

Supply

MANAGEMENT
INSIGHTS

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Sustainable Procurement – SHAPING THE FUTURE





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Dear readers,

The COVID-19 pandemic is very much at the front of our minds, both in business and our personal life, turning many decisions and our everyday routines upside-down. But the ongoing crisis also gives us an opportunity to completely rethink our business structures and processes. Dealing with climate change and making a sustainable contribution to society is undoubtedly one of the most important challenges, but also one of the most complex. In our cover story, we'll show you how you can approach this issue, and how procurement can make your business sustainable.

Consumer goods manufacturers and retailers have recently seen a growing demand for sustainability among consumers. Using sustainable packaging as an example, we have investigated the possibilities for meeting corporate social responsibility. We also show how regionalizing your supply chain can be a smart move.

The first and most important step of all projects to increase sustainability is the creation of transparency as the basis for all subsequent measures. Our latest Raw Materials Study reveals that this is something lacking in many companies, and we'll share the study's findings with you in this issue.

Happy reading – and stay safe,

Thibault Pucken
on behalf of the Management Directors





p. 4

Sustainable Procurement

Achieve sustainability goals across the entire supply chain

Sustainable Packaging

Drive Innovative Solutions

p. 17



Raw Materials Study

Create Transparency and Exploit Low Prices

p. 26



Regional Supply Chains

Seize Opportunities for Diversification

p. 22



People @ INVERTO

Well Prepared for the Challenges of the Future

p. 30



The digital magazine:

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Achieving Sustainability Goals

Only with PROCUREMENT on Board

Businesses are increasingly being judged by their sustainability strategies, which are drawing more and more attention from clients, business partners, investors and staff. This goes for procurement as well, where meeting sustainability criteria is becoming more of a priority than saving costs.

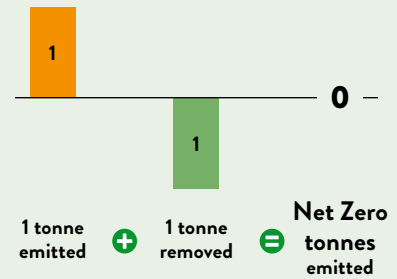
Climate catastrophe is no longer an abstract term in the US state of California, which has suffered devastating forest fires for years now. These fires always break out in summer and fall and are steadily becoming more intense. Although there are various reasons for this, many experts are united in believing that climate change and global warming are a major contributory factor. They are seeing the same pattern with storms, floods, and droughts around the world. Events like these bring the threat home to us all and underline the fact that we all have an inescapable responsibility to help create a more climate-friendly society. From governments and members of the public to businesses, we all need to play our part.

The pressure on businesses in particular has become so great in recent years that having a sustainability strategy is unavoidable. The Bosch group, for example, will be climate-neutral from 2020 onwards by purchasing green energy and offsetting its use of carbon. Consumer goods giant Henkel has already reduced its plastic consumption for bottles of its Persil brand by 30 %. >



/ What does Net Zero stand for?

Achieving a state in which greenhouse gas emissions due to activities within the value chain of a company have **no net impact on the climate**. This is achieved by reducing greenhouse gas emissions in the value chain and offsetting remaining greenhouse gas emissions by reducing CO₂.



Of course, this kind of radical change also affects procurement, few other areas are as relevant when it comes to putting sustainable corporate goals into practice. Previously, procurement focused on quality, time, and – top of the list – costs, with the aim of keeping the latter as low as possible.

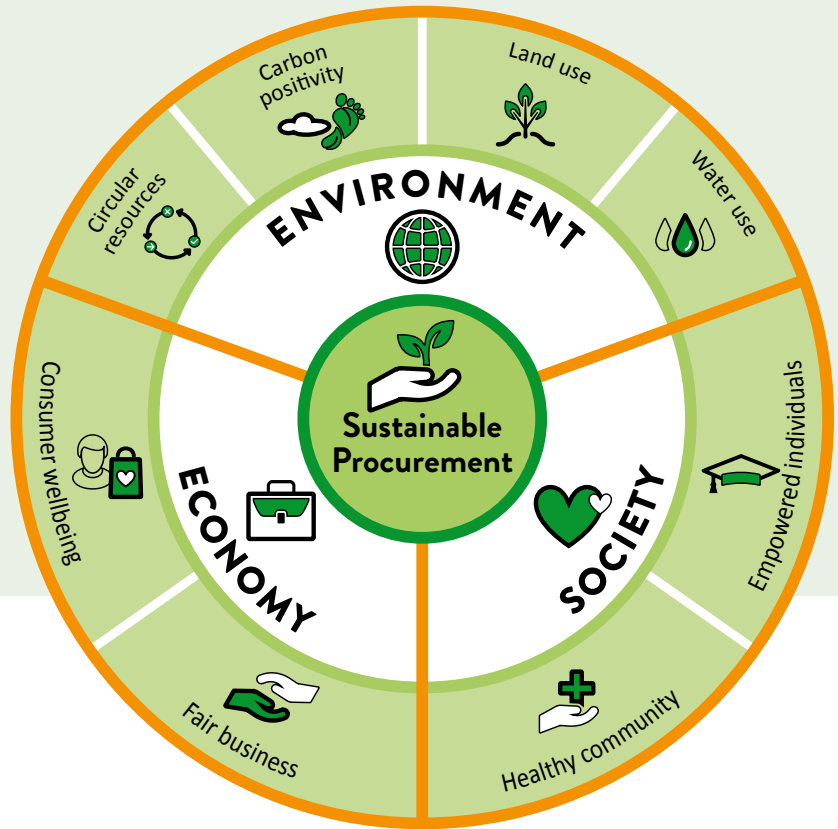
Achieving sustainability goals means changing this approach to procurement and adding other areas of responsibility, as focusing purely on costs is at odds with the desire for more sustainability, risks a business’s reputation, and also hampers any efforts to contribute to the wellbeing of society as a whole. Very few businesses these days can afford to be linked to working conditions for seamstresses in Bangladesh, for example, so they need to reprioritize their procurement goals and draft a roadmap toward sustainable procurement in the future.

What exactly is Sustainability?

Before managers can address this issue, they first need to decide what sustainability means to their company. Overall, most of these ideas fall within one of three pillars: Environment, Social, and Governance. (ESG criteria)



/ Sustainability consists of three pillars



/ ESG criteria

ESG refers to the consideration of environmental, social and governance criteria. The ESG approach defined by the United Nations is used as a standard for assessing the sustainability of organizations.

