

# Coronavirus Supply Chain Impact



Disaster lurks in many forms for the unwary business. With global supply chains becoming longer and increasingly complex, traditional approaches to dealing with disastrous delays and profit-crippling shutdowns need to evolve.

Case in point: the coronavirus' supply chain impact, centered in mainland China but rapidly spreading in devastating ripples throughout the global economy.

The potential impact of the coronavirus is staggering, and its true impact—in scope, length, and total economic damage—is yet to be determined.

But as businesses face slowdowns, supply chain disruptions, and more, it's clear that organizations looking to minimize the impact of the coronavirus outbreak, and better prepare themselves for whatever disasters may lie in wait, must develop new approaches to minimize risk and maximize responsiveness if they want to maintain production and protect profits.

## Why This Coronavirus is Different

Disease outbreaks occur around the world with alarming frequency. They are quite often contained effectively due to quarantine protocols, or rapidly brought under control with the use of existing treatments and vaccines.

The term *coronavirus* refers to a family of zoonotic (i.e., transmittable from animals to people) viruses which includes the common cold. However, the strain that first appeared in Wuhan, China on December 31st, 2019—designated COVID-19 by the World Health Organization (WHO)—is a *novel coronavirus*, which means it is a new coronavirus that does not yet have a vaccine available.

Worries over the potential threat of pandemic have driven expanded educational efforts from organizations such as the Center for Disease Control CDC, eager to combat fears and replace social media rumors with scientific facts.

However, the lack of a vaccine, and the concurrent spread of the disease via numerous human vectors (including, for example, visitors to China returning home after the lunar new year holiday), has created a situation where concerns about the communicability of the virus have become as disruptive as the spread of the virus itself.

Precautionary measures taken to insulate areas from the spread of the coronavirus have shuttered factories, schools and public buildings, and businesses of various sizes and types in various locations across Asia, Europe, Africa, North America, and Australia.

*More than 400 companies have announced their concerns over negative impact on Q1 sales and earnings due to the coronavirus, and on February 24th, 2020, the Dow Jones Industrial Average—a bellwether of global economic health and performance—dropped by more than 1,000 points due to fears about the coronavirus outbreak.*

## **The Coronavirus' Massive Supply Chain Impact**

With more than half a billion people on lockdown in China alone, the coronavirus has brought not just supply chains, but life itself to a staggering halt for individuals and organizations alike.

Chinese factories have been slow to restart following the slowdowns and shutdowns caused in part by the extension of the Chinese New Year (the holiday was extended in the hope of minimizing the spread of the virus).

And while new cases of the virus appear to be slowing in China, the coronavirus outbreak itself continues to spread elsewhere, sowing havoc in supply chains and perpetuating pandemic fears.

For global businesses, the impact of the coronavirus is, in many ways, tied to a given company's investment in both Chinese manufacturing and the Chinese consumer market.

The most illustrative example of such a correlation is perhaps Apple.

The smartphone and computer company has invested heavily in Chinese manufacturing in the early twenty-first century, and relies on companies such as Taiwan's Foxconn to assemble the iPhone and other high-tech gadgets.

Apple has repeatedly stressed that its Chinese suppliers in the Wuhan area were "alternate," rather than primary, suppliers.

And despite the fact that none of the Chinese factories Apple uses to produce iPhones or its other products are located in Hubei province (epicenter of the coronavirus outbreak), the smartphone manufacturer has still experienced a severe supply chain impact.

In the wake of the coronavirus' spread across the globe, Apple has:

- Struggled to reopen the 42 Chinese Apple Stores closed in the wake of the outbreak.
- Advised consumers of delays in production and reduced iPhone availability
- Slashed its estimated sales for Q1 2020

Companies such as IKEA, Starbucks, Old Navy, and McDonald's have also closed some or all of their Chinese locations, contributing to a cascading economic effect that's exacerbated by the simultaneous closure of many Chinese malls.

Foreign companies that still rely on brick-and-mortar business in the Chinese marketplace, such as Nike, Adidas, and GAP, have also been hurt by these mall closures.

But it's not just high-tech companies, mall favorites, or even organizations with substantial Chinese investment that are feeling the pinch.

