

Supply Chain Transformation – Is it optional for Hong Kong SMEs?

7th January 2023



Introduction

Current Role

- President of Institute for Supply Management - Hong Kong (ISM-HK)
- EY Greater China Supply Chain & Operations Consulting Partner
- EY Global Client Service Partner for a leading Power & Utility client
- Visiting Lecturer, The Hong Kong Polytechnic University
- Advisor, Global Supply Chain Master Program, The Hang Seng University of Hong Kong
- Founding Board Member, Lions Club of Clear Water Bay Hong Kong
- Previously EY Greater China Procurement Consulting Leader
- Previously EY Greater China Agile Business Finance Leader

Education

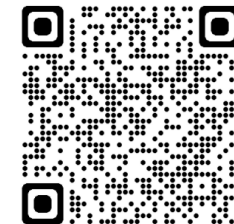
- Doctoral Candidate, Business School Lausanne
- Executive MBA, The Chinese University of Hong Kong
- Executive program, Stanford University, US
- Executive program, University of Cambridge, UK
- Bachelor Degree, Business Management, The Hong Kong University of Science & Technology



Nelson Chow

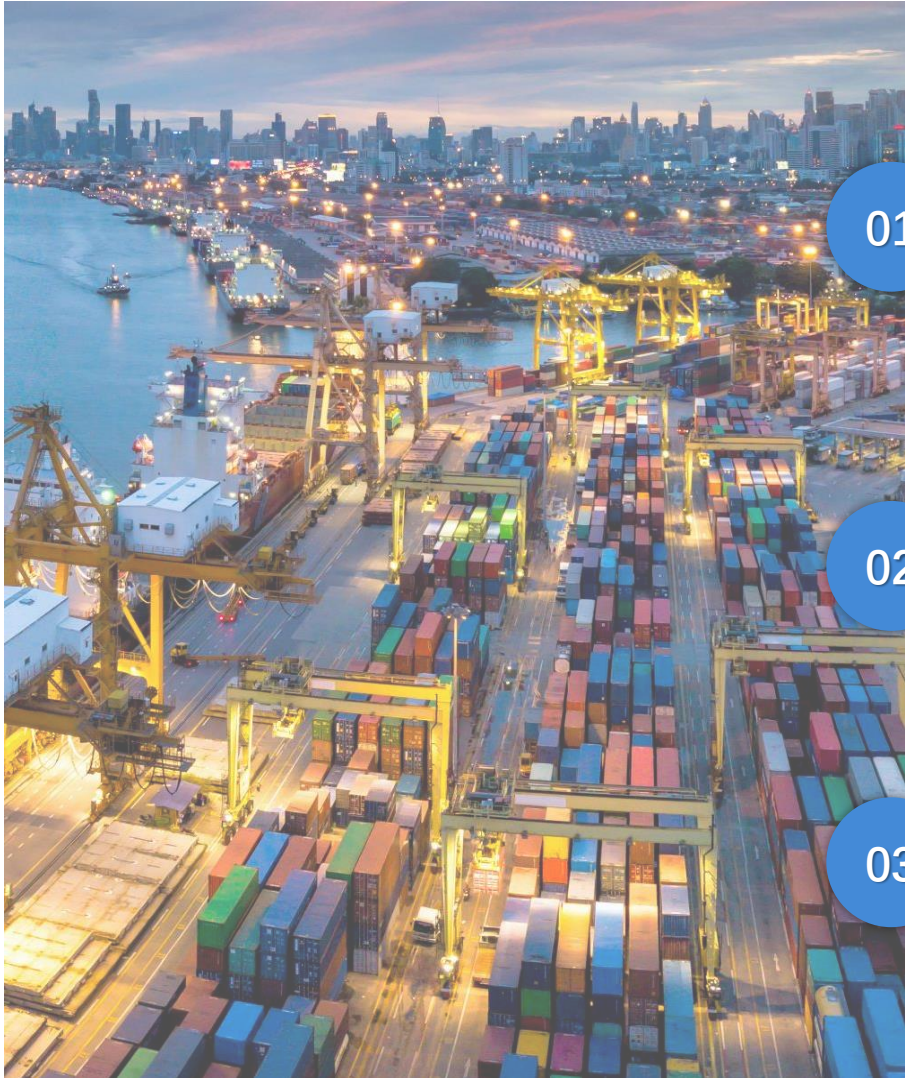
President,

**Institute for Supply Management
- Hong Kong (ISM-HK)**



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Disruptions Urging for Supply Chain Transformation

