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Retooling the Supply Chain After a Global Channel Shift

Companies and commentators have spent the last year expending much effort in order to understand which of COVID-19's many upheavals will be temporary and which will endure for the long term. Supply chains have been at the heart of many of these changes. Companies have had to adjust at extraordinary speed as consumers suddenly moved, browsed and bought very differently.

There could be seismic consequences for supply chain economics. "We have seen a massive channel shift with years of digital growth happening in just a few months. If more direct relationships between consumers and brands lead to fewer bulk deliveries to retailers, the companies that have historically driven efficiencies by operating with full trucks or containers may struggle," says A&M Managing Director [Sean Laffere](#), a leader in A&M's Supply Chain Services practice. "The companies that are stuck with larger fixed costs – whether it is warehouses or substantial fleets – may find it more difficult to adjust in the short and medium term."

In the United States, lockdowns effectively doubled e-commerce's market share in a matter of weeks, reaching around 20 percent of all purchasing. "Although indications tell us that the level seen at the height of the first wave may be a peak rather than a new baseline, there is no question that companies need to adapt to a future that is more digital," says [Richard Dryden](#), Managing Director at Alvarez & Marsal (A&M).

That being said, non-digital retail still represents a comfortable majority of all commercial activity. "The most adaptable organizations are focused on creating a multispeed supply chain that accommodates a growing reliance on e-commerce, but which also maintains a focus on traditional sales channels and consumer behaviors. Multispeed or omnichannel supply chains can handle business as usual in both traditional and digital environments, while being flexible enough to respond to future *force majeure* events, such as natural disasters or another pandemic," says Mr. Dryden.

While supply chains have responded to an e-commerce boom, more automation has consequences at every stage of the supply chain. A&M Managing Director [Steve Barron](#) says, "Bringing technology into the supply chain can deliver greater agility and a more granular understanding of real-time demand, with beneficial effects on risk and capex." The advantages of digitized supply chains are clear, but to A&M Managing Director [Paul Law](#), COVID-19 has shown that there are risks in driving for near-total automation. A labelling specialist with advanced manufacturing capabilities was battling increasing levels of non-stock and overstock caused by automated supply chain and production processes that were operating as normal despite the dramatic demand shifts caused by the pandemic. "The company's solution was actually to put more human touchpoints in the manufacturing loop, ensuring that the supply chain could deal with unprecedented circumstances in a nuanced way rather than being over-reliant on technology," says Mr. Law.

Almost 12 months after the World Health Organization first declared COVID-19 a pandemic, suppliers are still seeking to adjust to the pace of recovery in different regions. China, for example, registered GDP growth of 2.3% in 2020, well below pre-pandemic expectations but still comfortably ahead of the contractions predicted



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for major Western economies. The less severe waves of infection in East Asia through 2020 have allowed China and other manufacturing hubs like Vietnam to continue investing in infrastructure and capacity. As European economies have locked down, suppliers in Asia may be rethinking the degree to which they rely on Western customers, in favor of a more local customer base.

COVID-19 has caused suppliers to think carefully about the benefits of interconnected global and regional supply chains, which A&M Managing Director [Claudio Cervellati](#) has seen first-hand. “Last year a textile sanitation specialist with a small number of manufacturing facilities won significant contracts to produce face masks for multiple public sector clients. Unfortunately, the company’s existing manufacturing territories were so sensitive about being seen to ‘export’ vital protective equipment to other nations, the company had to spend money setting up new production units in the different countries for whom it was working. This resulted in a less efficient supply chain process and higher prices for customers: not exactly an example of pragmatism and joined-up thinking,” says Mr. Cervellati.

Understanding different international supply chains and building new relationships – whether global or more local – will have business-wide effects. Finance and tax teams, for example, should pay close attention to the implications of tariffs and duties within new jurisdictions. “Executives weighing sourcing, manufacturing or distribution alternatives must model and evaluate the tax impact, which will inform strategic decisions and enable leaders to evaluate the feasibility of mitigating tax costs and driving savings,” says A&M Senior Director [Tom Ewigleben](#).

These secondary effects could seem onerous for management teams, but to A&M Managing Director [Ramin Tabibzadeh](#) they present exciting opportunities to improve business performance. Mr. Tabibzadeh placed supply chain performance improvement at the core of a consumer packaged goods company’s operational transformation. “The company had experienced sustained declines in revenue and EBITDA, and optimizing the supply chain was part of a significant shift toward transforming the product and channel mix. By delivering efficiencies that drove a 4 percent margin improvement, higher EBITDA and a 35 percent reduction in the total number of stock keeping units (SKUs), the initiative contributed to a highly successful repositioning of the brand.”

With volatility still a central element of 2021’s corporate climate, recognizing the wider business impact of strategic supply chain decisions could be a key competitive advantage for leaders still navigating profound uncertainty.

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