



# The good, the bad and the not so ugly

What we've learned from the recession

By PEDRO RODRIGUEZ

## Meet Pedro Rodríguez

Pedro Rodríguez is an educator, specializing in supply chain, at the University of Wisconsin. He has also held executive level positions in procurement, materials management, production and logistics. Rodríguez holds two degrees, one in industrial engineering and one in business. He also spent six years in the merchant marines.

## The Bad Consequences of Recession

In an interview with Logipi's Dustin Mattison, Pedro Rodríguez said he's seen both bad and good consequences of the recession. In the "bad" column, Rodríguez lists the loss of direct and indirect positions across the supply chain.

Also on the "bad" side of the list is the number of bankruptcies and consolidations in the supply chain, especially among smaller companies that were more than 40 or 50% reliant on a handful of customers. "Those businesses," said Rodríguez, "were really hurting and a lot of them went belly-up or were acquired by other companies."

And finally, Rodríguez points to something he says the media missed, or is choosing to ignore, and that is the amount of excess and obsolete inventory, and free manufacturing capacity, which causes additional problems. First, companies have a lot of money tied up in unusable inventory at a time when they could really use cash; and secondly, manufacturers, distributors, and even transportation firms are doing things with their unused capacity that they wouldn't normally do. "So you just kill margins to get utilization, and that's bringing profits down for a lot of companies," added Rodríguez.



*I think if anything has been learned from this period, is that companies need to invest more in talent in the supply chain. And as an educator myself, I cannot tell you how good it is to have good, educated people in supply chains. so my parting comment is, invest in people, in supply chain, of course, and then processes and tools, but first, people. Educated people are the key to success." --- Pedro Rodríguez on Logipi*

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## Recession Impacts the Chain

**The situation:** On the down side, the recession has brought lost jobs, bankruptcies, consolidations, excess inventory and obsolete inventory.

**The details:** On the upside, the recession has brought an increased focus on supply chain as a key strategic value for companies.

**What it means:** What doesn't kill us makes us stronger.

## The Good Consequences of Recession

In the "good" column, Pedro Rodríguez told Dustin Mattison that one of the positive things he's seen, both in working with companies, and teaching executives in the business pool, is the increased focus on supply chain as a key strategic value for companies. In the past, Rodríguez said, supply chain was viewed as nothing more than the cost of doing business - never as part of product development, marketing, finance, or other functions in the company. "Today," he says, "companies are realizing that by not having good supply chain processes, strategies, network designs, and also operations, they have not been able to follow the recession from a demand versus supply standpoint."

In the future, Rodríguez believes increased visibility of supply chain management will be a key strategic component of business models. "We know of two people that have been promoted to senior vice presidents from vice presidents where there was a job that didn't exist prior to the recession because the CEO wanted to have a senior vice president of supply chain in their teams, at the highest level. So, I guess that's the good news," added Rodríguez.

## Life Without Cheap Capital and Finding the Spend

When Dustin Mattison asked Pedro Rodríguez what we'll be missing and what we'll need to live without, Rodríguez said, "We're gonna have to learn how to live without cheap capital." Right now, he says, a lot of companies lack the financial power to provide the same level of service to their customers, and they're trying to provide service with a lot less inventory. What will be required in the future, he says, is more tactical planning.

In terms of investing, Rodríguez says he's seeing more companies focus on supply chain network design, which goes beyond deciding where to place a warehouse or manufacturing plant, but also involves deciding where to source raw materials, components and even finished goods. "That's something that is done on a five-year horizon, as opposed to a short-term tactical move," Rodríguez said.

According to Rodríguez, companies are also investing in things like ERP and warehouse management systems for the sole purpose of improving performance. "We've implemented many of these processes across many industries, and the key there is that the CEO, the president, or whoever has P&L responsibilities - somebody that can break the ties between supply and demand - needs to lead the process on an ongoing basis," said Rodríguez. "What you try to do there is put one single plan for demand, production, and inventory for the entire company across all functions. So, purchasing, logistics, sales and marketing, manufacturing, distribution, all the different functions in the greater operations umbrella of the company, they are well-aligned with the right metrics, with the right incentives, with the right processes, with the right tools to match supply and demand at minimum cost," he added.

## Learning to Act or React

Pedro Rodríguez offered two examples of how different companies react to different circumstances.

The first company, a manufacturer of end units and spare parts for heavy off-highway equipment, failed to react to a forecasts showing a marked decrease in demand. The reason, Rodríguez said, was a poor SMLP processes, sales and marketing units that were completely disjointed from operations, and a reluctance to pass the bad news along to the company's corporate headquarters in Europe. Failing to take appropriate steps all along the supply chain, coupled with a fear of sharing forecasts with superiors, left the company with a lot of excess inventory.

"The lesson learned from that company's experience," said Rodríguez, "is that you have to have all your company looking at the right signals on an ongoing basis, and make sure that the financial reporting does not stop you to do the right thing."

The second example offered by Rodríguez is a company that had processes in place to catch structural demand shifts and then to react appropriately. Instead of shutting off the spigot, and killing their business from a service perspective as some companies might have done, they stuck with their business model, which was based on providing fast, reliable service. By making a few adjustments in inventory levels according to target service level, time and location, they survived. And despite the lingering recession, this company actually gained market share by meeting and exceeding the demand of their customers, and the demand of their competitor's customers. Today, they're positioned to capture even more business because they kept a solid strategic and tactical planning process in place.

"I think if anything has been learned from this period," said Rodríguez, "is that companies need to invest more in talent in the supply chain. And as an educator myself, I cannot tell you how good it is to have good, educated people in supply chains. so my parting comment is, invest in people, in supply chain, of course, and then processes and tools, but first, people. Educated people are the key to success."

### **About Pedro Rodríguez**

*Pedro Rodríguez is an instructor at the University of Wisconsin-Madison Executive Education Fluno Center, Managing Director at Supply Chain Sciences, Inc. and [www.InvOpt.com](http://www.InvOpt.com), and a management consultant specializing in integrated supply chain planning and execution as well as inventory optimization.*

*Pedro has led teams in procurement, strategic sourcing, operations, materials planning, logistics, and supply chain lean six sigma in the automotive, aerospace, industrial equipment and automation industries. Pedro has worked as consultant or held executive and managerial roles at Rockwell Automation, Eaton Aerospace and Automotive, W.W. Grainger, Schreiber Foods, Tornier, Libman, PJPS, UPS, Ryerson Tull and others. He also served as an engineering officer for the Spanish Merchant Marine.*

*Pedro holds a BS in Marine Engineering from the Polytechnic University of Catalonia in Barcelona, Spain, and MS in Industrial Engineering and MS in Business from the University of Wisconsin at Madison.*

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