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Global Supply Chains Are In Jeopardy

BY TONY NUZIO

The effects of the Coronavirus outbreak, (COVID-19), which were first thought to be a global pandemic, then were downplayed, principally by the Chinese government, is in fact a global pandemic. And now COVID-19 is getting incredible attention from governments and businesses from over 140 countries around the world.



Tony Nuzio

Supply Chain Managers and their "C" Level executives all over the world are working diligently trying to determine what can possibly be done to keep their supply chains flowing without major disruptions. To say the least, they are truly concerned.

At this point, no one really knows where all of this is going to lead us. However, the one thing we do know is that we are in a very fluid situation right now and circumstances have been changing by the day. And as such, businesses will be challenged to make some very hard and often quick decisions to ensure not only the safety of their employees, but also the survival of their supply chains.

As with any business disruption challenge, there are combinations of problems as well as opportunities. And,

how businesses react to these problems and opportunities during these business disruptions often makes the difference between success and total failure.

Supply Chain Challenges

The Coronavirus could turn out to be the "mother of all supply chain disruptions," at least as far as we have seen in recent years. Global supply chains are already reeling from its effects, starting in China where it is reported that China now accounts for a third of the world's GDP growth, up three percent from 2000.

Also, according to the World Bank, China accounted for one third of global trade in 2018. If there are extended factory shutdowns, and that could be a real possibility, there are estimates it would result in increased costs worldwide to the tune of over \$1 trillion. That is a significant increase in costs for all companies doing business in China. The real question will be, how can these companies possibly absorb additional costs of that magnitude; is it even possible?

With that being said, here are some real challenging supply chain questions for businesses to answer today as it relates to the outbreak of the Coronavirus:

- How does a company make any plans not knowing how long factory closings will last?
- What if the factories are shuttered for several months, what does a plan "B" look like; is there even a possibility of a plan B?
- Can a company instantly shift production "on the dime"



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to alternate suppliers for the products a company needs to keep its business running?

- What are the intrinsic costs and operational considerations involved in such a change in suppliers?
- How will the current Coronavirus outbreak ultimately affect corporate profits?

in freight movements from the Far East. Already we are seeing significantly lower freight volumes from China, creating a drop in container demand to some estimates of 1.7 TEU's.

We are also seeing the Coronavirus playing havoc in Europe, so we're fairly certain freight volumes will also be



- What can and what should a company do now to soften the blow corporate profits will obviously take?

Perhaps Some Good News—Lower Freight Rates

It is also obvious that we will see a downturn in shipping rates as freight volumes decrease as a result of the spread of the Coronavirus. These freight volume decreases have already started of course with a sharp reduction

down on intra-Europe shipping, as well as exports from many European countries. There are thousands of empty cargo containers currently in the U.S. and the European Union that will at some point need to be returned to the Far East.

Both international and domestic freight sectors will be

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Global Supply Chains (CONT'D FROM PAGE 33)

impacted by the constant changing circumstances surrounding the Coronavirus. We are already seeing a significant drop in spot rates from Los Angeles and Long Beach due to these low freight flows from China. This will be a domino effect and other freight sectors will experience the same reductions.

The freight rate picture could change on an almost daily basis however we are certain the trend in freight rates will continue downward across the board. So, this may be an excellent time to restructure pricing with both international and domestic freight carriers. The laws of supply



and demand continually play a major role in freight rate structures. When you add in a global business disruption like the Coronavirus outbreak, it only exacerbates the situation.

Taking advantage of any opportunity to reduce corporate shipping expenses has a profound impact on corporate bottom lines. As an example, a company with a 10 percent margin of profit that reduces shipping expenses by \$5 million will add \$50,000,000 to the company's bottom line without selling a single additional product. And, the ability to reduce shipping expenses will go a long way in offsetting the additional costs companies will be experiencing by shifting suppliers, should that become an option for businesses.

So while the Coronavirus outbreak will create major challenges to businesses all over the world, it could also present an opportunity for companies to improve their shipping expenses. While that may not be enough to absorb the additional costs companies will endure by changing suppliers, it could go a long way towards leveling out the playing field.

Tony Nuzio is Founder & CEO of ICC Logistics Services, Inc. Since the company's founding in 1975, he and his team have been helping companies reduce shipping costs and optimize the spectrum of logistics spending. Tony is also the Publisher & Editor-in-Chief of Logistics Strategies, a popular monthly opt-in newsletter that reaches thousands around the world. Contact Tony at tnuzio@iccllogistics.com, call (516) 822-1183 or visit www.iccllogistics.com.