The Procurement Initiative
Pulse Check Q2/2024

Role of raw materials procurement and (supplier) price management

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 procurement and 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 Q2/2024 Pulse Check, we aim to gauge the current sentiment within the procurement and supply chain environment, focusing specifically on the role of raw materials procurement and (supplier) price management. Based on our pulse check survey of 100+ respondents, this report provides an overview of the current state in procurement and future trajectories.

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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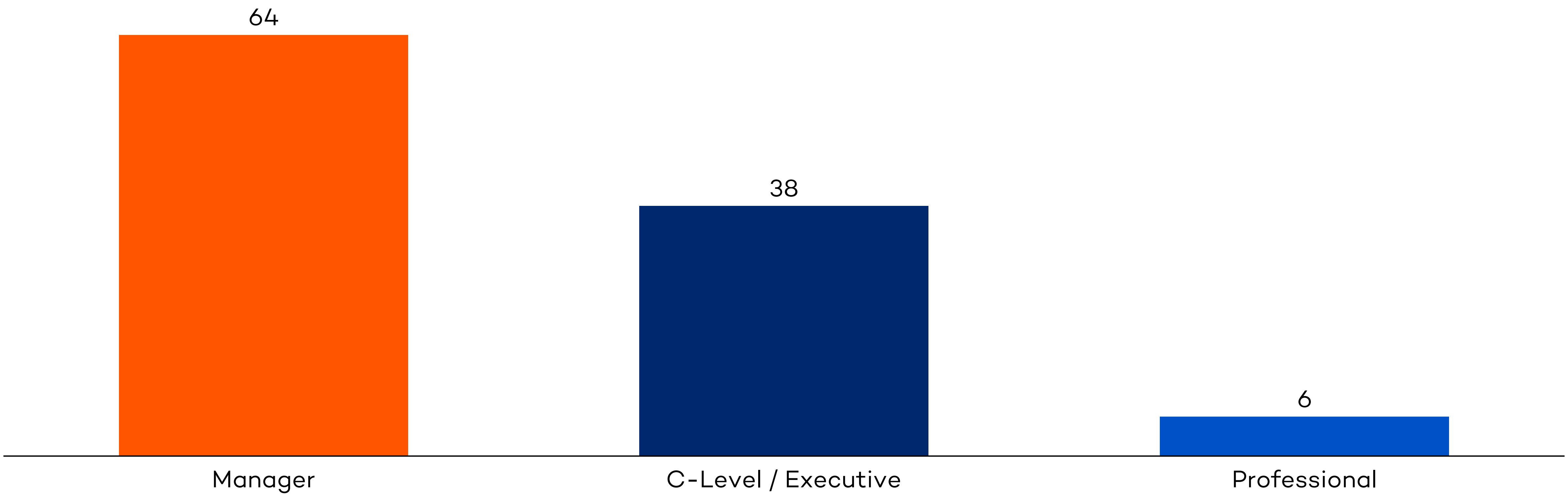
108 participants from the procurement and supply chain environment completed our Q2/2024 Pulse Check

OVERVIEW

Role within the company,
# of respondents (n=108)



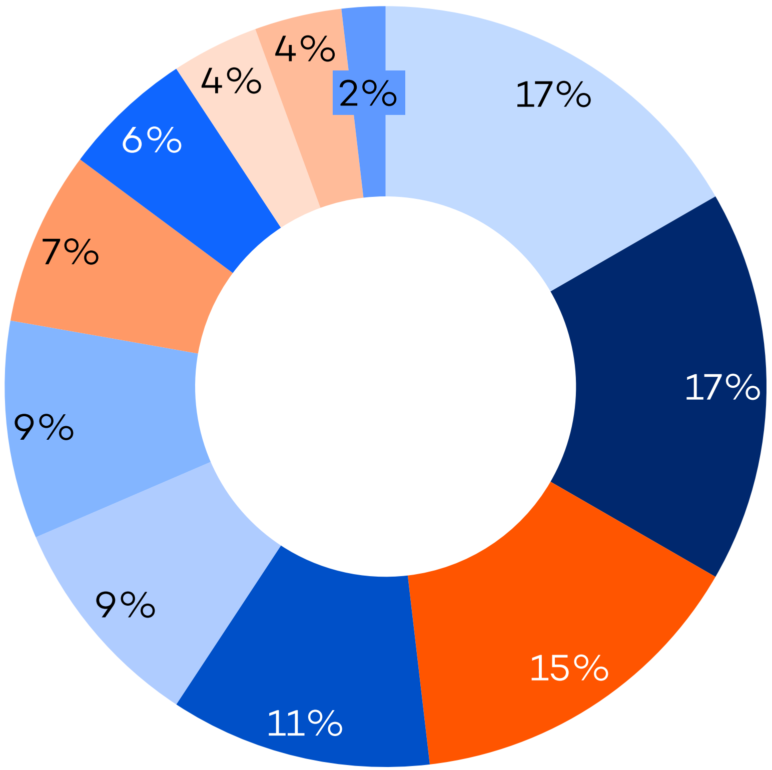
Question: “What is your role in the procurement/supply chain environment?”
Source: Procurement Initiative Pulse Check Q2/2024, Jun 24 – 28, 2024

The Q2/2024 Pulse Check offers an extensive industry analysis, presenting representative findings for various sectors

OVERVIEW

Share of industries,
% of respondents (n=108)

- Fast moving consumer goods
- Healthcare: Life Sciences, Pharmaceuticals, etc.
- Materials: Chemicals, Construction, Metals & Mining, etc.
- Industrials: Aerospace, Construction & Engineering, Transportation, etc
- Automotive industry
- Information Technology: Software, Technology, Semiconductors, etc.
- Financials: Banks, Insurances, etc.
- Communication: Telecommunication, Media, etc.
- Energy: Oil & Gas, Energy equipment, etc.
- Utilities: Electric, Gas, Water, etc.
- Consumer services: Hotel, Retailer, etc.

