



New focus on the supply-side post Covid-19

Even for the best run companies, some of the biggest impacts of the coronavirus crisis have been felt on the supply-side. Globalisation, coupled with the conventional KPIs that drive the behaviour of Procurement personnel, have led inevitably towards many instances of dependence on single, remote sources. This can work for stable businesses in stable times but can be a hindrance if the market is dynamic – and is disastrous in times of severe disruption such as that which we are experiencing now.

For example we know of a company that is attempting to return its production facilities at high capacity to supply the Chinese market as demand returns, but its running short of specialty chemicals sourced solely from Italy, one of the countries now worst hit by the virus.

Another company which makes bleach and disinfectant, is seeing a huge increase in consumer demand for its products during the crisis, but can't get beyond two production shifts because the child-proof caps used to seal the product containers, are also sourced exclusively from - you guessed it- Italy! And there are numerous other examples we could cite.

Undoubtably, we have gone too far in the relentless pursuit of cost efficiencies, and in the process made our supply chains overly brittle, unable to withstand sudden unexpected disruptions – or surges in demand! Now we must move back along the efficiency spectrum and accept that we may need some level of in-built redundancy, in the cause of increased resilience.

We also need to think about where Procurement personnel sit in the organisation and the degree to which their decision-making is integrated. We know theoretically that strategic decision-making in silos is not optimal, but this crisis has highlighted just how dangerous it can be – whether it be sourcing strategy, cost optimisation, risk management or inventory policy – only an end-to-end view of the trade-offs gives us a chance of weathering significant disruptions.

Here are some specific items to consider:

1. Change your organisation design and bring the Procurement function under the CSCO; this will increase internal co-ordination. Some of the best companies have already made this key

t. + 61 2 8920 2777

PO Box 666, Milsons Point NSW 1565 Australia

www.gattornaalignment.com

ABN 94 622 302 916

Gattorna Ellis Advisory Pty Ltd ABN 94622302916 trading as Gattorna Alignment

adjustment.

2. If you are a global manufacturer, divide your world up into regions, and review sourcing lines within the region. Are they/can they, be self-supporting? And can you engineer a greater overall diversity of your supply-base by having options across regions?
3. In each region, segment your supplier base along behavioural and capability lines, e.g., which suppliers do I wish to develop strong collaborative relationships with that will be sustainable through difficult times? Which suppliers can provide lowest cost for large quantities of product or components, albeit with long lead times? Which suppliers have excess capacity and could supply our requirements at short notice, albeit at a higher cost? Which suppliers are noticeably more innovative and will always find creative ways to meet our inbound supply requirements? A portfolio of capabilities increases flexibility in the supply base.
4. For some manufacturers, the solution will be to become more vertically integrated, by taking control of some materials and components supply back in-house. If the business has found itself competing for scarce supply during this crisis, the balance of insource vs outsource might need to be reviewed, and a new balance struck.
5. In some exceptional cases where the danger of being starved of key supplies has become apparent, it may be worthwhile to buy out or JV with selected suppliers of critical inputs to your manufacturing process. In this way your control is increased, and risk reduced.

But none of this can happen without strong, overt leadership from the top. Leaders will need to be fearless in adopting new modes of operation in the future, and the climate for making major change will never be better than in the next two years. At the individual, business, and government levels we have found that the paradigm can be changed overnight – so we need to apply the lessons learned, quickly, and not let them get lost in the depths of the *long-term strategy* stockpile.

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