Business Priorities 2012—Research Results

Created in Partnership with
ChainLink Research and SupplyChainBrain

Introduction: 2012 Trends and Research

Enter the Dragon! 2012 will be another volatile but promising year; however, a 'hangover' from 2011 still exists. Many unsettled issues are still outstanding, as global economic uncertainty, Mideast volatility, and social economic dynamics play out—all of which have a direct impact on the business climate. And yet, our respondents do expect business expansion and intend to invest to make it happen in 2012.

In spite of dramatic news across the globe—devastating images showing that Mother Nature is still in charge, with huge economic impact from Europe to Asia; the EU, which is still in doubt mode with some fundamentally insolvent members; and China, which has had a reduction in trade with the US[1]—the US and many other economies ended the year showing GDP growth.

And in the tech sectors, especially software, many firms had their best year ever. ERP, Supply Chain, ecommerce, mobile markets and others had a great year and have great forecasts for 2012.

So what are the priorities for *business* in 2012? This report will shed light on what businesses, across many industries, have on their game board.

This report data comes from three sources:

- The online Business Priorities Survey hosted by SupplyChainBrain and ChainLink Research
- Interviews conducted by ChainLink Research with end-users in several business sectors—high tech, retail, food and beverage, and life sciences
- Recently released government economic data (to provide a foundation)

We will blend these together to provide a picture of what the business trends and priorities are for 2012.

[1] See import reductions statistics later in this report.

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Economic Snapshot

We would like to start this report with a quick look at some economic data, since so many respondents—virtually all—said that the current economic climate, with its uncertainty, was a big factor in their plans going forward.

Global GDP Breakdown, 2011 IMF			
	GDP		As % of total World GDP
World GDP	$70.0	trillion (tr)	100.0%
European Union (27)	$18.0	tr	25.7%
US	$15.1	tr	21.5%
China	$7.0	tr	10.0%
Japan	$5.9	tr	8.4%
Subtotal			65.5%
Brazil	$2.5	tr	3.6%
India	$1.9	tr	2.7%
Russia	$1.8	tr	2.6%
Canada	$1.8	tr	2.5%
S. Korea	$1.2	tr	1.7%
Indonesia	$0.8	tr	1.2%
Subtotal			79.8%
All 147 Others	$14.1	tr	20.0%

Figure 1

This information is easily obtainable, but most people don't have the time to track it down and correlate it. So we are providing you with some relevant and up-to-date data that we think give some context as to why companies and the people within them are doing some of the things they are doing.

As a country, the US is by far the richest country in the world. It takes the entire trading block of the EU to surpass the US's GDP. The global economic diversity among nations—the 'rich vs. middle class vs. poor'—is quite stark. (See Figure 1.)

However, investment in different sectors: business services, infrastructure/construction, and technology, creates a very different picture of global markets and how and why countries spend. For example, the biggest infrastructure investment dollars are still going to the BIRCs;[2] software, technology and consulting projects are going to the broader G20 nations. These realities, of course, have a strong impact on where companies decide to sell direct, sell using channel partners, or maybe not sell at all.

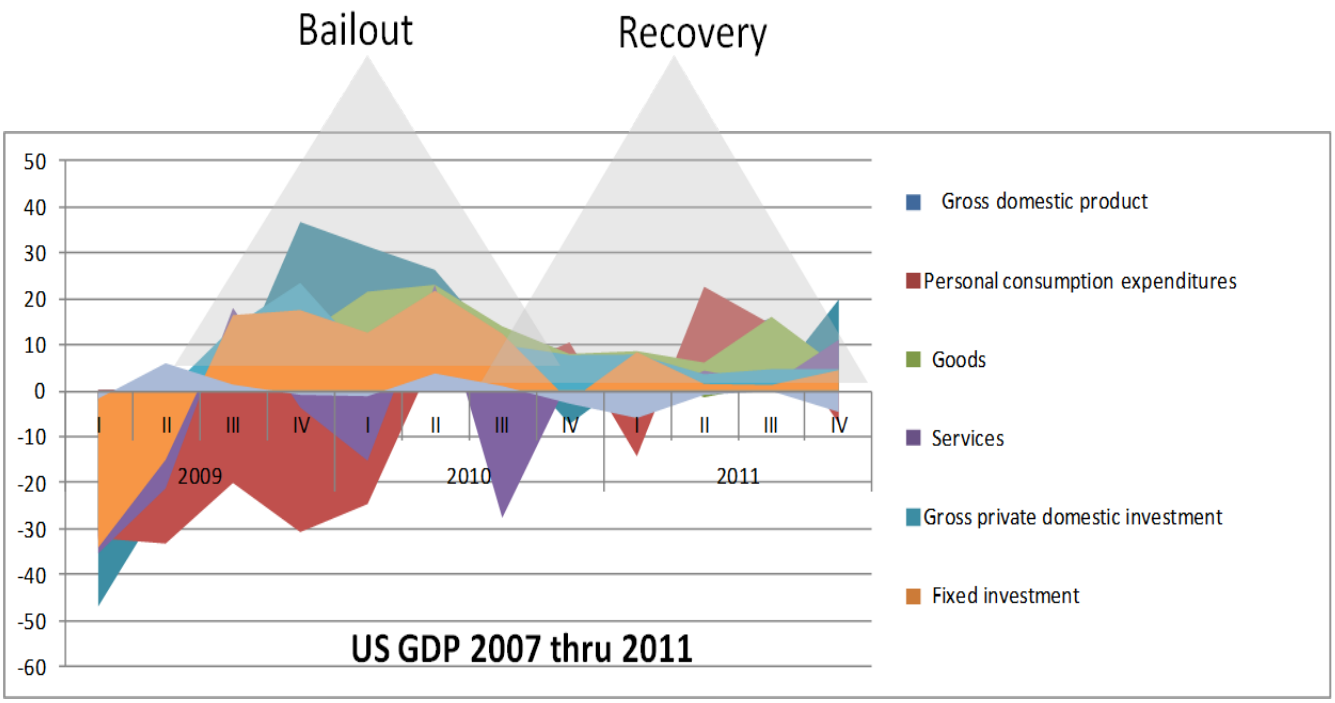
The good news for the US is that in spite of volatility, the new year-end government statistics report (published January 31st) showed a GDP growth of 2.9 percent in 2011, with some modest improvements in some of the most damaged sectors in the economy.

