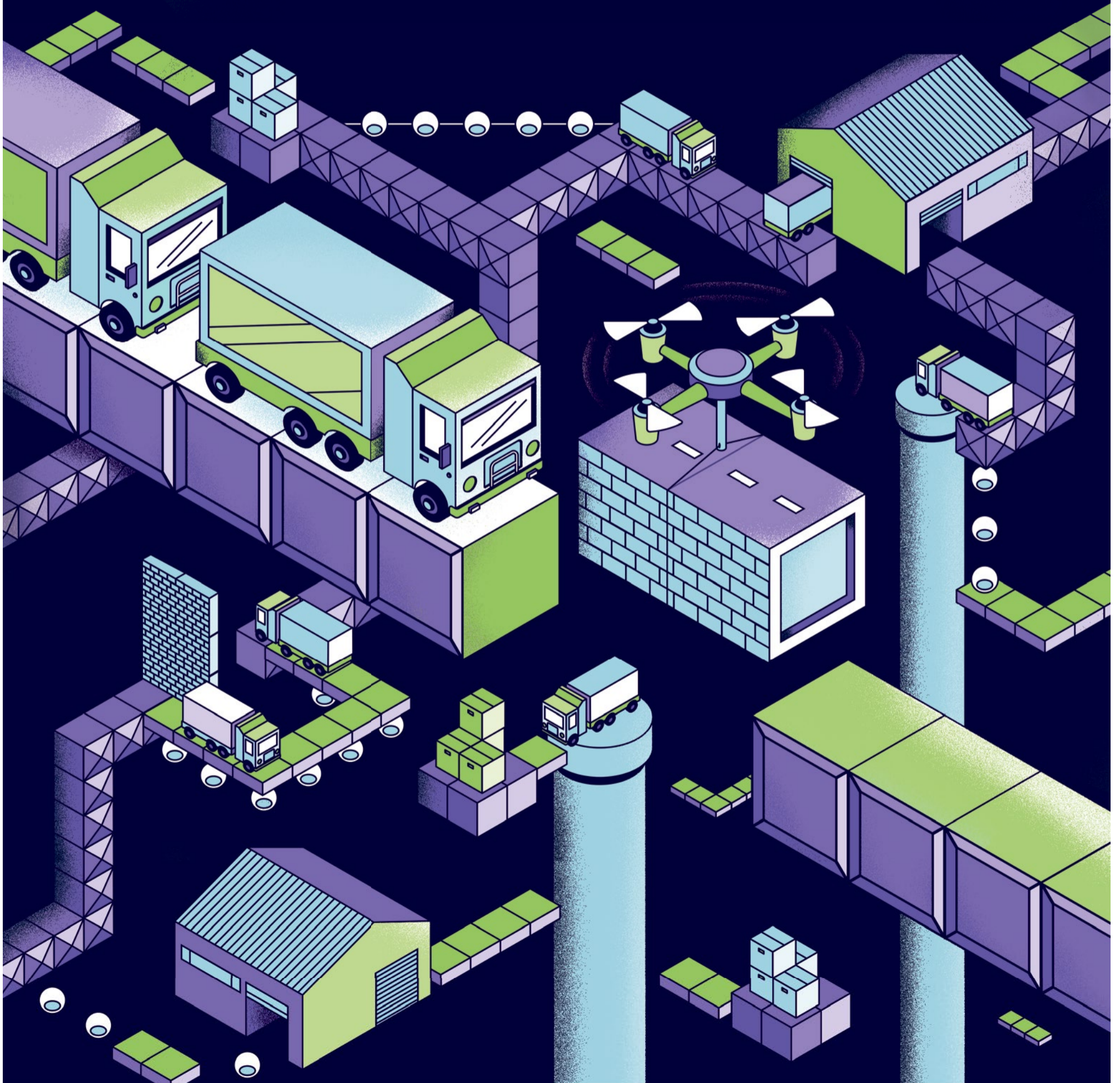


# PROCUREMENT & SUPPLY CHAIN INNOVATION

**02** REWORKING SUPPLY CHAINS FOR RESILIENCE

**08** MAKING PROCUREMENT A FORCE FOR GOOD

**10** UNILEVER'S SUPPLY CHAIN REVOLUTION



## PROCUREMENT & SUPPLY CHAIN INNOVATION

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### RESILIENCE

# Rewriting the supply chain

The world of procurement was turned upside down by supply shocks in 2020, but lessons learnt from the pandemic could improve supply chains in the long run

Chris Stokel-Walker

Many aftershocks of the coronavirus pandemic are starting to ease, but the impact on procurement and supply chains, which keep the planet running, remains significant and will be felt long into the future. But not all consequences of COVID-19 have been negative and some are transforming supply chains for the better.

Faced with severe supply disruptions, closed borders and panic buying stoked by fear of the unknown, supply chains have been stretched to near-breaking point. Quick thinking was necessary to keep the world stocked with everything from personal protective equipment (PPE) to toilet paper.

Internet content delivery network providers such as Akamai battled to build new servers to meet spikes in data demand as we worked from home, but the parts required to build servers couldn't be shipped around the world.

Rewriting of rules caused by COVID were not just short-term fixes. Some of the emergency measures put in place by the world's biggest companies to tackle this once-in-a-generation supply chain disruption actually improved efficiency. Here's how some firms adapted.

"Overall, the supply chain has worked for years," says Kevin Sample of GHX Europe, which works with the NHS to build its supply chain of vital medical equipment. "Has it been the most efficient? I'd say no. But I think we've never really seen the impact those efficiencies could have on patient care until the pandemic came about and those impacts were felt across the board."

The supply chain for the NHS, pre-pandemic, was a variable beast. While there was a central purchasing hub and logistics solution for many goods in the NHS – in England, NHS Supply Chain, and in Scotland, the National Distribution Centre – NHS bodies have never been compelled to use the hub as their sole source. "Some bigger organisations have always been able to source goods better than NHS Supply Chain has been able to, on some occasions, and they negotiate their own contracts," says Sample.

Likewise, the level of tech sophistication in the supply chain has been vastly different depending on the sector of the health service. Some bodies had robust technological trackers to forecast and manage demand, and to handle expiry of equipment, while Sample concedes



"other people are doing it on the back of a fag packet".

But when the virus hit, things needed to change. The NHS Supply Chain was "pretty much on its knees at the beginning of the pandemic," says Sample. "They really struggled." The media reports about PPE shortages were abundant in the early days of the pandemic, showing the signs of trouble.

But then they mounted a comeback, scrapping old rules and ways of working and introducing new ones. The Department of Health and Social Care implemented a push model, centrally

sourcing goods and providing them based on the idea of demand or communication from trusts.

The NHS also introduced two new portals for requesting goods in the supply chain: one for PPE and one for intensive care unit equipment, both of which were stretched during the pandemic. "The fact it wasn't as robustly data driven as it could have been before is a flaw," says Sample. "What has been highlighted is there is an appetite for something a little more sophisticated in demand management. I think the realisation of the power of data has come to the fore."

That's now changed. "It's about embedding flexibility in your asset so if you have a problem and I have to respond to a panic in one place, I can expand capacity in another place," says Querzoli.

And it happened without the layers of bureaucracy and approval previously required because there simply wasn't time. The company cut, in some cases, 80 per cent of its product lines to focus on keeping supply going. "The debate internally that might have previously taken quite a long time was done very easily," he says.

It's a move Kimberly-Clark is making permanent as they're simplifying connections between suppliers, planners and manufacturing teams, and standardising platforms. Reworking the supply chain seems difficult, until you're forced to do it. "We've learnt there is much more potential inside the supply chain we can gain, if we start to think from a different point of view," Querzoli concludes. ●

Smaller changes have also been implemented in response to the initial hurdles the NHS Supply Chain stumbled over in the early days of the pandemic. When medical staff needed to order new items, they couldn't easily search for them in global or national catalogues. Now the NHS is aware of the need to link up databases and track items, offering alternatives where needed.

Alternatives were crucial in other areas too. "We were hit with several challenges due to border closures," says Marco Querzoli, vice president of product supply in Europe, Middle East and Africa at Kimberly-Clark. That required the manufacturer of sanitary and cleaning products and medical instruments to throw out the rule book built up over decades and move to a much nimbler supply chain. "We embedded flexibility in a way we didn't know we could until it was called upon," he says.

Traditionally, Kimberly-Clark would spend months considering any shift to the type of products it offered or the way it routed its supply chain worldwide. Factories in certain countries would only make products for that market and no others, though this had changed in Europe in recent years due to geopolitical issues, including disputes between Ukraine and Russia, Turkey and the world, and the looming shadow of Brexit. Five or six-ply toilet tissue would only be made in German factories because UK consumers wouldn't want it.

That's now changed. "It's about embedding flexibility in your asset so if you have a problem and I have to respond to a panic in one place, I can expand capacity in another place," says Querzoli.

