

‘All-purpose’ supply chains are at risk as the operating environment becomes increasingly disruptive

In the 2008 Global Financial Crisis (GFC), all the attention was on the banks and other financial institutions. What was not generally known at the time was just how close the world’s entire supply chain networks came to collapsing, as banks refused to honour each other’s credit lines. In the intervening years we have witnessed various environmental disasters, including fires, floods and droughts; the threat from BREXIT; and the unsettling effects of the looming trade war between the US and China.

To top things off, we are in the middle of a new crisis brought on by the corona virus Covid-19, which originated in Wuhan, China, early in Jan’20. Output from Chinese factories has slowed dramatically, and so has export traffic through Chinese ports, which means foreign customers will shortly be out of stock in many product categories, including critical spare parts. In addition, doing business has become more difficult as enterprises and governments have applied travel restrictions in an attempt to stop the spread of the virus.

What this current crisis has revealed is the extreme dependence many businesses have on Chinese manufactured inputs, and the brittleness of our supply chains if you follow a strategy of single-sourcing. We have gone too far down the path towards single-sourcing in pursuit of best prices, while also cutting back on inventories along our supply chains, all in the name of reduced cost and increased efficiency. This latest crisis has exposed the folly of such a strategy.

We now need to revisit the principles upon which we design our enterprise supply chains. We have to return to the idea of diversity in our supply-base; re-think how we manage suppliers; accept that some level of embedded redundancy in our supply chain networks is prudent and necessary in order to buffer against sudden unexpected shocks; and we need a portfolio of supply chain designsⁱ that can operate under a wide range of market conditions, from predictable baseload demand, through to extremely uncertain disruptive operating environments. This is the new reality of ‘business as usual’ in the future.

The current crisis also highlights the important role that digitalisation can play in risk management, and the value of increasing investment in Control Towers and associated tracking technology. These developments should be pursued with renewed urgency. But in the short term we should look to rationalise our products, customers, and suppliers to best effect.

Thoughtful action to address the resilience of our **supply chain designs and infrastructure** is essential if we are to dampen the effects of future crises, whatever their source, because there will surely be more to come- but we must be better prepared next time. And harnessing technology to achieve end-to-end (E2E) visibility in our supply chains, and to enable faster, more informed decision-making, will be a key ingredient to surviving future shocks.

John Gattorna & Deborah Ellis, Authors of *Transforming Supply Chains (2020)*

ⁱ For specific information on these designs, refer to *Transforming Supply Chains: realign your business to better serve customers in a disruptive world*, FT Publishing, Harlow, 2020.

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