[Done] The Future of SC, Episode 136: 2030 Predictions with Gordon Donovan

Richard: [00:00:00] in a sentence or two, what's the future of supply chain?

Gordon: Rather than give you a sentence, I'm going to give you three words because I think the three words sum this up. Number one complex. But because it's complex, it's fun. ' cause we don't wanna be boring, do we? And then after that, I think once we create the fun and we recognize the complexity, it's rewarding. When we solve problems, when we get the outcomes that we want, I think it's personally and professionally rewarding. I think the more difficult the problem, the more rewarding it is.

Richard: I'm Richard Howells and this is The Future of Supply Chain, a podcast where we explore the trends, technologies, and transformation shaping the way we plan, source, make, and move goods around the world. Today we're diving into a great episode that looks ahead to the year 2030 and what it means for procurement and supply chain leaders. And joining me today is someone who's no stranger to the show, Gordon Donovan [00:01:00] and Gordon, maybe you can quickly introduce yourself to the audience or reintroduce yourself to the audience.

Gordon: Reintroduce myself. It is interesting you say it's about 2030. I've just looked at myself and go, God, I look like it's 2030. However, that's just because it's early in the morning this morning. So, my name is Gordon Donovan. I am Global Vice President of Research for Procurement, external Workforce for SAP. And I'm fortunate to have been in this role for about five or six years. My background is procurement and supply chain. So I first started in, essentially in a duty paid duty free warehouse in 1988 looking at alcohol and tobacco and stuff that I wasn't allowed to touch both legally because I was on underage or certainly on the liquor side of things but also legally, because otherwise the customs people come along and do bad things to you. But I was hooked from the first day around how goods move and how supply chains work and how inventory's move in and out. And so I've basically stayed in procurement supply chain ever since the last five or six years working for SAP trying to figure out what the future of procurement and supply chain looks like. Producing thought leadership to help move the profession and the function forward a little bit in [00:02:00] terms of what it could do to share good practice and to share good things that we're seeing. And we do that through a bunch of surveys and research that we do as well, but also to inform our strategy, SAP's product strategy and inform how we can help our customers deliver against these things that people are wanting to try and do. So that's a brief reintroduction.

Richard: I was sitting before the call thinking we're gonna be talking about 2030. And I remember thinking, I'm gonna be really old in the year 2000 when I was younger, and I'm gonna be really old in 2030,

Gordon: Five years away, my friend, five years away.

Richard: So today we're gonna be unpacking the key insights from an upcoming Procurement Imperative 2030 document. And I wanna start with the big picture. The Procurement Imperative 2030 outlines four scenarios that paint a vivid picture of what the next four or five years could look like. So can you give us a quick overview in what inspired this work? What drove the initiative?

Gordon: We've been doing this with the research with the economists [00:03:00] for the last four years. The last couple of years, we've always tried to take an even longer view. So it was always around, let's take a look at the next couple of years and then we got challenged a couple of years ago to say let's look further beyond. Let's look over the horizon a little bit further into five years. Because we wanna try and figure out where five years is. I think anything longer than five years is a problem because technology changes so fast. And I'm gonna give you an example for that. In the Gartner hype cycle, three years ago, generative AI wasn't even on it. Yeah, it feels like it's been here forever, right? But it wasn't actually a thing three years ago. So we, we can't you don't look much further than that five year time horizon because otherwise you, you're gonna miss some pretty big things and we may even miss them looking at five years as suppose as opposed to two or three.

So, the inspiration for it was the fact that we have this data and we have this really good, granular level data as to what organizations are thinking about over the next five years. And for me, it's important to look over the horizon. I tell my [00:04:00] procurement peers in their category strategies when they're thinking about this, you've gotta think about how the market might evolve over the next five years.

You've gotta think about where your business is gonna evolve over the next five years, because. To affect any sort of seismic, massive change is going to, you're not gonna snap your fingers. We're not Tabitha from Bewitched. There you go. There's an old reference for us. Change is incremental. It takes a long time to kinda happen. So we do have to think about, well, what's the runup that we need to potentially make the changes in specific categories that we want to be able to change. So I tell my companies, that's why it's important to do it.

