



Risk Management Study

Results of the INVERTO Survey “Risk Management in Procurement”

Cologne, February 2023



- 1 Management Summary**
- 2 Survey Design and Participants
- 3 Survey Results
- 4 Recommendations for Action

The risk faced by most companies surveyed is the issue of energy supply – They expect further increases in purchasing prices and increased cost pressure



Energy crisis and inflation cause noticeable uncertainty among companies

- 83% of the companies surveyed see rising energy costs as a current business risk. Rising prices for raw materials and intermediate products follow close behind at 72%
- The risk posed by supply bottlenecks has decreased slightly in importance (66%; -27% points): Coronavirus-related supply uncertainties are declining, marking a slow return to original material availability



Rising purchase prices as a result of inflation increase the cost pressure for Procurement

- 74% of companies expect rising purchase prices as a result of inflation (top 1) and 70% see themselves exposed to increasing cost pressure in the future (top 2)
- 57% rate the influence on their own active risk management as (very) high; 26% expect a (very) large impact on the product group structure
- Around 20% of participants expect supplier insolvencies to have a major impact; 40% see little or no influence

Alternative suppliers and extensive storage capacities protect companies from supply bottlenecks



Security of supply remains top priority for Procurement. Concerns about energy supply and costs have become more relevant

- While 90% of participants were affected by supply bottlenecks in the previous year, the figure for April to October of this year was 72%. The main reasons cited were disruptions in the supply chain and capacity bottlenecks at suppliers. The issue of supply security therefore continues to be a top priority for procurement (77%)
- Price risks (66%) and the issue of energy supply and energy costs (48%) follow in second and third place. Compliance risks (13%) and quality risks (12%) currently play only a minor role



Digital tools increasingly help in proactive risk management

- 29% of respondents make extensive use of digital tools to systematically capture and assess risks (+13-points year-on-year)
- Uncertainty about the maturity of digitization in one's own company has decreased (15%; - 14%-points), indicating greater confidence in one's own systems and forming the basis for further implementation of digital tools

Companies appear prepared for the Supply Chain Act - full implementation of measures lags behind in some cases



In addition to classic measures for recording and assessing risks, the ability to react to unexpected events at short notice is gaining in importance

- Measures such as long-term framework agreements (75%), regular supplier evaluations (65%) and dual-sourcing strategies (64%) have the greatest significance for the participating companies in addressing procurement risks
- 43% of respondents have implemented a task force for ad-hoc management of short-term risk events



Companies are prepared for the entry into force of the German Supply Chain Act on 01.01.2023, but so far only isolated measures have been fully implemented

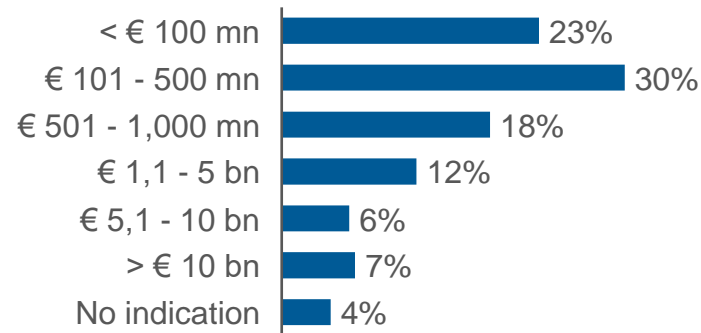
- 66% of companies feel sufficiently prepared for the launch; only 4% are unprepared
- In particular, measures for risk analysis in our own company and with suppliers have already been fully implemented
- Affected companies primarily cite the high time required (77%) and the lack of influence with suppliers (57%) as the biggest challenges in implementing the law



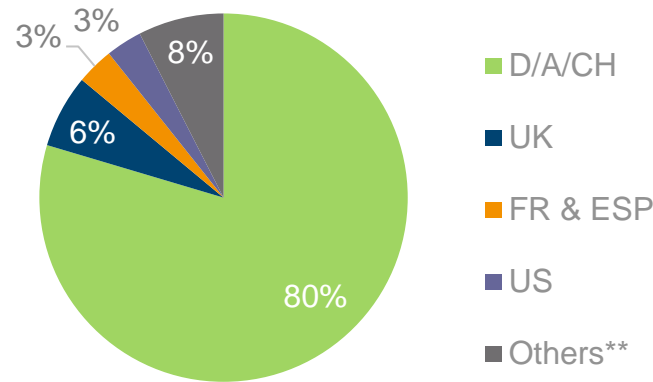
- 1 Management Summary
- 2 Survey Design and Participants**
- 3 Survey Results
- 4 Recommendations for Action

72% of the study participants generate annual sales of more than € 100 million - representativeness due to the diversity of the companies' industries

What is your annual turnover?



Where is your headquarters located?



