

# 5 supply chain strategies to prepare for a recession



# Introduction

## **Creating a recession-ready supply chain: Why agility is the strategic competence you need**

Possible recession. Inflation. Foreign exchange volatility. Customer fear. Labor shortages. Stock declines. We're living in scary times. The macro-economic environment continues to throw volatility and disruption at our supply chains. Governments are trying to help by introducing new fiscal policies. But if your role is to address the current supply chain issues and prepare for an uncertain future, you have a big task full of uncertainty. What's clear is you and your teams are at the center of your company's strategic agendas. This eBook is a guide to help you think through the upcoming impact of a potential recession and build a digital transformation roadmap to both survive and thrive better than your competitors.



No industry or region has been immune. Everywhere, supply chains have experienced unprecedented turmoil. Demand and supply forecasts have oscillated from spikes to shortages, causing businesses to realize planning windows need constant updating and re-evaluation.

The next year threatens an entirely new adventure for supply chain leaders – the emergence of financial disruptions. Inflation rates have skyrocketed. Currency values are volatile. Discretionary spending is slowing. Consumer and business confidence is struggling. We are on the precipice of a potential global recession – maybe large, maybe small – that’s going to have an impact on your business and your supply chain.

While this sounds scary, it’s an opportunity of a lifetime for supply chain leaders. The mandate to effect a step change in supply chain is here. The

opportunity is to ignore incremental thinking and achieve better results through a new planning technique focused on agility. Agility is the competence that creates resilience to meet challenges and optimize the end-to-end supply chain. It is possible to transform the role of planning based on a new breakthrough technique called *concurrent planning*, yielding superior financial and operational results than your peers.

The supply chain renaissance is here. And there’s no reason to wait. You can get your supply chain healthy in as few as 12 weeks. Imagine overcoming deployment risk and unifying strategy, processes, data and people in a fundamental new way that sets you on a course to supply chain transformation.

Where do you start on your transformation journey? Just keep reading.

# Strategy 1: Make the business case for step change

01

## How change elevates resilient companies above the rest

Why change? Why not just sit tight and let it all blow over? While that may have worked 10 or 20 years ago, it simply doesn't today. We've reached a tipping point for supply chain planning.

Traditional techniques are no longer fit for purpose. Functional silos and Excel spreadsheets are no match for today's pace of business and supply chain change.

Organizations now face a range of sophisticated challenges beyond the traditional: high levels of disruption from multiple directions; supporting ongoing environment, social and governance (ESG) planning and compliance; competing for talent; and having the resilience to recover and thrive when there's a sudden need to change course. Legacy enterprise resource planning (ERP) systems or Excel-based planning simply can't compete with modern planning platforms

## Takeaway

Supply chain is no longer a back-office function but a strategic lever at the top of corporate priorities. Three years of constant disruption has exposed the need for a new approach optimizing for agility that leads to superior financial and operational outcomes.



that empower planners to go beyond basic visibility to agility and concurrent planning.

During the last major financial upheaval, supply chain planners faced ever-more frequent disruption, changing customer expectations and the critical need to switch strategies in areas of inventory management and logistics. There's never been a stronger argument for planning that can sense disruption— and its numerous impacts on the end-to-end supply chain – in real time and help organizations to know sooner and act faster.

This is especially true of inventory. A 2020 McKinsey survey reported 93% of supply chain leaders planned to increase inventories of key products, while also diversifying their supply base and moving to more localized/regionalized supply and production.<sup>1</sup> A year later, the survey revealed that companies were *more* likely to have increased inventory than originally planned and *less* likely to have made other planned changes to suppliers and networks. As we head towards a recession and reduction in working capital becomes increasingly important, Chief Supply Chain Officers have a hard task – how to reduce inventory while maintaining resilience.

