

COVID-19

Rapid Value Creation – Supply Chain and Customs Deep Dive



Topics we will cover today

1. Introduction

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

2. Key topics – what our experts are saying

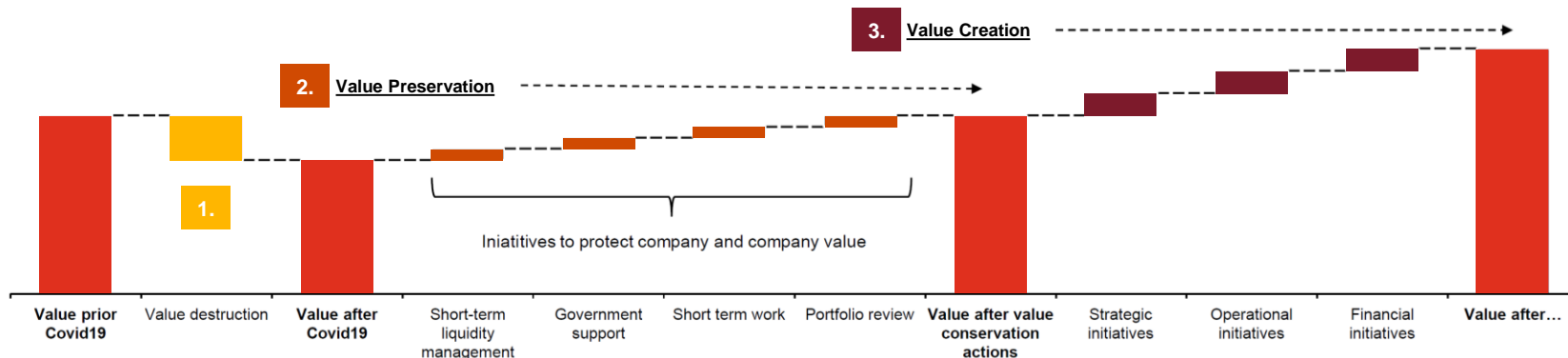
- a. Procurement effectiveness – **Stefan Schrauf**
- b. Supply chain / production effectiveness – **Stefan Schrauf**
- c. Customs and logistics – **Simeon L. Probst**

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?

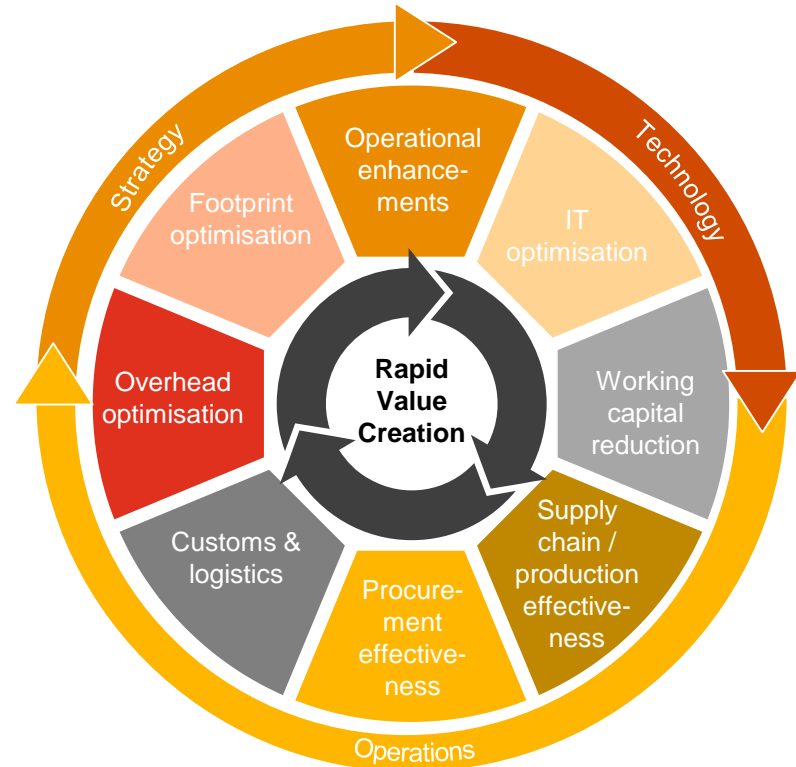
Key differentiators

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 to cut through complexity, capable of working with limited information to deliver rapid and meaningful results



