

# Procurement Strategy

# The impact of Covid-19

# on Global Sourcing

# Strategies and the

# outlook for 2021

## Survey of Procurement Leaders

- > Shifts in offshoring, nearshoring and domestic sourcing
- > Mitigation of risk through strategic sourcing
- > Reversing the outsourcing trend?
- > Outlook for the next 12 months



“The perspectives of Procurement Leaders have shifted. Before the pandemic, sourcing strategies were orientated towards global sourcing and procurement was all about digitisation. The outlook for 2021 is radically different. Procurement has gone tactical and the focus is now on rapidly securing supply, mitigating risk and reducing cost. There is a marked change in sentiment, reversing the long-term trends towards offshoring and outsourcing. It remains to be seen if this is just a short-term effect.

With the disruption in supply markets caused by Covid-19, we recommend the use of a wide-range of sourcing strategies to both mitigate risk and reduce costs. In the coming twelve months, Procurement functions will play a key role in ensuring that businesses can continue to operate under challenging supply conditions whilst helping their organisations return to profitability.

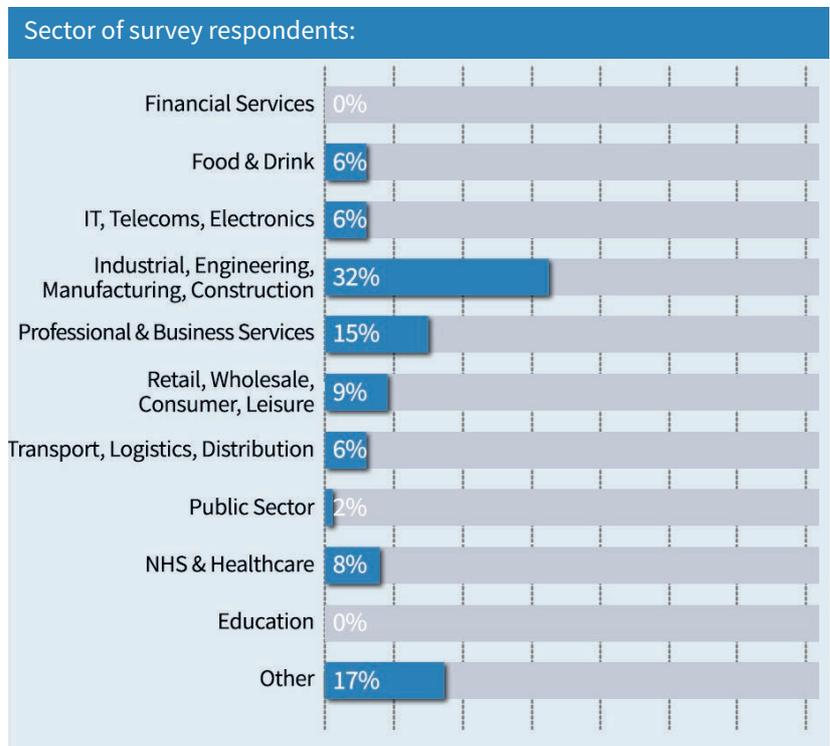
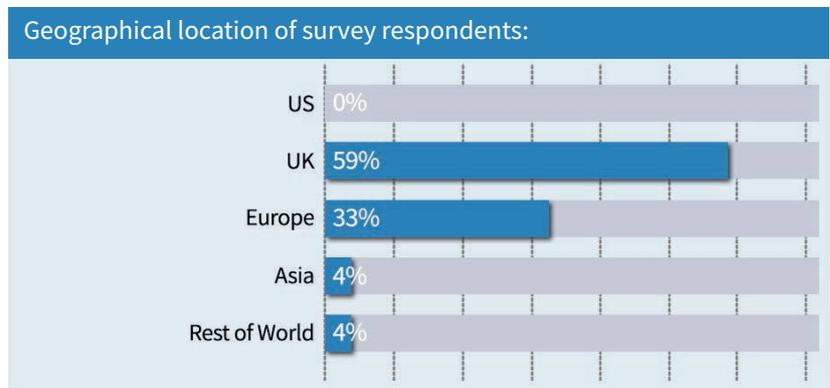
Whilst the short-term approach may be tactical, we would encourage organisations not to lose sight of their longer-term strategies; continuing to drive both step-change impact through digitisation and using procurement to deliver on their sustainability objectives.”

**Richard McIntosh**  
Managing Partner  
Procura Consulting

As we begin 2021 with a resurgence of Covid-19 and tighter lockdowns in many countries, the results of our recent survey into the impact of Covid-19 on global sourcing strategies provides insight into how organisations are adapting their approach to sourcing and their outlook for the next twelve months.

