



Managing Uncertainty

Why procurement can make a difference



Expense Reduction
Analysts

SUPPLY
MANAGEMENT **INSIDER**

Introduction

The purpose of this survey, produced with Expense Reduction Analysts (ERA), is to explore attitudes to procurement in a variety of organisations in different sectors and countries, as an integral part of our ongoing investigation into the role of procurement.

The results highlight the need for procurement to extend its influence throughout the organisation, proving its worth by achieving greater control of spend, raising its profile and emphasising its strategic value. This task is even more urgent given the uncertainty in which most businesses operate - with Brexit being a particular concern.

On that issue, senior procurement managers seem as divided as the British electorate with 49% expecting it to have little or no impact on them. Preparing for Brexit is an opportunity for procurement to make a real difference. They are confident they can, they just need to convince the rest of the company.

Paul Simpson
Consultant Editor
Supply Management



An age of uncertainty

One thing is certain about uncertainty - we don't like it. Psychologists say we should consider our brains as vast prediction machines, constantly drawing on cues, consciously and unconsciously, to make sense of the world. When the world makes sense to us, we feel good. When it doesn't, the brain reacts as if our lives are under threat.

Yet in the 21st century, uncertainty is a fact of life - for people and businesses. That is the challenge - and opportunity - that faces companies as they compete in a marketplace where strategies, assumptions and business models can be called into question in an instant, often by such unexpected events as a disaster at a nuclear power station in Japan, an Uber-style disruptive start-up, or the UK electorate's vote to leave the European Union.

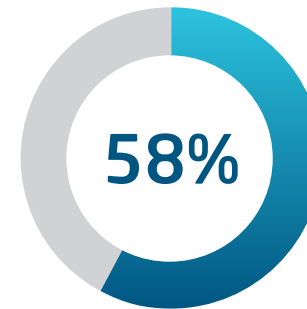
Businesses may find it harder than ever to predict the future, but they can still manage it. Smart companies realise that procurement can help them do this. How? On a very basic level, imagine if your procurement department could, as the charity Sue Ryder has done in collaboration with experts from Expense Reduction Analysts, wipe more than 20% off your cost base.

Those kind of savings could make you much more competitive and resilient. Yet as Rob Allison, of Expense Reduction Analysts, says: "Businesses that recognise the strategic value of procurement can go beyond cost savings, driving efficiencies, becoming more flexible and agile and, by responding more effectively and quickly to the marketplace, outsmart the competition." So is the message finally getting through?

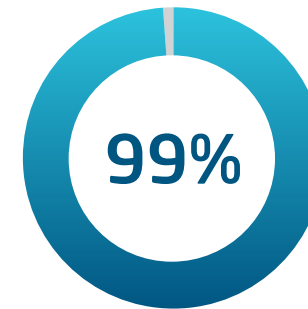
This global survey of 278 senior figures in procurement was conducted during August and September 2016, in the aftermath of Brexit and set against an increasingly uncertain economic landscape.

The state of procurement

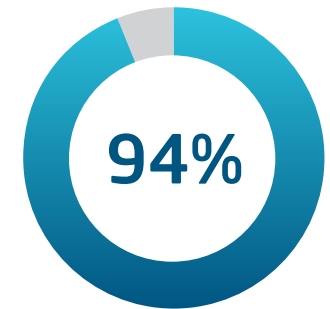
The key findings from the ERA global survey of 278 senior procurement professionals:



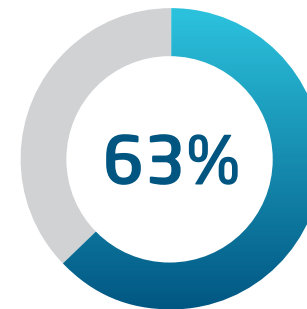
don't have a procurement officer on the board



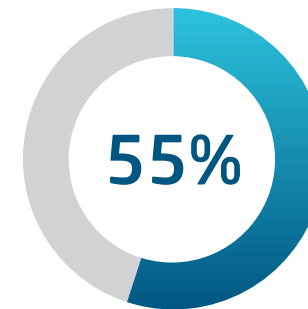
believe procurement should have a higher profile within their organisation



