

# Tactics Organizations Can Use to Address the Supply Chain Disruption

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Prior to March 2020, most organizations minimized their investment in products, supplies and other types of materials and avoided the risk of obsolescence by maintaining relatively lean stock levels, choosing to replenish items on a just-in-time basis. This approach relied upon the ability to accurately forecast demand based on understanding customer purchasing habits and the analysis of sales history and patterns. Manufacturers and distributors recognized that stockouts occasionally occurred and buyers/consumers tolerated periodic backorders.

To minimize costs, most companies relied on foreign-owned or contract factories offering low labor rates, less restrictive environmental and work rules and, where feasible, positioned production near raw material sources. Under this model, organizations accepted the risk of doing business globally and recognized the importance of proactively monitoring distant resources. While some production that involved highly technical and/or automated processes was performed domestically, most often it was limited to assembly, packaging and distribution.

Despite periodic discussions about re-shoring manufacturing to the Americas to shorten transportation time and reduce dependence on overseas suppliers, few meaningful tax and economic incentives were created in recent years to actually spur more local capital investment.

## The Pandemic Exposed Serious Supply Chain Vulnerabilities

With COVID infections surging in 2020, federal and state governments, as well as health care institutions, realized that there were limited supplies of personal protective equipment (e.g., masks, sanitizers) and critical medical devices (e.g., ventilators) due to an uptick in global demand, the shutdown of factories in Asia that made these items, and a shortage of components/raw materials (e.g., cans/bottles for sanitizers, mask clips). In addition, some of the older equipment in the federal stockpile was found to be unusable.

Every organization was forced to adjust their operations on-the-fly. COVID outbreaks in congested workspaces (e.g., meat processors) reduced the labor force; managers depleted whatever stock they held in-house; buyers scrambled to purchase from vendors; and, in many sectors, employees required new or additional technology to work from home. Since few had lived through a pandemic, organizations were ill prepared to address these new challenges because they had always assumed supply chain resiliency. They may have never considered the impact of a lengthy public health crisis in creating their business continuity and crisis management plans, identified alternate suppliers, developed a mechanism to continuously monitor their supply chain or invested in the capability to leverage data analytics to chart a course forward. While quickly building new production or distribution capacity or expanding existing facilities looked attractive, such projects require significant lead time and funding. They only happen if there is certainty regarding long-term demand that justifies the investment.

Complicating the situation was a change in customer/consumer behavior. Disposable income that would normally be spent on travel, entertainment and services was directed toward home purchases, expansion or space reconfiguration to accommodate leisure and work requirements and helping drive up the cost of building materials. The convenience of online ordering, home delivery (e.g., FedEx) and returns (e.g., Staples drop-off of UPS packages) accelerated the shift away from in-person shopping to online platforms that offered 24x365 access with a broader selection of parts, styles and sizes and acceptance of electronic payments, debit/credit cards and Paypal. At the same time, chip shortages impacted the sale of computers, automobiles and equipment, and climate change contributed to soaring energy prices.

## Current State and Prospects for 2022-2023

Supply scarcity seems to be spreading (e.g., beef, poultry, paper goods, appliances, metal, spare parts) and retailers, other merchants and vendors have responded by limiting quantities of certain items, reducing their hours of operation or, in some cases, not taking orders uncertain when an item will be in-stock. Ports continue to be congested with goods waiting to be offloaded from ships and a shortage of truckers has created a buildup of idle chassis, pallets and containers. At the same time, the number of unfilled jobs has grown significantly due to early retirements, employer vaccine mandates and employees who have quit the workforce. The spread of COVID infections among workers has exacerbated the labor shortage.

Supply chain disruption does not impact each industry in the same way. While inventory-driven businesses like manufacturers, distributors, retailers and online merchants need raw materials, components for assembly and packaging and spare parts to keep equipment working, logistics and transportation companies operating warehouses or providing shipping services require more storage capacity strategically situated near their customers. Real estate and construction companies need building materials and equipment for capital projects, renovation and maintenance. Organizations that provide business and professional services and those in the not-for-profit sector require office and maintenance supplies, furniture and computers.

In 2022 and 2023, there are conflicting views held by economists and government officials as to whether the high rate of inflation is due to supply chain disruptions and/or labor shortages and if the rapid increase is a temporary or permanent condition. Some companies are now attempting to pass-through the higher supply and labor costs they are incurring by raising prices to sustain profitability. Omicron's impact is unclear but a strong argument can be made that it will dampen customer demand, reduce inflationary pressures and perhaps create an inventory surplus if production continues at the normal levels. However, there is also a good possibility that a highly transmissible variant that infects more workers will force production to be curtailed so shortages will keep prices high. While nobody knows exactly how this will play out, there is widespread agreement that the supply chain disruption will continue for the foreseeable future.

## How Organizations Are Trying to Address the Supply Chain Problem

Listed below are some of the measures owners, executives and managers are taking during this crisis:

1. Use alternate suppliers instead of concentrating all purchases with a single source or decide to use fewer vendors by guaranteeing higher order volume if they, in turn, commit to giving your organization priority and visibility over the status of your orders. Often paying a slight premium is sufficient incentive to make the arrangement work.
2. Source from vendors that produce in the Americas, if feasible, to limit transit time and the associated shipping costs.
3. Substitute, where practical, alternate materials like plastic piping instead of metal for specific applications.
4. Reduce the assortment of products available for sale, eliminate duplicate brands that cater to the same customer segment, limit purchase quantities so more buyers gain access to the item and curb the promotion of discounted items to stimulate demand when items are in short supply.
5. Forward buy non-perishable goods in advance of when they are needed, assuming you have adequate storage space or can easily acquire more warehouse capacity. Your suppliers may also be willing to hold stock for you if asked.
6. Diversify ports of entry so shipments can be routed to less busy locations.
7. Consider using air freight to expedite transportation if the margins on products can absorb the extra cost.
8. Hire your own truckers to pick-up materials directly from manufacturers/distributors to reduce dependence on commercial carriers that you have little ability to control.

9. Extend the useful life of old equipment and furniture. Often these items can be refurbished at a fraction of the cost of buying new ones. Even certain electronic chips can be repurposed for other applications.
10. Partner with schools and community colleges to provide temporary help and consider supporting training programs that provide job opportunities for those interested in full-time positions after graduation.

## Contact Us

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