UK auto titan Jaguar Land Rover (JLR) was reduced to shipping parts via airmailed suitcases as more and more Chinese factories shut down, and estimated that, as of mid-February 2020, it had perhaps two weeks left before its UK factories began to run out of some parts.

Elsewhere in the UK, digger manufacturer JCB also slashed production and labor due to a shortage of available parts caused by the coronavirus outbreak.

Nissan was the first auto manufacturer to announce a plant closure in Japan due to concerns about the coronavirus, but it's hardly alone in struggling to contain the impact of the coronavirus on its global supply chain.

Like Nissan and JLR, Tesla, General Motors, Hyundai, and Kia have also reported expected shortages due to slowdowns and supply chain disruption caused by the virus.

The travel industry has suffered as well, with government quarantines, cancelled bookings, and suspended flights wreaking havoc on airline companies.

The cruise ship market has also suffered; coronavirus contamination led to a Princess Cruise ship being quarantined in Japan, and the first economic shocks were felt as cruise company stock prices tumbled.

China reported a Gross Domestic Product (GDP) of \$27.3 trillion in 2019. Experts predict the coronavirus might cut Chinese economic growth by more than half a percentage point in 2020—and, as a result, cut total global economic growth to a mere 2.3 percent, the slowest since the financial crisis of the early 21st century.

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## **Strengthening Your Supply Chain against Disaster**

As with natural disasters, disease outbreaks create and exacerbate risks that can

have a heavy impact on the health of your supply chain and business.

In many cases, companies regard the biggest risks to supply chains and production as falling into one or more of these categories:

- Financial Data Risk
- Labor Risk
- Climate Change/Natural Disasters
- Political Volatility/Conflict/War
- Cyber Crime

But with a disaster like the coronavirus, the risk arises from both immediate sources—e.g., lockdowns, closure of manufacturing facilities, etc.—and human-centric risks that disproportionately affect experiential businesses like cruise lines, who lose not just access to essential supplies when a lockdown or quarantine occurs, but the people who are both their customers and a necessary component of a successfully executed business.

All companies, however, can better insulate and inoculate themselves against the risks that come with disease outbreaks and other disasters by implementing a few crucial best practices:

## **1. Don't Just Expect the Unexpected—Plan to Circumvent It**

Companies who want to keep things moving when disaster strike invest in two important supply chain management tools: knowledge and contingency planning.

The key to adding these tools to your kit lies in investing in supplier relationship management *and* supplier development.

Create supplier engagement teams who:

- Identify, organize, and create detailed profiles of first, second-, and third-tier vendors.
- Engage with suppliers proactively and collaborate to develop contingency plans for a variety of disaster scenarios and changes in demand, materials, and lead times.
- Investigate and establish alternative suppliers at all tiers and are ready to

“flip the switch” as needed.

## **2. Protect Your Greatest Asset: Your Staff**

Disasters of all kinds can be stressful and frustrating for everyone involved. But there’s no one-size-fits-all approach to protecting the talented, skilled, and dedicated staff who make up your workforce and manage your supply chain.

Develop contingency plans that allow for working from home, flex hours where needed, and mental and physical health support services for those in need. Invest in tech tools that allow your teams to collaborate effectively even if they’re not in the same location.

## **3. Invest in Procurement Software**

Effective planning is the first step, but to execute the plans that help shield your supply chain against delays, disease, and disasters, you need the right technology.

A comprehensive, cloud-based procurement solution like PLANERGY:

- Centralizes data collection, organization, and management.
- Makes it easy for team members to access crucial information, analyze data, and collaborate on strategic planning using both desktop and mobile devices.
- Provides process automation, artificial intelligence, and continuous improvement to help streamline processes and create contingency plans for shifting suppliers and sourcing materials when disaster strikes.
- Connects your software environment, as well as social media, industry news, and other data sources to maximize the amount of available data. The more information you have, the easier it is to make smart, strategic sourcing decisions and develop multi-level contingency plans that help you keep production moving despite disaster, disease, or conflicts.
- Simplifies your supplier relationship management in general, improving communication and collaboration with the vendors you rely on to succeed.

# Inoculate Your Supply Chain

There's no single perfect plan that can protect your supply chain against disasters, disease, and devastation.

But by planning ahead and investing in smart, strategic supply chain management, you can help vaccinate your supply chain and business against production slowdowns, lost access to essential raw materials, and health and safety risk exposure.

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