Our panel of experts examines what lies ahead for supply chain professionals. The consensus: Cost pressures, competitive challenges, and economic volatility will only intensify going forward. The keys to success in this environment are flexibility, a willingness and capacity to change, and an unwavering focus on the customer.

Global Trends Roundtable:

SCMR *Executive Editor Patrick J. Burnson served as moderator for the Global Trends Roundtable.*

What are the major developments that will impact supply chain professionals in the months and years ahead? What challenges will they face in helping their companies compete in an increasingly global environment? To help answer these questions, *Supply Chain Management Review* assembled a panel of prominent analysts, consultants, and industry practitioners. These experts explored a range of topics, including how rising fuel prices, risk management, global sourcing, and new regulatory compliance issues are reshaping the supply chain landscape.

SCMR will reconvene these panelists for a special web event scheduled for March 29, 2012. To register for this webcast, go to www.scmr.com/roundtable2012

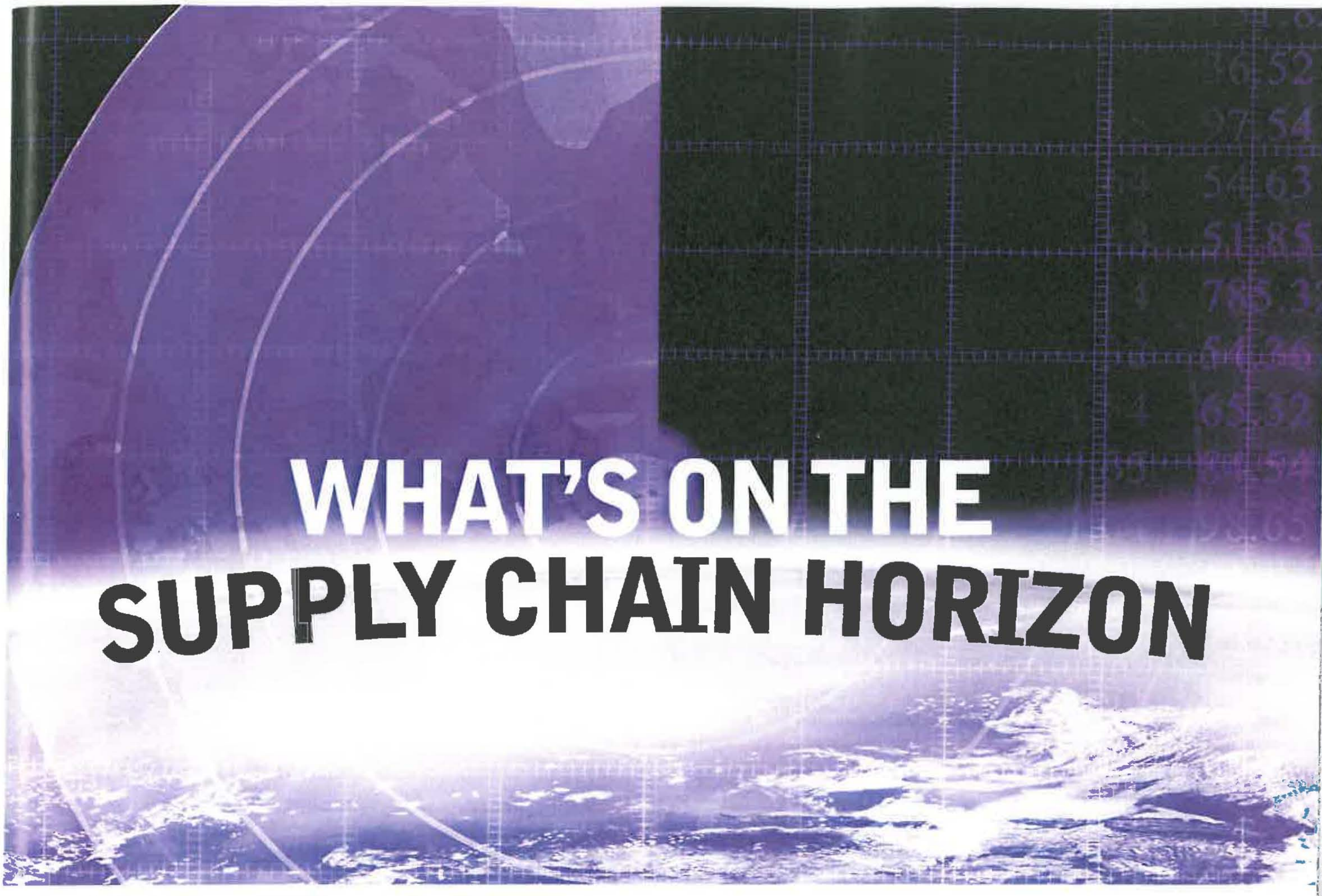
Roundtable Panelists

David Joseph Aquino, CPIM: Vice President, Supply Chain Planning, Strategy and Performance Houghton Mifflin Harcourt, and formerly research director at AMR/ Gartner.

Simon Ellis: Practice Director, IDC Manufacturing Insights and author of IDC's **"Supply Chain Top 10 Predictions for 2012."**

Roddy Martin: Senior Vice President Global Supply Chain Competitive Capabilities International, Inc., and previously a senior analyst with AMR/ Gartner.

James B. Rice, Jr.: Director of the Integrated Supply Chain Management Program (ISCM) at MIT's Center for Transportation and Logistics.



WHAT'S ON THE SUPPLY CHAIN HORIZON

Supply Chain Management Review: *With regard to sourcing strategies, are there any emerging markets that are lurking beneath the radar these days, or will supply chain managers continue to target the "usual suspects"?*

Simon Ellis: I think it is still the usual suspects, mainly, although we are seeing, for example, growing interest in Mexico and the Caribbean as a source of low cost manufacturing for U.S. demand.

David Joseph Aquino: Since the global recession began, organizations that viewed international markets as "icing" to a heavy base in either North America or Europe, have radically changed their strategies to avoid catastrophic results. Clearly there has been an emphasis—possibly too scattershot—on finding any way to build market share and generate geographic diversity.

