

# How to strengthen a shaken supply chain

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Has the crisis left you with gaps or weak spots in your supply chain? What negotiation and collaboration skills will help you build new alliances and maintain your margins? Mitigating the impact of disruption on your supply chains requires new approaches and new forms of collaboration to increase your overall resilience. This guide takes input from two small business supply chain experts to offer some ideas.



# What's the situation?



**Before the coronavirus pandemic, supply chain visibility often only applied to top-tier suppliers, leaving firms blindsided and vulnerable to shocks affecting less visible, lower-tier suppliers. However, the reality is that the lower-tier suppliers are critically important to the overall supply chain hierarchy, and disruptions at these levels can quickly cause instabilities throughout the value chain. That's why it's now about taking a tiered approach by understanding who your suppliers are and who their suppliers are.**

The exceptional nature of this crisis may spark the urge for businesses to collaborate with competitors, or with parties operating at different levels of the supply chain, to overcome the effects of the pandemic.

In short, businesses now need to focus on how to minimise supply chain disruption and to adjust rapidly to a changing economic landscape. It's therefore vital to make sure that all the pieces of your supply chain puzzle fit snugly together.



# Who's helping?



## Don Marshall

**Head of ecommerce and fulfilment at Exporta,  
a product handling solutions company**

With an MBA from Leicester University, Don is an award-winning business leader, experienced in multichannel retail sales, ecommerce, fulfilment and marketing for both B2B and B2C markets. He has worked for, among others, IKEA, B&Q and Metro Group.



## Alexandra Poole

**MD at the iNNiTi effect**

An experienced business transformation consultant, Alexandra has successfully led and coached enterprise-wide transformation programmes in a variety of sectors. Alexandra is also a trustee of the charity Renewable World and co-founder of Women in Consultancy.

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How to strengthen a shaken supply chain



# Chapter 1:

## Mapping your way out of complexity



Understanding who your suppliers are and how they're connected is critical for companies navigating coronavirus and beyond. It may start with judgment calls on your current position, to get a tactical sense of where you need to end up. If your supply chain is simple, you may already know what it looks like and can draw it on a piece of paper. However, supply chains can be complex and tend to have multiple steps. Mapping your supply chain is the first step towards improving it.

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By mapping it out, so you can see each step clearly, this exercise can help identify where it's too complex and show areas that you can focus on to streamline and make your operation more efficient. It also makes sense to look at the lead times in each step of the process and how they affect the overall lead time from order to end-user delivery.

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## Steps to map your supply chain

Don's advice:



1. Start with a list of product ranges and/or suppliers



2. Include the steps the products go through and the points that they move through in the process



3. Highlight those suppliers or product sources through your own company right up to the end delivery point



4. Be creative

- Visual mapping is a great tool to make sense of the information
- If there are different flows and processes for different products and suppliers – such as the end customer location – then a flow chart will do the trick

Bringing it to life with these methods will quickly show you how complex or simple your supply chain is.

## How do I identify and reduce the vulnerabilities in my supply chain?

Generally, Don believes, the more complicated and more steps a supply chain has, the higher the chances of vulnerabilities and issues developing. As mentioned, mapping it out is a great way to get started.

In addition, companies must immediately focus on cash flow by developing a treasury plan for cash management, with collections and reducing mature accounts at the top of the priority list. Extending payables where possible to preserve cash is also vital.

The International Labour Organisation (ILO) has a useful [assessment tool](#) designed to support SMEs during the coronavirus crisis. The tool helps to assess the level of risk and vulnerability in your business followed by some remedial advice.

## Chapter 2:

# Show me where the hidden money is



If you haven't looked at the way external providers support the way your products and services come together for some time then here's some good news, cost savings and potential efficiencies are just waiting to be discovered. Now is the time to prioritise these kinds of exercises, with benefits coming in both the short and long term.

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### Analyse cost data

Now more than ever, coronavirus is stretching supply chains. Along with mapping out the process itself, you should also map out the costs in each supply chain and process. Doing this will highlight comparisons in costs for different processes, different product types, methods, and even regional variations. Analysis of that data will show inconsistencies and opportunities – the best and the worst for further investigation.

As a young entrepreneur herself, Alexandra is acutely aware of the importance for SMEs to realise bottom-line savings. “The quickest wins when it comes to supply chain cost reductions are in the cost of

goods and logistics categories. By driving savings across these two categories, you can achieve measurable savings at even larger businesses, which is now more important than ever.