Preparation is crucial. During the COVID-19 pandemic, many companies were unprepared

for the disruption and, as a result 61% of supply chain practitioners lowered the estimate of their agility, according to *Supply Chain Insights*.<sup>2</sup> In “The Business Costs of Supply Chain Disruption,” The Economist’s business intelligence unit, Economist Impact, reports two-thirds of survey participants have experienced revenue loss of 6-20% due to the pandemic and related disruption.<sup>3</sup>

There's a way to avoid these hard lessons from our recent past. Professor Morgan Swink of Texas Christian University found companies that invested in supply chain agility significantly outpaced industry averages on key metrics such as return on investment capital, revenue growth and market capitalization. During major disruptions, like the pandemic, that gap grew by as much as 2.5 times.<sup>4</sup>

When making the case for supply chain transformation, highlight the value such a step change extends to other key corporate strategic initiatives. For example, transformation can help accelerate ERP integration after a merger or acquisition; speed up new product introduction (NPI); strengthen customer relationships; and open up new market opportunities.

There are also other benefits to the business.

Advanced planning solutions improve the working

Being recession-ready isn't just about survival. That's not an acceptable goal. It's about driving future business success and longer-term positive cash flow, earnings and stock prices, as opposed to cutting back for short-term results.



environment by freeing up planners from repetitive tasks and helping them make faster, more confident decisions using artificial intelligence and machine learning to enhance insights.

Advanced planning is also proven to help organizations operationalize their ESG strategy by removing waste, reducing inventory, maintaining compliance with environmental regulations, reducing carbon emissions and strengthening partnerships with equally committed suppliers and organizations.

### **CEOs and CFOs need proof the supply chain is recession-ready**

Thanks to previous years' experience, executive boards, CFOs and CEOs are now painfully aware of the risk of poor supply chain performance.

Now is the time to learn and speak the CFO's language and ensure the business is recession-ready, regardless of how deep or how long the recession may be.

## HOW AGILITY SUPPORTS BETTER FINANCIAL OUTCOMES

Since the 2008 global recession, Dr. Morgan Swink has been researching how organizations and enterprises can become more adaptive and responsive to major disruptions. His research highlights agility as a common quality among companies that demonstrate resilience – or even thrive – during tough times.

### An agile enterprise is a resilient one

For Dr. Swink, the global COVID-19 pandemic provided an ideal opportunity to study the effects supply chain policies can have on financial outcomes. While some industries experienced heavy sales declines, others were positively impacted and even saw growth in their return on assets (ROA). Why were some better able to capitalize on opportunities created by the pandemic and thrive in a time of downturn or mitigate its negative effects? Dr. Swink's research points to one answer:

Firms with digitized supply chains grew revenue by

**+3.62%**

compared to a -5.77% decline for their peers.

resilience. Specifically, companies that focus on agility had superior financial outcomes compared with their competitors.

### The difference digitization makes

According to Dr. Swink, digitization (connecting upstream and downstream partners in more systematic and real-time ways, with greater integrity of captured data) is key to building agility and organizational resilience.



Businesses that digitized their supply chains went on to outpace the industry averages for ROA, return on sales (ROS), return on invested capital (ROIC) and asset turnover (ATO) during and post-COVID-19. Dr. Swink studied 48 firms using the concurrent planning technique for supply chain agility – all outperformed their competitors before, during and after the pandemic.<sup>5</sup> They bounced back to profitability faster from an initial drop in 2020 and higher than pre-pandemic. Other companies were slower to respond to the disruption, with the pandemic decreasing their performance.

Looking at profitability metrics, Dr. Swink was able to see that firms with digitized supply chains:

- Reduced the cost of goods sold (COGS) as a percentage of revenue
- Reduced expenses to a greater degree, including selling, general and administrative (SG&A) expenses
- Grew revenues by 3.62% throughout the pandemic while competitors' revenues decreased by 5.77%
- Experienced increased stock value over their peers

The takeaway for supply chain managers is clear; by making the right investments in areas like digitization, companies can become more agile and realize better financial outcomes during periods of downturn and uncertainty – from pandemic to global recession.



