



Restarting the supply chain: Visibility is the key

While the gradual approach to reopening the economy varies by region, businesses must develop their phased restart plan now. This would often include a return to work schedule - with priority for safety concerns, visibility into key customers and suppliers, and adoption to the new reality of changed behaviors and demand patterns.

Closing supply chains down was simple. Starting them up again is much more complex.

Recovery is more complex than shutting down

Many businesses are finding that restarting operations around new working health and safety practices constrain both capacity and productivity. Gaining productivity while maintaining social distance has proved particularly difficult for many companies. Compounding these challenges is the fact that different countries find themselves at different stages in the lockdown lifecycle. Because return to workplace timing is determined by regional health authorities, supply chain leaders are grappling with sequencing restarts in one region while supply in another region is still in lockdown.

A further hurdle results from recent ultra-efficient, just-in-time supply chain configurations. That approach was intended to reduce costs, but it also increased risk. The trade-off between cost and risk was not a conscious decision. To get the balance back in alignment we suggest you consider six factors to try to reduce risk while keeping the supply chain coordinated as products and materials start to flow.

1 People and safety

Given the scale of the pandemic, employee wellness is clearly top priority. As business leaders figure out the right sequence to prepare worksite readiness they need to balance costs with new safety procedures such as adhering to strict cleansing routines, providing personal protective equipment, and ensuring social distancing. These restart changes will most definitely require regular employee communication around commitments and accountabilities.

At the same time that some employees will be returning to the workplace, technology has proven that much of our work can be done from home.

Employees may be reluctant to return to a daily commute or have general health & safety concerns. Companies may be questioning the business need for travel at former levels or the rent expense of centralized workplaces. Organizations should strive to remain flexible as efforts to return to bureaucratic ways may likely to lead to cost and agility setbacks.

2 Materials and supplier risk

Difficult questions are being asked: Do we have enough visibility into the lower tiers of our supply chain to properly assess the overall impact and risk? Do we know our supply routes and have we explored alternatives? Have we re-evaluated our inventory positions? Do we have line of sight into which orders will potentially be affected? Many supply chain leaders are not happy with the answers they are receiving and the lack of visibility of supply chain risk.

Many previous supply chain initiatives have focused on reducing cost by resourcing to low cost countries, with minimal consideration of the risk that was being built in. The pre-pandemic criteria of supplier segmentation - contractual SLA performance and spend - suddenly carry less weight. The trade-off between cost and risk will shift. More forward-looking criteria such as impact to critical business operations, flexibility of services, and innovative ideas are part of the new segmentation process.

Additionally, assessing third-party, and even fourth-party risk (supply chains that result from third parties subcontracting their own services) in terms of finance and business continuity are paramount. Where there is less resilience in the supply base there is a new financial commitment emerging, helping suppliers with liquidity/cashflow, changing payment terms even paying for goods up front, and perhaps aligning this with supplier service level expectations. Many larger companies

or supply chain integrators find the production chain needs to be protected, smaller suppliers are often less robust, there needs to be visibility of new maximum capacities and how this relates to break-even points.

As COVID-19 has shown businesses, more emphasis needs to be placed on the ability to predict where inventory needs to be located in extended networks. This can help optimize the cost of achieving customer service levels. Supplies of Personal Protective Equipment (PPE) for example, has become critical, with many companies having experienced problems sourcing these materials and up against inflated prices. Allocating resource to this category is critical to enable successful return to work plans to be executed.

3 International trade

Logistics and transportation have become increasingly disrupted. It's not just that borders have been closed and internal freedom of movement has been curtailed in many markets. For example, before the crisis, part of transatlantic freight was transported on commercial passenger flights and these routes have now largely disappeared. Freight costs on some routes have more than doubled since the crisis began. More focus is being placed on the International Commercial Terms to better influence the balance of contractual risk between vendors and buyers, deliberately spelling out liabilities due to method changes to accommodate social distancing or demurrage costs incurred when problems occur.

Many companies are aggressively looking to shorten their supply chains for near-shore or secondary source locations of manufacturing to increase proximity to customers. Some are considering upfront payment for goods to extend working capital to help key suppliers stay afloat. Others, at relatively low cost and risk to themselves, have gone even further by providing low-interest loans to those that need greater support in exchange for supply stability.

