



COVID-19 And A Supply Chain Revolution

The coronavirus pandemic exposed systemic problems, but agile organizations established more transparent, technology-powered processes – here's how

It's a paradox: the chaos caused by the coronavirus pandemic cultivated the perfect environment for supply chain revolution. Fluctuating demand, unpredictable consumer behavior and disrupted trade-exposed vulnerabilities, but they also created a unique opportunity for business leaders to make smarter and bolder decisions in terms of their supply chains.

Around the globe, those organizations that have embraced innovation, change and development have realized the short-term competitive advantages and lasting value of more efficient supply chains. It's no wonder, then, that 75 percent of organizations are planning to adapt to build more resilient supply chains, according to recent BluJay research exploring how firms around the world have navigated COVID-19 disruption. So what have business leaders learnt from 2020? And what will the supply chains of tomorrow look like?

Supplier visibility and understanding is now business-critical

In 2020, those relying on goods from China learnt the hard way about the dangers of not having flexible sourcing. "In the first quarter of 2020, the COVID-19 crisis caused mass production shutdowns and supply chain disruptions due to port closures in China," explains Kagure Wamunyu, Chief Strategy Officer at Nigeria-based technology start-up Kobo360, which aggregates end-to-end haulage operations. "This caused a ripple effect across all global economic sectors, including Africa."



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Kagure Wamunyu
Chief Strategy Officer
Kobo360

Africa experienced the impact of a production slowdown in China from two different angles. In Q1 2020, China's demand for African raw materials and commodities declined drastically, while the continent's access to industrial components and manufactured goods from the region were also restricted.

The coronavirus fallout has proven a double-edged sword for Africa, however. "The current crisis creates an opportunity for African countries to build value chains as well as take advantage of the breakdown in supply chains from China and Europe," says Ms Wamunyu.

Given the January 2021 implementation of the African Continental Free Trade Area (AfCFTA) agreement, which will form a US\$3.4 trillion economic bloc, the disruption to operations in key manufacturing spots may have happened at an ideal time.

Many businesses have had no choice but to seek out alternative suppliers. In doing so, they have been exposed to some of the wider benefits of developing inclusive supply chains, including the ability to access new and innovative ideas, develop more competitive businesses, and tackle inequality.

Minority Supplier Development UK (MSDUK), which brings together global corporations and ethnic-minority businesses to develop more inclusive and diverse supply chains, saw

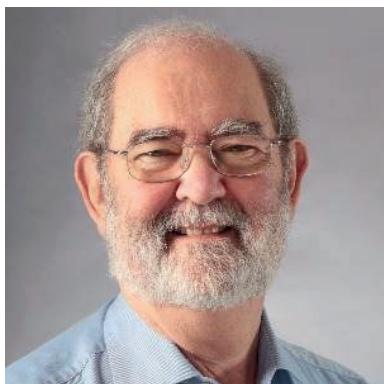
the number of corporate members almost double in the seven months after the virus first emerged.

The pandemic prompted corporate businesses at MSDUK to buy from ethnic minority suppliers offering personal protective equipment and essential goods. “Those entrepreneurs were far better when it came to quality and service – they were working 24/7 to make sure they were providing those services to our corporate partners,” says Mayank Shah, Founder and Chief Executive Officer of MSDUK. “There is a very simple business case [for developing inclusive supply chains], even if we ignore the social impact.”

Building stronger (local) relationships with key suppliers

Over half (53 percent) of supply chain professionals believe creating a more resilient supply chain begins with developing stronger, more transparent relationships with key suppliers, according to the BluJay survey.

Randall Aluwi, Vice President of Corporate Finance and Investments at Tokopedia, an Indonesian technology company specializing in eCommerce, identifies having strategic sourcing arrangements and a good relationship with suppliers as fundamental characteristics of a supply chain strategy capable of effectively addressing unexpected disruption. “The pandemic has sparked momentum for countries to strengthen their domestic economy by increasing the use of local resources, minimizing single-source dependencies, creating more sustainable supply chains, and, at the same time, promoting local economic sovereignty,” he says.



