

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



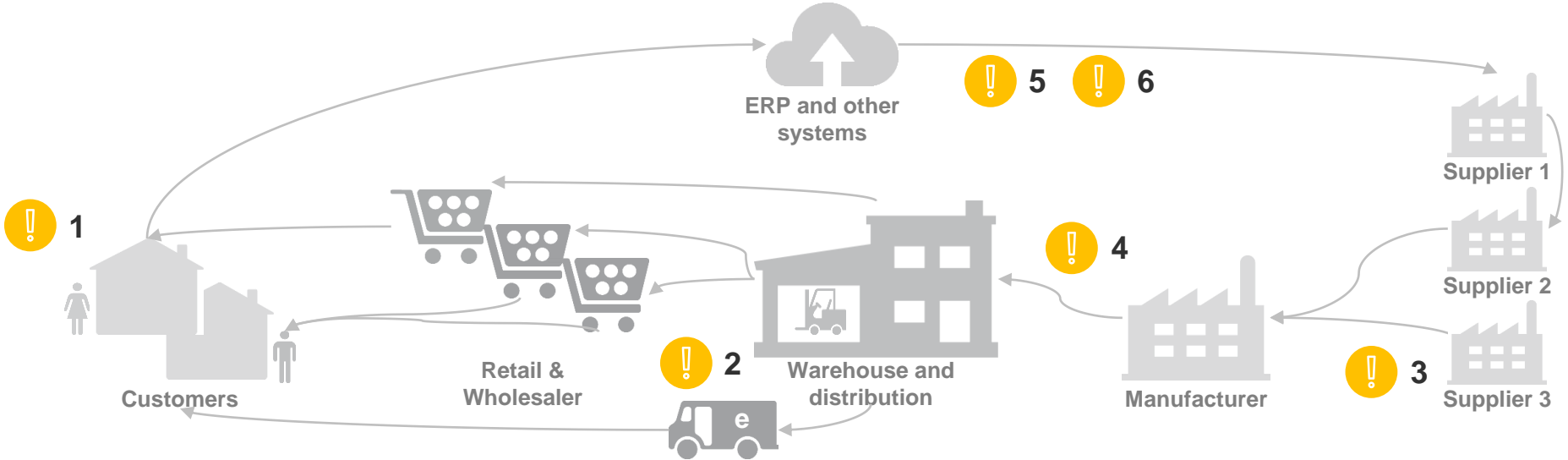
Improve supply risk management capabilities



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?

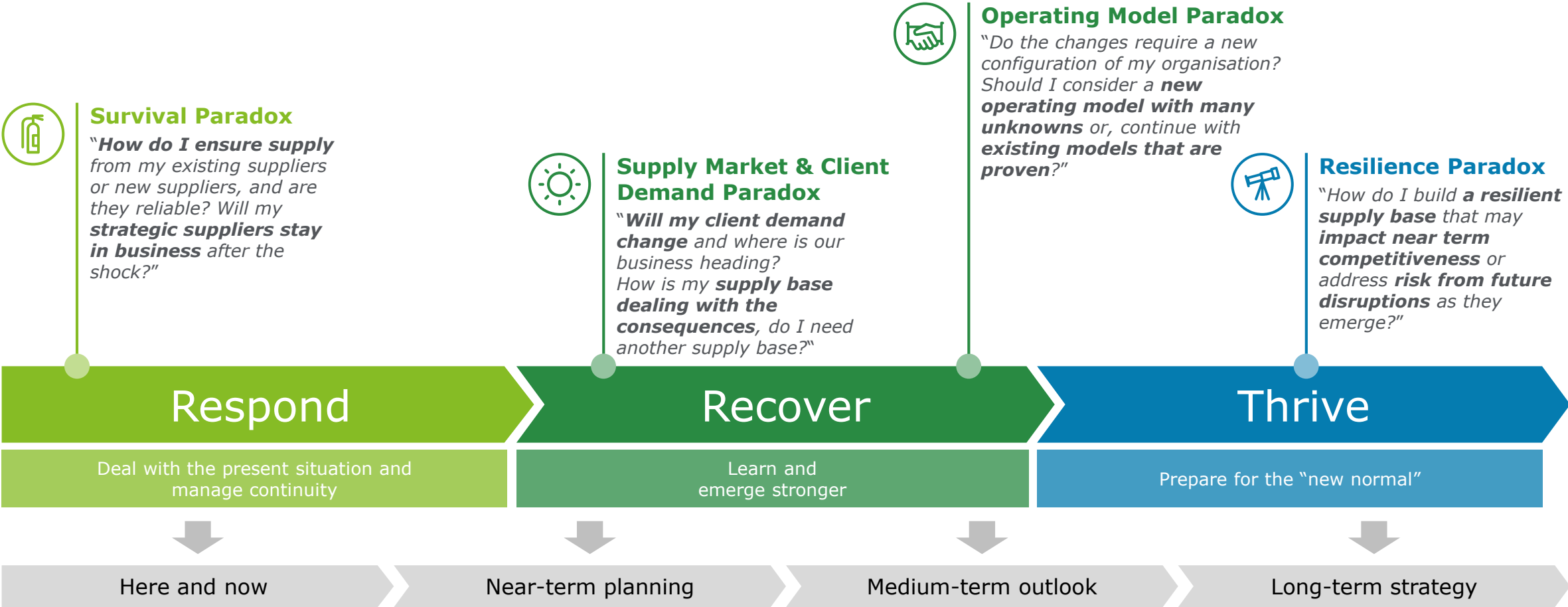
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Governments are helping

