

# The weakest link?

How supply chains can make or break businesses in the downturn

## Introduction

Nothing concentrates the business mind so much as a dramatic and rapid slide into recession. But the response from companies is often short-termist and one-dimensional, storing up even worse problems for the future, for themselves and for others.

That is the view of a new set of essays from some of the top experts on supply chain issues in the UK management consulting industry. This collection has been brought together by the Management Consultancies Association (MCA) and published as part of our Dealing with the Downturn series. It is supported by new findings about business in Britain from a survey of the MCA's member firms who, between them, work for more than 90 of the FTSE 100 companies and most government organisations in the UK.

At a time of extraordinary economic and financial events, it might be argued that short-termism is the only rational and available option for management. Planning becomes almost impossible. Survival is the top priority, crowding out almost everything else. Large and successful FTSE 100 companies are, in the words of one prominent chief executive, determined to "drive deflation into the supply chain".



These essays and our survey suggest a different, more complex, story.

Britain's businesses should stop behaving as if this recession will be short-lived. All of our current understanding argues that it will be longer and deeper than most have previously imagined.

And, therefore, businesses should look beyond those immediate actions that reduce their costs to what happens after these have been implemented, especially if the recession lasts well into 2010 or beyond. While cost-cutting is an obvious imperative for many business leaders, the long-term prospects of their organisations can be irretrievably damaged by short-term thinking.

It is, of course, now clear that the recession is having a serious impact on business in the UK. 90% of MCA members we surveyed reported this and almost 6 out of 10 said that it had already had a substantial impact and will continue to do substantial damage to their clients during 2009.

Much attention will now rightly be focussed on supply chains – how businesses source their materials and other supplies, and how they sell and distribute their products and services.

Supply chains have become considerably more complex in the last ten years as the economy has globalised, communication and transport have been easier and demand from customers for low prices as well as quality and value has intensified. Ethical and reputational issues often now also play a significant part, as consumer attitudes have developed and the reach of the global media has grown. Each of the organisations MCA members work with report this phenomenon, and half of them expect the level of complexity to rise yet further in years to come.

Against this backdrop, combined with the volatility and economic downturn of recent months, how have companies responded? Our survey suggests that at least 40% of companies have failed to adapt their supply chains in response to the changing economic conditions. They have not adequately accepted some key aspects of the current situation:

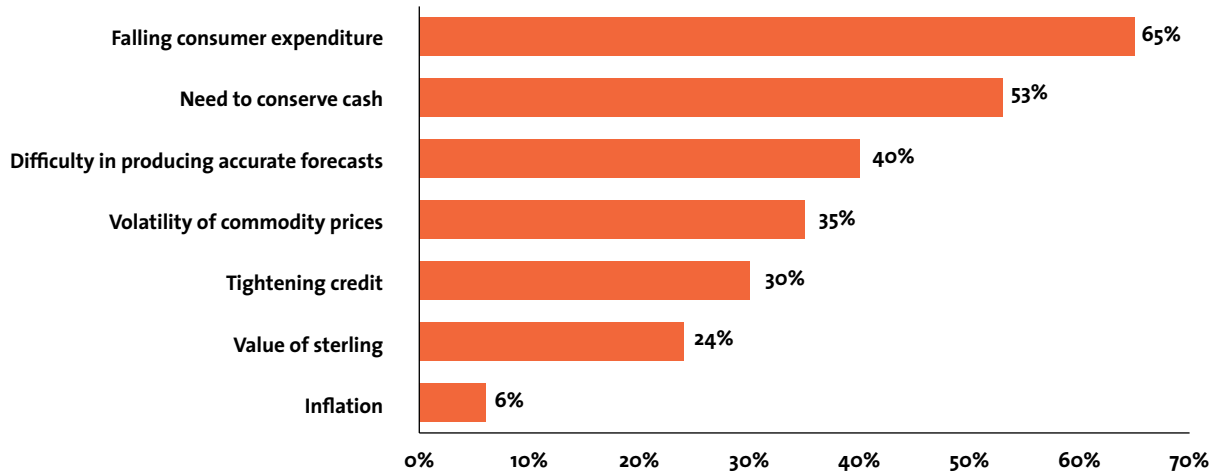
1. Global supply chains – with long lines of delivery – are fine in good times, but can leave companies exposed when economic fortunes turn, especially if exchange rate movements or inflation around the world erode price advantages.
2. Outsourcing can deliver respite from cost pressures, but isn't always as easy as it sounds, particularly if multiple suppliers don't naturally work well together.
3. Customer expectations are constantly rising, leading to demand for ever faster delivery in smaller slots, with lower prices and extended credit terms.
4. The greater complexity of supply chains means that companies are more vulnerable than ever to the risk that the failure of one organisation – any link in the chain, however small and relatively inconspicuous – could bring the whole supply chain to a halt.

