

UB School of Management experts say supply chain breakdown will be problematic for holiday shoppers

COVID-19 set off a 'supply chain bomb' built over past 25 years

BY THE UNIVERSITY AT BUFFALO

This holiday season, expect shortages of gift items like toys, clothes and appliances, as well as delays in order fulfillment — all caused by global supply chain disruptions.

That's according to Nallan Suresh, Ph.D., UB Distinguished Professor of operations management and strategy in the University at Buffalo School of Management.

Supply Chains & Holidays
"Shop early and avoid the Christmas rush' is consumer advice we hear every year, but it's even more important this season," Suresh said.

Mike Wei, Ph.D., assistant professor of operations management and strategy in the UB School of Management, agrees with Suresh's supply chain forecast.

"This holiday season will be a rollercoaster ride," Wei said. "Suppliers and manufacturers have been working exceedingly hard to squeeze the last juice out of the supply chain. Yet, given the pervasiveness of the global pandemic, there have been constant interruptions, creating a sense of uncertainty. This has had a ripple effect on the supply-and-demand relationship and further fueled the supply chain mismatch."

"What we will see in this coming holiday season are two extremes: Most understocked products will be sold at a premium and run out of stock soon, while other overstocked products will be sold at a loss."

Given the supply and transportation issues, sales of experiential products like restaurant and spa gift certificates are likely to increase this holiday season, according to Arun Lakshmanan, PhD, associate professor of marketing in the UB School of Management.

He also expects prices to go up, due to supply shortages and changes in shopping habits following the pandemic.

What's holding up supply chains in the U.S.:

Experts say many of the current supply chain woes are attributable to COVID-19, but can be

traced back even further to the trade war period before the pandemic.

"You could think of our current supply chain issues as a bomb that's been built over the past 25 years, and the COVID-19 pandemic simply set it off," said Natalie Simpson, Ph.D., associate professor and chair of operations management and strategy in the UB School of Management.

"The proof that COVID-19 is not the major reason we are experiencing these difficulties is that this has happened before," she said. "Port congestion was already considered a long-standing problem when labor disputes at our West Coast ports disrupted the holiday shopping season in 2014. The White House was ultimately drawn into that conflict before it was resolved a few months later."

Suresh outlines some factors impacting supply chains:

√ There have been logistics bottlenecks starting with congestion at ports of entry, especially at West Coast ports like those in Los Angeles and Long Beach, California. This has been coupled with a shortage of truck drivers and limited hours for port workers. Round-the-clock operations at affected ports are currently attempting to relieve the bottlenecks.

√ Container availability has also been a major problem, given the demand surge after COVID-19 hit, and shipping costs have skyrocketed.

√ There has also been a major disruption in the labor market due to an insufficient workforce to handle production and logistics. New work-from-home modes of work caused by the pandemic and increased expectations of a better work-life balance have led to a shortage of workers, even as countless jobs are waiting to be filled.

Simpson said, "Over the past two decades, our companies have discarded shorter, more robust over-the-ground-only supply lines and replaced them with longer global lines that all squeeze through ports — a few points on our map. Any disruption to one or more of these ports immediately



disrupts supply to millions." ... and around the world:

√ Suresh said, In China and Vietnam, there have been major production cutbacks. In addition, the recent coal shortage crisis in China has caused a power shortage for industrial use, curtailing production volume there. China is also experiencing disruptions in its export hubs and major ports due to COVID-19 and the delta variant.

'Supply web,' not supply chain:
"Adding to our difficulties might be the phrase 'supply chain' itself, adopted by the business community in the 1990s to bring greater focus to coordination and logistics between companies," Simpson said. "Now, in 2021, the public hears it and naturally pictures something like an actual chain, something strong and durable with many links forming a line. Supply chains are nothing like actual chains: They are vast, tangled networks of linked companies and those links change continuously."

"We should call the system we currently depend on our 'supply web,'" Simpson added. "It sounds clunkier than 'supply chain,' but it brings to mind a more accurate

picture of our situation. Our supply web is a complex structure of many connections, easily damaged with one sharp blow."

One big supply chain lesson from the pandemic:

"Even as we are busy addressing every bottleneck in current supply chains, the medium- and long-term goals of diversifying our supply sources should not be forgotten," Suresh said. "Supply chains that are too long and globally extended have numerous sources of vulnerability. Shorter supply chains, with closer-to-home production nodes, must be cultivated to ensure greater resilience."

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