

# COVID-19: Manage the Disruption Today + Plan for Tomorrow

**Virtual Discussion**  
April 2020

KEARNEY



## Proposed Agenda

**Welcome**

**Survive, Operate, and Win with COVID-19**

**Learnings from China**

**Value at Risk – How to Ensure Continuity**

**Closing remarks and Q&A**

**In the midst of the global pandemic, businesses are acting fast and smart so they can survive and then win**

## Survive

- How to get organized right away and identify gaps in your plans thus far
- Immediate actions required across the business
- How to stay responsive to the daily changes you will face

## Operate

- As things become more certain, how do you operate in the new environment?
- What decisions / tradeoffs do you have to make within the first few months?
- How do you begin to prepare for the next phases of the crisis?

## Win

- As new industry dynamics emerge, how can you be successful in the new normal?
- How can you turn the crisis into opportunities: gain share; consolidate your position; deepen loyalty?
- How to learn from this experience, build the lessons into your plans, and prepare for future impactful events?

**Executive teams must demonstrate leadership to ensure the safety and health of every employee while also focusing on business continuity**

**Stand up a data driven “command center” – the central body for decision making, coordination and communication**

– Central leadership point for all crisis management activities, accountable to the CEO

**Create and execute a robust communication plan with “one voice” focused on both internal and external stakeholders**

– Develop key messages to: raise awareness, support business continuity, encourage calm, demonstrate readiness, provide direction

– Frequent internal/external communication critical in early stages; adjust as situation requires

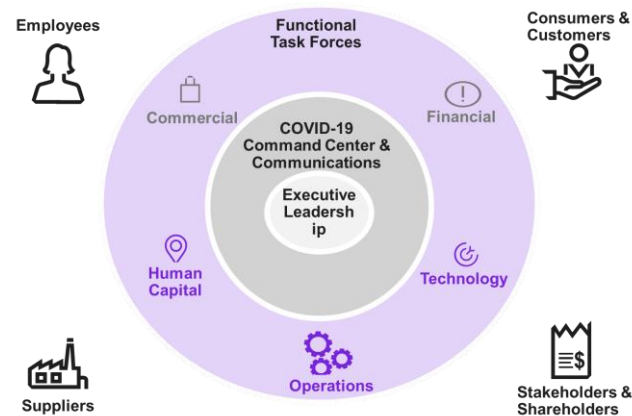
**Create a set of scenario based outcomes+ enact “emergency processes”**

– “Emergency” processes will need to be launched for critical areas (i.e., financial scenario planning, S&OP) to enable real-time adjustments to key business plans

– Accelerating efforts for in-year cost take-out measures is paramount to minimize P&L impact

