“Just in time” meets “just in case” – how the supply chain has to change in an age of rising costs and falling demand

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Think of the automotive industry as a complex network.

Carmakers, known as original equipment manufacturers, (or OEMs) sit at the centre.

Encircling them are the Tier One suppliers who deliver big integrated solutions directly to the OEMs.

Next come Tier Two suppliers, who provide individual parts or assembled components either directly to the OEM or to Tier One suppliers. After them are the Tier Three suppliers who often make just a single component for several Tier Two suppliers. It’s a complex and specialised ecosystem.

Toyota pioneered the approach of this “just in time” lean production system. It selected trusted suppliers as the sole source of particular components, leading to close collaboration with long-term partners.

In contrast, Western carmakers used to source in-house or award short contracts to the lowest bidders. But most firms have embraced the Toyota way. Instead of always going for the low bid, carmakers now look at the total cost of a component, including potential interruptions to production and, further down the line, customer warranty claims if quality becomes a problem.

But the impact of COVID-19 has put this model under strain.

OEMs and Tier Ones found they didn’t always have the visibility and speed of communication they wanted. These firms found they were too dependent on suppliers who simply couldn’t cope when areas of the ecosystem were locked down.

The pandemic will probably accelerate the trend towards regionalisation, particularly in complex cases where assemblies cross borders repeatedly.

Taking a second look at the supply chain

The unfortunate mix of hindered production and uncertain future sales could lead to lower profits. But this also presents an unprecedented opportunity to take a second look at the supply chain

Combining a ‘just in time’, and a ‘just in case’ approach is possible, but it means redesigning a model built on waste, to one where waste is built out.

In practice, this means moving away from the traditional “take, make, break” linear model towards a share and reuse system where waste is eliminated, and the greatest value is obtained from resources for as long as possible.

Decoupling economic growth from resource consumption won’t just happen by itself.

It will take courage from our businesses, to rethink the orthodox supply chain model that has been taken for granted for so many years.

But the circular economy model is too powerful to be ignored. It uses fewer resources, creates far less waste, and still creates cost savings for everyone within it.

At CHEP, we’ve been at the heart of thousands of automotive and industrial supply chains since 1975, providing pooling solutions to some of the top OEM and Tier One brands all over the world, so as a company, we understand what makes them tick. Now we’re calling for all supply chain leaders to join us in working together. To make the interconnected supply chain more resilient, more adaptable in uncertainty, with less waste and less inefficiency.

We’re looking for partners to join us and help us to keep the supply chain moving.

Murray Gilder, CHEP Automotive Europe and North America Vice President

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