The Procurement Initiative
Pulse Check Q4/2023

Navigating the Future: Aligning procurement with the business and managing supplier relationships

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 Q4/2023 Pulse Check, we aim to gauge the current sentiment within the procurement and supply chain environment, focusing specifically on the overall alignment of procurement with the business and ways to manage supplier relations. With 101 surveyed experts across C-level, managerial, and professional positions, this report provides a comprehensive 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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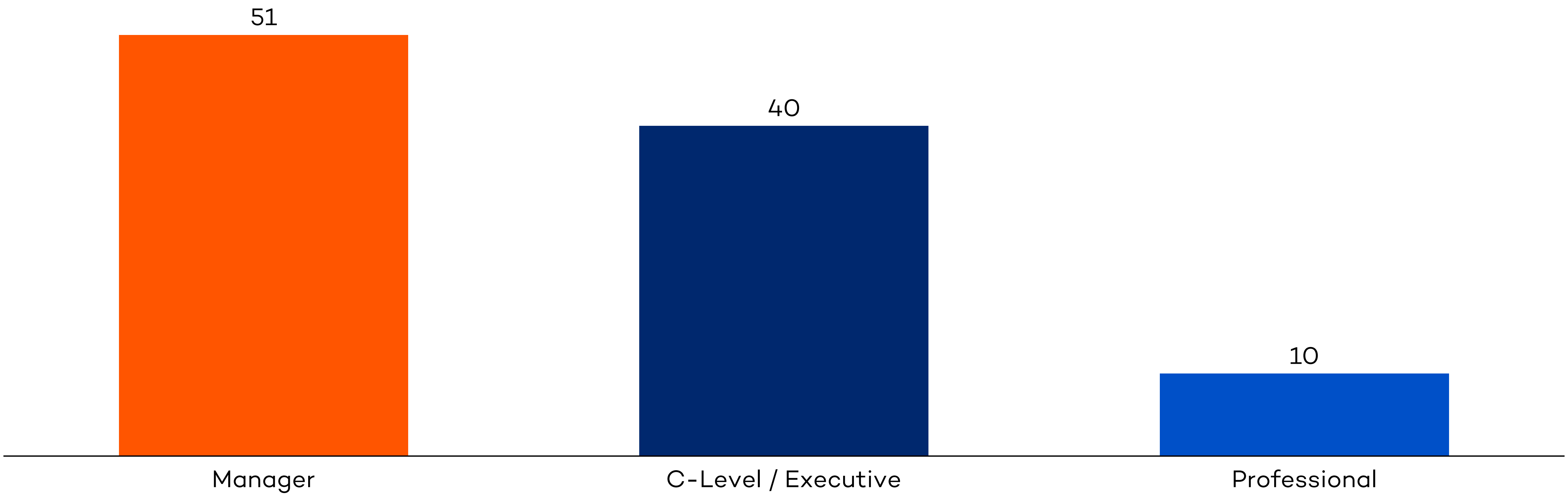
Senior Advisor, H&Z

101 participants from the procurement and supply chain environment completed our Q4/2023 Pulse Check

OVERVIEW

Role within the company,
# of respondents (n=101)



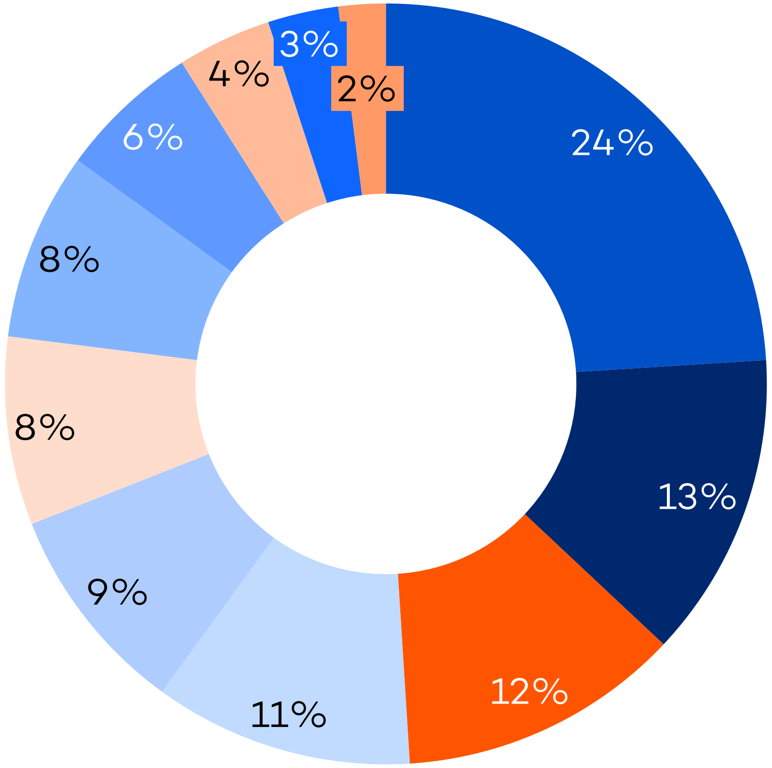
Question: “What is your role in the procurement/supply chain environment?”
Source: Procurement Initiative Pulse Check Q4/2023, Nov 23 – Dec 04, 2023

The Q4/2023 Pulse Check offers an extensive industry analysis, presenting representative findings for various sectors

OVERVIEW

Share of industries,
% of respondents (n=101)