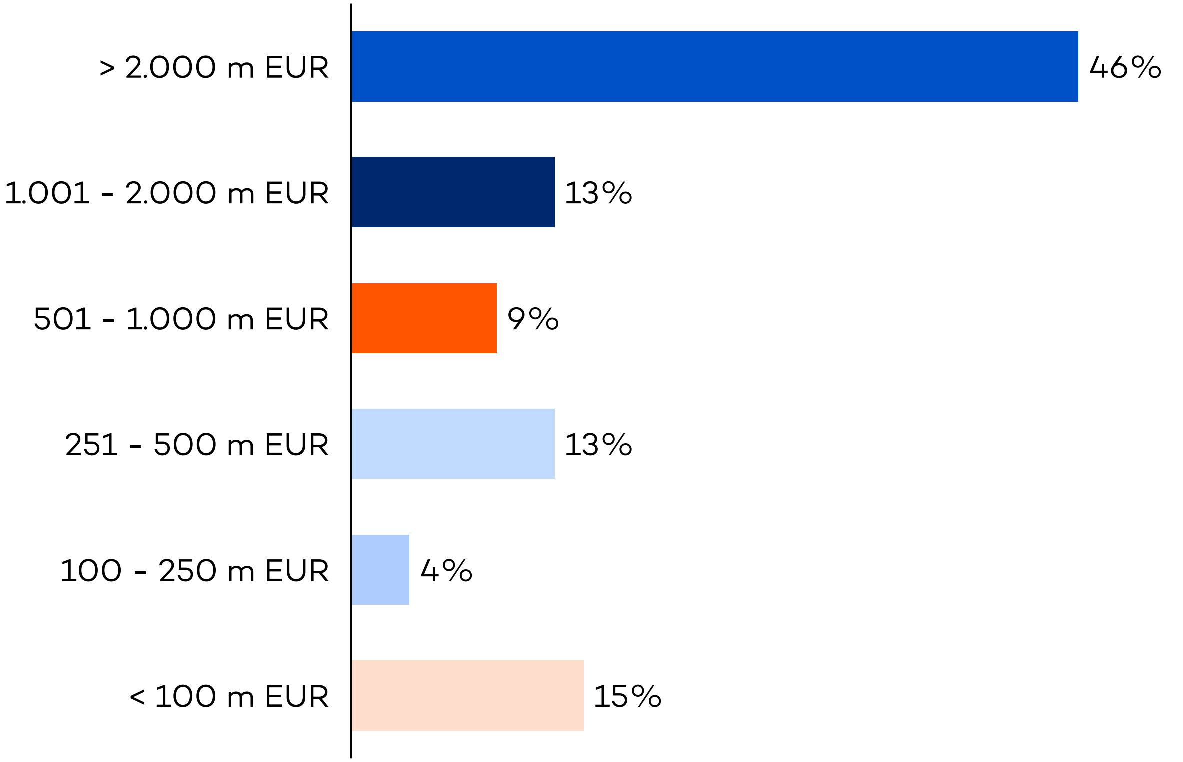


Question: “Which industry does your company operate in?”
Source: Procurement Initiative Pulse Check Q2/2024, Jun 24 – 28, 2024

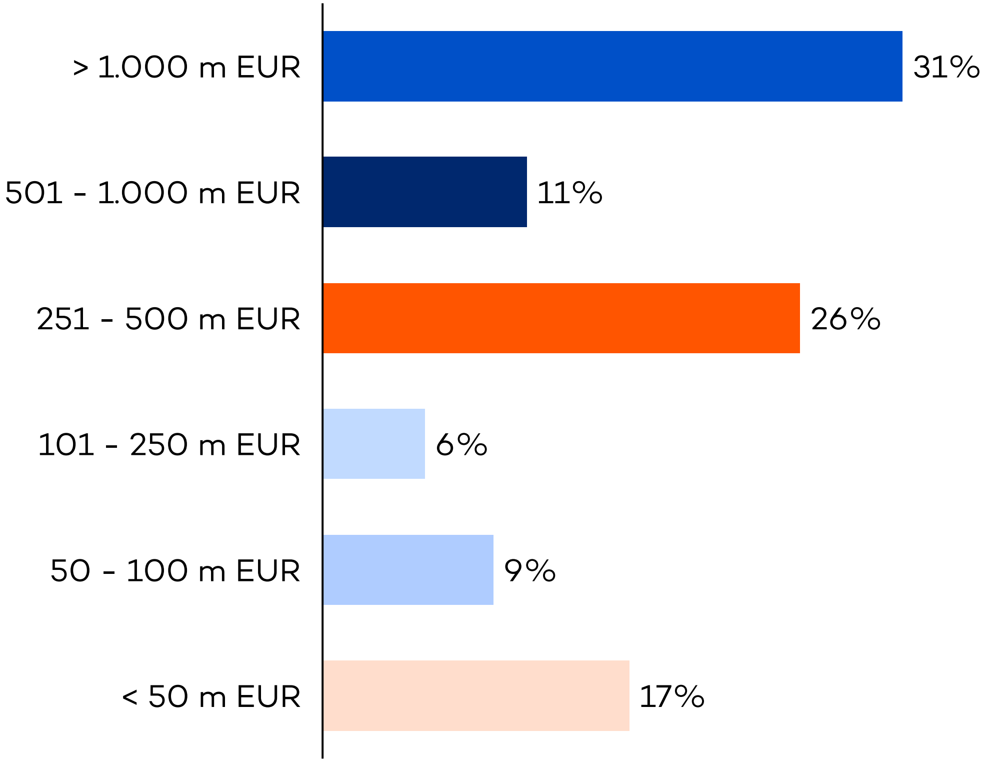
Half the participants' companies exceed 2,000 EUR in annual turnover, while one-third have substantial purchasing volumes of over 1,000 m EUR

