

Supply

MANAGEMENT
INSIGHTS

ISSUE 10

NEW WORK

– New ways
of collaboration





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Dear Readers,

How we understand work is changing; traditional careers are a thing of the past and the focus is shifting to the question of what work actually means. According to a study conducted by BCG and the Network, the proportion of employees who want to continue with a traditional 9-to-5 job has dropped to 36% and the vast majority want flexibility at work.

“New Work” is therefore more than just a buzzword; it will help to determine which businesses are successful. To a large extent, this also applies to procurement, which is currently having to tackle one crisis after another with incredible dynamism. Our title story looks at how to implement new forms of working relationships, both with suppliers and partners.

We also share some strategies that you can use to combat the major challenge right now – rising inflation and the tense situation on the raw materials markets. In our People@INVERTO series, Managing Director Nicolas Willmann looks at the issues that are in the spotlight in the healthcare sector. And our interview with Rudolf Trettenbrein also features our office in Vienna, which recently celebrated its 10th anniversary.



Thibault Pucken
on behalf of the Management Board





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New Work and Procurement

A Brave New WORKING WORLD

How we work has changed fundamentally in recent years and the younger generation in particular is questioning the meaning and purpose behind it. If businesses want to remain fit for the future, and if they want the workforce of the future to see them as attractive employers, they need to face up to their social responsibilities and establish sustainable business models. The concept of New Work is a useful way of approaching this new reality, but many managers are unsure about what it actually involves.



It's about reacting as quickly as possible, staying agile. And that's exactly what modern adapted work methods are needed for.

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On the face of it, Robert Kelly was completely in his element. A seasoned professional, the political science professor was giving a video interview to the British television broadcaster BBC on the conflict between North and South Korea. This is Kelly's field of expertise and he had previously given dozens of interviews on the relationship between the two countries. What he wasn't expecting on the day in question, however, was for both his children to suddenly burst into his office. Viewers saw Kelly try to keep them at a distance and avoid being distracted – and they saw that he wasn't entirely successful, particularly when one of them made a beeline for his desk and then knocked over some books.

If the interview had taken place nowadays, nobody would have batted an eyelid; video calls have become the norm and we can work from anywhere. From Teams and Google Meet to Zoom and Skype, a whole host of software programs has been developed to handle calls like this one. But Robert Kelly actually gave that interview back in March 2017. The video went viral around the world,

to the embarrassment of the professor, leading to a follow-up interview with the BBC soon afterwards.

A lot has happened in the intervening five years. A multitude of external events has ensured that an incident like that in a video interview in today's world would not stand out at all. First we had the COVID-19 pandemic, which exiled many of us to working from home and acted as a catalyst for remote working. Since then, we have faced a succession of crises – supply shortages, energy shortages, inflation, the economic consequences of the Russian invasion of Ukraine – that have presented procurement with fresh challenges on a daily basis. It is vital for businesses to respond as quickly as possible and remain agile, and that is precisely why we need ways of working that suit the world we live in now. >

It is clear that young employees demand modern working methods. If you cannot offer them, you will probably have difficulties finding qualified employees in the future.

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Events in recent years have already driven fundamental economic and cultural change and even now, as we have regained a degree of normality, it is clear that remote working is here to stay. It is therefore high time for procurement to actively help reshape working relationships to involve suppliers and partners as well as employees, given that procurement is the common point of contact between all parties. This will help to withstand stakeholder pressure and enable businesses to continue to operate successfully in the future. It is crucial that New Work becomes a part of everyday life and that we improve how we work on an ongoing basis.

New Work is More than Simply Remote Working

New Work means much more than simply putting a tabletop football game in the office and working in digital networks. The concept was originally political in nature and the term was coined by social philosopher Frithjof Bergmann. After visiting the Eastern Bloc countries between 1976 and 1979, he concluded that socialism no longer had a future and that an alternative plan was required: a paradigm shift in the West in what work might look like.

These days, the concept of New Work has reached the business world and it has a range of different aspects. Most importantly, it is about self-determination and self-fulfillment and it puts the focus on people. This means that employees accept responsibility for themselves and take advantage of the scope available to them in order to structure their own personal development. Instead of work being solely to earn money, it becomes something that has a purpose, where personal and professional development are aligned. This requires flexibility and adaptability – and being able to work wherever you want, including from home, is a result of these ideas.

But New Work also involves working in a variety of teams instead of in homogenous departments. So people with diverse skills and competencies come together to work on projects, paving the way for fresh perspectives and potential solutions. This heterogenous approach boosts creativity and encourages innovation. Design sprints, design thinking and other agile working methods follow on naturally as part of this concept.



/ New Work

The term New Work was introduced at the end of the 1970s by the Austrian-American social philosopher Prof. Dr. Frithjof Bergmann. Today, it describes the structural change in our working world. The causes include digitalization, globalization and the development of artificial intelligence, which open up completely new opportunities and possibilities in the execution and organization of work. (Source: Haufe)





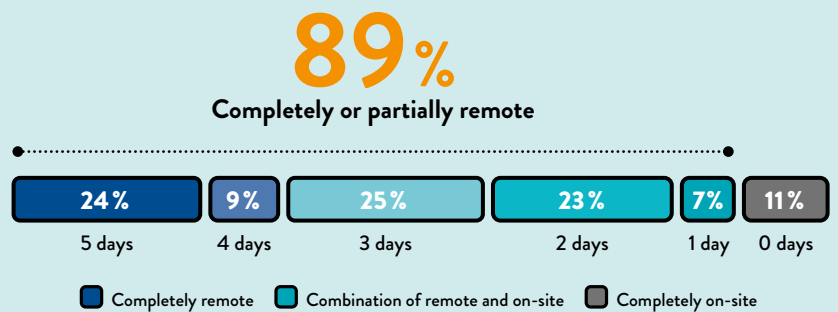
Creating an Equal Footing

The most important factor in making this new way of working successful is finding a new style of management. Those who micromanage their teams and assign tasks to specific people are outdated and do not fit into this new working world. Modern managers are much more likely to be mediators who also have coaching skills, trust their employees and seek to empower them to make their own decisions. This kind of working relationship requires an equal footing.

These new management approaches and strategies, and the resulting working processes, are what we really need right now. Employers facing the challenge of introducing new working models must weigh the level of success that hybrid working can deliver against the level of alienation that employees may feel from businesses. Poorly thought-out models could result in employees leaving to look for new jobs, and working situations where colleagues never get to meet each other in person can quickly create a sense of isolation.

This means that managers have to choose solutions that are meaningful and appropriate for their particular situation. But one thing is certain: young employees want modern working methods, and businesses that fail to provide them could find themselves struggling to recruit good candidates in the future. Flexibility, for example, is something that many employees are looking for, especially in terms of the working model. Instead of a 50-hour working week, they want a better work-life balance, part-time or flexible working hours. >

/ How people would work if they had a choice



/ Desired work model for positions in procurement and logistics

→ **87%**

would like to work fully or partially remote

→ **46%**

currently work fully or partially remote

(Source: 2020 BCG/The Network)

Managers Need to Step Out of Their Comfort Zone

If businesses are to adopt a modern management style, things need to change at upper management level, especially in companies that are steeped in tradition and based on hierarchical structures. Managers need to listen to their teams and what is driving them, lead by example and, wherever possible, get all their stakeholders and/or decision-makers on board. The first step might be to create a small pilot group, but managers need to set out clear rules to prevent a transformation from getting off to a promising start before quickly falling flat. And remember that transformation always starts from the top!

