

# Supply

MANAGEMENT  
INSIGHTS

ISSUE 09

Sustainability, Cost Optimization,  
Risk Management - can there be a  
**BALANCE?**





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## Dear Readers,

The economic environment is becoming increasingly volatile and complex, with one crisis following another. In times like these, carrying on with “business as usual” may be difficult, but even in the face of crises, companies still have other challenges they must deal with.

The situation in the global markets was already tense, but it has now worsened, causing supply issues and rising raw material prices. Procurement in particular is facing extra problems: as well as managing these supply and pricing risks, the issue of sustainability is also high on the agenda. The procurement department is also a key driver of economic efficiency within a company and always needs to keep an eye on costs. Reconciling these sometimes contradictory goals is a balancing act that can only work if the management team gets actively involved, as we explain in our cover story. Our experts and interviewees also provide practical insights.

You can also read the results of our latest risk management study, and learn how your company can implement the requirements of the German Supply Chain Act.

In the latest installment of our People@INVERTO series, we are introducing you to our new CEO Daniel Weise, as well as our Managing Directors Paul Mohr and Paul Zahn.

A handwritten signature in blue ink that reads "Thibault Pucken". The signature is fluid and cursive, with a large initial 'T'.

**Thibault Pucken**  
on behalf of the Management Board



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**Mastering the transformation**  
How companies balance conflicting goals



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Security of supply  
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How Companies Can Successfully Balance Goals

# Dancing on a **TIGHTROPE**

It's vital for companies to align their approaches to risk management, value creation and sustainability. Executive Management plays a crucial role in getting this right.



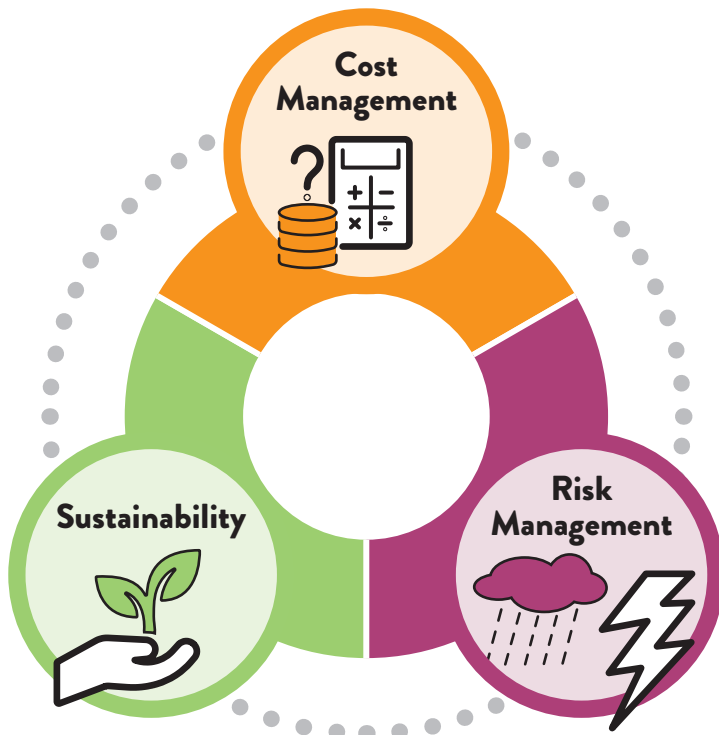
One wrong move and Philippe Petit would have fallen 417 meters. It's August 1974 and the slight Frenchman is balancing on a tightrope stretched illegally between the twin towers of the World Trade Center, then still unfinished, surrounded by the New York skyline. Onlookers crane their necks while the man carries on walking, no safety net in sight: it is probably the most spectacular balancing act in recent human history and Petit became world famous as the „man on the wire“.

Philippe Petit is a fitting analogy for modern procurement: companies have to balance cost optimization, value creation and risk management, under increasingly difficult conditions. Our latest risk management study shows that 90% of companies have been affected by supply chain disruptions in the last 12 months, or have had to procure expensive replacement products at short notice.



As if that were not enough, the issue of sustainability adds another dimension that procurement has to address, both in terms of the company's ecological balance sheet and from a social point of view. Transparency plays a crucial role in supply chain sustainability.

The increasing importance of this balancing act is also reflected in a CPO survey. The results show that although cost optimization and risk management were still identified as the most important issues with 54% each, sustainability follows closely behind with 51%. To be able to balance these sometimes contradictory goals, procurement must undergo an extremely significant transformation. But how can this be achieved? >



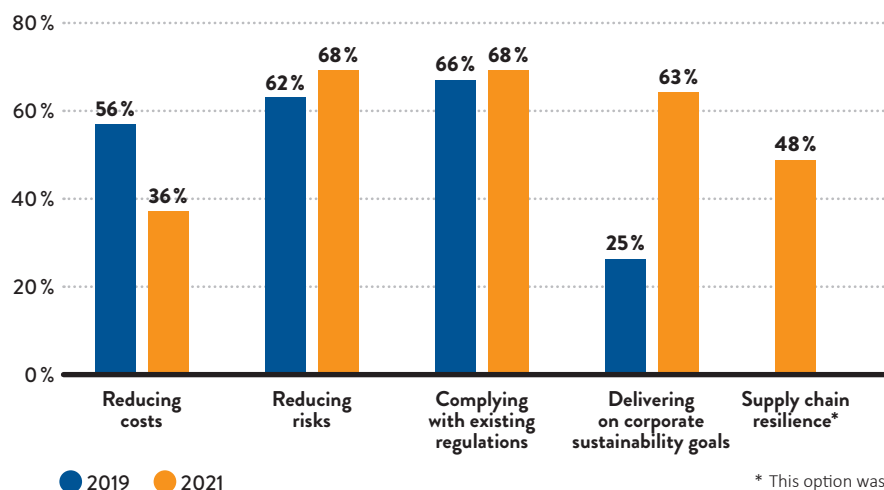
Supply chain resilience has increasingly come to the fore as a result of the pandemic, and some companies have already selected alternative suppliers in domestic markets as second sources. However, this isn't feasible in every sector. In some cases, such as with steel, oil and other raw materials, considerable additional costs have to be accepted or, in some areas, production even has to be suspended. An obvious example of this is the semiconductor crisis. In the automotive sector at the moment, OEMs have to pay significantly more for semiconductors, currently in such short supply, if they are to be able to produce vehicles at all. In the medical technology sector, decision-makers sometimes have to make choices about which instruments and machines are more critically needed for treatment, and pause other production lines.

### The Status Quo Can Be Built Upon

To date, cost awareness has been very strongly embedded in most companies and procurement departments have invested a lot of energy in optimization. However, they are currently affected by rising material costs (including raw materials), as well as supply bottlenecks. Focusing on short-term savings can often be at the expense of supply chain stability, and can get in the way of partnership-based, long-term collaboration with suppliers.

A knowledge of entrepreneurial risks is essential for resilience. Yet to date, only 55% of companies systematically identify their risks, as our latest risk management study shows. It is high time to prioritize this issue and use data analysis tools to create transparency about possible risks in your supply chain, and consider alternative supply options.

