

Supply Chain Planning Is Dead — Or Is It?

Editor's Note: Progress Software recently released their 10 predictions for the global supply chain in 2012. Their press release immediately follows. In order to get a better grasp on some of the topics mentioned within, Manufacturing.net, IMPO's sister site, spoke with Guy Courtin, a Progress Software employee. That interview follows the release.

Bedford, MA — [Progress Software Corporation](#) [1], a software provider that enables companies to be [operationally responsive](#) [2], predicts that, faced with increasing pressures in 2012, supply chains will look to technology to enable greater flexibility and the ability to quickly understand and respond to changing circumstances.



Photo by Tap Wunders

Henry Hicks, the industry vice president of supply chain at Progress Software, said: "In 2012 supply chains will continue to drive cost out as the quest to be ever leaner will dominate strategy. This will only increase the risk exposure to unplanned events of all shapes and sizes. In order to not only survive but achieve success in this chaotic environment, supply chains will need to gain real-time visibility, understand the impact of these events and finally have the capability to react within a short time horizon."

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Progress Software's [supply chain](#) [3] predictions for 2012, include:

1. Planning is dead. Long live planning. Even with the sophisticated planning tools available today, the best supply chain plans yield less than 50 percent accuracy. While the advances in planning brought the industry some remarkable promises it also proved how difficult it was to predict the future by simply relying on historical data. However, without going through the planning exercise, businesses and their supply chains cannot determine an end goal and path to get them there. So planning is not dead, but organizations should use it for the purpose it serves — setting the end goals and determining the direction in which to head.
2. Bi-directional elasticity a must. For many years the supply chain world has been “flat” and materials are sourced from all corners of the world as organizations chase low cost manufacturing. However, some sacrifice lower costs to be closer to their customers and reduce time to market. To accommodate these changes, supply chains will have to demonstrate a level of bi-directional elasticity to address both the wide reach of production, as well as the growing mix of customers.
3. Floods, earthquakes and war force companies to rethink their supplier strategy, but at what cost? The Thai floods and tsunami in Japan have made organizations recognize the sensitivity and level of risk exposure supply chains have when reliant on a small number of vendors, especially those located in volatile environments. Organizations will attempt to avert risk by [on-boarding](#) [4] new suppliers. However this will be a challenge as relationships and business trust are not developed overnight.
4. Predictive time horizons will shorten. With leaner supply chains, being able to understand and react to changing circumstances quickly is vital. Organizations will try to add short window predictive analytics for [real-time event processing](#) [5]. Business Intelligence solutions promised the ability to take data, analyze it, understand correlations and provide the user with a deeper understanding of the cause and effect within the business. All that is important, however the speed at which it is done is crucial.
5. Desperately seeking centralized command and control. The ability to have a seamless view of what is happening across the entire supply chain network will determine the success of organizations, and in 2012 supply chains will continue to seek a centralized system of command and control. Although technology is evolving to make a single view of the supply chain possible, the challenge of disparate parts and siloed systems remains.
6. Successful Companies will build a ‘Touchless’ supply chain. Rather than actually touch the product, large brands will simply orchestrate all the moving parts that comprise their supply chain. Apple is a great example — the company manages all the moving parts of its supply chain without actually “touching” the product at every stage. Companies will continue to gravitate towards this model, with some even outsourcing the management of the supply chain itself.
7. Logistics providers will evolve into information and management hubs. As supply

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chain managers continue to feel the pressure of a leaner supply chain, they will rely on logistics firms to do more with the information they hold. Logistics providers will be seen as the perfect outsourcer for the supply chain, as they are able to see the movement of inventory at every stage of the supply chain.

8. Finance will become increasingly involved in the supply chain. With the uncertain economic climate it is no surprise that the CFO's office will become increasingly interested in the day-to-day activities of the supply chain function and interactions between these departments will intensify. Supply chains, at their core, are manipulating and managing inventory, or better said — working capital. In many cases they have their foot on the accelerator, and the brake, that controls the velocity of free cash flows.

9. Discrete manufacturers will tackle the service side of the supply chain. Parties in the supply chain network will continue to clear out carrying costs and leverage service as a competitive advantage. More and more companies, especially high technology manufacturers, are recognizing the importance of better managing their services. Organizations will maximize the opportunity by managing inventory and human capital while orchestrating the service level agreements held with the client base. Smart companies will continue to push the knowledge they gain from this end of their supply chain all the way back to the beginning — and enable better forethought and planning.

10. Businesses will be able to tackle the 'C-A' in 'P-D-C-A' (Plan, Do, Check, Act). The success of enterprises and their partners across an extended supply chain will depend even more on a manager's ability to gain greater [visibility](#) [6] across their supply chain. In the iterative four-step 'PDCA' (plan-do-check-act) management process used in business for the control and [continuous improvement of process](#) [7] and products, this enhanced visibility is only useful if these managers can act instantly on events as they occur. The ability to tackle the "checking" — both on the events themselves and the correlating impact these events have across the supply chain — and to act almost simultaneously on these events will become even more important in 2012.

