

## FROM SAFETY TO SUSTAINABILITY:

# WHAT 2020 TAUGHT US ABOUT SUPPLY CHAINS

### **Will Heywood (00:09):**

Welcome to “All business. No Boundaries.” a collection of supply chain stories by DHL Supply Chain, the North American leader in contract logistics. I’m your host, Will Heywood. This is a place for in-depth discussions on the supply chain challenges keeping you up at night. We’re breaking beyond the boundaries that are limiting your supply chain. Let’s dive in. Today’s episode is “From Safety to Sustainability: What 2020 Taught Us about Supply Chains.” And my guest is Scott Sureddin, who is the CEO of DHL Supply Chain in North America. Scott, thanks for being with me today.

### **Scott Sureddin (00:43):**

Thanks for having me.

### **Will Heywood (00:45):**

Okay. So you and I have worked together for a long time, but for our audience, who’s not as familiar with us, I’d like to start with if you could kind of set the stage of what is your role, what part of the business do you look after? How does that fit in within the broader DHL universe?

### **Scott Sureddin (00:59):**

Okay. Well, first of all, DHL Supply Chain is a global leader in contract logistics. So we’re broken down into five regions and North America is one of those regions. I lead that region and, you know, we provide integrated end to end supply chain solutions and transportation and warehousing for all channels like B2B, B2C, including e-commerce fulfillment.

Will Heywood (01:21):

Got it. So within North America, how are you guys organized?

### **Scott Sureddin (01:25):**

So, first of all, I should say the North America region for us is United States and Canada, and there’s another LATAM region that handles Mexico and the remaining part of South America. We really focus on key industries or sectors like automotive, consumer engineering and manufacturing, life sciences, healthcare, retail, and technology.

### **Will Heywood (01:47):**

Okay, got it. And you said you were the largest provider, but can you just give us some dimensions around, I don’t know, number of associates or number of sites, just so we get a sense of the scale of the business.

### **Scott Sureddin (01:58):**

Yeah, so we have almost 36,000. Full time about 3,300 part-time and then about 7,000, I would call temporary seasonal associates. And most of those are happening in the fourth quarter because our e-commerce business is so big for us right now. You know, probably six of that 7,000 is strictly for our e-commerce sites. And when we talk about sites, we operate 490 operating sites in about 140 million square feet of space.

### **Will Heywood (02:27):**

Okay. And then, you know, relative to kind of your next largest competitor, is that double the size or how do you measure that?

**Scott Sureddin (02:34):**

We're about double the size of our closest competitor in North America. And it's about the same globally. We're about double the size.

**Will Heywood (02:43):**

All right. That's all helpful. So we're recording this in early December of 2020. I'd like to spend a few minutes looking back on the year. Obviously COVID has been the headline event throughout the year. So I wonder if you might go back to kind of the February, March timeframe and describe how you and your management team started to sort of internalize what was going on and then how you reacted.

**Scott Sureddin (03:07):**

Yeah, so I mean, I would say it was a two prong approach, both going at the same time. But, I would say first and foremost for me was our procedures, you know, focusing on our procedures for workplace safety. There were things like getting the proper PPE cleaning protocols and getting social distancing in the work areas because work areas probably didn't have the social distancing they needed to have. And then at the same, the second prong of that was really, you know, working on business continuity and aligning with our customers on critical volume and products within their supply chain and how they wanted to address that.

**Will Heywood (03:44):**

Okay. How long before you felt like you guys had sort of control of the situation?

**Scott Sureddin (03:50):**

Because we have such scale and labor, I was never too concerned around could we get volume out. But, I would say we had true control the situation around getting protocols into our sites within a couple of days, we were really good. I think we were a little bit rough the first couple of days, but the volume piece I wasn't as worried about because the first couple of days we didn't see as much of the surge you saw probably within a month. When you look at consumer goods or our e-commerce business or the retail e-comm business, or just any consumer good product was just flying off the shelf. And so, you know, we really had to balance out, because of our scale, we were able to move people around to where the business needed it. I guess the other reason for that is remember we're a global company. And so it happened in Asia first, so it hit Asia first and then it hit Europe. Then it hit us. So, we'd already been given best practices and protocols on what to do. So we were very, very quick about educating our site leaders on the right things to do. So, we weren't inventing something from scratch like maybe some of our competitors. Whether it be they don't have a global footprint or the scale.