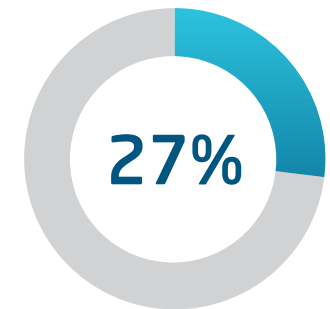
believe more investment in procurement would boost profits



believe they would benefit from using external resources to help within procurement



believe Brexit will make no difference to their procurement



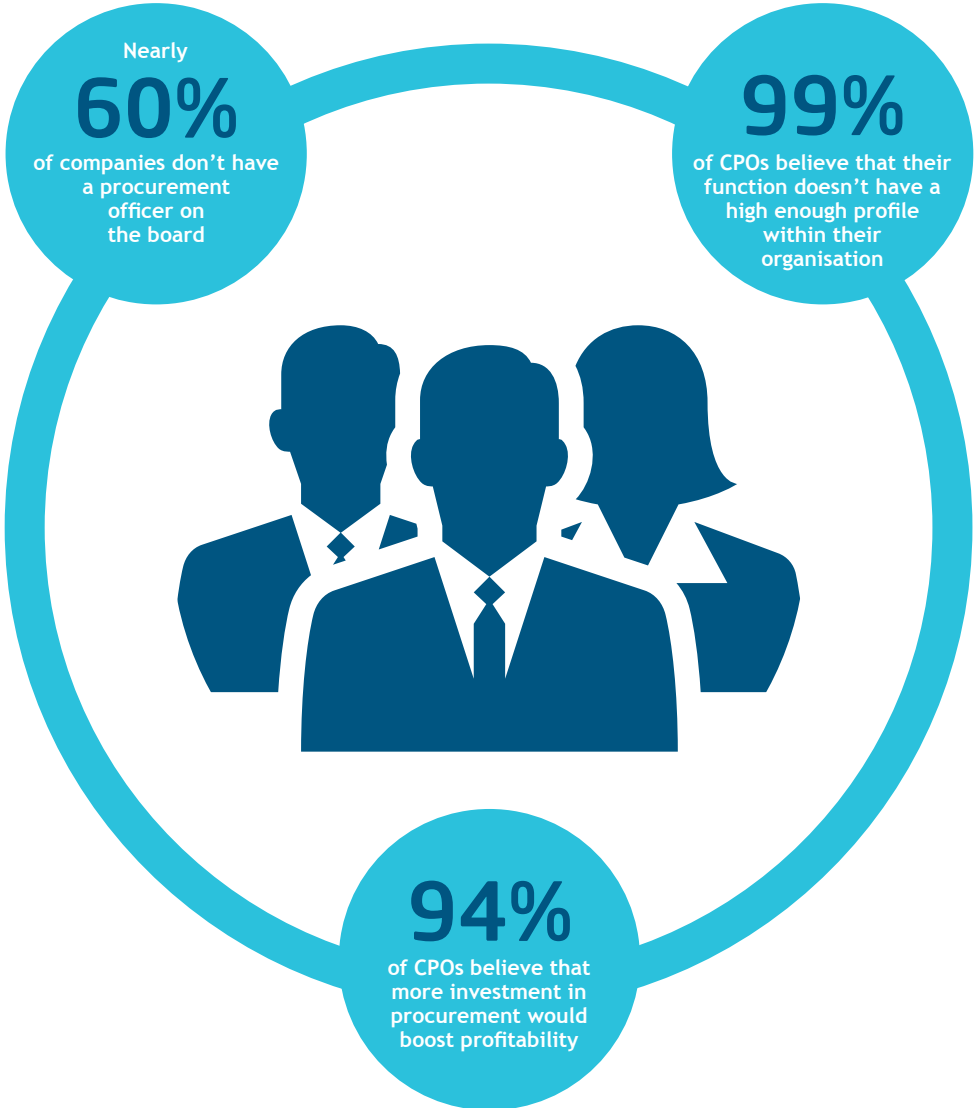
are looking to reduce costs in the short-medium term as a result of Brexit

Is procurement ignored?

This global survey of 278 senior procurement figures suggests that the function's voice is not being heard in too many companies. Nearly 60% don't have a procurement officer on the board, while 99% say their function doesn't have a high enough profile within procurement.

Does this matter? Every department within an organisation secretly believes it is not taken seriously enough. Yet procurement managers are surely right to feel that they can help transform their business: 94% of them believed that more investment in procurement would boost profitability.

