

# A LOOK AHEAD: THE SUPPLY CHAIN IN 2009

By Sean Murphy

Sean Murphy ([sean.murphy@reedbusiness.com](mailto:sean.murphy@reedbusiness.com)) is associate editor at Supply Chain Management Review.

**A sagging economy is coloring the view of supply chain experts as they contemplate the major trends of 2009—green, shifting sourcing strategies, and talent management. Their advice: Hold on tight, and be ready for anything.**

Supply Chain managers approaching the end of 2008 may need a paper bag to breathe into. The roller coaster of oil prices, a tanking worldwide economy, and the near-collapse of major American financial institutions have made for tough times for people working in the supply chain space with an uncertain future.

*Supply Chain Management Review* spoke to industry analysts, academics, and supply chain practitioners to get a handle on what 2009 will mean for supply chain management. They talked to us about China, sustainability, the future of supply chain talent and education, and how important the CIO is becoming in supply chain management—the key trend they saw emerging in the year ahead.

Draped over every subject, however, is the economy. The recession, both in America and elsewhere, will touch every factor of the supply chain in 2009, something all of our sources were quick to point out. It has always been the supply chain manager's job to cut costs and make the chain operate more efficiently. But now that will matter more than ever, forcing management to become even more frugal.

## **Near-Shoring and China's Future**

According to Tim Feemster, senior vice president and director of global logistics for commercial property broker Grubb & Ellis, supply chain managers who are sourcing or thinking about sourcing in foreign countries should think about near-shoring—pulling out of foreign sourcing to bring operations home, or at least back to North America.

China may still be the top choice for low-cost country sourcing, Feemster said, but that may not last. Already, there are signs of once-cheap labor costs going up there, which may put the

brakes on the surge in industrial development, particularly for investors looking to save manufacturing costs by paying workers less.

And moving inland isn't an option, either. Right now, much of the flurry of activity that has boosted China's economy in recent years has been confined to the eastern part of the country. Beyond that, Feemster said, China needs to upgrade its third-world infrastructure so that industrialization can move further inland. Yet whether the government can make that transition before nervous foreign businesses pull out is questionable.

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Feemster said India has an even bigger problem when it comes to infrastructure, and the government there is less likely to build the roads, rails, and upgraded ports they need than China. "I don't think that India has the same level of funds to do that," he said.

Of course, Feemster said, some companies need to offshore for reasons other than labor costs, such as the need to find a specific raw material. In those cases, he said, labor costs don't mean a thing. "The future may be near-sourcing for finished goods, but it may still be a global supply chain for raw materials," he said.

Those who continue to outsource overseas in 2009 should also worry about fuel costs. During 2008, the world saw oil prices surge past \$150 a barrel. But with prices dipping to below \$60 by late November, Feemster said it's easy, perhaps too easy, to forget there's still a potential for a new oil price crisis next year. His advice: Plan for higher prices now.

"People tend to lose their sense of urgency about it," he said. "The smart companies are still going to look at that."

Smart companies will also watch the world economy, Feemster said, especially if they are offshoring. A crisis in one country, he said, has a habit of rippling across oceans and continents. "As much as we want to not admit it, it's a global economy, folks," he said.

### A Paler Shade of Green?

Other economic trends might accelerate the movement toward greener supply chains. They may also bring unanticipated green benefits. For example, in 2008, higher fuel prices forced some companies to abandon sourcing

in foreign countries, which will lead to lower carbon emissions, among other benefits, according to one observer.

Jack T. Ampuja, a private consultant, executive director of the Center for Supply Chain Excellence at Niagara University, and a member of the editorial advisory board of *Supply Chain Management Review*, said mainstream media reports on global warming have propelled a skyrocketing interest in greener supply chains. "It's probably come on quicker than anything I've ever seen in the supply chain," he said.

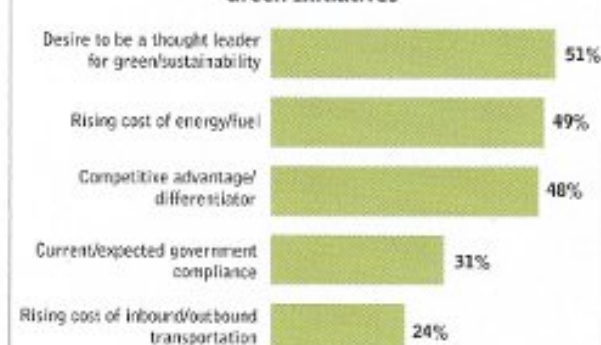
But like outsourcing, Ampuja said next year's green trends will be dictated by the economy. Many green initiatives are costly, even those which will save money in the long term. "I think companies are going to tread a little more softly," he said of the scope of green supply chain initiatives next year.

