

Competitive **insights**



Connect. Influence. Optimize.

October 22, 2020

SUPPLY CHAIN RISK MANAGEMENT

handling disruptions
today and tomorrow

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CEO

Competitive Insights, LLC

speakers



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Executive Advisor &
Consultant



Richard Sharpe
President & CEO


Competitive insights

speaker



Richard Sharpe
President & CEO

Competitive insights

- Designated by DC Velocity as a Rainmaker in the industry
- Over 30 years of experience in Supply Chain Management and Applied Business Solutions
- Founding member of the American Logistics Aid Network (ALAN) 
- Graduate Degree in Industrial Engineering from Georgia Institute of Technology;
Undergraduate Degree in Industrial Engineering from the University of Florida

multiple sources of data into actionable insights



Accurate



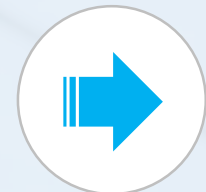
Trusted



Agile



Repeatable



Efficient

Analytics

revenue • costs • efficiency • profitability
Net Landed Cost to Serve & Net Landed Profit

recognized



Competitive Insights Named “Cool Vendor” by Gartner

“Cool Vendors in Supply Chain Management, 2014” Report



Competitive Insights listed as a Representative Vendor in
Gartner's **2016, 2017 and 2018** Market Guide for
**Supply Chain Cost-to-Serve
Analytics Technology**

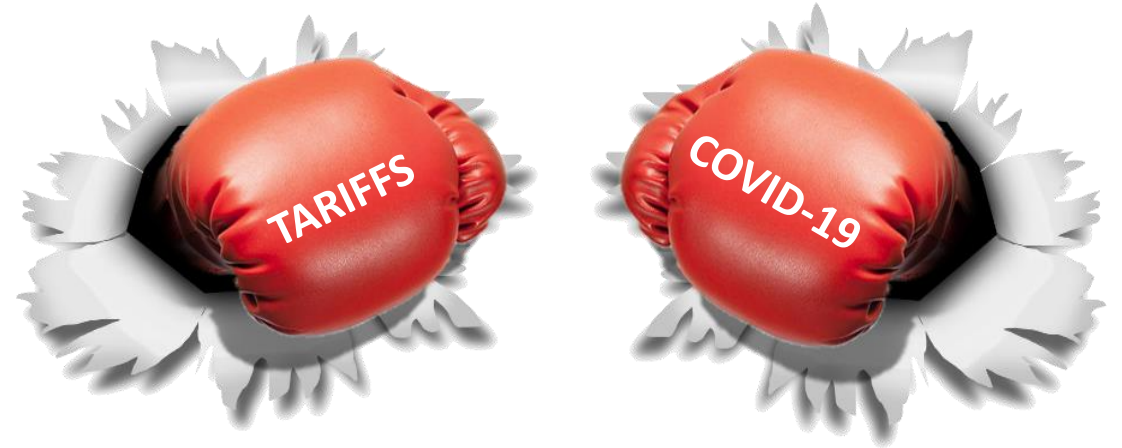
Gartner, Market Guide for Supply Chain Cost-to-Serve Analytics Technology, Stan Aronow, 06 September 2018 <https://www.gartner.com/doc/3889002/market-guide-supply-chain-costtoserve>

Gartner, Market Guide for Supply Chain Cost-to-Serve Analytics Technology, Stan Aronow, 22 June 2017 <https://www.gartner.com/doc/3746439?ref=AnalystProfile&srclid=1-4554397745>

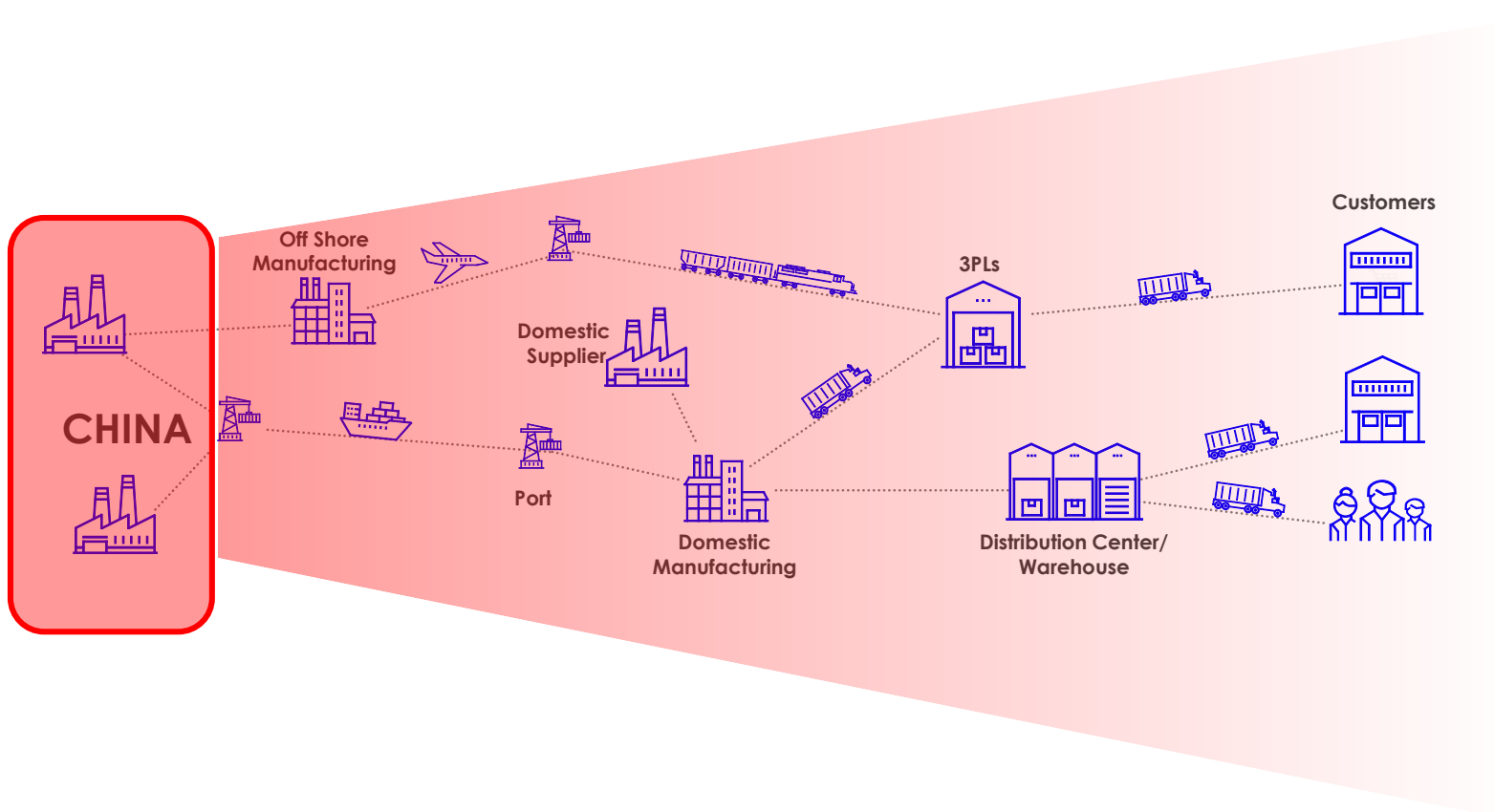
Gartner, Market Guide for Supply Chain Cost-to-Serve Analytics Technology, Stan Aronow, 26 May 2016 <https://www.gartner.com/doc/3330925/market-guide-supply-chain-costtoserve/>

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Creating effective Supply Chain Risk Management (SCRM) Strategies



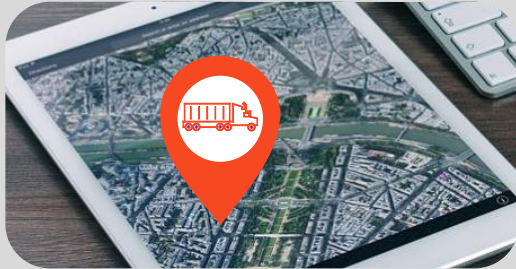
Significant Disruption Considerations



- The widespread impact on multiple Countries, Industries and Companies
- The length of time
- The significant economic impact

introduction

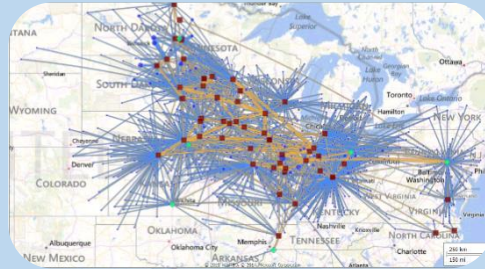
Supply Chain Risk Management Tools



Real/Near-Time Operational Status

Control Towers,
Risk Tracking Systems,

Transportation
Management
Systems



Optimization, Simulation Scenarios

Prescriptive Tools,

Transportation
Planning Tools



Profit Protection

Profit
Contribution
Analytical
Tools



Connect. Influence. Optimize.

- **Supply Chain Risk Management (SCRM)**
- SCRM - Reactive Analytics
- SCRM - Proactive Analytics
- conclusion

Supply Chain Risk Management (SCRM)

“One size does not fit all”



Supply Chain Risk Management

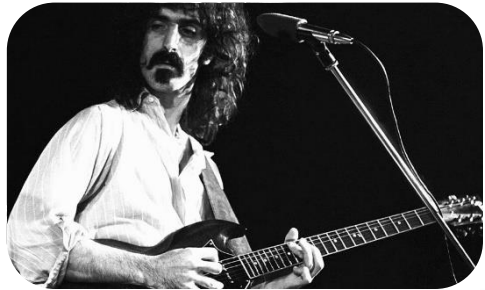
POLL:

Who first coined the phrase “One size does not fit all?”

