



COVID-19's impact on the supply chain

**From survival to success:
Are we ready for what will come?**





Contents

From medical to economic crisis	3
The impact of COVID-19 in Romania	5
Steps to resuscitate and strengthen supply chain operations	21
Short term actions	22
Mid and long term actions	23
Our expertise at your service	26

A close-up, high-angle shot of a female healthcare professional with blonde hair tied back. She is wearing light blue scrubs and a black stethoscope. She is looking down intently at a clipboard held in her hands. The background is a plain, light-colored wall.

We are living through historic times

For many companies, there will be only one goal in the next few months: survival

From medical to economic crisis

Historic Times

We are living through historic times that we neither expected nor anticipated. The rapid spread of COVID-19 determined governments worldwide to take unprecedented measures to preserve health, which negatively impacted economies.

Quarantine and social distancing were imposed, and free circulation of people was limited. If fortunate, companies were able to send their workforce to work from home, but several economic sectors were closed, and children are doing on-line classes instead of going to school. On the other hand, some companies have accelerated digitization, with expected positive effects in the future.

Survival

For many companies, there will be only one goal in the next few months: survival. For others, there may be an opportunity to focus on how to emerge from the crisis as stronger, better positioned and more valuable businesses.

One of the immediate effects of the crisis was the contraction of demand and supply, which resulted in considerable uncertainty about the financial effects. One of the most affected areas is the operation of the supply chain across all industries. COVID-19 closed off several regions in China, and production facilities were shut down, resulting in delayed or lost shipments.

However now, with the worst of the COVID-19 outbreak apparently past in China, multinationals can start focusing on restarting operations. This will take a while and will be challenging. Suppliers' capacity will come back on line at different times, workers may not be available immediately or at all, and bringing goods from China will likely prove difficult for some time to come.

This is also a good time to ask fundamental questions about doing business in China,

which is an increasingly important market for multinationals and remains a critical source of supply that cannot easily be replicated.

Value Chain

For many companies, business continuity will depend on the quality and viability of both their suppliers and their customers. For some, this will require a complete reimagining of their entire value chain. The bottom line is that the current crisis has demonstrated how vulnerable global supply chains can be to any sort of disruption, be it political, economic or health-related.

Although history has taught us that viruses eventually lose their power, it is a matter of time until they do so. But what can companies do until then to ensure business continuity and what are the measures to be taken to better navigate through these difficult times? Will they be prepared for the second wave of the virus, widely anticipated for autumn by many doctors?

Our Report

This report aims to present briefly the measures that should be taken by companies to resurrect their supply chain operations. Furthermore, the report details the results of the survey we launched in Romania a few weeks ago aiming to take the pulse of the supply chain activities of companies operating on our market. The results of the survey are a good indication of how the supply chain operations of the participants in the survey are being affected by the crisis and the readiness of companies to face current challenges.

We hope you enjoy reading the report and we are looking forward to receiving your opinion on its content and results. We would like to take this opportunity to express our appreciation to all the participants in the survey, whose names will not be disclosed for reasons of confidentiality.

Global implications

The spread of the virus has global implications given the large scale dependencies on worldwide sourcing, manufacturing and distribution



The impact of COVID-19 in Romania

The spread of the virus has global implications given the large scale dependencies of many businesses on worldwide sourcing, manufacturing and distribution. The impact of COVID-19 is quickly becoming a concern for all supply chain professionals across all industries, as the usual transportation routes and means might be inaccessible or with limited accessibility, while plants might be temporarily closed.

Moreover, key suppliers may be suffering from liquidity shortages or the effects of lockdown, changes in customers' behavior and priorities etc.



>5.9 mil

Coronavirus cases worldwide¹

2.6 mil

Cases recovered worldwide¹



5%

Estimated decrease of GDP in 2020²

*compared to 2019
(approximately EUR 223 billion in 2019)*

10.1%

Estimated unemployment rate in 2020²

compared to 3.9% in 2019

Sources:

¹Worldometer coronavirus (28 May 2020)

²International Monetary Fund, World Economic Forum, April 2020

Participants

The massive impact of COVID-19 has also been felt by companies operating on the Romanian market. In order to assess it, we launched a survey to a targeted sample of companies and 24 of them responded.

As more than 30% of the companies are from the automotive industry, we zoomed in on their results.

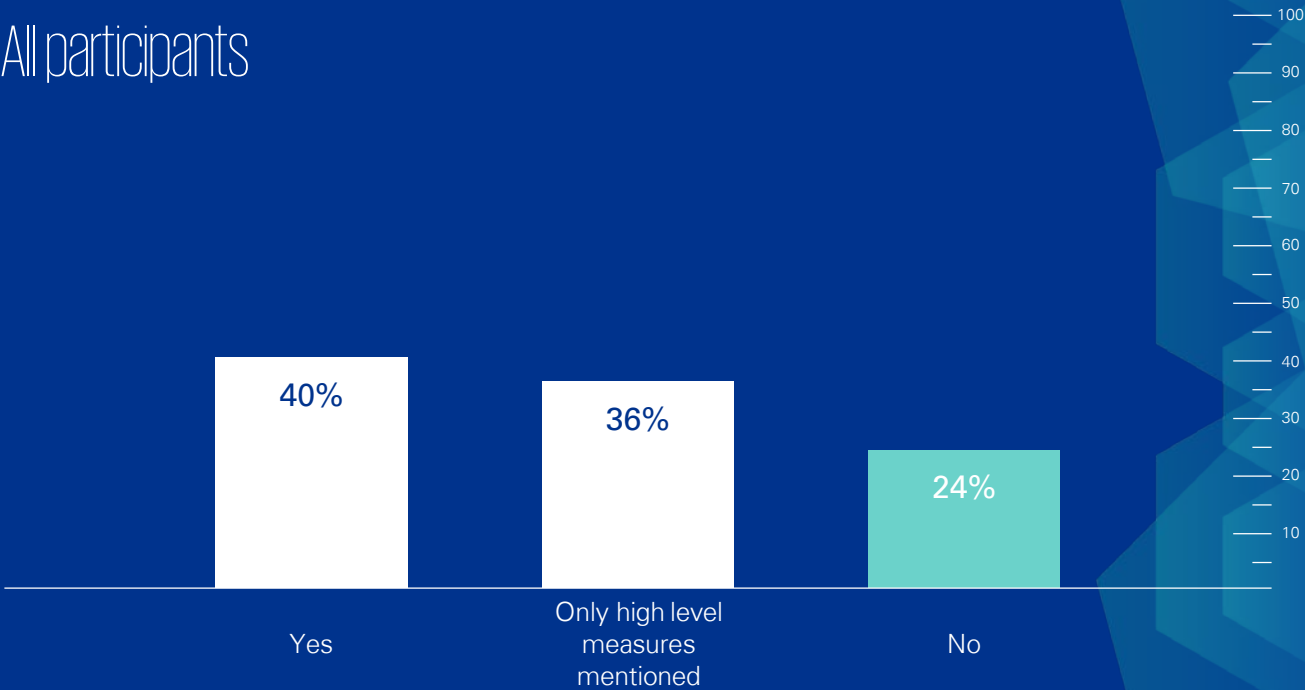


More than two thirds of the participants have a Disaster Recovery Plan / Business Continuity Plan in place, but for a third of them the measures contained in it are only high level.

