

Extended Supply Chain Disruptions and Effective Cost Management

In the face of extended supply chain disruptions and economic uncertainties, many organizations are exploring cost-cutting opportunities across various departments, including procurement. While it is natural to react to parts shortages, inflationary pressures, and changing consumer spending habits by revising budgeting strategies, it is crucial to execute downsizing plans in the procurement department carefully. Failing to do so can put the organization's health at risk, as successful procurement is closely tied to critical goals such as customer satisfaction, while procurement mishaps can lead to project delays, loss of consumer loyalty, and reduced revenue.

To navigate these challenges, procurement leaders should prioritize functions that directly contribute to revenue and ROI during consolidation efforts. They should evaluate which functionalities provide sufficient ROI to maintain and which ones no longer align with key objectives such as advancing customer satisfaction and environmental and social governance (ESG) principles. Additionally, they should identify opportunities for improvement and more efficient utilization of functionalities. By following this approach, procurement leaders can make strategic refinements rather than implementing wholesale cuts that harm the organization's short- and long-term success. Moreover, they will be able to communicate appropriate cost management opportunities to senior leadership effectively.

Let's explore some initiatives that can facilitate an effective cost management process.



01 Prioritize Flexibility in Response to Extended Disruptions

Procurement and sourcing leaders have responded to market volatility and inflation by pivoting their operations. Over the past year, many procurement operations have reduced costs by identifying new suppliers (48%), renegotiating contracts (44%), or adjusting prices of consumer-facing goods and services (44%). While these solutions can lower operating costs, they require business agility to implement successfully.

Flexibility in sourcing relies on several essential elements, including supply chain visibility. Supply chain visibility refers to tracking and understanding the origin of procured goods and services. Leaders who have a clear understanding of their product's journey can more effectively identify cost-saving opportunities. For example, some suppliers may increase part prices during downturns, while others may maintain low costs due to economies of scale. A deeper understanding of the supply chain enables informed decision-making when contracting with suppliers.

Procurement leaders who track sourcing activities are also positioned to understand the reasons behind delays and prevent similar disruptions in the future. Maintaining sourcing timelines often provides a competitive advantage, particularly during economic downturns.

Enhancing supply chain visibility also helps procurement leaders better align logistics with urgent organizational goals such as ESG. While procurement leaders may be familiar with the ESG values of their direct suppliers, understanding the values promoted by second and third-tier suppliers is equally important. The ESG values of downstream suppliers can either support or hinder an organization's ability to achieve specific objectives, underscoring the criticality of visibility.

Furthermore, uncertain economic conditions highlight the importance of agility in sourcing. Without comprehensive knowledge about suppliers, procurement leaders may find themselves ill-prepared when facing parts shortages. Therefore, adopting tools that facilitate smooth pivoting, such as supplier data platforms offering up-to-date inventory information and cleansed data, is crucial.



02 Discuss Industry Fluctuations and Expectations with Leadership

Bolstering supply chain visibility and agility is essential, but these measures can only succeed with executive buy-in. Procurement leaders should prioritize transparency throughout the sourcing lifecycle and discuss the significance of clean data with the C-suite. It is particularly important to emphasize the need for improved supply chain visibility during the cost management process. Before adopting additional tools, clear communication with executives is essential to manage expectations regarding the ROI they should anticipate from new functionalities and the timeline for realizing those returns.

To facilitate this process, procurement leaders should evaluate potential solutions based on their ability to provide advantages across all macroeconomic conditions. Technology solutions in this space should enable enterprises to act competitively during economic upswings and maintain high performance during downturn.

Excerpts from <https://www.sdcexec.com/sourcing-procurement/financial-management-software/article/22847217/tealbook-combating-cost-management-disruption-with-procurement-strategy>

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