The Procurement Professional who has put in place measures to manage risk and vulnerabilities with key suppliers and taken advantage of sustainable cost reduction will want to be looking forward to how they can assist the organisation take advantage of the upturn when it comes.

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In the current climate it is tempting for organisations to hold back on development, to cost cut and protect their organisations current position as best they can. This action is understandable. However, the Procurement Professional who has put in place measures to manage risk and vulnerabilities with key suppliers and taken advantage of sustainable cost reduction, will want to be looking forward to how they can assist the organisation take advantage of the upturn when it comes.

A recent report by Ernst & Young titled “Opportunities in Adversity” stated: “Product development, technology and innovation budgets are likely to have been reduced under the cost reduction banner. Experience from previous downturns has been that those who stick with a focused investment program have emerged stronger than their peers. This requires a clear understanding of where the opportunities are and in particular a heightened understanding of where the competitors are weakened through the downturn.”

It is impossible to say with any certainty what the business world will look like in the future, but it is a fairly safe bet that the impact of the recession will be such that it will be changed in some way. Organisations will need to be able to:

- quickly understand the “new world” and adapt
- identify new opportunities and take advantage of those opportunities

Successful organisations do not operate in isolation; they are intertwined with their supply chains and are likely to be so in the future. It makes good business sense to prepare for the future in cooperation with the key elements of the supply chain.

Suppliers can be a key source of innovation and source of information on developments in market places. In preparing for the future, organisations that have effectively focused on supplier relationship management and developed collaborative partnership ways of working will benefit. It is very difficult, near impossible, to create this partnership approach in troubled times having previously had an arms-length or adversarial approach to suppliers. However, delivering innovation through the supply chain is easier said than done!

The dragon’s den

An innovative approach that has been trialled by the UK Cabinet Office is to introduce a “Dragons Den” style environment. Suppliers pitch their ideas for products or services to a panel of senior people from across the organisation. Ideas that are evaluated as being worthy of further consideration are then sent for further consideration and development at the department’s innovation centre. To bring together a cross functional panel of experts is a significant into the dragons den commitment from the organisation and will require a compelling argument from the Procurement Team. They will need to demonstrate a “payback” for the activity to be established as an on-going activity.

Other ways in which suppliers can be encouraged to innovate and share innovation include:

- early supplier involvement in the development of new products or initiatives allowing the supplier to input their expertise
- the use of output or outcome based specifications
- design contests
Motivating the supplier

One criticism from suppliers is that bringing innovation to their customers can be a one way street, with all the advantage going to the buying organisation. But what is the view of procurement professionals on the subject of whether suppliers should be rewarded for innovation?

In a recent poll conducted by “Supply Management” magazine it was found that out of 100 procurers surveyed, 79 per cent would not offer suppliers more money to propose ideas aimed at improving existing agreements and 21 per cent would. The writer of this Knowledge Club article suggests that procurers should consider mutual benefits to encourage suppliers to innovate. After all it is better that, than the supplier taking the innovative idea to our competitor.

How might the Procurement Professional motivate the supplier?

- Demonstrating that you are not focused solely on price and will focus on best value, taking into account any innovative ideas that are put forward will encourage supplier innovation. Many organisations state that they “actively encourage innovative solutions” but then are perceived by the market place to disregard innovation and go with the lowest cost option anyway, thus not rewarding supplier innovation. In future the suppliers will not take the risk of providing innovative solutions and will stick with the “tried and trusted” product or service.
- Risk and reward sharing can incentivise suppliers.
- Longer term partnership working can encourage suppliers as a long term contract can justify the time spent on research and development.
- Ownership of Intellectual Property Rights (IPR) needs to be considered carefully. If the default position is always that IPR is assigned to the buying organisation suppliers may be discouraged from putting forward innovative ideas. Better that they know a dialogue will be held to agree how IPR will be dealt with.
- Identify and nurture small start-up businesses and SMEs that are led by innovators. This is a practice used in hi-tech industries where the smaller organisations often have the ideas and large organisations are able to bring the ideas to market.

New challenges produce new opportunities for organisations and the procurement professionals within them. Now is the time to seek out those opportunities by looking to the future.