

Procurement in uncertain times:

- Challenges
- Is going digital an opportunity, or threat?

eXplore Conference: Digitalizing Logistics and Supply Chains to reinforce resilience

PRESENTED BY
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PRESENTED ON
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**What comes in your mind
first when you hear
“Procurement in uncertain
times”?**



Procurement in uncertain times

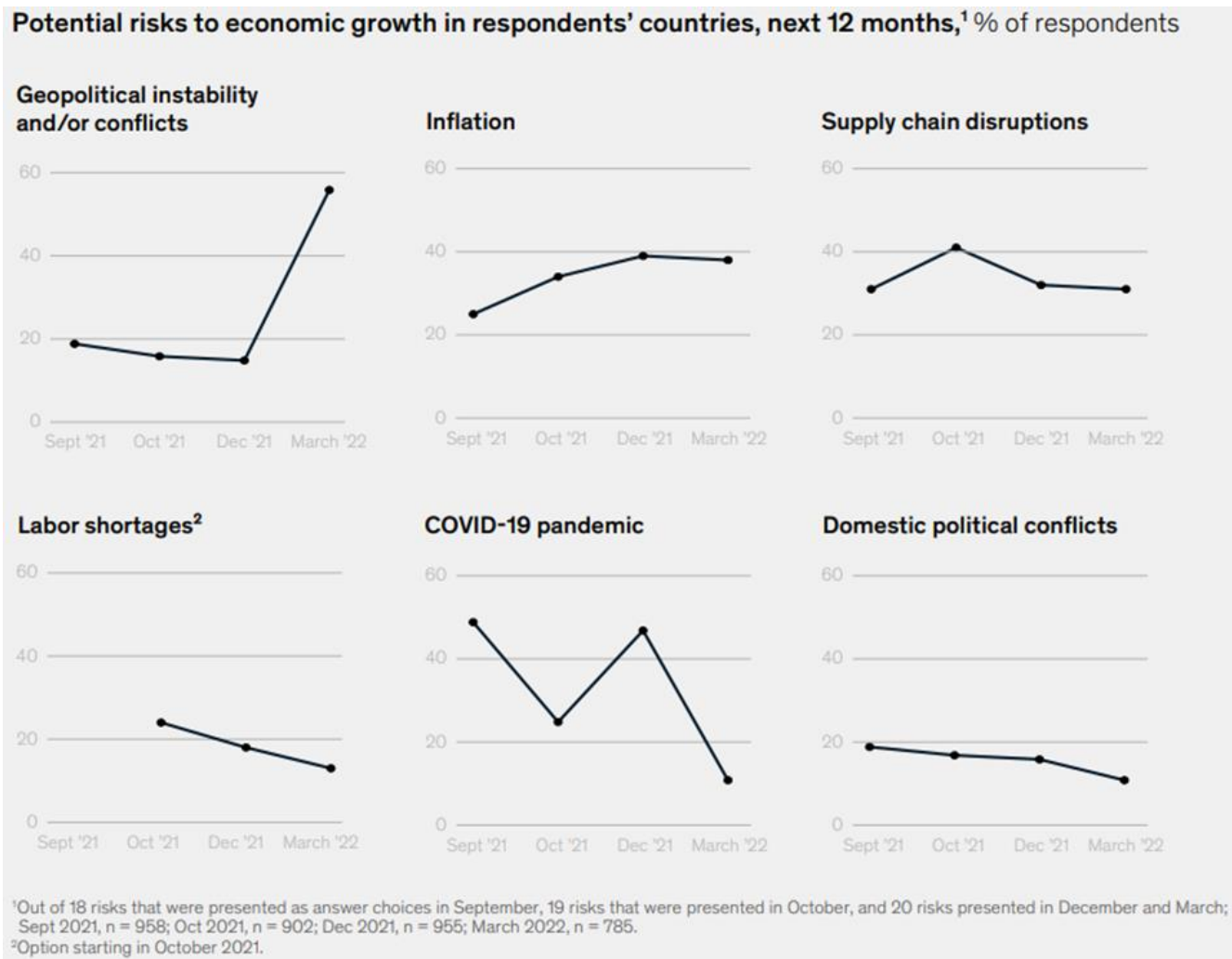
Global Supply Chains challenges

The pandemic has disrupted nearly every aspect of the global Supply Chain: sourcing, manufacturing, logistics, transportation, mining, etc have all been impacted severely, with consequences in shortages, delay and higher prices for components and finished products.