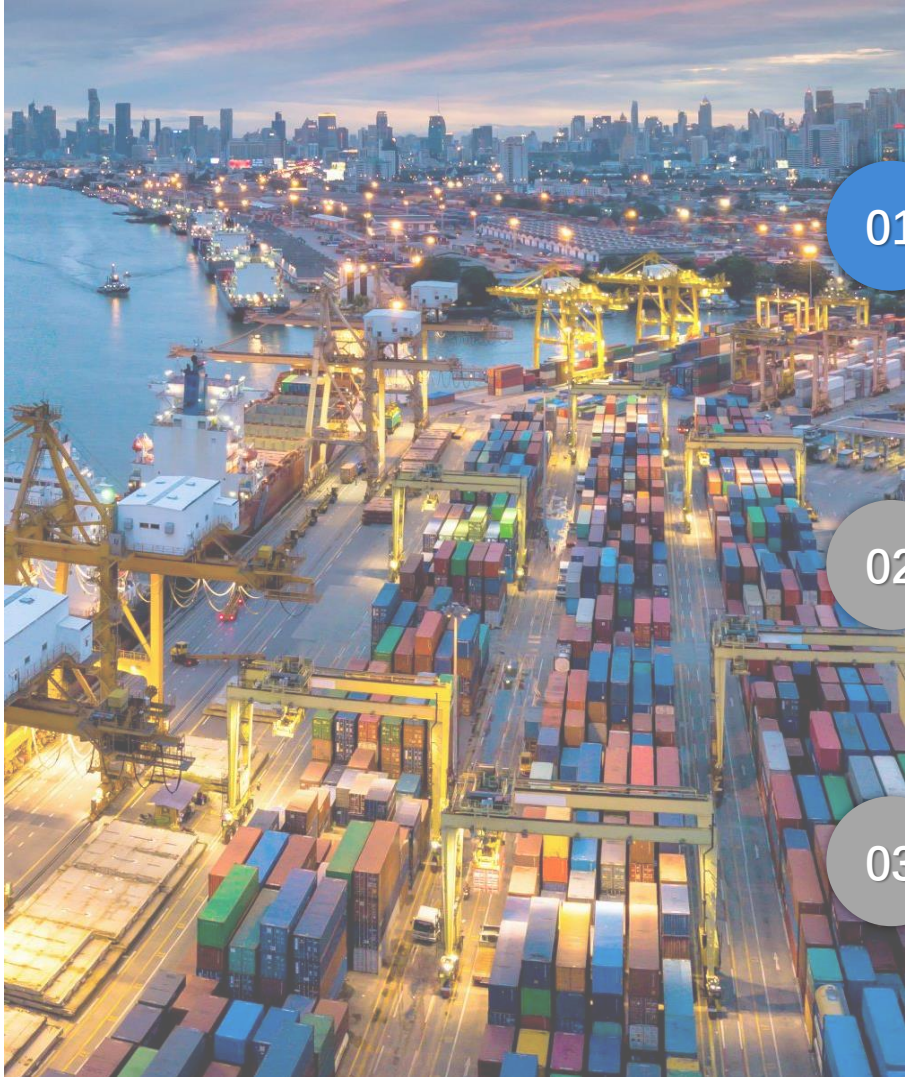
02

Opportunities and Challenges of Supply Chain Transformation for SMEs

03

Zoom in: HK SME E-Commerce

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Disruptions of Today

An increasing number of unexpected disruptions are hitting supply chains and impacting overall business performance



Three key disruptions that are greatly impacting supply chain



Disruption 1. Unstable Geopolitical Situation

Disruptions

Geopolitical Conflict

- Russia's decisions to **interrupt the natural gas supply** to the EU, including the suspension of fuel supply and damages to Nord Stream pipelines
- **International sanctions** on Russia in terms of trade, finance, etc.
- Some routes have been cut off, causing **chaos in the global transportation network**



Sino-US Trade Friction

- Since the trade war in 2018, measures such as **raising tariffs, placing restrictions on imports, technology blockades** have increased the **export burdens** of companies and caused **inflations**, posing severe challenges to some industries



Impact on Supply Chain



The **supply shortage** of certain **raw materials (RM)**. The rising cost of raw materials has also led to increases in production costs.

- Palladium, Rhodium – RM of Electronic Vehicle (EV)
- Neon gas – RM of semiconductor
- Agricultural products such as wheat, corn

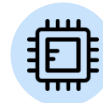


Global logistics systems are disrupted. Port congestion, poor container turnover, and strikes have led to a **surge in transportation costs** and **frequent delays** in orders

