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AFTER COVID: The 7 Deadly Supply Chain Challenges

As companies learn to navigate the 'new normal', many will be reviewing their risk strategy to shore up and protect against future 'black swan' events. This report identifies 7 essential challenges with practical tips that manufacturers and retailers can take to help mitigate supply chain risks.

Let's face it: Covid-19 took all business sectors by surprise. It has created global disruption on a scale never experienced before.

The implications will be felt in manufacturing, trading and the supply chain landscape for many years to come.

From the sourcing and processing of raw materials to the selling and marketing of finished products, all sectors have been hit – online, wholesale and retail.



The impact of Covid

Across all industries, many of the businesses most worried by Covid are small and medium-sized enterprises, SMEs, often seen as the lifeblood of an economy.

- Engineering, construction and infrastructure projects have been delayed or cancelled worldwide causing tens of thousands of direct job losses and putting contractors in limbo.
- In hospitality, travel, food and beverage, and health and beauty, businesses have faced acute cashflow pressures grappling the twin perils of lost sales and high fixed costs.
- And as if High Street retailers don't have enough challenges, store overheads are set to increase further. The reason? The extra capital spend required to install protective screens and adapt space in line with public health advice on physical distancing of staff and shoppers.
- Sadly, the costs of reopening some stores with fully compliant measures may prove prohibitive, especially if they have already been performing poorly and future profitability is in doubt.
- In automotive, virtually all car production in Europe has been put on pause with plant closures and supply shortages affecting suppliers, traders and motorists alike.

So how have companies been responding?

Research published eight weeks on from the start of lockdown by British Chambers of Commerce showed that more than seven out of ten UK firms had joined the government's wage subsidy furlough scheme and 85% had snapped up the chance to defer tax payments.

By the start of June, more than £31 billion had been approved in government-backed lending schemes to almost 750,000 businesses.

The business response

- While navigating the various business support lifelines, smart companies have also been prompted by the Covid crisis to rethink their operations and reset their supply chain relationships.
- Employers who have put staff on furlough will have to think carefully about the implications of the subsidy scheme ending and what that means for the return of FTE overhead costs.
- Bigger brands are likely to go more technological as they bid to simplify auditing and optimise cost-efficiency. They may well challenge existing

suppliers to adopt EDI so they can achieve a trading network that runs on processes that are 100% technology-based.

- In turn, smaller suppliers will have to invest more in electronic solutions in order to trade with bigger retailers. This could mean further take-up of blockchain technology to support document storage.
- Businesses of all kinds will want to reduce the time and cost involved in managing invoices and payment. Rapid, automated fintech systems that validate invoices straight to payment – dispensing with the need to check and resend – will be much sought after.



Covid has exposed the fragility of hitherto reliable processes such as ‘just in time’ and ‘build to order’.

While these approaches traditionally help save on the costs of storage and warehousing, they are predicated on the reliability of delivery.

When this is less than 100% guaranteed, or breaks down altogether, the supply network struggles for continuity and has to scramble urgently for alternative solutions. In other words, old processes are simply too ‘static’ to maintain a dynamic workflow.

“Covid has exposed the fragility of hitherto reliable processes such as ‘just in time’ and ‘build to order’”

The need to re-tool

How, then, can companies re-gear the way trading relationships work so as to recover from Covid and minimise future vulnerability?

- When it comes to the efficient and cost-effective exchange of trading documentation, help will be found in greater take-up of EDI, or electronic data interchange. This is a cloud-based solution that enables digitised information to flow easily across a supply network.
- Instead of raising orders and invoices manually, and sending documents by email or post that then have to be keyed into trading partners’ systems, EDI automates the whole activity of sharing transaction data for electronic trading.
- It offers the potential to achieve time and cost savings, all necessary management requirements as we emerge from Covid and plan for the future.

Even if you already use EDI, there will almost certainly be a need to review your current solution. Paper-to-digital technology continues to move on. There is more scope than ever now to avoid manual processes for connecting supply networks and validating trading data.

Challenging times

Take four typical businesses - let's consider the specific challenges they're facing as a result of Covid:



An online clothing retailer has been plunged into crisis by a lack of supply and a sudden downturn in customer orders. The business is looking to all its managers to save money where they can. The IT manager understands that EDI can help automate the processing of supply chain and logistics data. She wants to create an EDI solution that integrates with her ERP (enterprise resource planning) system. Under pressure on costs, she wants to remove any need for in-house development by sourcing an external supplier.

