

# Japan quake stirs unease about global supply chain

March 30 2011, By JOE McDONALD , AP Business Writer

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(AP) -- A shortage of auto parts and other components after Japan's earthquake has stirred unease about two pillars of manufacturing: the country's role as a crucial link in the global supply chain and "just in time" production.

Manufacturers slashed costs by adopting Japanese-style small inventories and close links to a tight circle of suppliers. But that left them without a cushion of [raw materials](#) to ride out disruptions, forcing [factories](#) as far away as Louisiana to close when the March 11 quake and tsunami battered Japanese [producers](#).

"There's no question people are saying: Look, we may have gone too far. Let's revisit this and do some different things about just-in-time," said Jim Lawton, vice president of D&B Supply Management Solutions, a unit of Dun & Bradstreet Inc.

Companies can use more suppliers spread over more countries but that would mean they have less bargaining power to lower costs. Manufacturers may hold more inventories. That might mean higher prices for consumers.

Tsunami damage and power shortages that idled thousands of Japan's factories highlighted its role as a key - and sometimes the only - source of auto parts, graphics chips and other high-end components. Lack of parts from Japan prompted General Motors Co. to temporarily shut down a Louisiana factory that makes pickup trucks. Other companies

have warned of possible disruption in supplies of mobile phones, personal computers and other goods.

CEOs embraced "just in time" production in the 1990s, imitating Japan's automakers and other manufacturers. They boosted profits by cutting stockpiles of parts and won discounts by buying more parts from a smaller group of suppliers.

"All these things have made companies lower-cost and much more competitive but they have made them much more brittle in cases like this," said Lawton, a former procurement executive for Hewlett-Packard Co.

GM, Nokia Inc. and other major companies said they were closely watching their supply chains in Japan but declined to say how their long-term strategy might change.

Already, suppliers of electronics and other components in Taiwan and Southeast Asia are seeing a spike in orders as customers look for alternatives to Japan or Japanese companies outsource work from their idled factories.

"There has been indeed an increase in our orders because many Japanese chipmakers have suffered damage from the quake and [tsunami](#)," said CEO Morris Chang of Taiwan Semiconductor Manufacturing Co. The company is the biggest contract producer of chips used in mobile phones, computers and video games.

Taiwan's Foxconn Technology Group, which manufactures Apple Inc.'s iPod and other products, and Wistron Corp. have received extra orders from Sony Corp. to produce TV screens and digital cameras, according to local news reports. Spokespeople for both companies declined to confirm that.

South Korean companies, which compete with Japan in electronics, autos and steel, stand to benefit but have avoided talking about that publicly, possibly for fear of appearing to profit from a disaster that killed as many as 18,000 people.

Samsung and Hynix Semiconductor Inc. could sell more flash memory chips to Apple and other customers that used to rely on Japanese suppliers, said Lee Min-hee, who follows the industry for Dongbu Securities in Seoul.

Samsung said in a written statement it was assessing the impact of the disaster but did not respond to questions about how its business might change.

Also in South Korea, LG Chem Ltd. used chemicals from Japan to make batteries for laptop computers and electric cars but might switch to Korean suppliers or make parts itself once its stockpiles run low, said a company spokesman, Terry Lee.

"In the long-term if [Japan](#) is struggling it could cause some trouble," Lee said.

Japan's own makers of autos and electronics already were shifting production to China and Southeast Asia in search of lower costs. That might accelerate as they look for less disaster-prone manufacturing bases.

"Thailand stands to benefit from potential relocations of production sites as part of global supply risk management efforts," said a report by analyst Julia Goh of Malaysia's CIMB Research.

In the short term, customers face a supply squeeze because manufacturers permanently scrapped production capacity after demand

plunged in the 2008 global crisis.

Competition for scarce electronics and other parts might push up prices, cutting profits or raising costs for consumers. Companies that need to switch to different components might be forced to redesign products.

The supply shock will add to pressure to design products made of standardized, widely available parts. That change already is under way in computers and electronics but automakers still use many customized components.

Buyers might need to deal with new suppliers in unfamiliar countries, requiring them to spend time and money to learn about possible political or legal risks.

Companies that were caught off guard by the supply disruption are likely to shake up their design and procurement departments, said Lawton.

"People are going to get fired," he said. "It's going to force companies out of business. And for those that it doesn't, there definitely will be heads that roll because the right things weren't done in anticipation of these issues."

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