

## Who's Managing The Supply Chain?

Managing the global supply chain is about to get substantially more complex, and the fallout is going to be felt across the entire electronics industry.

Most companies seem to have gotten the message about core competencies and partnering to reduce the time and cost it takes to bring products to market, and virtually everyone has a partnering program in place to prepare for the next phase of chip development. However, very few companies have actually sat down and thought about what it will take to make this whole process work smoothly.

While it all looks positive on paper, the economic realities of partnering on a global basis are incredibly deceptive. There are all sorts of things that can go wrong along the way, driving costs higher instead of lower if they're not managed closely -- and sometimes even when they are managed properly -- and potentially even slowing down product introductions.

To begin with, partnering is a legal bond. Contracts need to be written and signed and enforced -- something that should make the legal community very happy. There's plenty of work in this field related to guaranteed delivery times, who pays when goods are late or substandard and what happens when contracts are breached.

Beyond that, managing the flow of goods from more suppliers in more places is incredibly complex. If it costs two extra days to ship goods from a cheaper manufacturing source outside of the immediate area that could cost extra dollars because inventory levels have to be adjusted to account for that. As any distributor will tell you, keeping inventory costs money, and that has to be built into the equation.

Moreover, while just-in-time manufacturing has long been talked about as the pinnacle of efficiency, it's still in the talking phase and likely will remain that way for the foreseeable future. Most companies model their ordering based upon forecasts, and forecasts have been proven to be a lot like rolling the dice in Las Vegas. Sometimes you win, sometimes you lose, but no one's luck holds out forever.

Add to that constant changes in pricing, fluctuations in supply and contracts that can be shifted from one supplier to another and the process gets even messier. It's not unusual, for example, for contracts to be won up front and then lost as they are shifted to other geographies.

Most consultants say the goal is flexibility in business models, but when everyone's business model is flexible the collective business environment becomes increasingly unstable. Too many variables make it difficult to build a

business or to sustain one that's already built. And the more variables that are added into an equation, the longer it takes to sort it all out.

This is a major issue for the supply chain, and it's one that has never been dealt with effectively. It's also one that should be dealt with before the problem escalates. Planning for change and reacting to change produce widely different results, and while it's good to be able to shift quickly it's also good to know what you're getting into and to be prepared for it.

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