And although, in our survey, we had few takers on the option of 'hoarding cash,' the overall trend was toward more saving and more private investment (retirement saving and investments), as consumers have become more cost conscious as well as bigger savers. This reflects a decent gain in the value of standard investments in the last year, as well.

The retail sector did well. And why is this important? Because consumer spending represents about 70 percent of the spend in the US economy. As retail goes, so goes the nation. Most, but not all, retailers

[2] Brazil, India, Russia, and China

reported modest growth, but that growth came with price concessions.[3] Price pressure will surely continue with the mass adoption of social networking, mobile shopping etc., where coupons and loyalty programs bring out the bargain hunters but impact retailers' (and their suppliers') margins. Thin margins may be the 'new normal' for many channels as consumers are smarter about purchasing—the exception being the luxury sector which continues to do well worldwide. (However, the luxury sector is an extremely small sliver of global spending with imperceptible, if any, impact on the big issues in the economy).



Source: US Department of Commerce- Bureau of Economic Analysis

Figure 2

Another important factoid is growing recognition of the sector basis of economies. North America (US and Canada) has extraordinary strengths in services (financial, insurance, technologies), but also in mining, farming, lumber, and other raw materials which provide them with a sense of independence—if need be—from the woes of the EU. Raw materials are big export items for them, as well, and global demand for these materials is improving. For China, Japan, and South Korea, the cost of being the world's manufacturing superpowers comes at the cost of consuming high-cost raw materials and energy.

What developed nations mostly have not dealt with is the fundamental restructuring of the global economy, unemployment still being an issue, for example. Though manufacturing jobs are hard t o come by,[4] high tech in the US continues to hire, with various estimates of 100,000 or more jobs unfilled.

[3] http://www.stores.org/STORES%20Magazine%20December%202011/predictions-2012

[4] http://www.bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm 1/27 release

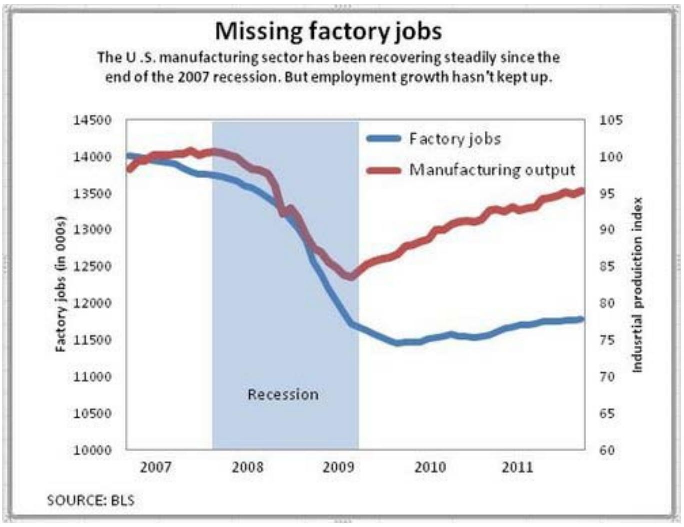


Figure 3

These issues, again, are fundamental to understanding growth plans and technology purchasing patterns. The right software, for example, facilitates cost saving, and often, increased reach to global markets. This continues to support the growth of supply chain as an important sector in both operations logistics firms and software and services.

A slightly less optimistic note was provided by the US Federal Reserve on January 31st, which lowered its expected GDP growth rate to a range of 2.2 to 2.7 percent from its previous forecast of 2.5 to 2.9 for 2012. They do forecast a continued improvement in employment numbers, although still not matching pre-2007 levels.[5]

Dow up, economy up, but fundamentals still shaky!

It is, after all, the year of the Dragon![6]

So let's launch into the survey results and what they might mean.

[5] On February 3rd, the Labor Department announced the economy added 243,000 jobs in January. It was the strongest job growth in nine months. The increase in hiring pushed the unemployment rate down to 8.3 percent, the lowest since February 2009.

