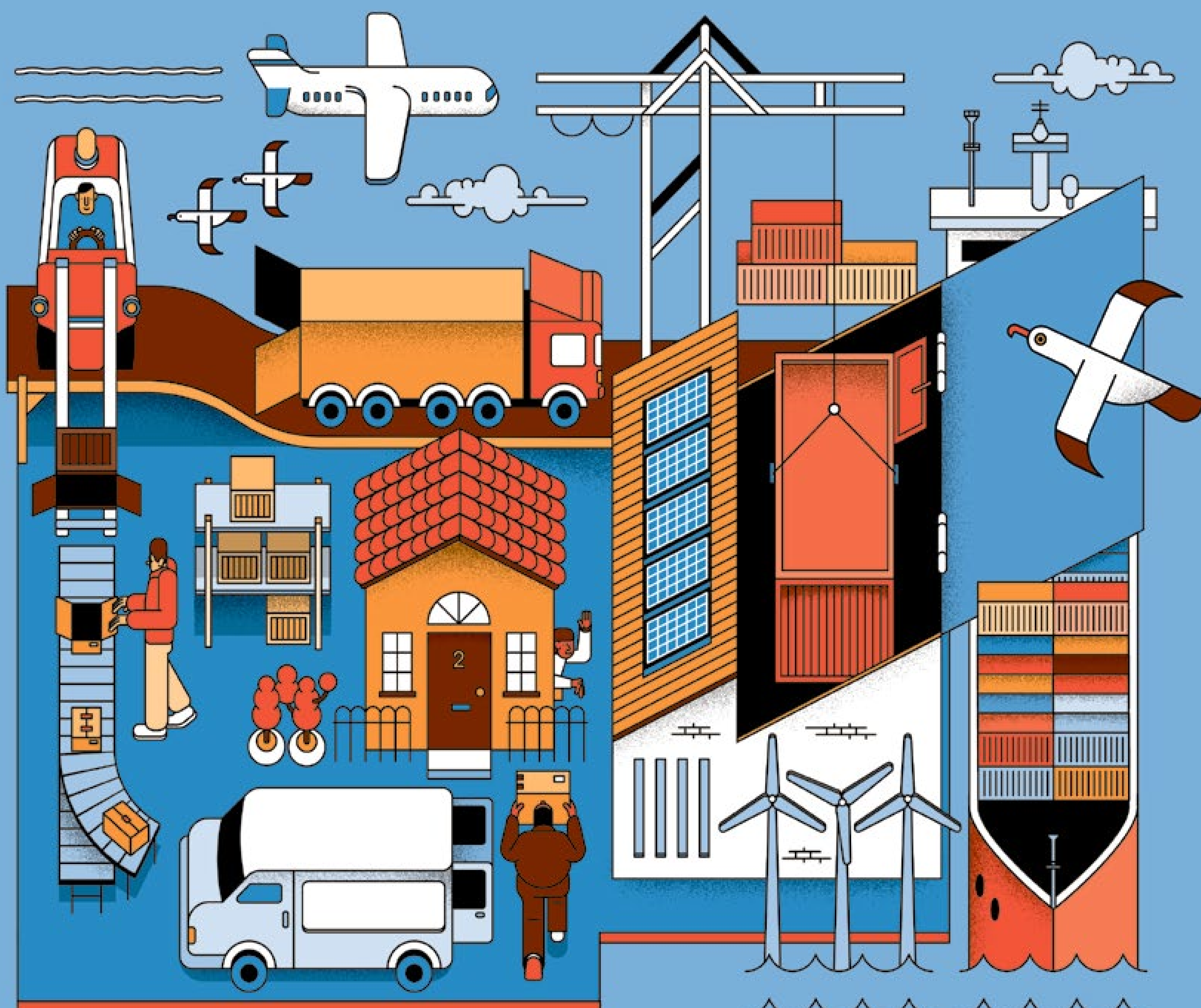
INDEPENDENT PUBLICATION BY Raconteur RACONTEUR.NET | #0881 | 18/08/2022

# FUTURE OF SUPPLY CHAIN





# FUTURE OF SUPPLY CHAIN

Distributed in
THE TIMES

Published in association with
CIPS

## Contributors

**Jon Axworthy**
A freelance journalist who specialises in writing about health, science and technology.

**Olivia Gagan**
A journalist writing about culture, clean energy and the shift to a net-zero world.

**Rich McEachran**
A freelance journalist covering the intersection of business, technology and sustainability.

**Chris Stokel-Walker**
A technology journalist with work published in *The New York Times*, *The Guardian* and *Wired*.

**Raconteur**

Reports editor
**Ian Deering**

Deputy reports editor
**James Sutton**

Editor
**Sarah Vizard**

Chief sub-editor
**Neil Cole**

Sub-editor
**Christina Ryder**

Commercial content editors
**Laura Bithell**
**Joy Persaud**

Associate commercial editor
**Phoebe Borwell**

Head of production
**Justyna O'Connell**

Production executive
**Sabrina Severino**

Design
**Kellie Jerrard**
**Harry Lewis-Irlam**
**Colm McDermott**

Illustration
**Sara Gelfgren**
**Samuele Motta**

Design director
**Tim Whitlock**





RISK MANAGEMENT

# The supply chain crisis is over – but have we learnt from it?

Although the worst of the disruption may be behind us, future shocks are inevitable. Despite this, many enterprises appear to be doing little to improve their resilience

**Rich McEachran**

If you ask a group of purchasing chiefs about their experiences since 2020, you'll find that few, if any, will look back with much fondness.

To say that the past three-plus years have been a challenge to the profession would be a gross understatement. When Covid-19 started its deadly spread, the disruptions it triggered led to materials shortages around the world, causing input costs to spiral. This had a huge detrimental effect on manufacturing, resulting in a prolonged decline in output. But the vice-like grip the crisis imposed on global supply chains is loosening at long last. In fact, several metrics suggest that we're through the worst of it.

In May, global factories increased their output for the fourth consecutive month, while productivity in China recently hit an 11-month high after Beijing lifted Covid restrictions at the end of 2022. And, while manufacturing figures in the US dipped in June, they seemed to be stabilising in July, according to the Institute for Supply Management's latest Purchasing Managers' Index (PMI).

Among those surveyed for the PMI was a purchasing manager in the fabricated metal products sector who reported that supply chain conditions were returning to a situation broadly comparable to pre-pandemic conditions. Logistics costs had settled down, while transit times were falling. Any remaining divergence was to be found in energy and raw materials costs.

Another purchasing manager, this time from the primary metals sector, noted that their order book was "strong". And a respondent working in the food and beverages industry said that they expected production to increase soon, given the slight easing of inflation and an uptick in consumer confidence.

Although the threat of recession still looms over several economies, things are undoubtedly starting to look healthier, and more familiar, to supply chain managers. Looking ahead, the key questions for professionals to consider are what lessons they have learnt since 2020; what changes the crisis has necessitated and whether corporate procurement teams are well enough prepared to handle the next big shock to the system.

Such questions are made more urgent by the findings of research


suggesting that many businesses are already reverting to old short-termist habits. For instance, a US survey by PwC in November 2022 found that 5% of senior executives considered the task of improving their companies' responsiveness and resilience to be their highest priority in 2023. Only 23% included it among their top three concerns.

One organisation that has clearly deemed the task vital is French electrical engineering company Schneider Electric. It has been two years since the business adopted a supply chain strategy called Strive (standing for sustainability, trust, resilience, intelligence, velocity and efficiency). The firm's main aim in doing so has been to make its supply chain more shock-resistant and customer-centred – and it seems to be succeeding. In May, Schneider topped Gartner's rankings for the top 25 supply chains globally for the first time.

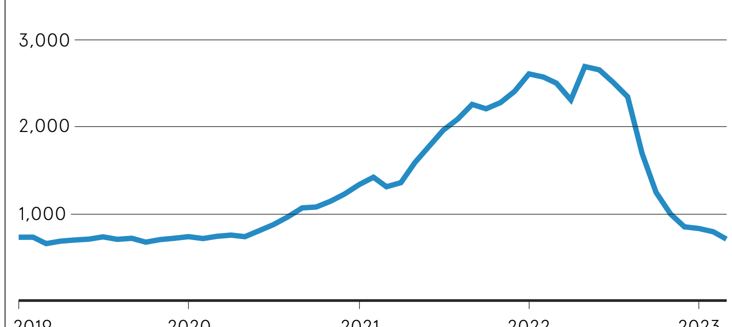
What has this transformation entailed? Kapila Mehta, vice-president for sustainability in the company's power products arm, explains that the forces at work during the Covid crisis (and events such as the semiconductor shortage) made the global market "increasingly dynamic and uncertain". Schneider realised that the situation demanded an appropriately agile response, so it gave its procurement teams licence to do whatever it would take to adapt quickly to changes in the market and so continue meeting customers' needs in a timely fashion.

