COVID-19 Webinars

Supply Chain Disruptions Resulting from COVID-19

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Supply Chain Reconstruction Legal Pitfalls and Risk Management

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This Presentation

• Assembly Line Revival
• Supply chain reconstruction
• Legal Pitfalls and Risk Management
• Supply Chain Risk Management going forward

Assembly Line Revival: Common Elements

• Draw on parts inventory
  – After market inventory
• Draw on accessory inventory
• Assess components for criticality
• Made to order principle
Reshape Marketing

- Create demand to match optimized production
- Regression models
- Convergence

Optimize Distribution Capacity

- Distributor and dealer financial incentives
  - Delayed accounts payable
  - Consignment
  - Profit sharing

Supply Chain Reconstruction

- Relief supply chains
  - Use local partners
  - Use new partners
  - Shared investment with traditional partners
- Support financially troubled partners
  - Exclusivity in exchange for:
    - Longer pay periods
    - Low interest credit
Legal Issues

• Product liability claims
  – Adversaries will allege that you rushed to market
  – Re-purposed parts will invite scrutiny
    • Did they go through all design test protocols and approvals?
      The exact same process?
  – Re-assessment of criticality will invite more scrutiny

Legal Issues

• Product liability
  – Convergence alters the design of product line models
  – Government compliance / Homologation remain critical
  – FMEA and Functional Safety Analysis have to be applied consistently and in the same diligent fashion as in the past
  – Design support with respect to all re-sourced parts and materials will be key

Legal Issues

• Market materials
  – Comparison to prior materials
    • Highly touted components
Legal Issues

- Contracts
  - New suppliers
  - New financial terms with prior suppliers
  - Their proposed changes in component materials and design
    - See all above PL issues also
    - Exclusivity terms are dangerous

Legal Issues

- Distributor and dealer pitfalls
  - Anti-trust law and franchise laws protect dealers
    - Avoid selective application of any terms or policies
    - Expansion of flagship terms may be challenged
    - New terms may stick. Draftsmanship is crucial

Supply Chain Risk Management Going Forward

- Universities offer Masters Degrees in Supply Chain Management.
- There are many associations devoted to Supply Chain Risk Management. SCRM
- There are SCRM standards.
- Big companies use quantitative supply chain risk management.
Supply Chain Risk Management Consultants

- Seemingly endless volume of consultants with typical marketing buzz words after every publicized event.
  - E.g. Hurricanes, forest fires, earthquake, mud slides, etc
- Common elements of their programs:
  - Simple quantification.
  - Processes
    - Ranking of suppliers
    - Transparency to the Nth degree

SCRM in a Nutshell: What You Can Do

- Quantitative risk assessment
- Triage suppliers
- Specific courses of action for each triage group
- Make criteria and rate all suppliers

What is Quantitative Risk Management?

- There are many models.
  - Including store bought computer apps.
- Identify Risks.
- Measure Frequency.
- Measure Severity.
- Assign Values for frequency and severity.
- Use equations to quantify and then rank quantifications.
- Prioritize risk management and mitigation based on rankings.
What is Quantitative Risk Management?

- Many fancy articles and sales pitches for simple concepts.
- The goal is to determine which supply chain risks require money, time and effort to address.

Triage

- Bucket 1
  - High risk suppliers
  - Chinese suppliers in Pandemic hotspots
- Bucket 2
  - Mission critical parts
  - Suppliers that you had past disputes with.
- Bucket 3
  - Transparent suppliers
  - Not necessarily small suppliers.

Triage Bucket 1

- Template contracts
  - Jurisdiction, audit, state-of-the-art manuscript indemnity provision.
  - Remember CSR
Triage Bucket 2: You Had Issues in the Past

- Contract provisions to address every dispute that you had in the past. E.g. did you have to do a recall. Did they fight about indemnity or any portions of reimbursement.
  - Examples: Suppliers of complex components
- Make them get insurance that covers us.

Triage Bucket 2: Mission Critical

- Set up a computer platform to get this from suppliers:
  - Procedures
    - No dueling forms PO v. Acceptance
  - Policies
  - Standards

- Structure data; Centralize communications with the supplier.
  - Capture and audit data incrementally. E.g. centralized bar codes
- Real time output by supplier plant.
- Real time inventory and logistics.
  - Follow promised delivery dates.
Triage Bucket 3

- Score cards for suppliers.
- Grades for:
  - Timely delivery
  - Number of complaints
  - Quality rejections, e.g. parts per million or Six Sigma
  - Major disruptions
  - Controlled and communicated shipping status.

Questions

Thank You

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