Keep People at the Heart

It's important that we don't forget interpersonal relationships in the rush to a new way of working, especially when people are working remotely. Small talk and "water cooler conversations" were part and parcel of daily office life and finding an online equivalent is essential. One option is to chat about little things like the weather now and then during a video conference, but boundaries need to be set here too. It's particularly tough for managers if they want to get a feel for what's worrying their employees, as that's not so easy to do during a video call. It's also difficult for new recruits to find their feet, since they don't have the social relationships that existing colleagues have already developed with each other – and that was when most people were in the office every day. So, since fully remote teams are not ideal, we need tailored solutions; for example, fixed days of the week when the team meets up in the office.

It is important, with all the zeal for new work, not to disregard interpersonal relationships.

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These days, teams are often spread across Europe, but regular meetups should still be held to build and maintain strong and productive working relationships. These could alternate between the headquarters and branches in other towns and cities. This ensures that the office remains an important place for people to interact with each other and work creatively; a place where the corporate culture is preserved and celebrated, so that everyone takes it home with them afterwards.



New Work in a Consultancy Environment

Having a detailed understanding of your clients' markets and challenges is crucial for delivering productive consultancy services. If we are to guide our clients properly on transformation issues in particular, it is important that we lead by example. That is why we have also engaged closely with New Work as a concept and asked ourselves how we at INVERTO want to work in the future.

The Stereotypical Management Consultant is a Thing of the Past

No more stereotypical consultants arriving at the airport every Monday morning, suitcase in hand, off to visit clients. These days, our clients and staff members expect greater flexibility from us as well, so we are increasingly shifting away from in-person client visits. But we are still 100% focused on what they want and need from us; if they experience a business emergency, then we are obviously there at their side, but that is no longer necessary for the majority of everyday project work. And that approach benefits our customers first and foremost – they no longer have to pay travel costs, or organize access passes and project offices, or make sure that someone from the client team is on-site. And, ultimately, it also means that we can really help to reduce CO₂ emissions.

The Foundation for New Work

The biggest challenge involved in implementing this working model is that it brings the corporate culture alive for every employee. So, the first step needs to be to define what your particular corporate culture stands for. At INVERTO, we worked together to write down our values. The vast majority of them are already embedded in our corporate DNA, so our operations have been aligned with them for many years already, and others are values that we want to increasingly align ourselves with in the future. It is particularly important to us that these values are also reflected in how we work together.

A whole range of tools and strategies has been developed to help people transform how they work quickly and sustainably. Conducting regular anonymous surveys is a good way to make sure that everyone's on board with the shift to New Work. Questions should include what is going well and what isn't, as well as what could be done to improve workflows. Employees are a business's biggest asset, so employers need to fulfil their requirements.

We have set these out in our NGWOW (Next Generation Ways of Working) program. The objective of NGWOW is to strengthen open communication, transparency, and a focus on both teams and their individual members. And this is more than just a paper exercise, so we will achieve this by implementing very specific actions and measures. To ensure that all our colleagues are committed to this transformation, we have also established a PTO (Predictability, Teaming and Open Communication) process. We will be conducting weekly anonymous surveys on employee satisfaction, we will publish the results transparently for all team members to see, and we will use them to guide discussions and then decide together on subsequent actions and measures. It is important that everyone's voice is heard, from interns right through to managers. A dedicated PTO Coach will act as a neutral yet confidential representative to provide support both to individual employees and the team as a whole. We will facilitate this open and constructive dialog by using methods from our NGWOW program and taking steps including initiating measures to increase psychological safety.

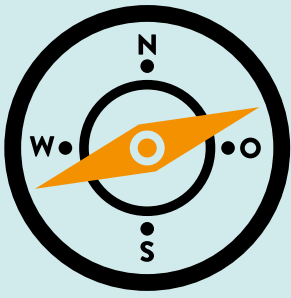
Implementing Specific Actions and Measures

The goal of PTO is to transform how we work within our teams. When a project is launched, the team will take both client requirements and the team's personal and individual preferences into consideration when deciding whether

the focus will be on travel or on working together in one of our INVERTO offices. The result will usually be a hybrid model that combines working together with the client at their site, working as a team in INVERTO offices, and working from home. Our priority is to ensure that the actions and measures benefit every single team member. Everyone should have the opportunity to develop on an individual level, supported by our working from home regulations as well as our flexi-time models and wellbeing provision. And our regular internal events – switching between being held within project teams, at the local office, and even across regions and offices – will obviously remain an essential way of maintaining our corporate spirit and encouraging personal contact. By the way, we've replaced winding down in the office with a "beer cooler" and all INVERTO employees have a standing invitation to join us on Friday evenings to see out the week together and have a chance to chat and catch up.



With any transformation, it is also important to remember that employees all have different expectations that all need to be considered. Some are highly ambitious and want to be promoted quickly, while others might have just started a family and thus have different priorities. Managers should familiarize themselves with their employees' personal objectives and how they can be aligned and balanced with their job. >



Management tasks during the shift to **NEW WORK**

- **Anchoring the vision:**
setting out the business's purpose, values and goals
and bringing the team on board with them
- **Defining the rules of the working relationship:**
increasing flexibility and developing new role models
- **Leaving the ivory towers behind:**
creating flat hierarchies and communicating on an equal footing
- **Developing acceptance:**
creating a culture of appreciation, openness and respect
- **Encouraging independence:**
recognizing the team's autonomy and transferring
responsibility to team members
- **Introducing an error culture:**
ensuring that people feel comfortable learning from
mistakes and through trial and error
- **Setting new performance goals:**
encouraging and supporting employees on an individual basis



Modern Working Methods Offer a Host of Opportunities for Procurement

New working methods have many benefits, including saving time and increasing efficiency. Video conferences, for example, are a potential way for procurement to negotiate with several suppliers at once. Remote negotiation meetings have now become part of everyday life and many companies actually encourage them, since flying halfway around the world for a meeting that lasts an hour is now viewed as inappropriate and – from a sustainability perspective – unreasonable. However, it cannot be disputed that a Teams call or Zoom conference cannot always adequately replace a face-to-face meeting.

If this new, increasingly remote way of working is to be successful, it is important that all parties follow a certain etiquette and are prepared to adapt to the new circumstances. Nobody wants to talk to a screenful of black squares on a video conference, so you should ideally turn on your camera. Equally, if you share your screen, you should ensure that you do not inadvertently share private documents with your colleagues. Generally speaking, virtual meetings require a different approach to handling confidential documents.

On the other hand, there is no problem with buyers carrying out routine tasks like project scheduling or supplier research from their desks at home, and site visits are no longer necessary to view documents, price catalogs and so on, because that can now all be done online. Digitalizing these processes also frees up capacity that buyers can then use to progress strategic issues. >

It is important for the success of this new way of working that everyone involved adheres to a certain etiquette and adapts to the new circumstances.