Now that things have calmed down a little, Schneider is working with thousands of its upstream partners to lock in vital supplies with the expectation that this will guarantee operational continuity. It has also committed to making full use of its network of 180-plus factories and nearly 90 distribution centres to ensure maximum flexibility and responsiveness.

Another important change over the past few years in procurement has been an increasing focus on two longer-term objectives: digitisation and sustainability. Schneider first set out to decarbonise its operations in 2019, for instance, pledging to cut its scope-three (supply chain) emissions by a quarter before 2030.

**CARGO SHIPPING COSTS HAVE RETURNED TO NORMAL LEVELS**

Container freight rates from China to US west coast (1,000 = January 1998 level)




Shanghai Shipping Exchange, 2023

The sharp increase in fuel and energy costs caused by the war in Ukraine may have seemed a serious stumbling block to Schneider in its pursuit of this goal. But Mehta explains that the situation only underscored the need to digitise the company's supply chain operations to make improved energy efficiency and other sustainability objectives more achievable.

Another way that some resilience-focused procurement teams have been safeguarding their operations is through multisourcing, whereby they use two or more suppliers to deliver the same item. The simple logic behind this practice is that drawing upon several sources in different locations should limit any disruption if a supplier at one site runs into problems.

Lynn Torrel is chief procurement and supply chain officer at electronics giant Flex, which found itself on the receiving end of much of the disruption to manufacturing during the pandemic. She points out that, although "single-location in-house production" may offer economies of scale, "having multiple outsourced manufacturing sites across several regions, closer to end markets, can help to mitigate risk".

Torrel adds that the benefits of spreading the risk of disruption this way will, of course, need to be balanced against "the efficiency of your freight and logistics, which is dependent on your location".

Comparable practices, such as friendshoring and onshoring, also look set to continue as long as geopolitical tensions remain high. But Mehta stresses that these measures will not be the ideal solution for all firms, pointing out that "the large movement towards localisation needs to be driven by the pursuit of both resilience and sustainability".

If the events of the past three years have taught supply chain professionals anything, it's that they have to be flexible to avoid getting caught out.

"To be resilient enough to withstand disruption, businesses need the right mix of global and local supply chains," Mehta says.

Even a well-balanced hybrid approach of this type can't render a supply chain bulletproof, of course, but it will put a business in the best possible position to handle the next big shock around the corner.

As Torrel notes: "Supply chain disruption is inevitable. Your biggest challenge is how effectively you can recover from it."

EDITOR'S NOTE

# 'Standards never stay neatly in one contract-lined box'

**If the government is serious about raising the bar on procurement in the public sector and beyond, its latest legislation will need to go further**

How many contractors does it take to change a lightbulb? Well, if you're talking about the NHS, the answer would be "many" – at a cost of £70.

That, at least, was the joke doing the rounds back in 2018, when outsourcing giant Carillion went bust, exposing a culture of waste and remarkably ineffective profiteering. Cue tabloid outrage, which is not something you can say often in the world of public sector procurement.

But, if the more recent scandal concerning the so-called VIP lane for preferred suppliers of personal protective equipment during the Covid crisis has shown us anything, it's that there is always room for improvement on standards. Hence the government's procurement bill, a package of reforms that's in the final stages of its parliamentary journey. Enactment is slated for H2 2024, pending further consultation.

So, how does the government plan to go about improving public procurement? And what does the bill mean for those outside the public sector? One briefing note on the bill describes how it will "replace the current bureaucratic and process-driven EU regime for public procurement by creating a simpler and more flexible commercial system that better meets our country's needs… delivering better value for money… [and] slashing red tape". (Missed out any other manifesto lines, fellas? Oh, yes: lob in a reference to levelling up by way of "requiring contracting authorities to consider SMEs" and job's a good 'un.)

The politics of post-Brexit procurement aside, the bill does contain some meaningful changes. For one thing, it does away with the five existing procurement procedures derived from EU rules. It replaces these with three streamlined options: direct award; a single-stage competitive tendering process without restrictions on who can submit; and any other competitive tendering procedure that the contracting authority feels is appropriate.

If that sounds rather laissez-faire, that's because it is. And to guard against abuse, the government is simply updating the guidelines on transparency and shifting the awarding process to a digital platform – an idea that has been around for more than a decade. As a result, contracting authorities will be required to publish notices at various stages of the process, including details about a supplier's performance against KPIs; any payments the supplier has received under public contracts; and the final terms of any £2m-plus contract. But let's get real: a few extra bits of documentation are hardly going to do the trick.

Granted, new powers to root out abuse or instances of poor value for money may well help, and the bill enables authorities and ministers to debar, exclude and remedially set aside misbehaving suppliers like never before. But, as the opposition has pointed out, that very much relies on officials behaving irreproachably. At the risk of appearing cynical, may I direct your attention to the Covid VIP lane once more?

As one supply chain and procurement consultant I spoke to recently put it, there's even a danger that awarding authorities could end up "taking the big suppliers' claims about modern slavery at face value" because the system is still awaiting the injection of rigour it needs. "That", he said, "is still a way off."

To return to the question of why this matters to the business world, it's worth remembering that standards – whether they cover transparency, value for money or the enforcement of performance targets (including, for instance, ESG objectives) – never stay neatly in one contract-lined box. Institute a set of rules in one sphere (the public sector), and the behaviour learnt while aligning with those new rules will gradually bleed across into another (the private sector). That is great news if the rules are rigorous, but less so if they aren't.

That's why, once the bill is enacted next year, businesses might have to brace themselves to do more of the heavy lifting than they're used to. Without stronger legislative action, that will be the only way to maintain high procurement standards and thereby prevent another Carillion-style scandal from striking again. ●

**James Sutton**
Deputy reports editor, Raconteur

PARTNERSHIPS

# Five ways to strengthen supplier relationships

Amid rising prices and ongoing uncertainty, fostering trust is the name of the game for many procurement teams. What's the best way to do it?

Olivia Gagan

In the business world, trust can often feel intangible and hard to define. Even so, that instinctive sense of trust – or distrust – can still exert a huge influence on corporate decision-making, especially when it comes to determining which firms to partner with and which to keep at a distance.

In turbulent times, we naturally gravitate towards those we deem most trustworthy. Given the sheer scale of disruption that global supply chains have endured since early 2020, it's understandable that trust has become a high priority in supplier relationships.

A survey of supply chain executives by Deloitte in late 2022 found that 44% were anticipating another big shock to the system within two years. With this risk in mind, 61% of respondents said that their firms had made improving trust levels among their key stakeholders a priority.

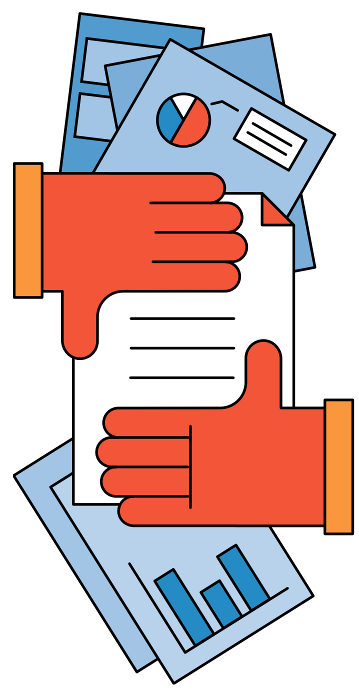
If mutual trust is indeed an effective factor in managing the risk of disruption, how can businesses and their suppliers go about building stronger, healthier relationships?

## 1. Be open from the start

No matter how you define trust, it is something that can be actively cultivated in business-to-business relationships. So says Jess Baker, a chartered business psychologist and leadership coach.

She explains that transparency is a key ingredient that goes into building trust. When establishing a relationship with a potential new partner, an honest conversation about your respective businesses' core identities, priorities and communication preferences is vital if you're to form a clear understanding of each other.

"I encourage clients to ensure that any supplier is a 'values match'. If your business aligns strongly with a certain value, such as sustainability or collaboration, then ascertain that any new supplier is agreeable to this," Baker advises. "In contrast, if your firm is purely target-driven, you can say: 'We're not expecting to have a personal relationship. We just want you to deliver on time all the time.' That creates a different type of contract, but it's no less transparent and authentic."



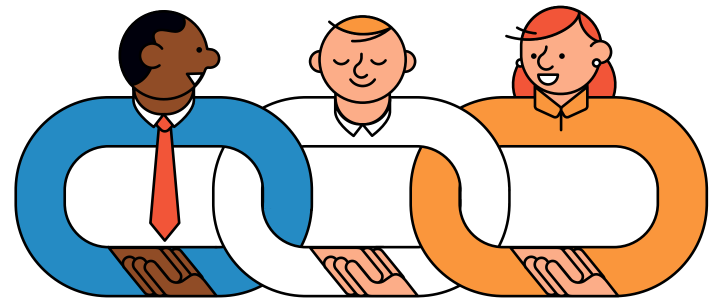
## 2. Share the appropriate information, not all of it

Baker is quick to stress that being transparent is not the same as being reckless with information.

