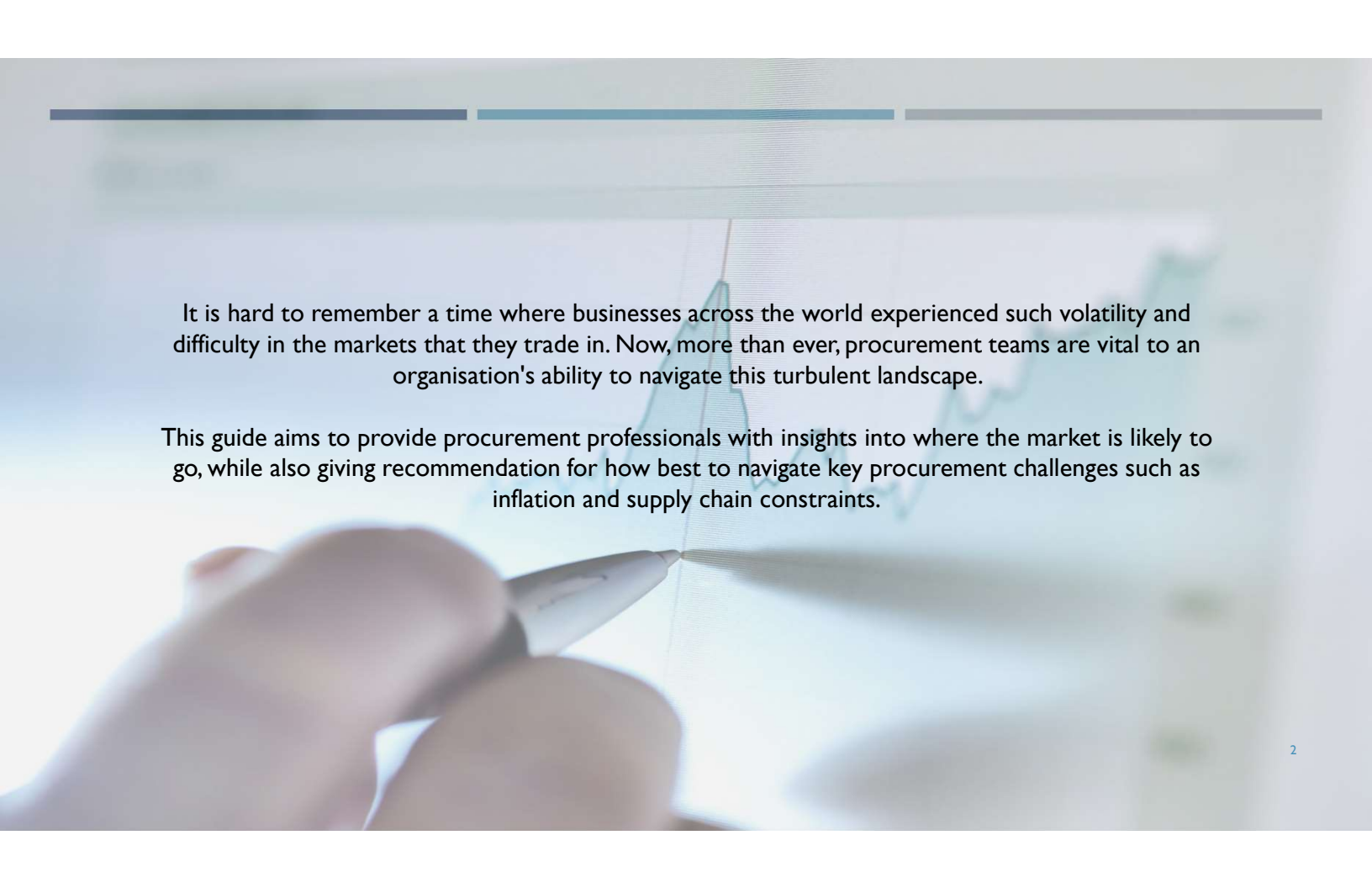


# PROCUREMENT ROADMAP 2023

A GUIDE TO SUPPORT PROCUREMENT PROFESSIONALS IN NAVIGATING THE KEY THREATS AND OPPORTUNITIES IN 2023  
FEBRUARY 2023



SourceWise

A hand holding a pen is pointing at a line graph on a screen. The graph shows a fluctuating line with a peak and a trough. The background is a light blue and white gradient.

It is hard to remember a time where businesses across the world experienced such volatility and difficulty in the markets that they trade in. Now, more than ever, procurement teams are vital to an organisation's ability to navigate this turbulent landscape.

