



SUPPLY CHAIN RISK SURVEY REPORT 2018

ARE THE GOALS OF THE SUPPLY CHAIN BEING
DOMINATED BY THE GOALS OF THE BUSINESS?





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INTRODUCTION

"Disruptions to supply chains, whether they are natural, accidental or intentional, are increasingly distorting supply chain performance. Given that such disruptions are unlikely to decrease in the short term, supply chain risk mitigating solutions will play an increasingly significant role in the management of supply chains."

Given this reality, the question revolves around how organisations can best prepare for inevitable disruptions, such as geopolitical trade wars, enabling technology and the rise of the on-demand consumer. However, the biggest risk is ignoring the risk itself and not recognising that change is inevitable."

Prof. Omera Khan, Strategic Supply Chain Risk Expert

"An increasingly 'on-demand' economy needs to embrace the benefits that new technologies can bring. One of the biggest impacts of the industrial revolution 4.0 on how future business models are shaped doesn't see technology as a risk, but as an enabler of greater responsiveness. Increased customer expectations, driven by the on-demand economy, is by far one of the biggest risks facing global supply chains today – the risk being that organisations fail to appreciate this new dynamic and continue to structure business models in an analogue way. Businesses need to ask themselves how flexible are they willing to be when embracing change in order to meet the developing demands of consumers."

Consumer buying behaviours have evolved hugely over the last ten years and will continue to do so over the years to come. The on-demand economy driven by advances in technologies such as 3D printing will demand shorter, more responsive supply chains with significantly more agility. Retailers will become curators of ideas, the historically big and expensive projects of the past such as large ERP implementations will ultimately be rendered redundant."

James Gherardi, BIE, Director – Supply Chain & Procurement



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Supply chain and procurement sit at the heart of any product-led business: its performance can ultimately make or break the company's success. However, many organisations don't give enough recognition to the supply chain or the strategic benefits that it can deliver.

We decided to investigate how the supply chain deals with current and future perceived risk factors from a functional and organisational perspective.

Our 2018 Supply Chain Risk Survey explored:

- What are the biggest challenges for supply chains?
- What have been the top goals over the last three years and what is the forward focus?
- How has the supply chain risk profile changed over the last three years and how will it look in the next three years?
- In what ways does the supply chain provide a competitive advantage to businesses?
- How much of a role is business transformation playing in the supply chain?
- What are the key areas of focus for change?

The results show that the focus for the supply chain is becoming dominated by the goals of the overall business, and that care needs to be taken to ensure they are prepared for the wide range of risks to the supply chain, and not just on improving customer satisfaction and reducing costs.

One of these risks is talent shortages. The results show that the majority of supply chain professionals are coming from external sources, therefore more effort needs to be made to develop appropriate succession planning strategies to build up supply chain talent internally.

SURVEY OVERVIEW

We surveyed 146 senior supply chain professionals working across a wide variety of sectors and operating across a range of markets. 61% had been in their current role for less than three years, and 71% had been recruited from an external organisation.

1. Succession planning and retaining top talent

71% of respondents were recruited into their current role rather than being promoted internally. This suggests that there is work to do in supply chain succession planning strategy and management, with some investigation needed into what is causing the capability gap.

Recently at BIE, we have seen attrition at all levels of organisations' supply chain, possibly relating to a talent retention issue due to this lack of articulation around the succession planning strategy.

However, we believe this is reflective of a broader trend, where organisations are moving towards having fewer people but of a higher calibre.

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2. Supply chain's biggest challenges

The three biggest challenges faced by the supply chain over the last three years were also the top three challenges anticipated for the next three years;

