

CANADA'S SUPPLY CHAIN LINK

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Outside the Box

The politics of supply chains

Reading the international news section of the daily paper may not be the purely recreational activity you might have thought. New research coming out of the Massachusetts Institute of Technology (MIT) and its associated logistics research centres around the world is demonstrating the importance of keeping on top of political developments for global supply chains (see the item "[Political risk management](#)" in the Think Tank section of this newsletter).

The recent conflict between Russia and Georgia over the so-called "breakaway territory" of South Ossetia should highlight the importance of paying attention to political developments before they turn into supply chain disruptions. There was plenty of evidence in the run-up to the conflict that military action would be taken; you just had to know where to look.

Russia had been increasingly uncomfortable with the growing flow of oil across Georgia and neighbouring republics into Western Europe. The loss of revenues and influence represented by pipelines travelling across territory it did not control was a growing irritant to the Kremlin. According to some analysts, destroying the pipelines was the principal objective of the Russian incursion.

It's not easy for the person tasked with managing a global supply chain to keep track of the intrigue, motivations and subtle shifts of power that comprise the international political arena. But when there are millions—or billions—of dollars of business that could be lost because of a political dispute, it pays to find a way.

Reading the papers is a start, but it's not enough. By the time the mainstream international media have a story it's going to be too late to make the adjustments that will save your supply chain.

As the MIT researchers assert, you need friends on the ground. If you are operating overseas you need to have a reliable source of intelligence about potential disruptions. This can come in the form of local managers for your company, or even outside sources like consultants or academics who are tuned into regional politics.

In the case of the South Ossetia incursion, a Moscow-based financial analyst predicted it a couple days before it happened. He was well-placed, close to the political epicentre and had a professional interest in keeping close tabs on developments in the area. That's the kind of person you need to find and keep close to stay ahead of crises that can hurt your business.



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Strategy in Practice

Achieving a lean supply chain

Lean is well-known concept in the manufacturing world that can be equally applied to supply chain management.

Lean was developed by Toyota to reduce waste in the manufacturing process. While supply chains are more nebulous and less controllable, certain lean principles can help to make your supply chain more efficient.

According to a recent white paper published by Ventana Research, these principles are:

- Define product value from the customer's point of view.
- The supply chain and the information that supports it should flow continuously.
- The supply chain should be driven by customer demand.
- The entire organization must be focused on the objective of eliminating waste and adding value to all supply chain processes.

To achieve a lean supply chain the organization needs to put into practice several attributes aimed at waste reduction. These include:

- Demand management: Demand signals from the customer must be disseminated throughout the supply chain, including to suppliers and processors who only act to create product when those signals are received. The obvious benefit—of only producing what is needed—is supplemented by the additional perk that forecasting may not be necessary.
- Process and product standardization: Standardized processes and products help to achieve continuous flow by enabling production to be shifted from one supplier to another if necessary and by making it possible to produce whatever product is currently in demand. It reduces inventory levels and can increase the company's ability to make use of postponement strategies.

Creating a lean supply chain will mean plenty of change for most organizations. The key to getting started is to ensure that the whole team involved embraces the concept of waste reduction. Waste reduction should form the foundation for each discrete objective in the transformation of your supply chain.

You will need to map your supply chain processes from product creation to consumption in order to

understand the resource and information requirements at each processing and transition point so you can pinpoint where waste exists and how to eliminate it.

Ultimately, you may need to consider adopting new tools and technology to facilitate the flow of information. This could include a new ERP system or a kanban system of visual inventory management cues.

Adopting a lean supply chain will require the full commitment of your people, processes and technology if it is going to be success.



You Should Know

3PL recognized in US law

New US legislation (HR 4040) has recognized the role of third-party logistics providers (3PLs) for the first time.

The specific mention of 3PLs came out of lobbying efforts by the International Warehousing Law Association (IWLA).

The legislation in question is designed to protect consumers from toxic chemicals in toys, and strengthens the US Consumer Product Safety Commission (CPSC).

The new law imposes substantial new requirements and penalties on manufacturers, distributors and retailers, but specifically states that a 3PL is not to be considered a manufacturer, distributor or retailer. The 3PL provision ensures that responsibility for compliance with matters like CPSC recall orders rests with the product owner and not the third-party warehouse.

The new law reaffirms the role of the 3PL as an intermediary in the supply chain, similar to the carrier or forwarder. It sets a critical precedent as Congress turns to similar legislation for food, pharmaceuticals and cargo security.

Air cargo volumes decline

The International Air Transport Association (IATA) released international traffic data for June that showed a continued slowing of demand growth for air transport. Cargo contracted by 0.8 percent compared to June 2007.

“The global economic turbulence clearly shows in the 0.8 percent drop in freight volumes compared to last year. With consumer and business confidence falling and sky-high oil prices, the situation will get a lot worse,” said Giovanni Bisignani, director general and CEO of IATA.

The decline in international freight traffic is the first seen since May 2005 and follows several months of falling manufacturing sector confidence indicators.