There's two quotes that I really like. The future depends on what you do today, it's a quote from Gandhi which I think recognizes that the decisions that we make today shape future outcomes. Another good quote from a guy called Todd Stocker is the decisions you make today affect the outcomes of tomorrow.

So those are the two quotes that I gonna have in my head when we're thinking around making these kind of 2030 kind of things, is that we've gotta try and help people think about what the future kind of looks like and [00:05:00] why now, why not? We could've done it last year but then it would've been doing 2029.

And whilst you and I might remember space 1999 2030 is a nicer ring with a nicer ring from it. Next, we're not gonna do it next year because next year is the fifth year of the research, so we're gonna do a five year retrospective. So I was like, okay, well, it was like we're doing it now.

Richard: Fair enough. So we talked about there were four real scenarios that we'll highlight. And the first one is the International Order Reset. And we're seeing lots of shifts, geopolitical shifts trade fragmentation and regionalization that the T word tariffs. And these all have implementations on global supply chain and sourcing strategies. So are we witnessing the end of globalization as we know it? And how are global sourcing strategies adapting to the new geopolitical realities and ever changing geopolitical reality?

Gordon: So I think we can track the slowdown in globalization [00:06:00] to it. It first started happening in like 2015, 2006. So two big events happened in 2015, 2016. Iceland beat England in Euro 2016, which was a big seismic. So that's a big event. Unless the city won the EPL or Brexit happened and Trump got elected. Look, it's your choice, which you think are the seismic events that impacted the

Richard: If I wanna think happy thoughts, I'll go with the former.

Gordon: Yeah. Yeah. Okay. Personally I think Lester winning EPL has had a massive slow, globalization slowdown, but they know it could also be Brexit and it could also have been the initial election of President Trump 1.0. Now it's your choice as to which you take, so are we witnessing the end? I think we've witnessed the end of globalization. I think it has stopped the data kind of support this slow down and it's this growth and it kind of 2015, 2016, all the way through, exacerbated massively by COVID. And then, right now the T word is also having that kind of impact. And even if I think some of the tariffs got taken [00:07:00] off tomorrow, I think it's gonna take a good five to six years to unpick those kind of things. And then is it ever gonna go back to the way it was and going to group and discuss?

I think AI is gonna change an awful lot of things in terms of the way that organizations work. I think it's gonna affect those kind of things. I think we're a lot more aware now. Of resilient strategies are probably slightly more impactful than cost strategies. And when resilience strategies have that focus as opposed to cost, the driver of lowest cost doesn't necessarily go there.

It's almost like lowest acceptable cost that gives us the resilience strategy that we need. So the driving factor, yeah. But the driver factor is more the resilience that it is that. The sort of cost piece. So what am I seeing? What are, how are global sourcing strategies adapting to these geopolitical realities, regionalization multi-sourcing, much more resilience focused and single sourcing?

I think historically there was always an assumption that the market will provide competition. And I don't think that's true that anymore. I think that when we're thinking about where [00:08:00] are competitive markets to help us from a financial perspective, but also to help us from an innovation perspective, we've gotta realize when we think about innovation, there are two things that drive innovation.

One is organizations wanting to innovate to enter a new market or to gain market share. And when we look at Porter's generic strategies and again, I say to procurement, supply chain people understand the businesses that you are working with and what's their generic strategy they're following?

Are they following product leadership? Are they following cost leadership? Are they following niche leadership? It generally will fall into one of those three. And then think about what that means for you and your organization. Are you aligned really well? So that balance of power that I think was firmly with the buyer in a global world because there was always another supplier and there was always another supplier who could potentially do it cheaper. I don't think that is that to the extent that it was there in 2015, it's not there as much now. That balance of power has shifted much more toward the supplier [00:09:00] and therefore the strategies that we follow need to adapt.