“Ask yourself if you can influence product demand or delivery to benefit from cost savings, like buying more without tying up cash. The prices you pay your suppliers are subject to pricing negotiations. It's the simplest and lowest hanging fruit in the cost of goods reduction model. The same applies to your logistics providers, no matter which mode of transport they use.”



## Understand lead times

Cost reductions in the area of logistics are possible with proper planning. Typically, if you need a product delivered quickly, you have to pay more for it. By understanding your supplier's lead times, you'll be able to plan your requirements so that you can secure the lowest cost delivery method.

## Shop around

You can think of a sourcing project as “shopping around” – it's another method that can yield unexpected cost savings. In most cases, it makes sense to include your current supplier or suppliers in the project as it might alert them to the fact that you're looking at potential alternatives. You might just find that they may approach you with price reductions before you've completed the sourcing project.

Direct negotiations with current suppliers and sourcing for new ones can help you drive your cost of goods down – either by switching suppliers or using the new information as

leverage in negotiations with your current supplier (see Chapter 4). Looking at other companies that operate in a similar market, region or supply chain type to see where they've made improvements and investments can also give insight into areas to look into, advises Don.

“The theme is to map and understand the processes and costs involved, gathering data of issues, and then analysing this to look for strengths, weaknesses, opportunities, and threats.

“This is the point where supply chain consultants, analysts and specialists come to the fore. If you don't have the experience or skills, hiring an expert can really make a difference.”

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## Chapter 3: Is now a safe time to rethink my supply chain?



Both Don and Alexandra are unwavering in their belief that there's never a better time than the present to rethink the supply chain. "Technology, communications, transport links, environmental obligations and even fuel all change constantly. So, if you haven't reviewed your supply chain for some time, then don't delay," Don suggests.

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For Alexandra it's not so much about being safe, but rather a necessity to reduce vulnerability and increase competitiveness in challenging business times.

### **How do I do deep due diligence on new suppliers to protect myself in future?**

Drawing on his experience in multichannel retail sales and marketing, Don believes that the level of due diligence is related to the level of risk involved. "A small value, one-off purchase doesn't need the same level of scrutiny that a long-term, high-value purchase or partnership requires."

The market, and therefore companies within it, are not as stable now as they may have been three to six months ago. This means increasing the level of due diligence conducted before new lines of trade are made is a prudent action. However, Don doesn't think it should not be the sole factor as sometimes "we do have to take some element of risk to succeed".

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### Three steps to cover all the bases

Alexandra advises business owners take these steps when launching a sourcing project:

- ✓ Be clear on your KPIs when recruiting new suppliers
- ✓ Seek out references from existing customers
- ✓ Undertake regular credit checks and use credit tracking tools to highlight any potential financial difficulties



### How do I simplify or shorten my supply chain?

How you do it, and if it's possible, will depend on your supply chain and the steps involved. That's why mapping and costing it out is so essential – investing some time and effort in doing so can make a big impact on your supply chain efficiencies.

The two obvious areas to reduce supply chain length, lead times, and potentially cost, are on the purchasing and the selling side of the process:

- 1. Purchasing:** Either purchase directly from the manufacturer instead of a wholesaler. Or, if you are already purchasing direct, you could consider manufacturing yourself.
- 2. Selling:** If you sell through wholesalers and resellers, then consider going direct to consumers. If you already sell direct, then look at the channels you use to possibly reduce the number of salespeople and pursue digital options.

“One thing to note,” cautions Don, “is that some of these changes could involve considerable time, effort, and investment to make the changes effective. They often require time to be looked at and decided on over a longer-term basis and payback period.”

“**If you sell through wholesalers and resellers, then consider going direct to consumers.**”



## Chapter 4:

# Put on your bartering cap



The only way to negotiate new payment terms with old suppliers is to arrange a meeting with that specific requirement as a clear purpose. This comes down to negotiation and partnerships. The main thing is to ask openly and state the reasons as to why it's needed and what the benefits to the supplier would be. Would you commit to a sole agreement, a longer agreement, or a committed spend?

