

TAKING CONTROL



AS THE PRESSURE RISES

2022 INDIRECT PROCUREMENT REPORT



2022 Indirect Procurement Report:

TAKING CONTROL AS THE PRESSURE RISES



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To say we live in challenging times would be an understatement. Inflation and interest rates are rising, supply chains remain under extreme stress, and fuel and raw material costs are surging. All of this is bound to impact demand, putting company revenues and margins under pressure.

On top of this, fundamental business pressures are increasing. This means it's never been more important for procurement teams responsible for supplies supporting Maintenance, Repair and Operations (MRO) to do more with less.

So how can you take control when confronted by these new realities? Our report highlights five key areas to consider.

1. Facing up to strategic challenges

In this age of soaring inflation, delivering savings will save many companies more than just money. Jobs and entire businesses are under threat in all sectors. Yet challenging times also present opportunities, allowing procurement professionals to show just how much they add to the top and bottom lines. The top three challenges facing companies in 2022 are reducing spend, managing ageing assets and contract compliance, our survey shows. MRO procurement can help on all of those fronts.

2. Leading transformation and change

If one thing is clear from this year's survey, it's that indirect procurement professionals don't believe the status quo can endure in our fast-changing world. But they face resistance, so how can they go about influencing or even leading change? By using their unique position to act as an educator of standards, spelling out what the red lines of a business should be.

3. Staying sustainable in a fast-changing world

Environmental, social and governance (ESG) criteria are now centre stage in procurement decisions, no matter what sector you are in. This is enforcing innovation, as procurement can only become sustainable and ethical if we change the way things have been done. It is the leaders in this innovation who will reap the biggest benefits. Measuring the carbon cost of all products arriving on site is just one way indirect procurement is walking the talk on ESG.

4. Optimising supplier management

When it comes to suppliers, less could be giving you more. Almost half of UK organisations say they are rationalising the number of suppliers they use in order to increase efficiency. Many are also using eProcurement for the same reason, and more than 80% now measure supplier performance against KPIs. Supply chain challenges are making it harder than ever to manage suppliers, but that's why getting the right relationships with the right suppliers is more important than ever.

5. Taking technology to the next level

The digital revolution is gaining pace. This is why more companies in the UK have a strategy in place for Industry 4.0 and industrial vending than last year. The number one benefit of digital procurement is improved spend visibility, they say, followed by better management information and reduced order process costs.

What does this mean?

As the pressure rises, transformation will be the watchword for MRO procurement. There's a clear need to embrace change, take up new technologies, and digitalise processes to improve efficiency and transparency. There will be considerable obstacles in some cases, not least from financial pressures, but standing still means you cannot move forwards.

Procurement is grappling in a highly professional way with today's challenges. Many are leading change, others are confident of their ability to engage stakeholders to make change happen.

At RS, we see this all at first hand as we work with our customers to deliver innovation to help transform their operations. We face the same supply chain challenges, but our sheer scale means we can ensure continuity of supply.

We have set ourselves ambitious ESG goals that we are on course to deliver, just as we are transforming our business to deliver new services to support and enhance our customers' operations.

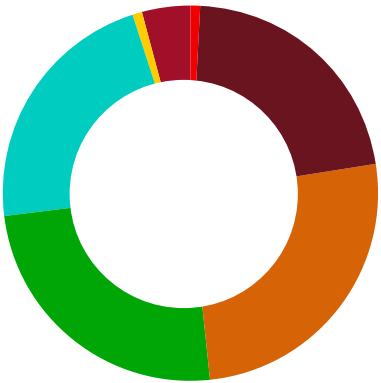
Times are indeed tough. But what this survey shows us is that indirect procurement is facing up to the challenges, delivering innovation and cementing its position as a vital part of the success of any business.

Competency level
and typical job role



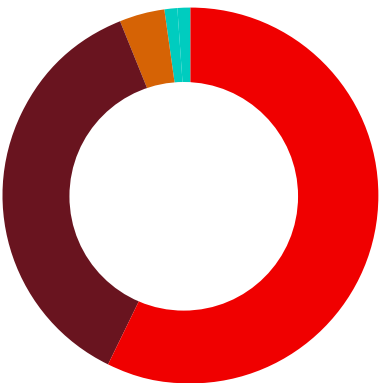
- Advanced Professional - 22%**
Head of Procurement, Procurement Director, Commercial Director, Chief Procurement Officer, Supply Chain Director, Head of Sourcing
- Professional - 32%**
Procurement Manager, Purchasing Manager, Senior Category Manager, Supply Chain Manager, Strategic Procurement Manager, Operations Manager, Commercial Manager
- Managerial - 15%**
Senior Buyer, Category Manager, Contracts Manager, Contracts Officer, Logistics Manager, Supply Chain Executive
- Operational - 22%**
Buyer, Procurement Specialist, Supply Chain Analyst, Procurement Executive, Procurement Officer, Supply Chain Planner, Logistics Analyst
- Tactical - 8%**
Purchasing Assistant, Assistant Buyer, Administrative Assistant, Stock Controller, Contracts Administrator, Inventory Planner, Assistant Contracts Officer

And which of the following best describes your age?



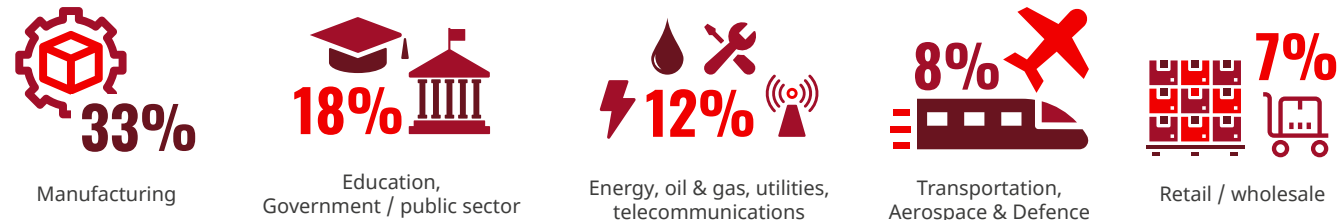
- 16-24 years - 1%**
- 25-34 years - 22%**
- 35-44 years - 26%**
- 45-54 years - 25%**
- 55-64 years - 22%**
- 65+ years - 1%**
- Prefer not to say - 4%**

How do you identify?



- Male - 58%**
- Female - 37%**
- Other 2%**
- Prefer not to say - 3%**

Respondents: Industries



1 FACING UP TO STRATEGIC CHALLENGES



In this section:

- Global political uncertainty
- Rising energy costs
- Supply chain disruption

Sir Richard Branson once said: “Tough times are inevitable in life and in business. But how you compose yourself during those times defines your spirit and will define your future.”

Today’s challenges could hardly be more intense, and our survey shows that Maintenance, Repair and Operations (MRO) procurement professionals are responding with spirit and confidence.

You could call it a series of perfect storms. First Brexit, then COVID-19 and more recently war in the heart of Europe, each event disrupting supply chains in its own way. The effects continue to pose major strategic challenges for MRO procurement.

More than 8 out of 10 of our UK survey respondents said inflation along with higher energy costs and interest rates would be the major challenge for procurement professionals over the next 12 months, while three-quarters were concerned about the threat posed by supply chain disruption. Almost two-thirds said global political uncertainty was one of the main challenges.

Pressure to improve asset performance has also increased significantly in the UK, rising from a third last year to 43% of those surveyed in 2022. Ageing assets were cited as the biggest driver of downtime by a quarter of respondents working in transportation and defence.

Maintaining ageing assets is also a particular problem for public-sector organisations, with almost two-thirds rating it as their biggest daily challenge.

In troubled times, people tend to focus on essentials like delivering savings, managing ageing assets and contract compliance, which are the top three daily business challenges identified in this year’s survey.

There has also been a rise in the number of people saying that ethical and sustainable procurement is the business pressure that has the most impact on the way their company secures indirect materials, such as those in the MRO category.

It remains the number two challenge, mentioned by 52% of those surveyed, but it’s closed the gap on the need to cut operational budgets, cited by 53%.

Rising inflation is putting all businesses under cost pressure. So it’s perhaps no surprise that delivering annualised savings is the leading daily challenge in the UK for more than half of those surveyed (55%), 10 points higher than in 2021.

The pressure to make annualised savings is felt fairly evenly across all sectors but is particularly intense among larger firms that spend more than £1 million a year on MRO supplies, and in process manufacturing where two-thirds say it is their leading daily challenge.

Although two-thirds thought that downtime had not changed over the previous year, those that thought it had risen blamed the pandemic, insufficient planning, lead times, a lack of spare parts, ageing assets, price increases and supply chain problems.

Many spoke about difficulty in obtaining spares, including supplies stuck at borders. One said downtime had increased because maintenance engineers were “overwhelmed” as their company was expanding. Another added:

“COVID-19 lockdowns led to assets not being used or even serviced on time, thus increasing the downtime.”

Most respondents said reliability services and predictive maintenance regimes were of high importance in the current circumstances. Several of those who said downtime had decreased attributed their success to preventative maintenance and holding sufficient parts inventory.

Supply chain disruption and increased lead times for orders are expected to continue through 2022 and in the short term to be the biggest drivers of downtime by a majority of respondents. But some challenges that were highlighted during the pandemic have reduced in importance back to pre-COVID levels.

Day-to-day challenges



Delivering annualised savings



45% Maintaining ageing assets



44% Ensuring contract compliance with preferred suppliers

Managing stakeholders over multiple sites – the biggest challenge in controlling indirect MRO spending last year, faced by almost half of procurement teams – has slipped to fourth place this year, affecting 41% of respondents, fewer than in 2017.

However, a lack of investment in technology to control purchasing and poor spend visibility have both become bigger challenges than last year, as has managing cash flow. The number complaining of a lack of technology investment rose from under a quarter to almost a third.

The challenge of finding people that understand best practice procurement for the MRO category has diminished, although it's still a problem for almost 1 in 3 of those surveyed.

Procurement challenges in the next 12 months



Inflation & higher costs



Supply chain disruption



Managing risk in the supply chain



Global political uncertainty



Recovery from Covid 19

Anticipated drivers of downtime in the next 12 months



30%

Supply chain problems



29%

Lead time to get hold of parts

18%

Ageing assets



Analysis

"The last five years have just been one thing on top of the other – it's an accumulation," says Helen Alder, Head of Knowledge & Learning Development at the Chartered Institute of Procurement and Supply (CIPS).

"We've had COVID, we've had Brexit – and that still is causing problems in Europe, especially for smaller companies – there's all the natural disasters in the world and then on top of that, we've got the war in Ukraine."

She says that, for procurement professionals especially, "it's extremely tough right now". And some of the consequences of these challenges have been unexpected, such as the significant amount of electronic supplies formerly sourced from Ukraine that are now hard to get.

"Security of supply is the number one challenge, without question," says Martin Wakelin, UK Head of Indirect Procurement at dairy firm Müller – and that's regardless of what it's for, from production chemicals and parts for machinery, to materials for facilities management and even the staff canteen.

"All aspects of indirect procurement are directly affected by availability," Wakelin says. "Therefore, one of my big focuses at the moment is managing risk within the supply chain, ensuring that we have and continue to have access to the goods and services we need to continue to manufacture product to deliver to the supermarkets."

SAP Ariba, which was the second most popular digital procurement solution among UK users in the survey, recently commissioned research into the challenges facing procurement teams in 2022. Its findings mirror the results of our RS/CIPS survey.

Mitigating supplier risk to ensure continuity of supply was the leading challenge identified in its survey, followed by reducing spend and positioning procurement as a strategic adviser to the business.

Consultancy firm McKinsey says tackling supply chain risk presents a major challenge to most procurement teams because they may not have visibility over their entire supply chain. Paraphrasing former US Defence Secretary Donald Rumsfeld, it says organisations are aware of “known risks” – gaps in their knowledge – but problems lurk in “unknown risks” – things that are unpredictable or very difficult to foresee.

However, a study by Oxford Economics, also commissioned by SAP, found that half of all procurement teams were confident they could find alternative sources of supply in an emergency.

Another challenge for procurement leaders has been adapting to hybrid and remote working.

“We all need to adjust and some companies will have found that adjustment easier than others. And if you’re not digitally enabled, then it will make it very hard,” says Bernhard Raschke, Chief Transformation Officer at RS Group.

He believes the challenges facing businesses have enhanced the standing and importance of procurement. It’s something Kate Davies, Global Head of Indirect Procurement at RS Group, has observed too.

“In challenging times, the value of procurement really comes to the fore,” she says.

“We really add value to the top as well as the bottom line. We don’t do that by ourselves, but as an extension of our supply chain.

“It can be a challenge for procurement teams and particularly for indirects, as our key purpose is to facilitate functional strategy in the context of the overarching strategy of the business. The two aren’t always mutually exclusive and this can be a challenge. Procurement must have a ‘meeting of the minds’ with each function and agree an approach that delivers performance for both. Procurement has to play many roles; advocate, facilitator and agitator.

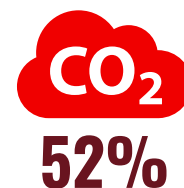
“In businesses where the supply chains partner or outsource key business processes, a clear understanding of the business’s value proposition is key for procurement teams. Procurement can add value as part of the conversation as an adviser, or by connecting one part of the business to another for more effective problem-solving

to combat functional and departmental silos. This has real benefits. We are seeing the reduction of waste, legacy pain points and risk through the creation of a broader understanding of the organisation.”

Company strategies in place



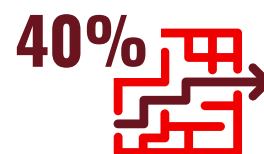
Sustainable and ethical procurement



Reduced carbon footprint



Cyber security services



Business continuity planning for critical parts

2 LEADING TRANSFORMATION AND CHANGE



In this section:

- Making a case for change
- The cost challenge
- Seeing the big picture

Indirect procurement has a key role to play in transforming organisations, and our survey shows that teams are ready to lead change, despite the other challenges they face.

Challenging times call for action and procurement professionals who are not afraid to step up to lead transformation in their organisations. Almost a quarter of those questioned in our survey think they have a significant opportunity to drive change in their business.

More than 7 in 10 advanced professionals and two-thirds of professional-level respondents believe they have a good or significant opportunity to make change happen in their role. Just under half of people in tactical roles felt the same.

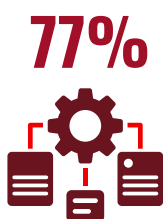
Just over half of managers felt they could affect change, as did a similar proportion of those at operational level. However, when it comes to getting stakeholders on board with change, the picture is rather different. While 54% of managers and around a third of those at advanced professional and professional level thought it would be quite difficult, only 17% of those in tactical roles felt the same.

Department functions involved in change and transformation practices



82%

Operations



77%

Procurement



71%

Finance



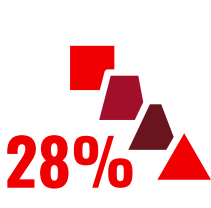
62%

Maintenance
engineering



50%

H&S/
Regulatory/
Quality



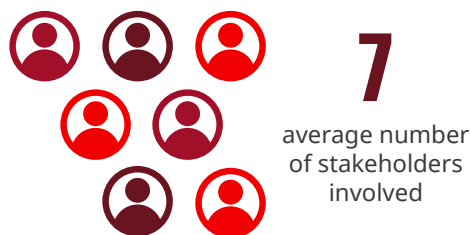
28%

Transformation/
Change

So it's perhaps no surprise that procurement emerges as one of the principal departments managing change in UK organisations, second only to operations and ahead of both finance and engineering.

Change projects in which procurement teams take part involve an average of seven stakeholders. But managing change with stakeholders continues to be tough, with less than a quarter saying it is easy and 43% reporting that it is very or quite difficult.

Stakeholders involved in change and transformation practices



7
average number
of stakeholders
involved

Resistance to change is cited as the most common obstacle, with survey respondents reporting that stakeholders often adopt an "if it's not broken, why change it?" approach. The cost of change in a world plagued by uncertainty is also an obstacle.

And then there's the time investment needed to bring about change. "At times, stakeholders don't understand the reason why some changes have to be implemented," said one respondent. "It might be time-consuming to convince them of the changes."

A perennial problem that resurfaces in this year's survey is the range of requirements of different groups of stakeholders. "We have a number of stakeholders with very different needs and understandings of the current situation, both from an operational but also from a geopolitical perspective," one person said.

"End user stakeholders believe they know better than procurement, as engineering and health and safety are very specific areas of spend and very critical to get right," said another respondent.

"They have spent their whole lives finding out what works, and are worried about causing disruption by making changes that may be worse than the current methods," they added.

A third observed: "Sometimes other teams do not think about the bigger picture and the company as a whole. Thinking can be quite myopic and people like to stick with what they know."

But it's not just stakeholders who present an obstacle to change. With many organisations still in recovery mode from COVID-19, it can be hard to persuade others of the need for transformation.

