



UWTSD
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ASSIGNMENT 1: ESSAY

The Impact of COVID-19 on UK Supply Chains and Business Practices

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Introduction

Brexit and the Covid-19 outbreak have fundamentally changed the global economic environment, resulting in significant impacts to economies and enterprises. This essay examines key economic issues like financial instability and disruptions in the supply chain and suggests ways to address them. We can better comprehend the impact of demand and supply principles, as well as the ideas of demand elasticity and inelasticity, by investigating their impact on corporate strategy and market behaviour. The essay's ultimate goal is to offer guidance on creating robust plans to deal with potential financial crises.

Fundamental Economic Problems

Covid-19 Rules of Doing Business

The Covid-19 pandemic imposed unprecedented restrictions and lockdowns, which drastically altered the way businesses operate globally. Mandatory closures, social distancing, and travel restrictions disrupted normal business activities, causing a significant decline in productivity and revenue across various sectors. For instance, the hospitality and travel industries faced near-total shutdowns, while retail businesses had to pivot rapidly to online platforms to survive (Institute for Government, 2021). The graph below illustrates how GDP contracted during periods of strict Covid-19 restrictions from almost 100 indices in Oct 2019 started to decline and touched 75 in April 2020, demonstrating the economic impact of these rules.

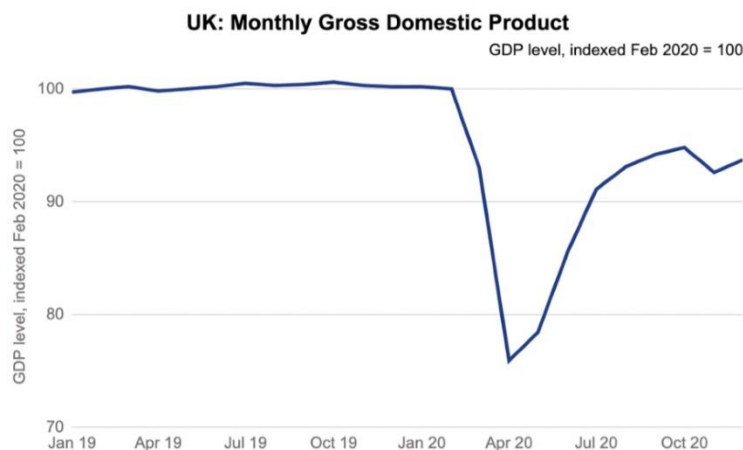


Figure 1: Monthly GDP in UK

(GOV.UK, 2021)

Shortages of Demand Due to Increase in Demand

The pandemic induced a paradoxical situation where certain goods faced shortages due to an unprecedented surge in demand. Items like personal protective equipment (PPE), medical supplies, and even household essentials saw a dramatic increase in demand, leading to widespread shortages. This surge was primarily driven by panic buying and stockpiling behaviours among consumers, further exacerbated by supply chain disruptions (Aigner-Walder, 2015).

Shortages of Supply (Shortage of Drivers)

Shortage of drivers affects supply chains, particularly those that handle commodities and transportation. Health issues, border closures, and Brexit which forced EU drivers out of the UK were the reasons for this critical shortage. Goods shipment was delayed and costs increased by driver shortages. Companies faced operational challenges and missed important delivery dates of supplies (Griffith, 2003). The graph below from Statista illustrates the U.K lorry driver shortage a drastic decline representing the shortage in the Covid 19 period from 2019 to 2021.

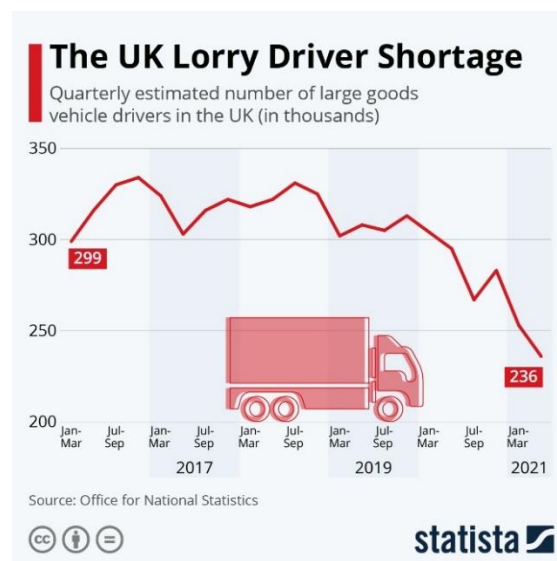


Figure 2: The UK Lorry Driver Shortages

(Statista, 2021)

Effects of BREXIT on Demand and Supply Chain Facilities

The combination of Brexit and Covid-19 created a perfect storm for supply chain disruptions. Brexit introduced new customs regulations, tariffs, and border checks, complicating the movement of goods between the UK and EU. The graph below presents the percentage of UK businesses reporting challenges in trade with EU in October 2021.

