COVID-19: Third party disruption support

Given the scale of disruption caused by COVID-19, the reality is that some of your customers, suppliers or competitors could fail. Where businesses are critically dependent on a third party, such as a key supplier or customer, this could present a threat.

Businesses of all sizes, and in all industries, should act urgently to identify the risks and implications of third-party failure. They must then take short and long-term steps to reduce its potential impact, and lay the foundations for a stronger business.

### Immediate impact and actions

<table>
<thead>
<tr>
<th>Critical supplier failure</th>
<th>Key customer failure</th>
<th>Competitor failure</th>
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<tbody>
<tr>
<td><strong>Impact</strong></td>
<td><strong>Actions</strong></td>
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<td>— Inability to fulfil contracts, with potential penalties, compensation and/or reputational damage.</td>
<td>— Identify options for replacing suppliers, and the cost and logistical impacts.</td>
<td>— Unanticipated spike in demand (in sectors with a limited range of competitors).</td>
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<td>— Inability to trade until alternative suppliers are secured.</td>
<td>— Manage customer expectations.</td>
<td>— Risk of overtrading and reduced service levels.</td>
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<td>— Potential revenue loss.</td>
<td>— Review contracts.</td>
<td>— Proactively respond to, identify and contact competitor’s customers.</td>
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<td>— Significant and unexpected cash-flow shortfall, especially if your business is an unsecured creditor of the customer (which is likely).</td>
<td>— Identify WIP or unfulfilled stock in supplier sites.</td>
<td>— Identify potential demand profile changes, and how to manage them effectively.</td>
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<td>— Look to minimise losses as an unsecured creditor (e.g. via Retention of Title claims).</td>
<td>— Manage recovery actions with an insolvency practitioner.</td>
<td>— Manage and optimise liquidity.</td>
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<td>— Review credit insurance options.</td>
<td>— Managed and optimise liquidity.</td>
<td>— Identify suppliers’ capacity to increase sales.</td>
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<td>— Review short-term liquidity and funding impact.</td>
<td>— Engage with key stakeholders (e.g. lenders).</td>
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</table>
Longer-term actions

Businesses should also consider steps to reduce the long-term impact of third-party disruption, which may ultimately lay the foundations for a stronger business.

- **Employee support**
  Identify how the business can support employees of failed suppliers or rivals – e.g. via new employment.

- **Debtor book or customer list acquisition**
  Support businesses in acquiring a debtor book or customer list from an Insolvency Practitioner appointed to a failed competitor.

- **Supplier review**
  Understand and assess risk across the entire supply chain, including ‘Tier 2+’ suppliers.

- **Asset or trade acquisitions**
  Identify M&A opportunities which can deliver long-term benefits to stakeholders.

- **Stakeholder management**
  Be proactive during and after disruption events, to build trust and understanding among stakeholders, and avoid resorting to contractual terms.

How KPMG is helping

Our approach is designed to provide end-to-end support to organizations, aimed at ensuring optimum outcomes and maximising value.

- **Insolvency expertise**
  — As an established insolvency practice, our dedicated team is familiar with insolvency law and the appropriate commercial tactics during insolvency proceedings.
  — We help clients take a fair but robust approach with stakeholders to minimise losses and maximise opportunities.

- **Flexible approach**
  — We adapt our proven approach to the unique circumstances of each situation.
  — We work closely with management to understand company-specific factors such as risk appetite, funding availability and strategic vision; and to provide options that support your broader objectives.

- **Implementation support**
  — We provide practical support to clients at every stage in their response to COVID-19 disruption.
  — For example, our quick Short-Term Cash Forecasting (STCF) tool provides invaluable insight, raising early visibility of issues so that action can be taken.

Key contacts

- **Blair Nimmo**
  Global Head of Insolvency
  T: +44 (0)141 300 5588
  E: blair.nimmo@kpmg.co.uk

- **Gareth Williams**
  Partner, Special Situations Group
  T: +44 (0)207 311 4762
  E: gareth.williams@kpmg.co.uk

- **Andrew Burn**
  Partner, Restructuring Advisory
  T: +44 (0)121 609 5966
  E: andrew.burn@kpmg.co.uk

kpmg.com/uk

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