

The New Normal For Supply Chains

To survive and thrive,
visibility and agility are critical

July 2020





Introduction

➤ COVID-19 has driven dramatic changes in consumer behavior, the way businesses operate and the workings of global supply chains. In recent months, we've seen some manufacturers struggle to fulfill demand since the pandemic has redefined the list of essential commodities. Others face massive declines in sales and must develop new products swiftly to keep the business afloat. Manufacturers have experienced disruptions across their supply chains from sourcing raw materials to delivering finished goods.

Some of these impacts may be short term, but many are here to stay and are shaping what has become the New Normal. Brands, manufacturers, and trading companies must respond with agility to new expectations, acquire digital skills, and update their technology in near real time.

In this eBook, we explore the way forward for how we need to operate, communicate and measure efficiency, and highlight ways for supply chain professionals to step up to meet the external needs of their customers and the internal operational demands of the New Normal.

Factors of Shaping the New Normal

Acceleration of e-commerce boom puts pressure on fulfillment demands

Almost one in three households (32% overall - 40% of households with children) has increased or significantly increased their e-commerce spend in the pandemic period. One in three (33%) households believe their future online purchases will increase.^[1] According to a McKinsey report, consumers have a high intention to continue home grocery delivery (45%) and buying online and picking up in store (BOPIS - 56%) after the pandemic.^[2] Fast delivery commitments offered by e-commerce retailers have set a high expectation for customers. This puts a lot of pressure on manufacturers because consumers are buying general commodities but experiencing a luxury delivery service (1-day shipping).

[1] COVID-19 Barometer: The three consumer trends defining the next 'new normal'. millwardbrown.com 20200513.

[2] Adapting to the next normal in retail: The customer experience imperative. McKinsey. 20200514.

[3] Air Passenger Demand Collapses In Asia Pacific, Decline In Cargo Markets Deepens. Businessworld 20200528

Upstream and downstream supply chain uncertainty

Shipment delays, increased shipping costs and rapid changes in demand/orders force manufacturers to think outside of the box and consider trying new logistics solutions. Some manufacturers continue to negotiate costs down to preserve their working capital, while others seek new modes of transportation or even change their sales strategy from cross border export to selling domestically. Simultaneously, due to a global lockdown, there has been a shortage of ocean freight and air freight capacity. Ocean carriers canceled sailings week after week due to uncertainty over the economy and quarantine rules from various countries. Air freight capacity is constrained due to an over 90% drop in passenger travels.^[3] Despite airlines attempting to fill empty passenger seats with cargo and adding cargo flights, the overall capacity reduction has a knock-on effect on cross border cargo transport. The combination of the challenge of assuring a stable supply of raw materials for production and the volatile freight market for finished goods is putting pressure on both ends of the supply chain.

[illegible]

Yesterday is not today

Manufacturers that previously simply made and shipped goods are experiencing a wake-up call. They now face pressure from demand, supply, and workforce availability. The complexity of their supply chains has grown, and must now factor in unpredictable delivery timing, inventory levels, variable shipping costs and more.

For example, just-in-time delivery has been the supply chain holy grail for a long time, mainly because it keeps cost down and reduces inventory. As a result, manufacturers often sign MSAs with a few providers to lock in low costs. The sudden drop in freight capacity led to skyrocketing freight prices, which brought unprecedented friction to the supply chain and put massive pressure on manufacturers that choose service providers based purely on cost. Manufacturers who manage to do well in the current situation have the ability to adapt and change their operations and sales strategies quickly. Just-in-time delivery has been supplanted by just-in-case as the smart supply chain strategy.

In Change Lies Opportunity



“In the midst of chaos, there is also an opportunity (乱而取之)” Sun-Tzu Black swan events do happen, and with every challenge, solutions arise. Here are our recommendations on how we can adapt and capitalize on the changes in how we operate, communicate and measure efficiency.

