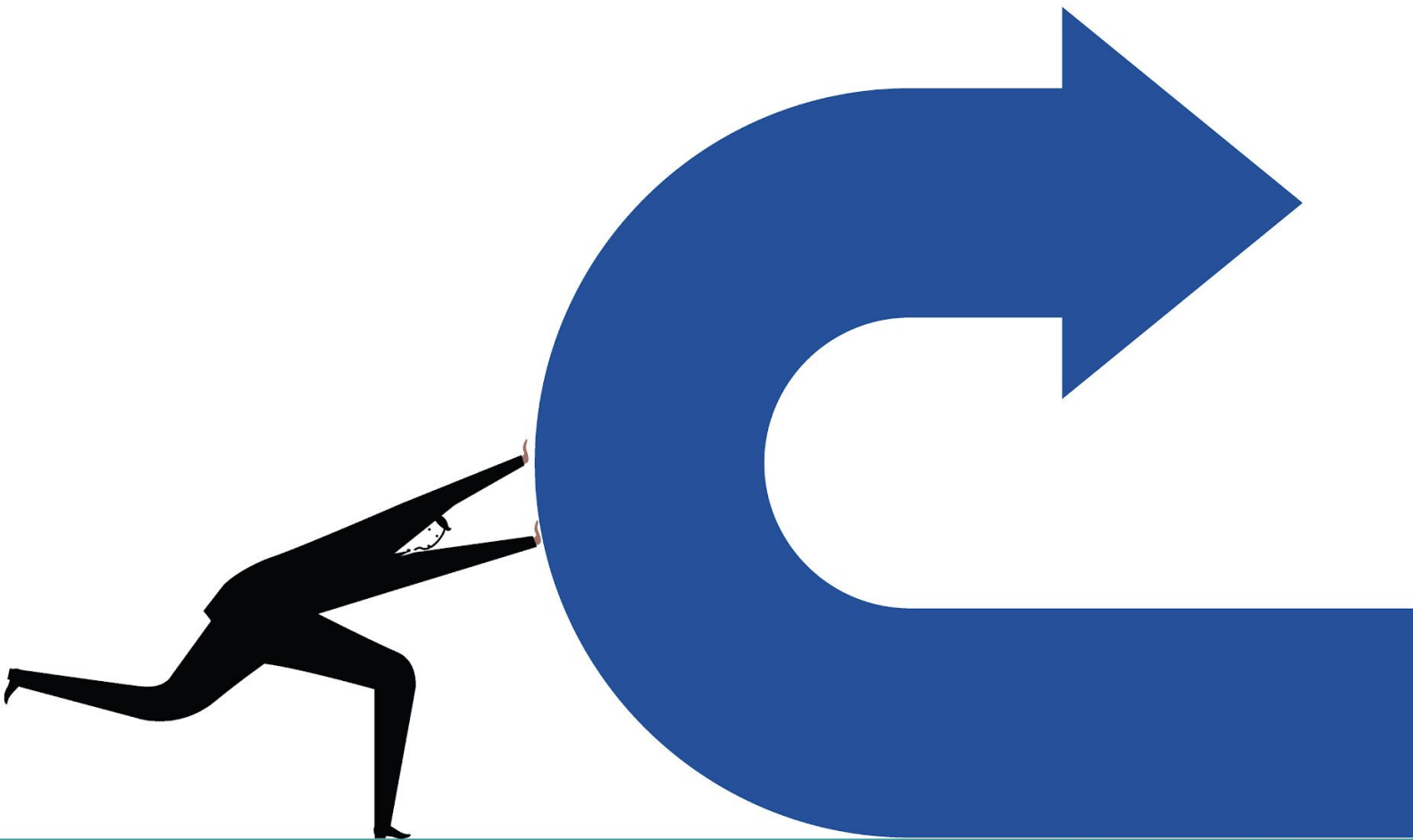


Art of Procurement, in partnership with Ivalua

The 2021 Pivot:

How Leading CPOs Are Mastering Procurement's Post-Pandemic Response



PREPARING FOR A NEW LEVEL OF SUCCESS IN THE POST-PANDEMIC ECONOMY

Featuring insights from:



Dan Symon
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Vice President and CPO
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Nearly all of procurement's plans for 2020 had to be abandoned in the face of the COVID-19 pandemic. Far from being a disaster, however, leading CPOs and their teams rose to the challenge. They have learned a lot from this year's disruptions and uncertainty, and these first-hand lessons are now serving as the foundation of an expanded vision for the future of procurement.

In terms of their own development, CPOs need to hone their sales skills. Most have earned the attention of their executive leadership, but that has primarily been because traditional objectives such as supply continuity, cost reduction and cash management have become boardroom topics during the pandemic. To ride that momentum into a more strategic role for procurement, CPOs must convince executive leadership of the broader value potential within the organization's spend and supply base – and explain how procurement can unlock it.