**Will Heywood (05:00):**

Yeah, that's interesting. I hadn't considered that. You mentioned that consumer products and retail, some of the e-commerce channels, really flared up in terms of volumes. Were there other parts of the business where you saw material declines? And if so, how did you work with customers to get through that?

**Scott Sureddin (05:17):**

Sectors like automotive did not do as well during the COVID situation early on, a lot of those were shut down. You know, we worked with our customers, we moved employees around, as I mentioned, and we work in, when we say 490 operating sites, half of those sites are usually in an operating campus, and there'll be multiple sites in a campus. So we have the ability to move people around to some of the areas that were hitting peak volumes that needed help. But, you know, we were able to help map out with our customers what they want to do in volume, what they did not want to do in volume. And, you know, I'm happy to say that it was good to be in supply chain because we did not do massive layoffs. If anything, we were looking for to help with some of the volume surges in the consumer goods.

**Will Heywood (06:02):**

I've heard from multiple folks around the business, that there were some underlying trends that we were aware of or expecting that COVID really either accelerated or affected. I wondered if you might talk about a few of those and what you saw happen, how customers reacted, how our sites responded and how you see it going forward.

**Scott Sureddin (06:23):**

I think the trend was already starting as customers were trying to get their product closer to the end consumer, and this just accelerated that. So, the network redundancy in getting inventory positioned in the right place and built up in the right areas, it just accelerated that. And once again, fortunately, we have scale where we were able to help do that. I would also say back to the labor piece of it. I think the labor part was very difficult for a lot of companies. And we had to be very innovative in how we did our labor around recruiting training and labor sharing, but also doing some surge pay and things of that sort in certain marketplaces to get the associates we needed. We're always working on digitalization and automation, but we were able to use digitalization. Data's king. So we were using data for predictive things, trying to figure out where inventory needed to be, where DCS needed to be, to make sure we were setting up our customers correctly. But the other piece is we were bringing in more robotics to help offset labor that we weren't getting. I mean, a prime example of that was just our peak season. Just now we brought in, I said 7,000 seasonal associates. We've also added 200 temporary robots in certain operations just to handle surge volume because we knew we couldn't get enough labor in certain markets.

**Will Heywood (07:43):**

You've been through a lot of years where customers have tried to kind of lean out their supply chains and extend them. Are you seeing through COVID more near shoring trends? And part two of that question is, are customers willing to carry more inventory than they were pre-pandemic?

**Scott Sureddin (08:00):**

Yeah, I would say absolutely. You know, back to that strategy about redundancy. I mean, I think any time you add another node, you're going to have more inventory. So, the key was getting more inventory closer to the customers because everyone expects quicker service these days. I mean, I don't know anyone who orders online who doesn't want it the same day or the next day. So absolutely there is an inventory bill, but I would also say there was less carrying of inventory in one facility that didn't move. I think there's better data now to make sure you're carrying the right inventory in the right locations. But there was definitely a movement around getting inventory closer to the consumer and adding more nodes to ensure that you could handle the volume and handle disruptions. Think about some of the labor disruptions. There were, I mean, I'm not going to give any customer names, but I had one customer who only had one DC to do the distribution out of. We had to shut it down early on for 24 hours because of a big outbreak of COVID to clean and wipe everything down. But we were fortunate enough to move the inventory to an area where we didn't have an issue a couple of hours away and manage our inventory there going forward. Now, of course, those customers will not be working with a one node solution. They realized that they were putting their business at risk.

**Will Heywood (09:19):**

What about the globalization question? I mean, you guys are obviously a benefactor of globalism and global commerce. Do you think that sort of starts to become less prevalent or do you see, post pandemic, getting back to the way it used to be?

