

The Impact of the Current Economic Climate on Procurement



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Introduction

If you would like to comment on any of the findings please contact

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Welcome to our report into The Impact of the Current Economic Climate on Procurement and a big thank-you to everyone who contributed, both online via the questions on our website, and through their comments to our Directors.

The survey asked ten multiple choice questions on subjects ranging from perceptions of the economic climate itself, to issues of supplier management and the professional competence to deal with the challenges involved. We also offered the opportunity to comment freely on any of the survey, and specifically how it affects the way participants perceive their job will have changed after this turbulent period.

We are delighted that over 100 senior managers from the profession took part. These range from Global CPOs of FTSE 100 businesses and Purchasing Directors of blue chip companies to senior managers in a range of consulting businesses, both small and large.

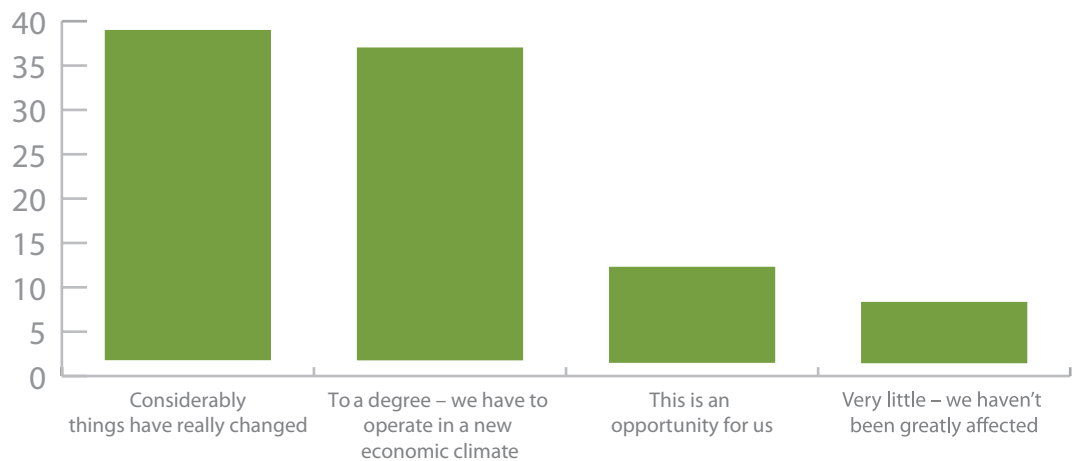
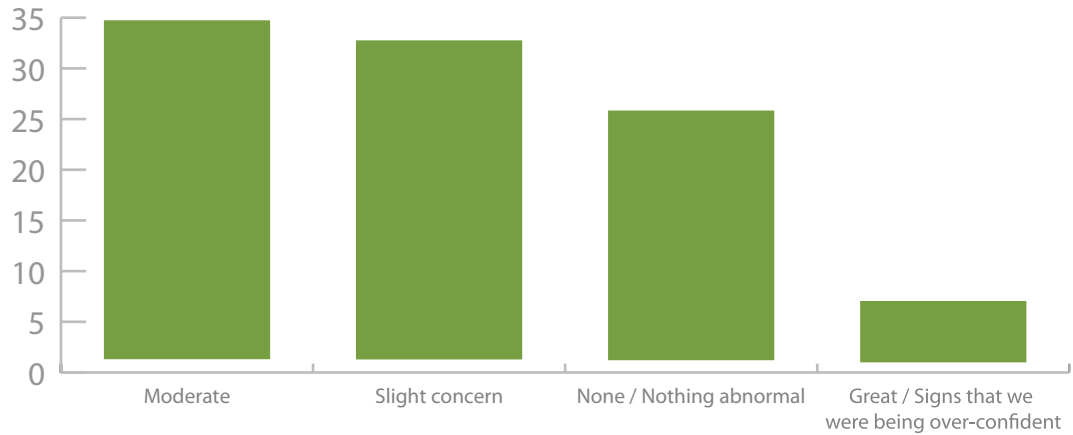
The report features a combination of the data we collected and where relevant, the comments of those who took part in the online study in order to give a true feel of all the information we have collated.

