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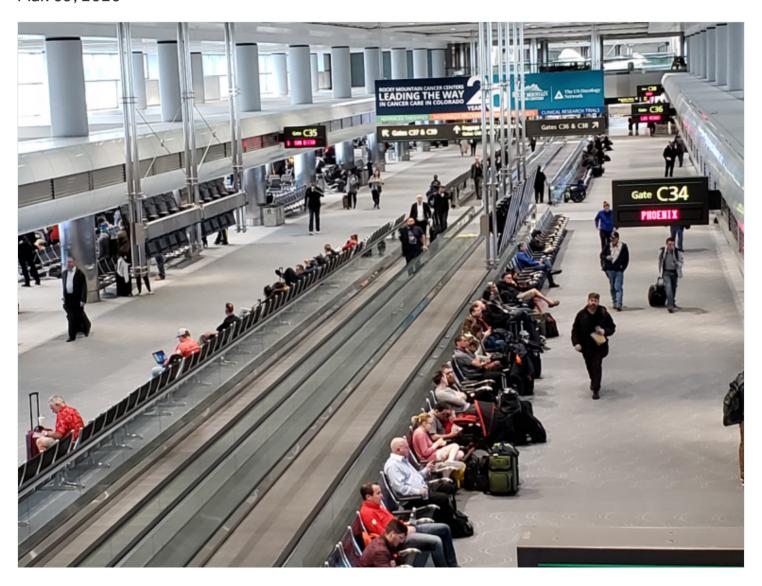
Practice **Advisor**

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Mar. 09, 2020



Silicon Valley's reliance on the global economy, along with its use of agile just-intime inventory and cheaper oversees manufacturing were supposed to be a strength. But not right now. Experts worry those same strengths could expose the Bay Area to economic fallout

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many other industries. Even their workforce is globalized, with employees from all over the world who often travel to and from affected countries for business or to visit family.

With dozens of tech conferences and business trips already canceled or postponed, the Bay Area's tourism and travel industries are affected. In addition, thousands of travelers from China normally come through Bay Area airports. Those visitors tend to spend more locally than domestic tourists or even many other international travelers, according to Sean Randolph, a senior director at the Bay Area Council Economic Institute. That, too, will trickle through the local economy.

Russell Hancock, president and CEO of Joint Venture Silicon Valley, said companies can weather the loss from canceled conferences, but the workers who make those events happen are less resilient.

"They're going to take a hit and they're the least poised to take the hit because typically these are gig workers, contract workers," Hancock said, noting that many live paycheck to paycheck. "This is going to have a disproportional impact on the service sector."

But as the outbreak continues to affect manufacturing and supplies in China and elsewhere, tech companies will start feeling more pain.

"The biggest long-term issue relates to global supply chains and, for us, that's especially important for technology-related products," Randolph said. "So much of what goes into electronics and technology products today is manufactured in China."

Palo Alto-based HP Inc. has already said the outbreak will hurt its earnings this year and Apple announced it likely won't hit its quarterly sales projections. Bloomberg Economics estimates factories in China are operating at about 60 to 70% of capacity.

Foxconn, which assembles Apple's iPhones, said recently it was operating at 50% of

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"Hardware, direct-to-consumer, and retailing companies may need to find alternative suppliers," the firm's post said. "Pure software companies are less exposed to supply chain disruptions, but remain at risk due to cascading economic effects."

But it's not just smartphones and laptops. Zenni Optical, an online eyeglasses seller based in Novato, is the perfect example of the challenges Bay Area companies face in the global economy. The firm's manufacturing in Danyang, China — about 400 miles from the coronavirus epicenter in Wuhan — shut down for 10 days after the Lunar New Year, according to Sean Pate, brand communications officer at the company.

Once manufacturing resumed, the company started shipping glasses via FedEx directly from China to speed deliveries rather than routing them through their US distribution center. It also offered free shipping and future discounts to affected customers. It took the company about 10 to 12 days to recover.

But they're hardly out of the woods. Pate said Zenni also depends on frame designers based in Italy, where 148 people have died from coronavirus and travel and work restrictions have been imposed.

"We don't know what the impact is going to be in the Italian marketplace and how it affects the optical industry," Pate said, adding that the company usually takes 9 to 12 months to cycle new products, so the repercussions might not be felt until 2021.

Randolph said some Silicon Valley companies face similar challenges.

"The concern now is that even if this recedes in China, you're seeing it now crop up globally, you have the same set of issues at the global level," Randolph said.

Travel bans enacted by big U.S. companies to protect employees could also have

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"Those builds are currently delayed, those schedules don't have a lot of margin," he said. "Now, those new product introduction schedules are delayed because factories are not coming back up, parts are missing.

"All of that puts holiday 2020 at risk," he said.

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