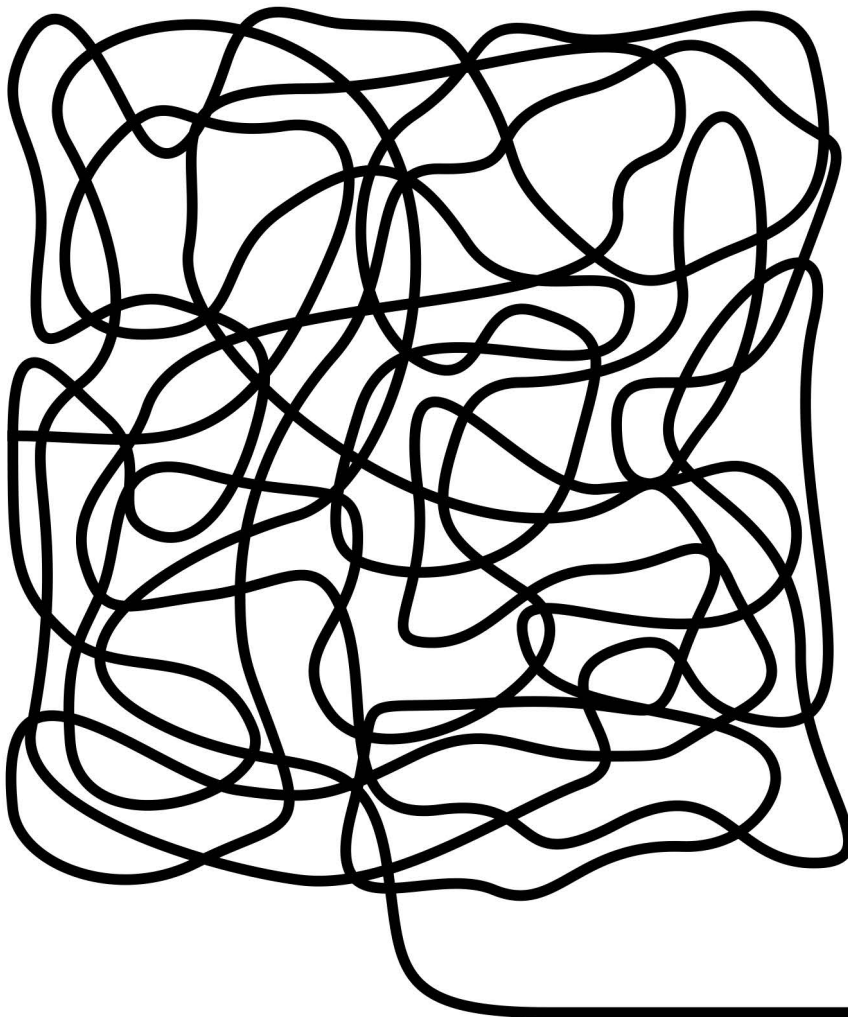


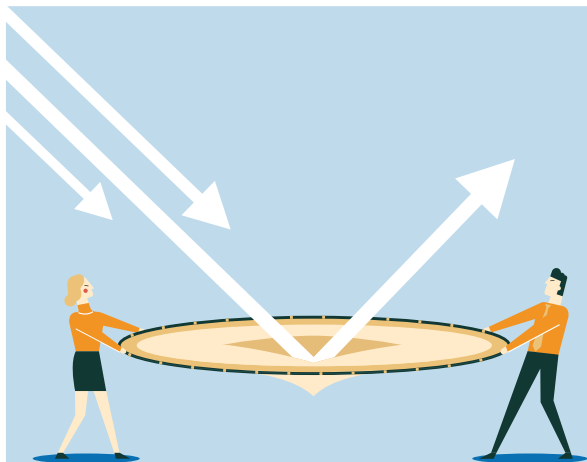
# HOW TO GET **SUPPLY MANAGEMENT** RIGHT AMID THE CHAOS

A THREE-STAGE PLAN FOR PROCUREMENT AND  
SUPPLY CHAIN LEADERS



# IS YOUR SUPPLY MANAGEMENT FIT FOR PURPOSE?





If CPOs and supply chain leaders are to build a competitive advantage during the economic downturn, they need to focus on the three Rs: response, rebound and reshape, argues GEP, a leading global provider of strategy, software and managed services in procurement and supply chain transformation.

