

The CPO's Agenda Part I: Availability and Delivery in a “Hierarchy of Supply”

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In our [recent post](#) where we asked what is top on a CPO's mind, we noted that, not surprisingly, it is cost cutting. But, there are obviously a host of broader issues that are becoming front-and-center in the mind of a CPO. To be precise, we listed 20 issues that are occupying the mind of a CPO and competing for his/her attention. In this series we are going to address every issue, discuss why they are becoming a priority and also some approaches to best tackle them. A CPO not only needs to know what the issues are, but why they are issues and what needs to be done about them. This series will provide a starting point, and when it's over a CPO will have a good idea of the core issues and how to proceed.

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The first issue, in alphabetical order as presented in our original post, is that of availability and on-time delivery. We are talking about the assurance of high quality goods and services that are delivered in the right quantity at the right time and place. At the most foundational level, procurement must help the enterprise keep the supply lines flowing to support the supply needs of the enterprise. These supply needs, similar to the human needs in Maslow's hierarchy of needs, can be organized in such a way that helps the CPO fundamentally link procurement value to the value of spend/supply that stakeholders get from their supply chains and their suppliers.

Supply Assurance is the foundation of Procurement's Support for a "Hierarchy of Supply"

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source: https://www.cips.org/Documents/CIPSAWhitePapers/2011/CIPSA_Hackett.pdf

Specifically, with supply chain disruptions on the rise, supply shortages becoming more common and costs in certain commodities still skyrocketing, the availability and on-time delivery of critical goods and services is becoming more of an issue by the day.

As per a publication by Think Executive in 2011, natural and man-made disasters will increase five-fold in the next 50 years. The recent disruption of Iceland's Eyjafjallajökull (and the resulting air travel disruptions), the recent port strikes on the US West Coast, disease outbreaks (e.g., Ebola), and natural disasters such as the recent tsunamis and typhoons are just the beginning. The Ring of Fire is – as the name implies – lined with volcanoes, all union contracts are short-term and every expiration brings additional risk, and the stirring Iyama volcano raises fears of another nuclear power disaster at the Sendai plant. Add to this political risk in the Middle East, China, Ukraine, DRC, etc., and sovereign debt risk in Europe, it's clear that keeping the supply lines flowing is not always so easy.

Then there's the issue of supply shortages. World food reserves hit a fifty-year low in 2009. Rare earth minerals are becoming rarer by the day even though firms are scrambling to find substitutes. And crude oil, even with its currently low price point, is not limitless. Where food, rare earth minerals and oil is concerned, the situation is not going to improve. The earth's population is still increasing, smart phones and mobile devices are using up limited supplies of rare earth minerals, and we're still burning oil like the reserves are infinite.

Finally, there is the issue of skyrocketing costs. If costs get too high, even if the materials a company needs are available, it won't be able to afford them. Anyone who knows Economics 101 knows that price and supply availability are inextricably linked. That's why availability is becoming front and centre in the mind of every CPO.

So, what is a CPO to do?

The first thing a CPO needs to do is get visibility into the supply chain. Multi-tier visibility will help predict supply shortages from key suppliers upstream in the supply chain that could potentially disrupt a production run or a shipment.

The next thing the CPO needs to do is identify the raw materials that are most likely to be in short supply and cause a major disruption to the supply chain and determine if there are ways to reduce the supply risk. Can the products be redesigned to use alternate materials? If the product in potentially short supply is renewable, such as a cocoa crop, can it be produced in greater quantities in more diverse geographic locations to minimize the chances of insufficient supply? If energy is the problem, can more renewable power plants be built? If it's rare earth minerals, can alternate materials be designed in? Can radically new alternate technologies be piloted? If product demand is volatile, can it be not just better understood, but more proactively shaped? On the supplier side, CPOs must work with key suppliers through strategic supplier management programs to focus on many things, but certainly ensuring capacity and tier 2 and tier 3 sourcing effectiveness to help reduce supply assurance risk.

To put the above in place, the CPO needs to work cross-functionally with the respective organizational departments to put plans in place to minimize the chances of disruption. This involves linking supply risk to enterprise GRC (governance, risk and compliance) programs and

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personnel (e.g., a chief risk officer or sustainability officer), but also to the performance metrics of procurement and of the suppliers. If supply assurance is not on the procurement scorecard and not on the category/supplier scorecards (and the associated resources), then there is a fundamental risk to the business through such misalignment. This requires effective procurement performance management (PPM) as we covered in a recent SpendMatters PRO webcast.