Responding to the Coronavirus Crisis: Selected Ideas and Learnings for Asia’s Supply Chain Management Leaders

Every company with a supply chain in China is impacted significantly by the coronavirus (COVID-19) crisis, some to the point of paralysis. As of 20 February 2020, definitive progress on containment and remission is still not in sight. Business disruptions are expected to continue and with broad ripple effects. Impacts will amplify significantly if and when significant numbers of small- and medium-sized businesses begin to go bust for lack of cash flow.

While many firms have likely built some cushion of parts in inventory and in transit ahead of the Chinese Lunar New Year holiday, as is typical, backup supplies will start to run out if factories cannot get back to work soon, trucking and delivery services do not return to some level of normality, or flights to and from China remain limited.

In this time of complex and cascading challenges for supply chain professionals, we have gathered some insights and learnings from our internal experts and member network which we hope will be helpful as you formulate, implement, and manage your own crisis response.
The DOs and DON'Ts in the catalog below\(^1\) essentially resolve down to three executive actions:

1. Getting the most relevant, accurate, and granular data on all forces that create supply chain risk, especially those with high impact, whether high or low probability. Some will be “non-traditional” data for normal supply chain optimization activities, such as anecdotal inputs from credible local sources and trusted intermediaries.

2. Using the opportunity to plan and invest in well-designed redundancy for critical-path supply chain components and agile processes to manage them, both for risk mitigation purposes and cost management goals. Increasing trade frictions had already been driving this need prior to the COVID-19 outbreak.

3. Installing best-practice tools for supply chain security and supplier compliance, digital twinning for real-time supply chain management and crisis response, telecommuting and groupware for immobilized white-collar workers, and real time intelligence acquisition for health crises, natural disasters, and political and social upheavals.

Key Must Dos and Get Rights

- **Enable needed agility and real-time decision-making efficacy via a multifunctional Supply Chain Crisis Team.** Under senior leadership supervision, install and empower a team of solid mid-level managers who can work quickly as a team to set priorities in times of limited resources. Supply chain leaders should be the core, surrounded by key internal customers: finance, production, sales, government relations, legal, etc. Finance should identify key accounts that are the most critical sources of profit contribution. Production should list all inputs – regardless of volume – essential for those key accounts. The logistics team should develop full supply chain maps for all the identified inputs, and sales should shape communications with customers.

- **Dedicate resources to understand diverse and rapidly changing local regulations with respect to reopening facilities, managing workforce, transport restrictions, and COVID-19 specific workplace requirements.** Be extremely careful about complying, due to the heightened risks associated with operating during a crisis, both for Legal and PR reasons.

- **Know how and when to report and process a COVID-19 case.** Implement SOPs for activating the mandated steps to inform health authorities when a case of COVID-19 is

\(^1\) This list is not arranged in any order of priority.
suspected or confirmed in your location. Manage infected staff or partners from point of intercept to appropriate healthcare facilities. Establish a daily monitoring and reporting protocol.

- **Establish a rapid response communication channel with all your supply chain staff** to instantaneously convey, as necessary, any emergency information so that informal or erroneous communications don’t disrupt operations and so that true emergencies are addressed quickly and efficiently. WeChat groups can work fine for this purpose.

- **Sort high-risk shipments.** Isolate and prioritize all POs for Made-in-China production in Q1 2020. In prioritizing PO fulfillment, consider using *profit contribution* and *key customer* as dual ranking criteria. Further isolate the “hot” POs – i.e. orders for key customers who are running out of inventory – for priority delivery. Map the entire supply chain of all critical components for high priority POs.

- **Given the need for highly agile and possibly non-conventional process workarounds,** identify and preemptively resolve any internal bottlenecks that might impact the supply of key components and the fulfillment of key POs. Create rapid response chains-of-command where needed.

- **Dot all the I’s and cross on the T’s on legal matters.** Ask your General Counsel to identify the implications of failure to deliver, or failure to deliver on time, as another dimension of risk. Some companies are reportedly considering invoking *force majeure* for legal protection. Remember that doing so requires demonstrating, via appropriate documentation and bona fides, that it is effectively impossible to perform contractual duties as a result of the outbreak.²

- **Revisit contingency plans.** Plot ways to minimize the impact of current and expected reductions in parts, products, and components. Look 15, 30, 60, 90 days in advance to foresee problem areas and develop plans for continuity of supply. Notify sales, marketing and production of expected shortages and against possible changes in demand.

- **Use personal networks – yours and those of your teams – for firsthand data.** Cast the net wide. Contact the factory owners and managers, QC inspectors, forwarders, and courier companies you know for on-the-ground situation reports and insights. Ask: How big is your backlog? What percent of workers are back and working? How reliable have sub-suppliers been since the crisis hit? What percentages of trucks are running and vessels calling? What’s the status of current transportation bans? Consider producing a regular briefing document to inform the work of other departments (e.g. Corporate Communications, HR).

- **Develop alternative supply sources.** If access to suppliers remains blocked due to ongoing stoppages, explore the possibility of procuring Made-in-China components from other regions in China. A growing number of automakers, who are facing stoppages due to supply chain issues as the COVID-19 spreads in Hubei, are already

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beginning to shift supply chains to other regions.\textsuperscript{3} COVID-19 is an extreme, but not the only, unpredictable force threatening supply chains in China. Some level of redundancy and agile processes for moving critical supply needs as necessary among redundant production bases will mitigate the risk of shortages now and in the future. Redundancy need not be an ‘insurance cost’. Given the competition among localities in China, redundancy plans, if properly constructed, can result in procurement savings.

- **Consider setting up a Digital Twin for supply chain modeling** that enables real-time data collection and accurate cost-calculating for alternative supply chain options.

