Supply chain redefined

An analyst talks about new strategies for corporate Bangladesh

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The corporate sector in Bangladesh should focus on implementing the supply chain concept as it helps the firms gain competitive advantages and customer retention by creating a positive image, said an international supply chain expert.

"The competitiveness of a firm depends on effective execution of the idea of supply chain," said Dr Premkumar Rajagopal, a leading international business researcher, "because it adds value to the firm by delivering products promptly and responding quickly to changing market conditions."

Rajagopal, who is also the dean of the business faculty at AIMST in Malaysia, shared his views with The Daily Star on the sidelines of the First International Supply Chain Conference, Bangladesh organised by Trinity Communications in association with International Supply Chain Education Alliance, USA at Radisson Hotel in Dhaka.

Bangladesh has an immense potential for business due to its natural resources and cheap labour, but it needs to infuse the idea of supply chain, said Rajagopal.

Supply chain management (SCM) encompasses planning and managing all activities involved in sourcing, procurement, conversion and logistics. It includes suppliers, intermediaries, third-party service providers and customers.

Supply chain deals with ways of managing the upstream people (manufacturers and suppliers) as well as the downstream people (distributors, wholesalers and retailers) and the value chain focuses on how to manage the downstream people.

SCM is vital for every organisation -- small to large, service to manufacturing -- because it enhances the competitiveness of a company by measuring its customers' needs and develop products and services accordingly, said Rajagopal.

He said today's business firms need to harmonise their internal supply chain operations like inventory management, zero-waste operations and resources mobilisation within the given value chain to cope with the changing business environment.

Transforming supply chains into value chains is a powerful strategy. Some supply chains have weak bonds and can be broken easily by a new upstream player or distributors.

Value chains are made of strong bonds and are harder to break. Each member in the value chain is investing time and money to build the relationship and strive for continuous process improvement.

In the 90's, most companies focused on meeting the customer requirements and later, exceeding their requirements. In 2005, these companies shifted their focus on delighting the customer.

In today's business, a company should focus on building experience into the customer's mind, because it helps retaining them, said Rajagopal.

Rajagopal, who also worked for Intel and Seagate in different management positions, suggested that if any company wants to put the supply chain idea into practice, they have to focus on efficiency, responsiveness and flexibility.

The company should also focus on delivering sustainability, developing supply chain relationship and discovering the core competencies of the internal value chain to get benefits from it. For this, he urged developing a cross functional team keeping different people in the loop.

Rajagopal, who did his PhD in SCM, urged business firms to pursue the best practices and benchmarking concepts because it will help them minimise the cost arising from learning by doing approach.

The concept of SCM is still at an initial stage in Bangladesh because most business people do not have a clear idea of it. Rajagopal urged the business community in Bangladesh to create awareness on the SCM by tying the upstream and downstream people to arrange informal talks so that they can share information.

For example, the garments sector people can arrange an informal sessions involving the cotton farmers, suppliers, distributors and retailers to get new ideas and later they can share the ideas with each other for their own learning, said Rajagopal.

Premkumar Rajagopal

Asian exchanges could miss M&A wave

In terms of new listings, Asia-Pacific bourses attracted nearly 22,000 new firms last year, up 3 percent on 2009. That came as Europe, the Middle East and Africa saw their listing volume slide 2 percent to just under 14,000 and America saw a 0.3 percent drop to just over 10,000

REUTERS, *Singapore*

Asia runs the risk of being left behind in the sudden wave of transatlantic stock exchange consolidation, given the tough regulatory regimes, cumbersome ownership structures and protectionist-minded governments.

The proposed tie-up between NYSE Euronext and Deutsche Boerse along with the London Stock Exchange's move for Canada's TMX Group has prompted talk the global exchange market is set to shrink to two or three big players. But a reluctance by many Asian nations to cede control to foreign ownership and the struggle to improve capital market integration means their exchanges are unlikely to have a seat at the table.

"I just don't think they're ready for consolidation -- all of the deals aside from ASX-SGX are happening on a transatlantic basis, in the places where people have felt competitive pressure with costs coming down and electronic trading gone up," said London-based Niki Beattie, managing director of trading consultancy Market Structure.

"Asia just hasn't got to the point yet where it's feeling that pressure."

Singapore Exchange kicked off the latest round with a $7.9 billion bid for the Australia stock exchange operator ASX Ltd late last year.

