Deloitte.

Supply risk mitigation
Our credentials

A retailer's nightmare …

The opportunity cost for any delay in store opening would have exceeded £1m per store, per day

What happens when you're a national supermarket chain and your primary supplier of refrigeration, display and checkout equipment fails?

When the supplier entered administration, the Deloitte team had to work quickly to stabilise the business, manage the key supplier relationships and rapidly develop a trading strategy that was in the best interests of all creditors.

Unfortunately, whilst the issues with the supplier had been known for a period by the supermarket, fully evolved contingency plans had not been prepared.

This incurred substantial additional costs in the administration that had to be funded by the supermarket (as the main customer). This degree of uncertainty over a core supplier was a topic for discussion at Board level, an uncomfortable situation for the Supply Chain function.

Deloitte provided practical and logistical support to the supermarket in negotiating alternative terms of trade and for the continuation of equipment warranties in the best interests of the Company's creditors.

So why was this issue not spotted? Surely a large corporate has an early warning system for this situation? Phil Reynolds: 'the company was holding large amounts of stock as it tried to balance the lead times involved in outsourced manufacturing in order to meet customer requirements that could change at short notice. The balance sheet therefore looked strong, but this stock was becoming obsolete and was not being converted into revenue, leading to a rapid escalation in distress.'

With our assistance, the installation programme for the year was completed, with no disruption to the store opening roll out. All ongoing requirements were then successfully transitioned to an alternative supplier.

"When you place heavy reliance on one supplier, with no contingency plan, you potentially risk your own business failing, even overnight."

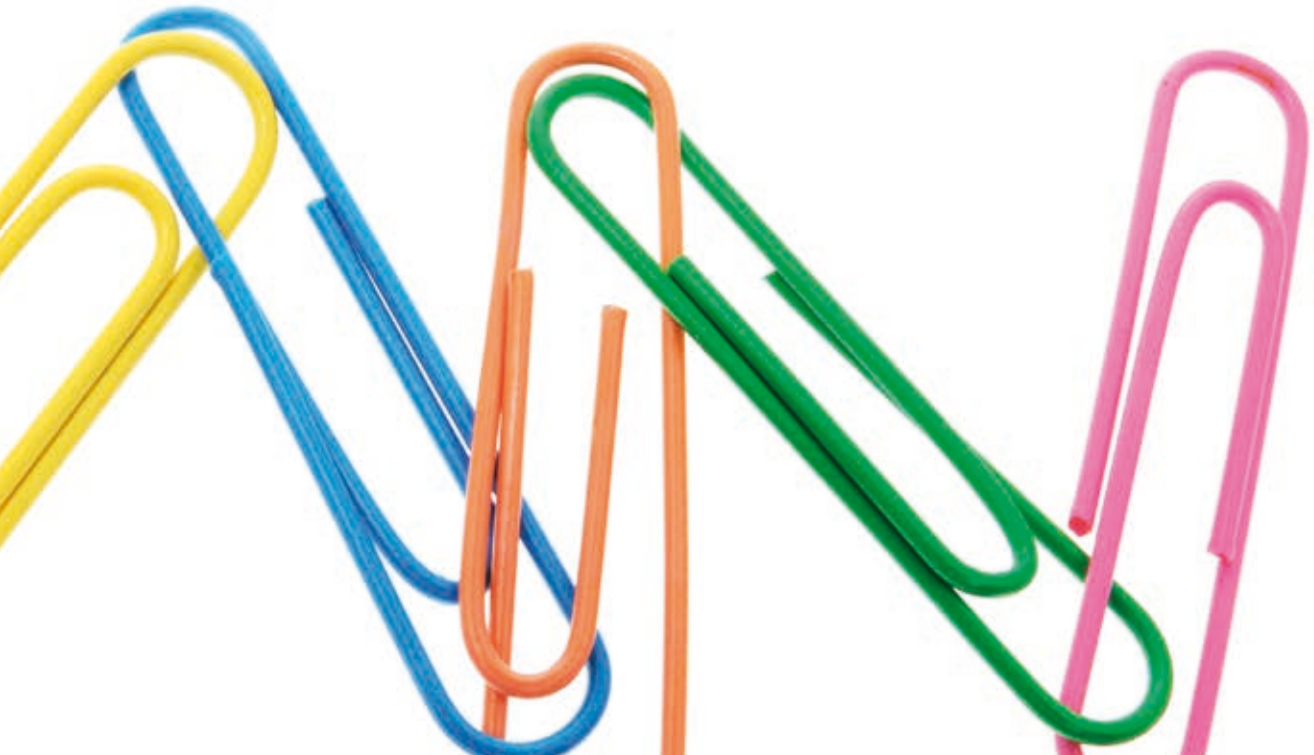
Angela Lloyd-Taylor

An innovative supply chain structure …

… resulted in consolidation, removal of duplication, improved transparency, cost savings and increased flexibility

"An average of 31 cards are purchased by each person a year at an average price per card of £1.42. Improved performance in the supply chain could enable supermarkets to lower card prices to compete with online offerings."

