

From eyeglasses to backpacks, Bay Area firms scramble as coronavirus closes Chinese factories

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Feb. 7, 2020 Updated: Feb. 7, 2020 8:42 p.m.

This should have been a good February for Zenni Optical. The Novato eyewear company aired its first Super Bowl ad, starring 49ers tight end George Kittle, this month.

But some people who watched the ad and went online to order glasses got this message: “Due to mandatory business closures in China, standard delivery will extend to 21-28 days. Express and priority shipping will not be available. We apologize for any inconvenience.”

Flights are canceled, travel is stalled and factories in parts of China have shut down as the coronavirus spreads. Bay Area companies with operations in China are feeling the sting.

Factories and businesses traditionally shut down during the Lunar New Year holiday, but this year Chinese authorities are ordering them to remain closed after the holiday period in an effort to contain the disease.

Palo Alto’s Tesla expects a delay of at least a week in Model 3 production at its Shanghai factory because of a government-required shutdown, and other car makers are also grappling with closures. Foxconn Technology, a major Apple supplier, has closed its factories for now.

“In the last 20 years, we saw major global supply chains disrupted after the 9/11 attacks, after the southeast Asia tsunami and after the Japan earthquake,” said Andy Tsay, a professor at Santa Clara University who specializes in supply chain management. “Coronavirus looks to be on this scale.”

Tens of thousands of people have been infected — most of them in China — and hundreds have died. The Chinese government has virtually locked down Wuhan, the city in central China where the coronavirus was first detected and where its impact has been most lethal, and the surrounding Hubei province.

Wuhan is a manufacturing hub. It is home to high-tech industries like chipmaking and biomedicine and counts more than 1,600 high-tech enterprises, according to an October report by the Milken Institute.

“Imagine if not just Chicago, but the whole states of Illinois, Indiana and Wisconsin were essentially taken off-line,” said David Kaufman, director of global strategies at the law firm Nixon Peabody, referring to the lockdown.

Goods traveling by air and ship have not been affected yet, local port and air freight officials said. China sends more goods to California than any other country, accounting for close to one-third of the state’s international imports. That amounted to \$129 billion worth of goods in 2019, according to census data. California exported \$15.9 billion worth of goods to China last year, 9% of all goods sent to other countries from the state, behind Mexico and Canada.

Zenni has a factory in Danyang, almost 400 miles from Wuhan. The privately held company, founded in 2003, is known for affordable prescription eyeglasses. It has 100 employees in Novato and owns its 1 million-square-foot Danyang facility, where it employs 1,000 workers — none of whom came to work this week under the government’s orders.

“We’re at the mercy of the manufacturing hold the country has put on all of its workers, and we understand the seriousness of the issue,” said Sean Pate, a spokesman for Zenni Optical, who noted that many other optical companies also have factories in the area and would be affected. “We’re closed this week and are anxiously waiting to hear back on when we can open.”

The company expects to hear on Sunday whether its Danyang factory — its only manufacturing plant — can reopen Monday. “Should the factory resume operations on Monday as hoped we will be able to catch up quickly and still deliver on pending orders as scheduled,” Pate said by email.

Pate declined to say how the prolonged shutdown might affect revenue, saying it is too soon to tell, but that delivery will be delayed for at least two to three weeks, if not more, depending on how long the closure lasts. The company sold 6 million pairs of eyeglasses in 2019, Pate said.

The challenge, Kaufman said, is that operations are interconnected. A factory in Beijing could depend on a small component made in Wuhan, halting the entire process, he said. Car maker Hyundai, for example, recently said it would suspend production in South Korea because the virus had disrupted the supply of parts from China.

Robert Wren, owner of Primrose Alloys, a San Mateo importer of steel and aluminum, said delays in his industry are already occurring. He imports tubes and pipes to sell to U.S. oil and gas, refinery, agricultural, and automotive clients; he also has aerospace and medical customers. Since he’s not limited to China and also gets raw materials from Japan and South Korea, he has not experienced the full impact of the coronavirus on supply chains — and business is actually on the rise, he said. More domestic mills have called asking about buying from his stockpile as their supplies from China slow down, Wren said.

“There is a low-level panic rising among manufacturers,” said Rosemary Coates, executive director of the Reshoring Institute in Los Gatos, a nonprofit organization that works with companies interested in bringing manufacturing back to America.

Some of those companies are assessing whether to eventually bring some manufacturing back to the U.S., but some are considering other low-cost countries in Asia in light of the virus, she said.

U.S.-China trade tensions already pushed some companies to rethink where they manufacture. Fred Perrotta, owner of Tortuga Backpacks, headquartered in the Bay Area, sought to reshuffle his once China-dependent manufacturing to other countries in Asia. Perrotta still produces the products in China and has challenges similar to Zenni, with a closed factory this week, but is expecting his first order to be shipped from Vietnam soon, he said.

As for Zenni, the company said its backlog of orders for delivery won’t be a problem, because the company is well-positioned to make lots of glasses quickly. But the uncertainty over conditions in China weighs on it and other businesses with trade and logistical ties that cross the Pacific.

“The ultimate impact of this current crisis will depend not only on the time needed for a public health solution, but also on how quickly workers, consumers, and investors can get back to feeling safe again,” Tsay of Santa Clara University said.

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