

# Business Impact of Coronavirus:

Global Action & Reaction



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16 April 2020

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*This report is based on data collected in the period April 7th-14th from 440 corporations. It is the third in a series of 'spot survey reports' examining the evolving impact of the coronavirus pandemic on the world's trading relationships.*

# Key findings and changes since last report



79% REPORT MODERATE TO SEVERE IMPACT (UP 19%)



AFRICA, MIDDLE EAST NOW MOST SEVERELY IMPACTED REGIONS



18% WORKING TO REDUCE EXPOSURE IN LOW COST MARKETS (SAME)



23% CONSIDERING BRINGING WORK BACK IN-HOUSE (UP 6%)



31% CONSIDERING NEAR-SHORE / DOMESTIC ALTERNATIVES (UP 5%)



56% RE-EVALUATING TERMS OF CURRENT AND FUTURE CONTRACTS



84% OF PROFESSIONALS HAVE TECHNOLOGY THEY NEED TO WORK FROM HOME



64% CONCERNED ABOUT FUTURE CAREER AND JOB SECURITY

## Summary

**Geographic regions:** Since early March, the percentage of businesses reporting moderate to severe impact on contract performance has increased from 27% to 79%. Within these numbers, there continue to be wide regional variations, with Africa now reporting as the most impacted (100% moderate to severe) and the Middle East occupying second place. In spite of the slow recovery in China, other parts of Asia are reporting severe impact. Overall, every region except South & Central America shows a significant increase, most notably in the percentages related to severe.

**Industries:** At an industry level, the technology and food and drink sectors continue to be those with the highest proportion stating limited impact, yet here too (in the case of food and drink especially) the picture varies somewhat by category or country; while 50% report little impact, the other 50% are experiencing moderate to severe performance issues.

The industries experiencing the greatest overall disruption are engineering and construction and oil and gas. In terms of those reporting the most severe impact on customers, hotels, leisure and entertainment tops the list, followed by transportation and logistics and education.

**Sourcing strategies:** The pandemic continues to drive extensive reviews of sourcing strategies. While for many this is linked to a search for short term supply alternatives or additions (41%) or efforts to diversify sources of supply (40%), 38% are considering bringing some activities back in house and 10% are actively looking to replace existing suppliers.

There are early indications of more fundamental thought being given to shifts in business and procurement practices – for example, whether there is need for increased buffer stocks or opportunities to foster increased collaboration between suppliers to bring greater resilience to the supply chain. More generally, the existing model of maximized transactional efficiency has been found wanting when seeking to handle the challenges of major disruption.

**Professional impact:** Survey respondents are predominantly working from home and 83% say they are receiving good support from their employer, with 84% confirming they have the right technologies to get their job done. However, 64% report concern about their future career and job prospects, reflecting the mental impact that this pandemic is having on the workforce.

