

The Benefits of Localized Supply Chain



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The coronavirus pandemic has changed the world forever - on many fronts. How businesses operate and how consumers shop and receive the goods and services they need. Supply chains everywhere have been negatively impacted. Factories can't get the raw materials they need on the schedule they need them to produce enough goods to meet demand. And everyone suffers. While we've successfully navigated the toilet paper and personal protective equipment (PPE) shortage, new ones are popping up all the time... and that may be the case for a while.

One of the ways you can be sure your business will have everything it needs to operate smoothly, and at full capacity, is by localizing your supply chain. In fact, many businesses have realized that reshoring - or bringing manufacturing and operations back to the United States from overseas - is an important part of keeping the company alive. But a localized supply chain does more than help you weather storms like the pandemic. Let's look at other benefits.

Great for Public Relations

When your business invests in the local economy, it sends a positive message about your brand. When people see that you're working with local suppliers to support their businesses, they'll be more likely to work with you than the competition. Local sourcing means that your raw materials come from other local businesses, which keeps the economy in good shape. Everyone benefits from these partnerships.

Great for the Local Community

People in your local community need jobs to take care of their expenses. While many of them could work for your company, when you source locally, the suppliers you work with also need employees to meet their orders. That opens up more job opportunities overall, which also supports economic growth.

You'll also be in a position to contribute to the community through volunteering, sponsored activities, and fundraisers.

Easier to Travel to Suppliers for Meetings

While it's possible to conduct supply chain management without face-to-face meetings thanks to Zoom, when you're local to your suppliers, it's easier to visit them in person. And visiting in person is about more than putting faces to names. It's about product development, site inspection, and management, too. Before you decide to work with a particular supplier, you may want to see how they operate, look at their equipment and facilities, etc. If you're thousands of miles away, it may not be practical. And even if you do make it happen, it is a costly trip.

More Predictable Delivery Times

When working with local suppliers, your orders don't have to travel as far, which gives you more predictable delivery times. In the U.S., ordering items from China or Japan means that you have a fairly wide delivery window. With freight ships slowing down, shipping companies taking longer to move items, and the possibility of items being stuck in customs for longer, it can be hard to really

know when you'll receive your orders.

With a local approach, your orders will arrive faster and with shorter lead times, you don't have to worry about running into stockouts if there are sudden changes in demand.

Lower Costs

Logistics are an expensive part of operations, often outweighing labor costs. North American companies spend over \$1 billion on logistics every year. With economic uncertainty, it makes sense to create money-saving initiatives.

By localizing your supply chain, you don't have to send and receive products all over the world and store them in warehouses until they're ready to go to another supplier or the final customer.

Staying local means you won't have to deal with exports and tariffs, which saves you money, too.

When you save money on your logistics, you can tighten your total budget. Or, you can reinvest those savings into other areas of your business to foster more growth.

Better for the Environment

Localization reduces shipping distance, which in turn, reduces energy consumption and emissions. You'll be closer to sustainability and a green manufacturing process, which boosts consumer confidence in your brand.

Today's consumers, millennials, in particular, are more likely to invest in products with "clean labels" that explain not only what's in a product, but where it comes from.

Launch New Products Faster

When you source locally, you work with companies in the same time zone, which makes communication easier and faster. This makes it simpler to resolve problems quickly and launch products that meet consumer demand.

Today's customers are more demanding than ever, with a focus on increased supply chain transparency, ethical sourcing, and social responsibility. To keep consumers happy, your procurement team should closely evaluate all third-party vendors for risks and supply chain vulnerabilities.

The pre-COVID and post-COVID world is quite different. Supply chain and risk management has forever changed as a result.

Supply Chain Resilience

A resistant supply chain is one that can resist, and possibly avoid the impact of supply chain disruptions. And when a disruption does occur, the resilient supply chain can quickly recover.

As a result of COVID-19, the majority of organizations are investing in changing their supply chain strategy to be more resilient so that they can be better prepared for another disruption in the future.

Resilient supply chains implement capacity and inventory buffers. Profitability is majorly dependent upon keeping your inventory as lean as possible and minimizing surplus. While capacity and inventory buffers cost money, supply chain managers often gamble against potential disruptions in an effort to keep costs low. Because of this, many companies found out how much that gamble actually cost once the pandemic struck. In today's climate, companies need to move from just in time to just in case as they restructure their supply chains and operations. Their investment priorities should be shifted towards resilience through the use of digital technology that promotes on-demand manufacturing, predictive demand forecasting, and virtual inventories to ensure they can remain resilient even when unexpected disruption creates issues.