Major Affected Industries



Automobile



Chip



Energy



Pharma-
ceutical



Machinery

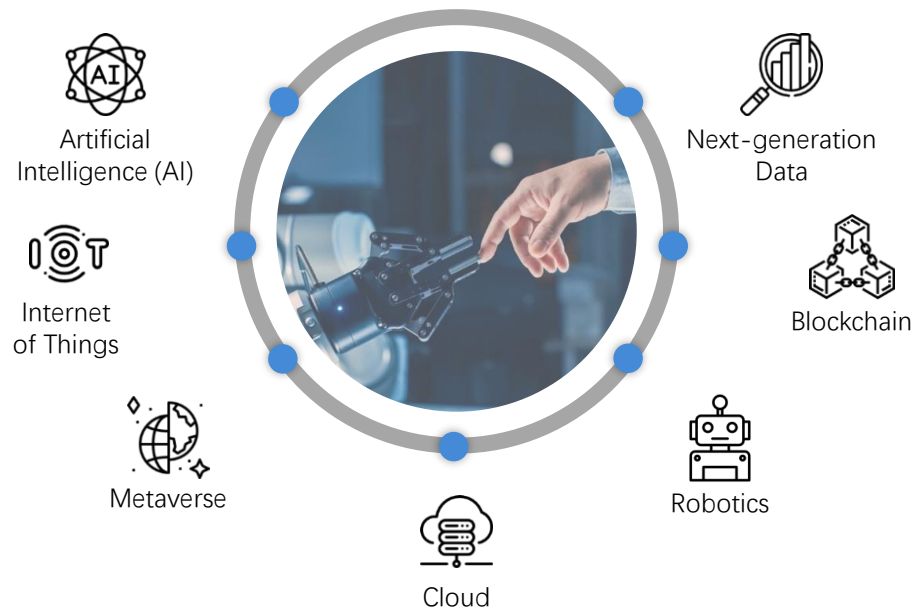


Finance


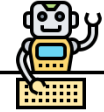

Disruption 2. Advanced Technology

Disruptions

- **Emerging technologies** are stimulating businesses kickstart the journey of **digital transformation**, facilitating the formulation of new business model and value chain
- Companies are faced with increasing pressure to embrace more advanced technologies to **stay competitive**
- **Aging infrastructure and legacy systems** prone to outages and posing integration challenges with newer systems and applications



Impact on Supply Chain

-  With the development of digital twins, users can get **near-real time data in an integrated view** which facilitates data-driven decision-making to **enhance agility and responsiveness** in supply chain
-  Advanced technologies (e.g. AI, smart factory) could help relieve **labour-intensive** activities, increase **process efficiencies**, and enhance **data accuracy**
-  **Data** throughout the **end to end supply chain** could be captured for **analysis and forecasting**, empowering **strategic decision-making** to exploit opportunities and mitigate risks

Major Affected Industries

- All Industries -

Disruption 3. Climate Change


Disruptions

Gearing Towards Carbon Neutrality


- COP27 stressed the focus on accountability when it comes to the commitments made by sectors, business, and institutions
- Energy transition shifting from fossil fuels to renewable energy sources





Sustainability Asks From Various Parties

 **End consumers** want sustainable products and customers are setting ambitious goals.

 **Investors** want reassurance on sustainability and brand protection

 **Brands** want to rebuild trust. To do this they need data and transparency along the supply chain

 **Regulators** are imposing a duty of care on companies to disclose their actions while **Governments** are setting local targets

 **Companies** are investing in sustainability initiatives, creating a sought-after culture that **employees** are proud to work for

Impact on Supply Chain



Calls for the **reinvention of green supply chain** leveraging **advanced solutions** that integrates the entire value chain throughout order-to-cash, and procure-to-pay processes.



Besides **utilising materials/energy that are recyclable/ renewable** in manufacturing, the corresponsive **operations** shall also adhere to the principle of sustainability

Major Affected Industries



Construction



Real Estate



Manu-
facturing



EV



Energy



Smart City

Overall Impacts On Supply Chain

These disruptions are exposing the fragility of supply chains and emphasizing the need to reinvent supply chain



Demand Disruption

Sudden unplanned changes in demand – uncertainty of when to pivot – with limited ability to respond causing increases in supply, manufacturing and logistics cost



Inventory Imbalances

Deployment of inventory misaligned to demand resulting in excess storage and handling cost to rebalance and expedite



Supply Disruption

Upstream supplier constraints resulting in long lead times and supply disruption - requiring costly measures to maintain service (e.g. expedited freight, higher cost alternatives, etc.)



Manufacturing Capacity

Pandemics, unplanned demands, labour strikes, and obsolete production facilities are posing challenges and uncertainties on companies' manufacturing capacity



