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Preparing your Supply Chain for the Unknown: A Guide to Fluctuating Demand

April 2023

Introduction

After three years of booming international volumes, 2023 promises to be a very different year for shippers, carriers and consumers. For shippers, the right supply chain strategy will be key for managing costs, inventories and customer needs – not to mention catching the demand curve when it comes back around.

Discover what's going on, how it affects your business and how you can plan for success.

The era of the unknown

When you work in supply chain for long enough, you'll live to see not only the cycles that drive our industry, but also the way each turn of the wheel affects that next rotation. A fresh gear here, a new part there. So while this century has seen its share of trade recessions, including in 2001 and 2008, the hangover from the global pandemic has left a profound impact on the global supply chain that spells a new environment going forward.

> *"What I would like to say in 2023 is that we are getting out of the tunnel now. Unfortunately, we are coming out of the tunnel only to discover that the bridge we go onto has collapsed."*
>
> **Lars Jensen, CEO, Vespucci Maritime**

Although the UK has just announced that they will avoid a technical recession, consumers have still cut spending in the face of rising costs and high inflation. This has triggered a massive destocking effect from businesses at the same time as improved performance, reduced port congestion and a fresh order book have released a burst of capacity into the market.

Meanwhile, the spectres of industrial action at ports, IMO 2023 regulation and restructuring among cost-conscious carriers indicate the potential for a challenging year ahead for shippers.

Making it through the year ahead will require a combination of resilience, efficiency and agility.

In this guide we'll explore the options available for shippers to manage the changing state of demand and make the most of the opportunities available, supported by a range of industry experts we've interviewed for our podcast, Freight to the Point.

Alex Hersham, CEO, Zencargo

The 2023 Retail Landscape

In 2023, all signs point to a challenging year ahead for shippers. After two years defined by high demand and low shipping capacity, the tables have suddenly turned. While some factors are beneficial for businesses, they bring their own headaches that supply chain planners will need to navigate carefully.

The demand situation

In the face of rising costs, **inflation running at 10.4%** and economic uncertainty, consumers and businesses are cutting back on their spending.

In the UK, **57% of consumers expect to spend less because of the rising costs of everyday products**, while consumer spending in the EU is forecast to grow by **only 0.3% in 2023**, compared to 3.7% in 2022.

Business exposure to demand fluctuations varies by industry and location, with some sectors showing more resilience. For example, McKinsey predicts global fashion sales growth of 5% to 10% for luxury, and negative 2% to positive 3% for the rest of the industry in **2023**.

With cash in short supply for most, the common factors will be a need to manage and reduce costs, preserve working capital and tightly align order volumes in line with demand.

Sector outlook: 2022 Sales Figures
Ecommerce: - 12.0%
Household goods: - 11.3%
Clothing & Apparel: +13.5%
Cosmetics & Toiletries: +69.3%
Sports & Games: +0.3%

"Two-thirds of the UK economy is based on consumer spending – a third of that goes to the retail sector – we're really dependent on the strength of consumer confidence."

Richard Lim, CEO, Retail Economics

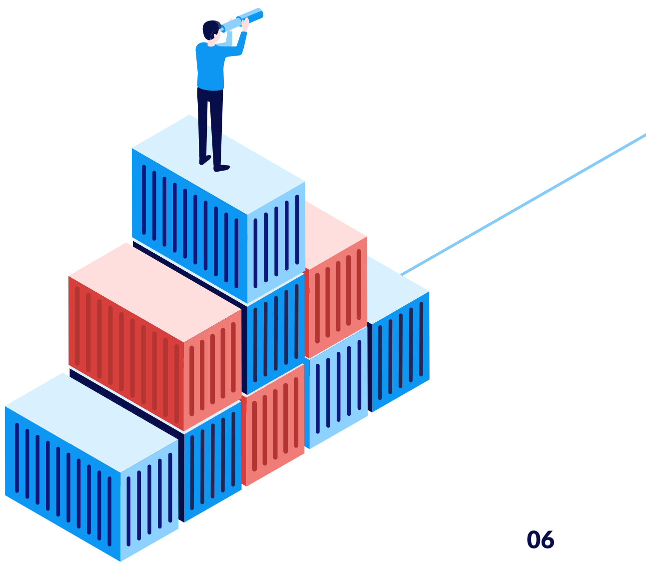
Inventory challenges

The rapid changes in demand caught many retailers off guard, leaving warehouses full before a slow festive-season in 2022. Many stores ordered their winter stock at the start of 2022, when supply-chain challenges still meant long lead times and before rising costs began to hurt spending.

