Resilient Edge: A Business Vitality Podcast from Deloitte

S1 EPISODE 3 — Dealing with Disruption

TRANSCRIPT:

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Darcy McLaren: Companies are moving to what they call anti-fragile status, and the ones that are really evolved are going to be able to take advantage and make it a differentiation when there is a big disruption. So, it's going to become a core competency of people's supply chain to create a relative gain due to uncertainty in the industry, and I think that just talks to how evolved this is getting to actually almost embrace a disruption.

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Chip Kleinheksel: Hello, and welcome back to Resilient Edge, a Business Vitality podcast from Deloitte. I'm Chip Kleinheksel, chief technology officer for Deloitte's Global SAP Alliance. It's my pleasure to be your host as we explore some of the most pressing business transformation issues that organizations are contending with today. The question at the heart of this podcast, how do you go from thinking about change to actually making it happen at scale?

Over the course of the season, we're focused on three critical areas, artificial intelligence, sustainability, and elasticity against disruption. I'll be joined by experts from Deloitte, SAP, and beyond to share insights from their transformation successes. Today, I'm excited to tackle a continuously timely topic, supply chain disruption, and how organizations can be nimble responding to it.

We've had a lot thrown at us in the past few years, whether it's supply chain breakdowns, natural disasters, never mind a global pandemic. Given that change is taking place at a faster rate than ever before, it makes sense that 84% of CXOs identify resilience as a priority for their organizations, per our report on organizational resilience. Companies are facing disruption in many forms, operational, environmental, technological, and even social. And that's why moving from reactive resilience to proactive resilience across business functions is going to be key.

In other words, adaptability. And many global executives are wondering, how do we achieve that shift for the long term? To help you think through this challenge and the opportunity it presents, I'm pleased to introduce two leading thinkers on resilience. My first guest is Darcy McLaren, she's the digital supply chain CRO at SAP. Darcy, thanks for joining us today, tell us a little bit about yourself,

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Darcy McLaren: Chip, thanks very much for having me. So, a little bit about me, I lead the global supply chain team for SAP, and what that means is I'm responsible for making sure we have the right products, the right go- to market, and service to work with our customers, and it's all about transforming their supply chain.

Prior to SAP, my expertise was building and scaling niche supply chain organizations off, what we call, the design to operate spectrum, which is designing products, planning, manufacturing, doing the logistics, and also operate. And I just am passionate about this space and looking forward to the rest of the conversation.

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Chip Kleinheksel: I love it. And my second guest for this episode, Vadhi Narasimhamurti, supply chain lead, at Deloitte. Vadhi and I have known each other for years, why don't you tell us a little bit about yourself?

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Vadhi Narasimhamurti: Yeah, Chip, you absolutely nailed it, Vadhi Narasimhamurti, I'm supply chain lead for Deloitte, from an SAP standpoint. Very excited to be here, I have been playing in the supply chain space using SAP products for 25 years of my life, I grew up in the supply chain space, did a lot of work in the manufacturing side, then started doing a lot of work in the distribution side. And over the last 20+ years, I've been helping our clients think about how they should reimagine their supply chains, using SAP products, to create value for themselves, and very, very excited to talk about it.

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Chip Kleinheksel: Well, I'm so happy you could both join us for this episode. Now, why don't we get started with a high- level look at the current landscape. Darcy, what trends are you seeing when it comes to disruption and volatility businesses are dealing with today?

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Darcy McLaren: Well, with disruption, what's interesting is that what we've learned in the supply chain, it's vulnerability to broad base of conditions. Everything from worldwide economic conditions, conflicts between nations, rapid technology advancements like we've never seen before, labor unrest, shortages, unpredictable consumer preferences, regulation, compliance, sustainability, security... And mother nature seems to be pretty angry right now.

But we've always had these disruptions, I think the difference now is that they happen more frequently, and they have a bigger impact to the global supply chain. And what companies are realizing, and really COVID put this to the forefront, is that they really have to change from being very cost- effective, very efficient, to really more about being risk averse, and being able to respond and react to these things. So, those are the trends we're seeing, and by the way, those trends are true across all industries that have a supply chain.

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Chip Kleinheksel: Vadhi, what about yourself, what trends are you seeing?

