HEAVY LIFT

SUPPLY-CHAIN HAZARDS UNDERSCORE THE NEED FOR DIVERSE SOURCING

Industry leaders describe logistics trends, including the impact of Middle East conflicts and a drought in Panama

By Jack Morgan

There's a mix of good and bad news on today's supply-chain front, as we learned from recent interviews with executives from linen, uniform and facility services companies. The upside is that the shortages of commodities and shipping delays at West Coast ports during the COVID-19 pandemic have largely vanished.

WAR & DROUGHT IMPACT

But don't let your guard down just yet. The bad news is that global instability poses a new hazard that could throttle international-trade flows. Specifically, the war between Israel and Hamas that broke out last October has inspired Houthi rebels in nearby Yemen to target Red Sea shipping. This, in turn, could threaten the movement of goods through the Suez Canal. In response, shippers have begun transporting goods bound for the West around the southern tip of Africa. Such a move adds time and expense to deliver these goods. It could also lead to shortages and backups on deliveries of a wide range of commodities. "Ocean shipping costs had largely returned to pre-COVID levels until very recently," says Paul Rasband, director of supply for Alsco Uniforms, Salt Lake City. He adds that, "There has been a recent spike in ocean shipping costs that I attribute to the turmoil in the Red Sea/Suez Canal caused by the Houthis, which is causing ocean shippers to avoid the Suez Canal and sail all the way around Africa to reach Europe or the East Coast of the U.S." Patrick O'Leary, director of planning and inventory management for UniFirst Corp., Wilmington, MA, adds that unrest overseas is hiking costs, and they're keeping a close watch on it. "The current instability in shipping via the Red Sea and Suez Canal has caused rates to increase again, which is a situation we're monitoring due to the ripple effect that this disruption can cause throughout our global logistics network," O'Leary says.

Closer to North America, a drought in Panama is placing a heavy burden on ocean shipping that transits the eponymous canal (see **nyti.ms/48y2xHO**). "The Panama Canal is being impacted by a severe drought, which has limited the amount of water available to operate the locks in the canal," Rasband says. "Several ocean shippers are now unloading product on the Pacific side of Panama and moving containers by rail to the Gulf side of Panama where they are loaded onto other ships."

While the drought in Panama hasn't yet reached a crisis level, the risk that this issue and the Red Sea conflict could constrict trade flows is a cause for concern. "The issues at the Suez and Panama Canals have the possibility of impacting global shipping capacity (e.g., goods will be on ships longer as they transit around Africa vs. going through the Suez Canal)," Rasband says. "While we have not seen any recent impact on

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shipping capacity, some of the changes impacting shipping rates have the potential to impact capacity, if they persist for long periods of time," In the short term, operators can expect higher costs for goods from overseas that reflect these added expenses. "These impacts on the Suez and Panama Canals have increased the costs of ocean freight carriers and rates on all routes are increasing significantly," Rasband says. Another logistics specialist, David Cole, director of procurement for the Healthcare Linen Services Group (HLSG), St. Charles, IL, expressed similar concerns on the impact of the war in the Middle East on trade flows and related costs. "Some shipping companies are avoiding the Red Sea due to the Houthi attacks and are sending ships around Africa," Cole says. "This adds a week or two to the time on the water and increases costs for shipping."

Chris Welch, president of Prudential Overall Supply, Irvine, CA, says that while the situation today isn't as severe as during COVID-19, it's nonetheless a concern that he and his team are watching closely. "There is nothing close in scope or scale compared to what was experienced during the pandemic," Welch says. "However, the supply chain is still (and always will be to some degree) fragile, as demonstrated by current events in the Red Sea." In response, Welch says Prudential is looking for more opportunities to source goods closer to home. "We are increasingly interested in hemispheric sourcing and identifying firms that pull their products from the Americas."

DIVERSIFY OR RISK LOSSES

Linda Folks, Prudential's director of procurement, adds that the pandemic underscored the need to diversify the company's sourcing base with a broader list of suppliers. "One of Prudential's key drivers in minimizing supply-chain challenges (during COVID) was our expansion of secondary suppliers and our ability to leverage existing long-term relationships" (see related article pg. 20) O'Leary adds that while global trade generally is flowing smoothly, UniFirst is continuing efforts to manage a range of issues in the post-COVID era. "We're still adjusting to normalization of some product demands that were heightened during the pandemic and working to establish what the 'new normal' will look like for that segment of products and adjusting inventory targets accordingly," he says.

