

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 had actually on our life, our work and our travel over recent times. Today in Interlinks, we're going to check in on some of the major global regions, namely Europe, North America and Asia Pacific, to see what is going on and what is topical in supply chain. We're also going to touch on what companies are doing generally to overcome the challenges posed by inflation and the shortages of human resources that are generalized across the major regions at the moment. And to discuss these topics, I'm delighted to be joined by two of my colleagues from the supply chain special interest group from the Society for the Advancement of Consulting. So that's Lisa Anderson, president of LMA Consulting Group from the Los Angeles Metro area. Welcome, Lisa.

Lisa Anderson: Glad to be here.

Patrick Daly: And David Ogilvie, principal at David Ogilvie Consulting in Brisbane, Australia. Welcome, David.

David Ogilvie: Good to be with you again, Patrick.

Patrick Daly: 2:00 AM in Australia, right?

David Ogilvie: Yes it is. That's right.

Patrick Daly: Thanks. Thanks for being here. So we start with you Lisa, while David's waking up. What's topical in supply chain in North America at the moment as we come into the summer period? So what is hot as the temperature rises?

Lisa Anderson: Well, I would say that we still have shortages and disruptions, but really, inflation is really a hot topic in supply chain. And also, I'm saying that manufacturing clients are worried about a potential recession in the future. And so they're starting to get very concerned about inventories and having too much inventory and whatever too much is in quotes. And certainly, they're still having problems finding people. So there's still plenty of challenges in the supply chain in the US.

Patrick Daly: Yeah. So do you think the fears of recession are founded, like there's full employment and probably there's demand for more? So people are earning money so do you think, is it founded or what do you think?

Lisa Anderson: Well, what it appears like is that that at some point, we will have a recession, it's just the timing from the financial abundance seem to think late this year or early next year, so I think that they're probably overreacting on the other hand, the smart clients are looking at "How do I reduce inventory in a smart way" so they can still support customer needs but they don't have any excess inventory that's unnecessary. So I guess that's the question, is how do you figure out what's unnecessary and what is necessary to grow the business?

Because I do think there'll be more opportunities in the next couple of years than there have been ever before, except for perhaps since the Great Depression, when more companies set themselves up for success for the decades to come than at any other time in history. So I think there'll be an opportunity like that, which means that you have to have product in order to be able to support that type of sales growth as your competition is dwindling. However, what is that product? And how do you manage that successfully, is the trick. So long answer to your question, Patrick, but I do think a recession is coming, but does that mean that they should be cutting back on inventory? It depends. And what type of inventory.

Patrick Daly: And David, what's going on in Asia Pacific? So you're in your mid-winter I guess, so you're at the other end of the seasonal cycle, at least. So what's happening down there?

David Ogilvie: Very similar situation, Patrick, although our inflation rate is not as bad as the US. I don't think there's any doubt our reserve bank or the American federal reserve here has miscalculated interest rates and so forth to try and get inflation under control, but we're not in the same situation as the US, at least not yet. Companies are experiencing very similar things in many ways, inventory is still an issue. Rates for containers and slots imports are still a challenge, although, they seem to be easing. I was with a client on Friday and we were talking about fertilizer. They buy and sell a lot of fertilizer and the comment was that fertilizer's much easier to get at the moment, [inaudible 00:04:46] it's very expensive. So they don't seem to be having a lot of problems getting that particular product at the moment, but the cost of getting it here and the cost of the product is significant.

Like Lisa mentioned, I think a number of organizations have had the knee jerk reaction and they've just bought up a lot of stock when things got difficult and got tight. And I think that knee jerk reaction has created significant bull whip effect throughout the whole supply chain in all sorts of different industries. And as people start to get a better handle on that, the whip seems to be settling somewhat, so I've got a very similar opinion to Lisa. I think there are great opportunities coming. I do believe we are probably going to be in for some stagflation. I've been predicting that for a little while now. I'm no economic guru, but just speaking to people on the ground. But having said that, like you mentioned before, Patrick, there are people in restaurants and now, I cannot get a booking in a restaurant at my local area at the moment.

