Evaluating post pandemic supply chain disruption

December 2021

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(4 min read)

Key takeaways:

- *Supply chains witness huge disruptions due to COVID-19 and deterioration of trade relations between Asian neighbours.*
- *Resilience in supply chains can be built by significant investment in technology, having alternate trading partners, validating Busines Continuity Plans (BCPs) and focussing on domestic supply chains..*

The ongoing global logistics disruptions stemming from the COVID-19 pandemic continues to impact businesses and consumers as the flow of consumer goods into South East Asia (SEA)/India is restricted by the continued shutdowns of major global ports and airports, largely in China, South Korea, and the U.S. (including ports of Los Angeles, Long Beach and New Orleans). Congestion at key connecting ports along the U.S. west coast has produced an unparalleled backlog, with a record of 65 cargo ships forced to wait in September 2021 (which may have reached 80 ships by November, according to media reports). Wait times at ports exceeded an average of eight days, which is far worse than 12 months ago when the pandemic was at its peak, in the pre-vaccine roll-out era.

At the same time, the U.S. shipping freight rates spiked to hit record highs, which in turn, increased the price of consumer goods. This has also escalated the risk of cancellations of freight bound for SEA/India as global shipping lines are attracted to the more lucrative China to the U.S. freight routes.

Logistics disruptions created a ripple effect across global supply chains that ultimately caused goods to pile up in storage, impacting those ships on their way to SEA/Indian ports through diversion or being slowed down as they arrive at major SEA transit hubs. These logistics disruptions restricted global trade flows by constraining businesses' ability to import products and refill their stocks of inventory. Many reports highlight the very-high likelihood that the December 2021 and January 2022 festive seasons across the region will be severely impacted by restricted access to imported products. However, the challenge for many businesses within SEA/India is that this issue will go well beyond the next three to four months, with supply chain disruptions expected to stay well into (and possibly beyond) 2022.

In addition to these global logistics disruptions, geopolitical events can have commercial implications for SEA/Indian businesses, supply chains and communities. Any escalation in geopolitical tension is likely to create further disruption in trade flows into the region as the global shipping companies use the South China Sea and neighbouring oceans to bring products from North America and Europe.

Post-pandemic, a number of economic, trade and operational issues remain, and any one of them can become the next catalyst for major trade disruption. For instance, will China work through short-medium term energy challenges and reach its peak manufacturing capacity? Will the Chinese ports have sufficient resources to load ships and export product to SEA/India? Can the domestic transport and logistics industries in these key SEA/Indian markets ramp up capacity to fast-track store replenishment once items finally arrive at the major trading ports? Can the Stevedores at key global and SEA/Indian ports accelerate the unloading and decarbonisation processes to get through the impending backlog of ships arriving? Are there enough courier drivers available to manage the delivery of domestic and international e-commerce orders?

Are we just one new Coronavirus strain away from further supply chain breakdowns? There are real concerns raised by global economists that another outbreak could further undermine the Chinese economy and add to the world's supply chain problems. It is not just grocery, apparel and personal items that consumers be able to buy, businesses will struggle to replenish spare parts, tools, electronics and construction materials. Many households would feel the impact from shortages of commercial items as their damaged or idle machines (cars, heaters and air-conditioning, lawn mowers, tools, TVs, entertainment and personal devices, etc.) will potentially sit around the house without repair for many months.

Assuming that these disruptions reside and access to sea and airfreight reverts back to pre-pandemic levels, it will take some time before things simply return to normal. In the interim, we can expect higher prices (as excessive freight costs are passed onto the consumer) and longer waits for retail shelves to be replenished (especially imported products). Consumers will need to reset expectations, as items requiring repairs and maintenance will also be delayed in lengthy service queues.

So how should businesses seek to build resilience into their supply chains in 2022? Some of the strategies are highlighted below that are being rapidly deployed by leading organisations to help build resilience within supply chains:

- **Double down the technology investment**

  The initial investments made in the previous 18 months were aimed at automating key nodes within the supply chain (such as intelligent automation used to enable efficient, effective and safe operations) including stores, warehouses, manufacturing facilities and even corporate office buildings. In 2022, an accelerated level of investment is likely to be seen as businesses seek to enhance critical supply chain planning capabilities, by adopting more advanced digital enablers, such as cognitive planning and AI-driven predictive analytics as well as adding greater integrity into secure supply chains by using advanced track and trace and blockchain technologies.

