The Procurement Initiative
Pulse Check Q1/2023

From Crisis to Control: Insights into Inflation, Sustainability, and the German Supply Chain Act

In association with

University of St.Gallen
Institute of Supply Chain Management

H&Z

Context of the work

Since the Procurement Initiative began researching the procurement and supply chain environment in 2021, the challenges in orchestrating global supply chains have increased significantly: the past years have seen an influx of inflation, risk, and sustainability-related concerns.

While businesses and the media now acknowledge the importance of supply chain management, there is still much work to be done to move the strategically relevant and pressing issues in procurement from the periphery into the spotlight.

With our Q1/2023 Pulse Check, we aim to gauge the current sentiment within the procurement and supply chain environment, focusing specifically on sustainability and the implementation of the German Supply Chain Act. With 148 surveyed experts across C-level, managerial, and professional positions, this report provides a comprehensive overview of the current state in procurement.

This report presents The Procurement Initiative's findings, reflecting on the challenges facing procurement and supply chain managers, and highlighting best practices. We want to extend our heartfelt gratitude to all those who contributed to our survey.



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Procurement Initiative Pulse Check Q1/2023 | Key takeaways (1/2)

Survey participants
Role and industry distribution

- 148 procurement and supply chain experts participated in our Q1/2023 Pulse Check
- 96 managers, 43 C-level executives, 9 professionals
- Top 3 industries: Industrials, Healthcare, FMCG

Supply chain sentiment,
% of respondents

- 57% of respondents have a rather positive to very positive outlook regarding the stability of supply chains in 2023

Sourcing Priority,
Average % points (out of 100) per objective

- Sourcing priorities shift from building resilience to generating cost savings (30% importance)

Inflation drivers,
Average share based on 7-point Likert scale (%)

- According to our survey panel, 37% of inflation is driven by a cost push based predominantly induced by labor shortages and further nominal wage grow

Inflation expectations,
Average increase in purchasing prices (%)

- For 2023, respondents expect an average increase in purchase prices of 4.1%
- 50% of respondents expect inflation between 2.5 – 8%
- Lower-than-expected energy prices push down inflation

Supply chain risks,
% of respondents

- Among the top supply chain risks rank unpredictable demand & supply (65%), recruiting and retaining highly skilled people (57%), and geopolitical risks (54%)

Procurement Initiative Pulse Check Q1/2023 | Key takeaways (2/2)

Sustainability ambition level, % of respondents

- 54% of companies indicate a low level of sustainability commitment.
- 17% of companies only have a green surface, 37% only dedicate a product line to sustainability

Sustainability tools, # of respondents (n=148)

- Most companies use ecovadis (n=60) to ensure sustainability standards and requirements
- The void: 22 companies use no software at all

Technological roadblocks for sustainability, % of respondents

- Tracking and monitoring sustainability performance (57%) and a lack of data standardization (56%) create roadblocks to implement tools and technology

Sustainability benefits as a result of technology, % of respondents

- Improved compliance with sustainability regulation (66%), reduced carbon footprint (65%), and improved SC transparency (60%) represent common benefits

SCDDA: Implementation of due diligence obligations, % of respondents

- For most companies, due diligence obligations are not fulfilled. Only 44% of companies have defined internal responsibilities and only 35% implement due diligence obligations at indirect suppliers

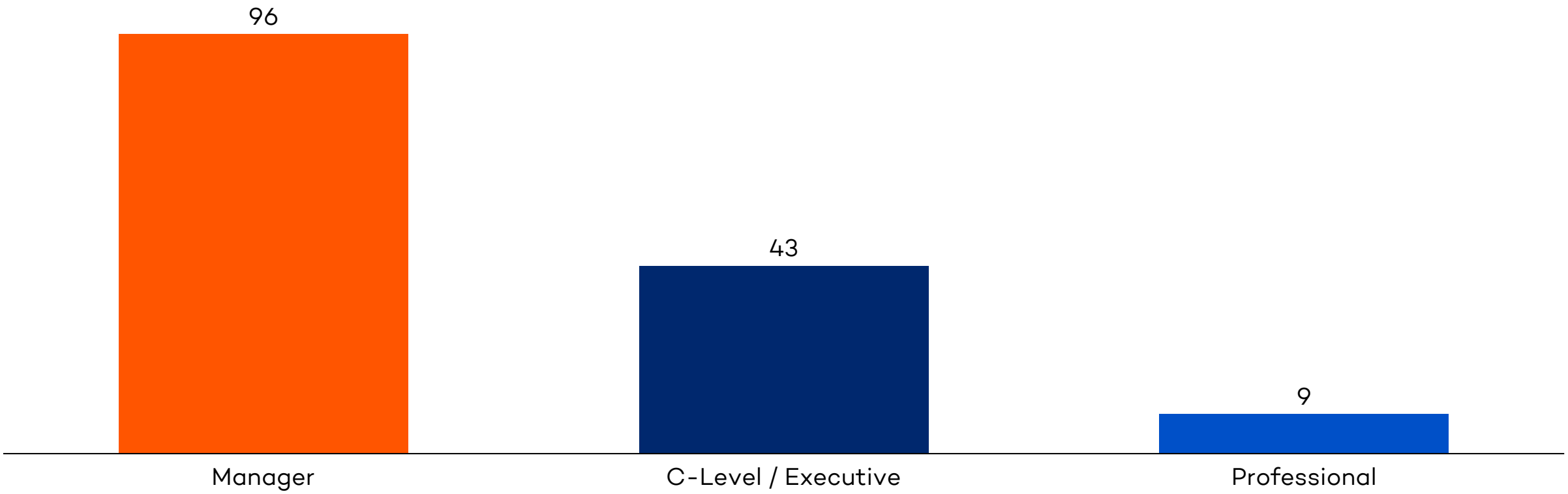
SCDDA: Implementation of concrete practices, % of respondents

