



# Suppliers Soothe Industry Fears About Inventory

## Many Chinese-Made Products Stocked in US Warehouses

BY JULIE ROGERS

Suppliers have an important message for awards and personalization retailers who are worried about coronavirus's potential effect on their businesses: "Don't worry. I'll be able to cover your demand. There will be no problem."

Those are the words Marcel Bizier, president and CEO of Marco Awards Group, told dozens of retailers who approached him on the expo floor at the International Awards & Personalization Expo with concerns about whether the epidemic would affect product delivery.

It's true that the virus has shut down some Chinese factories—and left others understaffed—but big-name suppliers like Marco, PDU CAT, and JDS Industries expect to deliver retailer orders as always, even during busy season.

### COVID-19 EPIDEMIC

COVID-19, the disease caused by coronavirus SARS-CoV-2, emerged in late December but wasn't identified as a new strain of coronavirus until early January. Its outbreak was



linked to a seafood market in Wuhan, the capital of the Hubei province in central China.

As of February 26, there were more than 81,000 confirmed cases of COVID-19 globally and 2,762 deaths caused by the virus.

Travelers have taken the virus to 37 additional countries, with nearly 3,000 cases outside of China. Quarantines have slowed the reach of the disease. Just 44 of those COVID-19 patients outside of China have died.

Coronavirus's devastating effects will be felt throughout the world. China is the world leader in gross value of industrial output. As of 2018, China's exports were valued at \$2.5 trillion, making it the number one exporter of goods based on dollar value. The United States was a distant second, exporting goods worth approximately \$1.5 trillion.

That \$2.5 trillion worth of goods are made in factories all over China, but coronavirus closed many factories and left others understaffed due to quarantines. Consumers will eventually start to feel the pinch as expected Chinese-made goods aren't available. Other countries that could step in

to manufacture some of these goods could be hit hard by coronavirus as well in the coming weeks.

However, a few factors have helped insulate our industry's retailers, ensuring they won't be left high and dry when filling stock orders now and in busy season.

## GOOD TIMING

If there had to be an outbreak in China, the timing couldn't have been better for our suppliers and retailers.

"The time of year this happened is actually good for our industry," said Scott Sletten, president of supplier JDS Industries.

The virus emerged just before Chinese New Year. Also known as Spring Festival, the Chinese New Year is an important holiday, with workers in mainland China having a full week off work. In practice, this observation often shuts factories for longer than a week as workers leave factory dorms to travel home to celebrate.

Industry suppliers know that factories will shut down for the new year celebration, and "we get everything we can out

of our factories before their new year,” Sletten said. “We expected a 3–4-week lull, so a few more weeks has a limited impact.”

Bizier, of Marco Awards Group, expects a difference in delivery of products of “2 weeks at most. Under normal conditions, without the virus, we would have 2 weeks without delivery due to the holiday.” He expects coronavirus to lengthen that delay by another 2 weeks, which is not a significant concern.

The timing of the outbreak was fortunate for PDU CAT, as well. “We dodged a bullet on accident, and we’re very pleased that we did,” said President Derrick Calcote.

“We wanted to make sure we were well stocked for the busy season. Generally, we had bad experiences with production around Chinese New Year anyway. It always seems to last longer than they say,” Calcote explained. This year, Calcote took a different approach, telling the factories that PDU CAT needed everything to be produced and shipped before work shut down for Chinese New Year. It worked, and nearly everything PDU CAT needed stocked for busy season had already arrived before this outbreak became an issue.

Calcote considers his company “fairly fortunate” to be largely unaffected by an epidemic that couldn’t have been predicted or planned for, not taking credit for the planning that ensured PDU CAT’s products are in stock. “We took the position of planning on Chinese New Year being 6 weeks. With that built-in assumption, we adjusted for this in advance.”

Though no one could predict the outbreak, the suppliers had to put extra thought into their Chinese

#### What type of industry products tend to be made in China?

The majority of crystal and glass products, plastic trophy toppers, and resins used in the industry are made in China, Sletten said.

#### Why don’t suppliers temporarily move all production to other countries?

Moving all production can be a costly, time-consuming measure that would be reserved for permanent or long-term issues. “The molds are sitting in a factory in China,” Sletten said. “Long-term you can move and make new molds, but it takes time and money.”

PDU CAT is a bit more nimble. “We could move things rather quickly if we needed to,” Calcote said. “If we have to move some dies and molds, we can do that.” With factories and vendors in multiple countries, “if a specific commodity has an issue, I have a backup factory in another country,” he said.