A key strategy for progress is to move away from a transactional relationship with suppliers, the roundtable participants agreed. The pre-COVID landscape was mixed. Some companies have long seen key suppliers as strategic partners that can help drive innovation in the end-product. Others think the procurement team's main job is buying as cheaply as possible.

George Booth, chief procurement officer of Lloyds Banking Group, says companies must recognise climate change is one of the biggest issues facing society. "As the UK's largest financial services group, we are committed to reduce our own carbon footprint and challenging our suppliers to ensure our own consumption of resources, goods and services is sustainable," he says.

### ROUNDTABLE

# Procurement leading the sustainability charge

A virtual roundtable of experts discusses strategic supplier partnerships and other ways of making supply chains more sustainable

The coronavirus pandemic sparked a renewed focus on sustainability. A year in and that focus is only becoming stronger. Senior procurement executives explain how this is playing out within their supply chain and how they are responding. Topics include capturing the competitive benefits of sustainability, how and when to talk to tier-2 and lesser suppliers, and the link with resilience, which is another critical supply chain issue of 2021.

Marco Philippi, head of procurement strategy for carmaker Audi, says "I think we're in the middle of the 'new normal' already. You cannot have a sustainable company, or a sustainability strategy within the company, without a sustainable supply chain."

A significant impetus comes from consumers. Alex Jennings, chief procurement officer of packaging company DS Smith, notes a landmark rise in end-user expectations for the products they buy. Although this is not the only pressure. He says: "It's also being demanded by our investors and by our employees."

There are also real connections between sustainability, transparency and resilience. Rhys Bush, Europe, Middle East and Africa vice president of Avetta, the supply chain risk management service, says companies engaged with their supply chain on sustainability initiatives such as modern slavery had repurposed that knowhow to track the risk of supply disruption due to local lockdowns.

"In this instance, there is a clear correlation between sustainability data and the bottom line," he says. This was in part because they had a real-time view of their supply ecosystem below tier-1 suppliers. This transparency is key, but participants say it needs to be done selectively, based on risk analysis rather than attempting an all-supply chain data dump.

Technology can be vital in mapping these dependencies, says Bush, but at heart, it is a challenge of leadership, knowing how to collaborate with tier-1 suppliers and when to support those lower down the supply chain. There also has to be an acknowledgement that the best, most innovative and most sustainable suppliers may be able to pick and choose their customers, particularly if they are in a sector with capacity constraints.

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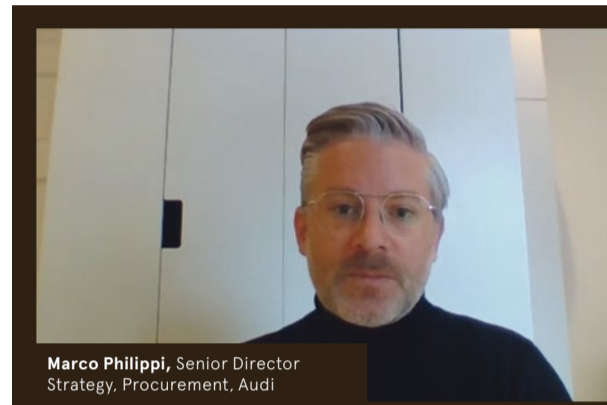
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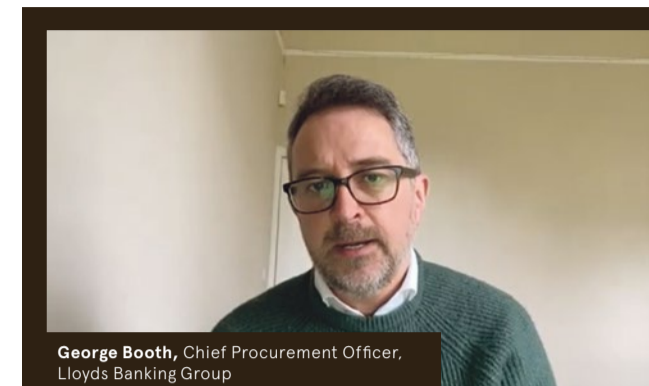
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**You cannot have a sustainable company, or a sustainability strategy within the company, without a sustainable supply chain**



Marco Philippi, Senior Director Strategy, Procurement, Audi



George Booth, Chief Procurement Officer, Lloyds Banking Group



Carol Williams, Head of Procurement, Laing O'Rourke



Alex Jennings, Chief Procurement Officer, DS Smith



Rhys Bush, Regional Vice President EMEA, Avetta

Carol Williams, head of procurement at construction firm Laing O'Rourke, says: "It's a very competitive market and, yes, you have to have a compelling reason why your partners would want to work with you."

This supplier dialogue has to be two-way, Williams notes. The best suppliers "can bring great insights into our products and services," she says.

Audi, for instance, has worked with other carmakers on a standardised supplier questionnaire. It is also a member of the Global Battery Alliance, a consortium of around 70 organisations, which includes rivals such as Renault, Honda and Volvo and aims to produce a global, sustainable supply chain for these critical components. Yet Philippi also believes Audi can attract consumers to its brand by stand-out sustainability in areas such as circularity, reducing reliance on raw materials by recycling from previous vehicles. It is pushing hard in these areas.

Philippi adds that it is vital to collaborate with suppliers as expectations rise, rather than just severing a relationship when one falls below a new benchmark.

"It's not our goal to just exclude everybody from our supply chain who doesn't meet our standards yet," he says. "We want to actively help them by training and qualification." Audi also relies on artificial intelligence to identify sustainability risks with direct business partners and in the tier stages of their supply chain.

But there are difficult questions to face balancing competition and collaboration. Sustainability can be a way to stand out in a crowded market, a point of differentiation. Yet, some of the biggest challenges

can only be solved by competitors teaming up to encourage change across an entire ecosystem. The procurement leaders around the roundtable take pragmatic, case-by-case decisions on collaboration.

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more and more important as we go forward," he says.

This kind of complex re-engineering of processes goes far beyond the remit of procurement. It points to a new and welcome development on the winding road to sustainability. No longer is procurement the "green department", trying to bolt sustainability onto an organisation otherwise trying to run business as usual.

Williams adds that when it comes to sustainability in 2021, "everybody has their part to play". However, with many companies creating 60 per cent of their value through their supply chain, the chief procurement officer must still be "a huge part of how an organisation delivers outcomes", she says.

Booth believes that over time sustainability will become the most important differentiator in suppliers winning business. "For anyone in the chief procurement officer role, you should welcome the challenge of sustainability. You're right in the middle of it and that's fantastic," he concludes.

For more information please visit [avetta.com](http://avetta.com)



ROUNDTABLE

# Building a resilient and sustainable supply chain in 2021

Six of the world's most influential procurement and supply chain leaders, spanning several industries and geographical regions, offer their insights on how to future-proof supply chains in the year ahead

Oliver Pickup

**Q** What are the biggest challenges in the supply chain and procurement functions?

**CM** There is an explosion of new risks that must be managed. Several supplier risks have come into focus in the last 12 months, including environmental, social and corporate governance (ESG) risk and reputational risk. The industry is at an inflexion point where there is a need to rethink how to make supply chains sustainable because they are being forced to expand due to the changing dynamics. How do you manage that data and risk?

**IDR** In the last 12 months, the biggest challenge in the beverage industry has been answering a huge shift in consumer demand while continuing to operate as a sustainable supply chain. The move from bars and restaurants to home consumption has brought a significant demand-mix change in beverage containers. On top of that, the massive and rapid increase of the ecommerce channel, combined with a shortage of drivers and reduced investment in trucks, has also made the transportation market challenging, creating a perfect storm.

**WH** The coronavirus pandemic not only impacted our supply chain, but also amplified global healthcare and economic disparities for minority communities. However, challenges represent opportunities. At GSK we were able to further elevate our supplier diversity efforts in support of under-represented groups. For instance, during last year's personal protective equipment (PPE) shortage, we were able to introduce new diverse suppliers that met our needs at a critical time.

**RN** The biggest challenge we are working on right now at bp is how to start up as a new procurement and supply chain organisation that aligns with our net-zero carbon ambition following the most significant transformation in the company's 111-year history. We are shifting to an agile-at-scale-type

culture. Large amounts of focus are going on how we navigate the business from a legacy oil and gas company to a highly integrated, sustainable energy company.

