

Ignore the Economic Health of Key Suppliers at Your Peril

By SJ Guest Editorial



CREDIT: Adi Weda/EPA/Shutterstock

With supply chains tangled and demand having collapsed in multiple markets across the globe, executive teams must act immediately to ensure their supply partners are economically healthy enough in the wake of the coronavirus pandemic to provide the [raw materials](#) and inputs needed to produce finished goods.

Top management at consumer product companies—particularly those that make apparel, footwear, jewelry, home goods and toys—should already be engaging with their [suppliers](#) to jointly plan how they're going to restart or ramp up their businesses as the coronavirus crisis wanes. Companies should be reaching out to determine the status of key supply partners and what they need to stay afloat. It's imperative that leadership teams ask the right questions now to understand how suppliers are planning to open up and allocate capacity post-crisis. Companies assume at their peril if they take availability for granted.

New realities for factories

Although many companies in developed nations have the resources needed to ride out a liquidity freeze, most have not focused on the viability of their suppliers in developing countries. Factories in these nations are generally labor intensive and poorly capitalized, and they are facing new realities that will affect efficiencies and, ultimately, prices. Some will be unable to secure the financial aid that they need to sustain themselves and their workers from governments or private banks.

As shuttered factories reopen, some will find themselves without a ready order book, since so many orders for spring, summer and fall have been [cancelled](#), delayed or cut back. They will have difficulty securing raw materials because their own downstream suppliers have also been disrupted. Uneven order flow will force them to bring back employees over time, meaning they may lose critical workers. There will also likely be new employee safety rules and regulations they'll have to adhere to. Social distancing rules may require the reconfiguration of shop floors, for example, which would result in fewer operators and less production.

Questions management teams need to be asking right now

To help ensure supply chains can function as needed, leadership at consumer product companies must act now to create plans for restarting production and reopening stores.

Here are 10 pressing questions top management should be asking right now in order to ensure supply:

1. What are the timelines for bringing back production in each of the countries from which we source? Not all countries will recover at the same rate and each country will face unique logistics challenges.
2. What raw materials are available and what are their lead times?
3. What are our priority products? Revenue will phase in as companies move from a standing start.
4. What retailers or markets do we fulfill first? They won't all come back at the same time or in the same way.
5. Are our key suppliers financially viable?
6. Will they be harmed by the social costs imposed by their governments?
7. Are there specific products that factories will want to start with to bring up their lines?
8. Should we further diversify our sourcing base or change our sourcing strategy to shorten supply lines or be able to economically source shorter runs?
9. Should we reconsider how we market our products and reach the consumer?
10. Should we rethink our business model and our processes?

Management teams should also be considering more macro-level issues, such as how further retail consolidation may drive more vertical synergy, whether retailers will seek to bypass wholesalers, and how technology advances may accelerate product development timelines and changes in how companies source.

If companies focus only on getting their employees back to work and securing future business, they may be surprised by a supply landscape that looks very different than it did a few months ago. The bigger the company, the more vital the key suppliers that can manufacture quality products in accordance with the compliance required in today's markets. It's not easy to replace these suppliers, and the more complex the product, the more this is true.

Andrew Postal is managing partner of MMG Advisors, a boutique investment bank with a 30-year history of successfully managing financial transactions and providing strategic business advisory services to companies across the retail, fashion and consumer sectors. Led by former retail industry senior executives with decades of combined operational experience, the firm has a unique ability to identify and leverage consolidation opportunities that bridge traditional and new retail.