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Managing a Global Supply Chain in a Globally Challenged World

Keynote Remarks by Paul A. Laudicina

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Good afternoon. It is an honor and pleasure to be here today among such a distinguished group of business leaders. Two years ago, I had the great privilege of speaking to you at your conference in Las Vegas—it seems the high-rolling days of "casino capitalism" are behind us in more ways than one. The conference organizers have wisely traded the glitz and irrational exuberance of swanky Vegas for the far more thrifty and restrained setting of Charlotte—global banking headquarters notwithstanding.

When we spoke in 2007, I talked about changing dynamics. Granted, not many of us expected the tumultuous change we've seen in such a short period of time, but the points I touched on—understanding the principal drivers of future business conditions and the keys to successful supply chain management—have only become more relevant and more imperative today, as has the thesis of the research we undertook with the Institute for Supply Management (ISM) two years ago. In our study, "Succeeding in a Dynamic World," we anticipated the ever-more critical nature of the supply management profession—and we continue to see that role becoming even more essential to the CEO.

Over the past few months, I've had the opportunity to travel much of the world, speaking with A.T. Kearney's public- and private-sector clients, as well as gatherings of corporate leaders such as this one, about the current global economic crisis. Everyone, everywhere—from Doha to Detroit, from Manila to Munich, from Nairobi to North Carolina—is grappling with the same questions. How bad is it? Is it likely to get worse? How long will it last? What can—and what should—we do to get through it?

It's especially appropriate to discuss this economic crisis and how to manage our way through it at the ISM. This is, after all, the organization that during the Great Depression developed a crucial leading indicator that came to be known as the Purchasing Managers Index, a tool that the Department of Commerce in 1990 said was 60 to 70 percent predictive of U.S. economic activity, and that became a global barometer in 2003.

New tracking tools evolve and markets change, but we need those same good insights, that same innovation today—because none of us has the luxury of sitting back and watching this crisis play out. And in many ways, the global supply chain is the "canary in the mine" of shifting business conditions. So corporate leadership needs *your* expertise. The fact is, none of us has seen the likes of these current conditions in our lifetimes. The closest reference point we have, as we all know, is the Great Depression, but our world is vastly different from that of the 1930s. Today's global business environment is shaped by *complexities, paradoxes* and *speed* that emerge from constant, disruptive change transmitted by closely connected markets and turbocharged by continuous innovation and technology. This is not your grand-father's economic crisis, but how we manage through this crisis will very much shape the world that our grandchildren inherit.

In 1962, the renowned psychologist Erik Erikson introduced the theory of another kind of crisis—an identity crisis. He wrote that an identity crisis occurs at a time "when each young [person] must forge… some central perspective and direction, some working unity, out of the… remnants of [their] childhood and the hopes of [their] anticipated adulthood." Put simply, these are the teenage years. If you're a parent of teenagers, you'll know firsthand, as do I, just how crisis-filled these transition years can be. This is the inflection point that our global economy is in today—caught between those early, wide-eyed benign years of globalization's unbridled bounty on the one hand, and the mature wisdom and balance that time and experience bring on the other. How we guide our global economy through this crisis will determine if it reaches its full potential to the benefit of all, or if it stalls and even regresses, reversing decades of progress and prosperity.

We've already begun this slippery slide, navigating between the Scylla and Charybdis of pirates and pandemics, protectionism and political pandering.

We enjoyed the halcyon days of globalization—those days of the roarin' 90s and the early turn of the century. But we can't assume that the efficiencies and improved margins we've achieved in moving goods and services freely across borders will continue as in the past. The world is clearly not going to revert to its pre-globalization, balkanized state, but neither is it going to return to the days of unfettered integration of the past 50 years. Instead, there will be a new model: one that builds upon globalization's successes but also is forced to address its new challenges.

How long can we assume that energy prices will stay depressed before inevitably resuming a steady ascent? How long can we assume that the world will accept our carbon footprint costs and our unchecked consumption of limited resources? How long can we assume that our operations will remain immune from terrorist activities, natural disasters or other wild-card, exogenous events, including pandemics? How long can we assume that increasingly activist governments will keep their hands off our operations? We've already begun this slippery slide, being literally forced to navigate between the Scylla and Charybdis of pirates and pandemics, protectionism and political pandering.

Make no mistake about how important supply chain operations are to each question. We can—no, we *must*—help define what this new model looks like and how it operates so that we can restore economic vitality and growth. From our work with many of the world's largest companies, we know that they are very much looking at how they manage their supply chains as central to their long-term growth prospects.

