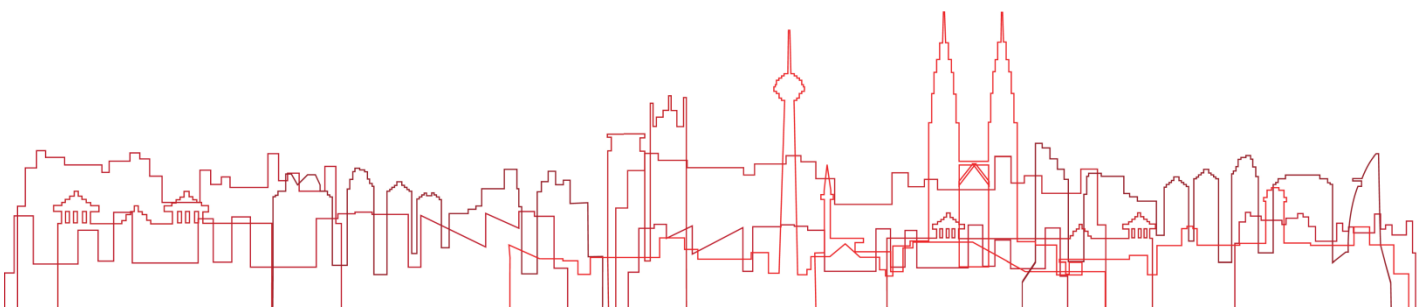


# MEETING TODAY'S SUPPLY CHAIN TRENDS AND CHALLENGES

**Part 3:** REGIONAL  
COMPETITIVENESS VIA  
OPERATIONAL AGILITY



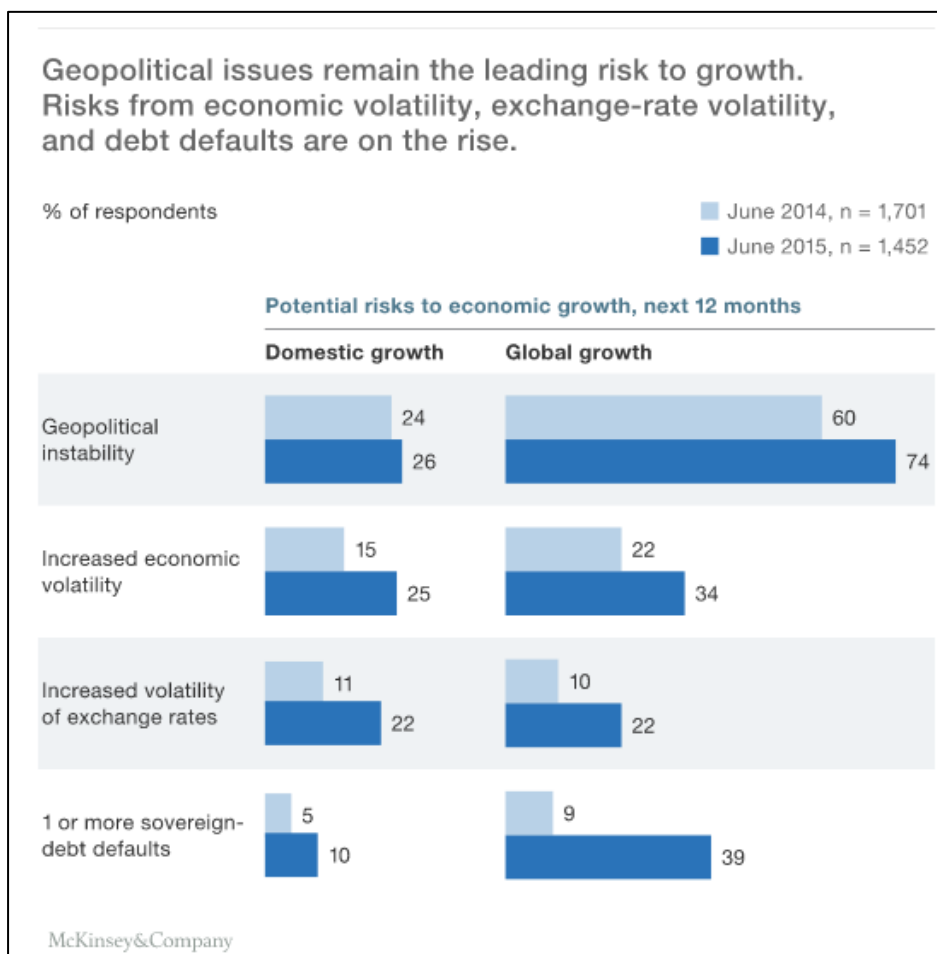
July 2015



## PREFACE

In the last two articles we covered how best-in-class companies are redesigning their supply chains to optimize total delivered costs in a global economy that is getting more connected. The strategies include taking advantage of growth driven by a global shift in trade flows especially in emerging markets and the proliferation of the digital economy.

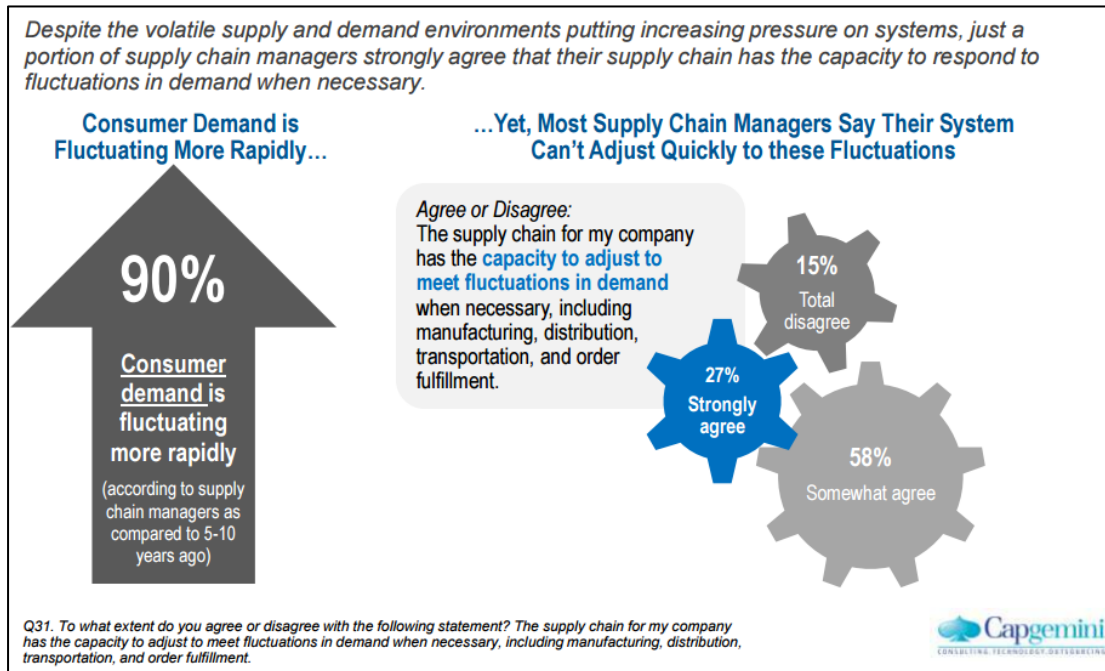
This is necessitated against a backdrop of a challenging geopolitical-economic climate which promises only greater levels of uncertainties in the near future. From [McKinsey's Economic Conditions Snapshot](#), June 2015, we see that within a span of a year, perception on the severity of risks to global economic growth has increased between 12% and up to 30%.



**Figure 1: Risks on global economic growth has risen from 2014 to 2015\***

\*Source: McKinsey Global Survey Results –Economic Conditions Snapshot, June 2015

This uncertainty has contributed to companies experiencing higher levels of volatility in supply and demand. According to a research from [Capgemini](#), 90% of supply chain executives agree that while consumer demand is fluctuating more rapidly, their systems cannot adjust quickly enough to these fluctuations.



**Figure 2: Fluctuation in demand vs supply chain capability^**

In order to successfully manage cost efficiently and sustain growth in emerging markets which were covered in the last two articles, a key competency which best-in-class companies seek to develop is operational agility.

<sup>^</sup>Source: Capgemini – The Supply Chain Impact Survey Research Results, November 2013

## PART 3: REGIONAL COMPETITIVENESS VIA OPERATIONAL AGILITY

### Operational Agility, Competing in Turbulent Times

Operational agility is an organization's ability to identify and exploit revenue-enhancing and cost-cutting opportunities more quickly, effectively and consistently than their competitors.