One procurement professional responded that their biggest obstacle is “management focus towards revenue generation to recover from the impact of COVID-19”. And it was not just change that was put on hold.

“The short-term focus is to make savings wherever possible and hope that the future impacts of reduced maintenance are not substantial,” they added.

A sense of the kind of transformations being undertaken can be gained from the survey’s finding that more than 1 in 10 have outsourced procurement altogether and a similar proportion have outsourced product sourcing.

Outsourcing data, stores management and customer payment services are being undertaken by just over an eighth of UK businesses.

Almost 1 in 10 are using outsourcing to consolidate their supply chain.

Cost saving and a lack of in-house knowledge are among the main reasons given for outsourcing, although more conventional reasons like delivering non-core activities such as printing, complying with regulations and a lack of onsite space are also important factors.

One respondent was quite blunt in their reasoning for outsourcing activities: “Because we don’t want to spend a lot of time and money on data analysis and paying internal workers,” they said.

Analysis

There’s no doubt from this year’s survey that indirect procurement professionals don’t believe that the status quo can endure in a fast-changing world. But how can they go about influencing or even leading change?

Opportunity to drive change in your organisation



Kate Davies, Global Head of Indirect Procurement at RS Group, says it’s important to start with a reality check, and she does not pull her punches. “I don’t necessarily think that procurement teams are as well-equipped as perhaps they think they might be to deliver change across the business,” she says.

“The value procurement teams can bring is not only in delivering results, but in undertaking the role of advocate and educator.

Procurement must start by translating ESG standards into practical forms, by articulating the challenge and using our unique position internally to drive collaboration between procurement, innovation and compliance teams. This is key to enabling the organisation to articulate the journey to stakeholders, including internal functions who need to think about demand differently, and the supplier chain tasked with delivering innovation.

We cannot deliver successful change without a clear and common understanding of the problem in the context of the business’s requirements”.

Marc Hutchinson, CIPS Board member and Global Procurement Director at energy technology company Baker Hughes agrees. Most organisations claim that they want to transform but don’t always invest in the right capability or pace, he says.

“Many organisations aspire to be best-in-class without fully understanding what it entails or investing the resources to be successful,” he adds.

"If you're responsible for delivering a transformation, understand what success looks like in your organisation," says Hutchinson, who is also an ambassador for The Sustainable Procurement Pledge. "You need to understand where your starting point is, and ensure all resources and stakeholders are fully aligned in pursuit of the end goal and the measurable steps required to get there. Executive sponsorship is also key to make it happen effectively."

But educating stakeholders about the benefits of change can be tough, particularly in multi-site businesses. Overall, 41% say managing stakeholders across multiple sites is a day-to-day challenge in controlling purchasing activity around indirect materials like those in the MRO category.

"You need to create a winning alliance because it's really hard to mandate things, particularly in indirects," says Bernhard Raschke, Chief Transformation Officer at RS Group. "Identify where people are looking for savings so you can bake it into the budget. If you help them to achieve their targets, you will create pull from others who are also looking to save money. I think the connection to the budget is a really important enabler for change."

The current business climate is creating opportunities for procurement to lead change, he argues, especially if your change project links to the strategic issues facing the organisation. And he says it's useful to set out a clear scorecard so stakeholders can see the progress you are making.

Martin Wakelin, Head of Indirect Procurement at Müller UK says it's important to understand why some stakeholders resist change. "Operational teams know how to do things best for their site – they absolutely do and we've never debated that.

"But what they may not appreciate is the value that can be had from consolidating spend, consolidating the management overhead, consolidating the performance management of supply across multiple sites.

"Our job as indirect procurement is to enable the business to see the value that we can deliver through a centralised model. And that is one of the hardest things to do because there is a level of inertia that you must overcome before you can make any change."

He says facilities management is a great example. If sites use local contractors, it's likely that they won't have the right insurance or be able to provide cover when they are sick or unable to work. Persuading operational teams to change to a centralised solution is "effectively a sales pitch", he adds.

"So I will be working with suppliers to sell into operations the concept of a few or single suppliers of facilities management. It's about understanding what the needs of the operations teams are and playing to that to ensure that we get their buy-in."

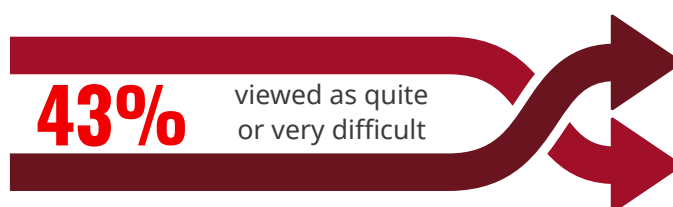
However you go about managing change, the key is persistence, says Emma Botfield, UK & Ireland Managing Director at RS.

"Once you've identified what needs to change, it's important not to be blown off course," she says.

It's easier to deliver a transformation project if you've got high-level support in the form of an active board-level sponsor for the project, she adds. "Don't be afraid to reach out to the senior team and make your case for change," she adds.

Helen Alder, Head of Knowledge & Learning Development at CIPS, says that ultimately the best way for procurement professionals is to "get on the board or influence the board". While that may be an option restricted to only the most senior levels, all procurement people can still step up.

Ease of implementing change



"At a professional level, you've got a massive ability to manage and influence your internal stakeholders and show them the value you can add to them," she says. "So if they're looking for help, go and show them what you can do.

"Try to find somebody that can hear your voice, whether it's the finance director that you're reporting to or the operations director or even the CEO directly. Market yourself effectively and get buy-in from the rest of the business."

Alder draws on personal experience of her time in the NHS. "It was only when I showed them the value I could add that they greeted me with open arms. It was a totally different reception," she recalls.

3 STAYING **SUSTAINABLE** IN A FAST-CHANGING WORLD



In this section:

- ESG at the heart of strategy
- Electric vehicles
- Measuring carbon

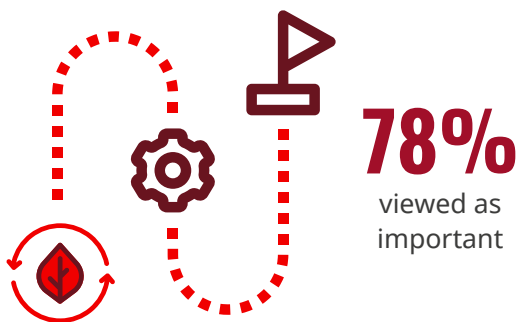
Stakeholders rightly expect all businesses to become ever more sustainable as the UK works towards net zero. Although delivering on environmental, social and governance (ESG) pledges can be tough, indirect procurement is walking the talk.

Last year, sustainable and ethical procurement was the leading business pressure on procurement teams. And ESG criteria is still playing a central part in buying decisions in 2022.

Almost a third of those surveyed said ESG considerations are either important or very important when choosing suppliers, products and services.

ESG remains the single most important strategic objective for the organisations surveyed, with around two-thirds of UK businesses placing it at the heart of their strategy, a five percentage point increase on 2021.

Importance of ESG to deliver your company strategy



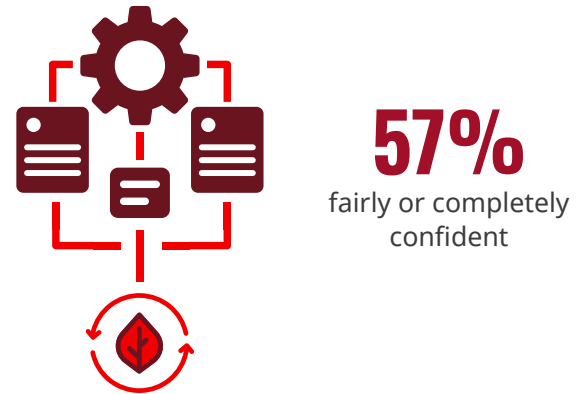
More than 8 in 10 UK organisations say that ESG criteria are either important or very important in their procurement strategy, and a fifth rate it extremely important. Meanwhile, 57% are fairly or completely confident that their procurement team could deliver on their organisation's ESG plans.

One respondent explained how these goals would be achieved: "We plan to measure the whole carbon cost of all products coming on site to act as inputs, to give a carbon measure to each of our products to accurately inform customers' decisions.

"We challenge our supply base to reduce waste, recycle where possible, and give us ideas for continuous improvement so that we can adopt [them] in our shipments into and out of premises."

In our survey, a third of UK respondents said that monitoring suppliers' sustainability practices will be one of the main challenges for indirect procurement over the next 12 months. But only 6% are extremely confident of their ability to audit their suppliers.

Confidence the procurement function can execute ESG plans



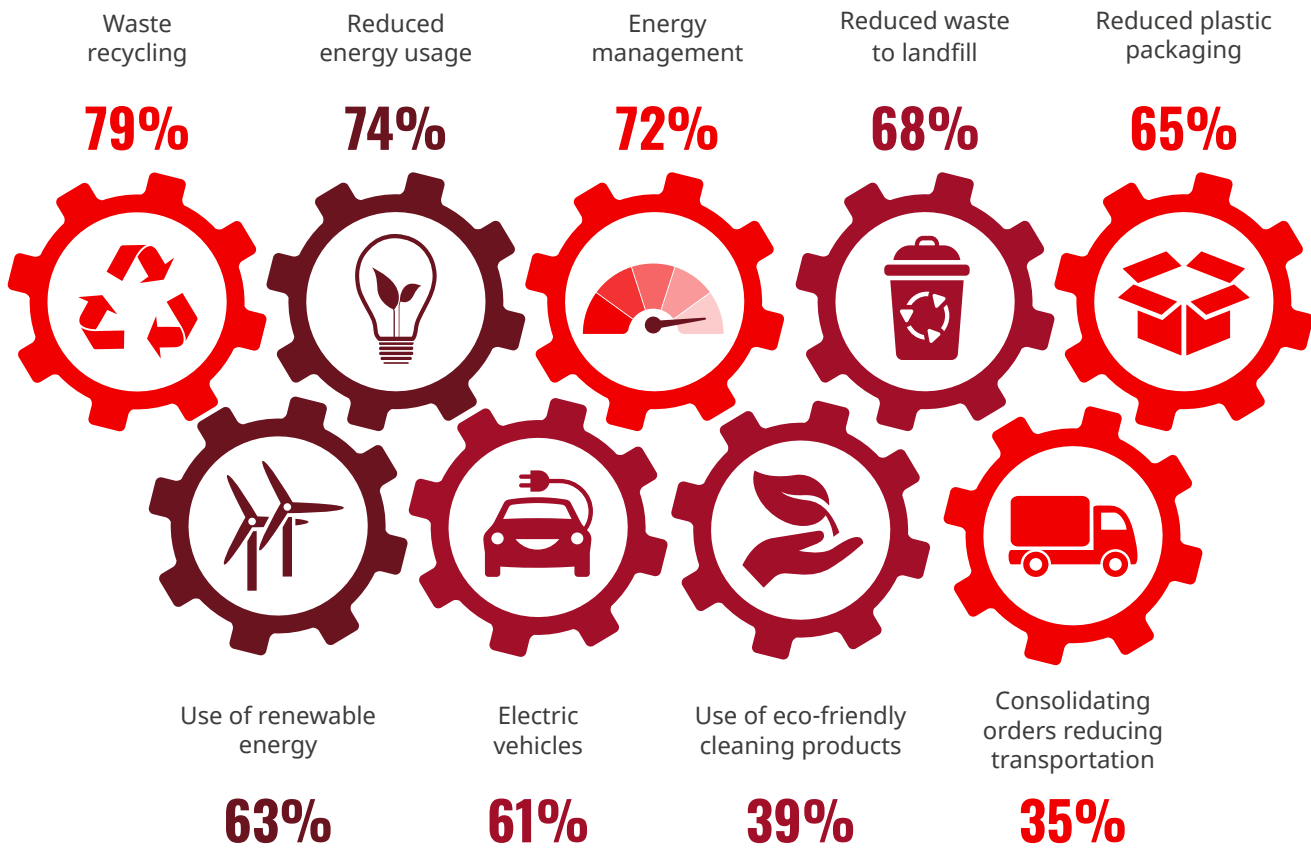
Reducing their carbon footprint has increased in strategic importance for UK businesses. Over half said they have a strategy in place to reduce their emissions, making it the second most important strategic objective after ESG.

The use of electric vehicles (EVs) as a means to reduce company carbon footprints has increased in the UK, rising 20 percentage points on last year.

The public sector leads the way with 90% of organisations switching to EVs, followed by 75% of retailers.

Waste recycling, reducing energy use and energy management are the top three carbon-reducing strategies companies are pursuing. The number of organisations reducing their energy use is 9 percentage points higher than in 2021. On average, companies are each pursuing 6 carbon reduction strategies.

Practices in place to support reduced carbon footprint strategy



Analysis

“ESG is absolutely fundamental to our business,” says Martin Wakelin, Head of Indirect Procurement at Müller UK. “As the indirect team, we are making decisions that can have an impact on ESG for the next 20 to 30 years.”

Whether it’s the environmental impact of a purchase, the labour conditions of those who made it and its component parts way down the supply chain, or the diversity and inclusion of the procurement team itself, ESG is fundamental to the business.

“The decisions we’re making today will affect the next 30 years of operation of a piece of plant. So we have to be very careful that these decisions are compliant and meet expectations around our ESG critical credentials into the future,” Wakelin adds.

It’s vital to ensure that the whole supply chain complies, he adds. Müller is using sustainability ratings service EcoVadis.

“We need to look for hotspots relating to ESG compliance and then manage those hotspots to ensure that suppliers are compliant,” he adds.

“To say that ESG doesn’t matter is an indefensible position,” says Kate Davies, Global Head of Indirect Procurement at RS Group. “There can also be a perception that ESG progress goes hand in hand with increased investment, which isn’t necessarily the case.

“For procurement to perform, we must be more innovative and seek out opportunities to get creative with the levers available to us. An example is the connection between the waste hierarchy and procurement demand management methods. ESG stakeholders and procurement teams can work together to deliver significant benefits.”

She says ESG can also encourage innovation by suppliers. “You are not always going to get the most opportunity from an ESG point of view by telling a supplier exactly what you want.

“Describe your problem and let them help solve it with you. It can be a minefield for procurement professionals to stay ahead of all the innovations, technologies and solutions that are coming out, particularly in indirect, where you have such diverse stakeholder needs.”

The importance to organisations of staying true to their ESG commitments is emphasised by RS Group Chief Transformation Officer Bernhard Raschke. “If you are a publicly listed company, your reputation is mission critical to shareholder value,” he says.

“If you want to become a stock that is invested in by the institutional shareholders, they will look for good ESG ratings. Now there is no function that has more impact on your ESG than your operations, and that is your supply chain.

“If you spend a lot of money on a non-sustainable supplier, then you will not meet your ESG objectives. So I think there’s a really important opportunity to raise the strategic importance of procurement as an enabler to drive the ESG agenda.”

ESG is fundamentally about doing the right thing for people, planet and prosperity, says Marc Hutchinson, CIPS Board member and Global Procurement Director at energy technology company Baker Hughes.

“It isn’t really new,” he says. “This is the continuum from corporate social responsibility which started many years ago and has evolved to include key topics and accountabilities to better society today and provide for our futures.

Procurement is uniquely positioned to drive the ESG agenda within an organisation and the supply chain. The short answer is we must all take ESG seriously,” he adds.

Sustainability also has implications for business resilience. Helen Alder, Head of Knowledge & Learning Development at CIPS, says the two go hand in hand. “To me, it’s all part of running a sustainable business,” she says.

“In terms of actually just having a sustainable supply chain, virtually everything you do, should come into the sustainability camp. Right now, businesses have massive opportunities to transform what they do, whether that’s by the use of electric vehicles, using renewable energies, managing waste or reducing plastic.”

Kate Davies says the process should start close to home. “It’s not always about new suppliers. New solutions from already well-established and high-performing suppliers can offer a reduced lead time to implement. Strategic relationship management must include sharing roadmaps for ESG with the same importance as technology and wider market innovation.

“Measuring ESG progress and performance with your supply chain is critical to understanding and articulating the journey all organisations are on. It can be tempting to use poor ESG progress as a trigger for re-tendering, but methods and measures for calculating progress are evolving quicker than the results of implementing innovations and different ways of working. Depending on the severity of the performance deficit, this makes an even greater case for collaboration by working together to find solutions.”

4 OPTIMISING SUPPLIER MANAGEMENT



In this section:

- Supply chain challenges
- Growth in eProcurement
- Delivery, quality and availability

Supply chain challenges are making it harder than ever to manage suppliers. But if you can get the relationship right, suppliers can be a source of innovation that can transform your business.

Almost half of UK organisations say they have a strategy in place to rationalise the number of suppliers they use to increase efficiency. Although the principles for rationalising your supplier base haven't changed, it can still be a difficult process to complete.

