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Thought Leadership Series

Designing for Business Continuity in the Next New Normal

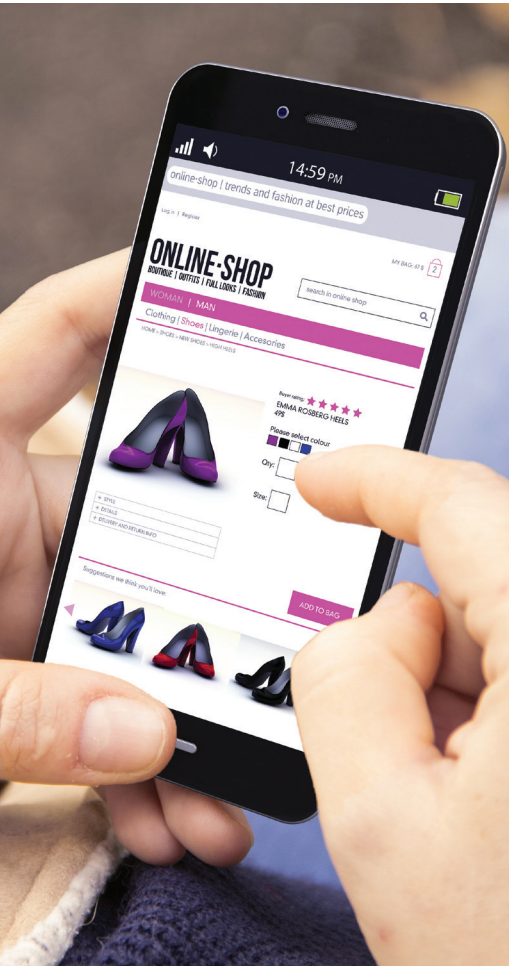


Designing for Business Continuity in the Next New Normal

Logistics systems, distribution facilities and supplier networks were never designed for the rapid shift in demand patterns we are currently experiencing. Disruption is the new normal and it's happening at a pace you can actually see. It is imperative for companies to take measures to ensure business continuity in the face of upheaval. This disruption has revealed not just vulnerabilities but opportunities to improve the performance of the business. The beauty of performance improvements is that they have a long tail and can become a clear competitive advantage for the business.

If you take nothing else away from this, remember that with disruption comes opportunity. Supply chain leaders who innovate quickly with a focus toward agility will reap rewards.

Here we examine eight areas undergoing transformation in the next "new normal."



To start, companies will need to double down on digital transformation initiatives. The need for physical distancing has highlighted the importance of scaling up and strengthening digital capabilities. We have seen an accelerated shift to eCommerce, especially in the grocery, general merchandise and health care sectors. This is driving not only a change in order profiles and channel mix, but also a shift in customer expectations. Enabling capabilities such as click and collect, curbside pick-up, drop ship and ship-from-store will no longer be optional.

Now that customers have experienced the convenience and benefits of these options, the demand for responsive order fulfillment will likely continue to increase moving forward.

While there has been latitude granted during the height of the crisis in terms of expectations around speed of delivery, with the new normal will come the need for speed to compete with behemoths like Amazon, Walmart, Target and others who have set a high bar with next-day and same-day delivery capabilities. Efficient and cost-effective each picking will be required. Consideration will need to be given to micro-fulfillment strategies to be more responsive to expectations of speed and convenience. With more and more people moving to urban areas, micro-fulfillment centers will reduce the time and distance to respond to the customer demand, making fast, free delivery promises more economical.

Finally, a new generation of older adults have recently acquired the digital savvy to make their lives easier through online ordering of essential items. Your brand may need to make some adjustments to accommodate the communication preferences of this new customer base as they expand their online purchasing to include non-essential items.

The bottom line: As the economy improves, increases in eCommerce volume will continue, courtesy of newly entrenched shifts in the buying habits of consumers. Expect market share gains for companies that enhance and develop strong eCommerce operations, and an uphill climb and struggle for those who don't invest quickly in shoring up this area of the business in the "New Normal."

Inventory

Visibility to inventory has been a major challenge for supply chain leaders, but with the increase in eCommerce orders it's more crucial than ever. Better (and more profitable) decision-making hinges on the need for real-time inventory data. The real-time data needed is not limited to inventory located in the warehouse, but also inventory levels in stores and en route – on trucks, ships and at the manufacturing site.

