

Beyond COVID-19

# Supply chain of tomorrow

Better prepare your supply chain for future shocks

# Compared to other regional peers, Vietnam has done well to contain the pandemic and reopen the economy.

Using this advantage, business leaders should consider:



1. Source: PwC COVID-19 Global CFO Pulse Survey ([link](#)) Data as of May 4, 2020, including Vietnam respondents

# Organisations are recalibrating their supply chain and wider third-party matters to better prepare for future shocks.

**1**

## **Supply chain mapping and analytics**

Increased needs for greater supply chain visibility through all tiers of the supply chain

**2**

## **Logistics and security**

Restricting flow of goods and services, physical security vulnerabilities increasing as a result of a complex and uncertain environment

**3**

## **Distributors, agents and resellers**

Consideration of capacity, channels, pricing and reputational risks, especially when stock is running low and demand is high

**4**

## **Critical labour availability in the supply and service chain ecosystem**

Unavailability and location of critical individuals and labour shortage for specific functions and/or locations

**5**

## **Financial health of suppliers and third party service providers**

Distressed suppliers or third-party service providers may increase pressure or outages on your supply chain.

**6**

## **Digital operations and cyber security**

Increasing exposure to cyber attacks arising from rapidly accelerated use of technology

**7**

## **Environmental, social and governance and regulatory compliance**

Increased risks arising from disruption in the supply chain and needing to source from alternative suppliers or work with other business partners

**8**

## **Contract and commercial**

Increased risk when re-evaluating and re-negotiating contract

**9**

## **Claims and losses**

Increased claims and losses due to failure to supply or provide third-party services

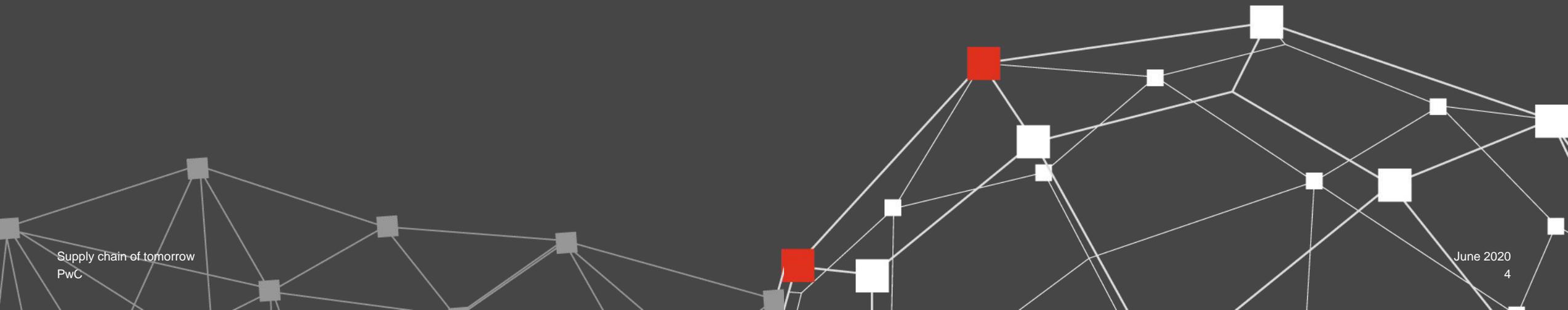
**10**

## **Tax**

Unforeseen indirect tax costs (e.g. VAT and customs duty) arising from disruptions to supply chains or from third parties and border delays due to lack of territory authorisations / registrations.

# Three key actions to take now

For each one of 10 supply chain and third-party challenges



# Supply chain mapping and analytics



## Lesson learnt:

The need for greater visibility of suppliers through all the tiers of the supply chain to ensure continued manufacture or service level.

The COVID-19 outbreak has caused sequential disruption across the globe. Having active visibility of critical supply chain components, inter-dependencies, and data to properly assess potential operational and financial weaknesses is more crucial than ever before. It helps organisations plan for and manage immediate contingencies, thus creating a more resilient supply chain in the longer-term.



Supply chain of tomorrow  
PwC

## Three key actions to take now

1

### Leverage data analytics to gather insight

Identify the challenges to your suppliers and third party service providers and assess their impact on the business.

2

### Perform a mapping exercise and risk assessment across all tiers of suppliers and third party service providers

Understand the full extent and resilience of your supply chain and third-party service provider network in order to identify proactive actions that can be taken.

3

### Conduct scenario planning exercises

Understand the operational implications, both financial and operational, of various scenarios and identify mitigation options.