According to the survey, UK companies have an average of 151 direct and 156 indirect suppliers (up by five from 2021). The average for indirect MRO suppliers is a more modest 80 – three fewer than the average in 2021.

Average number of suppliers used



The use of supplier rationalisation as a strategy to improve efficiency is back to its 2018 pre-pandemic level after surging in 2020, when almost two-thirds of businesses sought to reduce supplier numbers in the face of COVID-19 restrictions disrupting supply chains.

The scale of change that some organisations are undertaking is exemplified by a comment from one respondent, who said they are moving to “single or dual sourcing, eliminating more than 50 current suppliers”.

But when it comes to engaging with those suppliers, fewer than 1 in 10 businesses say they actively contract manage more than 75% of their spend on MRO supplies. A quarter actively contract manage 25% or less of their total spend.

Average annual spend on indirect supplies this year is £2.5 million, an increase on last year, although figures vary considerably between different sizes of company. Overall the percentage of indirect spend devoted to MRO has fallen this year by an average of 15%.

Indirect MRO supply spend in the last 12 months

Average Indirect.....



MRO indirect spend for very small companies of 1-49 employees is down by 10% this year to just £300,000. By contrast small, medium and large businesses are increasing their indirect MRO spend by 14-19%.

Against this backdrop you would expect procurement teams to be seeking greater efficiency, and that is exactly what is happening – 41% are using eProcurement to increase procurement efficiency, an increase on 2021.

A quarter are increasing supplier responsibilities while a similar percentage are looking for value-added services or outsourcing MRO procurement to suppliers. Almost a third are using online marketplaces for tendering and orders.

But the expansion of the remit and skills of the procurement function, seen as a solution in previous years, has gone into reverse. Only 23% are now pursuing that strategy – 10 percentage points lower than in 2021.

At the same time the pressure on procurement headcount seems to have eased, with fewer organisations now planning to cut the number of their procurement staff, down from 12% of businesses in 2021 to 9% this year.

Almost two thirds (61%) of those surveyed outsource at least one aspect of their activities, with their reasons including saving money, a lack of in-house skills, a need to improve systems and legal requirements to use third parties in some sectors. Just over a third (39%) don't outsource at all.

Top key performance indicators to manage performance



More than 8 in 10 UK businesses measure supplier performance against KPIs, and the most popular are on-time delivery, quality and availability. A total of 41% of organisations also rate suppliers by their responsiveness, a decline from half last year.

Analysis

It's clear from the survey that supplier management has never been more critical. But it's also apparent that many businesses are not using technology to interact with suppliers and only a small fraction actively manage a majority of their contracts by value.

Helen Alder, Head of Knowledge & Learning Development at CIPS, says some procurement teams have a way to go in supplier relationship management. "You've got to work out where you've got influence with your suppliers," she says.

"Where you've got massive influence and it's a key strategic priority for your business, you might be better off having a one-to-one relationship with the direct source."

Being a priority customer can have many benefits, she says, ranging from greater security of supply when supply chains come under stress and the ability to secure value-added services.

In an era of rising material costs, which mean no supplier can afford to discount, Alder says service and quality – two of the leading KPIs identified in the survey – come to the fore. "You need to work out the best strategy to meet the needs of your business," she adds.

"Some companies have massive tail spends and managing that is a bit of a nightmare," she adds. "Using a distributor might actually be a better solution because the distributor has much bigger buying power and could give you the security of supply that you can't get because you can't order enough."

CIPS Board member Marc Hutchinson adds: "In my experience, suppliers have always been open to and wanting to share products, services and technology innovations and to invite collaboration. In the main it's the receiving party who does not always make it easy for suppliers to engage in an effective way. Collaboration is good and is key to success in the right relationship."

RS Group Chief Transformation Officer Bernhard Raschke says it's important to know when suppliers can add value and when they can't. "If it's something you can specify to the exact point in a highly competitive supply market, that should be treated as a commodity and sourced accordingly – I wouldn't necessarily waste my time there to drive supplier collaboration.

"But if you think about something where they can bring innovation to you, it comes down to goodwill. To do that you need good relationships, so you can really invest in the relationship because that supplier will stick with you in good and bad times," he adds.

"I think supplier goodwill is a really tangible asset to invest in. And by the way, let's look at the opportunity to do joint process improvement. Both companies can improve by looking at forecasting, changing batch sizes, whatever it might be."

When it comes to empowering end users, he says that using technology to diffuse power to the business is vital. In his view, procurement should be advising the business rather than controlling it.

"What I think is needed is a hybrid model, where deep category expertise is built into where the money's being spent. Because procurement doesn't actually spend any money itself – procurement enables the business to spend money," he says.

This self-service approach uses technology to embed procurement best practice in the decisions that end users are then free to take about what to buy while providing the procurement team with data about what is being spent and where.

This approach is one solution to the perennial challenge of managing ad hoc purchases by end users. "Generally speaking, they're not trying to be malicious. They're not trying to bypass the system. They're just trying to get the job done and do it in the easiest way for them," says Martin Wakelin, Head of Indirect Procurement at Müller UK.

He says that supplier consolidation and establishing clear line channels for the placing of one-off orders can make life simpler for all concerned, although he admits that sometimes enforcement is needed to ensure agreed processes are followed.

For Müller, the solution is rolling out an eProcurement solution that allows end users to get what they need quickly and cost-effectively, avoiding the temptation to buy off-contract.

All his suppliers are required to sign up to the company's supplier code of conduct, and the technology allows his team to see what is being purchased in real time. "We make it easy for the end users and suppliers to be compliant," he adds. "That's the best of both worlds for everybody."

5 TAKING TECHNOLOGY TO THE NEXT LEVEL



In this section:

- Procurement leads the way
- Supply chain transparency
- Industry 4.0 beckons

As organisations embrace digital transformation, the opportunities to make indirect procurement more efficient seem to multiply. And in many organisations, it's the procurement team that's leading the charge.

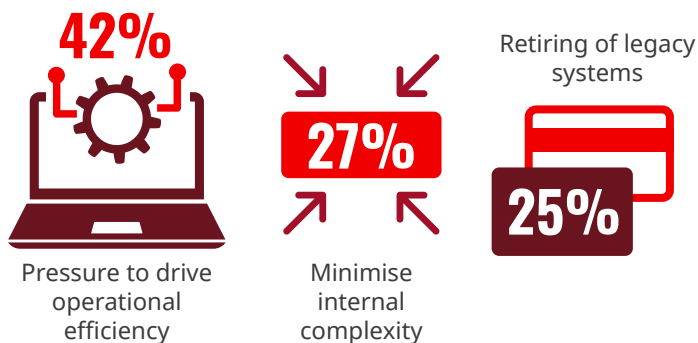
Pressure to improve operational efficiency and the need to minimise internal complexity are the key drivers for adopting new technology in MRO procurement. In the UK especially, the retirement of legacy systems is also forcing teams to adopt new technology.

The vast majority of MRO procurement managers reported that their team is progressing with digital transformation at the same speed or even faster than other departments. One said simply: "Procurement is ahead of the pack."

Another added that MRO is "probably better than other functions through more proactive transformational leadership in adopting and implementing best practice procurement systems and processes".

A minority who feel they are lagging behind other parts of the business cited costs, a lack of investment, system barriers or procurement needs not being prioritised. "We are slow to innovate," said one. "Many legacy systems [are] in place because they 'work'."

Top reasons for adopting new technology within procurement



Top digital procurement services used



For UK procurement people, the number one benefit of digital procurement is improved spend visibility followed by better management information and reduced order process costs.

One listed the benefits they had experienced as: happier users; removing tedious tasks; significant return on investment; better decision-making; improved agility; and cost savings.

"It's safe to say that tossing out the pen and paper and replacing it with a customisable dashboard and real-time alerts would make any procurement officer happy," they added.

Another said: "Digital systems, depending on the quality, can reach 100% perfection. Although the procurement function is more complex, digital systems can assure transparency and time management."

And the benefits don't stop at the purchase-to-pay process. "Proper procurement management also enables a company to make the most of warranties and discounts that are often forgotten," said one procurement manager.

Not that the procurement teams are complacent about the challenges of digital transformation. "Pivoting a business still awash with analogue record-keeping practices can be time-consuming, to say the least," said one.

"An operation that has fully adopted a digital transformation can make changes in the system that will immediately be distributed to all important areas," they added.

The digital revolution is clearly gaining pace across the UK, where more companies have a strategy in place for Industry 4.0 and industrial vending than last year. The use of spend management systems is increasing as is the amount of training for end users to use new purchasing systems.

Almost half now have eProcurement systems in place that allow end users to make purchases, while 43% allow stakeholders to raise invoices with suppliers. Nearly three-quarters manage spend through enterprise resource planning (ERP) systems, while 54% rely on supplier reporting.

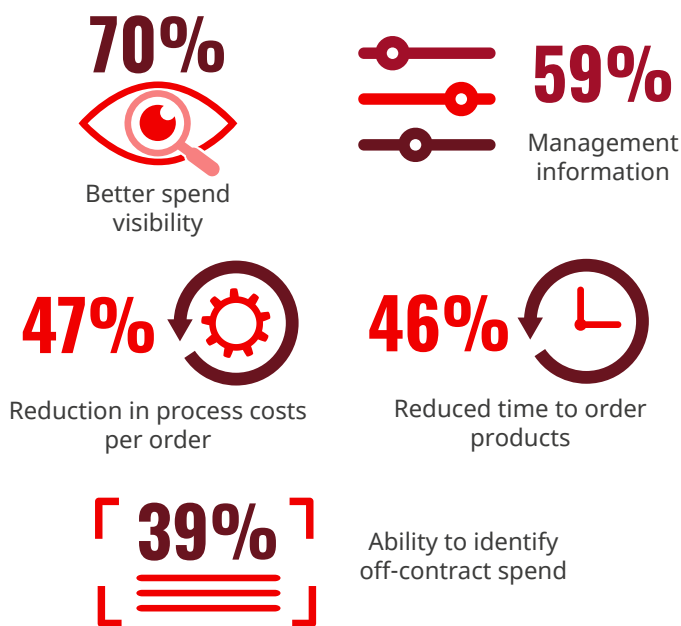
Of the digital procurement services being used in the UK, the most popular was Amazon Marketplace, used by 37%, followed by eProcurement tools like SAP Ariba and Jagger.

Analysis

Imagine a single dashboard on your screen showing how your entire indirect procurement operation is working, flagging up exceptions and providing a running total of committed spend.

Even better, end users are able to order what they need without resorting to off-contract deals. Everything dovetails into the organisation's ERP system so purchase orders are raised and goods receipted before invoices are paid, without involving a single piece of paper.

Benefits of a digital procurement service



Sadly, not every organisation is able to move to this vision of procurement heaven. Some simply can't afford the implementation of an enterprise-wide solution. Others struggle to get buy-in across the organisation.

Helen Alder, Head of Knowledge & Learning Development at CIPS, says that in some companies the pandemic has held back a digital transition, rather than accelerating it. "Some people started to try and implement new technology when COVID hit and it's actually slowed everything down," she says.

"Right now, the digital transition might have gone the other way. Although having said that, I think, in terms of introducing efficiencies, technology is the future in procurement and these projects will restart."

And it's not just about improved efficiency. Alder says eProcurement systems can improve transparency across the supply chain, building a picture not only of the ultimate source of some components, but showing how far they have travelled.

"It can be a massive eye-opener if you thought your parts came from China and suddenly realised they actually come from the Philippines. With better data you have the assurance that you're buying what you think you're buying."

But how do you start a digital transition? Bernhard Raschke, RS Group Chief Transformation Officer, says: "The first thing to do is to create a clear understanding of where the biggest potential is. You need to look at the ease of implementation and the impact, and organise your opportunities accordingly."

"You don't necessarily start with something that is politically very difficult to do. It's a classic – if you start with travel, everyone will be upset. That's why you start with office supplies."

"It's important that procurement knows more about the business than the business knows about procurement. I think that's a guideline for every procurement leader. They should talk business language. Put a few runs on the scoreboard, demonstrate value and people will follow you."

Kate Davies, Global Head of Indirect Procurement at RS Group, adds that it's vital to ensure that when digital transformation is being planned, procurement must be "IT's best friend".

She adds: "You need the people who actually operate those processes, live and breathe them every day, to be the ones that are saying whether a tool works. You need a cross-functional team in which all the business functions have a say. It should be led by the people who have to live with the consequences of whatever is being built."



CONCLUSION

Today's challenges demand that we take control as the pressure rises and transform MRO procurement. To drive this change in an organisation, it is vital to engage all stakeholders, from engineers to suppliers.

Technology will make change a reality, and procurement professionals are already demonstrating that they are leaders of that change. It's going to be tough. There are so many moving parts involved.

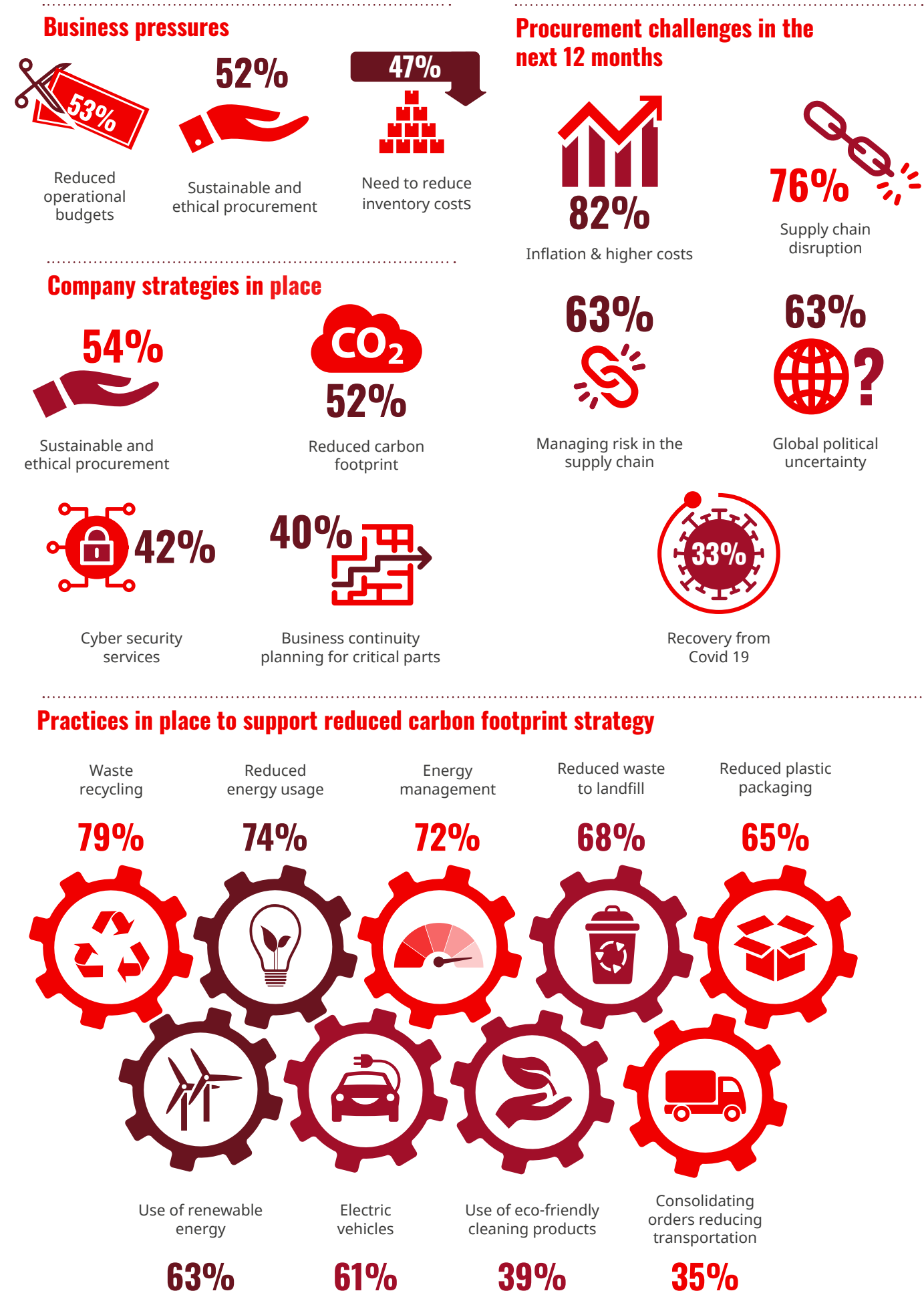
Whether it's delivering ESG goals while achieving cost savings, supporting engineers to maintain asset uptime despite supply chain interruptions, or the need to work closely with stakeholders, indirect procurement teams are rising to the challenge.

Good relationships between procurement and engineering are also essential to spotting innovations in the market, capturing changing requirements and ensuring compliance with procurement policies.

