



**GLOBAL SUPPLY CHAIN
DISRUPTIONS ARE
HERE TO STAY.**
Are you prepared?

In 2020, organizations in nearly every industry faced disruption on a scale many have never seen before. Rapidly fluctuating consumer demand, bottlenecks in the supply chain, and uncertainty related to trade regulations and the pandemic left many executives struggling to mitigate risks, reduce costs, and find new ways to deliver customer value in an exceptionally complex world.

As these disruptions continue into 2021, businesses face challenges from many sides, including demanding customers, rapid technological advancement, changing trade regulations, and complex geopolitical landscapes. To thrive in a complex environment, executives need trustworthy input to help address challenges and make better decisions.

To learn more about the current challenges in the supply chain and how organizations address them, we surveyed supply chain executives from various sectors, including retail, manufacturing, and consumer goods, about their approach to global trade disruptions in 2020. The survey revealed several differences in how various industries had differing levels of success in dealing with supply chain issues. While the

consumer goods industry was the most challenged, retailers indicated success through renegotiations with suppliers and short-term mitigation measures. Other sectors, such as automotive, healthcare, chemicals, and electronics manufacturing, fell between the extremes.

While structural shifts were already taking place in the supply chain, respondents indicated that COVID-19 had exacerbated specific trends. One of the more notable ones was that the value chain connecting customers with suppliers is becoming more non-linear and critical in the age of geopolitical volatility and rapidly changing technology. Many executives worry about the ripple effects that may impact the business year ahead, and they feel the need for a comprehensive strategy that can address these challenges.

Other key themes from our survey include the following:

- While organizations try to diversify risk by moving supply bases, many of these moves fail to meet expectations because of inadequate planning around country-level complexities. Business leaders may need to look beyond traditional approaches to manage risks.
- Costs are rising faster than many expected, and organizations need to balance savings achievement against business continuity to avoid disruptions.

KEY CHALLENGES IN THE ERA OF DISRUPTION

One primary theme the survey revealed is that executives are trying to deliver more value while balancing cost and risk. As complexity increases in the current environment, executives now need better understanding and alignment between these three key areas.

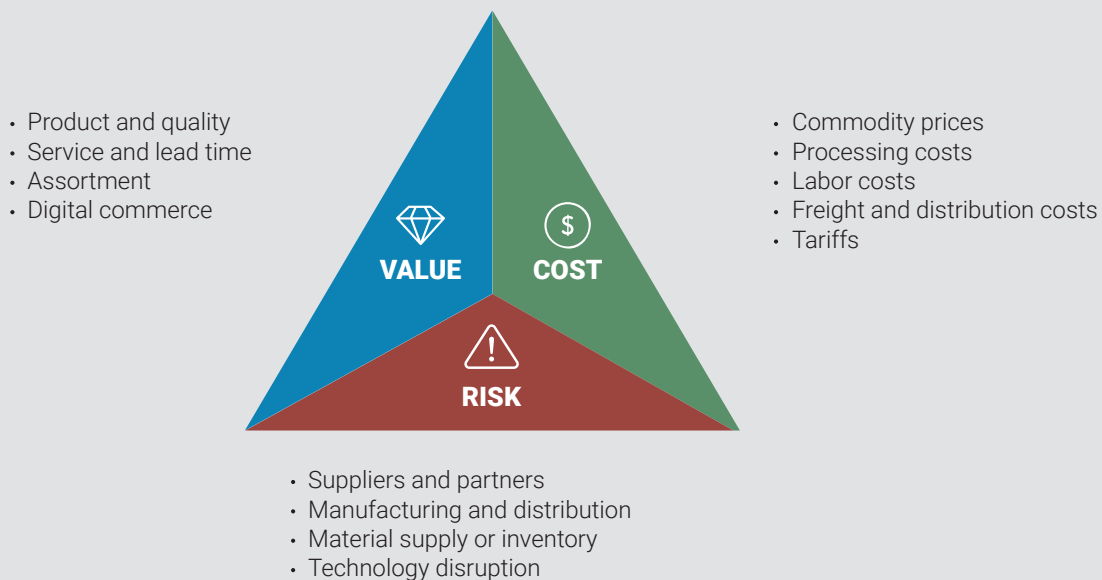
For example, the current chip shortage has disrupted the value chain of electronic parts. This has undercut production at auto manufacturers like General Motors, Ford, Honda, and Toyota, resulting in more than \$60 billion in lost revenue in 2021 for the automotive industry.¹ Procurement leaders are now trying to figure out how to de-risk their value chain and maintain supply continuity.