  Many supply chain managers are currently troubled by a lack of visibility throughout their extended supply chains, as there are so many nodes and participants within the extended chain. Leading organisations are using advanced technologies to significantly improve visibility and thereby become far more responsive to major disruption and variability within their domestic, regional and global supply chains.

- **Test and validate BCPs**

  Many BCPs failed during the pandemic, as they were not designed for such significant disruption. What caught many businesses out by surprise was that, while some businesses had no BCPs to cover major risks, others had not tested or understood the impact of their defined BCPs. We also faced situations where BCPs were found to be overly complex or costly to implement and simply failed to adequately support the business.

In 2022, many businesses will adjust their supply chain strategies and then revise their BCPs. They will learn from past events and define better strategies that shore up supply and enhance customer fulfilment. Each alternative strategy will be evaluated to ensure cost, customer service, financial impacts and risk factors are all balanced. They will also better understand new capabilities required to protect them into the future.

- **The power of one not so powerful as over reliance exposed**

  Despite the inherent risk associated with focusing on 'one major trading partner', many businesses have strong relationships with one major supplier, one large customer (or export market) and/or one major supply chain partner. As we emerge from the COVID-19 slowdown, many businesses recognise the need to better equip their supply chains by identifying alternative trading partnerships. They are actively seeking a broader list of suppliers, alternative markets/customers and alternative transport and logistics providers.

  SEA/Indian businesses will build greater agility and resilience into their supply chains by working with partners who provide new capabilities as a service. New technologies (trading systems, planning and analytics capabilities, etc.) and additional logistics requirements will be offered as variable cost solutions rather than long-term fixed overheads, thereby providing more flexibility and better cost control. The outcomes will mean a more diversified and strengthened supply chain with greater potential for risk and cost mitigation in the future.

- **Customer – the impact of new demand**

  In recent conversations with a number of executives representing many consumer products-based companies, KPMG firms across most major markets found that many are commencing a journey of reconfiguring their supply chains to respond to new customer demand profiles. During the lockdown, more customers desired deliveries to home and adopted greater use of click and collect offerings, as well as in-store visits for food, grocery and alcohol. The traditional demand patterns of the past are outdated, as delivery requirements are changed forever, including customer expectations that anything ordered online can be returned.

  There is a logical sequence to help inform these consumer products-based companies as they plan new fulfilment and returns strategies, but most importantly they must define the future buying behaviours and service expectations of their customers. These companies will need to design alternative supply chain flows, inventory storage capabilities and determine how to best optimise last mile deliveries and returned goods.

  To date, many have forgotten to consider how these new strategies will change the supply chain operating model (what capability will be most important) and therefore what enablers they can embrace to significantly enhance the return on investment (ROI) of any future investment in supply chain infrastructure.

Domestic focus – the emergence of micro supply chains

The slowdown and closure of many international borders caught many businesses and consumers out. Only now, do many really understand how many imported items they consume, as most are unavailable or difficult and expensive to access. Businesses have become more frustrated as their local assets cannot be frequently maintained/repaired as spare parts are unavailable.

Countries (like Australia, Singapore, etc.) that heavily rely on regional and global suppliers for parts and components to support critical industries such as medical and healthcare, telco, retail, etc. are exposed to constraints in supply chain flow. Therefore, both government and industry leaders should seek to define strategies that build resilience and boost our domestic capabilities.

India is emerging as a leading manufacturing hub in the region. Indian firms are already part of global supply chains, and more firms are likely to join. These firms will need to rely on supplies from other countries due to economic reasons or requirements from their customers, thus exposing themselves to supply chain disruptions. COVID-19 showed that unplanned supply chains can impose a hefty price on businesses. With the risk of disruptions only growing, it is important for Indian businesses to make their operations agile by gaining increased visibility into supply chains and creating robust BCPs.

For more information, read KPMG International's publication **Rethinking supply chains in Asia Pacific**