COVID-19 has turned out to be a “black swan” event that has forced companies and entire industries to rethink and transform their global supply-chain models. This pandemic has exposed the vulnerabilities of many organizations, especially those that have a heavy reliance on international suppliers of raw materials, finished products, or even low value-add services. This article focuses on key opportunities and solutions to navigate short-term difficulties and build a procurement organization of the future that can withstand rare and hard-to-predict events like COVID-19.
Key short- and long-term opportunity areas for procurement organizations

In the short-term, procurement organizations need to focus on getting back on their feet by securing supplier recovery, supporting business relaunch through process changes, and working with suppliers to ensure supply continuity. All companies are cash crunched due to various forms of disruption to supply chain, sales, and accounts receivable. Procurement organizations can help with mitigating price shock due to supply shortages or expensive alternate sources of supply in both the short- and long-term timeframes. Once temporary stability is achieved, there should be a focus on building a resilient operating model that will maximize return on investment and reduce costs. This will ensure the procurement function is a true business partner that brings strategic advantage.
Support business relaunch to ensure business continuity

Focus on the ability of key suppliers to deliver purchase orders and ensure agility in procurement processes to respond to immediate business needs. Key solutions in the short-term are to:

Assess supplier capacity constraints to help secure supply
• Assess the ability to fulfill immediate supply requirements at risk and help identify alternate sourcing opportunities based on how they allocate capacity with multiple customers.
• Compare production needs to supplier capacity and identify potential supply-continuity risks. Active communication and formulating alternative plans will be critical to minimizing supply impact.
• Develop incident management and scenario plans tailored to this crisis with well-defined KPIs to measure success for each scenario.

Evaluate business-continuity plans
• Review maturity of supplier criticality matrix, e.g. relative to production plan, inventory, procurement lead time, and contract aspects.
• Evaluate benefit case for investments in excess inventory from critical suppliers.
• Evaluate suppliers’ own business-continuity plans, especially those with operations in multiple geographically scattered production sites.
• Develop dual-sourcing strategies for key categories.
• Evaluate alternate supply base for impacted materials.
• Assess potential pre-approved parts or raw-material substitutions in places where the primary supplier is impacted.

Identify key aspects requiring reactive support (process exceptions)
• Identify and adjust processes to reflect remote working, approving suppliers from alternate geographic regions and changes to chain of approvals.
• Support immediate changes to approval and supplier onboarding processes to expedite onboarding alternate suppliers.
Secure supply: Manage risk and ensure synchronization of upstream and downstream suppliers

Provide temporary financial, commercial, or operational support to strategic suppliers

In an integrated supply chain, the failure of a critical supplier can affect all players in the chain and even disrupt an entire industry. Providing financial support for struggling but strategically important suppliers or logistic operators, especially smaller ones in the chain, can maintain operational continuity. Key solutions include:

Financial support
- Lift SLA miss penalties for a short period of time until suppliers get back on their feet.
- Reduce payment delays to key suppliers to help them through the cash crunch.
- Modify payment terms in the short-term to pay suppliers as soon as goods are delivered (e.g., Net 30 instead of Net 90).

Commercial support
- Identify potential substitutes for products or services that can be utilized in lieu of originally contracted goods or services.

Avoid price shock: Stabilize operations and mitigate cost

Avoid the cost increases during the first months caused by monopolistic supply market, supply shortages, or expensive alternate sources of supply. Establish contractual protections in the long-term to ensure supply continuity and avoid price creep. Some key opportunities to improve cash flow are to:

- Set up dynamic early payment discounts. Discount terms can be defined in advance, and the customer calculates the appropriate discount based on a defined payment schedule.
- Aid in prioritizing sustainable and structural cost advantage through meaningful and strategic upgrades to procurement capabilities. Augment the traditional source-to-pay (S2P) process with budget-to-pay (B2P). This will enable procurement and finance to check every requisition for budget availability prior to committing spend for greater cost control.
- Improve visibility into cash-flow management through the use of dedicated dashboards and closely assess procurement and sourcing contracts performance.
- Build in price hedges for key commodities to protect from long-term price increases.
- Establish contractual rules and standards preventing price creep during and after recovery that ensure supply continuity.
Prevent risk of crisis echo: Define your next operating model

