

Increasing supply chain resilience

- COVID-19 will continue to asymmetrically impact global supply chains, causing risk of supply chain failures (logistics and production), but also providing arbitrage opportunities
- With the risk of renewed outbreaks, supply chains are expected to 'fatten', supplier proliferation will grow, cycle times will get faster and key suppliers will become more integrated
- Several actions are required (beyond those that many companies will have already taken) to immediately improve the readiness of their teams and the resilience of their supply chain to help navigate rapidly changing circumstances

The global COVID-19 pandemic is a crisis that has impacted us all in many ways. While the safety of family and friends were at the forefront of people's minds initially, many are beginning to realise that a large number of businesses will not survive this crisis.

What is certain is that surviving companies and markets will be very different at the end of this crisis. In this article, we discuss the impact of COVID-19 on supply chains, what measures some companies have taken, and why we think more changes will be required in the future.

What can we expect?

Supply chain resilience is being tested by the COVID-19 crisis as never before, and businesses have had to scramble to survive. Historically, disruptions were local, so traditional supply chains were built to provide resilience for scenarios that covered local events like extreme weather, SARS or earthquakes. COVID-19 is global and has challenged this thinking because of its system-wide impact.

Most companies have already taken action to preserve cash flow and ensure continuity of their supply chains. While actions like building/using reserve stocks, seeking new or local suppliers and making distress purchases have addressed short-term requirements for immediate survival, they are likely to be inadequate or unsustainable in the long run.

Organisations will need to look much harder at where, how, and what they buy. A complete rethink of their supply chains will be needed to balance the tension between security of operations and the cost of materials and services.

However, a major shift in procurement and supply chain thinking is needed while organisations continue to address factors which require their immediate attention. This will include:

- Unpredictable supply chains and changing regulations as each country/region/city goes through their cycle of COVID-19 infection and recovery
- Existing suppliers and certified providers will be unable to deliver the required volume to satisfy new demand and orders will back up. Others with significantly reduced utilisation will collapse as reduced sales are unable to cover costs.
- International logistics will remain tricky, as ports and other logistic hubs will be backed up, creating choke points locally and internationally. They are likely to be semi-functional at best for the next few months.

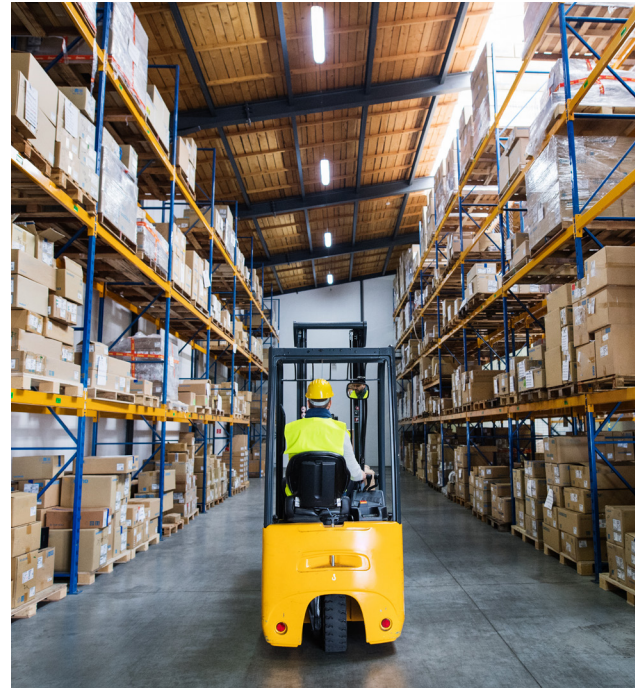


What's next?

In the medium-term, procurement will look to safeguard supply. We expect most organisations will take the following actions:

- Focus will be on the basic tenets of warehousing – reorder point, minimum order quantities and warehousing location (defining what is 'local') will be revisited. Securing extra warehousing space for fatter supply chains is likely on keeping purchased supplies local (or at least within the country).
- The supply base of many businesses will be extended, and feedstock specifications will be revised to provide flexibility to switch to alternatives quickly.
- Operations will develop new processes and procedures to qualify and phase in new suppliers/alternative materials more rapidly. This will open doors for new competition in the supplier space.
- Worst case scenarios and the probability of occurrence will be updated, and business continuity plans redesigned to guarantee supplies.

However, the fattening of the supply chain needs to be balanced against cash flow requirements that most firms face. In this environment, pricing and quality will remain a major focus, alongside reliability and availability. Streamlined, rapid decision-making will also be required to allow companies to outperform their competitors.



What will happen in the longer term?

In the longer term, procurement teams will need to reinvent themselves and reassess how they bring value to their organisations.

