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Partnerships that can offer value chain stability

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Effectively managing supplier and partner relationships remains a significant challenge for businesses – but it is mission critical for successful supply chain management. So, how can firms cultivate strategic alliances for a more stable future?

Global supply chains are complex entities, with interconnected components, suppliers and partners often numbering into the thousands. Collaboration across the value chain is a vital component of supply chain management. Done successfully, it can eliminate inefficiencies in supply chain networks that can, in turn, boost cost savings. The free flow of information between partners also enables companies to respond proactively to changes in demand, deal swiftly with bottlenecks and better identify and manage risks.

New research from KPMG, which canvasses the views of 250 US senior executives involved in supply chain development and strategy, indicates that the management of these partnerships is an area that many organizations are struggling to master.

The research unpacks the growing "strategic shoring" trend in the Americas — the shift in a supply chain's geographic footprint to encompass more countries closer to the US, Latin America and Canada.

When looking at the priorities and best practices set by "leader businesses" in our survey – those with higher-performing supply chains – strengthening their ability to manage supplier and partner relationships is cited as a business imperative. In fact, they single it out among the top two areas that need additional support moving forward.

Figure 1: The five capabilities companies should seek to improve most to achieve their strategic shoring ambitions

Leaders (high performers) in our research

01 Data analytics capabilities

02 Ability to manage supplier and partner relationships

03 Tax expertise

04 Agile risk management

05 Capabilities for simplification and complexity management

Non-leaders in our research

01 Data analytics capabilities

02 Tax expertise

03 Boosting real-time visibility and predictive forecasting

04 Agile risk management

05 Ability to manage supplier and partner relationships & having a holistic view of costs in different locations

> **"Strategic shoring" is defined as changing the geographic footprint of a global supply chain to locations in the Americas, including Mexico, Central and South America, Canada and even within the US itself, to be closer to and therefore better serve the US.**

Supplier capabilities and their participation in strategic initiatives are a strong influence on executives' supply chain decisions, second only to market dynamics and geopolitical shifts.

So how can companies work together more effectively to resolve long-term supply chain and logistics challenges and implement improvements that benefit the wider supply chain? Here we explore three key takeaways from the KPMG *The Proximity Premium* research on building sturdy alliances for strategic shoring success.

Getting to grips with new cultural norms

Cultural alignment is key to improving collaboration and achieving objectives when navigating strategic shoring. Without this, working with partners will inevitably lead to tension and malfunctions, states Martin VanTrieste, President and CEO of global pharmaceutical company Civica Rx.

"Whenever I see failures between a supplier and a [pharma] company, it's almost always because of a culture clash," he explains. "You need to ensure everyone is pulling in the same direction towards a shared end objective. And it's important you get this compatibility right from the start because it's hard to change partners once you've gone through all the regulatory approval processes."

In-person site tours provide an opportunity to ask employees questions that can paint a picture of your prospective partner's culture. Simple questions that ask team members to share how their workday is going or what the driving motivations are in their roles will provide key answers around culture compatibility, says VanTrieste.

Cultural alignment and trust between its suppliers played a critical role in Civica Rx's contributing of over 2 million containers of medicine to the US Strategic National Stockpile during the COVID-19 pandemic.

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>
> **Martin VanTrieste**
> President Emeritus, Civica Rx

With this in mind, organizations need to acknowledge and respect cultural idiosyncrasies as they look to restructure their operations overseas, advises Sam Rosen, President of Ollin Plastics, a custom contract manufacturer of rotomolded plastics parts based in Monterrey, Mexico.

“Leaving more or adequate time for different elements of the project has definitely been a learning,” he says. “Just having a plan that gives you enough buffer for the unexpected is helpful, because the unexpected will happen and you’ll work through it and move on. But that is something to be ready for.”

When implementing supply chain nodes in new territories, companies shouldn’t underestimate the importance of local knowledge either – whether it is legal, insurance or real estate support. Rosen relies heavily on third-party advisors: “We’re small, but even in large organizations, it might not be realistic to find people with all that expertise and experience that could be part of your core team,” he says. “Companies need to be willing to find advisors with specific expertise that can support their team.”

Strategic shoring calls for strategic relationships

Whether launching new products and services or expanding into new supply chain nodes, companies that collaborate more effectively are better placed to share best practices and root out potential vulnerabilities that could destabilize networks. Indeed, recent volatility in the markets has underlined the strategic importance of supply chains and the drawbacks of taking a more transactional approach to supplier relationship management.

Economist and Professor Roberto Durán Fernández, School of Government Tecnológico de Monterrey, who specializes in building resilience within economic systems, states that too many companies still think they can only achieve geographical diversification through foreign direct investment. “They think they must open a new company in every new country, but what they need is reliable partners on the ground. Entering mutually beneficial manufacturing contracts can really help reduce or manage exposure to risk in new countries,” he says.

If a supplier or business partner is critical to business continuity, it is vital that there is continuous open dialogue to avoid operational disruptions as much as possible.