**Dr. Morgan Swink** is a professor of supply chain management at the Neeley School of Business, Texas Christian University (TCU); Executive Director of the TCU Center for Supply Chain Innovation; and the Eunice and James L. West Chair in Supply Chain Management.



## Strategy 2: Reduce initial cost and risk

02

Seventy percent of digital transformations fail.<sup>6</sup>

C-suite executives are hesitant to put their companies – and their careers – on the line.

But the endless waves of global disruption are pulling supply chains under, creating unpredictable cash flows, overstretched teams and intense pressure to keep customers happy without increasing costs. Staying afloat as inflation rates rise and a potential global recession looms means the cost of doing nothing is too high.

So how can you take that first step away from siloed and slow spreadsheet-driven planning without breaking the bank or risking your career? Reducing the risk and cost of your supply chain digital transformation starts by putting the right foundation in place.

### Takeaway

You can start realizing results (such as improving cash preservation and transforming agility) in one quarter with concurrent planning and new approaches born from the pandemic.



## Transform planning techniques, not just technology

Trying to retrofit already broken processes into a new technology solution isn't going to save your supply chain; it only perpetuates existing problems and increases your risk of failure. Silos and spreadsheets breed distrust and misalignment. They make it impossible to gain the agility you need to make fast, confident decisions.

That's where concurrent (meaning by definition "happening at the same time") planning comes in. Concurrent planning brings together the traditionally siloed planning functions of demand, supply, inventory, commercial, scheduling, etc. into one common digital brain connecting data, people and processes continuously and seamlessly. With one common view of truth, teams no longer argue over data in S&OP meetings. Everyone instantly knows about changes and can scenario plan options. Teams can work together to maximize shared corporate objectives versus potentially and inadvertently causing challenges among themselves. If one party makes a change, everyone understands the impact instantly. Concurrency can also bridge the gap between planning and execution and bring your entire supply chain instantly and continuously in sync.



This ability empowers organizations to realize better outcomes for executives, finance, planners, manufacturers, suppliers and, most importantly, customers.

## Faster time to value

As with any new initiative, return on investment (ROI) will be critical to the executive team considering investment in an advanced planning platform. Historically, it took months and years to implement a new planning process. The pandemic drove a need for companies to get healthy faster. Today companies can select from multiple options. If a company has a philosophy to highly tailor their solutions, it's still very possible but many companies want to start with a focused project to realize value quickly and prove out an approach to replicate on a broader scale. This removes deployment risk by leveraging proven industry best practices and configuring their unique business processes. You'll end up with a solution in as few as 12 weeks that's easily upgradable and seamlessly

expandable with more advanced functionality as your supply chain matures and grows. You'll save on upfront service costs, enjoy a lower total cost of ownership over time and reduce your risk of transformation failure.

But be wary – not all advanced planning solutions are equal. Disparate point solutions may have brought parts of the planning process into the cloud, added algorithms and machine learning capabilities, or simplified reporting procedures, but they still rely on the same siloed cycle that's been in use forever. When you try to reconcile the plans to reach consensus, you're already out of date. Custom-built solutions that offer to deliver everything you could ever need sound appealing, but they're often immature and need significant added cost (professional services fees) to make them work, increasing risk. Made for a point in time, they're also inherently inflexible and difficult to upgrade with new capabilities over time – at least not without even more costly consulting fees, driving your total cost of ownership sky-high.



## Choose the right partner

A large part of your transformation's success or failure will come down to the partners you work with. Look for a partner that can offer an end-to-end solution that connects your data, people and processes through a single environment to give greater control and transparency across your supply chain. Do your due diligence and select a proven, reliable and trusted partner to lower your implementation risk.

Implementing concurrent planning makes good business sense. Not only will it help prepare your supply chain for the economic challenges of a pending recession, but also, with the right competencies in place, likely unlock potential competitive advantages into the longer-term future.

While the odds may not seem like they're in your favor, if you follow the above guidelines, you'll be able to significantly reduce your risk of transformation failure and lower the cost of your initial implementation and total cost of ownership.