The cliché that the Chinese word for crisis is made up of two words – risk and opportunity – is not strictly accurate.

But the sentiment does reflect the task facing Chief Procurement Officers (CPOs) and supply chain leaders as they cope with a world economy that will shrink by at least 5.2% this year, according to the World Bank, making it the worst global recession since World War II. The damage has been unevenly distributed between regions, countries and types of economy but every nation has been

In 2020 the world economy will shrink by

**5.2%**

impacted. (The World Bank predicts that China, where the pandemic broke out, will still see its economy grow in 2020, albeit by just

1%, whereas the Eurozone's GDP is forecast to shrink by 9.1%). Even the most optimistic forecasts suggest that the global economy will not return to 2019 levels until 2022.

As Chittaranjan Jha, Vice President of Consulting at GEP, with responsibility for Asia, says: "Drawing on their experience of past crises – most recently the global financial crisis of 2008 and the recession

Eurozone GDP is forecast to shrink by

**9.1%**

triggered by SARS in 2003 – many CPOs and supply chain leaders recognise that the strategies, policies and decisions they

formulate now could help them build a clear competitive advantage in the market – or concede that advantage to their rivals."

The pandemic and the measures taken to combat it have made the marketplace exponentially more volatile, uncertain, complex and ambiguous than it was only this time last year – and that is not likely to change any time soon. Every company will experience this crisis differently – one leader confided that he felt as if he was running the business not on the basis of acquired knowledge and experience but by making a series of educated guesses. That said, the strategic challenge facing procurement and supply chain leaders at the world's largest companies can be broadly broken down into three stages.

## STAGE 1 Getting the response right

In many organisations, effective response is already underway. Yet given the pandemic's unpredictable time horizon, getting the response right is far from easy, and businesses should anticipate further complexities and challenges along the way.

“The priority here is to protect people, ensure continuity of supply, reduce costs and improve cash position to offset decline in revenues,” says Jha. “In some instances, liquidity will be as important as cost-cutting. CPOs and supply chain leaders also need to ensure that efforts to boost cash do not jeopardise key suppliers, destroy customer-supplier relationships and severely restrict their choices in future.”

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Suppliers, facing their own challenges, are also not well-equipped to handle this crisis. The risk to them should not be underestimated. Stuart Gilson, professor of business administration at Harvard Business School, recently warned: “There is a real possibility that we could see a ‘pandemic’ of

bankruptcy filings in the near future”. There is, Gilson says, a clear and present danger that the toll could be higher than in the 2008-9 financial crisis which triggered more than 100,000 business bankruptcies in America alone.

Companies may seek to make

**10-20%**

savings across the board

In such times of crisis, when a rapid response seems paramount, many companies will be tempted to seek aggressive savings across the board, typically 10-20%. Jha says a more nuanced approach could, in the long term, be more beneficial for the business. “You need to think through the impact on suppliers and how important they are to the business. The last thing you want to do is to lose a company that plays a vital role in your supply chain – either because they cannot accept your terms, withdraw from the market or close down.” ▶

## STAGE 1 Getting the response right cont'd

- ▶ CPOs and supply chain leaders will need to manage disruptions caused by the pandemic's aftershocks for several years. For some goods and services, prices will rise as demand exceeds supply. (The outlook for freight capacity, for example, is especially unpredictable.) Some procurement events have been – and may still need to be – cancelled due to border closings and

suppliers needing to self-isolate.

“The balancing act many organisations face is that they need to operate in crisis management mode while simultaneously trying to improve performance for the longer term,” says Jha. “The only way to make your supply chain that resilient and agile is to use technology to help you dig deeper – and faster – so you can adjust more quickly.”

