A BALANCING ACT
Ten key supply chain issues and trends you need to watch

BY JULIA KUZELJEVICH

ow do you align your business processes, physical assets and information systems to be able to provide value to your customers?

How is the changing role of technology going to affect the retail space?

These questions have taken on increasing prominence and finding the right balance is instrumental to effective supply chain management, according to P. Fraser Johnson, Ph.D of the Ivey Business School at Western University, in a speech at SCMA's annual conference in Halifax this June.

Johnson is the Associate Editor with the Journal of Supply Chain management, and just finished a six-year term as director of the MBA Program at the Ivey Business School.

The "fast fashion" retail model, such as introduced by global retailer Zara, is an example of a "disruptive business model" that aims for the rapid distribution and high turnover of clothing, which creates a challenge and some significant risks for the supply chain.

Supply chains can have both a positive and a negative effect on your business. Supply chain failures affect performance and shareholder value, even long term profitability, Johnson said.

"I've spent a considerable amount of time taking a look at what the trends are in the supply area. What are academics talking about? What are the leading practitioner journals writing about? What's emerging or developing in the news? I'm also influenced by my own environment," he said.

Not ranked in any particular order, Johnson listed ten key supply chain issues that face senior managers and executives.

**Global sourcing**

"There's been a lot of stuff written about reshoring. What we're seeing here is a shift in terms of what the costs are of sourcing globally. With the fracking technology in the U.S. for example, we've seen greater access to energy at lower costs. The (Chinese) wage rate differential is still there but we're seeing inflation in Chinese wage rates. Total cost models are also becoming more sophisticated. A lot of Fortune 500 companies have formally made plans to repatriate products.

But my view on this is that I'm not expecting a major repatriation of manufacturing into Canada or the U.S. The kind of products that can be brought back tend to be high value and difficult to manufacture, requiring processes that are complex and workers with a higher level of education to manage the more complex pieces of technology," Johnson said.

The real winners will be the regions with low cost structures, located close to major markets (i.e. Mexico, Eastern Europe).

"I don't think China is going away—a lot of the capacity China has is going to be focused on maintaining its growing middle class. They will continue to be a manufacturing powerhouse that will have expertise and skills that will still be important to North America," said Johnson.

**Infrastructure**

There are some very real constraints in the North American transportation infrastructure, all of which will have repercussions for supply chain.

"In 2007 we were pretty well peaking at capacity in terms of our transportation infrastructure—now we're back at pre-recession levels and we're seeing bottlenecks being created. So my view of the supply chain is we've got to take a look at the whole system. If we can't transport it effectively then we've got problems. It's all coming at a time when governments are facing constraints in their infrastructure investments," Johnson said.

**Leadership**

Today's Chief Supply Officer roles have greater responsibility and will carry more significant titles than ever before.

"But what you're also seeing is the pace of change of the CSO is changing in two areas—the tenure of CEOs is dropping, and the tenure of direct reports to the CEO is dropping. You've got to get in, set your agenda, make changes quickly and have an impact. We're also seeing that people in the supply area don't necessarily have a supply background—increasingly that role is a stopping spot for a high potential individual as he or she moves up the ladder and gets exposure," Johnson said.

**Truck driver shortage**

With demographic shifts in consideration, North America faces a looming shortage of truck drivers.

"I think paying people more money to work in the field is going to be part of the solution. So it affects everybody else in the room, because of capacity, availability and cost," he said.

**Market price volatility:**

The challenges of commodity price volatility are going to affect every industry eventually. Transportation costs, hedging strategies, commodity-driven purchasing, all affect plans going forward.

**Process and technology**

Access: The issue with access is, how can we make data transparent and more available to our internal decision makers, to our customers and suppliers, and how can we relieve people in the organization from non-value added processing?

"Smartphones are great things but they continued ▶
put a lot of us in a mode where we're on the job 24/7. With cloud computing systems, managing information systems can improve supply chain business processes and efficiencies and collaboration with suppliers," he said.

**Services supply chains**
Your service supply chain is as important as your product supply chain, stressed Johnson. "My view is that if you read the academic literature, if you read the management literature, it's about how can you make things cheaper, faster than the competition. I don't care if you're talking about the car companies or technology firms, you still have to work with your suppliers to get things made and into the hands of your customers, on time, and seamlessly."