OVERVIEW

Annual turnover (in EUR),
% of respondents (n=108)



Annual procurement volume (in EUR),
% of respondents (n=108)

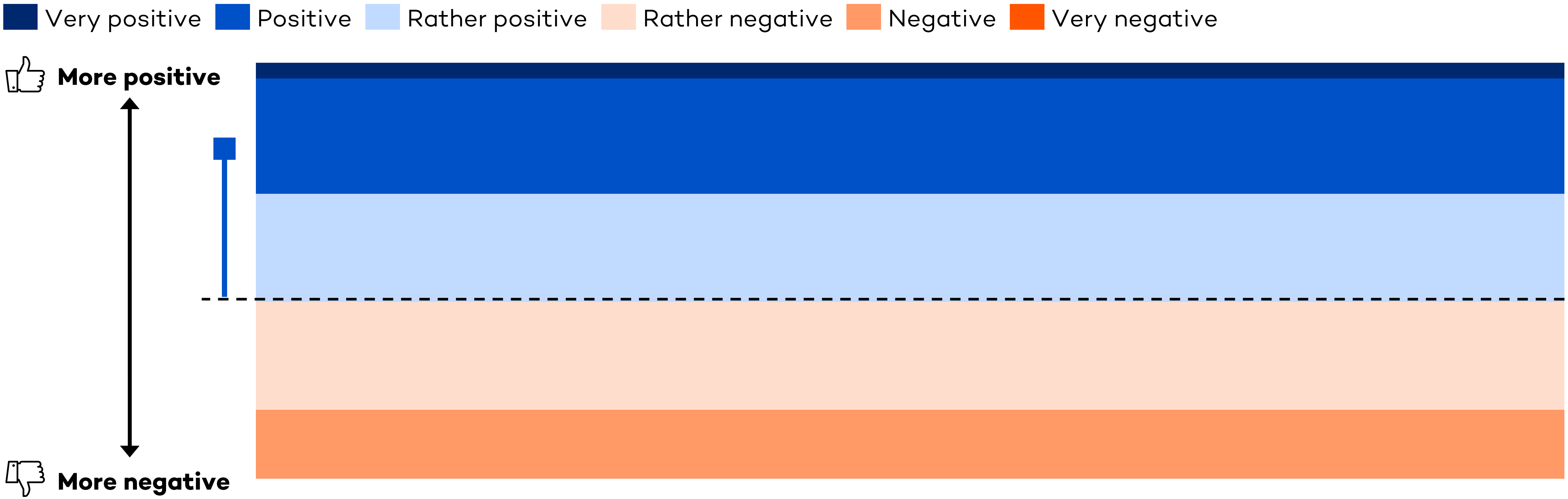


Questions: “What was your company turnover in 2023?” and “What was your procurement volume in 2023?”
Source: Procurement Initiative Pulse Check Q2/2024, Jun 24 – 28, 2024

57% of respondents have a rather positive to very positive outlook regarding the stability of supply chains in 2024 (compared to 62% in Q2/2024)

OVERVIEW

Supply chain sentiment,
% of respondents (n=108)

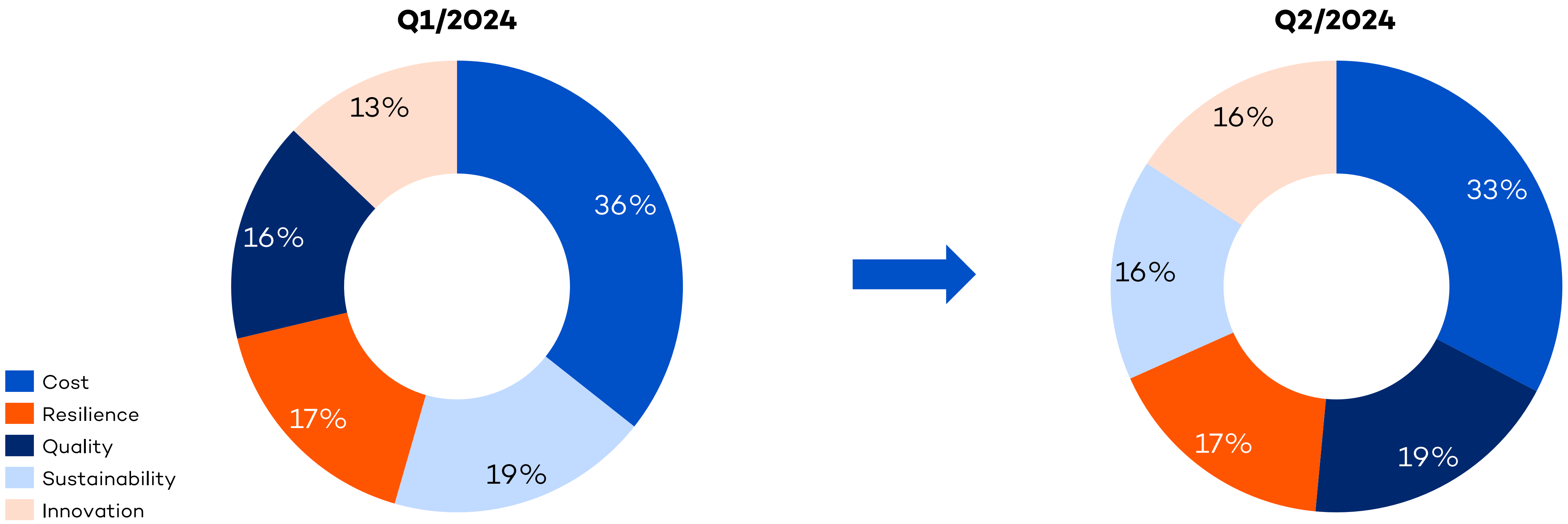


Question: "What is your sentiment regarding supply chain stability in 2024?"
Source: Procurement Initiative Pulse Check Q2/2024, Jun 24 – 28, 2024