Martin Barron



The UK boasts the most successful greetings card industry in the world with £1.37 billion spent in 2013. A portion of this market provides a significant revenue stream for the major multiples.

One major supermarket, took the opportunity to re-examine an existing contract which was due to expire and sought to use this leverage to better understand the supply chain costs and improve product performance. Deloitte were engaged to undertake a financial review of the key supplier.

From our initial observations, the supermarket had no visibility of costs within the supply chain and there was a concern over stock quality, given the supplier was in full control of replenishment and merchandising. In addition, the supermarket was being charged higher supply costs than quoted by a third party and were absorbing a higher proportion of overheads, due to the supplier losing a number of key customers.

Our analysis showed that significant savings could be generated in the supply chain by consolidating a number of tasks currently undertaken by the supplier to a single third party.

We recommended that a subsidiary of the supplier should be established to remove duplication of roles, improve pricing transparency, facilitate supply chain savings and increase flexibility over sourcing and stock control.

From the findings of our initial review, the supermarket immediately focused on new key objectives including cost transparency and reduction, improved stock management and differentiation of product offering which enhanced visibility of supplier performance.

Bringing all parties to the table

Fast growth led to unintended supply chain consequences

"Fast growth businesses often experience challenges in financing their working capital requirements. These issues can arise very quickly and can cause major supply chain challenges."

Chris Edwards

Our client was a UK based FTSE company which had signed an exclusive agreement to supply heating components to a PE backed customer.

The customer was growing very quickly, driven by Government incentives targeted at low income households for the installation of energy efficient heating products in domestic premises. Our client was unable to obtain adequate credit insurance against its exposure with the customer.

Our client was under significant internal pressure to put the customer on stop, which would have caused the customer to default on commitments to their end users and may have caused irreparable, reputational damage.

We assessed the operating model, financial structure and financial forecasts of the customer, to quantify the risk to our client of trading with the customer partially uninsured. We developed a series of options to mitigate our client's exposure.

We helped the customer explain their operational and financial model to our client and their credit insurer, which provided comfort in relation to their financial exposure. We also facilitated a negotiation between the customer, our client and their credit insurer regarding ongoing trading terms.

Protecting your position …

We can help you protect your position without destabilising your supply chain

Following the unexpected failure of a key packaging supplier, a leading global consumer business company approached Deloitte to assist with a financial review of another packaging supplier where they had concerns over its financial position. We carried out an analysis of this packaging supplier looking at its short-term cash position, its medium-term business plan and the status of the supplier's other key stakeholders (namely the pension fund, shareholders, lenders and other customers).

We reported our findings and advised our client how to mitigate their exposure to this supplier, but over a period that allowed the supplier time to replace the original contract with new work. As a result of our recommendations, the company successfully reduced its exposure to this supplier without unnecessarily destabilising it. We have now been retained as sole advisor to the company in helping them understand the position of critical suppliers that appear to be financially stressed.

"Getting an expert view on the financial and commercial status of key suppliers can be very reassuring for procurement teams when they are evaluating their supply chain strategies."

Omar Mirza

Global reach with local knowledge

We can provide views on key suppliers irrespective of where they are in the world

Our client is a European private equity house looking to acquire a niche clothing brand to roll out across Europe. Because of the distinctiveness of the fabric offering, the robustness and scaleability of the supply chain in India was an important factor in them deciding whether or not to make the investment.

Financial information on private companies is almost non-existent in that jurisdiction but we were able to deploy experienced restructuring colleagues to visit the factories, meet with management and form an assessment of their compliance with regulations and their appetite for growth. Currently, our client has exclusivity to complete a transaction.

"In jurisdictions where publically available financial information is scarce or non-existent, there is no substitute for deploying a local team to 'kick the tyres'."

