

THE SUPPLY CHAIN

Do you have supply chain resilience?

How can you make your supply chain stronger?



Icehouse Insights

A regular and exclusive series addressing some of the major challenges facing SMEs today. Icehouse Insights also highlights some of the possible solutions you can weave into your business to solve common issues.

This edition:

Few would disagree that the global events of 2020 and the first half of 2021 have disrupted traditional supply chain models more than ever before.

Furthermore, because of New Zealand's physical place in the world, the type of industries which dominate, plus the impact of COVID, Kiwi businesses are striving for continual improvements in supply chain efficiency and management to improve profit and performance.

INTRODUCTION

Three in every four US businesses have reported supply chain disruption due to the COVID-19 pandemic. In New Zealand it's a similar story. Alongside talent and skills shortages, pressure on the supply chain is the most common current challenge highlighted by our alumni.

Businesses develop supply chains so they can reduce their costs and remain competitive in the business landscape, but greater disruption equals higher operating costs and lower revenues.

New Zealand's SMEs have plenty to gain by taking a much closer look right now at how they work with suppliers and how they can use technology to drive productivity and make their supply chains work harder for them.

DEFINING THE SUPPLY CHAIN

As most know, a supply chain is a network between a company and its suppliers to produce and distribute a specific product to the final buyer. This network includes different activities, people, entities, information, and resources.

The supply chain also represents the steps it takes to get the product or service from its original state to the customer.*

The key steps in a supply chain include:

Planning the inventory and manufacturing processes to ensure supply and demand are adequately balanced

Manufacturing or sourcing materials needed to create the final product

Assembling parts and testing the product

Packaging the product for shipment (or holding in inventory until a later date)

Transporting and delivering the finished product to the distributor, retailer, or consumer

Providing customer service support for returned items**

*Source: * and ** both Investopedia*

The five typical cost areas

Investment Costs
Transportation Costs
Procurement Costs
Production Costs
Inventory Costs

CHALLENGING SUPPLY CHAIN ISSUES

There are generally accepted to be six supply chain models; continuous flow, fast chain, efficient chain, custom configured, agile and flexible. Largely similar, they tend to orientate themselves towards either efficiency or responsiveness.

Whichever model best fits your business, and no matter where you are located in the world, there are common challenges which affect all product-based businesses in 2021, according to Skubana, a US-based order management platform.

Material scarcity – insufficient inputs have been a concern since the pandemic began, due to an abrupt rise in consumer demand like never before.

Increasing freight prices – with worldwide lockdown measures inciting a surge in eCommerce sales, there is a greater demand for raw materials and manufactured consumer goods.

Difficult demand forecasting – the onset of COVID-19 essentially shattered the forecasts for countless retailers and suppliers of consumer goods/services, leaving them without a guide as to how much inventory to stock or manufacture at any given time.

Port congestion – congestion occurs whenever a ship arrives at a port but cannot load (or unload) because that station is already at capacity, creating backlog.

Changing consumer attitudes – demanding lower thresholds for delivery times and raising the requirements for a positive customer experience.

Digital transformation – enhancing the way we approach supply chains are artificial intelligence, drones and robots, electric vehicles, and on-demand delivery.

NEW ZEALAND'S SUPPLY CHAIN

New Zealand's ports, freight services and coastal shipping are critical to New Zealand's economy, and promote opportunities for regional development and employment, as well as international freight.

Understanding future freight and logistics demand is critical to ensure that New Zealand's supply chain is fit for purpose in the longer term. The North Island supply chain is particularly important because about 55% of New Zealand's freight originates in or is destined for the Northland, Auckland, Waikato and Bay of Plenty regions.

The NZTE May 2021 supply chain update states:

New Zealand's small size and geographical position continues to present significant challenges to compete in global markets.