# Strategy 3: Manage change

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Winning is the science of being totally prepared. Those who will get through the upcoming recession with minimal negative consequences are already preparing for difficult times. As with any major business transition, it's imperative that companies understand what will change and how it will impact their teams. No matter how well we prepare for change, everyone will go through a unique experience that requires tailored support, training and encouragement.

In times of recession, there are three important actions you can take to successfully navigate through a digital transformation:

## 1. Design a tailored change enablement strategy and plan

Anticipating recession raises many questions from teams; particularly the impact on their roles, and what tools will be available to handle what comes next.

### Takeaway

Future winners will be the companies that invest in the downturn. At the heart of the investment are people and evolving your processes for new opportunities.



Any change management strategy needs to cover the following questions:

- How will the day-in-the-life and roles on the planning team change?
- Will the new solution support business and planning changes and, if so, how?
- What communication and training content will be required – from generic to more specific?
- What is the high-level sequence of events starting with communication and ending with training and adoption support?
- How do we embed continuous improvement processes into the teams so that when a transformation leader moves on and planners change, we can maintain adoption and share the best practices learned?

# 90%

Almost 9/10 executives consider that a recession is either already here or will hit us within months; it's coming, and while many feel it will be mild and relatively short, not all have yet put plans in place to deal with it.<sup>7</sup>



## **2. Organize your change team to operate as a virtual Center of Excellence (COE)**

With limited recruitment budgets available, it becomes critical to focus a dedicated team of individuals in key functions within the organization. You need to identify and mobilize the sponsor, ambassadors, first-line support and internal training team – and prepare them to deliver ongoing support activities in a timely and disciplined fashion. Here are some leading questions to guide you through this step.

- What are the roles of these teams, how much time should be dedicated and when do they start?
- Will they be organized as a separate team or virtual network of internal volunteers supported by coordinators?
- What training do team members require around change management and the new solution?
- How will we train them, manage and track results?

## **3. Leverage digital technology to streamline continuous communication**

Online has become ubiquitous in these times for living, playing and communicating. Working from home during the pandemic has prepared us to navigate through the coming recession from a collaboration point of view.

If you're wondering what steps you can take to effect positive change, here are six tactics for you to consider:

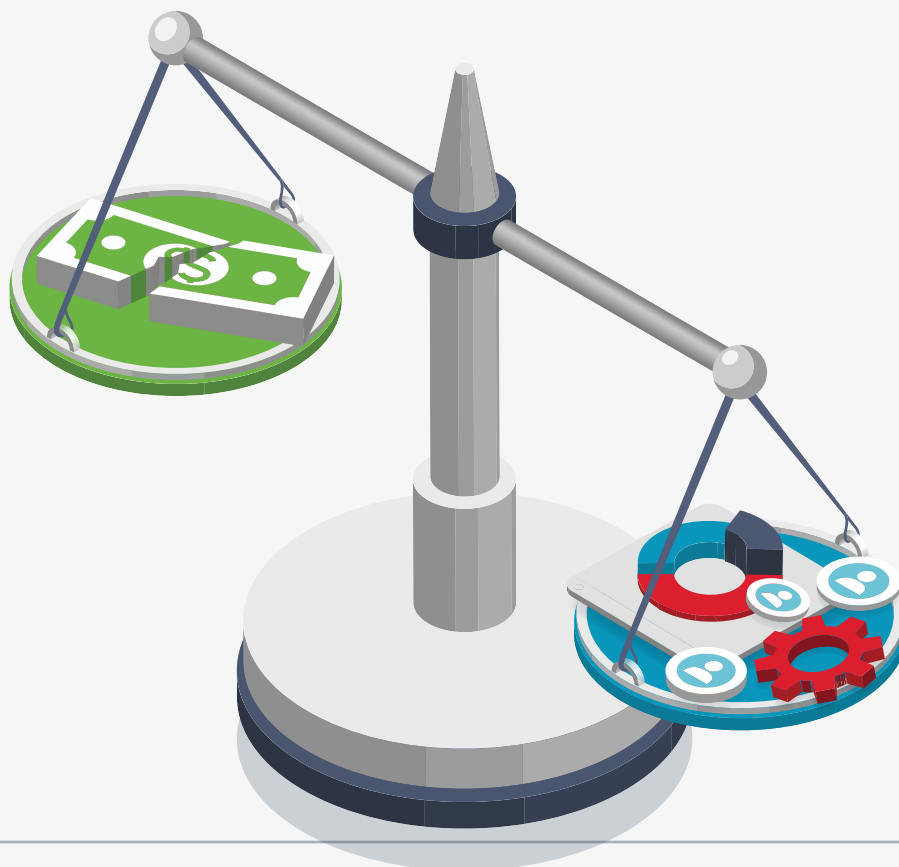
1. Map out champions, ambassadors and groups to move the pendulum from inertia to success with agreed upon and concrete actions, coaching and content to help everybody be effective in their role.
2. Pay attention to content quality and presentation format.
3. Design a professional communication approach and leverage different channels and media for each audience.



