

RUSSELL REYNOLDS ASSOCIATES

FIVE SUPPLY CHAIN ISSUES

WORTHY OF
CEO ATTENTION

1. MITIGATING RISKS OF SUPPLY CHAIN DISRUPTIONS

Supply chains are becoming more global, while margins for error in the supply chain are getting slimmer. The chance of a supply chain disruption and accumulated economic impact increases.



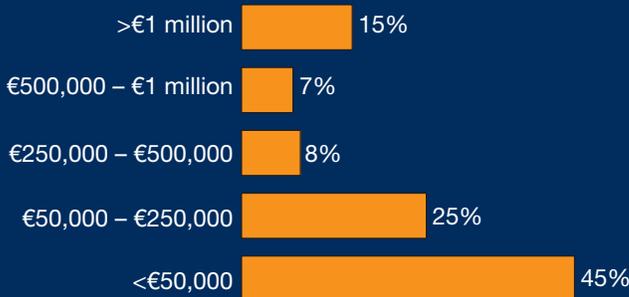
Impact on Shareholder Value

On average, a supply chain disruption can reduce shareholder value by 7%²



Economic Impact of Disruption

Estimated cumulative cost over the past year to organizations due to a supply chain disruption³



KEY TAKEAWAYS

A supply chain disruption continues to have a significant impact on business performance. Supply chain disruptions have been shown to cause deep, immediate financial impact that often takes months to turn around. Consistent top management support is required to manage supply chain risk effectively.

¹ Supply Chain Report 2013-2014, CARBON DISCLOSURE PROJECT, 2014.
² Building Resilience in Supply Chains, World Economic Forum, 2013.
³ Supply Chain Resilience, Zurich Insurance Group, 2013.

2. LEVERAGING OPPORTUNITIES IN SMART MANUFACTURING

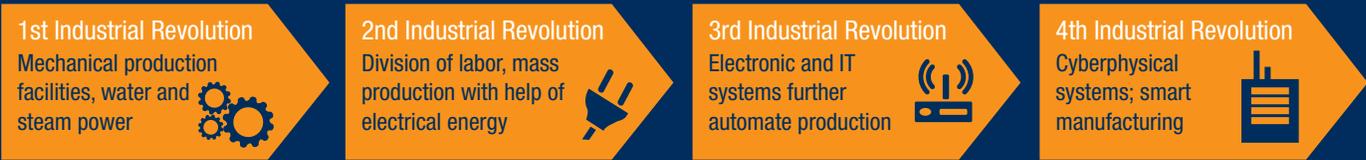
A network-centric approach, digitalization, strong information and communications technology support, and the latest available proven manufacturing techniques, together, are leading to smarter industries.



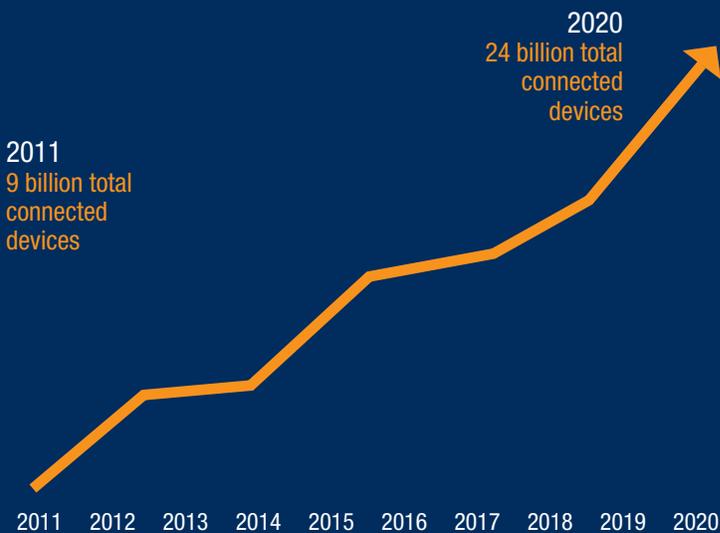
Investments in industrial robots have increased by nearly **50%** since 2008—even in emerging nations such as China¹



15% to 25% of the tasks of industrial workers could be automated by 2025



The Connected Life by 2020²



Smart Industries³

“... are industries that have a high degree of flexibility in production, in terms of product needs, volume, timing, resource efficiency and cost, being able to fine-tune to customer needs and make use of the entire supply chain for value creation.”

