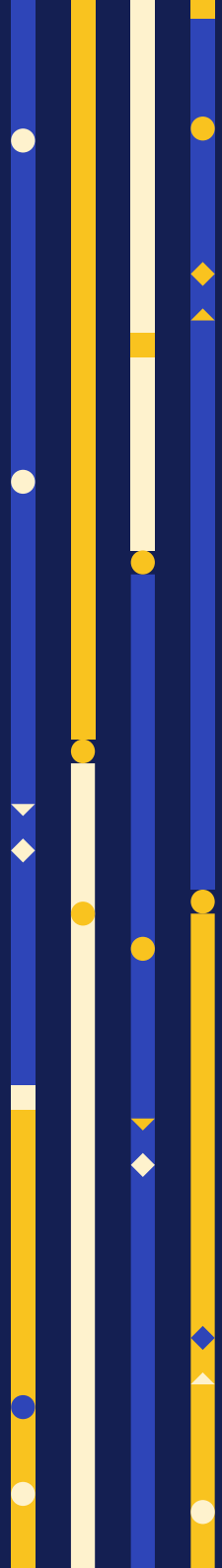


Global Trade Virtual Week

What have we learned about supply-chain disaster-preparedness?

Executive summary, June 28th 2021

Founding sponsor



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When covid-19 hit in 2020, many businesses and their globally interconnected supply chains were underprepared. As the crisis exposed the fragility of such complex and interdependent systems, executives wondered how resilience could be improved against further shocks. At the same time, thought leaders have looked to see which organisations had the most robust supply chains and disaster response, to distil what lessons can be drawn from their foresight.

As part of The Economist Events' Global Trade Virtual Week, a panel of business leaders gathered in June 2021 to discuss disaster-preparedness in supply chains and what businesses fear could be next. Sponsored by EY, the session was chaired by Richard Wilding OBE, professor of supply-chain strategy at the Cranfield School of Management.

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What have we learned about supply-chain disaster-preparedness?

The challenges of supply-chain complexity

Mr Wilding kicked off the discussion by observing that supply-chain resilience involves preparing for the unexpected so organisations can respond to and recover from disruption. The complexity of today's supply chains has made that difficult for some industries during the present crisis.

Sami Naffakh, chief supply officer and member of the group executive committee at Reckitt, a multinational consumer goods business, attributed complexity in his industry to a race towards scale and efficiency through offshoring operations and material sourcing, far from the point of consumption. "There was also this belief that global trade was a given and would never be challenged," he said. The pandemic has shattered that assumption.

For Chipotle Mexican Grill, an American restaurant chain that also has locations in Britain, Canada, Germany and France, commitment to a concept of "food with integrity" narrows its supplier base. Carlos Londono, vice-president and head of supply chain at Chipotle, told how part of its pandemic response was to invest in dairy farmers to protect its supply chain for sour creams and cheeses at a time when disruptions to the restaurant industry were causing American farmers to throw away vast quantities of milk.

Where Chipotle can procure for resilience, Lynas, an Australian miner of rare earths that are needed to make electronic products, has a more rigid supply chain governed by where rare-earth deposits lie. Amanda Lacaze, the firm's managing director and chief executive, noted how three decades of outsourcing manufacturing from developed countries has given both prosperity and power to Chinese producers. Today, Lynas is the only non-Chinese producer of separated rare-earth materials, making it a provider of supply-chain resilience. But buyers are not asking for greater diversity in the source of rare earths used in devices and equipment, so reliance on China persists.

“

For the past 30 years, developed nations have enthusiastically outsourced their manufacturing to less-developed economies, particularly in east Asia. ... Governments, industries and consumers were all complicit in that trend. And today we find ourselves vulnerable. ”

Amanda Lacaze

Managing director and chief executive, **Lynas**

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Building resilience through onshoring, multishoring and technology

Joost Vreeswijk, managing partner for operating model transformation at EY, a consulting and professional services firm, said that government action to mandate action against climate change is adding to businesses' motivation to change where they source inputs and invest in building supply chains. Mr Vreeswijk, based in Zurich, said, "We're seeing clients actually investing in Europe, whereas before they would have probably sourced from further afield."