CPOs are also preparing their teams for a new level of success in the post-pandemic market by empowering them with confidence, insight, and technology. They are placing a deliberate emphasis on building supply chain resilience, maintaining a single source of data truth, and accelerating their rate of value creation. Procurement's ability to deliver against these objectives will determine whether they are stuck in pandemic lethargy or are able to shift to post-pandemic performance that is anything but 'normal.'

In this paper, we will showcase what leading procurement organizations are doing right now to pivot how they support the business, partner collaboratively with stakeholders, and position themselves for long-term impact. We reached out to several CPOs for insight, including Sajid Kunnummal, Vice President and CPO at Navistar, and Dan Symon, the CPO for New York City, as well as Chris Sawchuk, Principal and Global Procurement Advisory Practice Leader at The Hackett Group, and Vishal Patel, VP of Product Marketing at Ivalua. Their observations about 2020 and expectations for the future capture the essence of the pivot being made as procurement transitions to the next phase of pandemic response.

Understanding the Total Cost of Resilience

In 2020, companies were faced with multiple unexpected supply chain disruptions. Each time an intended purchase could not be made, buyers found themselves thinking about what they would be willing to do to ensure continuity in the future. This included serious reconsideration of strategies such as reshoring, local sourcing, and taking a 'China + 1' approach to international sourcing.

In the weeks and months following such disruptions, however, strategic CPOs maintained their objectivity and refused to let quantitative business decisions be overtaken by emotional reactions. They looked for actual, specific evidence of disruption and responded in a targeted fashion that reflected the cost of the solution as well as the cost of the disruption.

"The pandemic opened our eyes and led us to relook at the cost of supply chain disruptions," Sajid Kunnummal told us. "When we start making sourcing decisions involving India or China, we look at price, landed cost, and freight. We look at all that and determine which is the most competitive. But nobody, as far as I know, looked at the cost of potential supply chain disruptions. It's a big learning for us to say, 'Okay, even if I save 10% by going to India, the cost of a potential supply chain disruption could just wipe out that 10%.'"

Incorporating the cost of potential supply chain disruptions not only alters procurement's intended sourcing strategy, it also points to the hidden cost of not having visibility into the complete supply chain. Procurement needs to quantify the impact of potential risks as much as possible, and provide incentives for suppliers to do the same, lowering the risk and cost of the entire supply chain, far beyond just tier 1 suppliers. "We're creating a structure which has dedicated people focused on optimizing supply chain, optimizing operational efficiency and effectiveness, and providing them with the tools to make that happen," Sajid added.

"Supply chain visibility is the number one thing we should be focusing on. It doesn't matter whether you have 1 supplier or 10 suppliers. Multi-tier visibility into the supply chain and your ability to quickly respond to changes and potential risk is the best way forward."

Sajid Kunnummal, Vice President and CPO at Navistar

Not only does an expanded analytical approach to managing cost and risk provide procurement with a more comprehensive basis for decision-making, the resulting supplier partnerships and ROI are more sustainable. Understanding the total landed cost of products with geographical risks factored in and pursuing strategies such as supply redundancy and stateside inventory reserves will ensure that procurement's pivot to increased resilience does not come at a prohibitively high cost.

Transforming Workflows for Speed and Transparency

In a crisis, human resources can be called upon to go above and beyond to keep the business operational. Unfortunately, this is not sustainable or scalable. In order for supply chain resilience to be ensured in the long-term, procurement's workflows and technologies have to emphasize speed and transparency.

During the initial phase of the pandemic response, New York City's procurement team experienced just how challenging and inefficient reactive emergency sourcing can be. As Dan Symon explained, "My team stood up an operation within 24-48 hours for fielding resource offers, literally putting out a call for anyone who claimed they had PPE or ventilators. Imagine what your junk folder looks like, on a day-to-day basis. That is what we jumped into. Ultimately, we were successful, but I never want to go back there again because there was price gouging, and people taking advantage. We were in a moral conundrum because we were desperate for the supply and every single engagement sounded precisely the same. Even the most nefarious individual started by saying, 'I just want to help New York.'"

As conditions stabilized, New York City procurement pivoted to responsive agility, opening the door to even more evolution. The city was able to set themselves up as an importer of record. Instead of relying upon suppliers to deliver pandemic-related material, they bought it and picked it up themselves. This is one change that they are likely to keep in the future, part of what has been an organic transformation for New York City procurement and which will not end with a return to business as usual.

Technology serves as a critical catalyst in such circumstances, even as weaknesses are uncovered in existing procurement frameworks. When Dan discusses what his team is moving towards, he is focused on digital transformation for the sake of efficiency and convenience. In particular, they plan to leverage platform-driven workflows that will compliment and standardize their investments in process re-engineering. Ultimately, the goal is to improve the delivery and management of city services by improving the experience for buyers and providers alike.

“Digital transformation is a prerequisite for what we really want to do, which is business process re-engineering,” he said. “In this new world, we are able to open the process up and make it transparent to everyone. That, in turn, creates speed. Nobody wants to be the one that's sitting on ‘the thing,’ whatever that happens to be. When everybody can see where everything is, something that can take five minutes will take five minutes instead of five days, five weeks or five months.”

