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For Procurement Managers, a bit of Payback Time

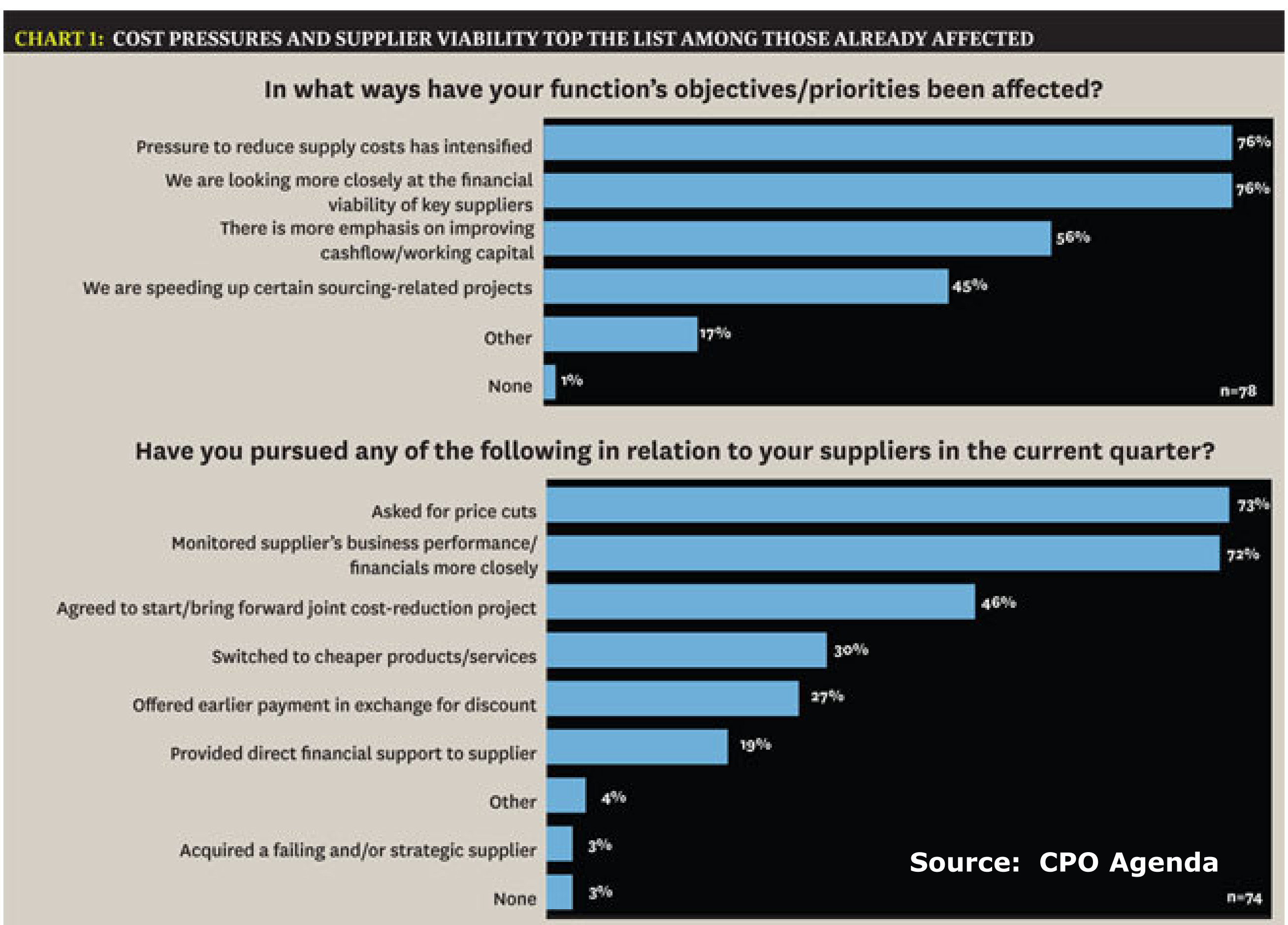
Price Cuts from Suppliers Seem Well Justified after Years of Steady Cost Increases

SCDigest Editorial Staff

Procurement managers are, as usual, under significant pressure right now to reduce the costs of purchased materials and services, but with even more heat than usual from top management due to the economic recession.

In fact, a recent survey by CPO Agenda magazine found that more than three quarters of procurement executives said they were facing great pressure to reduce costs – and we're surprised the number isn't even higher. (See figure below).

Procurement managers today may feel a bit of satisfaction delivering some shots to suppliers after being pummeled themselves for the past few years.



For Procurement Managers, a bit of Payback Time (Con't)

An interesting phenomenon is occurring however. While past recessions have forced procurement managers to do the same type of brow beating with suppliers, often they generally felt some level of compassion for vendors, who likely themselves were being weakened by the downturn and were now being asked to roll back prices some more.

This recession, however, follows a period in which for 2-3 years, suppliers of all sorts were in constant price increase mode. This scenario resulted from dramatically rising commodity prices, a generally robust economy, and an overall environment that often left procurement managers somewhat resigned to the steady drum beat of rising costs.

So, procurement managers today may feel a bit of satisfaction delivering some shots to suppliers after being pummeled themselves for the past few years.

"It's about re-evaluating your relationships with suppliers who have taken advantage of you in the past. I know of one example where the CPO said to the suppliers that if they wanted any more business they had to pay back some of the increases they had demanded in the past," **Bernhard Raschke**, a partner in the procurement and supply chain practice at PricewaterhouseCoopers in London, recently told CPO Agenda magazine.

For many companies, some of those supplier price decreases should be happening automatically, as prices for components or material may be tied to some index of underlying commodity costs, which have headed dramatically south in almost every area after a long period of steady increases. The price of oil, metals, agricultural products and almost every other commodity has seen rapid declines starting some time in 2008.

With regard to these escalator clauses, which result in pricing changes on a monthly or quarterly basis, **Bo Andersson**, GM's group vice-president, global purchasing and supply chain, says, "We didn't like it on the way up but now it's a good thing because it's totally transparent," and the indexes are driving purchase prices down.

Indexes can help a lot, because suppliers certainly may use drops in their own costs to pad profit margins, especially for complacent purchasing organizations. Many grocery retailers, for example, are pushing back hard on food suppliers, whom they say have kept prices steady even as their own costs for agricultural products has dropped dramatically in the past 6 months.