



Disrupted supply chains

Time to rethink your supply chain strategy?



By Jørn B. Andersen

This report contributes to TC-South Western Europe's goal of helping Danish companies and their leaders understand the transformation of global supply chains, improve their competitive market position in view of disruptive events and find new opportunities for building resilience in a turbulent global economy. This work is independent and has not been commissioned or sponsored by anyone from business, government, or other institutions.

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The coronavirus pandemic has been a wake-up call for Danish and European companies. Consequently, many company managers now look at actions to improve resilience in order to avoid future disruptions in their supply chains.

The coronavirus contagion has had a major impact on Chinese manufacturers and it has revealed the central role that Chinese companies play in the supply chain of other companies from Denmark, Europe and globally. The disruption of the supply chains is evident across industries and especially affecting pharmaceuticals, but also within metals, consumer goods, food packaging and more simple but vital products like surgical gowns and masks.

The configuration of today's global supply chains took place in an environment much more benign to global trade and acceptance of the risks associated with interdependence. Consider the risks, it is usually assumed that so-called Black-Swan events like 9/11 or the coronavirus happens very rarely, and they are therefore outside the normal statistical distribution for calculating business risks.

When the world is hit with a crisis like coronavirus usual processes are unfit for the situation and automatic processes inadequate. Experts point out that the response in the short term is to be tactical by avoiding to try to optimise costs but increase on reputation and customer satisfaction.

The long term strategy is an acceleration of some trends which started before the coronavirus pandemic e.g. volatility, localisation and newer trends such as the trade war between the US and China, scarcity of supply, and geopolitical issues like cybersecurity and 5G from companies as Huawei and alike.

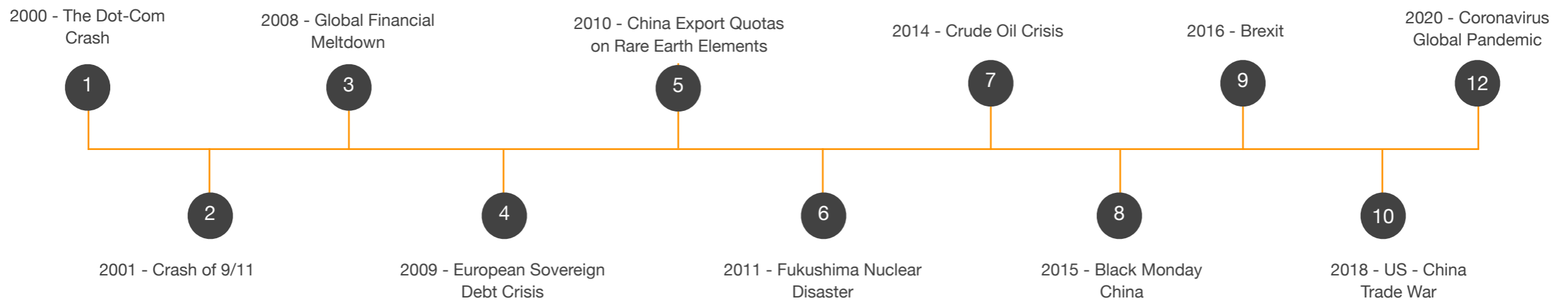
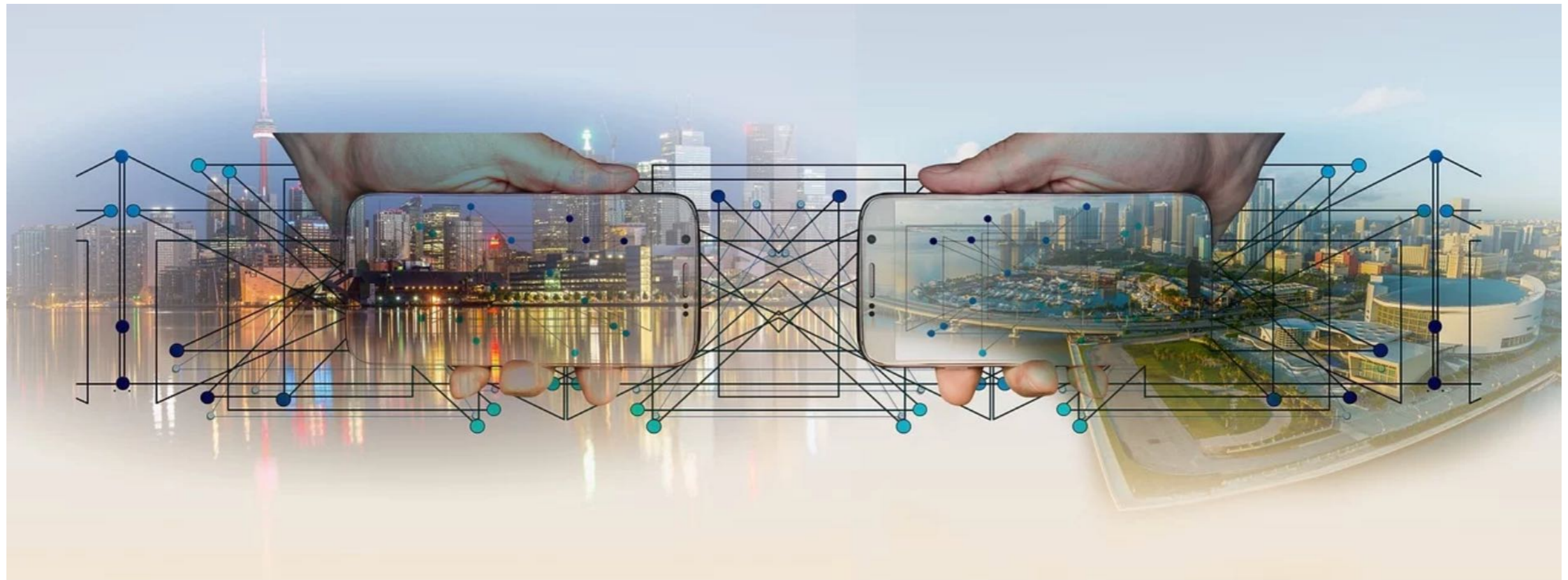
Although such Black Swan or disruptive events are considered to be rare, there has in fact been several such events in the last two decades from 2000-2020.

