As Supply chains break, hope is not a strategy

A trade war and post-Covid reality will force an extensive realignment of how companies plan, source, make and deliver. Here's a survivor's guide. **BY GIRIJA PANDE AND VIJOY VARGHESE**

THE super-efficient global supply chains may be consigned to history soon, Political sparring between two of the world's largest economies and the aftermath of Covid-19 have thrown a spanner into that shiny image of factories in China gobbling raw materials to make cheaper goods that move seamlessly through docks and airports to put everything from food on your plate, fuel into your tar and smartphones into your hands.

For decades, these supply chains have been the foundation of modern business. They contribute to nearly 70 per cent of global trade today, up from 30 per cent in 2011. Then Covid arrived unannounced. First came the supply shock in masks, ventilators, gloves and sanitisers. Consumers panicked, raiding food and toilet paper aisles in cities from Singapore to Sydney 'and San Francisco: Many countries banned exports, creating wild price spikes globally. As companies ordered people to work from home, airlines froze operations, tourism and hospitality floundered and demand shifted drastically to online channels for banking, ·shopping, entertainment, healthcare and more.

Gone is the interdependent, cooperative global economy of yesteryears. Enter the new economy of protectionism and self-interest. Global trade may contract between 13 to 30 percent in 2020, estimates the World Trade Organization. These are startling statistics. Hope is not a strategy in such times.

DISRUPTION AHOY

A chain, it is said, is only .as strong as its weakest link. Covid-19 exposed the supply chain itself as the weak link in most companies. Three stark realities have emerged from pandemic.

The enemy is unknown: Covid-19 showed how porous and' vulnerable global supply chains can be. Take car. maker BMW. Nearly 1,800 suppliers at 4,000 points feed 30 million parts into its 30-odd factories that roll out 10,000 BMWs every day. Built on lean inventory, just-in-time delivery, sequential production and driven by cheap Jabour, many supply chains are so extended that even Tier 1 or Tier 2 suppliers do not know who or where the last link is. Danger lurks in unknown quarters today. It could be an act of terror, 'trade offensives, border closures, regulatory changes, labour disputes or spikes in demand and supply due to pandemics resulting in recurrent lockdowns. Corporations need to build in more visibility, third party risk buffers and damage-control mechanisms into more flexible supply chains. Just-in-case supply chains and not just-in-time supply is the new paradigm.

A cloud hangs over China: Factories have opened in China, but consumers are not buying. Ships are idling at ports, creating fresh backlogs of orders and invoices. Yangtze floods have added to the chaos. In the era of lockdowns, demand shifted online for an endless variety of goods, delivered fast, rightly priced, and ethically sourced. The "Cheap China" model that was already strained got another blow. Companies like Nike or Adidas make more shoes in Thailand and Vietnam than in China. Zara, H&M and Uniqlo source from Turkey, Thailand, India, and Bangladesh. Cars are mostly made in Eastern Europe and Mexico. A new-age consumer wants sustainable sourcing added to the equation. He is saying no to lax rules on labour, ecology and intellectual property. Political rhetoric is mounting to shift pharmaceutical, and other critical supply chains home or diversify.

Geo-Political tensions: Geopolitical tensions are rising. Take the tase of Chinese SG provider Huawei that US President Donald Trump first blacklisted, then banned chips supply to it. The company alleged that the move could "impact the expansion and operation of telecom networks' worth billions of dollars in more than 170 countries". In the post-global, volatile world whether hit by Brexit or trade war politics and not economics will increasingly drive business. Company bosses may willy-nilly have to take sides in these technology and trade wars. Most firms have accepted a "China + 1" sourcing strategy by now. Next, they will have to build contingency plans beyond natural disaster or health scares into supply chains. ·

A CEO's SURVIVAL GUIDE

Technology, the game changer: Digital technologies like loT (Internet of Things), artificial intelligence, data analytics, advanced robotics and digital platforms are risk-management tools in the CEO's arsenal. When the pandemic hit, Nike used predictive analytics to selectively mark down goods, cut production and reroute goods to online sales through its training app. Consumer companies like Amazon or Procter & Gamble have a laser-sharp view into their supply and distribution chains through integrated real-time data on their inventory levels, delivery delays and weather forecasts to find optimum alternatives when any risky scenario erupts. Building sophisticated tech stacks allows track-and-trace capability and digital payments, simplifying life for all.

Specialist sourcing vendors: Today global specialist sourcing vendors (SSVs) operate across major supply lines. These SSVs have received good reviews by independent analysts like Everest & Forrester's who track them closely and rate them on their global sourcing capability. These vendors have by now created scale as well as regional buying operations. Some of them are often carve-outs from major organisations and have good tech systems and buying processes reflecting their pedigree. Chain iQ, a European specialist vendor, for example, is a carve-out from a major European bank! Often these vendors deal with over 15-20 thousand suppliers globally, which gives them unmatched buying power. One of their major services revolve around "consortium buying" where they engage in aggregate buying – especially of indirect purchases (which exclude direct materials) - for their large MNC customers. Such bulk buying Jed by a neutral SSV is usually more acceptable to all consortia members and legally works well to provide comfort to different buying entities. Savings ranging from 15 to 20 per cent are common from such activities. For many firms that may not be able to handle such supplier risks in the new world, outsourcing to such SSVs could be an alternative as part of re-engineering the procurement organisations in such volatile times. A lean central procurement organisation that spends effort in effectively managing such a vendor mitigates supplier risks, is cost effective and benefits greatly from bulk discounts negotiated by the vendor. For organisations intent on deeper cost cuts, a "carve-out" solution to spin off their procurement operation is also an option well worth considering. As the biggest supply chain reset in history takes place, new hybrid models that fuse the physical with digital will emerge. The sourcing function will be reengineered and reimagined. No one can possibly predict when any disaster will strike. But when it does, no CEO can afford to be caught flat-footed.

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