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New Reality: New Haven-area manufacturers anticipate long-term impacts — some positive — from supply chain crisis

[By Liese Klein](#)

The images of empty shelves and container-ship traffic jams over recent months have sent a strong message: The supply chain crisis is hurting American businesses and consumers.

But for Guilford manufacturer George Schmitt & Co., the turmoil in global supply chains has had an unexpected silver lining.

Kristen Gunther, a fifth-generation executive at the specialty printer, said recent shortages in materials like paper and adhesives have forced the company to bolster communication between managers and its customers. Internal procedures have also tightened up, she said.

“Some of the positive things that have come out of this is that you really don’t have room for inefficiencies,” Gunther said. “You become the most efficient and organized company that you can in order to deal with the current issues that are arising. If things get better, great. If not, you’ve been able to improve your processes.”

Even as the supply chain crisis shows some signs of easing, many Connecticut manufacturers are resigned to long-term changes in their ways of doing business as delays in shipments of crucial raw materials and components linger.

At George Schmitt & Co., that means managers have been working more closely with customers, who range from pharmaceutical companies to airlines.

Demand for the company's products, which include pressure-sensitive labels, shrink sleeves and RFID-embedded labels, has surged since the start of the COVID-19 pandemic, even as global supply chains stalled. Booming sectors like vaccine-makers and cannabis producers are also clamoring for the company's secure wrappings and other products, Gunther said.

"We've engaged with our customers and our suppliers of materials much more since the supply chain issue started," Gunther said. "We've developed better forecasts and commitments to customers, which can then translate into ordering the raw materials."

Within the company, workers at all levels coordinate more closely than ever to ensure that orders are filled on time, Gunther said.

At the company's plants in Guilford and Florida, space has been reconfigured to house larger amounts of raw materials, stockpiled over months to ensure that production continues despite supply chain holdups.

"There has been some shifting around and making more space available for the amount of stock of raw materials that we need to keep in-house," Gunther said. "It's been sort of an ever-flowing process of organizing and shifting to meet the demand."

Blank purchase orders as prices soar

Fueled by supply chain issues, steel prices were rising so fast earlier this year that Jamison "Jamie" Scott had to take a big risk. Executive vice president at Air Handling Systems of Woodbridge, Scott signed a

purchase order for a future shipment of the steel needed for his company's industrial ductwork — with a blank line where the cost should be.

“The only way I could ensure I'd have material and not run out was to give them a purchase order without a price on it,” Scott said. “Which is risky, but it's always worse to run out of material.” Even so, the decision was a tough one: “How do you price your products if you don't know what you're going to pay for your raw materials?”

Scott, who also serves as executive director of ManufactureCT, an industry group for New Haven area manufacturers, says many companies are facing the same dilemmas.

“Every member I talk to has a story to share about how it's affecting them,” Scott said. “Everybody's dealing with the same issues: rising costs, supply issues, labor issues.”

At Air Handling Systems, executives ordered as much steel as they could earlier this year in anticipation of rising prices.

“I saw the signs,” Scott said, adding he had been through several similar price spikes in the past. Now prices seem to have stabilized and prices are coming down again as more steel from Europe arrives through less congested ports on the East Coast.

Manufacturers that can are also “reshoring,” seeking suppliers and raw materials domestically.

“We're going to be seeing more manufacturing coming back here because there's too many risks,” Scott said. “We saw that first-hand in the beginning of COVID when we couldn't get the [personal protective equipment] here.”

Thanks to the PPE crisis, providers like Hartford HealthCare (HHC) were among the first to announce plans to reshore, contracting with local manufacturers for products like masks and building new warehouse space to stockpile supplies in 2020.

“Our teams worked nonstop to build and create new supply lines, often paying 10 times what PPE would cost in a normal year,” HHC said at the time it opened a new PPE warehouse. “We have committed to building larger stockpiles, ensuring that we will always be prepared, whatever the future holds.”

Reshoring has been an ongoing trend in the state since well before the pandemic, Scott said, only intensified by recent crises.

“There have been manufacturers in Connecticut reshoring for years, because they know they can make it better and cheaper here in Connecticut, than they can get it from China,” he said.

From just-in-time to just-in-case

Both the supply chain and COVID crises may mean a shift in thinking as companies dependent on “just-in-time” production models falter when materials no longer arrive “in time.” Cutting costs to the bone by reducing inventory and seeking the cheapest materials from overseas has backfired for some companies, said Jonathan Shoop, a partner in Marcum LLP’s assurance services who specializes in manufacturing.

“Those just-in-time guys, those price guys, a lot of them are not getting the orders,” Shoop said. “They’re disrupting their customers by not having supply.”

After surveying some of his manufacturing clients, Shoop said he found that many were thriving despite higher prices due to supply chain issues. Executives said their customers were seeking dependability and turned off by gimmicky promotions and cost-cutting.

“The low-cost providers are going to be at risk — their inability to deliver is going to cause them to pivot or be at risk of going out of business because they might lose their customer relationships,” Shoop said.

Companies are also willing to pay more for earlier delivery of machinery and equipment to circumvent congested ports. Those increased costs have been passed on but are not hurting business so far, Shoop

said. One of his Midwest clients arranged to get machinery delivered via Seattle rather than Los Angeles, costing him a bit more but saving him four months of delay.

“I guarantee you that was not part of the buying decision 18 to 24 months ago,” Shoop said. “It was worth paying the price.”

Flexibility is crucial to survive the supply-chain crisis, said Alfredo Fernández, an attorney for Hartford law firm Shipman & Goodwin who works with regional and national manufacturers. Local manufacturers have adapted quickly and also benefited from relatively short supply chains due to the proximity of major clients like Pratt & Whitney.

“By now, the manufacturing community in Connecticut has figured out how to hedge the risks specific to their businesses a little better,” Fernández said, adding, “This is still a pain point for them.”

Paying for warehouse space or hiring a third-party provider to ensure you have enough materials may be necessary, Fernández said. “The desire to be nimble enough for what your customer expects will be one of the driving factors. That may be adding some extra cost for supply security.”

Even at its worst, the supply chain crisis pales to the major issue facing state manufacturers — an aging and dwindling workforce, Fernández said.

When ranking issues, “the workforce is issue one, two and three — supply chain a generous four,” Fernández said. “The workforce thing is so real and what is really keeping CEOs and consultants up at night.”

At Guilford’s George Schmitt & Co., marking its 147th year in business, the recent supply chain issue is just the latest in a series of crises in a history spanning three centuries.

“One of the things that’s made George Schmitt such a longstanding company is that we’re able to adapt to whatever challenges are thrown our way,” Gunther said. “This just happens to be one of the many challenges.”