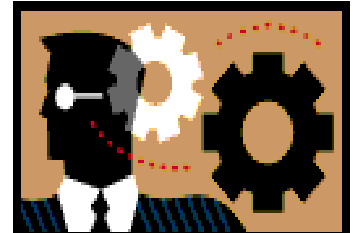




**Welcome to Transform**, the source for thought leadership for those organisations and procurement professionals whose goal is increased added value and improved corporate performance through effective management of procurement and the supply chain.



## Is Procurement Fit for an Agile Future?

*As the year of the “great recession” comes to an end, agility will be the key capability as the “new normal” unfolds*

A guide for CEO’s, CFO’s and CPO’s on how procurement capability is central to becoming agile

What’s in it for you? Competitive Advantage

Reading time: 15 minutes

### Introduction:



The shift in economic power from west to east has been underway for some years now, whilst the US consumer continued to be the world’s engine for growth. However, the financial crisis has left the US significantly weakened as the world’s economies emerge from what is now being coined “the great recession”. CEO’s must now learn to navigate the realignment of the global economic system – “The New Normal”.

The concept of the [new normal](#) is embedding itself in today’s business lexicon as companies grapple with strategies to succeed in a much more uncertain world. This reshuffling of the top economies is underway, but the question for many companies is; can growth from economies such as India and China offset a much more subdued demand from the US consumer? With both the pace and intensity of such economic shifts as yet to be played out, agility and responsiveness will be the key success factors in the



'new normal' years ahead, and the agile organisation will have procurement and the supply chain at its heart.

### The Agile Organisation

Traditionally, many companies are locked into the assumptions embedded into their annual business plans.

This annual pattern can result in very long re-planning timelines which can significantly reduce their ability to

respond to events and consider new strategic options. Agile capabilities therefore need to be built into a company's strategy, processes, and values and be supported by technology.

The agile business will target two strategic goals:

1. Anticipate changes and events; and
2. Accelerate change to benefit the enterprise faster than that of the competition.

These goals require capabilities that can create and manage business processes and technology enablers within three areas:

1. Learning to sense and respond (market scanning)
2. Emphasising improvement and innovation
3. Distributing and coordinating authority

Mastering each of these areas creates a very powerful capability to connect the internal and external information flows within the organisations business environment, which enable opportunities to be exploited and risk to be mitigated and managed. Because these capabilities are difficult to master and sustain, is what makes them so effective as a clear source of competitive advantage.

### Procurement & Agility

Procurement is both a collector and user of market information and often practices market scanning without realising it. By formalising processes and controlling this information more effectively, procurement can help speed up decision making and play a central role in the drive for agility.

Procurements unique position as a key conduit with the external environment places it centre stage in defining agile business strategies that support [growth](#), strengthening its role as a primary business process which is a key premise of Supply Management as a Core Business Competency (SMCC).

*“Procurements unique position as a key conduit with the external environment places it centre stage in defining agile business strategies .”*



## Can you predict the future?

Market scanning remains an under developed capability in most procurement organisations which CPO's must address if procurement is to step up and lead in this

key area. Procurement functions that do not participate in effective market scanning are operating blind. The ability to anticipate events before they happen is clearly a source of competitive advantage. Once a market event becomes visible to competitors then first mover advantage is lost and the goal switches to accelerating change to implement faster than competitors.

Competitive intelligence is key to Category Management and must run throughout the supply chain to be both customer and supply market facing. In most organizations this intelligence is fragmented and unconnected. Procurement and Sales & Marketing therefore become key connection points. This is highly significant for CPO's seeking to place procurement at the centre of the organization. See Fig 1. Unfortunately, this activity is usually under resourced, lacks long term planning and remains unsupported by automation tools.