- The current state of practices calls for urgent action in various fields such as supplier sustainability trainings

148 participants from the procurement and supply chain environment completed our Q1/2023 Pulse Check

OVERVIEW

Role within the company, # of respondents (n=148)

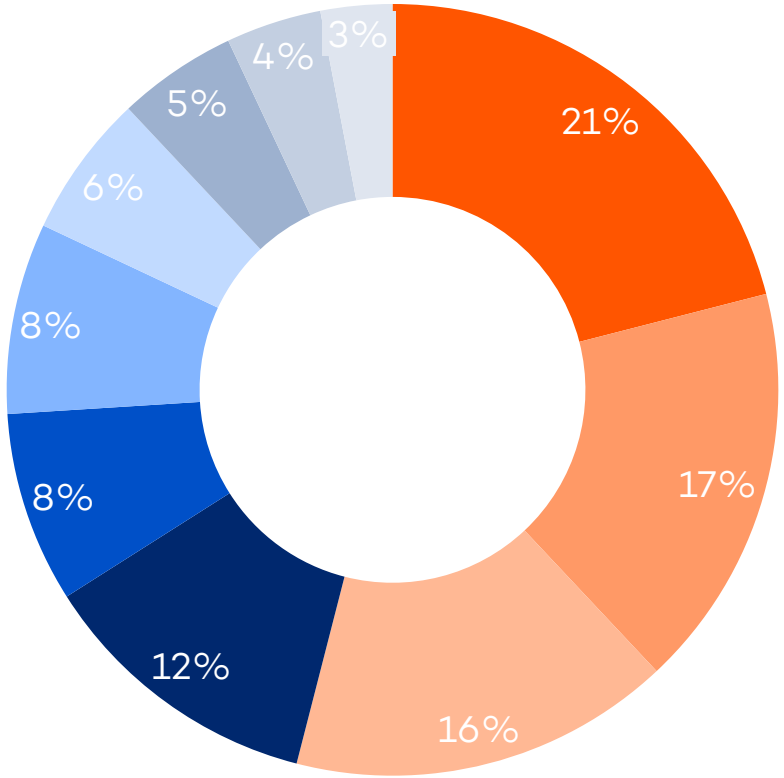


Question: “What is your role in the procurement/supply chain environment?”
Source: Procurement Initiative Pulse Check Q1/2023, Feb 15 – Mar 01, 2023

Our Q1/2023 Pulse Check provides a comprehensive industry analysis with representative findings for a variety of sectors

OVERVIEW

Share of industries, % of respondents (n=148)



- **Industrials:** Aerospace, Construction & Engineering, Transportation, etc
- **Healthcare:** Life Sciences, Pharmaceuticals, etc.
- **Fast moving consumer goods**
- **Materials:** Chemicals, construction, metals & mining, etc.
- **Energy:** Oil & Gas, energy equipment, etc.
- **Information Technology;** Software, Technology, Semiconductors, etc.
- **Automotive industry**
- **Consumer services:** Hotel, retailer, etc.
- **Financials:** Banks, Insurances, etc.
- **Communication:** Telecommunication, Media, etc.

Question: "Which industry does your company operate in?"
Source: Procurement Initiative Pulse Check Q1/2023, Feb 15 – Mar 01, 2023

57% of respondents have a rather positive to very positive outlook regarding the stability of supply chains in 2023

OVERVIEW

Supply chain sentiment, % of respondents (n=148)

