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The Future of Supply Chains: Tactics to Prepare for a New Normal

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Kalypto is a people business. We don't have manufacturing plants or production lines, but we do have industry expertise and deep experience with clients that do. To meet this moment, we're working hard to capture what we know and share it. We hope you find this article useful as you think about what you can do to reduce your risks today and prepare for the future.

Today's environment has created a unique and unprecedented set of challenges for supply chains across the globe. From disrupted sourcing and production stoppages to changing consumer behavior and rising freight costs, things are going to change. What can manufacturers do to turn these challenges into opportunities, and prepare for a more resilient future?

Major Supply Chain Risks and Challenges

Manufacturing companies are experiencing disruptions to their supply chain and manufacturing operations, including accordion effects with both suppliers and consumers for products and services. In a global environment, factories and ports will be at various levels of shut down and recovery for the foreseeable future, so companies can expect continued impacts on supply lead times. For those companies that have a high dependency on a few key suppliers and/or commodities, the risk may be even more pronounced.

And no matter what products and services companies produce, the new normal has a high likelihood of impacting those products and services, potentially even making them obsolete. Companies should expect that current changes to consumer behavior patterns will continue. Restrictions (social distancing, hoarding, mandatory use of personal protective equipment, etc.) and new learned behaviors (remote learning and working,

self-quarantining, online shopping, etc.) are likely to have a long-term effect on consumer demand. Moving forward, companies that can assess and adapt quickly to changing market demand will be best positioned for success.

Internally, it is now more important than ever for manufactures to reevaluate the future state of their operating model. Traditional concepts like Lean, Agile and Six Sigma Manufacturing are not well suited for uncertainty, long lead times and high-variant manufacturing. These methods focus on eliminating waste from stable processes rather than quickly adapting the processes to changing conditions. Manufactures should consider re-baselining their operational KPIs based on new environmental variables, such as flexibility. Being efficient may not be the singular focus (along with safety) going forward.

Immediate Tactics to Reduce Your Risk

So, given these challenges for manufactures, what can and should be done? While the answer to this question will be unique for specific companies, there are some short-term actions that all companies should consider:

- **Conduct an immediate evaluation of suppliers and distributors across the value chain.** Identify alternative sources and locations that may be less impacted by disruptions now and in the future. Be sure to include available inventory of raw materials, WIP and finished products as part of the evaluation to assess your immediate needs. Companies that expand and diversify supply chain options will be best positioned to meet a volatile market demand.
- **Use a foresight and [scenario planning approach](#) to consider how a recovery may occur** and the impacts those scenarios may have on the way companies discover, create, make and sell products. Use the scenarios to take a fresh look at existing products and service portfolios, and consider cutting those that are underperforming or redesigning those that are susceptible to supply disruptions. At the same time, use it to identify joint ventures or collaborations with other companies, like the way Ford, 3M, GE, and UAW have created alliances to manufacture ventilators. In the longer term, invest in R&D to allow products and services and their production and delivery processes to be more adaptable and/or change over quickly.
- While factories are shut down or working at reduced rates, it's a great time to **reevaluate operating models for the future state**. Manufactures that can add flexibility to manufacturing operations and become less susceptible to supply risks will be able to adapt quickly to changing constraints and fluctuations in demand in the future. This should include optimizing production capacity for sudden changes in commodity supply or customer demand and assessing the company's ability to change inventory management and distribution models.

How to Reimagine Business as Usual

Leaders across the manufacturing industry should take the opportunity to re-think the way they do business and evolve to become a more resilient company. Many of the changes happening today will influence the way organizations operate in the long-term. When thinking about the new normal, there are two areas that companies should focus on now to be better prepared for the future:

Becoming More Digital

It will be to everyone's competitive advantage to reduce the need for employees to be physically connected to an office. For smaller companies, becoming more digital could mean brushing up on IT capabilities to allow for effective file sharing, remote work, and video conferencing. For larger organizations, becoming more digital could translate to accelerating the process of implementing emerging technologies, such as [advanced analytics](#), [IoT](#)

, or [smart connected products](#). It could mean taking the time to build a proper backbone for digital transformation through [product lifecycle management](#) (PLM) and [enterprise information management](#) (EIM).

For instance, [smart connected operations](#) (SCO) allows manufacturers to make connections across the entire product lifecycle to facilitate asset traceability and improve cross-organizational visibility. SCO and other technologies are widely available, and when utilized strategically can reduce manufacturing costs by enhancing operational effectiveness and product value. Ultimately, leveraging digital technologies will help companies optimize their asset utilization and increase the quality and delivery of products throughout their value chain.

But it's not just about implementing new technology. Becoming more digital is best achieved with a [digital strategy and roadmap in place](#) that includes the application of emerging technology areas, disruptive business models and new markets, and building digital skills and culture to raise the competitiveness of the company.

Diversifying Products and Operations

After staying home and working remotely for months, people will have either used products and services in unexpected ways that they will want to continue, or they will have identified new needs that will have to be met. Organizations should monitor these behaviors and expand their offerings to leverage new or existing sales avenues. Manufacturers should implement a product portfolio diversification strategy to quickly meet these expectations and bring in new revenue or, at the very least, help compensate for revenue loss from other products.

According to a survey done by the [Institute for Supply Management, 75% of the companies have reported some sort of disruption in their supply chains due to COVID-19](#). To mitigate these impacts, companies are working overtime to identify alternate suppliers, distributors and locations that can help them reconfigure their supply chains and diversify their supply networks.

Larger manufacturing companies that are geographically concentrated should consider expanding their capabilities across their facilities to serve specific regions. By producing goods closer to the markets where they are consumed, manufacturers will create redundant manufacturing capabilities that can be leveraged when or if one of the production sites are impacted. This also limits the effect to just the markets served by the impacted sites. In addition to diversifying supply chain dependencies, organizations should continuously manage sourcing risk by mapping and monitoring their value chain.

There are many ways that the short, medium, and long-term recovery might play out, and it will be dependent upon the public health and economic policy responses of governments around the globe. Regardless of which scenario occurs, adopting digital and diversifying products and operations are safe bets to help prepare for any outcome.

Practical Advice on How to Prepare NOW for a More Resilient Future

The silver lining of any crisis is the opportunity for companies to learn about and adapt to uncertainty. And as manufacturers recover and seek to build resiliency and adaptability across the organization, they should also solidify the foundation of their digital transformation and product diversification efforts. This will position companies ahead of the curve when the next crisis occurs.

Manufacturers should continuously review, evolve, and improve their operating model. They should consider cohesive application of digital solutions and technologies based on a [digital transformation strategy](#) that delivers on the growth goals of the business and mitigates risks inherent in the new normal. In the future, episodes of high disruption and uncertainty may become more frequent and uncertainty is primarily driven by external

factors. Companies should prepare for this by driving productivity through the use of digital technology.

The challenges today are monumental for manufactures, but the opportunities that they also present can be just as significant. Manufactures that can be flexible and can make changes quickly to their supplier base, partnerships, and operations will be best positioned to meet the demands of the new normal, whatever that turns out to be.

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