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# Impacts Due to Shifting Supply Chains & Production Facilities from Global to Domestic

## Why Risk Management Will Become More Crucial

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The U.S. economy is currently beginning a transitional period moving from reliance on global suppliers to reliance on domestic suppliers. (For purposes of this article suppliers are defined as service providers, manufacturers, and raw material suppliers.) This initiative, while in its' infancy, will span the course of multiple years as businesses gear up their production, facilities, and employee base. Within this multi-year period, businesses will face new and multiple risks within the operational environment. This article will outline the potential risk environment related to the supply chain initiative. We have determined that these risks will be widespread in nature covering many operational components including financial, operational, supply chain, warehousing, human resources, and technology. In the following sections each of these risk areas will be discussed and potential risks will be identified. Some of these may exist today but will be heightened in the new environment.

## Supply Chain

The new environment related to supply chain management will be crucial. In any business, whether manufacturing, service or retail, some aspect of business relies on raw materials or products from foreign companies. Tarriff's are being utilized as a tool to begin the movement to domestic suppliers, especially within manufacturing. During the transitory period, however, some global suppliers will continue to be required. These will surface in countries where tariffs may remain low on imports for raw materials and goods. However, the ultimate goal to have the ability to manufacture items in the U.S. will remain. Items such as steel, aluminum, pharmaceuticals, aspects of technology and other items defined as necessary for the nation's security, will be expected to begin moving to the U.S.

Let's consider the short-term risks related to the supply chain strategy.

- Potential for inflation related to tariffs. The extra cost related to tariffs can be absorbed in the following ways: by the supplier, by the manufacturer, or by the consumer. There can be a hybrid approach that would share the cost between 2 or 3 of the groups. Tariffs when passed to the consumer can adversely impact sales, depending on the final product.
- Businesses inability to create a timely transition to new suppliers. In the event businesses do not have a list of secondary suppliers or cannot pivot to alternative raw materials, this can be a major issue resulting in the potential for reformulation/redesign of products.
- Identification of any changes to regulations related to new suppliers (short-term from differing countries).
- Increased potential for cyber-attacks and data security breaches as new suppliers are brought online. New suppliers will bring new connectivity requirements to your business. It is important to ensure first, compatibility of systems and second, data security and application security measures meet your standards.
- Potential for changes in quality issues related to raw materials or products. Every business has specifications for raw material and product requirements. It may become difficult to ensure your needs are met by alternative suppliers.
- Potential for lack of available suppliers. For some raw materials or products, the base of suppliers can be limited. This may mean production schedule impacts or product redesign/reformulation time may be required.
- Potential that alternative suppliers can provide adequate levels of raw materials needed. This may require managing additional outsourced agreements. Timeliness in securing this is crucial to ensure production schedules are not impacted.

These are just some of the issues directly related to a business's supply chain. However, other issues more directly within the company's control also need to be considered.

## Operational Issues

These can be significant factors for retailers or manufacturers to be able to retain growth and profitability, the core of any strategic goal. In order to retain production schedules, properly manage inventory of materials, and meet customer demand businesses need to immediately begin planning for the transitional and long-term impacts related to the changing supply chain. Below we will consider both manufacturing and retail risks separately.

### Manufacturing

Manufacturing has a unique set of risks as they will have not only short- term viability issues but also long-term viability and growth potential issues. Attempting to meet raw material, product inventory, and production needs will be a short-term risk. These along with skilled labor will be the most significant risks associated with transitioning a supply chain. Specifically, these will be:

Transitional, short-term risk

- Inability to retain the proper inventory levels of materials to keep production lines and schedules. Inventory issues can be the result of both the lack of materials by suppliers as well as their inability to find alternative suppliers and/or materials.

