

Tackling Supply Chain Security

Mark Steegh, of supply chain consultancy Total Logistics, believes that a more standardised approach to improving supply chain security and reducing shrinkage is a positive development for manufacturers, logistics companies and retailers alike.

“There is no denying that theft (or shrinkage as it’s often euphemistically termed) is a huge issue for the supply chain sector. Latest estimates from the annual Theft Barometer* indicate that UK retailers alone lose around £3.8 billion a year to theft from customers, employees and suppliers at various points across the supply chain.

“Once the other elements of the supply chain are factored in – and the potential rise in theft brought about by the recession – it is easy to see how the value of losses across all industrial sectors could rise significantly. A survey conducted by a leading security company last year highlighted the scale of the problem. While 85 per cent of logistics businesses believed that break-ins would increase, 29 per cent admitted to theft from within the business. But these startling figures are just the tip of the iceberg for many businesses. While the future might look bleak within the distribution centre itself, what about the more expansive security panorama?

“Clearly, other elements of the supply chain, including customs, shipping, road transport and cross docking, are all vulnerable to the spectre of theft or even terrorism. The big question facing those businesses involved in the supply chain, is: how do we effectively address this costly and often hidden issue?

“Recent moves by various countries and economic blocs to protect themselves from security risks have gone a long way to provide supply chain managers with standardised solutions in this complex area.

“TAPA, the Transported Asset Protection Association is backed by the security industry, working closely with high technology businesses mainly based in the USA and increasingly Europe and other continents. Founded in 1997, this body uses specific freight security and trucking security standards to assess the level of asset protection in any given supply chain.

“AEO, the Authorised Economic Operator standard, came into force in 2008 and is part of an EU wide initiative to tackle counterfeiting, fraud and terrorism within the supply chain. While there are three types of certification to AEO (customs simplifications, security facilitations and full certification comprising the earlier two), gaining approval is no simple form filling exercise. The certification process consists of company shareholder details; customs compliance records; a review of accounting and logistics systems; IT systems reviews; the financial solvency of the business, as well as safety and security systems adopted.

“Lastly, there’s C-TPAT, the US government initiative that was set up in 2001. This works by ensuring that all members within a supply chain work more closely together, be they importers, carriers, brokers, warehouse operators or manufacturers. This enables goods to be shipped into the US more quickly due to expedited customs checks and clearances that are completed as part of the scheme.

“Obviously, while this is a helpful tool for businesses involved in the US markets, it is of little use to EU based companies that do not undertake trade in the US. It should also be noted that European businesses can only be C-TPAT compliant, not C-TPAT certified. It is also worth noting that in addition to C-TPAT, the US Government is regularly updating and implementing additional security initiatives.

While programmes such as AEO and C-TPAT were originally developed to combat the risk of security breaches for cross-border trading organisations, their widespread adoption is a welcome development in the global logistics market. While they plug a potential security hole, they also help to combat shrinkage and improve process efficiency like TAPA already has.

“So how can these various standards help your business to improve its security rating and even its supply chain efficiencies?

“Stanford University in the USA has recently issued a study that shows how businesses that have invested in supply chain security measures reap far more financial benefit compared to the amount invested.

“As part of the study, eleven major manufacturers and three leading supply chain companies were asked to open their books to see how their investment in security measures had added value. The results were impressive. Typically, this group of ‘security enabled’ businesses reduced their time consuming customs inspections by 48 per cent, increased automated handling of their imports by 43 per cent, reduced their transit times by 29 per cent, reduced theft by 38 per cent and improved their supply chain visibility by a staggering 50 per cent.

“While studies such as this could be criticised for showing only what the ‘best of the best’, are achieving, they should perhaps be viewed as an inspiration to other businesses that have not taken such an enlightened approach to supply chain security issues.

“With the recent news that China is soon to adopt the AEO standard, this shows that these security programmes are much more than just a compliance exercise or merely corporate trophies to show off in the boardroom. It’s likely that as global markets mature, membership of at least one of these standards will become mandatory for any manufacturer or supply chain business that is serious about significant volumes of global trade.

“Clearly, if it is implemented correctly, supply chain security can create competitive advantage for European businesses. There are six key areas where both manufacturers and supply chain professionals can improve security, namely: inventory management; customer service; supply chain visibility; supply chain efficiency; supply chain resilience and customer relations.

“In the final analysis, improvements in supply chain security should not be seen as a ‘bolt the stable door’ cost, but a much more strategic investment. There are strong commercial reasons for manufacturers and supply chain solution providers to improve their security; in terms of both proven financial benefits and also from an increased global trading perspective. With big economic blocs now putting their weight behind such schemes as AEO, it is surely a case of when and not if for European businesses to step up to the security standard?”

** The Retail Theft Barometer is an annual survey that is produced by the Centre for Retail Research.*