# Logistics and security



## Lesson learnt:

It is crucial to manage logistics dynamically to ensure that capacity is appropriately balanced throughout the network.

The sudden and unprecedented change in demand and supply, coupled with the global spread of infection, is creating significant logistical and security challenges. Impacts include difficulties or inability to get components and end-products to their destination; shortages of supply of specialist drivers; delays in maintenance and servicing of vehicles and shortages of specialist equipment to deliver goods where needed; and rises in theft and/or loss of product.



## Three key actions to take now

1

### Model the existing logistics network to understand constraints

From a volume and value perspective, including recognising any unique channel requirements and agreed service levels, displaced transportation, border restrictions and freight bottlenecks.

2

### Review physical security threats, vulnerabilities and controls

Understand current crime trends and consider how high value assets will be secured and insider and external threat mitigated.

3

### Identify opportunities to mitigate risks to delivery

Model different logistics scenarios to understand the trade offs between cost, service and inventory.

# Distributors, agents and resellers



## Lesson learnt:

Mitigate potential risks of third party behaviours especially when stock is running low and demand is high.

Unprecedented shifts in demand for certain products and raw materials, and stocks of certain crucial items running low, requires consideration of how to control third party behaviours around pricing. Ethical, legal and reputational risks arising from accelerated onboarding and contracting with distributors need to be managed.

## Three key actions to take now

1

### Review contract tenure with third parties

Consider options to move to shorter term contracts with distributors (three to six months) to reduce the at-risk period from third party behaviours in pricing decisions when stocks are low and demand is high.

2

### Enhance remote transactional and performance monitoring

Particularly where distributors deal with public officials, or operate across borders and are responsible for import / export.

3

### Enhanced oversight of Public Tender responses

Revisit review and pre-approval procedures for tender responses by distributors. Monitor commercial propositions to prevent excessive price inflation or collusion between payor and distributor (e.g. through exclusive product or service specification in the tender document).



# Critical labour availability in the supply and service chain ecosystem



## Lesson learnt:

Planning for possible labour shortage due to unavailability of business critical individuals on-site.

The impact of the COVID-19 crisis has affected both availability of workers and their ability to travel to work in some locations. In some cases, contingencies for specialist skills is difficult to address. Companies need to assess strategies to deploy temporary workers for some roles and automate or use technology for others.

## Three key actions to take now

**1**

### Assess workforce requirements

Identify key roles within the supply and service chain ecosystem and assess the impact of illness, stay at home, social distancing requirements and travel restrictions on the ability to secure the workers required to sustain operations and services. This may also include assessing channel partners' staffing.

**2**

### Identify shortfalls and develop alternatives

Develop plans for maintaining critical functionality for roles identified as key and impacted by the crisis. This may include alternative worker arrangements and the use of automation to extend the capacity and capabilities of available staff.

**3**

### Execute and evaluate longer term opportunities

Commence execution while exploring the potential for longer term benefits involving Supply Chain 4.0 opportunities for technologies such as Virtual Reality.

# Financial health of suppliers and third party service providers



## Lesson learnt:

Distressed suppliers or third party service providers can increase pressure or outages on your supply chain eco-system.

Shocks to the supply and service chain 'ecosystem' caused by COVID-19 are already resulting in significant losses for companies, including those from: missed sales opportunities; increased direct costs from supplier pass through or re-sourcing at short notice; reputational damage from failure to service demand; quality costs from rushed or shortcut delivery and excessive time management spent on managing crisis.



## Three key actions to take now

### 1

**Increase control over disruptions in your supply and service chain 'ecosystem' and your ability to proactively mitigate risk**

Agility in responding to continuously changing developments and awareness of changes is key. These then need to be acted upon rapidly.

### 2

**Embed an improved supplier and third-party risk management framework across the business**

Rapidly revisit and bolster the risk management framework for suppliers and third party service providers, creating (amongst others) improved visibility on their financial health, operations and business continuity risks.

### 3

**Proactively address critical concerns by facilitating better communications with suppliers and other third parties**

Ongoing dialogue across your suppliers and third party service providers is critical, so consider how best to facilitate real time dialogue with them to proactively address critical concerns and continuously assess the situation.



## Lesson learnt:

Increased exposure to cyber attacks due to accelerated use of remote access technology as remote working and digital operations become more accepted.

Organisations have become more technology dependent since the pandemic. We are beginning to see the nature of the threat changing, as attackers exploit uncertainty, unprecedented situations, and rapid IT and organisational change. Responding to these issues will serve in the long-run as remote working and digital operations become more widespread across all sectors.

