Preparing for an Economic Downturn: How Manufacturers Can Prepare

Article By:

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You may ask why we are using the words "economic downturn" in a post. Most of our manufacturing clients are reporting strong sales and many economic pundits are saying that a recession is still far off into the future. With that said, this is exactly the time to start thinking about your supply chain and your contracts. Because, as many manufacturers know, supply chain and customer disputes rear their ugly head when the economy takes a nosedive.

I recently read an article entitled "Can Supply Chains Prepare for a Recession?", which discusses a study completed by the MIT Center for Transportation & Logistics. The following quote caught my eye:

> Good times are dangerous: Business managers are under constant pressure to bend the rules, be flexible and agree to policies during good times that will cause great pain and suffering when the economy goes south.

The article then goes on to identify seven considerations for how manufacturers can prepare for an economic downturn by understanding how their supply chains will be impacted. But, I would go back to the quote.

For example, a lot of manufacturers enter into long-term agreements to ensure stability. Those LTAs are often loaded with conditions that tend to not be enforced during good times. When the economy tightens, however, it is common for customers and suppliers to start enforcing difficult terms and also seeking to apply those terms retroactively. For that reason, even if you do not negotiate a term out of a contract, it is important to know it is there. Hence, why manufacturers are starting to adopt playbooks and checklists to ensure that their contracting personnel understand the risks of what they are signing.

National Law Review, Volumess IX, Number 112