"Building trust and providing transparency does not necessarily mean revealing everything," she says. "It can be about agreeing in advance what you will divulge, and what you will talk about, when in a contract."

Kaye Sotomi is the co-founder and director of Chop Chop London, a chain of gender-neutral hair salons with branches across the capital. He agrees that spilling all the details about your company's inner workings is unnecessary in a healthy supplier relationship. That said, he encourages sharing some of the firm's aspirations and plans in order to strengthen ties with its partners and motivate them.

"Help your suppliers to see where you're trying to go," Sotomi suggests. "If your goal is to open 50 stores in 10 years, for instance, tell them. With that information, a supplier knows that it could eventually be servicing all 50, growing with your business as it scales up."

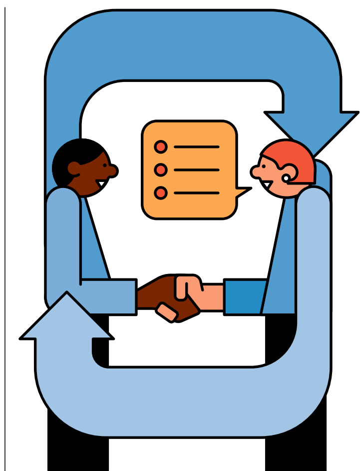


## 3. Create a C-suite role in trust management

The concept of using trust as a bulwark against instability and business disruption is increasingly being reflected in the world of senior recruitment: chief trust officers are emerging in corporate boardrooms.

A small but not insignificant proportion (6.1%) of organisations have appointed a chief trust officer or are planning to do so before next year, according to research by Deloitte.

## 4. Carry on refreshing the value exchange



Building trust via clear contracts, flexible payment terms and strong communication should be straightforward when there's no precedent. For existing business-supplier relationships, a string of price increases or an unexpected change in trading terms after many years of collaboration can quickly sour relations and/or weaken trust.

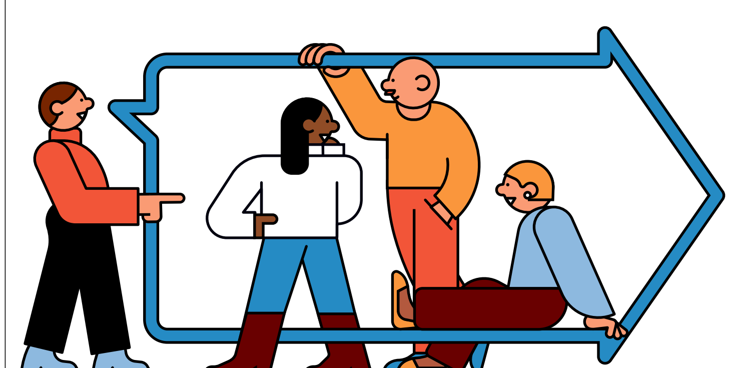
Jim Rowan is managing director of Dunns Food and Drinks, a 148-year-old wholesaler to businesses operating throughout Scotland's hospitality industry. He says that, with inflation running at about 18% in his sector, maintaining trust with long-standing customers and suppliers has become a high priority.

This challenge has been made even harder by the fact that, when you're dealing with conglomerates and household-name suppliers, "there is often no negotiation" when price increases are afoot, Rowan reports.

But smaller suppliers can be collaborated with in other ways, as he explains: "You could give a supplier more space in your marketing material. Or you might offer them more time with your salespeople. You can take them out to see customers too. This offers them valuable opportunities for relationship-building and market research."

If a supplier cannot move on price, it is still possible to safeguard trust. Sotomi advises asking the supplier to provide value in other ways.

"If your tech provider is charging more, say, can it improve your booking system, processes or devices? Can it talk to your team about AI and its benefits to the business? Does it have data available that will help to improve your offering? These are all ways for your business to make incremental gains and for the supplier to retain your custom."



## 5. Set the right tone internally first

Baker's advice for any firm seeking to build a more trusting relationship with its suppliers would be to start from within. This involves addressing some key questions.

"How are you managing your own time and relationships? And how can you improve the quality of those within your team?" she says. "From there, you can look at how that translates into the functions within departments and then externally towards the supply chain."

Sotomi adds that it's all about setting a direction of travel. He stresses that positive action taken now will lead the way to more transparent and efficient supply chains.

"The way in which successful businesses approach relationships with their suppliers is changing," Sotomi says. "We are shifting from a transactional approach towards more strategic partnerships."

Baker agrees. "The shift I sense is that we all want to work in collaboration. We know we can achieve better results for both ourselves and the end customer if we do that."

Commercial feature

# The changing face of logistics: why the industry is seeking new voices

Logistics employees make up 7% of the UK's workforce, but only 7% of young people would consider a job in the sector. Where is the industry getting it wrong?

As sectors go, logistics is about as integral to keeping the country ticking over as water, energy and the internet. It's the de facto fourth utility, essential for keeping global supply chains moving and covering the procurement, storage and distribution of goods that power the economy.

The sheer scale of the sector spans the collective minds and manpower of two million employees across the UK - or 7% of the country's workforce. But despite its size and significance, it remains a somewhat invisible and unsung hero.

While Covid-19 swept the nation, shops shut their doors, businesses pivoted to online, and millions of people began working and shopping almost entirely from home. This digital paradigm shift pushed the industry to breaking point, but it stepped up to keep vital medicines, foods, drinks and products flowing to hospitals, shops and homes in every postcode.

Research carried out by Prologis UK, a global leader in real estate and supply chain logistics, found that 92% of people surveyed nationwide agreed that logistics workers were seen more positively during the pandemic. This recognition has brought a sense of fulfilment to those working in the sector, with 58% of logistics workers stating that they feel proud of their role. And, with four in five people categorising logistics employees as key workers today, that positive legacy very much lingers.

**The perception problem at the centre of a recruitment crisis**

Career paths in logistics should be celebrated, admired, and pursued, but the industry is struggling to attract and retain a new generation of skilled employees. Prologis' 2023 Critical Infrastructure report finds just 7% of young adults would consider a job in logistics. Amid ongoing driver shortages, an ageing population, and an outflow of EU talent post-Brexit, recruitment has become the latest in a slew of challenges facing even the UK's largest logistics employers. Time, then, for a refresh.

In a bid to supercharge the economy and bring new talent into the fold, the UK government has invested in Generation Logistics, a two-year scheme to work alongside the industry to raise the profile of logistics in schools and colleges nationwide. With £300,000 of funding on the line, the aim is clear: encourage young people into a lasting career in logistics. Robin Woodbridge, head of capital deployment and leasing at Prologis UK, says changing perceptions will be central to realising that ambition.

"A lot of people think that logistics is purely drivers delivering online orders to their doorstep," he says. "But in a typical logistics building, drivers make up roughly 6% of employees. Drivers are hugely important, as we saw during Covid, but there are so many other opportunities that suit people with a range of skills in offices, warehouses and on the road."

The spectrum of jobs in logistics is continuing to expand, with staff spread across warehouse, driver, office and management roles. Perhaps the greatest shift in the sector in recent years has been technological. Like many industries, the future of logistics will be driven by more diverse skills.

Seasonal surges in demand for products mean hiring thousands of new staff to keep products moving and avoid delays. However, automation could help the sector to avoid shortfalls in recruitment at peak periods and improve efficiency by carrying out manual tasks in warehouses - but that's not all, says Woodbridge. "The rise of robotics, automation and even artificial intelligence will encourage the industry to hire staff with software development, coding and AI skills," he says. "These are very popular career choices for young people, and we want them to know that there are opportunities in logistics to pursue these careers."

**For the love of logistics**

But how can logistics attract and retain tech-savvy staff ahead of businesses in other industries, boasting swanky city centre offices resembling hotels, enticing workplace cultures and big wage packets?

Job satisfaction is a key selling point. Prologis research conducted earlier this year among logistics and warehousing workers revealed that 66% of sector employees love their chosen career, and 69% of employees across the entire logistics workforce, aged between 18 and 34, say they are likely to recommend a career in the industry.

> **"Perhaps the greatest shift in the sector in recent years has been technological. Like many industries, the future of logistics will be driven by more diverse skills**

Similarly, the case for stable and long-term employment and career development is strong. In 2022, 91% of sector workers were full-time, and more than half (54%) of the workforce had been employed in logistics for over a decade, with 63% of sector workers aged 18 to 34 agreeing that they see their current career as a long-term move.

