

Rudolph [00:00:01] Welcome to the Future of Business, a podcast run by a team of MBA student which takes you behind the walls of the business school to explore a diverse range of sectors and stories embedded in the Oxford MBA cohort and beyond, and how they will shape the future of business. My name is Rudolph Okai, and today I will be speaking to Emil Kustadinov. Emil has a career which spans across pharmaceuticals and medical device industry. He also founded James Crawly, which is a menswear formal accessory fashion brand. Emil and I are both MBA students at the University of Oxford Said Business School, and today we'll be talking about the significance of supply chain in business. Welcome to Future of Business, Emil.

Emil [00:00:44] Thank you. Big fan of the podcast. Thank you for having me. Excited to talk to you today.

Rudolph [00:00:48] You're most welcome. And I also look forward to learning a lot about the supply chain. And I know we are going to have an interesting conversation. So to kick off, I will ask you, what is the strategic importance of supply chain to businesses?

Emil [00:01:04] Well, supply chain is of paramount strategic importance. I say they they enable businesses in many cases to operate effectively, but they also have a number of other perks. So they allow organizations to to plan to spot potential incoming problems and indeed figure out what the mitigations for these risks are and act accordingly.

Rudolph [00:01:30] Alright. So if I get what you're saying. Because these things are very important. Their risks will also be very significant, hitting the business when it comes to how they play a factor in generating revenues or operations. So when I look at the risk, what would you say are the risk companies should look at when it comes to supply chain? And how can you possibly mitigate these risk?

Emil [00:01:54] Yeah, that's a great question. So there are so many different risks in one way or another connected to supply chains. I think one that is very prevalent as of late and has been talked about quite a lot is just the shortages of goods or services. Now, you know, we've we've seen out that throughout the pandemic. We have also seen it very recently, where a particular goods is simply no longer available. I'm not sure if you noticed a few weeks ago in Oxford you couldn't buy sunflower oil absolutely anywhere simply because there were no seeds being exported from Ukraine, which make up a big part of the European supply. Now there are a few other risks to consider. One of them would be supplier defaults. So if you work with a number of suppliers over the span of, let's say, a decade, it's not unrealistic to consider that at some point one of these companies will bankrupt. To really find a solution to that would be a engaging with your suppliers, understanding their business and how healthy they are. Now, usually everyone will do that as part of the due diligence before onboarding a supplier. But that's not where it should stop. You should periodically check to make sure that your suppliers are in a healthy state and thus can continue supplying you.

Rudolph [00:03:31] I mean, if I get what you're saying is it the case, then that businesses should have like a pipeline of vendors. So just in case you do your periodic check and you realize that one of your companies aren't healthy, then you go to the company that you've aligned. Is that the case? And wouldn't that be much of a cost? Because sometimes if you put these guys on what you call it, you put them on standby. You probably want to pay them some rates because you want to say, I can call you if I need something immediately. How does that work?

Emil [00:04:04] Yeah, exactly. So I think thinking about that has changed in the last few years. I think it was much more focused a few years ago, but now we're talking about the strength and agility of a supply chain, which means having these multiple points from which you can source. And there are there is a number of ways you can do it. You can have them on standby, as you mentioned, or you can split your order volumes between a number of different suppliers in order to make sure that you're keeping that healthy relationship going. Um, and to expand on that, it's not great when you do it in a reactive fashion. So don't wait for a supplier to default before you react to it. Indeed, you have to be proactive to make sure that you are supplying your supply chain with the necessary materials.

Rudolph [00:05:00] Then that means that for you to be able to do that and have a diverse portfolio of suppliers, you should be having a very good, strong in-house team to be able to manage that because you need to manage your IP. You also need to be managing your inventory and how you're going to receive your goods or whatever services that you're going to render. That means for you to be able to diversify this, your in-house supply chain has to be up to the task for you to be able to execute the agile supply chain you want to do. Right?

Emil [00:05:31] Absolutely. I'm a strong believer that people are one of the most important assets for a business, and supply chains make no exception in that regard. You need to have great supply management team that can foster these relationships, that can flag potential problems and most importantly, resolve them if they arise.

Rudolph [00:05:52] Then that means that it's time that we start seeing supply chain not as just not as a segment of business on its own, but its time probably to embed supply chain in the entire business, sort of integrated because from what you are saying, it is like the underlying factor when it comes to businesses. You need your goods on time to the customers or you need your goods delivered from the factory for you to shelve them, put them in stock. So whatever you do, if there's a delay, it's going to have a ripple effect on the consumers or the customers get their goods right.

