



CORPORATE AND COMMERCIAL

COVID-19: Supply Chain Management

by

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Business interruptions arising from COVID-19 at any or all levels of the supply chain may result in businesses being unable to perform, in whole or in part, their contractual commitments. Mitigating steps should now be considered and implemented.

In this article, we look at how the impact of the COVID-19 global pandemic crisis can be mitigated through effective supply chain management.

Consideration of pre-emptive measures

A business should be cognisant of the pre-emptive measures it would be expected to take having regard to the circumstances.

Although the government are encouraging consumers to avoid bulk buying, it may be necessary for a business to stock-pile essential materials or resources to meet current demand. It is common for supply chain systems to cater for on demand tailored manufacturing. This lowers costs and improves efficiency. To achieve this, inventory levels are kept low but in the current uncertain environment this could result in supply chains not being strong enough to deal with an unsettled market and short supply. Measures such as the provision of immediate delivery, where possible, might be necessary.

Flexibility is crucial when shockwaves ripple through the chain as regular suppliers may need to be substituted for other suppliers in order to help control a reduction in supply.

Importance of communications

It is imperative that your business has a communications plan in place to respond as efficiently and timely as possible in times of disruption. Key players in the supply chain should be contacted on a regular basis and the business should consider the circumstances that would call for a scaling back or suspension of operations due to COVID-19.

Transparency across the supply chain needs to be illuminated beyond the key suppliers. All threats to production capability need to be clearly identified from the outset to react to the pandemic and to mitigate its effects. Whilst specialised epicentres of production are effective to ensure efficiency in a globalised market, it may mean that lack of diversification in a business' production zones may make it extremely difficult to shift locations of production so as to meet a short supply.

What can your business do?

1. Go Digital

Many supply chains are still managed manually which does not lend itself to a quick shift in suppliers. One of the ways that business can mitigate the strong effects of crises is to digitalise their supply chain management system. A digital connection would increase transparency across the supply chain and failures

in the chain can be identified quickly and can be focused on immediately and addressed.

The use of artificial intelligence in supply chain management systems has been gaining popularity in recent years and can be hugely beneficial in identifying risks or opportunities due to global changes in the political, financial, or health sphere and can be responded to in advance.

2. Identify and Implement Credible Substitution Measures

Leaders are now responding by triggering formally endorsed substitutes for raw materials or resources across the various tiers in the supply chain which have been impacted by the pandemic and which can no longer deliver as promised. In some cases, a product redesign may be necessary. This could have been agreed in advance as part of business continuity measures in place.

3. Risk Assessment

Going forward, businesses should carry out a risk assessment on critical business operations.

4. Rebuild Supply with Strategic Planning

Temporary measures may need to be put in place to deal with supply reconstruction. In addition, it may be necessary to seek new methods of securing materials. Planning exercises should be implemented regularly to review the implications of a halt at all operational levels. Investment into agile planning facilities to sense demand and track movement of products/services or forecasting technological support will aid in business performance. Businesses need to be proactive in the understanding of demand signals and the reactive measures necessary. These types of facilities fortify the supply chain in times of crisis and strengthen strategic planning.

As the COVID-19 pandemic continues to unfold, it is critical that businesses assess their risk exposure under existing contracts and contracts which are under commercial negotiations. To do so effectively, businesses must develop plans that include:

- Communicating clearly with your business partners, suppliers, customers and regulators (if applicable) to alleviate potential contract disputes;
- Reviewing extant contracts and force majeure provisions; and
- Staying informed of legislative changes and regulatory guidance.

Companies should proactively formulate plans to protect their businesses and communicate with regulators to minimise disputes.

We are working closely with our clients in relation to assistance with reviews of existing contractual provisions and, in particular, force majeure clauses. We can also advise on your supply chain, subcontracting arrangements, conducting risk assessments and legal audit processes.

If you have any questions regarding COVID-19 and the implications for your commercial contracts, please contact a member of our [Corporate team](#).

To view our cross-disciplinary coverage of business continuity during the COVID-19 outbreak, please visit our dedicated [special insights page](#) and sign up to our mailing list by [clicking here](#).

About the Author