[6] Year of the Dragon hype includes power, newness, and of course, danger. In addition, Chinese dragons are associated with water. Since water is a scarce resource of increasing economic value, one hopes the dragon is generous with us this year and in years to come—but in manageable quantities. No tsunamis, please!

Priorities and Investments 2012

Growth is the goal. That might sound obvious, but two years back it was mostly about cost reduction. Most companies have put some of that behind them and have acquired and conserved some cash in 2011, and are now more focused on growth. Those companies that have capital and know what they want to do are in better shape and more competitive, potentially.

Taking the conservative route to growth appears to be the most dominant path with our survey respondents. Their focus appears to be on growing business with existing customers, by adding new products, services and sales. Some firms, however, were more focused on scaling new heights—new products and new markets—and investing in physical infrastructure to support that growth. These two paths—existing customer growth versus new markets—have tech investments which reflect their unique strategies.

Figure 4

Firms indicating plans to grow from existing accounts were less likely to invest much in technology, with the exception of investments in their own ecommerce/web sites. This contrasts sharply with firms that plan to expand in new markets and products. They plan to be more acquisitive in technology, especially supply chain, mobile technologies and social networking.

Investing in supply chain technology and technologies to collaborate and build more visibility among trading units makes sense. And when we take a closer look, it appears that evaluating and purchasing applications in supply chain—across the categories—are all on the table, with variance by industry. Retail oriented firms, vis-a-vis other industries, are focused on merchandising and allocation, for example.

Challenges

Growth yes. But at what price? Companies also told us that profitable growth remains a challenge. Many companies grew through discounts and other price concessions, and that remains the biggest concern in 2012.

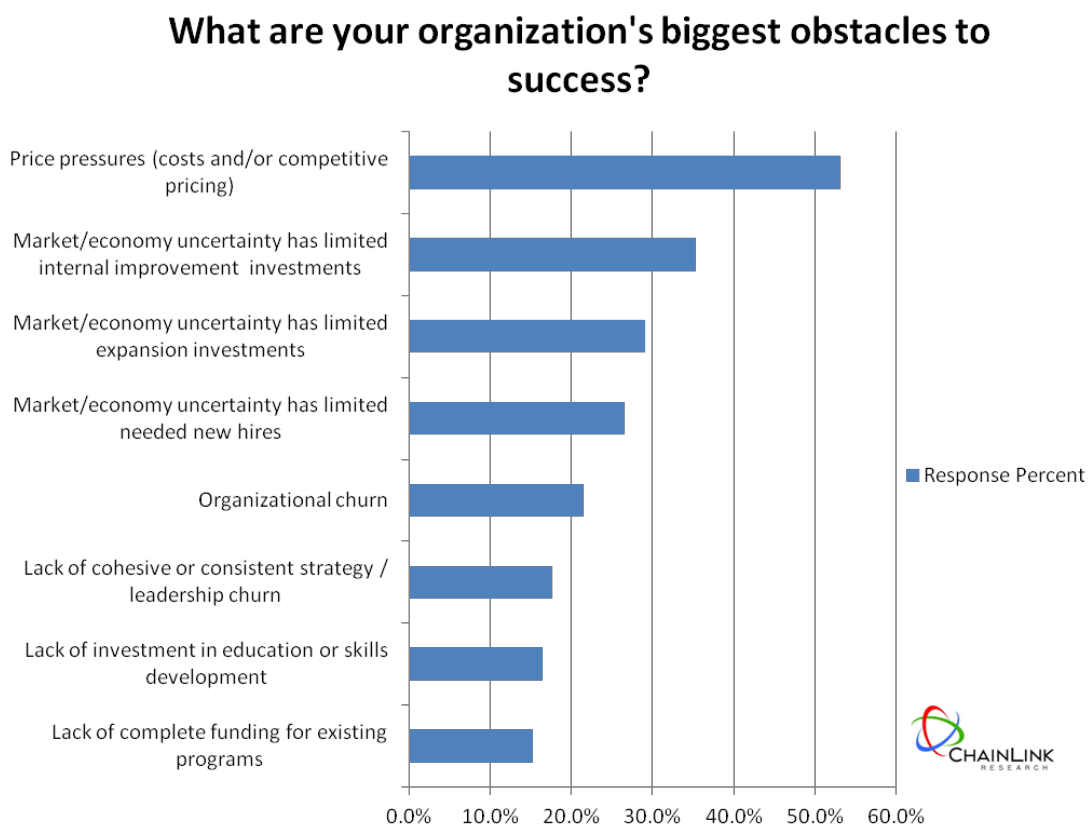


Figure 5

Further hindering corporate growth is that economic uncertainty is limiting expansion plans. Several manufacturers in high tech, consumer products, and healthcare products expressed these concerns. Some of the comments suggest that manufacturers also expect to continue cost-saving measures to free up capital to gain business in the future, ". . . creating the cash to invest in growth."

It is interesting to note that over the years internal challenges and cohesion have dropped as significant obstacles. These used to be front and center on the obstacles list.

What Else Is Hindering Growth?