The traditional response to dealing with turbulence in supply chains is to institute more complex forecasting systems and processes to detect potential shifts in advance and therefore plan for it. While this has been an effective approach, and even enhanced with big-data analytics, there are limitations as seen in the Capgemini's survey findings.

A complementary approach is to have operational agility being built-in via organizational design. Best-in-class companies do this by tailoring their supply chain capabilities and decision making structures to the needs of different customer segments. When a company has the right organizational capabilities, complemented by being in the right location, this empowers and enables the company to identify the regional market opportunities and threats, which allows the company to respond promptly and precisely.

This process begins by gaining an in depth understanding of the required operational competencies to compete in a particular market or industry, which would lead to addressing capability gaps internally. As an example, a company whose skills needed to compete as a value player did not match with its existing strengths. By addressing this mismatch, the company would be able to realize the benefits of an improved and relevant supply chain.

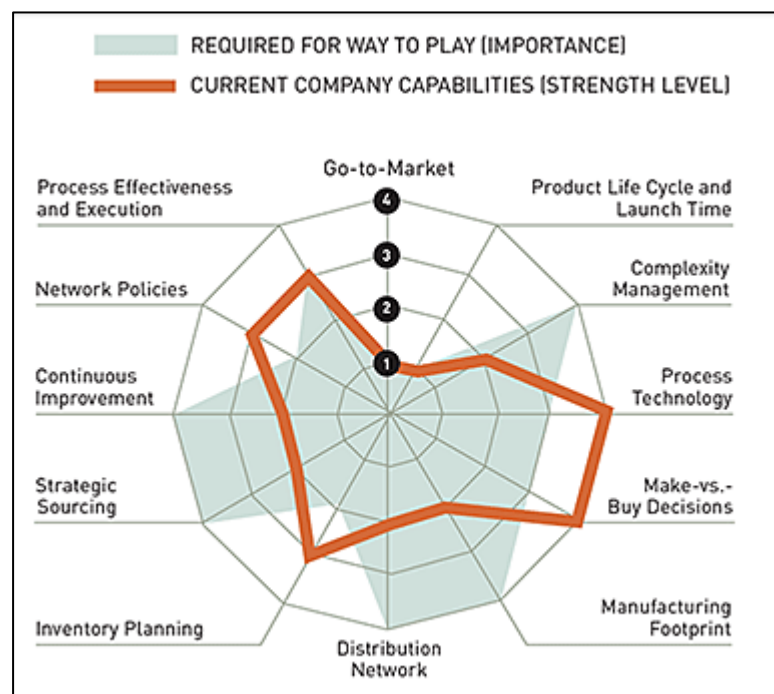


Figure 3: Required capabilities to compete vs current capabilities<sup>#</sup>

<sup>#</sup>Source: Strategy + Business – [Designing the right supply chain](#), Kauffeld, Mueller & Michaels, 2013

## Regionalizing Key Functions

Secondly, companies need to establish decision making structures closer to their markets of interest by regionalizing key functions. Companies gain operational agility as they evolve from a centralized headquarters controlled structure to a hybrid model. With this, dissemination of policies and strategic functions which leverage global economies of scale is kept at headquarters, but go-to-market decisions and supporting services are given regional autonomy.

The journey often starts with establishing either a sourcing centre or regional sales and distribution centre. The journey continues as companies would gradually add in other key functions until a regional principal hub is established.

Once a regional principal hub is established which houses key strategic functions, companies would be able to gain greater operational agility. Decision making is kept at a regional level which would provide better efficiency and effectiveness, thus responding better to the market needs.