A sustainable approach to the environment is undoubtedly the pillar that most people are talking about at the moment: companies should ensure production is carbon-neutral or at least low-carbon where possible, as well as not having an excessive impact on soil and water. The overarching goal is not to use the earth's natural resources at a faster rate than they are renewed.

The social pillar deals primarily with working conditions. Although this is underpinned by respect for human rights, it should be obvious that employers have to guarantee their staff more than that; i.e. a living wages and working conditions that allow people to enjoy a healthy and socially acceptable life within their own community. That also applies to their suppliers, who must also not use child labor or pay low wages, wherever they operate.

The governance pillar stands for fair business models, e.g. how products are manufactured. But stable and sustainable business models and resilient processes are also within businesses' sphere of influence. >





How can procurement help?

↳ **Achieving sustainability goals usually requires a fundamental transformation – As the direct contact to suppliers in the supply chain, procurement plays an important part in this transformation and in achieving sustainability goals.** Procurement is tasked with

strengthening the stability of the supply chain, making sure that suppliers meet sustainability criteria and that business partners don't have any skeletons in their closets that could damage a company's finances and reputation.

↳ **This requires a fundamental change in approach.** So far, procurement departments have mainly measured their success in cost leadership, focusing on meeting needs as cheaply as possible and paying very little attention to sustainability. In the future, sustainability aspects must be considered within the framework of an extended, sustainable TCO analysis.

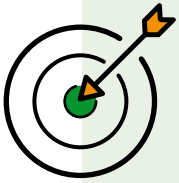
↳ **Being guided by sustainability concepts will mean investing in many aspects of the business, but that doesn't mean economic considerations have to move to the bottom of the list.** The key is maintaining the right balance between financial and sustainability goals, which is reflected equally in the target agreements for procurement as a whole and for individual employees.

What steps can procurement take?

Diagnosis

The path to sustainability always starts with creating transparency. Managers must communicate clearly – internally and externally – on where the business is right now and where it wants to be in the medium and long term. Knowledge about sustainability in the supply chain currently tends to be patchy, making clear communication a major challenge. Overcoming this also involves a huge effort for some companies, because they have to correct past failures and address them going forward. Nonetheless, transparency is essential for implementing sustainability strategies successfully.

Procurement has to take the same approach, and the first step is for management to turn its focus inwards. If procurement has been driven by costs in the past, then you need to start there. Managers should identify any existing sustainability requirements and how consistently these are currently being implemented and monitored. The latter is important because even the most ambitious goals will achieve very little if you don't know whether they are being achieved.



/ Procurement's role results in 4 key targets for CPOs

1

Identify and prioritise **sustainability concerns** based in the supply chain

2

Integrate sustainability in **procurement's target operating model** and **empower** the organisation

3

Effectively implement tailored measures across the supply base

4

Measure & report the relevant impact and drive ongoing improvements

Results

- Stability of supply chains
- Sustainability at fair cost
- Suppliers comply with regulations
- Best-practice-exchange with peers
- Sustainable innovations with suppliers
- Risk mitigation in the supply chain

The main obstacle to realigning procurement is the fact that implementation lies outside the business's sphere of influence; a bona fide sustainability program ensures all the suppliers along the supply chain are closely involved. Buyers must analyze existing targets that they have set for their partners and how they monitor them. Establishing whether the corresponding data is available and accessible may be a major challenge in itself, but this is also absolutely essential for sustainable supply chain management.

These findings should be used to set realistic and achievable criteria. Striving to be carbon-neutral by 2030 may sound good and be great for marketing, but businesses need to be clear on whether goals can be achieved and how, before they announce them. All business units then need to align themselves with these overarching goals and develop appropriate measures to help achieve them. >

Being guided by sustainability concepts will mean investing in many aspects of the business.

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Roadmap

Although exact sustainability goals will vary from business to business, and there is no “one size fits all”, generally the more specific they are, the better. Businesses could start by setting a clear recycling quota for their products that will be achieved by a certain date. Another good starting point for increasing sustainability is to reduce CO₂ emissions, and this goal should also be as specific as possible. Fixed amounts – such as “40 percent lower by 2030” – are more helpful than vague pledges about reducing emissions in general. Other suitable goals are changing the in-house energy mix by purchasing green energy or implementing offsetting measures.

Becoming carbon-neutral is much easier for some industries than it is for others. It would be a definite challenge for the steel industry, for example, as decarbonization is a difficult process for an industry with such huge energy requirements. And even if they managed it, competitors from around the world – including China – often aren’t governed by the same principles and could therefore undercut them on price. This means that politicians need to implement statutory regulations to support steel manufacturers that are based here.

The final roadmap should have a clear plan for what is being tackled over the coming months and years. This includes a detailed timeline that sets clear priorities for the measures, as starting lots of sub-projects at the same time is not productive. The roadmap should also state clearly who is responsible for the individual measures.

In order to keep an eye on the status and the degree of achievement of the individual measures, fixed milestones should also be defined. The change management process should be anchored in the roadmap. Through regular communication and appreciation of partial successes, those responsible can succeed in involving the entire team and activate the voluntary commitment of each individual employee.

Exact sustainability goals will vary from business to business, and there is no “one size fits all”.



Implementation

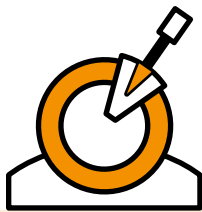
Companies need to know exactly who their suppliers are, where their production facilities are based, and how sustainably they operate also for tiers 2 and 3, not just tier 1. A code of conduct should set out individual sustainability criteria that all suppliers must adhere to. In addition, wider sustainability goals can be agreed with specific suppliers on an individual level, guided by the relevant conditions. It is vital that procurement departments set fixed KPIs for sustainability and communicate them clearly to suppliers – although the carrot can be used as well as the stick. Bonus systems can also be used to create incentives for meeting or even exceeding sustainability criteria.

Once these key figures have been agreed, maintaining ongoing communication with suppliers is important, as they need a point of contact for their questions about sustainability.

Businesses should also set up an early warning system for potential sustainability risks in the supply chain. This system should collect data from a range of sources including the relevant country organizations, for example, as well as reports from trade associations, banks, market analysts and government agencies. An important consideration

is that sustainability can also affect the stability of the supply chain. If there are signs of armed conflict or political unrest in a particular state, businesses with an appropriate early warning system can respond quickly. It takes time and effort to set up these systems as it takes a lot of sources to generate enough relevant data to carry out proper analyses.

