Commercial Insights with Regions Bank
Episode 3: Building a Less Vulnerable Supply Chain

Businesses have learned much in the last year about what can go wrong with modern supply chains in the face of an unexpected shock. On this episode of Commercial Insights with Regions Bank, we talk with Carl Lund, Head of Procurement Operations and Supply Chain Management about supply chain vulnerabilities and how to shore them up. We'll discuss valuable approaches and steps supply chain leaders can take to make sure your company is ready for future disruption, no matter what form it takes.

Episode Transcript

Carl Lund:

We reserve the right to learn, and I think that's a great thing to tell ourselves every day (laughs) but to tell our associates and to just tell the people around us.

And that's the luxury we have now, right? We've got a little bit of breathing room. I know this is not over and we don't know what the future will be, right? But we've learned, and we need to just take advantage of what we have learned to, to just improve, very simply.

Chris Blose:
These wise words, from Carl Lund, Head of Procurement Operations and Supply Chain Management at Regions Bank, could apply to any number of business practices and disciplines in the year 2021. But Lund joins our podcast to talk specifically about how they apply to the supply chain.

Welcome to Commercial Insights with Regions Bank. I'm your host, Chris Blose, and today Lund is going to walk us through some of the vulnerabilities of a supply chain — both under normal circumstances and during a disruption. But, more important, he's here to offer valuable approaches to shoring up those vulnerabilities and making sure your company is ready for disruption, no matter what form it takes.

Chris:

Let's start with some context. Under normal circumstances, when it's not a pandemic year, what are the greatest vulnerabilities in a business's supply chain?

Carl:

Yeah, that's, that's a great question and I, and I think a very important foundational question as we talk. You know, I would say the very basic thing that all supply chain managers are concerned with is a set of maybe four or five things, and it's very simply making sure that they have processes and procedures to ensure that, for their company, they can get the right product or service at the right place, at the right time with the right quality and at the right price. Everybody's got a different niche around perhaps the things that, you know, they might have a strength in one of those areas or a focus in one of those areas. But overall, that's the objective of any supply chain manager.

Chris:

And where are the biggest vulnerabilities typically?

Carl:

You know, vulnerabilities can show up in a lot of places. So you could have vulnerabilities related to the quality of products. So we'll call that the right product or the right service, the specifications. There could be issues with making sure that it's getting delivered to the right place. If you're in the inventory or distribution-related business that is your focus, is making sure that you're getting products and services from point A to point B, and that requires a great deal of communication.

Carl:

At the right time is a complexity that we all face and we'll talk a little bit more about this as I think we get into the conversation but for so long, many of us in organizations have been brought up on these lean philosophies which, which means we wanna take things in at the right time so that we can ingest them, uh, and certainly trying to balance the cost related to inventory carrying costs or safety stock. Those are nuances as well.

Carl:

And I could go on, but each one of those areas do offer an area of complexity, which is why a supply chain, a broad supply chain has different leaders focused on different things so that each component and the risks associated with those can be managed effectively.

Chris:

So you're hinting at change there, right? And the sort of past way of, of doing business. But we know obviously circumstances have been different for the past more than a year. How have circumstances changed, and how have maybe the risks associated with those circumstances changed as well?

Carl:

I think some things that really changed one is in the area of what we call PPE or personal protective equipment. Things like masks, disinfectants, sanitizer, those types of things. Um, those were things that, I think, many organizations did not have as I, as I'll call it, a critical item and needed in order to keep their operations open. But as the pandemic hit, those things became very, very much needed and became very critical.

Carl:

And so what I think happened is it exposed broadly the limitations or challenges in our entire supply chain, really, worldwide. It exposed limitations in manufacturing and distribution capacity related to the need that was there and it was just such a great supply and demand imbalance that it led to constraints across the board.

Carl:

And then in normal business services and products with things that are not specific to COVID, so the things we do every day, as COVID took its effect on businesses and the economy was impacted by that, um, some companies struggled financially, as an example. They had to close down operations because their employees got sick. They had to stop doing what they do in the supply chain, and that caused ripple effects throughout the supply chain. Uh, people moved to working from home or remote environments in some cases? Obviously if you're in a distribution or where you have to have hands-on type of situation, you're not working from home.

Chris:

Well, I think you bring up a good point too that, you know, certain types of businesses are going to be involved in hands-on work. Certain types of businesses are maybe a little more adaptable to that remote environment. So how have the risks specific to a supply chain, how have those varied for different types of industries?

Carl:

I mean certainly, a manufacturing type of environment, let's say automotive or oil and gas or a distribution type of activity is going to be different than a services-based industry. Let's say financial services, insurance, healthcare. So those things look a little bit different and the impacts are a little bit different. But I do think there are some things that are similar that everybody had to deal with, although it might have a slightly different lens.

