



COVID-19 Has Capsized Business as Usual

How B2B Companies Can Respond

Whitepaper

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I. Introduction

The concept of living and working in a deeply interconnected world has never been more self-evident than during the current rapid spread of COVID-19 (coronavirus) and the ripple effect it's having on the global economy. A combination of both supply and demand shocks has pummeled consumer businesses like retail, restaurants and tourism, while the impact on B2B industries is only beginning.

In this whitepaper, we'll explore how market forces are creating a Catch-22 for B2B manufacturers, distributors and service providers, and how the once-taken-for-granted global supply chain is forcing companies to rethink logistics and supply and demand dynamics on the fly.

This unprecedented world crisis is first and foremost a human health tragedy. That it threatens to upend what many had already projected to be a year of flat growth and plunge the global economy into recession is the less important, but insidious, side effect. Absent sales growth, it's apparent that company leaders must now look to preserve profits to stay afloat. On the optimistic side, there are concrete steps companies can take right now to mitigate losses. First, it's crucial to understand the full scope of the problem.

II. Market Dynamics

Depending on the line of business, there are varying realities to grapple with. Here is a look at three of the dynamics we're seeing most frequently.

Low Supply, Low Demand

Supply has dropped for many B2B industries and will likely continue to do so as upstream suppliers in China, Europe and elsewhere halt or reduce manufacturing, although early signs point to factories returning to production in China. Meanwhile, some downstream customers may be slowing down activities, as a result of a decline in demand. For example, imported food supply from Italy, like Parmigiano Reggiano, is very low at the moment, but the restaurants that buy it in the U.S. are closed. In this case, food distributors will leave price alone.

High Supply, Low Demand

Companies that have stocked up on inventory may at first glance seem to be in an enviable position. However, if no one is in a position to take that inventory off their hands, overhead costs skyrocket. Organizations may consider dropping prices to offload stale inventory in a low-demand cycle. Rather than a typical business case where it's Company X's price vs. Company Y's price, in some cases it's Company X's price vs. no demand.

Pricing teams will have to ask themselves: "How much can we really stimulate purchasing with low prices?" If a company distributes construction materials, but job sites are closing down, does it matter how big a discount is offered on rebar? It might be better to maintain current prices for when demand returns if the items aren't perishable. If the goods are perishable, it's reasonable to lower the price and potentially make the product attractive to buyers that couldn't afford it previously or create goodwill by donating perishable goods that can't be sold.

Low Supply, High Demand

The most visible example of this phenomenon has been in the toilet paper and sanitizer markets. Companies like Kimberly-Clark, Procter & Gamble and Pfizer are scrambling to supply enough product and their distribution networks can't keep items on shelves. During a health crisis, it's not necessarily a rational response to raise prices so much that demand drops.

However, consumer behavior can be drastically different when it comes to low supply, high demand products. People aren't using more toilet paper than normal; they are preventatively stocking up. Contrast this with face masks, for example, which are now urgently needed and thus skyrocketing in usage. [The former is a more of a distribution problem](#), while the latter is a manufacturing problem. Pricing decisions need to be made accordingly and, of course, ethically.

Normally, businesses respond to a drop in supply by adjusting prices upward. Such actions are unwise here as they will be remembered by the market, and no company wants to be the one accused of price gouging during a global health crisis.



III. A Stick in the Spokes – The Halted Supply Chain Cycle

We've seen how downstream demand is pulling B2B companies out of their comfort zone. Perhaps even more glaring is how the supply chain has been rewired in many cases and outright stopped in others. There are a number of considerations, all of them fluid, that have begun to take shape as the pandemic accelerates. B2B leaders need to keep the following undercurrents top of mind and communicate intensely with their manufacturing, distribution and logistics partners.

Geographic Differences/Timing

The pandemic is at different stages and levels of severity around the world, being combatted with varying degrees of success. The timing of those impacts to companies will largely depend on where their operations, supply chain and customers are located, and will change as the coronavirus impact works its way through the supply chain. As of late March, some manufacturing plants have come back online in China

while others have closed up shop in Europe. If a key supplier's factory is up and running, but that supplier relies on parts from another factory located in a more heavily affected area, their hands are tied. We're learning more every day just how tangled the supply chain web has become. A keen eye on consumer demand and constant contact with upstream suppliers is necessary to forecast revenue and adapt on the fly. The global economy will eventually work its way through this crisis and companies that are paying attention not only to supply chain interruptions and falling demand, but also to supply chain reignition and returning demand, will be the first to serve recovering markets.

Inventory Position

Companies found themselves starting from wildly different inventory positions when the crisis really hit. Some were heavily stocked, while others were not. Distributors that adhere to a just-in-time stocking strategy wound up behind the curve, especially if their supplier partners also lacked readily available inventory. Contingency plans like a geographically diversified supplier base may shield companies from the worst upfront impacts, but the long-term reverberations of the crisis will affect even the most prepared.

For example, imagine a distributor that has operations in the U.S., Asia and Europe, and their manufacturers have plants in both Asia and Europe. At the start of the virus, while they couldn't get supply from China, they happen to have enough stocked inventory to meet an uptick in current demand and could lean on their European partners to replenish their stock. As European factories close, China starts producing again. However, shipping and transportation companies are very backed up at ports out of China, so getting product shipped in a timely manner is difficult. Even with factories running, there is still supply chain disruption. Thus, communication up and down the supply chain and creative, flexible thinking is critical even for well-stocked companies with diverse supply options.

Fulfillment Methods/Oil Prices

Another fluid situation involves what methods companies use for transporting goods around the world, either to supply them or sell to their customers. As mentioned, the significant manufacturing sector in Europe is being impacted, especially in the harder hit countries in Europe.