How to take advantage of the relief being offered by Government?

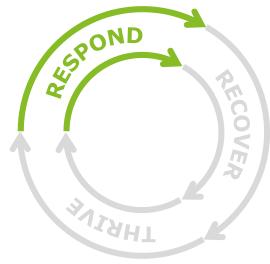
Our Respond, Recover, Thrive framework



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



Initial stage of the crisis

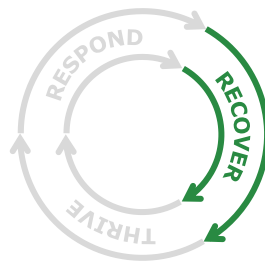
Respond | Deal with present situation & manage *continuity*







		Actions	Key Capabilities	Value Propositions
 Supply is secure		<ul style="list-style-type: none"> Gain visibility of supply risks and shortages Assess substitute suppliers and materials Safeguard transport 	<ul style="list-style-type: none"> Supply and capacity risks assessment Commodity price risk / volatility management – commodity segmentation Transportation mode and capacity evaluation 	<ul style="list-style-type: none"> <input type="checkbox"/> Initial Risk Exposure Assessment <input type="checkbox"/> Supplier Visibility, Risk Sensing and Mitigation <input type="checkbox"/> Commodity risk management <input type="checkbox"/> Transportation Sourcing
	 Cash is king	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> <input type="checkbox"/> Storage Crisis Center <input type="checkbox"/> Safety Stock adjustments (planning) <input type="checkbox"/> Accounts Payables Management <input type="checkbox"/> 360° Working Capital monitor <input type="checkbox"/> Stress tests

Likely current stage for most of our clients

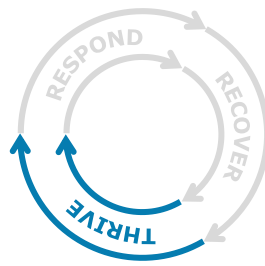
Recover | Learn & emerge *stronger*







	Actions	Key Capabilities	Value Propositions
 Visibility is Precious	<ul style="list-style-type: none"> Enhance visibility of supply network to identify risks and capacity constraints Reassess commodity risk/volatility trends and quantify exposure 	<ul style="list-style-type: none"> Supplier Risk Management (Tier 1 and 2) Commodity risk management 	<ul style="list-style-type: none"> <input type="checkbox"/> Multi-tier Visibility, Risk Sensing and Mitigation <input type="checkbox"/> Commodity Risk Management
 Supply is diversified	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Supplier Risk Management (Tier 1) Supplier Stabilization support Cost reduction assessment Supplier Qualification Cross-Supply Chain understanding and collaboration 	<ul style="list-style-type: none"> <input type="checkbox"/> Supplier Tiger Teams – supplier collaboration <input type="checkbox"/> Cost transformation program <input type="checkbox"/> Sourcing strategy reassessment <ul style="list-style-type: none"> - Diversify - Multiple sourcing - Supplier Qualification <input type="checkbox"/> Supplier & Trade Compliance Management
 Stock is rebalanced	<ul style="list-style-type: none"> Re-balance stocks levels – create revamp scenarios together with operations Reassess category strategy in alignment with supply chain planning 	<ul style="list-style-type: none"> Scenario based storage planning Category strategy management 	<ul style="list-style-type: none"> <input type="checkbox"/> Inventory analysis and control methods (planning) <input type="checkbox"/> Category strategy management
 Customer demand is changing	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Customer survey - data analytics Ideation with suppliers – lean start up POC approach 	<ul style="list-style-type: none"> <input type="checkbox"/> Customer survey – data analytics <input type="checkbox"/> Supplier collaboration – Strategic Alliances <input type="checkbox"/> Sourcing led innovation