So I think there's gonna be less of, Hey, let's do supply based consolidation and single sourcing, and much more of understanding the strategies within a category and specifically I call it subcategory activation rather than bundling.

You're gonna have to now understand that the subcategory, or even at the sub subcategory, if you're gonna activate, you're gonna engage and execute at the lower level, not at the higher level, because that's where the competition really is. And competition is good, helps keep prices low, and it helps drive innovation.

Richard: Absolutely. So let's talk about the second scenario and it was titled The Talent Cliff which I'm sure will hit home to many people. I read somewhere recently that 50% of truck drivers around the world will reach retirement age in the next 5 to 10 years, which is a scary thought. So with demographic shifts and automation acceleration, how should procurement and supply chain leaders be thinking about their workforce planning and what [00:10:00] strategies matter most for the future?

Gordon: I think we are firmly in the age of total workforce, and total workforce for me includes things that you've outsourced. Both as a services contract includes contingent labor and it includes your payroll. That's total workforce. I think the build the big thing for me is building in success planning and succession planning.

We see the drop off when that planning is not done or is done badly. Let's take Manchester United as an example and let's poke fun at Manchester as a Manchester City fund. I'm gonna poke fun at Manchester United. They were wonderful for 20 years and their succession plan for their manager when he retired didn't really work. When succession planning goes badly, that's what happens. And I think that's the big thing for organizations to think of. And to your point around the truck drivers we're talking, in the US alone, by 2030, as we're talking about 2030, 30 million people will have exited the workforce. 60% of the OECD [00:11:00] economies have got a shrinking working age population by

Richard: Yep.

Gordon: We have to rethink how we look at talent, and I think previously we didn't include outsourced contracts and contingent labor as our talent, and we need to think about our talent in that kind of way. So I definitely think that succession planning and succession planning could include outsourcing certain things we need to think about. There was a piece of research I was reading separate to the procurement imperative. But it says something like, by 2027 40% of organizations around the world will have fundamentally changed their key skill sets. AI is undoubtedly having a seismic impact in how organizations are going to market. We see organizations now almost saying we are going to be reducing the size of our workforce and harnessing the power of AI. Think about how your processes need to change to be able to do that. Almost taking away the decision around let's [00:12:00] figure out how AI is gonna work, and then how it's gonna impact him. Obvious like, no. We're gonna reduce that by this amount, and you're gonna have to figure out how to use AI to do it. It's a much fundamental difference. Kind of strategy, which I'm, and I'm seeing that. So in terms of what skills and what workforce strategies matter most, let's talk about strategies.

I think selective outsourcing is key. I think organizations are planning to do big chunks of outsourcing to, to take a look at cost base, but also to recognize, and the two drivers of this, number one is cost savings like over 70% of organizations recognize that they use external workforce, which is services and contingent labor to drive cost savings.

And two, it's because they don't have access to the skills. When I think about skills that I would be recruiting for now, if I was procure a supply chain and leading those kind of things, the three that I would be looking for curiosity, problem solving, general acumen. Now that's what a lot of people say, but the data points to the fact that when given a choice, when given a list with those on it, they're always at the bottom. And it [00:13:00] still goes to traditional skills. And that I think is where the risk for many organizations is. Quite a few of these traditional skills are gonna be automated. I think we have to evolve. There's no use trying to bolt AI into the processes. I think we have to rethink our processes entirely for an AI world.

Thinking about how we're going to harness ai. I think a key skill is how are we going to use ai? And our colleague Natasha has a great line around, think about how it's gonna assist you, augment what you do, or automate what is gets, gets done. And I think those three, a's I love those three a's I think they're brilliantly, they work really well.

I think we have to evolve with it. We have to recognize that AI's gonna totally change our process. It's gonna change the nature of work. I think we then have to think then about, okay, what's the value? We bring to our organization. And for me, the value is always the ability to ask why to be curious, not judgemental. I'm gonna keep going with these kind of quotes, right? There's a Walt Whitman quote, which I think Ted Lasso made popular. But be curious, [00:14:00] not judgemental. And I think that talent piece is critical in terms of those skills.