UK Fashion retailers, for example, report holding **57% more stock compared to pre-pandemic levels** while the US has seen furniture turnover grow to 2.06 months, from **1.43 months in autumn of 2020**.

Excess inventory and reduced demand bring extra storage costs and prevent retailers from adequately responding to new trends and customer needs, forcing them to discount or write off existing stock. Adding fuel to the fire is the expectation that business rates for warehousing will **rise significantly in 2023**, by an average of 50.2% in London, while US retailers have seen warehouse prices rise **11% year-over-year**.

This will add additional cost pressure for retailers and put more emphasis on agile stock management, order volumes and demand planning.



Demand & Contract

After years of sky high rates cutting into margins, many shippers were happy to see the plummeting rates at the end of 2022. However, lower rates bring their own challenges for the relationships between carriers and shippers.

Order books indicate that there will be an approximately 8% increase in shipping capacity in 2023, resulting in a global fleet of 30 million twenty-foot equivalent units (TEUs). Carriers will act to mitigate the impact of these new vessels on already–low prices – tactics will likely include increasing blanked sailings, retiring older ships and removing entire loops where possible. While this should mean that capacity will be more available when it comes to recovery, space will likely be prioritised for those in existing contracts.

For shippers who plan on using the low spot market as a way to manage their short term costs, there is a real chance that they could find themselves locked out of space once demand returns.

Preparing for an uncertain future

Succeeding in a market that is constantly changing requires the ability to balance rates, costs, capacity, carrier relationships and inventory – while keeping a close watch on the market to respond to changes. Shippers need to invest in the right processes and tools to stay on top of their supply chain and work with partners who can support their changing needs.

Visibility and cost control

In a fast-moving environment, everything starts with the ability to catch changes, assess their impact and act decisively. This requires not only the right data, but also operational processes and partnerships that enable quick decision making and execution to minimise disruption and capitalise on opportunities.

> *"We're seeing more demand fluctuations, dropping significantly in some areas and spiking in others. If companies can't manage that properly, the bullwhip effect goes up the supply chain, causing problemsboth at the distribution and manufacturing level."*
>
> **Finnur Bragason, Sales Director, AGR Dynamics**

- Supply chain visibility is no longer a "nice to have". Businesses need reliable end-to-end insights to track at the SKU-level, bringing together information from purchase orders, manufacturers, warehousing and logistics providers in order to make accurate decisions on their supply chain.
- Centralise communication and supply chain visibility for stakeholders to ensure that manufacturers, carriers and warehousing services can work together to communicate new information and revise plans.
- Create robust landed cost models to track per-SKU spending, tracking freight, production, customs and storage costs to maximise unit profitability.

Diversified rate strategy

In order to navigate the uncertainty of demand, shippers need to think beyond price when it comes to working with carriers. Putting all your eggs in the spot market basket risks leaving shippers exposed when demand returns and there is more competition for space again.

> *"Consider more flexible, shorter term contracts. Think about having review clauses in your contract, particularly on the freight rates. Think about going back to looking at your KPIs. Look for operational security."*
>
> **Chantal McRoberts, VP Strategy, Drewry**

- Contracts will be essential for building carrier relationships that can evolve with your business and offer steady improvement, as well as security in case of disruption.
- Quieter periods of shipping and demand provide space to work with carriers on planning, strategy and workflows to build a foundation for future growth.
- Balancing contracted space and long term rates along with spot utilisation gives shippers the security of guaranteed space once demand picks up, while helping them enjoy lower rates during the quieter period.
- By focusing on purchase order management and granular demand planning, shippers can project volumes for a range of scenarios and plan capacity with freight partners to secure orders as demand grows.

Proactive disruption planning

While pandemic disruption has ebbed, recent years have shown how quickly conditions have changed, and many factors remain unknown, from industrial action to geopolitics. Uncertainty needs to be taken into account for Sales and Operation Execution (S&OE) processes and partnerships.