## The impact by geography

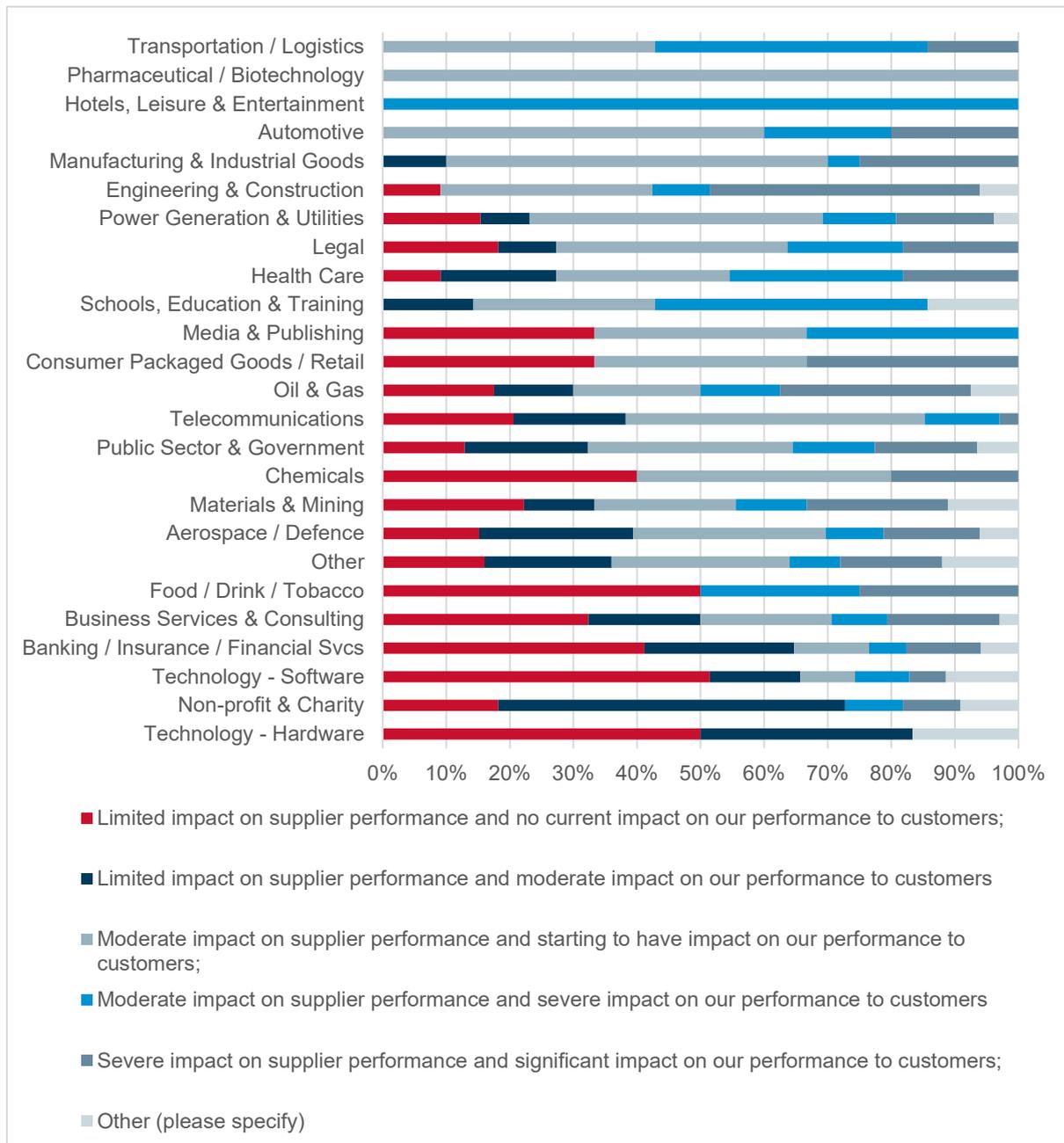
As lock-downs spread, the scale of impact on contract performance continues to grow. At this time, Africa has risen to the most affected continent. Latest forecasts for the sub-Saharan region suggest the economy will shrink by somewhere between 2.1% and 5.1%, against a previous growth forecast of 2.8%. While some of this is due to local decisions to shut down business, much is due to the collapse of activity in fields such as tourism and the reduction in demand (and price) for commodities. The Asian numbers represent a similar mix. India has moved into self-imposed lock-down, shutting large sections of the economy. Other countries are at varying levels of economic activity, but all are now suffering from the worldwide cut-backs in demand.

Overall, the most notable shift is in the proportions now stating that the impact is 'severe'. On average across all regions, this has risen from 17% on March 20th to 36% now. The United States continues its dramatic slowdown, reflected in the record growth of unemployment. Europe also may be showing signs of progress in slowing the spread of the virus, but it will clearly be several weeks before there is a significant rebound in economic activity.

| REGION      | Moderate<br>MARCH 6 <sup>th</sup> | Moderate<br>MARCH 20 <sup>th</sup> | Moderate<br>APRIL<br>14 <sup>th</sup> | Severe<br>MARCH 6 <sup>th</sup> | Severe<br>MARCH 20 <sup>th</sup> | Severe<br>APRIL<br>14 <sup>th</sup> | OVERALL<br>CHANGE<br>SINCE 3/20 |
|-------------|-----------------------------------|------------------------------------|---------------------------------------|---------------------------------|----------------------------------|-------------------------------------|---------------------------------|
| Africa      | 38%                               | 27%                                | 35%                                   | 8%                              | 19%                              | 65%                                 | +54%                            |
| Asia        | 34%                               | 40%                                | 34%                                   | 12%                             | 9%                               | 38%                                 | +23%                            |
| Europe      | 32%                               | 41%                                | 43%                                   | 8%                              | 18%                              | 32%                                 | +16%                            |
| Middle East | 54%                               | 50%                                | 47%                                   | 8%                              | 27%                              | 45%                                 | +15%                            |
| N. America  | 26%                               | 43%                                | 49%                                   | 4%                              | 5%                               | 21%                                 | +21%                            |
| Oceania     | 19%                               | 49%                                | 59%                                   | 3%                              | 6%                               | 10%                                 | +14%                            |
| S&C America | 33%                               | 52%                                | 32%                                   | 11%                             | 35%                              | 40%                                 | (15%)                           |

