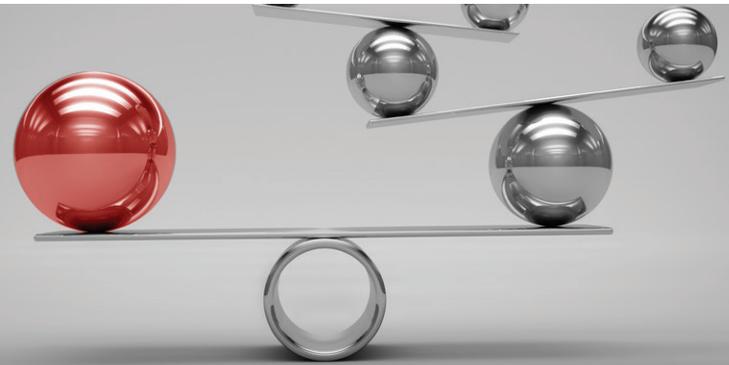


## RECONCILING YOUR SUPPLY CHAIN:

### How to Make Controlling Risk Part of Your Post-COVID Strategy



The world is not as stable as we've grown accustomed to over the past 20-30 years. Supply chain decision and network optimisation strategies are about to become more complex. Risk and regulatory concerns will need to be balanced more heavily in relationship to cost, quality, and service level considerations.

#### Key Takeaways:

- The coronavirus pandemic has exposed supply chain vulnerabilities and made risk reduction a key factor in many manufacturers' supply chain decisions for the first time in 30 years.
- With the reintroduction of risk into the equation, network optimisation has grown more complex and companies need to strike a balance between costs, quality, service level, and risk.
- Geographically diversifying supply chain footprints and looking for opportunities to bring some work in house will be key strategies in de-risking and boosting the resiliency of the supply chain.

#### 5/19/20 | Brian Cromer, John Ferguson, Ken Koenemann

For the past 30 years, ever since the Cold War ended and the expansion of the WTO, manufacturers have enjoyed relatively safe global operations. Because businesses have been able to pretty much source materials and components from anywhere, the leading factors in supply chain optimisation decisions have been cost and efficiency coupled with quality and service level. Given that a supplier could deliver an acceptable quality component in the right timeframe, everything else came down to the bottom line through minimising manufacturing, labor, transportation, and tax costs. The lowest-cost supplier in the lowest-cost country often won the business.

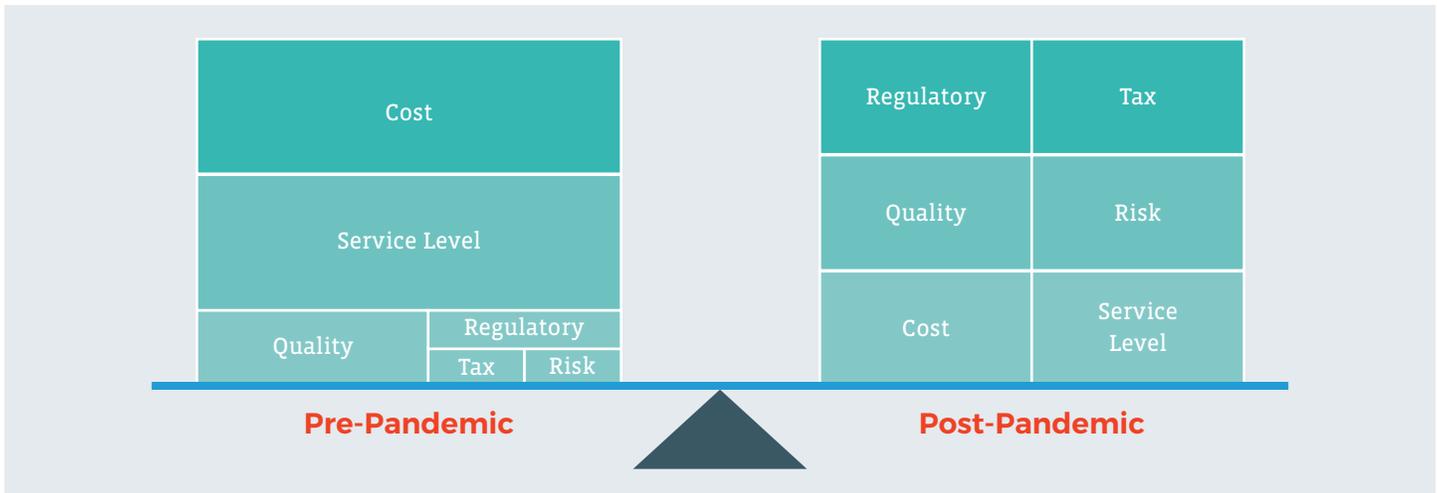
### Recent global events have ushered risk firmly back into the equation

The trade wars with China had some manufacturers already questioning the soundness of sourcing most or all of a key material or component from a single supplier in one part of the world. And the coronavirus hit the point home: Assigning too much of your volume to the supplier who can get you quality parts the cheapest and fastest might look good on paper in the short term, but it can leave your business severely hamstrung. If that supplier can't deliver at some point in the future because of a natural disaster, political instability or conflict, massive infrastructure failure, or some other unforeseen circumstance (like COVID-19), then what?

