



SUPPLY CHAIN INSIGHTS

IS IT A SUPPLY CHAIN OR A PROCUREMENT PROBLEM?

DHL Supply Chain – Excellence. Simply delivered.

With supply chain woes reverberating around the world, this article reviews some of the approaches you can take to reduce risk and keep your goods on the move. Although often used interchangeably, supply chain, procurement and sourcing refer to different aspects of the same part of business – much the way that the legs and seat are all components of a chair¹.

Procurement is the process of getting the goods and materials companies need to manufacture finished goods, while supply chain management is the process of transforming those goods into products and distributing them to customers as efficiently as possible².

Procurement relies on a robust sourcing strategy, as well as seamless logistics orchestration to get materials through the manufacturing process as quickly and cost effectively as possible.

So let's take a look at what is happening in the world of procurement - post-pandemic and in a geopolitically challenging environment - and dive into some ways you can mitigate supply risks and future-proof the availability of materials to keep your supply chain moving.

Of course, the easiest approach to simplify supply chains – which have become incredibly complex and fragmented - would be to make everything in-house, locally and from scratch. However, that isn't feasible in today's world as “modern products often incorporate critical components or sophisticated materials that require specialized technological skills to make. It is very difficult for a single firm to possess the breadth of capabilities necessary to produce everything by itself.”³

¹ <https://yourbusiness.azcentral.com/difference-supply-chain-vs-procurement-vs-sourcing-20772.html>

² <https://blog.procurify.com/2021/03/28/difference-procurement-supply-chain-management/>

Some more realistic risk mitigation options might be to consider:

1. Understanding your vulnerabilities

Understanding where risks lie, so that your company can protect itself, may require a lot of deep digging and detailed analysis. It entails going far beyond your first and second tier suppliers and mapping your full supply chain, including distribution facilities and transportation hubs.

2. Diversifying your geographical production footprint

For at least two decades western companies have been drawn to, and invested heavily in, China. They were attracted by low production costs, along with a vast domestic consumer market to tap into. However, some manufacturers are now implementing a ‘China plus one’³ strategy to diversify risk by spreading production between China and typically a country in south-east Asia.

CHINA PLUS ONE



Other companies are looking at a strategy of producing a proportion of their goods within the

³ <https://hbr.org/2020/09/global-supply-chains-in-a-post-pandemic-world>

region where they are consumed, but building a new supplier infrastructure in a different country or region will take considerable time and money.³

With the advancement of digitalization, it is becoming more practical to return off-shored production to higher-cost countries. Robotics can sharply reduce the need for labor for preparing products and ensuring quality control.³

3. Introducing additive manufacturing

3D printing, or additive manufacturing, can dramatically reduce the number of steps required to make complex parts. 3D printing was first patented in 1980 and today adoption has reached critical mass, as those who have yet to integrate additive manufacturing somewhere in their supply chain are now part of an ever-shrinking minority. Where 3D printing was only suitable for prototyping and one-off manufacturing in the early stages, it is now rapidly transforming into a mainstream production technology.

Most of the current demand for 3D printing is industrial in nature. Acumen Research and Consulting forecasts the global 3D printing market will reach \$41 billion by 2026.⁴

4. Developing a hybrid just-in-time strategy

A new reinvented just-in-time (JIT) model is beginning to emerge. This hybrid JIT manages costs, but not at the expense of resiliency, assurance of supply, or preservation of profits and markets. It is made possible by superior analytics technologies and may require holding emergency stock, but if that stock is going to become unavailable, the inventory may make the difference between boom and bust.

5. Outsourcing supply chain management to an experienced lead logistics partner

One of the ways companies can reduce their risk is to hand over the orchestration of their inbound materials, production and distribution to a lead logistics partner (LLP). An LLP has the expertise, tools and processes to mitigate risk at every stage of the supply chain.

Thorsten Roggenbuck, Head of LLP at DHL Supply Chain explains. “With the perfect blend of industry and logistics expertise, we simplify complex logistics for some of the most well-known brands in the world. Through state-of-the-art technology, and our supply chain management expertise, we deliver significant value into the supply chain, such as cost efficiency, resilience, time-to-market and regulatory compliance.”

Data generated across the supply chain provides end-to-end visibility and is a key component of keeping complex supply chains moving. Thorsten says, “Our control towers provide complete and predictive oversight of the supply chain and with that visibility comes the ability to make better business decisions, be more agile and cost efficient. Whether it is re-routing parts around a point of failure (think for example about the four-month blockage of the Suez Canal), syncing up delivery of inbound materials to a production line, or maintaining the right level of inventory to keep an operation running smoothly, our control towers really are the beating heart of our business”.

So back to our original question – it is a supply chain or procurement problem? According to Forbes, “Procurement and supply chain should be considered part of the same operational focus. To understand one without the other is unenlightened at best and, at worse, may be a lost opportunity.”⁵

³ <https://hbr.org/2020/09/global-supply-chains-in-a-post-pandemic-world>

⁴ <https://3dprinting.com/what-is-3d-printing/>

⁵ <https://www.forbes.com/sites/jwebb/2016/10/31/procurement-or-supply-chain-whats-the-difference-and-should-there-be-a-difference/?sh=71ba348450f8>

