

ON THE TRAIL TO TRACEABILITY

NEW LEGISLATION, NEW COMPLEXITY
LEAD TO NEW CHALLENGES

CHALLENGE...COMPLEXITY...CONFIDENCE?

The last decade has seen an unprecedented increase in the complexity of today's global supply chains. More products come from more suppliers, from more places than ever before. Managing, monitoring and auditing the procurement, production, storage, transportation and handling of inventory in such an environment presents a significant challenge to businesses up and down the supply chain. And, as the challenges expand, so do the laws and regulations enacted by countries around the globe designed to govern food and product handling and ensure consumer safety.

JDA commissioned this study to gauge the current state of our ability to effectively track, trace, and recall products, both inside the enterprise and up and down the supply chain. We surveyed supply chain and operations executives from close to

130 CPG, Life Sciences, and Food & Beverage companies, most of whom (~77%) represent companies greater than \$500M in annual revenue.

The study yielded some interesting results. As we expected, respondents expressed a range of opinions regarding the risks associated with their struggles to effectively trace and recall products, and also as expected we found a diverse mix of recall capabilities. However, despite strong concerns over risks and admittedly uneven capabilities, respondents reported an unexpectedly high degree of confidence in their ability to trace problems one level up and down their supply chains.

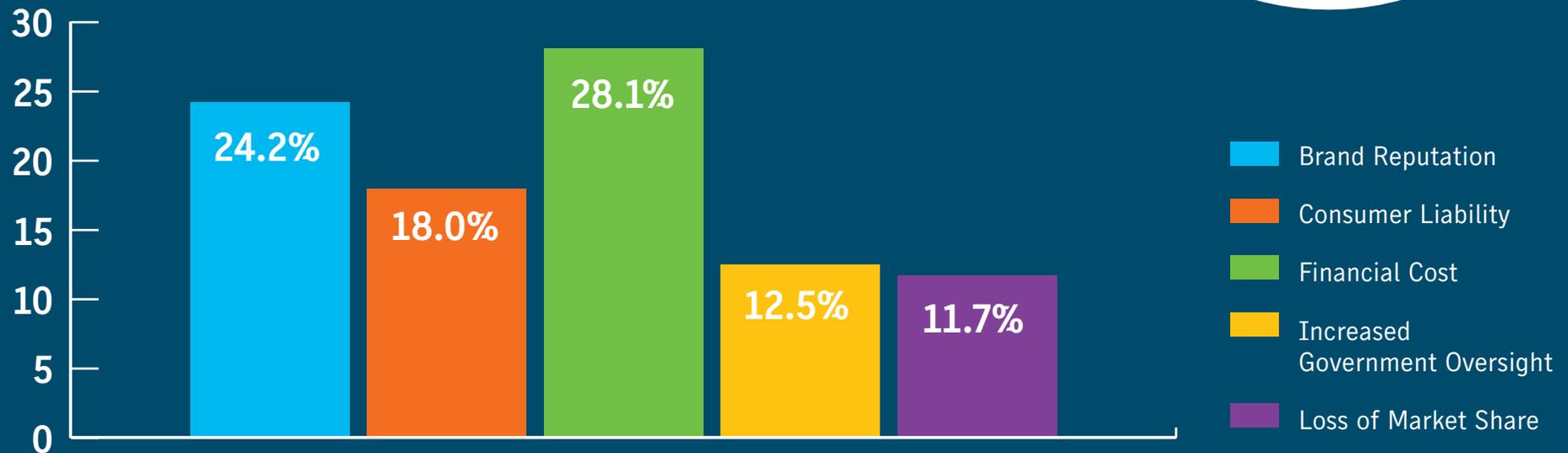
What does that mean? Are they confident in their processes? Their technology? Their partnerships? Read on to find out just exactly where the industry stands...



SLEEPLESS NIGHTS

Ineffective track and traceability tools certainly pose a threat to any organization, and it seems there is no shortage of concerns keeping executives up at night...

Which of the following represents your greatest risk associated with an inability to trace items in your supply chain?



GOOD CAUSE FOR CONCERN

Swift action is critical to mitigating risks and minimizing liability. Organizations must be able to quickly locate affected inventory, communicate to all relevant entities, and take corrective action. Best-in-class organizations strive to complete these actions within a matter of hours. Unfortunately, as a whole, it appears we have a way to go to meet that goal.