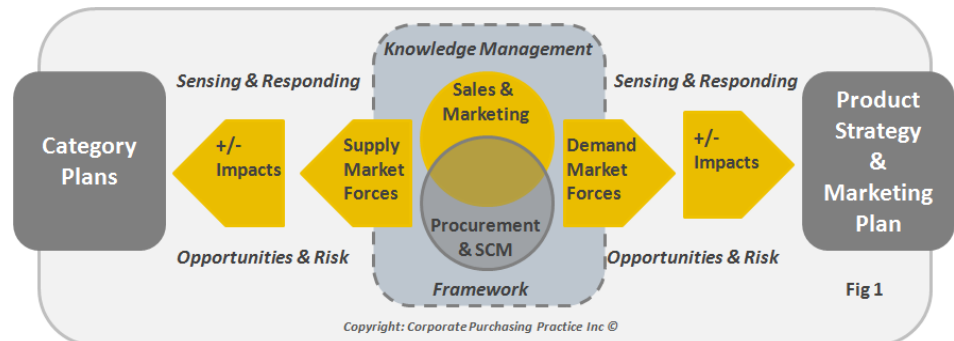
## Sensing and Responding

Sensing and responding are key capabilities in gathering competitive intelligence and requires deep connections to customers and suppliers alike. The process incorporates Information gathering, analysis, and dissemination, and responding. Speed in sensing and responding can help capitalise on changes in:

- Market conditions
- Supply chains
- Operational issues

A failure to sense and respond effectively can at best inflict temporary damage to a company's performance and at worse force a company to exit a specific activity. See Example 1.

**Sensing:** The sensing process enhances market knowledge which in turn improves a company's ability to perceive events before the competition does (or before they happen) and promptly exploit information. It is a continuous learning process on customers, competitors and all that can influences the company / market relationship.





The sensing process allows better and more creative responses to market events by providing insights and reducing uncertainty:

- Insights, allow managers to develop creative responses and
- reducing uncertainty and lowering the perceived risk of a decision, the sensing process supports the implementation of these creative responses.

So sensing capability supports improvements in both the effectiveness as well as the speed of responses to market events, thereby enhancing response capability.

Market Sensing is developed in four key parts:

1. Defining the Market
2. Competition monitoring
3. Defining value for the customer
4. Collection of customer feedback

However, developing strong sensing capabilities are of no use, if a company does not possess the capability to process intelligence, make decisions and act upon it.

### Example 1

#### A Well Known Sensing & Responding Example:

#### [The Fire that Changed an Industry](#)

Different responses of Nokia and Ericsson on a fire at one of the supplier's facility:

Supplier: Philips Semiconductors in Albuquerque, NM

#### Nokia:

- Changed product design to source components from alternate suppliers
- For parts that could not be sourced from elsewhere, worked with Philips to source it from their plants in China and Netherlands
- All done in about five days

#### Ericsson's experience was quite different :

- Took 4 weeks for the news to reach upper management
- Realized five weeks after the fire regarding the severity of the situation.
- By that time, the alternative supply of chips was already taken by Nokia.
- Devastating impact on Ericsson
- \$400M in potential sales was lost
- Part of the loss was covered by insurance.
- Led to component shortages
- Wrong product mix and marketing problems caused:
  - \$1.68B loss to Ericsson Cell Phone Division in 2000
  - Forced them to exit cell phone manufacturing and into its Sony JV



**Responding:** Business success in the new normal world will largely depend on a company's ability to respond more quickly than competitors to events in its environment. Response possibilities include:

- [innovation](#)
- new product development
- new niche market
- new distribution channel
- cost reduction
- product features adjustment
- disruption management

Solving the rapid response challenge will require:

- accurate and timely supply and demand sensing to quickly understand market events
- decision support that drives responses and allocates resources appropriately.
- collaboration, with customers, internal stakeholders and suppliers to develop and analyse alternative solutions

As demonstrated in the Nokia and Toyota cases (Examples 1&2), [collaboration](#) and the depth of the relationship between the organisation and its suppliers was a common factor in successfully managing disruptive events. Such collaboration can only be achieved by defining the business rules and expectations that all partners are expected to abide by.

**A Well Known Agile Example: (Example 2)**

**Toyota Shows its Metal - Aisin Seiki (AS)**

- In 1997, AS the sole Toyota supplier of 98% of brake fluid proportioning valves (P-valves)
- Inexpensive part (about \$7 each) but important in the assembly of any car.
- Saturday, February 1, 1997: Fire stopped AS's main factory in the industrial area of Kariya,
- Two weeks to restart the production
- Six months for complete recovery
- Toyota producing 15,500 vehicles per day.
- JIT meant only 2-3 days of inventory supply

**Recovery Effort by Toyota**

- Valve blueprints sent to all Toyota's suppliers
- Engineers from AS and Toyota relocated to supplier's facilities
- Other manufacturers like Brother brought in
- Existing machinery adapted to build the valves according to original specifications
- New machinery acquired in the spot market
- Within days, firms with little experience were manufacturing and delivering parts to AS
- AS assembled and inspected valves before shipment to Toyota
- About 200 of Toyota's suppliers were involved