### / Main priorities of procurement organizations 2019 vs. 2021



\* This option was not included in the 2019 survey  
Source: Ecovadis



### Sustainability in the Supply Chain

Despite sustainability's increasing importance, a company's management team is rarely responsible for it; it is often left to the lower ranks. However, a lack of clear commitment to the environment and society is not sustainable in the long term. Increased transparency in the supply chain and measures such as using green electricity increase costs in the short and medium term, but they add a competitive advantage in the long run: on the one hand, because corporations and companies are thus already prepared today for future legal requirements. In addition, these can increase the attractiveness for investors as well as the opportunities on the sales side and the applicant markets.

### Sustainability as an investment standard

Blackrock, the world's largest asset manager, called on companies to take action in the face of climate change and to tie investments to sustainability factors from now on. The company believes sustainable and climate-conscious portfolios can offer investors better risk-adjusted returns. (Source: Blackrock)

Particularly in procurement and the supply chain, there is great potential for more sustainability that companies have hardly begun to exploit up to now: from saving CO2 in logistics to modifying product design to replace raw materials. If, for example, a product needs less material, or alternative materials are more environmentally friendly, procurement can develop innovative solutions by working with the product development team as well as suppliers, delivering a major value contribution to the company. >

### Nine supply chain initiatives Chief Executive Officers should push for



#### Create transparency

1 Build value chain emissions baseline and exchange data with suppliers



#### Optimize for CO<sub>2</sub>

3 Redesign products with sustainability in mind



#### Engage suppliers

5 Integrate emissions metrics in procurement standards and track performance



#### Push ecosystems

7 Engage in sector initiatives for best practices, certification, advocacy...

2 Set ambitious reduction target on Scopes 1-3 and publicly report progress

4 Design value chain/ sourcing for sustainability

6 Work with suppliers to address their emissions

8 Scale-up "buying groups" to amplify demand-side commitments



#### Enable your organization

9 Introduce „low carbon“ governance to align internal incentives and empower your organization



One of the most important prerequisites is defining the goals that will need to be included later in each area's planning.

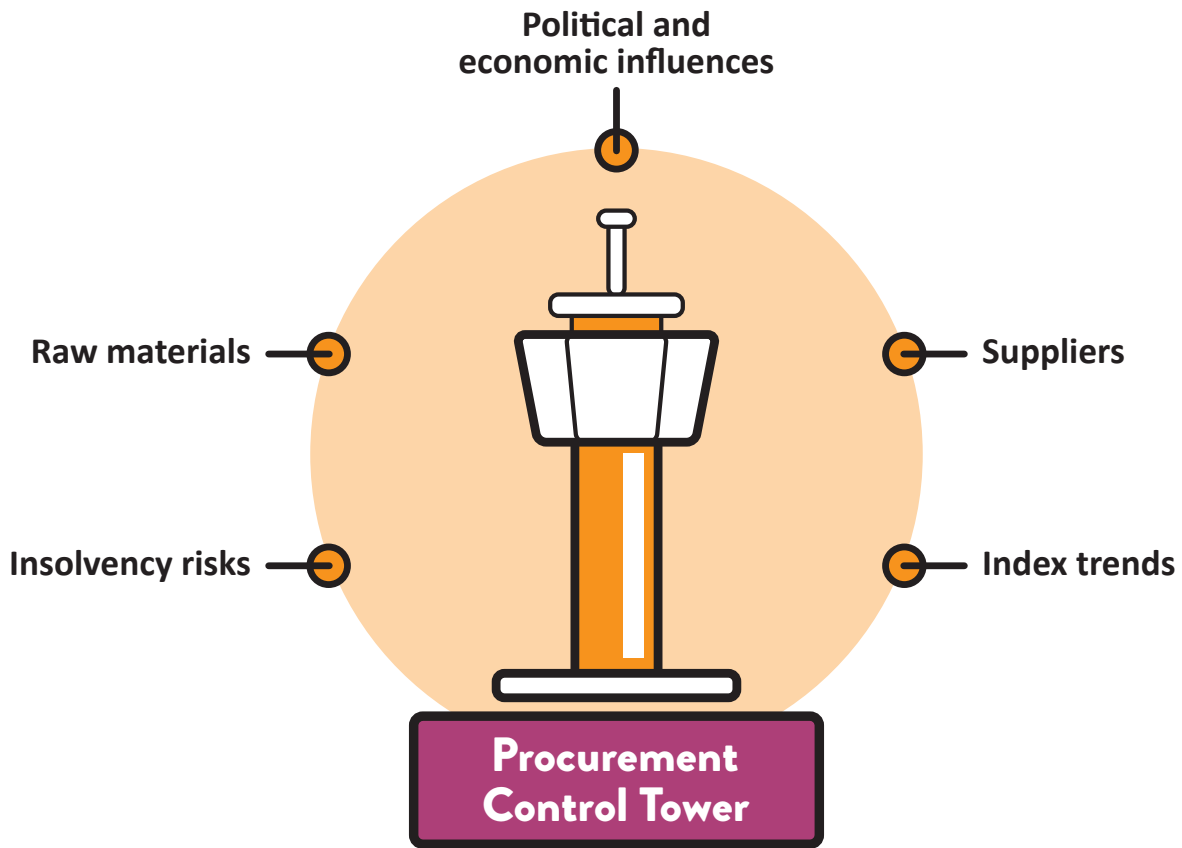
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### **Managers are In Demand**

To get the balancing act right, management must create the necessary conditions and kickstart a fundamental transformation process. One of the most important prerequisites is defining the goals that will need to be included later in each area's planning. This includes highlighting and actively promoting the new priorities within the company.

It will then also be management's responsibility to embed prioritization in the relevant departments operationally and to avoid conflicting goals. If sustainability targets are defined for procurement and costs increase as a result, for example, a budget to meet these increases must be available. A CPO needs a clear framework for planning towards the future and setting up new processes.

A comprehensive program with a clear timeline is also essential; for sustainability, for example, this might be a 60% reduction of CO2 by 2025. This also needs to be proactively implemented within the company if you want to keep your employees on side on this journey. This could mean very simple measures with managers acting as role models. Using public transportation or switching to bicycles where possible, for example, can create awareness of CO2 reductions within the company and subsequently enable broader action. Another example would be the gradual transformation towards more virtual meetings to create a new meeting culture.



### Tracking Goal Attainment with Company-Wide KPIs

Once the goals are set, cross-functional monitoring is essential. Above all, this should include defining KPIs throughout the company and tracking them regularly. Management must also set the right incentives, including by incentivizing staff purely on the basis of the defined goals and their prioritization.

You should also regularly review whether your sustainability agenda's goals are being achieved. This includes giving every product not only a "price tag" but also a "CO2 tag". Non-product-related areas such as the company's fleet or business travel can also be evaluated along these lines. Initiatives such as the Carbon Pricing Leadership Coalition are working to find practical solutions to this issue. The CSO or whoever is responsible within management must also promote effective communication with customers and set clear rules for working with suppliers. Where there have been general terms and conditions up to now, in future these should be supplemented by general sustainability conditions. As the interface to the suppliers, procurement has the task of communicating this to them and jointly defining clear rules for cooperation and processes. >



### / Carbon Pricing Leadership Coalition

The Carbon Pricing Leadership Coalition brings together leaders from governments, the private sector, academia and civil society to expand the use of carbon pricing measures.



Procurement can only work effectively and achieve a successful transformation if management defines cross-company KPIs, creates the conditions and provides a clear mandate for procurement.

