



OUTPERFORM:

How to buy well
in inflationary markets

out-per-form (**verb**)
outperformed; outperforming; outperforms

Definition of **outperform**:
{ *to perform better than* }

Proxima
The Procurement Specialists

FROM COVID TO CONFLICT - THESE TIMES ARE NOT NORMAL

These are challenging times for businesses. Uncertainty and market volatility have put a dent in many a P+L and, so naturally a fast and sustainable recovery is front of mind.

This means that business leaders must have one foot in rebuilding the present and one foot in securing the future. Perhaps this is where they always stand, but this time, and perhaps for the first time, suppliers are seen as the key assets to make that happen.

Cost optimization just got real

Today's business renewal agenda requires thoughtful planning and, likely, a significant investment in talent, technology, and partnerships. This is at a time when budgets are tight and costs are invariably going up.

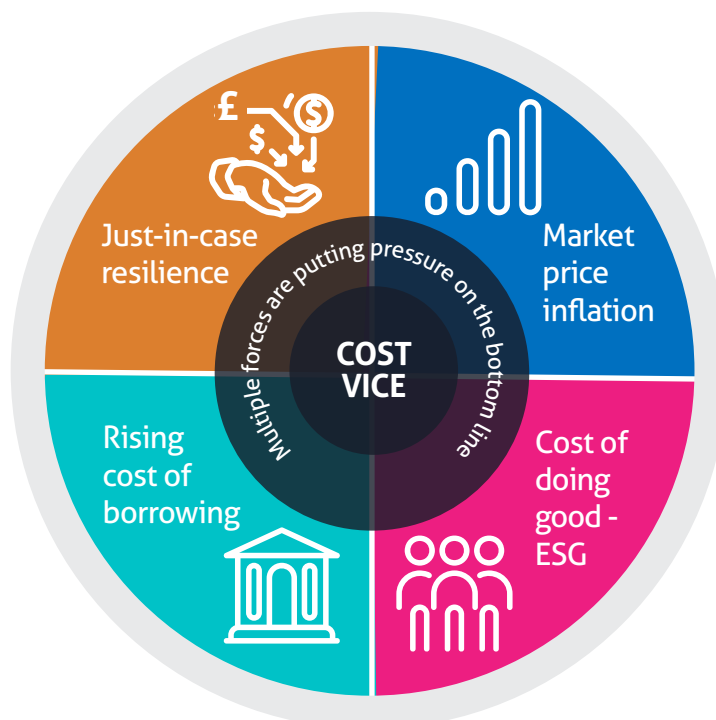
But only some organizations will be able to fund all this change through releasing new products or introducing price increases. Most will need to find the funding. With 75% of revenues spent with suppliers (on average across Fortune 500 and FTSE 350 companies), businesses will be asking in the same place for cost reduction and a performance boost.

So just how do you achieve that?

The answer is to outperform; acknowledging the seller's market, rethinking how you buy, seeking to outperform your competitors.

This means using the current time of crisis as a catalyst to eliminate more waste, recalibrate supplier relations and focus on how every penny spent works for the business to make it more productive, innovative, purposeful, and resilient.

It may not always be possible to beat inflation, but it is possible to outperform the chasing pack.