Issues, challenges and constraints will continue for some time:

Global sea freight supply chains may take another 6-12 months to stabilise, assuming no other significant events happen in that timeframe

Industry experts suggest a recovery time of more than three years for international travel to normalise to pre-COVID-19 levels.

COVID-19 was the initial trigger-event with an immediate and direct effect on air cargo capacity and cost: with 80% of New Zealand's airfreight being carried in the belly-hold of passenger aircraft, a reduction in weekly international passenger flights from more than 550 international passenger flights to at one point, 12. This had a significant and immediate effect on imports/exports.

NEW ZEALAND'S SUPPLY CHAIN

The lack of tourist travel drove an increase in demand for consumer goods across most modern economies. This resulted in disproportionately higher volumes of imports in Europe and North America (the main East-West trade lanes):

These increased volumes have absorbed a substantial proportion of available shipping and container capacity, causing shortages in sea freight capacity and bottlenecks at key sea-ports around the globe

Evolution of the supply chain

...leaders should take this moment not to just fix their supply chains temporarily, but to transform them.

Reimagining supply chains to avoid past traps and meet future needs will require a more comprehensive approach

Supply chain is increasingly becoming a key agenda for senior executives and boards.

This is reflected in our experience: Through customer engagement, it has been common to hear business owners/leaders say that historically the supply chain did not occupy much of their focus or time.

However, supply chain considerations can now occupy over 50% of business owners/leaders focus or time. Visibility of supply chain performance and disruption is a key agenda item for executives and boards. Optimising supply chain is seen to be a key enabler to helping businesses gain visibility and improve control thereby enabling businesses to improve resilience.

Source: NZTE, May 2021

Nine things to try

SMEs have to work hard to make their supply chain as efficient as possible as eliminating waste at every link in the chain will have a positive effect on productivity and profitability.

SMEs also hold a unique place as an important link in the chain itself – often they are not the lead firm in a supply chain but, rather, integrated deep in the chain.

So here are nine things to try to improve your supply chain:

1 Review Regularly

Constantly assess the strength of your chain by revisiting each link every few months. If there are six links in your chain and you can shave off a 10% improvement in each link, the overall knock-on effect is huge. Try to plan in advance as much as you can when sourcing new links.

2 Communicate with your community

Consider asking your vendors or speaking to your competitors about their supply chain issues and solutions. They may be operating in ways you haven't thought of – ways that can benefit you or working with third-parties that are a better fit than your current supplier. Many (even within the same competitive landscape) are facing the same challenges as you will be surprised how open and supportive they can be once you reach out.

3 Analyse your data

Decision-making for your supply chain strategy depends on accurate and timely data and information. Having real-time reports available at all times will provide valuable insight into the supply chain health of your business. (Compudata.com) Data-driven supply chains reduce safety stock requirements by 27%. (SMS Group)

4 Build Relationships & Partnerships

Your relationship with the supplier affects the success of the supply chain. Cultivate and maintain the supplier relationships on an ongoing basis, even after the deals are finalised. Focus on forming strategies to maintain healthy supplier relationships. (Shipbob) If it is difficult or expensive to support multiple locations on your own, look to partner with contract manufactures and 3PLs to support your distribution network.

5 Find the right people and develop your team

Companies running supply chains face significant operational pressures every day. However, businesses still need to find the time to focus on developing employees and their skills. Companies can start doing this by regularly assessing their employees, investing in training and skills enhancement, rotating the most promising managers

through multiple job assignments and spending time developing succession plans for higher level supply chain positions. (6river.com)

The best supply chain professionals have strong communication and relationship management skills to deal with both internal and external stakeholders. They also have the ability to think strategically and create value. (www.bdc.ca)

6 Embrace tech

The pandemic has not only amplified the need for greater supply chain optimisation, but the need for faster decision-making, too.