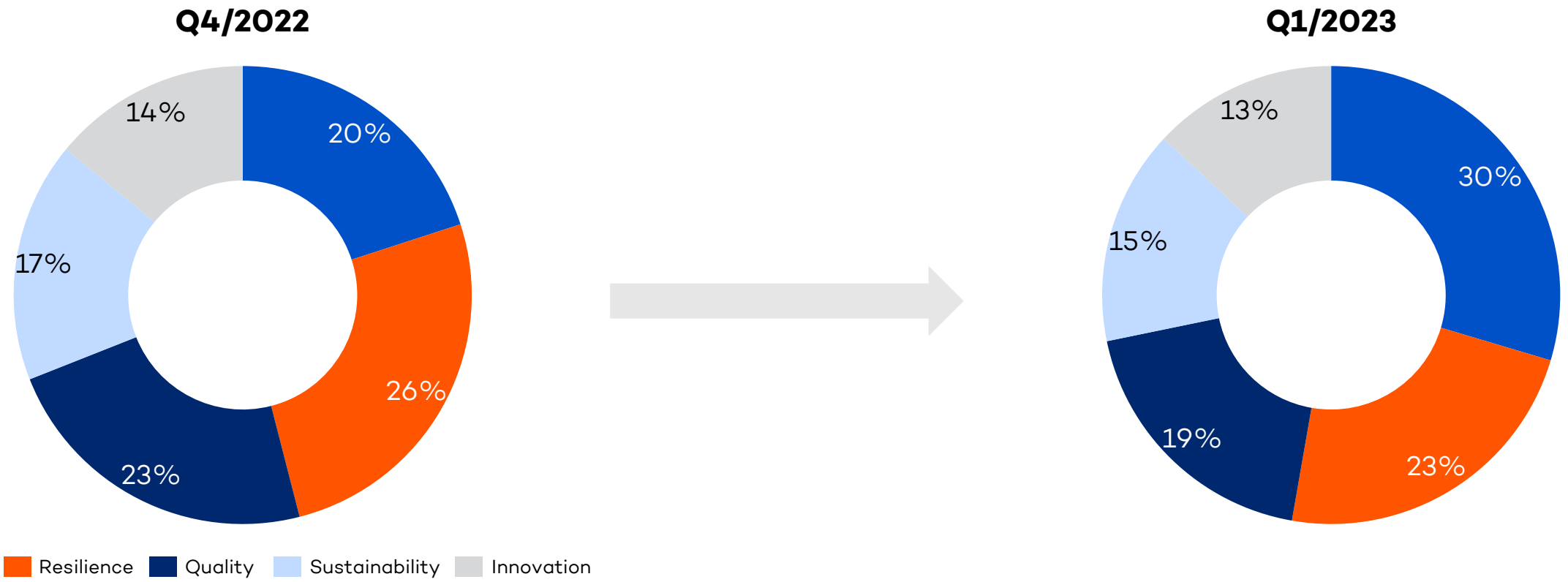


Question: "What is your sentiment regarding supply chain stability in 2023?"
Source: Procurement Initiative Pulse Check Q1/2023, Feb 15 – Mar 01, 2023

Cost remains the holy grail in sourcing decisions and is regaining importance in a stabilizing supply chain environment

OVERVIEW

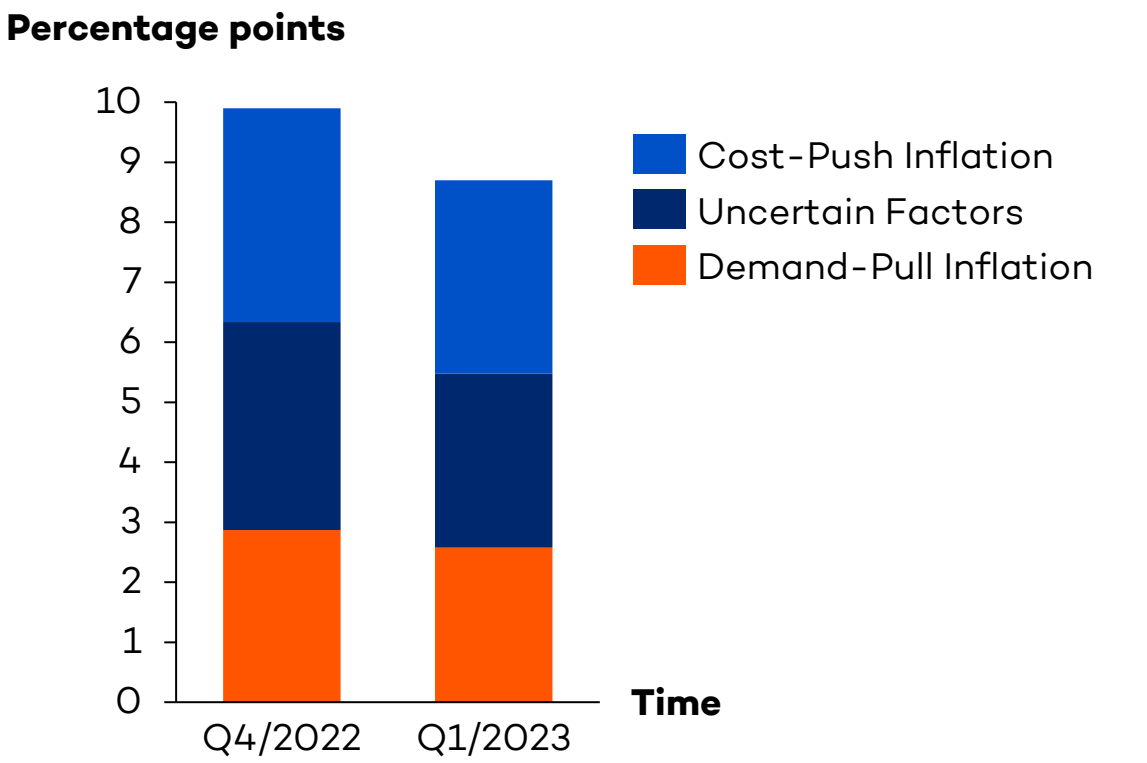
Sourcing Priority, Average points (out of 100) in the sourcing process based on ranking (n=102, n=148)



Question: "How would you rank the following criteria in terms of their importance for sourcing decisions?"
Source: Procurement Initiative Pulse Check Q4/2022 & Q1/2023, Feb 15 – Mar 01, 2023