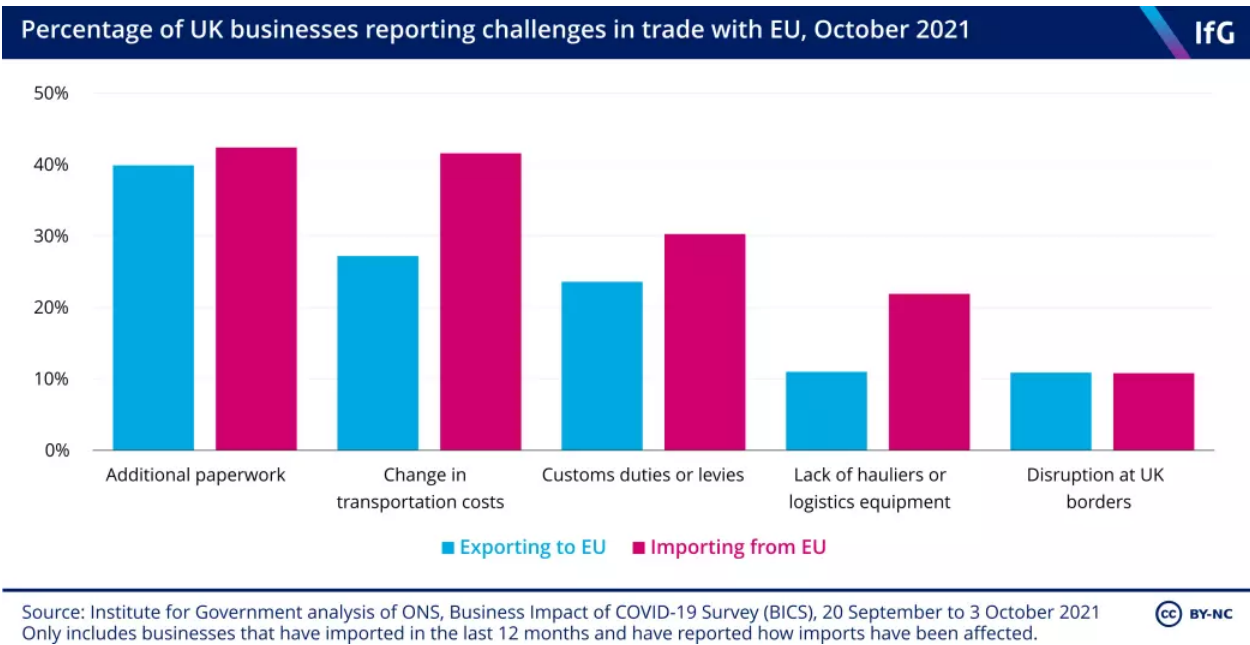


Figure 3: Percentage of UK businesses reporting challenges in trade with EU

These changes, coupled with the pandemic-induced restrictions, led to significant delays and increased costs for businesses reliant on cross-border trade (OECD, 2015).

Panic Buying of Scarce Resources

During the pandemic, panic buying led to the hoarding of toilet paper, edible meals, and disinfectants and sanitizers. Fears about shortages and anxiety about the future shaped this viewpoint. Panic buying produced a self-fulfilling illusion of scarcity if demand increased more quickly than providers could restock shelves, Worse supply chain problems from this resulted. (Bagwell, 2005).

Shortage of Fuel Supply

Fuel supply interruptions during the pandemic were caused by a shortage of drivers and an increase in demand. Fuel occasionally ran out, particularly in places where transit is essential. This was due to logistical problems and a labour scarcity. The problem with the fuel supply demonstrated how supply chains are susceptible to labour shortages, emphasising the importance of robust logistical networks (Rauch and Schleicher, 2015).

