

# EXPERT OPINION

Written by Mike Zealley

Mike Zealley is the Partner responsible for the Procurement Transformation practice within Atos Consulting.



## TACTICAL OR STRATEGIC PROCUREMENT – WHICH WILL YOU BE? >>

2009 will be a year of challenges and opportunities for Procurement. Should Directors be keeping with the procurement strategy developed in 2008 or should they abandon it for the tactical activities that the business may well be pushing for?

In tough times with a declining demand profile businesses need to focus on profit, cash flow and management of risk. Most organisations will have already opted for some tactical activities in late 2008 as pressures from senior management to cut costs cascade through the business. Cutting back on discretionary spend has been common place; reducing of labour costs, cancellation of projects, and redundancy programmes have also featured recently in the press.

But what for 2009? Should the scarce procurement resource be directed to further short term actions, or should they stay focused on delivering existing longer term business projects, to time and budget, delivering the savings projected?

Alternatively, should a root and branch review be carried out to identify new opportunities that the market can offer? One thing is certain; the current market conditions are unprecedented, with deflation, fluctuating exchange rates, highly volatile commodity prices and growing risk of established suppliers filing for bankruptcy.

“...we are travelling along a bumpy road  
as the economy rebalances.”

**Mervyn King, Governor of the Bank of England**

# What strategy will you focus on in 2009?

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In our view, 2009 will be about securing results through flexibility and agility. Procurement will need to be able to work quicker and smarter on a number of fronts, executing more rapidly than the competition. It will be necessary to reach a balance of short term and longer term actions in order to continue to deliver value.

Fundamentally, your purchase strategy should already have many of the components you need but the need to monitor and be able to accelerate contingencies and alternative options has never been greater. It may now be the right time to implement change projects that were de-prioritised when the bottom line was less of a concern.

A recent panel survey<sup>1</sup> carried out by Atos Consulting of Chief Procurement Officers (CPOs) and Procurement Directors identified that cost reduction remains the highest priority for the function. However, as revealed in the graph opposite, less than a third felt that they would be able to continue to deliver 5% or more reduction in cost in the current climate. This suggests that organisations may not be empowering procurement teams to deliver value and increase profitability, resulting in a reduced ambition to drive change. One CPO from the panel challenged the audience “Why are nearly 70% of the audience setting the bar too low? Oil and commodity prices are forecast to fall in the near future. We need to seize the opportunity and take advantage of the situation by providing the Board with alternatives to the traditional organisational restructuring in this current climate.”

The same survey showed that only 10% of CPOs felt risk to surety of supply was the major issue. This suggests that their Board have not fully understood the supply chain risks caused by changing commodity prices, poor cash flow, currency fluctuations, and geographic instability. In the current climate it pays to keep a good insight into the supply chain, and which suppliers could be at risk from lack of cash flow or other issues, such as environmental considerations.

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Having this insight into your own and competitors supply chains can create substantial advantage, by ensuring surety of supply and protecting your brand image from adverse supplier performance.

## What does a flexible strategy include?

In the current climate, procurement should continue to sign up to targets based on profitability improvement or cost reduction (including Total Cost of Ownership benefits) of a minimum 5%. This still needs to be supported with a clear business case and implementation plan, cascaded into the business and procurement organisation as shared objectives, and linked directly to budgets as part of the financial management process. Fundamentally the major approaches that will be required will need to encompass:

1. **Strategic sourcing** – the bedrock of procurement achievement, sourcing programmes and strategies should be reviewed for potential risks caused as the supply chain has globalised, or where sources of supply have been rationalised. Now is the time to review market conditions and consider new opportunities. A clear mandate from the Board to deliver breakthrough strategies is a prerequisite for transformational change.
2. **Lean and demand management** – working with the business to challenge the drivers of the demand and continuously eliminate waste from front and back office processes. For short-term benefits, optimising demand will continue to be the best area for gaining quick wins, but requires investment to sustain results. It may be appropriate to improve planning and forecasting, identify areas where cost can be avoided, or where cheaper substitutes can be used. It is important to look at designed-in costs of products, interacting more with the new product development teams.
3. **Supplier Relationship Management (SRM)** – it may now be appropriate to raise the questions of affordability and risk through your SRM programme. Reviews should be held with your ‘top 50’ suppliers, undertaking joint workshops aimed at improving profitability for both organisations or bringing value through innovation. Supplier risk assessments also need to be carried out to ensure their solvency and work practices are being managed effectively by your organisation. An aligned supply base will substantially improve your flexibility and agility to respond to changing market requirements.

