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### **Coronavirus and Global Supply Chains: What Happens in China Doesn't Stay in China**

*Last month we examined the coronavirus and offered some practical advice for staying healthy. In this post we'll discuss the crippling effects that the virus is having on many global supply chains and manufacturers.*

The good news is that today's supply chains are more extended and integrated than at any time in history. The not so good news is that today's supply chains are more extended and integrated than at any time in history. While this global network allows manufacturers to leverage more resources, advance quality, boost innovation and lower costs - this same connectivity makes companies increasingly vulnerable.

After the global economy took a hit in 2008, many manufacturers adopted lean manufacturing strategies such as Just-in-Time (JIT) and other inventory reduction practices. With support from dependable suppliers, maintaining lower levels of raw materials, parts, and products on-site has become an effective cost-saving practice. But, as we are discovering, it is not without risk.

As a world-leading supplier of raw materials (some estimates are as high as 70%), China is a critical linchpin in the global supply chain. Directly or indirectly, nearly all manufacturers, retailers, and consumers are dependent on materials from China – whether they know it or not.

With the recent coronavirus outbreak, China has slashed production considerably. Consequently, many of its Asian customers have slowed production and even closed factories. And while regional automotive companies have been hit especially hard, this setback is by no means limited to any one industry. When supplies from China are scaled back the ramifications are felt globally.

### **Altering the Supply Chain**

Former UN ambassador, Nikki Haley, believes that the coronavirus outbreak will alter, not destroy supply chains. Speaking in Atlanta at a recent logistics and supply chain conference, Haley called this a wakeup call for companies reliant on long-distance suppliers as a substitute for nearby inventory held as contingency buffer stock in the event of disruption. “Globalization is a good thing - until it’s not,” she said.

Haley was critical saying that the Chinese government should have been more upfront when the virus was initially detected. This would have allowed more time for manufacturers to take action to stock up on inventory and identify alternate supply sources outside of China - local or in areas such as Thailand, Vietnam, or Malaysia for example. Haley believes that this experience will lead companies to rethink how they source, store, and distribute goods. Before concluding her speech, Haley reassured her audience by pointing out that while the virus will make life uncomfortable for manufacturers, retailers, and consumers over the near term, it will soon pass.

### **Supply Chain Threats**

Nearly every year supply lines come under attack on many fronts. From blizzards and hurricanes to labor strikes, fuel shortages, cyber-attacks, terrorism, and even war, supply chains are no stranger to catastrophe. For the most part, manufacturers have safely navigated such turbulence by tapping alternative resources away from affected areas. As a result, a localized event rarely held the manufacturing and retail world hostage.

But the world has changed. And the truth is that many manufacturers have no real idea of their risk factor. With a large network of suppliers, sub-suppliers, and raw material providers, few know the names, locations, or operational status of all companies making up their extended supply chain. A company could discover at any time that it has suddenly lost its most critical supply source – even if that supplier was based in a location far from viral outbreaks.

Now add to that that we’re on the verge of a coronavirus pandemic and you can understand why many manufacturers and investors are nervous.

## **Before you Panic**

Spring is right around the corner; and historically warmer temperatures bring the end to flu season. While supply chains will soon be back to full strength, the economic effects of the great corona outbreak of 2019/2020 will be felt for some time.

Where and when the next threat will strike is anybody's guess. But one can be certain that it is coming. And because supply chains continue to become more globally integrated, it could impact your business. So, what are you going to do to prepare?

Here are some things to consider:

- At any time, a primary supplier could suddenly be unable to meet your demands. Its therefore critical to have contingency plans in place. Continually identify alternative sources of supply for all key resources. Work with your partners and suppliers to establish strategic inventory buffers to minimize the impact of disruptions and create contingency plans.
- How well do you really know your supply chain? Meet with key suppliers and know who (and where) their suppliers are. Discuss and understand their contingency plans. Remember, your business depends on their ability to deliver.
- Examine your lean manufacturing practices. Should you be holding more stock in reserve? Weigh the advantages, downside, and options.
- We're living in a digital world and today's supply chains generate a wealth of data across all areas of the extended enterprise. Management must have a single and comprehensive view of all key performance indicators (KPIs). Data needs to be instantly accessible and sharable. This visibility provides the information and agility to respond quickly and accurately to changing conditions. What's more, analyzing trends will allow you to anticipate and respond to disruptions more quickly. And meet with solution providers to ensure that you're leveraging up-to-date technologies.

## **What's Next**

It's anyone's guess how far the coronavirus will spread. What we do know, however, is that integrated supply chains can be extremely fragile. And while the coronavirus will soon be behind us, there are even larger threats on the horizon to overcome.

Fortunately, this experience will result in supply chains that are more resilient and better prepared. Organizations will take this opportunity to scrutinize suppliers and supply chain strategies. At the same time, technology providers will continue to develop the solutions to make supply chains increasingly agile, reactive, and predictive.