### Back to the futures

“The only function of economic forecasting is to make astrology look respectable,” observed the great American economist J.K. Galbraith. That joke at his own profession's expense seems more relevant now than ever, as countries and companies recover from the pandemic. Most economic forecasters – by the natural central banks or global institutions such as the International Monetary Fund and World Bank – have felt obliged to attach health warnings to their latest predictions for the global economy in 2020, 2021 and 2022.

In 2021, the IMF projects that the global economy will grow by 5.4%. That sounds healthy but it will still mean the world's GDP will be 6.5% smaller than it was projected to be in January 2020. The World Bank is slightly less optimistic, predicting growth of around 4.2% while warning that, with many risks – especially the likelihood of a second wave of Covid-19 – hard to quantify, the worst-case scenario could be a very sluggish recovery of 1%. It is also hard, the World Bank warns, to gauge whether – and if so, by how

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**5.4%**

much – the pandemic will encourage a retreat from global trade and supply linkages. The Organisation for Economic Cooperation and Development (OECD) is even more

cautious, predicting 2.8% growth in 2021 after a shrinkage of 7.2% in 2020. The exact figures may differ but essentially the sentiment from all these institutions is the same as the headline on the OECD's latest economic report: “The world economy on a tightrope.”



## STAGE 2 Ready for the rebound?

**A**s the organisation focuses on getting business back up and running, the key priorities are to improve market and supplier intelligence, temporarily improve resilience and enhance visibility throughout the supply chain. How do you do that? By creating contingency plans, identifying alternative suppliers and investing in inventory. You also need to know where the risks lie. During the rebound process, many companies have been scrutinising their product portfolio, instigating changes which will inevitably have a knock-on effect on the rest of the supply chain.

At the same time, procurement will still need to focus on cost and cash, a task that technology can help with, as Jha explains: “At this stage of the rebound, a technological solution such as the category workbench tool could give category managers the kind of quick, holistic assessment they need to address immediate priorities and free up time for the organisation to develop longer-term strategies. For example, use a solution that can identify

which contracts expire, which contracts expire within a specified period, which projects are active, which are under-delivering, what savings progress is being made, the key cost drivers and the likely impacts on the category.”



**“A digital should-cost modelling solution, using AI-powered analysis of data, can provide deeper insight into the origins of specific costs.”**

Costs, as many procurement and supply chain leaders can testify, often confound expectations. “A digital should-cost modelling solution, using AI-powered analysis of data, can provide deeper insight into the origins of specific costs,” says Jha. “Making the most of digitalisation, data and computational power, key categories could be evaluated in real time, with automated updates on input price data.”

Armed with new insights, companies should find it easier to identify improvement areas with suppliers and reduce waste jointly. As part of this process, Jha adds, companies need to reconsider which suppliers are strategic and/or business critical suppliers and which suppliers are still operational/transactional. ►

## STAGE 2 Ready for the rebound? cont'd

- ▶ For strategic and/or business critical suppliers the key tasks, Jha says, are:

### Enhancing risk assessment

Organisations need to understand the potential impact of financial exposure, logistic constraints, delays in production/delivery and determine how to solve these problems to protect the security of supply. Regular financial stress testing of suppliers – especially sole-choice suppliers – will be essential if companies are to get an accurate, forward-looking view of risk.

### Improve supplier and sourcing visibility

Improving visibility in the supply chain has long been on many company agendas but is now more critical than ever. Looking beyond tier one and tier two suppliers to the source of raw materials is not simple or quick. Unless companies keep a closer eye on their suppliers, even lower tier ones, they will never be confident that they understand where they are most vulnerable.

### Develop scenario plans

The best way to guarantee continuity of supply is to imagine a variety of scenarios and plan accordingly. A task force can develop scenarios by engaging in supplier development, identifying alternative suppliers and products, evaluating multi-sourcing strategies and reviewing supply chain complexity. In pursuit of the lowest possible unit cost, many corporate supply chains became complex, intricate and, as the pandemic proved, too fragile to withstand major shocks. “Simplifying supply chains will not just make them secure, it could actually make them less expensive in the long run,” says Jha.