While both supply and demand are responsible for current inflation levels, supply-side shortages are considered as the main driver

Inflation drivers, Average share based on 7-point Likert scale (n=148)



37% of inflation is driven by a **cost-push** stemming from a decrease of supply including **labor shortages, production constraints, energy, and shipping delays**

33% of inflation is driven by **uncertain factors** such as **preemptive buying due to high inflation expectations**

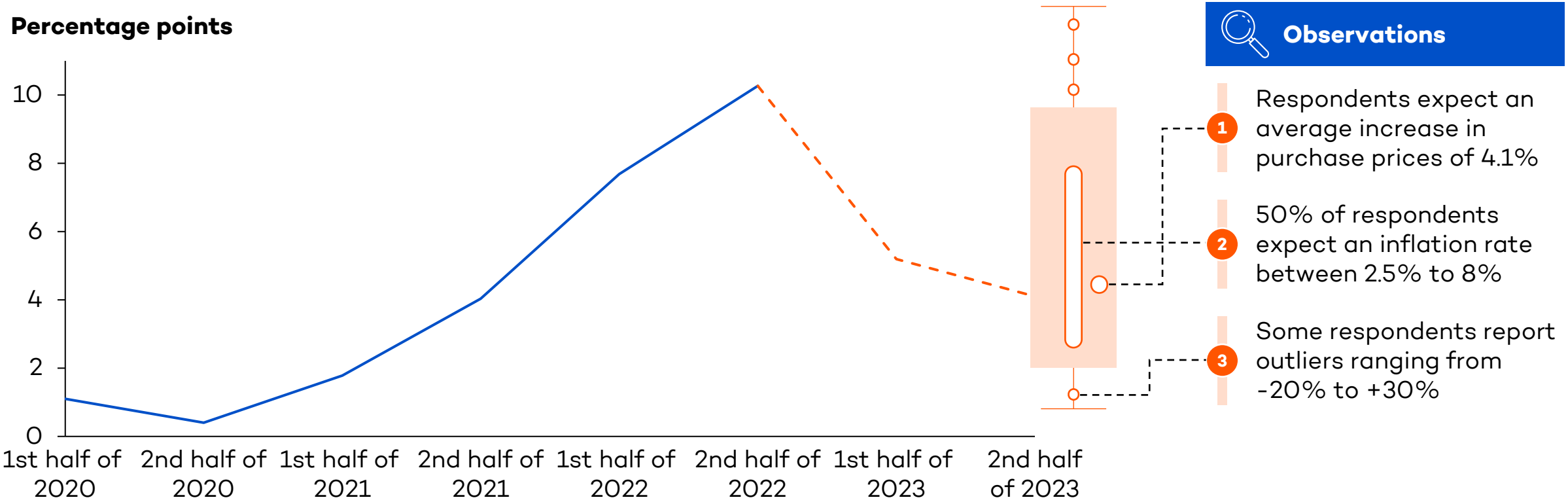
30% of inflation is driven by a **demand-pull** stemming from an increase in **customer demand** and **high government spending**

Question: "How much do supply and demand drive inflation?"
Source: Procurement Initiative Pulse Check Q1/2023, Feb 15 – Mar 01, 2023

As supply-side disruptions are expected to ease, an average increase in purchase prices of 4.1% is expected for 2023

RISK & INFLATION

Inflation expectations, Average increase in purchasing prices for 2023 (n=148)