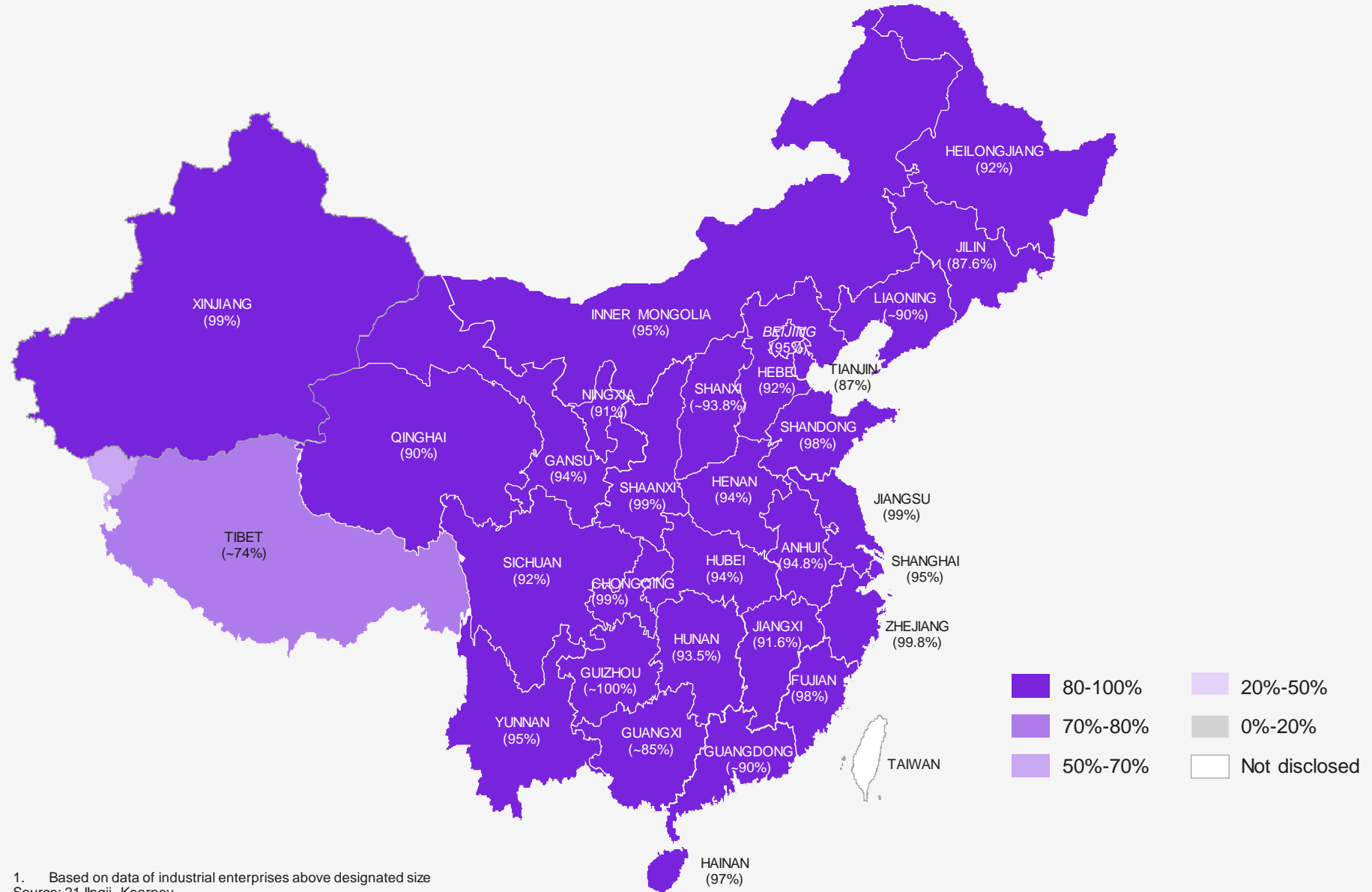
**Dedicate time to operate in the transition (3-6 months) and long term**

– Change in Demand, Supply, Labor/Technology and Competition



With the exception of Tibet, the majority of provinces in China have reached over 90% recovery rate

## Rate of resumption to work<sup>1</sup> in China



With situation relieved, Hubei has reached over 94% recovery rate.

1. Based on data of industrial enterprises above designated size  
Source: 21Jingji, Kearney  
(as of Apr. 8<sup>th</sup>)

Once severely impacted, labour-intensive industries have now reached over 90% recovery across all major sectors

Work resumption rate



AUTOMOTIVE

95%

- Parts suppliers and automotive OEMs have resumed work in Wuhan, such as PSA, Nissan, Honda, Bosch, and Valeo



ELECTRONICS

90%

- Wafer fabrication, PCB, and LCD panels less impacted due to nature of continuous production
- Foxconn introduced policies to encourage work resumption; overall resumption reached 93.7% in major 27 industry parks



CONSUMER GOODS

95%

- Apparel and textile industry will potentially face work stoppage again in the near future due to slump of overseas demand caused by global epidemic situation

Current status

#### Potential risks

- Imported cases from overseas countries might still pose risk to major port cities, such as Shanghai
- Low automation level / labour-intensive procedure mostly affected, such as assembly
- Assembly / production line not fully resumed, although management staff is partially resumed

