

DEVELOPMENTS

- Dell Computer is reorganising its global supply chain based on a customer segmentation model. Annette Clayton, Vice President, Global Supply Chain, said the company is using data from two billion interactions with customers per year to determine dominant buying behaviours of customers and design multiple supply chains to meet those behaviours.
- Arrow Electronics said it was buying Converge, a supply chain management company focused on the technology sector. Arrow recently completed the acquisition of Vertical, an e-commerce marketplace that deals in parts, the *Wall Street Journal* reported. "These acquisitions complement Arrow's global strategy by providing comprehensive services across the entire product lifecycle for suppliers and customers," said Michael Long, Chairman and Chief Executive of Arrow.
- Chemical companies deserve more credit for their supply chain operations, according to AMR Research. Companies like BASF and DuPont manage very high-risk supply chains, said AMR Director Paul Lord: "Their reliable supply of high-quality products and efficient use of energy is misunderstood or taken for granted, particularly when you consider the financial and operational risks involved in their large-scale capital investments."

UNITED STATES

UK

A Carbon Reduction Commitment Energy Efficiency Scheme (CRC), a mandatory energy saving scheme aimed at large firms and organisations, came into force on April 1. The Department of Energy and Climate Change said the scheme operates as a 'cap and trade' mechanism, whereby organisations are required to purchase allowances equal to their annual emissions, thus "providing a financial incentive to reduce energy by putting a price on carbon emissions from energy use".

EUROPEAN UNION

European airspace was paralysed by an ash cloud that grounded aircraft from the North Sea to the Mediterranean for six days. Supply chains with low volume/high value products reliant on airfreight were particularly affected. Some airlines were able to re-route flights to and from southern Europe while intra-EU freight was moved by truck and short sea services. A rail strike in France added to the debacle.

GLOBAL

- Cell phone shipments for the top ten ODM and EMS providers will rise by 3.4 percent to 204.2m units in 2010, up from 197.5m in 2009, according to iSuppli. The increase will do little to comfort manufacturers used to double-digit growth, the industry research company said. Shipments of cell phones plunged by 30 percent last year compared with 2008.
- The worldwide PC market grew 24.2 percent in the first quarter of 2010, according to the IDC Worldwide Quarterly PC Tracker. Sustained consumer demand and renewed commercial buying helped both desktop and portable PC shipments exceed growth expectations, IDC said.

SOUTH AFRICA

Research from Frost & Sullivan pointed to a number of tactics on the part of South African CEOs to improve supply chains, but noted that improvements are somewhat undermined by poor infrastructure. CEOs are better aligning supply chain and business models, using more localised supply to cut lead times and applying new supply chain technologies, but transport lead times are only average compared with strategic competitors such as Brazil and India, the research found.

DHL launched a direct less-than-containerload (LCL) service between Shanghai and Buenos Aires, Argentina and Valparaiso, Chile, the two major ports in South America. Shipments between the two continents will take 28 to 30 days, which DHL says represents a saving of 15 days transit time over routing through Hong Kong.

SOUTH AMERICA

Business executives and officials in Kazakhstan and Belarus said a customs union with Russia was causing them to lose business. The agreement requires a raising of tariff levels to match Russia's and restricts shipments of certain categories of goods. The union, which aims to create a trade bloc with annual turnover in excess of \$600bn, was implemented on January 1, but a range of groups in both Belarus and Kazakhstan are voicing opposition.

China gained a foothold in the Sea of Japan as North Korea agreed to lease its Rajin Port to the country for the next ten years. Located on North Korea's east coast, the port gives China easier access to South Korean and Japanese markets, and opens up landlocked Jilin Province to easier northeast Asian exports.

KAZAKHSTAN

CHINA

TAIWAN

Developing Asia can look forward to a robust recovery over the coming two years, with growth forecast to rise to 7.5 percent in 2010 and 7.3 percent in 2011, the Asian Development Bank (ADB) said in its *Asian Development Outlook 2010* report. The Manila-based bank said shifting the drivers of growth from the support of monetary and fiscal expansion to robust private sources is now the key challenge for sustaining recovery in the region.

ASIA PACIFIC

PC accessory maker KYE Systems, an OEM manufacturer for Microsoft, refuted a report by the US National Labor Committee (NLC) that it has been mistreating employees and hiring workers below the age of 16. KYE said it has a strict policy to check each employee's identification and verify their eligibility for work and that it has never hired underage workers.

Lloyd's Register Asia formed a joint venture with the China Classification Society (CCS) focused on providing assurance services for the booming rail industry. CCS-LR Technical Services Ltd is a 50-50 JV between the two companies. "It brings together two organisations with established reputations for integrity and quality to support the development of safe and efficient rail networks, a relationship that will ultimately enhance the reputations of Chinese suppliers in the international marketplace," said Richard Sadler, CEO of Lloyd's Register.