TIME TO OUTPERFORM

1 | THIS IS EVERYONE'S PROBLEM. WORK TOGETHER ACROSS THE VALUE CHAIN

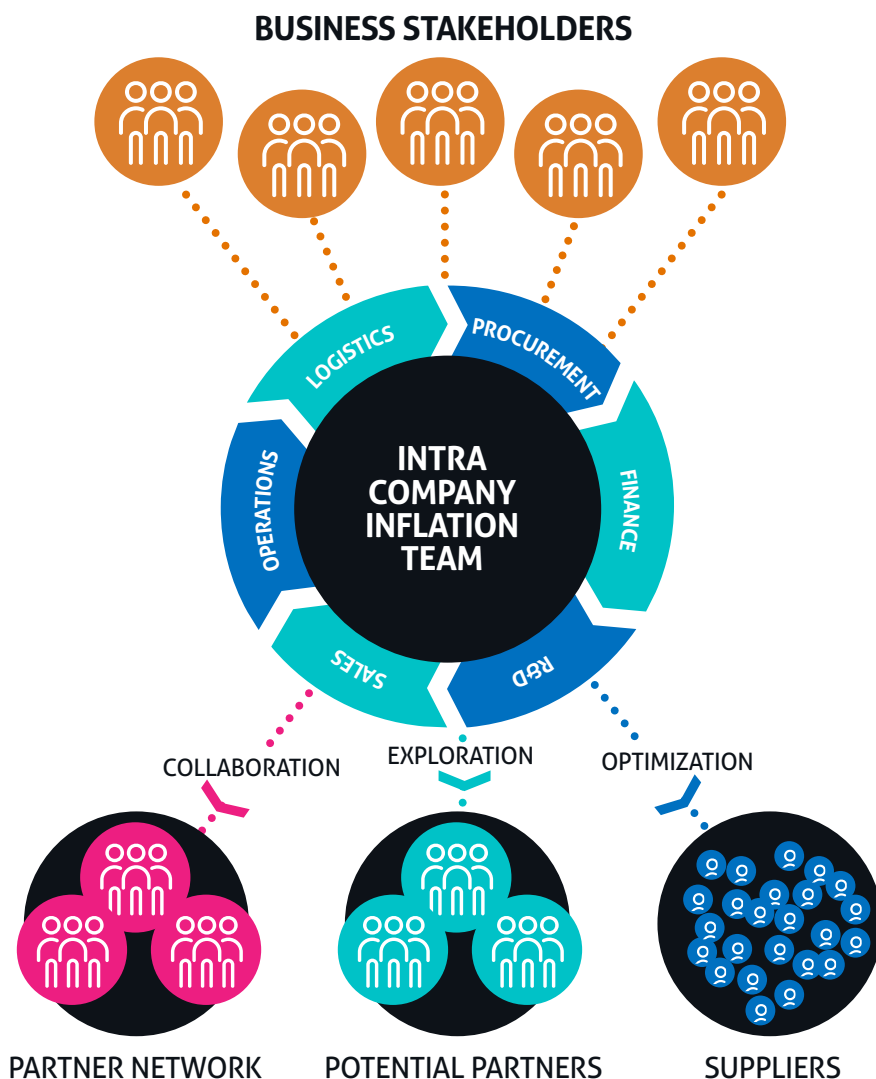
The first step is acceptance;
you will win and lose

Many businesses are used to buying in deflationary markets, but today's market dynamics are different, requiring a different approach to managing cost. You will encounter shortages, price rises, SLA erosion, slower lead times, and possibly even face supply chain failure.

Recommendation:

Set up a cross-business team to **communicate, collaborate and coordinate business efforts** and decisions in the face of these challenges. With price saving hard to come by, value must be framed differently, and a connected business can act quickly and with certainty. Exec sponsorship is also key.

Are you set up to manage this?



2 | UNDERSTAND HOW SUPPLIERS ENABLE YOUR BUSINESS

Has it changed, and does it still work for you?

In times of crisis, it is essential to know where your money is going in real-time; rearview mirrors don't really cut it. But we don't just mean what you spend your money on, that's kind of interesting, but why are you spending it? And why are you spending it now?

At any time, but especially when budgets are tight, it's important to be sure that every cent is well spent, cut out the waste, and double down on what's making a positive difference.

These are not traditional times, so don't take a traditional view. Ask why?