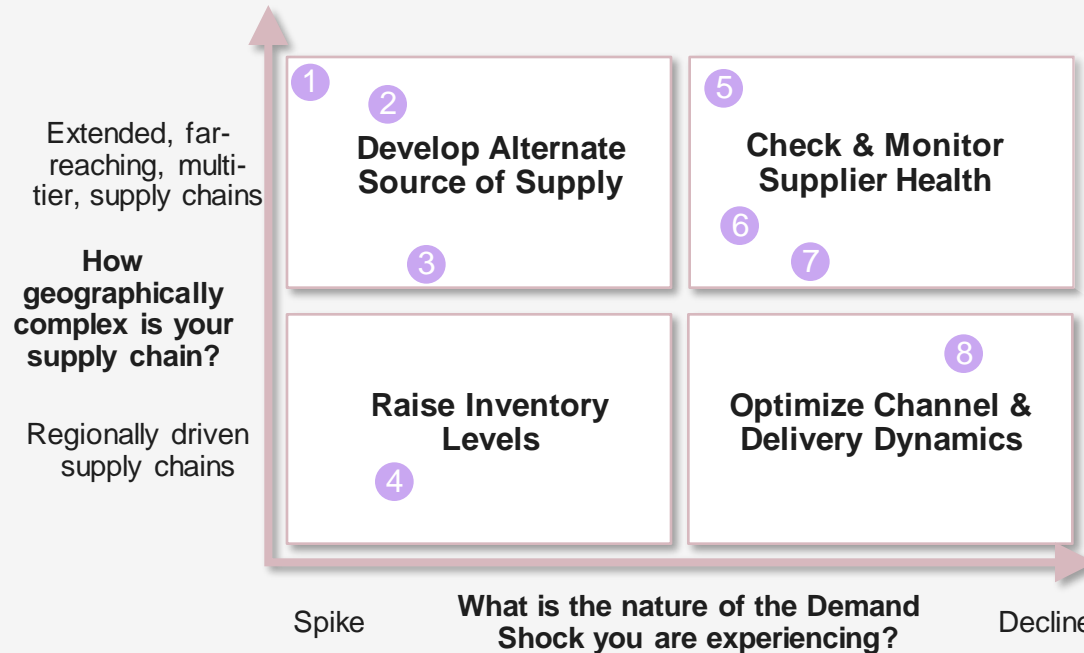
#### Current work arrangements

- Non-production departments resumed
- Partial production capacity resumed (production plan subject to demand)
- Flexible work/remote work
- A/B/C shift

**Kearney's 'Value @ Risk' framework helps determine the right risk mitigation strategy for an emergency response**

# VALUE @ RISK

**Primary Risk Mitigation Strategy** depends upon the geographical complexity of the supply chain along with the nature of the demand shock.



**Detailed Risk Response** is developed around primary strategy by taking into account:

1. Industry context
2. Geographies in scope
3. Nature of product (B2B / B2C)

### Examples of Impacted Industries

- |                                     |                                    |
|-------------------------------------|------------------------------------|
| 1 Healthcare – Pharmacy Consumables | 5 High Tech – Consumer Electronics |
| 2 Healthcare – Medical Devices      | 6 Auto – Components                |
| 3 Consumer Products – Personal Care | 7 Consumer Durables                |
| 4 Consumer Products – Food          | 8 Consumer Products – Luxury       |

**COVID-19 to negatively impact the global economic forecasts and chemical end industries in Q2/Q3 2020**

**-4.5%**

COVID-19 to badly hit already troubled global markets. Net shift in Global GDP growth outlook expected to be -4.5% (from a +2.3% pre COVID-19 to -2.2% post COVID-19)

**↓ Auto, Construction, Energy and Industrials**

Automotive, Construction, Apparel & Textile, Consumer Durables, Energy & Industrials sectors to witness biggest hit

**↑ Healthcare, Consumer Staples & Plastics Products**

Some silver lining of growth in essential sectors such as healthcare and consumer staples. Plastic products to gain momentum owing to the demand for clean and non reusable packaging amidst the outbreak



