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Achieving high performance
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A new business environment

We are in uncertain—if not unprecedented—times. House prices have fallen, stock markets have declined, and consumer confidence has fallen sharply. In industry after industry, businesses are being severely challenged just to survive. In short, in little more than a year, prosperity has given way to credit crunch—and then recession.



But with such change comes opportunity. What is bad news for some is good news for others. In this economy, the businesses that outperform others will be those that exploit adversity to create a gap between themselves and the competition. There are lessons to be learned from the last economic downturn - Accenture analyzed the financial results of companies in the United States that had experienced the recession of 1990-1991 which clearly demonstrated that high-performance businesses took the bolder path. While remaining attentive to the current cost structure, they kept their eye always on the larger picture: building sustainable future value for the company and its shareholders.

Accenture research¹ into the characteristics of high performance within procurement has also shown that companies that successfully position procurement as a strategic capability really do outperform the competition.

In procurement, the current economic conditions offer an ideal opportunity for an invigorated focus on costs. At a stroke, the concerns of a few months ago regarding resource scarcity and supply-constrained markets have declined significantly. Freight rates have fallen, bringing newly viable sources of supply into focus. Strains in the financial markets have raised the cost of working capital, leading to changes in the terms of business. In short, consolidation, currency swings and the credit crisis are rewriting the procurement paradigm.

Chief procurement officer research

To investigate the impact in more detail, Accenture turned to the Accenture CPO Circle²—an online, peer-to-peer, global community of chief procurement officers (CPOs). Accenture asked more than 300 members the current economic situation had affected them—and how they and their supply partners were responding³. Accenture then used the November 2008 Accenture CPO Circle roundtable session as a sounding board, calibrating and amplifying these views with particular reference to the actions that organizations are taking in response.

The results are enlightening. There is indeed a new business environment emerging—presenting an opportunity for procurement masters to deliver still greater value to their organizations' bottom lines.

Our survey respondents—and the CPOs we spoke to at the Accenture CPO Circle event—were of one mind. In today's new business environment, significant opportunities are there to be had. And procurement leaders are playing a prominent role in seizing those opportunities, moving beyond the function's traditional boundaries and helping to shape their business's strategic options.

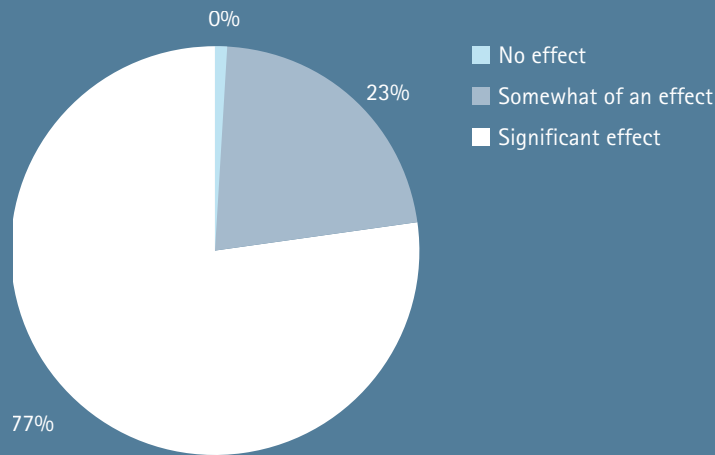
Without exception, heads of procurement believe that the downturn is having an impact on them and their supplier organizations. What's more, as Figure 1 shows, three-quarters of them say that it is "significantly affecting" their procurement functions.

Virtually no part of the procurement process, function or organization is unaffected—from workload to resource provision and from supplier relationships to talent management, the new business environment is undeniably posing fresh challenges.

Budgets and deliverables

Typically, procurement leaders said in the survey that they are being asked to do more, with a lower cost-base. As Figure 2 shows, for instance, more than half of the respondents reported that procurement budgets have been cut—and for many by as much as 15 percent. Yet, at the same time, savings targets have increased, with almost

Figure 1. What are the impacts on procurement?



