

## Report on Supply Chain Compliance Volume 3, Number 6. March 19, 2020

### Call to arms: Coronavirus presents an opportunity to get supply chain risk management right

---

By Sascha Matuszak

There is not a media outlet in the world that isn't carrying a story about the new coronavirus and its effects on peoples' daily lives. A primary focus of a number of reports and articles is the effect the coronavirus is having on economic conditions<sup>[1]</sup> and, more specifically, supply chain management. The effects are indeed dramatic. Supply chains, from electronics to toys to automobiles to pharmaceuticals, are experiencing dramatic decreases in supply and demand<sup>[2]</sup> as factories go offline and consumers pare back purchases.

The outlook is bleak for business owners with extensive supply chains weaving through China. Most reports predict a turndown of the global economy that may lead to a global recession, while governments and societies grapple with how to best tackle what has become a global pandemic.

If we consider the World Health Organization report<sup>[3]</sup> released following its trip to China, however, then there is light at the end of the tunnel. Through severe measures that most countries wouldn't be able to impose, China was able to stem the expansion of the outbreak and gather a large and useful data set. According to the report, the infection rates, symptoms and death rates are all manageable and do not represent an existential threat to human society. Instead, the coronavirus and its spread present an opportunity to learn, prepare and be ready to weather unexpected and unpredictable crises that arise in the future.

### **You should have been ready**

The scope of the virus and its dramatic effects on the supply chain demonstrate that companies were not ready for a crisis. Despite almost two years of tariffs, a concerted effort by the United States government to counter Chinese influence and economic strength, multiple years of difficult business conditions in China, and the emergence of alternatives to China as a production base, most companies were still caught flat-footed by the spread of the coronavirus and the effects it had on business operations.

"The embrace of lean manufacturing and just-in-time delivery of components, pioneered by Toyota in the 1970s, has made production more efficient but more vulnerable to disruption, as companies stockpile fewer and fewer necessary materials," states an article in The Economist.<sup>[4]</sup> "The median firm in the S&P 500 carries only 66 days of inventory, and some have far smaller buffers than even that—Apple has just nine days, according to data from Bloomberg."

Not only were best practices focused on efficiency and speed, as opposed to resilience and sustainability, but most organizations did not have a solid crisis response plan in place. When the crises hit—and they have been coming one after another when it comes to trade, supply chain management and China—companies found themselves reacting, instead of carrying out contingency plans that had been drafted for such occasions.

We discussed contingency plans in the previous issue of RSCC<sup>[5]</sup> and offered up examples of crisis management protocols, but the key to a good response plan is to have it set up and ready to go for when a crisis occurs. Coming

---

up with the plan during the first days of the crisis will result in more negative, unintended consequences that benefit no one.

Aside from having a crisis response plan in place, companies should have also recognized that global supply chains are in fact far less global than one would think. The global supply chain is dominated by China, the world's premier manufacturing base and the country with the most consumers in the world. With all the political and social problems that stem from China's interactions with the rest of the world—tariffs, sanctions, blacklisting, lawsuits, pressure to give up secrets in exchange for access, etc.—companies should already have been diversifying their suppliers and spreading the risk around. And it's true that companies have been trying to move to Southeast Asia<sup>[6]</sup> or Bangladesh, but the ties that bound companies to China were and still are too strong to make easy exits.

Many articles are calling for companies to diversify their supply chains<sup>[7]</sup> and not lay all of their eggs in one basket. But when raw materials and components are made in China, along with finished products, finding alternatives that can do it right, quick, cheaply and get it delivered on time is extremely challenging.

## What now?

The most important thing any organizations can do right now is put together a modular crisis response plan that can be pulled off the shelf. Keep that plan up-to-date and living. Communicate that plan to employees and stakeholders. There will be more crises to come. Political considerations—especially in the U.S.—have put major crises in the waiting, such as climate change, on the backburner. Companies cannot afford such luxurious ignorance.

Climate change is a real thing, and it will affect your supply chains. Reliance on one nation—an autocratic giant that cuts corners on business ethics, human rights, environmental stewardship and worker safety—will come back to bite you. Enjoying the fruits of a global value chain, streamlined and efficient, exposes one to the possible risk of paralysis in the event of slowdowns or shutdowns due to unforeseen catastrophes.

A compliance program that takes into account sanctions<sup>[8]</sup> and trade; environmental, social and governance risk,<sup>[9]</sup> and has a component devoted to supply chain risk<sup>[10]</sup> is not just a good suggestion; it is an absolute necessity.

## Takeaways

- Companies should have had contingency plans in place for crises such as the coronavirus for a long time, but it's not too late to put one together now.
- Having a vibrant compliance program that has a supply chain component is crucial for a company to survive the influence of global crises on business operations.

**1** Jon Emont, Chuin-Wei Yap, "Companies That Got Out of China Before Coronavirus Are Still Tangled in Its Supply Chains," *The Wall Street Journal*, March 8, 2020, <https://on.wsj.com/39BgIOO>.

**2** Alexandra Stevenson, "China Stopped Its Economy to Tackle Coronavirus. Now the World Suffers," *The New York Times*, March 2, 2020, <https://nyti.ms/2PYiRMP>.

**3** World Health Organization, *Report of the WHO–China Joint Mission on Coronavirus Disease 2019 (COVID-19)*, February 16–24, 2020, <http://bit.ly/2TDIYL1>.

**4** Schumpeter columnist, "Covid-19 is foisting changes on business that could be beneficial," *The Economist*, March 5, 2020, <https://econ.st/2TBY4Rg>.

---

- 5** Sascha Matuszak, “Coronavirus having an unprecedented effect on global supply chains,” *Report on Supply Chain Compliance* 3, no. 5 (March 5, 2020), <http://bit.ly/2Q1PCsm>.
- 6** Sascha Matuszak, “Vietnam seen as cost-effective manufacturing alternative to China, but lacking resources,” *Report on Supply Chain Compliance* 2, no. 6 (April 4, 2019), <http://bit.ly/2vWf8bB>.
- 7** Michael Dunne, “Coronavirus is a major wake-up call for U.S. auto industry,” *Automotive News*, February 29, 2020, <http://bit.ly/2vMROVQ>.
- 8** Sascha Matuszak, “Growing number of sanctions presses the importance of a sanctions compliance program,” *Report on Supply Chain Compliance* 2, no. 15 (August 15, 2019), <http://bit.ly/38JLLqQ>.
- 9** Sascha Matuszak, “When ESG risks become compliance risks: Paying a living wage,” *Report on Supply Chain Compliance* 2, no. 15 (August 15, 2019), <http://bit.ly/2W2xT7W>.
- 10** Sascha Matuszak, “Supply chain mapping: Democratizing data and improving operations,” *Report on Supply Chain Compliance* 2, no. 20 (October 24, 2019), <http://bit.ly/39xALoB>.

This publication is only available to subscribers. To view all documents, please log in or purchase access.

[Purchase Login](#)