Online survey and survey at the BME Symposium Berlin



Anonymized survey and evaluation

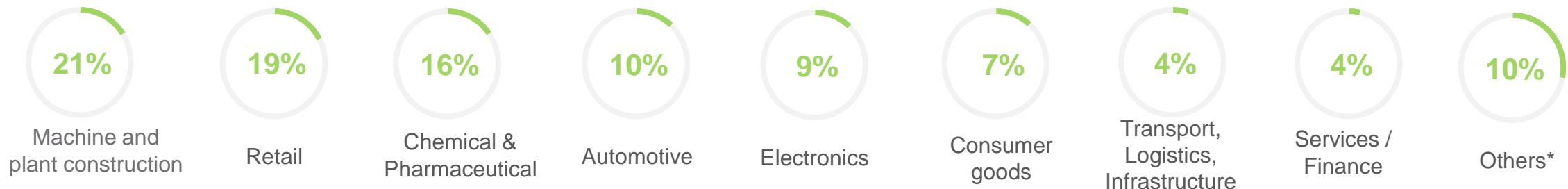


119 participants



12 Oct – 17 Nov 2022

In which industry is your company operating?



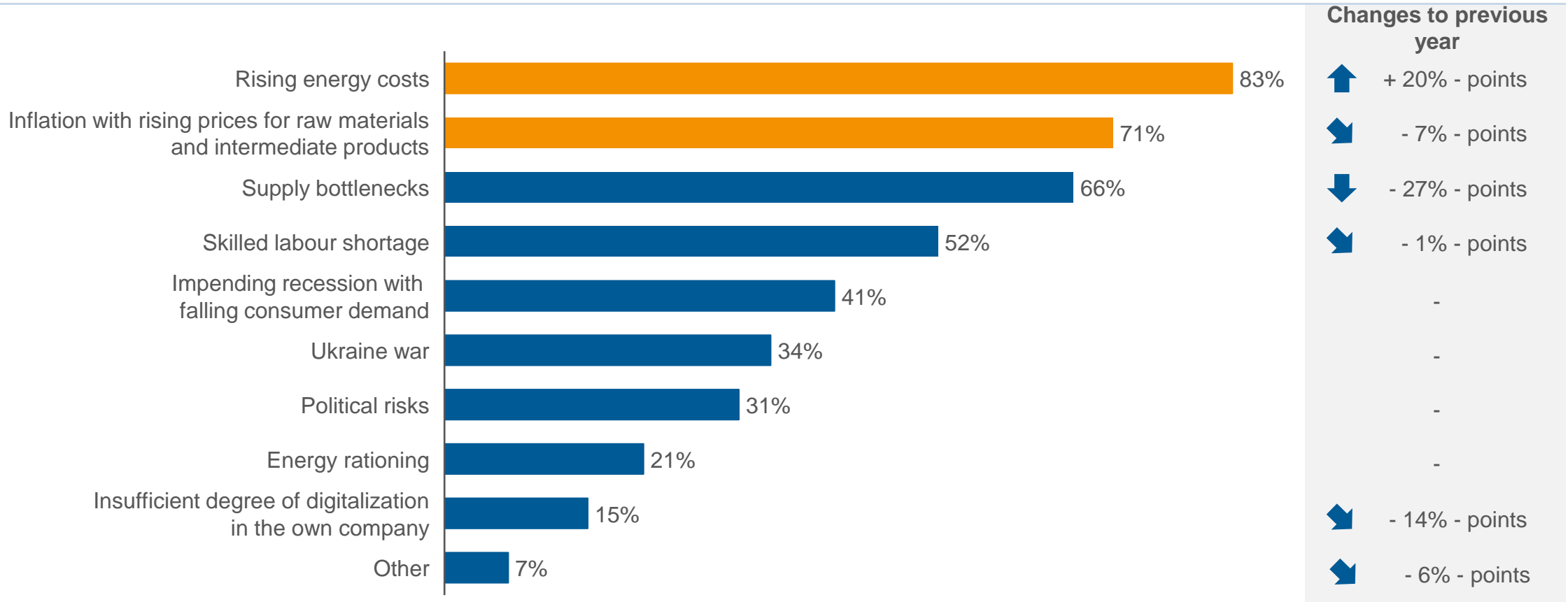
* i.a. paper and packaging industry, medical technology, construction industry, etc.
 ** i.a. South Africa, the Netherlands, Italy, Japan



- 1 Management Summary
- 2 Survey Design and Participants
- 3 Survey Results**
- 4 Recommendations for Action

Rising energy costs and prices currently impact most of the companies, followed by supply bottlenecks

