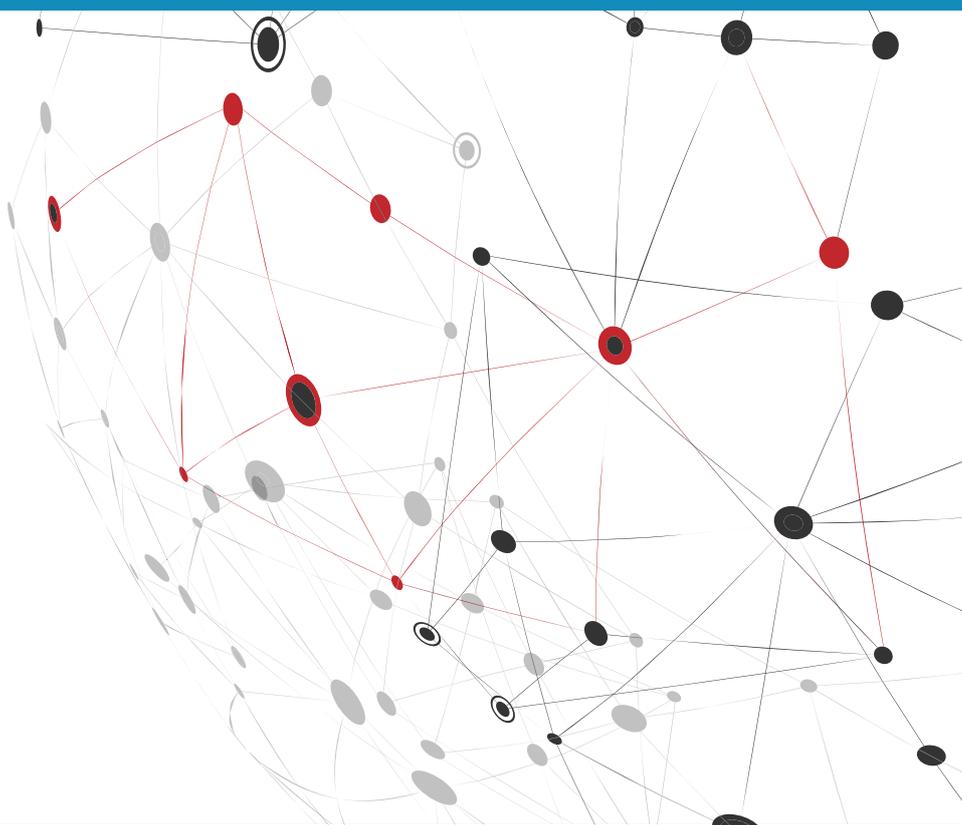


Covid-19

Procurement Impact: Responses & Strategies

Survey of Procurement Leaders



- > The impact of Covid-19 on supply and suppliers
- > The responses already taken, and planned, by procurement professionals
- > The challenges for procurement in the next phase of recovery



Understanding the impact of Covid-19 on Procurement

With supply chains severely disrupted, low goods inventories across the board, difficulties in securing credit and many companies having gone out of business, there will be huge challenges to overcome. These challenges will be seriously compounded when the government winds-up its business support programmes, leaving already struggling companies to fend for themselves.

“Our view is that on a micro-level any recovery promises to be far from smooth.

The effect of Covid-19 on businesses has been both wide-ranging and substantial; from temporary shutdown, significant levels of staff furlough and a third of businesses reporting cashflow issues”