Sourcing priorities remain largely unchanged as cost remains key for decision-making in Procurement but sustainability gains momentum

OVERVIEW

Sourcing Priority,
Average points (out of 100) in the sourcing process based on ranking (n=108)

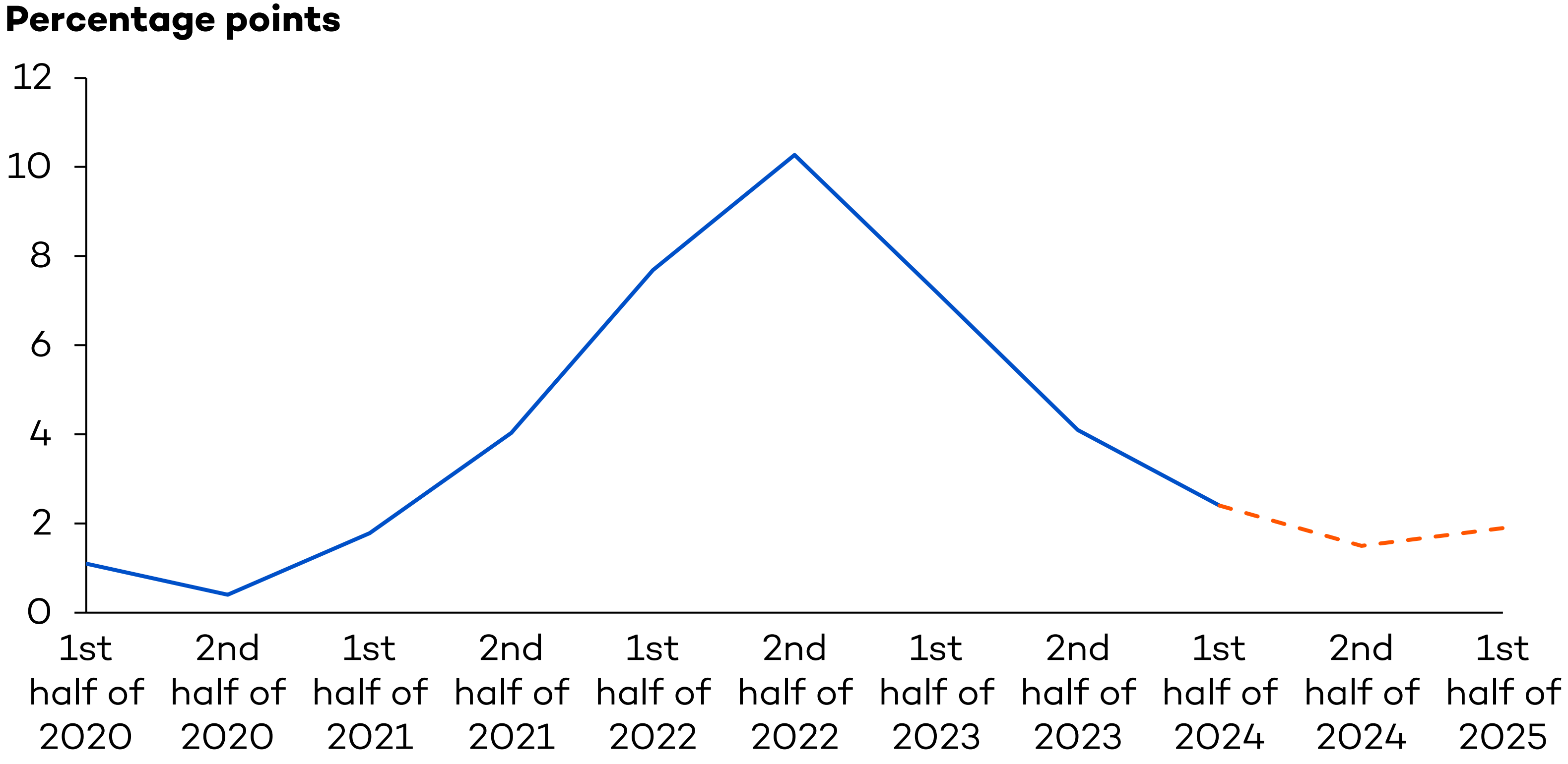


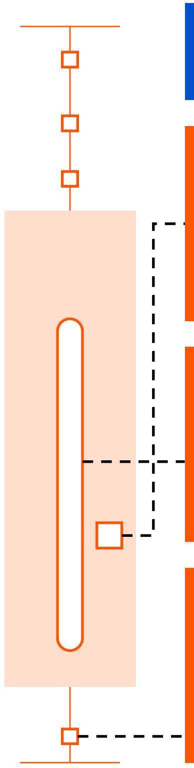
Question: "How would you rank the following criteria in terms of their importance for sourcing decisions?"
Source: Procurement Initiative Pulse Check Q2/2024, Jun 24 – 28, 2024

As supply-side disruptions are expected to ease, respondents expect inflation to be at 1.5% (2nd half 2024) and 1.9 % (1st half of 2025)

