Keumars Afifi-Sabet

Explaining the UK's supply chain crisis

What's behind the supply chain crisis affecting British businesses right now, and will this winter of our discontent end any time soon?

Supply chain issues bubbling under the surface of the UK economy have erupted into a fully-fledged crisis in recent months, with a cacophony of factors – including COVID-19 and Brexit – straining every sinew of UK PLC.

The haulage sector has been particularly affected, with the Road Haulage Association (RHA) estimating a shortage of up to 100,000 HGV drivers. This has, in turn, proven a drag on the wider economy, with the Office for National Statistics (ONS) data estimating, in October, that one in six Brits were unable to access essential food items.

Footage of empty supermarket shelves and large queues for petrol represent but the tip of an iceberg for an economy under severe pressure. Many businesses are headed towards breaking point and things look set to get worse as winter is coming and Christmas is just around the corner.

Was this crisis truly unpredictable, however? While some may express shock, experts highlight pain points prevalent for months. Brexit, for instance, has been a story in the making for more than five years, while the long-lasting economic effects of COVID-19 were projected in March 2020. Although the economic turmoil is, itself, akin to a virus passing through the world's economies, the UK is in thrall to a particularly devastating strain, experiencing a supply chain crisis years in the making.

A perfect storm

Although the poster child for our current predicament may be the

petrol crisis, there are shortages of goods and services across the wider economy, which have been documented to varying degrees. Much has been made, for example, of the semiconductor crisis, which has hindered the manufacturing of electric goods and vehicles for a couple of years – and likely won't be resolved until 2023 at the earliest.

The crisis, however, also manifests as shortages in chocolate, construction materials, Christmas trees, and meat, among a near endless list of goods. Staffing, too, is a problem – with the Recruitment and Employment Confederation (REC) reporting in September that employers face the worst shortage of candidates on record. The Health Foundation think tank has also projected a nursing shortfall in the NHS of 108,000 by 2029, illustrating the challenges that lie ahead. This is all amid soaring electricity and gas prices, partially due to a damaged power link between the UK and France halving supplies until March 2022, but also due to gas supplies from Russia drying up.

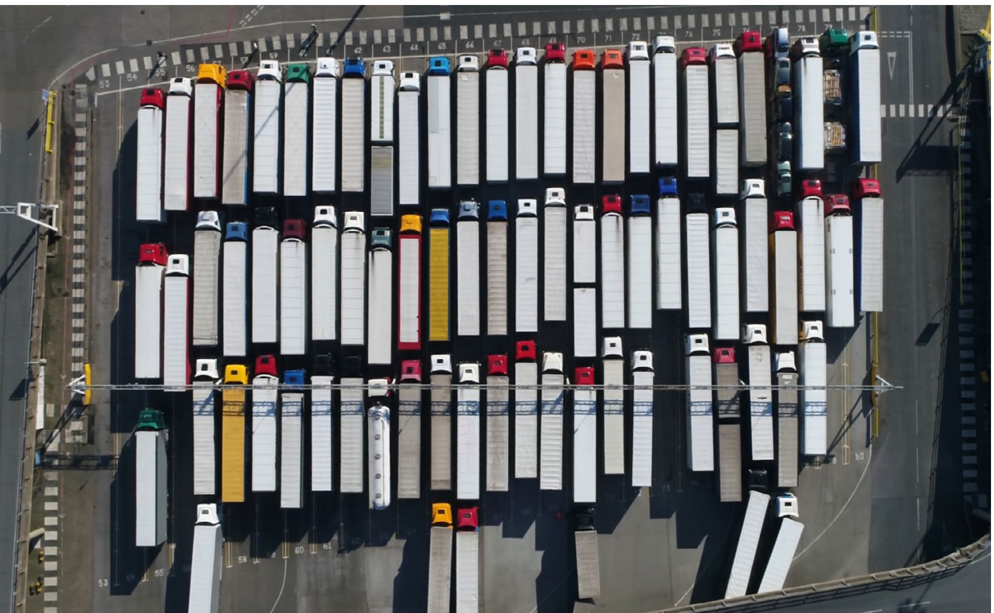
"The current supply chain disruptions we are seeing will affect many industries, some already identified but others like the chocolate industry may also suffer from low supply leading up to Christmas," says Gary Connors, partner at business consultancy Oliver Wight.

"Chocolate is a product that doesn't travel well and high haulage costs means that margins will be low causing executive headache ahead of Christmas, and the prospect of more expensive or less easily accessible chocolate for consumers."

Just in time

Winding back 18 months, as COVID-19 raged through the nation, the supermarket supply chain was put under immense pressure, but not by stockpiling, as many had assumed. Rather, according to Kantar, people were simply adding a few extra items to their baskets, and making more trips. This exposed the frailties of an otherwise efficient just-in-time model. These vulnerabilities are being exposed once again, according to professor Christos Tsinopulos, an expert in supply chain management at Durham University Business School.