For those starting out, formal qualifications don't present a significant barrier. According to data from YouGov analysed by Frontier Economics, most logistics managers (63%) do not hold a university degree or equivalent qualifications. Of those that do, qualifications in science, engineering, law, business, and finance are the most popular and showcase the potential routes for young people to take into the industry if they do so after gaining an undergraduate degree.

But to really win the war for talent, logistics still has work to do to improve its placemaking endeavours and banish the image of soulless warehouses, pallets and forklift trucks. Many logistics sites don't prioritise or even consider access to outdoor seating areas and green spaces, which could further improve employee wellbeing and satisfaction. "We're trying to make our buildings, the places around our buildings and our integration with the community way better," Woodbridge explains. For Prologis, this has been a focus for over ten years. He continues: "Why can't you come into a logistics park and have walking routes? Why can't you have a gym? Why can't you have outdoor seating and better environments in the building?"

Prologis' Daventry International Rail Freight Terminal, based in Northamptonshire, provides a window into the future. Recognised as the premier logistics park in the UK, it boasts dedicated external amenity areas for staff, and its on-site training academy, The Hub, aims to identify and upskill the next generation of highly-capable logistics professionals while nurturing a robust workforce pipeline.

This approach provides positive initiatives we hope the wider logistics industry will continue to follow, says Woodbridge, pointing to the need to engage young talent to meet the increasing demands the sector is likely to face. Between 2022 and 2027, the online retail market is predicted to grow by 29%. So, it's a case of when, not if, the industry must reposition itself to meet the demands of tomorrow, welcoming the class of 2023 and beyond.

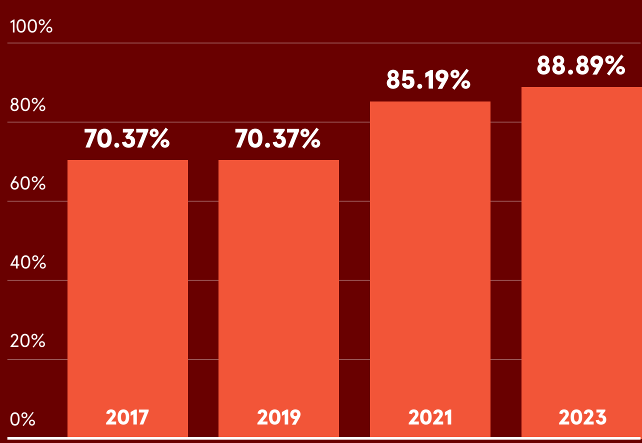
**For more information please visit prologis.co.uk**

PROLOGIS®
Ahead of what's next

## BRITAIN'S TRADING PROCESSES HAVE MOVED MORE AND MORE ONLINE IN RECENT YEARS

The UK's implementation of paperless trade systems (%)

