

A CEO'S VIEW OF THE GLOBAL PANDEMIC





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G R A V I T Y

I had never envisaged that I might witness or perhaps, worse still, be part of a global pandemic. Let alone one that has resulted in such a tragic loss of lives, and I want to take time to convey my honest and sincere condolences to all those affected.

What we are experiencing as a world now, reminds me of the epidemics and global conflicts we learned about as part of history lessons in school. However, we are now living with what the future generation will be studying for their history lessons. Furthermore, I never envisaged watching global supply and supply chains collapse to the magnitude we are witnessing here right now. I've been involved with supply chains for almost 34 years, primarily in apparel/FMCG sectors, and formed Gravity Supply Chain to bring the fundamentals of supply chain management onto a global platform. My vision was to enable businesses regardless of size, location, industry, or vertical, to adapt, and become digitized. Ultimately, the need to digitize, and become a digital business has never been greater than now.

The outbreak of Novel Coronavirus (named by WHO as COVID-19) got identified as a significant issue during the annual Chinese New Year period... a period when China closes and production stops.

Chinese New Year (CNY) is perhaps one of the most significant traditional peak seasons for many brands and retailers, and when there is an increased rush and push within production to manufacture products to counterbalance the closed period.

This surge is typical, and retailers and many industries are used to the fact that while there is a push to ship, not everything leaves on time, or as scheduled in times of known risks within the supply chain.

Now bring in COVID-19:

- ▶ China did not re-open
- ▶ Factories remained closed for weeks.

For close on a month, a trickle effect on re-opening and gradually getting up to capacity output has affected the supply chain from both labor as well as capability perspectives.

However, now China is 'open,' the ripple effect and impact of COVID-19 is far more significant than many of us could ever have imagined.

So... what is happening?

Well...

- ▶ China finally opened
- ▶ vessels started calling
- ▶ merchandise started moving

However, there is a two-fold problem!

- 1 Merchandise on the water is now 'out of season' - Vessels that have departed/started to arrive, are merely transporting products no one wants. It's highly likely the vessels are carrying orders that some or many retailers have canceled. But, even if they didn't get canceled, who is going to buy the merchandise? Retail outlets are closed, countries are in lockdown, and even e-commerce would struggle to shift merchandise that is out of season. Other than the largest ever markdown, this merchandise is, for all intents and purposes, dead stock - obsolete.
- 2 Secondly, but equally, as relevant, factories that haven't had orders canceled are still producing in 'open countries' like China. The products getting



manufactured for export are also greatly affected due to the lockdown status of the destination countries. Moreover, are these products still in season, and do they still hold value within the countries experiencing lockdown?

Who is going to buy this out of date, no longer trending merchandise?

Let's add furloughs and redundancies to the mix: There is no doubt, whatsoever, that money is going to be exceptionally tight all round. Therefore the second wave of arrivals will be the same as the first and straight into markdown at best, or as we see globally - **CANCELED**.

To echo this, despite China being open, and virtually back to standard capacity, the orders are not there - the carriers are preparing for blank sailings/reduced sailings again. The South China Morning Post's '[Coronavirus: global trade braces for 'tidal wave' ahead, as shutdown batters supply chains](#)' article, confirms that carriers are confirming blank sailings at extremely short notice.

The mix is becoming thicker still:

Regional manufacturing countries in Asia are largely closed. Once again, this is a two-fold issue.

The I.S.C. region as a whole is majority closed as part of a lockdown alongside the S.E.A. region or because there are no orders.. However, there are differences:

- ▶ China is open - but with limited orders
- ▶ I.S.C. and S.E.A. are closed with a wave of orders to fulfill that will likely get canceled if they've not already been.

The S.E.A. region was, however, already in big trouble when China closed as they procure a vast majority of raw materials from China. As a result:

- ▶ not only were they not able to fulfill orders that were in season, when they were open
- ▶ now they have the unprecedented scenario of having two seasons canceled, with factories closing down altogether

During this crisis, and one that is still unfolding, businesses globally that have not digitized and don't have full visibility remain entirely in the dark.

Yes, we might all understand we're experiencing a global crisis; however, how many companies honestly know with certainty what stock they have in the factory, on order, in production, on quay, ready to export, in transit, landside arrived, en route to distribution centers? How many are genuinely digitized and able to provide information that is accessible for all key stakeholders in the business to view and make informed decisions with certainty in one place? Sure, you can just cancel the orders, and many have or will do so, but this only further compounds an already fragile situation further down the line.

But there's more to come! There is another problem looming. Buyers globally likely have not been able to make their usual buying trips to finalize orders for the forthcoming seasons. They may have alternative options; however, right here, this will/has caused another downturn in orders getting raised on the sourcing origins.