## The impact by industry

Perhaps the data of greatest interest in the chart below is the yellow bar which indicates severe impact on performance to customers. In some instances, this is a direct consequence of issues with supply, but not all. For example, hotels, leisure and entertainment are suffering due to lock-down much more than because of supply disruptions. Similar issues have impacted the education sector, whereas an industry such as oil and gas or engineering and construction is suffering due to supplier performance.



As previously highlighted, the food and drink, transport and logistics, and consumer packaged goods / retail sectors are wrestling with a mixture of increased demand in some areas, shortages of supply in others and also switches in the nature of demand. It is interesting to note that food and drink is both the least affected and the most affected sector.

Technology companies also continue to be among those showing least impact. Given the time it takes for shipments to arrive, it will be interesting to see whether the full impacts of shutdown in China still have to flow through, specifically in the hardware industry.

## Actions and Reactions

The following tables represent a fascinating insight to some of the changes that may be occurring as a result of the pandemic. They imply overall a radical shift in contracting activity and resultant trading patterns. However, these findings should be viewed with caution due to the relatively low numbers in each industry sector. A subsequent report will consolidate data from across the entire series of surveys to generate output at a much greater scale.

The chart below shows three major action areas and the extent to which re-evaluation is being undertaken in each industry sector.

| SECTOR                               | Of terms and conditions in existing or future contracts; | Of exposure or concentration in particular markets; | Of overall sourcing strategies and market exposures; |
|--------------------------------------|--|---|--|
| Aerospace / Defence                  | 79.30%   | 27.60%  | 72.40%   |
| Automotive                           | 80.00%   | 40.00%  | 40.00%   |
| Banking / Insurance / Financial Svcs | 66.70%   | 60.00%  | 40.00%   |
| Business Services & Consulting       | 64.50%   | 58.10%  | 48.40%   |
| Chemicals                            | 20.00%   | 60.00%  | 80.00%   |
| Consumer Packaged Goods / Retail     | 66.70%   | 66.70%  | 100.00%  |
| Engineering & Construction           | 62.50%   | 31.30%  | 56.30%   |
| Food / Drink / Tobacco               | 50.00%   | 25.00%  | 25.00%   |
| Health Care                          | 66.70%   | 33.30%  | 44.40%   |
| Hotels, Leisure & Entertainment      | 100.00%  | 0.00%   | 0.00%  |
| Legal                                | 72.70%   | 45.50%  | 63.60%   |
| Manufacturing & Industrial Goods     | 65.00%   | 40.00%  | 40.00%   |
| Materials & Mining                   | 44.40%   | 22.20%  | 77.80%   |
| Media & Publishing                   | 66.70%   | 33.30%  | 0.00%  |
| Non-profit & Charity                 | 36.40%   | 27.30%  | 72.70%   |
| Oil & Gas                            | 77.50%   | 32.50%  | 57.50%   |
| Pharmaceutical / Biotechnology       | 50.00%   | 50.00%  | 100.00%  |
| Power Generation & Utilities         | 60.00%   | 20.00%  | 60.00%   |
| Public Sector & Government           | 63.30%   | 26.70%  | 60.00%   |
| Schools, Education & Training        | 66.70%   | 50.00%  | 33.30%   |
| Technology - Hardware                | 40.00%   | 20.00%  | 80.00%   |
| Technology - Software                | 67.70%   | 38.70%  | 41.90%   |
| Telecommunications                   | 59.40%   | 28.10%  | 62.50%   |
| Transportation / Logistics           | 50.00%   | 16.70%  | 66.70%   |
| Other                                | 58.30%   | 45.80%  | 58.30%   |

