

SHAKING THE SNOW GLOBE

The role of Procurement is to guide the organization through an uncertain future and help realize new sourcing strategies for what lies ahead

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Award winning author and CEO of Positive, Jonathan O'Brien, helps provide some much needed insight into what companies, and in particular their procurement functions, need to be doing to be ready for whatever the next few years hold.

As a child, I spent hours shaking my grandmother's snow globe, then watching the snow fall down and settle in a new way on the people locked inside. It is this memory that I go back to as I reflect on how organizations around the world are bracing themselves for whatever lies ahead. In these times, it is as if we are all part of that winter scene inside the giant corporate snow globe, just waiting for our world to be turned upside down.

So why is this suddenly a worry? Today, organizations face more uncertainty than ever before. No new news there! In fact, it has been hard to pick up any business publication without reading some article or another on our changing world and what it might mean for us. For instance, how might Brexit play out? Is President Trump leading a charge against globalization by turning America's back on international trade deals to reignite US industry? Where are the new bases of power and wealth in the world and what does it mean? I've read most of them yet I still can't figure out where things are heading, which only increases the uncertainty!

Add to this the fact that we are only a few years out of, and only just recovering from, the biggest recession since the Great Depression which changed economic landscapes the world over. Entire market places changed and organizations that once flexed their corporate leverage in buoyant and competitive marketplaces found themselves working to make sure they could get the goods in the first place. Then there are more and more political uncertainties, unprecedented environmental events, and exceptional peaks in demand for certain raw materials by developing nations.

What the future holds might seem impossible to predict, and the last decade or so teaches us that we can no longer take for granted our suppliers, supply base or the

availability of what we need, when and where we need it. However, what is very certain about the future is that it will be uncertain!

So how can we prepare for an uncertain future and keep the enterprise going, and what is the role of procurement in helping to do this? It is at this point that we might await the entrance of new shiny procurement thinking ready to carry us all forward. We will be waiting a long time, however, because there is no such thing. The answer lies simply in continuing to use the robust strategic procurement tools and approaches that leading organizations and practitioners are already using. In particular it is the tools and approaches we find in Category Management and Supplier Relationship Management (SRM) that will help here, except now we apply what we know to a changing context or landscape.

But why are we all suddenly worrying so much? Surely if the snow globe gets shaken, this is just more uncertainty to deal with? True. However, it is conceivable that emerging changes around the world, that are set to play out in the coming years, have the capacity to shake our procurement world like never before. If new cross-border trade tariffs are realized, Brexit and Trump's new America hold the potential to drive a sea change in the market places we source from, our suppliers, and our supply chains. Established low cost country providers may not remain so, or insourcing and localization may be back on the agenda. The familiar relationships we have with strategic partners may come under pressure. Let's not forget transition cost too – when the UK leaves Europe, how quickly will packaging need to be re-printed? Will distribution centres need to be relocated, and will we need new technology to manage import or export across borders, and so on. The ripple effect before the snow settles will drive global corporations to rethink where and how they operate, while entrepreneurial spirit will fuel the birth of whole new markets, suppliers and new ways of working, enabled by technology.

Is this all bad? Not necessarily. There could be short term challenges but, if we are ready for a big shake up, our uncertain future could present huge opportunities. Procurement can help lead the charge here, but

it is all about being ready with a clear array of new sourcing strategies for the categories and suppliers that are important to our organization. If we face an uncertain future we may not need to jump straight to implementing these strategies and making these changes. Rather we should be ready to go, and be the first to act should the snow globe get seriously shaken.

Many of the global companies I work with are trying to figure out what to do, but most are waiting. This is less than ideal as we risk not being ready when our world gets shaken up, or worse we risk our competitors getting ahead of us. Instead, procurement can be leading some important programs in the organization to prepare for uncertainty. As with any successful procurement initiative, success here comes by working cross-functionally within the organization. And this time our objective is to determine, and be ready with, new sourcing strategies that we might want to realize in the near term. With that in mind, I have identified five steps organizations can take right now to help do this.

