

# Brace yourselves

Beware the cautious forecasts of economic recovery – the upturn could be just as disruptive as the downturn for supply chain executives, says **Alan Braithwaite**



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An effect of the recession has been to tighten supply markets as companies take tough commercial and operational decisions about the terms on which they will sell and about retiring or mothballing productive capacity. Experience of previous recoveries tells us that there will be a further tranche of failures as companies run out of cash.

The scale and prevalence of such issues is new to procurement executives. The speed with which events can overtake a supplier and threaten its customers' supply chains has not been seen recently. Normal financial checks and references are no longer appropriate as a company in difficulty may take all sorts of angles to disguise the problems as it tries to fix them. This is new because purchasers have lived for the past 20 years in a world where supply was in over-capacity and vendors would jump through hoops on price and service to win new business.

Supply markets and prices remain depressed as vendors fight for volume. We predict the dynamics will change as capacity exits supply markets. This may be due to rationalisation or as companies simply run out of cash. We are in the eye of the storm, having been hit by the downside, and are about to experience the shock of the upside. When demand picks up it will be chasing reduced capacity and suppliers will be seeking to repair their balance sheets and gain some stability, rather than chasing growth.

The implications of these structural changes are increased risk for supply chain continuity.

As well as prices becoming more volatile, lead times will be erratic as suppliers are forced to prioritise certain customers. The normal systemic response to this situation is to order more, which simply reinforces price pressure, creates inventory risk for the buyer and accentuates supply chain unreliability. We can expect all of these things to occur in the coming months. Some commentators will point to "green shoots of recovery" but they would be wise to be cautious in their medium-term forecasts.

Procurement has not had the opportunity to hone the strategies and skills to deal with this situation. For the key strategic supply

relationships where dependency is high, the answer will lie in new ways of working with suppliers. The three Ts – time, transparency and trust – in supply relationships reflect the essence of this new style. Time is key because buyers will need to communicate faster with suppliers. All research in supply chains points to speed being a key competitive advantage. Transparency is vital as issues that are understood can often be mutually resolved. Buyers need to be able to see capacity and schedules but in return the vendors need to understand

forecasts and risks. Trust is the anchor. To achieve both speed and transparency requires trust in the relationship through clear definition of mutual expectations.

These maxims are not new but will be rediscovered by successful procurement departments. For those that do not follow this path, the future will contain more costly surprises and supply chain disruption, leading to profit warnings, cash issues and corporate vulnerability.

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## KEY POINTS

- Procurement has not experienced such economic turmoil in 20 years
- Supply capacity is likely to go down in the coming months
- The three Ts – time, transparency and trust – will be key to maintaining relationships