

The aftermath of the supply chain disruptions 2020-2022

Since March 2020, the global supply chain has turmoiled into its most challenging conditions not seen for many decades.

- First the dramatic consequences of capacity loss based on the CORONA locks downs
- then a transport bottleneck situation after demand surged again,
- then the effects of the war in Ukraine added to the already increasing inflation due to an imbalance in supply vs demand,
- and now energy prices are also rocketing.

What are the observations and rationales:

- Globalization of supply chains impose risks; with globalization is understood 2-fold: partly geographically and partly the degree to outsource production and services, which call for high performance in integration competences.
- Industries are hit individually; travel, tourism, horeca, were hit hard, while spend was moved to favour housing/construction, home decoration, electronics appliances, and outdoor sports/leisure.
- Cost of goods sold has increased due to increases in transport, material price uplifts and energy costs soaring.
- The catching up of backlog on delayed orders is more than the adjusted lower current demand – hence, inventories build, and we see the classic Forrester effect in “live action”.
- Weaponizing undersupply in certain categories to play buyers around to optimize own contributions has now been part of the game.
- The transport sector’s allocation of trade lanes and capacity did not match the changed patterns of sourcing, often panic buying forced pricy alternative transportation modes and lanes.

- Some companies, within same industry, did much better than others - why did some fail while others did not? Partly geographic coincidence and collateral damages, partly because relations to suppliers was not built well in advance and suppliers were traditionally kept at arm's length – so now time for retaliations!
- While many plans around ESG roll out and subsequently changed supply chain networks, the ESG has been put on hold (although maybe not officially), as much more threatening agendas derived from energy crises – like freezing population and sinking industrial output – the ESG focus is temporarily side-lined.

So, what must Supply Chain Executives think and do?

The managers can split their outlook into 2 subject areas:

A: Subjects with targets and plan where they can exercise control

- Regionalize or localize supply chains, prioritizing the riskiest categories and items, decouple interdependent super regions in own plan/source/make/deliver entities, and if necessary, reduce/redefine offered product ranges to regions/localized countries.
- Implementation of 1-piece flow/mass customisation will move the push/pull point up the supply chain and reduce the Forrester effect.
- RISK mitigation: use of dual supply for critical components and materials, secure inventory at supplier and at own facilities/warehouses, increase data quality for managing the supply chain.
- Improve supplier collaboration:
 - operationally. with improved forecast quality, order management and problem solving etc.
 - strategically, building stronger relations, including suppliers in business development value chain projects, digitalization, data sharing, and common logistics solutions.

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- To get out of the short-term clutter/weaponizing availability: Pricing models to be isolated from short/medium term flow of goods availability and predictability, by introducing open book and index-based models.
- Increase use of technology for planning and control of supply chain.
- Reenforce inventory optimization projects incl. supplier collaboration, as inventory value has increased due to increase in standard cost, and business cases thus improved.
- Change product recipes, BOM's and engineered items to contend less energy, more local sourcing, and more modularized component structure.
- Figure out which part of planned ESG initiatives can continue, in coordination with the other initiatives to secure the supply chain stability, i.e., more greener product recipes, BOM's and designs.

B: Subjects, where they are out of control, but can build in "what-if" scenarios

- Lockdowns caused by pandemic or regional diseases.
- Geopolitics locks of supply of certain geographies (by war or threats of war, incl. trade restrictions, pandemic effects, blocks of harbours, straits, borders etc.)
- Transport pricing (conferences and cartels, monopolies, etc.).
- Energy cost increases, even these will be dampened by political imposed means.
- Scarce materials with few sourcing points, risk mitigation on long terms must be encountered.
- Supplier reactions when company turns into collaborative and open book engagements - moving together in the bus, might encourage some to step off the bus!

scat3 is a consulting and technology advisory and reseller of tech solutions, which offer services to enhance the supply chain performance and development:

- Navigational advice in a complex world of supply chain priorities.
- RISC analysis and re-planning of running supply chain.
- Evaluation of Clients' ecosystem - supply chain maturity for improvements.
- Client transformation capacity analysis for improving own managed supply chain.
- Dialogue based Supply Chain assessments/SRM of supply based, partner development.
- System landscape and process improvement programs, using workshops and scenarios.
- Digital operations processes and platform, planning and transactions systems and integrations with existing system landscapes (ERP, WMS, e-commerce, EDI, PIM/PLM etc.).
- Implementation management and control

scat3 solutions are always developed based on a supply chain strategy and process understanding at the customer, and the solutions are developed through a dialogue.

The toolbox of digital products is used when the solution is in place and the technical solution consist typically of integration between existing internal systems, provided by an integration platform, eventually new applications, and the customers business partners systems, i.e., transport, ecommerce, 3rd party logistics, warehouse may be included in the solutions.