GLOBAL CFO COUNCIL

Coronavirus impact:

Once pandemic ends, businesses may take 6 months to get up and running normally, says CFO survey

PUBLISHED MON, MAR 23 202010:47 AM EDT
UPDATED MON, MAR 23 20202:31 PM EDT
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KEY POINTS

- Increasingly, the most important immediate supply chain task in the U.S. is health-care supply to reduce the load of coronavirus cases on hospitals.
- Companies including GM and Tesla are among the manufacturers working on ventilators to deal with shortages.
- Apple and Facebook are among the firms donating protective masks.
- Key global logistics companies, including Boeing and all of the major airlines that transport cargo, are under extreme financial stress with implications for their global supply ecosystems.
- China factories are coming back online, but nowhere near 100%.

The biggest task facing the world right now is stopping the spread of the coronavirus. But even when the global public health crisis is under control and global supply chain disruptions caused by COVID-19 end, many large companies expect that business will not return to normal for between three to six months.

That's according to the latest CNBC Global CFO Council survey, in which 40% of companies that already have or expect supply chain issues said it could take between three and six months to get business back to normal once the issues end (25% said six months).

"It is complete chaos," said Andrew Sherman, a partner with Seyfarth Shaw who works with Fortune 1000 clients.

One-third of CFOs taking the CNBC survey indicated it is still too early to know if there will be supply chain disruptions.

"That's the only reasonable answer here," said Yossi Sheffi, professor at the Massachusetts Institute of Technology and director of the MIT Center for Transportation and Logistics. "Nobody knows. The economic issues are totally driven by public health issues. You tell me how long we will be at home and I will tell you how long it will take for the economy and supply chains to recover."

The CNBC Global CFO Council represents some of the largest public and private companies in the world, collectively managing more than $5 trillion in market value across a wide variety of sectors. Forty of the 137 members of the council responded to the survey, which was conducted from March 4 to March 16 (16 from North America, 12 EMEA and 12 APAC.)

Sheffi said if companies want the economy and supply chains to return to normal, they need to join the "war" effort to beat the virus first. Those moves started to occur more rapidly over the weekend, with auto manufacturers GM and Tesla among the companies that started working on production of ventilators in short supply at hospitals, and Apple and Facebook among the large U.S. firms donating protective masks.

HanesBrands announced on Saturday that it is converting production of apparel to production of cotton masks approved by the Federal Drug Administration for use when N-95 masks are not required (or are unavailable). HanesBrands is manufacturing the masks under contract with the U.S. federal government. The company will be retrofitting some of its factories and expects to ramp up production to 1.5 million masks weekly, and the consortium as a whole is expected to ramp up production from 5 million to 6 million masks weekly using HanesBrands' design and patterns.

President Donald Trump so far has been reluctant to invoke true war powers, like the Defense Production Act, which allows the government to take control of operations like manufacturing. Sheffi said the “war footing” talk in the U.S. will need to be matched by more action in terms of manufacturing to take control of the crisis.

“Right now we see companies in the U.S. being affected because they have less people to load and unload trucks. Everyone is having issues with getting product to the stores. So short term, outbound is a big issue,” said Bart DeMuynck, Gartner research vice president who focuses on supply chains.

Sherman said inventory levels are out of whack due to hoarding, disrupting the supply chain, while shipping and transport industries are taking a hit due to people who work in warehouses or trucking now out of work due to illness or home quarantine.

States are demanding that only “essential” workers go in to protect public health, but the definition will have to be made more clear, as the lack of clear business guidance is making it difficult for companies to maintain operations and for supply chains not to collapse.

Border closings are allowing trade through, but shipping is at risk from worker health disruptions.

“Until we are above full clearance of workers at borders for shipping, it’s hard to see how shipping can operate normally,” said Carl Larry, performance director at Refinitiv. Texas exports $16 billion to China each year, and that is going to be severely impacted by lack of workers, not only at ports but those quarantined from normal everyday work, Larry said, noting that The Port of Houston had to close last week because of an employee testing positive for COVID-19.