This guide aims to provide procurement professionals with insights into where the market is likely to go, while also giving recommendation for how best to navigate key procurement challenges such as inflation and supply chain constraints.

## Energy Market Trends



## Inflation



## Outsourced Procurement



## TOPICS IN REVIEW

# 1. ENERGY MARKET TRENDS



It goes without saying that the commodities market has been beyond turbulent since early 2021. Strong consumer demand, supply disruptions following Covid restrictions in China, and the War in Ukraine have created the “not so perfect” storm.

With inflation at a near 40-year high in Europe and the US, the cost of living has soared in recent months. Countries such as Ireland are at risk of recession as inflation runs at over 8%.

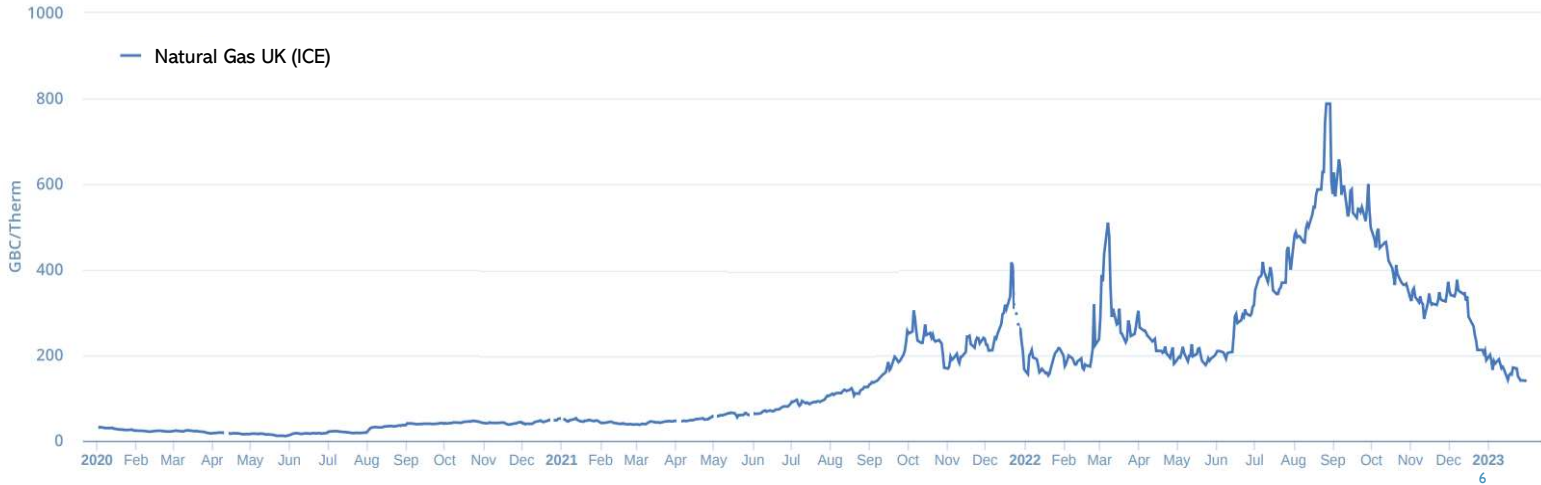
But where does that leave us coming into Spring 2023?

