

Corona crisis: Switzerland's supply chain management on trial (II)

In a two-part series, Prof. Erik Hofmann from the Institute of Supply Chain Management analyses the impact of COVID-19 on procurement and logistics in Switzerland. Part II: long-term effects and new trends.



6 April 2020. At present, all efforts are geared to keeping the global supply chain in operation, also in view of the foodstuffs, health and pharmaceutical industries' dependence on products from outside Europe. One possible

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negative consequence of the crisis could be a setback with regard to environmental initiatives for the supply chain, for the sole reason that currently, the focus is exclusively on corporate recovery.



What could be the long-term effects of the corona crisis on the supply chains?

At the European and Swiss levels, it will be necessary to support measures which encourage sustainability in the supply chains with the objective of a circular economy. In turn, re-shoring in its various forms will play a key role as a means of shortening the supply chains and of reducing the supply risk through multi-sourcing. Ultimately, future emergencies have to be planned for in advance. This includes a specific plan for supply chain business continuity management, which also involves specialists from the health service and other first responders.

What consequences are imminent for the supply chains?

Most big international corporations know where their products are located and as a rule think that they do not have to overstock. However, this does not apply to a majority of small and medium-sized enterprises. This is the bitter truth for many Swiss SMEs.

After the COVID-19 crisis has abated, we are likely to see two different categories of companies. On the one hand, there will be those actors who will not take any further measures in the hope that such an event will not reoccur any time soon. These companies will be running a very high risk. On the other hand, there will be pioneers who will learn the lessons from this crisis and will massively invest in the mapping of their value creation networks to ensure that they will not have to fly blind when the next crisis occurs. It is fair to assume that in the long term, such companies will be the winners, for the next pandemic will come – it is only a question of time (and intensity).

Road and intermodal transport are key elements of the European supply chains. Although there was a surge in demand at the onset of the crisis, we

currently (late March 2020) have to expect a distinct decline in activities by up to 30 per cent in comparison with the preceding year, which is the result of a fall in demand and difficulties in the international transport chains. Another aggravating reason is the increase in border checks, which cause tailbacks several kilometres long at border crossings.

Is there a big “thing” in the offing for Swiss supply chains?

Unfortunately, there is reason to fear that there is, for supply and demand do not appear to be in harmony at present. Basically, these factors directly depend on each other and do not only exert a decisive influence on a company's success or failure but also constitute the basis for all strategic decision-making. Today, however, an assessment of demand has to rely on uncertain data from various fields in order to be able to produce a forecast of the market situation that may or may not be accurate.

«Companies are facing a huge bullwhip effect caused by compounded uncertainties.»

Reliable forecasts are impossible just now. Instead, companies are facing a huge bullwhip effect caused by compounded uncertainties. This bullwhip effect can be compared to a massive hiccup in the supply chains caused by numerous orders piling up as a consequence of uncoordinated supply chain planning. In some places, this will result in stock-outs, in others in massive overstocking owing to accrued and accumulated orders.

It will take some weeks for supply chains to calm down and for these imbalanced swings to recede. At the recovery stage at the end of the crisis, we will therefore see precisely such overstocking – from toilet paper to unused protective gear and medication that is no longer required. Unfortunately this, too, is already evident today.

What costs will we have to face?

The activities in procurement and logic will not be free of charge. Both companies and the government will have to invest, for the maintenance and safeguard of supply have a price. In this respect, some rethinking will have to be done: safeguarding the supply of companies and ultimately of our social system has to be done at a “fair” price. The exploitation of weaker suppliers in any kind of power games has to be abandoned.

The services to be provided in the supply chains have to be remunerated in such a way that the accruing costs can be covered. Supply as such must be economical and, when all is said and done, must be paid for by those who demand it! If possible additional costs are caused by government decisions, it must be made clear who will defray these extra expenses. Quick action is the order of the day, but this action should not be precipitate and opaque!

«Globalisation as such will not be turned back at the end of the crisis.»

Will there be a reversal of global value creation?

No, globalisation as such will not be turned back at the end of the crisis. It is not to be expected that there will be a far-reaching disentanglement and recall of value creation activities. Even so, occasional redesigns of value creation networks have to be expected to go hand in hand with a reduction in the length of supply chains.

However, we already witnessed such a reshoring before the corona crisis. Here, politics and the Federal Office for National Economic Supply (FONES) will have a few things to say and determine – together with industry – what production capacities will have to be preserved for what products in

Switzerland.

It is very likely that this will concern pharmaceuticals, medical technology and protective equipment. Dependence on foreign countries will be reduced for such critical goods in the health system, in particular. The question will be what and how much Switzerland will be able and willing to afford.

What will happen to digitalisation and Industry 4.0 in the supply chains? All in all, the megatrends of digitalisation and Industry 4.0 may be slightly attenuated by the crisis at first. There might be a dip in the short and medium term, for many start-ups in the supply chain sector will have to fight for survival, particularly when the funding for these new companies comes to an end. In the coming weeks and months, there will hardly be any enterprises which will be able to realise new ideas with these innovation drivers. In the case of a recession, in particular, most market participants will be preoccupied with their own battle for survival.

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However, there are also some companies that will emerge as winners from the current crisis. Video conferences and all the applications required when working from home are already in great demand. This will remain the case after the crisis, too. It is certainly also conceivable that possible reservations with regard to privacy and data protection, for instance in connection with blockchain-based track and trace solutions, will play a less prominent part in the future. In the long term, the current COVID-19 crisis will also lead to higher a level of digitalisation.

What will the supply chain of the future look like?

We must already look beyond the time after the crisis today (in the crisis). What is important is that the end of the restrictions must not be missed. The reawakening of the economy and the relaunch of the supply chains, in particular, harbour a challenge that is not negligible, for it is especially at a time of recovery that companies must again pay for required raw materials and components before they can sell their own products and generate turnover.

The economic crisis of 2008/09 demonstrated that it was at that stage, in particular, that the highest number of companies experienced liquidity bottlenecks and had to file for bankruptcy. Here, too, a solidarity of financially powerful companies should come into play. In this respect, the instrument of instant payment or prepayment plays a role that is not negligible. In addition, so-called supply chain funding solutions, such as reserve factoring, can make a valuable contribution towards bridging the liquidity gap.

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