

# Sourcing Success Under Tight Time PRESSURE

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**The pressure to cut costs—and do it fast—shows no signs of letting up anytime soon. Not surprisingly, that pressure is often felt most intensely by the organization’s supply management professionals. But how best to respond to the challenge of sourcing under time pressure and achieving the desired cost-reduction results? The guidelines offered here can help answer that critical question.**

**E**mergency room (ER) physicians constantly make critical decisions with limited information and under extreme time pressure. What separates best-in-class ER physicians from the pack is that they not only “do the right things,” but also “do things right.” In addition to possessing the knowledge to diagnose and select the appropriate treatment strategies, top performing ER physicians think creatively and adopt non-traditional tactics to “do things right.” First, they have the skill to adapt and modify textbook treatment approaches based on the severity of the patient’s condition and time constraints. Second, they judiciously take shortcut tactics to accelerate treatment processes if the patient is running out of time. And lastly, they effectively triage and mobilize the entire ER staff to work as a well-coordinated team to stabilize the patient as quickly as possible.

Similar to an ER physician treating incoming patients, executives are often placed in various time pressure scenarios where they must achieve rapid positive results—for example, cost savings—under a tight timeline. Specific challenges might involve delivering against an aggressive post-merger target; bracing for a worse-than-expected economic downturn to offset softening revenue; or enabling a rapid enterprise-wide transformation where early wins become the critical change catalyst. Companies often pursue an enterprise procurement transformation to meet these challenges. However, a systematic and enterprise-wide procurement initiative can often take well over a year to fully execute and deliver P&L impact.

Executives seeking to achieve rapid and high-impact benefits through their sourcing and procurement initiatives should embrace three key takeaways from best-in-class ER physicians who both “do the right thing” and “do things right” in a hectic, time-pressured environment. Expressed as business impera-



tives, these takeaways are:

1. Adapt your sourcing strategy to account for time-pressure complexity.
2. Leverage benefit-acceleration tactics.
3. “Shock” and mobilize the internal organization to drive sustainable transformation.

In helping clients leverage procurement to drive accelerated benefits, we’ve observed that companies can achieve some powerful benefits by successfully adopting these takeaways. These benefits include:

- A 3 percent to 4 percent increase in current year savings, with the P&L impact felt in under nine months.
- A 30 percent to 50-percent acceleration of the sourcing timeline.
- Greatly improved supplier relationships and trans-

parency that drive sustainable benefits for both parties.

This article examines the three key takeaways that can lead to a faster and fuller realization of the benefits from a sourcing/procurement initiative. We also include real world examples to illustrate each of the takeaways.

### **Takeaway 1: Adapt strategy to account for time-pressure complexity**

Companies must first recognize that sourcing under time constraint presents significant structural challenges that may require some adaptations to the traditional approaches. The first of these challenges relates to reduced strategic options. Sourcing approaches that would be effective under normal circumstances are often rendered ineffective when time pressures inten-

sify. To cite one example, the threat to pull volume from incumbent suppliers to a more concentrated supplier footprint may not be viable under a tight time frame because the switching costs or co-committed capital outlay may be prohibitive. Similarly, tapping into a new low-cost country supply market may be less attractive due to the lead time required to fully dissect the tariff or regulatory implications of such a move.

The time crunch also results in increased supplier bargaining power—another major challenge. For one thing, the buying company has limited ability to time the market. It's hamstrung in attempts to launch sourcing events that take advantage of supplier market developments such as excess supplier capacity or a period of supplier consolidation. Further, a well-informed supplier can leverage time pressure to its own advantage by stalling negotiations and/or forcing the company to pay a future premium for concessions granted in the near term.