Manufacturing.net recently conducted this Q&A interview with Guy Courtin, Supply Chain Industry Marketing Manager, Progress Software, regarding the future of supply chain planning.

Manufacturing.net: How are companies introducing Lean into their supply chain, and how is this a bad thing?

Guy Courtin, Supply Chain Industry Marketing Manager, Progress

Software: Lean is not a bad thing at all, however for every action there is always an equal and opposite reaction. The ability to reduce waste within the supply chain and gain efficiencies also renders supply chains more vulnerable to any unplanned events.

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The reason why supply chains held such items as safety stock was to hedge for a “rainy” day. Of course safety stock has a carrying cost; reduce that safety stock and you free up working capital, which makes you leaner.

The consequence is that you may incur a greater cost to rectify the problem than had you held more safety stock. It’s the same thing as insurance — if I do not have auto or home insurance I will save money and reduce my expenses, which sounds great, until the day I have a flood or get into a car accident. Now I will incur a larger cost than if I had insurance.

M.net: Are we going to see a time when the supply chain is intentionally complex in order to counteract supply issues/disasters?

Courtin: I think that supply chains have grown in complexity due to expanding reach of markets, seeking lower cost and overall attempts to maximize perceived competitive advantages. Part of this is to hedge with regards to supply issues and disruptions. I do not believe that the complexity is done intentionally; it is just the evolution and the way in which problems are addressed. Supply chains will constantly look to streamline and simplify themselves, but complexity will be an unavoidable consequence.

M.net: Can you explain, perhaps with an example, the issue of “bidirectional elasticity”?

Courtin: Rather than simply chasing low cost, we have to balance this with maximizing value. For example, certain companies have recognized that they can outsource products to the Far East — it is less expensive and saves a tremendous amount in the make stage of the supply chain. Unfortunately, it takes two months to get to market, and the cost of moving the good fluctuates and may eat up whatever cost savings was acquired due to low cost manufacturing. Instead, maybe this company moves manufacturing closer to the destination market. It might cost more in labor and production, but the product gets to market faster and therefore meets and can react better to customer demands.

M.net: What can manufacturers do to prevent another Japan-like scenario from affecting their supply chain?

Courtin: We will have another situation like what we have witnessed in Japan and Thailand. There is no question about that. Companies need to constantly think about risk and how to deal with this [risk](#) [8]. Here are a few pointers:

- Regularly do an assessment of the company — where does it manufacture its products, what are the crucial components and who are those suppliers, where are the vital distribution centers, where are the important clients and where are the most important partners. Rank these in importance. Identify the most vital parts of the business. The 80/20 rule applies, you just need to understand what is in that 20.
- Companies should do detailed business continuity planning that includes natural or

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geo-political disasters that would shut a plant or series of suppliers/plants down for multiple months. By coupling that with real time visibility and event management, business process management (BPM) and business rules management (BRM) can be used to automate the detection and implementation of a plan through events/rules.

- Run what-if analysis. Understand the impact if a supplier goes off-line, or if a distribution center is suddenly struck by a flood, or one of your partners is located in a politically unstable environment. Run the scenarios to understand the potential impact.

- Consider including agreements with outsourced suppliers to provide support if needed. Identify plants that can ramp up activity if called upon, and take into account all alternative sourcing possibilities as potential back-up.

M.net: What other trends do you see changing in 2012?

Courtin: If there is another trend that I think is sorely overlooked at times, it's the impact that geopolitical events have on the supply chain. For example, Pakistan is a nation that has a degree of instability and volatility. Many question the relationship it has with India, or the situation it faces on the border of Afghanistan, or who has true control of the nation, and yet there remains a large amount of manufacturing within that nation. What happens if the political situation shifts drastically?

Or even what we saw in 2011 in London— riots that broke out of the blue. One event that stuck out to me was that Sony had a distribution center destroyed. Did that take out a week's worth of stock? Was it a month?

Finally, take into account what is happening in the Euro zone with Greece and Italy. What if they default and the Euro devalues or inflates, how will that impact supply chains that either sell into the Euro zone or have processes within the Euro zone?

Companies and supply chains must have an eye to geopolitics and assess the risk/reward associated with this aspect of the world we live in. Too often we focus on how to handle the next flood or earthquake, but not the next revolution.

Readers eager to learn more about business continuity, risk assessment, and managing supply chains should visit [Continuity Insights](#) [8], an IMPO sister publication. The publication specializes in helping its readers discover new ways to keep their business up-and-running in the worst of times.

They will also helm the [Continuity Insights 2012 Management Conference](#) [9], which will be held between April 16-18, 2012, in Scottsdale, Arizona.

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[2] <http://www.progress.com/operational-responsiveness/index.html?cmpid=pom>

[3] <http://www.progress.com/supply-chain/index.html?cmpid=pom>

[4] <http://www.progress.com/client-on-boarding.html?cmpid=pom>

[5] <http://www.progress.com/real-time-event-processing.html?cmpid=pom>

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