4 Customers and demand

In part, today's supply challenges are demand-led. As the virus spread to new markets and cities, consumers started to panic-buy. There was a surge in demand for isolation 'essentials' such as toilet paper, hand sanitizers, fitness equipment and jigsaw puzzles. Fulfilling backorders became the biggest challenge. Most, however, found themselves in a very different supply situation: virtually shut down. At either end of the spectrum, new demand patterns and channels continue to emerge and will require the ongoing refresh of sales and operating plans (S&OP). In the short term there is certainly a need to re-evaluate inventory allocation and how it relates to customer segmentation, making sure that critical customers are prioritized. Companies are finding that COVID19 drives a need for new products or product mixes.

Essential next steps include understanding whether customer demand signals are reliable or if forecasting adjustments are necessary. The link between the operational forecast (what we will make or buy) and rolling financial forecasts becomes more critical as change in product mix impacts margins. The bottom up needs to be linked to the top down more than ever.

Additionally, the cost of complexity versus the value of variety must be understood. While there is value in meeting growing customer demand for choice, offering too wide a range of the wrong products and services is often not profitable. Many companies have chosen to rationalize product range perhaps combined with packaging simplification either to make demand planning more robust and reduce inventory headaches or in response to some packaging sizes/specifications not being available.

Global and regional supply chain flows – and alternative suppliers and modes of transportation - must be examined according to trade-offs on needs, cost, service and risk scenario analysis. This includes mapping the criticality of sourced materials to high-value products and revenue streams and understanding contract liability in the event of supply shortage.



5 Operations and maintenance

To ensure idle and new assets are ready to start-up with available resources and maintenance repair and overhaul (MRO) inventory, supply chain leaders must refresh manufacturing and distribution capacity – both within their four walls and while leveraging third-party providers to supplement skilled labor shortages.

Working with adjusted demand figures from sales and data analysts, manufacturing can allocate capacity based on strategic customer needs, availability of parts, and realistic production efficiency. New prioritization results when customer needs change or with changes in availability of components.

6 Ongoing resilience

Any company building a plan does so with a large degree of uncertainty. Will there be a "W effect" with a second COVID-19 spike occurring later in the year, testing an already fragile economy and populace? Will the disease become treatable or constrained due to the development of a vaccination? Multiple scenarios must be built with needed resources and organizational implications outlined, including an adaptable action plan for various projected outcomes in a post-pandemic world.

A holistic view of the value chain

Significant cross-functional coordination is required to align the components of the supply chain more broadly. Organizations should pay special attention to six aspects of the value chain to ensure alignment before reopening the doors:

External



Demand

- Reset Sales and Operations Planning / Integrated Business Planning through 2020 as customers' re-establish their requirements
- Prioritize based on product profitability and allocate based on customer priority and readiness
- Develop demand plan Risks, Actions, Issues, Dependencies model and anticipate potential issues

Internal



Workforce

- Collaborate with HR to rollout safety guidelines and identify staffing requirements
- Communicate new work schedules that align to updated guidelines
- Develop rapid response procedures and staffing models in anticipation of a second wave of infections
- Identify and deploy relevant technology to manage worker proximity (e.g. contact tracing, distance bracelets)



Supplier & sourcing

- Ensure sourcing of essential products/supplies are in place, besides PPE
- Update supplier contract SLAs and adjust schedules, aligned to readiness
- Refresh collaborative planning process with key suppliers
- Evaluate the possibility of early payments / supply chain finance programs for supply base



Production assets

- Streamline manufacturing distribution center operational workflows/layouts
- Collaborate with Demand & Supply management daily to align production capability to demand plan
- Perform readiness asset health checks for key production assets given current constraints (e.g. travel, maintenance repair overhaul materials)



Inventory

- Refocus inventory build on updated demand plan & update inventory and replenishment parameters to increase stocking velocity
- Confirm stocking profiles are in the right place to meet the customer needs
- Develop multi-echelon inventory models to align tactical buying (raw material) with stocking decisions (finished goods)
- Establish processes and systems are in place to monitor & drive inventory assurance



Distribution & logistics

- Pre-book, secure and hedge transportation capacity
- Review third party logistics and carrier contracts for recovery support options and adjust SLAs as required
- Review transportation and container planning in light of partial reopening of ports and scaling of capabilities
- Reverse logistics processes anticipate returns from pre-shut down shipments



The urgency of now

Evidence from the 2008 financial crisis indicates that the organizations that were best able to plan early in the crunch were the ones that prospered most as a new normal gathered pace. Similarly, the urgency of the pandemic has allowed a fresh look at the entire supply chain.