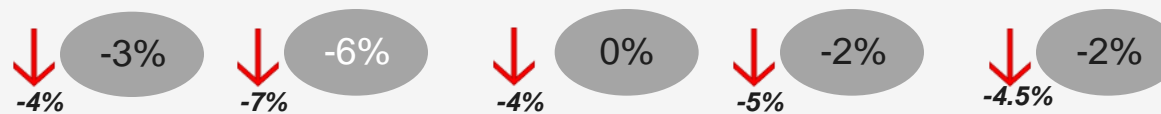


# Potential impact of COVID-19 on key chemical markets - Outlook for Q2/Q3 2020

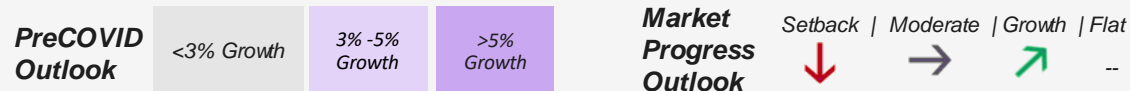
## Methodology & Data Collection

- Δ in pre-C19 2020 GDP outlook (below the arrows) provides the change in % points in GDP growth outlook, Pre and Post COVID-19
- Background color suggests pre COVID-19 latest available outlooks for key chemical end sectors (drivers impacting chemicals industries, eg – For Automotive & Construction, outlook is given in terms of Automotive plastics and Construction chemicals respectively)
- Impact is presented through the arrows suggesting how the market demand will be affected forward in Q2-Q3 2020. The impact is assessed from press sources and market reports
- The market size are calculated based on 2018 market that stood at \$ 3,832 bn

Δ in pre-C19 2020 outlook and post-C19 projections



Key Chemical End Sectors	North America	Europe	North East Asia	Other	Global Market Prior COVID-19 (\$ Bn)
Healthcare	↗	↗	↗	↗	590 ↗
Consumer Staples	↗	↗	↗	↗	115 ↗
Personal Care	→	→	→	→	24 →
Plastic Products	↗	↗	↗	↗	663 ↗
Apparel & Textiles	→	→	↓	↓	203 ↓
Automotive	↓	↓	↓	↓	80 ↓
Construction	↓	↓	↓	↓	195 ↓
Consumer Durables	↓	↓	→	↓	153 ↓
Agriculture	--	--	--	--	360 --
Energy	↓	↓	↓	↓	655 ↓
Industrials	↓	↓	↓	↓	310 ↓
<b>Regional Market Prior COVID-19 (\$ Bn)</b>	<b>607</b>	<b>647</b>	<b>1723</b>	<b>855</b>	<b>3832 ↓</b>



North East Asia includes China, Japan, South Korea. Other consist of all of APAC (exc. China, Japan and South Korea), Middle East, LATAM, South America; GDP Europe is represented by Germany, Italy, France and Turkey. GDP for other calculated by Argentina, Brazil, India, Australia, Indonesia, Russia, KSA, South Africa  
Source – Press search, Kearney

# There are key actions to take across each component of your supply chain

## Overview of key considerations

### Deep dives to follow



#### Plan

**Different communication** norms with commercial teams and higher frequency of changes to orders  
Customer **prioritization of essentials** over new and innovative products



#### Source

**Shortages of raw materials** and indirect inputs  
**Increased demand of inputs** for daily essentials  
Potential import and cross-region **transportation bans**



#### Make

Potential **labor shortages**  
**Ability of production lines to shift** from one product to another  
**Maintaining health and hygiene** at facilities operating at full capacity



#### Deliver

**Shortages of labor** for logistics services; insistence on touchless delivery  
**Differing delivery needs** of customers  
Potential cross-region **transportation bans**

# Plan

## Demand Planning

### Inputs

- Confirm priority SKUs
- Confirm priority customers
- Confirm product allocation logic
- Assess changes in forecast
- Secure PO's
- Monitor daily replenishment and buying patterns

### Activities

- Update current demand plan
- Push out SKUs that are not critical
- Recommend edits to allocation logic where needed

### Outputs

- Update demand plan for next 6 months
- Send forecast to supply planning team
- Refine allocation logic

## Supply Planning – Suppliers

### Inputs

- Identify critical materials that you need supply commits for
- Review previous supply commits vs. critical materials
- Monitor closures, regulatory activity
- Obtain latest demand plan

