



## **THE CHALLENGES OF SUPPLY CHAIN MANAGEMENT IN A COLD ECONOMIC CLIMATE**

Most businesses have felt the brunt of this harsh recession. Many will fail, some will cut costs to survive, but others will use this period of constrained business activity to realign their supply chains for strategic advantage. By Kim Wertheimer

The rapid expansion of business activity leading up to the present global recession created an environment in which a great number of corporate supply chains evolved in less than optimum fashion. Boardroom attention was focused on growing the business, securing market share and satisfying demand by, almost, whatever means necessary. Companies expanded supply chains globally to meet market demand, placing an emphasis on speed and delivery, all of which had the result of increasing costs and inventories in order to fuel the process.

The abrupt turn of events in the banking sector that has resulted in the most severe economic recession in living memory has changed all of that. A squeeze on credit availability and shrinking sales volumes has combined to create a volatile trading environment in which both buyers and suppliers are vulnerable to financial stress and potential failure. The integrity of the chain now relies on an accurate assessment of risk and on the flexibility of the supply chain to respond quickly to interruptions in supply. In particular, cash strapped businesses have turned to their supply chains to remove cost and to adjust inventories in accordance with a greatly reduced level of sales activity. But, following such cuts, will customer service suffer and will companies be positioned to take advantage of the upturn when it comes?



This pause in expansionist activity has presented many companies with an opportunity to reassess their supply chain processes in a more strategic way. Some are using this time for catching up and view the ability to improve supply chain performance as driving cost opportunities, improving their inventory position, and streamlining their administrative processes. Many are purely looking at tactical ways of reducing cost, but there is a greater opportunity here to strategically reposition the organisation for when the economy improves.

Over the last five years or so, progressive market leading companies, such as Walmart, Dell, P&G, Apple and Nokia, have benefited from viewing their supply chain as a strategic and competitive weapon. In a colder economic climate, a more intense focus on supply chain performance has given these companies the opportunity to effectively weather the storm by driving efficiencies and achieving cost improvements that translate into profits and enhanced cash positions - flexibility that has enabled the business to respond to pressures on revenues and growth.

In the good times companies had expanded on a global basis, building up sourcing from distant locations and moving manufacturing to low-cost economies. A great number of enterprises developed global distribution operations too. But in countless instances the speed with which these operations were established resulted in highly fragmented and complex processes, often further complicated by merger activity. Expansion often took place without the requisite structure being implemented.

Of seven major US based businesses visited recently, five of the seven requested some form of supply chain re-engineering study, looking at the way the company organises its flows of materials, its physical locations, its inventory planning etc in order to come up with an improved supply chain design. These initiatives are indicative of a desire to move beyond the short-term gains of just chiselling a few fractions of a percentage point out of their supply base, to making



strategic changes to the whole supply chain, perhaps involving a redesign of their distribution network or an IT systems re-think.

One large industrial manufacturer that had been experiencing double digit growth over the last three or four years recently identified inefficiencies in the way inventories were managed in the organisation. The company had been focused on supporting production and market growth opportunities using more airfreight than ocean freight, which resulted in its costs increasing and inventories rising at a higher rate than required. It was clear that the company was not achieving economies of scale in its logistics operations and was experiencing much higher costs than was necessary.

By undertaking a comprehensive assessment of the company's supply chain, analytically benchmarking where they were and where they should be, based on both industry standards as well as their own internal benchmarks, a streamlined set of processes were arrived at. We addressed an area of order to delivery which has reduced their cycle time by 15 – 18 per cent and are now in the process of addressing inbound production parts to manufacturing, working with them to improve their inbound processes as well as bringing some of our tools, methodologies and systems to bear in collaboration with their operations to take out cost and drive velocity.

Another example of a company seizing the moment is a beauty care firm that has taken this opportunity to integrate its supply chain following a couple of acquisitions made in recent years. A sourcing analysis has enabled the company to view its supply chain from a fresh perspective, allowing it to look at the location of its distribution centres and plan how it can migrate to a more responsive and economic structure. When operations are working close to capacity this type of work is difficult to undertake, present trading conditions have freed up management time to address the problem and streamline the operation.



