

## **New Models and Concepts Needed for Asia-Pacific Supply Chains**

Jonathan Wright



Supply chains in the Asia-Pacific (APAC) region pose a unique set of challenges for the organizations that rely upon them. With a land mass four times the size of Europe, transportation and distribution issues are complex and challenging. The region's diversity, in terms of regulations and political climate, as well as its sheer size makes it difficult to think of an integrated Asia-Pacific supply chain.

Indeed, the contrasts from country to country can be dramatic. Within Asia, the 2012 Enabling Trade Index identifies Singapore as the world leader in developing "institutions, policies, and services facilitating the free flow of goods over borders and to destinations." Hong Kong ranks second, China 56th, Thailand 57th, Indonesia 58th and India 100th. Some countries apply VAT taxes while others assign a goods and services tax (GST) with rates varying widely, from a five percent VAT in Japan to a 13.5 percent rate in India.

The nature and direction of APAC trade has changed dramatically, as well. Through most of the 20th century, APAC's supply chain flows moved largely from east to west, as countries with low-cost labor manufactured low-cost products for export. More recently, however, emerging middle classes have made some APAC countries centers of demand, prompting the flow of products imported from Europe and North America. As APAC economies grow, more companies based in Asia (or those with Asian subsidiaries) are manufacturing products for use in their own countries, or for distribution to other Asian countries.

The very term "supply chain" implies a straight line and a singular operating mode, with tight linkages moving goods smoothly from mode to mode and location to location. In Asia-Pacific, however, this concept is unrealistic. The region's extreme diversity calls for multiple supply chains that are tailored to the requirements of specific regions and communities; supported by locally-developed capabilities and talent; and agile enough to accommodate APAC's continuous, rapid change. We refer to this concept — a less tightly-integrated, more flexible, non-linear coalition of supply chains — as [Dynamic Operations](#) [1].

At its core, [Dynamic Operations](#) [1] is a loose-knit group of networks (for design, sourcing, manufacturing, distribution, commercialization and other purposes) whose flexibility can help a company navigate unpredictable markets. Processes at any node can be modified or, if necessary, reinvented. When market opportunities arise or disruptions occur, Dynamic Operations can give companies the ability to respond quickly.

Four capabilities help make Dynamic Operations possible:

1. Agile Execution. By varying capacity, improving collaboration, formulating supplier contingency plans and implementing advanced technology such as predictive analytics, organizations can rapidly adjust supply chains. The mantra is "flexible resource allocation," made possible by an elastic infrastructure.
2. Adaptable Structure. Dynamic Operations calls for the creation of products, processes and systems that can be easily modified in response to changing conditions. The best example may be flexible manufacturing, with its ability to respond quickly to currency fluctuations, supply disruptions and sudden demand shifts by altering manufacturing volumes, mixes and venues.
3. Insight to Action. Organizations should be able to sense, capture and analyze external and internal data and turn it into usable business intelligence. In effect, companies can use information to help improve their ability to buffer risk while swiftly leveraging new opportunities.
4. Flexible Innovation. In Dynamic Operations, design and development processes are intended to be less rigid through the reduction of changeover times, increasing interchangeability, the design of products that embrace multichannel networks and technology, and structuring ways to smoothly rebalance order management, production and warehousing in response to shifting conditions.

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To accommodate APAC's vastness and complexity, it may be beneficial to think in terms of creating less interdependent but more responsive ecosystems of processes, people and technologies. In APAC, integrated transportation strategies can be challenged by varying levels of infrastructure maturity. More insular approaches can actually help optimize the supply chain. While strong centralized management may work well in Europe or North America, centralization can be counterproductive in APAC. Decentralized operations can be a better way to deal effectively with cross-border challenges, taxation differences, geographic obstacles, technological variations and labor discrepancies. Thinking in terms of tailored models — such as country-based transportation management or regional (or sub-regional) customer service approaches — can help overcome these obstacles.

Similarly, companies operating in APAC may want to consider developing dual-sourcing or even multi-sourcing strategies and foster closer relationships with second- and even third-tier suppliers. In a volatile environment, companies can potentially reduce risk by knowing — and working more closely with — their “suppliers' suppliers”.

Enterprise IT is another concern. Successful APAC operations may use tailored technology solutions such as cloud solutions, portable devices and customized applications designed to address local needs. Concentrating on regional capabilities, talent and people-driven innovations may be more important than building or enhancing giant systems.

The Asia-Pacific region's growth potential is almost incalculable, but the region is likely to remain highly diverse, at least in the short term. New priorities and operational philosophies may be needed for the foreseeable future. The need for flexibility could trump the importance of integration, and smart relationships and top talent may supersede smart systems. A confederation of operating models — flexible, multi-directional Dynamic Operations — can help companies operating in APAC sense and respond to rapidly changing situations, helping them grow and evolve at different paces in different locations.

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[1] [http://www.accenture.com/us-en/Pages/service-designing-dynamic-operations-competitive-advantage.aspx?c=mc\\_blaposts\\_100000085&n=otc\\_1012](http://www.accenture.com/us-en/Pages/service-designing-dynamic-operations-competitive-advantage.aspx?c=mc_blaposts_100000085&n=otc_1012)

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