- Benjamin Franklin
- Henry Ford
- Frank Zappa
- Thomas Edison

Supply Chain Risk Management (SCRM)

“One size does not fit all”



Frank Zappa

Thriving by Using
Supply Chain
Financial Insights



Supply Chain Risk Management

PROACTIVE – before disruption

Mitigation • Preparedness

minimize impact of any kind of disruption



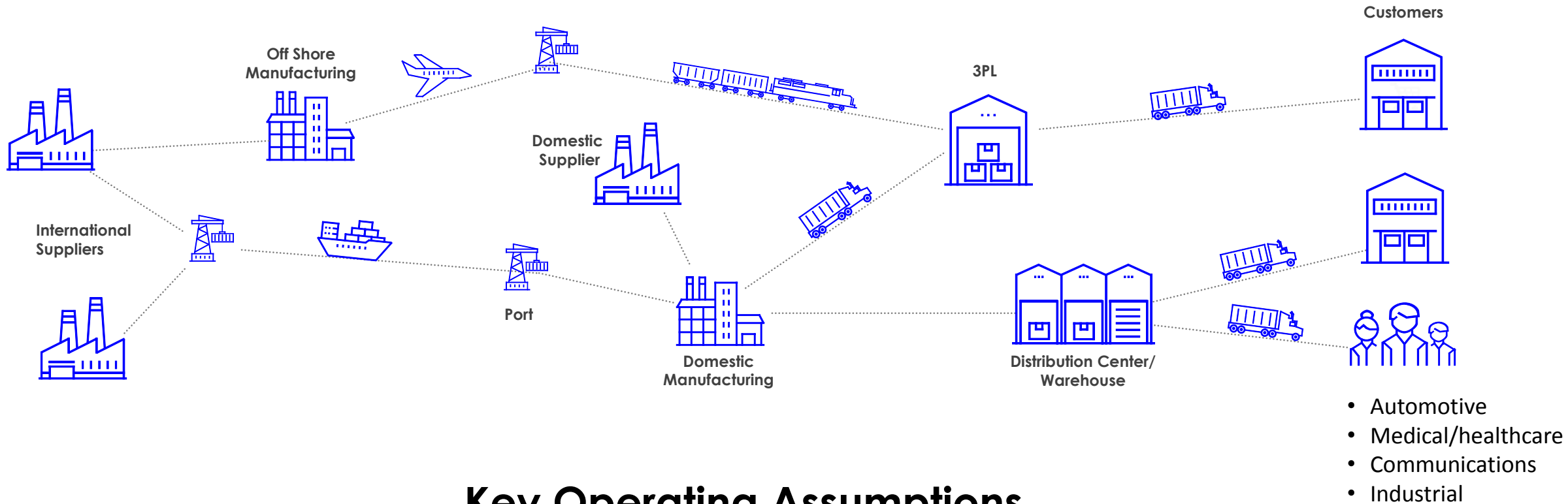
REACTIVE – after supply chain disruption

Response • Recovery

crisis management to defuse impact

learning

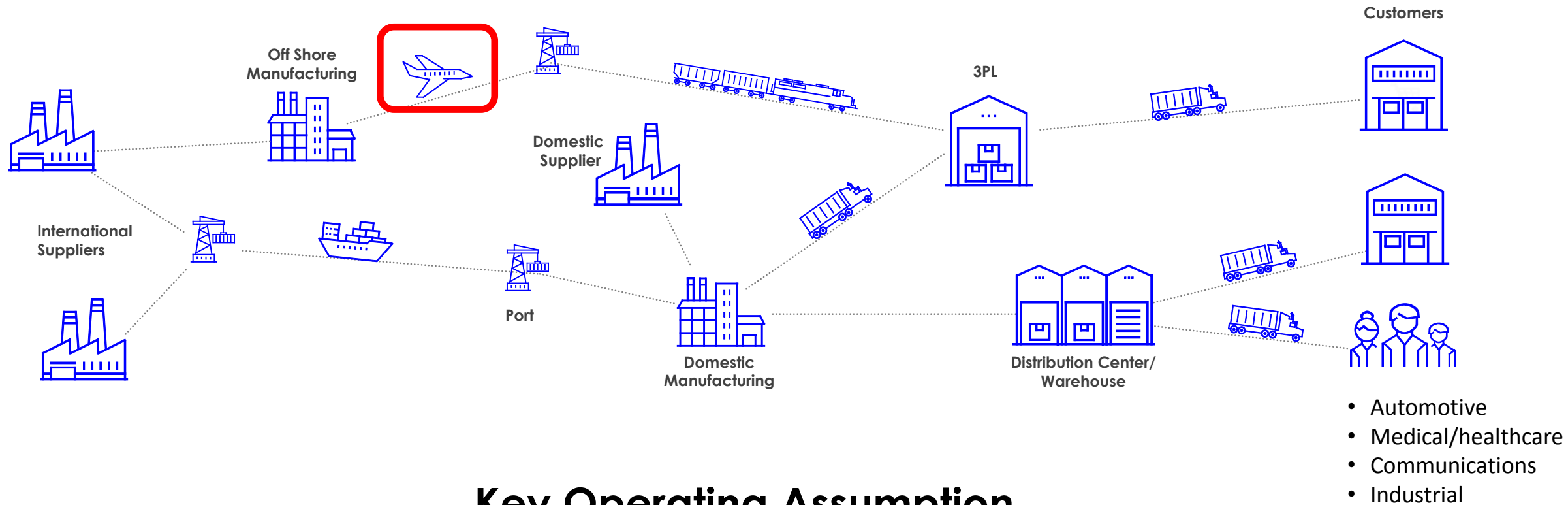
Supply Chain Risk Management



Key Operating Assumptions

Lean operating principles drive efficiencies and cost reductions

Supply Chain Risk Management



Key Operating Assumption

That Each Key Component Of Your Supply Chain Is Going To Work As Expected Under Defined Operating Agreements

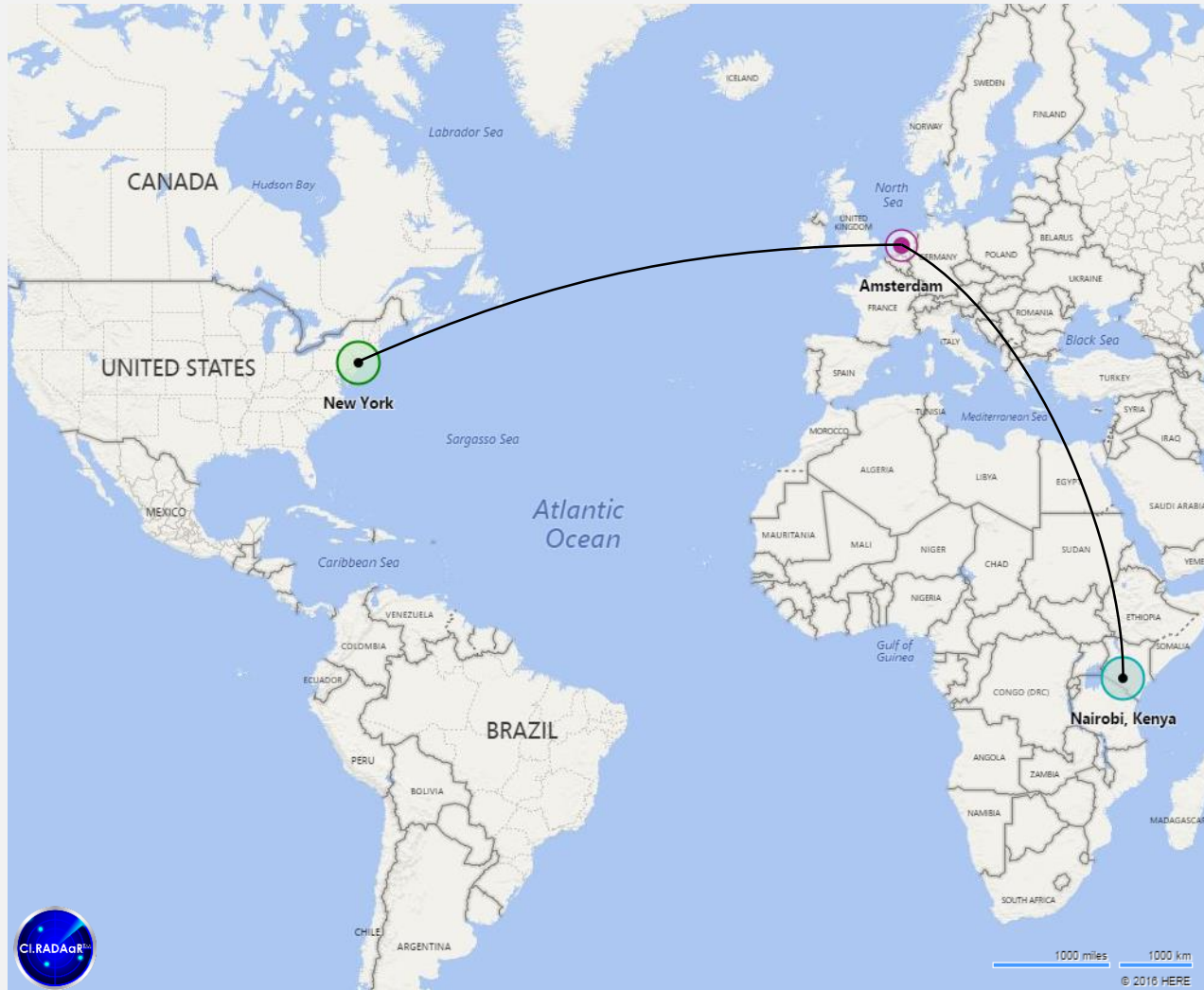
Supply Chain Risk Management



- Kenya is the sixth-largest flower exporter to the U.S.
 - U.S. Customs and Border Protection
- Kenya supplies the European Union with 38% of its cut-flower imports