It Comes Down to Finding the Right Balance

Procurement is currently facing significant challenges: supplier markets are highly volatile, supply chains need to be adapted, preventive risk management is the order of the day, along with the implementation of sustainability strategies. Procurement will only overcome this increased complexity by building strategic partnerships with suppliers and other stakeholders, so the focus is on developing strong networks and agile working relationships, both within the company and beyond. Regular communication, openness and transparency are essential – and all three require an appropriate level of personal contact.

Using regular, personal interaction to build up a close working relationship is important – particularly when it comes to key strategic partners in the value creation chain. But transforming suppliers into partners and working with them to find innovative solutions requires face-to-face meetings, and that adds a further strategic aspect to the procurement role. Procurement staff need to maintain close contact with both their suppliers and their own departments so that they can prioritize where to hold on-site workshops to deliver maximum benefit.



/ Workation

Under the term workation, employees are now also taking work on a trip and combining a stay in a special place with their professional activities. Trusting that freedoms will be used, but not exploited, promotes employee motivation and thus also benefits companies. (Source: Zukunftsinstitut)





Frank Wierlemann

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In theory, a radical approach to remote working could even include conducting quality assessments online, as there are already good virtual solutions available that give an insight into supplier production processes. On the other hand, visiting suppliers in person ensures that everything is in order before long-term procurement contracts are signed. In-person visits are often challenging enough for procurement staff, who have to use a one-day supplier visit to determine whether their supply chain is actually designed the way procurement thinks it is. Having to do that virtually would be even more difficult. After all, although a face-to-face meeting won't always provide conclusive impressions, even a short visit can give you an initial sense of whether a potential supplier is a good fit. Gut instinct is not something that can be replaced by a digital solution.

Conclusion: New Work Involves a Fundamental Transformation

New Work is a continuously ongoing process. As new generations have new demands and expect their work to give them a sense of purpose, businesses that demonstrate they take responsibility for their employees and society as a whole will appeal to the future workforce and potential customers.

Equally, the importance of team members physically spending time together must not be lost in all the hustle and bustle of new working methods – the office will remain a hub for creativity and personal interaction. Implemented properly, the concept of New Work can create a more forward-looking mindset within businesses, ensure that employees are motivated, and give them greater responsibility. Rather than simply checking off the tasks they are assigned, employees will then highlight inefficient processes, suggest improvements, and assume responsibility for achieving success.

Experts

about
NEW WORK

The psychologist Markus V ath is one of the world's most renowned New Work experts. In this interview, he explains why the idea behind the concept is often misunderstood, why established companies often struggle with its implementation, and how change can be successful.

„New Work Was **Never** **Intended For Business**“





Markus Väh is the Managing Director of Humanfy GmbH, an agency specializing in New Work and organization coaching. Before that he spent 14 years covering similar issues as a freelance coach and consultant. He is the author of several books on the subject. Väh studied Psychology at Erlangen-Nürnberg University. Since 2019 he has been a New Work and organization development lecturer at Nürnberg Technische Hochschule.

Mr. Väh, New Work is more prevalent in business than ever before. Has it flourished because of the Covid pandemic?

To be totally blunt, it isn't New Work that's gained momentum from Covid, but what people think it means. We're talking about issues like digitization, but that is, at best, the foundation on which true New Work can be built. This debate has been severely cut short.

What's wrong with this debate?

Many people forget that New Work was not developed for business at all. Frithjof Bergmann (the founder of the New Work concept) thought of it more as a blueprint for society as a whole. All the measures that we are now discussing have just evolved from this basic idea. They include terms such as "home office", "new office" or "activity-based working".

So, are you saying that New Work can't really be done on its own in a company?

No, I wouldn't say that either. A company can certainly successfully implement New Work methods, if it's culturally prepared for it. But that's the bare minimum: you would have to change something in the fundamental notion of human beings. In business, however, this is often still dominated by thinkers like Michael E. Porter, who work with metaphors of battlefields, victory and defeat. New Work does not work in an environment like that. For New Work, the aspects of society, emotion and humanity have to be considered.

What does this human dimension include?

It's about how managers are trained and how strong the collective processes are. It's all about how autonomous employees' actions can be. It's crucial that employees know why they are working, and what for. And they must be given the opportunity to develop.

This clearly sounds more difficult than simply writing a home office policy. How can something like this be implemented in a company?

You need three things to implement any New Work idea. First: you have to include everyone in the company in its transformation. Otherwise, no fundamental cultural change will succeed. But you have to accept that you can't take everyone along with you on the journey: there will never be 100 percent agreement. Second: the people in charge, whoever they are, have to go along with it too. If managers prescribe New Work, but don't take it up themselves, it won't work. And third: you have to create processes to support and steer the reorganization. >

For New Work, the dimensions of society, emotion and humanity must also be considered.

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Ultimately, you need some highly motivated people to drive change.



What processes are we talking about here?

First of all, processes are required for exchanging information. So you need to discuss the following: What do we want to achieve? How do we get there? What problems might there be? Subsequently, decision-making models should be set up that help to implement the results of this discussion. For example, you can look at the participation ladder, a model that shows how far individuals' participation in a system has come. It begins at the bottom with external control and finishes with self-government on the highest rung. In New Work transformation, we want to move up this ladder.

You say that a transformation of this kind is possible. In large companies, however, it seems mostly limited to a few cosmetic measures.

Young companies are often further along with New Work, that's right. There are people at the top who are frustrated with the existing system and are aligning their company with New Work principles from the outset. Of course, this is more difficult for classic, mature companies as they are faced with more inertia. They have to deal with employee organizations and other bodies, as well as with restrictions relating to labor law. There are also well-established processes in the company that you can't change overnight. Honestly, it's almost easier to leave it and start over from scratch.

But there are also examples of large companies that have successfully taken the step towards New Work. The building supplier Schüco and the retail group Otto are large companies that do this very well.

What's the common factor with these examples?

The drivers. From my experience I know that individuals or a small group are almost always the triggers. Of course, they need goodwill from above, an executive management board that says, "just do it". Ultimately, you need some highly motivated people to drive change.

Is a small group of companies enough to act as a New Work driver for the whole economy?

A system always does what makes sense. That sounds banal, but it means that if companies are successful with New Work, others will follow. At the end of the day, it's about value creation. So far, however, there's no evidence that New Work contributes to this, because the concept itself was never intended as a management model.

Won't New Work become established in its current form?

That's a good question. Especially in our current times, with our economy constantly reacting to exogenous shocks, it's difficult to say how it will turn out. I think we should work to ensure that everyone gets work that plays to their strengths and needs. That would help everyone – people, businesses, and society. At the end of the day, whether this is New Work, or is given the name New Work, doesn't really matter.

Thank you very much for talking to us. //



Emma Stewart is development director at Timewise, a social enterprise based in the UK, which specializes in flexible work. She advises entrepreneurs on finding the most innovative solutions for the modern workplace. Previously, she co-founded Women Like Us, worked in the private sector, and was employed in documentary television.

„Without new work offerings, companies can't find talent“

Emma Stewart MBE is a co-founder of Timewise, a social enterprise and flexible working consultancy that advises companies on how to **implement modern working models. She explains how companies can adapt to new concepts, why it's no longer possible to work without them and why even unexpected industries can benefit from them.**

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Ms. Stewart, many employees today want to work differently. How is that expressed?