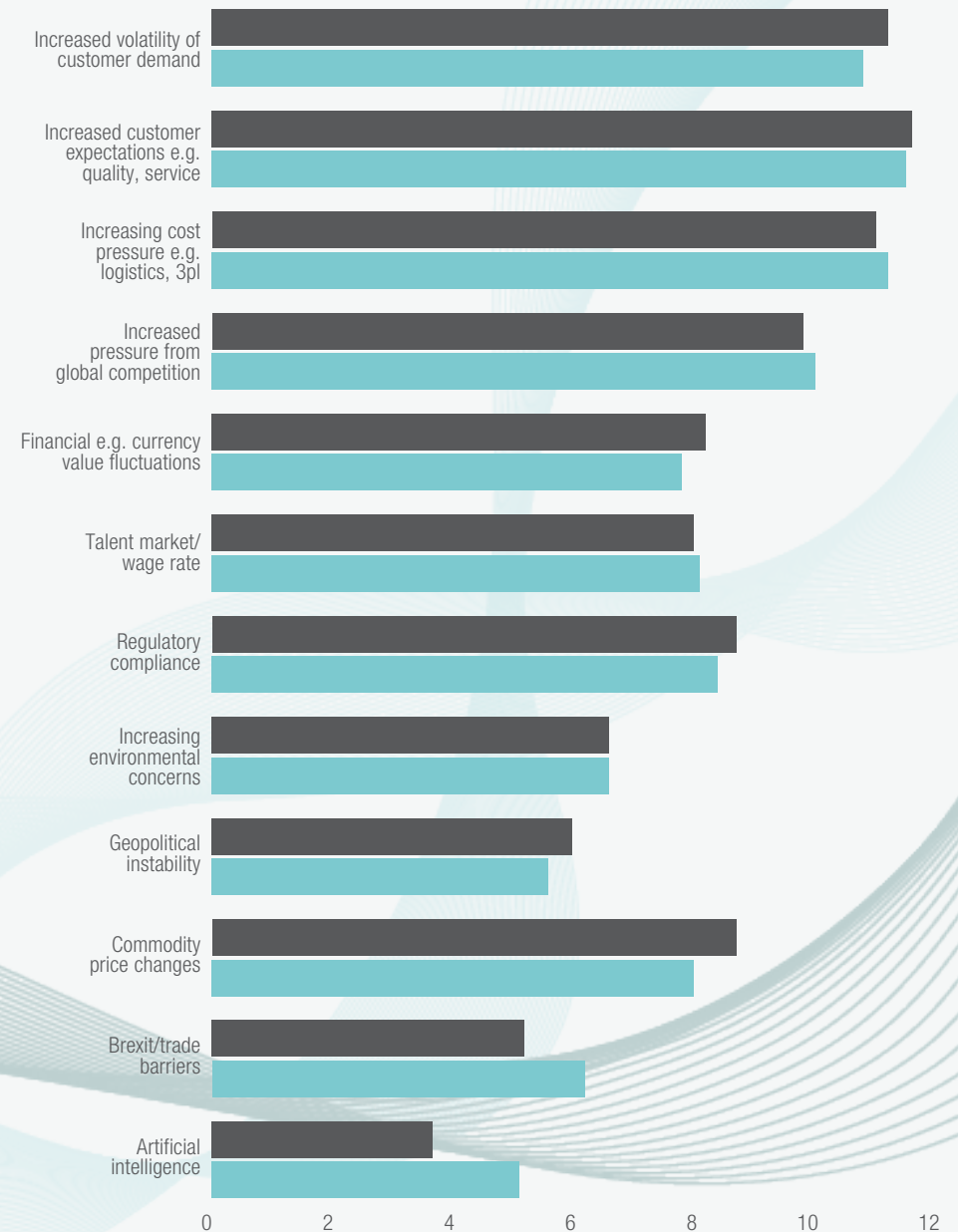
- Increased customer expectations
- Increased volatility of customer demand
- Increased cost pressure

Respondents recognised that having an influence on responsiveness and a level of efficiency within their supply chain are their biggest challenges. However, the enabler to get to that point ultimately could be Artificial Intelligence (AI), and that was low down the list of challenges both past and present.

Optimised technology platforms, that are effectively integrated across organisations, should result in the automation of repeatable data heavy processes e.g. demand forecasting that allows people to focus on managing the exceptions. This liberates your planning teams so that they can engage in some of the interesting work around fully integrated business planning and value add activities.

● Last 3 years ● Next 3 years

Please rank the biggest challenges your organisation has faced over the last AND next three years. (1 being the smallest, 12 being the biggest)



Further analysis of individual responses revealed the biggest swings between past and future challenges were in the following areas:

Brexit/trade barriers:

- More UK and EEA respondents signalled a significant increase in supply chain risk whilst those in RoW territories indicated no-change.
- UK respondents were more concerned about the impact of Brexit/trade barriers on supply chain risk compared to EEA respondents.
- Some EEA and UK based respondents did record a decline in supply chain risk signalling that they had possibly taken steps to mitigate this through already implementing a strategy.
- Brexit as a whole registered as a significant risk profile with around 50% of those surveyed having either put in place, or in the process of putting in place, a related strategic plan. This could indicate that there are other more significant risks. Alternatively, given the lack of clarity surrounding future trading arrangements, companies are reluctant to commit to implementing a strategy. Non-European respondents consistently reported that global competition and costs were more significant risks for them overall.