What is the answer? Most procurement bosses felt that, with their function not being represented in the boardroom, there is a pressing need to educate directors about the function. The tired old stereotypes about procurement as the department that orders x number of widgets for y percent less than it did last year are still too resilient. Many procurement chiefs are only invited into the boardroom when something goes wrong - so they are often perceived, by other departments, as being as good as the last bad thing they did.



Too many directors don't realise that procurement could help solve some of their most pressing challenges. For example, by reconfiguring a supply chain to get products to market more quickly, or helping them rationalise an over-extended product portfolio by clarifying which lines really make a profit (as opposed to those that companies like to think do).

Such businesses run the risk of a serious disconnect between procurement, the supply chain and their overall business strategy. Indeed most senior managers surveyed felt that the biggest factor stopping them from adding value to the business was the lack of a clear strategic vision. This could well mean that the company's vision has not been effectively communicated to procurement or that procurement has not been fully aligned with the overall corporate strategy.

In some organisations, the relationship between procurement and the rest of the business needs to be strengthened - the survey found that many procurement managers felt inhibited by a lack of support from the very top.

What is a good deal?

One example of this perceived lack of support from the top was that 63% of respondents felt they would do a better job if they could call on external expertise. The return on investment here is clear. As procurement departments take on an ever more complex array of tasks, hiring staff to cover every category or eventuality - from fleet management to logistics or payment systems - is both unrealistic and a waste of resources.

When negotiating, getting a sense of which suppliers are performing well (and which aren't), the current state of the market (and how hard -

and on what - you can bargain), and where vendors weight contracts in their favour, can make the difference between a good deal and a bad deal. For many organisations, which negotiate only every three to five years in certain categories, their perception of 'good' may be behind the curve. With actionable insights from ERA's experts, organisations achieve tangible savings, maintained through contract management, that can be fed back to the board. The transparency and clarity of the information helps to educate directors about the power of effective procurement - and makes an ally of the finance director.

"As procurement departments take on an ever more complex array of tasks, hiring staff to cover every category or eventuality - from fleet management to logistics or payment systems - is a waste of resources."



The strategic value of procurement

Organisations need to redefine their expectations of procurement. The traditional key performance indicators may still be relevant, but why not also measure them on their ability to drive innovation, reduce complexity and generate profit?

Procurement in private and public sector organisations doesn't have to be taken for granted. Indeed, given the complexity of many global organisations, underestimating procurement could be hurting the bottom line.

ERA's survey finds that procurement bosses are confident that they can make a difference - but the rest of the company is yet to be convinced. Yet in ERA's experience, procurement is already proving itself a strategic asset in all kinds of markets.

The process of convincing the CEO often starts with some quick wins.

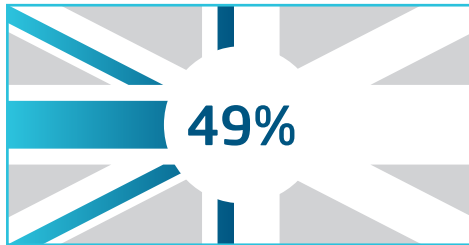
For Eurac Poole, this was a 51% saving on industrial gases for their manufacturing process. For Harpenden building society it was a 51% cut in the cost of disposing of its confidential

waste. Such victories often lead to wider reviews and more strategic discussions.

At wastewater management specialist Jacopa, ERA helped the company uncouple their IT and software from its former parent company and replace an ERP system that was unfit for purpose and bed in a cloud-based solution. That meant the organisation didn't have to bear the costs of new IT personnel and minimised future spend on hardware.

As Robert Allison says: "The idea that procurement can be a strategic asset is gaining traction - but that can only happen with buy-in from the very top. It's time more directors took decisions that impact on procurement on the basis of what they know, rather than what they think. At the same time, procurement managers need to initiate different kinds of conversations within the business. Squeezing costs is valuable - especially as companies prepare for a post-Brexit world - yet if procurement is to truly prove its strategic value it needs to help make decisions, not just be informed of them."

How will Brexit affect your direct and indirect costs?



