

Time to Rethink Supply Chain Strategy

With fuel prices falling back over the last few weeks, industry experts are warning that now is not the time for complacency. According to Simon Tomlinson co-founder of THE LOGISTICS BUSINESS, fuel prices and transport costs will remain at historically high levels meaning that businesses need to rethink their supply chain strategy and return to more decentralised models.

Simon explains: "We've been predicting for some time that the move to increasing centralisation will have to reverse as transport costs rise.

"Historically transport costs for most businesses, have been relatively low compared to other operating costs and supply chains have tended to be influenced more by other factors such as reduced stock costs, economies of scale and business simplification.

"Over recent decades, for example, we have seen manufacturers centralising production of different products in different countries for trans national distribution.

"Although its cheaper to transport raw materials than the final product the higher cost of distributing the manufactured product has been outweighed by increased manufacturing efficiency, ease of planning and in some cases reduced safety stock.

"A similar move has been taking place in retail distribution. Although often more sensitive to transport costs, it has still been cost effective for retailers to centralise some or all of their distribution thanks to the economies of scale and stock savings that result.

"As transport costs rise the balance will shift and manufacturers and retailers will be forced back to more localised supply chain models. This is particularly true of many types of food where sources and demand and supply can often be co-located.

"And rise they will. The current falls in fuel costs will not continue and high prices are here to stay. Governments have been trying for years to price transport off the road to avoid the need to build more roads and now have obligations under climate change agreements to halt the rise in CO2 emissions. Although they keep being fought back by fuel protests and the like, eventually they will succeed and companies will have to find ways of locating sources of supply closer to demand.

“Manufacturers and retailers alike will have to develop supply chain strategies to redress the balance. THE LOGISTICS BUSINESS are now increasingly being approached by companies asking for help with modelling these effects. Armed with these, companies can start to plan for transition and in so doing increase a greener business model.”