The current situation has made it all too clear that companies need a more balanced approach to supply chain optimisation ([See Exhibit 1](#)). While costs will always be a key consideration, safeguarding against political, natural, or infrastructure-related disasters must now be more heavily factored into decision-making, at least for the foreseeable future.

**EXHIBIT 1:**

## Rebalance the Factors Driving Your Supply Chain Strategy



### More inventory is one solution—but it could cost you more than it's worth

Carrying more inventory is one way to safeguard against such a supply chain disruption. And it could make sense for your business. However, in some cases, this simply replaces one risk for another. Manufacturers who saw demand for their products dry up overnight in response to the coronavirus learned this lesson the hard way: Having extra inventory on hand is expensive, cumbersome, and ties up working capital, limiting nimbleness and the ability to respond quickly when needed. Additionally, as economies come back online, demand and consumption patterns will change. Suddenly, some of that excess inventory, if you have it, might prove to be obsolete.

### Use the 80/20 rule to establish a safety net and diversify your supply chain footprint

If you have a supplier that checks all the boxes when it comes to cost, quality, and service level, it can feel counterintuitive to move business away from this 'perfect' partner.

Giving a proportion of the volume to another supplier—20 %, for example—is a great way to build resiliency into your supply chain, protect against disaster-related disruptions, and provide a path to disaster recovery.

Ideally, the second supplier will be located in a different part of the world and will have the capabilities to ramp up quickly and take on more of your volume if and when necessary. For example, if you are a U.S. based firm that currently sources all of a specific material from southeast Asia, finding a new supplier in Latin America or repatriating to the States may be a good choice. Such a move not only safeguards against disasters, it

can also protect against regulatory and tax issues that change frequently and can have major implications for parts of your supply chain located in different areas of the world.

Keep in mind that adding new suppliers not only helps de-risk your supply chain, it can also be the impetus for some healthy competition: A secondary supplier that gets a small percentage of your business may be motivated to provide a higher level of service or other incentives to gain a greater share. Of course, this keeps your major supplier honest, too, knowing that you could easily pull more volume if needed.

Finally, diversifying your supply chain footprint and adding suppliers that may be closer to home will shorten lead times, which has implications for inventory and service levels that could benefit your business as well.

### Revisit your internal capabilities

Obviously, the more you can do yourself, the less you need to rely on external partners. This can help remove unnecessary supply chain vulnerabilities. In one case, we saw a client discontinue a product line because it lost the supplier responsible for assembly and the company lacked the inhouse capabilities to bring the task back in-house. It's well worth assessing if and where your business has the capacity to handle certain aspects of the production process that you currently outsource and determine the potential financial impact of making such a move.

### Identify "packets of work" to make in-house or elsewhere

One way to facilitate such an analysis is to divide all of the value-added steps in the production process into "packets of work." For example, conversion, assembly, and packaging could be considered individual packets. Simultaneously, packets can be broken down into different products and product groups. Breaking the work down this way makes it easier to assess the ease and feasibility of moving some packets in house and/or distributing other packets amongst suppliers to build more flexibility into the supply chain.

## Strive for balance

Right now, **manufacturers are making changes to their supply chains** out of necessity to accommodate for suppliers who can't or won't fill current demand as a result of the pandemic. As you are responding to short-term circumstances, it's a great time to think longer term and more strategically about what you can do to de-risk your supply chain. Identifying opportunities to geographically diversify your supply network footprint and expanding your network optimisation process to better balance risk with cost considerations are excellent places to start. These first steps, as outlined in Exhibit 2, can help you begin to develop the supply chain resiliency needed to operate in what will likely be a riskier environment for some time to come.

### EXHIBIT 2:

## Reconciling Your Supply Chain Post-Pandemic

### Give a portion of the volume to another supplier—say 20%

- ✓ Build resiliency into your supply chain, protect against disaster-related disruptions and provide a path to disaster recovery while reducing risk and creating an impetus for some healthy competition

### Find a second capable supplier in a different part of the world

- ✓ They can ramp up quickly and take on more of your volume if and when necessary

### Consider near shoring or re-shoring with a supplier closer to home

- ✓ Safeguards against disasters and can also protect against regulatory and tax issues that change frequently causing major implications for parts of your global supply chain

### Divide all of the value-added production steps into “packets of work” and bring them in-house or assign them to another supplier

- ✓ Makes it easier to assess the ease of moving logical “groupings” of work and builds more flexibility into the supply chain

## Meet the TBM Experts



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