We are currently experiencing a change: a shift from the traditional 9-to-5 structure to flexible hours that fit our personal circumstances. From always working at a set location to working from wherever you want (when possible). From working solely as a means to earn money to working for a bigger goal or purpose. People want to feel a sense of belonging and to feel their value, but first and foremost they want to be perceived and respected as individuals. >

Working in a new and different way always means challenging what we have done so far.



You advise companies when it comes to implementing new work concepts. What mistakes do many make?

Systems and processes haven't quite caught up with the cultural pace of change. Even pre-pandemic, nine in ten people in the UK wanted to work flexibly. But just six in ten companies offered it and only three in ten mentioned flexible working in their job ads. We've moved on since then – but not enough. Most companies are vague in their job descriptions when it comes to describing the kind of flexible working on offer, or end up doing what we call flex-washing. This is a term we use to describe flexible working being offered in a job description: but the reality being that the role remains full-time in scope and design. This makes candidates looking for new jobs feel wary of flexible working when it is offered. Is it genuine, will it work out? In research we conducted via our jobsite, nearly half of candidates clicked away from jobs that said they were open to flex. What attracted them were mentions of specific forms of flexible working, e.g. this role can be worked 3 or 4 days per week, late starts and early finishes are possible, or it is open to job share. The more precise an employer can be, the more likely they are to attract great talent. Without any new work offerings at all, companies simply won't find talent.

What could companies do better?

Applicants need clear statements on what forms of flexible working are on offer, for example: 'in our company, you can work at any time of day or from wherever you want'. The same applies to other aspects of new work: we encourage employers to articulate what they are doing in terms of diversity and inclusivity, to talk about their purpose and the future they are trying to build. And most importantly, we encourage employers to reflect inwards and really scrutinize what's going on internally. If people are leaving, do you know why? If they are leaving because they don't have the freedom in their ways of working, or don't feel valued, or don't see a sense of purpose in their work, you need to get that under control before you start looking for new employees.

Flexible working is viewed critically by some managers. How do you respond to this?

Working in a new and different way always means challenging what has gone before. You have to break norms and stigmas that have been established over a long time. It is often said, for example, that flexible working would only benefit the employees, but not the company. This is wrong, as countless studies have shown. Part-time employees or those who work flexible hours are at least as productive or even more productive than their nine-to-five colleagues. Those in charge need to understand that and help change the narrative. It's all about helping the culture to grow.

How long does such a process take?

Psychologists usually say that people need 60 days to change a behavior from scratch. I think it takes much longer in companies, depending of course on the size. Small companies will get it done faster than large ones, and relatively young companies will be even faster because they don't have as many norms and standards yet. On average, we assume that successful change takes at least six months, but it is never really completed. You have to constantly ask yourself: are we working better now? Are we working more flexibly? It's about constant reflection at all levels and being able to take countermeasures when necessary.

What is important to be able to demonstrate success?

You need to collect a lot of data. How productively did the team work before? How effectively does it work after the transformation? How has the level of satisfaction with the work developed? To argue only with a gut feeling is always difficult. It is better to have hard data that proves success through the changeover period.





What role does the leadership team play?

Of course, to implement this in companies, you need strong managers who put the issue on the agenda. But to do that, they also need to have the right tools. Today, we teach our managers how to fill out an Excel spreadsheet, but not how to lead diverse teams across different time zones in hybrid work situations. That's where skills are needed and that's where training is needed. In many companies, it is also the case that there is hardly any proactive change from within the organization. It is usually individual employees who cautiously ask their bosses whether they can work differently, for example part-time or working from home, because they have to care for a relative. Companies should be much more proactive in making offers or at least showing that they are open to suggestions. Otherwise, they will lose talented people who don't dare to ask and are more likely to change companies.

Can role models help create acceptance for the new way of working?

Absolutely, personal experiences are always inspiring. It is important that you as a company focus on different role models from all levels of the organization. It doesn't always have to be the mother who only works part-time because of her children, but also men who report on their flexible working hours. Not just employees, but also managers and directors. That's important for breaking down prejudices and establishing flexible working as something quite normal.

Flexible working does not work in all industries. Can every company still become a New Work company?

Yes, by all means! Even in the hardest to flex industries – some leeway is possible. Of course, a construction worker can't simply work from home. But they may be able to implement some form of time-based flexibility. For example, we worked on a groundbreaking project in Construction in the UK with the industry body Build UK and four major employers in the sector. We tested ways for teams to work different kinds of shifts onsite. Wellbeing scores shot up from 48% to 84% over the course of the 16-month project and the four employers are still rolling out flexible working. We also ran a large pilot with the NHS, in eight wards across three hospitals. Including on wards with patients with intense needs, such as cardio wards. By sharing the duty of rostering shifts out across the team, people's work-life needs are considered more. Often, it's little things that create more autonomy and satisfaction.

Thank you very much for the interview. //





Inflation

The World in Black and Gray

Ten percent has always been possible – anyone who started out in procurement learnt that in their first few weeks on the job. It has mostly been like this for the last 50 years. But with inflation starting last year, and currently ranging in the European Union and the United Kingdom from 6.5% (France) to 25.2% (Estonia), the old mantra of cost reduction by ten percent per year is no longer achievable. Procurement departments need new strategies.

One analysis puts the additional cost of raw materials alone at five to six trillion dollars this year.

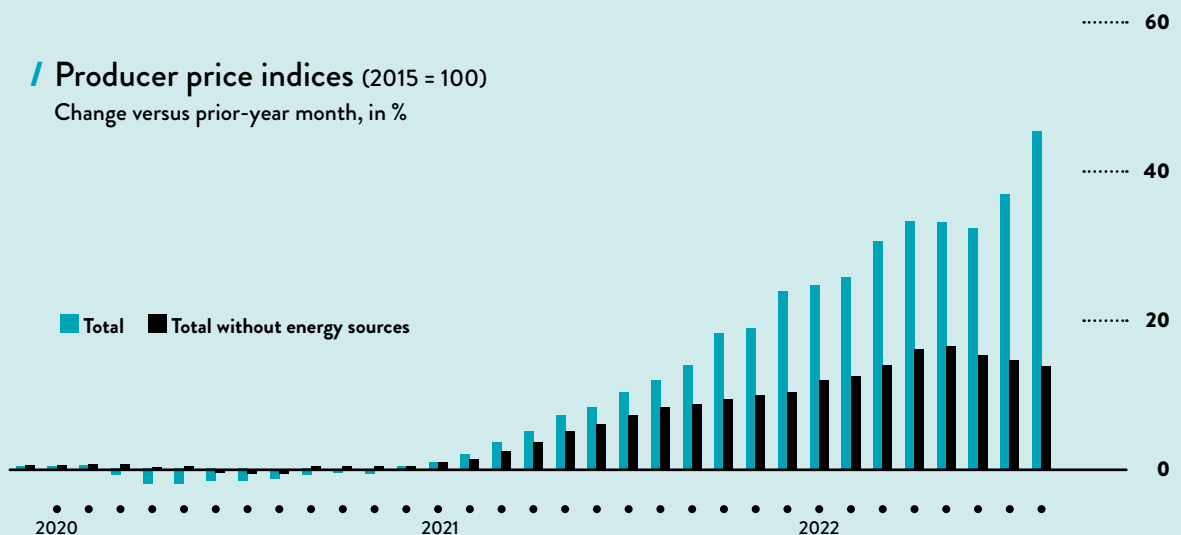


According to Eurostat, producer prices rose by 37.8% across the EU in July. Analysis by the Cologne Institute for Economic Research found that 2022 will “far exceed the cost shocks of the mid-1970s, early 1980s and immediately before the global financial crisis” - even if the increase does not pick up speed from now on.

