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Opinion

On top in a bear market

Those CPOs who withstand short-term pressure to cut costs and focus on longer-term benefits will be the winners from the recession, argues Claire Lawson

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by Claire Lawson



Illustration: Luke Wilson

CPOs are under unprecedented pressure to take cost out, mitigate risk across the supply base and identify quick wins that contribute to the bottom line. Having made a significant contribution to an organisation's business strategy, top procurement executives are now being asked to accelerate cost reduction and are under the spotlight at board level.

The short-term focus on cost cuts stifles creativity and limits opportunities to stand out as a progressive practitioner recognised by peers as a standard bearer for the function. So what should a CPO do to emerge stronger from the downturn?

The best candidates will continue to pursue a strong aspirational agenda in parallel to taking cost out. They will continue to have an input into the overall business strategy and bring innovative solutions to the table that improve margin, mitigate risk and improve quality and service. They will continue to focus on sustainability, which, again, can deliver savings through greener fleets and so on, and will use the current focus on cost to drive through contentious policy decisions that further enhances the organisation's CSR credentials.

They will exploit the current desire to take cash out by working with marketing and R&D to challenge assumptions concerning product simplification and convince colleagues of the value of

extending substitution to more products. Continuing issues of supplier insolvency again present an opportunity to change contractual terms and underwrite risk in return for improved price and services.

Speed of benefits delivery will undoubtedly be a differentiator in the downturn. The best CPOs will work with their CFO and establish global taskforces to reduce at pace discretionary spend and working capital. They will evaluate all capital investment programmes with their finance counterparts and be involved from the start, not brought in as a process owner. The “best” will standardise and negotiate more favourable payment terms with both suppliers and customers that affect the bottom line quickly without jeopardising security of supply.

Continuously driving up levels of supply chain integration (as seen in the automotive sector) requires significant effort and trust on both sides and a long-term view on benefits. Many organisations are not willing to make that commitment in the market and progressive practitioners must demonstrate its benefits. This also provides an opportunity to monitor supplier sustainability credentials and showcase these as appropriate.

Innovation remains an area where CPOs can increasingly differentiate themselves. As R&D budgets are slashed, companies increasingly need to look to the supply base to maintain momentum. Progressive CPOs will continue to incorporate innovation and contribution to new product development into their teams’ and suppliers’ key performance indicators, while their more short-termist counterparts often fail to reward the team on these broader metrics.

Commodity hedging is another key differentiator. Commodity input price inflation and the subsequent deflation caught most CPOs unawares and we have seen a wide range of responses. The “best” have recruited people with both physical and financial trading expertise. They have put in place appropriate governance to ensure commodity teams can increase or decrease cover using index-linked triggers so that they can capitalise on volatility without waiting for board approval.

Whereas most companies are pushing CPOs to improve cash flow and margin, the best practitioners are sticking to a longer-term vision. They continue to evaluate opportunities and, where there is a compelling business case, are willing to take counter-intuitive decisions such as investing in supplier technology despite scepticism from the executive team.

The best leaders will insist on a total cost of ownership perspective. They are credible at the highest level and able to defend their corner against pressure from a board who often take a less holistic view of procurement. Stellar CPOs who demonstrate courage, agility and an unwavering focus on long-term value creation will undeniably outshine peers who have succumbed to a more expedient, short-term agenda.

Claire Lawson (clawson@russellreynolds.com) is an associate at Russell Reynolds Associates, based in London