

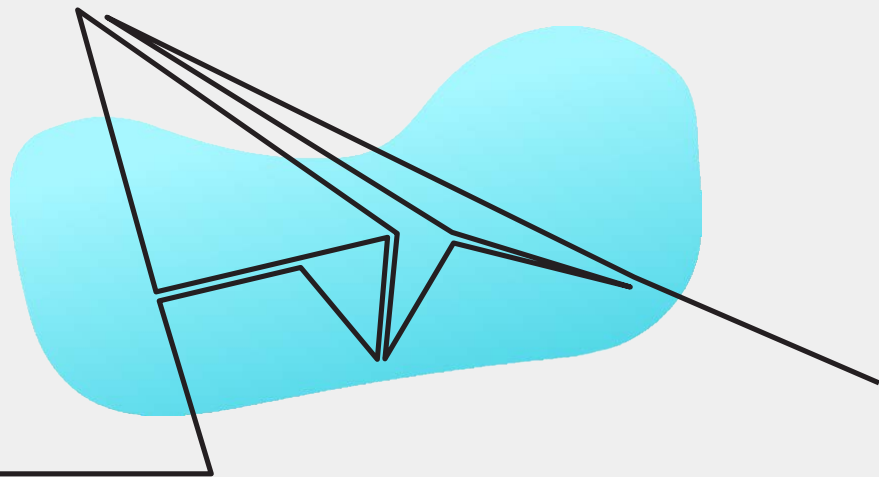


Actionable insights into your supply chain

**COVID-19 rapid supplier risk
assessment – Building towards
a more resilient supply chain.**



May 2020



Actionable insights

How do you feel about your suppliers?

Knowledge is your strongest shield against the volatility of hidden risk. With so much potential damage on the line, understanding what to look out for and what practices to avoid is paramount to maintaining good standing with your organization’s stakeholders and protecting your company from the suppliers’ risks inherent to the COVID-19 situation.

Immediate actions

- Focus the response team to facilitate information flow with upstream and downstream partners, and inform customers who will be impacted.
- Map criticality of sourced materials to high-value products and revenue streams. Identify the components with the highest impact on revenue.
- Review contracts with key suppliers to understand liability in the event of supply shortage.
- Determine business exposure by identifying current and buffer inventory, building tier-transparency and short-term action plans.



Elements of supplier risk - an integrated approach

COVID-19 rapid supplier risk assessment

- **Risk segmentation** and associated criteria should be developed to group suppliers in a manner that is in alignment with the defined risk tolerance and profile to clearly delineate risk severity levels, from an operational, financial, and compliance standpoint.
- **Viability risk monitoring** provides powerful oversight with a dashboard that analyzes and projects vulnerabilities across all relationships, so you can act quickly, through receiving timely insight into the risks facing your company.
- **Contract performance management** solution leverages holistic, cross-functional advisors and technology to provide visibility into where value leakage is occurring, and the steps being taken to correct it.



The top 10 supplier risk management mistakes:

- 1) Being misinformed regarding the financial health of your suppliers
- 2) Overlooking shifting political tides
- 3) Neglecting to monitor early warnings for quality, consistency and reliability
- 4) Underestimating supplier capacity constraints
- 5) Assuming all suppliers move at your clock speed
- 6) More brute force, less collaboration
- 7) Assuming cybersecurity is an IT problem
- 8) Re-inventing the wheel by building and managing an in-house vendor intelligence network
- 9) Pursuing an isolationist strategy
- 10) Living in the dark

Continuity of supply at risk & profitability

Pursuing innovative solutions while managing through this period of uncertainty comes with an increased amount of risk. A key element is the identification and management of supplier risk. The first step in this process is to review suppliers against a checklist of potential risk areas.



Business reputation

Is there a significant risk of the supplier negatively impacting your company's reputation? Examine for signs of disputes that may escalate the supplier seeking to break a contract or engage in litigation.



Supplier continuity

Monitor conditions with alerts and plan to contract with an alternative supplier within the same or different jurisdiction who can provide continuity of coverage.



Supplier capacity

Does the supplier have adequate capacity for your requirements? Can they still operate under the COVID-19 restrictions? Use analytics to help ensure any operational failures won't have a significant impact on your customers' commitments.



