

THE CORONAVIRUS OUTBREAK & THE SUPPLY CHAIN

The World Health Organization (WHO) on March 11, 2020 declared the rapidly spreading coronavirus outbreak a pandemic.

[As of March 20](#), 168 countries, areas or territories have reported that 209,839 people have contracted Covid-19, the disease caused by the virus, known as SARS-CoV2. Nearly 8,778 people have died.

This outbreak is posing serious challenges to the human health and businesses alike.

The possible impact on the supply chain

It is difficult to predict the exact consequences of coronavirus. But [Gartner's experts](#) think that organizations might begin to see impacts across the supply chain, including:

- **Materials:** Supply shortages of materials or finished goods coming from or routed through logistical hubs in impacted areas.
- **Labor:** White- and blue-collar labor may not be available due to quarantine guidelines or illness.
- **Sourcing:** Travel may be restricted to certain areas, limiting the ability to discover, qualify and certify new business or programs and to transact business.
- **Logistics:** Established hubs and supply networks may experience limitations in capacity and availability so that even if materials are available, they would be stuck elsewhere. Finding alternative routes and means of transportation will become difficult.
- **Consumers:** Consumers may be more cautious in their purchasing habits due to fears about being in public and potential exposure to the virus. Many may turn to online sales, challenging logistics networks.

How to prepare your supply chain for the coronavirus related crisis

Prevention is the best method of protection, as the old saying goes. Naturally, Covid-19 took all of us by surprise, if not ultimate shock, as none of us had anticipated the sheer enormity and explosion of Covid-19 to grow as fast and harsh as it did. And impact not just businesses but our basic human lives to such great extent and on such a global scale. The threat is real, and it's here to stay for a while. We must not get off guard, keep vigilant and listen to advice coming out of WHO and other global institutions.

There are some steps we can take now - when the virus has spread globally, with multi-level effects - even if none of us are fully prepared to face such a crisis.

The long-term effects are not very clear, but what is happening now can be a business lesson about how we can prepare our companies for a large-scale crisis.

What to do right now?

The experts from [Harvard Business Review](#) have some recommendations about what actions business leaders can take to mitigate the impacts of the crisis on supply chains:

1. **Start with your people:** The well-being of your employees is crucial, as they are one of the most important resources of your business (if not the most important one). You can keep in touch with them and find out how they feel, what challenges they face, and what their fears are. Try to help them as much as you can. Communication is key at this time, so keep them informed about important things constantly. Also, you may need to rethink your work practices. Try to consult them before making changes or at least inform them about the reasons why you made those decisions.

2. **Maintain a healthy skepticism:** As much as possible, inform yourself from official sources and advise your employees to do the same. Also, to find out what's going on in the areas of interest to you, keep in touch with those out there (local suppliers or other businesses, for example).
3. **Run outage scenarios to assess the possibility of unforeseen impacts:** Given that China has a global influence, and many European countries impose restrictions on the movement of goods and people, there will certainly be unforeseen consequences. Therefore, expect the unexpected, especially when core suppliers are in the front line of disruptions. Inventory levels are not high enough to cover short-term material outages, so expect cause widespread runs on common core components and materials.
4. **Create a comprehensive, emergency operations center:** Most organizations today have some semblance of an emergency operations center (EOC), but these should exist at the plant level, with predetermined action plans for communication and coordination, designated roles for functional representatives, protocols for communications and decision making, and emergency action plans that involve customers and suppliers.

What to do in the near future?

Until recently, the world operated on the acceptance that goods and people move freely. But events like Brexit, China-US trade dispute, and now the coronavirus outbreak, have shown us that the status quo can change. Therefore, EPTDA members should start implementing other aiding measures in these challenging times. According to the HBR, these are:

A. Redesigning the supply chain with second sources in order to have a backup capacity for supply, production, and distribution outages.

This way, the risk of a disruption is dispersed across two sources. The big disadvantage of this operation model is that it incurs higher administrative, quality monitoring, and unit costs.

B. Redesigning the supply chain to source locally to have production facilities with local sources of supply in each of the major markets.

The economies of scale are lower and the capital costs are higher in this scenario, but the transportation costs are lower.

