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## Creating Stability in an Unpredictable Market

Automotive manufacturing supply chains are complex, multi-tiered, and unpredictable. In this volatile market, original equipment manufacturers (OEMs) and Tier 2 and 3 providers of assemblies need to establish some level of stability. It's the only way to manage high volumes of parts with as little risk to over- or under-buying as possible.

Parts manufacturers like KMC can provide this stability with a sales and operations planning business management process. This disciplined approach requires forecasting, analysis, and communication to align all aspects of an organization. In return, OEMs can breathe a little easier with the benefits of cost control, shorter lead times, and manageable inventory. All without sacrificing quality.

The goal of sales and operations planning is to effectively manage supply and demand. The more KMC can gain visibility on how each of our customer's needs fit in with our schedule and capacity, the more buying power we have with vendors and suppliers. From there, we work collaboratively to navigate the ebb and flow of order volume.

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From our experience, the keys to success in sales and operations planning lie in a disciplined approach of foresight, action, review, and adjustment:

1. Long-term Planning – Forecasting starts with defining expected demand. Although automotive manufacturing is consumer-driven and the only constant is change, our goal is to at least sketch out what our customers expect the next 18 months to look like. Long-term forecasting helps parts manufacturers and suppliers ensure they have the infrastructure in place to serve existing and anticipated demand.
2. Quarterly Commitment of Raw Material – A quarterly raw material order commitment may sound risky to some, but this is another solution to reduce risk. First, a bulk order upfront gives us more opportunities to save on the price per unit of raw materials, including by bundling multiple customer orders. These cost savings are passed on to our customers. Second, a quarterly commitment allows us to offer lower fulfillment lead times – some as low as two weeks for additional orders. Without raw materials on hand, an extra order would normally require an eight-week lead time and a no-cancellation policy.
3. Monthly Review – We can make the future more predictable by learning from the past. Even with long-term planning and a quarterly raw material commitment, our team analyzes on a monthly basis what was executed. This helps us find patterns in volatility in order to reset for the following quarter if needed. A monthly review also can catch any changes in demand with enough time to set up an action plan to accommodate it.
4. Inventory Management – Inventory management programs can further reduce risk throughout an 18-month forecast. Unused raw material from a quarterly purchase is never wasted when it can be stored in a facility until the next quarter. A production overrun one month is never an issue when finished parts can be placed on a shelf and used to accommodate a future demand.

With a process in place for regular planning and communication, parts manufacturers can respond to unusual events without sacrificing timelines. At KMC, collaborative communication with our customers gives us the visibility we need maximize operational efficiency. Our automotive manufacturers achieve stability in supply and demand, while maintaining the flexibility they need when orders inevitably change.