

The background of the slide is a blurred photograph of a person's hands typing on a laptop keyboard. The laptop screen is visible on the left, showing some indistinct content. Two vertical orange bars are positioned on either side of the main text area.

# **Gartner Webinars**

**Gartner equips leaders like you with  
indispensable insights, advice, and  
tools to help you achieve your most  
pressing objectives**

**Gartner®**

# Enhance your webinar experience



**Ask a  
Question**



**Download  
Attachments**



**Share This  
Webinar**

# COVID-19: Procurement's Actions in Response



Connect with Gartner



**Ryan Polk**

Director Analyst



**Chris Testa**

Director Advisory



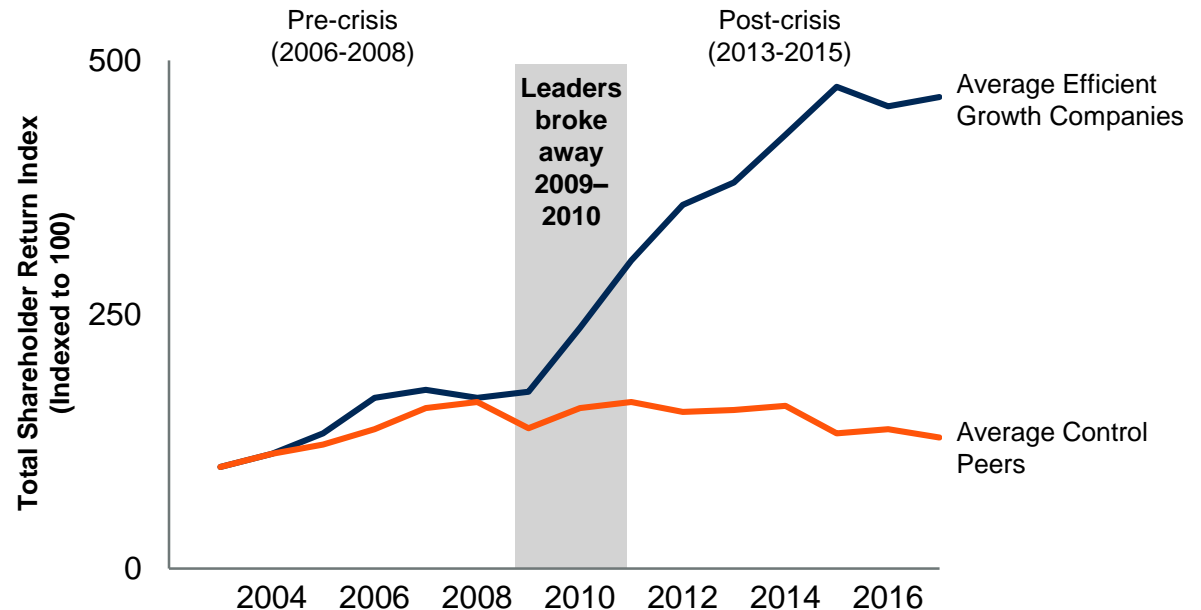
# Historical Context

## Analysis of Business Performance During the Financial Crisis

### Change Is Constant:

- Geopolitical
- Social
- Economic
- Environmental
- Climate
- Cyber Security
- Competition
- **Pandemic (COVID-19)**

### Leaders Lean Into Turns:



n = 10,035

Source: Gartner Global Labor Market Survey

### How:



**Strategy:** Preparedness to act confidently amid uncertainty



**People:** Sustaining operations and optimizing workforce

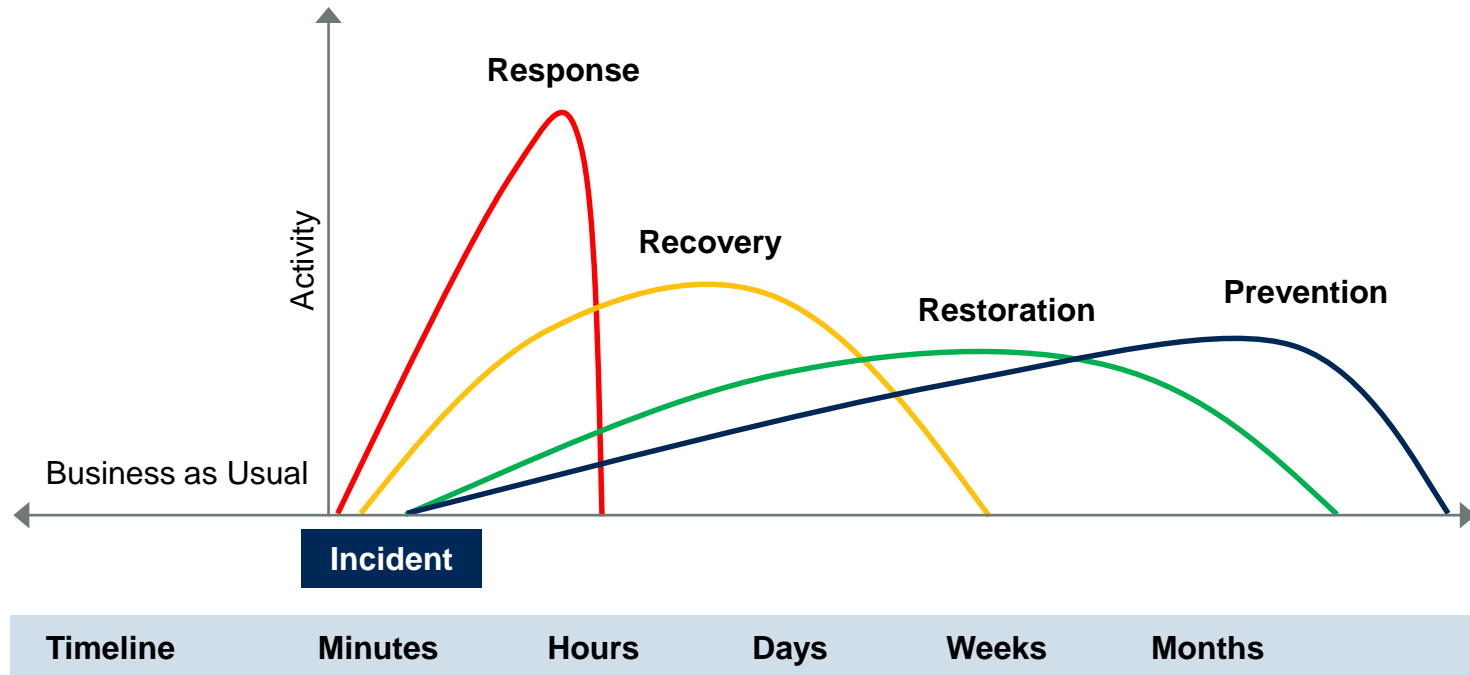


**Cost:** Discipline with which firms allocate resources

Source: Gartner

# Charting Procurement's Path Forward

## The Crisis Management Journey



Source: Gartner

### Key Takeaway

Your company's initial response to COVID-19 is table stakes. Great companies will differentiate themselves with the discipline to execute pre-planned strategies across the recovery, restoration, and prevention arcs.

# Feedback From the Front Line

## Biggest Concerns for Procurement Organizations:

- How do we assess quality of supplier's business continuity plans and identify distress in our supply base?
- How will this impact our supply chain risks and supplier health in the second half of the year?
- How do we support cost containment efforts ?



### Response

- Identify and communicate with critical suppliers
- Evaluate critical supplier BCPs to understand risk exposure
- Assess WFH capabilities and establish policy
- Act charitably towards the public sector wherever possible



### Recovery

- Build out alternative supplier capabilities where needed
- Monitor supplier health
- Extend financial help to suppliers where possible
- Incentivize essential workforce
- Shift employees to urgent business needs



### Restoration

- Protect Supplier relationships while driving cost containment
- Increase collaboration across the value chain
- Manage cash-flow position by partnering with finance
- Prevent the business from cutting costs too deep



### Prevention

- Find better ways to sense risk across short and long-term
- Scenario plan for successive potential waves of COVID-19

Source: Gartner

# Roadmap

Managing  
Critical Supplier  
Relationships



Managing  
Critical Supplier  
Risk



Procurement's  
Role in Cost  
Optimization

# Roadmap





# Communication During Disruption is Key

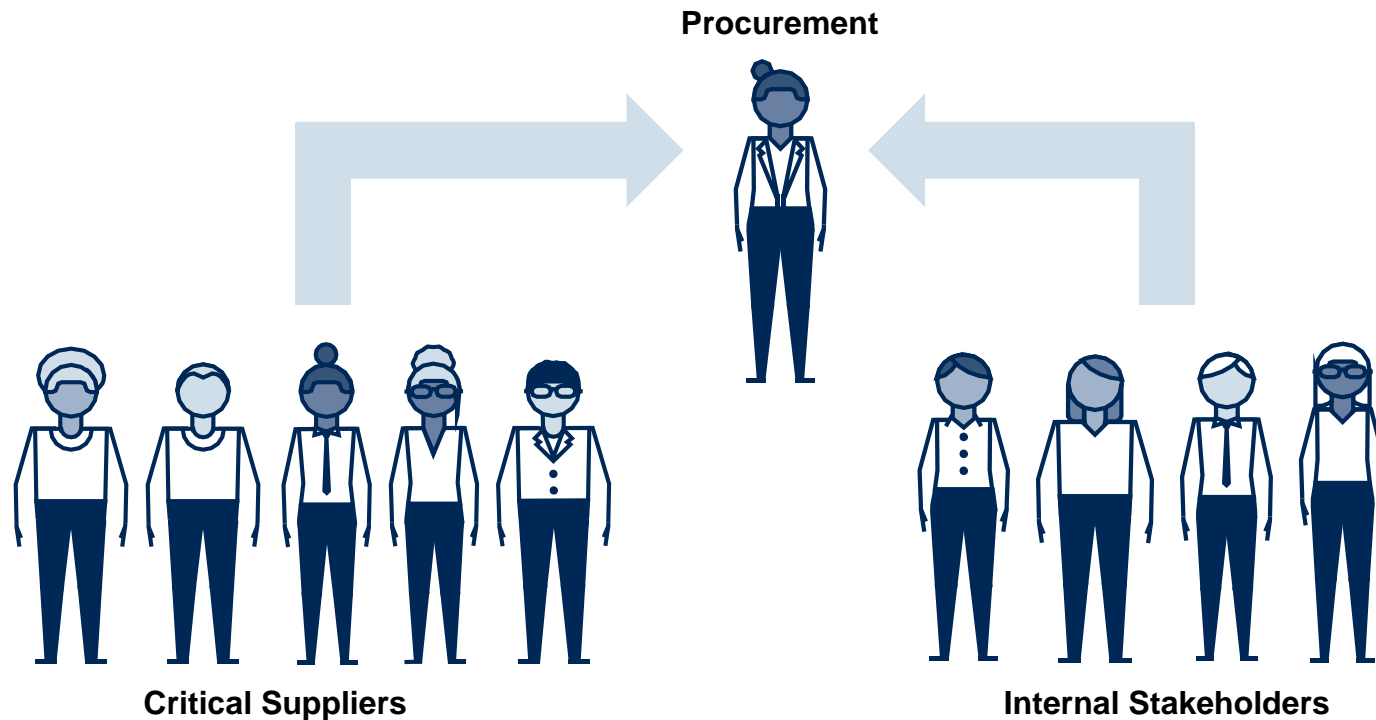
Question: How are you communicating important information related to COVID-19 with your suppliers?