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”

Other challenges of note:

- A cause for concern across the EU was increasing global competition, however this was not recorded in the US market data. It would be interesting to explore how this finding evolves over future surveys.
- Cost pressure risk is increasing whilst customer demand volatility improves.
- Concern over geopolitics is improving in Europe whilst in the US concern is growing.
- Swiss-based respondents recorded a decreasing supply chain risk profile regarding Brexit/trade barriers with their largest swing being towards the speed to commercialise products from the NPD pipelines to production.
- Respondents in the food and beverage manufacturing sector reported the greatest risks from increasing global competition. Combined with significant cost pressures, commodity price increases and customer demand volatility were the standout risks and are not predicted to ease over the foreseeable future.
- Overall, the risk categories where respondents reported an increasing or significantly increasing risk profile, yet where no actions had been taken to manage those risks, were most widely seen in:
 - » Government policy
 - » Brexit/trade barriers
 - » Data, IT infrastructure and AI
 - » Financial market volatility
 - » Environmental concerns

Environmental factors:

- Some big swings in the supply chain risk profile of environmental factors were reported with larger organisations actively putting in place strategies to ameliorate these.

AI:

- Highlighted as the biggest swing category for supply chain risk, a large number of respondents registered a bottom three to top three shift. However, AI is seen as a smaller risk compared to other factors and, as such, strategies are not actively being put in to place to manage this.

Talent:

- UK respondents reported a decreasing risk profile for talent compared to EEA respondents who highlighted an increasing trend – possibly due to UK nationals not being willing to move to Mainland Europe or the potential risk of free labour movement not being maintained. The construction sector registered a significant concern in this area alongside financial pressures.

3. The technology disconnect

The results of the survey show that there is a disconnect in terms of the use of technology and businesses embracing the potential technological advantages they could be using to optimise their ways of working: systems and processes.

The survey shows that although many organisations are actively talking about the challenges of AI and big data, from a supply chain perspective they are not perceived as factors that are a key priority. This could be cause for concern when you consider the number of large organisations that suffered catastrophic IT failures over the last 12 months, as a result of malicious external cyber attacks due to a data breach or a virus introduced via their own networks. The enormous impact this has had on these organisations indicates it should be a bigger priority than it currently is.



WE BELIEVE A KEY TREND IS THAT ALTHOUGH EVERYONE IS TALKING ABOUT AI AND BIG DATA, FROM A SUPPLY CHAIN RISK PERSPECTIVE, IT'S NOT PERCEIVED AS BEING A KEY PRIORITY. ”

4. Decreasing cost to drive revenue

Decreasing operating costs and driving revenue growth were the top two goals both over the last three years and for the next three years from an organisation's perspective.

