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# Viewpoint <

## The Challenge of the Downturn

The imperatives for procurement in the face of worsening economic conditions

**These are unprecedented times and they will demand new thinking. At Efficio, we are in constant communication with a range of companies and organisations dealing day-to-day with changing market conditions. For many, conditions are becoming tougher and the need for fundamental rethinking is increasingly pressing.**

Here we have identified three pillars in the approach we believe procurement professionals should consider if they are to help their organisations survive the downturn. First, it is without question that every opportunity should be taken to reduce costs and improve the quality of goods and services available in an

increasingly competitive supplier base. Second, procurement leaders must look to their own operations for increased efficiency and effectiveness. Finally, procurement leaders should remember that the downturn will end at some point. They will need a thriving supplier base to enable them to come out of the downturn and reap the rewards of new economic optimism. At Efficio we believe the current global downturn places huge pressures on businesses. But we believe it also presents opportunities which, if managed expertly, will bring success in the future.

**Alex Klein**  
COO, Efficio

### A time to reap the benefits

As 2009 gets under way, there can be few serious commentators who disagree that there are extremely tough times ahead. Businesses of all sizes face unprecedented challenges arising from limits on credit unstable currencies and unpredictable markets. Economic indicators predict a continuing downturn in the global economy which is likely to last for the rest of this year and perhaps much longer.

Markets have become much more competitive for sales teams. As high streets graphically illustrate in the form of boarded up shops and depopulated retail centres, consumer confidence has dropped sharply. This feeds upstream through supply chains to the producers and manufacturers and throughout the services sector creating a lowering of demand and general slowing down of the economy. However, for sourcing professionals this unpromising scenario offers opportunities as well as challenges. As the market tightens, procurement professionals, looking further upstream towards their suppliers, will have noted

that these companies now face an increasingly competitive environment. If they wish to survive, let alone to prosper, suppliers of all shapes and sizes will increasingly need to look to their own efficiencies, product quality and ability to offer innovation. If they want to be ahead of their rivals, they will be looking for ways to do better and provide more for their customers. This offers procurement professionals the chance to secure better value for money from their supply base. It could be argued that this is a major opportunity to negotiate lower costs and improved services and it is too good an opportunity to miss. In this environment, all contracts should be reviewed urgently. Long-term deals in particular should be re-examined to ensure that their terms are still favourable. All aspects of relationships with suppliers should be analysed to ensure that the best possible benefits are still being enjoyed.

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### **Put your house in order**

Procurement professionals will no doubt make the best of the economic downturn by systematically ensuring they are achieving the best possible value from their supplier base.

However, they should not be relying on a strategy of putting pressure on suppliers to continually drop their prices as the only solution for reducing costs and improving the bottom line. Although reducing costs is important, the onus should not only be on the suppliers. It is essential that procurement executives also look strategically at creating value internally by bringing efficiencies to their own in-house operations. Senior management will look to procurement as much as to any other function within their businesses to respond to the constraints of an economic downturn to offer greater efficiency in order to protect their organisations from external pressures. Procurement leaders must examine their teams to ensure that they have rationalised the structures in operation

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both in terms of people and processes. They also need to ensure they are operating across the functions within their organisation. This will involve embedding procurement in the mindsets of their colleagues in other departments to maximise procurement effectiveness across the organisation. They should also strive to become an essential source of advice and an integral part of the business strategy being followed by top management.

Apart from streamlining the people and process structures within their operations, procurement leaders must also look for demand side cost reduction opportunities. These could include, for example, changes in specifications to ensure that time and resources are not wasted on over-specified goods and services. Internal processes must be reviewed to ensure that maximum use is being made of available human and other resources. Finally, procurement leaders will need to look at demand management. This involves examining current procurement to ensure that everything being purchased is matched to actual requirements, thus eliminating over-specification and, in many cases, reducing consumption.

## **changes in specifications to ensure that time and resources are not wasted on over-specified goods and services.**

### **Protecting the supplier base**

Achieving lower costs is essential at a time of increasing competitiveness brought about by constricted global markets. Procurement leaders will also use their skills to ensure they achieve better product quality and improved services and increased innovation from their supplier base.

However, it is equally essential to ensure that cost-down strategies are managed carefully so that good quality suppliers remain robust through the difficult times so that there is minimal disruption to the supply chain, and consistency and stability throughout the tough economic conditions. This means increasing attention to the economic health of the individual companies we do business with to ascertain, as far as possible, that they continue to be fully viable. There have already been casualties as the economy declines, and there will be more. The procurement leader's responsibility is to ensure that these are anticipated and that supply chains are protected against catastrophic failures.