



Supply Chain's New World Order

**COVID-19 and the acceleration
of economic nationalism**



1 May 2020

[KPMG.com.au](https://www.kpmg.com.au)

Supply Chain's New Era: Offering Broader Strategic Solutions

The global COVID-19 challenges have highlighted the importance of a supply chain that can adapt to deal with uncertainty, complexity and fast and dynamic changes.

The disruption to trade caught many organisations off guard and most have taken this unprecedented event as an opportunity to reduce uncertainty and performance gaps by designing future supply chains, enabled by digital capabilities – to help better respond and strengthen supply chain management approaches.

Many organisations will use the lessons learned from the COVID-19 crisis to build resilience within their supply chain networks. They will be able to apply the use of analytics and data insights to anticipate disruptions and proactively restructure supply chain flows and network design. By utilising data analytics, machine learning and smarter technologies to predict disruptions and risk events, supply chain leaders can adopt predictive supply chain risk management and scenario planning approaches to minimise the impact of potential future disasters.

Over reliance on global supply chains for raw materials, key components to finished goods and the consequential impact of any disruption to those supply chains has seen some organisations move towards micro supply chains.

With the recent impacts of COVID-19 and the unfolding US-China trade challenges, organisations are accelerating the way that supply chains are restructured. There is now a greater focus on leveraging local production and final assembly capacity to enable flexible, agile and sustainable supply chains.

In the BCI resilience report (2018), based on 76 countries and 589 respondents, despite 56% of organisations reporting a supply chain disruption in the past 12 months, more than 30% stated that they do not analyse the source of that disruption.

No wonder Australian supply chains were not ready for the impact of a disruption like COVID-19 which has illustrated how underprepared they were for such an event.

“Significant supply chain choke points were exposed by COVID-19 requiring leaders to right-size operations and embrace digital capabilities that protect supply chains against future disruptions.”

— Peter Liddell
ASPAC Head of Supply Chain

Supply Chain Evolution

Most global supply chains for Australian companies were designed for a different time, around four key international paradigms:

1. Supply chains mirror an accepted belief in the benefits of trade liberalisation, as demonstrated by Australia's advocacy of free trade agreements and support of rules-based institutions such as the World Trade Organisation, and the Organisation of Economic Co-operation and Development.
2. These supply chains reflect long-standing labour and cost-of-doing-business differentials that encouraged the offshoring of Australian manufacturing and subsequent sourcing through lowest-cost third-party suppliers.
3. In Australia, off-shoring has allowed Australian manufacturers to leverage foreign tax incentives that can provide advantage and reduce the cost of goods imported into Australia.
4. There has been an assumption that inventory buffering can be used as a primary line of defence against supply risk, based upon historic consumption patterns and the ability to effectively manage long lead times.

Importantly, all of these four pillars place a premium on stability and predictability.

These foundational mainstays are now in some state of deconstruction, due to either geopolitical or market forces that have been in play for some time. What has taken supply chain organisations by surprise is the pace of change and the new normal of sudden disruption, bought into sharp relief by the current COVID-19 challenges. From a public policy perspective, Australia's enthusiasm for free trade and the underpinning agreements it has entered into has not, and potentially never will, shield its supply chains through times of global crisis. In markets, similar pacing and stylistic shifts hold true: infinite customer choice, rapid shifts in consumer taste, expectations for instant delivery, and the proliferation of SKUs have all put a premium on supplier agility and made inventory-buffering strategies either obsolete or vulnerable – instead accelerated the adoption of the concept of micro supply chains.

“It's fair to say Australia's dependence on the pillars it has traditionally relied upon for supply chain security may need to be reconsidered in a world of uncertainty.”

– Leonie Ferretter
ASPAC Lead, Trade & Customs



Critical supply chain competencies required to restructure your supply chain

Regardless of industry, channel, maturity, or size, these are the specific competencies that will be critical to tearing down and rebuilding your supply chain operating model¹:

Leveraging artificial intelligence and big data to establish a robust supply chain resiliency platform.

- ▶ Incorporating tax Optimisation into the footprint analysis
- ▶ Defining micro supply chains and applying true segmentation
- ▶ Embedding cost-to-serve as the foundational performance metric
- ▶ Getting the “make-versus-buy” mix right
- ▶ Driving purpose-fit inventory models: asset-light versus asset-heavy strategies.

¹ Source: KPMG, “The Road to Every where: The Future of Supply Chain (October 2019)

The Way Forward

For some supply chain leadership teams the plan forward may be to react and improvise on a situation-by situation basis.

While this response is understandable in challenging times, our experience has shown that stronger, and deeper management tactics are needed. For example, identifying and qualifying primary and secondary suppliers with the belief that the business can shift volumes as conditions warrant, is necessary, but not sufficient. Risk management approaches based solely on process and procedure, but without the data and technology platform to effectively sense, predict and monitor risks, is also a good tactic, but again, not sufficient.

We believe the supply chain organisations that will emerge strongly are those willing to see current emergency conditions as an opportunity to systemically overhaul their entire operating model. This is especially true given expectations for these challenging trading conditions will continue over the next 12–18 months. The post-COVID-19, end-state configuration will vary according to industry, company size, and supply chain maturity – but successful organisations will share common approaches, behaviours and competencies.

As a critical matter, we expect the future supply chain model will de-emphasise efficiency and lowest-cost as the dominant definition

of value, and in turn favour a multidimensional value framework that assigns more equal weight to risk exposure, supply alternatives, tax considerations, and channel complexity. The metrics deployed to capture and manage these newer categories of value will also have to shift.

