

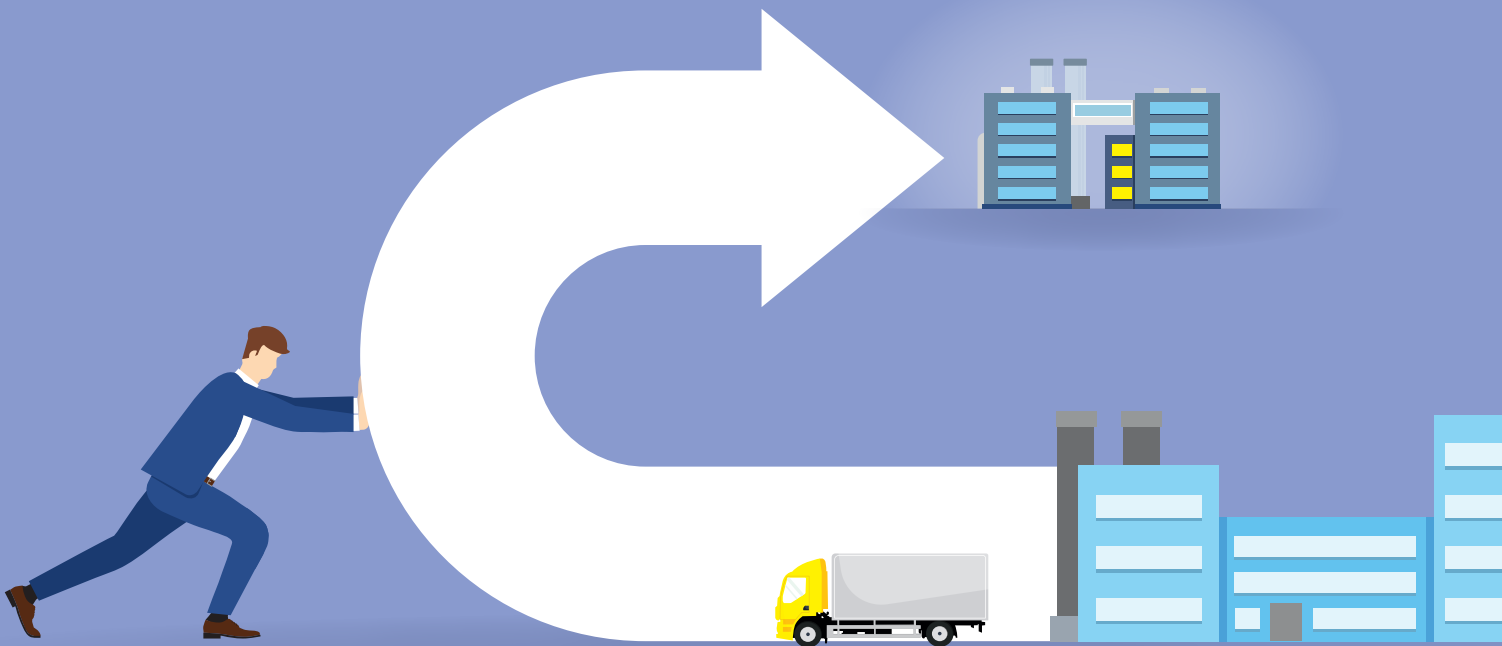
Supply

MANAGEMENT
INSIGHTS

ISSUE 12

NEARSHORING

– Reshaping Supply Chains





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Dear Readers,

When people have talked about supply chain alignment over the last 20 years, they have often ended up saying that global sourcing is the order of the day. However, the crises in recent years, together with the war in Ukraine, have shown how fragile many supply chains are and have led to a change in thinking. To ensure supply and meet sustainability requirements, Europe is once more regaining its relevance as a procurement market.

In our cover story, we reveal which factors are key for nearshoring and building local supply chains – and how you can shape the process. Together with external experts, we have scrutinized the procurement markets in Spain, Portugal, and Morocco.

Resilience is an essential consideration when building local supply chains and diversifying your supplier portfolio. This is corroborated by our latest risk management research. Added to this is the increasing importance of sustainability risks: 56% of those surveyed have already implemented the sustainability criteria set out in the German Supply Chain Due Diligence Act, or have plans to do so.

In this edition of our People@INVERTO series, we introduce you to three new Managing Directors: Gökhan Yüzgülec is currently developing our new Hamburg office; while Philipp Polterauer and Mohamad Kaivan are bolstering the INVERTO leadership in our Vienna and London offices respectively.

A handwritten signature in blue ink that reads "Thibault Pucken". The signature is fluid and cursive, written on a light-colored background.

Thibault Pucken
on behalf of the Management Board





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Regionalizing supply chains

WHEN THE HOME PORT CALLS

The globalization of supply chains has helped European companies to become more efficient in recent years. But as current crises worsen, the risks are becoming clearer. For this reason, nearshoring is now on the agenda of management meetings at many companies. What are the advantages of nearshoring – and is regionalization worthwhile even with volatile logistics costs?



IBM's employees were so fond of the company that they gave it a pet name: Big Blue. It sounded powerful, sublime and ironically, it also sounded like a blue whale disappearing into the distance. That was the situation at IBM in the early 2000s.

America's former favorite has since shifted jobs en masse to low-wage countries like India, Brazil and China, stating that IBM was a global company and that labor costs were simply too high in the USA.

Offshoring, formerly the go-to strategy

At that time, IBM was an extremely controversial example of **offshoring**, but many other companies soon followed suit. Industry giants like Siemens also relocated jobs and production sites abroad, as did manufacturers in the clothing and toy manufacturing sectors. They all saw Asia or South and Central America as a great opportunity, because ultimately the labor costs were a price advantage, despite additional logistics costs. This led to many companies reducing the amount they produced in Europe or the USA – or relocating their business altogether.

In the years that followed, global supply chains were established in various industries.

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In the years that followed, global supply chains were established in various industries in a number of different countries, and products were sent all around the world before reaching the end consumer. The system worked well and made good economic sense – for the time being, that is. Because the concept of free trade has been weakening for some years now- economic tensions between China and the USA, protectionism and new tariffs have created uncertainty on the markets. Since the coronavirus pandemic, the rules of the global game have changed. >



The collapse of supply chains – and the consequences

Logistics costs have risen sharply in recent years. Due to the pandemic, production and vital hubs all over the world – such as ports and airports – ground to a halt, bringing global logistics networks to a standstill. This resulted in enormous cost increases and bottlenecks. There was suddenly one issue being hotly debated in many executive boardrooms: How do we source our products and raw materials for production? As the situation eased, some companies tried to prepare for the future and reduce their reliance on factors outside of their control by keeping as much stock as possible.

It was clear though, that alternatives to the global just-in-time approach would need to be found in the medium term, so as to ensure a resilient supply chain. A regional, diversified multi-sourcing strategy allows supply chains to become much more resilient. Discussions then moved on to bringing production back closer to sales markets again, according to executives from 1,500 companies in 15 industrialized countries who were surveyed by BCG in February 2022. Even though **nearshoring and reshoring** have been in the spotlight for some years now, it was thanks to the pandemic that they suddenly shot to the top of the priority list at many businesses around the world. So, how do things stand now?