KEY TAKEAWAYS

The fourth Industrial Revolution offers a competitive advantage through increased efficiency of the producing industry. However, it also creates economic, social and organizational challenges such as developing the right software and analytical systems, employee familiarity with technology and security of networks. Ensuring that your organization has the right talent to leverage technology opportunities and address these challenges is paramount.

¹ *Shaping the Future of Manufacturing*, McKinsey & Company, 2014.
² *Internet of things will have 24 billion devices by 2020*, Gigaom, Inc., 2011.
³ *Smart Industry*, FME-CWM, Chamber of Commerce (Netherlands), Ministry of Economic Affairs (Netherlands), TNO and VNO-NCW, 2014.

3. OPTIMIZING GLOBAL OPERATIONS

Rising labor costs, an increase of focus on value-creating factors that go beyond labor costs and an upsurge in consumption in emerging markets change the global footprint of businesses.

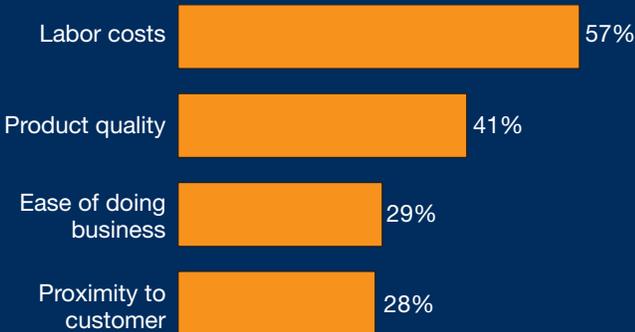


15% to 20% is the increase in wages the Chinese see annually

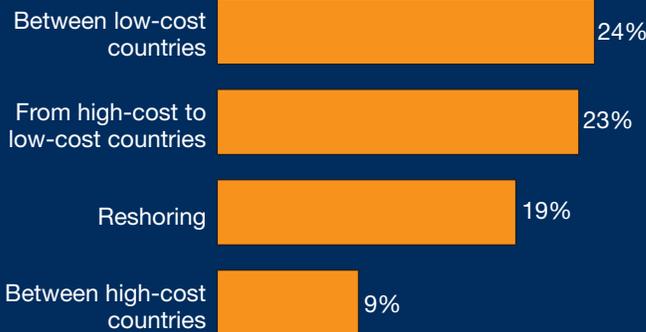


Emerging market consumption will account for almost **50%** of the total world consumption by 2025

What Drives Production Location Decisions?¹



Where Does Manufacturing Capacity Move?²



Emerging market consumption is expected to grow from **US\$12 trillion** to **US\$30 trillion** by 2025³

KEY TAKEAWAYS

A deep, disciplined analysis is required to make informed location decisions. The assessment mandates executive judgment to ensure that both hard and soft factors are considered and that incentives are aligned. Chief supply chain officers (CSCO) need to be able to evaluate the right combination of reshoring, onshoring, nearshoring and offshoring opportunities that are available to the organization.

¹ Job Losses from Offshoring and Productivity Improvements Far Outpace Gains from Economic Growth, The Hackett Group, 2012.

² Offshoring? Reshoring? Nearshoring? Graebel Companies, 2012.

³ Winning the \$30 trillion decathlon, McKinsey & Company, 2012.

4. EMBRACING BIG DATA AND ANALYTICS

Supply chain analytics brings data-driven intelligence to businesses, reducing inefficiencies and overall cost to serve and improving service levels.