HONG KONG

INDIA

- Bharti Walmart India, a joint venture between Walmart stores and Bharti group, launched a direct farm produce sourcing system aimed at flattening supply chains between farmers and consumers. Under the programme, fruits and vegetables are picked up directly from the fields of nearly 110 farmers and offered for sale at a premium of between seven and ten percent.
- Ford India is strengthening its India domestic supplier base as it launches new products in the market. The Ford Figo, introduced to the market in early March, is believed to have up to 85 percent of components procured locally. Ford is using India as a hub for export of fully built Figo cars and diesel and petrol engines to South Africa and ASEAN countries.

THAILAND

Thailand's Ministry of Agriculture and Co-operatives (MOAC) and the Communications Authority of Thailand entered a strategic co-operation with IBM and FXA Group. The initiative will see the use of sensor technology and traceability software to enable farmers, distributors and retailers track and access critical information on produce in the food supply chain.

AUSTRALIA

Facing increasing competition from overseas, Australia's livestock industry is looking to supply chain innovation to retain its leading position in global beef exports, according to one of the industry's leading researchers. "We don't think we can compete on cost alone... We believe that innovation in business models such as value chain integration is really going to be one of our primary differentiators," said Dr. Christine Pitt, General Manager of Client Innovation Services at Meat & Livestock Australia. Poor information-sharing, lack of trust and transparency and ineffective relationships are the main inhibitors to a more effective integrated livestock value chain, said Pitt.

EU ash cloud chokes supply chains

By Catherine Truel

The eruption of Icelandic volcano Eyjafjallajökull created an ash cloud posing a risk to aircraft safety. Pushed by winds, the cloud reached the UK on April 14 resulting in the closure of part of the national airspace. Over the next six days, the cloud travelled south. EU countries, one after another, closed their airspace until all western Europe from the North Sea to the Mediterranean was under a flight ban.

Airspace sometimes opened for just a couple of hours before closing again depending on the movements of the cloud. The ban was gradually lifted from April 20, first in southern Europe then across all Europe. The lack of harmonisation across EU airspace created uncertainties and is now the subject of heavy criticism from the industry asking the EU to move quickly toward a Single European Sky.

Supply chain impact

At the height of the crisis, the number of flights decreased by 80 percent from the previous week. For the whole week, Europe had around 100,000 flights less than the week before. According to IATA estimations, these six days resulted in a cost for the industry of \$1.7bn and a saving of \$110m a day in fuel. The impact is considered far worse than 9/11 during which the airspace was closed for three days.

Low volume/high value products such as perishables, components and pharmaceuticals relying on airfreight for fast replenishment were particularly affected. A Nissan factory in Japan had to temporarily stop production while waiting for components from Ireland.

At Lufthansa, the crisis management team worked round the clock, initially to alert shippers to stop sending freight. Their Frankfurt hub had a backlog of 6000 tons while in Asia they had 2000 tons waiting to fly. KLM and Lufthansa won praise from customers for using Facebook and Twitter to provide live updates.

Some airlines were able to re-route flights to southern Europe. Madrid and Rome became European points of entry for a couple of days. Cargolux built alternative


hubs in Spain and Baku (Azerbaijan). Some smaller airports such as Nice Côte d'Azur in France were used for connections with Asia. This airport traditionally serves regional destinations so authorities had to increase customs officers and inspection equipment to deal with the new demand. For some international shipments, re-routing was not possible, for instance under the rules of a trade agreement or conditions of a letter of credit where direct shipment was mandatory.

Shipments within the EU

For intra-EU connections, Lufthansa transferred its freight to truck. The EU has a grid of transport corridors crossing the territory from north to south and west to east. Furthermore, being a customs union,

goods can travel freely across borders. Generally, it was a good week for road carriers, warehouse operators, even taxis used to deliver urgent parts. Short sea shipping and the 'motorways of the sea' also absorbed some of the traffic. Rail showed its weaknesses with lack of cross-border compatibility and poor responsiveness. France's rail network, which is at the centre of one of the most important north-south corridors, was disrupted by a strike.

Besides freight, airlines carry airmail, especially intra-EU. International trade being a paper-intensive activity, delays in the delivery of documents for letters of credit or import have stopped goods at the ports or at customs. UK customs reacted by exceptionally accepting a faxed or scanned copy of the original preference certificates.

With all focus on watching inventory levels, switching modes of transport and re-directing shipments, there was little attention on green logistics and carbon footprint, which have dropped out of fashion, at least for the moment. 

Insuring growth

By Turloch Mooney

The market for transport and logistics insurance in China is maturing with increasing awareness of the nature of risk among domestic cargo transport companies, according to the TT Club, one of the world's foremost providers of insurance and risk management services to the international transport and logistics sector.

The London-based mutual insurance club is seeing its business on the mainland expand by 10-15 percent annually.

"We work with companies that have a mature attitude to risk," said Andrew Kemp, the TT Club's Hong Kong-based Regional Director Asia Pacific. "That means companies that make the proper investments in security; who fully understand the contracts they're signing; who take steps to limit liability, and who have the mentality to learn from mistakes."

