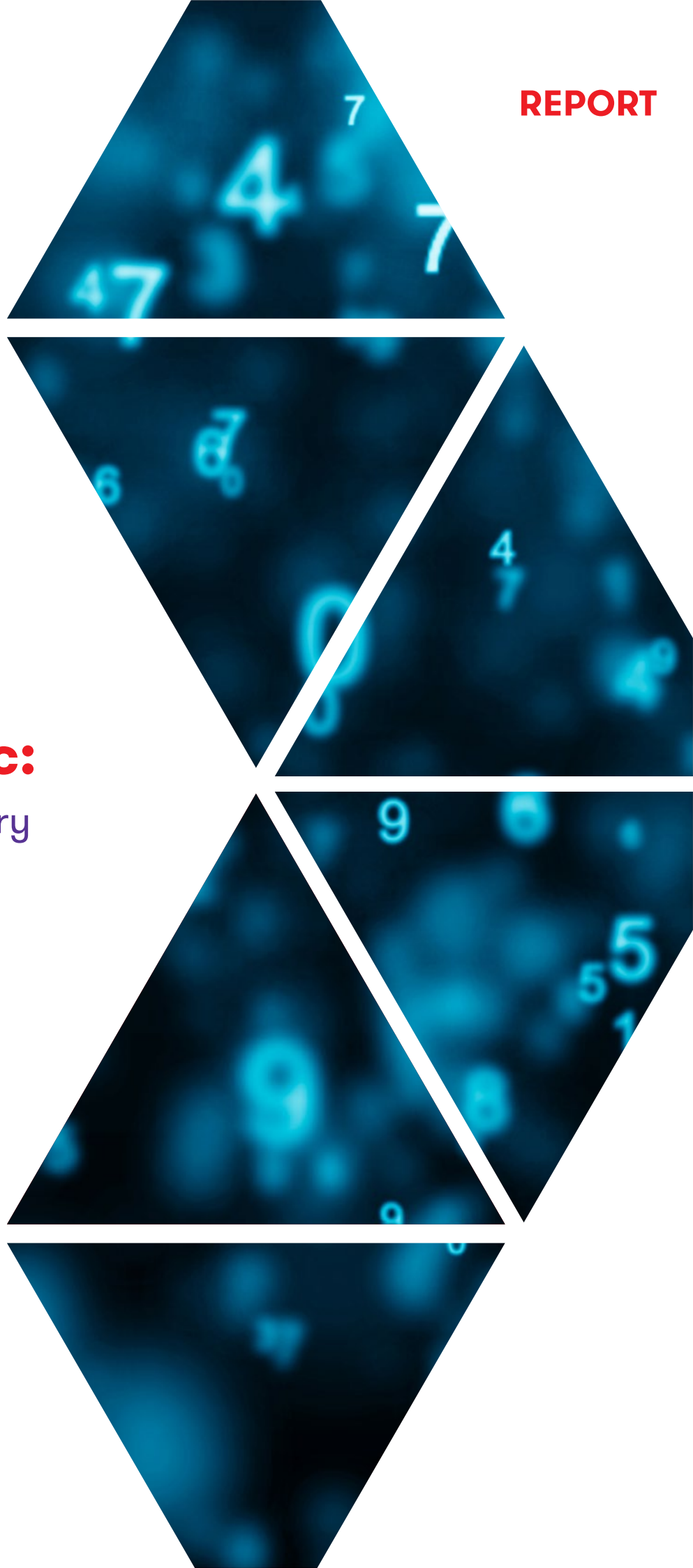




REPORT

# Procurement in a pandemic:

preparing for recovery  
and beyond



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Alex Davies, Head of Value-Added Services, RS Components

The COVID-19 pandemic has cast a spotlight on many of the pain points procurement professionals have been tackling for years. Everything from maximising the value for money of business assets to ensuring contract compliance and continuing the fight against counterfeit goods has been highlighted – affecting access to many essential maintenance, repair and operations (MRO) parts.