Dominic Wong

Competitiveness

Safeguarding manufacturing jobs in the UK

The Global aerospace industry is forecast to double in size over the next ten years. For the Primes and the larger OEMs in the sector, who have visibility of orders for the next five years on average, a major risk to their sales delivery and meeting market expectations is the ability of their supply chain to keep up. Access to finance can be restricted further down the supply chain as smaller businesses tend to have fewer options to meet an increasing working capital requirement. In addition, the tiered structure of supply chains can obscure issues further down the line. This means that supplier development is of strategic importance to our most successful manufacturers in the UK.

Sharing in Growth is a performance improvement programme funded by the Regional Growth Fund and sponsored by Rolls-Royce. Its aim is to improve the competitiveness of selected UK suppliers in the Global aerospace and nuclear markets. The first wave of beneficiaries comprises 40 aerospace suppliers and 15 nuclear suppliers who will benefit from a series of training modules covering the following areas:

- Lean operations;
- Manufacturing engineering;
- Cost engineering;
- Procurement;
- Leadership;
- Business planning; and
- International business.

These training modules will be tailored to the needs of individual businesses and delivered by Sharing in Growth contractors, secondees from Rolls-Royce and a number of third party providers including Cambridge University and Deloitte. We are very proud to have been selected to deliver the Business Planning and International Business modules.

"We are very proud of our role in the Sharing in Growth programme. The programme is about making UK suppliers competitive in a Global market, thereby protecting and creating jobs in the UK. Performance improvement is our raison d'être – which is why we are delighted to have been selected as the training experts on wave one and to support the programme in discussions with BIS around a second wave of funding."

Dominic Wong

Ten year lock in

Would you enter into a multi-million pound long-term supplier relationship without ensuring your contract partner is robust and resilient to global downturns?

"Deloitte's team included restructuring experts to look at the financial robustness of the supplier, debt advisory experts considering the exposure to the bond markets and ability to roll over bonds due for renewal, operational experts to look at the commercial risks involved in building a new production facility and insolvency experts to look at contingency planning options, in the event the supplier failed."

Julian Heathcote

That was the question facing our client who was looking at entering a 10 year supply agreement for bespoke packaging for their premium, best-selling product. The contract would allow the supplier to invest in a new dedicated production facility that would ensure guaranteed and continued supply in a market dominated by a few global players who could exert significant leverage over their customers.

Given the restricted supply and powerful producers, it is not surprising that our client wanted to lock in to a guaranteed supply. However, the new bespoke facility would place major capital demands on the supplier who was already highly leveraged and had significant exposure on the global bond market.

These concerns led to a Deloitte team being asked to assess the financial stability of the proposed contract party and also the operational implications and risks of the ten year contract.

Our work provided the client with a clear view on the credibility of the supplier, the risks facing it and our view on its global strategy. We provided a monitoring approach to allow our client to identify any future financial difficulties for the supplier, ensuring they were always aware of any potential issues.

We also provided a number of suggestions for inclusion in the operational contract including recommendations around step-in rights, key man retentions and security.

Global Supply Chain Threats

Devised and implemented programme to ensure consistency and stability

Deloitte partnered with a leading global IT organisation to devise, develop and roll out a holistic programme that addresses the unique security threats faced by their supply chain and the current challenges in mitigating these threats.

Some of the challenges involved:

- A complex and global supply chain network – thousands of suppliers located across over 32 countries and 90+ locations.
- Varying security requirements across the supply chain based on the services provided and products manufactured.
- A siloed approach to security – lack of a comprehensive, authoritative source of security requirements to address supply chain specific requests.

We helped the company develop an integrated supply chain security Master Specification document that is aligned to their core supply chain focus areas. This initiative will help roll out the programme across the current diverse supplier base and service types, balance security with ease of business and cost, and ultimately offer the company's suppliers stability in security requirement mandates.

Protecting your brand

Engaging the whole procurement team to safeguard your brand, reputation and business continuity …

A major TV company asked Deloitte to review their approach to financial risk in their supply chain – specifically in regard to improving their ongoing monitoring of key suppliers. This request followed two 'narrow escapes' when the failure of key suppliers threatened the TV company's ability to broadcast.

The business has c.6800 suppliers, many of whom are small bespoke production or software companies – comparatively unsophisticated and required only to provide minimal financial information to the public domain. However, most of these were easily replaceable at short notice and very few could significantly disrupt transmission, broadcasting or business continuity.

