



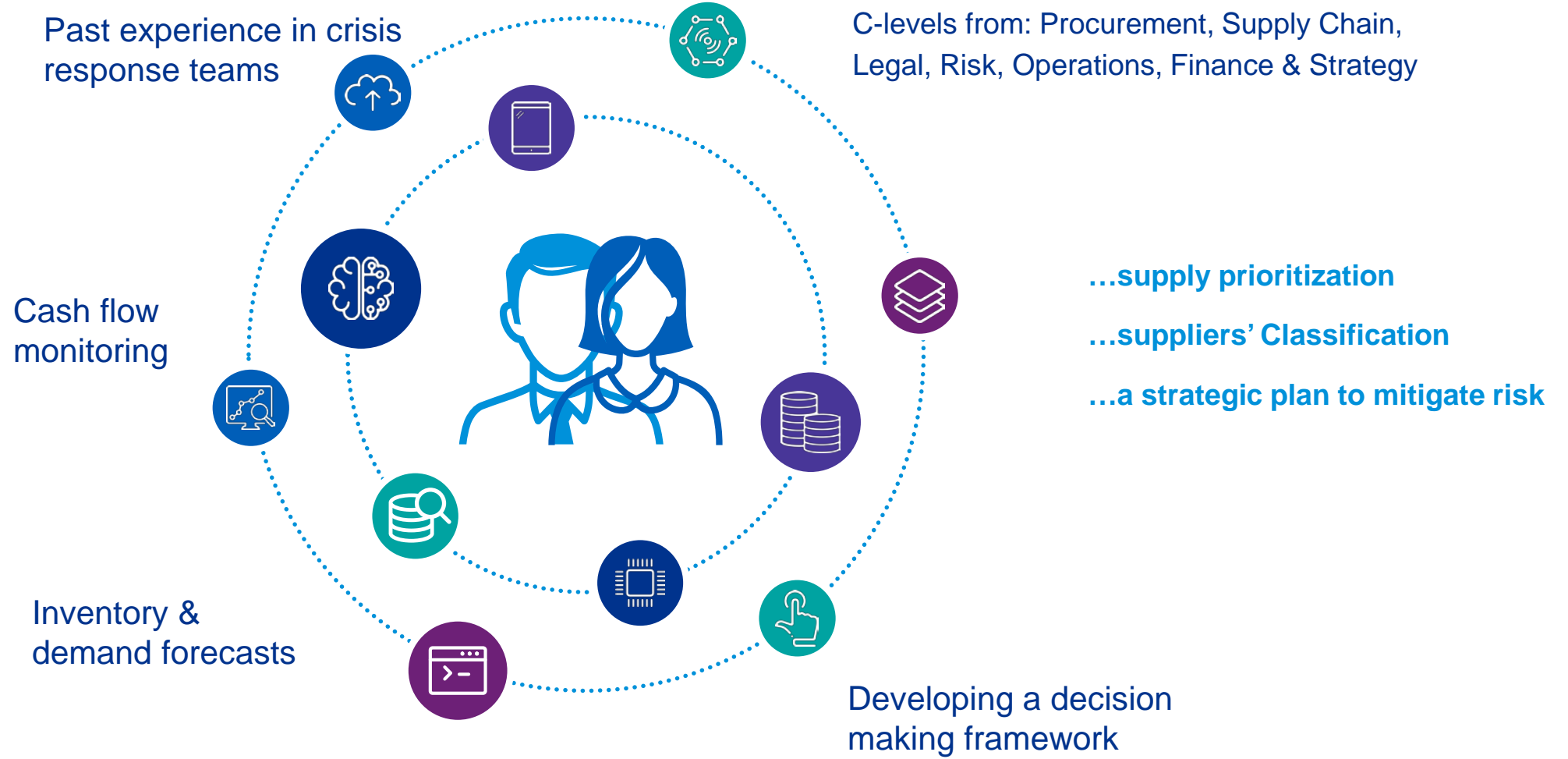
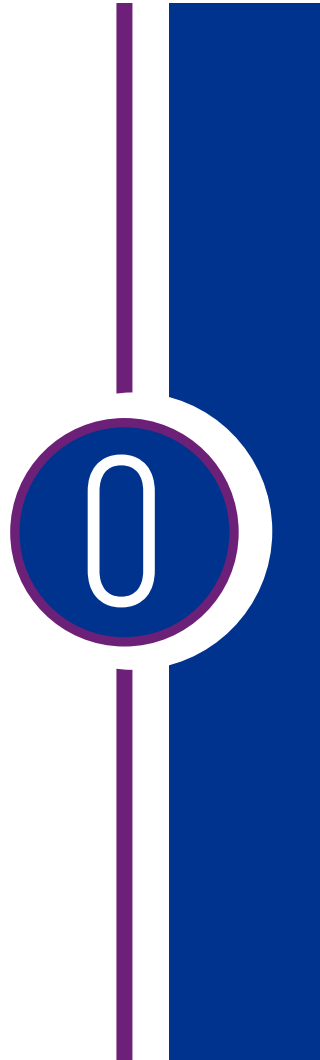
COVID - 19 Supplier Management Response

