

PROCUREMENT & SUPPLY CHAIN INNOVATION

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PROCUREMENT & SUPPLY CHAIN INNOVATION

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RESILIENCE

Could the Suez blockage bring greater resilience to global supply chains?

To avoid major disruptions to trade, businesses need a much greater understanding of their supply chains, how they operate and exactly who is involved

Mark Hillsdon

When the megaship *Ever Given* became wedged across the Suez Canal, it exposed the vulnerability of global supply chains. The vast vessel, which can carry 20,000 20ft containers, was blocking a route responsible for 12 per cent of world trade, with an estimated \$400 million in cargo passing through each hour.

For six days the world, and increasingly exasperated shipping companies, watched as trade was re-routed round the Cape of Good Hope, adding around ten days to the journey time and leading to headlines about delays and shortages.

A freak gust of wind is said to have sent the boat spinning in the first place and it was another act of nature – an exceptionally high tide – that ultimately helped to shift it. In the end, the effects on global trade were minimal, but the incident did bring into focus the susceptibility of global supply chains and the extent to which companies are unprepared for “black swan” events.

Add in that global trade is still recovering from the effects of the coronavirus pandemic, Europe is coming to terms with the ramifications of Brexit, and other parts of the world, from Armenia to Myanmar, are reeling from war and insurrection, and it’s clear businesses need to come up with a plan B if they’re to prevent disruption to their operations.

“Companies have developed a higher level of dependency on suppliers and third parties from other countries, and that dependency is highlighted when a link in the supply chain is impacted,” says Brian Alster, general manager of third-party risk and compliance at business analysts Dun & Bradstreet.

“The Suez Canal incident gives us yet another reason for businesses to invest in data and technology to create an agile, geographically dispersed supply chain that can quickly pivot during unexpected events; without data and insights, companies are blind.”

Phil Reuben, director at supply chain and logistics consultancy SCALA, believes the last 18 months have taught companies many lessons about how potentially vulnerable they are. And while most can navigate the occasional unexpected event, for longer-term security, they



any cargo being held up in the Suez Canal and elsewhere.”

The importance of data is borne out by Dun & Bradstreet’s recent *Resilient Supply Chain* report, which shows that a key priority among procurement teams in 2021 is ensuring technology and data sit at the heart of supply chain operations. A third of the 500 companies surveyed indicated that digital transformation was their organisation’s top priority, with procurement teams already using technology to support supplier risk assessment and ongoing monitoring.

The events in the Suez Canal are also likely to have planners poring over maps to ensure companies are no longer reliant on single routes, while procurement teams will be looking to add some geographical diversity to their supply chains and avoid an over-reliance on one country or region.

There have even been suggestions that businesses may be about to call time on ‘just-in-time’, the manufacturing system that sees components delivered to factories exactly when they’re needed as a way of avoiding overheads and waste. Instead, there is talk of a move to ‘just-in-case’, with companies keeping much higher stock levels to guard against shortages, as they weigh up the merits of higher warehousing costs and the risk of obsolescence, with the price of manufacturing delays.

Moves to greater on and near-shoring production have also been mooted, says Glen. “Procurement managers are consistently looking at the cost of their supply chain, the complexity of their supply chain and the associated risks,” he says. If the risks become too large, then reducing the length of the supply chain becomes an attractive proposition, although local capability, capacity and cost may be the ultimate driving factors.

The vulnerability of supply chains is also an opportunity for procurement professionals to show their true worth, says Dun & Bradstreet’s Alster. Not long ago they were perceived as a necessary cost centre, with companies often not realising how critical they were. Now, in nimble, forward-thinking organisations, which have adopted data-driven approaches, they’re seen as having a positive impact on revenue. “And that’s a huge tectonic shift in the way companies think about procurement organisation,” he concludes.

need to do something more fundamental, he says.

Visibility is a good starting point and companies need a real understanding of where everything is coming from, because “while they know who their suppliers are, they have very little knowledge of their suppliers’ suppliers; who are the buyers buying from?” Reuben asks.

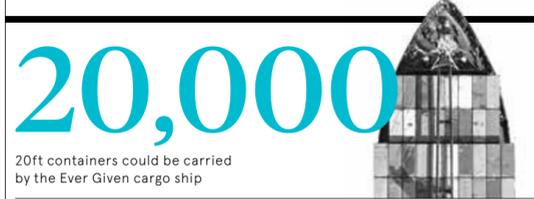
Such in-depth supply chain monitoring was once the preserve of engineering companies tasked with bringing together components from multiple suppliers, or high-tech industries that needed to ensure the provenance of materials, such as conflict minerals.

But the technology is now becoming more widespread and can provide companies with accurate, real-time data about goods in motion, as well

as flagging up potential downstream impacts and delays. Greater digitalisation, automation and artificial intelligence can also be used to run what-if scenarios, which allow companies to pre-plan the steps they need to take to get trade moving again.

In the case of Suez, explains Dr John Glen, economist at the Chartered Institute of Procurement and Supply, this level of monitoring means large logistics companies would have been able to quickly identify what vessels were on their way to the canal, what goods were on those vessels and if the cargo could be redirected.

“They would also provide alternative sources of supply for time-critical cargoes,” he says, “and in doing so help companies identify alternative sources that could replenish



ROUNDTABLE

Understanding the global supply chain revolution

The primary challenge of ensuring the right product reaches the right person at the right time hasn't changed, but tech advancements accelerated by events of 2020 mean the time and distance between customer and supplier will be further reduced in the coming years

Oliver Pickup

How has the coronavirus pandemic accelerated a global supply chain revolution?

MF I had to make immediate and important decisions impacting supply chain, even before I had an opportunity to grasp every aspect of our business. We had to stabilise our customers' operations and had to adapt in weeks to a dramatic shift towards digital channels. At the same time, we had to balance the near-term internal supply chain in terms of managing the spending. The crisis provided an opportunity for transformation acceleration, which eventually made us stronger.

JM The pandemic changed shopper behaviour across the world and the growth of digital commerce that we expected to happen in five years took just twelve months. As e-commerce is becoming more important, the supply chain is critical; if you're not available on the digital shelf, the impact is significantly higher than if you're not available on a bricks-and-mortar shelf. So we need to transform, look at how we do things, gain a better understanding of the key players in the digital commerce world and make sure that as a supply chain we structure ourselves to win in this environment, which is expected to continue growing. With the level of volatility that we saw, we found gaps and now we have to make

sure we close those gaps and accelerate the process and the transformation to ensure we are better prepared in the future.

DH I believe we are still in the middle of the "whip effect" triggered by coronavirus. We had set up a structure to cope well when the pandemic hit: a relatively low-value density of products and near sourcing, plus local markets. The crisis came with challenges, but because we had already started our digital transformation journey, we could evolve at speed. Structural parameters, like footprint sourcing and inventory holding strategy, are important components for resilience, which is linked with visibility across the supply chain and leveraging technology. But ultimately supply chain is all about having the right people in the right place. Technology and people have to sync together, otherwise you will not be successful in the mid to long term.

IJ Because of COVID-19, we had to ramp up the supply chain to shift eight times the pre-pandemic amount of ventilators and fivefold for monitor production; it was a massive undertaking. As we were focusing on ramping up, it became apparent that having data and being able to be agile and manage your supply chain very deep, into the different tiers, is crucial. Establishing an overarching and

“ We had to stabilise our customers' operations and had to adapt in weeks to a dramatic shift towards digital channels



Frank Baur
Vice president, supply chain, Europe, Middle East and Africa, Parker Hannifin



Martin Fijman
Global chief procurement officer, Brightstar



Dirk Holbach
Chief supply chain officer, laundry and home care, Henkel



Ivanka Janssen
Chief supply chain officer, Philips



Josue Munoz
Vice president global supply chain, Colgate-Palmolive



Patrick Van Hull
Industry thought leader, Kinaxis

end-to-end view is, for us, the most important learning from the last year.

FB More than ever, for many companies, the supply chain has become a boardroom topic. Cash is king, but it is even more important not to impact the customer experience. I don't think the pandemic has triggered a revolution, per se. However, it has accelerated digital deployment; it has caused supply chain leaders to refocus and rethink strategies to drive greater decentralisation, agility and visibility.

Information and insights management are essential for efficient supply chains, so how can technology empower businesses?

PVH To increase agility and break down silos, it's about arming yourself with data insights to understand how each individual action has a broader impact across the organisation's entirety. When we collaborate with our suppliers and customers, we must understand how it will play out if something were to arrive late. We need context – whether it's a ship blocking the Suez Canal or something else – because it's not enough to rely on the old mathematics.

FB Software alone never solves a problem, but technology deployment accelerated in the last 18 months across all functional areas of the supply chain. In sourcing and procurement, we use digital tools like "should-cost" modelling, for example. And greater shop-floor automation ensures a safer and more ergonomic work environment. Handling big data smarter will remain key.

DH Technology is democratising access to data insights across the whole supply chain. It brings the relevant data to the level where a decision has to be taken and in a crisis a lot of things are happening on a local level, with markets behaving differently, so this visibility is vital. You have to make sure the colleagues in charge at the front end have the maximum amount and quality of data available to make the best decisions. A few years ago, we set up a global analytics platform accessible to most of the organisation and we leveraged this in 2020; it was accessed 70 per cent more in Q2 than Q1. We have enriched these control towers and added more functionality.

IJ Technology can empower supply chain professionals in other ways, for example virtual working has its pros and cons. You can connect with many more people faster than before, for example we started to use HoloLens for site visits and it is very liberating. I hope we don't go back to spending our lives in airport lounges. A balance

must be struck. Additionally, cloud computing helps our digital transformation, allowing us to pull all the data from legacy systems, gain an overview and spot potential bottlenecks quicker. To drive artificial intelligence baseline forecasting, we have entered a partnership with a small company. We chose this partner because they have a deep focus on what we are looking for and, therefore, were able to work quickly. Agility in partners is going to be very important from now on.

JM That agility and being bolder, and investing in research and development, are essential as we try to evolve our processes. There's so many aspects in the supply chain you have to be good at, and that's where cloud technology and data analytics, as Dirk described, becomes important. You're going to have to find very specialised partners to provide you with the best value in a niche area. If it doesn't work, fine; you move on. That way, you can evolve your supply chain much faster than before.