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

Lever	1 Operational enhance- ments	2 Procurement effectiveness	3 Supply chain and production effectiveness	4 Customs and logistics	5 Overhead optimisation	6 Working capital reduction	7 IT optimisation
Value	<ul style="list-style-type: none"> • Maximise revenue opportunities • Market and channel strategy • Differentiation/competitive advantage • Principle policies • Operations to support strategy 	<ul style="list-style-type: none"> • Security of supply • Supplier risk assessment • Contract assessment • Critical category and single source management • Price reduction initiatives • Control of spend 	<ul style="list-style-type: none"> • Supply chain disruptions and how to mitigate • Integrated Supply chain planning • Adjusted warehouse operations • Ramp up of series production 	<ul style="list-style-type: none"> • Customs challenges & measures announced by countries i.e.: • Transportation and entry of goods; • Online business; e-comm. • Affected product categories 	<ul style="list-style-type: none"> • Non headcount and headcount optimisation • Leverage shared services • Outsourcing models • Investment and capability build requirements • Cost control and governance 	<ul style="list-style-type: none"> • Improve inventory (WIP, raw materials and finished goods) • Accounts payable and receivables • Focus on cash within the business 	<ul style="list-style-type: none"> • Utilisation of existing and new technology to enable margin and revenue improvement • Optimisation of the IT infrastructure and estate
Value impact	20-25%	8-15%	8-15%	8-15%	20-25%	20-30% Cash improvement	10-15%

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

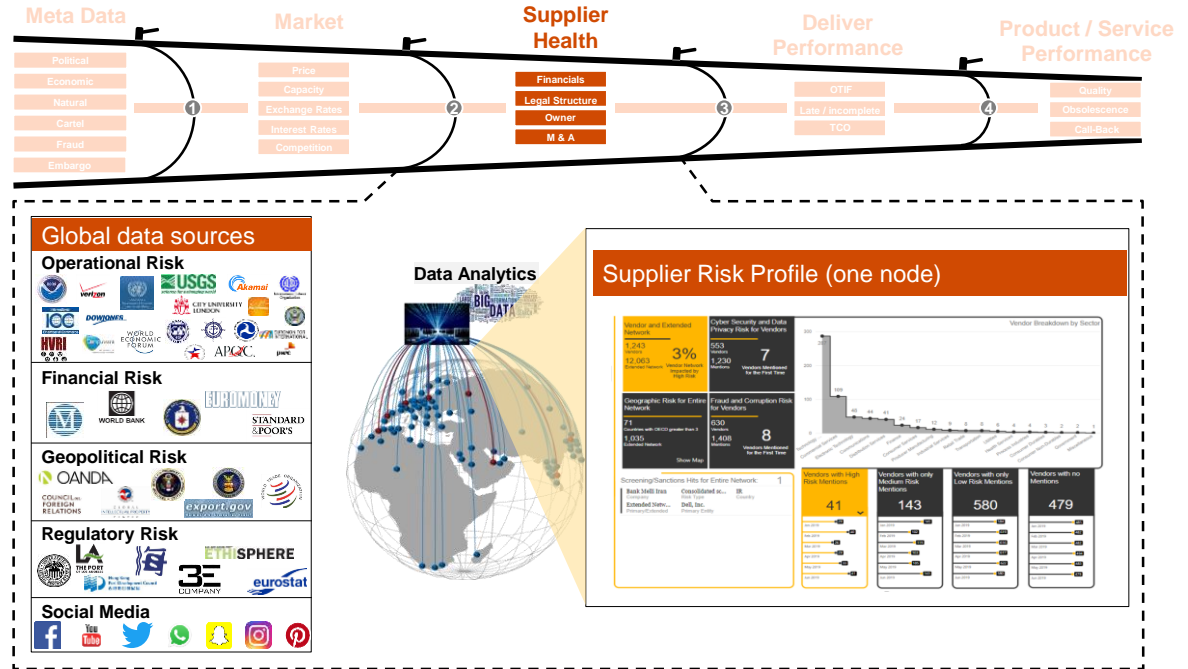
Apply a supply chain risk model to assess supplier risk for business critical suppliers

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”