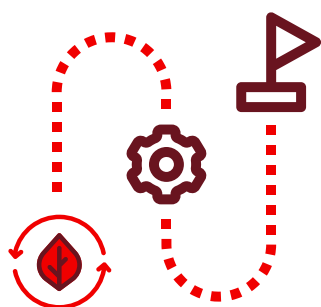
But this year's survey demonstrates beyond doubt the central role of indirect MRO procurement in transforming UK business to thrive in an uncertain future.

RS has expert advisers available to talk through the challenges at hand and discuss how we can help organisations like yours. If you would like a conversation, please email us at connectedthinking@rs.rsgroup.com.

SUMMARY



Importance of ESG to deliver your company strategy



78%
viewed as important

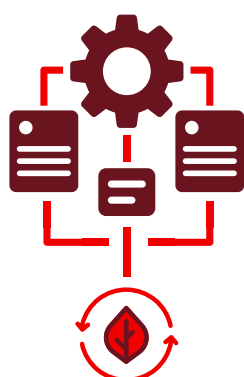
Are counterfeit products a problem for indirect materials such as those in the MRO category?



fake

78%
viewed as not a problem

Confidence the procurement function can execute ESG plans



57%
fairly or completely confident

Day-to-day challenges



Delivering annualised savings

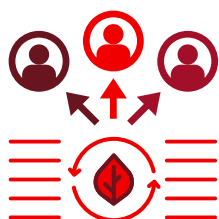


45% Maintaining ageing assets



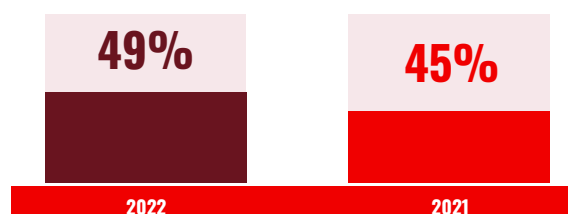
44%
Ensuring contract compliance with preferred suppliers

Importance of ESG criteria in your organisation's selection of suppliers



74%
viewed as important

Procurement efficiency strategy



Supplier rationalisation



Automating transactional tasks through eProcurement

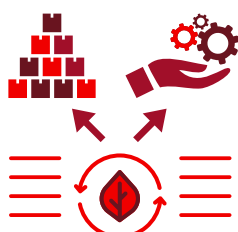
41%



Using online marketplaces for tenders and ordering

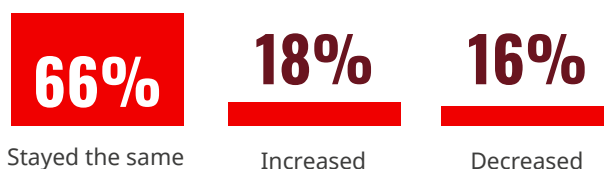
30%

Importance of ESG criteria in your organisation's selection of products and services



77%
viewed as important

Downtime of key assets in the last 12 months



Stayed the same

Increased

Decreased

Anticipated drivers of downtime in the next 12 months



30%

Supply chain problems



29%

Lead time to get hold of parts

18%

Ageing assets



Importance of reliability services and predictive maintenance regimes

42%



High

33%



Medium

15%



Critical

10%



Low



Ease of implementing change

43%

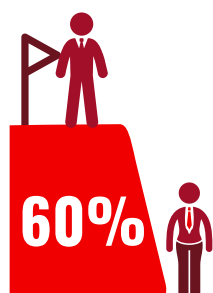
viewed as quite or very difficult



Opportunity to drive change in your organisation

feel confident to influence change

60%



Stakeholders involved in change and transformation practices



7

average number of stakeholders involved

Department functions involved in change and transformation practices

82%



Operations

77%



Procurement

71%



Finance



62%

Maintenance engineering

50%



H&S/
Regulatory/
Quality



28%

Transformation/
Change

Auditing suppliers



51%

fairly or completely confident

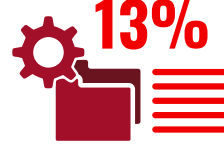
Business processes outsourced

13%



Stores
Management

13%



Data Management,
reporting and
information



11%

Product sourcing

Average number of suppliers used

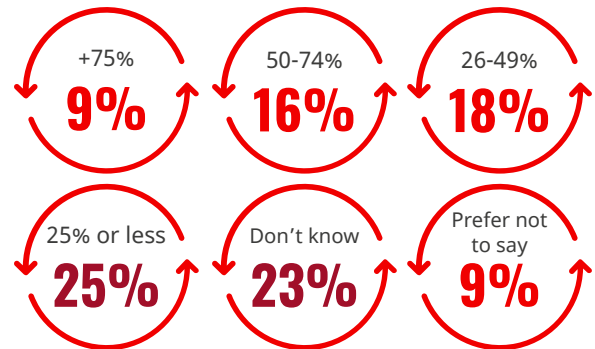


Indirect MRO supply spend in the last 12 months

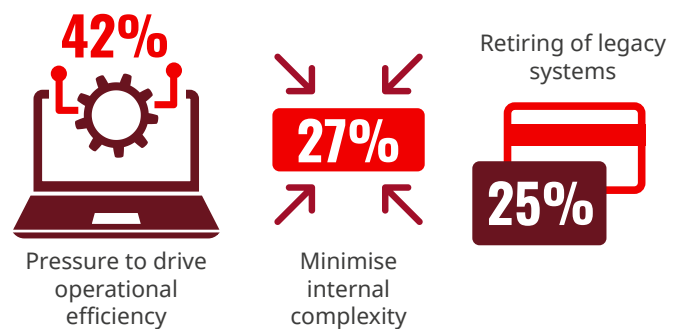
Average Indirect....



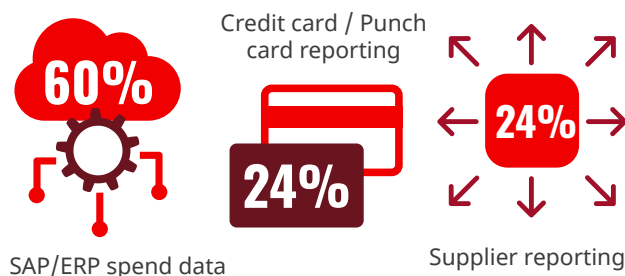
MRO spend actively contract managed



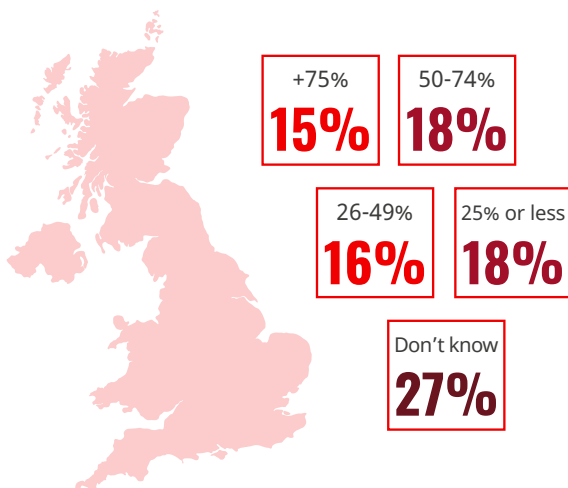
Top reasons for adopting new technology within procurement



Data sources to managed spend



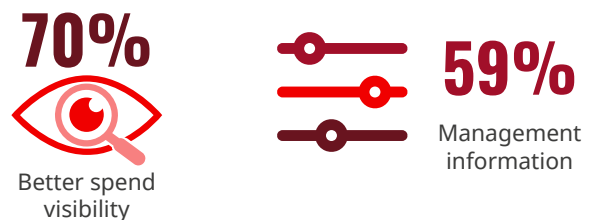
% of supply base local to UK market



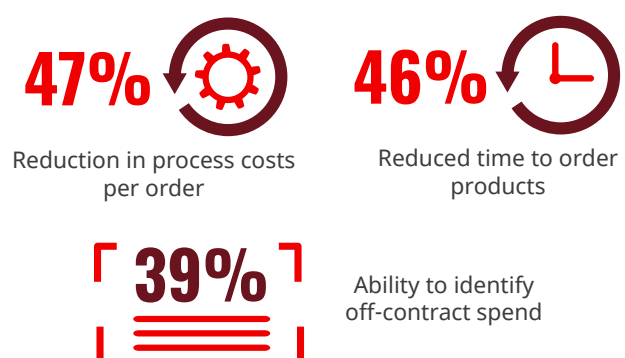
Top digital procurement services used



Benefits of a digital procurement service

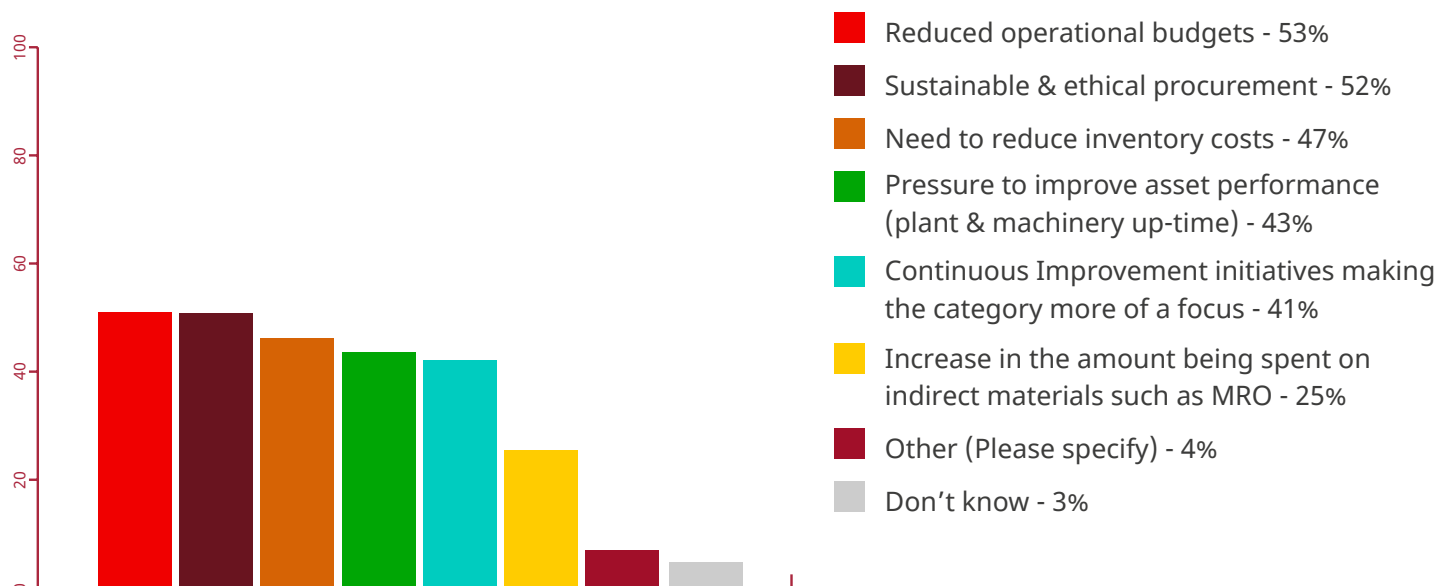


Top key performance indicators to manage performance

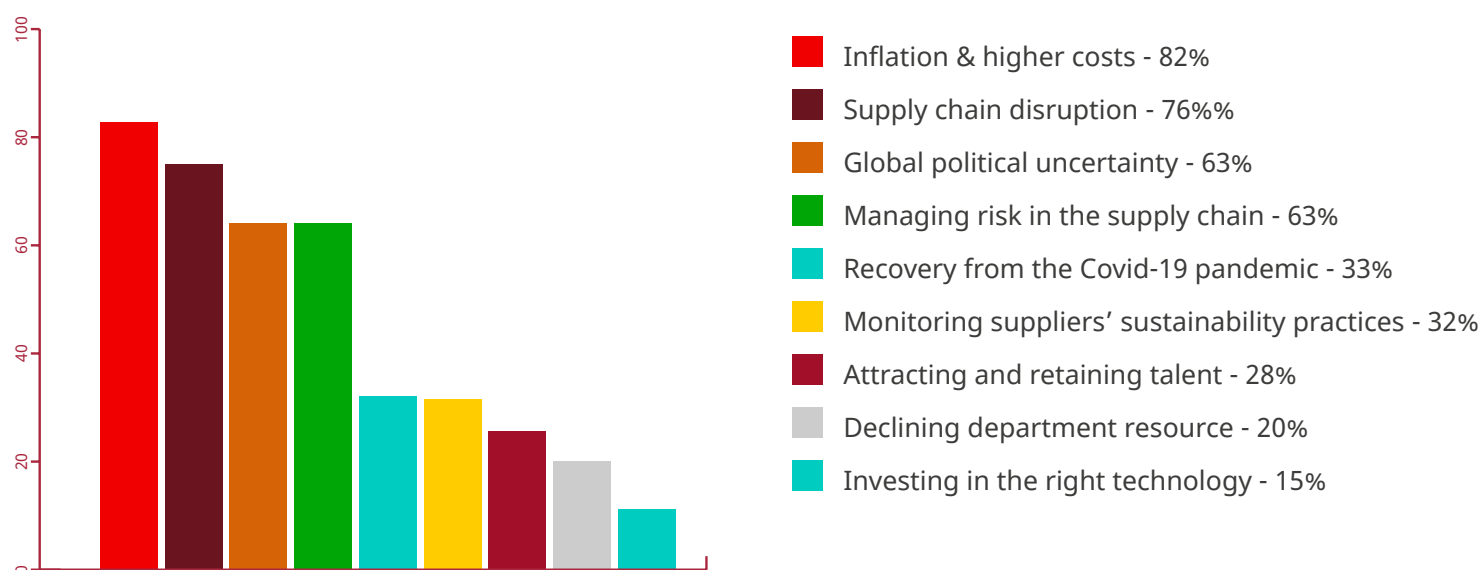


DATA

Business pressures

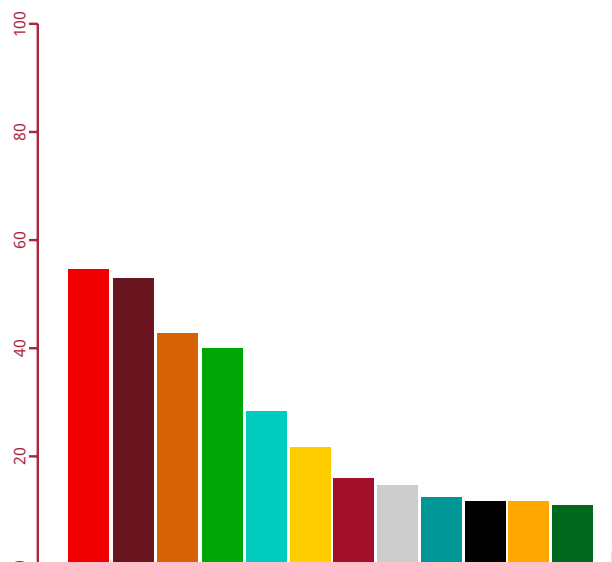


Procurement challenges in the next 12 months



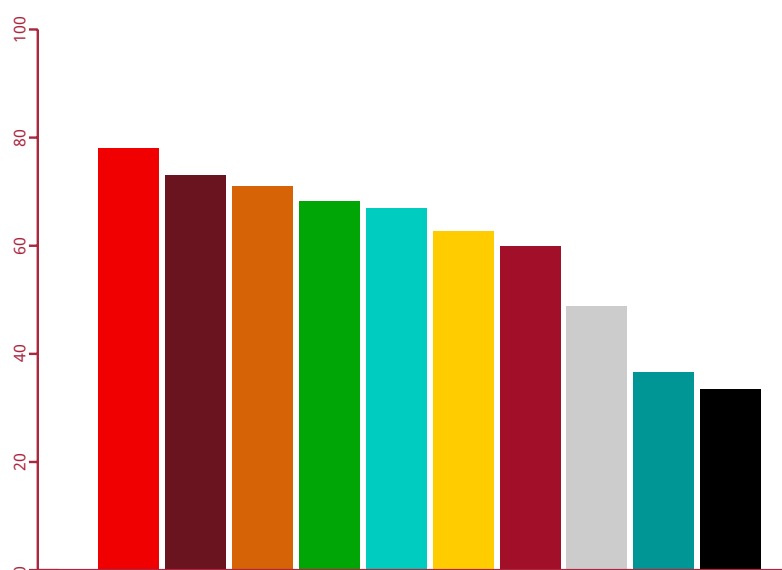
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Company strategies in place



