

THE BEST RUN



Getting closer to **see further**

**Procurement can embrace
advanced analytics to predict
and manage supplier risk**

**Agile Procurement
Insights Research
by SAP**

in collaboration with



**OXFORD
ECONOMICS**

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Executive summary

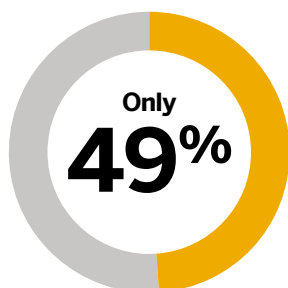


Supplier risk is at the forefront of executives' minds following the widespread disruption in 2020. COVID-19 went far beyond organizations' stress tests and changed our perception of business risk. **Practices deemed acceptable in prior years now seem risky.**

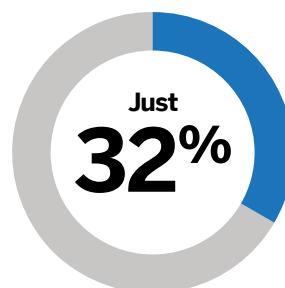
SAP, in collaboration with Oxford Economics, surveyed 1,000 procurement and supply chain executives in 23 countries to understand the impact of technology and process digitization in the procurement function. In this **Agile Procurement Insights Research**, one of the areas we studied was supplier risk — how organizations are managing it, the challenges they face, and where they need to improve. This report focuses on the findings specific to supplier risk.

At first glance, it appears that executives have made progress in supplier risk management — a key role of Procurement. Two-thirds of executives say their procurement function is adept at mitigating risks with suppliers.

However, a closer look at the survey responses reveals many vulnerabilities. Only half of executives regularly refresh risk mitigation plans to address potential disruptions, and just one-third say their procurement function's supplier risk management is highly effective.



of executives regularly refresh risk mitigation plans to address potential disruptions



of executives say their procurement function's supplier risk management is highly effective

Advanced analytics could help executives get a better grasp on supplier risk, yet the technology is underutilized. For example:

- While 57% of executives say their procurement function interprets and makes recommendations automatically based on third-party data about shipping disruptions impacting tier 1 suppliers, that drops to 39% for tier 2 suppliers.
- Only 44% say their procurement function interprets and makes recommendations automatically based on third-party data about geopolitical influences impacting tier 1 suppliers, and fewer still (23%) when it comes to tier 2 suppliers.

Furthermore, years of supplier optimization has led to over-reliance on too few suppliers and increased risk:

- Only half of executives can quickly find alternative sources of supply.
- More than half (53%) of executives who manage direct spend say their organization has one or more products that it purchases from only one supplier — which can be risky in the best of times, especially for a critical product.

Poor visibility presents other challenges. Fewer than half of executives have near-real-time or real-time visibility to inventory levels in their own facilities or in supplier facilities. This makes it difficult to predict and prevent product shortages and overages.

In our **Agile Procurement Insights Research**, we identified a group of leaders who outshine others. They outperform in their investment and adoption of procurement technology, automation and AI, and other key parts of procurement transformation. Read on to discover where leaders are outperforming others on supplier risk, and where they need to improve.

**Only
half**

**of executives
can quickly
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sources of supply
when needed**

**Fewer than
half**

**of executives have
near-real-time or
real-time visibility
into inventory levels**

We found that leaders are slightly ahead of other organizations in managing supplier risk — but not by much. Supplier risk remains a key challenge and top priority for all organizations.



Introduction

The need to prepare for disruption

For many executives, COVID-19 was an unwelcome wake-up call. Overnight, organizations realized they had huge gaps in visibility of suppliers.

All of a sudden, companies' risk mitigation plans seemed inadequate. What was deemed acceptable in prior years now seems risky.

We have entered a new era in business, which author and thought leader Peter Hinssen calls the “never normal.”¹ Uncertainty is a given and we must learn to live with it. We must anticipate and be ready for disruption — for example, from geopolitical forces or extreme weather events. **Organizations must act now to bolster their supplier risk strategies and protect their businesses.**

As part of our **Agile Procurement Insights Research** in collaboration with Oxford Economics, we checked the pulse of supplier risk management across 14 industries in 23 countries. At first glance, it appears that executives have made progress in supplier risk management — a key role of Procurement. Two-thirds of executives say their procurement function is adept at mitigating risks with suppliers.

