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Retailers face growing supply chain challenges ahead of the holiday season

Article

The trend: Supply chain issues are creating headaches for retailers once more, as disruption in the Red Sea leads to skyrocketing shipping rates and traffic jams at key ports.

- The average cost of shipping a 40-foot container reached $4,119 for the week ended June 14—triple the cost compared with last June, and a high not seen since September 2022, per Freightos data cited by The Wall Street Journal.
- It's even more expensive to shift goods from China to Europe, with container rates reaching roughly $7,000, or around five times the pre-pandemic norm, according to The New York Times.

The dynamic: Houthi attacks on cargo ships have cut shipping capacity by as much as 20% and are forcing companies to take longer routes, adding time and cost at a crucial point for retailers as they try to map out their holiday inventory.

- The decrease in traffic is creating logjams at ports in Singapore, Malaysia, South Korea, and China, as well as in Spain and elsewhere in Europe.
- Those pressures, coupled with other factors like drought in the Panama Canal and a potential strike by dockworkers on the East and Gulf Coasts, could create the conditions for supply chain bottlenecks last seen during the pandemic.
- While there is the chance that those hiccups could lead to product shortages and potentially reignite inflation, the impact so far has been limited thanks to softer demand for consumer goods.

Looking ahead: With no end in sight to the threats in the Red Sea, retailers will have to revert to the "just in case" mindset that prevailed during the pandemic.

- But that strategy comes with its own set of challenges, namely the possibility of running into the same excess inventory problems that companies have struggled to emerge from over the past year.
- The other option is to rely more heavily on air freight—an increasingly expensive proposition given that Chinese ecommerce companies like **Shein**, **Temu**, and **AliExpress** are gobbling up the majority of capacity.

External Forces Influencing the 3-Year Plans of C-Level Executives Worldwide, Oct 2023

% of respondents

Inflation, currency, and capital concerns	52%
Digital acceleration including AI	46%
Rise of alternative, flexible, or distributive work models	42%
Shifting economic interests	37%
Extreme weather or natural disasters accelerated by climate change	35%
New business entrants and digital-first disruptors	32%
Cyber risk	29%
Stakeholder capitalism	25%
Business interruption related to health crisis	23%
Role of organizations in driving social impact/equity	20%
Health and wealth protection gap	19%
Supply chain interruptions/challenges	18%
Political unrest/war	16%
Rising healthcare costs	12%
Overall heightened risk environment	10%
Net zero and environmental goals	8%

Note: top 5 responses
Source: Mercer, "2024 Global Talent Trends," March 7, 2024

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