APEC Policy Dialogue for SME BCP Forum and Workshop

Promoting Inclusive Growth Through Sustainable & Resilient SME’s to Secure Global Value & Production Chains

Corazon C. Curay
Vice President – SCMAP
President & CEO – XVC Logistics, Inc.
AGENDA

1. ABOUT SCMAP
2. Phil. Global Competitiveness Scorecard
3. Managing Global Value Chain Risks & Disruptions
4. SME’s in Securing Global Value & Production Chains
The Premiere Supply Chain Professional Organization in the Philippines…

• A Philippine association of companies committed to improve supply chain management processes and professionalize supply chain practitioners.
• Established in 1989 as DMAP (Distribution Management Association of the Philippines)
• With 102 corporate members at present
• Most members are cargo owners/shippers (80%) – from ranks of manufacturers and distributors, and the balance, service providers (20%)
SCMAP: Mission & Advocacies

- **ADVOCATE** - To partner with government in creating sound policies, rules and legislation that benefit the industry.

- **COMMUNICATE** - To continually work for a well-informed and educated supply chain industry.

- **EDUCATE** - To professionalize supply chain practitioners.
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1. About SCMAP
2. PHIL. GLOBAL COMPETITIVENESS SCORECARD
3. Managing Global Value Chain Risks & Disruptions
4. SME’s in Securing Global Value & Production Chains
### WEF-Global Competitiveness Report
#### Philippines vs ASEAN (2010-2015)

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*Brunei Darussalam is not included in the 2014 Ranking*
Assesses “the extent to which economies have in place institutions, policies, infrastructures and services facilitating the free flow of goods over and to their destination”.

The report highlights the relation of trade facilitation to export competitiveness, private sector development, foreign direct investment, market integration, economic growth, and employment.

- Improved on all four sub-indexes, climbing three spots on market access (from 14th to 11th), one spot on border administration (from 72nd to 71st), two spots on infrastructure (from 91st to 89th), and 25 spots on operating environment (from 107th to 82nd).
### WEF-Global Enabling Trade Report: Pillars (2010-2014)

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## WORLD BANK- LOGISTICS PERFORMANCE INDEX
### Philippines vs ASEAN (2010-2014)

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3. MANAGING GLOBAL VALUE CHAIN RISKS & DISRUPTIONS
4. SME’s in Securing Global Value & Production Chains
Global Value Chain Defined

A value chain describes the full range of activities that firms and workers carry out to bring a product from its conception to its end use and beyond.

Supply Chains have become a web of partnerships to be coordinated

SC is not a chain of businesses but *NETWORK* of businesses & relationship
Supply Chain Executives Face Increasing Concerns about Mitigating Logistics Risk


- According to ChainLink’s research for 2012, companies will increasingly turn to risk-reduction approaches.

- The New Supply Chain Advantage – Factory Mutual Global report says “supply chains have been stretched farther than they have ever been stretched in the past.”
Key Supply Chain Challenges

- Decreased Productivity
- Non-Compliance
- Demanding Customers
- Cost Pressures
- Safety of Assets
- Safety of Assets
- Supply Chain Challenges

Today's Complex Supply Chain

APEC

SCM Map
Why is SCM Difficult?

- Uncertainty is inherent to every supply chain.
  - Travel times.
  - Breakdowns of machines and vehicles.
  - Weather, natural catastrophe, war
  - Local politics, labor conditions, border issues.

- The complexity of the problem to globally optimize a supply chain is significant.
  - Minimize internal costs.
  - Minimize uncertainty
  - Deal with remaining uncertainty.
SCM is Managing Uncertainty

1. Natural Disasters, Weather, & Epidemics
2. Energy and Fuel Price Swings
3. Supply Chain Compression & Reliability
4. Economic & Monetary Disruptions
5. Financial Viability of 3PLs & Carriers
6. Global Market Changes & Demand Shifts
7. Supply Chain Talent Brain Drain
8. Information & Communication Technology Change
9. Regulatory & Trade Environment
10. Panama Canal Expansion

Unknown – Unknown

Unknown

Known – Known

Known

Known

Uncontrollable

Uncontrollable

Controllable

Controllable

Unknown

Unknown
Deviation vs. Disruption vs. Disaster

A **deviation** is when one or more performance parameters have strayed from their mean or expected value, without changing the underlying supply chain structure (e.g. Cost, demand, lead time).