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

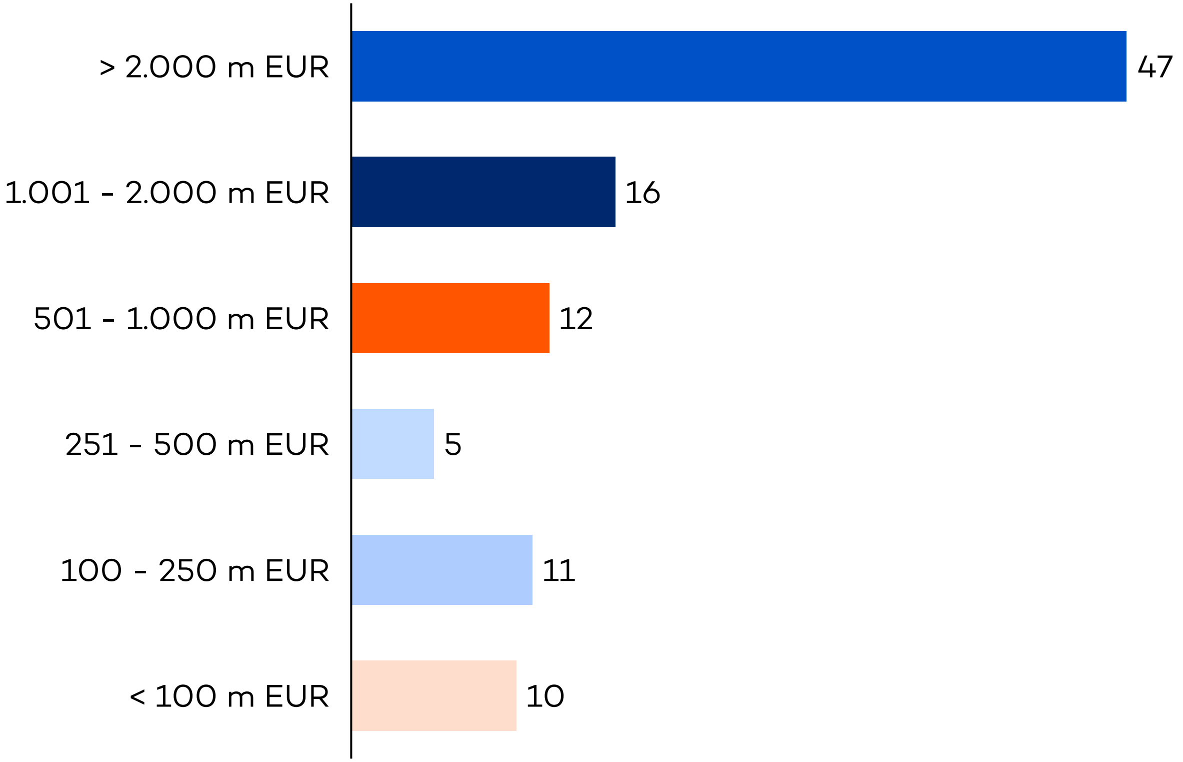


Question: "Which industry does your company operate in?"
Source: Procurement Initiative Pulse Check Q4/2023, Nov 23 – Dec 04, 2023

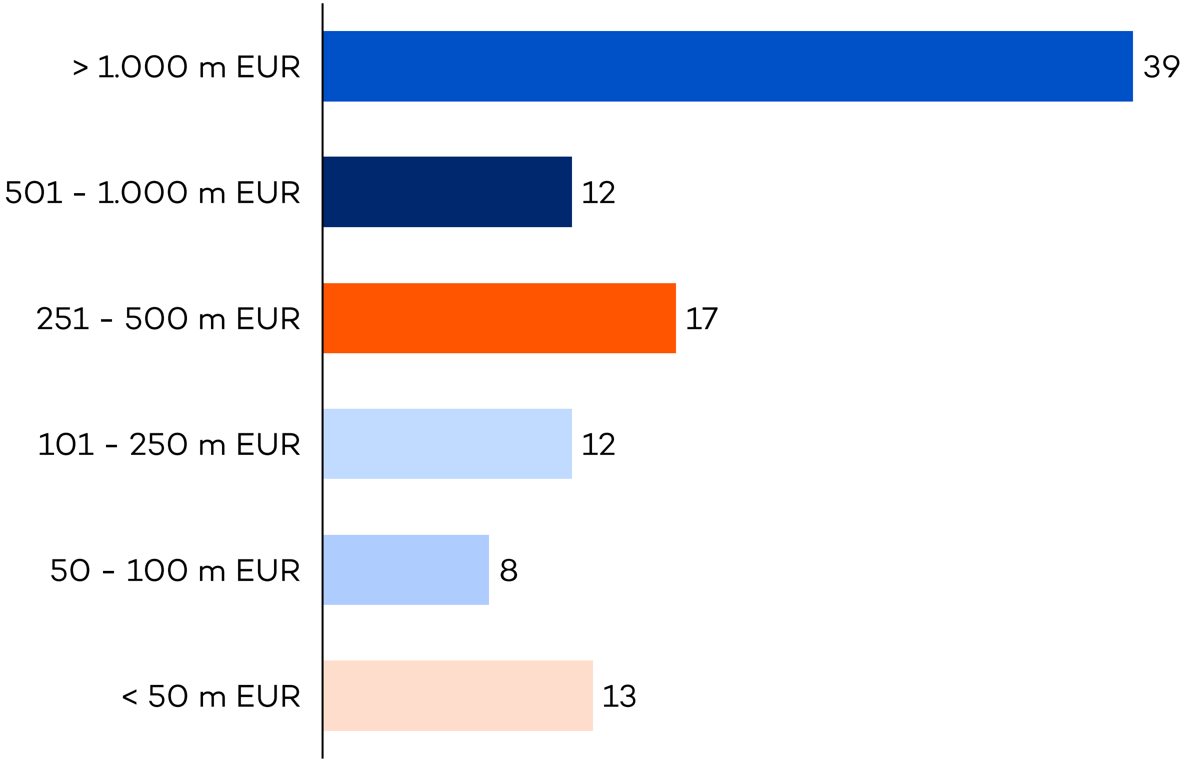
Half the participants' companies exceed 2,000 EUR in annual turnover, while one-third have substantial purchasing volumes of over 1,000 m EUR

OVERVIEW

Annual turnover (in EUR),
# of respondents (n=101)



Annual procurement volume (in EUR),
# of respondents (n=101)

