Shipper strategies for the "reset economy"

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Jeff Immelt, CEO of General Electric, has coined a term: "the reset economy." The term is meant to imply that "this economic recession is more than a simple business cycle correction, but is a permanent, fundamental change to how markets will operate and be influenced moving forward...It's an emotional, social, economic reset," which will lead to greater government involvement in the economy and business affairs.

"In a reset economy, the government will be a regulator; and also an industry policy champion, a financier, and a key partner [...] I think this environment presents an opportunity of a lifetime."

In essence, the term suggests that companies should be using the recession to reposition their businesses for recovery. Business leaders are starting to use this term to describe the current environment and the road ahead. The core idea is that once we rebound from this economic downturn, the worst in 70 years, it will not be business as usual. We could emerge into a world where:

- The core growth rate is lower, as cheap credit disappears and consumer spending does not fully rebound to pre-recession rates;
- The costs of regulation are significantly higher;
- The cost of capital is higher and the ability to apply financial leverage is greatly reduced; and
- Global trade and offshore manufacturing shrinks, as attitudes become more nationalistic and defensive.

Many companies project long-term demand using a historical growth line. When a recession occurs, they reduce growth rates, project how long they think the recession will last, and then reapply the historical growth curve on the other side of the recession. However, the business environment might be far different moving forward than it has been historically, not just during the recession, but potentially for a decade or more following it. What does the reset economy mean for shippers and carriers?

Shipper Strategies for a Reset Economy

- The starting point is to determine what to produce and at what price point. This demands a fundamental reassessment of a company's customer requirements, core competencies, cost structures and its source of competitive differentiation.
- Each company must make a careful determination of which business segments or customers have been lost permanently, which ones have been lost temporarily, which ones will remain at post-recession levels and grow at a slower rate than the past and which new business segments will emerge.

In the Aug. 19 issue of the *Globe & Mail*, there is an article about a four-star luxury hotel that now offers a US$19 hotel room that comes with no bed, toilet paper, towels, air conditioning or "honour bar" and a single light in the bathroom for safety. The next level up adds in a bed (without sheets), for $39 a night. For a bed plus toiletries and toilet paper, the rate is $59 a night. The point is that many companies will have to change their paradigms to bring their business model in line with the realities of 2009 and beyond.

- Closely aligned with this is a careful assessment of where the demand will come from and where the sources of supply can come from. Demand may not bounce all the way back after the recession ends. While economic forecasts have not always been that accurate, it may be valuable for companies to conduct some market research or secure economic forecasting data about future demand levels.
- Demographic and category market share data may also be useful, not just whether the whole category or market will shrink or grow, but whether that specific shipper is gaining or losing market share and, in particular, market segments. If demand bounces back while that shipper's market share is down, the company might not realize it. A company can potentially recover lost market share with the right pricing and marketing strategies.
- Supply chain strategic planning and risk management will become more important than ever as companies seek to adopt "lean" approaches. Network optimization and inventory analysis tools will play a strong role in helping the supply chain organization perform the necessary analysis and drive out excess costs and inefficiencies. Many companies will need to work with consulting organizations to do this type of analysis.
- Organizations with integrated business planning processes – i.e., rolling quarterly budgets that are connected to monthly sales and operations planning processes – will be better equipped to accommodate a changing macro environment.
- The focus on cost savings and value should be a boon for shippers that invest in best-in-class RFP, E-sourcing and spend analysis tools to drive all excess costs out of their supply chains.
- As demand increases, the tight capacity will place upward pressure on freight rates. This will make the task of optimizing the value of each company's freight expenditures that much more important.

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