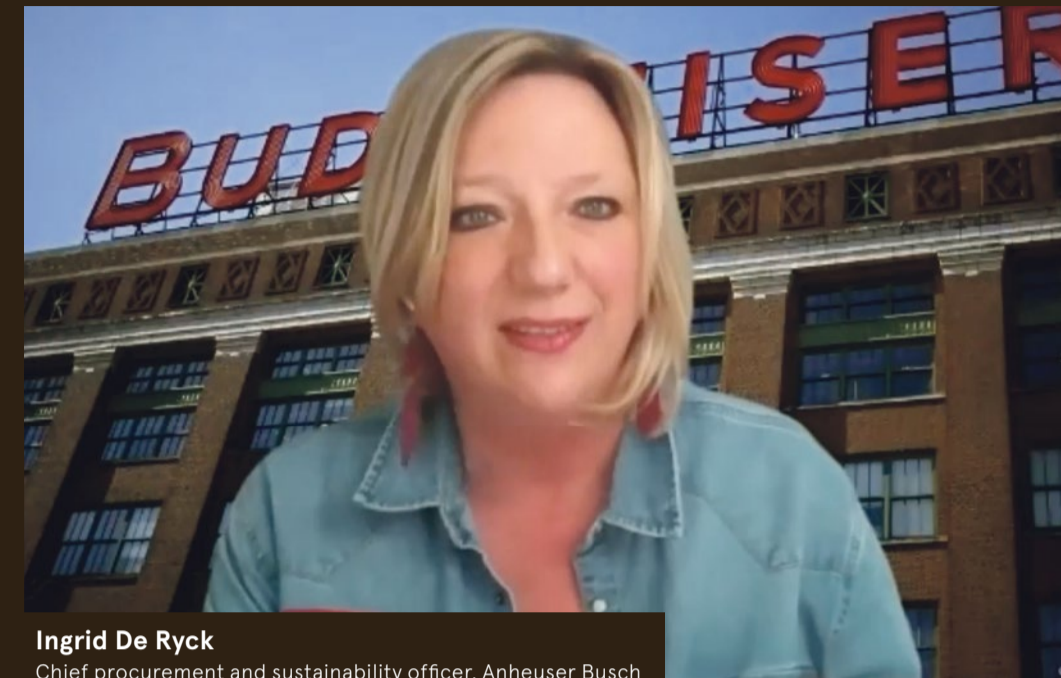
**MH** The big challenge for people working in procurement and supply in the last couple of years has been the agenda's incredible broadening. It used to be about savings, and then it was about resilience, and then sustainability and social value. How do we embrace all these new technologies that are coming along as well?

**Q** What do successful procurement and supply chain functions look like in 2021?

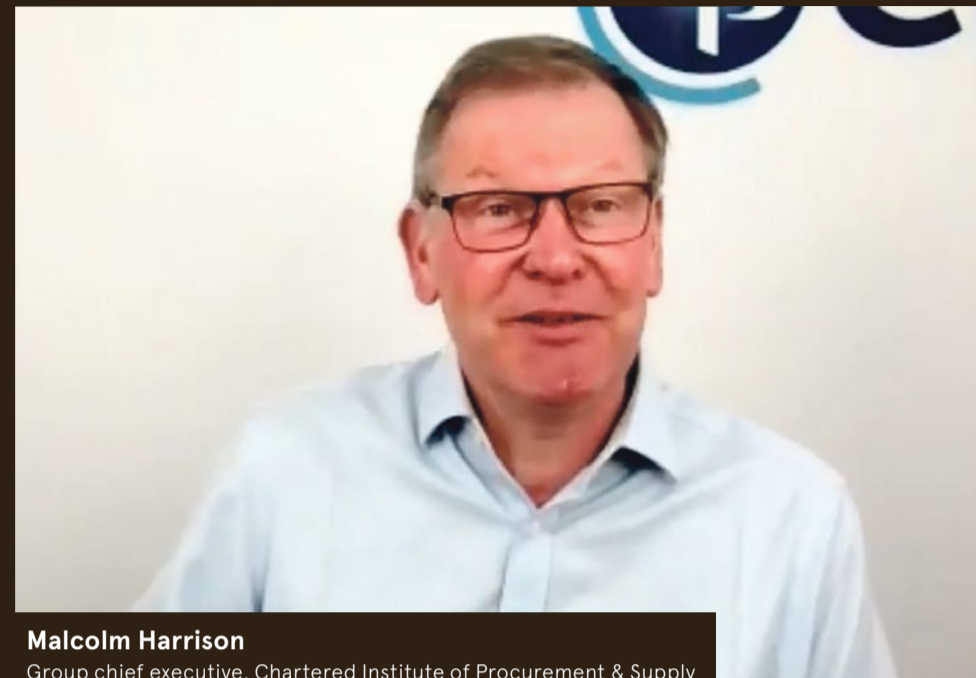
**MH** It's always been important that a procurement-supply function is highly aligned with what your business stands for, but these days companies are thinking much more about their purpose. It's not just about delivering profit to shareholders, they're also thinking about what they are doing about the important issues to society. In a world where consumers think about what brands they're going to buy, where employees think about who they're going to work for, or indeed investors think about who they're going to invest in based in part on the reputational image of that company, it's very much about how you manage your supply chain.

**WH** Research data shows that more than 85 per cent of the millennial population want to invest in and work for companies that are showcasing their ability to respond to environmental and social factors. When you have programmes in place that drive sustainability, and diversity and inclusion, specifically around the supply chain, you're showcasing your company to that up-and-coming talent and to those investors.

**TU** We see a trend across most of these progressive organisations, driven by investor sentiment and



**Ingrid De Ryck**  
Chief procurement and sustainability officer, Anheuser-Busch



**Malcolm Harrison**  
Group chief executive, Chartered Institute of Procurement & Supply



**William Holmes**  
Global head of supplier diversity, GlaxoSmithKline



**Ryan Nied**  
Commercial transformation director, global procurement, bp



**Charles Minutella**  
Head of due diligence, Refinitiv, an LSEG business



**Thomas Udesen**  
Chief procurement officer, Bayer, and co-founder of the Sustainable Procurement Pledge

access to talent, which makes clear you have to up your game and act responsibly and look beyond the next quarter. The Sustainable Procurement Pledge, which is an initiative that I co-founded, is necessary and timely as we believe there is no sustainable supply chain without sustainable procurement. We are reaching out to the approximately one million practitioners globally, trying to engage them, equip them with the relevant knowledge and make sure this topic becomes front and centre of supply chains and procurement organisations throughout the world.

**IDR** No single company can build a sustainable supply chain by themselves; it's about collaboration and partnership across the entire value chain. Until a couple of years ago, we would never bring competing suppliers in the same room, but now discussing together how to make our collective supply chain more sustainable is a source of innovation.

**MH** Smart partnering marks a change of direction. Collaborating with competitors would not have been talked about 25 years ago, but today we recognise there are certain issues that no one can solve on their own.

**Q** Apart from ESG pressures, what are the factors to consider when creating a robust supply chain?

**IDR** Agility is essential. Five years ago, we never imagined Brexit would happen or that there would be huge trade discussions in the United States and then we were hit by the COVID-19 pandemic. Agile supply chains are instrumental to operate under that kind of duress while keeping it as cost effective and

sustainable as possible. Authorities, governments and international collaboration can significantly help reduce supply chain pressure.

**CM** Damages from cybercrime are estimated to reach \$6 trillion this year, which would make it the third-largest economy in the world. This figure is forecast to rise to \$10.5 trillion by 2025. Our customers want to gain a better sense of the cyber-resilience their suppliers have. We're also seeing more of a push for more predictive analytics on suppliers to identify risks throughout the supplier life cycle.

**RN** Strategic partnerships are important to fuel collaboration and increasingly those are driven by procurement. For example, two of the largest partnerships at bp are with Amazon and Microsoft, which are reciprocal supplier-customer relationships with a joint commitment to achieving net zero. Clearly, a shift-change is underway: the procurement function is less subservient. A different type of leadership is required to navigate these complex, multi-stakeholder relationships to serve the greater good. You need to

connect the dots across a large enterprise, always putting the company purpose and ambition first. And then it's about working and influencing across the network to find the areas of greatest opportunity.

**TU** Identifying second and third-tier partners is important for a supply chain leader. Given a high majority of the global economy relies on small and medium-sized enterprises, it makes it vital to ensure they have mature practices and I think there is a gap in terms of leadership. Regulators have a key role to play, but it is a tough balance to strike; a bit of stick is needed, but punitive fines are not the only way to encourage good practices and behaviours. The carrot has to be there, too.

**Q** How will procurement and supply chain functions evolve in the coming years?

**WH** There will be greater need for agile and responsive supply chains, opening up opportunities for small and diverse suppliers that can be more nimble, boost innovation and

serve the communities we work in. We will further embed supplier diversity and sustainability in our culture, so procurement managers can drive inclusion and sustainable sourcing strategies and processes, and feel confident to do so.

**TU** It is about that intersection between sustainability and innovation. How do you orchestrate these ecosystems that you have in your supply base to extract the most value? We saw more collaboration between companies and governments during the coronavirus crisis, for example, to deliver PPE. I hope this will open a whole new domain where private and public sector partnerships drive meaningful change.

**CM** A mindset shift is required to be able to deliver ambitious ESG goals. It's going to cost more money, so how do you handle this, especially in a role that has historically been so focused on cost-savings?

**RN** There must be a redefinition of the value proposition of procurement at the board level, around the impact we're making not only for the organisation, but in the

various stakeholder constituencies. Traditionally, all of us felt the pressure around what we're going to do to deliver the in-year cost value targets. There should be more tangible frames around how we're actually making an impact in these different areas.