- ▲ Many factories shut down or were forced to reduce production, with workers sick or in lockdown. In response, shipping companies cut their schedules in anticipation of a drop in demand for moving goods around the world.
- ▲ Other many factories have tried to keep up with demand, but this produced its own troubles. Factories generally need to bring in (sub)components to make the things they export, which increased demand even more across global supply chain.
- ▲ The steep rush for demand clogged the system for transporting goods to the factories that needed them. At the same time, finished products piled up in warehouses and at ports throughout the world because of a shortage of shipping containers that carry goods on vessels. Because containers were scarce and demand for shipping intense, the cost of moving cargo skyrocketed.
- ▲ With warehouses full, containers, suddenly serving as storage areas, piled up at ports, the result was an overwhelming supply chain traffic jam.
- ▲ Shortages and delays are likely to continue since a lot of companies are ordering in mass, which is impairing the shortages, sending more surges of goods which ultimately intensifying the shortages.

This is no longer managing a normal supplier or partner relationship; this is a global crisis that has been also compounded by the Ukraine / Russia Crisis

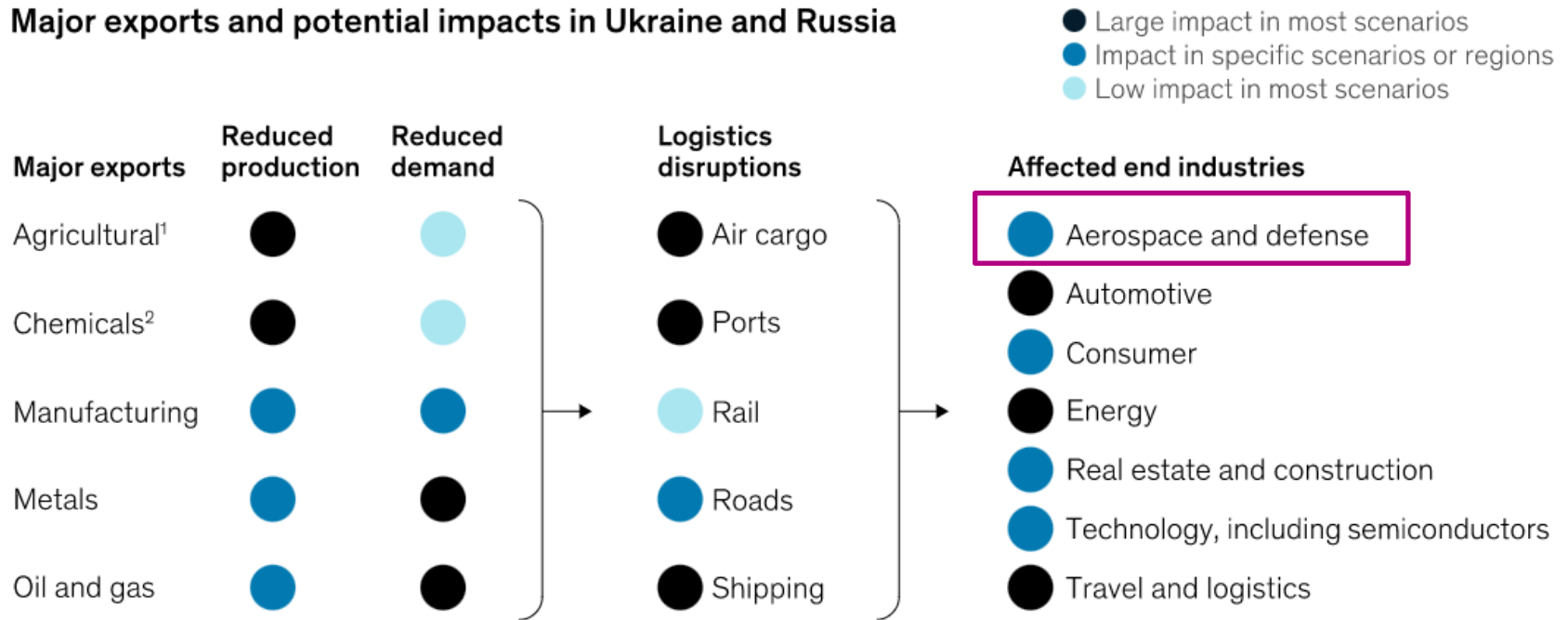
Geopolitical instability emerges as a major concern for domestic growth, while COVID-19 pandemic concerns recede