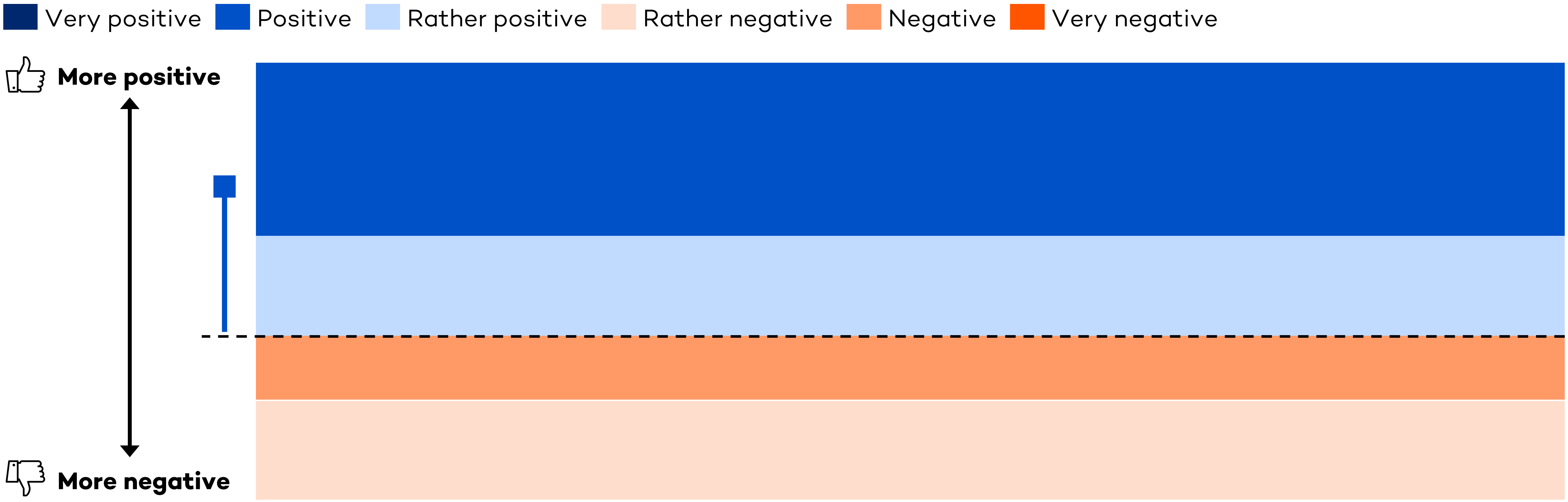


Questions: “What was your company turnover in 2022?” and “What was your procurement volume in 2022?”
Source: Procurement Initiative Pulse Check Q4/2023, Nov 23 – Dec 04, 2023

63% of respondents have a rather positive to very positive outlook regarding the stability of supply chains in 2024

OVERVIEW

Supply chain sentiment,
% of respondents (n=101)

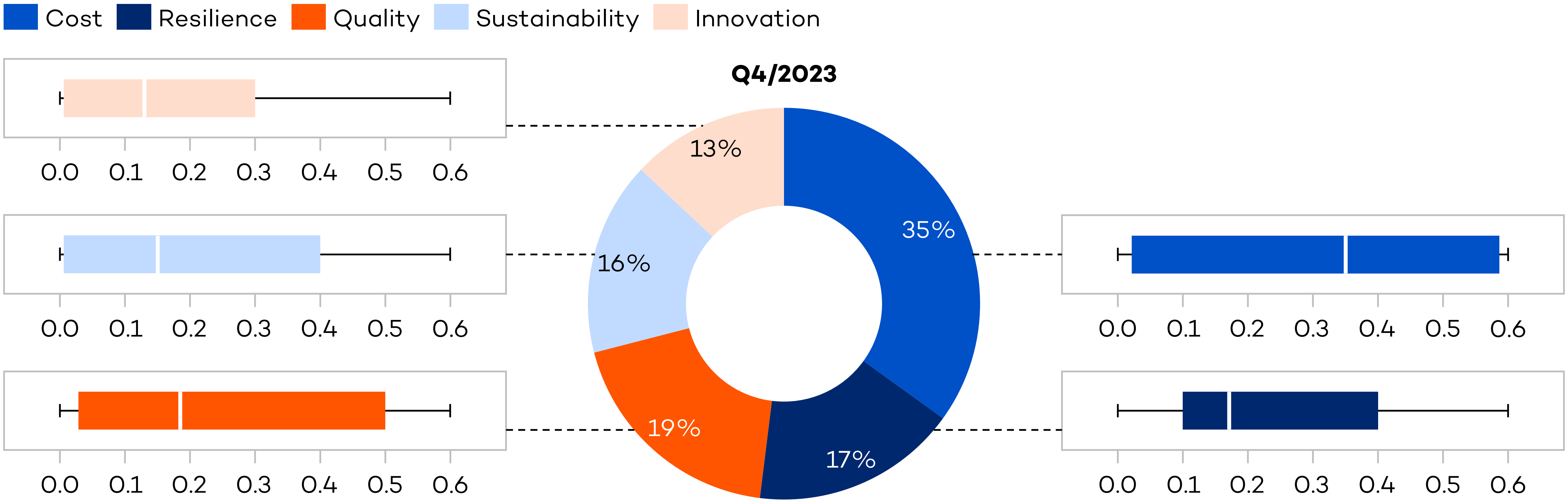


Question: “What is your sentiment regarding supply chain stability in 2024?”
Source: Procurement Initiative Pulse Check Q4/2023, Nov 23 – Dec 04, 2023

Sourcing priorities remain largely unchanged, with cost continuing to be the ultimate focus for decision-making in Procurement

OVERVIEW

Sourcing Priority,
Average points (out of 100) in the sourcing process based on ranking (n=101)



