



The Essential Coronavirus Response
Guide for Commercial &
Procurement Leaders

Executive Summary:

The 3 phases of action to respond to COVID-19

COVID-19 has a significant human impact that can never be forgotten or overlooked. In this spirit, we have a responsibility to think beyond the here and now and look to the future phases to help our economy, country and global community to get through this together. We are experiencing global factory labour shortages, supply chain disruptions due to travel and transport lockdowns, Force Majeure disagreements, suppliers running out of cash, realisation of our dependencies on global supply chains that we cannot control, disruption to ways of working due to lockdowns and the uncertainty over the length of current restrictions making effective forward planning extremely difficult.

In response, 4C has pulled together our views of how procurement and commercial teams should approach the coming days and months to respond not only to the biggest crisis in our lifetime, but also the biggest opportunity to reshape supply chains to mitigate the impacts of any future events. Through this guide we will show examples of where people have implemented some of these approaches, either well, or less well, and will use the most public of public procurements ongoing at the moment, Personal Protective Equipment (PPE), as an example to bring this to life.

We acknowledge that there are many different approaches to crisis management and even more variations between sectors, but we have grouped our crisis response framework into 3 general stages that should apply to everyone.

The first stage is focused on managing the immediate (1) Crisis, which for most companies is all about cash and cost management. Stopping the outflow of cash as well as reducing, deferring, or transferring ranges & spend are the top priorities. This must be supplemented by careful risk management and supplier management to avert permanent damage from the business.

The second stage manages the (2) Turnaround and impacts of the first stage over the next few months, with a focus on how to make sure you can survive for as long as needed. The key actions here are to restructure your cost & margin base by transitioning supplier commitments as well as segmenting and analysing your critical supply chain. In addition, now is the time to get serious about supplier relationship management which helps you ensure business continuity.

The third stage then looks at the (3) Evolution of your business to be ready for the New Normal. The latest estimate from scientists at Harvard University is that "intermittent distancing may be required into 2022 unless critical care capacity is increased substantially, or a treatment or vaccine becomes available". This means the world will continue to be fundamentally different from anything we have known so far, and that makes it crucial to re-design your operating model to be able to thrive.

Crisis response framework

Our crisis response framework explains for each stage what to do when and by whom. In the following sections, we build on this framework and lay out how commercial and procurement leaders can learn from the past and the current crisis to build a stronger, more agile future.

	1 Crisis	2 Turnaround	3 Evolution
Timeframe	Today	T+ 2-12 weeks	T+ 3 months
Situation	Declining / stopped revenues, or surges that supply chains were not anticipating	Realisation of the impacts and how to survive	Design for the New Normal
How to Mitigate Impacts	<ul style="list-style-type: none"> Cash and cost management <ul style="list-style-type: none"> Stop cash outflow Reduce spend & ranges sustainably Defer capital commitments Transfer demand / supply 	<ul style="list-style-type: none"> Cost & margin restructuring Supply chain analysis 	<ul style="list-style-type: none"> Set-up New Normal roadmap for change
How to Evolve Response	<ul style="list-style-type: none"> Risk management (4Ts) Supplier management <ul style="list-style-type: none"> Support key suppliers with liquidity Secure supply Become Customer of Choice 	<ul style="list-style-type: none"> Skillset development <ul style="list-style-type: none"> Supplier relationship management (SRM) Supply chain transparency Professional skills development 	<ul style="list-style-type: none"> Operating model transformation <ul style="list-style-type: none"> Vision & mission Relationships Operations Infrastructure
Who	Owner: COO Support: CPO and CCO	Owner: CFO Support: CPO and CCO	Owner: CEO Support: CFO, COO, CPO, CCO

1.Crisis

The coronavirus pandemic has spread faster and further than many had anticipated and, in its wake, has left citizens, businesses and the public sector struggling to keep up with the speed and breadth of response needed. Some businesses have seen demand and revenues collapse, while others have seen unprecedented surges. Your business will most likely already have set up an emergency response team to manage and mitigate immediate issues across the organisation. There are two immediate emergency tasks for commercial and procurement functions, the first is to preserve cash and manage cost and the second is to manage risks and suppliers.

