

CORONAVIRUS IMPACTS TO THE SUPPLY CHAIN

The supply chain in the promotional industry is a delicate ballet of efficiency that helps create seemingly effortless delivery of millions of products every day. Market disruptions challenge the entire process and can be frustrating to understand. Economic impacts that lead to furloughs or layoffs, adjustments to state mandates, cargo restrictions, and import disruptions can each individually derail a supply chain. COVID-19 has presented each of these significant factors all at once to many of our industry suppliers. Though we have continually observed supplier transparency, willingness to innovate, and process improvement throughout this situation, it is important to understand how and why the impacts are so widely felt.



Understanding the Supply Chain

Even the smallest adjustment or error within the supply process can disrupt the entire operation. Industry suppliers are at the mercy of multiple hard good providers, manufacturing plants, importers and transportation providers, decorators, and constrained by their means of inventory and distribution. They must adjust accordingly to any error within that process and make necessary amendments when available.

Suppliers are also required to be compliant with necessary and, at times, temporarily disruptive supply restrictions. This was seen in the early days of COVID-19 when overseas manufacturing was restricted based on closures and temporary workforce reductions at certain plants. When this happens, the supplier must be able to adjust effectively without creating more error throughout the supply line. Because this is an industry that operates best with low cost, it is not always easy to make this sort of adjustment. Safe, effective alternatives to products are not always available. This in itself is a testament to the ability of a preferred supplier to produce quality, tested, and approved products. Last minute alterations to the product line can impact their reputation and create unnecessary risk for the distributors and the end-buyer.



Understanding Inventory

For our industry, and many others like it, China holds the most hard goods inventory of any nation. So, when China began closing factories and warehouses in response to COVID-19, a shock wave was sent out through the supply line [which AIM warned of at the time here](#). By the time the inventory was backordered or delayed getting to the U.S., states were beginning to develop their own responses to the pandemic domestically. This created an unusual situation in that as soon as factories and warehouse facilities in China began to reopen, the U.S. was not at a capacity to receive and manage these goods, creating a further backlog.

Different inventories are maintained at different levels, and so availability fluctuates based on demand. But the challenge

for sale but, for U.S. standards, has not been tested and approved and so it is not yet considered “blocked inventory,” or

inventory ready for U.S. distribution. Demand forecasting typically helps develop a supply inventory, both overseas and domestic, to ensure that products are available when needed.

Unfortunately for the product demands of a post-COVID-19 market, no forecasting could

have predicted such an adjustment. Take just one example: early forecasting for 2020 indicated that outdoor activity products, among some others, would

“Early forecasting for 2020 indicated that outdoor activity products...would be the most in demand.”

is that demand has to be realized and inventories have to be adjusted and this is not instantaneous. For example, “finished goods” inventory is ready

be the most in demand early in the year. No model could have predicted that face masks would be the number one industry item in the second quarter.

The challenge of demand is also in the limitation of the supply line itself. A supplier who inventories face masks among other items cannot simply devalue their existing inventory and become exclusive to the needs of one product line. Suppliers in our industry are valuable because of the opportunity for choice. In addition, they don't want to end up with an unbalanced scale of product based on the demands of the day that could change at any point in the near future. While face masks are in high demand, that will not always be the case.

Only in the past few weeks have many of these errors begun to be worked out. It takes a significant amount of time to evaluate inventory, determine the best solution to backlog, and ensure that no further errors will occur.

Understanding Staffing Challenges

Staffing is another very unique challenge for suppliers that the present situation has compounded. Many suppliers have had to adjust their in-house and production staff based on their adherence with emerging health and safety standards as well as their compliance with government restrictions. This has created a long-term ripple effect in the supply chain. Many industry suppliers witnessed a decrease in production staff by more than 70% throughout the initial weeks of the COVID-19 pandemic. Couple that with the vast production and importing taking place in states like New York and California and you see a real issue.

As staff return to work in limited capacities throughout the supplier network, continual adjustments must be made to meet the demands of new safety standards while working hard to catch up on backlogs of orders. But the challenges of disruption unfortunately don't stop there.

While suppliers continue to adapt to the changing landscape, many find the biggest challenge is from the lack of industry knowledge. Suppliers have taken great responsibility to keep the market operational, even at limited capacities, to meet demand and maintain customer satisfaction to the best of their ability. I reached out to one such expert for a more in-depth, insider view. AIM

VIP Supplier Gold Bond's Britney Godsey had this to say: *"We've seen an enormous disruption from all angles. Our biggest challenge is where we see the supply chain has been distorted, where a lot of distributors are seeking out direct resources on the products that are absorbing the majority share of the industry revenue right now – things like hand sanitizer and face masks.*

This creates a further warp to our organization on the supplier side with limited revenue streams available and deformity in normal buying patterns. With these products moving at such a swift pace we've seen some irregularities in requests as well. Volatile market conditions have created new constraints on our abilities to realistically service customers. An example would be seeing a customer who has already purchased sanitizer and had it for a few weeks come back and ask for us to buy back their inventory for them because now someone else just got it in and they're slightly less expensive 30 days later vs what we had on the floor ready to go.

We were excited to get our paws on product at a time of need only to find that 30 days later there are some unrealistic expectations that we're at a place to buy back inventory and resell. We are fighting every day like all businesses across the country. With limited revenue coming in the building, we just don't have the luxury of offering things like consignment

programs on inventory and that has been tough to work through with some clients who may not understand all the intricacies involved to keeping our organization alive throughout this time."

Trusting Your Supply Chain

Remember, the supply chain exists as it does to maintain effectiveness while keeping product safety and assurance top of mind. Every person in the industry has been impacted by the unfortunate events of this pandemic. Suppliers have had to innovate in ways they never thought they would. While backlogs, order errors, missed target dates, and customer service issues can be challenging, the critical infrastructure adjustments are being made to maintain an open marketplace. We are fortunate in our industry and certainly in our AIM network to have a market that has been open for business throughout this entire situation. But again, adjustments have had to be made and will continue to be made for a while to come.

The value is in the trusted network itself. Be patient, be kind, and trust that things will be back and will be better than ever.

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