Q&A WITH FORRESTER

Balancing Profit And Purpose: How Supply Chain And Procurement Can Align For Success

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Following the webinar "Balancing Profit And Purpose: How Supply Chain And Procurement Can Align For Success," Coupa asked guest speaker, George Lawrie, VP, Principal Analyst at Forrester, to answer some pressing questions from companies confronting the impact of ongoing disruptions to their supply chains. Here he shares his insights on how companies can both prioritize resilience and sustainability in light of these disruptions.

What are some of the main challenges that organizations face when looking to balance profit and purpose?

The main challenges are to change culture and incentives. Procurement bonuses often incentivized companies to source from the lowest-unit-cost supplier, with less regard to the ESG or supply chain risk incurred. Suppliers felt compelled to conceal any ESG shortcuts because they could expect no coaching or reward for transparency. Forrester was surprised at how few companies invoked alternate suppliers and alternate bills of material or recipes when they faced shortages. Forrester was likewise surprised, at how few companies, maintained buffer inventory of critical components to enable them to maintain their commitments to customers. It seems that the risks had been hard to quantify and felt remote for companies. The more urgent requirements to trim inventory and reap advantages of single sourcing proved more important. Until recent developments in AI and cloud-based technologies it has also been impossible to mine social and other data to detect risks and respond to them promptly.

Supply chains lack transparency and resilience and have proved brittle in the face of COVID-19 disruption. Supply chain as a function is evolving from a command to a collaboration orientation. Supply chain as a discipline previously oriented around scouring the world for the lowest-unit-cost suppliers. Now, it is much more focused on agility, resilience, and sustainability. Forrester has seen enterprises:

1. Refocus the procurement process from cost to collaboration. Focus on suppliers that help drive innovation and transparency. Invest to federate data and distribute trust to collaborate with customers and suppliers in multi-enterprise supply networks.
2. Map supply chain risk (including geographical, political, and cyber risk).
3. Assign responsibility for improving each supplier's ESG transparency and ratings. Jointly invest in capabilities to anticipate, sense, and respond, complementing time series or historic sales data with predictive variables, forecast interest rates, take-home wages, and even social data and search

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engine arguments that can help with "anticipatory shipping" to place inventory in the distribution network ahead of demand.

4. Build event pipelines—for example, monitoring supplier and customer creditworthiness, environmental or judicial risks, or natural disasters that could disrupt production or transportation. Analyze the feeds in an event or "war" room, assigning responsibility for resolutions such as expediting material by air freight or switching to alternate suppliers or alternate bills of material by leveraging supply chain design technologies.
5. Identify and monitor potential bottlenecks and protect them with strategic inventory buffers or options for alternate sourcing or production through multi-echelon inventory optimization.
6. Identify vendors and platforms to help continuously replan supply networks, inventory, and assets. Triennial, annual, or even quarterly planning of supply networks, assets, and inventory risk a flat-footed response to sudden changes in supply and demand. Enterprises must continuously replan distribution networks to anticipate changing patterns in demand and supply. The emerging discipline of Continuous Supply Chain Design can enable this.

1. Are supply chains designed to be resilient and sustainable at the same time? How should organizations think and act in future-proofing their supply chains?

Multi-enterprise value networks can play a critical role in meeting ESG goals. Networks can help validate suppliers and consignments to meet regulators' and consumers' demand for sustainable supply chain practices with sourcing and transport to minimize carbon footprint, slave labor, and use of harmful material. They can also pool knowledge to power models that track, simulate, and predict real-world behavior inside a virtual environment leveraging a digital model of the physical supply chain. In a supply chain, the assets are inventory, storage facilities, and transportation equipment. Through the digital twin, supply chain leaders can: 1) monitor real-world behavior—for example, changing patterns of demand; 2) predict future bottlenecks—for example, warehouse capacity constraints and soaring shipping costs signaling the need to replan sourcing, production, and the distribution network; and 3) simulate the impact of alternate sourcing and production or a reconfigured route to market on cost to serve and on lead time and customer service.

2. In our view, achieving a balance of profit and purpose is a team sport. How well are procurement and supply chain teams working together? What needs to change?

OEMs would like to know about capabilities and capacities of suppliers further down the supply chain, and of course, those at lower levels want more timely, accurate, granular demand signals.

Lack of visibility contributes to the famous bullwhip effect and a ton of waste and lost sales. My advice is to build trust by progressively sharing insight. Perhaps start with a repository of external causal factor inputs and community powered insights that can be gleaned from a Multi Enterprise Network such as supplier risk and ESG scores, progress to selective ATP and CTP, and finally, build a community digital twin supply chain to model scenarios. In this report, we described the network advantage of collective sensing and responding to peaks and troughs in demand and periodic

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constraints or gluts of raw materials or intermediate products. The network can provide a hub for exchange and normalizing data from network members at different levels of maturity offering, perhaps portals or CSV uploads for the less sophisticated and full API interoperability for the more sophisticated. There are challenges around exchanging data and around synchronizing contingent rescheduling. (If I expedite my work order to help you, will you expedite your PO? Will you settle promptly or quibble about terms?) The main challenge is one of mutual trust. Just as team members trust each other the more they play together, supply chain partners can build trust by fixing their eyes on the ultimate customer at the end of the supply chain and working collectively to meet their needs.
In the automotive aftermarket, dealers pool spare-part availability with the aim of strengthening the brand experience for drivers by getting them back on the road faster by acting together than if each dealer acted on her own. Multi-tier, multi-enterprise networks powered by pooled community insights can enable numerous advantages.

3. What role does technology play in achieving the balance? What are the biggest areas of value to unlock?

In Forrester's experience, the most opportunity is in two aspects:

1. The ability to dynamically reconfigure networks and flows to the market by continuous supply chain design practice. As disruptions continue to be the norm, it is important for the networks to flex in response to the ongoing events. Hence Supply Chain Design can no longer be an episodic activity. Newer, cloud-based technologies do help here. Any gaps identified should lead to a Source-to-Contract process so that the enterprise can quickly identify and onboard suppliers.
2. In more effectively anticipating fluctuations in demand and in helping suppliers respond. Where you have long lead time and inelastic supply—think semiconductors and seasonal fashion—you need to use all the data you can to make the best bet you can. Of course, you can use postponement, options, in-season expediting, and two-speed supply chains to mitigate the worst impact of demand uncertainty. Surprisingly, though, even in, say, CPG or pharmaceutical, you can't really rely on time series or historical forecasting because the fast rate of change and the huge impact of promotions mean that supply chains must anticipate uplift from new product introduction, line extension, and promotional variants. There are, of course, also opportunities to coach suppliers in improving their ESG ratings, too.

4. How can organizations build a business case for resiliency and sustainability? What factors should they be considering?

Forrester has developed Total Economic Impact™ (TEI) studies into the business case for supply networks. Generally, the business rests on growing revenues with customers who value continuity of supply and ESG transparency. We've seen that incremental revenues and margins easily outweigh incremental costs of, for example, maintaining buffer inventory or alternate supplier options. We've seen some clients include reputational risk or regulatory penalties as also taken into consideration.

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