Pre-pandemic, the idea of "supply chain 4.0" proposed to throw technologies including big-data analytics, autonomous systems and additive manufacturing at improving supply-chain efficiency. During the crisis, technological change has accelerated. Changes Mr Wilding says he had expected within five years happened within five weeks or five months.

In considering what lessons have come out of the crisis, Mr Londono of Chipotle reported that in late 2019, calls with Chinese suppliers revealed rumours of something similar to the SARS outbreak of 2002-2004. While Chipotle started preparing for supply-chain disruptions early to maintain customer service, they neglected some crucial items because supplies had never been an issue in the United States. The need to have multiple sources, in different regions, and "really just being less lean, and more conscious of inventory", were among Mr Londono's main takeaways.

At Reckitt, Mr Naffakh said that supply chains had generally withstood the challenges associated with the pandemic and kept running, preventing shortages. But extreme fluctuations in demand for certain products—up 25-fold for hand sanitiser while cold-and-flu products were down 60-80%—have shown weaknesses in traditional planning tools and highlighted the need for artificial intelligence and machine learning to enable a more dynamic response.

“
We really have to speed up in the whole space of artificial intelligence and machine-learning tools, which are going to give a much more dynamic and responsive way of adjusting to these variations [in supply and demand], which clearly we are not prepared for.”

Sami Naffakh

Chief supply officer and member of the group executive committee, **Reckitt**

Delivering vaccines in less than a year from the onset of the pandemic has highlighted the power of human ingenuity, which gives Ms Lacaze of Lynas confidence and optimism. With supply chains spanning Australia—where governments will lock down whole cities over a single covid-19 case—and Malaysia, which is dealing with a more sustained outbreak, health and hygiene protocols have been a priority. Keeping buffers in production capacity and inventory has remained important, echoing Mr Londono's story of becoming less lean. In advising its clients, EY has gleaned many lessons on supply-chain resilience. Businesses that are multisourcing and doing assembly in multiple countries are faring better than those that are single-sourcing. The pandemic has also highlighted the need for talent in scenario analysis, weighing options and strategic lead-time reduction. "Having these capabilities to a degree in-house seems to make the difference," says Mr Vreeswijk. "We've noticed that those that have more...were able to react faster."

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Key considerations in the new normal

Thinking about key considerations as we move into a new normal or even a “new better”, as Mr Wilding said some are calling it, Mr Naffakh of Reckitt anticipated more regulation and higher environmental, social and governance (ESG) expectations, which will influence how firms balance scale and efficiency with resilience, and offshoring with onshoring. Mr Londono saw Chipotle dealing with a “tremendous shortage of skilled labour” in the United States while also taking “a more sophisticated view of risk”.

““
We’re now thinking about risk in a completely different way. Instead of, ‘it could eventually happen’, it’s, ‘it is going to happen; it’s just a matter of when’. So how do we prepare and be absolutely ready when the threat materialises?”

Carlos Londono

Vice-president and head of supply chain,
Chipotle Mexican Grill

Ms Lacaze sees Western governments having to intervene more to reduce reliance on supply-chain links that geopolitical issues, health emergencies or natural disasters could disrupt. Market forces may not always do the job. Mr Vreeswijk concurred that there is a need in critical areas for supply chains to be short and protected against disruption. But where supplies of certain resources are concentrated in a few countries, fragility is inevitable.

““
If you place sustainability and circularity at the heart of your thinking, I think a lot of these other problems will solve themselves too.”

Joost Vreeswijk

Managing partner, operating model transformation,
EY

Summing up, each panellist gave a one-sentence tip on preparing for the new normal. Mr Naffakh of Reckitt advocated building on the agility and responsiveness exercised during the crisis, while betting on new technologies and tools to use in the future. Ms Lacaze raised a new point in stressing the importance of fostering workforce diversity to supply novel thinking in solving problems. Mr Londono said supply teams should be given the ability to respond to and prepare for uncertainty, while Mr Vreeswijk said that those putting sustainability and circularity at the heart of their thinking will find many supply-chain problems seem to solve themselves.