We are also pleased to report that several senior managers have been kind enough to give their time to interviews with us about the data, and you will see comments and analysis from some of the profession's highest achievers which we believe adds real value to the report.



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The Data: Questions 1 & 2

We asked two questions for the purposes of comparison.

Graph 1: How did you rate your organisation's exposure to economic pressure 12 months ago?

Graph 2: How has your view on question 1 changed in recent weeks?

Nearly 80% express some concern about the changes in economic climate and their employer's exposure to it over the last year so the data supports the obvious conclusion that business confidence is considerably lower than it was 12 months ago. There are many uncertainties and considerable speculation over how long the current recession will last, and this of course has a further negative effect on expectations.



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Whilst some businesses have been hit particularly hard, others have been more fortunate but have still had to re-evaluate key areas of spend and overall business strategy to see them through this turbulent period.

Many comments supported the widely held view that the role of procurement has increased in importance and there has been enhanced recognition within many businesses that the profession can be very influential in identifying solutions. This comment summarises the views of many:

“Procurement’s role will be enhanced as a result of the economic turmoil. Organisations will look to them to manage their costs in areas where traditionally procurement has been excluded.”

We cover this issue in more detail in question 5



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Question 3

How has the economic crisis changed the way in which you carry out your job?

Nearly 40% feel the balance of power has shifted towards them but over half the respondents think there is greater risk and/or reduced spending.

The economic climate is clearly encouraging a significant percentage of people to drive down cost, whether out of business necessity or opportunism in taking advantage of changes in market dynamics. One comment on the subject provided a very upbeat view of the situation:

“Every cloud has a silver lining! Changed economic situation provide opportunity to re-negotiate virtually anything.”

Nearly a quarter of all respondents highlight concerns about supply chain risk and we cover this issue in greater detail in the next question.

By grouping the other three categories in this question it can be argued that 39% of all respondents refer to issues that are reducing or delaying spending which is consistent with what we read in the press and learn through networking.

Several comments on the survey confirmed this and these two comments summarise some common themes:



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“Most companies are becoming increasingly risk-averse, meaning more rigor to decisions and increased time spent internally debating options. Organisations are also seeking to engage with the procurement functions more than previously as senior stakeholders are asking “are we getting best value for money?””

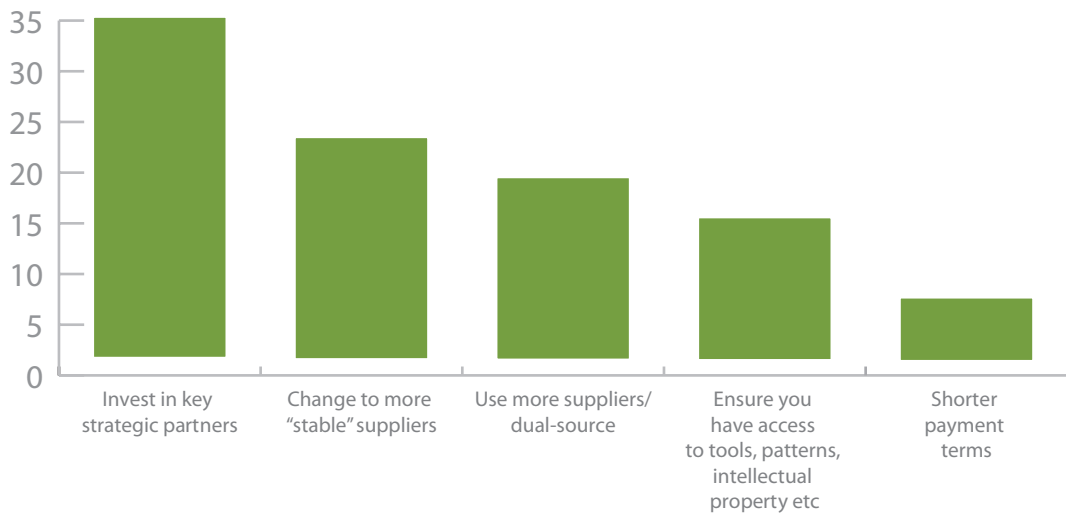
“I’m finding that Executive are so focussed on savings now they do not recognise that it both takes a certain amount of time and resource which means you start to ignore longer term plans that would deliver even greater savings and more stable suppliers.”