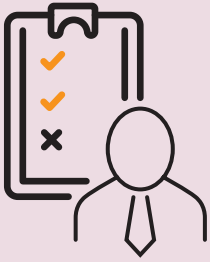
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### Meeting the Requirements

All these points clearly demonstrate the key role that management plays in resolving conflicting goals. Procurement can only work effectively and achieve a successful transformation if management defines cross-company KPIs, creates the conditions and provides a clear mandate for procurement.

If you look now at the status quo in companies, there is still some catching up to do. Many companies have understood that risk monitoring and risk management is an important and central task within procurement, but they need to focus more on transforming procurement into a value and innovation driver.

In the future, classic product group management will become increasingly digitized. This increasing automation means procurement can spend less time on day-to-day operations and work more strategically, for example in cross-functional development projects. Procurement can contribute its knowledge of supplier markets to projects like this, and point out possible extra costs and potential for risk at an early stage.



## How management can offer support

- 1. Achieving transparency & recognizing conflicting goals**
- 2. Reformulating and prioritizing goals**
- 3. Sharing the goal system between departments**
- 4. Setting up a control tower & defining KPIs**
- 5. Change management & incentivization**

Not only does digitization help to accelerate transformation, modern tools can also bring about increased transparency and measurability across the supply chain. The use of analysis tools begins with raw materials. To be able to create transparency in this, it is essential to have information at hand about which raw materials are contained in the end product and in what proportions. It's only by knowing the proportion of raw materials that procurement can get ahead in price negotiations with suppliers and agree advantageous index clauses.

The fact that, on average, not even 50% of the supply chain has been digitized up to now means that resources urgently needed by companies are being wasted. So it makes sense to establish a control tower that provides a quick, automated overview of important suppliers, raw materials, index price changes and insolvency risks. If all this information is gathered in one place, the procurement department can define strategic options about what to do if a supplier lets them down: what mitigation plans are in place? What dual sourcing strategy needs more development?

In the best possible scenario, this transparency offensive should be extended so that companies and suppliers share data with each other too, from current stock levels to carbon emissions. For example, if a company is aware that the magnesium stocks in a supplier's warehouse are running low, it can secure the supply at an early stage, or even support the supplier in the search for new sources.

Transparency is by far the most significant factor for transformation: it means goals can be reprioritized at procurement level. Specific goals relating to value creation can, for example, improve supplier performance or cost savings through better product design. It can make sense to develop nearshoring options, to make the supply chain more stable and sustainable. >



As goals are often diametrically opposed, procurement has to find a balance, depending on its priorities, and keep recalibrating them.

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But as these goals are often diametrically opposed, procurement has to find a balance depending on its priorities and keep recalibrating them as they can keep shifting, depending on the political and economic situation worldwide. For example, in the automotive industry, at the moment it's crucial for companies to obtain semiconductors, and now the supply chain has been affected again as a result of the Ukraine crisis. In this current situation, resilience takes priority over cost optimization or value creation.

Companies must ask themselves how they can balance trade-offs, especially for long-term, strategic decisions. The search for alternative raw materials plays just as important a role as strategic collaboration with suppliers.

Procurement also has to manage trade-offs when it comes to sustainability. For instance, many companies are currently working on initiatives to relocate supply chains and to regionalize; even though production in Europe is often associated with higher costs, it can help to significantly minimize delivery problems. With shorter distances, different means of transport and higher environmental and social standards in domestic markets, this can also make sense from a sustainability point of view.



## / Resilience

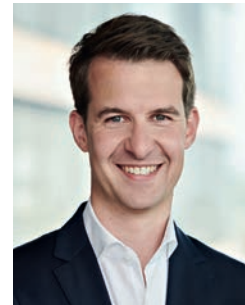
generally refers to the ability of a person or a social system to successfully cope with stressful life circumstances and the negative consequences of stress.  
(Source: Stangl, 2019)



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is a Managing Director at INVERTO in Cologne. With his vast experience in strategic procurement, he predominantly assists customers from the automotive, industrial goods and mechanical engineering sectors. He also leads the Competence Center for Procurement Management.

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### CONCLUSION: Making Transformation Work

To sum up, finding the balance is a company-wide task that can only be successful if management recognizes its importance and defines the most suitable framework for it. Cross-departmental lighthouse projects are ideal for embedding this in the organization and providing an initial sense of achievement.

Procurement can make a significant contribution to a company's resilience, as a driver in cross-functional teams. But to be on top of these complex issues and to find answers to significant questions in the supply chain, it must evolve decisively. With the right tools and skills, and by working closely with suppliers, a supply chain can be completely redesigned for the better, providing vital agility in the balancing act between resilience, sustainability and continuous value creation.

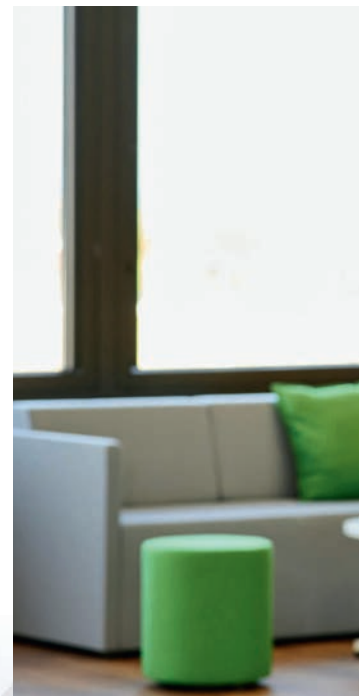


# Experts

on  
**PROCUREMENT  
TRANSFORMATION**

## „Data Transparency is Essential for Transformation“

In this interview, **Berthold Kraus**,  
**Chief Procurement Officer at  
Syntegon**, talks about the  
factors needed for successful  
**procurement transformation**





**As Chief Procurement Officer at Syntegon, Berthold Kraus first supervised the carve-out at Bosch, then faced the challenge of redesigning the procurement processes of a process and packaging technology supplier with around 6,100 employees to make it more efficient and effective. In this interview he explains how the transformation worked in his department, how he got the new Board's support and how he now sees Syntegon's procurement.**

**Mr. Kraus, Syntegon, still trading as Bosch Packaging, was facing a carve-out when it was launched at the end of 2018. Investors expected the company to significantly improve its performance straight after that. How was this time for you as CPO?**

We basically had to work on two independent, very dynamic projects. For the carve-out, the goal was to be able to survive as an independent company and to build up solutions, which were previously centralized from Bosch, within the framework of a smaller company. Indirect procurement and an SRM (Supplier Relationship Management) solution are good examples of this. In parallel, we had to develop and implement a concept to increase performance for liquidity and procurement results in the short term. This was quite difficult within the company's previously decentralized structure, with varying maturity levels and priorities. That's why we also ended up working on a very extensive transformation. Personally, I found the time challenging as we also had to completely change the way we communicated with each other straight after the launch, because of the pandemic.

**What was your approach after the carve-out?**

The first step was to use a new data analysis tool to create cost transparency and analyze the potential in each material area. Cross-location bundling and material field strategy, procurement professionalization and involving procurement in the award process from the early stages were all significant levers. This meant we could clearly show our Board and investors the goals that should lead to significant change in procurement.

As the results were quite different from previous levels, and there were some doubts within the company, we used external support to set up the new organization and achieved results from the outset, confirming that our concept was right.