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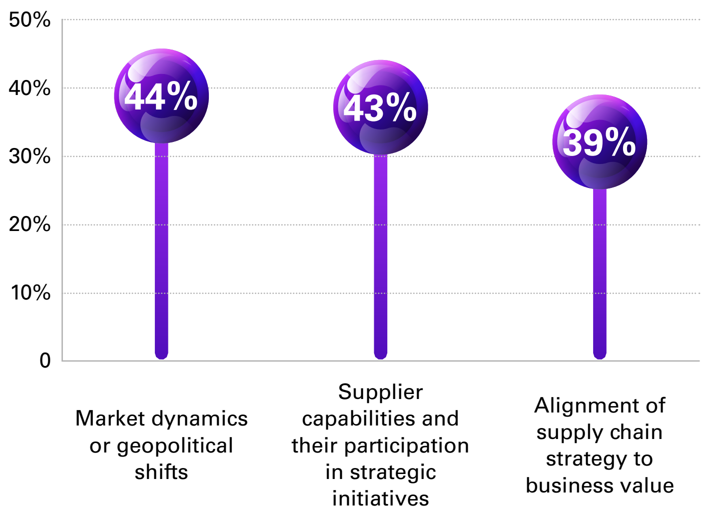
Roberto Durán Fernández
Research Professor,
School of Government Tecnológico de Monterrey

Efforts to strategically align with partners, especially around culture, can prove crucial when supply chain shifts are triggered by crisis.

Figure 2: Supplier capabilities and their participation in strategic initiatives are a strong influence on supply chain decisions

Top influences on supply chain decisions



According to Mary Rollman, Principal, Supply Chain Leader in the KPMG US Advisory Practice, a common mistake that organizations make is not including suppliers in their overall business strategy. If an organization helps its suppliers to understand its goals and strategy, it can help them be better aligned and better placed to work together toward common goals.

"It's truly a miss if you don't understand who your critical suppliers are and you're planning to shift supply around," she says. "If your suppliers are strategic enough, consider how you can bring them along. Ask yourself: Do you really know who your strategic suppliers are, and can you define what that means? That should be part of the assumptions that go into your business case: your sources of supply and how they change your cost base when you shift things around."

Efforts to strategically align with partners, especially around culture, can prove crucial when supply chain shifts are triggered by crisis. "Every long-term partnership will face a crisis at some point," says Martin VanTrieste. "So if your cultures are already clashing in everyday circumstances, then your partnership will likely break down and malfunction when crisis hits."

Groundwork to build cultural alignment and trust between its suppliers played a critical role in Civica Rx's contributing of over 2 million containers of medicine to the U.S. Strategic National Stockpile in the COVID-19 pandemic. "Our members were really honest with us about their inventory levels and demand during the COVID-19 pandemic." says Martin VanTrieste.

This transparency allowed stock surplus to be transferred to the National Stockpile or to states where inventory was low. He adds, "We are proud to say that every patient got the medication they needed from Civica, even when we saw a 400% increase in demand. That achievement is all because of the way we managed our inventory between our partners and the inventory buffers we had in place."

Sharing risks and responsibilities

As organizations come under more pressure to reduce carbon emissions across their supply chains, their relationships with supply chain partners play an increasingly important role in ensuring ESG (environmental, social and governance) compliance and championing sustainable practices across networks.

"It's really about fostering relationships and [acknowledging] that it's not necessarily a focus solely on lowest cost," says Maura Hodge, Partner, Sustainability Leader, KPMG US.

One of the principal challenges for supply chain data management and compliance where ESG is concerned is that the data on carbon emissions might not currently exist from suppliers, suggests Hodge. "That's where regulation is coming in, forcing everybody to produce the information," she says. "The relationship between companies and their suppliers is also critical, because they're the ones asking for this data now and trying to help their suppliers understand their priorities."

Open dialogue and collaboration are key to understanding the opportunities and risks involved at the outset of site-selection decisions. In this context, a good strategy for long-lasting relationships is ensuring a broad outreach with stakeholders early on.

"We usually advise companies to have a fairly broad community assessment," agrees Ulrich Schmidt, Principal and National Leader of the KPMG US Site Selection and Project Development Practice. "Visit the site, visit the region, visit the area. Can you picture your operations there? Are there clusters of similar operations that are successful? Can we talk to some people who have gone through the process? Is the support there from the highest level of government all the way down to the local elected officials? And are they all pulling in the same directions? These are things that need to be uncovered early on to address potential issues."

For more insight on structuring your strategic sourcing efforts for success, read our report *The Proximity Premium: Strategically reshaping supply chains in the Americas.*

Read more →

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Maura Hodge
Partner, Sustainability Leader, KPMG US

Contacts

André Coutinho
Partner, Advisory
KPMG Brazil and South America**

Ricardo Delfín
Head of Clients and Markets
KPMG Mexico

Mary Rollman
Principal, KPMG US, Supply Chain Leader, Advisory Practice

Héctor Díaz Santana
Partner, Tax & Legal
KPMG Mexico

Marcus Vinicius
Partner, Tax
KPMG Brazil and South America**

Doug Zuvich
Tax Partner, KPMG US, and Latin America Regional Managing Partner, Tax & Legal*
KPMG Americas

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