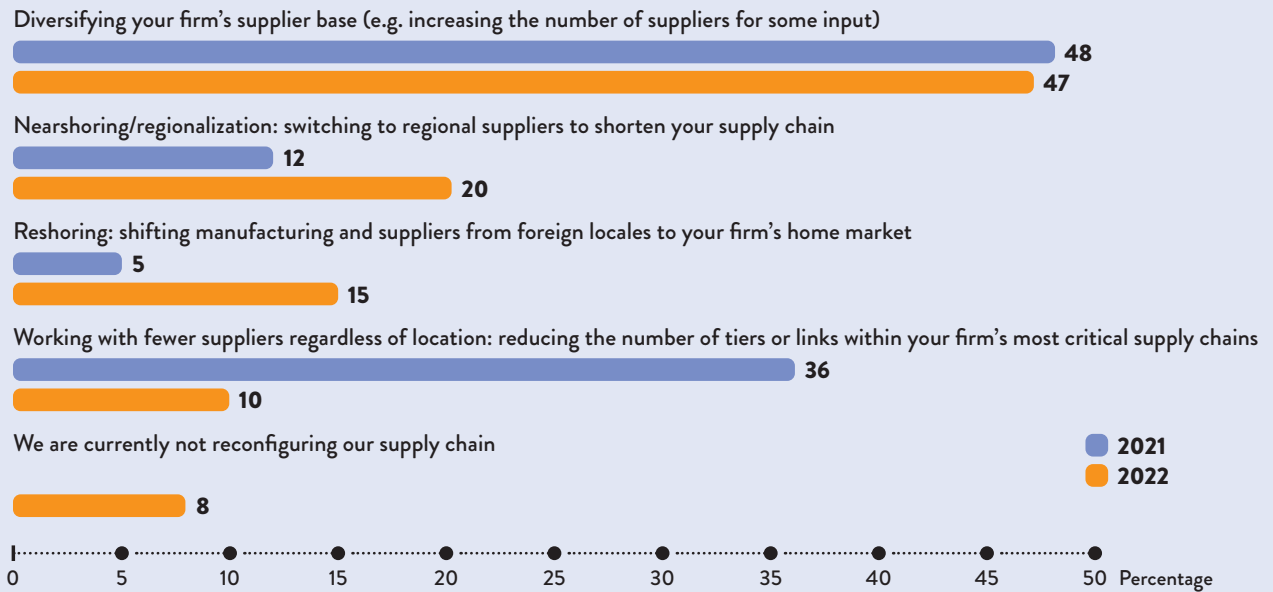


/ Nearshoring

Nearshoring is the relocation of operational activities to neighboring countries or those close by. It can be construed as a special form of offshoring and is the opposite of farshoring. Nearshoring avoids the disadvantages that farshoring can entail, e.g. issues relating to working methods, time differences, and accessibility. At the same time, advantages like flexibility and greater technical and linguistic qualifications are also realized.

(Source: Gabler Wirtschaftslexikon)

/ Companies' primary approach to reconfiguration and their motivations



Source: Economist Impact Trade in Transition survey, conducted September-November 2022.

The many benefits of nearshoring

A good three years after the pandemic, interest has subsided slightly. Logistics costs have temporarily fallen again and the risk of supply chain failures has decreased. Yet the number of early adopters is on the increase: Companies looking to the future, such as fashion giant C&A, have reverted to producing in Germany again after over 20 years; ski specialist Salomon is bringing production of its footwear back to its high-tech factory in France; and IT service providers are suddenly no longer moving to India but to the Algarve in Portugal. The country scores with high quality coupled with low labor costs compared to Northern Europe and has now received so many requests to establish company bases that sometimes they would get the response: "Sorry, we haven't got any more capacity."

This is hardly surprising, as there are many advantages of regional supply chains. Nearshoring reduces supply chain risks and increases transparency. If we look at existing and future regulations, which often involve the control of the business' own suppliers and upstream suppliers being located only a short distance away offers enormous benefits. Furthermore, there is an increasing focus on sustainability: Are the materials sustainable? Is production sustainable? How can CO₂ emissions be reduced? Thanks to highly automated, state-of-the-art production and shorter supply chains, nearshoring can play a crucial role in the green revolution.



/ Reshoring

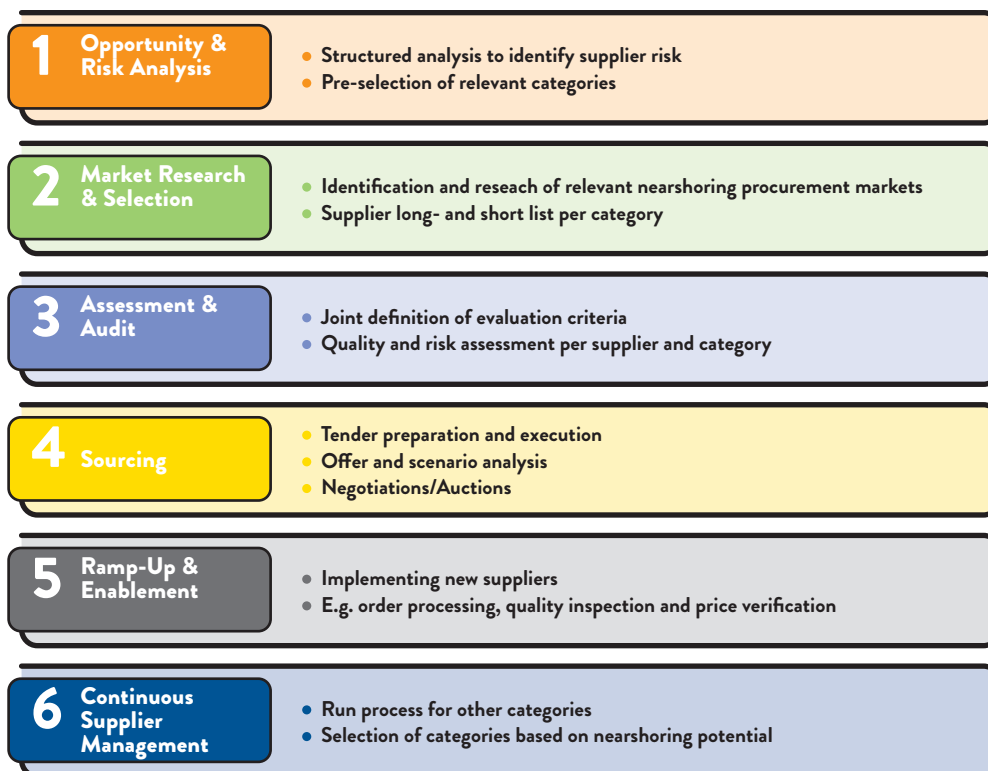
The concept of reshoring describes the relocation of production facilities from emerging countries back to industrialized countries. Reshoring is the opposite of offshoring, e.g. the relocation of manufacturing capacities and processes to other, cheaper countries. The trend toward reshoring became evident back in the 2000s. The collapse of supply chains from Asia has meant that this strategy is regaining its appeal – and crucially its profitability – for some businesses.

(Source: Technik + Einkauf)

In addition, partially relocating production and developing parallel production capacities close to sales markets can increase flexibility. Especially in the end-customer market, the last few years have shown that volatility is rising sharply. Companies find it difficult to respond to this when delivery by sea takes several weeks.

Relocating often makes economic sense, too. When senior managers calculate the total cost and price in premiums for risk and sustainability, suppliers in Asia are no longer always the cheapest option. To obtain a systematic overview, it's important to consider the Total Cost of Ownership (TCO). This also includes working capital effects due to excessive inventories as well as the benefits of a shorter time-to-market. >

/ If there is existing supply in alternative markets, the following approach is recommended:



Advantage for early adopters: benefitting from incentives

Nearshoring requires an initial investment that a company must be willing to make. Although in the medium term, this is worth it from the perspective of risk management, sustainability, and transparency, as it is critical to put plans in place before the next crisis arrives and supply chains grind to a standstill once more.

Early adopters can currently secure advantages such as economic policy incentives. Countries like Portugal, Turkey, and Morocco offer attractive subsidies or other tax advantages. To make a well-informed decision, however, cross-company analyses must be carried out.

