

# The new operational imperative

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Why your supply chain will never be the same again

It would be an understatement to say the COVID-19-induced shutdowns and slowdowns have changed the way leaders think about their operations and supply chains. It would also be misleading to think this is a unique or short-term event. For many industries, supply chain reliability has been challenged for the past decade due to a variety of geo-political, economic, and environmental forces.

In fact, many companies have been reconsidering the design and location of their supply chains for the last 10 years or so. A variety of American companies such as Apple, Caterpillar, Whirlpool, and Merck & Co. have already reshored parts of their supply chains back to the U.S. for a variety of business reasons. This might be just the tip of the iceberg. The political rise and election of Donald Trump brought a "Made in America" mantra to government intent and policy, specifically as it relates to the manufacturing sector. Moreover, there has been a realization in many industries and companies that going offshore does not automatically bring cheaper, higher quality goods and services. In Canada, research for Canadian banking clients that showed that certain software development services, like testing, could be delivered in Canada at a lower cost and risk profile versus India. Finally, there is growing evidence the number of low probability / high impact disruptions like Japan's Fukushima nuclear reactor disaster and the COVID-19 pandemic are increasing, throwing supply chains into disarray.



Undoubtedly, these factors are influencing how Canadian manufacturers, business services firms, and retailers are planning their own supply chain and operational strategies. Right now, most companies are coping with the effects of COVID-19 – a disruption with impacts that may persist for years. In this environment it is likely you are dealing with increased costs from new safety measures, supply chain disruptions, lower labour productivity (due to work slowdowns and worker absences), and the new investment required to implement new delivery or production schemes. At the same time, you may be experiencing catastrophic falls in consumer demand approaching 95 percent of your typical revenue. Yes, government stimulus efforts have helped significantly but managers would be wise not to count on them beyond 2020.

The next couple of years may not necessarily be rosier. An overall slowdown in the global economy can further depress consumer spending and business investment, triggering an extended recessionary environment. The challenging state of government finances right now can easily result in higher taxes or interest rates tomorrow, further dampening a recovery. Finally, looming on the horizon is a potential China-U.S. trade war, increasing the complications of supply chains and raising costs.

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In these difficult and uncertain times, prudent companies will want to refashion their operational and supply chain strategies to cope with disruptions and minimize cost. The CEO and COO's imperative should be on increasing enterprise resilience and adaptability – and ultimately creating a platform for renewed, profitable growth. Fortunately, leaders have a variety of strategic choices available, five of which are summarized below:



### 1. Repatriating part or all of your supply chain

Complex or geographically distant supply chains are highly vulnerable to COVID-19 restrictions, natural disasters and in the case of China, higher tariffs and non-tariff barriers. Even Canada's Free Trade agreement with the U.S. does not prevent major hiccups around product shipping, customs clearances, and employee travel. Bringing your supply chain closer or back to Canada reduces business risk, shipping times, and in many cases, logistics cost. If reshoring to Canada is not possible in the medium term — retooling global supply chains is not easy — consider producing some of your inputs within your firm or together with local partners.



### 2. Move more services and operations online

Thanks to new technologies and operating models, a variety of supply chain activities can now be automated, handled remotely via stay at home employees, or turned into self-serve activities. MNP has helped clients go deeper digitally in a number of areas including customer service, procurement, and customs clearance. Not only will automation and web-based processes improve operational robustness, but it can also lead to significant efficiency cost savings, fewer errors, and improved service levels.



### 3. Diversify your vendor list

Prior to COVID-19, conventional wisdom said it was wise to consolidate your procurement into as few vendors as possible. While that may have helped maximize purchase discounts and simplify procurement, it increased corporate vulnerability by putting too many supplier eggs in one basket. In these uncertain times, spread your buying around, particularly for inputs or services that can make or break your business.



### 4. Redesign your products, services, and process

Complexity in terms of product design, processes, or practices generates significant organizational inertia, reducing operational flexibility, speed, and efficiency. Designing in simplicity across many dimensions can enable companies in times of crisis to respond quickly to customer, production, or supply chain demands while keeping costs as low as possible. Examples of complexity reduction initiatives MNP has undertaken include product input harmonization, process redesign, and product portfolio rationalization.



### 5. Move to an adaptable work force

Being able to cope quickly with supply chain disruption and operational redesigns relies heavily on the presence of an adaptable, engaged, and skilled work force who have access to the right tools. Many organizations MNP has worked with are seeing higher productivity and change-readiness in employees (at all levels and roles) who possess a generalist skill set – and the autonomy to deploy them. Fortunately, organizations can foster this adaptability through training initiatives, knowledge management, and job sharing.

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Adapting your operations can be an uphill climb, but you don't have to go at it alone. MNP's Consulting Services helps organizations like yours take advantage of emerging opportunities and alter their business to meet today's new demands.



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