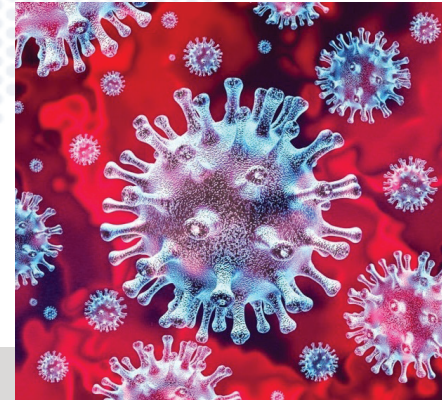


Pandemic Meets Supply Chain: Tools, Threats and Thoughts

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WHO Just Declared the Coronavirus a Pandemic

Now we need to pull out every tool in the box to fight back. Supply chain professionals have dealt with different coronavirus issues over the last months, mainly related to China suppliers and raw materials. As we prepare for the longer haul of disruption, let us share best practices and thoughts about how to weather the uncertainty.



Inventory and component management: As the economy contracts, most companies will try to limit their inventory levels. There is an expectation that demand will decrease, and less of a tolerance for tying cash up in inventory. Contraction may not be the right thing for your supply chain, but lean thinking just may be healthy. Where is inventory positioned relative to the new optimal market, and is it at the right level? Do you want to work on SKU consolidation?

Increasing buffer stock: Some of the smartest supply chain professionals have expanded both component and finished goods inventory. We see some companies doubling stock – just to be on the safe side. What happens when the pandemic closes down a supplier and thereby possibly an entire supply chain? It allows you to weigh lean versus safe. However, your CFO may weigh in and consider the cash impact.

Forecast adjustments: No question about it; the economy is taking a hit. Generally, demand will decrease. Yet, maybe it is more a question of a shift in demand: Demand for medical supplies and services may go up, home cooking may increase while restaurants and convention catering will be down, home deliveries may go up while mall shopping may come down, and so forth. If demand planning is uneven or uncertain, inserting agility into the supply chain becomes critical. Near-sourcing and consolidation/standardization of parts may be good tools to consider.

Supplier management: Know where your suppliers are located such that you understand the impact of, for instance, Italy limiting business activity. Understand which PO or hidden commitments, such as minimums, you have with your suppliers such that you can start working with them. Also consider whether this is the time to shift your supply base, maybe for near-sourcing.

Supplier long-term and short-term health: With a shift in demand as well as global effect and health of employees, the survival of many companies will be in question. Some of the old tools, such as credit reports, may not reflect new realities. Consider which suppliers may need a helping hand, such as early payment. Finally, the supplier needs to stay open for them to be any good to your supply chain. Set up an intelligence system to ensure that you are the first to know if the supplier has to close due to a virus outbreak among staff, regulatory requirements or other problems.

Freight carriers: Carriers went through a rough year in 2019, and 2020 looks to be off to a disastrous start for most carriers. It just may be a good time to review how solid your carriers are. The last thing you want is for the carrier to go out of business while hauling time-critical product that ends up being stuck in an unknown location. Not pretty – been there! On the other hand, depending on your freight contracts: with oil prices being down there might opportunity for savings?

Transportation disruption: Container ships have been canceled, food has been stored in refrigerated containers causing a shortage of refrigerated containers, and flight cancellations are ubiquitous, causing impact to cargo. In light of this upheaval, you may need to consider your transportation strategy and investigate new options, such as the superfast ships that now rush to bring products around the world. Remember that transportation may be both inbound and outbound.

Pandemic Meets Supply Chain: Tools, Threats and Thoughts (continued)



Border crossings: Nobody knows! When we tried to find out how fast product can get into Italy, there was a lot of shoulder shrugging. The country is, after all, mostly shut-down. You should expect that for many countries over the next month(s), and being able to deal with this situation is critical, especially if you deal with time-critical or perishable products. You may also encounter high shipping charges if product is returned. This week, our programmers installed a new shipment Fence protocol to ensure that orders to impacted areas get into a different and controlled order flow.

Contract reviews: Supply chains consist of a plethora of contracts. The lawyers always tell us that the contracts are for dealing with situations that you perceive are unlikely. Well, here we are with a Pandemic. What do your contracts say about your rights? Can the customer cancel an order with no notice? Does the supplier have to notify you under certain circumstance?

Channel disruption: Ecommerce and retailers are going through structural changes. If your channel partners are just hanging on by the fingertips, they may not be around for long. Revisit your channel strategy and make sure that customers can buy your products.

Currency fluctuations: Prudent supply chain pros try to have revenue and cost in the same currency or at least have some level of hedging. Maybe you played it safe? If not, now is the time for risk analysis as some countries and currencies may be hit more than others. It is always good to know how much you stand to lose – or dream about the winnings.

Permits, paper work: It is supply chain after all – so there are forms, paper work, permits, and government interaction. As some countries and regions have started sending home non-critical government staff, processing times may increase. Get in line before others – or take the famous patience pill. You just may be in for a long wait before you get that duty drawback.

Tariffs and taxes: There is momentum for a review or withdrawal of the tariffs on China imports, thanks to National Association of Manufacturers (NAM). This move may change the cost structure and work in your favor. The political scene also includes discussions about tax relief. It may be a good time to follow closely what is going on in DC.

Cash: The ugly side of a downturn is that cash often becomes constrained. Even if governments are trying to ensure liquidity, many companies will start being conservative with cash, and rightfully so. It may be a surprise but we should expect banks to become conservative. It is time to count the money and see how you can maintain a conservative inventory level.

Staffing: Work from home (WFH) may seem like a great solution for some jobs – but if your staff does for instance container off-loading or manufacturing, WFH may not be possible. Supply chain has jobs that require a physical presence, robots notwithstanding. WFH may also not be ideal for families in cramped quarters with lots of at home distractions or poor internet connection. If you have not already done your planning, it is time to find out how do you keep staff safe and get the job done, who can work from home and will they be productive, and are they set-up appropriately and safely to be able to work remotely.

Community: Running a business or being in supply chain is not just about getting the job done. It is also about doing it the right and responsible way. My first rule is to not endanger anybody. The second rule is to see how we can help the community around us be safe, be productive and come out stronger. It is worth it for everybody and for us as supply chain providers to think about.

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