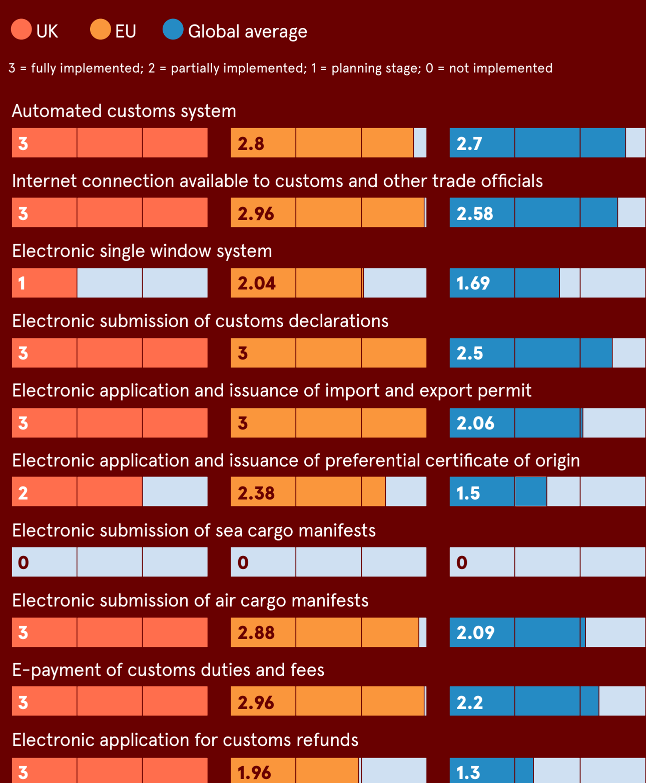
UN, 2023




## SEVERAL KEY TECHNOLOGIES HAVE HELPED THE UK TO ACHIEVE RAPID PROGRESS ON DIGITAL TRADE

Implementation of specific digital trade systems

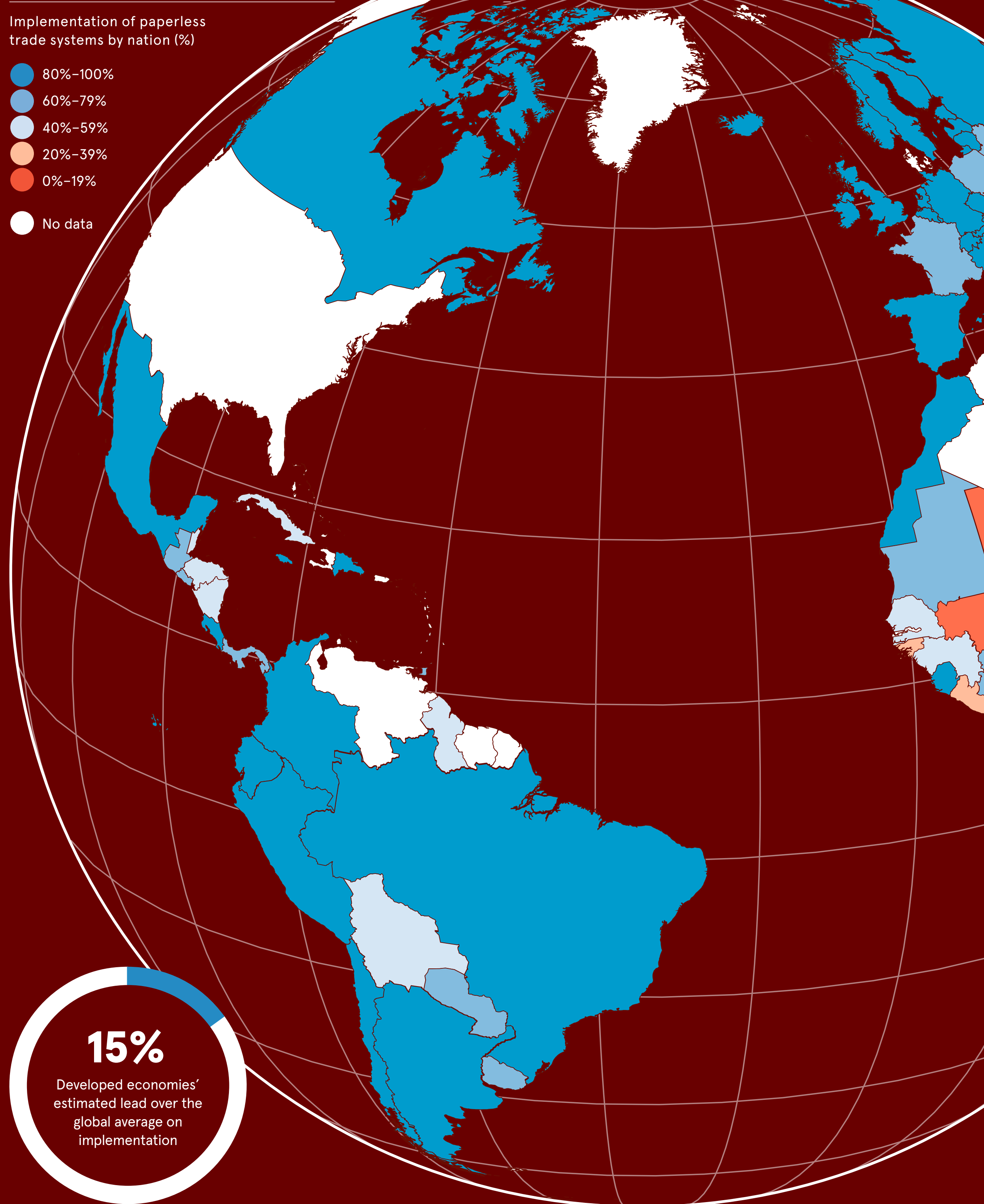
UN, 2023

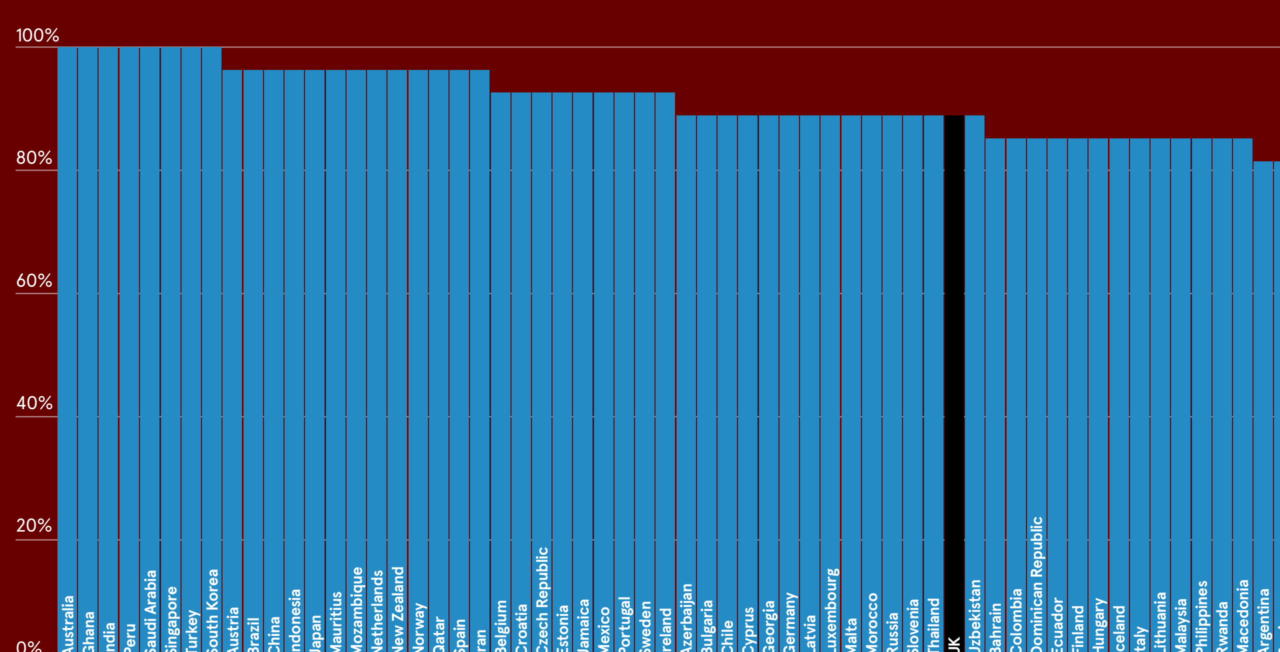


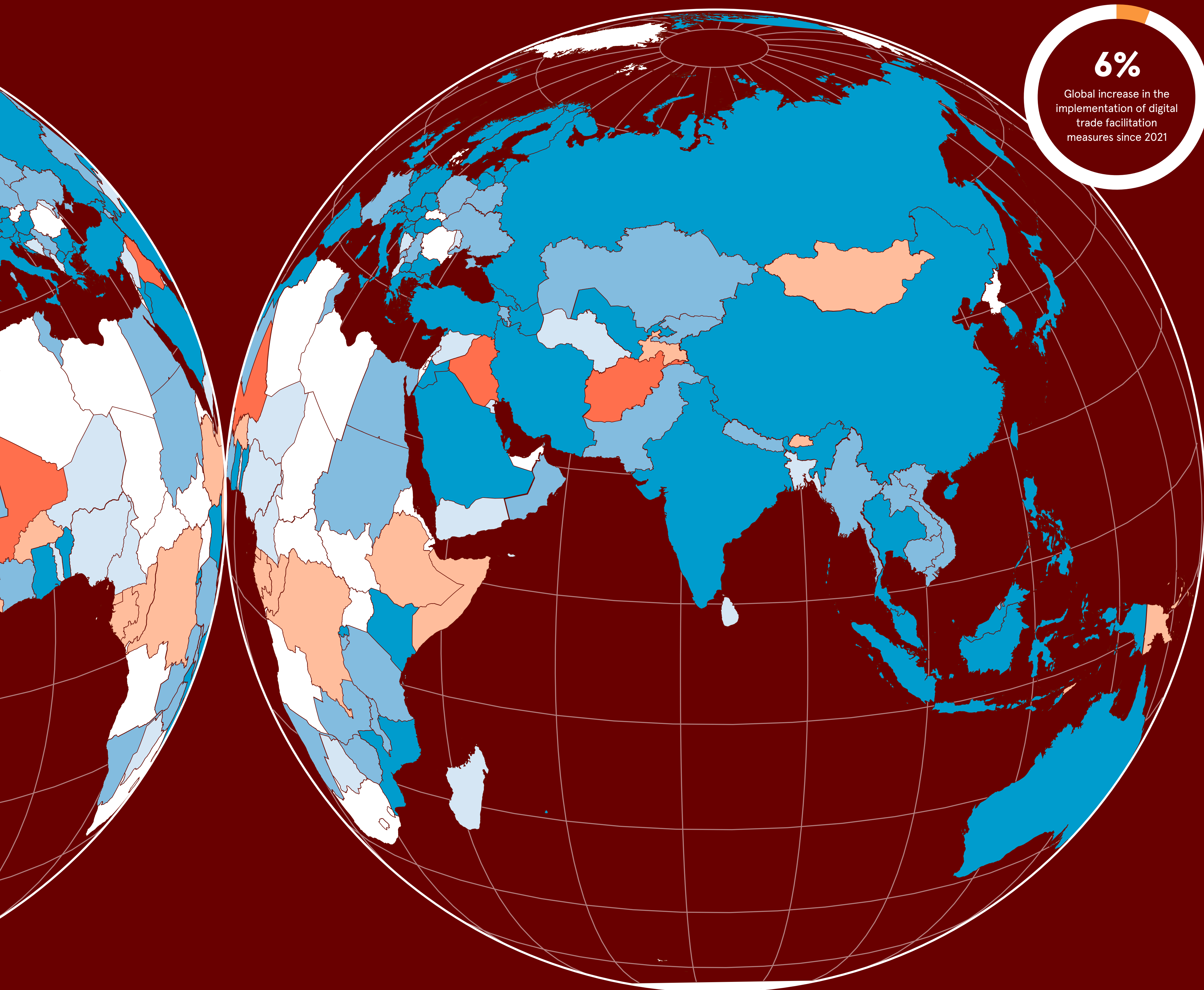

# TAKING TRADE DIGITAL

The digitalisation of international trade has advanced apace in recent years, despite all the disruption caused by the Covid crisis, the ensuing materials and components shortages, the return of high inflation, the war in Ukraine and ongoing tensions between China and the US. But progress has not necessarily been even, with some countries taking the lead and others clinging to outdated practices. So, after the upheaval of Brexit, how do the UK's trade processes compare?

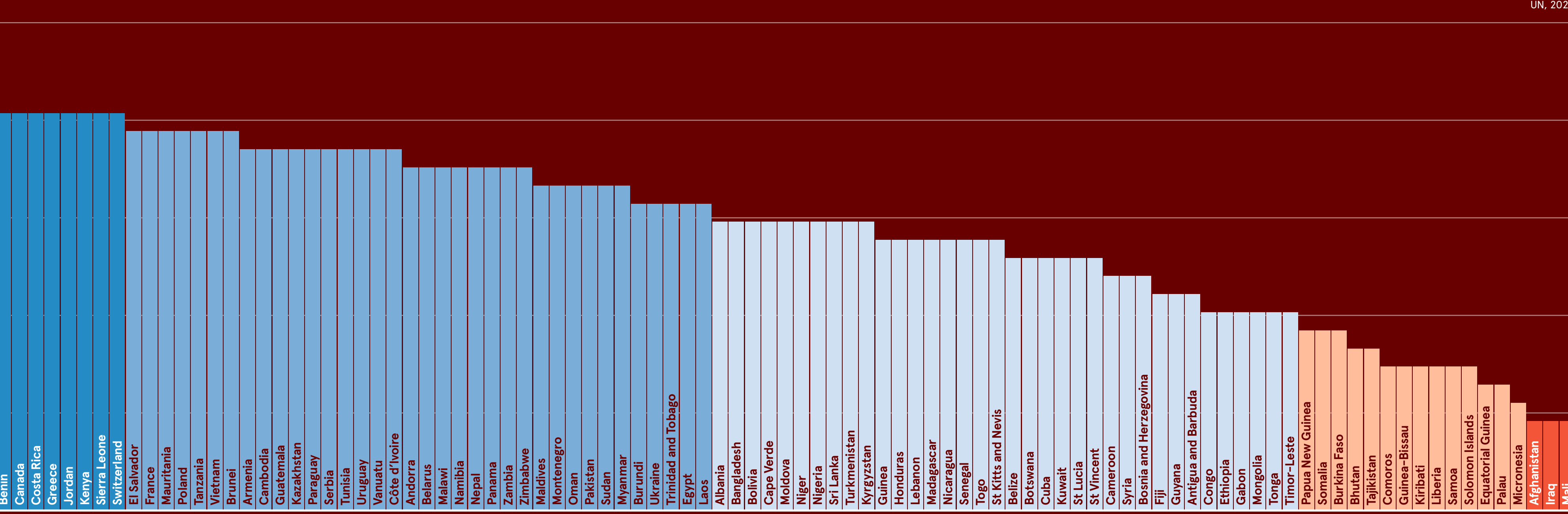
## PROGRESS TOWARDS DIGITALISED TRADE IS FAR FROM EVEN




6%
Global increase in the implementation of digital trade facilitation measures since 2021