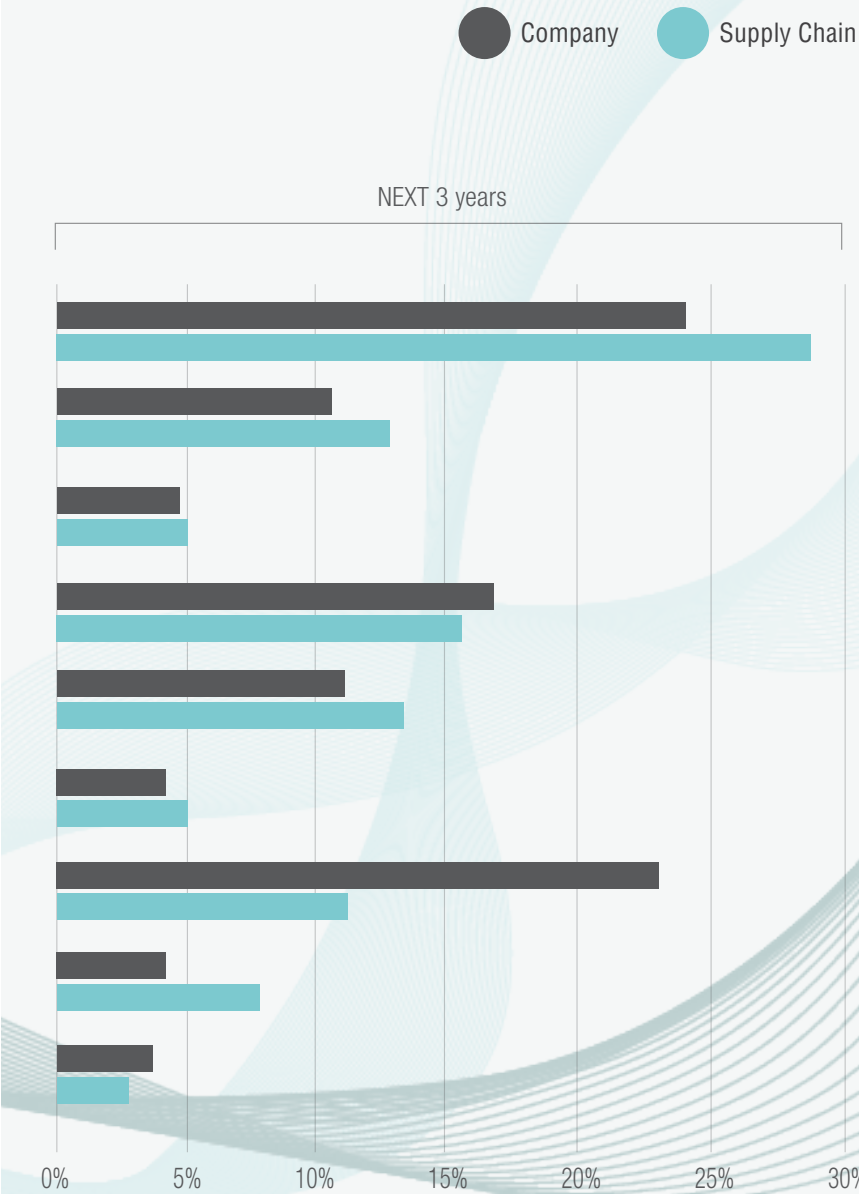
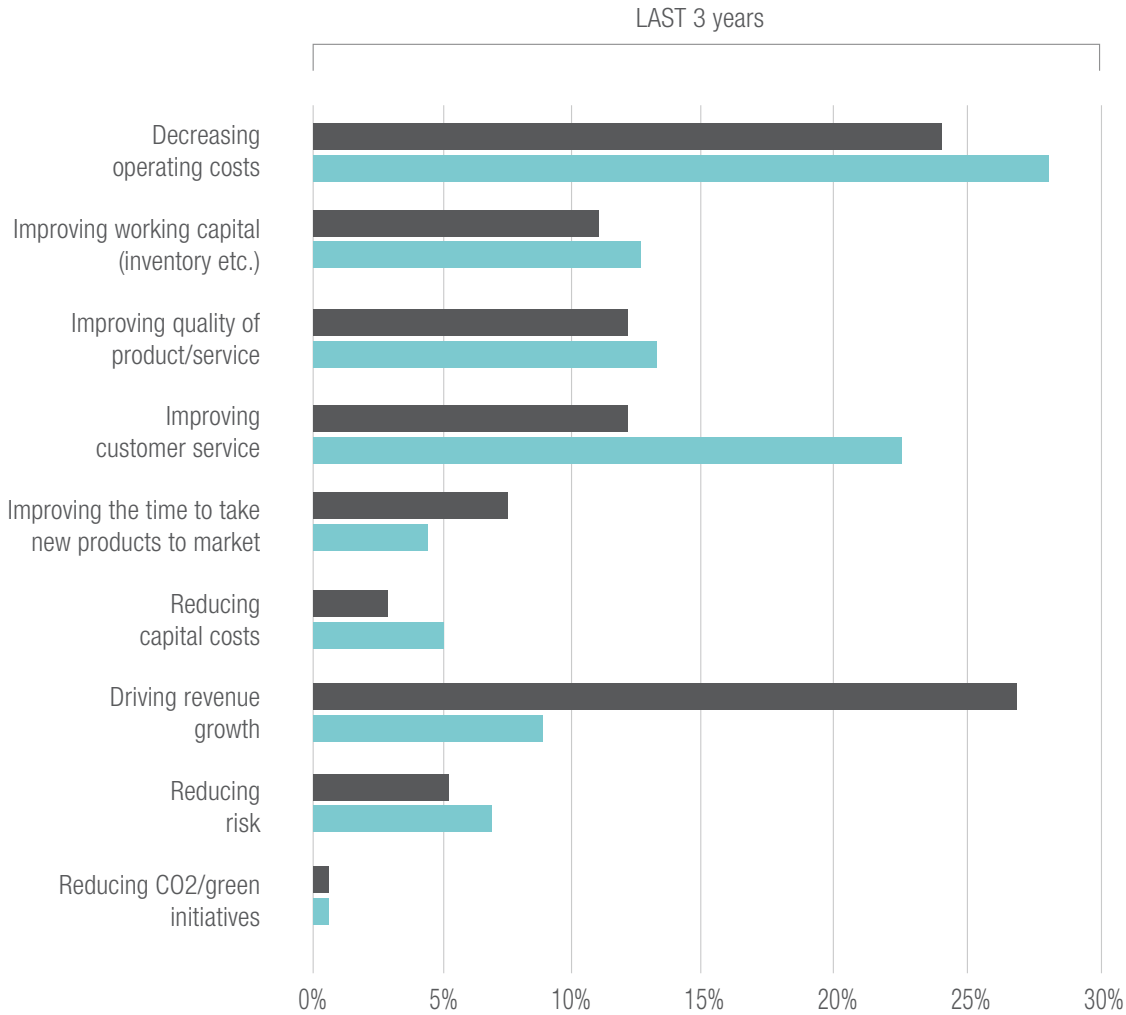
However, driving revenue growth was not as much of a priority for the supply chain, where decreasing operating costs was still the number one goal, followed closely by improving customer service. This is interesting because working capital is generally seen as a key metric for supply chain success.