Interesting commentary from respondents further revealed that although there is still +8 percent unemployment, they were having challenges finding and retaining talent, as well as having difficulty finding the 'right' people. This was a particularly interesting comment, that it is "Hard to Find Quality People with Right Skills [sic] and experience to fill job openings." At industry events we often attend, we hear comments such as this, "We could grow faster if we had more qualified people." This trend is particularly strong in supply chain, where functional and technical skills are obviously hard to come by. In other tech sectors, EDI consultants and SAP and Oracle applications experts are still somewhat in demand. However, big M&As in the pharmaceutical sector have been tough on the mature side of the population, with continued mass layoffs as these firms grapple with price crunches.

There are issues in opening facilities in certain regions of the US due to the lack of a skilled employee base, even when government-backed loans and favorable tax arrangements would make it advantageous for new sectors such as alternate energy, solar, or nanotechnology manufacturing. In addition, logistics services and technology companies have consistently told us that their consultants are fully utilized and they are hiring. As mentioned before, the tech world, especially web 2.0 and mobile are in hot demand to support the current mobile mania.

We may be mismatching our educational system to the opportunities afforded by these growing, or at least stable, sectors of the economy. We learned last year in our education survey that best-in-class universities can take three to seven years before they add new topics to their curriculum. So some companies are doing a bit of self-help here.

That said, don't expect a salary increase. Several respondents mentioned that they're concerned about, as one respondent noted, "the high cost of hiring talented people" as a growth obstacle. Managing costs as a trade-off for hiring will surely be with us for some time to come.

Channel Priorities

Across the board, firms also told us that finding good direct salespeople continues to be a challenge, and in certain sectors, hiring sales staff is an ongoing and *growing* endeavor. Conservative firms are seeking ways to expand through growing the sales channel. This was a consistent theme from last year's 2011 research, as well. As you will see, this was also reflected in technology investment plans as indicated in their survey responses and comments.

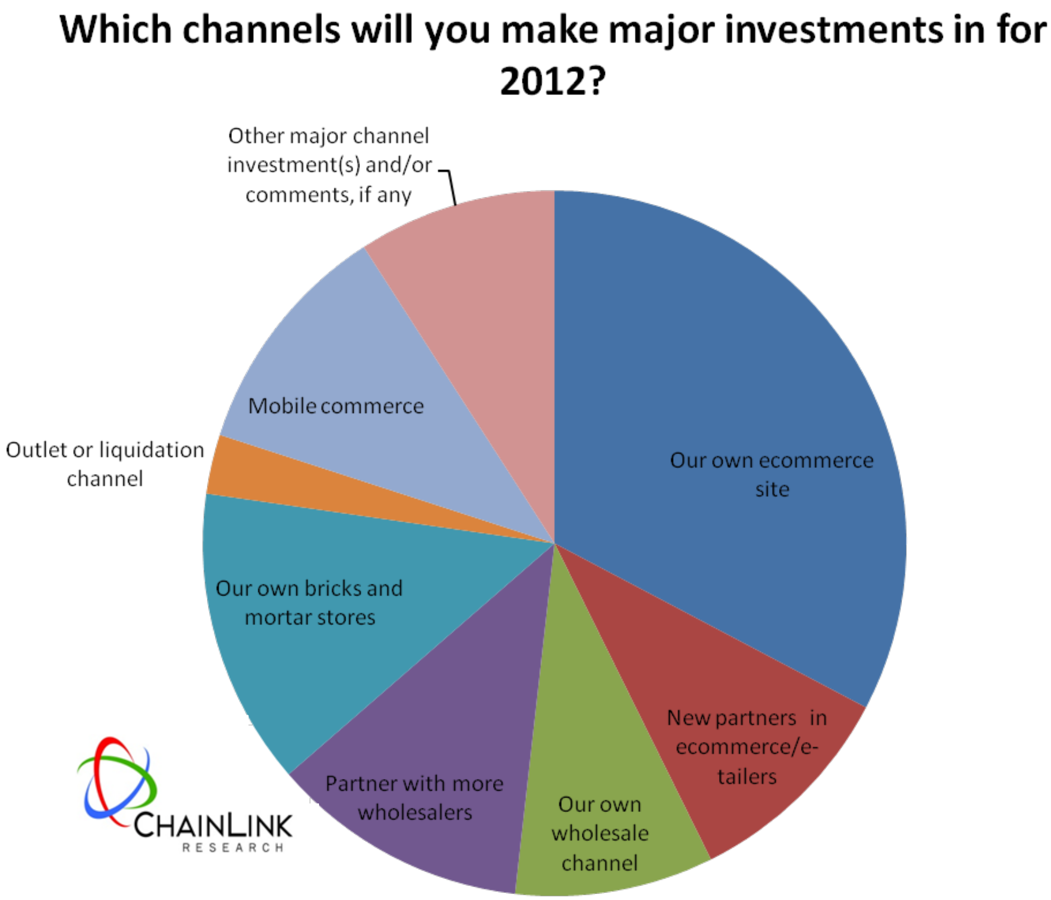


Figure 6

An interesting correlation exists for the majority of those who plan to grow their business through new products/breadth of product lines (Figure 4) and their use of new wholesale partner channels (Figure 6). Of course, many companies are using many methods, but this is a very strong correlation. One firm told us in their game plan that they knew they could produce the new product but had modest access in some markets; thus their partner strategy was very important.