Action plan 1 : Crisis response



Immediate action 1: Cash & cost management

For most businesses now, cash is not just king but critical for survival. If your business has seen a surge in demand and liquidity is less of a concern, this action may still be relevant for those parts of the organisation that have seen their operations impacted by restrictions. Many businesses will have their own cash management mechanisms, and we are sure all will have refined their cash forecast and working capital commitments. With our clients we generally recommend using a simple 4x4 immediate response matrix that allows you to manage both, cost and risk.

Figure 1: Immediate response matrix

Cost \ Risk	Stop	Reduce	Defer	Transfer
Terminate				Category 1
Treat		Spend Portfolio (I)		
Tolerate			Supplier A	
Transfer				

Using a matrix like this enables commercial and procurement teams to quickly, but thoroughly categorise individual categories, suppliers and/or spend portfolios first from a demand and supply cost perspective into one of four options:

Stop spend & cash outflow and prevent further commitmen

- Discretionary spend
- Travel, office stationery and similar should have already stopped
- Utilities will drop through consumption, but have you turned this off / down to the maximum?
- Office landlines, store Wi-Fi, office vending – have you adjusted the commercial model to reflect the temporary reality?

Reduce spend, or range of purchases but maintain revenue opportunities

- There are opportunities to renegotiate everywhere right now, but do so clear in the risks and consequences introduced in the next section
- Where suppliers have elements of contracts that they are not working on and where they are not incurring staff costs due to use of furlough, temporary commercial models should be put in place
- Looking to reduce monthly outgoings in return for longer commitments, where there is an ongoing need and consistency in scope
- Hedging, for instance maximising benefits from the current oil price, could be a strategy for those able to manage this approach

Defer spend, sustainably for the supply chain, and thereby extend working capital

- Understanding which parts of the supply chain have the most liquid cash and trying to free that up through deferrals elsewhere
- Deferring non-critical capital investments
- Non-core range reviews

Transfer demand / supply and thus share commitments

- Supply chain finance can free up cash in the short term
- Sharing costs with local neighbours (e.g. store security) during any hibernation

Any commercially minded team can carry out this analysis and implement the basics that will at least stem the tide of cash leaving the business. However, doing it without negative or even permanent consequences is the key skill. Primark have had negative media press due to the way they attempted to implement this approach without consideration of public opinion or supply chain sustainability. They are not alone, but on the other side of this crisis, there are questions as to whether Primark will be the customer of choice for the best suppliers. Hence the importance of the second element to consider: risk and supplier management.

Immediate action 2 : Risk management & supplier management

Once immediate response action plans have been identified, categorised and agreed, they need to be executed without delay. Many if not most of your action plans will impact your supplier base, and it is therefore crucial to manage those relationships in a way that your emergency measures do not cause irreversible damage to your business. During this crisis, we currently observe 4 key supplier management risks:

- **Reputational damage** with consumers and/or suppliers can take years to repair, especially if you are seen to be acting unreasonably e.g. by cancelling orders or services without notice or payment.
- **Damages payments** due to breach of terms by cancelling orders or stopping payments on either side of the contract without legal basis or mutual agreement.
- **Loss of supply** as suppliers may refuse to deliver products or services now or in the future, they could be prevented from operating through issues further down the value chain, or they could go out of business permanently if unreasonable or one-sided action is taken without consultation or agreement.
- **Value (and therefore cash) is left on the table** due to a lack of transparency and mutuality between buyer and supplier. Your suppliers are dealing with the same impacts and may have strategies and approaches that will benefit you as well.