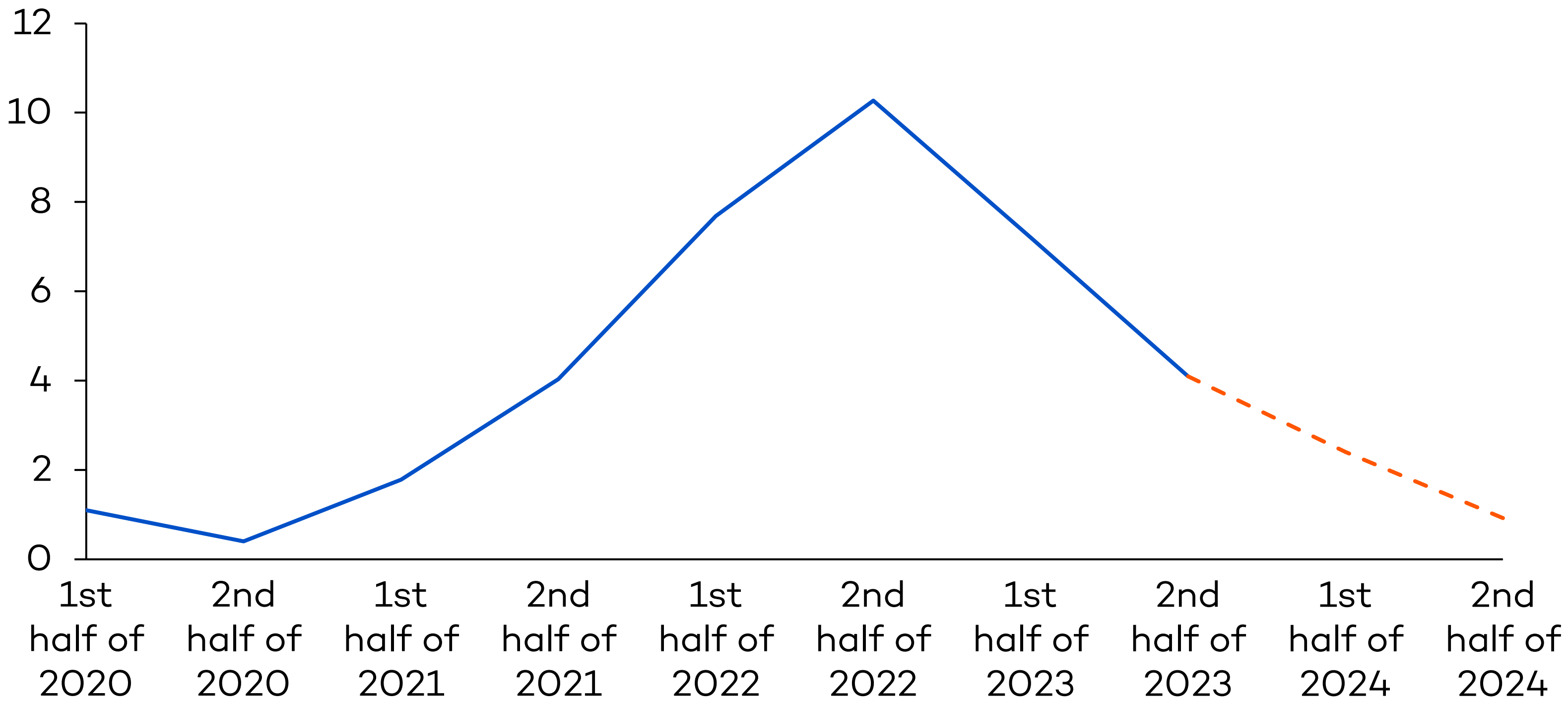
Question: "How would you rank the following criteria in terms of their importance for sourcing decisions?"
Source: Procurement Initiative Pulse Check Q4/2023, Nov 23 – Dec 04, 2023

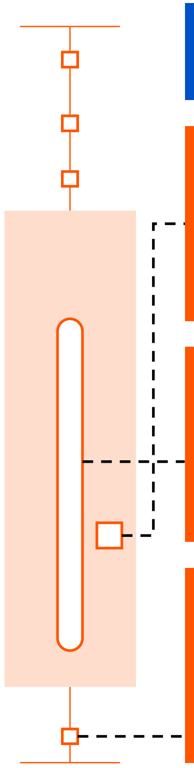
As supply-side disruptions are expected to ease, respondents expect inflation to be at 2.4% (1st half 2024) and 0.9% for the 2nd half of 2024

RISK & INFLATION

Inflation expectations,
Average increase in purchasing prices for 2023 and 2024 (n=101)

Percentage points





Observations

1. Respondents expect an average increase in purchase prices of 2.4%
2. 50% of respondents expect an inflation rate between -2% to 4.5%
3. Some respondents report outliers ranging from -15% to +15%

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 Q4/2023, Nov 23 – Dec 04, 2023

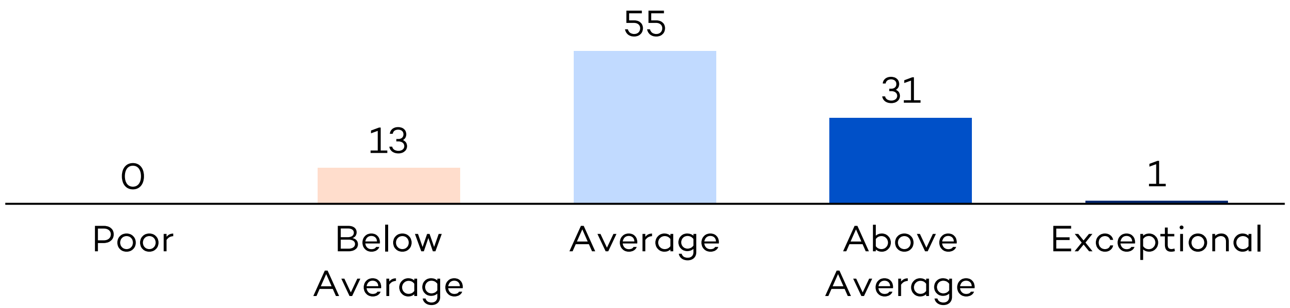
SUPPLIER MANAGEMENT,
ON-TIME DELIVERY PERFORMANCE &
LIQUIDATED DAMAGES

The on-time delivery performance of suppliers is vastly perceived as average, but performance is improving

