

Optimizing the supply chain in response to disruption

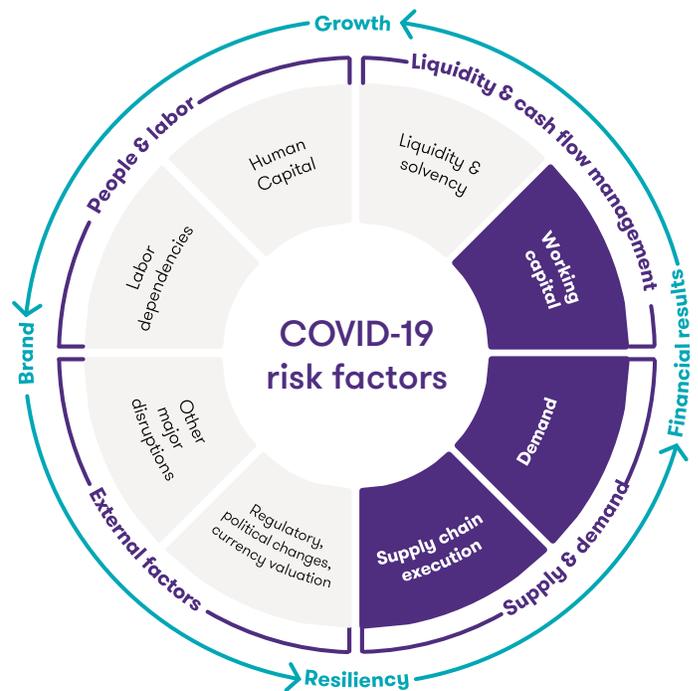
Equip the supply chain to satisfy demand while protecting your working capital

Supply chain disruptions come in many forms: serious natural disasters, economic events, geo political influences, pandemics, etc. All disruptions are devastating in different ways, but three common factors exist and inform our response:

- 1 Customer demand always changes at the product and channel level, thus requiring a supply side response.
- 2 Supply chain resources are instantly constrained due to labor, capacity, inventory, and third parties.
- 3 Businesses can thrive by quickly simplifying and adapting their supply chains to be responsive and resilient

Each of these factors are important in times of economic growth and markers of top performing supply chains. The importance is exponentially greater in times of volatility and the window for effective supply chain response is short, generally less than 45 days from significant changes in demand, loss of important resource availability, or service disruptions from third parties.

A business continuity plan with an established cadence for methodically evaluating the effects of disruption on the supply chain is a fundamental requirement for rapid response. The focus is on ranking failure modes by assessing the impacts to demand, revenue, and the working capital already invested. The output is a sequenced plan to adapt the supply chain to mitigate risk and achieve resiliency.



Supply chain disruptions impact demand and your supply chain capabilities. Recalibration to balance supply and demand is vital.

Focus on the most imminent supply chain questions

Businesses should focus on addressing 3 questions to quickly address their supply chain capabilities:

- 1 **Can the current supply chain operate and service demand without quick intervention?**
- 2 **How much future revenue and existing working capital is at risk within your supply chain?**
- 3 **What actions mitigate risk, enable future sustainability, and help satisfy demand?**

Evolve your supply chain as demand shifts and business constraints emerge

Industries experience supply chain disruptions differently and impacts vary. Each industry and business must improve supply chain capabilities within the context of realized impacts. Here's a look at a few industries and major supply chain implications:

CONSUMER GOODS - MANUFACTURING & RETAIL

Some consumer goods manufacturers and distributors cannot currently sell through storefront retail channels. Others are seeing unprecedented spikes in demand. Shuttered retailers are in trouble without omnichannel or Direct-to-Consumer capabilities to get products to customers. Multi-channel sales and order fulfillment models are needed which requires new supply chain capabilities.

FOOD & BEVERAGE

Many traditional sales channels for food and beverage have dried up almost instantly, e.g. hospitality, travel and lodging, and on premise dining. Demand shifted to grocery, delivery, and carry out. Suppliers must stay close to customers to understand changes in product and channel demand to adapt supply chains accordingly. Recognizing the spike early improves responsiveness.

LIFE SCIENCES - PHARMA, EQUIPMENT, & HOSPITAL SUPPLIES

Demand has skyrocketed for drugs, equipment, and other supplies during the pandemic. Pharma businesses regularly use offshore sources or supply with long lead times. The plant, property, and equipment suppliers were caught flat footed. Future legislation is certain to change supply chains for this industry and require sophisticated supply planning capabilities and buffer inventories.

HEALTHCARE - PROVIDERS

The providers represent demand for the equipment and supplies. Planning models proved to be insufficient to cover pandemic related demand. Post pandemic guidelines for required on-hand inventories must improve. Group Purchasing Organizations will be important and serve a vital role as a consolidator and supplier to providers to meet revised inventory and safety stock requirements.

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Immediate areas to adapt and run interventions

Prioritize most important customer demand

Supply chain disruptions force a tighter focus on the "vital few," e.g. those customers and products representing the majority of demand and gross margin. These top tier customers are essential to the long term success of the businesses serving them and must be treated accordingly.

Early and frequent collaboration with customers enables a more informed view of how demand may evolve for the products they buy and the channels through which they are sold.

A laser focus on timely receivables is also necessary as decisions and commitments are made to continue to satisfy demand.

Reduce supply chain and operating model complexity

Most supply chains are far too complex prior to any supply chain disruption. The negative impacts are countless and include higher cost to serve, lost capacity and throughput, excess and obsolete inventories, demand cannibalization, lost sales on core products, margin erosion, and lower customer satisfaction.

Supply chain disruptions exacerbate the effect, but businesses can course correct and minimize complexity by offering core products to service top tier demand. Rationalizing unprofitable products is also wise when shifting customers to core offerings. Customers also tend to be more understanding during an economic downturn.

Recalibrate labor, assets, capacity, and working capital

Proactive decisions to focus on serving top tier demand and only offering a subset of products, or even rationalizing some products requires a recalibration of the required direct labor, assets used, available capacity, and the working capital commitments.

Often, a choice must be made due to locations or lines that are offline because of labor or other external constraints such as a lack of raw material or intermediate supply.

Many businesses come out of supply chain disruptions in a healthier position due to wise decisions made during a disruption to balance supply side execution with a critical subset of demand.

Shore up those supplier and third party relationships

Suppliers can break the supply chain by not providing needed raw materials or inputs. Upstream collaboration is just as essential as downstream collaboration with customers on high priority demand.

And, third party providers such as contract manufacturers, copackers, warehouses, customs brokers, and key transportation providers all have the ability to inadvertently break the supply chain despite the best efforts businesses take to prioritize and focus on the most critical components of supply and demand. Frequent communication and collaboration is also the key with these downline, supply side providers if customer demand is to be met.



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