Supply Chain Risk Management

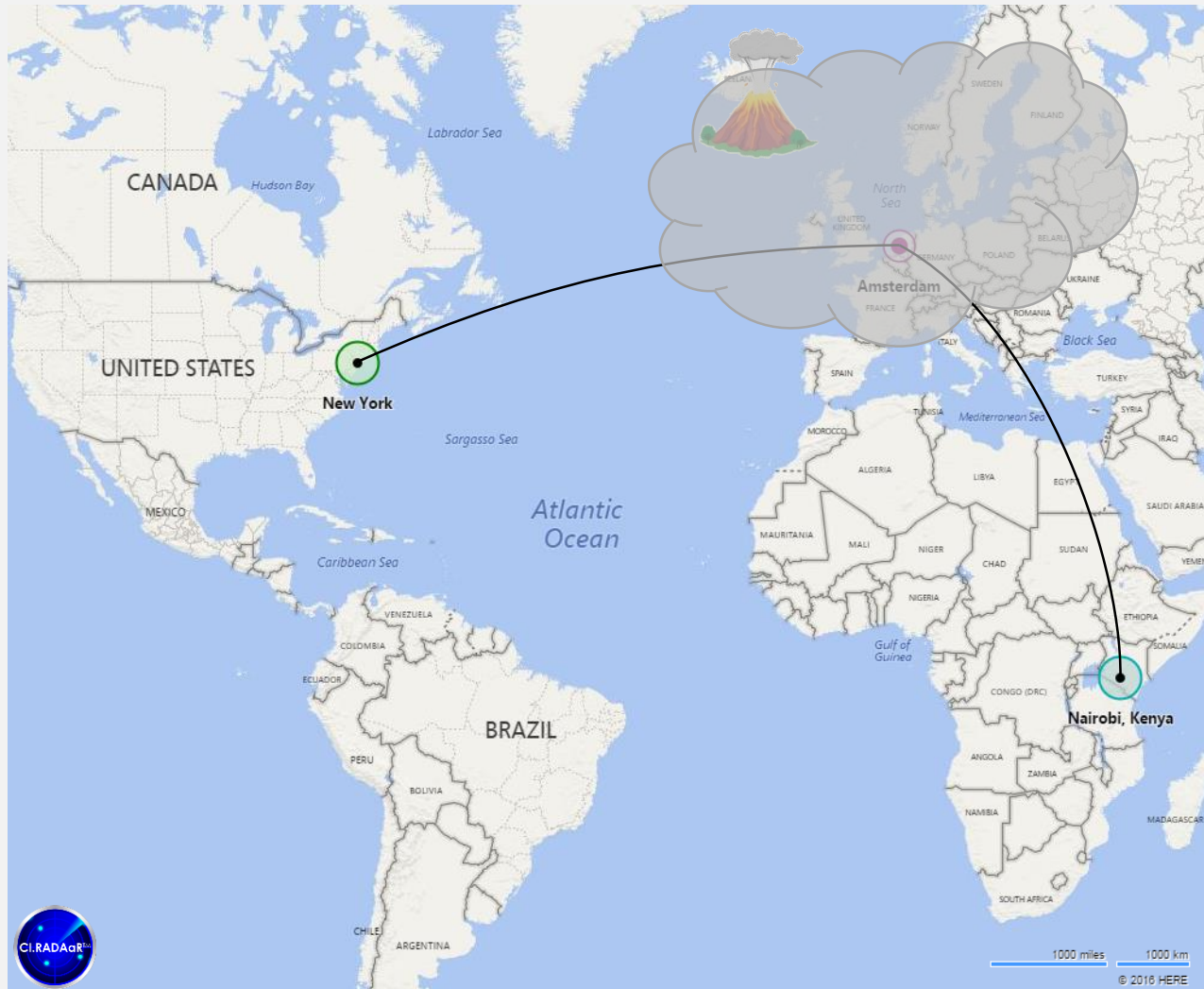
Distribution Channel of Flower Industry



- From field to store in around 72 hours with daily overnight air shipping
- 2-3 days shelf life in stores

Supply Chain Risk Management

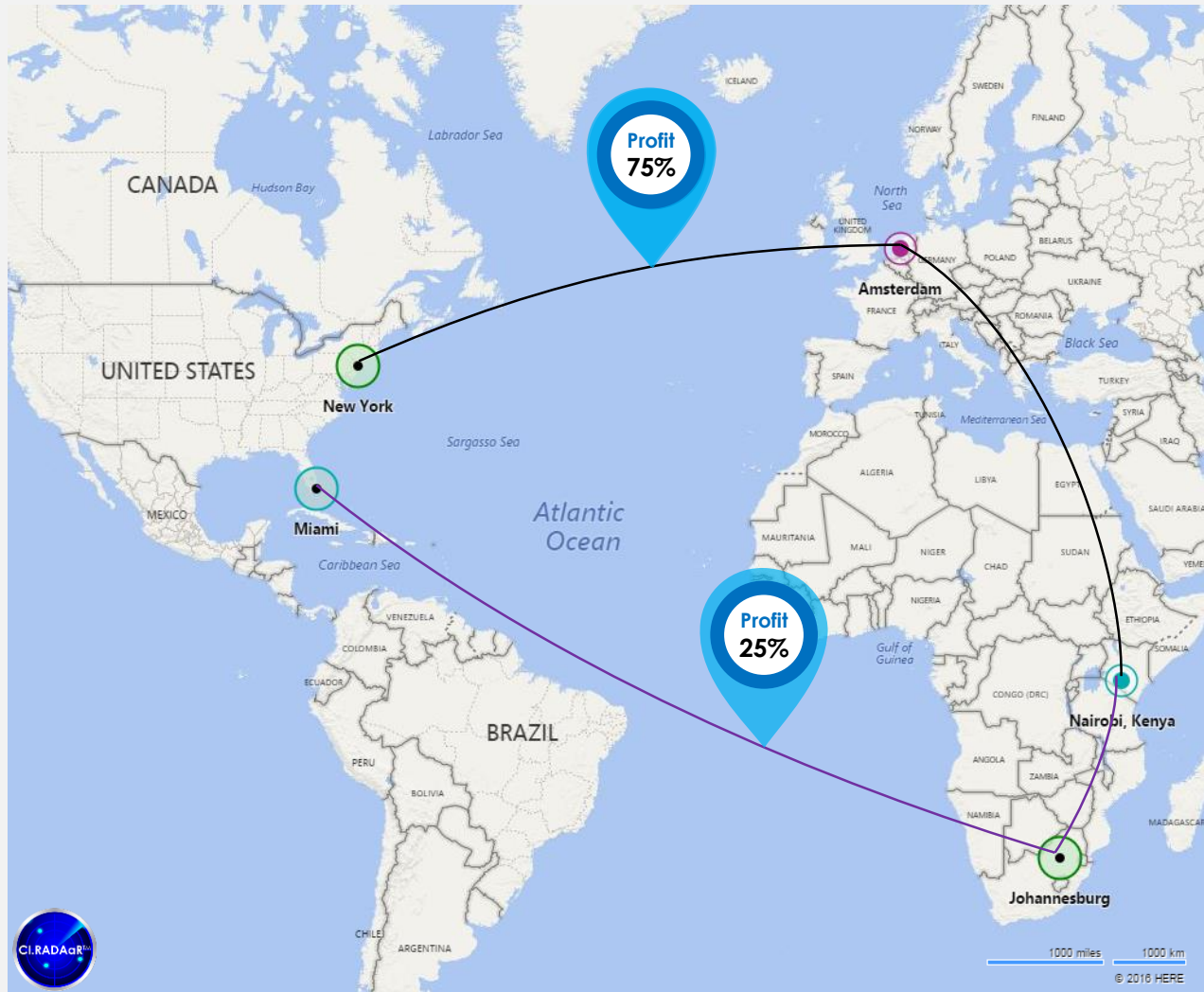
Distribution Channel of Flower Industry



- Eyjafjallajökull volcano erupts in Iceland
- 100,000 flights cancelled for 2 weeks

Supply Chain Risk Management

Distribution Channel of Flower Industry

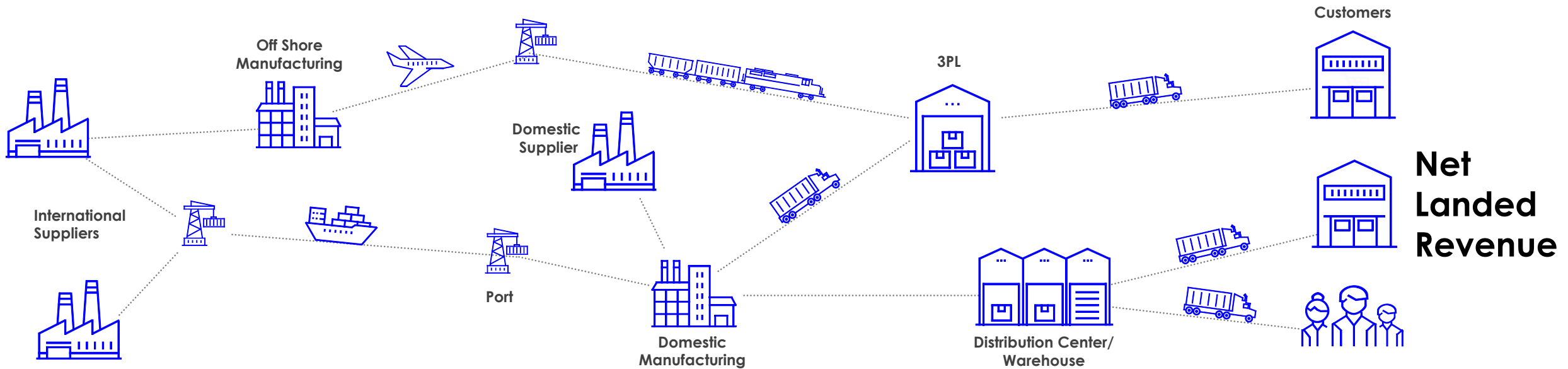


where will it hurt the most?