One of the most immediate effects was a shutdown of many manufacturing centres in China, which disrupted the availability of countless B2C and B2B items. Meanwhile, the impact for other businesses has been an astronomical rise in demand for their products.

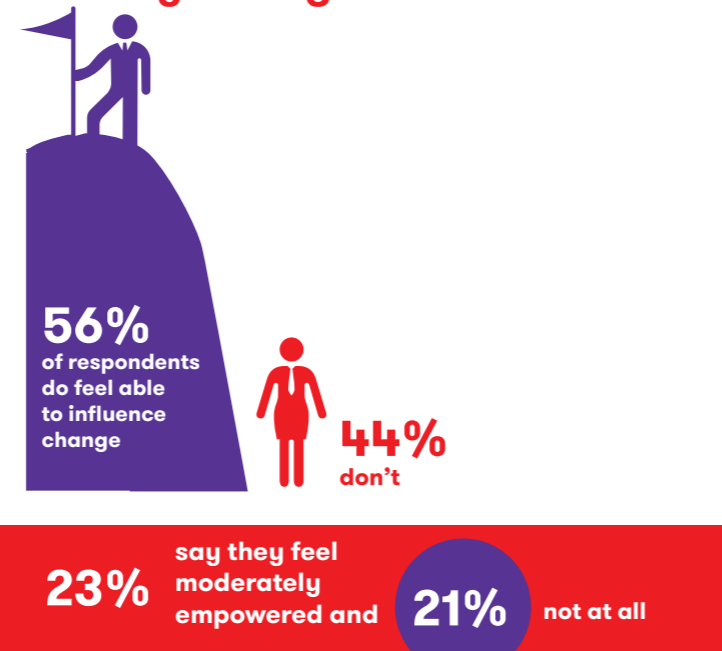
Procurement professionals have, in many cases, found themselves thrust into the corporate limelight. It's a far cry from one of the key talking points in the Indirect Procurement Report 2019 – The Future of MRO<sup>1</sup>, published by RS Components and based on research with the Chartered Institute of Procurement & Supply (CIPS).

When CIPS asked its members whether they feel able to drive change in the businesses in which they work, the short answer was that many don't.

Keeping the lights on and the wheels turning while supply chains have been fractured by business closures and disruptions to transport is just one aspect. Another has been getting remote working running smoothly – ensuring staff have everything they need to be effective and making sure their health and safety isn't compromised.

Amid the chaos and stress 2020 has unleashed, this could be an opportunity for procurement practitioners to demonstrate the strategic impact they can have in safeguarding the organisations they work for.

## Opportunity to drive change within your organisation



Source: 2019 CIPS whitepaper (P4)

Going forward, a key part of all this needs to be an understanding of the effect of the pandemic on people – not just processes. “I think those first few weeks of the lockdown were a very interesting period,” says David Loseby, Group Chief Purchasing Officer at Rolls-Royce. “The volume and velocity of everything that was happening, the demands on people and their time, I think was actually pretty tough on a lot of people.”

This report examines how the coronavirus pandemic has shaken supply chains and upended many established business models. And it looks at how those in the procurement hot seat can make a lasting impact in the way they respond to current pressures and prepare for future changes.

## Focusing on supply chain visibility

A minority of companies that invested in mapping their supply networks before the pandemic<sup>2</sup> emerged from lockdown better prepared, according to the Harvard Business Review. “They know exactly which suppliers, sites, parts, and products are at risk, which allows them to put themselves first in line to secure constrained inventory and capacity at alternate sites,” it says.

There's a clear implication – the majority had no such supply chain maps and were less able to respond. That lack of detail is in part a natural consequence of the global expansion of supply chains. The explosion in manufacturing capacity, particularly in China and latterly in Vietnam, has dramatically increased the number of potential suppliers businesses are able to transact with. That increased supply has also helped keep products priced keenly.