The disruption unleashed by the coronavirus is different, since certain companies and even countries meet risks at an unprecedented level. What the current situation reveals is that the risks associated with supply chain fragmentation and globalisation have been unpriced and mainly ignored.

For many companies these multistage global supply chain networks are increasingly leading to crisis as shown on the timeline at the next page. This should be a wake-up call for managers who need to understand that their supply chains strategic cons and pros and how both best and worse case scenarios can impact their business operations.



BLACK SWANS, RISKS AND NO. OF DISRUPTED GLOBAL SUPPLY CHAIN EVENTS 2000-2020



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RESPONSES TO BUILD SUPPLY CHAIN RESILIENCE

Toyota and trade block regionalisation

The trade war between US-China that began back in 2018 had already put regionalisation (EU, NAFTA, China etc.) instead of globalisation (WTO) back on the table. Prior to the coronavirus, it can be argued that a majority of especially European and American companies can be argued to have lulled into complacency by the relatively cheap transport and logistics costs made possible by the container traffic and alike, the corona crisis exposed the weakness of this approach. But there are other ways of organising production and with equal success. Consider Toyota pioneering lean production. Toyota has since the 1970s practised to have its sub-supplier networks close to the local market. This so-called localisation strategy can for example be seen in Toyota's car manufacturing plant in the US state of Kentucky, Georgetown. More than 350 of Toyota's suppliers are located in the US and more than 100 of those are in Kentucky itself.



Novo Nordisk - Second production capacity and safety stocks

Obviously there are additional costs related to building alternative supply sources and production facilities, but it gives resilience and robustness in a situation with turmoil and disrupted markets. The challenge is to estimate how much additional stock and or production capacity is needed, but it can be done. An example of this is the Danish pharma company Novo Nordisk who manufactures half of the world's supply of insulin at its factory in Kalundborg, Denmark, and because of the importance insulin plays in managing diabetes Novo maintains a five-year reserve as safety stock.