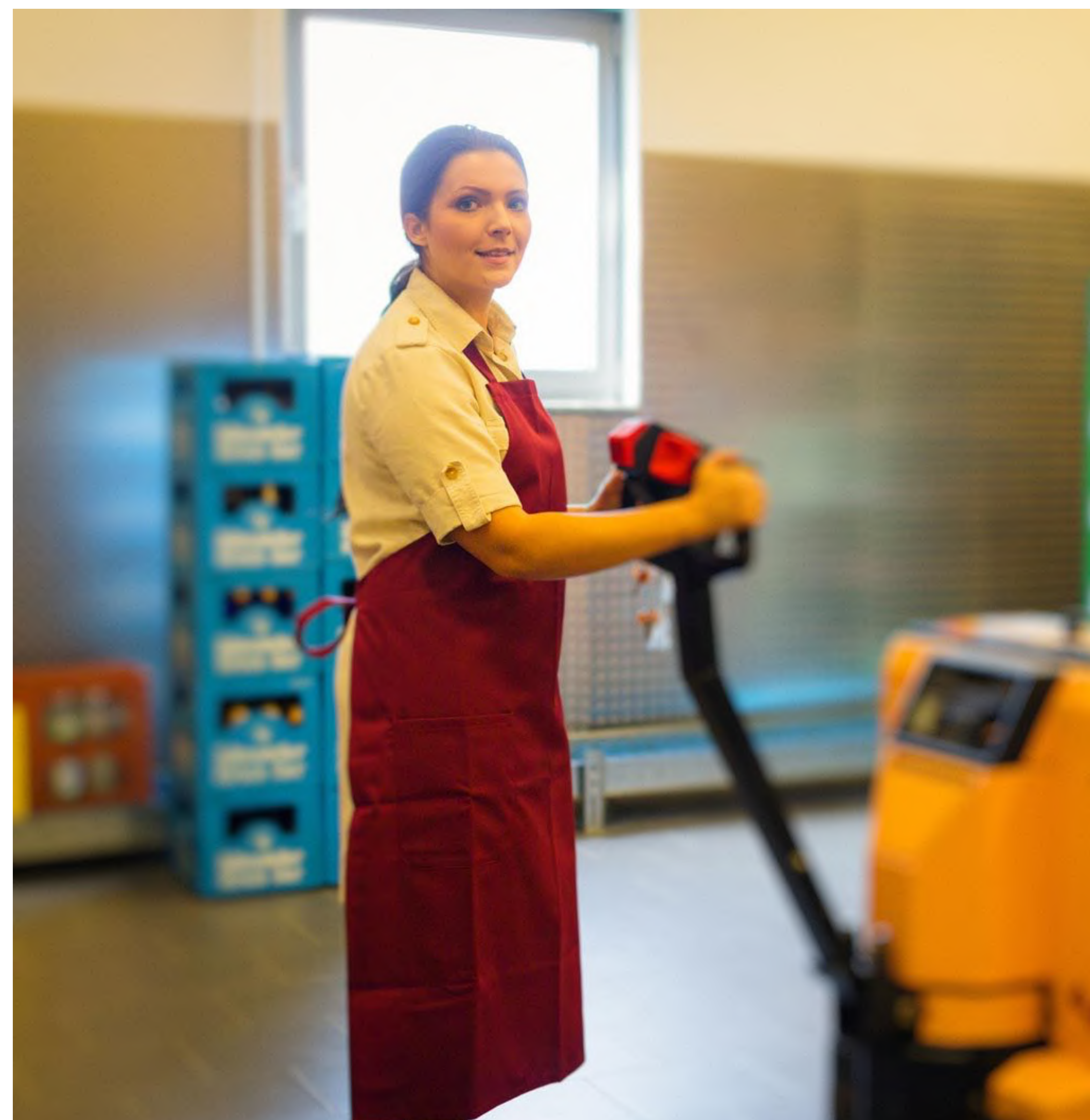
A mid-sized manufacturer of industrial water filtration systems has tasked its managers with an urgent mandate to reduce costs. This is because it chiefly supplies factories in the automotive industry and most of these are on shutdown. The business support manager has been specifically briefed to introduce process improvements with component suppliers and the wider trading network. Like his fellow manager at the online clothing retailer above, he is interested in procuring an EDI solution. At the same time, he wants to avoid incurring the value-added network (VAN) charges traditionally associated with bills from external EDI providers.





The finance director at a mid-to-large retail brand naturally faces continual pressure to look after the bottom line. Covid has simply added yet more complexity to achieving a steady ship. As current service provision is rethought, the director is assessing all the ‘back end’ processes and costs involved in engaging with trading partners, a mix of online retailers, manufacturers and distributors. Specifically, he wants to ensure a more cost-effective approach to two issues: dealing with returns management; and reconciling warehouse stock with ASNs (advanced shipping notices) and invoices. Any new technological solution must demonstrate a clear return on investment.