Source: McKinsey & Company - Full-potential procurement: Lessons amid inflation and volatility – April 2022

The Ukraine – Russia conflict is having a major impact on supply chains in five key sectors

Major exports and potential impacts in Ukraine and Russia



¹Only agricultural production, ie, crops.

²Includes agricultural chemicals and fertilizer inputs.

Source: McKinsey Resilient Operations Center

Source: McKinsey & Company - Supply chains: To build resilience, manage proactively– June 2022

How to deal with it?

1 **KEEP KEY SUPPLIERS / PARTNERS ENGAGED**

- ▲ Sales teams to provide accurate forecasts, allowing procurement to order in advance and cope with longer lead-times
- ▲ Share rolling short-medium-long-term forecasts with suppliers, anticipating the sales opportunity requirements to secure early, competitive production slots

2 **MITIGATE RISKS LEVERAGING MULTI-SOURCE STRATEGIES**

- ▲ Work with multiple sources of supply, run RFXs and challenge suppliers on cost and lead times
- ▲ Create 'Seed stock' for critical programs, leveraging volume discounts
- ▲ Order safety stocks to deal with longer lead times and leverage cost.

3 **ACTIVELY MANAGE SUPPLIERS' RELATIONSHIPS**

- ▲ Scorecards for key vendors, regular business reviews to respect pricing agreements and SLAs in place
- ▲ Identify & confirm action-plans for smaller ones with no contracts/SLAs in place
- ▲ Follow up on implementation and continuously improve

How going digital will help navigate the uncertainty?

**... but first, what going
digital means?**

Going digital

- ▲ Albert Einstein once said: “The world as we have created it is a process of our thinking. It cannot be changed without changing our thinking.”
- ▲ When entering the digital mindset arena, we must change how we think and do things, being collaboration, systems, processes...
- ▲ Digital mindset is not just about technical skills. It’s also a way of thinking—a way of thinking about data, devices, and technologies as well as how you operate in an organization.
- ▲ Important is to reach the minimum threshold, or the minimum digital literacy or fluency one needs to participate and contribute in a digital context
- ▲ Whoever does it is there to stay, and contribute to the digital evolution (or revolution 😊)
- ▲ Whoever doesn’t, will make himself / herself obsolete

Source: McKinsey Global Publishing – Author talks: interview with Tsedal Neeley,– June 2022

Digital transformation
Disruptive innovations
Industry 4.0

...

How we humans navigate uncertainty is key to success.



It's on us, humans...

**Digital dreams: is
Procurement ready to make
the jump from Digital
Transformation promise to
realization?**

VISION 202x: “Going digital”

Chief Procurement Officers’ vision: **make Source-to-Pay processes and systems frugal, while keeping up with the corporate rules.**

... but how to do that?

Go digital - “Amazon-type” buying experience

Is technology the solution?

Right technology is the key!

... Provided that this exists and is mature enough!

... but, no great technology will overcome issues with IT infrastructure agility, policies or people that fail to adapt to a changing market environment.

Better said, technology, no matter how advanced, is not a “silver bullet solution”

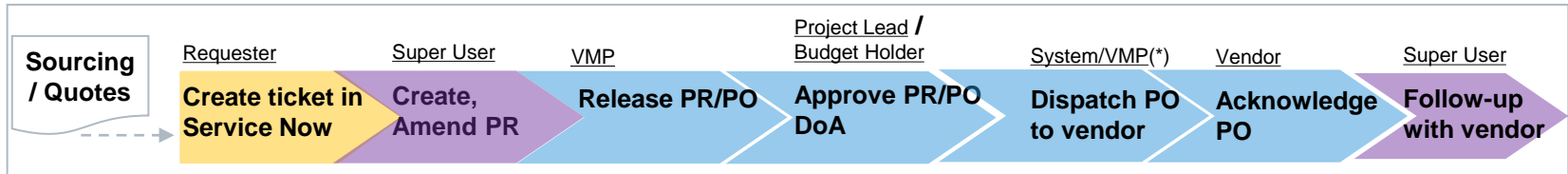
... plus...