Nearshoring: An optimal process might look like this

Companies that consider nearshoring will ideally begin by carrying out an analysis of the current situation, which they can then use to determine the next steps. This could be establishing a second regional supplier, or by giving production as a whole a more regional focus. Both options need to be initiated at C-level and checked against the company's overall strategy and the supply chain strategy.

Step 1: Analyzing the risks

The first step toward possible regionalization is to carry out a risk analysis. In doing so, it is important to analyze exactly which product groups are suited to a nearshoring process. A **comprehensive review of the Total Cost of Ownership** is an important part of the evaluation. Alongside the purely product-related costs, this figure should also include the costs for logistics and overheads, e.g. for compliance and administration. In addition, the calculation needs to take risk and sustainability premiums into consideration.

This step should include an overarching review and evaluation of the risks: What are the risks? How likely are they to occur? And what alternatives already exist in the supply chains today that could potentially be developed further? Furthermore trade policy risks and sustainability criteria must also be taken into account. Most companies currently still focus on their immediate suppliers, but not on upstream suppliers. However, this is often where the risks that may become important in the future can occur. Only a comprehensive risk analysis will fully consider this aspect.

As part of checking and evaluating the risks, a structured overview of the entire supplier pool can be created. This then serves as a basis for decision-making. >



TCO checklist:

Total Cost of Ownership (TCO) perspective:

- ✔ **Product price** incl. cost breakdown and pricing of individual cost components
- ✔ **Transport prices** through altered supply chains, in part also including transport routes of certain upstream products
(Important: Analyze different transport route scenarios to reflect fluctuations in the real world as accurately as possible)
- ✔ **Overhead costs** due to reduced or increased regulation, administration, employee training, product tests, etc.
- ✔ **Sustainability costs:** Reductions in CO₂ emissions, potentially on the basis of the current CO₂ price
- ✔ **Risk-related costs:** Quantifying default risks



Friendshoring

Friendshoring, or “allied shoring” is a new concept originally from the United States that is designed to make supply chains more resilient. Limiting the manufacture and procurement of raw materials and products to friendly nations is a way to avoid supply disruption on account of geopolitical risks, such as China’s zero-Covid policy or the Russian invasion of Ukraine.

Friendshoring does entail certain risks, however, including more expensive production costs and lower economic output. For most companies, it makes more sense to strive for a multi-source strategy with as great a diversity of suppliers as possible.

The goal is to create a healthy mix of regional, national, and international suppliers. Where regionalization is feasible and makes economic sense, this can be considered.



Step 2: Evaluating the alternatives

Once a risk analysis has been carried out, the next step is to look at procurement. This is where you ascertain the location of other potential suppliers. They might be in Eastern Europe for the European sales market, for example, and in Central America for the USA. In both regions, labor costs are still considerably lower. Strategies like friendshoring should be included. This has come to the fore more than ever given Russia's invasion of Ukraine. Essentially, it is better to choose a trustworthy country with stable political ties and where costs are a little higher rather than be caught off-guard by a political crisis down the road that could have far-reaching consequences for your own company's supply chain, reputation, and, ultimately, its very existence.

Depending on the industry, increased automation may even open up the possibility of bringing the majority of production to high-wage countries like Germany— as was the case with Gigaset. The office telephone manufacturer has built an ultra-modern facility where virtually everything is done automatically in Bocholt, in the north-west of the country. Kitchen accessories manufacturer Fackelmann has also brought part of its production back to the Franconian countryside.

Including new suppliers in these considerations is just as important as constructing new production sites with trusted suppliers. A parallel infrastructure could be set up with a supplier previously located in Asia. The advantage is that processes and standards are already established and this type of collaboration can strengthen supplier commitment.

Step 3: Putting together a pool of suppliers

Complete regionalization will only make sense in a small number of cases, however. Firstly, certain raw materials only occur in particular regions or are mainly mined and processed in those areas. Certain upstream suppliers, too, are mainly located in one area because a cluster has formed there. This shouldn't be disregarded when planning regionalization, because relocating your own production makes little sense if the majority of raw materials need to come from Asia. Especially with regard to rare earths, a certain dependency on suppliers will be unavoidable, and the West will continue to be dependent on Taiwan for chip and semiconductor production as it will take several decades to build up sufficient production sites of their own. Secondly, a multi-sourcing approach is also the most effective means of spreading supply chain risk.

So, what is the best way forward? The goal is to create a healthy mix of regional, national, and international suppliers. Where regionalization is feasible and makes economic sense, this can be considered. If it makes economic sense to keep part of production in a country close by, e.g. because of very low wages, this can also be a building block in the strategy. For raw materials and primary products that cannot be procured from elsewhere, despite lengthy delivery times and high dependency on one region, the objective should be to create as resilient a supply chain as possible across the continents and to draw up an action plan to implement in case of any disruption. >

Step 4: Establishing partnerships

Alongside the dependence on certain regions, for raw materials for example, problems can also arise because particular products are simply unavailable in that region. This applies, for example, to textiles or ingredients for cosmetics and pharmaceuticals, where Asian markets dominate. In order to avoid this reliance, it can make sense to build up your own capacities on site.

These types of projects require considerable planning and time, however. For instance, setting up a sole proprietorship in France to produce batteries for electric vehicles would entail significant investment and additional risks. These can be minimized through collaborations and partnerships. Suppliers with whom production facilities have already been set up in other parts of the world can act as partners. Moreover, businesses within the industry should exchange information and check with interest groups whether such projects can be implemented with other companies, so as to share the planning and investment risk.

Risks can be minimized through collaborations and partnerships.





Step 5: Implementing

Once all of these aspects have been taken into consideration, we move to the final step of implementing the strategy throughout the company. This initially involves integrating the new strategy into individual product groups that then serve as flagship projects in the future. If converting or expanding the supply chain to additional suppliers nearby works well, this can be the starting point for further relocations.

Success must be continually monitored from this point on. In addition to monitoring completely new suppliers in the supply chain, this includes liaising with existing suppliers that have built up new production capacities for their own company, or who want to expand. Since change like this is always associated with risks, it's important to safeguard the business through control management systems. Firstly, these create transparency and the option to step in should any issues arise during implementation. Secondly, they help to derive learning insights and best practices that can be helpful for future initiatives. //

CONCLUSION:

Procuring individual product groups regionally – as well as relocating entire production sites – can be an economically logical and strategic decision, depending on the industry, degree of automation, and risk profile. Shortening the supply chain results in a lower risk profile and makes the chain more resilient.

Nearshoring creates a genuine competitive advantage through stricter regulations and increased requirements for decarbonization and sustainability. This has been neglected by many companies up to now, since risk and sustainability premiums are often left out of the Total Cost of Ownership analysis. Early adopters can also benefit from economic and political incentives, meaning they stay one step ahead of impending regulations.



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Experts

on
NEARSHORING

“Nearshoring in Spain and Portugal – why not”



Since 2019, Oliver Idem has been an expert for the business locations Spain and Portugal at the Association for Foreign Trade and Location Marketing (GTAI). Both countries had to struggle with the consequences of the Coronavirus pandemic, but things are now looking up again. In this interview, he explains how companies can benefit from this.

Mr. Idem, at a time when risk in global supply chains continues to rise, companies are increasingly looking to Europe. What can Portugal offer them?

Portugal is basically a safe and very stable country. Such factors were quite unspectacular a few years ago, but this is now a big plus. During the pandemic, a bicycle exporter had a real issue when his bikes got stuck in a port in China. He can always get them to Germany from Portugal, by truck if need be. I think that's a good example of why Portugal is very attractive for many companies right now.

How is Portugal's economy positioned?

The country's productivity development has been twice as high as the EU average since 2015. However, companies do not focus on quantity, but on quality. If you are looking for cheap mass production, you will not be in the right place in Portugal. The country has a good sustainability strategy and receives a lot of funding from the European Union for this purpose. Portugal is also an important country for startups, boasting over 2,000, many of which are also active in the field of sustainability.

