

The Evolving Role of Procurement in the Global Supply Chain



Introduction

The Covid-19 pandemic, plant shutdowns, delays at borders and transportation bottlenecks have all come together in a perfect storm to create an unprecedented level of disruption in global supply chains. Torpedoed delivery schedules and material shortages have become the norm rather than the exception.

All these factors have highlighted the importance of effective supply chain management to keep global commerce moving. Importantly, they have also accelerated the widespread adoption of best practices that are integral to a sustainable supply chain.

These shifts in supply chain priorities have compelled procurement to keep pace by adapting a flexible, modernized approach in support of manufacturers and distributors achieving optimum growth and market share.

Looking at global procurement through a strategic lens leads to smarter decisions. It also means strategic sourcing and working with redundancies in supply; all, of course, while keeping costs down. Today's supply chain leaders must create a procurement process that includes contingencies for logistics and raw material suppliers, factoring tariffs, embargoes and trade wars into the global procurement plan.

According to the 2022 SYSPRO Global Research Survey titled 'Realigning the links of the global supply chain'

70% of businesses experienced material handling and supply chain disruptions during the pandemic. Despite this, only 33% of businesses invested in procurement and sourcing technologies. Further to that, only 18% of businesses invested in technologies to improve external collaboration with suppliers. As a result, businesses face the risk of ongoing supply chain disruptions.

[View research survey](#)



In this white paper, we examine how procurement is evolving in the face of supply chain disruptions, strategies to address those challenges as well as how a fully integrated ERP solution can help manufacturers increase their competitive edge by optimizing their procurement capabilities.

Understanding the shifting procurement landscape

As manufacturers and distributors are compelled to pivot their operations and offerings to address disruptions in the global supply chain, the procurement department needs to reinvent itself by extending its focus beyond managing supplier costs, placing orders and ensuring goods are received.

In our post-pandemic world, where supply chain challenges are further compounded by military conflict, there's an opportunity for procurement to take on a greater range of responsibilities with the assistance of technology. The following areas of procurement contain scope for improvement:

Just-in-case

In these times of unprecedented disruption, procurement needs to plan for uncertainty. The established practice of just-in-time (JIT) inventory management needs to become more flexible and allow for a just-in-case (JIC) approach. While JIT focuses on having materials arrive just as production is scheduled to begin, JIC involves holding more inventory so that sales are not lost due to inventory being unavailable, reducing the vulnerability of the supply chain and keeping goods flowing in a manageable way.

Resiliency

To mitigate the impact of unexpected supply chain disruptions, sourcing strategies need to be revised. Instead of cost reduction being the primary goal, the pool of suppliers should be broadened to provide resilience and backup, even though this has implications for material quality and control over costs. By integrating with inventory receipting and quality control, quality issues can be immediately fed back to procurement for follow-up with suppliers.

Risk management

In an environment of volatility and uncertainty, risk analysis is becoming part of the procurement process. It's not just the risk of poor quality from a larger group of suppliers, but going further down the supply chain to identify other factors that may impact the supply of goods or pose potential problems in terms of regulatory compliance or quality.

Supplier relationship management

Supplier relationship management involves measuring supplier performance across dimensions such as on-time delivery, cost and material quality inspection. Innovation and technology can also improve supplier relationships. For example, a secure portal that allows suppliers to check orders and payments can make it easier for suppliers to work with your company. Also, electronic Requests for Proposals (RFPs) let suppliers respond to changing needs more quickly and can help set supply chain expectations.

Supply chain control tower

A supply chain control tower provides real-time visibility of factors in the supply network. It does not necessarily involve new technology but can be incorporated into a dashboard that different functions can use. The benefits include proactively managing supply chains in real time, better planning, enhanced risk mitigation and increased responsiveness.

Collaboration with finance

Procurement should operate separately from finance but work with functions like accounts payable (AP), particularly in areas such as payment and budgetary controls. Accounts payable should also ensure that procurement operates transparently and is aligned with company policies, procedures and standards. For this co-operation to be effective, manufacturers and distributors need an enterprise system that integrates these processes to work in a unified manner.

Metrics

The metrics used to manage and guide the procurement function should reflect its new responsibilities and role in the integrated organization, covering areas such as inventory turnover, working capital, suppliers paid on time, supplier on-time delivery, material quality and risk assessment along the supply chain.

Digital transformation

The digital transformation of procurement will enhance effectiveness, efficiency and productivity. This can be achieved through an integrated and automated system which allows:

- Procurement and AP to streamline the Procure-to-Pay process.
- Procurement to get feedback from inventory management on receipts and material quality, and be aware of ABC inventory issues (how different categories of inventory contribute value to the business).
- Procurement to work with production to improve how and when material is ordered for manufacturing jobs.
- Suppliers to interact at any time with the business via an online portal.

Strategies for success

Organizations around the world are facing unprecedented challenges, with supply chain disruptions threatening their future viability. As a result, procurement is increasingly expected to become more influential in the overall business strategy, specifically in the areas of mitigating risk, creating a competitive advantage and driving growth.

