Supply Chain Forecast - Massive Volatility and Unpredictability Ahead

We are living in turbulent times that have created a new cold war where supply chains are at the center of the front line. Supply chains are vast networks of resources, information, people and money that companies rely on to move goods and services to consumers. The pandemic caused disruptions in all aspects of supply resulting in shortages, price inflation and delays in shipping key components for manufacturing.

Russia’s invasion of Ukraine and the resulting sanctions have put additional strains on the supply chains around the world. This has prompted skyrocketing energy costs and concerns about famine. The war will have far reaching impacts that will reshape global supply chains in a way that COVID never did.

“Global supply chains are already hurting and stressed because of the pandemic,” said Laura Rabinowitz, a trade lawyer at Greenberg Traurig. She said the effects would vary for specific industries and depend on the length of the invasion, but the impacts would be magnified because of an already-vulnerable supply chain. “There’s still tremendous port congestion in the United States. Freight costs are very high. Factory closures in Asia are still an issue,” she said.

The biggest challenge right now is the cost of energy. Russia supplies almost 40% of Europe’s natural gas supply and is the 3rd largest exporter of oil in the world. After the US indicated they would stop importing Russian oil, the price of crude rose to more than $130 per barrel driving gas prices up over $5.00 per gallon in many US cities. The next looming issue is wheat. Russia and Ukraine account for almost one third of all global wheat exports. The war has the potential to disrupt the entire food supply chain causing famine for millions of people around the world. While the world is already suffering from a severe chip shortage, both Russia and Ukraine supply neon, palladium and other commodities that are required for chip production.

COVID and the war have already caused significant disruption in the movement of goods and services and it's about to get worse. After 36 countries closed their airspace to Russian aircraft, goods transported by air freight from China to Europe or the Eastern US may need to be rerouted or use slower or more expensive modes of transportation. Russia’s invasion of the Ukraine has also had a devastating impact on global trade movements with hundreds of tankers and bulk carriers stranded at ports as a result of the sanctions imposed on Russian connected ships.

A Supply Chain Iron Curtain

NY Times columnist Thomas Friedman believes that Russia’s action could create a new type of supply chain Iron Curtain with Russia and its allies on one side and the West on the other. He believes that we may be at a point where companies will no longer be able to separate business from geopolitics.

Hundreds of Western businesses have curtailed or completely stopped operating in Russia since the invasion of Ukraine, but some firms have decided to stay in the country despite international and domestic pressure. McDonald's, Coca-Cola and Pepsi have suspended Russian operations among many other recognized brands.

The second Cold War has started and supply chains are the front lines

Entire supply chains are being rewritten, creating massive volatility and unpredictability. We are witnessing the reconfiguration of the world order and this will impact global supply chains in many different ways.

We are about to experience the most dramatic changes to the supply chain map since World War II. As the Russia-Ukraine conflict's international ramifications keep expanding, we face the possibility of a split global economy, in which geopolitical alliances, energy and food flows, currency systems, and trade lanes become more divided.

During the first Cold War there were two worlds, the East and the West. In the second Cold War, Western companies will start to shift sourcing away from the East and more toward Western and neutral parties. North American economic integration will become a new priority. Surface transportation across the Eurasian continent will become more complex, delayed and almost impossible.

Companies will begin to prioritize vendors that can provide consistent and dependable supplies. The increased costs will be passed on to consumers in the form of higher prices. While prices will become an important consideration for consumers, brands that offer a consistently and predictably available set of choices will enjoy pricing power.

The winners in the future will be the companies that make the investments in supply chain infrastructure and reliable, Western-friendly production locations. New investments in supply chain technologies and automation will be accelerated, as will preference for near-shoring and domestic sourcing.

The Ukraine crisis is perhaps the end of the preamble to a long history of geopolitical, economic and military conflict between the East and West in the second Cold War. Now the plot is getting more complex. State actors like Russia and China are choosing regional trade over global integration.

World Trade Organization-led globalization took decades but accelerated when China entered in 2000. Global decoupling — if it comes to that —and tighter regional socioeconomic integration will also take decades, and the pace of change will vary, sometimes fast and sometimes slow.

At this time, Russia’s war against Ukraine is still ongoing and there is no way to know for sure how long the sanctions will stay in place or if companies that have chosen to leave Russia will return. But one thing is certain, global supply chains will never be the same again.

Here are two additional key issues as the new global supply chain transformation takes place:

#1 Demand Surges Triggered Disruptions

Several factors have hampered supply chains over the last two years, including COVID-related production issues, broad-based labor supply challenges, and the “bullwhip effects" of pull-forward ordering and precautionary inventory buildup. Yet, the single largest culprit, aside from the Russia-Ukraine conflict, has been the unexpected and unprecedented surge in demand for goods.

A sharp but short-lived decline in demand early in the pandemic prompted many firms to trim inventories and production. Soon after, however, the combination of fiscal stimulus and social distancing—which shifted spending from services to goods—drove demand for goods to new highs. US consumer spending on durables in October 2021 was 40% higher than it was in October 2019.

#2 Transportation Costs Remain High

Normalizing consumer demand should temporarily take pressure off supply chains, but transportation bottlenecks are an ongoing issue. Morgan Stanley analysts think quarantine and travel restrictions for key transcontinental routes may stay in place throughout the year and don't expect capacity increases until late 2023. The new COVID variants will likely keep on coming in waves which could create additional ups and downs.

Meanwhile, the trucking industry is facing persistent labor shortages, all of which add up to higher logistics burdens throughout 2022. Further, a significant decline in airfreight capacity—about 65% into the US—is contributing to higher costs.

Conclusion

The Russian invasion of Ukraine has rattled global supply chains that are still in disarray from the pandemic, adding to surging costs, prolonged deliveries and other challenges for companies trying to move goods around the world. All in all, this leads us to conclude that there will be massive volatility and unpredictability ahead for the global supply chain. Therefore choose your manufacturers and distribution partners wisely.

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About the Author:

Elias Amash, President of GRIP, is an industry veteran with more than 30 years of experience in global sourcing, manufacturing, distribution, retail merchandising, fulfillment, marketing, technology, and operations. He is a trusted partner to hundreds of retailers and has “leveled up” the industry with GRIP’s undying commitment to offering only the highest levels of service to its customers. Amash has published several business books, The Retail Advantage: How to Win the War with Amazon, Retail Survival: Who Lives, Who Dies and Why, The Future of Retail, Importing from China: The Good, The Bad, and The Ugly, and 101 Bright Ideas: Winning Tactics to Increase Retail Sales along with the Top Ten Life Lessons They do not Teach you in School.

About GRIP:

GRIP was incorporated by Charles Amash in 1980 and has grown into one of the nation’s top suppliers of innovative products to the retail industry. Located just south of Grand Rapids, Michigan, GRIP features a 200,000 sq ft state of the art warehouse facility including a 2,000 sq ft product showroom. GRIP carries a product line of over 1,000 specialty tools, tarps, automotive, cargo control, cleaning, LED lighting, magnetics, outdoors, household items, impulse and general merchandise. GRIP has a proven track record of excellence in supplying retail clients with innovative products, timely fulfillment, and world-class customer support. At GRIP, everything is about earning your business...one customer at a time. It’s about building relationships and fostering business partnerships that will last long into the future. Our goal is to have Customers for Life. The future at GRIP is exciting and we’re hoping that you can be a part of it as one of our many Customers for Life.

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