

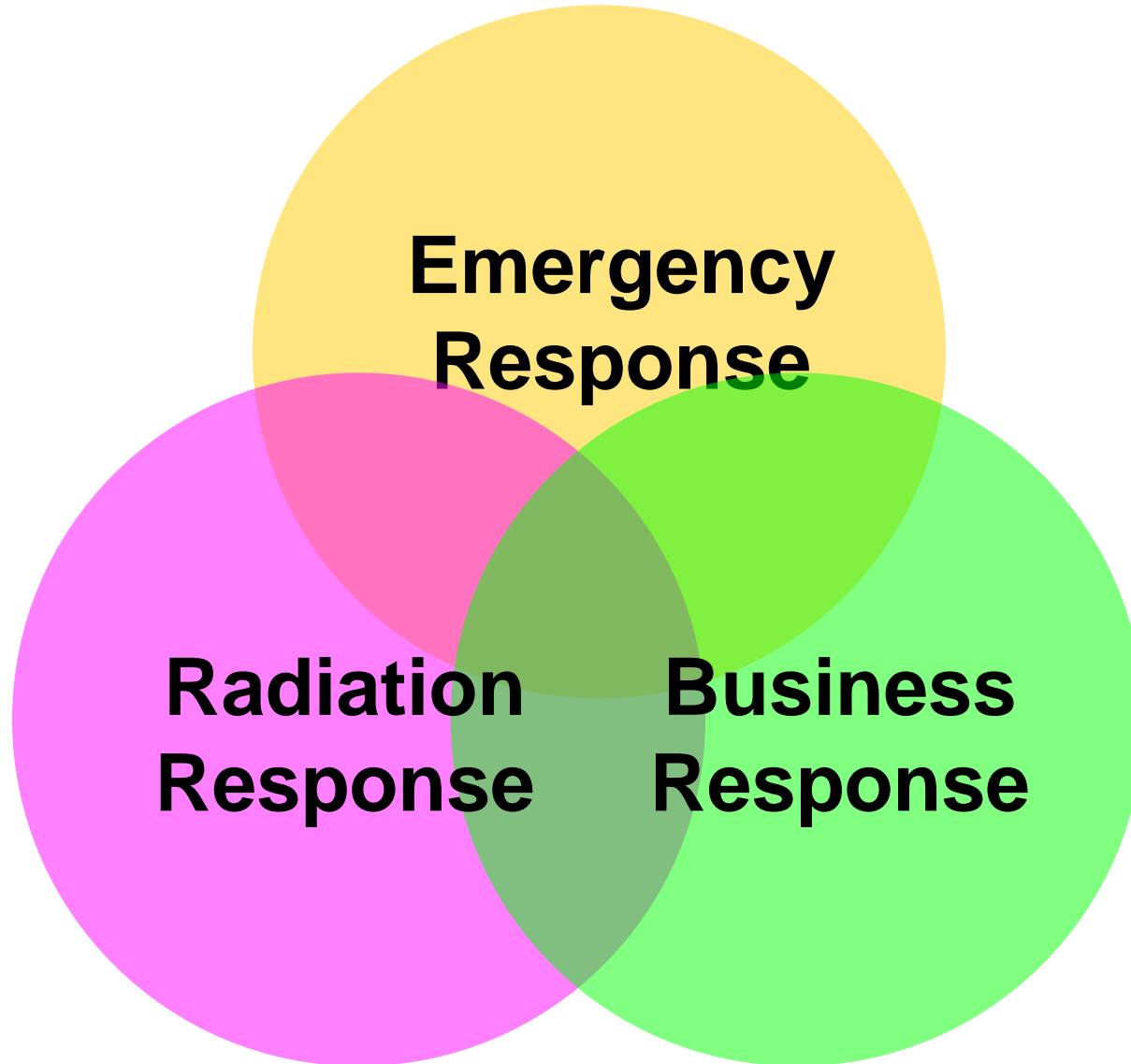
Views on Japan's Disaster Response

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Composite Image



Trends Accelerated

- The events of 3/11 are likely to accelerate pre-existing trends and spark significant changes in the global supply chain.
- Many US corporations were already beginning to reconsider the wisdom of their “Off-Shore” operations, and beginning to consider the benefits of “Near-Shore” alternatives.
- In addition, some Japanese corporations appear to be increasing “localization” by moving their operations closer to their final markets.

Aberdeen Report

- Released in March 2011, and based on data collected prior to Japan's disaster, the report states that the increased complexity of global supply chain has affected the performance of many organizations.
- While reducing costs is important, the report states that gaining visibility into supply chain processes has become critical.
- Corporate leaders are searching for better ways to manage their inventories and keep costs down, while enabling faster and more efficient response to customer needs.