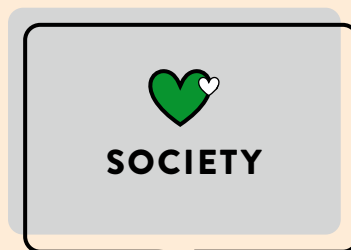
Only time will tell whether suppliers will support the requirements or attempt to circumvent them, and setbacks and lessons learned will be an inevitable part of this journey. >



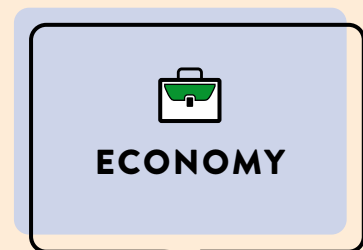
/ Procurement levers for increasing sustainability in the company



- ✔ Volume from low-carbon regions
- ✔ Emissions intensity
- ✔ Reduction in absolute emissions
- ✔ Energy efficiency
- ✔ Energy mix
- ✔ Product recycling rate



- ✔ Employment opportunities created for the community
- ✔ Tax contribution
- ✔ R&D and infrastructure investment
- ✔ Associated fines for non-compliance



- ✔ Workers health and safety
- ✔ Wage level
- ✔ Equal rights compared to local standard
- ✔ Trainings provided



Climate change is making great demands on society, including companies.

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Permanent support

Effective and sustainable procurement management requires two things within a business: cultural change and training. Cultural change is brought about by a fundamental change in approach, away from focusing purely on costs and/or quality and moving towards greater sustainability. All employees need to be on board, even if this is to different degrees. For most employees, it's a case of internalizing the sustainability criteria, so they can apply them in their daily work. For procurement, the priority is to adapt the existing target and bonus agreements so that every employee is also working towards specific sustainability KPIs instead of merely quality, time and savings targets.

Specially-trained employees must be tasked with monitoring the sustainability criteria. Rather than being the powerless representatives often found in businesses, these employees must explicitly be granted clear powers to intervene if they come across breaches and, therefore, the power to replace uncooperative suppliers in the supply chain. Procurement is the ideal choice for this task as regular – and unannounced – visits to suppliers' premises are an effective inspection method.

However, their role is not to simply police compliance, but to act as a partner for suppliers and provide them with the advice and tools they need to operate more sustainably. A program of training sessions on sustainable production, for example, can help, and forums where suppliers can share knowledge and share best practice, are also highly effective.



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As well as taking more time and effort, the process of becoming more sustainable is also harder to quantify based on results than other measures, such as making savings. Some effects are also difficult to trace back; for example, it is hard to determine whether an enhanced reputation is because of sustainability factors or other reasons. That's why it's important to ensure procurement departments are properly supported. Management must model the strategy from the top down and drive the process forward, because success will only come in the longer term.

CONCLUSION

Climate change is making great demands on society, including companies. But as complex as these measures may appear, there is no alternative in view of the consequences that are already visible. Added to this is the financial incentive: investors are placing more and more value on sustainability. The large institutional investors such as BlackRock in particular have defined sustainability criteria that are used as a basis when deciding for or against an investment.

Procurement will have a critical role here, as there is no other business unit with the same level of responsibility for the majority of resources in the supply chain. At the same time, its many contacts in the supplier network mean that its influence reaches far beyond its own company. Procurement departments are perfectly placed to support their own company's social responsibility and, ideally, to drive the transformation process forward in other parts of the business.



Experts on SUSTAINABILITY

Interview with **BCG** Managing Director Patrick Herhold on **sustainability** in a business context

“It’s a journey we are all on together”

Patrick Herhold is Managing Director and Partner at Boston Consulting Group. He deals closely with the effects of climate change on the economy and helps businesses to handle them. In this interview, he talks about the importance of sustainability for businesses and what challenges it entails.



Young people are out on the streets demonstrating for better climate policy, while investors are demanding more and more sustainability. How important has the issue now become to businesses?

We are seeing sustainability becoming more and more relevant every year – not just in relation to climate, though. Sustainability is a much broader topic, essentially in line with Environment, Social, and Governance (ESG) criteria. This covers a whole range of topics. Social could mean that a sustainable business also has the long-term wellbeing of its staff in mind and doesn't tolerate child labor under any circumstances. And one meaning of Governance is that measures to implement sustainability are firmly embedded at supervisory board level.

How do you explain the change of heart by businesses?

Overall, there's been a real societal change in recent years. As a whole, both business and society are looking more and more closely at how their operations are impacting the future of the planet. Sustainability has been on the wishlist for a long time, but now it has become a requirement even for economically stable businesses. And the pressure is also coming from investors. Asset management company BlackRock has published a list of companies where it has used its shareholder rights to push for more sustainability. That's a very clear indication for the business world as a whole.

Have businesses overlooked these trends for too long?

Yes and no. Forward-looking businesses may have spotted the trend earlier on, but social awareness of sustainability has only developed recently. There's an array of businesses who would like to see more active regulation of the issue. Let's take decarbonization of supply chains as an example. Nowadays, if an automotive manufacturer decided to focus on only processing climate-neutral steel, it would be taking huge risks in terms of costs and suppliers. Changing products and supply chains takes time – and, in many cases, it clearly rests on other regulatory framework conditions as well.

How does sustainability benefit business success right now?

Commercially successful businesses are very often the ones that operate sustainably, something we see in a range of different industries. In a climate context, those businesses with the lowest emissions have a significantly higher corporate value. That correlation is very clear. >



Currently, the economy seems to be more concerned with COVID-19 than sustainability. Has the virus put the brakes on businesses' efforts to increase sustainability?

Some companies are focusing more on other issues at the moment than on embedding sustainability more deeply in their corporate strategy. On the other hand, we are currently witnessing a new wave of sustainability projects being launched. In addition, sustainability is also a risk for businesses – as growing awareness affects all areas – and there is a clear influence in procurement and production, in terms of attracting and retaining good staff.

If businesses want to become more sustainable, where should they start?

A sustainability strategy often begins with the business purpose and a sustainability mission to underpin it, which determines the next steps. Businesses must analyze the relevant areas where they see opportunities to increase sustainability and develop initiatives. There is no tried-and-tested method here; individual businesses have to define their own strategies and design an action plan to support them. An automotive manufacturer, for example, would take a completely different approach than a consumer goods producer.

And then it is time for implementation.

And that takes time. If we take decarbonizing as an example for a sustainability goal, achieving this often involves a complex implementation process that cannot be done in just a few months. Depending on the circumstances, it may involve finding alternative suppliers, and some serious overhauls may be required in the production processes. As this kind of project ultimately affects all business areas, it's important to embed the issue at management level. Implementing ESG aspects also involves setting long-term goals and tracking KPIs at all levels.

What do you see as the main problems?

The success of efforts to increase sustainability cannot be measured in the short term, like you can with a cost optimization, for example. That is why long-term incentives should be set by senior management through personal target agreements.

