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What has been the Impact of the Great Recession on Supply Chains?

Most Have Taken a Beating, but come out Stronger; 2010 Toughest Planning Year Ever?

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What has been the impact on supply chain management strategies and practices as the result of the "Great Recession?"

Last week we looked at overall economic conditions one year after the start of the financial collapse, and the generally optimistic economic signals across most of the globe – with the US being somewhat of a laggard. (See **The Global Economy One Year after the Crash**.)

Clearly, Supply Chain organizations and operations have had to hunker down and dramatically cut costs – and that often meant staff downsizing as well as other means.

Inventories have often been cut to the bone – in some cases actually at the cost of sales. Consumer electronic retail giant Best Buy earlier this year told analysts it could have sold more products in the quarter if suppliers had provider more inventory. Empty shelves and pegs at retail were common occurrences.

Clearly, the recession has forced most companies to relook at how they do much of what they do, and drive even more improvements to survive the downturn. Many have found they can get buy with lower inventory levels – perhaps permanently.

Reduction in SKU counts are common in recessions, for example, and there has been much of that over the last 12 months. For a change, this time it may be permanent. Retailers, in fact, on average have aggressive plans to drop SKU counts – and likely their number of suppliers. Overall, leading retailers may reduce total SKUs counts by as much as 15% in the next two years, some experts are predicting.

In a recent Wall Street Journal column, money manager and author James Grant argues persuasively that in all US recessions, the sharper than downturn, the stronger has been the recovery.

"All that go-go 1990s where we were adding items in and adding items in, and people wanted more, more, more, more choice... just didn't pay off," **Catherine Lindner**, Walgreen's divisional vice president for marketing development, said at a recent conference. She says consumers are confused. "People say, 'Whoa, you're bombarding me. Help me figure out what I need,'" Linder added.

"Strategic" Planning Horizons Shrink

How companies think about strategic planning has also been impacted, given the extremely volatile and uncertain environment.

"Over the past 12 months, the respondents to our economic conditions surveys have told us that their companies are cutting costs, reducing capital investments and headcounts, and making plans for weeks or months, not years," the McKinsey Quarterly recently noted.

However, after a brutal year of cost cutting for many companies, that imperative may be slowing down, as CEOs become more optimistic about economic prospects, or there just isn't much more left to cut. The same recent McKinsey research of corporate executives found just 45% of respondents

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[1]Respondents who answered "other" or "don't know" are not shown.

Source: McKinsey Quarterly

listed additional cost cutting as a top priority over the next 12 months.

That doesn't mean, however, that there will be aggressive investment – at least by many. Capital is still hard to come by – and caution is still the driving force for the majority of firms.

But is caution the smart route? In a recent Wall Street Journal column, money manager and author **James Grant** argues persuasively that in all US recessions, the sharper than downturn, the stronger has been the recovery.

"Not famously a glass half-full kind of fellow, I am about to propose that the recovery will be a bit of a barn burner," he writes.

Which begs the question of whether companies should keep playing defense, or begin to play some offense.

At the recent CSCMP conference in Chicago, investment banker **Bill Hunter** of Jeffries said that "I see two kinds of CEOs – the first kind is still saying 'I need to hunker down, I have some cash, but I am not doing anything.' The second type is saying we have some cash, things are looking up, let's prudently use this

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cash to get more strategic in acquisitions and investments."

One thing is for sure – 2010 is shaping up to be one of the most difficult years to plan for and forecast and plan for in the roughly 25 years of the "supply chain era." Bet too conservative and you can may not only lose top line revenue potential, but perhaps permanently lose market share. Bet too aggressive and the costs will wreak havoc on the bottom line, leading to more – and perhaps debilitating – cost cutting.