

Accelerating Out of Recession

5 Steps to Create Supply Chain Innovation in a Down Economy

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INTRODUCTION

Whether you label it a recession, depression or something else, the simple fact is the U.S. and world economies are in the worst slump of the post-WWII era. And it is affecting everybody.

Residential and commercial real estate construction is at its lowest rate in decades. Bear Stearns, Lehman Brothers, and scores of other banks and investment firms have failed. U.S. employment has contracted by 2.6 million jobs. And consumer confidence is at its lowest level in 40 years, with the National Retail Federation predicting the first drop in U.S. retail revenue in more than 30 years.

Of course the examples could go on and on, but the essential point is we are in tough economic times that are seriously impacting most businesses. The question is, as a supply chain professional, what can you do about it?

THE GREEN VISOR VS THE THINKING CAP

In tough economic times, the instinctive reaction by many companies is to cut cost, often without a whole lot of thought as to its long term impact on their business. That's fine if you are in survival mode or have a strategy to be the lowest-cost provider, but most companies aren't in either of these categories.

While there is nothing wrong with thoughtfully cutting costs, the companies who emerge from economic downturns quickest and gain the most market share accelerating out are those who use innovation during the downturn to add value to their business and their customers.

For example, when times were tough in the 1970s and small-town America was hurting, Wal*Mart was the first big-box retailer to put satellite dishes on the roofs of its rural stores so they could instantly get daily sales results and restock shelves faster and cheaper than other retailers. They are now the largest company in the world.

After the Dot.com bubble burst and internet companies were struggling, Apple figured out how to deliver music easily, legally and cheaply over the internet in the popular MP3 format. iPods and iTunes now dominate their respective markets.

While these and many other examples may not address traditional supply chain issues, they point out the advantages of using innovative means to get products people want to buy to customers faster and cheaper. In short, the focus is on adding value to the customer more than cutting costs. That is our definition of supply chain innovation. Supply Chain innovators are those who are the first to pull various practices together to offer new value to their customers while improving profits. These need not be revolutionary approaches or "first-ever" techniques. Rather, companies that can adopt the five steps discussed below will create greater value for their customers and themselves, and will gain competitive advantage in the marketplace, especially as the economy improves.

1. Know your customers intimately

Most companies will tell you they know their customers – their demographics, policies, purchase history, etc. But do they know what their customers' problems and challenges are, the detailed cost to serve each customer, or what mix and quantity of products they are buying today? To answer these questions takes a mixture of human interaction and technology.

Many suppliers to the big-box retailers, for example, have special account teams dedicated to knowing the customer's objectives, needs and promotional plans. That's good, but what about the rest of their customers? How do you know what is selling today in each store? How does this apply to companies that don't sell to retailers?

The answer to all these questions is technology-assisted collaboration. It starts with demand signals – knowing what quantities and mix of products are selling in each store or region for you, your customer, or your customer's customer. This requires linking point of sale and in-store inventory information to demand replenishment networks that may be several layers deep. Supply chain integration and visibility applications can be the conduit making this channel collaboration possible.

2. Cut the Fat, Not the Lean

Companies gain weight as they mature, just like humans. Occasionally shedding a few pounds is a good idea. Economic downturns are as good an excuse for this as an upcoming high school reunion.

But you have to make sure you are cutting out the fat, not the lean. Cost reduction programs that mandate cost cutting percentages across all departments only reward those who ran too fat in the first place. More importantly, they are not geared to adding value to the customer. In fact, the opposite is usually true.

The right way to cut the fat is to start with customer demand signals. Follow the demand signal up through the demand chain to manufacturing and suppliers, then down through distribution to the customer or the store shelf. Examine each point along this journey to see what adds value and what doesn't. Cut everything that does not add value. That is the principle of lean supply chains.

But don't stop there – this only streamlines existing flows. To innovate requires improving processes by leveraging best practices and technology to create better flows of product, people and information. Look at order management, manufacturing and procurement, distribution and transportation. There are significant new developments in technology supporting these areas. For example, using a single system to track raw materials and purchased components, sequence them into and through production, and then tracking the combined output through distribution improves manufacturing and distribution efficiency, and has huge traceability benefits in case of recall.