n = 54 Procurement Leaders, source: Gartner CPO Cohort Survey

# An Important Role for Procurement to Fill

Procurement as an Information Navigator



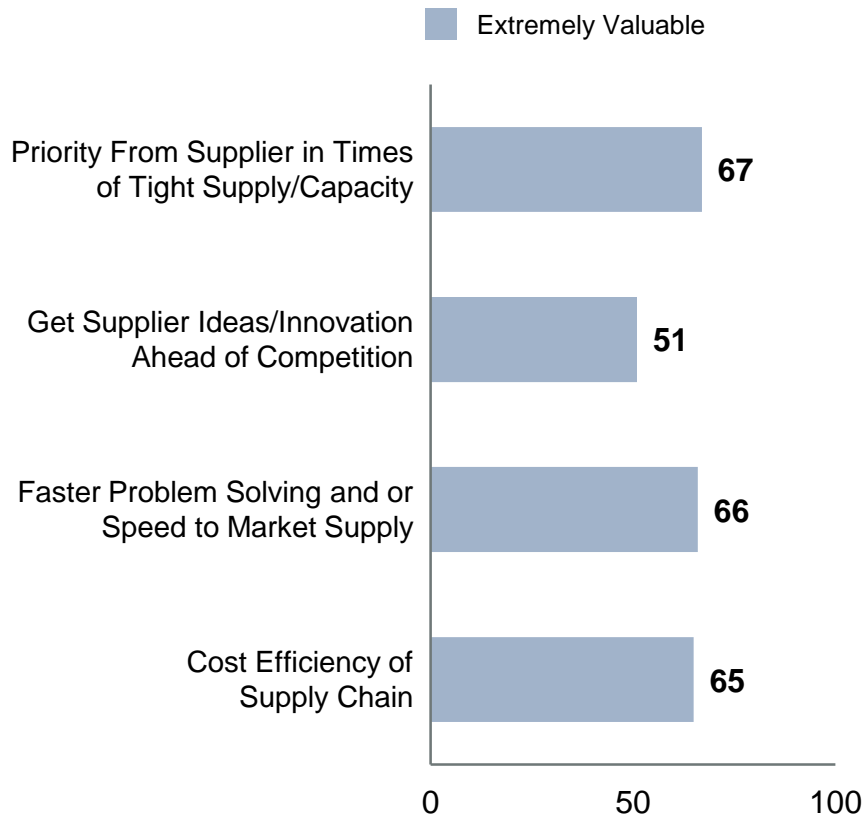
Source: Gartner

# Customer of Choice Advantage

## Customer of Choice

A company that consistently receives **competitive preference for scarce resources across a critical mass of suppliers** within its supply base.

## Where Supplier Collaboration Delivers Competitive Advantage



n = 275

Source: Gartner

11 © 2020 Gartner, Inc. and/or its affiliates. All rights reserved.

### Access to Scarce Capacity



- Fire at chip vendor's fabrication plant threatens production of millions of Nokia cell phones.
- Nokia persuades vendor of benefit in reallocating chips from its other plants to Nokia at the expense of other customers' orders.

### Product Innovation



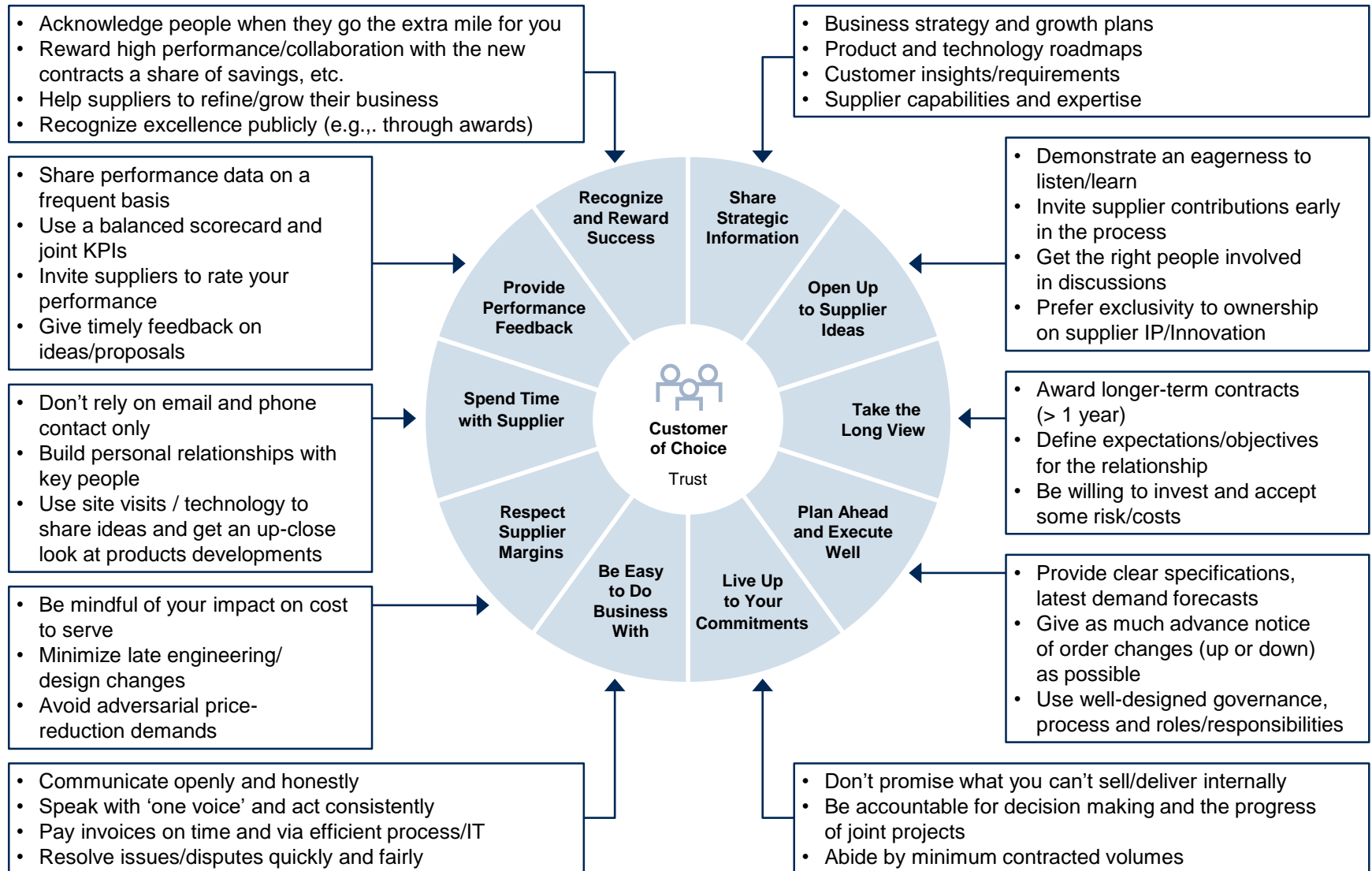
- BMW takes a venture capitalist approach to seek out, attract and support startups developing game-changing technologies applicable to the automotive industry.
- Collaboration provides startups with gateway entry into the automotive industry with a leading brand, while providing BMW exclusive access to cutting edge innovations for their premium mobility solutions.

### Savings and Productivity Gains



- Open and structured approach to vendor-generated productivity improvement increases the quality of vendor ideas captured.
- BMS projects vendor cost-productivity efforts will provide 14% savings (across three years) on top of one-time savings from initial sourcing activities.

# Customer of Choice Best Practices



Source: Gartner

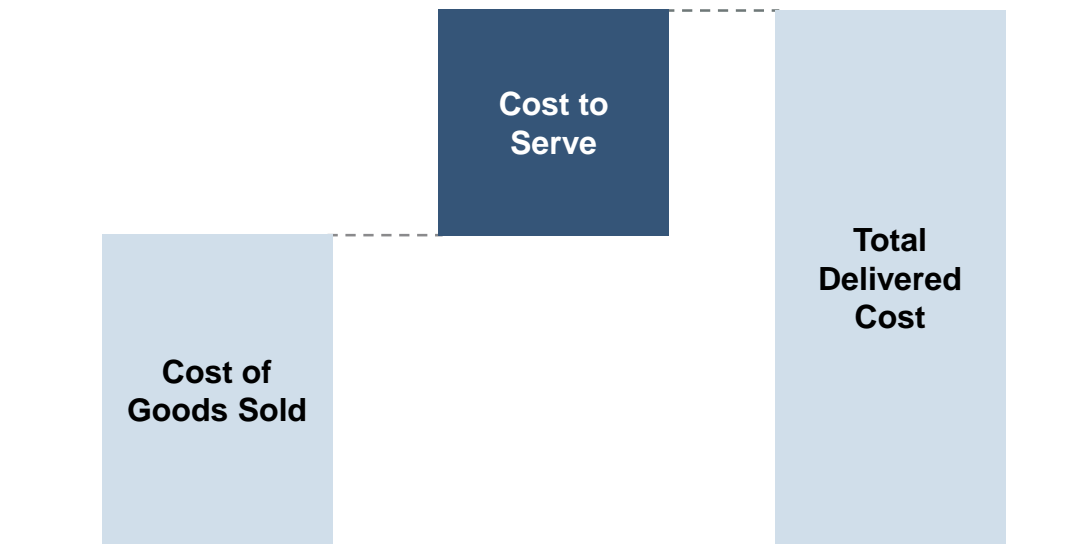
# The Impact of Cost-To-Serve

## Total Delivered Cost

The sum of all costs attributed to a customer order, from receipt of the order from the customer through delivery of the product to the customer. The measure incorporates the cost of goods sold, including order-specific manufacturing, and **cost-to-serve, including order-specific distribution, warehousing, customization, packaging, service, and handling costs.**