**MH** You're now asking the supply-procurement function to deliver an awful lot more things that non-financial metrics will govern, but there's some important thinking to be done to determine what those metrics are because they might not all be comparable.

**Q** What most excites you about the future?

**RN** I'm excited about how agile ways of working and horizontal integration will open up new opportunities for talent development. I grew up as a category leader and I had my 'lanes' that I operated in. In the new world, our people are not limited by their category of spend. They have high business acumen and high learning agility. They can drop themselves into a transformational project with a level of influence to drive change,

and then move onto the next big thing. This is a different skill set - and digital tools will help us move with greater pace, transparency and collaboration.

**WH** I'm passionate about driving and growing supplier diversity in a way that drives value to our consumers, patients and workforce. For example, our consumer healthcare business working with diverse agencies to support GSK's global marketing efforts to increase diverse customer representation and reach, and our pharma business working with agencies to support education and communications for minority participation to support clinical trial diversity. Also I'm excited about GSK's global inclusion and diversity strategy and growing our inclusive and diverse culture.

**IDR** What really excites me is the innovation coming from collaboration that will help us decarbonise the supply chain. We are just scratching the surface right now.

**TU** It will be interesting to realise the true insight potential of artificial intelligence and digitalisation, to

help us see a little bit into the future and better manage the risks.

**CM** There's going to be a lot of innovation that can drive value out of data for the supply chain and procurement functions. In the next three to five years, that innovation, coupled with our pledges to drive sustainability, will be interesting to follow.

**MH** It's an incredibly exciting time for the profession. There are more opportunities to address issues that are important to society. What we can do as leaders is help young people to understand how exciting it is. This will drive young talent that will be great for both the profession and society.

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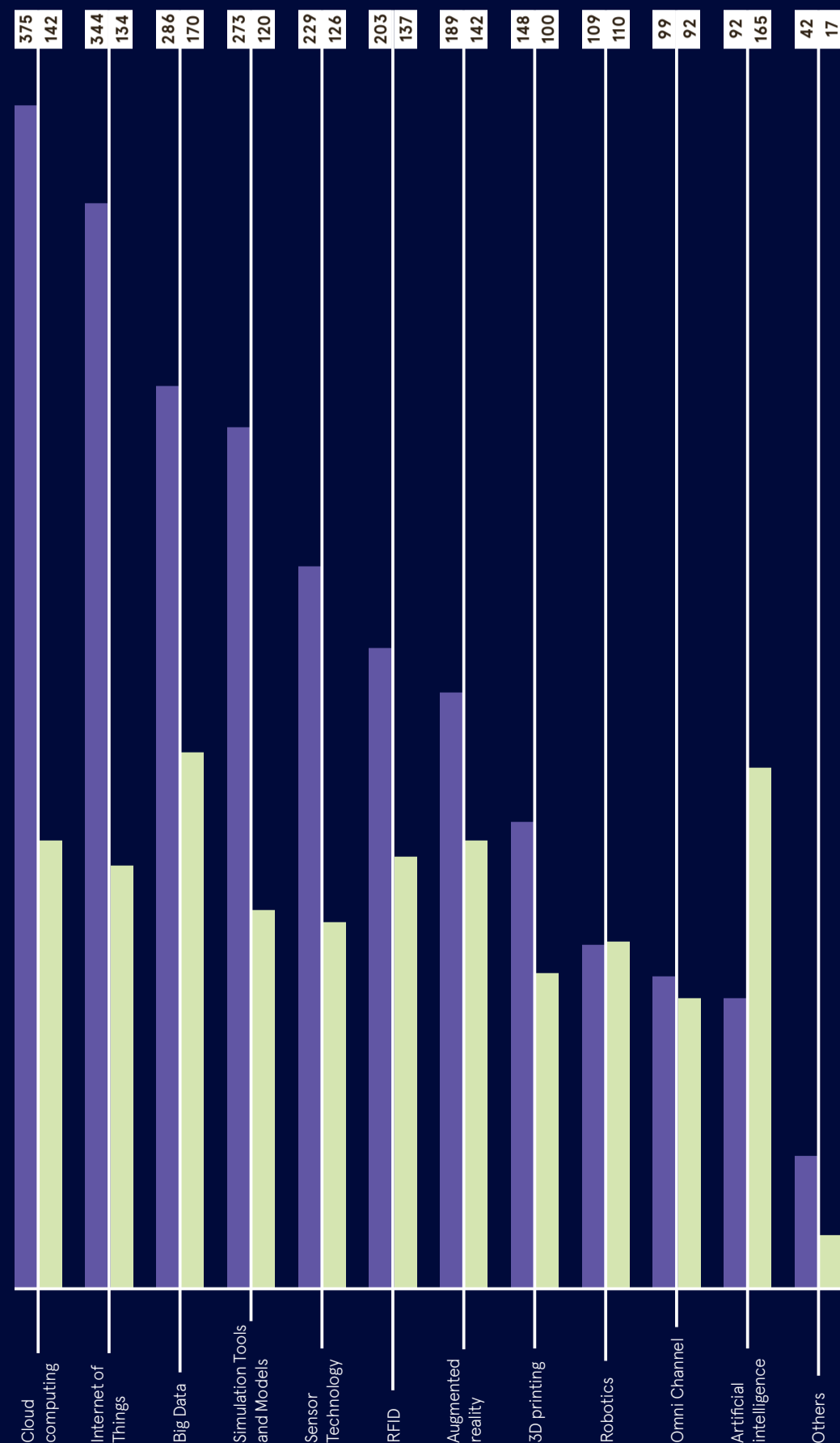
# TRANSFORMATIVE TECH

With the power to make procurement swifter, safer and more resilient, technology is no longer a 'nice-to-have'. So where are supply chain managers spending their money, and what do they hope to gain from these transformative technologies?

## TOP TECHNOLOGIES FOR SUPPLY CHAIN TRANSFORMATION

The technology plans of 700 global supply chain managers across more than 20 industries CIPS 2020

● In place ● Planned for (next 2-3 years)



95%

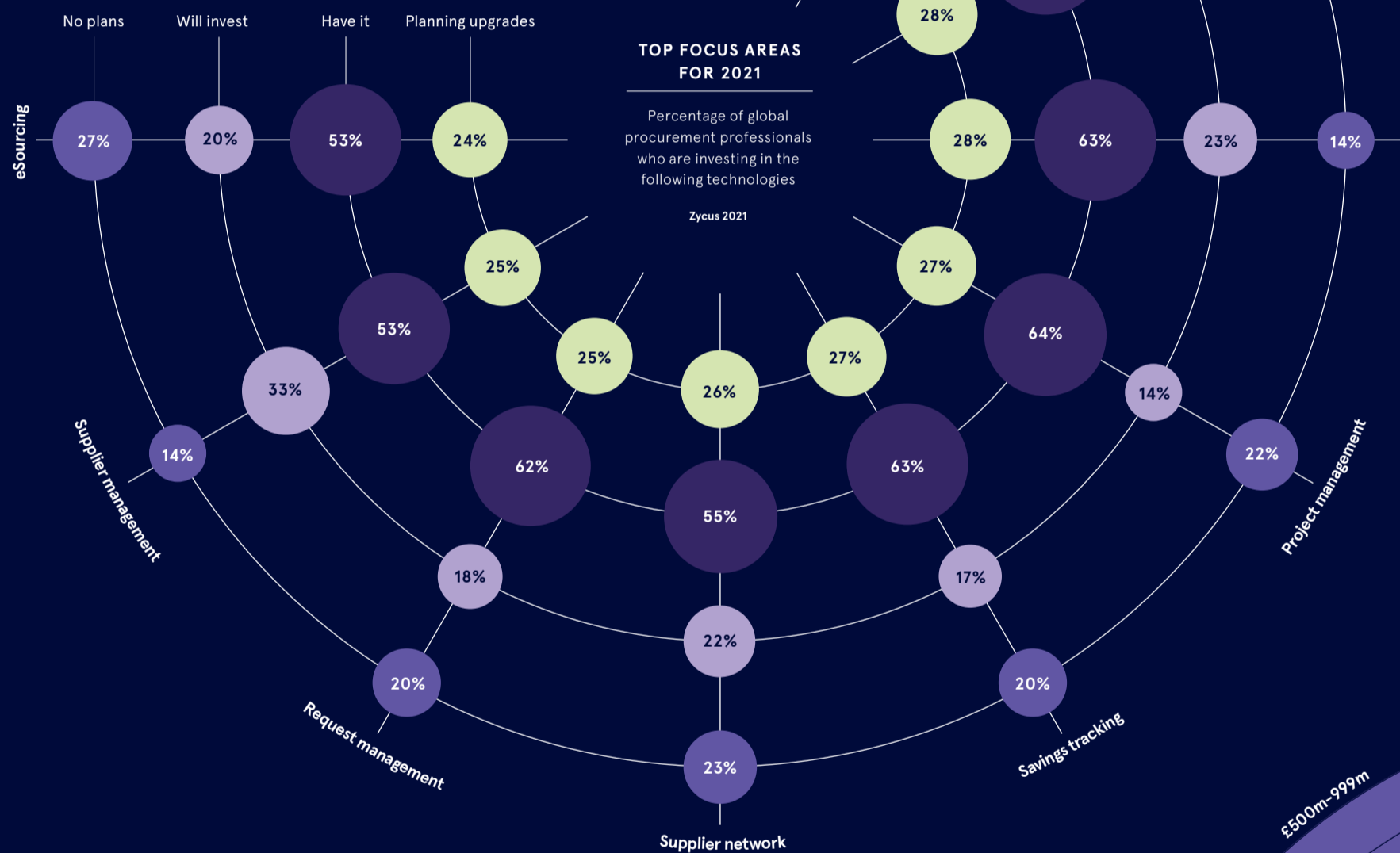
of firms across all industries have adopted at least one of the Industry 4.0 technologies, with Cloud Computing, Internet of Things and Big Data being the most popular

