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## Managing Supply Chain Turbulence

In today's turbulent environment, companies must re-think certain supply chain fundamentals to maximize revenue and margin. Industrial manufacturers must manage balancing strong demand with massive supply chain disruptions and slim inventories.

In this environment, cost has taken a back seat to supply security. In a recently concluded AlixPartners' survey of Chief Procurement Officers and supply chain leaders, nearly 30% of respondents indicated that their top priorities going into 2022 were securing capacity from suppliers and managing inflation.

In today's supply markets, disruptions happen on many levels:

- Commodities: Several raw materials, such as steel, aluminum, copper, resin, tin, magnesium, or many others, are constrained on supply and so seeing price spikes. In many cases, there have been physical shortages of materials as well. Forward price curves indicate that prices are expected to come down for some materials, but fundamentals do not indicate an immediate relief.
- Freight: Freight cost have increased substantially across domestic trucking, international air freight, and particularly international ocean freight. A mismatch of container and ship locations, and a throttling down of port throughput means freight bottlenecks will continue to plague supply chains.
- Labor: The recovery back to pre-COVID levels will likely extend well into 2022 in the US given the demand for labor, driven by the demand for goods and loss of workforce availability.

Industrial manufacturers need a framework that aligns macro-economic risks, supplier performance and production requirements to organize for rapid responses to minimize production delays, incremental operating costs, and revenue losses. Companies need a playbook for this unique period of price inflation, and how to prepare to emerge from the crisis stronger. The following three questions can serve as a framework how companies can rethink supply chain fundamentals:

1. How to 'Find Parts & Materials'?
  - o Successful companies are deploying dedicated SWAT teams to address supplier communicated shortages and find parts & materials. The SWAT team's core focus is to actively engage with troubled suppliers or commodities and then to escalate actions that mitigate disruptions through direct, sometimes on-location, interactions with suppliers. This means proactively turbocharging various stages of the purchasing process and working with suppliers to procure material, developing engineering and sourcing alternatives to maintain supply, and finally to developing a rolling production and recovery plan to return to operational steady state.

- Advanced planning teams are frequently installed to anticipate supply disruptions well in advance and before they become real issues and to allow companies to act more proactively. The Advanced Planning Group's mandate is to identify early signs of disruptions that have the potential to manifest within the supply base in the coming weeks or months. The group should stand-up a centralized "control tower" to source input signals from across the supply base, weigh the risks, and determine appropriate actions.
- 2. How to 'Address Price Inflation'?
  - Successful companies can use large scale indexing, hedging or other techniques to pass through material costs to customers to reduce their exposure to price risks
  - A strict prioritization of higher-margin product configurations may protect margins by trading off price for volume
  - Contract terms (e.g., increased contract durations, take-or-pay) might mitigate near-term cost spikes
- 3. How to 'Emerge Stronger from the Crisis'?
  - Increasing material price transparency, for example, through raw material indexing or surcharge agreements, could be a first step towards strengthening the supply chain
  - Many companies also increased their supply chain resilience by having been forced through the crisis to qualify more parts and suppliers
  - Technical cost reductions or alternative designs are another avenue how many companies successfully mitigate supply disruptions
  - Re-evaluating the sourcing footprint can also reduce dependency on highly complex supply networks (e.g., nearshoring / reshoring)

In a recent engagement, AlixPartners helped a leading manufacturer stand up a supply disruption control tower that addressed immediate headwinds and fortified them for global supply disruptions that are likely to persist well into 2022. During the engagement, the team helped maintain the production schedule at 3 different manufacturing sites in North America by:

- Sourcing over 1,600 tons of steel, 150,000 semiconductor chips and 30,000 pounds of resins – all of which were under supplier allocations and claims of force majeure,
- Improving supplier lead-times by 66%, reducing port side wait times by 33% and stopping all air freight expedites, to ultimately
- Realizing nearly 30% of revenues that would have otherwise been lost due to a lack of materials and parts.



Managing Supply Chain Turbulence  
Page 3 of 3

To learn how you may position yourself to limit being hostage to legacy supply chains / internal processes and navigate today's fractured world — please contact:

Dan Hearsch  
[dhearsch@alixpartners.com](mailto:dhearsch@alixpartners.com)

Gerrit Reepmeyer  
[greepmeyer@alixpartners.com](mailto:greepmeyer@alixpartners.com)