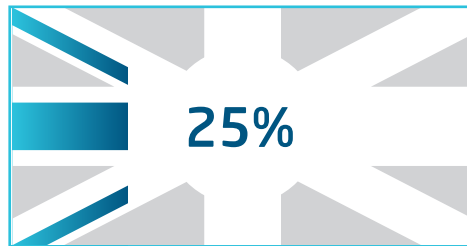
expect Brexit to have little or no impact on their business



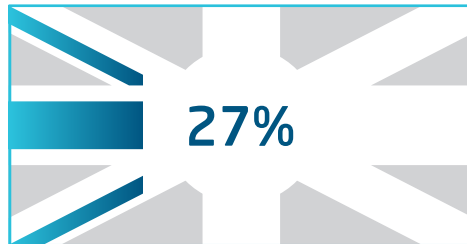
say Brexit will have no effect on their procurement

Do you believe Brexit is the most likely to...

What steps have you taken?



fear Brexit will have a negative impact on their business



plan to reduce costs wherever possible

What impact will Brexit have?

Brexit - the known unknown

The greatest known unknown facing global businesses is Brexit. Politically, the issue was clear: the UK has voted, on terms still to be negotiated, to withdraw from the European Union.

Economically, very little is clear. The devil here genuinely is in the detail, especially the nature of the UK's post-Brexit access to the European Union market. In the short-term, the most dramatic effect has been to make currency markets more volatile, boost UK exporters and drive up costs for British importers. The evidence as to whether Brexit will discourage investment in the UK remains mixed.

After all the claims and counterclaims during the UK's referendum campaign, the ERA survey suggests that procurement managers are optimistic about Brexit: 49% expect it to have little or no impact on their business, with 25% fearing it will make it worse and 10% convinced it will be good for them. An intriguing 55% say it will have no effect on their procurement.

With so many different scenarios being spun, 42% say the effect on

companies' direct and indirect costs is too unpredictable to call. One in four expect no change, while 22% expect their costs to rise due to a weaker trade deal with the EU and the likelihood of import tariffs. Though it is hard, as of now, to plan too thoroughly for Brexit, 27% of respondents planned to reduce costs wherever possible.

The results suggest that while Brexit may not be welcomed by many businesses, the panic that followed the vote in some boardrooms has subsided. Almost one in four respondents expect it to increase the value of procurement within their organisation. That is not unreasonable. For some businesses, Brexit will ask fundamental questions about their business models, strategies, processes and supply chains. If these companies are to succeed in a post-Brexit world, procurement needs to be at the heart of that, proving its strategic value.

The question remains: will the rest of the business be willing to listen? And more importantly, as a procurement professional, what are you going to do about getting them to do so?

Conclusion

Since this survey was conducted, there have been some significant geopolitical developments. It's become increasingly clear since June 23rd, that the simple 'yes / no' referendum question masked a far more complicated answer. We don't yet know what our new position in the world will be, or what our new trade deals will look like.

The election of an unpredictable President in the US likewise looks like creating a future that appears increasingly uncertain.

It was shocking to see that more than half of this survey's respondents think Brexit will have little or no effect on their procurement and nearly half - 49% - believe it will have little or no effect on their overall business. We have to say, that's an astonishing result, and certainly not in accordance with the concerns discussed at CIPS' annual conference 'Procurement at the heart of business' in October.

Actually, we believe that uncertainty brings with it an unprecedented opportunity for procurement to show its value to organisations. Properly planned, proactive management of cost and ongoing contract and supplier management, can help to mitigate the impact of market and currency fluctuations and price increases.

The ramifications of a wide range of current affairs are likely to increase the focus on cost, efficiency and supply chain. Procurement teams need to be braver and more vocal than ever before. Uncertainty presents procurement professionals with a real opportunity within organisations to initiate change. We already know we can generate far more value than equivalent investment in sales and marketing.

Now we must take responsibility. We need to find our voice, demonstrate our value and - to borrow a phrase from another campaign - take control.

When 99% of the professionals surveyed believe procurement should have a higher profile in organisations, and 94% believe more investment in procurement would boost profits, managing uncertainty gives the procurement community an unprecedented responsibility to lead now.

We must all take it.



How ERA works with its clients

The following case studies demonstrate how ERA use the expertise of their network to work alongside procurement teams, delivering financial savings and adding value from suppliers.

Trane

The challenge

Trane, part of Ingersoll Rand, are world leaders in air conditioning, with expertise in energy conservation and environmental technology. They have a large overhead spend, including hundreds of thousands of pounds per year on gases.

