

# MIT Center for Transportation and Logistics

**Yossi Sheffi**

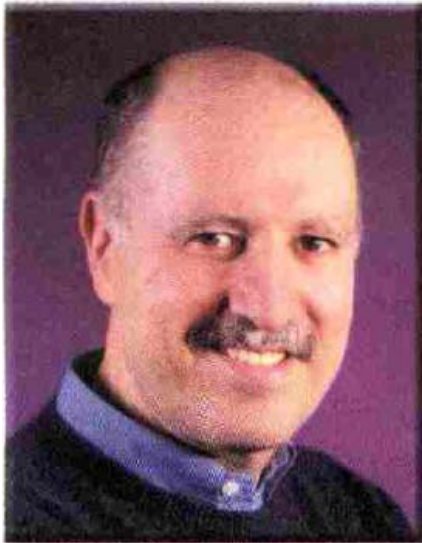
**Director**

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**T**he lesson of recent years is that fixation with current trends is dangerous, unless one assumes that the trend is for continued volatility. Volatility in demand, financial markets, innovation, supply, energy prices, weather, industry structure, political alignments and other factors seems to be the only constant that executives should be planning on. And the way to plan for it is to build in flexibility.

As recently as July, oil prices hit highs exceeding \$145 per barrel and were forecast to go north of \$200 shortly. High oil prices meant trading transportation for inventory: using full truckload instead of less-than-truckload and carloads instead of truckload — leading to high inventories. In addition, network planners called for more inventory decentralization, keeping finished goods closer to market, again saving on transportation costs but leading to higher safety stocks. Both led to higher inventories, and some commentators even declared the end of just-in-time supply-chain discipline.

With the financial crisis and the reduction in energy costs, the recommended course of action is the exact opposite. Inventories are costly because they tie up cash, while transportation costs are down. Minimizing inventories by using centralized inventories and maintaining quality customer service — even with premium transportation — suddenly look like components of a winning strategy.



There are many open questions worth examining:

- Will the new U.S. administration be able to reverse the economic collapse, or will the U.S. continue with a deflationary cycle mimicking the last decade in Japan?

- Will the U.S. consumer ever return to its conspicuous consumption habits, or will the current generation become ever more cautious, like the one that grew during the Great Depression?

There are many other unknowns, including global political changes, terrorist activity, the effects of global warming, and an onset of a new pandemic.

The lesson of the continued volatility was said best by Charles Darwin about 150 years ago: “It is not the strongest of the species that survives, nor the most intelligent that survives. It is the one that is the most adaptable to change.”