



MITIGATING RISKS FROM DISRUPTED SUPPLY CHAIN, WITH PROCUREMENT

Abstract

A decade-long focus on supply chain optimization to minimize costs, reduce inventories, and drive-up asset utilization has removed buffers and flexibility to absorb disruptions, and COVID-19 illustrates that many companies are not fully aware of the vulnerability of their supply chain relationships to global shocks.

The paper talks about leveraging advanced technologies such as the internet of things, AI/ ML, data science, robotics, and 5G, to enable procurement and supply chain in being proactive in anticipating and meeting future challenges.



With manufacturing sector expanding more in India, many Indian firms got the opportunity to join the global supply chains. The transition has amplified dependency on supplies from other countries, thereby increasing the chances of getting caught in supply disruptions. Thus, it has become imperative for the Indian businesses to gain visibility into supply chains and grow agile and ensure robust business continuity.

The black swan event

The ultimate black swan event was the COVID-19 pandemic in early 2020. The sudden stoppage due to the outbreak caused a severe disruption that the world economy had not witnessed or experienced in history.

This is followed by several interim disruption, that are transitional, seasonal, geographical, and/or sectoral. Though these have not extended to a global level, but made a strong impact on long-term basis. Below are some of the impacts of the supply chain disruption due to the pandemic:

- Supply chains lack global resilience and are breaking down in the face of multi-country disruptions
- Supply chains and operations are becoming more costly, and can often represent a company's highest costs
- Significant impacts that supply chains and operations have on the planet and society are not meeting stakeholders' expectations for sustainability
- Talent gaps across the supply chain and operations continue to create high dependency on human workforce
- A lack of flexibility inhibits the ability to address customer demands for personalization and customization
- IT systems continue to be expensive to run, while lacking flexibility and often over-relying on legacy technologies

Role of procurement during the crisis

Procurement has taken up some critical and active steps to absorb and mitigate the sudden and unprecedented shocks:

1. Renegotiation of existing contract/ orders and payment term for enhanced cash flow
2. All the capex approved just before pandemic were put on hold or dropped, which are especially of high budget & are in initial phase of progress.
3. All the invoice & advance Payment to stakeholders were put on hold. Payment dispersal was capped and prioritized based on various factors as per the situation.
4. Procurement spend (awarded orders) was restricted to only mandatory and safety critical. This helped the company to avoid cost on short term & hold the cash.
5. More emphasis to Outsourcing model

(more of consolidation of contracts & awarding it to single party)

6. Due to pandemic & other geo-political aspects, especially sectors like Chemicals, Manufacturing, Auto, electronics, etc., across the world, who were heavy dependence on China - the sourcing team adopted Chain plus one strategy to diversify their dependence on China.
7. Procurement adopted category management methodology as part of strategic sourcing activity to efficiently analyze & take decision on future spend, supplier management & enhanced S2P & P2P process. (source to Pay & Procure to pay)

However, in a matter of a year, these methods became non-viable due to lack of sustainability. For instance, the new CapEx

which was put on hold was restarted in 2 quarters or 12 months period. The vendors and contractors did not maintain the same payment terms and re-negotiated prices which were agreed during the initial COVID crisis. The costs of aspects such as workforce, raw materials, safety aspects, and logistics, all became expensive and the spend budget for Maintenance, repair and operations (MRO) expanded to suit the sustainability and long-term aspects.

What it meant that, procurement and supply chain professional did a splendid job to mitigate the shocks and disruption caused by the pandemic. But they could not satisfy the sustainability factor. Hence, it's imperative to move on and work towards a method where these kinds of shocks and disruption can be anticipated without taking special measures at that time.

Procurement – potential and the future

Procurement is now surrounded by a plethora of challenges and scenario on a daily basis to adapt, absorb, and perform. This puts procurement at the center stage; defining what robust governance and stewardship look like, will make it easier to thrive in the new business climate. That involves building solid partnerships that can benefit both parties – and that is where recognizing the need for empathy becomes paramount. It is by being empathetic that trust and genuine partnerships can be best nurtured, and evolve over such crisis and disruption.