Another strong correlation is noted in those companies that are more focused on their existing accounts and their plans for their own ecommerce site. In these companies, investments in the web with more customer services and social connections on the web to improve customer relationships are under consideration.

These strategies seem to show that firms are focused on a few key approaches, aligning their programs and technology investments to support them.

Tech Markets

Users have been telling us that data management is a thorn in their side. Data—formatted or unstructured data coming in from the web, catalogues and various documents (PDFs/faxes/scans)—are all headaches for firms, and so the plan to make this a top priority was not too surprising. This does not mean buying business intelligence software just to create meaningful views, but more importantly, to align information *across* companies with B2B communications methods. In addition, many companies need to improve their own internal data.

So how does all this look from the point of view of technology purchases in 2012? We wanted to look at the technology, as well as associated programs.

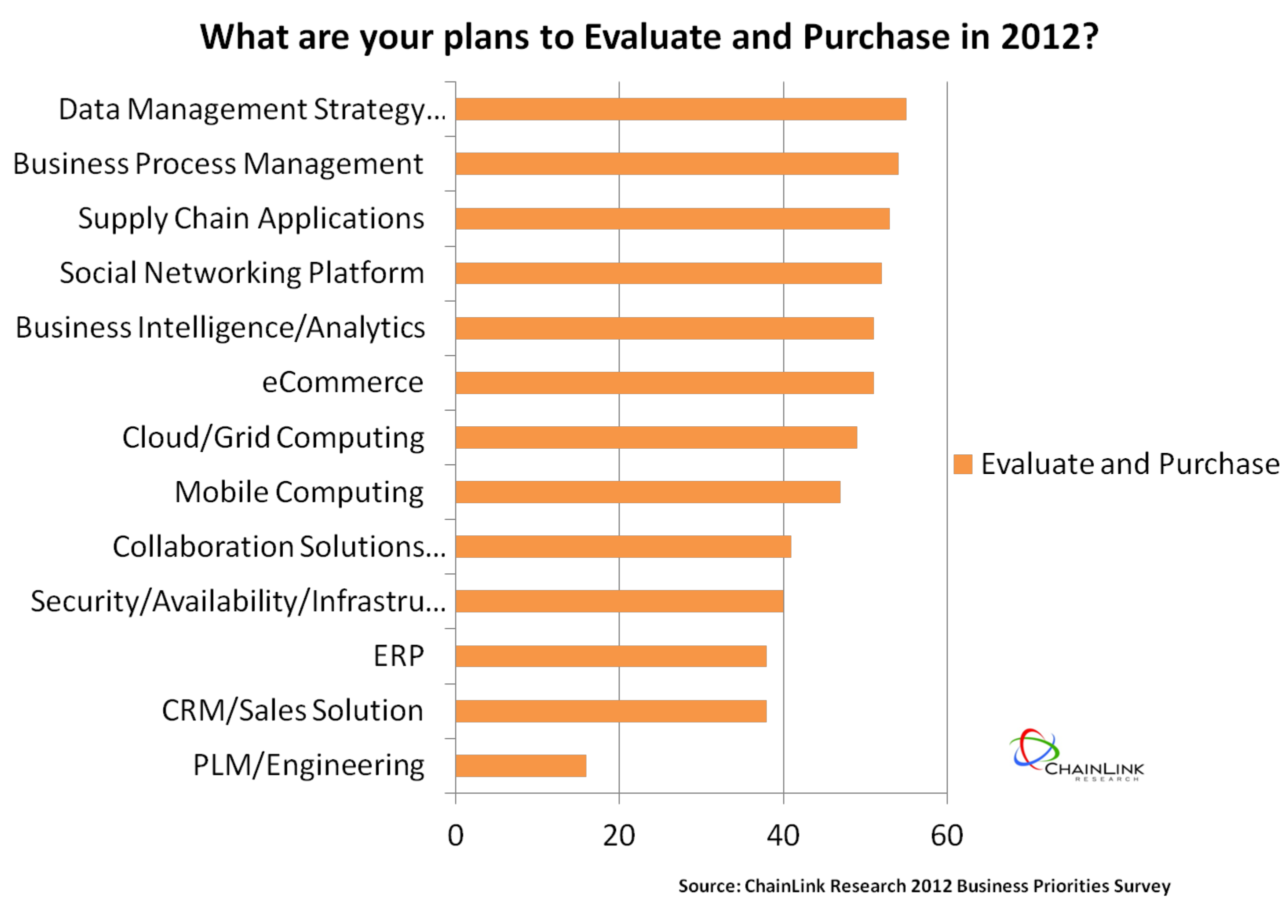


Figure 7

There are some surprises in the technology purchase responses: ERP has been a booming market, and we continue to forecast so. However, firms today that are categorized as ERP are really not just that type of firm anymore. Many sell standalone apps for business intelligence, supply chain, ecommerce and mobility, to name a few. So the fact that ERP appears near the bottom of the 'Evaluate and Purchase' list should have little impact on the top line growth of some of those companies.

Computer platforms, virtualization, and cloud computing are also big issues for the enterprise. Many solution providers are re-architecting their solution for this virtual world with scale and cost benefits for their customers.