What will the global supply chains of the future look like?

JM I believe the technology is at a level that we can drive semi-autonomy. The amount of visibility tools that everybody's trying to sell is enormous, but how do you take action and link it to the decisions made daily by the teams on the ground? Semi-autonomy will augment human decision-making by leveraging technology, which will allow us to be more responsive and resilient.

MF The future of supply chain configurations will evolve to the point where it is fully dictated by customer behaviour. Consumers have never had more power and this has been one of the most significant trends accelerated in the last year. To keep pace with consumer demand, supply chain innovation is required. We've invested and introduced plenty of innovations in our operations and there is a big opportunity when it comes to delivering value-added supply chain services to the last mile. It is such an exciting time to be involved in the supply chain and

would encourage any youngsters to embrace this career and try to change the world.

FB People will remain key, highlighting the importance of empowerment and engagement, and decision-making at the lowest level. In addition to functional qualification and education, we have embedded technology training across the entire career progression for our staff, from graduates to senior supply chain professionals. We all need to be open to managing change.

IJ Robotics is one technology in which we are investing. Some people are getting their head around what this means for them. There needs to be a mindset change from the leaders concerning technology and the future of work. It's not good enough to talk about it; we also need to understand what it means for us as leaders and how we need to start incorporating this in our day-to-day work. As a supply chain leader, you can make people more comfortable with the future of work and enable them to develop themselves, so they are ready for what's next. The supply chain is the place to be; it's the breeding ground for future chief executives.

DH It's true, a career as a supply chain professional is very interesting and I would suggest young people come in and find out for themselves. The supply chain is such a complex, end-to-end process and the backbone of a business. Experience is an important factor, though, and I think you have to learn about supply chains from the bottom

up. It's a career that is never boring, that's for sure, and will only become more interesting in the coming years because of technology and the ability to add value.

PVH When I speak with students, and anyone else who will listen, I tell them, "Everything is a supply chain." In the supply chain we get to connect the dots. The supply chain opportunity is so vast because we have so many outlets and elements to connect. Good supply chain management comes down to making a good decision in a specific moment and then doing it again, again and again. If you want somebody to decide and take some action, the supply chain is the place to be.

“ There's so many aspects in the supply chain you have to be good at, and that's where cloud technology and data analytics becomes important

For more information please visit kinaxis.com



C-SUITE

What does it take to become a successful CSCO?

Supply chain leaders are not always given the recognition they deserve, but the role is gaining in status as the function becomes increasingly important in creating competitive business advantage

Cath Everett

The growing status of the chief supply chain officer (CSCO) was underscored when US department store chain Nordstrom promoted former Amazon vice president Alexis DePree to its board.

The move highlighted just how important the supply chain is becoming in enabling businesses across sectors, from retail to automotive, to operate effectively in an increasingly complex, globalised and online world.

As Lucy Harding, partner and head of executive search firm Odgers Berndtson's global procurement and supply chain practice, says: "Organisations don't just compete on products these days. The efficiency of the supply chain is becoming a competitive advantage in a way that not everyone understands."

The issue is that, while the profession may have gained in prominence recently, particularly following the

disruption to global supply chains caused by the coronavirus pandemic and more lately the Suez Canal blockage, its significance is still underestimated in some quarters.

In fact, a recent survey by Talking Logistics revealed that a mere 21 per cent of organisations have appointed a dedicated CSCO, although in 38 per cent of cases, other leaders – frequently the chief operating officer – do have executive oversight. But 41 per cent said they had no C-suite representation at all, while 44 per cent indicated the supply chain function was only sometimes or rarely involved in high-level decision-making and strategic planning.

Put another way, a seat at the top table is far from guaranteed for supply chain leaders. So why is the role failing to get the universal recognition it appears to deserve?

A key problem, believes Gary Connors, partner at management consultancy Oliver Wight, is that it is all too often considered a reactive, backroom function. Earlier in his career when attending an awards ceremony, for example, he asked why none of his colleagues were given any recognition.

"My boss said: 'The best you can hope for is to be seen as reliable. Supply chain managers and functions just aren't sexy,'" Connors explains. "So if you get 35 million doses of vaccine out there, you're invisible, but if you don't, you're on the news."

Another challenge is that the term "supply chain" means different things to different companies in different industries, resulting in varying levels of importance being attached to it, says Harding.

"If you're making product and moving it around, clearly it's a big part of how the organisation operates, so in fast-moving consumer goods, for



example, you're more likely to have a CSCO sitting on the executive committee," she explains. "But it's not a mainstay role yet like a chief financial officer, who you'll find on the executive committee of most companies."

The post is continuing to grow in status due to a number of factors though. The first is the impact of Amazon and ecommerce on changing customer expectations of availability and delivery times.

As a result, CSCOs progressively "need to be in the room to input into business strategy and customer service, and understand how to deliver on supply chain goals", particularly with the current backdrop of political and economic instability, says Harding.

The second factor relates to the sustainability agenda, which has been steadily gathering momentum. The issue for many companies is that the carbon footprint of their wider supply chain is significantly greater than their own, resulting in much of the responsibility to sort the situation out falling to the CSCO.

Given this weighty brief, the key expertise and qualities required to succeed include an ability to see the big picture both inside and outside the organisation, a remit covering not just internal and geopolitics, but also an understanding of global cultural perspectives.

Blake Sherwood, director of logistics and supply chain at medical

equipment supplier NixCovid, explains: "It's about having a strategic overview, so you need someone who can take a macro view to pivot and act quickly. But you also need a micro-thinker who can understand the small, but important, details too."

Just as imperative are strong leadership capabilities. Because CSCOs are often responsible for the actions of hundreds, if not thousands, of people employed both in-house and by partners, sound communication and collaboration skills are vital.

"You need to be someone who can negotiate and collaborate with other functions across the supply chain both internally and externally," says Connors. "So most leaders are affable, but can neutralise power struggles to get what's best for the business."

Maciej Zajac, CSCO at custom packaging provider Packhelp, agrees: "It's about being an influencer and problem solver. But also, as supply chain is such a broad subject, you can't be an expert in every area, so you have to be prepared to learn and work with people who are smarter than you in their area of speciality."

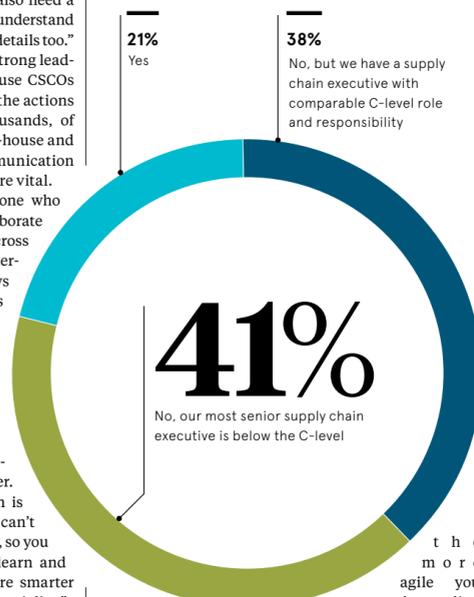
Being able to communicate effectively in the boardroom is just as important. As Harding points out, CSCOs must be "business leaders first and functional leaders second", which means seeing, understanding and contributing to business strategy through a supply chain lens, before executing that strategy within their own function.

A final characteristic that is only likely to grow in significance, meanwhile, is an openness towards embracing technology and data to inform supply chain strategy.

"Right now the pandemic situation is pushing the supply chain to become more tech centric," says Zajac. "The more live data you have,

HOW COMMON IS THE CSCO?

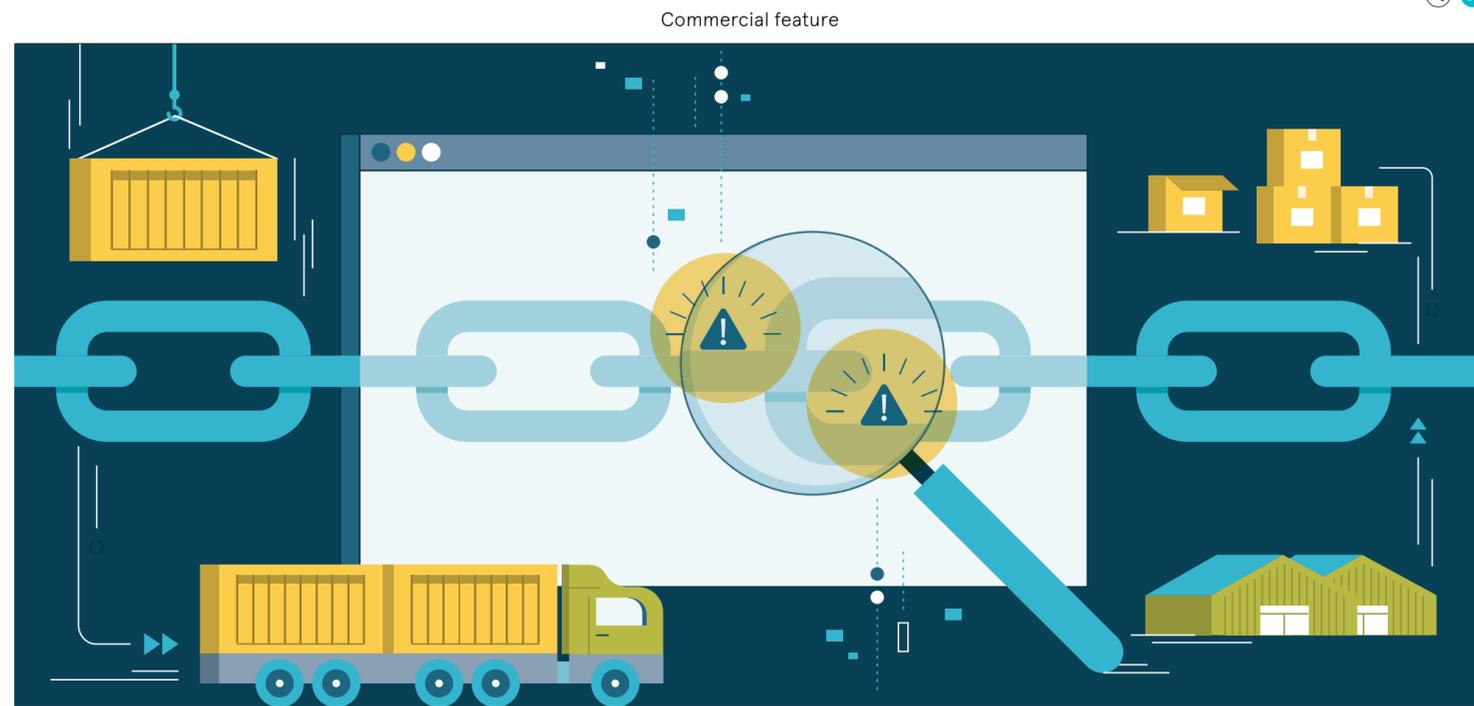
Percentage of supply chain professionals who said their company had a chief supply chain officer



ing on the market, so it helps reduce risk but also makes the business more efficient by automating and optimising processes."