Around the world, supply chain leaders are reassessing their new realities and trying to forecast what the future may bring. This means working with current supply chains to improve efficiency and security of supplies while also finding new suppliers and routes that allow diversification in times of crisis. Companies that can stabilize their supply chains and position themselves to assess future disruption by providing structured responses to their risk and exposure points will be in a position to ensure resilience in a fundamentally changed world. With so much at stake, for employees and for business continuity, it's critical to get the restart right.



Looking ahead:

Here are some recurring discussion points you should think about when restarting:



Supply and demand disrupted

For some, supply chains have been very disrupted from both demand and supply, with a temporary stoppage or reduction in supply chain activity. Getting the supply chain started and having confidence in its ongoing resilience has become a major concern. Ensure you have strong visibility of your supply chain and any potential weaknesses.



E-fulfilment restrictions

For some companies, demand has switched channels from retail stores to online. E-fulfilment volumes have increased significantly, in some cases beyond their systems and warehouse capacity. They have rapidly acquired customer backlogs even having to shutdown websites losing customer orders. This reduces revenue and causes brand/reputational damage. The challenge many face is trying to massively ramp up e-fulfilment capacity when their supply chain was designed to do something else. When the period of elevated risk comes to an end, consumer behaviour is likely to change again. Businesses need to ensure they adequately prepare for many scenarios that can shape planning.



Forecasting

Some clients have found that as they head towards the new normal, their old demand data is becoming irrelevant. Customer behavior is changing rapidly, accelerating trends that were already in place, people work from home more affecting consumer demand, automotive sales have dropped over 90% in many jurisdictions, with huge uncertainty over future demand volume and mix. Historical demand data appears largely irrelevant, new signal repositories are required to get a forecast fit for the new reality. The major question has become how do I forecast for this new reality.

Many clients have asked what will happen to supply chains should a reoccurrence of COVID-19 arise as lockdown eases. There is an urgent need to build in resilience to supply chains, not only for COVID-19, but for other eventualities, including natural disasters and geopolitical events. This can only be done by systematically getting visibility of resilience now and enabling ongoing resilience monitoring.

How KPMG can help you create an intelligent, resilient supply chain

KPMG member firms can help you restart your supply chain with increased transparency and resilience. In a focused three weeks, our proprietary digital tools and operational intelligence are designed to deliver insights into your supply chain performance to help better balance risk and cost.

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| <ul style="list-style-type: none"> — An accelerator workshop to gain an understanding of key risk factors using automated supply chain due diligence tools - can be facilitated remotely — Introduction to Supply Chain Performance Excellence (SCPE) methodology to improve data driven decision making | <ul style="list-style-type: none"> — Agree ambition and balance of resilience and cost - get the right sense of urgency for you — Create supplier assessment and distribute to suppliers - understand their resilience approach — Supply chain and performance excellence maturity assessment - measure the right things | <p>3 week process can deliver</p> <ul style="list-style-type: none"> — Visibility of risk and balancing risk and costs — Create the roadmap to achieve the ambition — Agree the next steps to make action tangible |
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Our overall approach provides:

- Supplier Risk and Resilience - A risk framework to help identify risks. Automated tools and use of data sources for improved visibility into supplier resilience
- Predictive demand and supply, get the right analytics in place, use of machine learning supported by macro and micro distribution
- Physical Distribution Network
- Right KPIs in place - Analysis of supplier and product risks to rapidly integrate insight to build a strong supply chain with resilience-driven KPIs.
- The key is to get the insight to drive tailored set of next steps. KPMG professionals are experienced in supply chain operations: from strategy and analytics, supply chain risk, planning and execution, and logistics and distribution. We are here to help.

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