Richard McIntosh
Managing Partner
Procura Consulting Ltd

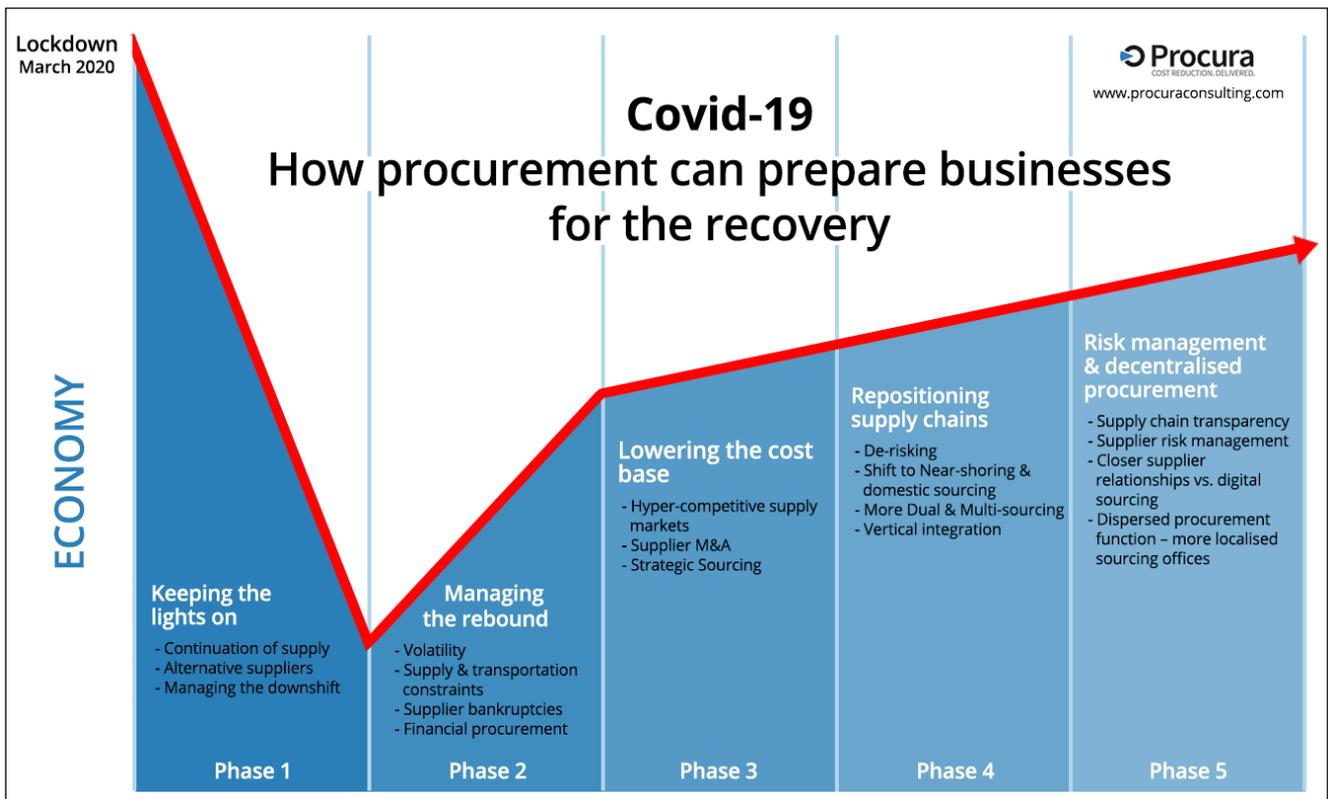


The way that procurement functions navigate this road to recovery will have a big impact on whether their companies are fit to face the future.

We consider that there will be a number of phases to the recovery and procurement teams will need to tackle a number of significant challenges in each phase of the recovery, taking the opportunity to adjust their cost base, reposition their supply chains and add future value to the bottom line.

Procurement functions have always been at the heart of operations, managing complex supplier relationships and driving efficiencies. With the impact of Covid-19, their expertise is central to maintaining business momentum.

The last eight-weeks have required procurement professionals to react to radical impacts to their businesses, their markets and their suppliers.





The Covid-19 Responses & Strategies survey

This survey asked 9 questions:

Impact on supply & suppliers

- Q1) What has been the impact of Covid-19 on your business activity/customer demand?
- Q2) What has been the effect of this?
- Q3) What has been the impact of Covid-19 on the supply of goods and services to your business?
- Q4) What has been the impact of Covid-19 on your supply base?
- Q5) Approximately what percentage (by value) of your supply base has been affected?

Procurement responses

The responses that have already been taken, or are planned for the immediate future, by procurement professionals.

- Q6) What responses have already been taken, or are planned for the immediate future, by procurement professionals
- Q7) What tactical measures are you planning for the near future?

Challenges for procurement in the next phase

The challenges for procurement as lockdown restrictions are eased and economic activity rebounds.

- Q8) What challenges do you foresee for the immediate future?
- Q9) How will procurement functions need to respond?

The Procura Covid-19: Procurement Impact, Responses & Strategies survey was completed by over 200 senior procurement and finance leaders and examines the effect of the Covid-19 pandemic, immediate responses to the crisis, and strategies for the recovery.

Conducted during the lockdown and with a view to economic restart, the survey revealed:

- 87% of businesses negatively impacted,
- A third of businesses dealing with cashflow issues
- Significant impacts to a high percentage of businesses' supply chains,
- High levels of supplier financial pain, with 14% dealing with supplier insolvencies
- Strong upward price pressure

Procurement Leaders are employing a wide-range of commercial and logistical responses; from collaborative supplier support, to commercial renegotiation and re-contracting, through to rapid sourcing of new suppliers and complete supply chain reconfiguration.

Restart will certainly not be straightforward. The survey also highlights a timeline of challenges that will need to be addressed as economies unfreeze and businesses restart:

- Credit and cashflow causing friction in supply chains
- Supplier liquidity problems and supplier insolvencies
- Cost inflation manifesting in supplier price increases

Underpinning the responses, is a common view that procurement functions must become more agile, flexible, and responsive

