

COVID-19 and the supply chain

Until the world emerges from the pandemic, we won't know what supply chain implications will be. The best we can do is be prepared with smart, flexible, and frictionless processes to adapt to whatever the new normal demands of us.

My colleague Nilesh Kulkarni recently wrote about the disruption that COVID-19 is causing to the supply chain, and about how to prepare for a more resilient future.

I'd like to develop this argument a little, by considering whether current circumstances may be creating a new normal.

Digitization – a new impetus

It's clear that many of the challenges that companies are currently facing are not primarily the result of the virus. It's rather the case that the pandemic is bringing them into sharper focus. It's obliging businesses to rethink issues that perhaps had been given less attention before. They are being tasked to think beyond existing horizons, and to act beyond their comfort zones. They are being asked to break down the siloes that, until now, have kept their supply chain operations from changing.

As a result of all this, what emerges may be a lasting change, and perhaps even a positive one. It can become an opportunity to accelerate the digitization of the supply chain, and to bring some autonomy to it, as this earlier blog post describes.

A number of new business models may result from this, or existing models may evolve more rapidly than hitherto. Here are a few possible developments that occur to me.

Servitization – what happens now?

The as-a-service model has been developing in recent years. What used to be mainly a technology proposition has now reached manufacturing. It's sometimes called servitization: a model in which products are characterized not just by what they are, but by what they do, and how they do it – and the businesses behind such products are packaging their offer accordingly.

For instance, a manufacturer of car tires may sell to car fleet operators by the kilometer driven, rather than just selling the tires themselves; and a manufacturer of office equipment may sell operational leases or pay-per-use commercial models. The customer benefits by being relieved of the onus of ownership, and also from the knowledge that it's in the manufacturer's interest to provide an excellent service; and the manufacturer can increase its customer lifetime value, extend its margins, and achieve lower churn rates.

So far, so good. But then lockdown happens. With people working from home, the car fleets are going nowhere, and the office equipment is standing idle in empty offices. What happens now to pay-per-use? Servitization, the supply chain that underpins it, and the smart technology makes it happen, is all going to need a rethink to ensure the approach remains commercially attractive to all parties.

Working practices – the impact on supply chains

Working from home is going to have much broader implications for business than its effect on servitization models. The technology to facilitate online meetings, or to enable teams to collaborate on a project on a shared screen, has been out there for some time, but lockdown has taken it into the mainstream.

With so many people now working in this way, it's likely that, when business starts to return to normal, many employees are going to wonder why they can't do that sort of thing more often. For instance, it will be less awkward for them to ask, "Is it OK if I join the design planning meeting remotely this afternoon? It will be easier for me to pick up my child from day-care afterwards."

What will be the impact of all this on how corporations manage their supply chains? Will they be open to the idea of supply chain team members working remotely, whether that's permanently, or only now and then? Can the workarounds that have developed during lockdown become standard practice? And can the principles of this new standard practice be extended, to incorporate new ways of working with partners, too?

What might emerge here is an entirely new way of operating and planning supply chains.

The impact on fulfillment

The new normal to which we may be heading is likely to have other repercussions on supply chains.

For instance, if people grow accustomed to online meetings, it's likely that business travel – including by air – may not return to previous levels. Environmentally, that would of course be a good thing. But somewhere around 40–50% of air cargo is belly freight, carried in the holds of commercial passenger flights.

Here, too, supply chain management will need a rethink. Will fulfillment increasingly depend on dedicated cargo flights, or will goods be shipped more frequently by land and sea? In fact, will some supply chains shorten, as organizations find new suppliers who are closer to home?

The future's not set. Be prepared.

In writing this post, I'm conscious that I'm posing more questions than I can answer, or indeed, that anyone can. The fact is that until the business world emerges from the pandemic on the other side, we won't know what the new normal looks like, nor what the supply chain implications will be.

In the meantime, the best we can do is to ensure we're prepared, with processes in place that are sufficiently smart, flexible, and frictionless to adapt to whatever our new circumstances demand of us.

Which is why I'll end here by suggesting you might also like another recent post of mine. It's about creating sustainable resilience in the supply chain, and is therefore pretty relevant to these challenging times.

To learn more about how Capgemini's Digital Supply Chain Practice can help your organization implement smart and flexible supply chain processes in anticipation of the new normal, contact: joerg.junghanns@capgemini.com

Jörg Junghanns leverages innovation and a strategic and service mindset to help clients transform their supply chain operations into a growth enabler.

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