Deloitte Sourcing & Procurement Response to COVID-19
June 2020
A holistic view of sourcing and procurement risks and COVID-19 in context

Wider macro risks will impact the entire business world and the extended supply chain - managing procurement risks and costs are priorities now and need to be mitigated and managed.

**PROCUREMENT SITUATION POST-COVID**

**Economic downturn and deflation emerged as the biggest risk in 2020**
32% estimated decrease in global trade volume compared to 2019
Great drop in Index of Consumer Sentiment from Mar’20 onwards
Most CPOs feel procurement-related risks have increased over the last 12 months

**Increased complexity through uncertainty of demand**
Post-pandemic demand imbalances lead to inventory challenges
Uncertainty of delivery reliability of top tier suppliers, short-term and long-term
More supply chain transparency by consumers concerned about product quality

**Disrupted supply chains and needed risk management**
Even before COVID, CPOs rated risk reduction as top priority in 2020
Heavy reliance on suppliers from China and emerging poses supply risk
Non-transparent supply chain and supplier landscape limited procurement functions’ ability to assess COVID impact

**Challenged procurement and sourcing functions**
Pandemic and supply failure uncovered strategic importance of sourcing and procurement functions and their influence on risk management
Post-COVID collaborating with IT, Finance and operations is vital in developing a procurement function of the future

**OBJECTIVES**

Adjust to economic realities and prioritize flexibility to succeed in an uncertain environment

Improve supply risk management capabilities

Coordinate investments and activities to reduce supply chain complexity and dependencies
How client patterns change and what are likely impacts in your supply chain

Six potential challenges with potential of further know-on effects impacting your ability to serve a changing market

1. Demand forecasts have shifted significantly
   What are the forward demand scenarios that require a response and create opportunity?

2. Demand shifting to on-line channels at scale
   How do we go about implementing on-line channel to service customers in the market?

3. Some suppliers will fail to meet demand
   Which suppliers are at risk and what are alternatively sources of supply now and into the future?

4. Inventory choices will be critical to business survival
   What inventory is essential and what can be rationalised to save working capital and operating costs?

5. Cashflows is essential for all
   How we balance flexibility and speed with financial control in the procure to pay process?

6. Governments are helping
   How to take advantage of the relief being offered by Government?
Our **Respond, Recover, Thrive** framework

Each step of the framework addresses one or more paradoxes and complexity emerging from a range of choices to address them.

**Survival Paradox**

“How do I ensure supply from my existing suppliers or new suppliers, and are they reliable? Will my strategic suppliers stay in business after the shock?”

**Supply Market & Client Demand Paradox**

“Will my client demand change and where is our business heading? How is my supply base dealing with the consequences, do I need another supply base?”

**Operating Model Paradox**

“Do the changes require a new configuration of my organisation? Should I consider a new operating model with many unknowns or, continue with existing models that are proven?”

**Resilience Paradox**

“How do I build a resilient supply base that may impact near term competitiveness or address risk from future disruptions as they emerge?”

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**Respond**

Deal with the present situation and manage continuity

**Recover**

Learn and emerge stronger

**Thrive**

Prepare for the “new normal”

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**Here and now**

**Near-term planning**

**Medium-term outlook**

**Long-term strategy**
## Initial stage of the crisis

**Respond | Deal with present situation & manage continuity**

<table>
<thead>
<tr>
<th>Actions</th>
<th>Key Capabilities</th>
<th>Value Propositions</th>
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</thead>
</table>
| **Supply is secure** | • Gain *visibility* of supply risks and shortages  
• Assess *substitute* suppliers and materials  
• Safeguard *transport* | • Supply and capacity risks assessment  
• Commodity price risk / volatility management – commodity segmentation  
• Transportation mode and capacity evaluation | ❑ Initial Risk Exposure Assessment  
❑ Supplier Visibility, Risk Sensing and Mitigation  
❑ Commodity risk management  
❑ Transportation Sourcing |
| **Cash is king** | • *Re-evaluate stocks levels* - recreate FY 21 budget and baselines  
• Extend *payables* to the extent possible to conserve cash  
• *Optimize fixed costs* - aligned to "lights on" strategy  
• Develop cross-business *treasury* plan for cash management | • Inventory mapping - cost evolution and shelf-life  
• I2P process improvement and compliance enhancement  
• Contract and payment terms negotiations  
• Spend analysis - core vs non-core spend and control maverick buying | ❑ Storage Crisis Center  
❑ Safety Stock adjustments (planning)  
❑ Accounts Payables Management  
❑ 360° Working Capital monitor  
❑ Stress tests |
## Likely current stage for most of our clients

