Every company experiences some aspect of it. But how quickly and effectively you react will determine how — and if — you get out of it.

HOW TO RECOVER FROM THE *DISTRIBUTION DEATH SPIRAL*™

Effective supply chain management has significantly increased productivity and reduced costs in recent years. However, managing complex distribution initiatives that support SCM strategies in Corporate America continue to be a significant challenge. In response to this challenge, Solertis Logistics Solutions has developed a comprehensive model to help companies quickly and accurately identify potentially disastrous distribution conditions. Solertis, a project management and consulting firm offering strategic and tactical process design and operational implementation of material/product flow initiatives, has also developed this tool to help identify indicators of how far the organization's distribution channels have deteriorated, and the cataclysmic aftermath that can occur if they don't take steps to correct the situation.

TRIGGERS THAT CAUSE A *DISTRIBUTION DEATH SPIRAL*™

Significant events that are major catalysts of a *Distribution Death Spiral*™ include:

Changes in Business Requirements, which can be caused by any number of factors, including changes in an organization's existing supply chain infrastructure, shifting demand in the marketplace, and a change in economic conditions;

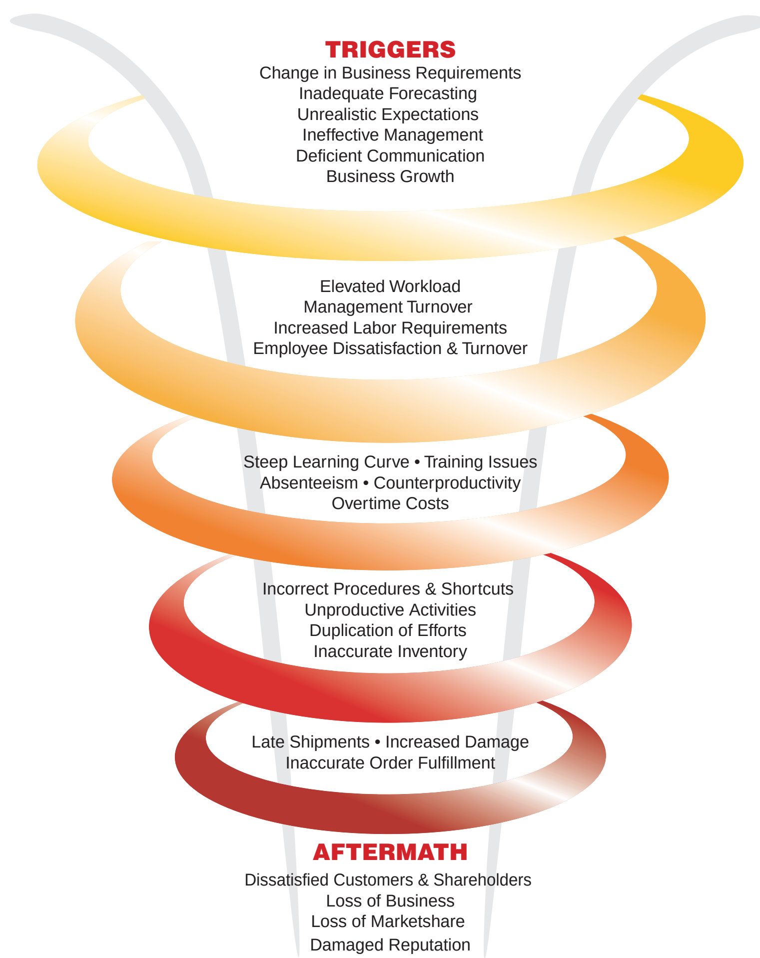
Inadequate Forecasting, which can result in a extreme surplus or shortage of inventory;

Unrealistic Expectations at any point in the supply chain, from preliminary forecasting, initial production or manufacturing, and product ordering all the way through material handling, warehousing, transportation and final delivery to the customer;

Ineffective Management, with the most dramatic impact at middle to senior levels;

Deficient Communication, whether it's a situation within the enterprise among employees and management, or between the company and its key stakeholders (i.e., customers, vendors, and stockholders)

Business Growth, which can result in an unanticipated increase or reduction in demand, inventories, and operating costs, and ultimately, an inability to adjust accordingly to that business growth.



These triggers can be either independent events or inter-related, and often can occur simultaneously. They can occur in a short period of time, often in a matter of weeks, or more gradually throughout a period of several months. Oftentimes, these triggers are unavoidable. They simply are a fact of life that every business must overcome. However, how quickly you identify that one or several of these triggers have put your organization into the distribution death spiral will have a significant impact on how quickly and effectively you can recover.

The deeper your company goes into the death spiral, the higher the direct and indirect costs to recover from it. If your company progresses completely through the distribution death spiral to the aftermath phase, you may never gain back the markets you've lost (or at a minimum, it will be very costly to gain back lost market share). In fact, from a shareholder standpoint alone, supply chain glitches can be disastrous for a company. According to a recent study of 861 publicly announced supply chain glitches during 1989-1998, companies suffered an average decrease of nearly nine percent in stock price at the time of the announcement, which by any yardstick is an economically and statistically significant loss.*

"High employee turnover is a leading indicator that a company is going into the *Distribution Death Spiral™*."

— Ann Elliott, President of Solertis

HOW TO REACT WHEN YOU'RE IN THE *DISTRIBUTION DEATH SPIRAL™*

The first critical step is to recognize that you are in trouble. How quickly you recognize and react to the situation will determine how successfully and how cost-effectively you recover from it. Ann Elliott, President of Solertis, says that companies can make it easier to identify their entrance into the *Distribution Death Spiral™* if they continually measure key activities, including employee turnover, labor hours, productivity, cost per unit, inventory accuracy and orderfill, and damage percentage of volume, to name a few.

"High employee turnover is a leading indicator that a company is going into the *Distribution Death Spiral™*," says Elliott. "If a company identifies an unusually high employee turnover rate in its initial stages, management can quickly recognize problems, make adjustments to correct them, and recover fairly quickly and painlessly. But the deeper into the spiral you go, the more costly and difficult it is to make that recovery."

Once you've recognized you're in a *Distribution Death Spiral™*, the next step is to evaluate the problem and determine what needs to be corrected. After this has been done, you can determine and select the internal and/or external resources needed to correct the situation.

Although every company experiences some aspect of the *Distribution Death Spiral™* at some point or another, Elliott says that few react quickly and effectively to the situation. In fact, the deeper a company goes into the distribution death spiral, the more extensive the financial and human resource needed to recover. Elliott estimates that a company could reduce its recovery costs as much as 75% if it reacted effectively in the initial phases rather than the final phases.

"As important as identifying that you are in the *Distribution Death Spiral™* is identifying the resources you need to get you out of the path of destruction," says Elliot. "We have pulled many companies from the powerful vortex inside the *Distribution Death Spiral™*. It takes a lot of focus, discipline and perserverance but it can mean the difference between a supply chain that is a pillar of strength and one that crumbles in the wind."

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* Source: Supply Chain Glitches and Shareholder Value Destruction, Vinod Singhal and Kevin Hendricks, copyright 2000.