

Effectively Managing Global Supply and Risk



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Strategic Sourcing and Supply Management Series
**Effectively Managing Global Supply and Risk
in an Increasingly Complex World**

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Agenda for Today's Presentation

Global Business Logistics

**Changing Political, Legal &
Economic Environments**

**International Supply
Issues & Risks**

Agenda for Today's Presentation

Managing and Mitigating Risk

**Global Supply Success
Factors & Best Practices**

Future Directions

Global Business Logistics

● Important issues to consider:

- To gain a competitive advantage, global sourcing & supply is a given for companies engaging in global marketing strategies.
- The longer the supply chain, the more cooperation and coordination is required between production, marketing, purchasing and the logistics management group.

The Magnitude of Global Logistics Activity



- World trade continues to grow as fast logistics systems have had the effect of shrinking the world, empowering competitive trade
- Foreign trade has grown in tonnage and in value for the United States and other nations
- Lower labor costs from international outsourcing is still a critical component of the global supply chain
- Focused manufacturing fits well into an international logistics strategy

Global Markets and Global Corporations



- **Trade barriers continue to fall, accelerating global business activity**
- **Global markets result from the general homogenization of global needs and wants:**
 - Local needs suborned to lower-priced, higher-quality products.
 - Preferences for international products can also be related to attempts to copy other more prosperous cultures.

Global Competitive Strategy

- To effectively serve global markets, leading firms have adopted integrated worldwide sourcing strategies
- These firms search for “best locations” in global sourcing for materials and components, depots, assembly, distribution centers, and logistics
- Leading global firms typically design synchronous strategies around technology, marketing, manufacturing, and logistics

Customer Service Strategies for Global Markets: Four Characteristics

1. Marketing becomes standardized yet customized
2. Product life cycles shorten, sometimes to less than one year
3. Outsourcing and offshore manufacturing are becoming more prevalent
4. Marketing and manufacturing activities and strategies tend to converge and be better coordinated in firms operating globally

Customer Service Strategies for Global Markets

- Logistics networks tend to become more expansive and complex
- Thus, lead times and inventory may rise
- Logistics activities must be operated as a system
- Most importantly, the service needs of internationally-dispersed customers must drive the design and implementation of the logistics system

Supply Chain Logistical Issues



- Longer pipelines in distance and time
- Increased risk (damage, theft, etc.)
- Reduced ability to plan due to longer cycle times
- Delivery window variability
- Different shipping terms
- Increase in supply chain “touch” points and handlers
- Increased use of agents and other third parties

Changing Political, Legal & Economic Environments

- **Asia & “State of Play”**
- **Russia & Eastern Europe & “State of Play”**
- **Latin America & “State of Play”**
- **Challenging Geographies & the World Economy**
 - Greece
 - Middle East
 - North Korea
 - USA?
- **New Directions**
 - VISTA
 - Emerging Africa