**Safety and regulations**
There are increasing regulations and complexities that go into things like inspecting cargo. "Expect that increasing regulations related to supply chain safety will affect costs, flexibility and lead times," he said.

**Metrics**
Companies do not do a good job measuring supply chain performance, Johnson said. "We focus on year over year price savings, usually with a 3-5% cost savings objective. In my humble estimation, most organizations either understate or overstate their savings. And both lead to bad decision making. Both have bad consequences," said Johnson.

Remedies to this are to maximize the supply savings by focusing on total cost vs. year over year price, and categorizing the types of savings, i.e. are they ongoing or one-time savings, and hard-wiring the savings into the budget.

What are CEOs worried about overall? "Typically they are worried about total supply chain costs, their inventory and working capital deployment, customer service and customer satisfaction," Johnson said.

**TAKING THE LONG TERM VIEW**

**Applying the principles of supply chain management tips for success**

*BY JULIA KUZELJEVICH*

Patrick Etokudo, SCMP, has worked in all areas of supply chain management and currently manages major projects in supply chain at Enbridge Energy Inc. as Director, Supply Chain Management.

Speaking recently at a gathering of supply chain professionals at the SCMA annual conference in Halifax, Etokudo said that supply chain is not only about the procurement of goods and services—it is "much more than what most of us in the room do".

Citing Martin Christopher, a renowned Professor of Marketing and Logistics at the Cranfield School of Management in the U.K., Etokudo said it is "supply chains that compete; companies do not".

Implementing change management principles in supply chain was the topic of Etokudo's discussion. He stressed that to do this is to be focused on "achieving requirements that are important to the customer. It's impossible to be strategic if you are not taking the long term view. Doing things the way you've always done them can be an enemy of progress," he said.

Looking at the value expectations of a modern organization, progress is often slow. Why? Largely because people have a fear of the unknown.

"People hold on to certain beliefs, believing they know supply chain. Sometimes we do not have the depth, sometimes we need a different set of skills and competencies—sometimes these are not there when we start. We can learn from the trailblazers," Etokudo said.

Most of us are just not good at change management because naturally, most of us find comfort in the status quo.

What change management tools can help transform organizations? "Most will change if the case is made (for it). Change is easy, but transition is hard, so it's important to stay the course by setting a vision that is shared (by all stakeholders). This is a critical first step. Some-
times authority is good but even a mandate can be fleeting if you don’t have people behind the vision,” he said.

It’s important that you don’t seek to be “revolutionary” all the time in your approach to change.

“It’s important that you create early wins, little victories, the low hanging fruit that points to the inevitability of the change, and the ‘go forward’ nature of the strategy. The supply chain function is badly in need of people who think strategically,” said Etokudo.

Any goals and objectives of the change must be aligned with the company’s strategic direction.

“If the goals and objectives are at odds with the strategic direction of the company, you’ll be fighting a lost cause. People get confused and become very tactical, and passive resistance develops. Good people start to get bored and frustrated, and the bottom line takes a direct hit,” said Etokudo.

It’s by creating co-ownership that you’ll have an easier time getting the critical mass around your vision.

“You should not attempt to push through change if you’re lacking the troops behind you. What’s the pathway to sharing? It’s to communicate, to sell, but also to listen and to seem to be listening,” Etokudo said.

“People want to be associated with success. You can adjust the roadmap to incite feedback. But as a leader you probably want to spend 60-70% of your time engaging people,” he said.

The next step is to find and leverage the champions of change.

“It’s natural for people to resist change. There are those who are early adopters. You also have those who are just fed up with the way things are—go and find those guys, and cultivate their support,” he said.

Engaging, engaging and engaging, assuming engagement goes two ways, is a critical step, because leaders are also human beings, and they also have their fears.

“They are as vulnerable as the rest of us, so talk to them, sharing not just your vision but your ultimate objective,” he said.

You have to be able to demonstrate you’ve achieved what you wanted to according to what the status quo and milestones were, by measuring, sharing and course-correcting.

“I’m an avid believer in scorecards, but we should be honest when things are not going well. I don’t think that when we lose our place on a target that it’s bad to go back and say what we didn’t achieve, and realize where you were short. When you set up your scorecard don’t set it up to achieve efficiencies when you’re implementing supply chain management. It’s even more important to measure value creation, and system adoption,” Etokudo said.