

The Future of Supply Chain and Logistics - An aftermath of Covid19

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“The future is not set in stone, and it is very unpredictable”. If you do not believe in this statement, try and answer the following question - “How many knew in December 2019, that the year 2020 will look like this?”. And this brings us to an interesting dilemma - Homo Sapiens have always been fascinated by trying to predict the twists and turns of nature, from making sacrifices to omnipotent deities to the position of stars to probabilistic calculations, we have always invested our time and effort in gauging the future. And though this pandemic has highlighted how nature can rattle the best of our calculation, I still believe that the exercise of gauging what is in store for the future is key to any preparation. Thus, in this article, I will make a humble effort of understanding what lies ahead for the field of supply chain and logistics in the aftermath of the Covid-19 pandemic.

First, let us dissect the broad context into few perspectives - infrastructure, people, and planning. In infrastructure, we will look into how the Covid-19 pandemic have impacted the SCM (supply chain management) and logistics of companies, and how this will drive the future of infrastructure. Then we will do the same for people and planning.

The pandemic highlighted the importance of being contactless or minimizing human contact. In the retail industry, those organizations that could pivot their models to digital services and delivery managed to survive and even become profitable. Businesses who emphasized on being niche and providing the physical shopping experience were not able to capitalize on the uniqueness of their models. In rural markets, agriculture and cottage, similar problems prevailed - especially in models that connected the manufacturer to the wholesaler to the retailer to the market - all these physical touchpoints increasing the risk of the virus to spread. These impacts highlight the need for a lean and digital logistics system and a supply chain network that minimizes human contact. So in terms of infrastructures, in the aftermath of Covid-19, we can expect to see the following future scenario -

1. Larger organizations investing in logistics that minimize human contact, utilize capital intensive technology and equipment and employ cost reduction through principles such as reverse logistics, route optimization, transportation, and assignment models.
2. There will be an emergence of 3PL (third party logistics), especially in the areas which were dominated by layers of middlemen, where the margins are low - rural markets, small and medium-sized farmers, cottage industries. Previously 3PLs were mostly termed as premium services availed by established businesses, but these new generations 3PLs will be more on the low margin high quantity business model - might even use the Uber model to connect individual producers to the retailers, eliminating the other layers of middlemen and reducing contact.
3. Businesses which rely on niche experiences and chic models might need to rethink their business model, to minimize the human contact, and think of providing the experience through digital methods. A potential model could be through VR and Omnichannel marketing.

The pandemic had a major impact on people, naturally. Most pressing was the worry on health and well-being, inability to go to hospitals for the fear of infection, and worry about loved ones. This was further worsened by economic recession and paychecks were cut

down or people losing jobs. Situations like this highlight the importance of relationships and one such important area is supplier relationship. Even if not every single supply item for a business is crucial, few items are critical to the product or service, and some items that are not widely available (bottleneck items). In situations of a crisis, it becomes very important to not only to sustain your organization but at least keep the critical and bottleneck items' suppliers protected, otherwise the organization's processes might just stop in the future. Also, it is the right time to show loyalty to suppliers and support, in order to build a relationship that is beyond enforceable contracts. Given this context, we can expect to see:

1. Rise of supportive companies - companies which took care of their suppliers in times of the crisis, and many suppliers trying to work with them - even at a lower margin, for the insurance of protection in times of need.
2. Many companies that were known to be cut-throat to their suppliers having their business processes stuck or delayed, as many of these suppliers will not exist anymore.
3. A new form of supplier contracting, where, besides securing the flow of products and services, there will be clauses to cover each other in terms of crises such as the Covid-19 pandemic.
4. Tools such as Kraljic's Supplier Relationship and Sourcing Strategies being used more extensively in organizations. [Find more on - <https://www.forbes.com/sites/jwebb/2017/02/28/what-is-the-kraljic-matrix/#494257d2675f>]

The last, but the most important step, is that of planning. As I began this article, I mentioned that not many could have predicted the way 2020 is passing by. But that specifically highlights the importance of scenario planning and simulations. The pandemic has shown us how futile our worst-case scenarios were, and how we need to broaden our imagination of the negative things that can happen in the future. From this perspective, we can expect, in the coming future:

1. Supply chain and logistics planning to use a more extensive set of scenarios when planning for the potential future. Organizations that will go through regularly updated scenario plannings and risk management and mitigation exercises will be better prepared for the future.
2. Increase in the use of risk management tools such as simulations, and regularly updating these tools based on the ever-changing nature of the business environment and ecosystem.

Without any doubt, we are facing difficult times. But there is a silver lining - these times are highlighting the importance of the role played by SCM and logistics in the global economy. And if companies take a good lesson from what they are facing now, and take decisions to move forward in the right direction, we can expect to return to a better normal than the one we were in at the end of December 2019.

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