There are just so many people out and about. Now, whether that's a result of being locked up out of COVID and people are still enjoying their freedoms and all that stuff, who's to know? But clearly, they've got money to spend. Now, whether it's on the credit card or not, I guess is a personal issue. But I do believe that the tightening of the inflationary environment, the interest rates that are coming are going to put a number of mid-management people under stress that they've never experienced before.

Lisa Anderson: Yep. I think that's very true here, too. Stagflation is a very real possibility.

Patrick Daly: Yeah. I wonder about stagflation because I remember the last bout of stagflation and two of the characteristics of it that we don't have now are that there was very high unemployment, so there was a lack of demand and there were constraints in the economy that we don't have now, in terms of lack of technology practices, much stronger labor unions and so on. So it was very difficult for the economy to flex and to adapt to the changing situation. And those two situations, we don't have now. We have this strange supply side shortage caused by COVID on the one hand, which seems to have affected the labor market, and the war on the other hand, which is affecting commodities, particularly fuel and energy. So there are some interesting similarities and interesting differences between, say the '70s, '80s, and the 2020s. What's your take on those similarities and differences?

David Ogilvie: Well, I think you're right, Patrick. I think the unemployment rate is low and that is probably going... If that remains that way, that'll be the saving grace because I think we're just about to enter under 4% maybe, if we're not yet.

Patrick Daly: Yeah, same here. Same [inaudible 00:07:46].

David Ogilvie: But having said that, we've just had a change of government and that's got a very different flavor to it here. So it's a more labor-favored government here and there is significant potential for unemployment to increase soon. So that would probably be the foundational block to determine whether stagflation occurs or not, will be the unemployment rate because we could find ourselves in certainly inflationary times because we're already there, and potentially low growth environment and that will create the unemployment, which will then fill the gap and give us all the conditions we need for that to occur.

Patrick Daly: Yeah. I noticed Lisa, you were writing about this future opportunity for companies to get ready for the longer term, but you were also talking I think in that piece about the Reshoring Phenomenon from Asia to America. So what's going on there? What are you seeing there? How's that progressing?

Lisa Anderson: I'm definitely seeing that companies are reshoring and nearshoring. So they're moving to the US, Mexico and Latin America to support US consumers, if you will, or US demands. They're not advertising it necessarily though because I've had several media requests about this and they ask me like, "Can you put me in touch with a client?" Well, what client wants to tell the world that they're reshoring or nearshoring because they're going to lose their supply in Asia? That makes no sense at all. So a lot of this is going on quietly, relatively speaking. So you know it's going to be tricky. And some of it is in the news. So I was talking about the computer chip production. It went from, I mean the US, once upon a time, several years ago, but we produced 40% of the computer chips we need.

Now, we only produce 12%. We are starting to add some capacity back, but it's like a drop in the bucket compared to what we need, especially with all the technology needs, et cetera, and that's just one industry. So I think it's happening, but there's a vast opportunity and it's like a drop in the bucket compared to what needs to meet, happen, I guess you could say. To support our demand, it depends, of course, on what happens in Asia, if there's conflicts between Taiwan and China and what all goes on in the world, but by all means, reshoring is happening, but probably not a fast enough pace overall is what I would say.

Patrick Daly: Yeah. I guess that that reshoring phenomenon, I remember reading books, there's a specialist in globalization, he's a Indian-American author, academic and the books that he has written in 2015, 2016, and he was already seeing then in the data a shift in globalization into a form of regionalization even then.

Lisa Anderson: Right.

Patrick Daly: So that has been, I guess, accelerated by the recent shocks that we've had. And now, there's a requirement to speed it up, but it's difficult. So if you have a thousand people in factory in China and you want to reshore it or nearshore it, and we've just been talking about labor shortages, you're not going to be able to hire 20 people here and nevermind a thousand people. So then you're going to have to change almost the manufacturing strategy, right? If you want to bring it back. Yeah.

Lisa Anderson: Right. You're going to need to automate more and utilize more technology and you are going to need people though, and you're going to need some higher skilled people. So yeah, you are going to have to change strategy, but you also are going to have to, I mean, Shanghai's was shut down for a few months. So there's a lot of issues going on throughout the world and it's made at least the smart executives think, they need to start doing something now if they plan to be around in a few years. And the family business owners in the US perhaps don't care in quotes because they're just thinking "I'm going to sell this business and move on to my retirement."