## Total Delivered Cost

*Illustrative*

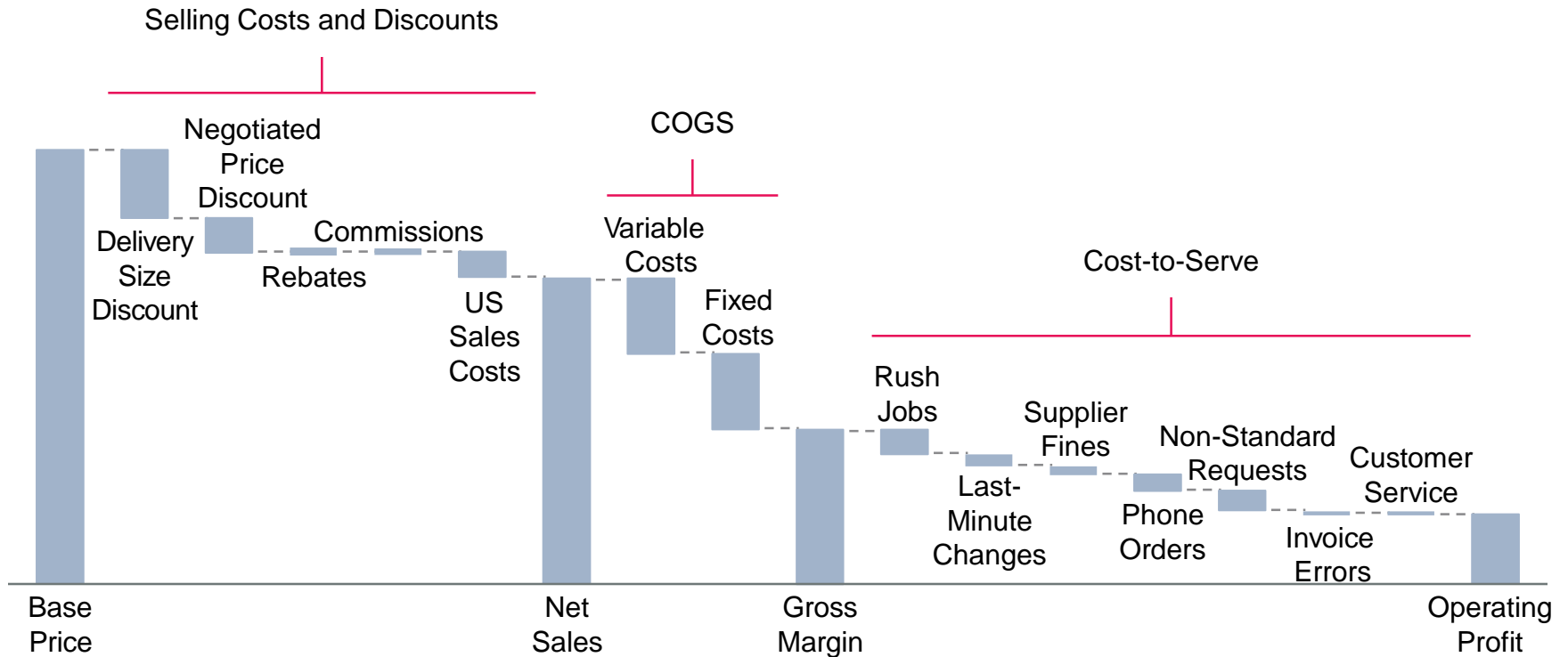


Source: Gartner

# Eroding Supplier Profit

## Order Profitability Waterfall

*Services Example*



Source: Gartner

# Cost to Serve Questionnaire

Questions for Identifying Potential Drivers of High Cost-to-Serve	
Supplier Name: _____	Answer
<b>Sourcing/Contracting</b>	
How many contracts do we have with this supplier across business units?	
Do our contracts contain terms such as guaranteed overnight delivery/rush shipping, price protection, etc.?	
How regularly do we audit our use of these terms and benefits to ensure instances are predicated on genuine business need, rather than the fact that the option is simply available?	
What percentage of our orders goes through standardized electronic systems, rather than a combination of phone, fax, electronic, etc.?	
How many different names or codes for the supplier exist in our system?	
Who pays the charges for rush or last-minute shipments—us or the supplier?	
<b>Post-Contracting</b>	
What is our average level of return shipments to this supplier (company overall and by business unit) in the last three to six months? What are the main reasons for the returns?	
How much have we charged this supplier in fines in the last three to six months?	
What were the reasons for fines imposed on the supplier?	
How often have we approached the supplier for product or service support in the last three to six months?	
How often did we make last-minute changes to product or service orders or specification requests in the last three to six months?	
How many separate orders do we submit per month across the company to this supplier?	
What customization or special packaging do our orders require? Do requirements differ across business units?	
What is our average order size over the last three to six months?	
What is our average order forecast accuracy (actual orders as percentage of forecasted) to the supplier over the last three to six months?	
How many rush orders did we submit to this supplier across the last three to six months?	
What is our order frequency (company overall and by business unit)—daily, weekly, monthly, etc.? How regular or variable is this timing?	

Source: Gartner

# Roadmap

Managing  
Critical Supplier  
Relationships



**Managing  
Critical Supplier  
Risk**



Procurement's  
Role in Cost  
Optimization



# Polling Question 1 of 2

**How bad do you expect disruption from COVID-19 to become in terms of your key suppliers' ability to serve your business? (select one)**

- A. Zero disruption – We continue to run business as usual**
- B. Minimal disruption – Fewer than 10% of key supplier negatively impacted**
- C. Moderate disruption – Fewer than 25% of key supplier negatively impacted**
- D. Heavy disruption – More than 30% of key suppliers negatively impacted**
- E. Extensive disruption – More than 50% of key suppliers negatively impacted**

## How to participate in our polling

If you are in full screen mode – click Esc

The poll question is on the “Vote” tab.

Please click the box to make your selection.

Upon voting you will see the results.

Thank you!

Ask a question	Attachments	<b>Vote</b>	Rate this	Details
----------------	-------------	-------------	-----------	---------

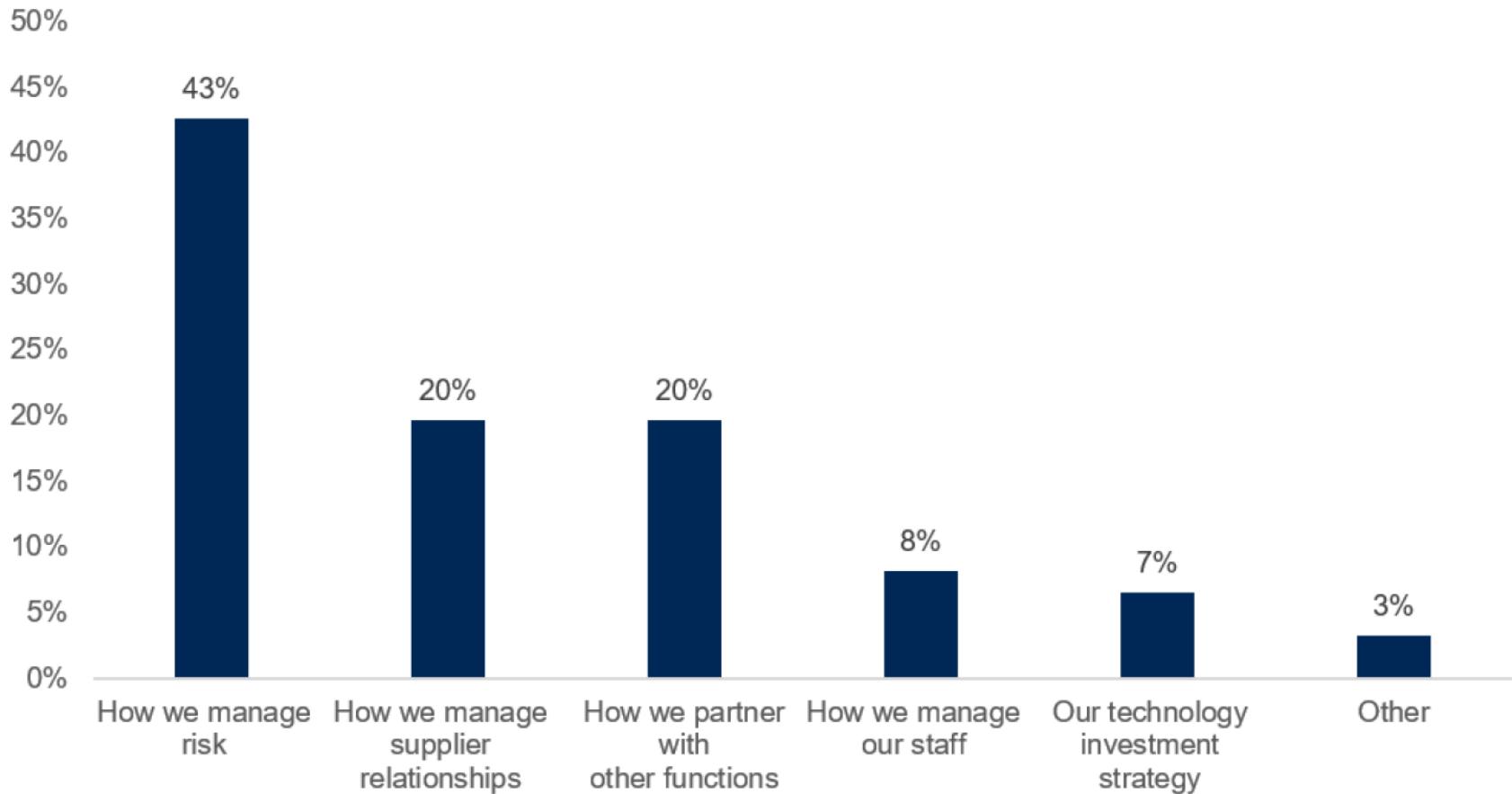
Q. Polling Question

(please choose 1 answer)

A. Answer	<input type="checkbox"/>
B. Answer	<input type="checkbox"/>
C. Answer	<input type="checkbox"/>
D. Answer	<input type="checkbox"/>
E. Answer	<input type="checkbox"/>

# Supplier Risk Management Will Evolve

Question: On which of the following do you think COVID-19 will have the most impact on procurement going forward?



n = 61 Procurement Leaders, Source: Gartner CPO Cohort Survey

## Polling Question 2 of 2

**How forward looking are your capabilities to identify suppliers in distress? (select one)**

- A. Not at all – we learn a supplier is in distress as it happens**
- B. About a week**
- C. A few weeks**
- D. A month**
- E. 2+ Months**

### How to participate in our polling

If you are in full screen mode – click Esc

The poll question is on the “Vote” tab.

Please click the box to make your selection.

Upon voting you will see the results.

Thank you!

Ask a question	Attachments	<b>Vote</b>	Rate this	Details
----------------	-------------	-------------	-----------	---------

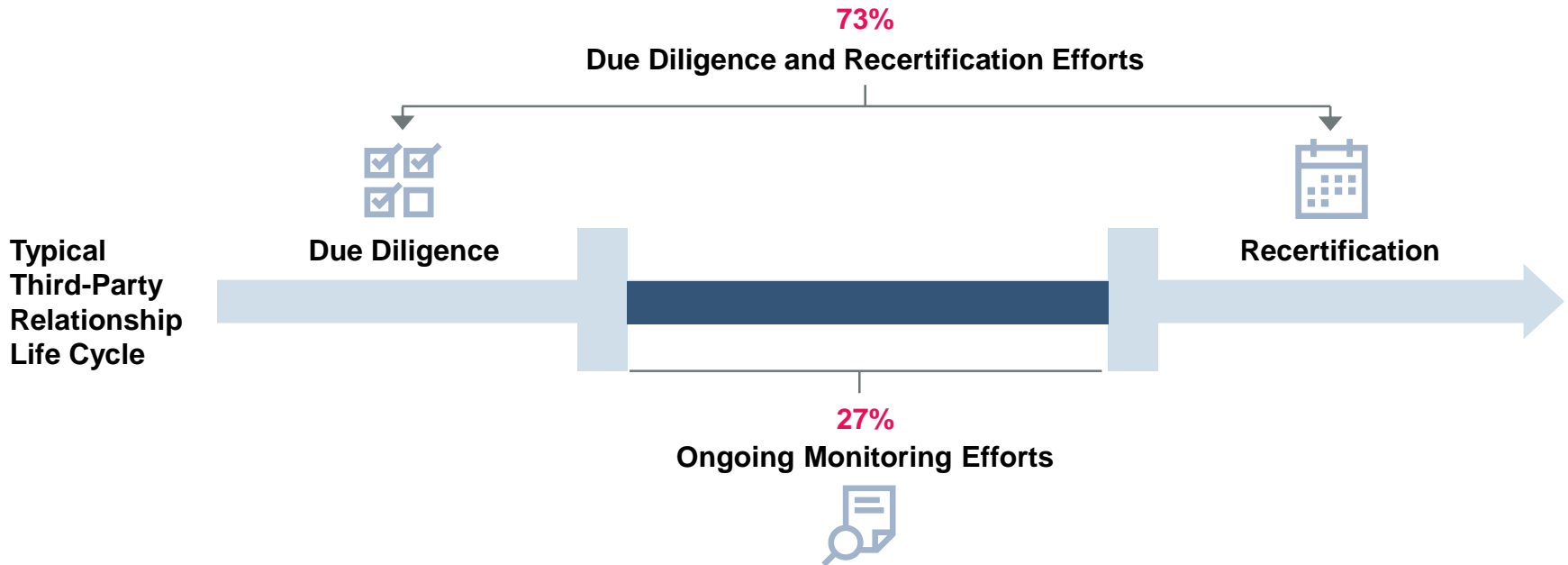
Q. Polling Question  
(please choose 1 answer)