**Your investors wanted the procurement department to contribute significantly (in double figures, in percentage rates) towards value creation. What did that mean in practice for you?**

At first, of course, it was a really big challenge and an honor to lead a top priority project. Especially as our procurement was very diverse, with a focus on supply. So when we were measuring results, we kept the spotlight very firmly on a positive EBITDA effect so we could establish targets for each location in relation to P&L in procurement. In hindsight, that was really effective. We also set up a very tight timeline for our project management, kept the procurement teams focused on cash and savings and made sure we communicated the results. Involving the site managers as a sounding board and the site procurement managers in the project steering committee ensured that everyone worked together really closely. We more than succeeded with this task: procurement is now a crucial driver in Syntegon's value creation program. >

The first step was to use a new data analysis tool to create cost transparency and analyze the potential in each category.





### How, in concrete terms, did you get it done?

Clear goals and responsibilities for the procurement teams, as well as external support, were important. In concrete terms, we contributed by increasing value in each individual product group by bundling and standardizing products, and by adapting specifications. We also developed a structured approach to supplier management. In the end, positive competition between the procurement teams also helped to deliver top performance. Ignoring any discussions about organization until there were really robust results from most of our locations also helped to focus more on the outcome and not just on varying opinions about organigrams.

### What role did management support play?

The Board was fully behind us from the moment we were able to convincingly show them what great leverage we have in procurement, in terms of EBITDA improvement. Measuring hard results was certainly an important element here too. We could also always count on their support with important strategic decisions, as well as when it came to project resources. When we developed the new organizational model, we worked very closely with our management team. And if we couldn't reach a decision ourselves with each location, management took over at very short notice to lead the discussions.

### And were you recognized for the work you did?

Absolutely, both internally and externally. We received the 2021 Innovation Award from the German Association of Materials Management, Purchasing and Logistics (BME) for our transformation. It was great recognition of the whole team's work, including our colleagues from INVERTO. We were also presented with an award for the procurement team's performance by our CEO, Michael Grosse, at Syntegon's Fall 21 management meeting. I feel that in procurement, we're now fulfilling an important management function within Syntegon, and helping all our locations.

### Isn't there a risk in leaving out the organization issue until later?

Of course, the employees want clarity very early on about where the company is going in terms of an organizational model. But you have to keep firm under the pressure and clearly communicate when the issue will be discussed. That being said, key employees should be approached early on about potential jobs, to prevent them from leaving.

### First the carve-out, then improving performance: how did you manage to keep your team on side through all this?

It was only possible with very close coordination and transparency about what we wanted to achieve together. Week after week, we kept going through how far we'd got with achieving our goals, we shared in our successes and, despite the pandemic, we also celebrated results virtually and in person when possible. I also tried to keep talking to all the team members and to help them if needed, by explaining decisions or lifting their morale. I was probably also able to pass on my enthusiasm to my team that in procurement we can have a real influence on Syntegon's future.

### How do you see Syntegon's procurement department structure now?

We still haven't finished our transformation. I'd say we've fulfilled 85% of our goals. We're now in a much better position when it comes to bundling our requirements, and in relation to competition. Syntegon has implemented powerful IT tools to increase efficiency and guarantee data transparency. We can basically mark our indirect procurement as done. When it comes to project procurement, on the other hand, we're only at maybe 70% of what I have in mind. And strategically we still have some more work to do to ensure our procurement is futureproof. Up to now, we've mainly been concerned with increasing value, but now we have to focus more on issues such as risk management and sustainability factors. Although the crises of the last 24 months have certainly been very challenging, I can proudly say that our team has proven itself and is making a very significant contribution to Syntegon's success in terms of parts availability, as well as price stability and transparency with the different locations. //

# Experts

on  
ESG INITIATIVES

In this interview, David Moran explains how companies can organize ESG initiatives in a targeted manner, the role that executive management plays in this, and how to convince suppliers that this new course is the right one.

„Procurement  
needs to have a  
clear framework“



**David Moran** is an experienced supply chain expert. Most recently, he spent ten years as the Supply Chain Officer for the European business of fast-food chain Kentucky Fried Chicken (KFC).

**Mr. Moran, what does sustainability in the supply chain mean specifically?**

A sustainably managed supply chain doesn't have a detrimental carbon footprint. The precise meaning, of course, very much depends on the product. Basically though, a responsibly managed supply chain in our sector is always founded on three pillars: ethical procurement, environmentally responsible procurement, and animal welfare.

**But the definitions of ethics, ecology and animal welfare aren't always clear-cut.**

Discussions about these issues vary greatly. We already have some very clear definitions for ethical procurement. Child labor, for example, is unequivocally prohibited. When it comes to the term "sustainability", on the other hand, in many areas we are only just starting to look at what it does and doesn't mean.

**Why do so many companies still find it so difficult to put the right measures in place?**

In a lot of companies, the problem is that management delegates the matter. There might be a sustainability officer, but they are rarely appointed at the highest level. Or it's all delegated to the procurement department, which then has to find its own way to make the concept a reality. The outcome is the same in both cases – responsibility for the matter doesn't lie with management, so there's no one to take ownership and drive things forward.

Of course, it is more difficult to implement voluntary measures. But the benefits are also significantly greater.



**In that case, do the legislators need to intervene?**

That can help by establishing a clear framework and sets minimum requirements. It forces companies to meet the required standards, which is often the starting point for sustainability. This is important because smaller steps are needed initially before getting to the really incisive measures. The principle of "walk before you can run" applies here.

**If the legislation only requires the minimum, why should a company do more?**

Obviously, it's harder to put voluntary measures in place. But the benefits are also far greater, as consumers are often much further ahead in their thinking than the legislators. If you just do the bare minimum, then your customers will only honor that in a very limited way. You have to go further to meet their expectations. This is particularly true for industries like ours where the end consumer is extremely important. That said, it would be naive to think that B2B-based companies can escape this trend.

**So, how does procurement combine sustainability criteria and cost efficiency then?**

In principle, procurement can apply any guidelines as long as there is a clear framework. However, it's true that sustainability has its price – that's why it's important there is a clear reason behind the decision and for executive management to communicate clearly that the costs are secondary to begin with.

**How should companies decide on what course of action to take?**

There are two key steps for implementation. Firstly, the "why" needs to be defined for each measure. For example, why do we have zero tolerance when it comes to child labor? Because it's a legal requirement and non-compliance would break the law and constitute a violation of the obligation we have toward our shareholders. We then need the "why" for the second step.



### Which step is that?

Every sustainability measure needs a sponsor. This should explicitly not be the procurement department, but rather whoever is behind the “why”. In our example concerning zero tolerance for child labor, it’s about dealing with shareholders in the right way, so the CFO would be the logical sponsor. They’ll have a clear understanding of the positive impact of the measures and also be the one that benefits from them the most. In the same way, they will also be able to defend them if any conflict arises. The operational implementation can then be handed over to procurement, because achieving the best result within clear guidelines is what buyers are good at.

### How should procurement communicate the new approach to suppliers?

The suppliers must know clearly what the company stands for, so that they can act accordingly. This also applies to prioritization- if a company decides to put sustainability first and price second, this is important information for the suppliers. What helps enormously is to summarize all the specifications in one document. This is the first thing new suppliers receive, and it contains everything they need to know about both quality and ESG criteria. Especially for suppliers outside Western Europe, who are often not yet that far advanced, it then becomes clear how important the topic is to procurement and which specific rules they have to adhere to.