As with all emergency measures, there is a major risk of causing permanent damage to your business if consequences are not considered and managed upfront. Therefore, in a second step, commercial and procurement teams must understand and categorise the risk associated with each specific action plan. We recommend conducting a swift contract diagnostic analysing terms and impacts of termination, liability, supply routes, inventory, and contingency planning. Additionally, it is worth reviewing the applicability and your exposure of any Force Majeure clauses. During the first few months of the COVID-19 crisis and in China alone, suppliers made more than 3,000 Force Majeure declarations to avoid legal consequences of contract term breaches. Next, using a tried and tested risk management approach like 4T to categorise each risk identified and plot it on the matrix:

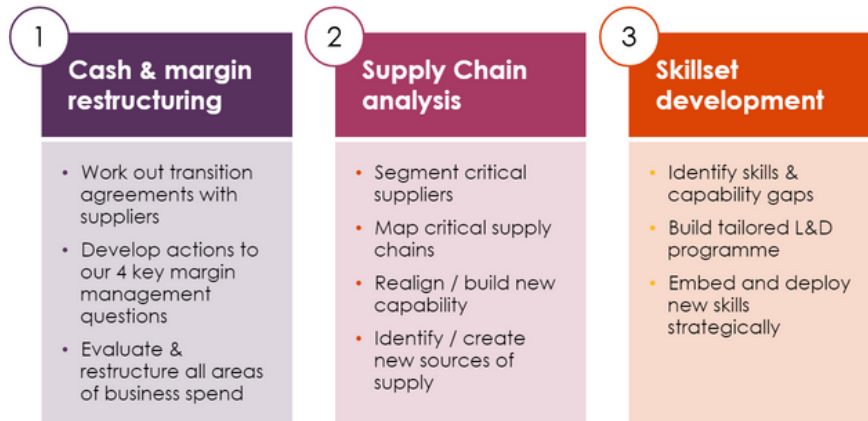
- **Terminate** the risk fully through mitigating actions. This should be the most favoured approach wherever possible as it eliminates the risk.
- **Treat** the risk by reducing the likelihood of it occurring and/or carefully managing its impacts
- **Tolerate** the risk and its impacts without taking any mitigating actions. With this option it is important to continuously monitor the situation as circumstances can quickly change and then require intervention at a later stage.
- **Transfer** the risk to another party who is prepared to take the risk on your behalf through a form of insurance or payment.

If you show your suppliers, partners, and wider supply chain respect, mutuality, and some love now, commercial and procurement teams are not only doing the decent thing, but also helping to protect the organisation in the immediate and interim term as well as positioning the business for the new normal.

2. Turnaround

Beyond the human side of this crisis, the immediate issues felt by organisations have mostly been caused by unprecedented changes in demand. Revenue has usually either fallen off a cliff (non-grocery brick and mortar retail, leisure & hospitality) or it has surged (grocery, PPE, online non-grocery) causing problems in the supply chain. Some of these issues were exacerbated by a lack of transparency in the structure of these supply chains. The main priorities in this interim period are to restructure your cost & margin base and to align your full supply chain, while developing critical skillsets:

Action plan 2: Turnaround response



Interim action 1: Cost & margin restructuring

The first interim action is to build a cost & margin structure that allows the business to survive until the crisis begins to fade.

Ideally, the outcome is a transition of existing supplier commitments into the New Normal (when it comes) and thereby build on the immediate actions to manage cash and risks from the first phase. However, that may not always be possible, but the key to success here is to review every commitment on its own merits and then engage with your suppliers to **work out the most appropriate transition agreements**. While this will help reduce the cost of change, you need to have strong supplier relationships in order to be successful.