New Awareness

- Since 3/11, the very term “Supply Chain” is increasingly recognized as a misnomer.
- A phrase such “Adaptive Supply Network” better recognizes the competitive advantages of a truly agile supplier base.
- Post 3/11, supply chains will no longer be viewed simply as a cost, they will now be recognized as a strategic investment.
- Not “Just-in-Time” but “Just-in-Case.” (And, both positive and negative “Just-in-Case.”)

New Awareness

- The complex new world is placing new and challenging demands on the leaders of organizations.
- In many respects, it can be argued that the future supply chain “manager” will be one and the same as the chief executive officer of the organization.
- Having a clear understanding of their business, from internal capacities and capabilities to external supply chain operations, and understanding how these serve evolving business models, is also an obvious function of the business continuity manager.
- So, BCM is increasingly needed at CEO levels.

New Awareness

- Many businesses believe that the recent supply chain disruptions will be more positive than negative.
- They believe new awareness will result in better suppliers with better business continuity plans and greater overall flexibility.
- They recognize the fact that successful procurement ultimately rests on the ability to adapt to an ever-changing world.
- Successful business strategies are changing daily, so closing off new ideas and sticking to what you know right now cannot be successful.

New Awareness

- Businesses that are constantly looking ahead and are prepared for anything come out stronger in tough times.
- Crisis events can shift market share among competitors, and many companies are currently getting a rare chance to displace competitors whose supply chains were disrupted.
- Name brands will likely recapture lost market share, but once an alternate supplier gains more share in an account, it is usually rare for the disrupted supplier to regain all its former business.

Efficient vs. Responsive

- Traditional functional products may still be well served by “Physically-Efficient” supply chains, but new innovative products require investment in “Market-Responsive” supply chains.
- “Fast Fashion” supply chains are already well known as examples of supply chains that can result in significant competitive advantage.
- “Made-in-America” is increasingly viewed as a supply chain strategy by some US companies.

Efficient vs. Responsive

- A turnaround is taking place in the United States, with brands and retailers reassessing the value of manufacturing domestically, or at least closer to home.
- It is possible for a supply chain based substantially in the United States to deliver high-quality goods in a timely manner.
- The speed-to-market gained by sourcing closer to home is becoming extremely important because consumers have become more cautious and particular about spending their money, and the more quickly a brand or retailer can respond to the current demand, the more likely it is to realize a profit.

Transparency Needed

- Some say the U.S./Western Hemisphere supply chain offers not only quick response, but also advantages in terms of trust, reliability and transparency.
- The “80/20 Rule” is not appropriate for verification and due diligence. Many businesses learned the hard way that you cannot deliver products to your customer with only “most” of the necessary parts.
- Locating information about suppliers two or more tiers deep in the Japanese supply chain is difficult, so without adequate “transparency” Japanese suppliers will lose foreign customers who may become overwhelmed by the effort.

“For Want of a Nail”

For want of a nail the shoe was lost.

For want of a shoe the horse was lost.

For want of a horse the rider was lost.

For want of a rider the battle was lost.

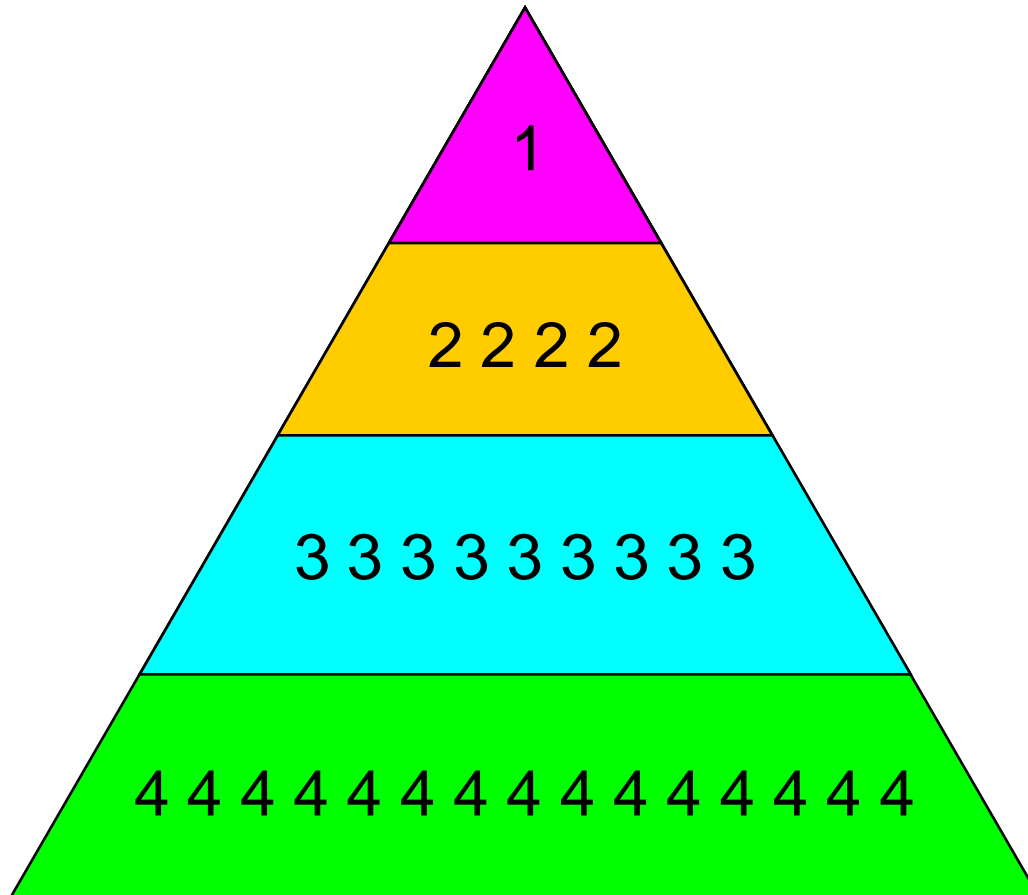
For want of a battle the kingdom was lost.