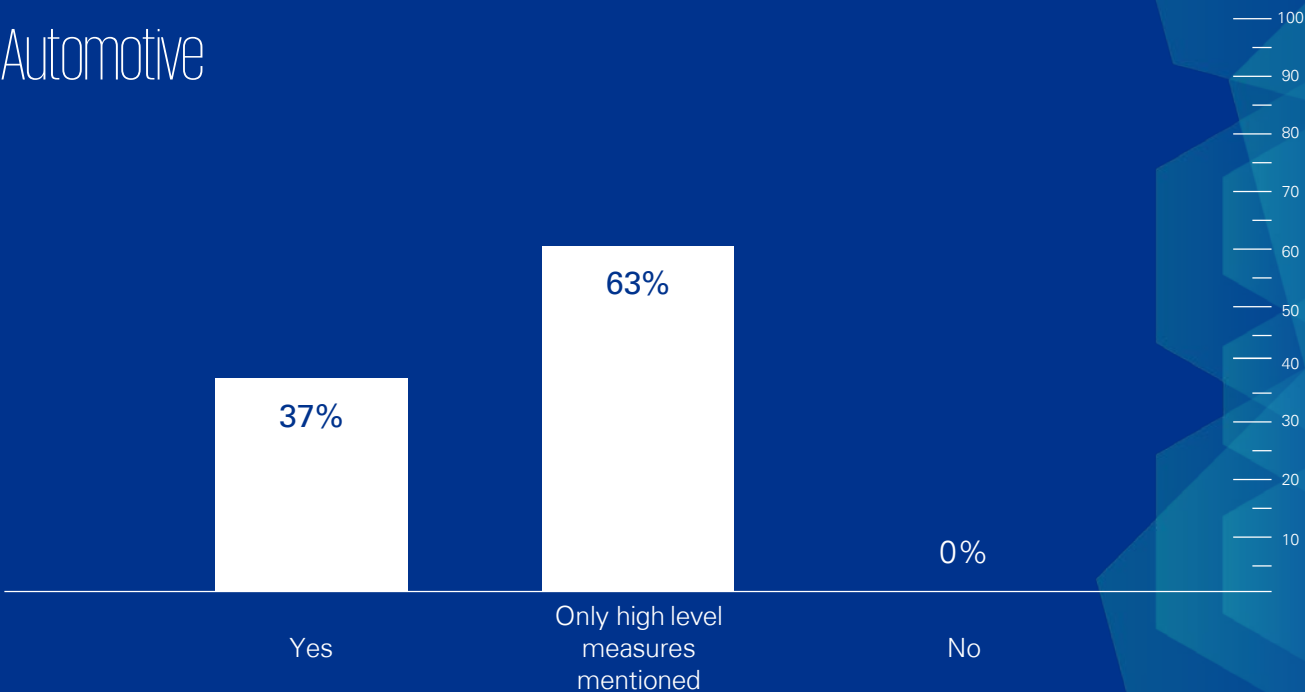
The automotive companies showed better results, with all of them reporting that they have a Disaster Recovery Plan / Business Continuity Plan in place, yet only a third of these contain detailed measures.

Do you have a Disaster Recovery Plan / Business Continuity Plan in place to address the current or similar distress situations?

All participants



Automotive



24% of the companies have no contingency plan to ensure the continuation of supply and a third of them have no safety stock of essential raw materials to ensure business continuity for a certain period of time if supplies are reduced or stopped temporarily. Domestic alternatives for the key external suppliers are available for only slightly more than half of the participants in the survey.

As a general rule, we have observed that the companies that have a Disaster Recovery Plan / Business Continuity Plan also have contingency plans at least in relation to their key suppliers.

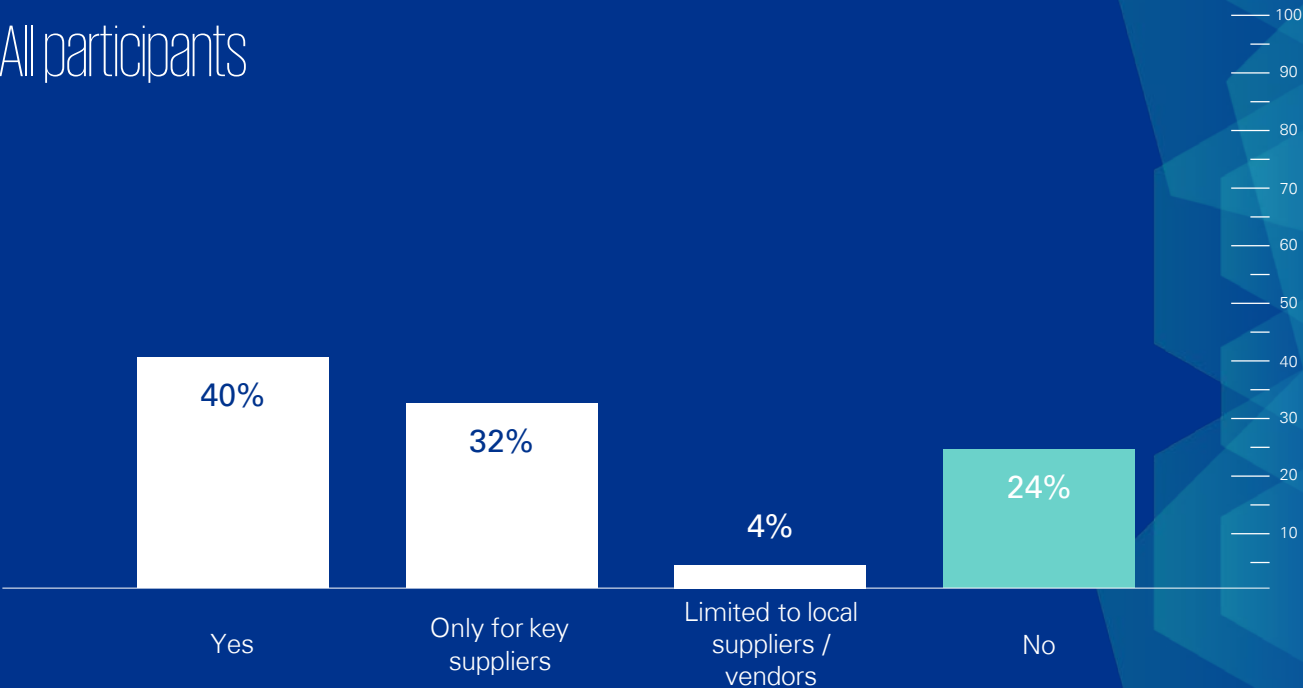
In addition, we have observed that the companies that reported the existence of safety stock are mainly those that reported no alternatives available for the key external suppliers.

For automotive, the figures look slightly different, with only 12% of the companies surveyed reporting no contingency plan to ensure the continuation of supply. Nevertheless, half have no safety stock of essential raw materials to ensure business continuity if needed. More than 60% of the automotive companies reported no domestic alternatives to their key external suppliers.