Rocketed Price Changes in the Cost of Fuel

Price volatility was caused by fuel supply shortages. Fuel costs increased as a result of rising or stable demand and falling supply. Petrol prices as well as the costs of goods and services related to transportation were impacted by price elasticity. Companies passed along rising operating expenses to their clientele, which resulted in inflation in the economy (Andrejeva et al., 2010).

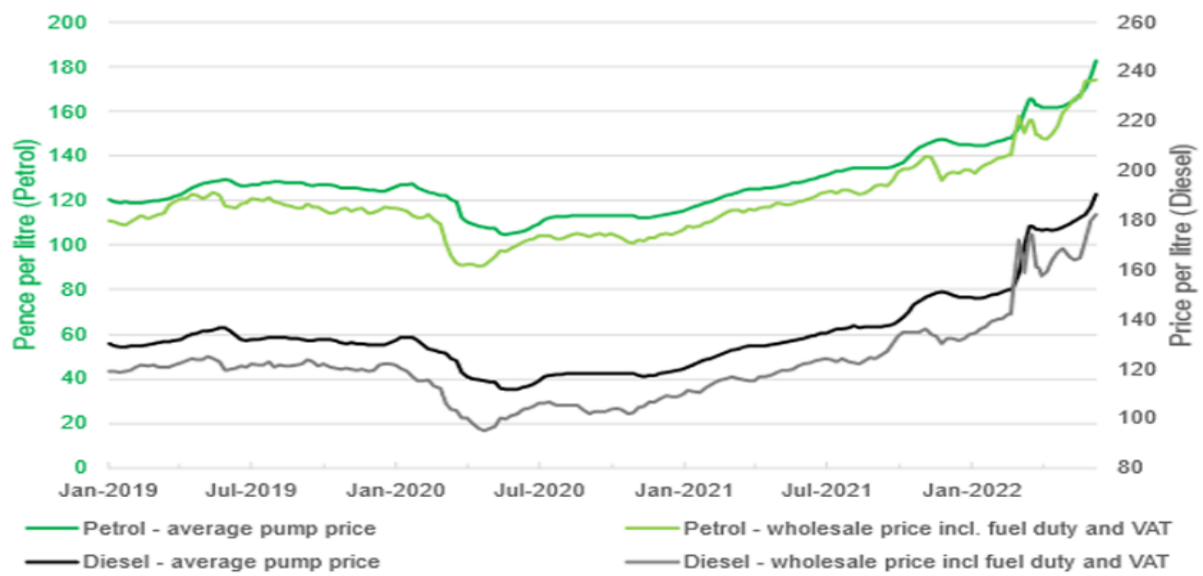


Figure 4: Fuel Average Price 2019-2022

(GOV.UK, 2022)

High Borrowings of Funds to Meet Surging Costs

To relieve the financial burden of the pandemic, many organisations have taken on massive debt. There were instances when these loans were required to cover operating expenses, cover payroll, and control rising costs for goods and raw materials. However, the enormous amount of debt accumulated created financial risks, especially for SMEs, raising the likelihood of bankruptcies and defaults (Osadiya, 2023).

End of Furlough and Redundancies

The termination of government furlough schemes resulted in a large number of job losses. Companies had to reduce costs since they were unable to recover. The increase in unemployment decreased consumer purchasing power, which set off a vicious cycle that hindered the revival of the economy. The policy implications of removing furlough assistance brought attention to the precarious balance that exists between fiscal sustainability and economic support measures (OECD, 2015).

Bankruptcies Due to Lack of Funds

Financial difficulty caused several enterprises to go bankrupt. Many businesses, especially those in the hardest-hit industries, went out of business because they were unable to make enough money to cover their high operating costs and debt obligations. This wave of bankruptcies had a ripple effect throughout the economy, affecting employment and reducing overall economic activity (Heien and Pompelli, 1989).

Change in Consumer Preference: Products over Services

A major change in consumer preferences from services to goods was brought about by the pandemic. Consumers diverted their spending towards gadgets, home upgrades, and other physical things in response to restrictions on dining, travel, and entertainment. This shift created additional pressure on supply chains, which were already strained, and required businesses to adapt quickly to changing consumer demands (Foot and Gomez, 2006).

Solutions and Recommendations

Government Intervention

Government intervention is crucial in mitigating the economic challenges posed by the pandemic. Regulatory measures can help stabilize markets by setting clear guidelines for businesses to operate safely and efficiently. For example, temporary relaxation of immigration policies can address labour shortages, particularly in sectors like logistics and healthcare. Financial support, such as grants and loans, can provide businesses with the liquidity needed to survive periods of reduced revenue and increased costs. The UK government's response to supply chain disruptions involved measures such as extending driver working hours and deploying military personnel to alleviate the shortage of HGV drivers (Institute for Government, 2021).

