

Whitepaper

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Procurement
is a group effort
– are you ready?

Procurement emergency room

Getting Indirect Procurement through the crisis and
building resilience and agility for the post-pandemic era

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I. A pandemic shock

In early January 2020 experts of the WHO were alerted by several severe cases of pneumonia linked to a novel virus strain in Wuhan. Only 3 months later the whole world appears paralyzed in lockdown. The ILO estimates that 80% (some 2.7 bn people on all continents) of the global workforce is affected, many millions have already lost their jobs. It has been called the biggest crisis since World War II by leaders worldwide, including UN Secretary General António Guterres and German Chancellor Angela Merkel.

Compared to the financial crisis of 2007-09, the Corona crisis has hit all economic sectors of the world extremely fast. Public policy responses have so far included containment and mitigation measures and these have become a truly transformative experience to people in societies worldwide. It is becoming increasingly clear that even after infection numbers will have finally gone down, the political and economic consequences will have changed the world.

In such a systemic crisis the **Procurement functions of companies are in a unique position**: Overseeing indirect spend and the according external contractor and supplier networks allows not only to react but also to anticipate and to plan proactively. We see five major trends arising from or being accelerated by the crisis – all of which with large impact on indirect Procurement:

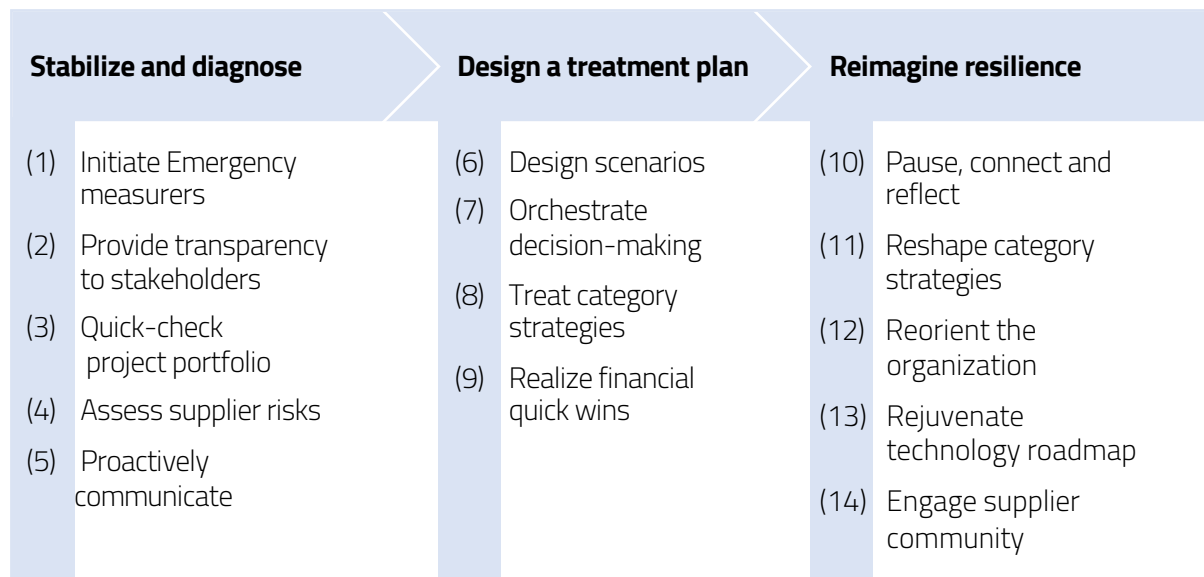
- a) **Digital embrace**: In a time of physical social distancing people are hugging their devices. Communicating and collaborating through the cloud has become the new norm for many, even for older, “high-risk” generations. While this has been an ongoing trend, acceptance and adaptation of new technology and of digital business models have received a tremendous boost. This includes not just the future of (remote) work and consumption but also digital payments, e-governance, smart cities and autonomous driving.
- b) **Spread of insolvencies**: Some sectors of the economy, such as travel and leisure or brick-and-mortar retail, have been virtually shut down in many countries. Others, such as automotive or pharmaceuticals, have been hit hard by shocks in their supply chains. In general, a looming grand-scale recession will slash demand. Especially small businesses or those already struggling will be affected. In some industries supply market dynamics can change. Expect in the mid-term a new landscape of suppliers, with some surviving ones having either consolidated and amassed further bargaining power, or others still struggling with their balance sheets.
- c) **Glocalised supply**: The crisis has exposed the risks of highly integrated global supply chains. Procurement functions are in a reactive mode to cope with interruptions. Politicians, not just nationalists, want to bring production capabilities for critical goods (e.g., mobile network equipment, protective gear, pharmaceutical ingredients) back to their countries or at least to their regions. The result will not be a radical deglobalization: labor arbitrage and the availability of skills will continue to play a major role in manufacturing and sourcing decisions. But as de-risking supply chains becomes the new imperative traditional levers such as near-shoring, vertical integration or supplier diversification will gain in importance.
- d) **Public health prerogative**: In order to flatten the curve, governments across the globe have taken drastic measures, which prior to the crisis seemed unthinkable. However, going back to normal will take a long way. It will take years to fully eradicate the virus globally, if possible at all. Even in regions which have experienced the most devastating effects there is still not sufficient herd immunity to prevent a new outbreak. Worldwide mass vaccinations will take a long time. Governments on all levels will remain extremely cautious, lifting restrictions only gradually. Expect a global patchwork of rules, even across municipalities. Crises shape policies: 9/11 had a lasting impact on air travel, the current pandemic will prompt governments to review regulations across a variety of industries.
- e) **Corporate stewardship**: Across the world states help saving businesses and jobs with enormous stimulus packages. This will invigorate public calls to maximise value through a more sustainable use of these funds. Obviously local communities will receive special attention. In light of the arguably larger looming crisis of climate change and global migration, widening the lense to global supply chains is becoming an imperative, not just to “global compact” companies. The EU is currently exploring potential options for mandatory supplier due diligence which takes into account all human rights and environmental impacts. In an interwoven ecosystem finding solutions together with suppliers is of interest to all parties – businesses will find themselves in a dual role being both, client and supplier. Ultimately expect businesses to be judged not just on shareholder value, but more purpose-driven on the triple bottom line of profit, people and planet.