# 1. ENERGY MARKET TRENDS – WHERE ARE WE NOW?

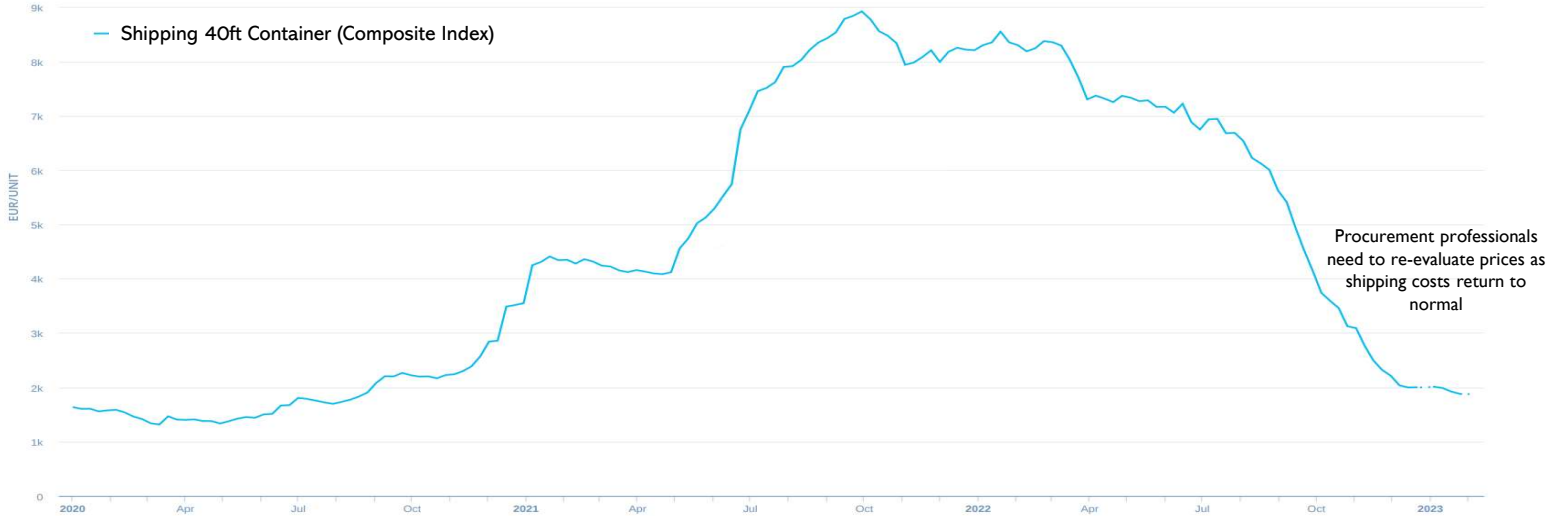


- Procurement professionals have battled with the fallout created by three key factors; the aftermath of Covid-19, the war in Ukraine and the subsequent impact it has had on energy prices in Europe.
  - Factory shutdowns remain a norm in China, creating significant delays in getting key components to manufacturers across Europe and the US.
  - Strong customer demand has tested the above further, with waiting times of over a year in industries such as technology and automotive.
  - Already on the climb from Covid-19, energy prices spiked further in early 2022 with the Russian invasion of Ukraine.
  - Through the Winter, uncertainty in gas supply to Europe became a crucial impact to prices however in recent weeks, the cold weather has passed, mitigating the risk posed by a Russian cut off.
  - Further to this, Europe and the US have worked to agree LNG contracts, reducing Europe's dependency on Russia further. Gas storage across Europe is currently high with LNG tankers docked at sea.
  - Prices have dropped again to levels not seen since late 2021.
  - The re-opening of Asia and the improved supply chain has also resulted in a sharp decrease in the cost of shipping.

# 1.1. ENERGY MARKET TRENDS – WHERE ARE WE NOW?



# 1.1. ENERGY MARKET TRENDS – WHERE ARE WE NOW?



## 1.2. ENERGY MARKET TRENDS – WHERE ARE WE GOING?



Today energy market is experiencing a temporary calm amongst what has become the normal turbulent backdrop. Is this an opportunity to buy into larger contracts, or should procurement professionals hold off in the hope of a more favourable conditions? Things to consider when making decisions in the coming weeks:

- Semi conductor chip supply prospects have improved as manufacturers begin to get on top of the post Covid backlog. The delays in industries such as automotive expect to ease but remain a concern until late 2023, early 2024.
- It is impossible to predict what is to come of the Russia-Ukraine conflict, or what measures may be taken by the Kremlin in order to maintain advantage in the conflict. This concern is heightened by increased support from NATO member states such as Germany and the US in late January.
- As we move toward the Spring, reliance on natural gas will reduce, subsequently reducing the EU's dependency on Russia.
- A temporary cold snap, “the beast from the East” is expected to hit Ireland in early February, which will increase immediate demand for gas supplies, driving the day ahead and Winter 2023 prices up temporarily. This can be expected to ease again once the cold weather passes.
- China have been in talks with Russia regarding a large-scale purchase of natural gas. If this is agreed, it will mean that the total gas available to Europe and will reduce significantly, creating a negative in<sup>B</sup> on prices. This may be curtailed by the negotiation between Europe and the US regarding LNG.





