COVID-19 AND SUPPLY CHAIN IMPLICATIONS: WHAT IS GOING ON AND WHAT SHOULD COMPANIES BE DOING?

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Your Panelists

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Agenda

- SCM at Marquette University
- Global environment and how have we been designing supply chains so far
- Covid-19 – Short-term SC impact and what companies should be doing?
- Covid-19 – Longer-term SC impact and what companies should be doing?
- Q&A
SCM at Marquette University

- Located in Milwaukee
- SCM Program
  - Undergraduate
  - Graduate – Online MS in Digital Supply Chain Management
- Rankings:
  - 16th (Nationally) – Gartner (2018)
SCM at Marquette University

- Rankings – contd.:
  - 3\textsuperscript{rd} (Nationally) – Quality of curriculum – Gartner (2018)

- Demand driven curriculum with an emphasis on applied learning

- Placement: 99.2% (excluding international students)

- Internships: Compulsory for graduating
  - 40% seniors with two or more internships
GLOBAL ENVIRONMENT AND HOW WE HAVE BEEN DESIGNING SUPPLY CHAINS SO FAR ...
Global Environment and SC pressures

- Global Supply Chains were **already changing**, due to a multitude of factors!

**Pressure on Costs-to-Serve:**
- Energy Costs
- Environment
- Tariffs
- Regional Conflicts
- Cyber Attacks
- Natural Disasters
- Regional Epidemics

**Pressure on Capacity:**
- Rapid growth of E-commerce
- Reduced Air Cargo and Warehouse Supply

**Pressure on ROIC:**
- Asset Light companies increasingly using 3rd Parties to run their operations
- Low interest Rates
- SC Investment stimulus
S/C optimization – BEFORE Covid-19 ...
... and the result

- Vigorous pursuit of **Supply Chain Excellence** in order to drive **Increased Profitability**!

- And then came...
COVID-19 – SHORT-TERM SUPPLY CHAIN IMPACT AND WHAT SHOULD COMPANIES BE DOING?
A Few Recent Headlines

Europe Borders May Be Closed Until September Due to the Covid-19 Threat

Historic oil price collapse sees First major energy company cut its quarterly dividend

Shippers shocked by scale and speed of blanked sailing announcements

Boeing Loses Plane Orders as Coronavirus Hits Global Air Traffic

Food Supply Chains Slow Around the World in Trucking Bottlenecks And Worker Health issues

Some Airlines Will Remove Seats To Carry Cargo And Medical Supplies On Passenger Aircraft Converted Into Freighters

US airlines are losing money for the first time in years as coronavirus ends travel boom

Millions of Americans join unemployment line as coronavirus savages economy
Short-Term Challenges

1. When the crisis finally abates, we will likely experience near term shortage of air, ocean & trucking capacity...

   - **Airlines** have grounded 90% of their flights → *reducing wide body capacity* that carries much of IAF tonnage
   
   - **Container Ship sailings reduced dramatically** with multiple canceled (blanked) sailings each week
   
   - **Trucking firms laying-off drivers and reducing capacity** in USA as States shelter-in-place ... more to follow
Short-Term Challenges, continued ...

2. Multiple EU “Schengen” Borders closed in March → Significant obstacle to cross-region trucking.

3. Worker health and Worker availability

Source: www.washingtonpost.com, April 2020
Short-Term Challenges, continued ...

Compounded, these factors will amplify the disruption of global logistics and supply chain networks.

Source: www.businessinsider.com, April 2020
Short-Term Challenges, continued ...

- Fast-Forward 45-90 days – let’s assume that the “all clear” siren is finally being sounded!

- What is going to happen?
Short-Term Challenges, continued …

- A race toward the recovery and return to “normal”:
  - Companies rush to re-stock their own supply chains +
  - Big push for year-end 2020 to salvage the business…

- … only to find:
  - Globally disrupted logistics and supply-chain networks
  - Severely impacted supply base (1st tier and lower)
  - Impacted Build-Move-Store Capacity
Short-Term Challenges, continued …

Not all Firms will be able to Secure Ocean Freight Capacity!

Planes Parked Multiple Months → Air-Worthiness Approval Needed!

Result …
A Near-term Shortage of Air-cargo Capacity → Higher Rates
Short-Term Challenges, continued ...

