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Supply Chain Gurus Have Their Say - Supply Chain and Logistics Predictions for 2009

Industry Thought Leaders Share their Views with SCDigest

SCDigest Editorial Staff

Supply Chain Digest recently asked a number of leading supply chain and logistics thought leaders to share their perspectives on the important issues and trends that will impact supply chain opportunities and decision-making in 2009. SCDigest editor Dan Gilmore summarizes key points in his First Thoughts column (see **Supply Chain 2009 - Predictions Amid Uncertainty**).

Below, we offer our experts' full comments

Gene Tyndall
EVP, Global Supply Chain Services
Tompkins and Associates

The key trends impacting supply chains and logistics for 2009 will obviously revolve around operating in uncertain times. Primarily, these strategies focus on two overall themes: cost reductions and selected investments.

For cost reductions, we will see much of the normal and common approaches to economic downturns downsizing, staff layoffs, curtailed discretionary expenses, and the like. These will be the "big trends" affecting supply chains. But, a few smart companies will know that overdoing these, and not getting to the "real" cost drivers, will make the recovery more difficult and slow.

The smart executive teams will ask 3 questions:

- How can we become more efficient, more lean, and more productive, without hurting our future?
- How can we decide on, and stay focused on, the right initiatives that will improve our operations?
- How can we come out of the recession stronger?

"When times get tough, many companies head for the trenches and turn inward in terms of their priorities. This is exactly the wrong thing to do, particularly as it relates to the need for inter-organizational cooperation in the supply chain."

Dr. John Langley, Georgia Tech

These smart companies will attack cost drivers deep into supply chains – no matter where they exist in the mega processes of buy, make, move, store, or sell.

They will re-assess their business strategies and business models, and leverage these assessments to find real cost reductions in:

- Inventories – purchased, work-in-process, and finished goods
- Total delivered costs – all costs that go into cost of goods sold
- The supply chain network – facility locations and their missions
- Logistics outsourcing – what, where, and how

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- Supply chain technologies – better use of existing technologies
- Sourcing – from where and how
- Producing – where, why and how
- Freight and logistics – total spend and international and domestic
- Distributing – where and how
- Selling – channels, service, and support

The smart companies will also not stop planning and improving…they will make selected investments that contribute to such profitable growth strategies as:

- Finding new customers in new markets
- Planning for innovative new services, and product-service bundles
- New technologies that pay back rapidly in efficiencies and effectiveness
- Getting to customers faster, better, and cheaper
- Having contingency plans ready for speedy recoveries
- Modifying their global networks for flexibility and risk management
- Working with suppliers to improve operations
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Others will be considered and evaluated, as the smart executive teams realize that emerging stronger from the recession will mean gaining market share and increasing shareholder value faster than the competition.

The collection of smart companies and executive teams that plan and execute effectively to these two themes will not, by themselves, dominate the supply chain "trends." They will, however, lead their industries in supply chain excellence, and thus start "new trends" that take supply chains to new levels of importance and performance.

David Simchi-Levi

Professor of Engineering Systems at MIT and Chief Scientist for ILOG, an IBM Company


David Simchi-Levi

With the economic recession in full swing, supply chain managers are facing a growing array of risks. Fluctuating transportation costs, high volatility in demand volume and mix, commodity price volatility, increase in labor costs in developing countries and the pressure to reduce inventories are just a few of the challenges that companies are struggling to overcome today and will likely face throughout 2009.

In such an environment, it is important to focus on three dimensions: **Cost, Cash** and **Service.** That is, it is important to identify strategies to reduce cost and cut working capital (cash), while at the same time maintain or increase service levels. Of course, the increase in volatility and risks demand strategies that, while reducing cost and working capital, allow the firm to better respond to changes in demand volume and mix, exchange rates, technology or labor costs. In particular, it is important to implement a strategy that allows the firm to cut costs, while at the same time prepare for growth.

One way to achieve such multiple objectives is through **flexibility,** which is a key to overcoming supply chain risk. Introducing flexibility into manufacturing, supply chain, and network strategies is essential if companies are to respond effectively to ongoing change. Of course, the question is how to achieve flexibility and how much of it is required since flexibility does not come free.

Another trend that we have seen in the last twelve months and we will likely see more of in 2009 is the move to more near-shoring. That is, with labor cost in the last five years increasing in China at an annual rate of about 20%, while in Mexico at about 5%, to name two examples, companies must rethink old paradigms. Indeed, by determining the true total landed costs, includ-

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ing taxation impact and the required inventory associated with each sourcing strategy, companies may find new, more attractive manufacturing strategies.

Therefore, in 2009, there is an opportunity for companies to rethink their strategy, make the necessary changes and position themselves for growth once business starts picking up again.