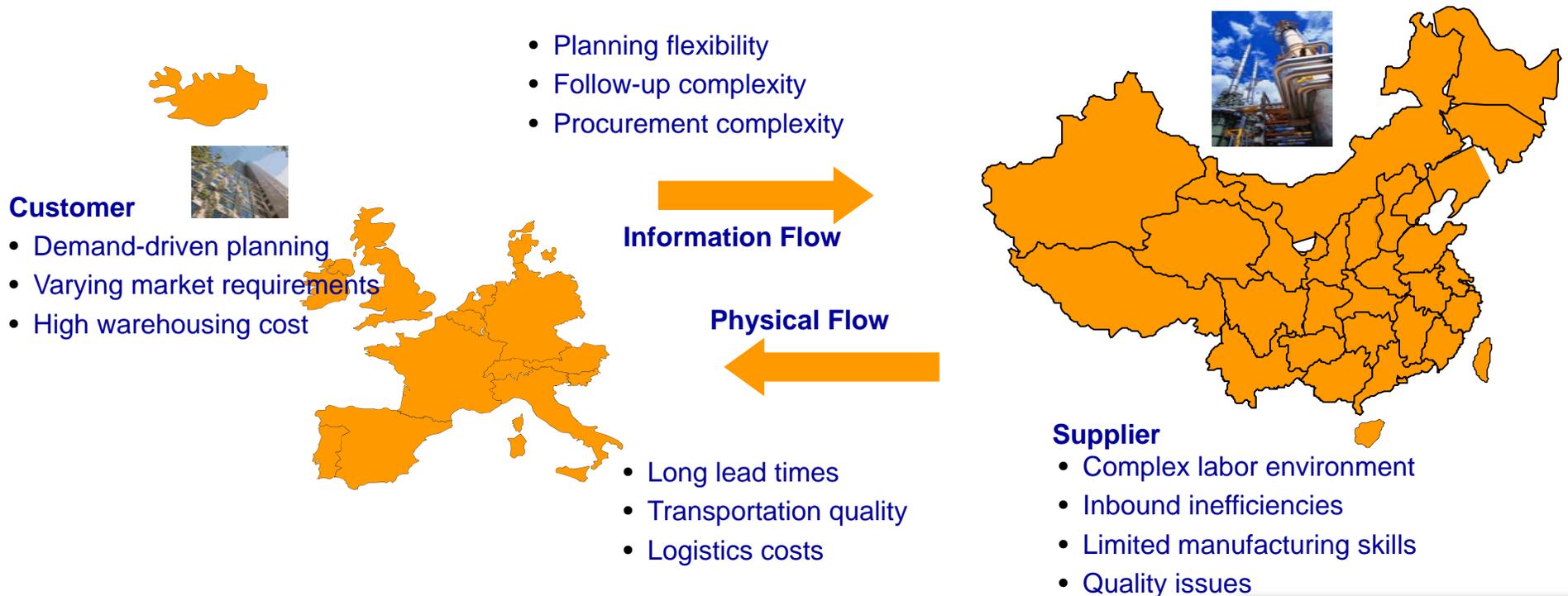


Global SCM: Key Areas of Greatest Need



- **Managing the Geographic Evolution of Supply Chain Activities**
 - Need to take advantage of “core competencies” of specific geographies
 - Focus on “lowest net landed cost” for the customer/consumer
- **Transformation or Redesign of “Best” or “Proven” Practices to Global Supply Chain Setting**
 - Recognize challenges unique to global objectives
 - Achieve end-to-end process integration and shipment visibility
 - Design for supply chain agility
 - Involvement of capable facilitators to achieve desired success
- **Leverage Global Supply Chain Strategies to Significantly Impact Overall Business Strategies**

Global Operations Require High-Performance Supply Chains



Source:

accenture

Key Challenges

- To gain a competitive advantage, global supply chain management & sourcing is a given for companies engaging in global marketing strategies
- The longer the supply chain, the more cooperation and coordination is required between the various groups in the supply chain

Keep in Mind – Things are Sometimes Very Different in Other Parts of the World !!!



International Supply Issues & Risks

- **Firms involved in international supply management must manage a range of issues beyond domestic supply management...**
 - Cultural differences
 - Different legal systems
 - Total cost calculations
 - Expanded organizational design requirements
 - Currency risk management
 - Countertrade demands
 - Information requirements
 - Logistical issues



International Supply Issues & Risks

- **Firms involved in international supply management must manage a range of issues beyond domestic supply management...**
 - Documentation requirements
 - Changing geo political climates
 - Local and regional economics
 - Quality & traceability
 - Secure supply chains
 - Language and communication barriers



The Nature of Global Supply Chain Risk

Environmental risks:

- According to a recent Swiss study, worldwide economic losses from natural disasters in 2010 totaled \$194bn.
- Natural disasters damage infrastructure, interrupt production, increase commodity costs, and delay or curtail shipments, to name only a few.
- An analysis of 15 multinational companies reported that operating profits caused by supply chain disruptions fell by up to 33% in the quarter following the 2011 earthquake and tsunami in Japan.
- Because natural disasters are difficult to predict and impossible to prevent, companies must concentrate on actuarial and operational planning: making pre-facto investments to reduce vulnerability, increase network flexibility (redundant manufacturing/distribution, readily available supply alternatives, larger safety stocks, etc) and accelerate recovery.