### Should procurement also be prepared to relocate parts of the supply chain to Western Europe?

That may become an issue in the short term, but that has nothing to do with a lack of control of suppliers outside Europe. That loss of control is a myth. It’s more about consumers there lagging behind in terms of what they want. Those requirements will level out in the long term and then we’ll also start buying more from those regions again.

### All of that will lead to higher prices, especially in the food industry. Are you worried about that?

Consumers’ willingness to pay is completely disconnected from their expectations in terms of sustainable production and procurement, especially when it comes to food. That is the biggest challenge we will face as an industry in the years ahead. Customers need to understand that a responsible, ethical supply chain comes at a certain price. Communicating this will be a key task for us. //



## The Supply Chain Act

# Transparent Relationships

Looking after the climate and the environment, preventing exploitation and child labor: these things should be a given, in theory, but to date not all companies have known exactly what is going on in their own supply chains. Supply chain regulations offer an opportunity to finally create clarity and binding rules. Some countries, including Germany, have already passed legislation, and now the EU is following suit.



We recommend taking a step-by-step approach, starting in your own company, to implement the new legal requirements.

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The economy is currently split into two camps: those who fear additional burdens because they are worried about more bureaucracy and duties, and those who see it as an opportunity. We're on the side that's expecting positive outcomes from this law.

We think that companies will particularly benefit from setting up their risk management more broadly to meet the law's requirements. Professional and strategic risk management makes it possible to be more resilient and agile when risks occur. And this in turn means companies can create more value and be more competitive.

### Does your company have transparency about its supply chains?

We recommend taking a step-by-step approach, starting in your own company, to implement the new legal requirements. Check which requirements you already meet, for example through a sustainability agenda or compliance regulations. Are these requirements stringently implemented within the company, particularly when it comes to your procurement strategy and risk management? Unfortunately, we often see that there may be goals and statements, but these are not actually reflected in the individual departments. Training, building awareness, and also incentivization, are important in this context to help employees comply with the Supply Chain Act.

Once the internal requirements have been clarified, the law stipulates that the company must first adopt a policy statement covering the new due diligence requirements. Using a risk analysis, potential problems can then be identified and categorized, and countermeasures can be defined. If strategic risk management is already in place, it will be easy to expand your current criteria to include the legal requirements. >

## The Draft European Supply Chain Act

A draft European Supply Chain Act was presented in the EU Parliament at the end of February. It is far stricter than the German one and also applies to more companies. If passed, all EU countries would be required to implement the law. The draft includes the following regulations:



**Applies to:** all companies throughout the EU with more than 500 employees and a turnover of at least 150 million euros. In the textile, agriculture and mining sectors identified as being more at risk, a threshold of 250 employees and 40 million euros applies.



**Goals:** preventing human rights abuses and environmental damage throughout supply chains, companies are also required to draw up their own climate roadmap to achieve the 1.5 degree target.



**Scope:** companies are responsible for their entire supply chain, but this only applies to longer-term business relationships, not one-off requirements.



**Penalties:** fines and sanctions are foreseen but not yet specified. The law is also likely to include liability towards those directly affected.



### Build an Interdisciplinary Team!

Implementing the Supply Chain Act is a task that requires cross-company collaboration as it also involves corporate communications and your legal department, because as well as the supply chain requirements, the law also requires companies to inform the public about risks and solutions, as well as to establish a public complaints body. So the task force in charge of implementing the law and managing the internal communication flow should be interdisciplinary.

Risk management that will meet the law's requirements should include prioritizing countermeasures: is the violation so serious that your company should stop working with the supplier immediately? And what are the possible solutions? It goes without saying that contingency plans and countermeasures need to be planned in more detail and communicated more actively than before the law was introduced.

### Talk to Your Suppliers!

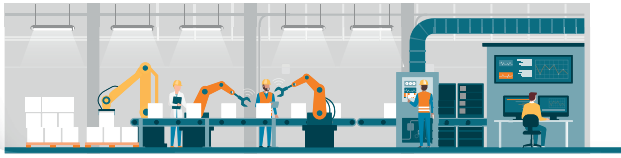
The next step towards implementing the act is talking to suppliers. Again, it's important to use your current situation as your starting point. Expand existing audits or specifications to include the legal criteria, and make sure you discuss everything with suppliers. Clarify where your suppliers perceive risks and compare them with your findings. Define possible solutions and countermeasures together for the downstream supply chain. Involve independent organizations, for example NGOs or auditing companies, in audits. Depending how far along you are in developing your own sustainability goals, we've developed three models of varying complexity that you can use as a basis for implementing the Supply Chain Act requirements.

## / Three models for implementing the Supply Chain Act

	1	2	3
	„Lean & Manual“	„Continuous & Automated“	„ESG <sup>+</sup> - Risk Management“
<b>Focus</b>	Concentration on critical categories	Comprehensive analysis 90-100 % of suppliers	Supply Chain Act as an occasion to introduce/expand comprehensive ESG risk management
<b>Risk assessment</b>	Manual risk assessment of selected suppliers	Automation of scoring by means of service providers, tools	End-to-end risk analysis
<b>Interval</b>	Review annually and in case of suspicion	Continuous monitoring, automated reports	Continuous monitoring, automated reports
<b>Value proposition procurement</b>	+	++	+++
<b>Sustainability</b>	-	++	+++
<b>Costs, duration</b>	+	--	---

Comprehensive conformity with the law must be checked in each individual case

\* ESG: Environment, Social, Governance



## Sustainability and Employee Rights in Practice

Some companies have already been taking responsibility for their supply chains for several years and are continuously working on improving conditions for their suppliers' employees or implementing optimized environmental protection measures. Companies now required to do so by law can learn from them. We'd like to present three companies of differing sizes and business sectors as examples.

For example, the fashion retailer Takko proves that realizing ESG criteria in its own supply chain is possible, even in the lower price segment. The company's managers emphasize that low-cost production is achievable, not through unfair wages or child labor, but through streamlined processes, large quantities and efficiency in design.

The retailer Tegut, on the other hand, relies on direct and long-standing supplier relationships for its own brands and for fresh products, so it can sell organic and fair-trade food to its customers. The company also offers maximum transparency with the "Origin Check" facility on its website. There are numerous suppliers, each with their own profile, in full view with this feature.

The cosmetics, household goods and adhesives manufacturer Henkel has received many awards for its commitment to the environment and employees' rights. The company has an ambitious agenda that includes gender parity at all management levels by 2025, and a carbon positive footprint and transition to a circular economy by 2030. In its supply chains, the consumer goods manufacturer has set itself the goal of "100% responsible sourcing". //

### CONCLUSION:

**Moving towards Supply Chain Act conformity must always start within your own company. Depending on your maturity level and what you have already done with regard to sustainability, different measures will be needed to identify and weigh up risks in your supply chain, and to develop solutions. This law isn't just specific to German companies. There are already similar laws in other countries, and the EU has plans for legislation along these lines. Its latest draft includes stricter regulations than the German law, so it's high time to address this issue. Many successful companies are already proving that sustainability and profitability are not mutually exclusive.**



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Risk Management

# Firefighting instead of Investing in Fire Prevention ...

... that sums up the results of our latest risk management study. Nine out of ten respondents were affected by delivery failures in the past year. But despite this, the number of companies investing in strategic risk management and corresponding digital solutions actually stagnated.