Yet many of their actions tell a different story.

Organizations must act now to bolster their supplier risk strategies and protect their businesses.

Challenges in supplier risk management

Our research revealed vulnerabilities in organizations' supplier risk management strategies.

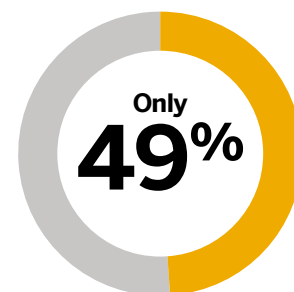
- Only half of executives regularly refresh risk mitigation plans to address potential disruptions.
- Just one-third say their procurement function's supplier risk management is highly effective.

After years of supplier optimization, organizations are over-reliant on too few suppliers. This increases risk.

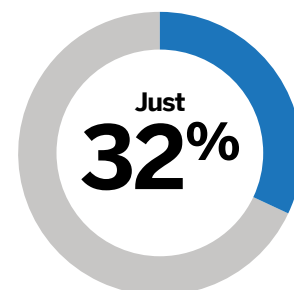
- Only half of executives can quickly find alternative sources of supply when needed.
- When it comes to direct spend, more than half (53%) of executives say their organization has one or more products that it purchases from only one supplier.

Poor visibility is another key issue. Fewer than half of executives have near-real-time or real-time visibility to inventory levels in company facilities (48%) or in supplier facilities (46%).

With such limited insight, organizations cannot react fast to unforeseen circumstances, such as a sudden supply disruption or a peak in customer orders.



of executives regularly refresh risk mitigation plans to address potential disruptions



say their procurement function's supplier risk management is highly effective



How leaders compare

In our **Agile Procurement Insights Research**, we identified a group of leaders — about 10% of executives — who outshine others. They are head and shoulders above the rest in their investment and adoption of procurement technology, automation and AI, and other key parts of procurement digital transformation.

Yet, when it comes to supplier risk, it's a different story. **Leaders are slightly further ahead of others in mitigating supplier risk, but they still have a long way to go.** Let's look at where leaders outperform others, and where they must improve.

Planning for the “never normal”

To stay on course in the turbulent “never normal,” organizations must navigate the headwinds of change, and anticipate and prepare for disruption.

Businesses need much better visibility into supplier risk, and fast access to alternative suppliers if disruption strikes.

The Deloitte 2020 CPO Flash Survey highlights room for improvement, revealing that 90% of organizations have moderate to very low visibility into their extended supply networks. That's a serious issue, given that most supply continuity failures are attributable to issues beyond tier 1 suppliers.²

Our research shows that even leaders aren't ready for the "never normal."

While leaders are more likely to say their supplier risk management is highly effective (49% of leaders versus 30% of others), they don't always fare better.

All organizations should put more effort into re-evaluating their supplier mix to meet business needs, refreshing risk mitigation plans on a regular basis, and segmenting suppliers based on risk level and category.

Fig. 1: Leaders are only slightly ahead of others in supplier risk management

Percentage of organizations that "agree" or "strongly agree" with the following statements about their procurement function