Also, in the mid-term, “the focus should be on balancing supply and demand as well as building buffer stock. Assess opportunities to diversify the supplier ecosystem and review or create the organization’s overall risk management approach. Work with internal stakeholders and strategic and critical suppliers to establish a congruent risk management approach to monitor and prepare for potential material and manufacturing capacity shortages”, according to an analysis published by Gartner.

In the future, we should learn better how to handle a major crisis. Amongst other measures, you need to identify the internal risks, experiment with various solutions, diversify your sources of supply, secure your contracts for such cases, and have sufficient cash reserves. Being better prepared than the competition might even open new opportunities when the next disruption strikes.

EU response to the outbreak of covid-19

The European Commission is coordinating a common European response to the outbreak of COVID-19: “We are taking resolute action to reinforce our public health sectors and mitigate the socio-economic impact in the European Union. We are mobilizing all means at our disposal to help our Member States coordinate their national responses and are providing objective information about the spread of the virus and effective efforts to contain it”, according to a statement published on its website. More about this task force [here](#).

On 16 March, [the European Commission published the guidelines for border management](#) measures to protect health and ensure the availability of goods and essential services.

The document states that the **transport and mobility** sector is essential to ensure economic continuity. Here are some recommendations made by the EC regarding this sector:

1. Collective and coordinated action is indispensable and emergency transport services should have priority within the transport system (e.g. via ‘green lanes’). Also, control measures should not undermine the continuity of economic activity and should preserve the operation of supply chains. Unobstructed transport of goods is crucial to maintain availability of goods, in particular of essential goods such as food supplies including livestock, vital medical and protective equipment and supplies. More generally, such measures should not cause serious disruption of supply chains, essential services of general interest and of national economies and the EU economy as a whole.
2. Professional travel to ensure transport of goods and services should be enabled. In that context, the facilitation of safe movement for transport workers, including truck and train drivers, pilots and aircrew, across internal and external borders, is a key factor to ensure adequate movement of goods and essential staff.

3. Where Member States impose restrictions to the transport of goods and passengers on grounds of public health, it should be done only if those restrictions are:
 - a. Transparent, i.e. enshrined in public statements/documents
 - b. Duly motivated, i.e. they need to spell out the reasons and the link to Covid-19. Justifications must be science-based and supported by World Health Organization (WHO) and European Center for Disease Prevention (ECDC) recommendations
 - c. Proportionate, i.e. not going beyond what is strictly necessary
 - d. Relevant and mode-specific, i.e. restrictions on any of the different transport modes must be adapted to that mode
 - e. Non-discriminatory

When it comes to the **supply of goods**, the European Commission states that Member States should preserve the free circulation of all goods:

1. In particular, they should guarantee the supply chain of essential products such as medicines, medical equipment, essential and perishable food products and livestock. No restriction should be imposed on the circulation of goods in the Single Market, especially (but not limited to) essential, health-related and perishable goods, notably foodstuffs, unless duly justified. Also, Member States should designate priority lanes for freight transport (e.g. via 'green lanes') and consider waiving existing weekend bans.
2. No additional certifications should be imposed on goods legally circulating within the EU single market. It should be noted that, according to the European Food Safety Authority, there is no evidence that food is a source or a transmission source of Covid-19.
3. Transport workers, especially but not only those delivering essential goods, should be able to circulate across borders as needed and their safety should in no way be compromised.

4. Member States should ensure constant provisioning to meet social needs, to avoid panic buying and the risk of dangerous overcrowding of shops, which will require proactive commitment from the entire supply chain.
5. Specific transport nodes (e.g. ports, airports, logistics hubs) should be reinforced as needed.

Note: The EU is banning travelers from outside the bloc for 30 days to seal its borders amid the coronavirus crisis. The measure is expected to apply to 26 EU states as well as Iceland, Liechtenstein, Norway and Switzerland. UK citizens will be unaffected. The ban came as deaths continued to soar in Italy and Spain, and France began a strict lockdown.

Appendix

Sources and Additional Reading

Coronavirus disease (COVID-19) outbreak, [World Health Organization \(WHO\)](#)

Coronavirus Response, [European Commission](#)

Prepare Your Supply Chain for Coronavirus, [Harvard Business Review](#)

Coronavirus: How to Secure Your Supply Chain, [Gartner](#)