Given these dynamics, Harding believes the CSCO's "time has come, whether we're talking at the divisional or group level".

"Some organisations have had a mature and well-organised supply chain for a while, but the pandemic has made others realise just how core it is from the competitive-advantage view of reaching customers. So CSCOs will increasingly have a seat at the table and what was a back-office function will be elevated to have a wider voice," she says.



Fighting the scourge of modern slavery

Keeping modern slavery out of complex, globalised supply networks is a challenge. Experts, taking part in a virtual roundtable, consider some practical solutions

Gren Manuel

Pressure is increasing on companies to show their supply chains are free from modern slavery and the demand is for action, not box-ticking.

Modern slavery encompasses a wide range of worker abuse, including debt slavery, child labour, some forms of prison labour and oppressive employment of illegal immigrants. Whatever form it takes, companies must eradicate it from their supply networks.

"Over the last 12 to 18 months, we've seen a ratcheting up of the wider sustainability requirements we're receiving from our customers and prevention of modern slavery is a key part of those enhanced expectations. And this reverberates right down through the supply chain," says Jonathan Maclean, divisional supply chain director at Weir Minerals, which supplies heavy equipment mostly to mining groups worldwide.

John Adams, group procurement director of housebuilder Barratt Developments, notes broad pressure from investors around economic, social and governance issues. "Slavery or labour exploitation is one of the key metrics they are interested in," he says.

Michael Ford, global lead for environment, health, safety and

sustainability at procurement platform Avetta, adds: "What we're starting to see is a move away from simply asking for paper-driven documentation to proof they're actually doing something."

However, addressing the challenge is not easy. A component produced by forced labour, or an agricultural product harvested by a child, may pass through a dozen companies before being bought by a UK customer. Adding to the complexity is the rewiring of global supply chains caused by the coronavirus pandemic. Companies have had to urgently onboard new suppliers. Travel restrictions have hindered direct inspection of suppliers.

Brian Webb, operations excellence director of global commercial services group Rentokil Initial, points out that the pandemic could have opened new opportunities for exploitation by unscrupulous suppliers. In countries without furlough schemes or other government safety nets, it is likely people are desperate for work. "We know there's been a lot of economic hardship. We need to be particularly diligent to make sure that people are not unfairly treated," says Webb.

The roundtable participants agree that the real challenge is not in the

tier-1 suppliers with whom they have a direct relationship, but lower into tiers 2, 3 and possibly beyond. If suppliers refuse information that would enable this deeper scrutiny, then this is already a warning signal: Rentokil Initial has terminated suppliers on these grounds.

Panelists agree a risk-based approach is needed to identify which suppliers need extra scrutiny. Emma Goodwin, head of procurement and supplier management at Wesleyan Assurance Society, a specialist financial mutual serving doctors, dentists and teachers, suggests adding the risk of modern slavery to a wider set of due diligence criteria during supplier

“
In a lot of cases, workers are grateful to have a job, but this doesn't mean we as Western companies should be exploiting that

selection that also include financial and cyber risk as well as resilience.

One red flag, she notes, is if a bid is abnormally low, which may be an indicator that workers are not being paid fairly. "When you're considering evaluating a tender, you should never take price as the only factor; you obviously have to take risk into consideration," says Goodwin.

Geography is another risk factor. The Walk Free anti-slavery initiative has an interactive online map that enables businesses to quickly identify whether a potential supplier's country has weak labour safeguards.

However, risk exists everywhere. The UK ranks as the 132nd most risky country out of 167 in Walk Free's ranking, but in 2020 online brand Boohoo was found selling clothing made in COVID-unsafe conditions in Leicester by workers paid £3.50 an hour.

Maclean of Weir Minerals says: "If you look at the World Slavery Index, you would think the UK was incredibly low risk. I think that was probably a real eye-opener for a lot of people to realise this could happen right under your nose."

Avetta's Ford adds: "This is not a new problem. Several key industries can be found domestically within the UK that are very high risk. One of the problems is that a lot of individuals simply don't know how to recognise the signs."

Both Rentokil Initial and Barratt Developments train staff annually to spot signs of modern slavery when subcontractors are working on their premises, such as workers arriving and leaving together in shared transport or being reluctant to communicate. Rentokil Initial is also extending this training to their first and second-tier suppliers to extend awareness deeper into the supply chain.

A development that would make a real difference, participants say, would be a reliable accreditation scheme. These exist in some narrow

categories, but they need to be broader and affordable for suppliers in the developing world.

Another is high-level support, seen as a critical differentiator between companies that are ticking boxes and those trying to make a real change. Goodwin of Wesleyan Assurance Society says: "We're fortunate we have executive-level sponsorship, with drive and support from the top down for sustainable supplier management. Our work is measured, managed and monitored, and progress discussed at board level."

Some decisions require care. Pulling a contract from an abusive supplier may put workers out of jobs, making their lives even more miserable. But the implicit threat is an essential element in forcing standards to rise.

Practices that are standard in the developing world are viewed as abusive here, such as employers holding passports or ID cards, which makes it difficult for an employee to leave their job. Adams of Barratt Developments notes: "You might have a very good supplier who, because of culture, is doing something that you don't agree with. If we can explain this to them, you might be able to come to an accommodation that works for everybody, without blame."

Rentokil Initial's Webb says: "In a lot of cases, workers are grateful to have a job, but this doesn't mean we as Western companies should be exploiting that. We need to help raise their standards, ensuring a fair wage is paid to everybody and no one is forced to work."

For more information please visit avetta.com



ROUNDTABLE

Lessons from a year of supply chain change

Data insights, agility and greater visibility will combine to improve supply chains, but without trusted relationships and collaboration, success will be limited

Oliver Pickup

Q Why is visibility across the supply chain now business critical and how can it be improved?

RF I hope businesses use the learnings gained in the last 12 months to catalyse some supply chain changes, in terms of where you hold stock, how you move goods worldwide, optimising a multichannel strategy and dealing with the regulation in challenging parts of the world. Supply volatility means the broader business needs to have more visibility into the inbound pipeline.

SF Businesses have adapted and come together. The amount of contact I have had throughout the last year with Harrods merchandise director or fashion directors or the IT director has been far higher than before. Virtual conferencing tools like Zoom and Teams have been phenomenal enablers to build those relationships and work more closely together. I think there was overconfidence, pre-pandemic, in lean supply chains. The balance was wrong and supply chains have since evolved to become better because we have the technology, data insights and visibility to make real-time decisions.

AM Rapha [road bicycle racing clothing and accessories brand] has lengthy, complex supply chains because of the technical nature of the products. A year or so ago, we had a supply challenge because we manufacture a proportion of our stock in Asia, which was the first region to be impacted by COVID-19. Then the whole world embraced cycling and it became a demand challenge. Having visibility across the supply chain and leveraging extremely close relationships with trusted partners has been essential. Greater flexibility, agility, dynamism and making the right decisions is what we are striving to achieve.

JE We've always been proactive and flexible with our supply chain, but the last 18 months has been a real

test for everyone. We have worked hard with our freight forwarders, with whom we have great relationships.

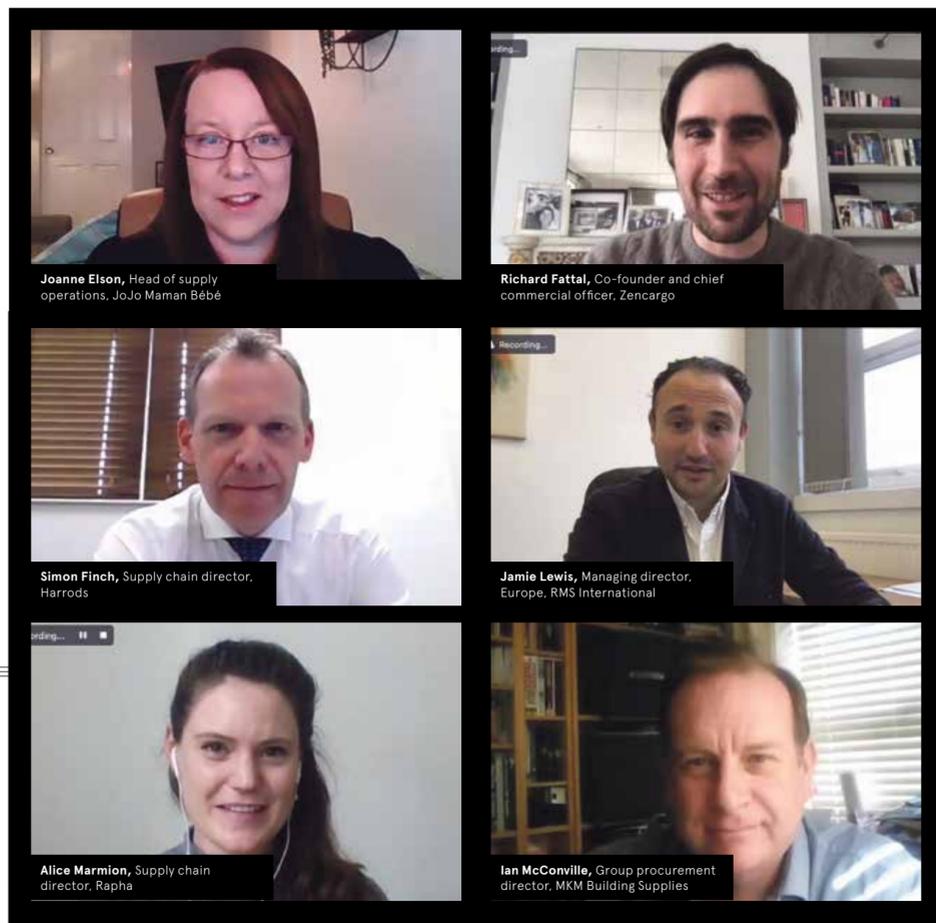
IM There was a period of great uncertainty in the building fraternity when the pandemic hit because nobody knew what would happen. That's when visibility and supply relationships were beneficial. We have had to face many problems across the globe and it's a demand-led market. The tight supplier relationships have been incredibly important, as has the access and exchange of information.