### Collaborate more closely with suppliers

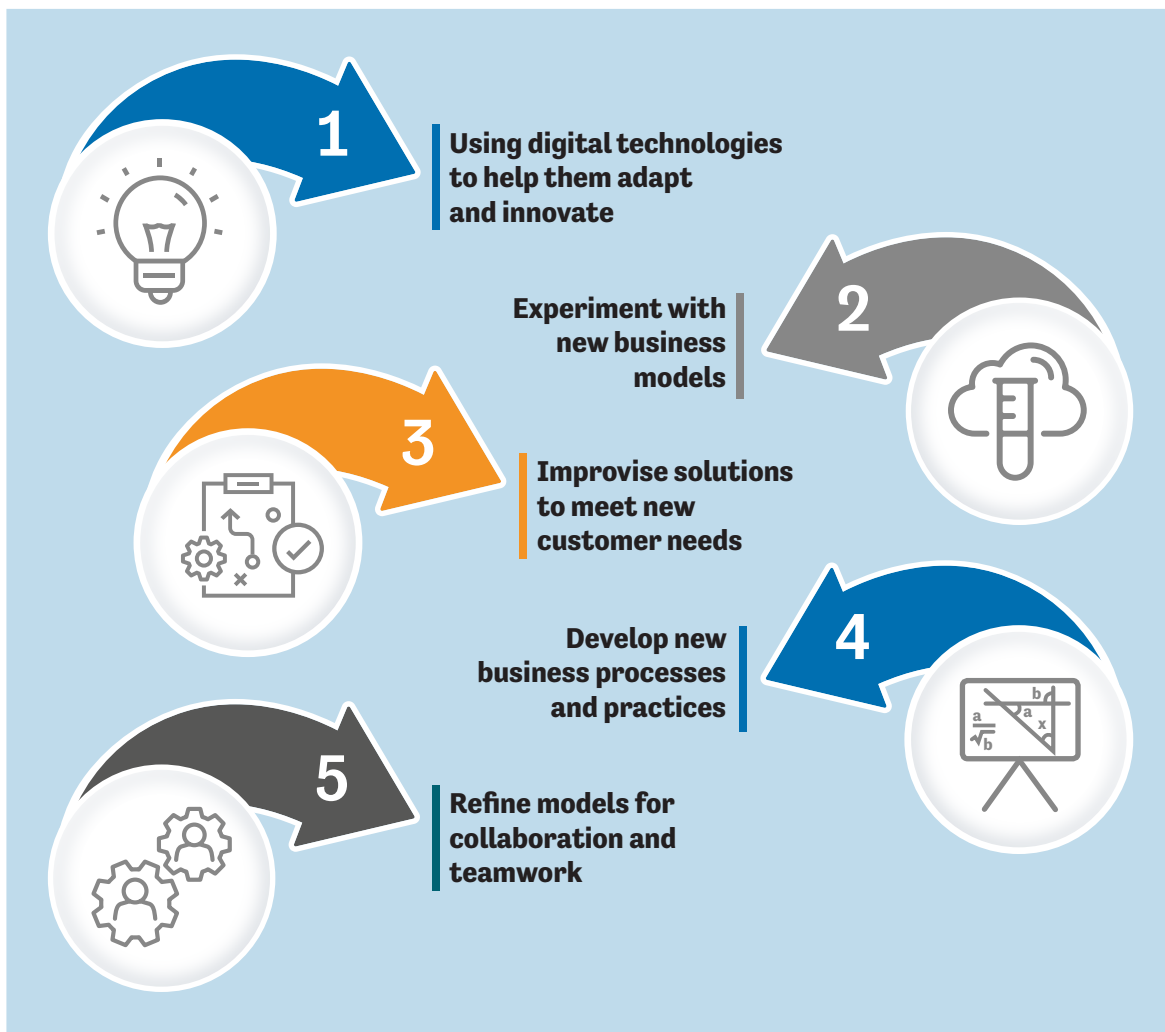
This is, once again, something CPOs have long aimed to do – if they only had the time. In such an unpredictable market, a closer, deeper relationship between companies could benefit both parties by saving money, increasing transparency and simplifying product portfolios. ▶

## STAGE 2 Ready for the rebound? cont'd

- For operational/transactional suppliers, the crucial issues are cost reduction, risk assessment (especially financial) and mitigation. The first step is to consider whether you are segmenting suppliers correctly and identifying those which have become critical/strategic because of current constraints.