New ways to operate

Agile is the name of the game

Long-term planning is not a one-size-fits all solution in the current volatile environment. In addition to formulating strategic business and supply chain strategies, companies must think in detail about their requirements 120, 90, 60, and 30 days out. The pandemic demonstrated the importance of having flexibility and a buffer so supply chain changes can be made, especially when consumer needs are evolving rapidly.

To adjust to new customer demands, manufacturers have developed new products or changed their sourcing strategies which have a knock-on effect on their operations. Unexpected fluctuations in the supply of raw materials and customer orders can require a mix of charters, part charters and premium ocean to meet projected 30, 60 and 120-day demand.

How to find the right logistics solutions:

- Switch up your strategy and adapt quickly – Speed-to-act translates into option value. Most companies struggle to react to 180-degree shifts. Smart companies recognize they need to get out of their comfort zones and adapt across the organization, including their supply chain decisions. For example, huge surges in demand for exercise equipment, work-from-home electronics gear and basic consumer goods such as baby wipes have driven these companies to find solutions fast as their inventories run low.
- Build flexible and agile logistics plans – Carriers' published transit times cannot be relied upon. There are a lot of blank sailings and a massive number of flight cancellations. Think out of the box to use a combination of modes of transport or use less popular routes that are less likely to have cancellations. There's considerable risk that shipments will get delayed, first at origin, then at a transshipment port (if applicable), then on the water, and finally at the destination port, terminal, or rail/truck depot. Published schedules are a "best case" scenario that rarely happens.

Visibility into your data is key to success

Whether it's changing the mode of transport, roll overs or developing a direct-to-consumer model, today's manufacturers must find ways to gain greater visibility into the workings of their supply chains to make the best decisions^[4]. Companies must be strategic, data-driven and have access to the right information. Visibility is key for companies to manage their logistics and for their suppliers to effectively run their businesses. Stock level visibility must be end-to-end (not just of finished goods in warehouses or in transit), especially upstream into the order and production phases of the supply chain. Companies with visibility and flexibility make quick and agile decisions and change how they operate to sustain their business.

Having the right information available to make strategic data-based decisions and creating contingency plans for a multitude of scenarios requires supply chains to up their game in terms of their technology, infrastructure and business processes.

^[4] Direct to consumer trend stats: cnstock.com

New ways to operate

Embrace technology

During COVID-19, the use of enterprise collaborative office applications has exploded. With China in lockdown, Internet traffic in China increased by more than 50% compared with the end of last year, and by 70% in other regions China^[5]. Data from Flexport's platform shows that recently active users grew by 20%, with more frequent usage (36% more than the same time last year) and more time spent (up 19.5%) on the platform per session^[6].

Companies are increasingly turning to SaaS and other cloud-based solutions to easily add capabilities and gain business insights on a turnkey, pay-as-you-go basis rather than via capital investment. Real-time reporting and communication with all critical suppliers and shipping partners is an efficient way to increase visibility throughout the supply chain. Having all communications and documentations related to a shipment in one place enables transparency and knowledge transfer across every stage of the supply chain. The adoption of scalable platforms that put all the data in one place and integrate with existing business systems and processes will accelerate.

[5] 《疫情期间互联网流量较去年
年底增长50%》中国网信办
20200424

The New Gameplan

Rethink your entire logistics ecosystem

Profitability and cost-to-serve are top of mind for every business owner. Their analysis includes the costs of raw materials, components, labor, and transportation. Fuel costs, the choice of air or sea, the transit time of various routes, the costs of inventory in transit and the administrative time and resources to manage logistics are just a few of the components involved in calculating shipping efficiency and its impact on overall profitability.

[6] PPE shipments and
Flexport monthly active
user stats: Flexport Master
Assets Request Doc
June 11, 2020.

Pick your partner based on value alignment

It's time to rethink how to define the value of your partners. Look at all the costs and resources required, not just shipping costs in isolation. Time, efficient team resourcing, the ability to focus on your core business and brand reputation protection are some of the less tangible but very important parts of the value equation to consider. Real opportunities are arising to shift the supply chain from a cost center to a value creator.