### Activities

- Obtain supply commits from suppliers
- Identify gaps to forecast
- Mitigate gaps where possible
- Track and expedite shipments

### Outputs

- Confirm supply commits from suppliers
- Identify gaps to forecast and mitigating actions
- Generate and cascade a new forecast to suppliers

## Supply Planning – Production

### Inputs

- Gather daily availability of critical materials from Procurement
- Identify critical shortages for Procurement to work through
- Gather daily capacity by line including personnel / equipment availability
- Obtain latest throughput by line
- Obtain latest forecast for the plant at SKU / Line / Daily level

### Activities

- Generate rough cut capacity plan for next 2-4 weeks by line
- Identify demand supply gaps and critical bottlenecks
- Determine workarounds for availability issues

### Outputs

- Publish rough cut capacity plan
- Collaborate with commercial on D-S gaps, allocation decisions
- Collaborate with plants on critical resource needs (e.g. shifts, lines) and production reqs. (SKUs)
- Collaborate with Procurement on critical material needs

## S&OP – Emergency Control Tower

### Inputs

- Demand plan, supply plan, production plan
- Demand supply gaps & mitigating actions

### Activities

- Facilitate decisions and determine what can be allocated downstream
- Manage exceptions
- Identify personnel needed to continue operations
- Confirm that team has access to needed planning tools
- Cooperate with other parties as needed

### Outputs

- Confirm plan
- Cascade decisions to relevant parties

## Checklist of actions

## Source

## Category

### Commodity Management

Assess commodity risk and establish capability for regular monitoring

Identify opportunities to share gain / loss with suppliers

Reduce demand / identify alternate sources

### Cost Management

Evaluate contracts to identify demand impact and cancellation / delay actions

Identify in year savings opportunities

### Category Strategy

Evaluate all RFPs in market, stop start or modify approach, issue communications

Confirm strategic supplier contacts

Re-prioritize project pipeline and assess impact on projected savings

Assess impact on 2-3 year category strategy

## Supplier

### Supply Risk

Contact high risk / impact suppliers and agree on supply plan

Segment suppliers and corresponding supply chain, by level of COVID-19 risk

Monitor regional markets and government responses

Model supply scenarios and contingency plans

Monitor financial stability of critical suppliers

### Social Responsibility

Partner with strategic supplier to mitigate impact on employees and communities

### Shifting Supply

Execute rapid sourcing for incremental needs

Identify new supply requirements (e.g. increase in eCommerce, virtual work needs)

Identify suppliers to reduce / eliminate

## Team

### Resource Management

Confirm safety and working conditions for all team members

Stagger working times

Establish command center to address immediate needs

Evaluate / update performance evaluation processes

Determine new capabilities required (e.g. category expertise, rapid sourcing, online negotiation)

### Tools /Technology

Identify tools needed to perform virtual work effectively (e.g. negotiations, RFP review and eval)

### Operational Procurement

Ensure viability of business critical processes (e.g. P2P)

Identify new escalations, expedite rules required

Evaluate location of resources and impact on productivity

## Checklist of actions

# Make

## Checklist of actions

## Incoming Raw Materials

### Inputs

Review supply risk based on geographic areas due to closures, regulatory activity

Identify critical raw materials / packaging and determine potential shortages

Obtain latest production schedule for volume requirements

Confirm status of transport providers

### Activities

Review and mitigate potential shortages due to supply risk

Determine alternate sources of raw materials / packaging

Select areas for increased docking / warehouse capacity to handle demand variability of production

Define inspection requirements of inbound materials for cleanliness

Track and expedite shipments

Identify alternate transport

### Outputs

Confirmed supply commits from suppliers (both incumbent and alternates)

Track supply gaps and mitigate with alternate inputs, suppliers, or transport

Generate and release an updated forecast to suppliers

## Production

### Inputs

Determine daily capacity by line based on resources (raw materials / labor / asset availability)