II. The Procurement Emergency Room

Every spend category will be impacted by the crisis, either directly or indirectly. Procurement is in a unique position as it overviews of all relevant spend categories and the underlying contractual regulations and has a wide range of external personal contacts to the ecosystem of suppliers. In an acute crisis vulnerable suppliers pose an increasing risk to the buying organizations. Developing new suppliers takes considerable time and effort, in some industries distress might be systemic. Therefore in many cases a **highly cooperative approach** with the existing suppliers will be needed in order to jointly weather the storm.

The disruption of supply chains for direct materials in the crisis has already received a lot of attention. However, also indirect spending constitutes a very large cost base, e.g., for some manufacturers it accounts to more than 20% of revenue. Furthermore, many of the procured materials and services are critical to operations or to the relation of businesses with their customers and with their talents. Last, managing corporate risk must include the whole supplier base. Therefore, our approach has been designed with a **focus on Indirect Procurement** (i.e. IT-related products and services; contingent workforce and professional services; facilities management; marketing, communications and PR; HR-related services; travel and fleet management).

The term “emergency room” is used here in a conceptual way. However, in a crisis mode organizations might choose to assemble their key actors in a (virtual) room. Procurement could either be part of the core executive crisis response team or operate in a separate room with the necessary experts (including Legal, HR, Finance/Treasury, Communication), and with close links to other executive stakeholders. In any case a **cross-functional setup** and a network of teams is needed in order to integrate early on a wide range of insights, to orchestrate fast decision-making and to enable delivery. Navigating Procurement through the crisis means involving many stakeholders, information to be analyzed, many decisions to be taken and results to be tracked. This requires **PMO-like capabilities**.



In principle, we describe **14 sets of activities, structured into 3 central phases**. All phases include strategic, tactical and a selection of operational activities. While we recommend in general a structured approach, many companies might for certain aspects or categories tackle various phases simultaneously. The first two parts will diagnose the current situation of Indirect Procurement, and provide an approach for emergency treatment. The third part sketches a rough path towards a more resilient future vision, which thrives on an agile, tech-savvy and truly engaged organization.



(a) Stabilize and diagnose

While the crisis will have profound and long lasting impacts on all businesses, some are being hit harder than others on the onset of the crisis. Also within businesses implications for various business units and for spend categories will differ. The right differential diagnosis for different spend categories requires deep collaboration with core functions of your organizations and with the internal and external business partners.

