

**Building bridges:
How to strengthen
the procurement /
supplier relationships**

About the research

In this report, we examine how companies are managing their suppliers amid the backdrop of recent global challenges and economic uncertainty. Building on the foundational insights presented in the first paper in this series, which explored the key priorities and challenges facing the procurement function, this report focuses on supplier management as a critical supply chain process in ensuring continued business success and resilience. It explores existing perceptions and trends in three key areas of supplier management: risks, relationships and innovation.

This research programme is underpinned by a global survey of 500 C-level executives conducted by Economist Impact and sponsored by SAP. Executives across organisational functions—including chief financial officers (CFOs), chief operating officers (COOs), chief procurement officers (CPOs), chief supply chain officers (CSCOs) and chief human resources officers (CHROs)—participated in this survey. The objective was to explore how businesses and industries are transforming procurement to meet existing and emerging challenges amid disrupted supply chains, rising costs and growing uncertainty. The research also examines trends regarding the future of procurement to ensure the function's optimisation.

The key findings of this report are:

- **Limited visibility is an increasing risk to supply chains:** almost a third (30%) of executives cite supply chain visibility as their organisation's top risk factor for procurement focus, up from 16% in 2022.
- **Narrow internal perceptions about procurement restrict its ability to advance strategic engagements:** procurement must better align with other functions to be properly recognised for the importance of its work. Our survey finds that more than a third of respondents were not confident in procurement's ability to manage internal (36%) and external (38%) risks, including supplier risks.
- **Co-creation with suppliers could generate greater co-benefits:** procurement teams are falling short on internally communicating their supplier management capabilities as well as moving towards a people-centred approach. This misalignment with the business is underscored by 44% of executives expressing a lack of confidence in procurement's ability to establish long-term and effective supplier relationships.
- **Technology could facilitate more comprehensive supply-side monitoring and evaluation:** analytics and intelligence focused technologies have the potential to facilitate real-time visibility. Executives are planning to deploy technology to improve user experience (28%) and supplier relationships (26%) to operationalise greater efficiencies, better manage data discrepancies and reduce supply risks in the near term.

Economist Impact gratefully acknowledges the technical experts (listed below) who provided guidance in their personal or professional capacities. The paper's findings do not necessarily reflect the views of the experts or their organisations:

- Philip Ideson, founder, Art of Procurement
- Peter Smith, managing director, Procurement Excellence

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The survey findings were supplemented by interviews with executives and experts across various regions and sectors. Economist Impact would like to thank the following experts for their time and insights (listed alphabetically by surname):

- Alan Day, CEO and founder, State of Flux
- Pradip Khemani, vice president of global business services and health trend solutions, Blue Shield of California
- Marcos Eloi Lima, CPO, The Kraft Heinz Company
- Jon Willescroft, international procurement director, G4S

Economist Impact and SAP are grateful for and remember the late David Latten, head of global indirect procurement and supplier diversity and equality at Logitech. We appreciate his enthusiastic participation and valuable insights, provided before his untimely passing. We offer our deepest condolences to Mr Latten’s family and colleagues.



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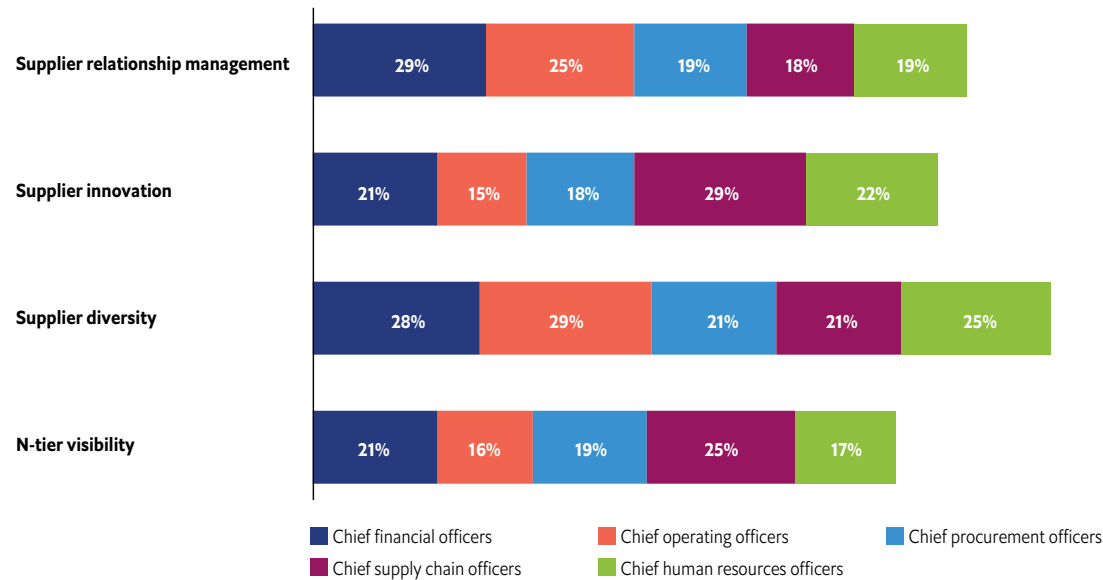
Introduction: Suppliers in the spotlight

Business leaders have faced several challenges in keeping their supply chains effective and efficient as a result of supply-side risks.