JL These are interesting times, but luckily we have longstanding relationships with our freight forwarders. Ultimately, they helped and we moved the critical stock we needed for a certain period in the year and came out somewhat unscathed from the various recent crises.

What must businesses do to strengthen supplier relationships?

RF Being a responsive, proactive partner that can provide greater visibility, and identify and warn others about potential problems in the supply chain, is likely to build trust quickly. When volatility inevitably hits, you want to know the realistic knock-on effects. The relationship has to be based on trust and responsive communication, augmented by data insights, is decisive.

“The last 14 months have emphasised the importance of flexibility and having multiple routes



Joanne Elson, Head of supply operations, JoJo Maman Bébé

Richard Fattal, Co-founder and chief commercial officer, Zencargo

Simon Finch, Supply chain director, Harrods

Jamie Lewis, Managing director, Europe, RMS International

Alice Marmion, Supply chain director, Rapha

Ian McConville, Group procurement director, MKM Building Supplies

IM Transparency and clarity in terms of what's happening when, and the exchange of data, is fantastic. The challenge for those who don't have any central distribution is disseminating the detailed information to multiple locations, especially in a traditionally people-to-people industry.

SF Having the data alone doesn't help. You need to know how to use the data, so understanding, alongside supplier partners, is vital to generate greater visibility and meaningful, value-adding insights. This strategy is only achieved through trusted, transparent relationships.

JE Our ethos at JoJo Maman Bébé is "people and planet before profit" and because of our ethical drive, our suppliers are very important. We have worked with some suppliers for over 20 years and supported them with technology and more. They have become like an extended family. For example, we funded an emergency kitchen in Mumbai during lockdown last year because we knew it would impact our suppliers.

AM Because of the last year's events, Rapha has strengthened our relationships with strategic partners. That trust has provided greater visibility and helped streamline internal processes, too. The partnership approach is now embedded in our decision-making process.

JL Given the nature of my role, I have to have relationships with suppliers and also customers, and I

find it most effective in the long run to be honest and realistic and manage expectations. The level of understanding and co-operation on both sides has definitely increased since the start of the coronavirus crisis.

What might the perfect supply chain look like in five years' time?

IM It's been pleasing to see greater collaboration recently. For instance, the Construction Leadership Council, which I am part of, and the Builders Merchants Federation have pulled together in an all-industry forum and met frequently. It spans the entire supply chain – trade, merchant and manufacturer – and not only is there more comprehensive visibility, but we also have better channels to government. That end-to-end understanding and collaboration will improve supply chains.

AM While I miss travelling to suppliers, virtual reality and videoconferencing capabilities will reduce it, and that's good for the planet. Collaboration can help here, too, and there are not many suppliers in the sportswear world. So we are now sharing supplier information with other brands in this space and I hope that will continue because we learn a lot from one another. This knowledge and co-operation will make the industry stronger and more sustainable.

JE We seem to be having an Armageddon of a year in the

supply chain, but businesses will learn from this and become more resilient and improve infrastructure. I hope air freight doesn't become more widely used, as we all need to keep down our carbon footprints.

JL There's definitely a big role for technology to play moving forward, to allow more visibility across the supply chain and enabling businesses like RMS International to make better decisions and also keeping our customers informed.

SF The last 14 months have emphasised the importance of flexibility and having multiple routes. What's exciting is that having better data and more diverse and localised distribution nodes will drive supply chain sustainability.

RF I believe we will see a move towards more sustainable supply chains, which is made possible by having the visibility and data at your fingertips to make better decisions. Decision enhancement through better data and more structured inputs will mean supply chain professionals can do their jobs more effectively and be proactive rather than fire fighting.

For more information please visit zencargo.com



Pool via Gettyimages

SEMICONDUCTORS

What to do when the chips are down

A shortage of semiconductors, the brains inside electronics and cars, has raised questions about how manufacturers manage their supply chains

Rich McEachran

Inside millions of smartphones, laptops, household appliances and cars, small electrical components work tirelessly to power our everyday lives. However, there's a problem as there aren't enough of these components, known as semiconductors or, more commonly, chips, to go around and this is snarling up supply chains.

The global chip shortage started during the middle of last year when the coronavirus pandemic started to bite and car manufacturers saw sales slump, forcing them to put a brake on production. As the automotive industry is inherently focused on lean manufacturing and optimising supply chain costs by only ordering critical components when they're

needed, automakers paused the purchase of semiconductors. Chip factories then decided to redirect their focus towards the electronics industry which was experiencing unprecedented demand for consumer gadgets.

"The pandemic created the perfect storm," says Sundar Kamak, head of manufacturing solutions at smart procurement company Ivalua, whose clients include white goods giant Whirlpool.

"On the one hand, it restricted free movement of goods, services and labour, limiting supply. At the same time, consumers had been locked down and this increased demand for home-entertainment systems and streaming devices."

Kamak points out that, with chip-makers mostly based in Asia, it's much easier for the semiconductor industry to supply the large number of gadget factories in the region than it is to ship parts to auto factories around the world.

When the automotive industry unexpectedly rebounded towards the end of last year, automakers suddenly found there weren't enough chips available to fulfil orders and meet the demand for new vehicles. This stalled manufacturing further. In early-April, Ford and General Motors cut production at several plants across North America.

It's a problem that could end up costing the global automotive industry \$60.6 billion in lost revenue in 2021, according to AlixPartners. The consulting firm has indicated that the industry could shift between 1.5 million and 5 million fewer units this year than previously planned.

With the demand for consumer gadgets showing no signs of relenting, the electronics industry is now feeling the pinch as well. At Samsung's annual general shareholders meeting in March, co-chief executive Koh Dong-Jin warned of a "serious imbalance"; the company has delayed the release of a new Galaxy Note mobile phone model. And Microsoft and Sony have seen supplies of their next-generation consoles limited in recent weeks.

While there are many factors at play, given the complex nature of global supply chains, the chronic shortage of chips has been made worse by a heavy reliance on just a few chipmakers.

The behemoth of them all is Apple supplier Taiwan Semiconductor Manufacturing Company (TSMC), which currently boasts a 56 per cent share of the chip foundry market. The chipmaker reported a 16.7 per cent year-over-year increase in revenue for the three months to the end of March.

President Biden pledges \$50 billion to boost domestic chip manufacturing, amidst a fear of shortages

Despite TSMC announcing in January that it would prioritise its production efforts to help the automotive industry ease its woes – it will also commit \$100 billion over the next three years to increase its chip manufacturing capacity – there have been calls for global manufacturers to rethink their semiconductor sourcing strategies.

In the United States, President Joe Biden has pledged \$50 billion to boost domestic chip manufacturing. And the European Union is seeking to achieve digital sovereignty and wants to become an independent chip producer that can supply its own demand.

Kamak says that such approaches would enable companies in America and the EU to "design near-shore strategies that would eliminate dependency on single-source vendors and reduce supply chain risks".

Yet there will be no quick fix. "Although semiconductor supply will eventually catch up with market demand, there will be some short-term pain ahead," says Gabriel Werner, vice president and Europe, Middle East and Africa solutions adviser at supply chain software provider Blue Yonder.

As demand continues to outstrip supply for the time being, the price of chips and other critical components could rise. Retail prices have remained largely unaffected, but Chinese gadget maker Xiaomi has conceded it may yet have to pass on some of the cost to its consumers.

With the chip shortage likely to drag on for months to come, possibly well into 2022, the question is being asked: how can manufacturers avoid similar snafus?

Automakers in particular are being encouraged to move away from the just-in-time model of manufacturing to a just-in-case one, stockpiling chips to hedge against future slowdowns. But this could create a "bullwhip" effect, says Werner.

"There is a risk that the semiconductor industry will overcompensate and then there will be too many chips in production," he says, adding the industry has always been cyclical, typically peaking during the festive season.

“Although semiconductor supply will eventually catch up with market demand, there will be some short-term pain ahead

Werner believes manufacturers should be doubling down on their efforts to gain insight into their supply chains so they're able to respond to sudden shifts in demand more effectively.

"Instead of relying on traditional methods to predict consumer demand, manufacturers need to explore the use of artificial intelligence to give the visibility and flexibility needed to adapt to changes," he argues. "Speed, real-time visibility and automation have become the defining themes for effective supply chain management. Those that are able to build robust supply chains will have a better chance of dealing with future disruption."

Kamak agrees: "Companies that have risk monitoring capabilities in place are definitely able to fare better against critical supply shortages."

