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Gartner for Supply Chain

# 14 Tactics to Counteract Supply Instability

Proven supply chain management practices to offset the impact of supply constraints.





# Overview

Whether it's runaway price inflation or severe material shortages, supply chains are being battered by supply instability.

The widespread nature of today's supply constraints limits the effectiveness of any individual action to offset the impact of supply instability. Thus manufacturers are employing a range of tactics whose effectiveness varies widely by industry, competitive dynamics and supply chain characteristics.

This white paper explores a collection of tactics that Gartner analysts have observed being employed to help dampen the effects of supply instability. The list is not definitive, nor do these tactics "solve" for supply instability. Rather, chief supply chain officers (CSCOs) and chief procurement officers (CPOs) can use this analysis to stimulate idea generation around tactics that could be employed for their unique organizational context.

Each tactic aligns to one of four fundamental strategies:



**Shaping orders**



**Shaping the portfolio**



**Securing lower tiers**



**Optimizing allocations**



# Tactics to Shape Orders



Use commercial levers and transparent order management policies to shape demand around periods of acute shortage.

For example:

**Incentivize on availability.** Work with your commercial teams to ensure they use incentives (discounts, terms, lead time) to shape demand toward available options or products.

**Increase the transparency of allocation rules.** Develop and clearly communicate allocation rules that are not dependent on current order backlogs — for example, using historical volumes. A common tendency in periods of extending lead times is for partners to panic-buy. Establish allocation limits (within transparent rules) that are not based on current orders, to minimize the impact of panic buys.

**Adjust customer prices.** Though pricing actions are rarely the first choice of CSCOs and CPOs in combating supply constraints, they may be necessary where exposure to severe constraints is high.

# Tactics to Shape the Portfolio



Adapt the product portfolio to drive customers toward products or configurations that can be delivered within market-competitive lead times.

For example:

**Rationalize the portfolio.** Limit configuration options to the critical platforms where volumes are material.

**Use alternative materials.** Work with the quality organization to determine the alternative materials or components with comparable fit, form and function that can be used temporarily.

# Tactics to Secure Lower Tiers



Modify commodity management strategies to maintain continuous supply in the near term, while avoiding overreacting and prolonging the impact when supply markets recover.

For example:

**Consolidate supplier subtiers.** Negotiate volume directly with your supplier subtiers to increase purchasing leverage.

**Consolidate across business units.** Prioritize supply to the product lines with the greatest impact.

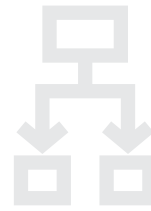
**Prebuy components with longest lead times.** Partner with your suppliers to identify components with extended lead times or high supply uncertainty. Develop shared inventory-hedging strategies to reduce the risk in future supply. Execute prebuys for these components to secure supply, reduce lead time and remove the risk.

**Make future purchase commitments.** Place advance purchase orders or adjust agreements to reduce liability for suppliers in cases where the financial impact of unfulfilled demand outweighs the financial impact of excess inventory.





# Tactics to Optimize Allocations



Collaborate with suppliers to ensure optimal allocations of constrained resources.

For example:

**Use formula-based pricing.** Assess the viability of formula-based pricing tied to public market indexes before agreeing to supplier price increases. Doing so simplifies the process of negotiating price reduction when the market stabilizes.

**Incentivize suppliers.** Consider implementing a supply chain finance program such as reverse factoring or dynamic discounting to offer suppliers faster payment.

**Ask suppliers for component or material alternatives.** Identify cases where suppliers are using similar materials or components with other customers. Combined with the use of alternative materials, this tactic can effectively increase supply availability.

**Expedite the use of alternate production lines or facilities.** Identify other production lines or locations where your materials could be manufactured, to increase capacity in the short term.

**Streamline supplier onboarding.** Work with quality and engineering teams to considerably shorten or optimize the supplier onboarding process so that alternative suppliers can be onboarded faster and relieve demand shortages.

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