



Supply Chain Resilience

Building confidence through a risk
intelligent approach to supply
chain management

Building supply chain resilience

Managing risk has always been an important part of supply chain management. But the increasing complexity and hyper-connectedness of today's global business environment is taking the challenge to a whole new level. In a world where a problem in one isolated region can bring an entire global supply chain to its knees, a business-as-usual approach to supply chain risk simply isn't good enough. Eliminating all risk is impossible. However, a resilient and agile supply chain can help your organisation identify and sidestep risks that are avoidable – and bounce back quickly from those that aren't.

Between the COVID-19 global pandemic, raging summer bush fires, global trade tensions and the ever present threat of cyber-attacks, the supply chains of Australian businesses have come under unprecedented strain. This has increased the need to proactively monitor and manage supply chain risks like never before.

Disruptions have affected the length and breadth of supply chains; from suppliers shutting down, disruptions to production systems, difficulties getting finished product and key raw materials transported, all the way to customer shipments being delayed, disrupted or cancelled entirely.

Managing supply chain risk has therefore become a question of business survival. It is no longer enough to use the same old approaches to ensure products and materials get to the right place at the right time.

But it's not just about surviving from one setback or crisis to the next. In fact, a business that manages its supply chain risks and is more resilient and agile than its competitors is able to boost its market reputation and create significant shareholder value. This value may be through a combination of lower costs, higher capital efficiency or the ability to seize new market opportunities and fast mover advantage.

“Over 1 in 5 businesses have experienced disruptions to their supply chain, with a greater impact felt by businesses with less than 20 employees”

– Australia Post Brand and Customer Experience Health Metrics Report, June 2020



Resilience and agility are ‘different sides of the same coin’. ‘Resilience’ is the ability to quickly respond and recover from external shocks or unexpected disruptions. Whereas ‘agility’ is the ability to quickly respond to sudden changes in demand or new business opportunities.

Two organisations facing the same risks and opportunities can have dramatically different outcomes depending on the resilience and agility of their supply chains.

To assist Australian businesses to understand and respond to the current environment, and to think of ways to strengthen their supply chains, Australia Post and Deloitte have partnered to develop a range of business insights and guidance to help identify supply network risks and build resilience.

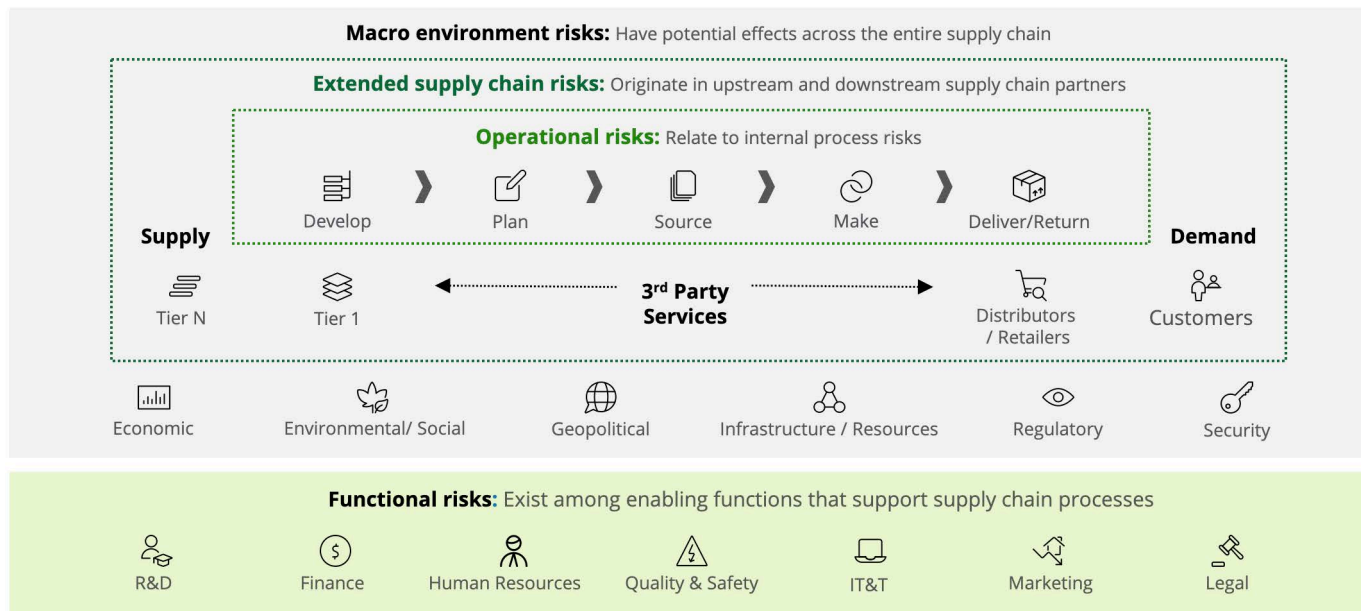
Contained within this whitepaper private and public enterprise leaders will find:

- Frameworks for identifying risks and developing a risk intelligent organisation that doesn't simply seek to avoid risk, but intelligently takes on risk and potential opportunities to create new value from disruption;
- An explanation of the four core pillars of a resilient supply chain (Visibility, Flexibility, Collaboration and Control) and their key organisational enablers;
- Some practical steps that businesses can take to help improve their supply chain resilience and agility, as well as some further resources and support; and,
- Customer case studies describing how other Australian businesses have responded to their risks and challenges, and seized new opportunities through improved supply chain resilience and agility.

A complete view of supply chain risk

Businesses are continuously exposed to a multitude of risks, emanating from both within and without the business and its extended supply chain

Fig 1. Supply chain risk identification framework



Efforts to identify and mitigate supply chain risk have traditionally focused on operational risks and the usual suspects of potential disruption that businesses have had to deal with in the past. Unfortunately, in an increasingly complex, dynamic and interconnected world, this frame of reference is no longer valid. Risks are constantly evolving, and can arise from almost anywhere - including sources that are new and totally unexpected, as the COVID-19 pandemic has shown.

A more holistic approach is required which considers and addresses four broadly distinct categories of supply chain risk (fig 1.):

Macro environment risks are broad external forces that originate from sources outside an organisation's immediate supply chain and may affect an entire business or the industries in which they operate. For example, globalisation may have given businesses access to lower cost sources of supply or vast new market opportunities. But it also increases supply chain complexity and magnifies the impact of disruptions that in the past may have remained localised. These include natural (or unnatural) disasters, geopolitical turmoil or economic crises.

Operational risks originate in a company's core internal process such as manufacturing and distribution. Lean manufacturing, just in time inventory and capacity rationalisation and optimisation have all boosted supply chain efficiency and agility. But it has also reduced the margins for error and amplified the impacts of disruptions should unexpected problems arise.

