

COVID-19 RESPONSE

AlixPartners insights and advice: consumer products

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For consumer product manufacturers, like other industries, COVID-19 is an unprecedented global disruption creating significant health and business risks that were largely unanticipated by existing business continuity plans. However, unlike many other industries, the degree and type of disruption varies greatly by category, with demand for staples spiking while discretionary and luxury goods decline.

Like all crises, the current one will come to an end. Those companies that can address key learnings at speed will stabilize fastest and be positioned for the strongest recovery.

Situation

Consumer product manufacturers are making significant adjustments to their supply chains affecting people, production, sales, and forward planning.

Manufacturers of grocery and health and hygiene essentials are focused on maintaining product flow, while assuring the safety of their people. For exposed sectors, the priority is survival and cash conservation, necessitating staff reductions and pressure back up the supply chain on suppliers and their staff.

Downstream demand is changing dramatically and rapidly as consumers and supermarkets prioritize specific product segments and SKUs. Manufacturers are focused on ramping up production of key SKUs to meet increased demand and manage the reduced availability of raw materials, staff shortages, and logistical issues.

Marketing efforts are shifting online. Product ranges and promotions are being aggressively reviewed to match current demand and identify alternative channels as brick-and-mortar retailers close their doors.

While there is enormous economic uncertainty around the magnitude and duration of the current crisis, consumer spending will be dramatically dampened for some time, and the impact on consumer behaviours may prove even longer lasting. CPG manufacturers are trying to determine how to predict and adapt to the changing environment in terms of products, channels, production, and suppliers. For many, this is an opportunity to reinvent their core operating model.

Advice

The impact of COVID-19 on consumer products is already significant and requires swift and decisive action. To date, most companies have necessarily concentrated efforts on the immediate crisis response and safety issues. As the situation stabilizes, though, their focus should also expand to include preparing for the eventual recovery.

1. Act fast and be decisive

Most companies are several weeks into the immediate response, but given the speed and novelty of the current situation, it's imperative to ensure best practices for business continuity are established. If not, there is still time to put them in place.

Form a business continuity war room—an emergency response team of senior leaders who are empowered to make all decisions and coordinate all communications. This is no time for confusion. Clarity provides security. Once in place, this team must focus on short-term needs, from liquidity to operations to technology.

Plan and prepare for potentially disruptive scenarios, including demand spikes, supply disruptions, and facility closures. Identify alternative suppliers and work with those in trouble. Qualify alternative formulations or materials, and fast track approvals for operational bottlenecks. Build inventories based on shelf life and geography, and decentralize footprint for redundancy and increased resilience.

2. Be rational

Right behind the immediate-term priorities are near-term actions needed to ensure continuity and holistic value protection.

Liquidity positions must be adequate for the duration, and priority must be given to near-term financial health. Assess overhead flexibility and prioritize cash toward financial obligations.

Dynamically manage capital and operating expenses, shifting capex projects, as needed, and making opex decisions based on near-term cash flow. Contract manufacturing can be leveraged to reduce dependency on internal infrastructure and necessary capex outlays.

Supporting key commercial relationships and business partnerships in hard times is particularly important and can build long-lasting ties. Optimize accounts payable to balance cash and supplier continuity, ensuring the financial viability of the supplier base. Similarly, accounts receivable should also be optimized to balance cash and customer continuity.

Increased communications with both suppliers and customers can provide necessary information and help prepare for rapid shifts in consumer demand.

3. Think ahead

As the COVID-19 situation stabilizes, businesses need to look to the future. The businesses that thrive will have their eyes on mid-term opportunities.

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Evaluating whether and which demand shifts may be permanent will be essential. How permanent will the shifts in channels be? Which consumers tried your products for the first time? Did your consumers get exposed to new competitive brands? How do brand messages need to be adjusted? How can new customers be retained and how can pre-COVID share be defended?

Most companies will need to assess their supply chain resilience in the wake of the current crisis and re-evaluate the risks of lean supply chain capacity constraints. New capabilities, flexibility, and agility must be incorporated to respond to new demands. Do the trade-offs between efficiency and security of supply need to be reconsidered? Where does redundancy need to be built? Do parts of the supply need to become more localized? Did make-versus-buy calculations shift? What was the impact of increased digital commerce on the supply chain?

New opportunities may also emerge from the unique experience gained as consumer product companies have worked through the COVID response with trading partners. What new models of collaboration worked well? Which suppliers and customers proved to be more flexible, creative, and effective? What did the crisis reveal in terms of gaps in core competencies and value proposition? Are reconfigurations possible now that weren't in normal times? New opportunities may also emerge for consolidation with competitors and potentially suppliers. For those in a position to do so, evaluating all of these options seems especially prudent.

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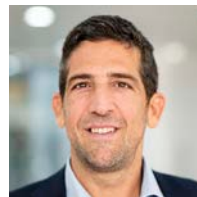
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