One interesting point this raises is that there is a time lag in the decision making process because of the inherent caution and fear of risk, yet there is greater speed required in the delivery of savings for businesses under pressure. Has there ever been more pressure for “quick wins” in struggling organisations?



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Question 4

What are you having to do, to ensure you take all reasonable precautions against suppliers or supply chains failing?

What is clear from the data, the comments posted online and those of selected senior managers who were interviewed about the data, is that many organisations are having to review their supplier strategies in the light of the changes in the economic climate.

Around 60% advocate the use of more stable supply options or investing in strategic suppliers, whilst less than 20% favour increasing supplier numbers.

These comments from the Global CPO of an International FMCG business outline the issues faced by many in the profession:

"We are seeing risks that I would have not have dreamt would have been possible as recently as a year ago."

"Financial statements that are effectively two years old are not going to tell us what we need to know about companies and no one really has the facts on a lot of key issues. We need a deeper understanding of markets, commodities etc and to use some intuition around key performance indicators and drivers. It's a more subtle skill set and one that we have to work on."



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Similar sentiments were expressed by those working in the UK public sector. We asked Anthony Doyle, Director of Procurement at The Metropolitan Police Service his thoughts on this subject. He commented that:

“We are having to monitor supplier stability more closely, particularly with key suppliers. There are no hard and fast rules on this but there is no doubt that the closer you work with an organisation, along with undertaking a wider range of independent assessments, the better placed you are to take a temperature check on their current health.”

“To assist suppliers through this difficult economic climate we have taken steps to pay SME’s more quickly, as part of the Mayor of London’s Economic Recovery Action Plan.”

Additional comments from survey participants on the subject included:

“There are a whole range of problems including the basic issue of the solvency of suppliers and of course their ability to get credit. The problem for us is that assessing the risk is not a fact based study nor can we offer experienced-based solutions because this is different to previous recessions.”

“The need to be thorough throughout the selection phase, re-examine process and amend to ensure stability of the supply chain, minimising risk whilst improving added value.”

“We have looked for early warning systems to advise on supplier instability”

The issues of supplier management and supply chain risk are massive topics which invite more detailed research for those involved.

Our next survey which will be launched in May will focus on various aspects of Supplier Management whilst those who are particularly interested in supply chain risk can take part in a study being conducted by Aon and State of Flux by visiting www.stateofflux.co.uk The study will be launched in mid April.



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Question 5

How has your organisation's expectation of the way you do your job changed as a result of the economic pressure?

Over 50% are under more pressure whether it is internally or externally generated. You can add to this the 25% who are experiencing increased workload as a result of working with more stakeholders/areas of the business. At a time when more rigour is required in many aspects of the job, this really is a challenging period for the profession.

When asked about the demands being placed on procurement within his organisation, Anthony Doyle offered a very interesting insight into The Metropolitan Police Service:

"The pressure for faster implementation has always been there but that has increased in the current funding climate. It's become a question of ramping it up and more closely examining the return on investment of available resource i.e. managing the capability mix versus demand for our services."

"Our stakeholders are increasingly asking procurement to help them with delivery of their efficiency targets. The challenging funding climate has certainly helped create a real change in emphasis and has encouraged the business groups to come to procurement and involve us much earlier in the process. It's also crucial for us to improve procurement compliance and minimise leakage more than ever."



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And this is backed up with direct quotes from the general comments section:

“Now, more than ever, procurement professionals need to be able to engage effectively with stakeholders and truly understand their drivers. Become flexible to ensure best practise continues even when costs and corners are likely to be cut.”

“In this economic climate, many more stakeholders have to find costs savings, procurement teams have a huge opportunity to reduce costs in areas that they previously had little or no impact in.”

