

Addressing the supply chain impact of COVID-19

Resilience in the extended enterprise

As the effects of the Coronavirus are felt around the world, governments' and businesses' primary focus is the safety of their people. While this focus will continue, we are seeing a number of companies now facing weeks, if not months, of uncertain trading conditions. Whether it is your business, your supplier's business or your customer's business, there is potential to suffer disruption along the supply chain. Whatever the circumstance, it is important that businesses are thinking ahead to be in a state of readiness to resolve those challenges and protect the future of the business and preserve important commercial relationships.

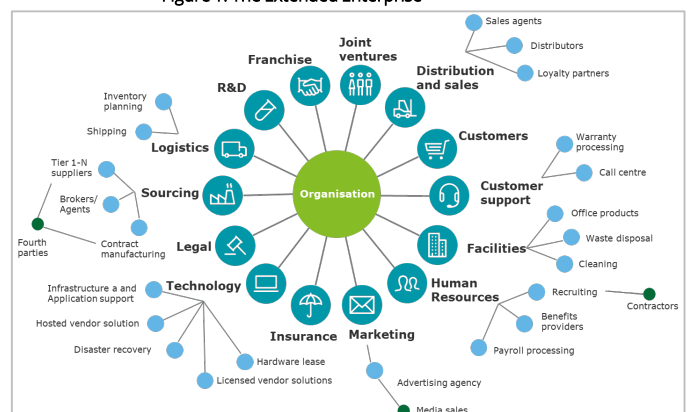
Identify and assess

Many global organizations have tens of thousands of third, fourth, and fifth parties. Managing risk at any time requires focus on those that present the highest risk; this is even more important in a crisis where time and resources are limited. It is critical to quickly and efficiently focus on where you have genuine exposure by adopting a systematic methodology to:

1. Identify your business-critical activities, products, services, business processes and systems
2. Determine which of these have a high degree of dependency on third parties and who these third parties are – which ones are the truly business critical third parties
3. Understand what data is already available internally regarding the critical third parties to identify areas of potential risk (e.g. where you have sole supply, where you have low inventory levels etc.)
4. Use external sources to fill the gaps in internal information, specifically in relation to:

- Where is the supplier located? (including manufacturing location – i.e. not just supplier headquarters)
- What degree of reliance is there on subcontractors - if there is, which ones and where are they located?
- What is the supplier's financial health - does the supplier appear to have the strength to survive the crisis?

Figure 1: The Extended Enterprise



Prevent and manage

For those third parties where the initial assessments identify areas of concern, there will be a need to engage with these organizations to understand the true exposure and determine where action is needed. In a time critical situation, traditional methods for engaging with third parties, such as the use of supplier questionnaires, are not likely to get the desired level of insight or quick enough results. A more hands on, personal approach is needed to engage with critical third parties and fully understand their situation. In parallel, contingency plans need to be revalidated (or developed if they do not already exist) for the third parties identified as representing the greatest risk.

Respond and recover

Where the risk is such that pre-emptive action is needed or an issue materialises, mitigation strategies will need to be put into action. These will vary depending on the underlying issue, for example if the challenge is purely financial health related, solutions will range from changing payment terms (i.e. obtaining pre-payment) through to complete acquisition of the supplier. Where the root cause is the inability to obtain services or products from a particular geography, an alternative sourcing strategy should be considered, with a rapid market analysis, contracting and on-boarding process being needed.

Emerge stronger

For organizations with a global supply chain, events such as COVID-19 have the potential to have a material, detrimental impact on your business. Conversely, those who navigate actively with success will develop learnings and capabilities that will set them apart from competition. Such capabilities planned and honed during your organizations response to this crisis, can ensure better outcomes for your employees, optimize mid-crisis financial outcomes, and can make your organization more resilient and prepared to tackle future crises.

For more information on how to respond, recover and thrive:

- Connect to Deloitte leaders www.deloitte.com/COVID-19-leaders
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