

Supply Chain Excerpt

Gartner Business Quarterly

Proven Guidance for C-Suite Action

To Reduce Disruptions, Make Your Supply Chain a Smaller Target

by Jessica Kranish and Suzie Petrusic

Over the last few years, companies have sometimes faced several seismic events at once (see Figure 1). And while supply chain leaders spend significant time and effort to assess and mitigate known threats, they can't predict every one in advance. That's why the typical action plan for these unforeseen scenarios — responding to each one in turn and building resilience through backup suppliers or increased inventories — is no longer good enough.

Another step is necessary. Companies must also reduce the number of disruptions they experience in the first place.

Figure 1. Globally Pervasive Risks
Global Risk Presence (Selected)



Source: Gartner

Note: Unfamiliar risks are where the supply chain has little or no helpful past experience, usually regional global, to address such events.

Reduce Risk Events to Minimize Your Exposure

It may sound impossible, but a select few have done this — and they undergo less than a third of the disruptions that others do, according to our survey of 262 supply chain leaders, complemented by 70 interviews with chief supply chain officers.¹

Their insight is to make your supply chain a smaller target — cut down on your physical footprint (e.g., number of suppliers, number of manufacturing sites) and the movement within it (e.g., fewer processes, fewer shipping lanes) — and you’ll reduce your exposure. While you can’t control the number of risk events that occur, you can influence how many affect your company. How? Cut them out of your supply chain before they hit.

Reducing the number of these disruptions isn’t an imperative for just supply chain teams. Business leaders need to play their part, too, adding in the cost of these incidents when determining the potential savings associated with a change, or pursuing innovation in a way

that doesn’t make your supply chain a bigger target. If everyone in the business prioritizes this strategy, the company is much less likely to end up on the back foot trying to respond when these events occur.

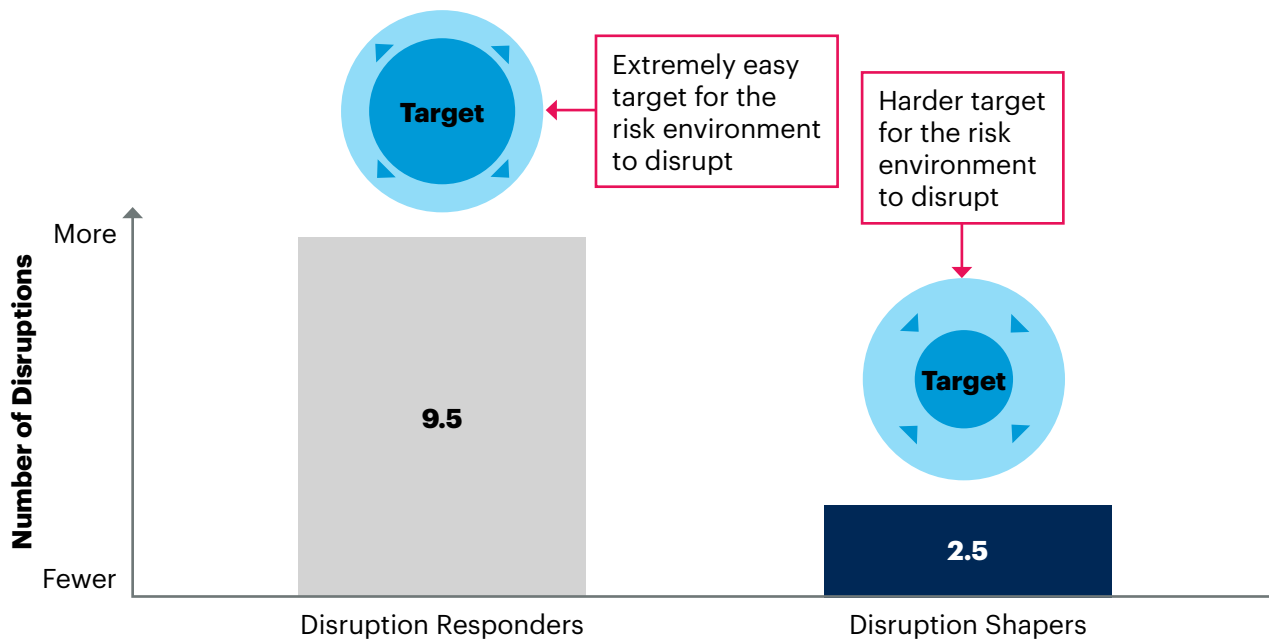
One important caveat: There is, of course, a limit to making your supply chain a smaller target. Extreme consolidation will expose you to a single catastrophic event, so you’ll need to find the right balance instead.