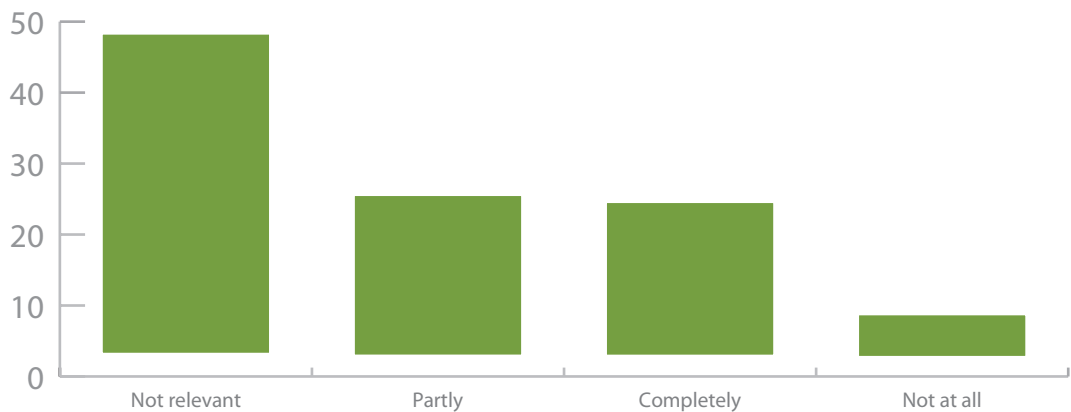
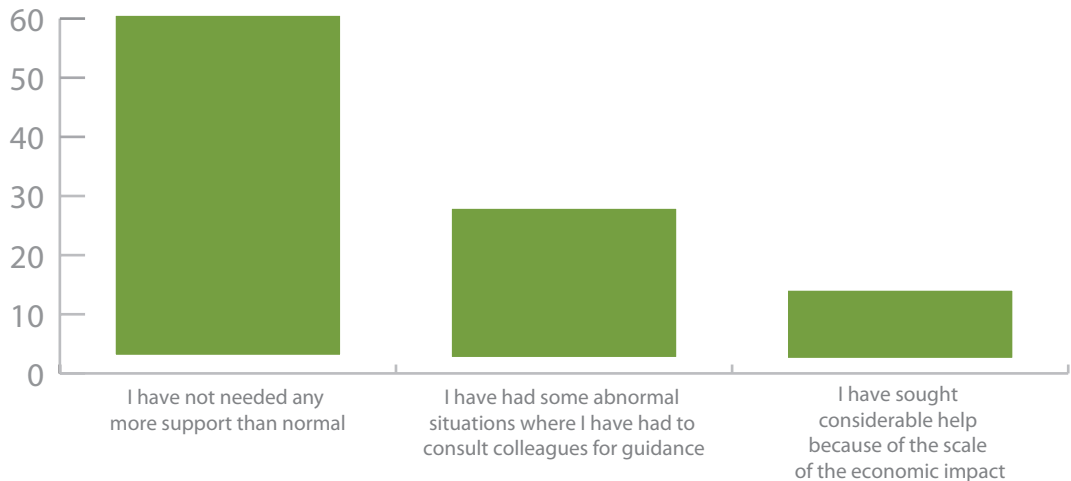
“Procurement’s role will be enhanced as a result of the economic turmoil. Organisations will look to them to manage their costs in areas where traditionally procurement has been excluded.”

This is undoubtedly one of the positives for the profession to come out of the current economic situation, and one which many are experiencing.



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Questions 6&7

We asked 2 questions for comparison:

Graph 6: How much support have you sought from your employer to manage difficult situations that have arisen?

Graph 7: If you have asked for support, how satisfied are you with the support that you have received?

Of those who required support less than half were completely happy with the help they received. The other interesting statistic is that 60% have not felt the need for any additional support in the most difficult economic climate many of us have ever encountered in our lives, whilst only 13% state that they have needed “considerable help.”



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It is also worth noting here one particular comment that we found interesting from the section on “what will you do differently when the economy improves?” (see question 11). It suggests that there is limited time for professional development with all the current pressure to deliver savings:

“I may have more focus from colleagues on investing in their professional development, rather than them having too high a focus on delivering short term savings in their role to the exclusion of most other things.”

In terms of professional development, this and the following questions are of great interest to us, and we would like to encourage discussion on the subject from all those interested. Please visit:

<http://edburydaley.com/wp/2009/03/23/procurement-blog/>

to post your thoughts on this and any related subjects.



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Question 8

How well equipped do you feel, professionally, to meet your objectives given the turbulent economic situation?

