

## ***Giving Your Business Degrees of Freedom***

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The bleak economic climate is finally having an impact on my mood – not because of the financial situation, but because of the ridiculous things we are seeing being implemented under the guise of ‘strategy’, ‘tactics’, and ‘market readiness’ for the upswing. Business leaders are heading down a silly and dangerous path with the things that they are making their businesses do, taking the adage “never waste a good crisis” a little too seriously and going a little too far. Used irresponsibly, changing strategy or tactics can seriously harm a business and erode its ability to respond to changes in the marketplace. Cutting their wings, so to speak.

### **Case in Point**

Take for instance one of our clients, who decided to, sometime last year, became obsessive with supply chain cutting costs, hence pretty much disallowing all trans-shipments. Not a bad thought, considering how many times this is done due to lack of a sufficiently robust inventory policy or reflective of a business with a ‘sales-gone-wild’ phenomenon. Now, this is a good idea if, and only if, you’re going to change something that impacts the root cause of these trans-shipments. More recently, they instituted a policy to lower working capital, targeting inventory at all of their DCs, without a formal inventory policy – just across the board. Hence, the degrees of freedom have been cut significantly, if you can’t compensate for a bad demand signal through transshipments, then it’s logical that you bolster your inventory position to account for the demand variability. Obviously you would want to first look at the forecast to see if you can improve it. One of the ways to manage demand better is to stratify and segment products, which the client refuses to do – there goes another degree of freedom. So, the next option (we’re towards the end of the list of options now!) is to segment your service level by product, customer, and DC, so as to provide adequate service, but they insist on having nothing less than 100% service level (let’s not even go there) – do you hear that chopping sound on the degrees of freedom? The business has been driven to a point of being unable to operate systematically.

### **Allowing Degrees of Freedom**

Going back to the situation at this client, there are still further options, such as changing inventory strategy and consolidating their very volatile product in a few DCs and then sourcing the region from the few DCs, thereby implementing ‘risk-pooling’ logic, and consolidation, but they are closed to this as well, because it will increase transportation costs. Their volatile product, as we discovered, is greatly due to certain product variations, which were ‘combination packs’. One of the alternatives possible is also to discuss with sales, to focus their promotions on certain standard ‘multiples’ (e.g. if you sell products in groups of 4, then it would be greatly beneficial for sales to promote in increments of 4, so as to be able to combine products at the very last moment, using principles of ‘product postponement’. But they have not explored this possibility with other functions yet.

### **The Impact**

Not unexpectedly, everything has become an exception, and has forced everyone to be focused on day by day and hour by hour execution instead of planning to avoid the pitfalls that develop into execution crises. But this is only the superficial impact, felt in the here and now. In the near term (even 1 year out), they will still be focused only on the short term, and will continue to suffer service issues and inventory imbalances because they are not looking further out to avoid the big things in the future. They are sacrificing *the Important for the Urgent*, and not even realizing it, because they’re convinced that the *Urgent IS*, in fact, *the Important*. Recovering from this will take another year or two, and quite possibly a change in leadership because of the under-performance that the business will suffer during the recovery (which is bound to come sooner or later). Further, they will have cut the wings of the company’s

competitive growth engine of innovation because they're never looking out far enough to actually plan and execute their innovations with sufficient rigor and discipline, and frankly foresight.

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