

Inflation Making Waves for Supply Management

New study identifies five areas that can help procurement navigate uncharted waters.

Two trends have been nudging U.S. inflation higher: a growing economy and a tight labor market. Add in tariffs, high transportation costs, and rising prices for many commodities, and the United States is poised for a long-term period of double-digit inflation—uncharted territory for most of today's supply management professionals.

To understand how companies are reacting to this environment and to identify ways procurement can mitigate the impact of inflation on the prices they pay to suppliers, the Institute for Supply Management® and A.T. Kearney conducted a study of more than 300 supply managers in the spring of 2018. What we found is that lost purchasing power is their primary concern.

A focus on five areas can help forward-thinking organizations thrive in this volatile environment:

Supplier selection. Being prepared to handle inflation requires a company's suppliers being in control of their costs. If not, those costs get passed on to the company in the form of higher prices. However, a third of the companies in the study say their suppliers are below average at controlling costs, and most supply managers believe they are merely reactive to increasing prices.

Market analysis. Most companies do not have a formal market analysis program—highlighting a missed opportunity to extract

more value from the supply base. Only 40 percent of the companies in our study have a formal in-house supply market analytics team to monitor market changes.

Internal communication. Communicating with stakeholders is essential, especially when changes occur. As cost savings morph into cost avoidance, price inflation will redefine what successful procurement looks like. Although 53 percent of supply managers say internal communication and stakeholder management are important, almost half have either no communication or only ad-hoc communication with their stakeholders.

Internal collaboration. Finance can be a supportive stakeholder if open and active cooperation exists between finance and procurement. And yet, only 62 percent of supply managers partner with finance to assess the implications and plan for purchasing negotiations.

External collaboration. Sixty-seven percent of supply managers say they focus on supplier relationship management to identify ways to jointly mitigate cost inflation. In addition, 52 percent focus on inventory management, which can free up cash flow as borrowing becomes more expensive amid higher interest rates.

Higher prices are being felt in every industry. However, supply managers can take a proactive approach—with a formal market analysis, improved communication with stakeholders, effective supplier relationship management, and strategies to lock in lower prices, leverage buying power or build inventory. When aligned with a company's strengths and overall goals, this approach can help power procurement through inflationary times. To learn more about inflation-fighting strategies for procurement, read the full report: High Inflation: Uncharted Waters for Supply Management.

By: Jane Wanklyn

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