When the floodgates of commerce open again, and they will, demand may be somewhat geographically lop-sided and inventory may need to be adjusted accordingly. Businesses cannot afford to have inventory trapped in a single channel or region when another is starving, so it will be necessary to enable inventory to be redeployed quickly. This may require the ability to bypass or override inventory-replenishment and inventory-allocation algorithms. Online returns will begin to filter back in through stores, but like out-of-season inventory currently sitting in stores, a strategy for disposition of these products will need to be determined quickly.

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Initially, increased safety stock will be needed to mitigate the risk of disruption to single source or geo-concentrated suppliers. Longer term, a review of sourcing and inventory strategy will be critical for increasing confidence that organization is positioned to survive another major value chain disruption. Supplier diversification, near-shoring, secondary sourcing and financial health checks for all key suppliers may be in order.

Finally, companies will want to take a fresh look at the network strategy and micro-fulfillment strategies that can help strategically position some inventory closer to the customer to address requirements for faster fulfillment as part of the "New Normal."

The bottom line: Inventory visibility and flexibility are critical to meeting eCommerce demand. More flexible and transparent supply chains are needed to mitigate future disruptions to the business.

Labor



The safety and health of workers has always been a priority but taken on new meaning for employers considering recent events. PPE equipment (masks/gloves), sanitation stations, adequate distancing and break areas will need to be adjusted to ensure employees are provided with the appropriate equipment and environment to perform their jobs while properly protecting themselves.

The coronavirus pandemic forced the fastest reallocation of labor since the early 1940's. Virtually overnight, employment went from less than 4% in the US to more than 20% in some areas. Similar dynamics in the UK and Europe have the potential to dramatically accelerate structural adjustments and disruptions that were already underway in many industries.

Despite an increase in labor availability for a time immediately following the crisis, the disruption from COVID-19 revealed stress points in many distribution operations and serves as a driver for increased automation.

The increased cost of labor in terms of turnover, training, wages and health care costs and the increased risk of relying on labor in the case of similar or related future health crises makes throwing labor at the problem an unsustainable option for the long term. Add to that the problems of increased congestion, reduced productivity and physical distancing requirements to keep workers healthy and you have a recipe for adding cost without benefit.

The bottom line: The labor availability and absenteeism issues that topped supply chain leaders' list of concerns pre-COVID have become one of labor risk mitigation in the "New Normal." This has accelerated the need for and improved business case justification of automated solutions that enable increased throughput, capacity and productivity AND safer environments for workers.

Facilities Design

Returning to operational health after a prolonged shutdown is extremely challenging. Many warehouses rely on a small army of staff that all arrive and leave at around the same time each day. Those warehouse workers often use densely occupied common areas and in the normal course of their work continuously encounter one another in confined spaces throughout the facility. A rapid return to a rising spread of the virus is a genuine and on-going threat.

The “New Normal” may include physical distancing requirements designed to prevent the viral spread that requires a re-design of those common areas, workspaces and equipment for worker safety. Already, we have experienced and will continue to require more frequent/thorough sanitization of facilities. Planning work to reduce contact between workers, tighter protocols around use and cleaning of shared equipment, such as batteries, scanners, RFID and voice units, and extra time to allow for proper sanitization of equipment and physical spaces will be considerations.

The need to maintain safe physical distance could potentially reduce the number of staff members who can work “safely” in the warehouse at one time. Provision for clear barriers to protect workers where safe physical distancing is not possible is one of several new challenges that will need to be addressed. Additional shifts and staggered work schedules have the potential to add cost to the operation without adding productivity. Automation can minimize the need for both physical proximity of workers and increase overall productivity. As always, facility design will need to include the evaluation of different technologies for suitability but with the new lens of worker health and safety as a consideration.

With eCommerce and store volume changing, perhaps seasonally or even unexpectedly, it will be imperative that the warehouse’s layout, inventory and processes are able to adjust quickly to significant channel shifts.”

Facility designs that include automation which is flexible to handle multiple channels rather than fixed assets for a single channel enable the business to be more responsive to ebbs and flows across all channels. Additional capacity in terms of both space and automation is critical to ensure these fluctuations can be handled with ease.



Systems

The “New Normal” will require closer attention to systems structures, interdependencies and weaknesses in a hyper-connected world. Software will provide the next efficiency breakthroughs in terms of optimizing assets and reducing waste. But cybersecurity requirements and diligence across all links in the value chain will be needed to ensure business continuity.

