



# THE ADAPTIVE PROCUREMENT OPERATING MODEL: FIT FOR THE COMPLEXITY AND DYNAMICS OF THE DISRUPTIVE INDUSTRY ENVIRONMENT

## Introduction

The role of procurement has changed fundamentally over the last decade. While it traditionally focused on cost optimization, the procurement function is now facing a paradigm shift driven by external crises, geopolitical events and a dynamic global manufacturing landscape.

These disruptions have highlighted the vulnerability of supply chains and emphasized the need for adaptable procurement mechanisms that can address different performance dimensions such as supply security, quality assurance and sustainability, among others.

Companies recognize the imperative for change, but so far have been slow to implement measures at the strategic or operational levels. To succeed in such disruptive times, they must develop a flexible and dynamic approach that recognizes the multi-dimensional challenges of procurement. This requires a nuanced prioritization and adjustment of performance targets according to the supply stability of the industry they operate in.

This article explores the changing dynamics of the procurement function, highlighting its critical role in orchestrating the entire value network. It also discusses how an adaptive operating model is required to manage the complexity of the modern supply environment.

## 01 The evolution of the procurement environment

Global supply chains across sectors have experienced heightened pressure in recent years. The contraction in manufacturing activity across the eurozone since September 2021, as measured by the region's Purchasing Managers' Index (PMI) survey, is a tangible manifestation of these ongoing strains.

The fragility of supply networks is amplified by its high global interdependency, making the supply chain susceptible to geopolitical events such as the war in Ukraine, global pandemics like Covid-19, or disruptions like the Suez Canal blockage. Megatrends such as sustainability, climate change, digitalization and de-globalization are adding to this complexity.

As a result, industries now grapple with operational procurement challenges extending beyond cost reduction, emphasizing delivery reliability, quality assurance, innovation incorporation and sustainability performance. This secular change requires prompt adaptation that cannot be managed by isolated, cost-oriented functional silos.

In the automotive industry, the traditional emphasis on cost reduction during the 2010s has evolved into a multi-layered strategic and adaptable procurement approach in the last three years. Supply security may take precedence over cost reduction, especially during periods of instability. This was seen last year, when supply of wiring systems from Western Ukraine was disrupted, resulting in reduced supply and extended lead times for the industry. The global chip shortage is another example of how the focus of procurement functions can shift in response to a tight supply environment. At the peak of the crisis in 2021-2022, automotive manufacturers and suppliers were willing to pay significant surcharges for semiconductors, through the spot market, to avoid losing production volume.

Another example can be observed in the French mustard shortage case. The single source reliance on Canada as a primary growing country for mustard seeds, coupled with adverse climatic conditions, has led to a 50% drop in mustard seed production, which underscores the risks of single sourcing and dependency on specific regions. In this case, too, the focus moves from a cost-oriented approach to security of supply.



The transition in target performance dimensions is not universal across all sectors. Each industry prioritizes dimensions differently based on its unique circumstances. For example, regulatory changes related to ESG prompted the retail and fashion industry to redesign their supply networks, placing greater emphasis on sustainability as a target dimension.

Within the automotive industry, partnership relationships and innovation promotion have become more important in procurement – one case in point is the rise of Asia, particularly China, as a pivotal region for suppliers and innovation.

The changing nature of the target performance dimensions poses a significant challenge for procurement functions. Companies must adopt a dynamic procurement operating system to navigate the multidimensional and fast-evolving landscape successfully. Nuanced understanding of specific industry conditions is required, so organizations can tailor their approach and achieve optimal outcomes.

## 02 Companies need to adapt dynamically to new reality

While the procurement environment has undergone a significant transformation, companies have been slow to adjust their operating models to the newfound complexity. Despite the evident shift in target dimensions, our research and experience working with clients reveal a gap between the evolving procurement landscape and companies' adaptability to these changes.

