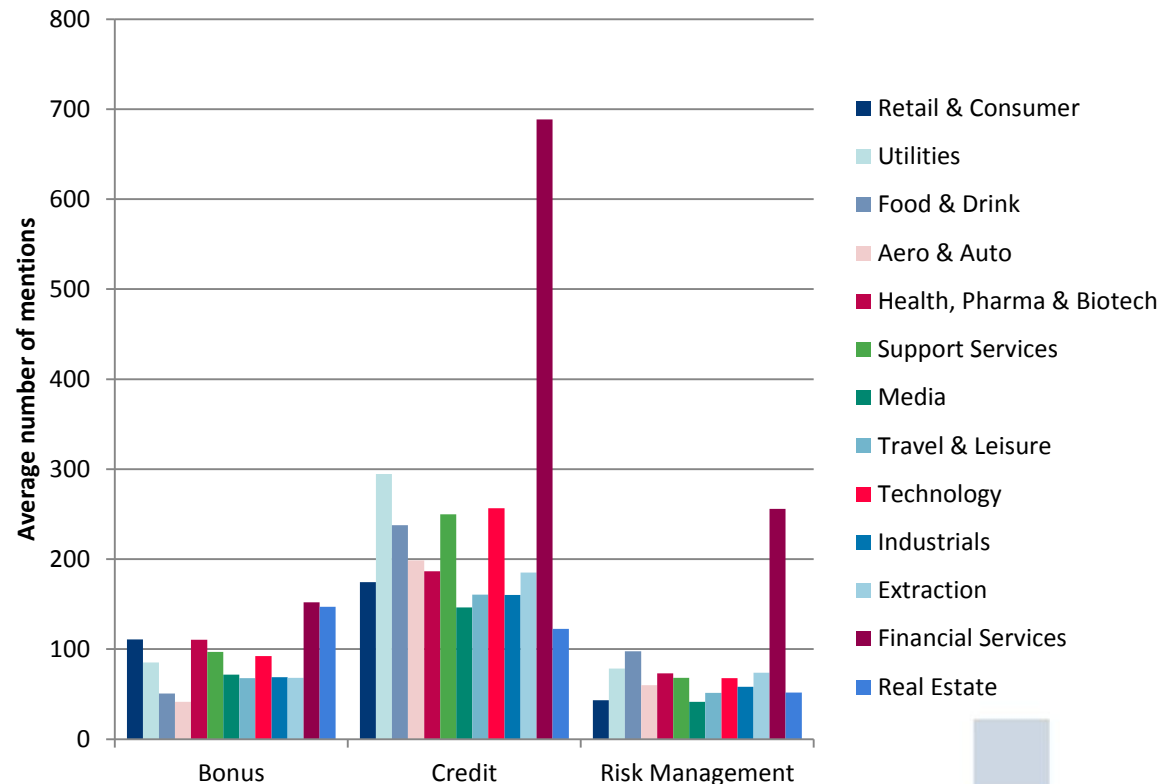


Key findings: other search terms

A number of notable spikes were identified across other search terms, within specific sectors.

Bonuses saw a significant increase in the retail and consumer sector over the last three years (36%).

Financial Services companies in the FTSE 100, unsurprisingly had the most mentions of credit and risk management (relating to financial risk).





