



## Postponement Strategy and Coronavirus

There have been frequent references to the “supply chain” in the national press these past few weeks, due to the Coronavirus. Many companies are fretting over their offshoring strategies, wrangling their hands over the supply chain risk and lack of responsiveness that this low-cost Asian sourcing model leads to. Not surprisingly, many companies have concluded it is time to rethink their supply chain strategy, in light of this pandemic.

The supply chain is equally represented in our domestic response to this crisis. Two weeks ago, I wrote about “Panic Buying and the Bullwhip Effect”, ([insert link](#)) which describes how panic buying of toilet paper and hand sanitizers will drive more amplified demand swings upstream in the supply chain- to distributors, manufacturers, and suppliers. These demand swings will cause disruption and confusion immediately, particularly for buyers and schedulers, and may very well cause confusion for demand planners for several years to come. More recently, as I observe the federal government’s approach to managing and distributing key medical supplies and PPE, it hit me that this is a classic example of the postponement strategy in action.

The postponement strategy essentially says that you should delay any sort of investment (customization, differentiation) in goods or services until as late as possible without disrupting customers. Those of us who have some gray hair remember the very popular Benetton line of sweaters. In the 1980’s, Benetton created a way to postpone the coloring of the sweaters until they knew the ‘hot’ colors and styles. Why is this important? It delayed Benetton from committing inventory before they needed to. Consider the number of permutations of size, style, and color of any given sweater (or shoe, or bathing suit, or shirt). Compound that by the fact that the buyers of these items have to place orders several months in advance. The end result? A total guess of what’s hot and what’s not...leading to stockouts of popular sizes, styles, and colors, and full shelves (excess inventory) of the unpopular sizes, styles, and colors. This long lead time, compounded by the SKU (stock keeping unit) proliferation, leads to a very inefficient supply chain for fashion retailers. This is incredibly expensive and difficult to fix. This is why the off-brand ‘closeout’ stores have become so popular. Benetton’s strategy enabled them to have a much more responsive supply chain, so when the popular items started moving, they could resupply their retailers quickly with the ‘hot’ items, and they knew enough to ‘turn off the spigot’ for the slower movers.

What does this have to do with the Coronavirus? Postponement doesn’t have to be about delayed *product* differentiation...it can also be about delayed *services* differentiation. Specifically, this relates to delaying decision making on *where* to send supplies. Think about how the federal government (a secondary supplier, if you will) is managing the supplies of the key medical supplies and PPE. They are controlling a centralized stockpile, and are in touch with states on a daily basis, so they can see the trends of where this virus is heading. They are using near- real time data to predict the next ‘hot spots’. They are not committing inventory of critical supplies to a state until it is needed. Once it is committed, it moves immediately. When they do commit inventory to a state, they are trying to figure out how much is needed, and sending only the needed amount- no more. This approach provides



them the most flexibility in serving their customers- the states- with the least amount of cost invested. It is making the best use of a limited supply of critical items. We are not shipping supplies back and forth between states (which would also cause hard feelings and a perception of 'ownership' if supplies were sent into, then out of, a state). By keeping a central inventory supply, and by being in constant contact with the states, they have created a highly responsive supply chain, which will get the most value out of the limited resources we have.

So what?

How might this apply to you and your supply chain? How can you redesign your supply chain processes to get more out of your existing suppliers, your own infrastructure, and your inventory? If you have a long lead time for key materials, how can you mitigate the cost of that long lead time? Can you use alternate channels, or reconsider the transportation vs. inventory tradeoff, or make some other process design changes, if delivery responsiveness is critical to your customers?

Now is the time to rethink your supply chain processes. While the front line folks are fighting the daily fires brought about by this virus, company leadership teams should be using this downtime to reflect on what is working well and what needs to change. Of course, it starts with strategy, and your supply chain strategy has to definitively enable your company strategy. It's how you serve your customers, and it defines 'who you are' to your customers. Once your strategy is set, your process design should follow.

Think about it.

Just my two cents.