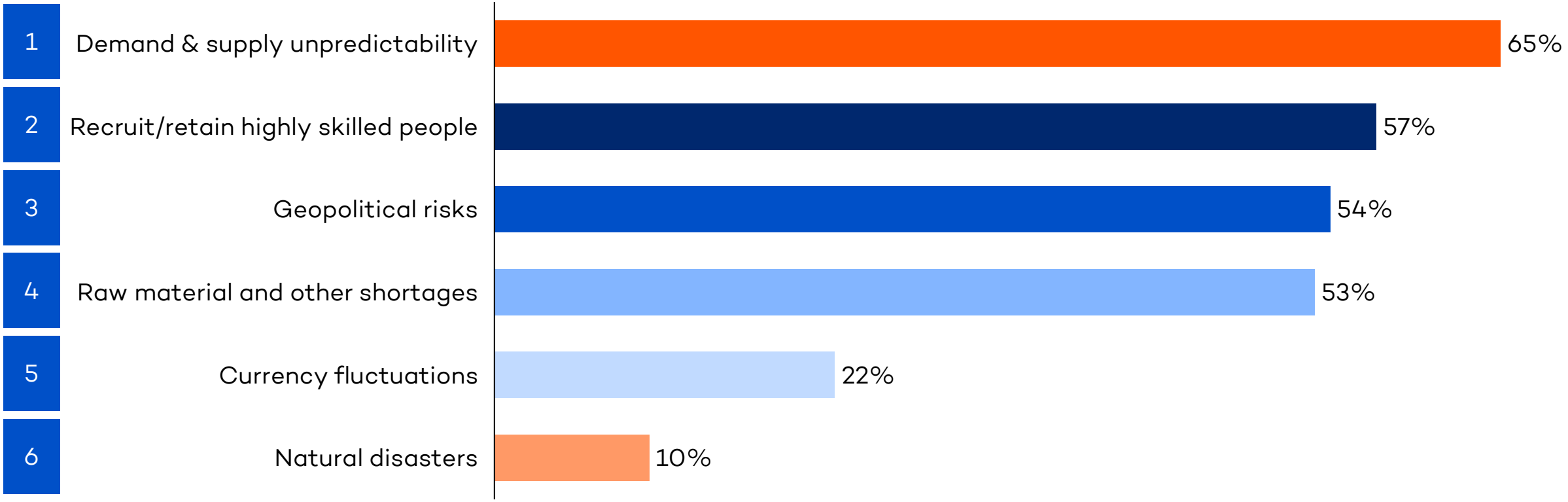
Observations

1. Respondents expect an average increase in purchase prices of 4.1%
2. 50% of respondents expect an inflation rate between 2.5% to 8%
3. Some respondents report outliers ranging from -20% to +30%

Question: "Which average change in purchasing prices for your categories do you expect for 2023 (base year for comparison: 2022)?"
Source: Eurostat inflation rate of the European Union & Procurement Initiative Pulse Check Q1/2023, Feb 15 – Mar 01, 2023

In terms of supply chain risks, most companies face demand & supply unpredictability, lack of employees, and geopolitical risks

Supply chain risks, % of respondents (n=148)

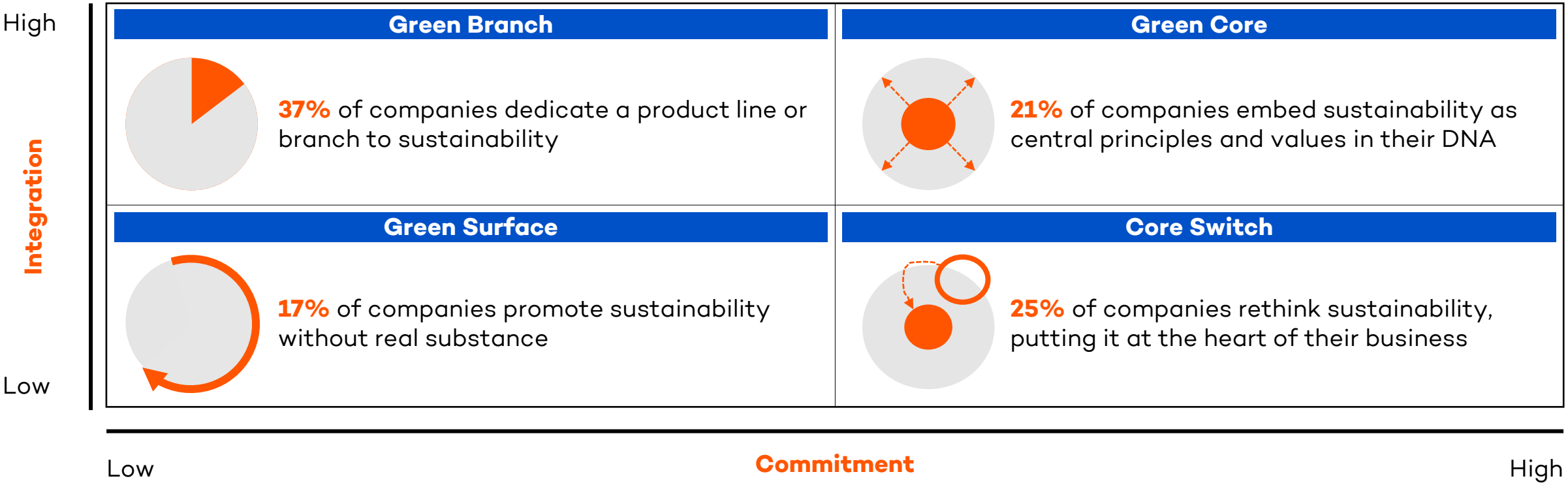


Question: "Which factors are currently most critical for your operations?"
Source: Procurement Initiative Pulse Check Q1/2023, Feb 15 – Mar 01, 2023

All organizations are on a sustainability journey. However, most companies indicate that their commitment to sustainability is rather low

SUSTAINABILITY

Sustainability ambition level, % of respondents (n=148)

