



Discussion Document
for Executive Management and Boards

June 2020



Is today's **supply chain model dead?**
Have you got its **replacement ready?**



What does this mean to top management and boards?
What do you need to do now and in the future?



Introduction

- Business **leaders are under enormous pressure to quickly** limit short-term disruption, support recovery in the mid-term, and ensure greater supply chain agility, resilience and optimization in the longer term.
- The current **pandemic is the latest in a series of global risk events which have exposed serious vulnerabilities** in the supply chain and operations.
- The financial crisis of 2007/8 changed and reshaped the financial world. Twelve years on and the **pandemic has exposed extreme vulnerability that will lead to fundamental shifts in global supply chains.**
- **It will be the catalyst to rethinking how organizations are led, organized and operated** which will lead to a fundamental rebalancing of the supply chain and business operations.
- We **lay out the critical issues facing top management and boards today** and pose the questions, “is today’s 50-year-old supply chain model dead?” and, if so, “have you got a replacement?”
- **The time to take strategic and implementation action is NOW.**





Is today's supply chain model really dead?

Hidden weaknesses exposed

In spite of views to the contrary, the supply chain is not really responsible for many of the problems currently attributed to it, such as inability to respond quickly to sudden seismic shifts in demand, empty shelves, increased prices, and concerns over food supply. Rather, these problems are the result of many factors: interconnectedness (where people and supply move quickly from one area of the world to another), unexpected shifts in demand (who could have expected the 430 percent increases in demand for hand sanitizers?) conflict and competition between governments for shrinking supplies, hoarding/price gouging, and an over-reliance on offshore manufacturing plants and suppliers resulting in products not getting to their intended clients or consumers. HOWEVER, the current pandemic has exposed the hidden vulnerabilities of the current dominant supply chain and business model in place.

The rumors of my death are greatly exaggerated

The current problems do not mean supply chain management is dead and must be replaced. We now know supply chain management is necessary, both tactically and strategically. Nor should it be interpreted as a condemnation of globalization. What we have is the following situation – supply chain management is right, but whether or not we have the right supply chain model in place, with the right balance between global and domestic and the right emphasis (cost vs. responsiveness and sustainability) – these are the critical questions.

Supply chain models have been set up for efficiency and speed

Such models, having been refined over the last 50 years, have focused primarily on efficiency and speed. These are supply chains that excel at driving down costs. They are built on well-developed foundations drawn from lean systems, TQM (total quality management) and the theory of constraints. They have identified and attacked major sources of variation, for example those introduced through promotions and events such as Black Friday. When it comes to driving every cent, dollar, Euro, or pound out of the supply chain, there is no better system than the cost-driven supply chain.

Further maintaining this cost-driven supply chain, with the emphasis on cost and cost savings at the middle and upper levels of the organization and within the boardroom, is an issue. The weakness of such models is that, while they can deal with and accommodate relatively small variations in demand, they cannot deal with sizeable changes in demand – such as those observed in this pandemic.

THESE SUPPLY CHAINS ARE NOT RESPONSIVE.

More global risk events are here to stay – it's not only a supply chain issue - it's a leadership issue

Given we can expect to see more global risk events similar to the COVID-19 pandemic taking place, we cannot afford to return to the old ways of doing things – that ship has sailed. It's time for leadership to look at the question, "Do we have the right supply chain model in place now?" The answer to this question is not for supply chain managers, it is a question that must be addressed at the top management team/board level. It will influence the ability of the firm to not only compete but simply to survive.

THE TIME FOR ACTION IS NOW.





What does this mean to top management and boards?

By now, you are dealing with situations where the fire fighting has passed, and you are assessing the damage / weak links to your system. For some, you will be engaged in the process of rebalancing - building supply chains that have better levels of financial, competitive, and legal resilience.

Rebalance to ensure a resilient, digitally enabled, agile supply chain and operations of the future

Rebalance involves more than focusing on building better resilience. A central piece to rebalance will be strategic repositioning - how to best compete and thrive in the uncertain, post-COVID-19 economic environment.

Expect the Post-COVID-19 business world to be very different due to the following factors:

- **The renewed primacy of politics over economics.** As shown by the decision of the United Kingdom to leave the European Union and the economic fight between the United States and China, this is a world where politics trumps economics. *Free trade will likely shift to managed free trade.*
- **The customer has changed.** Until recently, one thing every consumer took for granted was safety. The products they consumed were safe; the venues in which they traveled and worked were safe. COVID-19 has ripped that assumption apart. Consumers now want safety, sustainability and transparency more than ever - it is your role to provide it. *Balancing strategic imperatives such as risk, sustainability and consumer preference will challenge pure economics.*
- **New business models have and will continue to emerge.** In every industry, we are seeing new business models emerge as digitization accelerates at pace. In entertainment, Universal Studios discovered it was highly profitable to release new movies as rentals directly to the consumer through digital platforms such as iTunes (thus jeopardizing traditional channels such as movie chains). These new models will affect most markets. *Is this a sea change or a glimpse into the future? - smart executives will see it as a sea change and take action.*
- **The decision to have global supply chains and operations will be revisited.** The COVID-19 crisis showed that global supply chains, while more efficient, are more complex, less transparent, and more fragile. Increasingly companies will explore reshoring sourcing and production when rebalancing their global, regional and local supply chain operations. *Optimizing your onshore, nearshore and offshore operational mix will be key.*
- **Technology will play an increasingly important role.** Companies will see the value of digitization as a means of improving supply chain visibility, speed, agility and competitive advantage - for example through the use of advanced data analytics/AI /IOT and sensors. 3D printing will enhance your ability to manufacture parts and products locally while de-risking the supply chain. *With only one in 50 digital supply chain projects currently having a clear ROI, a pragmatic ROI-driven approach is the imperative.*
- **The supplier base will be different.** Here is where understanding history is critical. From the recession of 2008-2010, we learned that small to medium-sized enterprises, while providing about 42% of the employment, accounted for over 65% of job losses. There is no reason to assume these results will be better in the current crisis. Consequently, whether you want to or not, you will have to rebuild your supplier base and rebalance the risks there. *Cost is not king anymore - smart procurement, collaboration and transparency is the way forward.*

