



How to achieve resilience in your supply chain

Global supply chain perspectives – Podcast transcript

Speakers: Peter Liddell (Global Operations Center of Excellence Leader, KPMG International), Neil Gordon (Associate Director, KPMG Australia), Patrick Short (Cloud Solution Architect, Microsoft) and Tim Shaw (Cloud Solutions Architect, Microsoft)

Announcer:

It seems like a pretty obvious thing to say, given all the headlines and publicity, but supply chains are facing unprecedented challenges. Whether we're talking about absorbing stress or recovering critical functionality, or even thriving in altered circumstances, it's all about resilience at the end of the day. But resilience has become a key element in business health. Put simply, resilient companies enjoy better outcomes than their peers. So, now we're seeing leading companies use new innovative methods to design new kinds of supply chains, and that's a really difficult balance to strike - making sure the additional costs deliver the reduced risk. But the benefits of a resilient supply chain could be absolutely enormous and not just during major disruptions. So today my guests are going to be Peter Liddell, who is KPMG's Global Operations Center of Excellence Leader, Neil Gordon, Associate Director at KPMG Australia, Patrick Short who is Dynamics Cloud Solution Architect at Microsoft, and Tim Shaw who is a Cloud Solutions Architect, also at Microsoft. Okay, so my first question is, as a nation Australia's arguably faced more challenges in supply chain than anyone else. We are looking at bushfires and drought and flood and COVID, what steps have Australian businesses taken to create a sense of resilience?

Peter Liddell:

When you look at bushfires, droughts and floods, there were part regions in Australia that were impacted. So, there was always alternative routes, alternative DCs to distribute from, alternative use of transport, even choppering in, helicoptering in supplies where needed, etc. The challenge with COVID is that COVID impacted and stopped every single node in the supply chain, all participants within the supply chain. So Australian domestic supply chains, as did regional and global supply chains, came to a screaming halt. And so what was identified by Australian businesses were that their business continuity plans (BCPs) to respond to those

disruptions, those risks within the supply chain, had never catered for having everything impacted at once. And so, as a result, what we're seeing now is Australian businesses are really starting to understand the depth of the risk, the depth of the choke points within their supply chains.

They are looking at which BCPs failed, and for many businesses it's a high majority, and how they might have to reconfigure their strategies or those business continuity plans to respond. What's interesting is that for many businesses that we've spoken to where their BCPs did stand up, many didn't realize the cost associated having those plans as well. So now what we're seeing is Australian businesses are redesigning their supply chains. They're building in resilience, but they're understanding now the impact on risk, working capital, cost to serve, as well as their default and their lead times. And they're trying to get those things all in balance at once, which is a very different approach to what we've seen previously.

Neil Gordon:

Yeah. And Peter, it's almost like that's going a step further because now we've got shortages of containers around the world. We've got problems with shipping prices and air freight, electricity problems, power supply problems in China, and all these things they may have started from COVID, but they are certainly rippling through as well to have companies question their resilience and look for those other supply options. It's almost like things that we couldn't have foreseen are all happening at once.

Announcer:

So with that in mind, do you think there's a greater focus on resilience now than there was, I don't know, five or ten years ago, because we seem to be hearing the word so much more now. Is that purely driven by COVID or was it already happening?

Peter Liddell:

Pre-COVID we are well aware that Australian businesses were looking at how they can put digital into the supply chain, so digitally-enabled supply chains, the use of a range of different technology investments to accelerate the performance of activities with insights, enhance analytics, improve planning. Since COVID, what we've seen is a doubling down of those investments, so where it was business cases being built, proof of concepts being considered and planned and maybe invested, what we are seeing post-COVID is significant investment in digital technologies to enable supply chain.

Tim Shaw:

And if I can add Peter, I think what we're seeing is since COVID came around, we have figures that say about 70% of businesses are actually experiencing disruptions and constant disruptions that we have had to work on. So, I think the thing that COVID changed was actually these disruptions that kept on coming in the supply chain and having to kind of change where you're getting products from, be nimble about things and being able to actually manage that.

