



COVID-19 and global supply chains

Businesses need to respond to COVID-19 supply chain disruption.

Blair Nimmo | Global Leadership

The economic impact of COVID-19 has demonstrated how businesses must respond to supply chain disruption.

The past four decades have borne witness to almost exponential growth in global trade flows. One by-product of this has been a rise in the complexity of supply chains, many of which have evolved, more by accident than design, into an enmeshed and entangled web of third-party transactions. Outside of the most highly regulated industries few businesses, let alone their customers or end-use-consumers properly scrutinize the chain of manufacturers, sub-manufacturers, distributors and logistics handling agents who are all responsible in part for making the final transaction a reality.

Recent events, most notably COVID-19, have demonstrated how vulnerable our global supply chains can be to any sort of disruption, be it political, economic or human. Business of all sizes and complexity need to take time to fully understand the risks inherent and consider how they can respond decisively and proportionately if disruption emerges in their supply chain.

What can businesses do?

Today, businesses need to ask some critical questions of their own supply chains and while

some may seem obvious, getting clear answers can often prove challenging.

- Do you understand where your input goods are made or produced? While this may seem easy enough, the complexity starts when you move down below your own tier one suppliers. Who supplies the raw material or sub-assembly components that goes into their products?
- Have all of your significant suppliers undertaken a similar assessment – do they know where their inputs are sourced from? Don't be caught out by an indirect exposure.
- Do you know what the logistics route looks like? Having working capital tied up in stock sat on docksides can be challenging from both an operational and liquidity perspective. In such situations, are there alternative transport routes available and what are the cost implications?
- Do you have any contingency supply options? For example, are there alternative suppliers and/or manufacturing facilities that could be called upon and if so, how quickly and at what cost?

— Digging a little further, have those contingency options already reached capacity or been contractually secured by others (example - ‘first movers’ in the contingency planning race) and, critically, do they have similar supply chain issues emanating from a different source? A contingency plan may seem great on paper but activating it at speed may prove challenging.

Financial considerations

As well as the operational impact, businesses also need to consider the impact of potential supply chain disruption on their bottom line.

The first step is pin-pointing the orders affected by any disruption to supply, as well as the impact this will have on existing inventory run down. Without knowing the scale of the issue at hand, it’s very difficult to make robust operational or financial decisions. As any disruption evolves, updating this assessment with an iterative risk management process should be a key component of managing through the situation.

Where it’s possible, the margin and credit implications of sourcing from alternative suppliers on a temporary basis also need to be considered. Using a local supplier may result in an uplift in costs – whilst that might be easily absorbed on a handful of lines this may become increasingly difficult if supply disruption affects a large proportion of Stock Keeping Units (SKU) or inputs. Identifying how

these costs may (or may not) be transferred to the customer may also help prioritize your business response.

The next step to consider is to translate these into a revised liquidity profile, which includes assessing any new working capital dynamics and maintaining a short term cash forecast, almost certainly with a range of possible overlay risk and contingency/mitigation scenarios. This will be essential to provide external funders and other stakeholders with confidence in a management team’s grasp of the situation and potential outcomes. Where a liquidity shortfall becomes part of the realistic potential scenario spectrum, engaging in early dialogue with advisors and funders, can help (RC) provide a stronger footing than making an emergency ‘cap in hand’ request at the 11th hour.

Grasp the nettle

The COVID-19 outbreak has seen certain restrictions placed on the flow of both people and goods across international borders and even domestic regional territories. People and goods are the lifeblood of all businesses and disruption of these flows, even for a short period, can have a rapid and severe impact on the immediate condition of your business.

Grasping the nettle quickly may feel, at the outset, like an overreaction, but asking the right questions sooner rather than later may be critical in weathering the storm and preserving a strong foundation for the longer term.

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kpmg.com.ar | contactenos@kpmg.com.ar