Review assets' maintenance activities and spare parts and prioritize

Confirm proper PPE and cleaning supplies for workforce

Obtain latest throughput by line and forecast for the plant

Prioritize preferred customers / products in production schedule

### Activities

Adjust workforce plan to handle demand variability (shift patterns, skeleton crews, call-in list)

Implement actions for under performing assets to increase capacity (maintenance, additional labor)

Prioritize critical assets for maintenance and spare parts

Determine frequency / duration to clean assets and required PPE for task

Create capacity plan for next 2-4 weeks with daily/hourly check ins

### Outputs

Monitor critical resources daily

Publish capacity plan and review on a weekly basis

## Finished Goods

### Inputs

Production schedule adherence

Verify staging / warehouse capacity

Determine areas requiring additional sanitation (material handling, packaging, staging, transportation)

Confirm status of co-manufacturers / logistics network in case of potential disruptions

### Activities

Validate production plan vs actuals

Define alternate staging locations for WIPs and finished goods in case of outbound freight disruptions

Implement sanitation protocols for assets that interface with goods

Minimize contact with shipping provider during shipment of goods

Identify alternate co-manufacturer / transport options to mitigate risk

### Outputs

Provide feedback to production on any gaps in finished goods inventory

Confirm agreements with alternate co-manufacturer / transport options

Verify sanitation protocols are followed during material handling activities when human contact is possible and during interaction with shipping provider

# Deliver

## Distribution Planning – (DCs & Drivers)

### Inputs

Gather daily updates to DC personnel, space and equipment availability

Gather daily updates on drivers, availability

Update stocking policy and updates to latest requirements

Obtain latest forecast for the DC at SKU / Daily level

### Activities

Develop DC shift schedules for 2-4 weeks

Develop driver routes for the next week

Identify critical bottlenecks

### Outputs

Propagate orders to warehouses

Determine which routes are delivered by which warehouse

Build and publish routes of the routes

Collaborate with commercial teams on supply gaps, allocation decisions

Collaborate with plants on shipping schedules

Collaborate with 3PLs and logistics providers on critical supply gaps

## Warehousing

### Capacity

Monitor capacity and productivity

Optimize DC capacity by prioritizing critical SKUs

Evaluate need for temporary closure of any DCs

ID / Ramp contingency options (alt. DCs, temporary storage, DC by-pass, shared use options) and expedite qualifications

### Labor

Assess additional / excess labor requirements

Explore market dynamics to recruit or place temporary labor

Maintain open dialog with unions on a continuous basis

### eCommerce

Forecast eCommerce related need for each picking

Draw up temporary plans for picking and staging areas in DCs

## Transportation

### Modes and Routing

Monitor metrics to detect issues early (e.g. load acceptance)

