

Canadian FDI Forum Supply Chain Mix and Match

3 May/Mai 2022

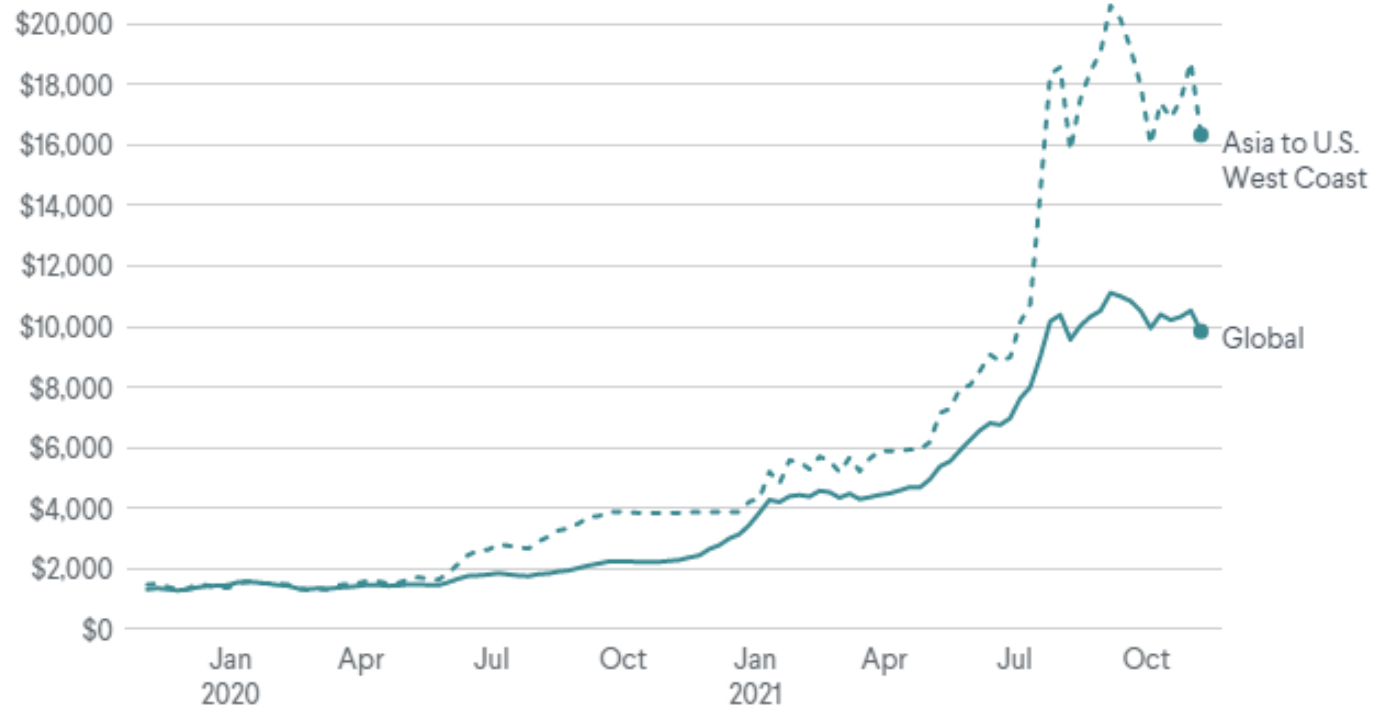


Significant challenges of goods shortages – or at least of goods being in the wrong locations

- “Just-in-time” strategy originally developed when suppliers were much closer to each other
- Globalization dispersed the supply chain, reducing production costs, but increasing exposure to logistics risk
- Problems of the past several month have resulted in “shortage gaming” in ensuring supplies of inputs

Global Shipping Costs Surged in 2021

Market rates for forty-foot shipping containers



Note: Data is from the Freightos Baltic Index.

Source: Freightos.com.