COMPLICATING MATTERS

In addition to almost half of the respondents suggesting that it would take days or weeks to effectively execute a recall, we also found that almost as many companies are challenged to track, isolate and recall only the affected products.

If you had to recall a specific item/lot, would you be able to do so without impacting other items/lots?

No

45.7%

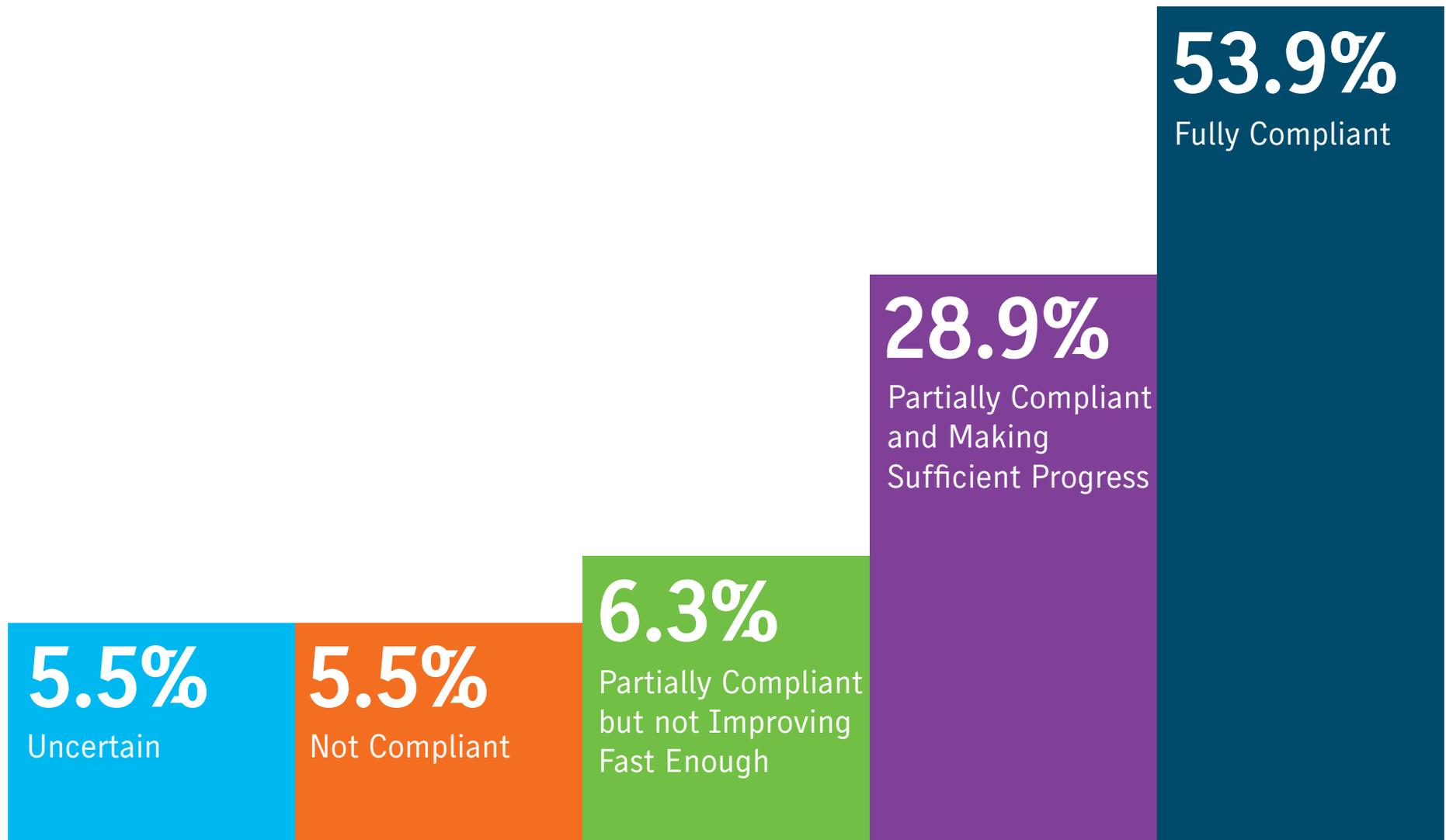
Yes

54.3%

KEEPING UP WITH COMPLIANCE?