Here are 5 key strategies manufacturers should adopt to ensure the future agility and resilience of their supply chains.



ONE: Anticipate and plan for uncertainty

The ability to identify and plan for future scenarios has become a strategic imperative to mitigate risk and ensure business continuity. The rigorous manual process of gathering and interpreting supplier, market and environmental information is being replaced with a new data-driven approach that enables real-time decision-making and forward planning on both strategy and performance.

This approach includes:

- The creation of integrated data ecosystems and the use of artificial intelligence and predictive analytics for real-time interpretation.
- The use of technologies such as sensors, natural language processing (NLP) software and the Internet of Things (IoT) to enhance the integrity of these ecosystems.



TWO: End-to-end supply chain visibility

End-to-end supply chain visibility provides a single platform where everything from early stage planning to final delivery can be tracked and traced in real time on a global scale. These advanced insights improve customer service, reduce costs, help with regulatory directives and mitigate interruptions that could affect supplier inventory levels and product delivery.

Embedded AI capabilities provide real-time intelligence, actionable insights and recommendations that reduce disruption mitigation time from days to hours. Data from third-party tracking tools can be leveraged and integrated back into the manufacturer's own system. Full visibility along the supply chain also improves traceability of manufactured products. Ultimately, end-to-end supply chain visibility leads to operational efficiency, improved profits and satisfied customers.



THREE: Embrace the limitless potential of digitalization

Rapid advancements in digital technologies are reinventing business supply chains and are poised to transform how the procurement function delivers value. Strategic sourcing is becoming more predictive, transactional procurement is becoming more automated, and supplier relationship management is becoming more proactive.

Digital procurement solutions are enabling the future by providing access to previously unavailable data; bringing order to massive (but unstructured) data sets; driving more complex analysis and better supplier strategies; and enabling more efficient operations.



FOUR: Focus on building a robust supply chain

Companies have realized that by encouraging their procurement departments to pursue the holy grail of greater efficiency and cost cutting they have sacrificed robustness, resilience and effectiveness. Now, manufacturers and distributors must consider how to re-engineer their supply chains to be resilient by design, factoring in increased complexity and uncertainty as the new normal.

In the months and years ahead, effective supply chain risk management will be all about agility and finding the perfect balance between JIT processes and JIC scenarios. Truly robust supply chains will use real-time data to identify shifts in demand or disruptions faster and adapt to sudden changes more quickly, with an agile supply network replacing traditional lean business models.



FIVE: Agile sourcing to mitigate risk

With supply chain disruptions happening more frequently, it's important to balance the need for lower costs with mitigating risk. While finding the right balance might result in a higher cost of sourcing, it does provide insurance against potentially higher future losses. This presents an opportunity for local manufacturers to partner with local suppliers and consider alternate sources for raw materials, increasing the robustness of the networks and ensuring demand can be met with supply, even in extraordinary times.

Businesses that proactively invest in supply chain risk mitigation by diversifying their supplier base will be able to absorb future supply chain shock and bounce back faster than those which do not.





ERP: The future of procurement in the enterprise

A procurement function that operates in a silo, separate from other functions, will lack the capability to make any substantive changes so that it can be more effective. Whether it is collaborating with other departments, working in a more volatile supply chain environment, enabling a more resilient supply chain through a larger group of suppliers or managing risk, an ERP system allows procurement to deliver a more agile supply chain with visibility across the entire supply ecosystem. ERP systems help mitigate risk, improve governance and provide insights into supply chain issues, enabling procurement to provide the value and services needed.

An effective ERP system is a prerequisite to empowering a procurement department to work according to sourcing policies and to streamline and optimize procurement processes. In addition, organizational insights and operational data are the backbone of a profit-impacting procurement department.

By setting up and managing sourcing strategies and policies within your ERP, and with the recommendation of suppliers during your purchasing cycle, you can mitigate purchasing risks, improve purchasing governance, and maintain supplier negotiated agreements across the organization – allowing you to buy products and services at the best value-to-price ratio.

With improved controls, visibility, efficiencies and the automation ability that ERP provides, Vendor Managed Inventory, Supplier Rebates, Claims, Purchasing, Payments, Preferred Suppliers, Returns and Requests for Quotation can all be managed effectively. This translates into cost reduction and improved profitability.

Additionally, inventory trend analysis, forecasting and material requirements planning are features that ERP systems provide in refining the input requirements to the procurement department. With improved and richer information, procurement is better able to service other departments by ensuring that working capital is better managed via the reduction of wasteful purchasing.

Conclusion

Procurement is a promising arena in the quest for rapid, sustainable profits and competitive supply chain models. Streamlining your procurement procedures and making sure that all policies are in place is critical to the overall success of your business.

Supply chain management drives companies to re-evaluate the ways they manufacture, distribute and sell products. By using an appropriate ERP solution, you can streamline this process even further, enabling your supply chain to become a strategic advantage to your business and set you apart from your competitors.

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