Following are some of the forward-looking paths that a procurement team can establish, while being empathetic and strategic, and keeping in mind the practicalities:

1. Establishing supply orders on annual basis only (not multi-year) and in a consolidated manner. This is more useful especially for materials which are OEMs or/and imported.
2. The import/export long lead delivery orders should be finalized on Ex-works basis only, rather than full incoterms which involves the cost of delivery till place, with cost of insurance, freight, duty payment and transfers. Due to the volatile environment in logistics, the buyer (big importer) should take up this as an in house, to mitigate cost escalation at the time of delivery.
3. Establishing service orders on multi-year basis and reducing one-time transaction of service orders or spot buying.
4. Outsourcing of operations and maintenance (O&M) activities on a KPI model. For eg., the entire captive power plant (comprises of steam pipelines, generators, pump, boilers, turbines and other instruments) which supply power to overall refinery (Just an example), should be outsourced to single party who shall operate, maintain, repair, spares and take care of overall operation of the power plant. The KPI model means the payment shall be made based on specific operating parameters which will be agreed to be fulfilled, in the contract.
5. The procurement, finance, and management functions have to come on board at the start of the year to establish CapEx planning, spend, and strategy to enable efficient expenditure.
6. Synergy between the buying team of CapEx (one time) – MRO (regular) – tail spend (transactional) – Annual rate contract/rate card/cataloguing (strategic)
7. The legal terms and conditions which are part of the contracts otherwise called as general T&C (SCC/GCC) have to be relooked and must be balanced, focusing on win-win situations rather than being one sided.
8. Procurement should lead and coordinate with Finance for clearance of high aging invoices, long pending dues, leniency in liquidated damages, claims, etc. Developing a supplier relationship plays an important role in these circumstances, as a healthy relationship will ensure continuity of supplies in future
9. The sourcing/ procurement/ purchase head should be involved in major and critical decision-making processes
10. It is crucial to look for procurement professionals with strong emotional intelligence as it would help in bringing in new perspectives, accelerate innovation processes, condense risks, and improve operational efficiency.

Market expert views

Applied futurist Tom Cheesewright, who worked as an advisor to some of the largest global organizations said on the topic of strategy that, with increasing AI and ML taking most of the decision-making process in almost every aspect of organization,

the competitive landscape at one point in future may be similar (or in same scale). The difference or the X factor at that point shall be the human factor.

According to him, even today and in future,

especially in procurement function, trust, loyalty, empathy, emotional quotient, consultative skills, and creativity shall be key drivers for emotional connectivity. Further, AI, ML, and automation shall be catalyst for logical connectivity.¹

Conclusion

Traditionally, procurement has been seen as a hard bargain and beating down L1 bidder further and mainly resolving the conflict between the outside world and organization. Procurement professionals were also seen as agents who took care of infamous spends and restrict those for the interest of business.

Especially as we head towards a new financial year, where the new black swan – the global chip shortage is going to stay, the procurement function will be key and a critical contributor to the overall business performance. Procurement shall not only be responsible for big savings, cost drivers, consolidation, and supplier engagement,

but also in sourcing and filling the gaps of material availability, on time delivery, and ultimately acting as the key contributor to the bottom line of balance sheet.

Today, it's empathy, long term supplier relationship, and collaborative skills which will go beyond the targets, and drive the upcoming era.

¹ <https://www.raconteur.net/supply-chain/procurement-emotional-intelligence/>

About Author



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Sudarshan is currently leading the delivery and operations for a Fortune 500 FMCG company. He has been managing 500ME of indirect spends and over 1 Mn transactions per annum with focus on value delivery, efficiency and customer experience.

Sudarshan is responsible for key stakeholder management, transition and transformation for tail spend sourcing, PR2PO, catalog and touchless buying across areas such as marketing, professional services, facilities management, travel, and IT indirect spend.



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Chandra has over 9 years of experience in sourcing and procurement with some of the biggest industrial organizations, including worlds largest petrochemical and gasification complex, Asia's biggest Onshore Oil and gas discovery fields, consumer good manufacturing plants and construction industries.

Chandra has experience in strategic sourcing, O&M and capex spends across MRO / Services / OEMs, solar rooftop, & lead procurement function during shutdowns of oil & gas plant.

He has been involved in strategic procurement projects including process improvement, category management, renewable power, outsourcing and spend analysis.

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