



Optionality is key to managing supply chain risk in manufacturing

Stabilize-Recover-Rebalance



As the impact of the global pandemic continues to be felt, Collin Ziemerink, EVP Industrial Manufacturing & Services at Maine Pointe says following a stabilize-recover-rebalance roadmap will help companies weather the current storm and be better prepared when the next one hits.

“Even manufacturers that have no direct connection to China are feeling the ripple effects, but this can be minimized with immediate action.”

“Already the pandemic has had an unprecedented impact on the markets.”

The current global pandemic has added an extra layer of complexity and disruption to the manufacturing supply chain. In response, manufacturers and shipping companies worldwide are shifting gears, re-evaluating their strategies and risk profiles, and scrambling to keep up production. Despite these efforts, the outbreak has already had a significant impact on production, and it's likely it will negatively impact the global economy throughout 2020, with even manufacturers that have no direct connection to China feeling the ripple effects.

Already, **the manufacturing industry is forecasting major shortfalls for the year.** For many businesses, the inability to get raw materials and intermediate goods out of China, has hindered their ability to manufacture finished products. Even if they're able to source the raw materials, the shortage of shipping capacity in both sea and air has made shipping logistics nearly impossible or prohibitively expensive in some circumstances. According to the Wall Street Journal, numerous ocean cargo vessel sailings have been cancelled and the normal turnover of containers stalled, creating an imbalance, pushing up transportation costs and causing significant delays. These ocean vessel disruptions, and the consequent disruption in truck freight, will only prolong the slump we were already seeing in the freight industry.

Which industries will be impacted?

Multiple industry sectors are feeling the impact, including metal fabrication and electronics components, as well as the oil & gas markets and the transportation industry. A strong secondary effect will hit the retail and CPG industries sharply. The pandemic has had an unprecedented impact



“Manufacturers can still build resilience into their supply chains, manage the present risk and mitigate future risk.”

“Ocean cargo and air freight felt the pinch of the pandemic immediately, and trucking will get a later hit as ocean and air freight hits the ports in lower volumes.”

“Building resilience into the supply chain will go a long way towards helping absorb the shock from future storms.”

“Companies will need to be able to pivot quickly and put options in place immediately to prepare for a prolonged slowdown and to spread the risk.”

on the markets. As well as shocking drops in the price of crude, market-wide turmoil caused the circuit breakers designed to prevent panic trading to be triggered four times in March.

Manufacturers and shippers alike were already reeling from the tariff and trade war situation. However, that in itself had not been enough to cause those manufacturers to shift their strategy immediately, and in some cases, even though the tariffs resulted in a cost differential, they were still able to absorb the cost. But **with the addition of the disruption caused by the coronavirus, it has become a perfect storm.** Because of Wuhan's unique status as a crossroad for nearly all Chinese transportation (not unlike Chicago is a transportation crossroads in the United States), **there will be a significant ripple effect throughout all of China**, and as a result, the impact will ripple out to the rest of Asia, as well as Europe and the Americas.

Manufacturers can still build resilience into their supply chains, manage the present risk and mitigate future risk with increased visibility of the end-to-end supply chain, and a Total Value Optimization (TVO)TM driven focus on optimizing value creation, improving transparency and visibility and transforming operations.

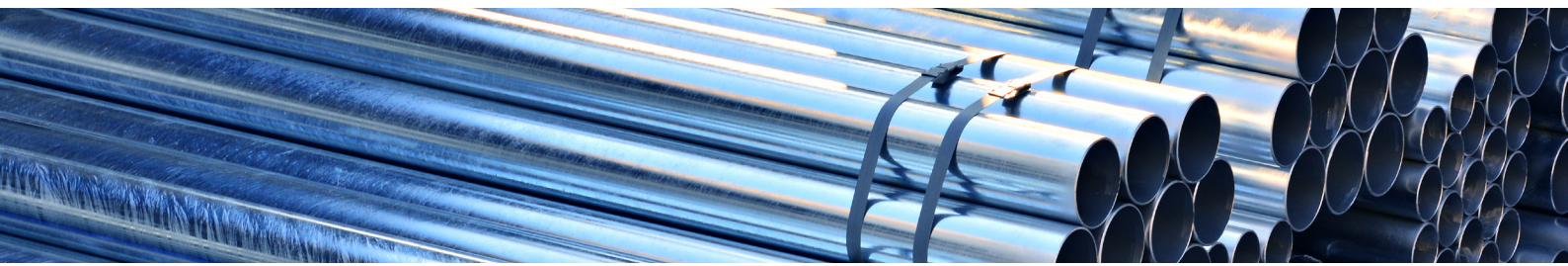
Sea, air and land all feel the impact

The most immediate transportation impact is sea and air freight, but there will be a secondary impact on the domestic trucking industry. **Over-the-road and intermodal freight was already seeing major weaknesses** before the outbreak due to the combined impact of the trade war and a nationwide labor shortage. Ocean cargo and air freight felt the pinch of the pandemic immediately, and trucking will get a later hit as ocean and air freight hits the ports in lower volumes. The weakness the transportation industry was already feeling will only be exacerbated, making a rebound all the more difficult.