## 1.3. ENERGY MARKET TRENDS – OUR RECOMMENDATIONS

- We believe that the current market provides procurement teams across Ireland with a buying opportunity. When compared against rates seen over the last 24 months, energy prices are favourable. Where budgets allow, companies should consider locking in a portion of their energy requirements for 2023 and 2024.
- While prices are currently dropping, we believe the uncertainty in Ukraine will prevent them reaching 2021 levels. As we cannot predict Putin's next move, it is advisable to consider capitalising on this opportunity before the landscape takes another unexpected shift in a negative direction.
- Furthermore it is advisable that procurement professionals push to renegotiate contracts on account of the recent positive moves in the energy market. Where possible, it is advisable that surcharges are linked to indices to ensure objectivity between supplier and consumer.



## 2. INFLATION



Ireland finished 2022 with inflation levels of 8.2% and this has not eased as we move towards Spring 2023. The inflation, coupled with the labour shortages and energy hikes have left both businesses, and their employees bruised.

This section provides a guide for how procurement professionals can mitigate the risks posed by inflation and leverage it to create opportunity.

## 2. INFLATION



As explained throughout section one, the current economic situation sees businesses across the world facing high inflation and recession as a result of the Covid fallout, high energy prices, supply chain disruptions, and geopolitical instability.

Given this challenging economic climate, procurement professionals are on the frontline and those who proactively manage their processes will be more successful.

Five ways that procurement can help to combat inflation:

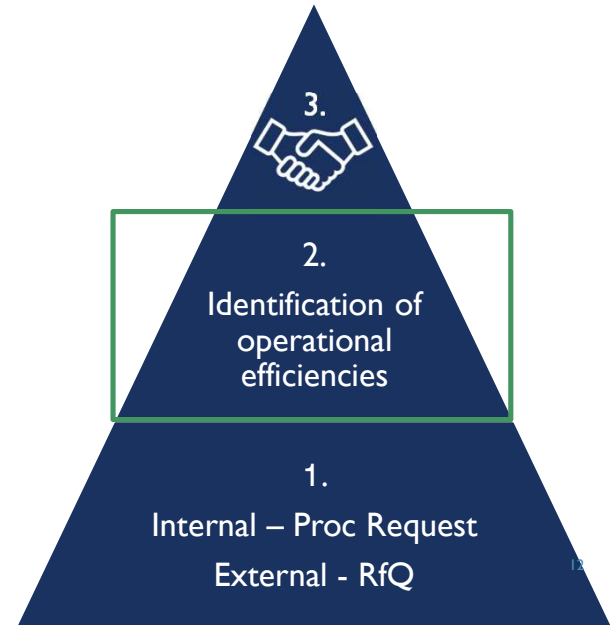
1. Operational efficiency.
2. Build strong supplier relationships.
3. Proactive demand planning.
4. Take control of total cost management.
5. Testing specification requirement.

## 2.1. INFLATION – OPERATIONAL EFFICIENCY

### Operational Efficiency

Today's procurement process should follow 3 stages:

1. Specification: Internal stakeholders share their desired scope of works/ specifications and procurement teams issue an RfQ for the same.
2. The “land of opportunity” lies in Procurements ability to not only liaise with various suppliers and industry professionals to identify best practices and new ways to improve the specifications given in stage 1, but they can also use this information to challenge internal stakeholders on creating more efficient processes within the company.
3. Contract negotiation should only begin when all operational processes and specifications have been challenged. In today's market, the savings will come from doing things better. Procurement professionals face the challenge of diversifying their skill to capture this opportunity, rather than following the traditional approach of simply focusing on rates.



## 2.2. INFLATION – BUILD STRONG SUPPLIER RELATIONSHIPS

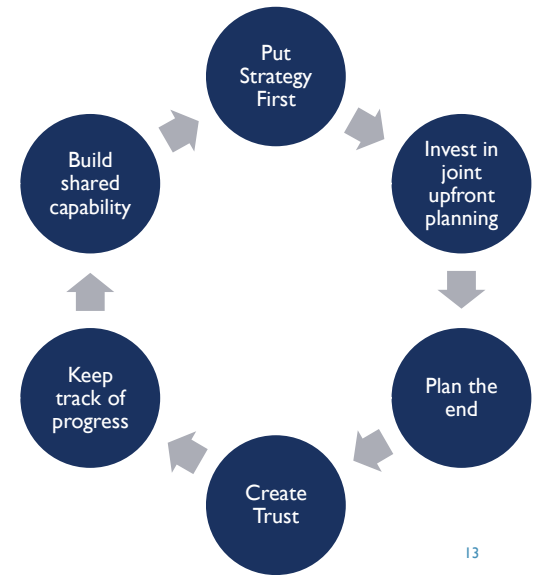


While it is to be expected that procurement professionals reading this guide are faced with the challenges of inflation, it is important to remember that their suppliers are also. This creates two key considerations:

1. What can we do to support our suppliers?
2. In supporting our suppliers, can we develop longer-term benefits for our company?

