

# Supply Chains Are Rethinking Sourcing. Here Are Five Things to Consider.

April 1, 2021 Ken Koenemann, SCB Contributor



In recent years, a cascading series of political and pandemic-related forces have wreaked havoc on global supply chains. Things started getting complicated in 2018 when tariffs on China and other U.S. trade partners were imposed, with escalating actions eventually causing a full-fledged trade war. Then, when the COVID-19 pandemic struck and caused a series of global supply-chain shutdowns and restarts, disruptions to the flow of components and goods around the world became dire at times.

With accelerating vaccination rollouts and the prospect of more economies successfully reopening in the near term, things are looking up economically. Unfortunately, however, supply-chain uncertainties aren't going to magically disappear once the pandemic subsides. After all, the trade war persists, and variants of the COVID-19 virus remain a real threat both regionally and globally.

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Given that a return to a greater degree of normalcy in how people work and move about is fast approaching, now is the time to start retooling supply-chain strategies for a fundamentally reshaped and less predictable business landscape. The following combination of five tactical and strategic steps can help manufacturers get on the path to establishing the right relationships and sourcing strategies for greater supply-chain stability going forward.

**Pay a visit to key suppliers to better understand current and potential issues.** Twelve months is a long time to go without seeing an important business partner face to face, especially when that period created unprecedented challenges for manufacturers and suppliers alike. With travel restrictions lifting, it's time for manufacturers to see what suppliers are struggling with firsthand, so they can understand the potential implications to their business. Onsite visits by a company representative or proxy are the only way to get a clear picture of issues suppliers may be dealing with. By providing an unfettered view of what's happening on assembly lines, they're also the best way to identify potential opportunities for helping suppliers better meet business needs. Perhaps most importantly, in-person collaboration and negotiation often result in more favorable contracts, while keeping visitors top of mind and a high priority.

**Seek out secondary partners for critical needs.** The "don't put all of your eggs in one basket" idiom dates all the way back to the 17th century. But when it comes to lining up suppliers, it's an easy lesson to forget, especially when things have gone well for a long time with the same supplier. But even for manufacturers that have avoided supply-chain issues in the last couple of years, there are always potential issues looming on the horizon related to geopolitics, natural disasters, the business health of suppliers themselves and other factors. That's part of why companies like Toyota have long given portions of their business to secondary providers. The other key reason is that it gives all parties an incentive to maintain high service levels.

Given the uncertainty in the world today, it's well worth considering secondary suppliers for critical elements, components, parts and sub-assemblies. Manufacturers that source even a small percentage of key resources from multiple suppliers in different parts of the world have built-in "failover" protection of sorts, because they can more easily and quickly pivot when issues arise in one area. It's true that reconfiguring any supply chain takes time and adds costs, but it's also key to establishing a sustainable supply-chain approach. And it's much less painful and costly than reconfiguring during an emergency.

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**Consider insourcing some elements to increase self-sufficiency.** For many manufacturers, it's worth considering making some parts or elements in-house, since it can help reduce costs over the long term while increasing control. One way to evaluate options is to break value-added steps or processes involved in producing a specific product or good into "packets of work." They could be organized by product group or product and involve procurement, conversion, assembly or packaging, for example.

When evaluating which packets to bring in-house, it's important to consider the ability to deliver goods along with the complexity of moving it (related to certifications, significant infrastructure investments, strict regulations, or even the availability of workers, for example). Until you've weighed the potential tradeoffs of moving something in-house, it's worth keeping any critical packet on the table.

**Pay close attention to risks when considering bottom-line costs.** For many years, manufacturers have understandably gravitated toward low-cost suppliers. If long lead times were a potential issue, they simply carried more inventory. Recent trade policy and pandemic-related volatility, however, should give every manufacturer pause. To make smart sourcing choices in the face of today's operating uncertainties, it has become critical to factor in risk. Moving forward, manufacturers need to understand the tradeoffs of working with partners in different regions by putting a dollar value on risk, using whatever data is available — for example, factoring in the cost of overtime or other inefficiencies related to rush orders or the cost of expedited shipping. The reality is that risk-related costs can add up very quickly, and by making them tangible manufacturers can make better strategic decisions that better balance cost savings and business flexibility over the long term.

**Look to sudden shifts in customer trends for production guidance.** Ultimately, supplier strategies need to be based on a clear understanding of marketplace demands. Over the past year, however, the stresses and fast-evolving realities of the pandemic have upended typical customer buying trends. That has made it more difficult for many manufacturers to understand what they needed to produce. During volatile times, the advantage goes to manufacturers that have the ability to study end customer sales data, identify potential opportunities and shift production accordingly. Analytics or a supply-chain control tower that brings together the right combination of data intelligence and technologies make it much easier to manage through shifts in supply and demand, whether or not they're sudden and dramatic. The challenge is working with customers to get a window into that demand, then building a supply chain flexible enough to support shifting demand during unusual or difficult times.

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The last major pandemic happened in 1918, so it's understandable why many manufacturers were caught off guard by the events of the past year. But between the potential for continuing virus flareups, ongoing trade standoffs and other surprises lurking in markets, manufacturers need to stay on their toes. Of course, catching up or keeping up with production is important. But smart manufacturers also need to stop and think about their supply chains, and what tactical and strategic changes are necessary for surviving and thriving in a less predictable world.



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