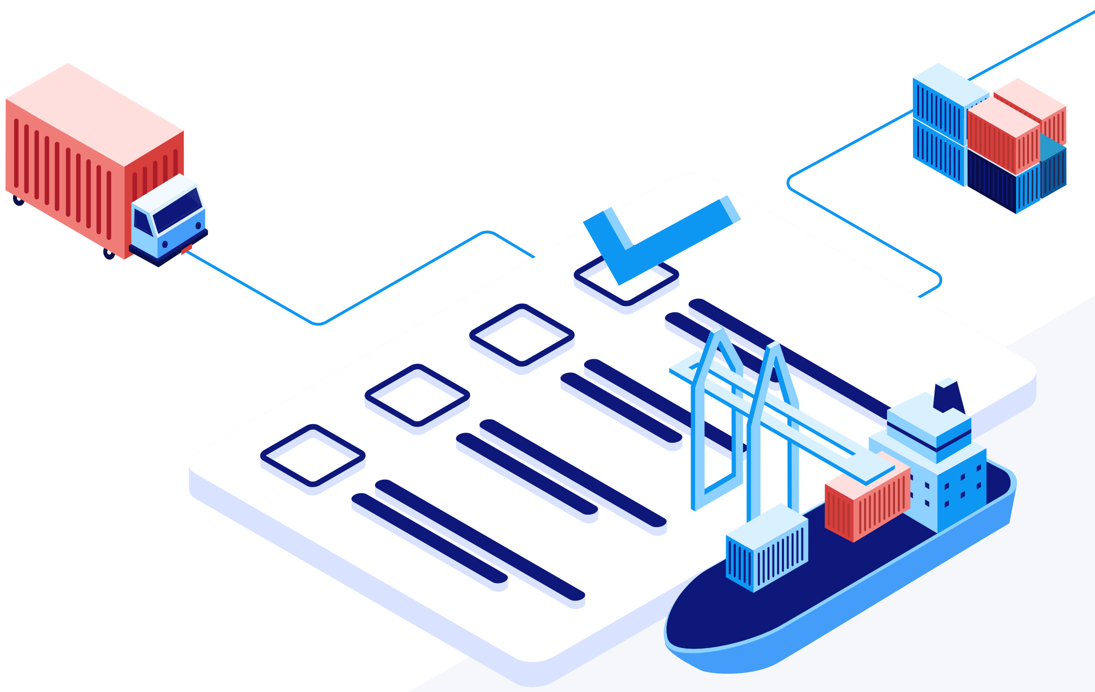
- Set Service Level Agreements (SLAs) with carriers and partners for disruption planning, with relevant contingency plans available in the event of unforeseen events.
- To spread risk, shippers should prioritise flexibility, working with a freight forwarder that connects you to multiple carriers provides more options to vary routes in response to market conditions.
- Origin services should be adaptable to changing destination conditions – for example consolidating orders for a different port where necessary, or switching mode for urgent deliveries.

How can Zencargo help

The only response to uncertainty is agility – in 2023, this will be the line that separates businesses that succeed from those that struggle. Shippers that can effectively track, analyse and optimise their supply chain performance have the chance to reduce costs, manage inventory and react to demand changes faster and more efficiently.

This starts with reliable data, end-to-end visibility and agile logistics services that can keep up with the rapidly evolving ocean market – and the right technology and partners on your side.

Zencargo's digital freight forwarding services have supported some of the world's fastest growing businesses through whatever the market throws at them. With proactive planning and tailored solutions, we help our customers manage volatility and produce consistent results.



Complete supply chain visibility:

Zencargo's world-class supply chain management platform connects your network with real time data, visibility and communication. Track individual SKUs from purchase order to delivery with automated exception management, to align stakeholders and execute with confidence.

Granular insight:

From landed costs to supplier performance, our platform gives you the detail you need to make the right decisions at every stage of your supply chain. Manage costs at scale, improve processes and reduce emissions across your network based on data you can trust.

Bespoke solutions:

We understand that one size doesn't fit all so we marry granular data and expertise within our teams to create bespoke solutions custom built for your supply chain. This ensures that we move your goods from A to B efficiently and effectively.

! Get in touch

To find out more about how Zencargo can support your team in 2023, get in touch

If you have any questions or would like to speak to our experts, please feel free to get in touch via our website

www.zencargo.com