Less than 10% of respondents showed any real concern about their ability to adapt which has been mentioned by several of the senior managers interviewed about the data. One CPO interviewed commented:

"I'm not sure that experience of previous recessions is that relevant this time round. This is different in many ways, not least the global intertwining of so many markets, and the implications that has for knock on effects across different industries and geographical regions."



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Encouragingly nearly 50% of those surveyed say they are thriving in the new environment, acknowledge that they will face challenges, but feel confident about their ability to adapt to them.

Anthony Doyle acknowledged as much when he said :

“ We are experienced at dealing with fast moving change, in fact it is our role to encourage change, but we’ve never experienced anything quite like the scale of the current financial climate and it’s difficult to predict how long it will last for or what the ultimate impact will be, so that does give cause for prudence. It further highlights the importance of ensuring you have a professional team in place with the requisite broad range of skill sets that can deliver in a demanding environment”

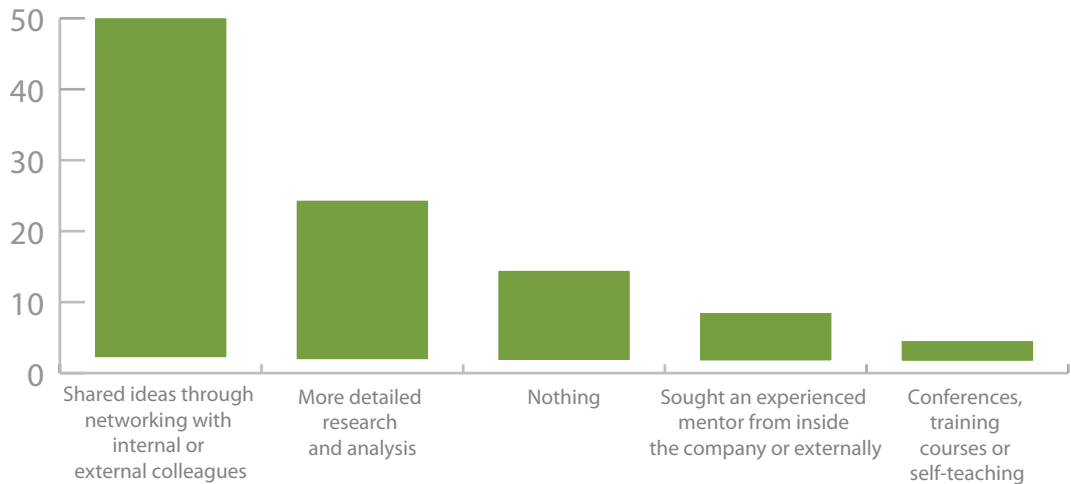
As an experienced recruiter, we would suggest that the opportunity to contribute to developing a strategy to deal with the changing climate, and to play a key role in executing that strategy is absolutely fantastic experience for any procurement professional.

The opportunity to develop your professional competence and enhance future career options should not be missed.



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Question 9

What have you done to acquire additional skills to cope with the changes?

We established in Question 6 that 27% of all respondents had experienced “some abnormal situations where they have had to consult colleagues for guidance,” and through our own personal experience we know that there has been a significant increase in the amount of networking that goes on within the profession so it’s no surprise that 50% favour this route for professional development whilst nearly a quarter use more detailed research and analysis which is of course consistent with the nature and demands of the procurement profession.

For those who want to engage in more networking, there are many routes. One of the most popular is of course through online networking sites such as www.linkedin.com where there are already thousands of procurement people across the globe.

