

## **Coronavirus Sickens the Retail Supply Chain**

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Coronavirus is at the top of the news around the globe. For most it means buying some more masks and hand sanitizer, getting groceries delivered, and recently, staying home. For some regions and groups of people the impact is higher. But for those who are under contractual obligations to provide manufactured goods, the impact of coronavirus will be felt for months, if not longer.

China is the largest exporter of textiles and clothing, producing hundreds of billions of dollars worth. Clothing is bought by wholesalers and retailers, and textiles are what enable the clothing industry to create new product. If [Chinese factories will remain closed for the foreseeable future](#), fall product that has not yet shipped to distribution centers may not even get bought or made.

In the fashion industry, at least twice a year buyers for every category descend upon showrooms to look at the new season. Those meetings are now [shifting to videochat and browsing line sheets and lookbooks, orders are being cancelled, and discounts being sought](#). Whether they will stop doing that, for [lack of demand from consumers unwilling or unable to browse](#), or for inability to get new orders filled, remains to be seen.

Some retailers maintain a diverse supply chain for precisely this reason. Zara, for example, is [well known for keeping its supply chain](#) (based mostly in Spain) underutilized to be able to respond to the market and changing trends. While other countries like Bangladesh and Vietnam can and will fill some of the shifting demand, it's clear that flexibility will be necessary in order for retailers and the vertical to continue operating. The retailers that have a less diverse supply chain, or more specialized need that can't be easily transferred to another factory, will inevitably suffer. Larger retailers like Wal-Mart and Target have been so far [unwilling to significantly lower their forecasts](#) as they are flexible and better able to absorb the risks. However, they still need to make decisions about how to allocate the product they can get, and plan for an uncertain future.

The panic and illness already spreading will inevitably lead to litigation over breach of contract. Companies are now examining their *force majeure* provisions and are making decisions about [how and when to mitigate damages, make declarations and responses to customers, and whether](#)



[they will change terms of the agreement or simply not perform.](#) Middlemen, who are facing breaches from their manufacturers and having to alert their customers, may be able to claim a defense based on frustration of purpose or show that they were [prevented or hindered from fulfilling the terms of their contract.](#) Insurance might help, if companies included such risk protection, but certainly not every firm that needs it has it. The terms and the statutory law that governs each case will be fact-specific, but will affect both relationships between parties and how companies craft *force majeure* clauses for years to come.

Everyone is doing the best they can, given the information and uncertainty at hand. That effort will have to last just a bit longer than expected to get through the ripple effect and whatever else happens.