Given the track and trace struggles that so many companies are reporting, it should come as no surprise, then that many of those same companies are struggling to stay compliant with regulations governing product safety and recall processes.

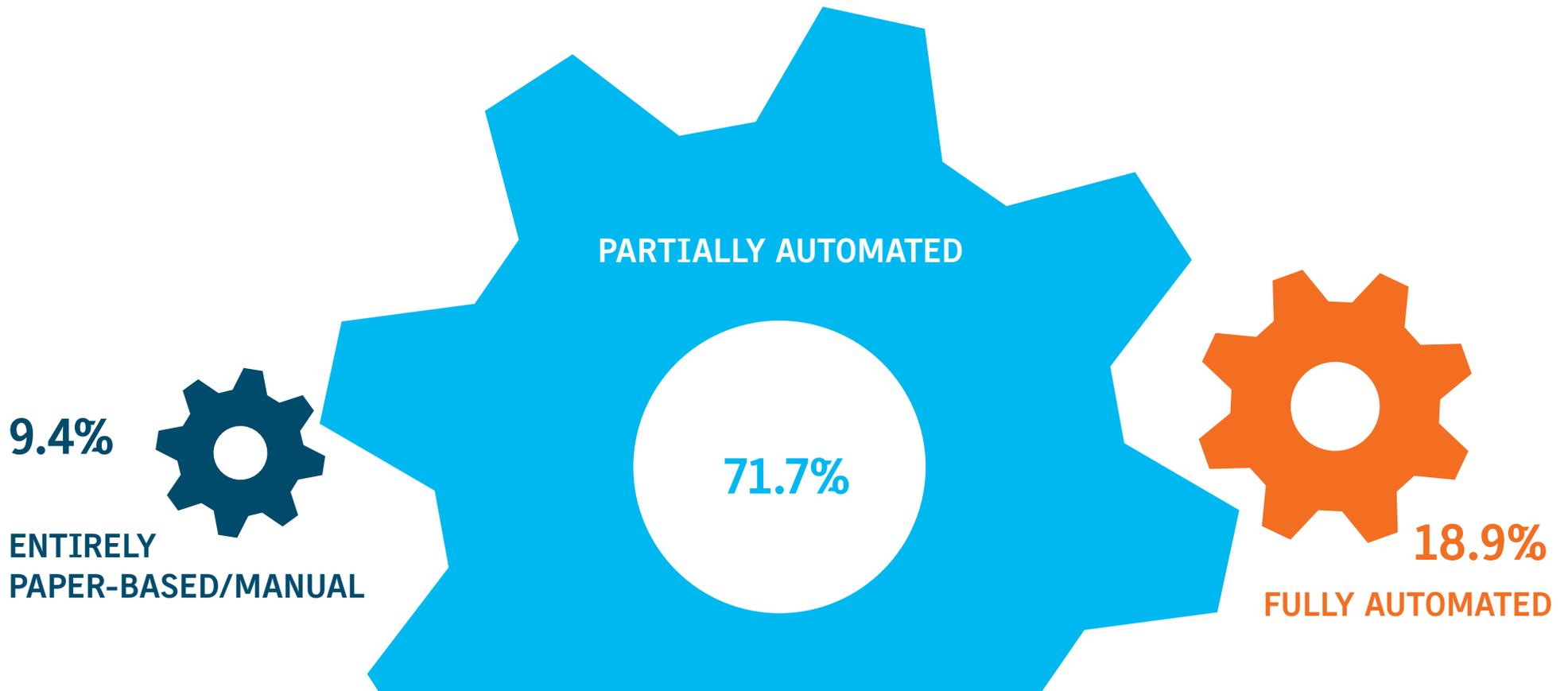
What is your assessment of your current state of compliance with existing regulations regarding traceability?



NOT ENOUGH AUTOMATION

Given the deep penetration of technology into so many areas of supply chain management, we were surprised to see that only 19% of respondents report that their traceability processes are entirely automated. This could be due to the need for inter-enterprise automation in order to execute recalls up and down the supply chain, thus making a case for not only better traceability tools but also for deeper collaboration technology.

How automated are your trace processes?



