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A Global Supply Chain Boom Period Brings Challenges and Important Signposts

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Introduction

As multi-industry supply chains pass the mid-point of February 2018, business and supply activity across many dimensions are reportedly noted by business media and clients as the best experienced in seven years.

At the same time, many that are experienced in boom and bust cycles know all too-well that periods of rapid business expansion bring lots of operational challenges as well as strategic risks, namely that teams take their eye away from very important tactical and strategic transformational imperatives.

Let us elaborate.

Situation

Global manufacturing and industry supply chain growth is represented by one well-followed indicator, the *J.P. Morgan Global Manufacturing PMI™*. For the months of December 2017 and January 2018, the index has hovered at a seven-year high, recording a value of 54.4 in January. According to the report authors, the current upturn remains broad-based, spanning consumer, intermediate and investment goods industries, and is further manifested as broad-based in terms of global geographies.

Business could not be better.

Similar observations come from the various country-specific *PMI i*ndices. The Eurozone remains the leading growth engine of business activity, U.S. supply chain activity is reportedly at a 34-month high, and many areas of Asia serving as manufacturing and production centers are now experiencing accelerated momentum.

For many of our *Supply Chain Matters* readers and avid followers, such conditions lead to euphoria and tendencies to be consumed by day-to-day needs. They invariably include addressing added new business opportunities, unplanned exceptions that are disrupting customer demand or supply fulfillment or efforts to secure added augmented resources and capacity. Yet, those of us who follow and take note of global trends can remind teams that a mere two years ago, the same *J.P. Morgan Global Manufacturing PMI*™ was hovering near the contraction point.

In this author's recent participation in an on-stage keynote panel held at the *Oracle Modern Supply Chain Experience* conference, I indicated to our audience:

When everything is going great, because business is so damned good, there's a tendency to go heads-down in responding to all of the day-to-day pressures. That could lead to taking your eye off the ball of where the supply chain needs to be in terms of people, business process and technology capabilities required in the longer-term.

As we have pointed out in many prior blogs and research advisories, the good times invariably bring forward consequential conditions. Global and regional capacity levels become constrained. Input commodity and component prices rise to more significant levels. Add to that global trade tensions, market speculators and currency shifts, and the rise in input costs tends to compound. That, in-turn, begins to motivate lines-of-business teams to want to raise selling prices, which adds to price inflation momentum. And so, it evolves.

In the past few weeks, business media, in particular, *The Wall Street Journal*, have brought additional light to the fact that U.S. based CEO's are beginning to get rather concerned about rising internal costs reflected up and down supply chains. In the U.S., the compounding effects of a summer of catastrophic natural disasters, a very robust Q4 holiday fulfillment period in both online and physical in-store retail, compounded by a new federal mandate for electronic logging of driving time, has led to a nationwide shortage of surface trucking capacity. That has led to a consequent explosive rise in surface transportation costs, with some large companies already reporting hundreds of millions in added transportation costs. Procurement executives remain on the front-line of trying to manage such rising cost issues. The *Price Index* within the *Manufacturing ISM, Report on Business*® for January 2018 surged to its highest level since May of 2011.

Is it little wonder that the U.S. stock market has been as volatile as it has over the past couple weeks. Many investors are consumed by the news of capacity restriction, full employment conditions, price inflation and their impact on corporate bottom-line profits. Industry supply chain teams are doubling concerned with impacts to day-to-day customer service and fulfillment needs.

Strategic Sign Posts

Obviously, industry supply chain teams have little option but to respond to the challenging conditions that come with booming business. That is the essence of supply chain management in its many operationally focused dimensions.

We however, have the duty as thought leaders, to occasionally remind industry supply chain leaders of the trap of a heads-down focus vs. the risks of taking the focus away from the tactical and strategic imperatives required to position the supply chain to support future business requirements that are coming rather quickly.

Actions to Consider

There is little question that change in the form of different disruptive, online, and digital-based business models and their associated players are impacting multiple industry landscapes. CEO surveys consistently cite concern for industry disruption as one of the top three concerns for CEO's. Beyond the more obvious "*Amazon-effect*" impacting all forms of *B2C* retail and *B2B* fulfillment, other industries from automotive, consumer, industrial equipment to healthcare are all in various stages of digital-based disruption.

Much of this disruption implies added attention and emphasis in:

- Attracting, mentoring, or training in the required talent required to manage the new digital business landscape.
- Positioning and transforming supply chain business process models to support digital-based business model competencies, which are often rather different.
- Working together with IT teams to shore-up and mitigate cybersecurity vulnerabilities, threats, or data security vulnerabilities up and down the extended supply chain. Threats that are now clearly damaging to the brand and the business.
- Investing in the advanced technology capabilities to augment processes and decision-making needs with higher levels of customer, on-the-ground physical and operational intelligence, that would include competencies in various forms of predictive and prescriptive analytics, *Internet of Things (IOT)* and AI-driven processes and end-to-end supply chain network synchronization.

Summary Takeaway

Business is good, and industry supply chain teams are incredibly busy insuring that customers are being serviced as-required, suppliers are garnering proper attention and operational day-to-day hiccups are addressed.

Beyond the day-to-day, there remains important signposts as to the tactical and strategic transformation required to prepare for the now evolving new era of business and associated *digitally-enabled response networks*. In the next three years, we will no longer be referencing the term "*supply chain*" but rather "synchronized *response network*."

Supply chain teams can easily be of the belief that in the boom times, bonus and career promotion are pegged to insuring that all in the supply chain are making near-term sales and profit metrics occur. That has some merit in some organizations.

Equally important is insuring that important and necessary digital transformation tactical and strategic needs do not languish because teams are operationally too-busy. Leaders insure that an organization's efforts and resources are adequately balanced, even if it requires some short-term outside augmentation. It is always a weighting of near-term operational and longer-term business imperatives.

Goals, incentives, and activity must be properly weighted toward achievement of goals in both dimensions.

Contact Information

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