

The New Supply Chain

By D. J. Ghosh (President)

***American Friendship* World Air Cargo Corporation**

As world trade explodes, and manufacturers explore new sources of supply, long held tenets of supply chain management will increasingly be challenged. Globalization, which began to take root in the 1980's, has caused the supply chain paradigm to radically shift as companies scour the world for the lowest manufacturing cost.

SUPPLY CHAIN TOOLS

Armed with new management tools such as *lean manufacturing*, *just in time inventory (JIT)*, *Six Sigma*, *Kaizen (the science of continuous improvement)* and *SCOR (Supply Chain Operations Reference)*, the latter with its top-down supply chain assessment methodology, the supply chain industry will attempt to squeeze new efficiencies out of longer and longer supply chains.

COSTS OF SUPPLY CHAIN FAILURE: While they will improve your performance, these strategies may also stretch your system to the breaking point, and leave very little room for failure. And as research has shown, failure can be very expensive. Polls of financial executives around the world have regularly identified supply chain risk, more than any other, as having the greatest potential to disrupt their revenue driver. Furthermore, this research has revealed that companies adversely affected by supply chain disruptions have experienced 33-to 40 percent lower stock returns relative to their industry peers, along with significant drops in sales growth, higher costs and an increase in inventories.

The ill effects of a supply chain disruption don't disappear quickly. "Like a heart attack that cuts off the blood flow" says Professor Vinod Singhal of the Georgia Institute of Technology, "a supply chain glitch cuts off the flow of information or supplies. And, similar to a heart attack, it has lasting effects on a company's health".

DOES AIR CARGO REALLY HELP?

While air cargo companies have long touted their ability to move higher value products more quickly over longer distances, as compared to ocean carriers, their record leaves a lot to be desired. While aircraft do move cargo quicker over longer distances, much of this benefit is neutralized by long delays on the ground. It is as if one party gets the message, and the others don't. Furthermore, outside the supply chains of integrators like FedEx, UPS and DHL, there is very little "end to end" visibility for both the shipper and the final consignee.

TEMPERATURE TRACKING & TRACING

The story doesn't get much better for cargoes requiring temperature control and monitoring. According to Samrat Barari of Scalable Systems of New Jersey, an IT provider of temperature track and trace software, traditionally, logistics meant that goods arrived at the right destination at the right time. In today's world it also means arriving at the right temperature.

The industry is grossly under-invested in the electronic logistics systems that provide route information, booking and insurance information, temperature tracking and monitoring, environmental monitoring, billing and EDI. Furthermore, Scalable Systems research has indicated that most air cargo companies lack the environmental control and transfer ease, that are hallmarks of the ground and ocean carrier "cool chains". The 20% of the time that the cargo spends in the air, its temperature averages 15-20 degrees Centigrade, while the 80% that it waits in storage or on airport tarmac, it is exposed to normal weather conditions. The only way now available for air cargo companies to insure seamless cool chain integrity, is through specialized temperature controlled containers, such as those marketed by ENVIROTAINER. Other than that, they are left to the mercy of the various suppliers in the chain.

Most supply chain textbooks will advocate the need for strong leadership from the top management and the need for teamwork to implement any new supply chain initiative. They will stress the need for continuous improvement of both processes and practices, while discussing how the new culture needs to become part of the organization's DNA. They will examine the importance of rewards in implementing such a system.

LONG TERM COMMITMENT-The key to developing a new supply chain

However, for the air cargo carriers, airports and other service providers who support the trade, the incentives for them to participate in any "grandiose" supply chain solution for the shipper is very simple. *What kind of a long term commitment are you willing to make to allow us to invest in the expensive assets and technologies that will create a more reliable and cost effective supply chain?* Will you put your money where your mouth is? How can we improve upon our historically low operating margins, if any? In an industry rife with "*short term*" thinking with a penchant for even shorter term contracts this is probably the most important question for a new supply chain.

When this question was posed to a panel of ocean shippers at the recently concluded Air Cargo/Sea Cargo Americas convention in Miami this November, the vote was split. Representatives from Kraft Foods and Southern Wine & Spirits of America strongly agreed that "*long term contracts*" were required to provide the necessary stability for the industry, which they hoped would eventually provide cost benefits. However, not everyone on the panel agreed, demonstrating a divergence in shippers' views.

To make matters worse, the TOP 20 global air cargo forwarders are notorious for offering contracts as short as 6 months with their partner carriers. In return, they expect them to finance aircraft worth hundreds of millions of dollars over 10-15 year periods with very little contractual support. Contrast this with the contracts between the railroads and the

coal mines, where revenue optimization specialist Jamison Graff of JDA Software Group says that “contracts of 100 years are quite common”.

A LONG TERM APPROACH WILL DRIVE NEW INVESTMENTS

The **new supply chain** needs new investments to insure long term improvements and sustainability. As air cargo carriers increasingly become independent financial entities, separate from their passenger counterparts, and accountable to either private or public investors, their financial health will continue to be of paramount importance.

Key to insuring their viability is carefully planned capacity improvements and enhancements, based on very realistic forecasts and commitments from shippers and forwarders. Increasingly, air cargo carriers’ contracts with their financiers and leasing companies will need to mirror their contracts with their shipper/forwarder partners. The financial stability that such a model will create will allow the carriers to improve their offerings, provide newer aircraft, while controlling their costs.

Larger, global shippers will need to drive the “*long term contract approach*” and impress upon their forwarder partners to do the same. The current “status quo” is unacceptable. All partners need to share the risks and rewards of the **new supply chain**.