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By giving your suppliers longer-term financial commitments you can also help drive their costs down – and in so doing, potentially lower your pricing. If, for instance, you need 100 pieces every month from your supplier, you can help drive manufacturing costs down by ordering 1,200 pieces. Your supplier may be able to hold the inventory and ship the parts to you in lots of 100 each month. By doing so, they may be able to order raw materials in bulk and avoid the costs of multiple production setups.

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Another way is to go to the market and seek new suppliers with new terms, and then discuss the new offers with your current suppliers to see if you can agree on a smart way forward for both parties. You can also use a tender process to pitch one against the other until you get the savings and benefits you need.

It's important to remember that your suppliers will likely be experiencing similar challenges to you, and where possible you should try and be accommodating of such problems – as you would no doubt want your customers to be.

And a word of advice from Don: “Beware of short-term decisions based purely on price – partnerships and goodwill can go a long way in business!”

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#### Alexandra's tips



Don't ignore your supplier's requests for payment



Be upfront with them if you require longer payment terms but honour these



Your supplier is always willing to negotiate with you if you are upfront





## Chapter 5: Strategies to ease business risk during and after the pandemic



According to Don, strategies to mitigate business risk during and post coronavirus are precisely the same as they were before the crisis.. “The only things that have changed are that markets are less certain and less buoyant than before. There’s also a need to protect your staff, customers, and business partners from infection by keeping your workplace safe and hygienic.”

Those strategies are:

1. Due diligence with all new, and a revision of existing, suppliers as they may have changed
2. Not having one sole supplier and having different or backup options wherever possible
3. Ensuring cash flow for the business is secured without over-committing resources. (Cash flow is discussed in detail in our business finance guide)
4. Ensuring a lean and efficient supply chain
5. Having adequate business insurance in place should suppliers or customers go out of business

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So, don't let fear interfere with fact. Facts backed up by numbers can enable any business owner to create projections and timelines based on the information that is available within the parameters of their own business. What's important to understand, though, is how this will affect working capital and cash flow, employees, and customers.

Having the information available allows you to investigate best practice or case studies of how to handle similar situations, which then informs your plan of action. A plan shifts the balance of scale from reactive to proactive and instills a sense of security with all stakeholders involved.

### **What is a business alliance? Should I partner with others in my industry?**

A business alliance is an agreement between two or more businesses to work together to help create cost benefits and a stronger place in the market. They can be formed to increase buying power and cost negotiation for marketing or supply chain efficiencies.

Not all industries and business models are suitable or would work with having an alliance, but it's worth looking at to see if there are opportunities to explore mutual benefits. You could team up with a similar company doing the same thing, but in a different region, and work together on buying and sourcing. Partnering with others is a good way to spread risk and create new business opportunities or resolve supply issues you may have.

Alexandra's advice is to consider your business strategy. "Should you partner on short projects or would a longer relationship be more beneficial?" Like any such process, you need to do your research and have discussions internally before starting conversations with other businesses. Not all alliances will bear fruit, so you need to be wary and cautious when entering into one. Ensure that it's truly a win-win situation for all parties involved.

Coronavirus has indeed shaken the world, but by putting yourself firmly in the driver's seat, it will – with the benefit of hindsight – become the first major step towards supply chain resilience.

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# Familiar skills, new environment



So if you emerged from lockdown into a slightly different supplier landscape, you're not alone.

Some familiar faces might have ceased trading, and some new names might have entered your space. Strengthening your supply chain for the next phase calls for some familiar skills in a tough new setting:

- Nurturing good honest relationships with suppliers – with a firm focus on cost-savings
- Tough negotiating with suppliers and buyers – while remaining supportive of your industry
- Being open to new kinds of alliances – but taking care to do thorough due diligence
- Thinking long-term about the deals you make – but meeting your short-term requirements too

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***These are the same skills that have helped you get your business this far. Go forward with confidence and use them again to pull you through.***



# About Be the Business



**Be the Business is a small, not-for-profit organisation dedicated to boosting productivity among UK businesses.**

We're doing it by helping leaders of small to mid-sized firms do what you do best: improve, innovate and inspire.

In response to the coronavirus outbreak, we created Rebuild. It provides free expert advice on recovery tactics, stories from your peers and access to like-minded people to bounce your ideas off.

Business leaders told us they need practical support in six priority areas – so that's what we've done. In each topic section on Rebuild you'll get a range of articles, videos, guides (like the one you've just read) and other accessible support. Start with the topic that meets your company's challenges and remember, it's the small steady steps that are going to count.

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