Patrick Daly: Yeah. David, you were going to say something?

David Ogilvie: Yeah. I think that we've got similar pressures here. There's a lot of talk, particularly with the new government, of course, about what they're going to do for the manufacturing industries in Australia and so forth. But I've said this a number of times on our podcasts, so over the time, I think what's going to stop that happening here in Australia is the cost of energy. We've got a situation at the moment where my hometown in Brisbane, we nearly have to have loadshedding because the market had got out of control and then it was just too expensive and we were nearly having blackouts.

So the cost of energy is a huge driver in this country, and I don't believe that we've got the energy policy from either government that's going to give us a satisfactory level of cost of energy for manufacturers to really thrive in this country. So that means they have to find other ways of getting the uncertainty and the disruptions out of their supply chain. Then we're not going to be able to do what they do in America. And then let's bring it back, at least not in the short term.

Patrick Daly: Yeah.

Lisa Anderson: Well, that brings up a really good point, Patrick, because the cost of energy is causing changes in the US as well because States like California that have policies more similar to Australia, manufacturers are leaving in droves and they're moving to the States that have friendlier cost of energy policies.

Patrick Daly: So the States that are benefiting places like Texas, maybe?

Lisa Anderson: Yep. Texas, Tennessee are the two top ones, but North Carolina, lots of... The south is benefiting quite well. And actually, from California, like Arizona is benefiting in some other places in the west coast that have friendlier policies to business. It's not just energy, but California has the worst energy cost in the US. So that's a big one, but there's many other policies that inhibit business that are in addition to energy.

Patrick Daly: Yeah. Yes.

David Ogilvie: Our government, they're pushing down the green road substantially more. And until that industry can prove itself that it's going to give us reliable supply at a cheap cost and without getting political about it, I'm not sure that's going to happen anytime soon, then we're just looking down the barrel of higher and higher costs and manufacturers have got some serious decisions to make in this country. So we might be more attuned to nearshoring. So get it out of China but somewhere else, maybe India, maybe Vietnam, maybe Mexico, but I don't think it's going to come back here.

Speaker 4: 93.9 Dublin South FM.

Patrick Daly: What's Australia's relationship economically to Indonesia? Because that's probably your nearest and largest neighbor in the region, is that right?

David Ogilvie: Yes, it is. And there's certainly both a close country where we do a lot of trade with. So always the new prime minister, their first overseas trip is to Indonesia, and that's happened again this time.

Patrick Daly: Yeah.

David Ogilvie: And the first trip he went overseas was to Indonesia. So yes, they are a very key ally, but they also are a key threat because Indonesia is not always the friendliest country towards us militarily. So there is always an underlying threat from Indonesia. So it's a double edge coin that one, but yes, so-

Patrick Daly: Sorry, go ahead.

David Ogilvie: I was just going to say, certainly Indonesia and Malaysia are, again, another two areas. Indonesia has got the lower labor costs and some parts of Malaysia, not so much, but in the other parts, it does. So there are also options for manufacturers.

Patrick Daly: Yeah. And Indonesia is a really an up and coming country, massive population. And as the affluent grows there, it'd be great market also for Australia, particularly, I guess, in services as well as advanced products.

David Ogilvie: The challenge with Indonesia of course is freight because it's a multitude of islands.

Patrick Daly: Yes.

David Ogilvie: It's just not one land mass.

Patrick Daly: Yeah. Actually, I was in there Amsterdam last week and interesting that the Netherlands was the colonial power in Indonesia.

David Ogilvie: Yes.

Patrick Daly: So Amsterdam was full of Indonesia restaurants and we went to one, it was fabulous. The food was really good. I'm sure you've tasted it many times, David.

David Ogilvie: Well, that's one of the good parts about Darwin because it's so close to there. They get a lot and the food scene in Darwin's quite good.

Patrick Daly: Yeah. Interestingly, on the freight question, in Amsterdam, I was attending an event. It was a supply chain event and there were a number of delegates there from Maersk, who was one of the major shipping lines. And apparently, they have a lot of new capacity coming on next year, which I guess, depending on how other things go in the market, it may help to ease the rates. They will, of course, be taking capacity out with ships that are obsolete. So the new ships that are coming in will be more environment-friendly, let's say, and more [inaudible 00:17:21]

David Ogilvie: They got a big battery of that, Patrick.