Richard: So let's go onto the third one, which has the interesting title of digital infrastructure shutdown, which sounds a bit ominous to me, but I was just talking to somebody earlier. This today actually about a research paper around trends and strategies in supply chain which was conducted through the University of Hamburg. And the top challenge that they were seeing is cybersecurity.

Gordon: Yes.

Richard: For supply chains. So supply chain with cyber threats and AI-driven misinformation on the rise. How vulnerable are our digital supply chains and what are the biggest risks and the research saw on the horizon?

Gordon: I absolutely agree. The threat of cybersecurity was identified in the procure imperative research as well. So we asked the question around what are the things that are gonna change organizational strategy fundamentally?

And by far the biggest one was cybersecurity, was like 60% of respondents [00:15:00] said that there was the most critical impact that's gonna change organizational. The second one, which was security, was like 24%. So there's that delta between the things actually gonna do. So cybersecurity, massive threat. Massive threat. And I like when you were, I didn't like it, when you said you were right, when you say AI driven misinformation is on the rise. And when you talk about the biggest risks that I see on the horizon, it's actually that it's this, these deep fakes. I was at a presentation and someone was talking about a real case where a head of accounts payable released a $25 million payment to a supplier because he had a phone conversation, a video conversation with the CFO,

Richard: Wow.

Gordon: Then the CFO the next day thought said, what's this payment for? He goes, well, you told me to release it, not me, and it was a deepfake. And it's like, oh my God.

Richard: And they were face to face.

Gordon: And they were, it was a video, it was a video chat. It's scary. It's unbelievable. What can be done with that? So, and then you see all the cyber attacks. Jaguar, Landro, [00:16:00] Jaguar, land Rover, the manufacturing site, got one of their manufacturing places got hit, but it wasn't actually theirs it was one of their sub-suppliers. Toyota, same thing. Marks and Spencers, same thing. Qantas in Australia, same thing. There's a consistent theme though. That consistent theme was it actually happened in the supply chain and the end result was that the major company got impacted, but it actually, where the attack happened was like tier two, tier three, supplier.

Richard: It's an old saying, but you're only as strong as your weakest link.

Gordon: 100%. So, I think that's the biggest risk that I see is recognizing the. Supply chain and recognizing where the weakest point is. And in terms of driving some resilience for this I think about, we need to channel our inner Yoda. We need to pass on what we have learned.

Because whilst our stacks and we know we do our due diligence with our suppliers and the supply chains, and we are thinking about how are they gonna get. [00:17:00] Do the suppliers do that with their suppliers and their suppliers? We actually need to think about, we've got this entirety of a supply chain that it's not siloed.

We have to break the silos. And for me, that's one of the hopes I think, of digital infrastructure of where potentially Agentic AI is gonna help, not just internally within our organization, but throughout our supply chain. That I think is the. Is the piece here, because I think the threat is more imminent for us, further down the supply chain than it is at its highest point. So how are we educating the supply chain about the threats and what they can do about it? That's, I think, one of the risks and the opportunities. And if you've watched zero day around digital infrastructure shut down. There you go 'cause that's not a million miles away. Right.

Richard: Keeping in mind that multi-tiered supply chain and needing that visibility and collaboration across all the tiers, the final or fourth area was around climate breaking points, and we're already seeing the effect of climate volatility on logistics and sourcing and dis the [00:18:00] disruptions from from natural events. So how are ESG mandates and sustainability goals reshaping procurement and supply chain? And what does a climate resilience supply chain look like?

Gordon: I think a climate resilient supply chain looks like a resilient supply chain. And recognizing that climate is one of the key risks. Instead of optimizing purely for like speed and efficiency, like traditional supply chains. Yep. And that's what a, in many ways, a just in time philosophy is all about is maximizing for speed and efficiency.

I think climate resilient supply chains prioritize the ability to absorb shocks the ability to adapt to disruptions and to recover quickly from climate related events whilst hopefully. Reducing the environmental impact at the same time. 'cause we have to have this circular thing going on. We have to have the ability, we can't just react to stuff and then keep reacting to stuff.