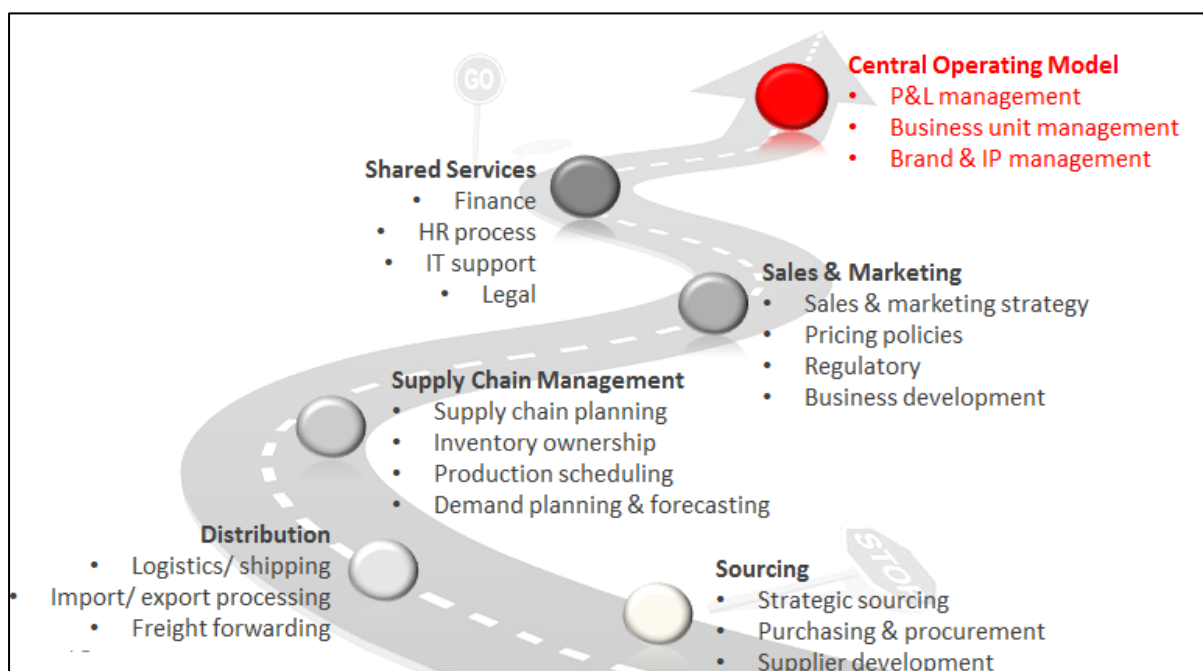


Figure 4: The typical journey in establishing a regional principal hub<sup>Ω</sup>

<sup>Ω</sup>Source: InvestKL

## Outsourcing non-core activities

Thirdly, companies achieve greater levels of operational agility when they outsource non-core activities to leading service providers and begin to focus their resources only on core activities and competencies.

According to a study by PwC - [“Next-generation supply chains”](#), the article provides details on the supply chain functions that best-in-class companies would outsource and also on functions which would be managed at a regional vs global level.

In the example below, leading pharmaceutical companies choose to outsource most of their non-core activities such as manufacturing, warehousing and logistics functions and focus on strategic planning. Decision making structure has moved to a regional level that comprises almost all their supply chain activities with the exception of product development and in some cases, strategic procurement which are kept at a global level.

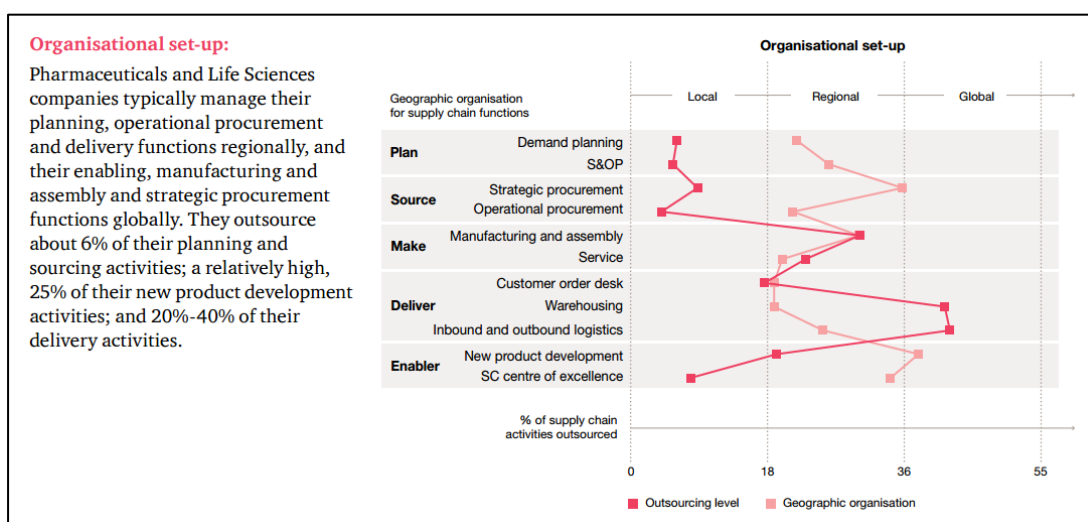


Figure 5: The levels of outsourcing and organisational structure for supply chain<sup>π</sup>