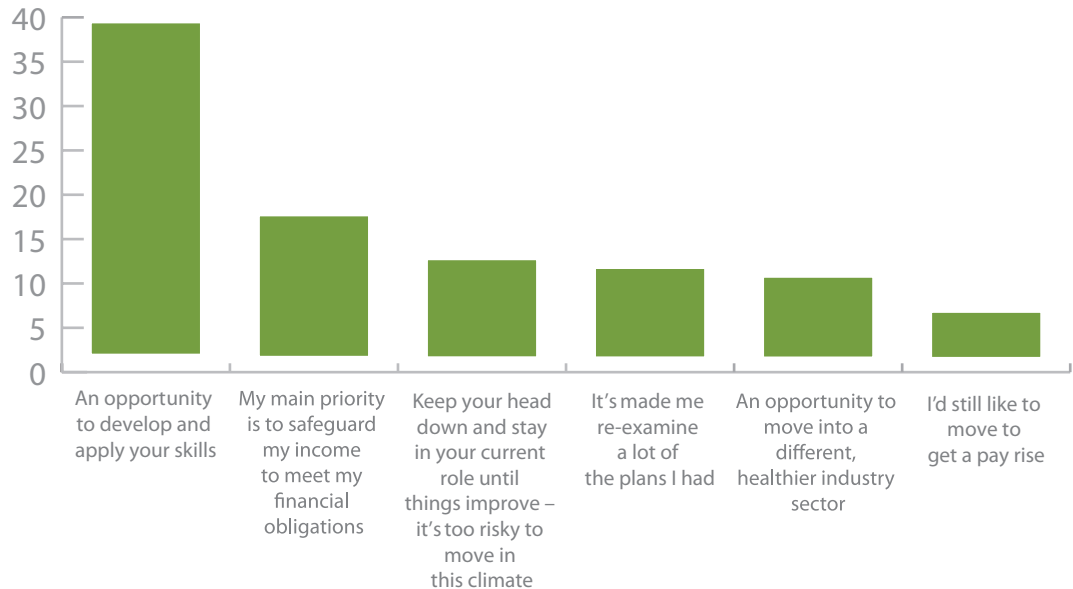
You can join our network here:

<http://www.linkedin.com/in/edburydaleyandrew>



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Question 10

How has the recent crisis influenced your attitude to career development?

Encouragingly the dominant response here (40%) is that procurement professionals view this as an opportunity to develop and apply their skills. Significant numbers of participants have highlighted a range of new challenges, economic conditions and cultural changes within their businesses that present procurement with a great opportunity, and as professionals, their personal development should be enhanced during this period.

As Iain Stewart comments in his analysis at the end of the report:

“This is the biggest single opportunity we will all have in our careers to achieve the double – that is the dream combination of performing our procurement activity at the highest professional level possible, and at the same time, being the most aligned and integrated that we have ever been, in the strategy, operations and challenges of our organisations.”

Please visit <http://edburydaley.com/wp/2009/03/23/procurement-blog/> to post your thoughts on this subject.



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Question 11

When the economy levels out and starts to regain momentum, what will be different about the way you do your job?

This question offered the chance to leave comments on the subject and we identified these common themes:

1. We must work hard to protect procurement's enhanced status
2. We must consider different supplier strategies
3. We must get closer to key suppliers

Here is a selection of comments to consider:

"Ensure that the mandate created by the credit crunch isn't lost"

"Purchasing teams will have elevated their 'internal worth' as a result of the current economic climate".

"Hopefully people will have seen the value we (procurement/sourcing) bring from engaging us during the downturn and will continue to engage us going forward."

"Will hopefully be able to hang on to the gains we made in expanding procurement's role"

"Greater involvement as we will have demonstrated that we can add values to some areas of the business that was traditionally locked off to us"

"Hopefully only that our credibility as a sourcing organisation will have increased and not just for economic difficulties but seen as strategic for delivering business objectives/results"

"Increased emphasis on vendor management"

"Increased regulation and cautious spending will lead to more rigorous supplier selection and contracting."

"Focus will be on developing better processes to manage risk & sudden changes."



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"We should have stronger relationships with key suppliers."

"Implementation of better risk management tools and processes"

"I will spend more time looking at the security of suppliers (i.e. the resources, financial standing)."

"Ensure more extensive supply options in order to spread risk."

"More attention will be paid to suppliers' financial stability than was previously the case, this may lead to desire to multi-source rather than single-source."

"Will have a much more detailed understanding of all my suppliers in terms of their financial stability, capacity, sales, competition etc"



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Analysis

In addition to our data and comments, we felt it would be valuable to invite some additional analysis from an experienced source. Iain Stewart who has held some high profile senior roles in his career has kindly offered the following overview of the entire study, and raises some excellent discussion points:

Most people exhibited an awareness of the opportunities and difficulties ahead; the comment “sourcing is part of the solution, not the problem” was encouraging; many people are already taking action to overcome new issues, and others are already anticipating coming out of the recession in better shape than they are today, with a stronger mandate from their organisations.