The survey was conducted in September and October 2020 with responses from 278 procurement and finance executives, predominantly from UK and European organisations across a range of sectors.

Having seen first-hand the impact that Covid-19 has had on global supply chains and the ways organisations have responded, we felt it important to undertake this survey to provide insight and guidance for our readers experiencing the same challenges.





# Sourcing trends and the drivers of change

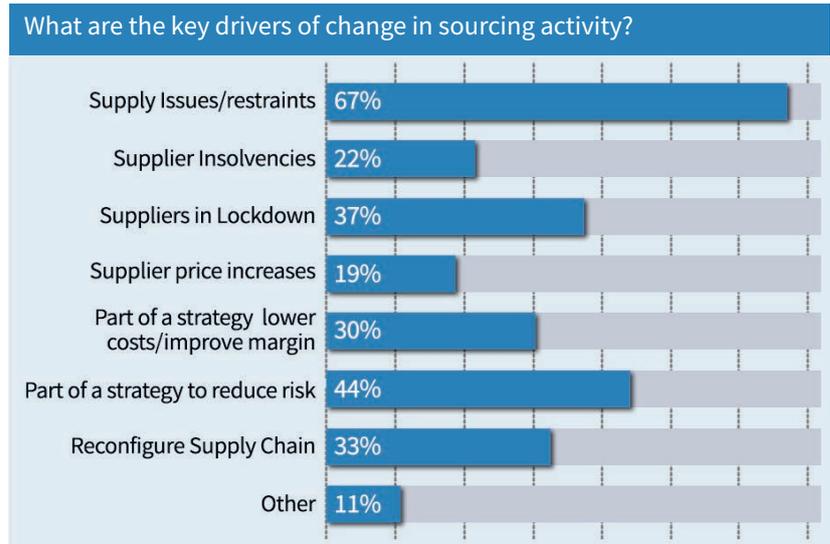
## Procura Insight:

Leading organisations have adapted rapidly to the impact of the pandemic, firstly reacting to supply issues to take tactical action to ensure availability, and then to pro-actively reconfigure supply chains to new activity levels and to use strategic sourcing activity to recover profit margins.

With a high level of change and disruption in supply markets, leading organisations are using strategic sourcing programmes to take advantage of supply market capacity, supplier financial pressures and competitor problems to optimise their supply base and improve margins.

**The pandemic has resulted in an increase in sourcing activity.**

58% of participants reported an increase in sourcing activity due to Covid-19.

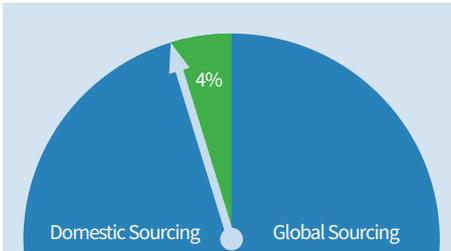


The drivers behind this increase were predominantly reactive; primarily caused by supply issues and restrictions in supply, or because of suppliers in shutdown. Significantly, 22% of participants reported sourcing activity driven by supplier insolvencies.

However, there were also significant pro-active and strategic drivers for change; with increased sourcing activity being part of strategies to reduce costs/improve margins, reduce risk or reconfiguring supply chains.



## Geographical impacts; shifts in offshoring, nearshoring and domestic sourcing



*Q: How has the impact of Covid-19 changed your approach to where you source?*

**The pandemic has caused a shift towards domestic sourcing, and a shift back from global sourcing.**

When considering a spectrum of domestic to global sourcing, participants reported an overall shift towards domestic sourcing.

Whilst for those organisations that are already sourcing globally, overall participants reported a shift towards more nearshoring.

However, these results were not consistent, and participants provided a wide variation in responses. More interestingly the key trends provide more granularity.



*Q: How has the impact of Covid-19 changed your approach to global sourcing?*

### **The key trends in global sourcing highlighted an increased focus on risk mitigation**

- Move to nearshoring and acceptance of higher costs in return for greater availability. Move to European sourcing with less reliance on China.
- Short term focus on domestic sourcing but reverting back to global sourcing in the longer term.
- More direct relationships with manufacturers to reduce risk and improve lead times.
- Greater and deeper supply chain transparency.
- More dual/multiple sourcing and increasing use of safety stocks.
- Increased reliance on true strategic partners.
- Global diversification of supply and spreading risk across multiple geographies



# The mitigation of risk through strategic sourcing

## Procura Insight:

We are seeing an immediate reverse in some of the more traditional, longer-term procurement trends.

