

A view on the current state and future shape of supply chains in times of covid-19

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2000-2017: **Globalization** is changing gears

- First, goods-producing value chains have become less trade-intensive. Output and trade both continue to grow in absolute terms, but a smaller share of the goods is now traded across borders. Between 2007 and 2017, exports declined from 28.1 to 22.5% of gross output in goods-producing value chains.
- Second, cross-border services are growing more than 60% faster than trade in goods. National statistics attribute 23% of all trade to services.
- Third, less than 20% of goods trade is based on labor-cost arbitrage, and in many value chains, that share has been declining over the last decade. Across all value chains, investment in intangible assets has more than doubled as a share of revenue, from 5.5 to 13.1%, since 2000.
- Fourth, goods-producing value chains are becoming more regionally concentrated, especially within Asia and Europe.



2018/2019 pressures: **trade tensions** were back

- The United States-China trade tensions have weakened the global economy. The Financial Times wrote that 'Trade wars are pushing the global economy to the brink'.
- Growth in gross domestic product and manufacturing slowed down in both the United States and China during 2019.
- The overall U.S. trade deficit hasn't changed much.
- The tensions have accelerated China's transformation. China will advance its high value-added products innovation and production. The country is forced to make an even stronger push to enable the manufacturing of hi-tech goods like microchips. China is also accelerating the globalization of its economy.



2020: Covid-19 batters the global economy

- Covid-19 has triggered a supply and demand drop rippling through the global economy.
- China's manufacturing and services sector plunged to record lows in February, automobile sales sank a record 80%, and China's exports fell 17.2% in January and February 2020.
- Estimates of the global impact vary: Beginning of March, the Organisation for Economic Co-operation and Development (OECD) predicted that COVID-19 will lower global GDP growth by one-half a percentage point for 2020 (from 2.9 to 2.4 percent); Forecasts are continuously corrected downwards with new data being released and increased measures taken.
- I believe the impact will be significant but unequally distributed across countries and industries – bigger markets will possibly bounce back faster.



Selected future **scenarios**

- Nobody knows at this point how the pandemic will play out.
- Many scenarios have been prepared. I would like to share below two possible developments.
- Hopefully, Covid-19 is seasonal and will disappear shortly, which allows for continuous Asia economic recovery while the U.S. and Europe risk a consumer spending and corporate investment drop-off for the remainder of the year 2020.
- But if the virus persists the Asian recovery will derail, and the U.S. and Europe will experience a deep recession in 2020.
- Restarting the economy will be challenging and China developments will be watched closely.



Short-term **impact** of Covid-19 on supply chains

- As with the start of the trade war in 2018, the first symptom of Covid-19 for supply management organizations and teams is uncertainty, due mostly to a lack of information.
- In a recent ISM survey, 62% of respondents reported shipment delays for Chinese-sourced goods.
- 57% reported longer lead times for Chinese goods from Tier-1 suppliers, with average lead times doubling compared to the end of 2019.
- 46% reported delays in loading goods at Chinese ports.
- What was originally a Chinese challenge turned into a global reality.
- Normal disruptions are supplemented by irrational decision-making.



The mid to longer-term consequences

- Larger companies will benefit, small and mid-sized enterprises (SMEs) will struggle, with some going out of business.
- Asia will recover first and has the chance to capture opportunities, e.g. supply parts to reopening Western companies.
- Regionalization and localization of supply chains will continue – where possible and within limits set by labor availability, infrastructure, societal acceptance etc.
- Digitization and automation of the economy will accelerate.
- Virtual workforces become part of the reality across all stakeholder groups, from governments, to business, to international organizations.



Short term **company actions**

- Crisis-management teams and contingency plans: review modus operandi, consult regulatory guidelines, analyze situation, define priorities.
- Priority is workforce protection: policies, messages, communication, work from home, working in shifts, continuous uplifting and supporting of people.
- Supply chain performance: supplier care, risk management, inventory transparency, part rationing, minimal production (if possible), customer engagement, procurement and production plans, logistics support for route optimization.
- Customer collaboration: messaging and requirements, outreach, prevention across customer journey.
- Financial stress-testing and actions: capital requirements, credit screening and solvency checks, re-forecasting of financial results.



Mid-term **organizational adjustments**

- Prepare for coming new if not annual pandemics.
- Distribute the workforce and increase the number of people that work from home.
- Ensure visibility across the supply and demand networks.
- Digitize and automate parts of the supply chain.
- Implement analytics tools to anticipate disruptions and impacts along the supply chain.
- Update other risk management tools.



The world **after the virus outbreak 2020**

- The West faces the risk of a political uprising, caused by a new period of suffering of the poor and an expected new wave of bailouts of large corporates that will spark frustration and anger.
- Government and government services may see their comeback in the U.S. and across Europe, dependent on how they manage the crises. Asian governments come probably out of the crises reinforced.
- China will see a drop in its economic growth in 2020, but this doesn't change its economic position, dynamics and influence. Asia will become a more diversified economy and supply chain system across the region.
- Airlines might be nationalized; digital businesses like ecommerce boom.
- Covid-19 will break the regulatory barriers to online tools and interactions.
- The world will move towards a much more digital and possibly healthier lifestyle and way of working and operating.



Thank you