Jon Kirkegaard
President
DCRA Inc.

The imploding of financial markets has once again proven to all of us that markets are smarter than individuals.

Thus, as the past decades of increasing popularity of supply chain solutions continues, we predict that more business leaders will better understand WHY investments in supply solutions/measurement are important and, quite possibly, critical to success.

At DCRA, we believe when properly utilized, supply chain measurements are a leading indicator of a business' cash flow generation and working capital consumption, and that they are far less corruptible than traditional GAAP accounting systems.

Thus, as management seeks to set constancy of purpose (one of Edward Deming's key concepts for a successful business), establishing the right supply chain metrics and corresponding measurement and performance targets will continue to grow in significance.

Additional thoughts for 2009:

- Companies will further differentiate themselves as the "haves" (firms with solid supply chain strategies and designs) vs. the "have nots," and will gain in terms of market share and profit margins. For investors, the "haves" are good long-term holds. Firms without a real supply chain strategy and the experienced talent to implement that strategy in day-to-day operations will flounder and likely make decisions that compound their challenges. For investors, the "have nots" are potential short-sale candidates!

Jon Kirkegaard
DCRA Inc.

- Public policy makers may actually start to listen to the importance of industrial policy and supply chain design. We need to help them as supply chain professionals. With proper supply chain design, it is possible to prosper with FREE trade but not give up the ghost of critical intellectual capital or middle class jobs. Look closely at leading international corporations from Korea, Northern Europe, Japan, Singapore, etc., as they seem to have an edge as their public policy endorses, embraces and better lays a foundation for gaining business advantage from supply chain design than US public policy.
- We continue to see Sales and Operations Planning as the most critical capability for a successful supply chain culture improvement and, thus, bottom-line operational improvement. The S&OP process of continuing to improve the enterprise's ability to proactively net demand and supply patterns across the company's supply chain footprint catches mistakes early and gives strong clues to design changes that improve profitability in the short term and long term.
- For business using outsourced production, supply, logistics and or fulfillment, S&OP is exponentially more important to implement, as "management by walking around" is not possible. As one seasoned client once told us: "it is more difficult to manage what you do not do yourself."
- More leaders will understand S&OP is not the same as forecasting. The goal of 100% correct is not the goal of either a forecast or an S&OP process. Business will increasingly understand that it is the process and the continual improvement that makes the target enter-

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prise more competitive. Unlike forecasting, S&OP completes the closed loop with definitive measurement of what actually happened, so better plans can be crafted next period. Our prediction for SCDigest in 2008 on Postponed manufacturing will continue to be realized. In 2008, we said**:** The use of postponed manufacturing US state-side of imported key components will increasingly be seen as a major solution to supply chain and business challenges, as well, some government leaders will get behind as it promotes jobs, IP protection, lower costs for consumers, and more choice. Good enough for Toyota, Mercedes, Hyundai, etc., might eventually be good enough for US manufacturers.

- Lastly, as this year and all years have taught us, these trends are correct, but the ability to "time" when US or global leaders actually act and, thus, create a trend for improvement is not predictable. We only wish the common sense of supply chain operations and planning could penetrate our political and business leaders faster**.**

In a sense, this may be why you can take away real personal benefit from these initiatives. Since the general business population still does not fully understand these needs, those who do and act will create real competitive advantage in terms of their personal career and their firm's market share and profits.

Dr. John Langley

Professor of Supply Chain Management
Georgia Institute of Technology

Clearly, the global economic situation is having unprecedented impacts on companies and their supply chains. So, the fact that we are all in uncharted waters suggests a need for innovative solutions that may help, not only to mitigate the effects of the recession, but also to set the stage for current and future growth of our businesses and supply chains. I have identified below several topics that will have a significant bearing on the ability of companies and their supply chains to reposition themselves and respond successfully to the new obstacles that recently have arisen.

- ***Supply Chain Agility*** – Given that business environments and supply chains are evidencing increasing volatility in areas such as shipment volumes, energy prices, currency exchange rates, etc., it is essential that businesses be able to "change on a dime" when necessary. Thus, companies that are able to develop imperatives for change, and to exercise agility and flexibility in advance of when needed, will be among the survivors. Those who rely on incremental change, and who try not to disrupt current supply chain strategies and directions, will be among those who will not survive.
- ***Honest Assessment of Core Competencies*** – More than ever before, it is essential for supply chain organizations to meaningfully assess their core competencies and to make tough decisions as they arise. For example, when times are tough, there is a greater inclination for some organizations to move toward insourcing rather than outsourcing certain supply chain activities. This has a certain merit, particularly when one places a high priority on retaining existing workers and staff when economic challenges are present. An honest, objective assessment of core competencies, however, may suggest exactly the opposite in that a better strategy may be to place greater reliance on the commercial sector to provide important logistics services. A significant additional benefit of this approach is that the use of outsourced providers

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may also help to produce the agility and flexibility that is needed during volatile economic times.