Emil [00:06:25] That's very true for some businesses. I think there is a difference simply in what you do. If you are I know a SaaS business, for example, that might not be the case, but particularly if you're dealing with goods or really anything that requires a supplier for a particular source, a particular sort of excuse me then. Absolutely. You you need to have that integral part of your business which takes care of the supply chain.

Rudolph [00:06:58] Given what you just said about the risk factor and all that. That means the COVID pandemic was a serious hit on supply chains. Yeah, I do know COVID. We didn't get a lot of things, but we all attribute it to because there were lockdowns, not necessarily because supply chains were disrupted. So what was this impact of COVID on supply chains, on businesses? So if you have a business, let's say, in Europe and had your factory in China, China went down in China, went into a lockdown, what would you say was the impact on these businesses?

Emil [00:07:31] It was massive. And we felt that both as people that are part of the business, but also as consumers, it was so, so obvious. And I think it really changed the way that companies think about supply chain. So I think it used to be way more about just a race to the bottom. Back in the day, I think the example that you gave is absolutely brilliant. You know, a European company sourcing product from from China. And I think

that used to be not an uncommon example back in the day. Now you have your single source. This this one factory that is performing super well is able to provide you a good quality product at a pretty good rate. And, you know, business was smooth, but then comes such a black swan events such as COVID, and suddenly a lot of businesses realized, oh, hang on, we actually we're risking our whole business here because our supply chain isn't as strong as it should be. And it really I feel it's created almost this Darwinian sort of survival of the fittest of businesses, those that were able to adapt to the new situation, that were able to strengthen their supply chain as quickly as possible. I think those these businesses survived and those that couldn't. Well, a lot of them went under.

Rudolph [00:09:02] Alright, so given that COVID caused a lot of disruptions. One thing I did notice right after the, economies or countries started opening up, was the cost increase in freights and supply chains, logistics services. What what would you say attributed to the increase in prices? Because think about it. It was redundant. It wasn't being used. So then that means we'll have a lot of supply where the demand was also there. What will cause the increase in this freight? Was it that companies needed to make up for the losses or what?

Emil [00:09:39] I think there isn't a single thing that is just to be the one reason that contributed to that. I think it's a number of different factors. So to start off, you know, very standard business thinking, if you will. Supply and demand said in the curve it was going away. There was a big demand for goods to be shipped from one location to a different location. And naturally with that, the price increased. Now bear in mind, we also had the Suez Canal blockage at some point, which really put a number of shipments. To a halt and it cost the global economy, I think, about 70 billion over a six day period. So that also is not something to be excluded. Now, there are other factors. For example, I think COVID really showed population at large how easy it is to shop online. And e-commerce grew exponentially. And I do not think that global supply chains were ready to see that growth, which is another thing that then spiked demand, and therefore the cost went up. And there is also a number of other factors, which was, you know, consumers became weigh they had to weigh big expectations at a certain point. You know, I think we are all guilty of wanting something with next day delivery. Right. And with that, it meant that when it comes to fulfillment of an order for an for an e-commerce store, you can't wait a couple of days to fill a whole truck and then go out and deliver them. No, you need to send them right away because the customer expects the delivery the next day. So that meant a bunch of the last mile delivery trucks which which are, by the way, the biggest chunk of the biggest cost of shipment. They weren't running full. They were running only half full. But we also had the spike in demand, which meant you needed more trucks. You need more trucks and they are half full.

Rudolph [00:12:01] Okay.

Emil [00:12:02] And then on top of that, because you have these more trucks, the traffic gets worse and everything is slower. So these are also very, very important factors of why prices spiked and I think why they will continue to spike as well.

Rudolph [00:12:19] Okay. So you get something like the queuing theory where you need to put in a lot of goods, but then you are running them half full like you say. Yeah. So you are having a high cost of operations. But its not necessarily filling up your trucks for delivery. So you're probably running at a loss at the point because you probably have to deliver but it may not be full and you don't want to be outdone by your competition, I guess.

Emil [00:12:43] Exactly. It's it's yeah. It's really difficult, isn't it? And I think businesses have have felt that struggle with both keeping their their margins intact and struggling to remain efficient.

