

Dear All

Global supply chains are under the microscope right now, everyone is discussing them to see what happened and what the future holds. I read about the various aspects of this topic and here's my set of learnings:

1. There has been a worldwide shortage of laptops, phones, cars, clothing, toys, groceries etc. across the world. As the Christmas shopping season starts, as the Chinese day sales in Feb comes closer, this issue will be even more under scrutiny.
2. The pandemic shifted a number of things. At an economic level, there was a shift from the services sector to the other sectors like industry etc. People didn't go out and ordered things via e-commerce sites to their house. Consumers stopped sharing anything due to fear – they didn't share a phone or a laptop or even food vessels. Individual consumption and buying of many categories went up. Many consumers also stocked up, one item that was stocked up across the world in every household was toilet paper.
3. The global supply chain is actually centered around three big hubs – America, China and Germany. The global supply chain is a combination of ocean liners, railroads and truckers. In that sense this is like a relay – everything must arrive on time for someone to pick it and then move forward with the baton. Ships have been delayed, trains are delayed trucks are delayed, everything is in turmoil.
4. The unpredictability and shortage has led to unprecedented freight rates. A container of chemicals from Shanghai to Chicago used to cost \$6,600, now it is close to \$29,900. Freight wasn't a big cost especially when shipped via sea routes in the past, that's no longer true today.
5. Shipping is a near monopoly. Nine cargo carriers organized by 3 shipping alliances control 90% of the Ocean freight. Maersk, the shipping liner reported \$2.7 billion in profit in the first three months of this year compared to \$185 million in the same period last year, a 15 fold increase.
6. Railroads have consolidated in the last 40 years. In America, railroads went from 33 to 7 in 40 years. Here's a funny statistic, ships cannot dock and unload in the night, railroads run in the night and truckers do not pick up goods in the night. This is an important point in a relay eco system. Why?
7. President Biden was seized of the shortage issues and he formed a committee which recommended working 24 by 7 in the key port of Los Angeles and Long Island, next to each other, This port handles nearly half the traffic to USA. While one of the terminals works 24 by 7, the truckers refuse to come and pick up goods at 3 am. The Biden team has promised to solve the supply chain relay riddle in 90 days. Vessels wait for 24 hours in ports. This 24 by 7 port handled 79,000 vessels last week.
8. Many argue that supply chains globally have been built for efficiency, especially efficiency on costs and no supply chain was built for resilience. A supply chain looks simple, like a Lego game box, but has to be constructed piece by piece. A global supply chain is a complex bunch of activities that looks simple to an outsider.
9. Is there an answer? I think governments will try and near shore more of their supply chains, for example America might buy more from what's produced near Mexico but the raw material has to come from somewhere.

10. Most experts feel that this uneven supply chain will last for another 10 to 12 months at least. This will lead to inflation, black marketing etc. etc. in some categories.

Feedback welcome

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