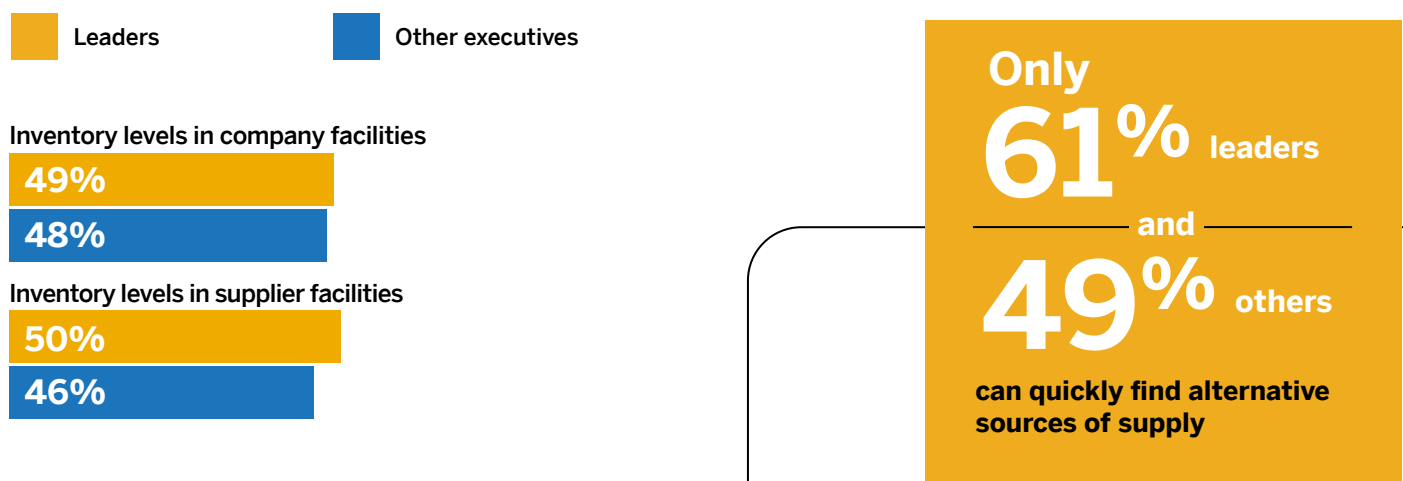


Getting a better grasp of inventory

Leaders and others alike need better visibility into inventory levels both in their own facilities and within supplier facilities. Inventory visibility is crucial for filling customer orders on time and addressing supply disruptions.

Fig. 2: Organizations have poor visibility of inventory levels

Percentage of procurement functions that have near-real-time or real-time data in the following areas



Building “just-in-case” supply chains

It's striking that only 6 out of 10 leaders are able to quickly find alternative sources of supply.

After years of supplier optimization, the pendulum may have swung too far, leaving many procurement functions over-reliant on too few suppliers. This creates risk and makes it hard for Procurement to respond quickly if suppliers experience disruption.

Ian Bremmer, President and Founder, Eurasia Group and GZERO Media, says that **more organizations need to shift their focus from just-in-time supply chains to “just-in-case” supply chains.**