For instance, macroeconomic pressures resulting in currency fluctuations and rising inflation have heightened the risk of being unable to meet existing contractual obligations. At the same time, this environment has revealed business vulnerabilities, such as gaps in category strategy and supply visibility.

For procurement, the focus has historically been on procure-to-pay processes rather than supply management, according to Alan Day, CEO and founder of State of Flux. A 2022 State of Flux study indicates that companies' competence in supplier management is misguided. Mr Day explains that this is because many (~91%) companies haven't sufficiently invested in their people, processes and technology on supplier management.¹

Figure 1: Organisations plan to enhance procurement value through supplier management



Source: Economist Impact, 2023

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¹ State of Flux. 2022. "2022 Global SRM Research Report - Building Resilience". [https://www.stateofflux.co.uk/reports-and-publications] Accessed July 28, 2023.

As the impacts of supply-side disruptions continue to be felt, those in the C-suite are looking to better understand their supplier networks. The 2023 Economist Impact survey assesses how senior leaders view procurement's place in the enterprise. It shows that companies plan to prioritise various aspects of supplier management to unlock value in procurement over the next 12-18 months, with key areas of focus including supplier diversity (25% of respondents), supplier relationship management (22%), supplier innovation (21%) and N-tier visibility² (20%).


Stemming from a lack of supply visibility in recent years, the focus on supplier management in the survey results underscores the importance placed on transparency, including greater collaboration and information sharing by the C-suite.



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² N-tier or full-tier visibility refers to having complete visibility across the various layers of the supply chain, including from the first line of direct suppliers to all the indirect subcontractors and vendors linked to suppliers.

A woman with blonde hair and glasses, wearing a light blue shirt, is speaking and gesturing with her hands. She is looking slightly to the right of the camera. The background is blurred, showing a wooden chair and a plant.

“The evolution of the procurement function is directly related to the way it can connect itself with the strategic priorities of the business, going beyond spend management.”

**Marcos Eloi Lima, CPO,
The Kraft Heinz Company**

Chapter one: Supplier risk management

Seeing through the supply cracks

Supply chain visibility was the top priority for a third of the C-suite in managing organisational risks for procurement, according to our survey. A year-on-year comparison shows that organisational risk priorities have changed considerably, likely owing to external risks (eg geopolitical shifts, supplier threats, liquidity risks) impacting supply chains. Most significantly, more and more executives chose to focus on supply chain visibility, rising from 16% in 2022 to 30% in 2023.

As gaps in supply visibility surface, supply chain and procurement leaders find themselves at a crossroads.³ They must minimise quality risks while guaranteeing value in the short term and the long term. In the short term, supply chain and procurement leaders need to ensure supply security and manage the known risks. At the same time, they need to reduce the uncertain or unknown risks by innovating and improve the way in which programmes are costed out.

This focus on gaining end-to-end supply chain visibility is demonstrated in the survey. Executives selected supplier relationship management and operating model changes as the second and third most important focus areas for managing organisational risks in the coming 12-18 months.



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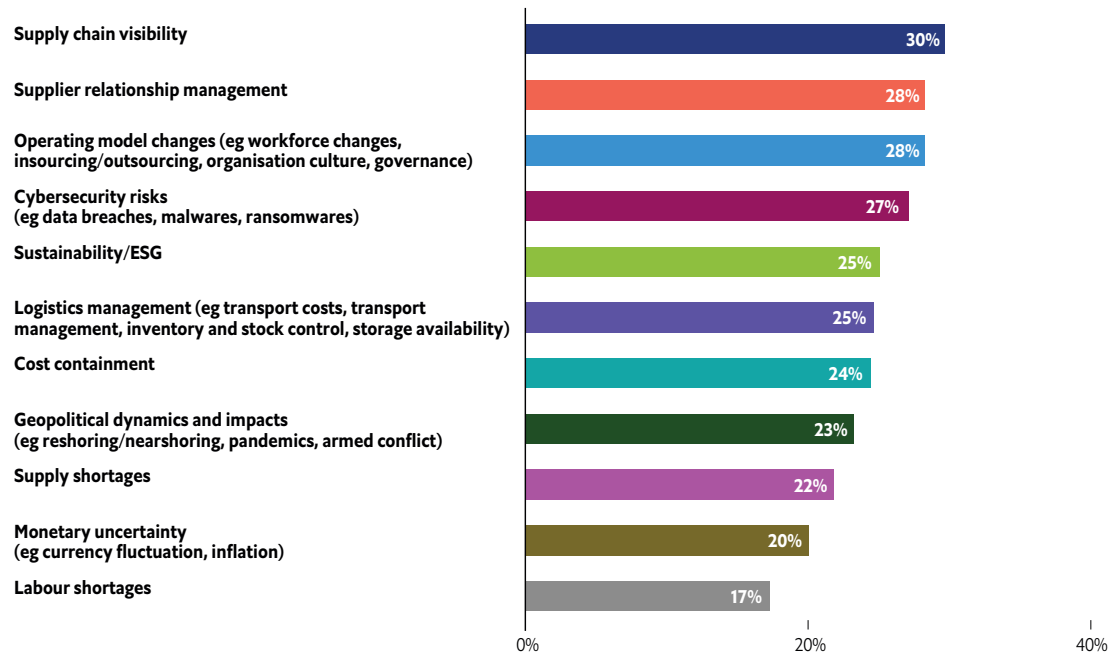
³ Economist Impact, June 1, 2023. "Decoding confidence in the procurement function". [https://impact.economist.com/projects/the-procurement-imperative/decoding-confidence-in-the-procurement-function-whitepaper/] Accessed July 25, 2023.