Financial Uncertainty

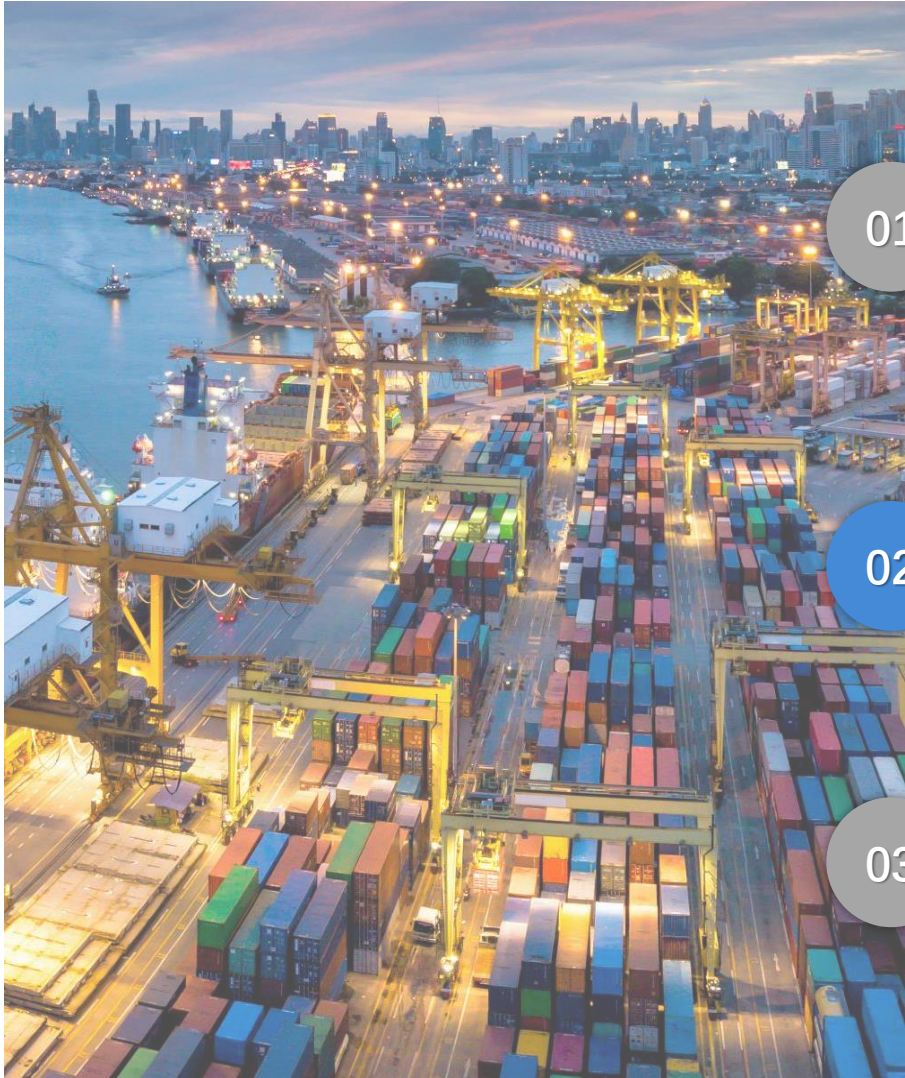
Market volatility and disruptive events are impacting business performance due to material and services cost increases and labour shortages



War for Talent

Recruiting, training, and retaining the best people in an environment with increasing labour expectations and cost

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Zoom in: HK SME E-Commerce

Key Drivers Of Supply Chain Transformation

Below drivers are inevitable and elevating the focus on supply chain transformation

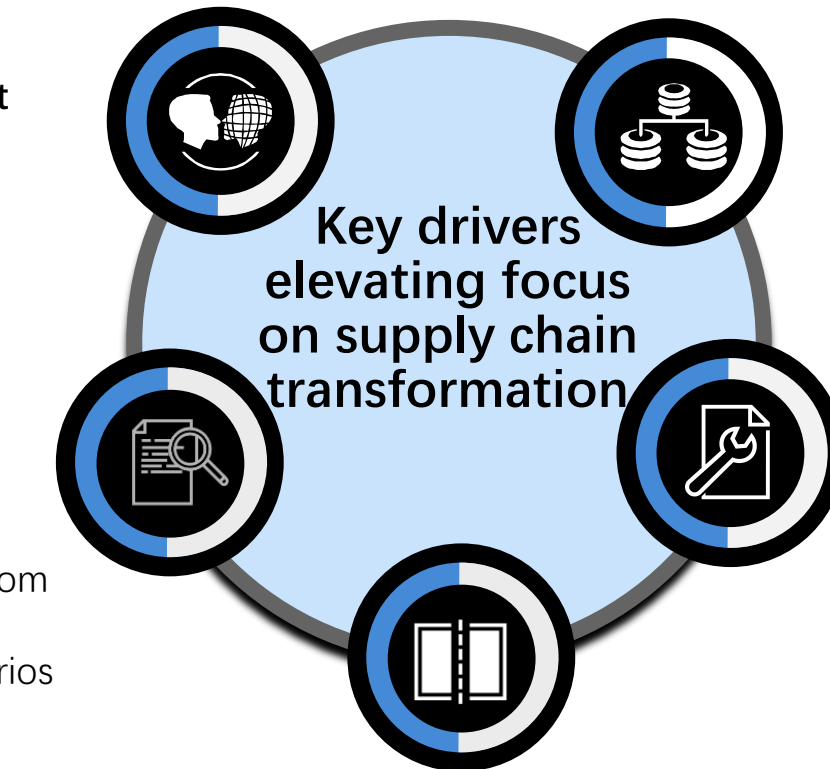
Higher expectations for enhanced client experience

Client demand for

- Uninterrupted, 24/7 access to products and services
- Increased confidence in security and confidentiality of their data

Augmented impact due to disruptive events as business globally connected

- Cross-region impact on supply chain from supplier to distribution
- Speed to adjust or adapt in crisis scenarios difficult to manage on a global scale



Increased operational complexity

- Highly complex and inter-connected operations susceptible to increased operational outages and breaks
- Heavy reliance on third-party service providers located globally

Remain competitiveness in the challenging business world for SMEs

- To remain competitive, SMEs are faced with more pressure in terms of offering superior quality goods at the lowest prices possible. The need to minimize product costs and makes effective supply chain management is vital.