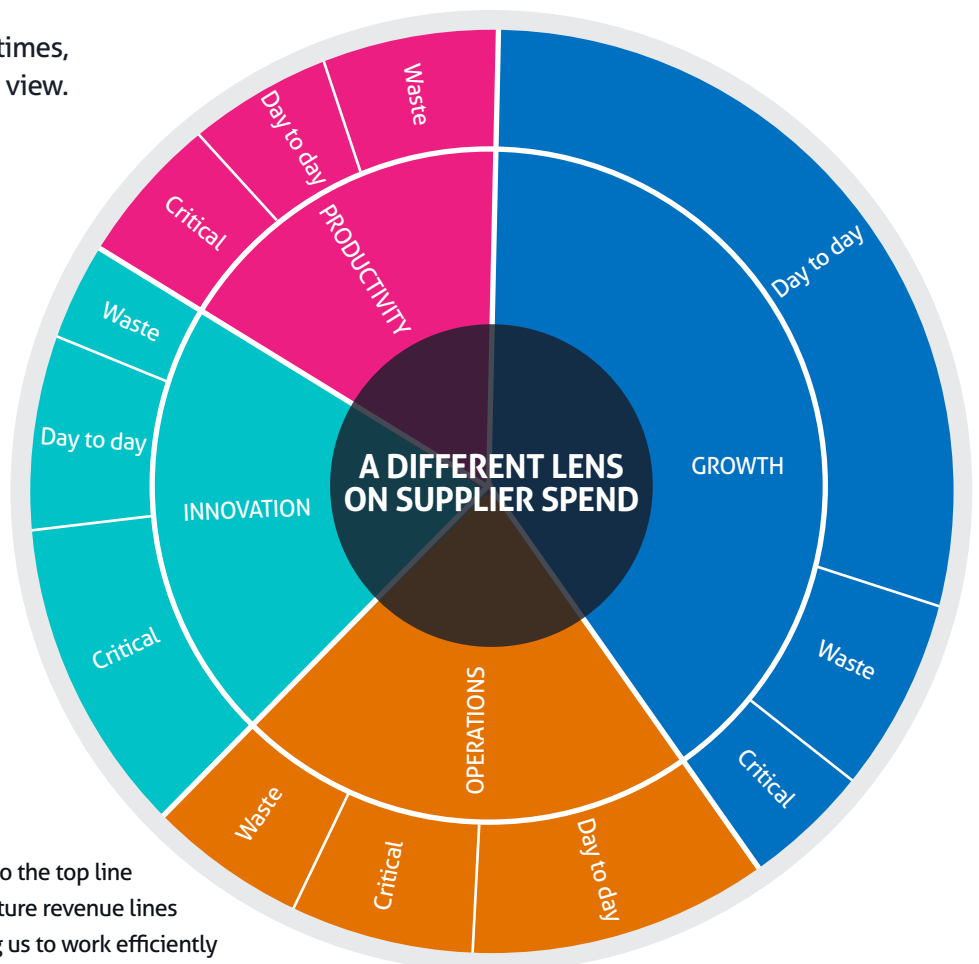
Recommendation:

Get to grips with your data.

Challenge procurement to reclassify what spend:

- 1 > **Actually does.**
- 2 > **Is critical at this time.**
- 3 > **Is most at risk of market pricing pressure.**

Take a pulse on when and how this affects budgets and current business priorities.



- GROWTH** - Spend critical to the top line
- INNOVATION** - Funding future revenue lines
- PRODUCTIVITY** - Allowing us to work efficiently
- OPERATIONS** - Underpinning production/ operations



3 | STEP IN, AND MAKE SURE THAT YOU ARE DOING BASICS

What would you do if it was your own money?

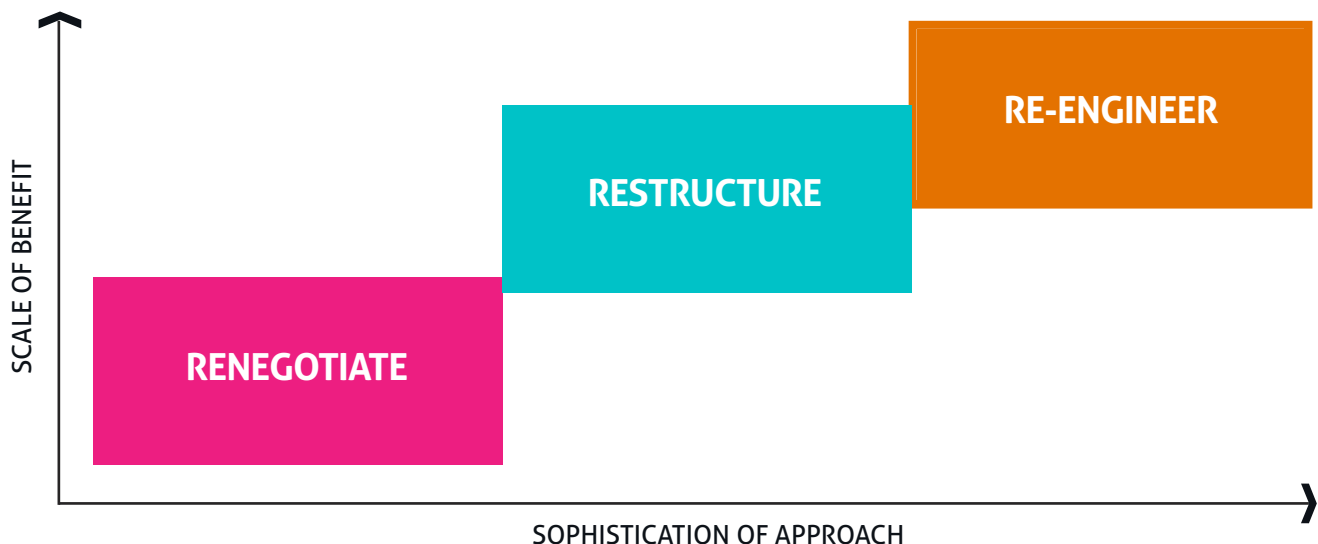
You'd think before spending it, right? Especially when times are tight. Now is the time to apply the same thinking at work. What can you do differently to test that you are doing the right things?