Build the foundation for the future

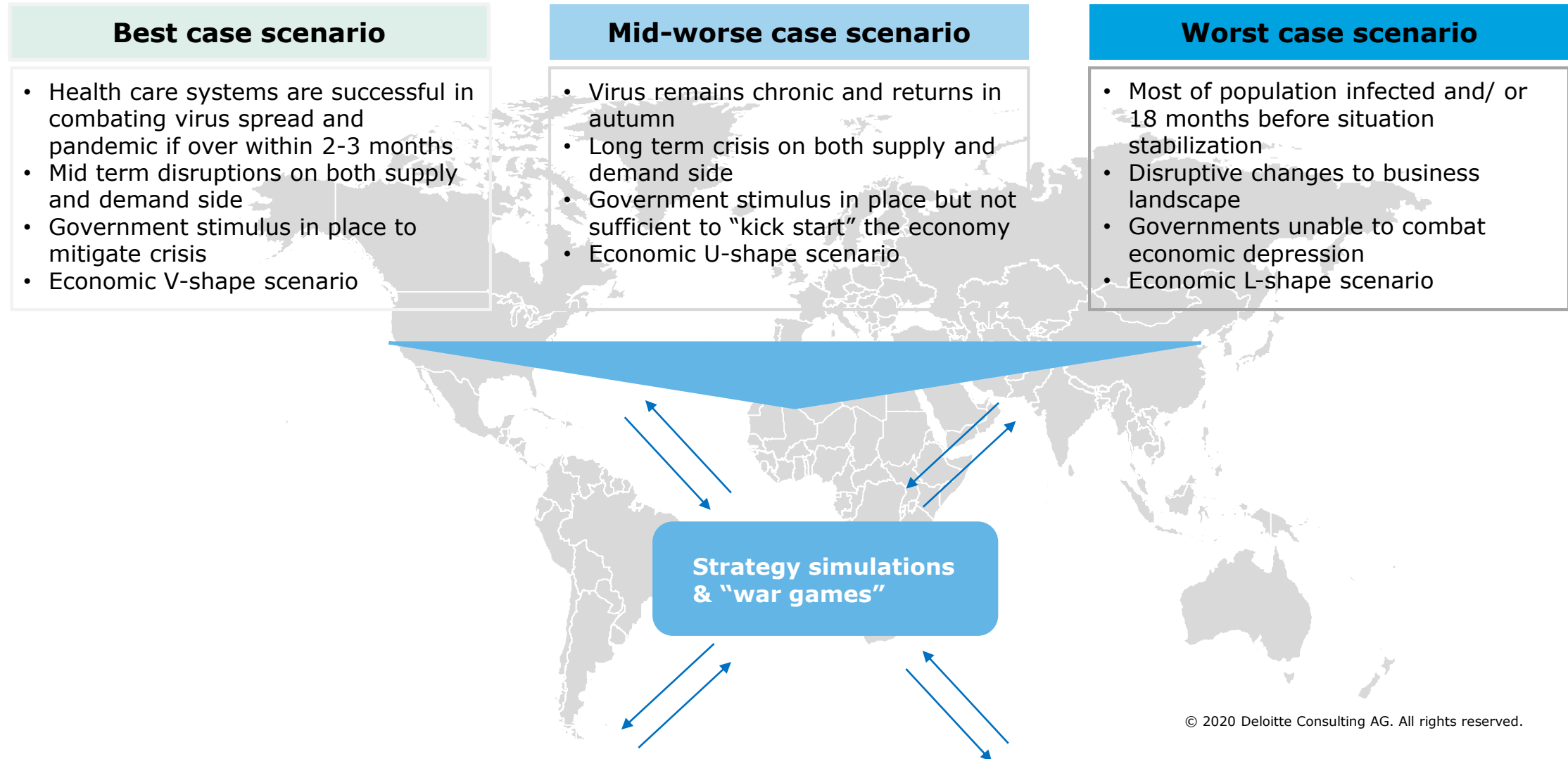
Thrive | Long-term strategy and capability building



