The weight of informed opinion that supply chains must become more resilient is overwhelming

When will we see more resilient supply chains?

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It seems that everything is changing at once, creating a dangerous cocktail of uncertainty and risk, but there is nothing new about businesses needing to respond to changing supply and demand and trading conditions.

The weight of informed opinion that supply chains must become more resilient is overwhelming. Academics and practising managers see this as a vital development to support and sustain global trade and economic growth in a post-Covid-19 world. Resilience requires flexibility and the capability to change at an operational level with speed and certainty of service compliance.

In terms of business risk, recent research by the Association of Insurance and Risk Managers in Industry and Commerce confirms 'failure of operational resilience' as the third highest risk to business and features in the top 10 risks for the first time. 'Supply chain failure' is specifically identified as an area of increasing risk compared to 2019 and is ranked as the seventh highest business risk. 'Business interruption followed by a cyber event' is the top risk and 'loss of reputation and brand value' is the second highest.

The reasons for this expression of need for resilience and risk mitigation have, of course, been accelerated and magnified by the Covid-19 pandemic, but the uncertainties across the trading world and changing behaviours and demands of consumers were already emerging. E-commerce-driven online shopping was already growing fast domestically and cross-border. Consumers' purchasing decisions were increasingly influenced by their concerns for the environment and the exploitation of workers within the supply chain. Returns from online purchases were increasingly used by retailers as a selling point with return rates of 40% common. The traditional cycle of seasons driving fashion ranges had already been overrun by range churn driven by celebrity influencers.

The demand by businesses for zero-carbon solutions meant that sustainability was already on all boardroom agendas.

Brexit and the trade war between the USA and China can only result in additional transactions, tariff levels and time in the supply chain that will complicate and add cost to all movements. It will likely reduce demand for a wide range of products that are moved through existing global supply chain structures until supply at economic rates is created from different geographical sources.

In addition to these existing trends and predictions, the pandemic created major disruption to transport and logistics operations. Air freight capacity was drastically reduced as airlines took out up to 90% of their passenger services, with belly hold freight space consequently disappearing. Ocean freight also saw reductions in capacity, as the shipping lines continued to try to bring capacity in line with demand to enable margins to improve.

A report by ResearchAndMarkets.com advised the Covid-19 crisis could have led to a 17% contraction in the size of the European road freight market in 2020, with even the best-case scenario leading to a contraction of 4.8%. Distribution centre operations had to be completely reset to comply with health and safety requirements impacting throughput capacity and costs. None of these areas will revert back to the pre-Covid-19 norms.

The scale, breadth and speed of change that is now required and is arguably the toughest set of challenges that

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organisations have faced for many years. However, it is not necessarily about creating new strategies, but rather selectively speeding up and adjusting existing plans for change – for example, strategies to bring manufacturing nearer to markets and with shorter production runs are not new and are already in progress. Nor is the idea of end-to-end supply chain visibility enabling fast response to changing demand a new idea. Digital and Internet of Things (IoT) technology is already understood to be a key enabler of the changes needed to create resilient and responsive supply chains.

Therefore, the challenge is how to adjust existing strategies and implement digital solutions at a pace that gives competitive advantage through resilience. Change programmes must still be sustainable from the financial investment perspective and enable learning and capabilities to develop at the required speed. Of course, there is no silver bullet.

Emphasis now has to be on the specific areas that will enable these new operational capabilities to be developed and deployed successfully, but in timeframes that must align with all the changing factors that are happening very quickly. The six points below are not exhaustive, but attempt to highlight the critical areas and actions that will be needed to achieve resilience and manage risk.

1. Get closer to your customers to understand their fast-changing needs for a Covid-19 and post-Covid-19 world

Rigorously evaluate the service level expectations of your customers and their acceptance levels of paying more for the services that will meet their changing expectations and behaviours. It will be essential to identify customer segmentation by service or product in respect of your potential cost to serve and margin return.

Customer relationship management must be intensified. Get even closer to your customers in all respects through structured account development plans that enable regular communication at all levels between your organisation and your customer. If you do not know what your customer is thinking, planning or worrying about you will not be in a position to influence, plan and respond appropriately.