Shortages Arising from Conflicting Developments

The current squeeze on costs arises from a series of overlapping developments: the pandemic with outbreaks recurring around the world has caused repeated lockdowns, halts to production, and logistics bottlenecks. The Ukraine war has led to shortages of gas, crude oil and raw materials for industry on the one hand, and wheat and cooking oils on the other. The massive increase in investment in digitization and electrification has led to a semiconductor crisis that has not yet been resolved, even though manufacturers are now making large investments and building new plants, and inflation is leading to consumer reticence, especially when it comes to electronic items. Geopolitical conflicts, particularly between the USA and China, have led to a decrease in global economic ties, even before 2020. But it was only Covid that made us aware of the true vulnerability of global supply chains, which were previously thought to be so stable. Inevitably, the problems caused by the pandemic, wars, digital innovation and punitive tariffs have led to shortages in the market and price rises. In an analysis by Citigroup, for example, the additional costs for raw materials alone this year are estimated to be five to six trillion dollars- that’s almost six percent of global gross domestic product. >

/ Producer price indices (2015 = 100)
Change versus prior-year month, in %



Source: Statistisches Bundesamt (Destatis), 2022

Sooner or later, price increases catch up with every company.



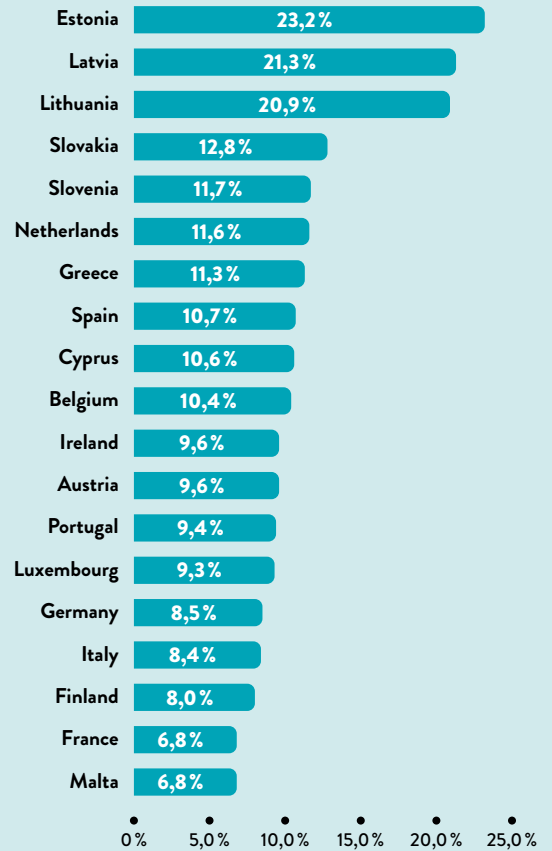
A Herculean Task for Buyers

Sooner or later, price increases will catch up with every company. As they are driven by supply, we do not anticipate weaker demand slowing down price increases quickly. Instead, we expect higher prices to be passed down the supply chain and eventually reach consumers. The Herculean task facing procurement departments in all sectors is to drive back inflationary pressure as much as possible. This means that buyers are finding themselves in a situation that hardly anyone in work today has experienced. After all, it's almost 50 years since the oil price shocks, and the manufacturer price rises before the 2008 financial crisis were innocuous in comparison with today's developments.

Old Measures of Success No Longer Apply

Decision makers and team leaders should be aware of this and not just measure their employees against historical savings targets or the other normal performance parameters previously used. These are simply not achievable under current conditions. Instead, they have to be adapted, and meaningfully supplemented by other relevant measurement variables. Part of the new role of procurement teams is understanding that the relationship between them and their contacts has been reversed: whereas in the past it was buyers who made the demands, today, in many areas, it is the suppliers. It is therefore worth preparing even more intensively for negotiations and investing in partnerships where appropriate. For example, anyone who knows the exact composition of a product and each of its cost drivers, will find that not every increase is justified. In situations like that, companies have the opportunity to fend off price increases, at least to an extent. As well as a new role, this also shows a new rationale for procurement: every cent of additional costs that employees can avoid is a contribution to containing the general upward trend in prices.

/ European Union: Inflation rates in the member states in July 2022 (compared with the same month of the previous year)



Source: Eurostat 2022

When cost increases have been made objectively, success currently means being able to agree on a fair distribution of the additional costs. Fairness to suppliers includes open dialog. Beyond discussions about prices and costs, find out what challenges and constraints your key suppliers are facing. Analyze the upstream supply chain together, look for mutual opportunities for improvement. Discuss alternatives to critical primary products- both sides can benefit here from the respective technical expertise of the other.

Volatility Persists, Flexibility is Required

As well as the critical developments mentioned above, there is the need to develop products and services in accordance with sustainability criteria to effectively respond to climate change. It is clear that this fundamental change will require more attention and greater flexibility both from managers and employees to keep up with the change processes. Management's task is to control development in such a way that their teams have security and freedom in equal measure, so that they can find new solutions and strategies. Procurement plays a special role: its viability and creativity will decisively shape the entire company's success.

Internally, procurement should be integrated into product planning at an early stage, for example to discuss sustainability criteria for primary products or specifications. In the current situation, the question also arises as to whether normal production can be sustained, whether buyers have to look for alternatives or whether what is produced is prioritized due to bottle necks. Procurement should communicate with the sales department, so that unavoidable cost increases are taken into account in their own pricing and in customers' requirements. The more buyers create price transparency through the advance use of cost breakdowns, the better the dissemination of pricing information will be.

Protect Yourself from Gray Rhinos!

It is clear that it is a challenge to manage the effects of the pandemic and the war on supply chains at the same time- but experts have repeatedly warned that climate change is an even bigger task. Weather phenomena such as droughts, heavy rains, hurricanes, and heatwaves have been increasing worldwide. They not only affect agriculture, but also increasingly all other branches of the economy by damaging infrastructure. Diversification and, where possible, regionalization of supply chains are essential strategies to protect against geopolitical and climate risks. Unilateral dependence on suppliers or supply regions should be a thing of the past.

Companies must put their risk management to the test and look at possible scenarios. It is important to keep a balance: in science, "black swans" are referred to, to mean events that are unlikely to occur. Protecting yourself against all "black swans" is not productive. But as well as unrealistic scenarios there are those that are more likely to occur. We call these "gray rhinos in the mist". These risks are vaguely recognizable. They could become a real threat to your company. You must plan countermeasures against these risks. And just as infrared cameras help to recognize living beings in the fog or darkness, so digital solutions help to validate risk management with data, and draw the right conclusions from it. //

CONCLUSION:

The current price increases are the result of overlapping developments. Buyers have to avoid requests for increased prices as much as possible in order to minimize cost increases. This new focus must also be reflected in KPIs and incentive models. Supply chains need to be diversified to cope with the current volatility and the necessary transformation into a more sustainable economic structure. Companies should establish stable networks with different global, strategically selected partner companies. Stability is created through transparent communication and cooperation based on trust, on equal terms. Procurement will play an even greater role than before as an interface manager, risk manager, and change moderator. Digitization is already providing the means to fulfill these strategic tasks as well as possible.



