

Responding to the credit crunch

A chain of crises?

Food. Energy. Finance. In 2008 all three come with the word 'crisis' attached. The latest to arrive on the scene is the financial crisis with the collapse and even nationalisation of major financial institutions. Initially, it seemed as though the real economy would be spared the worst of the financial fallout, but there are now clear signs that the world is heading towards an economic slowdown. Supply Chain Magazine has examined how companies are responding to the new challenges and in the process has found some answers that seem to go against the international consensus of doom and gloom.

By **Bram Posthumus**

When companies are forced to increase profitability, they usually implement two tactics. They attempt to cut costs or implement improvements on the income side. These tactics are often combined and can even result in a complete overhaul of a company's organisational structure which, of course, has a major impact on the supply chain.

Such is the case at Sabic Innovative Plastics, a leader in the global plastics industry with operations in 25 countries on five continents. Its customers include the automotive, electronics and construction industries. One of its main centres of operations is located in the Dutch town of Bergen op Zoom and it is from there that Supply Chain Management Director Peter van den Eijnden explains how Sabic is meeting the new challenges – although he wants it said that the financial crisis is only one of the contributing factors.

'We were already in the process of restructuring the organisation in response to commodity and energy difficulties that preceded the financial crisis.' When oil prices topped 100 dollars per barrel and commodity prices began to surge until only very recently, the company had to respond. 'The financial crisis was an additional impetus to cut costs and simplify the

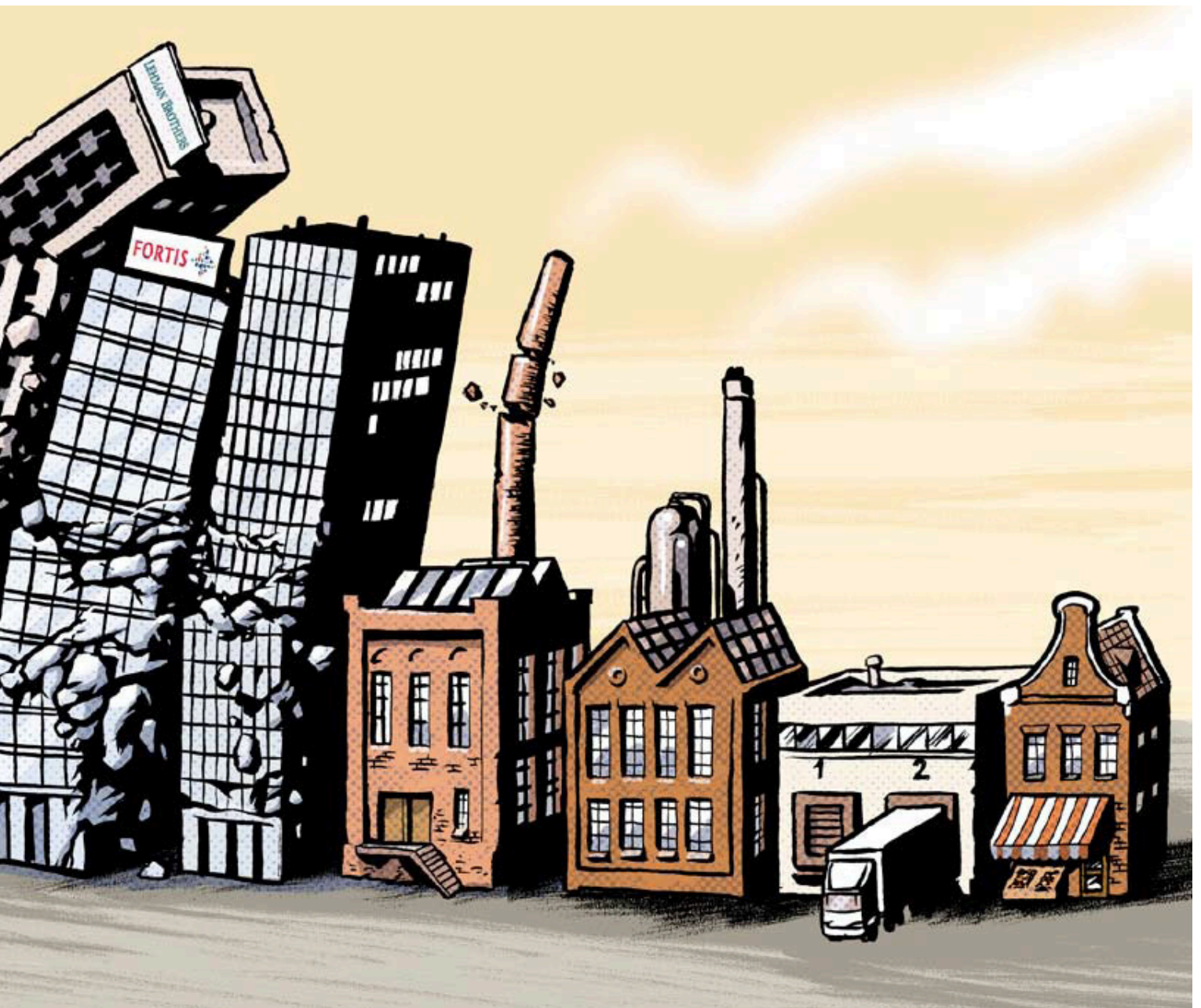
organisation,' Van den Eijnden adds. 'And in fact, our own customers were among those who pointed this out and made us realise that perhaps we were, in some cases, doing too much.'