A **disruption** is when the structure of the supply chain is radically transformed by unexpected man-made or natural event.

A **disaster** is when the supply chain network is shut down irrecoverably by an unforeseen and system-wide disruption.
Supply Chain Disruption is Recurring ...

Today’s supply chains need to be highly resilient, scalable and flexible to meet the challenges of doing business during a period of significant disruption.
Supply Chain Disruptions

What happens to supply chain performance during an unforeseen event?
### Recent Trends of Global Supply Chains Expose Organizations to increase Supply Risk

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<td>GLOBALIZATION</td>
<td>Outsourcing, offshoring</td>
<td>Local concentrated risks become globally diffused, involving multiple actors.</td>
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<tr>
<td>SPECIALIZATION</td>
<td>Geographical concentration of production</td>
<td>Efficient process can be easily disrupted by localized event</td>
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<td>COMPLEXITY</td>
<td>Product/network complexity</td>
<td>Reliance on multiple parts/players in diverse locations reduces visibility and adds latency into monitoring systems.</td>
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<td>LEAN PROCESSES</td>
<td>Single sourcing, buffer stock reduction</td>
<td>While initially efficiency is improved and costs are lowered, fewer alternatives in case of disruption</td>
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<td>INFORMATION AVAILABILITY</td>
<td>Track and Trace</td>
<td>Systems increasingly reliant on information flow</td>
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<td>GOVT. LEGISLATION</td>
<td>Air cargo screening C-TPAT</td>
<td>Measures can impede efficient flow of supply chain and transport networks.</td>
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Respondents were asked which risks are most likely to affect their supply chains.

- **Natural disaster disruption**: 63%
- **Inadequate relationship management with suppliers or customers**: 50%
- **Insufficient monitoring of supply chain performance**: 42%
- **Lack of information sharing between your organization and suppliers or customers**: 54%
- **Liability due to lapses in materials safety**: 14%
- **Losses due to theft or other criminal acts**: 12%
- **Partner underperformance**: 40%
- **Suppliers going out of business**: 40%
- **Other**: 7%
In one industry after another, supply chains have been stretched farther than they have ever been stretched in the past.

Few have much experience managing supply chain risk across oceans and continents.

As organizations outsource or best cost country source to developing countries, they unknowingly take on greater exposure.

While some of the best supply chain strategies can help minimize costs and free you to focus on core competencies, these same strategies also may stretch your supply chain to the breaking point and leave your organization vulnerable.

Source: The New Supply Chain Advantage—Factory Mutual Global
Supply Chain Risk Management

Six steps for mapping the risk profile and developing strategies:

- Prioritize **earnings drivers**
- Identify **critical infrastructure** that affect the earnings drivers.
- Locate **vulnerabilities** in the critical infrastructure
- Model **scenarios** for the vulnerabilities
- Develop **responses** to the scenarios
- **Monitor, detect and respond** to potential disruptions as soon as possible.
SCRM: Implementing Operational Changes

- Near Shoring
- Establish a ‘Global Plant Floor’
- Shift Production to New Locations
- Implement Control Towers/Crisis Management Centres
- Map Out Supply Chains/Networks
- Introduce Dual Sourcing Strategies
- Appoint a Business Continuity Manager
Mapping Out Supply Chains

• Many manufacturers have started to map out their entire supply chains

• Helps to locate weaknesses in the supply chain and identify key suppliers.

• Once mapped out, contact info and supply chain relationships need to be maintained.
Dual Sourcing Strategies

- Disruption across supply chains has led to alternative suppliers needing to be identified quickly.

- Identifying alternative source of components/parts helps to minimize production disruption.