“We've all been driven quite significantly by unit price, which is, of course, important. But sometimes that's been at the cost of the robustness of the rest of the supply chain,”

says Peter Malpas, President for EMEA, RS Components. “Sadly, I think that's had a negative impact in some categories more than others who've become very reliant upon suppliers that are sometimes further afield.”

Price will always be important, of course – more so in the context of the total lifetime costs relating to a purchase. But if the pursuit of low prices leads to problems with the provenance of the items or with contract compliance, that might turn out to be an unsustainably high cost to bear.

As Alex Davies, Head of Value-Added Services, RS Components, says: “I think to a certain degree COVID-19 has exposed how fragile some of those supply chains are – supply chain visibility will have to be better going forward.”

This is something many businesses quickly looked to address as the pandemic and its associated lockdowns began displacing normal trading operations. One of the biggest areas of interest is now eProcurement. There are some very prosaic reasons for that. After all, in a world where hundreds of millions of people have had to work remotely, business premises were closed down, and interpersonal contact was tightly managed, ecommerce offers an important alternative way to work.

But beyond those everyday benefits, there are longer-term advantages, too.

The Indirect Procurement Report 2019 found that one of the biggest day-to-day challenges in controlling purchasing activity is the lack of spend visibility. But when procurement shifts online, en masse, it becomes possible to track and analyse purchase data, spot trends, restrict purchases to an approved supplier list, lock-in best prices, and monitor the ebb and flow of stock – from original source to final destination.

That holistic view of indirect procurement is something RS Components champions and has made central to its suite of technology-based tools. Being able to accurately and efficiently analyse purchase history data makes it possible to start making informed choices. What items are bought most often? Where are they needed? What are the most business-critical MRO purchases?

Having reliable answers to questions such as these can safeguard business operations, which is all the more important at a time when supply chain and transport link fragility has become a board-level concern. It can also help deliver some very real cost savings, too. One well-known confectionery manufacturer in the UK has, with help from RS, saved more than £30,000 per annum in indirect procurement costs.

“Deciding whether it’s appropriate to bring things closer to home or to put them further out is an ongoing risk assessment activity.”

Dr John Glen, CIPS Economist and Visiting Fellow at the Cranfield School of Management

“Workplaces now have requirements for new cleaning regimes, workforce segregation, shift phasing and sequencing of people and so on.”

David Loseby, Group Chief Purchasing Officer, Rolls-Royce

## Will supply chains have to shrink?

**More than 200 of the Fortune Global 500 firms have a presence in Wuhan<sup>3</sup>, according to Deloitte. There was simply no way the world was going to avoid the domino effect of lockdown, closures and transport shutdowns.**

While COVID-19 might be a once-in-a-lifetime event, there is an ever-present threat from pandemics: SARS, MERS, and others failed to develop into very widespread diseases but demonstrate that the disruption caused by COVID-19 might not necessarily be a one-off.

Supply chain and procurement professionals understand more than most the extent to which global trade underpins so much of everyday life – particularly in the UK<sup>4</sup>, which has been a trading nation for centuries. But the question on some people’s minds now that some of those supply chains have been stretched and broken is, is it time to shrink them?

One person who seems to think it might be is French president Emmanuel Macron. Back in June, in a televised address to the people of France, he said the pandemic had revealed an over-reliance on global supply chains<sup>5</sup>. “The only answer is to build a new, stronger economic model, to work and produce more, so as not to rely on others,” he said, indicating the time has come for the repatriation of some manufacturing capacity.

However, Dr John Glen, CIPS Economist and Visiting Fellow at the Cranfield School of Management, sounds a note of caution here.

“What are the drivers of bringing production back closer to home?” Glen asks. “Right now, it’s the perception that we live in a riskier world, which is understandable. But those are precisely the kinds of assessment supply chain professionals make every day of the week anyway.”

Deciding whether it’s appropriate to bring things closer to home or to put them further out is an ongoing risk assessment activity.”