Source: "Understanding the effects on procurement in a volatile market" survey results, November 2008

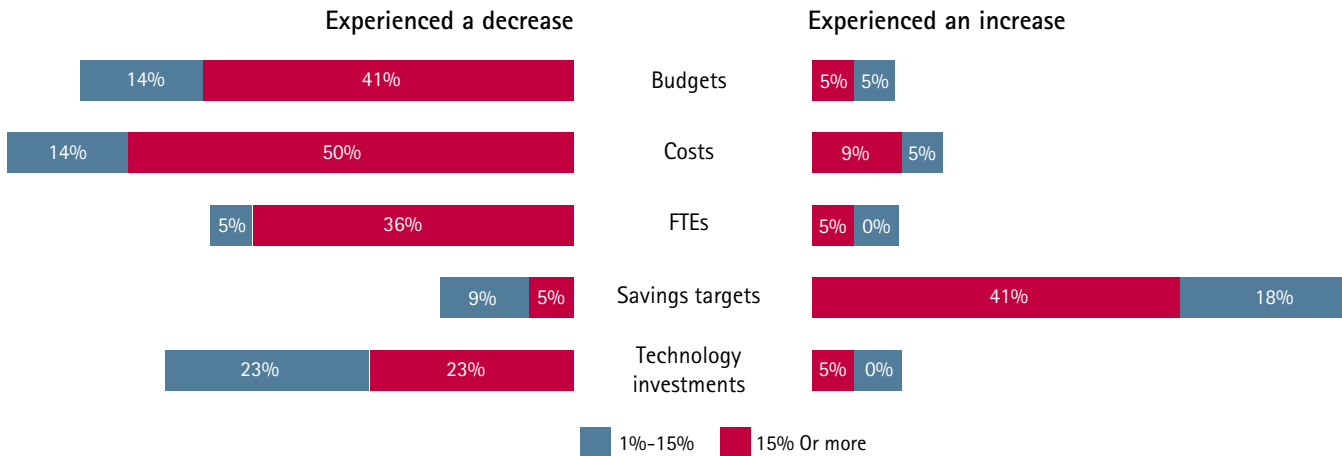
one in five CPOs required to deliver additional savings of 15 percent or more.

The good news

Just as many respondents reported being able to capture those additional

savings. At the CPO Circle roundtable, for instance, participants reported that many raw materials are now more freely available compared to 2007 and the first half of 2008, and that prices were lower.

