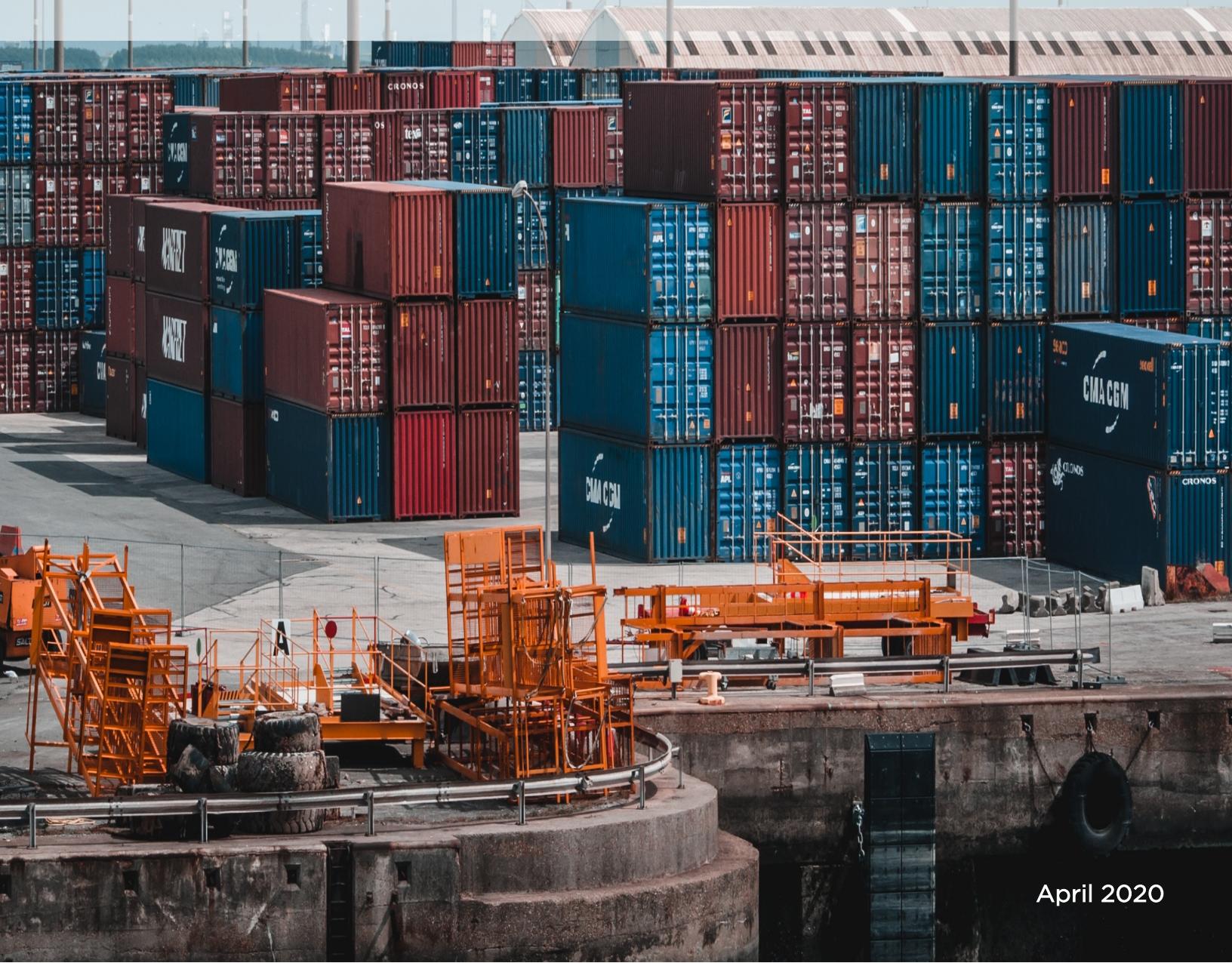


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**Save Millions During the Crisis
through Procurement Actions**

By David Bilby, Fernando Assens, and Brick Logan



The effects of the COVID-19 virus are severely straining our global supply chains. Procurement professionals are scrambling to adjust to their changing supply and demand models, as well as dealing with immediate issues regarding inventories, delivery and changing sources of supply.

In order to mitigate the supply chain risk associated with this world-wide pandemic, there are some key procurement and sourcing actions that should be taken now:

- Identify and mitigate any potential supply chain disruptions caused by containment zones, factory closures, travel restrictions or employee absences due to illness or quarantine.
- Consider near-term and longer-term changes to supply models to avoid disruption, including considering qualifying alternative suppliers or vendors, and as well as considering production alternatives.
- Evaluate and consider impacts on supplier's ability to deliver and customers' ability to pay on time.
- Review contractual arrangements to identify the company's rights and obligations arising with respect to delays in production or failure to fulfill outstanding orders.
- Review adequacy of force majeure terms of material contracts.
- Introduce alternative communication channels with customers and suppliers while travel restrictions remain in effect.

In the ***immediate term***, procurement organizations should perform a risk assessment on the critical suppliers that furnish material to your respective plants. For this exercise, critical components would be described as those that are sole sourced and are not readily available (in the same configuration) in the market from alternate suppliers. Ordinarily this list of suppliers would be fairly small. At a minimum this assessment should include:

1. Supply chain and point of manufacture (as an example, some countries like Italy or Spain will be much slower to start production back up, their products will be in short supply and disrupt the supply chain).
2. Financial health. The financial viability of some companies (even with government assistance) will result in several companies going out of business. An assessment of the likelihood of that happening on the suppliers that furnish "critical" components must be completed.
3. Determine where the company fits on a suppliers pareto customer list. Near the top of the list, a company can feel fairly comfortable they will get the attention they deserve. Somewhere in the middle the company will "fight" with their other supplier's customers. Near the bottom the company runs the risk of being rationalized.
4. Assess if there are components that the supplier needs to build the company's products that will become in short supply. (As an example, components that go into the production of ventilators and respirators will likely be in short supply).
5. Once the assessment is complete, mitigation plans can be developed and implemented.

For the **near term** (not immediate and after the risk assessment) procurement organizations should explore opportunities that may be present for a limited time. An example of these would be:

- A discounted pricing structure for an extended period in exchange for purchase agreements that cover a much longer horizon.
- For companies in a cash rich environment, shorter payment terms for substantially higher discounts.
- Again, for companies with supporting cash position, a forward buy and inventory or just a pre purchase (with inventory to be shipped later) may yield some very generous short-term cost savings.

For the **longer-term** upward pricing pressure will exist with both labor costs (some mandated some skill based) rising, and with tax liabilities increasing. A rebound in the oil market will also add to upward price pressures. To mitigate the risk associated with increasing costs procurement organizations should look to:

- “Lock up” current pricing for an extended period of time.
- Seek alternate sources of supply that will not have as much upward price pressure.

Most procurement organizations can continue working remotely during this crisis. Other areas such as manufacturing, sales etc. will be impacted by restrictions and social distancing. We must take a step back and assess some of the key items identified above in order to emerge from this ordeal on top. Such a reboot will create procuring opportunities that would not otherwise exist.

It is understandable that organizations are focusing more on reacting now than planning and strategically thinking about their supply chains. However, organizations that have the bandwidth to stay ahead and renegotiate will find themselves in a better cash and inventory position when all this is said and done.

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