Last year we forecasted the entry of Enterprise Social Networking. So it was no surprise that social networking showed up high on the list, in the top five. Further on, we will drill into the data to look at the channels that will be used for social networking. We will determine for what purpose it will be used, as well.

Supply Chain

We asked, “What supply chain apps would you evaluate, buy or not for 2012?” As you may note from some of the charts, we have provided just one view, since most who were evaluating were also buying. But in supply chain, *evaluating does not necessarily translate into buying*.

So, in Figure 8 we are breaking out the ‘evaluate versus purchase.’ Note some interesting things. Take EDI/B2B/ Managed File Transfer. This moved from near the bottom of ‘evaluate’ to near the top of ‘purchase.’ Supply Chain Risk, we are happy to note, has gotten on the radar. Last year we heard a lot of concerns about risk (see research here) but not much on the buying front. This year it’s firmly in the evaluation top 5, but it looks like buyers will take their time.

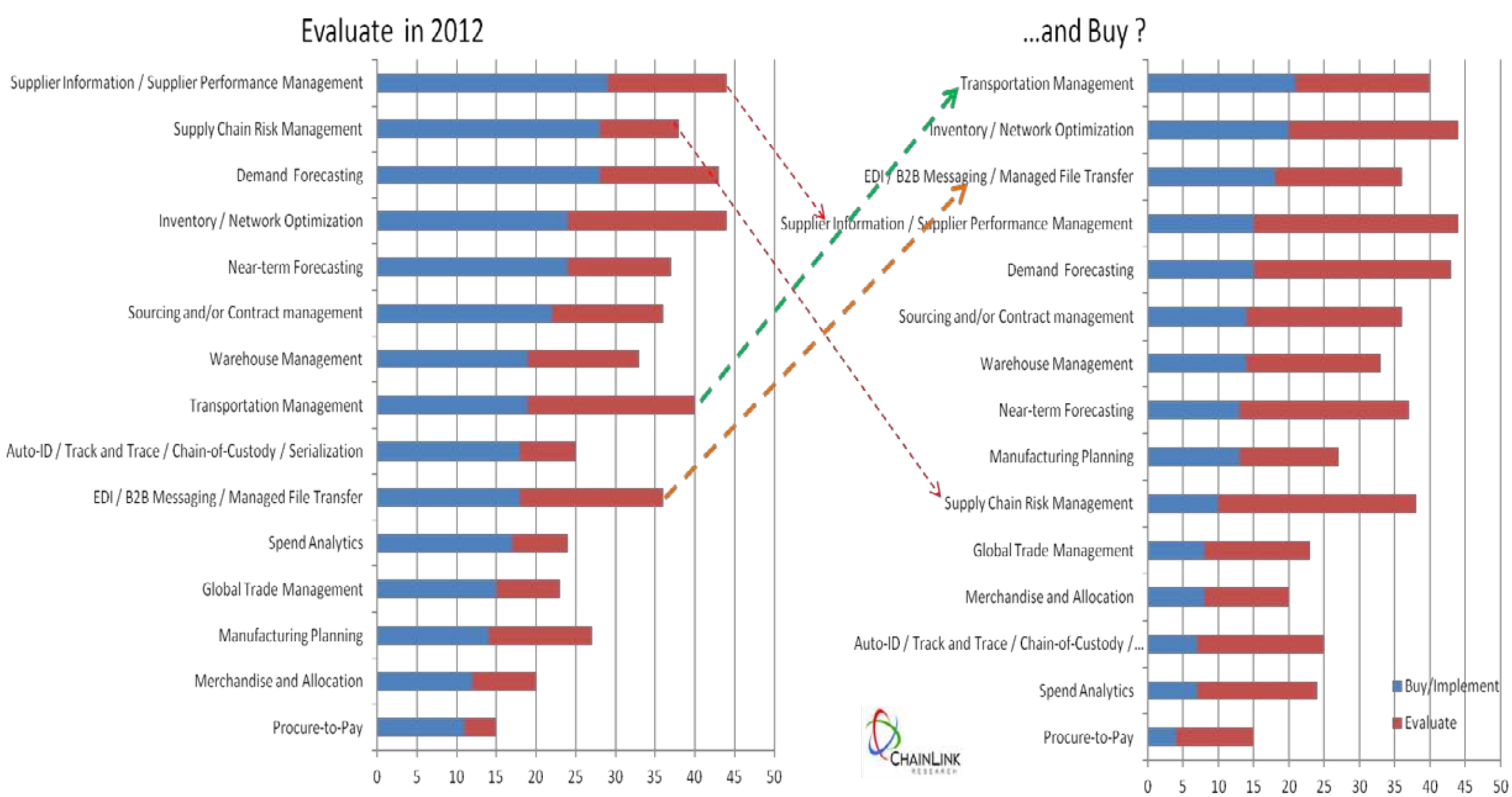


Figure 8

The EDI family, so taken for granted, is an interesting market that continues to grow. Compliance issues plague global supply chains. B2B inter-enterprise traffic grows. The need for secure or managed file transfers (MFT) grows. Last year saw many new announcements, lots of M&As in this sector. Lots of smoke . . . and fire!