For those who indicated that they are taking actions with regard to market exposure or sourcing strategies, the second table (below) describes the nature of the action under consideration. While on the surface these actions imply a radical change in the volume of trade (reductions via bringing activities in-house) or patterns of trade (a shift away from global and low-cost markets), the reality may be less radical. A subsequent chart shows that many of these actions are short-term (i.e. to deal with specific disruptions or to satisfy immediate increases in demand), or are to reduce risk through diversification, rather than replacement.

| <b>SECTOR</b>                            | <b>Bringing activities back in-house</b> | <b>Near-shoring or increasing domestic sources of supply</b> | <b>Reducing exposure specifically in low-cost or emerging markets</b> |
|--|--|--|---|
| Aerospace / Defence                      | 55.60%                                   | 64.20%   | 33.30%  |
| Automotive                               | 50.00%                                   | 70.00%   | 35.00%  |
| Banking / Insurance / Financial Services | 27.60%                                   | 36.40%   | 42.50%  |
| Business Services & Consulting           | 44.40%                                   | 34.80%   | 57.00%  |
| Chemicals                                | 28.00%                                   | 50.00%   | 55.00%  |
| Consumer Packaged Goods / Retail         | 0.00%                                    | 42.50%   | 33.30%  |
| Engineering & Construction               | 40.90%                                   | 68.20%   | 54.50%  |
| Food / Drink / Tobacco                   | 0.00%                                    | 28.40%   | 14.20%  |
| Health Care                              | 42.00%                                   | 75.00%   | 55.00%  |
| Hotels, Leisure & Entertainment          | 0.00%                                    | 0.00%  | 0.00%   |
| Legal                                    | 15.00%                                   | 45.00%   | 25.00%  |
| Manufacturing & Industrial Goods         | 22.20%                                   | 55.50%   | 44.40%  |
| Materials & Mining                       | 43.30%                                   | 83.30%   | 32.80%  |
| Media & Publishing                       | 100.00%                                  | 22.00%   | 0.00%   |
| Non-profit & Charity                     | 85.70%                                   | 57.10%   | 28.60%  |
| Oil & Gas                                | 47.80%                                   | 60.90%   | 30.40%  |
| Pharmaceutical / Biotechnology           | 42.00%                                   | 78.00%   | 20.00%  |
| Power Generation & Utilities             | 43.80%                                   | 43.80%   | 18.80%  |
| Public Sector & Government               | 38.90%                                   | 50.00%   | 11.10%  |
| Schools, Education & Training            | 66.70%                                   | 72.30%   | 10.00%  |
| Technology - Hardware                    | 28.00%                                   | 54.00%   | 25.00%  |
| Technology - Software                    | 17.60%                                   | 23.50%   | 20.00%  |
| Telecommunications                       | 26.30%                                   | 52.60%   | 21.10%  |
| Transportation / Logistics               | 22.00%                                   | 55.00%   | 12.50%  |
| Other                                    | 26.70%                                   | 46.70%   | 20.00%  |

The final table in this series identifies the rationale for the actions being taken – for example, whether it is short term additions to supply sources or longer-term actions to diversify or replace suppliers. The interesting element of this data is that it indicates the extent of new contracting activity that is taking place and also provides insight to potential shifts in policy (e.g. supplier diversification) or a switch to new trading partners.

