

Navigating Uncertainty

Corporate Purchasing Practices

Uncertain times, for the foreseeable future, are the 'new normal.' In light of this fact, CEO's will need to rethink their business strategies, which are usually based on certain unchanging business assumptions or the "indisputables" that are driving growth. All of these assumptions are being tested, but none more so than the answer to the question 'how do consumers spend'.

The balance on consumer demand is undeniably shifting. At a conference in Singapore on November 11, Robert Zoellick, president of the World Bank, said that the role of U.S. consumers in the world economy will stay low. "It's hard to believe that US consumers will play the role they played in past recoveries," said Zoellick. "The US consumer will be too distracted by de-leveraging and rebuilding their savings." More recently (and bluntly), Lawrence Summers, director of the White House's National Economic Council, said that "there is no way our import-led growth is going to be the driving force for the rest of the world's export-led growth going forward." Summers called for a "rebalancing" of the world economy in which U.S. consumers play a less significant role.

For many Asian companies who have relied on the US consumer an "indisputable" driver, taking the Americans out of the game will have significant impact upon strategy. The real question in the 'new normal' is; how do you move from over-reliance on US consumer demand, to find better balanced multi-polarity growth?

Options

Strategic options include developing new products, new markets, mergers and acquisitions or a combination of these. However, companies are coming out of this recession with very different

balance sheets, so their available range of options is very different. Asian companies must also expect that the global recovery is not going to be symmetrical so markets will need to be targeted systematically to secure additional poles of growth.

While no one can predict what 2010 will bring, the environment in which CEO's are setting strategy has become more complex. Furthermore, the rapid pace of economic events is challenging CEOs in their efforts to focus on the long term, and to keep the organization and its processes well aligned with shifting strategic priorities. The key to success in this environment is 'agility'. Driving agility into their business requires CEO's to balance long

term strategy with market changes. So instead of preparing the budget and then not changing it much over the course of the year, companies must review priorities at least quarterly and make the necessary adjustments to balance the long term outlook with shorter-term flexibility.

The CPO can play a key role when managing in uncertain times through:

- > Cost Management – by keeping cost down until the "indisputables" have been tested.
- > Market scanning - converting uncertainty into knowledge which managers can use to make strategic adjustments and speedier decisions.
- > Risk management - to identify risk, quantify, investigate causes, and manage and monitor its effects.
- > Collaborating with suppliers to drive innovation that in turn drives growth.

CPO's must ensure that they maintain organizational alignment in order to keep on track. So if strategy drives structure and structure drives processes CPO's must guarantee changes in corporate strategy are reflected in their structure and that their processes support where the CEO wants to go strategically. ■



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Taking the American consumers out of the game will significantly impact the strategy of Asian Companies.