In China, larger state-owned transport enterprises tend to lead when it comes to modern attitudes to risk, said Kemp. Private domestic transport and logistics

enterprises, many still accumulating assets and experience, lag somewhat behind.

"SOEs with international operations that deal in foreign exchange are more mature and have a better understanding of risk. There are some [private enterprises] coming through with individuals experienced in understanding risk that are also capable of becoming industry leaders in the area."

Thinking about risk

New regulations for liability insurance are driving change and maturity in the market, said Edgar Wong, the TT Club's Shanghai-based mainland China representative. A good example is the law requiring all NVOCCs to deposit an 800,000 yuan (\$118,000) 'liability fund' for head office and 200,000 yuan for branch office, he noted. "It got companies thinking more about risk and realising they need to protect themselves. But there is still a long way to go."

The TT Club is increasingly servicing

members outside of China with claims in the country. According to Kemp, it expects higher growth in China and Asia relative to other regions due to organic growth in the volume of cargo moving through facilities in the region.

But despite opportunity coming in different forms, the TT Club would remain cautious in taking on new business in emerging markets, he said.

"We want people to have claims - that is our business. But we also need to work with

people who understand their duties and responsibilities to their companies and their [supply chain] partners," said Kemp.

On a global level, the TT Club grew its business significantly last year, including new full memberships from Toll Logistics and Agility. With more than 75 percent of the world's container fleet already on its books, logistics continues to be a key focus for new business going forward and an area where further strong growth is expected. 

Recession teaches harsh lesson in human behaviour

By Turloch Mooney

The need for more flexible and agile supply chains grounded in a better understanding of customer/human behaviour is a core takeaway lesson from the global recession, according to Simon Ratcliffe, Operations Director with the Just Group, a fashion retail business with 1,000 stores across Australia, New Zealand and South Africa.

"The recession showed consumer behaviour in terms of what consumers were prepared to pay and when and where they were prepared to spend. We need to ask to what extent do our supply chains understand that behaviour," said Ratcliffe, speaking at an invitation-only gathering of global supply chain leaders at Macquarie Graduate School of Management (MGSM) in Sydney.

"We also need to ask whether our supply chains are flexible enough to deal with what I call '20/20 Vision': a sudden 20 percent drop in volumes and margins. You need the dynamic in fulfillment machinery to cope with those losses."

According to Ratcliffe - a former Supply Chain and Logistics Director for Marks and Spencer PLC in the UK - new rules are emerging that require the supply chain to talk more to the consumer and deal with the dynamic of what the consumer wants in a more sophisticated manner.

"Consumer behaviour is changing. The fulfillment process of delivering retail excellence is also increasingly about how to talk to consumers and about the experience of buying rather than just the brand. Companies such as Apple demonstrate this

very well, and what they are doing has big implications for supply chains."

"It is a sad fact that there is still very little evidence of sustained alignment to customers," said Dr. John Gattorna, Adjunct Professor of Supply Chain Management at MGSM. "Most companies start out by interpreting the market in the wrong way. They need to understand the buying values of their customers."

The shortcomings of IT

While information technology has been widely championed as the key to better customer understanding and supply chain performance, panelists and delegates at the summit were slow to agree.

"How much of the investment in IT is made to understand human behaviour and share that information across the value chain?" asked Roddy Martin, Senior Vice President with Boston-based AMR Research. "Our research shows most companies still only see demand change three to five weeks after it happens."

In the apparel retail business, investment in IT is often in the wrong place, said Ratcliffe. "It should be in rate-of-sale; markdowns, and linked to sourcing."

Avoiding knee-jerk actions and sticking with your core values are important responses for organisations when faced with recession, said Michael Byrne, CEO of Linfox Logistics, who also attended the summit.

"[During the recession] we saw a lot

FDI to disappoint through 2011: AT Kearney

Global foreign investment flows will be sluggish over the coming two years, as executives remain wary of making investments in the current economic climate, AT Kearney's 2010 Foreign Direct Investment Confidence Index said.

Half the companies surveyed said they were postponing investments as a result of market uncertainty and difficulty obtaining credit.

With the exception of Britain, which suffered badly during the crisis due to its reliance on financial services, developed economies rose in the index of preferred investment destinations as companies looked for safety. The placement of China, India and Brazil in the top five is a strong vote of confidence in the strength of the three BRIC economies, according to AT Kearney.

China remains the top-ranked destination by foreign investors. China has held the top position since 2002. The United States and India came in second and third place.

The ten most attractive FDI destinations

(The figure in brackets is the country's rank in 2007)

1. China (1)
2. United States (3)
3. India (2)
4. Brazil (6)
5. Germany (10)
6. Poland (22)
7. Australia (11)
8. Mexico (19)
9. Canada (14)
10. United Kingdom (4)

Source: AT Kearney

of reactionary behaviour from customers. Some asked us to triple our payment terms; others asked us to cut back on education and training. Some even asked for cut backs on safety. We spent time reinforcing safety and other values that are core to the success of our business," said Byrne.

"You don't dump years of strategy just because you have one bad quarter." 