UN, 2023


Benin
Canada
Costa Rica
Greece
Jordan
Kenya
Sierra Leone
Switzerland
El Salvador
France
Mauritania
Poland
Tanzania
Vietnam
Brunei
Armenia
Cambodia
Guatemala
Kazakhstan
Paraguay
Serbia
Tunisia
Uruguay
Vanuatu
Côte d'Ivoire
Andorra
Belarus
Malawi
Namibia
Nepal
Panama
Zambia
Zimbabwe
Maldives
Montenegro
Oman
Pakistan
Sudan
Myanmar
Burundi
Ukraine
Trinidad and Tobago
Egypt
Laos
Albania
Bangladesh
Bolivia
Cape Verde
Moldova
Niger
Nigeria
Sri Lanka
Turkmenistan
Kyrgyzstan
Guinea
Honduras
Lebanon
Madagascar
Nicaragua
Senegal
Togo
St Kitts and Nevis
Belize
Botswana
Cuba
Kuwait
St Lucia
St Vincent
Cameroon
Syria
Bosnia and Herzegovina
Fiji
Guyana
Antigua and Barbuda
Congo
Ethiopia
Gabon
Mongolia
Tonga
Timor-Leste
Papua New Guinea
Somalia
Burkina Faso
Bhutan
Tajikistan
Comoros
Guinea-Bissau
Kiribati
Liberia
Samoa
Solomon Islands
Equatorial Guinea
Palau
Micronesia
Afghanistan
Iraq
Mali


Bryan Angelo via Unsplash

SUSTAINABILITY

# Unpacking Amazon's scope-three mission

The etail behemoth's new sustainability pledge is raising eyebrows. Will its ambitious plans to help suppliers cut their greenhouse gas emissions deliver genuine change throughout its vast supply chain?

**Jon Axworthy**

Much has been written about the environmental cost of an Amazon package, from the time it's picked from a shelf at the fulfilment centre to the point it's handed over on the doorstep.

In light of such criticism, the firm has taken numerous steps in recent years to shrink the carbon footprint of its downstream business. It has introduced hydrogen-powered forklifts and electric delivery vans, for example, and redesigned packaging to minimise waste.

But Amazon has since started looking more closely at what happens to goods upstream, long before they reach the fulfilment centre. In its latest annual sustainability report, published this July, the company has committed to updating its supply chain standards to require suppliers to share their emissions data and set themselves clear decarbonisation goals.

"Our potential for impact across our supply chain is big because it spans building materials, transportation, technical equipment, products and packaging," the report states. "We will use our scale to benefit businesses that are committed to decarbonising by providing products and tools to both track emissions and help decrease them."

This pledge comes into effect next year. The objective is to give suppliers enough time to establish appropriate reporting measures on scope-three emissions – the carbon footprint imposed by entities not directly controlled by Amazon in the process of serving the company.

Disclosing and reducing scope-three emissions will be a significant challenge for any business, let alone one of Amazon's size. So how can it realistically achieve this?

"The supply chain partners of a large business are likely to span different sectors, locations and business sizes, so recognising that diversity will be important," says Luke Pate, an economist and sustainability expert at consultancy Oxford Economics. "Supply chain partners will be at different points on their sustainability journeys and so face different barriers to measuring and reducing their emissions."

Pate suggests that knowledge-sharing has a key role to play in spreading best practice. Amazon could pass on what it's learnt from its successful downstream practices – the use of green hydrogen, for example – to help upstream suppliers follow suit where relevant.

He adds that there are "business-case tools available that identify options for interventions such as fleet upgrades and estimate the cost savings and carbon reductions associated with them".

Many effective interventions will require significant investment, though. Pate notes that many of the smaller businesses that make up much of the supply chain may find the initial costs of taking action too high to bear.

> **It's not compulsory to report on all scope-three emissions for all companies, but I think regulatory change will come**

"Large businesses could help their SME suppliers by promoting off-the-shelf tools and signposting resources identifying government support for environmental performance improvements, for instance, or by directing them towards low-carbon energy suppliers," he suggests.

They could also help SMEs to obtain loan finance with favourable terms – something that fashion house Gucci is doing to help its suppliers fund their decarbonisation efforts. Ikea, meanwhile, has been directly financing the on-site investments that its suppliers have made in switching to 100% renewable energy.

Big players are also realising that building alliances with like-minded firms in comparable positions on the supply chain can help them make good on their net-zero promises. This sort of collaboration not only ensures that competitive forces don't push unnecessary emissions upstream. It also fosters shared expectations about why and how suppliers should reduce emissions.

Supplier Leadership on Climate Transition, established in 2020, is one such alliance. It was formed to enable giants including PepsiCo and Mars to help suppliers decarbonise by paying them to attend seminars on how to bake emission-reduction plans into their everyday operations. There are 12 businesses in the alliance, bringing with them 1,200-plus representatives from 400 of their suppliers.

Emulating this approach, Amazon created the Zero Emission Maritime Buyers Alliance (Zemba), along with clothing brand Patagonia and coffee retailer Tchibo, in March this year. Zemba's goal is to accelerate the commercial deployment of zero-emission shipping, which makes up a significant portion of Amazon's scope-three burden.

While it might be in the interests of well-resourced big names to take responsibility for other companies' emissions, can the same be said for smaller operations with significant scope-three liabilities?

Andrew Tasker is associate director for environmental impact assessment and sustainability at RPS Group, a multinational environmental consultancy. He notes that "it's not compulsory to report on all scope-three emissions for all companies, but I think regulatory change will come, either from government or through service bodies".

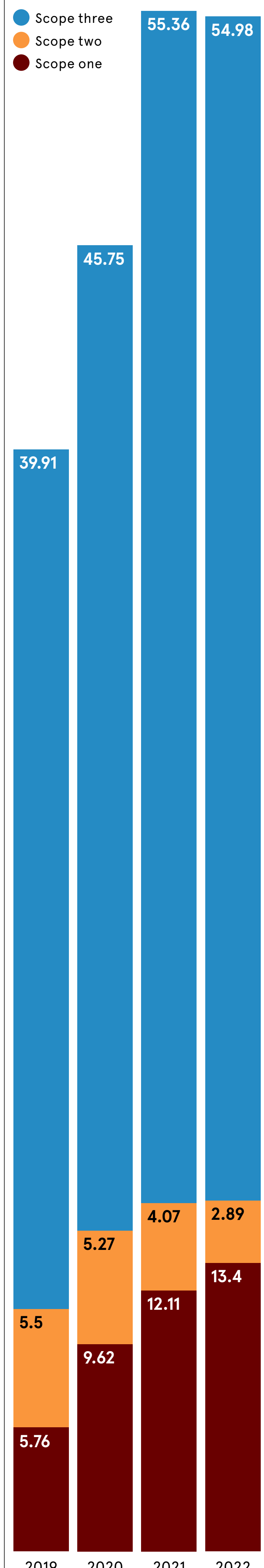
He adds that any time and money spent on dealing with scope-three emissions will generate a return on investment, even if that's not immediately apparent.

By doing so, firms can "avoid risks within their value chains, unlock innovations and get a better idea of their carbon footprints, allowing for more accurate reporting", Tasker explains. "It can also reduce operating costs – and companies are better able to protect their business from the risks that come with emerging carbon restrictions from governments and regulatory bodies."

No wonder Amazon wants in.

**SCOPE-THREE EMISSIONS FORM THE BULK OF AMAZON'S CARBON FOOTPRINT**

Amazon's carbon footprint by emission type (million tonnes of $CO_2$ equivalent)




Amazon, 2023

INSIGHT

# ‘A culture of poor payment practice is still strongly embedded’

British businesses have a problem with paying suppliers promptly. It’s time to put an end to it, says **Nick Welby**, CEO of the Chartered Institute of Procurement & Supply

It’s not hyperbole to say that small businesses, individuals and the effectiveness of supply chains around the world rely on the free and prompt movement of payments. After all, in cases where payments take a long time to process, the extra financial strain can sometimes result in bankruptcy, cash flow problems and damaged business relationships.

And yet the poor practices of large businesses have remained largely unchanged over the past five years. That’s a key finding of our latest study, which has also revealed that large businesses in the UK are still paying a significant proportion of their invoices outside the agreed payment terms.

