

Supply chain disruption:

Why companies should seek or build new suppliers now

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Port in Qingdao: "If one day China is also hit with sanctions like Russia is now, our supply chains will collapse in their current form" - Photo: Yu Fangping/ SIPA Asia/ ZUMA Wire/ DPA

Mr Hoberg, for the past two years supply chains have been suffering the consequences of the pandemic. Companies are waiting for parts and customers are waiting for products. Now there is also the Ukraine war and lockdowns in Shenzhen and Shanghai. What are the consequences?

Kai Hoberg: Those responsible for supply chains have almost become accustomed to Corona in the past two years. Of course, there are still imponderables, such as the lockdown in Shenzhen and Shanghai, but basically they have been able to adjust to this situation. Now, of course, the Ukraine war has changed things completely. Because it came as a surprise to most companies, especially to such an extent.



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Photo: CHRISTIN SCHWARZER / A

Who is affected?

Many companies feel hardly any effects at first, as they do not purchase any products or components from Russia or Ukraine, while others are immediately very strongly affected by the sanctions and the consequences of the war. On top of that, of course, many are experiencing the loss of the corresponding sales markets.

There hasn't been a situation like this for a long time.

That is true. The last short-term event with a similarly strong impact on supply chains was the earthquake in Japan in 2011, known as "Fukushima". Many suppliers in Japan were also affected by this natural disaster. Due to the strong interconnections between companies, there were many bottlenecks and failures in the supply chains, also between the USA and Asia.

Now it is more likely to hit Europe. How do you assess the current situation?

First of all, there are shortfalls in individual raw materials. For example, titanium from Russia, which is used for aircraft construction, and neon gas from Ukraine, which is needed in the semiconductor industry. Or nickel for stainless steel. Here, trade has already been suspended, but in part we also see a speculative market. In addition, there are the low hourly wages in Ukraine, which had led to a partial relocation of production before the war. This is now also falling away, which recently became apparent in the case of cable harnesses for the automotive industry. But all this still only affects individual companies in certain sectors.

"The energy question hovers over everything"

So everything is only half as bad?

No, because the energy question hovers over everything. At the moment, energy prices are rising, and we don't yet see a supply problem, but "only" a price problem. But this is already affecting almost all sectors and, of course, the end consumer directly. In addition, there is the situation with food. Although there is currently neither a supply problem nor a price problem, this could become a major issue in the future. Currently, there are only isolated bottlenecks due to hoarding purchases such as sunflower oil, but this is more of a luxury problem.

So what are the real problems we could face?

As we know, a lot of wheat comes from Ukraine and Russia, which could lead to distortions in the medium term. There will hardly be any sowing this year, at least in Ukraine. In the short term, harvesting may still take place, but the transport of the large quantities will also become increasingly difficult. There is a lack of security and truck drivers. In addition, there are fertilisers that cannot find their way abroad, which could reduce harvest volumes around the world.

What is the general situation with logistics, for example by air?

Air freight is a concern, because Russia has closed its air traffic to Western countries. Significant detours between Asia and Europe are now necessary here, which means that the cargo capacity of the planes has to be reduced to allow for the higher range with greater fuel consumption. In addition, some large air freight companies no longer fly at all due to the boycott.

That leaves sea freight.

Yes, but ships are currently travelling very slowly and take 45 days or more from China. So the much faster route by air is running out of capacity, and even the trains through Russia take two weeks, but even there there is little going on at the moment. For companies that rely on fast deliveries of time-critical products from Asia, this is a big issue.

Can companies still protect themselves now in order to strengthen their supply chains?

In the short term, you can only react, and that's what companies are doing. You can see that the car manufacturers, for example, are helping suppliers to leave Ukraine and build up capacities in other low-wage countries, such as Romania or Bulgaria, and also in North Africa.

"Do you want to stick to global supply chains or do you prefer to be more regional?"

And what can companies do in the long term?

It is important to ask oneself what the risks are in relation to the countries in which one buys and manufactures. Are they still prepared to take these risks? Do you want to stick to the global supply chains that were established in the 1990s or do you prefer to be more regional? Those who decide to do so should simplify their structures and shorten their supply chains.

That would be a setback for globalisation.

Yes, but that would make sense for many companies in the current situation. They would then no longer produce in Asia for the world, but somewhere in Europe for Europe, somewhere in Asia for Asia and somewhere in Latin America for the North American market. In the short and medium term, you will certainly run into problems, especially with the higher production costs, because the current structures have not become so entrenched without reason. Here it is up to each company to weigh things up for itself.

Which risks dominate?

Economically, energy prices and energy security are the decisive issues. This will cause some surprise in Germany. In other countries, for example South Africa, there is already regularly no electricity for two hours on a rolling basis to protect the power grid from collapse. We should all agree that this should not be an option for Germany and Europe - but could certainly happen.

And what else should companies prepare for?

One conflict we have been observing for some time is the Taiwan issue. Here, companies have to consider what it means for them if a confrontation should occur there. Now everyone is under the Ukraine shock, but you have to think ahead here as well. Think about what will happen to your supply chains if there is a conflict there and the Western countries impose a similar catalogue of penalties and sanctions on China as they are now imposing on Russia. Because otherwise, we will quickly realise that our supply chains are on the verge of collapse in their current form.

How long does it take to develop a more regional set-up?

It is important to develop a plan to be able to react quickly if necessary. The first companies are already doing this, especially in the chip or battery industry. Politicians are already supporting new infrastructures with subsidies for investments in Europe and the USA, but of course it all takes time. At the moment, they are trying to keep the production lines running somehow, but if they decide to set up a more regional presence, it will take a long time, and we are talking about years rather than months.

So there is no going back to the way things were?

We are seeing a fundamental change. It is now a question of finding or building up new suppliers who have high-quality skills and corresponding capacities. It may be necessary to produce significantly more variants in one plant again, which will lead to smaller batch sizes. These are challenges that the new technologies will certainly help with. But in the process, costs must continue to be kept under control. Unless customers want to pay more for risk minimisation, which, as we know, is rarely the case. So it is important to find a healthy balance between risk and cost - because you can't turn the lever completely towards resilience now either.