Voice of the CSCO

The value of visibility

KPMG LLP hosted chief supply chain officers (CSCOs) across industries in a discussion on navigating supply chain disruption through a strategic focus on inventory levels, partnerships, and digital technologies. Rob Barrett, U.S. Supply Chain Advisory leader, and Brian Higgins, U.S. Supply Chain Operations leader, hosted the session.

Key takeaways

- Post pandemic, CSCOs are finding it difficult to predict supply needs and rebalance inventory across the value chain given unpredictable demand.
- In an environment where inventory levels for many products have flipped from being out of stock to over stocked, nodes in the value chain are working to run through existing inventory to improve working capital and free up cash.
- Digital technologies are being leveraged to improve visibility with first- and second-tier suppliers, conduct scenario planning to prepare for potential disruptions, and apply advanced analytics to decision making.
- More broadly, organizations are moving toward automation in factories and warehouses to make up for ongoing staffing shortages, which have plagued companies in terms of available supply and rising costs in recent years.

Inventory levels: Recovering the balance

CSCOs are well aware of the continued volatility of demand and supply coming out of the nearly three years of pandemic-induced supply chain disruptions. CSCOs in some industries are finding this issue more challenging than others. For example, automotive CSCOs need to manage the long lead times to secure many auto parts, particularly when those parts are being shipped from Asia. Specifically, “semiconductor shortages are a huge challenge,” said one CSCO. “There is consistent volatility in China and other parts of the world, and we haven’t yet found an alternative solution.”

Part of the problem is the cost of transportation, which continues to be at an all-time high. “We’ve spent millions aggregating data across containers, trailers, and our own equipment and bringing it all into our 360-technology platform,” said one CSCO. “If companies are going to use an external transportation vendor, it comes down to dollars, strict line haul costs. Transparency is now table stakes,” in order to manage the continued inflated costs for logistics and transportation.

Other issues related to inventory include losing visibility into true demand when orders are cut, knowing if demand was real or inflated to drive supply response, and missing out on opportunities to meet revenue targets if inventory isn't available. Regarding the latter, companies are facing a difficult re-balancing act. Customer demand is down in most industries. One retail CSCO said, "Demand is the worst I've seen it since 2008 and 2009. It's slowed down in three separate increments—in April, then again in September, and finally in November. Companies are still trying to push out inventory from 2021 and early 2022. Now, they have to decide whether to sell those products at a loss or hold them for a time when the market hopefully comes back around," if that is an option.

Partnerships: Mitigating shortages

Some CSCOs are shifting from a full ownership model to a partnership model to help circumvent some supply issues. "We don't have full sets of everything so we can't build as consistently as we may want to," said one medical device industry CSCO. "We are moving to a partner and plan model to get a better handle on forecasting. Since we were burned quite a few times during the pandemic, there is reluctance within the teams to build inventory and have it sitting around based on forecasts."

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> Prepandemic, we would fill our orders at 99 percent. We can't do that anymore.
> *– participating CSCO*

When it comes to collaborating with suppliers, "ongoing communication is huge," said one healthcare distribution CSCO. "During the pandemic, we set up more frequent discussions with our suppliers. We have scorecards on each supplier to track how they're doing. The management team goes through those scorecards to evaluate if we need to make adjustments."

Digital solutions: Gaining visibility

Companies are evaluating their plans for risk mitigation and how much safety stock to hold to balance against the volatility of supply chain. They are looking at their value chain to better understand what supply is being shipped from where and assessing how much inventory should be held across nodes. More broadly, they are using new technology tools to help with their supply chain visibility, analytical capabilities, and inventory planning.

One CSCO said his company recently purchased an O9 demand planning solution to do scenario modeling to improve demand forecast accuracy and balance supply. The technology connects the company's third-party demand system and allows allocation of orders based on priorities on a weekly basis. "Since the system can turn off inventory optimization, we saved $250 million in inventory in a few weeks," he said. Ultimately, the company plans to integrate artificial intelligence (AI) capabilities to better predict demand.

In addition to predictive capabilities, the CSCO group discussed the use of tools such as Resilink, Altana, and Everstream. Data can be used to detect early indicators of supply disruption, and geo-fencing can help predict issues that could impact supply. Such data is critical to a supply chain's ability to act quickly.

An aerospace and defense CSCO is focused on having a control tower to help with business process harmonization. "We continue to look at what we're doing and how it compares to other industries. We need to share and collaborate at the highest enterprise level, as well as on the P&L level."

The discussion broadened to a question about the importance of visibility and the tipping point when having visibility with trading partners would become table stakes and the ability to aggregate data across organizations and systems would be a requirement. Real-time information and the status of supply is critical to the future of the supply chain. Are supply chain organizations playing the long game?

One CSCO was interested in how quickly other companies are moving toward automation and eliminating manual labor to manage through the very real labor shortage. He said, "We have underlying labor issues, not so much in plants but across the supply base. This is true regardless of geography, but it is especially challenging in the U.S." His organization is moving toward automation in factory and warehouse operations to reduce the dependence on human labor. His organization's focus is on the "total delivered cost" in supply chain, which includes both the cost to produce and the cost of lost revenue. This approach reflects the fact that investments in automation are of value not only to the supply chain, but also to the business.

Others CSCOs are a bit more circumspect about diving headlong into automation. “Automation should be based on how you structure your value chain and your supply chain,” said one CSCO. “It is just one of the tools in the toolkit to drive risk mitigation and efficiency. We would typically consider automation as a late step in the process—after standardization. At the end of the day, automation shouldn’t be the holy grail; it should only happen when the enablers are there.”

> We want to understand what industry partners are doing and to benchmark ourselves more.
>
> *– participating CSCO*

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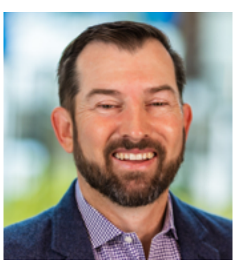

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