### Recover | Learn & emerge stronger

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| **Visibility is Precious** | • Enhance visibility of *supply network* to identify risks and capacity constrains  
• Reassess commodity risk/volatility trends and quantify exposure | • Supplier Risk Management (Tier 1 and 2)  
• Commodity risk management | • Multi-tier Visibility, Risk Sensing and Mitigation  
• Commodity Risk Management |
| **Supply is diversified** | • Assess *supplier financial health* - strengthen collaboration or leverage cost reduction opportunities if possible  
• Qualify additional sources of supplies - collaborate on fast tracking new material testing and approval | • Supplier Risk Management (Tier 1)  
• Supplier Stabilization support  
• Cost reduction assessment  
• Supplier Qualification  
• Cross-Supply Chain understanding and collaboration | • Supplier Tiger Teams – supplier collaboration  
• Cost transformation program  
• Sourcing strategy reassessment - Diversify - Multiple sourcing  
• Supplier Qualification  
• Supplier & Trade Compliance Management |
| **Stock is rebalanced** | • Re-balance *stocks levels* - create revamp scenarios together with operations  
• Reassess *category strategy* in alignment with supply chain planning | • Scenario based storage planning  
• Category strategy management | • Inventory analysis and control methods (planning)  
• Category strategy management |
| **Customer demand is changing** | • *Closeness* to the customer to understand how their needs have changed  
• Collaborate with suppliers in developing new solutions that meet customer needs - Join forces and leverage suppliers’ core competences to jointly bring innovative products | • Customer survey - data analytics  
• Ideation with suppliers – lean start up POC approach | • Customer survey – data analytics  
• Supplier collaboration – Strategic Alliances  
• Sourcing led innovation |

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## Build the foundation for the future

**Thrive | Long-term strategy and capability building**

<table>
<thead>
<tr>
<th><strong>Value chain is illuminated</strong></th>
<th><strong>Actions</strong></th>
<th><strong>Key Capabilities</strong></th>
<th><strong>Value Propositions</strong></th>
</tr>
</thead>
</table>
|                                | • Illuminate the extended supplier network to picture supply dependencies and identify bottlenecks  
• Monitor status up until the bottleneck is removed  
• Proactively buffer risky supply nodes (secondary & tertiary options) with the most optimized model | • Advance analytics such as deep web crawlers and AI  
• Monitor spend | • CentralSight - Supply Network Illumination – n tier supplier  
• Cognitive Spend |
| **Sourcing is resilient** | • Restructure the sourcing supply network to build in resilience – take a long term view  
• Redefine the Procurement operating model given the new normal – will involve ecosystem changes  
• Prepare business continuity plans for a wider range of scenarios | • E2E Sourcing strategy  
• Procurement operating model design  
• Scenario stress tests modeling  
• Supply base restructure assessment  
• Supplier Qualification | • E2E Sourcing strategy  
• Service Delivery Model  
• Category playbooks  
- Supply base local vs global  
- Diversify - Multiple sourcing  
- Supplier Qualification |
| **Control tower for a “single view”** | • Define & implement E2E visibility for your supply chain  
• Implement a Sense & Respond capability to identify, predict & prescribe responses to supply or demand disruptions  
• Use the opportunity to deploy 14.0 solutions to improve long term competitiveness | • Future-oriented technology assessment and implementation | • Control tower |
| **Customer centricity is core** | • Establish open communication channels with customers – leverage technology  
• Define process to improve customer information sharing and transform the information into an actionable plan driving sourcing decisions back-up the supply chain | • Technology selection and implementation  
• Customer data translation  
• Development with suppliers – scale up | • Supplier collaboration – Strategic Alliances  
• Sourcing led innovation |

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Scenario considerations
We help to address “the unknown” by articulating scenarios and work with you what it means to your supply chain and procurement teams

**Best case scenario**
- Health care systems are successful in combating virus spread and pandemic if over within 2-3 months
- Mid term disruptions on both supply and demand side
- Government stimulus in place to mitigate crisis
- Economic V-shape scenario