Relaxing Stringent Covid-19 Rules

Balancing health measures with economic activity is essential for sustaining business operations. Relaxing certain Covid-19 restrictions, where safe and appropriate, can enable businesses to increase their productivity and reduce operational costs. For instance, allowing more flexible working arrangements and reducing mandatory quarantine periods for vaccinated individuals can help maintain workforce availability while still protecting public health (OECD, 2015).

Developing Shortage Management Team Strategy

A dedicated shortage management team can effectively coordinate responses to supply chain disruptions. This team should include experts from various fields such as logistics, procurement, and risk management. Their role would involve monitoring supply chain vulnerabilities, identifying potential bottlenecks, and developing contingency plans to ensure the continuity of supply. For example, during the peak of the fuel supply crisis, forming a task force to oversee fuel distribution and prioritize critical areas could mitigate shortages (Griffith, 2003).

Creating and Improving Supplier Collaborations

To increase supply chain resilience, relationships with suppliers must be improved. Coordination of supply and demand management, information exchange, and cooperative planning are a few examples of collaborations. In order to maintain continuity in the event of disruptions, businesses might collaborate with suppliers to develop flexible contracts and backup suppliers. For a considerable amount of time, Toyota has employed these tactics to sustain its supply chain network (Rauch and Schleicher, 2015).

Alternative Ways to Reduce Waste

Reducing waste and improving supply chain efficiency are possible outcomes of implementing efficiency and sustainability programmes. These include optimising inventory, encouraging a circular economy, and raising recycling rates. Investments in waste-reduction and resource-efficient technologies are possible for businesses. Among these technologies are advanced manufacturing and waste management. Bagwell (2005) asserts that these techniques support environmental sustainability and assist in resolving supply chain problems.

Assessing and Improving Own Supply Chain

Maintaining operational efficiency in the internal supply chain requires regular assessments and enhancements. Businesses need to evaluate their supply chain processes in order to find areas for development and apply the most effective strategies. This approach may be used in supply chain management education, new inventory management systems, and improved logistics. Companies that continuously improve are more adaptable and aware of changes in the market (Andreyeva et al., 2010).

Working with Suppliers to Reduce Prices

Reducing price increases requires skillful bargaining and cost control. Organisations might benefit from strategic supplier negotiations by obtaining better terms and prices. This could entail long-term agreements, alternative suppliers, or mass purchases in order to spur competition and drive down prices. To reduce production costs and maintain competitive pricing, Foot and Gomez (2006) also recommend employing cost management strategies including lean manufacturing and process optimisation.

Keeping Stakeholders Informed

Managing stakeholder expectations and preserving confidence need effective communication and transparency. Businesses need to report supply chain problems and their attempts to fix them to investors, consumers, and staff. Confidence may be increased, and anxieties can be diminished with regular updates, honest reporting, and open communication. During the COVID-19 epidemic, companies who maintained open lines of communication with their stakeholders fared better in managing interruptions and holding onto customers (Aigner-Walder, 2015).

Relevance of Demand and Supply

Pricing Strategy

The principles of demand and supply are crucial in formulating effective pricing strategies. By understanding the elasticity of demand for their products, businesses can set prices that maximize revenue.

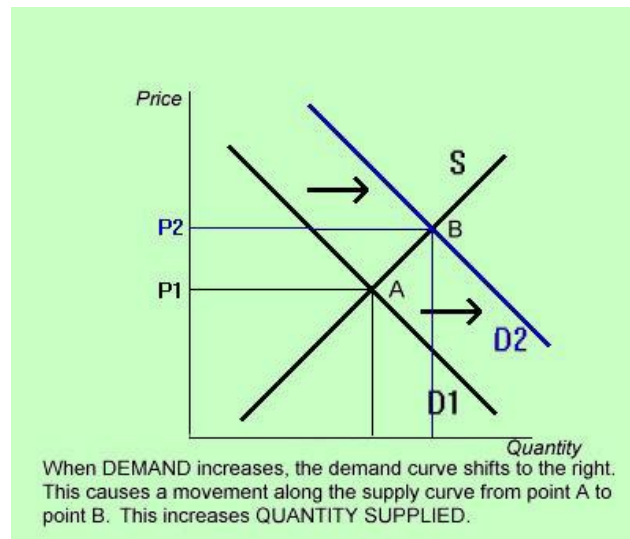


Figure 5: Elasticity of Demand when pricing

(Pope and Hourston, 2022)