- 1 > Check your existing contracts to see if they are still relevant and the options you have
- 2 > Put in a 'stop cost' program; additional oversight to challenge every \$£€ before it gets spent
- 3 > Renegotiate and compete more for what you buy (with more suppliers) to get market pricing

Markets move; they change and adapt. You should be as close to the change as you can be.

Recommendation:

Having segmented your data, you must **challenge procurement and budget holders** to develop a plan from the simple to the bold ideas to create more value from each \$£ spent on supplier relationships. Further put tougher spend governance in place through a 'stop cost' initiative.





4 | JOIN UP INTERNALLY TO REACT TO CHANGE FASTER

Price is not just procurement's problem

A price increase is a direct hit on margin. But if other teams in a business can see it coming, some things can be done to dampen the impact.

A shortage or delay may be even more problematic. A shortage or delay may be even more problematic to manage. With planning, the impact can be lessened.

Outperforming will require a total cost and supply view, which requires a total business view, understanding the impacts beyond the invoice.

What can you do internally to stabilize, reduce or eliminate demand, and manage risk?

Recommendation:

Create teams to profile and act upon the impact of shortages and price increases on the wider business. Think about joining up R&D, Finance, Operations, Production, Logistics, and Sales for instance. Improving **communication and collaboration** across these groups will help react quicker and more effectively when something doesn't go to plan.



JOIN UP INTERNAL TEAMS	Buy earlier and in excess volumes if capacity and cash allow	Reduce consumption, increase circularity or extend lifecycle
Create meaningful demand by reducing or simplifying range	Integrate some / all cost increase into final customer pricing	Integrate shortages into production schedules / models
Increase awareness and encourage innovation to reduce dependency	Reduce risk with cover to cover agreements from supplier to customer	Make short term specification changes where plausible

5 | CREATE AND PROFIT FROM THE RIGHT SUPPLIER RELATIONSHIPS



Renegotiate or collaborate. Why not both!

Prices may be going up, but there is still value that can be created by working with suppliers. There may even be significant cost savings to be achieved when thinking beyond price.

Relationships matter, and some current suppliers will have resources, capability, ideas, and creativity that can benefit you both now. It's essential to unlock these partnerships.

Others will not see you as a customer of choice. It's important to understand the dynamics of your supplier relationships, understand who to partner with, but also where to simplify and compete more.

Can you optimize supply dynamics to reduce the pressure?

Recommendation:

When segmenting suppliers, think about where the value is in those relationships and how you need to behave differently with different suppliers. **Set up a partner program** to communicate and collaborate with key suppliers. Beyond partners, it is crucial to **systematically review how you buy**.

This means challenging pre-existing relationships, category & sourcing strategies, and how choices are made.

<p>WORK DIFFERENTLY WITH SUPPLIERS</p>	<p>Create meaningful demand by reducing or simplifying range to suppliers</p>	<p>Identify alternate sources of supply like secondary markets or brokers</p>
<p>Check buying patterns; is planned, spot, or hedging right?</p>	<p>Consider what value add you can provide to suppliers beyond price</p>	<p>Support suppliers to develop & innovate within their supplier networks</p>
<p>Strengthen key relationships, commitments and communication</p>	<p>Reduce risk with cover to cover agreements from supplier to customer</p>	<p>Always be informed on price trends and compete more frequently</p>



FINALLY...

SUPPORT YOURSELF AND YOUR TEAM.

These extraordinary times require different skills and approaches, many of which may not be learned or practiced within procurement teams.

Think about what you can do to enable your team to put their best foot forward.

- › Ensure sufficient market intelligence
- › Create capacity to take on the extra workload
- › Re-baseline value definition and success measures
- › Communicate and coach

Be realistic, it may not be possible to always beat inflation, **but it is possible to outperform the chasing pack.**

If you are facing up to volatility and rising costs in supply chains, then talk to one of our team today to understand how Proxima can help you perform at your very best.

Proxima brings together an experienced team, a diverse skill set, and current market insights to offer our customers procurement and supply chain expertise that helps to accelerate purposeful and profitable change.