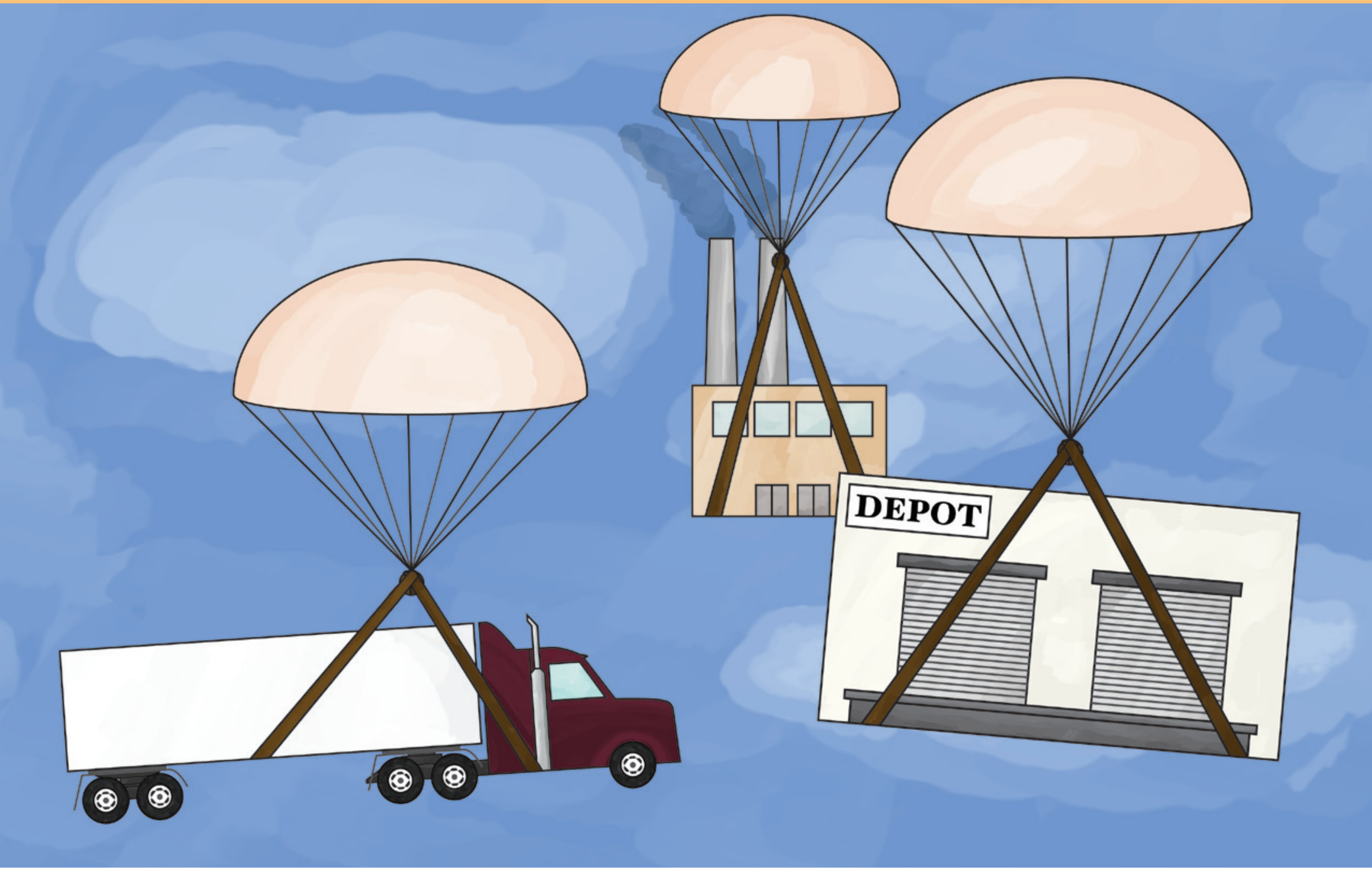


Reimagining Disaster Relief

How companies can help provide immediate assistance when disasters occur.

By Mathu Jeyaloganathan

On March 11, 2011, the most powerful earthquake in Japan's history devastated the country; 15,000 were killed, 6,000 injured, and 4,000 missing. Hundreds of thousands of people were left without homes, 2.2 million without running water, and 4.4 million without electricity. A fragile economy was left in ruins with $284 billion in value withdrawn from the Tokyo Stock Exchange in the three days following the disaster. Naoto Kan, then Prime Minister of Japan, described the earthquake and tsunami as "the toughest and most difficult crisis for Japan" since the Second World War.

The international community rallied together to help rebuild the country and every effort was made to ensure timely delivery of all necessary resources. Unfortunately, efforts were met with disappointing results. Death and injury tolls were highest immediately following the disaster, but the first three days of the rebuilding effort saw only 10% of total donated aid actually delivered.

