

It's time for businesses to reimagine the structure and value of supply chains

By [Zak Sivalingum](#)

6 Apr 2022

Apart from the obvious turnover pressures that Covid-19 and the global lockdowns placed on businesses around the world, the crisis also revealed some concerning weaknesses, or instabilities, in many organisations' supply chains.



Source: ©Dmitry Kalinovsky via [123RF](#)

Depending on the nature of the business, these issues range from instability of the actual supplier base, to challenges around sustainable production and distribution. In many cases, businesses faced something of a double whammy, with supplier and production/distribution problems creating massive challenges.

For many companies, these supply chain challenges were further exacerbated by technology failures or shortcomings, as IT infrastructure buckled under the additional and unexpected strain of remote working arrangements and very suddenly digitised operating and consumer environments.

Even as it appears that the world is gradually emerging from under the full weight of the pandemic, these global supply chain challenges are likely to continue for some time to come – particularly given the logistics backlogs that will probably take many months, or even years, to resolve.

Reviewing supply chain systems

The only suitable response to these long-term challenges is for business leaders to review their supply chains comprehensively and critically and, where necessary, reimagine them from the ground up. Many organisations have already undertaken this type of review, but for most this took place at a time when Covid-19 lockdowns demanded an emergency response aimed at the short-term survival of the businesses.

Today, the scenario is quite different, and the re-evaluation of supply chains needs to focus less on survival and more on ensuring they have the stability and resilience to inform the long-term sustainability, profitability, and growth of the business. This demands that business executives expand their understanding of supply chains in general, adopting much more of a holistic, end-to-end perspective and making sure that there is a robust, scenario-based framework in place for managing and, when necessary, mitigating supply chain risk.

Key to such supply chain risk management is the more deliberate and comprehensive integration of supply chain finance, including even closer working relationships with banks and other funding providers to ensure that they have a full view of the organisation's transforming supply chain, and can engineer innovative solutions to provide the working capital required when any of the strategy or environmental scenarios play out in the future.

Shifting supply chain focus

In today's (and tomorrow's) business environment, stable supply chains also require a shift in focus from the prioritisation of inventory over all else. The pandemic demonstrated the importance of a more balanced, or even balance sheet, approach to supply chain optimisation, with payables and receivables enjoying equal weighting as stock levels to ensure working capital levels remain buoyant if challenging times arrive.

It's also imperative that supply chain managers get into the habit of looking further than just their immediate supplier base as part of their resilience building strategy. Having a geographically diverse supplier base may have been enough to ensure the required level of supply security before Covid-19, but future supply chain efficiency could be hamstrung by concentration risks outside of their immediate structure. The savvy supply chain manager is one who understands this and ensures visibility far beyond their own chains.

Digital supply chain operations

The combination of rapid digitisation and advances in data analytics also offer a useful way of securing this broader supply chain visibility, and it is also delivering other benefits to businesses, thanks to prioritisation of digital journeys by financial institutions. The knock-on effect of this rapid financial services digitisation will ultimately be the transformation of traditional trade finance, which will allow organisations to better align their funding options to align with their more digital operations, and also leverage advances in funding mechanisms to capitalise on opportunities to enhance the sustainability of their supply chains.

Lastly, the effective supply chain of tomorrow will be one that is far better at balancing the once holy grail of cost containment with greater reliability and increased speed. For many FNB clients, for example, this has involved looking closer to home, where possible, for suppliers that can meet their needs. Many have on-shored some, or all, of their production inputs, effectively negating any possible impact of logistics bottlenecks on their inventory levels going forward. While this can be a slightly more expensive option, the benefits for many of these businesses far outweigh the cost implications.

Supply chain consolidation

For those businesses that are unable to onshore their supply chains, there is still some light at the end of the backlog tunnel. The logistics crisis brought about by Covid-19 has resulted in long-overdue out-the-box thinking by freight solutions providers, with many expanding their offerings and others undergoing significant consolidation - resulting in the emergence of one-stop-shop freight solutions with the ability to circumvent future distribution challenges using alternative modes of transport.

All things considered, supply chains have become a make-or-break component of the vast majority of businesses, presenting a significant risk if not structured and managed correctly, or a massive store of potential value if they are stable, agile and resilient. What's more, the effective supply chain is also an invaluable contributor to economic growth, particularly if part, or all, of it comprises local or national suppliers. All of which means that supply chain optimisation is not just a business imperative, it's a socio-economic responsibility.

The more stable and sustainable supply chains South African companies have, the healthier SA Inc becomes. And a healthy and growing national economy is arguably the most valuable asset any business can have.

ABOUT THE AUTHOR

Zak Sivalingum, FNB Regional Director at FNB Commercial.

For more, visit: <https://www.bizcommunity.com>