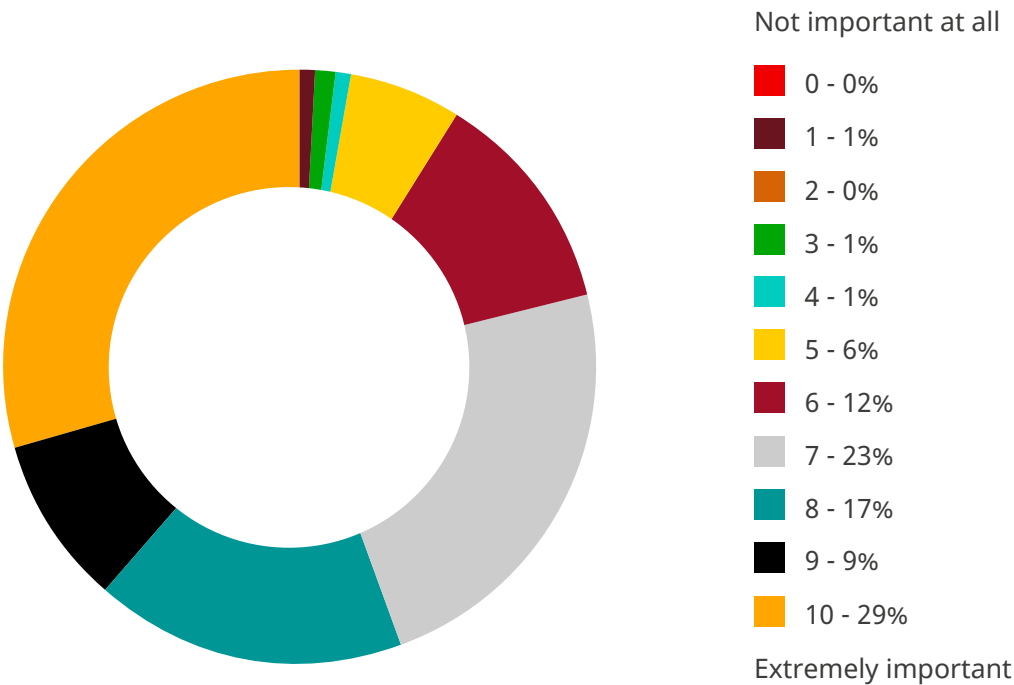
- Sustainable and ethical procurement - 54%
- Reduced carbon footprint - 52%
- Cyber security services - 42%
- Business continuity planning for critical parts - 40%
- Calibration of Test & Measurement Equipment - 30%
- Use of Vendor Managed Inventory for fast moving, low value MRO parts - 22%
- Industrial cloud computing - 16%
- Condition monitoring - 15%
- Use of Industrial Vending - 13%
- Outsourced Management of Engineering Stores - 11%
- Lubrication (of assets / oil analysis) - 11%
- Industry 4.0 / Industrial Internet of Things (IIoT) - 10%

Practices in place to support a reduced carbon footprint strategy

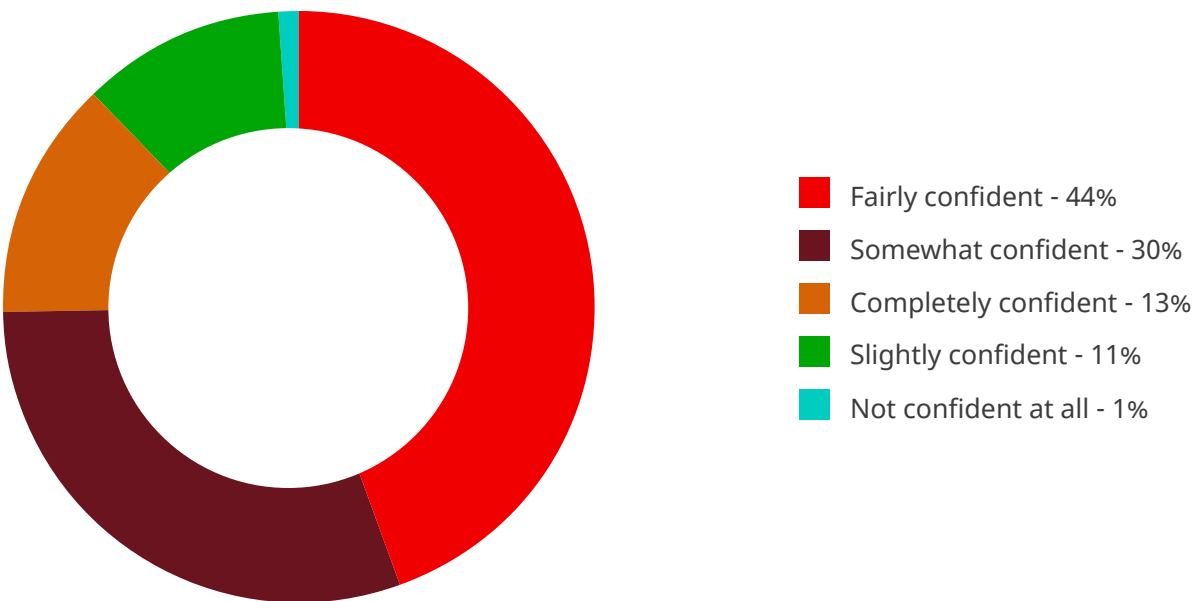


- Waste recycling - 79%
- Reduced energy usage - 74%
- Energy management - 72%
- Reduced waste to landfill - 68%
- Reduced plastic packaging - 65%
- Use of renewable energy - 63%
- Electric vehicles - 61%
- Reduced water usage - 46%
- The use of eco-friendly cleaning products - 39%
- Consolidating/combining orders reducing transportation - 35%

Importance of ESG to deliver your company strategy

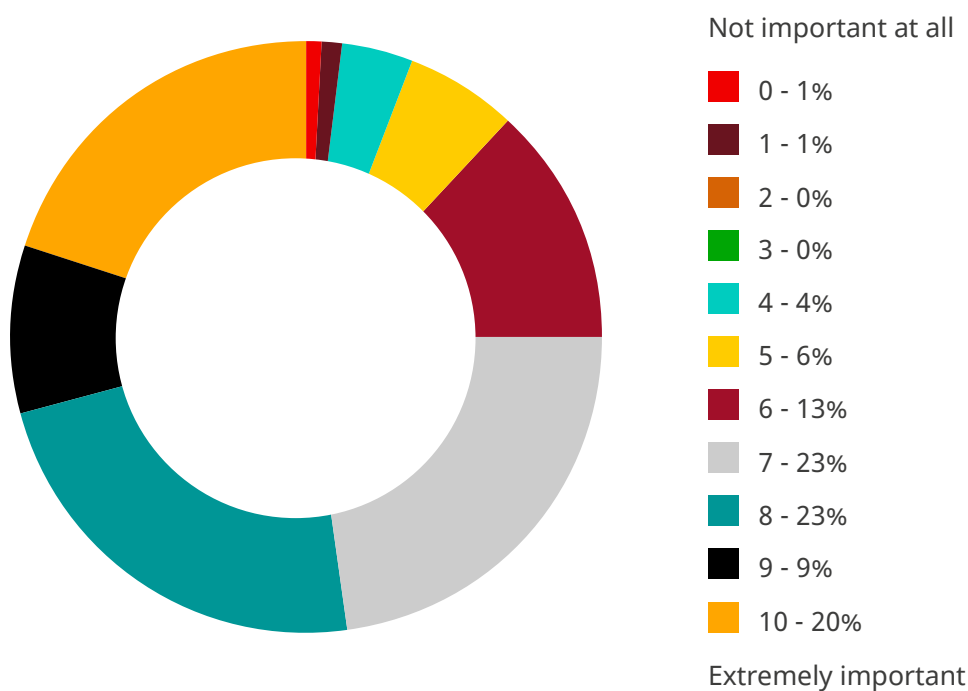


Confidence the procurement function can execute ESG plans

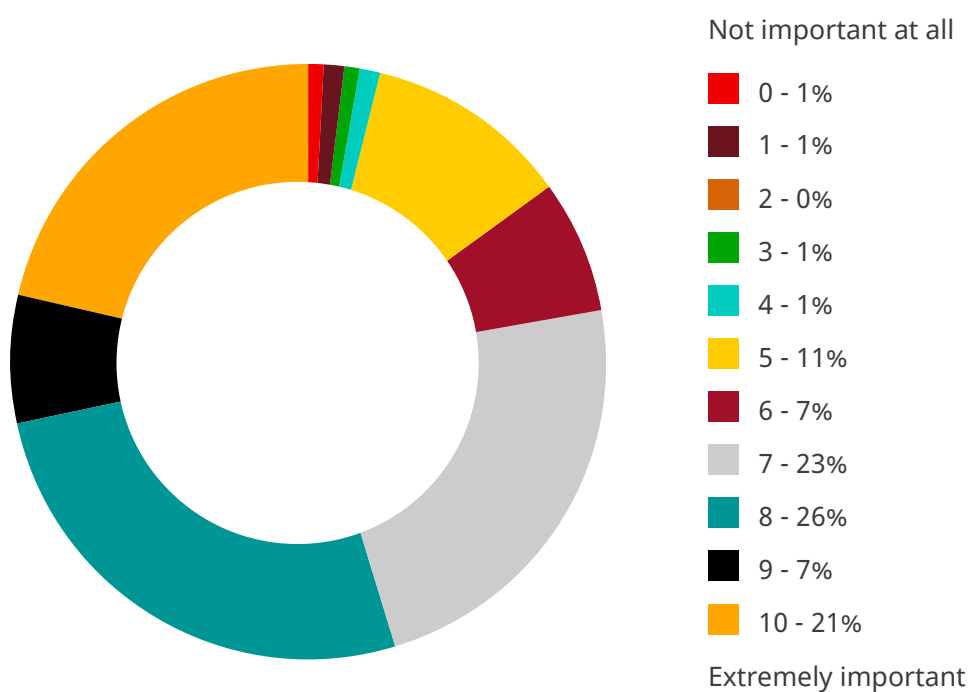


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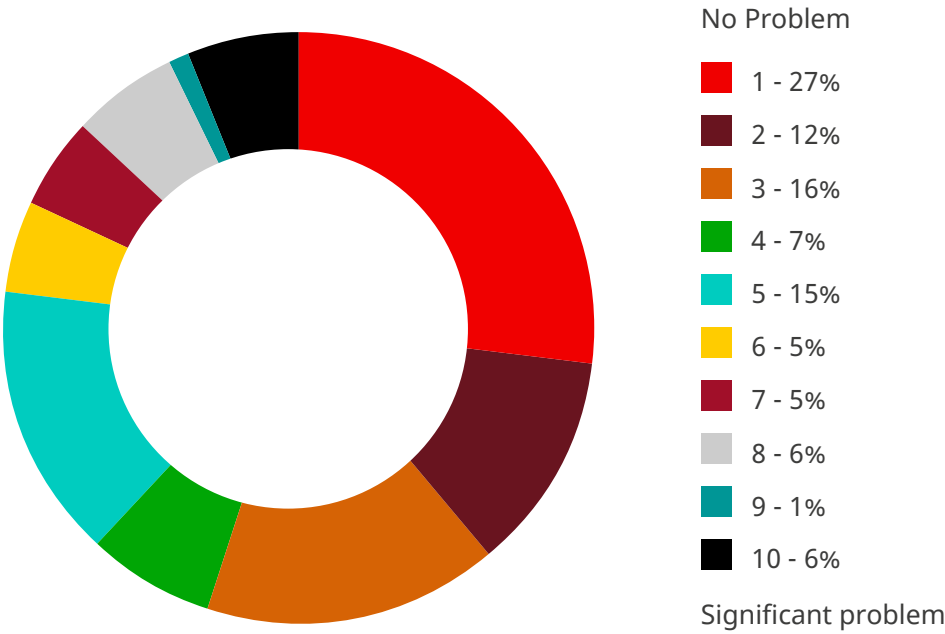
Importance of ESG criteria in your organisation's selection of suppliers



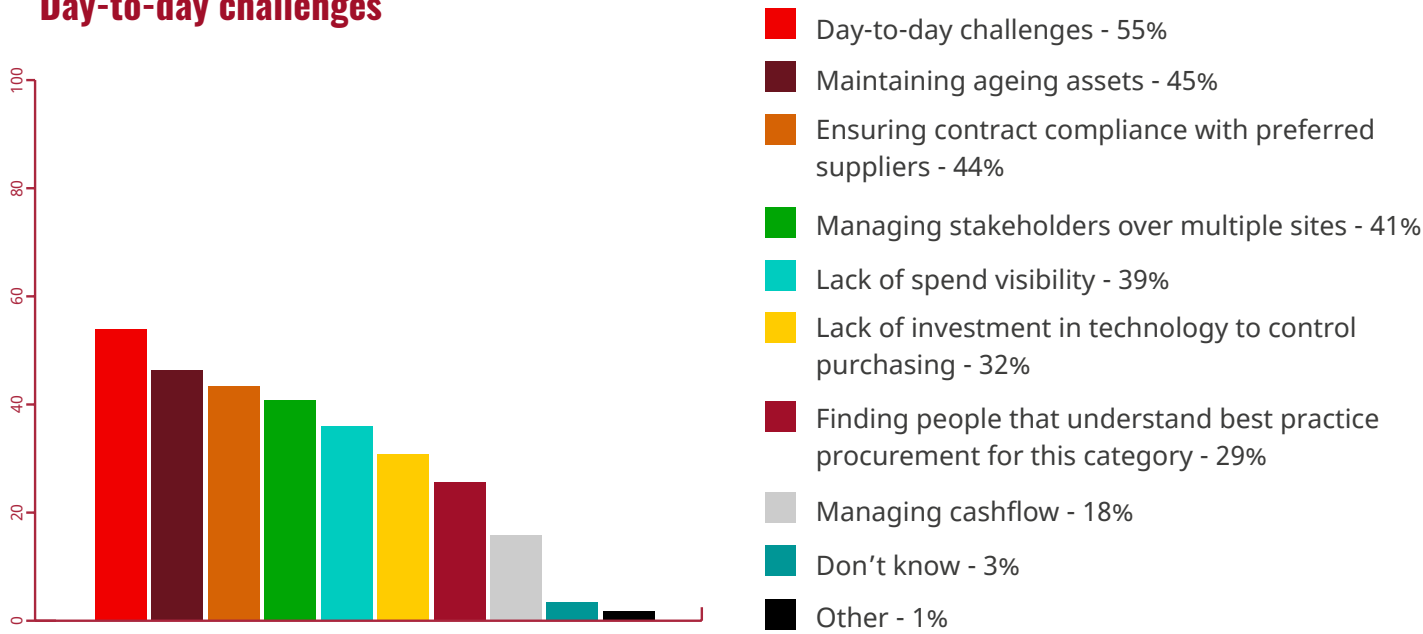
Importance of ESG criteria in your organisation's selection of product and services



Are counterfeit products a problem for indirect materials such as those in the MRO category?