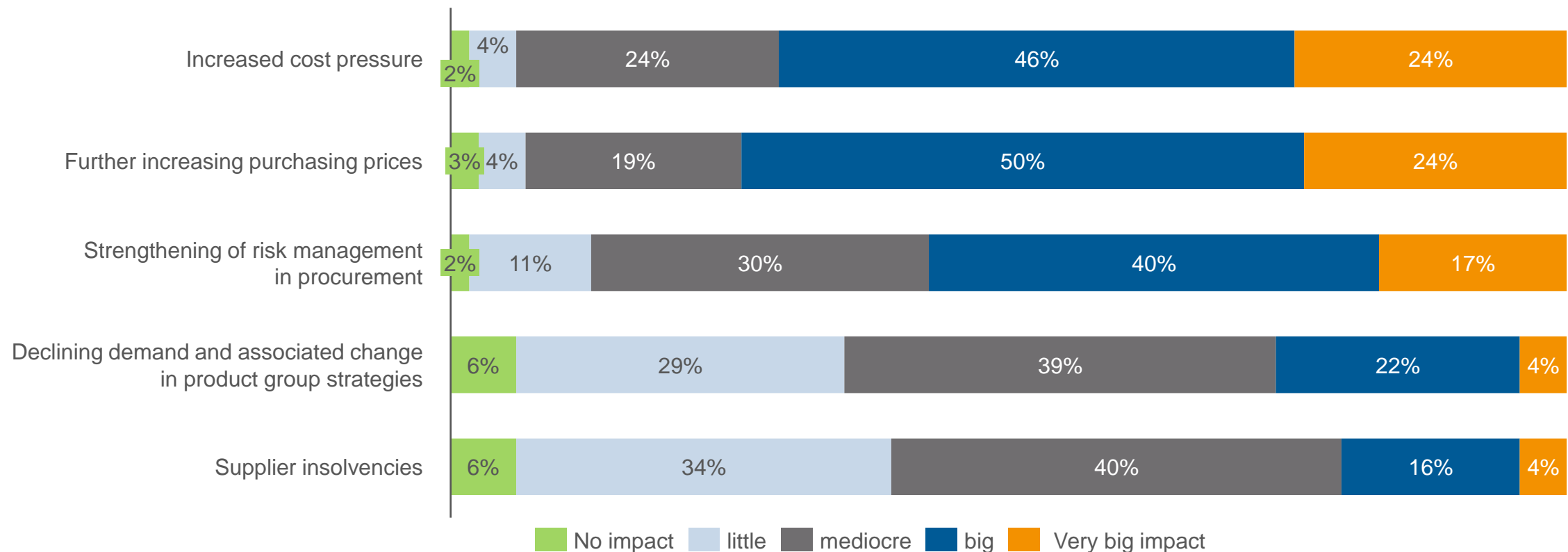
Which of the following political, economic and social issues currently pose a risk to your company?¹



¹ Multiple selection possible; - Comparison with previous year not possible, as new answer option added in 2022.

Inflation is causing companies to feel considerable cost pressure while at the same time purchasing prices are rising

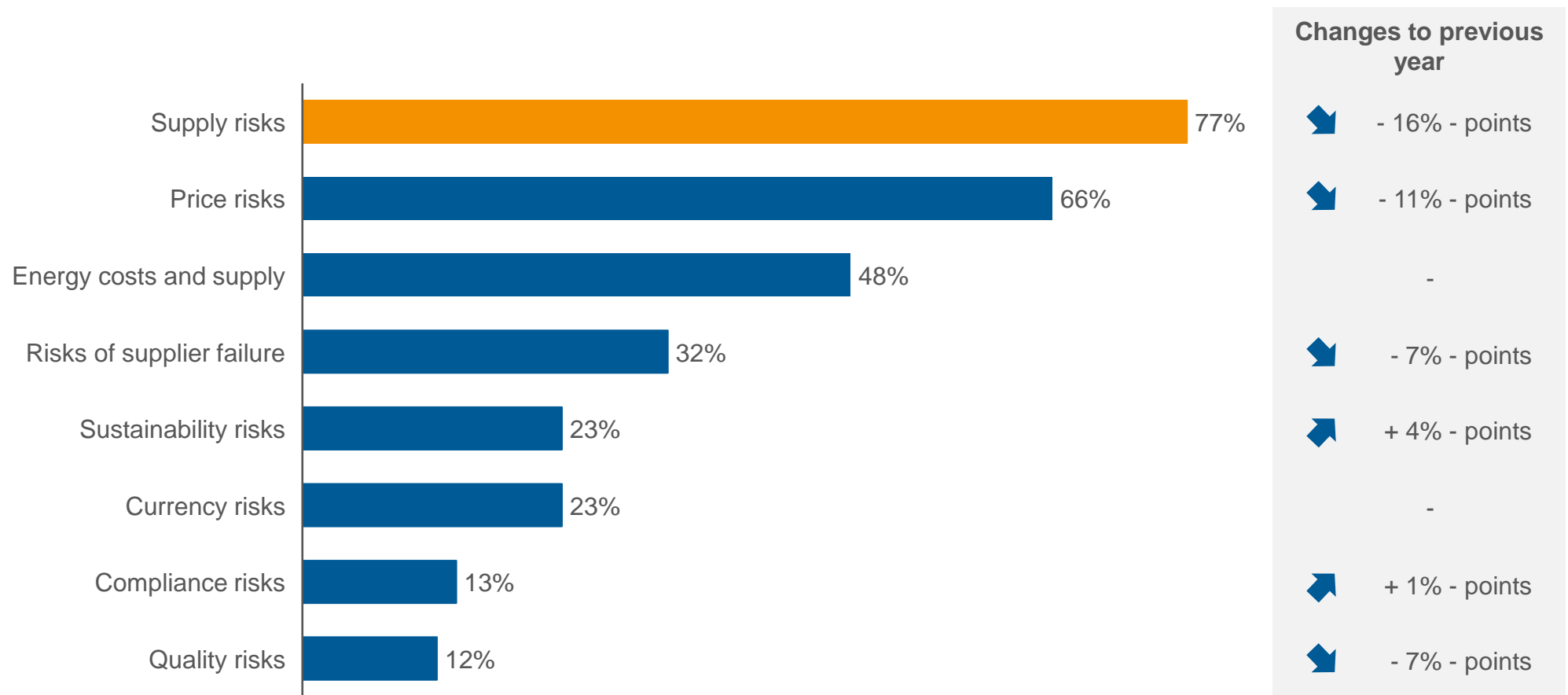
What further aftermath do you expect due to inflation and the resulting economic situation for your procurement organization?¹