Neil Gordon:

COVID has certainly brought supply chain to the fore and my own kids now are hearing supply chain on the news. For everybody, it's been highlighted to them, broken supply chain, choke points in the supply chains, and I guess in the past senior execs and boards even didn't maybe see the value or there wasn't the impetus to get in and fix some of these choke points, understand the resilience, fix the capabilities that were going to enable them to react to these sorts of events. And, the pandemic has forced that, and it keeps being repeated, keeps coming back with even more issues that are causing this to be a problem that's just not going to go away.

Announcer:

Okay. Yeah. Everyone's suddenly become a supply chain expert, haven't they?

Neil Gordon:

My children are now saying, oh, that's what dad does. They never did that before.

Announcer:

Yeah, I can imagine, they finally understand what you do after all these years. So as a follow on from that, has supply chain finally taken center stage? Do

we think the rest of the C-suite are perceiving supply chain differently now because it has become so high profile? Is it easier to give its budget holders of the value of a resilient supply chain?

Neil Gordon:

It's not so much center stage. I think in my opinion, it's that things have started to break, and I don't think people have wanted to put it front and center. I think the issues have brought front and center. They have caused people to have to say this is now something I need to fix. It's not the limelight, if you like, it's the spotlight, it's very different.

Peter Liddell:

I think the other point Neil is we've been talking for quite some time across many different industries, how supply chains are demand driven, and we are now seeing the discussion at the exec level where executives understand how important the supply chain is. Especially where they're driven by those customer insights, those market insights, and therefore how you ensure that your ERP, your planning systems, your supply chain planning capabilities are using those market insights to help drive tactical day-to-day responses, but also of strategic decisions as they start to redefine, redesign their supply chains to build in resilience, to respond to new opportunities in market, to mitigate the impact proactively of disrupted supply chains, particularly where they're exposed to the import of product or spare parts or tools or equipment from offshore. So it is definitely elevating and then you lay in the factor now that one of the top three agenda items being discussed at the executive table and around the boardroom is ESG and how ethical sourcing, human rights in procurement, sustainable supply chains, are really being considered by that group. So, I would argue that more than ever supply chains are quite focal in those very senior discussions through organizations.

Neil Gordon:

I think the insights that are coming from the analytics tools, the predicting tools, it's really about and some of these situations is what do we do next? And so, it's really about coming back and using some science, using analytics, using insights to say what should be the path we take now, how do we react properly to this? Then you can't use muscle memory. You can't use what worked five years ago, last year, even 10 years ago. This is unforeseen. So, you have to sit down and be clever and be smart about how you're going to react.

Patrick Short:

I think from an executive level, I think any of these executives or any businesses who think it's going to go back to the old days, I think they're being misled. The world's changed. Consumers' expectations have changed. Consumers' habits have changed. I think a lot of the businesses will need to go back to the drawing board and rethink things, not only just in terms of solutions, but also people processes and the things that they did in the past. They need to rethink those, which is an important point moving forward in the world we are living. I really think there's still more pain to come, a lot more pain, around the supply chain area. You just have to look at the US and other countries at the moment what their experiencing, and I think that's going to come our way as well.

Announcer:

Which industries are we seeing the greatest changes and the greatest need for resilience? I would imagine anything health related for sure.

Peter Liddell:

Yeah. And most governments around the world, including Australia, obviously prioritized the very low levels of air freight but once COVID hit its peak we were down to 9% air freight coming into the country. So, they started to prioritize what went on those shipments into the company via air freight, right? So, health, no supplies, drugs, devices, PPE, all got high priority. We're moving into the Christmas period and guess which industry has a big focus right now - retail, grocery, liquor, etc. Right? So, and we've been seeing many articles over months now around starting to buy the non-perishables and put them away early. Because, particularly, if you rely on products for Christmas day or through the festive seasons and their imported brands, it's highly likely that if you don't get them soon, the ability for the retailers to replenish those quickly would be quite challenging.