TOP ISSUES FACING THE SEMICONDUCTOR INDUSTRY OVER THE NEXT 3 YEARS

Percentage of global semiconductor CEOs who cite the following as risks



KPMG 2021

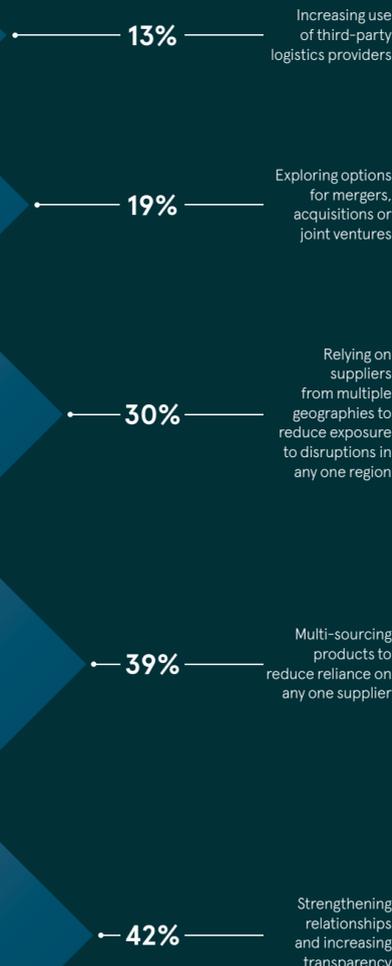
RISK vs RESILIENCE

COVID-19 has made the risks of complex, international supply chains impossible to ignore. While some supply chain professionals are considering the benefits of reshoring, others are diversifying suppliers and embracing multi-sourcing strategies to boost resilience. However, with more suppliers comes a greater need for transparency and due diligence, something which can be extremely difficult to accomplish throughout a global chain

DIVERSIFYING SUPPLIERS HAS BECOME A PRIORITY

Percentage of manufacturing executives on supply chain risk mitigation strategies their companies are currently implementing or planning to implement over the next year

Foley & Lardner LLP 2020



RESILIENCE TOP OF THE SUPPLY CHAIN AGENDA

Percentage of logistics industry professionals who state the following are their top priorities for 2021

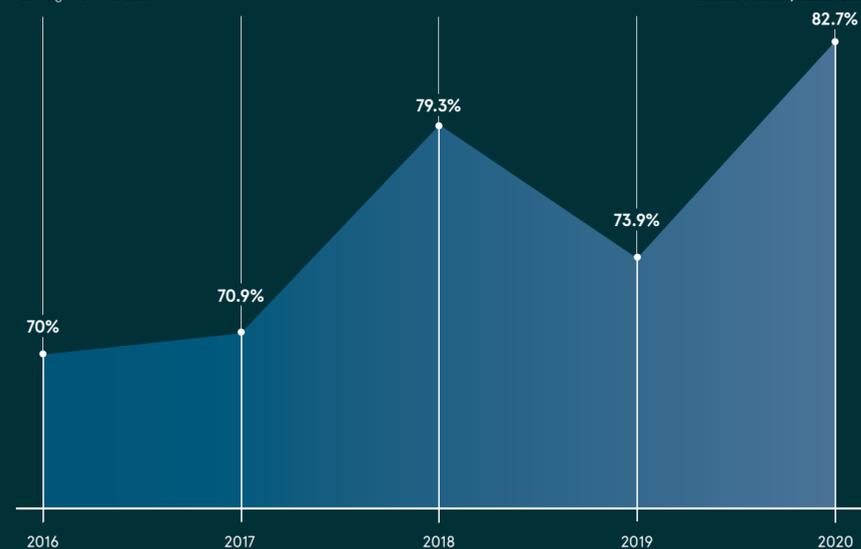
Agility and Transport Intelligence 2021



MANAGING RISK IS A GROWING PRIORITY

Percentage of organisations across all sectors reporting top management commitment to managing supply chain risk as "high" or "medium"

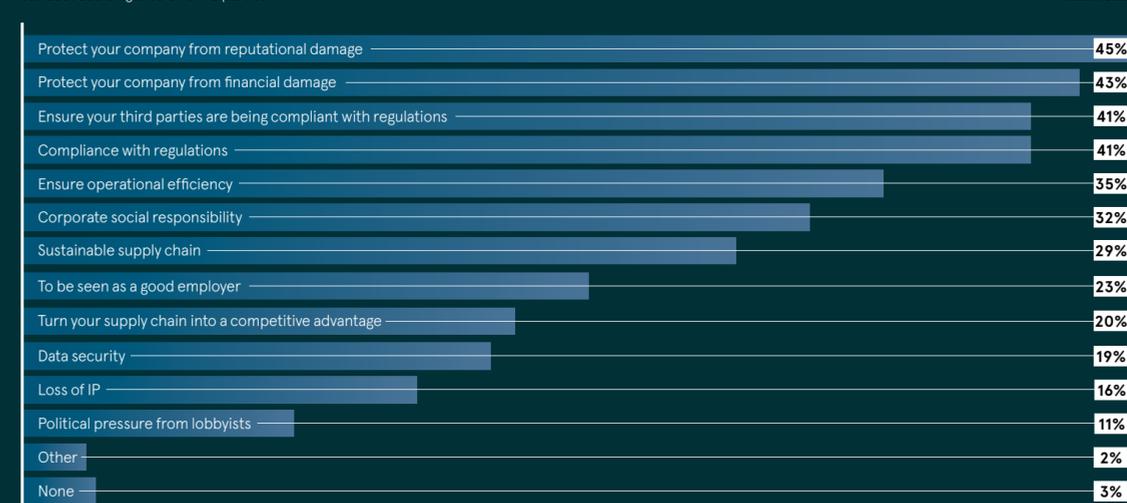
Business Continuity Institute 2021



WHY DUE DILIGENCE MATTERS

Percentage of global third-party relationship, risk management and compliance professionals who say they consider the following as particularly important reasons to conduct due diligence on third parties

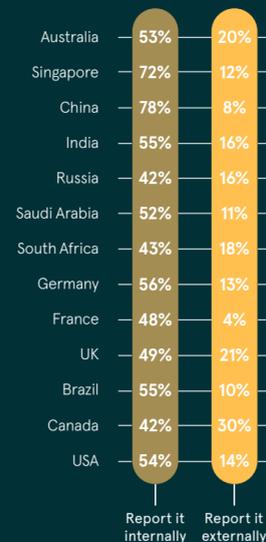
Refinitiv 2021



LIKELIHOOD OF REPORTING BREACHES IS STILL TOO LOW

Percentage of global third-party relationship, risk management and compliance professionals who would do the following if they came across a third party that breached regulations

Refinitiv 2021



WHERE IS THE RISK OF ILLEGAL ACTIVITY GREATEST?

Percentage of global third-party relationship, risk management and compliance professionals who know or suspect any of their third-party suppliers or their suppliers' suppliers have been involved in a range of illegal or environmentally-damaging activities

Refinitiv 2021



RECRUITMENT

Gen Z is giving procurement a much-needed makeover

Baby boomers fear them, millennials applaud them: now Gen Z are the future of procurement

Maria Highland

They say children are the future and they aren't wrong, except these children are not so little anymore and spend less time playing outside and more time taking down the government. Generation Z have been seen kicking back tear-gas canisters at police, pulling down statues and making camp in central London to protest against climate change. It's safe to say they feel strongly about the environment and social issues.

Gen Z are all about sustainability, diversity, ethical practices and technology, and this couldn't be more in line with the changing role of procurement. Choosing a career in procurement gives graduates a chance to go straight to the core of the issue and help create change across the whole business, including its extended social impact.

"Procurement has evolved, as have procurement professionals," says SAP chief customer officer, intelligent spend management, Tamara Braun. "In the past, procurement was more seen as the 'corporate police', a checkpoint for making sure all policies are abided by, requirements are fulfilled and so on," she says. But the digitalisation of much of this policing has enabled procurement teams to shed this perception.

Procurement is now an integral and strategic part of a business. "More than just managing risk along the supply chain, procurement is now tasked with ensuring suppliers are strictly following codes of conduct, focusing on incorporating diverse and inclusive suppliers in the supplier base, building and driving a sustainability strategy for procurement, and staying laser focused on the development and retention of talent," says Braun.

ASOS director of procurement Mike Mirrlees adds: "It's an exciting

time to work in procurement and a far cry from how the function is often perceived. It's a role that requires constant change and evolution to meet business needs, and where values like critical thinking and challenging the status quo can really shine."

Over the years, "procurement has evolved from a reactive, back-office function to a critical and authentic business partner operating across the organisation", he says. This fast pace of change has meant "agility and strong leadership skills have become increasingly important, as has having a high level of technical literacy to drive understanding of the opportunities that deploying new technology can achieve".

Likewise, sustainability, the environment and an ethical approach to doing business are critical when selecting and managing suppliers. Mirrlees says: "The ASOS procurement function is proud to display the CIPS Corporate Ethics Mark, showing our commitment to ethical sourcing and supplier management, and professionals with a passion and expertise in this area are more in demand than ever."

Although "sustainability in the broadest sense has always been at the heart of procurement, it is seen as critical now", says DHL supply chain vice president and procurement director Nicola Harrington.

"The Deutsche Post DHL Group has very ambitious goals when it comes to improving sustainability across the board, but we're also seeing customers and suppliers set their own targets to ensure the whole industry is working towards the same mission."

The concept of embedding social value within public procurement is also growing more important. Therefore, procurement quickly shapes up to be the



driving force behind social and sustainable initiatives.

L'Oréal's purchasing and supply chain functions are central to its business strategy and achieving its sustainability goals, says L'Oréal UK and Ireland procurement director Gemma Bell. "A career in procurement should be viewed as an opportunity to drive positive change across a business and its wider ecosystem," she says.

For example, the "procurement team drives our Solidarity Sourcing programme, which directs a proportion of the group's global purchases to suppliers who give people from disadvantaged backgrounds access to work and a sustainable income," says Bell.

"Purchasers have the opportunity to be an agent of change and

work with suppliers who we know are committed to green practices. We have made it mandatory for all new tender processes to be assessed through a sustainability lens. From purchasing sustainable materials for our display units to selecting suppliers with green transport capabilities, purchasers have the ability to drive our sustainability agenda."

New talent brings with it new ways of thinking. For Volvo, "it's of high importance that young people want to join us, bringing fresh knowledge, new perspectives, innovations and curiosity", according to Volvo Cars Talent Attraction team, which rings true for all businesses that want to keep up with the times.

To lure in bright-eyed graduates, companies must have something to entice them with. Braun advises: "Providing a solid career development path, role-based educational programmes, state-of-the-art systems and tools, and access to the newest procurement technologies need to be key priorities. This is the expectation of rising graduates in the field of procurement. They understand their value and expect to be valued."