Mainly privy to their most critical, tier-1 suppliers, procurement leaders are revisiting how their teams have navigated risks down their supply chain in the last two to three years.⁴ This requires going beyond the traditional risk management processes and aligning procurement processes, particularly supplier management, with business objectives.⁵

As a starting point, procurement teams must first gain a deeper understanding of strategic business priorities and then communicate these to their suppliers.

Marcos Eloi Lima, CPO of The Kraft Heinz Company, agrees, saying that “the evolution of the procurement function is directly related to the way it can connect itself with the strategic priorities of the business, going beyond spend management”.

Figure 2: C-suite top priorities for managing organisational risk over the next 12-18 months



Source: Economist Impact, 2023

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⁴ Deloitte. April 23, 2021. "Agility: The antidote to complexity. Deloitte 2021 Global Chief Procurement Officer Survey". [https://www2.deloitte.com/content/dam/insights/articles/6838_Agility-the-antidote-to-complexity/DI_Agility-the-antidote-to-complexity.pdf] Accessed July 31, 2023.

⁵ The Hackett Group. January 2022. "2022 Key Issues". [https://info.ivalua.com/hubfs/ivalua-Hackett-2022-Procurement-Key-Issues-Report.pdf] Accessed July 31, 2023.

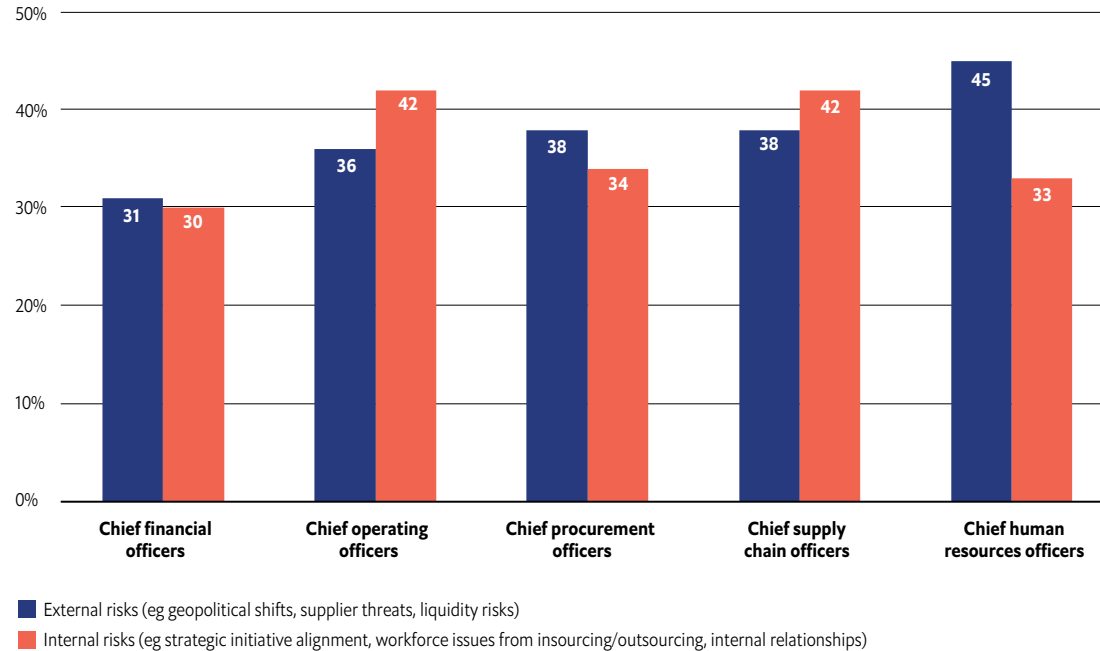
Calibrating procurement capabilities with business priorities

Indeed, procurement’s first hurdle for going beyond its traditional capabilities emerges from inside the organisation. This is due to its poor reputation for collaboration with other stakeholders, which has resulted in delayed engagements and its restriction to being a tactical function.

In line with this, nearly 38% of the surveyed executives selected that they were not confident in their procurement teams’ ability to manage external risks, such as geopolitical shifts, supplier threats and liquidity risks.