Figure 2. The impact of the current economic situation on procurement

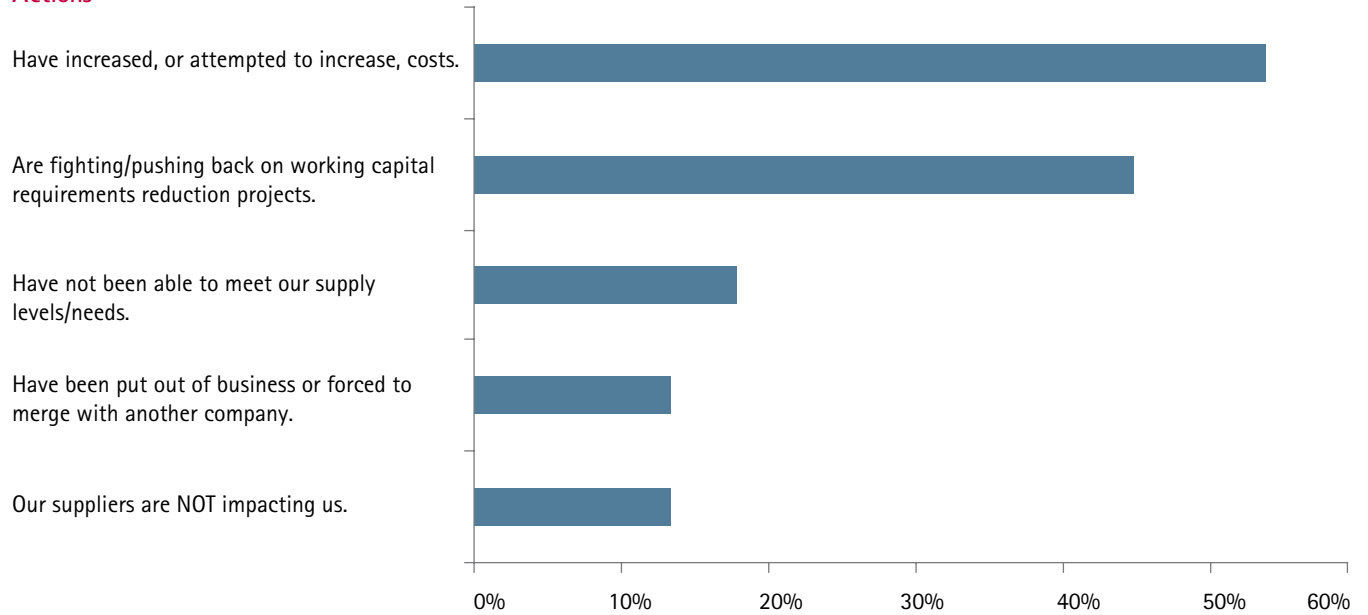


Figures not shown represent those who had no change or did not know if a change

Source: "Understanding the effects on procurement in a volatile market" survey results, November 2008

Figure 3. Supplier impacts

Actions



Response

Source: "Understanding the effects on procurement in a volatile market" survey results, November 2008

No specific levers for negotiation were needed to capitalize on the weaker economy, but the magnitude of normal and existing negotiation activities (of all types, including sourcing and supplier development) had been increased.

Suppliers

As Figure 3 highlights, the majority of respondents felt that the current economic conditions had affected their supplier relationships, and that supplier risk had increased. More than 50 percent of the respondents, for instance, reported that their suppliers had increased—or attempted to increase—the prices they charged, thus putting a strain on the relationship, while 45 percent said that their suppliers were actively resisting working capital reduction projects.

Security of supply was also a key concern. Almost 20 percent of the respondents reported that their

suppliers had not been able to meet their supply levels or needs. For almost 15 percent of the respondents, the situation has become so extreme that suppliers have been put out of business or forced to merge with another company. No wonder, then, that almost 70 percent of respondents said that they are more closely monitoring the financial stability of their suppliers. At the CPO Circle roundtable, for instance, members broadly agreed that the CPOs were well aware of the risks of damaging suppliers through excessive demands for cost or payment term improvements.

This viewpoint was reinforced by further feedback from the CPO Circle roundtable, where supplier risk management was generally regarded as a major priority, with regular and intense monitoring of changes in supplier liquidity, as well as possible changes to suppliers' customer priority

rankings. Some companies present at the meeting reported moving away from their usual sole-sourcing arrangements to spread the risk of failure across multiple suppliers.

Speed of response

Timescales are tightening. Not only is the procurement function facing fresh imperatives, but the time in which it must formulate responses and execute those responses has shrunk sharply. While the time to achieve changes in procurement savings, budgets, costs, spend and headcount inevitably varies widely across organizations, half of the respondents reported having only six months or less to reach changed budget levels. The danger is obvious: while focusing on the short term, businesses may lose sight of their longer-term procurement plans, thus undermining the sustainability of benefits.