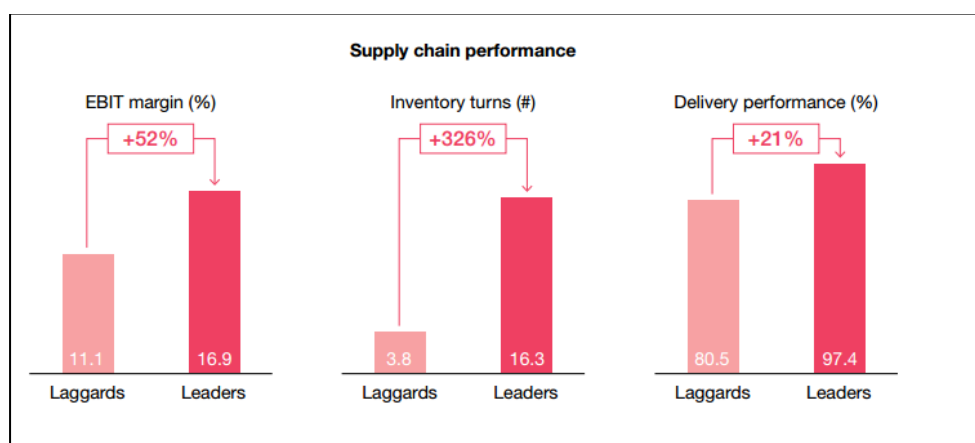


Figure 6: Leaders outpace laggards on supply chain performance<sup>π</sup>

It is therefore vital to adopt the right regional decision making structures and level of outsourcing to be a leader in the industry rather than laggards as leaders outpace laggards on profitability, working capital utilization and delivery performance.

<sup>π</sup> Source: PwC – Next Generation Supply Chain – Efficient, Fast and Tailored, 2013

## KEY TAKEAWAYS

- In the past year, risks to global economic growth has increased between 12-30% due to turbulence in the geopolitical-economic climate
- This contributed towards rapidly fluctuating customer demands where existing supply chain systems are unable to adjust quickly enough to these fluctuations
- To address this challenge, best-in-class companies need to augment their approach by not just employing better forecasting systems with big-data analytics but also relook at organizational design to achieve better operational agility
- Operational agility is enhanced by:
  - Aligning their competencies with what is required to serve a particular market or industry
  - Establish decision making structures closer to their markets of interest by regionalizing key functions
  - Outsource non-core activities to leading service providers
- By having the right organizational setup, and right levels of outsourcing, industry leaders gain an advantage in profitability, working capital utilization and delivery performance.

InvestKL has assisted more than 40 global multinational companies in the past 4 years to establish regional structures to grow their businesses in the ASEAN region through Greater Kuala Lumpur. While most of factors driving operational agility reside within the control of a company, there are others which are impacted by the culture, processes and policies within the country which the company operates in.

With one of the clients, a leading oil and gas service provider, InvestKL has helped streamline customs clearance procedures to allow for a more efficient turnaround time where an expensive exploration equipment can be imported, serviced, and re-exported out to the field in less than 3 days. This is an example of how governments, in developing markets are playing an active role in enabling efficiencies and ease of doing business in their jurisdictions.

Also, Malaysia has recently been named as the 8<sup>th</sup> most efficient government by World Economic Forum. For more information on the services which InvestKL provides, do get in touch with any of InvestKL's Investor Relations directors or visit [InvestKL's website](#).

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***Disclaimer:** The views and opinions expressed in this article are those of the author and do not necessarily reflect the position of any organisations. Examples of analysis performed within this article are only examples. The situation is different on case to case basis as they are based only on very limited and dated open source information. Assumptions made within the analysis are not reflective of the position of any organisations in the region.*

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