Managing working capital and supply assets in a demand downturn

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For some businesses, coronavirus has turned into a fight for survival where speed of response is critical. Adapting quickly to reflect rapid changes and then empowering employees to implement modified plans will prove the difference between failure and success. Now, over two months into the crisis, the initial panic has subsided, and the long-term impact is becoming somewhat clearer. Several companies have thrived, but for many more, real fear about the future is setting in and, with the Eurozone projected to contract by 7.7 percent this year according to the Spring 2020 Economic Forecast, many businesses are looking for a way to respond to the evolving situation.

Cutting inventory is important for two reasons – to reduce strain on capital and to reduce the risk of stock being left behind. A greater focus on inventory at this time is important, but I see many organisations rushing ahead with blanket policies using intelligence that is not integrated into their overarching business plans to drive stock levels. Taking the time to improve your inventory processes means generating better results in both the short and long-term.

How do you do this? Some inventory will cover variability, and some will be to produce, purchase and handle more efficiently in batches – start by agreeing why stock is needed. Next, simplify what you look at. Analyze where changing product stock levels will make the greatest difference. Look at the biggest sellers; these often have the lowest need for stock and a small reduction has a significant impact. At the other extreme, look at slow and obsolete stock, and where you can sell off products and components with little or no demand. The key is to look at the detail of your processes, taking one material at a time and developing an activity plan, rather than being blinded by totals and averages.

While stock reduction efforts are important, changes in demand will tend to undermine them, which is why you also need to look at the emerging market. In the current climate, forecast accuracy is much more difficult, but intelligence about customer behaviour is still a valuable asset. Ensure account managers understand how valuable the unloved task of forecasting is and ask them to consider the wider picture. Can they say anything about what might happen? Which elements of demand are most vulnerable and what un-forecast opportunities are available?

Market assumptions about the future become more important as the rate of change increases. There should be agreement on what is most likely to happen in the short, medium and long-term, with the product, demand, supply and finance plans aligned to those assumptions. A common understanding of a common plan is key, and this plan must be adhered to. In particular, monitor sales orders to forecast closely, and communicate effectively to all functions when significant deviations are identified. Work together to re-integrate plans based on the specific change, and also on longer-term insights gained by investigating the variance.

Demand monitoring provides insights about future sales, and inventory reduction will help maintain internal flexibility, but it is also important to consider the capabilities and consequences for your vendors. Suppliers are also under pressure and some will inevitably fail. Consider what will happen as countries come out of lockdown. The IMF is predicting an upturn at the end of the pandemic. Will your suppliers be ready for the upside and will they have found new customers to fill holes left by your low volumes? Strong communication with your suppliers is key right now, make sure you understand their situation and that they are informed of your demand plan as it applies to them; including where you see opportunities and vulnerabilities. It is also important to have contingency in place to protect your end-to-end supply chain if suppliers should drop off. Where possible, start to prepare alternative vendors where vulnerability is perceived.

In an ideal world, businesses would have already implemented all these processes before the crisis struck but, in our experience, this is not typically the case. The daily, weekly, and monthly cadence needs to be maintained through turbulent times. It was always important to break out of the 'here and now' mindset. With such increased uncertainty, it has become even more important. Businesses need to consider the short-term (what is possible now) and medium-term (what you can influence), but it is not just about firefighting to get through this. There needs to be consideration of the long-term consequences. Look at how to prepare for operating in a new world, in terms of portfolio changes, sales and marketing activity, and the capability of your people and suppliers. Are the changes in market behaviour temporary or will they last beyond the pandemic? Permanent changes are not necessarily negative, they may provide new opportunities that allow your business to thrive, but this relies on weathering the storm by identifying disruption early, and realigning to take advantage of the opportunities quickly. While you may be inundated with tasks to keep going; remember to prioritise improvement activity that allows you to be more responsive and flexible. It will pay dividends in this crisis and the next.

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