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Vadhi Narasimhamurti: Darcy touched on a lot of these. Before COVID, companies had focused on how do we create a highly cost- efficient supply chain, and frankly, they've become masters at it. That has now changed to, how do you create a much more resilient supply chain, from just being a cost- effective supply chain? And companies today are dealing a whole lot better with how to think about disruption, what do they need to do to make sure that they can create resiliency? Technology is playing a big role as we think about these disruptions.

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Chip Kleinheksel: Darcy, you hit on this a little bit, what are you hearing from clients when it comes to the frequency or the change of frequency and the severity of disruption that they're feeling?

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Darcy McLaren: What's interesting is that instead of chicken little, the sky is falling, it's become a normal part of their job to go in and say, what is the latest disruption we need to deal with today? And then it's a matter of the severity.

So, there, of course, is a spectrum of how evolved you are in your supply chain, but as companies are evolving their supply chain to be more agile, predictive, reactive, what we're seeing is that there's a huge difference between the response of the Suez Canal blockage and what was happening in the Red Sea, it still wasn't an issue anybody liked, but companies now were connected, they had systems in place to do scenarios that could optimize whether it was based on when the customer wanted it, based on costs, based on carbon footprint, to figure out how they were going to handle that disruption, and then communicate that answer to the involved parties that needed to see it.

And then, the more automated folks are, the more they could do that automatically. So, a huge shift between the panic and the manual collecting of information to a much more responsive, and what that gave them is a better answer. And better answer means did it cost less? Did it get it there sooner? Did it take less carbon footprint? That's a huge difference that we see, is the embracing of technology to solve these problems which are now a part of a normal planner's day.

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Chip Kleinheksel: It's interesting, we had an episode earlier with Juergen Mueller, where we talked about AI, and when I think about just people's ability to plan and the automation and the capabilities they have to be more proactive, that's only going to help us even further when it comes to responding to disruption. And I think about, from 2021 with the Suez Canal, to now, companies were able to handle it a little bit better, where in 2021, many weren't ready for it.

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Vadhi Narasimhamurti: You absolutely nailed it, Chip, I would tell you that the severity of disruptions has gone up, COVID was a bad case of it, but then there's been several other instances after that. But now, as you said, Chip, with what AI is doing, companies now have capabilities to be able to handle that disruption a whole lot better than they did in the past.

So, it's not just about, oh, an event occurred now I got to react, now they can actually think about scenarios where an event could occur and what would they do in that situation for them to address their own supply chain should that event occur.

So, the number of scenario planning activities that are happening has dramatically increased, the number of simulations of real business events that could cause disruptions have gone up significantly, and the ability of organizations to leverage technology to think about this, and to have an answer that serves their customer needs the best, has allowed them to react much more quickly should an event like that happen.

And that to me is the biggest change, I would say, from even five years ago to now. And as we look forward, what I'm excited about is because of this learning that their organizations have had, the organizations now are able to execute their day- to- day operations in an even more seamless manner. So, they now can think about those " bad" situations that can happen, they can plan for it, which has now made them extremely efficient in the way they execute day-to-day operations, and that's good for the world, it's good for Mother Nature, it's good for their customers, and it's good for the end- end value chain that most organizations serve in.

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Chip Kleinheksel: Thanks for the context, Vadhi and Darcy. Let's transition a little bit to discuss how SAP and Deloitte are approaching solving these type of problems for our customers and our clients. We hit on technology a little bit, but how are changes in technology helping organizations really shore up their resilience?

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Darcy McLaren: So, what we're trying to do at SAP is a few things, and I'll highlight what we're trying to do, and then I'll give you kind of the how that we're putting that in play with technology. The first thing we're trying to do is really anticipate market demands, right? Using dynamic cross-channel signals to define requirements, you can adequately design and develop your products. We also want to do the planning in seconds, continuously collecting data in real time from suppliers, sources, information that has to affect your supply chain, be it geological, political information, weather, et cetera, to do it.

Then, what we want to do is really bring the speed of digital to manufacturing to get insights and accurate information across all your facilities, automate it, load balance it, adapt production on the fly, which is a really cool thing to do, and then it's all about delivering. Constant delivering routes,

dealing with delays, providing capacity, ensuring on- time deliveries in a course, making service predictable.

Now, in order to do all that, we needed to change the way we approach things. So, what we have put into our products is what we call the three Cs to get you to be resilient and sustainable. And the foundation of that is, first of all, you have to connect to every process. That means an end- to- end interoperable process flowing through your supply chain is key.

