

Just How Much is Recession Impacting the Global Supply Base – and Sourcing Strategies for the Long Term?

Reports Continue to Show Dramatic Drop in Active Suppliers in Developing Countries; How Permanent is the Damage to the Global Supply Base?

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Data continues to accumulate that the global economic malaise, especially the dramatic slow down in imports by the US and Europe, is wreaking havoc on the global supply base, especially in low cost/developing countries.

As Supply Chain Digest reported earlier, Chinese government statistics show that 67,000 factories of various sizes were shuttered in China in the first half of the year. By year's end, more than 100,000 plants will be shuttered, experts predict. (See [Will there Turn out to be a "China Import Bubble" Too?](#).)

Now, a new global supplier research service is saying that the global supply base in the apparel sector is also shrinking rapidly.

Panjiva, a new company that offers a service that provides data on global suppliers, says its research shows the number of suppliers actively serving the U.S. apparel sector dropped over 70% in just three months, falling from 22,099 suppliers in July to just 6,262 suppliers in October. Suppliers are considered active if they have shipped to an American customer within the previous three months.

Even many of those remaining suppliers are on shaky ground. According to the Panjiva study, 40% of those factories still active in October are now on the Panjiva Watch List as a result of suffering a year-over-year drop of 75% or more in volume shipped to U.S. customers.

It's not clear how many of these suppliers are out of

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the market, or have simply not received recent orders from the US. Nevertheless, it should make importers nervous, as many surely will not outlast the slowdown.

Meanwhile, others are saying that bankruptcy filings by the Big Three US automakers would have a devastating impact not only on domestic suppliers but also on the offshore suppliers that make up an increasingly important share of total parts supply.

These dramatic changes could cause considerable supply chain turmoil, in several ways.

First, companies could find some of their existing suppliers are simply gone. As the evidence from China indicates, this can happen suddenly, with little or no warning; the company and its management simply disappear one day. In addition to the worries over supply continuity, there can be concerns over what happens to the importing company's intellectual property as well as sensitive sales and other information.

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Second, companies hoping to reduce supply chain costs now by starting or accelerating global sourcing strategies may find it much harder to easily find and qualify offshore suppliers.

Similarly, as the global economy eventually recovers, offshore strategies might be hampered for years by a supply base globally that must be substantially rebuilt. Supply disruptions encountered now will be remembered as a sourcing risk in the future and perhaps constrain global sourcing initiatives.



**Is the Global Supply
Base Being Squeezed?**