CIPS 2020

60%

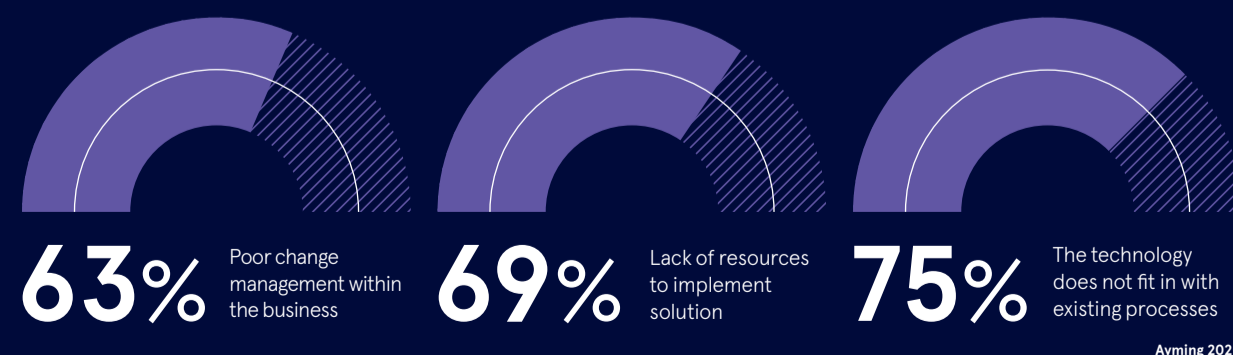
of firms recognise transparency, cost effectiveness and being customer-centric as key gains brought by procurement and supply chain digitalisation

CIPS 2020



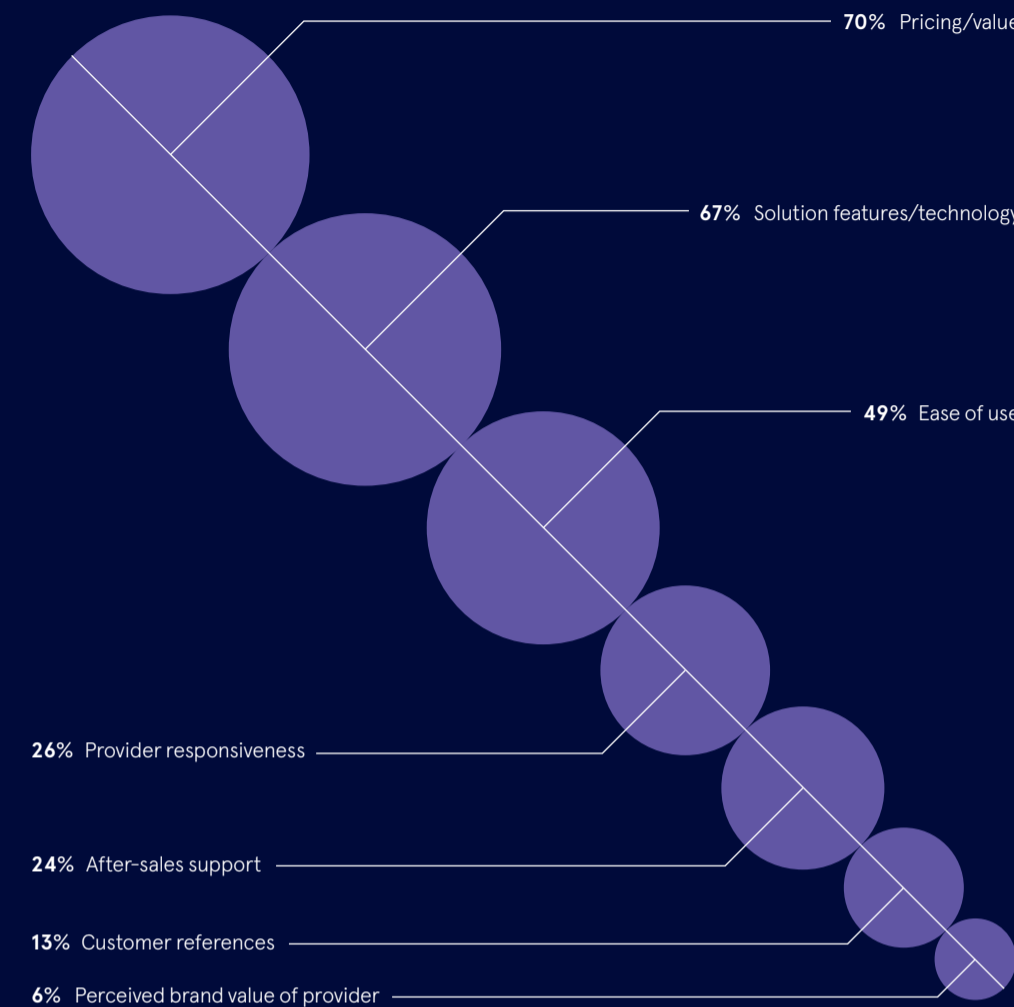
## WHAT'S STOPPING QUICKER TECH ADOPTION?

Global c-suites state their top 3 barriers to successfully implementing procurement technology



## WHAT USERS WANT FROM PROCURETECH SOLUTIONS

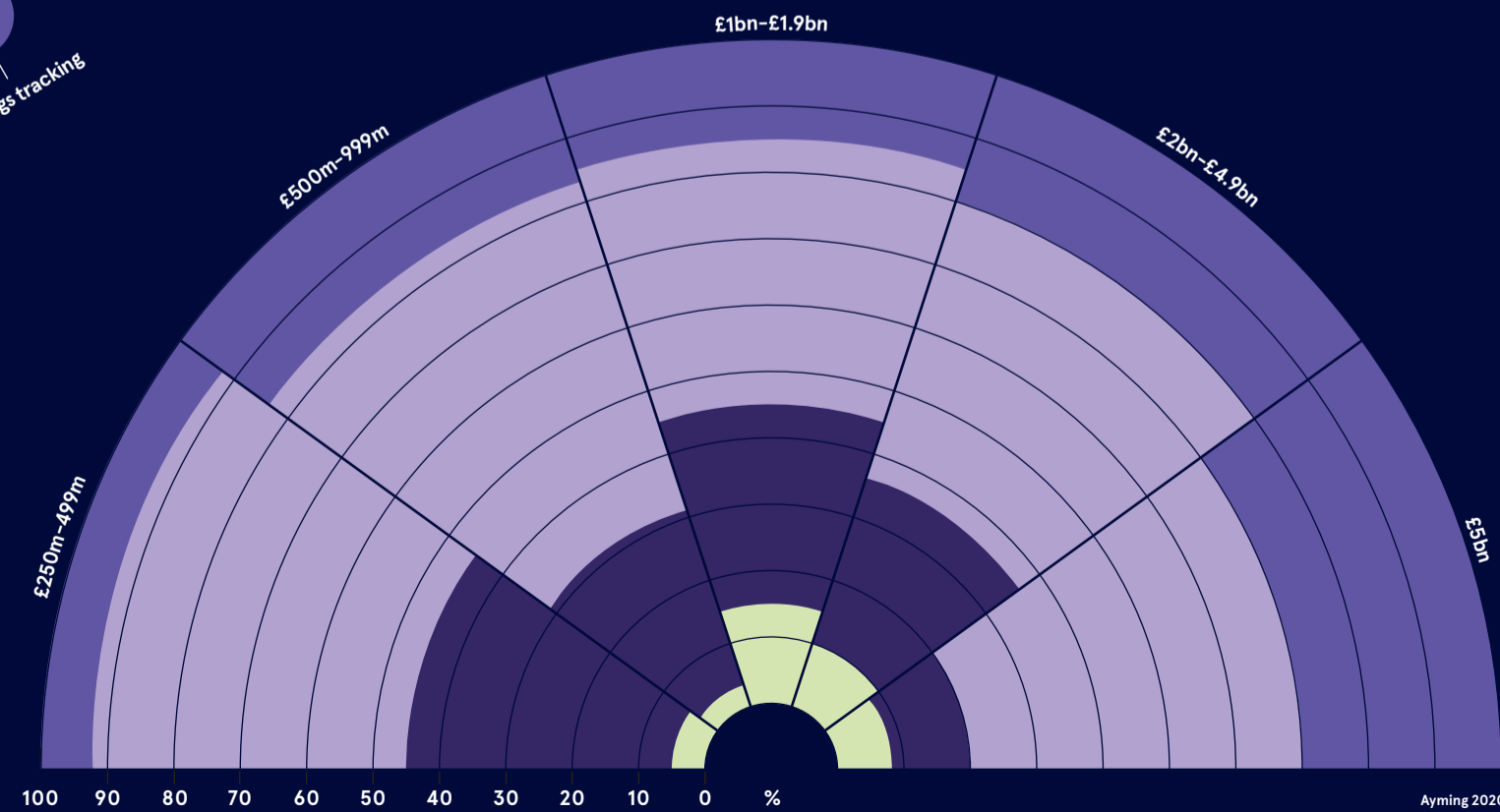
Global procurement professionals cite their top criteria for selecting technology solutions Zycus 2021



