

It's time to transform procurement and sourcing

By **Girija Pande**

DURING her recent visit to Singapore, US vice-president Kamala Harris' itinerary included a meeting with key senior managers involved in managing supply chains in Asia. The topic of discussion – resilience and sustainability of supply chains.

It's interesting that this topic keeps cropping in business vocabulary in the context of three strategic global trends that are top-of-mind for international business and political leaders today. These are:

- impact of the pandemic,
- impact of the geopolitical rivalry playing out between China and the United States,
- increasing impact of climate change and push for sustainability and better all-round governance enshrined in the environmental, social and corporate governance (ESG) philosophy.

All three trends have hit businesses in many ways and their continued impact in the longer run will push businesses to take a harder look at the issues to manage the resulting real risks.

TIME TO REVISIT PROCUREMENT AND SOURCING

One major issue will be how companies organise themselves to effectively source and procure their supplies – specifically, selecting suppliers who will survive the disruptions to make

their supply chain resilient and sustainable. **There are plans of transforming supply chains by diversifying supply sources, going beyond China** which until now has been the clear choice of most as a manufacturing hub of the world and for very good reasons.

Growing geopolitical tensions and an increased focus on sustainability clearly require reconfiguring existing supply chains and call for smarter supplier management so as to futureproof supply chains. This in turn requires a very different approach to organising a company's sourcing and procurement organisations.

Currently, many global and regional companies tend to favour large centralised/decentralised procurement functions which can be better monitored as well as provide business with cost efficiencies involved in company-wide purchasing. Many have regional procurement hubs that source from varied regional suppliers with whom they have built long-term relationships. Their major concern is around lowering costs while maintaining standards and reliability. In the world of "just-in-time" inventory this has worked well.

However in the new world impacted by the triple scourge of geopolitics, pandemic and sustainability, this will become very difficult to manage. Instead of just in time, very often it may become "just in case!" Suppliers going bust

is a real risk caused by pandemic disruptions, as many have witnessed firsthand to their dismay.

CREATING FIT FOR PURPOSE BUYING ORGANISATIONS

Are in-house procurement organisations "fit for purpose" in a future world with these triple supply chain challenges? Can we envisage specialised companies or vendors that are solely tasked with successfully navigating such changed environments? **These entities will handle procurement functions for a large number of organisations using specialised skills, scalable processes and state-of-the-art platforms to improve transparency in procurement: See better, buy better!**

The task of the procurement function within large organisations will then be of a much higher order of supervising these specialised buying entities, holding them to set metrics rather than handling both short-term procurement operations and trying to create a resilient and sustainable supplier base for their organisations. In the new world, this may be the way forward.

The tasks that these specialised procurement vendors will focus on will be fourfold: ■ using their preferred bulk buying position to drive price-effectiveness across multiple companies,

- leveraging a diversified supplier base,
- providing digitalisation platform as a service,
- embedding ESG framework as part of procurement services.

Increasingly such specialised vendors are becoming more prominent. Some are being carved out of existing procurement organisations – for instance, Chain IQ in Zurich, a spinoff of UBS Bank which decided to outsource its procurement and sourcing functions by creating a neutral entity.

In some cases large IT/business process outsourcing (BPO) vendors such as IBM and Accenture have taken on this task in addition to their existing services. Or, as in the case of GEP and WNS, companies have been set up by procurement specialists. Many of these entities provide some or all of the above tasks and many have, more often than not, in-sourced procurement staff from customers in a BPO deal that benefits both.

It's time to comprehensively re-look supply chains and resultant risks arising from the triple disruptions that lie ahead. The winners will be those that take heed and restructure early.

■ The writer is chairman of Apex Avalon Consulting, Singapore; he was previously president of Tata Consultancy Services, Asia-Pacific.

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