And then on the flip side we've got a very strong agribusiness sector in Australia that obviously feeds into retail, but more than 50% is exported into Asia, Southeast Asia. And again, with the lack of sea freight available, because we've got a lot of ships are not even coming down to Australia, they're canceling their transits into the country. So, there's no empty containers and ships to leave the country and take that product. So, we're seeing a lot of industries really challenged by what's happened and they are actively building in

resilience in their supply chain. On the flip side, you've got some interesting industries that are booming; do it yourself industry, some of the big brands that sell all the home tools or home products are absolutely booming. But again, once those supplies run out and those major stockpiles that they built up over the years are diminished - until we get back to normal and we start to see those shipping containers coming back to their pre-pandemic levels, but also with the air freight - Australian consumers are going to feel the pinch and not every shelf is going to be full. And, this could go on for quite some time yet.

Neil Gordon:

On the flip side of that, it's never been a better time to buy some of the premium products that were being exported, the perishables - ribeye steak and bottles of export wine and things like that. Those people haven't been able to get them overseas. They haven't been able to get them to the markets and that's been a bonus for the locals.

Announcer:

So, all of this is probably making us, we're probably seeing more innovation in the marketplace. What are your most progressive customers doing to create a sense of resilience?

Peter Liddell:

There's definitely been an upgrade to back off of systems. So, we're seeing a lot of them obviously deploy cloud-based technologies. And with that they used to just do finance. Now they're doing finance, HR, they're adding on their procurement, their supply chain model. So, they're a lot of them are also adding CRM sales and marketing. So they're going for the full suite. They are absolutely investing in new emerging supply chain planning technologies. Again, they're interfacing into those cloud-based technologies platforms. A number of them are using robotic process automation in the back office to drive efficiency and speed of output of process. And then you've got the ones that are really into the predictive analytics, using that front-end AI machine learning capability to sense changes either at the customer end or the market end and bring those into either the supply chain planning tools or into the ERP to help them with their operations, financial planning capabilities.

Patrick Short:

From Microsoft's perspective, we're actually seeing a lot of changes around online. So, things that, if we talk about eCommerce, some of the solutions that we've got, we're seeing a lot of the online, buy online pick up in store, buy online pick up curbside. So we are seeing a lot of change around, especially around the retail side of things. We've got interesting scenarios. We've got one customer that, especially in Australia when we go into lockdown, if they have a store, which is a retail store that's servicing consumers, as soon as that city goes in lockdown that actual retail store turns into a distribution center for that business. So then they can send items straight away from that store. So they still have people working. So, it's interesting what COVID has done and changed the way businesses operates. If we look at some of the other things that Microsoft's doing as well, we are seeing a lot of change in that supply chain area. Our recent Ignite conference, you would've seen an announcement around supply chain insights, which is all that analytics stuff. Knowing more about transportation, where things are, where there could be delays, and those sorts of things that are coming through.

Neil Gordon:

We're certainly seeing, as companies have identified, that the break points in their supply chain and in their back-office systems as well, they're looking to finally fix some of these issues that have been avoided or have been hidden in the shadows. We've got companies that are looking at replacing multiple systems with a single system to be able to give them the visibility and that single integrated solution that can basically mean that they've got the visibility across their supply chain and can manage and work around some of these exceptions as they come up. So, a lot of those sorts of issues are around repairing disparate systems, multiple different ERPs, ineffective analytics, broken master data, all of those things people are saying, well, now we finally have to get on with it. We finally have to fix that.

Peter Liddell:

If we look at the previous example with the growth of eCommerce, online ordering, I think it's a great call out. I'm sure we're all guilty of, if not ourselves personally but certainly our family members, buying lots of things online, it's probably been a great experience. But what I found really interesting having done it personally is the disconnectedness of retailers

as they've moved to online platforms.