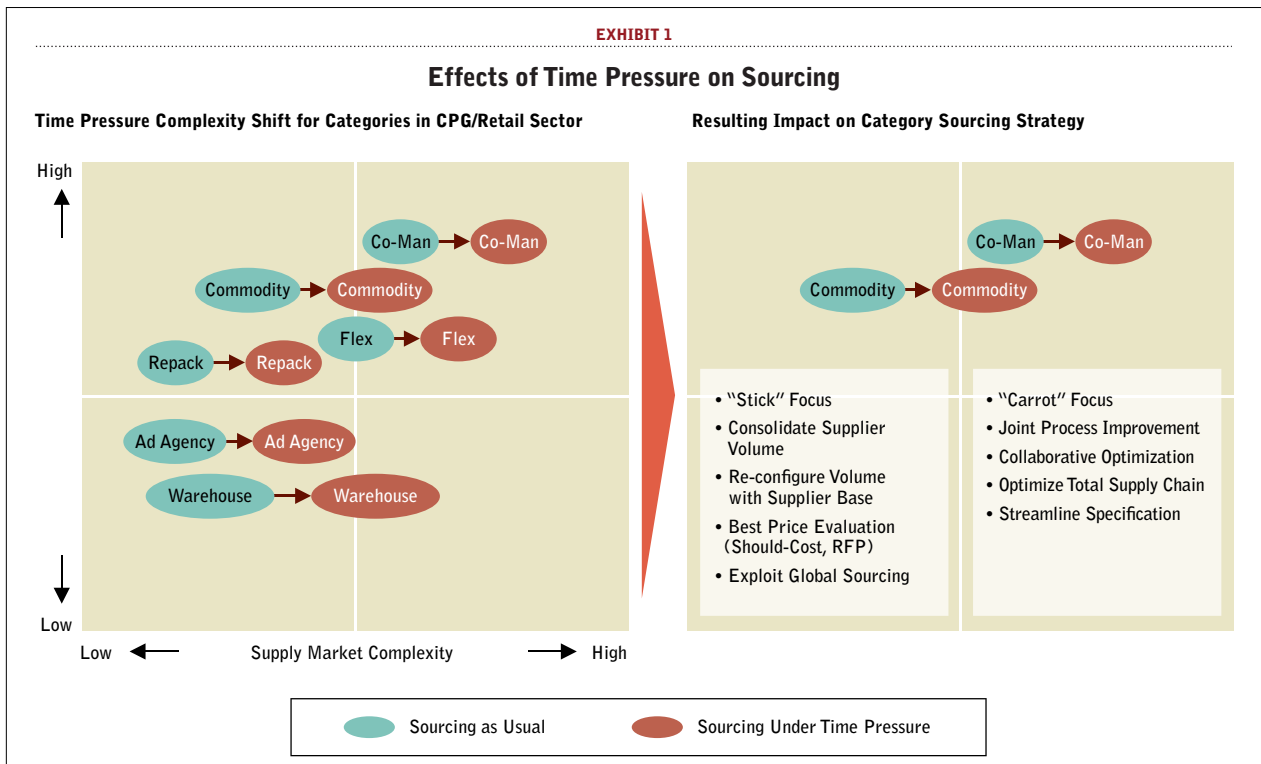
Finally, the time pressure to deliver results makes it even more critical to get the first pass right with respect to strategy development and downstream implementation. Pursuing a sub-optimal strategy can be disastrous if months pass without any meaningful results. If the initial strategy is not on target, any realignment that becomes necessary will be costly and time consuming. Moreover, a weak follow-through in implementation not only delays

time to benefit, but also creates business risks in terms of supply continuity, safety, and quality.

Moving from sourcing as usual to sourcing under pressure increases the supply market complexity, as shown in Exhibit 1. The graphic depicts the shift and then shows the impact on category sourcing strategy—in this example, the CPG/retail sector.

One consequence of the increased complexity is that the optimal downstream sourcing strategies under normal circumstances could now be rendered ineffective. As depicted in the right panel of Exhibit 1, time-pressure based shifts for commodities and contract-manufacturing categories necessitate an adaptation to the downstream sourcing strategy. When sourcing commodities like flour or cocoa under normal circumstances, large CPG companies are likely to employ a stick approach (as opposed to a carrot approach). The companies would focus on best-price evaluation through proven methods such as a comprehensive RFP bid or should-cost modeling. This would be followed by a hard stance on supplier negotiations, anchored on the threat to move volume.