For which industries is Portugal of interest?

First of all, in addition to many micro and small companies, there are also many medium-sized and very modern companies in the country, comparable to Germany or France. Relevant sectors are, for example, the metal and plastics industry as well as mold making. There are also many textile manufacturers, among others for leather shoes and clothing. The companies behind them are often of a size where they are still very agile and can react quickly to requests.

Last year, there were already the first reports of ceramic manufacturers being completely booked up. Is it even worth looking at Portugal now?

I have heard about these reports, but I cannot confirm them in general. This may be true for some medium-sized manufacturers. On the contrary, there are industries in which both supply and demand are becoming more and more widespread.

Which ones do you mean?

This applies, for example, to IT services and software development. Right now, real centers are being created for this in Portugal. If a German company is active in the field of cyber security, for example, it can have the software developed in Portugal. This should also be considered as more trustworthy than in some other countries in the world. >

If you are looking for cheap mass production, you will not be in the right place in Portugal.

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The Spanish and German economies are closely linked and there are also long-standing supply relationships.

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Portugal was one of the countries that suffered greatly from the economic consequences of the pandemic. Is that still being felt?

The country has recovered well in the meantime. It is back to pre-crisis levels. The labor market is also proving robust. But Portugal is one of the EU countries with the highest levels of debt, along with Greece, Italy and Spain. This is because limited government financial strength means, for example, that domestic support programs and subsidies are sometimes not consistently available, and companies should certainly keep that in mind.

In the medium term, however, I am expecting moderate growth. Hydrogen will play a major role, and Portugal also started early in restructuring its economy sustainably, which will pay off in the long term. In January, for example, the country sourced 84 percent of its electricity needs from renewable sources.

What is the impact of debt?

Portugal first gives the impression of being a very reliable debtor. Moreover, the country wants to reduce its debt. However, due to the high level of debt, banks are quite cautious when granting loans in Portugal. Those who want to do business with Portuguese companies should perhaps offer attractive financing solutions themselves; this can help to get into business.

How does this compare with Spain?

In principle, Spain and Portugal are well suited for nearshoring because they can score points with their reliability. Both countries also have a lot in common and work together in some areas, such as hydrogen. Coronavirus caused Spain's economic output to slump even more than Portugal's- by eleven percent. However, the country recently had similar growth rates. Even for the next few years, experts are predicting 1.4 to 2 percent- for many other EU countries, the forecasts are worse. However, the Spanish economy is not quite back to pre-crisis levels yet.

Spain is known for its role in the automotive industry. For which industries can the country still be relevant?

It's true that Spain not only has its own automotive suppliers, but many German automotive suppliers now also have a branch here. There is even a joint platform where Spanish automotive suppliers present themselves. So there is still a lot of potential here. The country also has a large food and beverage industry, for which the business development agency ICEX has set up its own website. The broad-based chemical industry is also one of the most important export sectors. Here, the major challenge at present is to tackle the decarbonization of production. This also applies to manufacturers of paper, steel and cement. These can become interesting partners for machine builders.

Spain is receiving some EU funding to rebuild its economy.

Correct, for this the country is relying on transformation and renewable energies and hydrogen. Large photovoltaic parks and offshore wind farms also play a major role. Many more projects are in the approval process in these areas. However, there is also a catch. While many measures have already been approved, companies have traded these approvals among themselves. This has created a certain backlog, which is why many projects are at a standstill and it is unclear exactly when they will be implemented. But if the country manages to get rid of that, it can take a big leap forward.

Morocco and Portugal are often cited as pioneers in nearshoring. Is Spain on a similar path?

The Spanish and German economies are closely linked and there are also long-standing supply relationships. However, less information is available on this than in Portugal. For European companies, a look at Spain can be worthwhile, because the companies here are considered reliable partners. In the automotive sector, Morocco is both a partner and a competitor for Spain. Antolin, Gestamp and Teknia, for example, manufacture automotive parts in Morocco. My impression is that Spain is the more established production location, but Morocco is working energetically to catch up. //

When businesses think about looking for suppliers or partners in Morocco, they often need a helping hand. Michael Sauermost has spent the last three-and-a-half years living there. As a correspondent for the Gesellschaft für Außenwirtschaft und Standortmarketing (Germany Trade and Invest, GTAI) in Casablanca, he reports on market opportunities for medium-sized German companies. In this interview, we find out which sectors are currently the most active.



“Morocco has that sense of momentum”

How important a trading partner is Morocco?

Generally speaking, Morocco is a key partner for Europe’s economy. The free trade agreement with the EU offers excellent conditions for this. French and Spanish companies are ahead in many areas for historical or linguistic reasons. Nonetheless, more and more German companies are establishing a presence in the country.

As a result, global supply chains have been restructured, and Moroccan companies now prefer direct supply relationships.

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Why is that?

This is mainly a consequence of the coronavirus pandemic. As a result, global supply chains have been restructured, and Moroccan companies now prefer direct supply relationships. Prior to this, the picture was somewhat distorted. It was common practice for “Made in Germany” products to be dispatched to Moroccan ports through French or Spanish sales partners or subsidiaries. These exports were then reported in those other countries’ trade statistics. This triangular approach is slowly being abandoned, though. The pandemic has meant that German companies are now increasingly looking for direct contact with business partners in Morocco. And they can tell that Morocco has that sense of momentum. >

Morocco has also established itself as an economic pioneer on the continent of Africa.

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What do you mean by that?

There is a lot going on right now. Morocco reaching the semi-final of the Football World Cup at the end of 2022 – the first African nation to do so – is symbolic of this. This is because Morocco has also established itself as an economic pioneer on the continent of Africa. The progress it has made in terms of renewable energy is impressive. The focus is on solar and wind in equal measure. Morocco will also pass on its experience and insights to other African countries. The next steps include producing green hydrogen and expanding electromobility. Morocco’s automotive sector is now the biggest in Africa, and it will continue to develop through the use of next-generation technology. This is a country focusing firmly on the future. The same applies to football: Morocco is bidding to host the 2030 World Cup, jointly with Spain and Portugal.

The country is often called the gateway to Africa.

That’s right. And for good reason, given its geographical proximity to Europe. The country is already well connected to the south, at least with French-speaking Africa. Consultants and lawyers have already put out feelers in that direction, and companies that already have a foothold in Morocco can benefit from this as well. However, there needs to be progressive growth of free trade among the African states to truly open up this gateway. It will take a considerable amount of time to implement the African Continental Free Trade Area that was agreed. Moreover, the logistical and infrastructural requirements for this still need to be fulfilled in some countries.

How would you describe the Moroccan economy overall?

Essentially, there are two major parts. Firstly, there is the non-organized sector, which is made up of many small businesses that are often run by families. They include retailers, craftspeople, and businesses operating in the agricultural or tourism sectors. These small companies continue to form the backbone of Morocco’s economy. Informal businesses rarely get a mention on the international scene, however.





And the other part of the economy?

This consists primarily of the export industries. Morocco has a very international focus. Both the Moroccan government and its King want industry to diversify and modernize – this is still crucial. In particular, the industrial funding program from 2014 to 2020 required pioneering advances. International manufacturers in the automotive and aerospace industries set up in industrial zones. The entire development was accompanied by the creation of first-class infrastructure. Two prestige projects in particular stand out: The deep-sea port of Tanger Med is now the largest in the whole Mediterranean region – and the largest in all of Africa. Also, high-speed trains operate between Tangier and Casablanca. Further express train connections to Marrakech and Agadir are being built, too.

How is industry evolving?