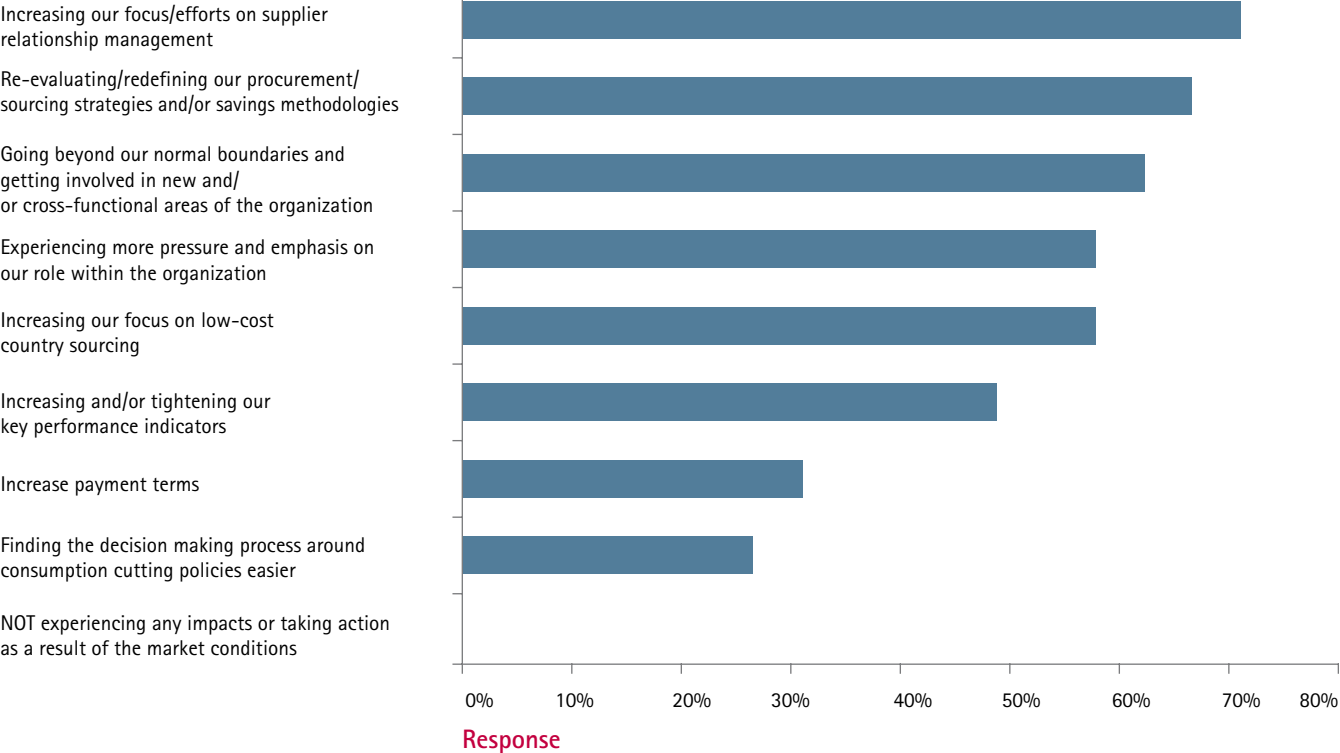
Organizations' response

So far, responses to the present economic climate can best be characterized by the following observation. "The problems are in the short term," we were told by the CPO Circle respondents. "The challenges, on the other hand, are longer term." It's a dichotomy amply illustrated by the tactics that companies are pursuing as they navigate these turbulent economic conditions.



