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# Supply chains – planning for uncertainty

By Stuart Harman



**New Zealand's lamb supply chain faces a decline in demand due to the uncertainty created by Brexit around exports to the EU market**

The unexpected happened in June this year, when 52% of the UK voted to leave the European Union, a surprise that didn't just shake the nation, but caused a worldwide response.

Global reaction poured in, and it was clear the results had an instant knock-on effect, with stocks falling in Asia and Europe. Here in New Zealand, the impact has already had an effect on supply chains, with uncertainty around exports to the EU market. With major events such as this likely to happen time and time again, supply chains need to expect the unexpected. The question is, how? There is never going to be a time when we can accurately predict what is going to happen. Even when experts hint at say a recession or an environmental disaster, it seems far easier to ignore warning signs or take the view that our horizon is now, and we'll worry about tomorrow when it comes. Unfortunately, the unexpected can happen, as we have witnessed – and it hits hard, catching supply chains off-guard. This is when panic mode can set in.

### Future uncertainty

In the case of Brexit, uncertainty is guaranteed over the next two years as the UK prepares to leave the EU. Beyond that too, it is unclear what the effects will be across the EU and globally. Take New Zealand's lamb supply chain: the forecast for exports to the EU market already indicates a

decline due to the uncertainty and demand for the future. According to Susan Kilsby, an analyst from AgriHQ, a market intelligence company, "Price forecasts for the month of October show an average price of \$5.75 per kg – this is down from a month average of \$6.25 per kg last year."

This reduction, a result of Brexit, may subside, but it will be unclear for some time what demand will be like in the UK market, post Brexit.

To prepare for the unexpected, it is vital to understand where the global supply chain in which you operate is most susceptible to uncertainty and then to model potential outcomes associated with various events. While many people did not see Brexit becoming a reality, the Brexit vote was clearly signposted when the date of the referendum was announced on 20 February 2016, four months in advance of the actual vote.

Modelling the impact of the decision to leave the EU would have informed organisations of the risks (or opportunities) involved, which they could then have put plans in place to mitigate (or take advantage of).

### Driving responsiveness

Understanding the nature of the global supply chain in which an organisation operates is a key element in developing the insight and awareness that can drive responsiveness. For New Zealand, its very location is itself a challenge, due to being so geographically isolated from the

rest of the developed world. The time it takes to get products to and from New Zealand is a significant issue. These long shipment times expose the supply chain to demand and supply variability.

Mapping or modelling the extended supply chain, and the decision points in the planning horizon associated with these lead times, can help a management team focus on how far ahead their organisation needs to be looking for events that may cause disruption or bring opportunity.

Once an organisation has established a good understanding of its supply chain, communication and cooperation are also pivotal to avoiding supply chain issues going forwards.

Organisations need to form real partnerships back and forward in their supply chain. This may seem tricky, as a true visibility of the extended supply chain has not always been a given, especially when different nodes of the supply chain are based in different locations. However, forming relationships across the line will help create trust and better information flow which contribute to the greater insight needed to identify potential disruptive and opportunistic events.

### Exerting control

The right processes have to be in place to enable this visibility. Integrated business planning (advanced sales and operations planning) – a business management process for running the entire organisation – not only provides a 24 to 36-month rolling horizon, it directly links the corporate strategy and financial plans, and exerts control over the extended supply chain.

The process can also be used to identify gaps in business performance far enough ahead for your business to re-optimize in light of changing circumstances, using scenario modelling to deliver the best results.

No matter how efficient your organisation is, there will always be unexpected events that without cooperation across the supply chain will negatively impact your business. Understanding where your supply chain is most susceptible to change, communicating effectively, and forming strategic relationships throughout the extended supply chain is essential in identifying areas of risk and opportunity, and enabling your organisation to plan for these.



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