

Local Realities, Tomorrow's Catastrophe:

How the Logistic Industry Might Respond to Global Crisis

Human psyches react to threat with either *fight* or *flight*. Only when psychologists more thoroughly analyzed patients suffering from PTSD, they realized that sometimes shock can condition responses in people that will not defend, but instead render them more vulnerable. These are the *faint* and *freeze* responses. Instead of engaging with the threat, through either attack or evasion, these responses happen when the body chooses to disengage entirely and shut down. It is a twisted organic irrationality, seeped in the irony of a survival tactic that guarantees death. In a parallel illogic, fear is perhaps the leading cause of economic disruption. During COVID-19, customers and a company's benefactors might tighten their spending, depending on the length of the epidemic. As the acclaimed British polymath Bertrad Russell writes, "Dread of disaster makes everybody act in the very way that increases the disaster." Inertia is a curse upon the economy. It's the same way a stagnant body of water leads to sickness. Vulnerable institutions must be willing to act and adapt accordingly, not only because the disaster will mandate it, but also because it is healthy to do so. For the expediency of our world trade system's health, I propose a different conditioned response to danger: anticipation. Equally as organic of a defence mechanism with ten times the efficacy, fearless anticipation should be the key tenant of the logistics industry to mitigate extraordinary economic disruption. Instead of promoting contraction, we should be heralding proactivity.

Before lockdown hit the United States, many industries that rely on supply chains were anxious about how the coronavirus would impact their logistics. To best reap lessons from history, The Hackett Group researched past severe supply chain disruptions. Through an analysis of the

Fukushima Nuclear Disaster of 2011, they discovered companies often had a single point of failure in their supply chain¹. Apple, for instance, used lithium-ion batteries, which required polymers from a plant near Fukushima. This point of weakness disrupted their entire chain. Additionally, most companies neglect to look past their first-tier suppliers, especially if the trade is a new agreement. Problems further down the chain could remain hidden until disaster strikes, in which case preventative measures would be too late to instill. Thus, companies should be encouraged to invest in supply chain visibility technology to ensure transparency and develop more expansive risk-management strategies specific to their own logistics.

Historical considerations might help, but COVID-19 is a uniquely heinous catastrophe. The core of the crisis is humanitarian, yet it also drains the world trade system. The supply chain of moving goods has become indiscriminately disturbed. This means every player in the logistics chain is incredibly vulnerable to a global shock (e.g. a national health emergency). According to ABI research, the early mass public hysteria, like when grocery stores were bought-out of essential products, caused the “massive need for trucks to help restock stores, shrinking the capacity available for other products.”

² The same study found that the “historically tight” trucking market has dropped 20% in volume in the last two weeks — air and rail freight percentage is also dropping at extraordinary rates.

Dr. Amrith Kumar, founder of Logycode Tech Solutions, details how the lockdown has produced a phenomenal reduction in the desire for consumable goods. The global supply chain management market was recorded to be worth \$14.5 billion in 2018 and growing at a CAGR of 10.5%

¹ MH&L Staff. "Impact of the Coronavirus on the Global Supply Chain." Material Handling and Logistics. February 14, 2020. Accessed May 30, 2020. <https://www.mhlnews.com/global-supply-chain/article/21122993/impact-of-the-coronavirus-on-global-supply-chain>.

² Research, ABI. "COVID-19 Pandemic Impact: Freight Activity Falls After Historic Rise with Disruption Ahead - Double Digit Impact Expected in Q2." PR Newswire: News Distribution, Targeting and Monitoring. April 21, 2020. Accessed June 9, 2020. <https://www.prnewswire.com/news-releases/covid-19-pandemic-impact-freight-activity-falls-after-historic-rise-with-disruption-ahead--double-digit-impact-expected-in-q2-301043588.html>.

to reach almost \$24 billion by the year 2024³. However, the pandemic will certainly decelerate this growth. Lockdowns and restrictions have calcified global trade. The contraction of international air travel, a recorded 80% fall in air passenger demand⁴, encouraged by government officials to alleviate the spread of COVID-19, has allocated air freight capacity to ferry an estimated 50% of all “belly cargo” (air cargo) instead of passengers⁵. The shipping sector is exceedingly curtailed because vessels must be quarantined at ports for two weeks and many shipping containers are stuck in transit at state borders. Plus, international demand for those highly-traded but non-essential raw materials is now redirected towards necessary medical supplies and pharmaceuticals. As a result, shipping lines function with underloaded supplies, which fractures the balance between revenue and operational costs. Another impact in logistics is the increase of blank sailings (the cancelation of a carrier trip or entire string of trips)⁶. Due to the lack of demand for sailings, “As of Feb. 23, the number of blank sailings announced by carriers equated to a staggering estimated total demand shortfall of 1.7 million TEU (twenty-foot equivalent unit).”⁷ This backup will affect industries because the squeeze on capacity of backhauls to Asia will also drive up backhaul rates. Further, the shortage of labor at the shipping ports, air cargo facilities, inland container depots, and so on foster a massive deficit in the supply chain movement. Clearly, industry is extremely vulnerable to global shocks.