So, from design through manufacturing to delivering it all in one. And the next very important component has to be contextualize that decision. So, every day, millions of information should, if you digitize, be coming into your organization, and the key to that is what does that data mean? Does it mean anything? Who needs to know about it? Can I make a decision from it?That's contextualizing the information so that the system says, I got this delay in transportation, does it matter or not matter? If it matters, what orders need to change? Do I need to re- optimize? Who needs to know what I did? Communicate that out.

And the third area is collaborate with your ecosystem. Which means creating digital connections easily with all your partners. So, connecting to contextualizing and collaborating are what we've put into our system, we wanted to have AI embedded throughout, and we want to make sure sustainability is throughout the entire SAP ecosystem. That's the way we're approaching that to give you this risk resilient and predictive supply chain.

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Chip Kleinheksel: The three Cs, I love that. Vadhi, as we think about having to move from being just reactive to proactive, especially across our business areas, especially in the world of supply chain, what are we doing from a Deloitte standpoint? How are you seeing Deloitte help companies go do that?

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Vadhi Narasimhamurti: I love the three Cs, Darcy, that absolutely is the way organizations need to think and how we can help organizations create value. What we are doing, Chip, really is taking what SAP is doing and really making it real in each of the various sectors and industries.

So, each of the industries have their own sets of challenges that might look slightly different, but at the core of it, you can use technology to solve a lot of these problems. I'll give you an example, if you look at the world of food manufacturing, and one of my clients does a lot of protein work, well, there's thousands of people on the shop floor that have knives, that cut the animal up, but guess what's really important to that safety? How do we make sure that we are actually taking technology to ensure that we can create a safer environment?

So, how do we give them access to more protective gear that can actually be monitored from a control room to ensure, hey, this person is not necessarily wearing the right equipment. When you have 2000 people that get on the floor at 8: 00 in the morning, it's hard to visualize that. How do we make sure that we can do that with technology?

Second is, when you look at manufacturing, actual production lines itself, how do we ensure that we have the right quality of product that's coming out? So, how do we use computer vision technology, along with all of the tools that SAP is bringing to the table, to look at product and based on the visual of that product, determine the quality of that product, and then send a message right down to the shop floor immediately, around whether they should continue to process that product or whether they need to rework that product. That's happening in real time today, that, if you think about it, several years ago, was not happening.

So, a fantastic example is in maintenance. How do we use technology such as AI to predict what would happen to equipment failures rather than react after equipment failures happen? That used to be a nirvana that we'd want to achieve, but today that happens in every company that we are in today.

So, I would say as we have really thought about the three Cs, what we do is we bring that to life in different sectors and different industries, and each of them have different use cases, and the power of our industry knowledge combined with products that, Darcy, you and the team have put out from an SAP standpoint, that is the real value that I think our clients can get from it.

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Chip Kleinheksel: Now, Darcy, you hit on this a little bit earlier, around contextualize, and the fact that many of our clients are just inundated with data. How do SAP and Deloitte approach helping

clients figure out the where and the how to start an implementation or solving some of these challenges?

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Darcy McLaren: Well, first of all, I'm going to start a band, it's going to be called the three Cs because I really like that, guys. But how do we help? Well, first of all, I think it's important to know that we look at it as a three- legged stool, it's working with the customer, with SAP and solution integrators like Deloitte, because we need Deloitte to help make these solutions real in our customers.

So, how we work is, first of all, we try to understand the company's vision and the art of the possible because it's very important to know where you want to go and what your end game is, and you need that longer- term view. And we, as a technology provider, need to understand that from our clients because we have to have the technology ready before they need it. So, we are further ahead, but we need to know their vision.

Then, we work in conjunction with them, and based on their individual situation, where they are, then it's where do you begin to build the journey? A key area we find people should start in, quite frankly, is integrated business planning, because that gives you a holistic view from the strategic all the way down to the execution, it also is a great way to start cleaning up your data.

The other thing we do is we try to make it real to understand what the vision could be, and how we do this is we use facilities such as the Deloitte Smart Factory, which has the ability of actually taking these concepts and showing them in a real- life factory what the art of possible could look like. That really helps, especially senior leaders, see what they can do with the technology. And then we share our roadmap, and then finally, we just work really closely with Deloitte, who then gets really in detail of the actual how we do this in this journey.

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Chip Kleinheksel: Bringing things to life, the ability to help executives visualize and see how some of these capabilities work is significant is what I've found.