97% of senior executives report having an understanding of how Big Data analytics can benefit their supply chain¹



Only **17%** of supply chain executives currently are implementing Big Data projects into supply chain functions

Big Data Potential²

	R&D	Supply Chain	Production	After Sales
EXAMPLE	<ul style="list-style-type: none"> • Concurrent engineering • Design-to-value • Crowdsourcing 	<ul style="list-style-type: none"> • Demand forecasting • Supply planning 	<ul style="list-style-type: none"> • Sensor data-driven operations analytics • Digital factory: lean manufacturing 	<ul style="list-style-type: none"> • Product sensor data analysis for after-sales service
IMPACT	<ul style="list-style-type: none"> • -20% to -50% time to market • +30% gross margin • -5% to -25% product development costs 	<ul style="list-style-type: none"> • +2% to +3% profit margin 	<ul style="list-style-type: none"> • -10% to -25% operating costs • -10% to -50% assembly costs • +7% revenue 	<ul style="list-style-type: none"> • -10% to -40% maintenance costs • +10% annual production

Top Reasons to Invest in Big Data Analytics

1. Supply chain efficiency



2. Reduction of supply chain costs

3. Real-time data



KEY TAKEAWAYS

While most companies have high expectations for Big Data analytics in their supply chain, many have had difficulty adopting it. An enterprise-wide strategy that enables a company to use Big Data to drive business value is most strongly correlated with Big Data analytics success. With the value inherent to Big Data and analytics, CSCOs who embrace and work to implement capability are poised to provide significant competitive advantage to their organization.

¹ Big Data Analytics in the Supply Chain: Hype or Here to Stay? Accenture, 2014.

² Big Data: The next frontier for innovation, competition, and productivity, McKinsey & Company, 2011.

5. TRANSFORMING LEADERSHIP CAPABILITIES

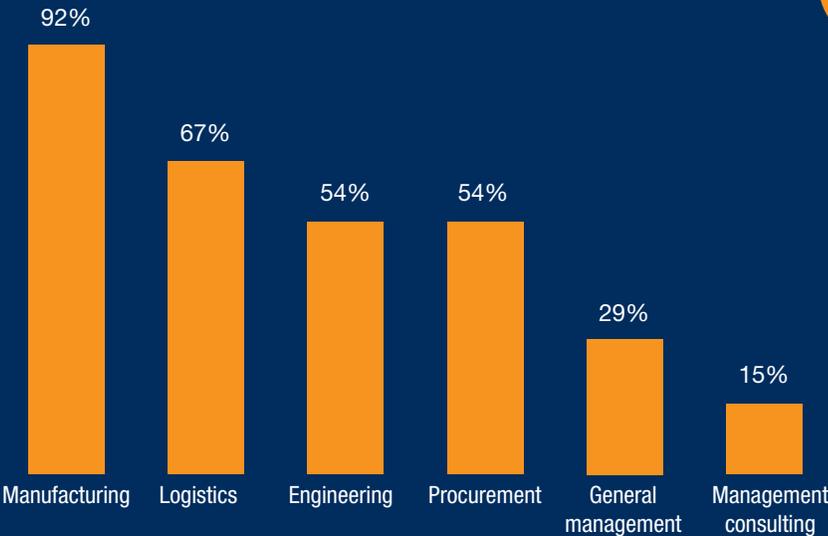
In a time of rapid change and globalization, the rules have been recast for acquiring the right talent. Few positions have undergone as thorough a transformation as that of chief supply chain officer.

To Be Successful, CSCOs Need the Following Traits



Different Paths to Demonstrate Leadership Capability¹

Previous experience of chief supply chain officers



KEY TAKEAWAYS

The role of the modern-day CSCO has been elevated to a high level, which reflects the position's critical importance to the success of an organization. Today's CSCO is a strategic relationship builder who recognizes the vast interconnectivity across global supply chains. And a growing number of companies are looking externally to bring modern-day CSCO capabilities into their organization.

¹ Research on 86 chief supply chain officers, Russell Reynolds Associates, 2013.