Is pursuing sustainability a tiresome task for businesses or a stimulating challenge?

I believe it's the latter; the switch to greater sustainability in a company's profile also gives them a competitive advantage. Awareness of the issue is already quite high in Europe, while it's only just beginning to get off the ground in many other countries. I think that German businesses are acting as positive role models here and can set a benchmark. But it's definitely a journey we are all on together. The fact that rating agencies are now listing sustainability issues on a par with key financial figures is another major indication that developments are afoot here. This is reinforced by customer requirements, which will also take sustainability aspects into consideration to a greater extent in future. This development makes it clear that sustainability is becoming a significant indicator for all businesses in future. It's definitely not just a passing trend. //



Sustained Confusion



Plastic tax, ban on disposable bags, CO₂ certificates - the politicians have come up with ideas to stem the flood of plastic waste. More and more consumers also take a critical view of conventional packaging. Sustainable solutions are therefore a high priority for retailers, consumer goods manufacturers and packaging producers. High time to create clarity with a study ...

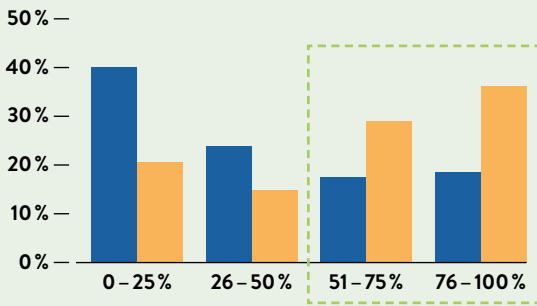
Everybody wants sustainable packaging, but nobody knows exactly what it is. That's because there are no exact criteria for what it takes for packaging to be sustainable. Yet, the vast majority of the packaging manufacturers, consumer goods producers, and retailers that responded to our survey expect demand for sustainable packaging to increase significantly over the next few years and are therefore on the lookout for innovative solutions.

In line with expectations, 76 percent of packaging manufacturers see sustainable packaging as highly relevant, as do 55 percent of consumer goods producers. By contrast, only 27 percent of retailers view sustainable packaging as a highly significant topic, while a clear two-thirds are more likely to judge the quality of the packaging as moderately important. In line with this, just 32 percent of retailers

surveyed believe that sustainable packaging is a crucial competitive advantage. This is also interesting because most consumer goods and packaging producers feel under pressure from retailers and consumers to create sustainable solutions.

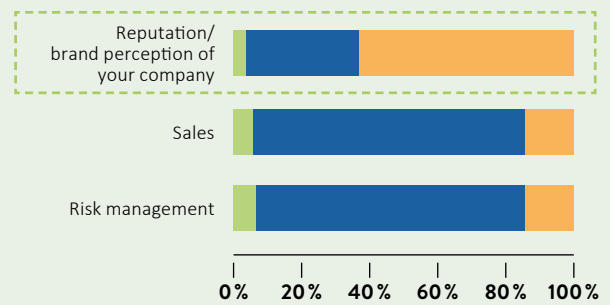
Now, very few goods on the shelves are sustainably packaged: most respondents say that no more than one quarter of all products currently come in sustainable packaging. However, respondents do expect that share to increase significantly over the next five years. Around half of retailers anticipate the proportion of sustainable packaging to reach between 50 percent and 100 percent by 2025, while the majority of consumer goods producers expect to start using sustainable packaging for almost all their products. Packaging manufacturers are more skeptical: 37 percent of them already offer predominantly sustainable packaging, and don't expect any meaningful increase in that share. >

/ What percentage of packaging would you consider to be "sustainable packaging" in your company?



Share of sustainable packaging: ■ Currently ■ In 5 years

/ To what extent does the introduction of sustainable packaging influence the following aspects:



Significance: ■ (Very) low ■ Moderate ■ (Very) big

A slim majority believe that consumers are not prepared to pay higher costs, even though they want sustainable solutions.



Packaging manufacturers more skeptical about sustainability than their customers

Packaging manufacturers may be less ambitious because they see the sustainability challenges more clearly than customers of cardboard boxes, cans, or bottles. When it comes to manufacturers, 55 percent say that the issue is highly complex – not helped by the different statutory regulations in each consumer country or by high customer expectations. And while most of the packaging specialists are experts or even have entire departments dealing with sustainability, the majority of them bemoan the extreme complexity of the issue. In addition, many respondents from the industry believe that their company does not have comprehensive expertise on the full range of sustainable solutions, with a quarter of respondents reporting only a partial understanding. Barely 40 percent of retailers and consumer goods producers believe they have extensive knowledge of the options.

A larger number of respondents from all industries occasionally face the problem that sustainable raw materials or recycled plastics are not available in sufficient quantities. Just 35 percent of respondents indicate that they can always access sufficient quantities of the raw materials they require, and this shortage could also prove to be an obstacle to the desired level of growth.

Switching to sustainable packaging entails higher costs for almost all companies, and opinions among respondents are divided on whether they can pass these costs on to consumers. A slim majority believe that consumers are not prepared to pay higher costs, even though they want sustainable solutions. By contrast, 46 percent are confident that the public will meet them at least part way on sustainable packaging.

And the latter appear to have judged things correctly: 72 percent of respondents in a representative consumer survey indicate that they would pay at least 10 percent more for a product if it were sustainably packaged, and almost 30 percent of consumers would even accept a surcharge of more than 20 percent. The younger the respondents, the higher the level of acceptance. Respondents apply the sustainable label here to packaging made from renewable raw materials (70 percent) or recycled materials (65 percent) as well as reusable designs (65 percent). Unfortunately, how consumers respond to surveys doesn't always match their purchasing behavior. Similar studies have shown that while the public prioritizes sustainability in theory, they are more likely to be guided by price when they actually make a purchase.

Study design



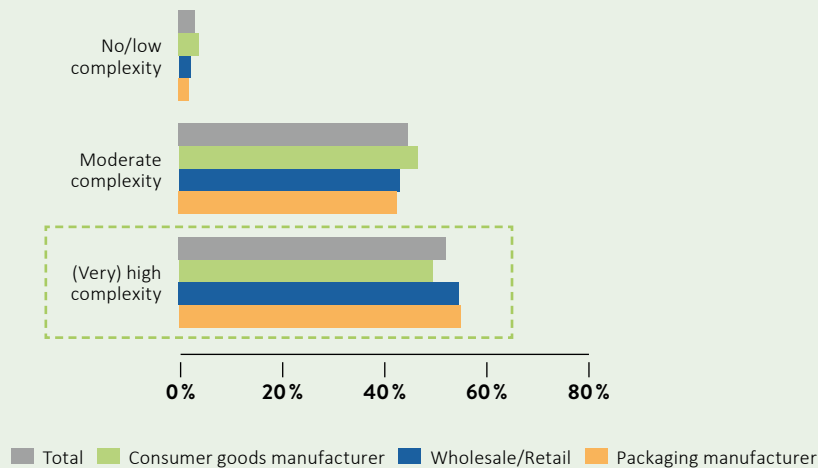
We interviewed 147 respondents for our **study on sustainable packaging**. Of these, 46 percent operate in the consumer goods industry, 34 percent in retail, and 20 percent in packaging manufacturing. Around half of the businesses involved generate a turnover of more than 500 million euros annually.

