



WHITE PAPER

Diversifying the Procurement Toolset

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Leading procurement professionals are expanding their tool kits to achieve high value and sustainable outcomes in the current market.

We all have things that we carry with us from school – particular lessons, stories, or case studies. For some reason, certain things we learn resonate with us and stick in our memory more than others. For me, one of those lessons was found in an article titled “*Drop Your Tools: An Allegory for Organizational Studies*” by Karl Weick. It has always stuck with me.

In the article, Mr. Weick presents an allegory for why agility is critical when it comes to measuring business performance as circumstances change. The historic event that the article is based upon involved 27 wildland firefighters who lost their lives in two separate fires, but under similar circumstances. The firefighters were battling wildfires when suddenly the direction of the burn changed, putting them in danger. In both situations, the firefighters were ordered to drop their tools and retreat. Unfortunately, in both cases, the firefighters didn’t follow the orders and kept their heavy tools. The tools slowed their retreat, and all 27 tragically perished within sight of safe areas. While the underlying story is undeniably tragic, I find myself thinking about what we can learn from it as procurement professionals.

We are facing similar challenges at this time in the procurement industry and can learn valuable lessons from this story. Like the firefighters in the

allegory, the circumstances have changed around us and now we must adapt our approach if we want to continue to survive and be successful.

Over the past 25 years, sourcing has been the dominant tool for achieving value in procurement operations. Variations of sourcing, including strategic sourcing, rapid bidding, reverse auctions, and others, have always served us well. It generally yielded financial concessions from suppliers and often accompanying non-financial enhancements to procurement relationships.

The pandemic, supply chain disruptions, rising costs of logistics, inflation, and other factors have changed the game. According to a recent survey of CFOs by the Federal Reserve Bank of Richmond, the Federal Reserve Bank of Atlanta, and Duke University, roughly seven in 10 companies across industry sectors experienced supply chain disruptions in 2022. Leverage has shifted to suppliers who re-assessed their customers and possibly increased their margins after decades of being squeezed.

Tools and strategies that worked in the past are not necessarily what will work today. To succeed, procurement professionals need to broaden target outcomes and diversify the procurement tools we use to achieve them.



Broadening Target Outcomes

For the past 25 years, there has been little systemic delivery risk for procured goods and materials, and when there were issues, they could usually be resolved quickly. This lack of risk allowed for a risk-benefit analysis heavily focused on benefits. For the most part, enterprise buyers during this period were able to fixate on the desired financial and delivery benefits and work to optimize those results.

That is no longer the case. With uncertainty, material and labor shortages, inflation, and leverage shifting to suppliers; buyers must consider a far greater range of realistic outcomes for each procurement transaction. In the current environment, we can't expect the same positive outcomes as in the past. Enterprise buyers now need to focus on procurement outcomes in the following order:

1. Operational Continuity: Supply continuity can no longer be taken for granted. When acquiring business critical goods and services, supply

continuity must be the priority for buyers because it is necessary for operational continuity. No money saved on a purchase will offset the losses incurred if a production line or operation goes offline.

2. Financial Considerations: This could include price concessions, but it is increasingly going to encompass more. New measures for positive financial outcomes could mean blunting inflation, achieving pricing predictability, or saving money by altering requirements or delivery parameters.

3. Additional Services: Value can be achieved through supplier relationships outside of the core exchange of goods or services for money. Many suppliers offer engineering, delivery, or advisory services for customers at no additional charge. As it becomes harder to generate price concessions, this is a great alternative source of enterprise value for buyers.

Diversifying Procurement Tools

The diversification of tools will be challenging but could be the most impactful approach to achieving positive outcomes. It's challenging because some tools require a different skillset than what's previously been required to achieve procurement success. There are many tools available to procurement professionals, but there are four we have found to be particularly effective in the current environment:

- 1. Strategic Sourcing:** We're not necessarily recommending that enterprises do not engage in strategic sourcing. It's still a valuable tool to harness market forces and optimize enterprise value from supplier relationships. However, it should no longer be the *only tool* we use. Focus should shift more to the "strategic" side of sourcing. Strategic Sourcing is a complex process with a variety of levers available to drive positive outcomes.
- 2. Value Analysis Value Engineering (VAVE):** VAVE is a process through which the enterprise assesses all aspects of a part, product, or service to improve the value-to-cost ratio. This process can be comprehensive, highly flexible, and collaborative with the right group of strategic suppliers.
- 3. Value Chain Engineering (VCE):** VCE is an approach which follows the acquired goods back through the supply chain to the raw-materials phase. It helps us to understand where value is added and enables us to optimize each step to remove cost and waste while maximizing value. VCE is another tool



that presents an excellent opportunity to deepen relationships with the right supply chain partners.

- 4. Supplier Relationship Management (SRM):** One could argue that SRM is more of a practice than a tool, which may be accurate. However, SRM can be an important arrow in the procurement quiver to address operational continuity. For more than two decades, suppliers have been working hard to develop their relationships with enterprise buyers and ensure that they are considered strategic suppliers. Today, advanced enterprise buyers are reversing that process and using SRM to understand their suppliers, deepen their relationships, and *ensure* that they are considered strategic customers.

Conclusions & Recommendations

The circumstances for procurement professionals have shifted and enterprise buying organizations need to adapt to meet the new market conditions. Most importantly, buying organizations should not cling too tightly to what has worked in the past. Conditions are changing rapidly. Continuing in the same way will likely hold professionals back and keep their enterprises from achieving the procurement outcomes needed to succeed in this new environment. However, change also presents opportunity. By diversifying their tools, procurement professionals can meet the challenges and drive sustainable value for their companies.



Tim Murphy is an experienced consultant with over 25 years of helping clients capture value across their supply chains. He has extensive experience in procurement operations, sourcing, and supply chain management.

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