Establish multi-level supply network mapping as part of supplier risk management and build a transparent and resilient operating model. Key long-term opportunities are to:

Assess supplier risk
- Assess key suppliers to understand exposure, risks involved in the supply chain, and potential implications to determine corrective actions for maintaining business continuity.
- Identify alternate regional suppliers, factoring multiple risk levers and tradeoffs like cost versus supply reliability

Perform supplier mapping to gain visibility into supply network
- Develop a plan to gain visibility into suppliers’ global sites and subcontractors to determine which sites the parts originate from or pass through.
- Develop a plan to gain visibility into suppliers’ manufacturing, warehouse, and distribution sites and identify potential regional clustering risks.
- Rationalize the supplier base, utilizing multiple levers that contribute to risk and not just based on cost alone.

Assess operating model and current sourcing strategies
- Increase supply-chain resilience through a more agile sourcing strategy by considering local vs. global and mono-sourcing vs. multi-sourcing, while including new drivers like sustainability to ensure competitive advantage.
- Design sourcing strategies that consider new drivers that emerged during this pandemic: proximity/geographical coverage, procurement channels (e.g. e-platforms), etc.
- Automate transactional processes especially in the P2P area, leveraging RPA, AI-enabled spend analytics, etc.
- Gain true predictive insights into future costs and performance based on current (not just historical) trends and assess new opportunities based on (near) real-time data using machine learning/AI-based insights.
- Develop detailed playbooks to guide crisis management that include multiple scenario planning and response guidelines to combat future events.
- Prepare and up-skill personnel and organization structure to support these rapid process and technological changes.
- Ensure procurement is involved in the early stages of R&D and product development processes to have supply sources for alternate product substitutions.
Looking ahead:
The imperative for a new procurement model

Procurement teams have played a critical role in helping businesses manage these extremely challenging conditions – from enabling businesses to meet high levels of demand to allowing them to survive and fight another day. The rapidly changing supply-chain landscape has many businesses planning for the future. These are the four key components procurement organizations must focus on in the post-pandemic reality.

**New collaboration promise:**
Digitizing the buyer/supplier relationship is a fundamental element for building resilient supply chains and making the identification and recruiting of new suppliers agile. The current situation has uniquely emphasized the importance of supplier risk and relationship management and has established new ways for companies to collaborate with their suppliers. Co-innovation, supplier development, sharing real-time information with suppliers, and invoice management will emerge as the new collaboration priorities, according to a study commissioned by Ivalua. Contracts will be built not only to ensure supply continuity but also supplier innovation, growth, continuous risk monitoring, and overall wellbeing.

**Digital procurement:**
The COVID-19 pandemic has exposed how digital transformation is a vital tool for meeting core business needs and maintaining business continuity. Digitization simplifies all complex manual processes and should be leveraged to automate and streamline processes that are currently ad-hoc and unreliable. Companies with complex organizational structures and processes would be much slower to react without the necessary digital infrastructure in place. In a recent survey by Forrester, over 35% of those surveyed mentioned that digitization of processes is of high priority in the next 12 months.

**Build visibility into the operations and vulnerabilities of suppliers:**
Organizations need a detailed picture of where core suppliers’ plants are located but also where their suppliers’ suppliers are located. A US manufacturer of construction equipment states that most of its potential risks lie with Tier 2 and Tier 3 suppliers that feed into larger suppliers. Three out of its top 25 suppliers are Chinese, according to an AlphaSense report, so it knows about that risk. However, because they do not know where their other 22 suppliers’ supply chains extend to, the total Chinese exposure within its extended supply chain remains unclear. This pandemic has proven the need for extensive supplier mapping, with a focus on hidden critical suppliers within the value chain.

**Sustainable sourcing:**
Sustainability will continue to be a key competitive differentiator and companies will need to work hard to attract the consumers. A recent consumer survey by The Capgemini Research Institute showed that 67% of consumers are conscious about conserving natural resources and that “purpose-led” companies will see greater customer engagement. Procurement organizations will have to find that right balance between cutting costs and leveraging sustainability as a key differentiator.
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