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Creating Advantage from Adversity

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By putting in place rigorous approaches to manage both the supply of goods and services as well as the demand for them, procurement departments can help to enhance significantly their business's ability to deal with the downturn. What is more, by proactively moving to capture the impetus of a declining market, it is possible to wrest significant improvements in contractual terms including price.

And at a time when businesses are experiencing exceptionally adverse economic conditions, that's a rare glimmer of good news for increasingly beleaguered Chief Procurement Officers. To discover how your business can not just cope with economic adversity, but positively capitalize on it, read on.

Turning economic volatility into an opportunity for high performance

There is little doubt that present economic conditions are challenging. As a recent Accenture survey of CPOs noted, in industry after industry, businesses are bleeding red ink, laying-off employees, being nationalized or simply going under. The resulting pressures on the procurement function are immense. Three quarters of those surveyed reported that the downturn was "significantly affecting" their procurement functions. More than half of the responding CPOs reported that their procurement budgets had been cut - and in many cases, by as much as 15 percent. For roughly one in seven CPOs, the cuts were even steeper. Yet at the same time, savings targets have increased, with almost one in five CPOs required to deliver additional savings of 15 percent or more.

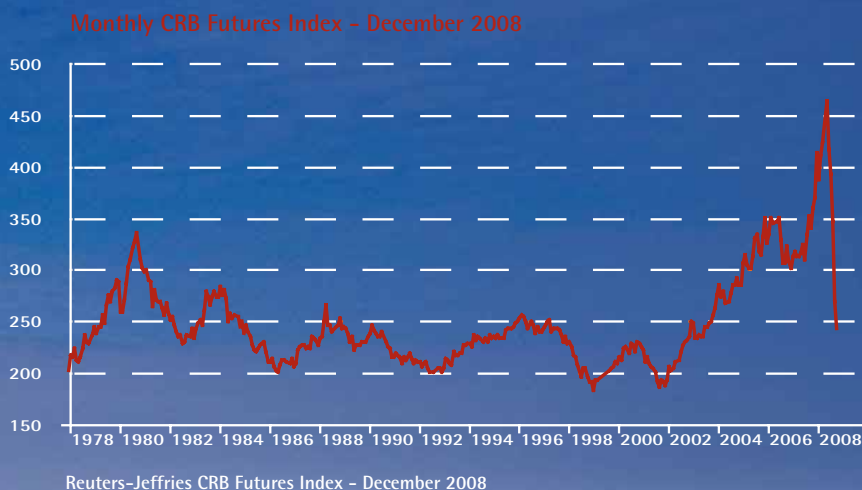
The scale of the transformation in the world's marketplace is breathtaking. Markets that were once buoyant are seeing suppliers driven out of business, or forced into hastily-arranged mergers with competitors. Raw material and energy prices continue to decline, and the December 2008 Reuters-Jeffries

CRB Futures Index shows global commodity prices reaching significant lows. In a period stretching back to the late 1970s, the steepness of the decline of prices in recent months is simply unprecedented.

For many businesses, the present economic conditions have brought about an abrupt change in priorities. Certainly, as our survey found and as the CPOs we spoke to at a recent CPO Circle in Paris confirmed long-term procurement strategies remain

relatively unaffected. But there has been a radical shift in the pattern of short-term activities. Cash conservation is king, keeping a watchful eye on supplier viability is paramount, and strategies for leveraging working capital and cutting costs are more important than ever.

In Accenture's view, the danger is that such responses can comprise a knee-jerk reaction rather than the required reasoned and resourced response that dealing with the downturn demands.





Introducing the “Control Tower”

Exceptional times call for exceptional measures. To deal effectively with this period of economic volatility, Accenture is currently working with clients to help establish and operate a concept called the 'Control Tower'. The Control Tower is dedicated to the examination and control of the supply and demand factors that drive total business expenditure in short, rapidly regaining control of every dollar, euro or pound of expenditure that leaves the business, whether those expenditures are normally within the realm of the procurement function or not. Direct spend, capital expenditure, spend on transportation and logistics, indirect expenditures, these all fall within the scope of the newly established Control Tower.

