mdm webcast

sage

Distributors Rethink the Supply Chain in Light of New Challenges

While countries around the globe absorb the blows of extreme weather and unexpected obstacles, the distribution sector is facing a perfect storm of challenges to the supply chain — here's what to do about it.

A major challenge for distributors is the impact of climate change on the storage and transportation of goods in countless ports and distribution centers. But even more disruptive has been the COVID-19 pandemic, and the waves of shutdowns, related remote work, and all the uncertainties they have caused.

As a result of these unforeseen challenges, the distribution sector is at a crossroads. Organizations must ask themselves several critical questions related to how they move forward to thrive in times of chaos.

Among those questions:

- How can a distributor "shorten" the supply chain in order to receive goods faster?
- What contingency plans can a distributor count on in the event of disruption?
- How will the new remote and hybrid workforce impact distributors in the long-term?
- How can a distributor inspire more collaborative and efficient efforts among staff?
- What new relationships should a distributor forge to be more competitive and successful?
- For U.S. firms, do these challenges mark a return to an America-first strategy?

All of these questions were addressed in the recent MDM webcast, "Supply Chain Optimization in Volatile Markets: What can distributors do to combat unpredictable environments." Participating in the webcast were Rod Winger, director of industry marketing, wholesale distribution at Sage; Mike Edgett, U.S. product marketing director at Sage; Bob Sabath, director at Transportation and Logistics Advisors, LLC; and Elizabeth Galentine, editor in chief at Modern Distribution Management.

Their collective message: The old way of doing things by distributors may no longer work, and distributors that cling to the past may quickly find themselves at a competitive disadvantage.

From extreme weather, to earthquakes and hurricanes, to power outages, to shortages of raw materials, to product availability, to scheduling people resources — all of those are at the same time tremendously disrupted or disruptive," explained Sabath.

"What that really means is that efforts to do detail management, planning and strategy has fallen into a crevasse, and management is having a huge problem trying to dig it all out. For those companies that come up with effective short cuts, innovative ideas, and new ways of doing things, even if it's temporary, that will make a huge difference."

Paying the price of moving too much manufacturing offshore

It's no secret that for decades the United States has pushed much of its manufacturing overseas. The results may be cheaper labor to produce goods, but it greatly adds to the cost and effort of obtaining those products. It also often leaves those goods at the mercy of outside forces and circumstances.

No wonder, then, that in a quick poll of webcast attendees, the No. 1 challenge to the supply chain that distributors identified was, quite simply, the supply chain.

"Top of mind is the supply chain itself, and I agree with them that the supply chain can be broken," Winger said. As a prime example, he pointed to the stranding of a massive container ship in the Suez Canal this summer, which put an immediate stop to all shipping through the canal for six days.

"The cargo ships that pass through the Suez Canal carry about $1 billion worth of merchandise on each ship," Winger stressed. "There are about 19,000 ships that make their way through the Suez Canal every year. So, at 19,000 times $1 billion, you've got a huge amount of commerce in that supply chain. But the supply chain is only as strong as its weakest link (in this case, a human navigation error that resulted in the total shut down of the canal). We found that out really quickly. And the ripple effect of that was felt around the world."

But human error is certainly not the only thing that can break the supply chain at any point. Winger cites the near total shut down of Port Ningbo-Zhoushan in China due to the pandemic, the world's busiest port in terms of tonnage moved. "They were having to divert ships in both directions to their other major ports," Winger explained.

Closer to home, disruptions to the workforce are also breaking the supply chain, as some ports or distributors are unable to offload goods quickly due to a shortage of manpower.

"As of earlier this week, the port of Los Angeles had 125 ships sitting offshore (waiting to unload). That's an indication of where things are now in some areas," Winger stressed in reference to an August slowdown.

How the new challenges will impact distributors long-term

Staffing challenges are in some cases related to the pandemic, of course. But it remains to be seen how long the overall effects will be felt.

"The impact of the pandemic will not just be short term. I think it's going to change things long term, and for a lot of companies in the distribution industry, it will mean a major shift in their demand. We're used to changes in demand due to seasonality or various other outside influences. But this one is really different," Winger said.

Some industries have done well during the pandemic, such as medical supply distributors. That has been out of necessity. Some others, such as food distribution firms, have not always fared as well. But distributors need dependable and predictable experiences in order to survive, and in the pandemic environment that can be hard to come by. The result is an increased need for business intelligence, advanced data analytics and strong business models.