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Wanted: Chief trade officer who takes care of navigating trade disruptions

Sally Jones, the trade strategy leader at EY UK, supplemented the panel discussion with a briefing on how companies have been handling trade disruptions, the types of trade disruptions facing businesses and how companies may not be building their trade capabilities fast enough.

To build a picture of how businesses are organising their trade function and capabilities in 2021, [EY surveyed 400 international firms](#) and found that:

- Trade is high on the agenda for boards. Two-thirds of business says their C-suite sees international trade strategy as a top priority.
- 81% of businesses state that it's more important than ever to have an international trade strategy and 80% say that not having a trade strategy would put them at a competitive disadvantage.
- However, trade teams lack the capability and confidence to tackle core elements of any trade strategy with 44% lacking the skills to engage with government stakeholders on trade issues.

An international trade strategy means a plan to achieve long-term goals and respond to trade disruption from sources including geopolitics, technology, the environment and regulation. Whatever the disruption, businesses must be prepared to cope.

Ms Jones said that most businesses describing their trade strategy presented a loose international sales strategy that did not embed a strategic understanding of trade. Key performance indicators (KPIs) for trade functions also tended to miss more than half of the nine KPIs that EY has identified as being important to track.

“
Accessing new markets, identifying emerging trade threats and engaging with governments and trade negotiators are not by any means simple, but they are essential if businesses want to progress from having the ‘basics’ to a ‘best in class’ trade function. ”

Sally Jones
Trade strategy leader, EY UK

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“
Businesses need to be proactive in building their trade capability with the necessary skills and talent to deliver on not just their operational needs but to successfully deliver on their strategic objectives. ”

Sally Jones

Trade strategy leader, EY UK

But what struck EY most in the survey results was the fragmentation of trade functions. When affected businesses prepared for Brexit, it was common to convene a meeting of ten or more people, covering different functions, who all needed to ready the business for change. Consolidating those responsibilities in the person of a chief trade officer, or at least better connecting the people who hold them, is the single easiest way for businesses to improve their trade capability and capacity. This could help businesses navigate rising barriers to trade. Since 2008, Global Trade Alert has seen 21,000 measures introduced, with only 8,000 of those being to reduce barriers.

Evolution and regulation around sustainability and digital trade, as well as geopolitics and the growth of developing economies, are all considerations for businesses seeking to retain profit margins around the world. Businesses must build capability and capacity for dealing with their trade concerns if they are to deliver maximum value to shareholders.

Recruitment is not a solution to fill skills gaps in trade: only 9% of businesses surveyed said they could hire to meet their skills needs. That means internal training is crucial, to build strategic as well as operational capability. Businesses that can embrace this reality and equip their people to navigate new geographies, digitalisation, technological innovation and regulation will be the ones to succeed, and sound trade strategy will be a key competitive advantage.

Read EY's international trade capability in 2021 report [here](#).

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Key takeaways

Offshoring manufacturing and input sourcing has made supply chains complex and fragile. Governments, businesses and consumers have all participated in this trend, which will be more likely to reverse if consumers demand it.

Becoming less lean is one way to build resilience. Businesses are becoming more conscious of crucial inventory and building more slack into operations to prepare for disruption.

Multiple pressures are motivating businesses to onshore and multishore. While businesses want more resilient supply chains to mitigate risk, higher ESG expectations and government regulations and incentives also give reasons to reconfigure supply chains.

Business strategy is lagging behind the growing complexity of trade. While C-suites see trade strategy as a top priority, in reality most trade strategies are too loose and exclude important performance indicators.

Organisations should consolidate responsibility for trade. Many organisations split trade responsibility across multiple people and functions. Putting a chief trade officer in charge is the single easiest way for businesses to increase their trade capability.

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20 Cabot Square, London, E14 4QW, United Kingdom
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