

Disruption, An Opportunity To Excel

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Challenges and way forward in supply chain management


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How can we mitigate supply chain disruptions in the fast paced world? One must carefully understand its vulnerabilities and plan to reduce the probability of the occurrence of such vulnerability and/or reduce the impact it has. As the business complexity grows, more and more functions will eventually be outsourced and it is important that we explicitly consider supply chain risk as priority. Dr Rajiv Aserkar, Head of Global Logistics & Supply Chain Management, S P Jain School of Global Management, Dubai-Mumbai-Singapore-Sidney and his team conducted a survey recently to find out the supply chain disruptions in India.

The reasons for disruption in India are cited as regulatory issue – demonetisation, dependence on single source of supply, and technology related issues.

The survey pointed out, it is of utmost importance to communicate well and frequently to address the gap that higher levels of outsourcing bring about. Technology plays a key role in increasing visibility and communication in such cases. One needs to continuously innovate and reinvent the wheel to keep disruption levels at the minimum.

The purpose of this report was to evaluate the results of survey conducted to understand various supply chain disruptions and its impact in India. There were a total of 36 respondents from various industries spread across India. Majority of the respondents were from logistic services and manufacturing. More than 80 per cent of the respondents agree that they have witnessed a disruption in their supply chain or operations in the past.

The risk factor

Some of the observations of the survey are very important to the industry as a whole. It is observed that the organisations are still reluctant to consider 'supply chain risk' as one of the major factor for outsourcing. Only three per cent of the organisations consider supply chain risks as one of the very significant criteria in their decision-making process for outsourcing 28 per cent of the respondents hardly consider it as a relevant criterion. However, 56 per cent of respondents consider this criteria with moderate importance. In almost all decision-making related to outsourcing, financial benefits are the top most priority.

About three-fourth of the Tier II & III Suppliers pose significant risk. Majority of the respondents either believe that lower tier suppliers pose a significant risk (47 per cent) or lack information to be decisive (22 per cent). Majority of the respondents either believe that lower tier suppliers pose a significant risk (53 per cent) or lack information to be decisive (31 per cent). It is important to evaluate your suppliers in the entire chain so that one can plan accordingly.

Logistics and IT are the most commonly outsourced functions. It is opined by about 47 per cent of respondents that Logistics/3PL as the major function to be outsourced followed by Information Technology (31 per cent). Other major functions are Human Resources, Financial Reporting and Manufacturing.

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Supply chain disruptions could have financial impacts of the order of \$10 million. The survey further observed 18 per cent of the disruptions experienced by the respondents cost the organisation more than US\$ 1 million. Out of which 11 per cent exceeded \$10 million. Majority of all disruptions (54 per cent) costs more than \$100,000. These disruptions have a direct and adverse effect on the profits of the organisation. It is very important to have disaster recovery/ back-up plans in place to minimise or mitigate such situations.

Challenges

Single source of supply and regulatory issues are the top challenges. According to the survey, the biggest cause for disruption is because of the over-reliance on single supplier as a source. This is agreed by 53 per cent of respondents. Regulatory issues (39 per cent) and technology related (28 per cent) are the other major causes for disruption. Regulatory issues refer to any sudden change in rules, misinterpretation of rules, misunderstanding of the rules and misuse of the discretionary power and technology related issues include cyber-attacks, technical obsolescence, etc. Human errors (8 per cent) and Port Strikes (6 per cent) are rarely the reason for disruption.

Talking about the supply chain disruption, Vikas Agarwal, Managing Director, CEVA Freight (India) Private Limited observed that "One of the casualties of disruption is loss of reputation." Loss of productivity, increased cost of working, consumer complaints and loss of revenue are the other immediate possible direct impact of disruption to any organisation.

What are the lessons from the recent supply chain disruptions? This was discussed by a panel of experts recently in Mumbai.

Participating in the discussion, Somnath Das, Head, Supply Chain Planning and Logistics, Marico Ltd. said, "Good opportunities come from various disruptions." Disruption opens doors for infrastructure development. Moreover, the world is getting connected and we have to adapt to the changes.

Citing the 19 disruptive incidents faced by his company which faced 187 days of disruptions world-wide during 2016, Mudit Dobhal, Head Program Manager, Damco said, "We increased our inland network, created alternate gateways in Asia for water transport improved our air-connectivity to meet the challenges during those days."

According to Milind Tailor, Head, Supply Chain Management, Diebold Nixdorf, How do we plan and address the disruption at the tactical and execution level is very important. It is also important to cross check the credentials of your new vendor with your own check list and priorities before you finalise them, he said. "We have to take multiple solutions to address disruptions of any nature," he added.

Rohit Batra, Vice President and Head of Supply Chain at Ferrero Rocher felt that, "Each disruption unleashes our ability and if we react in a panic way, there will not be any solution."

Stella Joseph, Lawyer, Economic Laws Practice explained about the impact of GST in supply chain business. "GST will act as an actual business reform, not just as a tax reform," she opined. GST offers a huge platform to analyse our operations tax structure and take our business way forward, she said. Through automation and online transactions, GST is supposed to streamline the entire supply chain sector.

Way forward

The second panel took the discussions forward where the earlier speakers concluded deliberations on the past disruptions and discussed 'potential disruptions in global supply chain and the future.'

"Depending on the political situations and regulatory issues, it is important to select the vendors for international operations," said Pradeep Sharma, General Manager, Supply Chain Management, Sun Pharma.

For Arjun Varma, Supply Chain Director, Beiersdorf India, it is important to address the regulatory requirements like usage of banned raw materials, non-recyclable plastics, non-environment friendly items by the FMCG sector while operating in a global environment. "It is difficult to create a global supply chain modular, even though it is need," he said as a major challenge in the sector.

Making use of the technology – (AI, tracking movements) and usage of data – (environment data, weather data) will have to put to use to address any disruption which is affecting internationally. "Usage of big data and GPS systems will help supply chain business in a big way to deal with disruptions in a big way," said, Naval Sabharwal, Global Head, Supply Chain and Logistics, Ramaco Systems.

Citing the example of the implementation of GST in Malaysia, said Neeraj Katare, Executive Director (Leader: Pharma Supply Chain Advisor), PwC, "It took almost three years to stream line the operations in Malaysia, even though it was a positive decision."

"It is important to use the digital technology in several stages of transportation," according to Jayanta Chatterjee, Executive Director, Supply Chain, Castrol India.

As far as the future is concerned in the global supply chain segment, the technology used will be much cleaner and environment friendly, opined Sabharwal.

The panel also discussed the recent changes in the global arena including the US presidential elections, vote on Brexit, oil price volatility and climate changes that will have a profound impact on supply chains, terrorist attacks at strategic nodes in the supply chain, regulatory norms governing cross-border trade, cyber security threats and advent of big data and 3D printing and positive disruptions. They also put forward their strategies to meet the challenges arising from the unexpected events at the Supply Chain Management Conclave 2017 organised by S P Jain School of Management recently in Mumbai.



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