THE BEST RUN SAP®

Close collaboration that goes beyond transactions

Direct spend leaders engage with essential suppliers to improve performance

Agile Procurement Insights Research by SAP

in collaboration with OXFORD ECONOMICS

Table of contents

Executive summary 3

Introduction: Direct spend is a top business priority that needs more attention 5

Challenges in direct spend 6

Direct spend leaders take three key actions to drive better business outcomes 9

- Treat suppliers as partners 10
- Think like a shareholder 11
- Embrace automation 12

Direct spend leaders realize better business outcomes 15

Conclusion: Learning from the leaders 17

Raise your game 18

Research methodology 19

Executive summary

Your supply chain is the lifeblood of your business. After the disruptive events of 2020, many executives are working to make their supply chains more resilient. At the same time, they want their supply chains to **help drive competitive advantage in this uncertain economic environment.**

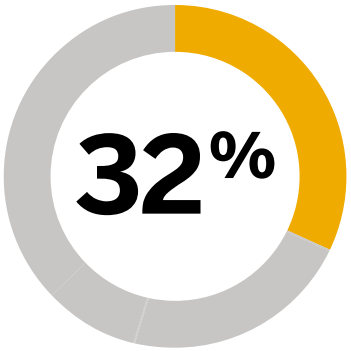
SAP wanted to delve deeper into how organizations manage direct spend and critical supplier relationships, the challenges they are facing, and where they need to improve. In collaboration with Oxford Economics, we surveyed 1,000 executives, nearly 500 of whom are responsible for direct spend. This report focuses on the direct spend findings.

Our research revealed that organizations have significant room for improvement when it comes to collaborating with their direct spend suppliers.

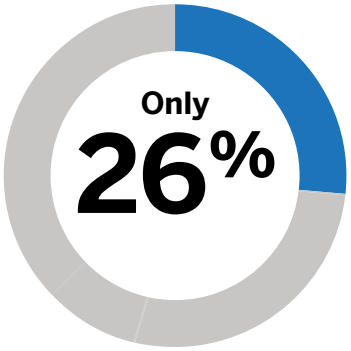
In fact:

- One-third (32%) of executives still use phone, email and spreadsheets as their primary means of collaborating with external partners on key supply chain processes.
- Only 26% of executives say their organization's collaboration with top suppliers is highly effective in remediating potential shortages or overages.

This is especially problematic given organizations' heavy reliance on outsourced manufacturing. More than half of the executives in our survey state that their organization outsources at least a quarter of its manufacturing. On top of that, organizations typically outsource much of their packaging, inventory management, and inbound logistics management.



of executives still use phone, email and spreadsheets as their primary means of collaborating with external partners



of executives say collaboration with top suppliers is highly effective in remediating potential shortages or overages

Ineffective collaboration is partly caused by a technology deficit given the strong reliance on manual collaboration. What's more, most organizations rely on three or more ERP instances — adding further complexity.

Despite these challenges, a handful of organizations in our survey outshine other participants. **These direct spend leaders are driving impressive business results from their collaboration with direct materials suppliers,** including:

- 82% of leaders report 5% or more improvement in on-time in-full performance.
- 69% of leaders report 10% or more improvement in inventory turns.
- 64% of leaders report 10% or more improvement in on-time delivery from suppliers.
- 63% of leaders report 10% or more improvement in speed to market.

76% leaders

vs

44% others

give critical suppliers visibility into future demand for their goods

Direct spend leaders' success is driven by 3 key actions:

1. **Treat suppliers as partners:** Leaders collaborate effectively with contract manufacturers, co-packers and other suppliers — building strategic, trusting relationships that go beyond transactions. **76% of leaders — versus 44% of others — give critical suppliers visibility into future demand for their goods.**
2. **Think like a shareholder:** Leaders view Procurement as a critical partner to the business. **96% of direct spend leaders — versus 81% of others — say that Procurement helps to improve product quality.**
3. **Embrace automation:** Leaders use more sophisticated supplier collaboration solutions to manage their direct spend and source-to-pay processes. For example, **92% of leaders — versus 69% of others — use a network to collaborate with suppliers.**

92% leaders

vs

69% others

use a network to collaborate with suppliers

Introduction

Direct spend is a top business priority that needs more attention

Your supply chain is at the heart of your business. If you manage it well, you can deliver high-quality goods to customers quickly and at the best price. But the stakes are high, as slip-ups can cause delays, product quality issues, spiraling costs, dissatisfied customers, and damage to the brand.

Disruptions in 2020 pushed many supply chains to the breaking point. Many executives are now working to reduce risk. At the same time, they want their supply chains to add more business value — such as faster time to market — to help them be more agile and compete effectively in this uncertain economic environment.

As supply chains remain in the spotlight, we collaborated with Oxford Economics to survey 468 executives who are responsible for direct spend. Here's what we found.

Challenges in direct spend

Our research revealed a serious mismatch between organizations' heavy reliance on direct spend suppliers, and their current approach to supplier collaboration.

More than half of the executives in our survey outsource at least a quarter of their manufacturing. On top of that, organizations typically outsource a significant amount of their packaging, inventory management, and inbound logistics management. There is some risk in turning these activities over to external partners given the impact on customer satisfaction and brand perception. It's crucial that organizations closely collaborate with these partners throughout the source-to-pay process.