(1) Initiate emergency measures: In an initial firefighting mode you will need to help stabilize operations, ensure health and safety of employees and contractors, and comply with government regulations. Internal rules and regulations with their instructions for employees and 3rd parties might need to be redesigned. Management and staff guidelines will in particular have to address all aspects of health protection, remote working and the virtual halt of corporate travel. Emergency calls with the most important suppliers might be necessary.

(2) Provide transparency to stakeholders: A profound shock and uncertainty leads to an increased need for information. The following table shows illustratively, from a Procurement perspective, about which categories and from which domains the most frequent requests can be expected. For instance, IT infrastructure departments face the challenge of a sudden demand increase on their infrastructure. Procurement can help navigating through contractual foundations and onboarding new suppliers. From a financial perspective questions about termination options of contracts, or payment terms might arise. More general, questions about supplier viability and change processes might emerge. By providing a high level overview about duration terms, termination/downsizing options and related savings potentials Procurement can provide urgently needed transparency to its business partners and to Finance.

Request domains Categories	Process & Technology	Organization & People	Financial KPIs	Business Capabilities	Governance & Controls
Information Technology	++	++	+	+	++
Professional Services	+	++	++	++	+
Facility Management	+	++	+		++
Marketing, PR and Com.	+	+	+	++	
HR-related services	+	++	+		
Travel & Fleet Management		+	+	+	++

++ strong focus area + focus area

(3) Quick-check project portfolio: With a long list of pain points identified, some ongoing projects might seem more urgent than ever while others could be slowed down, put on hibernation mode, or might appear already obsolete. The point is not to make many rash and terminal decisions, but to focus resources in order to gain a better understanding of the true challenges at hand.



(4) Assess supplier risks: A deeper understanding of present and future challenges requires a systematic and granular view of individual suppliers in each category. An A/B/C prioritization of core/non-core suppliers can guide the analysis of risks in 3 major areas:

- Logistical impediments: How can products and services be delivered in a timely and reliable way, given global restrictions on travel and transport? How quickly can suppliers adapt to the new situation? This will depend highly on geographies.
- Financial viability: Are the suppliers under a pronounced risks of financial distress? Historic liquidity and solvency ratios can raise red flags, but are no guarantee. Stock price developments and quarterly reports (if applicable) and public bankruptcy announcements should be tracked.
- Operational performance risks: Do the suppliers in turn face shortages of labor or of critical goods and services (e.g., tier-2 supplier risks)?

The capability of suppliers to manage their risks needs to be taken into account. Methods employed include self declarations, direct and active communication with suppliers and internal business partners, and category-specific market watch. Key risks metrics of core suppliers should be defined and continually tracked, potential needs of alternative suppliers be identified.

(5) Proactively communicate: Gathering and relaying information in a coordinated way means mapping relevant internal and external stakeholders and their roles and needs. Preparation of solid documentation includes both draft responses and clear processes. For example, the communication of emergency measures to suppliers could include, hygiene instructions, remote work policies or requirements on splitted operations. Communicating identified risks and its implications is more sensible and requires pragmatic communication plans, which also deal with ongoing uncertainty. Where cooperation is needed, shared goals should be emphasized early on. Coordinated communication is also pivotal for the transition into the second phase of this framework.

(b) Design a treatment plan

Even with an initial diagnosis at hand, getting the treatment right in times of great uncertainty is not a simple exercise. While some actions might seem right in any case, other actions will only be adequate under presumption of a particular future. Any treatment plan must therefore include a portfolio of measures, and be based on a shared understanding of options and their trigger events.

(6) Design scenarios: We are still in the early days when we consider the impact of the crisis on the supplier landscape. Scenario planning helps to deal with uncertainty and expands thinking. It can reduce complexity by integrating trends and future outcomes into various coherent potential paths to the future. Best practice does not simply define a "best case" and a "worst case" scenario, but takes a multivariant approach. The five trends described in the introduction of this white paper can act as a starting point for determining which variables to use but should be critically reviewed in light of a specific business and supplemented, if needed. Inspiration should be taken from multiple sources in order to avoid group-thinking. Importantly scenario planning in this crisis must look across three horizons: Weeks, quarters and years. This helps to reconcile the bigger strategic picture with the more immediate need for action. Remember that scenario outcome will not only shed light on potential future supplier environments, but also on own revenue and therefore the organizations demand dynamics for procured goods and services. Stress-testing the effects on own financial ratios will give insights on potentially required moves (e.g., decreasing working capital by renegotiating payment terms). A defined base case scenario serves as a guide marker. However, trigger signals (internal KPIs or external data points and events) for alternative scenarios should be closely watched and key contingency measures be defined early on. Actions which are prudent in all scenarios are clear non-regret moves. Scenario planning helps to align internal stakeholders and serves as a basis for informed decision making.

