

Behind the Chaos: Supply Chains Under Pressure

UKG Industry Brief

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Breaking down the complex network of supply chain failures impacting manufacturers, shippers, and retailers around the world



Q&A with Robert O'Dwyer, logistics industry principal at UKG

What's behind the supply chain crisis?

The widespread dearth of raw materials, skilled labor, and reliable transportation led to a complete breakdown of supply chains. COVID-19 weakened these links, but the supply-demand imbalances that surfaced in 2020 have since been severely aggravated by ongoing labor constraints, tight capacity, and congestion.

Is anybody better off?

The big players in logistics and ecommerce, as well as manufacturers with more control over their supply of raw materials, have seen profits soar — but no one is completely immune to inflationary pressures and volatile demand. Retailers are now buried in excess inventory and realize they may have over-hired staff, while logistics carriers and their drivers are getting crushed by oil prices and delays. Manufacturing shifts are getting cut because materials are scarce, and operations are grinding to a halt due to understaffing. At the same time, overinflated freight rates and chassis shortages are impacting everyone, and retention and recruitment are still huge issues. People working in these industries are under immense pressure; some employee-to-supervisor ratios have reached 50:1. It's a chaotic time.

What strategies will get us out of this mess?

(1) Solving the skilled labor shortage: It's not just about raising wages. Alternative currencies like flexible time off, shorter shifts, variable scheduling, and access to technology and information that enable autonomy at work can be a real differentiator. Employees with options will always choose organizations that show they respect their people and value the daily contributions they make.

(2) Refortifying supply chains: Everyone should be looking at technology to improve forecasting, visibility, and data sharing. Already we're seeing higher-tech fulfillment centers, crowdsourcing to improve last-mile delivery, and retailers taking control of their supply chains by acquiring their own logistics companies or securing space near ports to hold inventory. Strategies to reshore and nearshore production are helping reduce reliance on suppliers; hub and spoke distribution models are picking up steam; and the just-passed Ocean Shipping Reform Act is expected to ease congestion and increase capacity for all impacted areas. All of this is a good start.

Can we stabilize supply chains before the holiday season?

I believe these industries can handle anything. Leading into the season, many manufacturers have already taken steps to balance labor with forecasted demand. Supply chains will remain fragile through 2022, but retailers will make out OK — both in stores and online — if they've set the right expectations and remain thoughtful about strategies for building up their holiday workforces. They're right-sizing inventory as we speak and throttling incoming freight to ensure just the right product mix. Success, however, assumes no new global disruptions and depends heavily on consumer spending habits shaped by a potential recession.

Stats on the Supply Chain

Production lines
are under- or overstaffed

62%
of the time

That leaves U.S. facilities staffed appropriately just 11 days per month on average.

The Workforce Institute at UKG [▶](#)

Around

37%
of all purchases
made are online

Parcel volume grew **6%** in 2021, and ecommerce sales jumped **6.7%** in Q1 2022.

Pitney Bowes; Digital Commerce 360 [▶](#)

It takes **>100 days** to
move a container from
Asia to its U.S. destination

That's up from <50 days
just two years ago.

Wall Street Journal [▶](#)

**400K new commercial driver's
licenses are issued every year**

Heavy demand + turnover
in the long-haul sector yield
an abundance of CDLs.

Marketplace [▶](#)

70%
of manufacturers surveyed
plan to bring production
closer to their shores

37% and **33%** eye reshoring and
nearshoring plans, respectively

IndustryWeek [▶](#)

Last mile delivery comprises

53%
of total shipping costs

It's expensive, time-consuming,
and most customers are unwilling
to foot the fee.

Insider Intelligence [▶](#)

Supply Chain Reading List

Supply Chain Quarterly

Report Shows Out-of-Sync Supply Chains Battling Sharply Rising Costs

Business logistics costs rose 22% in 2021.

Third Way

The Supply Chain Crisis: What's behind it and what to do about it

The size and scope of current challenges have placed pressure on policymakers to increase resilience of domestic supply chains over the long term.

PwC

Inflation, Supply Chain Snarls and the Incredible Shrinking Margin: What do manufacturers do now?