Harrington adds: "It's important to talk to young people in spaces that feel natural to them." It's also about having a level of

understanding of their needs. "We know that younger talent wants to understand how the business will support them in achieving their long-term goals, and the overall strategy and purpose of the business, rather than just what they'll be involved in day to day. As such, we make sure this is clear from the beginning of their interactions with us," she says.

"Our grads are involved in leading projects that really challenge and push the business forward, such as our newly introduced Inclusion Networks, something we've found has been a real draw for those joining the team."

Volvo Cars has also found that awareness of major projects has drawn in graduates. "In meetings with students, we at Volvo Cars are always transparent about our transformation journey, moving towards full electrification, autonomous driving and strictly online business. We believe this plays a big role in why students want to join our company," according to the Talent Attraction team.

Volvo Cars understands that graduates will gravitate towards businesses that embody the qualities they stand for and, correspondingly, its sustainability goals make procurement a highly attractive area for new recruits joining the company. ●

“It's an exciting time to work in procurement and a far cry from how the function is often perceived

ROUNDTABLE

How to protect your logistics network against volatility

Supply chain leaders discuss managing disruption in their transport networks, making long-term investments and how logistics visibility is evolving

Lucy Handley

Q How have you managed the disruption of the past months – coronavirus, the container crisis and Suez Canal blockage – and what tools have helped you navigate?

SO The whole of 2020 was a supply chain rollercoaster, starting with limitations in supply from Asia and Europe. Then once the supply started to increase again, sales in Europe were impacted by lockdowns and warehouses were overfilled with products. It's been a matter of controlling the information and build really close co-operation and trust with internal as well as external stakeholders.

GB At the very early stages of the pandemic, we had daily calls with all plant managers to empower them to make decisions at local level. They would have to ask two questions. Is this decision helping protect the health and safety of our people? If yes, go ahead. Is this decision helping produce more food? If yes, go ahead.

TD Alpega is involved in transportation management software and freight exchanges with customers who are producing and shipping goods all over the world. We saw early on, some industries declining in terms of volume and others spiking. So the ability to handle these swings in demand was key for our customers with tools like spot bidding and at the same time providing access to our

“For us to navigate the future, it's critical to understand not where the demand is, but where the demand will be

Teleroute freight exchange platform to carriers for free during the pandemic's initial months.

HE In 2017, we were hit by a cyber-attack. This made us revisit our business models, our capabilities. [So all of that] helped us with [the Covid-19] crisis.

SN On the hygiene, disinfection side, we saw huge spikes, up to 25 times pre-Covid volumes. So, there's been huge responsiveness to put in place additional capacities, most of which are onshore. That helped with the transportation disruption later.

Q What processes can you put in place to help mitigate against future disruptions?

SN This whole situation of super high volatility and unpredictability has changed the dynamic of the relationship with key customers. And there's been much more appetite for close collaboration, sharing of data and building joint forecasts.

SO When something like the Suez Canal ship blockage happens, the first question you get is what is the impact on our goods? Arrival of the goods is essential when planning our seasons and all related activities. Being able to have full visibility is key.

Q How have you worked with internal stakeholders to ensure success?

GB We became very agile because we had cross-functional collaboration, not only within the company, but outside it. Very quickly, the different stakeholders understood we needed to remove complexity from the system. The pandemic became a catalyst of transformation and agility.

Q What have the events of the past year taught you about the need for real-time visibility in your network?

SO Order visibility is the foundation for controlling your supply chain. The next step is to flexibly re-route and optimise from where



Sami Naffakh, Chief supply officer, Reckitt Benckiser



Harald Emberger, Chief supply chain officer, Beiersdorf



Todd DeLaughter, Chief executive officer, Alpega Group



Gustavo Burger, Chief supply officer international, Kraft Heinz



Sophie Öhrström, Executive vice president, global logistics, GANT

your orders are fulfilled. But you cannot start without having visibility and data.

HE We looked into how much a buffer costs. Within our resilience programme, we showed estimates to the organisation. This is a really good point, to make it visible and say look, how much are we prepared to pay for insurance? You cannot run hand to mouth every day and in every part of the supply chain.

TD This discussion is about visibility in real time, but it's only to the extent you can take the analytics of that information and affect your advanced planning, because the idea is not to have to be in a reactionary mode but, as others have stated, to build in buffers and do that through your planning process. We offer an advanced planning solution with growing numbers of users, but still maybe 5 per cent of companies do advanced planning. Lots of room to improve.

Q How will real-time visibility set your business up to better manage disruption and win competitive advantage?

GB In the food industry, there is an interesting dynamic that brands travel and products don't, because taste is very local. For us to navigate the future, it's critical to understand not where the demand is, but where the demand will be. That's where analytics can help us a lot.

SO In the fashion industry, many products are intended for one specific season, which means it's crucial goods arrive in time. For us, having the visibility and ability to predict when the goods are expected will help us plan and steer our resources more efficiently.

Q What have you learnt over the past 12 months that will help future-proof your business when predicting transport costs is more challenging than ever?

SN We're doing a lot of work on having the right balance between offshoring and onshoring, which would reduce the dependency on ocean and air freight. We're also looking at rail to go from Asia into Europe.

HE Our focus is not only costs, but also the impact on carbon footprint. How do I take trucks off the road and get fuller loads and fewer movements, preferably by rail? The second thing is we need to reduce the complexity in our assortment to get a more efficient supply chain.

TD Advanced planning, as we discussed. Sixty per cent of the goods in Europe move by road. But at any given point, 40 per cent of the trucks on the road are empty. I think that's where we as software vendors have a huge opportunity to fill those trucks up on the backhaul [return journey]. We save cost for shippers and carriers, and reduce the carbon footprint in the process.

Q Will you be more willing to make upfront investments in your supply chains for the sake of long-term resilience?

SN The short answer is yes. We're investing in buffers, in working capital. We're investing in additional capacities, in capabilities.

GB Investing ahead of the curve in things that really matter is actually a top-line visibility, not a bottom-line constraint.

HE It's the same on our side. I'm persuaded that we need to invest in targeted measures, for example even in raw material prices, to become more resilient.

TD The pandemic has stressed supply chains digitally transform companies. But it is rewarding to see supply chain organisations moving into a more strategic role with visibility at the highest levels in all companies and this has been a consistent theme from all the panellists. Transportation management is one of the areas where we can help supply chains digitally transform companies, adding flexibility, saving time and money, and reducing the carbon footprint.

For more information please visit alpegroup.com/en/tms



'It was clear as we entered the new decade that we are at a sustainable procurement tipping point'

Sustainability is at the heart of procurement, with many pushing the agenda on carbon accounting and offsetting, transparency and reporting.

COVID has undoubtedly acted as a catalyst for this, but it was already clear as we entered the new decade that we are at a sustainable procurement tipping point for three key reasons.

Firstly, procurement core capabilities now form a foundation for more sophisticated, targeted approaches, uniting demand, cost and supplier management skills behind a common set of goals.

Scale and speed are being architected into new ecosystems and platforms, beyond automation and robotics. Digital procurement solutions are being rapidly developed, many with a focus on sustainability.

Investors are fuelling this through excess "dry powder", targeting enterprise sustainable software solutions and increasingly holding themselves accountable. More broadly, the return on investment in companies where objectives are aligned to the triple bottom line are proving to be higher.

Secondly, sustainability has adopted more ambitious aims to be measured on. Beyond clear goals to cut carbon emissions by a certain date, many corporates have hard targets in other areas too, such as reducing waste, water consumption and land usage. These will be measured and delivered through key supply chains by procurement. The business case for sustainable procurement has crystallised.

Targets are reinforced by increasing regulation and government involvement "incentivises" engagement through reporting, fines and its own significant purchasing power. Finally, there is a mindset shift. For procurement this is being cascaded through objectives, behaviours and organisational change. There are an increasing number of leaders who have responsibility for both procurement and sustainability.

Digitalisation has already created a shift in business models, growth, collaboration, innovation and performance. Sustainability is set for a similar significant upside for those who can again anticipate its rapid evolution. Combined, digitalisation and sustainability will unlock vast total shareholder value for those with clarity of purpose, drive to create momentum and determination to realise its full potential.

Procurement and sustainability leaders are already shifting from idea

to action to impact. Cash flows are being optimised, often using supply chain financing to incentivise the use of suppliers with a positive social value. Supply chains are being remapped to reduce carbon footprints and localised to invest in targeted economic areas. Detailed component analysis and breakdown are being completed to understand the inherent carbon footprint and produce social impact.

Blockchain-powered solutions are being used to improve safety and regulatory compliance, incorporating the internet of things to reduce waste and spoilage. Greater sharing of data across networks and partnerships increases transparency as well as creating the basis for new commercial models.

ProcureTech are helping companies discover smarter, faster digital procurement solutions, powered by proprietary enterprise and cybersecurity intelligence from Craft, SecurityScorecard and others.

Stronger relationships with vendors result from tighter digital integration. This is in parallel with building networks with smaller, more diverse suppliers using mobile technologies built for operational and data agility. Initiatives such as the Greentech Alliance, the Sustainable Procurement Pledge and Race to Zero are all amplifying sustainable procurement collaboration.

Sustainable procurement is being propelled by the digitalisation of process, operating models and their value chains. This momentum is exciting, as the same amplification that digital procurement can enable in sustainability can be made across all procurement into supplier innovation, supply chain transparency, risk reduction and beyond. Digital procurement on purpose is unstoppable. ●



Lance Younger
Chief executive
ProcureTech

INTERVIEW

Harrods' supply chain director on pursuing a sustainable future

Simon Finch says the coronavirus outbreak left retailers grappling for new supply chain models and now organisations must scale new heights to put people and the planet before profit

Oliver Pickup

The iconic doors of Harrods' Knightsbridge store closed for the first time in its 172-year history in March 2020, when prime minister Boris Johnson enforced an initial lockdown to stem the spread of coronavirus. But what did this mean for the supply chain of arguably the world's leading luxury department store?

Incredibly, the London stalwart remained open throughout the Blitz and only shut for half a day following a 1983 terrorist attack. Consider the joy, for staff and customers alike, when the doors were unlocked on April 12.