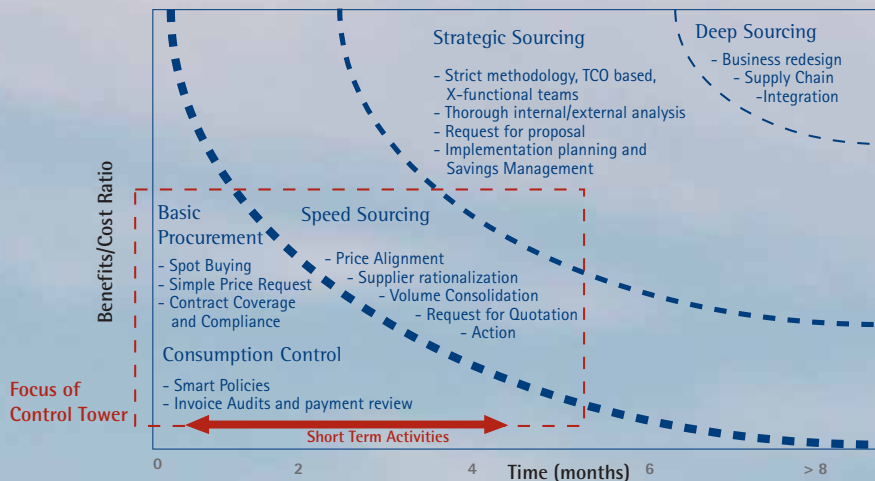
Reporting to a procurement committee including senior business leaders such as the CEO, COO, CFO and CPO the Control Tower's mission is to focus on activities that will make a difference over a short-term timescale of less than six months. Touching only peripherally on strategic sourcing and 'deep'

sourcing, both of which are too long term in nature, the idea is to identify immediate and ongoing opportunities, and implement these quickly and effectively. Supplier rationalization, volume consolidation, auctions, consumption control, spot buying, reviewing coverage and compliance of existing contracts – if it cuts cost, it is considered fair game.

In short, as a focused and dedicated team that is simultaneously in tune with both the business environment

and supplier marketplace conditions, the Control Tower captures savings, directing them smoothly to a safe arrival on the bottom line. In a timescale as short as six months, the procurement landscape will have changed out of all recognition.

But how exactly is this to be achieved? Let's explore how the Control Tower can impact both supply and demand, and consider how Accenture can help in this.





Making a difference

Managing Supply

Decisions cannot be made in an information vacuum. Time is of the essence, and good data is vital. If the data already exists, so much the better – if not, Accenture has the tools and resources to help make it available, from invoice audits through to analyzed spend and contract databases. What is important is that the Control Tower has access to a detailed and fact-based analysis of the business's entire expenditure picture—together with the associated contracts and agreements supplemented by information such as commodity indices and insights into market trends.

By carefully assessing the pattern of suppliers that fall within the top percentile of spend, and examining the existing relationships with these suppliers, the Control Tower team is able to establish which suppliers to focus on for maximum cost reduction opportunities. Remember, too, that the Control Tower's mission is business-wide and not limited to simply

considering expenditures that are already within the scope of the procurement function.

Working collaboratively, supported by Accenture experts where necessary, and deploying proven Accenture tools and methodologies. The Control Tower prepares and conducts supplier negotiations using customized negotiation strategies; for instance, making use of scripts and templates to use the key levers applicable to each supplier. What is more, using market trend information and price index databases, the team is able to identify specific opportunities to negotiate price reductions based on recorded decreases to cost drivers. The information that has been gathered on expenditure and contract structures is also used to further assess the associated benefits that might come from changes to or harmonization of payment terms, as well as the use of index-based contracts.

Importantly, leaders across the different areas of expenditure freely exchange ideas and validate proposed strategies,

ensuring that the tactics employed with individual suppliers are effective in achieving cost reduction, without harming valuable supplier relationships. Critically, too, the negotiation strategy uses the optimal combination of the most relevant and beneficial levers available, in order to ensure that the business is able to present a strong case to suppliers for requesting price decreases and other cost reductions. As appropriate, "reverse auctions" can be used as a way of quickly unlocking identified improvements. Typical outcomes of these activities include price reductions ranging from 5–30 percent.

The monitoring and management of supplier risk is another important task. Measuring key performance ratios and utilizing analyst reports and credit ratings, the Control Tower puts in place strategies to help protect and insulate the business from any risks associated with supplier bankruptcy. This may include active dialogue with suppliers in order to understand their current financial situation and client portfolio, and then using this information to

establish minimum acceptable levels at which a supplier must be excluded from use by the organization, due to risks associated with inadequate financial stability.