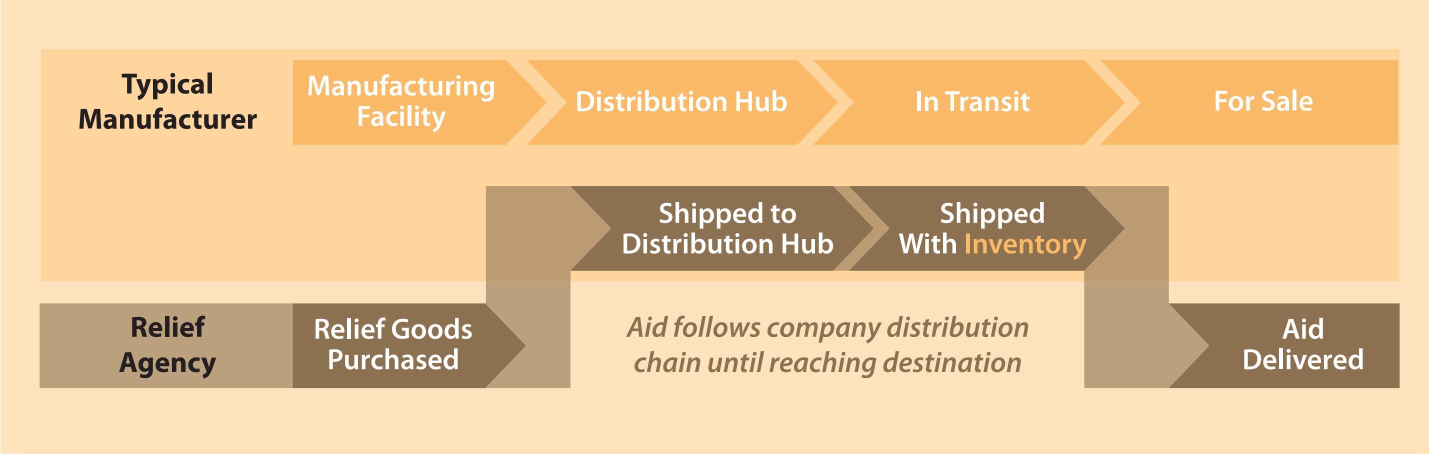
Despite every aid agency around the world employing their resources and efforts, they acted in discord and inefficiencies were rampant throughout the distribution process. Though costly and unpredictable, the response to natural disasters can be made more efficient through partnerships between NGOs and companies looking to strengthen their corporate social responsibility (CSR) position.

Void in the System

Following the Japanese tsunami, resources were not delivered on time because of excessive bureaucracy, poor distribution infrastructure, and a lack of coordination between agencies. At face value, one would assume bureaucracy is minimized when each passing minute costs lives. Unfortunately, the size, scope, and sheer number of NGOs results in layers of red tape at all levels of the organization. Since many organizations are only operational following disasters, significant time and effort must be devoted to simply build the infrastructure needed to provide aid after any

Developing Supply Chain Cooperation

How Business Distribution Channels Can Deliver Assistance



given disaster. Finally, the global disaster relief system is very fragmented – although the goal is the same, the means of achieving it are different and behaviour is disarrayed.

A Fruitful Partnership

Partnerships between private enterprises and NGOs could drastically improve the delivery of aid in the wake of natural disasters due to the efficiency, reach, and independence of private multinational corporations. The ability to execute a pre-planned strategy instantly minimizes the bureaucratic decisions made by each NGO, ultimately expediting implementation. Multinationals already have well-developed infrastructure and distribution networks in place around the globe, eliminating the need for haphazard supply chains to be assembled in foreign jurisdictions. Finally, a single-party distribution chain solves the problem of a disjointed system with different opinions, mandates, and priorities.

If NGOs are able to leverage pre-existing supply chains instead of working independently to build temporary ones when disaster strikes, critical goods such as food and medicine can be delivered to people in need significantly faster. NGOs could then focus their resources on securing an adequate supply of aid and providing it on site.

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Finding the Right Candidate

First and most importantly, the ideal private enterprise partner must have a just-in-time inventory system with minimal lead time. Disasters can happen at any second and aid needs to be expedient. The candidate must be able to transport food, medicine, or any other required good at a moment's notice.

Second, the company must wholly own their distribution system. Businesses commonly outsource pieces of their supply chains where they cannot operate as efficiently as a pure-play distributor. When disasters strike in regions where the distribution chain is not wholly-owned, coordinating the distribution of relief would become significantly more difficult and the company could lose many of the CSR benefits to the contracted party.

Third, the candidate must have a clean record; NGOs will be unwilling to work with a company that has a controversial reputation.

The Candidate's Motivation

The last decade has seen increased adoption of CSR initiatives. Companies are constantly looking for new ways to differentiate themselves from their competitors. Taking a leadership role in proactively mitigating a disaster's destructive forces would position a company's brand at the forefront of what it means to truly give back.

