



Sink or Swim: How Companies Are Surviving Supply Chain Disruptions

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If you had asked people two and a half years ago what their thoughts were regarding “supply chains,” most would have stated that they were not sure what supply chains were, did not know or did not fully understand, had no opinion or did not care.

Enter the global pandemic which moved the issue of supply chain management from the back burner to the front burner.

In retrospect, COVID-19 was a “black swan” event.¹ Who could have foreseen a virus, emanating in China from either the Wuhan Institute of Virology or a wet market? Such a catastrophic event, given both the size of the spread (globally) and velocity, took everyone by surprise.

Given the magnitude of the pandemic, it is fair to say that supply chains themselves came down with COVID 19, with 94% of Fortune 100 companies reporting major disruptions.² To illustrate, in manufacturing a power outage, a broken lathe, or flat tire on an 18-wheeler delivering tractor parts can be remedied relatively quickly. However, one broken, missing, or dysfunctional link that is critical to the entire supply chain can negatively impact the entire chain. This kind of “system entropy” is akin to a 50-car chain reaction pileup on I-90 in the Midwest due to a blizzard.

Where we are now is that since producers cut back on production when demand fell after the pandemic first struck, we are experiencing a recovery during which supply cannot match surging demand. Compounding the scarcity (and delays) of goods is the dramatic increase in the price of goods, including the inputs for production.

¹ A black swan is an unpredictable event that is beyond what is normally expected of a situation and has potentially severe consequences. See: Nassim Nicholas Taleb, *The Black Swan*, N.Y.: Penguin, 2009.

² <https://fortune.com/2020/02/21/fortune-100-coronavirus-china-supply-chain-impact/>

The supply chain crisis has been felt most deeply across industries such as autos, electronics, and appliances where semiconductors are essential. Lockdowns and the trade war with China have exacerbated the shortages of inputs and final products. Add to that the shortage of workers—especially truckers-- West Coast port congestion, and a lack of warehousing space, and one can see why this “perfect storm” continues.

So, how have companies and their supply chains responded to mitigate some of the most problematic challenges posed by the global pandemic?

According to Gary Goldfarb, Chief Strategy Officer at Interport Logistics, prior to the pandemic ocean freight rates from Asia to the U.S. ranged from \$ 900 per 40-foot container to the West Coast to \$ 2,500.00 to the Eastern Seaboard. These rates skyrocketed to more than 10 times during the pandemic months and have only come down slightly since then.³

Perhaps the most profound impact of the global pandemic on business is how international companies structure, plan and operate their enterprises. Among the most dramatic changes is the higher premium placed on agility, resilience and risk mitigation. It used to be just-in-time production and inventory management were the coin of the realm; now it’s “just-in-case”. Within that vein, many companies that have outsourced to China have revamped their sourcing strategies to produce either in-house or nearshore. For time-sensitive goods like fashion that need a quick turnaround, nearshoring is now the way to go in many cases. Mexico and Central America have benefitted greatly as global companies like Nike, Puma, Adidas, Ralph Lauren, Tommy Hilfiger and Under Armour have turned to Western Hemisphere suppliers.⁴

Other important factors such as rising wages in China, increased freight costs, and improved quality and reliability of components and finished products made in Mexico and Central America have enhanced the attractiveness and feasibility of nearshoring.

And it’s not just consumer goods. A recent Ernst & Young survey of industrial supply chains found that more than half the respondent companies have nearshored or reshored some of their operations over the last 24 months and 44% are planning new or additional nearshoring.⁵ U.S. companies are not alone, however, as 65% of Chinese companies have nearshored or reshored operations over the last two years.

As for the future, Interport’s Goldfarb predicts that we will see a different configuration of goods into the U.S. market. As an example, Mexican railroad companies have plans to use combined transportation schemes to get products from manufacturing to consumers using truck, ocean and rail in combination. He asserts: “While the era of JIT seems to be over, the era of BDT (Best Delivery Time) is just beginning.”⁶

³ Conversation with Gary Goldfarb, July 2, 2022.

⁴ <https://www.apparelnews.net/news/2017/jun/01/why-manufacturers-are-turning-central-america-quick/>

⁵ https://assets.ey.com/content/dam/ey-sites/ey-com/en_gl/topics/automotive-and-transportation/automotive-transportation-pdfs/ey-why-global-industrial-supply-chains-are-decoupling-v2.pdf?download

⁶ Conversation with Gary Goldfarb, July 2, 2022.

Supply chain challenges will be with us for the foreseeable future. In light of that outlook, we can confidently assert that agility, resilience, and the mobilization of a host of sourcing options are, metaphorically, the personal protective equipment for supply chains in the Age of Covid.

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