'Cause that's gonna test our agility, and that's not necessarily gonna [00:19:00] work. We have to think about how do we reduce as well as recognize that we're gonna have to react to things. And in many ways, this is where I come back to the opportunity for procurement and supply chain leaders to rethink their processes around this deep strategy, how am I going to change the nature of what this market looks like? I'm looking three years in the line, five years away, and that's why I talk about that. So think about how that market is currently now and what it's gonna do and how it's gonna evolve if nothing changes, and therefore what needs to change to ensure that I'm doing that? What's the scenario plans that we need to build to be able to react. What are the fundamental things that we need to do to be able to change it? And I think that, for me is a, a big kind of piece of things. These, I think you can think these climate resilience supply chains do.

Need and maintain realtime insights into how goods flow, which is, key for supply chain. The risks throughout the entire supply network, I think is recognizing and getting that supply chain visibility into ensuring that who's actually in your supply chain network is [00:20:00] critical. I think we need to leverage technologies, IOT, RFID, predictive analytics, make sure that we know the full visibility of supply locations.

I don't think we necessarily do. I don't think we know where everything actually comes from, and I think that's one of the key things that I would be looking to try and do and then understand from a climate perspective, what are the vulnerabilities I mentioned on a literally the call that I had before we recorded this podcast I was talking about if you are currently sourcing from organizations who are at or below sea level, that is a risk. And there are two things that we have to do. Number one, we have to think about, well, there's an immediate issue because if those supplies aren't there anymore because the locations aren't there anymore where else am we gonna get it from? But then more fundamentally, unless you want them there. We just talked about the balance of power shifting, didn't we? Well that's gonna make the balance of power even more so. 'cause you've got even fewer suppliers to choose from. Even fewer, even less choice, which means you're gonna have less innovation, less benefits. So I do think that's a [00:21:00] key thing that transparency, I think allows decision making to happen before a crisis happens, which makes us appear much more agile when those events do actually transpire.

Richard: We've talked about these four different scenarios. The order reset and globalization, the talent cliff, and how automation and training of the people we'll need to work together. The whole concept of digitization and su ai and cybersecurity, and then sustainability. And each of these scenarios are powerful on their own, but they're also deeply in interconnected.

You can't make a decision at the cost of ignoring the others. It's a typical supply chain problem one decision you make here will impact something else here, but which of these scenarios will impact us first in your mind? they haven't already

Gordon: Well, I was about to say, I think the International Order Reset is happening now.

Richard: Yeah. Yeah.

Gordon: I don't think climate's not happening. I think climate change is happening. I think we've, [00:22:00] I think that's been proven right. I'm pretty sure we're, climate change

Richard: Most people would agree.

Gordon: Yeah. Yeah. Not everybody, but most people do. I don't think it's fantasy. So maybe the one is the latest, is the talent. Not necessarily because it's not important, I think it's massively important. I don't necessarily think that we're seeing the impacts and effects.

I think traditionally, and this is, I wish we could get away from this, but it's in some ways it's human nature. We'll wait until something actually is directly impacting us before we do something about it,

Richard: Yeah.

Gordon: as opposed to trying to say, oh, if I carry on this route, well that's gonna be the issue.

Let's try and get ahead of the curve. I do think that we are still firefighting an awful lot of the

Richard: We're about today's issues, not the bigger picture.

Gordon: And one of the reasons why I keep coming back to this is every time I do this piece of research, sustainability always tops the three to five year time horizon. Never tops the short term horizon always tops the three to five year horizon. [00:23:00] 'cause there's always something else that's more important right now

Richard: .Right, you can think back to the pandemic. Sustainability was top of mind before the pandemic. I wasn't that important for a little while during and after that.

Gordon: We are dealing with the fallout of the pandemic. Still, it's just has a different guise,

Richard: Right.

Gordon: but as I was saying that the slowdown in global trade. Can trace its roots to 2015, 2016. That's when the numbers started to change. So we can actually see, pandemic didn't cause it, it accelerated it.