¹ Multiple selection possible

Despite slight easing, supply risks still have the highest priority for Procurement

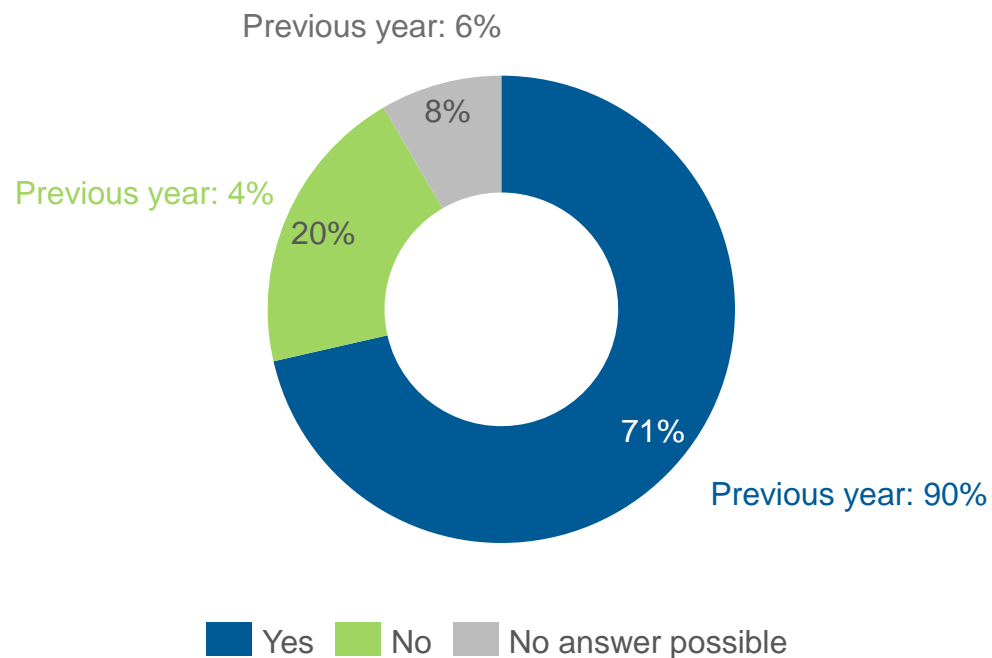
Which risks are currently the top priority for your procurement department?¹



¹ Multiple selection possible

Supply security is significantly affected by logistical disruptions in the supply chain and capacity bottlenecks of suppliers

Have you been affected by supply bottlenecks in the last 6 months? If so, what were the main reasons?¹

