



## **"Maximizing purchasing value in an economic downturn"**

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In the most recent Purspective/NEVI facilitated roundtable, a small gathering of CPO's recently discussed the key challenges purchasing is confronted with in an economic downturn and strategies on how to counter them.

The mixed group (CPO's from industry, service providers and, financials were present) made clear that while the impact at least to some extent is generic, everyone deals with in his own way.

While everyone was convinced that now is the time that purchasing can and should prove its added value, the extra room for purchasing was limited. Only one CPO indicated that he was given additional budget. This can be seen as an indication that the potential added value of purchasing and necessity to invest in purchasing capabilities is not yet totally clear on board level.

While all agreed harsh actions towards suppliers could be necessary for survival, discussion showed a broad skepticism on taking too bold / too generic steps. Sending a letter to all suppliers asking for a 10 or even 20% discount, as recent examples in the press showed, was not considered as a very effective action, as it can potential ruin key relationships and won't bring you a competitive edge. Lopez is out, according to these CPO's.

As these things will come publically known, competitors will ask for the same conditions using your letter as a reference, while your customers will also try and claim the benefits.

For some categories / suppliers, asking for a significant price reduction will work very well, but only if supply risk is low and competition high and especially in cases where margins are known to be too high. In these times, purchasers should aim for realistic margins, implying they should know the cost structure and have benchmark information. A diversified approach towards suppliers is key, aiming to reduce costs where possible, but to maintain or even strengthen key supplier relationships.

Some good examples were provided, where the CPO invited suppliers to think along to reduce supply chain costs. This approach of asking open questions instead of demanding price reduction was shown to lead to innovative ideas, not only focusing on the supplier's way of working and performance, but also on the functioning of the own organization. Often these innovative ideas lead to reduction of total cost not by doing the same thing better, but by doing better things.

Another suggestion given was a combination of a modest request for no indexation to all suppliers, followed by a diversified approach either to come to realistic margins and/or an invitation to suppliers to come up with creative solutions and engage in the discussion. Supplier feedback on this approach (currently in progress) has been positive, as suppliers didn't feel themselves confronted with a take it or leave it scenario.

Furthermore, as some CPO's argued, purchasing should take this moment to show its added value to the business in terms of generating revenue and protecting margins. Minimizing supply chain risks, looking for early warnings of disruptions and investigating margin protection options together with the business are only a few examples given which support revenue generation.



One of the areas on which purchasing is vitally important these days is insight in suppliers' financial stability. In order to prevent supply chain disruptions it is key to prevent being confronted with a supplier who turns out to be unable to deliver. Available information from known credit management information does not seem to be sufficient, as the financial situation of an organization changes faster than annual reports show. This is where purchasing should prove its value, as they know their supply markets best. All CPO's at the table were working hard to get this information, via various ways. The internet proves to be very valuable, as customer or supplier forums provide more insight in indicators like payment terms, lead times, customer complaints and service than financial reports do. This daily check on their suppliers via the web leads to a lot of informal information, which can give early warnings. Next to informal information organizations are looking for real-life fact-based information. The mostly used approach was to ask regularly for an update of financial statements and/or key ratio's. No reply is also a signal to take seriously. Also site-visits were found valuable activities to get more feeling on the actual financial situation at a supplier.

This type of (desk) research is now a key role of purchasing, but requires different competences than asked for before. Business sense is needed, along with the drive to spend time in research and investigation. As these topics are not (yet) in most information systems, discipline is the key word today.

Interesting to see was that especially one CPO from a hard-hit sector was fairly positive. Of course, his organization was confronted with one of the biggest drops in turnover, but as a large player in a very cyclic industry, his organization had seen this before and learned from the past. Where a lot of (financial) service providers are finding themselves in an unprecedented situation, he showed that in the five years since the internet-bubble burst, his organization had taken large steps in becoming more flexible. One key action implemented over the last years that now proves to be very valuable is, strange as it may sound, single sourcing.

For some key products only one supplier is selected with whom an intensive relationship (in terms of cooperation, knowledge sharing and development) is built, which provides the organization the opportunity to transfer the risks to this supplier and enforcing him to transfer it further throughout the supply chain. After all, the supplier knows that he will get business if there is any, both organizations are knowingly in the same volatile industry and have the same end-customer in scope. The apparent benefit of alignment of objectives was something all CPO's agreed on in the discussion although this might work to a different degree depending on the industry one is operating in. If you make sure your supplier's objectives are completely in line with yours, no extra efforts are necessary.

The key question is, 'what do we expect from the future?' The answer is clear, an upturn will come and we need to be ready. When demand increases organizations who quickly upscale and deliver can make the difference.

So next to minimizing cost, maximizing cash flow and managing the risks, additional attention should be paid in setting up a supply chain which will be able to answer to the increasing demand which will inevitably come.

Building competences, doing research and building intelligence and strengthening key supplier relations should therefore definitely be on the CPO agenda.

Purspective  
*Koen Jansen*  
*Account & Program manager*