Patrick Daly: Hello, this is Patrick Daly and welcome to Interlinks. Interlinks is a program about connections, international business, supply chains, and globalization, and the effects these have on our life, our work, and our travel. Today on Interlinks, we're going to be talking about inflation busting strategies and that businesses can undertake quickly and effectively.

So, this came about because I was struck recently while listening to an Irish economist, he is quite a celebrity economist here in Ireland called David McWilliams, on his own podcast. And David, he said something along the lines of that the bottlenecks and the queues and the lines that we had seen in airports around Europe this summer were in fact a physical manifestation of inflation, which I thought was interesting. So, in essence, what he's saying is that when demand outstrips capacity like this, we get shortages, we get bottlenecks, we get falling productivity, and we get rising prices. So, in effect, the lines are, as McWilliams said, the physical manifestation of inflation.

So, I think then consequently, looking at things from a logistics operations point of view, as we would, as supply chain professionals, I figured that looking for opportunities to remove bottlenecks and improve productivity is going to be a great way for companies to combat and beat inflation over time. And I know from my own consultancy work with clients in manufacturing and distribution and in logistic services, I've yet to meet a company that couldn't identify in literally half an hour, myriad opportunities to unblock bottlenecks and to improve productivity in their processes and in their operations.

So, I figured then that those companies that can do this successfully and more successfully than the competitors at a time of high inflation, have a great opportunity on their hands here, and they can gain two types of advantage. So, if prices are rising all around you in the sector, well, then if you do this, you may opt to rise your prices like everybody else, not because you have to, but because you take advantage and you increase your margin. Or alternatively, you may opt to keep your prices more competitive and actually gain market share. Or, you could do a bit of both.

So, I think then for some companies, for those companies who understand the concept in physical and operational terms, rather than as opposed to some sort of abstract and mysterious force from outside, this bout of inflation might be a golden opportunity. So, to discuss the topic, I'm delighted again, to be joined by a couple of my colleagues from the Supply Chain Special Interest Group of the Society for the Advancement of Consulting, and they are Lisa Anderson, President of LMA Consulting in Los Angeles, California. Welcome, Lisa.

Lisa Anderson: Glad to be here.

Patrick Daly: Great to have you. And Antonio Zrilic, President of Logiko Consulting in Zagreb in Croatia. Welcome, Antonio.

Antonio Zrilic: Hello.

Patrick Daly: So, Lisa, I might start with you. So, what is your view on this connection between bottlenecks, productivity and inflation in the manufacturing sector, which is where I think you spend most of your working hours, and what you see companies doing in this regard to address inflation with regard to their own competitiveness and/or their own profitability?

Lisa Anderson: Well, I mean, I think you're right that the bottlenecks results in inflation, because I could see even some of the scarce materials and/or ones that have been delayed, et cetera, are the ones that have inflated prices. So, to some of degree, I mean, you can see that as a bottleneck and they can look for additional suppliers. I mean, the problem is, is that if it's a material that they're purchasing, there's only so many options, they can look for other suppliers.

Now, if it's something that they're manufacturing, they also are looking at other ways of eliminating that bottleneck, like reshoring or nearshoring to a country close by. And so, I think though you're generally speaking, right, that if they can focus their attention on the bottlenecks and think about how they can solve those creatively, they'll be in better shape, because like you said, they may want to just cut back and produce or ship to just those customers that are really their target and ideal customers. That's one way to get through the bottleneck quicker as well. So, it doesn't always have to be eliminating the bottleneck, at least near-term, maybe while they're eliminating the bottleneck, they only ship to customers that are their ideal clients, those types of things.

Patrick Daly: I guess that runs the risk of alienating some other clients, doesn't it, and letting them down?

Lisa Anderson: Yes, that's true. However, if they're not their target customers, they may be able to pick up more ideal or target type customers. So, it just depends. To your point, they would alienate the ones that they transition to someone else.

Patrick Daly: Of course, they might not mind, as they might not be the ideal customers, as you say.

Lisa Anderson: Correct.

Patrick Daly: But it is an interesting concept because in order to do that, you would have to do some sort of a customer profiling, which is very interesting and worthwhile doing.

Lisa Anderson: Yep.

Patrick Daly: And then you would say, "Okay, well, if these really are my ideal customers, what can I do? I guess, one to remove the bottleneck, and two, to actually look for opportunities to increase productivity?"

Lisa Anderson: Yep. And that's what they are doing. Most of my best clients are doing exactly that, because all of them are having to prioritize to some degree, if nothing else, from a manufacturing point of view, they can't find enough people, and so, they are having to prioritize, at least near-term.