Roddy Martin: That's true, and Latin America is quickly emerging as an important market opportunity in that regard. Lead time issues in the Asia Pacific are also making South America more attractive. Africa is also starting to emerge, particularly in the south where there is a more sophisticated infrastructure.

James Rice: I hear and see more about Vietnam and Central America as emerging sources of production supply. Also, a few are talking about and working on Africa as sources of production supply—mainly pharma.

SCMR: *Given the political volatility in the Middle East, will fuel costs remain an issue going forward? How do shippers protect themselves from sudden spikes in prices?*

Rice: Fuel costs will continue to be an issue for a long time. They will go up and down. I don't think that there are genuinely any new approaches to this, although the more advanced supply chain managers may use options to hedge and balance risks.

Aquino: I agree. To manage fuel volatility, organizations should at minimum carefully monitor and review pricing contracts and make a coordinated effort with their transportation partners to evaluate potential risks. Additionally, if there are clear opportunities to build in dynamic shipping pricing for end-customer transactions for final shipment, this can ensure that as pricing volatility crops up you are not behind in being able to address a portion of the costs. Amazingly, the connection of pricing changes in many organizations lags too far behind fuel surcharges and resets of budgets. This is in part because of a lack of awareness, poor data management, and an absolute unwillingness to address customers about the impacts.

Martin: That's right, David. The key for any business today is a solid understanding and segmentation of global market demand at a detailed level. Leaders are executing "demand-back" designs of both the demand network and the supply network on a global basis and then planning some aspects of global demand fulfillment from central core planning capabilities. This is the answer to agility and adaptability. And yes, the capability to operate in this way will help companies make the balanced tradeoffs to minimize the costs of fuel and the risks of instability.

Ellis: It looks like we are all on the same page here. I'm afraid fuel costs will always be an issue. And while Middle East instability is not helping, fundamentally it is growing global demand that is at the heart of rising costs. That is not changing anytime soon. The good news for the U.S. is that natural gas reserves can act as a buffer to fuel costs for some parts of the manufacturing marketplace. Shippers need to build rising costs into their strategic plans and ensure that they are looking at ways to mitigate these costs, such as using intermodal or maximizing full-truck use.

