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Supply Chain Uncertainty: 4 Tips to Proactively Tackle Coronavirus Disruptions

Because of the coronavirus (COVID-19) pandemic, businesses are facing unprecedented supply chain uncertainty. This uncertainty will effect businesses differently, but those that proactively tackle these supply chain disruptions can minimize the impact. Below are four steps each business should undertake during these challenging times.

Check your supply chain

The first step is to check on your supply chain. Will there be any interruptions in the supply of products to you, and for your delivery of products or services to others? Determine if there are likely to be any short-term and possible longer term issues.

Review contracts and applicable laws

The next step is to review your upstream and downstream contracts, including supply agreements, distribution agreements, sales agreements and terms and conditions.

During this review, identify any impacted terms, including those that pertain to orders (including those that concern acceptance, rejection and pending orders), payment, allocation, minimum production amounts, schedule and delivery terms, termination rights, indemnity and of course, force majeure clauses. When reviewing, note any terms that require notice and decide whether those notice provisions have been triggered. It is also important to assess if either party's performance may be excused, if a party can take measures to ensure performance, or if a party can switch suppliers without incurring liability. Analyzing the risks and consequences associated with a breach or default is essential.

Finally, review any applicable state laws, statutes and regulations for additional requirements. And even if not required, determine whether notices to suppliers or customers are advisable. Also, be on the lookout for any notices that you may receive from others in your supply chain.

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Manage inventory and purchases

Evaluating inventory as part of this process is critical in both the short term and the long term. This evaluation should include consideration of potential shortages, possible alternate sources and allocation plans to rectify any supply disruptions. Additionally, review safety stock provisions and determine if consignment arrangements are available or necessary.

Determine applicable insurance policies or other indemnification sources

Insurance policies or indemnification agreements may cover a business' losses during this period. Review any applicable policies and determine whether coverage may exist for things such as business interruption or property impairment. To the extent coverage may exist, follow all notification requirements contained in these policies or agreements.

By reviewing these items, you can develop a plan that mitigates risk, limits liability and allows flexibility in an increasingly unstable environment.

Should you have any additional questions or would like assistance in reviewing your business' contracts, we are here to help. Please feel free to reach out to Laura Brenner, Troy Hilliard or any other member of Reinhart's Commercial and Competition Law Group.

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