Other examples include: distributed order management systems that source order fulfillment from the most economical distribution node or drop-ship supplier; task interleaving and wave picking functions that reduce the amount of "empty-travel"; or dynamic slotting applications that reduce travel distances and picking times.

But how can I afford new systems in a down economy you might ask? If you can't afford the up-front costs, there are many "pay-as-you-go" models such as hosting and SaaS to get around that problem. More importantly, if you wait until the economy is booming again to implement these technologies, you will lose market share to competitors who already have them.

3. It's about Productivity, Not Costs

A favorite tactic for CEOs faced with sagging profit lines is to lop off a few heads. Unless you really are a fat organization, that just doesn't work anymore. After years of down-sizing, right-sizing and lean, most companies are already running full out. Cutting heads may cut costs, but it also cuts customer service while raising overtime expense and blood pressures.

Go from survival mode to competitive advantage by empowering your employees through a performance-focused culture. Sound too gushy, tree-hugger for you? It's not really.

It's just training your employees (better called associates) the most safe and efficient way to do their jobs and giving them the tools to monitor their own performance. Also give supervisors real-time mobile tools to monitor associate results so they can remove barriers to performance and coach associates who are struggling to meet goals. Productivity will go up 10-35 percent, creating much more value than cutting headcount.

A final productivity kicker once everyone is meeting goals is to add incentives.

However, incentives won't be effective unless you have the underlying fair and accurate labor standards in place and the means to monitor detailed individual or team performance. The incremental improvement is typically 5-15 percent.

4. Beam me up, Scotty

Until we get our Star Trek transporters in place, transportation costs are going to be a major portion of distribution expense. With supply chains lengthening and fuel costs on a roller coaster ride, transportation costs and risks are areas you may want to address right now.

While network design is a hot topic for long-term improvement in transportation costs and service improvements through areas such as near-shoring and localized production and distribution, there are many short-term gains to be had.

It's amazing how many large and medium size companies have still not implemented modern transportation management systems, especially now when there are so many good pay-as-you-go service options available. These systems can routinely deliver 10-25 percent savings on transportation spend by consolidating shipments, rate shopping and intelligent mode selection, carrier management, and automated freight payment.

They can also take savings a step further by eliminating empty miles through arranging back-hauls and continuous moves, automating yard movements and appointment scheduling, and providing portals for carrier and customer communication.

Of course, if you have your own or a dedicated fleet for local pick-up and delivery, a fleet management system is a must to improve driver and equipment utilization while further reducing costs.

5. Driving with the Rear-View Mirror

Try driving home tonight by only looking in the rear-view mirror. Not a very good idea, right? But that's exactly what many companies are doing when they make business decisions based on reports that are typically old and incomplete. To make good decisions, management needs real-time access to accurate, meaningful information – a single version of the truth, as the saying goes.

That was supposed to be the promise of ERP. But the batch nature of ERP and its lack of supply chain detail have shown the reality to be less than optimal.

What are needed are business intelligence tools that link, sort and analyze data from all the supply chain systems and trading partners to present meaningful, personalized information to executives in real-time. This information is displayed on graphic dashboards that are easy to comprehend and act upon, yet can be used to drill down to get to the root cause of problems.

The good news is these business intelligence systems are available today. They give supply chain management the tools they need to respond with agility to the ever-increasing variability of demand, head problems off at the pass, and take advantage of new market opportunities before the competition.

LET UP ON THE ACCELERATOR OR TROMP ON IT

There is a line from an old movie called Grand Prix about international open-wheel road racing that I have always loved. The lead character, in explaining why he is so successful, says when there is an accident on the track, he trops on the accelerator because he knows everyone else will be letting up on theirs.

That's a good analogy to what happens in tough economic times. Most companies let up on the gas by focusing on cutting costs. The winners are the ones who tromp down by taking advantage of the slight lull in the action to implement innovative new processes and technology geared toward creating customer value. When the economic race resumes, they are the ones in the best position to accelerate out of the recession, gaining customers and market share.