Take, for example, Transportation Management SèǎǘŜYǎ (TMS). TMS is the highest growth segment in supply chain right now. And today, firms in this sector are doing the heavy lifting of global supply chain with significantly expanded platforms.

Another notable is Track and Trace/Serialization. This sector comes and goes in the interest category. But legislation from Consumer Protection Act, FDA and Food Safety Act, The Lacey Act and the World Health Organization (WHO) Framework Convention on Tobacco Control (FCTC) Protocol on Illicit Trade in Tobacco Products, to name a few, are all pushing firms to comply with these stringent regulations and have nudged companies down the path to compliance. We see a lot of action going on in several sectors—Pharma, Food, Lumber/Extraction industries, and even high tech—with serialization reporting. (Register your phone or laptop lately? "Serial number please.") Addressing the problem of serial tracking is already on our research agenda, since more companies are asking questions and starting the journey.

Social Networking

For those who told us that social networking was on the board for 2012, we asked which "types of networking" and "how would they pay for it." The enterprise world differs from the personal/consumer world. And supply chain, with its many established relationships, differs from sales and marketing, where the firms may want direct dialogue with customers. These clearly represent the kinds of environments in which social networking might thrive, but through different channels.

We see social networking as a growing trend in the supply chain world, but with a unique twist: the use of *enterprise social networking* tools (ESN). Many software providers are offering these tools now. The result will be a collaborative world of *known business professionals* who fuse business processes and data with person-to-person (P2P) communications that will accompany their operational solutions, data, reporting and transaction systems.

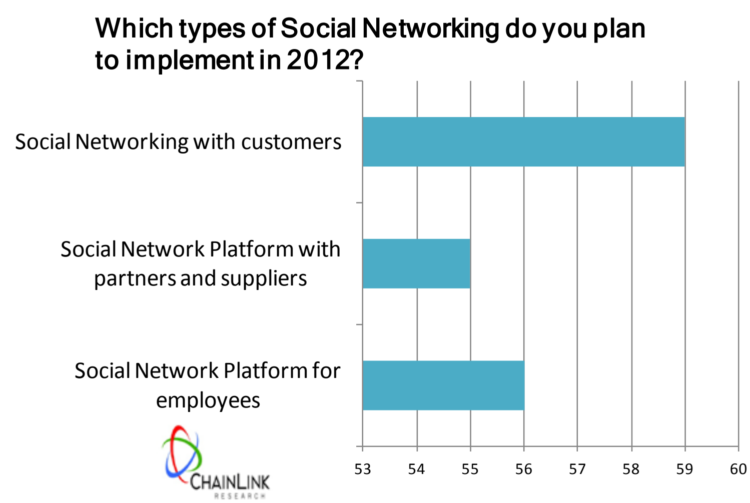


Figure 9

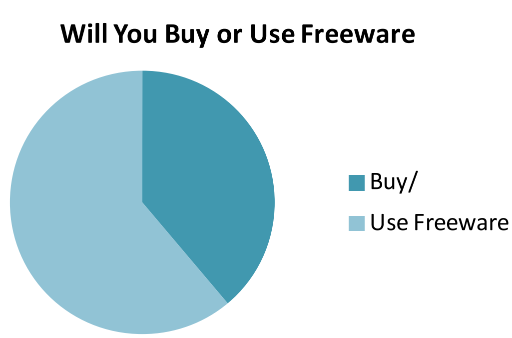


Figure 10

Noting that much of the social networking world is freeware, or free-to-fee, it's critical to know of course, which category has the 'paying crowd,' if you are building these apps now.

As it turns out, buyers *do* understand that security comes at a price. So those who are building social networks for employees or trading partners know they will have to pay something for security capabilities. This is an important consideration for budget planning on 'both sides of the aisle.' Putting the right effort into the tools through development partners or organic code is more important than launching a trivial product. That won't be acceptable to buyers.

There will be revenue; so there should be heavy lifting involved in delivering on the customer expectation of secure and meaningful applications.

And access to consumers? Well they probably are on a thriving social network already, so freeware might work to interact with them. But that might not be enough to lead to sales. Making social networking work is more involved than the 'use freeware' option that respondents may currently understand. However, some firms intend to use the freeware as a learning experience so that they can evaluate their options over time. Many companies are already launching pilot programs on mobile and social networks, so getting up to speed in this area is wise.[7]

And the Platform Is?

All this technology talk leads us to the question: On what platform will systems be purchased in 2012?

Looking at Figure 11, though On Premise is still the dominant choice, there is a healthy place for Cloud/SaaS.

