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Will supply or demand be the problem in 2021?

In this article, John Denslinger paints a picture of a fog of Covid uncertainty, then offers some tools to navigate a path through including a quick fix called stock

Forecast • By John Denslinger

Conventional forecasts and resultant budgets typically track one of two models. When forecasted demand signals growth, additional manufacturing capacity is planned assuring ample supply. Similarly, when forecasted demand is depressed, planning typically shifts to spending cuts and cost control dampening supply. 2021 might be a challenge though.

Component manufacturers may find difficulty capturing true demand and syncing that to a timely supply plan. So, how does that differ from past planning practices? In a word, Covid-19. To borrow a weather analogy, Covid is dense fog. Visibility is clouded. Supply disruptions are just around the corner but you can't see it. Demand is there but perhaps just as obscure. In this situation, the tendency is to plan conservatively.

Here's the dilemma. By all accounts, 2021 demand is projected to be a growth year. Yet multiple Covid waves are anticipated. Lockdowns and other restrictive measures tend to stifle demand more than supply. Even if subsequent wave amplitudes gradually moderate, B2B and especially B2C demand will certainly be bumpy at best. Given this scenario, the unintended consequence of a conservative forecast may be insufficient supply.

But supply has its own disruptive factors: plant closures, reshoring operations, retraining of workers, virus proofing manufacturing workplaces, labor shortages, etc. Restarts have not been smooth either. There are several reports suggesting employee attendance is erratic. Then there is a concern about upstream suppliers who seem ill-prepared for rapid shifts in demand. Perhaps it's because more than a few are facing severe liquidity problems. Procurement may find itself in a no-win situation. Surges in demand will require immediate resourcing. Drops in demand will necessitate unplanned push outs. Each driven by little visibility.

Shortages in the general market are nothing new to procurement. The cause is often traced to specific events such as a natural catastrophe, new technology adoption or key supplier failure. Covid, on the other hand, disrupts unevenly. Global supply networks must react swiftly to local and national policy changes. Since the pathogen is unpredictable, the directives that affect industrial efficiency and output are at risk as well.

As always, some mitigation is possible. A number of publications report suppliers are reshoring operations away from China and closer to markets served. Likewise, procurement organizations have responded with in-house solutions of their own: ending sole sourcing; implementing more of a geographic diversity sourcing; augmenting supply chain transparency and visibility with advanced technologies; and the quickest fix of all: creating a larger, more robust safety stock.

In a perfect world, supply and demand are always in balance. Unfortunately, this is a Covid world. 2021 foretells a powerhouse year in several market segments: 5G, IOT, EV, AI, massive data centers, and healthcare to name the major drivers. So the question remains, will it be supply or demand that upsets a much anticipated banner year for electronic components?