(7) Orchestrate decision-making: Stakeholders should be involved early on in the scenario planning in order to achieve a shared understanding of the uncertainty on hand. Depending on your organizations regular decision-making culture and the temporary crisis-response structures in place, this could mean having regular alignment workshops or just making sure that procurement implications are on the agenda of all relevant decision makers. Digital collaboration and videoconferencing tools can also allow non-decision makers such as procurement specialists or internal business partners to listen in and to voice their assessments in order to allow for more educated decisions. Important decisions from a Procurement perspective include not just necessary actions towards key suppliers but also broader design principles for reviewing category strategies. Insights generated by scenario planning might as well require smaller strategic moves early on.

(8) Treat category strategies: De-risking is the mantra of the day. Time constraints might require fast acting and simultaneous prioritization. The trends used for the scenario planning can be of more specific relevance for each category and might have direct implications on, e.g., business continuity provisions. Market sizes, value streams and profit pools of suppliers could be impacted, with important implications for pricing. Market information and the impact of the crisis on the own business demands are highly dynamic at this stage, so category strategies should be seen as more dynamic than ever. The three time horizons described for scenario planning can also help structuring individual category strategies. De-risking in times of uncertainty can be achieved by building in more flexibility such as diversification of the supplier base. On the other hand, vulnerable key suppliers might be held closer. Apply a feasibility-check and an action-bias to this approach: Lead times for levers need to be evaluated, e.g., new supplier qualifications or the renegotiation of contractual terms.

(9) Realize financial quick wins: Either arising from opportunity, or from needs revealed by stress testing, the realization of financial wins is a central task of Procurement and will often happen in parallel to the other activities we described. Typical measures might address the quick ratio (with payment terms being the obvious candidate) and/or address earnings by reducing cost (through renegotiation, downsizing or terminations). Suppliers might have to improve their cash positions themselves – if cash is not a current concern for your organization consider dynamic discounting approaches (e.g., paying a 60-day-net invoice already after 15 days, in exchange for a 2.5 percent discount). Alternatively, temporary consortia buying or shared service usage during the crisis could be explored. In any case such individual actions or finance-driven initiatives should be aligned with the strategic insights and long-term thinking for key suppliers. Coordinated communication must ensure not to confuse or alien suppliers.

(c) Reimagine resilience

The ramifications of the great pandemic will have a lasting effect on markets and organizations. The IMF projects a stunning 3% contraction of global GDP in 2020. We might see a partial rebound in 2021, but new waves of infections are likely – some industries will have a hard time to recover.

(10) Pause, connect and reflect: Every crisis is a learning opportunity. Take a breath and review the joint experience so far. Gather inputs of the team from different functions, including your business partners. This might include examples of weak processes or of moves that were either too rash or came too late. On the other hand some new ways of collaboration and of thinking might have proven regarding and effective. Also your key suppliers can offer valuable insights.



(11) Reshape category strategies: Adding resilience could simply mean adding more safety stock for critical materials (also for non-direct materials) and adding plenty of new clauses for business continuity to contracts. This might be prudent or even necessary in some cases but, when applied excessively, also poses the risk of inflating balance sheets and adding complexity to the procurement system that hinders agility. A reassessment of current and future demand, depending on the speed of the recovery, is also an opportunity to revisit specifications and, e.g., adapting target rate cards in the contingent workforce and professional services category. Anticipating specific needs, Procurement needs to be one step ahead with the qualification of new suppliers. The sourcing footprint is an important risk factor and revising some out-/insourcing approaches might be part of the game plan.

