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Business Advisory Services Quarterly Market Overview

GLOBAL SUPPLY CHAIN DISRUPTION UPDATE

By LGA's Ken Segal and Steve Sieker

Ken Segal, LGA Partner and Business Advisory Services Practice Lead, and Steve Sieker, Fractional CFO Practice Lead, are proud to release their latest quarterly Market Overview. LGA remains steadfast in our commitment to employ memorable entertainment quotes to educate professionals and corporations alike about how the banking and credit markets affect their daily lives.

"Commodities are agricultural products... like coffee that you had for breakfast... wheat, which is used to make bread... pork bellies, which is used to make bacon, which you might find in a 'bacon and lettuce and tomato' sandwich." Randolph Duke

Our first exposure to the commodities market was in the cinematic wonder, ***Trading Places***. Actors Eddie Murphy and Dan Akroyd portrayed Billy Ray Valentine and Louis Winthorpe in a riches to rags and rags to riches portrayal of how volatile markets can create both ominous risk and unimaginable upside and downside.

A period piece, ***Trading Places*** just assumed that commodities would naturally appear on your store shelves and in your home. In the COVID era, however, we have been introduced to not only price volatility, but also disruption in our ability to even obtain some supplies at any price. In our latest **Business Advisory Services Market Overview**, we have the privilege of interviewing two experts in the space: Joshua Beck, Chief Investment Officer at BCI Technology Investments, and Douglas Dratch, President and CEO of Global Printing & Packaging.

By providing the perspectives of exceptionally unique primary sources, our Business Advisory Services Market Overview will offer clarity on the global supply chain disruption.

"Can't get around the old minimum wage, Mortimer." Louis Winthorpe

How did the global supply chain disruption start? Josh Beck believes that "the supply chain disruption was born out of the US-China trade war. Escalating tariffs affected a host of industries from steel to commodities to grains." Beck continues that subsequent COVID-related factory shutdowns worldwide exacerbated an already fragile global trade and supply ecosystem. Doug Dratch shares a similar belief that "the supply chain disruption started before COVID with the US-China trade wars."

The supply chain disruption had its start before Covid-19, it actually began as a result of the US-China Trade War.

How did it become a global event? Beck tells us that, due to the trade war and COVID restrictions on manufacturing and shipping, the "world experienced a massive constriction of demand, an inability to produce product, and an uncertain timeframe of when normalcy would return." With factories closed, "fleets were pulled off the water" and the domino effect ensued. The subsequent wave came from a worldwide labor shortage during involuntary quarantines.

Dratch also suggests that the pre-COVID tariffs "had a profound impact on the supply chain, as companies tried to purchase as much product as possible in anticipation of the tariffs. And, when COVID hit, there was limited capacity to replenish those earlier, bulk purchases."

So why are so many cargo boats floating at sea and not unloading at ports? Beck hypothesizes that filled ships are having challenges reaching port and unloading because "there is a shortage of available labor at the prevailing wage rates to unload the vessels." Further, "there is a similar bottleneck of truck drivers to deliver the product from the ports to land destinations at prevailing wages". Beck believes that "CEOs need to look less at the bottom line and invest in the people necessary to unload and deliver the goods. Dratch shares the opinion that "limited port and trucking labor is impeding product from reaching the end-users."


The shortage of labor at ports is causing disruptions in cargo ships being unloaded.

If COVID is subsiding, why is it still such a big global problem? Beck tells us that "so long as labor remains on the sidelines, this bottleneck will continue." So it appears that we need governments, corporations, and labor to eventually be in sync to efficiently produce and transport products from the factories to the destination ports to the ultimate destination.

Additionally, Doug Dratch offers that "one of the largest consequences has been the adverse impact on the cost of shipping containers. The freight costs of shipping containers has gone up almost tenfold since before COVID, and many companies struggle to pass these costs entirely to their customers. Further, he suggests that another challenge remains moving the container vessels to their intended ports that were forced to remain elsewhere during COVID."

The price of shipping containers has gone up nearly 10x during the pandemic.

What signs should we be looking for that its improving? Beck reports that "operations in greater Asia are pretty much back to normal and product is being shipped". While this is an encouraging sign, "we need the longshoreman and trucking sectors to have the labor to ease the bottleneck."

More trucking professionals and longshoreman are needed to get our supply chain back to normal.

Who are the winners and losers? Per Beck, the winners are the large corporations who control their manufacturing and have the scale to charter entire vessels to transport their product to port, and have the requisite labor to then ship product to the ultimate destination. The losers are the smaller companies that lack the leverage and scale to have priority status in the factories, and are dependent on prevailing shipping costs. Similarly, Dratch does see "a competitive advantage for larger entities with the resources to control access to foreign manufacturing capacity, and the ability to control their transportation vertical."

When will we return to normal, and what will be the new normal? Beck suggests that we "look at the grocery store shelves. I think that's going to tell you a lot about the US supply chain in particular." He continues that "when you're at the grocery store, pick up something and see if it's local; you might actually see a trend where things are a lot more local than they used to be … you may not be getting your lettuce from Yuma, Arizona anymore. It may be coming from a greenhouse that is in your own state."

On the manufacturing side, Beck says to expect many operations to be moved onshore and to remain domestic for some time to come. But the US will "always have manufacturing tentacles throughout Asia. We should continue to have inseparable supply chains and economies. Dratch similarly offers that "we should see more nimble purchasing and a focus on procuring domestically produced raw materials."

"Louis: Looking good, Billy Ray! Billy Ray: Feeling good, Louis!"
Louis Winthorpe and Billy Ray Valentine.

How can I be more proactive in running my company?

- ✓ Be ever vigilant in tracking your company's day-to-day risk position.
- ✓ Develop forecasts that empower your company to proactively address a full range of what-if scenarios.
- ✓ Ensure that your company has access to multiple debt and equity sources so that you are prepared with multiple go-to sources who are there when you need them the most.

Partner with LGA's Business Advisory Services Team to Accelerate Your Business

LGA's Business Advisory Services advises companies throughout their lifecycle to ensure that they are empowered to play offense, optimize value, and successfully exit at any time – whether it be planned or unsolicited. We help ensure that a company's capitalization evolves as the company matures, with an eye towards minimizing founder dilution and providing confidence that terms are "market". Through investment banking services provided by Avalon Securities, Ltd., we help fill debt and equity gaps as needed throughout the journey.

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