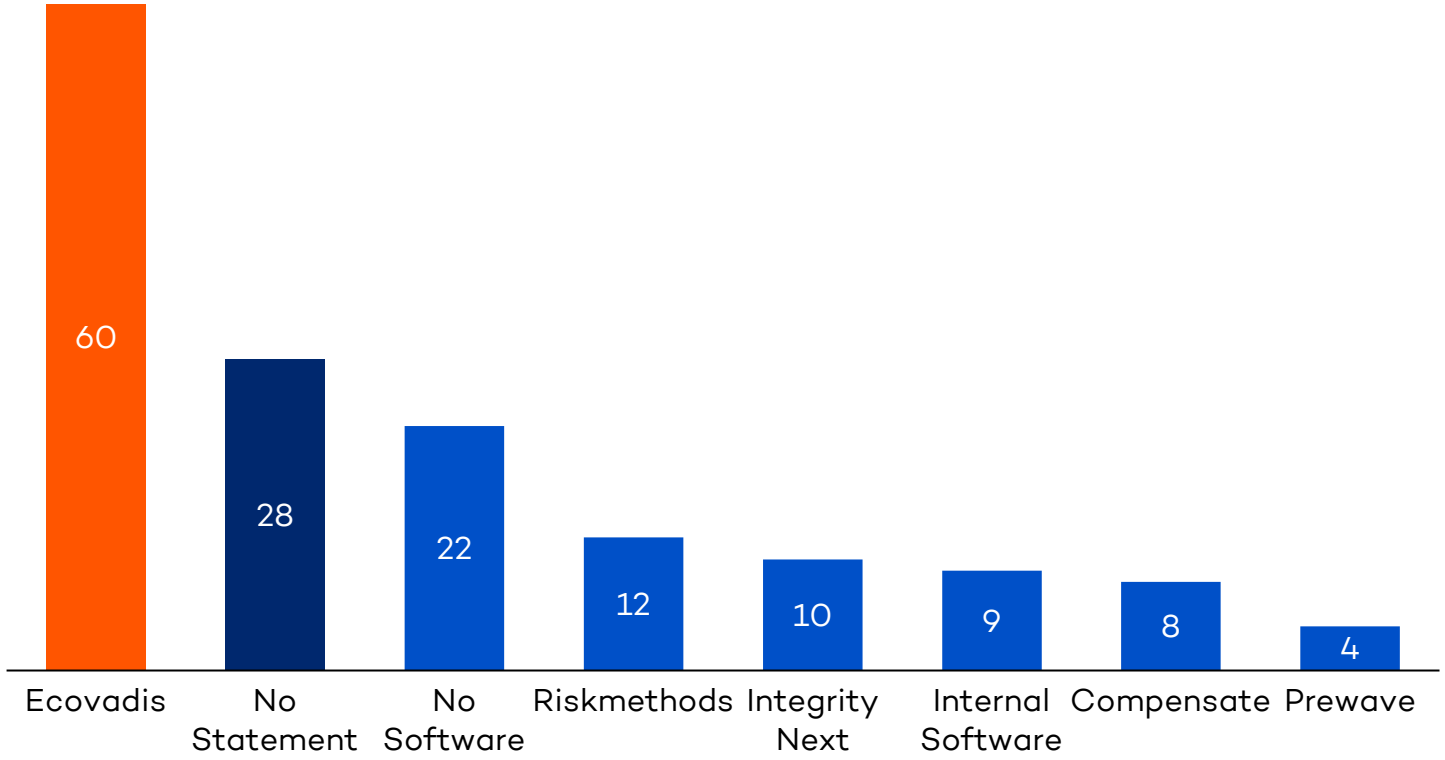


Question: "Which of the following options describes your company's ambition level the best? "
Source: Procurement Initiative Pulse Check Q1/2023, Feb 15 – Mar 01, 2023

Regarding sustainability tools, most companies are either using Ecovadis or no solution provider at all indicating a big void from the user perspective

SUSTAINABILITY

Sustainability tools, # of respondents (n=148)



Other: tools

- Sedex
- MyClimate
- PCF
- RepRisk
- Alyne
- GaBi
- Carbon Mind
- EcoTransIT
- Ariba
- Carbmee
- Planetly
- Watershed
- Preface
- Position Green
- SbTI
- SAP TM
- SAP YM
- Assent Compliance
- Sphera
- Envirometer
- FSE
- CDP
- ClimatePartner

Other: initiatives

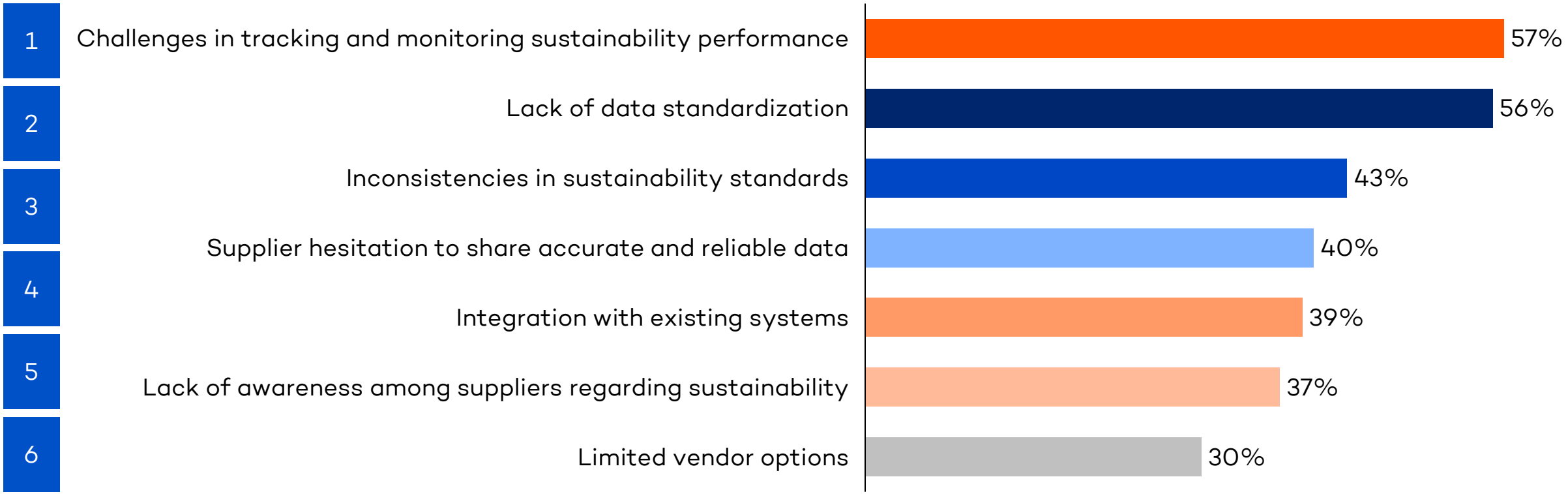
- Together for sustainability
- SbTI
- CDP
- Green Bonds / Sustainable Linked Loans
- UN Global Compact
- Blauer Engel
- Aktion Baum
- CEOs bekennen Farbe