Patrick Daly: Sorry?

David Ogilvie: They got a big battery.

Patrick Daly: Yeah, or, well, I don't think they're electric yet that we will probably see that in the future, but they're more efficient in the use of liquid fuels and carbon-based fuels. But there was an interesting conversation sprang up about their relationship, how they're going to play the market when that happens, because they've been really making a lot of money in over the last year or so and how they're going to adjust their rates in the future when the, when the capacity comes on. So they said what they said anyway is that they're very interested and they've made some headway in having kind of different types of strategic relationships with their customers, as opposed to maybe how it was in the past. So we see whether that lasts after more capacity comes out and rates perhaps begin to diminish.

David Ogilvie: Well yeah, there's a lot of companies around that have made the most of the current disruptions and have looked at their margins and everybody's improved their profitability, but I suppose the new ships arises the questions. We might have new slots to put containers in, but do we have the containers to put in there?

Patrick Daly: Yeah. Amazing.

Lisa Anderson: Great.

Patrick Daly: Another, I suppose, looking at the projects I'm working on gives an idea of what the issues are around here. So I was looking across some of my projects, one is to do with switching of transportation modes, particularly from roads to rail. And one of the drivers of that is to decrease carbon emissions. So a lot of the companies who are interested in that are very concerned about fuel, fuel costs, fuel consumption, the carbon emissions, and so on. So that's a big, hot topic here. And Europe's under a... Of all the regions, it's probably the region that's under most pressure with regard to energy and regard to dependence on Russia, particularly in Germany and Austria and some of the Eastern countries. And Germany, which has very green credentials in general, is actually considering going back to coal as a temporary stop gap measure to get through the next period. Some of the other projects I'm working on, and there's a lot of automation in them. And I guess that's driven by issues to do with labor availability.

One is in the distribution sector, which is to automate order picking because I think difficulty getting people in that space. And another is with regard to streamlining organizations and improving productivity. And that's again, because of difficulties in finding and retaining people in logistics type operations all around the world, I guess. I was also listening to an economist recently who had an interesting take on what's going on with labor. So he was saying, "We have this phenomenon now where we have full employment." So there are more people in employment in this country now than there ever were, but there are lots of vacancies in companies more than there were before. So going

"Well, what's going on there?" So it seems, what he was saying is what's happening is that people are employed. They're just not employed by companies and they don't want to work for companies anymore.

So people are leaving and setting up on their own, doing their own thing. And I guess we are probably examples of that. A lot of us are going to-

David Ogilvie: Exactly.

Patrick Daly: Refugees from companies, but we're probably ahead of the game. We've been doing this for maybe a decade or two decades at this stage. So I was actually thinking on, see what your take is on this idea. I was thinking that in the future, we might see a situation where companies work differently. So internally, they'll have lots of automation and they'll have small teams of people who will be there to run the steady state. But then when they need to do projects, it'll almost be like making a movie, that there's a promoter or a producer of the movie. And they pull together all of these specialists-

David Ogilvie: Business by contractor.

Patrick Daly: Yeah. And they come in and they do the project, then they disappear and then they may come again and together, the same team or a different team for another company or for the same company. What do you think of that kind of future? Do you think we're looking at something like that?

David Ogilvie: I don't think so.

Patrick Daly: No?

David Ogilvie: No, I don't think so. Your core businesses, like your supply chain managers and your inventory controllers and those sorts of things, they need to have industry experience, they need to understand the business. They need to understand the seasonality and those sorts of things. If you're coming and going, you'll be constantly learning what's the current environment that I'm working in. I think they need some consistency around the knowledge of the product and the business and those sorts of things. I think that'd be [inaudible 00:22:24] sorry, I interrupted.

Lisa Anderson: No, I think they need a base set of people, to David's point, that's familiar with the business, that's there in the business. But I do think that in addition to that, the more successful clients are the ones that are... I've had several clients bringing us on to help them improve their processes or implement technology and make things better. But in the meantime, we've done some fill-in type of work as well to help them bridge gaps. And so I see them doing that, but you can't bridge a gap and then just keep it that way, where you have teams of people coming in to run the day to day. So I think it's more, they have to have, like David said, people who are going to run the day to day, but folks, they are



going to rely more on outside help to bridge gaps and improve processes, which can be done in concert with one another, is what I'm thinking.