I think if there was no pandemic, it would've just been a very gradual decline. As for various reasons, as a great book called The Undoing Project, that digs into quite a lot of quite a lot of the reasons as to why some of these things are happening. So in terms of which is gonna impact us first, I think international Order reset is happening right now. And that's probably the one that is front of mind for everybody.

Richard: , We've touched on this a little bit about the importance of that visibility [00:24:00] at multiple tiers down your supply chain. What's the role of collaboration and business networks across departments, across functions, across industries, across companies and geographical borders, how are you seeing companies leveraging, or how should they be leveraging business networks .

Gordon: I think collaboration is everything. I think we've tracked the way that procurement and the rest of the business has been increasing its collaboration and we've tracked the benefits of that collaboration and we've tracked how well procurement teams and their suppliers are collaborating. And we've tracked the benefits of that collaboration as well. I think the next logical step is collaborating throughout the supply chain to recognize that it's throughout the supply chain. It's not a one-to-one relationship. I think it's recognizing that supply chain is essential for all components within that supply chain to work.

In order for that collaboration to happen, there needs to be [00:25:00] trust throughout that supply chain, and that I think is critical and it needs to be a trust between the buyer and the supplier. Then there needs to be trust between the supplier and the subsupplier and trust all the way down the line that when we expose who we all are to everybody, that there's not the oh, well we don't need them anymore. They don't have any value. We'll go there and that. That's always the risk. Yeah, and that's when I try and say that if you want collaboration to happen, then trust is critical in many ways. This I think is the opportunity for a agentic AI. To help break down initially the internal silos that happen within an organization, because essentially the bots don't care who you are. The bots don't care about internal fiefdoms. They're about the data. They're about sharing information and breaking those silos down. That's exciting to me that means that you're gonna be able to share all of this stuff and stuff's gonna be able to happen in real time and you're sat there making decisions based on the totality of [00:26:00] information that's available. Now, imagine that throughout the supply chain. Imagine knowing that there's actually a material problem over here. Imagine knowing that ahead of time. So think about, so that's why I say I think the collaboration is absolutely critical and we have to start, and for me, collaboration starts with building trust throughout without supply chain. Like AI doesn't work without good data. Collaboration doesn't work without good trust, and so trust for me underpins everything.

Richard: Right. I totally agree. Gordon, we're coming to the end of a scintillating conversation but I ask one question to everybody. I've asked you this before so I'm sure you've got a lovely answer prepared. But in a sentence or two, what's the future of supply chain?

Gordon: Rather than give you a sentence, I'm going to give you three words because I think the three words sum this up. Number one, first word, complex. But because it's [00:27:00] complex, it's fun. 'cause we don't wanna be boring, do we?

Richard: Not at all.

Gordon: And then after that, I think once we create the fun and we recognize the complexity, it's rewarding. When we solve problems, when we get the outcomes that we want, I think it's personally and professionally rewarding. I think the more difficult the problem, the more rewarding it is.

Richard: What of a wonderful way to wrap up the conversation.

Gordon: There you go.

Richard: Hey Gordon. Thanks. Thanks again for spending the time. It's always a pleasure to talk to you. It's

Gordon: And likewise with you.

Richard: always rewarding.

Hey, just a question around the procurement imperative document itself. We'll keep an eye on it to become available and share it with our readers.

Gordon: Out now. My friend out, now my friend. It's like, I'll channel our in Englishness out now from K Tel and Ronco. It's available , it's on the Economist Impact site, which we, I think we'll share with you and share. It's right there. Now you've got those four scenarios. It's a bit of like an [00:28:00] immersive thing. You click through what we're seeing, the causes are, what the impacts are, the trigger points, what it means, and then what to look out for.

Richard: Okay. Well thanks again and thanks for the hot off the press update. And everyone listening, go to the show notes and we'll make sure we include a link to the research. But until next time, from Gordon and I, thanks for discussing the future of Supply Chain.