Contract compliance and price alignment also play an important role – and in our experience, can deliver significant returns. A thorough review of contracts, for example, often reveals that prices vary by country and business unit, despite standardized requirements. By obliging suppliers to align prices across the board, the Control Tower not only reduces short-term costs, but provides a long-term benefit by reducing the complexity associated with monitoring and maintaining multi-country contracts. In parallel, the detailed auditing of invoices ensures that suppliers adhere to the agreed-upon prices, conditions and terms that were specified in the originally-negotiated contracts.

Managing Demand

Another important focus of work for the Control Tower is cost avoidance, which is achieved by tactically managing the organization's consumption. Again, data is critical – especially with respect to indirect expenditure that is seldom monitored, but which can drive significant spend volume. From Accenture's experience, expenditure in areas such as travel, telecommunications, printing, office supplies, and corporate subscriptions are fruitful areas in which to begin the process.

Essentially, the role of the Control Tower is to help formulate and enforce "smart policies" that target consumption reduction. This is not a slash-and-burn exercise: it is crucial to clearly distinguish between "good" and "bad" costs. Not all costs can or need to be reduced, and some costs clearly help to keep the business operating and growing. With an emphasis therefore on "bad" costs, the idea is to identify

short-term measures that can make a significant impact very quickly. Typically, such policies might include measures such as limitations on travel class and travel destinations, the cancellation of subscriptions to non-critical societies and publications, the imposition of restrictions on the usage of mobile devices and data services, and mandating double-sided and non-color copying in all but exceptional cases.

Tinkering at the edges? Review the costs – and then decide. But senior business leadership buy-in and communication are essential. This is where the Procurement Committee (typically including the CEO, CFO, COO and CPO) plays an especially important role, making critical decisions and communicating the new measures to the wider organization. For actual implementation and follow-up, Accenture has developed with its clients several approaches and tools that track the compliance and outcome of these measures. In some areas, consumption has decreased by up to 30

Accenture is working with clients to capture and address the economic downturn, taking both proactive and reactive measures to manage Supply and Demand factors.

Supply

- Monitor commodities and market trends
- Manage supplier risk by monitoring financial ratios of suppliers and check financial standing with financial institutions
- React to supplier price increases and expiring contracts: short term through fact based negotiations
- Conduct Mega-supplier negotiations and price requests
- Extend payments terms
- Expand existing contracts and align prices
- Define and measure benefits
- Execute reverse auctions
- Manage control on "no price increase" compliance
- Recover duplicate payments and discounts earned
- Increase discounts with common suppliers
- Audit invoices (APRA)



Demand

- Develop smart policies with internal behavioral guidelines to monitor and control consumption
- Solicit top management sponsorship
- Communicate properly on consumption control policies
- Follow-up and measure compliance
- Focus on targeted marketing
- Ensure alignment with company sourcing strategy

percent-while still keeping the business running, and the lights on.