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Vadhi Narasimhamurti: Yeah, making it real, Darcy, as you said. In some cases it's hard to visualize using a PowerPoint, what you're really going to get. But when you touch and feel what you're going

to get, whether it's in the Deloitte Smart Factory, as you mentioned, or in any of the smart factories around the world, what it allows executives to do is really touch and feel and get a sense of what they need to do.

Now, I tell you, because of the amount of data, Chip, that you referenced, there is just volumes and volumes of data that comes at organizations, so one of the key things that does need to happen, and we help organizations think about this, is what are they looking to achieve? What are the outcomes they want to get?

What are the KPIs and measurements that actually get them to measure those outcomes in a meaningful way? And then, how do you take the data that you're getting to translate that into measurements and metrics that they care about? If we start with just the volume of data, then it's so big these days, that can get overwhelming pretty quick.

So, it really goes back to what is that business strategy that, Darcy, you laid out? How does that translate into metrics? What kind of data do you need for the metrics? And in some cases I would say it's using the data that's important to you, not using all of the data that's thrown at you.

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Chip Kleinheksel: So, connection, contextualization, collaboration, all with a focus on outcomes is bar none the way to go about it.

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Vadhi Narasimhamurti: You got it.

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Chip Kleinheksel: All right. Speaking of outcomes and implementations, Vadhi, what are some of the successful outcomes you've seen from companies that are leveraging supply chain solutions that SAP and Deloitte work with on a day- to- day?

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Vadhi Narasimhamurti: I think if you look at the various aspects of the supply chain, Darcy, you started talking about planning, I've seen tremendous success in really global organizations and multi- billion dollar organizations operating in 70+ countries, and when they get to a common planning

platform, it's unbelievable the amount of information that they can actually use commonly, globally, and make demand planning decisions that are much, much better than what they had ever made before.

So, they know what to produce, when to produce, and how to distribute that product globally. Just that is a tremendous one. The other example I have seen companies do very, very successfully is all of the work that they do in managing spend. Again, significant amount of work that happens from a supply chain standpoint in managing spend globally in connecting with, as Darcy you mentioned, the ecosystem with vendors, their suppliers, and of course their customers.

What they have found is that their ability to make that connection, their ability to monitor that spend has really created opportunities to unlock significant potential both in their cost of goods sold and in their SG& A expenses. And I'd say the last one, product and people safety is critical for any enterprise. So, how do they monitor product safety, how do they monitor people safety, and how do they create more consistency so people are actually excited about going to that organization, and they're feeling safe that they can go and work in that environment? That has become extremely important, especially as the geopolitical landscape has become fraught at this time.

It's important to feel safe and organizations are doing a phenomenal job in continuing to push safety as a culture, it's not just a thing to do anymore, it's a part of the way they think on a daily basis, and that makes a huge difference. So, these are just some examples, Chip, across different sectors that I'm seeing, there's hundreds more of these, and that's what is cool about the supply chain, is it's so big and broad that you can create value in so many different areas.

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Chip Kleinheksel: Darcy, where do you see things going from here? What does near future of digital supply chain look like?

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Darcy McLaren: Well, what's interesting is I was, I think it's two weeks ago, was at the Gartner conference, that was in Orlando, and what was very interesting, what they presented of what they call the uncertainty spectrum, where now companies are looking at to really moved from reactive and proactive to what they call the fragile state, where you suffer relative loss due to uncertainty to a resilient state. And the key here is as you move to the more reactive state.

If companies are moving to what they call anti- fragile status, and the ones that are really evolved are going to be able to take advantage and make it a differentiation when there is a big disruption. So, it's going to become a core competency of people's supply chain to create a relative gain due to uncertainty in the industry, and I think that just talks to how evolved this is getting to actually almost embrace a disruption.

But overall, what we're seeing with supply chain is, of course, the embracing of technology. The use of AI, the rapid adoption, and the desire to go to generative AI, and have it move just from optimizing your organization and automating your organization to really have a co- pilot working with you to assist the human with machine to really give you that autonomous move towards what's called a self-healing supply chain is absolutely going hand in hand.

The final point, as we talked about earlier, is this concept of sustainability. Oxford Economic Study actually indicated that leaders in supply chain are also leaders in sustainability, which is why these go hand in hand.

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Chip Kleinheksel: And I love how you said basically, if disruption's a given, then it's the companies who can handle disruption and are good at it, right?