A. Answer	<input type="checkbox"/>
B. Answer	<input type="checkbox"/>
C. Answer	<input type="checkbox"/>
D. Answer	<input type="checkbox"/>
E. Answer	<input type="checkbox"/>

# Majority of Our Time is Focused on Due Diligence

Effort Allocated to Identifying and Monitoring Third-Party Risks

*Percentage of Effort Legal and Compliance Leaders Allocate to Third-Party Risk Activities*



n = 256 legal and compliance leaders

Source: 2019 Gartner Third-Party Risk Management Model

## Why Do We Focus on Point-in-Time?



Mandates From Regulators and Enforcement Bodies



Expectations From Consumers and an Activist Media

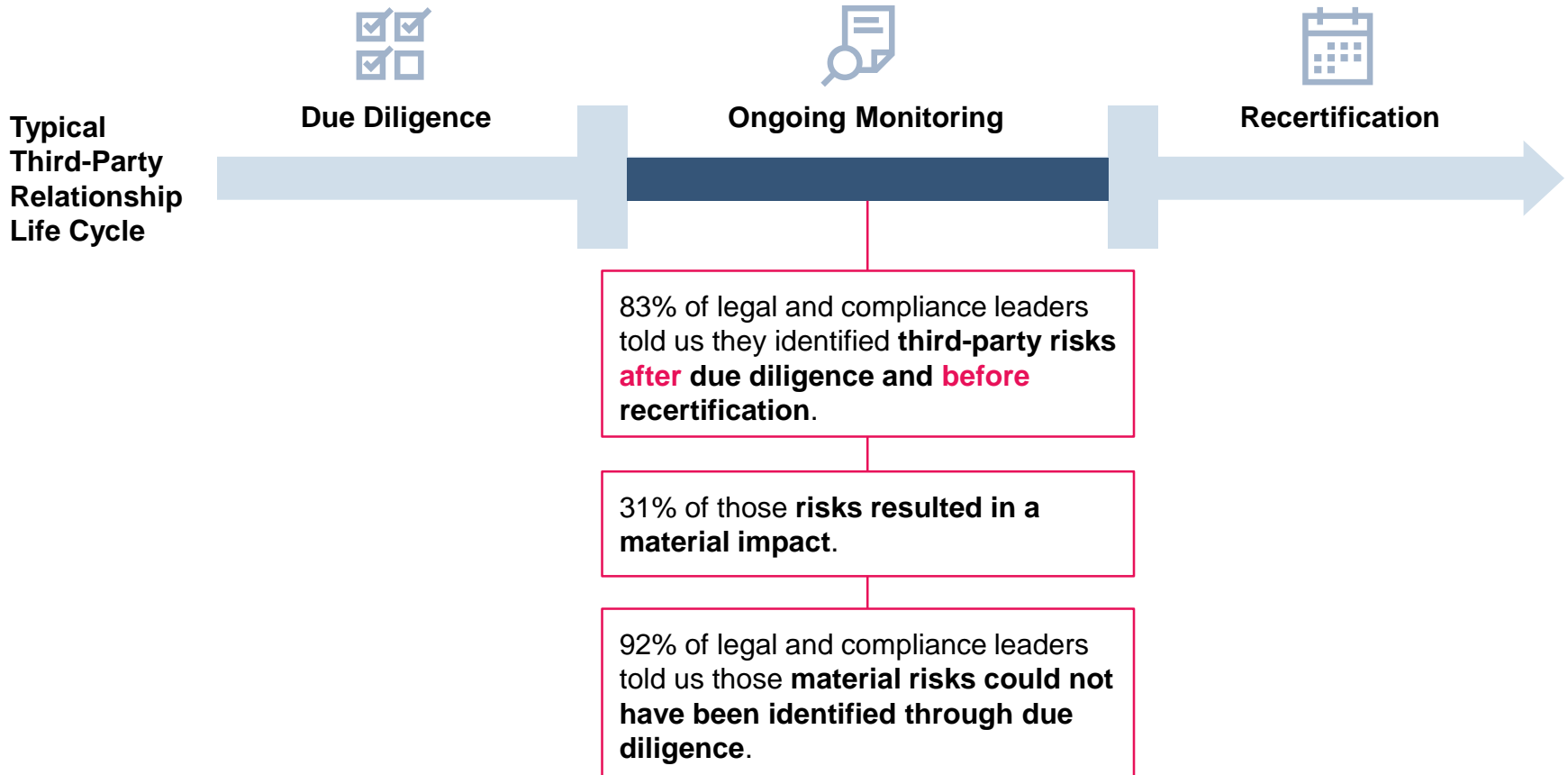


Cost Implications

Source: Gartner

# But the Majority of Risk Occurs During Ongoing Monitoring

Third-Party Risks Appearing After Due Diligence and Before Recertification

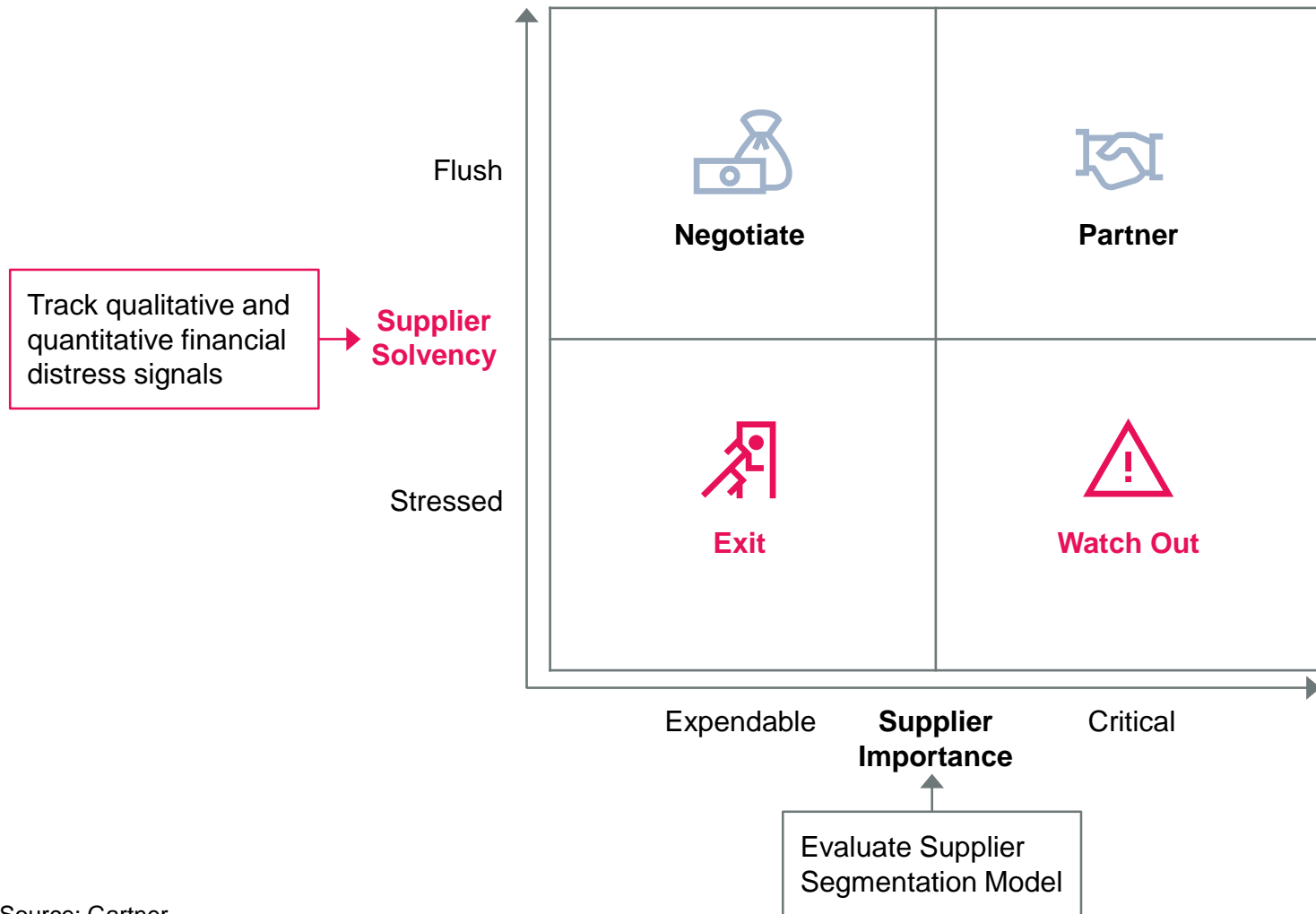


n = 256 legal and compliance leaders

Source: 2019 Gartner Third-Party Risk Management Model

# A Framework for Ongoing Monitoring

## Supplier Solvency Strategy Matrix



Source: Gartner

# Quantitative Supplier Distress Signals

## Quantitative Approaches to Supplier Solvency Early Warning

- ✓ Payment History
- ✓ Debt to Equity
- ✓ Debt to Total Assets
- ✓ Working Capital
- ✓ Cash Flow
- ✓ Cash Position
- ✓ Cash in Hand
- ✓ Rate of Cash Burn
- ✓ Quick Ratio
- ✓ Current Ratio
- ✓ Earnings per Share
- ✓ Inventory Turnover
- ✓ Service Levels
- ✓ On-Time Delivery
- ✓ Quality
- ✓ Day Sales Outstanding
- ✓ Return on Equity
- ✓ Return on Sales
- ✓ Employee Size
- ✓ Revenues
- ✓ Profitability
- ✓ Judgments and Liens
- ✓ Z Score

Indicators	Guidelines	Formulae
Interest Coverage Ratio	This measures the supplier's ability to make interest payments with current earnings. Ideally it should be more than one, but higher is better.	$(EBIT)/(Interest\ Expense)$
Current Ratio	A high current ratio indicates the supplier's ability to meet short-term liabilities. Although it varies by industry, a current ratio of less than two indicates an inability to meet current financial liabilities.	$(Current\ Assets)/(Current\ Liabilities)$

Source: Gartner

# Qualitative Supplier Distress Signals

## Qualitative Approaches to Supplier Solvency Early Warning



**Leverage Peer Feedback**



**Partner With AP to Monitor Changes in Supplier Behavior**



**Check Supplier Performance**



**Talk to the Sub-Tier Suppliers**



**Listen to Supplier Staff**



**Monitor Automated Online News Feeds**



**Explore the Application of Predictive Technology**

Indicators	Guidelines	Long-Term Implications for Supplier
Delivery, Accuracy, and Timeliness	Poor record of accuracy and timeliness in delivery may be caused by bottlenecks within operations.	Inventory slowly converted into cash; recalls require additional spend.
Payment to Sub-tier Suppliers	Delayed payment to sub-tier suppliers indicates poor cash flow, low margins, or high interest payments.	Stressful relationship with sub-tier suppliers might lead to supply disruption.