Patrick Daly: Yeah, it's astonishing. I didn't realize this but at the event as well, we had the demonstration of an AI tool for supply chain and it's an approach to use decision intelligence over planning. So this AI, if you like, scans over all of the applications that are working in a business, so you could have a transport management system, a warehouse management system, manufacturing execution system, ERP, the whole thing. And this thing is going over all of that and extracting data, and it's making decisions and it's suggesting then actions to managers to carry out based on the analysis that it's done, but then also it's learning and it's feeding back into that. And then some of those decisions, instead of saying, "Listen, here are some options to do it", you can simply automate those decisions. So we may see a lot of what people do now becoming actually automated and where people intervene is in very high end type decisions. So that may be the future.

Lisa Anderson: Well, I definitely think technology is going to help to minimize the number of people that you need. And like you said, you're going to end up needing more of the higher skilled folks to review information and make adjustments. So it's going to create a whole new set of challenges for how anyone gets to that point of having the high end skills without going through the basics. So I don't know how that'll happen, but-

Patrick Daly: Sure.

David Ogilvie: So I've had a client of a small prototype project in AI, particularly around forecasting and so forth with one of the big software vendors, they've got an AI tool on their platform and so forth. And in the end, they canned that project. It wasn't delivering the results that they thought it would. I must have been, I actually think AI has got more applications in the medical field around diagnosis of diseases and those sorts of things. It seems to be making really solid advancements in that space. Whereas when I'm seeing AI being applied to the business environment, I'm not 100% sure it's going to be as productive or as valuable.

Patrick Daly: Okay. Well then maybe just as we come into the last couple of minutes, just like I ask you, are you reading or listening to anything inspiring at the moment? You've been to any events, anything you can share with us there, Lisa?

Lisa Anderson: Well, I mean, I went to a logistics and an E-commerce summit recently and in this area, because I'm in Southern California, there was a lot of conversations about we've made actually tremendous progress when it comes to being energy efficient and green. However, the rules and regulations are outpacing, strangely enough, the ability for folks to meet those needs. So basically, if they really hold the law, if you will, and what they've said, they're going to do at least in California, like we're going to lose at least half our truckers going to the ports to pick up product in early 2023, which would obviously be a disaster. So I don't

know, but I think that in places like California, we're coming in for a big clash between the ability to keep businesses moving and flowing and the green energy goals and how quickly they can be achieved because even autonomous vehicles, they're making really good progress. However, it's not ready for prime time, if you will.

Patrick Daly: Yeah.

Lisa Anderson: So it's still going to take longer basically, is what that conference was saying. And-

Patrick Daly: Yeah, there are a lot of [inaudible 00:27:14]

Lisa Anderson: There's still lots of challenges out there from a supply chain point of view.

Patrick Daly: We're facing a lot of crunches. What about you, David? Reading or listening to anything inspiring at the moment or been to any good events?

David Ogilvie: Well, the event I went to recently was the manufacturing conference down in Sydney. So it was good to see that back in train, which we got the one in Melbourne again next year, but I must admit I've been busy organizing my own events. So my executive lunches and things have been keeping me busy in that space from a book's perspective. I haven't read any work related books lately. I picked up one on, I think it was your recommendation on the history of the world.

Patrick Daly: Tom Holland and the [inaudible 00:28:00]. Yeah.

David Ogilvie: So I'm finding that quite interesting.

Patrick Daly: Yeah. He's making the point about how Western civilization owes so much to Christian philosophy, really. Isn't that what he's saying? And that it comes from even before Christ. So Christian philosophy comes from before Christ. So I guess that's an interesting way to end the podcast on supply chain, talking about Christian philosophy, but there we are. So thanks again guys for joining us. It's been a pleasure as always, and look forward to having you back here next month. Thanks also to our listeners for tuning in and you can find the interlinks podcast on iTunes, Spotify, Acast and other podcast platforms. Any comments or questions? Just drop me a line on Pdaly, P-D-A-L-Y @albalogistics.com. So in the meantime, keep well, stay safe and see you next time.