Chain Reaction

What's in store for supply chain professions in the coming year? For one thing, a strong focus on reliability, says consultant Steve Geary.

Regardless of whether the economy is up or down, the important things don't change. In the supply chain, we talk about reliability, flexibility, operating costs, and asset utilization. These are the parameters that concern supply chain leaders; 2003 will be no different. But the way supply chain leaders choose to deal with these issues will be different—sometimes dramatically so. Expect 2003 to be a time of calibration and reassessment as we struggle to deal with uncertainty, risk, and reliability.

In uncertain times, reliability is paramount. Is an integrated global supply chain truly reliable? For the past 20 years in the US there has been a huge shift toward offshore manufacturing. According the Bureau of Labor Statistics, total manufacturing employment in the US has declined by almost a million people over the past decade

The cost benefits associated with this move have been huge, but they have come with an implicit risk. Information can flow at the speed of light across the supply chain, but even world-class logistics cannot move materials at the speed of light. Materials must still move by truck, rail, ocean, or air. They must clear customs, move through trans-shipment points, and pass through distribution nodes. Geographic displacement of supply and demand implies risk, and risk costs money.

How costly were the disruptive shocks that whipped through the supply chain in the wake of September 11? How many billions of dollars were lost when the ports on the West Coast shut down in September? What will happen if we go to war in Iraq, driving oil prices through the roof and diverting a tremendous portion of global lift (both air and sea) capacity toward military sustainment? Should a global supply chain still be judged both reliable and cost effective?

The answer, quite obviously, is yes, but the ways we choose to deal with globalization in 2003 may be different. A case in point is inventory. For years we have been squeezing inventory reserves out of the system, and "just-in-case" inventory has been ruthlessly attacked. In 2003, we will see the pendulum swing, and supply chain managers will consciously plan and manage hedge inventories.

Carrying inventory is less costly than it has been for decades. According to the Federal Reserve, the prime rate is hovering at 4.75% in the latter part of 2002, as it has for most of the year. This rate is less than half of the peak of 12% in 1974. Consensus forecasts have the prime holding at around 5% through at least 2003. Clearly, there are other factors associated with the cost of inventory, but the cost of money is a key contributor, and the cost of money suggests that inventory is more cost-effective as an investment than it has been for a generation.

At the same time we reassess our view of inventory, we will reassess our sources of supply. Is the risk associated with managing sourcing across the Pacific from the US worth it, or would Mexico or the Caribbean provide an attractive alternative? Is it time to place a greater emphasis on dual sourcing and consciously choose to add suppliers to the approved vendor list? Is it time to regionalize, as opposed to globalize, critical elements of the supply chain to mitigate against disruptive risk?

Supply chain managers will reap ancillary benefits from the reassessment of inventory and source of supply, with a decided improvement in supply chain flexibility. Hedge inventories, shorter lines of supply, and dual-supplier development will create a supply chain more poised to react to the economic turnaround, whenever it arrives. Although business leaders will not want to forecast a turnaround, given the uncertainty prevailing in the world at large, they will support the need to deploy supply chains in a fashion that allows rapid reaction.

2003 will be a year when supply chain managers will be taking conventional wisdom out for a test drive. What are the trade-offs among reliability, flexibility, cost, and asset usage? How should I be looking at my supply chain? Do I really understand my supply chain?

These questions lead to another development for the coming year: an emphasis on metrics, assessment, and data. To challenge conventional wisdom and approaches, the supply chain manager must have access to the facts. Along with this renewed emphasis on factual diagnosis of the supply chain must come a renewed commitment to linking metrics with strategy.

This linkage is the critical step so often missed in metrics program. It's easy to measure things but hard to measure meaningful things, and it's a tremendous challenge to link meaningful things together in a coherent strategy to address reliability and flexibility. Smart people in the supply chain are already re-energizing their metrics program for the global supply chain, and they are finding problems.

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Technology investments will continue to lag in supply chain; an exception will be information solutions designed to address the issue of extended visibility. Traditional ERP approaches are by their nature enterprise-centric, but the challenge for the supply chain manager in 2003, as we have seen, will be the ability to manage reliability and risk across the global supply chain. Most often, global supply chains involve multiple players, and information solutions must be reset to address this reality.

Although trends develop over time, today we are at a point of inflection. The shift to a renewed emphasis on reliability will lead to a different shared perspective in the supply chain world.

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