We interviewed all the key category managers and internal analysts on site to understand current processes. The aim was not to completely re-engineer processes or to add an extra layer of administration for the c.100 critical suppliers. We showed them how to categorise their supplier base to focus resources on those suppliers with potential to impact brand, reputation or business continuity. We also devised new procedures to identify, analyse and monitor these critical suppliers.

We presented our findings to the whole procurement team in a series of workshops and also trained them to better utilise their existing software subscriptions to spot the common signs and symptoms of financial distress. We have an ongoing dialogue with members of the team to ensure that these procedures are properly embedded and to discuss options to mitigate any financial risks that they identify.

Ultimately, our advice has given the board more confidence that robust procedures are in place to identify suppliers or trading partners who are critical to business continuity and to monitor their performance.

"There's no point spending a fortune on systems when a focused and pragmatic approach can allow you to identify and monitor those suppliers which have the potential to impact your brand, reputation or business continuity."

Dominic Wong

Take control over your own destiny

When performance issues are front page news, you can't risk entrusting delivery to an inadequately capitalised sub-contractor

Our client is one of the UK's largest providers of business services, contracted by the Government to deliver a strategically important service but dependent upon an owner managed sub-contractor for delivery in one geographical area. Failure to deliver upon agreed KPIs had recently resulted in a c.£70m penalty charge to our client who was concerned about the financial viability of their sub-contractor and the impact of their working capital constraints on future delivery. The contract was so politically sensitive that further performance issues would be front page news and the reputational impact to our client would be even more significant than the financial impact.

We worked with management at the offices of the subcontractor using our experience of these situations to assess the position, attitude and leverage of the different stakeholders in the business, including management, the shareholders and the bank. We looked at their business model as well as their short-term projections and determined that their financial position was so precarious that the slightest problem could result in failure.

Luckily, our client had a number of contractual remedies including step in rights and a call option in the event of underperformance by the sub-contractor. We were able to advise them on the option that would minimise operational disruption and worked with them to prepare a contingency plan that could be implemented to protect their position in the event of a failure of the sub-contractor.

"An unplanned insolvency of the sub-contractor would be catastrophic both financially and from a reputational perspective but our client now has a plan in place to protect itself, the Government and the ultimate service users."

Dominic Wong

Keeping strategic services on an even keel and wargaming ahead

We can rapidly assess your critical suppliers without them knowing to form an initial view on whether they are exhibiting signs of financial stress

Following the liquidation of a critical software supplier, Deloitte were instructed to carry out a rapid financial assessment of other important suppliers to determine if any others appeared financially stressed. We assisted our client in determining which suppliers should be classified as critical using criteria other than just the total level of spend.

We agreed which 100 critical suppliers would be subject to a review and carried out an initial assessment of each on a desk top basis, utilising publically available information. Our review highlighted 17 suppliers that appeared financially stressed. For these specific companies, we carried out a more detailed review with Deloitte's proprietary software. For each of the 17 suppliers we advised our client whether they should consider mitigating their exposure and what additional information the supplier should provide to provide a current view on the supplier's financial status.

"By going through the process of rapidly assessing the financial status of your supply chain, we can help guide you on which suppliers appear financially stressed as well as advising how you can strengthen your own internal monitoring procedures."

Omar Mirza

Can your customer deliver?

Our in depth knowledge of the sector, combined with insight from private equity specialists enabled us to provide a unique insight

Companies entering into significant contracts often require greater assurance over a customer's financial and operational stability than an online credit check will provide.

How can a Company achieve this without the target customer being aware they are under review? Deloitte were engaged by "Barbican", a Company operating in the Oil & Gas sector, to assist in determining the financial strength of a potential customer over the next five years, prior to their submission of a tender.

The Deloitte lead partner John Reid highlighted some of the challenges they faced: "We did not have any access to the Company and could only use publicly available information which was limited as the target customer was PE backed". There were initial concerns that the customer was highly geared and therefore a high risk. We consulted with Deloitte's Petroleum Services Group (PSG) to identify that the Company had invested in a number of gas fields and oil wells which were not currently operational, however, these would provide significant future revenue pipelines based on the forecast number of barrels of oil. This insight was invaluable to the Company, providing greater assurance over the customer's future ability to perform."

In addition to being able to complete financial analysis on the publicly available information, we engaged with our Corporate Finance teams to provide an insight into the PE house's medium term strategy. Given our knowledge of the PE house, their current level of investment in the customer and their intentions of investing in the sector, we advised Barbican that the customer was unlikely to lose support over the next five years.

"A three pronged approach to determine customer viability was employed based on: recent financial performance, current bench marking in the Oil & Gas sector and market understanding of the drivers of the PE backer."