In light of the turbulence in nearly every supply market, we had expected companies to further develop their digitally-supported risk management systems. However, the number of companies that use structured risk management software has remained almost unchanged in comparison to the previous year. Almost 90% of participants expected risk management to become more relevant in procurement in the future. Clearly, lots of procurement departments were so busy ensuring the supply of key goods that there was no time left to think about strategy and development.

90% of those who participated in the study reported delivery failures within the past six months. The main reasons given were capacity issues for suppliers (93%) or bottlenecks in logistics (83%). Factory closures due to the pandemic were a factor for almost half of the respondents.

### Little Hope of Improvement

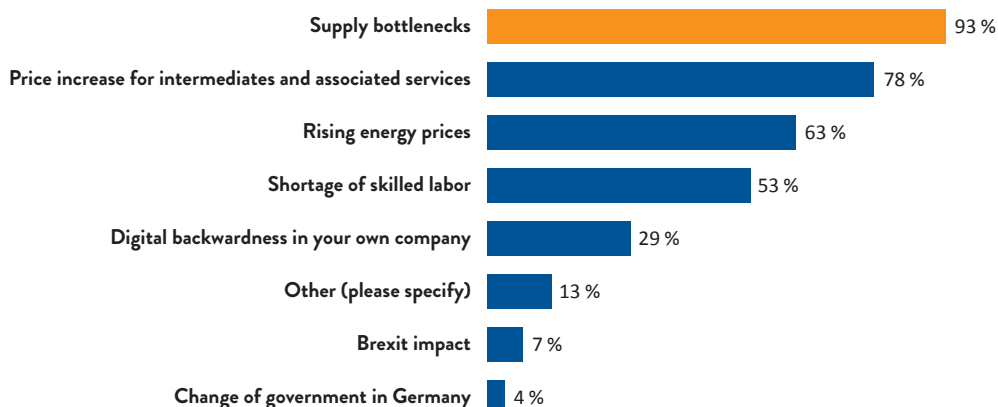
Almost no one expected the situation to improve any time soon. On the contrary, 93% anticipated supply risks to remain the biggest threat to their company in 2022. In second and third place were price risks at 78% and increasing energy costs at 63%. The number who saw price risks as a threat had increased by 46%: more than double compared to the previous year. There's no doubt the worry lines on the decision-makers' foreheads have become even deeper in the meantime, given that at the time of the survey, the war in Ukraine was still unimaginable.

In the face of these challenges, most other aspects of risk management have slipped into the background. Less than 20% saw risks relating to quality, sustainability or compliance as a real threat. 39% of respondents expressed concern that individual suppliers' failures could be a problem for their own business – that's 17% less than last year.

Clearly, many companies have diversified their sources to ensure they have a reliable supply. According to our study, almost 80% of participants now work consistently with at least two suppliers. However, the risk seems to weigh heavily on companies with concerns about the stability of individual suppliers, as the number who actively support suppliers has almost doubled from 11% to 21%. >

## „To what extent do the following political, economic and social issues currently pose a risk to your company?“

(multiple selection possible)



### Proven Solutions Preferred

The majority of buyers are turning to proven methods to secure a reliable supply: they are negotiating long-term framework contracts and increasing inventory levels – the latter saw a rise of 17% compared to last year. Having larger safety stocks is an understandable and rapid response to potential shortages, but this is expensive as a long-term solution, because it ties up capital, and also has the potential to distort the market. If lots of buyers order more than they actually need, just to fill their warehouses, it creates an artificial shortage that then results in increased prices. Accurate forecasting combined with agreed order commitments with suppliers is the best solution here.

When putting dual or multiple sourcing strategies into practice, nearshoring is playing an increasingly important role, as we are seeing in our own projects. This even applies to product groups where it seemed unlikely before the pandemic, such as electronic components. The growing shift towards procurement in Europe may be a result of the Supply Chain Act, but companies are also increasingly taking total cost of ownership into consideration. Suppliers in Eastern Europe or Turkey, for example, often produce more flexibly than Asian providers, accept smaller purchase volumes, and the delivery routes are considerably shorter. These benefits can offset higher unit prices because, for example, there is less residual stock or because unexpectedly high demand can be fulfilled more quickly. Whether the war in Ukraine will curtail the trend for nearshoring cannot yet be reliably ascertained.

### Sustainability Important to Almost Half of Respondents

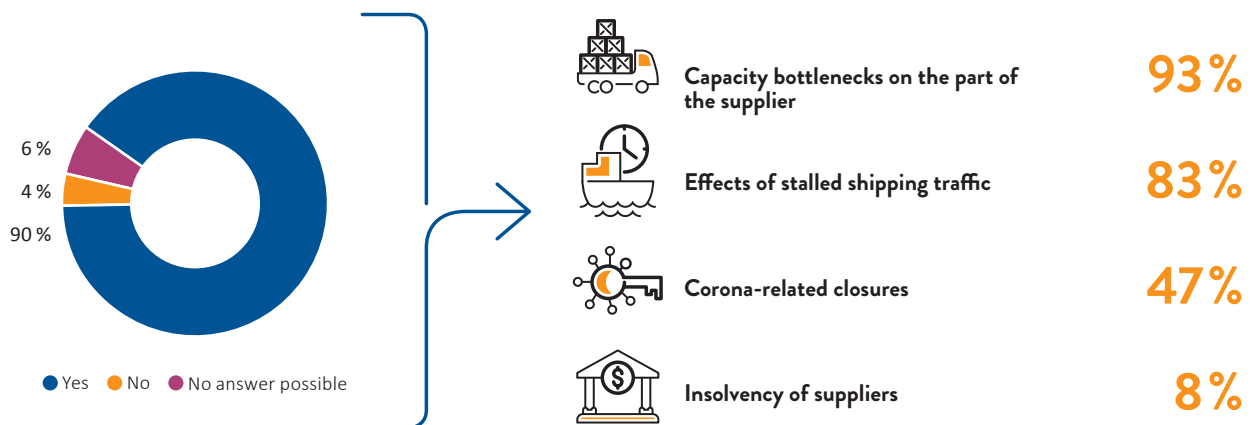
The German Supply Chain Act, which aims to ensure that UN sustainability rules are applied in the supply chain, is an issue for around half of the respondents (44%). The majority of them are currently putting specific measures in place. These include, for example, direct discussions with suppliers, incorporating standards into their own risk management, and defining measures to take in the event of non-compliance.

33% of study participants said the Supply Chain Act does not affect them. However, we also advise anyone not yet affected by the regulations to think ahead, as customers who have to apply the new rules will also expect their suppliers to comply. The European Union has also now presented a bill that aims to protect environmental standards and human rights in the supply chain. As was widely expected, this is much stricter than the German law and will affect a much greater number of companies.