RISK & INFLATION

Inflation expectations,
Average increase in purchasing prices H1/2020 to H1/2025 (n=108)





Observations

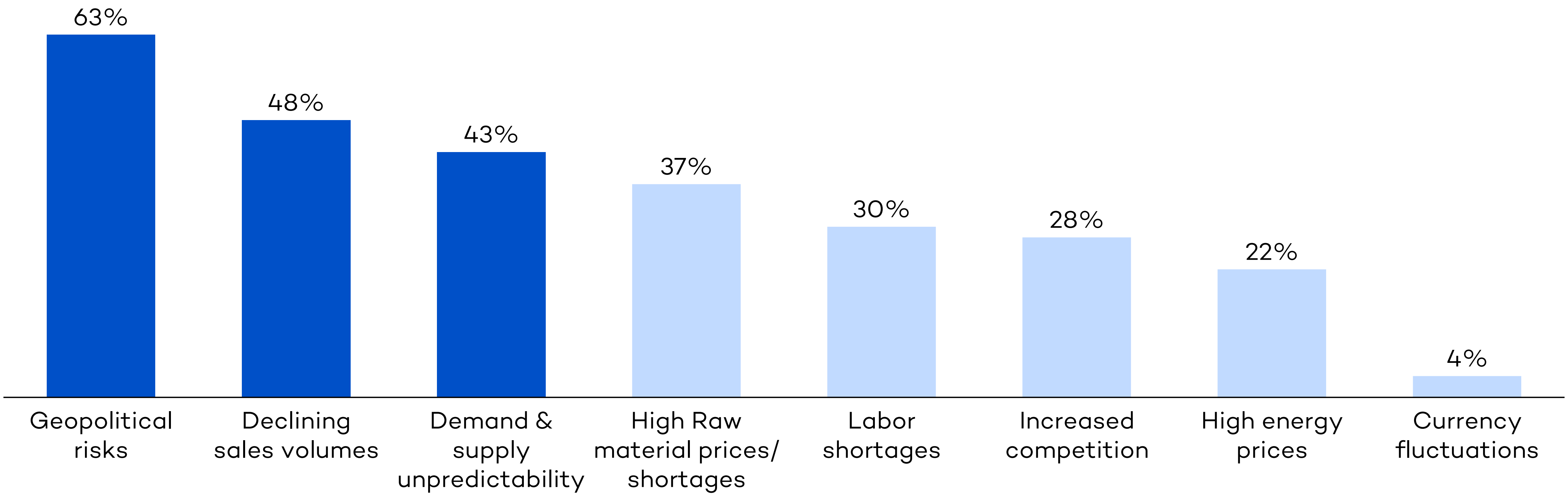
1. Respondents expect an average increase in purchase prices of 1.9 %
2. 50% of respondents expect an inflation rate between -1% to +4.5%
3. Some respondents report outliers ranging from -7% to +10%

Question: "Which average change in purchasing prices for your categories do you expect for 2023 (base year for comparison: 2022)?"
Source: Procurement Initiative Pulse Check Q2/2024, Jun 24 – 28, 2024

The three biggest factors impacting operations include geopolitical risks, declining sales volume and demand & supply unpredictability

RAW MATERIALS

Predominant risks,
% of respondents (n=108)