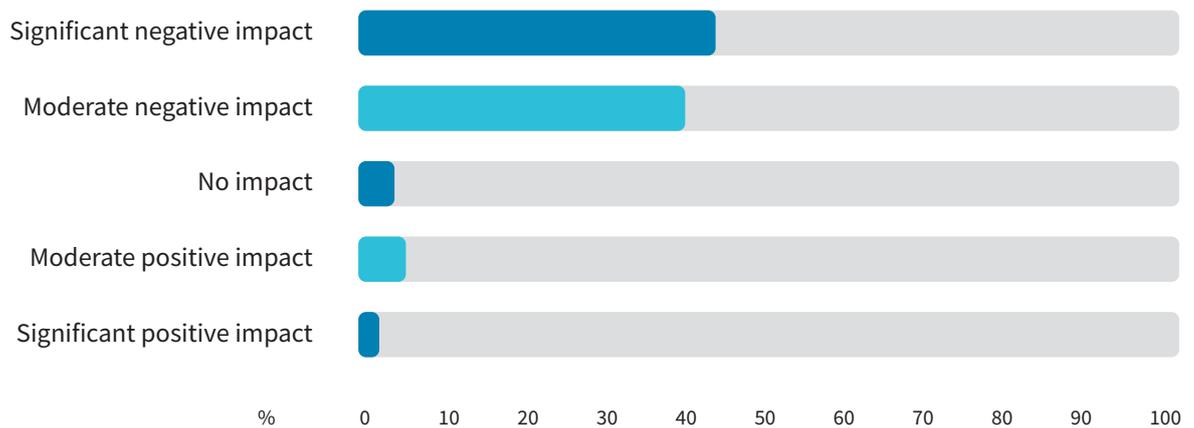
Looking forward, Procurement Leaders outline a range of strategies. The themes are primarily around strategic de-risking; widening the supply base (developing new suppliers and supply routes), and then monitoring and managing – not just tier-one suppliers but entire supply chains.

Procurement Excellence will be a key differentiator for businesses in the recovery from the economic impact of Covid-19.

[We provide eight actionable recommendations to guide procurement strategies in the next phases of recovery.](#)



Q1: What has been the impact of Covid-19 on your business activity/customer demand?

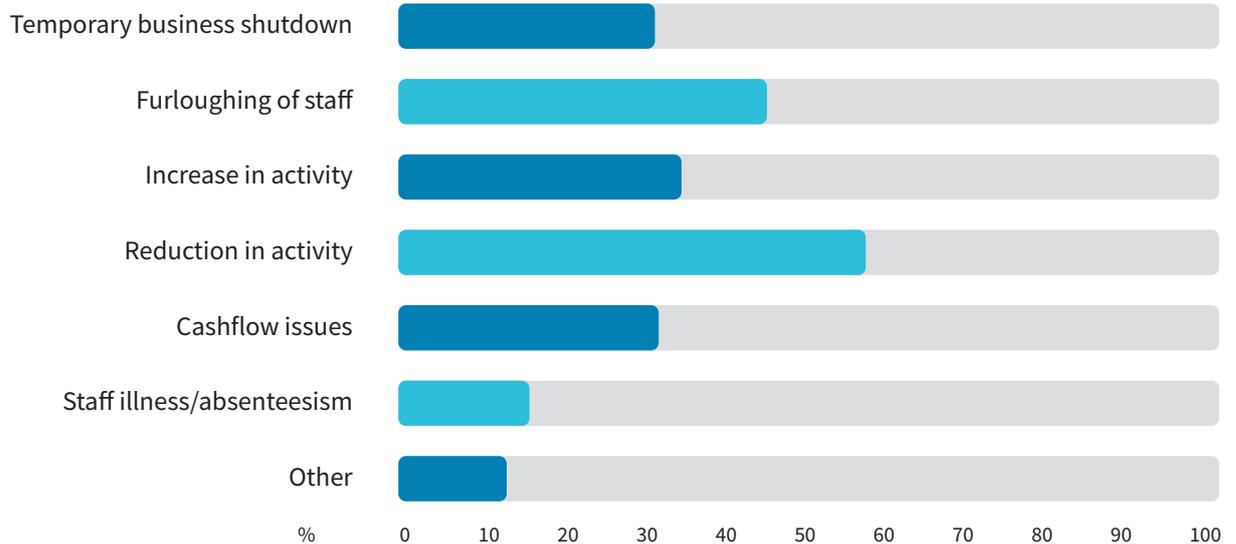


A: Covid-19 has had a huge impact on business activity

- 86.8% of businesses have been negatively impacted by Covid-19
- Only 8.5% of businesses have had some degree of positive impact



Q2: What has been the effect of this?

