

Coping with Supply Chain Uncertainty

What Techniques are Companies Using to Deal with Supply and Demand Volatility in Today's Markets? Recommendations from the Supply Chain Executive Forum

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Despite some positive economic signs on the horizon, these have been challenging times to say the least for managing both businesses and supply chains.

Not only have sales volumes in general decreased, in many cases substantially, there is also increasing variability in both supply and demand. (See [In a Period of Falling Demand and Supply Chain Complexity, Lack of Visibility May have Exacerbated Economic Downturn.](#))

At the recent Supply Chain Executive Forum at Georgia Tech, managed by **Dr. John Langley**, a number of supply chain leaders from across industry sectors broke off to discuss how they were coping with supply and demand uncertainty. Below is a summary of those strategies:

Coping with Supply Uncertainty:

- Most were moving to use dual or even tri-level sourcing to protect against key suppliers going under. Noted, however, was the potential for an "un-virtuous cycle" in which some business is taken from a financially struggling supplier, which causes it even more financial troubles, leading to still more concern by the buyer, etc.
- Moving to larger suppliers: In general, the executives said they felt better about the staying power and financial condition of larger suppliers.
- Doing much more contingency planning: Companies are doing a lot more formal and informal "what if" analyses around the potential loss of suppliers due to financial turmoil.

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- They are also doing much deeper and more frequent financial analysis of key suppliers. However, there was no clear consensus on how to do this effectively. Some just rely on D&B reports, which are often behind what the latest financial condition of a firm is, and many attendees said they were unsure of the best way to analyze a supplier's financial condition.
- Supplier Segmentation: Many companies are segmenting suppliers by their level of importance and how difficult it would be to find replacements, and letting that classification drive the level of analysis and even financial support that might be provided. "You just have to let non-critical suppliers go," if they are in financial trouble, one attendee said.
- Keeping Vendors Profitable: A few companies have actually made some change in terms or other elements of their supplier relationships in order to help keep certain suppliers at least marginally profitable.
- Focus on Innovation: One attendee said too many companies right now were looking only at beating down supplier costs without looking

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how to do so through joint innovation. "Now is really the time for partnerships and innovation," he said.

Coping with Demand Uncertainty

- Most companies were trying by whatever means they could to get closer to actual end customer sales data to understand what is really happening as fast as possible.
- All the companies were putting increased focus on inventory management, especially getting more granular in the analysis and operating with a much increased sense of "urgency." However, they noted in many cases this took away from some more strategic activities the planners used to do.
- Better segmentation also played a role here as well, as companies say you have to better identify which SKUs/families really need a lot of attention and which can flow through the system without much manual intervention.
- Several of the executives said their companies were shedding some non-core business or product lines. "Nothing like a steep recession to focus you on what's important," one attendee said. Almost every attendee in the group said they had been doing some level of "SKU rationalization."
- Many were also looking to add supply chain



flexibility to cope with more uncertain demand, which many felt was likely to remain to a large degree even after the recovery.

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"You really have to understand what is in cost and what the real drivers of those costs are to attack supply chain costs effectively and maximize margins," one attendee observed.