

Outsourcing

Seizing the Opportunity: Achieving High Performance in Today's Economy through Procurement Outsourcing

Podcast Transcript



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Welcome to the Accenture podcast entitled *Seizing the Opportunity: Achieving High Performance in Today's Economy through Procurement Outsourcing*.

It seems logical that extraordinary economic times would have an effect on procurement. With that in mind, we at Accenture went on a fact-finding mission. And what we learned was this: A new business environment is emerging. Significant opportunities are available. And procurement leaders are now moving beyond their traditional boundaries to help shape the strategic options of their businesses.

In this podcast, we'll paint a new picture of the procurement landscape and talk about what it means to you.

We started by surveying more than 300 members of the CPO Circle, an Accenture facilitated community of chief procurement officers responsible for sourcing and procurement strategy and execution. Specifically, we wanted to know:

1. What is the effect of the economic downturn on procurement?
2. How are relationships with suppliers changing?
3. And how are the procurement leaders responding in the short term and the long term?

The first thing we asked our group of chief procurement officers was **have they noticed any difference?** And they had. More than three-quarters of our respondents said the economy was "significantly affecting" their procurement functions.

They told us that if you looked at every aspect of the procurement function carefully—from workload to resource provision; from supplier relationships to talent management—you would find virtually no component that is untouched by the economic downturn.

Based on their experience, the evidence is clear that they're being asked to do more with less. Budgets are being cut. Headcount is down.

Technology investment is reduced. And savings targets are up. Nonetheless, respondents also reported that the prices for raw materials were lower as they became more freely available.

When asked about their **supplier relationships**, more than half the respondents said their suppliers had increased—or attempted to increase—their prices due to the strain in the financial markets.

Nearly half of respondents said their suppliers were actively resisting projects to reduce working capital. Security of supply was an issue, as almost 20 percent of respondents said they had suppliers who had been unable to meet their supply levels or needs. And almost 15 percent reported having suppliers go out of business or forced to merge with another company.

So the important question became **how are procurement leaders responding to this changing environment?**

Almost seven out of ten respondents told us they are more closely monitoring the financial stability of their suppliers. Supplier risk management is now a major priority, with regular and intense monitoring of supplier liquidity.

Their short-term responses are focused on cash conservation, cost reduction and supplier collaboration, and relationship management.

- Two-thirds of respondents are re-evaluating or redefining their sourcing strategies.
- More than half are placing an added emphasis on low-cost country sourcing.
- And half of them are increasing or tightening their key performance indicators.
- About one third are increasing their payment terms in response to cash conservation pressures and the higher cost of working capital.

All these changes are taking place under increasing pressures and reduced budgets. Half the respondents reported that they have only six months or less to attain revised budget levels.

The risk is obvious: while focusing on the short term, businesses may lose sight of their longer-term procurement plans.

Feedback from the CPO Circle roundtable was that longer-term initiatives such as procurement transformation programs are, in fact, being neglected while all the focus is on responding to the economic climate.

These findings take on added significance when we consider another piece of Accenture research involving 600 procurement executives from Europe, Asia and North America.

This research highlighted the strong links between procurement "masters" and procurement business process outsourcing. Consider this statistic: Procurement masters achieve savings

30 percent higher than low performers despite having procurement organizations that cost half as much to run.

So they're delivering more, for less – exactly what our respondents to the economic survey are being asked to do.

With the outsourced procurement services, a business in these extraordinary times can increase its control, augment its savings, lower its risks and improve its speed to value.

And when you do that, you begin to move beyond your traditional procurement boundaries to help shape the strategic options of your business. Let me explain. To get a closer look at how leading companies managed their businesses during the last economic downturn, Accenture went back to the recession of 1990 and '91.

- We found 850 companies in the United States that went through that recession, and we analyzed their financial results from 1988 to 1997, leading up to the recession, through the recession, and six years post-recession.
- Tracking their returns on invested capital, we clearly identified one group of companies that outperformed their industry coming out of the recession and another group that clearly under-performed their industry.

What did the winners have in common? When the downturn started, they took action in those areas of their business where their costs were not competitive. But they also invested to strengthen their existing positions and take market share.

- They weren't afraid to trade a low ROIC – Return on Invested Capital – in the early years for a high ROIC later.
- They made acquisitions.
- They entered new markets.
- They pursued organic growth. They introduced new product lines.

- They divested non-strategic business units

The evidence shows that high performance businesses take the opportunities offered by adverse economic conditions and use them to create sustainable competitive advantages. And one of the ways they do it is by adopting low-cost, high-efficiency procurement processes, and seizing paradigm-changing sourcing opportunities. Procurement Business Process Outsourcing delivers precisely this sort of a sustainable competitive advantage.

To learn more, go to accenture.com and download our report entitled [Seizing the Opportunity: Achieving High Performance in Today's Economy through Procurement Outsourcing](#). We hope you found this podcast informative. Thank you for listening.

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