ZYCUS
COGNITIVE PROCUREMENT

Counterintuitive strategies to navigate the recession

Synopsis

Recessions are inevitable, and while most recessions don't last over three quarters, navigating the same can be quite treacherous for companies. Drastic steps like extreme cost-cutting & layoffs, or over-investments tend to backfire. Procurement, operations, and finance need to work synergistically to improve operational efficiencies and productivity for the long term.

Zycus' **RRR framework - Review, Reinvest, and Redefine** - enables companies to evaluate their cost structure, prioritize investments that dynamize productivity & generate insights, and facilitate a modern work environment, as a three-pronged response to a recession.

This eBook also showcases how 2 global organizations thrived during the pandemic-led recession and managed to create & retain their competitive advantage!

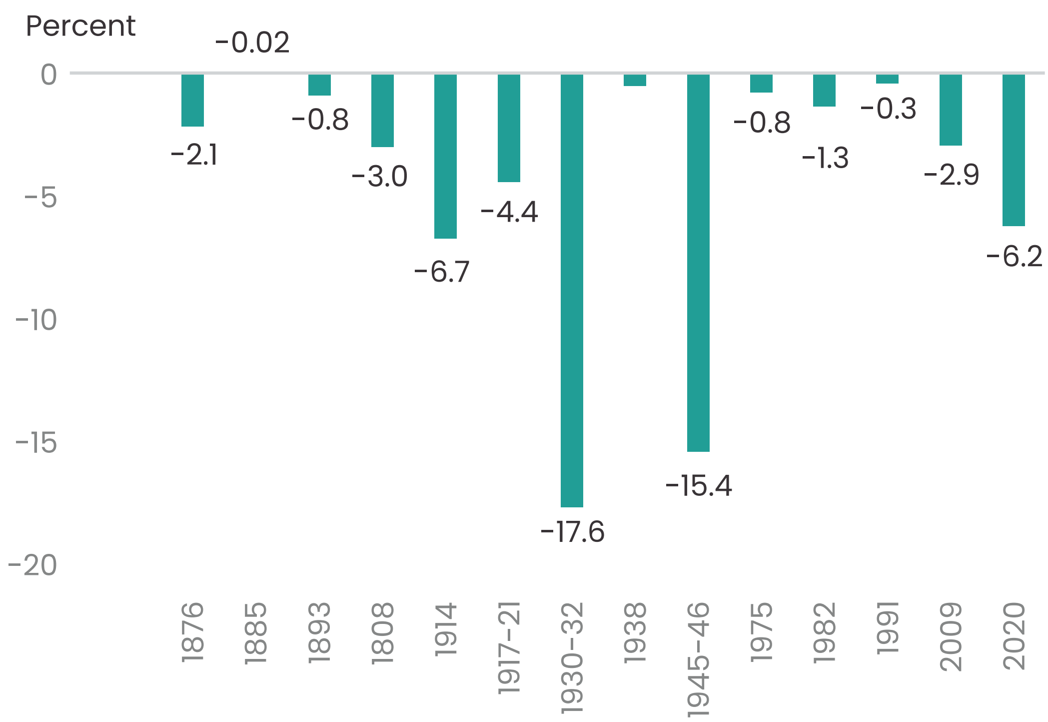
The "opportunities in adversity" section includes additional counterintuitive strategies outside the core procurement and finance functions which CPOs and CFOs can support given their expanded strategic roles within their organizations.

Recessions are inevitable

A recession is on the anvil. The ongoing war in Eastern Europe has further fueled the fear of an imminent recession, and rising fuel prices, reduction in consumption, other inputs exacerbating the lingering inflation point toward a singular outcome. The recent flurry of news about massive layoffs in the tech sector has further instilled the fear of a recession. A KPMG survey conducted with 1,325 CEOs recently revealed that 86 percent of CEOs believe a recession is expected shortly, making post-pandemic recovery harder.

This e-book examines what the game plan should be, for procurement and finance professionals to help their organizations navigate the recession.

But before that, let us take a quick look at historical recessions and some takeaways from the same.



World Bank analysis of global recessions over the past 150 years indicates that there have been 14 on-record recessions. i.e., one recession every decade, give or take. The COVID-19 pandemic-induced recession in 2020 was the deepest since the 1945-46 post-World War II recession. If the downturn starts in 2023, it will be two quick recessions.

The length of the average recession depends on the time frame you're considering. Considering data since 1854, the National Bureau of Economic Research (NBER) places the average recession at 17 months. However, if we only consider the post-WWII period, the average American recession has lasted ten months.