**Scott Sureddin (09:37):**

Globalization will continue. It has to. I think global trade is key for a lot of the emerging markets. So, I don't see that stopping. I would say being in a mature market like us, it impacts us a lot less because there is a lot of near shoring, but I don't see anything stopping globalization and international trade and moving products around and sourcing product at a cost-effective rate. But I would agree that being one of the largest population, places in the world and a stable economy, there will be a lot of things that will move back here then maybe moved across the border that created some issues for some of our customers.

**Will Heywood (10:17):**

Okay. So setting aside COVID, if it's possible from 2020, are there other areas of key focus that you all have had the teams working on?

**Scott Sureddin (10:27):**

Well, I mean, during this year, we were really focusing on accelerated digitalization. So it was all about how we bring on more automation. You know, the future for us is we are partnering with several different manufacturers around pallet movers and things of that sort. So we can rely less on {inaudible} labor and handle the peaks and volumes. Because the peaks in volumes used to be quarter ends, month ends, and then just the e-commerce peak season around November through a week before Christmas, you know. Now there's a lot more seasonality and a lot of businesses. And so we've got to find ways to inject

capacity in our facilities. And so we are looking at more and more ways of driving robotics and data to be better at predicting how we should handle our volume.

**Will Heywood (11:17):**

We've had some other podcasts touching on this digitalization agenda. From where you sit at the CEO chair, what's your perspective on how you make investment decisions around different technologies? What do you look for in terms of payback, you know, aside from what you just listed there in terms of handling volume spikes and the like? How do you see this impacting your business in the three to five year time horizon?

**Scott Sureddin (11:44):**

Oh, I think it's key to our future. And you know, I don't think the ROI is perfect on all of them, but when you start talking about recruiting training and things of that sort, it doesn't need as much of an ROI as normal. So it's key to our future. A lot of the technology out there just isn't ready for play yet. You know, we're the best integrators of technology. And so we will stay, you know, we're not going to be singular focused with one manufacturer or one vendor who's coming up with new technology. We're across the board piloting several things, getting them into production and we'll have several different partners. And part of that reason is they can't handle the volume we need either. So it's not just about, you know, teaching, bringing them along and integrating them to what we need, but a lot of stuff off the shelf today just does not provide what we need as well as an ROI. So we're going to continue partnering with different vendors in driving the technology and putting it into our operations. I would say today we have in all of our 400 running operating sites, at least 80% of our sites have some sort of automation or digitalization that's driving capacity improvements and ROI improvements.

**Will Heywood (12:54):**

And that's been a big change in a pretty short period of time, right?

**Scott Sureddin (12:57):**

Yes. I mean, we just started making the investments, that would be late 2018 that quickly got things replicated and got things through pilot, into production and into our facilities most of 2019 and 2020 during this COVID situation.

**Will Heywood (13:16):**

Maybe a bridge question, because I do want to get your thoughts on 2021, but I know you, just by virtue of working with you, focus a lot on the culture of the business. Outside looking in, when you think about some of these automating technologies, they could have a, maybe a negative impact on workplace culture. I wonder what your experience has been with that, what you hear from your operating teams with respect to the whole digitalization agenda and really some pretty rapid changes to a business that was, you know, maybe not that fast changing not all that long ago.

**Scott Sureddin (13:51):**

Yeah. Actually it's been positive. I mean, if you think about the generations these days, they want technology. That's their life today between iPhones and computers. So they embrace it. I mean, a lot of these things are collaborative robots they work with, so it makes their job easier. So, we have not reduced, we're not taking head out, headcount out. I mean, this is just supplementing our growth and what we need. And so we'll continue to be collaborative with our hourly associates and our people like technology and they want their job to be easier. And they're seeing that it provides an easier route for them to get their job done.

**Will Heywood (14:28):**

Got it. So putting a bow on 2020, was it a successful year for DHL supply chain in North America?

**Scott Sureddin (14:35):**

Yes, we had a really good year because we have a diverse portfolio. I mean, it comes back to what I said earlier around the sectors we're in, you know, we're in all the big sectors and it's very diversified. So even though the auto industry got hit really hard, other businesses did really, really well. And you think about consumer goods and you think about e-commerce, we offset all of that with volumes in other areas. So, it's going to be a good growth year and it was also a good signings year. I guess, back to your point earlier, you know, about how we work with our customers, all redundancy and things of that sort. We had a great signings year, which of course will roll out into startups. First quarter of next year through all next year of new business, we won because not only did we figure out a better way to fix their supply chain, they realized that we were essential and that they needed us because we were able to deliver. We deliver for our customers. And not a lot of other people could have done that.