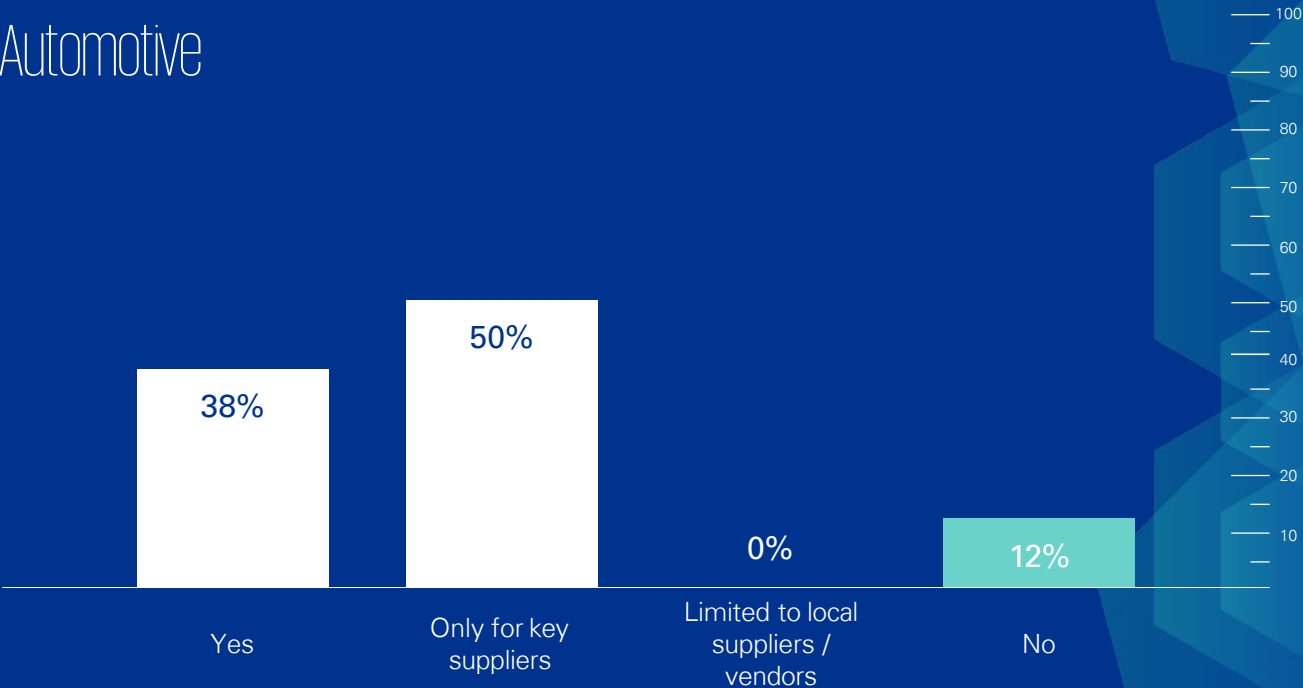
Irrespective of the industry, more than 80% of the companies surveyed have already gone through a review of cash flow, working capital management and inventory forecasts as well as making supply and demand predictions.

Do you have a contingency plan to ensure the continuation of supply?

All participants

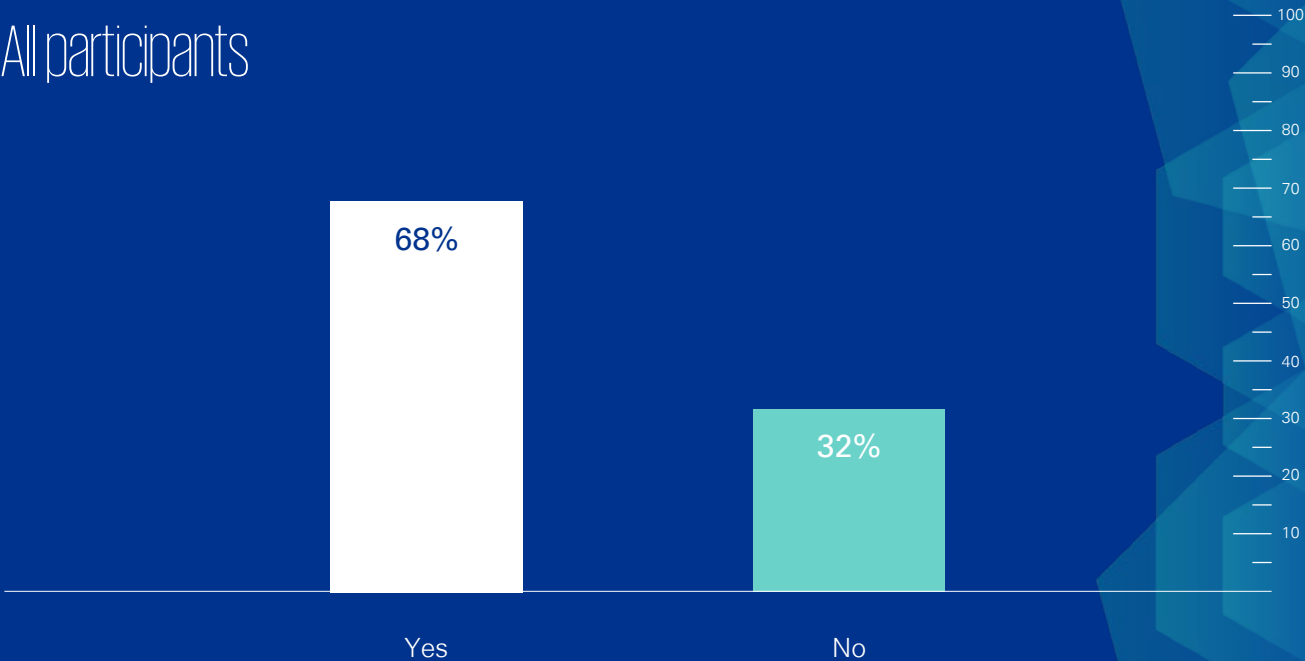


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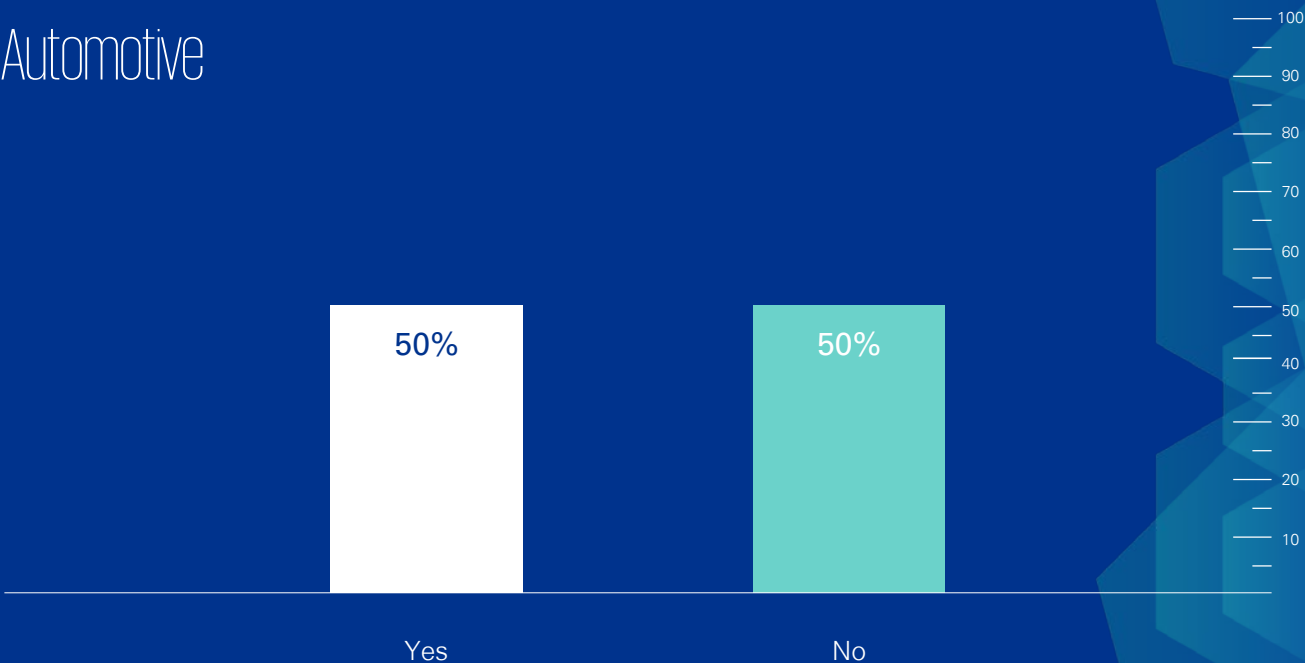


Do you have safety stock of essential raw materials to ensure business continuity for a certain period of time in case supplies are reduced or ceased temporarily?