Throughout the pandemic, various companies changed their prices to balance supply and demand. PPE and disinfectants have been more expensive to compensate for shortages. This was the result of supply not meeting demand. In contrast, companies in low-demand areas could lower their pricing to increase sales. According to Andreyeva et al. (2010), dynamic pricing aids in inventory control and sustains profitability for businesses. reconciles the supply and demand in the market.

Competition and Price Reduction

Fair markets and stable prices depend on competition. Businesses streamline processes and cut expenses in a competitive market to provide lower rates. This competition encourages efficiency and innovation, which lowers costs and raises quality for consumers. In order to preserve market share, established businesses like Amazon have had to enhance their prices and services in response to growing competition in the e-commerce space (Ellickson, 2013).

Expansion of Business Productivity

Organisational productivity can be increased by comprehending demand-supply dynamics. These strategies are used by Amazon to manage its enormous platform business. Tracking customer demand helps Amazon enhance supply chain and inventory management. This enables the company to guarantee that clients receive items at the precise moment they require them. According to Rauch and Schleicher (2015), this tactic increases business efficiency, matches customer expectations, and lowers inventory costs.

Marketing Strategy

Understanding supply and demand is the first step in developing effective marketing strategies. Businesses use marketing campaigns to influence consumer demand. We may highlight the special qualities of our products in our campaigns or provide discounts on merchandising items. These strategies seek to boost revenue and balance the company's ability to meet product demand with its supply. Bagwell (2005) proposes that in order to manage demand peaks and troughs and sustain sales throughout the year, seasonal incentives and focused advertising should be used.

Inventory Management Strategy

Systems for managing inventory that are just-in-time, or JIT, make use of supply and demand. Businesses can reduce waste and holding expenses by maintaining low inventory levels and only restocking when necessary. Precise demand projections and dependable supply chain management are prerequisites for this approach. Although Toyota and other JIT businesses benefit from lower costs and more efficiency, they also have to manage the risk of supply chain disruption (Griffith, 2003).

Finance Attraction Through Investments

Demand and supply also influence investment decisions. Businesses with strong demand for their products and efficient supply chains are more likely to attract investors. Initial public offerings (IPOs) are a common way for companies to raise capital by leveraging their market position and growth potential. A successful IPO depends on demonstrating a solid understanding of market demand and a robust supply chain to meet that demand. For example, companies in the technology sector often attract significant investment due to their innovative products and scalable business models (Osadiya, 2023).

Worker Retention and Satisfaction

High salaries and job security are critical for worker retention and satisfaction, which in turn affects productivity and business continuity. Understanding the supply and demand for skilled labour helps businesses offer competitive compensation packages. During the pandemic, industries experiencing high demand, such as healthcare and logistics, increased wages and improved working conditions to retain essential workers. This approach not only ensured continued operations but also enhanced employee morale and loyalty (OECD, 2015).

Risk Management

Balancing demand and supply risks is essential for maintaining business stability. Companies must anticipate and mitigate risks associated with supply chain disruptions, market volatility, and changing consumer preferences. This involves diversifying suppliers, maintaining strategic reserves, and developing contingency plans. For instance, businesses that had diversified their supply chains prior to the pandemic were better equipped to handle the sudden disruptions caused by lockdowns and travel restrictions (Foot and Gomez, 2006).

Management of Shortage and Supply

In order to control supply and shortages, market demand and resource availability must be matched. Adapting to changing market conditions is made easier for firms by flexible supply chain networks, demand forecasts, and alternative sources. Due to the COVID-19 pandemic, many businesses were forced to modify their supply chain strategies in order to cope with the shortage of essential goods and supplies. According to Aigner-Walder (2015), technology and data analytics tools assist businesses in anticipating changes in demand and adjusting their supply chains.

Demand's Elasticity and Inelasticity

Elasticity

The elasticity of demand is the degree to which a change in price affects the quantity demanded. If the demand for a good is elastic, even a small price adjustment will have a significant impact on how much of it is sold. Companies use this concept to understand how changes in price affect revenue and sales. As per Andreyeva et al. (2010), the standard method for calculating the price elasticity of demand (PED) involves dividing the percentage change in quantity demanded by the percentage change in price.