April, 2020

Supplier Management Response Approach

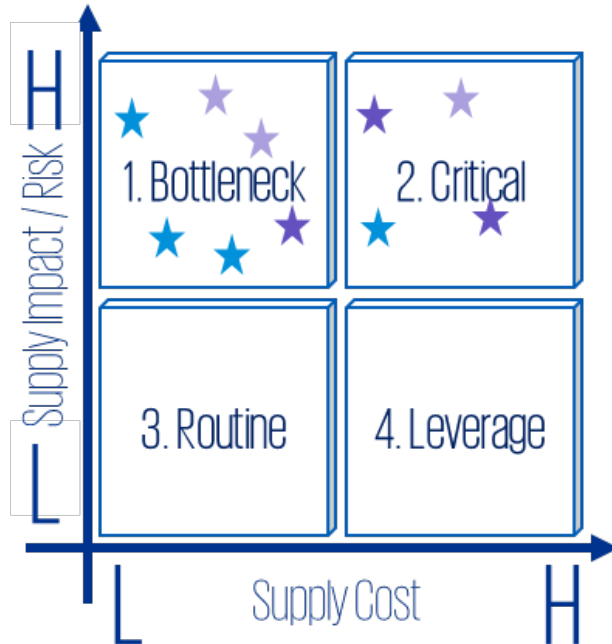
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Step #0 - Forming a Central Cortex Team



Step #1 - Supply Base Risk

Focus on high impact / risk supplies, i.e. bottleneck & critical and set aside routine & leverage.



Supplies mapping in respect to cost and impact / risk



Risk identification
Supply vulnerabilities prioritization



Set of critical & bottleneck supplies, which both highly impact the business continuity

- ★ Remaining Supplies
- ★ New add-on Supplies
- ★ Omitted Supplies

1

Step #2 - Supplier Traceability

Focus on suppliers that reside in the exposed sourcing areas



Contractual clauses review ...

Understand whether Covid-19 qualifies as a “force majeure”.

If yes, determine what the contract requires from the supplier to raise the provision.

Consider other contract provisions, e.g. liabilities or insurance coverage to mitigate the risks

Bear in mind that actions taken by governments to combat the outbreak (might provide grounds for the supplier to invoke force majeure).



Communication...

Start with empathy & diplomacy.

Ensure that your partners operate safely and sustainably is paramount during this crisis.

Maintain an open & honest communication.

Assess Business Continuity Plans (BCP) with suppliers.

Evaluate their ability to deploy remote working capabilities.

2

Step #3 - Suppliers Classification

After tracing the suppliers that reside in the exposed sourcing areas and communication has been established, it is vital to establish the following:

1

Level of disruption

Disruption refers to the level of ability to continue with **daily operations** as planned.

Questions to ask might include:

- How affected are the cashflow of our partners?
- Are production facilities located in heavily affected areas?
- How is regulation in the supplier's country affecting production output?
- How are vital tier 2 & tier 3 suppliers responding
- What are the current manning restrictions & how are suppliers responding?
- Is fulfilment at adequate levels with some delays that can be weathered?