The experience of Chinese companies on the rebound offers some pointers for other

businesses. The Harvard Business Review study, [Lessons from Chinese Companies' Response to Covid-19](#) [June 2020], based on 350 interviews with senior executives, found that market-leading companies had drawn on their financial reserves to invest in initiatives designed to extend their long-term competitive advantage. As their business – and China's economy – recovered, companies survived by taking one or more of these five actions:





## STAGE 3 Plan to reshape

The priority here is to design a system that is a strategic fit for the way the company operates in the ‘new normal’ (even if nobody quite knows what the ‘new normal’ will look like). “The first priority for many organisations will be to take actions that permanently improve resilience,” says Jha. “When it comes to that need, building redundancy into the supply chain will make a significant difference.”

At many organisations, third-party risk management will become an integral part of the procurement process. “As the pandemic proved, too many existing third-party risk management processes are too manual, too cumbersome and too reactive,” says Jha. “To efficiently monitor risk so that the organisation can take proactive measures, these systems need to be more closely connected to sourcing, which is managed by procurement.”

Many companies are keen to redesign their supply ecosystem to simplify and streamline it, recognising that it will save money over the long term by making it more regionalised and localised. That redesign may also

involve the simplification – and automation – of cross-border trades and substantial investments in predictive analytics and technologies.

The other important task facing CPOs and supply chain leaders is to extend their influence within the organisation. This could be a matter of integrating closely with key suppliers to drive innovation, ensuring that procurement has the right team with the right skills and, most importantly, recognising that digitalisation is no longer an emerging need but a critical capability which can help minimise future disruptions.

**“Many companies are keen to redesign their supply ecosystem to simplify and streamline it, recognising that it will save money over the long term by making it more regionalised and localised.” ▶**



## STAGE 3 Plan to reshape cont'd

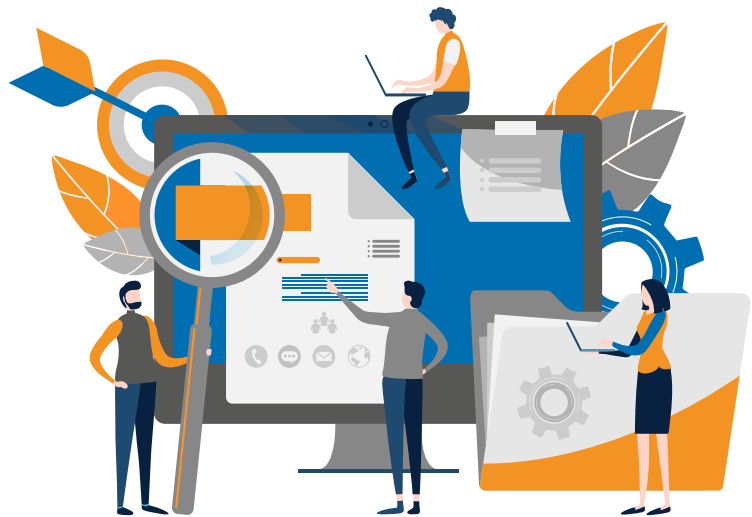
- ▶ Many of the challenges posed by the pandemic are here to stay – as are many of the changes businesses have made to ensure survival. The acceleration of digital transformation has led to: Greater transparency, less bureaucracy, more effective communication and faster decision making. While transformation may entail restructuring the organisation, the results have already proven their value in new ways to collaborate and will remain critical for businesses that seek to thrive rather than just survive.

**“Procurement needs to be more transparent, communicative, collaborative and astute in its risk management.”**

“Procurement needs to be at the heart of this, becoming more transparent, communicative, collaborative and astute in its risk management,” says Jha. “To create a supply ecosystem that aligns with the organisation’s goals, procurement will also need to think hard about its modus operandi and how it defines success.”