Surface Freight Users

Driver Displacement plus Failures in NA & EU Trucking Industry

A Challenged Schengen Process

A ‘forgotten’ Brexit

Result ... A Near-term Shortage of Surface Freight and Storage Capacity ...

Plan Now!

Health of Current / Future Drivers and W/H Workers

E-commerce W/H Dominance

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Short-Term Challenges, continued ...

- A few more factors to be considered if lockdown ends in 45-90 days:
  - Larger retailers will likely go “all out” to salvage CY’ 20 – pushing hard for Holiday season!
  - Push will be aggressive - even if demand lags!
  - This “demand surge” will challenge S/C reliability, logistics capacity, impact cost and imperil the survival of some businesses!
Short-Term Initiatives

- Start planning now - Internally!
  - **X-functional team approach** – Marketing/Sales + Finance + Purchasing/Materials + Logistics + Production Planning
  - **Understand the plans** for “Re-filling” your factories and your customer base
  - Assume “**Day-X**” as a Re-start Date – Add a Re-start **Delta** of 15 days for **4-6 cycles**
  - **Update plans every 15 days!**
Short-Term Initiatives, continued …

- **Start planning now - Externally!**
  - **Start Prioritizing Fulfilment Plans** – with your supply chain partners *now*!
    - Material suppliers – multi-tier / multi-level approach ... Will some of them need “help” from you?
    - Logistics and Brokerage Providers
    - Warehouse Operators + JIT Hubs / Kitting Operators + Others
Short-Term Initiatives, continued …

- **In parallel** - Start forming your “Long Term” Team!
  - **Who** will be your suppliers?
  - **What** will be your priorities?
  - **When** = 1-2 years, 3-5 years, 5+ years **Time Horizons**!
  - **Where** will you be located (Factories, Warehouses, etc.)?
  - **Why** ... because you cannot wait for the crisis to end ... because your competition won’t be waiting!
  - **The Time To Act Is Now!**
COVID-19 – THE LONGER-TERM S/C IMPACT AND WHAT SHOULD COMPANIES BE DOING?
Long-Term Impact

- The Covid-19 outbreak will accelerate long-term changes in Supply-Chain strategy started with tariffs and geo-political issues.

- Need to systematically address supply chain vulnerabilities
Long-Term Impact

Why are our supply chains so vulnerable?

1. Focus on efficiency over the effectiveness
2. Globalization of supply chains
3. Focused factories and centralized distribution
4. (Over)outsourcing
5. Supply base reductions
6. Poor supply chain visibility
Long-Term Impact - initiatives

1. Rethink single origin bias:
   - Single geography
   - Single/sole supplier sourcing practices

2. Strategic Industries – Pharmaceuticals and Hi-Tech – will face increased Government Pressure to “Re-regionalize”
3. Start taking Supply Chain Risk Management seriously:

- Contrary to the popular belief, most risk in supply chains arises from internal company’s decisions and NOT external events.
- Increased Emphasis on “Health-Hardening” as well as “Contingency Planning”
- Understand your supply chains
Long-Term Impact – initiatives continued ...

- What are your critical paths?
  - Long lead-times / Sole sourcing
  - Multiple T1 suppliers sharing same T2 supplier
  - Infrastructure dependence and Material Flow Bottlenecks

- Inventory positioning

- Is procurement function still measured by costs savings versus revenue-assurance?

Source: Harvard Business Review, April 2020
A Reminder from Recent History …

Some of the practices implemented were:

- Parts standardization
- Increase in safety stock (deep in a supply network)
- Multi-region and multi-supplier sourcing

... but then we “forgot”

Source: The Atlantic, March 2011
4. **Supply Chain Reliability and Resilience** should become a **Top-priority** – because “**low cost**” does not help if you **cannot** move your product!
Leading to S/C Optimization \textbf{AFTER} Covid-19

- Organizational imperatives
- Real-time visibility
- Shareholder Responsibility
- Data driven analytics
- Optimal Decisions
- Cost
- Resilience and Health
- Reliability
- Security
- Pro-active communication
- Customer Satisfaction
- Industry Recognition

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Some Closing Thoughts

- Winners – Companies who rebound quickly by managing short-term issues in parallel with long-term S/C redesign

- Don’t think if you’ve scraped through this crisis that you’re okay – the next time you probably won’t be

  Because ...

- Your long-term competition – the “winners” – will be acting now ... and so should you!
Q&A

And Now Over To Our Audience
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THANK YOU!