

Deflating the inflation dilemma

Inflation is back. Prices are rising at a pace not seen in decades across every country and every sector. Interest rates in the US and other countries are skyrocketing. Geopolitical conflict continues to undermine any sense of stability that might have resulted from waning concern about COVID.

At the IBM CSCO Think Circle in September 2022, supply chain executives discussed the current inflationary environment that is the latest challenge testing these leaders, who are still reeling from the pandemic and associated bullwhip effects. As supply chains around the world have experienced major disruptions over the past two and a half years, consumer expectations have become more exacting. But as manufacturers and distributors race to track and fill orders in an unstable environment, many are struggling to keep pace with demand. These shifts require end-to-end supply chain visibility and speed to act on signals that can change wildly – which require improved access to data.

Exploring a FIT (financial inflationary tactics) approach with IBM’s Scott Layton, the Thinkers contemplated six Cs that offer a structured framework to think about managing the impacts of inflation.

Customers

Get to know your customers again and lock in their commitments, recognizing that shifting consumer expectations are driving destocking, inventory rebalancing, and radical innovation in warehousing to the point of virtualization.

“Maybe the inventory of tomorrow is not in warehouses or fulfillment centers. Maybe it is closer to the customer ... distributed... in their houses. It might be the “Uber” of inventory. And we would use AI to orchestrate space—change the paradigm of how we did fulfillment. It is not easy... virtualized inventory.”

“People/consumers are moving to value, and we haven’t quite figured out what that means but the demand is changing. We need the analytics to drive demand sensing. People stocked up on the wrong things and because demand changed, now we see retailers destocking.”

“We cannot predict demand. Multiply that across all consumer product companies and it is a huge opportunity for the world to get better data.”

Cash

Cash is still king, so ensure you have enough working capital at micro and macro levels.

“The discipline of profitable growth is essential”

Costs

Optimize, don’t just cut costs. With commodity prices surging during the pandemic, and now with added global geopolitical conflicts, the price of everything from petrol to pasta has more than doubled in three years. The inability to rely on traditional demand signals is adding to ongoing supply chain challenges that will exacerbate volatility in the coming months.

“We don’t see commodity prices coming down. The pendulum has swung to the other side and fuel is very much constrained. Whether you manage or shape the demand... it is still cost, cost, cost. The only way to manage this is with data.”

“There is still a lot of inventory in the system, and it is sitting now in certain pockets. There will be a rationalization, but we don’t have a view to when and how much.”

“What supply chains thrive on is predictability, and the ongoing zero-COVID policy in China at the moment for many businesses, is predictably unpredictable.”

“The issue is speed and getting insight – we’re moving away from linear S&OP processes to parallel processes, using AI.”

Culture

Re-recruit your team to drive an inclusive culture to survive the tight labor market.

“We are in a moment of rationalization. I predict that in two months, we will start to see layoffs... There will be a shock wave effect across the US and we need to cut down everything in order to survive.” (In fact, Bloomberg reported only a week after the meeting that Intel is planning layoffs that could number in the thousands – it’s first major layoff since 2016: [Intel Plans Thousands Of Job Cuts In Face Of PC Slowdown.](#))

“As people are retiring or leaving roles it gives us an opportunity to automate in a new way.”

Carbon

Lean in on sustainability as you move toward carbon-free operations.

“We need to avoid greenwashing. Carbon neutrality and net zero are different. You can buy your way out of one but not the other. Most organizations have net zero pledges, but few can identify their path to that.”

“Going green costs more. We have to work out how to address the huge unused capacity at the global level and the huge bottlenecks at the regional level. Could we think about it like VPN bandwidth and make excess capacity available to others. Maybe this is a geeky way to think about sustainability but it might expand our thinking.”

“What is the decentralized model that will optimize for talent shortages, carbon reduction and inventory challenges. Decentralized inventory using AI may be the new global network.”