To paraphrase Rahm Emanuel, President Obama's Chief of Staff: A crisis is a terrible thing to waste. Even as we're frantically working to create and implement solutions, there's a real chance of wasting this crisis simply because we are so focused on the here and now. We zoom in on the steady stream of news and information that bombards us as we struggle to navigate ever-more demanding constraints, particularly in purchasing. At the same time, today's sourcing decisions must be forged with a keen eye to future costs and demand.

The more we allow ourselves to become mesmerized by the fire, the more likely we are to perish in it. So how do we see through the haze? How do we find the clarity we need to develop the strongest and most resilient strategies that will drive growth and secure long-term success?

We must step back from the everyday demands—as important as they are—and look over the horizon. In doing so, we will see that these turbulent conditions are neither an isolated historical interlude, nor are they part of the normal business cycle. GE's Jeff Immelt, has described the crisis as "an emotional, social, economic reset." The late guru of management, Peter Drucker, would undoubtedly call it a fundamental shift in the "theory of business." He told us that companies fail not because they are doing the wrong things, or even because they are doing the right things badly. Rather, they perish because they fail to anticipate and adapt to fundamentally changed business conditions. And this is what we—all of us in this room today—are facing: a complete reset. A change in the theory of business. An inflection point. A paradigm shift. A hinge of history.

The fact is, we are knee-deep in a change process likely to be as transformational as the convulsive change ushered in by the Industrial Revolution two centuries ago when we substituted machine power for muscle power. And just as the world transformed then, so it will for us, in ways that we can only begin to fathom. We have a choice, just as our predecessors had in previous transformations: We can either get out in front and lead, or we can lag behind and follow—and very likely relinquish control of our fate in the process. Put in those terms, it doesn't seem like a difficult choice, does it?

Our Enabled, Imperiled and Empowered World

Our world today is at once enabled, imperiled and empowered. In our enabled environment, what happens in one part of the world ricochets to another at unbelievable and ever-increasing speed. And you are on the front lines of this movement. Emerging technologies are driving globalization and they are transforming how we move goods and services around the world. As we urged in our study, "Succeeding in a Dynamic World," two years ago, leading supply chain executives are using new technologies to network collaboratively, connecting with whomever they need to get the job done, regardless of which organization they belong to.

This openness, however, comes at a price. As the last century came to a close, a darker side of globalization began to emerge. We saw that the same open borders, the same integrating technologies, the same ease of movement that sparked exuberant economic performance also exposed new vulnerabilities to such dangers as terrorism, illicit trade, competitive economic challenges, and, yes, global pandemics.

The knee-jerk reaction to the economic turbulence and decline of the past year—even with decades of data to support globalization—is that we're tempted to retrench, to pull back from the very relationships and openness that nurtured our sustained prosperity. And we see the global community attempting to reconcile the two ends of this continuum, reconciling the economic imperative of remaining open to growth with the political imperative of protecting past gains. We can't sit on the sidelines of this game. We must add our weight to ensure that the world remains integrated, enabling sustainable growth that is consistent with social and moral imperatives.

And the question is, in an *enabled* world, *will we lead or will we follow?*

We also live in an *imperiled* world, with new dangers that risk our safety, health and prosperity. We're all bearing witness to just how quickly a new virus in one part of the world can spread to others in a matter of days. But as concerned as we rightfully are, pandemics are just one of many dangers in a globalized world.

In the current issue of *Foreign Policy* magazine, the editor-in-chief and my good friend, Moisés Naím, reports that while conflicts among nations have declined dramatically, other forms of violence have soared. In 1995 7,000 people were killed or injured by terrorist groups; by 2006, that number rose to 25,000. These are the same well-organized, well-funded and well-equipped groups that target trade routes for drug rings, human trafficking, piracy and other black market activities. They are targeting, either directly or indirectly, *your* supply chains.

This comes into sharp focus with the pirate attacks off the coast of Somalia. Piracy on the world's oceans costs the global economy as much as $16 billion dollars annually—and that amount is growing. A year ago, the cost of insuring a ship moving through the Gulf of Aden was $500. Today, it's $20,000. If you multiply that by the 20,000 ships that pass through the gulf annually, the cost is $400 million in insurance fees alone. Rerouting adds about 2,700 miles to the trip, dramatically raising costs, increasing sulfur emissions and slowing time to market.

