

# Global Supply Chains

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Global supply chains are networks that can span across multiple continents and countries for the purpose of sourcing and supplying goods and services. **Global supply chains involve the flow of information, processes and resources across the globe.** A global supply chain **utilises low-cost country sourcing** and refers to the procurement of products and services from countries with lower labour rates and **reduced production costs than that of the home country.**

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A global supply chain will usually flow from the organisation in the home country as a **buyer across the supplier tiers; it is these suppliers who will be located in other areas of the globe.** A **local supply chain** will look to optimise suppliers who are regional to the organisation, in some instances organisations will look to leverage home grown supply routes, so all suppliers feeding into the supply chain will be located within the country in which the organisation is based, or the supply chain can be even closer in to the organisation and may even be within the same state/ city/ district, which often gives a **clearer visibility of the whole supply chain from raw material through to consumer.**

A global supply chain can also make it easier to sell to customers around the world. If the company has outposts in the supply chain throughout, including foreign countries, the business may find it easier to start selling to those parts of the world as well. Many manufacturing companies can benefit from a global supply chain, and certainly any business that wants to be an international force and sell to countries around the world is going to need a robust system for getting its products or services from Point A to Point B.

## Advantages

- **Reduced cost price** – due to lower labour and operating costs linked to the manufacturer of the products.
- **Supplier development** – it is often possible to support specialist product offerings leading to:
  - Opportunity to increase innovation
  - Sharing expertise and upskilling a new market/workforce
- **Increasing competition** – developing new suppliers will open up the access to suitably skilled supply routes.

## Disadvantages

- **Longer lead times** – whilst the production time can be quite quick the lead time can often be much longer as the goods will require shipping which can add to the lead time, this means that forward planning can be a challenge.
- **Loss of control** – due to the distance in the working relationship it can be difficult to manage communications and oversee technical aspects of the production process. Quality issues can also be complex to manage.

## Impact of COVID-19 on Global Supply Chains

The COVID-19 pandemic has hit global trade and investment at an unprecedented speed and scale. Multinational companies faced an initial supply shock, then a demand shock as more and more countries ordered people to stay at home. Governments, businesses and individual consumers suddenly struggled to procure basic products and materials, and were forced to confront the fragility of the modern supply chain. **The urgent need to design smarter, stronger and more diverse supply chains has been one of the main lessons of this crisis.**

With a sizable portion of the global economy still in lockdown, optimism about a so-called 'V' shaped recovery is

beginning to wane among business leaders. Although governments and central banks have reacted with impressive speed to inject liquidity into the system, the efficacy of such measures are fading. **For a growing number of multinational companies, the reality of the crisis presents an increasingly stark choice between self-preservation and supplier solvency.**

**COVID-19 has exposed the vulnerabilities of complex global supply chains built on lean manufacturing principles. This is particularly true in the healthcare sector, where the scramble for protective equipment has laid bare the inherent risks of inventory and single-sourcing models driven exclusively by cost control.** The impact of China's lockdown and its dominance in key areas of manufacturing have further highlighted the problem with modern supply chains. When Chinese factories closed, manufacturers struggled to pivot due to a lack of flexibility in their supplier base. One likely consequence is that global firms will diversify their supply chains in the future, instead of relying only on China. **Manufacturing hubs such as Vietnam, Mexico, and India are likely to benefit from that shift.**

**We may also see a decentralization of manufacturing capacity, with companies looking to bring production home.** This trend grew with the likes of automation and small batch production, which had become so cheap that a number of countries started moving portions of their supply chain back home. Policymakers may be increasingly pressured to consider whether certain products need to be manufactured in the country or the region.