That's why, according to Gartner: 'Through 2024, 50% of supply chain organisations will invest in applications that support artificial intelligence and advanced analytics capabilities.' (www.skubana.com)

7 Network diversification and 'multisourcing'

Understanding the percentage of the overall portfolio tied to a single source or derivative components from the single source, along with the revenue contribution, helps you assess the impact of what happens when the single source is no longer available and allows you to mitigate that risk.

(www.supplychain247.com)

Diversification in your network can help during times of crisis. Conversely, the cost of retaining multiple supply locations must be seen more as a cost of doing business, rather than an inefficiency, for example.

8 Think Global, Act Local

Companies increasingly must think in terms of global opportunities for procurement of goods and services, and when considering the global needs of the corporation.

Manufacturers should consider multiple channels and determine the optimal levels of inventory within the echelons of the supply chain process. (www.industryweek.com) It may also pay to (despite usually higher prices) mitigate some risk with a percentage of inputs coming from local suppliers.

9 Build in sustainability

Every supply chain has its environmental and social consequences. The best strategy is to embed principles of sustainability in your supply chain, using them to guide decisions ranging from product design and factory floor configuration to sourcing and logistics. (blogs.oracle.com)

SC MANAGEMENT THE BASICS...

Supply chain management is an effective equaliser for SMEs in boosting customer satisfaction, reducing operating costs and strengthening financial positioning.

Customer Service

Customers will come back to you if they have a great experience, especially their first. Strong supply chain management enables you to confidently showcase complete product lines, product availability, customer-based logistics (deliver/pickup location) and guaranteed after-sales support.

Improve Financial Position

At its simplest, if your business can make and deliver a product to a customer in six days rather than 40 days, it can invoice a customer 34 days sooner. The supply chain can make that happen.

Manage a balanced cost to risk supply chain network

Although most businesses would seek to lower the total cost of their supply chains that are a huge factor in the ability to maintain strong profit. There are factors that recent events have shown to be needed to be taken in to consideration, such as; inventory shortages, after sales support, loss of market share, bad customer experience and brand equity. Balancing out these risks with costs needs to have analysis and strategy for each individual business.

Reduce Operating Costs

Supply chain management can decrease the purchasing cost to the customer – particularly in retail – because retailers depend on supply chains to quickly deliver products to avoid holding costly inventories longer than necessary.

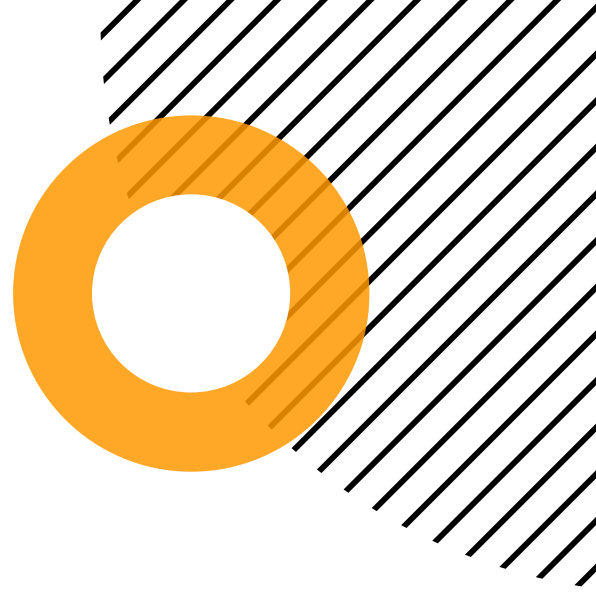
CONCLUSION

Supply chain is a key topic for senior executives and boards.

In the current climate and beyond, business owners and supply chain managers should be encouraged to reimagine their supply chains to avoid past traps and meet future needs.

As the old saying goes; 'a chain is only as strong as its weakest link', and it's a good attitude to have in your business.

Regularly reviewing and analysing each aspect of your supply chain can reveal hidden advantages you may have previously overlooked, and gaining efficiencies at each link can make a huge contribution to the wellbeing of any business.



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