Supply chain leaders should critically re-examine their operations and stress test the choke points exposed during COVID-19. Their future supply chain operating models will embrace the new normal in how they work and manage operations. They will support this operating model by investing in new capabilities (such as predictive analytics, digital enablers, embrace more automation and robotics etc) and the use of big data to enhance connectedness of supply chain participants across the entire value chain and extract insights from all trading partners to support real-time rapid decision making. Supply chain leaders should use the insights collected from trading partners and by analysing their choke points to right size their future operations – flows, structures, asset and inventory requirements.

“The current challenges caused by this global pandemic provide an opportunity to reset the baseline for Australian manufacturing through clear policies that support and incentivise R&D and the application of new manufacturing automation and technologies.”

—Henry Brunekreef
National Supply Chain Practice Lead



A punctuated equilibrium – no going back

Though the full social, political and financial impacts of COVID-19 are not yet known, the compounded effects of recession, social disruption and the secular trends we have discussed so far make a return to the status quo increasingly unlikely.

In punctuating a supply-chain equilibrium already under stress, COVID-19 has exposed an underlying structural fragility of supply chains across all industry sectors. We expect to see serious impacts flow through the market, and not only among larger enterprises. Many leanly capitalised suppliers simply do not have the financial resources to survive even a three-month shutdown. At the same time, the business viability of the survivors will be shaken. After COVID-19 recedes, additional and possibly different kinds of supply chain disruptions and risk factors will likely emerge.

Hence, there is real work to do now to get this right. COVID-19 has demonstrated that while supply chains have typically differentiated the best from the rest, they can also be one of the biggest sources of vulnerability. News coverage of the epidemic has thrown the light on 'supply chain' and raised awareness in the media and the community.

Conversely, for specialists, it has shown that getting supply chain right is one of the biggest opportunities or value levers that businesses have, as they consider survival and sustained relevance in a world of new givens. We expect to see increased interest in strong enterprise COOs who can distil insight from a sea of data points, distinguish between leading indicators of significant long-term secular trends and high-profile outliers, and turn insight into action.

Supply chain strategic partner

In our ongoing dialogue with forward-thinking supply chain organisations, leadership teams have consistently expressed interest in elevating the function to become a true strategic partner to the enterprise. Prior to COVID-19, they often described their ideal-state vision in terms of specific capabilities such as the deployment

of predictive analytics to allow for better strategic planning or partnerships with suppliers to foster category innovation or strengthened partnership with critical back-office functions.

In fact, some supply chain leaders are setting the pace of change and embracing new technologies throughout their entire value chain – adoption of IoT, blockchain, robotics, predictive analytics, just to name a few. What is most exciting to observe, is how these new technologies are changing the fundamentals of supply chain management – planning, real-time decision-making, intelligent forecasting and the proactive mitigation of risk events and major disruptions.

Through the COVID-19 challenge we have even seen state governments adopt high-tech analytic dashboards to use analytics that provide greater visibility of the supply chain and inventory performance across the entire network in order to better manage the supply and demand equations during this critical period when personal protection equipment and medicines are difficult to access.

“Traditional methods of delivering customer experience has changed during COVID-19 – think beauty and fitness, healthcare – all founded on human to human interactions having been replaced by a new digital experience. Customers enjoying these new experiences will want more as convenience and safety is combined into the one experience. How leaders will plan their future operations and respond to these customer changes will be a differentiating factor in the future.”

— Lisa Bora

Customer, Brand and Marketing Advisory Partner

About KPMG's supply chain & operations

KPMG Australia is here to support you in this unprecedented situation. Organisations are asking mission-critical questions pertaining to supplier and operations risk that have arisen in the COVID-19 environment. We recognise that during this time, business leaders don't only need solutions, but also reliable consultants.

Whatever your sector, more than 2,000 supply chain, strategy, and value chain management professionals from the KPMG network of member firms worldwide can help you address the issues of today from crisis response planning, to rapid diagnostic for supply and demand risks across your operation, to scenario analysis and contingency planning.

Our professionals are skilled in all areas of supply chain operations from strategy and analytics, to supply chain risk, planning and execution, and logistics and distribution. We also have the capabilities to help you integrate tax planning into your business operations to help minimize expenses and risk, enhance return on investment, and drive efficiencies across operations.

We are here to help.



Contact us



Peter Liddell
ASPAC Head of Supply Chain
Partner, KPMG Australia
E: pliddell@kpmg.com.au



Leonie Ferretter
ASPAC Leader, Trade & Customs
KPMG Australia
E: lferretter@kpmg.com.au



Henry Brunekreef
National Supply Chain
Practice Lead
KPMG Australia
E: hbrunekreef@kpmg.com.au



Lisa Bora
Partner, Customer, Brand
and Marketing Advisory
E: lbora@kpmg.com.au

[KPMG.com.au](https://www.kpmg.com.au)

The information contained in this document is of a general nature and is not intended to address the objectives, financial situation or needs of any particular individual or entity. It is provided for information purposes only and does not constitute, nor should it be regarded in any manner whatsoever, as advice and is not intended to influence a person in making a decision, including, if applicable, in relation to any financial product or an interest in a financial product. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

To the extent permissible by law, KPMG and its associated entities shall not be liable for any errors, omissions, defects or misrepresentations in the information or for any loss or damage suffered by persons who use or rely on such information (including for reasons of negligence, negligent misstatement or otherwise).

© 2020 KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

The KPMG name and logo are registered trademarks or trademarks of KPMG International.

Liability limited by a scheme approved under Professional Standards Legislation.

May 2020. 495509838MC