| <b>Question</b>                      | <b>Seeking short-term supply alternatives or additions</b> | <b>Seeking to diversify / add to sources of supply</b> | <b>Seeking to replace existing suppliers</b> |
|--------------------------------------|--|--|--|
| Aerospace / Defence                  | 34.10%   | 43.20%   | 18.20%                                       |
| Automotive                           | 60.00%   | 20.00%   | 20.00%                                       |
| Banking / Insurance / Financial Svcs | 42.90%   | 38.10%   | 19.00%                                       |
| Business Services & Consulting       | 33.30%   | 43.30%   | 13.30%                                       |
| Chemicals                            | 42.90%   | 57.10%   | 0.00%  |
| Consumer Packaged Goods / Retail     | 50.00%   | 50.00%   | 0.00%  |
| Engineering & Construction           | 46.50%   | 37.20%   | 11.60%                                       |
| Food / Drink / Tobacco               | 20.00%   | 80.00%   | 0.00%  |
| Health Care                          | 54.50%   | 45.50%   | 0.00%  |
| Hotels, Leisure & Entertainment      | 0.00%  | 0.00%  | 100.00%                                      |
| Legal                                | 27.30%   | 54.50%   | 9.10%  |
| Manufacturing & Industrial Goods     | 40.00%   | 52.00%   | 4.00%  |
| Materials & Mining                   | 50.00%   | 42.90%   | 7.10%  |
| Media & Publishing                   | 50.00%   | 0.00%  | 0.00%  |
| Non-profit & Charity                 | 50.00%   | 31.30%   | 12.50%                                       |
| Oil & Gas                            | 38.80%   | 38.80%   | 12.20%                                       |
| Pharmaceutical / Biotechnology       | 66.70%   | 33.30%   | 0.00%  |
| Power Generation & Utilities         | 32.10%   | 35.70%   | 10.70%                                       |
| Public Sector & Government           | 53.80%   | 28.20%   | 7.70%  |
| Schools, Education & Training        | 37.50%   | 50.00%   | 0.00%  |
| Technology - Hardware                | 14.30%   | 71.40%   | 14.30%                                       |
| Technology - Software                | 48.10%   | 37.00%   | 0.00%  |
| Telecommunications                   | 38.90%   | 41.70%   | 8.30%  |
| Transportation / Logistics           | 50.00%   | 40.00%   | 0.00%  |
| Other                                | 25.90%   | 40.70%   | 18.50%                                       |

# The impact on people

## Personal job security

In this latest survey, we explored aspects of personal impact. In general, those who are working from home feel well supported by their employer. Only 2% suffer from major failings in the technology they have available and a similar percentage are unhappy with the overall support.

The area of real concern is job security, with more than 60% worried about their future career or work prospects. Not surprisingly, the extent of that concern varies significantly by industry, though none are 'worry free'. The top ten in terms of those where there is the LOWEST sense of security are:

1. Hotels, Leisure & Entertainment
2. Automotive
3. Oil & Gas
4. Legal
5. Mining & Minerals
6. Engineering & Construction
7. Manufacturing & Industrial Goods
8. Business Services & Consulting
9. Education & Training
10. Transportation & Logistics

In each of these, at least 70% of respondents were either very concerned or somewhat concerned about their future.

Taking a different view, which industries show the HIGHEST sense of security? There are just nine where 50% or more of the respondents are not concerned about their security. These, again in order of the greatest security, are:

1. Non-profit and charities
2. Health Care
3. Technology (hardware)
4. Chemicals
5. Power & Utilities
6. Banking, Financial Services & Insurance
7. Technology (software)
8. Pharmaceuticals & Biotechnology
9. Food, Drink & Tobacco

Finally, at a regional level, the percentages saying that they are concerned about their career or job prospects are:

|                           | <b>True</b> | <b>Somewhat true</b> | <b>False</b> |
|---------------------------|-------------|----------------------|--------------|
| Africa                    | 60.0%       | 33.3%                | 6.7%         |
| Asia                      | 41.0%       | 41.0%                | 17.9%        |
| Europe                    | 18.7%       | 35.0%                | 46.3%        |
| Middle East               | 38.1%       | 38.1%                | 23.8%        |
| North America             | 18.8%       | 41.4%                | 39.8%        |
| Oceania                   | 12.5%       | 52.1%                | 35.4%        |
| South and Central America | 11.1%       | 77.8%                | 11.1%        |

**For many, social distancing surely adds to their concerns and may generate a sense of powerlessness in regard to identifying new opportunities. IACCM is running webinars on April 21st to discuss this challenge and how individuals can improve job opportunities in a virtual world. The recording will be available in the Resource Library at [www.iaccm.com](http://www.iaccm.com)**

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## About IACCM

IACCM is a not for profit association active in over 170 countries, with a mission to improve the quality and integrity of trading relationships. With more than 60,000 members representing over 17,000 organizations, IACCM is dedicated to raising individual, organizational and institutional capabilities in contracting and commercial management. It achieves this by providing research, benchmarking, learning, certification and advisory services to a worldwide, cross-industry audience of practitioners, executives and government.

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