Question: "Which tools / solution providers does your company use to promote sustainability in the supply chain"
Source: Procurement Initiative Pulse Check Q1/2023, Feb 15 – Mar 01, 2023

Besides tracking and monitoring sustainability performance, the lack of data standardization also creates roadblocks

SUSTAINABILITY

Technological roadblocks for sustainability, % of respondents (n=148)

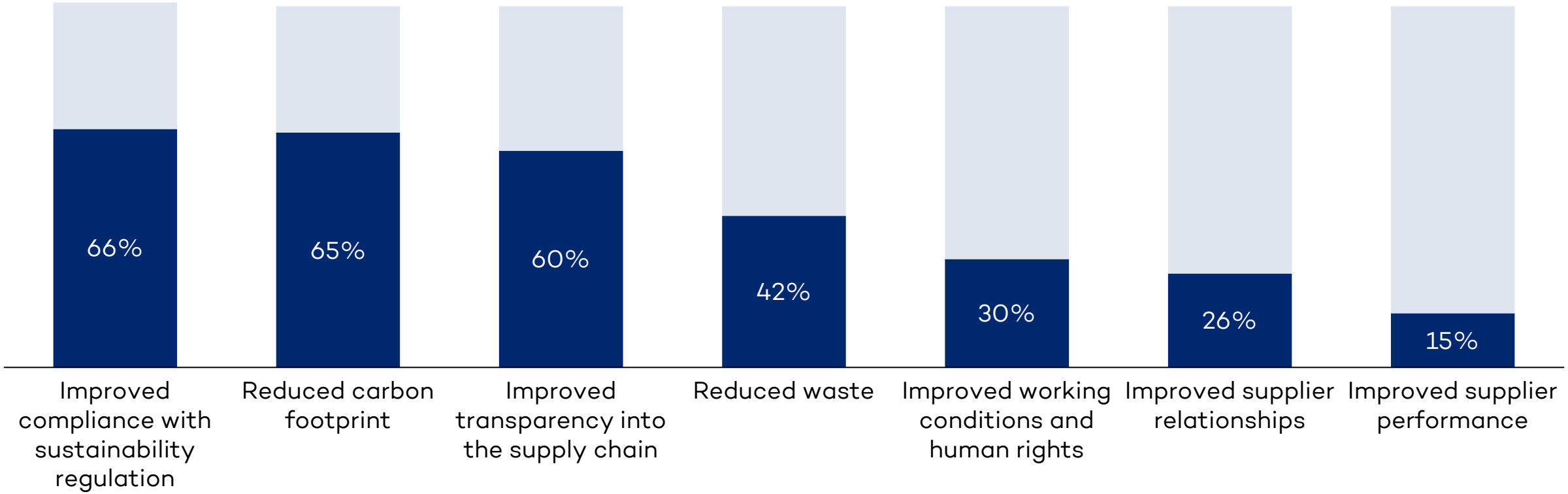


Question: "What roadblocks does your company face when using technology for sustainability in the supply chain?"
Source: Procurement Initiative Pulse Check Q1/2023, Feb 15 – Mar 01, 2023

Improved compliance with sustainability regulation and reduced carbon footprint represent common sustainability benefits achieved by technology

SUSTAINABILITY

Sustainability benefits as a result of technology, % of respondents (n=148)