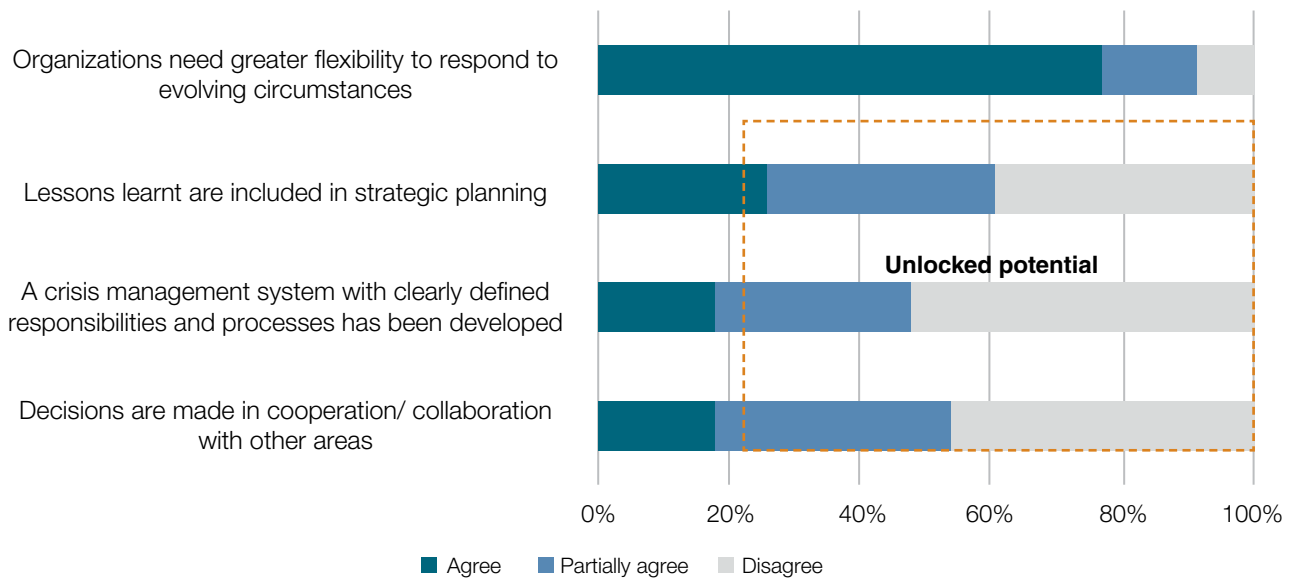
In a survey by BME<sup>1</sup> encompassing 189 major enterprises, approximately 77% of executives acknowledged the necessity to cultivate greater agility and flexibility to respond to evolving circumstances, and the need to adapt their objectives and strategies accordingly. However, only 50% of companies have adapted their management tools to align with the new reality, and many continue to adhere to conventional thought patterns and leadership styles.

Furthermore, concrete measures such as a translation of lessons learned into strategic planning, or the implementation of preventative measures have not been adopted, according to the survey. The expected surge in digitalization as a consequence of these crises has not materialized either.

A prime example of companies falling short in adapting to the new procurement reality can be observed in the aftermath of the container shortage. The scarcity of shipping containers, exacerbated by pandemic-related disruptions, adversely impacted global supply chains. Despite the clear need for adaptability, numerous companies struggled to realign their operating models swiftly.

This illustrates a deficiency in the readiness to embrace change and underlines the imperative for the implementation of adaptive procurement strategies such as prioritizing local sourcing, fostering closer yet diversified collaboration with suppliers, establishing inventory reserves, and incorporating technologies like big data and artificial intelligence into sourcing processes. Such measures would lead to enhanced efficiency and a mitigation of supply chain-related risks.

<sup>1</sup> Bundesverband Materialwirtschaft, Einkauf und Logistik (BME). (2023). Studie: Krisenmanagement und Führungskultur. <https://de.expensereduction.com/krisenmanagement-fuehrungskultur/>



Note: While the need for change is evident among executives, concrete measures such as a translation of lessons learned into strategic planning, the implementation of preventive measures and a collaboration with other areas to increase flexibility and adaptability to new circumstances fail. (BME Study: Crisis management and leadership culture, 2023)

## 03 Risks of an inflexible procurement strategy

Maintaining a static operating system and failing to adapt procurement strategies in today's dynamic environment bears high financial risk for businesses.

To understand the dangers of maintaining an inflexible operating system, one must look at the far-reaching effects of the Ukraine war on global logistics. Just months after the Covid-19 crisis left supply chains in disarray, the conflict further disrupted supply networks and highlighted supply security as the highest prioritized target performance dimension. Companies that failed to proactively rearrange their sourcing strategies before or at the beginning of Ukraine war faced serious consequences, ranging from production stoppages to financial losses.