## THE BIGGER THE COMPANY, THE BETTER THE STRATEGY?

Global C-suite executives' responses to the question: "Which of the following statements best describes your organisation's procurement department?" (by company turnover)

- Procurement does not have a clear tech strategy, nor is it exploring options for digital enhancement
- Procurement has a clear tech strategy but is not aligned to the needs of the wider organisation
- Procurement does not have a clear tech strategy, but it is exploring options for digital enhancement
- Procurement has a clear tech strategy aligned to the needs of the wider organisation





SOCIAL VALUE

# Turning procurement into a force for good

A new model for public sector procurement was launched this year, requiring contracts take into account community value as well as cost

Martin Barrow

On January 1, while all eyes were on Brexit, another major change came into effect in procurement that received scant attention despite having far-reaching consequences. The UK introduced a new social-value model covering central government procurement for goods and services worth around £49 billion a year.

Procurement policy note PPN 06/20 requires all tenders to include a minimum 10 per cent weighting for social value. This means that while the main criteria for awarding government contracts is the still best commercial outcome, the government's new social-value model must be taken into account.

Social value is the catch-all term used to describe the difference an

organisation or project can make to a community. The question asked by social value is this: if £1 is spent on the delivery of services, can that same £1 be used to also produce a wider benefit to the community?

Social purpose is nothing new to business. Companies are now under pressure from all stakeholders – investors, customers, employees, regulators – to do more for the communities where they operate. Environmental, social and corporate governance issues can make or break businesses. And although it is easy to be cynical about purpose, many senior executives really do want to leave a legacy that transcends making good returns for shareholders.

Despite the consensus, the business case for doing the right thing for

communities has remained elusive. Measuring social value is, at best, complicated, which is one reason why its adoption in public procurement has been slow.

In the UK, social value was defined through the Public Services (Social Value) Act which came into force in January 2013. This requires all public sector organisations and their suppliers to look beyond the financial cost of a contract and consider how the services they commission and procure might improve the economic, social and environmental wellbeing of an area.

However, the absence of a mandatory requirement to include social

“This may well be the catalyst that moves social value to the top of the corporate agenda

value as an output in the procurement process and clear ways to measure its impact meant adoption by local authorities and central government was poor.

Eight years on, the government has taken a significant step towards turning words into action. In its latest iteration, the language of social-value policy includes a stricter obligation, with explicit references to inequality, mental health and personal wellbeing. The social-value model itself connects social value to other relevant legislation, policies and initiatives, including the United Nations' Sustainable Development Goals. The model's first “theme” is coronavirus recovery, with the aim of helping local communities to rebuild and recover from the pandemic.

Under the model, a minimum weighting for social value of 10 per cent of the overall score is mandated whenever any of the social-value policy outcomes are included in the procurement. For example, the contracting authority might split the weightings as 30 per cent for price, 60 per cent for quality and 10 per cent for social value. This sends a message to the supply market that social value is important to the contracting authority.

Charlotte Österman, private sector lead at Social Value UK, the professional body for social value and impact, says: “This is a timely intervention by central government to implement a mechanism to try to tackle the UK's biggest challenges through procurement: rising social inequality, achieving net zero and improving wellbeing. We hope this will catalyse a different way of making decisions.”

Clearly, PPN 06/20 brings opportunities for companies whose own business model has embraced social value. However, it also brings challenges. Companies are at risk of missing out on public sector contracts if their response to the questions on how your business would deliver on social value does not score the maximum 10 per cent.

This is why businesses need to be aware of these changes and be prepared. A good start is to gather together all information on current social-value initiatives. Firms need to consider how these could be presented in a tender response, including reporting obligations and measurable outputs. For businesses without a social-value proposition, now is the time to do something about it.

Sarah Stone, founder and director at Samtaler, the social-value creation agency, says: “The new model has huge implications for any company which supplies the public sector, whether directly or indirectly. Around a third of all public expenditure, approximately £284 billion annually, is spent buying goods and services from external suppliers. In fact, the model may well prove to be the catalyst that finally moves social value to the top of the corporate agenda and transforms how social value is delivered across the board.”

Peter Masonbrook, associate director and social-value lead at Faithful+Gould, the project and programme management consultancy, says: “PPN 06/20 forces us all to think about the real impact of what we do and how we can work to increase that social impact for the good of everyone. It also opens the doors wider for opportunities for small and medium-sized enterprises and voluntary community and social enterprises as a more qualitative evaluation process for procurement means the most positive, impactful solution will be taken forward, regardless of where it comes from.”

John Alker, director of policy and places at the UK Green Building Council, says: “We welcome the introduction of a minimum 10 per cent weighting of the total score for social value and are pleased to see an evaluation framework that has more focus on environmental and health factors. But we hope the percentage weighting and the scope of outcomes will be more ambitious over time.”

WHAT IS INCLUDED IN THE SOCIAL VALUE MODEL?	
The five priority themes and eight policy outcomes which contracting authorities can use to prove social value	
THEME	POLICY OUTCOME
COVID-19 recovery	<ul style="list-style-type: none"> <li>Help local communities to manage and recover from the impact of COVID-19</li> </ul>
Tackling economic inequality	<ul style="list-style-type: none"> <li>Create new businesses, new jobs and new skills</li> <li>Increase supply chain resilience and capacity</li> </ul>
Fighting climate change	<ul style="list-style-type: none"> <li>Effective stewardship of the environment</li> </ul>
Equal opportunity	<ul style="list-style-type: none"> <li>Reduce the disability employment gap</li> <li>Tackle workforce inequality</li> </ul>
Wellbeing	<ul style="list-style-type: none"> <li>Improve health and wellbeing</li> <li>Improve community integration</li> </ul>

Procurement Policy Note gov.uk 2020



A relative of a victim of the 2013 Rana Plaza garment factory collapse in Bangladesh, at the site where the building once stood

ACCOUNTABILITY

# Why supply chain transparency is vital

More businesses than ever are opening up their production processes to outside scrutiny, but can a global supply chain ever be truly knowable?

Sam Haddad

The distance between a company's base and where their products are made has never been greater. The tides of globalisation and shareholder primacy have long since pushed Western businesses to shift their production to parts of South Asia where labour is cheaper. Yet this has led to supply chains which are as opaque as they are remote, in countries where the rights of workers and environmental protections are less stringently enshrined by law.

Following the 2013 Rana Plaza garment factory collapse in Dhaka, Bangladesh, which killed 1,100 people, an increasing number of activists, NGOs and consumers have been calling for businesses to make their supply chains more transparent, to not be seen as profiting from a workplace that would never be legally or morally acceptable back home.

When Patagonia published *The Footprint Chronicles* in 2008, a website that allowed people to dig into the supply chains of its products, it

was typical outlier behaviour from the ethically minded outerwear company. Now Nike, adidas, IKEA and Esprit are just some of the mega-brands that publish detailed supply chain reports.

By doing so, a brand can enhance its perceived trustworthiness and potentially reduce the risk of incidents which cause reputational fallout.

The problem with self-reporting is audits can lack a consistent format that's easily digestible for consumers. And they're harder to authenticate than one done by an independent agency.

“Lots of companies do self-reporting and there can be a lot of truth in those claims in terms of sustainability and working hard to improve labour standards in their supply chain,” says Annabel Meurs, who works on brand liaison at Fair Wear. “But that claim becomes a hundred times more credible if you have it independently verified by a third party.”

Fair Wear is a multi-stakeholder initiative based in Amsterdam which, for the last 20 years, has produced annual accountability audits. Their client list includes Jack Wolfskin, Schoffel, Filippa K and Acne Studios, and the reports are compiled using long-term local partnerships in the field.

Meurs thinks it's hard for a brand to really get into the weeds of their supply chain operations without having expertise on the ground. “You need the local knowledge of labour laws and to be able to interview workers for an audit. You'll never get reliable answers if a brand asks their supplier how can we improve our own practices? No factory manager is ever going to give you an answer to that,” she says.

Along with interviewing employees and observing the factory's protocol over an extended period, Fair Wear operates a local helpline where workers can call in anonymously with complaints.

