

How the great supply chain reset is infolding

(PART 1)



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Companies are making their supply chains more cost-efficient, resilient and sustainable in an increasingly uncertain world.

In brief

- ▶ Inflationary pressure, supply uncertainty, geopolitical, economic, and ESG pressures are causing a rethink of traditional global supply chain models.
- ▶ Linear, lowest-cost supply chains are giving way to more multi-dimensional supply networks that better balance risk, sustainability, speed, agility and cost.
- ▶ Companies need to rethink where they operate, the materials they source, the suppliers they buy from, and their physical supply footprint and operating model.

manufacturing, packaging, storage and transportation. In many cases, companies will be reconstructing their entire value chain, including their business management and supply chain control hubs, and associated tax models.

Five elements of the great supply chain reset

There are five key elements to the great supply chain reset. Future supply chains, or supply networks, should support efforts to reduce material consumption and carbon footprint and increase circularity and biodiversity. They also need to be resilient enough to withstand environmental and geopolitical shocks and adapt to changing legislative measures.

disruptions is increasing the cost-to-serve, reducing gross margins and making it unprofitable to hold inventory as a buffer.

Circular and as-a-service models are a foundation of the great supply chain reset. From manufacturers' refurbishment of cars, phones, laptops and other white and brown goods to the textile collection and waste reduction by global fashion brands, companies are pivoting to sustainability. Along with the shift from customer-ownership to subscribing and renting, manufacturers are becoming less dependent on new material supplies and are instead focusing on increasing supply chain resiliency.

production and packaging. This means fewer suppliers and components, which lowers the exposure to disruption. Companies should investigate whether it's possible to use less material and/or more recycled content, and whether this can reduce total cost of manufacture.

Ironically, a more circular model with subscription components introduces a new set of tax, legal and customs-trade trade-offs that require careful consideration. For example, service subscription income may be taxed different from a traditional product sale, and cross border service provision will give rise to new transactional models, asset ownership, registrations and compliance challenges.

In real estate, it's estimated that a circular economy has the potential to reduce global CO2 emissions from building materials by 38% by 2050. Owners could realize more value from existing assets, keep resources and building materials in the economy, and reduce waste. ■

Over the last couple of decades, many supply chains have become linear global chains, stretched to their limit in pursuit of efficient, mass production with low-cost countries, just-in-time inventory and limited inherent resilience.

These models were geared towards growing volumes of open, cross-border trade in a relatively stable world. Manufacturers also became accustomed to an abundant supply of raw materials, leading to low prices and downward spiral in investments. Furthermore, this low-cost, single-use mentality typically failed to consider the environmental and sustainability impact of products, processes and physical supply routes.

However, in the face of international trade policy change and global tax reforms, massive disruptions from the COVID-19 pandemic, the war in Ukraine, increasing China-US tensions, shipping delays, and environmental, social and governance (ESG) pressures, companies in many sectors are being forced to shift to segmented "supply networks." This involves re-orienting the supply chain towards supply security, energy transition, talent, and increased agility.

These factors combined have led to the unfolding of the great supply chain reset. A reset involves more than just tinkering with the edges of supply chains. It impacts the entire business model, from strategy, marketing and design, to sourcing,

CHAPTER 1

Rationalized portfolio, service levels and as-a-service

The first element of the great supply chain reset is rationalizing the portfolio. A radical review of the product portfolio and bill of materials may reveal products that – regardless of their manufacturing location – are no longer profitable to make and sell (if the manufacturer is unable to pass on inflationary costs) or cannot be produced sustainably. These include cheap, disposable plastic goods and fast-fashion products, products that use large amounts of raw materials such as water, biodiversity-damaging products, or items produced thousands of miles from their ultimate marketplace. Manufacturers should question whether such items can survive the pressures of ESG reporting requirements, carbon taxes and consumer demand for ESG.

In many sectors, the cumulative effects of the rising costs of products (and thus working capital), logistics, carbon charges for border crossings, and frequent supply

CHAPTER 2

Resilient, circular operating model

Sustainability by design is another imperative. In a future circular economy, products will be engineered to last, be able to be constantly repaired and upgraded, with any redundant parts recyclable. This opens up new revenue streams with modular design, enabling different parts to be easily replaced and serviced. The production process will avoid exploiting scarce mineral resources and water, be energy-efficient and net zero, and minimize waste and pollution.

All these factors determine the kinds of products a company makes, and where and how they make them. In many cases, the entire bill of materials – the components required to produce a product – may have to be revisited, including raw materials, semi-finished products, or ingredients. It may be possible to reconfigure existing products to become more circular, while others may have to be discontinued.

Taking a detailed view of the entire product journey, from design to delivery and beyond, can also help to simplify sourcing, by standardizing as many elements as possible, reducing the range and specification of materials used for

(CONTINUED IN NEXT EDITION)

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