When sourcing under time pressure, however, the stick approach may no longer work. Launching a full RFP bid takes too long as the hurdles to incumbent switching rise. The best approach in cases like this may, in fact, be a stick-and-carrot strategy. Here, the company seeks joint process improvements and win-win gain shar-



ing with the supplier, while still holding out the option of launching a competitive RFP bid. Incumbents may be more willing to grant timely concessions under this hybrid approach.

**Takeaway 1: Case Example.** A leading construction equipment maker faced mounting pressure to improve profit to fend off a recession-driven drop in demand. For its paint category, the company realized that it enjoyed moderate bargaining power over its suppliers. However, the long lead time for testing the highly specific paint mix under a supplier switching scenario precluded a full RFP-based bid option. Instead, the company pursued a win-win joint process improvement initiative with its strategic suppliers and sought an in-year retroactive rebate in exchange for committing to joint profit improvement and baseline volume for the incumbent supplier. By adjusting its category sourcing strategies, the OEM not only better deployed its internal resources but also accelerated its average time-to-benefit by more than 40 percent.

**Takeaway 2: Leverage benefit-acceleration tactics**

Recognizing the added supply market complexity inherent in time pressures and making the necessary adjustments in sourcing strategy is necessary to drive rapid benefits—but it’s not sufficient. What’s also required is optimal timing, which can be achieved through what we term benefit-acceleration tactics. To return to our ER analogy, the physician may opt for emergency surgery over a medicinal approach (that is, “do the right thing”). But she may also employ creative tactics to accelerate the benefits of the surgical approach (“do things right”).

We’ve identified several effective benefit-acceleration

tactics, described below, that have broad applicability across sourcing categories and industry sectors. (Exhibit 2 displays these acceleration levers and their applicability.)

**Decompose and Conquer.** This lever seeks to accelerate both the sourcing and implementation timeline by focusing on sub-components of a complex product category rather than the entire offering. This lever is ideal for products or services with decomposable components in which a few sub-components drive a significant part of the total cost. Third-party co-packing/trade customization provides a good example. Large CPG companies typically procure a wide range of co-packing product categories (for example, temporary unfilled point of sales [POS] displays, permanent unfilled POS displays, filled temporary POS displays, filled permanent POS, and so forth). Each category is further composed of a plethora of graphics, labeling and additional “value-added conversion” activities. Bidding out the entire offering would be prohibitive under tight time constraints. However, by focusing the sourcing effort on a common, low complexity sub-component such as the paper used across all the unfilled POS displays, CPG companies can reduce their sourcing timeline by 70 percent. Moreover, they can achieve 10- to 15-percent annual savings and 2 percent current year savings through payment term improvements or rebates.

**Identify Hidden Gems within Existing Contracts.** Companies often can achieve quick wins and bypass a broad-based sourcing effort altogether by reviewing incumbent contracts. By systematically comparing the contractual terms and pricing structure against industry-accepted norms, companies can identify contract clause outliers or gaps that are candidates for immediate adjustments from incumbents.

One promising category in this regard for is ad agency

**EXHIBIT 2**

**Benefit-Acceleration Levers**

Acceleration Lever	Lever Description	Why Different Than Usual?	Most Applicable When
<b>Decompose and Conquer</b>	<ul style="list-style-type: none"> <li>Break down the category and focus sourcing efforts on the high-spend, low-complexity components</li> </ul>	<ul style="list-style-type: none"> <li>Apply sourcing strategy on key component(s) rather than on the entire solution</li> </ul>	<ul style="list-style-type: none"> <li>Sourced solution composed of sub-components with weak dependencies</li> </ul>
<b>Identify Hidden Gems in Contracts</b>	<ul style="list-style-type: none"> <li>Compare contract clauses and pricing structure against industry standards</li> </ul>	<ul style="list-style-type: none"> <li>Focus on finding competitive gaps in incumbent contract structure rather than full sourcing event</li> </ul>	<ul style="list-style-type: none"> <li>Client has high bargaining power</li> <li>Established supplier market with industry accepted contract structures</li> </ul>
<b>Seek Up-Front Payment</b>	<ul style="list-style-type: none"> <li>Utilize rigorous financial modeling to structure front-load gain-share of future benefits</li> <li>Supplier to provide front-loading of clients’s future share of benefit</li> </ul>	<ul style="list-style-type: none"> <li>Up-front payment makes constraints such as supplier switching cost or implementation lead time irrelevant</li> </ul>	<ul style="list-style-type: none"> <li>Client buys significant volume; high bargaining power over supplier</li> <li>Significant win-win benefit requires mutual commitment (enabler)</li> <li>Category amenable to financial engineering</li> </ul>