Other operators and logistics pros we spoke with are pursuing a similar diversification strategy to avoid the risk of getting bogged down by supply-chain issues. For most, this practice became a matter of necessity during COVID. Since then, industry leaders have refined their approaches to today's era of different, but nonetheless significant challenges. These include inflation and the prospect of supply-chain disruptions related to suppliers moving goods in locations far from North America. "We still live in a world with many uncertainties," says Rasband. "The possibility of some type of meaningful global conflict is higher now than I have seen in my life. Any type of global conflict has the prospect of potentially devastating supply chains. I believe that diversification is not only necessary, but essential."

Bryan Bartsch, president and CEO of Ecotex Healthcare Linen Service, Vancouver, Canada, described his company's drive to broaden its supplier base. "Ecotex uses a multi-channel supplier model to ensure that we have both a primary and secondary supply of textiles, parts and equipment," he says. "We have found that using more than one supplier is helpful because many times a shortage or price increase from one supplier is not the case with another who carries the same item. We have also found that with our largest suppliers we work closely to help them with forecasting our product usage."

O'Leary notes that UniFirst's policy is to have multiple, viable vendors for all its needs. "This has paid dividends over the last several years through the pandemic and supply-chain challenges," he says. "Over time, we have experienced many vendor challenges stemming from quality, pricing, leadership and supplies," he says. "Having multiple reliable vendors affords UniFirst flexibility, while still providing the required solutions for our operations."

The supply-chain shortages that arose during COVID pushed companies to diversify their supplier networks and rethink their production practices. Since those pressures have eased, it's no longer necessary to make purchasing decisions over a year in advance. That means today's laundry operators can be more flexible in sourcing suppliers, says Patrick Gittard, marketing manager of JENSEN USA Inc. "For us, we have largely sorted out our supply-chain challenges and any impact they may have on production, and we no longer have the pressure to further diversify our supply chain to have lead times match pre-COVID. As it is no longer a global issue, suppliers can be assessed on an individual basis, diversifying where is makes sense, not purely out of necessity."

Cole says HLSG's diversification of its vendor base is saving money and making the company more agile in servicing customers. "Supplier diversification provides HLSG with more flexibility to adapt to changes in the market we serve," he says. "It also has the potential to improve the overall quality of the products HLSG uses." Welch adds that diversifying its supplier base has become routine at Prudential. "Supplier diversification is now a standard part of our approach to vendors and products, and we are always looking for at least two suppliers for each category." Folks notes that diversification is a common-sense strategy for laundries and other businesses. "Supplier diversity should be no different for commercial and institutional laundries than it is for any other industry."

LINGERING BOTTLENECKS: COMPUTER CHIPS, TRUCKS

While the industry sources we spoke with confirmed that most supply-chain issues have returned to pre-COVID levels, some lingering issues remain. The biggest among these is a continuing shortage of fleet vehicles, though some say that too is improving. Operators also are experiencing some equipment shortages related to a dearth of computer chips, along with lead times for equipment deliveries that are longer than operators would prefer. “HLSG is not seeing supply-chain bottlenecks,” Cole says. “However, lead times for products have not gone back to the pre-pandemic levels.” Rasband adds that, “While much improved, there are still some chips that are not yet at sufficient inventory levels.”

Welch cited longer lead times, coupled with spot shortages of key components. “This has not been a significant issue for us in most instances, but major equipment (washers, boilers and switch gears) usually has a nine-month-plus lead and installation window.” Gittard notes that the chip shortage, for his company at least, is over. “Due to the strategic purchasing steps taken by JENSEN-GROUP with our suppliers, we are no longer experiencing delays.” Bartsch says he’s seen improvement in shipping times and equipment availability since COVID. “Most of the equipment-related bottlenecks seem to have sorted themselves out,” he says. “Lead times for parts and new equipment has decreased significantly. This has been a welcome improvement.”

O’Leary notes that while the West Coast port backups common during COVID have ended, issues remain with the domestic freight transit system, due to an ongoing shortage of truck drivers. “The routing to the U.S. West Coast has increased when you compare current bookings to last year at this time,” he says. “From a truck driver perspective, the supply is still very tight. Due to issues in the Suez and Panama canals, many East Coast drivers are looking to shift to the West Coast.”

Keith Ware, an industry consultant and veteran of both laundry and supplier-partner operations, says wait times for equipment vary by item and company. He cited recent contacts with three manufacturers, one based in the U.S. and two in Europe that say their lead times are six months or longer. One company said it can deliver a tunnel washer in five months. Ware adds that shortages of key components continue, “The chip shortage is still there but not as severe as during the pandemic,” he says. “But electrical components and motors are delayed.”

