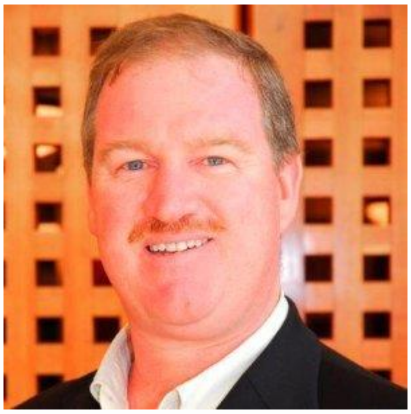
Risks facing Australia's supply chains and how to prevent them

Risk management has fast become a key definer in the effectiveness and sustainability of major supply chains, especially in light of changing economic and policy-related circumstances. From reducing costs associated with production to meeting customer demands, there are many requirements of the supply chain that companies cannot afford to compromise – strategically and operationally.

Ahead of Supply Chain Risk Management 2016, we caught up with Mark Skipper, Chairman - Supply Chain & Logistics Association of Australia, to find out some of the latest trends and challenges facing Australian organisations, and how they can ensure supply chain quality and reliability are maintained over the longer term.

Trends



The perishable products sector has taken centre-stage based on what's happening in the US, with the US Food Modernisation Act (passed in 2011), and the Food Safety Modernisation Transportation Act, which came into law last year.

The Act mandates that shipments of perishable products to and from the US need to be kept within the right temperature range. If there's one degree of tolerance either side, low or high, it's automatically rejected.

As a result, a lot of onus has been placed on shippers to get their perishable product transportation right, because there are some pretty poor examples of handling out there in Australia, especially with the hot climates.

There are quite a few major chains breaking the rules now with shipping perishable products that the consumers don't know about. All we need is one scare and it's going to be a complete upheaval in that industry.

And with the increase in fresh produce shipments to Asia, in particular, as Chinese consumers shy away from locally produced products, Australia has opportunities to ship a lot of fresh produce. We need to ensure brand reputation quality remain intact, let alone the perishability of the product.

The Australian Food & Grocery Council has actually put out a policy statement on this a couple of years ago – a code of practice that's not mandatory but should be.

Another trend emerging related to perishable products is the impact on brand reputation. If a brand has a major scandal, its reputation could be virtually trashed overnight; not to mention sales and profitability.

All it takes is one bad example; we've seen them with different products over the years, such as salamis and blueberries out of Asia a couple years' back. One bad example and it sets a brand back a good 10 years or more.

Additionally, there have been some high-profile persecutions recently around trucking, mass transportation and driver safety, which echo the time when the National Heavy Vehicle Regulator set legislation around these variables several years ago.

While the regulator fines many trucking companies for breaching different areas, there are now jail-time penalties for company directors. Not just for the trucking companies, but senders and receivers too.

Alternative supply chain management methods

3PL considerations

Many companies have the opportunity to work backwards from what the consumers' expectations are. Sometimes it's not as expensive as you might expect. If you can work out a way of planning your shipments to suit your customers, you're going a long way towards doing that.

So, companies looking at full container loads versus less than the container loads, looking at different carriers, challenge the notion that big operators offer the most efficiency. There's an important need to challenge third party logistics operators (3PLs).

Let's take an example. If you're selling widgets, you go to a third-party operator. You take five bays in their warehouse and they do all the shipments for you, inbound and outbound, and they charge you each time they've touched the product and wrapped it and so on.

Sure, it might be more expensive in one way to move away from that, but it's also cheaper than setting up your own operation. Many businesses are now actually driving costs out of their business as well by swapping 3PL operators.

Least-cost carrier considerations

Another alternative consideration is least-cost carrier. If you've got a list of two or three different carriers you use, their rates differ based on the cubic of the shipment or the weight or number of boxes and so on. They've all got different pricing formulas.

Well, the smartest systems, now in the back of the warehouse, would actually look at a load and identify that Product A is going from postcode 3100 to 3200 in Victoria. We'll know which carriers take that route and which is the cheapest carrier to use, based on the physical dimensions of what they're sending as well as the weight. Rather than using the same carrier all the time, a smorgasbord of different carriers by choosing the cheapest for the route.

In today's environment, it's important that the business be agile as well as efficient. Supply chains can help achieve this through an ability to respond quickly to customer demand. Heightened customer expectations and shorter channel response times will be difficult to achieve for some companies, but for those that can deliver the right products in a timely fashion, increased market share will be the reward.

Online shopping considerations

Online shopping has thrown a spanner in the works, because companies need to have different segmentations for their online goods and bulk goods. It's very difficult to mix the two in a warehouse; you've almost got to have dedicated warehouses.

Woolworths and Coles have moved away from picking their online orders in the warehouse, for example. They used to have a specialised warehouse to pick orders. Now they're picking them in the store and you see people walking around with trolleys picking multiple customer orders at once.

Capacity, costs and revenue impacts

Supply chain disruptions can be costly; they can cut the share price of products in the supply chain by seven to ten – or even 20 – per cent. Companies need to build resilience in their supply chains.

The recent port strikes at Long Beach in California, for example, rolled out across four months and caused significant shipment delays – a three-week delay on the port, let alone the shipping time. That event threw supply chains into complete disarray, so people were forced to airfreight stock in at high expense.

This is where contingency plans for capacity and revenue impacts have a vital role. If we refer back to the perishable products example earlier, say a company knows that its goods have been destroyed on the way to Korea because the temperature's been abused. Because that company had knowledge of this event, it could actually organise a re-shipment before the customer on the other end even knows.

Contingency plans can be developed in line with online, real-time monitoring systems for perishable products. These systems work with satellite phone or mobile phone networks. Resilience is vital in supply chain risk management – I can't stress that enough.

Ultimately, risk management frameworks need to build agility within the supply chain. And there is a lot of opportunity to risk management with strategic and operational outcomes – not only to reduce costs, but meet customer expectations at the same time.

Be sure to join Mark Skipper at the inaugural Supply Chain Risk Management Summit in February. You can download the brochure to see the full program or visit www.supplychain-riskmanagement.com.au to know more.