SUPPLY & DEMAND CHAIN EXECUTIVE

5 Ways to Maximize Supply Chain Resiliency

Here are a handful of strategies manufacturers can implement now to regain control and be better prepared to weatherfuture storms with a resilient supply chain that strikes the right balance between cost, inventory levels and risk.

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If the last year has taught us anything, it's that with global commerce so deeply intertwined, even the smallest wrinkle in the matrix can cause catastrophic affects. Even as companies are still struggling with the impact of COVID-19-related interruptions, curtailments and shutdowns, the hits just keep on coming.

Throw in one majorly stuck ship with an estimated $9.6 billion impact each day, over 1,800 shipping containers going overboard all at once (blowing the average annual number lost at sea out of the water in one incident), plus a major manufacturing glitch that forced 15 million doses of life-saving vaccines to be scrapped, and it's easy to see why building supply chain resiliency must be a top priority right now.

But, the reality is, these aren't anomalies. For years, as supply chains have become increasingly outsourced, the number of risks and incidents have grown. But, thankfully, many companies are finally awakening to the need to be more resourceful and more diversified in their supply chain planning and management. To reach those goals, here are a handful of strategies manufacturers can implement now to regain control and be better prepared to weather future storms with a resilient supply chain that strikes the right balance between cost, inventory levels and risk.

1) Put boots on the ground at key suppliers.

Most companies that use offshore suppliers make bi-annual visits to conduct an inspection, audit, certification or validation, just to make sure everything is up to snuff with specs and expectations. But, the Coronavirus disease (COVID-19) has made that impossible with travel bans, some of which vary by country or even by region within the same country. And in this instance, video conferencing simply isn’t good enough. Not only can suppliers strategically show you only what they want you to see, hiding serious issues that impact your risk, but there could also be local issues that impact *their* supply chain with trickle down impact on your operations.

You need to have someone physically walk the factory floor. When you can’t be there, it pays to partner with a global organization who specializes in supply chain optimization who can send personnel in on your behalf to do these site inspections. By working as your representative to ensure quality and resiliency, a boots-on-the-ground partner can help you to avoid a panic situation and help you build a plan to reduce risk.

2) Look for alternative partners.

It’s never a great idea to put all of your eggs in one basket. Instead, build a small consortium of suppliers among which you can adjust your order volume dynamically as needed. Start by conducting a small trial with a potential new partner to ensure their quality and reliability can meet your standards and begin to distribute a portion of your orders across multiple suppliers. This allows you to avoid stocking excess inventory to safeguard against hiccups and allows you to leverage geographic cost benefits.

For example, if your single supplier suddenly goes out of business, which happened to many manufacturers during the pandemic, it could be catastrophic for your businesses, but with multiple suppliers, you can simply shift capacity as needed. This approach also allows you to have vendors in different geographies, to leverage the lower-cost benefits of an Asian supplier for example, while also maintaining the stability of one here in North America.

3) In-source what you can to become more self-sufficient.

While complete vertical integration may not be feasible, certainly bringing some of your upstream manufacturing in house can give you the most control and biggest cost advantage long-term. Breaking down your process into packets of work can help you identify the value-added steps involved in producing a product and those that are most critical to your business, which are also the best candidates for in-sourcing.

While the idea of in-sourcing might be a hard sell if you’re already working with limited budget and staffing constraints, there are almost always areas where you can make small changes to increase capacity. Automation is one of the biggest potential solutions, along with adding staff capacity. For example, if you’re not already running three shifts a day, that’s an option, as is adding just a person or two to your existing staff. While it might require you to make a modest investment, it will very likely be worth it compared to the cost of over time, lost freight not making it from the supplier on time and the potential for lost sales.

4) Calculate your risk in real dollars and bake into your supply chain strategy.

The last year has, unfortunately, given us some great data and case studies on the financial impact of supply chain disruption. Was the cause of lost sales due to capacity or supply shortages? What about late delivery penalties, the cost of expedited freight, overtime, premiums paid to suppliers to do an extra production run or make your orders a higher priority? Did you have to invest in more (increasingly costly) warehouse space to store inventory to hedge your bets? All of those can add up to exorbitant expenses that could have been avoided.

Instead, calculate these costs in real dollars and compare that against the cost of finding alternative suppliers. In most cases, the investment you make now in lining up options will pale in comparison to the cost, stress and potential long-term negative implications of scrambling when the next crisis erupts.

5) Look downstream and consider your customers' situations.

Ultimately, your supply chain strategy is driven by demand for your product. If your customers are dealing with their own issues or making unpredictable decisions, it's hard for you to get a handle on what you need to produce and therefore what you need from your suppliers. This is where keeping in close contact with your customers is critical and working together to analyze end-customer sales data can reveal valuable insights for adjusting your own supply chain strategy.

Even as many companies are still trying to catch up or keep up with the volatility of the last year, now is also a critical time to invest in shoring up supply chains. By being proactive now to diversify sourcing and minimize risk, you'll be in a much better position to weather the next inevitable hiccup or storm and reliably meet customer demand down the road.

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