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Supply Chain Blues (First of a Series)

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We’ve all been there. You try to re-order your favorite beverage, sneaker, exercise bike, or cleaning product, and it’s out of stock.

The dynamics behind these supply chain issues differ depending on the situation. Some manufacturers are still playing catch-up with consumer demand in areas such as home improvement and fitness. Others are challenged by warehousing or trucking logistics.

Sometimes this results in counterintuitive outcomes. In the spring we shopped for garage doors as part of a home renovation. In March 2020 lumber prices dropped with the downturn, but then skyrocketed – almost to the price of gold. We opted for steel doors. Apparently so did others. Lumber costs have retreated, steel is up sharply and we’re still waiting for our doors.

The industry publication *Supply Chain Management Review* reported recently on other Covid-related themes. 2021, it turns out, is on a record pace for factory fires – up 150% for the first half of the year, compared to the same period last year. This is apparently caused by “gaps in regulatory and process execution as well as a shortage of skilled labor in warehouses.”

They also analyzed data from research firm Resilinc showing supply-specific shortages (e.g. semiconductors, cardboard) were up over seven-fold from 2020. These shortages emerge from a higher level of merger-related activities, as new owners drive for operating efficiencies, leaner inventories, and lower costs. All while still attempting to meet evolving customer demand.

That’s a moving target as commercial activity opens up – at least, tentatively – with more vaccinations. Of course, the Delta variant has thrown a wrench into that recovery, as demonstrated by July’s employment figures. But as we discovered last year, not all sectors were impacted equally, even within more consumer-facing businesses.

This uneven re-opening has proven to be additionally challenging for supply chains. As a senior credit officer at Moody’s put it in a Market Watch interview, “the part of the economy that was quiet is revving up at a faster pace than the manufacturer thought at the beginning of the year. That’s the rebalancing that’s happening in the supply chain.”

Covid is highlighting elements in the engine-room that were hitherto taken for granted. A professor of innovation studies at the University of Toronto put it succinctly. “Companies suddenly realized that things that they thought are mundane and that they shouldn’t worry about, like who produces what and where, are suddenly things that became critical.”

He concluded: “Everything we have opted not to remember and not to be aware of comes to haunt us now.”

Next week we look at the impact of staffing shortages.