Helping rebuild a country boosts brand equity, especially from citizens of the affected region. If a company such as Coca-Cola were not only the first on scene, but also the primary force delivering food to a devastated community, the Coca-Cola brand would long be associated with the community's recovery. Apart from the brand's perception within the affected area, the company would achieve worldwide recognition for its CSR efforts. In addition to attracting new customers and solidifying brand loyalty, the company's gleaming reputation could make it a much more popular destination for managerial talent.

For a private enterprise, reallocating a portion of a supply chain to disaster relief efforts is not without its costs. Companies incur both direct costs related to transporting the aid, as well as significant opportunity costs in terms of lost sales or stalled production. However, the opportunity cost may not be as high as initially assumed. If a region is disaster-stricken, the shock imparted by the crisis limits the company's ability to function as usual. Partnerships would be structured such that NGOs would cover all direct costs related to transporting the food or medicine, as well as a portion of the indirect costs. In this way, NGOs would help cover fixed costs that the firm would have to pay regardless of how much is being transported through their supply chain. For firms whose supply chains are running below capacity during a disaster, a partnership with an NGO could break even or prove financially beneficial.

Implementation of the Strategy

Companies that employ just-in-time inventory management systems often invest in excess capacity to provide flexibility when servicing variable demand. The option of utilizing this excess capacity is possible if an agency were able to coordinate and cover incremental costs. This excess capacity would serve as the distribution system for partner NGOs. Instead of being shipped to an NGO, donated medicine would be shipped to a node in the company's distribution system and subsequently moved to the disaster area along with inventory headed for that region.

To minimize the burden on the company and maximize the probability of buy-in, the NGO would have to employ a coordination specialist to manage the distribution of food or water in conjunction with the partnering company. The NGO would provide the company with a stockpile of first-response resources and people to help coordinate and facilitate its distribution to ensure immediate expedience. Since excess capacity is already built in, the addition of humanitarian resources has little effect on the fixed-cost nature of the system. Firms would lose the flexibility to meet increased demand that excess capacity is designed to allow; however, in the event of a disaster, this is likely to go unused anyways.

Case Study: Mitsubishi's Implementation in Japan

The outpouring of support from governments and NGOs after the Japanese earthquake was tremendous but slow. A partnership between the Australian subsidiaries of Mitsubishi and the Red Cross could have benefitted Japanese relief efforts if the proposed strategy were implemented.

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Following the disaster, Mitsubishi's plants located in the country's Southwest were unaffected by the earthquake. Prior to the tsunami, the company would import feedstock for products useful to the relief effort through their still-functional Port of Nagoya. The stockpiles of food, water, and medicine that would have been proactively shipped to one of Mitsubishi's distribution centres would piggyback the outgoing supply chain. These attached "first-response goods" would be exported by boat alongside Mitsubishi's finished inventory to be transported within the disaster zone.

The Red Cross was unable to do this independently because they lacked the documentation required by the Japanese government to use their ports. Obtaining these permits wasted valuable time and arguably cost lives. If the strategy were in place prior to the earthquake, bureaucracy would have been minimized and the relief effort could have been executed almost instantly. Lastly, there are few limitations on how many NGOs Mitsubishi could have contracted with, overcoming the disjointed behaviour of different agencies because Mitsubishi is alone in distributing the goods.

This strategy also makes financial sense. After the earthquake, Mitsubishi's sales from its Japanese business unit suffered, but the company was still required to cover its fixed costs. If a third-party organization would cover the costs of shipping and the fixed costs associated with the Nagoya Port, costs the NGO would pay regardless if they shipped relief goods independently, Mitsubishi's losses in the area could have been minimized.

Risks

Companies in the region may be faced with destructive losses to their infrastructure when disaster strikes. Therefore, multiple arrangements with different companies in the same region are required to ensure the strategy's effectiveness through diversification.

This program is very dependent on few entities, and without the continued buy-in of all parties, the strategy will not work. The short-term costs associated with implementing this strategy may dissuade potential partners from participating. A first-time financial incentive provided by the NGO may overcome this issue.

An Important Precedent

Coca-Cola has already test-run the corporate distribution approach. In 2010, Coca-Cola leveraged its corporate distribution system to expedite the delivery of essential goods to Haiti after its devastating earthquake. Coca-Cola's distribution system allowed $2 million in aid to be delivered quickly and efficiently. Once word got out of Coca-Cola's good deeds, civilian donations to a cause driven by a trusted brand increased tremendously.

A common theme in any disaster is unpredictability. If a multinational were to set up its value chain to accommodate the provision of resources to an affected area, it would minimize the lag of bureaucracy, utilize infrastructure already in place, and streamline the behaviour of all participating aid agencies. This unpredictability becomes a less relevant hindrance because a system is on standby wherever it is needed.

The humanitarian value chain concept is an underused approach to CSR. Firms that successfully take advantage of disaster relief CSR initiatives will present a unique and valuable proposition for all stakeholders, and add value to the organization as a whole. They will be known as an innovator when the time is darkest, immediately after disaster strikes.