TRADE WAR:
HOW TO ADJUST YOUR SUPPLY CHAIN

By Peter Kowalke

The trade war between the U.S. and China is real, and it has significant implications for any business with a global supply chain.

Roughly $200 billion worth of tariffs on Chinese goods recently came into effect in the US, bringing the current total amount of tariffs on Chinese goods to roughly $250 billion. At the same time, China has slapped another $60 billion worth of tariffs on U.S. goods.

There is little end in sight for the trade war, too. Prospects appear dim right now that trade tensions will ease, which means U.S. tariffs on Chinese goods will rise to as high as 25 percent by the end of the year. President Trump also has signaled that he might impose tariffs on the remaining $267 billion worth of Chinese imports to the U.S.

“JPMorgan has adopted a new baseline that assumes a U.S.-China endgame involving 25 percent U.S. tariffs on all Chinese goods in 2019,” noted strategist John Normand at JPMorgan recently.

This is not good for any business with a global supply chain. The current round of tariffs impacts products such as auto parts, air conditioners, furniture, network routers, computer servers, high-tech equipment and refrigerators. Other industries such as apparel will also be impacted in the near future if the tariffs are expanded.

"Everybody is looking for a way to hedge, but it's not that easy,"

Larry Sloven told the Financial Times recently, an executive at LED lighting firm, Capstone.

"Think about all the components that go into making an electronic product—they all come from China."

Vehicle manufacturer, Ford, has announced that it will incur as much as $300 million in extra costs this year due to the trade war.

Heavy equipment manufacturer Caterpillar has said it will boost prices to offset the expected $100 million to $200 million in added material costs from tariffs.

Motorcycle manufacturer Harley Davidson moving production of motorcycles sold to Europe to the continent to avoid the tariffs. The trade war has real implications for supply chains big and small.

"This is a moment for the manufacturing industry to think about how to diversify risk, whether to upgrade products and add more value or expand production to other regions,"

notes Clara Chan, president of the Hong Kong Young Industrialists Council and chief executive of a metal production business in China.

NO QUICK FIX FOR YOUR SUPPLY CHAIN

The problem is that there is no easy or quick solution for the trade war. Companies in most cases cannot simply pick new suppliers and adjust their supply chains at the speed that new tariffs are imposed. It takes time to source new partners, alter manufacturing plans and optimize around the new supply chain realities.

What businesses can do is prepare for an ongoing trade war and settle in for a more complex supply chain, even if there is little that can be done in the short term. This means better planning, establishing new supplier relationships for readjustment later, and setting the foundation for more efficient business processes that can create a more nimble supply chain going forward.

“It’s all about being agile,” Evan Freely told Risk & Insurance recently, global practice lead for credit specialties at risk consultancy, Marsh. “The more progressive companies are agile and seek multiple suppliers in more regions or countries.”

FIVE ADJUSTMENTS FOR THE TRADE WAR

Some businesses are better prepared than others for supply chain adjustments. Those that already have robust supply chain management software in place and a defined risk mitigation plan will cope the best with the complexities of the trade war. But even for businesses that still are managing their supply chain from spreadsheets and outdated on-premise ERP software, it never is too late to boost supply chain management processes.

Here’s where to start.

1. DEFINE ALL SUPPLIERS AND EMBEDDED COMMODITIES

Optimizing a supply chain in light of the trade war starts with knowing the landscape. Businesses need a clear picture not only of their supply chain, but also the supply chain of their supply chain and any embedded commodities in the chain that could be affected by the trade war.

Businesses that have modern enterprise resource planning software in place should already have much of this data available and tracked, but surprisingly few businesses have full visibility into their supply chain; roughly 69 percent of companies do not have complete supply chain visibility, according to the Business Continuity Institute.

“Some companies are investing in supply chain resilience, but the majority have plenty of room for improvement,”

Nick Wildgoose told Raconteur recently, global supply chain product leader at Zurich Insurance Group.

2. ESTABLISH RELATIONSHIPS WITH ALTERNATE SUPPLIERS

The next step after defining each link in the supply chain and identifying weak links is starting the process of building relationships with alternate suppliers.

Businesses that will weather the trade war best are those that already have a global portfolio of secondary suppliers in place in case there is disruption or the need to pivot as a result of changing conditions. This does not happen overnight, so businesses should start building these relationships well in advance.

Even if China remains a necessary supplier, creating a secondary supply network in countries such as Vietnam or Cambodia can reduce risk and offset some of the tariffs from the trade war.

3. REEVALUATE PRODUCT SPECIFICATIONS

A third important step in adjusting to an ongoing trade war is examining the specifications of each product that is being manufactured or distributed. Sometimes there are opportunities for alternative sourcing with slight changes to a product’s specifications. A critical component that is sourced from China might be less crucial if there is a tweak to product specifications.

Adjusting product specifications is not possible in all cases, of course. But companies that have a good grasp on each phase of their manufacturing process can often find alterations that don’t significantly impact product quality but can make a huge difference in terms of tariff levies.

Trans-shipment via another country will not change the country of origin when it comes to tariffs, but goods that are manufactured or substantially transformed in a non-tariff country can help avoid the cost of the trade war, as can sourcing similar components from a different region.

4. GET SAVVY WITH SUPPLY CHAIN ANALYTICS

Mitigating the effects of the trade war through optimized supply chain management is anything but simple. Thankfully, artificial intelligence and advanced supply chain analytics software can help.

Technologies such as spend analytics can help businesses optimize operations and their supply chain in real-time as material prices fluctuate, tariffs are imposed, and currencies fluctuate, among other factors. These analytics platforms can take the data already stored in a company's ERP system, as well as external data, and automatically optimize inputs and suggest supply chain adjustments as the landscape evolves.

Digitally transforming supply chains and procurement functions through analytics and real-time analysis is the only way that companies can adjust fast enough to the increasingly fluid global business landscape

5. DEVELOP ROBUST IF-THEN SCENARIO PLANNING

Similarly, businesses can weather the trade war far more effectively if they already have the next step in mind. The imposition of new tariffs is fast and hard to predict, forcing the need for better and more complete risk management planning around supply chain disruption.

Businesses should be developing if-then scenarios with both short and long-term strategies for potential disruption. When governments release lists of potential tariffs, businesses should be able to compare named goods to their materials and product lists and be ready with alternative solutions as needed.

This is where defining current suppliers and potential points of failure within a supply chain becomes important.

Trade wars are never fun for businesses with a global supply chain. The effects of the ongoing trade war will vary widely among companies, however, depending on how well they are prepared, and the level of visibility and flexibility that are built into their business systems.

For firms caught in the crosshairs of the current trade dispute between the U.S and China, right now there's a lot of work to be done.