Change to faster modes where needed, and pre-book capacity

Build routes earlier to provide visibility to carriers / operations

Explore dynamic routing based on daily changes to demand and production

Explore shared use options to leverage freight capacity

Reduce delivery frequency to maximize capacity utilization

### Labor

Assess additional / excess labor requirements for private / dedicated fleet

Explore market dynamics to recruit or place temporary labor

Maintain open dialog with unions on a continuous basis

### eCommerce

Forecast eCommerce related need for last mile assets

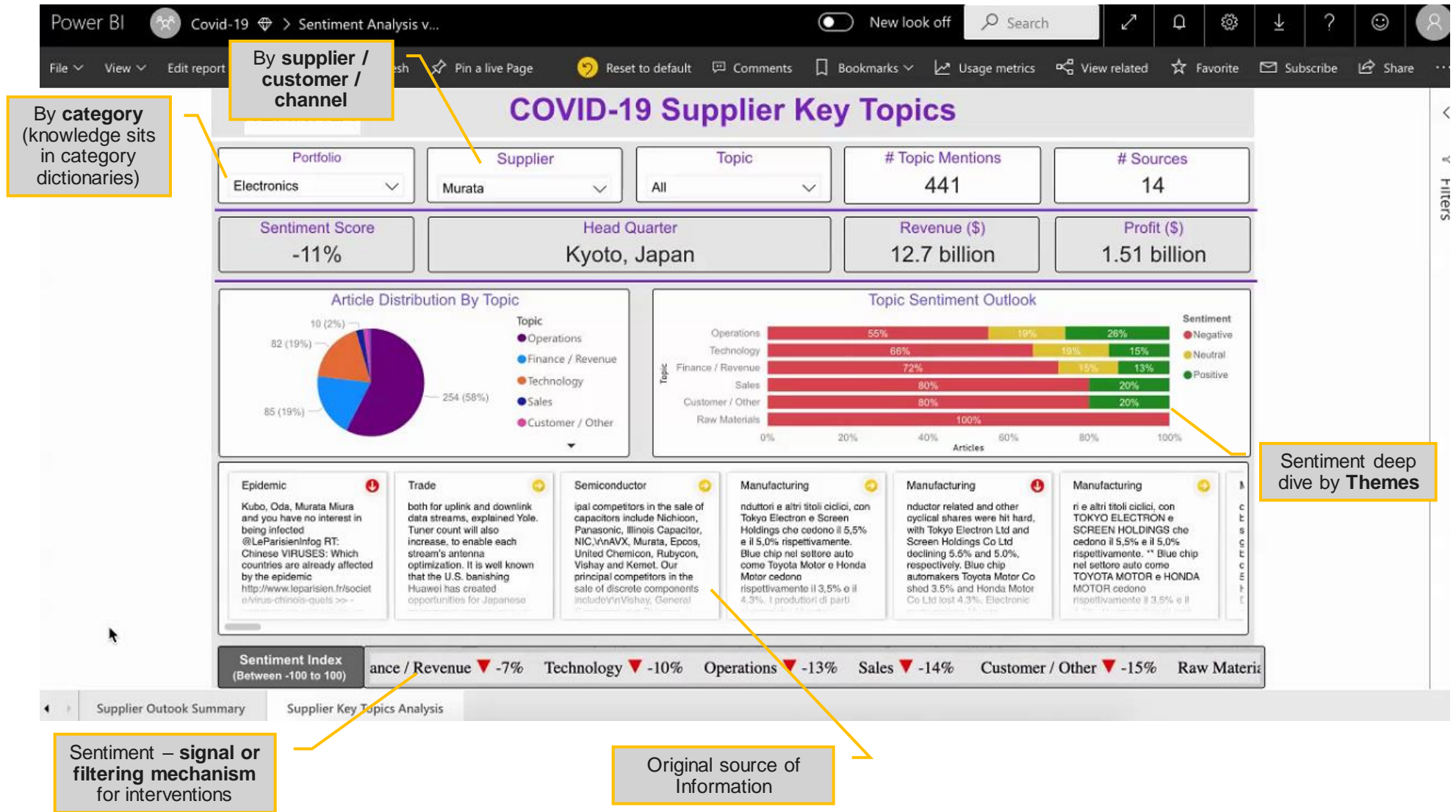
Draw up routing plans for shipping from DCs, stores, dark stores etc.

Discuss consumer policy changes (e.g. free shipping to distressed areas)

## Checklist of actions

AI can assess supplier and customer / channel risk profile and prioritize appropriate interventions

## Supplier / customer sentiment listening



The COVID-19 pandemic will impact consumers, customers, labor, suppliers and the competitive environment in the near- and long-term

## Demand

*Does demand and the way you meet your customers need to shift?*

- Income shock
- Product category shift
- Channel shift
- Engagement

## Labor / Technology

*Does labor offer and your operating model need to shift?*

- Safety focus
- Labor ramp up/down
- Technology

Critical questions for near- and long-term

## Suppliers

*Are there any underlying shifts in supply and any foreseeable risks?*

- Supply risk
- Risk / resilience focus
- “Consolidators”

## Competitive Environment

*Are competitors weakening / strengthening? Are there first mover opportunities?*

- Portfolio shifts
- Innovation and product
- Opportunistic partnerships
- Strategic partnerships



Q&A

# What are you doing?



# COVID-19 and its impact on your business

Every day, we are sharing insights from experts across every industry on the impacts of COVID-19, and how to survive, operate, and win.

[See them here.](#)



# Thank you

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