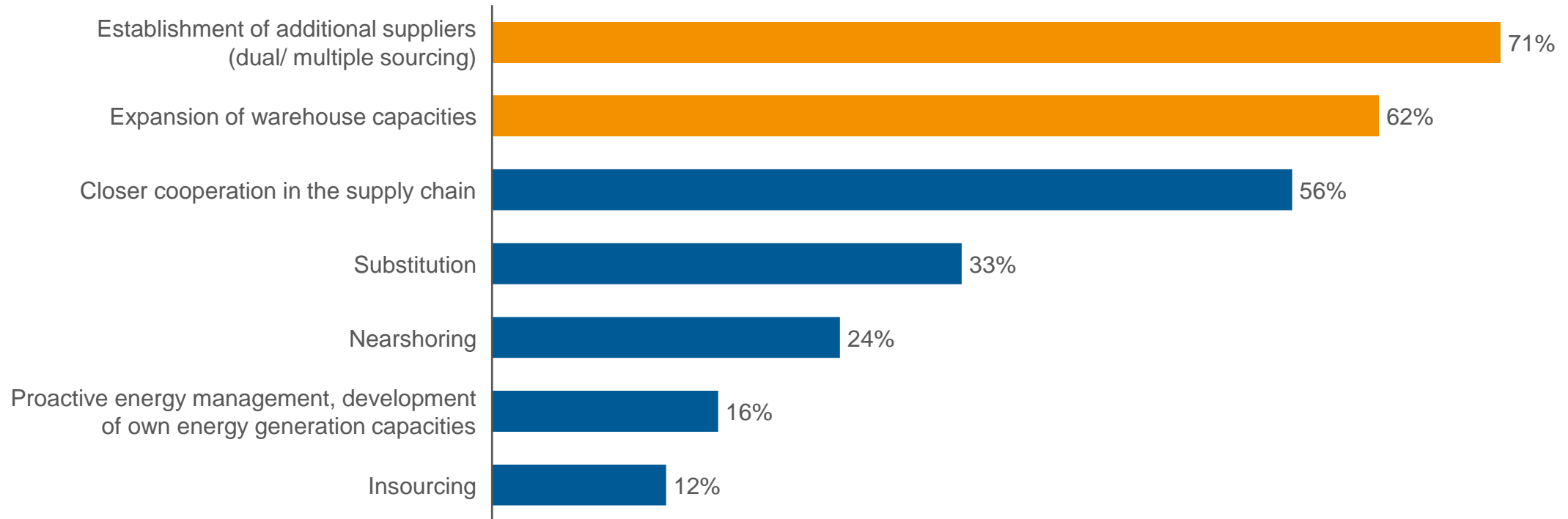


¹ Multiple selection possible



To protect against supply bottlenecks, companies mainly expand their supplier base and storage capacities - Only one-third consider substitution & nearshoring

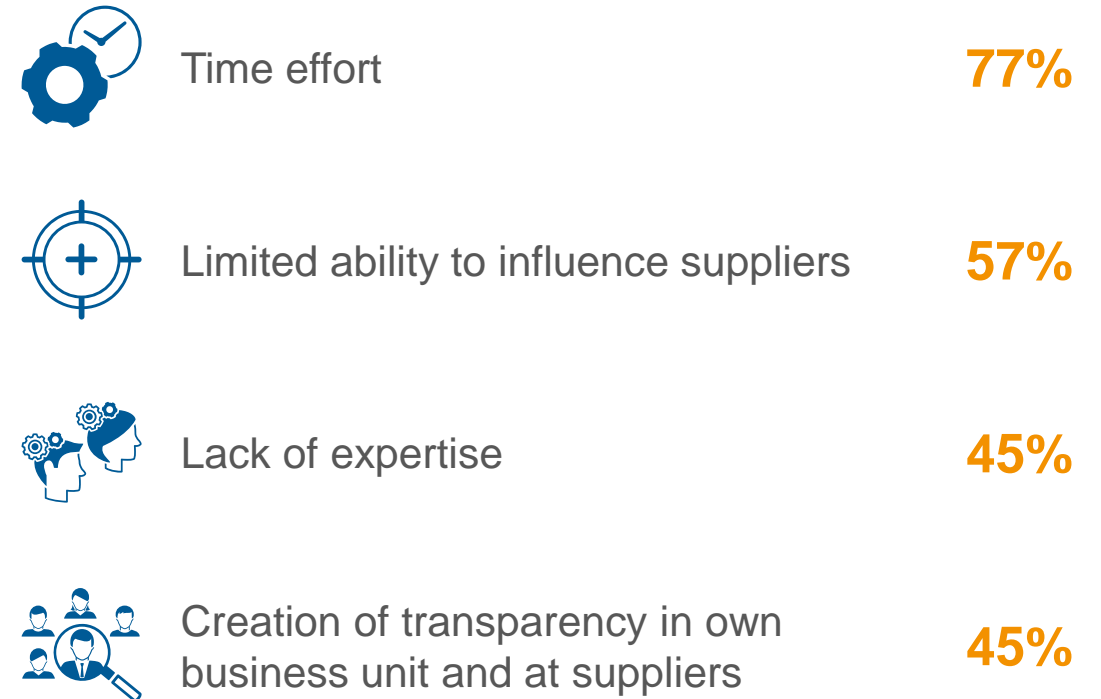
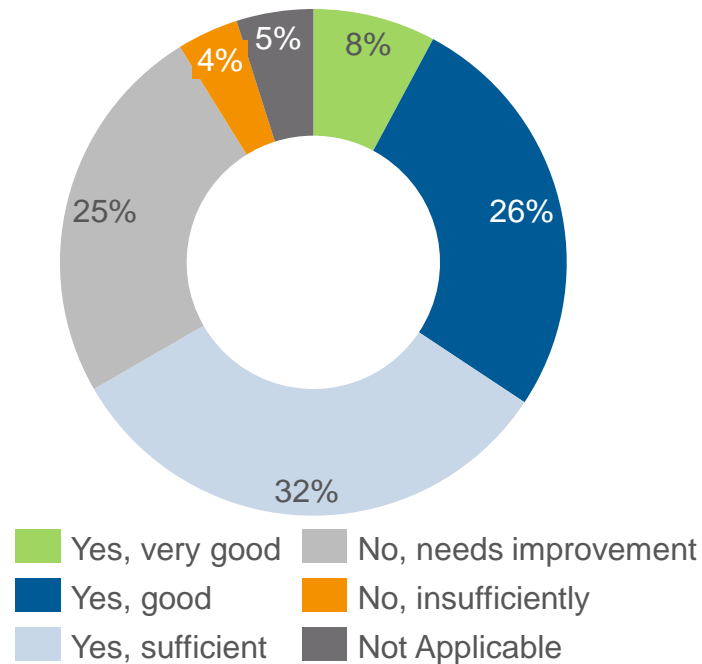
How do you counter supply bottlenecks?¹