- ***Need for More Collaboration, Not Less*** – When times get tough, many companies head for the trenches and turn inward in terms of their priorities. This is exactly the wrong thing to do, particularly as it relates to the need for inter-organizational cooperation in the supply chain. Very few companies have developed a long-term commitment to supply chain collaboration, but it is times like these that underscore the need for supply chains to enhance the ways people, processes, and technologies work together throughout the supply chain, and not against one another.

- ***Priority on Improvement and Renewal*** – Granted that no one in his or her right mind would wish a global economic recession (or worse) on anyone, each of us must learn to live with the hand we have been dealt, and to convert the current situation from inconvenience to opportunity. While there is an inclination on the part of some organizations to "bury its head in the sand" and try to wait out the economic uncertainties, others are using this time to improve their processes, review and modify their supply chain strategies, and be positioned for great success once the economic problems begin to subside.

- ***Confidence in Government and Regulatory Agencies*** – Although it has become clear that governments have a major role in helping countries and industries climb out of the recession, the jury is still out as to whether the involvement of government will improve the situation, or perhaps lend credence to the old adage that "the cure may be worse than the disease." Given the over-zealous interests of collective priority setting to mitigate the financial viability of business organizations and those who provide leadership to those organizations, there remain significant questions as to what approaches will actually work, and when. The "goose that laid the golden egg" is clearly in the cross-hairs … the question is whether there is another form of goose that will emerge as a poster child for the new world order.

Andrew White
Vice President
Gartner

We see many macro level trends that are impacting strategic and tactical SCM initiatives. Here are some of the more prominent that are most likely to impact your business; probably even influenced by innovators and leaders who are driving these underlying trends.

Through 2013, global economic volatility will create new software markets for applications that optimize supply chain performance

This is probably obvious by now, at least from the perspective of the global economic climate. However, SCP tools, and more intelligent (embedded optimization) in SCE applications, and integrated global trade systems, are adapting to support the new, more pressing sourcing and planning requirements.

By 2013, 33% of business intelligence functionality will come bundled with transactional-oriented applications

For too long, IT has not serviced the needs of SCM users; this we have known. But also for too long, IT has built upon a self-made bifurcated strategy that keeps business intelligence and business application technology separate.

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We continue to see ever growing efforts to help firms achieve improved supply chain and product performance management through the alignment of Bi and analytics inside business processes. The early emergence of solutions in the Integrated Business Planning area is yet another example of this trend.

Through 2011, most innovative business functionality will be added to enterprise application portfolios through edge applications, rather than enhancements to core applications

Despite the tremendous amount of consolidation we have seen in the tech sector, and particularly in the software and SCM sector, we continue to see innovative practices emerge – not at the center of the software aggregations, but at the edge. Most users continue to innovate at the edge of business processes; where processes overlap and connect – oftentimes between businesses. The growing interest in chaos-tolerant SCM tools, such as integrated business planning and direct-POS based VMI solutions are good examples on growth in this area.

By 2011, more than 20% of Global 2000 enterprises will have temporarily shifted enterprise applications decision making away from using large enterprise suite vendors

This prediction takes us back a few years, in that best-of-breed is back. Especially given the economic climate, many firms are having to focus on high value-add and focused initiatives that align better with niche and focused offerings, not full blown enterprise replacement strategies. So, for the foreseeable future, best-of-breed will not be seen as a dirty word (or phrase). With the foundation of SOA now behind us, and the growth in technologies like Master Data Management (MDM), the argument that integration costs of bolting on niche SCM applications becomes less relevant.

Simon Ellis

Practice Director, Supply Chain Strategies
IDC/Manufacturing Insights

Given the challenging economic environment in 2009 and manufacturers' intentions for austerity in IT investments, Manufacturing Insights offers the following supply chain predictions for 2009:

Simon Ellis
IDC
Manufacturing Insights

- Prediction #1: Companies will exploit well-performing, existing, tangible, and especially, intangible assets to ride out the financial crisis and prepare for recovery.
- Prediction #2: Modern Supply Chain organizations will put budgets under severe review and new investments will be cost-savings focused, requiring shorter payback periods. Expenditures will be made through the lens of cost/value.
- Prediction #3: Companies will "right size" their supply chains for profitable proximity and take a total-landed-cost approach to product sourcing. Standard corporate platforms will seek to configure, calibrate, and control increasingly complex scenarios.
- Prediction #4: Supply chain technology initiatives must support the standard business platform and focus on modernization and decision making.
- Prediction #5: Economic uncertainty, particularly for smaller suppliers in emerging economies, causes manufacturer 'brand owners' to consider strategic investments at critical supply points and financial support for key suppliers.
- Prediction #6: Customer Relationship Management (CRM) and consumer-centricity efforts continue to grow across the Modern Supply Chain as manufacturers attempt to improve innovation efforts. The sale is just the start as services become an increasingly important part of the 'product experience'.

