

# Beyond this challenge

## What the coronavirus response teaches

**The rapid spread of the coronavirus presents significant health concerns. In addition to the human impact, there is also a considerable commercial impact being felt globally. As viruses know no borders, the impacts will continue to spread. In fact, 94 percent of the Fortune 1000 are already seeing COVID-19 disruptions.<sup>1</sup>**

It's possible that the coronavirus threat will eventually fade, as MERS and SARS viruses have in recent years. But even if it does, the next devastating, yet-unnamed outbreak is not so much a matter of "if" but "when."

This current challenge can be used as a platform to gain deeper understanding of strategic operations and supply chains, and in turn, to develop more collaborative and resilient relationships with critical suppliers. Durable corporate relationships and the degree of agility instilled within operating models are what can help organizations to strengthen overall preparedness in the face of any disruption.

In the same way that restaurants responded to declining walk-in traffic by switching operating models to focus on take-away clientele and extended this to the delivery of corporate lunch packages, the triggers of this challenge can help enable organizations to spot opportunities within their current operating model.

The steps below aim to help you understand your exposure to COVID-19, and more importantly, position your supply chain to be resilient in the face of future threats and disruption.

### Immediate actions

Businesses with extensive presence in or direct ties to affected areas must take immediate actions to assess organizational exposure, positioning them to appropriately support key stakeholders, employees and customers.

#### Safeguard people

- Leverage HR expertise to maintain employees' physical and mental wellbeing, providing guidance to employees located in impacted regions and reassessing organization-wide travel policies.
- Exercise best-in-practice corporate social responsibility regarding employee stability, environment, wider society and economy, pursuing ways to support response efforts.
- Develop a back-up plan for impacted staff that may include contingencies for more automation, remote-working arrangements, or other flexible resourcing in response to personnel constraints.
- Leverage available internal and external technology to aid collaboration and equip employees with necessary tools to work remotely both in affected areas and with individuals in affected areas as seamlessly as possible.
- Assign high-risk weighting to customers from developing countries (i.e. those less prepared) and those critical to response efforts (i.e. hospitals) prioritizing scarce capacity.

#### Assess supplier risk

- Create a response team to facilitate the open and consistent flow of accurate information between key stakeholders, maintaining stakeholder confidence and informing customers who will be impacted.
- Establish a team to focus on supply chain assessment and risk management. This team will work to reconfigure global and regional supply chain flows, where possible, utilizing alternative modes of transportation and conducting trade-offs according to needs, cost, service and risk scenario analysis of all viable options.
- Map criticality of sourced materials to high-value products and revenue streams. Identify the components and raw materials that have the highest impact on revenue streams, ensuring scarce capacity is allocated wisely.
- Review contracts with key customers and suppliers to understand liability in the event of supply shortage.
- Determine business exposure by identifying current and buffer inventory, building tier-transparency and short-term action plans.

- Conduct a value chain assessment of other risk factors that may escalate costs (i.e. transportation shortages may increase cost, as transport companies see an opportunity to raise margins) and impact service and inventory capabilities, taking proactive action to address anticipated shortages, such as possibly pre-booking freight.
- Aggressively evaluate near-shore options as potential backup to shorten supply chains by increasing proximity to customers.

#### Manage working capital & business plans

- Revise cash flow, working capital management and inventory forecasts alongside supply and demand predictions.
- Understand how financial stability may be impacted from further stock market declines and restrictions in access to funding.
- Review organization-wide Sales & Operations Planning and Integrated Business Plans to ensure tactical and strategic business planning is synchronized among all business functions.
- Businesses with data rich environments can harness capabilities in procurement, operations and R&D, using advanced simulations to identify optimum performance trade-offs.

<sup>1</sup> Fortune: Coronavirus Supply Chain Impact, Feb. 21, 2020



## Medium-to-long term actions

Beyond immediate actions, organizations should value the opportunity COVID-19 provides to reflect on the ability to navigate a crises and going forward, consider actions to increase agility and become more resilient in the future.



**Scenario planning:** Organizations must act with imperative when developing and implementing enhanced risk management practices, focusing on the opportunities scenario planning offers in creating pre-emptive action plans. Scenarios enable organizations to see the bigger picture and make effective trade-off decisions on issues like: how much stock to hold – and where, or how to balance the cost of inventory versus the cost of failing to satisfy customers. Simulations can be run swiftly to identify “sweet spots” between apparently conflicting objectives, based on real-time inventory data, customer demand, and supplier capability. Increasingly enabled by AI and automation, these scenarios and help prescribe rather than just predict. By analyzing past events and hypothesizing future threats, organizations are able to identify strategic and concentrated supplies that are at risk, and most importantly, recognize when current internal risk capacities prove insufficient.