Among the C-suite, CHROs (45%), CPOs (38%) and CSCOs (38%) notably cited a lack of confidence in the function’s risk management capabilities. This suggests gaps in procurement’s alignment with the rest of the organisation, either due to limited communication regarding its organisational goals and/or poor perception of the function’s relationships with its suppliers, which has often been highlighted during recent crises.⁶

Figure 3: Lack of C-suite confidence in the procurement function’s risk management capabilities



Source: Economist Impact, 2023

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6 Future of Sourcing, Sourcing Industry Group. February 16, 2022. "The role of procurement: from chaos to clarity". [https://futureofsourcing.com/the-role-of-procurement-from-chaos-to-clarity] Accessed July 25, 2023.

This perception is most evident among executives based in Asia-Pacific (APAC), with more than half of these executives (56% in APAC vs 26% in Europe, the Middle East and Africa, and 31% in the Americas) expressing a lack of confidence in their procurement teams' ability to manage such risks. The drop in confidence among APAC executives could be attributed to a combination of procurement teams' maturity and capability gaps in the region, as well as the wide variation in laws, standards and types of suppliers encountered, suggests Jon Willescroft, international procurement director at G4S.

An understanding of suppliers beyond the first tier is critical for procurement to anticipate and prevent future supply shortages, which features as a key priority for managing organisational risk for 22% of surveyed executives.



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7 Sourcing Industry Group, March 9, 2022. "Tracking the evolution of procurement and where it's going next". [https://futureofsourcing.com/tracking-the-evolution-of-procurement-and-where-its-going-next] Accessed August 3, 2023.
 8 GEP, December 22, 2022. "5 Key challenges in sourcing (and how to overcome them)". [https://www.gep.com/blog/Strategy/challenges-in-sourcing-and-how-to-overcome-them] Accessed August 3, 2023.
 9 Harvard Business Review, April 21, 2023. "When Scenario Planning Fails". [https://hbr.org/2023/04/when-scenario-planning-fails] Accessed July 31, 2023.

Strategies and tools for supply risk management

Sourcing strategies have been an avenue for procurement teams to manage risks across the supplier tiers, by moving away from single-sourcing towards multi-sourcing in their quest for greater resilience.

This shift, however, is not enough to build supply resilience. Mr Day observes that sourcing is currently not as well thought-out as it ought to be, especially among non-consumer goods or consumer packaged goods organisations that still don't even know who their tier-one suppliers are.

Mr Willescroft also explained that more caution around single-sourcing without contingency measures is not just about having more than one supplier, but also finding options within different markets. "What's important is that companies ensure their suppliers have really clear business continuity plans," he says, going on to highlight that this can be achieved through diversifying sources and/or further understanding the supplier's business and, therefore, the risks they might be facing.

As procurement transforms from a cost-controller function to one that provides stability and continuity for the business, robust supplier portfolios and better-informed supplier choices will be critical to increase their understanding of the risks faced through suppliers.⁷

Notwithstanding a lack of resources and budget to strengthen their supplier coverage,⁸ companies are adopting scenario planning to reduce the risks arising from black-swan events. These exercises could enable procurement teams to develop flexible, long-term plans and improve N-tier visibility. In recent years, some Nordic businesses have been focusing on increasing the number of scenarios covered; they are studying key parts of the business, especially the vulnerabilities, and building strong internal communication with more general guidelines on how to handle all kinds of scenarios.⁹

Mr Day notes that covid-19 and other environmental events, such as the ash clouds from Iceland, have driven more scenario planning in sourcing strategies, but a gap persists. "I don't think there's enough work being done to say that if we as corporations are planning for certain risks, then we have also planned for if it happens to our suppliers and how they cope with it."

How companies manage supply disruption, whether due to geopolitical or macroeconomic risks, will contribute to their ability to ultimately become the customer of choice. There are a few contributing factors, according to Mr Willescroft. "Where you've got a real risk, how do you ensure that if something goes wrong, that supplier is going to favour you as a customer and not someone else? How are you going to get primacy in the relationship? And that really comes back to long-term commitments around the relationship and about how you work with suppliers."

As procurement starts to recognise that its poor reputation for collaboration limits its ability to remain important within and outside the organisation, it is expected that relationship management will feature as a significant procurement priority going forward.

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7 Sourcing Industry Group. March 9, 2022. "Tracking the evolution of procurement and where it's going next". [https://futureofsourcing.com/tracking-the-evolution-of-procurement-and-where-its-going-next] Accessed August 3, 2023.

8 GEP. December 22, 2022. "5 Key challenges in sourcing (and how to overcome them)". [https://www.gep.com/blog/Strategy/challenges-in-sourcing-and-how-to-overcome-them] Accessed August 3, 2023.

9 Harvard Business Review. April 21, 2023. "When Scenario Planning Fails". [https://hbr.org/2023/04/when-scenario-planning-fails] Accessed July 31, 2023.