- Manufacturers are also likely to start increasing buffer stocks.
Companies are Investing in Significant Changes to their Business

**Business/Operational Changes**
- Near Shoring Production
- Establish a ‘Global Plant Floor’
- Leverage Dual Sourcing
- Implement Control Towers
- Improve Business Continuity

**Information Management Changes**
- Improve Data Backup/Recovery
- Improve Contract Management
- Increase Supplier Collaboration
- Develop Supply Chain Maps
- Review Mass Communications
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SME’s in Global Arena

• A large percentage still rely on manual processes to manage their global trade operations. i.e. exports

• With difficulty in compliance with government regulations.
SME’s Local Challenges...

• Lack of economies of scale in securing freight capacity.

• Lack of consistent business process
  - documentation
  - knowledge transfer issues
  - IT investment

• Lack of strategic procurement practices

• Lack of significant capital for investment.
SME’s Global Challenges...

- SME’s face an increased level of financial risk. Contributing factors like currency exchange rates, duties, taxes and transportation charges.
- Incremental cost of increased inventory, longer cash to cash cycle, delays due to port congestion, customs clearance, and inefficient processes.
- Increased risk for terrorism theft, smuggling, counterfeiting and other issues.
Result of study facing SME’s on SCM’s

1. SME’s do not implement SCM as deeply as large firm.

2. Do not emphasize strategic focus areas like product development and quality.

3. Short sighted partner selection rather than more comprehensive SCM relationship.
SME’s have same Supply Chain Risks

- Small and Big business have the same needs and risks, only scale is different.
- Risks do not change with the size of the business.
I. The Climate Change Challenge
The massive weather disturbance among them - Yolanda (2013), Glenda (2014), the Habagat (southwest monsoon) in 2012, which was not even a typhoon that resulted to Manila’s worst flooding since 1970’s submerging 80% of Metro Manila.
The Need for Supply Chain Resilience

APEC Economies:

- 40% of Population
- 49% of World Trade
- 55% of World GDP

70% of world’s natural disasters

- Government still lacks a strategic effort tying environmental sustainability and disaster resilience.
- Strengthen governance and leadership

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II. THE GOVERNMENT CHALLENGE

• PH Government Bureaucracy though improved but still need further improvement on the following areas:
  
  - Policy consistencies
  - Permanent platform and not culture of provisional and arbitrariness
  - Effective collaboration and cooperation among government regulatory agencies including LGU’s
  - Harmonization and Synergy on Rules Enforcement
LGU Manila where major ports are located imposed extended truck ban

Ill-Timed transport and Customs Regulations
- 10 months ago Manila City issued extended Truck ban without effective consultation and coordination
- Major ports are located in Manila

Effects:
- Triggered port congestion causing delivery delays, additional costs, disruption in operations.
- High economic loss.

Good news:
- Truck ban lifted September 13, 2014 slowly easing port congestion.
- Multiple 24-hours trade lanes, free-up road space and impediments.
III. THE INFRASTRUCTURE CHALLENGE:

- Poor and backlog in infrastructure
  - 91 out of 144, improved by 13 since 2010
  - 101 out of 144, quality of ports

- Poor infra can offset economic gains.
  - Good news: PH is catching up w/ nearly $16B public investment. Expect rating improvement in 2 years.

- High and Insufficient t power
  - high power cost
  - 87 out of 144 quality of electricity supply
  - 2015 looming power
  - PH President seeks emergency powers from Congress
  - Push renewable and solar energy
IV. LABOR MARKET EFFICIENCY CHALLENGE

- TALENT MANAGEMENT AND SKILLED LABOR GAP.
- SHORTAGE OF SKILLED MANAGEMENT PROFESSIONALS.
- EFFORTS ALREADY BEING DONE ON THE BPO SERVICE SECTOR PARTNERING WITH GOVERNMENT TESDA TECHNICAL SCHOOL.
- STRATEGIC SERVICES:
  - Craft service industry roadmaps.
    - Move-up to high value added services in GVC’s
    - Increase use of services in manufacturing.
Solution & Opportunities to GVC Challenges

 Manila Port Congestion:

■ Long Term:
  1. Shift Container Traffic to Batangas & Subic
  2. Volume cap maybe handled by Manila Port.
  3. Railways for the cargo transfers
  4. Single, executive body – to plan, manage & operate Metro Manila Transport System
  5. Master plan to staged expansion of major ports in tandem with supporting road system to accommodate long term growth in trade.
Long Term Solution to Decongest Manila Ports