Another example of where executives face challenges in the cost, value, and risk equation is nearshoring from China to countries such as Mexico. In this case, adjustments in the supply chain may reduce risk but at a higher total product cost due to distribution since Asia still dominates the components supply ecosystem.

Our survey validated the stark shift of focus from improving product cost and meeting customer needs pre-COVID-19 to managing value chain risk. Many of the decisions executives make in the supply chain come down to balancing and making trade-offs between value, cost, and risk (figure 1).

FIGURE 1: A FRAMEWORK WE CAN USE TO BREAKDOWN THE PROBLEM

How do I deliver greater customer value in a cost effective manner while minimizing business risk?



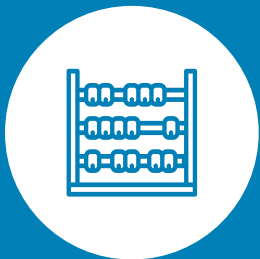
Note: List of items not exhaustive

1. <https://www.bloomberg.com/news/articles/2021-01-27/covid-pandemic-slows-down-chipmakers-causes-car-shortage>



Can you build a customer-focused supply chain?

Executives may understand the benefits of a customer-focused supply chain, but many struggle to manage it in practice. Functional silos between sales and marketing, product innovation, and engineering often impose constraints. As a result, the supply chain organization does not have sufficient visibility into the customers' real needs to make the most attractive trade-offs.



Can you control costs as global supply bases shift rapidly?

While executives focus on product costs and things such as International Commercial Terms (Incoterms) or piece price reduction, they don't always give full attention to other intermediate supply chain costs. Lack of visibility into these costs can lead to suboptimal decisions. For example, in 2018 and 2019, tariffs of up to 70% on imported goods from China sent shockwaves across the global supply chain. Organizations scrambled to rebalance their supply chains, started looking for new alternatives in other low-cost countries (LCCs), and explored nearshoring to reassess the total cost of ownership (TCO). Our survey indicated that Vietnam and India were the top two countries of choice as organizations looked for supply options outside of China. Interestingly, Mexico and the United States were tied for the third spot as businesses brought back on-shoring and nearshoring to closely manage supply chains.



Can you manage risks in an era of growing uncertainty?