Rudolph [00:13:00] Okay. So given this, what lesson do you think businesses have drawn from this disruption with regards to COVID?

Emil [00:13:12] Quite a few. So I think the first one is you cannot start the supply chain, set it up and then just leave it and consider that job done. I think supply chain is now something that requires constant management. It also requires being way more proactive with understanding your suppliers, their struggles, the secondary suppliers that you have, even in Tier three suppliers as well. And what they struggle with because eventually their problems will become your problems. And the sooner you act, the more likely you are to mitigate any risks for your business continuity. That is number one. Number two, I think, is it's not necessarily just who is going to give you the best price that the quality you want to take. We touched upon a bit earlier, but I really want to emphasize how important it is that you have a plan B, you have a plan C, and you have a plan as much as you want to go for it. Because even if at some point you cut your profit margin to a certain extent you're still in business. If your supply chain goes down, then you don't have a secondary one, then you have no profit margin because you have no business left.

Rudolph [00:14:34] So I guess businesses that are into, let's say, for instance, fast fashion where they like to turn around their products quicker and keep less inventory so that they can meet the agile needs of customers. Is it the case that you will see them in the future having more inventory than they had before?

Emil [00:14:52] I actually think businesses like fast fashion were probably one of the best positioned to respond to all of these disruptions because they already knew how to work in a very agile way with their suppliers. I don't actually think that they will need more stock. I think that they operate in a way in which they keep as little stock as possible not to fill up their warehouses, and they just iterate on their product more and more and more to really find these products that will sell the best. And I think they're also really well positioned in the sense that a lot of them would employ pretty local suppliers if the opportunity is there, of course. Um, and that has put them in pretty good position to adapt and to continue to operate.

Rudolph [00:15:47] Alright. So I want to take this view. You've talked about how companies, because of the lessons drawn from COVID, will want to have a plan A, plan B, Plan C, or, diversify their supply chain. Then it also comes to climate change, and net zero, where you realize the companies are also trying to narrow in and reduce their footprint. So now it creates a tension between if I want to go clean and reduce my footprint, I'll have to have less suppliers. But if I want to also look at how I can mitigate the destruction of supply chain. I want more suppliers. How are companies working on this trying to be net zero compliant while trying to also maintain a good number of suppliers? Because the more your suppliers, the more you are increasing your scope of emissions when all these guys are moving around with trucks, shipping or planes, whereas when you have a smaller one, you're probably limiting the scope. So how are companies working within this trying to be compliant when it comes to net zero and trying to maintain a healthy portfolio of suppliers?

Emil [00:16:48] And that's another great question. And green logistics has been something that's been talked about a lot in the sphere of supply chains and. I think to to a certain extent, it's not really about the quantity of supplies that you have, but it's more about the geography of where they're located. So a lot of businesses have started considering how far are the suppliers from us and potentially reshoring back or sourcing locally in order to make sure that all of these emissions are being saved. But that being said, it's still quite difficult to really go towards net zero just because of the reliance of fossil on fossil fuels in logistics. So I think it's easier for smaller businesses rather than bigger ones. I think it's going to take bigger businesses even longer to adapt. But really I think when you be talking about net zero, when they're talking about sustainability, I don't believe that logistics is the first place to seek these targets. I think that sustainability actually starts with product design. So, you know, instead of thinking, okay, are we having electric trucks deliver our product? Maybe think about, okay, how do I source the materials to create the products that I sell? Are they sustainably sourced? What about my packaging? Is my packaging sustainable in some cases? Do I even need a packaging for my product and have a funny story? A few weeks ago I was at Jericho in Oxford and I went to this one store whose name shall remain hidden, and I bought a banana and the banana was wrapped in cling foil. And I was thinking, that is so unsustainable. Why would you do that? Mother Nature has given us this great packaging and then we've added another layer of plastic on top of it. And I think that's a great example of how a business should think about their products, obviously in a much more complicated way, but in the same sort of thing. Okay.

Rudolph [00:19:06] And I also do know that these days, consumers are influencing how, like you said, how businesses should source their products or influencing businesses supply chain. So these days, consumers are wondering where did you get your products from? Did you get it overseas? If you've got it overseas, how much emissions did you did your supplier or your vessel or the means of logistics, produce or emit, if you've got it closer, how are you trying to be sustainable within your supply chain? how much of this do you think is being pushed by the customers, if anything at all?