Visibility

Your procurement department should have full visibility across the entire supply network. That means leveraging data and forecasting to find opportunities and trends. It's not just your company data that matters. You can use artificial intelligence to collect and analyze customer feedback, news, competitor data, sales reports, and more, to help guide decision-making.

Diversification

Ideally, your company should have a diverse supplier base, transportation partners, and a production footprint. Diversification ensures that if something happens with one supplier, you'll be able to continue business with another, with minimal to no interruption for your customers.

Minimizing the number of partners and suppliers in your network does help to reduce logistical complexity, but this approach relies on political, environmental, and social stability. Global trade is a major supply chain risk because of the pandemic. As disruptions continue to intensify across the globe, diversification is more important than ever.

Agility

Agility refers to the speed at which your supply network can respond to changes in the environment but scaling manufacturing capacity up or down as needed, opening new demand channels (moving from brick and mortar to ecommerce as a result of the lockdowns, for instance), and making adjustments to production plants and logistics networks.

Contingency Planning

Contingency planning refers to a company's ability to anticipate and respond to disruptions. Strategic planning is crucial because it allows you to have an idea of what path you should take in any given scenario that may become reality.

Supply chain planning synchronizes all elements of the supply chain to promote enhanced visibility and agility. Through proper planning, supply and demand requirements are easier to understand and production is aligned appropriately. This approach helps organizations better anticipate issues and reduce the impact of any disruption while also improving overall operations.

When a company achieves a resilient supply chain, they ultimately have more efficient operations, improve productivity, and greater risk reduction. Better resilience minimizes risk for the end makes it easier for companies to invest in growth and Innovation. Research shows that investing in supply chain resilience reduces product development cycles by up to 60% and increases output capacity

by up to 25%. When an organization has a resilient supply chain technology, there is an overall rise in productivity. Because of this, research shows that 93% of those surveyed plan to make resilient supply chain strategy a major investment priority.

For many organizations, the supply chain operations represent the biggest area of risk. Naturally, supply chains are dispersed across the globe and complex. This increases their vulnerability to risk. Implementing a resilient supply chain technology helps to reduce Risk by increasing visibility into all operations throughout the entire network and giving businesses power to optimize their processes in real-time.

Examples of Localization Successes and Failure

Walmart offers an excellent example of a successful localization. The real estate team analyzes the local customer base when they're looking for locations. They designed templates for different location types, which serves as a compromise between making every store the same and making every store completely unique.

They use software, Retail Link, to connect their inventory planning team with suppliers that help customize merchandise to the local area's consumers. Using historical shopping data from the last two years, the company is able to stock the products that suit the local consumer base. For instance, the company stocks more than two dozen types of canned chili, but only three of them are available nationwide. Thanks to this data-driven artificial intelligence system and better decision-making, Walmart was able to beat its once major competitor, Kmart.

On the other side of the coin, Target is a large retailer in the U.S. that lost over \$2B before closing down Target Canada. Much of the brand's failure in the Canadian market is due to poor inventory management. Because they failed to adequately study their new customer base, they failed to consider the fact that many Canadian customers had visited U.S. stores, which created an expectation. Many locations were out of the way of most customers. When you combine this with poorly stocked shelves and products that were widely different from what was available in American stores, often at higher price points, it was a recipe for disaster. Ultimately, they couldn't get enough traffic in the stores to survive.

Global supply chains aren't necessarily a bad thing. It's just that those are more susceptible to supply chain disruptions. Localization is about more than making a few changes to your product to suit the local market. It involves the entire supply chain from location decisions to product development and even manufacturing models. If you want to have a global impact, you must have a supply chain that's flexible enough to remain local from the source to the consumer.

No matter what happens with the pandemic, one thing is clear - this is our new normal. Even post-pandemic, things are unlikely to return to the way they were before. To be successful, you must be flexible and adaptable. Every industry - healthcare, pharmaceuticals, and medical supplies, aerospace, automotive, and ecommerce, to name a few - has been affected by the lockdowns. It's how they adjust their supply chain strategy that will make a difference in the long term.

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