Inelasticity

On the other hand, an instance of inelastic demand occurs when price fluctuations have little to no impact on the quantity demanded. When a product has inelastic demand, buyers will still buy it regardless of price changes because it is usually a need or has few alternatives. Basic food supplies, utilities, and necessary medications are a few examples of inelastic goods. According to Ellickson (2013), the concept of inelasticity of demand implies that consumers' buying patterns stay constant despite changes in prices.

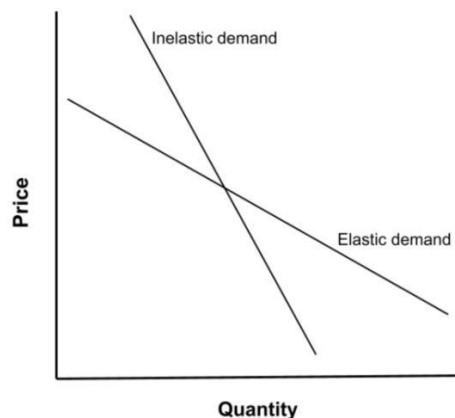


Figure 6:Chart of Elastic and Inelastic demand

(Indeed, 2023)

Contrast Between Elasticity and Inelasticity in context of FUEL prices:

The distinction between elastic and inelastic demand is evident in the context of fuel prices. Fuel is generally considered to have inelastic demand because it is a necessity for many consumers and businesses. Even when fuel prices rise, the quantity demanded does not significantly decrease because people still need to commute, transport goods, and run machinery (Griffith, 2003).

Inelastic demand was seen, for example, when consumers faced higher petrol costs during the Covid-19 pandemic-related price increases, yet they mainly maintained their consumption levels. Premium items, on the other hand, like expensive electronics, typically have elastic demand. When these products see a large price increase, demand for them typically declines significantly as buyers decide to wait or move to less expensive options (Foot and Gomez, 2006).

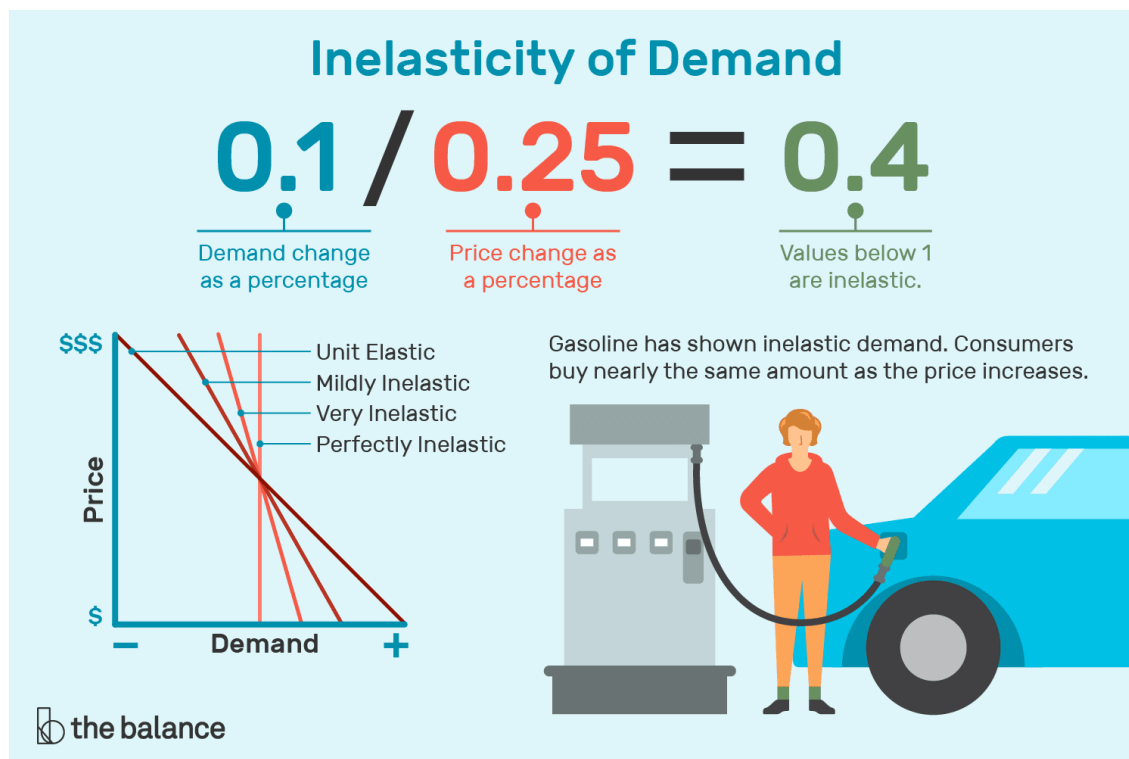


Figure 7: Inelasticity of Demand

(Amadeo, 2022)