"For most firms, any action that doesn't add value to their customers is seen as waste. Higher levels of waste may mean one employs more people than they should, or that they have excess stock of products, which may become obsolete," he explains.



"There's also evidence that when there is waste in a supply chain there's an increased likelihood of mistakes, because of lack of attention, complacency and so on. Yet, at times of crisis, this may backfire as it limits their ability to respond to sudden demand fluctuations."

No matter how efficient the remainder of a supply chain might be, the flow of material through these channels will be blocked unless bottlenecks are resolved, Tsinopulos continues. Given current circumstances, though, even if a bottleneck is removed, another may soon appear, with this pattern likely to continue, given the underlying issues that have generated this crisis aren't disappearing any time soon.

It's true this crisis is global in nature, with all major economies hit in different ways. China, for example, is experiencing blackouts due to its own energy crisis, according to the Guardian. The way this crisis manifests in the UK, however, has been exacerbated by issues unique to this country, Connors suggests, listing a confluence of Brexit, COVID-19, rising energy costs and chronic underinvestment in the UK economy.

These factors have, for example, led to staffing shortages that are worse here than in other countries; while there's a shortage of 400,000 HGV drivers across Europe, a quarter of these are sustained in the UK. Across the food supply chain, too, there's a shortage of half a million staff, which represents 12.5% of the workforce required, according to the chief executive of the Food and Drink Federation, Ian Wright.

EU withdrawal has also made it harder for UK companies to recruit from the continent, with a points-based system replacing freedom of movement. To add to insult to injury, the UK may also be a less attractive place for migrant workers, as evidenced by the government's three-month emergency visa scheme – aimed at plugging the gargantuan HGV driver shortfall – attracting just 27 candidates.

No need for hindsight

Connors is clear these issues were predictable, with several businesses his company advises having foreseen these and adapting as required. Firms that have managed the supply chain disruption well, he explains, will have typically harnessed historical data to anticipate such events. The factors contributing to the alarming shortage of lorry drivers now was foreseeable, he suggests as a case in point, with Oliver Wight warning its clients for years.

Brexit and COVID-19 aren't the only reasons behind current problems, though. While it is true there's a lack of available HGV drivers in the UK now, this shortage actually stood in excess of 60,000 prior to COVID-19, an RHA report reveals. The average age of an HGV driver, meanwhile, is 55, and relative pay has fallen, too, over many years, according to the Financial Times (FT). Extrapolating this particular case to the wider economy might point to a litany of potential cracks hidden beneath the surface that we just can't see until they widen into chasms. This is in spite of the 5.5% growth sustained in the second quarter of 2021, which has only worked to mask the underlying problems.

"Underinvestment in the economy has had a significant impact," Connors explains. "The government that has been nervous to invest in the education of our leaders of tomorrow by making it harder to afford university fees or failing to reduce the barriers to getting on the property ladder. Big businesses have also failed to make investments in capacity to drive the economy forward. The result is the same; businesses struggling, people struggling and a challenging economy."

Saving Christmas

For all the will in the world, this isn't a crisis that's likely to be resolved in the next few months, says Richard Parkinson, director of port operator Solent Gateway. This position is a consensus among experts and industry leaders, with a chorus of voices warning these shortages will continue – especially with the added pressures the festive season will bring.

The exception, Parkinson counters, is if the government and businesses combine to put together an attractive package to increase critical workforce areas. Businesses must also adapt by opening up and collaborating with each other across all areas of the supply chain, adds Andy Milner, the procurement and supply chain director at Westbury Street Holdings (WSH), the parent company for hospitality business BaxterStorey.

"At BaxterStorey," Milner says, "we have supported our key suppliers in being able to better respond and react to sudden changes in supply, using things such as forecasting and building buffer stocks. We also encourage our teams to be nimble and adaptable, working with the resources available and thinking creatively, for example, we're exploring alternative Christmas menus at some locations."

Fujitsu's head of international trade and customs, Frank Dunsmuir, meanwhile is more bullish, suggesting Christmas won't be cancelled – although he concedes shortages will persist, with the wider supply chain taking a year or two to rebalance. To mitigate the worst effects, and get things back on track as quickly as possible, he points to the use of cutting-edge technologies like the Internet of Things (IoT). In essence, it's about ensuring border processes are presented simply and can be completed quickly without compromising security and compliance. This is where digitalisation comes in.

"I'd like to see businesses taking advantage of a digital-first mindset to automate the process," he says. This manifests as businesses harnessing smart technologies that automate customs administration procedures to create compliant, error-free declarations, without requiring the services of a fully-fledged customs expert.

"The use of smart, digital platforms is critical – though it isn't the only factor," he adds. "Separately, border operational procedures need to undergo a similar transformation to embrace digital declarations; a step change for an industry that still insists on stamped paper and physical authorisations."

Introducing more automation, Parkinson adds, will also reduce human resource requirements in the future. This, however, takes time. These changes won't come easy and will require fresh legislation from both sides of international trade partnerships, as well as close collaboration between businesses as they try to navigate the choppy waters ahead.