Feeling the squeeze, manufacturers seek solutions to regain control over their margins.

AP News

Retailers Scale Back Hiring as Worry About a Slowdown Grows

Merchants have learned to do more with fewer people; Walmart, Amazon, and FedEx ease hiring.

American Trucking Association

The Truth About Trucking Turnover

The ATA explains turnover: It more accurately captures churn rather than industry exits.

FreightWaves

U.S. Import Demand Is Dropping Off a Cliff

Container imports bound for the U.S. dropped 36% since May 24 as retailers cancel orders to right-size inventory.

RetailWire

Retailers Applaud as Ocean Shipping Reform Act Sails Through Congress

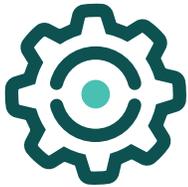
The National Retail Federation (NRF) and the Retail Industry Leaders Association (RILA) advocated for OSRA's passage.

Logistics Viewpoints

Holiday Supply Chains: Are you prepared?

With supply chains clogged and retail inventories piling up, we have a situation.

Top Priorities | Manufacturing



Demand holds strong, but labor shortages, material shortages, and rising input costs limit how much manufacturers can produce. To get the sector back on track, these issues need to be resolved.

Inflation is causing manufacturing input costs to skyrocket

However, increasing the price of goods and services to protect margins is risky, as consumer spending in May and June began [trending down](#). For the sake of other cost-saving options, labor experts suggest manufacturers optimize workforce strategies and people operations: focus on maximizing retention to avoid the high cost of turnover; retool employee skill sets and value propositions for a modern job market that favors autonomy and flexibility; and adopt automation to augment the work of valued team members and ease the burden of staff misalignment. By addressing underlying issues in their labor strategies, manufacturers can offset the increase in material costs without increasing costs to consumers.

The tight labor market is just as big of a daily concern as supply availability

UKG publishes high-frequency workforce activity data monthly that shows [manufacturing shift work continuing to degrade](#). This is the result of many compounding factors, including the [exorbitant rise in employee exits](#) (namely millennials) that began in April 2020, as well as materials availability issues forcing 81% of U.S. manufacturers to [cut employee hours](#) in the past year alone.

With inflexible supply chains slowing production and skilled workers hard to replace, these issues won't ease up until supply chain operations are fortified (e.g., through reshoring/nearshoring), supplier relationships are strengthened, and the sector's [pervasive talent management issues](#) are addressed.

“Looking ahead to positively manifest the future state of manufacturing, more concrete strategies and people-first tools are needed on the frontlines to forecast demand and satisfy the needs of all employees, with respect to real-time market conditions.”

— Kylene Zenk, director of the UKG manufacturing practice

Top Priorities | Logistics



Operating at the whim of consumer activity and battling a vicious cycle of scarcity, logistics companies are vital in connecting all links across the global supply chain — and their job isn't easy.

Retirements, industry churn, and lackluster recruitment despite higher wages and an [expanding talent pool](#)

These are among the foremost issues facing trucking and logistics companies in today's booming freight economy. Driver shortages in the long-haul sector are most severe — [roughly 1.1 million new drivers are needed](#) by the end of the decade to keep pace — but warehouses and other cargo-handling facilities are also short-staffed, and diesel technicians are growing scarce.

As freight demand continues to grow, so must the workforce in the transportation sector. But to achieve vast expansion, the whole culture of the industry needs a refresh to include far more people-centric policies that facilitate life-work balance and field technologies to modernize mobile workplaces. This is the only real solution, but it's not one many companies are taking seriously.

Easing congestion in intermodal operations

A surge in cargo is causing bottlenecks as labor and [equipment shortages](#) prevent freight from leaving the ports, and inventory carrying costs rose by nearly 26% in 2021. Trucking, which represents the largest segment of U.S. logistics spend, [increased tonnage 2.7%](#) YoY in May 2022 and has seen spot market rates jump sky-high. At the same time, rail network speeds and service levels have dropped, air freight costs soared, and water shipment costs rose more than 23%.