We also surveyed consumers on whether they would accept price surcharges for sustainable packaging and how much extra they would pay. In a representative survey, 1,021 men and women aged between 18 and 69 answered questions.

Download the white paper:

www.inverto.com/packaging-study

/ Do different customer requirements or country-specific regulations lead to a high number of variants and complexity for your company?



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How should we define sustainability?

Businesses that want to use more sustainable packaging in the future should start by examining how sustainability is defined in-house. As there are currently no clear specifications for what constitutes sustainable packaging, defining an individual strategy is important. Should new packaging be made from renewable raw materials, for example, or from recycled material? Or is reducing the carbon footprint the priority?

Once a business has decided which aspects of sustainability it wants to focus on, the next step is to define objectives and implementation steps and then to follow them consistently. The procurement department should be involved from the outset, so it can test the market and deliver realistic assessments. As the holy grail of packaging – one that meets all the required product characteristics for protection, stability, and hygiene, but is also 100 percent sustainable – is yet to be discovered, it is essential to set priorities and calculate the potential additional costs of the solutions being considered. It should be remembered, though, that being more sustainable doesn't necessarily mean being more expensive; reducing material quantities or substituting different materials can save on costs. Once a course has been charted, you can set sail for strategic procurement. //

CONCLUSION

Sustainability in terms of packaging is not a passing trend. The issue is already seen as highly relevant, and this will only increase significantly over the next five years, with pressure coming from politicians as well as consumers. As requirements for material properties increase, targets are also being set for the use of recycled materials. Taxes and financial penalties for using virgin plastics are in the pipeline, while economies of scale mean that manufacturing sustainable packaging will become more affordable over time. There are no short cuts to implementation, so businesses are having to develop and invest in their own strategies to boost sustainability.



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Sven Sangerlaub is a professor at Munich University of Applied Sciences and conducts research on sustainable packaging at the Fraunhofer Institute for Process Engineering and Packaging. In this interview, he gives us an insight into this complex subject.



Interview with Professor Sven Sangerlaub on sustainable packaging

“Sustainability pays – in the long-term”

When is packaging sustainable?

The concept of sustainability is not clearly defined. It covers various aspects that do not necessarily go hand in hand. The use of renewable resources, a material’s capacity to be recycled, resource conservation in general and carbon footprint reduction are all factors considered to be sustainable.

The whole subject is a minefield, and even experts often have differing views on what the best solutions may be. Businesses thinking about this issue should seek independent advice and consider which criteria are most important to them.

How can a company determine which solution is the right one?

There are some aspects that you need to look out for: raw materials and foods should be produced, processed and composed locally, to save on transport resources. Economic and social responsibility – two other aspects involved in defining sustainability – are a separate discussion altogether.

Monomaterials, in other words packaging made from one single synthetic material, are particularly good from a recycling point of view. You should be able to reuse this material multiple times. A critical mass needs to be reached for recycling to be worthwhile economically. However, we can’t use monomaterials for everything: it depends on the requirements of whatever needs to be packed. They can even have the opposite effect and lead to waste, which would be quite the opposite of sustainability. With foods for example, an extra layer of material often needs to be added as a barrier, to reduce oxygen levels or stabilize the packaging.





Isn't there a huge amount of packaging we could get rid of?

For many products such as food and pharmaceuticals, it is impossible to reduce the amount any further, as we have high quality and hygiene requirements in Europe. In actual fact, consumer protection and product safety take precedence over sustainability. There are also social developments that mean the mountain of packaging is getting bigger and bigger: portion sizes are getting smaller, as there are more single households than there used to be. Also the demand for fast food has grown, as we are cooking less at home. But the major driving force at the moment is clearly the rise of e-commerce.

Does sustainable packaging have to cost more than conventional packaging?

No, not necessarily. The Fraunhofer Institute has repeatedly shown opportunities to save on materials, making it less expensive, as reducing the use of materials helps to save on resources and lower the carbon footprint.

Are there even enough raw materials to switch entirely to sustainable packaging made from renewable resources in the years to come?

If we wanted to completely switch to renewable raw materials, it wouldn't be possible straight away, as we don't have the material and production capacity for it yet. As for fiber materials that could be made into paperboard and molded pulp trays substantial research is being done for resources made from grass, tomatoes, and various annual plants. However, the manufacturing process should not use the foods themselves, but rather the by-products from food production.

The use of by-products is also being discussed to produce biopolymers, in this case plastics from renewable resources. But the total amount of polymers produced using sustainable resources currently makes up less than 1 percent of all plastic production. It will take more time yet for adequate amounts to become available.

And what about recycled plastics?

At the moment, high-quality recycled plastic is more expensive than new, as a result of the low price of crude oil. Of course, oil, as a finite resource, will not remain this cheap, but until then we need solutions to ensure recycled plastics can compete. That would certainly make it possible to significantly expand capacities.

There is a discrepancy between genuine and perceived sustainability. Could you give us some examples?

There are plenty. Returnable glass bottles, because of their weight, only have a better environmental footprint than single-use bottles provided if they travel no more than 200 kilometers. On the other hand, PET bottle recycling works relatively well. Around 95 percent of bottles returned to stores in Germany are collected and made into new bottles; this system works because only one type of item is collected separately from all other recycling. A slightly different example would be cucumbers from southern Europe: when they are shrink-wrapped in plastic film, they last longer, and there is less food waste. This is where companies and consumers have to ultimately choose what is more important to them: plastic waste prevention or food conservation. Alternatively, people can buy local cucumbers that do not need to be shrink-wrapped in film.

What role does legislation play, in your opinion?

Many countries have established a legal framework for collecting various types of waste that has been sorted. In some areas, there is room for improvement, but it can be seen as positive on the whole. Policy will fundamentally support sustainability and encourage change through laws and taxes or duties. Within the EU, there are already plans to charge a plastic tax on plastics that are not recycled. There is also talk of a carbon tax. In the long term, conventional packaging will become more expensive, such that sustainability will finally be worthwhile financially for businesses. //



Re-regionalizing supply chains

Why Go Further Abroad?