And let me give you an example, where you place an order, the order management system takes my order and does the processing of the payment, but what it hasn't done is it hasn't connected to the inventory management system to actually understand where the stock is in the network. So it's taken my order, it's given the option of free delivery if I accept the three to five business days, which I'm happy to do. But then after receiving a confirmation of the order receipt and the payment receipt, the following day I receive an update telling me now that that the goods that I've ordered are actually coming from Perth, which is the other side of Australia. And therefore my delivery day is adjusted by 10 days. And that's just a classic example of the disconnected nature, where the order management system, the inventory management system, the available to promise, the ability of these organizations to work out the best way to get the goods to the customer. So automatically they've let me down from a customer experience, because what I thought I would get in three to five days is now 10 days. They could have given me that information when I first had the order, but also frustratingly for the organization is they're now shipping something instead of from their Melbourne DC to a customer in Melbourne, they're going to fulfill that order from Perth. So, they're actually going to erode their own margin on that transaction as well. And what Powered Supply Chain does is helping, or the Powered solutions, is to help those links between the core functional activities that need to support a common process or an outcome like an online order, and what we've found, and Neil can give some great examples, working with our alliance partners is that we've got the target operating models designed that provide that back office, middle office and front office connectivity, and the platform, the alliance partner platforms directly link into those target operating models and process maps. And therefore, our clients are finding a very quick, much easier implementation of the future technology, but aligned to global best practice processes and activities.

Neil Gordon:

Yeah, that's it, as we mentioned, boards are now looking at some of these issues, the C-suite are looking at these and going I've really got to come up with a way to fix this and fix this fast. And the KPMG Powered Supply Chain approach is really a way of de-risking that, of implementing faster. You're not only getting the technical solution, like the Microsoft Dynamics 365 in the core of that, but around that, you're getting the business in the box of all the processes and other supporting artifacts to allow you to quickly implement a solution. And it's a solution that's end to end. It's a solution that's fixing those visibility problems. That's fixing those disconnected system problems. And it's something that not only can you do quickly but lots of people are also looking at this and thinking, and a lot of the reasons that these things have been delayed, integrating the 31 different ERP systems to create into a common one, is because of how difficult people thought it was going to be, how challenging, it's been in the "too hard" basket for too long. A solution like Powered Supply Chain is really aiming at making that ERP solution implementation much less risky, much easier on the company, much easier on the customers of the company, much easier on the staff and the company, and certainly getting a result and value much quicker.

Announcer:

So what are the most common weak links that you are seeing in the chain at the moment and how can businesses address them?

Neil Gordon:

Yeah, so we're certainly seeing a very common problem at the moment is all around visibility. And this is the end-to-end visibility, and with broken and disparate systems this is even harder. So, it's all like Microsoft Dynamics 365 gives us that integrated ERP right across all aspects of purchasing of the inventory management, the production planning, production auto management, and out to the logistics distribution and delivery sales delivery to the customers. So, giving that end to end visibility, and being able to do it in one integrated system is really lifting that capability to get visibility that you need.

Tim Shaw:

I was going to add, I think there are a couple of areas where we can help from a Dynamics 365 component. One is around fraud protection as people have rushed into eCommerce to be able to provide products to their customers quickly. There's not only the supply chain challenges that occur

around that, it's also the level of fraud that has been around since COVID started as well. So, I think there's areas where need to be addressed in the fraud protection areas. And another area is actually the overall supply chain insights. So, we have released a product recently called Dynamics 365 Supply Chain insights, which will work with KPMG Powered Supply Chain, and that's really giving visibility of disruptions around the world that could be coming from sources like reinsurers, it could be coming from weather, it could be coming from social media. So, we've connected the system to that to basically give insights into what's happening in the supply chain for a customer.

Neil Gordon:

Does it connect to shipping information?

Tim Shaw:

Yeah. So, it connects to a whole heap of points of where we can get information from. So, whether it's shipping information or whether its information coming across social networks, etc., we're connecting to a number of areas, including weather forecasts, to try to work out is there potential disruption to that particular component? So, say you're shipping something from United Kingdom across to Australia, picking up those sorts of points that may be disruption on the way and getting that visibility to the customer.

Neil Gordon:

So really improving visibility of not only what's in play and what's happening, but what might happen next.

Tim Shaw:

Yeah, and I think it's important, right? Because I think we all realize that that if you're a manufacturer, there can be one component that's required to finish a product. And if that component itself is not coming, then you need to know about that and you need to make alternative arrangements. And I think that's part of the resilience is having those multiple sources for products is the first component and making sure they're diversified. So, making sure they're not all coming out of one Pacific region in the world or one Pacific country, so that if there are challenges and you can get those insights through the supply chain insights, if I get those insights, then I can quickly redirect and say, well, actually let's get that product from US or UK or wherever else I've actually sourced it from.