While manufacturing inventory levels were adequate to withstand the first quarter without too serious an impact, the second quarter will see more serious shortages. Even when Chinese factories are able to resume full production and ports are fully operational, there will continue to be delays for the foreseeable future. Enhanced screenings at airports, ports of entry and Chinese border crossings will continue for some time. Also, Chinese factories must be certified by authorities to be in compliance with new hygiene measures before they are allowed to go back into production with a full workforce in place – a common-sense measure, but one that will still cause additional delays, as Chinese bureaucrats are not well-known for their expediency.

How do we keep such disruptions from happening again?

Currently, most manufacturers have enough inventory to last out the first quarter, but will feel the pinch in the second quarter as ship availability comes into short supply. Some may turn to air freight, but that is a temporary solution at best that will result in significantly higher transportation costs. **The bigger question manufacturers need to ask now is, “How do we prevent this disruption from happening again?”** Building resilience into the supply chain will go a long way towards helping absorb the shock from future storms. The supply chain crisis brought about by this outbreak is a disruption that did not have to happen, and risk preparation and mitigation could have made the impact not nearly as severe for industry. Nearly 40 percent of companies do not have an effective supply chain risk management program in place, and this outbreak serves as a reminder of just how vulnerable a hyperconnected supply chain can be without the right contingency planning and built-in resilience.



“TVO quickly develops a roadmap to create supply chains as a competitive weapon and move an organization through the three key stages; stabilize-recover-rebalance”

Risk preparation and optionality

It's not too late. The best-case scenario of course would be to have already prepared for this unexpected outbreak long before it happened, and those companies which had contingency plans in place will weather the storm better than those who did not. Maine Pointe's TVO approach to supply chain visibility and risk prevention can address the current disruption while preparing for the next one.

Even those who may not have had a full contingency plan in place, can take steps to ride out the storm. Most importantly, companies will need to be able to pivot quickly and put options in place immediately to prepare for a prolonged slowdown and to spread the risk. At the same time companies are putting those options in place, they should be preparing for the future. This is certainly not the last time an unexpected disruption will cause such widespread supply chain upheavals, and the best time to prepare for the future is while the need for risk prevention is still top of mind.

A three-step roadmap forward: stabilize-recover-rebalance

The current pandemic is the latest in a series of global risk events which have exposed vulnerabilities in the supply chain. The question is what is the way forward? It's a sobering fact every manufacturing executive will need to re-evaluate their supply chain and rebalance it to manage supply chain risk while driving EBITDA, cash & growth. Total Value Optimization (TVO)[™] quickly develops a roadmap to create supply chains as a competitive weapon and move an organization through the three key stages; stabilize-recover-rebalance, providing an accelerated pathway to overcoming the short-term challenges and building the foundations for a resilient, digitally enabled hyper-agile supply chain of the future.

Manufacturing companies must not wait. To weather the current storm as well as prepare for the next one, they need to take immediate action during this volatile period.

If you would like to discuss any of the points raised in this article, contact one of our executives. Email info@maineptune.com

About the Author



Collin Ziemerink is Executive Vice President, Industrial Manufacturing & Services at Maine Pointe, a global supply chain and operations consultancy. Collin has played a pivotal role in more than 100 engagements in North America, Asia, South America, Europe and Australia. He has designed, structured and overseen large-scale improvement programs for clients across a broad range of industries including industrial manufacturing and services, oil & gas, mining, chemical, life sciences, food processing, construction and technology. As such, he is uniquely positioned to identify, together with our clients, opportunities, for cost reduction, cash release and growth. Contact Collin at cziemerink@maineptune.com

About Maine Pointe

Maine Pointe, a member of the SGS Group, is a global supply chain and operations consulting firm trusted by many chief executives and private equity firms to drive compelling economic returns for their companies. We achieve this by delivering accelerated, sustainable improvements in EBITDA, cash and growth across their procurement, logistics, operations and data analytics. Our hands-on implementation experts work with executives and their teams to rapidly break through functional silos and transform the buy-make-move-fulfill digital supply chain to deliver the greatest value to customers and stakeholders at the lowest cost to business. We call this Total Value Optimization (TVO)[™].

Maine Pointe's engagements are results-driven and deliver between 4:1-8:1 ROI. We are so confident in our work and our processes that we provide a unique 100% guarantee of engagement fees based on annualized savings. www.maineptune.com