The government aims to position the country even more broadly as an industrial and export nation, and increase recognition of the “Made in Morocco” label both nationally and internationally. In addition to automobiles and aviation technology, export sectors identified as having potential are textiles, food processing, pharmaceuticals, and IT outsourcing. The Ministry of Industry is working on the concept for import substitution. The aim is to reduce the amount of imports by promoting local industry. Sardines are a classic case in point: Sardines should not have to be exported to Spain, and then reimported back into Morocco in canned form. Generally speaking, it is safe to assume that German-Moroccan trade can benefit from the initiatives in both directions. On the one hand, Morocco is growing in popularity as a procurement market. On the other hand, more machines are required on production sites.

What can we expect in the future for Morocco?

Morocco will be reliant on investment from abroad in the future, too. Last year saw the adoption of a new investment charter. The share of private investments in the total volume is set to increase from one-third to two-thirds. Furthermore, the country wants to encourage investment in rural areas, away from the big conurbations. To do this, the authorities have already given greater powers to the regional investment centers. You don’t have to apply for everything centrally through Rabat anymore. As far as the economy is concerned, traditional areas will continue to play a major role, alongside emerging ones. On the one hand, there is the agricultural sector and retail; on the other, the discussion is centered on digitization and Power2X. //



Risk management

Managing the polycrisis

Over the past three years, the world has not only become more complex but also more dangerous. That's why experts now talk about a polycrisis created by war and geopolitical tensions, inflation, climate change, and the consequences of the pandemic. To keep doing business amid these circumstances, companies need to have digitally supported risk management in place, as our recent risk management research shows.



At the end of last year, security of supply was the dominant theme in procurement teams. At 77 percent, this was well ahead of price risks (66 percent) despite the fact that high inflation and hugely increased purchase prices have made headlines over the past year. However, despite the relative easing in supply chains, almost three quarters of the respondents were still experiencing disruptions and bottlenecks.

Increased stock beats nearshoring

The qualification of additional suppliers (71%) and the construction of extra warehouse capacity (62%) are the methods of choice for keeping supply issues at bay. More than half opted for closer collaboration within the supply chain (56%), while only a few companies substituted materials or looked for new suppliers in their home region in a targeted way. Substitution and nearshoring are no doubt more complex solutions that require more time than restocking a warehouse. In view of the increasing geopolitical and regulatory risks, coupled with uncertainties over the availability and pricing of raw materials, companies should consider these options.

Companies can no longer rely on trust in free trade and the global division of labor remaining the most important political strategy. Politics is increasingly interfering with the markets – whether through measures such as punitive tariffs or import bans, or through laws and regulations designed to protect the environment and human rights. Western countries in particular are luring businesses with attractive subsidy packages in order to steer investment decisions in the desired political direction. A growing number of trade agreements around the world are reorganizing world trade into more or less desirable political associations. Moreover, as the Ukraine war shows, there is a risk that the increasingly aggressive rhetoric of autocratic regimes will lead to open disputes.

Being prepared

To avoid being caught off-guard by unexpected developments again and then having to find solutions at short notice, traditional risk management needs to be expanded to include political aspects, because trade agreements, sanctions and legislation can have a huge impact on supply chains. Decision-makers need to monitor these legislative processes relating to ESG criteria and and geopolitical conflicts very closely and assess the risks for their own supply chain with the help of suitable tools.

Taking action before the risk occurs is paramount; this could be by qualifying suppliers from other regions around the world or testing sustainable alternatives to environmentally questionable materials, for example. Our supply chains used to be at maximum efficiency and the geopolitical situation needed little monitoring, because many countries encouraged free global trade. In today's increasingly unpredictable world, it's about consciously introducing redundancies for security and accepting supposed inefficiencies to ensure you can react at any time. >



Research study design

119 procurement managers and managing directors, mostly from German-speaking countries and the United Kingdom, took part in the latest risk management research study. Around half work in the chemical, consumer goods, automotive, and mechanical and plant engineering industries. You can find detailed results and recommendations for action from the research available to download for free here: www.inverto.com/en/riskmanagement

Everyone involved should understand that risk management is not a one-off task, but an ongoing process.



Digital risk management is evolving

No longer can the growing risk management requirements in terms of procurement and supply chains be manually fulfilled. Companies are therefore investing more heavily in digital solutions. Our annual risk management research shows a growing proportion of businesses are using digital solutions intensively for their monitoring. Compared with the previous year, this rose from 17 to 29 percent, while the proportion of businesses not using these remaining relatively constant at around 25%. Evidently, businesses starting their digitization journey are swiftly convinced of the benefits provided by the tools, causing them to invest further.

Irrespective of whether companies build on existing solutions or start afresh with digital risk management, it's important that all tools and activities are brought together within a network. Companies therefore need to set up an IT-supported risk control tower that will bring together all the relevant figures and information, with the help of artificial intelligence and advanced analytics evaluated in real time and visualized with the aid of graphics.

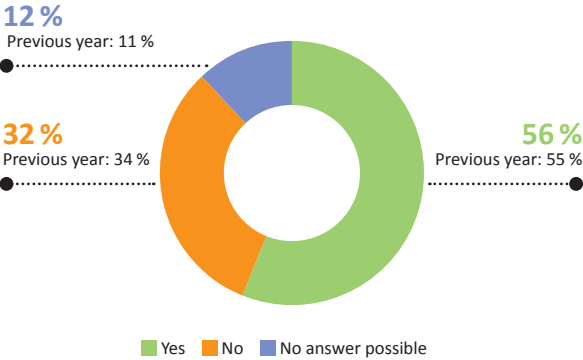
Cross-functionality and integrating suppliers

Risk management is a cross-functional challenge. Procurement needs to implement risk analyses and evaluations together with colleagues in Finance, Production, Sales, and Legal. These departments and the executive management team should also have access to the risk control tower and receive real-time risk alerts to enable potential hazards to be pinpointed and identified from various perspectives. This creates true end-to-end monitoring that tracks not just supply chain and compliance risks but also pricing ones. Given the volatile prices and high inflation we are now seeing, the Sales team can then set appropriate prices for customers.

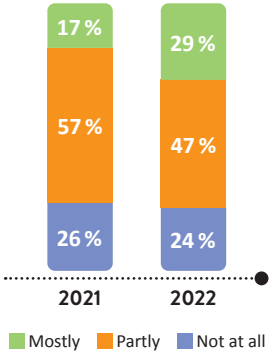
Everyone involved should understand that risk management is not a one-off task, but an ongoing process. Constant observation and further development are just as much a part of this as joint consideration and decision-making when the control tower identifies disruption.

Equally, suppliers are important partners in managing risk. Collaborative monitoring strengthens the partnership, since both parties come to better understand each other's needs. The optimal approach is to establish software solutions with key Tier 1 suppliers to enable automatic data transfer.

/ Do you generally record and evaluate risks systematically?