Home is where the heart is. During the coronavirus pandemic, this realization hasn't just dawned on the tourism industry, but also on many procurement and supply chain managers. Completely re-regionalizing your supply chain is often not possible, but most businesses that want to move back to more local suppliers have opportunities to diversify.

The advantages of a mainly regional supply chain are apparent: within the European Union there are no trade barriers, plenty of partner countries share the same currency, and some share the same language or culture. Personal collaboration is all the easier to organize, the nearer your suppliers are based. And it's better for the environment if you don't have to ship goods halfway around the world. Plus, the shorter the journey, the lower the risk of disruption. In turn, this brings more flexibility through faster lead times and lower inventory levels.

One significant factor tipped the scales in shifting procurement more and more towards Asia over the last 15 years: costs. Production is simply cheaper in east Asia than it is in Europe. Unlike in the early days of globalization, the quality is appropriate; Asian suppliers have adapted to Western customers' requirements, and transport is cheap and efficient.

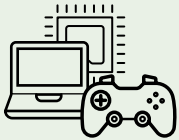
Well-established connections called into question during COVID-19

But the coronavirus pandemic has seen well-established structures to be questioned within just a few weeks. Many food products and consumer goods, in particular, are now labeled "Made in China". The fact that procurement from east Asia has been cheaper and increasingly simplified means that there are hardly any manufacturing facilities for many primary products in Europe. The European continent has parted with a great deal of knowledge and value creation, no longer seen as necessary in the face of advancing globalization. >

Personal collaboration is all the easier to organize, the nearer your suppliers are based.

”

Re-regionalization is difficult in some areas – examples



Electronics

From **chips right through to battery cells**, none of the basic materials for electrical goods are manufactured in Europe. The EU wants to find an alternative, but it will still be a few years before production is established here. So, it's no surprise that items such as **smartphones, computers, gaming consoles, and TVs** – all containing these components – generally don't come from Europe.



Foods

In Europe, there is hardly any capacity for freeze-drying. So, fruit is sent to China to be **freeze-dried** before going to Europe to be mixed in with breakfast cereals. This could also be the case for granola or honey-coated cereal.

Personal body care

The individual ingredients for **shower gels, bath foam, and shampoos** are produced in the Far East, then blended and bottled as finished products in Europe.



Consumer goods

Laundry and cleaning products are also manufactured according to the same division of labor: ingredients from Asia, blended in Europe.

80 % of all shoes worn in Europe are manufactured in China or other Asian countries, and an enormous amount of our **clothes** originate from there.

Bikes and other sports equipment items are often designed and assembled in Europe, but the components come from east Asia.



For a long time, consumers were not interested in where and under what conditions products were being made either. But in view of climate change, environmental destruction, and reports of exploitative working conditions, there has been a shift in perception. However, there are still many people for whom price is the most important purchasing factor – though often not voluntarily, of course. The origins of ingredients of primary products are also not always clear to customers. But a growing proportion of consumers are interested in their goods being produced fairly and sustainably.

Over the last few years, with trade disputes increasing and calls to take climate change seriously becoming ever louder, there have been initial discussions over whether at least some areas of production ought to be brought back to Europe. The coronavirus pandemic has given this change in awareness an extra boost. As a result, many buyers and supply chain managers are now looking for genuine solutions.

Europe: lack of production capacity and higher costs

The fact is, though, that production capacity in Europe is sadly lacking. In many cases, businesses that are serious about re-regionalizing their supply chains have to first support the construction of manufacturing facilities, before they can procure on a large scale from their continent.

As well as the advantages of a regional supplier relationship already mentioned, there is also the boost in European value creation and new jobs that an increase in European production would bring. In the current recession which may well lead to more unemployment yet, supply chain re-regionalization could create new opportunities.

We should remember, though, that while manufacturing in Europe is known for its high quality, it usually costs more than in Asia; as a result, products manufactured in Europe are usually more expensive. This is not something that every consumer wants, or is able to afford. And so there will remain an integral Made in China element in many companies' supply chains.

To justify a higher price, businesses should create transparency for consumers: for example, it is not currently obligatory to declare the origin of individual ingredients or primary products in processed foods. Consumers are not aware that the almonds in their muesli come from California, the honey comes from Chile, and the dried strawberries come from China. Yet the finished product can still be labeled Made in Europe. If you want to charge more for locally made products, you need to first raise awareness. The success of locally grown fruit and vegetables that are snapped up in supermarkets is proof that this can work.

Bringing it home

The best approach for companies seeking to diversify their supply chain and make it more regional is using market research: what primary products are procured or produced in Europe? What capacity is available? Are there components previously been bought from elsewhere that might be worth setting up production for (make or buy analysis)?

If regional production is available, it is possible to forge a strategic partnership to develop quality standards and innovations together with the supplier. This relationship also gives suppliers the security to make investments themselves and expand production if required.



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In order to set up production from scratch, it is reasonable to work together with universities and other scientific or academic institutions. They can build up the skills necessary for this evolution: knowledge that might have been lost or was simply never there.

For single primary products, it can be a sensible move to collaborate with other businesses that have similar requirements for procurement. This collaboration would create revenue opportunities for aspiring European entrepreneurs and investors, and can warrant setting up new or expanding capacity. //

CONCLUSION

The aim of supply chain regionalization is not necessarily a move away from the successful model of globalization. It is more a matter of ensuring your company can diversify through regional procurement within at least part of your supply chain: to remain able to carry on trading during a crisis and to reduce your environmental footprint and open up new opportunities for innovative new companies. If it works, it wouldn't mean the end of an international division of labor, rather the start of a new chapter.



Stand out in the crisis and taking advantage of low prices

Scope for action, even when things get tight

The coronavirus pandemic and all the supply risks that it has brought should have been a wake-up call. Our latest Raw Materials Study reveals, though, the majority of businesses still do not operate professionally enough when it comes to raw materials management. Supply reliability is undervalued and the current low price levels are seldom taken advantage of.

Although the coronavirus pandemic has disrupted or even destroyed supply chains worldwide, most of the respondents in our latest Raw Materials Study are not particularly worried about the supply of raw materials. Demand has fallen worldwide amid the crisis, and this in turn has led to excess capacities and significant discounts. But this situation remains largely unexploited in procurement.

Over half of respondents complain about bottlenecks in the supply chain, and a third say that it is now harder to predict raw material supply. Countermeasures most often adopted by businesses include working with new suppliers, shifting volumes between existing suppliers, and setting up a “war room” to react quickly to delays. These measures are actually more about troubleshooting rather than professional risk management.