#### When factories are fully staffed, can extra work be done to make up the lost production time?

“What’s lost is lost,” he said. A given machine in a given factory has a number of operations it can do in a day; factories can’t double that amount to make up for lost time. As such, Sletten expects lead times will be longer than usual as factories reopen and work to get back to full capacity.

#### Once factories are running, will newly manufactured products arrive quickly?

“Shipping capacity will be an issue,” Sletten said, affecting all buyers of Chinese-made goods. “A lot of shipping runs in the underbellies of commercial carriers—like United, Delta, and American. They’ve all been shut down with no flights to or from China until May. So, FedEx and UPS are warning people that there is limited capacity on airlines.”

Attempts to get freight moving via ocean won’t necessarily be smooth either. There’s been no shipping since Chinese New Year, Sletten said, with empty ships idled. As the delays increase, the ships will sit longer, making bumps likely as they finally get back to work—“like restarting a car you haven’t run in 6 months.”

#### Do other industries expect similar delays?

Other industries could be more deeply impacted. Sletten used car manufacturing as an example. The parts of a car come from factories all over the world. If one crucial small piece of a vehicle comes from a shut-down Chinese factory, no cars can be made for want of that one part. When the factory begins producing that part again, the vehicle assembly line can’t work at double or triple speed to make up the lost time.

#### Will smaller suppliers in our industry be more affected?

Coronavirus’s negative effects on industry stock will be felt more strongly by companies with a higher percentage of Chinese-made goods and a shallower depth of inventory, Sletten said.

American-made products, for instance, will likely be unaffected unless their raw materials are supplied by China and not heavily stocked by the US manufacturer.

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imports due to last year's American tariffs on Chinese goods. That timing also may be fortunate in that the tariffs ensured suppliers already had a closer eye on production coming from the area.

Some people predicted dire situations when tariffs took effect, but that didn't happen. This coronavirus scare could take the same path.

"We've been dealing with tariffs," Bizier said. "Tariffs are not going away. We went about our business."

Had the virus struck at a different time, this story might not be so optimistic. "If this happened at the end of busy season or December, this could have been devastating," Sletten said. "It would have been much worse if moved forward 6-8 weeks. Then you'd be looking at 2-3 months of production lost."

## LOCATION MATTERS

Though the virus is spreading throughout China, it made its first big impact in Wuhan, a city in central China. Despite quarantines, it has since spread. Within China, most of the spread is to the east as of February 20.

Calcote is in contact daily with PDU CAT employees who live in China full time and manage the company's dealings there. "They are seeing the same news reports we are, but they are healthy. Their families are healthy. They aren't in the areas heavily impacted by it," he said. "Our employees are in good shape because of where they are living."

Sletten said, "the products made in Wuhan-area factories tend to be more industrial, like automotive parts. Products for our industry, such as resins or trophy toppers, tend to be made in the coastal areas."

"The biggest impact is the workers. They come from all over China," Sletten said. Some haven't been allowed to return to their factories yet. Others face a 2-week quarantine when they return to ensure they haven't brought the virus with them.

Factories in other Asian countries are currently producing goods for our industry suppliers.

"We do buy a lot from other countries," said Bizier. At Marco's factories, 60%-70% of workers were back at work the week of the International Awards & Personalization Expo.

As the disease spreads to and within other countries, industry factories in Vietnam, Malaysia, Thailand, and Taiwan could be affected. All of those countries have cases of coronavirus as of February 27.

## DEEP STOCK

The second factor that is a saving grace for retailers who need to be able to order Chinese-made products is that many of our big-name suppliers carry significant stock. That means retailers' orders come from products already stocked in warehouses, not from orders on their way from China.

That thought was behind PDU CAT's decision to stock up ahead of Chinese New Year. "We've been burned one too many times. We'd rather bring it in early and have it," Calcote said.

Of PDU CAT's products, existing and new for 2020, there's only one product line not yet in stock, as of the International Awards & Personalization Expo. "It is our large metal cups. They are an entirely new line. We don't have them yet," Calcote said, "but they are on the water and will be fully stocked mid- to late March. That's the extent of what we don't have."

At Marco Awards Group, all new catalog products—more than 650 products—have been received in their entirety, including those from Chinese factories. "We have 9-12 months on hand," Bizier said.