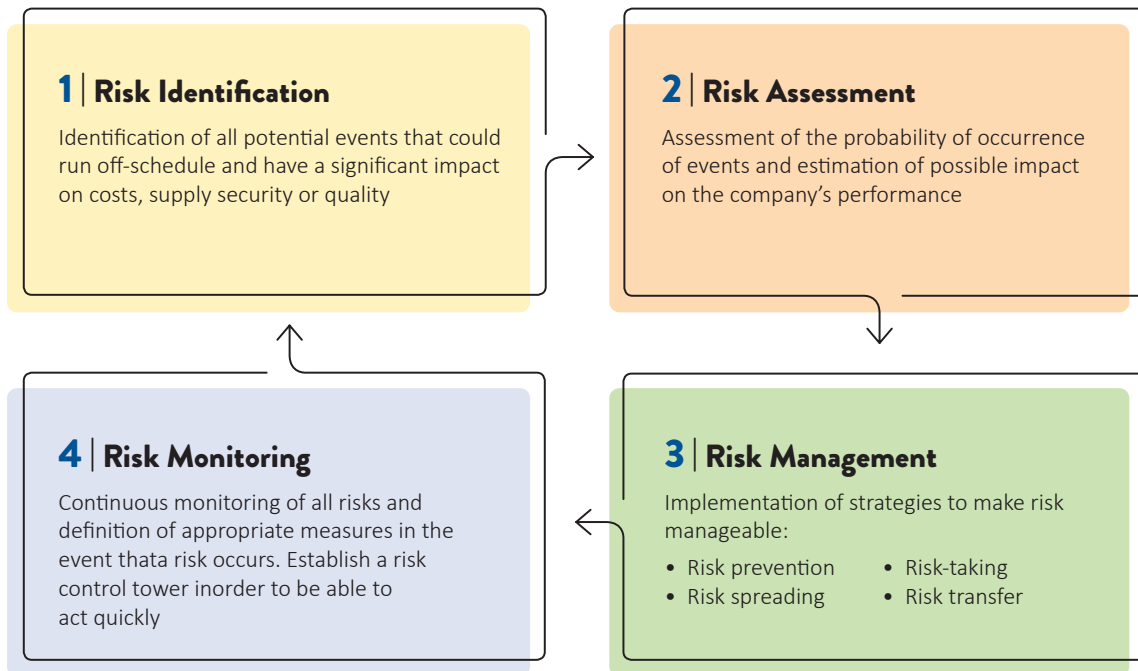


/ Do you use digital tools and methods for the identification and assessment of risks?



Source: INVERTO Risk Management in Procurement

/ Risk Management Process



To react quickly, both short-term and long-term measures for dealing with procurement risks should be defined as part of the risk management process. In addition, companies need to have an early warning system and emergency procedures plan in place to cover the most serious risks – and, to do this, the control tower needs to be programmed accordingly. However, the current polycrisis also means that judgments about what the greatest risks might be can quickly change. Cross-functional teams therefore need to plan regular reviews and meet ad hoc as needed, in addition to the scheduled cycle of meetings. //

CONCLUSION:

In view of the growing complexity of crises today, it is no longer a question of whether companies should invest in digital risk management, but what their investment should cover and which tools it should call on. Decision-makers in procurement should nonetheless be aware that digitization can neither assess the risks nor plan the relevant measures. Digital solutions make the necessary information available when it is needed – but it's up to your people to draw the right conclusions and make the right decisions.



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The Supply Chain Act

The whole company needs to be on board



**Good intentions aren't enough anymore:
The Supply Chain Act (LkSG) has made voluntary
commitments to environmental protection and
human rights in Germany a legal requirement.
What are companies doing about this? And what
more do they need to do to comply with the
legislation?**

Only around a third of those surveyed as part of the INVERTO Risk Management Study said they were well prepared for the new legislation – this is a rather concerning statistic given that the new legislation came into force only eight to ten weeks' later. The significant level of uncertainty cannot be explained solely by the complexity of the challenge.

BAFA only published practical recommendations in August

The risk analysis guidance from the Federal Office of Economics and Export Control (BAFA) was only published in August 2022, when many companies had already begun their supply chain analyses. The rules on what annual reports should look like in the future and information on adequacy, effectiveness, and complaints procedures were only published in October. In terms of content, all those we interviewed complained that the information was not entirely clear and precise.

"We started the process at the end of 2021, when it was still not clear what BAFA wanted. We were trying to hit a moving target, so it was a challenge," said a procurement manager from a media company. And a head of procurement at a software firm was also critical: "Unfortunately, the legislation leaves so much room for interpretation that I don't know which resources to use to implement the Supply Chain Act and be compliant with it. There's a great deal of room for interpretation." "We have the feeling that there are still ambiguities on the legislative side as well," said a procurement manager at a global energy technology manufacturer, summing up his skepticism. >

/ Name the biggest challenges in your organization in the course of implementing the German Supply Chain Act (LkSG)? (Multiple selection possible)

77%
Time effort

57%
Limited ability to influence suppliers

45%
Lack of expertise

45%
Creation of transparency in own business unit and at suppliers

Only 34% of the companies felt well prepared for the enforcement of the Supply Chain Act.



Complying with the Supply Chain Act

According to our research, at the time of conducting the survey around two thirds of those surveyed had analyzed the risks to human rights and the environment in their own business area and adopted the policy statement required by law. Approximately 60% had integrated the Supply Chain Act into their risk management strategy and developed compliant procurement and product strategies. Around half had begun to train up their employees.

“Especially at the beginning, we took a significant amount of time to educate our people about the topic, including the management team. What is sustainability? Why sustainability? It always sounds so straightforward, but the process alone has taken a lot of time,” recalls the sustainability manager at an IT firm. Procurement is, of course, especially important, but the other departments also need to develop skills: “Ultimately, it’s the departments that think about how we implement it,” said the procurement manager at the same energy technology manufacturer quoted above.

The respondents saw the significant amount of time required as the greatest challenge (77%). 57% stated they only had a limited influence on their suppliers, while 45% put the problem down to a lack of expertise and insufficient transparency.

Going digital to make it easier

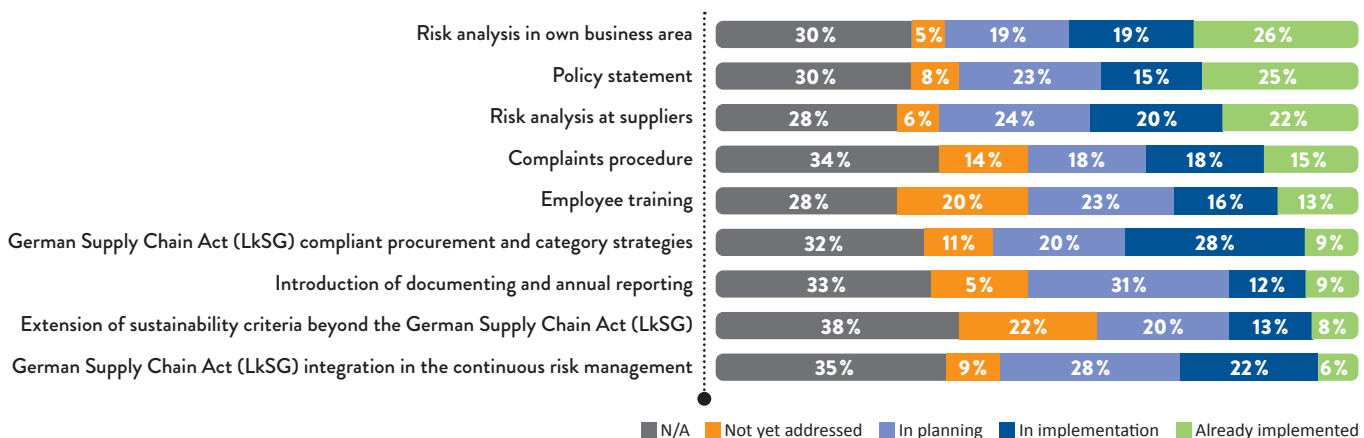
Managers are hopeful that digital tools will provide the solutions they need. Virtually all those who took part in the in-depth interviews described working with software to examine their complex supply networks and process the enormous quantities of data. Companies tend to use software from specialist sustainability and/or risk management providers.

“You can’t master the complexity without a digital tool to help you. That means that somewhere you need a data logger that records and compresses all the information. It has to be consolidated in such a way that I know where to look if there’s ever cause for suspicion,” explained a procurement manager and sustainability expert at an electrical equipment manufacturer. A procurement manager at a software corporation emphasized the importance of functioning interfaces: “A very simple communication platform needs to be set up, because suppliers will be asked questions about this by thousands of customers. At the same time, they must be able to provide all the information, including certificates. All of this needs to be brought together nicely and neatly on a communications platform to make the relevant information available end-to-end through these network effects.”

