



SUPPLY CHAIN INSIGHTS

INFLATION AND THE SUPPLY CHAIN – GOOD NEWS OR BAD?

Inflation in most countries has soared to multi-year highs, driven by a rebound in economic activity and a further straining of rampant supply chain disruptions.¹

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According to Kathleen O'Reilly, Global Lead, Strategy, Accenture, "The complexity of supply chain challenges continues to increase. Companies face instability caused by supply and material shortages, price inflation, logistics disruptions and labour constraints – all of which are exacerbated by the ongoing global pandemic and the shattered peace in Europe. The leaders of tomorrow will be those who seek new ways to respond, today."²

In this article, we explore these four challenges and look at some ways to mitigate them.

1. Materials shortages

Shortages of components and products has been an ongoing story from the very start of the pandemic when consumer products were in short supply. Some shortages, for example, semi-conductors, continue to have a massive effect on close to 170 industries,³ impacting everything from the production of smartphones to new cars.

While semiconductor manufacturers are increasing production and reporting record revenues, many companies who need them are already reconsidering their long-term procurement strategies. The World Economic Forum suggests, "some, for instance, may shift from a "just-in-time" ordering model, which helps minimize inventory costs, to one in which they order semiconductors far in advance."⁴

2. Supply is down and demand is high

There are a number of things supply chain managers can do to counter the impact of inflation. The first is to undertake a detailed assessment of their contractual exposure. For years, we have been living in a low inflation, relatively stable environment and

price indexation was not critical. Now, companies need to review, analyze and target key elements of their spend to determine which should be indexed or non-indexed.⁵

Identifying alternative, lower-cost suppliers is also a key short-term way of dealing with inflation. Beyond these more immediate measures, organizations can respond to higher inflation by increasing their supply chain resilience.⁵

3. Supply Chain resilience

"Companies need to rethink their supply chain strategy. It will enable them to react faster and smarter to this inflation-disruption cycle."⁶ A resilient supply chain has end-to-end visibility and an ability to predict that has never been more critical.

The pandemic's ripple effects are quietly revolutionizing supply chains, by vastly accelerating adoption of new, intelligent data analytics and technology platforms across supply chains in virtually every industry sector. After suffering the consequences of poor visibility, outdated analytics and lack of predictive capabilities, the goal of these investments is agility, resiliency, risk management, predictive capability and ultimately prosperity, with a fit-for purpose, future-proofed supply chain.

Find out more in this infographic

1. <https://www.reuters.com/business/global-inflation-stay-stubbornly-high-wrecked-supply-chains-persist-2022-04-28/>
2. <https://www.weforum.org/agenda/2022/05/leaders-supply-chains-davos-2022/>
3. <https://finance.yahoo.com/news/these-industries-are-hit-hardest-by-the-global-chip-shortage-122854251.html>
4. <https://www.weforum.org/agenda/2022/02/semiconductor-chip-shortage-supply-chain/>
5. <https://www.accenture.com/us-en/blogs/business-functions-blog/inflation-supply-chain-disruption>
6. <https://www.accenture.com/us-en/blogs/business-functions-blog/inflation-supply-chain-disruption>

4. Labor constraints

According to Accenture, “the cycle of rising inflation requires a response that combines new technologies and the reskilling of people. This combination of human ingenuity and technology underpins a more resilient supply chain.”⁷

Advancing the automation and digitalization of supply chains are themes dominating industry headlines, providing operational relief in areas where labor shortages are critical and providing abundant new opportunities. For example, roles being advertised include apprentices to support warehouse automation.

But are workers ready to adapt to new technologies and acquire new skills? According to the 2021 DHL Future of Work in Logistics Survey, the logistics workforce is willing

and ready to become more digitally proficient. Nearly nine in 10 logistics employees, across both operations and office work, saw digitalization as an opportunity to learn new skills.⁸

Robotics as a Service will become increasingly popular as it provides all the benefits of automating many warehouse tasks, while reducing the investment cost. Deloitte states, “Businesses are increasingly more receptive to RaaS is because of its flexibility, scalability, and lower cost of entry than traditional robotics programs.”⁹

Thijs Hulstman, Director Global IT, Innovation & Digitalization at DHL Supply Chain says, “We see a move from capex to cost modeling per use, so indeed a Robotics as a Service model. By implementing innovations and making use of digitalization, our customers are gaining from the moment we switch on. In

fact, Warehouse as a Service could include robotics solutions and that is exactly what our customers are expecting from us and why they team up with us as a partner for global warehouse and transport solutions”.

So, while we are in extreme inflationary times, it is driving an opportunity to consider new approaches that will benefit businesses in the long term. According to Accenture, “Inflation should not be seen as a threat but as a strategic opportunity to create a competitive advantage.”¹⁰

7. <https://www.accenture.com/us-en/blogs/business-functions-blog/inflation-supply-chain-disruption>

8. <https://www.dhl.com/global-en/home/insights-and-innovation/thought-leadership/trend-reports/future-of-work/interactive-report.html>

9. <https://www2.deloitte.com/nl/nl/pages/tax/articles/bps-how-can-raas-benefit-your-organization.html>

10. https://acn-marketing-blog.accenture.com/wp-content/uploads/2022/05/Accenture_VideoTranscript_Inflation-disruption-supply-chains.pdf