Speaking on the eve of the reopening, Harrods' supply chain director Simon Finch reveals a "back-to-school feeling" and is optimistic that footfall will be impressive, despite the lack, for the moment, of wealthy tourists. "People are very keen to come back in and Harrods has the benefit of being 1.1 million square feet, so there's plenty of space for social distancing," he says.

Finch began his career at Harrods 25 years ago as a graduate trainee. The amateur high-altitude mountaineer, who has scaled Himalayan peaks as well as the highest reaches of Africa and Europe, has climbed the corporate ranks and was appointed to his current role in October 2019, less than six months before the first lockdown.

While both his employer's online operations and warehouse remained open for the duration of the pandemic, the 46 year old concedes, with admirable honesty, that like so many other supply chain professionals, he was forced to grapple with unforeseen operational challenges and struggled initially.

"We were probably all a bit too overconfident in the system, a bit like those in financial services when the economic crash happened in 2008, and when something unexpected hit, there was a lot of scrambling around to make things work," he says.

Like other UK retailers, Harrods has been buffeted by the coronavirus crisis and, more recently, Brexit fallout. It is

the pandemic, though, that exposed operational weaknesses.

"The pandemic has triggered a supply chain revolution," says Finch. He argues, convincingly, that businesses were "obsessed with making supply chains as lean as possible" before COVID, moving items around quickly, with minimal stock and expense.

"Coronavirus completely screwed up that approach," Finch continues, "as the organisations holding themselves up as having the leanest supply chains were the ones that had the most significant challenges as soon as there were global disruptions."

"From now on, the supply chain must be more about agility, to cope with volatility and uncertainty, and less about being lean. However, that agility has to be fully supported by technology and data insights. Whereas previously we have used technology to create a leaner supply chain, now the tech needs to provide the knowledge to make better decisions to drive agility and visibility."

Given that Harrods was established in 1849 with the rather ambitious motto of *omnia omnia ubique* (all things for all people, everywhere), the consumer behaviour trends accelerated by the pandemic forced the business to keep pace with change and embrace the digital age. Little surprise, then, that Harrods has recently employed more data scientists.

"Understanding our customers, and how we can serve them better, and starting to use artificial intelligence,

whether for our replenishment operations, to make sure we have the right amount of stock, or to manage outbound fulfilment volumes, is paramount," says Finch. "Data can't get stuck in the Suez Canal, nor does it get held up at the borders with Europe. And the sharing of data with our partners delivers a better operating model for the end-to-end supply chain."

Technology alone, though, is not enough to drive the supply chain revolution, according to Finch. He contends that it is critical for those operating in the industry to "go retro" and forge or nurture deeper relationships with suppliers, service providers and brand partners. "Because the pandemic messed everything up, and we didn't know what was happening, we picked up the phone and spoke to trusted partners and suppliers to all pull things together," he says. "It was a return to the supply chain of the 1900s."

Moreover, the combination of emboldened trusted relationships and data insights, plus greater diversity in terms of distribution nodes, inside and outside the UK, enables Harrods to develop a more sustainable supply chain.

"As a father to two eco-conscious girls, I'm incredibly passionate about sustainability and building a brighter future," says Finch. "I believe it's the responsibility of all supply chain professionals and businesses to ensure we are doing

the right thing for our customers. Therefore, putting the product closer to the consumer, through a decentralised supply chain and more localised distribution, is a win-win scenario.

"Also, from a purely commercial perspective, this is the direction in which our customers want us to go: the sustainability agenda is critical to the luxury industry and we will lose sales if we don't do this right."

To illustrate his vision, Finch uses an example of how inefficient and harmful to the planet the supply chain and fulfilment processes can be from an ecommerce perspective. Goods might be manufactured and shipped from the United States to the UK only to be then sold online and shipped back to an American-based customer.

"We are doing everything wrong if we create that unnecessary movement from a sustainability perspective, and also it increases costs and length of delivery time," he says.

The COVID crisis may have sparked a supply chain revolution, but it is a work in progress for many retailers, including Harrods. Stressing the importance of diversity, data insights and



"The sustainability agenda is critical to the luxury industry and we will lose sales if we don't do this right"

developing trusted relationships for supply chains of the near future, Finch adds: "By having products that are local to customers, we can serve them more quickly, more cost effectively and more sustainably, while reducing risk, because the goods aren't moving as far." Through shifting its business model and with this smarter, tech-powered approach to the supply chain, Harrods will stand a good chance of keeping its doors, both physical and virtual, open for many years to come. ●

THE PANDEMIC COULDN'T SLOW HARRODS' ASCENT

Harrods Limited: gross profit worldwide 2012-2020 in million GBP
Harrods 2020



'Building resilience is more than an anodyne approach to doing the right thing'

For a very long time, some businesses have been deeply reliant on global, agile supply chains. This reliance is not going away any time soon, though following the painful lessons of the pandemic, businesses must look for new and resilient ways of managing their critical supplies.

What we have experienced over the last year has been seismic in terms of disruption, not only from COVID, but Brexit and more recently from the Suez Canal blockage as the supply of goods dried up in some sectors.

So, is globalisation serving businesses as well as it once did? There is no clear answer. Organisations with an agreement with one crucial supplier on the other side of the world will have struggled as their deliveries disappeared overnight. Alternatively, local supply routes may have been more costly or not of the requisite quality, or the local supply base simply did not exist.

Whether sourcing globally or locally, in recent years it seems some firms have chased savings to drive greater profit margins, forgetting some of the fundamental principles along the way that bring security of supply and a positive impact to society.

Procurement is increasingly tasked with delivering value, not just in terms of profit, but impact on the environment or support of communities, as pressures mount from investors, consumers and even employees who want to work for ethical enterprises.

So, first, the good news. The global economy is recovering at a surprising rate. Where the International Monetary Fund (IMF) issued dire warnings of calamitous economic performance for years to come at the end of 2020, the first quarter of this year shows a revival of fortunes. Larger economies will experience little lasting damage, according to the IMF; very different from the last financial crisis which took years to recover from. This means more money in the pockets of consumers and nowhere to hide for companies with unethical practices in a competitive marketplace.

Though the pain of the last crisis may be dissipating, the bad news is that the next troubling event is just around the corner. It could be digital disruption or a natural disaster, but the expectation will be that businesses should withstand whatever comes next.

Building resilience is more than an anodyne approach to doing the right

thing or simply a strategy of multiple sourcing. Procurement understand the risks at all tiers of a supply chain, looking at bribery, labour violations, modern slavery and responsible payment practice.

With websites such as ethicalconsumer.org, socially-aware consumers can pick and choose who they spend with and map the environmental footprint of goods and impact on people. The website gives an example of a white T-shirt's supply chain journey through five countries, demonstrating how the simplest of goods can be a potential breeding ground for cruelty and bad practice.

On reflection, I would embrace the benefits of globalisation, while acknowledging and managing the risks. I can see protectionism has its plus points and downsides too.

The United States, Russia and China are focusing on more protectionist policies to bolster their own economies, and research from Bolloré Logistics and Transport Intelligence found two fifths of their respondents believed the pandemic had signalled the end of globalisation. So perhaps a greater focus on in-shore supply is unavoidable in the short term, though of course the larger your "domestic" economy and supply base, the greater availability of competitive in-shore suppliers.

Each business and procurement team must decide what is the right approach for them. On-shoring will not be the solution for all and forced protectionist policies by government can stifle the very advantages it is supposed to bring. A balanced approach to both global sourcing and local suppliers is the way forward, as I hope businesses take core ethical values to heart with trained, skilled procurement professionals leading the way. ●



Malcolm Harrison
Chief executive
Chartered Institute of Procurement and Supply

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Scott Graham via Unsplash

CONTRACTS

How to write a watertight supply chain contract

Legal experts explain the extra clauses you need in a supply contract to keep all parties happy

Charles Orton-Jones

Supply chain experts are not lawyers. And therein lies a problem. "Why do contracts go wrong?" reflects Emily Sadler, commercial contract expert at law firm Paris Smith. "Good question. Lots of companies write contracts themselves. They use negotiators who are not trained lawyers, who fail to document legally what was agreed, in language that reflects contract law."

Factor in time pressures, inexperience, and unexpected factors like Brexit and a pandemic, and supply chain and procurement contracts can turn into a nightmare.

For example, look at Serco, which signed a deal to house asylum seekers for the UK government in 2013, but forgot to specify in the contract how many asylum seekers to house. The numbers soared, triggering a loss of £115 million for Serco on a £35-million revenue deal. The chief executive blamed sheer naivety on the part of his company. The company's negotiators simply didn't know how to draw up a contract.

So what's the best way to upgrade supply chain and procurement contracts to ensure they are watertight?

"Make sure you have your governing law specified," says Duncan Spokes, commercial and strategy manager at YPO, one of the largest public sector buying organisations in the UK. "Is the contract under Scots or English law? Where will a dispute be resolved? I've seen contracts not making that clear. We had a contract for a crematoria project which encompassed the Dutch, German and English law. Which one takes precedence? It's the first thing to get sorted. Really, really important."

Another tip. "Clarify your dispute resolution procedure," says Spokes. "At YPO we have very clear dispute resolution clauses and escalation points. They state who has the authority to take action and, if a matter is not resolved, what happens next. We include time constraints to avoid unnecessary costs."

Contract indemnity is vital too. "You need to make sure damages are proportionate. If I book a hotel room for a business trip, and it is cancelled, can I claim unlimited damages? That would be absurd. The contract should make clear the scale of the damages," he says.

A common error is to bloat the contract by including non-legal material. James Bousher, director of operational performance at consultancy Ayming UK, says: "Most contracts are formed after a tender or bid process. The tendency then is to include the tender response as an appendix, however more often than not this either doesn't reflect the final outcome of the tender or contains a lot of unnecessary information." Cutting out non-legal clutter such as appendices is an essential step.

Bousher believes a balance must be struck on size. Bigger isn't always better. "The best organisations actually have different contract templates to match what is being procured," he says. "There is nothing worse than trying to unpick a service contract agreed to using a contract designed for goods. However, even then a template contract that tries to cover every eventuality can be a bit overkill; anybody signing a low-value services contract using the NHS T&Cs for services will know the pain of reading all 112 pages."