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Slowing inflation

Procurement contra Food crisis

Since Russia invaded Ukraine, the world has been predicting – and dreading – a food crisis in the Global South, since the two sides in the war are the primary grain suppliers to the African continent. But even in prosperous Western countries, shortages coupled with rising prices for energy and staple foods like grains and vegetable oil are driving inflation upward. It is becoming clear that global commodity flows for food are undergoing permanent change. Buyers need to plan for a long period of increased volatility and gaps in availability. On the other hand, however, this does not necessarily mean simply accepting new price requests.

According to the World Food Programme, the number of people without enough food has risen continuously since 2018 – and the war in Ukraine has only exacerbated this problem. Last year, prices for staple foods had already risen by around 30%, driven primarily by higher energy and transport costs. Since January this year, these figures have already risen by over 20%. Although starvation mainly affects people living in poverty-stricken crisis and conflict regions around the world – referred to as the Global South – shortages also occur in Europe. British charity The Food Foundation, for example, recently reported that around 14% of households in England ate smaller meals than usual or skipped meals. European supermarkets and discounters are increasingly seeing customers switch to cheaper own label brands and drop more expensive food – such as dairy products and beef in Germany – from their shopping lists completely. Cheaper foods, in turn, are missing from the food banks, which are seeing unprecedented demand.

Grain and Vegetable Oils at Record Prices

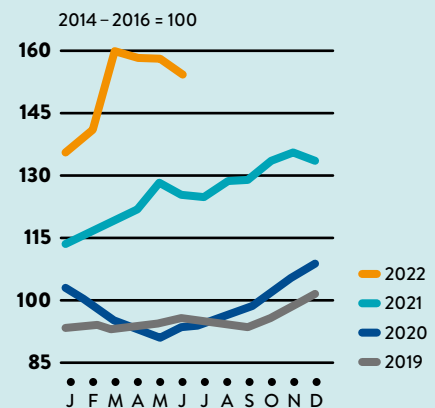
Boston Consulting Group (BCG) calculates that the two parties in the war supply around 12% of all calories consumed worldwide. This energy has not been lost; it is simply not reaching consumers – some 20 million tons of grain were blockaded in the Ukrainian port of Odessa before the summer. Although shipments have begun since the signing of an initiative brokered by the UN and Turkey, they are slow and do not always reach the people who need the grain most urgently. The war has halted operations at the Ukrainian oil mills, which process sunflower seeds. As a result of this, businesses and consumers have switched to alternatives, the entire market is under pressure, and prices of all vegetable oils have risen to unprecedented levels around the world.

As companies and consumers are turning to alternatives, the entire market is under pressure.

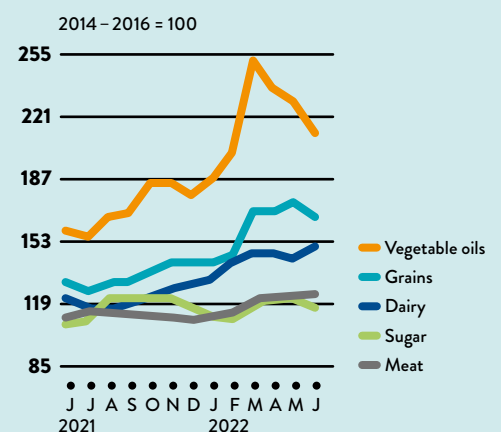


Although other countries are interested in filling the gaps – Argentina and India, for example, have announced that they are cultivating more sunflowers and will be able to export more oil to Europe in the future – that will only alleviate the issue in the medium term. India had also indicated its intention to export significantly more wheat this year and that it planned to increase grain exports in the long-term. However, the heatwave that hit India and Pakistan in the spring and – according to initial estimates – destroyed around 25% of the harvest, halting these plans for the time being. Given the government’s worries that it would not be able to feed its own population, it has put a stop to exports.

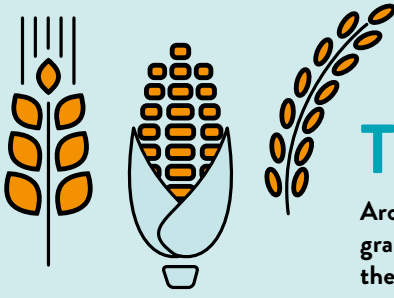
Price indices food



Price indices food raw materials



Source: Food and Agriculture Organization of the United Nations



Three Types of Grain Feed the World

Around 40% of the calories consumed by people worldwide are supplied by just three types of grain: wheat, corn and rice. Production of these food staples is concentrated in just a few parts of the world and many countries rely on importing grain from these areas to feed their populations on a daily basis. As climate change progresses, this established global practice is becoming increasingly risky. Experts are recommending greater diversification of grain cultivation, more regional cultivation areas and more intensive use of plants that are adapted to the local climate.

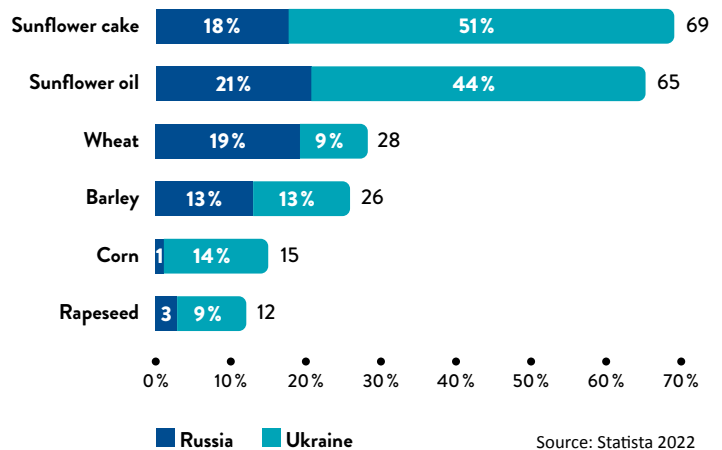
Acute Shortages Today – Long-Term Insecurity Tomorrow?

Although the war has led to acute shortages, there are concerns that these could turn into serious supply insecurities in the medium term. This is because both Russia and Belarus – which has also been hit by sanctions – are significant fertilizer producers, plus natural gas is one of the main ingredients for its manufacture. Price rises coupled with sanctions mean that farmers in poor countries are struggling to afford fertilizers. If steps are not taken very quickly to ensure that adequate supplies of fertilizer are available on the world market at affordable – and subsidized, if necessary – prices, then harvests will shrink and shortages will worsen.

Since food is not only a consumer good, but is part of the public services, the pressure is enormous.



/ Share of Russia and Ukraine in the global export volume of selected agricultural products in 2020



Buyers Fighting for Supply Security

While UN organizations the FAO (Food and Agriculture Organization) and WFP (World Food Programme) are working with Western industrialized nations to combat the looming food crisis and provide relief packages for poorer population groups across Europe with the aim of softening the impact of inflation, procurement departments in food manufacturers and retail companies are facing the challenge of securing their supply chain and slowing down rampant price rises. Since food is not only a consumer good, but part of public service, the pressure is enormous.