Historically, the focus has been on decreasing the bottom line rather than increasing the top line. You can only drive the bottom line down so far before you need to grow sales to drive revenue. This would explain the focus of the supply chain on improving time to market for new products.

However, despite the focus on reducing time to market, the supply chain isn't seen as an enabler of revenue growth. Rather, it is seen as a lever to decrease cost. You could say that driving revenue growth comes from the commercial side of the business, but through fully integrated business planning and S&OP, supply chain should be an enabler to driving that revenue growth. If organisations are not effectively integrating supply chain into sales and commercial centres, nor into the R&D functions of organisations, then you remove the potential for improving speed to market for new products and effective forecasting across both existing and new product lines. As a consequence, you remove supply chain's potential to be a competitive advantage.

The graph on the next page illustrates these findings »

Thinking about your company AND supply chain overall, what have been the top two goals over the last three years and what are your top two goals for the next three years?



5. Risk perception

68% of respondents said their supply chain risk profile had increased over the last three years, and 77% of respondents envisage their supply chain risk profile continuing to increase over the next three years.

There has been and continues to be an increasing perception of risk, and yet the biggest challenges that the supply chain has been focusing on are the same big challenges that the business has been focusing on, which is getting involved in the day-to-day activities of looking at customer expectations.

The supply chain is not addressing any of the real risks that you would expect to see in an organisation. If they were, they'd probably be looking at trade barriers, geopolitical instability, the advent of AI, big data, financial currency variations, commodity price changes, as well as trying to find the right talent.

74% of respondents reported that their CEOs were active influencers in supply chain strategy. This alludes back to the earlier point that supply chains are focussing more on business priorities and driving the bottom line rather than thinking about top-line growth, which is having an impact on the supply chain's ability to effectively manage risk.

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BIGGEST CHALLENGE?

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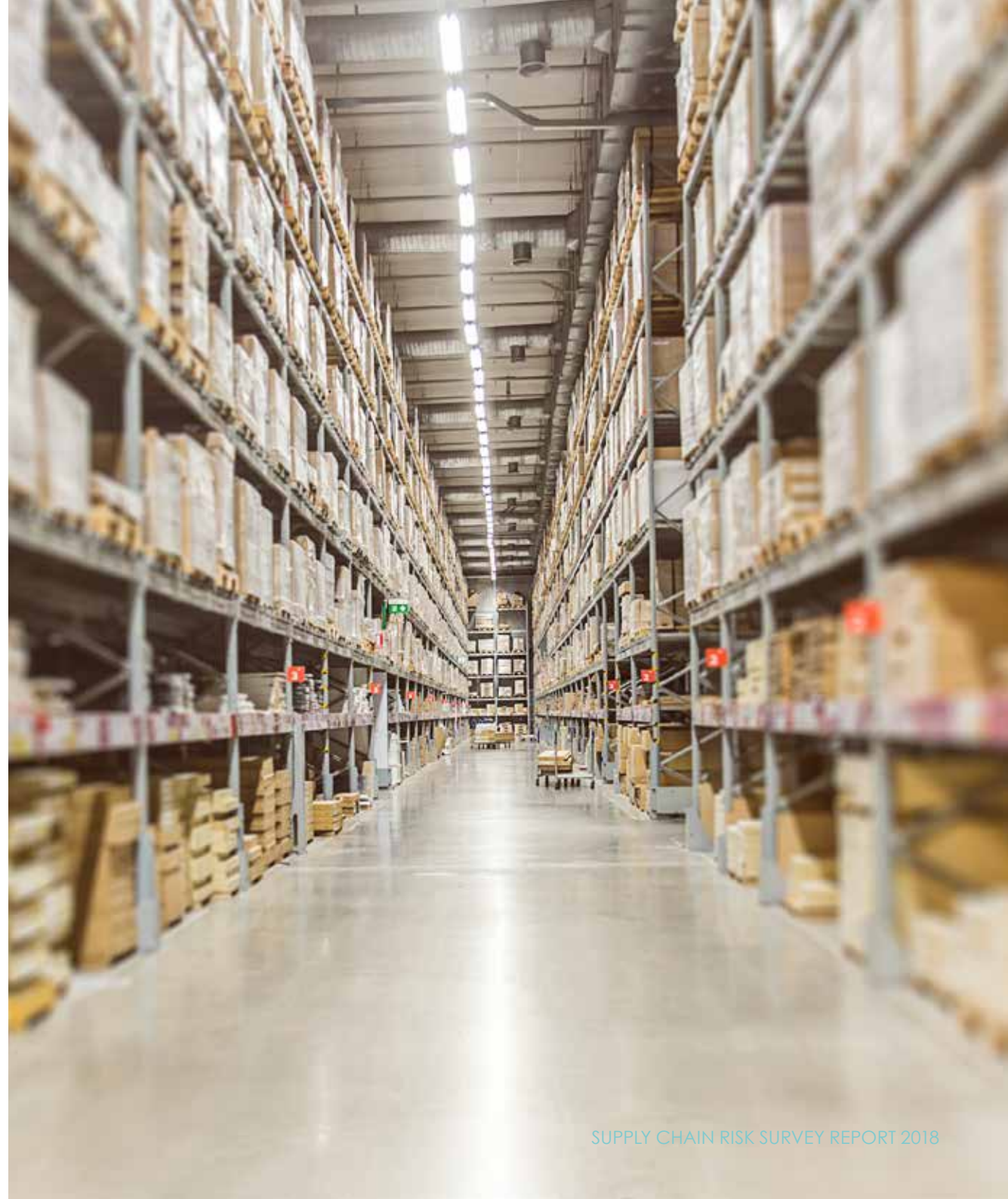
6. Supply chain talent shortage