Source: Gartner



# Suppliers on the Verge of Bankruptcy

## Implications of Poor Supplier Health

	Key Considerations		Suggested Action Steps
<b>Shared Critical Resources</b>	A cash-strapped supplier can be forced to not only de-prioritize your orders, but sell critical equipment or Intellectual Property (IP).	➤	<ul style="list-style-type: none"> <li>• Confirm ownership of resources: do you own outright? Joint-owned? Held in escrow?</li> <li>• Understand licensee and licensor termination rights</li> <li>• IP and Equipment: draft new deals and purchase</li> <li>• If unable to purchase, look to secure alternate supplier immediately</li> </ul>
<b>Second-Tier Supplier Relationship Management</b>	Some contracts limit the amount of communication allowed between the buyer and second-tier suppliers.	➤	Gather information on recent trends concerning the prime supplier's health and ease of doing business
<b>Funding Supplier</b>	Specifying payments for labor and materials related to your product limits risk associated with payments going into a general coffer.	➤	<ul style="list-style-type: none"> <li>• Funding supplier's payroll and retention bonuses</li> <li>• Buy materials and inventory up front</li> <li>• Receive supplier agreement to make product</li> </ul>
<b>Long-Term Versus P.O. Contracts</b>	<ul style="list-style-type: none"> <li>• Purchase Orders (POs) are stand alone contractual arrangements offering flexibility, but no long-term legal claim.</li> <li>• Long-term contracts may be used to lay claim to goods, however, they lock a buyer into an agreement, even through bankruptcy.</li> </ul>	➤	<ul style="list-style-type: none"> <li>• Draft specific contract language, identifying exactly what deliverable and amount of labor the payment is for, and have the supplier hold goods in a Trust.</li> <li>• Send demand for adequate assurance of future performance as leverage to dissolve contract.</li> </ul>

Source: Adapted From Reed Smith LLP; Procurement Strategy Council research; Finance Leadership Exchange research

# Suppliers That Go Bankrupt

## Implications of Supplier Bankruptcy

	Key Considerations		Suggested Action Steps
<b>Business Continuity</b>	<ul style="list-style-type: none"><li>• Contracts will continue according to their terms; a debtor has 60 days to assume or reject contract.</li><li>• Access to more information: schedules and a statement of financial affairs are filed in 15 days.</li></ul>	➔	<ul style="list-style-type: none"><li>• Assess number of long-term contracts versus POs.</li><li>• Convert long-term contracts to POs</li><li>• Understand Debtor in Possession (DIP) financing situation</li></ul>
<b>Second-Tier Supplier Relationship Management</b>	<ul style="list-style-type: none"><li>• Buyers should approach sub-tier suppliers with caution: prime suppliers' contracts and relationships with second-tier suppliers may be considered assets of the estate.</li><li>• Debtor and creditors could file motion for sanctions in bankruptcy court against the buyer for violation of automatic stay and risk committing tortious interference with the estate.</li></ul>	➔	<ul style="list-style-type: none"><li>• Discontinue sub-tier supplier communication</li><li>• Ask prime supplier for information on second-tier suppliers</li></ul>
<b>Protecting Asset Availability</b> (Materials, IP, machinery, etc.)	<ul style="list-style-type: none"><li>• It is necessary to understand the type of filing prior to responding.</li><li>• In the event the supplier owns the IP, technology, or process, it is crucial to act quickly to secure what you need.</li></ul>	➔	<ul style="list-style-type: none"><li>• Confirm type of bankruptcy (7 or 11) and their plan forward: reorganizing, shedding liabilities, liquidation, asset sale?</li><li>• Understand actions of competitors and purchase inventory, IP, and machinery.</li></ul>
<b>Liquidation Complications</b>	<p>Due to the speed with which Chapter 7 bankruptcy petitions are implemented, you may not have time to set a strategy for goods and services continuity.</p>	➔	<ul style="list-style-type: none"><li>• Respond quickly with an Accommodation Agreement to allow time to locate a new supplier; send check immediately.</li><li>• Inventory amounts and critical machinery/IP should be identified while the supplier is still solvent.</li><li>• Establish a liquidation action plan for the most critical suppliers on the verge of insolvency.</li></ul>

Source: Adapted From Reed Smith LLP; Procurement Strategy Council research; Finance Leadership Exchange research

# Supplier Disengagement Checklist

Action Item	Timeframe	Expected Completion	Actual Completion
Inform staff about the situation and that a follow-up communication will come out by EOB	Immediately		
Involve the Legal departments in the countries impacted and identify lead contact	Immediately		
Inform Accounts Payable and stop/hold all payments pending or in-process	Immediately		
Call the Supplier to understand their position/situation and impact/status to: Business intentions, Legal issues or positions, Unions, Local Government	Immediately		
Scope impact: Create a list of SKUs, tooling, plants, business teams involved, etc.	Day 1		
Identify preliminary Transfer Team Members needed and collaborate with cross-functional resource owners/approvers (consider: Transfer Ldr, Adv Mfg, TRG Mfg, Eng, Purch Ops, Quality, Log, Mat'l's, Proc, Import/Export)	Day 1		
Obtain proof of ownership documents for all company tooling and capital on-site at Supplier	Day 1		
Obtain Pediments if applicable (Import and/or export documents)	Day 1		
Contact 'go-to' and back-up strategy suppliers to clarify new-business interest and communicate urgency of situation	Day 1		
Sketch-out hypothetical transfer strategy with new Supplier	Day 1		
Invite all stakeholders for Day 2 internal press conference	Day 1		
Send end of Day 1 communication: Relationship history, scope of current business (SKU count, spend, plants effected, etc.), reason for current situation, Supplier comments and projected severity to business, steps take already, next steps or plan of action for next 48 hours, and invitation for Day 2 press conference	Day 1—EOB		
Hold internal press conference with all stakeholders. Communicate status, plans, request feedback, and validate resource support where needed	Day 2—BOB		
Validate Transfer Team Members including experts in the process: Transfer Team Leader, Adv. Mfg, TRG, Manufacturing, Quality, Logistic, Materials, Purchasing, Engineering, Transportation, Import/export, etc.	Day 2		
Launch Transfer Team Kick-off, empowered to execute Disengagement Process	Day 2		
Coordinate tooling and asset transfer: on-site personnel, packaging, shipment, necessary documents with Legal	Day 2		

Considerations for Transfer Team (in Addition to Disengagement Action Items):	
Schedule daily updates to all stakeholders	Define Lead Contact in each facility affected, two-way coordination on short-term needs and decisions on stocked item allocation/customer orders/SKU priorities. Do not build to stock in short-term
Write Project Request and submit to the proper change personnel	Involve Strategy Group for discussions specifically on insourcing, or, acquisition interests of other Suppliers, facilities, equipment, etc.
Consider truncated approval process for various items, such as LAIRS/FAIRS (LAIRS = Last Article Inspection Report, FAIRS = First Article Inspect Report)	Plan commercial negotiations in parallel with execution of the exit: old and new Suppliers, Legal authorities, if necessary
Validate immediate/current run rates for each SKU	Assign people at the new supplier to review the status of the tooling at arrival
Send samples to new Suppliers	Prepare on-site team at new Supplier to expedite sample/production/approvals
Obtain price and cost model information in preparation for discussions with new Suppliers	