Companies all over the world are struggling to make ends meet, never mind turn a profit. Now, more than ever, is a time for procurement professionals to support their suppliers and in doing so, build upon their long-term relationships. While price negotiations are an important aspect of our job, we must remember that our providers must also maintain profitability in order to provide the goods and services that they do.

For larger organisations, it is an excellent time to move positive supplier relationships towards partnerships. In providing suppliers with support throughout the turbulent times we currently see, long term, favorable terms may be agreed, resulting in longer term benefits for your organisation and enough support to your suppliers to weather the current storm. Symbiotic partnerships with strategic and/or critical suppliers will help to foster supply chain resilience.



## 2.3. INFLATION – PROACTIVE DEMAND PLANNING



In line with operational efficiencies, it is also time for organisations to plan ahead, and plan smart. Analysing demand should take centre stage for operations teams coming into 2023 and it is essential that this information is passed to procurement teams to support negotiation and diversification of supply chain. This will enable businesses to:

1. Consolidate and rationalise your number of suppliers or spend categories.
2. Identify CapEx. that will deliver greater efficiencies or cost savings to allow strategic timelines for implementation.
3. Track your suppliers' compliance on contractual agreements through rigorous contract management.
4. Perform resource planning and allocation to make the best use of your workforce.
5. Crowdfund with other local businesses to get a better price from suppliers.

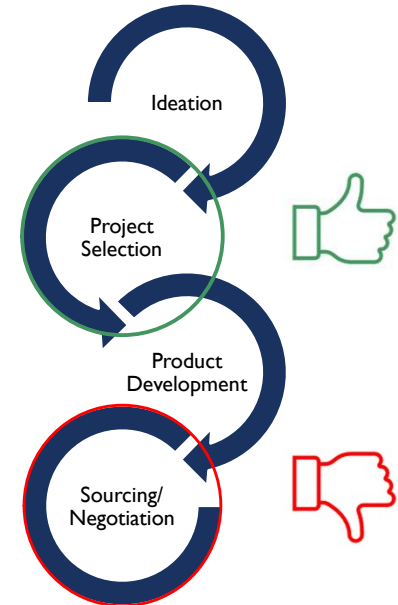


## 2.4. INFLATION – TAKE CONTROL OF TOTAL COST MANAGEMENT

Another method by which procurement professionals can add more value to their organisations is by getting involved earlier in the process. What we mean by this, is that it is essential that procurement are involved in conversations around product development or design. The greatest scope for savings exists in the design stage of a product. By getting involved in this early stage, procurement professionals can:

1. Influence cost effective design.
2. Mitigate risk of supply concerns later.
3. Support a quick execution of the plan.
4. Support in negotiations not relating to price.
5. Maximise the pool of potential suppliers.
6. Impose standardisation across wider business units.

Involving procurement from the outset also allows us to manage the cost on and end to end basis, empowering procurement to put cost management controls in place.



## 2.5. INFLATION – TESTING SPECIFICATION REQUIREMENT

In going beyond the traditional role of a procurement professional, it is also important to take a step back and ask if a good or service being sourced is fit for purpose. More often than not, you will find people “air on the side of caution” when designing a process or product.

It is also essential that specifications are challenged regularly as with time, things change, and a specification that was set 2 years ago, may no longer be fit for purpose. Procurement professionals run a risk of being associated with cutting costs or specs, however when acting proactively and collaboratively, they are in a unique position to challenge the status quo and create savings.

It is a procurement professionals' responsibility to challenge what they are requested to source. Can it be lighter, smaller, slower, less regular; and still have the same result? What concessions can be given to allow a more favourable deal?





### 3. OUTSOURCING PROCUREMENT



Not all organisations have the luxury of a specialist procurement team to manage their negotiations.

Smaller businesses often rely on experienced members of their team to carry out the role of procurement as an after thought to their main functions. Where this is the case, business leaders should expect that the adequate resource are not given to the procurement lifecycle, resulting in an increased likelihood of supply chain issues and reduced cost effectiveness.

The strategy that should be adopted by every business is different. This section sets out to highlight the pros and cons of outsourcing procurement.

