

COVID-19: Supply Chain Impacts and Insights from India

The world's wealthiest nations have been caught off guard by the COVID-19 pandemic as they struggle to save human lives and prevent an economic meltdown. As the number of confirmed cases surge, the virus has taken a huge toll on the global economy, causing widespread unemployment, sinking stock markets, and lowering the earnings projections of companies worldwide. India is no exception. This assessment highlights three industries in India that are heavily hit by the pandemic, proposes potential actions they can take to increase resilience, and provide insights that may generally help businesses through this challenging period.

A close look reveals one common theme; the “labor factor.” India has one of the largest daily wage workforces who play an important role all along the supply chain, from production to logistics both in formal and informal sectors. With 1.3 billion people currently in lockdown, millions of daily wage earners are out of work, leaving themselves and the economy vulnerable.

We highlight three industries to help business leaders learn more about the situation in India and how supply chain resilience can be addressed:

Pharmaceutical



India is among the top five pharmaceutical producers in the world, accounting for 20 to 25%¹ of the world’s drug manufacturing. However, India’s pharmaceutical operations rely heavily on Chinese supply chains for Active Pharmaceutical Ingredients (APIs). The effect on this market is multifaceted where production has been slowed by internal factors like immobility of labor as well as external factors like shortage of raw materials. Indian companies are witnessing supply disruptions with uncertainty around consignment and logistics. They also expect to see fluctuations in pricing on both the supplier and logistic fronts.

Automotive



Automobile and component manufacturing plants are being closed around the world and India is no exception. With the pre-existing issues around slowing demand in 2019, the automotive sector in India is going to face additional pressure from plant closures, immobility of labor, and shortage of automotive components. Chinese firms supply between 10% to 30% of auto parts for various Indian automobile manufacturers². With the lean, Just-in-Time manufacturing process embraced by this industry, the production lines have taken a huge hit by the pandemic.

Chemicals



With net revenue of \$163 billion³, the chemical sector is a key driver for the Indian economy and serves as a critical supplier to many other industries like agriculture, drugs, textiles that cannot function without a smooth and reliable delivery of supplies from chemical companies. With the authorities having to shut down plants in several cities, the tumbled Indian economy has seen a 20% production decline from this sector already.

DSCI Interview: N.R. Kannan, CEO of Excel Industries Ltd, a chemical company in India shares how Excel industries is dealing with the pandemic and planning next stages for a post COVID-19 world.

- *“With the re-opening of the Chinese industries,” Mr. Kannan says, “suppliers in China are eager to restart their businesses and are expected to be aggressive with their supplies and pricing.” Excel will respond appropriately to protect its market share during this phase. Longer-term, Mr. Kannan says, he’s not sure how recovery pattern will look like post-COVID-19.*
- *As a preparation for market re-launch, Excel is exploring the idea of putting together cross-organizational Health & Safety teams that will focus on worker safety as well as develop a protocol for dealing with any workers that test positive for COVID-19.*
- *The company has revised its safety policies, to incorporate social distancing & improved hygiene measures all across its organization from plant floors to change rooms to canteens.*

We selected these industries above to offer an illustration of how the “pandemic effect” sweeps across the supply chains of all industries and organizations. Our objective is to highlight the need for business leaders to put practices in place to not only mitigate the impact of COVID-19 and other natural disasters but as a call to action for Indian businesses to adjust to new ways of doing things. While it is understandable to wait for the national and local Governments to roll in economic relief and contingency packages, it is essential for companies in India, and elsewhere, to maintain continuity plans to ensure they build up resilience and flexibility to keep up with fluctuating supplies, logistics and customer needs.

We have compiled a comprehensive list of short- and long-term changes that business can make to help mitigate some of the economic fallout resulting from the pandemic, and to be better prepared for a future that will see new, innovative business models emerge from this crisis.

Here are some recommendations for C-suite executives to actualize their continuity planning:

Short-term actions:

- Establish a coronavirus “war room” with cross-functional representation from key departments—sales and marketing, operations, IT, and finance—to track and respond to the crisis.
- Assess supply chain risks and determine new options for meeting customer demand.
- Review your existing supply chain data model and revise it as necessary to gather information relevant to this new environment of uncertainty and disruption.
- Inspect all suppliers (Tiers 1, 2, and 3) and negotiate favorable terms in the face of multiple conflicting demands.
- Protect worker safety, potentially with work from home and leave options. Draft “worker-come back” policies to implement post the lockdown for efficient supply chain operations.
- Model the impact of the virus on financial performance and take the necessary measures such as re-prioritizing business units.

- Focus on cash-flows instead of profits.
- Keep in touch with your customers to understand their sentiment.
- Model various scenarios of “market re-launch” with dynamic consumption and supply models.
- Model various scenarios for cost-cutting and downsizing.

Long-term actions:

- Develop multiple sourcing locations across geographies.
- Consider local production of key items such that supply and demand can be matched with minimal delay and logistical cost - eventually shortening your supply chain.
- Maximize the value of data using a [data-trading](#) approach.
- Create an end-to-end supply chain visibility plan to identify any vulnerabilities in your supply chain.
- Invest in or accelerate a digital transformation model to build resilient and flexible supply chains.
- Take advantage of the “Make in India” movement to build “lightly-dependent” supply chains that employ more local production of supplies.

“We had a chance to work against the odds; We were able to meet our customers’ needs for essential product inputs amidst the pandemic & lockdowns. What made us stand against our competition are our investments in infrastructure, inventories, innovation, which enabled us to build a “lightly-dependent” supply chain and win our customer trust and loyalty.”

- Tushar Choudhary, President of Operations of Himadri Speciality Chemical

Many organizations across the globe will not return to business as usual. While the exact parameters of how, and to what degree, operating and business models will change cannot be known at this time, we do expect those forward-leaning organizations will come out of this pandemic with new ways to operate. The COVID-19 outbreak undoubtedly paves the way for India and other Asian countries to increase their presence in international supply chains. The outstanding question is will Indian businesses recognize and take this opportunity?



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About Digital Supply Chain Institute

The CGE's Digital Supply Chain Institute (DSCI) is a leading-edge research institute focused on the evolution of enterprise supply chains in the digital economy, and the creation and application of supply chain management best practices.

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The Digital Supply Chain Institute is a membership-based not-for-profit institute whose members are focused on executing the supply chain of the future. We perform applied research, conduct pilots, communicate the Digital Supply Chain story and link members with companies that are going through similar journeys. DSCI is a program of The Center for Global Enterprise (CGE). Visit our website dscinstitute.org to learn more or reach out to Vivek Ghelani, Project Manager, DSCI at vghelani@thecge.net

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