Businesses must be agile in their decision making and have the capability to deal with multi mode scenarios, not one or the other.

—*Roddy Martin*

SCMR: *Near-shoring or a hybrid sourcing strategy seems to be one solution to volatile fuel prices. But how realistic are these tactics?*

Ellis: Well, it depends. For businesses that are not locked into large PP&E (property, plant, and equipment) investments or contracts, the use of near-shoring is absolutely an option. There may be some kind of initial capability ramp-up, but if the net landed costs favors closer supply then it can be done.

Aquino: Regardless of the economic cycle, advanced network modeling that considers product lifecycle, operating constraints, forecasting capabilities, total costs, and impact of a lack of availability should be applied. This helps in determining the ideal operating practices. The gross decisions—especially in the apparel industry—to attempt to eliminate local and/or near shore manufacturing without sensitivity or network analysis in specific cases has created unintended consequences. There's been longer lead-times, overall higher average inventory investment, increased obsolescence risk, exponentially increased complexity, and a lack of situational awareness with respect to quality and supplier performance. What I'm really saying here is that advanced supply chain organizations that are more "nuanced" have more success. For example, being able to have base load produced off shore with reserved capacity locally for incremental opportunities or issues has been a solid approach.

Rice: The good news about near-shoring and hybrid sourcing it that it will likely be coupled with actual analytics that may include total cost rather than just procurement cost—which was the lure in going to China for many. Let's hope that is the case for most of those considering using these approaches. Done properly, this will be something that companies will take time to analyze and also unwind some of their other commitments in other parts of the world. It won't happen overnight for mass volumes.

Martin: We must realize that the answer does not only involve near-shoring and/or hybrid sourcing as a single solution or option. It depends on what the business is trying to achieve and what the demand characteristics are that drive near-shoring or hybrid sourcing decisions. There isn't a single "canned" solution that fits all scenarios. For example, a footwear manufacturer making school shoes with predictable demand and cycles could outsource them to China with its long associated lead times. But the same manufacturer making footwear for fashion wear in the summer in the U.S. cannot tolerate long lead times and must be more responsive. This supply chain manager may choose to use manufacturing capacity in Latin America. The takeaway is that businesses must be agile in their decision making and have the capability to deal with multi mode scenarios, not one or the other. The key is that these decisions are driven by what the business is trying to achieve and the demand characteristics of the market.

SCMR: *Turning to the much-anticipated Panama Canal expansion to be completed in 2014, are supply chain managers considering vessel redeployment strategies? The great unknown here seems to be what gate rates the Panama Canal Authority will charge.*

Rice: I'm not aware of supply chain managers investing a lot of time or money in vessel redeployment. There are surely companies making infrastructure investments, but we won't really know the impact until we get a little closer and until the pricing for the various options becomes clearer. The cost for land-bridge (rail and truck) may vary in response to the pricing by the Authority.

The Risk Factor

Rose Kelly-Falls: Senior V.P. Supply Chain Risk Management for Rapid Ratings, an independent ratings, research, and analytics firm.

Bringing an expert risk management perspective to our roundtable is Rose Kelly-Falls, Senior V.P., Supply Chain Risk Management for Rapid Ratings. Prior to joining Rapid Ratings, Kelly-Falls was head of Financial Risk-Supply Chain Management at Rolls Royce North America.

SCMR: How should a supply chain transformation strategy incorporate the element of risk and the ability to respond to unanticipated changes?

Kelly-Falls: The strategy, or vision, has to include scenarios assessing how the business may evolve in the future based on inevitable and unforeseen changing business conditions. There is no "right decision," but the strategy in place needs to be nimble enough to account for the changes that will undoubtedly occur. In the past, many companies were so intolerant of change that they lost focus. Those that were willing to engage in transformation became the leaders. A recent example of this is Ford Motor Company. They were able to fall down, but were well-prepared to get right back up and try again. And they've been very successful.

SCMR: How can companies implement and harmonize technology in their risk management initiatives?