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Chapter two: Supplier relationship management

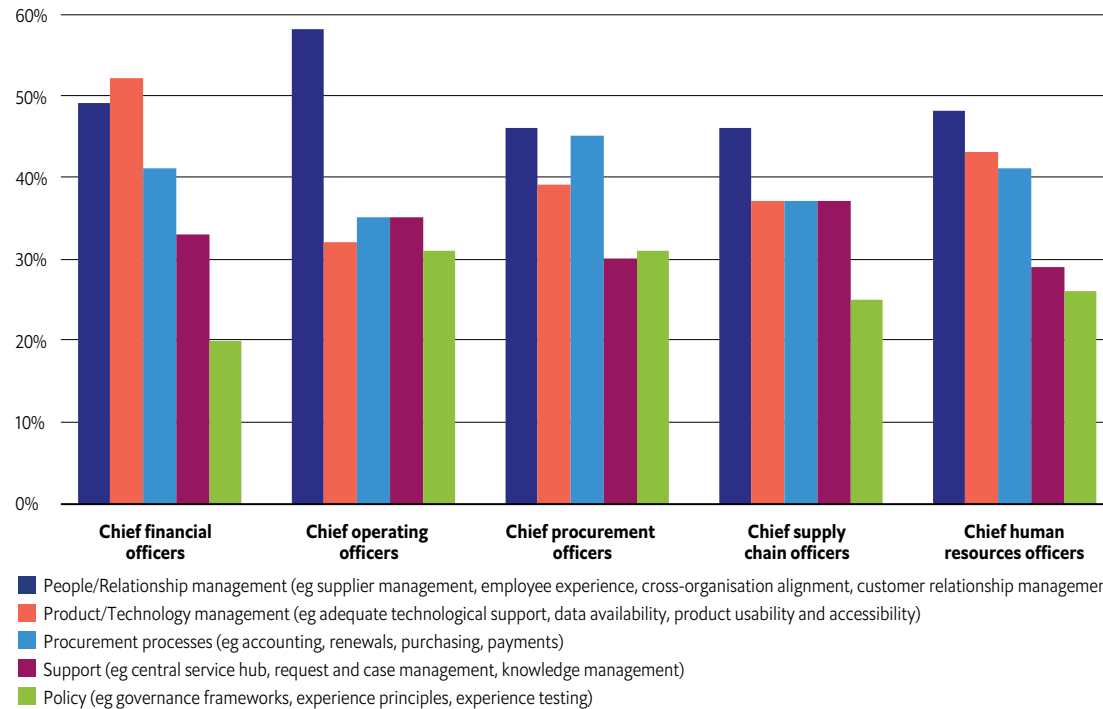
An increased emphasis on relationships

People/relationship management, including supplier management and employee experience, was selected as the top priority for executives to improve the procurement user experience (UX). This demonstrates the value of procurement UX appealing to both internal and external stakeholders, with the potential to generate greater value.

However, given CFOs' and COOs' priorities, to whom many procurement teams are reporting, and the function's increasing reliance on suppliers to meet business demands, supplier relationship management (SRM) is expected to feature as a key procurement priority in the near future.

For Mr Lima, suppliers are an extension of companies, with growth, efficiency, innovation, and enhancing environment, social and governance (ESG) credentials as common goals for managing customer and supplier relationships. "We are always going to have some tensions discussing commercial terms and issues regarding supply or quality from time to time, but if we restrict our relationship to those elements, we do not explore the opportunity of the complementary capabilities that a company has."

Figure 4: C-suite plans to improve procurement user experience



Source: Economist Impact, 2023

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Collaborating with suppliers to unlock greater value

Procurement’s ability to identify and match suppliers with the appropriate skills and values to the right contracts could make a difference between what works in the short and long term. For procurement teams, this also means integrating procurement and business talent. This could be achieved through training for relationship building and accountability when managing vendors, suggests Pradip Khemani, vice president of global business services and health trend solutions at Blue Shield of California.

Traditionally when determining their supplier of choice, procurement has not fully capitalised on the opportunity to co-create and develop mutually beneficial relationships with their suppliers to become their customer of choice. This is a missed opportunity to share strategic information, provide long-term visibility and follow through on commitments.¹⁰