However, Ampuja said it is possible for companies to create that coveted supply chain that is both cost-effective and good for the environment. "Green and efficient supply chains, they're not at counter-purpose. We should be able to do both," he said.

One of the key ways Ampuja cited that a company can do both is by looking at how it packages its products, something Ampuja recalled doing for one of his consulting clients. "By getting our client to make some minimal changes—smaller boxes, less filler, better pallets, improved truckloading techniques—we got the carrier to revise LTL freight class from 250 to 150 which generated a 40 percent reduction in freight cost. This was equal to the gain in efficiency so the carrier suffered no loss of profit margin."

EXHIBIT 1

### Key Pressures Forcing Companies to Look into Green Initiatives



Source: Aberdeen Group, Inc., *Building a Green Supply Chain: Social Responsibility for Fun and Profit* Copyright © 2005, Aberdeen Group, Inc.

## THE SUPPLY CHAIN IN 2009

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Ampuja said he didn't expect any particular company to emerge as a new face of green in 2009, but many companies want to be ahead of the pack. Exhibit 1 shows the results of

a study from the Aberdeen Group that indicates "desire to be a thought leader" is the primary motivation among corporations to go green.

Right now, Wal-Mart remains

one of the leaders in green supply chains, setting an example that many companies have scrambled to emulate. Ampuja said there are three main lessons to be learned from the retail giant.

- **Start at the top:** Wal-Mart's green initiative began with Lee Scott himself. Similarly, if your company is serious about green, it should start with its CEO and work down. Trying to build a greener supply chain from the middle-management level is an uphill climb.

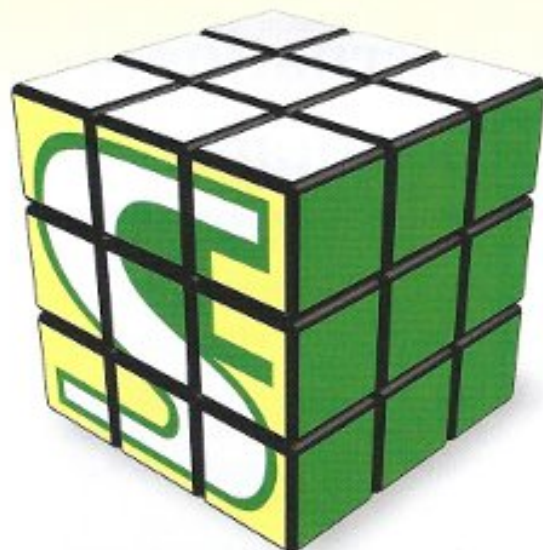
- **Don't go piecemeal—do it across the board:** Wal-Mart has implemented Scott's decree in multiple initiatives, from incandescent lights to new truck engines. Smaller changes scattered throughout your company will have a bigger impact than you think.

- **Educate and involve your workforce:** Encourage your employees to get involved with recycling programs, calls for ideas, or incentives to go green. Also ask them to take their environmental consciousness home with them.

Companies aren't the only ones getting in on the sustainability action. Entire countries are doing so as well. In 2008, The Netherlands set up a carbon-based tax on packaging aimed at forcing companies to take a closer look at how they package goods.

Canada nearly went the same route in 2008, Ampuja adds, when that country's Liberal Party leader Stéphane Dion proposed a similar tax. According to published reports from CBC News, Dion's \$15.4 billion plan would have, among other things, placed higher taxes on Canadian industries that produce higher carbon emissions.

That measure was shot down by the Canadian parliament, but Ampuja said the mere fact that legislators in Canada, the United States'



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## THE SUPPLY CHAIN IN 2009

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largest trading partner, even tried to enact a carbon tax suggests this issue is not going away in that country, and American companies ought to keep an eye on it. Ampuja said he wouldn't be surprised if Canadian legislators tried to pass such a tax measure again in 2009.

"Without question, the issue is there for the long haul," he said.

Along with the belt-tightening, Ampuja said 2009 will see supply chain managers working toward network optimization, which may be the path of least resistance when it comes to streamlining operations, reducing waste, and cutting back carbon emissions.

### Technology and the CIO

Steve Banker, an analyst and director of supply chain management at ARC Advisory Group, agrees that green initiatives will lose some momentum as long as the worldwide economy continues to sag. With fewer supply chain personnel likely doing more work, Banker said sustainability will remain important, but "it's now going to be on the back burner."