The acute crisis means that parties involved in the food supply chain must balance finding solutions with scrutinizing their existing procurement strategy. The heatwave in Europe and India, and weeks of rainfall and flooding in Pakistan and the USA plus other extreme weather events clearly indicate that climate change is gathering speed around the world. That means an increase in failed harvests, which result in export bans and global evasive responses. We anticipate that the volatility responsible for the ongoing rising number of people in food poverty since 2018 will remain high. For producers, the “new normal” means getting used to recurring shortages of a range of foods.

Closer Working Relationships Between Businesses and Suppliers

To ensure that supplies are maintained in these circumstances, it is essential that businesses familiarize themselves with their own supply chain and the value creation for their most important raw materials. Businesses should work more closely than ever before with their suppliers in order to understand the relevant dependencies and risks and to jointly define early warning signals and appropriate measures.

This includes diversifying supply chains and sourcing crucial raw materials from several different parts of the world simultaneously. Potential variations in product specifications mean that procurement departments must also work closely with production and quality assurance departments. Although regionally diversified supply chains tend to be more expensive than a central supply from one single source, this option does provide greater security against supply issues in view of the increasing climate-related and geopolitical risks.

Realistic Scenario Planning

If there is one global dominant supply region for a particular product – as is the case for sunflower oil, for example – businesses should use their risk management process to define potential substitutes they can switch to if they need to act quickly. While wars obviously cannot be predicted, harvests in an arid region withering in the fields, for example, is unfortunately a realistic scenario, so should be taken into consideration when planning potential countermeasures.

The advantages of a long-term, strategic risk management process are particularly apparent in the food industry. Switching raw materials may not only affect the taste and appearance of a product for customers, but will also change production requirements and require compliance with the relevant food legislation provisions – right down to the specification, for example, that a breakfast spread must not contain rapeseed oil if the label says sunflower oil. Businesses that have considered all these issues and questions before a risk occurs will be able to respond appropriately.

Cooperation and the ability to compromise are crucial elements in finding viable solutions to the current situation. However, that does not mean buyers should simply accept price rises from their suppliers. Quite the opposite, in fact: they should challenge every price increase. Buyers should be particularly suspicious if the reason for a rise is a flat “because of inflation”; if an increase is justified, suppliers can provide evidence of what price rises have been incurred and where. Dealing fairly also means suppliers should be prepared to conduct reviews at short notice, so they can pass any price reductions on the world market on to their customers as well. Procurement departments should also tackle these increases in cooperation with the supplier. This approach might create new opportunities for offsetting looming price increases, helping to ensure that food remains affordable. //

CONCLUSION:

The current volatile situation in the food markets is highlighting the supply concentration and global dependencies in food production. It is also a foretaste of the consequences of climate change. Businesses can accommodate increasing uncertainty by diversifying their supply chains and implementing a strategic risk management system with a long-term focus. And procurement has a particular responsibility in the current situation: responding rapidly to short-term shortages and accurately analyzing price rises can help them to stabilize supply security and offset food price inflation.



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INVERTO's New **Managing Director**

„Enthusiasm Is In Our DNA“

Nicolas Willmann has been Managing Director at INVERTO in Cologne since the beginning of the year. As head of INVERTO's Healthcare Department, he supports this industry's clients and is responsible for acquisitions, building expertise, and developing industry-specific consulting approaches. Further developing his teams plays a crucial role for him, as his many years of experience in consulting have taught him that: "Consulting is a people business!"

Why did you choose INVERTO?

As well as the business model, and the integration and synergies with BCG, I was also particularly impressed by the team and INVERTO's special values. I was also attracted to participating actively in becoming the leading procurement and SCM consultancy in Europe. It's important to me to be actively entrepreneurial, to open up new markets and to continuously develop the consulting portfolio. And all this in an international team made up of highly professional procurement experts. I had high expectations of the range of content, the industry expertise and cooperation with BCG, not only relating to large transformation programs but also to internal projects.

Have these expectations been met?

My expectations were not only met, they were exceeded. I was particularly impressed with our daily project work. "Create value" is one of our INVERTO value promises and plays a key role: we focus on identifying the customer's real needs, future-proofing the entire procurement process and as a result, achieving a competitive edge. I was also impressed by the social culture within our company. We have a very open culture of cooperation, feedback and



trust. Using weekly feedback meetings in every project team and with the help of a dedicated coach, we can ensure sustainable productivity and team efficiency, and contribute to staff wellbeing. Most of all, however, my expectations were exceeded when it comes to having fun. Every day you can see that fun and enthusiasm are an integral part of the way we work.

From your experience in other consultancies: what makes INVERTO so special?

We don't rest on our laurels, but continue to develop, always looking at what brings our customers lasting benefits. The entrepreneurial approach, pragmatism and strong morale within the teams and internal departments, as well as the international cooperation, also make INVERTO special.

Which issues and challenges are currently biggest in the healthcare sector?

The pandemic has significantly accelerated digitization in the healthcare sector. Over the next five years, most companies are planning to significantly increase their already major investment in technology and digital solutions. For procurement, this means they have to deal with greater procurement volume, and sometimes deal with completely new requirements, products, services, and suppliers. This requires additional market expertise, but also provides the opportunity to position themselves as drivers of innovation, building strategic partnerships, and creating new types of supply chains.

How are we providing the best possible support?

To be able to take care of these investments and continue to operate competitively, companies have to work on their profitability, and secure their margins by using intelligent

cost optimization in procurement. Supply chain resilience is also playing an increasingly crucial role. For example, the semi-conductor crisis clearly showed the risks that can arise when parts are only viewed as a "commodity" and not as a strategically important product group. On the one hand, it's crucial to develop a differentiated product group strategy. On the other hand, a high level of transparency and effective communications and cooperation must be established along the entire supply chain.

For you personally, which topics would you like to take further?

Looking outward, I'd like to build on the consultation service we offer in healthcare, and, more specifically, align it with the challenges of the individual sectors- medical technology, pharmaceuticals and healthcare providers. By optimizing procurement, we not only create value for the company, but also for the entire healthcare system. Within the company, I support our further expansion. This includes opening new offices in Germany and elsewhere in Europe, not only to be able to serve our customers more locally and efficiently, but also to increase our attractiveness as an employer.

What's an absolute must on a visit to Düsseldorf?

Since I spent some time in Tokyo, I've found the Japanese cuisine in Düsseldorf to be really authentic. In "Little Tokyo", around Immermannstrasse and Klosterstrasse, you'll find almost anything you can eat in Japan, from award-winning cuisine to teppanyaki grills and simple sushi bars. And there's a unique festival, Japan Day, which celebrates the friendship between the city and Japan. //



Rudolf Trettenbrein is INVERTO Austria's Managing Director. He was born in Salzburg, studied law at university and has extensive experience in retail and the consumer goods sector in Europe. In this interview, he reports on INVERTO's first ten years in Austria, finding a new home, and the ambitious goals he has for his team.



10th Anniversary of INVERTO's Austrian Office

„One Big Family“

Why did you choose INVERTO back then?

