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Improving resilience in your supply chain

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Event Summary Report

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Executive Summary

“Improving Resilience in Your Supply Chain” was organised by Economist Impact and sponsored by InterSystems. The webinar was moderated by Jan Piotrowski, the business editor of *The Economist*.

The discussion convened supply-chain executives and experts to discuss how recent shocks in the global trading system have affected the supply chain. While many companies had to adapt fast to the changing trading landscape at the beginning of the covid-19 pandemic, many did not expect to be continuing to adapt 18 months later.

In the face of ongoing supply-chain disruptions, how are supply-chain leaders changing the way they operate to remain competitive? As many of our participants highlighted, the recent shocks have sped adoption of technologies, including those related to data and analytics, in global supply chains, giving companies better visibility throughout the supply chain so they can better predict and adapt to disruptions. Digitalisation of the supply chain has long been discussed within industry, yet recent disruption has propelled adoption further than executives previously imagined possible. Resilience, too, has become a watchword, as many organisations have rethought their previous focus on efficiency and on ruthlessly cutting redundancy from operations. Our panellists concluded by striking a note of optimism on the value of collaboration, as many organisations have been working hand in glove with trusted supply partners to ensure the smooth functioning of operations throughout the current disruption.

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Last year we were waiting for the vaccine, expecting that everything would be behind us and would go back to normal. Guess what? As of today, all the big retailers are chartering transportation themselves, and why? We're facing another huge challenge—it seems that this is the new normal.

Sherif Riad

Global chief supply-chain officer
Krispy Kreme

New disruptions, new challenges

For David Simchi-Levi, a professor of engineering systems at the Massachusetts Institute of Technology (MIT), the supply-chain disruption at the beginning of the pandemic was in many ways predictable. Using data on supply-chain resilience gathered from incidents including the Indian Ocean earthquake of 2004 and the Icelandic volcano eruption of 2010, research teams at MIT were able to predict the effect on the supply chain of manufacturing closures in China from early 2020. Given the focus of supply chains on lean operations, and the trend of recent years towards consolidation and offshoring manufacturing, it was only a matter of time before the pandemic-induced disruption in China and the Asia-Pacific spread throughout the supply chain to hit Europe and the United States. The global supply chain in recent years has cut costs and improved efficiency, but at the cost of increased risk exposure.

Yet many who moved fast to adapt to the disruption caused by the covid-19 pandemic have been taken aback by the breadth and severity of the current and ongoing disruption to supply chains in 2021. For Corina Cioranu, vice-president of global indirect sourcing at Mondelez, there is a significant amount of fatigue as teams continue to work 24/7 with partners to get through this current disruption. While many expected that by today, the operational inefficiencies that proved a challenge in 2020 would have been ironed out, nobody expected the supply-chain issues to get worse. Sherif Riad, the global chief supply-chain officer at Krispy Kreme, agreed with this sentiment—while it was hoped that vaccinations would herald the beginning of the end of supply-chain disruption, what is now seen as “the new normal” requires that companies focus on improving their supply-chain function, continuity planning and digitalisation plans.

Analysing what happened

Yet the drivers of disruption today are completely different to those at the start of the pandemic, which were primarily about supply and manufacturing constraints, according to Mr Simchi-Levi of MIT. First of all, compared to the start of the pandemic, demand has increased dramatically as consumers in many parts of the world begin to feel the effects of economic recovery. This drastic increase in demand has led to shipment and transportation challenges, exposing constraints on container capacity and raising the cost of shipping dramatically. There is also an attendant labour shortage. All these factors combined are causing a continuing shock to supply chains worldwide.

As many of our panellists outlined, the multifaceted nature of the current disruption makes the trajectory of the crisis exceedingly difficult to predict. None of our panellists were willing to put a firm date on how long they expect these bottlenecks to continue. For Ms Cioranu of Mondelez, even the first quarter of 2022 is expected to be turbulent for global supply chains, and disruptions are still being factored into the planning process as far out as 2023. The key to ensuring supply chains are fit for the continuing crisis will be to embed resilience throughout the chain so it can better withstand future shocks.