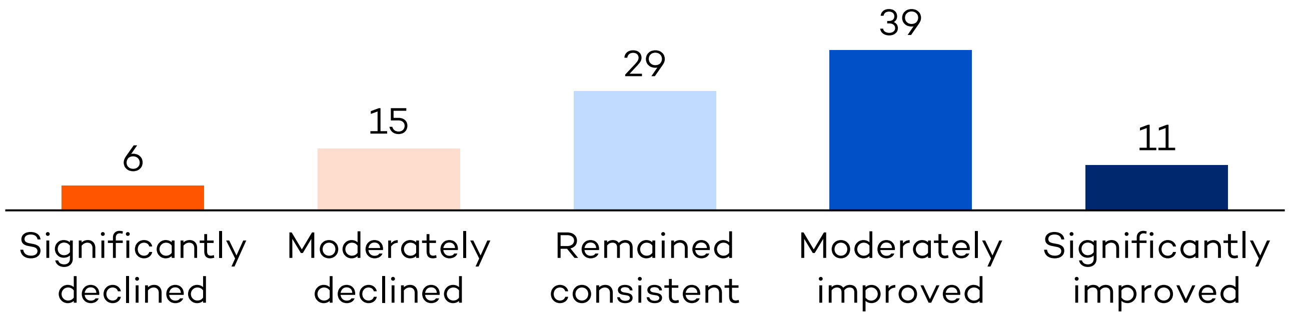
SUPPLIER MANAGEMENT

On-time delivery performance and trends,
% of respondents (n=101)

On-time delivery performance rating



On-time delivery performance trend



Observations

1. **Average performance:** Half respondents rate supplier OTD as average, suggesting that most deliveries are meeting expectations but not exceeding them.

2. **Improvement trend:** 50% of respondents indicate that suppliers' performance has improved, suggesting that there is a movement towards improvement.

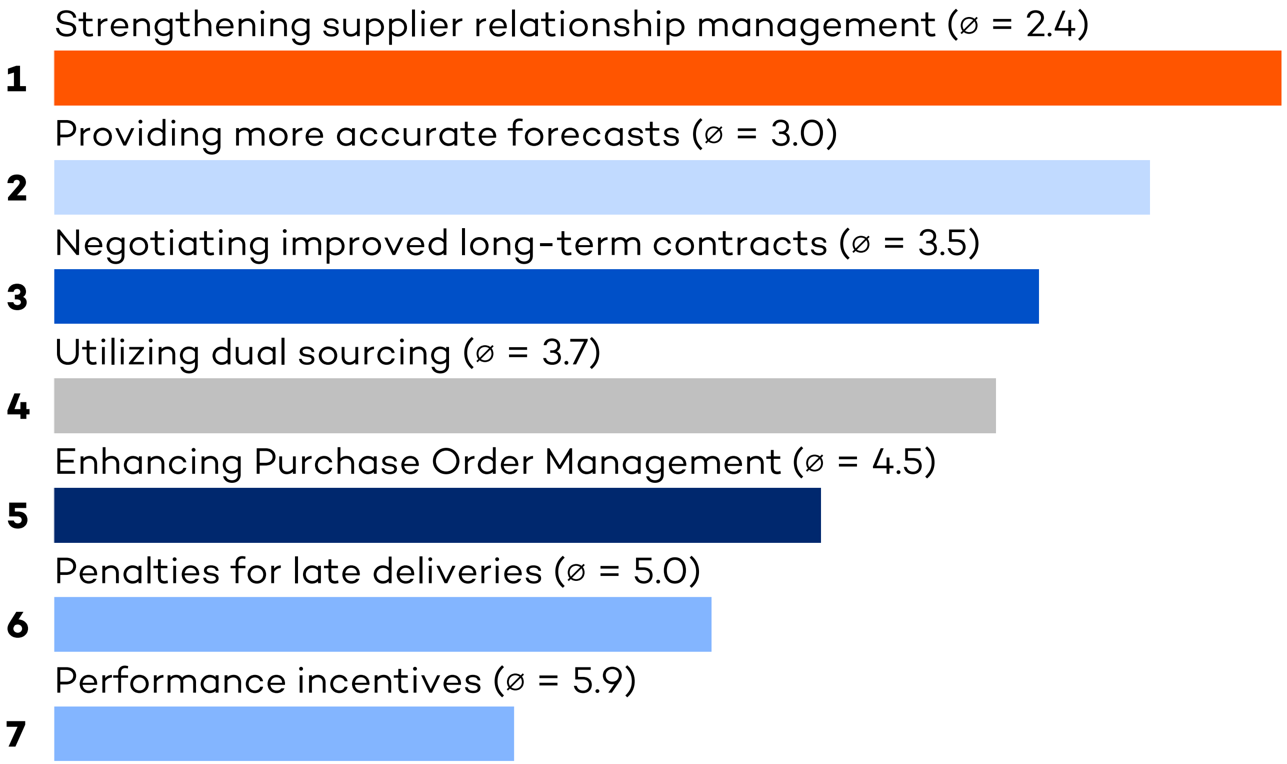
3. **Benchmarking best practices:** Since some suppliers have significantly improved, identifying their best practices and benchmarking them could help raise overall performance.

