COVID-19

Rapid Value Creation – Supply Chain and Customs Deep Dive

April 2020
Topics we will cover today

1. **Introduction**
   a. Rapid Value Creation (RVC) – Claude Fuhrer

2. **Key topics – what our experts are saying**
   a. Procurement effectiveness – Stefan Schrauf
   b. Supply chain / production effectiveness – Stefan Schrauf
   c. Customs and logistics – Simeon L. Probst

3. **Summary**
After securing the business and liquidity, we recommend to focus on both value preservation and value creation topics in these challenging times.

**Value Bridge**

1. **Loss in value / value destruction**
   - Covid19 impacts value by increasing risk of default and decreasing future financial outlook
     - **Commercial**: Loss of revenue (demand shock)
     - **Operational**: Disruption in supply-chain (supply shock)
     - **Financial**: Liquidity crisis / profit and margin shock / rating downgrades / covenants breaches / solvency shocks, cash flow forecast

2. **Value Preservation**
   - Focus on actions to stop value destructions
     - **Financial**: Liquidity management, government aid (guarantees, debt and equity participation)
     - **Operational**: Focus on fix costs structure ("short term work"), stabilise supply-chain, workforce management
     - **Strategic**: Review of BU portfolio (core / non-core)

3. **Value Creation**
   - Strengthening market and competitive positioning for value creation after Covid19
     - **Strategic**: Opportunistic M&A
     - **Operational**: Resilient supply chain, cost reduction
     - **Financial**: Working capital management, efficient tax structuring
Rapid value creation (RVC) is a framework to identify opportunities with financial impact across all areas of business operations in as little as 4-8 weeks.

Alternatively or in addition, you can use this framework to validate and improve existing profit improvement programs and report on these to the market in a Quantified Financial Benefits Statement (QFBS).

**What is Rapid Value Creation?**

**Key differentiators**

**Hypothesis led approach**
Focussing on informed and tangible value creation opportunities.

Delivers bottom line impact over the short, mid and long term, with focus on immediate results.

Delivered by combined teams of **industry professionals and functional experts working closely with the management team** and supported by (data) analytics and rigour.

**Leverages a deals & restructuring value creation approach**
Cut through complexity, capable of working with limited information to deliver rapid and meaningful results.

Alternatively or in addition, you can use this framework to validate and improve existing profit improvement programs and report on these to the market in a Quantified Financial Benefits Statement (QFBS).
Today we are focusing on three levers: Procurement effectiveness, Supply Chain / Production effectiveness and Customs & Logistics in the context of RVC.

From experience, we can help you create additional value in your business by exploring the levers that resonate the most with your business.

<table>
<thead>
<tr>
<th>Lever</th>
<th>Value</th>
<th>Value impact</th>
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<tbody>
<tr>
<td>Operational enhancements</td>
<td>• Maximise revenue opportunities</td>
<td>20-25%</td>
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<td></td>
<td>• Market and channel strategy</td>
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<td>• Differentiation/co-competitive advantage</td>
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<td>• Principle policies</td>
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<td>• Operations to support strategy</td>
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<tr>
<td>Procurement effectiveness</td>
<td>• Security of supply</td>
<td>8-15%</td>
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<td></td>
<td>• Supplier risk assessment</td>
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<td>• Contract assessment</td>
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<td></td>
<td>• Critical category and single source management</td>
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<td></td>
<td>• Price reduction initiatives</td>
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<td></td>
<td>• Control of spend</td>
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<tr>
<td>Supply chain and production effectiveness</td>
<td>• Supply chain disruptions and how to mitigate</td>
<td>8-15%</td>
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<td></td>
<td>• Integrated Supply chain planning</td>
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<td></td>
<td>• Adjusted warehouse operations</td>
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<td></td>
<td>• Ramp up of series production</td>
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<tr>
<td>Customs and logistics</td>
<td>• Customs challenges &amp; measures announced by countries i.e.:</td>
<td>8-15%</td>
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<td></td>
<td>• Transportation and entry of goods;</td>
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<td></td>
<td>• Online business; e-comm.</td>
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<td></td>
<td>• Affected product categories</td>
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<td>Overhead optimisation</td>
<td>• Non headcount and headcount optimisation</td>
<td>20-25%</td>
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<td></td>
<td>• Leverage shared services</td>
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<td></td>
<td>• Outsourcing models</td>
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<td></td>
<td>• Investment and capability build requirements</td>
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<td></td>
<td>• Cost control and governance</td>
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<tr>
<td>Working capital reduction</td>
<td>• Improve inventory (WIP, raw materials and finished goods)</td>
<td>20-30%</td>
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<td></td>
<td>• Accounts payable and receivables</td>
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<td></td>
<td>• Focus on cash within the business</td>
<td>10-15%</td>
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<tr>
<td>IT optimisation</td>
<td>• Utilisation of existing and new technology to enable margin and revenue improvement</td>
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<tr>
<td></td>
<td>• Optimisation of the IT infrastructure and estate</td>
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</table>
An integrated set of procurement and supply chain measures will help you successfully manage the exit phase.