Loseby also sounds a note of caution here. “I wouldn’t advocate downsizing. Rather than see things in terms of consolidation, it’s more important to focus on the right size,” he says.

As well as considerations of increasing local production capacity, the pandemic has thrown into sharp focus the question of stock-holding. The last 20 years or more have seen the almost complete adoption of just-in-time manufacturing and distribution models – holding stock is not the commonplace activity it once was. Partly that’s because holding stock means tying up capital. But there simply isn’t the necessary warehousing capacity in the UK, either.

The UK Warehousing Association has highlighted shortages of capacity throughout the country and warned that as much as one-fifth of available warehousing may not even be fit for purpose<sup>6</sup>. Yet, as the Indirect Procurement Report 2019 found, waiting for parts to arrive was one of the chief causes of downtime according to half of those who responded.

### Biggest drivers of downtime



Source: 2019 CIPS whitepaper (P10)

“RS Components’ business model means we put a great deal of focus on high levels of service,” says Peter Malpas. “And so we’ve always maintained particularly high stock levels of the lines that our customers want to buy, and exceptionally strong relationships with our supply partners. That’s our business – we don’t tend to rely too much on back-to-back transactions from suppliers.”

Being a global company also means RS can move stock between locations, ensuring products are where they’re needed when they’re needed.

“We’ve seen a surge of new customers coming to us because they need a digital solution.”

### Best of times, worst of times: The role of the procurement professional

Preserving cash responsibly will be one of procurement’s primary goals for the next 12 months<sup>7</sup>, according to Accenture. But for many procurement professionals, change was already in the wind.

Rather than focusing exclusively on cost-per-unit metrics, they were looking at ways to deliver increased business value. “To really add value to the organisations they work for, procurement professionals must think about that total cost,” said Helen Alder in the Indirect Procurement Report 2019. The scope of procurement professionals’ roles has expanded markedly, however. The debate over price vs value will always be valid. But bigger forces are now in play.

John Glen explains: “A significant number of procurement people that I’ve spoken to are also responsible for managing their businesses, estates and properties.” That

has meant taking charge of the move to remote working and looking more strategically at resource use and capacity across the business. But it has also meant dealing with some important day-to-day changes for industrial workers who are still needed on site.

“Try to visualise 1,000 people starting their working day and going through a single entrance to the factory,” Loseby says. “Think about all those pinch points, all those touch points – including communal areas such as changing rooms. Workplaces now have requirements for new cleaning regimes, workforce segregation, shift phasing and sequencing of people and so on.”

Being able to help a business navigate its way through a period of tremendous pressure and change is a high-profile task within any organisation. It’s drawing procurement people into a disparate set of tasks. Those tasks include figuring out how much office space is needed now that many people are working from home, and looking for break-clauses and sub-letting opportunities to reduce the ongoing exposure to unnecessary overheads. That’s in addition to reassessing supply chain risk, looking for suppliers that can be relied on, and ensuring alternative products and sources are available.

**“Some businesses are experiencing an unprecedented uplift – anyone connected to ecommerce and online sales had to react to a big increase in demand during the pandemic.”**

One of the issues they’ve had to face is that their existing supply chains have fractured because businesses have closed. It’s also not been easy to transport goods,” Glen continues. The flip side of that, of course, is the many businesses that have seen demand fall away rapidly.



“A major component of what’s needed going forward is simplicity.”

Peter Malpas, President for EMEA, RS Components

“If you can build, maintain and manage the risk in your supply chain, so that it creates a better offering than your competitors, you’ll have an advantage over them.”

