

Crisis exit

Gamble on your external resources!

In front of a structural crisis, global and long, the companies' relations with their external environment (customers, partners and suppliers) remain a key factor of resistance. This also impacts on the capacity to rebound during the recovery.

The immediate exigency of financial results (cash, balance sheet and bottom line) drives companies to arrange their resistance. But the short-term measures do not have to "break" the capacity to rebound nor what constitute the competitiveness. With dilemma, for general management and procurement departments, to adapt themselves to the current context, even to take advantage of some market situations, while continuing to develop the effective networking with their external resources, monitoring the maintenance of the key skills internally and externally, as well as enhancing the value chain reliability.

The intense markets' upheavals forces business leaders to strategic arbitrations between backup plans. Whereas the drastic workforce reduction, freeze of investments, regulation of stocks or industrial activity add up to options, the other solutions exist, often unexploited. Companies take the problem under a different angle and prepare their "crisis exit" by using the external environment as a lever of performance. Unlike all the workforce reduction plans, which do not have necessarily short-term positive impacts on the cash flow, the external resources have the virtue not to compromise the capacities to rebound.

To reduce costs without compromising the future

For companies, the challenge remains significant and the equation is difficult to resolve: reduce fixed costs and expenses to be ready to face greater competition, protect market shares and capacity to realize their turnover, but without investing or putting itself in a cash flow situation which compromises their sustainability. That supposes changes, in particular, in ways of functioning: companies have to accept the idea that the salvation may come from their ability to articulate differently the relations with their external environment.

The innovation, for instance, is carried just as much by customers, big partners and suppliers as by the internal R&D teams whose mission nowadays is multiple. It is necessary to federate these external capacities of innovation, but especially to put them in the service of the customers and thus of the company. By activating them completely, to produce more innovation than in 2008 is finally possible - while reducing the R&D investments.

The big economic, political and social upheavals incite us to break with the certainties of past. It is necessary to reconsider the relation of the company with its environment and to allow itself to think and to act differently, in all domains, and with all interlocutors.

To rethink the relation with customers and suppliers

The frequency of the companies relation with their customers is often too weak to generate a real brand loyalty and needs are sometimes badly covered. To work with some privileged, hand-picked customers can allow identifying missing services. Companies have their limits; they no longer can simply count on their own means, generally insufficient. Leaning on both the expertise and the existing network of suppliers or key partners leads to develop services' offers for the shorter periods.

One of the landmarks of this crisis is the volte-face in raw materials markets e.g. the oil. For a long time already, companies set up devices, limiting the rising prices for raw materials and repercussion on the selling prices. The very strong fall in prices observed since shows that it is not the prices increase that it is necessary to manage, but indeed the price volatility. In a difficult world context, this volatility management can gain in importance only by building a collective approach, associating finance, purchasing, production and sales.

The arbitrations are then determined by apprehending simultaneously the impacts of costs, margin, selling prices competitiveness and cash. Even there, an approach that opens up relation and dependence to the external environment is crucial.

Both cost control and cost reduction are naturally among the major concerns of the general and financial management. Among the companies which try to get away with it, we often note that the purchasing function emphasized its contribution by accelerating the already existing savings plans, but also by attacking the expenses which until then were not subjected to a rigorous purchasing process.

To support the key suppliers of the company

In parallel suppliers are exposed to three effects which, conjoined, can be dramatic for their survival: credit crunch, volumes decline and decrease of prices imposed by the customers. Who can really resist to these three simultaneous effects?

Purchasing function is confronted thus more than ever with the problems of suppliers risk reduction and supply chain security, not hesitating, in some cases, to create support plans for key suppliers. Those who saw in the crisis only a windfall effect could be really disappointed.

With this crisis, guidelines shattered and nobody can more oppose to the procurement function involvement in the optimization of all external spend. On the other hand, the procurement function has to adapt its approach to the new types of spend to be managed, and also has to learn to lead its actions together with the concerned departments. As purchasing is subjected itself to a strong economic and budgetary constraint: do more with fewer resources. Whence appears the obligation to address the more optimized ways of functioning. The rationalization can take the shape of a mutualization, with Shared Services Center organizations, or a simplification of the processes (e-procurement) or even a co-sourcing. Naturally, the answer is multiform and often combines these three axes.

More widely, companies in whole have to be transformed and become more mature in the way they buy. Requiring a lot from their suppliers, they must also be ready to revise their specifications or their

levels of consumption. The right issue is to take advantage of this period in order to gain in maturity and share the cost reduction effort between internal and external.

The crisis does not spare the public sector

The public sector has also been impacted by the crisis which affected the financial strength of the State and made the public deficits soar. All the ministries are set in motion in order to find new savings' opportunities. The outsourcing of an increasing number of activities, up till now realized internally, to private providers, can constitute a significant change in the public sector efficiency. Besides, it can lead to adapt more easily its performance to the economic and service requirements.

Here are thus some examples of winning approaches to face and succeed the after crisis period differently.

Up till now, executive management and boards of directors in big companies learnt to fight for the independence of their groups, and develop the devices to assure this independence. Today, without compromising their capacity to decide on the strategy, these companies have to become aware that their independence is only virtual. The future also depends on the capacity to interact positively with the outside world in terms of financial, technological, industrial aspects and including the ecological one.

This external world, consisted of customers, suppliers and strategic partners, must not be considered as a threat any more. The leaders capable to generate the positive interactions with this environment and build the wealthy ecosystems around their companies will be certainly the winners of the after crisis period.

Portrait / Profile

Marc Debets is the Chairman of Buy. O Group, an international consulting company dedicated to the improvement of the companies' performance through their external resources. He involves himself in the matters related to the strategic partnerships and procurement as well as supports big companies during specific stages (mergers - acquisitions, reorganization, outsourcing strategy etc.).

Buy.O Group is an international consulting company with three key areas of expertise:

- Procurement and external resources performance
- Customer capital development
- Alliance strategies and partnerships creation

Buy.O Group dedicates itself to helping companies improve their business performance building high value relationships with customers, suppliers and strategic partners. Buy.O's missions target international groups, SME's or public sector organizations and are conducted worldwide.