Emil [00:19:47] I think quite a lot. I think particularly in the West, we've become quite conscious of sustainability and we really there's a lot of research showing that we want to spend our money with sustainable brands and. Sadly, I think there's a lot of greenwashing going around, and I don't think that this is with really some sort of malicious agenda. I think just a lot of businesses don't understand sustainability in its full scope because it is so difficult to understand and they hyperfocus on the particular part and say, okay, we're we're very sustainable on this one particular segment of our supply chain, but perhaps the rest of the supply chain isn't really considered to that regard. So to go back to your question, because it deviated a bit, I think. It is the customers that are really putting that pressure on companies to be. More sustainable. But it is also companies that really want to be prepared for the future in which we expect the customer to be even more conscious of that. So if perhaps I say 50/50, everything.

Rudolph [00:21:05] So then if I take it all back, companies need to put in a diverse portfolio of suppliers. Companies are trying to meet the demands by being agile buying more trucks so that they can deliver quicker, because that's the big demand, companies are trying to do sustainability. All I see here is cost, cost, cost, cost. How do you think the consumers currently, when we see high cost of living right now is going up? It doesn't mean we've solved the supply chain problems, which is being compounded by the high cost of living. How is that going to affect businesses when it comes in terms of pricing of their product and how customers are going to receive them? Are you expecting customers

to switch products or companies? What about the consumer? Based on the prices of how much these companies put on, because of how much they are paying for logistic-wise

Emil [00:21:59] It's interesting to speculate on that. No one truly knows what is going to happen in the future, but. I believe to a large extent, companies will have to embrace technology in order to bring all of these costs back down, because obviously we are heading towards a cost of living crisis and customers will become more and more price conscious and similar. Similarly, they are not going to suddenly drop all of their sustainability concerns and so on. Perhaps they will to a certain extent, but not fully. So I think, yes, you're right, all of these problems are really compounded with each other and companies will have to get very innovative very quickly in order to make sure that they remain competitive.

Rudolph [00:22:50] Okay, that's good. So that means from from the conversation we had. Supply chain is not something you can just have as a segment or a branch of the business, like in isolation as a standalone and only call upon when we need products. But then from your planing, all the way to your operations to execution, you should be looking at our supply chain to see how it fits into your whole operation model. Then I guess going forward, businesses are going to look at supply chain differently because when I look like a sector like oil and gas, for instance, it changed quite a while now. I mean, people are building ships just to transport gas, putting it in more pipelines full to all the way between countries, all the way, thousands of miles, kilometers to supply products. And you look at that and realize that they are putting in all these mitigation measures. So if there's a problem with a pipeline, you can get ships to take it. If not, you can get tankers to go. And while you do realize this, everybody's trying to be a bit diverse on how the products get to the markets. And I guess that how you think about supply chain will be very, very important going forward and also impact of cost because nobody wants to buy high products. So that's really good. That's really good. But before I let you go, Emil, before I let you go, what would you say is your favorite thing to do in Oxford?

Emil [00:24:13] That's that's probably the most difficult question you've asked me today. There are a few things that I really enjoy. I'm gonna cheat a bit, and I'm going to give you two things instead of one little problem. One is just walking around, particularly central Oxford, because of all of the unique architecture and all of the little stories you can find around the city. I find it to be quite picturesque. It still feels like I'm part of a novel. After being here for so long already. And the other thing actually is meeting people. Oxford is so diverse and you meet a very interesting person with a great background, almost on a daily basis. So I think those two really take the top spot for me.

Rudolph [00:25:01] Oh, I do agree. I mean, sometimes I walk around the buildings and you see the blue things when they say this guy lived here and they give a little background of what happened in this particular area and you realize that this was about four or 500 years ago. They were like, Oh, well, if you feel privileged and honored to be walking in circles and the people you talk about, Oh, it'll blow your mind. You'll get to meet people with different background, fascinating background especially when you go to the colleges. So yeah, I do agree with you, I think love that as well. I've enjoyed talking to you and learned about supply chains and these days I'll be looking out for it. I'll be looking at businesses and how they treat the supply chains. Maybe I'll see if I can relate to it after our conversation.

Emil [00:25:48] Sounds great. Thank you.

Rudolph [00:25:50] We would love to hear your feedback regarding the podcast and learn how we can make it better. So please fill out the survey link in the podcast notes. Thank you.