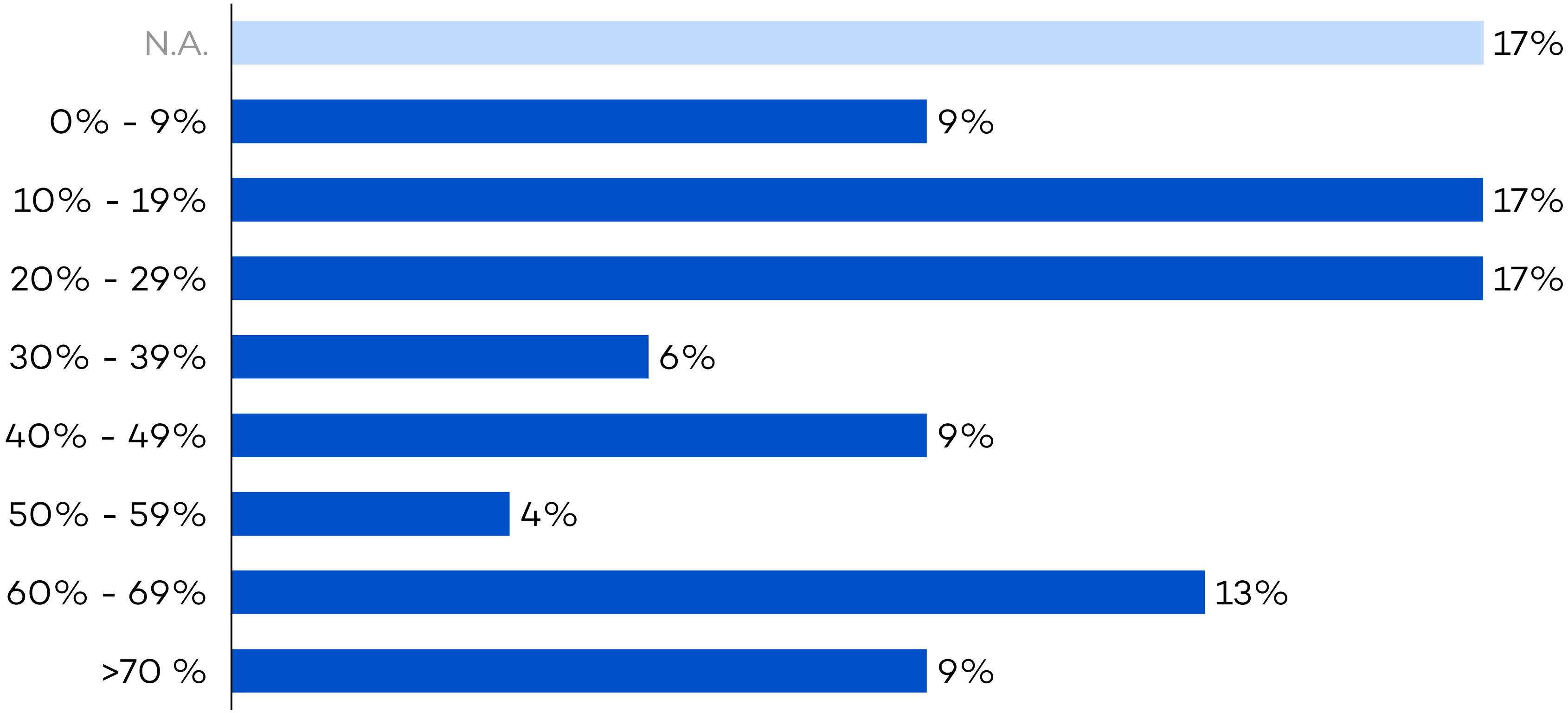


Question: “Which of the following factors are currently most critical for your operations?”
Source: Procurement Initiative Pulse Check Q2/2024, Jun 24 – 28, 2024

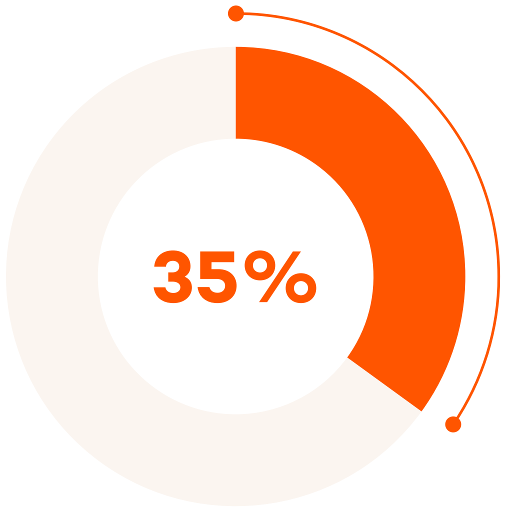
35% of companies' procurement volume consists of raw materials, with a large portion of companies' having a smaller volume

RAW MATERIALS

Distribution of raw material share of the procurement volume,
% of respondents (n=108)



Share of raw material,
Average % (n=108)



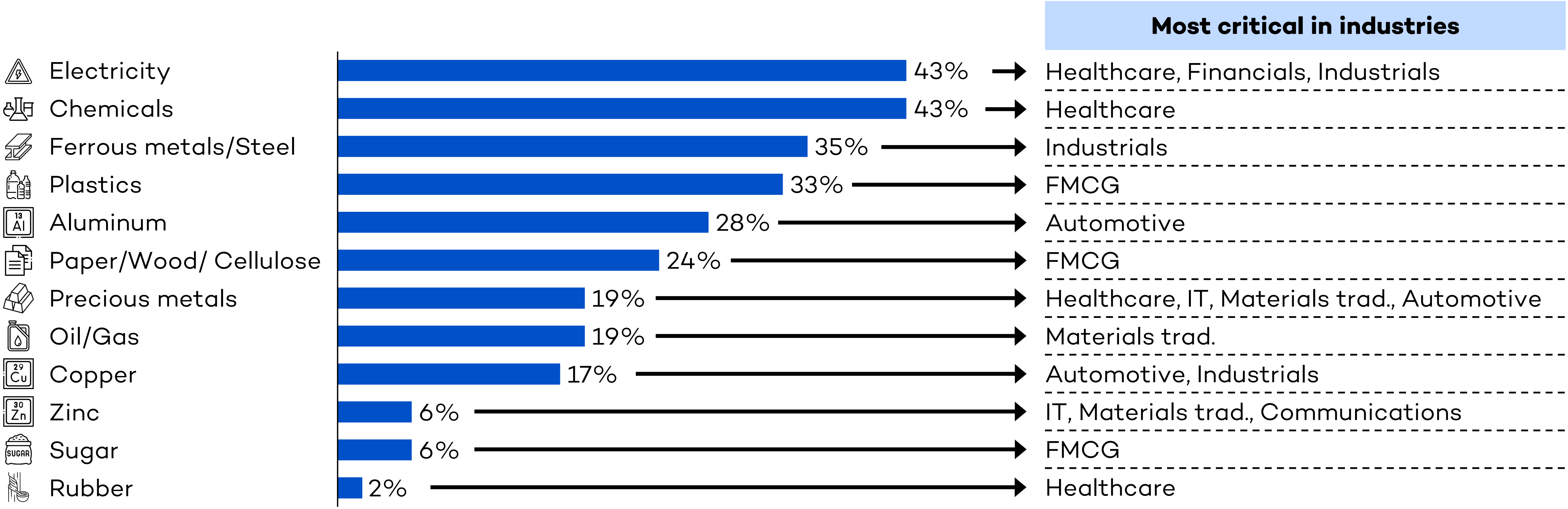
Of the companies' procurement volume consists of raw materials*

Question: How large is the share of raw materials procurement for your company's purchasing volume?" | * excluding non-production companies
Source: Procurement Initiative Pulse Check Q2/2024, Jun 24 – 28, 2024

Electricity, chemicals and steel are the most relevant raw material groups

RAW MATERIALS

Most relevant raw material groups,
% of respondents (n=108)