Under public procurement law, process speed is not a guaranteed priority, but through digital transformation the city will achieve the level of visibility required to streamline procurement processes in and of themselves. New York City may not be able to skip steps in the procurement process, but by allowing the sun to shine on those steps and make the current status of each project transparent to all parties, they will effectively accelerate their efforts without worrying about violating policy or regulations.

New York City's first pivot was forced by emergency declarations that removed nearly all of their guiding regulations and pushed them to accumulate short term supplies as well as 90 days' worth of safety stock. The next pivot will be driven from within, as Dan and his team move from activity-driven to strategic, with the ultimate objective being to elevate procurement such that they hear plans and discussions from leadership firsthand. This will allow him to provide valuable additional context to his team, developing a shared sense of urgency and need around each new program and delivering more for the city and its residents.

Key Takeaways from the Crisis

- Be creative and consider new ways to solve problems that surface
- Understand when decisions should be based on risk and resilience v. ROI
- Clearly delineate roles and responsibilities to simplify approvals
- Recognize when it is time to go back to 'business as usual' mode

Illuminating Procurement's Roadblocks and Advantages

Each company will emerge from the 2020 'stress test' in a unique place, especially if they were already in on a digital transformation journey. Interruptions may have knocked those well-laid plans off the tracks, but in some cases the circumstances of 2020 are actually accelerating transformation efforts. Constraints that were previously regarded as immovable have evaporated, and new requirements were uncovered overnight.

As Vishal Patel pointed out, "Procurement is being asked to figure out how to address all of the company's supplier relationships, contingencies, and contractual obligations. Not only is this a multi-tiered question, it is very broad in terms of scope."

Procurement teams are rethinking their priorities now that they have a better idea of what is required to deliver a sustained crisis response, keep regular operations functioning, and maintain open communication internally and with suppliers. But while a pivot typically moves someone from one focus to another, procurement cannot abandon fundamentals such as strategic sourcing, category management, and supplier performance management.

Procurement's true pivot will have to include finding ways to pick up new scope and add it to what they are already managing. This accumulation of value types is a key step on the path to supply chain resilience, and it will determine the ceiling of the role procurement plays going forward.

"When you start to understand the impact that supply and the supply chain can have on profitability and the success of our companies, this conversation really becomes elevated," Chris Sawchuk noted. "The question is, will procurement be elevated as well? This largely comes down to how well procurement responds and develops the required capabilities, but the opportunity is significant and present."

So how can procurement ensure that they pivot appropriately? Technology will undoubtedly play a role, but what specific role depends on the size and maturity of the procurement organization in question and the talent they have access to. "It's really difficult to find people who actually think strategically," Sajid commented. "People don't realize the importance of procurement, what procurement really means, and the value you can bring to the table."

Capturing the procurement value proposition that has been uncovered in 2020 and using that to attract new talent is critical, as are continued investments in technology that reflect the same level of strategic thinking that CPOs want to see in their team.

Whole platform digital transformations still are, and likely always will be, an option. But there are other options as well, including starting with specific technology modules to achieve quick wins that are able to evolve into something bigger over time. A fast, lower cost deployment, even with a limited scope, no longer suggests that an effort is unproven or lacks support. It is evidence that procurement can balance multiple priorities and stakeholder groups at once. During the COVID-19 crisis, this approach became more common. Organizations have to address urgent requirements quickly, whether by improving supply chain visibility, ensuring employees remain productive remotely, or cutting costs.

When undertaking such a modular strategy, a key consideration is the ability to scale over time, to address more processes, spend categories, and suppliers. Starting small can be an effective strategy, especially in times of crisis, as long as leaders take a smart approach. While they need to ensure any and all solutions meet their immediate requirements, they should evaluate each one's ability to support future plans in parallel. Otherwise, reactive decisions about technology or people can become roadblocks to broader transformation in the future.

Chris Sawchuk points to these 'quick strike' deployments as a way of simultaneously delivering against traditional procurement KPIs and expanding into areas such as sustainability and supplier diversity. "From a supply perspective, whether it be ethical sourcing, the environment, or supplier diversification, these things are coming together. Supply risk has become an active board level discussion in many companies, and supplier diversity is likely to become a board level discussion as well."

"For a long time in New York City procurement has been mostly a manual process. The workforce has been flooded with mostly compliance focused staff. What we are trying to do is elevate this game."

Dan Symon, CPO of New York City

Masters of the Pivot

Just as New York City's recent pivot was forced and their next will be made by choice, all Chief Procurement Officers have to simultaneously learn from the experiences of 2020 while crafting their own new vision for the future. Forward-looking decisions must balance the concerns of process, customer experience, supplier diversity, technology, and supplier partnerships.

The answer to the question, "What's next?" should come directly from procurement, not be dictated by circumstances. If procurement is to maintain its slot on the boardroom agenda, CPOs need to paint a vision for how procurement transformation will support the organization's evolving objectives. The 'how' will vary by industry, organization type, and maturity level, but it is the leading performers in each of those organizations that hold the future resilience of the company and potential of procurement in the palm of their hand.

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