

White Paper Compact



Supply Chain Risk Management How can companies avoid a coronavirus supply chain “drama”?

Whitepaper compact
Miebach Consulting GmbH
February 2020
Author:



Dirk Friebel,
friebel@miebach.com

How can companies avoid a coronavirus supply chain “drama”?

The coronavirus, COVID-19, is having a dramatic and negative impact on global production in almost all industries - from automotive, to electronics and consumer goods. Many factories in China are closed due to the outbreak of COVID-19 and the Chinese New Year, and transport restrictions mean workers can only return to factories later than planned, or not at all. And also due to the spread of the virus in Italy, European supply chains with locations in the affected area can no longer fulfill their tasks, or only to a limited extent.

In the electronics industry, Apple has reported that it has begun to relocate parts of its production to India, Taiwan and Vietnam, in response to the COVID-19 outbreak. The automotive industry is also particularly affected and is already experiencing significant supply chain issues. China, one of the world's largest markets for new cars is also an important location for manufacturers and suppliers (China is one of the largest exporters of vehicle parts such as brakes, electronics, chassis and wheels). Some OEMs, tier-1 and tier-2, have postponed the start of production at their factories in China due to the epidemic. Again, this results in delays in global supply chains due to travel restrictions and disruptions for workers.

Not only has production been severely reduced, but transportation is severely restricted due to domestic transportation controls, closures and quarantine regulations between factories, airports and seaports. Air freight capacity is limited and/or only available at a premium price.

The consequence is already a partial non-supply of raw materials/semi-finished goods (SFG)/finished goods (FG) to companies, causing production downtime across the globe and impacting the upstream global chains from tier-2 to tier-1 suppliers. On the outbound side, sales into the COVID-19 affected markets have, in some cases, practically collapsed. Curfews and/or the strong consumer reluctance in these regions lead to the losses of sales up to 100%, and the partial loss of Chinese international tourism leads to global sales losses for consumer goods manufacturers.

Fixed delivery contracts often cannot be honored or delivered on time and the customer availability expectations are not met - planned product launches, marketing and sales campaigns are no longer supported by available products.

The scale of the economic damage to-date and the continuing high risks of a loss of sales and EBIT needs to be urgently assessed, reliably and in detail to identify cause/risk and effect. Future risks in procurement and sales markets cannot be ruled out and mitigation plans should be prepared.

The effectiveness of the local health systems is the only thing that can prevent COVID-19 pandemic and consequently it should be assumed that local production and logistics will also be disrupted.

Affected companies must react quickly. Suppliers that are not (yet) affected by COVID-19 must be identified and secured. If production is able to fully resume, affected companies should agree to block bookings with air cargo carriers to remedy any lost time.

If analysis shows that the risk of stoppages in production areas is high, or are already apparent, the program should be rescheduled immediately. Under certain circumstances, the production of SFG/FG may be scheduled for stockpiling as opposed to a standstill or short-time working. Insourcing production steps (where possible) and balancing working time are the last steps before a production shutdown. Customers with fixed contracts or “free” customers must be informed and controlled in a targeted manner, and sales, advertising and marketing measures must be adapted to the changed supply situation. New products should only be launched if the goods are widely available. Through taking these measures, sales and EBIT losses can be largely mitigated.

However, companies do need to be well prepared for the future. Proactive and timely risk management for the supply chain should be introduced through clear procurement and logistics strategies. Based on an initial supply assessment, a decision can be made to mitigate risk of supply by spreading the dependencies of core raw materials/SFG/FG over at least two countries, regions or suppliers.

Logistics processes should be set up in such a flexible way that flows of goods that change at very short notice can be reliably controlled and managed - this usually requires a change in the number of logistics partners and more flexible contracts. Safety stocks for raw materials/SFG/FG can reduce the risks of supply bottlenecks in production and the danger of non-availability for delivery. An extremely fast (but well-considered) emergency procurement process must be planned and communicated should a risk occur. For manufacturing companies, it is recommended that emergency processes are defined and trained to allow very rapid adjustment of production planning. If necessary, the insourcing of production stages can be planned.

When designing advertising/marketing contracts, a short-term cancellation or exchange of the product advertised should be integrated. A liability committee for a larger number of risks should be included in fixed supply contracts. This minimizes economic risks for the future.

Well prepared for a crisis: active and timely risk management for your supply chain



PHASE 1: Making risks transparent

Inbound	Production	Outbound
<ul style="list-style-type: none"> • Analysis by source country/region/ supplier (tier-1 and tier-2) and customer/OEM • Differentiation according to FG/SFG/ raw material main product groups • Risk estimation Delay/failure • Differentiation production/transport 	<ul style="list-style-type: none"> • Health risks of own employees • Valuation per site/ production area • Costs for standstill • Options for changes to the production schedule • product availability 	<ul style="list-style-type: none"> • stock availability finished goods • Analysis of sales/EBIT loss for products/ markets • General risk of customer loss • Status product launches/ marketing measures

PHASE 2: Taking short-term measures

Inbound	Production	Outbound
<ul style="list-style-type: none"> • Quarantine if necessary • Identification and purchase of substitutes from countries without corona risk • Support for tier-1 suppliers in relation to tier-2 failures • Booking Airline BSA for promised production in Corona affected countries 	<ul style="list-style-type: none"> • New planning of production program • Prioritized utilization of fixed costs – intensive production areas and focus on competitive weaknesses • Insourcing • Temporary closure of the production areas • Short-time working 	<ul style="list-style-type: none"> • Adaptation of product launches/ marketing measures • Adjustment of sales planning • Negotiation of fixed contracts • Customer Communication • Adjustment of revenue/EBIT forecast • Ad hoc announcements

PHASE 3: Minimizing risks in the medium term

Inbound	Production	Outbound
<ul style="list-style-type: none"> • Introduction Risk Management • Initial assessment of risks • Risk minimization of supplier structure, i.e. risk diversification • Making logistics processes and contracts more flexible • Active monitoring 	<ul style="list-style-type: none"> • Optimized risk plus safety stocks • Emergency processes, i.e. rapid adjustment of production planning • Provide realistic option of insourcing production stages • Working time models 	<ul style="list-style-type: none"> • Drafting of marketing contracts with short-term cancellation/exchange of the product to be advertised • Supply contracts with liability exclusion for a larger number of risks • Prepare crisis customer communication

Miebach Consultants have been successfully developing supply chains for 47 years - we know all operational risks of supply chains in almost all industries. Contact us without any obligation if you would like to discuss your current challenges with competent and experienced partners.

