

CSCMP hottopics

APRIL | 2020

Global Trade – Rough Waters Ahead: Survival requires foresight, preparedness & agility

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2020 risks are the new norm
1

Leaders with foresight do
their homework
1

What's the next crisis?
2

Agility trumps all else
3

About the author
3



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2020 RISKS ARE THE NEW NORM

Do you feel like you're in a surreal movie? Empty streets, stock market fluctuations, essential product stock-outs, overwhelmed hospitals, plenty of uncertainty and stress – need I go on? Whilst the world is rightly focused on Covid-19, my proposition is that the present pandemic is just one of many present and future disruptions to our global supply chain and **you ain't seen nothing yet.**

Many of today's global disruptions are actually predictable and can be tied to population growth and unsustainable practices which are not aligned with nature. As a result, we're experiencing an increase of global warming induced severe weather patterns (typhoons/hurricanes and droughts), major forest fires, earthquakes, famines, animal extinctions and, yes, pandemics (purposefully pluralized). Similarly, you can't watch the news without seeing evidence of war, refugees and society being transformed. Oh yeah, this is happening while China is anxious to take its seat at the world leadership table, and the US is trying to stabilize the existing world order. Don't even get me started on Russia.

OK, enough doom and gloom – what does that mean to me – the supply chain management professional? It means that you need to change your vantage point and critically look at your entire supply chain to identify vulnerabilities and start making changes now – before the catastrophe strikes.

LEADERS WITH FORESIGHT DO THEIR HOMEWORK

Think about it – some companies just seem to not only survive, but actually thrive during times of disruption. Why is that? Go back to your elementary school days and remember the periodic fire drills – schools were practiced and prepared. Similarly, the effective leader has studied the risks to their global supply chains and have run internal mock drills to prepare for these eventualities. The prepared leader also has intelligence officers near the front to advise them on what is really happening. They utilize their freight forwarders to advise them on the actual situation at the warehouses, highways and ports. They utilize the QC auditors to advise them on the actual situation within the factories.

They've also asked the challenging questions of **“what if”** and demanded serious answers. Using the common example of an American importer procuring widgets from China, **what if** the following events were to happen to our supply chain....

...cost of labor were to increase to negate the benefits of sourcing from in China in the first place?

...China EPA were to grow teeth and shut thousands of factories in order to enforce air, soil and water pollution reduction policies and only allowed them to reopen after expensive retrofitting?

...Critical containerized river vessels plying the Yangtze river were delayed due to drought and congestion, making sourcing from interior China unreliable?

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...trade friction between the US and China were to result in 25% punitive import duty tariffs?

...a pandemic in China were to cause a typical 2-week lunar new year holiday to extend to 8 weeks?

... India were to go on a 21-day (so far) lockdown?

Well folks, I'm here to tell you that all of the above did happen to our supply chain and we survived and even grew our business. We were either well-prepared, lucky or, most likely, a combination of the two.

WHAT'S THE NEXT CRISIS?

Now is precisely when we should be contemplating the most likely next disruptions and making sure we run mock drills to prepare for it. Here are some of the scenarios I am ruminating on:

- **What if** India's lockdown were to extend another month?
- **What if** air cargo out of Asia was so over-subscribed that sea freight was the sole option?
- **What if** certain US infrastructure were to be so disrupted by Covid-19 that some ports closed or truckers were prohibited from crossing quarantined state borders?
- **What if** US-China political-economic relations turn uglier, would my Shanghai Asia regional office be in jeopardy and would my HQ personnel even be allowed to visit?
- **What if** the US Covid-19 stay-at-home advisory extends another month or longer, would our IT infrastructure be adaptable enough to allow us to continue operating remotely?

AGILITY TRUMPS ALL ELSE

OK, you've done your homework and are aware of the many variables at play. You've brainstormed and drilled and trained with your best and brightest and are ready for the inevitable disruptions. Great! Now let's see how ready you really are. Agility requires trust in your field commanders to make actionable and timely decisions based upon real-time knowledge. Is your central command willing to abide by and support that decentralized decision-making? Let's review some possible ramifications of some hypothetical decisions made at the front lines, and then see how comfortable you are in this age of dynamic decision making. Are you OK with your overseas offices making these calls?

- Procurement measured the three opposing pulls of cost, on-time delivery and specification-adherence and decided to allow the factory to add 5% cost overruns to remain on schedule and to spec.
- Logistics recognized cost constraints and decided against tag-team trucking as they knew the budgetary constraints and felt it was best to miss the committed delivery dates instead of losing money on the project.
- Due to Covid-19 travel restrictions, Quality decided to allow the vendor to self-audit and to ship the goods on-time, but without an independent assessment of product specification adherence.

About CSCMP Hot Topics

Issues of *CSCMP Hot Topics* may include early results from ongoing research being conducted for CSCMP or other organizations; new supply chain practices, thought-provoking ideas, or emerging trends; discussions of changes in the broader business and regulatory environment that may impact the supply chain and logistics field.



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- Factory was overloaded with orders and could only produce 20% of your product on schedule. Customer Service stepped-in and unilaterally decided which order were of the highest priority for production and shipping.

These are but a few of the decisions which someone in your company may need to make expeditiously in Asia, without the benefit of HQ guidance. If you've war-gamed with them in advance and prepared them by sharing your company's guidelines and critiqued their decisions on a mock crisis basis, then you've at least made some effort to prepare.

What is **agility**? We may all be familiar with the athlete's crouched position, ready to pounce, pivot, or reverse – and that is quite similar to business agility. The key is readiness and willingness to act. Knowing what is happening around you, but being unprepared is useless. Being well-prepared, but unwilling to act (perhaps without instruction or permission) is equally useless. You need to make sure that your people are well-prepared and willing to act without fear of being second-guessed.

Are you ready for the next crisis?

ABOUT THE AUTHOR

Dan is a multi-lingual global supply chain executive with 30+ years of international manufacturing and logistics experience.

As the Global Supply Chain Director for Procon Pacific (industrial packaging), Dan is responsible for production and logistics for facilities throughout China, Vietnam and India. Dan recently completed a Lean Six Sigma Black Belt India->US Total Transit Time improvement analysis, which is already being implemented by Procon Pacific.

Dan has served on AmCham Shanghai's board of governors, is active with the US DOS Overseas Security Advisory Council executive committee and lectures at several universities.