- Potential production machine parts and replacements may be delayed by suppliers as their inventory or supply chain can be disrupted as well. This could mean production delays due to machine downtime. While this is a continuous risk for manufacturers, it could be exacerbated by supply chain issues.
- Inability to retain target inventory for your business's products. This will cause delays in filling your customers' orders which can have an impact both on customer retention and satisfaction rates.
- The converse side of your business's inventory impact is if there is a drop in demand due to the type of product you produce (discretionary vs. non-discretionary).

Longer -Term risks are associated with the need for manufacturers to scale up production facilities for the expected increased demand for American Made goods. Specific risks are:

- Needed new construction to expand or renovate existing facilities or construct new facilities can be adversely impacted by: demand for construction companies to manage jobs, engineering companies to develop plans, raw materials availability to complete facility, skilled construction labor shortages, and lead time for ordering and receiving new machinery for production lines. These elements will be exacerbated by the supply chain issues experienced within each of these supporting groups needed to build these structures.
- New facilities will run in an environment with enhanced technology to be cost effective and efficient. This will need to be facilitated by expanded technology departments and higher skilled, trained production workers.
- Technological innovations may be necessary to run updated machinery and systems within the new facilities as manufacturers look to gain cost advantages. This can add time, even, delays in machinery deliverables needed for new facilities.
- Availability of larger land tracks in strategic locations may be difficult to obtain or expensive.
- Financing for long-term development will be substantial, and not all businesses may have the capital for such investments. Additionally, loans and interest rates could be negative factors to expansion.

## Retailers

Retailers can face significant disruption to inventory levels and sales volume impacts as the U.S. economy moves toward American Made goods. Specifically, this can include:

- Brick and mortar and online (e-commerce) depend on retaining inventory levels to meet customer demand. Delayed production can mean an adverse impact on their sales, customer satisfaction, and customer retention rates.
- Retailers' offering non-discretionary items may experience adverse impacts when prices increase as a result of supply chain issues up and down the production chain. This can translate into changes in demand and sales for these necessary items. Consumers will, therefore, adjust their purchasing habits to either learn to do without, buy less, or switch to lower cost alternatives.
- Retailers' offering discretionary products may also experience a reduction in sales as prices increase. Keep in mind that non-discretionary spending can also indirectly impact spending for discretionary items.
- Inventory levels for retailers may also experience adverse impacts on levels, either reduction in items when demand reflects "binge" buying to escape expected price increases or increased levels when price increases occur and demand slows.

**Service Businesses**

For purposes of this discussion these are defined primarily as maintenance, repair, and healthcare businesses to name a few. This category of businesses relies on items such as spare parts, pharmaceuticals, petroleum products, paint, and other chemical products in order to service their clients' needs. Typically, these businesses do not hold large volume inventories. This makes them more susceptible to potential shortage of products and/or increased product prices. Specifically, the following risks can be exacerbated in the short term.

- Inability to hold an adequate inventory to continue servicing clients. This can be difficult as often the parts required by service people are ordered on demand rather than inventoried. When their suppliers are unable to fill out these orders, it can adversely impact response service time.
- The same issue holds true in the healthcare and pharmaceutical businesses. However, they have a large inventory capability. Their issues would result more from price increases and longer-term shortages as their suppliers may be impacted.

## Conclusion

It is evident that turning the economy around from a Global to Domestic based supply chain and manufacturing based one will be a significant and long-term endeavor. While transitional options are available in the short term, these will not be sustainable overtime. In such an environment risk management will become an essential and crucial piece that management needs to recognize, implement and utilize in order to continue sustain growth and profitability. At Proactive Risk Solutions LLC, our consultant is prepared to provide assistance and support to build the risk structure needed to navigate these turbulent waters. The simplicity but powerful approach of managing this through key performance indicators is truly a transformational approach.

Contact us today to discuss your needs and how we can be of assistance.

**Proactive Risk Solutions LLC** is an advisory specialist in Risk Management, Technology Requirements, and Operational Issues. Approaching problems in a proactive and out-of-the-box approach, we believe our role is to support your efforts for issue resolution.