**Outcome**

- Vehicle production restarts just 2 days after stoppage and is close to normal levels in 6 days
- Accident initially cost:
  - 7.8B Yen (\$65M) to Aisin
  - 160B Yen (or \$1.3B) to Toyota
- Damage reduced to 30B Yen (\$250M) with extra shifts and overtime

**Toyota issued a \$100M token of appreciation to their providers as a gift for their collaboration**



## Knowledge Management Framework

Information exist in order to support decisions and action. Without action information is worthless. By developing knowledge management capabilities, competitive intelligence on external markets can be stored and called off in a structured way by all stakeholders which in turn can lead to improved internal collaboration. Implementing knowledge management capability requires:

1. Board level support as without this insufficient resources will prevail
2. Organisational awareness to its external environment
3. Awareness of the importance of competitive intelligence
4. Effective feedback systems back to the data collector

CPO's are well positioned to lead in developing this capability, but must ensure:

1. Staff understand their organisations business in order to understand its needs. More importantly is, what knowledge is critical to creating value & competitive advantage?
2. Create structures and mechanisms to support this need and the nature of the information sort.
3. Collect, analyse and reformat the data into a usable format to support decision making
4. Distribute relevant data to users

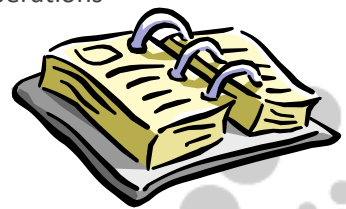
## Conclusion

Agility in responding to changing market conditions has become the number one challenge facing business today and can represent the largest opportunity for companies to differentiate in customer service, enhance margins and secure sustainable growth. By building agility into the supply chain, companies create value for their customers, their suppliers and for themselves. To achieve this CPO's must integrate procurement more closely with their key stakeholders to facilitate effective market event management. By forging explicit connection points to Sales and Marketing, and Operations etc they can more effectively respond to events in its external environment.

Visit the **Buying Magician Blog**: [Procurement Aerobics for the Agile Organisation](#)

## For More Information

Purchasing Practice Inc can work with your organisation to develop a strategic procurement capability that will add value and positively affect your top and bottom line. [www.purchasingpractice.com](http://www.purchasingpractice.com)





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Corporate procurement made simple

## Purchasing Practice –*Corporate Procurement made simple*



Purchasing Practice works with clients on the complexity and barriers associated with implementing world class procurement practices; enabling our clients to gain more control over their third party spend management, processes and supply chains, resulting in enhanced capability to deliver innovative cost effective solutions to their own customers.

We drive superior and sustainable financial performance through top line growth, free cash flow and margin improvement (in private sector companies), and best value and service excellence (in public sector organizations).

**We can help your organization “*make change happen*” in procurement. Our services include:**

**Transformation Management:** We will act as a change agent by working with you to articulate and communicate the need for change, develop an enterprise wide procurement blue print and support you through the implementation process.

**Spend Analysis:** We provide spend transparency to our customers as part of our broader service offering, and this data can then be utilized to perform an opportunity assessment on the mapped data, pointing out potential areas for savings.

**Opportunity Assessment:** By working directly with those staff responsible for committing expenditure, or managing suppliers, we will carry out a rigorous review and present our recommendations

**Sourcing Management:** Using our strategic sourcing service enables clients to realize full value from their supply base through leveraging our proven processes

**Category Management:** We work with clients to analyze spend data, define suitable categories then working on a category by category basis to deliver significant benefits

**Supplier Relationship Management:** We will carry out a rigorous review using proven tools and methodologies to present our recommendations.

**Mergers & Acquisitions:** We will work with your M&A team to carry out a rigorous review using proven tools and methodologies

**Private Equity:** Working across your portfolio of companies we will drive value from procurement across business units

**Interim Procurement Solutions:** We essentially act as a flexible extension of the client’s own team, enabling you to realize the benefits of flexibility and scalability not only to identify, but also to implement incremental opportunities with our help.

Call us on 001 778 988 1052 (North America) or on +44(0) 1525 403862 (UK) or alternatively email us at [info@purchasingpractice.com](mailto:info@purchasingpractice.com) to schedule a consultation.

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