72% of respondents think their workforce risk issues are going to increase in some way, and 69% have put a strategy in place to tackle them. This is an interesting observation when considering that talent was scored low on the list in terms of the biggest challenges faced by organisations.

What we can deduce here is that from a supply chain perspective, talent shortage is a problem and plans are being put in place to address this. However, at the overall company level, it's seen as less of an issue. A large part of this will probably be down to Brexit and companies with big manual workforces who are no longer able to hire relatively low-cost talent from mainland Europe.

An increasing trend in the market is that, driven by inflationary wage cost increases, employees at the factory floor level are seeking greater remuneration in an attempt to counteract the fall in the value of Sterling. Increasingly, blue collar workers are seeking out employers offering preferential salaries in order to correct the negative impact on their take home pay.

This is driven by attrition across the manual workforce as a result of a steady flow of people returning to either their home country or other mainland European locations. This is an essential risk for future consideration, as is the effect this trend will have on overall productivity.



7. Supply chain's competitive advantage

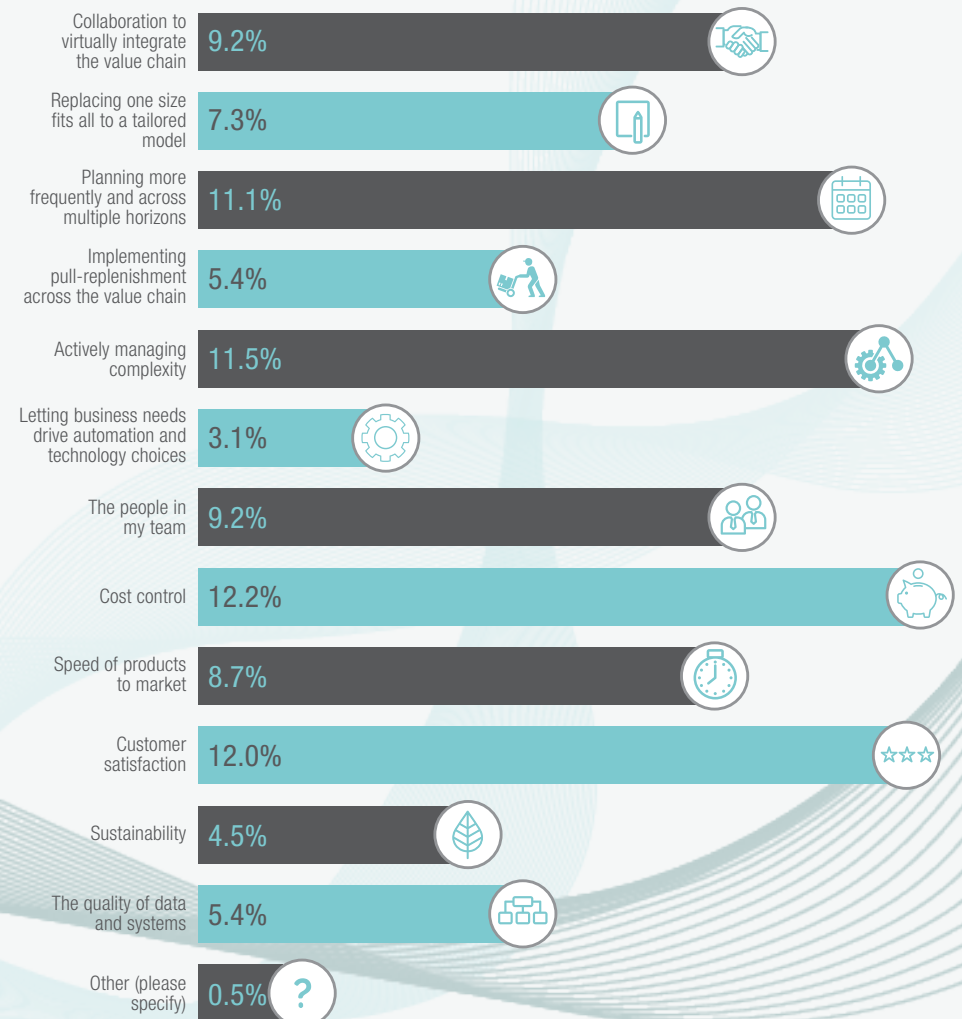
When respondents were asked in what way the supply chain provides a competitive advantage to their organisation, the three most popular responses were:

- Cost control
- Customer satisfaction
- Actively managing complexity

Cost control and customer satisfaction correlate with the earlier findings in the survey, with the broader organisational risks being imposed on the supply chain. Ultimately, driving these behaviours is having an impact on supply chain's ability to deliver where it should be able to add value - through deeper integration of sales and operations planning, reducing complexity with technology, and improving customer service and time to market.

Organisational risks are dominating supply chain risk. Getting involved with the day-to-day firefighting and trying to reduce costs and drive customer service are important, but should be the consequence of good supply chain planning and management, not a driver of it.

In what way does your supply chain provide a competitive advantage to your organisation?

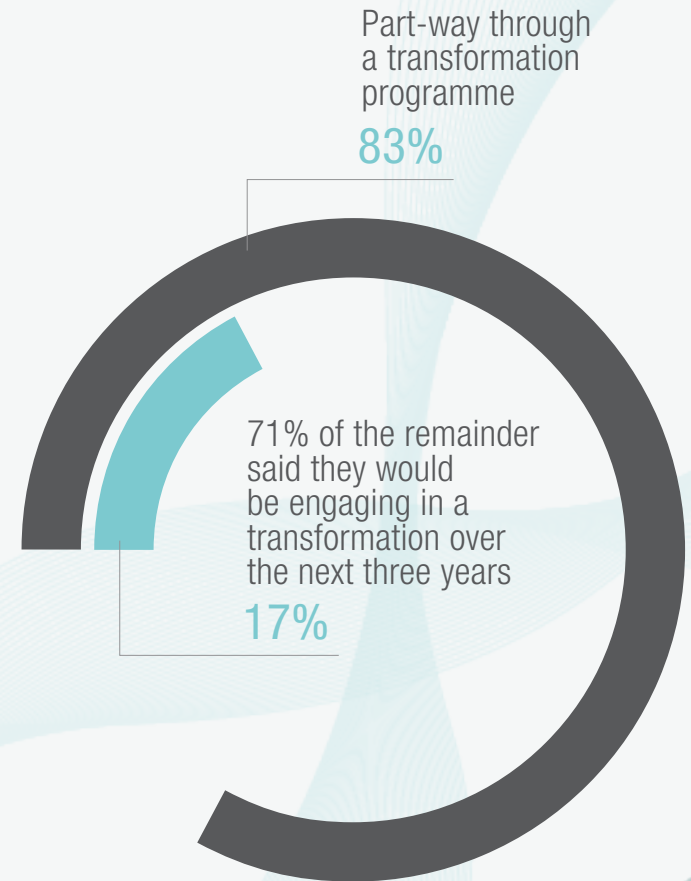


8. Supply chain transformation

83% of respondents reported that their organisation were part-way through a transformation programme (65% had been running for less than a year, 73% have more than a year to go). Of the 17% remaining, 71% said they would be engaging in a transformation over the next three years.

A further 82% of organisations said there is a significant supply chain change initiative either currently underway or planned for the near future.

As with other areas of business, transformation is everywhere, and the supply chain is no exception.