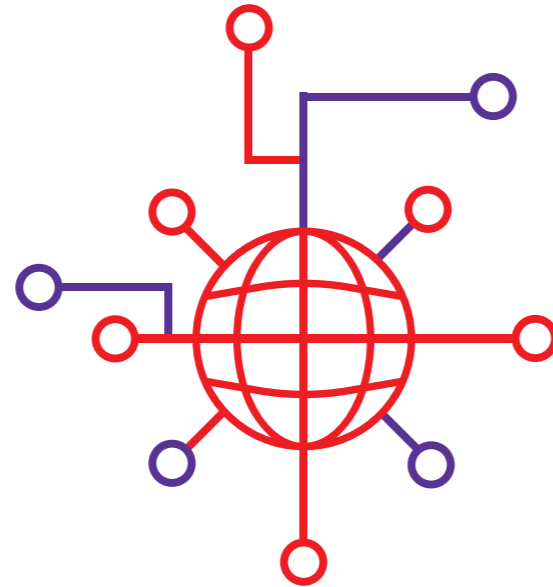
Dr John Glen, CIPS Economist and Visiting Fellow at the Cranfield School of Management

“I think we’re witnessing heightened awareness of the need to have a secure, robust supply chain,” says Peter Malpas. “More so than at any other point in the 30 years I’ve worked in the industry. And a major component of what’s needed going forward is simplicity.”

“From the ability to transact digitally and integrate as much as possible, through to the consolidation of supply networks to control cost and increase leverage.”

With a clear focus on being a digitally enabled, high-service supplier, RS Components has put in place many measures that can help its customers achieve these aims. “We have a five-year plan in place,” Malpas explains. “And we’re still delivering against it. Part of it has been transitioning the business away from simply providing great products at great prices.

“We’re very much a technology solution provider now. Group-wide, there have been acquisitions to bring whole new offerings into the fold, while we’ve continued to develop and improve upon our range of products designed to make procurement a simple, cost-controlled exercise<sup>8</sup> – from placing orders online, through to vendor managed inventory (VMI), and click-and-collect from our RS Local stores.”



### Conclusion: Looking ahead

What is it that gives some businesses the edge? Increasingly, it is the robustness and flexibility of their supply chain. “If you can build, maintain and manage the risk in your supply chain, so that it creates a better offering than your competitors, you’ll have an advantage over them,” says John Glen.

Understanding that a robust supply chain is at the heart of a robust business is one thing. Bringing it to fruition is another. Glen continues: “I remember being at a conference where one of the speakers was from a pharmaceutical multinational. He said, ‘logistics and supply chain management are critical for us, but they’re not core’. By which he meant, they can’t afford to have supply chain vulnerabilities, so they find experts to help them.”

There is a growing scope for the use of automation in supply chain and procurement matters. In regard to the latter, there are many discrete functions around the reordering of high volumes of low-value items that can be easily automated.

But there are also considerable advantages from better data analysis. There are wider roles for the use of data in risk assessment, and using algorithms to automatically reconfigure supply chains in response to geopolitical challenges or natural disasters may become commonplace.

Rolling out online purchasing capabilities to field engineers and remote office staff is a vital first step towards controlling where orders are placed and monitoring ongoing levels of stock. Taking things a step further, there are also technology-driven tools for VMI available that will balance stock availability with capital flexibility.

If you work in a supply chain or procurement role, it is likely you will have been affected by the issues discussed here. You probably have questions of your own about facing up to the challenges of the pandemic and being best-placed for recovery.

RS Components has expert advisers on hand to talk through these and related issues and discuss how we’ve helped organisations like yours. One of our team will be in contact shortly.

If you have been forwarded a copy of this report and you would like to speak with one of our expert advisers, please email us at [connectedthinking@rs-components.com](mailto:connectedthinking@rs-components.com).

### Biggest day-to-day challenges for UK companies



Source: 2019 CIPS whitepaper (P9)

## Source:

- 1 **2019 Indirect Procurement Report - The Future of MRO, RS Components**  
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- 5 **France must seek greater economic independence after virus, says Macron, Reuters**  
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- 6 **UKWA highlights crucial shortfall in warehousing capacity, UKWA**  
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- 7 **COVID-19: Managing the impact on procurement for resilience and growth, Accenture**  
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