



Art Koch's Profit Chain® Series

Winning The Parts Allocation War

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Shortages -we're living them every day: stock-outs of our favorite food, the new gadget for the home office, or deficiencies that are impacting our manufacturing processes. Even if they are not directly affecting us, we certainly have heard about them on the news. STOCK-OUTS!!

What's driving these shortages? As a manufacturer, distributor, or retail store, is there anything we can do about it, or are we just powerless to change the status quo?



Here are a few of the root causes of these shortages:

- The COVID-19 pandemic caused unprecedented disruption to the global supply chain. In early 2020, the directive was to STOP production and deliveries. Instead, corporations focused on protecting their cash positions to ride out the pandemic. As more information became available, we learned that most of our consumption patterns had changed.
- The pandemic accelerated the inevitable move to online shopping by five to ten years and dramatically increased the demand for all things electronic.
- Then, add in the unanticipated events of the great Texas freeze-out and Suez Canal blockages, and you can feel the gravity of the impact on global shortages.

Is there anything you can do about the situation, or is it the best approach to ride out the disruption cycle?



I have worked with a wide range of companies and have an excellent network of connections. Because of this experience, I know their procurement methodology toward suppliers. There are three primary methodologies:

1. Build partnerships and establish multi-year procurement agreements. Most supplier partnerships develop from long-term relationships.
2. Issue one-year contracts and rebid top spend annually. Switching up to 25% of purchasing volume of the supply base each year is typical.
3. Rebidding every purchasing decision and treating every decision as a spot buy. The exceptions are commercial and commodity parts.

With this information in hand, I completed an informal analysis of the client's procurement methodology. I asked how they were faring with the current supply chain allocation and pricing pressures? If they are suffering from material shortages, delays, price increases, or the inability to secure a container to ship your international goods?

First, understand that everyone is facing some type of delay, allocation challenges, or upward pricing pressure. The main differentiator between groups is the magnitude of the "pain" experienced.

Reviewing the methodologies and the level of pain felt in each group:

1. **Partnerships:** They feel "bruised" but believe their suppliers are looking out for their best interest. For allocated items, I have heard multiple times, "we are not at the end of the line."
2. **Suppliers:** Generally, they are dealing with more shortages and allocation than the Partnership group and a significant magnitude less than the vendor supplier group. However, it's manageable.
3. **Vendors:** This is the group that is feeling the most pain. One of my clients point-blank said, "we have zero bargaining power, and the only answer is to pay more money or risk not getting our deliveries."

In summary, my informal poll of purchasing managers showed that 85% believe that they would be worse off during the period of disruption if they had not established partnerships and supplier relationships. They may not be perfect, but it's a far better experience than that of their colleagues

who have a short-term focus on suppliers.

I always insist, “a crisis is a terrible thing to waste.” Now that you can see the correlation between supplier partnerships and short-term methodologies, what actions can you take right now to play to win and improve your total cost of ownership?

Applying the above building blocks to your process will allow you to shift your organization's belief system on inventory and transform problem chains into highly competitive profit chains.

Art Koch's Profit Chain®

Create dramatic improvements to inventory velocity, customer service, and corporate profits.

If you have any questions or concerns about your operations and supply chain business strategy, please contact me by [e-mail](#) or at +1 (336) 260-9441.

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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.)

- _____.
 - _____.
 - _____.
 - _____.
-



Don't be afraid to call with any questions or comments.

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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!**"

Transforming Problem Chains into Profit Chains™

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

Carpe diem,

[Art Koch](#)

Arthur Koch Management
Consulting, LLC

info@arthurkochmgt.com

+1 (336) 260-9441



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Our mailing address is:

21200 NE 38th Ave, Suite 2003, Miami FL, 33180
info@arthurkochmgt.com +1 (336) 260-9441

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