Why Shaping the Rate of Disruptions Beats Mitigating Them

Companies that make themselves a smaller target, compared with those responding piecemeal to challenging situations, can shape the rate of disruptions they experience (see Figure 2).

Crucially, both types of companies pursue the same strategic objectives: managing risk, optimizing costs, innovating constantly and meeting customer expectations. What’s different is the way they go about it — and the end result.

Figure 2. Effect on Rate of Disruptions



n = 262

Source: Gartner Supply Chain Signature Series Risk Survey (December 2020)

Two ways to make your organization a smaller target:

- Prioritize changes based on your competitors' vulnerabilities to give your business the advantage.
- Put limits in place to avoid too much expansion when you diversify your risk exposure.

To Determine Where to Start Shrinking, Assess Competitors' Vulnerabilities

It's not always clear where to start making your supply chain a smaller target. You can concentrate on so many parts of the supply chain — from suppliers to processes to locations.

First Solar, a U.S.-based solar energy manufacturer, turns to a surprising source of inspiration: its competitors.

It speaks to subject matter experts and reviews relevant data about future risk trends, such as the rising demand for customization or the industry reliance on a single region for a particular commodity. (Your risk and strategy functions can likely help here.)

First Solar then evaluates its vulnerability to disruption from each trend, using a scale of "high," "medium" and "low" to quickly and efficiently complete the analysis. The same

assessment is applied to its competitors, with public information sourced from financial statements, news articles, and cost and commodity data.

The scores, relative to vulnerability, determine First Solar's next steps:

- **Higher likelihood of disruption** — It prioritizes action to make sure competitors do not have a competitive advantage.
- **Similar risk exposure to a rival's** — If differentiation offers a competitive advantage, the company prioritizes it.
- **Lower vulnerability to risk** — It deprioritizes changes for now but reassesses in six months.

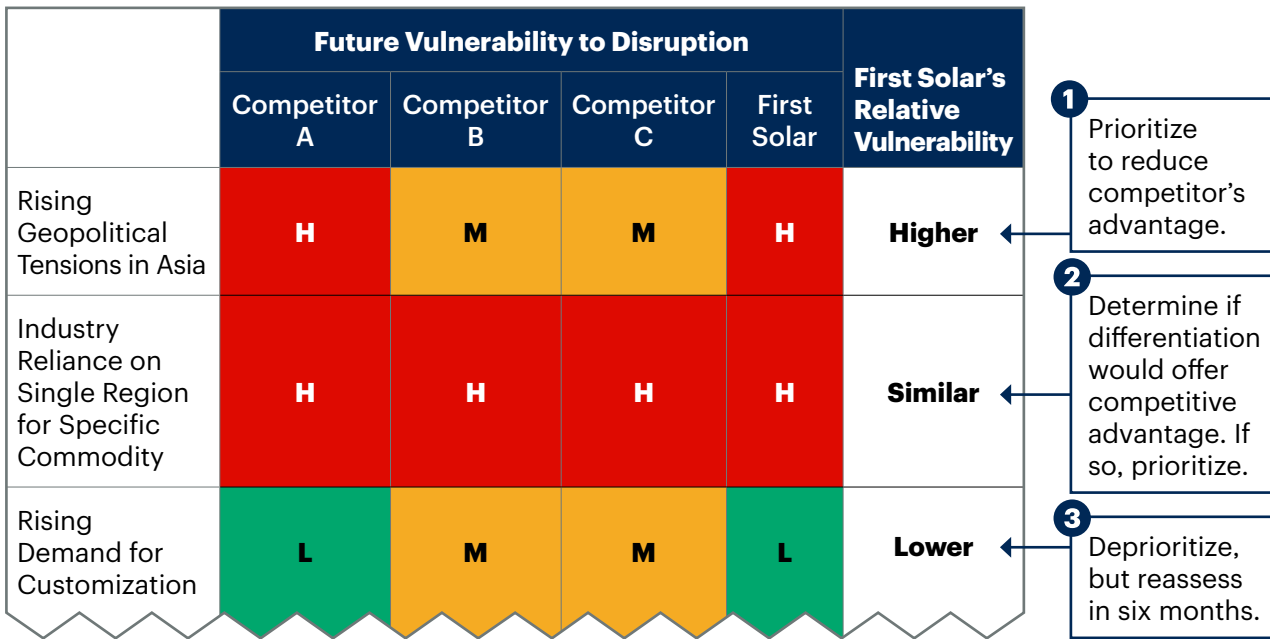
First Solar uses this insight to adjust the supply chain and obtain a competitive advantage (see Figure 3).