The dangers from long-distance trade, of course, reach far beyond piracy—into the air we breathe, the food we eat and the water we drink. An EPA study estimates that pollution from the world's 90,000 cargo ships causes 60,000 deaths annually in the United States alone, and costs up to $330 billion in health care. While our attention has long been on carbon emissions, the dangers from other toxic outputs, such as sulfur and nitrogen oxide, are quickly coming into sharp focus. In fact, the *Guardian* reports that the world's 15 largest container ships may now be as toxic as *all* of the world's 760 million cars. While sulfur pollution has been less scrutinized than carbon dioxide, awareness is growing about these costs, and pressure is mounting to create buffer zones around coastlines and set new fuel standards.

Indeed, public awareness and concern are growing across the board. The more consumers learn, the more they are raising their voices and exerting their influence to get information on the products they buy. Consider the carbon cost of one kilogram of green beans on the shelves of a Paris supermarket, sourced from Provence in France or Morocco in North Africa. They look the same and taste the same. The ones from Provence were driven 842 km with a carbon cost of 64 grams; the beans from Morocco travelled 2056 km, resulting in 3,948 grams of carbon dioxide emissions. Consumer comparisons of carbon costs will soon be on par with comparing nutrition values and price. A number of companies, including Tesco, Britain's largest retailer, and Timberland shoes, are already using carbon labels. The new buzzword is "localvores," describing those consumers who search out locally grown and made products.

So we see, very clearly, some profound shifts— shifts that we must adapt to. We've all seen what happens when companies don't: when GM failed to focus on smaller, more efficient cars. When Polaroid ignored digital photography. When the big airlines dismissed Southwest.

Adapting won't be easy, surely, but there is no alternative. The UN estimates that global investments in climate change technologies will need to reach $260 billion per year by 2020. The United States plans to follow the European Union's lead on implementing a cap-and-trade emissions regulation system. A cap-and-trade system limits carbon emissions by issuing tradable "pollution credits." The initial auction of these credits is expected to cost business $646 billion, in addition to boosting gasoline prices by $0.12 per gallon and electricity costs by 7 percent.

Changing policy and using innovative technology for green and clean solutions will help us meet our growth ambitions, consistent with public health needs and the kind of broad-based prosperity that will raise all vessels. As Peter George reminds us in *The Leadership Mandate of the Millennium*, "The era of 'privatizing' profit and 'socializing' the social and environmental costs is passing. These costs are growing and they can no longer be regarded as somebody else's problems at some indefinite time in the future… the future is now."

These new constraints on the availability, cost and disposal of natural resources call into question the continued pace of the previous 50 years of economic growth and globalization. The business fundamentals that your supply chains were built on, that your corporate strategies were built on, are changing. Consumer demands are changing the nature and extent of government intervention in the private sector. How *you* respond—how *we* respond—will determine the difference between resumed growth and prosperity or stagnation and regression.

And so, the question is, in an *imperiled* world, *will we lead or will we follow?*

Finally, we live today in a global community empowered by technology. Innovations, such as Bell Labs' transistor, introduced in 1947, combined with favorable regulatory environments and spawned a new era of low-cost telephony and the digitization of data. Today, anyone or anything can be anywhere in less than 24 hours and ideas can be transmitted anywhere, instantly, and virtually without cost, 24/7. I remember my father telling me that I would never see as much technological innovation in my lifetime as he had in his. I can assure you, this is not a prophecy I'll be making to my kids.

Through blogs, activist websites, Twitter, Facebook, YouTube and discussion forums, the Internet gives consumers, shareholders and stakeholders of all kinds a global forum. The result is that corporate behavior in one part of the world is inexorably connected to and influences behavior in the rest of the world quickly and without cost.

And effective corporate leaders are using these collaborative tools to their advantage. They are collaborating to become the suppliers' "customer of choice," to capture supplier innovation, and to overtake competitors. They are collaborating within the company to create an organization where colleagues are valued for their contribution rather than their position on an organization chart. And, they are collaborating with customers to react to the "pull" of customer demand as well as the "push" of technological advances.

On a broader scale, as co-workers, consumers and constituents raise their voices—for whatever cause or concern—those in authority must respond and take action where needed. And we in this room must use our authority and influence to find and adopt solutions that build the so-called "triple bottom line"—this convergence of delivering economic benefit to shareholders in an environmentally and socially sound way, a way in which the private sector can simultaneously create value and deliver on the needs of society.

