

PROCUREMENT
LEADERS

CPO Challenger: Tomorrow's risk, next year's opportunity



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Although disruption and financial risk will continue to unfold throughout 2020 and beyond, procurement teams should seize this opportunity to make bold adjustments and deliver rapid organisational transformation

"We have, for years, made an assumption about how we do our work, how we engage with suppliers, that we work in offices, that we should organise ourselves – centrally or decentralised," a leading CPO told a peer group. "Now is the time to test those assumptions and get out there to pressure-test what we have implemented in a crisis and see if we can shift that to a 'new norm' and leverage efficiencies found in this."

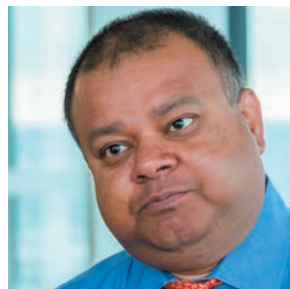
As much as anything is simple in today's business climate, the challenges facing procurement teams fall into two main categories: the near-term firefighting and rapid adjustment; and the longer-term focus on managing sustained risk in the supply chain and deep disruption to normal industry activities. There is an appetite, even in the frenzy of responding to Covid-19, to develop a vision of the future.

In the spirit of adjustment, Procurement Leaders assembled more than 500 procurement executives on a virtual conference in mid-May to share challenges, ideas and to garner the kinds of insights that will help guide functions through the turbulence.

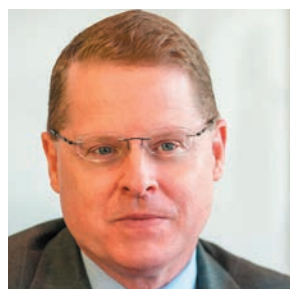
As part of a CPO Challenger session, leaders discussed everything from the practical, for example, the areas in which they should look to cut spend; to the visionary, such as the future of work. Global consulting firm AlixPartners provided a vital perspective to frame



Sanjay Shetty, AlixPartners



Apratim Sarkar, AlixPartners



Randy Watson, AlixPartners

the discussion, suggesting that only by structuring thinking over the coming weeks and making bold steps would businesses be able to adapt and stay competitive in the medium term.

"As an immediate first step, companies should launch aggressive in-year cost-reduction on indirect spend," said Sanjay Shetty, a Managing Director at AlixPartners.

While functions' initial activity should look at opportunities for 'quick-hit circuit breakers' to manage risk and reduce spend during the initial months of this crisis; manage discretionary spend; and look at very quick price concessions from tail-end suppliers, simultaneously, leaders must consider their plans for the second half of 2020 and beyond into 2021.

"In addition to taking these above steps, companies should look to prioritise key vendors to engage and monitor in 'war room' efforts for critical suppliers based on business impact and risk," said out Apratim Sarkar, a Managing Director at AlixPartners.

Building for what comes next

Indeed, bimodal thinking may be important as is having the wherewithal to plan ahead, but taking drastic measures at speed remains crucial to responding to immediate risk and uncertainty. One CPO described the challenge his business faces: "At the moment, we are still looking at the immediate needs ➡"

FIG 1: VENDOR RISK MANAGEMENT MATRIX

Are there current or forecast shortages for the goods and services offered by the vendor?	No	Manage inventory while starting vendor search in the background	Maintain status quo, but monitor regularly
	Yes	Start search for alternative vendors immediately	Engage in top to top negotiations to secure supply
		Yes	No

of the business and engaging with our suppliers as the two react to the market. The forward-looking is happening on the front-side of the business, but I would say operations is still trying to move out of a very reactive situation.”

The success of the ongoing response, the room agreed, comes through a deeper understanding of the supply base and procurement teams’ ability to use the various levers at their disposal deliver security to the business without jeopardising any of the value in supplier relationships.

For many, this ‘yellow area’ of the (see Figure 1, above) offers little security and is deceptively large in terms of a percentage of any given supply base. As Randy Watson, Director at AlixPartners, pointed out, suppliers could face financial stress or failure in the somewhat near term but are not currently a red flag, pushing organisations to look to manage inventory while searching for new vendors in the background. “In this next phase of activity, as we move to a new normal, teams are focused on what supplier issues may exist – financial or otherwise. Maybe not this week or next week but, down the road, you need to start scanning the market to get those options,” he noted.

Despite the pressure, CPOs noted an opportunity to develop digital

capabilities to address these challenges – the crisis has, many noted, been making a compelling case for investing in technology.

“Procurement had been driving and implementing new supply chain visibility tools and trying to really communicate the need and value for them to the wider business,” said one senior executive. “Now, however, we are relying heavily on these and there is no question about their effectiveness and their value.”

Opportunity

There was, however, optimism amid the consternation. “This is a moment to affect the pace of change,” one bold procurement executive said. “We should use this time in contact with senior stakeholders to elevate other important areas that that are core to who we are as a business – including culture, increasing our teams’ capabilities, [exploring] other priority areas procurement can contribute to – areas that help us get to better performance.”

For most, this was a time of progress in one sense: procurement currently has far less of an issue getting a ‘seat at the table’ when it comes to C-suite conversations. The function should use this moment to drive the pace of change within the

function and throughout the business, ventured delegates. This requires the function to exhibit leadership by driving operational efficiency and impacting a healthy bottom line, they explained, but it also involves procurement doing its part to create the kind of company culture that enables the agile and timely delivery of value.

That concept of demonstrating agile capabilities was a touchstone for the conversation. This may not be the time to strategically retool procurement capabilities, moving strategically and having a centralised vision, keeping a focus on procurement triage requests and supporting rapidly changing situations on the ground all require agility in both thought and action. That impetus could accelerate change in a way like never before: moving faster, working more closely with suppliers and stakeholders and being able to do things differently represents a glimpse of procurement's new normal. ■

ABOUT ALIXPARTNERS

AlixPartners is a results-driven global consulting firm that specializes in helping businesses respond quickly and decisively to their most critical challenges – from urgent performance improvement to complex restructuring, from risk mitigation to accelerated transformation. These are the moments when everything is on the line – a sudden shift in the market, an unexpected performance decline, a time-sensitive deal, a fork-in-the-road decision. We stand shoulder to shoulder with our clients until the job is done, and only measure our success in terms of the results we deliver. We partner with you to make the right decisions and take the right actions. And we are right by your side. When it really matters.

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