Perhaps this is not surprising. The management agenda is currently dominated by more immediate and pressing concerns. After all, almost two thirds of MCA members say that falling consumer demand is having the most serious impact on their clients' supply chains (see figure 1). So it is natural that this should be top of the list for a response.

**“These essays and our survey suggest a different, more complex, story”**

Figure 1

To what extent have the following issues had an impact on your clients' supply chains?



Other pressing issues include the need to conserve cash and the widespread difficulty in producing accurate forecasts to guide the business.

These pressures are reflected in the priorities of management teams. Cutting supply chain costs, along with improving efficiency and productivity, is the top priority for 94% of organisations. Two thirds of organisations are expected to reduce the number of people they employ within their supply chain. And, while 58% of organisations plan to make better use of their existing assets, none of the other possible responses to this recession featured in our survey to any degree of significance:

- Less than a third have good relationships with their key suppliers, and only half have tried to involve their suppliers in order to reduce costs.
- Only a quarter of organisations thought it important to retain customers by improving product availability.
- Only one in eight plan to get through the recession by working more closely with their suppliers.

But good business should surely be putting extra effort into precisely these areas – managing relationships with their suppliers and customers to make them more productive, not just seeking cost reductions. Recent savings have already been substantial, but are likely to be one-off and difficult to repeat. Further action will be needed.

As these MCA essays demonstrate, much more can still be done to:

- Reduce the complexity of supply chains, to the advantage of many organisations.
- Reduce the number of unprofitable customers or products, enabling companies to concentrate on their profitable lines of business.
- Collaborate with key suppliers, to mutual benefit.
- Ensure that all processes are 'agile' and can be adapted to meet rapid changes in demand.

At the same time, companies should perhaps be more conscious of environmental and ethical issues than they are currently prepared to be. The recent sharp shift to short-termism is apparent here as well. According to the MCA survey, 40% of clients view reducing their carbon footprint as less important than they did a year ago; almost 30% have cut back on their investments in this area. Just under one in four organisations even view the broader Corporate Social Responsibility agenda as less important than previously.

This analysis raises questions for government, which may have been relatively neglected as attention has focused on policy towards the banks and specific industries such as motor manufacturing.

There is clearly a need to improve the supply of credit insurance or guarantees on payments to suppliers. Organisations who work together in a supply chain must be able to have confidence and trust in each other.

We welcome all efforts as well to encourage banks to lend; it will be a massive waste if good businesses are allowed to go to the wall simply because they do not have access to money to re-finance their debts or deal with temporary cash-flow difficulties. Partners in a supply chain should also be able and encouraged to help each other.

The Government needs to ensure that corporate Britain does not neglect its ethical and environmental obligations. The MCA is preparing policy proposals to develop this agenda.

And, as one of our experts suggests, there is a need for the competition authorities to ask themselves whether their rules are now a barrier to businesses working more closely together where this will be in the public, as well as their commercial, interest. Collaborative working could be one of the legacies of this downturn. Should competition law stop it happening?

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## A collection of essays on supply chain strategies

### 1. Supply chains hold the future for everyone

Alan Braithwaite and Martin Christopher, LCP Consulting

### 2. Customer-driven supply chains: a fresh perspective for tough times

Tim Lawrence and Kevin Clarke, PA Consulting Group

### 3. Is it time to look again at Lean?

Mark Walton and Simon Dawson,  
PricewaterhouseCoopers

### 4. Reducing inventory by optimising the design of your supply chain

Alan Walker, Hitachi Consulting

### 5. Tax-efficient supply chains

Gustav Mauer, Ernst & Young

### 6. Even supply chain “leaders” need to focus on risk

Mark Thompson, CSC

### 7. Sustainable sourcing and supply chains offer true competitive advantage

Jeremy Hammant and Alan Braithwaite, LCP Consulting

### 8. The new sourcing paradigm

Andy Gallagher, Compass Management Consulting

### 9. Avoid a chain reaction... get back to basics

John Sheridan, Alsbridge

### 10. Ten steps to reduce supply chain risk

Nigel Issa, Atos Consulting

### 11. Keeping ahead of supply chain risk and uncertainty

William F. Read, Accenture and Maha Muzumdar, Oracle



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