The Chartered Institute of Procurement & Supply (CIPS) has regularly examined payment data submitted by large companies to the government’s database on payment practices since 2018. Our analysis of this year’s data shows that, five years on, a culture of poor payment practice is still strongly embedded in British businesses.

Any large company and limited-liability partnership with an annual turnover exceeding £36m, a balance sheet of at least £18m and more than 250 employees must submit data to the government registry twice a year. While the regulation has had some success in raising awareness of late payments within the business community, there has not been a significant improvement in payment terms, and poor payment practices have remained stubbornly consistent.

And worryingly, despite the fact that businesses within the scope of the legislation are legally required to submit their payment statistics, it is clear that many businesses are not inputting their results consistently.

Transparency matters here. Otherwise, companies can easily end up wasting time and energy chasing late payments, which distracts from important investment decisions and forces them to direct time and resources away from their primary goal of creating and delivering products and services for consumers. Late payments can also hold things up for suppliers further down the chain.

The situation may well get worse before it gets better too. Campaign group Good Business Pays warns that struggling businesses may be tempted to delay payments further as a way to improve cash flow.

The government is reviewing the regulations around prompt payments. One suggestion it’s considering is whether collating data on the value of a company’s late payments, in addition to the overall number of late payments, would add more context. If higher-value invoices are being left unpaid, that could have a greater effect on those businesses involved and the wider UK economy.

Businesses can take matters into their own hands as well by working to improve their own payment practices. For example, a good place to start is to check the payment terms you use with your suppliers to verify that these are fair. Good Business Pays suggests that 30 days is the optimal term. We at CIPS use that with our own suppliers.

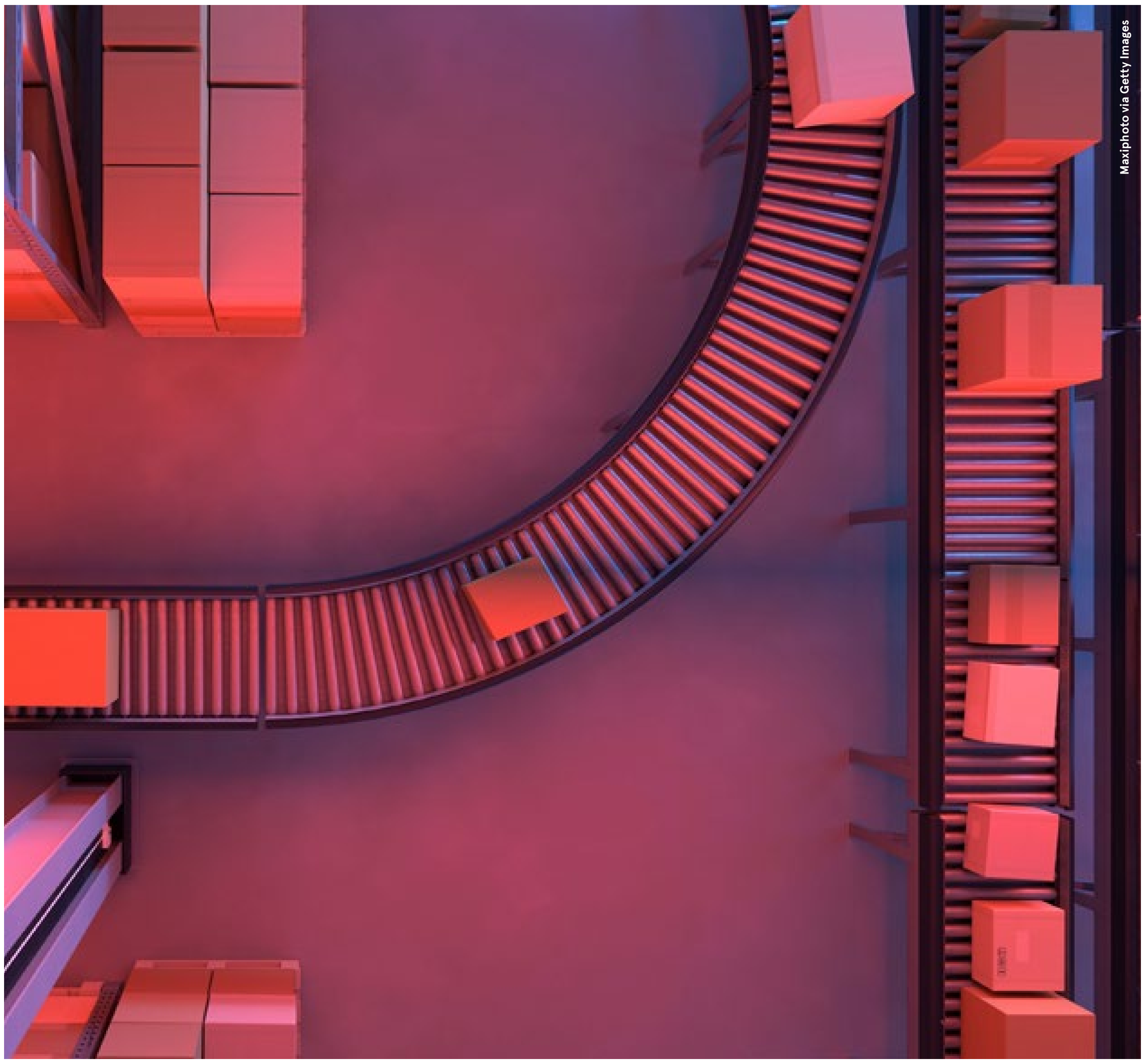
It’s worth checking whether your payment systems are up to date too. Manual systems require more time and effort, whereas implementing automation could offer efficiencies and reduce delays. The clear and consistent use of purchase-order numbers will help finance teams to process payments quickly.

Smaller businesses can also take steps to help themselves. As an SME, for instance, you may want to ask your larger customers when they make their payment runs to help you get to know their systems, so you can send invoices at the best time of the month.

And lastly, signing up to the *Prompt Payment Code* can be a good way to not only demonstrate your commitment to best practice, but also bring about a meaningful improvement in your financial behaviour. Companies that have signed up to the code have been found to perform better than the national average, settling fewer invoices late and having shorter average payment times. ●

> “Transparency matters here. Otherwise, companies can easily end up wasting time and energy chasing late payments

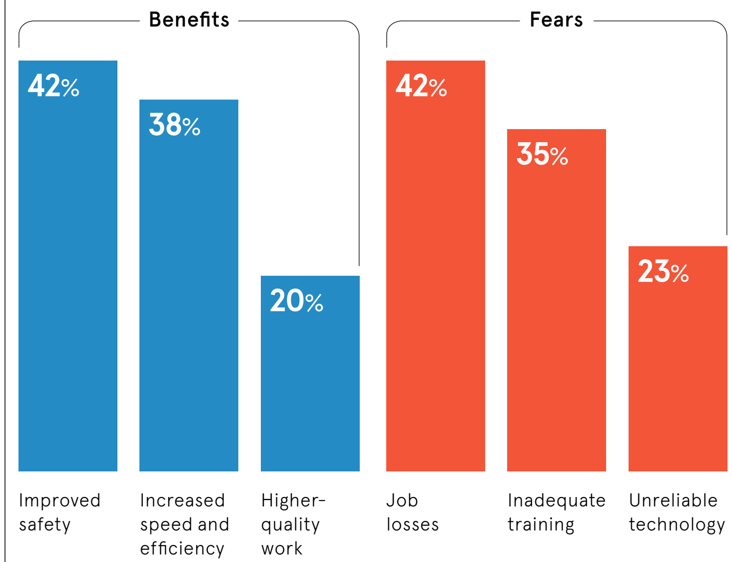
**Nick Welby**
CEO, the Chartered Institute of Procurement & Supply



Maxiphoto via Getty Images

**SUPPLY CHAIN PROFESSIONALS HAVE MIXED FEELINGS ABOUT AUTOMATION**

Share of supply chain workers worldwide citing the following benefits and fears associated with automation




Accenture, 2022

RECRUITMENT

# How AI could help to close the procurement skills gap

It's ironic that the profession struggles with its own supply of talent. Concerns about automation seem to be deterring potential entrants, but recruiters might be able to turn the tech to their advantage

Chris Stokel-Walker

Walk into a meeting of supply chain managers and you might wonder whether you've stepped back in time several decades. According to research published in 2021 by Logistics UK, 89% of people working in this field are white and 83% are men.

Not only is the profession pale and male – it's stale too. As more and more people in this ageing workforce retire, employers are struggling to find new blood to replace them. Recruitment giant Hays reports that more than three-quarters of employers seeking to hire into the supply chain and logistics sector this year are expecting a dearth of applicants.