All participants

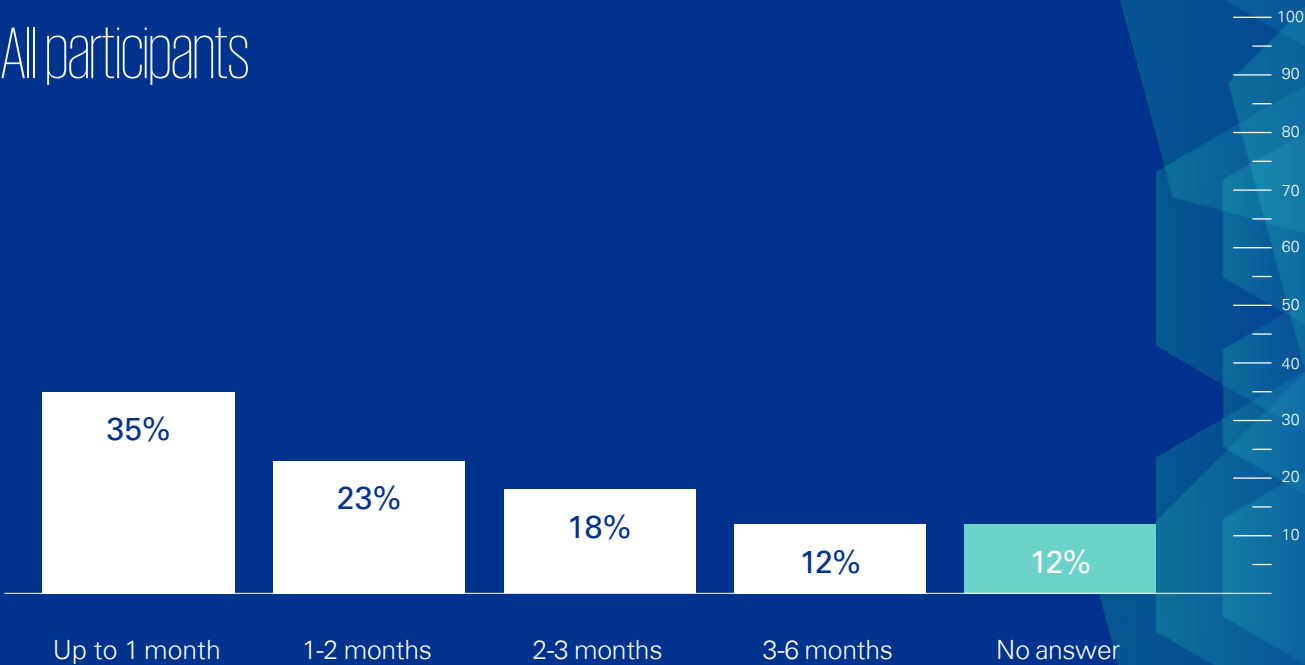


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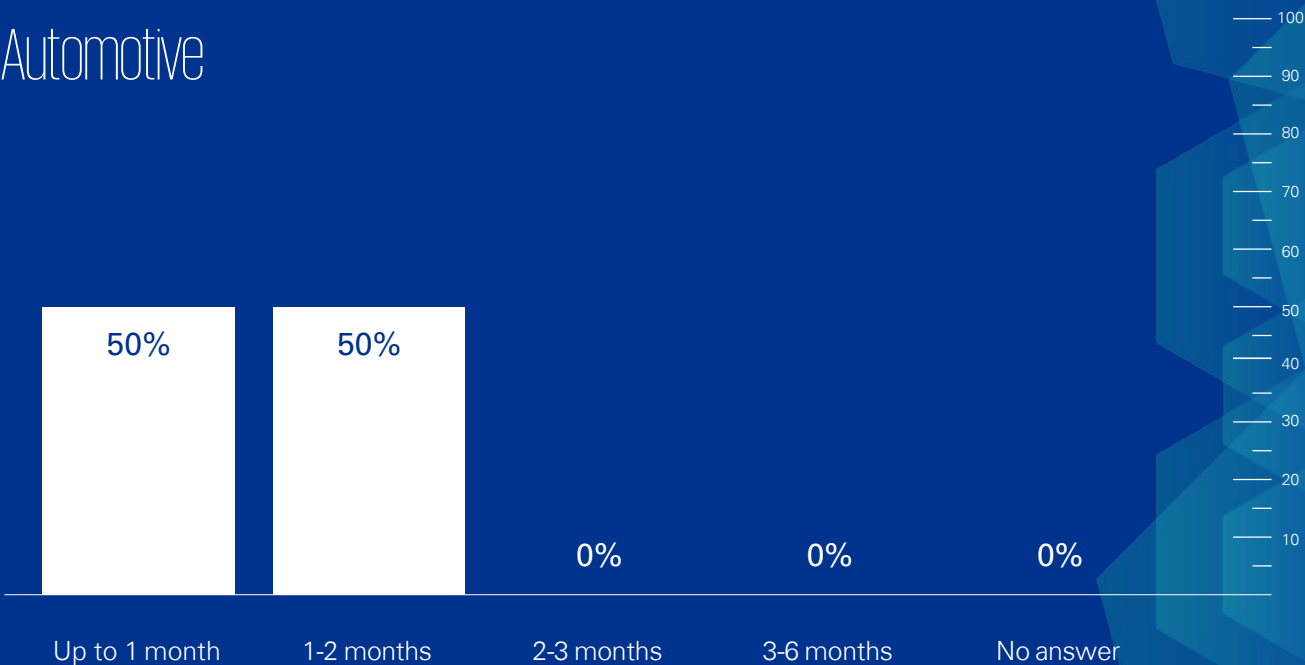


How long can business continuity be ensured by the safety stock of essential raw materials?

