

Managing the present while investing in the future

Competing realities: Present versus future

In early December 2021, the world's leading Chief Supply Chain Officers (CSCOs) joined the IBM Think Circle to share how they're adapting their playbooks in 2022. After 2 years absorbing significant and unrelenting shocks in their world, these Supply Chain Thinkers continue to grapple with 2 competing realities as they head into the new year: managing the present while preparing for the future.

"There's no Q2 if we don't survive Q1."

Much of the supply chain is still in survival mode, coping with product and labor shortages, demand uncertainty, and the costs of a suppliers' market. There's no surplus financial or human capacity to do much more than keep the business running:

"My leadership isn't asking how I'm thinking about 3 years from now; they're asking if Christmas is going to happen on time."

versus

"If we focus on the daily madness, we'll be left behind."

Thinkers acknowledge that this turbulence is temporary, and they need to make time to think longer term to build resilience into supply chains that will enable a better response to the next inevitable disruption.

"It's not about getting ahead; it's about not losing irretrievable ground."

Managing the present

Continue to cope with current constraints

As of December 2021, even before the omicron COVID variant took hold, the short-term challenges that most vexed our Thinkers were cost and risk, teams and people, and data and visibility. These challenges took on new significance as newsworthy bottlenecks made the world's population only too aware of how important supply chains are to our communities.

Cost and risk

Balancing cost and risk as they're trying to emerge from a disruptive pandemic environment would be hard enough, but these Thinkers are also incorporating environmental, social, and governance (ESG) goals to enable sustainability and circularity, even as consumers say 1 thing about sustainability and often do another. In some ways, the Thinkers say, the cost of risk avoidance has become more important than the cost of product development.

"The sourcing decision is no longer to decide whether to pay more or less. We've switched to considering how long it's going to take to recover the cost versus considering the cost alone."

"Total cost of ownership is not good enough anymore. We have to integrate more variables from other sides of the business into our supply chain decision making. Even something like diversity [which] studies show impacts procurement...we should be able to model that and put it into our cost considerations."

"It's not that we don't want to invest in sustainability strategies... but when we have unprecedented cost increases on top of unprecedented cost increases, things get squeezed."

"One reason why we're doing digital transformation is sustainability. We can't get where we need to be by just reducing transportation and paper alone. But next year is going to see analytics and decision making based on data instead of gut feel."

Teams and people

Given that almost 40% of jobs in the United States alone are supply chain related, there is voracious demand for talent—diverse talent.¹

"If you don't have a diverse workforce, it's impossible to manage the complexity of supply chain disruption. No 1 person can connect all of the dots."

"Our biggest challenge is keeping our people motivated and running."

"Leaders will tell you they don't have enough people, but when you look across the organization in specific roles, there are plenty of people, but they're in the wrong spot or in the wrong role. We have to reevaluate our org structure and create different models."

Data and visibility

They know unreliable supply is driving an inevitable yet dreaded bullwhip, but they don't have the data, transparency, or ecosystems to avoid it...this time.

"Right now, product availability is THE metric. Our sourcing markets have changed from a buyer's market to a supplier's market...and that's not changing, at least not next quarter."

"With very deep constraints, we're working closely with product development to modify products at speeds never before reached. To get there, we must understand data...from demand management across outsourced manufacturing. The need for that data transparency has never been as urgent as now."

"Leveraging consumer insights from our retail operation and spinning the data into something meaningful for wholesale is critical to our success. We haven't been great at it historically, but the pandemic has forced us to get better, and this has set us apart."

In summary: *"Next year is going to be a busy and hard slog."*

Shaping the future

Aim to accelerate...fast.

While the short-term challenges threaten to be all consuming, Thinkers are keenly aware of how the pandemic accelerated change. One said it feels like, *"there's been 5 years of change in 1 year."* IBV data shows that the COVID-19 pandemic accelerated digital transformation at 59% of organizations, and 66% of executives say they have been able to complete initiatives during the pandemic that previously encountered resistance. In 2022, technology and transformation investments, focused on supply chain collaboration, transparency, and decision making, will be critical to building a longer-term strategy and shifting the balance from reacting to the pandemic to preparing for the next normal.