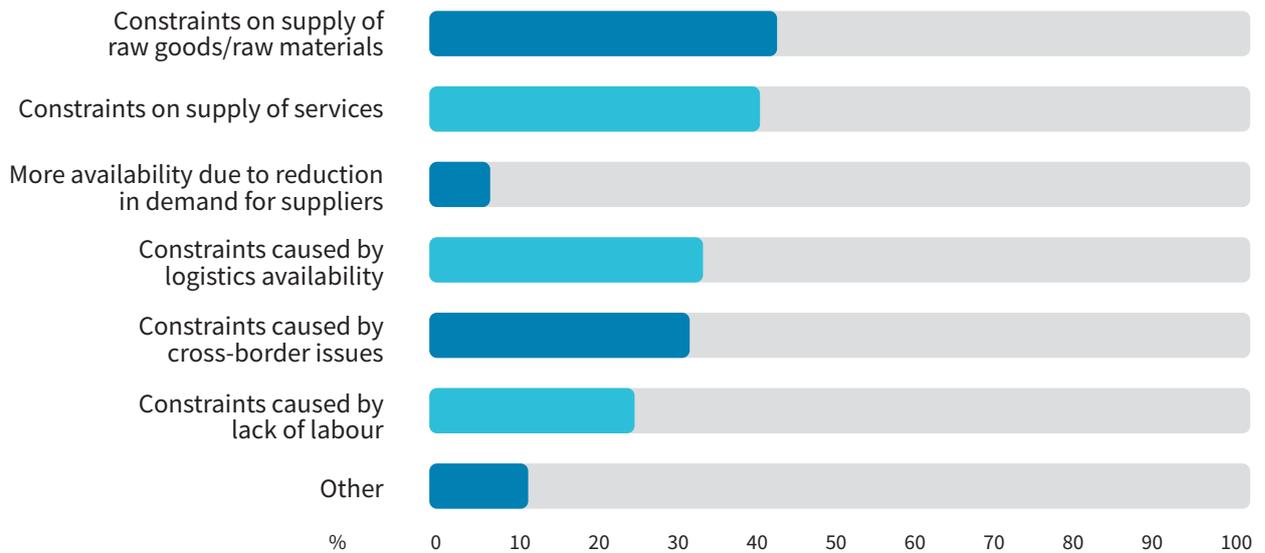


A: The effect of Covid-19 on businesses has been wide-ranging and substantial; from temporary shutdown, to significant levels of staff furlough and a third of businesses reporting cashflow issues

- Nearly a third of businesses have been temporarily shutdown
- Approaching half of businesses have furloughed staff, and
- More than 50% are reporting a reduction in activity
- A third of businesses have cashflow issues



Q3: What has been the impact of Covid-19 on the supply of goods and services to your business?



INSIGHT:

Dealing with supply impacts due to logistics will be familiar to most procurement functions and one that is often managed by existing expediting or operational resources in the business.

However, the impact to the supply of services through lack of labour is likely to be a new challenge. This will be one where different skillsets, some financial, will be required to restart and scale-up supply in the rebound phase.

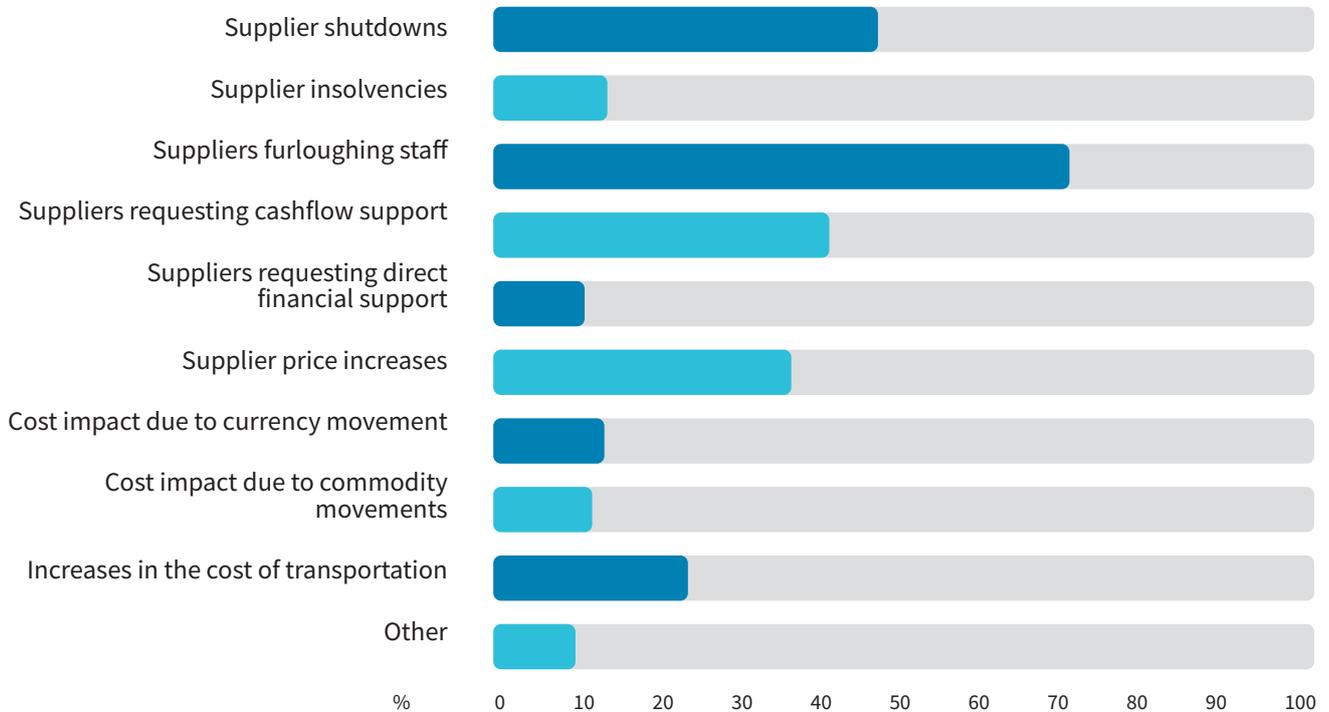
As lockdowns in different countries and regions are eased in different ways and at different times, constraints caused by lack of labour will continue to cause supply issues for some time.