Greater tax and global trade complexity, international connectivity & penalties

- Fiscal, trade and regulatory landscape is every more complicated with enhanced exchange of information, international co-operation and alignment.
- Cost of failure is high (punitive fine, taxes, custodial sentences and PR impact)

Challenges for SME in Transformation Journey

Common challenges for SMEs to be considered when planning for your supply chain transformation journey



Limited financial supports and funding

Supply chain transformation is a complex project that needs sufficient investment in human resources, technology as well as ongoing maintenance efforts. Limited financial supports might hinder SME's transformation journey.



Relatively low data accessibility and quality

SMEs have relatively less accessible data and the accessible data quality might be low. Extra supports from leading technology platforms in implementation stage is needed.



Talent shortage

Supply chain transformation requires a full range of professional talents to support the implementation. However, shortage of talents has become the main bottleneck of transformation for SMEs.



Lack of technology and innovation mindset

As employees are heavily involved in daily operations, they might have insufficient knowledge regarding new technology and innovation, which might have impact on the transformation initiation stage and change management stage.



Limited management support

SME leaders might have stronger focus on growing the business with more “economic” approach and some might be hesitant to invest in transformation.

Trends in Supply Chain Transformation

The following themes are popular in supply chain transformation: Resilience, Sustainability, Cost Takeout, and Digital Transformation




Trend 1. Supply Chain Resilience

Leading companies are addressing the vulnerability with targeted action to improve visibility and control, improve knowledge of risk and step change flexibility, agility and responsiveness across the end to end ecosystem

What Does It Mean?

Resiliency = Visibility + Agility



ability to sense/ predict disruptions

generate dynamic resolutions using scenario planning

simulate the impacts on inbound raw materials as well as outbound shipments and the supplier network

supply-demand tracking and inventory management

What Other Companies are Doing?



Embed end to end visibility, simulation & risk monitoring



Design omni-capable agile networks



Secure alternative sources of supply



Develop a resilient operating model & workforce



Create a trusted & secure supply chain

Trend 2. Supply Chain Sustainability

Enterprise led commitments and emerging technologies have enabled businesses of all sizes to reduce waste, increase efficiency, cater to global customers and gain value chain visibility

What Does It Mean?

- It includes efforts to **manage environmental, social and governance** practices throughout the lifecycles of goods and services
- It not only considers how much each **product costs financially**, but also the toll on **workers and the environment, in materials, energy and natural resources**



“

Focusing on supply chains is key to overall environmental, social and governance (ESG) efforts because more than **90%** of an **organization's greenhouse gas emissions**, and **50% to 70%** of **operating costs**, are attributable to **supply chains**¹.

”

What Other Companies are Doing?



Ensure sustainable and diverse sourcing



Enable traceability, visibility & disclosure



Decarbonize the value chain



Introduce circularity into your business model

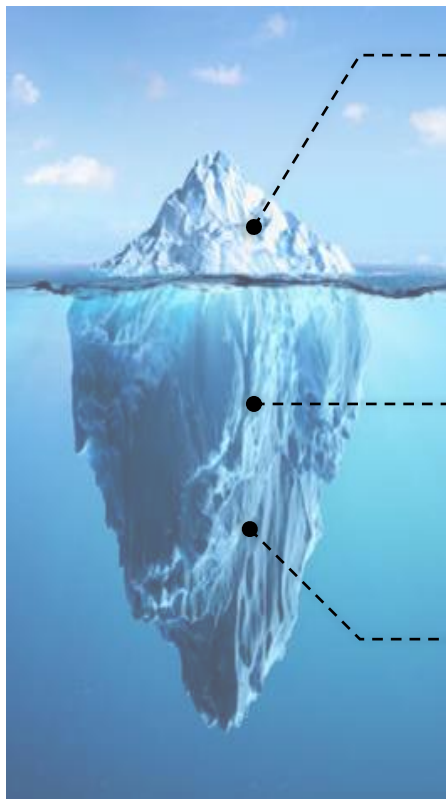


Assess impact of new incentives for a sustainable supply chain

Trend 3. Cost Takeout

With the purpose of maximising profit in today's competitive business world, companies are reinventing their supply chain in a cost-effective manner while positioning itself for growth