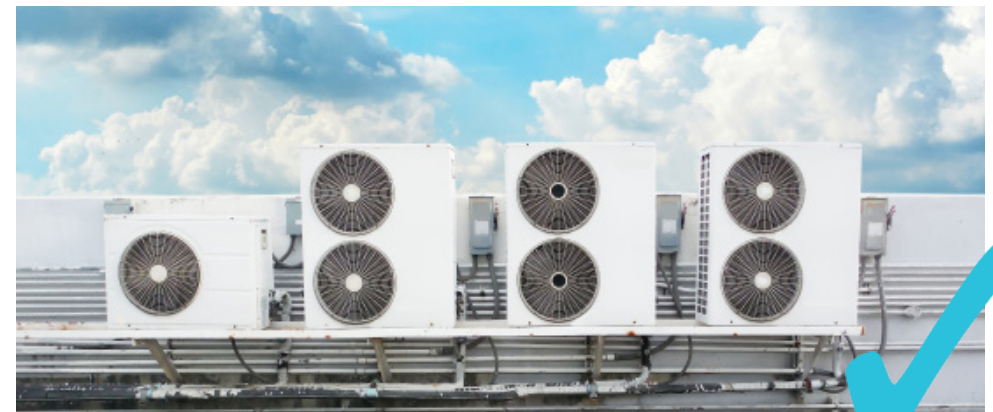
The solution

ERA immediately rationalised their current supplier base down to a single supplier for each of industrial gases and refrigerants. As refrigerants are a commodity market, prices and usage continue to be monitored and increases and overcharges challenged.

Originally this led to 23% savings, followed by tenders producing continued savings in the years that followed; a further 13% in 2012 and a further 16% in 2014. ERA also saved Trane significant sums on Parcel Distribution (58%), Office Supplies (37%), Filters & Belts (16%) and Specialist Tools (5%).

The outcome

Today, seven years since the original three year contract ended, Trane continues to engage ERA on an ongoing basis to regularly audit spend levels, seeing us as a virtual part of their procurement team.



How ERA works with its clients

National Pharmacy Association

The challenge

This national trade body for pharmacy retailers had targeted a £300k saving and gave ERA's Robert Stearn and David Keating open access to review their indirect costs.

The solution

They brought in relevant specialists to undertake a review and make recommendations for improvements in a wide range of cost areas, including Print; saving c. £60k on Catalogue Print, c. £45k on Marketing Print and

c. £95k on Training Print. In addition, ERA generated rebates across the portfolio of c. £100k and savings of £200,000 per annum on Warehousing & Distribution.

The outcome

We'll leave that to our client Adrian Palmer, Finance Director. "The results of the 15 projects undertaken have been outstanding. We agreed a total of £300k total savings, which I thought was ambitious. They have nearly doubled it, saving £584k in total."



DFS

The challenge

For the £900m+ turnover DFS furniture group, reducing waste and increasing recycling was a corporate goal. With more than 100 UK stores, as well as three UK factories, the handling of waste across its estate was a huge undertaking.

The solution

After committing to a 'zero to landfill' policy for Head Office, which set out a bold statement to the rest of the business, ERA's Waste Management specialist Pete Bramhall opted for a phased approach to change, comprising ten initiatives. After savings of 19% and 20% totalling £100k across waste handling equipment and waste collection, Pete then reviewed

the recycling of polythene. After adjusting arrangements from storing and baling this waste, to having it removed at the time of delivery, savings of 78%, or £86k per annum are expected, with vital storage space also freed up in the warehouse.

The outcome

The cost savings have been impressive, but the environmental impact has been even greater. With a dedicated Account Manager in place from a new supplier and increased visibility, DFS are able to push for their ISO 14001 accreditation and will also increase their Business In the Community score, as they are now able to prove their recycling rates.



Expense Reduction Analysts (ERA) is a global network of specialist procurement experts. We provide bespoke project teams to assist organisations with improving value from a range of direct and indirect cost areas.

Our experts come from long careers in their areas of expertise and their knowledge, combined with our process, regular visibility of the markets and approach to ethical, sustainable supplier relationships enables organisations to achieve tangible value improvements from the supply chain.



**Expense Reduction
Analysts**

3 Meridians Cross, Ocean Way, Ocean Village,
Southampton, Hampshire, SO14 3TJ

Tel: 023 8082 9737

Web: www.expense-reduction.co.uk

**SUPPLY
MANAGEMENT INSIDER**

Expense Reduction Analysts trademarks are operated under license from ER Associates (UK) Ltd.