Factories who are already in trouble will now find themselves in a significant crisis that will undoubtedly result in additional staff layoffs, complete closure, and potential bankruptcy if this is not already the case.



So what will happen when the crisis begins to level out?

As with everything that has a beginning, there is an end. However, there is no guaranteeing the end will be a happy one, particularly in a scenario that many, if not most, are experiencing now. It is highly likely that when an ending is in sight, rush buying and demand issues will occur, create unprecedented demand on the raw materials and fabric mills/suppliers, and once again on the factories.

The demand crunch that will ensue will occur as a result of many factories globally closing. 100,000's of workers will find themselves unemployed and will move into other industries, and many factories will declare themselves bankrupt. Numerous reports and studies are illustrating the same:

According to an article released by the [Myanmar Times](#), a report released by Fitch Solutions Country Risk and Industry Research indicates that China's lockdown in January and February 2020, caused significant supply chain disruptions across the region. For Myanmar, a shortage of available cloth resulted in numerous factories having to close and garment sector lay-offs occurring. When you consider that 90 percent of the fabric processed in these factories gets sourced from China and the balance from countries such as Indonesia, South Korea, and Vietnam, it is little wonder that such dire consequences resulted as a result of COVID-19's impact on the sector.

Another report, released by THE WORLD BANK, '[East Asia and the Pacific in the Time of COVID-19 - Regional Economic Update, April 2020](#)' states that, 'As of April 2020 Myanmar GDP Growth projected to slow to between 2-3% this fiscal year, manufacturing activity and exports expected to slow for the remainder of the fiscal

year. Layoffs in the garment manufacturing area counted for 500,000 jobs,' and according to The Guardian newspaper, in their recent '[Garment workers face destitution as Covid-19 closes factories](#)' article, 'The situation for garment workers in Cambodia and Myanmar is already dire as local media reports suggest up to 10% of factories in the Yangon region of Myanmar are already closed, with workers not being paid their salaries. In Cambodia, tens of thousands of garment workers could also lose their jobs in the coming weeks if the flow of raw material into the country does not pick up.'

Other reports claim that:

- ▶ India's lockdown will have little impact due to the majority of orders having already been canceled
- ▶ Bangladesh could experience a US\$6bn hit in exports orders during the fiscal year, ending July 2020
- ▶ Indonesian exports and imports from its top trading partners have halved since the first week of February

And, Just-style's '[China Exports hit as coronavirus spreads across the globe](#)' article cites how according to survey data from a weekly report by the China Textile Federation, 37% of the 242 companies surveyed, reported that on 25 March they had seen export orders canceled. With 26.4% saying they saw export orders at less than 50% of previous levels and additionally, exporters are experiencing cases where shipped goods are stranded or refused to be received on the other side, increasing the cost burden.

So, there is no doubting that the next challenge will be to find alternative factories and/or sourcing origins, but this is not a quick fix:

- ▶ Factories need to get audited for sustainability and ethical trading
- ▶ Time to set up the tools and equipment specific to



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SUPPLY

- business requirements will need to get allocated
- ▶ Quality assurance, quality control, and capacity constraints need to be understood
- ▶ Preferential export certificates of duties and government legislation around working hours vary from country to country, need to get factored

In summary - demand vs. capacity will be an issue, and now is the time to have complete visibility and give the manufacturing base a chance to adapt and fulfill demand.

This global pandemic has taken the world by surprise, and the way we need to work and operate our lives generally is changing radically. Lack of visibility throughout the business processes has resulted in a world with no real idea of where products are. While the impact of COVID-19 couldn't have been predicted, this is one aspect of the supply chain that could and should, have been addressed before the disruption occurred and absolutely must get addressed from this point onwards.

The results might not have changed significantly; however, at least companies would have a real insight as to what stage merchandise is at throughout the supply chain would have helped to make more insightful decision making. It's also true that a connected partnership with full transparency works better together to come out stronger. If both parties can see everything in their respective area of the chain, decisions can get taken earlier, lessening the overall impact on both sides. Being connected with your supply base and every player tasked with moving the merchandise, allows for a fully integrated view and a more robust set of decision making. At some stage, retailers will start placing orders again. However, many factories may not be around to fulfill them. I suspect that over the next few years, you will

see a significant shift in sourcing origins and strategies, or indeed, a switch to a more dynamic supply base across multiple regions nearshore as well as offshore.

Regardless of location, companies must have a digitized view of exactly where each stage of the chain is, in real time, and connect to every key stakeholder throughout the business and process. It would be unforgivable to make customer commitments without knowing where the product is. The customer will not forgive you, and your hard-earned reputation will get irreversibly damaged.

The benefits of having a digitized supply chain, or indeed moving towards a digitized value chain far outweigh remaining blind within your supply chain. I guess the remaining question to answer is, "When the world finally normalizes, are you able to survive and scale without having a digitized supply and value chain?"

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