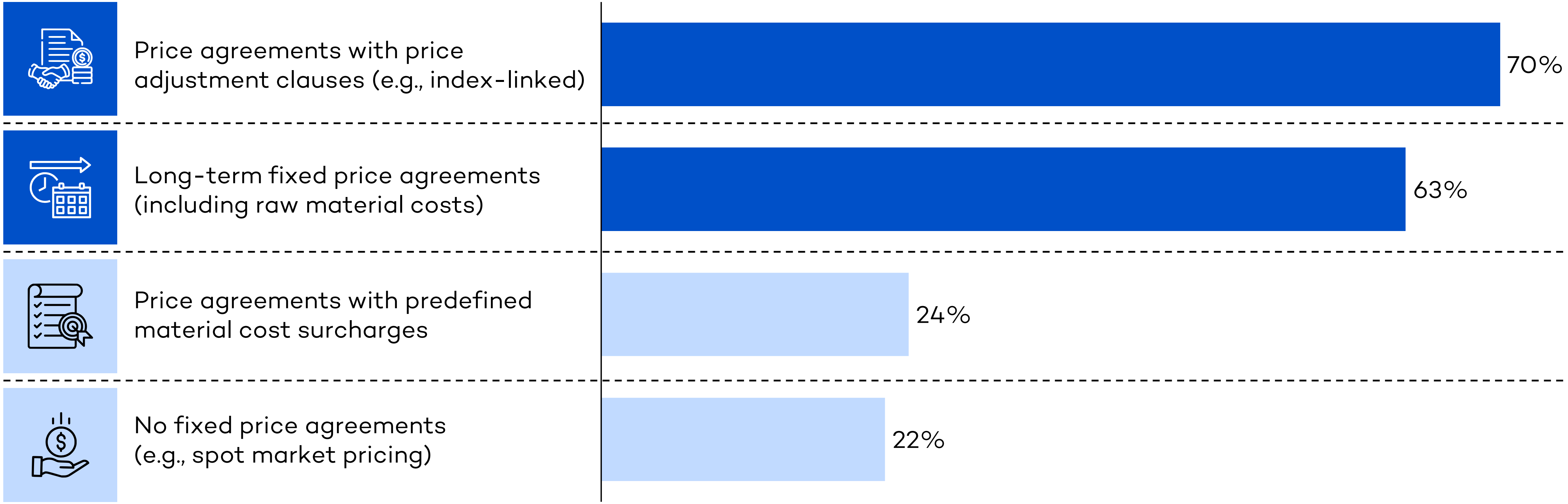


Question: "Which raw material groups are most relevant to your company?"
Source: Procurement Initiative Pulse Check Q2/2024, Jun 24 – 28, 2024

In the last 12 months, price agreements with suppliers tend towards either index-linked or fixed price models

PRICE MANAGEMENT

Predominant pricing models,
% of respondents (n=108)

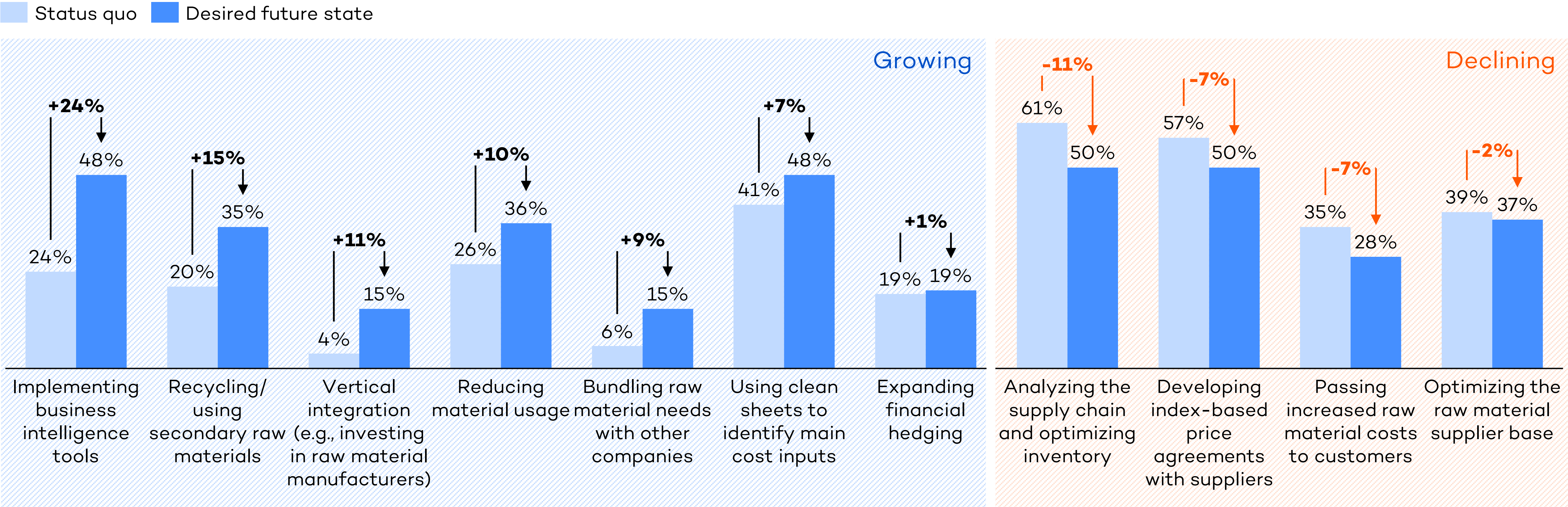


Question: “What pricing models has your company predominantly implemented in agreements with suppliers in the last 12 months? “
Source: Procurement Initiative Pulse Check Q2/2024, Jun 24 – 28, 2024