	Actions	Key Capabilities	Value Propositions
 Value chain is illuminated	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • Advance analytics such as deep web crawlers and AI • Monitor spend 	<ul style="list-style-type: none"> <input type="checkbox"/> CentralSight - Supply Network Illumination - n tier supplier <input type="checkbox"/> Cognitive Spend
 Sourcing is resilient	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • E2E Sourcing strategy • Procurement operating model design • Scenario stress tests modeling • Supply base restructure assessment • Supplier Qualification 	<ul style="list-style-type: none"> <input type="checkbox"/> E2E Sourcing strategy <input type="checkbox"/> Service Delivery Model <input type="checkbox"/> Category playbooks <ul style="list-style-type: none"> - Supply base local vs global - Diversify - Multiple sourcing - Supplier Qualification
 Control tower for a “single view”	<ul style="list-style-type: none"> • 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 I4.0 solutions to improve long term competitiveness 	<ul style="list-style-type: none"> • Future-oriented technology assessment and implementation 	<ul style="list-style-type: none"> <input type="checkbox"/> Control tower
 Customer centricity is core	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • Technology selection and implementation • Customer data translation • Development with suppliers – scale up 	<ul style="list-style-type: none"> <input type="checkbox"/> Supplier collaboration – Strategic Alliances <input type="checkbox"/> Sourcing led innovation

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



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

BUILDING A FUTURE-READY SOURCING & PROCUREMENT FUNCTION

STRATEGY SIMULATION & WARGAMES



"Supports in navigating uncertainties"

- Scenario-based sourcing strategy enable flexibility
- Robust progressive scenario up to breaking point
- Quantitative modeling to complement qualitative angle

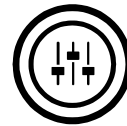
COST & CASH OPTIMIZATION



"Delivers short- and long term cost savings"

- Reducing third party spend across indirect and direct material categories through strategic sourcing, contract rationalization
- Optimize working capital to improve operations and financials

DIGITAL SUPPLY OPTIMIZATION



"Builds a future-proof procurement capability"

- Define a bold digital vision, but execute iteratively on a strong foundation
- Align procurement's digital strategy with that of the organization
- Create sourcing insights and source to pay process efficiency

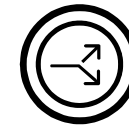
SUPPLY RISK MANAGEMENT



"Mitigates supply risks and creates transparency"

- Measuring and improving total landed cost as well as social and environmental impact
- Product Lifecycle Management

TARGET OPERATING MODEL



"Optimises ways of working"

- Enhancing the ability of an organization to drive value through improved capabilities and operating models
- Revise operating model based on COVID impact in the industry

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

1,500+

Practitioners

10-20%

Savings per Category

>100

Projects over last 3 years

250+

Category Strategies

We have worked with



STMicroelectronics

Julius Bär



Nestlé

SWAROVSKI



swissport

Eidgenössisches Departement für Verteidigung, Bevölkerungsschutz und Sport

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.

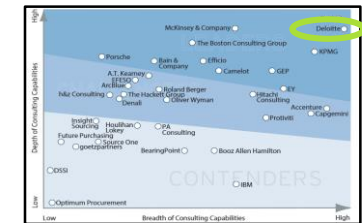
Next Generation CPO programme combines our experience and extensive network of clients and contacts to support the next generation of leaders to fully understand how they can conquer all capabilities of a highly successful CPO.

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



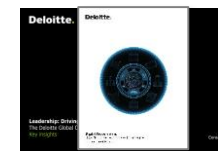
ALM Strategic Sourcing Consulting Report (2019)



ALM Procurement Ops Consulting Report (2018)

Insights & Thought Leadership

(illustrative)



[Digital Procurement](#)



[Global CPO Survey 2019](#)



[Cloud-enabled buyer-supplier collaboration](#)

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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.



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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.



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