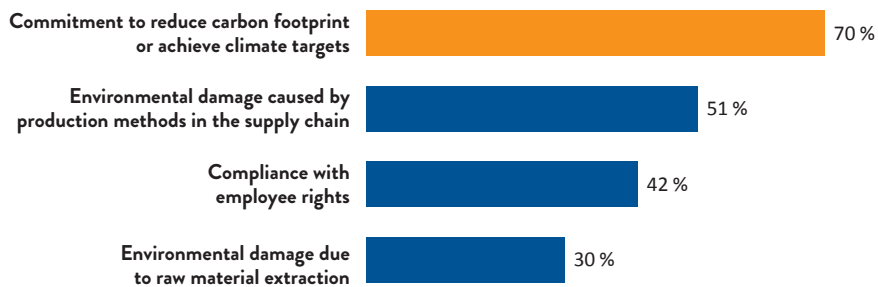
In terms of sustainability risks, reducing their own carbon footprint is the most important issue (70%) for the companies surveyed, followed by environmental damage caused by production methods (51%), and compliance with workers' rights (42%). Transparency in the supply chain is the key requirement for countering these risks. This involves integrating sustainability risks into supplier evaluations and defining appropriate measures. The evaluation of suppliers and product groups should be incorporated into a company's procurement strategy, as well as its risk management.

The war in Ukraine will only further exacerbate existing supply and price risks. In the short term, if supply issues occur, companies need to prioritize the products with the highest margin.

### „ Have you been affected by supply bottlenecks in the last 6 months? If yes, please name the main reasons.“



## / „Which sustainability risks impact you?“ (multiple possible selection)



It could be that production has to be stopped in individual cases, if costs can no longer be covered and it is unrealistic to pass them on elsewhere.

In light of the drastic increases in raw material and energy prices, it is now virtually impossible to avoid price rises. That said, buyers should still try to balance out these cost increases. Price demands should be questioned; cost breakdowns and should costing are effective strategies for understanding price composition – and also for recognizing whether, and to what extent, a price increase is justified. Design-to-cost measures and material substitutions can be an effective means of counteracting cost increases.

Despite all the anger about the cost spiral, negotiators should be concerned about a fair balance: Passing on massively increased costs to the supplier alone is certainly not the method of choice in the current instability of supply chains. It makes more sense to coordinate closely with the sales department in order not only to accept unavoidable cost increases, but also to pass them on to the company's own clients. //

### Conclusion:

**Our latest risk management study shows quite clearly that sustainability risks are given greater weight, but security of supply is given much higher priority than all other aspects in view of the massive bottlenecks that are occurring. To ensure a reliable supply, companies need to specify precise purchase volumes to their suppliers and to find a fair balance if there are unavoidable cost increases. Sustainability criteria should be clearly defined and incorporated into supplier evaluations, as well as into a company's procurement strategy and risk management system. This will ensure companies can achieve their sustainability targets and also meet the requirements of the Supply Chain Act.**



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### Study Design

83 procurement managers and managing directors, mostly from German-speaking countries and Great Britain, took part in the latest risk management study. Around half of them work in the chemical, consumer goods, automotive, and mechanical and plant engineering industries.



Paul Mohr



Paul Zahn

## INVERTO Office Cologne

# „Like a spider in a web“

**Paul Mohr and Paul Zahn have been Managing Directors since the beginning of the year. They have more than just their first name in common – they have both worked at INVERTO for over eight years, they share a passion for good food and are both enthusiastic about procurement. They explain what this has to do with a spider’s web in this joint interview.**

**Could you give us a brief description of your responsibilities at INVERTO?**

**Paul Mohr:** I mainly look after clients from retail, the consumer goods industry, and the food service sector, working on process and cost optimization, strategy development, and trade negotiations. As an expert in the food sector, I am also part of our Competence Center for Consumer Goods & Retail.

**Paul Zahn:** I have a strong focus on the automotive sector, as well as machine and plant engineering. Together with my team, I support clients from these industries with transformations, improving long-term efficiency, and digitizing the supply chain. I also lead the Competence Center for Procurement Management, where we develop strategies and solutions in procurement transformation, sustainable procurement, and digitization.

**What fascinates you most about your day-to-day work as a consultant?**

**Paul Zahn:** Every project is different and there are new challenges every day. In one initiative, it might be improving operative results to calm the capital market, and in the next it might be managing suppliers or risk factors because factories have been crippled by the pandemic, for example, or semiconductors aren’t available from suppliers, or energy and raw material costs are shooting up. We basically try to stay one step ahead of whatever’s happening, so we can be proactive in dealing with it.

**Paul Mohr:** I love that too, we always have to remain flexible.

We don’t work on these things alone, we can make an incredible difference as a team – together, we’re able to overcome these complex challenges and develop practical, sustainable solutions with and for our clients. The challenges that our projects present also mean we keep developing and growing ourselves.

**What is special for you about INVERTO?**

**Paul Mohr:** Obviously, the unique corporate culture and the energy within the team – smart, motivated colleagues who really enjoy their work, as well as the flat hierarchy and modern management culture that allows every employee plenty of freedom to develop. I think the clients we work closely with on projects also pick up on that positive energy. I am totally convinced that the services we offer deliver measurable results for every client and make a real difference.

**Paul Zahn:** Yes, exactly. As a buyer, you’re like a spider in a web, you pull together all the different threads and you work closely with other departments like development, production, or finance, as well as with suppliers. We also work very intensively with our clients and that’s what makes our job so exciting. Added to that is the close cooperation with BCG- we’re able to achieve so much more by working together within its framework. And in terms of culture, it was a good fit from the start. I think the new-found “global coolness” really suits INVERTO and makes our workplace an even more attractive place to be.

**What challenges are keeping you the busiest in your current projects?**

**Paul Zahn:** The issue of risk management is at the top of the agenda for all our clients at the moment, way ahead of cost optimization. Many of them are having to battle with supply issues and the effects of inflation. Work efficiency is also an issue for many companies; procurement departments are overloaded and are struggling to prioritize. In these cases, we can help with hard-hitting strategies and digitized approaches.

**Paul Mohr:** These are also key issues in the retail and consumer goods sectors – it’s one global crisis after another, which is a real test for supply chains and procurement organizations. But I’d also like to add the issue of sustainability, and the need to understand and reduce your carbon footprint – for most companies, the greatest leverage here is in procurement, but it’s a much wider issue than that. Social standards in the supply chain and ensuring compliance with increasingly stringent supply chain regulations are other issues currently concerning our clients, and therefore us too.

**What issues do you want to address in your new roles as Managing Directors in the coming months and years?**

**Paul Mohr:** The last 12 months have shown just how fragile supply chains are, and what a quick and drastic impact volatile and rising purchase prices can have on profitability. I believe we can achieve an enormous amount for our clients by developing long-term strategies for them. The same applies to sustainable supply chains – many companies are just starting to look at this and we can do a great deal for our customers in this area. For me, that’s the most exciting issue at the moment.

**Paul Zahn:** I also think an awful lot will happen in this area in the next few years and I’m looking forward to helping my clients find parts of the solution. I also want to continue expanding digitization. For me, automating procurement processes is essential for ensuring that procurement is able to focus on the big issues of the future. Last but not least, it’s important to both of us that we keep pushing ahead with INVERTO’s development, whether it’s establishing new working models, promoting diversity, embedding our corporate values, or supporting our newly-created PTO mission, which we aim to use to optimize our employees’ working day, based on candid feedback.

**With so much going on, how do you find a balance in your free time?**

**Paul Mohr:** With my two children: Duplo is currently a big thing. Otherwise, I love being by the water – it doesn’t matter whether it’s a stream, lake or ocean – and preferably with a fishing rod in my hand. Another of my passions is good food and cooking; I’m constantly working on the perfect spaghetti carbonara.