And all for the want of a horseshoe nail.

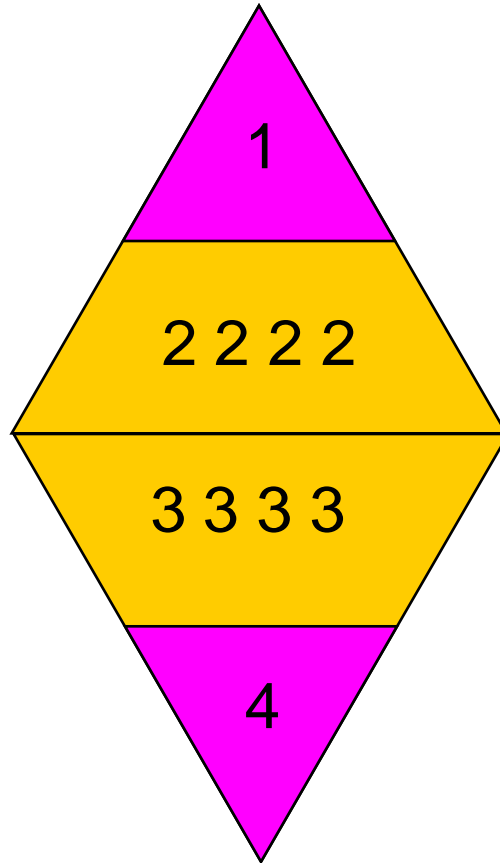
“The Butterfly Effect”

- Losses further along in the supply chain are often largest, yet they often reveal themselves last.
- Since each supply chain tier adds value, a shortage of raw material or an inexpensive component early in the supply chain for a expensive final product has the most financial impact.
- Therefore, many business are now trying to gather all the information that they can about their supply chain, even if that process costs them a little extra.

Supply Pyramid



Supply Pyramid



Transparency Needed

- Most manufacturers did not know which suppliers had factories in the earthquake zone and obtaining the information sometimes took weeks.
- So, the real “nail biter” was the possibility that a raw material deep in the supply chain could be unavailable.
- A raw material outage can affect hundreds of supplier parts and thousands of products.
- It was nerve wracking having to wait weeks for news to percolate up from the sub-tiers where they had so little visibility.

“Japan Brand” Damaged

- As a premier global supplier of high quality products, semi-finished goods and components used in manufacturing, Japan has enjoyed an excellent brand image.
- But, that valuable brand image has been tarnished, making it easier for other companies to increase their market share.
- Strategic communications will be important to prevent further market share erosion.
- The Japanese supply chain must demonstrate effective Business Continuity and communicate this fact as part of a global strategic message.

“Japan Brand” Damaged

- Earthquake mitigation efforts have prevented much damage in the past, so many customers have gotten lax, and have come to expect the same every time.
- Yet, this time, earthquake/tsunami exceeded Japan’s expectations... While, in the rest of the world, impacts are increasingly “non-threat based.”
- Many customers are “waking up” to limitations and potential impacts of Japanese risk management (earthquake mitigation) efforts.

“Japan Brand” Damaged

- Analysts are impressed by the relatively rapid pace of recovery, and Japanese parts producers are getting back online a lot quicker than many had thought.
- But, “Kiai-to-Konjo” based recovery will not be enough, now that so many customers have awakened to the potential problem.
- From now on, there will be a need to demonstrate a truly effective Business Continuity Strategy.
- “We will do our best, and our best is better than most” will not satisfy these new customers.

Questions?

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