Not many may know this, but the COVID-19-led recession lasted only two months. Yes! Only two months! Not even a full quarter. However, its profound impact and the aftermath of the pandemic continue to linger much longer.

Quick takeaway:

- Most corporate leaders have survived at least two recessions (possibly more) in their careers. Hence, they have a real-life experience of navigating one
- Recessions don't last forever. About 58 percent of the CEOs in the KPMG survey mentioned above expect the recession to be "mild and short"

Navigating a recession is tricky

Good leaders know how to fight a war; great leaders win peacefully. Aptly, many organizations often, in a frenzy, undertake multiple 'wartime' initiatives to cope with a recession, and encounter mixed results.

As per an HBR report,

- Firms that cut costs faster and more profoundly than rivals don't necessarily flourish. They have the lowest probability—21%—of pulling ahead of the competition when times get better
- Businesses that boldly invest more than their rivals during a recession don't always fare well either. They enjoy only a 26% chance of becoming leaders after a downturn
- And often, companies that were growth leaders coming into a recession can't retain their momentum; about 85% are toppled during bad times

Quick takeaway:

- There is no sure-shot magic bullet on how to navigate a recession
- However, extremes – deep cost cuts or overtly ambitious investments clearly don't work; the procurement, operations, and finance leadership need to work synergistically to navigate a recession

The 3 Rs of riding out of the recession storm

Research over the past few decades shows that companies need to **achieve a good balance between**

- Reviewing and rewiring costs structures in the short- & near-term
- Continuing to invest to secure longer-term growth to do well after a recession

In a post-pandemic world of work from anywhere, the great resignation & the concurrent rise of the gig economy, and the rapid digitization & cloud adoption,

- Focus on 'redefining work' will be equally important in the ensuing recession

Zycus 3Rs framework for Procurement, Finance and Technology leaders

Review cost structures

Improve operational effencies
- **Zerobase** cost, **eliminate** frills starting from the biggest cost centers
- **Renegotiate** contracts

- **Rethink** processes Radically
- **Redeploy** employee on value adding activities
- **Adopt** cloud migration aggressively
- **Right-size** staff, thinning bloated middle management

Reinvest to

Succeeding longer-term
- **Propel** innovation
- **Maintain** customer relations
- **Focus on** new product development
- **Focus on** Supplier development

Catalyze productivity
- **Improve** productivity by embracing AI & automation
- **Adopt** prescriptive analytics for better and agile decision-making

Redefine work

1. Review & rewire cost structures

In good times, operating leverage (ratio of fixed and variable costs) can supercharge profit growth. However, in times of growth, new costs and expenses also tend to creep in, and over time, these costs harden and morph into fixed cost structures.

In troubling times, high operating leverage comes back to bite, crushing profits.

Hence, cost structures must be reviewed and rewired periodically, particularly ahead of a recession when there is pressure on incremental sales and profitability.

Cost management should be predicated predominantly on improving operational efficiencies

1.1. Identify cost heads that can be eliminated, reduced, or repurposed.

- Eliminate non-essential spend - Start with the most significant cost heads. Drill each cost head down to the level 4 or level 5 subcategory. You must apply cost management strategies at Level 3 or 4 or Level 5 for it to be effective, as you may have a different approach for each sub-level. e.g., Most organizations use a spend analysis solution to identify savings opportunities & find payment term deferral. Delaying non-essential and indirect purchases at the granular level like office supplies, laptop upgrades etc. can result in substantial savings.

- Reduce maverick spend - Closely review the costs under any category labeled 'Miscellaneous' or 'Others,' as these often present the most significant opportunities for cost optimization. e.g., A thorough review of all the evergreen contracts and termination of auto-renewals can save a lot of hard dollars.

- Repurpose skills & redeploy resources - Leverage changing employment dynamics by reshaping roles, where possible, to facilitate remote work, and take advantage of the gig economy to get quality talent in exchange for a relatively insignificant capital outlay. Research also shows layoffs in times of recession provide very short-term relief, but leaves organizations in short shrift when they try & ramp up/pivot operations, in pursuit of growth. Instead, redeployment can help organizations shift talent from low-demand or low-volume work to high-demand areas of the business. If there does arise a need for layoffs, the focus can be on thinning the bloated middle management that doesn't contribute enough value to the bottom line.