In a world where conditions can and do change without notice, systems are critical to ensuring the operation can accommodate the change. This is accomplished through process changes, through flexible KPIs/SLAs and through technology that leverages intelligent software to optimize use of resources (people, systems, assets). Sophisticated algorithms found in warehouse execution software (WES) can prioritize orders in real time, enable smart processing of orders for reduced travel and increased productivity and routing of workers to reduce congestion. At the same time, a good WES can enable plug and play of different technologies, allowing the facility to flex between solutions or processes as the business expands, contracts and fluctuates seasonally.

The bottom line: Visibility throughout the fulfillment process is critical and a WES that provides decision-support capabilities – predictive, optimized control and balancing of automation and labor based on real-time analysis of orders, inventory, labor, and equipment resources and a modular design that can readily scale to meet changing demand – will be critical to meeting the demands of the new normal.

Uncertainty

At the start of the crisis, nothing was certain except uncertainty about the size, duration, and shape of the impact of the virus. There is no question that supply chains were caught out on the back foot. As a result, governments will likely make changes to policies and regulations as citizens desire to avoid, mitigate, and preempt future health crises and resulting supply chain disruption. But what changes and when remain unanswered questions.

One certainty is that supply chains will absolutely require re-tooling for flexibility to increase responsiveness to future disruptions.

In the “New Normal,” we can expect shorter planning horizons with more frequent reviews of the strategy to ensure business leaders keep a finger on the pulse of what is happening. Leaders should form tiger teams to review and revise disaster recovery plans with a broader view to global events and greater monitoring toward horizon events for more advanced warning. Leaders will need to identify triggering events and craft responses as guardrails to protect the organization. Scenario planning exercises to stress test the rigor of the supply chain and the business will become standard. Agility will be key to dealing with the uncertainty.

The bottom line: A slightly higher operating cost may be part of the price to pay for future flexibility that enables the business to pivot with speed.



Supply Chain Collaboration

In the “New Normal,” goods and people may move less freely across national and regional borders and be subject to greater restrictions when they do. What does that mean for your supply chain? Do you need to identify local sources and create redundancy in your supply chain to account for that? Even before the pandemic struck, international trade wars, higher labor costs in China, and the increase in fully- and semi-automated manufacturing capabilities prompted some firms to consider near-shoring or reshoring strategies. The coronavirus may have accelerated a trending movement away from global supply chains toward more centralized domestic ones.

Collaboration with suppliers will need to be tightly integrated into the operating rhythm of the business. The co-dependence of the relationship can no longer be ignored. A view into the political, economic and resource landscape of suppliers will be necessary for a healthy, responsive supply chain going forward. Realistically, every supplier will not come out the other side of this crisis in the same condition they entered it. There may be considerable market consolidation in the form of M&A activity alongside a significant number of bankruptcies. Value chains will need to be evaluated and closely monitored for potential disruption. Collaboration between competitors may even become necessary for survival.

The bottom line: The pandemic may have accelerated structural changes that were already altering your supply chain. Re-examination of the supplier network as well as the impacts of localized events will be part of maintaining a healthy and responsive supply chain that is able to flex as needed in the face of disruption. Market consolidation will occur and drive new dynamics for the supply chain.



Investments



In the “New Normal,” capital for investments will be scarce and highly scrutinized. Though the temptation initially will be to pull back on investments to preserve liquidity, those who do will find themselves outmatched and poorly prepared for follow-on disruptions. Companies will need to invest in new technologies and tools to improve their operational flexibility, enhance their digital transformation, increase productivity and future-proof the business. Investments in automation and retrofits of facilities to make them more agile should be prioritized. Dependencies on labor and the cost of flexibility will be examined more substantially as part of the business case. Additional capacity may be needed to satisfy requirements for flexibility. Creative financing options and ways to justify the investments may need to be explored.

It will fall to supply chain leaders to address shareholder and Board concerns around risk and preparing the organization to withstand future disruptions. The role has never been more critical or more visible. The current crisis provides a palpable demonstration of the crucial importance of supply chain to the business. Now is the time to shine. There is a first mover advantage to be gained, coupled with motivation to never be caught off guard again.

The bottom line: Companies that prioritize investments to increase agility and future-proof the business will be well-positioned to weather disruption, whether that comes in the form of another viral outbreak or some other over the horizon trend in the making.

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FORTNA CAN HELP

This disruption is a clarion call for supply chain leaders to innovate faster with a focus on agility as a key component of the business case. We should expect more, not less disruption in the future. The good news is that disruption provides opportunity to increase market share and improve competitive advantage. Now is the time to shore up vulnerabilities and take advantage of opportunities to improve the performance and flexibility of the business.

Contact us today at www.FORTNA.com