50-75% of corporate costs are directly influenced by supply chain decisions



Selling, General and Administrative Expenses (SG&A)

address cash and solvency issues through better IT / Real estate / Construction / Professional services and Marketing expenses management to improve cash positions

COGS

optimize through Raw Materials, Packaging, Conversion or Logistics costs to increase margin

Tax

optimize through different operating model and trade flow decisions to improve CAPEX

Cost Takeout Focus

1 Portfolio Simplification

2 Procurement

3 Footprint Strategy

4 Planning

5 Asset Optimization

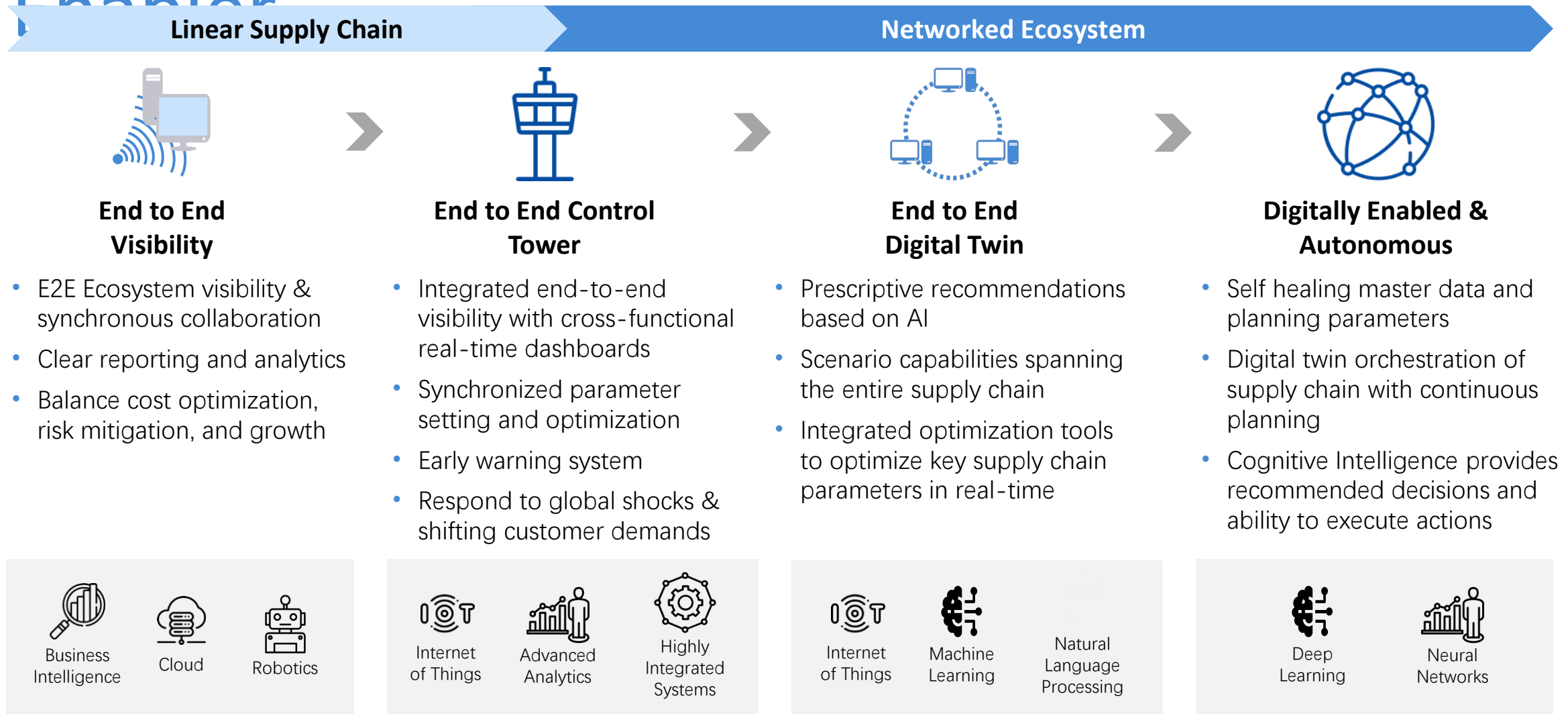
6 Supply Chain Operating Model

Supply Chain Strategic Decisions

- Portfolio complexity
 - Higher costs
 - Network intricacy
 - Synchronization challenges
- Make vs buy strategy
- Strategic sourcing
- Vertically integrated vs outsourcing
- Customer channel strategy
- Global trade strategy
- Customer service level vs cost optimization
- Statistical vs consensus forecasting
- Make-to-stock vs make-to-order
- Asset light vs value creation through assets
- Centralized vs decentralized or federated supply chain operating model
- In-house vs outsourced
- Local, regional, and global considerations

Trend 4. Advanced Technology as the Key

Digital transformation is put on agenda in many companies to build a digitally networked supply chain



