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Derisking Your Supply Chain

Resilient and transparent supply chains are not enough, customers will also demand even greater ethical standards. Business leaders tell **Emma Carroll** how they are adapting post COVID

The struggle to keep nations fed, health workers protected and the newly-remote workforce equipped with the right tech, has exposed weaknesses in global supply chains. As the dust settles, executives need to preserve any hard-fought-for agility and understand what fresh procurement challenges the recovery phase will throw at them.

At Criticaleye's recent Virtual Roundtable, procurement leaders discussed how businesses need to be thinking about what their supply network should look like after the crisis.

Here are four areas they identified as being critical to future success:

Increasing the Agility of Supply

Overnight COVID-19 grounded air freight and closed borders, effectively severing many supply chains. **Amy Francis**, Senior Relationship Manager at Criticaleye, says: "Before COVID, globalisation meant that businesses were often choosing to manufacture goods in a small number of locations that were distant from customers. This caused a lack of resilience when the crisis struck.

"They are now reviewing their procurement models in the quest for greater agility. This may mean manufacturing across multiple sites, increasing stock holdings and moving to dual or even triple sourcing. All of this has cost implications."

Dave Ingram, Chief Procurement Officer at Unilever, says this agility of supply is more difficult to achieve for some materials. "The manufacturing side for us wasn't the main issue, as most of our manufacturing already sits in the country we sell in," he explains. "As a global procurement organisation, we have had to change our perspective on raw and packaging material, most of which are driven by global commodities.

"Some of those commodities, such as palm, tea and petrochemicals can't shift easily and that's where it changes the operational design of the supply chain: where and how do we hold stock?"

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How much manufacturing will move back onshore post COVID is yet to be seen, but **Trevor Hoyle**, SVP for Ground Operations Europe at FedEx Express, is convinced it isn't the end for global supply chains. "While there may be a course correction, I can't see us going back into an age when we manufacture everything at home," he says.

"We have about 65 million consumers in the UK, but there are 1.4 billion in China – trade is global and you can't put that genie back in the bottle. It's about reflecting and trying to keep a sense of balance and not over-reacting – no one knows what the new normal is quite yet."

Investing in End-to-End Visibility

While struggling to secure supply, many businesses found they were unable to get a clear and complete picture along the entire length of the chain. Information on tier two and tier three suppliers was often particularly hard to access.

Alongside building resilience and empowering his people, **Dave** is prioritising greater visibility throughout the supply chain. Unilever has a ringfenced Insight & Analytics team, whose scope has been "dramatically extended" since COVID.

"The insight team is where we are doing work around data, visibility and thinking," **Dave** explains. "It has no operational responsibility. It contains some of the best people we have around supply chain design, systemic thinking, strategy and data."

The required investment can be costly, but **Stephane Crosnier**, Supply Chain & Operations Lead for UK&I at Accenture Strategy, has seen first-hand how new technology can improve visibility. He recounts a programme in a global electrical equipment and services company: "End-to-end planning tools enabled the business to connect to its tier-one suppliers, but also to those in tiers two and three for critical components," he says.

"They were able to give the tier-one network and their own plants feasible plans. This allowed the business to react very quickly in response to shifts in the availability of materials." >

Identifying Risks and Opportunities

Supplier insolvencies are set to increase, and businesses need robust processes and leading indicators to flag any problems. “A lot of risk management practices look backward, but that is pretty irrelevant now as the world is so different,” **Dave** says. “We are working on forward-looking insight to help us understand future supplier risk across tiers one, two and three.”

Businesses are using this insight to work with critical suppliers. A first step is to contract to pay them on time, but **Stephane** is also seeing more innovative ways of collaborating. “Businesses are firming up orders so suppliers can [use this to] secure loans if required. In extreme cases, some organisations are investing in their suppliers, either by sending their own people to help with operations or by taking direct stakes in them, and so providing a cash injection,” he says.

Away from suppliers, the level of risk businesses and their stakeholders are willing to accept can increase in a crisis. **David Lechleiter**, former VP of Global Supply Chain for Vaccines at GSK, led the supply of vaccines in France in response to the 2009 H1N1, swine flu, outbreak. “I experienced the need and willingness of regulators to reconsider the risk ratio based on the urgency of the situation. It’s a balance between the normal timelines for development and the urgency of demand in the supply chain,” he says.

Such decisions around rebalancing risk and reward can offer new opportunities, and businesses should consider where

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else their risk appetite may have changed. “The big question is: what is shifting in the risk / benefit ratios with COVID, and will it impact ways of working for the long term?” **David** asks.

Delivering on the ESG Demands of Customers

Sustainability could have fallen by the wayside during the crisis. Encouragingly, business groups, investors and governments have all expressed their support for a green recovery.

The signs are that customers remain committed too, and so while the procurement function is central to delivering sustainability, there has to be commitment from senior executives and the Board. “The CEO has to own sustainability as a primary, external-stakeholder relationship,” **Dave Ingram** says. “It is deeply embedded within how we think our business will succeed in the future and it is at the root of our corporate purpose.”

However, **Stephane** cautions that the economic impact of the pandemic may mean a shift in the priorities of some consumers. “One part of the population will still be very cost conscious, as a result of rising unemployment, etc. Cost pressure may drive demand towards less expensive and possibly less sustainable products, for example in the garments industry,” he says.

The challenge is valid, but there does appear to be continuing momentum behind ESG. “The ‘ask’ from customers is going to become much greater,” **Dave** says. “Industries have to move from a minimum wage to a living wage commitment, and from certification systems to proving that you know where things came from. Consumers will demand that at any price point.” ■

Featuring Commentary From:

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