Getting started

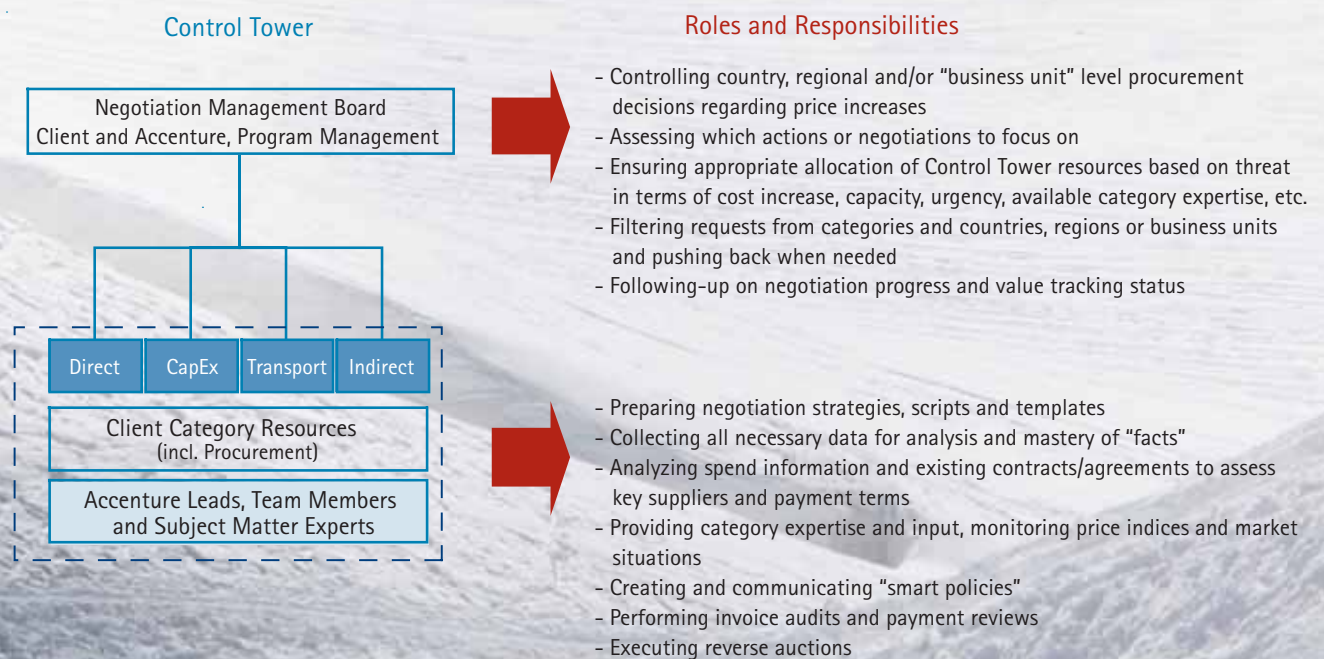
To capture the full benefits of the Control Tower approach, it is important to put in place the correct framework. Some activities—such as establishing a clear normalized baseline from which to track progress and calibrate marketplace changes are obvious. Others are less so. For instance, a consistent and clear way of dealing with supplier-initiated proposed changes to price levels, and changes to contract and payment terms, goes a long way to helping individuals respond in a cohesive manner that lends authority to the organization and validates the business's position.

Just as important is the organizational framework: establishing the Control Tower and the Procurement Committee to which it reports. The Control Tower itself includes both a Negotiation Management Board, to control the Tower's day-to-day activities, and a

team to execute its instructions—including both Accenture and client resources, and pulling in the expertise of category experts, senior procurement leadership, and business unit representatives as necessary. Applying insights learned from actual situations and experiences faced by our clients, Accenture has developed reusable assets and methodologies to maximize returns in the short-term, ensuring that both the supply and demand factors within an organization are addressed. And, what is more, Accenture is ready to work with clients in a risk and reward sharing agreement in delivering these returns.

But remember, while the emphasis may be on dealing with the immediate economic downturn, the real prize lies in the longer-term. The best analogy is perhaps one that is familiar to many of us: a diet can help one lose weight quickly in the short-term; but to maintain results, changes must also be made to long-term eating habits. Similarly, to ensure sustainable results, a business must ensure that throughout

the process, measures taken in the short-term are aligned with the longer-term strategic objectives of the organization as a whole. By using a holistic approach and leveraging existing initiatives and assets, Accenture helps clients to deliver sustained value, helping to position them for better performance in the years ahead.



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About Accenture Supply Chain Management

The Accenture Supply Chain Management service line works with clients across a broad range of industries to develop and execute operational strategies that enable profitable growth in new and existing markets. Committed to helping clients achieve high performance through supply chain mastery, we combine global industry expertise and skills in supply chain strategy, sourcing and procurement, supply chain planning, manufacturing and design, fulfillment, and service management to help organizations transform their supply chain capabilities. We collaborate with clients to implement innovative consulting and outsourcing solutions that align operating models to support business strategies, optimize global operations, enable profitable product launches, and enhance the skills and capabilities of the supply chain workforce.

For more information, visit www.accenture.com/supplychain

About Accenture

Accenture is a global management consulting, technology services and outsourcing company. Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world's most successful companies, Accenture collaborates with clients to help them become high-performance businesses and governments. With more than 186,000 people serving clients in over 120 countries, the company generated net revenues of US\$23.39 billion for the fiscal year ended Aug. 31, 2008.

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