Pioneers in sustainability have the upper hand

Companies that made few if any sustainability efforts prior to the Supply Chain Act being adopted, saw themselves at a clear disadvantage compared to those who adopted their initial strategy a few years ago. “Environmental and human rights standards are core components of the requirements placed on our suppliers. We have always published these in the Code of Conduct for Business Partners. We have added the topics now embedded within the Supply Chain Act that we hadn’t covered previously. However, environmental and human rights standards have long been requirements in principle. We have been auditing suppliers on these for the last ten years,” explains the procurement and supply chain manager at an automotive and electronics group.

/ What actions have already been taken for the German Supply Chain Act (LkSG)? In which stage of development are you currently located for each action? (Multiple selection possible)



Source: INVERTO Risk Management in Procurement

On the other hand, the legislation has been an eyeopener in many companies, forcing some of them to redefine the concept of risk: “The Supply Chain Act requires you to change your perspective – you have to look at what risks we face. For the first time, we had to really understand what our supply chains look like,” explained a sustainability manager who works in the IT sector. For others, the legislation has created a need to do more than the absolute minimum, according to a process manager at an engineering company: “Our first priority is naturally to fulfil the minimum requirements. As soon as these are embedded within the company and have become part of the routine, we then want to increase transparency in the supply chain and influence the entire supply chain, i.e. steer and monitor our suppliers accordingly.” //

CONCLUSION:

Even companies that are not covered by the legislation or only indirectly – as suppliers to larger customers – should make sure they are fully au fait with the Supply Chain Act regulations and examine their supply chains. After all, companies must create a clear operational framework for their employees to meet the demands of everyday business, especially if many provisions are not very clear. There is little point in waiting, as the European Union is planning the extension of the law; the Legal Committee approved the draft at the end of April. This law will then replace all national regulations throughout the EU, including the Supply Chain Act. Companies that are now training their employees, building knowledge, choosing the right monitoring tools, and consulting with their suppliers will clearly have the upper hand.



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Recommendations for action:

1. Plan in **plenty of time** – if you are required to comply with the Supply Chain Act from 2024, you should start preparing today!
2. Set up **interdisciplinary teams** from the Procurement, Legal, IT, and Finance departments.
3. Develop **operational concepts** in specialist departments, check product group strategies and supplier portfolios in critical areas.
4. **Educate and train** your employees.
5. Invest in the **right software**.
6. **Collaborate** with your suppliers and, where possible, with competitors.

Risk management research study and Master's thesis

In addition to the survey, in which 119 procurement managers and managing directors took part, our Master's degree student Niklas Ziegler carried out interviews with seven experts – senior managers from the engineering, consumer goods, automotive, defense, IT, energy, and media industries – as part of his Master's thesis. This offered a reliable insight into how businesses were preparing for the Supply Chain Act shortly before it came into force. The research was carried out between October and December 2022. Niklas Ziegler recently completed his Master's degree in Digital Procurement and Supply Chain Management at the Munich University of Applied Sciences. You can find a whitepaper on the Supply Chain Act, including detailed recommendations for action, here: <https://www.inverto.com/en/expertise/supply-chain-act/>



Dr. Gökhan Yüzgülec was appointed Managing Director of INVERTO at the start of the year and heads up our newly opened office in Hamburg. In this interview, he shares with us his plans for the office and talks about the key issues currently affecting him and his clients.



INVERTO Office **Hamburg**

“A dream team in every which way”

Can you briefly sum up your professional background and how you came to INVERTO?

After graduating with an Engineering degree, I carried out research into SCM topics in the automotive industry at the Fraunhofer Institute for Material Flow and Logistics, before switching to consulting. Following a “foray” into the lighting sector, where I was responsible for all global product launch projects, an INVERTO colleague whom I had become friends with led me to join our Employee Referral Program as a Principal at INVERTO Munich.

What has your role at INVERTO involved since you joined?

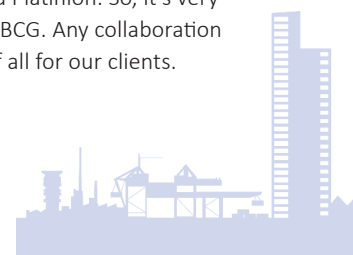
I lead major procurement transformations and cost optimization programs for direct and indirect spend categories, primarily clients in the automotive and medical technology sectors, as well as industrial goods manufacturers and mechanical engineering companies. In our Healthcare practice area, I head up the MedTech sector and am responsible for projects relating to supply chain finance. At the end of last year, I took on the management of our Hamburg office.

What do you especially value at INVERTO?

Quite simply, how distinctive the company is. On the one hand, there is a unique symbiosis between BCG and INVERTO – we complement each other perfectly: strategic consultancy combined with delivery-oriented, hands-on procurement consultancy. On the other hand, there is a great spirit of cooperation at INVERTO. I have worked for various companies in the past but have never come across this kind of corporate culture before. At INVERTO, we work with – not against – each other. Everyone wants to grow as a team and achieve the best for the company and, above all, for our clients. This also includes the opportunity to help shape the company in any number of ways. Every individual has the chance to initiate a topic or play a part in ongoing initiatives irrespective of hierarchy, location, or technical background. The new Hamburg office is a prime example of this: Exactly one year ago we had only dreamed about opening a third INVERTO office in Germany. Thanks to the involvement of many dedicated colleagues, we celebrated the opening of our new office at the end of last year. We are now actively helping INVERTO to grow.

As a “freshly minted” MD and head of our new Hamburg office, which areas are you especially keen to focus on?

Our Hamburg office is the first OneBCG office in the DACH region – that means we share the workspace with our colleagues at BCG and Platinion. So, it’s very important to me to truly live and experience life as OneBCG. Any collaboration is a win-win-win situation – for us, for BCG, and most of all for our clients.





I want to develop new offerings for our clients and expand the product portfolio, so we can offer them optimal support in their quest to succeed in a dynamic business environment. Our clients' needs have changed enormously in recent years: The focus is increasingly on procurement and supply chain management; cutting costs is no longer the only item on the agenda in today's world. Guaranteeing availability and smart supplier management have also become significantly more relevant, so we always need to stay two steps ahead!

What is your vision for the team in Hamburg?

First, I have to say that Hamburg is a dream team – in every which way. Everyone from Hamburg is full of enthusiasm and a desire to proactively help develop a great office culture, which we can already see evidence of. We work closely with our colleagues at BCG and Platinion to promote the growth of the team as a whole. Our on-site team has an ideal mix, with 60% female employees and a healthy distribution across all ranks of the company. And it will remain like this as we increase the team to 25–30 employees over the next 2 to 3 years. I think this is absolutely realistic, because there is genuinely significant demand and we can hardly keep up with the interviews. Moreover, we have one of the finest INVERTO offices in the world, of course – anyone who has been here is bound to agree.

Which challenges do your teams encounter most often when it comes to client work?

Material shortages and ensuring availability are still right at the top of the agenda. Our clients are also facing a variety of different challenges. Alongside new sustainable procurement requirements, we are mainly noticing increased existing cost pressures due to demands from suppliers. Generally speaking, supply chains are currently experiencing a power shift. Unlike just a couple of years ago, today it is the Tier 1 and 2 suppliers that dictate the prices, delivery times, and the allocation of scarce materials. This is on top of a shortage of skilled buyers – the situation is certainly challenging.

