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Viewpoint <

Seizing the Day

Making the most of supplier competition whilst safeguarding your future

Recent economic conditions have presented procurement teams with a unique opportunity to achieve lower prices from their suppliers who are keen, now more than ever, to retain valuable customers. For the first time, the power of purchasing lies with the buyer and there are numerous quick wins to be had.

However, to maximise these benefits, a strategic approach to procurement is also needed. Whilst reaping benefits in the short term, there must be strategies in place to continue the momentum and safeguard your supply chain for the future.

Toby Munyard
Vice President, Efficio

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Changing Markets

The commodities market is one that has seen the greatest fluctuation in prices. Last year saw aluminium reach an all time high at more than \$3 a kilogram, but this has since dropped to a five-year low of just over \$1.10 a kilogram, a reduction of more than 200 per cent. Last year also saw the price of oil hit a new record at nearly \$150 a barrel but by December this had collapsed to just \$32.40.

Suppliers are suffering from surplus stocks and a lack of demand for raw materials so now is an ideal time to negotiate more favourable contracts and generate easy savings to the bottom line.

In addition to these commodity opportunities, we are seeing the balance of power move strongly towards the buyer for areas of indirect spend where suppliers are looking to retain market share. This has strongly affected areas such as marketing, logistics and services businesses where the competition has seen unprecedented pricing movements.

Seize the Day

With most organisations feeling the pinch in some capacity, boards are now willing to drive change and are looking to procurement to generate savings that do not affect operational activity but will help to close the profit gap.

The window associated with this opportunity will only last for a short period as the markets and the suppliers adapt their business to cope. Companies must “seize the day” and review all areas of spend from support services to direct materials, from factory consumables to bought-in components. There must be no sacred cows. There is no better opportunity for buyers to take advantage of lower costs and ensure they are getting the best value for money in what has become an intensely competitive market.

Get the best value from your suppliers but make sure the risks are understood. Long term stability is key.

Get Strategic

However, procurement departments should be wary of how they approach their suppliers for this opportunity and must not fall into the trap of just “banging fists on the table” to drive the cost reduction. Price reductions alone will not deliver the true benefits available and will expose companies to increased risk of supply. Now is the time for procurement to think both quickly and strategically.

Every area of spend should have a category strategy that is not only relevant for the current short-term pricing opportunities but also for the longer term when prices start to bounce back.

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Thinking Ahead

Prices are beginning to move upwards, albeit slowly. This has been particularly evident in the commodities markets where prices have rallied in the last couple of months but, however, they still remain very fragile.

In this time of instability it is imperative to know your markets, understand the pricing available and be tactical in the way you source. Get the best value from your suppliers but make sure the risks are understood. Long term stability is key.

Never will there be another opportunity so strong to achieve true value. This is a unique window where buyers can do so much more than simply demand reductions, it is an opportunity to manage your complete supply base and organise procurement so that this short term effort does not go to waste and can be used for long term gain.

...take advantage of lower costs and ensure they are getting the best value for money

Each of these strategies must be reviewed in four key areas.

- **Getting to the “should price”** – procurement must un-bundle all areas of spend to understand the underlying drivers in pricing; labour, fixed cost, commodity and material costs.
- **Sourcing Levers** – ensure all possible sourcing levers are fully leveraged. From internal specification challenges with a more receptive stakeholder base

to reviewing commodity pricing strategies and complete indexation.

- **Risk** – ensuring that this short term reduction will not affect the longer term financial stability of suppliers
- **Longer term sustainability** – Now is the time to get your house in order to ensure you are able to retain this short term effort