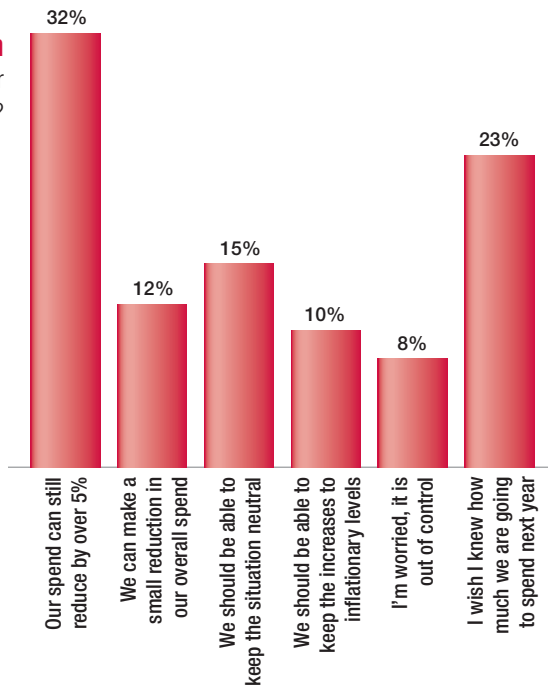
The CPO survey<sup>1</sup> showed that just one in ten felt they had mature SRM programmes that were delivering value. The majority (~50%) said it was still early days. We believe that many SRM programmes have suffered from lack of focus (perhaps driven by lack of resource or clear business case). Many have tended to concentrate on relationship development, rather than results. Relationships will prosper automatically if it makes good business sense, so the focus should be on clear agreements on business improvement and development.

However the above may not be enough. To be genuinely flexible and agile it will be necessary to monitor changes in both demand and supply to ensure that strategies can be adjusted as needed to ensure continued results delivery.

<sup>1</sup>Results of the Interactive CPO Panel Survey, ProcureCon 2008 in Geneva.

## Focus on cost reduction

How has the current economic climate affected your projection on next year's procurement spend?



Additional steps might include:

- > Creation of a **market intelligence** capability, to bring together commercial insight on customers, markets and suppliers, and use predictive technique to assess future trends.
- > **Risk management techniques** being formally deployed and fully aligned with the main board risk management plan. The plan needs to include clear guidance and authority levels to allow rapid response to changes in market conditions.
- > Procurement becoming even **closer to the customer** to understand changes to forward demand and to work with the sales force to develop appropriate strategies to meet the customers requirement in the most cost effective way.
- > **Collaboration with suppliers** around the development and introduction of new products.

In serving shareholder value, the strategy should not be constrained to just external costs. Areas such as Corporate Social Responsibility (CSR) will continue to have a substantial influence on share price. Although only 31% of the survey audience indicated that CSR was a key objective that was fully integrated into decision making and contracts, we tend to agree with one panel member who said "It's not a case of CSR being a more or less important project. It should be wired into the DNA of the organisation and be part of business as usual. This is a strategic aim of the business and should not be deflected by short-term challenges."

## What will be needed to 'make it happen?'

Many organisations will have endeavoured to implement projects like this before. However the success of the projects is rarely down to the processes and techniques but more down to the ability to implement it within the organisation. Most organisations have already seized the low hanging fruit and are looking to tackle some of the larger challenges. Such projects inevitably involve substantial business change, such as revised operating models, organisational redesign or the implementation of new processes or emergent technology and therefore will need:

- > **Senior leadership sponsorship and commitment** – required to drive changes through the business. Many organisations have struggled, having had paper strategies 'approved'; however without commitment to drive the change these will be meaningless.
- > **Focussed resource** – successful change rarely happens when people need to fit it in with their day jobs. A clearly defined and structured project that exists outside of the day to day operations is needed to provide the momentum and capacity for change.
- > **Communication** – projects still fail because of lack of understanding and engagement from the wider business. Change is uncomfortable and in uncertain times staff will feel even less settled. Employees and suppliers will need to be engaged in the process of change and an effective communication strategy will be critical to success.
- > **High calibre procurement team** – talent is at a premium at the moment in the procurement arena, and it is interesting that the CPO survey<sup>1</sup> revealed that getting the right talent was the second largest issue for procurement.

We believe that the focus on talent for 2009 should be on:

- > Leadership development. Without the right leadership support any initiative will fail.
- > Retention. Procurement salaries have never been higher, with many procurement teams seeing up to a 50% churn in their staff. Succession planning and career management will be essential to delivering your strategy.
- > Make best use of resources in the extended organisation. Procurement needs to capitalise on the skills within the business, and your suppliers. These may provide clearer market knowledge, technical expertise and/or process capability than bringing in new talent and training them. The time may now be right to reconsider secondment programmes as a part of talent management.

## Final thought

2009 will be a difficult year where speed of response and flexible strategies will be the key. Organisations should not just throw away existing strategies, but rather seek to adapt them to handle the uncertainty, and continue to drive cost improvements for the organisation. To gain the efficiencies and agility to successfully manage the downturn organisations need to:

1. Develop effective sourcing strategies that meet the business requirements at minimum cost
2. Reduce demand and eliminate waste (Lean) in the organisation
3. Put in place talent management structures to support the team
4. Step up their SRM programme to manage risk and drive more value from their supply base
5. Monitor changes in both the supply and demand side and introduce market intelligence, risk management techniques, get closer to the customer and collaborate more with suppliers.

Once you have aligned your strategy, rigorously deploy it and ensure that there is sufficient visible senior leadership and sponsorship and the team have the right resources to deliver the business benefits.

## Next steps

For more information, or to discuss our Procurement Solutions please email [ukconsulting@atosorigin.com](mailto:ukconsulting@atosorigin.com), call +444 (0)20 7830 1944 or visit our website at [www.atosconsulting.co.uk](http://www.atosconsulting.co.uk)

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