2

Ease of substitution

Substitution refers to the ability to replace the supplier entirely or a specific product.

Questions to ask might include:

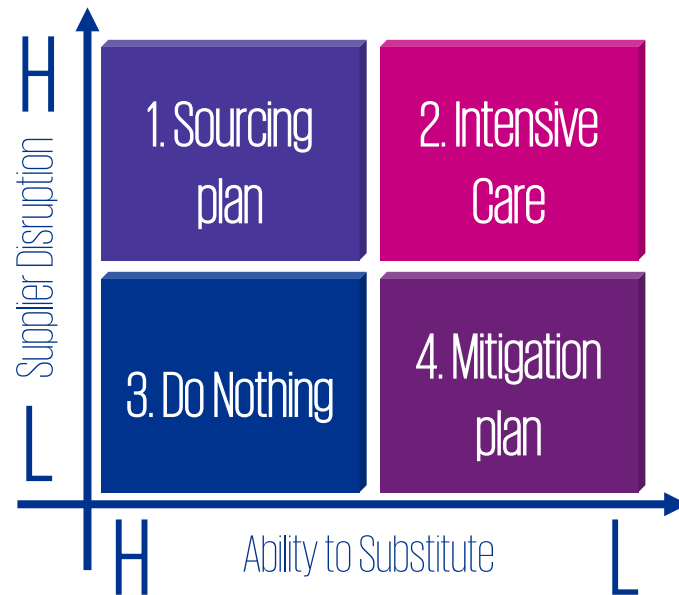
- Are there any identified substitution supplier?
- What would setting up for another supplier look like (systems, processes, human resources, timeline)
- Financial implications (e.g. purchasing cost)?
- Is the substitution like for like or would there be a quality discount? Is that ok?
- What implication would this have on my production capabilities?



Step #4 - Strategic Implications

Following the suppliers' classification a further mapping is now feasible. Each quadrant's unique characteristics in terms of "disruption" & "substitution" enables the design of a strategic plan aiming to manage & mitigate risk.

Distribution & Substitution Quadrant



- 1. Sourcing plan** (medium to high disruption, low to medium inability to substitute)
- 2. Intensive Care** (medium to high disruption & inability to substitute)
- 3. Do nothing** (low to medium disruption & inability to substitute)
- 4. Mitigation plan** (low to medium disruption, medium to high inability to substitute)

1

- Look for alternatives such as local sources
- Withdraw from manufacturing products with critical component shortage for the short term & divert production elsewhere
- Tap into your supplier's pool, identify & contact new suppliers

2

- Go into crisis management mode with daily intensive care meetings
- Consider offering financial aid to alleviate challenges
- Intensely measure performance with real time data
- Utilise own network and tap into your supplier's pool, identify & contact new suppliers

3

- In situations where there is low risk, the best course of action is to do nothing and monitor the situation. Proceed with "business as usual" operations

4

- Devise a joint action plan outlining when specific batches will be ready & how to expedite delivery
- Offer financial incentives
- Closely monitor the situation

Indicative Timeline

Step 1

- Identify all product families & groups
- Data extraction
- Reclassify supply criticality according to Covid-19 impact by product group or at sku level
- Segmentation analysis according to customer demand

1 – 2 Days

Step 2

- Identify supplier that supply critical products
- Gather & review contracts
- Establish communication channel
- Review specific topics through identified channel

3 – 5 Days

Step 3

- Assess the level of disruption for every respective supplier
- Devise & utilise a standard structured scoring methodology encompassing multiple criteria
- Assess the ability to substitute single products and/ or supplier

5-10 Days

Step 4

- Calculate which quadrant each supplier would fall into
- Devise standardised action plan for each quadrant
- For intensive care quadrant, develop specialised action plan for every supplier

3-5 Days

12 – 22 Days*

*Duration of approach will vary according to a variety of factors such as product variety, number of suppliers, production locations etc.



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