The pandemic has proved conclusively that there is no such thing as ‘future proofing’. In reality, there never was. To navigate future disruptions, companies need their supply chains to be as flexible, visible and resilient as possible, which makes digitalisation and automation imperative.

Some companies are finding creative new ways to enhance their business. The obvious example being the way some Chinese airlines, Air New Zealand, Air Canada and, most recently, Korean Airways, have converted their passenger planes to carry cargo.



Procurement and supply chain leaders need to be more realistic about the accuracy of the scenarios they run and, paradoxically, more ambitious when they create these scenarios. The old ‘what if’s’ – what happens if a new entrant forces us to lower our prices by 10% – still apply, but they need to be accompanied by more infrequent and more unpredictable threats such as a pandemic, natural disaster, or trade wars.

## Ten critical questions about your supply chain

**1**  
How does our organisation ensure sustainable cost reductions?

**2**  
Do our KPIs reflect the importance of security of supply – or do they focus solely on costs?

**3**  
How well do we understand our key cost drivers?

**4**  
What areas do we need to focus on to improve the resilience of our supply ecosystems?

**5**  
Which of our suppliers are of critical/strategic value to us?

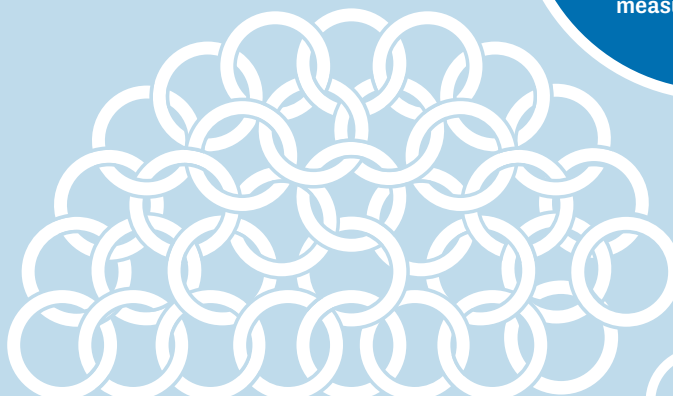
**6**  
How transparent is our supply chain?

**7**  
Do we know where the weakest links in our supply chain are?

**8**  
Can we simplify our supply networks and thus reduce risk?

**9**  
What internal collaboration is most likely to protect the business against future disruptions?

**10**  
Does our organisation evaluate suppliers in terms of their total return on investment – or are we still relying on savings and value? If the latter, is that still the best way for us to measure suppliers?



## The final word

Companies cannot juggle the need to ensure survival now and sustainable competitive advantage in the future if their CPOs and supply chain leaders revert to business as usual. They need to start reinventing – and reinvesting in their procurement and supply ecosystem now –

to accelerate digital transformation and embed new skills, behaviours and practices to compete in the ‘new normal’. “If they do that, they can create a quantifiable competitive advantage that will prove their strategic value to CFOs and CEOs,” Jha says.

## ABOUT GEP

GEP delivers transformative supply chain solutions that help global enterprises become more agile and resilient, operate more efficiently and effectively, gain competitive advantage, boost profitability and increase shareholder value.

Fresh thinking, innovative products, unrivaled domain expertise, smart, passionate people — this is how GEP SOFTWARE™, GEP STRATEGY™ and GEP MANAGED SERVICES™ together deliver supply chain solutions of unprecedented scale, power and effectiveness. Our customers are the world's best companies, including hundreds of Fortune 500 and Global 2000 industry leaders who rely on GEP to meet ambitious strategic, financial and operational goals.

A leader in multiple Gartner Magic Quadrants, GEP's cloud-native software and digital business platforms consistently win awards and recognition from industry analysts, research firms and media outlets, including Gartner, Forrester, IDC and Spend Matters. GEP is also regularly ranked a top supply chain consulting and strategy firm, and a leading managed services provider by ALM, Everest Group, NelsonHall, IDC, ISG and HfS, among others.

Headquartered in Clark, New Jersey, GEP has offices and operations centres across Europe, Asia, Africa and the Americas.

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