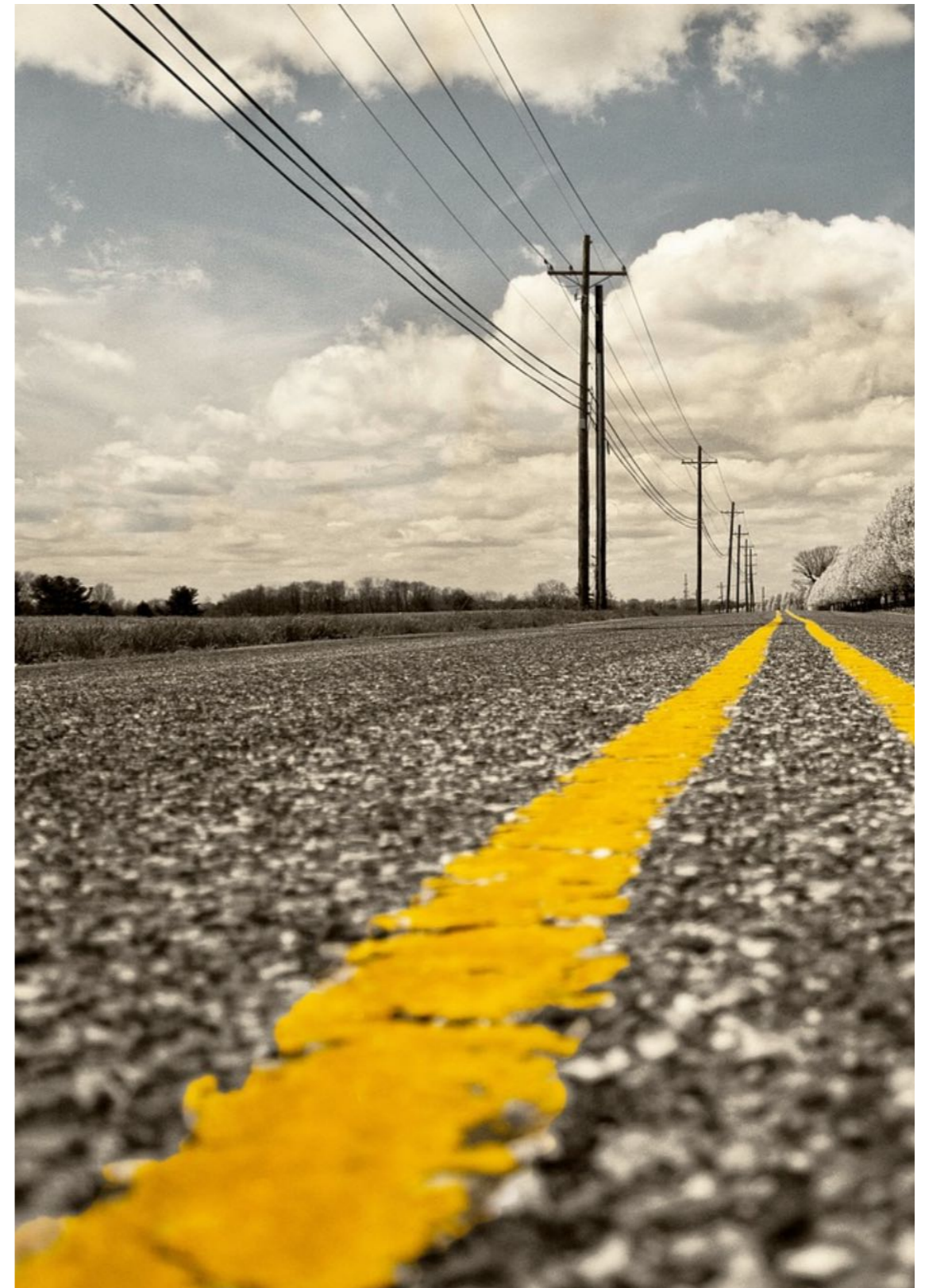
Relocated supply chains and the case for Italy, France, Spain and Portugal - TC

Faced with the scale of disruptive effects on supply chains caused by the coronavirus as we have described, one reaction could be to slow the scope and adoption in an attempt to preserve status quo and come back to standard operational efficiency once things are back to normal.

But this would most likely be a mistake. Industry leading companies are already working on both short term and longer term strategy changes, and we are likely to a relocation of sourcing along the dimensions exemplified by e.g. Toyota and Novo Nordisk. In this respect there is likely to be a first-mover advantage in so far as the best and most efficient sourcing partners within various industries and countries of each trade bloc region - China, USA or the EU - will be the first to be engaged by those who relocate parts of their supply chains before others.

Companies slower to react will experience a disadvantage and be faced with tougher choices in this race already taking place. A race which in fact has been underway for a couple of years, but will be accelerated by the coronavirus.

In view of the aforementioned disruptions and underlying trends for global supply chain networks we think that there is a case to be made for taking a closer look at Italy, and on the following pages we present some of Italy's strongest and most interesting industries from a Danish corporate perspective and in regard to potential near-sourcing or relocation of parts of the current supply chain from one part of the world back to Europe.



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RESILIENT SUPPLY CHAINS AND SOURCING BACK TO SOUTH WEST EUROPE



Italy, France, Spain and Portugal's - the TC South West European Region combines world leading business framework conditions for the production of machines tools, automotive, aerospace, rail industry, textile and leather, food industry, high end fashion and luxuries, maritime and pharmaceuticals. For instance, Italy is the EU's largest manufacturing country of pharmaceuticals. More than 7000 medicines under development globally have benefitted from research originating in Italy, and Italy is the world leading country for the number of innovative contracts and the national healthcare system, 36% of world's total.

With more than 180 million inhabitants combined and direct access to more than 500 million consumers in the European Single Market, the countries of South Western Europe offers a central European location providing easy access to EMEA and African markets as well as to Latin America.



The TC-South Western Europe advisory and consultant team is committed to providing the highest quality to our clients. Our professional services include:

- Market assessment
- Supply chains and manufacturing options
- business growth
- stakeholder mapping
- export promotion
- marketing and reputation management
- innovation
- Distribution and partner searches.

Our work at the South Western European markets is all about bringing senior representatives from Danish and regional corporates, governments, finance and services to do business in an engaging and open collaborative way.

Please contact us to get free and objective information about the supply chain relocation opportunities and other issues relevant for doing business at the South Western European markets.

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