Carl:

So one area is business continuity risk, and that's the risk related to ensuring that the supply of those products or services that your company needs to ingest, that must be then either converted or turned into an output, whether that's a product that you're delivering to your customer, uh, or it's an experience or a service that you're delivering to your customer, those things have to be always addressed. And I think business continuity risk, while it's always there, got a slightly different bent to it in 2020, because one of the things we all learned is our dependence upon our employees, our associates, right?

Carl:

So what do I mean by that? When we talk about business continuity risk, many times we're focused on the product or the service and where it might not be delivered at the right time at the right quality as an example. But now you've got this nuance that says, "Gosh, if I've got a provider of a distribution facility that's gonna provide me, uh, some industrial goods or, uh, some kind of input to my process, it's not just about the product.

Carl:

Where you may not have had an issue with products or the ability for something to get to you and the inputs you need, this new realization of employee risk where the associates get sick and it has to shut down a facility, I think that compounded, uh, everybody's concern related to business continuity risk. So it's a common thing, but it had a new twist on it because of COVID.

Carl:

And I think another one is financial viability. So financial viability generally is ensuring that your third party service providers, the companies you work with, that they're gonna have the financial wherewithal to deliver products to you at the right time (laughs) and at the right quality and to do it well. And so you wanna make sure that they have the financial means to be able to produce those necessary inputs to you.

Carl:

And then the last one I'll highlight is what I call concentration risk, and that's the risk of over-reliance on one service provider, as an example, for a critical key input, or over-concentration of providers at a certain geographical market.

Carl:

So being aware of those three risks, which I think are very common or are what all good supply chain managers will watch out for. And there are other things, too, but COVID put a spin on it that made us have to — as supply chain managers and as managers of companies, I'm sure — to have to pay attention to things in a little bit different of a way.

Chris:

I think what's interesting too is, you know, those are all obviously focused on picking the right partners for the right sort of piece of the puzzle. And the other thing that I hear a lot related to the supply chain during the time of COVID is people having to pick partners fairly quickly, whether it's for information security, you know, or finding a new provider for that when you have remote workers, or whether it is, you know, finding those PPE providers or finding new type of partners that they may not have had to expect or search for before.

Chris:

What are the best processes that a business could have in place to vet those kind of people, especially when you need to be doing that vetting pretty quickly to get something in place?

Carl:

Yeah, I will tell you the first thing that companies, from a supply chain standpoint, should invest in if they don't have this already. And I realize this becomes challenging depending upon the size of the company but you ought to have at least some part of someone's job or a small group of people where their focus is on your supply chain. And that means essentially having folks that have the responsibility of identifying a viable supply base, looking at the partners, the people who are out there in the market that could provide the service to you. They, uh, manage the processes that you think are important to vetting those providers, and you could be looking at a number of areas like financial viability and assessing the concentration of where all those providers are.

Carl:

Those people or that function within your company should also have responsibility for onboarding the service provider as well, making sure that you're getting good contracts in place that deliver good outcomes for both parties and that they memorialize the transaction that's going to happen so that there is clarity and lack of confusion in how the service or product is gonna be delivered.

Carl:

But then also — and I think this may be where some companies perhaps don't invest their time — is they also need to make sure that they have an ongoing routine for ongoing monitoring of those service providers as well. Having cadence and routines with providers to make sure that you are in a periodic basis asking some of the same questions.

Carl:

An example. Financial viability. Part of your vetting and onboarding process would be assessing the financial viability of a company.

Carl:

But then, once you've got them on board and you say this is the right organization, having a process. Maybe every six months, every year, every two years is fine. But some cadence to go back and look and say, "Gosh, are they still viable?" Especially coming out of something like COVID. You may have picked somebody and gone through a great vetting process, got a great contract in place. Everything's going well, 2018, 2019. 2020 hits and maybe everything even is okay during that time as well as far as you know. Meaning you're receiving products and you don't perceive any issues based on your processes not breaking down.

Carl:

But gosh, if you don't have a way to come back and ask are their financials holding up, so to speak, then, then you won't have a way to monitor for that if there has been some deterioration along the way.

Chris:

And I assume some of those, sort of, typical vetting items are things that would be included in a well-written RFP. But even beyond that, should supply chain managers be looking at how a company responded to the pandemic? You know, not just financial viability but, are there new questions that are gonna be asked in an RFP going forward?

Carl:

You know, that's a great question. I won't say it depends, but I think yes, the questions that you ask should uncover any kind of inability for your service providers to deliver a service through many, many situations. So we're talking about the construct of a pandemic where people either were impacted financially or had to shut down, which would be potentially a reflection of either their financial health or it could be a reflection of other issues as well.

