



Coronavirus Has Already Infected Your Supply Chain— And the Side Effects Could be Critical

By Tara Donaldson



Workers manufacture protective face masks in a factory, as face mask stocks run low amid the outbreak of coronavirus, in Handan, Hebei Province, China, 23 January 2020. The outbreak of coronavirus has so far claimed 17 lives and infected more than 550 others, according to media reports. Authorities in Wuhan announced on 23 January, a complete travel ban on residents of Wuhan in an effort to contain the spread of the virus. Factories step up production of face masks amid coronavirus outbreak in China, Handan - 23 Jan 2020 CREDIT: STRINGER/EPA-EFE/Shutterstock (10536688a)

The sudden and spreading [coronavirus](#) has already begun to strangle supply chains.

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Emerging in Wuhan, a city in [China's](#) Hubei province, in late December, the outbreak of the novel coronavirus, a never-before-seen respiratory illness, is sweeping through the country, already infecting thousands there, according to the Centers for Disease Control.

On Thursday, the United States reported the first person-to-person spread of the virus, a type typically found among animals. Also on Thursday, the World Health Organization (WHO) declared the coronavirus a public health emergency of "international concern." So far, the virus has landed in more than 20 countries outside of China, including the U.S., Japan, Vietnam and Germany.

And supply chains are feeling the fallout.

With the outbreak hitting just ahead of the Chinese New Year holiday—which, under normal circumstances, slows down supply chains and yields a falloff in factory workers—setbacks are expected.

On Friday, fit innovations company Alvanon, which manufactures dress forms in China, indicated in a statement to its clients that they should prepare for delays.

The coronavirus outbreak, Alvanon CEO Janice Wang said, will "have an impact on our physical AlvaForm production and delivery. We anticipate a 4-week delay on physical goods that have already been paid. We are doing all that we can to minimize the delay and will make sure to keep you informed as our factory is reopened."

While the Chinese New Year holiday break that started on Jan. 24 was set to end a customary week later on Jan. 30, Beijing's State Council postponed the reopening of some institutions until Feb. 2 in an effort to contain the viral outbreak, and said the reopening of schools for the spring semester would be delayed "until further notice." Factories are slated to reopen on Feb. 10, but closures could extend beyond that.





Shoppers wear protective masks at a shopping mall in Bangkok, Thailand, 27 January 2020.

For Foshan Seazon Textile and Garment Co., a high-end denim mill based in the Zengcheng district of Guangdong in China, the belief is that upset from the epidemic “will be restored soon.”

“As usual, fabric mills and factories are [reopened] later than government or other companies,” Seazon marketing director Ruyi Zhong said. “So far, our mill opening date has no change.”

That said, however, it’s impossible to tell amid the ongoing holiday break what percentage of the staff will and won’t return—and many factories may be facing the same unknown.

The fallout over the virus is snowballing in line with the infection rate, which, as of Friday has killed more than 200 people and infected nearly 10,000 globally.

Already, FedEx announced “adjusted” service in “many provinces in China,” and said Friday that customers “might experience delay.” While UPS is airlifting more than 2 million masks and protective gear to China, the logistics firm has cancelled 22 flights to the country. American Airlines cancelled all flights to China through March 27, and Delta did the

same through April 30. British Airways, Lufthansa, United Airlines and Virgin Atlantic, among others, have all made similar moves, and Cathay Pacific, which has its main hub at Hong Kong International Airport, said it will more than halve its flight capacity to mainland China through the end of March.

“This is going to be a significant disturbance in the [supply chain](#),” Sean Maharaj, managing director of global management consultancy AArete, said. “We compare this to the impact of SARS (severe acute respiratory syndrome), but the export capability and global merchandise manufacturing was significantly different in terms of not only the volume coming out of China, but the complexity of the supply chains.”

The supply chains of 2003 China when the SARS outbreak started, and plagued as many as two dozen countries before it could be contained, are a “quantum leap” from today’s, Maharaj said.

“The Guangdong province alone exported more in 2018 than China did as a whole 17 years ago, so it’s pretty significant,”

he said. "This is going to have repercussions, in my opinion, for years."

Taking transportation alone, any goods coming out of China will face export challenges.

"This is going to be a major issue in terms of shipments. Longshoremen, cargo ships are going to be short of volume, there's going to be way too much capacity...and excess capacity is pushing down already fragile rates," Maharaj said, adding that this comes on top of tariffs that have already weighed on costs. Air freight quotes have already gone up.

"This will go all the way through to warehousing and everything we do to get production on shelves," he said.

With companies like FedEx and UPS already making moves to halt service, delays may be the least of the supply chain's concerns.

"Once providers like that go into crisis mode, we're looking at more than delays," Maharaj said. "We're talking about cancellations and non-shipments."

Even companies considering temporary inventory holds may be met with new challenges in trying to transfer goods out of China to get them to where they're going on time. "That's going to be a major constraint," Maharaj said.

Mainland China and Hong Kong-based buying offices have asked staff to work from home until further notice, and with many brands and retailers in the midst of Fall/Winter buying, travel restrictions could hinder those orders. Some Western retailers have even cancelled planned visits from Chinese mills.

Moody's financial consultants said in a brief this week that the coronavirus could be more of a "black swan," (an unexpected event with potentially severe consequences) than the global financial crisis and the Great Recession of 2008-2009.

"I don't think we know where the bottom is on this," Maharaj said.

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