This will require fundamental re-wiring within organisations across multiple parameters, including:

- **Procurement planning:** Proactive communication is essential – from key customers' demand forecasts to internal operational requirements, to Research and Development integration and deep supplier interactions – and will need to be integrated into the Sales and Operations Planning processes.
- **Execution:** Sourcing principles and suppliers will need to change – information availability and supply chain transparency will become a source of competitive advantage. This will mean not just purchasing the best quality/low-cost product, but also knowing exactly how it is made, where it is in the supply chain and when it will be delivered.
- **Performance measures:** Procurement performance is currently evaluated based on cost and quality – new performance metrics will need to reward the right procurement behaviour, especially as sourcing supplies from 'in-country' manufacturers are likely to be more expensive and will be counter-intuitive to most existing procurement processes.
- **Capability:** Procurement will need to be involved in decisions around insourcing of services (e.g. maintenance) and shifting previously outsourced functions back in-house. Footprint optimisation like moving manufacturing facilities closer to critical suppliers will also need to be considered – this may be required for both immediate suppliers, as well as those that are three to four tiers deep. This is not usually a core procurement activity, so capability will need to be developed within the teams to drive decision making.
- **Automation:** Automation and data analytics can free up resources to focus on business critical issues and/or reduce costs. Processes like inventory management, demand forecasting and automatic ordering are potential candidates for automation, either in full or in part, and is particularly useful when leveraging the power of data analytics.

As organisations work to balance cost reduction initiatives, essential to immediate survival, with developing a growth framework for the post-COVID-19 world, the silver lining is that COVID-19 provides a great opportunity for procurement functions to reinvent themselves. This rebirth will not happen on its own – business leaders need to have the courage to grab this opportunity before the window closes and the force of habit prevents courageous action from being taken.

Case studies

Improving visibility of Personal Protective Equipment stock and centralising procurement efforts

A major city government was responsible for managing the public health system, including 31 hospitals. With the arrival of coronavirus, they had concerns about the lack of visibility around their Personal Protective Equipment (PPE) stock levels and their ability to provide PPE in a timely manner. They also wanted to centralise their procurement efforts to maintain product quality and enable them to adapt to local and global supply shortages.

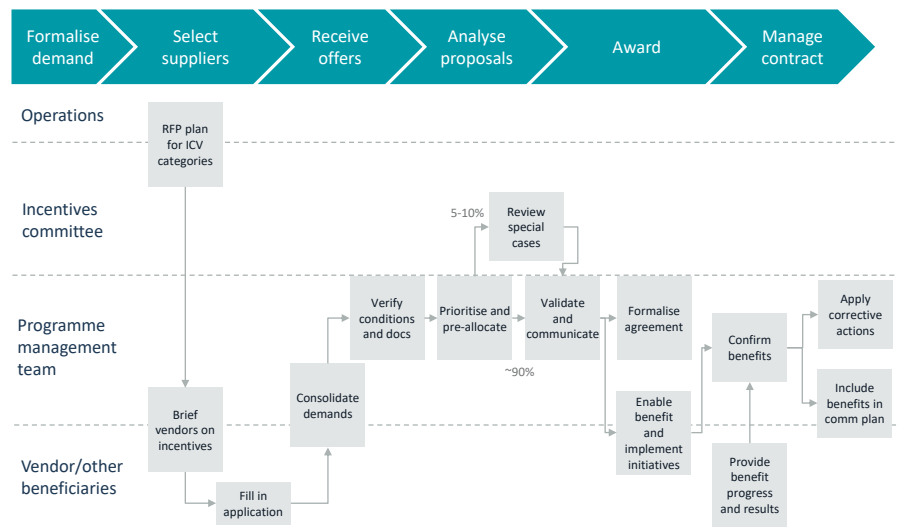
We helped them to establish a central managerial situation room to monitor and manage supplies, as well as forecasting likely demand. This was supported with improved processes to ensure procurement activities were compliant and price competitive. To support ongoing sustainability, we trained and coached their team in how to drive performance and deliver agreed initiatives.

Building local sourcing for a large global mining organisation

Our client wanted to develop local suppliers and increase their percentage of local sourcing. Unfortunately, product pricing from local suppliers was much higher than similar items sourced from low-cost countries and resulted in poor local content uptake.

We helped them develop an approach to incentivise local production and grow local suppliers by assigning financial values to the localness of purchased materials. This improved the mix of local content in purchased goods and developed an alternate set of suppliers, while retaining a culture of competitiveness amongst suppliers and maintaining quality.

Steps for incentives award and management process



Our experts

Partners in Performance often helps clients in managing uncertain supply chains and rewiring organisations, balancing certainty of supply and local considerations with the need for financial prudence.



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