Advantages and Disadvantages:

Elasticity of Demand:

Advantages:

- Optimum Pricing: Businesses can set prices to maximize revenue by understanding how price changes affect demand.
- Lower Taxes: Governments can impose lower taxes on goods with elastic demand to avoid significant reductions in consumption.
- Increased Sales: By adjusting prices, companies can stimulate demand and boost sales volume.

Disadvantages:

- Continual Monitoring: Companies need to continuously monitor market conditions and competitors' pricing strategies.
- Temporal Relevance: Elasticity can change over time due to factors such as consumer preferences and availability of substitutes.

Inelasticity of Demand:

Advantages:

- Revenue Boost: Businesses can increase prices without significantly reducing demand, leading to higher revenue.

Disadvantages:

- Significant Profit Impact: While raising prices can boost revenue, it may also result in public backlash or regulatory scrutiny if perceived as exploiting essential needs (Andreyeva et al., 2010).

Laws of Supply and Demand

Increased Demand with Unchanged Supply

This scenario occurs because more consumers are competing for the same quantity of goods, driving up the price. The higher prices also incentivize producers to increase their output if possible.

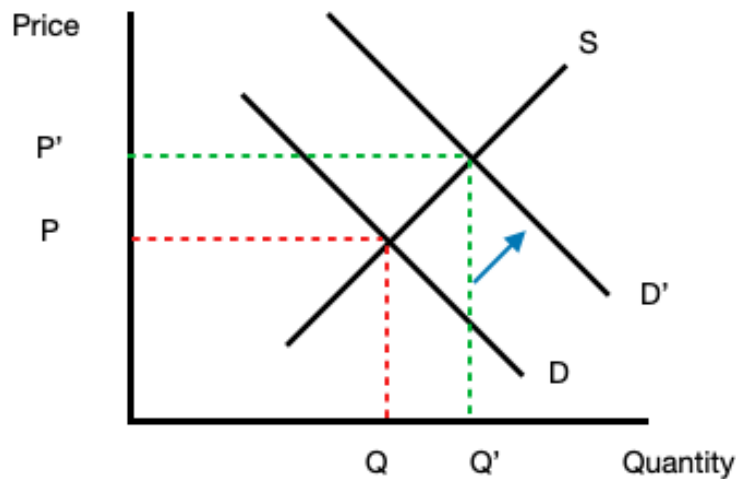


Figure 8: Chart of Increased Demand with Unchanged Supply

For instance, during the early stages of the Covid-19 pandemic, there was a surge in demand for medical supplies like masks and sanitizers. The supply could not immediately meet this increased demand, resulting in higher prices for these items (Fleximize, 2021).

Decreased Demand with Unchanged Supply

This situation happens because fewer consumers are purchasing the goods, leading to excess supply in the market. Producers may lower prices to stimulate demand and reduce their surplus inventory.