**Supplier risk management:** Real-time supplier data such as system performance category alerts and geopolitical events helps manage performance and issue resolution. When alerted, proactive measures should be taken by organizations to uncover additional exposure levels by reaching out to suppliers (from tier 1, tier 2 and below) outside of affected regions to identify upstream supply dependencies within their supply chains. Further, organizations would benefit from balancing supply and demand and working with internal stakeholders as well as critical suppliers to contractually agree on logistic-based costs and necessary buffer stock, so as to reduce sudden price increases in the face of an event.



**End-to-end supply chain management:** With an increasing shift to ecommerce, organizations need to ensure their internal supply chains and delivery mechanisms can cope with demand to provide the highest quality customer experience. This can be achieved with end-to-end supply chain management, alongside advancing their ability to model and predict consumer behavior, especially in times of uncertainty and disruption.



**Micro supply chains:** Supply chains’ historic focus on reducing costs has led to the creation of large, integrated, global networks that gain economies of scale through outsourcing manufacturing to emerging economies, backed by long term contracts. However, impacts such as pandemics and increasing trade tensions are forcing organizations to question if this is the right operating model. Alternatively, many organizations would benefit from evolving their operating model and shifting towards micro supply chains. Micro supply chains are finite, agile “mini operating models” with flexible contracts and manufacturing closer to the point of purchase. This would leverage their highly decentralized nature and ability to alter production and delivery, scale volumes and introduce new products at short notice. By adopting a decentralized approach, micro supply chains create as much value as close to the customer as possible, allowing organizations in challenging times to benefit greatly from their independence. In addition to pandemics, micro supply chains are less vulnerable to other macro phenomena like volatile interest and exchange rates, tax regime change, trade tariffs and quotas, wage inflation and crop failure.



**Collaborative supplier relationships:** For companies fulfilling mass demand from Chinese-based operations, it is unrealistic to completely exit the Chinese market because of the scale and quality of supplier ecosystems in place. However, this situation can be used as a platform, with time and investment, to build a foundation of trust and transparency that leads to more collaborative relationships with critical suppliers. It is the shared visibility into the goals, motivation and limitations of partnerships that builds organizational resilience. In fact, companies that prioritized growth, innovation, and risk management in their supplier relationships, instead of just price reductions, achieved savings 26 % higher.<sup>2</sup>



**Technology upgrades:** In line with the technology enabled business climate we currently operate in, organizations should rethink the way their employees collaborate with each other and customers- within the office, regionally and globally. By investing in internal technology, organizations can teach employees how to effectively leverage powered execution tools such as cloud-office technology and zero-touch models. This will help ensure that not only in challenging times are teams better equipped to work remotely, but as the business environment continues to shift, employees are able to adapt alongside it and continue servicing customers.

As the business world learns to adapt with constant changes, the next chapter is being written. The impact of the coronavirus is affecting today’s global supply chains – and tomorrow’s disruption is surely already brewing. Although the future is uncertain, chance favors the prepared.

Additional Resources:	Contact KPMG supply chain specialists:	
<p><b><u>The Future of Supply Chain: Pivot or Perish</u></b></p> <p>Future-ready supply chains are customer-centric, can operate in the ever-changing digital world with agility and do so profitably in order to be a revenue driver for the business.</p>	<p><b>Operations Centre of Excellence</b> Chris Foster <a href="mailto:cfoster@kpmg.com.au">cfoster@kpmg.com.au</a></p>	<p><b>Germany</b> Kaveh Taghizadeh <a href="mailto:KTaghiZadeh@kpmg.com">KTaghiZadeh@kpmg.com</a></p>
<p><b><u>Micro Supply Chains</u></b></p> <p>Get closer to customers with decentralization, additive manufacturing, last mile advances and machine learning.</p>	<p><b>ASPAC</b> Peter Liddell <a href="mailto:pliddell@kpmg.com.au">pliddell@kpmg.com.au</a></p>	<p><b>Singapore</b> Rakesh Agarwal <a href="mailto:rakeshagarwal@kpmg.com.sg">rakeshagarwal@kpmg.com.sg</a></p>
<p><b><u>The Future of Procurement</u></b></p> <p>To compete going forward, enterprises must seamlessly integrate suppliers and customers, and enable them with digital platforms, extreme analytics, leading workforce capabilities and an agile procurement operating model.</p>	<p><b>Australia</b> Chris Clements <a href="mailto:cclements1@kpmg.com.au">cclements1@kpmg.com.au</a></p>	<p><b>UK</b> Iain Prince <a href="mailto:Iain.prince@kpmg.com.uk">Iain.prince@kpmg.com.uk</a></p>
	<p><b>China</b> Frank J W Li <a href="mailto:frank.jw.li@kpmg.com">frank.jw.li@kpmg.com</a></p>	<p>Maureen O’Shea <a href="mailto:Maureen.OShea@kpmg.co.uk">Maureen.OShea@kpmg.co.uk</a></p>
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<sup>2</sup> SRM Maturity Report Sees Heightened Awareness on Managing Supplier Relationships, May 2018

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