

Getting the best out of international supply chains



BY TIM MCLEAN

If you are an Australian manufacturer, it is likely you will be involved in the challenges of international trade. Hopefully this article will provide some pointers to make the experience a little less painful – at least as far as the supply chain is concerned.

As an Australian manufacturer, you will probably be very familiar with the “tyranny of distance” – the challenge of servicing customers or dealing with suppliers on the other side of the world.

Understand the lead time.

How long does it really take to ship goods around the world? A quick review of shipping schedules shows that, allowing for customs clearance, the actual travel time from Asia is less than three weeks and from Europe or North America less than four weeks. So why do so many things take 90 days or more from order? A way to get an understanding of your lead time is to access some historical purchase orders and shipping documents. Note down the times when the stock levels triggered an order, when order was placed, when the goods were shipped from the factory, when they arrived at port, when the ship left the port, when it arrived in its destination, and when the goods were received into inventory. The results will be surprising. Delays occur at every step of the process. For example lead times to pick and pack goods may be extended by “missing the weekly truck to the port” or goods may sit at the port waiting to be consolidated with other loads or for the freight forwarder’s preferred ship to arrive. All these delays are waste and most can be avoided or minimised.

Understand your supply chain.

Get an understanding of how your international supply chain works. For example are the goods going to be shipped ex-works or ex-stock? Which is the preferred outbound port (this can be a big issue when shipping out of Europe or the US)? What are the regular ships that travel too or from Australia from those ports? It makes sense to select a regular shipment, a preferred port and a preferred shipper that works well for you, your overseas supplier (or customer) and your freight forwarder. If your volumes are regular and significant then you may find there are cost advantages in being able to build a relationship with a single shipping line rather than your forwarder buying space for each shipment on a “spot” basis.

For example one of our clients ships goods to Australia weekly out of Shanghai on a Monday. The supplier needs to ship the product on the preceding Thursday to meet this shipment. To provide the supplier time to make the goods and meet this deadline, our customer orders every Monday. At TXM we use a lean Value Stream Map to understand the supply chain. This ideally will include the complete international flow




of materials and information from when the order is placed until when the goods are received.

Consider working capital costs

In designing an international supply chain the over-riding consideration is often unit cost. However in international supply chains the costs of inventory can be considerable. These don’t just include the cost of the bank interest on working capital, but also include the cost of potential obsolescence, damage, out of date stock, currency risk, storage costs and handling. Purchasing smaller quantities more frequently can make sense, even if it increases unit cost. We have assisted several clients to move from monthly to weekly shipping using the approach outlined above and the reductions in lead time and inventory have exceeded 50%.

If you don’t ask you don’t get!

Australian manufacturers frequently don’t believe they can negotiate with an overseas supplier or customer over the operation of the supply chain, because we are “little fish”. As a result they often don’t ask whether things can be done differently. We find that overseas companies are usually more than happy to agree to simple supply arrangements which provide clear accountabilities and regular predictable routines to follow.

To summarise, by doing a bit of analysis and planning and talking to your freight forwarder and overseas partner, international supply chains can be made significantly more flexible, reliable and much less stressful. 

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