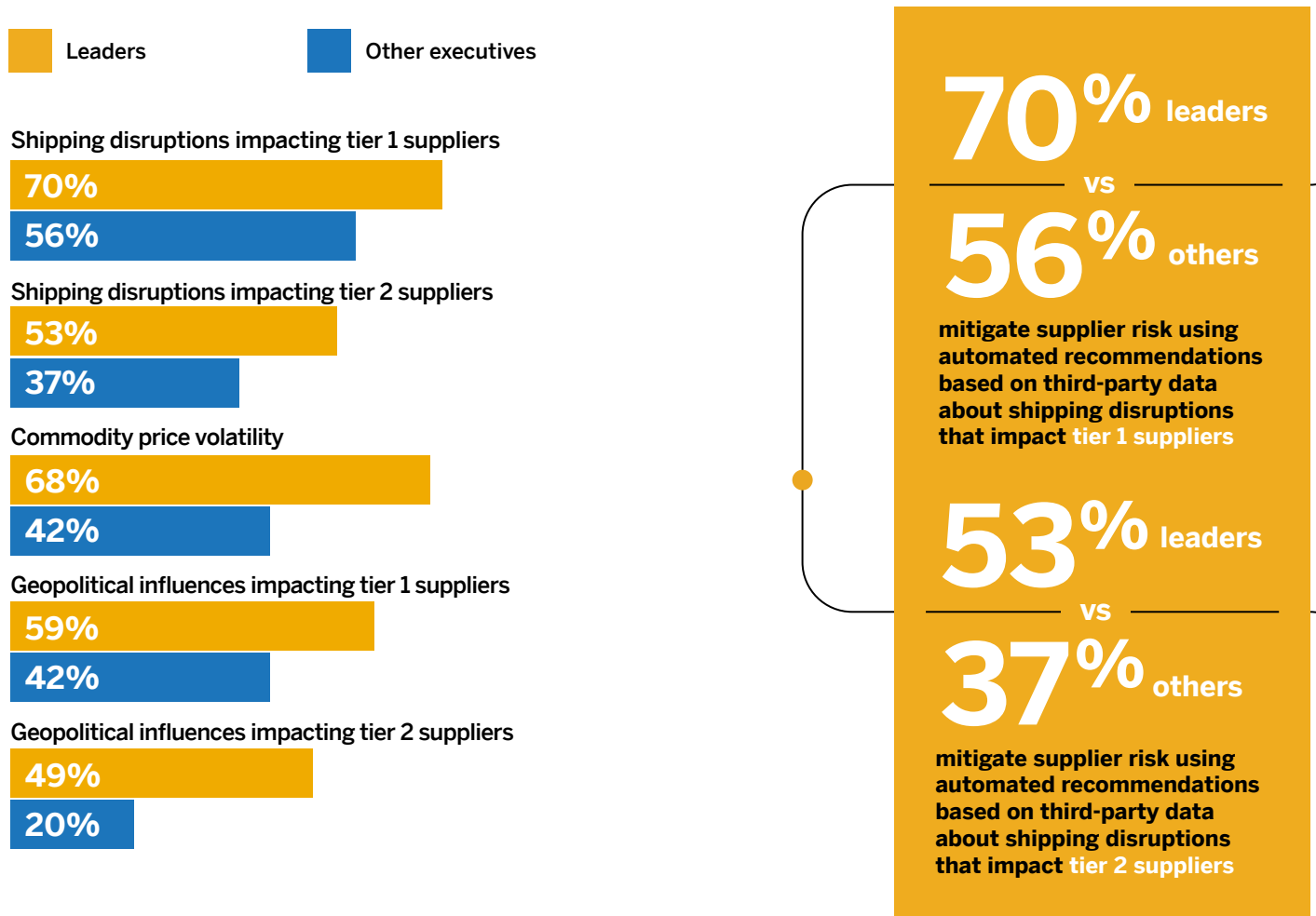
Many organizations are now working to course-correct. The Deloitte 2020 CPO Flash Survey reveals that 47% of procurement executives are planning to expand their overall supply base. This shows a significant change in direction away from supplier rationalization.³

Unlocking more value from third-party data

Leaders can respond faster to the unexpected, using automated recommendations based on third-party data about suppliers. However, even leaders should make greater use of third-party data to help anticipate and mitigate potential disruptions.

Fig. 3: Leaders make greater use of third-party data to mitigate supplier risk

Percentage of procurement functions that automatically intake, interpret, and make recommendations based on the following types of third-party data



Gaining visibility into supplier performance

All organizations struggle to gain visibility into supplier performance. 48% of leaders (and 46% of others) say that gaining visibility into vendor performance is challenging.

When it comes to supplier performance management, leaders are slightly ahead, although there's still ample room for improvement. Only 54% of leaders say that their procurement function is highly effective at supplier performance management, versus just 31% of others.