Key Takeaways for SMEs

It is time for SMEs to leverage your own advantages to start mobilise your supply chain transformation



Plan your transformation journey in a collaborative manner

- **Engage** supply chain key **stakeholders** for a comprehensive review of the supply chain processes to identify **pain points** and **opportunities**
- **Prioritise** the initiatives and develop a **roadmap** for a planned transformation journey
- **Align visions** and **missions** and **mobilise** the decision makers of related teams
- **Start with quick and approachable wins**, and perform **retrospective** after each implementation and validate the business case



Revisit supply and demand portfolio to enhance resilience

- Compared to large-scale companies, SMEs often **react to changes quicker** and has **more authority and choices** when it comes to **suppliers** and **business partners**
- In the post-pandemic era, consider establish **multiple sources of supply** – both in-house production and from third parties – so as to dynamically reconfigure networks to respond to actual supply constraints



Start building a technology-driven, see-through supply chain

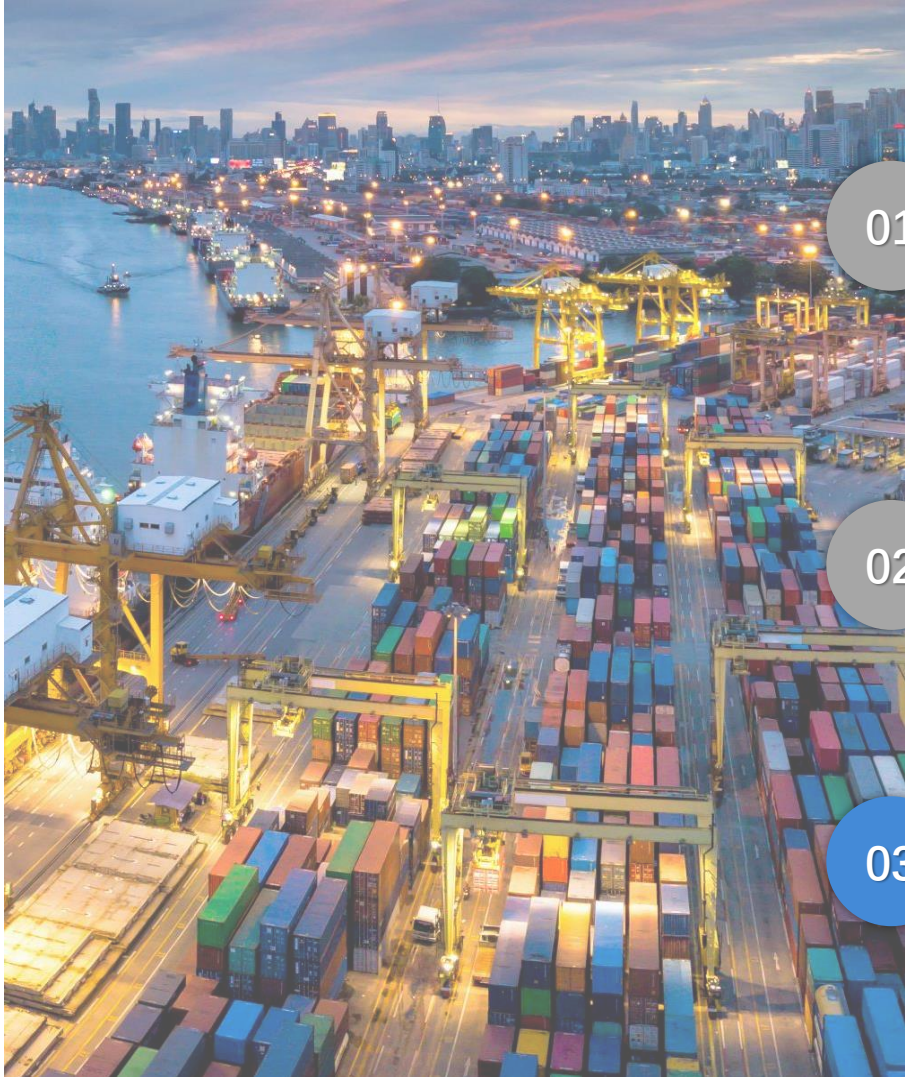
- According to the resource capability, select the **appropriate digital solution** to enable **end-to-end visibility** across the supply chain
- Leverage digital tools (e.g. cloud computing, integrated solution) to transform the disparate data into insights with a digital dashboard integrating metrics for users to **understand, prioritise, and address critical issues in near-real time.**
- Smart use of technology (e.g. advanced analytics, robotics, route optimization software) to drive **maximum working efficiencies**



Take plans into actions to enhance sustainability

- **Screen suppliers and logistics providers** about **sustainable products and services** in order to verify and strengthen green supply chains
- **Convince internal stakeholders** to push sustainability further up the agenda. Buy-in from employees helps demonstrate to stakeholders that change will be driven from the inside out, and is aligned with employee satisfaction and company loyalty.

