Logistics: Preparing for Showtime 2011

Charlotte, North Carolina (April, 21, 2011) - Logistics and broader supply chain issues increasingly drive business decisions in our evermore global and interconnected business environment. This interconnectivity and the challenges faced by global supply chains has never been more apparent than in the wake of the recent Japan Earthquake.

Manufacturers from automobiles to tablets have been forced to scale back production by as much as 50% due to supply shortages resulting from the lack of component part availability. Toyota has announced that 9 manufacturing facilities in the United States have ceased production on Mondays and Fridays and scaled back production through the rest of the week. There have been similar responses from General Motors and the European facilities of these manufacturers. It is important to note that these companies have some of the most robust supply chains in the world and yet have been crippled by this unexpected event.

Although devastating earthquakes of this magnitude are relatively rare events these types of disruptions to the supply chain are fairly common. Take for example last year's eruption of the volcano in Iceland, which prevented and delayed flights into Europe for weeks. A well known U.S. manufacturer of solar equipment had scheduled to attend a trade show in Stuttgart, Germany in April of last year. Production of the equipment for the exhibition was pushed for timing as is often the case. The two machines for the show were shipped one week prior to the exhibition. Shortly after leaving the US facility for the airport, the volcano began erupting and the airlines began grounding flights destined for Europe. Needless to say the equipment did not arrive in time for the show.

One response to this situation as in the case with the Japan earthquake is that it is simply an unfortunate and unforeseeable event.

Although this is certainly true, does it imply that there are no steps that we can take to mitigate the risk of these type of disruptions to the supply chain, which we know with certainty will continue to happen in the future?

Let’s first consider the cost of these types of disruptions. The solar equipment manufacturer mentioned above, incurred tens of thousands of dollars for the expense of the exhibition space, equally as much for the travel and accommodations of their international sales and marketing staff, and a tradeshow’s-worth of lost sales. In the case of Toyota, the earthquakes disruption of shipping nearly 500 different component parts to facilities around the world will cost an estimated 1.2 billion dollars.

The question then becomes, how do we protect ourselves from these inevitable supply chain disruptions. First we must acknowledge that they are in fact inevitable, and we must therefore plan accordingly. Planning for potential disruptions in the supply chain is perhaps the most important consideration. This should be done with the key participants in your supply chain including: Strategic suppliers, your logistics providers, and your own internal purchasing and logistics departments.

In the solar manufacturer’s example and as with many exhibitors the material and equipment for an exhibition if often left to the last possible minute. The problem with this is that there are an infinite number of possible disruptions and/or delays in the supply chain that can and do happen with regular frequency. This includes much more frequent and typical issues than earthquakes and volcanoes. There are transportation difficulties including flight and vessel delays, customs delays, documentation issues, exams, inspections, and damage/loss issues to name a few. Simply building in adequate time to account for potential unexpected delays dramatically increases a company’s ability to adjust to these types of disruptions. This could includes time to alter transportation arrangements, fixing documentation issues, resolving customs matters, replacing lost or damaged exhibition materials.

For international exhibitions, exhibitors using ocean freight service should anticipate shipping their material 7-weeks (depending on transit time) prior to the show, having it arrive three weeks prior to the move-in date. This allows for one missed vessel and the opportunity to resolve any customs issues upon arrival at destination. For exhibitors shipping via airfreight they should plan to ship their material three weeks prior to the show, arriving two weeks prior to the move-in date. Additionally, exhibitors should consider appropriate packaging considerations to ensure the integrity of the material during transit - avoiding damage. Further considerations would include direct routings as opposed to transshipment routings to prevent potential delays. Equally important is having a thorough understanding of Customs regulations and document requirements at destination as well as an onsite contact to assist with scheduling issues. These planning steps will drastically reduce the likelihood of missed shows and lost sales opportunities.

When considering daily supply chain issues, as in the case of Toyota there are different, but equally important considerations to make. One of the most important is a move from single-sourcing to dual or even multi-sourcing. Traditional thought has been to identify a single strategic supplier for the manufacturing of a component part. This allows the company to leverage their entire purchasing power with this one manufacturer, driving the benefits of economies of scale. However, when planning for supply chain disruptions similar to the Japan earthquake or volcanic eruptions or even more mundane matters such as a fire at a supplier's manufacturing facility or even a shortage of supply for raw materials, secondary and tertiary suppliers of those parts become increasingly important considerations. Having suppliers in different geographic locations including a domestic source is also an important consideration. Additionally, companies should have alternate logistics options identified to expedite the movement of material delayed from disruptions. These considerations in addition to those mentioned above are essential in mitigating the impact of unforeseeable supply chain disruptions.

In either example, it is important that companies begin having strategic discussions with their logistics providers on issues related to supply chain disruptions. Planning is essential to mitigating these risks and engaging with a strategic logistics provider is an important first step in that process.