



Institution  
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# Resilience in supply chains

What began as a health scare in a single province in China has morphed into a global pandemic that has now spread to almost every country in the world, putting much of the global population in partial or total lockdown. Border restrictions and lockdown measures are causing massive negative short-term impact on consumer spending and investment and disruptions to international trade and global supply chains.

## The long-term impact remains uncertain.

Isolation measures implemented globally to contain the outbreak have affected economic activity, with a sharp deterioration in business and consumer confidence. With businesses closing and workers not working, there is a significant reduction in discretionary spending and investment.

Covid-19 has now unleashed a global supply chain crisis across a huge number of organisations, stemming from a lack of understanding and flexibility of the multiple layers of their global supply chains and a lack of diversification in their sourcing strategies.

Procurement functions are under incredible pressure to navigate this supply disruption while maintaining cashflow. Buyers are being urged to cut costs by adopting short-term strategies and sometimes cancelling orders or lengthening payment terms.

Order cancellations will, however, translate into job losses and potential poverty to millions of low-income workers and their families.

For example, the Bangladesh Garment Manufacturers and Exporters Association reported (BGMEA, 14 April) 1,140 garment factories in Bangladesh receiving cancellations on 978 million units, worth over \$3 billion, affecting 2.26 million workers.

Businesses and buyers must think about the longer-term impacts of the decisions they are making now in wider terms than their financial risk. Societal, humanitarian and sustainability risks should all factor.

## Case studies



### Morrisons



Morrisons temporarily scrapped its 14-day payment terms and pays small suppliers as soon as an invoice is received. The business also re-classified small suppliers as those with a turnover of under £1m (previously £100,000), meaning an extra 1,000 businesses benefit from the new payment terms. 3,000 small suppliers, including 1,750 farmers, will benefit.

### Unilever



Unilever offered €500m of cash flow relief through early payment to small and medium-sized suppliers and extended credit lines for small-scale retail customers. The business will also protect the pay of employees and contractors for a period of up to three months.

### H&M



As fashion retailers across the globe are cancelling or delaying orders, H&M informed suppliers that the business will pay suppliers for the orders they have already fulfilled for started. H&M confirmed it would pay suppliers under the original terms agreed, without seeking additional discount.

# Key steps to strengthening resilience within your supply chain

## Step 1



### Supply chain mapping

Gaining full visibility across your supply chain is an essential step. Do you know all of your suppliers and the challenges they are now facing, especially beyond tier-one?

Map your supply chain to identify any gaps in your sourcing strategies. Where you have a single source, is there an opportunity to mitigate the risk by dual- or multi-sourcing?

Businesses may already be working towards full supply chain transparency for ethical and sustainability purposes. This will give them an advantage during the Covid-19 crisis.

## Step 2



### Segment and prioritise

Based on criticality to your core business, evaluate whether suppliers are essential to short-term objectives or long-term competitive advantage. Are they easily replaceable?

As part of this prioritisation exercise, consider the following:

- **Country of origin** – is human rights abuse prevalent? How likely will workers be supported by their governments during the Covid crisis?
- **Industry sectors** – is there a reliance on vulnerable workers (e.g. low income, migrant, women, seasonal, zero-hour contracts)
- **Supplier security** – are any of your suppliers highly reliant on your business for their own survival? Are you their sole customer? Do they have a high risk of bankruptcy, with low cash reserves?

Your supplier engagement strategy must be carefully considered. We've included a number of example questions to ask your suppliers on the next page.

## Step 3



### Support

Once you have established where your biggest risks and impacts occur, there is an opportunity to support your smaller or medium-sized suppliers, particularly with their cashflow.

SEDEX (Supplier Ethical Data Exchange) issued guidance on 16 March, recommending that buyers consider the impact on workers at every stage of their supplier and contract negotiations and follow the United Nations' Guiding Principles on Business and Human

Rights or the OECD Due Diligence Guidance for Responsible Business Conduct.

They also suggested how they can support their less resilient suppliers to remain solvent and afloat during the pandemic, by:

- offering better payment terms
- offering financial facility or low-interest loans
- allowing delays in delivery dates
- suspending penalties for not meeting contractual obligations.

## Step 4



### Leverage relationships

#### Collaboration

Some industries are collaborating to support common suppliers and enhance the resilience across their extended supply chains. By working together and sharing data, larger businesses are not only protecting their existing suppliers but also widening their supplier network.

#### Diversification

Governments are calling for help across all industries to increase the production of essential life-saving equipment such as ventilators and protective equipment. Buyers are in a unique position, due to their knowledge of their supplier capabilities, to enable businesses to adopt new production processes.

#### Advocacy

Collectively, businesses can lobby governments to strengthen the support provided to the workers in their supply chain affected by job losses as a result of the pandemic.

# Questions to ask your suppliers

## Operations and supply



Have you suspended operations due to the pandemic?

If so, what proportion?

Which sites or facilities?

Are you experiencing disruption in your own supply chain, e.g. shortages in materials or component parts?

What are the levels of your current stock holding?

Do you have shortages of products or services?

Have your lead times increased?

Are you experiencing any transport or shipping issues, e.g. border closures or controls, haulage availability?

Have you had to prioritise your customer base for order fulfilment?

If so, where do we feature?

Do you foresee any other immediate supply issues?

## Workers: skills and capacity



How has the pandemic affected your workforce capacity? For example, the percentage who are vulnerable and away from work and/or sick with Covid-19 symptoms?

Do you have the required skills or competencies within the remaining workforce needed to operate?

Have you been able to organise for "social distancing" within your workspaces?

How have you trained employees to work safely during the pandemic?

What proportion of your workforce is on zero or minimum-hour contracts?

How are you supporting them?

## Financial impact



Do you expect financial difficulties as a result of the pandemic?

Are you eligible for any local government assistance programmes? If so, will you take up any? Which and when?

What proportion of your income or profit does our business represent for you?

Is there anything we can do temporarily to relieve any financial difficulties, e.g. payment terms?

Are there any other financial impacts we could assist to mitigate?

What else can we do to support you and your workers in the short-term or mid-term?

For more information visit  
[www.iosh.com/covid-19-resilience-in-supply-chains](http://www.iosh.com/covid-19-resilience-in-supply-chains)