services, which is a significant spend category for most large companies. The cost to switch ad agencies is relatively modest, creating good bargaining power for the buying company. Further, most creative ad agency services are typically contracted and managed by the marketing organization than by procurement; thus, the focus is likely to be more on creative value and customized service rather than on cost diligence. Recognizing this, a quick but rigorous benchmarking of contractual fee structure against industry standards can uncover gaps such as an unusually high bonus payment schedule. Quickly benchmarking incumbent contracts and then following up with negotiations to seek appropriate current year retroactive adjustments can yield current-year savings of 5 percent to 10 percent.

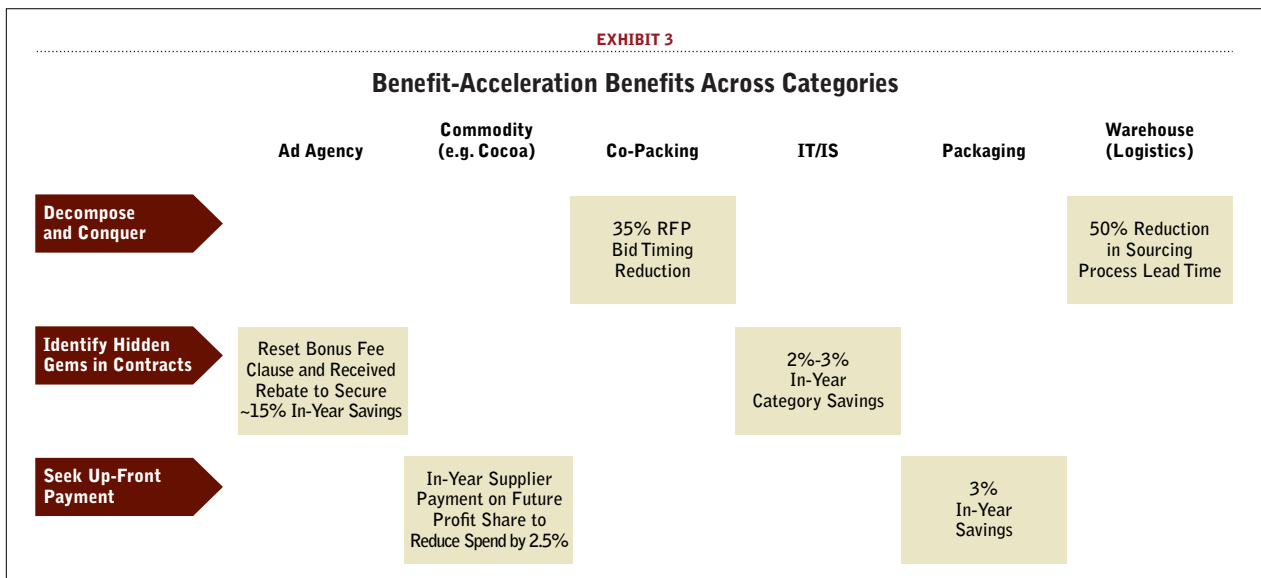
Another applicable category is IT/IS hardware leases. Large corporations often are mired in a plethora of hardware and software contracts and leases. In such instances, a quick scan of IT hardware leases can yield quick win opportunities. Often times, smaller hardware leases have expired, but the company is still paying unnecessarily on them. Correcting such neglected contractual gaps can deliver a 2 percent or 3 percent savings in addressable hardware IT/IS spend.

