

There are signs Asia's supply chain challenges are starting to heal

Article

The news: There are signs that the **Asia supply chain snarls** that have upended retailers' operations throughout the pandemic are **starting to ease**, according to Chang Shu, Bloomberg's chief Asia economist.

- For example, **supply delivery times shortened in May relative to April**. Those times were roughly on par with March 2020 and are expected to improve more in June due to the

rollback of COVID-19 restrictions.

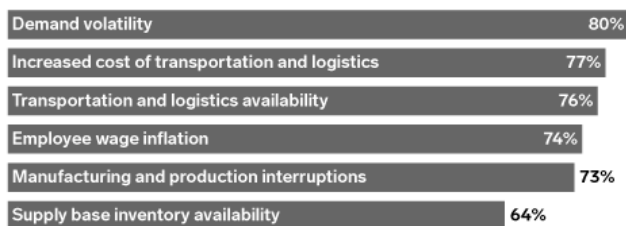
- That said, it will take some time before the global supply chain fully untangles. In the meantime, it continues to wreak havoc on retailers such as **Harrods**, which **delayed its summer sale** because of the delayed arrival of the new season's goods.
- “Our supply chain is running two to three weeks behind where it should be,” **Michael Ward**, managing director at the London luxury retailer, told Bloomberg TV.

Complicating factors: The global supply chain faces a host of challenges that extend beyond Asia. For example, many **empty containers needed by Asian exporters are stuck in the port of Rotterdam** due to a growing backlog of undelivered goods at Europe's busiest export hub.

- There's also labor shortages, disruptions from the war in Ukraine, and the lingering fallout from pandemic lockdowns in China.
- The net result is that companies face **significant increases in their logistics costs** as they seek to adjust and minimize their disruptions, per The Wall Street Journal.
- Those renewed cost increases come on the heels of a year in which **business logistics expenses rose 22.4%**, according to the Council of Supply Chain Management Professionals State of Logistics Report.
- **Transportation costs rose 21.7%** and **inventory-carrying costs**—which measure the value of the goods a retailer has against the cost to store them—**soared 25.9%** over 2020.

Supply Chain Disruptions According to Chief Supply Chain Officers (CSCOs) Worldwide, Q1 2022

% of respondents



Note: in the past 2 years
Source: IBM Institute for Business Value, "The Resilient Digital Supply Chain" commissioned by Celonis, April 28, 2022

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Time for change: The supply chain disruptions have pushed a number of companies to rethink their production processes.

- **46% of organizations have turned to onshoring or nearshoring** to minimize the frequency and impact of supply disruptions, per a survey of procurement decision makers by Forrester Consulting.
- For example, **Lego** will begin construction of a \$1 billion carbon-neutral factory in Chesterfield County, Virginia, this fall to shrink its supply chain.
- **Ikea India** similarly plans to source more products locally, per Reuters.
- Others have shifted manufacturing beyond China. **The US import value from China decreased from 66% of the total in 2018 to 55% at the end of 2021**, per Kearney's China Diversification Index.

The big takeaway: The global supply chain interruptions that the pandemic has brought to light should drive retailers to shift away from their old ways of operating.

- For example, **Target**, which had a difficult Q1 due to the abrupt shift in consumer spending to services, is working with suppliers to shorten distances and lead times in the supply chain.
- Lasting change is needed so that retailers aren't saddled with excess inventory due to the supply chain.

Go further: For more on *The Era of Uncertainty*, read our report [here](#).