On the surface, the logic for more deals in Asia is compelling.

Asia is home to the Hong Kong Exchanges and Clearing Ltd, the world's most valuable stock exchange operator, valued at $23 billion. HKEx may knock on the doors of the tech-heavy Nasdaq or Chicago's CBOE as it eyes a partner amid a frenzy of merger activity.

Share turnover volume in Asia-Pacific rose 5 percent in 2010 to hit $19 trillion while turnover in the Americas fell 0.8 percent to $33 trillion according to the World Federation of Exchanges.

In terms of new listings, Asia-Pacific bourses attracted nearly 22,000 new firms last year, up 3 percent on 2009. That came as Europe, the Middle East and Africa saw their listing volume slide 2 percent to just under 14,000 and America saw a 0.3 percent drop to just over 10,000.

But potential suitors keen to get a slice of this growth are likely to run-up against ownership structures prohibitive to foreign investors.

AFP

Traders work at the stock exchange in Frankfurt, Germany on February 9. A proposed tie-up between NYSE Euronext and Deutsche Boerse has prompted talk the global exchange market is set to shrink to two or three big players.

Several Asian bourses such as the Bombay Stock Exchange limit the proportion of equity that can be held by a single foreign entity to a small level such as five percent. Many others may not have such specific restrictions in place but are in the hands of owners reluctant to cede control to an outsider.

The Tokyo Stock Exchange is unlisted and owned by 114 shareholders -- mainly banks and brokerages -- who would be unlikely to approve any buyout bid. Shanghai's stock exchange ownership is based on a membership structure, and would likely require a change into a company-based equity model before any takeover could be contemplated.

"Beyond the fact that Asian exchanges are considered 'national pride', many are very behind the US and the European exchanges in terms of governance and ownership structures to facilitate any significant cross-shareholding structures or full scale mergers," said Lee Seo Young, a partner at Oliver Wyman's Asia Pacific financial services practice.

While the overseas M&A deals may not lead to full-blown acquisitions in Asia, they will put pressure on exchanges and authorities to facilitate more cross-border trading and alliances with other bourses.

Moves are now underway to change some of the ownership structures. Thailand's stock exchange is set to demutualise and list on the exchange by 2012, but there is another huge issue blighting the region's markets which would put off potential bidders.

Asia's lack of a regional regulator means it hasn't undergone any of the cross-border market liberalisation measures seen in the west such as Europe's Market in Financial Instruments Directive (MiFID). This means there is a huge fragmentation of rules and regulations between markets, limiting the scope for cross-border trading and reducing liquidity.

The most hopeful looking move to counter this problem is the planned trading link in South East Asia's markets, with Singapore, Malaysia, Philippines and Thailand planning to have their bourses linked-up by the end of this year.

But against the backdrop of the major transatlantic tie-ups, this plan is looking fairly small beer.

"The problem with this is it's not quite the right jurisdictions - to get something big going you need the likes of Tokyo, Shanghai, Hong Kong and India to be involved and that's not looking likely just now," said Alan Ewins, who heads up law firm Allen & Overy's Asia-Pacific financial regulation practice.

Despite their geographical proximity, political, economic and organisational challenges make any potential marriage between the HKEx and the Shanghai or Shenzhen stock exchanges difficult.

Hong Kong, Shanghai and Shenzhen together raised $110 billion in initial public offering proceeds in the first eleven months of 2010, 1.4 times the amount raised in New York, Nasdaq and London combined.

"Just from witnessing the wave of consolidation in other markets, we would expect the Asian governments to support formation of partnerships around products and liquidity access," said Oliver Wyman's Young.

This might also bring some hope to the alternative trading platforms, who will have viewed the deals in developed markets as an attempt to squeeze their market share.

"While the mergers in the US and Europe are aimed at lowering costs to counter alternative venues, in Asia, consolidation will benefit us," said Ian Lombard, the chief operating officer of Tora, a dark pool operator backed by Goldman Sachs.

He argues that the M&A in America and Europe will prompt Asian exchanges to streamline trading rules a little quicker to allow more electronic trading.

Dark pool operators and other alternative venues have taken a large share of trading in Western exchanges but in Asia, these operators only have a significant presence in Japan. They are, however, keen to grow their business in Australia, Hong Kong and Singapore.