## Three key actions to take now

1

### Secure your (newly) implemented remote working practices

- Ensure remote access systems are fully patched and securely configured.
- Ensure on-premise security controls still apply to systems when they are not on the internal network.
- Monitor and react to issues encountered by remote workers.

2

### Ensure the continuity of critical security functions

- Prioritise reducing reliance on people, as well as maximising the use of process and technology to perform key cyber security tasks.
- Update incident response plans and playbooks to ensure they function with a workforce primarily working remotely.
- Review how privileged users are going to perform administration.

3

### Counter opportunistic threats that may be looking to take advantage of the situation

- Mitigate the increased risk of insider threats in the event of redundancy or termination.
- Provide specific guidance to employees to be extra vigilant when it comes to requests for personal or financial information or money.

# Environmental, social, governance and regulatory (ESG) compliance



## Lesson learnt:

There is no COVID-19 defence for regulatory compliance breaches.

COVID-19 has disturbed the steady state of compliance, with rapid onboarding of third parties in the supply and distribution channels, and other flexing needed to respond to increased volumes and demand. Those who neglect ESG responsibilities now may face customer hostility later and find yourselves the subject of regulatory investigation when the crisis has passed.

## Three key actions to take now

1

### Ensure compliance remains active, visible and assertive to new risks

Refresh risk assessment to take account of new risks and ensure compliance focus on these areas. Reinforce ethics and values in communications and focus on business critical compliance activities.

2

### Invest now for the post-quarantine wave of business

Ensure business justification is documented to avoid delays when the crisis calms.

3

### Leverage technology and any extra capacity to support your response

Use technology and any available human resources to support rapid onboarding of third party suppliers and distributors and due diligence.



## Lesson learnt:

Reduce value leakage and maximise impact of cost reduction initiatives with thorough contract assessment.

Disruptions caused by COVID-19 are causing companies to re-evaluate the contractual terms you have with their customers, suppliers and other commercial partners. In order to do this, you need to have ready access to all contract and commercial agreements, to identify the key terms that pose risk or opportunity to you.



## Three key actions to take now

1

### Mapping Contracts

Understanding who you have contracts with (in and out), interdependencies, JVs and build database of contracts.

2

### Identifying key contractual provisions

Enhance contract management, contract compliance monitoring and cost reduction programmes by using technology to increase coverage, target resources and enhance insights. Allow a deep dive into common terms, including interest provisions, break clauses, terminations, notification periods and anti-competitive prohibitions.

3

### Action plan and on-going contract management

Build a plan to address any risk areas identified in key actions 1 & 2 above. Proactively engage counterparts as appropriate and consider implementing contract lifecycle management tools.



## Lesson learnt:

Ensure mechanisms in place to increase likelihood of getting a fair and equitable result on future potential claims.

Although there is ambiguity over whether force majeure clauses will apply where COVID-19 has led to disruption in the supply and service chain 'ecosystem', companies need to consider the mechanisms to recover loss (both in-bound and out-bound claims) as a result of such disruption. Whilst the actual mechanism for recovery may be unclear, there are important steps for companies to take now to support future claims.



## Three key actions to take now

1

**Identify contracts at risk of failure or delay as a result of the current situation and examine the relevant terms in relation to the right to, and basis for, compensation**

Prioritising contracts which have the biggest impact on your supply and service chain 'ecosystem' and are most at risk from non-delivery.

2

**Understand the information required to support and substantiate any future claim(s) and the timelines around any such claims**

Following the prescribed procedures to make sure that the steps you take are effective and enforceable.

3

**Identify the relevant sources of information required for the claim**

Establish clear processes to capture and store the information required to support the loss.



## Lesson learnt:

Consider wider tax implications when making sourcing decisions.

Disruptions caused by COVID-19 including ailing or increased customer demand, changes to physical supply chains, the onboarding of new suppliers / supplier locations and the consequent contractual documentation will drive a number of tax consequences that need to be proactively assessed in order to mitigate risks. The incidence of indirect taxes can have a major impact on sourcing decisions and the way these decisions are made will also be relevant to where profits and losses arise through the supply chain, and in turn where tax liabilities will arise.

## Three key actions to take now

1

**Assess relevance of tax measures introduced to support business and supply chains**

Such as Vietnam's government announcement on deferred tax payment ([LINK](#)).

2

**Assess the indirect tax risk and optimise authorisations / reliefs available**

In order to mitigate unnecessary indirect tax risk costs and/or avoid border delays. Understand critical duty clearances to keep products moving cross-border.

3

**Identify areas of key resource constraint in undertaking daily indirect tax operation**

Such as customs declarations and wider compliance reporting (e.g. VAT reporting).

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