Carl:

But I do think, if I can say this, I do think if you've got a broad understanding of your processes and a broad understanding and a detailed understanding of the things that you need, the items that you need to bring into your company to run your company, and then you take the time, hopefully with those experts that you've dedicated towards managing your supply chain risk, you need to look at the risks of where could those things break down. And that has nothing to do with COVID. That should be something that is part of an ongoing process where you're asking questions around where could things break down and you ask those questions as part of your RFP process normally, then yes, you will uncover what happened during the pandemic and it should expose whether or not you're dealing with a company that has the— I'll use the word wherewithal, the wherewithal to withstand disruptions and, and provide you the services and products that you need.

Chris:

I think, you know, being able to withstand disruptions, that's a key takeaway from all this. What are other lessons that you think people should take from 2020 and early 2021 and apply going forward?

Carl:

I think the one that stands out to me is that many of us in supply chain management for years have been brought up on these lean philosophies and lean manufacturing or lean inventory management type of thoughts, which essentially is a pull type of mentality, which means I wanna pull things that I need into my company at the time I'm ready to consume them, but I don't wanna pull too much to where I have excessive inventory or I have a safety stock for things that I just don't need, 'cause that creates different pressures financially for, for a company to over-carry on inventory.

Carl:

And I talked to peers even in other organizations besides banking, and they're facing some of those same questions, which is, "Should we come back and revisit those things that are now really important to us to keeping us up and running that maybe we hadn't thought about before?" and, and addressing whether or not we should keep things on hand.

Carl:

The very simple example as we're having this conversation is PPE. You know we realized before COVID hit that things like disinfectant and sanitizer and face masks were not even things most companies would think about as being critical to their business. But as we've gone through this journey the last year we realized that, gosh, keeping our employees safe is important for keeping our doors open, and therefore those are perhaps critical items that we need to rethink from a safety stock standpoint.

Carl:

And really staying ahead of that is gonna be important, uh, to make sure that you've got things readily available should there be an outbreak again. But I think also to be ahead of it so that you can manage your supply chain and not be overly dependent on any one provider for it. And to your point, Chris, so that you're not scrambling around trying to do some fast, you know, back of the envelope vetting of a provider that you don't know anything about because you don't have the time to address it.

Carl:

But you have to build yourself enough time and leeway to do it and so I think that the big takeaway or one of the big takeaways that we all must learn from last year is that, now that we've learned from what was important, we have to take advantage of the breathing room that we have now to think through those things and shore up those vulnerabilities to prepare our companies going forward.

Chris:

I think we've spent time today talking about companies that maybe did have a supply chain management plan in place, you know, and were able to evolve a- as a result of this. You know, if you're a business leader and you feel that you have not had the best plan in place for this, where do you start now?

Carl:

I would start with finding a person in your organization who is what you would consider as your best and brightest, because this is an important issue. And there are a lot of issues that I'm sure are, but I would find someone who's got kind of an aptitude towards process, got an aptitude towards helping you as a, as a company own or manage your risk, and you want to set them aside and allow them time to think through this and to, you know, start building out this function and start thinking through these risks.

Carl:

So very simply, take one of your emerging rock stars (laughs) on your team or someone who you think has got some experience and dedicate them to managing the supply chain risk. And then, and then I think from there what you wanna do is allow, allow them the opportunity to engage, uh, with some peer organizations, uh, because most of the things we're talking about from a supply chain standpoint not all but most things are not something that's gonna be so competitive that peopled don't wanna share best practices. What are our processes and methods for identifying who viable providers would be? What are our methods for, uh, running competitive bids or RFPs to vet these, uh, providers so that we pick up all the right risks?

Carl:

It's not just about price, but also to address all these risks that we talk about.

Chris:

Let's say hypothetically you're having a conversation similar to this with a customer a year from now. What are you hoping to hear from them about supply chain?

Carl:

I heard this from one of our executives and I love it, you know (laughs), we need to reserve the right to learn. And we have had the opportunity to learn.

Carl:

Now the opportunity is in front of us, we have to take it and move forward and improve on the experiences that we've had. And so I think that's the story that I would love to hear is to hear kinda that testimony. We were in this situation, we were exposed to this but we did A, B, and C and we implemented some things that have shored that up and now we do not feel like we have vulnerabilities like we did before, and therefore we're gonna be able to continue to serve our customers, and we are going to be able to do that with confidence and we have a bright future ahead of ourselves.

Chris:

If you've reserved the right to learn anything from today's episode, let it be this: Don't make your supply chain an afterthought.

If your company already has a rock-solid risk-management plan and vendor vetting plan in place, turn over the rock anyway and make sure all aspects of those plans still make sense in 2021. And if your business feels behind in supply chain management, now is the time to assign your best and brightest to the task.

Thank you to Carl Lund for joining us today. Get related resources for commercial business and listen to future episodes at regions.com/commercialpodcast. And be sure to subscribe to this podcast on your favorite podcast service.

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