All participants

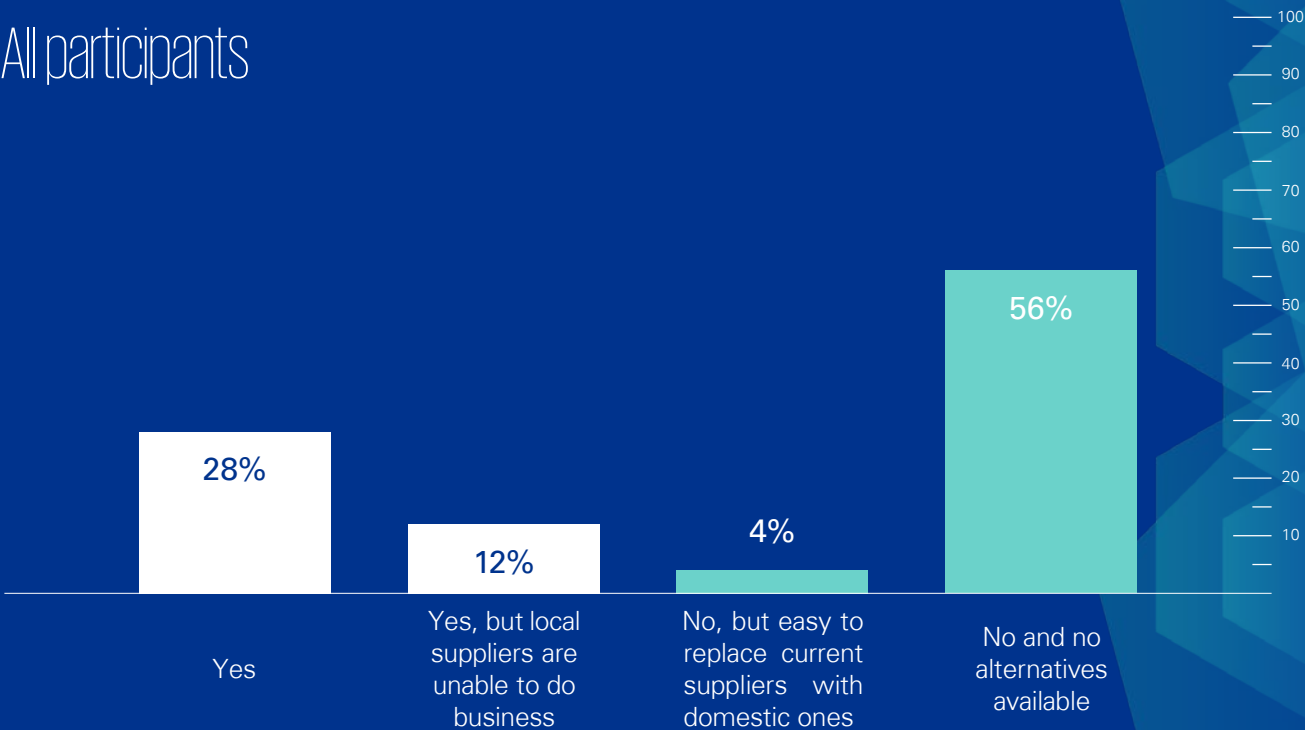


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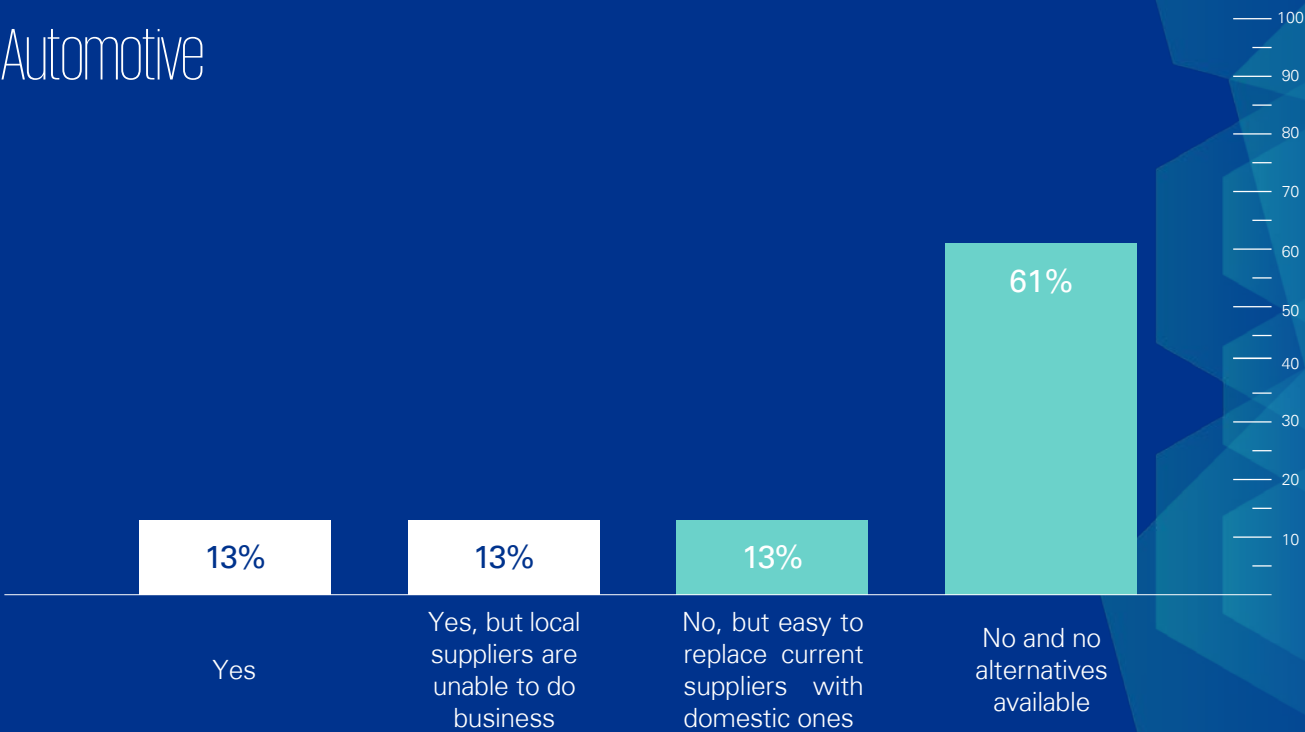


Do you have domestic alternatives for your key external suppliers?

