

Expert advises automakers to take it slow on road to recovery

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(PhysOrg.com) -- Supply chain expert Panos Kouvelis says it's time for the auto industry to go through a period of capacity rationalization.

"Rationalization is a nice business term," Professor Kouvelis explains. "I don't think you appreciate it if you are the one losing your job in the factory, but it is a necessity for management. Companies have to figure out how to match their supply with where demand is. If the demand drops suddenly from 15 or 16 million dollars of cars you sell in North America to 9 or 10...obviously your capacity has to be adjusted and that's what we call capacity rationalization."

Kouvelis cautions that capacity and inventory rationalization needs to be done carefully in order not to disrupt the entire supply chain. "It could be that some companies might over-react and cut more capacity and inventory than needed which propagates backwards in the chain at higher rates of order reduction and finally hurts suppliers even more. We've got to make sure suppliers are supported to be there in the longer term."

Kouvelis says many companies are asking, "when the good times come are we going to be ready for it?" That's where careful planning in reducing capacity comes into play. Otherwise, ramping up for increased production will be difficult, it might take much longer and be very expensive. The whole [economic recovery](#) might be slowed down because of short term capacity and inventory shortages, and we are already seeing that in certain sectors of the economy, for example, high tech

components in the [semiconductor industry](#).

Kouvelis points to the interdependency of many industries as another reason to carefully rationalize capacity. "The suppliers for the [car industry](#) might also be supplying the defense industry. If we lose those suppliers in an industry that requires certain skills it could be we are losing this pool of skills from our country's supply infrastructure which weakens other industries that rely on them. So we have to look at the broader system perspective, and that might require the government to be willing to undertake measures that strengthen certain supply sectors of our [economy](#) crucial for the defense and high tech industries."

While 2009 marks the end of an era for the U.S. [auto industry](#), Kouvelis is optimistic about the future of the [industry](#) and the US manufacturing sector overall. "American manufacturing is going to stay around the output level that it is, but with a clear shift in terms of the products and application areas it engages. We will see a definite shift towards environmentally friendly products and applications, and towards processing products that are lower volume and more customized, even personalized, level of use."

In order for the US manufacturing to survive, Kouvelis warns it must be more nimble and able to adapt to constantly changing consumer demands. " What gets made in North America has to be products that respond to markets that are shifting faster, that are more technology-driven and, therefore, proximity to market and the presence of high level work skills are absolutely necessary to deliver a high quality product. We need to become the world's experts in fast product introduction and running flexible low volume batch processes. And this is something we can definitely do."

Provided by Washington University in St. Louis ([news](#) : [web](#))

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