RECALL COSTS RISING

A recent report on recall execution effectiveness, sponsored by GMA, FMI, Deloitte and GS1, reports the average cost of a recall to participating food and consumer product companies is \$10 million, in addition to brand damage and lost sales. That of course does not include the incalculable human costs associated with some of the recalls...

\$10M

Average Cost of a Product Recall

LONG LIST OF CONCERNS

The mounting challenges and legislation, coupled with the rapid expansion of regulations and a lack of end-to-end automation leaves most supply executives with a long list of concerns about their ability to track and trace problem items...



86%

are somewhat to very concerned about financial liability if something goes wrong

77%

are somewhat concerned about the costs associated with ensuring affected items don't reach the end consumer

69%

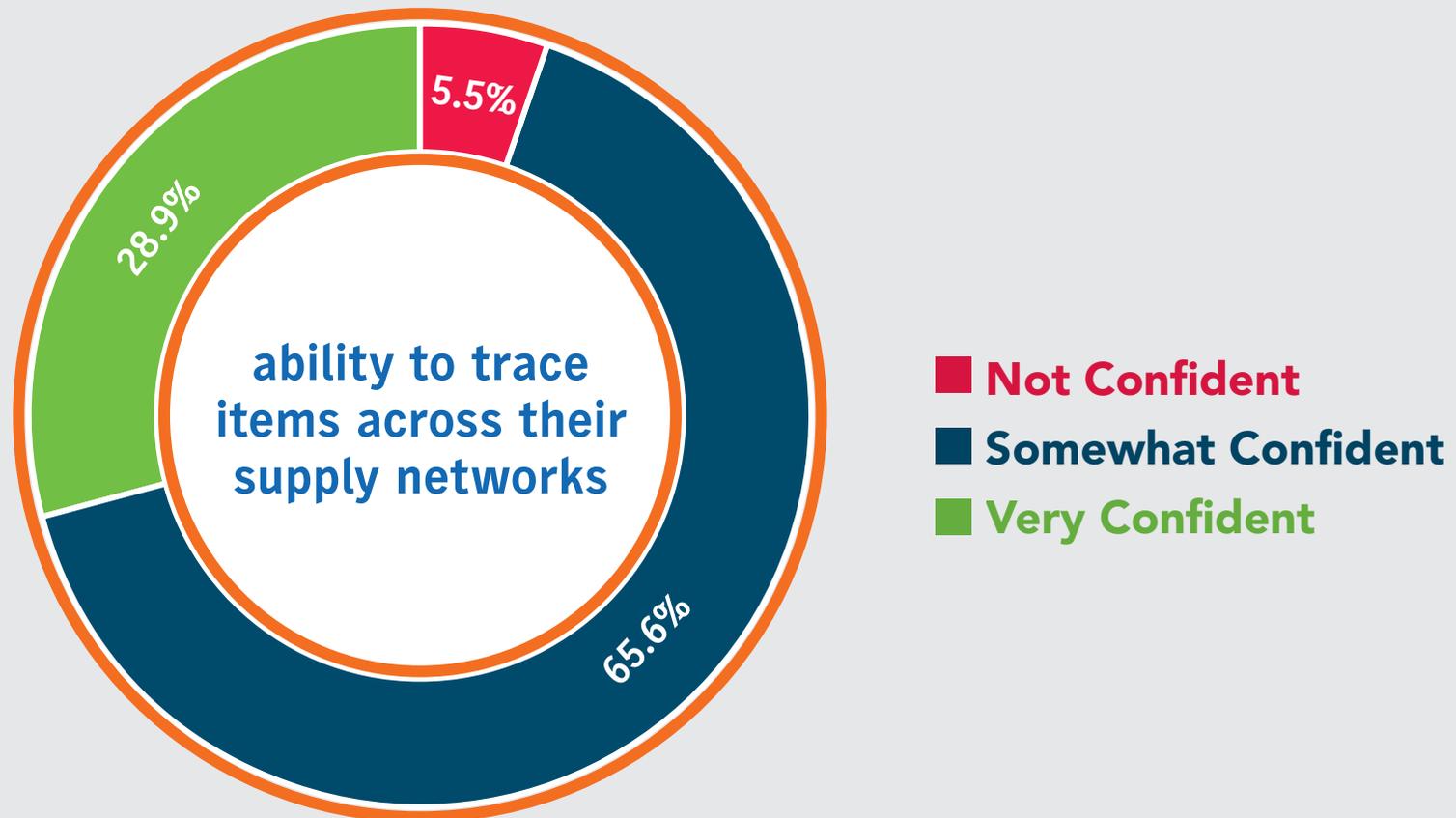
are somewhat to very concerned about coordinating recall issues with suppliers and distributors

61%

are somewhat to very concerned about their ability to isolate items in their supply chain

DESPITE THE CHALLENGES...CONFIDENCE?

