

Supply Chain Management: The Real Driving Force behind Commercial Real Estate



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By Rick Blasgen

Supply chain management (SCM) and commercial real estate are two of the most important components of business. These two disciplines are intertwined in many ways, and together they form the foundation that supports the global economy.

Logistics and supply chain management have been around since man first appeared on Earth and discovered a need to move supplies from one cave to another.

The earliest humans were hunters and gatherers—and logistics and supply chain managers. Although position descriptions didn't exist back in the Stone Age, early man actively practiced these functions. He had to transport wild fruits and

berries to his family and deliver sabre-tooth tiger skins and woolly mammoth tusks to his tribe mates, all via the transportation modes of the day—by foot or by hoof.

Fast forward to the 21st century. Think about what you had for breakfast this morning. Your juice, coffee, cereal, fruit, and milk didn't just appear. Nor did your toaster, refrigerator, or stove; not even the kitchen sink. Yet, these products are routinely available to you through the machinations of a dedicated group of logistics and supply chain professionals and a complex, interconnected web known as the supply chain. Without them, you'd still be milking your own cow.

Defining the Profession

Supply chain professionals order the product, move it, ship it, distribute it, and drive the coordination processes with marketing, sales, engineering, manufacturing, finance, and information technology. In short, they make sure that the goods consumers need are available 24/7/365, wherever they are in the world. The supply chain is a complex and sometimes fragile endeavor, dependent on a network of independent yet interconnected moving parts. It requires professional management.

At the Council of Supply Chain Management Professionals, we define SCM as that (discipline) which “encompasses the planning and management of all activities involved in sourcing and procurement, conversion, and all logistics management activities....”

Logistics is “that part of supply chain management that plans, implements, and controls the efficient, effective forward and reverse flows and storage of goods and services...between the point of origin and the point of consumption in order to meet customers’ requirements.”

Supply chain management and logistics are about “connections”—connecting supply to demand: Satisfying customers’ needs and doing so at the lowest total delivered cost. If we do this better than our competitors, we win. On the other hand, our customers expect us to do our job right all the time. Think about walking into a room and flicking on the light switch. The light comes on and you don’t even think about it. You don’t call the electric company to thank them when the lights work—but you do give them a call when they don’t!

It’s the same thing for logisticians and supply chain managers. We don’t get called unless something

goes wrong or isn’t delivered. We understand and accept this, and strive to keep the supply chain constantly moving, day and night, rain or shine.

Today’s Supply Chain—Keeping it Moving

Every organization in the world is affected by the supply chain because every organization has one. In today’s world of expanding global trade and just-in-time sourcing, supply chain professionals need to be more resourceful than ever. The world is shrinking, and many organizations are as likely to source products from overseas as from next door.

So what makes logistics and supply chain management work? A critical enabler is technology that helps us move information faster and more accurately than ever before with just a click of a mouse or a single keystroke. Technology is key to helping us be more productive. But in the end, we still have to physically move product (efficiently) to get the job done—and done right.

We still have to put product in a factory-sealed case. We still have to stack it onto a pallet and load the pallet onto a truck. The product is then

transported on the highways, railways, seaways, or skyways to its appointed destination.

Once the product arrives, it must be taken off the truck (or railcar, ship, plane) and moved into a building. Sometimes it's stored again. Other times, it's loaded back onto another truck, where it travels down another road to another destination where it is eventually moved into a store. Then the product is put on a shelf where a consumer places it into his or her shopping cart.

The enormous amount of physical movement required in logistics and SCM is vitally important to keeping the global supply chain moving. But the physical space that supports every organization's logistics and supply chain activities is just as critical.

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Role of the Broker

As an industrial and office broker, you need to be aware of shifts in the supply chain network in order to best serve your customers. One of the seismic shifts taking place today is the globalization of the marketplace. Every commercial broker needs to understand the implications of this sea change and how it affects his or her business.

For example, when a company begins sourcing product from China instead of making it in the United States, that organization's real estate needs may change, due to its changing business model. It may now require a smaller facility that may be closer to a major port.

Soaring fuel cost is another factor that is dramatically affecting organizations' business models—and the entire supply chain network. To deal with this issue, many companies are shipping products via rail instead of truck, a cheaper (but slower) mode that requires facilities to be located near a rail line.

According to Raymond A. Stache, SIOR, a CSCMP member and Senior Director at Cushman & Wakefield in Atlanta, Georgia, brokers today are getting SCM training. "We know that the physical space a company operates out of is largely driven by its long-term goals and business strategy. These goals and strategies are shaped by the supply and demand of its products," he says. "It's important for commercial brokers to

know what an organization's logistics director is thinking about.

"Will the organization need 1,000 employees at \$10.00 an hour to do pick and pack? What transportation issues does the logistics director have? Both of these [answers] will affect location requirements," Stache says. "Real estate professionals must understand what today's supply chain management issues are—and what tomorrow could bring—so they can provide the best customer service possible."

Every major milestone in the history of business has affected commercial real estate because each one has profoundly influenced logistics and supply chain management. The Industrial Revolution that began in Europe in the 1700s brought about the construction of canals between industrial districts. The banks along these waterways became prime real estate for companies that

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wanted to transport raw materials and finished goods more easily.

The invention of the steam engine and building of the railroads determined where businesses set up shop and where people lived. When factories began springing up, communities started to form around these manufacturing centers. This affected real estate patterns, as did the invention of the automobile and airplane, and the advent of the interstate highway system in the United States.

Global business leaders of today understand that, just as the right real estate can be a crucial competitive advantage, effective supply chain management can provide the key to corporate profitability. Progressive CEOs and forward-thinking boards of directors recognize the vital importance of these disciplines and set places for both at the head table. ➔