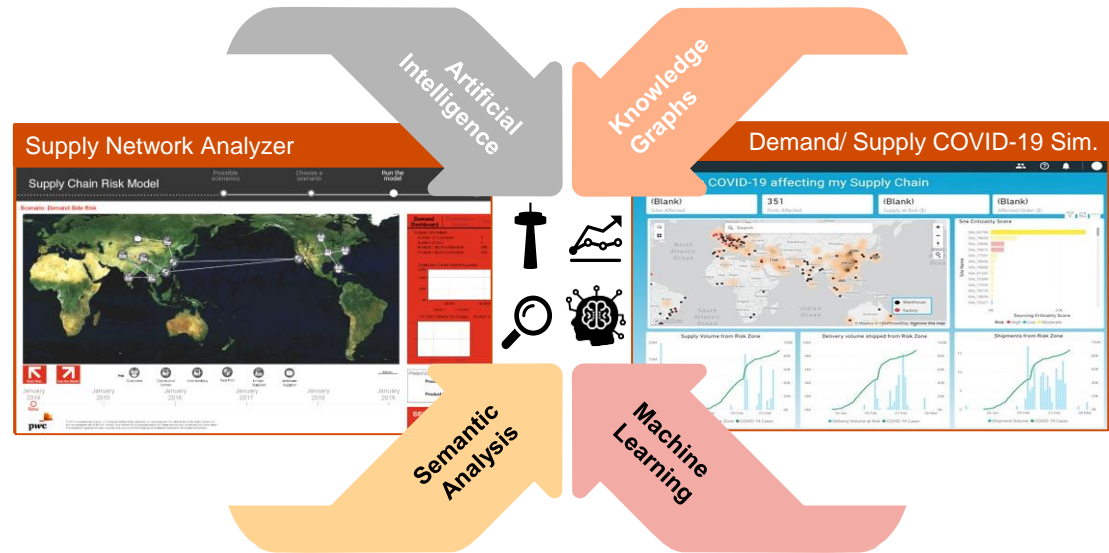
Implement technology enabled integrated planning and continuous assessment of supply risks affecting business

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



Root Cause Analysis

Root Cause	Impact Scoring				Impact
	Low	Medium	High	Severe	
40% Drop in Sales Market B (APAC) for Product family A				▲	<ul style="list-style-type: none"> 10,000 fewer products and in Plant A to be produced Plant A: Utilization drop of 30% & Plant B Utilization drop of 10% Revenue reduction by 15%
Supplier A not able to ship part X due to plant shut down				▲	
	3	6	9	12	
	3	6	9	12	<ul style="list-style-type: none"> Utilization drop of 30% in Plant N for line A Weekly revenue loss of €260k



Mitigation Plan

Current situation	Status and prognosis			
<ul style="list-style-type: none"> Delivery Performance: 90% (-5%) Plant utilization: 70% (-10%) Inventory levels: 7 SKUs (Raw material) are below safety stock levels 	Current week	Next week	+3 weeks	Work package progress
	Y	R	Y	Y
TOP KPIs				
			Long-term measures	
			<input type="checkbox"/> Set-up supplier health check tools	

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



Task Force



Standardized reporting



Standardized templates & KPIs



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

Today

Crisis management

Maintain the flow

Export

- Limitations on what can be exported e.g. medical equipment
- Export Control: Qualified workforce available to issue documentation (licenses)

Import

- Use the announced simplifications for special product groups, or documentation requirements

Discuss with local authorities, be transparent

Cleaning up & upswing preparation

Accept that the last months don't reflect your normal operations

- Best way to find out what happened in the last months is to conduct customs & trade analytics.
- Check what & how and with what mistakes you have imported: disclose the mistakes in time, look for ways to recover overpayments.
- Check the viability of sourcing alternatives, prepare for shifting slows

Ramp-up

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

Customs Operations

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

Assess alternatives & get goods moving

- Assess alternative transport routes and modes to move goods across borders
- Limit logistics costs while balancing availabilities

Cross border and last mile

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

Cash Flow

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

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

Focus on sales

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



Thank you

One Point of Contact:

Via [our crisis helpline](#) and **PwC Switzerland website** ([EN](#) | [DE](#) | [FR](#))

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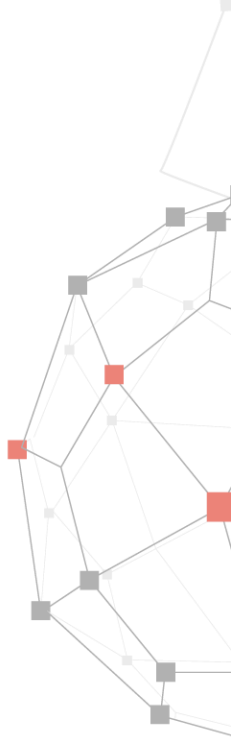
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