¹ Multiple selection possible

Companies seem prepared for the (German) Supply Chain Act - Time effort and lack of influence on suppliers are the biggest challenges

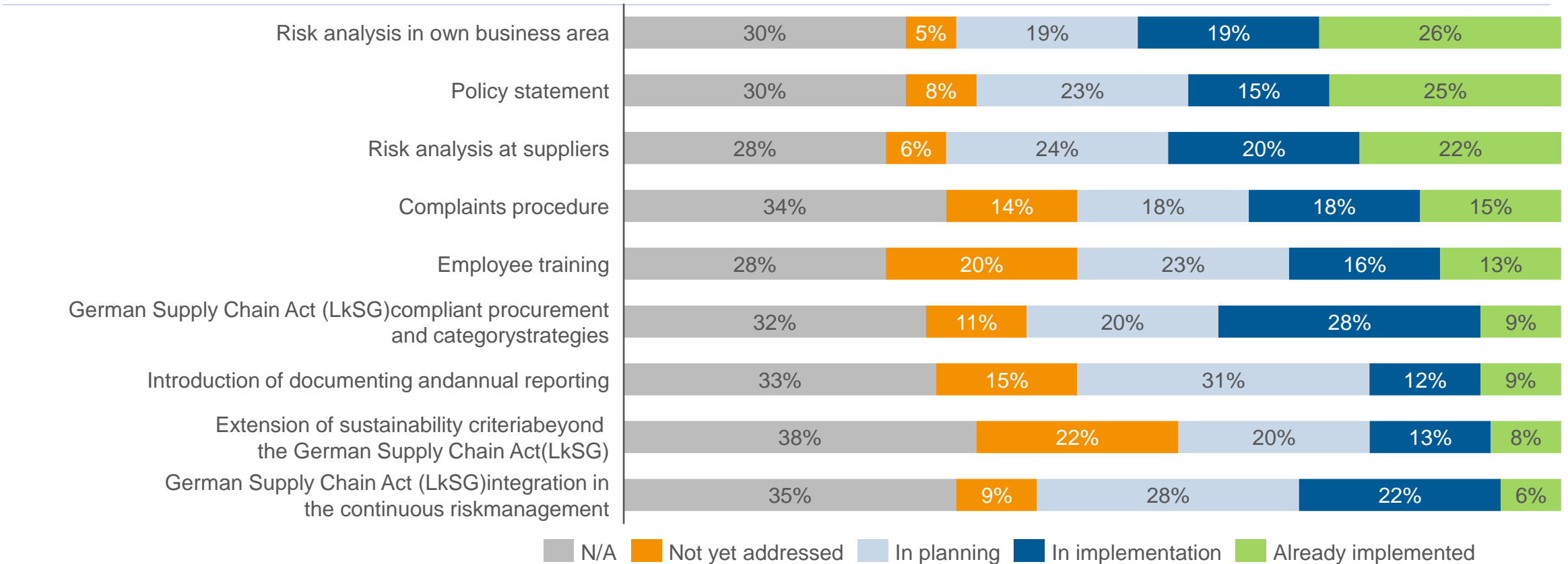
Do you consider your company sufficiently prepared for a supply chain act? Name the biggest challenges in your organization in the course of implementing the German Supply Chain Act (LkSG)?¹



¹ Multiple selection possible (Top 3)

The time-consuming implementation means that only a few measures have been fully implemented to date

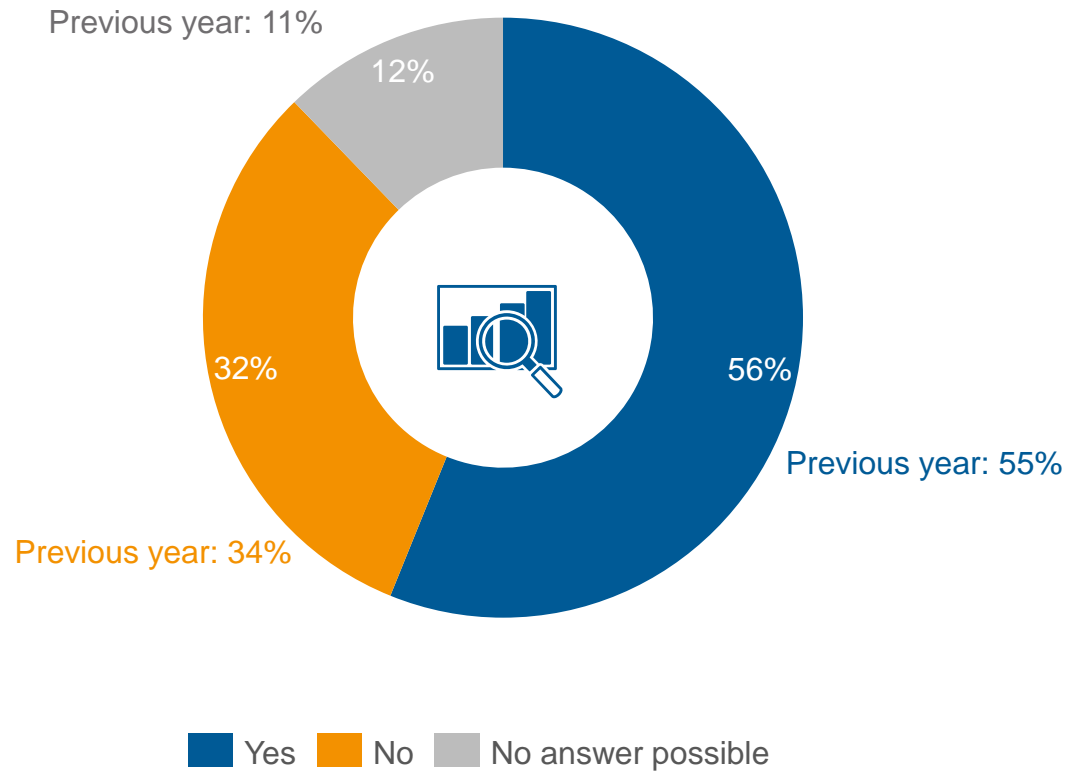
What actions have already been taken for the German Supply Chain Act (LkSG)? In which stage of development are you currently located for each action?