Following years of supply chains being stretched and leaned, the disruption caused by Covid-19 has resulted in a rapid re-stocking and deliberate increase of inventories in supply chains.

Whilst this may be short-term, the resulting higher levels of working capital and warehousing/stock management costs will have a subsequent financial impact. For UK/European companies, this has been further exacerbated as organisations have stockpiled pre-Brexit to such an extent it's resulted in a lack of containers and capacity disruption at ports.

In addition, we are seeing a deliberate reversal of the trend towards single-sourcing, as disruption from the pandemic has highlighted vulnerabilities in both suppliers and supply chains. The trade-off of higher cost for lower risk is now being quantified and accepted.

Overall, leading organisations are now significantly prioritised risk management into their sourcing strategies.

### Multiple sourcing again? Accepting higher costs in return for lower risk

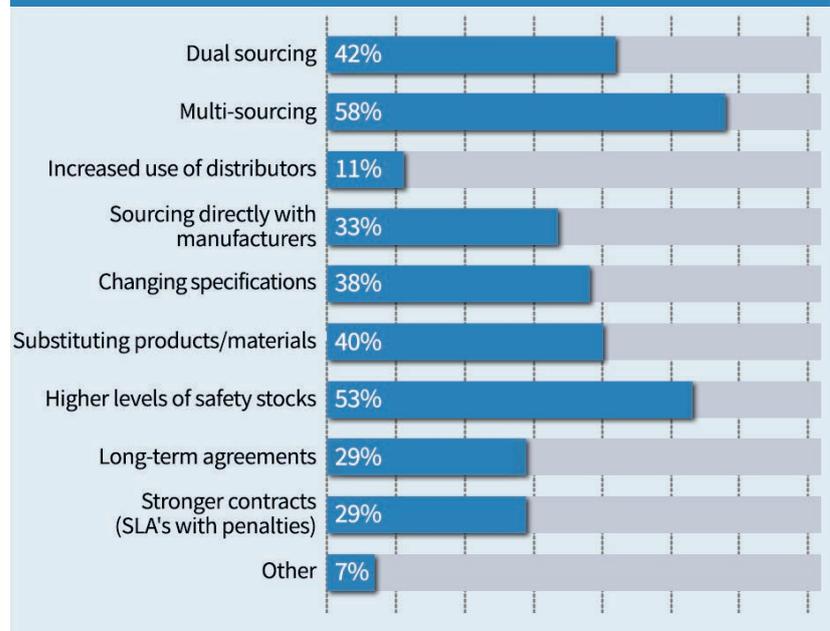
Participants reported using a range of sourcing strategies to mitigate risk. The significant use of multiple sourcing (58%) and dual sourcing (42%) as a risk mitigation is highlighted. This demonstrates a reverse in the long-term trend towards leveraging volume to drive lower costs through the consolidation of volumes to fewer and fewer suppliers. It will be interesting to see if the acceptance of higher costs in return for lower risk will be short-term.

Over 53% of participants reported an increased use of safety stocks, highlighting their willingness to increase working capital requirements to reduce risk.

We also see a prioritisation of effort towards internal solutions with procurement activity focused on changing specifications (38%) and/or substituting alternative products and materials (40%).

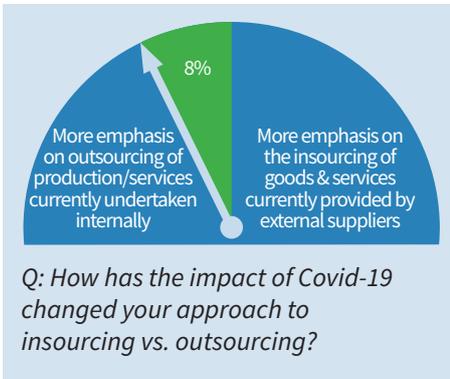
Finally, procurement leaders are also reporting use of contractual levers as a response to the impacts of the pandemic, with 29% reporting use of long-term agreements and 29% introducing stronger contracts (such as with Service Level Agreements with penalties).

What sourcing strategies are you using to mitigate supply risks highlighted by Covid-19?





# Trends in insourcing and outsourcing



## Procura Insight:

The marked shift in sentiment away from outsourcing is a telling indicator. Over the last twenty years we have seen a trend towards the outsourcing of non-core services. The result has been the use of external suppliers for services traditionally delivered inhouse and for manufacturers to source goods at higher levels of assembly.