4. Balance the messaging (why, what, how and who) and leverage scaffolding learning.
5. Start communication early so users can focus on learning and celebrate the small wins for momentum.
6. Encourage the early adopters and create momentum for the undecided to follow over time.

And remember, “Transformations don’t end at implementation,” says Dr. Anne Robinson, Chief Strategy Officer at Kinaxis. “They’re just getting started because the next critical steps are about adoption and institutionalizing the new capabilities. Understanding each impacted party’s perspective, sentiment towards the change and willingness to adopt are keys to a transformation realizing its full value.”<sup>8</sup>

**Bottom line?** Change takes time, effort and a degree of nurturing, but the rewards it brings to your business will have a lasting and positive effect.



# Strategy 4:

## Build the roadmap for success

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Roadmaps help engage key players and align them in pursuit of a shared narrative, making it easier for stakeholders to pinpoint potential areas capable of attracting funding or other forms of support. How supply chain capabilities are prioritized will depend on: (1) major pain points or opportunities in the current process, (2) the level of maturity of the capabilities, (3) the dependencies between the different capabilities and (4) the amount of investment available for the supply chain transformation.

### **Recognize that success takes a village**

To create a holistic roadmap, you'll need to consider all aspects of your supply chain – as it relates to S&OP, demand planning, supply planning and inventory management. Inputs from different supply chain functions and disciplines will provide valuable insights, particularly when implementing the roadmap.

### **Takeaway**

For an organization to achieve its “North Star” business objective, it’s essential to build a roadmap outlining the supply chain capabilities required to achieve the goal.



Roadmaps are key to the successful attainment of any business objective, particularly in times of recession when transforming supply chains to better meet the challenges of the now – and the future.



Ensure that the appropriate representative and resources are involved to drive the maximum value for your organization.

### **Activate your ecosystem**

Setting up the right collaboration models with suppliers and partners ensures a more resilient and agile supply chain. For example, by having visibility into your suppliers' supply chain networks, you can prevent disruptions before they happen. You can also integrate supplier collaboration as a phased approach into your roadmap, so that these partnerships become effective as your suppliers become more familiar with each other's processes.

