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White paper

# Supply chain strategy. Building a more agile supply chain.

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# Hell hath no fury like a supply chain disrupted.

Pandemic. Power failure. Labor shortage. Shipping capacity. Strikes. Mergers. Acquisitions. Politics. Oil Prices. The list of disruptions a supply chain can endure is long and grows with the unforeseen and unplanned. Leaving even the most experienced procurement departments and the stakeholders feeling the wrath of uncertainty. One wrong move from a supplier could spell disaster that ripples through an entire supply chain.

A recent McKinsey & Company report states,<sup>1</sup> “The complexity of global industrial supply chains exponentially increases their risk. On average, an auto manufacturer has around 250 tier-one suppliers, but the number proliferates to 18,000 across the full value chain. Aerospace manufacturers have an average of 200 tier-one suppliers and 12,000 across all tiers. Finally, technology companies have an average of 125 suppliers in their tier-one group and more than 7,000 across all tiers.”

One disruption affects numerous stakeholders, upstream and downstream of a manufacturer. And disruptions are not a one-time event that only happened last year. They are happening every day, week, month of the year, year after year with increased frequency.

Building a supply chain strategy that is agile is part of the larger strategy needed to defend against the havoc that disruptions pose to otherwise lean and efficient supply chains.



# What is an agile supply chain?

## Key Takeaways

*Agile is to be flexible enough to overcome challenges and disruptions to the steady flow of goods.*

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*Building an agile supply chain is a team sport, not a solo effort.*

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*Supply chain agility refers to the flexibility and resilience a stakeholder has in response to uncertain events during the journey of a commodity.*

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*When a supply chain is agile, it can find an answer to almost anything thrown at it.*

To be agile is to be flexible enough to encounter whatever challenges are brought forward by the end-to-end supply chain, disruptions to it, and any unforeseen circumstances that obstructs a steady state, steady flow of goods. However, such agility is a team sport, not a solo effort (the team being all the partners and links of the supply chain).

What we mean: Supply chain agility refers to the flexibility and resilience a stakeholder, such as a product supplier, transportation carrier, manufacturer, third party logistics provider, or other entity, has in response to turbulent and uncertain events during the journey of a commodity in today's markets.

When a supply chain is agile, it finds ways to order material with planning, uses contingency planning, buys ahead, finds different shipping lanes and routes, has smart inventory practices, and can find an answer to almost anything thrown at the supply chain – because it is agile.



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# What is an agile supply chain? *(continued)*

Why it matters: When McKinsey & Company interviewed a selection of executives at more than 250 global companies they assessed ten supply-chain capabilities<sup>2</sup>. These assessments were quite comprehensive. They also looked at order and demand, forecasting, and risk.

They assigned overall agility scores organized into quartiles. Then they compared those scores with two widely employed measures of supply-chain performance: service levels (the proportion of orders delivered as scheduled) and the number of days inventory was held. They concluded:

Companies with more agile supply-chain practices demonstrated service levels that were 7% higher, and inventory levels 23 days lower, than their less-agile peers. Agility is one part of the solution to supply chain strain. Shaping an effective strategy is another very important part as well.

Instilling agility and resilience to face and overcome disruptions requires a thoughtful supply chain strategy. The more agile a firm is, the more it can react to obstacles and adverse conditions within the supply chain environment.



## Key Takeaways

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# Shaping a supply chain strategy

According to the Chartered Institute of Procurement and Supply, a supply chain strategy must meld with overall corporate strategies<sup>3</sup>.

“Before we can build a strategy for the supply chain, we must initially identify our corporate strategy and how our consumers perceive ‘value’ from our product or service offering. In essence we are identifying why consumers buy our product or service over that of our market competitors.”

They go on to say that collaboration within the organization is central to an overall supply chain strategy.

“To develop a supply chain strategy there needs to be two-way communication between the functional and operational aspects of the organization upwards to the senior leaders who determine the corporate vision, strategy and mission and vice versa.

“Without a strategy the supply chain activities cannot be aligned to an overall objective,” says

CIPS. “Think of an organization with no functional or operational strategy much like a ship setting sail without letting the crew know the destination, the crew could be making decisions that could unwittingly impede the ship arriving safely at its end destination.”

A supply chain strategy must do a few more things. It must, as we’ve stated, incorporate planning to build an agile posture, but also make sure the organization is flexible enough to correct course when mayhem strikes. Why it matters: Firms that have worked to carefully build a supply chain strategy can successfully navigate through some of the most difficult supply chain strains are those who have collaborated well with their customers as well as their vendors.