Banker agreed with Ampuja that network optimization is one area that won't be scaled back, in part because dropping oil prices have allowed some companies, advisably or not, to breathe a little easier when it comes to transportation.

The economic downturns worldwide will also push companies toward bargain-hunting, he said, with many companies waiting longer than usual to buy software, hoping vendors will feel pressure to lower their prices further.

Some analysts, including those at other research firms, have predicted CIOs will play a bigger and bigger role when it comes to making major supply chain-related decisions, especially those involving software and technology. Banker said that would be a bad idea, since CIOs, at least when it comes to spending habits, have a different approach from supply chain executives.

Typically, he said, supply chain executives are more interested in "best of breed" products, and will source across the board to get them, whereas CIOs are more interested in getting tasks done, so they are more likely to take a simpler approach that would involve fewer vendors, closing the company off to other provider choices. "The fewer software providers CIOs have to deal with, the easier their job is," Banker said.

Alper Camci, a professor at the Ross School of Management and Leadership at Franklin University, said CIOs may not be interested in best-of-breed, but their no-nonsense approach to getting things done may ultimately save their companies money, making them more

appealing as decision makers than non-tech-savvy supply chain managers.

"The CIOs' main goal is to streamline the system," he said.

Right now, he said, CIOs are already in the boardroom, no longer merely the "IT guy" who is called to fix things. "I think that already started before the economy went south," he said.

This trend will continue in 2009, Camci said, in part because of the increased prevalence of the high-tech approach. "IT is basically involved in every aspect of business," he said.

Camci said this means the CIO's job and a company's IT structure is often running on such a close parallel to the business structure, that it's only natural to see the CIO taking a more active leadership role. "The IT structure depends on the business structure," he said. "It's already there mirroring the business."

### The Talent Pipeline

Supply chain management as a discipline has already established itself as a serious area of study at lead-

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ing business colleges and universities nationwide, and the importance of in-depth supply chain education is not expected to wane in 2009. In 2008 alone, schools offered more than 300 programs, according to David Aquino, research director at AMR Research. (Exhibit 2 shows the most popular universities for recruiting future supply chain professionals, according to a recent study by AMR Research.)



The growing emphasis in 2009 will be on establishing standards, Aquino said. Schools offering supply chain-related programs will not be changing their curriculum, but look for them to extend what they offer, and collaborate with other schools in joint offerings. In 2008, a group of corporations associated with the Supply Chain Council formed a global supply chain talent committee, which is working with Aquino and AMR through several studies to explore issues related to supply chain talent and education. "These guys are driving the development and execution of what a modern supply chain curriculum looks like," he said.

In 2009, Aquino expects this group will help produce a pilot standards-based supply chain program that could eventually see widespread adoption. That's good news for the field, which Aquino likened to engineering, law, and medicine. At one time, all three of those fields had no requirements or standards for education. Today, all three have a well-established curriculum framework that all law, medical, and engineering schools follow.

This framework is something supply chain manage-

ment education lacks, he said, and that can't continue. "Time was, if you were a bad engineer, you got to go into, say, logistics. That's not a good way to start a supply chain career," he said.

Aquino said he hopes the establishment of these standards will lead to supply chain management and supply chain managers being taken more seriously among CEOs and CFOs. "We cover 80 percent of the operation of the business, yet we still get challenged as to what our contribution is," he said.

Aquino expects in 2009 to see schools trying to find innovative approaches to teaching supply chain management. Schools will offer more online distance learning programs, computer simulations of delivery systems, and other approaches designed "to make the classroom much more emblematic of what a real-world situation would be," Aquino said.

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### Strap Yourself In

It certainly doesn't bode well for the future when the American media reference the days of Franklin Delano Roosevelt and the Great Depression when discussing the current state of the economy. With oil prices surging, then plummeting within eight months, it's no wonder economists have trouble guessing when the world's economic woes will end.

Such trying times demand the very skills that supply chain managers excel at: Finding the most efficient and cost-effective way of doing things. Whether it means offshoring or near-shoring, buying hybrid trucks, or bringing the CIO into the fold, the same skills that make the supply chain manager popular in happier times are what corporations will cling to in the hard times to come.

For now, the supply chain manager needs to take a good, long look at offshore operations, deciding what's really needed. Managers should also prepare for more oil trouble, as the prices can't keep dropping forever. In short, be prepared for anything, because if there's one thing the events of 2008 clearly show, it's that anything can happen.

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