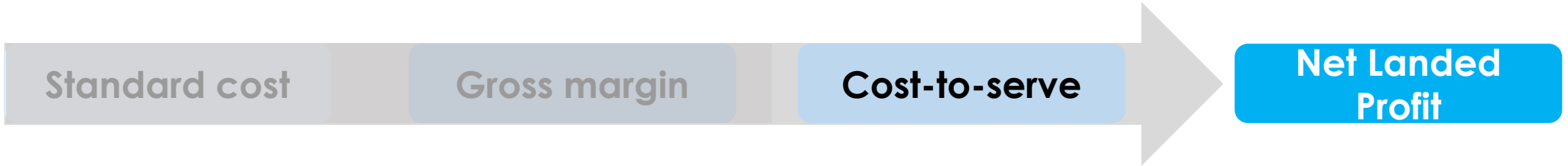
- Market share
- Revenue
- Profit

Supply Chain Risk Management

Measuring Supply Chain Financial Performance

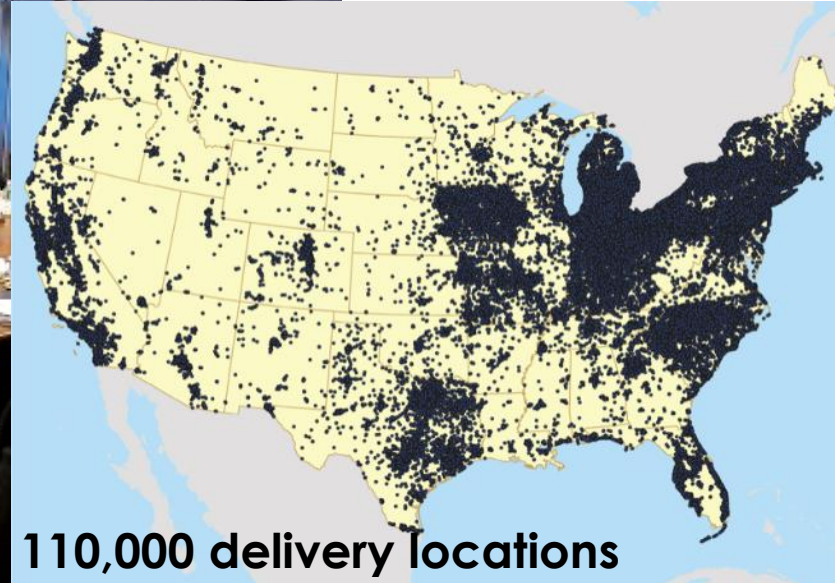


- Automotive
- Medical/healthcare
- Communications
- Industrial



Supply Chain Risk Management

In Chicago IL



**How many of those customer locations
provide 80% of your profits?**

Supply Chain Risk Management

POLL:

How many customer delivery locations provided 80% of the company's profits?

- 50% or more
- 20-50%
- 20% (80/20 rule)
- Less than 10%

Supply Chain Risk Management

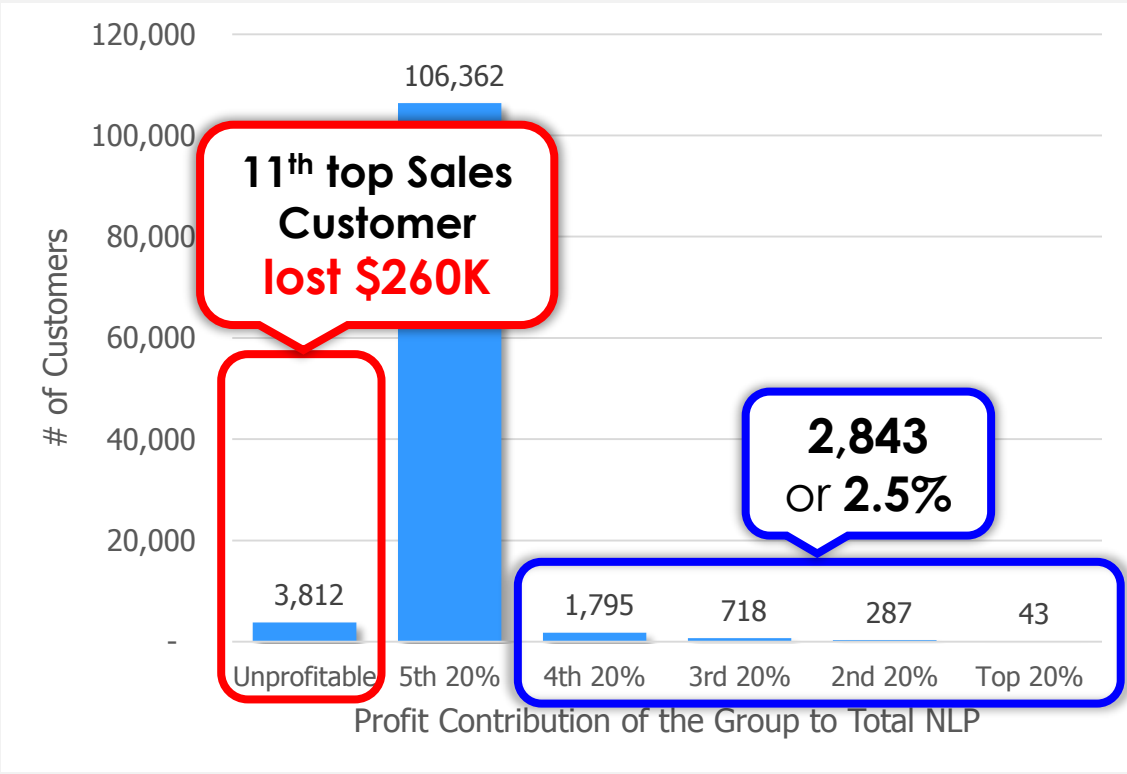
Share price increase of **\$0.67**
 (\$0.17 if 25% realized)



In Chicago IL



Net Landed Profit (NLP) Groupings per Customer Locations



How many of those customer locations provide 80% of your profits?



Connect. Influence. Optimize.

- Supply Chain Risk Management (SCRM)
- **SCRM - Reactive Analytics**
- SCRM - Proactive Analytics
- conclusion

SCRM – Reactive Analytics



Reactive – after supply chain disruption



- A disruptive event has occurred
- Immediate action needs to take place to minimize impact
- All efforts are to stabilize the situation

SCRM – Reactive Analytics

POLL:

How did your company adjust to COVID? (mark as many as apply)

- Nothing – just wait it out
- Freeze/postpone projects/initiatives
- Frequent adjustments to the operation (i.e., lockdowns, labor shortages and safety issues)
- Re-strategize to demand changes or capacity issues