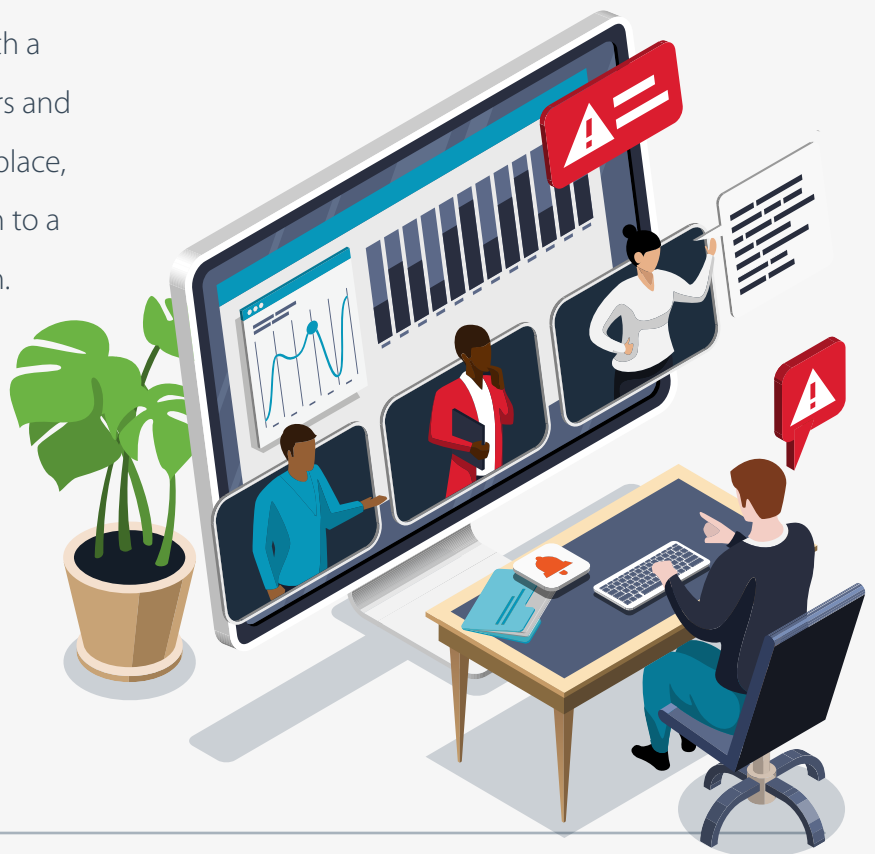
### **Invest in training for all users**

No transformation can be successful without taking users into account. Investing in training will help drive user adoption of new solutions and processes. A super-user network can be set up to act as local solution experts and process owners. Prescriptive learning plans can help identify end-user training needs. Custom-learning programs can also be tailored and developed for the core team, super-users and end users to ensure quick and successful adoption.

## Set up your own Center of Excellence

Digital innovation requires a sustainable COE as an engine of change connecting the business and IT around the supply chain transformation strategy. For your COE team to lead the way on key supply chain standardization and improvement efforts, you'll need sponsorship at the highest corporate level. It's important to know the degree of skills and talent required before developing or expanding a COE. A strong network practitioners' group, along with a central core team, improves communication and collaboration and promotes efficient use of a limited talent pool.

It might seem daunting at first, but with a clear vision, an invested team of leaders and stakeholders, and a good roadmap in place, you can set your company on the path to a successful supply chain transformation.



# Strategy 5: Become part of a community



Supply chains are human – augmented by technology but inherently still human – and humans are (generally) social beings who flourish as part of a respectful and inclusive community, rather than living and working in a silo. Irrespective of your role or seniority in your organization, you are not alone. There is an entire network of organizations working together to co-innovate the future of supply chain, these include:

The Association for Supply Chain Management (ASCM) has long set standards with certifications, a model for organizational transformation and the Supply Chain Operations Reference Digital Standard (SCOR DS) set of capabilities.

INFORMS (the Institute for Operations Research and Management Science) bring together academics researching operations, forecasting, optimization, and supply chains with industry practitioners applying those models to their everyday work.

Other groups with more focused charters or regional perspectives include the Institute for Supply Management (US), the Chartered Institute for Procurement and Supply (UK), or Supply Chain Asia (Singapore).

## Takeaway

While supply chain management has existed for years, the pandemic has unlocked rapid evolution of the craft. You are not alone and there is a community ready to help you chart a path forward.

Analyst firms work evaluating best practices and vendors across a wide range of industries. Through them you can learn from leaders in the space and meet peers facing the same challenges. Gartner has a large and dedicated supply chain practice, also consider Supply Chain Insights, ARC Advisory Group, Nucleus Research, Zero100 and Ferrari Consulting and Research Group.