Perhaps the most surprising result of all is the relative confidence that most executives express when asked about their ability to trace problems/defects one step up and one step down in their supply chains. In fact, only 5.5% of executives surveyed expressed no confidence in their ability to trace items across their supply networks.



DESPITE THE CHALLENGES...OPPORTUNITY?

Princeton University, in conjunction with The Relational Capital Group, recently conducted an in-depth study of consumer attitudes toward recalls, and the survey revealed some important insights. The study found that consumers look at how companies handle recalls as an indicator of their commitment to customer safety. The study also found that consumer loyalty can in fact be enhanced by honest, effective handling and communication of recall processes.¹

93%

of consumers believe recall handling indicated whether a company cares more about profits or customer safety

87%

of consumers are more likely to purchase from companies that manage recalls “honestly and responsibly”

DO UPGRADE PLANS BELIE CONFIDENCE?

Despite the fact that most executives expressed a good bit of confidence in their abilities to track and trace problem items up and down their supply chain, perhaps the opportunity to earn greater loyalty from consumers belies some of their bravado and is fueling upgrade investments. When asked about their plans to upgrade their traceability capabilities, a solid majority (55.1%) indicated that they do have plans to upgrade their traceability capabilities in the near future.

**Plan to Implement or Upgrade
Systems Within 5 Years**

55.1%

**Have No Plans
to Upgrade**

44.9%

SUMMARY AND CONCLUSIONS

Clearly, new legislation and new supply chain complexities have resulted in unprecedented recall challenges. The results of this survey reveal a myriad of issues and challenges vexing supply chain professionals as they struggle to stay compliant with shifting regulations and ever-more complex legislation.

Automation certainly has a role to play in overcoming these challenges, and we learned through this survey that many companies recognize that they need to upgrade their technology to help solve their traceability challenges.

Only time will tell, but the future looks brighter than the present as more companies embrace more technology to help solve more issues on The Trail to Traceability.

RESEARCH APPROACH

In April 2012, Commerce in Motion, in conjunction with Gatepoint Research invited selected supply chain executives to participate in a survey themed, “Managing Traceability in the Supply Chain.” Candidates were invited via e-mail, and executives representing 129 companies participated.

43% REPRESENT LIFE SCIENCES COMPANIES

41% REPRESENT FOOD & BEVERAGE COMPANIES

16% REPRESENT CONSUMER PRODUCTS COMPANIES

**100% ARE AT THE DIRECTOR LEVEL OR ABOVE
WITHIN THEIR ORGANIZATIONS**

**77% REPRESENT ORGANIZATIONS GENERATING AT LEAST
\$500M IN REVENUE**

54% OPERATE FEWER THAN 20 DISTRIBUTION CENTERS

29% OPERATE BETWEEN 21 AND 100 DISTRIBUTION CENTERS

17% OPERATE MORE THAN 100 DISTRIBUTION CENTERS

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In an era of relentless globalization, commerce never stops: markets are in motion, products are in motion, employees are in motion, and even consumers are in motion. Competition never rests and customers expect immediate gratification. Sustainable competitive advantage can only be achieved by organizations that are capable of keeping pace with the ever-changing dynamics of global supply chains and hyper-connected consumers.

About JDA Software Group, Inc.

JDA® Software Group, Inc., The Supply Chain Company®, offers the broadest portfolio of supply chain, retail merchandising, store operations and all-channel commerce solutions to help companies manage the flow of goods from raw materials to finished products and into the hands of consumers. JDA's deep industry expertise and innovative cloud platform help companies optimize inventory, labor and customer service levels. As a result, JDA solutions have become the standard for the world's leading retailers, manufacturers and distributors.

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