



10
SUPPLY
CHAIN

START COUNTING

Reducing supply-chain costs can
transform an also-ran operation
Report: Anthony Sibillin

9

BUSINESS
PLANS

STOP WORRYING

Take a good look at existing business plans and create targets. Report: Jeanne-Vida Douglas

● It was a difficult quarter for the managing director of Micromine, Graeme Tudor. After expanding the business by 60 per cent in 2008, the mining software company had a lot of orders and increased staffing levels in preparation for another bumper year.

Then credit markets froze, the stockmarket swan-dived and commodities tumbled from record highs. All this left smaller mining companies scrambling for investors and larger companies putting projects on hold until business sentiment and commodity prices recover.

"We haven't had much cancelled outright but a lot of projects have been put on hold until further notice," Tudor says. "So while we were ramping up for another year of strong growth, we're now restructuring to focus on growth markets."

With work still coming, but not at the speed which had been expected, Tudor has had to put off staff and redouble efforts in markets such as China, Russia and Brazil, where demand has softened only slightly.

"There is work on and we will grow next year,

but just not in the way we had planned," Tudor says. It is a nice problem to have, given many Australian businesses are facing a significant slowdown in demand, and perhaps even negative growth, through 2009.

The first thing business owners need to do is to stop worrying and take a well-considered, pragmatic look at their business plan, business coach and author Louise Woodbury says.

"We can easily buy into the fear of the future but what we actually need to do is take a step back and look for the opportunities that are created in times like this," she says. "I'm advising people to take a very deliberate approach to their business plan, to create a target for the next 12 months and divide it into opportunities which can be turned around in periods of 12 weeks."

Rather than looking frenetically for new business, Woodbury suggests managers concentrate on existing clients and contacts, and look for ways to ensure that these relationships survive the economic storm. In a similar vein, she suggests avoiding staff cuts wherever

possible, thus avoiding losing the experience and relationships skilled staff take with them when they leave.

"Times like this are a real wake-up call for businesses to assess the resources they have available," she says. "Now is the time to get the whole company aligned and focused on a common goal and a common purpose. The businesses that survive in times like this are the ones that take the time to focus on the challenges, create a plan to get through and take the time to inspire staff as well."

As liquidity, margins, productivity, expenses, input costs, payment terms, profit-to-loss ratios and staffing are all reassessed, business coach Anne Sorensen says cash flow is the one area in which managers need to pay particular attention. "Reviewing payment terms and ensuring projects are deposited are a couple of simple ways to facilitate cash flow in times like these," Sorensen says. "Build on relationships with existing customers using cost-effective tools such as e-newsletters."

Having survived two macroeconomic downturns and a GST-induced spending slowdown, Eagle Boys Pizza chain founder Tom Potter says business owners need to move quickly to rewrite their business plans to focus on new spending patterns. "People will still be buying food, but rather than spending \$60 on a

family meal, they will be looking at maybe \$20 to \$25," he says. "The companies that will do well will be those that provide a friendly option in this price bracket. The ones that don't get into that zone will either lose customers or will have to change in some other way to survive."

Predicting that the current economic malaise is likely to last at least two years, Potter suggests businesses redraft their plans with a mid-term outlook that accounts for a different profitability equation than in previous years. "Let's say you're making profit on 70 per cent of your stock and breaking even on 25 per cent," he says. "You may need to shift that ratio to 60 per cent profit, 40 per cent break even just to keep customers walking through the door."

In the current climate, consumers are actively looking for less-expensive options and will shift their allegiance to whoever caters to their financial constraints and respects their wants, Potter says. Ideally, businesses should have a few different plans, beginning with a worst-case scenario through to more favourable markets.

"The crowd is looking closely to what solutions are being offered and at what price. Businesses need to adjust to their requirements or lose them. The bottom line is unless you have a really high-end proposition you need to respond to where the market is headed and be prepared to reassess your strategy regularly as the market changes."

● "Fundamentally evil" is how Tim Cook, chief operating officer of Apple – the United States consumer-electronics company known for sleek gadgets, not a slender supply chain – describes inventory.

On Cook's watch, Apple holds just 10 days of total inventory. This, and not just the high price of iPods and iPhones, is why Apple has a 16 per cent profit margin, twice that of rival HP. It is also why businesses are being urged to be more like Apple to see out a tough year ahead.

Transforming an also-ran transport, purchasing and warehousing operation into an industry-beating one can halve supply-chain costs as a percentage of sales, a partner at Melbourne supply-chain consultancy GRA, Carter McNabb, says. "A lot of businesses, when things get tough as they are at the minute, often look at short-term fixes," he says. "They reduce headcount, freeze expenditure or don't run promotions. But if they do things smarter in the supply chain, there is typically quite a bit of opportunity there. And the reason being is that supply chains, by their nature, are complex – lots of transactions, lots of products, lots of locations, lots of customers – so most businesses tend to manage their supply chains with reasonably unsophisticated approaches."

A common example is to manage inventory by holding a supply of stock, based on historical demand. "The problem with that is it is an averaging technique," McNabb says. "You end up with too much in some lines and too little in others."

A better approach is to exploit advances in supply-chain planning, optimisation and execution technology to work backwards from a service-level goal for satisfying customer demand, he says. "[You] typically have an opportunity, from an inventory perspective, to extract a fair amount of cash and return it to the business, while at the same time improving stock availability or level of service."

Good times tend to divert management attention elsewhere, notes Salil Parekh, Asia-Pacific head of Caggemini, a business-technology consultancy. "There was so much growth to be had in the last three or four years for companies at large, there was great focus on time to market and catch-up with the growth; less on efficiency," he says. The trouble is that since growth has stalled, management has the attention but not the spare cash to devote to the supply chain.

McNabb's rule of thumb is that businesses turning over \$50 million or more annually should beg, borrow or steal to buy the necessary tools, given the potential gains. For smaller businesses, it depends on what they do. So even a \$25 million-a-year logistics business should keep putting advanced warehousing and scheduling systems high on its to-do list.

There are things all businesses can do at minimal cost. One is renegotiate supplier contracts. Online auctioneer GraysOnline.com.au recently consolidated multiple delivery contracts into a single one with Australia Post.

Another is to review existing production and distribution arrangements. Would making a product in a different workshop save money, or would another warehouse cut delivery time? "When dealing with transport, inventory or operations don't have to do much other than change your making process with better information, and you yield very significant benefits," McNabb says.

Importantly, these benefits don't have to come at the expense of others along the supply chain. A Harper, Amit Kapoor and Marco Kesteloo of Booz & Company write in relation to the retail sector too often, buyers walk away from a negotiation successful, unaware that their victory may well be compromised by their failure to deal with issues that have much more impact on retailer and supplier, such as in-store availability. The shelves still stocked and what seemed like a highly profitable work is actually only a slightly larger share of the total. By contrast, building holistic relationships with suppliers across the value chain that can create revenue and lower costs than the old haggling requires collaboration and cross-functional

Caggemini Australia managing director Frank says collaboration across and within sectors can make more out of investments. "The amount of investment out there is incredible," he says. "But what has happened is the interconnection between different segments of the economy." For example, Caggemini, together with leading global retailers and manufacturers such as Tesco, Johnson & Johnson and Nestlé, is investigating the idea of "collaborative transport" of reducing truck movements and cost.

The challenge is to put some urgency into supply chain management, Cook says. "You kind of manage it like you're in the dairy business. If it's not its freshness date, you have a problem." ■