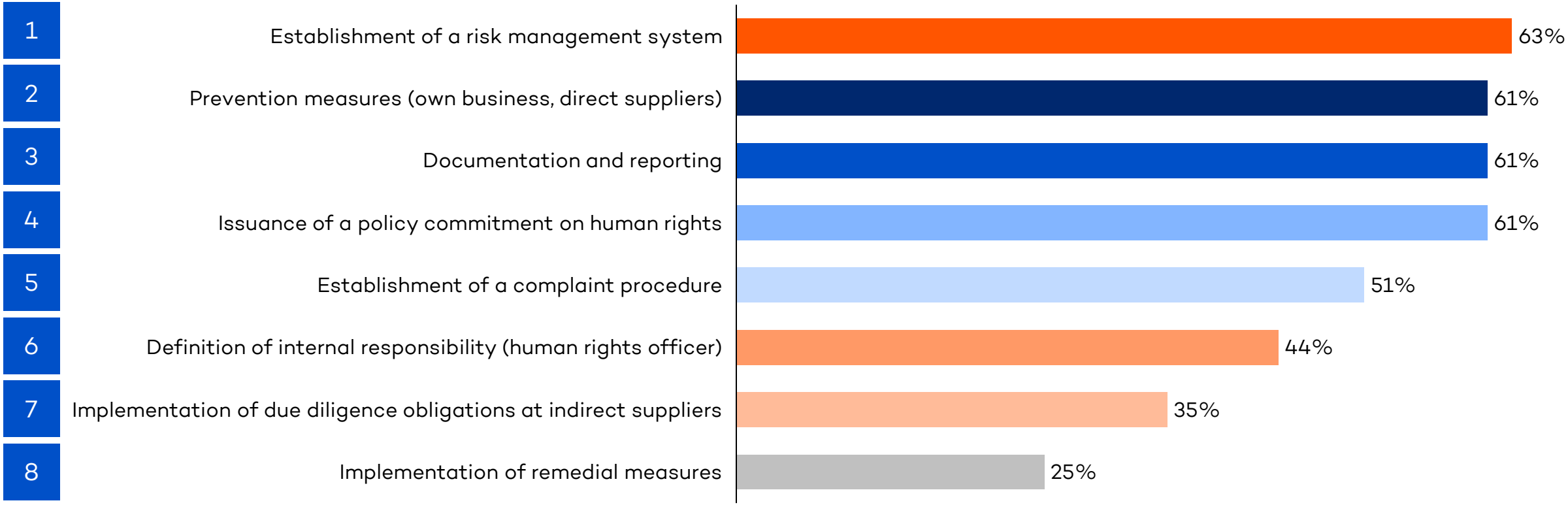


Question: What are the main benefits that your company has seen from leveraging technology for sustainability in the supply chain?""
Source: Procurement Initiative Pulse Check Q1/2023, Feb 15 – Mar 01, 2023

Regarding the implementation of the German Supply Chain Act, most companies do not fulfill the due diligence obligations at the moment

GERMAN SUPPLY CHAIN ACT

Human rights and environmental due diligence obligations, % of respondents (n=148)

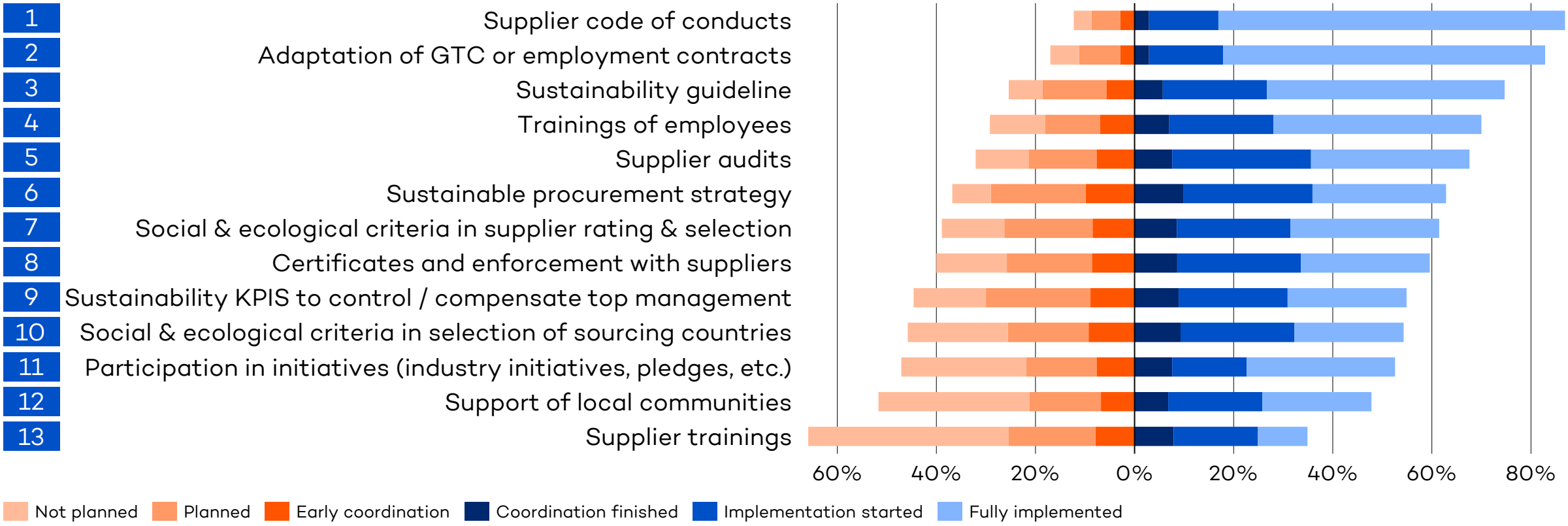


Question: "What measures has your company already taken to protect human rights and the environment?"
Source: Procurement Initiative Pulse Check Q1/2023, Feb 15 – Mar 01, 2023

Supplier trainings, support of local communities, and participation in industry initiatives represent the least developed measures

GERMAN SUPPLY CHAIN ACT

Implementation of practices, % of respondents (n=148)



Question: "To what degree have you implemented the following measures to embed sustainability in procurement? "
Source: Procurement Initiative Pulse Check Q1/2023, Feb 15 – Mar 01, 2023



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Thank you for taking part in our Pulse Check Q1/2023.

We will share future research results on our LinkedIn channel The Procurement Initiative.

Stay tuned!

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