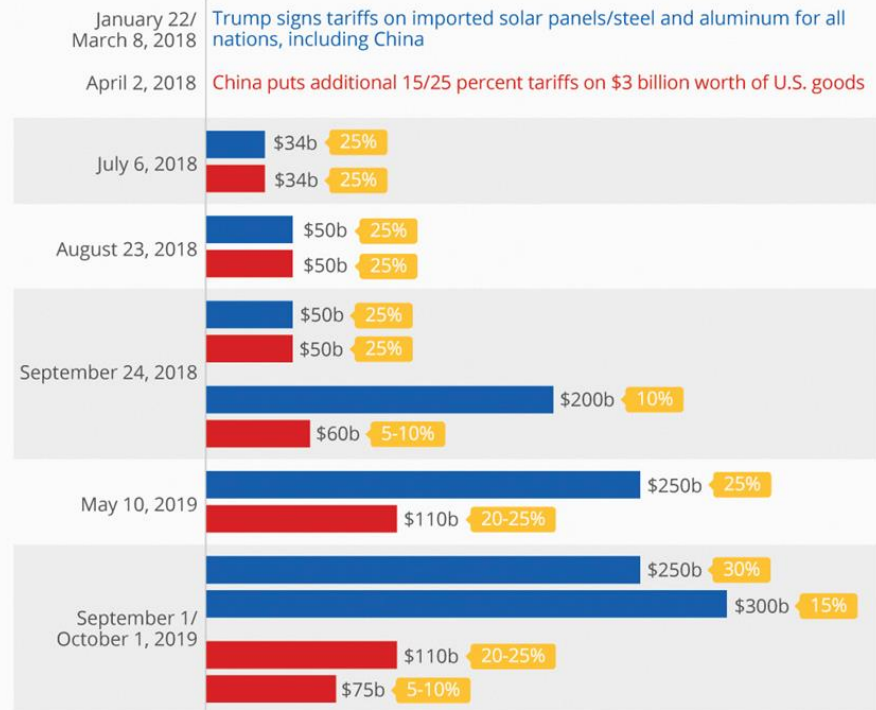
SCRM – Reactive Analytics

Creating reactive Tariff Strategies

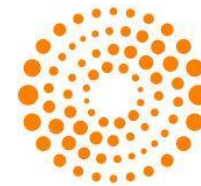
How the U.S.-China Trade War Escalated

Cumulative tariffs between the U.S. and China in 2018/19

■ U.S. tariff action ■ Chinese tariff action ● Tariff rate



@StatistaCharts Source: Media reports



REUTERS®



published Nov 29, 2019
Global survey with
267 respondents



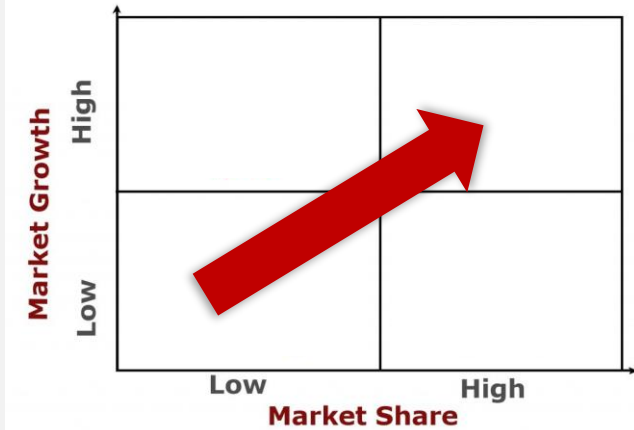
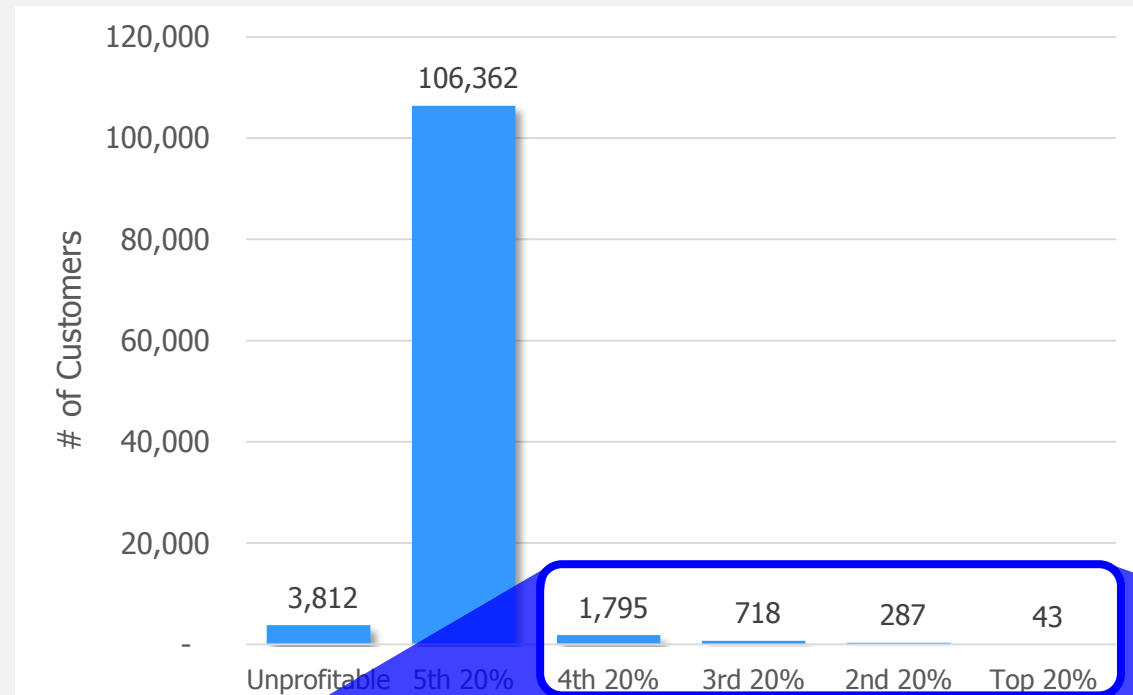
more than one-third
of the firms are taking no action

SCRM – Reactive Analytics

Focus on customers that matter most

Customers that give you the majority of your operating profits

Net Landed Profit (NLP) Groupings per Customer Locations



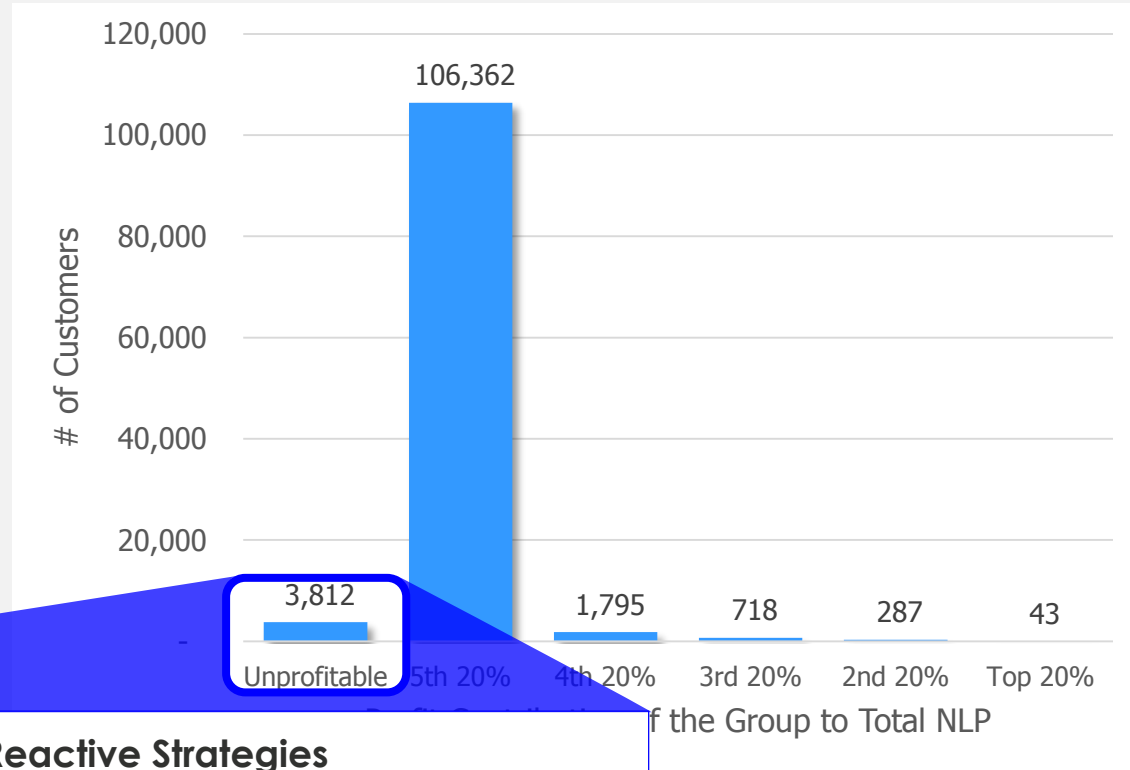
Short-Term Tariff Reactive Strategies

- Retain – no price and discount changes
- Re-energize – no price changes
- Reconsider – targeted price and discount changes

SCRM – Reactive Analytics

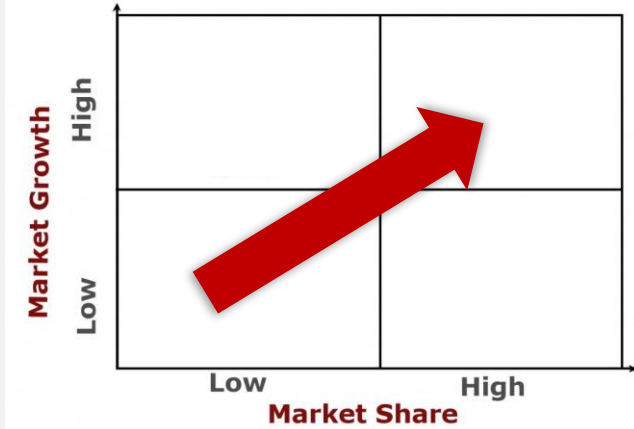
Terminate Unprofitable Customers
(lower operating costs while raising profits)

Net Landed Profit (NLP) Groupings per Customer Locations



Short-Term Tariff Reactive Strategies

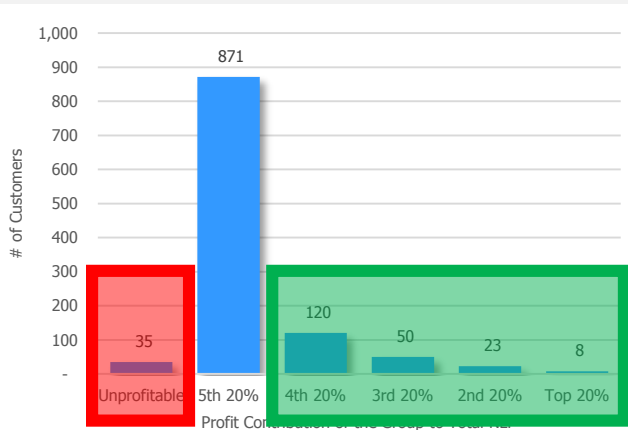
- Reconsider – targeted price and discount changes
- Reduce – sales efforts – terminate the customer