So the question we confront today in an *empowered* world is, *will we lead or will we follow?*

> We must add our weight **to ensure that the world remains integrated,** enabling sustainable growth that is **consistent with social and moral imperatives.**

The Art of the Comeback

Where does this leave us today? As an old middleweight boxing champion who had obviously taken one too many punches once said, "a boxer makes a comeback for two reasons: either he's broke or he needs the money." If that's the case, it's time that we—executives, policymakers and thought leaders—start lacing up our gloves for one of history's greatest comeback stories.

While there are many pessimists who would keep us down for the count, history shows that dramatic events have always produced cathartic change—incredibly intense periods of what Austrian economist Joseph Schumpeter called "creative destruction." Paradoxical examples abound, such as post-World War II Germany and Japan, which rebounded not in spite of their military defeats but because of them.

In corporate annals, there are just as many unlikely triumphs. Responding to his company's commitment to sustain its R&D practices during the Great Depression, DuPont's Director of Research observed that "… progress in the expansion of an industry cannot be accomplished by intermittent efforts in research that are curtailed at the first sign of reduced profits." The results of this persistence were nylon, neoprene and Teflon—innovations that reshaped the world of synthetic materials.

So what's ahead for us? Most failed forecasts throughout history missed their mark because they were blindsided by new technology and innovation. And we, in 2009, probably don't have much better clarity into the next big technological quantum leap. But make no mistake—we are on the cusp of profound change like we have never seen before. We all know Moore's Law, which Gordon Moore asserted in 1965, positing that computer processing power doubles every 18 months while its cost halves. Forty-four years later, it still prevails. So as the cost of collaboration and networking is dramatically diminished, the possibilities of extraordinary innovation increase exponentially. Success will be grounded by the common denominator of market forces and unserved needs—and will be driven and supported by a vibrant workforce.

Already, we can look around and find the seeds of nascent, growth-restoring innovations. Reduced spending may have slowed R&D, but it has not stopped it. Some companies, including IT giants Microsoft and Intel, are continuing to support innovation even in distressed times. In fact, Intel announced that it would move forward with investing $7 billion in developing new equipment, saying that it needed to maintain its cutting-edge position.

There have also been remarkable beginnings out of past crises: General Electric, Hewlett-Packard, Southwest Airlines, FedEx, Microsoft, Google—all were founded during recessions or depressions.

We must also never doubt the profound transformation and positive change we can create through our daily work. Purchasing professionals can significantly influence standards of good business by demanding from the supply base that they support practices that customers want and companies promise. We've seen this before through shifts to support the growth of minority- and women-owned businesses in years past. In this same way, we can help drive the shift to improved environmental and social responsibility.

So we have reason to be optimistic—in this era of "Yes We Can"—that we can drive positive change. As we move forward, the watchwords for government and businesses alike can be summarized by the acronym FOCUS *(see figure)*. Success will require the:

Foresight to see over the horizon and consider future scenarios with the broadest possible peripheral vision.

Openness to new ideas and new perspectives. This requires thinking outside the box and not being subject to "past is prologue" decision traps.

Collaboration to work and share across all borders and boundaries since no company is big enough, fast enough

Figure

To succeed in a world of continuous change, leaders must have F-O-C-U-S

F	**F**oresight
O	**O**peness
C	**C**ollaboration
U	**U**nderstanding
S	**S**peed

Source: A.T. Kearney

Understanding to know when and how to change our minds when circumstances justify it.

Speed to nimbly and effectively meet the challenges of our increasingly turbocharged world.

In other words, it's all about FOCUS!

It's *focus* that will drive our comeback. *Focus* to create the tools, infrastructure and policies to nurture and support continuous innovation. *Focus* to invest in targeted areas that enhance productivity and promote long-term sustainable growth and prosperity. *Focus* to become a generation of global champions driving ever-higher economic, social and environmental standards, delivering on the interconnected and equally compelling needs of *people*, *planet* and *profits*.

How *you* respond—how *we* respond—will determine the difference between resumed growth and prosperity or stagnation and regression.

We must be vigilant in exerting our authority and influence to guide the kind of growth we seek for our own companies and, by extension, the world around us. The direction we take is ours to choose. And we must do so with a deep sense of responsibility. We live in an amazingly precipitous time, where we—each of us in this room—can affect positive change far beyond the scope of what any previous generation of leaders has been able to do. We are enabled. We are empowered. And it is our responsibility, our moral imperative, to be good stewards of our imperiled world.

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