Manufacturers that utilize existing materials to produce new products (e.g. infrared thermometers instead of laser tools) may be unfamiliar with the custom regulations for the new product categories and get caught in extended approval processes that can delay delivery dates. For example, recent tightening of customs regulation on medical equipment exports has delayed equipment delivery by days or weeks leading to default and contract termination. Shipping partners that deeply understand compliance requirements can guide manufacturers to navigate these challenges.

The combination of dedicated and knowledgeable in-house resources, as well as partners that work as an extension of your own logistics team will help you get the most value from platforms, data and automation.

Connect logistics performance metrics with business objectives

It's imperative now for the supply chain's performance to empower the entire company to achieve its overall objectives and outcomes. For example, do popular items have quick inventory backfills? Can the company respond to shifting customer requirements? Under profit pressure, can the same result be delivered less expensively?

In the New Normal, clarity on goals and milestones is essential. Starting with the right benchmark numbers requires an end-to-end view of the costs involved. Digitized bills of lading, prioritized task lists, integrated communications and dashboards with insights all contribute to greater accountability from cargo ready date through final delivery. Near real time visibility into key supply chain metrics allows you to accurately and nimbly balance speed and cost considerations with the company's business requirements.

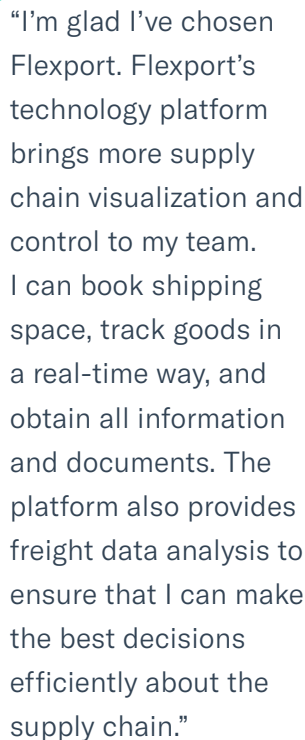
How Chinese Companies Accelerates Their Businesses Through Transformation

The New Normal is encouraging -- and even forcing -- many Chinese companies to revamp or reinvent their business models and supply chains. Born-in-the-cloud companies like Alibaba, JD.com, and PinDuoDuo have always had a consumer (B2C or C2C) orientation and used data at scale for personalization.

Many of the more traditional manufacturing companies and brands have had success with both B2B and B2C business models but have struggled to turn rapidly in the face of change. Manufacturers have seen export shipments shrink. Wholesalers have had to understand their end customers fast. Companies used to strong overseas revenue must now explore the domestic market.

These transitions are easier said than done. Many manufacturers face many challenges when trying to sell domestically due to tax issues and differences in customer preferences.

Some are moving to a D2C (direct to consumers) or even C2M (consumer to manufacturer) model whereby consumer preferences are fed directly to the manufacturer as input to the localization of their product offering. That has challenged existing ways to manage supply chains.



Global Sourcing
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Flexport is not just a technology platform. We're your partner to guide you through these challenging times and discover new opportunities for efficiency and customer success. We provide data and visibility, matched with strong destination services and a solution-oriented mindset to provide quick and creative solutions.

Flexport's platform eliminates the need to sift through email inboxes to find shipment information. With shipment-specific messaging, every shipment includes an activity feed and in-line message thread to show what's been done and what needs to happen next.

Flexport improves the logistics visibility for both the customer's origin and destination teams. We track the location of each shipment and update the status in real time. The customer's destination team can log into the platform anytime and anywhere to check the progress of the goods and see when the goods have arrived.

Flexport's dedicated squads share KPIs for all the customer's shipments (e.g. on-time delivery, visibility, container utilization). Flexport's teams use their expertise and insights from the platform to address capacity, cost, and schedule issues caused by changing customs regulations, fuel prices, market conditions, and even weather. Flexport's solutions-oriented approach drives transparency and efficiency across the supply chain. In the New Normal, Flexport is the partner ready to transform with you.

Learn more about building agility in fast-changing times [here](#).

Schedule a demo with our team to learn how Flexport can help you navigate through the New Normal.

Sign up for a demo.

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