³ Kumar, Dr. Amrish. “Covid 19: Effect of the Pandemic on Logistics and Supply Chain.” Entrepreneur. April 17, 2020. Accessed June 10, 2020. <https://www.entrepreneur.com/article/349420>.

⁴ Staff. “How Is the Air Cargo Industry Responding to the COVID-19 Pandemic?” International Airport Review. April 28, 2020. Accessed June 3, 2020. <https://www.internationalairportreview.com/article/115426/air-cargo-industry-reacting-responding-covid-19/>.

⁵ Research, ABI. “COVID-19 Pandemic Impact: Freight Activity Falls After Historic Rise with Disruption Ahead - Double Digit Impact Expected in Q2.” PR Newswire: News Distribution, Targeting and Monitoring. April 21, 2020. Accessed June 10, 2020. <https://www.prnewswire.com/news-releases/covid-19-pandemic-impact-freight-activity-falls-after-historic-rise-with-disruption-ahead--double-digit-impact-expected-in-q2-301043588.html>.

⁶ Flexport Glossary Term: Blank Sailing.” Flexport. Accessed June 5, 2020. <https://www.flexport.com/glossary/blank-sailing/>.

⁷ “Coronavirus Container Impact to Spread Far beyond Blank Sailings.” COVID-19: Coronavirus Container Impact to Spread Far beyond Blank Sailings. Accessed June 11, 2020.

https://www.joc.com/maritime-news/container-lines/coronavirus-container-impact-spread-far-beyond-blank-sailings_20200225.html.

Albeit disheartening, this year's deficit could force an abundance of growth. A company that is lean, flexible, and adaptable should be open to consider new avenues within their logistics department. Some tangible action to resist stasis includes cutting back on rent expenses and physical office space, utilizing more technology for training and meetings (this will ease any future transition into remote workspaces), and trying to be more economical with travel. Further, it might be expedient to consider bases in other industries to ensure a healthy, balanced system. Outsourcing warehouse activity and operations keeps fixed costs as lean as possible. Still, shipping is a vital part to the puzzle, as ABI Research insists, because "Shippers need to evaluate options and model changes across modes of transportation, considering interruptions, delays, and significant price increases."⁸ An increase in freight rates would account for future incidents in a company's annual freight budget. To increase capacity, companies should keep backup carriers from different regions and otherwise known shipping lanes which would prevent any further blank sailing domino effects⁹, in addition to building slack in the supply chain so companies needn't solely rely on carriers that are easily delayed by natural disasters. These plans could bend the arc of the economy towards stabilisation and recovery.

Shipment, exchange, brokerage — these are the pillars of contemporary human connection. Kinesis keeps our world turning. Still, any company should know that movement cannot yield a sustainable accrual of capital without focused efficiency. As Cortney Robinson illuminates, "The reliance of air cargo operations on capacity provided by belly space on passenger aircraft has led to a significant bottleneck that is impeding e-commerce throughput, thus raising shipping rates." Freezing

⁸Research, ABI. "COVID-19 Pandemic Impact: Freight Activity Falls After Historic Rise with Disruption Ahead - Double Digit Impact Expected in Q2." PR Newswire: News Distribution, Targeting and Monitoring. April 21, 2020. Accessed June 1, 2020. <https://www.prnewswire.com/news-releases/covid-19-pandemic-impact-freight-activity-falls-after-historic-rise-with-disruption-ahead--double-digit-impact-expected-in-q2-301043588.html>.

⁹"Coronavirus Container Impact to Spread Far beyond Blank Sailings." COVID-19: Coronavirus Container Impact to Spread Far beyond Blank Sailings. Accessed June 11, 2020. https://www.joc.com/maritime-news/container-lines/coronavirus-container-impact-spread-far-beyond-blank-sailings_20200225.html.

up and scrambling for *any* solution is not only counterproductive, but actively damaging. Especially in the wake of this year's COVID-19 global pandemic, trading institutions should be resisting stagnancy and learning from the past to reduce their vulnerability to other potential disasters of the future.

Preparation is always much more cost-effective than reconstruction. As The Hackett Group urges, the best action is to familiarize with supply chain risks and preemptively develop approaches to reduce the impact. Flexible rules are essential in a world that often suffers from global shock. With careful efficiency, we might at least *reduce* economic distress. The Buddhist name for that cessation of suffering is Nirodha. In business, we call it mitigation.