9. Optimising the relationship between working capital and customer service levels

The most important areas of focus for organisations to optimise the relationship between working capital and customer service levels were:

- S&OP/IBP
- Demand management
- Order to cash cycle

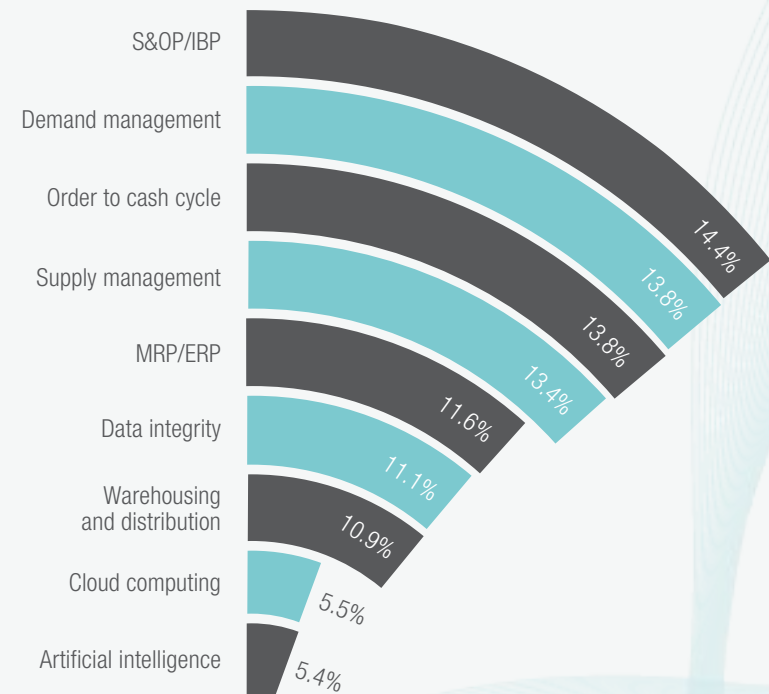
S&OP/IBP is ranked the most important area of focus for organisations to optimise the relationship between working capital and customer service levels. What we're clearly seeing is there are supply chains recognising the value of sales and operations planning, effective demand management, and optimising the order to cash cycle.

Demand management is focused on accurately forecasting what customers are going to want, based primarily on historic data and sales force information. These are the things you would expect to be the key drivers to optimising the working capital to customer satisfaction ratio.

10. Business optimism

Despite the risk profile increasing, 68% of respondents were positive about their future potential. This is likely to be because they've engaged with transformation plans and strategies to overcome the risk factors as identified.

Thinking about your supply chain specifically, please rank from most important areas of focus for your organisation to optimise the relationship between working capital and customer service levels?



CONCLUSION

The vast majority of senior supply chain professionals appear to be coming from external sources rather than internally, suggesting there is work to do in developing appropriate succession planning strategies within the discipline.

The biggest challenges facing the supply chain are the increases and volatility in customer demand, as well as pressure on costs. As such, there is a focus within the supply chain to meet evolving customer needs and decrease operating costs.

There is a recognition that the supply chain risk profile has increased and will continue to do so. However, it seems the organisation's risks are dominating the supply chain and it needs to be careful that it doesn't take its eye off the ball. Supply chain's talent shortage in particular is a key risk area, and emphasises the need to invest in succession planning.

The majority are either going through a transformation or change initiative, or at least planning one in the near future.

Positively, most are optimistic about the potential of the supply chain to drive competitive advantage and overcome the risk factors, including talent shortages, IT integrity and data issues.

"Managing supply chain risks, rather than simply managing supply chains, is a more accurate phrase in today's highly turbulent and uncertain world. Recognising and mitigating the impact of risks to the supply chain is significant to ensuring business success."

Recent business trends and practices, coupled with unpredictable external events have made many firms much more vulnerable to supply chain risk and disruptions than in the past. This new 'normal' operating environment is characterised by turbulence, volatility and uncertainty - embracing these is key. Developing skills and capabilities to allow for speed, flexibility and resilience that provide the options to change and converge to situations will enable the emergence of new and interesting opportunities."

Prof. Omera Khan, Strategic Supply Chain Risk Expert





ABOUT BIE

BIE Executive works with companies going through change. Everything we do revolves around supporting organisations deliver their transformation programme, whilst leaving a positive legacy to achieve continuous growth and success.

Using a mix of business consulting, interim management and executive search services, our integrated solution allows us to support businesses at every stage of their evolution and our functional expertise covers:

- Executive Leadership
- Finance
- Human Resources
- Supply Chain and Procurement
- Technology and Digital
- Transformation

Our specialist supply chain and procurement team hires across all industry sectors and supports our clients through hiring for the following:

- Chief Supply Chain Officer
- Chief Procurement Officer
- Group Procurement Director
- Procurement Director
- Head of Procurement/Head of Procurement Operations
- Strategic Category Leadership
- Supply Chain Directors
- Supply Chain and Manufacturing Transformation Leads
- S&OP Director
- Global Demand Directors
- MRP Deployment Teams

To arrange a consultation to discuss your current and longer term challenges and opportunities, please contact

James Gherardi, BIE, Director – Supply Chain & Procurement
on james.gherardi@bie-executive.com or **020 3953 3296**.