Existing Infrastructure but highly under-utilized
BATANGAS – SUBIC – CLARK CORRIDOR

VISION:
- To develop Subic-Clark-Batangas Corridor as a Major Transshipment and Logistics Hub, as well as to decongest Metro Manila

CHALLENGES:
- To complete the supporting infrastructures that will create a seamless infrastructure network along the corridor,
- To address major transport policy issues, critical to the development of SCB corridor
**Solution to High Shipping Cost**

- Amendment to cabotage rule – pending bill in Senate already approved in principle.
  - Allowing foreign ships to make multiple local port calls for foreign trade cargoes; allows co-loading.

- Lowering domestic liners shipping costs.
  - Leveling of playing field as to taxes, fuel and other input costs.

**Other Solutions to lower Transport Cost...**

- **CARGO RAIL SYSTEM**
  - Luzon GMA had one in 2000/2001

- **DEVELOP LOGISTICS HUB**

- **CONNECTING HUB BY RAIL**

- **CONTAINER BARGING**
The Alternative to Conventional Shipping

RO-RO SHIPPING System

- RO-RO Shipping is **not** a new transport technology;
- Widely used in Europe;
- There are 21 RO-RO links in East Asia;
- In the Philippines, we have an extensive domestic RO-RO network;
- RO-RO eliminates cargo handling labor and equipment, and reduces the amount of time required to be in a port which can lead to considerable reductions in sea transport costs and improvement in service quality.

Source: REID Foundation

Phil. Domestic RORO Network
**RO-RO shipping is a transport mode that can hasten ASEAN connectivity.**

### RO-RO Routes Selected by ASEAN

1. Davao City – General Santos – Bitung
2. Tawau – Tarakan – Pantoloan
3. Brooke’s Point (Palawan) – Labuan – Muara
4. Muara – Zamboanga City
5. Sintete – Johor
6. Dumai – Malacca
7. Belawan – Penang
8. Belawan – Phuket

**Connecting Philippines to Indonesia thru Davao – Bitung Route**

- **343 nautical miles**
- **19 hours travel time (18 knots speed)**
- Connects two (2) key cities in Mindanao and Sulawesi
- Improves connectivity between Philippines and Indonesia
- Can also call on General Santos and Tahuna
- Support from the BIMP-EAGA sub-regional group

**SOURCE: JICA**
Connecting Challenges

• Many islands poorly connected to market.
• Maritime travel unsafe, unreliable, costly
• Ports and roads inefficient

Way forward for Connectivity

• Most efforts need to be made at national levels.
  - infra investment
  - policy reforms
  - capacity building
• National rules need to meet international standard.
Need PH Government Fast & Effective Action to advance GV & PC’s

- Organizational alignment and harmony among agencies.

- Consistency in the rules and policies.

- Coordination and integration of govt. initiatives including infrastructure.
Creation of PH National Supply Chain

- Single executive body as Supply Chain secretary
- Coordinate and orchestrate policies and activities for effective and efficient value chain.
- Take the lead in getting right and adequate infrastructure.
- Develop, promulgate and implement programs, projects and measures to promote all aspects of domestic trade and attain global competitiveness.
SME’S IN THE VALUE CHAIN

SME need to be competitive to participate
- Product or service quality
- Standards and certifications
- Productivity and economies of scale
- Innovation etc.

SME Major Constraints
- Access to Markets
- Access to Finance
- Access to Training
SME’s must embrace change…

**Agile Supply Chain drives Competitive Advantage & GVC’s**

1. **Visibility**
2. **Speed**
3. **Flexibility**
4. **Collaboration**
Global Value and Production Chains are exposed to a variety of risks and dynamic resilience is key to sustained economic growth and prosperity.

Need efficient, fast, resilient and tailored value chain to expand and conquer APEC market.

PH Government to have a long term, pro-active plan to address GVC challenges and without true collaboration among other countries, value chain flow & cost has and will continue to be a concern.

Global is the new local
Take hold of the future, it pays to prepare

“In you fail to prepare, you prepare to fail.”
– Benjamin Franklin
Thank you

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