“ Risk in supply chains is found in unexpected places. Just focusing on collaboration, without understanding the impact and where you need to invest your resources, will not solve the problem. Similarly, just moving manufacturing facilities from one place to another place is not going to increase supply-chain resiliency—and we saw this time and time again with purely domestic supply chains.

David Simchi-Levi
Professor of engineering systems
**Massachusetts Institute of
Technology**

Embedding resilience

While embedding resilience will be core to ensuring that supply chains can be fit for the future, as Mr Simchi-Levi highlighted, this is no easy task. The years before the pandemic saw a focus on efficiency, to the detriment of many when the crisis struck. Yet to focus on resilience and forget about efficiency is also wrong-headed. The key is to find balance.

By using data, analytics, collaboration and automation, companies should be able to assess the trade-off between resilience and efficiency, recognising where it is possible to increase resilience without too much of an increase in costs. Some suppliers are also adding resilience clauses into their contracts with suppliers, which previously focused on issues such as cost, response time and quality. Adding resilience to this suite of requirements means that suppliers throughout the supply chain are reassessing their resilience and ensuring their downstream suppliers are doing the same.

According to Mr Riad of Krispy Kreme, striking the balance between resilience and efficiency is a difficult task—or in Krispy Kreme’s case, with ingredients such as sugar and flour at record-high costs, even a tightrope act. Yet not all methods of improving resilience have to be high-investment, though they must be high-focus. At Krispy Kreme, according to Mr Riad, a focus on creating a winning culture within supply-chain teams, as well as on supply-partner excellence, has helped in navigating recent crises.

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We are emerging stronger. We have lots of learnings, we’ve built resiliency in the supply chain and are fixing short-term issues but also working on the mid- to long-term strategies as well as sustainability. That work hasn’t stopped.

Corina Cioranu

Vice-president, global indirect sourcing

Mondelez

Creating a collaborative supply chain

According to Mark Holmes of InterSystems, this disruption is precipitating a move from thinking of supply chains as linear, towards more collaborative supply chains. Instead of supply chains following a “plan, source, make, deliver” model, companies are increasingly thinking of their supply chain as collaborative and circular. In this new paradigm, the supply-chain process needn’t finish at the hand-off of the end product. Companies are creating real-time constructive management processes to give greater visibility for all stakeholders in the supply chain. Instead of all the information flowing in one direction, information is now being shared across and throughout the supply chain.

This new paradigm for supply chains flows down to relationships with suppliers too. For Ms Cioranu at Mondelez, the collaboration process begins with co-creating a shared vision with suppliers right from the outset of the relationship. That involves understanding each other’s businesses better and co-creating continuity plans together to deepen the traditional buyer-supplier relationship. Having the ability to constantly challenge partners on their plans, to ensure they are tackling the right issues and measuring the right performance indicators, will only come from having a deep relationship that has been forged in good times, not only in times of crisis. This approach has served Mondelez well—if it hadn’t already built strong relationships, managing the current environment would have been far tougher.

Horizon-scanning: The future of supply chains

While the disruption of the past 18 months has challenged supply chains, for Mr Simchi-Levi of MIT it has also been encouraging to see how fit for the future many of our supply chains truly are. A year and a half ago, supply-chain executives' digitalisation plans had five-year time horizons, and yet many of the changes made recently have been implemented in a much shorter period. Finding a balance between efficiency, performance and resilience has stood many companies in good stead for continuing disruption.

For Ms Cioranu of Mondelez, while there is no need to completely reconfigure the supply chain, there is a need to improve resilience with a view to the medium and long term, as well as constantly bearing sustainability in mind during transformation. Mr Holmes of InterSystems agreed, arguing that the key is to do things in a smarter way than before, using digital transformation to manage constraints with actionable data insights. By ensuring that data systems are interoperable and have artificial intelligence and business intelligence built in, companies are increasingly able to provide real-time information to help solve challenges in the supply chain as they happen.

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