

COVID-19: Best procurement practices to weather the storm

The following is a follow-up to Tim von der Decken's **Procurement in the Era of COVID-19** whitepaper, published on 27 March 2020.



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As countries around the world are loosening restrictions and business is resuming, companies are under intense pressure to respond rapidly, facing a weakened demand across most consumer and B2B markets over the coming quarters.

Over the past few weeks, we have been working closely with our clients to weather the storm and have determined several best practices to adjust to the current crisis.

Facing the recession

The European Central Bank (ECB) projects a recession of 5-12% in Europe this year. "It's difficult to assess what the impact will be in each country of relaxing the lockdown measures, particularly if we have to incorporate the possibility of a second wave of the epidemic in the autumn", said Christine Lagarde, President of the ECB. She predicts that the second wave likely won't be as bad as the first, from an economic point of view, "because we will be able to benefit from experience."

Nevertheless, we have never before experienced a shutdown of the global economy nor its reopening during an ongoing pandemic. The question is: What should be done to manage the business through COVID-19, and how can procurement contribute to improve efficiency and competitiveness?

The new normal for procurement

The last weeks have shown an imbalance between demand and supply on a global basis. With COVID-19 still spreading, the supply chain risks extend far beyond the questions 'what will my customers order?' and

'how many products should we have in stock?' The new normal is one in which production can simply halt in parts of the world.

We know from former crises that even these uncertain times can yield strategic opportunities. As the rebound is underway, first mover advantage will be key. Competitive advantage will come from business continuity, a strong cash position and supply base support. Those who rebuild quickly and effectively will be the winners regarding cost advantage, cash availability or taking over ailing competitors.

support, supply assurance and tactical value wins.

By applying these levers, a software solutions client with a total spend of \$210m to saved \$40m by cancelling or postponing non-core spending, such as events, investment and construction projects.

2. Preserve and generate cash through proactive supplier management

Cash is the lifeblood of the business, especially during a demand shock like we have never before experienced. Procurement can significantly contribute to generating cash and protecting EBIT by conducting short-term, tactical negotiations with key suppliers. We have seen the best results achieved via a direct and collaborative approach based on rapid review of clients' current contract terms, renegotiating best available terms and a fact-based dialogue with core suppliers leveraging a 'we are in this together', supported by relevant price and terms benchmarks and category specific key message and approach plans.

Tactical supplier cost reduction

During such a disruption, there are some key commitments that you should obtain from your suppliers. You might consider a 10-week 'sprint' to focus on quick wins, using commercial restructuring, competitive tensions, demand management and insourcing levers. Focussing on the top 20% of suppliers, we have seen clients reduce total expenditure by 2-4%.

A media company realised savings of \$3m based on \$70m total spend by addressing its top 40 suppliers. Another client in the car rental business saved \$4.2m by addressing seven suppliers, based on \$54m total spend.

The key to success is to pick the right suppliers. It is not advisable to push the same payment terms for all business. Be mindful of how critical cash is to your supplier or sector. Another important factor is the agreement on short timelines for your contract conditions to ensure quick success.

Cash flow release negotiations

The most obvious method of improving working capital is to increase payment terms. Here, the benefit can be realised almost as soon as the next run of invoices is processed.

One of our manufacturing clients generated \$50m cash by extending payment terms from 30 to 45 days for 50% of outgoing payments. Another client in the construction industry achieved a \$3m cash deferral through negotiation with its top suppliers (based on \$71m total spend).

Renegotiation of payment terms enables procurement to contribute directly to cash-flow preservation. To be most effective, start rapid negotiations with major suppliers while simultaneously focussing on temporary payment relief (e.g. top 50 global suppliers). Put the focus on active categories of spend.

3. Assure critical supply and key supplier resilience

With the spread of coronavirus, procurement and supply chain executives were immediately confronted with the vulnerability of their global supply chains. Furthermore, the uncertainties surrounding the development of the pandemic will remain, and additional disruptions resulting from climate change, political instability and the upcoming BREXIT deadline are looming. This means that short- and long-term plans need careful development and implementation to mitigate risk and create more reliable and agile supply chains.

Core component supply chains need to be mapped and risk assessed. It might be necessary to locate and qualify alternative supply sources and make commitments to secure hard-to-come-by goods.

In parallel, firms must achieve better visibility of the resilience of existing critical suppliers to ensure they can weather the storm and have active mitigation measures in place to manage and overcome upcoming potential changes in logistics, raw material and component supply interruption, volume variations or other factors.

Increasing supply chain resilience in the long term potentially involves challenging the supply chain trends prevalent in recent

decades, including greater "near-shoring" of supply, more local/national supply base development and reduction of reliance on China and other low-cost country sources.

4. Active planning for the new normal and post-crisis mobilisation

Significant new challenges and opportunities present themselves as countries and industries move to the new normal, including distilling and assimilating lessons learnt and increasing supply chain resilience. Competitive advantage will come from business continuity, a strong cash position and supply base support. The primary risks from COVID-19 and the resulting economic shock are depressed customer demand, additional costs and productivity impact from maintaining employee safety, balance sheet strength and ensuring key supplier stability.

The procurement function has a crucial role to play and can significantly contribute to mitigate the new challenges. This provides the opportunity and indeed the necessity to ensure the procurement and supply chain function has the right capability (skills, technology, processes, knowledge) and capacity (resource agility, skilled resources) to support the company.



How Efficio can help

As experts in procurement and supply chain with a proven speed to benefit, Efficio can support your crisis management and mobilisation planning through this challenging period.

A rapid review of the current situation (2-3 weeks)

Our first step is to create an overview of current spend identify opportunities and to reduce forward commitments based on demand drops, contractual commitments and underlying input/commodity decreases. Our team identifies parts of the supply chain where suppliers are at risk and offers a wide range of solutions. At the same time, we review the key contracts that can be downsized. In parallel, we assess the strengths and weaknesses in your current procurement and supply functions, identifying any weaknesses in capability and capacity to execute the change, with recommended functional changes and improvements.

Implementation of the identified measures (2-6 months)

Cost-base reduction

The Efficio team supports your activities to minimise spend commitments. We evaluate a mix of 10 potential work streams that will maximise your cash and EBITDA impact over the next two to six months. While we track savings, we ensure that spend is falling in line with demand.

Supply chain risk

At the same time, Efficio implements adjustments to increase supply chain resilience by setting the right balance for geographic footprint, supplier redundancy, transparency through tiers, insource-outsourcing balance and safety stocks.

Organisational improvement

Implementing the organisation improvements identified in capability and capacity to execute the required changes.



About Efficio

Efficio is the world's largest procurement consultancy, operating across the globe from its 11 offices in EMEA and North America.

We help organisations reduce costs, develop and implement their digital procurement strategies and upskill their procurement teams so that they can realise higher savings, faster and more sustainably – delivering greater value to the business over the longer term.

Our key differentiator is eFlow, a proprietary procurement technology and knowledge platform built and deployed by practitioners.

eFlow automates data insight generation, supports savings delivery, facilitates strong supplier partnerships and manages supply chain risk by enabling our clients to leverage a wealth of procurement intelligence and best practice on demand. This data and knowledge has been accumulated by our consultants over 20 years and through billions of dollars of addressed spend.

We aim to make procurement functions twice as effective, enabling them to deliver more with their own teams and become high-value generating functions for their businesses.

Efficio has experts ready to support your business rebalance its supply chain and accelerate next steps towards stability. Please let us know how we can help.



Efficio's offices

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