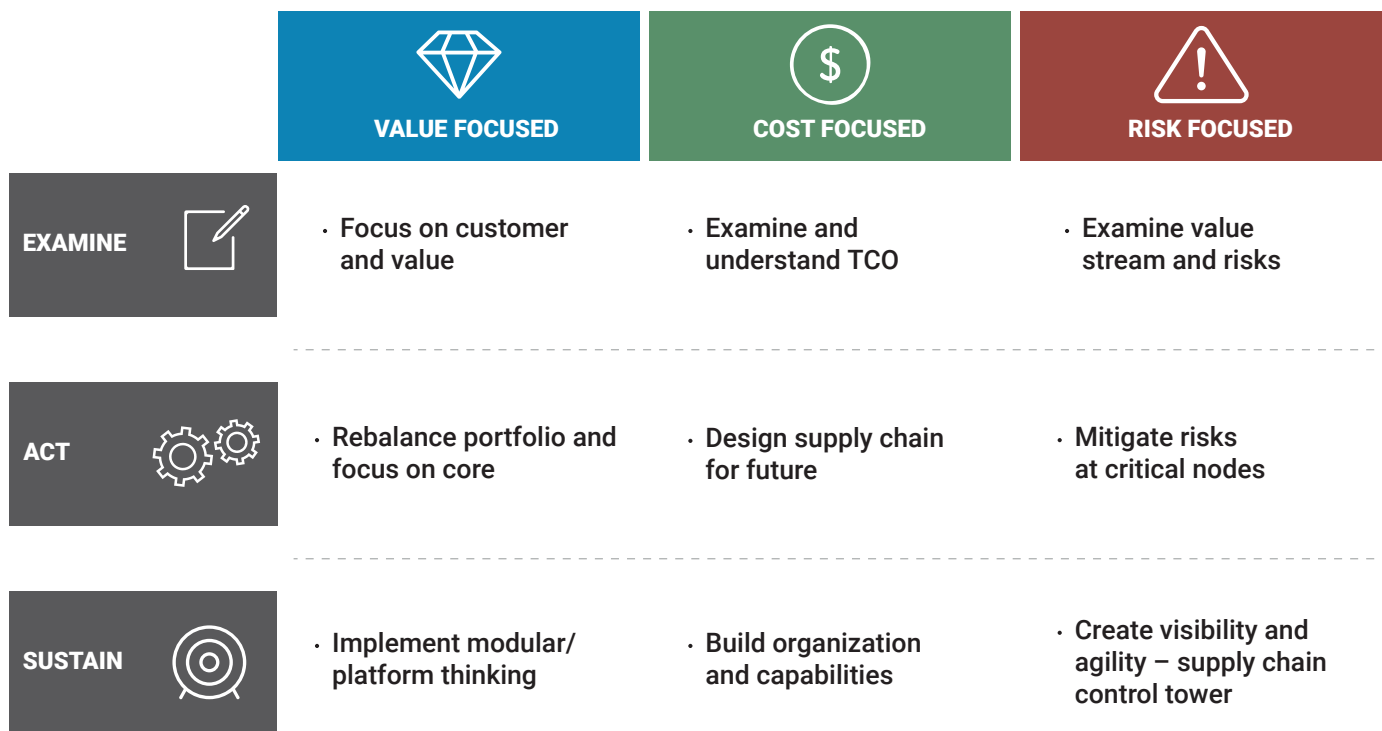
As organizations struggled to navigate the trade tensions between the U.S. and China, COVID-19 threw another curveball at an already-strained supply chain. Other challenges, such as commodity inflation (e.g., in resins, metals), Brexit, and the pandemic's ripple effects, will add new challenges in the coming years. For example, U.K. automakers could see losses of up to £55 billion due to trade tariffs over the next five years due to Brexit. There are also indications that the relationship between the U.S. and China will continue to deteriorate as the U.S. shifts from defensive measures (such as tariffs) to offensive measures like subsidies and tax credits.

IS THERE A WAY TO STRIKE A BALANCE?

In these disruptive times, supply chain executives need a new way to improve decision-making and trade-offs. We recommend taking the following steps to develop a comprehensive strategy using the 'value-cost-risk' framework to assess the current situation and align a future path (figure 2). It aligns all three areas with analysis, action steps, and ongoing efforts in sustainment to ensure the best balance of all three key areas.

This framework is essential in today's world when the global manufacturing and supply chain landscape is changing as a result of economic nationalism, trade wars, and a firm's increased propensity to diversify the supply base. It can benefit any organization trying to understand the hidden risks in the current supply chain or embarking on a multi-year complex undertaking to build a better supply chain.

FIGURE 2: HOW SHOULD COMPANIES THINK ABOUT THIS?



VALUE:

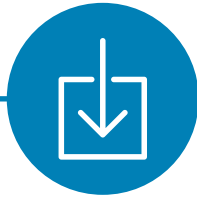
BECOMING AND STAYING CUSTOMER-FOCUSED

Now is the time for executives to reassess their core market, business strategy and align with whom they will serve and how they will drive customer value.



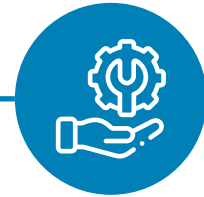
START WITH THE CUSTOMER AND VALUE IN MIND

In the post-COVID-19 world, organizations need to align products and services to meet needs and expectations around lead time, service, quality, and product innovation.