An interesting thing to say in a business environment that has become accustomed to being service-oriented but it makes sense if you divide, as Van den Eijnden does, the Sabic products into two categories, namely, standard products and special products. 'You can divide your output over these general groups. You can decide to send your standard products in bulk, by fully loaded lorry only (in Europe, 80 percent of our output is transported by road) and accompanied by a small standard service package. By contrast, we can make small deliveries for our special products and indeed provide technical support and other specialised services.'

In fact, Sabic is going a step further and is in the process of creating a number of Strategic Business Units (SBUs) around any number of products (Van den Eijnden calls them 'buckets'), each having a specific service backup and logistics modalities. Supply chains will be integral to each individual SBU. 'The whole procedure is a top down process,' says Van den Eijnden. 'It starts with the creation of the SBUs and implementation



Illustration: Erik Kriek



starts on a continental level progressing down to a local level. Of course, the company councils will have to agree but we plan for this structure to be operational by the beginning of next year.'

Expansion plans

Improving revenue by getting into new markets is the road taken by Juliska, a US-based company that produces exclusive ceramics, glass and tableware aimed at the high end of the market. Its CEO is David Gooding and he explained the company's expansion plans for Europe and other parts of the world. 'We are currently working with 800 premium retailers across the United States, 90 percent of whom take delivery from UPS. We are planning to have 350 top stores outside the United States purchase our products within the next two years.' Major production sites for Juliska are located in Portugal and the Czech Republic.

How will these delicate products be distributed to Juliska's new markets in Europe, Asia and the Middle East? Gooding has decided on the easiest solution: outsourcing. 'We found Kamino in Rotterdam as a partner for our supply chain. Firstly, their location in Rotterdam makes a lot of sense. It

is in a geographically central location and in a country that is simply very good at logistics. We have contracted Kamino to handle the European side of the supply chain and that includes dealing with customs and of course issues of compliance. I am convinced they are the right partner for us.'

Gooding is equally clear about a possible presence on the ground in Europe. 'Currently we have none. We are incorporated in the United States and pay our taxes there. Currently I see no reason to change that. When we grow over and above the projected 350 stores we may well be required to have a presence in the United Kingdom, where our sales headquarters is situated. But we are not planning to do this until we have to. We'd like to keep the structure simple.'

Arrange matters centrally

And with that last remark, Gooding is in complete agreement with what a professional adviser would say to anyone planning to expand into European markets. Erik de Bie is a tax and trade lawyer at the Amsterdam offices of Greenberg Traurig, a major international law firm that assists and advises businesses on such matters as taxation, customs regimes and other legal and >

▶ Plans to cut costs may already have been in place and the financial crisis has just acted as a reminder

Left:
Peter van den Eijnden (Sabic):
'The financial crisis was an
additional impetus to cut costs
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Right:
Jeroen Janssen Lok (Sara Lee):
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ures, other than the ones we are
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compliance issues. De Bie foresees an increasing number of US-based companies wanting in on the European market. 'It is not necessarily the financial crisis that we can pinpoint as a cause. Whether or not there is a crisis, companies want to sell their products on the European market and we are there to help them achieve that. We have noticed that especially medium-sized American businesses are actively exploring that option. Interestingly, the kind of advice De Bie has for companies wanting to do just that, tallies almost completely with what Juliska is doing at the moment. 'My advice to companies wanting to expand into European markets is first of all to arrange matters centrally, both in terms of administration and distribution. Of course, you will have to be compliant and the best way to achieve that is by working with a partner who actually knows the environment.' So De Bie's advice for the part of your supply chain that deals with distribution and compliance with the tax and VAT regimes that govern the market where you want to work, can be summarised in one word: 'Outsource. You do not need to have an administration office or any other presence in Europe. Keep it simple.'