**Seek Up-Front Payment.** A powerful tactic in combating time pressure is to seek up-front payment from suppliers on future sourcing-derived benefits. This lever is ideal when a company and its supplier can strategically agree upon a shared win-win future scenario, such as joint process improvements and a commitment to increased business volume. By collaboratively structuring a win-win relationship and rigorously modeling the expected future value created, companies can then

request the supplier to front-load the company's portion of that future value stream. In return, the company is contractually obligated to deliver against its end of the bargain in the near future. The up-front payment mechanism not only confers immediate benefit to the company, but also provides a vehicle for making commitments and aligning incentives up front to ensure collaboration success.

Categories such as packaging or commodities are promising candidates for this tactic because companies often buy in large quantities and can potentially create significant win-win value by consolidating volume with incumbent suppliers. For commodities like flour, soy bean, and steel, the base commodity spot-market pricing and the supplier's conversion cost structure are generally well understood. This enables a company to accurately model the degree of value creation for a given supplier as a function of joint process improvements and incremental business volume (for example, increased revenue and improved fixed cost structure for the supplier). By accurately quantifying the future value created to both parties, a company can structure a deal seeking up-front payment from suppliers against the future win-win value-creation scenario. Note that this commitment not only expands the pie for both parties, but also aligns incentives to create a more transparent and strategic relationship. Through this approach, large customers of certain commodities can typically achieve substantial current-year savings of 2 percent to 4 percent.

Leveraging the benefit-acceleration tactics can deliver big and rapid benefits. Exhibit 3 shows the potential effects of applying benefit acceleration levers across representative categories.



**Takeaway 2: Case Example.** A global food and beverage manufacturer launched a rapid procurement initiative to build its cash position in order to enable strategic investments. By employing benefit-acceleration tactics such as “decompose and conquer” in transportation/logistics and “seek up front payment” in commodities, it was able to generate 3 percent in-year savings on its addressable spend. The company’s third-party transportation/logistics relationships involved a collection of contracts and services (customs brokerage, freight, warehouse management, trade customization services, etc.) that would require substantial effort to systematically define and specify in a formal RFQ bid process. The company wisely focused its competitive bid and negotiation efforts on key sub-components that had both a high proportion of the overall spend and relatively low complexity, such as cross-docking services. Through this approach, the company addressed a substantial portion of the overall cost profile in half the expected time.

In commodities, the manufacturer leveraged its significant market power as a buyer of cocoa. The company consolidated its supply base, which gave the winning suppliers a significant opportunity to both unlock scale-based profit improvements and increase market share. Further, the increased volume commitment served as a platform for structuring additional joint process improvements and risk sharing agreements. This risk/gain sharing strategy enabled the company to secure a hefty in-year, up-front cash payment on its share of the future value to be created.

**Takeaway 3: “Shock” and mobilize the internal organization**

In addition to executing the supply market-facing strategies and tactics, companies need to “shock” their internal organization into marshaling the necessary focus, resources, and sense of urgency to deliver under pressure. Most organizations need to be shocked to take them out of their business-as-usual mind set. When companies are successful here, we typically see three critical principles in place—adopt one voice, aim for one target, and get out of the comfort zone (see Exhibit 4):