Organisations should put in place a robust supply chain architecture that will serve them well in the short term by reducing cost, whilst having the flexibility to respond to higher demand when the economy picks up. These two seemingly incongruous objectives are not incompatible.

Beyond looking to the network design to trim unnecessary nodes of inventory, attention to planning processes can reap significant benefits. All too often raw materials purchasing, shipment capacity and production levels are based on the examination of historical demand patterns, an activity rife with error due to the many influences on market demand that are inconsistent and unbalanced. A technique that has produced impressive results is dynamic responsive planning, where the logistics service provider is able to monitor production levels and forecasts in order to make appropriate adjustments to the whole supply system. It is this element of flexibility and responsiveness to supply chain planning that can make a substantial contribution to optimising the operation. Working closely and in-tune with manufacturing, the logistics service provider is well placed to alter the dynamics of the operation in response to actual demand and market moves.

Further cost benefits and efficiencies can be made by aligning purchasing with transport/modal activities. A more integrated approach across functions, leveraging a service provider's infrastructure, capabilities, tools and systems can create a more agile cost model as opposed to a more rigid in-house structure.

Recessionary pressures are accelerating the trend to using shared logistics services and more companies are looking to outsource logistics operations in order to achieve a more flexible network structure. The ability to provide multi user facilities as opposed to dedicated operations provides a company with a far more agile solution and potentially, a lower cost solution than they would have had in the past.



In this harsh economic climate companies are looking to logistics service providers to be more proactive in offering creative solutions, and service providers are well positioned to transpose appropriate 'best practice' from one industry to another. It may not always be 'innovative' in the full sense of the word, but identifying a suitable solution from one sector and applying it to a different industry can deliver surprising results.

A recent project with a consumer electronics company borrowed a technique more commonly seen in the apparel and retail sectors, known to many as Direct Ship. Although this practice is widely used in retail it is not as prevalent in the consumer electronics industry, but the principles and benefits apply well.

The company had expanded its line of business in one of its divisions, crossing from what had historically been software distribution – sales of business software and peripheral equipment – to more hardware consumer electronics products. The source of supply had shifted to Asia and so distribution centres had to be relocated to create a more flexible distribution process, an arrangement that has reduced transportation costs significantly. In addition we worked with them to augment their order management processes and leveraged our distribution capabilities out of Asia to provide direct distribution to their customer, a process we refer to as DC bypass, but which is known in the apparel and retail sectors as direct ship. Using this approach, uncommon to the consumer electronics sector, enables the company to use its supply chain as a highly effective competitive weapon. Interestingly, today's cold economic climate is creating an atmosphere in which companies are more open to creative and radical ideas.

On an operational level supplier failure or interruptions in supply can be devastating, causing plant stoppages or lost sales. Unfortunately, in the present trading environment such instances are not uncommon.



CEVA operates as a 4pl managing inbound materials to a major automotive manufacturer. A few months ago a situation arose where a critical component was in a ship on its way from South America to a factory in Spain and it transpired, through circumstances outside of our control, that it was not going to hit its production slot. Our operations had such a comprehensive database of all of our customer's activities that they were able to say 'before that part was sourced from South America it was sourced from a North American vendor, lets see if they have any residual inventory', sadly they didn't. But then one of our planners remembered that when the stock had been sourced from the US there used to be a significant stock held at a German automotive wholesaler. He contacted the wholesaler and asked if they had any residual inventory, and indeed they had. So we expedited it across from Germany to Spain and kept the plant running.

Having an insight into the product flows within a customer's operation helps greatly in the event of a supply chain interruption.

As organisations face the challenges presented by a constrained market, tight credit conditions and the risks of supplier failure, many will be taking advantage of this period of adversity to realign their supply chains for future growth.

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