Breaking Down the Broken Supply Chain

What's on the Horizon—Better Days or More Ships Stuck at Sea?

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Plagued by raw material and labor shortages, jammed ports, transportation constraints, and bad weather, supply chain problems may get worse before they get better. Longer-term disruptions could lead to changes in some parts of the supply chain or to operations. These changes could include optimizing inventories, scaling up and down to keep pace with supply and demand, investing in recruiting and training, finding alternate supply sources, better collaboration with suppliers, shortening the supply chain, and expanding shipping capacity.

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Coming up short

"May you live in interesting times." This Chinese proverb—some call it a curse—captures the disorder and disruption facing the global supply chain. Shortages of raw materials, semiconductor chips, parts, and labor, COVID plant closures, extreme climate events, jammed ports, transportation constraints, and unprecedented delays make for a veritable smorgasbord of "interesting" in the wholesale distribution industry.

The tangled supply chain is spurring inflation in the U.S. economy. A shortage of everything from shipping containers, truck drivers, longshore and warehouse workers, and warehouse capacity are further impacting cost, quality, and delivery.

Break on through

Supply chain problems may get worse before they get better, especially given the lingering impacts of the COVID pandemic and ongoing shipping gridlocks and labor shortages. Faced with uncertainties at every turn in the supply chain, wholesale distributors must be agile, flexible, and innovative with their strategies and data sharing, while also working in sync with manufacturers, retailers, and suppliers to develop breakthrough solutions that lead to profitable, scalable growth.

Chipping away

The widespread chip shortage is slashing profits left and right, forcing manufacturers of everything from cars, laptops, smartphones, game consoles, at-home electronics, and other everyday items to rethink their supply chain. Companies can wait more than 20 weeks to get their chip orders filled.

$210 billion in lost revenues

The automotive sector in particular is feeling the strain. According to consulting firm AlixPartners LLP, the chip shortage cost the auto industry $210 billion in lost revenues and more than 7 million vehicles in 2021. When you consider that it can take up to 4 months to manufacture auto chips, and a modern car is packed with 1,000 or more semiconductors, it's easy to see how the chip shortage is impacting production lines and dealer inventory. Manufacturers that stopped car production at the start of the global pandemic were left out in the cold as the demand for chips skyrocketed in the gaming and cloud computing markets.

While some of its plants have been operating on limited shifts since February 2021 to minimize the impact of the shortage, General Motors recently signaled that it will no longer have any idle plants and will be adding overtime shifts at six North American plants before the end of 2021. GM also recently announced plans to remedy the impact of the shortage by producing high volumes of its own family of chips.

Troubled waters

According to the Organisation for Economic Co-operation and Development (OECD),

90% of global goods are transported by sea and most are stored in steel shipping containers.

The Washington Post reports that the

7 largest publicly traded ocean carriers claimed more than

$23 billion in profits in the first half of 2021, compared to **$1 billion** in the same period in 2020.

Any port in a swarm

The non-profit Marine Exchange of Southern California reports that container ships by the dozens loaded with billions of dollars of goods are stuck at sea outside the ports of Los Angeles and Long Beach, the two largest ports in North America. According to the organization, it can take more than 8,000 trucks to haul cargo from a single ship.

The Port of Los Angeles says it works with 200,000 importers and exporters, relying on 18,000 truck drivers, more than 100 trains, and more than 20 shipping companies to move goods. While incoming cargo at the LA port is up 30% from 2020, there aren't enough trucks, intermodal chassis, or trains to remove it all.

Working overtime

In June, the LA port celebrated the processing of its 10 millionth shipping container in 2021, becoming the first port in the Western Hemisphere to do so in a 12-month period. Recently, the LA and Long Beach ports moved to 24/7 operations to help speed up the movement of cargo. LA port officials estimate 250,000 packed containers are stuck at sea, and the average wait for unloading is nearly two weeks.

Those shippers looking to reroute goods from the LA and Long Beach ports to less congested ports farther away still face a shortage of dockworkers and truck drivers.

Keep on trucking

Often considered a barometer of the U.S. economy, the trucking industry has seen better days. Trucking capacity, which had been restricted before the pandemic, went from bad to worse. Not only has demand exceeded the supply of goods and materials, it has also exceeded the transportation system dedicated to accommodating it. Delays in moving goods to their final destinations lead to higher prices.

According to the American Trucking Associations (ATA), the shortage of truck drivers has grown from 61,000 in 2018 to 80,000 in 2021. The growing need for truck drivers has been fueled by such factors as heightened freight demand, shuttered DMVs and driving schools, and pandemic-driven early retirements.

Many trucking experts say the industry must overcome some of the following issues to significantly boost recruiting efforts:

- Driving hour restrictions
- Low wages
- Safety risks
- State fines
- Unpaid work

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Going off the rails

According to the Association of American Railroads (AAR), international trade accounts for **35%** of U.S. rail revenue and some **42%** of the carloads and intermodal units carried across the **140,000-mile** freight rail network.

While the nearly $80 billion rail sector saw unprecedented volumes in 2021, rail providers can't keep up with the amount of freight in the yards. In July, leading rail haulage company Union Pacific temporarily suspended inbound international containers to its Chicago intermodal facility from West Coast ports to clear a container logjam that had trains backed up as far as 25 miles away.

A teachable moment

It's time to rethink supply chain strategy, from upstream to downstream, and incorporate more data sharing, flexibility, agility, and efficiency into production, distribution, and delivery to achieve better balance, resiliency, and long-term success. A smooth transfer of products from factories to consumers will require a deliberate, thoughtful, and harmonious choreography of distributors, producers, retailers, suppliers, vendors, warehouses, and transportation companies.

To help soften the blow in the meantime, distributors should consider:

- Offering discounts and other incentives to steer customers toward more readily available goods that can be delivered on time.
- Forecasting demand more precisely.
- Sourcing alternative materials or components.
- Shifting volumes during periods of scarcity.
- Optimizing supplier relationships, including partnering with secondary suppliers in different regions.

Leveraging technology, improving throughput, and hiring the right talent are essential to working smarter, not harder within the global supply chain infrastructure. While technology alone won't completely solve the capacity restraints, it will certainly help bring us back to more "uninteresting" times.

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Joshua Weinreich has more than 15 years of sales, finance, and business operations experience with several major media companies. Josh manages East Coast sales for such industries as wholesale distribution, retail, merchandising, manufacturing, consumer products, and high tech. He has an MBA from the Zicklin School of Business at Baruch College in New York City and remains active in their mentor program.

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