# Roadmap

Managing  
Critical Supplier  
Relationships



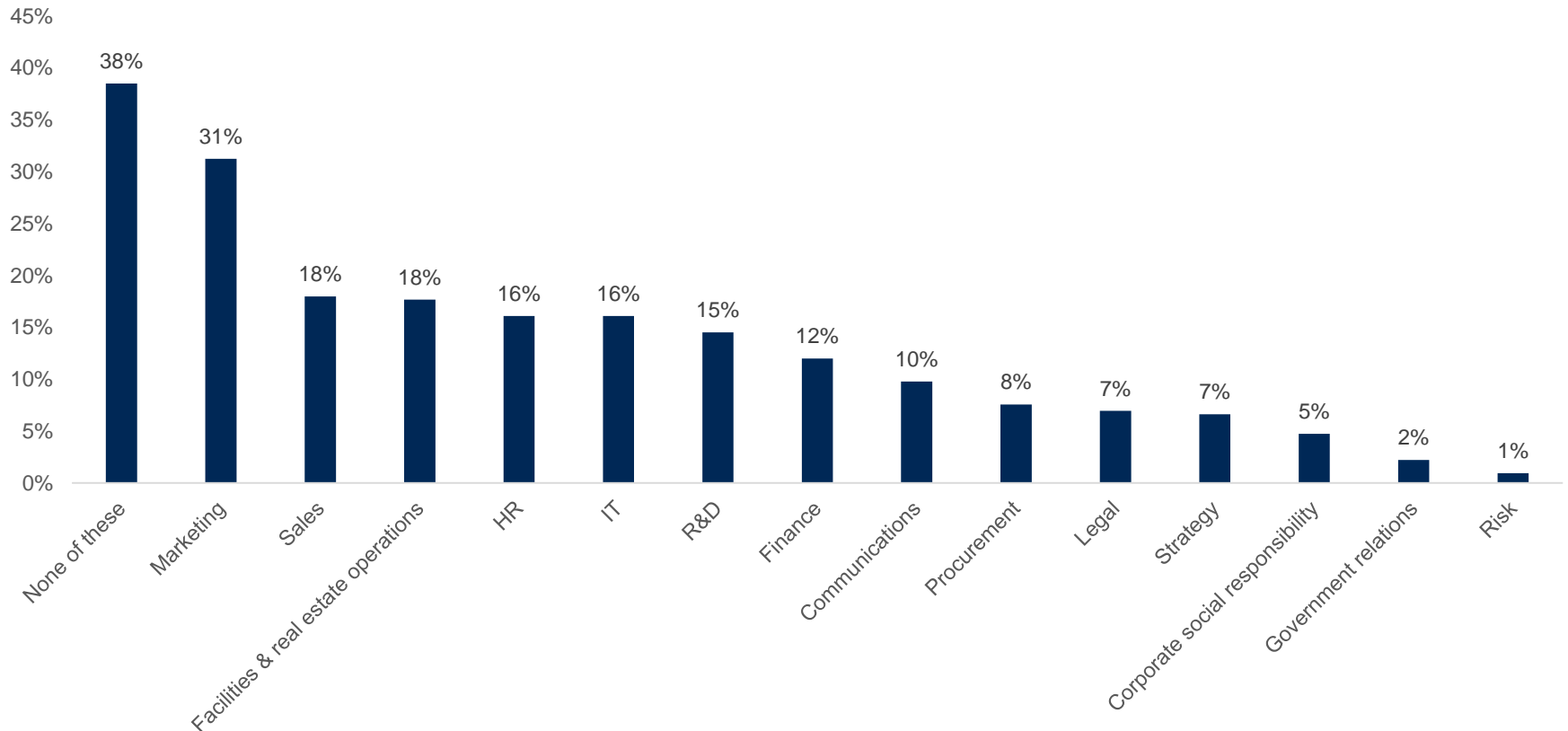
Managing Critical  
Supplier Risk



**Procurement's  
Role in Cost  
Optimization**

# SG&A Functional Cuts

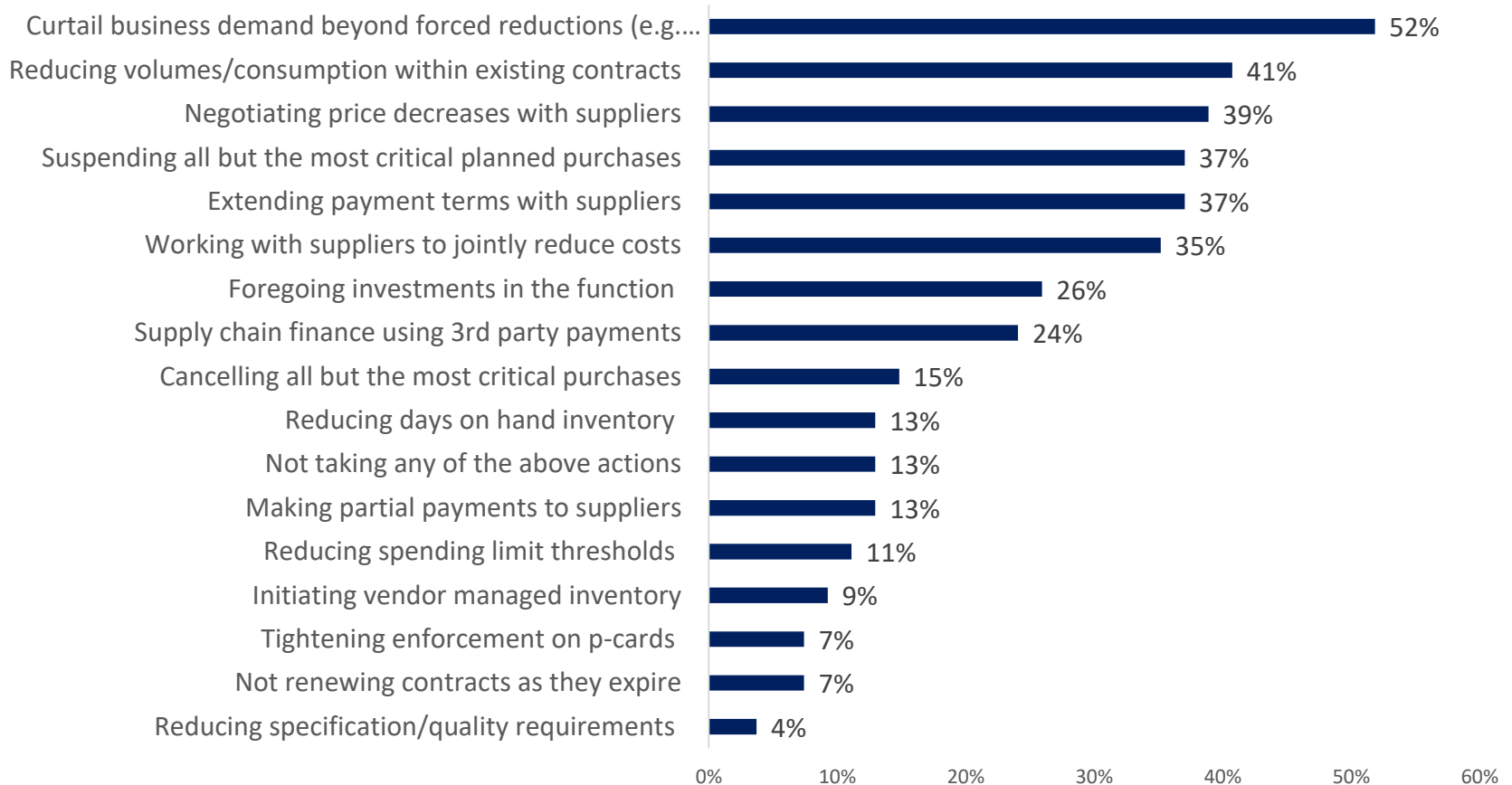
Question: Which SG&A functions will likely have their budget cut by more than 10% in 2020?



n = 317 Senior Finance Leaders, Source: Gartner

# Multiple Tactics Are Being Used

Question: What actions are you taking to increase available cash/cash flow to the business?

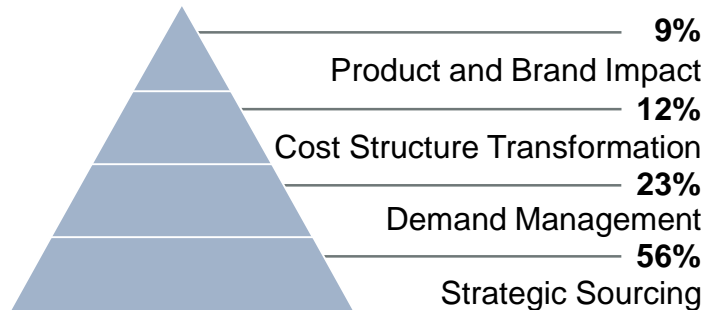


n = 54 Procurement Leaders, Source: Gartner CPO Cohort Survey

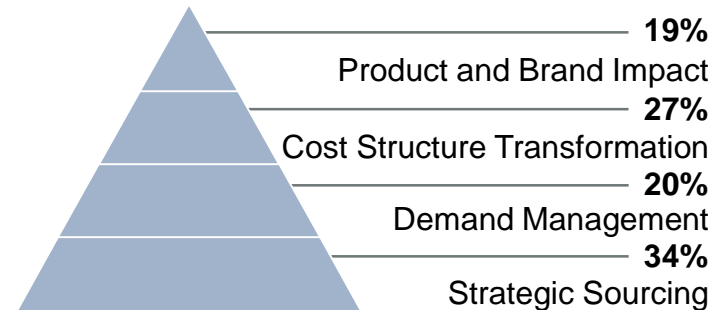
# A Balanced Set of Projects Outperforms

Comparison of Project Mix for Organizations in the Top and Bottom Quartiles of Portfolio Maturity<sup>a</sup>  
2011–2015 Data

## Bottom Quartile



## Top Quartile



n = 139 procurement organizations

Source: Gartner

<sup>a</sup> Portfolio maturity is having a well-balanced project mix based on the sophistication and diversity of procurement techniques used and the time horizon for project payoff.

Increase in Performance for Organizations in the Top Quartile of Portfolio Maturity  
2011–2015 Data

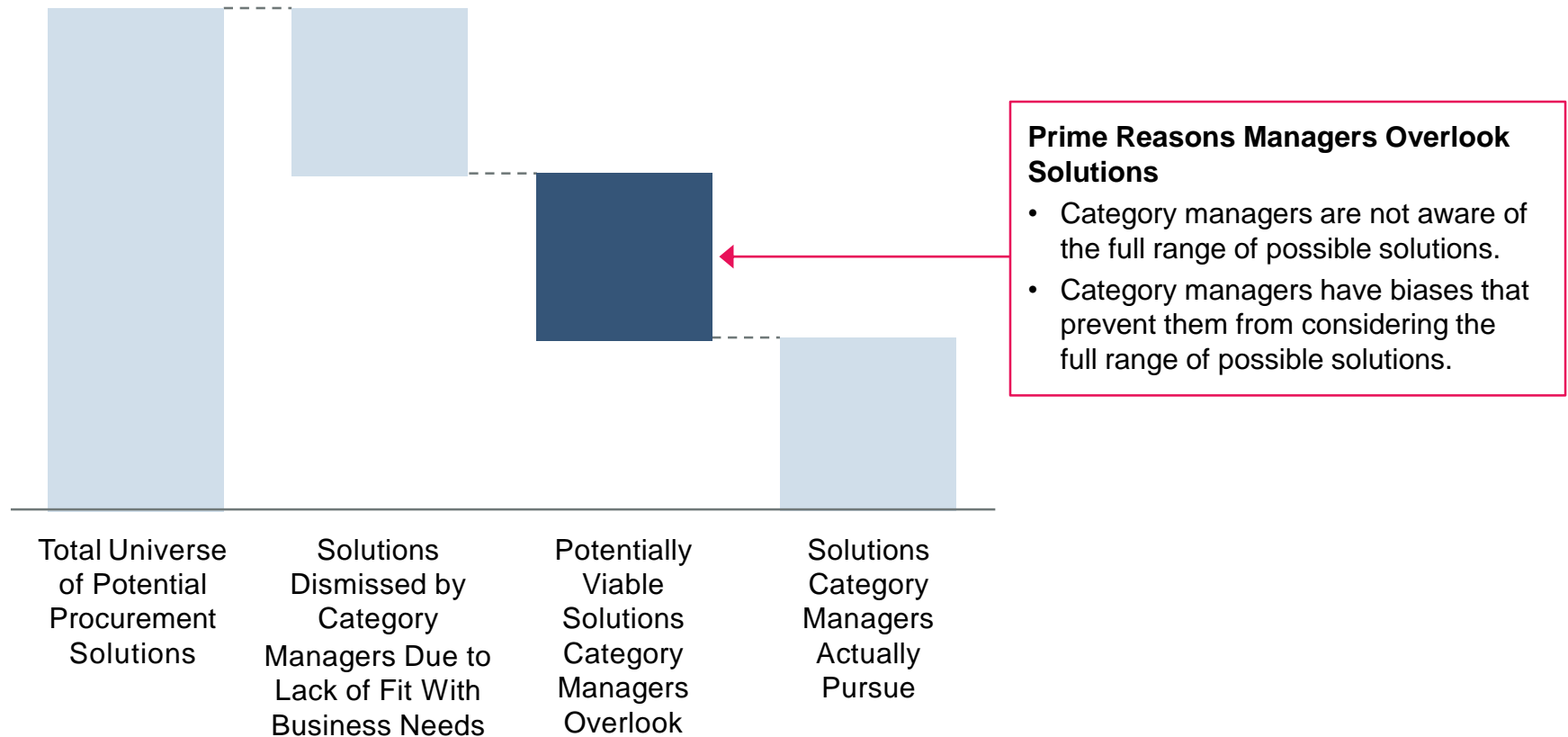


n = 54 procurement organizations

Source: Gartner

# Case Study: IMI

Representation of the Universe of Solutions Category Managers Consider  
*Illustrative*



Source: Adapted From IMI



# Getting to Why Not

## Procurement “Why Not” Assessment

*Illustrative Project: Control Valve Product Cost Reduction*

### Typical List of Solutions Considered (Partial List)

Procurement Solutions	Applicability (Yes/No)
Best Price	Yes
Negotiations	Yes
Fixed-Price Contracts	No
Make-or-Buy	No
Outsourcing	No