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SME E-commerce in HK


Hong Kong's e-commerce sales will grow at a compound annual growth rate of 8.3 percent, from HK\$178 billion in 2021, to **HK\$226 billion** by 2024.^[1]

40% of Hong Kong SMEs polled said investing in technology had led to bigger profits in 2021.^[2]

53% of Hong Kong SMEs said more than **10%** of their revenue came from online sales — the highest percentage recorded for Hong Kong since 2017.^[2]

Cross-border e-commerce is becoming increasingly accessible and convenient due to mobile banking, international e-commerce platforms, and app-based e-commerce sites. Therefore, Hong Kong SMEs have to step up their investments in digitalization to compete with international merchants with large e-commerce platforms.

Solutions Supporting SME E-commerce

 **LALAMOVE** has formed alliances with platforms such as Shopify and Boutir to create **one-stop e-commerce services**, offering small businesses peer-to-peer selling capabilities online and on mobile.

Lalamove aims to invest in HK SMEs to provide them with **customized logistics solutions** and expand the ecosystem with more business partners. About 85% of Lalamove's business orders come from HK SMEs.^[3]

pickupp plans to invest in R&D of the machine learning algorithm logistics technology and **decentralized network** with different optimization levels to provide **cost-effective and customized solutions** to HK SMEs.

Compared with big companies, SMEs do not have adequate information and economies of scale that enable them to obtain the best value deal in logistics service procurement. Logistics partners should offer decentralization technology that allows them to bolster transport capacity to cope with peak seasonal orders and obtain smart logistics services, such as batching and clustering.^[3]

Sources:

[1] GlobalData

[2] Survey by CPA Australia

[3] ChinaDaily HK

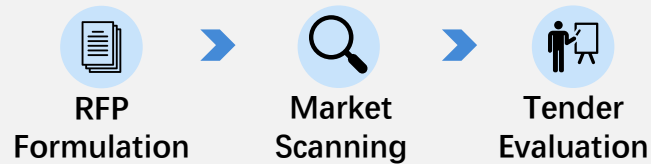
Zoom in: Digital Transformation In a Local F&B

Background



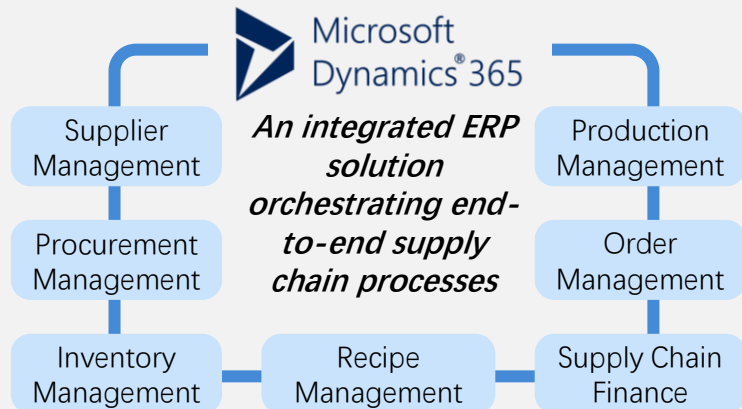
The company was looking for a solution to digitise its supply chain activities and standardise the supply chain processes. With the help of a consulting firm, it adopted a stepped approach to select the appropriate ERP solution and completed an end-to-end supply chain transformation with Microsoft D365 in 2.5 years.

System Selection



Evaluation criteria

- Requirement compliance
- Project reference
- Project team experience
- CAPEX & OPEX
- Solution scalability
- Awards & recognition



End-to-end Digital Transformation

Phase	Phase 1. Food Operations Enablement	Phase 2. Distribution Model & Non-food Operations Enablement	Phase 3. Back-end Functions Enablement
Benefits Achieved	<ol style="list-style-type: none"> Standardised frontend operations (order placement, GR, wastage, stocktake) 	<ol style="list-style-type: none"> Enabled Distribution Centre Model for centralised contract control & cross-company operations 	<ol style="list-style-type: none"> Enhanced Approved Vendor List control and vendor management
	<ol style="list-style-type: none"> Digitised production operations from material planning to work order mgmt. 	<ol style="list-style-type: none"> Digitised non-food operations (store ordering, inventory replenishment and reservation) 	<ol style="list-style-type: none"> Sales BOM maintenance & integration with POS to facilitate COGS analysis
	<ol style="list-style-type: none"> Traceable CK inventory capturing stock transfer and inventory movement 	<ol style="list-style-type: none"> Reports to show stock on-hand and transactions in a centralised view 	<ol style="list-style-type: none"> Production Route captured for a complete production cost and variance analysis
	<ol style="list-style-type: none"> Centralised master data maintenance 	<ol style="list-style-type: none"> Enhanced store ordering functions (recommended order qty calculation, MOQ control) 	<ol style="list-style-type: none"> Corporate wide PR/Service procurement & budget control enforced

THANK YOU !