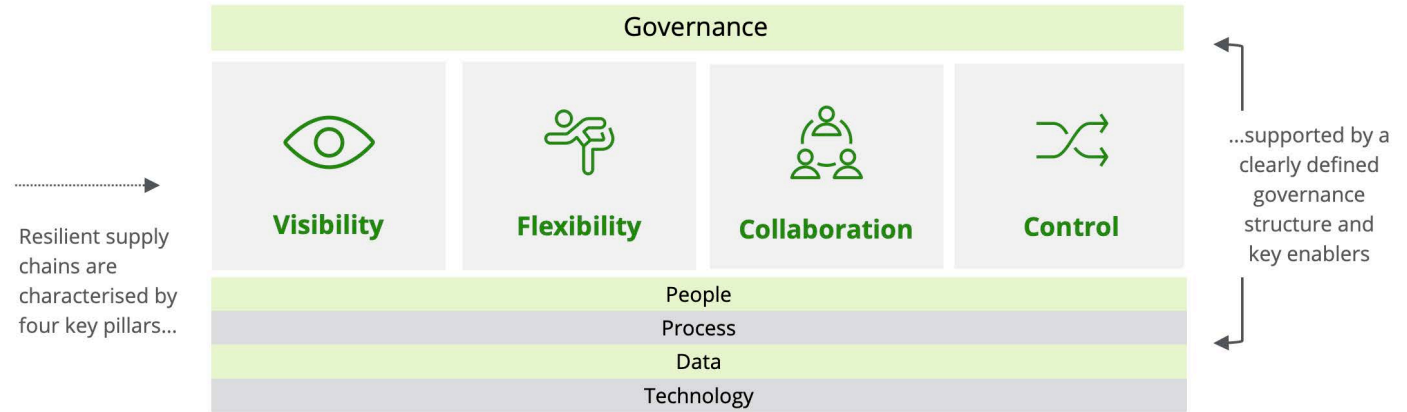
Extended supply chain risks originate from upstream or downstream partners in a company's supply chain. For example, increased use of outsourcing has allowed companies to reduce costs while enabling them to focus more on core competencies. But it has also made their businesses more complex and introduced potential third party risk. Similarly, while supplier consolidation enables access to economies of scale, reduces complexity and enables better trading terms, it also heightens the risk of major supply disruption by having more of a company's 'eggs in fewer baskets'. And this risk is beyond a company's Tier 1 suppliers. It may extend several layers deep in the supply chain where a critical input to a range of products could be dependent on a single component supplier. Recent events have shown that if a critical supplier within a value chain gets shut down unexpectedly, or if market access or transportation networks get disrupted, the resulting turmoil can potentially send shock waves across not just a company's own supply chain, but an entire industry.

Functional risks originate in a company's enabling areas that support supply chain activities including finance, human resources, information technology, and legal/compliance. Today's supply chains are enabled and optimised by a broad suite of increasingly connected and mission critical applications and systems. Any disruption or breach of one of these systems can have an immediate impact on customers, suppliers or other internal systems. The increasing complexity of regulatory requirements and the repercussions of non-compliance are also making supply chains more dependent than ever on effective legal, internal audit, corporate communications and health, safety and environment functions.

Four pillars of resilient supply chains

Resilient supply chains address critical capabilities across four key areas to proactively address vulnerabilities and manage risk

Fig 2. Resilient supply chain framework



Fully eliminating many of these foregoing risks is simply unachievable. Especially when confronting the overwhelming number of ways in which things can go wrong with today's increasing complex and interconnected systems and external supply chains. Even if a company could develop effective responses to every conceivable supply chain risk event, it could still fall victim to an unanticipated "Black Swan" event. COVID-19 has been the most recent and starkest of examples!

Making increasingly large investments in the hope of eliminating risk would quickly confront the laws of diminishing returns. By recognising that the elimination of risk is an impossible task, companies are instead turning to 'risk intelligent' approaches to help make supply chains more resilient to risk. In other words, companies can bolster the resilience of their supply chains by making targeted improvements and investments in areas that proactively mitigate and manage risk.

The notion of resilience and agility is not new. In fact, many organisations and their supply chains have long aspired to possess these characteristics. However, simply recognising the value of supply chain resilience (and agility) as a concept is not enough.

To build resilience, organisations must understand the essential components – and required trade-offs – that are necessary to build both resilience and agility. In our experience, four capabilities are key (see fig 2.):

- **Visibility** is being able to track supply chain events and changing patterns as they occur – or even sense them before they happen. This capability enables a business to spot and address supply chain issues and get ahead of them before they become business critical problems.