...digitalizing complexity is not easy...

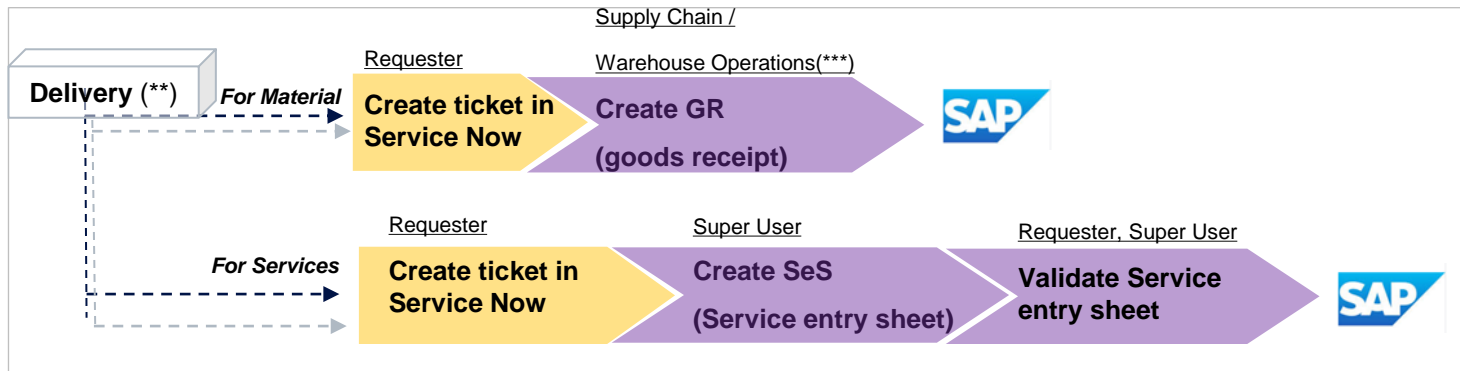
Source-to-Pay Process is already complex enough