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Darcy McLaren: Get good at it.

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Chip Kleinheksel: That are going to be successful.

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Darcy McLaren: Yeah. They're going to say, okay, how are we going to deal with it? And let's deal with it better next time. And let's learn from it and actually handle it automatically next time because we've seen it before. That's the sort of thing that we're seeing now, which to me, this use of technology is just so exciting how folks are embracing it. Make no mistake, it is a journey, not a destination, we still have a lot of change management to do, which you folks are very good at, is

helping organizations get through this journey, but the train has left the station and it's going at a pretty fast pace.

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Vadhi Narasimhamurti: I'll tell you, the only constant these days is change itself.

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Darcy McLaren: There you go.

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Vadhi Narasimhamurti: That is literally the only thing that is constant is that every day there's going to be change and let's be prepared to handle that change in the most effective manner. Where are things going to go from here? I think things are going to be extremely exciting in the supply chain world, as I see it, even the near future or even beyond. Driven in a lot of ways by technology, but also driven by a mindset and culture within organizations that is changing to be ready for any change coming up. Instead of being reactive, let's actually proactively think about what would happen, and how do we prepare for it?

The other thing that's really changing, and Darcy, you've touched on it a few times, at the end of the day, there's a huge imperative in that we all need to save our planet. And the biggest impact to sustainability is how supply chains act and enable that sustainable planet going forward. So, we all have, and our clients, have an imperative to make that change happen in a way that we can leave a better planet for the next generation. So, I'm very, very excited about the fact that organizations are well underway with this, they're embracing the technology, it's very exciting as I look forward.

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Chip Kleinheksel: We've covered a ton of ground today and given our listeners a lot to think about, but before we wrap up, I wonder if I can ask you both to make a final parting prediction. If you could peer into a crystal ball, what do you think the resilient, adaptable data- enabled supply chain of the future will look like? We'll start with you Darcy.

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Darcy McLaren: To me, what the future in supply chain is going to look like is fairly autonomous, where, for the most part, the supply chain is going to get the information in, make some decisions,

present it to the planners, let's call them, and then communicate that for the majority of things that happen, and for those that it cannot, we will be using co-pilots.

We'll have highly automated plants and delivery mechanisms, including autonomous vehicles throughout the entire supply chain, that we're collecting all this data, we'll have information regarding that we can handle, which is why SAP is partnering with companies like Nvidia for quantum computing, to handle all this information coming in, and then we'll have the technology that's embedded to allow us to really use this co-pilot.

So, I really think in the next three to five years, that is actually going to be a reality for the majority of the organizations that exist today, and for those that don't exist today, but will in the future.

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Chip Kleinheksel: Autonomous supply chain with co-pilots.

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Darcy McLaren: You got it.

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Chip Kleinheksel: That's the world. Vadhi, what's your crystal ball view?

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Vadhi Narasimhamurti: I'll tell you what, Darcy did a phenomenal job, my view of the crystal ball is a whole lot simpler. I need to get from my place in Brooklyn to JFK in two minutes, flying in a car instead of having to drive for an hour and a half, that I do all the time. So, that's one thing-

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Darcy McLaren: I'm with you on that, Vadhi, I am with you on that. Only I go to Newark more than JFK, and it's awful from Connecticut.

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Vadhi Narasimhamurti: It's absolutely painful. That's one prediction. The second one is, gee, I wish I could just think about what I want to buy and it shows up at my place 10 minutes later with drones.

Instead of even having to go click that Amazon button, that's a possibility for the future as well. So, just very, very excited about where this is going, and I think we'll all stand to gain.

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Chip Kleinheksel: Darcy, Vadhi, incredible insights throughout the whole conversation, thanks so much for being a part of the podcast.

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Darcy McLaren: Thank you Chip. Vadhi, always a pleasure.

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Vadhi Narasimhamurti: Darcy, same here. Thank you very much.

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Chip Kleinheksel: My guests today have been Darcy McLaren, digital supply chain CRO at SAP, and Vadhi Narasimhamurti, SAP supply chain lead at Deloitte.

I'm Chip Kleinheksel, and this has been Resilient Edge, a Business Vitality podcast, paid and presented by Deloitte, and produced by BBC StoryWorks commercial productions.

That's a wrap on the season, thanks so much for listening. We'd appreciate a review wherever you get your podcasts. Bye for now.