Patrick Daly: Yeah. You deal with manufacturers, as do I, and every plant I go into, whether it's moving pallets in and out of production lines or packaging lines or the way the warehouse is operating, there are huge under-exploited and unexploited opportunities for productivity improvement. Do you see people pay more attention to that now? Or, what do you see?

Lisa Anderson: Yes, definitely, they are looking for more gains from automation, because to your point, another way to eliminate a bottleneck is to automate it. So, I was just in a plant last week of a client, and they actually are highly automated, which was quite impressive and they still have quite a few people, but they're constantly looking for ways to keep their production lines running and having machinery and equipment and other equipment type of things, do the work for the people. However, it does seem to create a new bottleneck in high skilled people that can handle how to run all of those machines and figure out how to resolve complex bottlenecks that arise between when there's conflicts.

Patrick Daly: Yeah. And Antonio, there's a lot of companies out there for one reason or another, still have a lot of cash on hand or they have ready access to capital if they need it. And implementing implementation might be one of the things you would do, but what do you think of the argument that in a situation like this with conditions of high inflation, it makes good sense to use that cash now to invest in productive assets and capabilities, whether it's automation or training or bringing in people with new skills, things that are actually going to improve your productivity in the future, rather than sitting on the money whose value is being whittled away by inflation or buying back your own shares, or doing some sort of financial engineering? So, what do you think of that kind of argument and approach?

Antonio Zrilic: Thanks for the question. Yeah. I have contact with a lot of clients that are confronted with this kind of question, whether to invest in, for example, in supplies or in inventory, or some other longer term assets, or not. We, actually, from the consulting business and from supply chain branch, liked to preach before about just-in-time and low inventory and everything and to be lean. And so last year and this year, there were a lot of turbulences and high prices and these disturbances in the supply chain and on the markets. So, people were not sure if this just-in-time thing or concept really works anymore, and that's where this investment in inventory comes. And that's your question.

I was always very cautious about the suggestion to my clients to go and buy a lot of inventories and to sit on them, because inventories are also a funny thing, that you don't know, what will you need in the future? Okay, in situations like this, when the prices of raw materials and components went very high, it is good to have some of the strategic inventories on-hand, just to keep a production going. But well, you have to be cautious about that. What is your strategic inventory? As Lisa said, what are your strategic clients, customers? In order to be more focused on where your cash is coming from, and so on. So, this is something about that.

But again, generally I just want to refer to the productivity and the bottlenecks in more general sense. I spoke to one client three or four years, maybe five years ago, and here in Croatia, it started problems with the labor and the prices or costs of labor that went higher and higher. And he said to me, "Okay, I'm aware of this, that cost of labor will go up. And what we can do as a company, it is to be more productive." So, with productivity, you can manage a little bit costs and to have a little bit edge, if you don't want to go along with the making higher prices, just because you can, because the prices are not going to rise forever. At some point, people will say or customers will say, "Okay, we don't pay any more that money." And then will come the moment of truth.

Patrick Daly: And I guess with this new period of uncertainty, companies are going to be building resilience, and resilience normally means redundancy. So, you've got more things, more options, more inventory, more equipment, more capabilities, or whatever. So therefore, where the efficiencies are to be taken, you do need to take them, because otherwise if you're inefficient and you're trying to build resiliency, you're going to become totally uncompetitive, right? You're going to price yourself out of the market, even though there is a certain amount of elasticity in prices now, so people are expecting price rises, so you can get away with it for a period, as you say, but thereafter, you're going to be in trouble. Isn't that right?

Antonio Zrilic: Yeah. Yeah, definitely.

Audio: 93.9 Dublin South FM.

Patrick Daly: Lisa, I don't know whether you are, but I certainly am old enough to remember the inflation of the '70s and '80s, but it strikes me that the reasons and the fundamentals of the inflation today are quite different from back then in the past. And I see in the press and in interviews and stuff, people conflating the two and saying, we're going back to the '70s and '80s, and so on. And I don't think it's that way at all. How do you see it and how would you contrast the similarities or differences between now and then?

Lisa Anderson: Well, I think that in the US anyway, there's been a lot of money, stimulus money, that we've given to people that are spurring on inflation or a lot of spending that the government has done, that's spurring on this inflation. In addition, there is obviously, oil and gas prices. They were going up before the Russia-Ukraine war, at a pretty strong clip because our policies were no longer supportive of oil and gas production in the US. And then of course, the Russia-Ukraine war spurred that on. So, really, those are really the two things that are spurring on most of the inflation here, is the spending of money and the oil and gas prices, which some of that I think is related to the '70s and some of it is definitely not related, to your point.