“Complaint sounds negative but, in our experience, we've seen so many successes,” says Meurs. “An individual problem for a worker is often easily solved if the brand gets involved. In some cases, it's as easy as a phone call, other complaints are much more complex.”

She says this ties into one of the biggest wins you get from being transparent about your production location, in that it enables collective bargaining for better working conditions. “If you have three or four Fair Wear brands in the same factory, your leverage is going to increase and so is your impact,” says Meurs. “If combined and you're buying, say, 60 per cent of the factory's capacity, then the owner is going to listen.”

Fair Wear publishes the details of all conflicts and resolutions on its website to maximise accountability and help guide others in the future. And the organisation provides extra help for clients during crises, such as how to work fairly with suppliers during the coronavirus pandemic and the recent troubles in Myanmar.

Growing up in Dhaka, Professor Muhammad Azizul Islam was surrounded by densely packed garment factories supplying far-away companies. Seeing tired workers leaving buildings late at night inspired his future research career and he's now an expert in supply chain transparency at the University of Aberdeen.

Bangladesh is the second largest exporter of garments after China. Islam is sceptical of the potential of social audits to bring meaningful change to the lives of garment workers, especially when audits are done internally. “Workers are scared, they are weak actors,” he says.

After the Rana Plaza collapse, he looked into the social accountability systems of the factories on the site. “Companies, including Walmart, sourcing from those factories had a social audit mechanism in place, but it didn't protect the workers; they were killed because the owner of the factory forced them to stay and work,” says Islam.

But most of all he believes political reform is necessary for things to genuinely improve. “Governments in the West play a significant role in creating change. If the UK government wants there to be no corruption in Bangladesh, they can

“We need these alternative, critical voices that aren't funded by corporations to hold multinationals accountable

threaten to pull out of the whole supply chain. Trade relations should be tied up with other human rights issues,” he says.

“You need to create a democratic environment. Every change that happens in the UK is because of democracy and the way Oxfam, Greenpeace, No Sweat and other social enterprises raise their voices and speak out. We need these alternative, critical voices that aren't funded by corporations to hold multinationals accountable.”

The professor is supportive of the modern slavery acts in the UK, Australia and California, but would like them to go further. “I see a label with Bangladesh, but that's not sufficient; I need to know the factory. If governments asked companies to disclose this, it would be a big change,” he says.

Several brands, including Jack Wolfskin and Nudie Jeans in Sweden, are now using labels with QR codes so their products can be traced directly to where they've been made and by whom. Meurs from Fair Wear believes measures such as this will become law. “It's an irreversible trend,” she says, and the brands that have already begun to make their supply chains accountable will be at a clear advantage.

What about those who haven't? According to Jan Lorch, chief sustainability officer at outdoor brand Vaude, brands should “do it before you have to”. He says supply chain transparency will be a significant part of the European Union's Green New Deal. “Regulatory measurements with a burden to comply will become even more important in the future,” he says. “The sooner we adapt to global development, which helps and does not punish, the better.”

RESPONSIBLE SOURCING STILL NOT TOP OF THE AGENDA

Percentage of senior supply chain executives across a range of sectors who say their organisation will prioritise supply chain sustainability efforts in the following areas



Capgemini 2020



NurPhoto/Contributor via Gettyimages

LIVING WAGE

# Will Unilever kickstart a supply chain revolution?

Multinational consumer goods giant Unilever will now require suppliers to pay their staff a living wage by 2030. So how will the company achieve its goal and could the high-profile move lead to wider industry change?

Cath Everett

Unilever hit the headlines in January when it became one of the world's first multinational corporations to require all members of its supply chain directly providing it with goods and services to pay their employees a living wage.

The progressive plan, which was put together with international charity Oxfam and comes into force in 2030, has garnered widespread praise as a means of trying to cut social inequality and poverty around the world, a situation that has only got worse due to the pandemic.

Dave Ingram, Unilever's chief procurement officer, explains the rationale. "Paying people a living wage is a very important step towards building a more equitable and inclusive society," he says. "It's not just giving families enough money to cover their basic needs plus a bit of a buffer, it also has clear, indirect benefits for the economy by stimulating spending and job creation, if it's done in the right way."

But while James O'Neill, principal consultant at procurement consultancy Proxima, believes Unilever is "genuinely trying to do good", he points out the commercial benefits to be gained. Not only

are those consumers that can afford it increasingly basing purchasing decisions on ethical criteria, but there is also the "macro backdrop" of government regulation around the world "growing more stringent more quickly".

"It's a mix of trying to do good and the reputational value that brings, plus a commercial view of customer demand and regulation, which means the time to act is now," he says.

Abe Eshkenazi, chief executive of the Association for Supply Chain Management, agrees. In his opinion, getting "ahead of the game before they're hit with regulations" is a key "motivating factor" for many companies introducing active policies.

But Dr Mark Johnson, professor of operations and supply chain management at Warwick Business School, also refers to "interesting historical parallels" with Henry Ford who, from 1914, paid his factory workers double the wage of any other car manufacturer in Detroit.

"Ford did it for two reasons: he was able to retain talent without fighting for it and it also allowed him to create a new tier of consumers to buy his products," Johnson explains. "So it's about creating a loyal supply

chain and resilience if something goes wrong."

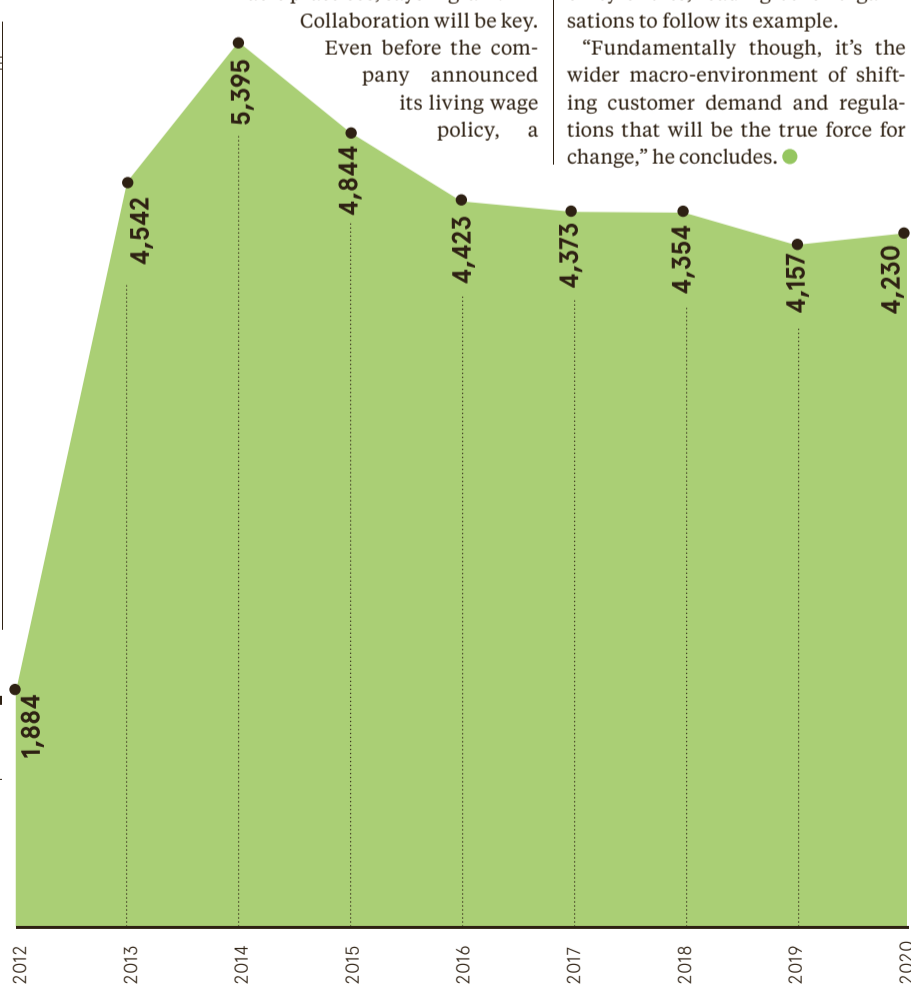
But there are challenges in going down this route, especially for a company the size of Unilever, which works with 60,000 direct suppliers in 190 countries around the world. The biggest challenge, O'Neill believes, will be "walking the tightrope of ambition to do good and commerciality".

"I don't think either Unilever or any other organisation will have the luxury of simply paying people more and absorbing all the cost themselves," he says. "Instead it'll need to look at how it collaborates with its supply base, come up with innovative ideas for how to manage those costs in partnership, work out

**WILL COMMITMENTS TO DO GOOD BOOST BRAND VALUE?**

Unilever's global brand value is on the up again, but it remains to be seen how the recent living wage announcement could impact this (in million US dollars)

Brand Finance 2020



**“We want to make systemic change in the countries and sectors we operate in, which means advocating for change that is bigger than us**

ways to reformulate specs to maintain margins that work for both parties and reconfigure order profiles to make things more competitive.”