- **Flexibility** is being able to scale or adapt quickly in response to problems (or potential opportunities) without significantly increasing operational costs. This capability enables a business to sidestep potential problems and minimise the impact of a critical disruption or sudden market shifts in demand or supply.
- **Collaboration** is the ability to work effectively with supply chain partners (suppliers, customers and logistics service providers). This includes working through symbiotic, trust-based relationships in order to avoid disruptions, flex operational capacity, enhance service quality and responsiveness and to achieve common goals. The key is open and transparent communication, especially with customers. This is of critical importance during disruptive events to minimise potential issues and/or reputational impacts.
- **Control** is about having robust policies, monitoring systems and performance management mechanisms in place to help ensure the proper procedures and processes are followed. This includes critical feedback loops and reporting mechanisms when they are not.

In addition to these 4 essential capabilities, organisations with resilient supply chains have a clear governance structure. Many organisations who struggle with supply chain issues more than their peers still have no executive leadership position with full, end-to-end ownership of supply chain operations - let alone supply chain risks.

Clear accountability and ownership – supported by a strong foundation of enabling capabilities across people, process, data and technology, are critical to a resilient and agile supply chain.

Steps to building resilience

A five-step approach helps businesses become “risk intelligent organisations” and enables continuous improvements in resilience

Fig 3. A 5 step approach to building supply chain resilience



A resilient supply chain is an essential element of a Risk Intelligent Organisation. A business that is ‘risk intelligent’ focuses not just on risk avoidance, but also on risk-taking as a means of value creation. Leaders in resilient and agile businesses take a ‘risk intelligent’ approach that incorporates a broad outlook on risk and integrates risk-aware thinking into strategic decision making.

Supply chain strategy.

Starting with a clearly defined and articulated supply chain strategy is key in continuously improving supply chain resilience and becoming a risk intelligent organisation. That strategy needs to be aligned to the strategic objectives of the organisation, including its tolerance for risk.

Once that strategy has been defined, an organisation must move through 5 key steps to assess supply network risks and opportunities and build a more resilient supply chain. These steps should be completed systematically and continuously as part of an overall ‘risk intelligent’ approach.

1. Assess current supply chain resilience

Using the Resilient Supply Chain Framework, assess overall supply chain resilience and pinpoint critical vulnerabilities. This could include issues such as lack of visibility from suppliers on the status of inbound orders. It could also include the inability of your freight service provider to provide automated status updates and accurate tracking of your outbound customer orders.

Another risk could be a high fixed cost supply chain operating model or rigid arrangements. This would undermine flexibility and the ability to match costs with demand or quickly respond to market shifts or opportunities.

2. Determine risk exposures

Using a scenario based approach to the Supply Chain Risk Identification Framework, form a range of risk hypotheses and identify emergent and potential risk futures. Prioritise identified internal and external risks based on intensity, vulnerability, and criticality. Then, aggregate key risks to quantify baseline exposure level.

3. Evaluate and prioritise resilience strategies

Assess potential resilience and mitigation strategies to address priority risks. Take into account costs, benefits and risk tolerances and develop an overall business case for the prioritised actions. For example, those opportunities might be to flex toward an online sales model as a growth strategy or a direct to customer fulfilment capability in response to disruption within traditional distribution channels.

4. Address supply chain resilience opportunities

Define and follow a clear and logical action plan and high level roadmap for addressing supply chain vulnerabilities and to capitalise on opportunities to improve resilience and agility.

5. Monitor supply chain resilience

Develop a means to monitor and measure supply chain resilience and manage emerging vulnerabilities. This includes critically evaluating the effectiveness of current business and supply chain strategies and to lay the foundations for the next iteration of resilience improvement.

Building a resilient and agile supply chain is an ongoing process that involves the input of key supply chain partners, customers and advisors. The risks and complexity associated with today’s supply chains are constantly evolving and expanding, often beyond the line of sight of any one particular participant or organisation. Following these 5 key steps helps organisations identify and address the supply chain risks that are most critical to their business, positioning them to tackle future risks and exploit new opportunities as they emerge.