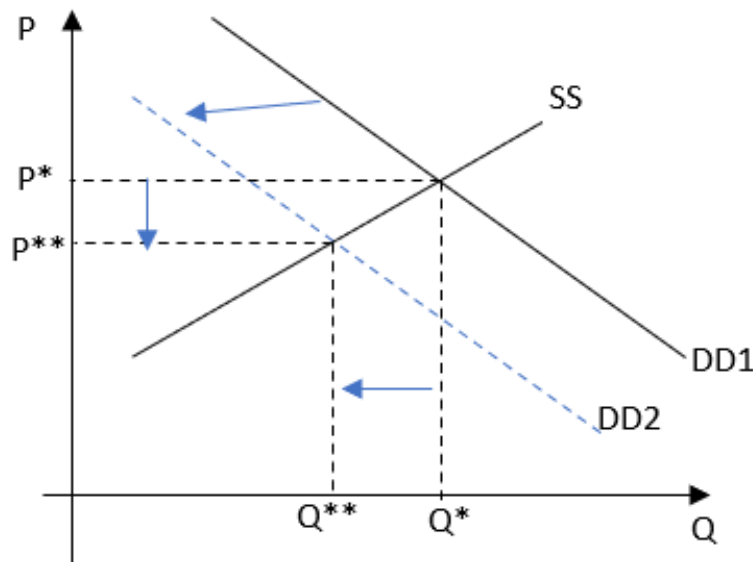


Figure 9: Chart of Decreased Demand with Unchanged Supply

An example of this was observed in the airline industry during the pandemic. With travel restrictions in place, the demand for air travel plummeted, leading airlines to reduce ticket prices to attract the limited number of travellers still willing to fly (Bagwell, 2005).

Increased Supply with Unchanged Demand

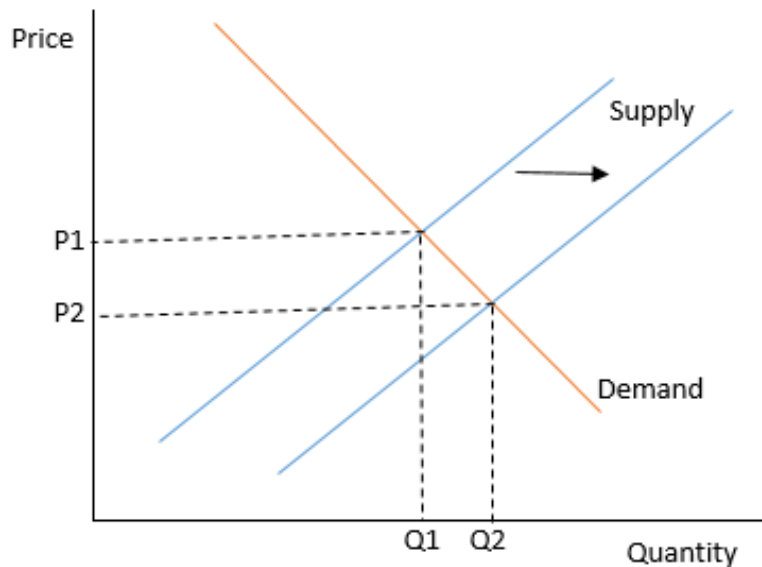


Figure 10: Chart of Increased Supply with Unchanged Demand

This is because the abundance of goods makes them less scarce, prompting sellers to lower prices to attract buyers. This principle was evident in the tech industry, where advancements in manufacturing and increased production capacity led to a drop in prices for consumer electronics like smartphones and laptops, making them more accessible to a broader audience (Ellickson, 2013).

Decreased Supply with Unchanged Demand

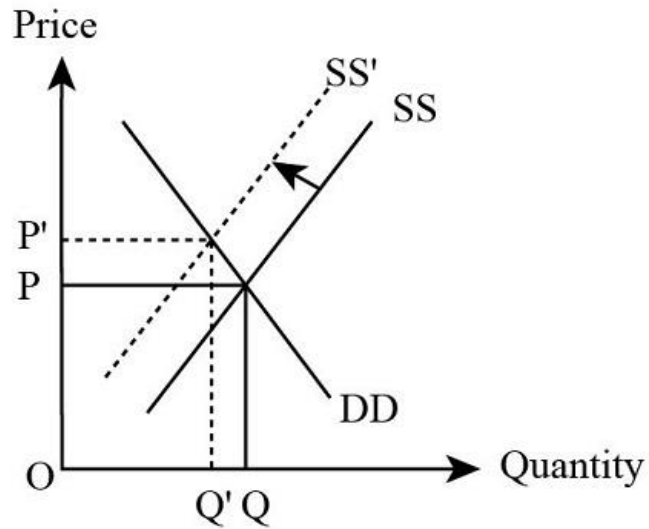


Figure 11: Chart of Decreased Supply with Unchanged Demand

This situation often leads to higher prices and lower quantities available in the market. For example, during the fuel crisis caused by logistical challenges and reduced production, the supply of fuel decreased while the demand remained steady. This led to significant price hikes and fuel shortages at various petrol stations (Griffith, 2003).

Conclusion

Through the use of supply and demand principles and an understanding of the complexities of elasticity, organisations may create flexible plans to withstand economic fluctuations. To reduce risks and increase resilience, the government must provide support and improve supply chain relationships. These lessons will be crucial in establishing a more secure and long-lasting economic future as we proceed.

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