Not all firms will recognize the challenges and hidden dangers of the post-COVID-19 world.

These firms will be under pressure to restore profitability quickly but may lack the necessary strategic and financial resources to effectively rebalance their risks and operations. While potentially successful in the short term, these firms will not be the long-term winners - *at best they will form part of the mediocre mass; at worst they will not survive.*





What should top management and boards do?

Take strategic action now – review constantly – speed is of the essence

To hit your 2021 numbers, you need to have your supply chain plans and improvement programs in place by October 2020. Here are six practical actions you should consider taking when assessing where you are today and where you need to be:

1. Carry out a review / post-mortem

- Determine what went right, what went wrong, and what was missing.
- Work on the assumption that the political landscape; your customer, business model and supply chain and operations footprint are changing, and these changes are strategic and not simply tactical.
- Ask your organization the following questions:
 1. How long will it take us to respond to a 25% decrease in demand (the old standard for responsiveness)?
 2. How long will it take us to respond to a 100% increase in demand?
 3. How long will it take us to respond to a 250% increase in demand?
 4. What is preventing us from achieving our responsiveness goals?

2. Reassess and optimize your global manufacturing & distribution footprint

- Build agility into operations, even potentially at a higher cost, to adapt to whatever comes your way
- Optimize manufacturing production and rebalance offshore, nearshore and onshore mix
- Carry out network modeling and realign logistics, warehouse and distribution model in line with your strategy

3. Build in a higher level of sourcing optionality and collaborative sourcing to de-risk your supply chain

- Review and restructure your strategic sourcing approach in line with strategy
- Procure critical components from two or more locations to ensure you can continue to operate in a crisis
- Create supplier optionality to ensure future continuity of supply and deepen your collaboration with strategic suppliers and customers

4. Digitize supply chain and operations to optimize supply chain for visibility, speed and agility

- Realign KPIs to include EBITDA, cash, growth, risk & sustainability and synchronize across the plan-buy-make-move-fulfill supply chain
- Enhance visibility & agility through digital end-to-end supply chain management
- Review and invest in data analytics/AI /IOT/sensors and 3D printing to digitize the supply chain and enhance your ability to manufacture parts and products locally

5. Ensure you have an end-to-end approved supplier process

- Pre-qualify suppliers and increase transparency to Tier N of the supply chain (sub-tier suppliers)
- Map the robustness and quality processes of your supplier base
- Ensure suppliers comply to standards with robust inspection, testing, verification & certification process

6. Realign the organization and inspire a digital transformation culture focused on service and risk (new world)

- Align leadership, operational teams and suppliers with strategic imperatives and transformation agenda
- Enhance collaboration with suppliers and customers and integrate with cross-functional teams
- Train, mentor and enhance internal teams for sustainable performance





Conclusions

- It's a sobering fact every executive will need to re-evaluate their supply chain and rebalance it to [manage supply chain and operations risk and uncertainty](#) while driving EBITDA, cash & growth.
- The current pandemic is just the latest in a series of global risk events which have exposed vulnerabilities in the supply chain. It will be the catalyst to rethinking how organizations are led, organized and operated, which will lead to a fundamental rebalancing of the supply chain and business operations.
- The key question to executives and boards is: "What are you going to do to rebalance your supply chain model and ensure you ensure you have a resilient, digitally enabled, agile supply chain and operations of the future?"
- To ensure you hit your 2021 numbers, you need to have your future plans in place by October 2020. To remain competitive and ensure corporate survival, you will need a clear roadmap on how to rebalance your operating and supply chain model to ensure it is responsive, transparent and innovative.
- As previously noted, carry out a post-mortem as soon as possible. Determine what went right, what went wrong, and what was missing. Develop a supply chain and operations strategy aligned to your business model and then implement.
- How do you know when you have got there? It's when you have an organization dynamically able to anticipate and meet demand through the synchronization of its plan-buy-make-move-fulfil digital supply chain that delivers the greatest value to customers and stakeholders at the lowest cost and risk to business. We call this Total Value Optimization™ (TVO).

If you would like to discuss any points raised in this paper or explore further actions that relate to these points, please contact melnyk@broad.msu.edu or sknowles@mainepointe.com

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