**1** Potential solutions can often be dismissed without sufficient consideration as a viable option.

### “Why Not” Assessment of Solutions (Partial List)

Procurement Solutions	Applicability (Yes/No)	Reason for Decision
Best Price	Yes	<b>Directly support cost reduction objective</b>
Negotiations	Yes	<b>Opportunity to work with suppliers to lower current prices</b>
Fixed-Price Contracts	No	<b>Not applicable for this category given fluctuations in materials prices</b>
Make-or-Buy	Yes	<b>Ability to produce several core component parts externally can drive lower costs</b>
Outsourcing	Yes	<b>New suppliers in core markets are now able to comply with manufacturing requirements and standards</b>

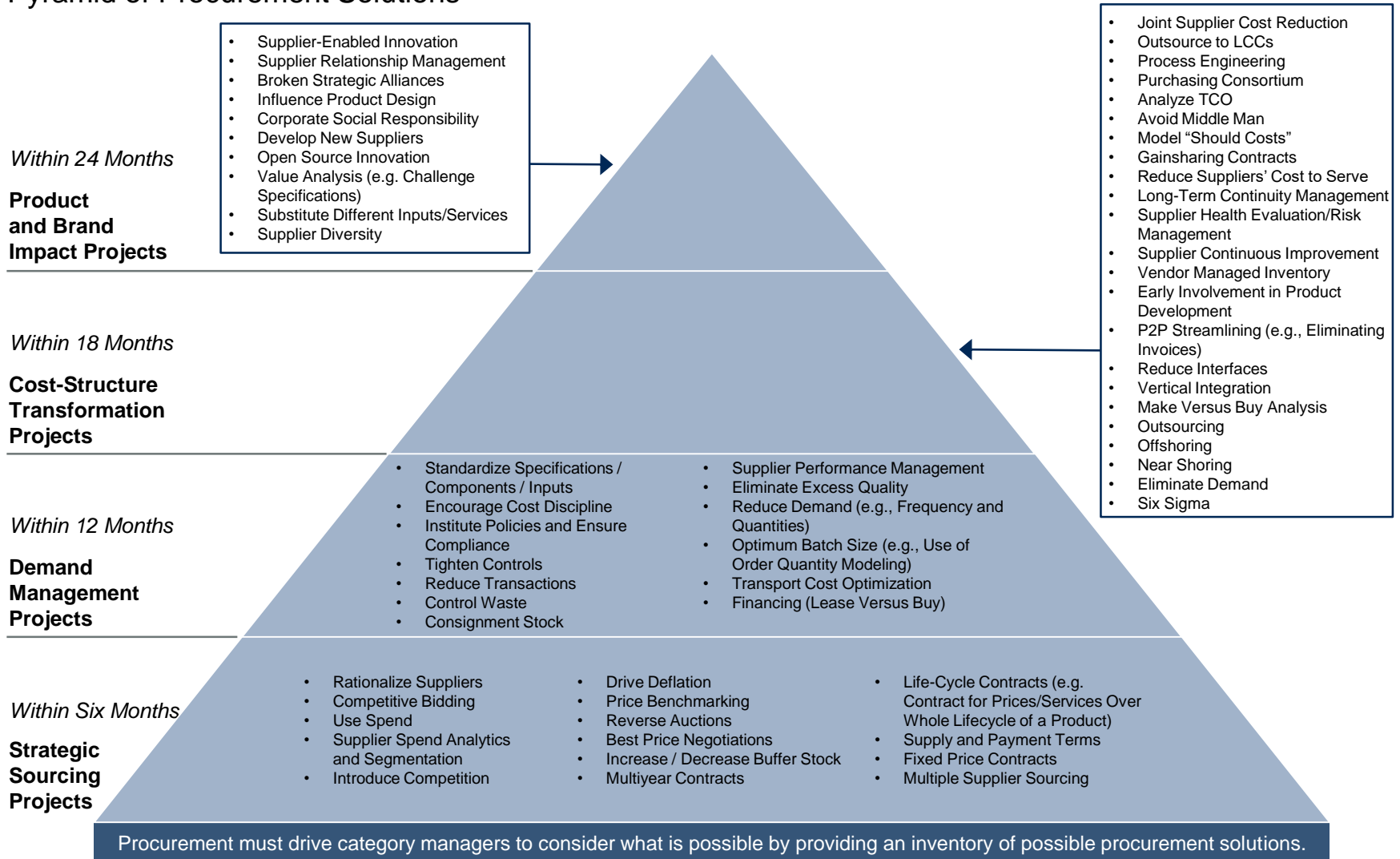
**3** The exercise of explaining why each solution is either applicable or not for a given situation often uncovers additional opportunities that would otherwise be missed.

**2** Asking “why not” helps category managers think outside the box and consider a broader set of possible solutions.

Source: Adapted From IMI

# Provide Staff Potential Projects

## Pyramid of Procurement Solutions

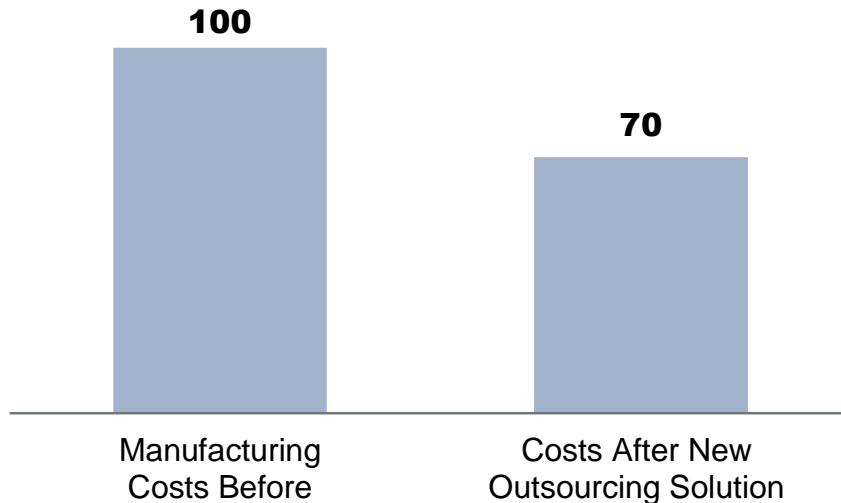


Source: 2011 Gartner Procurement Leadership Council

# Results

## Case In Point: Cathode Tube Costs Before and After "Why Not" Assessment

*Indexed*

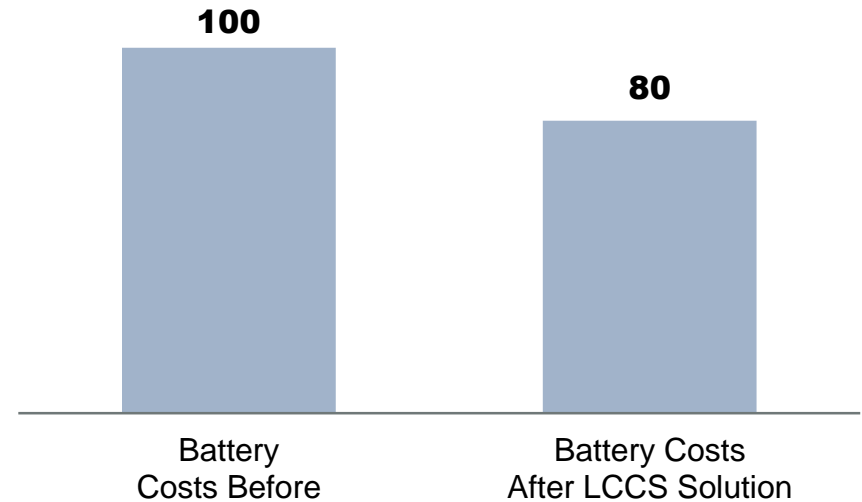


### Manufacturing Process Outsourcing

- Category managers are challenged to reduce the costs of cathode tube manufacturing.
- The "why not" assessment helps uncover a previously unexplored make versus buy solution.
- The resulting outsourcing of deflection coil manufacturing drives down costs by 30% without negative impacts on service or quality.

## Case In Point: Emergency Lighting Battery Costs Before and After "Why Not" Assessment

*Indexed*



### Low Cost Country Sourcing (LCCS)

- Category managers struggle to increase pressure on current suppliers of fail-safe batteries used in emergency lighting products.
- The "why not" assessment pushes managers to consider LCCS, which had been assumed to be too difficult.
- By moving some supply from Europe to China, IMI reduces costs by 20% driven both by new lower priced suppliers and renegotiation with existing suppliers.

# Gartner's Cost Savings Tools

## 1000+ Cost Savings Idea Database

**Cost Savings Idea Database**

History of over 1000 cost savings ideas. It is designed to help companies audit various functions and expense categories for potential savings opportunities.

**Interpret This Document**

Ideas are "tagged" by how difficult they are to implement as well as by the magnitude of savings they could potentially deliver.

**Low difficulty:** relatively tactical reductions that would involve minimal involvement from multiple functions or departments to implement.

**High difficulty:** a savings idea that would require a more transformative change and involvement from multiple functions or departments to implement.

**Low Savings Potential:** An idea that might eliminate the need for 1 FTE or involve savings in the "thousands".

**High Savings Potential:** Ideas that can potentially generate "hundreds of thousands" or "millions" in savings or involve the elimination of multiple FTEs.

**Want To Pursue Idea**

☐

☐

**Implementation Difficulty**

**Potential Savings**

Low Low

**Finance** **Human Resources** **Procurement** **Legal and Audit** **Ind**

**Sales and Service** **Marketing and Advertising** **Information Technology** **Real Estate** **Ind**

your organization is doing to reduce costs that you do not see in this document, please contact us. We are always looking to enrich our understanding of companies' approaches.