We're seeing demand soften — at least [until holiday-season ramp-up begins](#) — which will help ease the strain, but it's not enough. Greater visibility and communication between these interlinking industries and a commitment to real-time data sharing would speed recovery for all and help brace supply chains against future disruptions.

Top Priorities | Retail



Inching toward the holiday-season sprint, retailers focus on balancing inventory, increasing capacity near U.S. ports, and quickening fulfillment times. In the interim, reports show Walmart, Amazon, and FedEx have moderated hiring plans.¹

Dropping prices to unload unwanted inventory accumulated due to supply chain backlogs

Target is holding 43% more merchandise than a year ago, Walmart's inventory levels are up 33%, and Gap, Macy's, and Kohl's admit to having the wrong mix.

Today's shoppers are prioritizing experience and convenience, so store shelves [crowded with excess inventory](#) and off-season merchandise are a big turnoff. With back-to-school and holiday shopping on the horizon, retailers are racing to right-size inventories and even cutting orders to mitigate the risk of inventory build-up in the post-holiday season.

Enticing customers to shop in store: a cost-cutting strategy

Regardless of where retailers sell, there's a cost to moving inventory from factory floors to distribution hubs. But added [costs associated with last-mile shipping](#) (which increased 15.2% in 2021) take a bite out of profits when selling online.

While all retailers need to excel at ecommerce as more spending moves in that direction, enhancing the in-store experience is also vital to attracting customers who might otherwise opt for the convenience of online ordering. Frontline associates are essential to bringing experiential strategies to life. Retailers that prioritize creating a positive employee experience will find success in creating a positive customer experience.

Moving merchandise to distribution hubs, stores, and doorsteps faster

Kroger, Target, and Walmart are among the major players pushing advances in fulfillment flexibility, automated delivery, and [electric vehicle fleets to improve last-mile efficiency](#). Expanding physical footprints to ensure same-day delivery for a vast majority of consumers and claim greater market share is the goal. But while the behemoths are building their own high-tech havens for fulfillment, smaller competitors are competing for [limited warehousing space](#), as vacancies are down 3.7% and rents are up 9.5%.

¹ Anne D'Innocenzio and Haleluya Hadero, Retailers Scale Back Hiring as Worry About a Slowdown Grows, [AP News](#) (July 7, 2022), found at <https://apnews.com/article/inflation-amazoncom-inc-8bdcb19723abcf19bf0d6452df0ef7b7a>

Emerging Concepts in 2022



Global supply chain organizations show strong intent to support diversity, equity, inclusion, and belonging (DEI&B), and publicly held companies lead the way.

This work is core to expanding the labor pool, but in addition to improving recruitment strategies, [Gartner finds](#) DEI&B success and accountability hinges on encouraging inclusive behaviors among leadership.



Autonomous vehicles are coming — they have to — whether or not the average driver is yet ready to share the road.

Although estimates vary based on who you ask, some say the industry could see self-driving vehicles account for 10%-30% of freight-carrying trucks on the road in as little as three to five years. With manufacturing's [steady deployment of robots](#) indicating how automation could impact the transportation workforce, many expect upskilling opportunities will abound for current and future workers.



"Unretirement" is on the rise and "boomerang employees" are coming back.

These trends expanding the pool of available workers will benefit organizations that have optimized employee culture in the past 12 to 24 months to attract skilled and seasoned workers.

About UKG

At UKG (Ultimate Kronos Group), our purpose is people™. Built from a merger that created one of the largest cloud companies in the world, UKG believes organizations succeed when they focus on their people. As a leading global provider of HCM, payroll, HR service delivery, and workforce management solutions, UKG delivers award-winning Pro, Dimensions, and Ready solutions to help tens of thousands of organizations across geographies and in every industry drive better business outcomes, improve HR effectiveness, streamline the payroll process, and help make work a better, more connected experience for everyone. UKG has more than 12,000 employees around the globe and is known for an inclusive workplace culture. The company has earned numerous awards for culture, products, and services, including consecutive years on Fortune's *100 Best Companies to Work For* list. To learn more, visit ukg.com.

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