

A Mexican refinery:
Globalization means
that emerging econo-
mies need more energy.



{Heiko von der Gracht, European Business School}

»It's not enough to think about the future. We have to learn to think about different *alternate* futures.«

All around the world evidence of the global financial crisis is easy to find. Just go to a local harbor, and witness the fleets of empty containerships. Or stray a bit from the main terminal of a major international airport, and in the freight area you will find huge cargo planes with empty holds. And at classification yards along big railway stations you are likely to find strings of freight cars, put on extended leave after years of tireless service. A financial crisis that began in the United States now has a stranglehold on the global economy, and there are few signs that things will change soon.

There is little consensus among experts about when the economy will truly pick up. As a result, many in the business of moving freight have pretty much given up on the concept of growth. With most economies in retreat, there is simply a lot less raw material and finished product to be moved around. The feeling at many freight forwarders and other logistics service providers is that there's not much to do these days but wait out the crisis. But is this really true? For many companies, the present economic troubles offer a chance to reevaluate strategies constructively, economists say. "Now is really the best time to think about what you want," says Heiko von der Gracht. He says all company policymakers should take the broadest view of the future: of their industry as a whole, of their business models. Boom years are great, but they tend to push strategic thinking to the rear. Now that the boom is over, it makes sense to use all available strategic planning tools.

Von der Gracht holds a doctorate in industrial engineering. For the last four years, he has devised scenarios for the future. Today he directs the Center for Future Studies at the Supply Chain Management Institute of the European Business School in Oestrich-Winkel, Germany. He conducted a study two years ago to measure planning capacities at a dozen different logistics providers. The results were sobering. The logistics industry is reactive. Companies seldom come forward and approach customers with their own innovations. In strategic orientation, they aren't paying attention to conceivable future market developments, but often seem to drift from one decision to the next.

Von der Gracht believes one reason for this is that service providers tend to have an operative orientation. "Day-to-day business decides what you do," he observes. At smaller firms, instead of holding a discussion, a managing director will often just sleep on an important question for a night, and then make a decision – generally, from the gut. At other, larger companies, the idea seems to be that "flexibility can replace foresight," says von der Gracht, and this often conceals a dearth of strategic thinking. Sometimes that is

a good thing, because flexibility can keep investment costs low. Sometimes it's a very bad thing, because the lack of foresight leaves a company clueless when turbulence arrives.

The issue of energy comes to mind. "The strategists at the companies often base their planning on an oil price of about \$120 per barrel," says von der Gracht. "But last year the oil price developed in ways that no one foresaw. What are companies supposed to do if the price hits \$230, or stays at \$50? Sometimes there is no answer to either possible extreme."

Von der Gracht defines "scenarios" as a set of more or less likely events and constellations that can completely redefine the political and economic environment and a company's strategy, literally from one day to the next. He believes corporate strategists should use analytic methods to plan for (or at least consider) even the most unlikely scenarios. Relevant seminars providing training in these methods are available not just for big corporations, but also for small and medium-sized companies. These can cost between €10,000 and €20,000, but allow managers the chance to gaze into the future without inhibitions or pressures, and to play out all manner of different scenarios. "It's never enough just to think about one possible future," says von der Gracht. "We must learn to think in terms of different alternate futures."

Possible scenarios can be based on any number of variable fundamental factors. Therefore, to know where he's going, the prospective prognosticator has to first consider where he's been. The logistics industry has just come out of an unprecedented boom period, with four consecutive years of strong growth lending powerful impulse to development. Just a few years ago, logistics was defined almost solely by the concept of getting a shipment from point A to point B. Today, the industry is widely viewed as a strategic management function. Next to the clients' sales and marketing departments, logistics providers have established themselves as key partners to corporate management in terms of making strategic decisions.

A major factor has to do with today's energy prices, which are teaching the globalized world about the real cost of maintaining global goods-availability. In the hierarchy of corporations, the "deliverymen in blue overalls," once perhaps treated a little condescendingly, are now seen at the same level as the smartly dressed marketing and sales managers.

And, as in all industry, site choice has always been influenced by logistical factors. But these factors have never before been as important in determining how goods are produced. Just-in-time and just-in-sequence production models are only possible because logistics providers gained deep insights into production processes and were able to adapt production to logistical realities, and vice versa. >

Photos: Corbis, EBS

Energy costs will increase over the long term. This development will become a crucial factor in the logistics sector.

The unprecedented spread between highs and lows in oil prices during the last 12 months alone demonstrates the uncertainty of prognoses. But the experts still agree, with good reason, on the overall trend: energy prices will continue to rise sharply for years to come. For logistics, this may lead to supply-chain re-regionalization and new intelligent transport concepts.