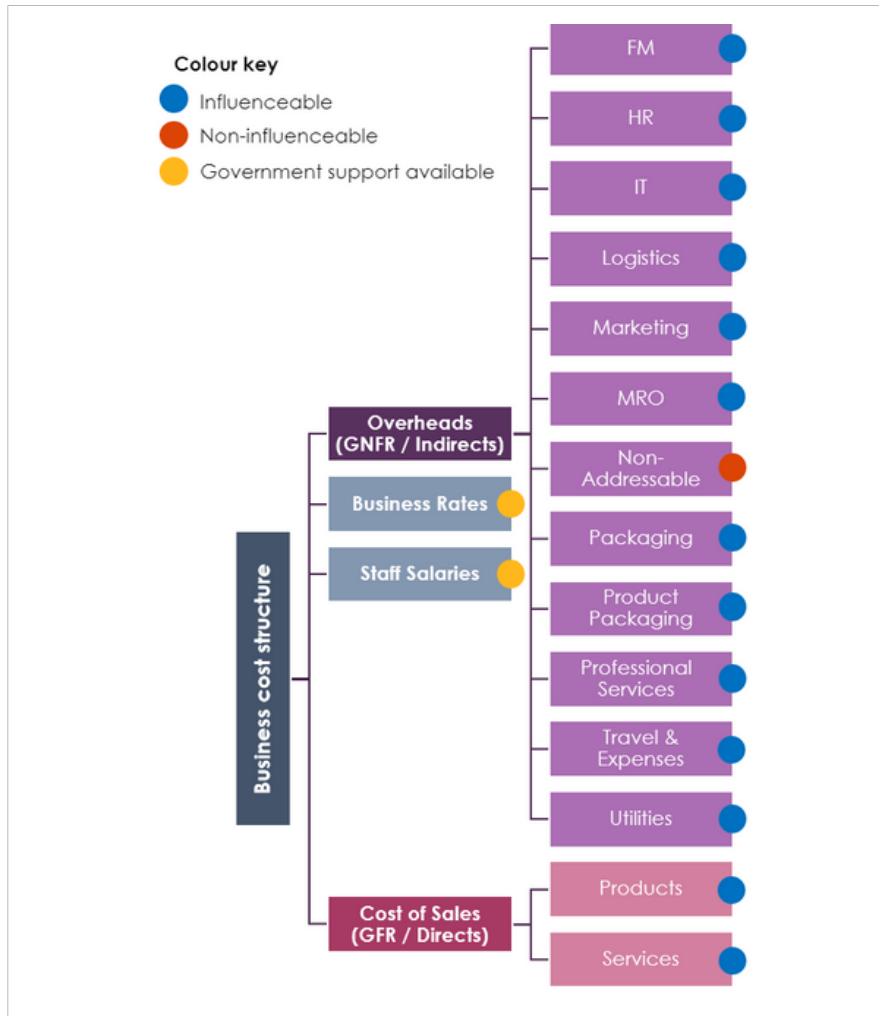
We sometimes encounter a belief that suppliers either like you or see you as an important partner because they supply you. While this can be true, the changes that need to be made to your cost and margin structure in the interim, require real and much deeper relationships founded on an alignment of objectives. If you are in a position where this has been achieved already, you stand a decent chance of suppliers supporting your changes through their approach and commercial model. If you are still working on achieving that level of relationship, you might struggle or take longer to implement these changes, with all the implications this longer timeline has on cash management. It is times like these where we truly see the **benefits of continuous supplier relationship management (SRM)**.

The second item to look at in parallel is margin management in whichever form relevant to your business (EBITDA, Intake, Gross or Net). At a minimum, you should consider your responses and actions plans to these 4 key margin management questions:

1. How will your interim operating model and indirect cost base impact margin performance of your business?
2. Is your current product and service range appropriate to fulfil demand and safeguard commercial requirements?
3. If you have reduced headcount, either temporarily or permanently, are you more reliant on your supply chain? How does that flow through to your margins?
4. Do you understand your supply chain in enough detail to have visibility of all possible margin-impacting bottlenecks and constraints?

In this guide, we are only considering the supplier-side elements of margin enhancement, but clearly there are pricing and sales-growth aspects that can and should also drive this margin improvement. Another area to consider is how to best tap into supplier led innovation to support these elements, which shows another form of supplier management that has historically been left sub-optimal by commercial teams.