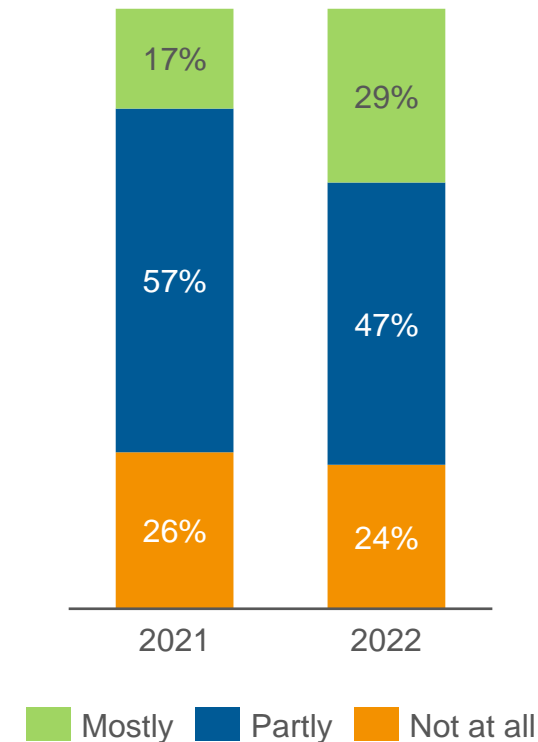
¹ Multiple selection possible

Systematically recording and assessing risks continues to be a challenge for companies - Digital tools would help

Do you generally record and evaluate risks systematically?

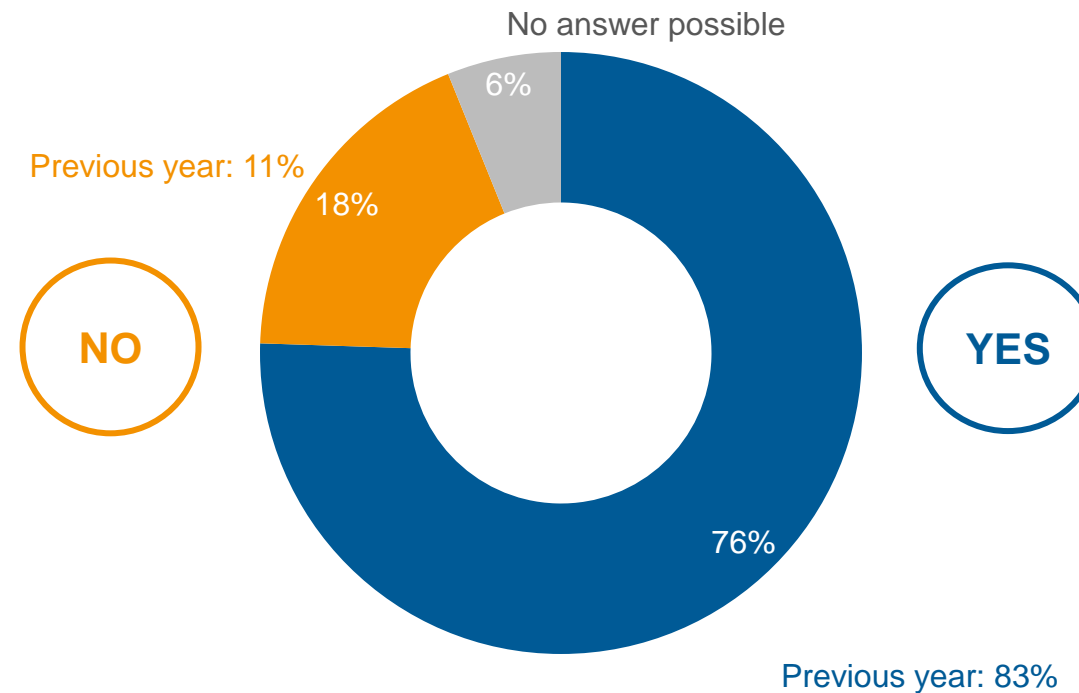


Do you use digital tools and methods for the identification and assessment of risks?



