



# Protecting Your Company from Capacity Shortages in 2011

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## IDENTIFYING MATERIALS SHORTAGES BEFORE THEY OCCUR AND PROTECTING YOUR COMPANY FROM THEIR IMPACTS

Many are finding it surprising that there are severe and chronic shortages in the automotive supply chain even though automotive industry production volumes are still 24% lower than their peak in 2005.

Year	2010	2009	2008	2007	2007	2005
North American Production	12	8.6	12.6	15.1	15.3	15.8
Compared to 2005	-24%	-46%	-20%	-4%	-3%	0%
Compared to 2008	-5%	-32%	0%			

\*Source CSM - Global Insights

These current and future shortages were caused by the drastic actions companies dedicated to the automotive supply chain took when facing the real threat of insolvency in 2008, 9 and 10. Some examples include:

- Some companies were consolidated with competitors or liquidated
- Multiple companies in the same industry reduced production capacity
- Companies cut staff to the bone (and beyond)
- Financing to companies was restricted
- Plants were consolidated
- Plant staffs were cut to the bone (and beyond)[repeats third bullet]
- Equipment maintenance/upgrades were cancelled/delayed

As a result of this historical restructuring we are now facing shortages that are occurring on multiple levels:

- **Commodity Shortages** – In instances where multiple companies supplying the same commodity reduced production capacity, there are shortages in the commodity as a whole. Examples reported include: tires, electronics, resins, iron castings, steel, bearings and chemical feed stocks. These shortages may take years to fully resolve, as the suppliers are 1) presently enjoying renewed profitability created by the market leverage they now possess and 2) investors and financiers are presently reluctant to invest in new production capacity in the industry.
- **Corporate Issues**- Some companies are still experiencing financial and operational issues, making it difficult for them to meet production requirements. As industry volumes have grown, gradually the number of suppliers in this group has reduced.



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- **Plant Issues** – Many companies closed manufacturing facilities during the downturn, moving production to facilities that stayed open. As industry production has ramped up some of these plants are now at or beyond their capacity levels.
- **Production Line Issues** – Some production lines that were moved or have been producing at lower volumes are experiencing “production atrophy”. Like a muscle that has not been used for a period of time, they experience difficulty supporting demands that were routinely handled a couple of years ago.

Discussion with industry executives indicates that presently, commodity and plant Issues are creating the most difficulty. We expect that these issues will continue to plague us for the next 12-24 months.

Following are our thoughts on how to identify potential issues before they impact your production and steps you can take to help resolve them.

Type of Issue	How to Proactively Identify	Steps to Take to Ensure Your Company's Requirements are Met
<b>Commodity Shortages</b>	<ul style="list-style-type: none"> <li>• Discussions with suppliers and other consumers.</li> <li>• Industry publications and forums</li> </ul>	<ul style="list-style-type: none"> <li>• Supply agreements - contracts.</li> <li>• Increase orders beyond requirements and inventory.</li> </ul>
<b>Corporate Issues</b>	<ul style="list-style-type: none"> <li>• Monitor supplier financial health.</li> <li>• Conduct regular executive to executive reviews with critical suppliers.</li> </ul>	<ul style="list-style-type: none"> <li>• Re-source the business to healthy suppliers.</li> </ul>
<b>Plant Issues</b>	<ul style="list-style-type: none"> <li>• Understand plant sales history to identify plants approaching peak.</li> <li>• Review preventative maintenance program. Keep informed of leadership changes.</li> <li>• React to delivery/quality spikes.</li> <li>• Solicit early warnings from your materials schedulers.</li> </ul>	<ul style="list-style-type: none"> <li>• On-site intervention.</li> <li>• Increase orders beyond requirements and inventory.</li> </ul>
<b>Production Line Issues</b>	<ul style="list-style-type: none"> <li>• React to delivery and quality spikes.</li> <li>• Conduct run at rate studies – for lines that moved or are experiencing higher production requirements.</li> </ul>	<ul style="list-style-type: none"> <li>• On-site intervention.</li> <li>• Increase orders beyond requirements and inventory.</li> </ul>