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## **Entropy Busters® Series**

How that's Plan "B" for your China Supply Chain?

Part 2 - Coronavirus (COVID-19)

Volume 3 | Number 2 | February 2020

**My October 2019 Newsletter was titled:**

## **"What's Plan "B" for your China Supply Chain?"**

I started with, "Let's start with the realization that plan "A" to relocate operations to China had a major flaw. If you moved manufacturing to China, India or any other low-cost producing country with the intention of importing goods back to North America or Europe (half a world away), then your plan was unsound!" The primary focus was on inventory velocity, total cost of ownership and the ethics of investing. Now we are in the middle of a S^&% storm of COVID-19 with world-wide impact to supply chains and the global economy.

Currently, many air carriers have stopped flying to China. Manufacturing and services in the impacted areas are closed or only starting to operate again, and many ports are still closed. Imagine your business not being able to receive product from China for months. How will this impact your customer's loyalty, profits and corporate valuations?

Apple, GM and many others announced significant impacts to their supply chains that will delay manufacturing with the potential of shortages on retail selves.

I don't want this to be about how to contain, and the triage of the current

situation. All enterprises have created teams to minimize the impact of COVID-19 related supply disruptions. We are great at crisis management.

Let's become great at preventing the inferior solution. So that being said... how is the Plan "B" for your China supply chain coming? Like many, you have been ignoring the warning signals: now there is a "burning" platform. Are you ready to take action? Use this event as your "All Hands on Deck", "Battle Cry", or Winston Churchill moment.

What lessons can we learn?

- 1.** Focus on long-term and not quarterly profits.
- 2.** Don't ignore the warning signs.
- 3.** Avoid group think. Just because other organizations are "doing it" does not mean it's a good idea. As the guardian, of an enterprise there is a requirement to think beyond the current frame of focus.
- 4.** We need to think regionally.
- 5.** Focus on inventory velocity, part and process quality, and become a zealot for total cost of ownership.
- 6.** Software providers have done an excellent job of "selling" integrated supply chain solutions. However, how integrated can your enterprise be with 90 to 120 days of total pipe line inventory?
- 7.** Manufacture products regionally for regional customers.
- 8.** The stewardship of low cost country sourcing.

**9. Imagine customer loyalty when your enterprise keeps products and services flowing when others can't?**

We are in the early stages of this new global threat. I hope and pray for a quick recovery. Those of you who know me well, know I'm an optimist. However, if we don't take action now to protect our enterprises from the next threat, it could just be the BIG one.

I would hate to have to say I told you so, again. What is your Plan "B"? Don't be afraid to ask for help!

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## Entropy Busters® Series What's Plan "B" for your China Supply Chain?

Plan "B" for your China Supply Chain  
Volume 2 | Number 10 | October 2019

### What's Plan "B" for your China Supply Chain?

Let's start with the realization that plan "A" to relocate operations to China had a major flaw. If you moved manufacturing to China, India or any other low-cost producing country with the intention of importing goods back to North America

or Europe (half a world away), then your plan was unsound!

I was taught to do everything possible to reduce lead-times and increase inventory velocity! Why is this important? Longer lead-times increase inventory. More inventory equates to less profits. Why? Because inventory delays fixing problems. When I see corporations chasing the labor "ghost", I cringe! Labor typically accounts for 8-12% of the total cost of ownership. But too many leaders only have one play in their play book: to reduce labor costs by moving head count to low cost countries! They are missing 90% of the total cost of ownership!

Why? Leaders view raw materials as a fixed cost. And inventory carrying cost incrementally at about 6% (Prime +1), and too often leaders believe the only variable they can control are labor costs.

### **We have not injected Operational Excellence into our American DNA.**

Yes, we have innovation in our DNA: just look at Tesla, Apple, Facebook, Google, and Amazon. However, too often, corporations are looking to the silver bullet of innovation to resolve their lack of global competitiveness.

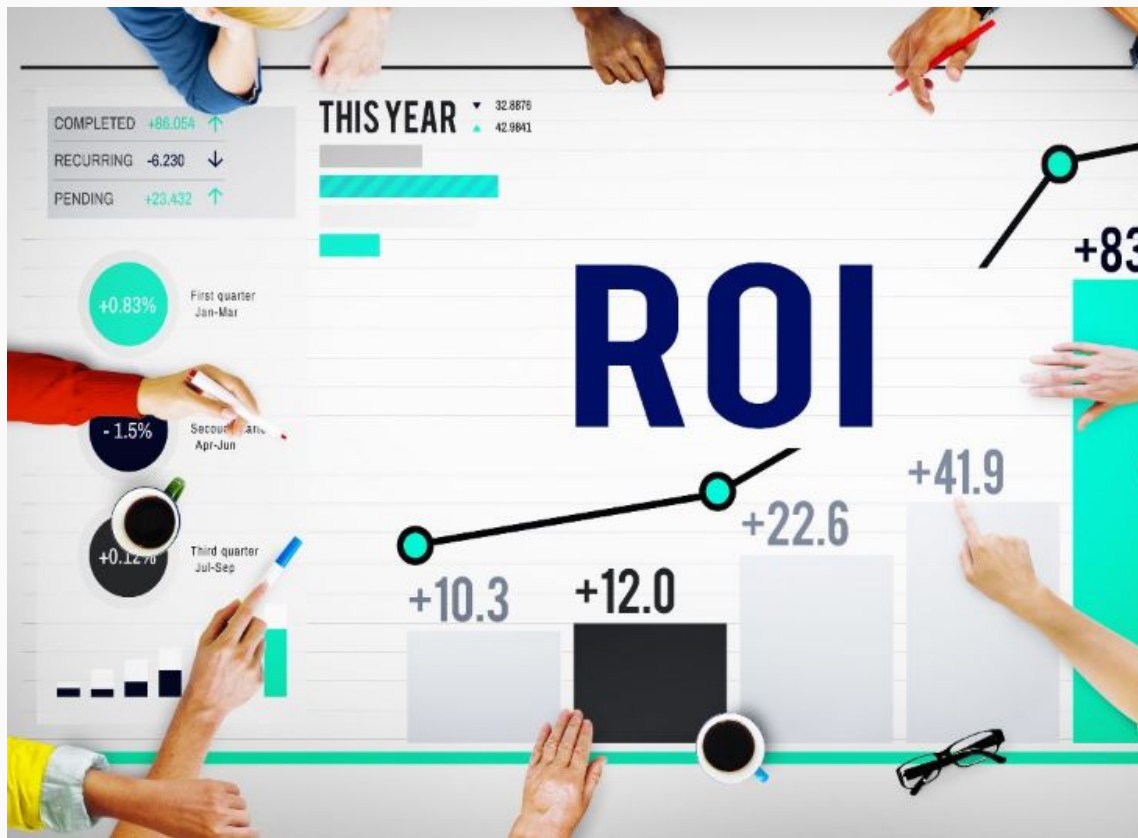
Operational Excellence is the long-term game plan. It takes patience, tenacity and grit to achieve it. Operational Excellence, gains are typically more sustainable, enterprise empowering and greater long-term profits are the result.