A: Procurement functions are dealing with a wide range of immediate challenges to securing the supply of goods and services to their businesses.

- 44% are reporting constraints in the supply of goods, with significant impacts from logistics availability, and cross-border transportation issues.
- Constraints on labour in the supply base are adding a new layer of restriction, with 42% reporting constraints in the supply of services.



Q4: What has been the impact of Covid-19 on your supply base?



INSIGHT:

In the immediate term, procurement functions will need to deal with significant disruption to their supply bases.

Restarting supply, and then returning suppliers to required activity levels will require focus and resource, whilst finding alternative sources to replace failed suppliers will be a top priority.

The second wave of impact will be commercial. All indications are that businesses are facing, and will continue to face, price inflationary pressure. Temporary price increases granted to maintain supply will be difficult to fully reverse, and procurement leaders will need to find a delicate balance to ensure suppliers do not fail without conceding to cost pressures.

A: The impact of Covid-19 on suppliers points to a very significant challenge to businesses in the recovery phase.

Suppliers are demonstrating a high-level of financial pain resulting in requests for cashflow support, increased cost of transportation and upward price pressure.

- 72% report suppliers furloughing staff with nearly 47% reporting suppliers in shutdown
- Significant levels of supplier furlough and shutdown will equate to a time lag in restarting operations and consequential return to supply.
- Responses also show a high level of financial pain in the supply chain .. with resulting cost pressures.
- Worryingly, nearly 14% of businesses reported an impact from supplier insolvency
- Nearly 10% report suppliers requesting direct financial support, with over 40% reporting suppliers requesting some form of cashflow support
- 35% have reported supplier price increases with cost pressures from a range of sources.
- 25% have reported cost increases due to increasing cost of transportation



Q5: Approximately what percentage (by value) of your supply base has been affected?

What percentage of your supply base has been affected?



INSIGHT:

The scale of the challenge should not be underestimated; in terms of the impact, the scale and the subsequent workload on procurement functions.

Whilst managing operational issues in the supply base is “business as usual” for procurement functions, it is the scale of the impact of Covid-19 that is unprecedented. With the value of impact so significant, procurement leaders must dedicate a high percentage of procurement resources to dealing with the immediate effects and recovery action.

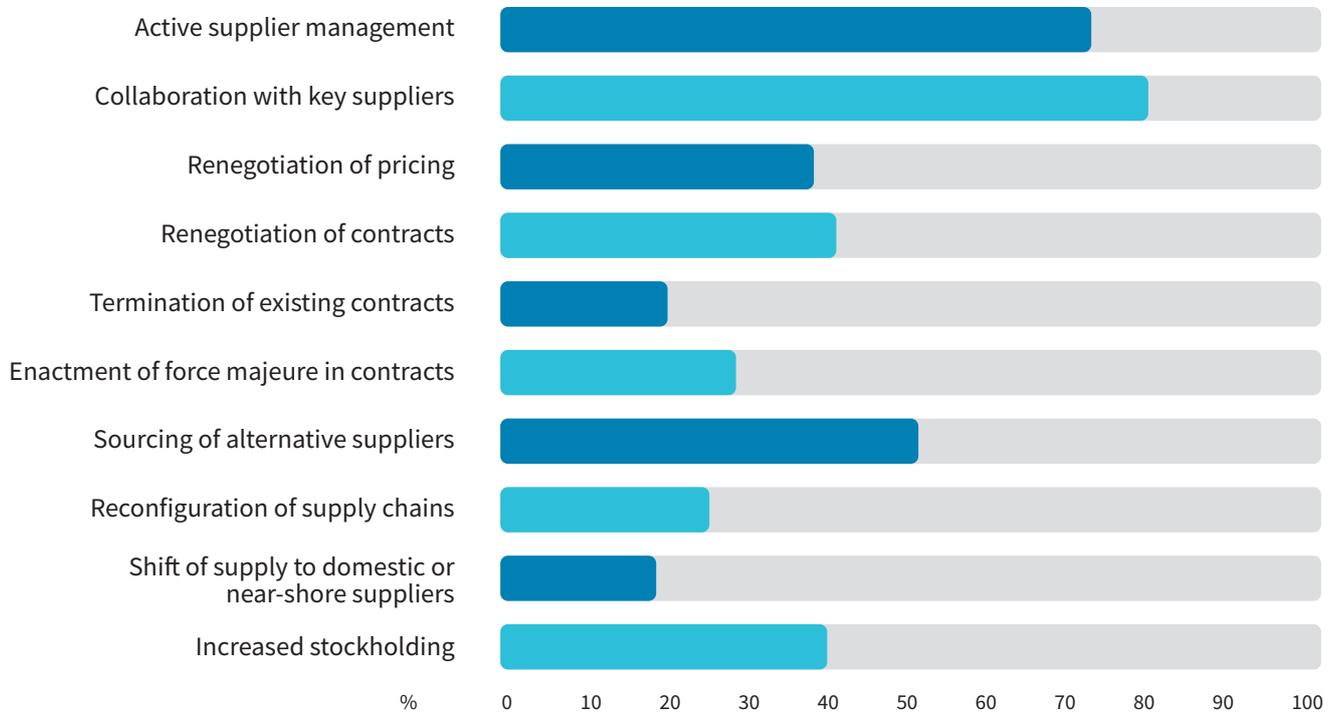
Many businesses will simply not have the expert procurement resources to manage the impact. If they do, resources will need to be directed away from strategic initiatives for the foreseeable future.