STEP 1 – FIND THE HOT SPOTS - SCENARIO PLANNING AND RISK ASSESSMENT TO FIND THE HOT SPOTS

We already have some idea of how things might change. We are surrounded by articles and news stories every day and we can speculate on what else might happen beyond these. Preparedness begins by scenario planning and risk assessment. With a small team of people from across the business known for the distinct value in their contributions, brainstorm the different potential scenarios that could play out globally and for the enterprise, then consider each of these as if looking through three separate lenses:

1. our important categories of spend
2. the suppliers we rely and depend upon
3. the supply chains that are of interest to us.

For each, consider the potential impact should the scenarios we imagine be realized. For example, if we face a step change in import costs due to new trade tariffs, what spend categories are impacted? With which suppliers will we need a different relationship with? And so on.

STEP 2 – WHAT ALTERNATIVES MIGHT OPEN UP?

Where we identify significant impact, revisit the business requirements. What do we need and want from this area of spend and how might these be met in a new way? You can answer this by following the general steps and principles used within Category Management and Supplier Relationship Management (SRM). Apply the core tools in order to research, understand and develop insights into the market, suppliers and supply chain, as well as our internal future needs, and identify potential new sourcing strategies should we need them. Generally, it would be wise to keep this activity relatively confidential. Remember - we are considering

future possible strategies should we need them, not necessarily *actual* strategies. Suppliers or stakeholders might become unnerved if we don't manage this well.

STEP 3 – GET CLOSE TO STRATEGIC SUPPLIERS

Determine which suppliers are our most important suppliers and why we feel they are important (e.g. high risk, future opportunity, high dependency). With our initial scenario planning in mind, consider the impact on our most important relationships and how we might want to respond. For these relationships, engage with the supplier on this specific issue. Chances are they are also considering the future and ideally planning for different scenarios. Assemble key players from both sides for a working session, with the objective to establish how advanced are their thinking and action, and exchange ideas. During this session, debate possible scenarios, establish what they are doing and how they plan to respond to specific changes.

This type of workshop can bring great confidence, especially if a supplier responds positively by outlining potential plans such as shifting key operating locations, or seeking new suppliers in different geographies. In contrast, we may also find ourselves being underwhelmed, having to face the prospect that a key supplier may not give us the confidence that they can be there with us as we sail into the future. In this case we may need to begin to consider what alternatives we might need, again keeping this ready just in case, and almost certainly keeping it confidential.

STEP 4 – WHAT ARE THE FUTURE MARKETPLACES?

If some of the potential future scenarios are realized then we can be certain that the market places of tomorrow will be different from those we use today. We should not be surprised by this as, notwithstanding Brexit and Trump's new America, market places are already shifting and morphing at an incredible pace. Giant familiar corporates continue to try and stay ahead and find new competitive advantage, while emerging economies, new technology and a never abating entrepreneurial spirit compete for a share of the pie. What we need to do is figure out what and where our future market places are. This is not only a response to future uncertainty; we should be doing this anyway as it is an essential part of best practice Category Management and SRM within high performing procurement functions.

Understanding future market places comes from good ongoing deep dive research and the ability to match our current and future business requirements with new possibilities. It is also about taking some bold steps to try new things, and if we are already doing this then we are well positioned for an uncertain future. However, and as is the case for most organizations, if this is more of an aspiration, then now is the time to get to grips with where and how the market places of the future might exist, and

how these might emerge according to the various future scenarios that might be realized.

STEP 5 – EMBRACE THE OPPORTUNITY

Uncertainty is not something to be frightened of. That is the response for the companies who struggle to keep up. Uncertainty gives us a clear advantage and a chance to get ahead of everyone else. There has never been a better time for procurement to make a strategic contribution to organizational success and help shape a selection of future roadmaps.

With a relatively small investment time by key individuals, these roadmaps can define how the supply base will help bring competitive advantage around value, innovation, reduced risk and cost in any future scenario. If done well, it could make all the difference to the future of the organization. The rest is about proactively responding as events play out in the near term.

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