The problem with all this is that many businesses lack transparency along their entire supply chain. As many companies don’t procure their raw materials directly, but instead buy primary products, they don’t have detailed knowledge of the raw materials they are purchasing. As a result, they lack the understanding they need to be able to manage these raw materials strategically and optimize costs.

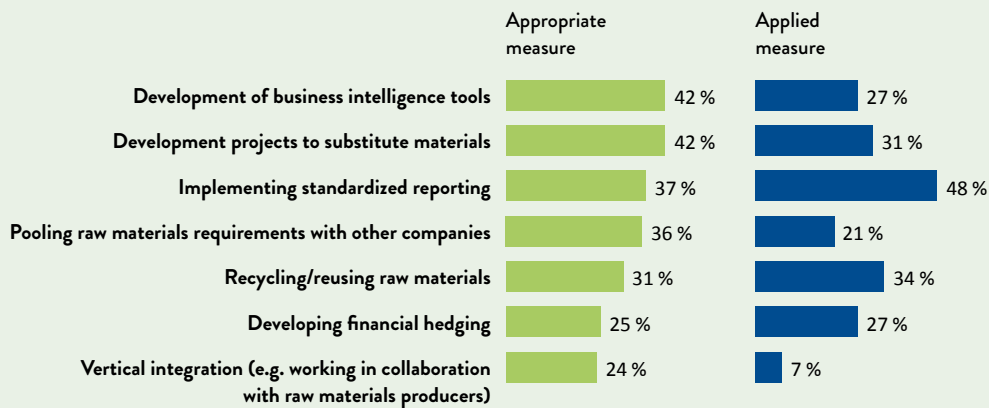
Achieving transparency

A buyer’s most important job is to have a detailed overview of primary products and their supply chain. As these are often complex, this can only be done by active supplier management and close collaboration with strategic suppliers. Through their input and data – e.g. performance indicators relevant to production, raw material availability, or delivery times – you can monitor the supply situation and, if necessary, implement measures that will immediately be effective. At the same time, procurement needs to regularly carry out checks on suppliers, particularly with regard to performance and credit rating. >

Over half of the respondents complain about bottlenecks in the supply chain, and a third say that it is now harder to predict raw material supply.

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/ What measures do you consider appropriate for developing the management of raw materials? And what measures do you use? (Tick all answers that apply)

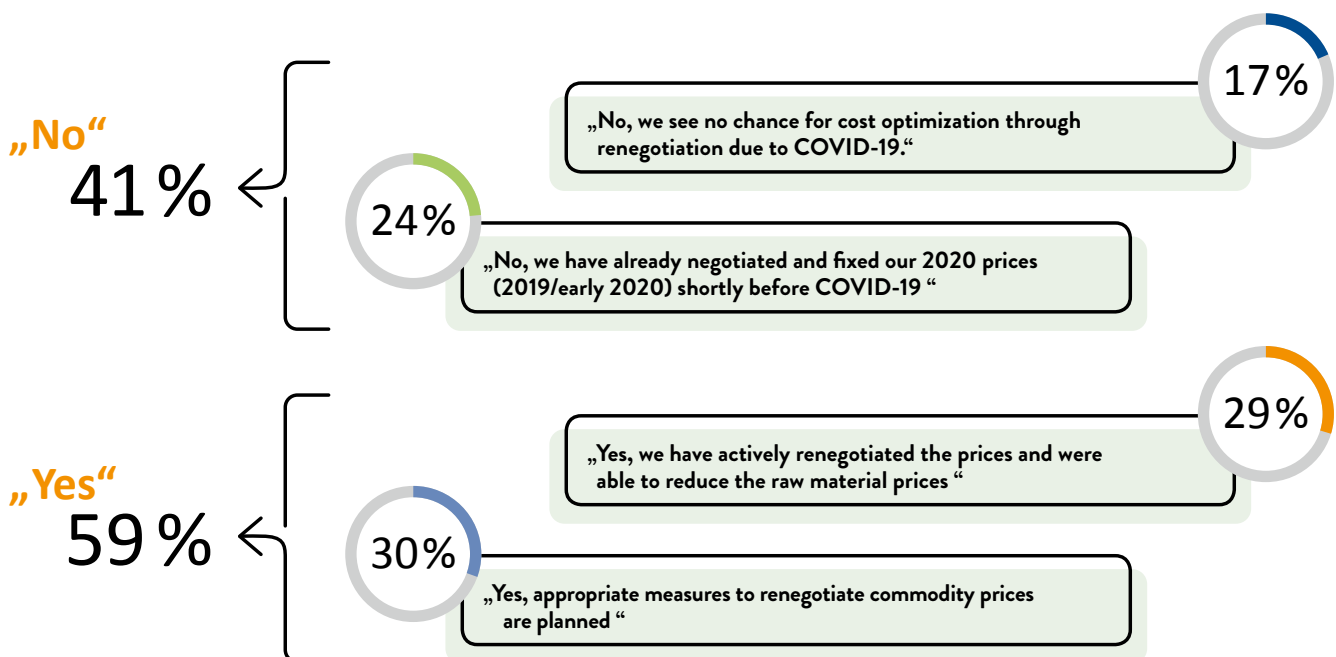


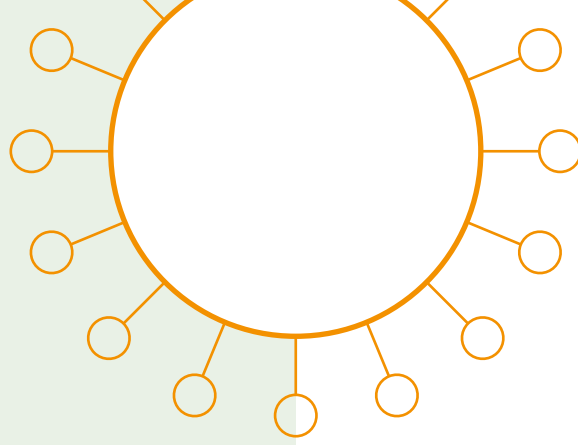
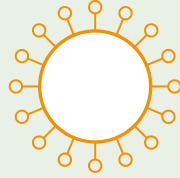
Professionalizing raw material management

To ensure that the transparency you have created can also be used in the long term to actively protect against risk, it's essential to constantly update and monitor your data. It can be helpful to use business intelligence and real time risk management tools that are continually fed data from strategic suppliers via an interface. However, to date, few businesses (27 percent use these measures, although 42 percent of respondents think that business intelligence tools are appropriate for professionalizing raw materials management. This gap in digitization could be down to the amount of time and expenditure needed for implementation, but the effort does pay off.