This means you may be able to gain a competitive advantage with pricing and product availability – when those who failed to plan and set a strategy for disruptions, can’t. Supply chain strategies can be the default fallback when it “hits the fan” in the supply chain.

## Key Takeaways

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## Collaboration

The dynamics of our global supply chain have changed. Because imports largely exceed exports, manufacturing relies heavily on offshore supply for many commodities. When glitches occur, the entire supply chain may be disrupted, orders not met, and profitability affected.

In such an environment, the best defense is a smart offense. And for the fastener industry's supply chain, such an offense is most potent with rock-solid collaboration. This means collaboration with fastener manufacturers, a mutual understanding of operations, inventories, and having equity in the capacity of manufacturers to replenish inventories despite adverse conditions and disruptions.

One principle that is quite effective in shaping a strategy: think small. Small teams are easier to manage, get more done, and consume less time to build plans and set strategies.

What we mean: Collaboration need not be complicated. It's all about alignment between two different entities, who both stand to benefit when both are aligned with each other. In a blog post for the Association for Supply Chain Management,<sup>4</sup> the value of collaboration is stressed.

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## Collaboration *(continued)*

“Collaborating with your suppliers can have an invaluable strategic impact and can give your organization the advantage it needs to compete in today’s fast-moving global marketplace. Through collaboration, the buyer and the product design team can accomplish two critical tasks: bringing products to market faster, and leveraging the supplier’s expertise in sourcing, cost management and value analysis.”

The author, Cathy Iammartino, cites the APICS Principles of Inventory Management as asserting that the goal of sourcing should be to “establish supplier relationships that forward the strategic goals of your organization and result in the delivery of goods and services. This point of view allows you to approach sourcing as a series of steps starting with selecting the supplier and agreeing on terms, then growing the relationship into a long-term, mutually beneficial arrangement.” Why it matters: When disruptions strike (such as a worldwide pandemic) many plans go awry. However, a smart supply chain strategy that adequately plans for disruptions, and incorporates excellent collaboration, can be the difference between filling the order or not, between good quarterly earnings or mediocre ones.

*Collaboration isn’t a topic easily taught. It is an intangible asset that make product available at a fair price.*

### Key Takeaways

*The buyer and the product design team collaborating can accomplish two critical tasks: bringing products to market faster, and leveraging the supplier’s expertise in sourcing.*

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*Supplier relationships should forward the strategic goals of your organization and result in the delivery of goods and services.*

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*A smart supply chain strategy that adequately plans for disruptions, and incorporates excellent collaboration, can be the difference between filling the order or not.*

# Informed Choices for the Greatest Impact

Building an agile supply chain requires some effort. It hinges on planning for disruptions, building a smart supply chain strategy, and collaborating with partners up and down the supply chain.

Another ingredient to creating supply chain plans and strategies is to utilize data. Historical data such as prices, quantities, seasonal fluctuations, delivery times, and inventory levels are all recorded information.

When digital tools process such data, other tools such as artificial intelligence and machine learning may be applied to help drive decisions and afford predictive analytics. Carefully computed data can be utilized to design plans and strategies smarter, and integrate those plans and strategies with the overall corporate strategies to provide customers and end users with the greatest value.

These ingredients all lead to an agile supply chain, which, when achieved, is a thing of beauty. Deloitte summed it up well in their article about supply chain agility<sup>5</sup> “Companies that gain an accurate, granular understanding of their integrated supply chains—from demand through to the production of individual component parts—could be better placed to make proactive adjustments before supply issues occur and to make informed choices about where to apply their working capital to get the greatest impact.”

## Key Takeaways

*Building an agile supply chain hinges on planning for disruptions, building a smart supply chain strategy, and collaborating.*

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*Artificial intelligence and machine learning may be applied to help drive decisions and afford predictive analytics.*

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*Data can be utilized to design plans and strategies smarter, and integrate with the overall corporate strategies to provide customers and end users with the greatest value.*



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<sup>1</sup> <https://www.mckinsey.com/industries/advanced-electronics/our-insights/reimagining-industrial-supply-chains>

<sup>2</sup> <https://www.mckinsey.com/business-functions/operations/our-insights/how-agile-is-your-supply-chain>

<sup>3</sup> <https://www.cips.org/knowledge/procurement-topics-and-skills/supply-chain-management/strategic-supply-chain-management/>

<sup>4</sup> <https://www.ascm.org/ascm-insights/supplier-collaboration-is-key-to-maximizing-value/>

<sup>5</sup> <https://www2.deloitte.com/us/en/insights/industry/mining-and-metals/tracking-the-trends/2021/agile-mining-supply-chain.html>