The Nature of Global Supply Chain Risk

Geopolitical risks:

- A good example of geopolitical risk is terrorism. Since 9/11, the United States has spent \$1trn of people's and companies' tax dollars on homeland security.
- The costs of new industry regulations and requirements resulting from terrorism are also astronomical.
- In addition, businesses must worry that new security disruptions could further affect production or distribution hubs, and that such events would drive more legislation that could hamper supply chain effectiveness.
- Supply chain risk studies must address all these facets.
- Like environmental concerns, companies are highly limited in their ability to manage geopolitical disruptions or influence their outcomes.
- Thus a dual approach—risk reduction and increased network resiliency—is clearly called for.



The Nature of Global Supply Chain Risk

Economic risks:

- Economic disruptions cover a huge range of issues, including currency fluctuations, commodity price volatility and sudden demand shocks.
- For multinational and local companies, border delays, export/import restrictions, and ownership/investment restrictions are particularly big APAC risk issues.
- A study by the World Bank concluded that enhanced capacity in global trade facilitation—resulting, for example, from streamlined customs programs, minimized tariff and non-tariff barriers, more-rational quota systems and fewer infrastructure bottlenecks—would increase world trade of manufacturing goods by almost 10%.
- However, from a risk perspective, the greatest concern is the possibility of sudden new restrictions or delays.
- This in turn highlights the need for more advanced risk management policies and mechanisms in national border administration.

