

Supply Chain Management – Coronavirus (COVID-19)

March 2020

In February, we published an article addressing supply chain management. At that time, leading health experts did not expect a global outbreak that will affect supply chains for companies and organizations.

A widespread outbreak such as in Europe has not yet occurred in the U.S. – but, there are 47 states reporting over 1600 cases. The Centers for Disease Control and Prevention (CDC) believes widespread transmission of COVID-19 in the U.S. will occur. School closings, prohibitions against table service in restaurants, closed sports venues and other restrictions are in place in most states. Additional social gathering restrictions will increase.

In our February article, we outlined five steps individuals and organizations can take to identify, categorize and mitigate operational risk (procurement and purchasing) associated with COVID-19. The steps are:

Step One: Risk Identification

Step Two: Risk Analysis

Step Three: Risk Ranking

Step Four: Risk Mitigation

Step Five: Risk Monitoring

The article – Supply Chain Management – can be found on the Gramercy Risk Management website at: <https://gramercyrisk.com/resources/> This commentary will explore several scenarios that can arise from widespread absenteeism and supply shortages that would affect your ability to complete projects on time, deliver services, or provide products to customers and clients.

Employee Absenteeism	Mechanics, journeymen, helpers and laborers are sick, under quarantine or are providing childcare for children who are home due to illness or school closings.
Can't Get Needed Materials	Supply chains (supply houses, lumber yards, wholesalers, box stores, Amazon, and other delivery services) are interrupted.
Subcontractors Can't Work	Subcontractors or other downstream entities don't show up as required due to labor or material deficiencies.
Service Companies Can't Provide Services	IT service companies and companies repairing copier-printers, mobile equipment and offices have labor shortages or can't get the materials they need.
Job Site is Under Quarantine	Most quarantines restrict travel into or out of the restricted area. You may have sufficient staff and adequate supplies, but you can't get to the job site.
IT Disruption	Many IT components (equipment as well as computers and smartphones) are made in China.
Travel Restrictions	The US Department of State has issued several travel advisories due to the Covid-19 outbreak.
Municipal Inspections are Held Up	Building department staff can't inspect or process applications.

Mitigation

- Check contracts, supplier agreements and work orders. Identify what each party is required to do and when. Ask your attorney to review the document to determine legal responsibility and liability. For example, a *force majeure* (“superior force”) clause may excuse a party if it cannot perform a contractual obligation due to issues that are outside of their control. Contracts may require notification to the owner if there is a delay.
- Look for alternatives. See if there are any other ways to complete projects or provide services. Would customers accept partial completion?
- We’re all in this. A customer may accept a delay if they are unable to go to the next phase with a project, use the product, or occupy space.
- Contract bonds are designed to cover obliges – the party protected by a bond – in the event of a default.

The readers of this article are experienced managers and have dealt with some of these issues in one form or another. Draw upon those experiences to mitigate the interruptions, delays and cancellations that will arise from this event.

Resources for Employers

Centers for Disease Control and Prevention (CDC)

Resources for Businesses and Employers
cdc.gov

Harvard Business Review

8 Questions Employers Should Ask About Coronavirus
hbr.org

New York State Department of Health

Novel Coronavirus (COVID-19)
health.ny.gov

Occupational Safety and Health Administration (OSHA)

COVID-19
osha.gov

Gramercy provides insurance management services to insurers and companies looking to improve their commercial insurance results. To see how we can help, contact David Mocklow at 516 962 4618 or dmocklow@gramercyrisk.com