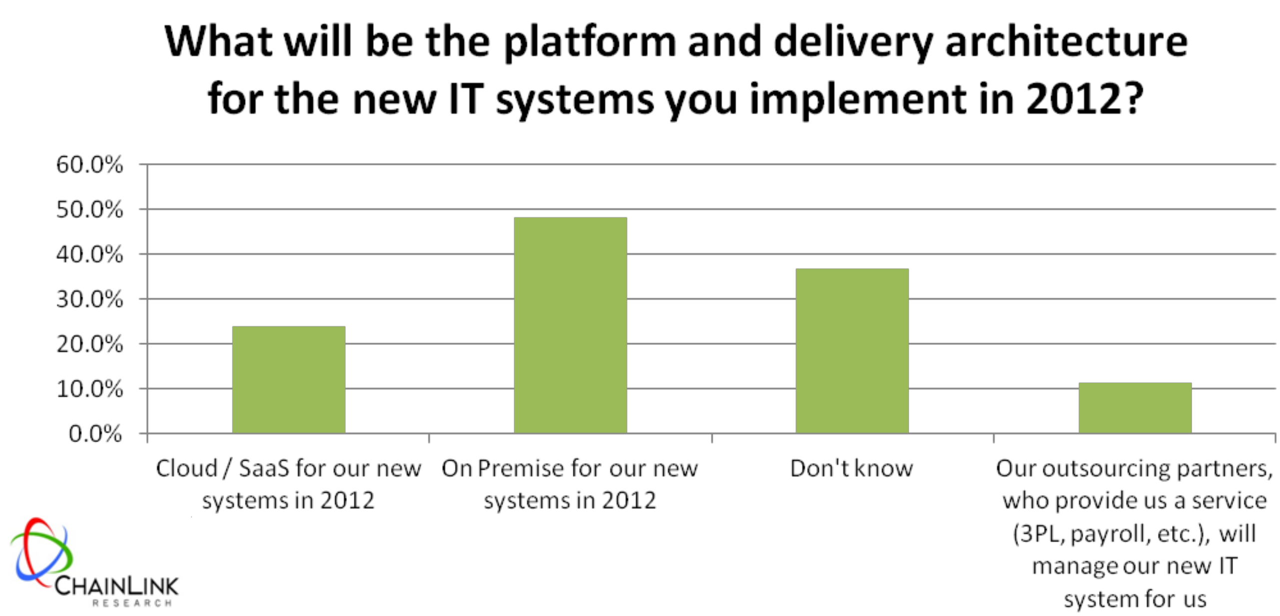


Figure 11

[7] By the way, being the corporate person for the ESN is one of those top paying and hard to source jobs we mentioned earlier.

When we correlated the data across application areas (Figure 7, page 11), it was interesting to note that the Cloud/SaaS option applied to all categories fairly evenly. That might seem obvious today, but a few years back there was modest to low interest in categories such as ERP and analytics. Now, with global options, ERP on SaaS has come into its own. As the need for elasticity in data analytics has opened the door for cloud-based analytics, we have seen interest in cloud grow year by year. (We will discuss more about platform choices in upcoming articles.)

Another interesting element is the rise in recognition of the role that third parties play—not just in the services they provide—but in the technology they use to manage their customers' processes. The customer expectation of good technology from service providers should have third parties who are not progressive about technology leadership thinking twice about their position in the market, especially if their competitors may be adopting new technology and providing value-added services.

Conclusions

2011 ended on a better note, if not a high note. 2012 has started with positive expectations. Indications from other research that we are conducting in Supply Chain, ERP, Mobile, Analytics, B2B integration, Cloud, and Collaboration show that these solution providers all have positive growth forecasts for 2012.

We will continue to cover these sectors in the coming months. The end-user survey respondents clearly indicated that technology investment was among their highest priorities, and those technologies that can improve an enterprise's performance and trading ability, providing tangible ROI, are best positioned to take advantage of the positive upward trends in certain economies and industry sectors.

Today's technology buyers are more risk averse in their IT planning; in other words, they are spending more conservatively. ROI aside, creating a low barrier to entry, such as using cloud technology, removes many purchasing obstacles. That seems like the right formula in today's market.

About SupplyChainBrain

SupplyChainBrain is the world's most comprehensive supply chain management information resource. In addition to providing complete coverage of all fundamental supply chain principles, SupplyChainBrain identifies emerging trends, strategies and best practices, forward-thinking ideas, cutting-edge solutions and the latest innovations—and continues to write and report on these as they evolve and mature.

SupplyChainBrain is for the high-level executive concerned with managing risk, aligning the supply chain with corporate planning, achieving competitive advantage, balancing customer demands with the need to control cost, and improving the bottom line. The industry's most experienced staff and many well respected content partners offer executive decision-makers a synthesis of many minds, singularly focused and delivered in the medium they choose.

ChainLink Research – Our World View

Supply chain management is a journey. And continued progress along the journey comes from recognizing that landscapes change over time, and supply chain strategies must be adapted accordingly.

We believe it is time for a fresh perspective. That does not mean everything you learned up to this point is irrelevant. It simply means that sometimes you've got to step outside to see what's happening inside and around you. We call this a 'parallax view.'

The key elements of our World View can be summarized as follows:

- Supply Chains are strategic—and the best CEOs completely get it.
- The enterprise-centric view of supply chains and technology is obsolete.
- Cross-functional, end-to-end, multi-disciplinary thinking is the way to go.
- Supply chain practitioners are as smart as supply chain analysts (often smarter!)
- Inspiration, encouragement and experience are vital to progress.
- Small businesses are as important as large ones.
- Education and coaching is critical to an organization's successful transformation.

Supply Chains are strategic— and the best CEOs completely get it.

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