Latin American airlines recorded the largest contraction (12.7 percent) as the region's cargo sector continues to re-structure its capacity. Airlines from the Asia Pacific region saw a 4.8 percent year-on-year decline for June traffic. Carriers in Europe saw freight demand growth fall to 0.7 percent in June from 1.4 percent in May. North American carriers also saw freight demand growth slow to 4.0 percent in June from 4.6 percent in May.

“The airline sector is in trouble. Losses this year could reach US\$6.1 billion, more than wiping out the US\$5.6 billion that airlines made in 2007. Falling demand and rising costs are re-shaping the industry,” said Bisignani. “To survive the crisis, urgent action is needed. Airports and air navigation service providers must come to the table with efficiencies that deliver cost savings. Labour must understand that efficiency is the only path to job security. And governments must stop crazy

taxation and give airlines the freedom to merge and consolidate where it makes business sense.”

Americans negative on trade

US public opinion is becoming increasingly negative about free trade.

A survey conducted earlier this year by the Pew Research Center in Washington, DC shows that 48 percent of Americans believe free trade is bad for the country, with 35 percent saying they think it's a good thing. In November last year opinion on free trade was evenly split and for the previous ten years opinion favoured free trade.

The survey found broad agreement that free trade negatively affects wages, jobs and economic growth in the US. Sixty-one percent said that free trade results in job losses and 56 percent believe that it makes wages lower.

Disaster logistics training

Agility, TNT and UPS have held a joint training program for their Logistics Emergency Teams (LETs) to further strengthen their integrated response to large-scale disasters.

More than 20 logistics specialists representing the three companies were trained for field deployment. The training included sessions covering the international relief system, safety and security in the field and preparing for deployment, among others. LETs project leaders, who have experience in the field, also shared stories and lessons learned with the delegates.

The LETs initiative was formalized in January 2008 under the auspices of the World Food Program (WFP) at the World Economic Forum meeting in Davos, Switzerland. The LETs partnership was first demonstrated on the ground in August 2007 in Indonesia during an operational exercise organized and hosted by WFP. In May 2008, the LETs supported humanitarian relief efforts on the ground in Myanmar and Bangkok following the aftermath of Cyclone Nargis.



Think Tank

Risk analysis often underdeveloped

A new study released by Aberdeen reveals that there are still a lot of gaps in the supply chain risk management practices and strategies adopted by study participants for their global operations.

“Growing global operations are forcing companies to more proactively evaluate and address their supply chain risks. Companies are sourcing from and selling to more new regions, often adding new carriers, forwarders, logistics and distribution partners to their network. At the same time, customers are continuously demanding improved service levels,” said Viktoriya Sadlovska, an Aberdeen analyst. “These trends, coupled with increased security concerns that have imposed a new level of regulation on global shippers, are driving firms to increase their focus on supply chain risk management and adopt new processes and technologies to make their supply chains more risk-resilient.”

The top reported supply chain disruptions over the past 12 months were:

- Supplier capacity did not meet demand (56 percent);
- Raw materials price increase/shortage (49 percent);
- Unexpected changes in customer demand (45 percent); and
- Shipment delayed/damaged/misdirected (39 percent).

Compared to industry average and laggard companies, best-in-class companies are more likely to manage or at least assess the following risks:

- Logistics congestion and capacity;
- Risk profile of suppliers;
- Fuel price risk;
- Risk profile of a country; and
- Non-environmental catastrophic events.

Companies plan to improve supply chain risk management by implementing a data-driven, collaborative approach. Study participants are planning to take the following actions in the next 12 months in order to adopt a more proactive supply chain risk management approach:

- Collaborate more effectively with supply chain partners to jointly manage supply chain risks (59 percent);
- Improve supply chain data quality used for decision-making (54 percent);
- Re-design the supply chain (34 percent); and
- Implement new software solutions (27 percent).

Political risk management

New research from the Center for Latin-American Logistics Innovation (CLI) shows that it pays to be prepared for political turmoil. Global supply chains that are attuned to political developments are better able to react when uncertainty threatens disruptions.

“Executives that are used to operating in these emerging markets are very aware of some of the subtleties of the local dynamics,” said Isabel Agudelo, a member of the executive team at CLI.

Political risk analysis is seldom a formal part of supply chain planning, but it should be, according to MIT Center for Transportation & Logistics researcher Edgar Blanco. “Incorporating political risk is not something you do routinely in supply chain decision-making,” he said.

“Institutional uncertainty is a common theme across emerging markets and not all organizations are used to dealing with it,” he added. “The first reactions tend to isolate these markets by pulling the plug or adding buffers via manufacturing or inventory build-up. Sometimes these are sound strategies, but more often than not, these are expensive propositions, especially given the cost pressures that are common in emerging markets.”

The jury is still out on exactly how companies should measure political risk and how to incorporate what they do know into their plans.

However, the MIT and CLI researchers agree that building relationships on the ground in overseas locations will lay the foundation for a sturdy supply chain.

“You need to start with local relationships when managing risk in emerging markets, especially if you want to stay ahead of the political tide. And these relationships are not built overnight; they should be part of a conscious supply chain strategy,” Blanco said.
