

## COVID Recovery: It's Time to Stock Up on Speed and Flexibility

Anyone who says the pandemic, lockdowns and deep economic impact could have been predicted, and planned for, is speaking with the benefit of hindsight. Effectively responding to product shortages and the market turmoil caused by the pandemic will require a combination of new government policies and lean manufacturing practices.

Casting blame for failures to respond quickly enough to a once-in-a-century pandemic won't help our frontline caregivers or make us more prepared for the future. No one could have predicted the speed and depth of this crisis. The fundamental lean manufacturing principles of speed and flexibility, and a reassessment of supply chain risks, will be essential for getting through the coming months and future preparedness.

In the midst of the coronavirus pandemic, **critics** have said that the U.S. government and other countries should have been more prepared. They say that hospitals and American industry have become too dependent upon offshoring and just-in-time (JIT) inventory management. These **cost-saving strategies and the quest for efficiency** have been blamed for our shortages of personal protective equipment (PPE), ventilators, paper

products, sanitiser and some food, among other things.

The pleas for critical supplies from healthcare workers on the front line of this battle have been tragic and deeply frustrating. The ongoing struggle to procure adequate protective gear so they can safely do their jobs is a clear systemic failure. It's a failure that some people **predicted and tried to prevent**. But no one predicted the magnitude of this crisis. Normal everyday business-driven decisions are not intended to accommodate catastrophic events. JIT and lean manufacturing practices are not too blame. They will, however, be a big part of the solution for every segment of the economy.

## Change Will Come

Responding effectively to major market and societal disruptions like the pandemic requires the speed and flexibility inherent in a lean manufacturing and supply chain strategy. These capabilities and resiliency—which are being developed out of urgent necessity up and down the supply chain to fulfill the current demand for masks, gloves, goggles and gowns—will need to be maintained for future preparedness. Industry is never going to go back to carrying massive quantities of “just-in-case” inventory.

Just as defense supply chains should be strategically protected, in the future every country will need to take steps to recognise and better protect food supply chains as well as healthcare products and services. Some of the government policy measures proposed before this pandemic to improve responsiveness and prevent critical shortages include:

- Flexible production lines and surge capacity that can be augmented and ramped up to meet rapid increases in demand.
- Hard commitments by government and hospitals to buy domestically made masks and other supplies so manufacturers have an incentive to maintain capacity.
- Establishment of federal emergency production lines.
- Building government stockpiles at the federal, state and regional levels.
- Approved processes and equipment for sterilisation and reuse.

Of these potential preparations, it should be noted that stockpiling inventory of select healthcare supplies is not the simple solution some are making it out to be. Many of these products have a shelf life, which would require ongoing funding to be replaced. Any equipment, like respirators, needs to be regularly checked and maintained. And unless we stockpile everything—which isn't financially viable—odds are we will have the wrong supplies in most demand for the next crisis.

On the industry side of things, inventory planning strategies and algorithms are based on normal demand patterns and seasonal fluctuations. After the economy settles down these models will still be effective 99% of the time. At the same time, business leaders will have to recognise that every 10 years or 20 years or 50 years, there will be a wildly unpredictable event at the local or macroeconomic level that throws all planning efforts into disarray.

**You simply cannot plan for these once-in-a-generation events. But you can prioritise adaptability and responsiveness so you can accommodate and survive such disruptions when they happen. Many manufacturers are demonstrating this resiliency today.**

For example, at one of our client's some of the production lines have been shut down. Other lines can't produce product fast enough to meet huge increase in orders. There's no way they could have forecasted such a shift or the increase in demand, and then fulfilled orders from inventory.

The unprecedented swing means the production capabilities of their network—strategically located close to key markets for rapid replenishment—are no longer aligned with local demand. The company is responding to these regional imbalances by adjusting their logistics strategy and shifting capacity where possible as quickly as possible.

Similar experiences will build supply chain resilience and improve the ability of manufacturers' worldwide to respond to future disruptions. Going forward these capabilities will need to be augmented by a deeper understanding and management of supply chain risk.

## **Hidden Supply Chain Risks Revealed**

Over the past several decades, as we have shifted production and selected suppliers based on costs and service levels, companies and government organisations have become more risk tolerant. We've become desensitised to risks from environmental, political and other potential disruptions. The trade disputes between the United States and China and the imposition of tariffs on many products were an early warning that some risks hadn't been fully accounted for in our strategic sourcing models.

Future supply chain strategies will need to be rebalanced to place more emphasis on minimising risk, and less on lowest possible costs, which government tax, regulatory and procurement policies can incentivise.

**Manufacturers will need to focus on two primary areas, which can be managed independently:**

- **the flexibility and responsiveness of your raw material supply chain, and**
- **making your conversion and production process for finished goods as fast as possible.**

On the raw material side, it may still be okay to utilise long supply chains for commodity-based items that you can afford to store more of. To reduce risk by moving production closer to consumption and enhance responsiveness, it may make sense for U.S. companies to source lower percentages of products from long-distance suppliers in China or Southeast Asia.

## **From Blame to Growth**

This being an election year, in the coming months there will be plenty of finger pointing around the shortcomings of the government's preparation and response to the coronavirus pandemic. Again, no one could have predicted the societal and economic impact of this epidemic and subsequent lockdowns. Such allegations and recriminations aren't very useful for meeting the current needs of our healthcare workers, or for the economic recovery, or for preparing for future outbreaks.

Again, it all comes down to the fundamental principles of speed and flexibility. The companies that succeed will continue to focus on shortening lead times and their supply chains, from raw materials to finished goods conversion. Effective management teams will demonstrate rapid problem-solving capabilities. They will apply lean strategies to recognize risk and adapt quickly to a changing context and demand patterns, then make alternative plans when there are disruptions.

Manufacturers today are being forced to build their resiliency muscles. You are building your organisation's speed and flexibility, and deepening everyone's understanding of risk. All of these capabilities will be essential in the coming months and in the longer term when more normal demand patterns return.



### **Bill Remy, Chairman and Chief Executive Officer**

Bill Remy is Chairman and CEO of TBM Consulting Group. His career expertise includes deep knowledge of operational performance improvement, site transitions, acquisition integration, new product development and supply chain management.



### **John Ferguson, Vice President**

John brings a wealth of experience as an executive leader in operations and supply chain management with deep background running international operations. He oversees all aspects of TBM's international business in Asia-Pacific, Latin America and Europe.