Resilience in action

Customers share their stories on how they have built resilience into their supply chains and successfully responded to a volatile environment

How Paint Plot turned adversity into opportunity

Rebecca Keogh, is a co-owner of paint-by-numbers business paintplot.com.au. Together with her husband Bree, they help run Paint Plot's Australian operations from their Gold Coast warehouse.

Paint Plot has built a solid customer base in the United States of America (USA) over the last two years; sending their kits directly to customers from their supplier's warehouses overseas. After realising there was a market for their kits 'at home', they launched their Australian operations at the start of 2020.

Business was humming along nicely until the pandemic hit.

"We found that things went wrong really fast," explains Rebecca. "On the one hand, our customers in the United States were buying more online. On the other, our international shipping basically stopped. Our provider's tracking details became very unreliable, and it was a really difficult situation for us as a small business," she explains.

As things changed rapidly around them, Rebecca and her business partners realised the disruption in the supply chain was not only impacting customer service but their viability as a business.



This prompted them to change their whole supply chain model. "Australia Post was already delivering our kits within Australia, and their tracking was really reliable," says Rebecca. "This gave us the confidence to move all our products over here, to our warehouse in Australia."

Paint Plot now deliver to the US from Australia and even with the pandemic impacted delivery timeframes, Rebecca says, "Our now have visibility of their parcel's progress, which makes communicating with them about when they're going to get their kit much easier!"*

In line with the key pillars of visibility, flexibility and taking a collaborative approach with a reliable supply chain partner, Paint Plot have built more resilience into their supply chain. And according to Rebecca, "As an eCommerce business, that's paramount to our success."

Booktopia uses collaboration for competitive advantage

Australia's largest online bookstore, booktopia.com.au, is a customer obsessed company. According to Wayne Baskin, Booktopia deputy CEO and CTO, "The customer is at the centre of our business. The customer is our business."

When the pandemic hit Australia, Booktopia's sales "went through the roof" and they have been managing what Wayne describes as "Christmas peak demand" since March.

The heightened demand has presented a range of supply chain challenges. "Forecasting has been extremely challenging," says Wayne. "Trying to understand what is going to happen, what restrictions are going to be in place, and then trying to guess those and put them into the forecast – it's very difficult," he explains.

Building flexibility and scalability into Booktopia's supply chain has been key to their resilience and success in riding the wave of eCommerce growth – as has taking a collaborative approach to its strategic partnerships.

According to Wayne, building resilience in your supply chain "Comes down to how good your planning is and making sure that you've always got fallbacks. And you always have a plan in the event that something happens that you don't want to happen or didn't anticipate".

To get up to 35,000 books out per day, Booktopia has relied on their open and honest partnership with Australia Post, covering "everything from logistics and delivering the books, to leveraging Australia Post data to better service our customers," says Wayne.

"It's not a vendor supplier relationship. It is truly a partnership. We work together and give each other feedback on what we need, and we are always looking to optimise and improve our processes so we can deliver a great customer experience," he says.

"Australia Post is one of the largest logistics providers in Australia and we have customers all over Australia. No one else can get to all those customers like Australia Post can," concludes Wayne.



Want to know more?

Through Deloitte and our customer advisory team, we are able to provide you with additional resources including business support, tools and advice

Looking for more information?



Additional resources

Build resilience and agility into your supply chain:
[Australia Post's Resilience Portal](#)



COVID-19 crisis recovery

Business Roadmap for Recovery & Beyond
[Workbook](#)



Tackling supply chain disruption

Check out Deloitte's
[COVID Conversations](#)



COVID-19 response tips and tricks

To keep up to date, stay connected with the
[COVID-19 Government Response Portal](#)



Have questions?

If you have any questions about this whitepaper, would like to know more or just want to discuss your business and where we may be able to help, please contact your Australia Post Account Manager or email us at:
consulting@auspost.com.au



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