Automate decision making: Listen to the algorithms

Even when supply chains achieve their goals and metrics such as through-rate, it can come at a huge cost to overcome the variance, nuance, and noise in the chain. Investments in AI, modeling, and algorithmic decision making are allowing supply chain systems to do what no human could have done: create forecasts for more than 70% of SKUs through statistical models or dynamically control millions of stock items.

"The way forward for us is to let the system—rather than human planners—define the rules for us. Then we can define exceptions for the high-value, high-volatility items that need special (human) attention."

"The algorithms are working because the underlying stuff is stable...and they can quickly distinguish between what's stable and what's much ado about nothing."

"I have faith that if more companies listen to algorithms versus humans, we may be able to solve the global bullwhip."

Achieve real-time visibility:

Build tech-enabled ecosystem partnerships

Some industries are using blockchain-enabled networks to deliver granular end-to-end transparency and visibility into where inventory is along the chain. The increased level of visibility, available to all ecosystem participants, has reduced the amount of stockpiling and improved trust along the chain.

Others are turning to supply chain control towers that bring a landscape view of both internal and external situations that may impact operations. Used in combination with AI and machine learning, control towers help CSCOs better predict disruptions, improve resiliency, manage exceptions, and respond to unplanned events.

"It's not just us that benefits from the blockchain network. Everyone who participates gets more visibility in their supply chain, too."

"As the blockchain network expands globally, the amount of data is humongous. How do we utilize that most effectively?"

"The key to future disruption will be partnering and not trying to go it alone to deal with our connected bullwhips."

Design for disruption:

Assume instability as the next normal

These Thinkers anticipate that COVID disruption will dissipate, but climate change, ongoing geopolitical tensions, changing expectations of work, and the next black swan event are still going to require transformation at a global scale. The Thinkers will spend some of 2022 crafting a method of valuing long-term investment in transformation and technology—the things they know will build resilience—that won't show benefit or cost savings in current organizational governance models. And they will continue to find ways to motivate and retain their top talent, because as one Thinker said, *"Our people are going to make us or break us."*

"Our sourcing model thinks planetary, but in times of disruption, all countries are thinking of their borders. That equation is a square peg for a round hole."

"If we're building a system that sees and manages across the whole organization, why are we not doing more to think about the organization of the future?"

"You can have the best tools on the planet, but if you don't have the right people to operate or interpret them, you'll have a hard time."

"If we can give people the ability to make quick decisions and look at coming out of this crisis, we can all be stronger to set up the future. We need to make sure our strategy is in place to know where we're going."

A closing word: Tightrope

Forced by the pandemic into a predominantly reactive mode, many supply chain leaders have spent nearly 2 years laser-focused on the constant pressures of connected bullwhips, unreliable supply, and an incredibly tight talent market. But many realize that the playbook for 2022 and beyond must have 1 foot in the present and another in the future—a future that may continue to subject supply chains to instability like we've not experienced before.

As these leaders find their balance between short-term survival and long-term vision, the Think Circle will continue to discuss the transformation of global operational models when volatility is the norm—in demand, in supply, in labor, and more—and customers and investors alike expect ESG and circularity as a baseline. We will also continue to share how these updated playbooks must reconsider real-time demand and supply signals, continuous and intelligent planning, and collaboration.

"Manage the present; shape the future. We live in both camps. Digital transformation will ignite and will help."

Related IBV reports and other references

Smart Talks with IBM, hosted by Malcolm Gladwell, Season 2, Episode 4, "Managing supply chain volatility in the height of the shopping season" with Jonathan Wright, Global Managing Partner for Supply Chain Consulting at IBM
ibm.com/thought-leadership/smart/talks

IBM Think Circles for Supply Chain
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IBV Global Consumer Study: "The last call for sustainability"
ibm.com/thought-leadership/institute-business-value/report/sustainability-consumer-products-retail

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¹ "The Hot Supply Chain Management Job Market: How to Take Advantage," Supply Chain Careers. <https://supplychaincareers.com/supply-chain-management-job-market/#:~:text=Logisticians.> Occupational Outlook Handbook, Bureau of Labor Statistics, U.S. Department of Labor. <https://www.bls.gov/ooh/business-and-financial/logisticians.htm>