

# Sourcing for Resilience

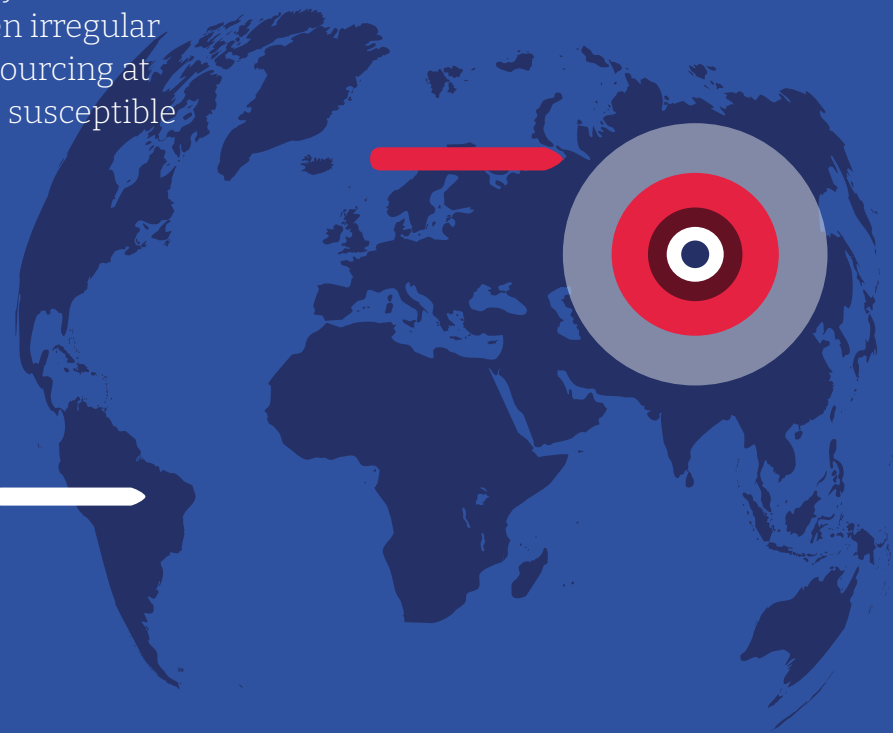
Take your supply chain resilience up a gear  
with our 'how-to' guide to procurement's  
new imperative ►



# Background

► Today, huge numbers of supply chains terminate in Asia, a region that has become the workshop of the world. Japan, China, Vietnam, Thailand, Singapore, India, Taiwan, Pakistan, Bangladesh and Sri Lanka are all particularly common locations for the sourcing (and production) of goods.

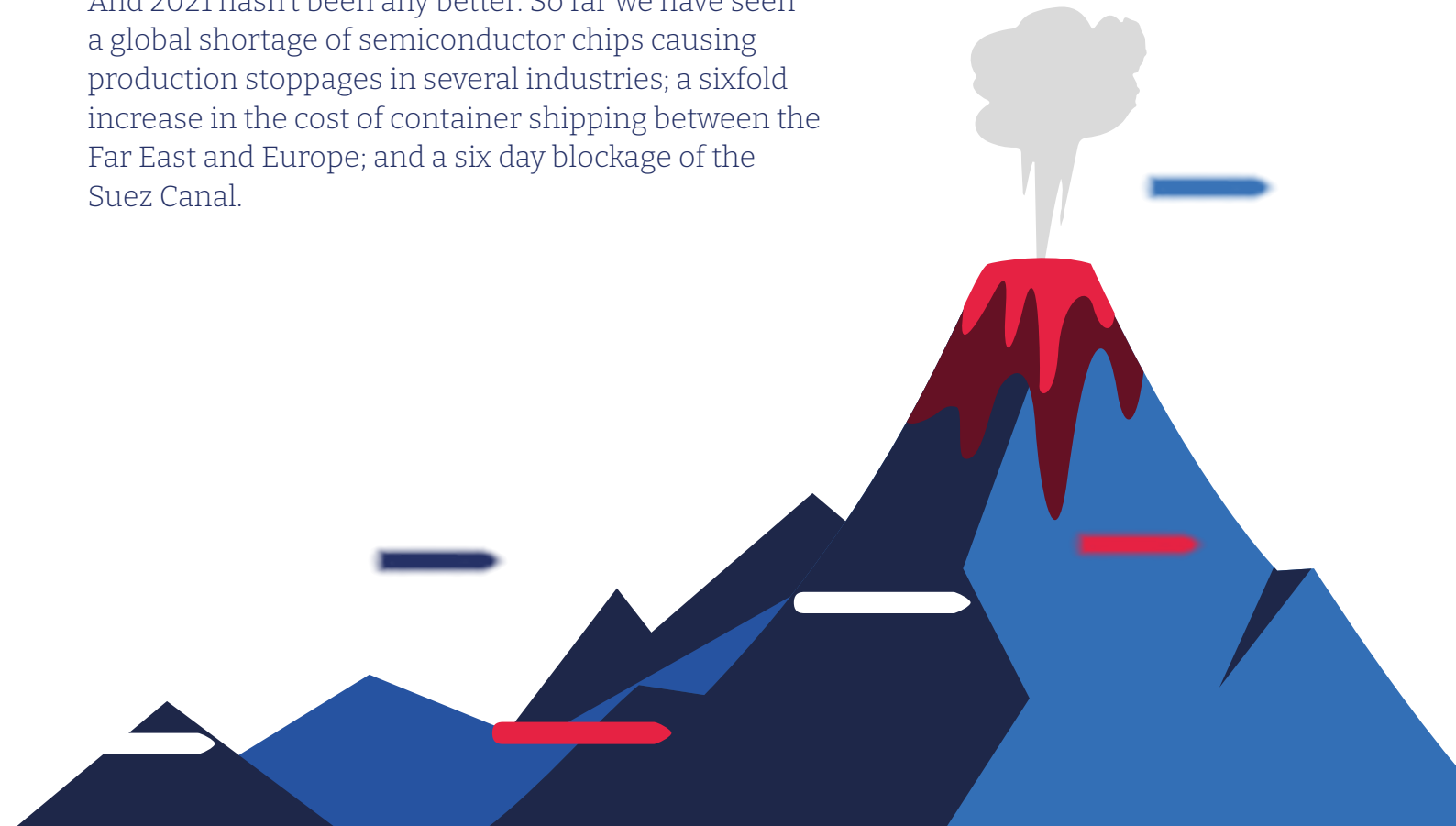
But over the past few years, many businesses in Europe and North America have seen downsides from creating more geographically spread supply chains. The problem? Not cost. Not quality. Not innovation. Instead, the problem has been irregular and unpredictable supply: quite simply, sourcing at distance can render a supply chain more susceptible to disruption.