Supply base disruption caused by Covid-19 has prompted organisations to re-assess and, in some cases, re-define what is considered core and non-core.

As organisations move to insource more, procurement functions will need to adjust. Procurement leaders will need to recognise that additional capacity will be required and their functions will need to work closely with operational functions to manage change and, importantly to optimise margins.

## A significant shift away from outsourcing?

Participants highlighted a significant emphasis towards the insourcing of goods and services currently provided by external suppliers. Results highlighted an 8% shift toward insourcing.

## The next 12 months...

### Procurement goes tactical. It's all about reducing costs and securing supply.

We asked, "What do you see as the most important objectives for procurement functions in the next 12 months"?

Procurement and Finance leaders highlighted a range of objectives for the next twelve months:

#### The vast majority of procurement leaders focused on risk and cost:

*"Reduce costs and secure supply!"*

*"Secure delivery, mitigating risk by safety stock and more work related to supplier audits"*

*"Risk mitigation and drive commercial opportunity"*

*"Risk management, quality assurance, supplier relationship management"*

*"Supply chain security, cost savings"*

*"Understand the risks in your supply chains, implement a robust supplier due diligence programme"*

*"Ensure availability of supply balancing the total cost of ownership"*

*"Mitigating risk, less inventory, increasing activity in establishing alternative supply. Buying further down the supply chain reducing lead time commitment from direct sourcing"*

#### ...with an acceptance that Covid has become part of business-as-usual:

*"Consider Covid as part of business as usual, leading to less crisis management and a return to more usual Procurement objectives"*

*"Re-shape the supply base"*

#### ...and a focus on supplier management:

*"Increased supplier cooperation to mitigate volatile markets and drive continuous improvement"*

*"Supplier management. Stay in close contact with your suppliers in order to follow performance and agree adjustments where needed"*

#### ...and with only a few leaders focusing on one of the key drivers at the beginning of 2020:

*"eSourcing"*

*"digitalisation"*



## Recommendations

### Procura Insight:

At the beginning of the 2020, the objectives of procurement leaders were far more strategic. As well as driving cost reduction, it was all about digital.

The outlook for 2021 is radically different. Perspectives have shifted to a far shorter-term view.

Procurement has gone tactical and it is now all about securing supply, mitigating risk, and reducing cost. The digital transformation of procurement may well be on the back-burner this year.

In the current environment, we cannot over-emphasise the importance and criticality of excellence in procurement.

Now, more than ever, organisations are relying on procurement functions to ensure supply, pro-actively manage suppliers and restore profit margins that have been eroded by the essential reactive cost and stock impacts of the initial Covid-19 disruptions in Q2 and Q3 2020.

However, procurement leaders should not lose sight of strategy.

The two long term strategic trends of procurement digitalisation and sustainable procurement should remain. However, it is clear that, for the early part of 2021, the focus is operational and tactical.

1. Assess your supply base, both from a category and a supplier perspective. Use a programme of strategic sourcing to mitigate risk and reduce cost.
2. Utilise dual sourcing/multiple sourcing strategies to mitigate risk, whilst working closely with key suppliers to minimise vulnerability.
3. Consider all options; domestic, near-shore and global sourcing. Sentiment may be to bring supply closer but consider dual sourcing domestic and global supply to balance cost and supply risk.
4. Strengthen supplier management programmes, across the entire supply base. Drive for supply chain transparency.
5. Focus internally, working closely with operations to support insourcing initiatives.
6. Don't lose sight of long-term strategy. Continue to drive digitalisation and sustainable procurement.



## We are specialists in procurement cost reduction & procurement transformation

Our experienced consultants work with organisations in many sectors and are experts in delivering sustainable savings from purchased goods and services.

We provide a range of professional services that help clients improve operational performance and profitability - from identifying and evaluating opportunities for savings, to implementing and managing category-specific cost reduction programmes. We work closely with your teams to embed best practice and ensure that procurement spend is optimised – and stays optimised.

We're focused on building long-term partnerships with our clients that deliver ongoing cost reduction and continuous improvement in procurement processes that add value to the bottom line. Our fees are based on the savings we are able to achieve, so there's no financial risk for clients because projects are self-funding.

Our consultants are constantly sourcing, on behalf of clients and for our own frameworks and have exceptional supply market knowledge, combined with a deep understanding of the latest procurement techniques, strong analytical skills and excellent project management capabilities.

If you would like to talk about how Procurement Excellence can improve the profitability of your organisation, please get in touch:

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