**Adopt One Voice.**

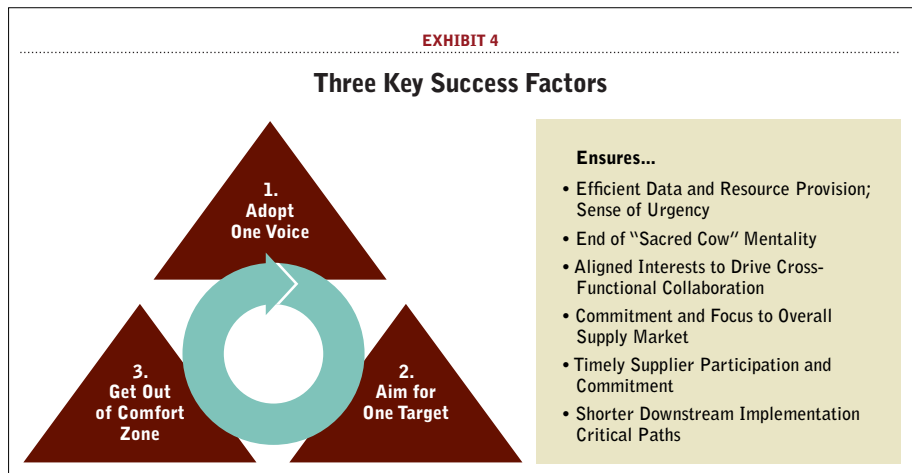
Delivering a coordinated and consistent messaging to the external supplier market is critical to project an image of preparedness and focus. This is especially important for large matrix organizations where

supplier relationships and contracts can extend across various business units. Adopting “one-voice” messaging can:

- Increase suppliers’ likelihood to respond to initial sourcing activities such as data collection and RFP response in a serious and timely fashion.
- Prevent suppliers from employing divide-and-conquer tactics—that is, providing attractive incentives or pricing on a sub-set of volume to individual business units or category owners.
- Put the company in a better position for downstream supplier negotiations.

Adopting one-voice messaging is important throughout the procurement initiative—from written communications such as initial supplier e-mail briefs, to RFQ sourcing bid letters, to face-to-face negotiations with downstream suppliers. Central to projecting one-voice messaging is to have a balanced negotiations team. The team should have at least two members who have cross-functional responsibilities across business units. In addition to the procurement leads, the team should have representation from other functions including supply chain, manufacturing and sales/marketing if appropriate. Companies often assign the incumbent supplier relationship manager as the lead negotiator. This could lead to sub-optimal negotiation performance as considerations of managing the day-to-day business may temper the negotiator’s ability to deliver a consistent message to the supplier.

**Aim for One Target.** To shore up cross-department collaboration and bust the silo mentality, a procurement initiative must align with the underlying interests and incentives of the various stakeholders. Often, each line of business, function, and department has its own annual productivity and continuous improvement targets and incentives. If an enterprise-wide procurement initiative is seeking to address a particular category whose baseline spend and savings target overlaps with



another initiative, the resulting confusion and conflict will inevitably lead to counter-productive bickering. For example, a sourcing event focused on six-sigma improvements at a third-party manufacturer's plant could overlap in scope with an existing business unit's annual manufacturing productivity plans. The solution is to get senior executive support and commitment to a single "benefit target" that maximizes the gain for the organization overall. This approach helps facilitate the cross-functional alignment needed to drive collaboration and resource allocation, while avoiding contentious turf battles.

**Get Out of the Comfort Zone.** To meet an aggressive timeline and maximize the likelihood of the sourcing initiative's success, senior leadership needs to push the internal organization beyond its comfort zone. This is particularly important in two areas—savings targets and new supplier qualification.

Supply management professionals need to set an aggressive savings target and announce it with confidence. A stretch target will inject a sense of urgency and serve as a rallying point for the initiative. As importantly, it will force the team to look into every nook and cranny for savings opportunities. In organizations with an entrenched culture of setting low expectations and delivering against conservative targets, it's critical that senior leaders state the savings message loud and clear. And in all organizations, they need to carefully monitor and evaluate downstream staff performance to ensure effective execution on the aggressive target. Setting a high expectation with no linkage to performance evaluation to the target goals is like having a loud bark with no bite. There is no real incentive to drive team members to truly push beyond their boundaries. On the flip side, if downstream performance evaluation is inextricably tied to beating the aggressive target goals, the staff is incented from day one to aim beyond their comfort zone.

Organizations also need to get out of their comfort zone with regard to accelerating the new supplier qualification process, which is critical to a high-impact sourcing event. For categories like flexible packaging, we found that when executives pushed to streamline the existing new supplier qualification process, they reduced the process by several months (a timeline reduction of 25 percent to 50 percent). This contributes greatly to shortening the overall critical path to sourcing benefit.