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Alan Braithwaite
Senior Adviser
BearingPoint

Mr Aluwi points out that over 50 percent of “micro, small and medium enterprises (MSMEs)” in Indonesia sit within the agriculture and food sector. “One of the challenges faced is a complex and long supply chain that raises commodity prices for buyers and depresses profit margins for farmers,” he continues. “These high commodity costs are caused by the middlemen within the supply chain, but these can be reduced through technology.”

“During the pandemic, the accelerated technology adoption has also been a catalyst and opportunity for farmers: they can get more income, and consumers can get products at a more affordable price, by leveraging technology and digital platforms.”

Less is more – reducing product variety

The global pandemic also highlighted the downside of stocking vast product ranges. “By and large logistics has delivered [during the COVID-19 crisis], but the availability of goods and the impact on goods and services in the extended supply chain – what comes out of factories, for example – has been much more problematic,” says Alan Braithwaite, a supply chain expert and Senior Advisor at Dutch management and technology consulting firm BearingPoint. “It’s interesting to observe that one of the responses from the manufacturers has been to reduce the variety that they offer.”

Manufacturers have adapted to shifting consumer habits and fluctuating demand by cutting their product offering. “There may be a natural inclination to want to offer a wider scope of choice, but the coronavirus pandemic has exposed the very high cost of variety that underpins the supply chain,” explains Mr Braithwaite. “I think there will be some lessons learnt there, and it plays perfectly into the discount-supermarket syndrome where the choice is much less and the prices are dramatically cheaper. There will be some rebasing of operations.”

Now is the time for business leaders to improve their supply chain, by diversifying their suppliers – and exploring local options – nurturing better, more meaningful and transparent relationships with those suppliers, and reducing their product range. Taking those three bold, innovative steps will ensure organizations of all sizes are better prepared when crisis strikes.

Levi's: A Supply Chain Clean-Up

In 2018, Levi Strauss launched its Project F.L.X. (future-led execution): an operating model that automates the jeans’ finishing process to eliminate thousands of chemical formulations to just a few dozen. The organization also committed to reducing its water use in manufacturing by 50 percent in areas of high water stress by 2025.

However, following a two-year investigation by the Worker Rights Consortium (WRC) that found widespread sexual harassment and abuse at factories owned by Nien Hsing Textiles – a supplier in Lesotho, South Africa – Levi's re-evaluated its supplier relationships.

Alongside Nien Hsing and other clothing brands, Levi's established a robust independent system through the factories' union, which documents abuses and punishes perpetrators. According to the WRC, it's the first time global brands have made a contractual commitment to only doing business with a supplier if it ends sexual harassment.

Viewpoints from Crowe

Mike Varney, Partner at Crowe LLP (USA)



“It is vital to have a clear risk ranking, an understanding of your critical suppliers, and enough process around those suppliers to monitor for potential disruptions and then be able to respond proactively. We have been helping customers with managing their supplier base. We have been asking: how much more engaged are you with your suppliers in order to understand what’s going on? The COVID-19 crisis has woken up a number of industry players and I believe we are starting to see more formalization in

how they manage sourcing arrangements. Another critical element here is not only managing first-tier arrangements, but also having an awareness of your suppliers’ suppliers and how that might impact the delivery of your products.”

Nigel Bostock, Chief Executive, Crowe UK



“The COVID-19 crisis provided the final ingredient that has led to a perfect storm. It’s come on top of the risk of economic downturn, Brexit, US-China trade-wars, increased regulation, tensions continuing in the Middle East, and signs of ‘slowbalization’ (and how global trade will be impacted by this now and into the future). There are, however, positives for business to take from these events. Increased globalization and economic growth will return, but those who will prosper most from the supply chain revolution will do so by emerging stronger from the crisis with an adaptable and

resilient mindset. Now is the time for making bold decisions that will have lasting value, driven not only by lessons learnt from the crisis management of COVID-19, but also by other events that have created the perfect storm. Businesses that adopt a wider and more diverse supply chain will find themselves adapting more effectively to regulatory change. There should be clearer visibility of their entire supply chain to seize opportunities, address challenges, and be effective in proactively managing all aspects of third-party risk. Businesses should be better equipped to act decisively and quickly to solve supply chain problems and be pioneers of technological advancement and innovative thinking in their industry. There should be a mindset to evolve working practices continually. Furthermore, I believe delivering an effective environmental, social and governance (ESG) agenda as part of the business model will be an increasingly key feature of future success.”