Kelly-Falls: Choosing and properly integrating the right tools and technology for your risk management initiative is critical because there will never be a one-size-fits-all system for managing risk. Most technologies are web-based and can be mapped to a system or dashboard that pulls together the necessary information from various resources for ease of use and reference. With the technological capabilities that exist today, implementation should be relatively straightforward, and most ERP systems allow customization to include outside information. Many expect this to be difficult or costly. But, in fact, a great deal of time and money can be saved by mapping information to a system directly.

SCMR: Are companies paying sufficient attention to the financial stability of their suppliers as a key indicator of risk?

Kelly-Falls: Most companies review some of the financial information from their suppliers. The question is how frequently they revisit the financial status. Firms should take a systematic approach to reviewing that information, doing so quarterly, biannually, or annually. Unfortunately, most companies fear that such an approach would consume excessive time and resources. The result: they review supplier financials only when awarding new business or when they hear rumors about a supplier in trouble—by which time it's often too late. In order to use supplier financial viability as an effective indicator, companies need to take advantage of tools that offer a systematic approach. These allow companies to assess financial risk by looking through the windshield rather than the rear-view mirror, to see important risk indicators clearly.

SCMR: How can companies assess and manage risk posed by private companies?

Kelly-Falls: Establishing a relationship and collaboration with private suppliers is essential for building trust so that the private companies are comfortable enough to share critical financial information that can be used to assess risk. Further, an open, honest dialogue with suppliers about how their information will be used, what the process is for assessing their financials, and what may be done if the assessment outcome falls below expectations is particularly important. The key here is relationship management; working with private companies boils down to cooperation stemming from mutual respect and collaborative engagement.

Martin: Once again there is no single, one-size-fits-all answer for this question. The answers may even change across a year based on market forces and scenarios. Today's expansion goals will be countered by some other infrastructure development or tax incentive in another country; these decisions are not static and never will be. Logistics and transportation decisions are strategically part of supply chain network decisions and cannot be made as a separate silo based on costs or on today's situation. The business must make these decisions in the context of risk, responsiveness to demand, and profitability.

SCMR: *So to be clear, Roddy, you are saying that all the layers of complexity with this issue have yet to be revealed?*

Martin: That's it exactly! At a recent panel I chaired that included representatives of the Panama Canal and the U.S. port and rail authorities, they pointed to the fact that the goals are moving all the time. Therefore, it is imperative that manufacturers, shippers, and distributors build the capabilities, organizations, and models to continue to model, map, and optimize the network. That way, they can make quick, agile choices based on opportunities that may evolve or risks that may need to be dealt with. Deployed vessels and gate rates must be seen in the context of the end-to-end value network system and not in departmental silo performance.

Organizations should start embracing scenario planning for possible futures, then build options to handle those various futures rather than trying to predict.

—James B. Rice, Jr.

SCMR: *Global regulatory compliance is always a concern. Are there new rules or changes in existing laws that our readers should be aware of?*

Rice: With regard to security, the new mutual recognition between US C-TPAT (Customs-Trade partnership Against Terrorism) and the EU AEO (Authorized Economic Operator) may open up some different trade flows or possibly expedited trade flows. There are a few other initiatives that may also affect some trade flows.

Martin: Global compliance and changes to regulatory requirements will always be a fact of life and largely unpredictable on a global level. Unfortunately, too many manufacturers have reactively dealt with compliance issues and landed up with static compliance solutions that are inflexible and have to be continually repurposed and refocused as regulations change. Also, the focus is on regulatory compliance integration rather than embedding those capabilities as part of operating processes. Changes should be made at a practice level. The approach to regulatory compliance should be rather to build sustainable performance improvement capabilities that are systemically deployed as part of practices and process capabilities—and as not a reactive "stick on."

SCMR: *So, your answer is that manufacturers should build process capabilities that are adaptable to new regulatory requirements that may be introduced?*

Martin: Yes. In that way performance improvement is also a criterion in deployment. This includes environmental and product safety issues.