There's clearly a blockage in the talent pipeline, but why? And what can those in the industry do to clear it and so help to solve a chronic skills shortage?

One of the key factors restricting the inflow is that procurement is often high on lists of roles at risk of being automated to extinction. After all, employers are bound to want to seize upon the efficiency savings offered by tech such as machine learning and robotics.

That, coupled with the recent slew of media reports highlighting failures in important supply chains and their ramifications, may well have deterred potential entrants to the field.

Scott Dance, a senior director specialising in procurement, logistics and supply chain management at Hays, believes that there's a general lack of knowledge about the profession and its activities. An education campaign explaining how people in the business go about their work should help to reduce the fear factor.

"One way to help close the skills gap is to encourage young professionals into the industry, but people's limited understanding of what this sector does, and its growing importance, is a significant entry barrier to new talent," he says. "We must raise awareness of what's involved in supply chain management and why it's such an appealing thing to be a part of."

> **AI is likely to replace certain responsibilities, as opposed to entire roles**

Dance suggests that telling good news stories about the profession – its integral role in sourcing parts for life-saving equipment such as radiotherapy machines, for instance – is one route.

"A good place to start is to ensure that careers advisers in schools and universities stress how crucial the supply chain sector is to everyday life and the UK economy – and how much potential there is for a fulfilling career in this industry," he says.

Another useful measure would be to debunk some of the popular myths circulating about how recent technological developments could affect the sector.

"While the rise of generative AI has sparked concern about job security across the supply chain landscape, AI is likely to replace certain responsibilities as opposed to entire roles," Dance predicts. "A lot of the manual and, arguably, mundane work can be automated, for instance, freeing up professionals to focus on more exciting work."

Jose Arturo Garza-Reyes is professor of operations management and head of the Centre for Supply Chain Improvement at the University of Derby. He observes that sectors such as tourism, healthcare and IT have also faced severe skills shortages in recent years and have had to improve pay and conditions significantly to become more attractive career options.

If supply chain businesses don't take similar action to close their skills gaps, the ramifications could be serious, adds Garza-Reyes, warning of "operational inefficiencies, delays and increased costs for both companies and consumers".

Any failure to act decisively could also harm organisations' extant procurement teams, which in many cases have been struggling to keep things running smoothly while chronically understaffed.

"Since existing employees may have needed to take on additional responsibilities, their increased workload may cause burnout," Garza-Reyes stresses. "Not tackling the skills shortage may result in heightened health and safety risks, as well as defective products and services. This can also disrupt supply chain operations, which would affect production, delivery and, ultimately, customer satisfaction."

Given such risks, embracing tech such as generative AI could, as long as the rationale is explained carefully, actually offer a solution to the skills shortage. One possible move might be training up people who have some familiarity with supply chains but may perhaps lack all the digital skills required in the sector.

Ambrozy Rybicki is co-founder and CEO of ARP Ideas, a software developer that also provides outsourced IT expertise. He stresses that "supply chain employers must recognise the importance of new IT skills in optimising their operations. Investing in continuous training for employees can enhance their technical capabilities."

While Rybicki admits that this may be easier said than done, he highlights the importance of tackling the problem promptly, rather than leaving it to fester.

"Developing in-house expertise requires time, resources and a clear understanding of emerging technologies," Rybicki says. "But ignoring the widening tech skills gap will have detrimental effects on the supply chain industry. Companies may struggle to keep pace with technological advancements, leading to inefficiency, cost inflation and a loss of competitiveness."

In the highly competitive field that supply chain management has become, that could be fatal.

"The inability to innovate and adapt to market demands may hinder growth and long-term success," he says. "Whether through in-house development or strategic collaboration with IT experts, taking steps to bridge the skills gap is vital for a resilient, agile and forward-looking supply chain industry."

Commercial feature

# Can SMEs grab the golden growth opportunity that globalisation offers?

Strong demand from emerging economies and the easing of supply chain disruption are enabling smaller firms to boost their income and gain recognition around the world. Here's how exporting puts SMEs on the map

Faced with high inflation, rising interest rates and geopolitical uncertainty, many SMEs have been hunkering down rather than looking to grow. But, with the global supply chain crisis easing, perhaps they don't need to wait for the domestic storm to pass to seek out success.

At the World Economic Forum's annual meeting in Davos this year, leaders endorsed digitisation, international trade and the establishment of new supply chains as routes to resilience amid macroeconomic uncertainty. The time for timid growth strategies is over.

"If you have a flat or challenging market in a country of about 70 million people, there are still around 8 billion other people in the world," says Antony Harvey, managing director of Royal Mail's international business. "So why wouldn't you open up your customer base?"

Anglosphere countries such as the US, Canada and Australia have a huge number of customers that SMEs can tap into with relative ease. Ecommerce platforms, digital communication tools and regional free-trade pacts have also made it easier for smaller firms to access emerging markets. The International Monetary Fund forecasts that these will grow at more than twice the rate of developed ones in 2023.

Asia, for example, is home to the world's largest consumer market, in terms of both population and expenditure.

"There's a lot of affection for UK brands in Asia, especially among the middle classes," Harvey notes. "In the Middle East – particularly in emirates such as Dubai – there's also a large and growing expat community looking for a piece of home. Along with continuing investment and business growth, this makes it a good place to look for new customers."

**£6.5bn**

**in support to British firms from UK Export Finance over the past year**

**70,000**

**additional small businesses in the UK could be exporting to the rest of the world if they improved their ecommerce capabilities**

Social Market Foundation, 2022

Although export sales might only account for a small percentage of orders for some SMEs, these can make a significant difference to their bottom lines.

"The biggest mistake that smaller businesses often make is not being open to international sales," Harvey says. "If you test out some markets, you'll find a great new profit line."

He explains that this is partly because international customers have different purchasing habits. "They tend to make fewer orders than domestic customers, but buy more items at one time to make the most of the higher delivery costs relative to their domestic options."

### Cutting through the red tape

Despite all the opportunities that exporting presents, it's not uncommon for SMEs to dismiss it as too much trouble, deterred by the extra paperwork and regulatory compliance risks.

"Granted, there are parts of the world where you'll need to do your homework and look up the tax rules, prohibitions and restrictions," Harvey says. But he adds that using exports to fuel growth may require less time and effort than many firms might think. This applies as much to exports to Europe as those to emerging economies.

The thorny question of when and where to start exporting has been made even thornier by uncertainty about the EU-sized elephant in the room. True, it's no longer possible to simply apply some postage to an item in the UK and know that it will reach the recipient. But the information needed for customs purposes is relatively straightforward to obtain.

"At first glance, it looks like a lot," Harvey says. "But it's often the sort of data you'd use for your stock-keeping units, plus a little about your company and some recipient information."

He also points out that, once the initial admin is done, businesses could reasonably expect plain sailing. "There are routes to market that might be easier than you'd think. You don't have to create a new tax department. You may have to do a few minutes of research and set up your stock listings in the right way, but it's relatively easy from that point."

Trade tensions aside, the EU remains a crucial market for British businesses. Navigating this new relationship, along with engaging markets further afield, will be part and parcel of building a robust trade strategy.

### Export support is on hand

The good news is there's plenty of help available for SMEs that want to export. Hundreds of British firms have benefited from £6.5bn in support from UK Export Finance (UKEF) over the past year, enabling them to break into international markets and grow. Many of this government department's SME customers were supported through its general export facility – a platform that gives smaller firms access to trade finance options up to £25m without the need for a specific export contract.

> **The biggest mistake that smaller businesses often make is not being open to international sales. If you test out some markets, you'll find a great new profit line**

"Ministers want to link that up to the trade deals they've been doing," Harvey says. "The government is really keen that the UK exports and improves its sales overseas."

A recent report from the Social Market Foundation concluded that an additional 70,000 small businesses in the UK could be exporting to the rest of the world if they improved their ecommerce capabilities.

"If you're an ecommerce exporter, everyone with an internet connection can find your product. Your choice is just how easy you make it to find you," Harvey says. "This can include targeted marketing to key markets and reskinning your website to look local. At the other end of the spectrum, it can be just about ensuring that, if you're listing on a marketplace, you're ticking that box that lets items go overseas."

Royal Mail is launching an international larger parcel and weight capability to help SMEs expand into new territories. The company's goal in doing so is to "make it as easy as sending a domestic item", he explains. "Anything you can put into our domestic pipeline, you'll be able to put into our international pipeline, the idea being that people can sell far more of their inventory overseas."

As well as giving SMEs the chance to improve their bottom lines, access to fast-growing economies can also improve their long-term resilience. As Harvey notes: "There is normally somewhere that's growing and somewhere that's shrinking. The broader your exposure to overseas markets, the more you stand to benefit from the growth areas, even if it's not so busy at home."

**For more information on how Royal Mail can help you export with ease, visit royalmail.com/exportingmatters**