Announcer:

What are the major obstacles of creating resilience in your own supply chain?

Peter Liddell:

Lack of visibility. So end-to-end visibility and really understanding the supply chain upstream and downstream. Many organizations we speak to, whilst they might source from a supplier, don't understand the extended value chain and who those suppliers interact with to get their component to their parts to put together that particular product that they're seeking. Similarly, they don't have visibility downstream to the true end user of their product. They might sell to customers who then sell onto customers. So, visibility, but also then access to external data to help with that analytics through the supply chain, but also provide some of that predictability that we're starting to see business leaders adopt and use a lot more.

Announcer:

And I guess there's a lot of uncontrollables as well. Particularly if you are making electronic products and you've got hundreds, or maybe even thousands of components in your devices, that should be a real worry right now, I'm assuming?

Tim Shaw:

There's a couple of reasons for that one. One is obviously there has been a shortage in supply of CPUs chips that are required to build computers for instance, but we've seen it before. We've seen where demand for product has been more than products been able to be sourced and it's pushed the prices up. And then we've seen overnight the prices drop back down leaving people that had inventory they paid for at a higher price. So, there are a number of uncontrollables there, but you need to have that insight that Peter and Neil were talking about, because if you don't have that insight, you could easily one day have something that's valued at \$10,000. The next day find that it's valued at thousand dollars.

Neil Gordon:

I mean, the big one for me at the moment is these power shortages in China that are effectively slowing down plants and it's connected to the lack of coal.

You would think that, I'd expected maybe plants going down from COVID. Being effectively locked down, a workforce has been sent home or stood down. I can expect a port being shut down for something like that, but how does the coal come into this? And so how would you have predicted that? And really all you can do, is its beyond anyone's control. All you can really do is be watching your insights and knowing, being able to know exactly when that happens, as soon as it happens, and then have the insights to turn around and react in the best way.

Tim Shaw:

And Neil, I was going to say, I think, and that's why something like supply chain insights with KPMG Powered Supply Chain can make a big difference, right? Because part of the reason things are uncontrollable is because we don't have the insight or the data in a fashion that we can actually read to get ahead of the actual issue before it happens.

Neil Gordon:

Yeah. I don't think it's about actually predicting the issue. I think it's about understanding that it's happening and then being informed to react in the right way.

Announcer:

What are two or three quick things businesses can do to create supply chain resilience?

Peter Liddell:

I think one of the priority things that businesses can do is really improve and enhance the way they plan. So, if you look at the sales and operations planning, or integrated business planning, what we are seeing is the maturity in those activities, those frameworks, are nowhere near what it needs to be to manage the, I call the 'new normal'. And therefore, adding to the maturity is investment in high-quality supply chain planning capability. So that's something that we are seeing a lot of organizations invest in, but again, making sure that those supply chain planning capabilities have a good interface and integration with the ERP systems as well. So once they've identified what the operational and financial plans are, they can work into the finance budgets as well.

Neil Gordon:

As we mentioned too, it's certainly about looking through your supply chain and looking for those points of risks. Looking for potential choke points, breaks in your systems, breaks in your visibility, because understanding those are going to be the things that are going to come up with that to-do list of what you need to hit, what you need to fix and be ready for whatever's going to come next. I think once again, those insights and things, and a lack of visibility, they really exaggerate the choke points. But you need to sit down and look from end to end into your supply chain, look at different options, look at where you've got risks in your supply and your suppliers in the lanes that are bringing your product in. But also, things as simple as, where are my own facilities at risk? Where could a lockdown close down one of my own warehouses or impact my own distribution network?

Patrick Short:

I think the other thing is history, right? What have businesses and companies learnt over the last two years, where have they seen their points of failure, because we obviously don't want to repeat what's done or happened before in the past. We don't want COVID ever to come back or hopefully we are moving out of the COVID stage, but still, you need to look at what's happened in the past few years. You need to look at the changing markets, changing consumer's mindset, and look at what other businesses are doing. I think that's important as well.