**Respond to crisis**

**Crisis Unit**
- COVID-19 corporate task-force / PMO
- Secure liquidity & funding
- Optimize labor cost
- Secure core workforce

**Prepare and realize the exit**

**Procurement / Supply Chain**
- Integrated sales, operations and inventory planning
- Supplier and risk assessment
- Critical category / single source management
- Contract assessment (e.g. on purchase and supply obligations)
- Expected demand modelling & collaboration in (industry wide) launch plans
- Transport, docking capacities & alternatives
- COVID-19 adjusted warehouse operations

**Production**
- Ramp-up of series production
- Achieve future optimal cost structures
- Safeguard SOPs in early phases
- Secure value-stream & adapt way-of-working

**Marketing & Sales**
- Forecasting and demand planning
- Revitalize the marketing activities
- Recalibrate product portfolio and sales channels

**Research & Development**
- Customer projects portfolio review
- IP protection in virtual working environments
- Supplier development project safeguarding

**Finance, Tax & Legal**
- Force majeure assessment
- Tax relief measures & government aid alignment
- Re-negotiation of financing (standstill, extension)
- Contingency planning & preparation of (self-admin.) insolvency proceedings per legal entity

**General & Administration**
- Lights-on/off per support function
- Build / improve culture
- Employee health & well-being
- Virtual trainings
- Crisis leadership & communications

**New normal**

**Strategy**
- Drive consolidation
- Complement product portfolio
- Build national champions

**Procurement**
- Define “Plan B” to avoid single source situations
- Create an overview of the sourcing requirements
- Develop new evaluation criteria
Apply a supply chain risk model to assess supplier risk for business critical suppliers

**Issues**

- **Single Sourcing and JIS parts** from critical COVID-19 regions
- Production steps with **high manual labor**
- **Low transparency** in Tier-2 to n supply chain
- Tier-2 to n **material scarcity**

**Measures**

- Establish **COVID-19 manufacturing impact tracker** by location
- Apply region or category specific **exit strategies**
- Develop **geographic-specific health strategies**
- Conduct **supplier assessment** (quick check)
- Perform 360 degrees **supplier risk profiling** incl. social media, financial risk & "know your vendor tool"
Implement technology enabled integrated planning and continuous assessment of supply risks affecting business

**Issues**

- **Stock wars** on raw material (low safety stock, WIP, other industries, supply allocations)
- **Labor capacity management** Tier-2 to n
- **Supply flexibility** beyond Tier-2 to n and ramp-up speed
- Demand **ramp-up scenario** by region

**Measures**

- Analyze **supply network** across multiple tiers (e.g. PwC tool, Value Network Tracker, Llama-soft, JDA, Riskmethods)
- Simulate **demand & supply** for COVID-19 impact
- Simulate **transport management bottlenecks**
- Reduce & sequence **portfolio complexity**
- Modularize category **ramp-up capacity**
- Create **inventory alert** manager
- Introduce COVID-19 safe **warehouse operations**
Mitigate additional risks by identifying and assessing root causes on single sourced material or part level

Issues

- Only **single sites** are qualified for production
- Parts are critical **geographic located**
- Ramp-up speed not synchronized (n-tier)
- Conflicting demand priorities / allocations
- Conflicting demand at tier-2 to n

Measures

- Establish **new site or re-location qualification** within existing supplier
- Qualify **alternative supplier**
- Validate **make / buy**
- Partner with OEMs & **align capacity**
- Reserve **critical raw material**
- Manage n-tiers **payment terms**
- Reserve capacity at n-tiers