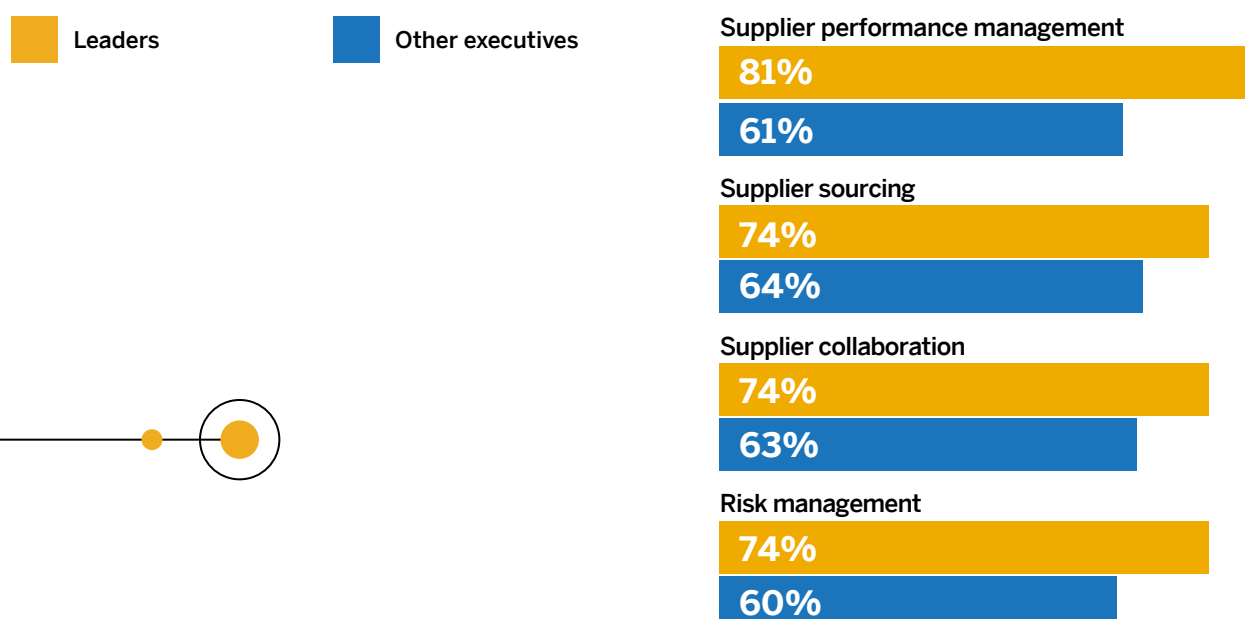
Issues remain all too common for leaders and others alike. In fact, 37% of leaders (and 49% of others) experience supplier performance issues. **Perhaps improved visibility and closer collaboration with suppliers would translate into fewer issues downstream.**

Reaping the benefits of procurement digital transformation

Leaders are realizing greater benefits from procurement digital transformation in various areas that affect supplier risk. For example, leaders are better at managing supplier performance, collaborating closely with suppliers, sourcing new suppliers when needed, and managing risk.

Fig. 4: Leaders realize stronger benefits from procurement digital transformation

Percentage of executives who say digital transformation of their procurement function has generated a “moderate” or “significant” improvement in the following areas





Conclusion

Reducing supplier risk is a top priority

For years, Procurement has focused on supplier rationalization, building lean just-in-time supply chains, and consolidating spend with fewer suppliers to get the best prices. All that has changed.

Yesterday's supplier risk strategies just don't cut it anymore.

In the “never normal,” organizations must focus on anticipating and preparing for disruption. Companies must gain visibility into potential disruptions that may affect suppliers, avoid over-reliance on single suppliers where possible, and be ready to find alternative suppliers when needed.

Leaders are a step ahead of others. They take a slightly more proactive approach to risk mitigation, and their stronger use of data, analytics and automation help them respond more rapidly to emerging risks. Leaders also realize greater benefits from procurement digital transformation, including stronger supplier collaboration and performance.

But digitization is just the first step. To mitigate risk more effectively, organizations must embrace advanced analytics and make better use of third-party data about potential disruptions to suppliers.

What's more, they must work to gain better visibility of inventory levels and supplier performance. **Reducing supplier risk is a top business priority, and all organizations must rise to the challenge.**

Steps to mitigate supplier risk

Based on our research findings, we've come up with seven steps you can take to start managing supplier risk more effectively:

1. **Aim for end-to-end supplier visibility.** Visibility is critical to anticipating and mitigating risk. It's not enough to have visibility to tier 1 suppliers. You need to think about tier 2 and tier 3 suppliers, too.
2. **Get real-time insight into inventory levels,** both in your own facilities and in supplier facilities.
3. **See risk management as a continuous exercise.** Risks change all the time, so you must regularly refresh risk mitigation plans to protect the business.
4. **Involve suppliers in your risk management — and don't stop at tier 1 suppliers.** Suppliers may have unique insights into potential disruptions, so their input can strengthen your strategy.
5. **Diversify your supply base,** and avoid over-reliance on single suppliers as much as possible.
6. **Have a back-up plan.** Make sure you can quickly find alternative suppliers, such as via a supplier network.
7. **Retool your organization so that you can act with speed and agility.** You can unlock real value by embracing advanced analytics and AI, and investing in data science skills.

Research methodology



What makes a leader?