Figure 4. Procurement response to the economic climate

Actions

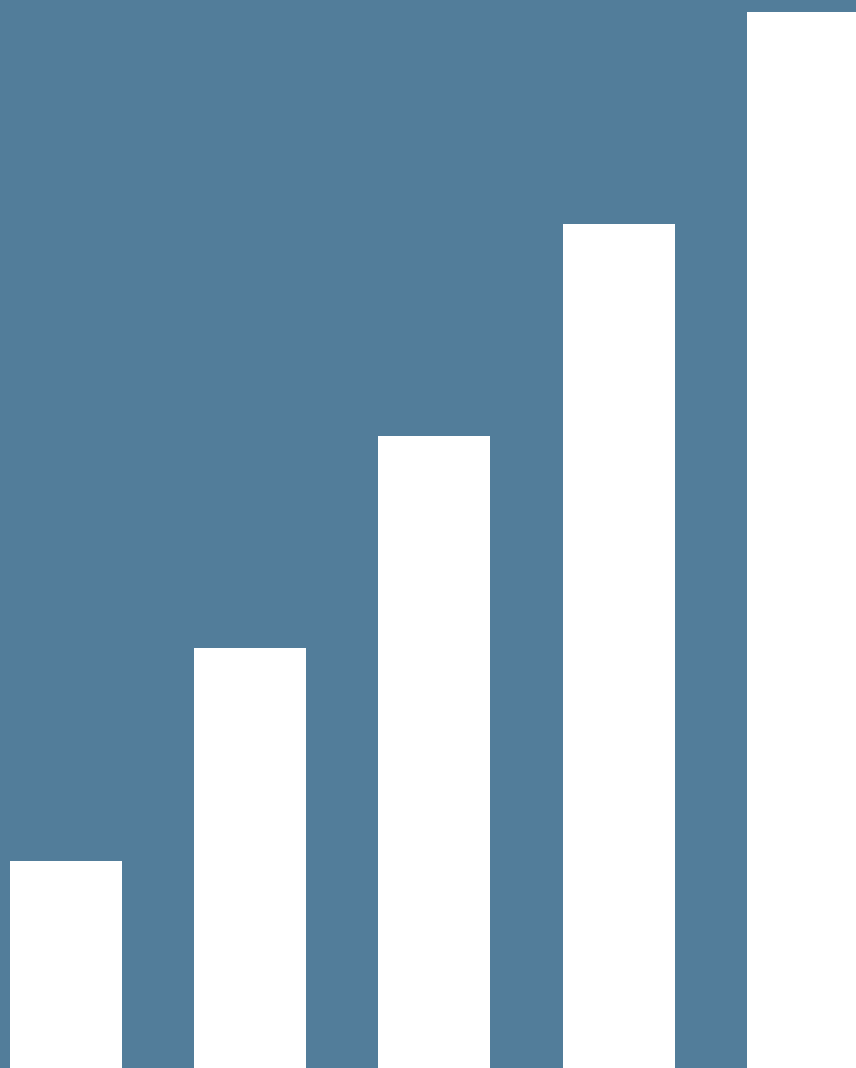


Source: "Understanding the effects on procurement in a volatile market" survey results, November 2008

As depicted in Figure 4, organizations' short-term responses are around cash conservation, cost reduction and supplier collaboration and relationship management—the latter, in fact, being the single-most commonly adopted tactic. Two-thirds of respondents are re-evaluating or redefining their sourcing strategies; much more than half are placing an added impetus on low-cost country sourcing, and precisely half are increasing or tightening the key performance indicators against which they measure their supplier base. One-third are increasing their payment terms as they respond to cash conservation pressures and the higher cost of working capital.

Such responses are doubly interesting—interesting in their own right, but also fascinating for what they don't include. Longer-term initiatives have been left untouched, for example. Anecdotally, the near-unanimous feedback from the CPO Circle roundtable was that longer-term initiatives such as procurement transformation programs continue with little or no changes in response to the present economic volatility.

Outsourcing and procurement: a ready-made solution



In the current economic climate companies are under pressure in three key areas: to improve cash flow and liquidity, drive immediate and sustained cost savings, and position themselves for growth. Outsourcing is a valuable strategy to meet these demands in a market where there is stress, disruption, mergers and acquisition activity and other drivers for rapid change.

In evaluating their response to the downturn, organizations could also look to another piece of Accenture research entitled "*Outsourcing and procurement mastery*"⁴, published early in 2008. Based on a survey of more than 600 procurement executives from Europe, Asia and North America, it highlighted the strong links between procurement "masters" and procurement business process outsourcing (BPO).