Some companies ship their products on commercial passenger jets from the U.S. and Europe because it is cheaper than commercial cargo planes. Many of these flights have now been cancelled. Now they must either ship via ocean shipping lanes, which creates longer lead times in the face of uncertain demand, or ship on commercial cargo planes, which is more expensive.

Oil prices have cratered since early March. Companies need to keep an eye on the effect this will have on the cost of transporting goods and adjust where it makes sense. While cheaper oil is good news for some, it's potentially catastrophic for companies who sell downstream oil products and fuel, particularly commodity products (derivative specialty products may fare better). These businesses more than ever need to have a data-driven awareness of price sensitivity to make an informed decision about where to follow the market down and where to try to maintain better margins and pricing power.

eCommerce Uptick

The traditional field sales model has been uprooted in the era of social distancing. As such, eCommerce has become increasingly important, yet it also further taxes shipping, transportation and logistics services. [Digital Commerce 360](#) reports that due to "challenges on all fronts of eCommerce—from supply chain, inventory management, order fulfillment and delivery to customer service and even search engine optimization—many B2B eCommerce executives say they have never seen business conditions change so rapidly."

Companies who are equipped to take orders online and have invested in a quality online customer experience, as opposed to those who have not made the effort to get their customers set up on eCommerce platforms, are in a better position to serve customers and potentially gain some wallet share. Keys to success here are rational and market-aligned pricing, relevant product recommendations, inventory availability and speed of delivery.

IV. Navigating the New 'Normal'

Though none of what we are collectively going through can be described as normal, B2B companies must move decisively to meet the moment on its terms. Reacting quickly, intelligently and with compassion from a pricing perspective is something companies can still control. There are three immediate steps B2B companies should be taking to mitigate the current impact and prepare themselves in the event of a full-blown recession.

1. Use the Data You Have and Understand It

There is anecdotal evidence of layoffs and declining demand, depending on the market. B2B sellers and pricing analysts are not immune to hearing the whispers and it's natural for kneejerk price cuts to follow. People are emotional at a personal level and at a business level, which will engender big responses. A corporate pricing response that doesn't take into account factual data will no doubt lead to mistakes. Similarly, nervous field sales reps may start dropping prices to the floor preemptively or overriding price targets based on instinct rather than fact. They need guidance informed by data and guardrails to limit this behavior.

Take an objective look at changes in recent revenue performance, customer transaction history and selling prices, ideally utilizing comprehensive visual analytics. Make an assessment at each product category level to get granular on which prices need to move down and which can stay at current levels. Both the pricing department and sales team must trade in the blunt approach to pricing in favor of an informed approach.

2. Use Your People – Collaborate, Communicate, Coordinate

At a time like this, companies cannot operate in silos. The supply chain is too strained and interlinked with each department. Procurement informs Pricing informs Sales and vice versa. Executive leadership is crucial to removing communication barriers and setting a strategy that is flexible as seismic events seemingly cause great change daily.

Additionally, it's just as vital to communicate freely with external partners right now and in the foreseeable future. We've talked about how a disruption with your supplier's suppliers can start a chain reaction and the same goes for your customer's customers. [Modern Distribution Management](#) recently advised: "Communicating with your key strategic suppliers about what they are doing now is critical to ensure you are positioned to respond to your customer needs today. They are talking about the same challenges and issues: demand planning, delivery issues and contingency planning, supply chain challenges, and more. Their field selling teams are on the sidelines, just like yours. It's a key time to work with them to understand how they suggest you jointly respond to the challenges ahead."

It's a daily reminder: we're all in this together.



3. Use the Right Tools to Execute

With accurate data in tow and communication lines open with internal and external stakeholders, it's time to execute. What many are finding is that accounting for drastic cost changes, understanding customer willingness to pay, mass updating price agreements, predicting the impact of price changes, and swiftly changing course as the market demands are simply not realistic manual tasks. This is especially true in the midst of unprecedented global crisis, when yesterday's plan might end up in today's waste bin.

Companies in the best position to respond to these rapidly changing dynamics have tools in place to perform these actions efficiently and intelligently. As input costs change dramatically, pricing teams need to rapidly calculate cost pass-through at scale. They need to determine pass-through strategies at the specific product and category levels while taking into account what prices different customers will bear. Which products do they want to pass on all the costs for? To stimulate demand, are there some products for which they should only pass 50 percent through? With data science and dynamic price management software, pricing teams have the agility to test different strategies, make updates quickly in a centralized hub and accurately predict the impact different strategies will have on revenue and margin.

The ability to perform "what-if" modeling allows pricing departments to be proactive. Don't wait for management to come down with a blanket price decrease directive. By understanding where customers are historically sensitive and where they aren't, a proactive price manager can make targeted changes at the category level that preserve margin without decreasing sales.

V. Conclusion

No one has an airtight playbook on how to deal with a pandemic of this scope and all of its personal, workplace and market implications. We are all learning as we go. More will be revealed as we trudge through this uncharted territory, meaning B2B companies will have to be flexible, proactive and creative in their business plans. The first step to executing a strategy is gathering information. Closely examine your demand patterns, understand how your specific supply chain is impacted and make decisions based on accurate data rather than emotion.

The three-step plan we've suggested relies on data, people and technology. From customers that we've strategized with and stories from their downstream customers, we believe this is the best approach for weathering the storm. However, as things change daily, we will continue to gather information and apply our industry and technical expertise to improve our strategies. Should the global economy enter recession, surgical pricing and cost management will become even more important.

Finally, it's important to note that not all businesses are on a downward trajectory. Grocery store suppliers, food manufacturers, personal protective equipment businesses and those who serve healthcare industries are facing an entirely different challenge: How to meet major spikes in demand. First and foremost, these sectors should be careful not to price gouge during this time of collective crisis.

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