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**Root Cause Analysis**

<table>
<thead>
<tr>
<th>Root Cause</th>
<th>Impact Scoring</th>
<th>Impact</th>
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<tbody>
<tr>
<td>40% Drop in Sales Market B (APAC) for Product family A</td>
<td>Low: 3, Medium: 6, High: 9, Severe: 12</td>
<td>- 10,000 fewer products and in Plant A to be produced</td>
</tr>
<tr>
<td>Supplier A not able to ship part X due to plant shut down</td>
<td>Low: 3, Medium: 6, High: 9, Severe: 12</td>
<td>- Utilization drop of 30% in Plant B Utilization drop of 10%</td>
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<tr>
<td>- Revenue reduction by 15%</td>
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<tr>
<td>- Utilization drop of 30% in Plant N for line A</td>
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<tr>
<td>- Weekly revenue loss of €280k</td>
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**Mitigation Plan**

- Establish new site or re-location qualification within existing supplier
- Qualify alternative supplier
- Validate make / buy
- Partner with OEMs & align capacity
- Reserve critical raw material
- Manage n-tiers payment terms
- Reserve capacity at n-tiers

**Task Force**

- Standardized reporting
- Standardized templates & KPIs
- Standardized meeting structure
- Standardized comm. channels

- Set-up supplier health check tools

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**Current situation**

- Delivery Performance: 80% (-5%)
- Plant utilization: 70% (-10%)
- Inventory levels: 7 SKUs (Raw material) are below safety stock levels

**Status and prognosis**

- Work package progress
  - Current week: 6
  - Next week: 7
  - +3 weeks: 7

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**TOP KPIs**

- Deliveries per month
- CO2 data
- Raw Stock
- Plan Stock

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**Long-term measures**

- Standardized meeting structure
- Standardized comm. channels
For customs and logistics, flexibility, early assessment of alternatives and communication with the authorities are key to getting goods across the border at all three stages

<table>
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<tr>
<th>Customs Operations</th>
<th>Logistics Operations</th>
<th>Cash Flow</th>
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<tbody>
<tr>
<td><strong>Crisis management</strong></td>
<td><strong>Cleaning up &amp; upswing preparation</strong></td>
<td><strong>Ramp-up</strong></td>
</tr>
<tr>
<td>Maintain the flow</td>
<td>Accept that the last months don’t reflect your normal operations</td>
<td>Prioritization &amp; Flexibility</td>
</tr>
<tr>
<td>Export</td>
<td>• Best way to find out what happened in the last months is to conduct customs &amp; trade analytics.</td>
<td></td>
</tr>
<tr>
<td>• Limitations on what can be exported e.g. medical equipment</td>
<td>• Check what &amp; how and with what mistakes you have imported: disclose the mistakes in time, look for ways to recover overpayments.</td>
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</tr>
<tr>
<td>• Export Control: Qualified workforce available to issue documentation (licenses)</td>
<td>• Check the viability of sourcing alternatives, prepare for shifting slows</td>
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<tr>
<td>Import</td>
<td></td>
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<tr>
<td>• Use the announced simplifications for special product groups, or documentation requirements</td>
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<tr>
<td>Discuss with local authorities, be transparent</td>
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**Crisis management**

- Be aware of what & where you have
  - With factories closing, the arriving cargo is not picked up from ports, resulting in significant demurrage and detention costs
  - Check the agreements with your Brokers, look for alternatives to move stock

**Logistics Operations**

- **Defer payments, use tax reliefs aggressively**
  - Crisis packages / local easements vary extensively, be aware of the specifics
  - Defer paying customs duties, import VAT & other fees due at importation according to new deadlines

**Cash Flow**

- **Calculate what is due and stage in (re-)payment**
  - Tax reliefs have time limitations, check what and how you must pay
  - Communicate with authorities, ensure that they are informed of any delay to prevent your accounts getting frozen

**Prioritization & Flexibility**

- Implement import & export operations as planned in the Preparation Phase
- Define clear priorities on what needs to move first
- Closely monitor evolution, and stay flexible to react to the unexpected

**Cross border and last mile**

- Prevent bottle necks
- Consider also the reduction of e-commerce

**Focus on sales**

- Forecast sales figures, and focus on increasing throughput
- Shift workforce to prevent bottlenecks

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- **Maintain the flow**
- **Accept that the last months don’t reflect your normal operations**
- **Prioritization & Flexibility**
- **Cross border and last mile**
- **Focus on sales**

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- **Cleaning up & upswing preparation**
- **Assess alternatives & get goods moving**
- **Calculate what is due and stage in (re-)payment**

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- **For customs and logistics, flexibility, early assessment of alternatives and communication with the authorities are key to getting goods across the border at all three stages**
Q&A with participants
Thank you

One Point of Contact:
Via our crisis helpline and PwC Switzerland website (EN | DE | FR)

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Thank you