Financial risk

Are there credible rumors that the supplier is in trouble? Check the supplier's financial risk ratings using data aggregators and be prepared with an exit plan.



Cybersecurity

Are you prepared for a data breach? Monitor current conditions among your suppliers and be prepared to stay protected.

Getting real-time alerts through third party web services will let you pivot if needed and shift business away from that supplier to another.



Geopolitical Impact on Trade

When the world is unstable—like during the current pandemic—more stringent international rules are put in place to protect borders. Yet even before the current crisis, the rise in protectionism and 'weaponizing' of trade was evidenced by retaliatory tariffs, taxes and duties. Are these factor considered into your supply chain decisions?

Continuity of supply at risk & profitability

Markets are experiencing rapidly changing demand patterns driven by COVID-19. These impacts on the day-to-day business cause top and bottom line effects in companies' P&Ls, which in turn adversely influences the cash situation and the level of risk of many businesses.

Restarting your supply chain and build towards resiliency – where to focus?

Disruptions and changes in demand	Disruptions in supply chain and operations	Financial impact forecasting
<ul style="list-style-type: none"> – Look at multiple demand scenarios to evaluate high-risk areas and potential level of exposure – Create scenarios over the short, mid and longer terms on customer demand to enable planning for current and potential future disruptive scenarios – Balance global inventories better in order to increase efficiency 	<ul style="list-style-type: none"> – Determine the exposure level in the supply chain for products regarding sourcing from key suppliers and extended supply chain up to tier 2 & tier 3 suppliers – Evaluate substitutions for sourcing, production capacities and distribution network, and last mile (domestic vs. offshore) – Evaluate inventory and commodities availabilities, timeliness of delivery, and pricing (stock buffers, prioritization) 	<ul style="list-style-type: none"> – Fully integrate financial and supply chain data to ensure cost transparency. Understand cost-to-serve customers – Make visible financial impacts and forecasts based on changes in demand and supply immediately – Identify highest financial exposure based on high-risk demand and supply scenarios, and key suppliers – Outline cash requirements and networking capital effects of the different scenarios

We support our customers in identifying the areas that need to be addressed immediately, while implementing the tools they need to build more supply chain resilience over the medium to long terms. While it may seem somewhat counterintuitive to look at the mid and long-term impacts on finance and the supply chain in view of COVID-19, this in fact enables planning for potential future disruptive scenarios.

Acting fast in rapidly changing times is imperative to get ready for the future. This will help your company to exceed performance expectations during the COVID-19 crisis, but will also allow you to build resilience in the future, most likely coming out stronger than before.

Immediate action is required for supply chain and finance stress testing as you restart your supply chain

- Immediate visibility in the P&L based on the different supply and demand forecast scenarios
- Analysis whether suppliers are still able to meet free trade agreement rules of origin given supply changes that may have had to be made to determine to access whether duty expense and landed costs will be impacted
- Access to our global markets insights database, AI algorithms and extensive research team, which provide you with short, medium and long-term market perspectives and innovations during COVID-19
- Extensive commercial and supply chain experience provides you with fit-for-purpose recommendations on the future supply chain and network design principles