Unilever's Ingram agrees the challenge is certainly a complex one and, because it is early days, work still needs to be done on creating effective policies and mechanisms. For starters, to tackle the thorny issue of setting differing wage standards around the world, the company is working with the Global Living Wage Coalition (GLWC), which uses the Anker methodology to estimate realistic regional or national living wages for individual countries.

Ultimately though, achieving its goals will involve Unilever "creating systemic change", he says. To this end, a dedicated, internal team has been set up to explore how things stand and understand how best to move forward with the help of local subsidiaries, NGOs and partners.

In cost terms, for example, while adaptations in areas such as manufacturing and service will probably constitute "more of a straightforward cost to Unilever", it should also be possible to boost the efficiency of agricultural systems by educating partners on the use of more sustainable practices, says Ingram.

Collaboration will be key. Even before the company announced its living wage policy, a

group of engaged supplier partners were brought together to provide their input and help set direction. Their key message was not to move too quickly due to fears of possible unintended consequences on employment, which is why "we're taking ten years to soften the year-on-year impact", he explains.

However, all new contracts signed with third parties will stipulate living wage compliance and any organisations found to be in breach will see the arrangement terminated. The company will also update its responsible sourcing policies and supply chain audit mechanism, while setting clear targets and ensuring suitable measurement systems are in place.

In supply chain auditing terms, Donald Moore, chairman of school-wear provider Rowlinson Knitwear, recommends using the established social methodology, the Sedex (Supplier Ethical Data Exchange) members' ethical trade audit, in combination with Net Promoter surveys to understand employee satisfaction levels. B Corp, which is owned by its 58 UK staff, is requiring its own tier-one suppliers in Bangladesh and Egypt to pay a living wage, as defined by the GLWC, by 2026 and tier-two partners to follow suit by 2030.

But Unilever's ambitions run deeper and wider than just its own supply chain. "We want to make systemic change in the countries and sectors we operate in, which means advocating for change that is bigger than us by influencing governments and sectors to move in this direction too," says Ingram.

Whether Unilever is likely to be able to kickstart this global living wage revolution or not, Proxima's O'Neill believes at the very least its high-profile move will help build momentum behind wider sustainability efforts, leading other organisations to follow its example.

"Fundamentally though, it's the wider macro-environment of shifting customer demand and regulations that will be the true force for change," he concludes. ●

OPINION

## 'Procurement can create a resilient and more innovative process, changing business for the better'

This year, innovative thinking and new operating models have been introduced at a rate of knots. The double whammy of Brexit and the pandemic saw companies review sourcing strategies and develop a greater focus on supplier risk as stocks of important goods and raw materials rapidly dried up.

According to the *CIPS/IHS Market Purchasing Managers' Index* delivery delays at the start of the year were some of the highest since records began.

Now stability is returning, what is procurement's role as businesses wake up to the value of building resilience?

Procurement teams are uniquely placed to provide innovative solutions for their organisations. This could be by mitigating risks such as bribery, corruption, and data security, or by shining a light on modern slavery and prompt payments. By aligning with a business's strategic objectives, procurement can create a resilient and more innovative process, changing business for the better.

Technology provides many solutions. Our research into the digitalisation of supply chains in 2020 found the main driver when implementing new technology was to maximise operational and financial gains, and improve agility and transparency. It can't have escaped business leaders that, had there been more visibility over supply chains, more could have been done to reduce disruption.

The good news is 95 per cent of firms last year had already implemented at least one technological improvement, such as cloud computing, big data or the internet of things.

Siemens is using digital twins, where a virtual double of a product collates customer information to build tailored profiles. Siemens' customers can automatically order new products when theirs comes to the end of its life. Coupled with strategies such as multiple sourcing, reducing reliance on one supplier or building in more local supply, companies will be in a stronger position to manage future shocks.

During the pandemic, we conducted research into how procurement professionals were managing other initiatives, such as sustainability, and discovered some had set plans aside to concentrate on the immediate impacts of COVID. This was disappointing. The value of sustainability principles is about more than the feel-good factor of doing the right thing.

Research from McKinsey suggests a circular economy is good for businesses themselves. Of the 150 companies surveyed, 32 per cent reported rises in revenue, 38 per cent said cost-savings increased and 70 per cent said brand recognition improved.

There's more to ethical behaviour than protecting the environment. The scourge of modern slavery is still with us. In February, seven of the world's leading chocolate manufacturers were sued by human rights group International Rights Advocates for their involvement in historic child labour. Despite having signed the Harkin-Engle Protocol in 2001, promising child labour abuses would be resolved by 2005, these companies are woefully behind on their promises.

Business abuses don't only occur on the other side of the world. I am concerned about bad practices closer to home. Paying suppliers on time and implementing responsible payment policies must improve. According to the UK government, £23.4 billion is owed to small and medium-sized enterprises, a thorn in the side of an economy coming out of a recession and reliant on many small businesses.

Why not be really innovative and pay suppliers early, as supermarket Morrisons did during the pandemic? Organisations must weigh up the advantages and disadvantages of their innovative sourcing strategies. This could mean having shorter, local supply chains, keeping sustainability at their core to generate competitive advantage or making greater efforts to weed out slavery. This new world order is an opportunity to change for the better so let's not squander it by going back to what seems safe, but no longer serves society. ●



**Malcolm Harrison**  
Chief executive, Chartered Institute of Procurement & Supply

# Q&A

## Robotics lifts warehouse efficiency to new levels

Hugh Stevens, chairman of warehouse management technology leader Synergy, reveals how robotics is transforming fulfilment operations by fuelling unprecedented efficiencies



**Q What impact has the coronavirus pandemic had on e-commerce retailers and their fulfilment operations?**

**A** COVID-19 and stay-at-home directives have significantly accelerated the move to e-commerce. I would say, previously, the ratio was still around 80-20 in favour of bricks and mortar. Since the start of the pandemic, it has flipped the other way in favour of e-commerce. This move is unlikely to be reversed and it has opened up a whole new range of supply chain challenges. In a world of instant gratification and Amazon-scale fulfilment, consumers expect near-immediate delivery when purchasing items online.

**Q How has the use of robotics technology in warehouse environments evolved in recent years?**

**A** Automation has been available for many years, but it has been relatively expensive and time consuming to implement. The technology has improved and robotics is now moving from an early-adopter phase into the mainstream. Meanwhile, other drivers, like the shift to e-commerce and labour shortages, are forcing warehouse operators to look to alternatives to improve

productivity. The volatility of the e-commerce marketplace makes planning very difficult. Volumes can grow exponentially and new opportunities can present themselves almost overnight. The situation requires a far more agile solution so the technology can be quickly repurposed if the situation requires.

**Q Where does Synergy come into this and how have you been supporting organisations by optimising their warehouse environments?**

**A** Synergy realised robotics is essential in the warehouse of the future. We examined the robotics market and concluded we could create our own robotic solution that exactly met the operational requirements of the future. Many of the existing vendors came from a robotics engineering background and had scant knowledge of how a warehouse actually works. Put simply, we knew the problem and designed the solution, in contrast to other vendors which had a solution and were looking for the problem.

**Q Synergy is launching a new autonomous mobile robot in the third quarter of 2021. How are you looking to disrupt the market with this robot?**

**A** Synergy's robot, SnapCart, is an integral part of our cloud-based warehouse management system, SnapFulfil, which controls in real time all resources within the warehouse. It works within an existing warehouse. It is non-disruptive and allows retailers to incorporate SnapCarts into their fulfilment operations at their own pace. We have also created a cut-down version of SnapFulfil, SnapPick, which allows warehouse operators to use an existing warehouse management system and incorporate the robotic SnapCart picking solution into their fulfilment process.

**Q How will SnapCart take warehouse efficiency to new levels?**

**A** SnapFulfil optimises the SnapCart loading in order to "cluster" the picks and create the most efficient route to minimise the travel time and the number of pick locations visited. SnapCart makes the pickers far more productive as they are picking, not walking. Higher volumes can be processed by the existing workforce and it is also easier to flex the throughput to accommodate the inevitable peaks and troughs that occur in e-commerce, such as during promotional periods like Black Friday. While robots are very good at moving goods autonomously from A to B, it's important we still recognise humans are better at activities which require flexible, manipulative or dexterous skills. Our mantra is: the picker does the picking, the cart does the walking.

**Q What role will robotics play in the future of supply chain innovation?**

**A** Innovation has never been more required. The supply chain already uses cutting-edge technology and Synergy's embrace of robotics will make us one of the leaders in this arena. To meet customer expectations for instant satisfaction, more micro-fulfilment centres will spring up to shorten the last-mile delivery distance. Synergy is one of the few vendors combining hardware and software for an integrated, holistic solution that can be deployed with minimum disruption. It sounds simple, but believe me it is not.

For more information please visit [snapfulfil.com/about-snapcart](https://snapfulfil.com/about-snapcart)



**“Our mantra is: the picker does the picking, the cart does the walking**



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