"You really can't just count on historical data, or even some advanced modeling tools. There are just too many unknowns," Winger stressed. "Coming out of this, you're going to see companies looking a lot closer at their business models, to better understand where their vulnerabilities are and their inventory needs. They need a business model that gives them a little more variability, so that they're not so dependent on one area, should it dry up."

Shortening the supply chain in order to receive goods faster

The surest way to ensure that goods don't take unreasonable periods of time to reach their ultimate destination is, of course, to shorten that journey. That is obviously hard to do if distributors are constantly getting their goods from far away ports, airports and distribution centers. That is why many distributors are reexamining where their supply chain originates.

As many retailers and consumers have learned full well during the pandemic, longer supply chain routes can spell disaster on anticipated delivery times for many products.

"They don't really know when they're going to get it, or even where it really is. They'll get it eventually. But is that going to keep customers or distributors happy?" Edgett asked.

The answer is, of course, no. So many companies are reviewing their traditional supply chain and asking if they have alternate sources of supply. That typically means a regional backup, "so that when they come into situations like this, they have suitable substitutes for what they really need to do," Edgett said.

In even more extreme cases, some distributors are revisiting the overall products they handle, assessing which ones are "dogs," and which can help them enter new markets.

How distributors can inspire more

collaborative and efficient efforts among staff

Getting smarter with the products that distributors touch means getting much smarter about where products end up and how demand is impacted. Technology plays a major role here, including the use of advanced analytics and business intelligence tools. But it also requires superior collaboration among distributor staff, perhaps more so than an organization may normally be accustomed to, Winger explained.

"Everybody wants to sell more stuff and add to the bottom line. We all agree with that. But it's how we sell more stuff and how we grow the bottom line that makes a huge difference. That includes activities such as purchasing, distribution, maybe manufacturing, maybe finance, maybe marketing, etc. And if you think of how most organizations work, almost everybody follows a career path that involves just one of those areas, not all of them," he said. "Strong management does things to share the incentives, to open communications and to bring these people together."

That will, in turn, provide a more innovative environment in which staff work more effectively, more productively, and in a manner that better satisfies partners and customers.

Distributors reexamine the need for nearshoring

The idea of shortening the supply chain is certainly not new. But the pandemic pushed the issue to the forefront for many distributors, as they weigh handling products from overseas versus finding an alternative in this country. It's something Edgett said he's been looking at for at least three or four years.

But the pandemic has added new urgency as distributors evaluate things beyond their control with offshoring, versus what is more — at least partially — within their control with nearshoring.

There's often a huge risk with offshoring, both from a security perspective, and with supply chains challenges, Edgett said. "So, we're having to bring the supply chain closer, to shorten it. That shift started a little bit before the pandemic, but the pandemic really pushed the need right in our faces."

In extreme cases, such as the Port Ningbo example, distributors may experience total disruptions to goods delivery and have little recourse.

"If I can't get raw material, or if I can't get finished goods that I have demand for, there is no value add there, and there's nothing I can do if I can't get it," Sabath explained. "So, our cost structures have to be looked at a little differently."

In many cases, the supply chain may be strictly U.S.-based, but still involve considerable distance to move goods. "The cost of transportation has gone through the roof. It is something like four times or five times what it had been. The cost of space in a container has also gone up, also four to five times. And that's just in the last six months, not since the start of the pandemic," Sabath said.

"So, now, your transportation costs may have priced you completely out of your business model. All of a sudden, the cost of having that product manufactured 100 miles away, or 200 miles away, or right here on our own turf, suddenly becomes very attractive. It might shorten your lead time from 200 days to just two days. There's a huge value-add there," Sabath stressed.

For U.S. firms, do these challenges mark a return to an America-first strategy?

In the 1970s, singer/songwriter Joni Mitchell reminded us that "Don't it always seem to go, you don't know what you've got 'til it's gone." That can certainly be said of America's manufacturing base.

Driven by the goal of higher profit margins, too many manufacturers moved much or all of their operations overseas.

"It was simpler then. We offshored everything, and we lost a lot of our manufacturing and raw material capability to Asia," Winger said. "We need to bring it back. We absolutely need to shorten our supply chain."

"Back in the 1980s, the options of suppliers and manufacturers were simpler. The USA had several manufacturing facilities for assembly. In the 1990s, we saw the global trend in our IT industry, and Asia became more significant. Now in 2021, the vast majority of components are being built in Asia, China, Philippines and Malaysia. The impact today has been greater than ever," Winger explained.

"I think those that are going to succeed are the ones that are going to be fanatical about looking at every link in that supply chain, seeing where they can take one piece of it out, and shorten it up," Winger stressed.