Figure 2: Typical business cost structure with areas of action



Interim action 2: Supply Chain analysis

The second interim action is to segment and analyse your critical supply chain. Typically, businesses will need 70% to 90% visibility into their end-to-end supply chains to proactively address choke points that can affect revenue and costs. However, currently most businesses only have 20% visibility into their full supply chains. This is underlined by a survey conducted by Resilinc in late January and early February 2020, where 70% of respondents said they were still in data collection and assessment mode, manually trying to identify which of their suppliers had a site in the specific locked-down regions of China.

Clearly, this is not a desirable position to be in and must be remedied as quickly as possible. Many of the considerations from the previous sections are going to be influenced and informed by your level of supply chain visibility. Some of the most critical supply-chain related issues we see our clients facing include:

- Small suppliers, beyond tier 2, integral to the operation of much larger supply chains are at risk of going bankrupt due to cashflow issues
- Supplier staff may be constrained and supplier IP specific to your business is lost temporarily (or even permanently)
- Excessive international movements of materials throughout the supply chain

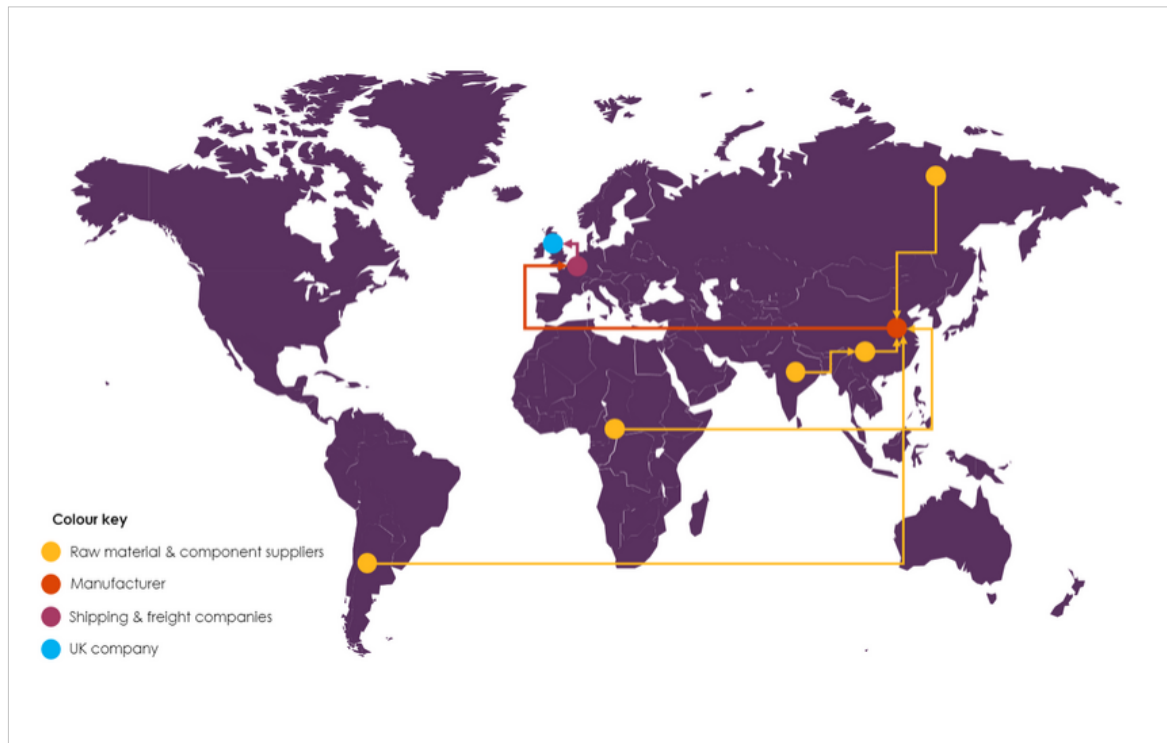
A prime example to illustrate many of the above points is the personal protective equipment (PPE) crisis. Political arguments around levels of stock and UK-internal logistics challenges apart, the issues with getting enough PPE into the country have been caused by the supply chain. In hindsight, the dependency on Chinese manufacture pre-crisis was too high. Factories were already at capacity before COVID-19 appeared and clearly this pandemic was not factored into any sourcing strategies. First these factories were locked down, then a travel ban was imposed grounding 75% of passenger flights, which contribute a lot of cargo capacity and thereby agility in supply chains. This means that though by Easter manufacturing was increasing, the ability to get it from China directly or through intermediaries was constrained. Taking a European view, PPE distributors and wholesalers have now exhausted their stocks and lead times for new orders are counted in weeks using expensive air freight or months using sea freight.