Day-to-day challenges

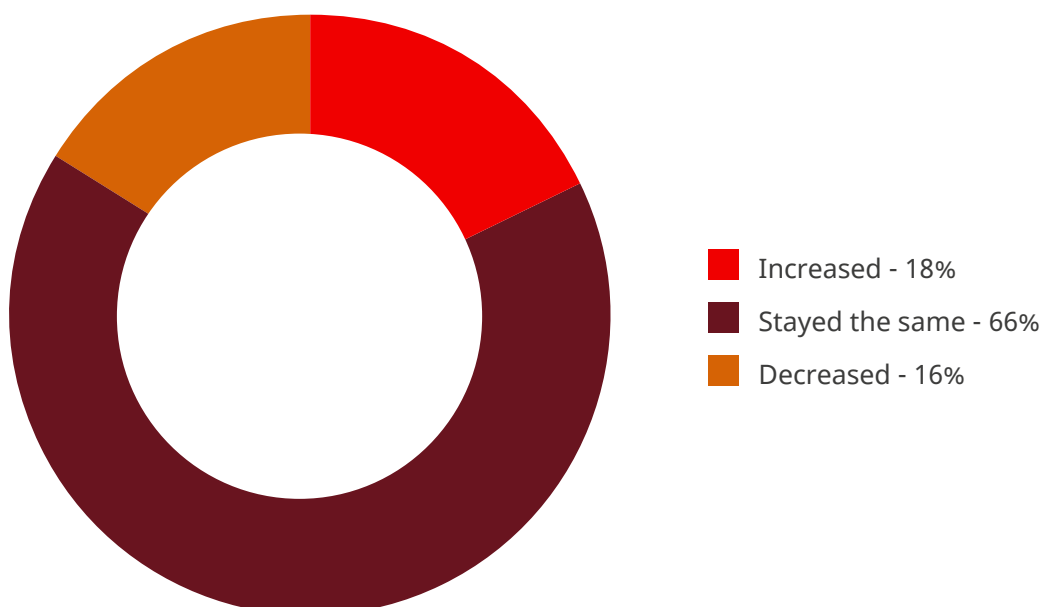


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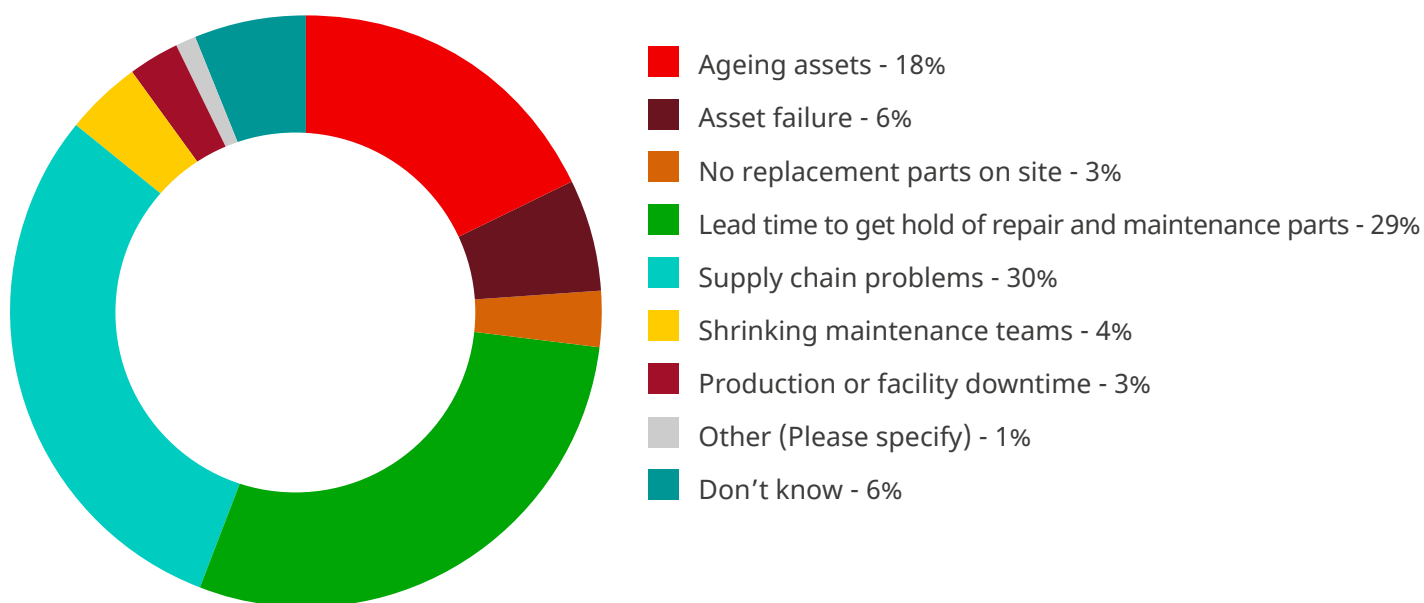
Procurement efficiency strategy



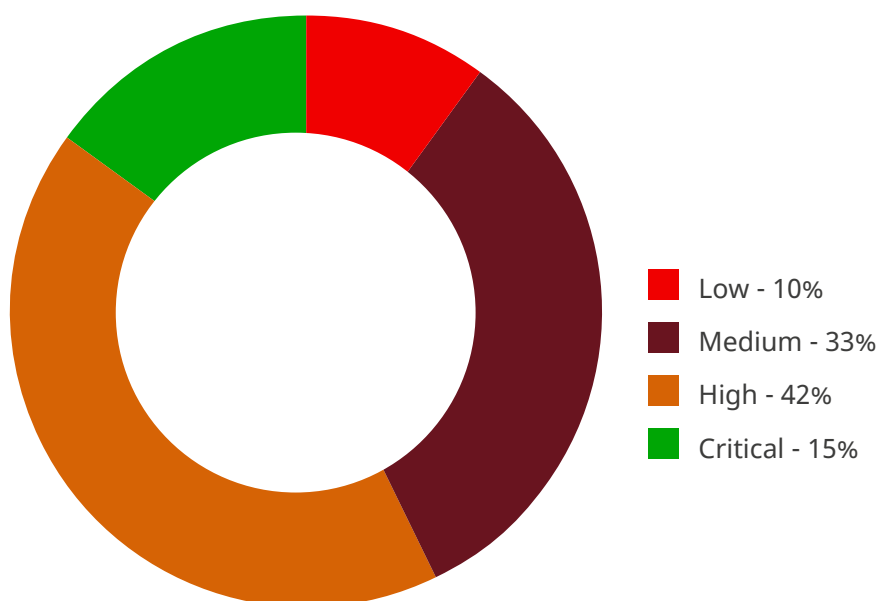
Downtime of key assets in the last 12 months



Anticipated drivers of downtime in the next 12 months

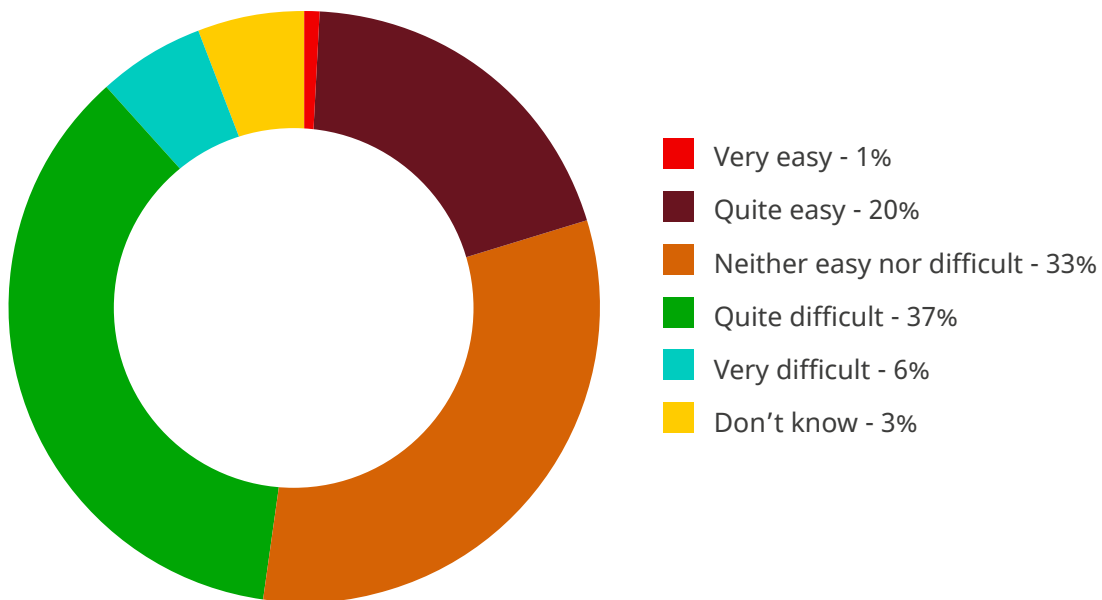


Importance of reliability services and predictive maintenance regimes

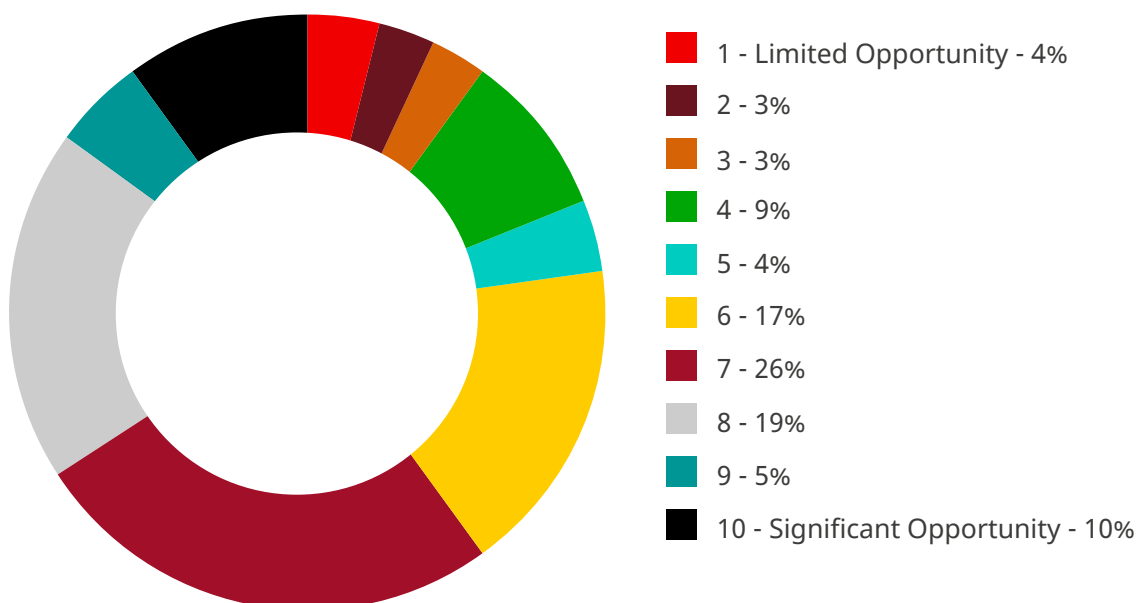


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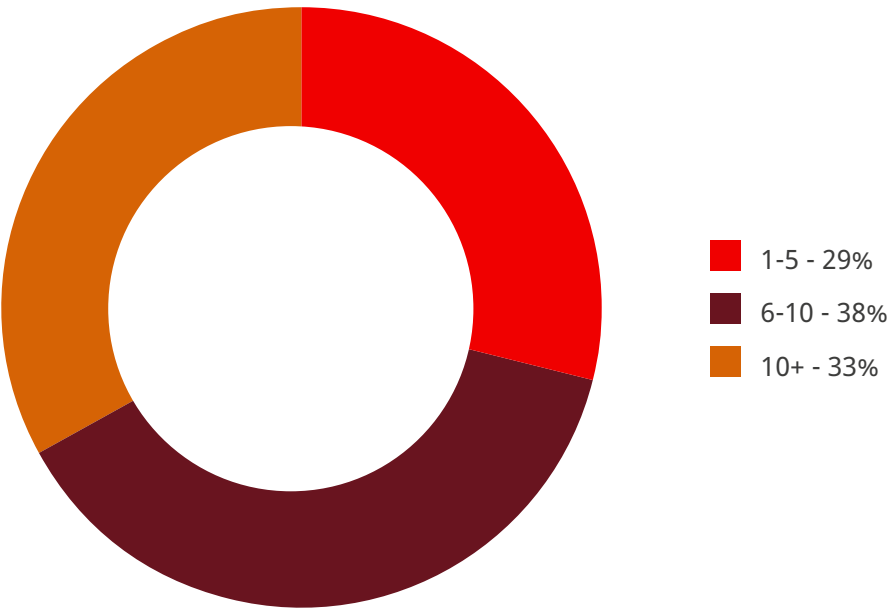
Ease of implementing change



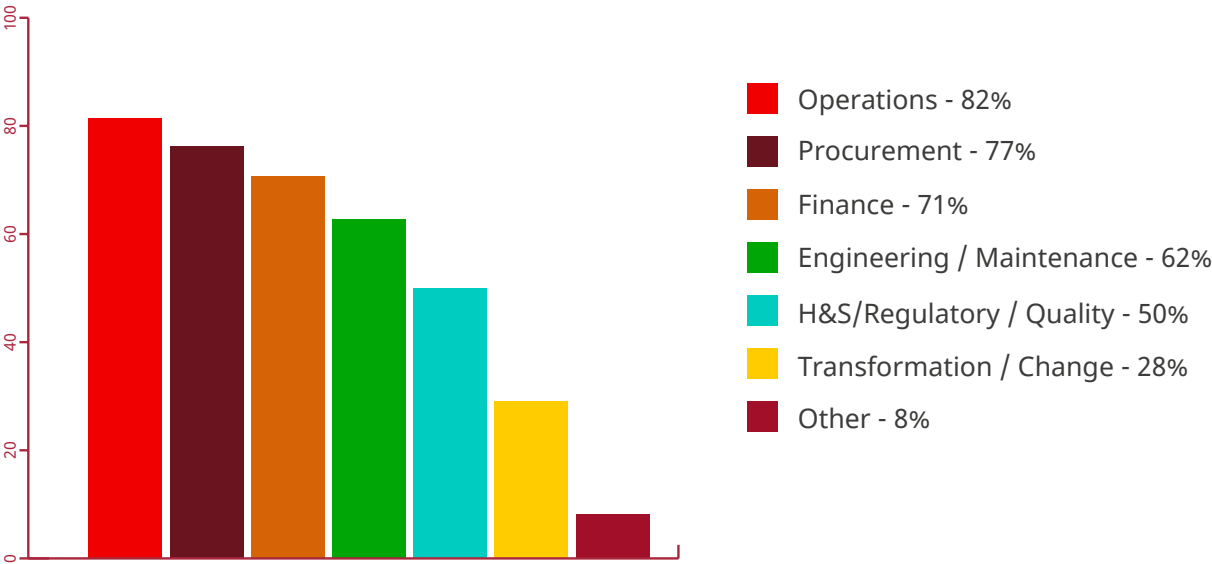
Opportunity to drive change in your organisation