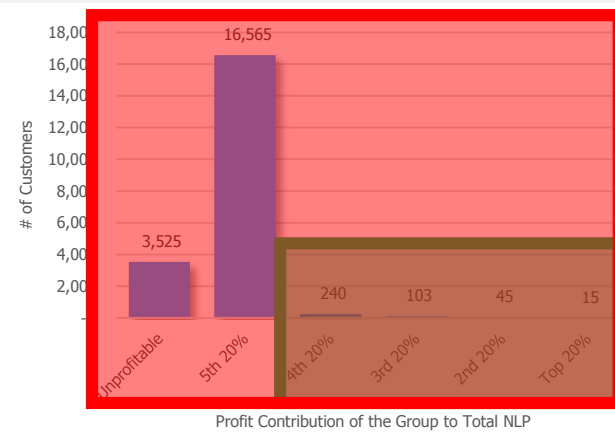
SCRM – Reactive Analytics

Actionable insights to make informed decisions

Net Landed Profit (NLP) Groupings per Customer



Net Landed Profit (NLP) Groupings per SKU



Customer Profit Groups

Unprofitable	35 Customers			
5th 20%	201 Customers			
4th 20%	403 products			
3rd 20%	68% of total Net Landed Profit			
2nd 20%				
Top 20%				

SCRM – Reactive Analytics

SUPPLYCHAIN DIVE Deep Dive Opinion Data Library Events Topics ▾

BRIEF

Home Depot assesses tariff impact SKU-by-SKU



Credit: The Home Depot

- Home Depot has mitigated half of its potential tariff cost with a **data-driven approach that analyzes tariff impact at the SKU-level**
- "We know down to the SKU level the point of origin, the classification of the tariff, the potential impact. And from there we start working with our supplier partners to mitigate that tariff impact,"
 - Ted Decker - EVP, Merchandising



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- **SCRM - Proactive Analytics**
- conclusion

SCRM - Proactive Analytics

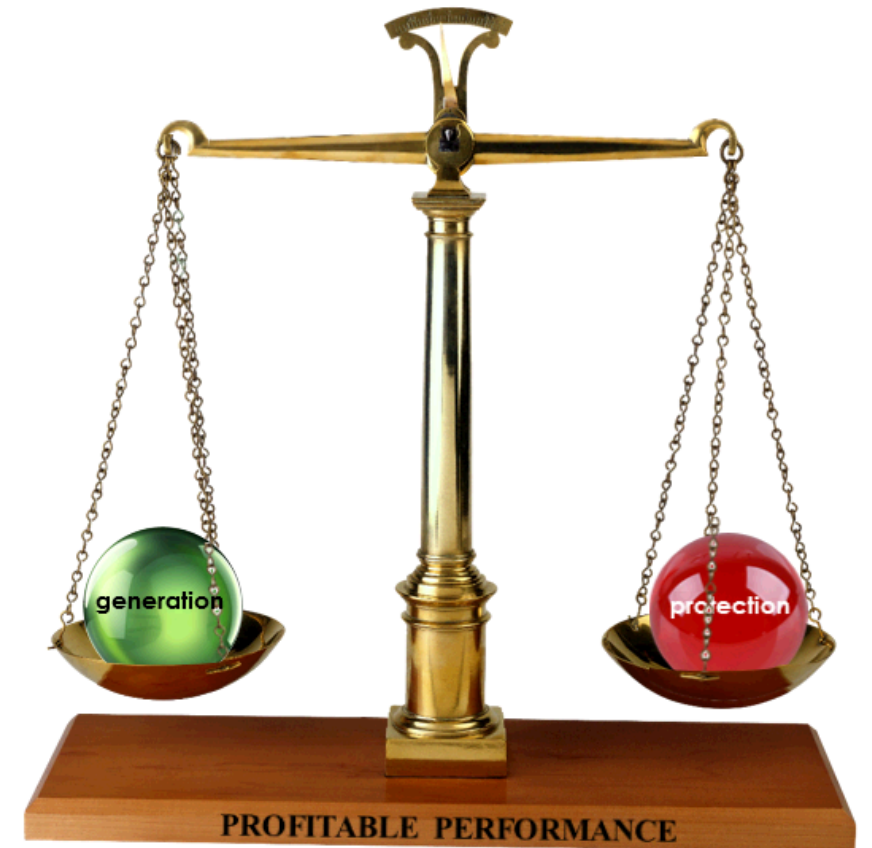
PROACTIVE – before disruption

Mitigation • Preparedness

minimize impact of any kind of disruption



- Focuses pro-actively identifying *vulnerabilities that would hurt the most*
- Devises plans to mitigate potential operational risk
- Periodic monitoring to identify changes in potential key vulnerabilities



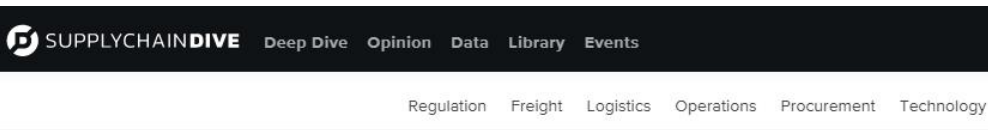
SCRM - Proactive Analytics

POLL:

Does your company have mitigation plans for future supply chain disruptions?

- No, I'm not now aware of any plans
- Yes, we already have a Supply Chain Risk program
- Yes, we are in developing plans now or have just completed because of COVID

SCRM - Proactive Analytics



DIVE AWARDS 2019

Resilience Plan of the Year: Williams-Sonoma's trade war strategy

In early 2019, retailers either waited to see what would happen with U.S.-China negotiations, or they prepared for the worst. Williams-Sonoma prepared and it paid off.



Credit: Flickr

Problem: one-fifth of Williams-Sonoma's total assortment came from China

“Not One Size Fits All” Strategies:

- increase prices
- reduce overhead costs
- renegotiate supplier and consolidate contracts
- open an upholstery factory in Tupelo, Mississippi
- bring in “as much inventory as possible” ahead of the tariffs

Results:

- by 2020 will have halved its China sourcing
- increased its operating margin in the first two quarters of 2019 and held the figure steady in Q3



Credit: Credit: Matt Leonard / Supply Chain Dive, data from Williams-Sonoma's earnings reports

