

The Covid-19 crisis reveals vulnerable supply chains

The Covid-19 crisis shouts: "Look, the supply chain is not wearing any clothes". Supply chain guru John Gattorna believes that supply chains have gone too far in streamlining costs and processes, and that the focus now should be on building more robust supply chains that contain a high degree of *agility*.

"The Covid-19 crisis amply demonstrates that we have gone too far in streamlining and pulling costs out of our value chains. The supply chains have become too vulnerable and brittle, and the focus is now shifting to building resilience, and agility is an important component of the desired robustness ", he says at a webinar organized by the supply chain tech company Optilon.

He refers to management guru Jim Collins, who talks about us now entering an extended era of "ferocious instability", and he emphasizes that more robust supply chains are not necessarily more expensive chains, it is just smarter chains.

He also emphasizes that robust supply chains must deal with two levels and two dimensions of volatility or disruptions, namely 1) normal volatility (up to 40 percent fluctuation in orders or supplies); and 2) extreme fluctuations with up to 100 percent fluctuation in the demand and supply dimensions respectively.

Switch from 'inside-out' to 'outside-in'

"We have been mismanaging supply chain designs for years. We have taken an inside-out approach, where as in future we should take an outside-in approach if we are to develop robust supply chains that are not blown over every time a black swan event comes by and disrupts conditions either in the demand market or on the supply side," he says.

He points out:

- that enormous amounts of resources have been spent on business process reengineering, of all possible types, often to little effect
- That many supply chains are based on the company's own systems, processes and employees, and
- that the market and customers' buying behaviors has been largely overlooked and ignored - the focus has instead been on developing the single ideal supply chain, a one-size-fits-all, which by the way does not exist

Roughly speaking, we have guessed how the supply chain should be designed so that it is both efficient and robust. It's a shame because the answer is right in front of our eyes: we need to find a way to understand our markets and our customers' buying behaviors, and then translate that into a set of supply chains that can appropriately service the different markets and customer groups so identified. I and my fellow researchers call it 'dynamic alignment'," says John Gattorna.

Together with fellow researchers, he has developed five archetypes of customer buying behaviour and a matching set of supply chain types, which he describes, for example, in his 2020 book "Transforming supply chains: realign your business to better serve customers in a disruptive world".

John Gattorna's five supply chains are divided into five different flows, each with different operational characteristics. They range from very stable and even flow at one end of the spectrum, to more unstable and extremely unpredictable flow at the other end.

Lay the silos down

“One of the biggest barriers we experience in supply chain management is that we continue to lead and run our business vertically, i.e., organized in vertical functions or silos. But the value for the customers is created in the horizontal flow across sales, purchasing, planning, customer service, production, finance, etc. It's not any longer valid to run a company vertically; it must be run vertically and horizontally, in synch. It is therefore necessary for companies to recognize that all parts of a company are indeed part of the supply chain,” he says, highlighting a few examples of companies that actually manage to use this dual management orientation, namely Li & Fung, Zara and Adidas.

He suggests a metaphor for the ‘horizontally led business’, is a collection of conveyor belts running parallel through the business, but with different operational characteristics.

“The dual vertical-horizontal’ managed company with different customized supply chains will require management to build a range of subcultures inside the business with employees who have a personality profile and an attitude that matches the supply chain and customer type they are facing. The employees must be able to understand and communicate with each customer group. Some employees have to think in terms of low cost; others in creative solutions mode; and yet others in close collaboration,” he says.

He emphasizes that it will require a kind of dual organization, where the company has both the vertical silos and the horizontal teams that coexist and complement each other.

If we do not move away from the silo model, then we do not have supply chains that create value for customers, and we have not created the resilience that is needed in a post-corona world characterized by the ‘ferocious instability’, which Jim Collins talks about”.

Network modeling

The right combination or configuration of common and tailored infrastructure, processes, and systems in the supply chain is, according to John Gattorna, crucial for the robust supply chain that manages to deliver customized value to different customer groups. He talks about placing decoupling points in the right places in the design, so that the company combines lean with agile with flexible, etc.

"Every major company should use intelligent supply chain modeling tools in conjunction with primary research and data mining to create scenarios that lead to defining the most appropriate supply chain configurations for a particular market," he says, adding: "I also see the Control Tower as a vital component in the design of contemporary supply chains, with the task of real-time monitoring of product flow, and sending out alerts when planned delivery times are disrupted. Modern digital tools can create the transparency needed to manage and adapt," he says.

Requires subcultures

Just as John Gattorna does not believe that 'one-size-fits-all' supply chains have any future, nor does he believe that a one-size-fits-all approach to the organization and composition of employee types creates strong supply chains.

"Right now, with the extreme disruption caused by the Covid-19 pandemic, many companies need employees with entrepreneurial mindsets. At this critical time in our history we need employees who are visionaries, who can make independent decisions, and who are very self-driving- these are the type of personnel in demand. At other times and situations there is a need for more stable and rationally oriented employees who can service customers who want a more stable flow of supplies," he says.

He does not think it makes sense to start creating customized supply chains if the company does not also establish subcultures in the organization that match the supply chain and the customer group. The same applies to the supplier-facing part of the company; here the employee profiles must also match the different supplier types.

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Get wiser on 'dynamic alignment'

John Gattorna has for decades worked diligently to push for the professional development of SCM and has systematically searched for new and innovative ideas, which he has collected in a string of books and in numerous lectures as well as workshops and thought leadership Retreats around the world. In 2018, he received the CSCMP Distinguished Service Award for his pioneering work, and was inducted into the CSCMP Hall of fame the same year.

His latest book "**Transforming supply chains: realign your business to better serve customers in a disruptive world**" is written on the basis of six so-called "Retreats", where John Gattorna and co-worker Deborah Ellis have gathered a string of specially selected supply chain directors, consultants and researchers for a solid round of reflection or "thought leadership". The Retreats took place in Sydney, Singapore, Hong Kong, Amsterdam, Cape Town and Hamburg in 2017 and 2018. Read more about upcoming retreats in 2021/22 at <https://www.gattornaalignment.com>