Stakeholders involved in change and transformation practices

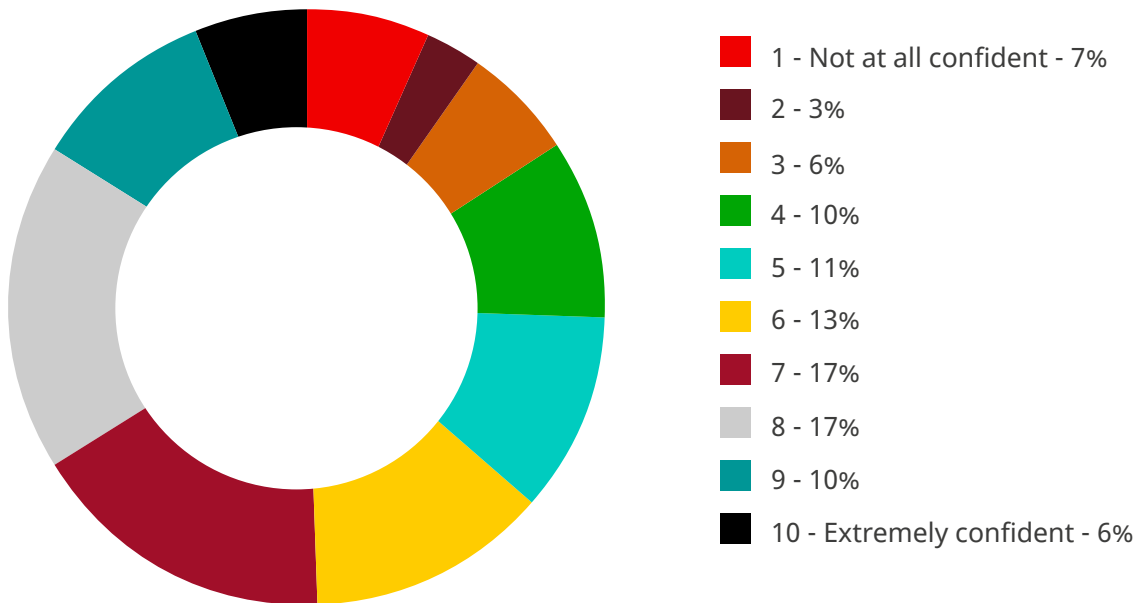


Department functions involved in change and transformation practices

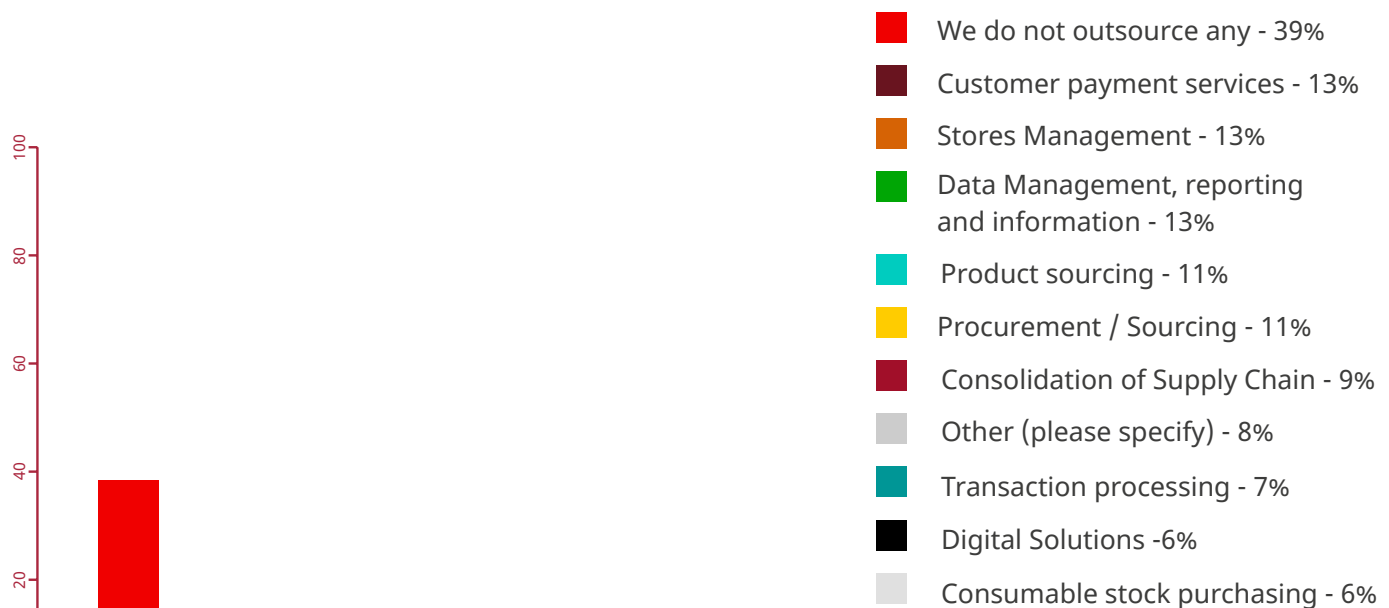


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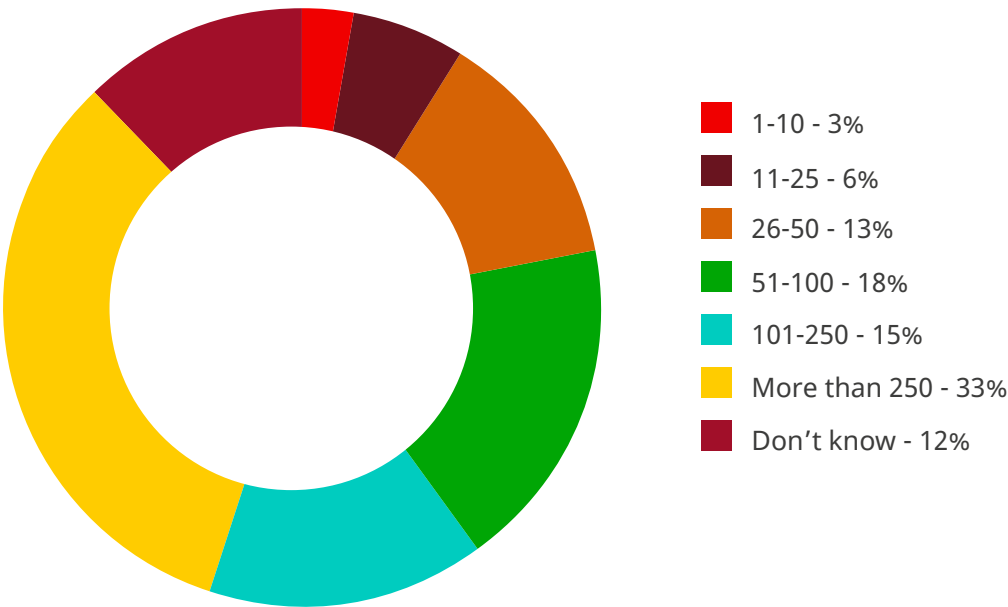
How confident are you in the ability and processes in place within your business to audit your supplier



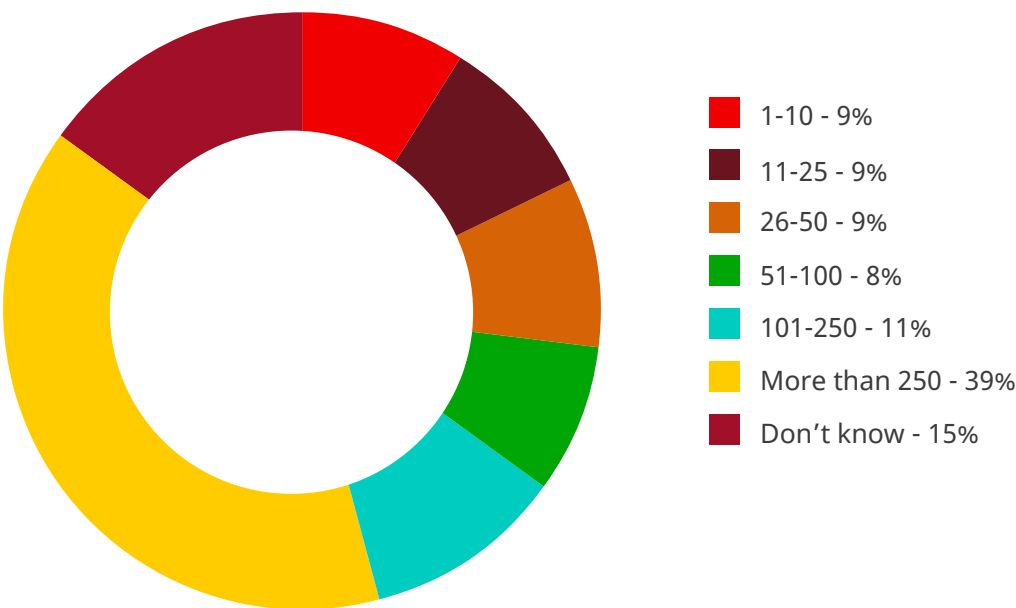
Business processes outsourced



Average number of suppliers used

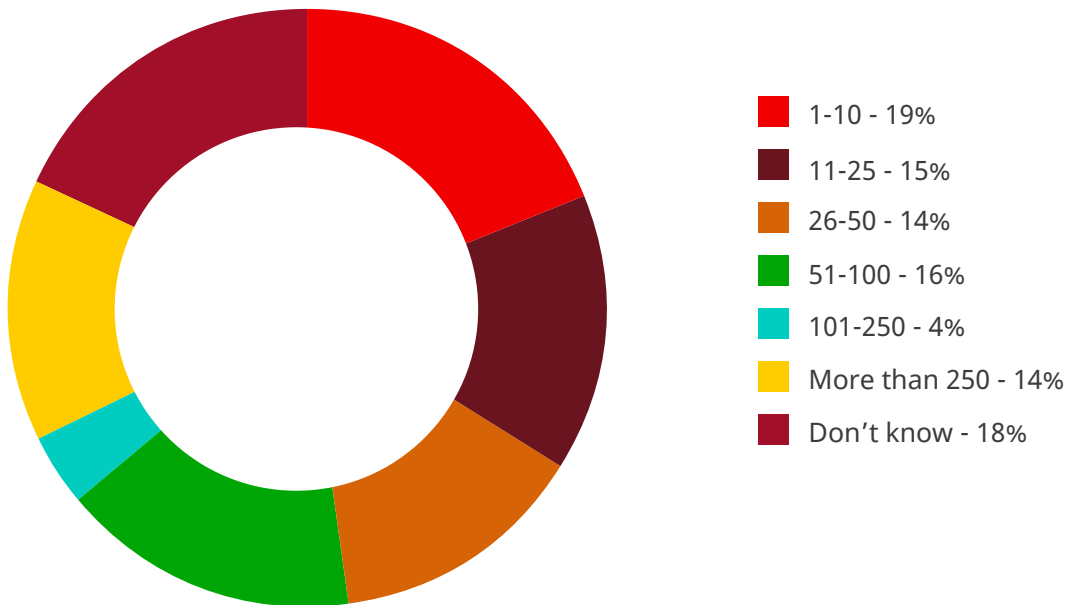


Indirect

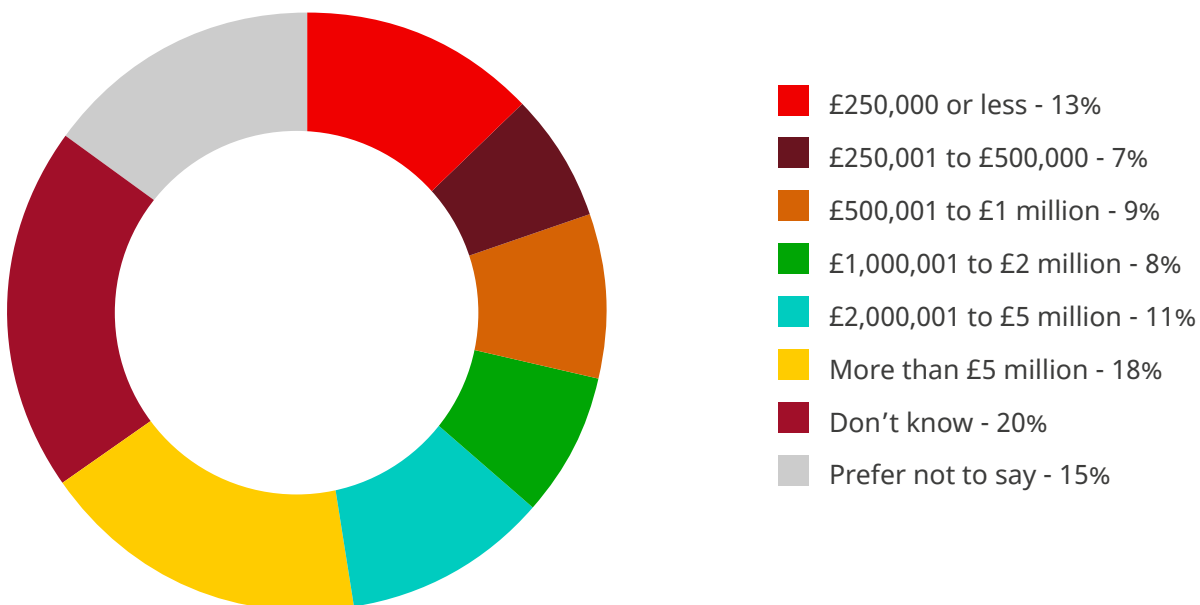


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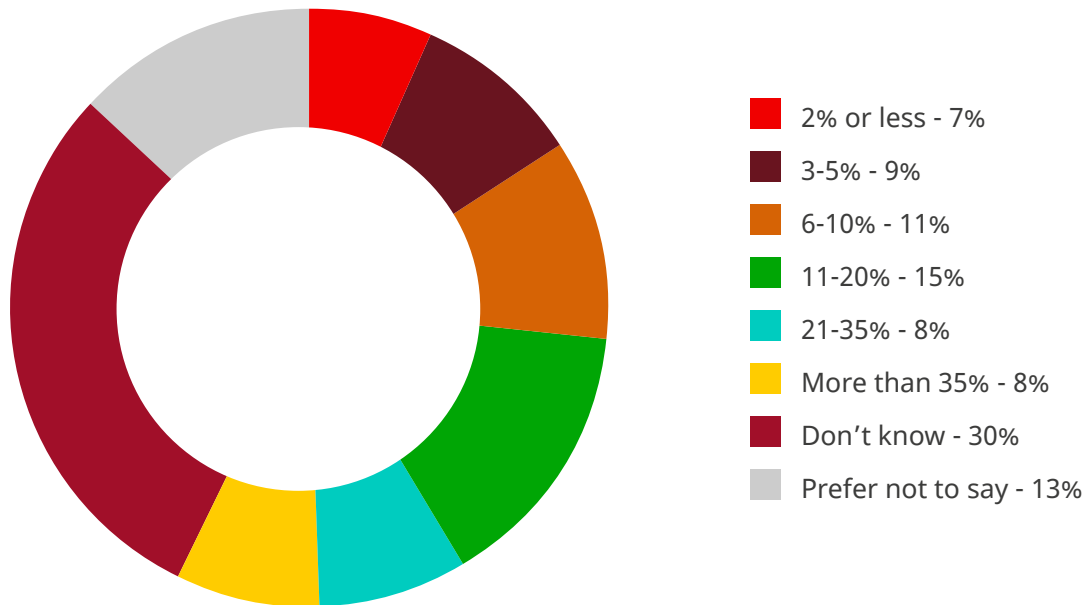
MRO



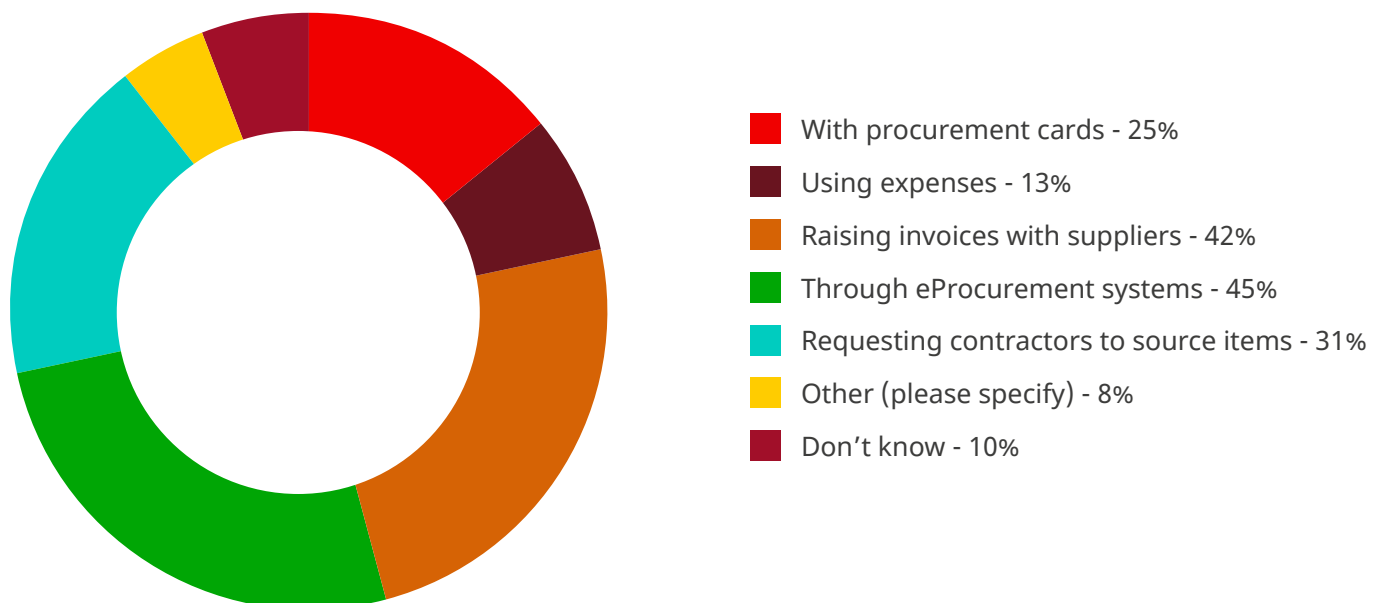
Average Indirect MRO supply spend in the last 12 months



And, approximately what percentage of your overall indirect costs is spent on indirect MRO supplies?

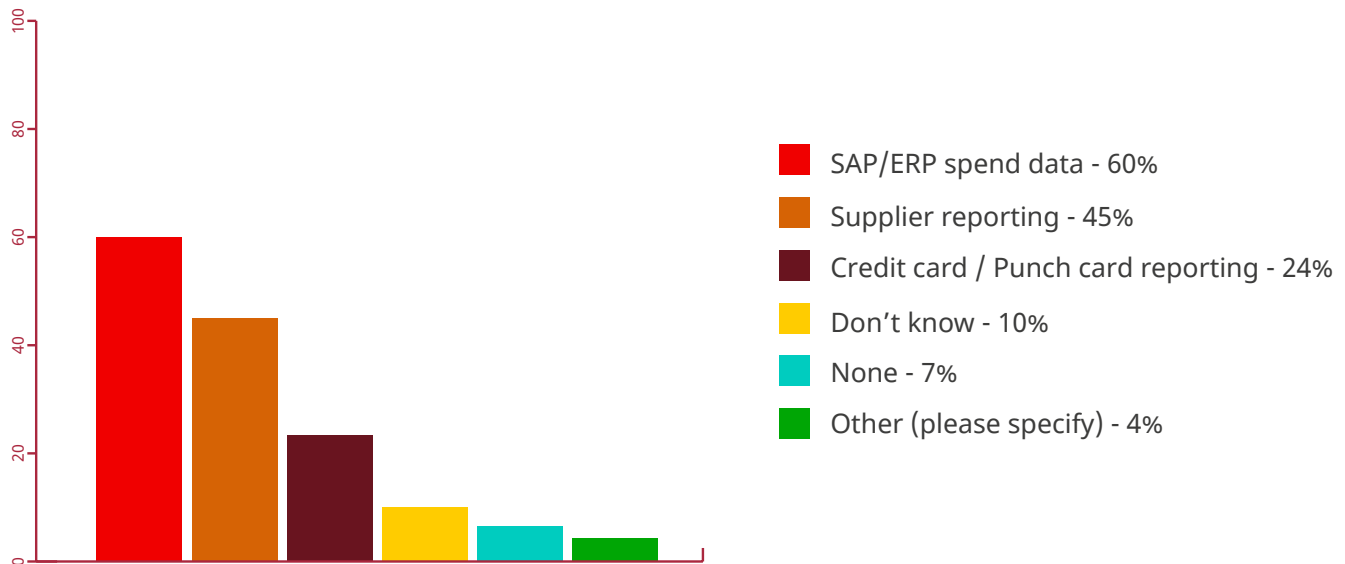


Thinking about end-users, how do they buy from Indirect MRO suppliers?