(12) Reorient the organization: There will be no complete back to the old normal. The unprecedented scale of the crisis means, at the same time, a challenge and an opportunity for revisiting people, structures, processes, governance, and culture. Potential changes in organizational structures and personal incentives are highly dependent on the individual situation and beyond the scope of this short whitepaper. On the other hand, some changes in processes might be required by many organizations, when it comes to dealing with 2020 budgets in order to reflect the new dynamic situation. Repositioning the business planning for the 2021 budgeting process might include the introduction of zero-based-budgeting (potentially as a reframed cost-cutting approach) and the review of capex plans. Adapting to the new reality might lead to a surge of new projects. For the Procurement organization not only further productivity improvements might be necessary, but also more agility (i.e. a dynamic learning culture that can adapt fast to new challenges). Regaining collective strength requires strong leadership and a shared purpose – also to reconcile potentially adversarial corporate initiatives, such as cost-cutting and reducing the CO2 footprint.

(13) Rejuvenate technology roadmap: The vulnerability of human communities to the novel Coronavirus has emphasized the vital role of technology. Imagine a lockdown in a time without cell phones and internet. Technology can contribute to resilience and has been a major driver of productivity gains. Today, mobile networks and virtualized cloud computing allow the use of quickly deployable, scalable and secure services from almost anywhere – fueling agility and faster innovations in organizations. Analyze the recent bottlenecks Procurement has experienced and also put yourself into the shoes of your internal clients, gain insights by, e.g., surveys or interviews. Then take a step back to rethink your operating model along the entire source-to-pay process (demand planning, sourcing intelligence, supplier risk management, negotiation and contracting, procure-to-pay, vendor/contingent workforce management). Engage internal business partners, IT and Finance. If you don't have a shared technology vision yet, then now should be the time to draft one: Think in capabilities, not in IT-Systems. Use horizons and understand release plans of legacy systems. However, if the result is a waterfall chart which spans years, you will be on the wrong track. Agility means experimenting, taking small steps fast and reviewing the results. Many digital procurement tools can be accessed without long and expensive implementation projects: This means not just reduced risk but also faster validation and learning – among all players involved.

(14) Engage supplier community: Sustainable procurement means creating value within an ecosystem. Strengthening connections and forming new ones in this business environment enables your company to thrive. Some key suppliers contribute significant value and/or risk to your business. Engaging these stakeholders means explaining your own journey and upcoming changes as well as deep listening. A corporate stewardship attitude demands engagement beyond prices, product specifications and logistical details. Procurement is a people business, also in times of social distancing. Find the right digital engagement formats that work for you and simply try calling suppliers who you usually just email. Getting through the crisis together offers opportunities for growth: Lessons learned sessions could be held jointly with internal business partners. Finally, also reach out to your peer buyers: Reflect on your journey, share best practices, help each other.

About Titan

A certified network of extraordinary experts for strategic sourcing. A boutique consultancy for comprehensive solutions and a sustainable future. Your powerhouse strategic partners, project managers, and communicators. Our industry expertise includes banking, capital markets, insurances, e-commerce, automotive, public sector, real estate and pharmaceuticals.

We provide services in the following areas:

- Corporate Strategy
- PMO setup & support
- Digital enablement
- Procurement & Sourcing, i.e.



Organizational level

Framework design

Overall sourcing strategy
 Operating model development
 Business process re-engineering
 Transformation management
 User interaction and simplification

Business development

Cost center analysis, staff planning
 Strategic sourcing implementation
 Regional sourcing advisory
 Shared services setup & design

Category management

Category strategy and planning
 Stakeholder & supplier interaction
 Best-practice benchmarking
 Savings calculation and reporting

Contractual level

Pre-sourcing

Spend, market, contract analysis
 Cost driver analysis
 Business workshops
 Specification preparation
 Bid analysis and score carding

Sourcing

Request for proposal execution
 Partnership- & framework agreements
 Due diligence management support
 Final contracting and negotiations

Post-sourcing

Sourcing event review
 Business case audit and CSI
 Training in best-in-class sourcing
 PMI and carve-out execution support

Our indirect spend sourcing category portfolio



Professional services
 Contingent workforce and outsourcing



IT related services
 (hardware, software, telecom, infrastructure)



Marketing, communication and public relations



HR related services (recruiting and training)



Facilities and workplace management



Travel and fleet management related services

Want to hear more about our approach and to discuss a tailored approach for your specific needs? Contact Us – We would love to hear from you!

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