

## INTERVIEW

# SUPPLY CHAIN LEADERSHIP IN A VUCA WORLD

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**1.** The global economy seems to experience challenges we have not seen in decades: very high inflation (and lumber inflation in your business), the prospects of synchronized recession, higher and higher interest rates, and even increased geopolitical conditions. In this context, how do you deal with such challenges in your business sector?

CHEP has been working around the clock to minimize disruptions to the supply chain and manage the effective flow of our pallets and containers. We manage the world's largest pool of reusable pallets and containers. This means that we have a superior network advantage and industry-leading supply chain expertise. Our local team has worked with the international management team to put together various mitigation plans to balance these negative influences.

We reviewed our business model in the area of the elements that are influenced by price increases and looked for optimisation opportunities to be able to absorb as much as possible these price surges, to keep these transfers over our clients at a minimal level. We also managed to find new areas of optimization by expanding collaborations with our big clients on the international freight transport.

**2.** One of the main problems after the pandemic was the disruption of global supply chains. Is this problem over? How does CHEP help to diminish the effects of supply chain disruption?

The disruption to supply chains has become more widespread after the pandemic, growing from an industrial problem to a threat to economic recovery. And these disruptions have only been intensified by the conflict in Ukraine.

Over the last couple of years, We've had to learn new lessons and adapt to unprecedented situations, so we're now able to identify risks and potential shocks or underperformance in our clients' supply chains even more accurately. We developed the procedures and have the expertise to make accurate predictions to anticipate such changes. Reliable forecasts, planning and collaboration are fundamental to navigate the challenges and the opportunities.

**3.** Environment, Social and Governance (ESG) is "the new green" in sectorial investing. As CHEP has a pioneer in environmental protection, how do you feel the demand for CHEP's products in this context? How is this reflected in CHEP Romania's financial results?





The crisis convinced important players on the local market to consider moving their products within our circular supply chain. As a result, CHEP Romania turnover was up double digit in the fiscal year ending June 30, 2022.

Indeed, we see a constant rise of the market demand for our pallet pooling services and products and a higher awareness in the new green area. Big players have their own environmental goals. The access to natural resources are diminishing. The lumber and gas prices have been on an ascending curve even before the pandemic. The ecological collapse is real and the focus on green operations is a megatrend.

#### **4. ■ Being a leader in the Supply Chain sustainability, do you consider having a trickle-down effect on the Romanian business environment? How?**

Our 'share and reuse' circular service model has been an eye opener for many businesses in many sectors. Over 450 companies in Romania have built sustainable supply chains with each blue pallet

with our well-developed local network of service centers. We now have important clients for which we manage the pallet flows across Romania, Bulgaria and the Balkans.

#### **6. ■ What can you do, and what can your clients do to counter the significant cost inflation and broader challenging market conditions?**

Collaboration is a key pillar to sustainable business in a period of volatility and ambiguity. We've been working with retailers to ensure empty pallets are returned to CHEP promptly to be sorted, repaired and re-issued to manufacturers, and making investments to support more inventory. We have also implemented new processes to refurbish pallets that would otherwise be scrapped. This collaboration has facilitated the reduction of downtime in the retailers' and our clients' warehouses, which cut operational costs to all parties' benefit.

In response to pallet availability challenges, we have added resources to existing asset management activities and introduced new initiatives supported

model, in which pallets are shared and reused within a network of producers and distributors, pooling allows companies to pay only for the pallets they use. Costs remain transparent and the administrative burden of pallet exchange is reduced.

#### **8. ■ Coming back to Romania, what are the significant addressable opportunities for growth?**

Following a decade of accelerated growth in Romania, we focused on strengthening our leadership position in the country and the Balkans region. We have not changed our business strategy, but focused on operational optimisation. It is the time to fully use all the synergies we have got with

the retailers, producers and distributors in the Romanian FMCG industry.

#### **9. ■ What is your main message to your clients/partners in terms of challenges and opportunities for the short and medium term beyond 2023**

Collaboration is the key not only for mitigating the risks generated by the challenges, but it is also the key to enhance the opportunities and reach higher goals. Our entire business model is proof that through collaboration we can do much more, with less.

We hope to maintain the tight collaboration with our clients and partners—vital for a right forecast, operational optimisation and right service pricing.

*After ten years of fast and steady growth, we'll focus on strengthening our leadership position in Romania and the region."*

that they rented and reused. The movement of sustainability brings people together around a higher purpose that lifts their eyes above the competitiveness and can raise supply chain relationships and the value they create to new levels. The movement of sustainability is paving the way to the circular economy.

#### **5. ■ Recently your efforts at CHEP Romania have been additionally recognized by the promotion to Country General Manager for Romania and Bulgaria (after three years of leading the Romanian subsidiary). What contributed to such a position?**

A contribution to this decision was the fact that we posted a twofold profit growth for the Romanian subsidiary in the three-year period prior to the change, a business profitability in line with the European benchmark. Both the Romanian and Bulgarian markets had similar economic conditions for development and Bulgaria needed to use the synergies with our team as well as the synergies

by data analytics and digital insights to increase pallet recoveries from high-risk channels.

Moreover, our Supply Chain team is implementing initiatives to increase availability of both pooled and new pallets to keep steady flows and support our customers' needs.

#### **7. ■ What are your expectations for the price of critical inputs like lumber supplies, transport capacity and labor availability (that were affected by supply shortages in 2022)?**

We live in a VUCA world, which stands for volatility, uncertainty, complexity and ambiguity, to which we constantly have to adapt. We will adjust to change rather than build long-term strategies.

We expect the challenging macroeconomic and operating conditions experienced in 2022 to continue into 2023, with ongoing supply chain disruptions, inflationary pressures and geopolitical unrest tending to increase

In this context, pooling solutions continue to be a stable and profitable alternative. As a circular