A start-up preserves and chutney maker had just landed a major supermarket contract when the Covid emergency hit. Luckily, thanks to being local, she was able to continue supply while rival brands, reliant on imports from overseas, struggled to appear on the shelves. Following Covid, she believes supply chains may become smaller; retailers across the food and beverage sector will have to look critically at the resilience and complexity of their product sourcing and will increasingly back local producers like her. To be on board, she wants to scale up her output while switching to the same kind of EDI system as others in the supply chain.



Despite the differences in their sectors and sizes, all four businesses above are essentially grappling with similar challenges post-Covid. And they understand that now is the perfect time to review processes and cost control to evaluate the way forward.



The 7 Deadly Covid Supply Chain Challenges... and how to overcome them

When it comes to your company, what practical measures can you take right now that will help deal with the aftermath of Covid? And, just as importantly, how can you manage the risk of another black swan event in the future? It might be a pandemic, but could just as easily be a trade war, labour dispute or act of terrorism.

Here we set out 7 challenges involved in building supply chain resilience and what you can do to minimise your exposure to them.

1

Protect your cashflow

Cash is king, so the famous saying goes. You, therefore, need to follow the rules for having as much of it in the war chest as possible. Around 80% of global trade is made up of millions of suppliers who are SMEs (small and medium-sized enterprises), with the remaining 20% being their buyers. Ideally, you want to receive 100% payment immediately on submitting your invoices.

Unfortunately, suppliers across the world face delays. The average wait is 90 days. The World Bank estimates there is \$1.3 trillion tied up in latent invoice payments every year. If this was released more quickly, it would generate much-needed working capital for businesses currently underserved by banking and technological support.

Cash strapped businesses might look to the obvious answer of factoring but this can add complexity, effort and cost. Instead, our recommendation is to introduce an agreed cash flow management system governing the supplier-buyer relationship.

Post-Covid Top Tip:

Many companies have struggled to balance the books during the pandemic because of a lack of access to ready cash. It's vital then to consider how to secure cashflow during a disruption. The more agile and adaptable your processes are, the more you can protect your margins while waiting for invoices to be processed. Achieving frictionless, automated invoice payments is a great advantage. An instant invoice payment application can take a huge amount of worry out of the situation for both SME suppliers and, indeed, their buyers.

2

Follow the evidence

Consider what has gone wrong. Be honest and critical... follow the evidence by gathering and analysing as much data as you can about your supply chain performance.

Only then will you be able to locate and understand the true issues and weaknesses exposed by the pandemic, and start to develop a more robust risk management strategy.

If you want to future-proof your business against seismic shocks, like Covid, you may first need to improve the oversight and transparency across your entire supply chain. Assess the extent to which your trading network already operates digitally. Ask yourself if you and your trading partners are fully digitally connected...

or do you need to embrace more technology?

Post-Covid Top Tip:

If cash is king, then data is queen. And she is arguably more responsible than her royal spouse in understanding how systems can run more effectively and friction-free.

Effecting a cloud-based EDI solution, fully integrated with your OMS, ERP, accounting and other technologies in your supply chain, will deliver real-time visibility. A more automated approach to systems and documentation will enable you to identify areas of concern so actions can be taken to mitigate impact before they become critical.

3

Understand your supply chain inside and out

Start with your own facilities, moving to your direct suppliers and then those who supply to them. It's a common saying but it's true: supply chains are only as strong as their weakest link.

You need to maintain healthy business practices at every tier to stay in operation and prosper. Insist on greater communication about shared issues among your trading partners. End-to-end supply chain visibility enables you to know at any given time what transactions are ongoing and what their status is.

This in turn improves your decision making and responsiveness. It also gives you line of sight on supply chain business ethics, an increasingly important factor in consumer choices.

Being transparent on environmental sustainability is good for business.

Post-Covid Top Tip:

If you still rely on paper processes within your supply chain operations, you are impeding your visibility to spot potential blockages as well as reducing oversight of product provenance. You also need to quantify the risk of human error rendering order and invoice information inaccurate, which can be time consuming to correct and costly to your business. The soft drinks manufacturer AG Barr recently introduced an EDI-based process that has saved the company more than £200,000. They have dramatically reduced late or incorrect deliveries as a result of human errors in order documentation. [Click here to read about AG Barr.](#)

4

Reset your supply chain thresholds.

Many supply chains are geared around just-in-time delivery. This is great when everything is running at 100%: goods flow, storage requirements are minimised and bottlenecks are avoided.

What Covid revealed was that substantial disruptions require a buffer zone of storage, with decentralised facilities available at different points in the supply network. Deciding when to make use of storage options will be informed by better early warning systems in inventory.