Procurement masters

Procurement masters achieve procurement savings of 30 percent higher than low performers—despite having procurement organizations that cost about half as much to run. It's a logic neatly encapsulated by one Accenture Procurement BPO client, who notes "You can do it yourself ... or, you can turn to an organization that has already made the investment in time, effort, money and experience in developing advanced procurement capabilities."

And at a time when economic conditions are driving cuts to procurement budgets even as savings targets are being increased, procurement BPO can play a key role in helping businesses not only survive but thrive in this challenging environment. Outsourcing is a tool that not only can help achieve immediate cost savings, but create competitive advantage and measurable shareholder value—quickly.

By supplementing their own procurement capabilities with a source-to-pay procurement BPO service—supported by leading practices, innovative tools and a global delivery network—businesses facing the downturn can increase their control, generate savings, lower risk and improve their speed to value.

Some examples where procurement BPO has delivered specific benefits include:

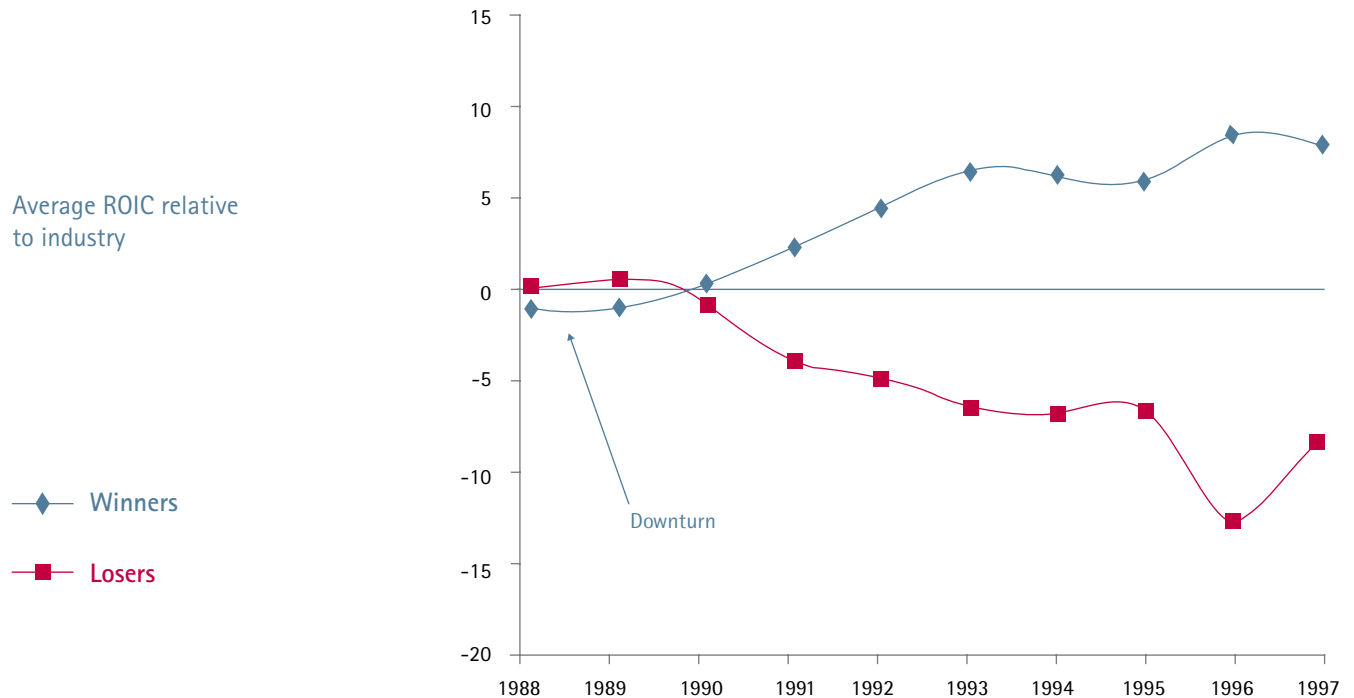
- A construction services company for example, benefited from net savings of more than 20 percent across seven of the purchasing categories it outsourced, with double-digit savings for the entire project.
- A global banking client benefited from sourcing savings of \$400m (15 percent), with additional spend savings of \$28 million through the use of electronic auctions—in just one year. Another banking client achieved direct savings of \$10.2 million, through an industrialized procurement process for temporary resources.
- A global technology company achieved 35 percent savings over the previous year through working with an outsourcing provider to establish buy centers in 50 countries, virtually eliminating non-compliant spend and greatly improving the control environment.