Businesses that have, or can access, skilled procurement resources will simply be able to recover faster.

A: Results indicate that businesses are dealing with the impact of Covid-19 in over 50% of their supply base



Q6: What measures have already been taken in response?



INSIGHT:

Procurement functions need to be able to utilise a complete toolkit to deal with the impact of the pandemic on their supply chains.

Procurement leaders will need to employ a wide-range of measures ranging from hands-on, collaborative support, to hard commercial re-contracting and re-negotiation, through to re-sourcing of supply and complete supply chain reconfiguration.

CEOs and Boards will rely on their procurement functions to not only mitigate the immediate impact but, equally importantly, to rapidly reset and rebuild a robust and profitable supply base. The role of the Procurement Leader is key.

Businesses without procurement capability and businesses with only transactional purchasing functionality will be massively disadvantaged.

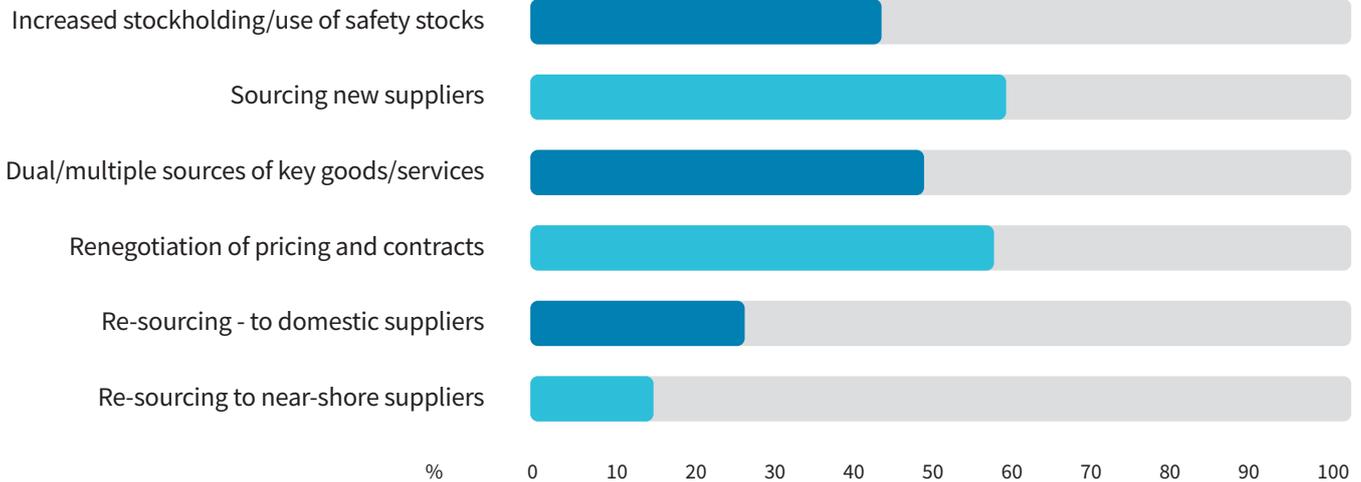
In dealing with the impact of Covid-19 and in the subsequent recovery, Procurement Excellence will be a significant competitive advantage.

A: Procurement leaders are employing a wide-range of commercial and logistical responses.

- 40% of businesses have increased their own stock levels as an immediate response.
- The large majority (>75%) of businesses are working WITH their suppliers, either through active management and collaboration.
- There is also significant use of commercial levers; renegotiation and/or termination of contracts and renegotiation of pricing.
- Nearly 30% of businesses reported use of “force majeure” as a response.
- Results show a significant level of sourcing activity; more than 50% sourcing alternative suppliers.
- Other responses include extending supplier payment terms



Q7: What tactical measures are you planning for the near future?



INSIGHT:

Covid-19 will drive a high-level of sourcing activity; to bring on-line alternative and source new suppliers, to mitigate risk and to shorten supply chains.

The planned responses highlighted by the survey outlined three key sourcing themes that will be key drivers in the recovery phases.

The first theme is sourcing new suppliers, as an immediate response to supply constraints and failed suppliers. We foresee an increasing number of supplier insolvencies through the recovery phases.

The second theme is the use of sourcing strategy as risk mitigation, though dual sourcing or multiple sourcing. We foresee this strategy being utilised not only for critical goods and services, but becoming a standard approach with companies accepting the trade-off of under-leveraged economy of scale for supply risk mitigation.

The third theme will be a shift to domestic or near-shore suppliers. Over the last twenty-years the trend to offshore supply to low cost countries has been consistent. We foresee a slowing or possibly reversal of this trend as businesses seek to shorten supply chains and reduce supply chain risks.

A: Increasing stockholding and use of safety stock a key response.

- 44% of businesses plan to increase stock as a tactical measure

A: Procurement focus is shifting to sourcing.