A common source of confusion in contracts is when verbal

agreements are made after signing. Are these verbal statements valid in law? It can be hard to say. The solution can be a no-variation clause, argues Mark Rhys-Jones, head of the dispute resolution team at law firm Foot Anstey.

"It's very common for parties to overlook 'no-variation' clauses,



You are unlikely to have a perfect contract in every respect; decide what is important to you and focus on that

which in most commercial contracts will provide that a variation of the contractual terms will only take effect if it meets certain formalities, such as being recorded in writing and signed off by a named representative. After the contract has been signed off, these formalities can be forgotten about in practice, which can result in uncertainty of terms and the risk of disputes arising over what has or has not been agreed," he says.

Contracts can be enhanced by including measures to help both parties. For example, a requirement to offer demand forecasts. "Forecasting is not often dealt with in a supply contract," says Sadler of Paris Smith. "But forecasts are really critical to getting a contract that works."

A sound principle is to specify when forecasts will be issued. "The customer could be contractually required on a quarterly or monthly basis to present non-binding forecasts so the supplier can plan ahead," she says. "It's not a commitment to buy, but a collaborative process for both parties to get an idea of what demand might be. It would normally happen informally anyway, but it's better to have something concrete."

Termination rights are standard in every contract. However, a mid-contract exit clause can also be included. "In legal terms we say 'terminate for convenience,'" says Sadler. "There doesn't need to be anything wrong. It's just that the contract is no longer serving you, and you want to move onto another supplier, and this is a mechanism to allow you to have flexibility."

Ultimately, there's a long shopping list of desirable add-ons to contracts that improve the deal for both parties. However, time constraints may prevent all options being included. So Sadler has practical advice for procurement professionals with limited time or a tight legal budget.

"My top tip is to think of the three things that really matter to you. Maybe it's flexibility and the ability to bring a contract to an end without waiting ten years. Maybe it's the limitation of liability that's the key for you, because you don't want to expose yourself unnecessarily. You are unlikely to have a perfect contract in every respect; decide what is important to you and focus on that. You need a bit of commercial reality in there," she says.

The overarching lesson is that contracts must be the domain of supply and procurement experts. Never assume a contract will cover all aspects. Feel free to question lawyers to make sure there are no woolly assumptions.

Just look at the procurement failure of the European Union on AstraZeneca vaccines. Commissioner Stella Kyriakides believed a "best efforts" clause meant a cast-iron obligation to hit deadlines.

Her exact words: "The view that the company is not obliged to deliver because we signed a 'best effort' agreement is neither correct nor is it acceptable."

Alas, she was wrong. The contract implied no such thing. Even the best resourced professionals can make mistakes. ●



Mark Rhys-Jones via Unsplash

What is force majeure?

The COVID era put the spotlight on a rarely used legal term: *force majeure*. Scripted to take into account so-called acts of God, the concept suddenly became of prime importance to suppliers and buyers struggling with crippled logistics.

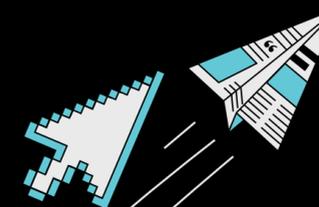
But what exactly does it cover? "It's not a precisely defined term," says Adrian Aston, director of disputes at law firm Naismiths. Put roughly, he says, it's "a dramatic and unforeseeable event that overrides a

party's contractual obligations". Earthquakes, wars and pandemics are the usual culprits.

He offers three insights into the legal standing of *force majeure*. The first is that just because a disaster has struck does not mean *force majeure* can automatically be claimed. "Not everything stops in a pandemic," he points out. "It is still possible to work on a construction site, so a builder could still operate."

Second, claims are hard to establish. "It's not a free pass," says Aston. "The fact that a builder can't buy plaster or cement is merely associated with the pandemic." The usual requirement is for the contractor to do everything possible to overcome an obstacle. "You can't just say 'my supplier can't deliver'. You must do everything to overcome the delay, short of spending money," he says.

And third, a lack of clarity can be expensive. When writing contracts, it is vital to be specific about duties and liabilities. "You are never going to capture everything in a contract," says Aston. "But it is certain that in the future contracts are going to be more explicit about *force majeure* and how something like a pandemic affects obligations. We are going to see a lot of high-stakes legal battles to see where responsibility lies. A strong contract can avoid that entire scenario."



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BREXIT

Route to market rethink as supply lines falter

It's too early to predict how the UK will ultimately fare post-Brexit but, for now, businesses are weighing up the pros and cons of a new era in supply chain management

Virginia Matthews

When the Brexit transition period ended on December 31, many business owners faced the new year filled with uncertainty.

"As a small business, we've had no other option but to switch off direct sales to Europe in the short term, while we work out what our next steps will be," says Katherine Swift, founder of the UK-based Japanese green tea brand OMGTea.

Hit by the extra red tape and hazardous delivery schedules that have ushered in the UK's exit from Europe, like many small-business owners, Swift plans to increase her stock and reduce the number of shipments without denting cash flow.

With as many as one in five small

businesses in the UK classed as exporters, raw materials shortages, lengthening vendor lead times and higher prices have seen some shut up shop for good. Others are in feverish realignment mode.

Whether it's joining forces with critical European Union suppliers, renting extra warehousing space in key markets or actively chasing new territories, businesses across all sectors are proving nothing if not innovative.

After 47 years of unfettered access to the EU's 500 million-plus consumers, the UK may no longer be in the club but, as firms battle their way through complex rules of origin, inconsistent duties and unstable supply lines, the end-game is far from over.



On-shoring

Moving onshore to avoid supply chain disruption is politically expedient and earns brownie points among consumers for whom a "Made in Britain" logo will speak volumes in the post-Brexit world.

But while close to 100 per cent of UK sourcing is already within reach for some firms, fast fashion, toys and tech are just three of the industries which remain heavily reliant on supplies from China and the Far East.

"The British toy industry moved to Asia in the 80s oil crisis and although I'd love to bring my production back to Britain, it would never be cost effective," says Lyndon Davies, chief executive of Hornby.

"As both importer and exporter, we're happy to serve our European market from a Dutch-owned warehousing facility here in the UK and if the EU tariff regime happens to change overnight, we will take immediate steps to switch to an equivalent facility over there."

In the long term, the UK could become an attractive base for European businesses looking to export throughout the Single Market.

A 2020 report by management consultancy Alvarez & Marsal predicted that more than £4 billion of retail products could be on-shored to the UK by the end of this year, equivalent to the country's entire clothing manufacturing output.



EU warehousing

The Netherlands and Germany are proving an attractive proposition for many British firms looking to beat Brussels by establishing their own distribution base in the EU, among them JD Sports, or renting warehouse space from suppliers.

While there can be considerable set-up costs involved in employing local warehouse staff or shipping an existing team overseas, once

established, a UK business can enjoy both frictionless trade and freedom from the complex sanitary and phytosanitary (SPS) rules designed to protect public health and animal welfare.

"If your EU business consists of many small orders, warehousing would be a good option and I know of many companies that are currently considering this," says Philip Roe, chief customer officer of DHL Supply Chain.

But there is a downside, as Mike

Cherry, national chairman of the Federation of Small Businesses, points out. "Small exporters have been hit by a raft of fresh costs and admin as a result of new EU trading arrangements, forcing many to set up offices on the Continent or, in some cases, relocate there wholesale. That's time and money spent on navigating fresh rules that should be being spent on adapting and staying afloat in an extremely challenging environment," he says.



Joint ventures

"It was Brexit and the SPS regulations that hastened our determination to set up a joint venture trading deal with a firm in the Netherlands and we feel very positive about it," says Jamie Gray, founder of the promotional products brand Buddy Burst.

"We can't export our best-selling seed stick products to the EU at the moment because they either get returned or

stuck at customs, but whether our partner uses our machines to make our lines from scratch or simply finishes them off, it makes perfect sense to supply the EU's £8-billion promo market from over there."

Danny Hodgson, founder of high-end jeans store Rivet & Hide, says the £200-plus price tags on his internationally-sourced denim make warehousing too expensive an option. But with half his online business coming from the

EU, he and a partner firm are hiring a specialist Dutch accountant and tax adviser to oversee shipments and returns via a local distribution centre.

"We are at the mercy of different customs agencies at the moment and it's a mess," he says. "By having our own Dutch VAT number, we'll be treated like a domestic company in the Netherlands and, as long as we declare everything properly, it should all work smoothly."

Wider markets

"We're taking a hit on the extra duties still being imposed on business-to-consumer exports from the UK to the EU and this inevitably comes off the bottom line. But we are hoping these additional costs are only teething problems that will be solved within the next three or four months," says Robert Ettinger, chairman and chief executive of the luxury leather goods brand that bears his name.

"We have no intention of deserting our very old and long-established customers in France or Germany, for example, but we are finding the Far East, a more important market for us, has coped far better with the

other major headache of the year, COVID, than Europe has."

While he agrees exporting to new continents is an obvious way forward for UK firms, Ettinger stresses this is "a huge learning curve requiring patience and resourcing".

For Swift at OMGTea, it's a case of slowing down in Europe while revving up elsewhere until the EU fog clears.

"Fortunately, we can continue to supply our products to European customers via Amazon, but we also intend to accelerate our expansion into other international markets, such as Canada and Australia, as part of our future growth strategy," she says.



Watching and waiting

"We are only 40 to 50 per cent through all the changes involved in Brexit and, with the next phase of implementation likely to coincide with recovery from COVID, the full adjustment period is very far from over in our view," says Roe at DHL Supply Chain.

Although many businesses are adapting supply lines for fear of being left behind, he argues the "key priority is to ensure you have the data you need to comply with the new ways of working and to understand the impact of these changes on your route to market".

While DHL is able to offer a degree of hand-holding to the many businesses requiring practical help with fulfilment, he believes major post-Brexit reorganisations should be postponed until the dust has settled.

"In the last six months, I've been struck by how well companies are working together in the new trading environment, liaising with trade bodies and with the various relevant authorities, and I see this as a very positive sign for the future," says Roe.

"Businesses have a far better and more sophisticated understanding of the intricacies of logistics than ever before and that too is very good to see."



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