Supply Chain Planning Is Dead, Part 2

This is part two of a two-part piece. Part one can be found here. *[1]*

***Manufacturing.net*: How are companies introducing Lean into their supply chain, and how is this a bad thing?**

Guy Courtin, Supply Chain Industry Marketing Manager, Progress Software: Lean is not a bad thing at all. However, for every action, there is always an equal and opposite reaction. The ability to reduce waste within the supply chain and gain efficiencies also renders supply chains more vulnerable to any unplanned events.

The reason why supply chains held such items as safety stock was to hedge for a "rainy" day. Of course safety stock has a carrying cost; reduce that safety stock and you free up working capital, which makes you leaner.

The consequence is that you may incur a greater cost to rectify the problem than had you held more safety stock. It's the same thing as insurance — if I do not have auto or home insurance, I will save money and reduce my expenses, which sounds great, until the day I have a flood or get into a car accident. Now I will incur a larger cost than if I had insurance.

M.net: Are we going to see a time when the supply chain is intentionally complex in order to counteract supply issues/disasters?

Courtin: I think that supply chains have grown in complexity due to expanding reach of markets, seeking lower costs and overall attempts to maximize perceived competitive advantages. Part of this is to hedge with regards to supply issues and disruptions. I do not believe that the complexity is done intentionally; it is just the evolution and the way in which problems are addressed. Supply chains will constantly look to streamline and simplify themselves, but complexity will be an unavoidable consequence.

M.net: Can you explain, perhaps with an example, the issue of "bidirectional elasticity?"

Courtin: Rather than simply chasing low cost, we have to balance this with maximizing value. For example, certain companies have recognized that they can outsource products to the Far East — it is less expensive and saves a tremendous amount in the make stage of the supply chain. Unfortunately, it takes two months to get to market, and the cost of moving the good fluctuates and may eat up whatever cost savings was acquired due to low-cost manufacturing. Instead, maybe this company moves manufacturing closer to the destination market. It might cost more in labor and production, but the product gets to market faster, and therefore

meets and can react better to customer demands.

M.net: What can manufacturers do to prevent another Japan-like scenario from affecting their supply chain?

Courtin: We will have another situation like what we have witnessed in Japan and Thailand. There is no question about that. Companies need to constantly think about risk and how to deal with this risk [2]. Here are a few pointers:

1. Regularly do an assessment of the company — where does it manufacture its products, what are the crucial components and whom are those suppliers, where are the vital distribution centers, where are the important clients and where are the most important partners. Rank these in importance. Identify the most vital parts of the business. The 80/20 rule applies, you just need to understand what is in that 20.

2. Companies should do detailed business continuity planning that includes natural or geo-political disasters that would shut a plant or series or suppliers/plants down for multiple months. By coupling that with real-time visibility and event management, business process management (BPM) and business rules management (BRM) can be used to automate the detection and implementation of a plan through events/rules.

3. Run what-if analyses. Understand the impact if a supplier goes off-line, or if a distribution center is suddenly struck by a flood, or one of your partners is located in a politically unstable environment. Run the scenarios to understand the potential impact.

4. Consider including agreements with outsourced suppliers to provide support if needed. Identify plants that can ramp up activity if called upon, and take into account all alternative sourcing possibilities as potential backup.

M.net: What other trends do you see changing in 2012?

Courtin: If there is another trend that I think is sorely overlooked at times, it’s the impact that geopolitical events have on the supply chain. For example, Pakistan is a nation that has a degree of instability and volatility. Many question the relationship it has with India, or the situation it faces on the border of Afghanistan, or who has true control of the nation, and yet there remains a large amount of manufacturing within that nation. What happens if the political situation shifts drastically?

Or even what we saw in 2011 in London — riots that broke out of the blue. One event that stuck out to me was that Sony had a distribution center destroyed. Did that take out a week’s worth of stock? Was it a month?

Finally, take into account what is happening in the Euro zone with Greece and Italy. What if they default and the Euro devalues or inflates, how will that impact supply

chains that either sell into the Euro zone or have processes within the Euro zone?

Companies and supply chains must have an eye to geopolitics and assess the risk/reward associated with this aspect of the world we live in. Too often we focus on how to handle the next flood or earthquake, but not the next revolution.

To read part one of this two-part series, please click here [1]. What's your take? Please feel free to comment below! For more information, please visit www.progress.com [3].

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