Novel price management measures emerge, traditional measures are declining yet still ranking among the most popular

PRICE MANAGEMENT

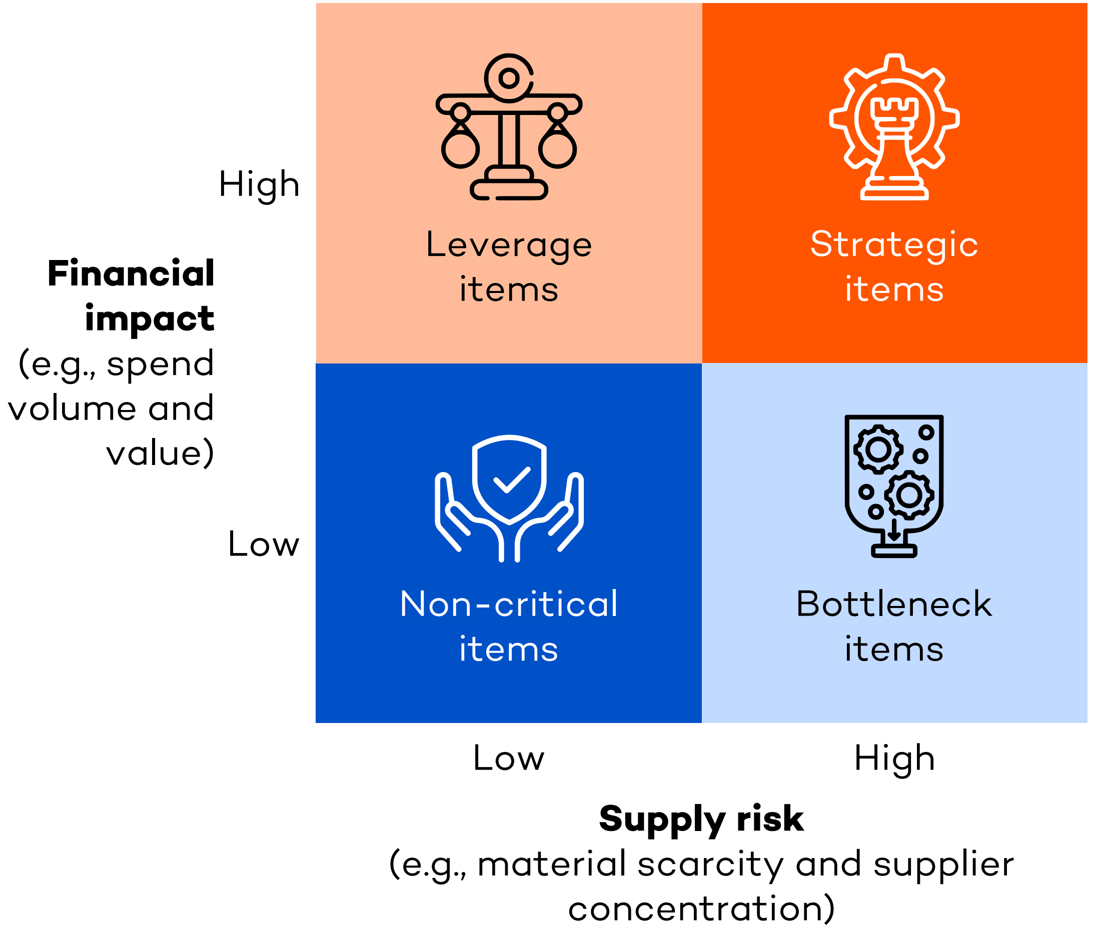
Suitable measures to manage prices with suppliers,
% of respondents (n=108)



Question: “What measures are you currently making use of to manage prices with suppliers and avoid "unfair" price increases?” | Question was asked for status quo and desired future state
Source: Procurement Initiative Pulse Check Q2/2024, Jun 24 – 28, 2024

Focus of measures to manage prices should vary with financial impact and the supply risk per (raw) material group

PRICE MANAGEMENT



	Specific measures
Strategic items	▪ Vertical integration ▪ Bundling raw material needs with other companies ▪ Expanding financial hedging ▪ Passing increased raw material costs to customers
Leverage items	▪ Supplier price benchmarking ▪ Optimizing the raw material supplier base
Bottleneck Items	▪ Recycling/using secondary raw materials ▪ Reducing material usage
Non-critical items	▪ Standardize items to generate synergies ▪ Employ bargaining power

Source: Procurement Initiative Pulse Check Q2/2024, Jun 24 – 28, 2024 | Matrix adapted from Kraljic (1983)

In general, companies should apply four measures to achieve cost transparency and avoid “unfair” price increases

PRICE MANAGEMENT

Pain Point 1: Lack of cost transparency

Pain Point 2: Lack of price adjustment mechanisms

Getting cost transparency

Implementing business intelligence tools

Using clean sheets to identify main cost inputs

Avoiding unfair price increases

Analyzing the supply chain and optimizing inventory, using competition and benchmarking

Making price agreements with fixed prices, spot prices, index-based, or predefined material cost surcharges

Relevant technologies

Power BI, COSTDRIVERS, shouldcosting, hyperlean, SAP® Analytics Cloud, JAGGAER, Drewry, LME An HKEX Company, costdata, Airflip, COVALYZE, simus systems, coupa, CASME, statista

Questions: “What measures are you currently making use of to manage prices with suppliers and avoid "unfair" price increases?” and “How does your procurement organization know that supplier prices are fair […]?”
Source: Procurement Initiative Pulse Check Q2/2024, Jun 24 – 28, 2024

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Thank you for taking part in our Pulse Check Q2/2024.

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

Stay tuned!

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