Question: “How do you evaluate the on-time delivery performance of your suppliers?”, “How has your suppliers’ on-time delivery performance trended over the past year?”
Source: Procurement Initiative Pulse Check Q4/2023, Nov 23 – Dec 04, 2023

To improve on-time delivery performance, our panel highlights strengthening supplier relations and providing more accurate forecasts as key levers

SUPPLIER MANAGEMENT

Levers for improving on-time delivery performance,
based on ranking from 1 (most effective) to 7 (least effective) (n=101)



Observations

1. **SRM dominance:** 33% of respondents rank SRM as the most effective strategy to improve OTD, emphasizing the critical role of strong supplier relationships in ensuring timely deliveries
2. **Moderate confidence in dual sourcing & long-term contracts:** Dual sourcing and long-term contracts peak in the middle rankings, indicating a supportive strategy for OTD.
3. **Negative view on incentives:** Incentives received the most last-place rankings (42%), suggesting a very low impact on supplier OTD.

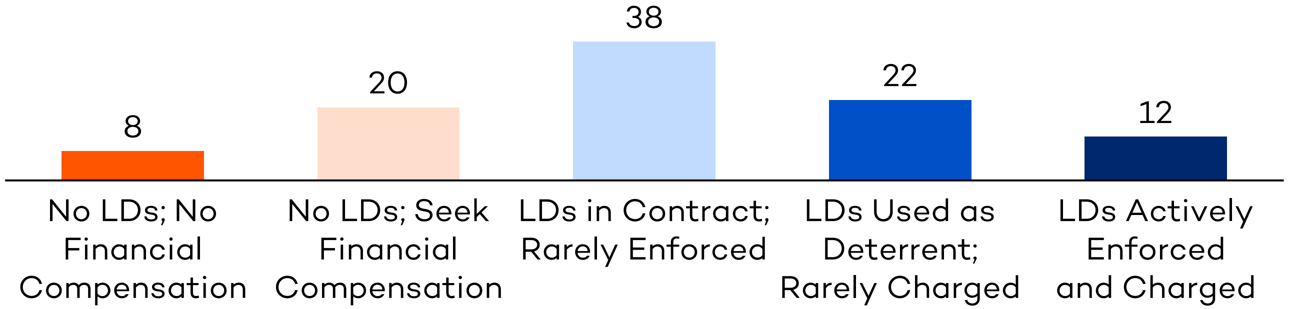
Question: “How would you rank the following strategies in order of effectiveness for improving supplier on-time delivery (first being most effective, last being the least effective)?”
Source: Procurement Initiative Pulse Check Q4/2023, Nov 23 – Dec 04, 2023

Most companies include liquidated damages in contracts but rarely enforce them due to a rather low effectivity compared to other measures

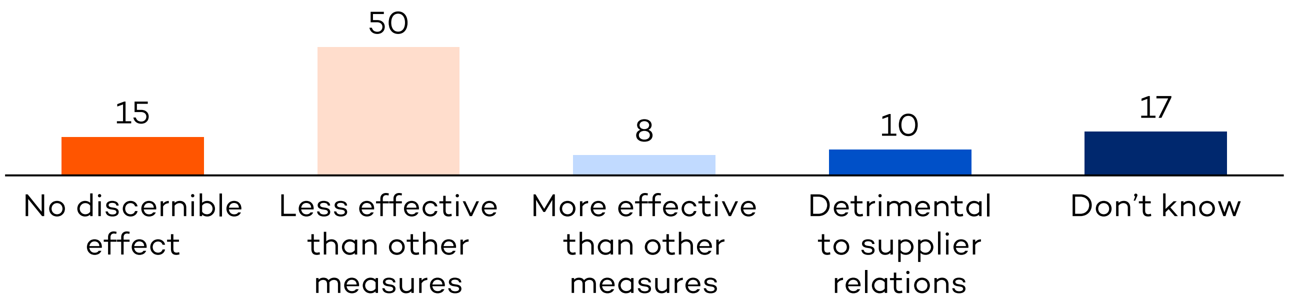
SUPPLIER MANAGEMENT

Position on liquidated damages and effectiveness of penalties,
% of respondents (n=101)

Position on liquidated damages



Effectiveness of LDs and penalties



Observations

1. **Diverse positions on liquidated damages:** A range of strategies exist in dealing with supplier performance issues, with one third preferring to avoid the formalities of LDs altogether.
2. **Prevalence of LDs in Contracts:** 70% of respondents recognize LDs as a contractual tool. However, their practical application as a means of enforcement is limited.
3. **Review of Contract Enforcement:** With LDs being in contracts but rarely enforced, there may be an opportunity to review and possibly strengthen enforcement and effectivity.

Question: "What is your company's approach to liquidated damages or penalties for late deliveries?", "Based on your experience, how effective are LDs/penalties in ensuring on-time deliveries from suppliers?"
Source: Procurement Initiative Pulse Check Q4/2023, Nov 23 – Dec 04, 2023

Regarding the scoring logic, most companies calculate liquidated damages based on time delay and percentage of the purchase order volume

Overall observations

- **Penalty Application:**
  - Penalties focus on delays in delivery
- **Customer Considerations:**
  - Companies align penalties with customer-related penalties and claims when feasible
  - Companies try to include direct costs impacted across the entire value chain, factoring in customer claims
- **Calculation Logic:**
  - Liquidated Damages (LD) = (Days/Weeks of Delay) x LD Rate
- **LD Rate Structure:**
  - Predetermined as a percentage of late deliveries/non-deliveries.
  - Calculated as a fixed rate or percentage of the order value:
    - LD Rate = X% of PO Volume
- **Caps on LDs:**
  - Most firms set a maximum limit on LDs to avoid excessive penalties

Scoring logic examples

- "3% weekly for delays, plus 1-week grace, max cap of 15%"
- "1% weekly, up to a 15% maximum"
- "0.5% daily, with a 5% maximum (equivalent to 10 days)"
- "1% weekly, with a 15% total contract price cap"
- "5% weekly of the delayed part's value, max 10% of order value"
- "1% weekly for late delivery, up to 5% max"