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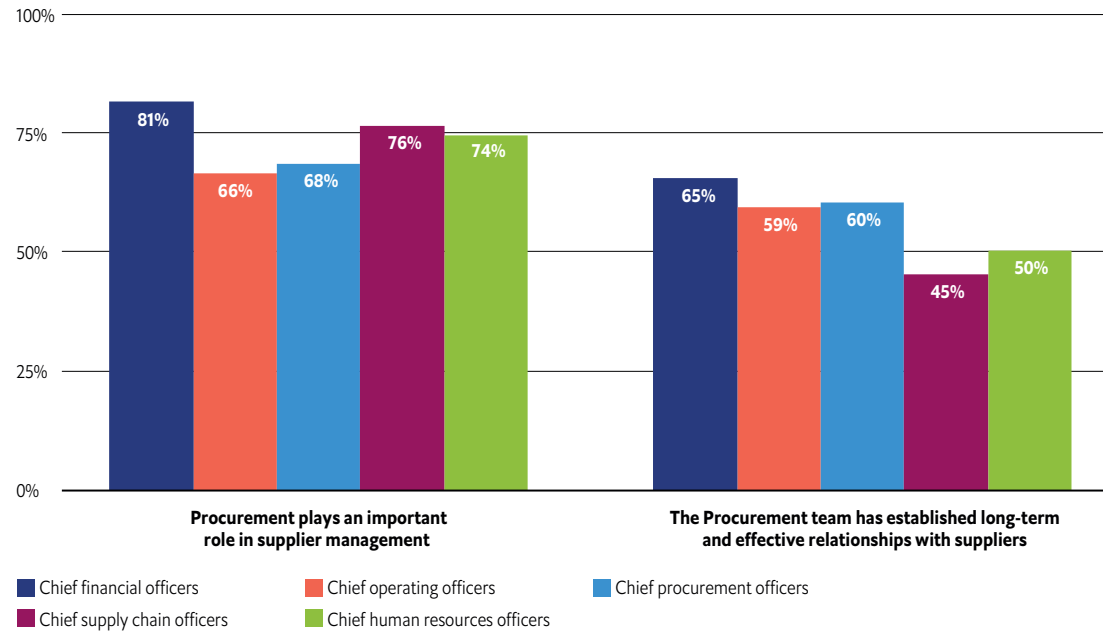
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¹⁰ Procurement Magazine, July 4, 2023. "The strategic benefits of supplier relationship management". [https://procurementmag.com/articles/the-strategic-benefits-of-supplier-relationship-management] Accessed July 25, 2023.

Mr Khemani emphasises the importance of mutually beneficial relationships, saying, “Ultimately, it’s all about value creation. If you deliver value, you deliver it consistently, and you become the trusted advisor, the [poor] perception [of procurement’s ability to manage suppliers] will automatically start to decline”.

According to our survey, 73% of the C-suite view the procurement function as playing a key role with their suppliers. Among the C-suite, however, procurement leaders expressed the least confidence in the importance of their teams’ role in managing suppliers. This underlines the growing need for procurement teams to, first, internally understand their own role in the organisation and supplier management and then communicate and action their goals and objectives for working with suppliers.

Figure 5: C-suite confidence in procurement’s supplier management capabilities



Source: Economist Impact, 2023

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11 Deloitte Insights. February 22, 2019. “Technology and the boardroom: A CIO’s guide to engaging the board”. [https://www2.deloitte.com/us/en/insights/focus/cio-insider-business-insights/boards-technology-fluency-cio-guide.html] Accessed August 01, 2023.

12 McKinsey & Company. July 07, 2020. “Taking supplier collaboration to the next level”. [https://www.mckinsey.com/capabilities/operations/our-insights/taking-supplier-collaboration-to-the-next-level] Accessed August 16, 2023.

Internal relationships are fundamental to better SRM

While fortifying its role in supplier management, procurement also grapples with a lack of buy-in from its internal stakeholders in relation to supplier relationships, which impedes its ability to become a customer-of-choice to the suppliers. Our survey shows that only 56% of the C-suite are confident in procurement teams having established long-term and effective relationships with their suppliers.

Across the C-suite, there is moderate confidence in procurement driving supplier relationships that go beyond cost reduction to include values and capabilities alignment and a long-term plan for collaboration. While CFOs, COOs and CPOs expressed some confidence (65%, 59% and 60% respectively), much work is required to persuade CSCOs (45%) and CHROs (50%) of procurement’s SRM capabilities. These low levels of trust continue to highlight procurement’s gaps in collaborating with the rest of the organisation, with supplier intelligence often left out of boardroom discussions and decision-making.¹¹

In order to pivot its focus towards a more strategic and long-term view of SRM and subsequently improve its internal reputation, procurement will need to tailor its value propositions for different stakeholders and evaluate supplier performance and satisfaction more closely.¹²

Improving procurement’s reputation among suppliers and the organisation could take a few years, especially when taking a closer look at the most critical and strategic suppliers and deepening those ties. However, Mr Lima explains that the response to these strategic relationships has been well worth the effort for them.

“Some of those suppliers were waiting for us, but we were not ready for it for many different reasons. Rebuilding this relationship with those suppliers, bringing them along with us and making them work together with us, complementing ourselves is really what is making a big difference for us,” says Mr Lima.



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¹¹ Deloitte Insights. February 22, 2019. “Technology and the boardroom: A CIO’s guide to engaging the board”. [https://www2.deloitte.com/us/en/insights/focus/cio-insider-business-insights/boards-technology-fluency-cio-guide.html] Accessed August 01, 2023.

¹² McKinsey & Company. July 07, 2020. “Taking supplier collaboration to the next level”. [https://www.mckinsey.com/capabilities/operations/our-insights/taking-supplier-collaboration-to-the-next-level] Accessed August 16, 2023.