Neil Gordon:

Yeah. I think understanding your own cost base is also extremely important. You need to know what it's going to cost you to react. You can't just react at any cost. So that cost to serve, how your cost base is going to change as you pick up a new option or try a new option, or which is the best, where are even your risks in the cost, where might it cost you more than you thought? Especially with things like the move to online as well. I think companies haven't understood exactly what it's going to cost them to fulfill all this online business. They haven't built their infrastructure properly. They don't understand delivery costs and other such aspects like that. And, this is also another reason for an integrated system, like the KPMG Powered with Dynamics 365, because it's bringing in something where you're collecting and starting to understand that information

of not only what's flowing where, but what it's costing you and being able to manage and understand those costs and work to minimize them even when situations are changing, even when new options are having to be used.

Tim Shaw:

And I think if I can just add two more to that, I think investing in those systems to actually drive customer experience, going back on the story that Peter told earlier, customer experience is very important and will continue to be important in the future. And the other thing I would say if they want to maintain resilience, is invest in their people and look after their people. I think people are very important for any business to grow. And if they give them the right insights and data, then they can use that data to actually look after the customers.

Neil Gordon:

I believe most of the customers said that in the early days of the pandemic they were quite willing to give grace as companies struggled to work out what to do, struggled to get it right as it were. But now, as we've said, it's becoming the new normal, it's not only lifted people's expectation of online performance and whatever, but that's now the way things are going forward. And I think the tolerance for any mistakes, any breaks, any problems in the supply chain, they are certainly going to impact your customers' impressions of you and potentially get them looking at other options.

Announcer:

So, what's the future for supply chain and resilience in particular, what's it going to look like?

Neil Gordon:

We've said only seeing companies leverage a lot of you know the latest, cutting-edge technologies, the cloud-based solutions, tools that are leveraging artificial intelligence and machine learning, whether that be to understand demand and their customers or to react to changing situations. And on top of that, you need good underlying systems to be able to collect the data to feed those and to execute on those responses. So, we're seeing them as well move to integrated ERPs, as we mentioned, better infrastructure in their back office.

Peter Liddell:

Yeah. And then to add, I think, well, I know as more and more supply chains are to redesign flows, domestic flows, look at alternative strategies to optimize their working capital and their cost of their supply chains. They'll also consider the impact on the sustainability, so mitigating waste and plastic waste, reducing their carbon footprint. And in order to do that, they need to have a really good understanding of how material flows through their supply chain. So again, greater access to data, greater understanding and interpreting that data, and that will help to inform those strategies and also support supply chain planning, frameworks like sales and operations planning (S&OP) and integrated business planning (IBP) as well.

Tim Shaw:

I think that there's been a lot of learnings over the last two years, and I think that the business leaders will be looking at, will see the importance of having a robust, nimble, transparent system and to be able with withstand the radical changes in supply and demand. So they'll want to anticipate and have the flexibility to work around these changes before they play out on wide scale domino sort of effects. And so I think we've learned that. So, I think we can see businesses now investing in those solutions to give them those insights, to make them more resilient.

Neil Gordon:

Yeah. Back to the basics, getting those basics right, as we've said, and then they are going to enable

these other advanced technologies and cutting-edge technologies that are going to help companies react to these events.

Patrick Short:

I think, and adding to what you said Neil and Tim, is data and insight. That that's going to play a major part. And a lot of businesses are going to look to the likes of KPMG and vendors like Microsoft for that support and what solutions we can put forward to support what they need in the future. I personally would hate to be a production planner at the moment or a forecaster because that would be an extremely hard job where we currently are. And with supply chains around the world.

Neil Gordon:

I wouldn't want to be trying to plan ships either, inbound containers for that matter. That's a really tough job at the moment.

Patrick Short:

Absolutely.

Announcer:

Well, I think that nicely brings it to the end of the show. A massive thank you to my guests, Peter, Neil, Patrick, and Tim. Thank you so much for today, guys. That's been really informative. Thank you, listeners. And we'll see you again next time!

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