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Brexit, trade wars, and tariffs: surviving in the tumultuous global economic environment

The current global economic environment is tumultuous, to put it mildly. The pound has fallen among growing Brexit uncertainty, which is impacting British business, in particular the automotive industry. In addition, current trade wars - whether the rumored UK and US Brexit trade deal, the dueling tariffs between US and China, or other challenges - pose greater uncertainty for the foreseeable future, keeping CEOs and CFOs awake at night.

A company's cost structure could drastically swing as inflation and profits are peaking. Increased cost of goods sold from upstream suppliers are squeezing margins and forcing global supply chains to adapt and react midstream. What's more, the escalating trade war is increasing prices and making raw materials harder to obtain.

But what does this really mean? Let's look at an example: An automaker may have its engine manufactured in Germany, its transmission in Mexico, and its GPS from South Korea, with final assembly in the United States. Tariffs could force automakers to move production, reducing economies of scale and increasing prices for the end consumer. Processing the resulting number of variables, scenarios, and decision matrices brought on by the trade war is a daunting challenge.

Despite these challenges, digital technologies, such as predictive analytics, machine learning, and artificial intelligence (AI), provide companies with the resources and insights to manage risk and anticipate events. Today's leading supply chains run on data, monitoring for risk and opportunity, and blend human and digital strategies to make decisions in real time. Companies need a cognitive supply chain that is interconnected, self-learning, predictive, adaptive, and intelligent. It can help leaders react faster to risks outside of their control.

Consequently, there are three key approaches businesses can implement to help anticipate, prepare, and manage disruptions to the supply chain.

1. Deploy a digital twin

Today's supply chains have growing complexities, with an international network of suppliers and service markets. Efforts to integrate with external partners have led to complex systems and processes, overwhelming supply chain leaders with data and metrics. Add in the variability of demand, and a supply chain is pushed back on its heels, reacting to demand variability. One uniquely positioned solution is called a "digital twin."

A digital twin is a model of the supply chain. The foundation is a transparent supply chain strategy, comprised of rules on how to absorb and refine costs, or pass through to customers downstream. A digital twin harnesses the multi-tier supply chain data to rely upon predictive outcomes and sensory response. Uncertainties such as pending tariffs can be run through "what if" scenarios to understand the service, cost, and risk implications of changes, decisions, and unexpected market conditions.

These scenarios are not intended to be definitive outcomes. Instead, they allow internal and external supply chain groups the opportunity to set up a plan of action that mitigates service risk, while optimizing the collective cost. Organizations must learn the discipline of using "what if" scenarios into their analysis and guide the implementation of both short-term and long-term strategies and events. For instance, what is the correct level of holiday inventory investment that should be imported into the United States from China, given the potential tariff increase in the coming months? Which alternatives provide lower risk? Successful organizations will use their digital twin to move up the supplier tiers of a supply chain, anticipate disruption, and arrange alternative routes and suppliers.

2. Leverage data insights

Data has always been at the center of the supply chain and helps drives decisions. With internet of things and the growing number of connected devices, organizations must be proactive in how they use data to enable insight.

The multitude of data sets, and increasing ease of obtaining them, is enabling proactive organizations to allow data to drive their decision structures. The resulting variety of perspectives creates the opportunity to align against broader company strategies. For example, how does the planned production schedule of a Canadian supplier affect my organization's market position in Europe this holiday season? What are the potential risks and how can they be mitigated? Data availability opens the door to these answers and allows supply chains to breathe life into other departments and external relationships.

Enablers from digital technology provide:

- **Digital linkage** – integrated sales, production, and delivery processes that have a seamless flow of information
- **Control tower** – visibility of all processes across the internal and external supply chain

- **Centralized collaborative e-hub** - a connected ecosystem where all partners interact seamlessly with an improved flow of information
- **Integrated lean logistics** - applying lean principles to eliminate waste, errors and defects, minimize lead time, and materials impacted by tariffs
- **Virtual logistics** - enable on-the-fly deployment decisions with new logistics models

3. Implement outcome-based results

Continuous investment into technology, and keeping the talent with the skill and knowledge to use it, can be expensive. Furthermore, the process engineering required to maximize ROI, along with the associating change management, inevitably strains an organization's resources. As a result, many organizations have found relief in managed services of their supply chains. It enables companies to focus on their core competencies of products and services, while contracting out the outcome: the best customer service at the optimal cost.

The consolidation of supply chain expertise into a vendor eases the necessary people, process, and technology investment. It allows organizations to shed the strain of daily variability, while maintaining the ability to make decisions and focus on the long-term growth of the company. With the increasing pressure on tariffs, organizations will look to these vendors' partners to leverage their digital tools and technologies to limit the downstream effect across the supply chain.

A cognitive supply chain can help companies mitigate risks, improve insights and performance, increase visibility and transparency, as well as cutting down on costs. However, most importantly, having a cognitive supply chain is crucial as the global trade wars wage on. Forward-thinking organizations that adopt these digital capabilities will be best prepared to navigate the unpredictable future.

This article was authored by Mike Landry, supply chain service line leader at Genpact, and was first published in the CEO Today magazine.

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