First Solar runs 30-, 60- or 90-day sprints to identify an action plan, starting with the minimum viable change. For example, when the company wanted to reduce reliance on a commodity originating from the same region as its competitors, it shifted 75% of production to a different location. But first, it made the minimum viable change so it could make an immediate impact — moving 20% of production to the new region.

Recent unanticipated dangers proved this process works. During the first year of the COVID-19 pandemic, First Solar lost less than 0.1% of capacity

utilization. And, despite this major challenge, generated more revenue and higher margins.

Figure 3. Risk Vulnerability Change Prioritization
Illustrative



Source: Adapted From First Solar

How to Avoid Extreme Consolidation When Diversifying Your Risk Exposure

Industrial manufacturing company Stanley Black & Decker made its supply chain a smaller target with a manageable constraint: Concentrate on diversifying risk exposure for the 20% of its supply chain that drives 80% of its revenue. This principle avoids the pitfalls of extreme consolidation because diversification is limited and the supply chain doesn't become bloated.

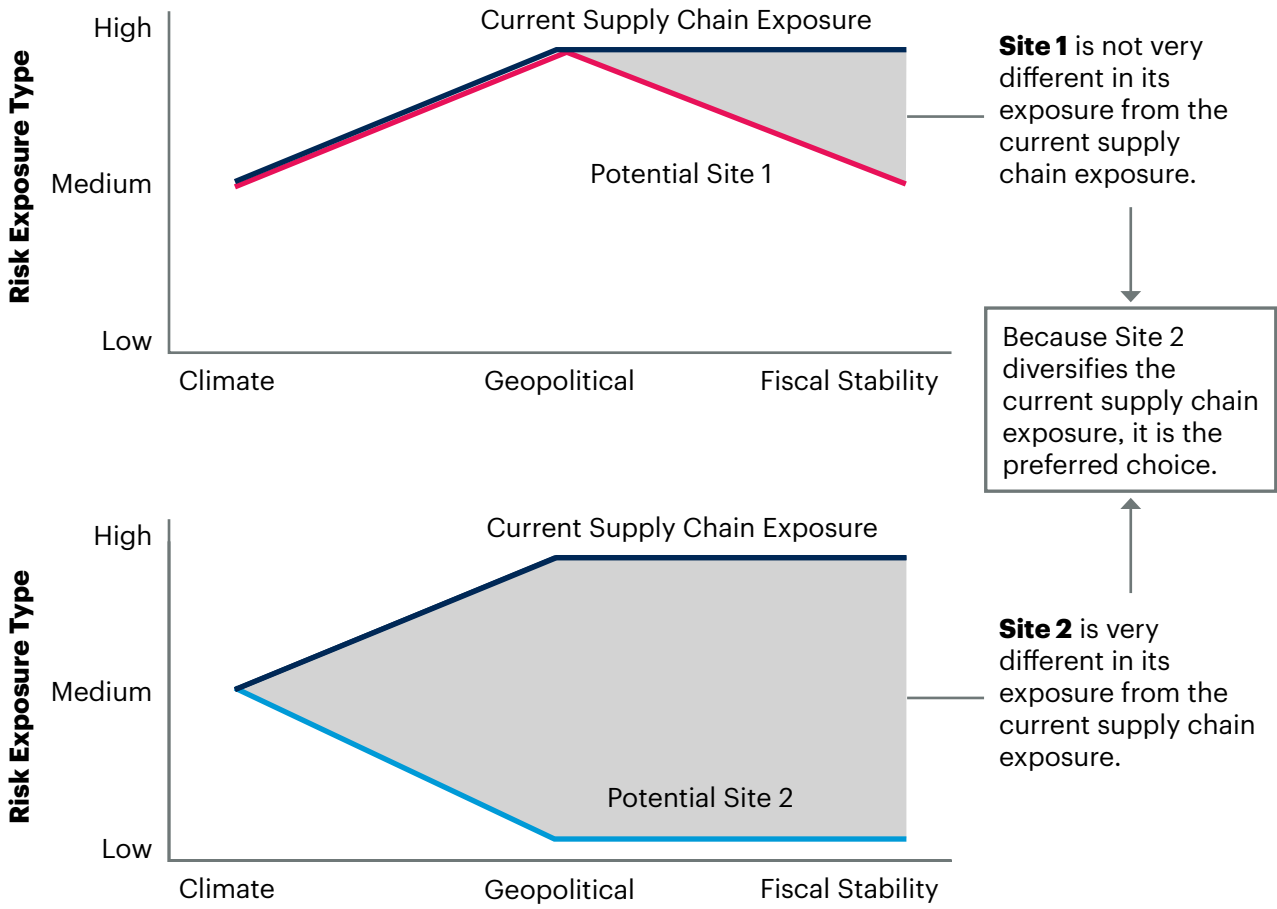
Stanley Black & Decker also used a mathematical model to profile the risk exposure (ranked "high," "medium" and "low") of its supply chain against different factors, including climate events, geopolitical uncertainty and financial stability. (Assessment factors for these three categories of risk included fault lines, military activity, internet freedom and financial performance.

Your risk colleagues can help you determine the right choices.) These scores helped the company understand where it faced different levels of exposure.

It then evaluated potential new sites along the same factors, selecting only those locations that diversified the risk (see Figure 4). In this illustrative situation, Potential Site 2 is the better choice.