The proportion of companies defining measures to deal with procurement risks has decreased compared with the previous year

Do you define measures to counter procurement risks?



Long-term framework agreements, supplier evaluation and dual sourcing are common measures, supplemented by specialized ad-hoc task forces

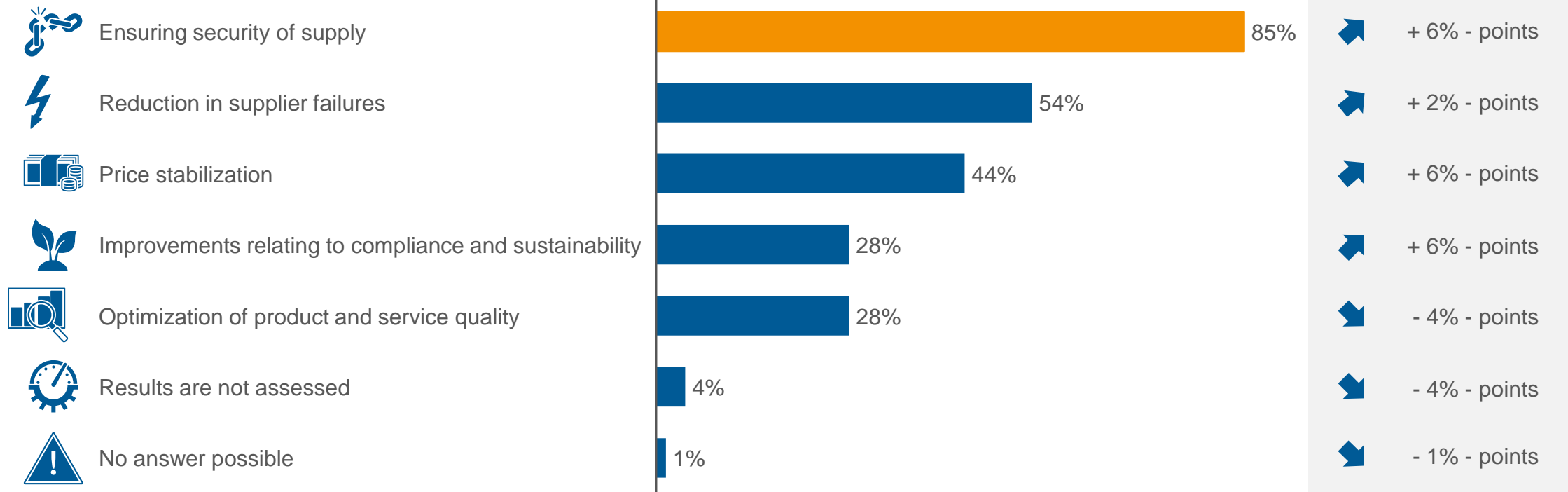
What measures do you use to counter procurement risks?¹



¹ Multiple selection possible

Securing supply was achieved by 85% of the participants, but stabilizing prices remains a challenge

What results has your procurement risk management achieved?¹



¹ Multiple selection possible



- 1 Management Summary
- 2 Survey Design and Participants
- 3 Survey Results
- 4 Recommendations for Action**

Align your risk management with the volatile environment and embed it into your culture using digital tools and empowered teams



Security of supply through targeted risk management

Secure your supply through proactive risk management and increase resilience to inflation (price increases & energy costs). Expand your set of countermeasures, e.g., ensure redundant procurement options (dual-source, regional diversity) and smart management of safety stocks.



Supply Chain Act: Build up expertise and plan for corresponding effort at an early stage

Beyond a policy statement, the topic of supply chain governance is multifaceted. It is crucial to develop the right skills early on and to plan for the corresponding effort. Procurement managers must drive forward the creation of transparency with suppliers and expand their influence.



Digitization of risk management as a strategic field of action

Take advantage of opportunities offered by digitization to avoid jeopardizing your operations. Increased transparency in the supply network and automated monitoring of explicitly defined early warning indicators enable early identification of potential hazards for timely initiation of countermeasures.



Strengthen readiness for unexpected risk events

Embed risk management in the "DNA" of your organization by establishing a control tower. Empower your team to always stay in control when unforeseen events occur. The immediate response to unpredictable crises determines the extent of the damage. Balance continuous risk management with ad-hoc task forces to enable continuous action.

Your INVERTO Team



Daniel Drylie
Principal



Sebastian Wellmann
Principal

Contact

Phone: + 44 207 - 0434 – 176
E-Mail: daniel.drylie@inverto.com

www.inverto.com

The logo for INVERTO, a BCG company, is displayed on a light-colored wall. The word "INVERTO" is in a large, bold, blue sans-serif font, with a blue arc above the letters "O" and "T". Below it, "A BCG COMPANY" is written in a smaller, blue sans-serif font.