The implications from this example are that commercial and procurement managers need to understand their supply chains in a level of detail that has historically only been required for the most strategic suppliers. For every tier and level of your supply chain, commercial and procurement teams should understand 4 key supply chain transparency factors:

1. **Liquidity** position of suppliers
2. **Criticality** of the outputs to your businesses
3. **Relative power positions**, including Porter's Five Forces
4. **Cost structures** of fixed vs. flexible costs

Armed with this knowledge throughout your supply chain will allow you to make the correct decisions and ensure the continuity of supply chains. Additionally, it gives you the insights needed to identify new supply opportunities as contingency plans.

Figure 3: Typical global supply chain



Taking a holistic view of supply chains is not new for industries operating in just in time arrangements and on low margins (automotive, grocery), but what is new is the reduction in cross-border movement of goods. The current crisis will drive a restructure and localisation of supply chains across many sectors. BBC's Andrew Neil reports: 'When even President Macron says supply chains will have to become more French, from food to pharma, then you know globalisation will be in serious retreat in 2020'. The geographical shortening of supply chains was already under way due to automation but has now been accelerated as a way of shoring up supply chains for future pandemics or similar events.

This also means profound changes to commercial and procurement teams as the skills and capabilities needed for holistic supply chain management will be applied to more and more areas. **Skillsets of future procurement and commercial professionals will need to include expertise in:**

- Building and **aligning relationships**
- **Analysing supply chain liquidity** and cost structures
- Understanding and **managing power balances**
- **Driving strategic alignment** and process improvements

Introducing new sources of supply to disrupt existing dominant suppliers has been the preserve of the last chance saloon in the last 10 years or so, and as a result little has it been seen or considered due to 'costs of change' or perceived risk. Now, in the space of days we have had no issues buying hand sanitiser from Brewdog or LVMH.

4C has recently helped matchmake spare logistics capacity from food service companies impacted by the closure of most hospitality into the grocery supply chain who were struggling under a surge in demand. The more commercial and procurement professionals can do to make these options reality, the better for all concerned.

3. Evolution

Whilst many will talk about a return to business-as-usual 'once this is over', there is a reality for most organisations that the business will not return to the way it was, or at least not for some time to come. As highlighted in the executive summary, the latest estimate from scientists at Harvard University is that "intermittent distancing may be required into 2022 unless critical care capacity is increased substantially, or a treatment or vaccine becomes available". Buying habits may not ever return to the way they were as many customer priorities will have reconfigured their priorities, operations may need to be restructured to deal with increased cautionary measures, and Procurement and Supply chains may need fundamental reviews.

This review must consider the immediate crisis actions taken, the turnaround measures implemented and the changing requirements of the New Normal to ensure that today's supply chain will not only survive the next 6-12 months, but also reflect the changing needs downstream to the ultimate end-user or customer. This process needs to start today with a dedicated team able to work with the uncertainty that is part of any crisis.

With any such transformation team, we always start with a **5-point plan**.