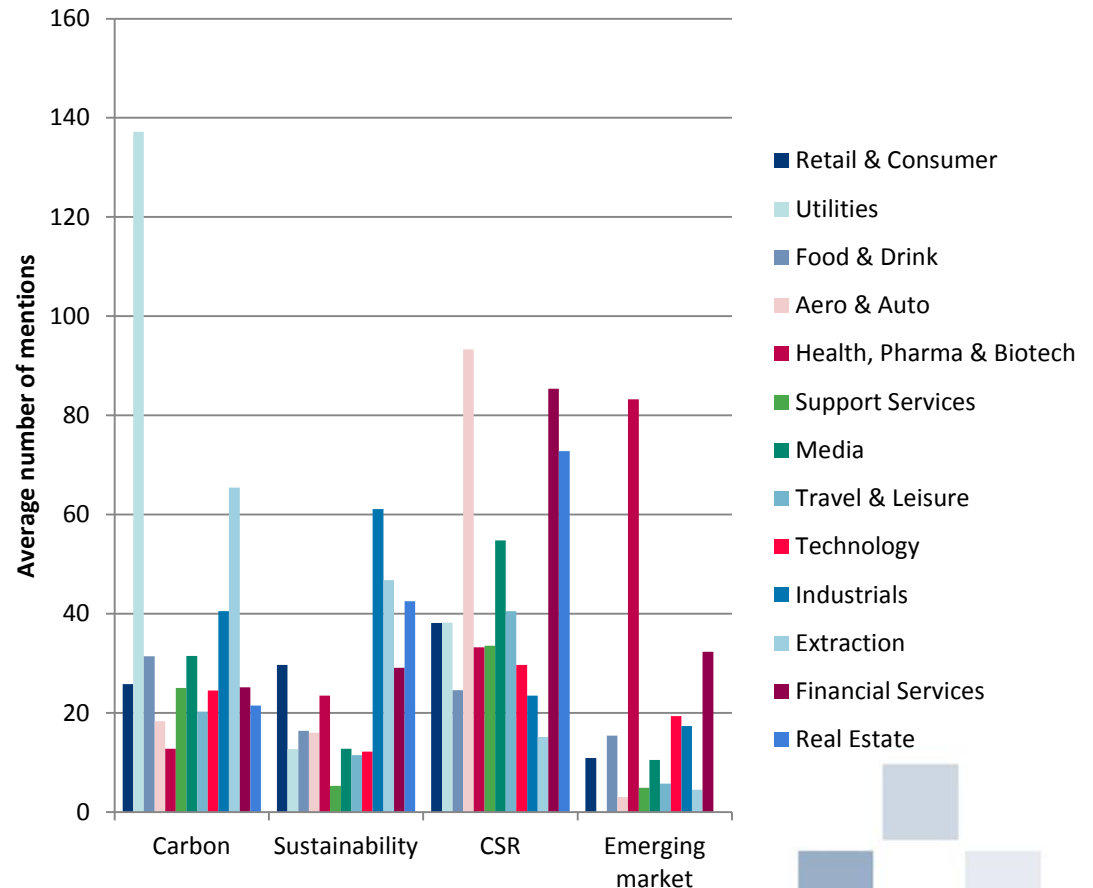
Key findings: other search terms

Utilities and Extraction companies were highest for mentions of carbon.

Mentions of sustainability were highest in the industrials sector, and increased by 74% over the three year period.

The Aero & Auto, Financial Services, and Real Estate sectors scored highest for CSR.

Healthcare, Pharma & Biotech had the strongest focus on emerging markets.





About CIPS

About CIPS

The Chartered Institute of Purchasing & Supply (CIPS) is the world's largest procurement and supply professional organisation.

It is the worldwide centre of excellence on purchasing and supply management issues. CIPS has over 65,000 members in 150 different countries, including senior business people, high-ranking civil servants and leading academics.

The activities of purchasing and supply chain professionals have a major impact on the profitability and efficiency of all types of organisation and CIPS offers corporate solutions packages to improve business profitability.

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APPENDIX





Sector groupings

Thirteen sector categories, derived from the 31 sectors covered by the FTSE 100

| | FTSE 100 Sectors | Companies |
|--------------------|---|---|
| Aero & Auto | Aero & Defence; Automobiles and Parts | BAE Systems; GKN; Rolls Royce |
| Extraction | Mining; Oil & Gas Producers | Anglo American; Antofagasta; BG Group; BHP Billiton; BP; Cairn Energy; Essar Energy; Eurasian Natural Resources; Fresnillo; Glencore; Kazakhmys; Lonmin; Randgold Resources; Rio Tinto; Royal Dutch Shell; Tullow Oil; Vedanta Resources; Xstrata |
| Financial Services | Financial Services; Life Insurance; Non-life Insurance; Banks | 3i, Admiral Group; Aviva; Barclays; Hargreaves Lansdown; HSBC; ICAP; Investec; Legal & General; Lloyds Banking Group; Man Group; Old Mutual; Prudential; RBS Group; RSA Insurance Group; Schroders; Standard Chartered; Standard Life |



Sector groupings

| | FTSE 100 Sectors | Companies |
|--------------------------|--|---|
| Food & Drink | Food Producers; Beverages | Associated British Foods; Diageo; SAB Miller; Tate & Lyle; Unilever |
| Health, Pharma & Biotech | Pharmaceuticals and Biotech; Healthcare Equipment & Services | AstraZeneca; Glaxosmithkline; Shire; Smith & Nephew |
| Industrials | Oil Equipment & Services; Industrial Engineering; Chemicals; General Industrials | AMEC; IMI; Johnson Matthey; Petrofac; Rexam; Smiths Group; Weir Group; Wood Group |
| Media | Media | BSkyB; ITV; Pearson; WPP Group |
| Real Estate | REIT | British Land; Capital Shopping Centres Group; Hammersons; Land Securities |





Sector groupings

| | FTSE 100 Sectors | Companies |
|-------------------|--|---|
| Retail & Consumer | Tobacco; Personal Goods; General Retailers; Food & Drug Retailers; Household Goods & Home Construction | British American Tobacco; Burberry; Imperial Tobacco; Kingfisher; Marks & Spencer; Morrisons; Reckitt Benckiser; J Sainsbury; Tesco |
| Support Services | Support Services | Aggreko; Capita Group; Experian; G4S; Intertek Group; Serco Group; Wolseley |
| Technology | Technology, Hardware & Equipment; Telecoms; Mobile Telecoms; Software & Computer Services | ARM Holdings; Autonomy Corporation; BT Group; Inmarsat; Sage Group; Vodafone |
| Travel & Leisure | Travel & Leisure | Carnival; Compass Group; IHG; Whitbread |
| Utilities | Electricity; Gas, Water & Multiutilities | Centrica; International Power; National Grid; Scottish & Southern Energy; Severn Trent; United Utilities |