Constantly Flexible

So far we have seen that the financial crisis is not perceived as the decisive factor that has compelled companies to start cutting costs or increasing revenue by penetrating new markets. Plans may already have been in place and the financial crisis has just acted as a reminder that for an organisation to remain on the

cutting edge it needs to be flexible at all times and able to adapt. Supply chain management is pivotal in this respect.

But now a supply chain manager for whom the financial crisis has, for the time being, no bearing at all on how he works. Jeroen Janssen Lok is Regional Operations Director Coffee and Tea for the global consumer goods giant Sara Lee. In very broad brush strokes, one can say that Sara Lee sells food and beverages in North America, coffee and tea in Europe and household and personal care products around the world. 'The commodities we use are always subject to price fluctuations, some of which are serious and impact our business. But I must say that the financial crisis we are experiencing now has not compelled me to consider special measures. It may well be that we will see the effects on the real economy, in terms of decreasing consumption. But even if this is so, I am not very sure whether we need to translate these effects into taking logistical measures, other than the ones we are taking anyway as a result of changes in commodity prices.' The point being made here is clearly: let's continue with business as usual.

Still, due to the nature of his business, Peter van den Eijnden sees a more direct impact on Sabic IP: 'You can see demand dropping. Fewer cars are being sold and we now read that even mobile phone sales are down. So yes, that has an impact on our business. We foresee reduced production and very little growth this year, if any. But that applies, I believe, across the board. And in the end, we will certainly pull through.'

CHEAPCARGO, ONLINE COMPARISON AND BOOKING TOOL



CheapCargo: a new concept for cutting costs

The idea is elegantly simple: when consumers buy air tickets, mortgages, cars and whatever else online, they go through a process that can be called compare and eliminate. They end up with the cheapest ticket, the best mortgage, and the most suitable car. Dutchman Marc Poelenjee has been working on the answer to a basic question: Why isn't there something like that for the supply chain? He is currently setting up CheapCargo, a new online comparison and booking tool for air freight and courier services. 'It is based on an engine comparable to Python, the airline industry engine. Soon, the supply chain manager or whoever is operating the system will be able to get an overview of what is available when an item needs to be delivered from the company to the customer.' Much in the same way as a passenger goes online and finds the best ticket to suit his travel needs and his pocket. Why is this a good idea and



Marc Poelenjee (CheapCargo): 'CheapCargo is a portal where front end and back end meet. This idea works best in an economy that is underperforming.'

for whom? CheapCargo's CEO Poelenjee has a few straightforward answers. 'The argument is clear to the customer. You are the owner of your own dispatch order. You decide what is most important: price or getting the item delivered within a specific time frame. You will be able to decide that online. You know what you need; you compare the options; you make a booking and that is the long and short of it. And of course you will do the tracking and tracing. In short, it introduces transparency in your supply chain management and it also increases cost awareness within your company. You can diversify among various carriers because you will be aware of a great many carriers that are available to you. And once the dispatch order has been carried out, there will be no surprises. You will know all costs up front.' That is the easy part. This all sounds very attractive for customers. But what about the carriers? Again, Poelenjee has a straightforward answer. 'It is a great tool for consolidating and expanding markets. CheapCargo is a portal where front end and back end meet. Customers can choose and carriers can put their complete range of options online – options that their potential customers are usually not aware of. You can also do action marketing through the portal. So the attraction for carriers is clear too: maximum load rate and an excellent marketing tool.'

'This idea works best in an economy that is underperforming,' says Poelenjee. So in that sense, the three crises of food, energy and finance are contributing factors. But will CheapCargo remain a viable option once the economy is back up again? 'No doubt. Because the ease of use remains, for both customers and carriers.' The website is currently being tested as to user-friendliness and will be operational in Q1/2009. <<