# Supply chain **fragility**

► From natural disasters and customs hold-ups to Covid-19, which showed how fragile long supply chains could be, is it any surprise that a global survey of over 10,000 businesses, carried out by banking giant HSBC in late 2020, found that 93% of businesses reported having concerns relating to their supply chains?

And 2021 hasn't been any better. So far we have seen a global shortage of semiconductor chips causing production stoppages in several industries; a sixfold increase in the cost of container shipping between the Far East and Europe; and a six day blockage of the Suez Canal.



# How to change

► Consequently, a recognition is dawning that procurement practices need to change. For too long, businesses have pursued Just in Time inventory management practices in conjunction with low cost country sourcing – often combined with sole sourcing – in order to drive economies of scale. It is time for procurement functions to pursue a different strategy: sourcing for resilience, rather than lowest cost.

But **how**, exactly?

Re-shoring and near-shoring offer some scope, but with whole industries – along with their skills and supplier bases – having been hollowed out, the manufacturing capacity that once existed is no longer there. Other tactics must now be found.



# Key takeaways

► Here are our key takeaways for businesses wanting to build more resilience into their supply chains:

✓ **Map your supply chains as far back as possible**, aiming for not just tier-1 suppliers, but tier-2 and tier-3 as well. Where are suppliers located? Which trade routes do shipments reach you through?

✓ **Capitalising on this information - and especially for strategic suppliers - consider some kind of early-warning system**, leveraging publicly-available data, or specialist service providers.

✓ **Don't just procure for resilience: design for resilience, as well.** Aim to eliminate unique items wherever possible to avoid a design that has single points of failure.

✓ **For cost-comparison purposes, use Total Landed Cost figures, not ex-works costs.** Build in reasonable assumptions regarding additional inventory requirements and occasional expediting. Aim to include a factor for reputational costs, to cater for disappointed customers when stockouts occur.

# Key takeaways

☑ **Distant supply chains can also be murky and non-compliant.** The ESG agenda will persist, especially for supply chains that directly meet consumer demand. Don't overlook the costs of ensuring compliance when undertaking cost-comparisons, and be aware that 100% compliance might not be possible.

☑ **Dual-source wherever possible**—but not from the same country as your existing prime source.

☑ **While re-shoring and near-shoring aren't magic bullets, opportunities to apply them do exist.** Be open to those opportunities—and consider tweaking business models to take advantage of the commercial possibilities made possible by having flexible and responsive suppliers located in—or close to—your main markets.

**There's more—much more—of course.** But these tactics will allow most businesses to make strides towards greater supply chain resilience.



# Find out **more**

► For a more in-depth look at the importance of sourcing for resilience, read our whitepaper:

**Sourcing for Resilience, written by supply chain management expert Professor Omera Khan.**

Based on insightful interviews with leading supply chain thinkers including Stephen Day, CPO Kantar Group and the world's first professor of supply chain risk management, Richard Wilding, it will motivate you to think differently about your procurement practices and reduce your supply chain risk.





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