



TAKING STOCK — MARCH 2020

# COVID-19 is a Blunt Reminder to Address Supply Chain Challenges

As supply chain risks evolve, retail and restaurant companies need to ensure they can withstand the adverse effects.

While people's health is the number one concern during the COVID-19 pandemic, supply chain disruptions are near the top of the list of business risks. As governments and organizations step up containment and mitigation measures, the knock-on effects on businesses will increase.

Not long after COVID-19 started spreading, and even before the World Health Organization (WHO) had declared a global pandemic, companies started adjusting revenue targets downward, in a clear indication that the current crisis was going to have effects that extend far beyond the health system.

A [study](#) by the Institute for Supply Management found that nearly 75% of companies have seen disruptions in their supply chain, partly due to transportation restrictions related to the ongoing pandemic. And more than 80% of respondents believe their business will be impacted by COVID-19 disruptions.

## Supply Chains Stretched

China, where the COVID-19 pandemic originated, accounts for [15.4% of products and services produced globally](#). In Wuhan alone, the outbreak's epicenter, there are approximately 500

manufacturing facilities. The extensive quarantines established to stem the virus's spread inevitably affected the production process and rippled across global supply chains.

Today's economy, built heavily on just-in-time production, leaves little room for disruptions or delays. With COVID-19 now present well beyond China, the effects are widespread. Additionally, as consumers engage in panic buying and hoarding of essential products, retailers in many places have sold out of certain items, with alcohol-based cleaning products and toilet paper prime examples. Add transportation challenges to the mix and retailers face challenges to restock their shelves.

Many restaurants across the country have been restricted to take-out and delivery as authorities try to limit crowds to curb the spread of disease. But as they continue trying to serve their communities, they too are likely to experience similar shortages, even at a time when their revenues are likely to decrease.

Inconsistent sales will make it more difficult to project inventory needs, which could lead to shortages on one end and spoilage on the other. Additionally, shifting to a delivery and takeout model will likely require restaurants to rethink their menus and move toward food items that will retain their quality during transportation.

## Take Preemptive Action

Even before COVID-19, breaks in the supply chain happened, caused by challenges ranging from natural catastrophes to cyber-attacks. But retailers and restaurants can take action to protect themselves from supply chain disruptions. And it all starts with information. Retailers and restaurants need to ask: What is my secret sauce? What are the products or ingredients that I cannot operate without? Which suppliers do I depend on for these items?

Answering the above questions can provide a clear understanding of the prioritization of products and ingredients that most affect your operations. It will also make clear the costs associated with not having those items available.

Organizations also need to clearly understand the entire supply chain — including their suppliers' own suppliers — and be able to identify vulnerabilities. It can be worthwhile to talk with your

suppliers to discuss their resiliency plans and ensure they have suitable contingency measures in place. For example, if one of your main suppliers depends on raw products from a country that is affected by a trade ban, you might want to ask whether they have an alternate source and if so, whether it meets your standards.

## Create Risk-Agnostic Plans

It might seem impossible to have a plan in place for every potential event that could adversely affect your supply chain. The good news is that you don't have to. Instead, think beyond single exposures and consider the supply chain's overall vulnerabilities. And then address those vulnerabilities through contingency plans that can be tweaked according to the specific peril.

Creating a robust contingency plan is not an overnight exercise. Don't wait until you are forced to look for alternative suppliers.



### OTHER SUPPLY CHAIN TRENDS AFFECTING RETAILERS AND RESTAURANTS

In an ever-changing world, supply chains are at the mercy of myriad trends:

- **Increasing Pressures from Geopolitical Challenges:** Issues related to global trade are expected to [continue throughout this year](#), leading to persistent political and economic uncertainty for businesses. Supply chains can be impacted in a number of ways, including through potential tariffs or even outright trade bans. This means businesses that depend on a particular supplier could find themselves facing disruptions.
- **Severe Weather and Natural Catastrophes:** From wildfires to hurricanes to earthquakes, we're seeing an increase in the number of natural disasters that could have a debilitating impact on your supply chain. This not only affects transportation of essential products, but also potentially disrupts the manufacturing process. These risks are not expected to go anywhere — according to the World Economic Forum's *Global Risks Report 2020*, the top-five long-term risks are all related to the environment, which means that businesses should prepare for more disruption in the future.
- **Cyber and Information Security:** While the era of connectivity has made communication easier and supply chains more agile, there are also vulnerabilities. Cyber risk has evolved from the data breaches of a few years ago to incidents that can completely paralyze entire supply chains — 2017's notPetya attack clearly demonstrated the reliance on technology and the destructive effect an event can have on companies. Not all businesses have done the legwork to identify the supply chain impacts. For example, how will you get your merchandise off a ship if the digital records are lost? Do you have an alternative log? And what will happen if you have perishable or seasonal products stuck in a port?
- **Product Contamination and Defects:** Retailers and restaurants depend on their suppliers to provide quality end products to their customers. But if, for example, a food producer has a contamination problem or there is a manufacturing defect in a product, retailers and restaurants can end up either without a needed item or with a product they cannot sell. As part of your contingency plans, identify alternate suppliers and strategies that allow you to continue operations. Additionally, discuss your suppliers' insurance coverage and determine whether you will be covered in the case of a problem from their end. And you should also review your coverage to determine what would be covered under a recall policy.