Source: Gartner

## Indirect Cost Savings Ideas Tool

Tactic Title (64 items)	Category	Net Savings Percentage	Degree of Complexity	Timeframe
Accounting Services Reverse Auction	Professional Services	0.28%	Low	1 Month
Activity-Based Costing for Truck Spend	Facility Management	7%	High	8 Months
Advance Flight Booking Compliance Management	Travel and Entertainment	12%	Low	0.25 Month
Allowance Based Cost Management	Professional Services	28%	Low	8 Weeks
Automated Pension Administration	HR Benefits	30%	High	3 Months

Source: Gartner

# Key Takeaways

## Insights and Best Practices to Remember From Today's Webinar

*"Bad companies are **destroyed** by crisis, good companies **survive** them, great companies are **improved** by them"*

Andy Grove, Intel

	Key Considerations		Suggested Action Steps
Managing Critical Supplier Relationships	In an interconnected world, we depend on critical suppliers more than ever. The way we treat them has a material impact on how they serve us. Are you a customer you'd want to do business with?	➤	<ul style="list-style-type: none"><li>• Know who your critical suppliers are.</li><li>• Take an assertive role in ensuring their health, as well as your own organizations, during this time.</li><li>• Evaluate your processes and stance towards critical suppliers – are you really a customer of choice?</li></ul>
Managing Critical Supplier Risk	The balance of internal controls matter – some risk can be prevented, others (like COVID-19) can't be. Use this as opportunity to build on more robust ongoing monitoring.	➤	<ul style="list-style-type: none"><li>• For critical suppliers, use quantitative and qualitative leading indicators of supplier health.</li><li>• Have a plan for how assist suppliers in poor financial health.</li><li>• Have an exit strategy in the event a supplier does go bankrupt.</li></ul>
Procurement's Role in Cost Optimization	Procurement's ROI and cost savings goes up when we consistently consider the full breadth of projects we can execute. There's more than just strategic sourcing.	➤	<ul style="list-style-type: none"><li>• Focus on the quality of ideas within your organization.</li><li>• Combat creativity bias through a 'why not' assessment.</li><li>• Provide staff a comprehensive list of ideas to consider for cost optimization projects.</li></ul>

# Appendix

# Quantitative Supplier Distress Signals

Indicators	Guidelines	Formulae
Cash Flow Forecast	Companies with a positive cash flow outlook will remain solvent as liquidity for operations will be maintained.	N/A
Share Value	A consistent decline in share value depicts lack of confidence within the investor community.	N/A
Asset Valuation	Regular depreciation of assets is a financial norm; however, rapid devaluation of assets may indicate financial and operational challenges.	N/A
Current Ratio	A high current ratio indicates the supplier's ability to meet short-term liabilities. Although it varies by industry, a current ratio of less than two indicates an inability to meet current financial liabilities.	$(\text{Current Assets})/(\text{Current Liabilities})$
Net Working Capital Ratio	The ratio measures the ability to meet obligations and maintain sufficient working capital.	$(\text{Total Assets} - \text{Total Liability})/(\text{Total Assets})$
Earning Before Interest and Taxes (EBIT)	This is a basic indicators of a suppliers' profitability. A consistent positive number indicates profit is being made from sales.	$\text{Operating Revenue} - \text{Operating Expense} + \text{Non-Operating Income}$
Price Earning Ratio	A ratio between 10 and 25 indicates the supplier's ability to attract investors by paying a significant return on investment.	$(\text{Price per Share})/(\text{Annual Earnings per Share})$
Performance Metrics and Accounting Processes	Drastic change in performance measurement metrics or accounting processes may indicate underperformance or attempts to evade the law.	N/A

Source: Gartner

## Quantitative Supplier Distress Signals (Cont.)

Indicators	Guidelines	Formulae
Tax Payments	A delay in payment of tax may indicate obstructions and bottlenecks in cash flow.	N/A
External Auditors	Commentary by external auditors may reveal weaknesses in accounting procedures; a change in auditor may also indicate the supplier's lack of confidence in getting approval.	N/A
Debit Ratio	The ratio indicates the percentage of supplier's assets raised by debt. Although it varies by industry, a debt ratio between 15% and 35% is considered healthy.	$(\text{Total Debt})/(\text{Total Assets})$
Accounts Receivable	This measures effectiveness of managing receivables. Although it varies by industry, a too high or constantly increasing number indicates inefficient use of working capital.	$\text{Sales}/\text{Average Accounts Receivables}$
Interest Coverage Ratio	This measures the supplier's ability to make interest payments with current earnings. Ideally it should be more than one, but higher is better.	$(\text{Earnings Before Interest and Taxes})/(\text{Interest Expense})$
Inventory Turnover	A higher ratio demonstrates efficient use of inventory and a shorter cycle between sales and cash collection.	$(\text{Cost of Goods Sold})/(\text{Average Inventories})$

Source: Gartner

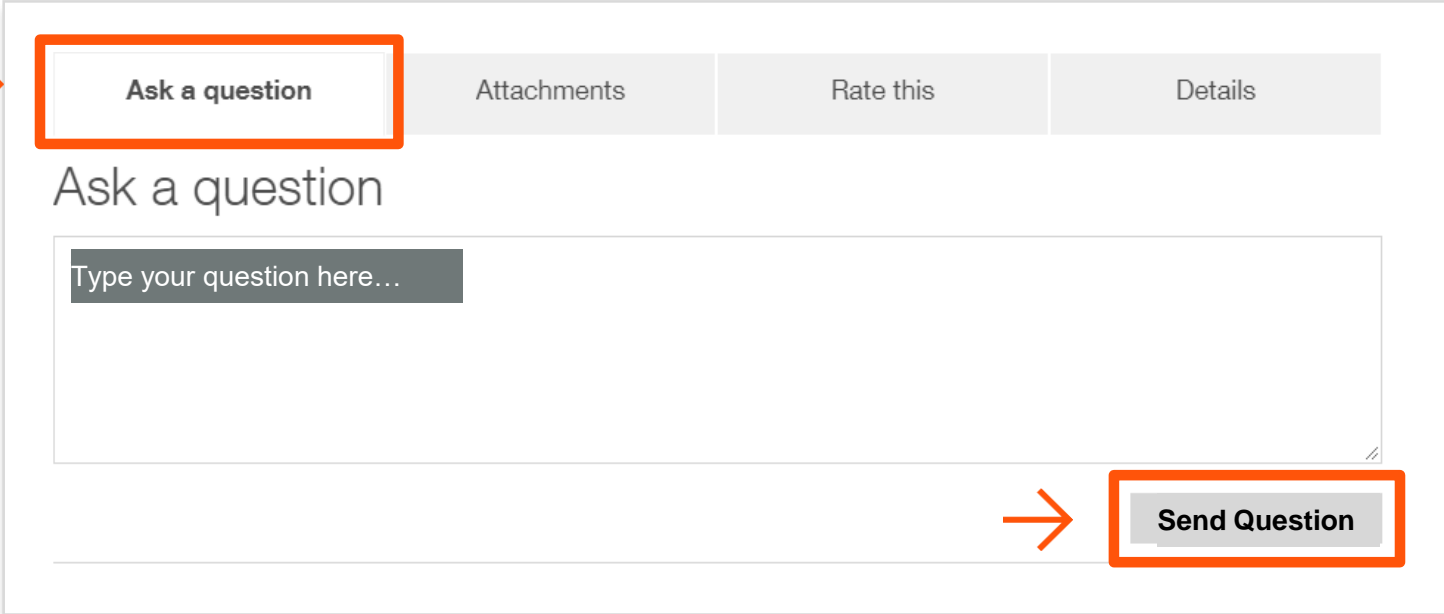


# Qualitative Supplier Distress Signals

Indicators	Guidelines	Long-Term Implications for Supplier
Delivery, Accuracy, and Timeliness	Poor record of accuracy and timeliness in delivery may be caused by bottlenecks within operations.	Inventory slowly converted into cash; recalls require additional spend.
Payment to Sub-tier Suppliers	Delayed payment to sub-tier suppliers indicates poor cash flow, low margins, or high interest payments.	Stressful relationship with sub-tier suppliers might lead to supply disruption.
Collateral Deposits	Unwillingness to deposit collateral indicates high blockage of cash in assets/inventory; lack of liquidity may force suppliers to withdraw deposits.	Supplier might default on interest payments because of liquidity crunch.
Staff Turnover Rate	A high number of voluntary resignations points to a lack of employee confidence in the company, whereas downsizing of staff may be caused by the supplier's poor financial health.	Production might be impacted as staff leave the supplier.
Maintenance Schedule	A poorly maintained or outdated production factory signifies lack of resources.	Poor maintenance may lead to accidents and delay in production.
Sales of Assets	Assets liquidation at below market value may indicate desperation to raise cash.	Supplier may file for bankruptcy if unable to meet creditors' demand by selling assets.

Source: Gartner

# Ask your questions



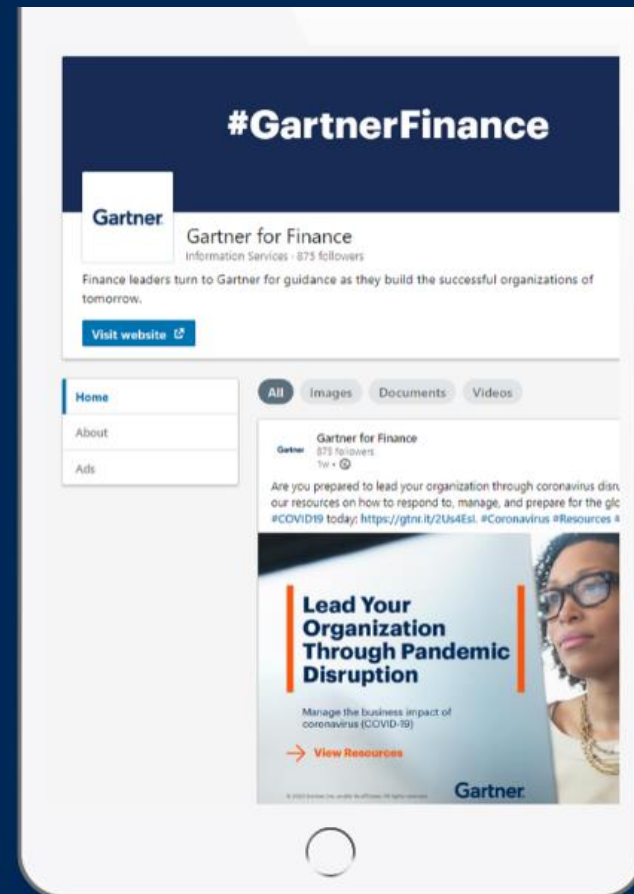
The screenshot shows a web interface for asking questions. At the top, there is a horizontal bar with four buttons: 'Ask a question', 'Attachments', 'Rate this', and 'Details'. The 'Ask a question' button is highlighted with an orange border and an orange arrow points to it from the left. Below this bar, the text 'Ask a question' is displayed. Underneath is a large text input area with the placeholder text 'Type your question here...'. At the bottom right of the input area, there is a 'Send Question' button, which is also highlighted with an orange border and an orange arrow points to it from the left.

# Want more insights?

Our Gartner for Finance LinkedIn page is dedicated to providing you with daily updates and insights on the most important topics impacting finance teams.

[linkedin.com/showcase/gartner-for-finance/](https://www.linkedin.com/showcase/gartner-for-finance/)

**Follow Us**



# Procurement Leader Actions in Response to COVID-19

- Top procurement challenges faced across industries
- Smart actions procurement leaders are taking
- Questions on the horizon

**Download the Research**

## Questions on the horizon:



How do we get reliable business continuity information from suppliers when they are so overwhelmed with requests? Many responses now are generic and couched in "legalese."

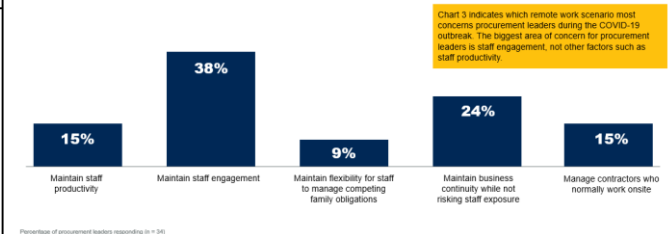


How do we deal with the rolling nature of this virus and better understand where in our supplier portfolio COVID-19 will hit next?



What ability do we have to see into vendor data? If suppliers lose people and then recovery gets under way, how do we get everything to be strong again?

## Chart 3: Which scenario for newly remote procurement staff concerns you most as COVID-19's impact unfolds in your business?



**Gartner**

## Get more Gartner insights



**Download the research slides**



**View upcoming and on-demand Gartner webinars  
at [gartner.com/financewebinars](https://gartner.com/financewebinars)**



**Rate this webinar**