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Chapter three: Supplier innovation

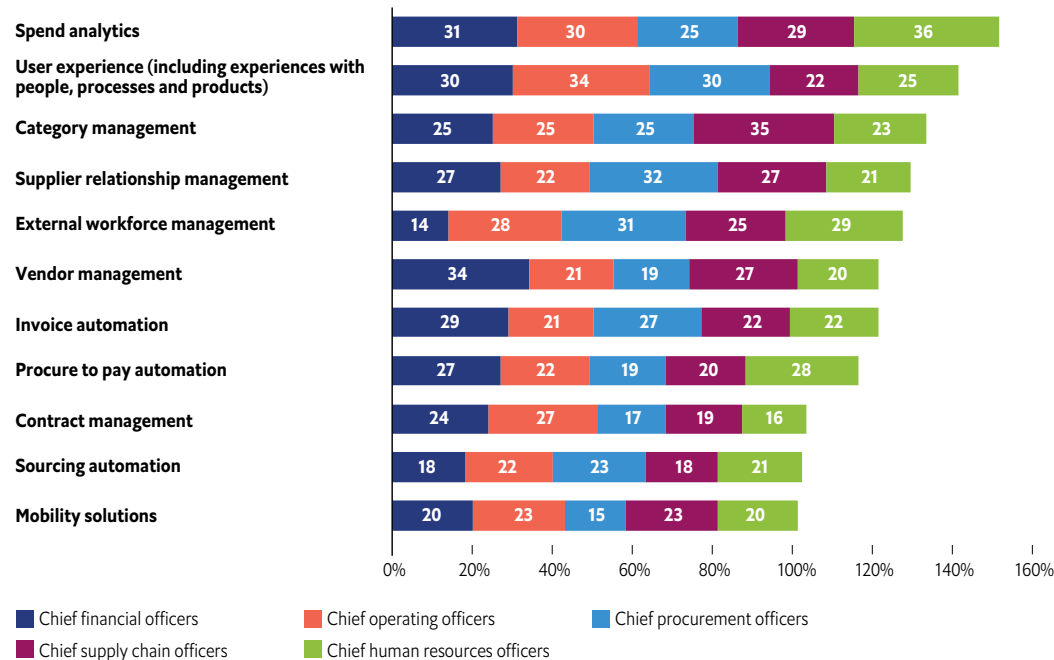
Enhancing supplier management through technology

Lessons drawn from supply chain disruptions over the last five years have highlighted the need for the procurement function to not only use innovation and technology to improve their supplier management capabilities, but also leverage their suppliers to innovate.

It is, therefore, unsurprising that SRM is one of the most important drivers for digital transformation in procurement, with a quarter (26%) of the C-suite selecting it. Most keen among the C-suite were procurement leaders, with 32% citing SRM as their top choice for driving digital transformation.

Companies, especially larger organisations with established SRM programmes, have embraced technology ranging from more basic documentation and analysis software to fully-integrated SRM

Figure 6: Drivers for digital transformation in procurement



Source: Economist Impact, 2023

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platforms. Mr Willescroft notes that uptake of this technology has been demand-driven “to get as close as you can to real-time data on the supply chain”.

The late David Latten, head of global indirect procurement and supplier diversity and equality at Logitech, also highlighted the value of suppliers in procurement innovation. He said, “Our [procurement’s] largest impact is in our external relationships. If you look at us through the stakeholder lens of the three Ps—people, profit, planet—the largest source of impact for that is in our supply base. The largest source of innovation is in our supply base.”

Studies also found that companies that involve their suppliers from the early stages of innovation projects fare better than companies that don’t. Even so, many companies do not do so for over 90% of their new projects.¹³

Many procurement teams have not yet tapped into their suppliers to combine capabilities, reduce risks and, ultimately, derive greater value from their relationships. In effect, procurement teams are missing out on the opportunity to leverage insights from their supply base (eg performance and contract compliance), resulting in more fractured supply chains and inefficiencies.¹⁴

The late Mr Latten explained why procurement must pay close attention to its role in managing suppliers for both innovation and resilience: “There’s no one better placed than procurement to manage the supply base because we [procurement] are at that pivot point between all the internal functions, their challenges, priorities, et cetera and we should be really well connected with all of our external potential solutions, those suppliers”.

Removing barriers to better supplier management

Historically, procurement teams have struggled to continually track and manage their suppliers as a result of limited resources, inconsistent standards across suppliers, and poor and scattered reporting on supplier performance.¹⁵

Recognising its own gaps in data collection and visibility of its supplier network, procurement is increasingly placing value on forward-looking data modelling to manage supplier risks and returns,¹⁶ which makes it easier to identify cost efficiencies and reduce suppliers costs to serve.

According to Mr Willescroft, procurement teams are pushing for technologies in areas where they believe the supplier sub-tier is a specific risk. For instance, unscreened labour, who are subcontracted by vendors, or distributors, who are working in different markets with little regard for human rights violations, like child labour.

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¹³ Capgemini Consulting. 2017. “Innovation In Procurement”. [https://www.capgemini.com/wp-content/uploads/2017/07/Innovation_in_Procurement.pdf] Accessed August 17, 2023.
¹⁴ GEP. 2022. “CPO Compass 2022”. [https://www.gep.com/research-reports/cpo-compass-2022-report] Accessed July 24, 2023.
¹⁵ Art of Procurement. 2023. “Defining and Driving a World-Class Supplier Risk Management Program”. [https://resources.artofprocurement.com/supplerriskmanagementprogram] Accessed July 24, 2023.
¹⁶ The Hackett Group. 2023. “2023 CPO Agenda: Procurement Top Priorities and Critical Actions to Succeed”. [https://www.thehackettgroup.com/insights/2023-procurement-key-issues-2301/] Accessed July 23, 2023.