Start immediately, including conversations about pricing so that you can quantify the cost of your contingency plans.

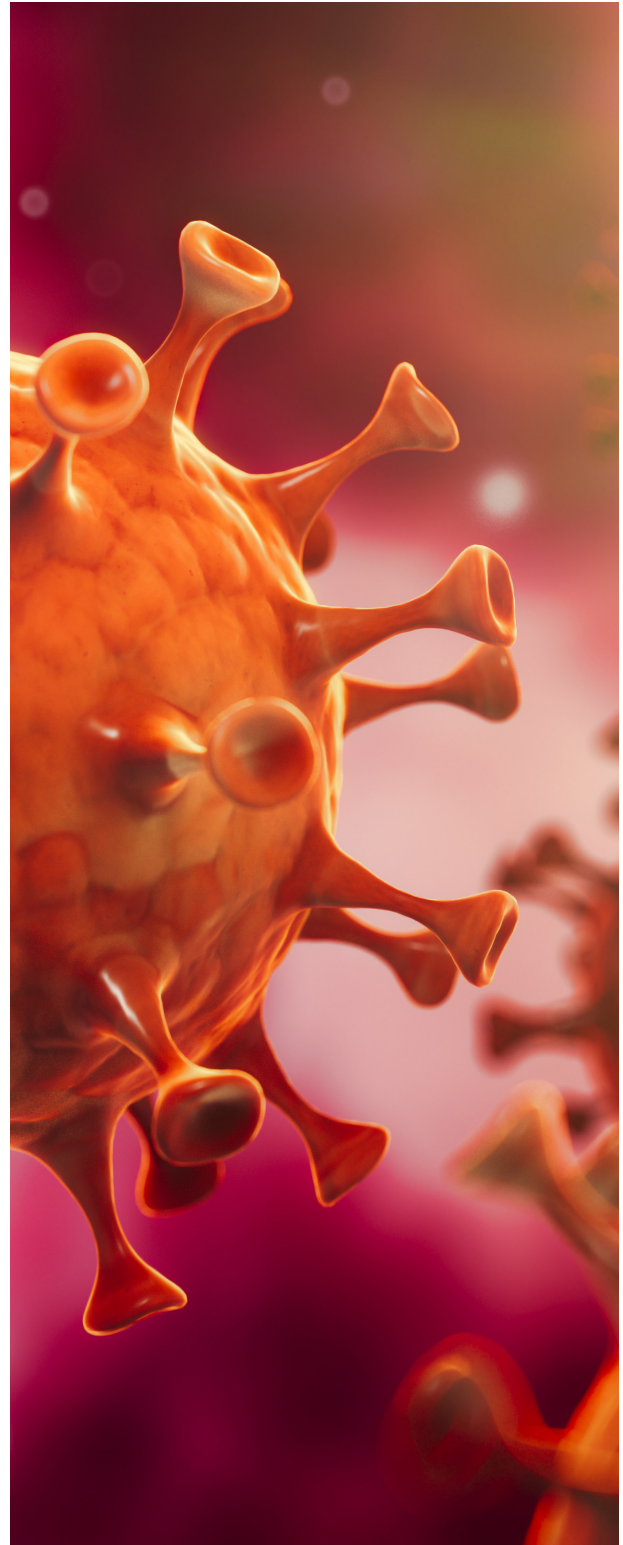
Some restaurants and retailers have attempted to secure alternate suppliers as the COVID-19 event started to expand, but this will prove increasingly difficult as supply chains stretch thinner. With depleted supplies and increasing demand, suppliers are likely to prioritize long-term customers over new requests. Restaurants and retailers that had planned for a diversified supply chain likely have strengthened their ability to use existing relationships and to secure orders from other suppliers.

It's important to work with your broker or insurance advisor to review your policies and determine what coverage is in place for different supply chain challenges that might affect your operations. Additionally, find out in advance what information your insurer will require to process a claim so that you can have those details available.

Finally, regularly review your supply chain's pain points and update your plans to ensure they will respond to changes and emerging risks.

For some, the COVID-19 outbreak is a harsh wake-up call. Although it struck unexpectedly, the WHO and others have long been warning the world to prepare for major disease outbreaks. Some organizations had specific outbreak plans in place, others were able to adapt longstanding emergency response plans. But some organizations were taken by surprise. The current crisis highlights the importance of preparing for all potential disruptions, and to constantly review and rehearse plans, even for risks that do not appear to be imminent.

Retail and restaurant companies are well-advised to step back and analyze their resiliency plans when faced with a break in their supply chain.





This briefing was prepared by Marsh's Retail/Wholesale Practice, in conjunction with Marsh JLT Specialty, Cyber, Product Contamination, and Marine practices. For more information, visit [marsh.com](http://marsh.com), contact your local Marsh representative, or contact:

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