- 60% of businesses plan to source new suppliers

A: Domestic sourcing and/or near-shoring supply a key theme.

- Significant trend to domestic sourcing (27%) and/or near-shoring supply (15%)



Q8: What challenges do you foresee for the immediate future?

INSIGHT:

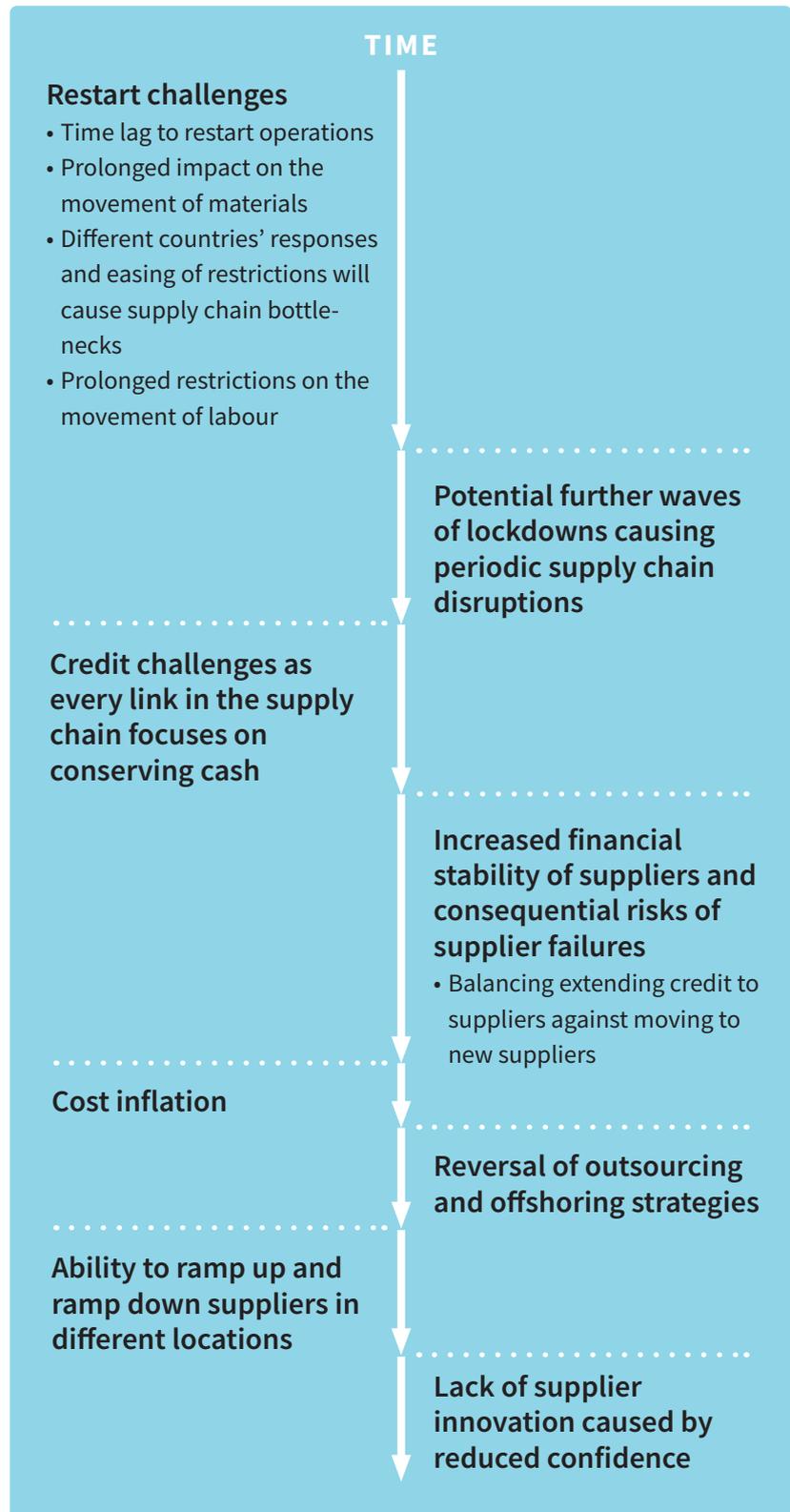
Procurement leaders have highlighted a timeline of challenges that will need to be addressed as economies unfreeze and businesses restart.

Restart will not be simple. With complex, multi-national supply chains, the effect of different countries' policies will cause ongoing supply difficulties.

In the short term; potential further waves of lockdowns, even internationally, could cause further waves of disruption.

Credit and cash will cause friction in supply chains as every link in the supply chain conserves cash. Supplier liquidity problems and supplier insolvencies are a concern to nearly all procurement leaders.

Critically, the most common challenge foreseen by procurement leaders is cost inflation. Inflationary pressure is highlighted over and over, in raw materials, through exchange rates, in transportation (despite the oil price being at an all time low) and manifesting in supplier price increase requests.





Q9: How will procurement functions need to respond?

INSIGHT:

Procurement leaders are pragmatic in their view of what is needed.

