

Planning Your Road to Recovery

By Deep Parekh

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Confidence on the Rise

As of this week, many economic and financial indicators are inching upwards. Consumer confidence shot up tremendously, to its highest level since September 2008, and it will likely pull up various other indices. Not that we're in the clear yet, by any means, but the American public is feeling better about their 'new normal', having accepted it, taken the hit, adjusted their lives, cut their costs, and survived the recession so far. Simultaneously, companies have cut back production tremendously, and inventories are finally dwindling down, such that production will be stepped up once again, to keep up with demand, albeit at a lower level than in the past few years. When the crisis hit last year, several companies made rash moves to cut costs, trim staff, close offices, shutter factories and distribution centers, and generally hunker down until they knew more as to where this was all going. The result: Logistics Service Providers, ports, carriers, have all taken a significant hit in the demand for their services. For instance, the port of Singapore, a major hub for east-west trade, is running at 60% - 70% utilization, down from the 90% range last year. The recovery is coming, and when it hits, the smart companies will be prepared to turnaround rapidly and reap the profits when they flow in.

"Never Waste a Good Recession"

Not sure who the person to coin that phrase was, but it's a brilliant, poignant phrase. Supply Chain Service Providers or SCSPs (I'm intentionally going out on a limb here and going beyond traditional 'Logistics Service Providers' or LSPs, because as I've said in many of my recent columns, LSPs cannot afford to be in their little world – it is imperative that they expand their horizons) need to show their clients (manufacturers, distributors, retailers) where the value in supply chain lies in the 'new normal'.

For Manufacturers, Distributors, Retailers, this latter-phase of the recession and just before recovery is the perfect time to take stock of your current situation, inventory all the destruction and havoc that you've wreaked on your business to deal with the crisis, and start plotting your way out of the hole. For this you need a 'Roadmap to Recovery'. It's time to figure out what capabilities you've lost, and which new capabilities this new world will require you to have in order to be competitive, green, innovation-rich, and responsive to your customers, and all the while, while preserving value and cash in your business to deal with the continued havoc that even the recovery period will certainly bear.

Hitachi Consulting's Vice President of Supply Chain, Sumantra Sengupta, wrote a very relevant article in a recent *Supply Chain Management Review*. We would like to share some of these with you. He broadly brackets these ideas into the triad of (1) Cost management ideas, (2) Revenue enhancement ideas, and (3) Sustainability related ideas.

Shift Focus from Traditional 'Order-To-Delivery' (OTD) to 'Design-To-Support' (DTS) – Focusing downstream in the supply chain is currently somewhat of a futile exercise with wildly volatile commodity prices and fuel prices, which are pretty much out of control for any independent manufacturer, distributor, or retailer. Focus instead on what companies CAN control – upstream, the design and development process for products. By picking the right mix of production technique and raw / packing material, with the right delivery to market approach, there's about 15% to 25% of the product cost that can be targeted for opportunities.

Look For Hidden Values in Return Logistics – "Reverse logistics costs as a percent of revenue can range between 3 and 6 percent, depending on the type of industry and product." This can be a tremendous source of competitive advantage for putting back not only cash into the business, but generate value. For some industries, returns can be crucial to their bottom line. We are going to find more frequently in the

future that companies are going to be held responsible for recycling their own products, such as electronics (think TVs, computers, cell phones, etc.), and the sooner they get with this program, the more value generating it could be for them.

Manage the Supply Chain with Floor-and-Surge to deliver with increased agility and less waste – This one correlates well with our product segmentation model based on demand and supply characteristics of your products. Items which have long supply chains are not very responsive in nature, and so you need to build in the mechanisms to deal with ‘surge’ demand differently from the ‘floor’ demand. Think responsiveness (surge) versus efficiency (floor).

Some other discussions we’ve had recently with eminent supply chain figures in the Americas have led to some other valuable insights which are on the cutting edge.

Have SCSPs Manage a P&L Line Item as a Whole New Level of Collaboration – We have clients who are getting out of their traditional proprietary manufacturing models and moving into the ‘generics’ space, so to speak. This model means having both responsiveness as well as on-demand flexibility. In order to do this, you can’t just go out and contract your way to success. These manufacturers need to take traditional ‘collaboration’ to a whole new extreme. Imagine giving the entire *Distribution Cost* line item of your P&L over to say Schneider Logistics to manage. They design the chain, build it, staff it, manage it, and monitor it, as though they are an integral part of the manufacturer’s business, not just a third party contract vendor to be negotiated down every year. They share in savings, risks, returns, and rewards.

Expanding the Use of Yield Management Principles beyond the Airline / Cruise / Hospitality Industry – imagine that manufacturers charge retailers based on the lead time given to them for producing, stocking, and shipping products. Orders placed closer to the requested timeframe of delivery cost more than orders placed with a longer lead time, just like your airfare difference when you walk up to a counter vs. buying 3 weeks in advance. Service becomes more costly, and there’s no reason for the manufacturer to absorb it.

Take Stock of Your Situation and Chart Your Path Ahead

Many new business models are coming into play with the recovery phase of this recession, and business has fundamentally changed in many ways. Businesses can no longer afford to run the way they used to. Consumers expectations are different, inter-company dynamics are different, the bandwidth of tolerance has reduced, and there are more stresses and strains in the system. “The old order changeth, yielding place to new”.

Deep R. Parekh is a Partner with Equus Group, LLC, a Supply Chain Advisory Services and Management Consulting firm based in New York, NY and Sao Paulo, Brazil. He welcomes your feedback and comments at deep.parekh@equusllc.com, and can be contacted at +1-917-940-7538.