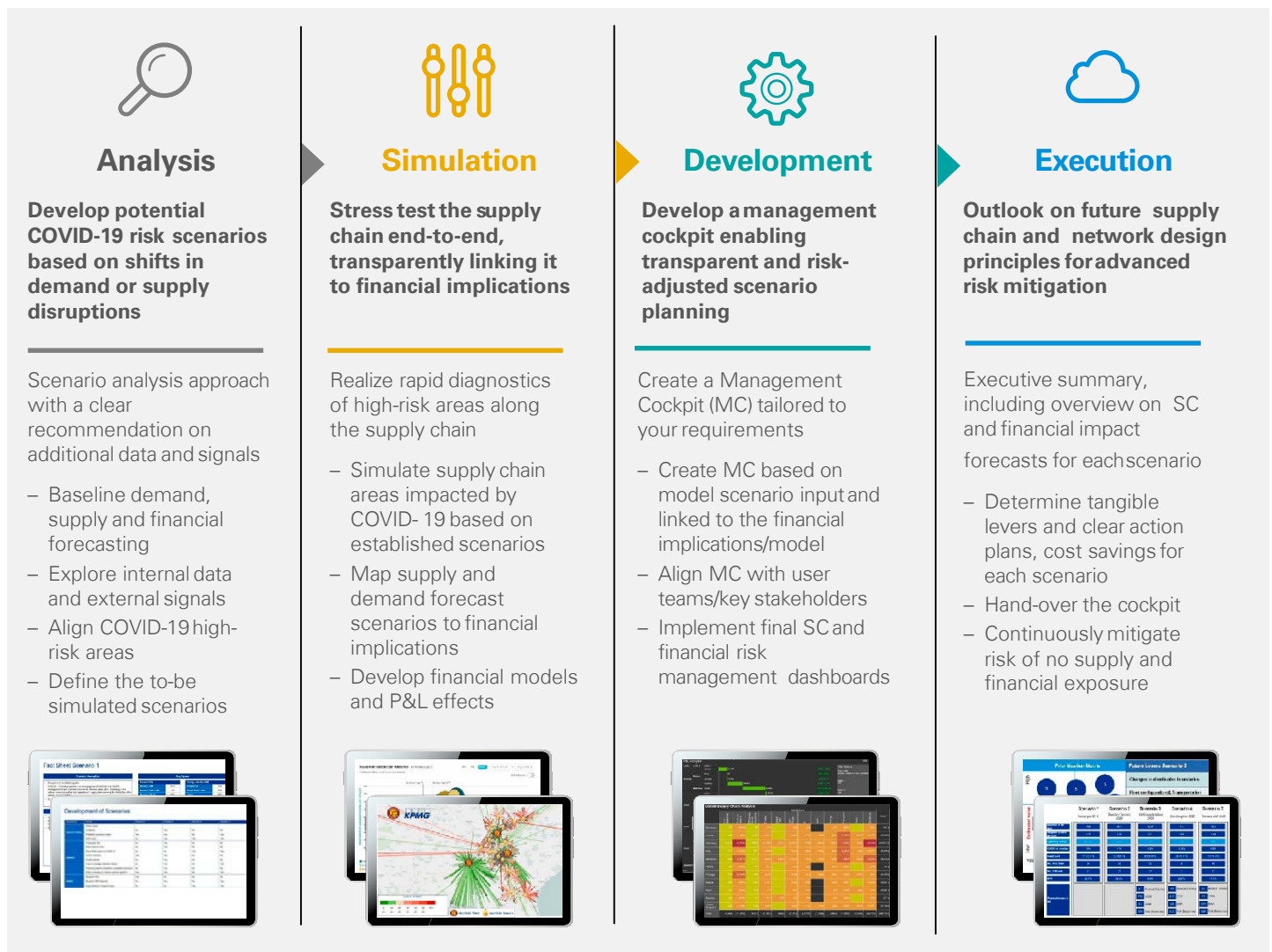
A 4-step approach to assess pressure points and build towards supply chain resilience

KPMG has a framework for supply chain and finance stress testing and simulation divided into four phases. It starts off with scenario building, followed by network analysis and simulation. The giving management tailored cockpits to enable transparent and risk-adjusted planning.

This is unlikely to remain the last disruption businesses have seen in today’s fast changing times. Hence, taking

a forward-looking approach is of utmost importance. We will help you leverage your current experiences for the future, improving your resilience. Together, we will have a look at the end-to-end supply chain considering key global production sites, brands and products, supply chain distribution networks, suppliers as well as transport lanes in simulations. Below, find the detailed approach including illustrative examples of deliverables for each phase.

COVID-19 supply chain and finance stress testing



How KPMG can help

KPMG's Supply Chain Advisory teams can help your organization setting an adaptive roadmap to adjust to the uncertainty. Our tailored approach incorporates strategy, security, cost, privacy, performance, risk management, and more.

About KPMG

KPMG is a global network of professional services firms providing audit, tax, and advisory services.

We operate in 146 countries and territories and have 219,000 people working in member firms around the world.

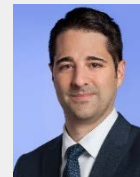
To learn more, visit: [The Future of Supply Chain](#)



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Ask a question >>

For more information visit the [KPMG COVID-19 Resource Centre](#).



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