Action plan 3: Evolution response



Once you have agreed your renewed vision and mission, it is worthwhile considering each of the ROI operating model areas (Relationships, Operations, Infrastructure) to help build the detailed roadmap for change. One piece of advice to give here is that there is no point in striving for absolute perfection in such volatile times. Instead, your focus should be on moving to an operating model that fully accommodates the extreme levels of uncertainty.

Relationships

People

The way we work with our team-mates and colleagues will have changed. Localisation, transparency and collaboration will be the new normal and these require different skillsets in addition to the current supplier management approaches.

Customers

Customers will have different value propositions. Holistic evaluations of supply choices and the transparency of that decision making will become more important for a wider and more involved set of stakeholders.

Suppliers

Supply chains will need to be more resilient, and with the reduction of globalisation, we will need much closer ties between each other.

Operations

Process

We have seen that offices are less important than we thought they were and crossing borders can be more difficult. In a first step, simply asking suppliers what they would now change about existing processes will drive a step change in performance.



Policy

The mandate for procurement has never been greater and big strides have been made in sourcing activity in recent years but more needs to be done. SRM should move out of the preserve of operations who were more interested in ensuring good relationships than they were in risk and supplier management. Procurement policies should be revisited off the back of the COVID-19 learning to ensure that supplier management policies are bolstered, and best practice rolled out across the organisation.

Structure

General awareness of procurement's importance has never been greater. Procurement and commercial teams need use this moment to reposition themselves as an integral function working with any part of the organisation that involves external suppliers. It is critical that it is not seen as an administrative function, as has been the case in some organisations, but as a peer with board access and mandate.

Infrastructure

Technology

Automation was already under way and will lead to a degree of nearshoring and onshoring as we move away from reliance on cheap sources of supply in the Far East. Combining this with a new value proposition from customers means that current technology is not sufficient and needs to be upgraded to accelerate this scenario.

Culture

Sustainability was becoming more prevalent in decision making before COVID-19 occurred. The community spirit and concern for each other during the fight against COVID-19 will become embedded in our business relationships.

Assets

We are seeing an increase in the sharing of assets such as IP, capital assets and resource. This will be adopted beyond the crisis as normal practice.

Conclusion

In the **immediate Crisis**, many quick fixes have been undertaken to shut off unnecessary spend as a necessity to survive. The question we consider with clients now is whether they were done to their fullest, and/or risk free without longer term consequences.

Looking at the **Turnaround period** before the crisis subsides, this is where the biggest shock to supply chains will be felt. We can already see bottlenecks emerging from the likely supplier bankruptcies as well as from resource constraints within supply chains. This is going to require vastly greater transparency than most organisations currently have as well as a change in relationship style. Businesses will need to look collaboratively and end-to-end in the chain, sharing risk and value, to make them more sustainable. A skill set not common at present.

New sources of supply, either geographically or for related sectors as supply chains shorten, will require that collaborative and innovative mindset that is not working in most supply chains. Organisations will need to allocate and supplement this scarce resource whilst capability development programmes are deployed.

Customers are likely to change their value proposition in the short and medium term to reflect the coming together of society to fight COVID-19 on the human level. How long this will last is unclear, but sustainability of small suppliers and localisation of supply was coming before COVID-19 and will now accelerate. Procurement and commercial need to enable transparency to ensure that we can deliver this expected new value proposition without supporting profiteering through unjustified cost increases.

Moving to the **Evolution towards a New Normal**, the commercial and procurement vision and strategy must be renewed and then again, every 3-5 years. This ensures it continues to fit the overall business strategy and serves its purpose in enabling the ultimate business vision. In addition, now is the time to start developing and implementing changes to your operating models across Relationships, Operations and Infrastructure.

If nothing else, COVID-19 has demonstrated to the world the vital importance of commercial, procurement and supply chain teams, and presents one of the greatest opportunities to reset the procurement dial in your organisation. The current situation has highlighted in the most terrible way possible that we should invest in our supply chains and ensure they serve us for all scenarios, not just the race to the bottom of short-term margin. Perhaps the customer and we all will benefit!

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