

THREE WAYS PROCUREMENT CAN LEAD US OUT OF THE CRISIS



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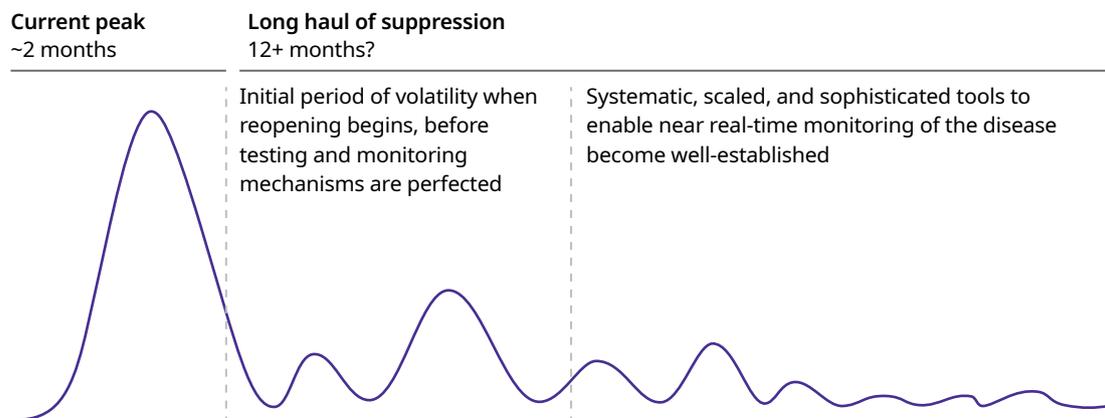
FOCUS ON BUSINESS CONTINUITY, SMART COST CONTAINMENT, AND SMALLER, AGILE TASK FORCES.

Globally, firms are grappling with the effects of COVID-19, with the next 12 to 24 months expected to be a period dominated by multiple waves of partial suppression and re-confinement. This will have sizeable impact on players all along value chains and signals a prolonged and arduous relaunch phase for procurement teams. A recent Young Presidents' Organization poll of 3,534 chief executives from 109 countries highlights that 51 percent of Chief Executive Officers see the current crisis as a risk to the survival of their company or a severe threat. Sixty percent of those same leaders are preparing for a U-shaped recovery — a long period between recession and an upturn.

From restricted access to credit, to disruption to supplier operating models, and even bankruptcies, it is currently impossible to estimate the extent of the impact, and what lies ahead. This unpredictability is particularly acute for procurement leaders.

Exhibit 1. The long haul of suppression is marked by pervasive risk of disruption that will have a direct impact on procurement for months or years

Case Growth per Day



Hallmarks of the road ahead

General business impact	More than 20% of the workforce could be out sick over the next year ∨	Multiple markets will shut down again, but we don't know which ones ∨	Financial pressure will remain acute, while finding relief will be more complex ∨	Customer preferences and perceptions will permanently shift ∨
Procurement implications	Suppliers' operations will run below standard efficiency	Further supply disruptions will randomly happen	Smart procurement optimization is needed to harvest the right opportunities	More reactivity is required to match rapid changes in demand

Source: Oliver Wyman analysis

During the COVID-19 lockdown period we have spoken to many procurement leaders across a wide variety of industries to understand how they are re-evaluating their agenda to aid resilience and recovery. Many of them are already tackling the difficult questions head-on to identify and respond to new priorities and adjust ways of working.

To steer their firms out of the crisis, many procurement leaders should temporarily reshape their agenda around three pillars through this volatile period: business continuity, smart cost containment, and using smaller, agile task forces. When done well, these new ways of working could ultimately reaffirm the position and perception of procurement within the organization.

1. ENSURE BUSINESS CONTINUITY

The primary role of procurement in current times is to ensure operations can continue or relaunch despite the complicated business environment and plan against many different scenarios. Here, the key objective is to develop a transparent and dynamic view of suppliers' landscape to anticipate the risk of failure and find alternative solutions with relevant technical or demanding functions. This includes an optimized risk management approach, as well as being close enough to suppliers to anticipate problems early on and being ready to support them.