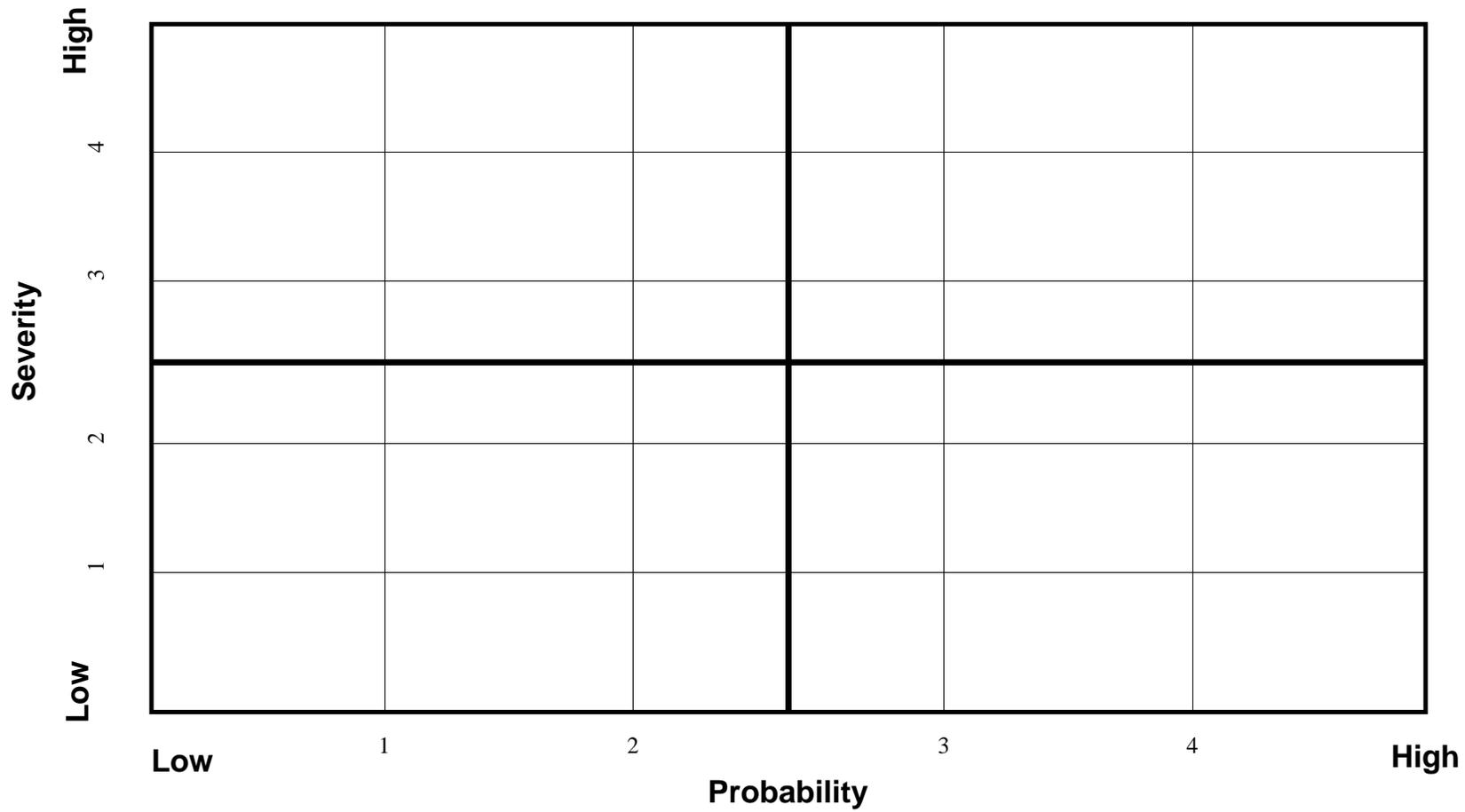


The Nature of Global Supply Chain Risk