It was a new challenge for me. I only knew consulting from the client side. The immediate impression I got at my interview in Cologne was a good feeling about the company. I wanted to be part of this company, to bring this successful concept to Austria and lay the foundations for a new team there.

Can you briefly take us back to those early days?

In February 2012, I started from scratch with the task of finding clients, building a team in Vienna and making INVERTO known in Austria. I used my existing network and experience from my previous job to promote the first few projects and win clients. Since then we've managed to impress a large number of satisfied clients from every sector with the services INVERTO has to offer.

The Vienna office is celebrating its tenth anniversary this year. Looking back, what has changed during this period?

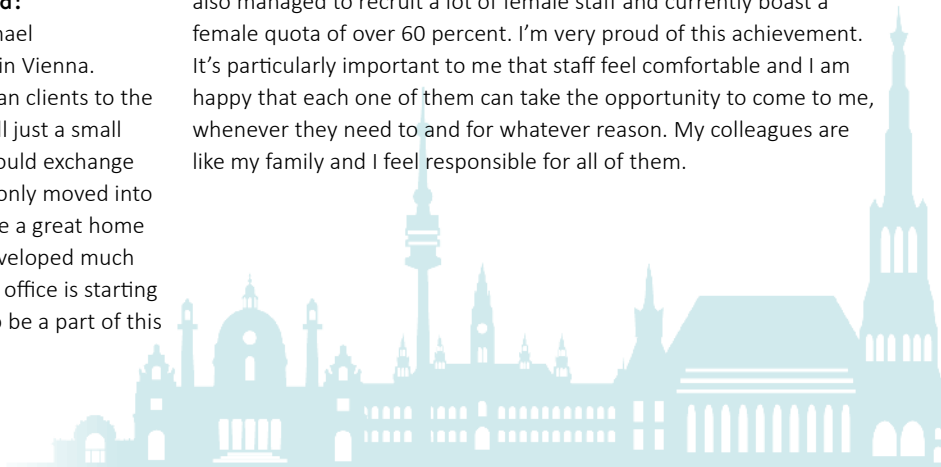
I started alone. A little later, I was able to recruit Michael Strohschneider as the first INVERTO member of staff in Vienna. Together, we rose to the challenge to win over Austrian clients to the INVERTO approach. One year later, when we were still just a small team, we rented a shared office every Friday so we could exchange ideas one day a week and build up a team spirit. We only moved into our own office in the DC Tower in 2016; this has made a great home for our team. Since we've been part of BCG we've developed much faster, of course. The team is growing rapidly and the office is starting to get too small for us. It's been really great for me to be a part of this and help shape the future.

Apart from that, what have been the highlights for you over the past ten years?

We've been able to carry out so many terrific, successful projects. The best ones were the projects where we could work on a complicated topic and win over a happy client who would sometimes become a new friend. There have also been some special project locations that make a welcome change, such as Dubai, Oslo, Barcelona, and Casablanca. We also love traveling to visit our southern neighbors: Italy, Croatia, and Slovenia. As well as that, there have also been countless unforgettable team moments and events, often with our international colleagues in Vienna. It's difficult to choose just one highlight.

What's so special about the Vienna team?

We really do have a great atmosphere in Vienna. Everybody supports each other. We give particularly warm welcomes to our new colleagues and make sure they are integrated from the start. We've also managed to recruit a lot of female staff and currently boast a female quota of over 60 percent. I'm very proud of this achievement. It's particularly important to me that staff feel comfortable and I am happy that each one of them can take the opportunity to come to me, whenever they need to and for whatever reason. My colleagues are like my family and I feel responsible for all of them.





How do you see things developing in the Austrian market in the future?

We will continue to try to support as many Austrian clients as possible with their procurement and supply chain projects. However, it's also important for staff to be involved in international projects, so we want to network even more closely with other INVERTO locations and also with BCG colleagues in Cologne and Vienna and neighboring countries. I'm confident that successful development will continue as before.

What's an absolute must on a visit to Vienna?

Vienna is always worth a visit. The old imperial city boasts many historically important and traditional places of interest that are always good to see, including the Prater Park, the first district, the historical buildings on the Ring, Schönbrunn Palace, the old imperial palace, the Hofburg Palace, and lots more. There's also lots to offer when it comes to food, that more than lives up to Austria's reputation as a country for fine dining. In Vienna, it's easy to enjoy your work and do well, and it's even easier to live, party and relax. Everyone is welcome here and if you're planning a trip to Vienna, just let us know. We've got plenty of valuable tips for whatever you fancy ... //



Sustainable Procurement:

Successful implementation of sustainability strategies

How are companies making progress in their efforts to become more sustainable- especially now that other issues have been brought to the fore by crises? What role does procurement play in this task? We will present the results of our current sustainability survey and discuss them with experts. We also want to show you how your procurement organization can drive forward the sustainability agenda even in the current challenging situation.

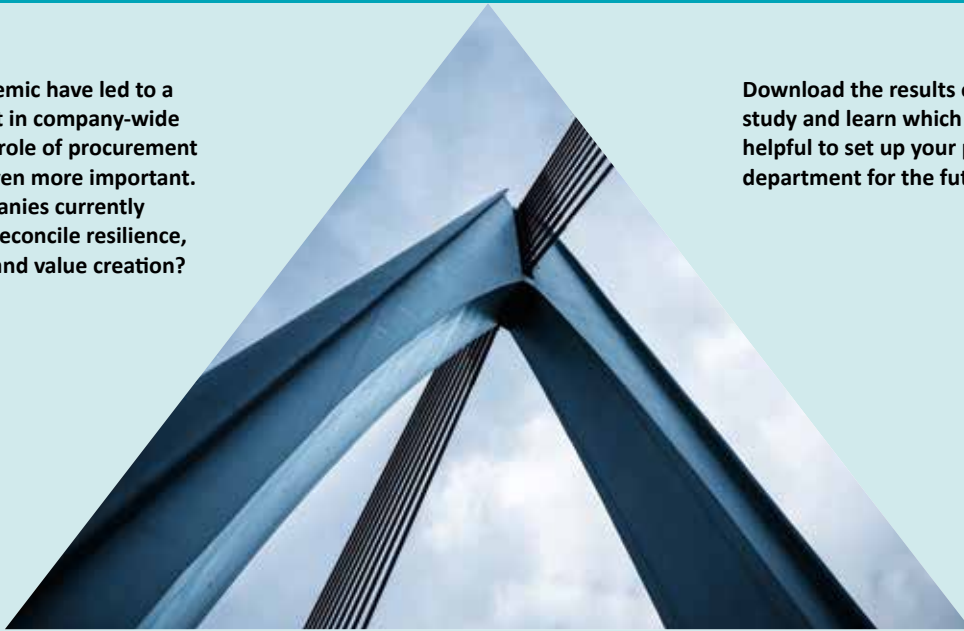


**Cover story in
the next issue**

Procurement Transformation: Strike the balance

War and pandemic have led to a significant shift in company-wide priorities: The role of procurement has become even more important. How are companies currently positioned to reconcile resilience, sustainability and value creation?

Download the results of our latest study and learn which steps are helpful to set up your procurement department for the future.



www.inverto.com/transformation-study

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