The themes are primarily around strategic de-risking; widening the supply base (developing alternative suppliers and supply routes), and then monitoring and managing – not just tier one suppliers but entire supply chains.

Risk management may have once been an annual administrative exercise to tick a box for the corporate risk register. It clearly now moves to centre-stage and may be the key driver of procurement strategies for the next few years.

There are also high concerns related to the financial viability of suppliers. Fear of supplier failure is clearly focusing the minds of procurement leaders and the need for robust management of financial stability and cash liquidity is highlighted.

Savings delivery is certainly not forgotten, but it is balanced with a pragmatic understanding that unavoidable cost increases will need to be offset through savings delivery elsewhere in supplier portfolios.

SRM, Supplier Relationship Management, is identified as becoming more important, with the need to form stronger partnerships with strategic suppliers to work together for the longer term.

Underpinning the responses, is a common view that procurement functions must become more agile, flexible and responsive in the future.

Widening the supply base

- Increased knowledge of alternative suppliers
- Development of new suppliers

Savings delivery

- Renegotiation and aggressive leverage in competitive markets
- Cost reduction programmes to offset price increases

Sourcing agility, flexibility and responsiveness

- Ability to move quickly
- Well planned but flexible
- Limited or no commitment to suppliers

Supplier Relationship Management more important

- Work together, for the long-term, with strategic suppliers

Robust supplier evaluation and monitoring

- Ongoing financial assessment of suppliers
- Monitoring of credit ratings
- Monitoring supplier liquidity
- In depth discussion with suppliers around cash positions

Strategic sourcing for supply chain resilience

- Dual sourcing
- Alternative suppliers and alternative supply routes

Domestic sourcing

- Reshoring of supply to shorten supply chains and add flexibility

Active risk management

- Rigorous planning
- Management of contracts

Supply chain mapping and management of supply chains

- Immediate risk assessment
- Active Management of supply chains – not just 1st and 2nd tier
- Systemised monitoring



Recommendations

Procurement Excellence will be a key differentiator for businesses in the recovery from the economic impact of Covid-19.



Executives

We recommend you invest in and empower your procurement leaders. The impact from skilled and expert procurement functions has never been more needed and many companies are facing challenges with managing resource, expertise and delivery. Contact us to access expert support.



Procurement Leaders

We recommend you focus on eight areas;

1 **Think cash** - Preserve cash and manage supplier payments. Cash management will be critical to survival through the recovery.

2 **Managing the Restart** – focus resources on “hands-on” supplier management... and act AGILE. 

3 **Supplier financial viability** – protect yourself from supplier distress and potential failure. Implement immediate supplier evaluation and ongoing financial monitoring. Discuss liquidity as part of business-as-usual communication.

4 **Sourcing** – use sourcing to manage risk and to take advantage of opportunities. Dual source and multi-source; not just for critical goods and services. Develop alternative suppliers and alternative routes of supply.

5 **Challenge cost pressures and leverage opportunities** – challenge price increases to ensure they are justified, or just temporarily essential for short-term supplier viability. Offset increases with a programme of opportunistic cost reduction. Take advantage of excess capacity and increased competition where possible, in order to drive savings. Underlying cost drivers have not changed – ensure negotiations are based on fundamentals.

6 **Supplier Relationship Management** – segment your strategic suppliers and formally work together, for mutual benefit and for the recovery and for the longer term. Formalise SRM in your business.

7 **Supply chain mapping and management** – know your supply chain not just your tier one suppliers. Map complete supply chains, identify critical points and build into your sourcing strategies.

8 **Risk management** – identify risks, engage all stakeholders in your business to work out mitigation strategies and bring risk management to the top of the agenda

PROCUREMENT AGILITY IN THE NEXT PHASE OF RECOVERY: FOUR TACTICS TO CONSIDER

1. Be able to spot-buy from a range of sources... To take advantage of availability and price... and to mitigate risk.
2. De-couple supply from logistics... be able to use alternative logistics providers and alternative routes
3. Avoid commitment... to volumes or to contracts
4. Be able to trade “financially”. Payment terms will be a strong hand in negotiations. Cash is king.

UNDERLYING COST DRIVERS HAVE NOT CHANGED!

Logistics price premiums are only temporary - the underlying cost driver is the lowest it has been for five years



We are specialists in procurement cost reduction

Our experienced consultants work with organisations in many sectors and are experts in delivering sustainable savings from purchased goods and services.

We provide a range of professional services that help clients improve operational performance and profitability - from identifying and evaluating opportunities for savings, to implementing and managing category-specific cost reduction programmes. We work closely with your teams to embed best practice and ensure that procurement spend is optimised – and stays optimised.

We're focused on building long-term partnerships with our clients that deliver ongoing cost reduction and continuous improvement in procurement processes that add value to the bottom line. Our fees are based on the savings we are able to achieve, so there's no financial risk for clients because projects are self-funding.

Our consultants are constantly sourcing, on behalf of clients and for our own frameworks and have exceptional supply market knowledge, combined with a deep understanding of the latest procurement techniques, strong analytical skills and excellent project management capabilities.

If you would like to talk about how Procurement Excellence can improve the profitability of your organisation, please get in touch on:
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