**Takeaway 3: Case Example.** A large pharmaceutical company launched an ambitious organization-wide procurement initiative to drive bottom line benefits. One key lesson the company learned from its recent post-merger integration was the importance of "shocking" and mobilizing the organization to achieve cross-unit momentum. The head of opera-

tions sought out key players from the merged organization to leverage best practices for mobilizing the internal organization. For example, the group convened with its business unit and functional heads to both identify a clear scope of the sourcing categories and potential existing initiatives. The goal: to target overlapping spend in order to create a one-target umbrella. Another best practice was to quickly assemble a cross-unit program management office and define a process blueprint for systematic supplier engagement to ensure a single consistent voice to the external supply market. Finally, the team engaged other executives in the C-suite to loudly communicate the aggressive target so as to drive the sense of urgency across the organization and throughout the ranks. Adopting such a disciplined and aggressive approach was the only way for the executives to mobilize the company's global organization in a way that would drive timely impact.

### Balancing Rapid Cost Reduction against Long-Term Solutions

Companies need to balance these strategies and tactics for driving rapid benefit against potential longer-term considerations. Companies can ensure that they are not compromising sourcing options or injecting risks over the long term by asking the following questions:

Do the proposed strategy and tactics for rapid, high-impact sourcing:

- Require a long term contract lock-in?
- Preclude the organization from adopting or launching a different sourcing strategy in the near future?
- Compromise future quality or service levels?

A "yes" answer to any of these questions should trigger a thorough and objective trade-off analysis between the strategic/downside risks and the expected near-term savings benefits.

The following illustrates the type of trade-offs that need to be considered. A CPG company can choose to leverage the "decompose and conquer" tactic by sourcing only the input materials component of its overall co-packing category. In theory, employing this tactic does not preclude the company from launching a full-blown RFP sourcing process in the near term (that is, bidding out the turnkey solution from input materials to conversion to custom labeling). In addition, a focused and accelerated bid for input materials should not negatively affect the quality of supplier conversion or custom labeling activities. However, if the company lacks buying scale and supply market power, the leading co-packing suppliers could demand a long-term service contract in exchange for offering best-in-class pricing on input materials. This would fundamentally change the sourcing trade-off equation. In this case, the company must

assess the downstream risks of a contract lock-in before committing to booking the near-term savings.

As part of shocking and aligning the internal organization for rapid success, companies should assign a cross-functional steering committee or executive team as the “gatekeeper” in evaluating each of the proposed sourcing strategies and tactics. This will ensure that pursuing accelerated savings is not achieved at the expense of alternative options that can yield significantly greater future benefits or of quality or service levels.

### **Are You Ready?**

Before launching a rapid, high-impact, high-pressure sourcing event, the leadership team should ask five broad sets of questions to test the organization’s readiness:

- Do you know how the time constraint will affect each of your major categories vis-à-vis the supply market? Do you have a good sense of how to adapt downstream sourcing strategies to achieve near-term benefits?
- Do you have a robust estimate of the likely benefit range achievable? Have you challenged your team to identify creative benefit-acceleration levers to maximize time-to- P&L impact?
- Have you secured the support of the C-suite and

business unit heads in order to marshal the cross-organizational resources and drive the required sense of collaborative urgency across the ranks?

- Have you identified major existing internal initiatives that address the same spend baseline or supply base as your initiative? Do you have a change management plan for aligning the stakeholders on a one-goal mind set?
- Have you defined a cross-organizational process blueprint for engaging suppliers with “one voice” consistency?

Answering these questions in the affirmative—or at least working aggressively toward an affirmative answer—will enable you to not only do things right but also do the right things when it comes to high-impact sourcing. In this sense, you will be like the skilled ER physicians we mentioned at the beginning of this article. For these physicians, as for supply management professionals, the goal is the same: Success under pressure. ☺☺

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#### **Authors’ Note:**

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