John Reid

Controlled contract overpayments to ensure completion of manufacture and installation to required timetable

Balancing act to provide funding whilst ensuring supplier could not hold company to ransom

A manufacturer with specialist technical expertise entered into a contract with a leading energy company. The energy company had paid £16m of the £20m contract but there was a history of over runs and delays in production. This was the manufacturer's sole remaining contract, none of the units were completed and the manufacturer was on the verge of insolvency.

All funding sources to the manufacturer were fully exhausted and, in the absence of further funding, the business was on the verge of immediate closure, with its key and only remaining contract (for the energy customer) incomplete. The energy customer agreed to provide additional funding to allow the completion of the manufacturing process. Alongside this a sales process was commenced.

Deloitte's objectives (acting for the energy customer) were to assist in the negotiation of the terms on which the additional monies were to be provided (contract amendment), to rigorously and continually challenge and assess the forecast funding requirement and timing of payments, to assess scenario options including the impact and attractiveness or otherwise of insolvency of the manufacturer, to obtain clean title as quickly as possible to the units in manufacturer, stakeholder management between the manufacturer, its shareholders, and the energy customer, and to seek to protect the energy customer from ransom positions (for example, from an insolvency practitioner).

The outcome was that the manufacture of all units was completed and clean title obtained, prior to an eventual insolvency, with the additional cash cost to the energy customer minimised.

"Whilst the energy customer paid a significant amount in excess of the original contract value, to obtain clean title to fully completed units, this paled into insignificance against the alternatives of either moving production elsewhere (and significantly delaying the project timetable), or being held to ransom by another party. Assessing options, stakeholder management and hands on project management were essential."

Clare Boardman

E&R

Ability to work in several jurisdictions

A cross border presence is the key to brokering an understanding between stakeholders in different countries to achieve a consensual solution

Our client was a joint venture between two national oil companies, operating a number of oil fields in the Middle East. It had awarded a $500m contract to a shipbuilder in the Far East for the delivery of a replacement Floating Storage and Offloading unit (FSO) for one of its fields where the existing FSO was reaching the end of its useful life. Timely delivery would be crucial to ongoing oil production.

However, the shipbuilder had experienced difficulties as its performance was impacted by loss-making contracts, an exposure to declining markets and the failure of other parts of the group. This culminated in a financial restructuring where its major creditors took control of the business by converting their debt to equity.

When subsequently the shipbuilder informed our client of a nine-month delay and $150m over-run on the contract, our client wanted to understand the shipbuilder's latest financial position and its ongoing viability over the remaining period of the contract before committing any further stage payments. We were engaged to advise because there was very little publically available information since the de-listing of the shipbuilder.

Coincidentally, our colleagues in the Far East member firm had been monitoring the restructuring of the shipbuilder on behalf of its major creditors. We made contact with them and with their support were able to convince the shipbuilder and its major creditors that it would be in all their interests to share sufficient privileged information in order maintain customer confidence and preserve business continuity.

Financial evaluation for public procurement

Ensuring that the financial strength of parties bidding for public works is appropriately considered and assessed as part of a wider evaluation framework

Deloitte is supporting Transport for London (TfL) and Crossrail to evaluate tender opportunities and framework agreements relating to the development of their prime central London sites. TfL has a 5,700 acre property portfolio and is the custodian of one of the largest and most valuable estates in London.

Selecting robust bidders to carry out these works requires a careful balance of technical, financial and commercial criteria. Our Deloitte team combines a mix of our experienced real estate professionals with our corporate restructuring team who specialise in assessing financial and commercial risk in businesses.

"Restructuring professionals not only specialise in evaluating financial risk but we also bring commercial insight to identifying counterparty risk."