All participants

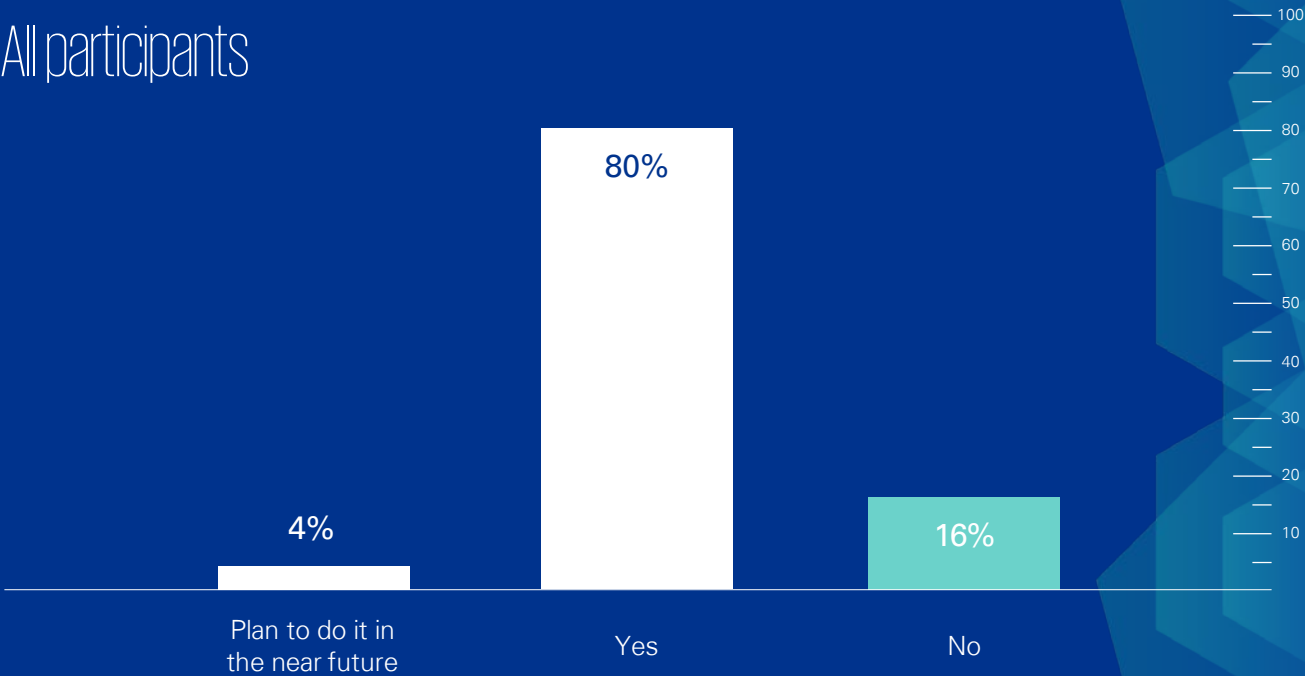


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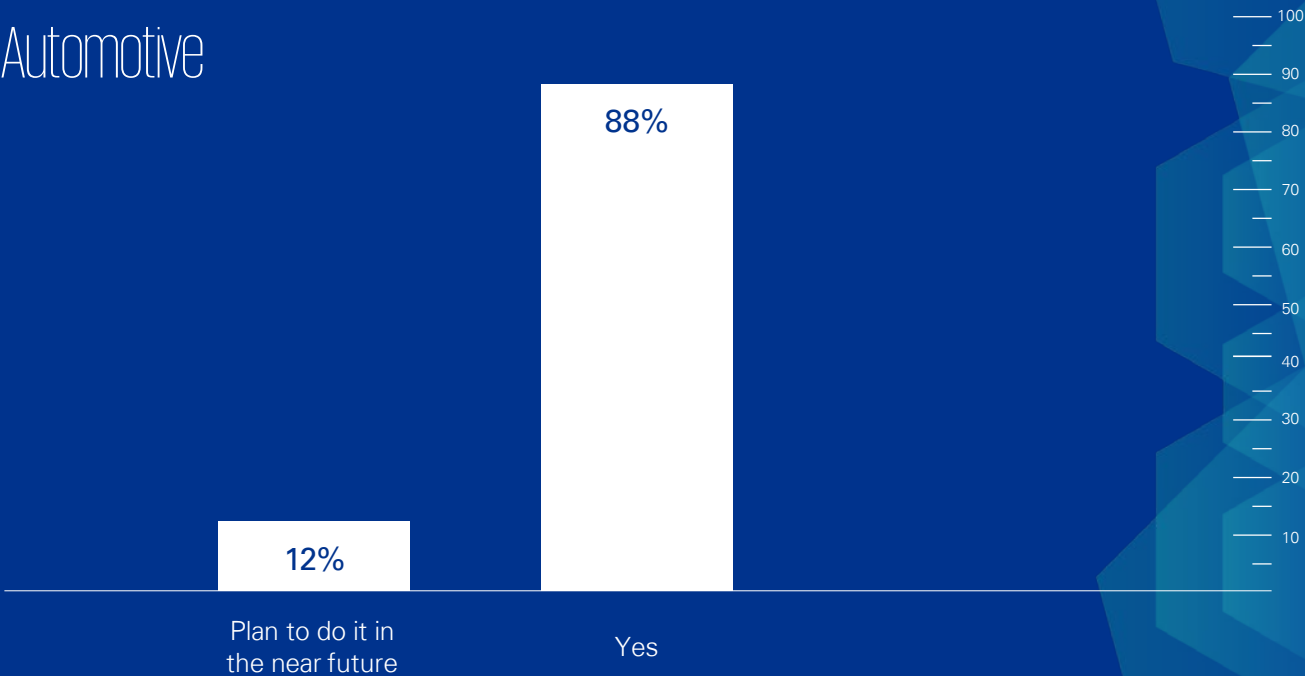


Have you reviewed the cash flow, working capital management and inventory forecasts alongside supply and demand predictions?

All participants



Automotive



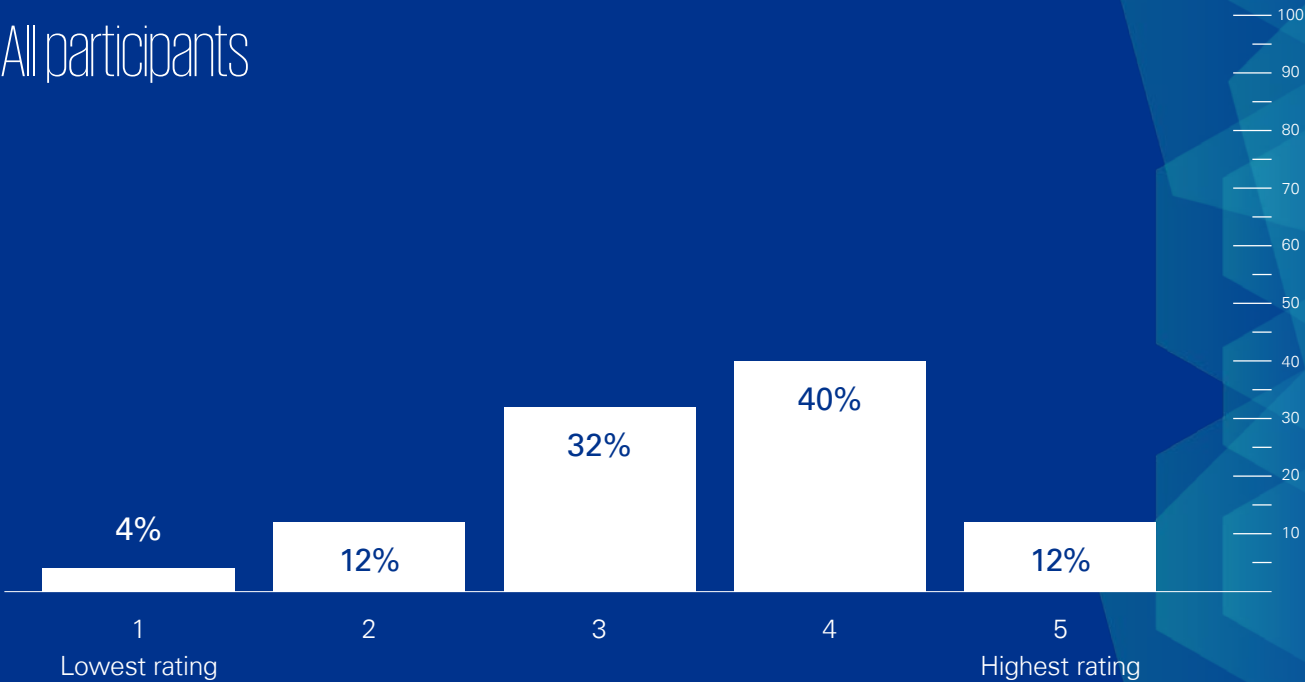
Most of the companies rated themselves well and very well in terms of the resolution of customer/client problems (52% overall and 38% in the automotive sector).

Furthermore, all the automotive companies and 88% of the total participants in the survey have assessed the impact of customer fulfilment. Out of these, 63% of the automotive companies and 52% of the total pool of participants decided that there is no need for prioritization.

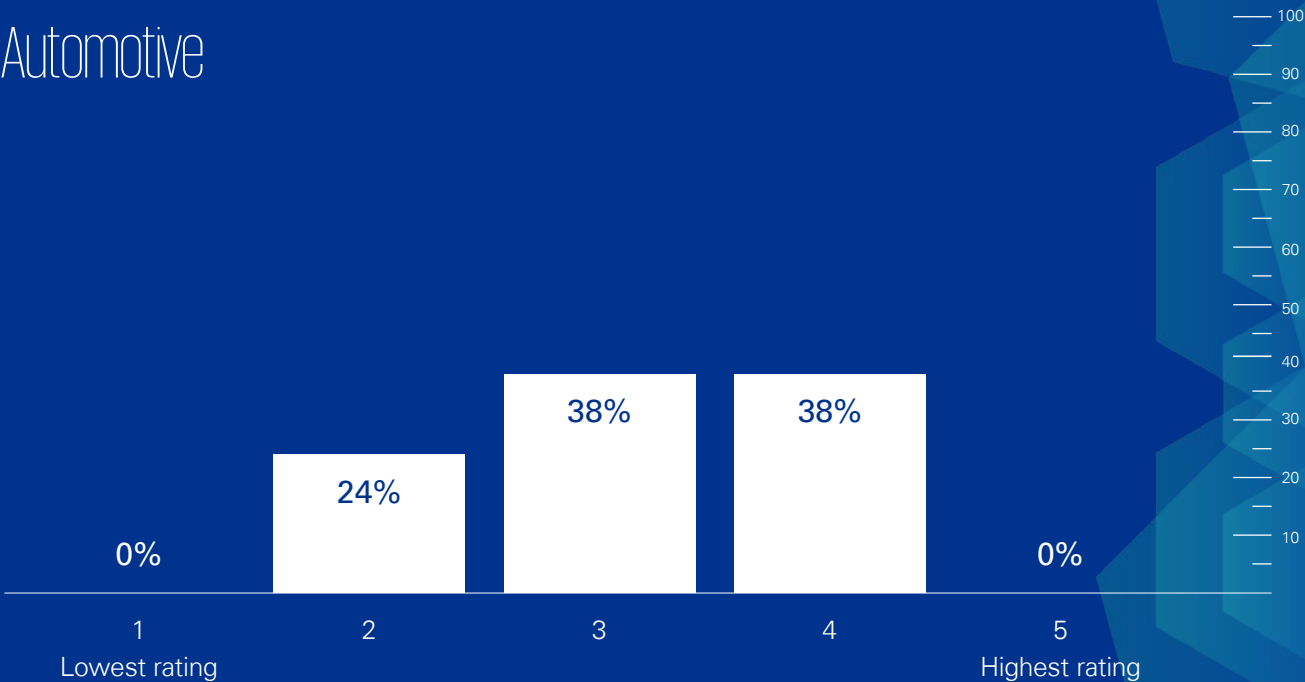
Although no reasons for their decision were provided, it is likely that they were influenced by factors like existence of safety stock, or group decisions to pursue a course of action, or actions / measures taken in other countries where the group operates that were cascaded to these companies' Romanian operations, or had an impact on them.