1.2. Renegotiate vendor contracts

- Engage with your vendors and suppliers to work through the contract review process with a win-win mindset.
  - E.g., you may offer your vendor partner higher business volumes (through consolidation) in exchange for better price or payment terms
  - You may provide better demand visibility to the vendor partner
  - Improve the payment terms for your critical suppliers rather than tightening control, as your ability to manage working capital in a recession would be far better than your smaller suppliers
  - Review your 'Supplier Risk and Performance Management' solution to prioritize renegotiations with suppliers whose performance has been below par
  - Your Contract Lifecycle Management tool should help you identify clauses leading to rebates and volume discounts you should enforce
- While these opportunities are often overlooked during growth cycles, these can quickly help you save [6-10%] on the total cost base.
  - Where possible, consolidate spending with fewer vendors, consolidate categories of products and services and demand bulk-buying discounts

- Run fresh RFPs (Request for Proposals) using eSourcing technology for all material spend categories to drive 5-10% cost savings across categories. Best-in-class organizations also conduct 'reverse auctions' for comparative bidding to ensure minimum supplier cost

- Create a sufficient supply buffer to factor in supplier shutdowns, and monitor supplier risks (financial, operational, geographical etc.) using dashboards that fetch real-time updates, leveraging AI (Artificial Intelligence) technology

1.3. Contract compliance

Tighten the enforcement of contract compliance and aim to reduce maverick spending to zero. Check if your Source to Pay suite offers contract-lock functionalities, which enables contract terms to seamlessly flow into the eProcurement system, automatically ensuring compliance.

When implementing cost management initiatives, it is critical to communicate the strategic intent with the leadership teams and the employees. Doing so will help generate better buy-in and participation and reduce heartburn.

2. Redefine work

Recession demands higher agility in decision-making, particularly in the post-pandemic era; with hybrid work scenarios and talent crunch driven by great resignation and the rise of the gig economy, organizations will need to 'redefine work.'

2.1 Automate manual and repetitive tasks to permanently reduce the cost of doing business

E.g., 3-way matching of invoices, or reviewing and responding to vendor email queries. Automating this can release 30-50% of the AP (Accounts Payable) team's bandwidth. Instead of involving the AP FTEs (Full Time Equivalent) in such transactional & tactical activities, right-size the AP team and repurpose them for more strategic and value-adding activities.

2.2 Remove redundancies by streamlining approval hierarchies and suboptimal processes

E.g., AI-driven advanced analytics and process mining can provide prescriptions for improving key processes like PR (Purchase Requisition) to PO (Purchase Order), PO to Payments, etc. Doing so can help reduce the end-to-end process cycle time from a few weeks to a couple of days or even a few hours.

Radically challenge traditional workflows and processes

- AI-powered internal chatbots for procurement functions to reduce the reliance on manual query and approval processes

- An AI-enabled Contract Life Cycle Management solution can assist the legal teams with reviewing and authoring contracts, thereby reducing contracting turnaround times from weeks to a few days while also ensuring higher compliance with corporate guidelines.

3. Reinvest

Redefining work will require investment in technology. As counterintuitive as it sounds, a recession is an opportune time to invest in technology upgrades and future-proofing your tech stack-related projects.

You could drive a better bargain with technology solutions providers now. Also, the opportunity costs of undertaking a transformation project are lower during a recession than during an economic boom.

What kind of technology investments should you prioritize during a recession?

- Technology that delivers improved analytics and insights to help management better understand the business and areas of operational improvements. It would be best to prioritize implementing Cognitive Analytics in this regard.

- Technology that helps cut costs - AI and intelligent automation. Such projects can be largely self-funded based on hard and soft dollar savings. Accounts Payables Invoice Automation is a classic example -

A good AI-powered solution can reduce AP FTE (Full Time Equivalent) requirements by up to 50%.

Recession to Recovery

Digital Transformation Stories from Zycus' pandemic archives

1. Amidst the pandemic-driven recession, a leading insurance provider based in the US was working towards the objectives of:

   - Reducing their process & cycle times
   - Improving the transparency in their purchasing process
   - Measuring the productivity of the procurement dept. with relevant KPIs (key performance indicators)

The insurance provider wanted to make the most of a crisis, and decided to undertake a digital transformation effort by implementing Zycus' complete suite of P2P solutions

Here are the outcomes -

- Trimmed the cycle time for catalog orders & invoice approvals from a full business week, down to **~15 hours**
- Enjoyed increased discounts by leveraging favorable terms for quick payments
- Boosted their savings by **~$100k**, by eliminating duplicate & over-payments
- Reduced their vendor management FTEs by **87%**
- Increased the stakeholder satisfaction Net Promoter Score (NPS) from neutral to **+10**

2. A multinational electronics and electrical equipment company transformed its P2P process with AI-based technology. A quick glance at its AP improvements during the pandemic:

Challenges:

- Paper invoices
- Nearly 100% manual
- Highly inefficient processes

Feb 2020	Go Live with AP Automation
Sept 2020	Work From Home
Mar 2020	100% digitalized AP

"iAnalyze was the big driver for our cost savings, where we were able to set an idea of what our total spend was by operating group and across the globe."