COUNCIL.org
FOREIGN
RELATIONS

- Consumer demand shifts away from local spending (restaurants, movies, entertainment) and pivots to retail and e-commerce shopping (amazon)
- Glut in demand results in huge influx of imports.
- When there aren't enough workers (warehouse/truck) to efficiently move those goods, then delays begin to pop up and containers are left taking up space in ports and warehouses.

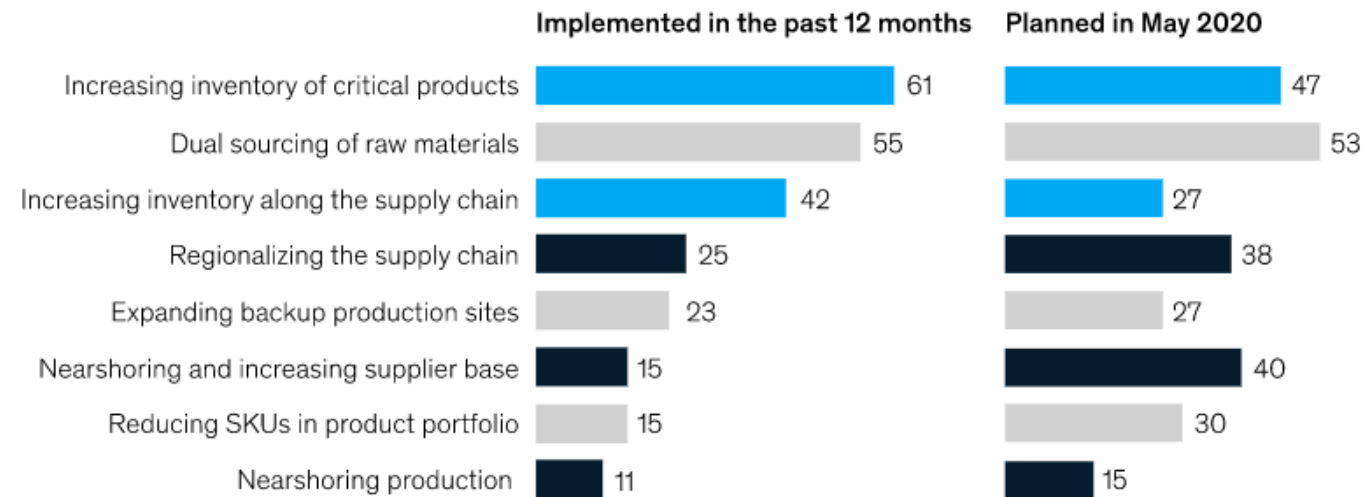
So....

We're re-shoring production, right??

Companies originally planned to increase nearshoring of suppliers to boost supply-chain resilience—but wound up increasing inventory.

Planned and implemented actions, % of respondents

■ Actions related to nearshoring ■ Actions related to inventory ■ Other



Source: McKinsey survey of global supply-chain leaders (May 4–June 16, 2021, n = 71)

- Increased visibility into supply chain
- Identified tier 2 and 3 suppliers that needed direct management
- Identified levels of risk for those suppliers and diversified suppliers
- Developed IT solutions allowing it to track and then re-route shipments



TOYOTA



- Had already adopted a blended production model (manufactured own parts in addition to contract)
- Altered designs to allow for more flexibility in production (and lower parts counts in supply chain)
- Doubled down on local (China) production network to reduce linkage distances

Lenovo



Solutions to supply chain challenges

- Easier to build warehouses and inventories than factories
- More investments in supply chain tracking technology (and other process innovations like automation, additive manufacturing, etc)
- “Just-in-case” – develop strategic reserves of key inputs (e.g. microchips)
- Diversification – Does it all need to be done in China?
- Nearshoring – move (or buy from) suppliers that are closer to the point of production, trading off production cost for reliability
- Adaptability of the supply chain (and ability to change production) being espoused as a key planning principle

- Will there be near-shoring? Sure.... Some
- Future-proofing – Both companies and regions identifying vulnerabilities (and reaching further back in supply chains)
- What is your export competitiveness index (location quotient for goods)
- Consider the implications of the US FLOW program

Thank You!



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