SCMR: *The impact of ongoing "slow steaming" and port congestion is causing shippers to examine landed costs in a new light. Can you share any insight on this issue?*

Rice: I think that this, along with fuel prices, warrants looking at scenario planning rather than forecasting. That is to say, organizations should start embracing scenario planning for possible futures, then build options to handle those various futures rather than trying to predict.

Ellis: That's right. It's no different than any other cost. It is incumbent upon shippers to ensure that they are factoring as many cost elements as possible into their assessment of net landed cost to ensure that they are making the correct decisions around sourcing strategies.

Martin: The key and only meaningful way at looking at costs is total "end-to-end cost-to-serve," rather than a silo component of cost. What I'm talking about is the cost end-to-end from supply through logistics and distribution right to the shelf. Then a company can look at the components and benchmark them. Based on demand, there will be a window of costs that are unacceptable and therefore alternatives need to be sought, but only when one looks at the components as part of the whole and its profitability.

If the issue of landed costs is being impacted by component transport strategies, then it must be seen in the context of the full end-to-end costs and addressed in more detail. Even once the components are identified as part of the whole, one can look at strategies to minimize their impact. U.S. ports and railways, for example, are building strategies and capabilities to minimize the impact of these issues.

SCMR: *In a broader sense, managers are examining supply chain transformation strategies. What are some key components of a successful transformation strategy?*

Ellis: First and foremost, it is about supply chain modernization—finding ways to balance supply complexity with demand volatility. The tactics that worked even five years ago probably don't work today. So supply chain managers are looking at where to outsource/insource, where to deploy technology. They must learn to leverage "big data"—datasets that grow so large that they become awkward to work with using on-hand database management tools—and how to make their supply chains faster.

Aquino: Well-designed transformation strategies are based upon being able to methodically and comprehensively understand the end consumer objectives and needs. Supply chain managers must then design specific supply chain approaches back from that. Strong supply chain segmentation that allows for common drivers and needed capabilities allows for an evaluation of current performance against competitors and best-in-class supply chains as well. Once the segments, consumer requirements, and gaps in performance are understood, development of a transformational approach becomes clearer. Too many supply chain organizations have really little idea what makes their customer happy. The educational process and enlightenment of clear segmentation and a rigorous effort to understand consumer needs drives all subsequent elements of the transformation.

Rice: Again, scenario planning will win the day. Rather than organizations attempting to make the right prediction, they ought to identify possible futures and then prepare for each with various hedging, real options, and design choices. The future will be won by those who can prepare for various possibilities and then have the resilience to execute. This is real sustainability—the ability to handle the vagaries of global trade so as to keep the organization in operation and create economic success.

SCMR: *How do these challenges we've been discussing impact supply chain leadership and organization. What do you see as the "next big thing" here?*

Ellis: I think there are plenty of manufacturing companies that do not have a chief supply chain officer, or at least anyone representing supply chain at the board level, so perhaps that is a good place to start. Beyond that, I have been advocating for years now that the essential supply chain skill set has been slowly moving from "make" to "source." That means that negotiation skills are becoming more important than factory skills. This is not true in all manufacturing sub-segments, but as outsourcing continues to grow, effectively managing suppliers is critical.

Aquino: It has been clear through my prior research (while at AMR Research/Gartner), which focused on supply chain talent and organizational design, that modern supply chains and their leadership have been gaining quite a bit of traction in building structures that support broad-based integrated models. This means moving from very traditional functional areas to interdependent broad based responsibility. This, in turn, is manifesting itself in the Chief Supply Chain Officer roles, which includes responsibility for the development and evolution of supply chains now defined as "digital," or "virtual." Whether in media, publishing, consumer electronics, or pharmaceutical, the effective management of these assets as it relates to product development, sales life cycle management, reporting, or financial activities is a primary focus. Organizations that have struggled to manage a traditional physical supply chain will be destroyed with an ineffective or unmanaged digital supply chain.

Ellis: But in the end, communication is key. The role of social networking and other media relationships is growing in importance when it comes to relating supply chain advantages. As supply chain organizations rediscover the need for differentiation, they must also determine what their supply chain really stands for.

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>
> *—David Aquino*