That in turn is based on having accurate visibility across stock orders. You need to have a good understanding of the thresholds showing when there is a shortage of stock, so prompting the need to reorder, and, on the other hand, when too much stock risks a storage crisis.

The more affected by the Covid disruption you have been, the more strongly you will have to consider recalculating stock tolerances and therefore resetting the thresholds for when action needs to be taken.

Post-Covid Top Tip:

The data instantly available to you through an automated processing approach means you can readjust business as usual to cope with disruption. For example, you can analyse stock reports more accurately and therefore act more quickly to ensure alternative supply or source extra storage.

5 **Diversify your suppliers**

Those companies that have been most severely affected by the pandemic were often those that were too reliant on a single geography or supplier for their key components or products.

Having a more diverse supply and logistics network can help to ensure the flow of the goods you rely on in a more timely and efficient manner.

Again, honest conversations are needed so trading partners understand the pressures different parts of the network face.

Post-Covid Top Tip:

As the Covid crisis has proved, over-reliance on one supplier or distributor can leave you exposed if something goes wrong. If you can successfully expand your supply or distribution network, you make yourself more resilient. This brings with it more of a management task. However, each of your trading relationships is likely to involve a different way of working regarding documentation. This means data has to be translated before it can be shared, eating up precious time and resource. With a good EDI solution, this is all done for you. You don't need to go 'under the bonnet' to co-ordinate the requirements of your supply or distribution network as the solution will already have done the translation work that ensures systems worldwide can speak to each other.

6

From electronic to digital

Supply chains have long relied on EDI as a preferred solution for the exchange of business documents. Brilliant though it is, EDI has tended to be used only by main or 'Tier 1' suppliers and has been typically coupled with a VAN proposition that entails a data charge per transaction.

This can easily lead to excessive cost. Now, however, technology has moved on. There are no VAN charges with 'new EDI'.

That not only saves money for Tier 1; it means Tier 2, 3 and 4 suppliers can also use EDI without paying transaction costs. With the right provider, you can now supersede 'legacy EDI' and harness the power of digital technology for many other aspects of supply chain management.

Post-Covid Top Tip:

EDI is often seen as the 'glue' that connects disparate parts of a supply chain, enabling businesses to automate their processes for optimal effect. Now, all that is good about EDI is being made even better. Replacing 'electronic' with 'digital' creates the opportunity to link many more kinds of data together for the first time. Next-level solutions, available here and now, mean that Tier 2, 3 and 4 suppliers can take advantage of the technological benefits of automation at a level that is scalable for their particular circumstances. It's no longer just about OEMs and Tier 1 suppliers matching their invoices and orders. Now, with enhanced digitisation, all parts of the supply network can store, record and secure essential documentation in perpetuity, giving you complete peace of mind about trust and traceability.

7

Challenge your current EDI supplier

Because EDI is a mature market going back over 40 years, it's natural to have got used to a certain way of doing things recommended by your consultants.

This may have served you well up to now but in a disruptive and ever more challenging trading environment, staying still can leave you at a competitive disadvantage as rivals innovate their capabilities.

For example, you may well be paying fees in respect of 'data transmission costs' that your supplier is doing nothing, or very little, to justify.

Post-Covid Top Tip:

You don't want to be disadvantaged by a VAN that requires you to pay vast amounts of money to cover data transmission or middleware costs for individual transactions. These fees can easily mount up if you interact regularly with a big network of trading partners, giving you a bill you didn't bargain for. Choose a model that is not built on VAN charges. Ask if data transmission is included as part of a fixed-fee service so you know where you stand on cost certainty at all times. Demand a clear pricing model reflecting exactly the level of help you need and with no hidden extras or upfront fee.

WELCOME TO FRICTIONLESS BUSINESS

No one could have predicted a pandemic on this scale, no one could have anticipated the global devastation it would cause... and no one had time to prepare.

As businesses begin to emerge from the shadow of Covid, many will be looking at ways to strengthen their business against the unpredictable and catastrophic events of the future - so next time they will be more prepared.

By introducing visibility, transparency, supplier diversity and digitalisation across your entire trading network, you are building a frictionless business environment. A resilient, robust and agile supply chain that can handle all manner of knocks and bruises along the way.

Any time spent now in planning greater automation could bring enormous benefits later for the management of both supply chains and distribution networks.

ISN'T IT TIME YOU MADE THE CHANGE?

Contact Transalis for a no-obligation free process review and you could boost the resilience of your supply network within just a few days.

For more information on how to rationalise your supply chain, talk to our experts. We have expertise in all verticals.



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