During this crisis we've already witnessed how this has been successfully put into practice. One example is a leading European automotive manufacturer, which set up a business continuity SWAT team at the beginning of March, to make sure that all their factories would be adequately supplied as soon as production started up again. The implementation of this team was very quick as it replicated a similar set up used almost 10 years ago off the back of the Fukushima events, which stopped production in Japan for several weeks and disrupted global automotive supply chains. The team leverages the flexibility of supplier panels and uses alternative sources to match demand. It also identifies critical suppliers in distress and conducts rescue actions to relieve their finances or operations.

2. MANAGE COSTS AND CASH IN A SMART WAY

Decreases in revenues and inbound payments have resulted in cash scarcity and companies should carefully safeguard their own cash situation so they can be nimble and lean in the future. Keeping small and medium sized suppliers afloat with early payments is necessary to maintain a healthy and diversified supplier panel. It can also be used to optimize cost conditions or set the basis for deeper collaboration.

Cost containment is often a complex balancing act with many factors playing a role. One example is a regional telecom operator that, when faced with the adverse effects of both COVID-19 and falling oil prices, mobilized a special internal procurement consulting team to identify areas of cost optimization. In a matter of days, the team screened most of the supplier portfolio to assess where the recent changes would create negotiation opportunities without harming suppliers.

As an example, they found out that cable prices would be positively impacted by the drop in the cost of key raw materials such as copper, artificial rubber, and energy. Discussions with suppliers revealed how fast this would reflect in their financials and consequently set the basis for a price revision, beyond the usual contract index adjustments.

Exhibit 2. Procurement leaders will need to adapt their agendas to support the relaunch

Relaunch			Re-invent
Business continuity	Smart cost and cash management	Recovery operating model	Learnings from the relaunch phase
Support/rescue suppliers from financial distress	Conserve cash	Advise executive team for tactical arbitrages and strategic directions	Maintain flexibility of the procurement organization
Secure (alternative) sources for critical parts and services	Chase pragmatic negotiation opportunities	Implement a supply chain control tower	Reinforce flexibility and reactivity of the supplier panel
Support operations relaunch and ramp-up plans	Drive rapid product cost down opportunities	Implement a cost and cash task force	Strengthen relationships with critical suppliers
	Actively monitor spend priorities to avoid wastage	Accelerate decision and validation processes	Strengthen position of procurement in the company
Monitor and learn from the continuity plan			

Source: Oliver Wyman analysis

3. MOBILIZE AGILE TASK FORCES

The main focus for procurement leaders and their teams will simply be about re-establishing and maintaining the status quo of business-as-usual, which has its own set of challenges. But as this pandemic is so unprecedented, it is important to be highly vigilant and able to respond rapidly when required. Here, procurement leaders should organize some key individuals into small and agile teams tasked with the responsibility of identifying and assessing the situation. This is known as a control tower task force. Once issues and respective solutions are identified, these can be transferred to the rest of the procurement organization for execution.

We have seen one durable goods manufacturer overhaul their procurement dashboard to allow more effective communication during the executive committee's daily meetings, which has led to a far clearer call to action. Their Chief Procurement Officer mobilized 11 individuals from category management, operational purchasing, and procurement performance management in a "COVID-19 relaunch control tower" team. The team regroups daily to consolidate information on supplier panel resilience and assign tasks, and the Executive Committee receives a dashboard with eight key performance indicators and a summary of risks and requests.

PREPARING TO LAUNCH, EVEN STRIVE

Remaining competitive or afloat in this turbulent time has no easy answers but investing the time to monitor and learn could make a huge difference. The coming months will be a great experiment to test real-life new ways of working and tools, and to develop closer links between procurement leaders and their teams. Here, procurement's flexibility, agility, and ability to build strong relationships both internally and externally could have a lasting impact on the survival and success of an organization. Whilst COVID-19 has given procurement functions an added layer of complexity, and many more headaches, it can also be viewed as unique opportunity to try out new ways of collaborating and reinvent the role and path for the future of procurement.

Time is of the essence and the it is imperative that procurement leaders act now to drive transparency, bringing a global and fair vision to all stakeholders. Delivering stringently on risk, cost, and cash should remain a priority. Most of all, procurement leaders must make the time to understand what we have learned from COVID-19, and how this can pave the way for future procurement functions with greater vision and clarity.

Oliver Wyman is a global leader in management consulting that combines deep industry knowledge with specialized expertise in strategy, operations, risk management, and organization transformation.

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