How do you rate yourself in terms of customer/client problems resolution under the current situation?

All participants

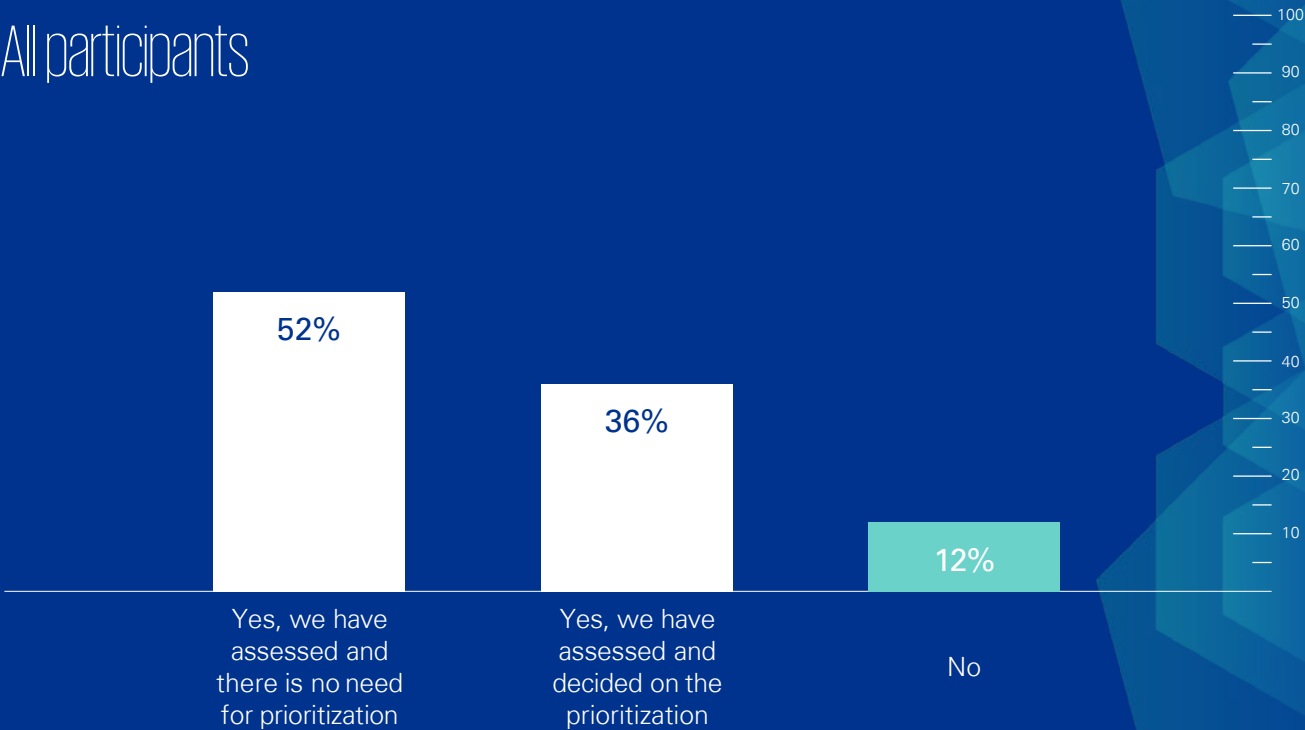


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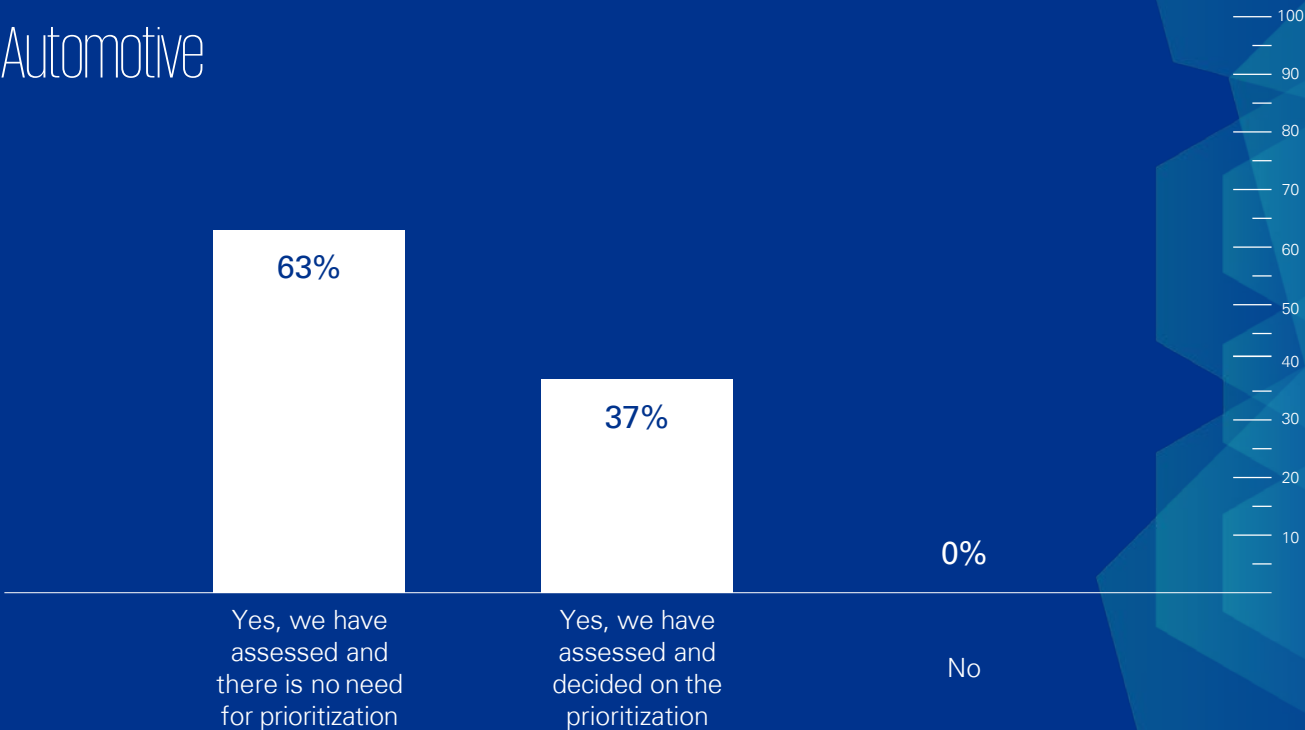


Have you assessed the impact of customer fulfilment and do you need to prioritize servicing your key customers in the event of inventory shortages?

All participants



Automotive



Comments from respondents

“ We are directly impacted by the customer stop of production ,,

“ We are looking with interest for Government measures ,,

“ We have working personnel issues ,,

“ Transport has big delays ,,

“ Governance lack of transparency ,,

“ Suppliers close temporarily their business ,,

“ Our challenges are related to credit terms, full portfolio vs. key SKUs ,,

“ Our drivers do not want to travel to red areas, even though over compensated with bonuses and days off ,,

“ We just need to adapt to the current situation ,,

“ Difficulties in finding delivery solutions for export ,,

“ We are concerned about possible stock shortages ,,

“ Clients temporarily close their production sites and it triggers chain reaction ,,

The pandemic is far from being over and the challenges of supply chain operations will continue to pose a threat to the successful performance of operations. COVID-19 has demonstrated that the supply chain can be one of the biggest sources of vulnerability for companies.

Moreover, disruptive changes to supply chains are more likely than ever, mainly due to globalization.

Supply chain professionals and management overall should respond promptly and take measures to support and adapt operations to the current circumstances. Sound decisions should be taken, which may need to be quite radical, while realistic goals alignment is critical to ensure a smooth and successful navigation towards the end of the crisis.