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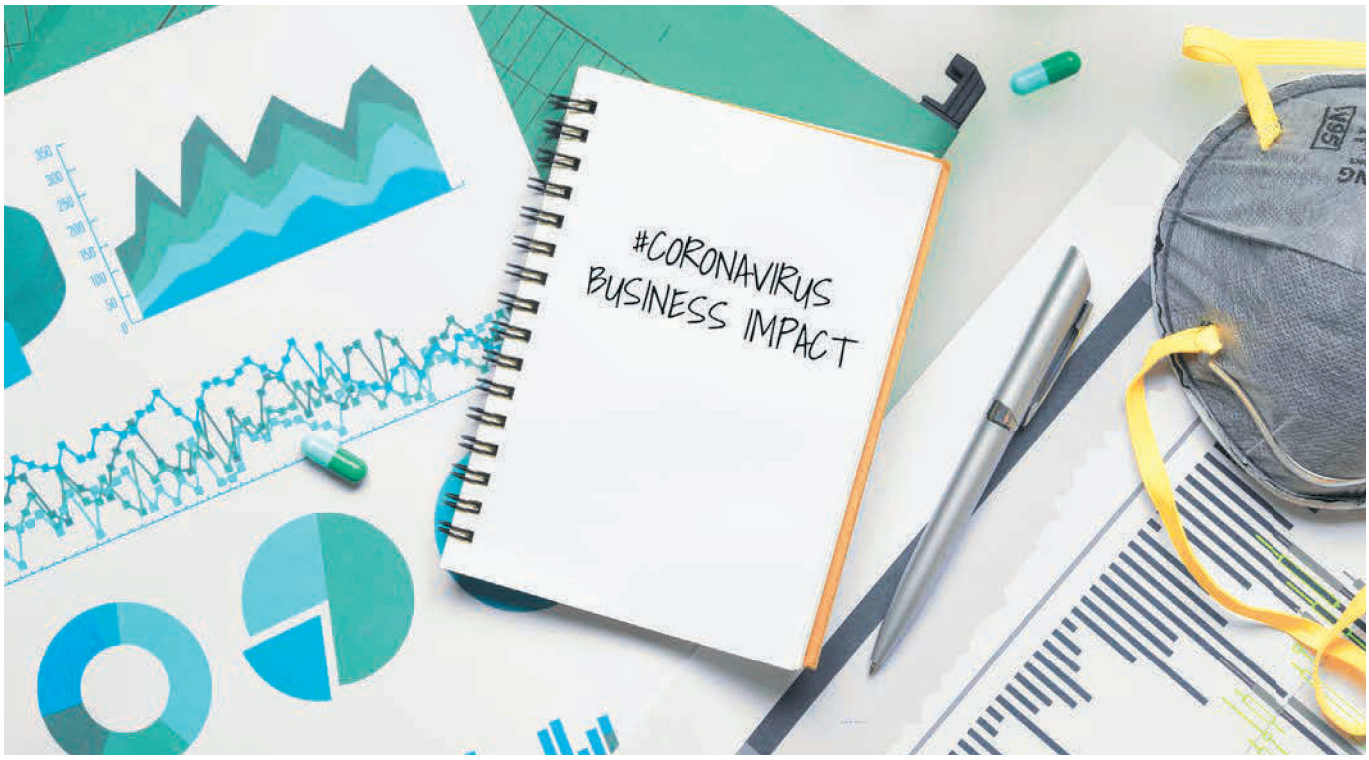
2. Ensure you have intense focus on risk management and project delivery

The room for recovery from failed development and change projects is greatly diminished, as customers will have to move to providers who can reduce their risks of failure thereby increasing their likelihood of profitable growth. Give at least as much attention to change resistance in your organisation as you do to the technical or infrastructure solutions. Deliver the planned benefits from change programmes and projects in timescales that meets your customers' needs.

3. Deploy digital technology to enable operational resilience and responsiveness across the supply chain

The adoption of digital and IoT technology will be prerequisite for success. The required level of data and information granularity and its immediate availability across the supply chain can only be made possible by deploying the appropriate technology. Engaging this technical expertise is essential and the global talent pool of data and computer scientists is a constraint, so recruitment in this area must have a high priority.



4. 4PL and control tower processes must be underpinned with upgraded working and contractual relationships with customers.

Interpreting and translating the data into information through appropriate real-time analysis so that operational decisions can be taken quickly to meet changing supply/demand situations is a key competence. Those undertaking this activity, often through 4PL or control tower functions, must have the capability but also the authority to make real-time decisions to engage the operations in the appropriate way to meet service/cost/margin requirements of the customer and the service provider. This will require the service provider's working relationships with its customers (manufacturers/retailers) to be a central part of the design and change process. Contractual performance and liability elements will need to be clarified and resolved.

5. Environmental sustainability and carbon footprint management will need to be an integral part of all operational solutions

Appropriate expertise must be injected into solutions to ensure CO_2 emissions are measured and reported. The operational and cost implications of alternative transport modes and routes to reduce CO_2 must be identified and agreed with customers.

∧ The need for resilience and risk mitigation has been accelerated and magnified by the Covid-19 pandemic

∧ The boardroom agenda, structure and behaviour will need to provide leadership, clarity of purpose and knowledge

‘The uncertainties across the trading world and changing behaviours and demands of consumers have elevated the need for resilience and risk mitigation.’

6. The boardroom agenda, structure and behaviour will need to provide leadership, clarity of purpose and knowledge

This is essential in order to balance the need for change at a fast pace across various areas of the business against the risks this will bring. Making change happen quickly and successfully means developing the appropriate culture across an organisation and this must be led by the board. It may be necessary to add expertise at board level through the appointment of non-executive directors.

In conclusion

To mitigate the increased risk of business failure through supply chain failure the pace of change to supply chain structure, capability and performance has to increase substantially. Twenty years ago, Lou Gerstner, CEO, IBM, expressed it succinctly: ‘If the rate of external change exceeds the rate of internal change, then you’ve got problems.’

Success can move a business into the position where it is able to focus on the next stage of its development, ensuring that its rate of change continues to be at a greater pace than that of the markets in which it must compete.

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