**Paul Zahn:** Cooking is also one of my favorite hobbies. I love to cook Gordon Ramsay’s recipes, they always taste phenomenal. Other than that, I also love historical documentaries, especially about the 20th century, as it’s still shaping our daily lives now. Of course, I also spend as much time as possible with friends and family, whether it’s going out for a quick beer on a Friday, having a barbecue on a Saturday, or travelling.

**I’m planning a visit to Cologne; what should I absolutely not miss?**

**Paul Zahn:** You should definitely make sure you experience the unique Cologne atmosphere, at a concert for one of Cologne’s bands, or watching a match at the soccer stadium. You could have a relaxing day with an afternoon in one of the parks in the green belt and then spend the evening at Brüsseler Platz and in the Belgian Quarter. The Zülpicher Döner is a particular highlight for me. There are only two things on the menu, but they make the best doner kebabs in the city.

**Paul Mohr:** I have another tip for you- right next to the INVERTO office, you can get charcoal-grilled kebabs. And to stay on all things culinary, I would definitely recommend exploring the traditional breweries and taverns in Cologne and trying dishes like ‘Himmel und Äd’. Everyone should also go to Carnival in Cologne at least once – it’s a unique experience that’s hard to put into words. //





## INVERTO's **New CEO**

# „Procurement in the spotlight“

**For Daniel Weise, procurement, a role that has long been underestimated, is the key to increasing competitiveness, with cost reductions, increased sustainability, reducing risk in supply chains and a capacity for innovation, quality and speed, all representing crucial issues for business leaders. That's why his book, due to be published this summer, is called "Profit from the Source". As a Global Topic Leader for Procurement at BCG, Daniel has been involved with INVERTO since it first became part of BCG, and he will drive our development even more actively in his new role as CEO.**

”

**Daniel, how did procurement become such a central issue for you, and what do you find particularly exciting about it?**

I studied business administration at university. I came into contact with the subject quite early on in my time there and recognized my passion for it. I then wrote my thesis on electronic auctions in procurement, which was seen as a 'new topic' at that time. My first project after joining BCG in 2003 was also based in procurement. I've remained keen on this area ever since and I'm now responsible for it globally at BCG. What I find particularly exciting about procurement is the huge influence it has on a company's success. Decisions made by procurement shape the course of a company for the long term.

**What do you see as challenging for procurement right now?**

Procurement is experiencing a fundamental paradigm shift. Previously, it was very cost driven. Buyers were trying to make savings and drive down prices. The current situation is dominated by raw material shortages, inflation, geopolitical tensions, and a growing awareness of sustainability in society. So merely optimizing costs is no longer enough. Aspects such as risk reduction, quality, speed, sustainability, and innovation are just as important for procurement, and they put the focus on suppliers more than ever before. More and more companies are recognizing this and are realigning procurement's role accordingly. And it's paying off.



### What impact does that have on our work as consultants?

It makes our job at INVERTO even more exciting and varied, because we can use our extensive expertise to help our customers with these issues. Let's take sustainability as an example: it's just fun making the world a bit better! At the same time, our consulting approach has become more digital. We have more data available than ever before and so we can act more quickly, transparently, and effectively. Coronavirus has also changed our working model. The principle of "living out of a suitcase for days" no longer exists. We have various hybrid scenarios now, including working at the customer's premises, from home, or at the office.

### What distinguishes us from our competitors?

We have extensive expertise and years of experience in all of the areas that affect procurement. At the same time, focusing on implementation has always been part of INVERTO's DNA, which gives us another edge and clearly differentiates us. We don't just work in partnership with our customers, we also pitch in ourselves so that we achieve the best results together. And having integrity and a down-to-earth attitude is just as important to us as positive cooperation in diverse teams. Just being VERY INVERTO!

### And where are we heading? What is your vision for the next five years?

Our course remains set for growth. We want to open up more markets in Europe, as well as continuing to establish ourselves as a home for the best procurement talent. We'll continue to develop diversity within the company and implement our 'new ways of working' effectively.

We're also going to diversify our range of consulting services even more. Issues such as sustainability or resilience in the supply chain will gain in importance in the coming years and need to be linked more closely to goals such as cost reduction, risk management, a capacity for innovation, and quality. We'll also expand our range of digital tools, with a particular focus on analytics and artificial intelligence. Being part of BCG offers us great opportunities here.



### Those are ambitious goals – how do you find balance in your free time?

I get that from spending time with my family, preferably in the mountains in Tirol. I enjoy being there at any time of the year and love to go climbing, hiking, mountain biking, and skiing, of course, in winter.

### And at home in Düsseldorf? What should we look out for there?

Düsseldorf has a large Japanese community and therefore has plenty of restaurants offering fantastic Japanese food, probably the best in Europe. There are also loads of great options in Düsseldorf for lovers of art and architecture. I recommend walking from K21, which houses North Rhine-Westphalia's art collection and also lots of impressive individual exhibitions, to the BCG office in the Kö-Bogen complex. There, you can admire amazing new architecture, visit fantastic galleries, and then see out the day in the old town. //

# News & Preview

## New Work:

# New ways of working together

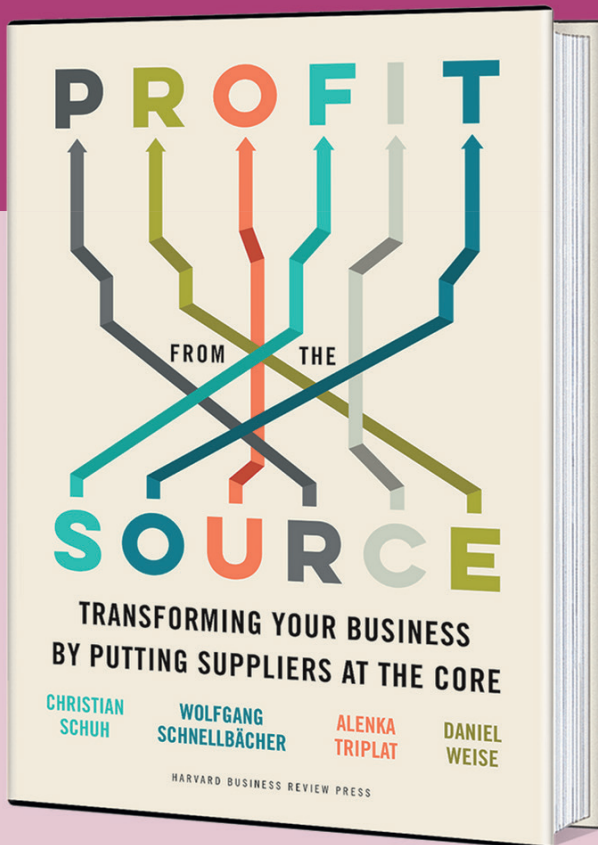
The economy is in crisis mode- and is likely to remain so for a few more years: First came Coronavirus, then the supply bottlenecks. Now the Ukraine war, energy shortages and inflation. These uncanny dynamics challenge procurement anew every day. In order to withstand the pressure of the stakeholders and to be able to operate successfully in the coming years, procurement must actively shape the future of cooperation in its interface function- and involve not only employees but also suppliers and partners.



**Cover story in  
the next issue**

Book release

# Profit from the source



In a world of relentless change,  
how should your company compete?  
Make procurement excellence your new  
leadership imperative — and get ready to  
unleash sources of phenomenal value and  
competitive advantage.

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