- **Set up a dashboard to monitor the unfolding geographic profile of the crisis.** Have a consolidated repository of COVID-19 maps, incorporating live updates from reliable media, government, and non-governmental sources. Include input channels for updates from social media, which, although vulnerable to hearsay and inaccuracy, may be faster than official reports. Understand where transport and mobility carriers are likely to be erected based on China spatially defined natural economic territories. Some transport and mobility controls established to contain COVID-19 may endure beyond the current crisis if they provide economic advantage to regions. Ensure that your company’s operating locations – tier 1, tier 2, and tier 3 supplier locations, and major transport routes – are represented on the map.

- **Institutionalize an in-depth understanding of migrant factory worker mobility patterns.** Where large migrant labor inputs are required, understand the geographic affiliations of the labor pool, and, based on likely inter-regional transport and mobility impediments, shape labor profiles to mitigate risk of shortages. Discuss sourcing higher-cost local workers with your suppliers. Understand that training and retainment means that costs will rise for an extended period.

- **Create transportation workarounds.** Demand for logistics will surge as production capacity ramps up. However, a large proportion of trucks in China are owned and operated by suburban and rural residents, many of whom are locked down in outskirt areas of town. Long-distance trucking links will take some time to recover. To address this challenge, some companies are boosting delivery capability by forging temporary partnerships with local logistics firms. This may result in the reshuffling of supply chains towards more localized clusters.

\textsuperscript{3} Automotive parts made in China are used in millions of vehicles assembled around the world, and China’s Hubei province is a major hub for vehicle parts production and shipments. Global automakers are therefore at the eye of the storm as the COVID-19 crisis escalates. Anecdotally, Suzuki Motor Corp is said to be aggressively exploring other regions for components it procures in China. Hyundai Motor Co suspended production at its South Korean plants due to a shortage of China-made parts, and Fiat Chrysler Automobiles said one of its European plants could close within weeks if Chinese parts suppliers are unable to resume production soon. Whereas Toyota Motor Corp said its plants outside China were operating as normal for now, the company is said to be considering the possibility of shifting manufacturing of certain parts from China to other regions.
- Strengthen tools for professional office staff to function successfully in mobility constricted situations, not only from COVID-19 but from transportation snafus, natural disasters, and other causes. Key examples are IT systems for telecommuting, groupware, and other aids for virtual convening.

**Key Mistakes Not to Make**

- **Don’t re-invent the wheel.** Check whether you have a pandemic plan or manual. Determine which crisis level has already been reached and identify any written directives you may be responsible for implementing. Review and update the manual as the current crisis evolves. Check with related departments – HR, communications, finance, etc. – to understand their planning assumptions and key interfaces and touchpoints for supply chain operations.

- **Don’t conduct risk analysis based on sales or buying volumes.** It’s an obvious mistake but often made. The volume of a certain product might be small but vital to one of the company’s top clients; or critical, but in a small way, to a high value (but relatively low volume) product line.

- **Don’t forget to communicate regularly and consistently throughout.** Be proactive and transparent in communicating with customers to share what you know and what guideposts and gating factors you are monitoring to predict operating conditions. Be realistic; avoid creating expectations that are overly optimistic.

- **“Don’t waste a good crisis”.** Continually ask your own managers to identify risks and solutions. Ensure there is a channel for capturing, processing and acting on good ideas. Use the opportunity to seek out and implement important – but overlooked or neglected – operational transformations. Celebrate successes.

**Key Things Not to Overlook**

- **Traceability is key.** Do your systems and processes allow you to trace the source of materials and their flow? Investigate second- and third-tier suppliers for better visibility of risks to your company’s supply. Explore blockchain tools, RFID tagging, and other security systems to assure supply chain integrity. To the extent possible, audit direct suppliers’ upstream procurement to assure compliance with contracted specifications. Expect suppliers to experience extreme upstream cost pressure and availability risks.

- **Continually assess your demand chain to identify and exploit opportunities.** Demand volatilities add an additional layer of risk. As volumes for certain products dip in crisis, other products may see unprecedented demand. Stay nimble in order spot occasions to pick up the unmet demand of competitors who may be unable to cover unforeseen spikes in demand. Being shrewd in times of crisis can create long-term competitive advantage.
- Stay dialed into reliable channels for evolving shutdowns, quarantines, testing locations and protocols. If you are not regularly communicating with local government, find a way to engage. Learn the rules, negotiate where possible, ask for special permissions and dispensations when opportune, and otherwise, follow the rules. Automatic quarantine may affect your people as they travel to, or through, new quarantine zones. Reliable web information sources include: US Embassy Beijing, AmCham China, AmCham Shanghai.

- Consider the possibility of a major international outbreak and do some high-level planning. There are possibilities that COVID-19 will go pandemic. The World Health Organization sees risk of a delayed COVID-19 outbreak concentrating in countries with weak medical systems. Certain African and Southeast Asian countries, for example, may lack sufficient capability to detect and isolate early COVID-19 cases and may therefore be unable to prevent rapid spread of the virus. Do you have supply chains in some of these countries?

- Build credibility and provide a reality check for HQ. Send regular updates to your overseas headquarters to supplement the COVID-19 news available overseas, which is limited in scope and often politicized.

- Don’t expect “normal” to return quickly. The numerous levels of governmental response, and the jurisdictional quagmire it has created, will take time to rectify and realign after the spread of the disease abates. The drawdown of inventory during the crisis period will also lead to a challenging time of hyper restocking through the second half of the year. While addressing time sensitive issues as best possible, don’t neglect to allocate sufficient time to revising your plan for 2020 and advising your C-suite on key customer and competitive impacts.

We hope that this summary of ideas and learnings will be helpful as you navigate the complexities of this fast-moving situation. Please do not hesitate to reach out to our expert team for a quick chat or meeting – we’re here to help.

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