SCRM - Proactive Analytics

73

Suppliers to Analyze

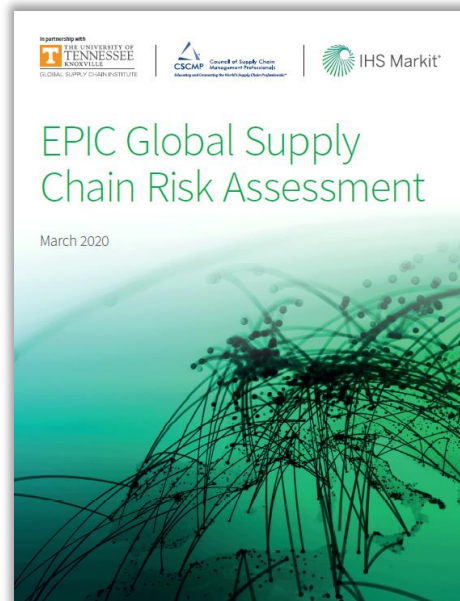
\$17.68M

Total Net Landed Profit

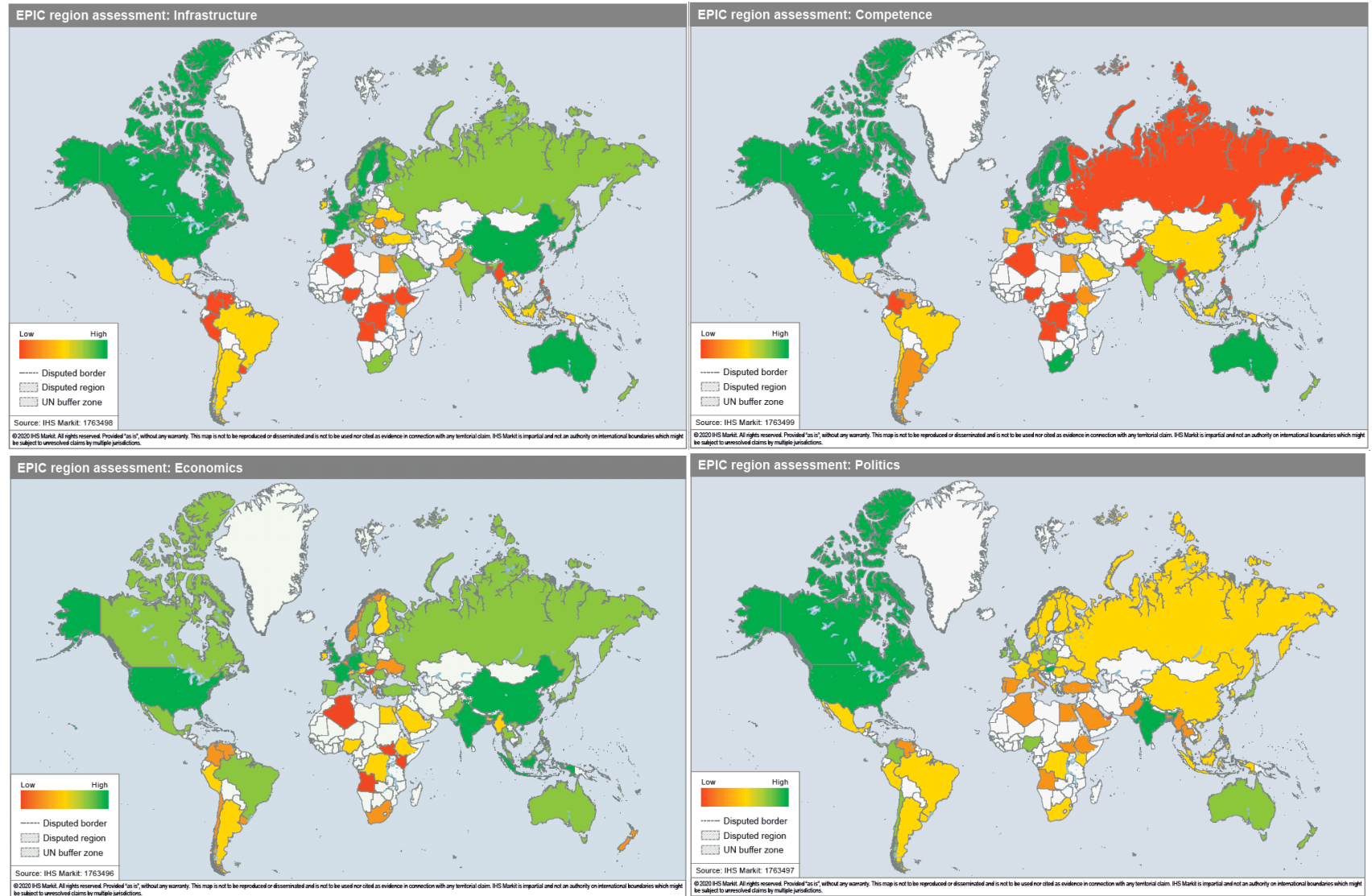


SCRM - Proactive Analytics

Identification of Risks



- Infrastructure
 - Competence
 - Economics
 - Politics
- ranges between 0 and 5



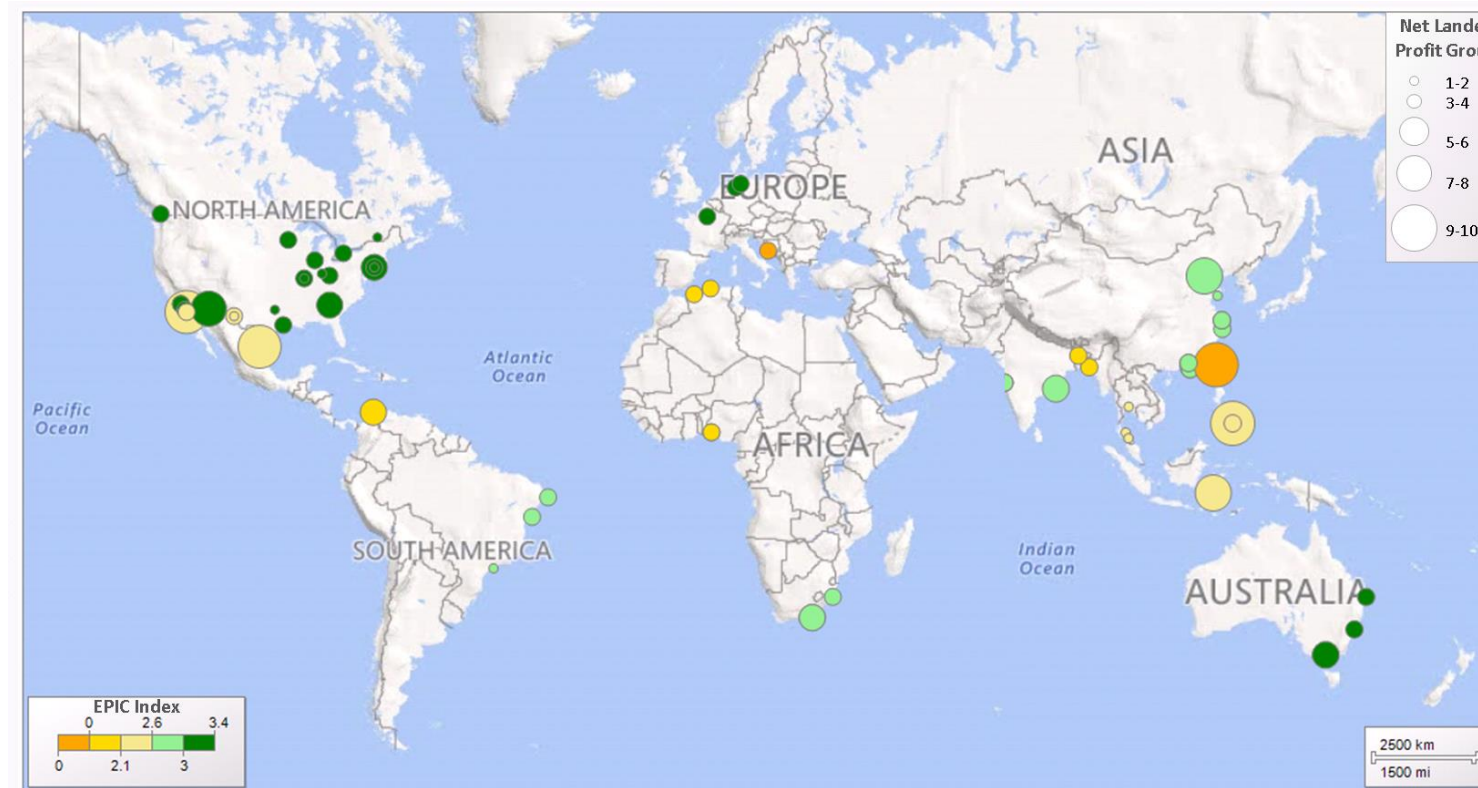
SCRM - Proactive Analytics

73

Suppliers to Analyze

\$17.68M

Total Net Landed Profit



using an EPIC Index of less than 2.25

17

Suppliers

23%

of total suppliers

\$7.81M

Net Landed Profit to protect

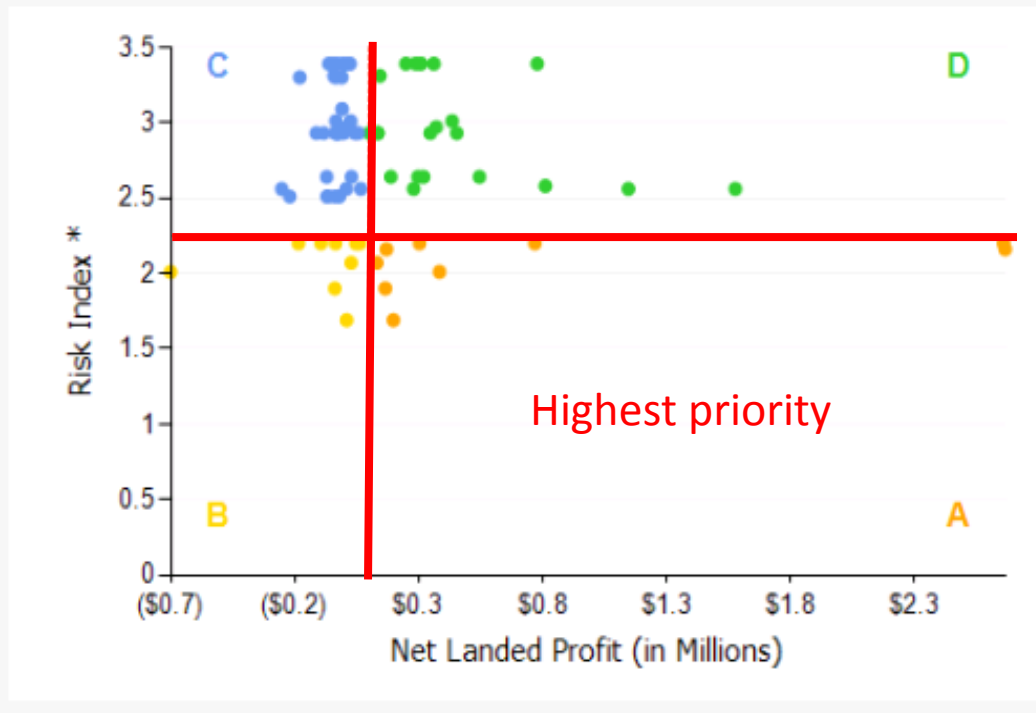
44%

of total Net Landed Profit to protect

SCRM - Proactive Analytics

Prioritization of Risks

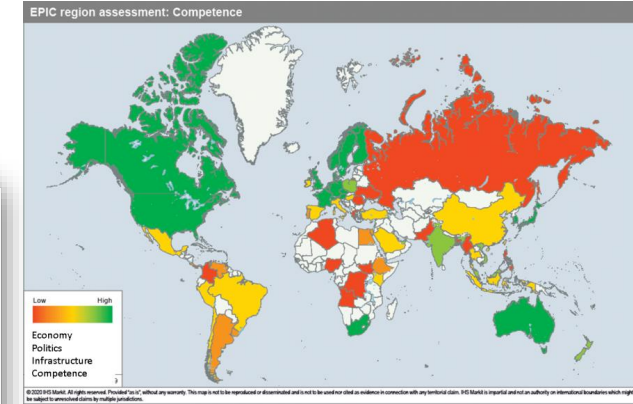
Prioritization Matrix Based on User Defined Risk Index Threshold and NLP Threshold