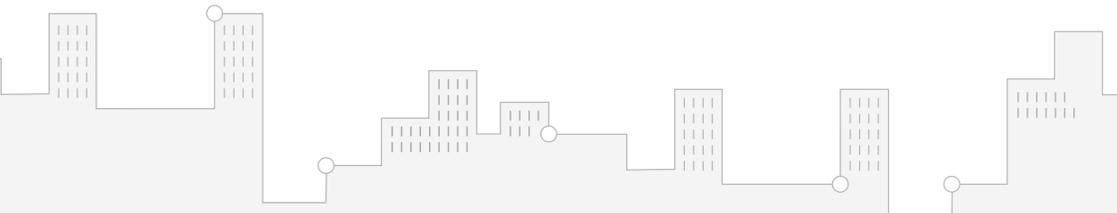
“Energy in Europe isn’t a matter of price, rather about feasibility. We may see rationing in manufacturing. That will matter to most organizations that don’t even know how much they use. AI would help.”

Collaborate

Collaborate across your organization and with your ecosystem partners to address current and changing economic realities.

“There’s a long chain of small and medium sized businesses who are our partners that we risk putting out of business if we raise prices without considering that impact.”

“The closer to the point of decision making we can get, the better the decisions that will be made. We need to remove barriers to get there.”



Own your transformation

Data-led transformation for the modern supply chain

Many Thinkers participated in interviews for a new IBM Institute for Business Value (IBV) study (Own your Transformation), which unveils how Chief Supply Chain Officers (CSCOs) are simultaneously managing the present and preparing for the future. They joined 1,500 global CSCOs who were surveyed for the study. Our report highlights the intense focus CSCOs are placing on analytics, AI and automation initiatives to build intelligent, resilient, and sustainable supply chains.

Key study findings show that:

CSCOs are embracing AI and automation technologies to provide interconnectivity with partners and suppliers and to enable sustainable operations and predictability.

- Almost half (47%) of surveyed CSCOs said they have introduced new automation technologies in the last two years—an approach that can add predictability, flexibility, and intelligence to supply chain operations, and they’re using AI to help monitor and track performance.

Sustainability is both a challenge and a force for change.

- CSCOs rank sustainability as their third biggest challenge in the next few years, behind only supply chain disruptions and technology infrastructure.
- 50% report that their sustainability investments will accelerate business growth.
- They tell us that they experience the most direct pressure for sustainability transparency from: investors (56%), board members (50%) and customers (50%).

As inflation takes over from the pandemic as the major roadblock to supply chain predictability, managing the present while shaping the future remains the primary challenge for today’s CSCOs. Our Thinkers are building the resilience to navigate this challenge. Our Thinkers are building the resilience by investing in data, improving end-to-end supply chain visibility, and finding new ways to do better faster.

20% of respondents stand apart for accelerating their data-led innovation to prepare for a precarious future, and this group of Innovators is already outperforming peers on key metrics including reporting 11% higher annual revenue growth.



Read the full study
ibm.co/c-suite-study-csco

Halide Alagöz

EVP, Chief Supply Chain & Sustainability Officer, Ralph Lauren

“We can’t just say that something is 70% sustainable if we can’t prove that and we don’t have enough data. Traceability and flow of data is key.”

Mike Corbo

Chief Supply Chain Officer, Colgate Palmolive

“Manage the present; shape the future. We live in both camps. Digital transformation will ignite and will help.”

Dr. Dirk Holbach

Chief Supply Chain Officer, Henkel

“We are continuously asked to reinvent, not only our focus areas but also the way we operate our business.”

Greg Jozwiak

Chief Supply Chain Officer, Dow

“A big aspect of supply chain operations today is the ability to pivot rapidly. Digital capability over the last 3-4 years has allowed us to organize information and data to make better decisions—faster.”

Sami Naffakh

Chief Supply Officer, Reckitt Benckiser

“Digitize when it’s going to create value. Invest in data and systems where you have an issue.”



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