If the US is going to regain manufacturing leadership, we must establish and inject the Operational Excellence philosophy into all functions of our enterprises

We cannot forget the total cost of ownership. Over the long-term, when lead-times are increased, so are total costs.

- Longer lead-times typically increase forecasting variance which necessitates more inventory.
- The longer lead-times and increased inventories negatively impact customer service with lost flexibility and responsiveness to change.
- Engineering changes take longer to implement and are more costly

- Cost increases to support a complex supply chain.
- Cost of quality increases due to the length of the supply chain.
- Cost of Inventory Increases.
  - Obsolesce cost increases.
  - Inventory shrink, loss and damage increases.
  - Transportation cost increases.



Over the past three decades Japanese, Korean and European manufacturers have invested heavily in US plants and infrastructure. During this same period, US automotive manufacturers have lost an estimated 40-50% of the domestic market share to both Japanese, Korean and European transplants who have provided better quality and more options for the same price. What do they know that we don't? They understand the total cost of ownership and how to drive costs down through operational excellence.

[Japanese automakers tout US-based jobs at all-time high as Trump ramps up trade war](#)

[Japanese car makers in America - Twenty years down the road \(From 2002\)](#)

I believe that over the next few years, the inability to manage total cost improvements will be seen as an error in judgment and lack of foresight on the part of industrial leaders and US government economic policies. Additionally, the long-term impact to the US middle-class tradesman and industrial complex will be devastating. We can't afford to lose the middle-classes' important contribution to our economy. They are the drivers of our economic stability!

Not only should the enterprise's total cost of ownership be top priority; but leaders need to uphold corporate values and ethics. Corporate leaders must be careful not to compromise the integrity of the company to which their guardianship has been entrusted.

For example, the Chinese government's:

- Gross currency manipulations.
- Raw material subsidies.
- Anti- American policies.
- Intellectual property laws openly violated.
- Human rights violations.
- Unethical loans to third-world countries with the un-disclosed intention of controlling their natural resources.
- Finally, do we really think countries with anti-American policies are concerned with our long-term viability?

**One question. As the guardian for your enterprise, is this your legacy?**

**Self-Ranking - Pick one of the four questions below and then fill in your comments in the space provided.**

1. Don't think this applies to your business or enterprise? (Write three to four reasons why it might not.)
2. This is a new idea and strategy, it's something we need to work toward. (Brainstorm the first steps.)
3. We can do better, modify our strategy, and now we are moving in the right direction. (What are the next steps to ensure success?)
4. Our team gets the necessary time to keep their minds fresh and we have plans to live our dreams. (Comment on how you're ready.)

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<b>High</b> Organizational recognition of the need for change	<p><b>2.</b> This is a new idea and strategy. We recognize it's something we should be working toward.</p>	<p><b>4.</b> We are doing it and have a high degree of confidence in our process and results.</p>
	<p><b>1.</b> Doesn't apply to our business.</p>	<p><b>3.</b> We are trying this methodology. However, we could be doing better.</p>
<b>Low</b>	<b>Low</b>	<b>High</b>
	Organizational drive for on going process improvements	

## Art Koch's Profit Chain®

Dramatic improvements to inventory velocity, increased customer service and corporate profits”

## Entropy Busters®

Stop letting the process manage you! Become the champion of your game plan and achieve sustainable profits.

## **Inventory Is Evil!™**

**in·ven·to·ry / 'in-vən-ˌtôr-ē / noun**

Inventory is the term for the goods available for sale and raw materials used to produce goods available for sale.

**in·ven·to·ry is evil! / 'in-vən-ˌtôr-ē is 'ē-vəl / phrase**

Left unchecked inventory has many negative unintended consequences to profitability. It hides problems; **therefore, it delays fixing problems!**

**Art Koch's Profit Chain™**  
**Turning Operational Problems into**  
**Profits™**

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Thanks in advance for your time. As always, thanks for being a loyal client. Looking forward to helping you and your team again soon.

Carpe diem,

[Art Koch](#)

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