Using this practice, Stanley Black & Decker increased its dual-sourced sites by 300%, protecting the portion of its supply chain that provides the majority of the company's revenue while keeping its supply chain from becoming susceptible to severe risk events.

Figure 4. Site Placement Scenario
 Illustrative Site Assessment



Source: Adapted From Stanley Black & Decker

¹ Gartner Supply Chain Signature Series Risk Survey (December 2020)

Actionable, objective insight

Position your supply chain organization for success. Explore these additional complimentary resources and tools on managing supply chain disruptions.

Research



Reinventing Supply Chain for the Future

Explore four innovations to build a disruption-tough supply chain.

[Download eBook](#)

Checklist



14 Tactics to Counteract Supply Instability

Offset the impact of supply constraints with four key strategies.

[See the List](#)

Webinar



The Next Supply Chain Disruption Is Coming — Take Action Now

Keep your supply chain strategy aligned to business goals during disruptive times.

[Watch On-Demand](#)

Research



A New Role for CSCOs in Supply Sourcing

Learn how today's top supply chains are responding to postpandemic changes.

[Download Report](#)

Already a client?

Get access to even more resources in your client portal. [Log In](#)

Connect With Us

Get actionable, objective insight to deliver on your mission-critical priorities. Our expert guidance and tools enable faster, smarter decisions and stronger performance. Contact us to become a client:

U.S.: 1 855 811 7593

International: +44 (0) 3330 607 044

[Become a Client](#)

Access the latest edition of Gartner Business Quarterly [here](#).

Learn more about Gartner for Supply Chain
gartner.com/en/supply-chain

Stay connected to the latest insights

