



COVID - 19 Supplier Management Response

April 2020



Executive Summary



As the spread of COVID-19 takes the world by surprise, it is vital that businesses respond appropriately to multiple fronts simultaneously; employee safety, critical component shortage, cashflow restrictions and operational viability to name but a few.

It is of paramount importance that organizations and specifically supply chain and procurement functions exhibit flexibility and agility in order to adapt to constantly fluctuating circumstances. But what areas should Supply Chain and Procurement leaders focus on? What are the potential pitfalls and what is the appropriate course of action to mitigate and deal with current challenges?



This document presents a high level response to these questions currently troubling Supply Chain and Procurement professionals by focusing on the following:

1. Recommended short term actions mitigating supply chain risk
2. A 5 stepped action specific approach regarding supplier management
3. Strategic implications to mitigate risk

Although this document focuses on supplier management, it is part of a wider literature holistically approaching the recommended COVID-19 response.

Suppliers	Awareness and Communications	Cashflow
Physical Logistics	Workforce Availability	Financial Stability
Contracts	Technology and System Resilience	Global Trade and Protectionism
Inventory	Commercial Plan	Government and public Health Requirements
Customer Loyalty and Demand	Board Governance	Sector Disruption

Supplier Management Response checklist (1/3)

Short-to-medium term actions

Step #1

Forming the Central Cortex Team

The CC team will facilitate the open and consistent flow of information between key stakeholders, maintaining confidence and informing those who will be impacted. In addition, the team will focus on Suppliers' assessment and risk management. This team will work to reconfigure the procurement / supply chain flows and conducting trade-offs according to cost, service and risk scenario analysis of viable options.

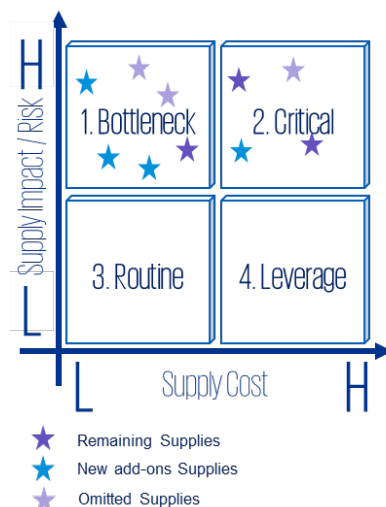
Step #2

Supply Base Risk

Perform risk identification & assessment to produce a set of prioritized supply vulnerabilities. Considering the new risk factor of COVID-19, formulate a 2 dimensional matrix to express the relationship between supply impact / risk (vertical axis) and supply cost (horizontal axis). The output of this action will generate a COVID-19 Supply Base Risk model (SBR) i.e. a 4-quadrant taxonomy of products and services. The mapping process will likely reveal an updated set of critical and bottleneck supplies, which both highly impact the business continuity. Essentially, it is expected that some supplies will continue to be identified as "high risk" in the SBR prior to the outbreak (*remaining supplies*) and others will not (*omitted supplies*). Furthermore, a new type of high impact supplies (new add-ons) will be revealed due to COVID-19. For example, the infrastructure and the support of the s/w licenses that facilitate distance working or hand sanitizers, might not have been previously considered as high risk supplies.

COVID-19 SBR Summary

- Supplies mapping in respect to cost and impact / risk
- Focus on high impact / risk supplies, i.e. bottleneck and critical and set aside routine and leverage.



Step #3

Supplier Traceability

Having identified the supply risk categories of importance, trace the suppliers that reside in the exposed sourcing areas. Next course of actions should include:

Contractual clauses review: Understand if COVID-19 qualifies as a "force majeure" within current contracts and seek legal advice to clarify potential ambiguities. If COVID-19 constitutes a "beyond the reasonable control" event, determine what the contract requires from the supplier to invoke the provision.

Supplier Management Response checklist (2/3)

Short-to-medium term actions

Step #3

Supplier Traceability (cont.)

Determine what the contract requires from the supplier to invoke the provision. Consider whether other contract provisions, e.g. liabilities or insurance coverage could mitigate the risks. However, bear in mind that if COVID-19 doesn't qualify as force majeure, actions taken by governments to combat the outbreak (closure of facilities or transportation cancellations) might provide grounds for the supplier to invoke force majeure.

Communication: Empathy and diplomacy are the best starting point. Ensuring that your partners operate safely and sustainably is paramount during this crisis. Moreover, maintaining an open and honest communication is the most appropriate course of action to safeguard business continuity and rapid issue resolution such as delays, supply constraints and downtime. Assess Business Continuity Plans (BCP) with suppliers and evaluate their ability to deploy remote working capabilities.

Step #4

Suppliers Classification

In accordance to the feedback received from step #3, it is further recommended to conduct a suppliers' classification assessment. To thoroughly understand each supplier's risk, there is a need for measuring the level of their disruption. Questions such as, how COVID-19 affects our partners' financials, what is their level of disruption in terms of daily operations or where are production facilities located are all important to conceptualize and build the risk taxonomy. On the other hand, an important dimension to consider is the ability to substitute. What are the implications in the event of a "highly disrupted supplier" but easily substituted? What if instead, the ability to substitute is low? How do we shift our lens and how do we react in locked-in cases.

"Disruption" dimension: Assess the level of disruption to the supplier's daily operations. Check if the components are being produced to specification or with some fulfilment delays. Measure their financial impact and if this jeopardizes business continuity. Assess supplier's transparency in information sharing, their operations location and whether an action plan has been drawn up as a fall back scenario.

"Inability to Substitute" dimension: Assess how easy it is to shift to another Supplier considering time, quality and cost factors.

Supplier Management Response checklist (3/3)

Short-to-medium term actions

Step #5

Strategic Implications

Following the suppliers' classification a further mapping is now feasible. Each quadrant's unique characteristics in terms of "disruption" and "substitution" enables the design of a strategic plan aiming to manage and mitigate risk. The 4-tiered strategic framework is broken down as follows:

1. Sourcing plan
(medium to high disruption, low to medium inability to substitute)
2. Intensive Care
(medium to high disruption and inability to substitute)
3. Do nothing
(low to medium disruption and inability to substitute)
4. Mitigation plan
(low to medium disruption, medium to high inability to substitute)



1

- Look for alternatives
- Withdraw from manufacturing products with critical component shortage for the short term and divert production elsewhere
- Tap into your supplier's pool, identify and contact new suppliers

2

- Go into crisis management mode with daily intensive care meetings
- Consider offering financial aid to alleviate challenges
- Intensely measure performance with real time data
- Utilise own network and tap into your supplier's pool, identify and contact new suppliers

3

- In situations where there is low risk, the best course of action is to do nothing and monitor the situation. Proceed with business as usual operations.

4

- Devise a joint action plan outlining when specific batches will be ready and how to expedite delivery
- Offer financial incentives
- Closely monitor the situation

Summary

The rapid spread of the coronavirus presents significant health concerns and considerable commercial impact which is currently felt globally. As viruses know no borders, the impact will continue to spread with the overwhelming majority (94%) of the Fortune 1000 already seeing COVID-19 disruptions. In this respect, the above 5-step approach aims to help comprehend COVID-19 exposure, by evaluating and prioritizing the suppliers' base risk. More importantly, this approach enables organization to position their supply chain / procurement functions to be more resilient in the face of short term threats and disruption.



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