For instance, traditional engineering and manufacturing heavy industries are facing severe shortages in supply quantity and quality, putting new product introductions and production ramp-up at risk. This is largely due to their focus on the outsourcing of major parts of their aerostructures production to obtain cost savings. The over-emphasis in cost reduction in the procurement function has in turn led to a lack of flexibility in procurement and in the ability to react quickly to changes in supply.

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On the other hand, we have seen highly flexible and adoptive supply chain strategies in other industries like consumer electronics and telecommunications, where procurement is following a fast-paced product development and introduction process. Of course, different industries are hard to compare, but in a disrupted supply market there is cross-industry competition and companies need to stay ahead of the game if they want to succeed.



The geopolitical crises of the recent past and present have shown that companies with a clearly structured value chain, which are used to reacting to a volatile environment, have dealt with the challenges much better than companies with a more traditionally structured value chain. The challenge for these companies is to question their existing organization and increase transparency and flexibility.

While the unpredictability of events such as Covid-19 and the Ukraine war have caught some off guard, the ability to swiftly adapt procurement strategies has become a distinguishing factor in organizational resilience and success. In today's crisis-ridden world, flexibility in procurement is not just a strategic advantage but a fundamental necessity.

## 04 Adopting a cross-functional approach to procurement

Due to the high complex, interlinked and sometimes contradicting nature of the mentioned performance target dimensions, procurement functions cannot operate with domain experts acting in isolation and mostly targeting cost savings. Instead, they should act as cross-functional enablers of procurement success within their organizations.

High-level management must spearhead the development of flexible operating systems and corresponding governance structures to fortify organizations against unprecedented uncertainties.

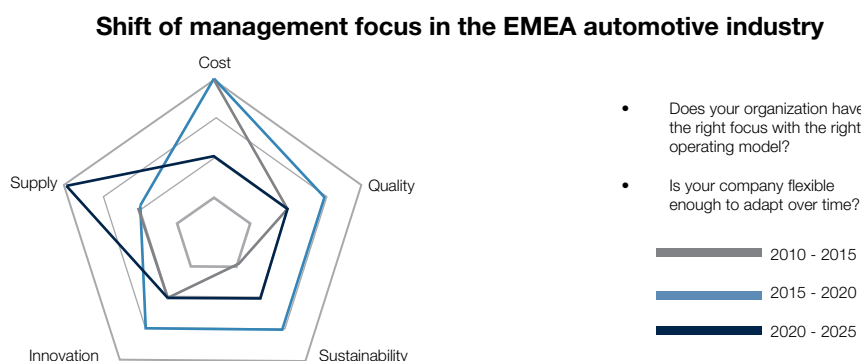
This operating model involves having a holistic approach, with the procurement function working in close collaboration, realigning and cooperating on corporate targets together with other departments. In addition, required capabilities and resources are to be found by considering the skill-shift in procurement along with performance target dimensions.

### The A&M approach

A&M has supported companies adapting their operating models in the most optimal way to cope with the context and risks of the current environment.

Our approach focuses on the consequences on company-wide bottom-line performance, from a cross-functional view. Because our team combines extensive industry and consulting experience, we can deliver the “best of both worlds”, leveraging the theory and best practices, but also understanding what works in reality in a company with all its complexities. The steps to optimize your operating model towards an adaptive procurement framework are summarized below:

1. Diagnostic of your current company status and map it with the target-focus given the current state of industry. The exhibit below illustrates the core questions based on an automotive example:







2. Identification of the gap to ideal state with regards to focus and flexibility
3. Derivation of target operating model (targets, structure, processes, capabilities etc.) specifically for your company to arrive at target state
4. Agreement with your team on measures, timelines and responsibilities to arrive at target state
5. Mobilization and implementation support.

## Conclusion

In summary, the evolution of procurement strategies over the last decade signals a profound transformation in how organizations approach their supply chain functions. From a singular focus on cost reduction, the shift towards multifaceted operational challenges demands a strategic realignment that reflects the unique demands of each industry. The ability to prioritize among performance target dimensions, especially in crisis situations, requires a dynamic procurement program that can adapt to the evolving landscape.

As organizations navigate the uncertainties inherent in today's business environment, those with a forward-thinking and agile procurement approach will emerge as resilient leaders, equipped to thrive amidst disruption.

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