China coming back online

With China ramping up their production again, soon we’ll start seeing ocean carriers starting to put the normal volume of ocean-freight capacity back online. “Then the question is, are we going to domestically have the network in place to be ready to absorb that surge of inbound movement and be able to get product back to all of the distribution centers as well as all the stores and where the product needs to go?” DeMuynck said. “This is going to create a lot of inefficiency and a lot of complexity in the supply chain of companies,” he said.

Chinese manufacturing and transportation will need time to ramp up, said Carl Larry, performance director at Refinitiv, but once it does, consumer spending may remain below healthy levels. “This is where the supply chain will be at odds on both ends — supplier and consumer,” Larry said.

California, for example, imported $129 billion worth of goods from China in 2019, according to the U.S. Census Bureau. The state’s jobless claims are spiking already and are on pace to hit 525,000 by the end of the month. “Losing California even temporarily will have a direct effect on China’s exporting economy. It’s unprecedented, so we can argue that China may be ready to bring the supply chain back to normal, but obviously without consumers the supply chain is far from normal,” Larry said.

Institute for Supply Chain Management CEO Tom Derry said companies that rely on Chinese supply have been helped in the short term by stocking up in late 2019 ahead of the latest U.S. tariffs as well as buying ahead of the Chinese New Year. But replenishment of inventory becomes the issue now, and it is not clear how quickly China can return to normal.

Given that the Chinese workforce relies on mobility of workers and there are still restrictions in place, “it will be impossible for Chinese companies to get to full production,” Derry said. “We can begin to see a recovery in the second half of the year, as companies figure out disruptions from shuttering of production. We can get back to normal by the end of the first half of 2020, but that’s if things don’t get worse in Europe.”

The big supply chains: Boeing and the automakers

Sheffi said the largest supply chains in the world are at risk from the collapse of air travel and auto manufacturing shutdowns.

He cited a key market parallel from 2008, when then-Ford Motor Co. CEO Alan Mulally went to Capitol Hill and implored Congress to save Ford’s competitors GM and Chrysler. “He knew if GM and Chrysler went down, their suppliers would go down, too, and the ecosystem would go down. And if the supply chain ecosystem went down, Ford would go down, too, because there would be no supply.”

“Is it two weeks that the auto manufacturers are shuttered?” Sheffi said. “Most suppliers will survive two weeks, but more than two weeks? It’s what happens beyond that.”

Many firms that supply to the auto sector don’t have much cash on hand. “It’s a tough spot for smaller suppliers,” Derry said. “The U.S. ought to be looking at more supply chain finance and bolstering it,” he said, because these supply chains are linked across sectors, and many consumer products, from technology to kitchenware, rely on the same sourcing.

Small firms running low on inventory are also short on information needed to make their products, and some are pooling resources to develop temporary economies of scale. “Insufficient data is a crisis, by definition,” Derry said.

DeMuynck said companies that already use advanced supply chain technology will probably be able to get back to some form of normality within the next two, three months. But he added, “they are going to be hurting, and it might take them six months to nine months to effectively get through this and get back full up and running.”

Boeing will require a bailout by the government to protect its competitors and a huge global supply chain. “If Boeing goes down, then Airbus goes down, and Bombardier, and all the suppliers beyond that, from the big parts to the little companies supplying screws. These companies will go down,” Sheffi said. “There will be a huge economic hit to countries, and it will take time to rebuild supply chains. It’s not like you can turn around next Friday and start over. It’s not just one company but a whole ecosystem, and regulated parts with a long approval process.”

In the least, given the economic repercussions of the current crisis and the toll it has taken on airlines, Boeing is going to be reducing orders at a time when airlines are canceling orders. And as supply orders go down, it is not long before it reaches the level of fourth- and fifth-tier providers — “family-run suppliers and other small suppliers making specialized parts,” Sheffi said. And even though the majority should be expected to survive, he added, “Those guys will start going down.”