

Planning for Success in 2010

By following a few key planning steps, you can develop supply management strategies that will truly jump start the New Year.

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As the holidays recede in our memories and we usher in 2010, supply management professionals are reviewing, refining and strengthening their plans to hit the ground running in the New Year. On reflection, the last

18 months have been mind-boggling, with surreal stock market fluctuations and unprecedented government actions in the private sector. The signals are beginning to point to the worst being over, making it timely for us to capture lessons learned from the recent turmoil to incorporate into our business practices going forward.

Leading strategists, economists and politicians alike are all predicting different recovery models from the current recession. But whatever route emerges, the ability of supply management professionals to plan during this continued uncertainty will be a significant contributor to any organization's prosperity for 2010 and beyond.

In a recent webinar on the topic of planning for a healthy supply management organization, A.T. Kearney asked the attendees, "What stage are you at in planning for 2010." Forty-three percent responded that they were "in the middle," 47 percent stated that they were just starting, and 10 percent had yet to begin. Even though the timing is often driven by organizational demands, leading companies follow a structured framework of preparatory steps in order to ensure delivery success. The framework incorporates these core elements: business strategy, opportunity assessment, supplier risk strategy, and a case for change (see Exhibit 1).

Business Strategy

The first step in any such program is to both

understand and align with the organization's business strategy. Certain questions can help direct this effort. They include: Is the CEO considering any division spin-offs this year? Is the COO reviewing certain outsourcing opportunities? What are the CIO's architectural plans for the year ahead? Are our marketing and R&D teams making a big push to incorporate sustainability characteristics into our product lines?

Once supply professionals clearly understand the business strategy, they must begin to develop and align their supply management plans to deliver true value.

Opportunity Assessment

The opportunity assessment begins by gathering a refreshed and up-to-date view of the organization's current spend profile. This spend profile is pivotal to building a comprehensive project plan and often provides stakeholders with eye-opening insights. While building a spend profile is not new, most organizations still struggle to execute them well. Hence, it is critical to leverage the right resources to complete this task.

When conducting opportunity assessments, it is also imperative to look beyond the traditional sourcing levers to more advanced, collaborative and/or process reengineering efforts. In order to truly pursue a "no-stone-untouched" approach, the supply management professional must also review the more complex categories such as marketing, strategic IT and legal, which are notorious for being left untouched.

Advanced analytic capabilities, such as predictive modeling and combinatorial optimization, can assist in identifying opportunities in these complex categories that often require forward-looking decisions and scenario analyses to identify maximum value. The application of advanced analytics requires not only a detailed understand-

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ing of and access to a robust data set, but also the knowledge and information to make calculated assumptions.

While this list is not exhaustive, one additional area important to include in any supply management plan is working capital improvement. Most often, optimizing a company's cash-flow position requires partnering with the accounts payable department and taking a full cash-to-serve approach. The latest developments involve the use of technology such as Electronic Invoice Presentment and Payment solutions, which enable dynamic discounting and third party factoring services with strategic suppliers. Through these tools, suppliers and buyers can determine how to leverage the lowest cost of capital for both parties.

Supplier Risk Management

Keeping recent history in mind, the supply management team must assign supplier risk management a prominent position in their 2010 plans. Comprehensive risk management plans must help to identify and prioritize supplier risks and predict their potential impact on the organization's supply chain. Supply risks can be categorized in three key areas:

1. Financial: Do our strategic suppliers have sufficient capital and credit to continue operations?
2. Operational: Are any of our suppliers at risk for non-performance, against Service Level Agreements (SLAs) and/or non-delivery of key inputs?
3. Corporate responsibility: Are our suppliers being good stewards of our brand? Are their actions and/or operations creating undue risk for our company and brand?

Once a risk is identified in one of these areas, the risk management plan determines the risk severity based on the vendor's strategic importance to the customer organization and the level of exposure. The plan then helps guide a decision on the appropriate mitigation and/or contingency plan, which may include the following: in-sourcing, realigning the relationship, fixing the problem, bailing out

the vendor, introducing a dual-source strategy, re-sourcing the product, and so forth.

Building the Case for Change

The final component of the plan, critical for securing executive level support, is developing a detailed and comprehensive business case and road map for change. A key component of the business case is a cash-flow model to map the timing of required investment funds and capture of benefits throughout the year. Key success factors in developing the business case include:

- Positioning a tough project early on in the workplan to help develop program credibility, ultimately providing proof of what can be achieved.
- Spreading the timing of much-needed investments, such as system upgrades and recruitment, throughout the program to spread the costs among the benefits, transforming the program into a self-funding exercise.
- Prioritizing the timing and staging of projects based on more than just the magnitude of spend and forecasted savings, but also including stakeholder engagement and buy-in; internal demands, requirements and constraints; category-specific market trends; and macro-economic factors.

Even before the plan and business case for change is finalized, supply management leadership must rally support throughout the organization at every level to ensure success. Iterations of the plan can be socialized with key stakeholders to ensure that it accurately reflects their business priorities and challenges. Internally selling the plan is an ongoing task. Thus, the process works best by incorporating multiple forums, such as one-on-one meetings, workshops, and regular updates to key stakeholders.

The current economic environment has resulted in both a gift and a challenge for supply managers. Never before have we been so sought out by our colleagues and peers to help drive fundamental change within the organization.