REBALANCE THE PORTFOLIO TO FOCUS ON THE CORE

By focusing on the right assortment of core products and services with a competitive advantage, platforms can help redundancies in the complex value chain.



USE MODULAR AND PLATFORM THINKING

Organizations can respond more quickly by designing supply chains and manufacturing with a modular concept. They can also reduce risk by focusing on the core with standardization to better manage their products, suppliers, and customers.

COST:

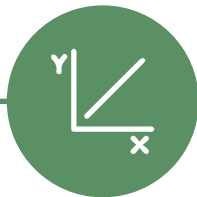
MAKING COST EFFICIENCY A STRATEGIC PRIORITY

Executives need to look past basic costs like manufacturing and shipping to consider the entire cost of serving their customers.



EXAMINE THE TOTAL COST TO SERVE THE CUSTOMER

Executives should move beyond a traditional cost reduction mindset to a total cost of ownership model that seeks to sustain a competitive advantage through new solutions.



DESIGN A SUPPLY CHAIN FOR THE FUTURE WITH A BCC MODEL

Supply chain leaders should forgo choosing the low-cost country (LCC) in favor of the best-cost country (BCC). Considerations for selecting the BCC include technology and innovation, ease of doing business, and the overall supply ecosystem, including the availability of raw materials and skilled labor.



BUILD ORGANIZATION AND CAPABILITIES

The organization also needs methods and scorecards to track supplier performance and foster continuous improvement with a partnership model that includes joint business planning, co-purchasing, and freight optimization.

RISK:

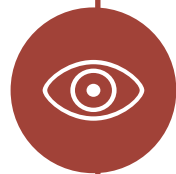
BUILDING A RESILIENT AND AGILE SUPPLY CHAIN

By developing a deeper understanding of the value chain, analyzing high-risk nodes, and creating agility, organizations can improve forecasting and spot prospective risks.



MAP THE VALUE STREAM AND RISKS

Supply chain leaders can support better planning and visibility into fulfillment by creating a heatmap of the value chain with the corresponding risk of failure (figure 3).



EXAMINE HIGH-RISK NODES

By creating a map of the value stream, executives can analyze risk and run scenarios at each node to de-risk vulnerabilities in the system and attain a more transparent view beyond their Tier 1 suppliers.



CREATE VISIBILITY AND AGILITY WITH A SUPPLY CHAIN CONTROL TOWER

By adopting a supply chain control tower (figure 4) with a centralized team to manage processes and functions, organizations can enhance visibility, standardization, and operations control. This enables mapping of each state of the supply chain with technologies like IoT, smart sensors, and AI to gain real-time visibility and resolve issues before they become big problems.

FIGURE 3: HOW TO UNDERSTAND GLOBAL VALUE CHAIN AND RISKS

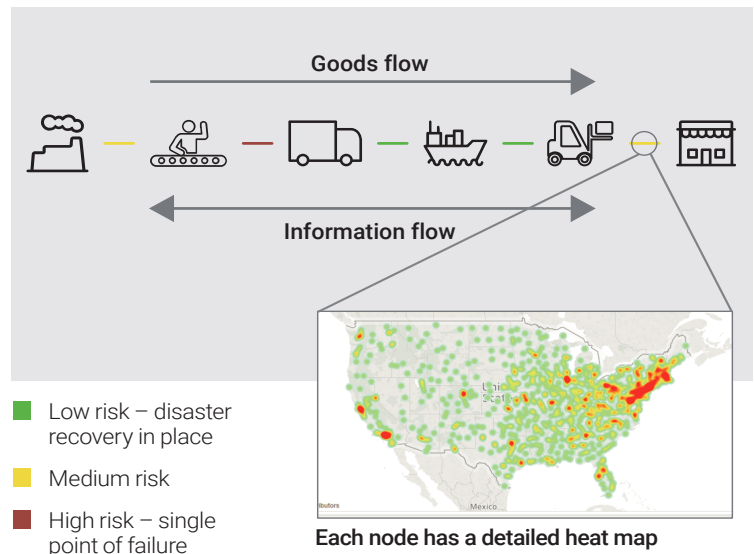


FIGURE 4: WHAT ARE COMPANIES DOING TO INNOVATE AND TRANSFORM?