**Will Heywood (15:33):**

Yeah. That's, that's a great story. So how many startups do you expect for next year, approximately?

**Scott Sureddin (15:38):**

We usually do around 60 startups. I would say approximately that number.

**Will Heywood (15:42):**

Yeah. I'd like to ask you how you see the year laying out through the lens of where you are continuing to put investments in the business. Where's your focus? Where are you directing your teams to spend their time and resource?

**Scott Sureddin (15:57):**

So it always starts with talent. I mean, so it starts with our people. So you've mentioned the culture earlier. We've got to keep developing people. If you don't have a culture of learning and teaching people, new things are not going to stay with us. So we'll continue investing in our people, we have certified programs that are either online or facilitated trainings for our hourly associates up to my level. I would also say we will focus a lot in the area around diversity and inclusion training, because diversity just really helps out the company. I mean, diversity of talent is not only gives you a bigger pool of vision, but it's also diversity of thought. So we don't want everybody who has the same background thinking the same way. So we'll continue pushing our agenda around developing our talent. And then I would say, you know, the piece we talked about earlier, we will continue on the automation and digitalization journey. We are really pushing hard on that and we're making great progress on getting more and more into our operations that are helping us with peak volume and just improving the solution for our customers, right? So it's really about getting a more effective, better solution for our customer. You know, I think another area that, you know, Deutsche Post DHL, our parent company, is really big on pushing is our sustainability agenda. I mean, we really have goals on that and there are sustainable solutions out there that do work and do have an ROI. And I think as the largest supply chain company in the world, we owe it to the environment. We owe it to our associates. We owe it to our customers to continue looking for solutions that are sustainable.

**Will Heywood (17:36):**

We had a really interesting podcast episode with Colgate on the importance of sustainability and their overall business strategy. So it seems like it's happening both from a provider standpoint and a customer standpoint, which is interesting and exciting.

**Scott Sureddin (17:50):**

I'm not only on a podcast, I'm a follower too. It was a good podcast.

**Will Heywood (17:54):**

Good. 21st century, man. We're right in the middle of peak season, I wondered if you could provide a window into how that's playing out in the business. Now, it's been a weird year on demand I know from an e-commerce standpoint overall, and I know that the e-commerce team was concerned about not being able to forecast the season as well as they typically do. What are you hearing from them today?

**Scott Sureddin (18:23):**

It's going extremely well. I think first and foremost, there was a great planning with our customers around how they would do their flash sales and how they would drop orders. I think it was a really good coordinated effort on that. We were nervous around, as I mentioned, we hired around 7,000 for peak season. 6,000 of those were strictly for e-commerce, but we were able to get those associates in through either search page or some sort of incentives. We were able to go to the market to compete against the other competitors and get the people we needed. So once you got the head count and we put in the, I mentioned to you, the robotics and some of our locations to help drive capacity, it's worked really well. And there's been large drops and our order wells look good. We are on plan and all of our e-commerce facilities through black Friday and through this past Monday, the drops were as expected and the volume we delivered was what they expected and we're managing the orders well, very well.

**Will Heywood (19:18):**

So just final question for you. We're at the end of the year, and I know this is always a chance for us to reflect and what have you. Wondered if you had anything you'd like to share with the audience, be it customers or associates who tune in?

**Will Heywood (19:31):**

Yeah, and I think first and foremost, with our customers and us, we did a great job for the world. I mean, North America and the world, supply chain is essential. So I'm really proud that we've worked with customers to provide products that are needed, whether its life science and healthcare, or it's a consumer good, they're all important and needed. I'm really excited how our associates stepped up and came to work and got their job done. There's a lot of media out there talking about people not going to work. You know, we did have people that did get COVID, but we have procedures in place. And we had a focus on procedures in a safe workplace. And I'm really excited that I worked for an organization, and I work with customers, that are actually making a difference.

**Will Heywood (20:15):**

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