— User defined

A
Risk Group

Risk Index* < **2.25**
NLP > **\$0.14M**



Supplier Details by Risk Group

Risk Group	Supplier	Risk Index	Country	City	Volume	NLP	NLP Index
A	Sup 3-1	1.69	Algeria	Oran	102,319	\$239,508.79	1
	Sup 2-6	1.9	Bangladesh	Chattogram	93,317	\$207,331.60	1
	Sup 39-16	2.01	Colombia	Santa Marta	146,537	\$425,258.25	3
	Sup 3-28	2.07	Nigeria	Lagos	44,388	\$172,861.52	1
	Sup 48-29	2.16	Philippines	Cebu	53,356	\$211,694.30	1
	Sup 19-29	2.16	Philippines	Cebu	757,875	\$2,705,554.55	10
	Sup 47-33	2.2	Taiwan	Tainan	552,258	\$2,699,104.03	9
	Sup 39-33	2.2	Taiwan	Tainan	208,967	\$810,147.36	5
	Sup 45-32	2.2	Taiwan	Taichung	69,691	\$344,920.36	2
	Total				2,028,708	\$7,816,380.75	
B	Total				559,680	(\$529,831.72)	
C	Total				1,305,446	\$253,071.43	
D	Total				2,679,354	\$10,142,683.46	
Total	Total				6,573,188	\$17,682,303.91	

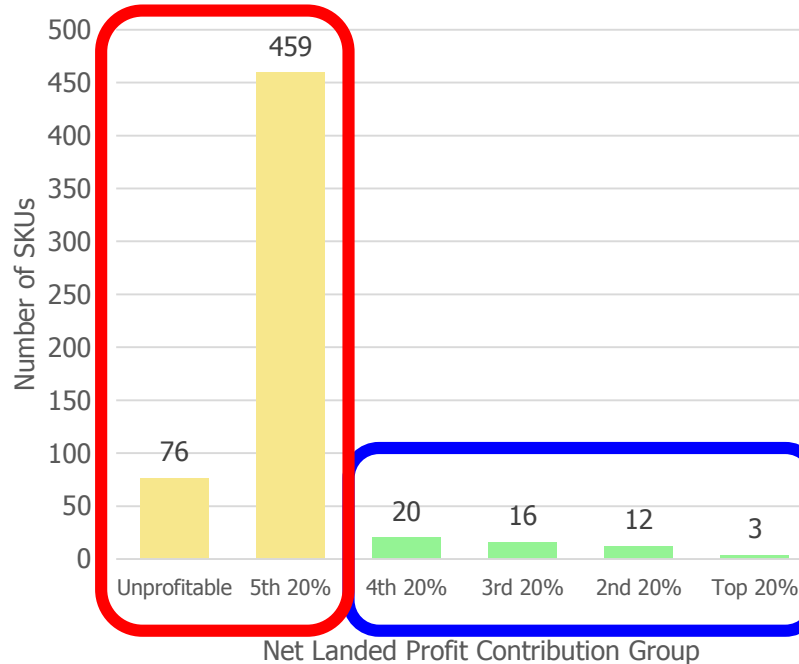
Supplier Scorecard for Vendor ABC

Supplier Details by Risk Group

Risk Group	Supplier	Risk Index	Country	City	Volume	Sales	Sourcing Cost	Sourcing Cost Per Unit	NLP	NLP Index	NLP Margin	Lead Time
⊟ A	Sup 19-29	2.16	Philippines	Cebu	757,875	\$9,649,434.62	\$3,711,487.47	\$4.90	\$2,705,554.55	10	28.04%	

586
total SKUs

Vendor ABC's Product Segmentation



Priority 2
535
Total SKUs

Priority 1
51
Total SKUs \$2.49M
Total NLP



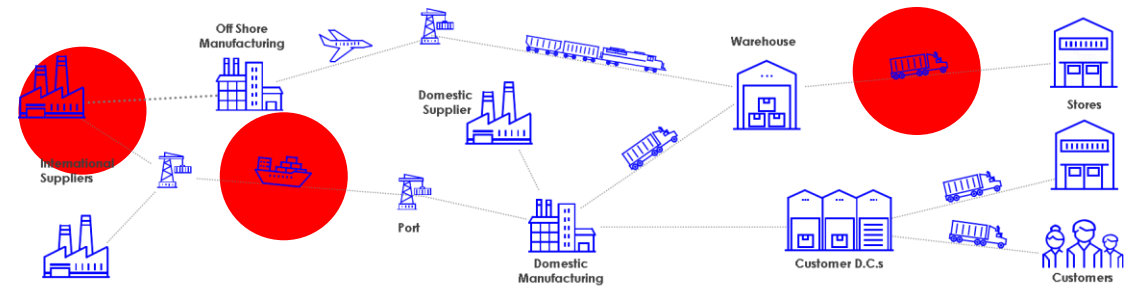
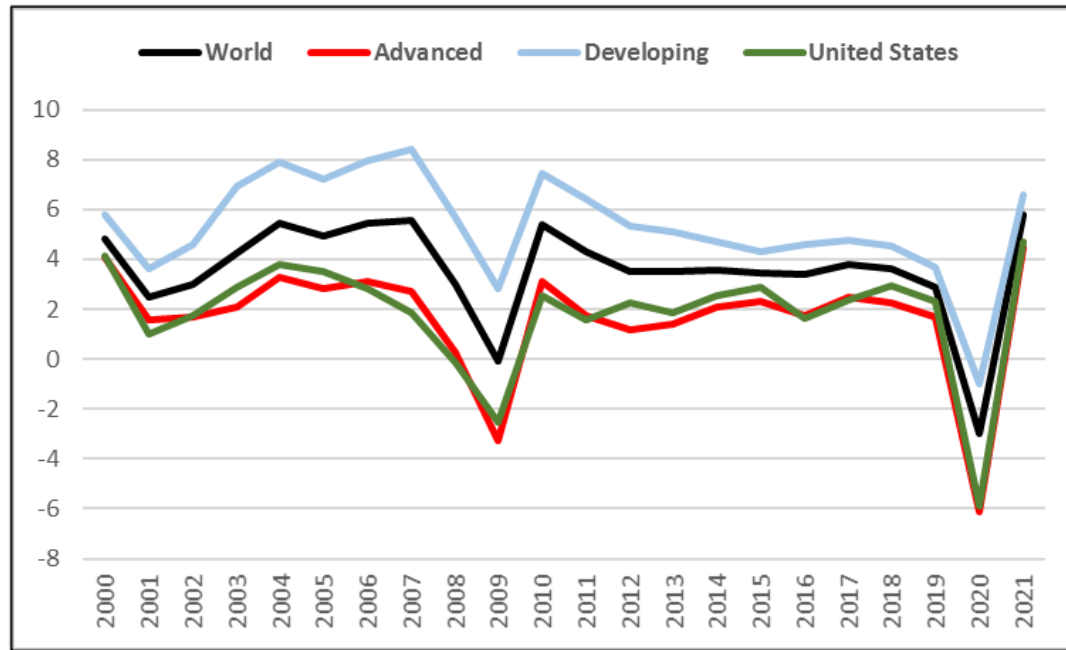
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- SCRM - Proactive Analytics
- **conclusion**

conclusion

The Coronavirus Will Create A New Operating Norm For Making Supply Chain Risk Management A Critical, Ongoing Business Practice

Gross Domestic Product, Percent Change



Source: World Economic Outlook, International Monetary Fund, April 14, 2020.

Note: Data for 2020 and 2021 are estimates.

conclusion

Call To Action

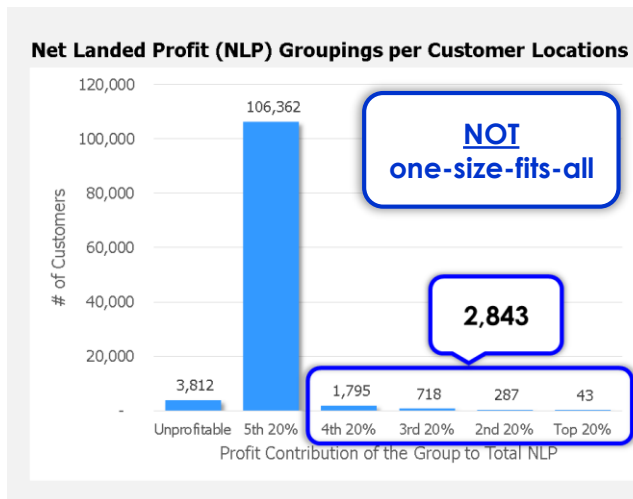
- Prior COVID-19 generalized operating strategies no longer work
- It is critical to understand the exact profit and revenue contribution of every product sold to every customer
- Customers can then be differentiated and segmentation strategies created that define appropriate service levels, product offerings, pricing and discount policies
- Key suppliers can be identified and prioritized for risk mitigation strategies
- Operating networks can be reconfigured to lower unnecessary costs and tied up working capital

conclusion

PROACTIVE



REACTIVE



Competitive **insights**



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Sources:

<https://www.supplychaindive.com/news/home-depot-assesses-tariff-impact-sku-by-sku/567709/>

<https://www.supplychaindive.com/news/trade-war-China-tariffs-williams-sonoma-dive-awards/567085/>

Thank you

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