Procure

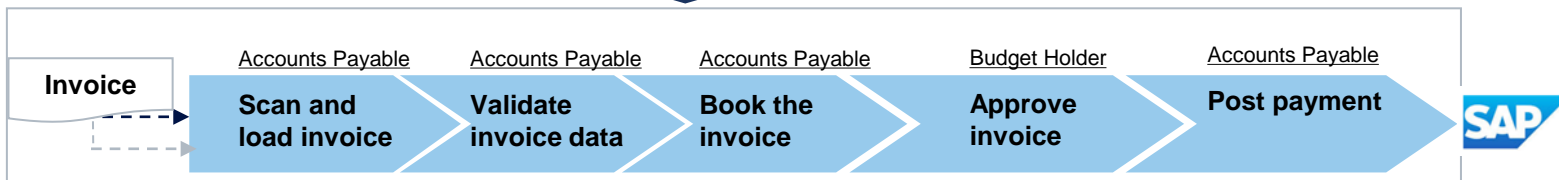
Via **SAP Ariba** or via **SAP**



Receive



Pay

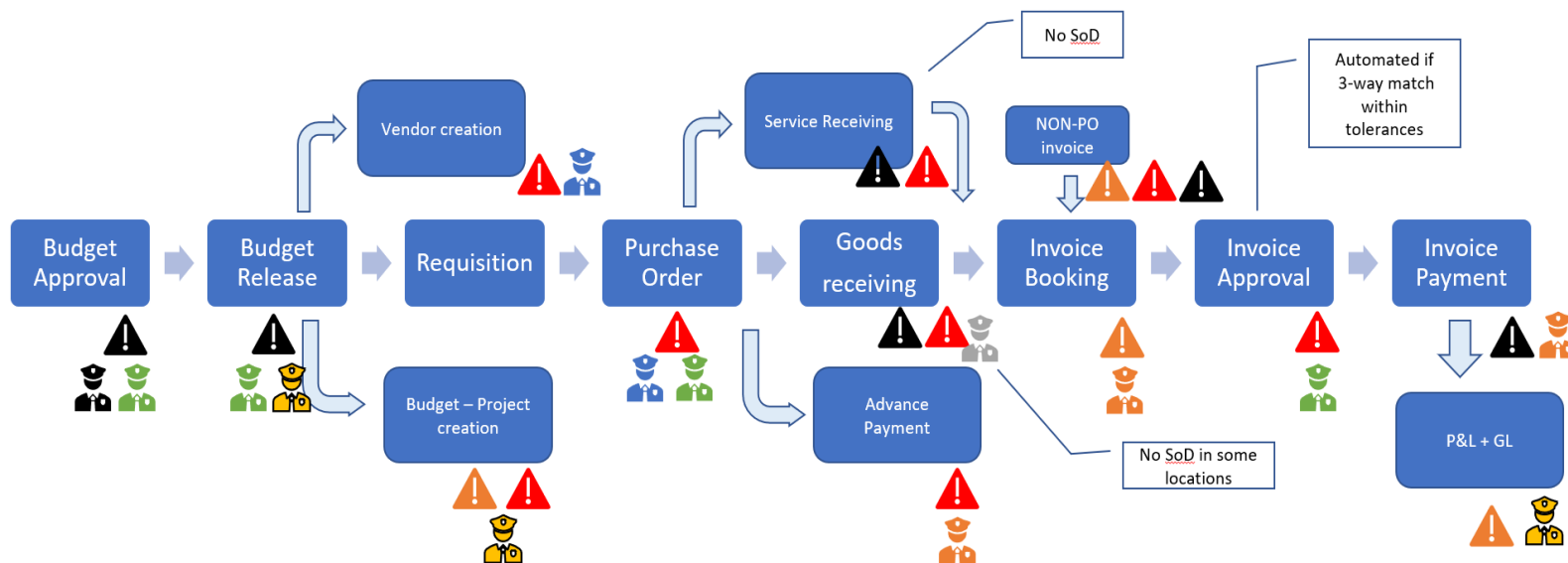


Done by requester in Service Portal
 Done by Super user

Optional

...digitalizing complexity is not easy... again

Process Risks and Corporate Controls don't make it easier



Risk Types:

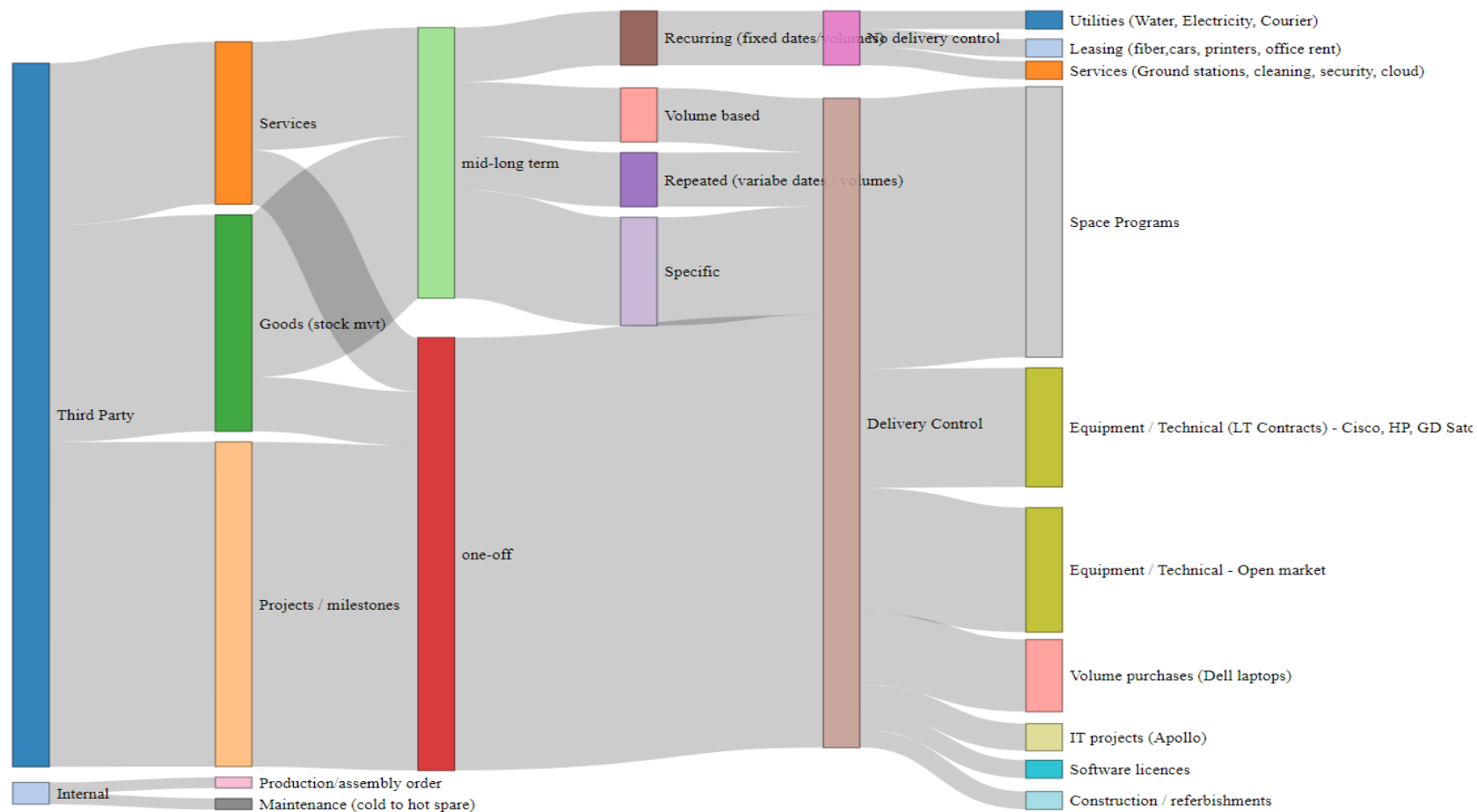
- Fraud (incl. Bribery and Corruption) and Compliance (Sanctions, Export)
- Finance Reporting (ex. Liability not timely recognized. Accruals)
- Business Performance (ex. spend out of [budget] control, quality issues)