Around 10% of executives in our **Agile Procurement Insights Research** outshine the others. To identify these leaders, we analyzed executives' responses in four areas:

- Process automation
- Data-driven decision-making
- Use of technology to influence the business
- Challenges in managing procurement

Our segmentation was based on responses to the following four questions from the survey. Leaders had to meet all four of these criteria:

1. To what extent have you automated procurement processes in your organization?

Leaders say "most processes are automated" or "processes are entirely automated."

2. How often does your procurement function use data to inform decision-making?

Leaders "always" or "frequently" use data to inform decision-making.

3. To what extent do you agree with the following statements about your procurement technology?

Leaders "agree" or "strongly agree" that their procurement technologies enable them to make data-driven decisions about spend across the organization, and/or that their procurement technologies provide data they need to make strategic recommendations and influence the business.

4. How challenging are the following aspects of managing procurement across your organization?

Leaders say "minimally challenging" or "not a challenge" for at least six of the following options:

1. Reducing unauthorized (maverick) spend
2. Gaining real-time visibility into transactions (e.g., invoices, payments)
3. Gaining real-time visibility into spend
4. Consolidating spend to realize volume discounts
5. Managing tail spend
6. Invoice reconciliation and matching
7. Gaining visibility into vendor performance
8. Tracking quality of goods or services
9. Need to use multiple vendors' technologies throughout the procurement process
10. Using different systems for different kinds of spend (e.g., direct, indirect, services, contingent workers)
11. No or poor integration between procurement technologies

About the research

SAP, in collaboration with Oxford Economics, conducted robust global research to understand Procurement's influence on the organization, the current state of supplier collaboration, and the impact of technology and process digitization in the procurement function. We wanted to find out whether companies that embrace technology and closer supplier collaboration are more agile and can respond more effectively to disruption. In June 2020, we surveyed 1,000 procurement and supply chain executives responsible for direct spend, indirect spend, and management of contingent labor and services providers.

Geographical reach

Respondents come from 23 countries in four regions:

- Asia Pacific: Australia, India, Japan, Singapore
- Europe: Austria, Belgium, Denmark, Finland, France, Germany, Italy, Luxembourg, Netherlands, Norway, Spain, Sweden, Switzerland, United Kingdom
- Latin America: Brazil, Colombia, Mexico
- North America: Canada, United States

Industry reach

Respondents represent a broad range of B2B and B2C industries: automotive (manufacturers and tier 1 suppliers), banking, chemicals, consumer products, heavy industrial/manufacturing, high tech, insurance, life sciences/pharmaceuticals, oil and gas, professional services, public sector (federal, state), retail, telecommunications, and utilities.

Company size

A range of company sizes are represented in the survey (figures indicate annual revenue):

- 10% \$500 m–\$999 m
- 35% \$1 bn–\$4.9 bn
- 40% \$5 bn–\$19.9 bn
- 15% \$20 bn or more

Executive profile

Respondents are:

- 33% C-level
- 33% VP/Direct reports to the C-level
- 34% Directors

Functions represented are:

- 80% Procurement
- 20% Supply chain

Kickstart your procurement digital transformation

We have distilled the [Agile Procurement Insights Research](#) findings into five reports — including this one.

Read the other research reports:

Dig deep into technology, automation and data/analytics:

[Procurement-powered performance: How digital transformation is elevating Procurement](#)

Boost ROI and reduce risk from your contingent labor and services spend:

[Agility isn't always on the payroll: Gain full visibility of your external workforce to help you drive better business outcomes](#)

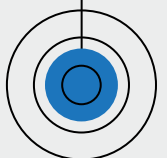
Learn the 3 ways you can better

manage your direct spend: [Close collaboration that goes beyond transactions: direct spend leaders engage with essential suppliers to improve performance](#)

Find out what leaders do that sets them

apart: [Leaders aim higher: Elevating the strategic value of Procurement to the business](#)

For more information about the research, please visit: [Agile Procurement Insights Research](#)



¹ <https://www.peterhinssen.com/>

² <https://www2.deloitte.com/us/en/pages/operations/articles/procurement-strategy-2020-cpo-flash-survey.html>

³ Ibid