Existing vendors can be trusted advisors with insights from working with a similar range of companies and industries. Learning from adjacency, through the connection with peers, is proven to be a very strong source of support: they have likely solved a similar problem for another customer.

Finally, universities also have professors whose research sheds insights into emerging practices, or strong alumni organizations. Universities with centers that focus on connecting research to industry include the Texas Christian University Center for Supply Chain Innovation, the MIT Center for Transportation and Logistics, the European Supply Chain Forum at Eindhoven University of Technology, and The Logistics Institute - Asia Pacific, in Singapore.

## **Big Ideas** IN SUPPLY CHAIN

Big Ideas in Supply Chain is a new community devoted to furthering financial, operational and sustainable excellence in supply chains. The diverse contributor network spans industries and skillsets, all with a common goal: to help people plan better, live better and protect the planet.

Whatever your need, you'll find a community or communities out there to help spark innovation and drive supply chain excellence. Once you find those communities, lean into them. Learn from them. Be inspired by them. Collaborate with them. Give back to them.

# Conclusion:

## Start your transformation journey now

The next three years will be more challenging than any we've seen in a long time – very different even than our recent pandemic-stricken past.

The good news is the sooner advanced planning solutions are in place, the sooner you'll have the power to avert possible revenue loss and see performance metrics materialize to impress your CFO and broader C-suite.

One thing is certain: the era of incremental adjustments is over. There's a powerful opportunity nested in these times of financial disruption and uncertainty to fundamentally change your supply chain paradigm. It's a chance to adopt a new concurrent planning technique and focus on agility as the core competence.

The first step is ensuring organizational leaders understand the value of today's advanced supply chain planning techniques versus yesterday's approaches, and why supply chain transformation is critical to long-term prosperity.

It's critically important to underscore to the C-suite that an investment in advanced planning will also support other key strategic initiatives, including sustainability, digital transformation, mergers and acquisitions, and new product introductions, internationalization, supplier rebalancing – and more.

There's no reason to wait as new offerings born from the pandemic can begin to get your supply chain healthy in as few as 12 weeks. Imagine overcoming deployment risk and unifying strategy, processes, data and people in a fundamental new way – it could be a game changer for your career and your company.

We hope you found the strategies covered in this book valuable, and we wish you every success in your transformation journey!



## A TEMPLATE FOR CHANGE

Selecting a new supply chain planning solution is long and arduous. Simplify the process with [this template](#). It includes a list of over 200 best-in-class capabilities available on the market today, covering topics like process management, collaboration, data management, statistical forecasting, analytics, integration, scenario planning, security and more.



### About Kinaxis Inc.

Everyday volatility and uncertainty demand quick action. Kinaxis delivers the agility to make fast, confident decisions across integrated business planning and the digital supply chain. People can plan better, live better and change the world. Trusted by innovative brands, we combine human intelligence with AI and concurrent planning to help companies plan for any future, monitor risks and opportunities and respond at the pace of change. Powered by an extensible, cloud-based platform, Kinaxis delivers industry-proven applications so everyone can know sooner, act faster and remove waste.

Don't believe us? Ask us to prove it. [Learn more at Kinaxis.com](https://www.kinaxis.com).

## Endnotes

- 1 [Knut Alicke, Ed Barriball, and Vera Trautwein, \*How COVID-19 is reshaping supply chains\*, McKinsey & Company.](#)
- 2 [Lora Cecere, \*Navigating the Supply Chain Through the Pandemic: An Opportunity to Build Better\*, Supply Chain Insights.](#)
- 3 [Jeremy Kingsley, \*The Business Costs of Supply Chain Disruption\*, Economist Impact.](#)
- 4 [\*The top 5 supply chain planning myths: Discover the new governance\*, Kinaxis.](#)
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- 6 [\*Why do most transformations fail? A conversation with Harry Robinson\*, McKinsey & Company \(video\).](#)
- 7 [Paul R. La Monica, \*CEOs are preparing for a recession, and they don't think it will be short\*, CNN Business.](#)
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