



Business Ecosystem The Impact of Procurement

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What is beneficial for a single entity has a time line in value. If a concept is replicated across a wider group, do the benefits still hold up or diminish? At what consequence to the wider market and business culture. Maybe a change is now required.

The market is contracting and businesses across every sector are reporting a slump in profits. Retail, Construction, Property, Finance and Manufacturing are all experiencing the impact of a drop in consumer confidence and the credit based economy seems to have peaked. At Jigsaw, we are seeing most of the recruitment activity coming from Utilities, Mining, Healthcare, Consumer Staple Retail and Finance sectors. For permanent roles, candidates in demand are junior to mid management and have strong engagement, sound sourcing principles and solid commercial fundamentals such as cost avoidance, opportunity loss, price vs cost and risk. Permanent employment will likely slide in 2020 and experienced procurement contractors will be in demand who can evaluate a business and understand and deliver on total EBIT improvement. Supply chain talent with experience in both consulting (tier 1 & 2) and industry will be most valued. The technical tool kit and problem solving skills coupled with real world understanding of how people, systems and business operations interplay with tactics and strategy will be key to driving sound and sustainable delivery.

Contractors (P&L positioned and BAU activity) will also be in demand as smaller less invested procurement set ups expand to expedite savings across untouched categories. Oversupply of available resources will compress day rates and make any contract roles available highly competitive. Candidates will be competing nationally to chase employment. Categories likely in demand will be big ticket items that have not been touched due to lack of mandate.



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Procurement & Business Ecosystem

A few weeks ago I wrote an article relating to profit and how it is a good thing. To summarise, the key message I was leaning to was that profit means a business is usually doing something right for its shareholders, employees and customers in a world where many businesses behave like artificially enhanced athletes competing with natural athletes and walking away with the medal.

Whilst I was drafting this article I could not stop thinking about the role procurement plays in the Australian economy. If procurement did not exist and all businesses traded on a set of terms that were standard (full margin), would the Australian economy be better off? If economic prosperity is based on the movement of money through a system, and that money being used to generate productivity via production of goods, services, increased employment and development of new markets, then is procurement an enabler for this? If every business transacted at full terms, would this mean greater overall revenues, more employment, higher wage growth, more consumer spending and more innovation? In line with this thought, I would have to add that I am also assuming the laws would change on share buy backs and various tax incentives for correct investment of capital to truly generate economic prosperity.

I think it would be fair to suggest that in many cases, procurement is weaponised to drive down prices year on year. As a function to achieve EBIT improvement, procurement likely worked best when every business was not attempting to do it. Going back 20 years, a business embracing a sound sourcing methodology and contract management framework would have a significant 1st mover advantage over its like for like competition allowing it to ultimately generate greater profits, further invest in expanding operations which in turn would drive more employment opportunities, increase supplier profits and unit volumes and there would be more capital available for R&D, which should protect primary positioning in the market.

Now most businesses have some sort of procurement capability which varies in maturity and the value it creates to the wider business. As a rule, smaller businesses seem to focus on sourcing and larger businesses attempt to execute category management. As procurement expands up and down the business value chain and across different markets, cost savings at the back end of a business become as competitive as top line revenue. Across the business value chain, one organisations sale is another organisations supply base. As procurement vs sales war works its way through the business chain, only businesses at the very end who supply direct to the consumer win (monopoly retailers as an example). These apex businesses often further exacerbate compression as they compete in a price war for consumers with their competition.



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Is it possible that procurement has hit a mandated maturity for price compression and now competitive advantage is no longer achieved? Is it possible that procurement executed as it is today is playing its own small part in economic contraction? How much profit, top line revenue, units produced and employment opportunities are capped by too much emphasis on pushing down the cost to service or produce? I feel a key issue is, we are in an environment where businesses are fickle, fighting their own battles with price based procurement at the front end of their operations whilst, their own procurement departments are attempting to do the same tactics downstream through their supply base. Businesses need to better connect at the head and tail of the operations so there is a greater empathy and understanding for the true cost to serve and what is required for sustainable expansion of the entire business chain. This constant drive for price compression is not sustainable and we have already seen how this cost down culture has impacted new businesses entering the market (Unicorns) being unsustainable. To enter a market as a new player, they cannot trade to make an honest profit and have to rely on investments funds, scale and selling \$10 for \$8 to take a market position.

A key change in procurement culture could start with its reporting line. In most businesses procurement reports in to one C-Level stakeholder, usually the CFO. Why? Spend is broad and ranges from critical and non-critical. If a business is FMCG, critical spend that impacts customer experience should line up with the COO or GM Supply Chain. After all, raw materials are a key component of any true supply chain. Spend that is purely price driven and non-critical should report into a CFO who's drivers a cost centric. Procurement as a function can have a positive impact on the economy. The gains that were achieved in 1st mover advantage re price can now surely be achieved via 1st mover advantage in managing risk, quality and incentivising business down the value chain (suppliers) to make sustainable profits but invest them in their operations to improve the entire economy. KPI's could include employee satisfaction and pay rises to match inflation, understanding where investments will be made and prospecting on potential disruption or acquisition.



1300 655 633 | info@jigsawtm.com
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