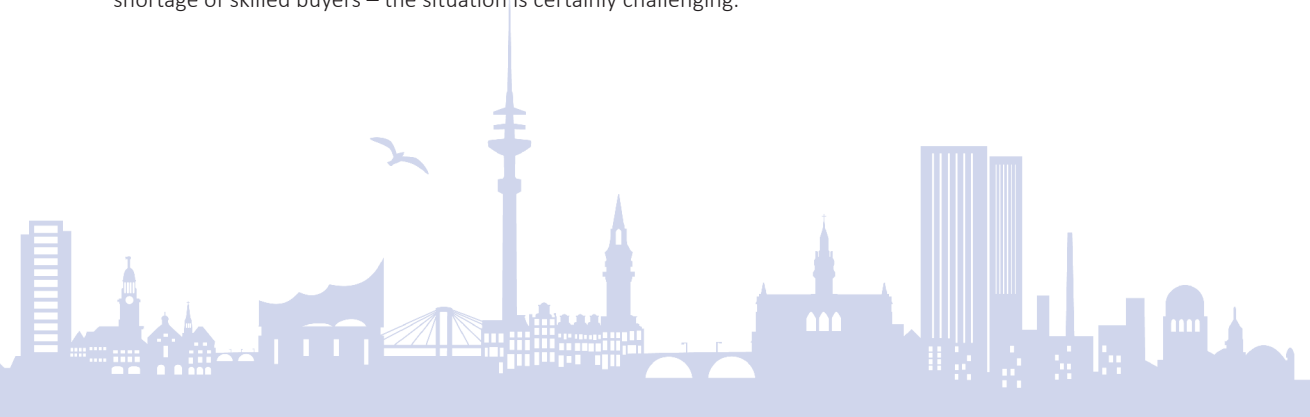


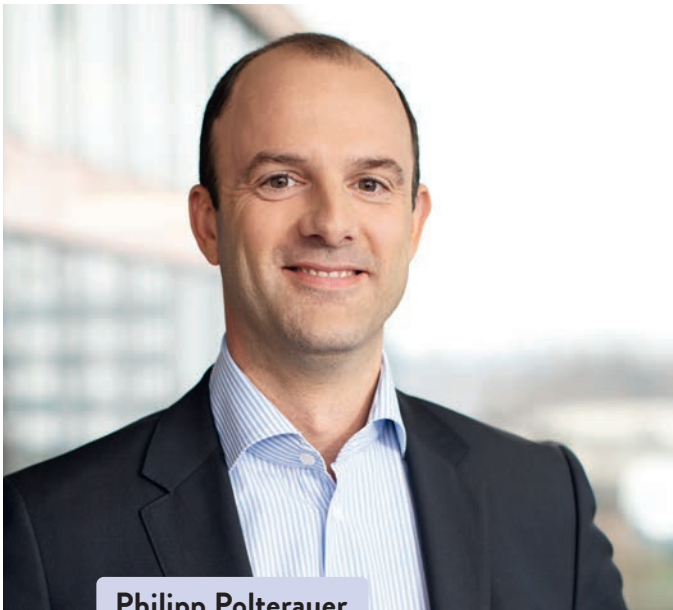
What do you do to relax and unwind?

I generally spend my time with my wife and two boys – my youngest was only born earlier this year. When I get some time to myself, I do sport. I also like to dust off my acting skills as part of an amateur theatre group whenever I can. Traveling remains important to me, as a means of broadening my horizons.

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

As part of our annual INVERTO charity event, we want to raffle a canoe tour along the Alster – that's always great fun. But Hamburg has just so much to offer that you really don't need that much. Apart from an umbrella – that's probably something you don't want to be without here. //





Philipp Polterauer



INVERTO Offices **Vienna** and **London**

“Faster and better decisions”

Philipp Polterauer and Mohamad Kaivan have been Managing Directors at INVERTO since the beginning of the year. Both were previously responsible for large client projects as Principals at INVERTO. In this interview, they talk about their motivation and the plans they want to pursue in their new roles.

What are your current areas of responsibility?

Philipp: The most important thing is still my clients. I am responsible for transformation and cost management programs across all industries. I mainly support multinational companies from the pharmaceutical, consumer goods, automotive and high-tech industries. I also head the “Digitalization & Procurement Excellence” Center of Excellence, where we set up digital strategies and further develop our services in the areas of data analytics, AI and process optimization.

Mohamad: In addition to my day-to-day work as Managing Director with project delivery and acquisition responsibility, I am also the lead for all PIPE activities in the UK, Benelux and France and support with my expertise in the energy sector. In the London office, I am also responsible for the people workstream. My job is to make our INVERTO home in the UK the best possible place to work and thrive, including, for example, methods for knowledge exchange, the well-being of our team, and promoting diversity.

What challenges you personally in your daily work and what fascinates you about it?

Mohamad: The biggest challenge at the moment is capacity, the demand on the market is huge and it is really hard to find top talents who complement our team in the best possible way. I am particularly fascinated by the environment in which we work – the diversity of industries and the outstanding quality of the clients, as well as the highly qualified teams from across INVERTO and BCG. We benefit greatly from being flexible as a boutique consultancy and at the same time being able to draw on a global “powerhouse” of strategy consulting.



Mohamad Kaivan



Philipp: I couldn't agree more, I think it's great to work with so many talented people. I would love to be in more than one location at a time to interact with all the teams in person. I'm also passionate about new technologies and excited to keep exploring new digital opportunities and methods. In doing so, the exchange with BCG and my international clients is also very valuable to me.

In your role as Managing Director – what topics do you want to drive forward? What is your vision for INVERTO for the next five years?

Philipp: For me, quite clearly "Make Procurement Digital". I want to further expand our leading position in the market for digital supply chain and procurement consulting, drive our digital strategy and enable every single team member to use the latest technologies in our projects.

Mohamad: I want to be particularly involved in people development and promote diversity. In five years, we will have built upon the environment that we have created which encourages free thinking and innovation, and challenges the current status quo and ways of working.

And in terms of your clients, what are the biggest challenges right now?

Mohamad: Key challenges facing clients include mitigating the impact of inflation and ensuring business viability and future supply chain resilience.

Philipp: Exactly, volatility on the global procurement markets is extremely high at the moment, and we believe that uncertainty will continue for some time. That's why we need to enable our clients to make the right decisions better and faster. We also want to help with this with our digital tools.

When you're not taking care of your clients and teams, what's your favorite way to spend your free time?

Mohamad: I then use the time to take care of my "junior stakeholders", that is, my twin toddlers and my wonderful daughter who constantly keep me on my toes.

Philipp: Family, friends and sports. I especially love adventure travel, running and skiing.

When we visit you in your home town, what should definitely be on our "bucket list"?

Philipp: Vienna has so much to offer. I would suggest having a drink at Roberto's Bar, eating a Wiener Schnitzel at Gasthaus zur Oper or sushi with a view at Onyx Restaurant. Also, don't miss the typical activities, like a morning run in the Prater, attending a Rapid Wien game, and a horse-drawn carriage ride along the Ringstrasse.

Mohamad: We can easily keep up with that in London, there is so much to discover and experience, I can't even list it all. For me personally, however, there is nothing better than sitting in Seven Dials, taking in the surroundings and enjoying a good coffee from Monmouth Coffee. //



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**Cover story in
the next issue**

Sustainability:

How to fully leverage the potential of procurement

The world is facing its greatest challenge: saving its future existence. Sustainability is no longer an option, but a must, especially for companies to survive in front of consumers and shareholders. But becoming sustainable is not an easy or quick undertaking in globally interconnected supply chains. Moreover, there is still a fundamental problem in many companies: the crucial role of procurement in the sustainability progress and success is underestimated. In our latest whitepaper, we explain what you need to do to optimize your procurement and make it more sustainable, based on our sustainability study.

Please download the whitepaper here:

www.inverto.com/sustainability-whitepaper



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