Others are evidently keeping their heads down to avoid attention in tough times; a staggering 42% think they have been here before, that this will increase Procurement’s worth in their organisations, and that the balance of power with their suppliers will improve!

I don’t think we have ever been here before, in our working lives. This is not about one-dimensional problems, such as rising commodity prices, or exchange rate swings, or industrial relations problems, a key supplier going bust, or difficulty in booking shipping capacity from an emerging nation – typically we have worked through or ridden-out such problems.

This time, there are multiple pressures and unpredictability on a scale that hardly any of us has seen, and almost none of us has the proven skills to handle, yet.

Therefore a willingness to listen and learn, a real desire to collaborate with colleagues, and significant personal energy and resourcefulness, are likely to be essential to augment the technical procurement skills of those of us whose careers will survive and maybe even prosper, as we emerge from the recession.

One respondent suggested that more aggression, speed, entrepreneurialism, and less process gate-keeping, is what is required. Yes, maybe some of that, but don’t forget all that you’ve ever learned; and don’t imagine that doing your job as you’ve always done it, will see you through, even with a more attentive audience. It won’t suffice.



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The winners from a career stand-point, will be those who exhibit and practice a combination of approaches. In my opinion, the principal areas of focus and scrutiny will be:-

How well we all keep on top of costs (as ever), but also risks (which are greater than ever), and cash, which is more important to everyone in the supply chain, including our customers, than at any time in the past;

How effectively our suppliers perform, but moreover, how well we select them in the first instance, and communicate our needs to them;

How professionally we carry out our core technical activities in Procurement, keeping both eyes on the things that really matter to our organisations.

This should provide a crucial clue to a skill which we must all acquire, refine and perfect, whether or not we think we already possess it.

That is the skill of completely aligning ourselves with our key stakeholders, and understanding their issues intimately, whilst keeping them utterly apprised of opportunities and risks that we uncover in our work.

These people could be our CEOs, our FDs, our factory managers, our marketing category managers, our quality inspectors – whoever – it's our responsibility to know what's keeping them awake at night, we're working with them to fix it, and we are clearly flagging our concerns to them, to help us work up a solution.

Great news then - many of us think the balance of power has shifted in our favour, that we're being asked to help in previously off-limits spend areas, that we're centre-stage to get supplier costs down, that we can justify dual-sourcing, that we are "leading-edge" practitioners and we know what to do.

More than that – this is the biggest single opportunity we will all have in our careers to achieve the double – that is the dream combination of performing our procurement activity at the highest professional level possible, and at the same time, being the most aligned and integrated that we have ever been, in the strategy, operations and challenges of our organisations.

Iain Stewart MCIPS, is a former senior procurement executive, and a founding director of 105 Consulting Limited www.105consulting.com



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Conclusions

- There has been a significant shift in the amount of concern people have about their employers in the last 12 months.
- Almost 40% think there has been a shift in the balance of power towards them, but around half think there is increased risk and/or reduced spending.
- Around 60% advocate the use of more stable suppliers and/or investing in strategic suppliers.
- 80% are under more pressure for either better results or more involvement whilst having to apply more rigour.
- Nearly half are thriving on the new challenges presented by the economic climate
- A similar percentage favour networking as the most productive method for professional development.
- 40% see the recession as a chance to develop and apply new skills.
- Less than 10% are concerned about their ability to adapt to the changes.

So what this tells us is that this is a real opportunity for the profession to build on the great strides it has taken, particularly in the last 10 years, and make a significant difference to the perception of the profession as a whole, the health and stability of our employers, and our own professional development.

This is what procurement people are saying to us in our conversations every week and it's good to see that belief supported by a lot of the data.



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The Sample

Of the 244 respondents, 107 are CPOs, Purchasing Directors or equivalent. The study data was collated exclusively from the online responses.

Where comments and analysis have been attributed to a particular source, these people have had the opportunity to review the data. All other comments were posted online by those who took part.

The use of this data without the consent of a Director of Edbury Daley Ltd is strictly prohibited.

About us

Edbury Daley is a niche executive recruitment consultancy specialising in procurement. We offer contingency, search, advertised and interim recruitment services for mid and senior level appointments. For more information please visit www.edburydaley.com or call one of our team:

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