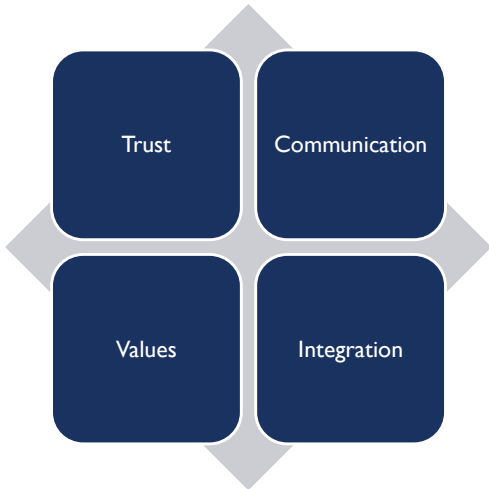
## 3.1. OUTSOURCING PROCUREMENT – THE BENEFITS

There are a range of benefits to outsourcing your procurement, but they are often dependent on your company's resources and objectives. Below is a list of the top benefits that can be expected when outsourcing.

1. Resources within your company are freed up to focus on what they do best.
2. Expert negotiators and sourcing personnel can identify savings that may have previously been missed.
3. A wider pool of potential suppliers becomes available.
4. Increased buying power.
5. Sourcing strategies are challenged, and best practices can be easily implemented.
6. International sourcing becomes more accessible with many procurement agencies having an international network of suppliers.
7. Relationships and emotion are easily removed from a deal, meaning savings can be created. An often-successful strategy is that of a “good cop, bad cop” partnership with your procurement agency.
8. Access to newer technology without requirement for investment.



## 3.2. OUTSOURCING PROCUREMENT – THE RISKS



As with any strategic change, the prospect of outsourcing a major function of one's business does not come without its risks:

1. Trust – Trust in the relationship with your procurement partner is essential. Both parties must be comfortable in the relationship and empowered to work in their specialist areas.
2. Communication – It is essential that expectations and results are shared frequently between both sides. An outsourced partner must be clear on their objectives, their rules of engagement and their bargaining power.
3. Your company values are the bedrock of how you operate. As a supplier facing facet of your organisation, a procurement agency represents you. It is essential that your values align and that they act as you would expect when dealing with your team or external suppliers.
4. Less integration with key internal functions.

## 3.3. OUTSOURCING PROCUREMENT – OUR RECOMMENDATION

- When you are looking at the possibility of outsourcing procurement, there are a couple of things to consider.
  - What level of outsourcing you wish to do: You can outsource all your procurement so that a third-party outsourcing company handles everything, or only outsource your non-core spend and keep more sensitive procurement in-house.
  - How much resource you can put into procurement: If you do not have the resources to invest in a full-time procurement function, we would urge you to consider outsourcing. As already explained, if procurement is a secondary task to some of your team, it will not get the attention it deserves and will result in higher costs and risk of supply chain issues.
  - If you do, however, have the resources to build an in-house procurement function, our recommendation would be to do so. This is the optimum way to drive cost savings as your team will learn your business and its requirements over time.
  - We recommend that whatever strategy you choose for your business, it is still beneficial to engage with a procurement agency from time to time. By sharing details of your expenditure and costs, they will be able to quickly benchmark against similar companies and identify areas to focus on savings. Many will offer this service free of charge and may support you in identifying savings without any cost to your business.
  - Contact us today at [info@sourcewise.ie](mailto:info@sourcewise.ie) for a free discussion about how outsourcing may support your business.

## 4.ABOUT SOURCEWISE



SourceWise is a procurement company specialising with in-direct categories across multiple industries such as pharmaceutical, engineering and manufacturing. As experienced procurement providers, we offer clients across Ireland and the UK the following services:

- International sourcing solutions.
- Negotiation services and training.
- End to end supply chain management.
- Product design and manufacturing.
- End to end tender management.
- e-Tendering and reverse auction platforms.
- Contract management.
- Corporate procurement governance.

Contact us today for a free consultation where we can benchmark any of your existing rates, free of charge. We also act on a “no saving, no fee” basis.



## 4.1. ABOUT SOURCEWISE – OUR VALUES



### Honesty

We build relationships with our customers based on trust and transparency. We conduct business honestly and openly with our clients, partners, suppliers, customers and colleagues.



### Respect

We believe that every relationship should be based on respect. We respect everyone we work with and strive to have mutually fulfilling relationships with everyone we meet.



### Quality

We are proud of the products and services we source. We work with our clients to ensure the highest standards of quality are achieved and that satisfaction is reached between all parties.



THANK YOU

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