Fiona Watson

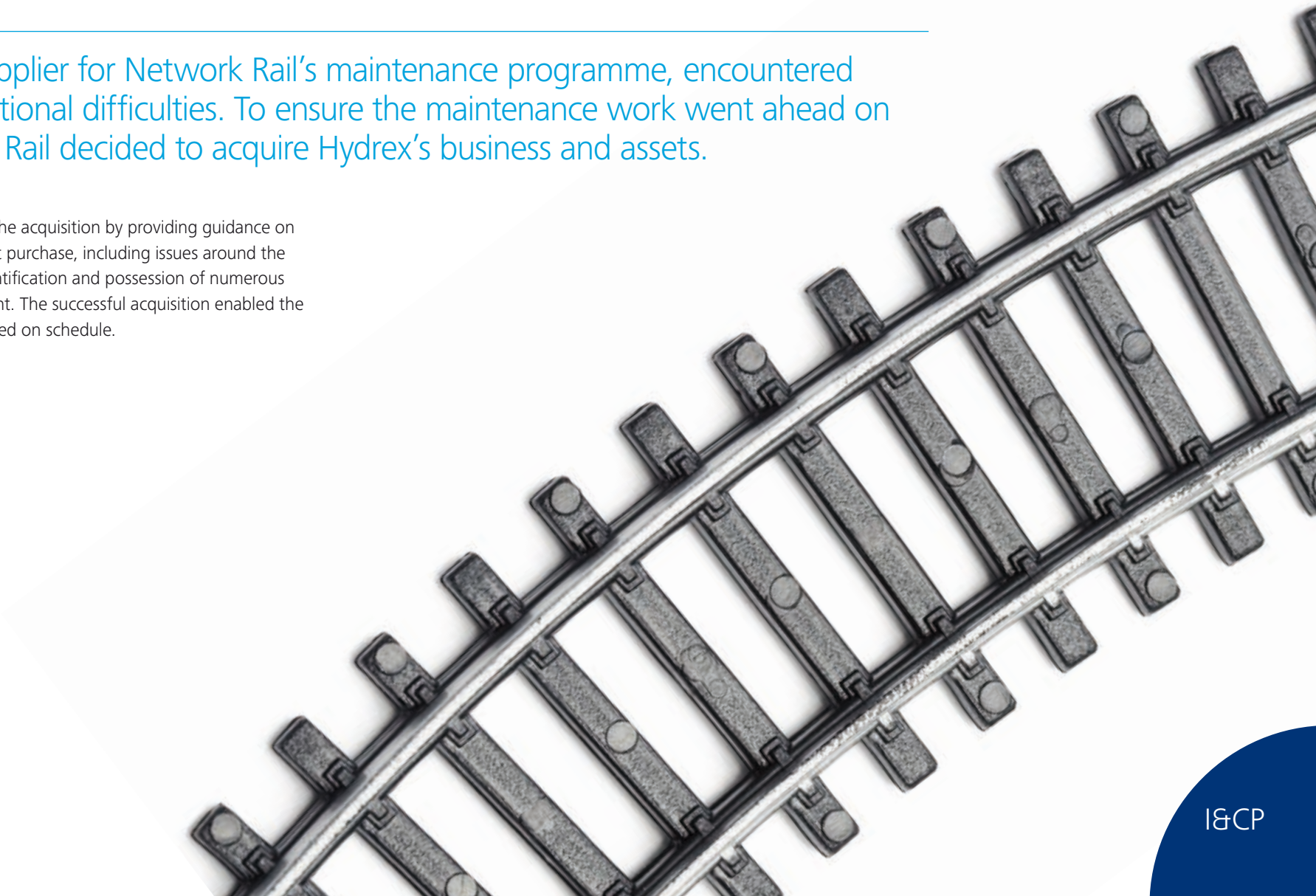
I&CP

Dealing with a distressed key supplier

Acquisition of supplier enabled continuity of the programme

Hydrex, a major supplier for Network Rail's maintenance programme, encountered financial and operational difficulties. To ensure the maintenance work went ahead on schedule, Network Rail decided to acquire Hydrex's business and assets.

Deloitte advised Network Rail on the acquisition by providing guidance on issues arising as a result of an asset purchase, including issues around the transfer of employees and the identification and possession of numerous items of major plant and equipment. The successful acquisition enabled the maintenance programme to proceed on schedule.



I&CP

Contingency services

Standby facility

Since 2011 Deloitte has provided a contingency service for a client in the Financial Services sector. The client had identified a specific risk to their own operation whereby an identified event would place a huge demand on their operation without notice, and could be expected to attract significant media coverage. The client had also identified that they did not have the location, resources or capability to manage the event alone, and were therefore looking for a partner to support them in providing a fully managed contingent service that would supplement their own capability to react to the event.

The client needed a commitment from Deloitte to recruit a team, potentially numbering 250 vetted, temporary resources, ready for rapid deployment within a four-day notice period into a fully managed operation at a Deloitte site.

"As a long term preferred supplier and advisor, we have planned and fully implemented a stand-by operation that is capable of processing in excess of 100,000 activities within the client's own systems within a 20 working day timeframe."

Gareth Bateman

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