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- Prediction #7: The high 2008 year-end inventory levels will cause manufacturers to look at supply/demand rebalancing with a focus on strategic network optimization and multi-echelon inventory optimization tools, and where industry-relevant, price and trade promotion management/optimization.
- Prediction #8: Compliance-driven RFID initiatives continue to wane in favor of ROI-driven asset-tracking and security applications as manufacturers increasingly look at RFID as 'just another tool in the toolkit'. One consequence of this will be continued vendor consolidation in an effort to provide end-to-end applications.
- Prediction #9: As global economic pressures mount, outsourcing opportunities proliferate and global supply networks become more complex, risk management becomes both an increasingly significant capability and a key differentiator for the Modern Supply Chain.
- Prediction #10: Sustainability discovers metrics. No longer a feel-good public relations proposition or even a regulatory compliance mandate. Emerging standard measures and a desire to benchmark will impact sustainability initiatives and the associated investment in technology and services.

David Scheider

David K. Schneider & Company LLC

Fuel Costs will go up, but not at the rapid rise of 2008. The pace will be gradual. There is still a higher demand for distilled oils (diesel, jet fuel and heating oil) than the supply, since the refineries are, for the most part, designed to refine the top of the barrel to make gasoline and not the bottom of the barrel where diesel comes from.

The new administration will reverse the executive order that allowed the additional off shore drilling, and OPEC will lower the production numbers. The danger is that the rise in diesel will be slow enough to "cook" the carriers before they notice it.he current pace of the drop in freight tonnage is still faster than the pace of the drop in truckload capacity.

The capacity drawn out of the market has been across the board; the major carriers have pulled tractors off the road, and small carriers just left the business. Much of this capacity will not come back on line quickly. Some carriers have dropped their rates 30% - 50% below operating cost in some lanes just to reposition equipment.

Shippers are hammering in bids now with the idea that they will be able to capture cost reductions. In this free-fall market, they will have some success. Major carriers are now refusing to bid, and more will refuse. Heavily leveraged Truckload carriers will fail and either merge operations or will sell the company (perhaps at a loss) this year.

The savings rate of the American people will go up. This will pull cash away from spending, so retail is going to suffer. Expect Wal-Mart to be the only increasing same-store sales grower. Expect leveraged retailers to fail. Circuit City and KB Toys are just the beginning. Watch the used warehouse equipment market get flooded, along with the store fixtures market.
Leveraged 3PL providers are going to become aggressive as some of the business they have supported dries up. They will be between the anvil of lease rates created in the times of "high cotton" and the hammer of clients that need, and will expect, pricing that is under the marginal operations costs. The question will be if some will be able to restructure the space portfolio to lower the building costs to meet pricing expectations.

The stimulus package will not work, and Washington will resort to even more heavy-handed populist methods that will not stimulate the economy. The opening 25 days of

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the new administration is looking like the opening days of the FDR administration; there does not look like there is a consistent detailed plan in place. The Great Depression was the product of a lack of investment capital that sustains commerce, not a lack of consumer spending. Now, billions (and perhaps trillions) of dollars are still on the side line because investors do not see a predictable path in the current government. This is a case where the devil is in the details and, until there are details in a plan, the true investors will not invest. Until there is a plan, a real plan with details, expect economic damage.

Smart businesses will continue to look to innovation to drive costs out of the business model. The successful ones will figure out a way to conserve cash to pick upon the bones of the competitors who fail. Profit Loss Prevention will be the mantra of the strong and the few, and they will fix the profit leaks before they feel too much pain. The slow will see the leaks, but will not get the patches in place in time before they sink.

Art Mesher
CEO
Descartes Systems Group

[Note: Mesher ran out of time to give us his full thoughts, but offers these brief observations from his office in Waterloo, Ontario.]

(1) Canada gets electricity
(2) Newfoundland becomes the next China
(3) 2009 is the year that two-dimensional bar code installs exceed the pace of RFID system installs

More seriously, I predict that unbundling service levels will become a primary theme, as companies will become willing to accept lower services levels as long as it comes with an even lower cost. Failure to reduce prices will result in lost business. Failure to reduce service levels and, hence, costs when lowering prices will result in financial disaster.