**Mid-worse case scenario**
- Virus remains chronic and returns in autumn
- Long term crisis on both supply and demand side
- Government stimulus in place but not sufficient to “kick start” the economy
- Economic U-shape scenario

**Worst case scenario**
- Most of population infected and/or 18 months before situation stabilization
- Disruptive changes to business landscape
- Governments unable to combat economic depression
- Economic L-shape scenario

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Tailored offerings for every scenario
Deloitte supports businesses to recover quickly from the current situation and to develop robust and future-ready sourcing strategies and procurement functions

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<tr>
<th>BUILDING A FUTURE-READY SOURCING &amp; PROCUREMENT FUNCTION</th>
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<tr>
<td>STRATEGY SIMULATION &amp; WARGAMES</td>
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<tr>
<td>&quot;Supports in navigating uncertainties&quot;</td>
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<tr>
<td>• Scenario-based sourcing strategy enable flexibility</td>
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<tr>
<td>• Robust progressive scenario up to breaking point</td>
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<tr>
<td>• Quantitative modeling to complement qualitative angle</td>
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<tr>
<td>COST &amp; CASH OPTIMIZATION</td>
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<tr>
<td>&quot;Delivers short- and long term cost savings&quot;</td>
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<tr>
<td>• Reducing third party spend across indirect and direct material categories through strategic sourcing, contract rationalization</td>
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<tr>
<td>• Optimize working capital to improve operations and financials</td>
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<tr>
<td>DIGITAL SUPPLY OPTIMIZATION</td>
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<tr>
<td>&quot;Builds a future-proof procurement capability&quot;</td>
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<tr>
<td>• Define a bold digital vision, but execute iteratively on a strong foundation</td>
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<tr>
<td>• Align procurement’s digital strategy with that of the organization</td>
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<tr>
<td>• Create sourcing insights and source to pay process efficiency</td>
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<tr>
<td>SUPPLY RISK MANAGEMENT</td>
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<td>&quot;Mitigates supply risks and creates transparency&quot;</td>
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<tr>
<td>• Measuring and improving total landed cost as well as social and environmental impact</td>
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<tr>
<td>• Product Lifecycle Management</td>
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<tr>
<td>• Revise operating model based on COVID impact in the industry</td>
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<tr>
<td>TARGET OPERATING MODEL</td>
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<tr>
<td>&quot;Optimises ways of working&quot;</td>
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<tr>
<td>• Enhancing the ability of an organization to drive value through improved capabilities and operating models</td>
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Deloitte’s global Sourcing & Procurement practice overview
We are the world’s largest sourcing and procurement practice, and have extensive performance improvement experience

Our Global Practice

<table>
<thead>
<tr>
<th>Practitioners</th>
<th>Savings per Category</th>
<th>Projects over last 3 years</th>
<th>Category Strategies</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,500+</td>
<td>10-20%</td>
<td>&gt;100</td>
<td>250+</td>
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</table>

We have worked with

We invest in Procurement Leaders

CPO Transition Labs are one-day experiences for new Chief Procurement Officers, designed to enable newly appointed executives to hit the ground running with the right focus on prioritised objectives, relationships, resources and time.

Next Generation CPO programme combines our experience and extensive network of clients and contacts to support the next generation of leaders to fully understand how they can conquer all capabilities of a highly successful CPO.

Digital Procurement Labs enable clients to utilise an agile approach to identify, prioritise and plan value from digital procurement. Tailored, immersive sessions show the application of technology solutions including predictive spend analytics, unstructured data extraction, secure supply chain, RPA and Blockchain.

We are a recognized leader in sourcing strategy & procurement ops consulting

ALM Strategic Sourcing Consulting Report (2019)

Insights & Thought Leadership (illustrative)

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Marcus Kutzner is the leader of Deloitte’s Swiss Sourcing and Procurement practice. With his cross cultural experience from multiple international engagements, Marcus is targeting areas of procurement transformation, cost reduction and digitalization. His expertise helps clients using state of the art technology for empowering people and organizations to reach their full potential and getting prepared for the future.

Marc has more than 20 years of management consulting and procurement transformation experience gained across a variety of sectors and geographies. His expertise helps clients grow their procurement function to become more value adding and digital.