Once the infrastructure is in place, the tools help significantly to protecting against risk. When defining risk factors and determining KPIs and warning signals, buyers have the option to react to changes in real time, and to select a pre-defined set of strategies to secure supply.

/ Based on COVID-19, do you expect opportunities for raw material cost optimization through negotiations with your upstream suppliers?





/ What impact from COVID-19 poses the greatest challenge for your company? (Tick all answers that apply)



materials

Testing price models

Plastics, chemicals, aluminum, and iron are the most important raw materials, according to study respondents. Given the price drops in oil as well as most metals, the number of respondents who say they could profit from this is low at 29 percent. In many cases, this is due to long-term contracts. 24 percent of study participants state that they had agreed fixed prices before the pandemic began and were not able to take advantage of the slump in the market. Long-term price agreements are basically a good solution as they make it possible to plan costs, but conversely, they restrict a raw material buyer's scope to negotiate.

An analysis of raw material price history and a comparison with the prices actually paid can reveal discrepancies and form a starting point for negotiation. Buyers should also consider the option of negotiating terms and conditions retroactively. Ultimately, no one could have foreseen the pandemic and the price drops that have come with it. It makes sense to stipulate price variation clauses in long-term agreements and link price models in with commodity indices from the outset. //

CONCLUSION

COVID-19 presents businesses with considerable challenges; as well as delays in the supply chain and declining sales, they also have to deal with more unpredictability in raw material supply. This shows that action is very much needed to professionalize raw material procurement, if companies are to be better prepared to deal with crises and challenges in the future.

About the Study



78 managing directors, board members, and procurement decision-makers in Germany, Austria, Switzerland, and the UK took part in INVERTO's **11th Raw Materials Study**. 68 percent of the companies surveyed have an annual procurement volume worth over € 100 million. Around a third of participants spend over 50 percent of this on raw materials.

Download the white paper:

<https://www.inverto.com/raw-materials-study>



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Philipp Mall became Managing Director at INVERTO in Cologne this past summer. He supports clients mainly in mechanical engineering, process manufacturing, and the automotive sector. As Head of the Competence Center for Procurement Management, he is our expert in procurement organization and controlling, risk management, and digitization.

INVERTO Office **Cologne**

“We are well prepared for the challenges of the future”

You joined INVERTO ten years ago this year. Are there any moments that stand out in your memory?

First and foremost, the fantastic colleagues and team I have had the privilege to work with over these ten years. This has involved a truly unbelievable diversity of personalities and teams, which I feel is incredibly enriching. And then, naturally, all the exciting projects and insights into a huge variety of industries and businesses. What really stays with me are those occasions when we as a team were able to solve complex problems with and for our clients. Particularly the more challenging times we overcame together, come to my mind. My personal highlights each year were the INVERTO annual conferences that bring together all the colleagues and their partners so we can all celebrate our success and make new plans. Many friendships have developed out of these annual events and have also endured outside INVERTO.

What do you think has changed since INVERTO became part of BCG?

It has allowed us to develop significantly. Building networks with our new colleagues means we have gained an unbelievable quantity of valuable input into our core issue of procurement and SCM, as well as inspiration and new approaches in other areas, including digitization, transformation and change management.

Being stimulated to look more closely at our own work has been a crucial factor in becoming even more professional and offering more services than we did three years ago. The same definitely goes for our internal processes, too.

All in all, it has also meant that we have adapted our structures, that the learning curve has become even steeper across all ranks and that we feel better prepared to face the challenges of the markets. And that has also helped us handle the current coronavirus crisis.



How have you coped with the coronavirus crisis so far and what were your biggest challenges in the last few months?

Thankfully I'm currently leading an extensive project with the same core team. Prior to the crisis, we had a great working relationship as well with the client which has been a huge advantage. But when you work from home, you lose all the personal contact that goes on in the background. So I've done my best to keep the team spirit going remotely and ensure newer colleagues feel they are part of the team and they can still develop and progress in this setting. Equally, we've also worked hard to make sure that client contact isn't neglected.

Adapting to the work from home environment was initially challenging. My wife and I both work, and the fact that daycare and kindergartens were closed meant that our two young children were suddenly at home all day – that was initially a pretty big challenge, but we managed to handle it fairly well.

Which trends will shape our daily working lives over the next few years?

New ways of working are a major trend that coronavirus has put firmly in the spotlight. Everyone – business as well as individuals – will have to switch to more agile and flexible working models in the future and rethink processes accordingly. Here at INVERTO, that applies to our work on clients' premises as well. And that also feeds into our sustainability ambitions and those of our clients: the more tasks can be carried out centrally from the offices, the better that is for our business's carbon footprint.

How do you think businesses have benefitted from the crisis?

Digitization has accelerated at an unbelievable rate, of course, and I think that businesses have become even more aware of the potential opportunities. For procurement, that means an even greater focus on networking with the right experts and service providers, and developing an entire ecosystem of partners.

We will also see an even stronger holistic approach to procurement, and we will focus on making procurement more resilient. As current events show, it is becoming increasingly important that we can cope with the unforeseen and operate in increasingly fast-moving and complex markets. To do this, procurement needs to have the right skills, including effective risk management.

On a trip to Cologne, what should definitely be on our "bucket list"?

Cologne Cathedral is a classic that everyone should visit – take the time to climb the towers and have a guided tour of the excavations in the foundations as well.

Apart from that, I would always recommend exploring the streets in the various Veedel (districts), trying a few Kölsch beers at a Büdchen (kiosk), then simply going for a stroll in one of the parks in the green belt and chatting to local residents. You can still do that – coronavirus or not – whether you're travelling solo or in a group, with or without children, and whatever the time of day. Because that's ultimately what Cologne is all about – the "Kölsche Art" or Cologne way of life. //

Cost reduction in procurement:

Emerging from the Crisis Safe and Sound

The coronavirus is keeping the world on tenterhooks, triggering a severe recession which is likely to escalate in the next few months. For a business to weather this crisis, discovering savings has to be on the agenda. We'll show you how to set up extensive cost-lowering procurement programs in a structured way, and what impact they will have on your company's overall results.



**Cover story in
the next issue!**

White paper on working capital:

Making Use of Untapped Potential in Times of Crisis

Working capital management is often underestimated as a source of money and value creation, but if money is needed at short notice, working capital can be perfect for managing through a crisis. Find out more about the latest developments in working capital in business, as well as how to set up an effective management model, in our white paper.

Download the white paper

inverto.com/working-capital-study



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