But how easy is it to do that and what are the leverages the supply chain leadership team has at hand to reshape the supply chain operations?

Source of vulnerability

COVID-19 has demonstrated that the supply chain can be one the biggest sources of vulnerability for companies.



Steps to resuscitate and strengthen the supply chain operations

The supply chain organizations that will emerge strongest are those willing to turn the current threats into opportunities to reshape their supply chain operations and operating model.

The post-COVID-19 supply chain landscape will vary according to industry, company size and supply chain maturity. At the same time, winners will share common approaches, behaviors and competencies that have already proven themselves.

As business worldwide learns to adapt to the new reality, quick and decisive measures are needed in the short term to ensure survival and major transformation and evolution is likely to be needed to ensure subsequent sustainable growth.

Short-term actions

Safeguard people

- Ensure people are safe and on-boarded with the safeguarding measures imposed
- Facilitate work-from-home, if the possibility is available, including providing necessary equipment and tools to work remotely
- Develop a back-up plan for potentially impacted resources
- Maintain open communication with employees and provide support
- Manage morale
- Keep close contact, by virtual means, to understand the state of mind of employees
- Take measures to retain key employees

Understand key risks across operations and the supply chain

- Mobilize teams to firstly navigate crisis response and secondly to focus on supply chain assessment and risk management

- Ensure governance is in place to rapidly make key decisions
- Strengthen the communication flow with key suppliers and customers
- Identify critical inventory items and quantities to ensure continuity of production and deliveries
- Design alternative means of transportation
- Identify alternative suppliers, locally or near-shore
- Identify critical areas that need to be addressed and prioritize measures depending on areas criticality affected
- Review contracts with key suppliers and customers to assess liabilities in the case of supply shortage
- Maintain open and honest dialogue with suppliers and customers
- Conduct a value stream mapping exercise to identify bottlenecks and constraints
- Build business and financial scenarios for quick vs. slow recovery
- Ensure data security and preservation

Mid and long term actions

Development of workforce capabilities

- Develop new skills for the production and logistics team (skill matrix, individual development) to accommodate change
- Define a trade-off between permanent and flexible workforce
- Ensure flexible working program / location
- Address new challenges in how to lead, manage and perform effectively
- Take measures to boost engagement and productivity and to attract and retain talent
- Integrate supply chain with performance and reward management for developing a flexible workforce

Digital transformation

- Accelerate business model innovation / transformation across industries and processes (e.g. digital experiences, delivery, new store formats etc.)
- Understand and deploy digital and process automation to mitigate the impact of disruption
- Leverage artificial intelligence, RPA, big data and machine learning
- Upskill resources to push digital transformation
- Focus on implementing and developing e-commerce

Suppliers risk management

- Classify suppliers based on their importance (volumes, specific supplies, whether they are a sole supplier etc.)
- Define and implement back-up solutions for the most critical suppliers
- Consider supplier integration to reduce lead time and cost
- Reduce globalization and focus on local or near-shore options

Supply chain optimization

- Adjust supply chain strategy
- Implement buffer stock for business continuity
- Improve picking / packing process (using 5S, value stream mapping)
- Improve delivery process (routes, benefits from packing improvements)
- Optimize the required warehouse space
- Build agility and speed into the supply chain by creating micro-supply chains - decentralized, agile 'mini-operating models', with flexible supplier contracts and relationships with manufacturing closer to the point of purchase
- Develop more collaborative relationships with critical suppliers in order to increase resilience
- Transform KPIs to sustain the new way of working

Production optimization

- Determine which products and related services offer the highest strategic value
- Adapt production to the new customer profile and demand, both in terms of products offered and quantities

Manage customer expectations and improve customer experience

- Realistically segment customers to identify targeted means for increasing loyalty
- Predict customers' behavior especially during periods of uncertainty and disruption
- Predict customers' needs to adapt supplies and production
- Improve channels of communication

Embracing the future

The supply chain organizations that will emerge strongest are those willing to see current emergency conditions as their opportunity to reshape and improve their entire operating model.



Lesson learned



Build trust



Ensure Business continuity



Open communication



Succession planning



Supply chain optimization



Our expertise

KPMG can help companies across sectors by conducting impact assessments of supply chain functions and provide a deeper understanding of strategic operations and supply chains.

Our expertise at your service

COVID-19's impact on the supply chain is widespread and severe, and emphasizes the need for more interconnected, transparent, agile and flexible supply chains in today's world.

1-4
weeks

Performing a Rapid Diagnostic Assessment
Creation of an Operations Crisis Team

4-8
weeks

Scenario analysis and contingency planning
support

12-16
weeks

Designing and implementing an end-to-end
supply chain risk resiliency plan

Ongoing

Extension to your team/staff augmentation

Where do you stand?

Do you have line of sight for which customer orders will be potentially impacted?

Do you have a crisis response team in place? Do they have a clear idea of their responsibilities?

Do you have enough visibility into the tiers of your supply chain to assess overall impact?

Do you have a good understanding of where you can deploy your assets for the biggest impact in the shortest amount of time?

Have you explored transportation alternatives?

Do you have a consolidated informational view of your impact? Are you getting regular updates?

Do you have transparency into what are the critical materials with the highest impact?

How are you ensuring productivity and connectivity of staff who are working remotely?

Have you re-evaluated your inventory positions and manufacturing priorities?

Do you have enough resources on the ground to help you move forward?

	CLIENT CONCERNS	OUR SUPPORT	OUTCOME
As needed	<ul style="list-style-type: none"> • Are there enough resources for COVID-19 related activities? • Do people know the actions to take to identify & mitigate risk? 	<p>Team/staff extension</p> <p>Our highly skilled experts will act as an extension to your team & will perform a variety of tasks</p>	<ul style="list-style-type: none"> • Resources with required skills in existing ops. Crisis response team for addressing COVID-19 related challenges and activities
1-4 weeks	<ul style="list-style-type: none"> • How should a formal crisis response team be formed to understand the impacts of COVID-19 & contingency planning? • What type of governance support responds quickly to changes and new developments? • Is there visibility to critical inbound materials that could disrupt our ability to make & ship products? • Will the finished goods meet customer demand? 	<p>Create a crisis response team</p> <p>We can help create a cross functional operations crisis response team that will stay updated on the impacts of COVID-19 and provide the information you require to make critical decisions</p> <p>Performing a rapid diagnostic</p> <p>We can give insights into the impact of key supply & demand risks across your operations and supply chain</p>	<ul style="list-style-type: none"> • Operations crisis response team & cross functional governance structure supported by required SC skills for addressing COVID-19 related business challenges and activities • End-to-end supply chain network visibility (supplier to customer) • Ability to conduct analysis, evaluation of the risk exposure for inbound materials
4-8 weeks	<ul style="list-style-type: none"> • How should supply and capacity be prioritized to minimize customer impact? • What potential geographical disruptions would impact our ability to fulfill orders? • Do we have the capability to identify, assess and mitigate discrepancies that could impact our revenue? 	<p>Scenario analysis and contingency planning support</p> <p>We can perform deep-dive analysis & modelling on scenarios to assess impacts on operations for critical decision making</p>	<ul style="list-style-type: none"> • Capability to run multiple what-if scenarios to understand potential revenue/margin/market share at risk impacts and identify alternative supply mitigation strategies based on purchase order shortfalls
12-16 weeks	<ul style="list-style-type: none"> • Do we have a formal risk management framework in place to support mitigation planning? • What technology solution needs to be deployed to monitor, identify and assess risk? 	<p>Design & implement an end to end SC risk resilience plan</p> <p>We can help you use KPMG's supply chain risk framework to identify & evaluate supply chain risk on an on-going basis, and determine contingency plans</p>	<ul style="list-style-type: none"> • Ability to continuously monitor, identify and assess various types of potential risks on an on-going basis, and define roadmaps for mitigation

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