The 2020 JDS Catalog includes more than 1,300 new products, and "75%-80% of new products are stocked now," Sletten said. Those that weren't completed and shipped before Chinese New Year and the coronavirus are only "3-4 weeks behind what we anticipated," he said.

Companies that don't stock as deeply as our big suppliers will be hit harder.

"Apple put out press releases warning that there could be limited availability, affecting sales and earnings this quarter," Sletten said. "They manage their inventories tightly, with maybe 3-5 weeks' worth of product in the U.S. If they lose 2 weeks of production capacity, it's gone. There's no opportunity to catch up."

The amount of stock is high at Marco, JDS, and PDU CAT not just because of their business models but also the time of year, with new products being stocked and launched and warehouses being filled ahead of busy season.

"We have everything we need for busy season," Calcote confirmed of PDU CAT's products. "It's in stock or on the water."

"We're at an all-time high" of stocked products, Sletten said. "This is our highest inventory time at JDS."

"We are absolutely loaded with inventory—15% higher inventory than last year," Bizier said.

## OPTIMISTIC OUTLOOK

Suppliers are “doing everything we can to have the product in on a timely basis, but we’re all subject to limitations,” Sletten said.

“Communication is key,” Sletten said. Just as Sletten, Bizier, and Calcote are communicating with their factories, retailers can communicate with their suppliers to find out what to expect. Armed with facts, they can communicate with and reassure their own customers.

Retailers who can access their suppliers’ inventory information through apps are welcome to check inventory now if they are expecting to place crucial orders of a product they can’t risk being out of stock.

If the outbreak affects production longer than hoped, “they can see if they need to buy something early if it’s an option for that retailer based on capital, cash, and space,” Sletten said.

Normally, suppliers could update their systems to indicate when a product would be in stock again. However, with the uncertainty of the virus’s effects, even the factories can’t tell suppliers exactly when a product can be manufactured and shipped.

Sletten was conservative in his e-mail to retail customers on January 17, and just a few days later, he already had positive news to share about JDS’s factories. “Most are reopening this week in a limited capacity. They have the local workers there and ready to start work. Production is limited, but they are reopening and getting prepared,” Sletten said.

PDU CAT’s factories also are doing well. “The majority of our factories are already open,” Calcote said during the International Awards & Personalization Expo in February. “Not all of them are fully staffed, but well over half are open and producing product already. Of that half not yet open, most are well positioned with the number of employees where and are waiting for government approval to re-open.”

“I’m seeing good signs, and things appear to be getting better in parts of China,” Sletten said. “But it could get worse again.”

Nonetheless, suppliers are optimistic. “I’m not seeing anything that’s going to be a major problem,” Sletten said. “The biggest factor is how quickly we all get back up to speed.”

For Calcote, the picture he gets from his employees in China differs greatly from the dire situations he sees on the news. It’s not that the media is exaggerating the issue, but that China’s vast size means an epidemic in one area may not feel like a threat on the other side of the country.

“From what I was seeing on the news, I was surprised half of my factories are open already. I was expecting to be impacted more,” he said in February.

Calcote said PDU CAT is sitting pretty. “Because we ordered in advance, we’ll be fine. By the time we need products shipped from China, our factories will be at full capacity.”

“I had a customer call up, wanting a special run of something. I called the factory, expecting a delay of a few weeks, but they said they’d start working on that today. It’s better, from where we’re all sitting. We’re happy it’s not as impactful as we expected.”

Asked what problems his customers might face due to coronavirus production delays, Bizier summed it up in one word: “Zero.”

## DON’T FORGET THE HUMAN FACTOR

It’s appropriate for businesspeople to focus on the economic impact of a catastrophe like coronavirus. But it’s important to keep in mind the effects being felt by the people in China.

“We’re worried about getting you your pin order on time,” JDS’s Scott Sletten said, “but the people in China are worried about their relatives getting sick and dying.”

For Sletten, these people on the front lines of the epidemic aren’t strangers. “They’re an integral part of our company—our partners.”

Calcote’s PDU CAT employees in China haven’t faced a direct health risk from coronavirus yet, but that doesn’t mean it’s business as usual there. “There’s less for them to do because the factories aren’t all open yet. They are worried about business and are seeing the same news reports we’re seeing” about coronavirus.

In addition to the risk of disease and death, Chinese workers don’t have social programs to combat any loss of income. “There’s a huge economic incentive to get people working,” Sletten said. “They have out-of-pocket support for employees, but these factories can’t ship anything. They aren’t invoicing, so they aren’t getting cash in. It’s putting quite a pinch on them.”