The scale of the supplier network not only reflects the complexity of supplier relationships, but also the opportunities stemming from this collaboration. For the late Mr Latten, this challenge’s scale necessitates the use of technology. “You would be doing yourself a disservice if you didn’t really try and dive into that [supplier data] with technology, because the opportunities for more innovation, diversity and diversification are all in that supply base too.”


However, the C-suite’s confidence in the return on investment for these technologies is simply a vote of confidence in procurement’s ability to generate value. In turn, this opens up an opportunity for procurement to develop roadmaps for technology with their internal and external stakeholders. At the same time, the right training and upskilling need to be offered so that these technologies can be used to their full potential.

Even when companies invest in the relevant technologies to manage supply risks, these can be fairly underutilised in Mr Lima’s experience. “More than a barrier, an important step to overcome is the capability of our teams to explore and extract from the tools and the capability that the tools have. So, there is a disconnection between the capabilities of the team and the tools that are available,” notes Mr Lima.



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Marcos Eloi Lima, CPO, The Kraft Heinz Company

Conclusion

With a narrow focus on managing its tier-1 suppliers, procurement teams and companies are still in the early stages of their supplier management journey. This means that sub-tier suppliers are often overlooked in many aspects of supplier management, from risk assessment and mitigation to relationship development and innovation.

In 2022, nearly 80% of companies surveyed by the State of Flux, relied on their supplier relationships to navigate disruptions. However, only 9% of these companies met the threshold of having sufficient systems, processes, policies and training in place to qualify them as an SRM leaders.¹⁷

One year on, inflationary pressures have added to procurement’s woes. Procurement teams must now navigate the dual crises of supply availability gaps and cost pressures as part of their risk management strategies. Going forward, the integration of technology will enable procurement to better navigate these supply risks, as more comprehensive data collection and predictive analytics will boost transparency among internal and external stakeholders.

As the procurement function begins to connect the dots between supplier risks through greater sub-tier visibility, deeper relationships with valued suppliers and optimal technology utilisation, its reputation among and working relationships with its stakeholders will continue to be its linchpin.

One of procurement’s biggest challenges in integrating SRM, according to the late Mr Latten, is the “need to get buy-in from around the business on the value and the impact of SRM”.

For procurement teams to progress on their supplier management journey, they must look inward to drive success through ownership and accountability at an enterprise level.¹⁸ Developing a stronger governance framework for supplier management and information flows for both internal and external stakeholders will elevate procurement’s role as a strategic partner to its suppliers and a trusted advisor to the C-suite.



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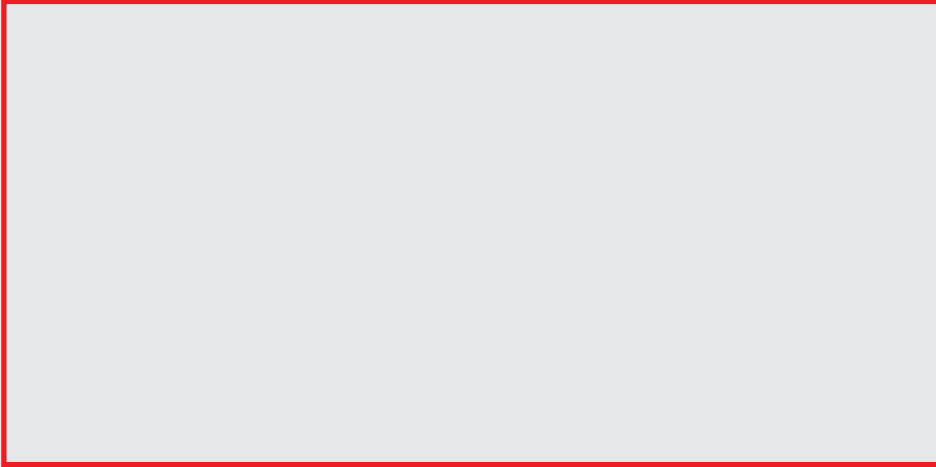
¹⁷ State of Flux. 2022. "2022 SRM Research Report- Building Resilience". [https://ebooks.stateofflux.co.uk/link/627739/8-9/] Accessed August 01, 2023.

¹⁸ Art of Procurement. "Elevating Perceptions of Procurement: How Procurement Leaders can Improve Internal Perception of their Team". [https://hubs.spotusercontent20.net/hubfs/5217324/Elevating%20Perceptions%20of%20Procurement%20Whitepaper.pdf?utm_medium=email&_hsmt=200126215&_hsenc=p2ANqtz-8PVwOOcuy7jdzPBMIL3O6ozg_rlGGX07G7cdMEZjntFxFrGAtHoEN17DMDeOzCnD8hzzE3QKorPsBHuzS9LLIXO4O7Hxd_-iPFNiOwMoMyd2ZA&utm_content=200126215&utm_source=hs_automation] Accessed August 01, 2023.

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