Question is, what's going to be the difference in how we handle this? I do think stagflation seems to be occurring here. We're going to have inflation and it doesn't seem like it's going down anytime soon. At the same time, people are panicking with the rising interest rates and starting to reduce people. However, we don't even have as many people back in the workforce as we had pre-COVID in the first place, because lots of people have just decided to retire. So, it's a very different situation from that point of view.

Patrick Daly: Yeah. So, jobs are still plentiful in the US, right? So, the reason the employment figure are lower is because people have opted out of the workforce, but if you want to work, there are jobs to be had, isn't that right?

Lisa Anderson: Yeah. There's definitely a lot of jobs. I should say, a lot of clients are looking for people. I think the question is, is that who they're looking for is not necessarily the people who ... There are people who don't want to work, at least in the jobs that are available. So, there might be a mismatch of the types of jobs that people want to hire and then the people who are willing to work, what they're willing to do are two different things. So, that's part of the problem.

There are plentiful jobs though, to your point, generally speaking, however, there's a lot of people who've retired, so there aren't as many people in the workforce. So, part of the reason why there's plentiful jobs is because a lot of people have retired and just aren't working anymore. So, they need to replace those skills. So, it's a quandary, to be sure, Patrick, because there are a lot of people starting to announce layoffs at the same time. So, it's a quandary, to be sure. I don't know how to interpret this problem.

Patrick Daly: I noticed as well, that figures came out, inflation figures for the US, June and July, and I think they were the same.

Lisa Anderson: Yes.

Patrick Daly: So, it looked like it was beginning to top out, right?

Lisa Anderson: Yeah, inflation, it's staying high, but it's not increasing. I don't think it's necessarily going to continue to increase, but it's dramatically higher than the interest rates. So, we're completely out of alignment. As badly as we were aligned from the global supply chain, the products were not where customers wanted them to be, at the right time, and the ports were a mess. And now the ports aren't a mess, but the rail's a mess, so the problems move around. Well, I feel like it might be the same in terms of the inflation and the situation you're bringing up with jobs, because it seems like you're right, that there's some conflicting factors that we have to work through here.

Patrick Daly: And I guess, the interest rates prior to the spike in inflation and prior to the Fed beginning to raise them, were abnormally low and had been abnormally low.

Lisa Anderson: Abnormally low, like zero. I mean, there are nothing.

Patrick Daly: Really, you could say, interest rates are coming back to normal. And in the case of the US, you're pretty energy self-sufficient, anyway. Now, I know you're suffering because prices are set on a global level, but the US doesn't have an energy...

Lisa Anderson: No, not if we want to produce, but right now our policies are prohibitive of our ability to produce. However, it gets bad enough, one would think that the government's going to change their mind. And the good news is that we can.

Patrick Daly: Yeah. Well, I guess you've still got to go through the energy transformation because that's inevitable, right? I mean, there's no going back.

Lisa Anderson: Sure, sure. I've gotten into this conversation in another group, but the technology does not yet exist to go where they want to go. So, to your point, it could spur us there. We were talking about this, I think on another call, but it could spur us there, but we need interim support. You can't get rid of your interim support until you have a solution. And what we're doing is following in Europe's footpath of getting rid of our interim support in certain states anyway, like California, we've gotten rid of our supply of energy before we had a replacement supply and that's just problematic.

Patrick Daly: Yeah. Antonio, in Croatia, much more recently than for the rest of us, so we've been talking now about inflation in the '70s and '80s, but much more recently in Croatia, you personally lived through a period of high inflation in the wake of the breakup of Yugoslavia and Croatia becoming independent. So, this is in the 1990s, so it's not really that long ago in the grand scheme of things. So, what was that like? How did Croatia deal with it and what lessons did you take from that time that might be valuable today?

Antonio Zrilic: Well, it is also not much comparable to today's inflation. It was a lot higher inflation rate. It was like 70% per month or something like that, it was hyperinflation and it was tough because the wages were very low. But this kind of inflation when things go out of the hand, so governments probably want to finance. In our case, there was war and you have to finance the war somehow and inflation is one of possibilities and then it gets out of the hands and then you have problems.

But also, this inflation started before the war, so it was all mixed up. So, I don't think that there are some things that we can compare. And then, we had some kind of anchor where we could hold ourself, the value of what we have, for example, Deutsche Mark then was very stable. And when you get your, I don't know, wage or your salary or whatever, you just exchange it for Deutsche Mark and then you are safe.