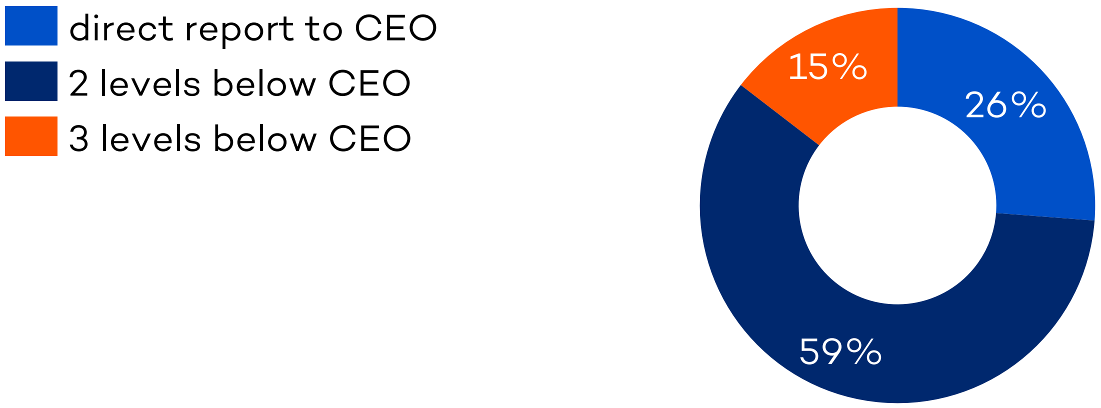
Question: "Please describe the logic or formula your company uses to calculate liquidated damages for supplier delays."
Source: Procurement Initiative Pulse Check Q4/2023, Nov 23 – Dec 04, 2023

ALIGNMENT ASSESSMENT

The procurement functions in our sample mainly report to the CEO, CFO, and COO with 32% of CPOs represented in the executive board

ALIGNMENT ASSESSMENT

Reporting level



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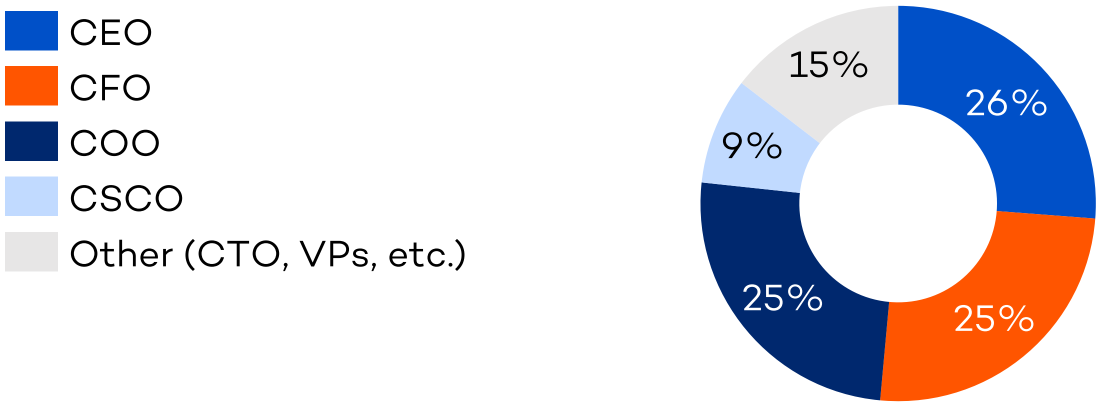


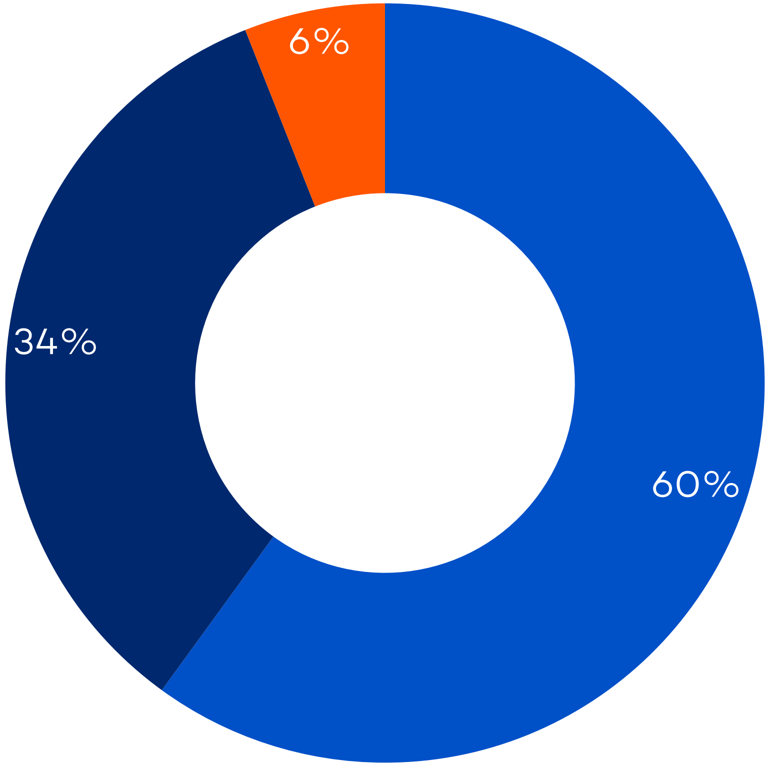
Representation in executive boards

Question: “Is your procurement strategy aligned with the overall business strategy?"
Source: Procurement Initiative Pulse Check Q4/2023, Nov 23 – Dec 04, 2023

One third of companies say that their procurement strategy is not aligned with the corporate strategy and objectives

ALIGNMENT ASSESSMENT

Overall strategic alignment,
% of respondents (n=101)



Observations

- **Only 60%** of respondents believe that the procurement strategy is **properly aligned** to the business
- **34%** of respondents say that they are **not aligned** in terms of their strategy
- **6%** of respondents were **unsure** or had **no opinion**

Implications:

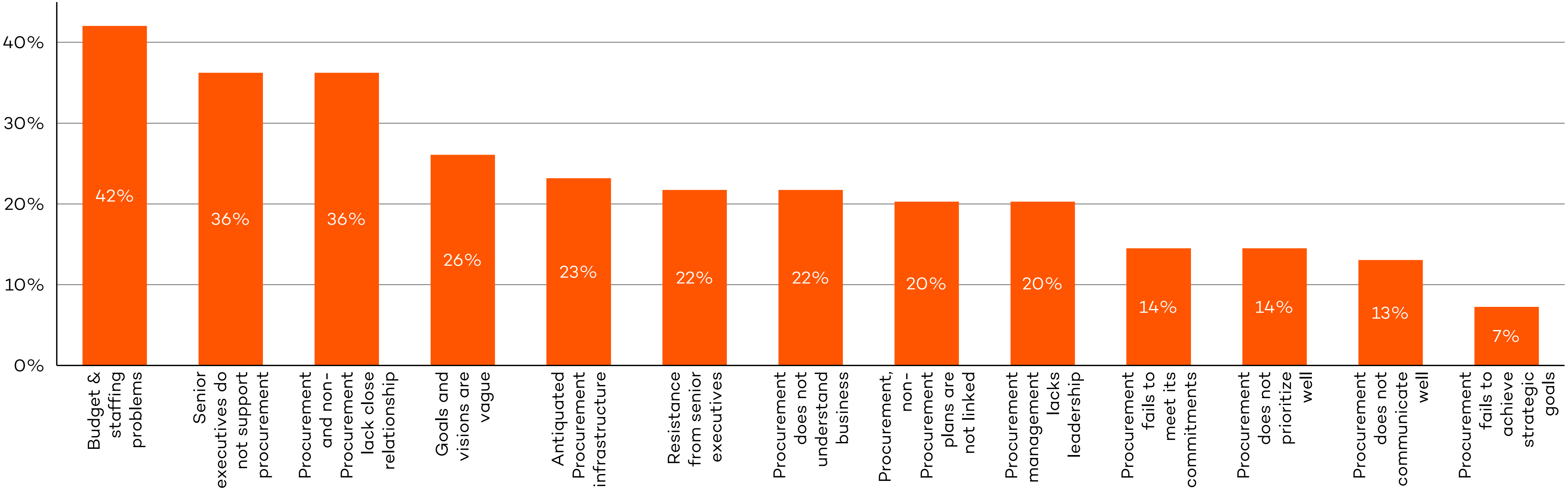
Survey results indicate a perceived lack of synergistic, cooperative business-procurement relationship for at least one third of the firms.

Question: “Is your procurement strategy aligned with the overall business strategy?"
Source: Procurement Initiative Pulse Check Q4/2023, Nov 23 – Dec 04, 2023

The top 3 alignment inhibitors are: Budget & staffing problems, lack of executive support and lack of cross-functional relationship

ALIGNMENT ASSESSMENT

Alignment inhibitors,
% of respondents (n=101)

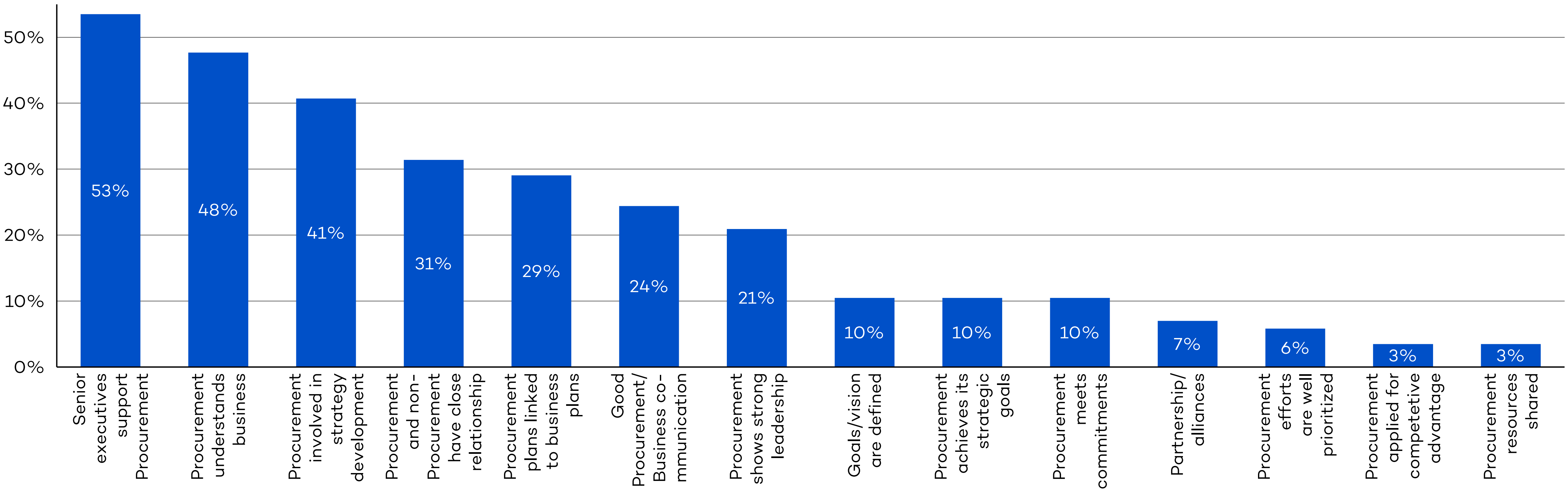


Question: “Please identify the top 3 key enablers to achieve alignment in your organization. If a key enabler is not on the list, please specifiy under Sonstiges / Other"
Source: Procurement Initiative Pulse Check Q4/2023, Nov 23 – Dec 04, 2023

The top 3 alignment enablers are: Senior executive support, Procurement business understanding and Procurement involved in strategy development

ALIGNMENT ASSESSMENT

Alignment enablers,
% of respondents (n=101)



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Thank you for taking part in our Pulse Check Q4/2023.

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

Stay tuned!

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