



# Broken Supply Chain – What To Do?

When you consider a shut down that was supposed to be two weeks has lasted more than a year, it might put into perspective the pain you are feeling with respect to lead-times and costs increasing.

**This time is different.** We have experienced supply chain disruptions, allocations and volatility before. A global free market can get out of balance from time to time, like a rogue wave across the ocean. Those events are usually short lived and the causes are often identifiable; tantalum shortages, dotcom bubble, etc. This time is different. The normal methods and outlets that relieve demand pressures are not functioning, or at least not functioning in a manner familiar to the participants. As a result of an inefficient work from home environment, employee shortages due to shutdowns, employers competing with unemployment compensation to staff employees, and regions returning to work at different rates, we are witnessing an extremely volatile supply chain, full of inaccurate communication, out of phase key process indicators and delivery commitments that repeatedly go unfulfilled.

**Major parts of the supply chain appear to be broken.** This is not an exaggeration. A major Abracon manufacturing facility burned down. The massive cargo ship MV Ever Given became stuck in the Suez Canal, bringing one of the world's busiest shipping routes to a halt for weeks. India's second COVID wave is dramatically steeper and more traumatic than the first, resulting in a dramatic shut down. China-US relations remain tense as tariffs continue to expand.

#### **Lead-times and costs are increasing.**

- In an open letter to customers on December 30, 2020, Christopher Jackson, Director of Pricing & Analytics at Avnet stated, "Avnet has recently seen the overall market tightening including a substantial increase to demand across most product lines. There also continues to be constraints from sub-contractors and packing manufacturers within the electronic components industry at large. This has resulted in a number of our supply partners issuing notices to Avnet for significant price and/or lead-time increases."
- Component manufacturers are reporting unfavorable market trends. Texas Instruments is reporting lead-times of up to 53 weeks and ST Microelectronics has certain part series on allocation.
- The price of copper has more than doubled in the past year.
- Rates for air freight and ocean freight have risen 50-80% in just the past two months.

The question remains, what should we do in response to these unprecedented times.

**Be a good participant.** Do not create more volatility by double ordering parts in an attempt to protect your supply chain. The effect of this type of response is more damaging long term to everyone.

**Get those engineers looking at alternative components.** It is time to rethink the traditional response to obsolete parts and product requalification. The typical response can no longer be typical.

**Look further out.** If your typical planning horizon is six months, quadruple it. Take the risk to make commitments for the long term. If manufacturers are unwilling to accept long term orders, design them out.

**Focus on the winners.** You know the product lines that are well past the long tail stage of their evolution. Those products that have been in decline for years, cut them off now. Don't just raise prices and allow the market to correct – take them out of production. They are disproportionately consuming valuable resources needed elsewhere.

**Communicate clearly.** To all your stakeholders; customers, suppliers, employees - communicate your supply chain strategy clearly.

**Invest in digital.** Supply chain participants will digital capabilities 1) move faster, 2) consume more data, 3) receive more accurate information, and 4) are easier to do business with. As a result, they make better and more informed decisions than their peers that do not have digital capabilities.

If you are uncertain what digital capabilities in the supply chain look like, please contact us.