Taking advantage of a downturn

Also consider not just the immediate exigencies of the economic downturn, but its aftermath. Clearly, the current economic environment is here for a while—but it will end. And when it does, Accenture research suggests that those businesses that are well-positioned will emerge even stronger—viewing the downturn as an opportunity to radically rethink their activities and their strategies to help enable high performance, take market share and make fundamental changes to drive growth and sustainable results.



Figure 5. Performance comparison following 1990 – 1991 recession



"Winners" pull away after the recession

Winners are those that outperformed others in their industry for the six years following the recession of 1990 – 1991; losers are those that under-performed others in the industry

Source: Accenture study based on financial results analysis of 850 of the largest companies in the US last recessions.

To get a closer look at how leading companies managed their businesses during the last downturn, Accenture analyzed the financial results of 850 companies in the United States that experienced the recession of 1990- 1991. Based on return on invested capital (ROIC), we separated them into three categories: Winners—those that outperformed their industry for six years following the recession; losers—those that underperformed their industry; and average performers—those that ended up in the middle (see Figure 5).

What did we find? High-performance businesses took the bolder path. While remaining attentive to the current cost structure, they kept their eye on the larger perspective: building sustainable future value for the company and its shareholders. In essence high-

performance businesses pursued an "and" strategy, not an "either/or" direction. They looked to strengthen their strategic positions and they also practiced rapid and sustained cost management in those areas of their business where their costs were not competitive. These industry leaders invested to strengthen existing positions and take market share, often trading off a low ROIC in the early years for a high ROIC later. Strategies included acquisitions, forays into new markets, organic growth in adjacent markets, business unit divestments and new product lines.

The evidence from past recessions is that the high-performance businesses are those that take the opportunities offered by adverse economic conditions in order to create a sustainable competitive

advantage—an advantage achieved, for example, by adopting low-cost and high-efficiency procurement processes, and seizing paradigm-changing sourcing opportunities.

Procurement BPO gives precisely this sort of a sustainable competitive advantage.

To find out more about how Accenture Procurement BPO services can help you achieve high performance please visit www.accenture.com/ProcurementBPO

Reference

1. High Performance through Procurement: Accenture research and insights into procurement performance mastery, 2008
2. CPO Circle is an Accenture sponsored peer-to-peer community that brings together senior executives responsible for sourcing and procurement strategy and execution
3. The survey findings are based on input from members of Accenture CPO Circle. The results provide directional information on the views of procurement executives.
4. The Accenture research initiative included survey results from more than 600 procurement executives from Europe, Asia and North America, as well as detailed analysis of more than 200 of those responses.

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About Accenture Procurement BPO Services

A leader in procurement BPO services, Accenture helps clients across a wide range of industries on their journey to high performance in procurement. By supplementing their procurement capabilities with our full suite of source-to-pay BPO services—supported by leading practices, innovative tools and our Global Delivery Network—organizations can increase their control, generate savings, lower risk and improve their speed to value.

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Accenture is a global management consulting, technology services and outsourcing company, with more than 215,000 people serving clients in more than 120 countries. Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world's most successful companies, Accenture collaborates with clients to help them become high-performance businesses and governments. The company generated net revenues of US\$21.6 billion for the fiscal year ended Aug. 31, 2010. Its home page is www.accenture.com.