Control Activities performed by:

- | | |
|--------------------|-----------------|
| BoD | Management |
| Vendor management | Accounting (AP) |
| FP&A + Controlling | Logistics |

...digitalizing complexity is not easy... once more

Different use cases add to complexity



**... as if that were not
enough...**

...digitalizing complexity is not easy... last, but not least
Procure digitally, sustainably, from your entire supply chain



**In the end, do we go digital
or wait better times...?**



It all depends...



Procurement wins based on lessons learned in 2021 (1/3)



Enable immediate action

*Create transparency and right setup
to implement immediate actions*

- 1 Have you prioritized categories based on exposure?
- 2 Is a cross-functional inflation nerve center in action to quickly capture value?
- 3 Are you deploying a full set of levers to mitigate short-term challenges (eg, supply, demand, inventory)?

Source: McKinsey & Company - Full-potential procurement: Lessons amid inflation and volatility – April 2022

Procurement wins based on lessons learned in 2021 (2/3)



**Take action to secure supply
and mitigate price increases now
and in the next months**

*Deploy advanced solutions
to manage costs and set targets
to enable resiliency*

- 4 Have you identified a full suite of levers that mitigate risk via technical, demand, process, financial, and commercial levers?
- 5 How will you define longer-term value creation in the face of continued uncertainty?
- 6 Do you have effective cross-functional partnerships in place to execute all levers?
- 7 Do you have effective strategic partnerships in place to assure supply and to stay relevant?
- 8 Do you have a way to accelerate alternatives (eg, new suppliers, new locations, new designs, new materials)?

Source: McKinsey & Company - Full-potential procurement: Lessons amid inflation and volatility – April 2022

Procurement wins based on lessons learned in 2021 (3/3)



Institutionalize to prepare for the new normal

*Build capabilities, tools,
and processes to manage
future uncertainty*

- 9 How will you improve the procurement operating model with the learnings from mitigating current challenges?
- 10 Which new systems and tools will you put in place to assure future resilience?
- 11 Do you have the right talent and capabilities in your team?
- 12 How will you redefine procurement governance and cross-functional collaboration to enable both agility and resiliency?

Source: McKinsey & Company - Full-potential procurement: Lessons amid inflation and volatility – April 2022

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