AlixPartners has used this framework to help clients better deal with uncertainty and make improved decisions balancing customer value, cost, and risk.

We worked with a leading home retailer on a multi-step process to revamp large parts of their product assortment. We first redefined the assortment to focus on **customer value** by analyzing customer trends, channel engagement patterns, competitor performance, and private brand conversion potential. We then opened competitive bidding on a global scale to identify compatible suppliers with competitive **total cost** structures to design products and offer a curated assortment. Finally, we focused vendor discussions on audit requirements, cost management, MOQs, and locations to enable the retailer to select partners with the proper infrastructure to address **risks**. The program included more than a hundred suppliers and partners in multiple countries in Asia and North America and delivered more than 10% margin improvement.

A large appliance manufacturer we helped was able to not only mitigate supply chain risks during COVID-19 by leveraging a diversified global supply base but was also able to launch new products, demonstrating a relentless focus on “customer value.” We first helped the manufacturer assess the global value chain across various products and categories in electronics components. We then negotiated partnerships and agreements with global manufacturers to diversify the supply base in Vietnam, Singapore, India, and Mexico to deliver more than \$20 million in cost reduction and tariff benefits.

NEW OPERATING MODELS NEEDED TO COMBAT DISRUPTION

While the value-cost-risk framework sounds intuitive, it can be challenging to implement. Supply chain teams often struggle to quantify and assess risks, and in many cases, efficiency-focused organizational structures can impede cross-functional collaboration.

To address these complex and interrelated problems, successful organization's devise creative solutions by breaking down the traditional barriers with the right leadership, KPIs, and incentives. Developing improved models and data to understand the problems and risks is a critical step in the process.

Now more than ever, leaders must respond to the shifting business environment and global geopolitical landscape with new operating model decisions. Organizations can use this value-cost-risk framework to understand and forecast the global trade and supply chain challenges ahead in 2021, develop the right solutions, and perform better on the bumpy road to recovery.

HOW ALIXPARTNERS CAN HELP

Our study, supplemented by research, executive interviews, and surveys, highlights the impact on an organization's complex value chains in the current global environment, its preparedness, and potential blind spots. We aim to offer a fresh perspective about what businesses can do to prepare and stay ahead of the curve through a general framework and industry-agnostic point of view. In the months ahead, we will address the specific challenges facing specific sectors, including retail, consumer goods, auto, and industrial.

We use a comprehensive global trade platform that considers factors such as tariffs, benchmarks, rates (labor rates, freight, commodity prices), cost drivers, and the global supply base to better understand the challenges before developing a solution for value chain transformation.

That proposed solution may then vary by the organization, based on size, scale, and growth expectations. For example, in many cases, the right strategic partnership and joint venture can generate higher ROIs and reduce non-recurring expenses (NREs) and the transitional risks than investing in a new factory elsewhere. Our integrated financial services and turnaround experts can assess risks using a range of critical factors (quality, compliance, in-country capital structure, and tax), which can often be underestimated in such partnerships.

We have learned from our execution-focused culture that a global team with "on the ground" experts is needed to validate critical assumptions, leading to more accurate models and better results.

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ABOUT US

For more than 40 years, AlixPartners has helped businesses around the world respond quickly and decisively to their most critical challenges – circumstances as diverse as urgent performance improvement, accelerated transformation, complex restructuring and risk mitigation.

These are the moments when everything is on the line – a sudden shift in the market, an unexpected performance decline, a time-sensitive deal, a fork-in-the-road decision. But it's not what we do that makes a difference, it's how we do it.

Tackling situations when time is of the essence is part of our DNA – so we adopt an action-oriented approach at all times. We work in small, highly qualified teams with specific industry and functional expertise, and we operate at pace, moving quickly from analysis to implementation. We stand shoulder to shoulder with our clients until the job is done, and only measure our success in terms of the results we deliver.

Our approach enables us to help our clients confront and overcome truly future-defining challenges. We partner with you to make the right decisions and take the right actions. And we are right by your side. When it really matters.

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