– Carlson

"The product that we use from Zycus was a game changer allowing our users within 10-15 minutes to get the scope of spend that they need. Providing that extra service we didn't feel we'd always get from other competitors."

– Cargill

Key highlights of the results achieved through Zycus AI-based AP Invoice Automation:

- Enforcement of 'No-PO-No Invoice' reduced retrospective POs (Purchase Order) by **50%**
- **~1/4** invoices via portal; **3/4** via AI
- **75%** POs are issued prior to invoice
- PO cycle time reduced by **75%**
- **676** suppliers on-boarded
- Availing the early pay discounts for 1st time
- Exceeded **year 1** ROI (Return on Investment) targets
- **10X** more requestors
- Suppliers paid on-time

"Zycus was the first step towards standardization of procurement processes across divisions. Providing visibility into Spend and identifying savings opportunities is something Zycus has helped us with. Their approach toward customer service is top-notch."

– Global Beverage Giant

Additional opportunities in adversity

While procurement and finance may not independently hold the pen on some of the following countermeasures, with the ever-increasing importance of the role of the CPO (Chief Procurement Officer), they should be able to influence and support these additional strategies -

Cash is King:

In case of bad debts / Accounts Receivables (Ars), deploy aggressive 'factoring' strategies. 'Dollar today' (in cash) is always greater than a 'dollar tomorrow' (in whatever form). For a haircut of ~10%, you can turn your ARs liquid with many highly reputable factoring service providers.

If you're able to act on ARs before the vast majority pick up on & acknowledge the recession, accelerate efforts to realize as much cash as possible before we hit the trough.

In a similar vein, it would be beneficial to shore up working capital by borrowing relatively heavily, before the debt market dries up. Preserve cash/money to operate.

Strategic Restructuring:

Recession offers, to those that need it, a do-over - to address past strategic mistakes and misfires such as product portfolio optimization, unrelated & unsuccessful diversification, or unsuccessful geographic expansions. As we head into Quarter 4, pull the plug on projects that are value destroyers – redeploy assigned resources for other core projects.

Recession also offers great buyout opportunities, including fundamentally strong businesses, sometimes available at deep discounts. However attractive it may seem, instead of buying 'white elephant' companies, focus on buying single-product companies. Such companies are often leaner, the value is preserved in the product IP (Intellectual Property) & brand, and don't have the overheads of larger companies.

Acquiring companies in this phase offers various synergies:

- **A larger vendor/supplier base** - Rationalizing the supplier bases of both/all organizations gives your company access to a more refined pool of trusted, competent suppliers

- **Economies of scope** - Overheads get shared and help you to optimally utilize your operational capacity

Additionally, undertake CLM (Contract Lifecycle Management) & due diligence processes to understand the risks, and harmonize them to your organization's guidelines.

Recessions can create vast and long-standing performance gaps between companies. Digital technology can either help you close the gap, or it can widen the chasm. Come the next recession, companies that neglect digital transformations may find themselves staring down the abyss.

References:

How Long Do Recessions Last? When Are They Over? (forbes.com)
How to Survive a Recession and Thrive Afterward (hbr.org)
Global-ceos-expect-recession-to-be-mild-and-short-kpmg-survey

ZYCUS
COGNITIVE PROCUREMENT

Zycus is the pioneer in Cognitive Procurement software and has been a trusted partner of choice for large global enterprises for two decades. Zycus has been consistently recognized by Gartner, Forrester, and other analysts for its Source to Pay integrated suite.

Zycus powers its S2P software with the revolutionary Merlin AI Suite. Merlin AI takes over the tactical tasks and empowers procurement and AP officers to focus on strategic projects; offers data-driven actionable insights for quicker and smarter decisions, and its conversational AI offers a B2C type user-experience to the end-users.

Zycus helps enterprises drive real savings, reduce risks, and boost compliance, and its seamless, intuitive, and easy-to-use user interface ensures high adoption and value across the organization.

Start your #CognitiveProcurement journey with us, as you are #MeantforMore.