The availability of fleet vehicles is another area prone to recent shortages—though there is some progress, we’re told. Michael Taylor, a senior adviser at HillStaffer, a government relations and public affairs consultancy in Washington, DC, sounded a hopeful tone for laundry execs. He notes that, “In 2024, new (fleet vehicle) inventory is expected to reach pre-pandemic norms, with almost 3 million units available, or three times the amount during the chip shortage, according to Cox Automotive (an equipment supplier/consulting business).”

Rasband voiced his concerns on fleet-supply issues, noting that his company has experienced persistent problems in buying trucks, “One supply chain that remains challenging is fleet vehicles,” he says. “Vehicles are still limited, particularly cab chassis for box trucks.” He says original equipment manufacturers (OEMs) are still operating under allocations for vehicles and lift gates.

While ocean shipping is expanding, Taylor acknowledges that vehicle shipments could face slowdowns if the aforementioned drought in Panama and the war in the Middle East persist. “With a record high number of container ships being delivered over the next couple of years and modest growth predictions of between 1-3% in global trade for 2024, it is hard to see capacity lacking in shipping,” Taylor says. “At the same time, global supply chains entered 2024 hit hard by disruptions at two of the world’s crucial trade corridors—the Panama Canal and the Suez Canal—even as geopolitical tensions appeared set to take a more prominent role in sourcing and distribution.”

Taylor adds that shortages continue for certain varieties of computer chips used in vehicles. However, auto manufacturers have addressed this problem by making changes to get around the issues. “Although the supply of semiconductors remains constrained, more predictable availability has allowed automakers to adapt their production schedules to the constrained supply,” he says. “Many experts believe the semiconductor shortage is mostly over for the auto industry.” Still he acknowledged that problems remain with certain types of computer chips. “Even though the semiconductor crisis is largely resolved, the chip-supply situation still carries a degree of uncertainty as demand still exceeds the supply of several chip types.”

COMPLIANCE PLUS PLANNING

Another question—related to the growing focus on environmental, social and governance (ESG) issues—centers on whether your suppliers not only can deliver quality products in a timely fashion, but that they do so in compliance with all applicable labor, environmental, financial and other regulations. “We annually ask all our key suppliers to certify in writing that are compliant with local labor and environmental laws,” Rasband says. Folks adds that Prudential also requires its suppliers—as well as their suppliers and subcontractors—to demonstrate that they’re fully compliant. The company has a zero tolerance for corporate misconduct. “When notified of a supplier or one of its subcontractors’ noncompliance, we terminate the relationship with the supplier,” she says.

O'Leary says that a rigorous qualification process is necessary to ensure that all suppliers are doing business responsibly. He recommends adding compliance requirements to supplier-certification documents and/or purchase orders or contracts. Documenting that suppliers are doing what they say they're doing is also important. "Whenever possible, supplier audits should be conducted to confirm compliance and enforce accountability," he says. "Additionally, industry certifications (such as WRAP [Worldwide Responsible Accredited Production]) demonstrate social compliance to international standards and benefits supplier credibility."

Cole notes that HLSG's process is to require suppliers to document compliance, particularly on environmental issues. "We request that suppliers set and provide their long-term sustainability goals, including lower-tier suppliers in the overall sustainability strategy." Bartsch adds that Ecotex seeks to advance both business and ESG goals. "Ecotex is talking about PFAS, (per- and polyfluoroalkyl substances) recycling and other environmental factors with all of our textile suppliers," he says. "We see the need to strike a balance between ESG and the economic reality that our customers need us to provide…an effective overall value proposition. We see 'practical innovations' as the future path to ensure that both ESG and financial targets are met."

One could apply a similar combination of compliance plus contingency planning to deal with today's supply-chain challenges. The laundry executives cited above agree that while the critical shortages experienced during COVID have passed, limited supplies of vehicles and computer chips persist. In some cases, lead times for equipment are longer than many would consider reasonable. With today's dicey security situation in the Middle East, plus the drought in Panama, the risk of major trade disruptions due to problems with either the Suez and/or the Panama canal is a real possibility. Such moves are already spurring higher shipping costs and delays. If either situation deteriorates into a crisis—or if another disaster like COVID-19 should emerge—your company could face a heavy lift in terms of managing supply-chain disruptions. Diversifying your supplier base now to identify alternative sources and distribution channels before a disaster strikes could help safeguard your customers and your company.

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