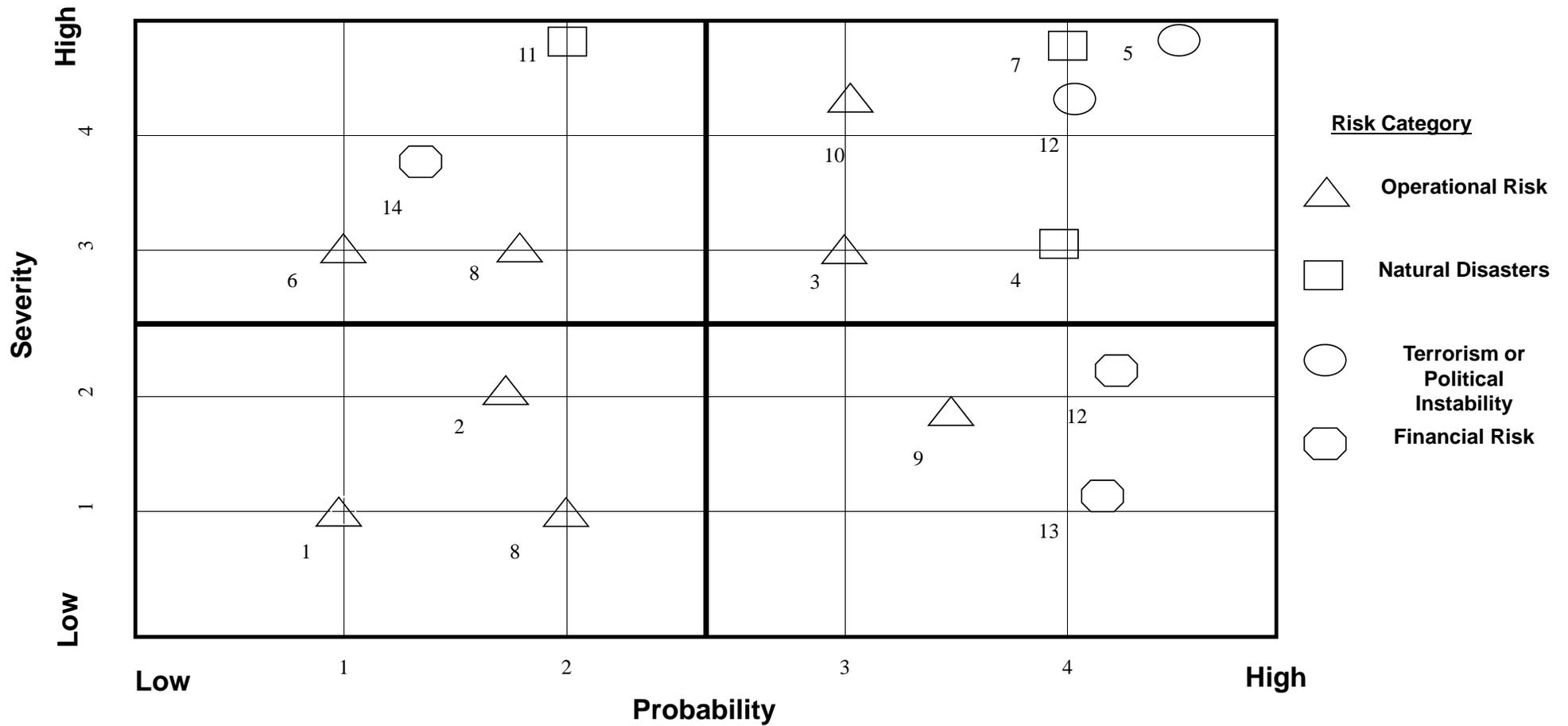
Technological and infrastructure risks:

- Forty one percent of respondents to the WEF survey stated that their companies have experienced disruptions as a result of unplanned outages of IT or telecom systems.
- Increased reliance on, and use of, IT solutions such as electronic data and analytics for real-time risk assessment (e.g. electronic manifests for cargo and advanced passenger information for air travel) have proven effective in facilitating movement of freight and people.
- However, these advances concurrently put more pressure on governments and businesses to maintain robust and secure information and communications networks.
- Similar to technological concerns, infrastructure failures—from roads to power stations—are subject to greater risk due to everything from lack of investment to terrorism.
- A report by CIBC World Markets estimates that total infrastructure spending will need to reach between \$25trn and \$30trn USD by 2030

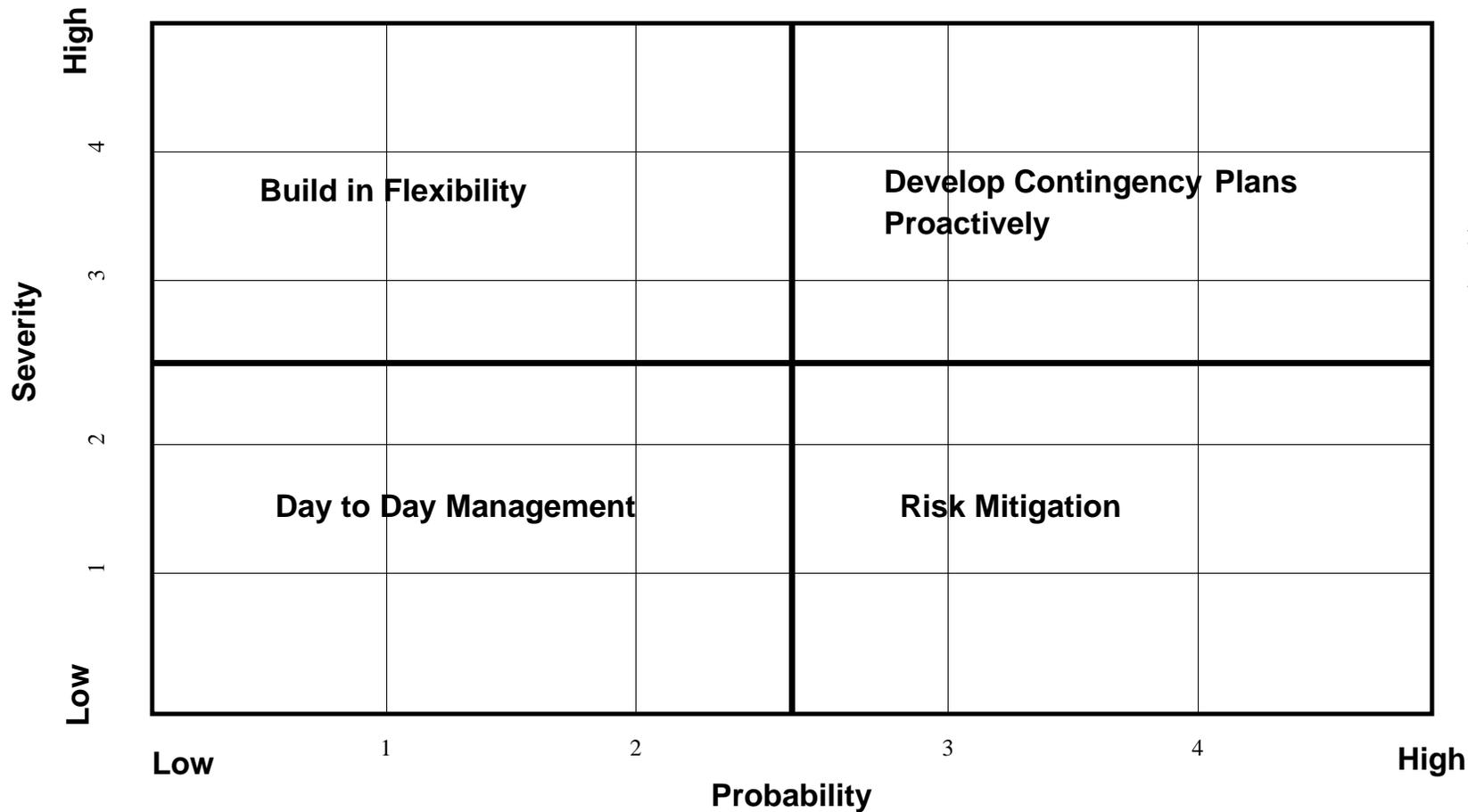
Risk Mitigation-Measuring The Impact of Risk



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Risk Mitigation-Measuring The Impact of Risk



Adapted from Christian Verstraete, "Share and Share Alike" *CSCMP Supply Chain Quarterly*, Quarter 2 2008, p.34.

Risk Mitigation Measuring The Impact of Risk

The Economist
Intelligence Unit
2008



Key Take Away Points-Supply Risk Measurement & Mitigation

- Supply Networks are often more global and complex with greater challenges and risks
- Effective risk management-mitigation requires use of formal audits/inspections, capturing CRITICAL METRICS of supplier/customer performance, reporting non-compliances, and follow-up

**RESULTS:
IMPROVED COMPETITIVE ADVANTAGE AND
OPERATIONAL SUSTAINABILITY**

Global Sourcing Future Directions



Where do we go from here? We expect...

- Increased emphasis on doing business with suppliers with global capabilities
- Global supply management will shift from component sourcing to subsystem and system sourcing
- Cost pressures will encourage an increased emphasis on emerging supply markets
- Continued refinement of a global supply management process

Global Sourcing Future Directions



Where do we go from here? We expect...

- Developing or obtaining human resources with the ability to view the supply network from a worldwide perspective
- Developing global performance and risk measures that link to a firm's financial measures
- Establishing integrated systems between worldwide units and with suppliers
- Evolving beyond global contracting to sourcing process and practice consistency across sites

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QUESTIONS?

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