Management Toolbox™

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The Global Financial Crisis – A Procurement Perspective
What Business Leaders and Procurement Professionals Need to Know and What They Can Do

To paraphrase The Wall Street Journal's Brett Arends - when your favourite retail store slashes the prices on all its stock you don't go running out of the store in fear. You start looking for bargains. (Source: NZ Herald)

Call to Action

The world of commerce has changed – rapidly. Business Leaders and Procurement Professionals need to understand what has changed, how the changes affect their organisations and take action to minimise the negative impacts and grasp the opportunities that are arising.

BNZ Senior Markets Economist Craig Ebert says despite present gloom in the world economy, the global correction will offer many opportunities at home. “We are seeing some of these quite clearly already. The currency is falling and commodity markets are cooling, raw materials included. Freighting costs are coming off, global inflation pressures are lessening and discounts might well emerge. The trick for local firms is to take advantage of, and position around, these trends as best they can, as global demand continues to cool down.” (Source: NZ Herald)

Opportunities to Consider

Focus on Expenditure Reduction – the NZ share market has followed overseas trends. Wall St analysts are forecasting significantly reduced earnings for listed companies as global economies slow. As it becomes increasingly difficult for businesses to meet revenue targets the focus will shift to reducing the quantity and cost of the goods and services purchased. *Consider scrutinising discretionary expenditure and putting in policies to restrict buying. Review supply and pricing arrangements for essential, business critical raw materials, goods and services.*

Primary Rates - prices for some global commodities and services are falling e.g. chemicals and freight*. Monitor these and re-negotiate prices and terms of trade for a short, fixed term.* Freight costs are impacted by oil prices which “Dipped below US$75 a barrel this morning, a new 13-month low, as OPEC reduced its 2009 petroleum demand forecast amid signs that the global economy is headed for a severe downturn.” (Source: NZ Herald, 16 October)

A Buyer’s Market – the balance of power is shifting in favour of buyers. Sales will slow as companies and consumers reduce expenditure – *a good time to negotiate and buy if you’ve got the business requirement and the cash*. Vendors will seek to get rid of inventory. Nervous consumers, worried about falling property prices, increasing cost of living, increasing mortgage interest rates and job security, are battening down the hatches and keeping their wallets firmly closed.

Cash Flow – many vendors will be worried about cash flow. *Consider re-negotiating payment terms. Agree price reductions in return for 7 or 14 day payment terms.* (The latest figures in Dun & Bradstreet's quarterly trade payment analysis reveal that payment terms across all industries have increased to 46.2

days). *Negotiate price reductions – suppliers may be prepared to sacrifice margin to increase cash flow or to move inventory.*

Exchange Rate / Forex - *if you have forex cover in place use it wisely*. The Kiwi dollar has dropped 28% from its March high. This makes imports substantially more expensive, increasing costs for firms sourcing globally. Conversely, locally made goods, or goods from suppliers in currencies going the same way as the NZ dollar now look more attractive.

Inventory / Forecasting – organisations will not want to be holding inventory other than in strategic categories where risk is high and continuity of supply is essential. *Consider a renewed focus on improving the accuracy of forecasting to ensure that funds are not locked into unnecessary stock holding.*

Beware of Fair Weather Friends - suppliers who truly want long term relationships with their key customers will work with them through good times and bad. *Consider involving suppliers in sessions to identify ways to <u>reduce the total cost of ownership</u> (preferably for both parties) by taking costs out of the supply chain e.g. reducing re-work, wastage or administration.*

Local vs Offshore Sourcing – it may be prudent to *review whether current sourcing arrangements are still favourable.* Worldwide there is a contraction in the manufacturing sector. The BNZ Business New Zealand Performance of Manufacturing Index (PMI) paints a picture of an industry in a period of serious contraction. Business NZ chief executive Phil O'Reilly said "Recent turbulence in the financial markets is having a flow-on effect to other areas of the global economy, including manufacturing. The global PMI now shows a fair degree of turmoil, with contraction at its fastest rate since 2001 as most of the world's largest manufacturing bases face tough operating conditions." (Source: NBR). Conversely the falling NZD (as Dr Bollard reduces the official cash rate and makes the carry trade less attractive) will increase the competitiveness of local manufacturing versus offshore (such as China).

The Winners Secret

According to a new study conducted in the US just over half the 400 companies studied improved their gross profit margins during the 2001 recession. The winners' secret: targeted rather than blanket cost-cuts, combined with a willingness to invest strategically. (Source: Wall St Journal)

Contact Us

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