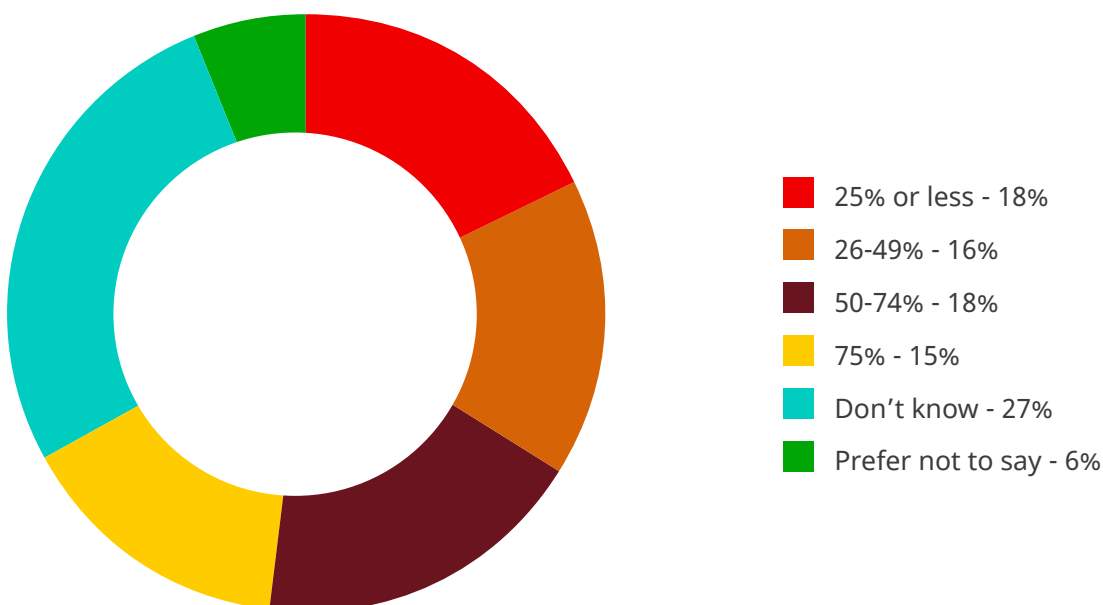


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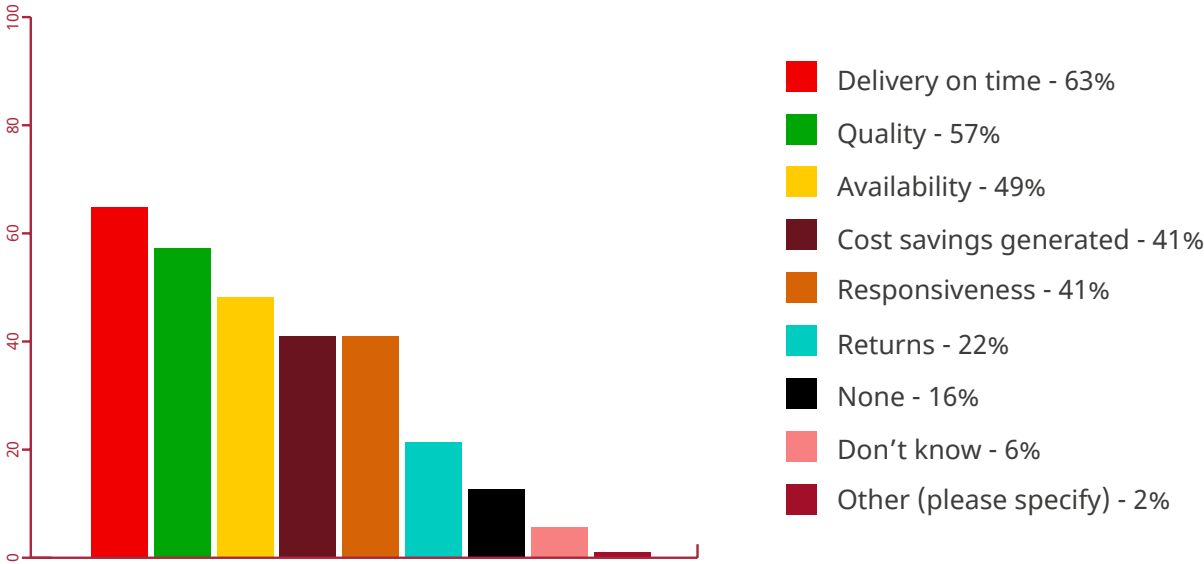
Data sources to manage spend



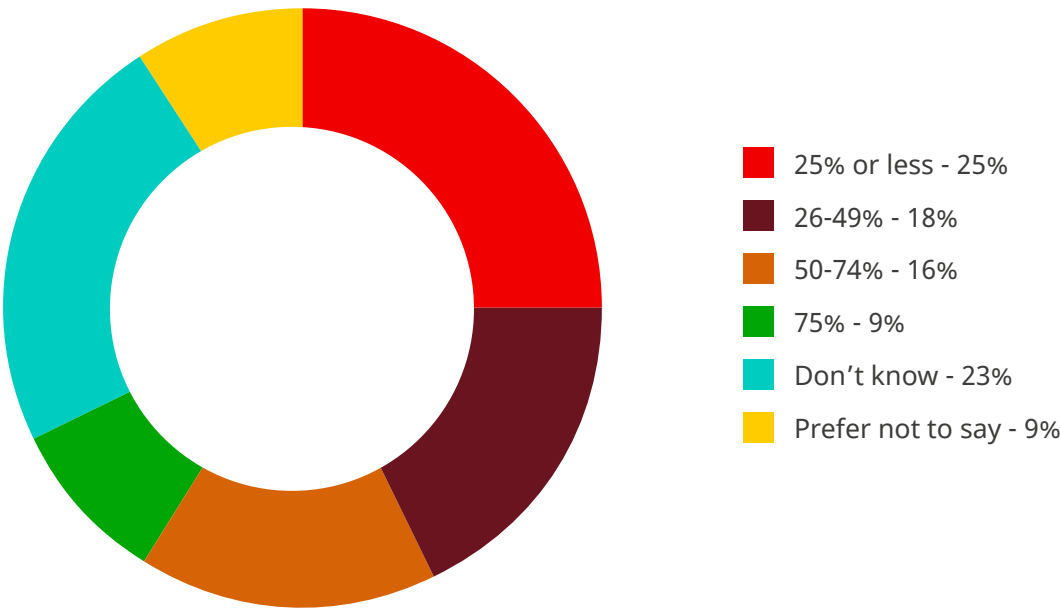
% of supply base local to UK market



Top key performance indicators to manage performance

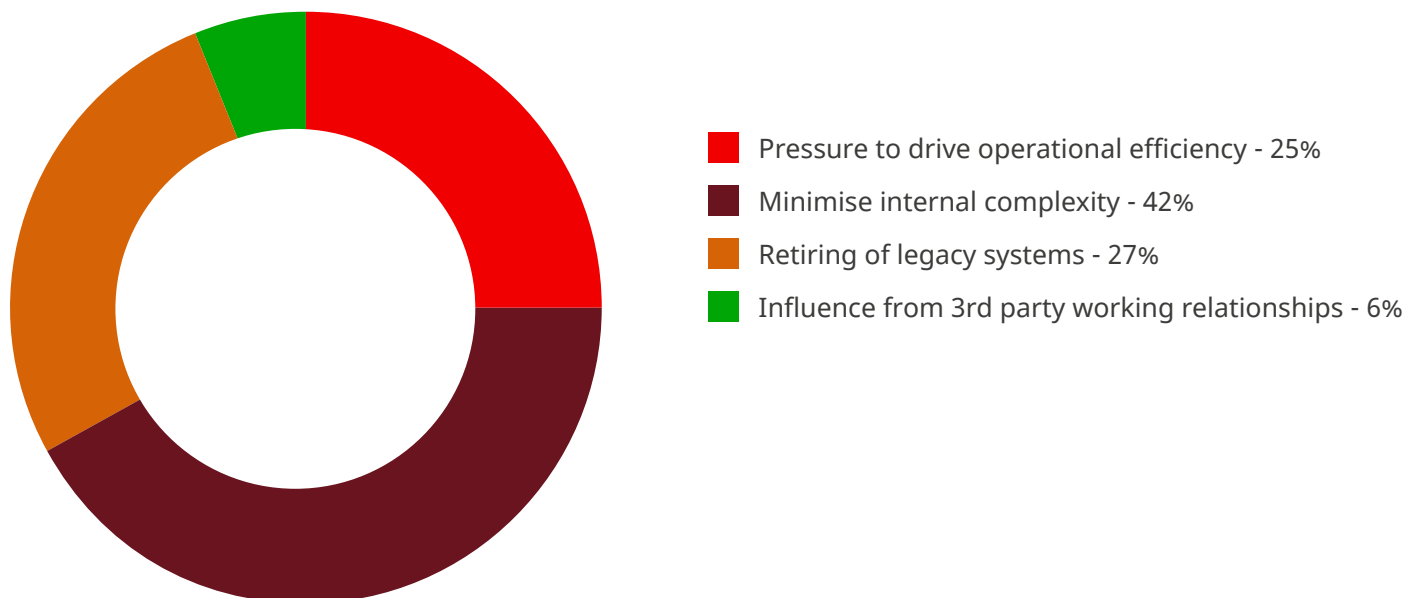


MRO spend actively contract managed

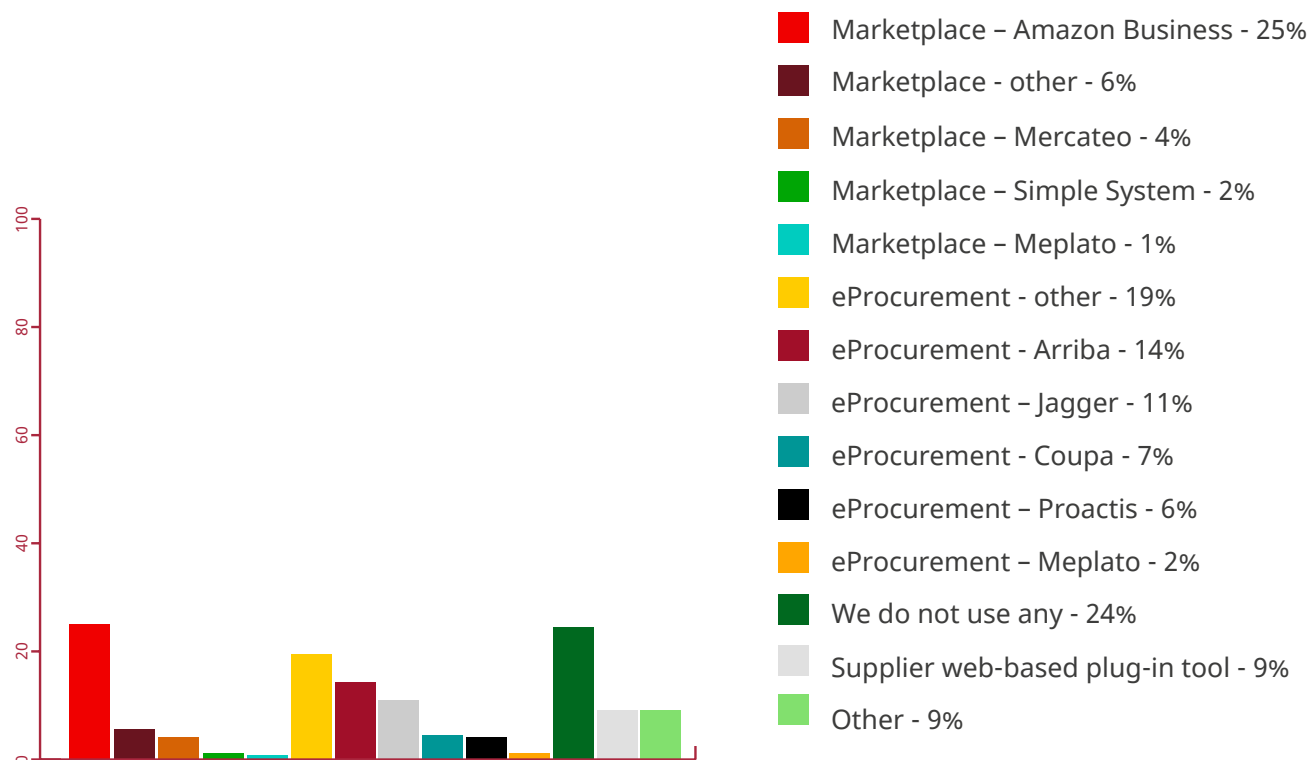


DATA

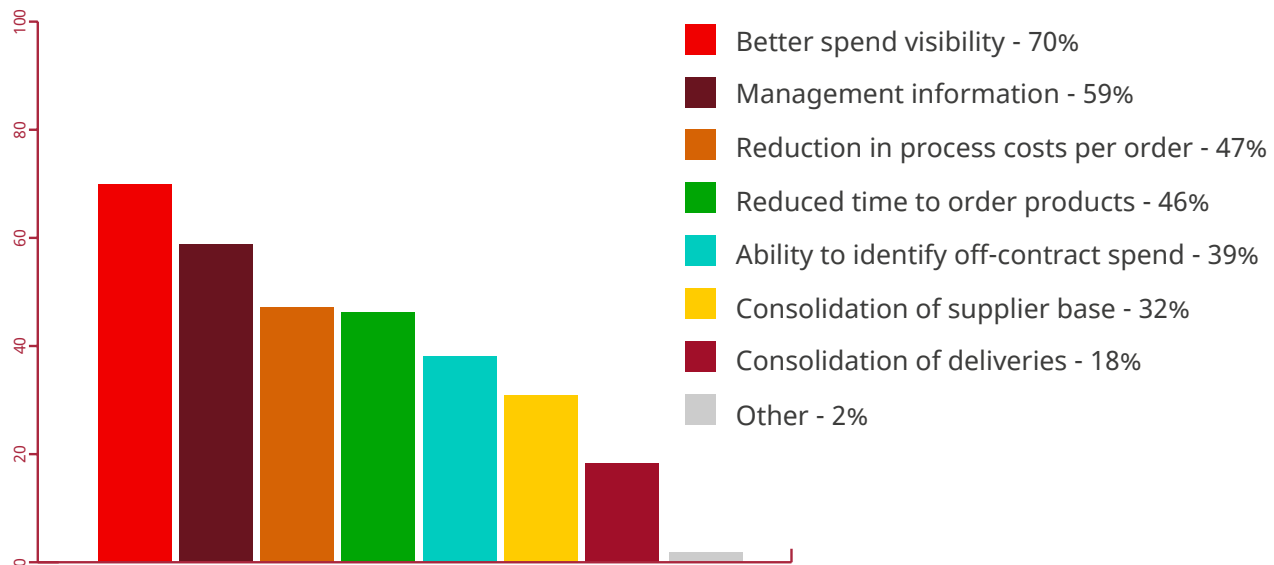
Top reasons for adopting new technology within procurement



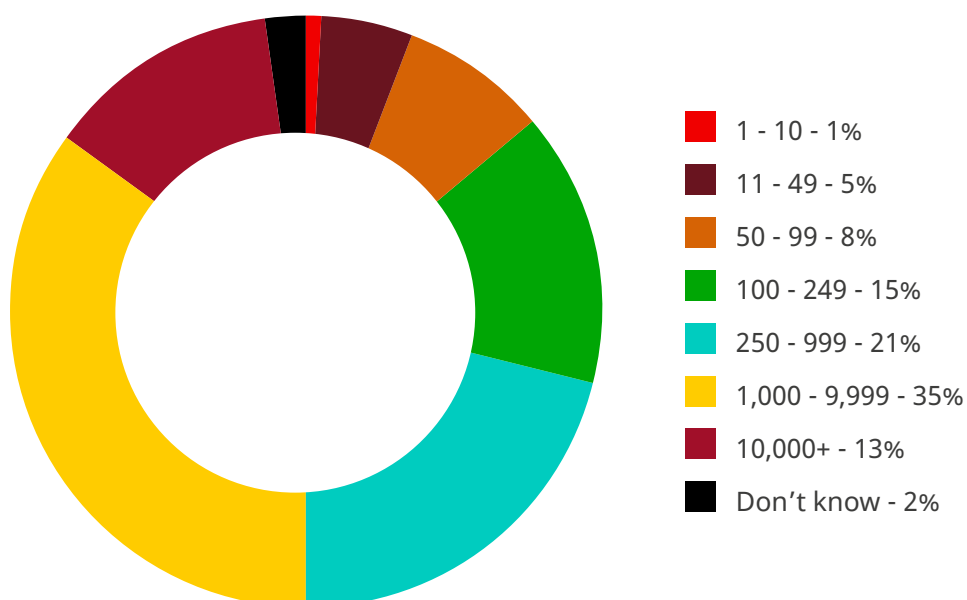
Top digital procurement services used



Benefits of a digital procurement service



Approximately how many employees are there across all the locations in your company, in the country you are in?





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