Now, we don't have something like that. So, what can we buy? Gold, Bitcoin, or some real estate, but that's not also stable anymore. So, it's difficult to compare these phenomenons. But also, just to go back a little bit, when we spoke about bottlenecks and how to make this situation better, two years ago, or three years ago, I worked on a number of projects where we were trying to remove bottlenecks from processes in manufacturing, in logistics. And so, in order to widen capacities, to make more capacities, because we had a lot of demand and we wanted to satisfy it, and now I fear that we;ll have to remove this bottleneck just in order to make productivity better and to run in one place.

Patrick Daly: Yeah. To stay still. So, you're running still.

Antonio Zrilic: Yeah. So, it is not yet visible this scenario, but I fear it will be maybe in a year, because this demand will not go indefinitely with these prices.

Patrick Daly: Yeah. Yeah.

Lisa Anderson: Right.

Antonio Zrilic: So, this will be the problem. You can go with prices for some time up and then, because this is also situation here in Croatia, we are a tourist destination and our government every year counts, how many people came and how much did we earn? And they say, "Okay, this year we have good results." But when you compare just financially, it is as good as 2019, and this is best of for us. But then when you compare quantitatively, then it's not that good. So, the prices went up and these prices compensate for this decline.

Patrick Daly: Decline in the volume. Yeah.

Antonio Zrilic: Yeah. So, it's not very rosy as it seemed like just now, but it is not bad either yet, but it could be worse than it did.

Patrick Daly: Sorry, Lisa, did you want to say something?

Lisa Anderson: Well, I mean, I was just thinking more about what you were saying before. The thing that I see that's, I don't know if it's different now, you'll have to tell us what you think, Patrick, but here, the issue too is, is that the people are no longer used to living ... They're used to living on credit, right? So, they don't understand what it's going to be to replace or to buy a house that's like a million dollars or something, and then be able to pay these interest rates that are much higher.

Patrick Daly: Or really [inaudible 00:25:33].

Lisa Anderson: They're used to paying nothing, and they have no idea. That much, I don't remember about the '70s, so you'll have to tell me if that was the case, but I don't know what that's going to mean, because I just think that there's going to be some severe recessionary trends because of that. At the same time, we still have severe supply disruptions, I think, that are going to continue to go on, because the China-Taiwan thing is highly problematic. The Russia-Ukraine war is not getting solved. We're all trying to go to this green energy, but we won't produce any of the materials that are required and we're reliant on all these countries that we should not be reliant upon. So, I don't know what this is all going to mean.

Patrick Daly: Yeah. There's a lot of reconfiguration and a lot of pending topics coming together at the one time.

Lisa Anderson: Yes.

Patrick Daly: And then you have this complacency that's built up over a long time, as you mentioned there, with people not understanding credit and interest rates any longer. So yeah, there's no doubt there's a whole load of challenges, but there are, I think, a lot more flexibilities than there were in those economies back in the '70s and '80s, in terms of-

Lisa Anderson: I would agree. You have more options.

Patrick Daly: ... labor and in terms of options, more options. Yeah. And there's greater technology that helps to optimize and to-

Lisa Anderson: Definitely. Definitely.

Patrick Daly: ... improve productivity. So, that's going to help. It's just interesting, you reminded me when you spoke about buying a house in times of high inflation and interest rates and so on. And my parents bought a house in 1971 and at that time we didn't use the Euro then, we used the pound back in the day, the Irish pound. And I think the house cost 4,000 pounds or something like this, which seemed like an enormous amount of money.

Lisa Anderson: Absolutely. My parents did too, about that same timeframe.

Patrick Daly: Yeah. How will I ever pay this back? But what happened was the inflation through the '70s whittled away that debt without them necessarily paying it. Well, they did pay it of course, but it became minuscule because of inflation. So, by 1980, say, nine, 10 years later, whatever was left was really a pittance, because it had literally been eaten away by inflation. That happens as well.

Lisa Anderson: I mean, you're right about that. So, there might be-

Patrick Daly: That's why I'm saying maybe to invest in hard assets now, like automation-

Lisa Anderson: Yeah, I think that's true. I think that's absolutely true. I guess the question is, which hard assets and what would they be? But I totally agree that during inflationary times, that's what you need to do.

Patrick Daly: Yeah. Yeah. Well, as always, we've been beaten by the clock. It's been a pleasure and it was getting quite interesting, so we might have to come back on this. So, it's been a pleasure as always, to talk to you both and look forward to picking it up with you again this time next month. So, thanks also to our listeners for tuning in and you can find the Interlinks podcast on iTunes, Spotify, Acast, and other podcast platforms. So, keep well and stay safe, until next time.