

# Ramping up the supply chain post COVID-19

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The COVID-19 pandemic is challenging businesses to think in unique and different ways. The disruptions caused by the virus outbreak have left deep impacts on consumer behaviour and preferences. Customers are now increasingly exercising caution on what, where, and how they buy. As demand surges for essential products, companies across the globe have been scrambling to streamline their supply chains to secure immediate operations. At the same time, there is pent-up demand waiting to be released for semi-essential and regular consumption categories that do not qualify for the 'essential' tag.

Drawing on detailed consumer research and client interactions, we have identified the following issues/themes that consumer-driven businesses need to address from a supply chain perspective –

- 1. Day-zero and beyond planning:** There is a need for multi-scenario planning and real-time operations alignment. Grocery and essential commodities retailers, in particular, are dealing with significant out-of-stock situations on many key products as consumers are responding to the uncertainty by hoarding supplies, especially for the basic staples categories. Day-zero, in this context, translates to the date on which lockdown restrictions ease from a functional business environment perspective. The ability to predict and manage demand on and soon after Day Zero will be crucial. It is important to anticipate how a mutually interacting set of consumer goods categories will behave in terms of demand dynamics and supply chain inter-linkages. Therefore, businesses need to review forecast assumptions and demand expectations, not only for their own categories but also for those that compete for the customer's share of wallet, along with categories such as transport and handling infrastructure, the marketing media space, etc. Businesses should evaluate existing business rules for distribution planning and inventory levels of critical items.
- Based on scenario models developed for clients, we believe that organisations with a robust Day-zero plan stand to achieve **35-55** per cent higher profitability than those without a day-zero plan during the first four weeks after day zero.
- 2. Sourcing:** It is important for retailers to assess critical raw material availability and map it to high-value products and revenue streams. Identifying supply-side capacity constraints and quantity/price volatility emerges as a key focus area. In addition, organisations need to evaluate existing contingency plans, and review contract agreements for allowable variation clauses that will highlight possible risks to address. These reviews would also help identify possible headroom

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for better managing cash-flows and renegotiating select contracts for better terms. Lastly, organisations also need to evaluate adopting alternate sources and carrying out feasibility studies to compare cost versus supply chain convenience.

3. **Supplier risk assessment:** Consumer companies should immediately identify their key/top suppliers as well as understanding/assessing their risks and ability to meet supply requirements. With the surge in demand for essentials, businesses should understand their supplier's ability to supply materials with the right quality standards and timeliness. This assessment should include suppliers of materials as well as services that may affect the speed/viability of their operations. Organisations should be creating contingency plans along with their suppliers, in line with scenario-based stress points identified. Continuity of supplier/vendor operations soon after the COVID-19 lockdown eases may be an area of concern from the perspective of cash positions, people availability, etc. A clear multi-point vendor discussion to identify these risks, therefore, is essential in planning for post-coronavirus readiness.

**Packaging material suppliers and transportation partners emerged as the two high risk supplier categories from an operations discontinuity perspective, during supplier risk assessment exercises for many clients.**

4. **Managing product portfolio:** Clients with a mix of products moving through their supply chain need to scrutinise their own product mix and define business priorities. This is particularly critical in cases where these products share resources in terms of raw materials, manufacturing infra, selling space, teams, etc. The need for prioritisation arises from constraints in terms of limited availability of shared raw material, various teams working at below-normal headcount, etc. This would require a cross-functional collaborative effort—encompassing the sales, manufacturing, sourcing and planning teams, along with finance—to identify the most suitable product mix when resources are constrained. Our experience shows that, from a commercial perspective, the focus on profitability per operating hour is the most critical metric while deciding the product mix.

**Profitability per operating hour is the most critical metric to pursue while deciding the product mix under the post-COVID-19 constrained ramp-up scenario.**

5. **Monitoring inventory and the flow of goods:** Grocery retailers are trying to manage significant supply challenges as consumer panic buying has led to stock-outs. Monitoring inventory levels and improving visibility over all inflow of goods, therefore, is critical. Retailers should also try and gain visibility on the supplier's end—supplier production schedules, shipment details, etc. to

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understand and foresee any material flow disruption situations beforehand. Investing in a technology-driven dashboard which provides real-time information via an app., could be a good option for retailers to explore. Ensuring smooth material handling, along with adequate manpower availability, is another area that needs to be reviewed and plugged.

- 6. Delivering to the last mile:** Retailers should review the locations of Delivery Centres and distributors to compute risks by geography. Conducting an analysis on warehouse and front-end processing capacity along with its impact would reveal potential stress hotspots that need to be fixed. For those with exports and global operations, evaluation of export plans by country and risks associated with each destination are essential to ensure optimal flow planning under constrained resources. With demand for home delivery at record levels, companies should also consider partnering with established players who can offer digital ordering and/or last mile delivery capabilities.

More than **50** per cent of the companies in the consumer goods space we talked to intend to set-up **last mile delivery** operations in-house or through partners.

- 7. Assess cash/liquidity position:** Consumer companies should carefully assess their liquidity positions and potential options to invest, borrow, or liquidate. Switching to well-established tools for cash forecasting and management is worth exploring to ensure comprehensive cash-view over an extended timeframe and under different scenarios. It is also imperative to evaluate capex projects from an execution moratorium and/or a milestone payment deferral perspective. Among companies with a sourcing back-end linked to the agriculture or Micro, Small and Medium Enterprises (MSME) sectors, there's high dependency on cash to pay for stock; it is important to review the overall capex and revenue budgets with more rigour and assess current plan for collections and payment deferrals. Many retailers are also now reviewing their overall financial stability under a variety of different scenarios to see if they need to rearrange their financial arrangements.

- 8. Shift to 'safe retailing':** COVID-19 has driven customers to prioritise health and supply chain safety

More than **82** per cent of respondents intend to buy from retailers/brands which have demonstrably taken measures to **improve their product and supply chain hygiene** in the context of COVID-19.

over cost and convenience. Consumers today are more willing to buy from companies that are taking visible steps to curb the spread of the virus within their scope of operations, and beyond. There is a definite requirement for retailers and consumer goods companies to realign their operations in ways that provide minimal touchpoints. Additionally, companies need to ensure that the remaining touchpoints are operated in a way that signals a focus on the safety and health of all stakeholders involved.

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9. **Establish a war-room:** Given the constantly evolving scenario, it is vital for consumer goods companies, retailers and brands to establish a cross-functional empowered war-room to take decisions fluidly. Given the current volatility in consumer behaviour and internal operating chain, it is critical to establish the guiding principles and core objectives for the war-room while providing the decision-making authority to decide and implement initiatives on the go. The war-room must be headed by the C-suite or someone empowered to that level for the purpose and duration of handling the COVID-19 crisis. Brands and retailers that have frequent front-end interaction with consumers need to be especially careful to include legal and safety team members in the war room.

Given the shifting nature of consumer preference and behaviour in India, investments must be made in ramping up the supply chain infrastructure over the next few years. Providing a seamless journey for consumers through a mix of digital and physical infrastructure will require the backing of a strong supply chain. COVID-19, in all its volatility and stress, has opened up opportunities to take a hard look at the entire supply chain and reimagine it for tomorrow's needs.

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