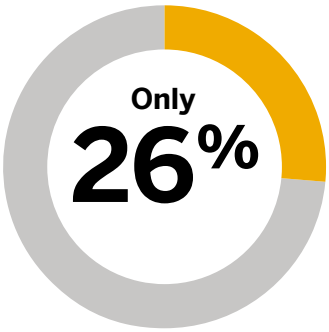
However, organizations do not work closely enough with partners and suppliers.

In fact:

- Only 20% of executives have more than half of their direct spend under management.
- Only 26% say their organization's collaboration with top suppliers is highly effective in remediating potential shortages or overages.

More than half

of companies outsource at least 1/4 of their manufacturing



of executives say their organization's collaboration with top suppliers is highly effective in remediating potential shortages or overages

Lags in technology adoption

Part of the problem is a lack of technology adoption. Our research revealed that 32% of executives use phone, email, and spreadsheets as their primary means of collaborating with external partners on key supply chain processes. Further, 33% use on-premise supplier portals, and 15% use EDI. This is concerning, because **manual collaboration and legacy technologies make it hard to be nimble and plan for the unexpected.**

Further, more than half of organizations we surveyed use three or more ERP instances. A fragmented technology landscape adds complexity, because it becomes much harder to create streamlined, integrated processes that automatically connect supply and demand.

1 in 3

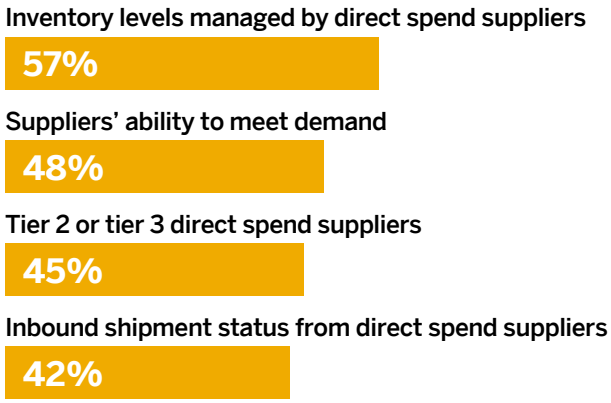
companies use phone, email, and spreadsheets as their primary means of collaborating with external partners on key supply chain processes

Poor visibility

Manual collaboration results in low visibility into inventory levels, inbound shipment status, and suppliers' ability to meet demand. This makes it difficult to anticipate and mitigate supply disruptions and shortages, which can cause knock-on delays to manufacturing and end-customer deliveries.

Fig. 1: Poor visibility into direct spend suppliers

Percentage of executives who have poor visibility into the following aspects of their direct spend suppliers



Many organizations experience significant issues with their direct spend suppliers.

Around 1 in 2 executives report late deliveries, poor quality of finished goods and WIP, and product shortages. These issues can damage the customer experience.

About half

of executives report late deliveries, and quality issues with finished goods and WIP

Fig. 2: Widespread issues with direct spend suppliers

Percentage of executives who experience the following issues with their direct spend suppliers

Our research revealed a set of direct spend leaders who are overcoming challenges and realizing stronger business results. Keep reading to discover the secrets of their success.

Direct spend leaders take 3 key actions to drive better business outcomes

1. Treat suppliers as partners
2. Think like a shareholder
3. Embrace automation

1 Treat suppliers as partners

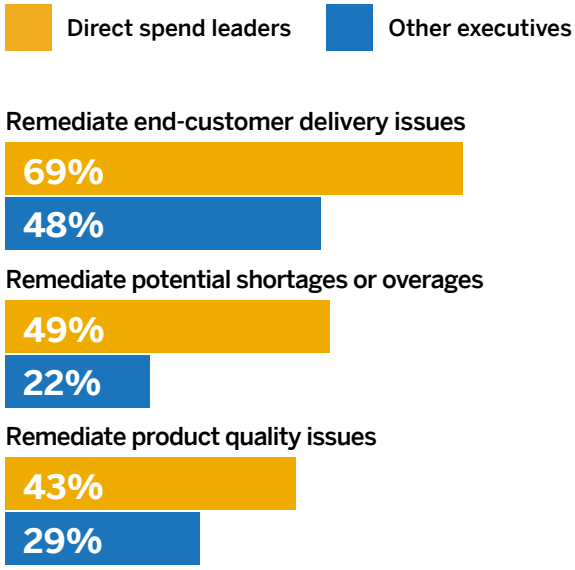
Direct spend leaders are much more likely than other organizations to have collaborative, partner-like relationships with their top suppliers (75% of leaders versus 54% of others). Similarly, leaders are much more likely to be "highly effective" at supply chain collaboration (74% of leaders versus 46% of others).

Trust is key here. **Direct spend leaders build strategic relationships with key suppliers that go far beyond transactions.** For example, leaders give critical suppliers visibility into future demand for their goods (76% of leaders versus 44% of others). Their openness and transparency help them collaborate more effectively with suppliers, including addressing challenges.

Direct spend leaders are much more effective at working with suppliers to remediate issues, yet they also have room to improve. End-customer delivery issues, shortages, and product quality issues can negatively impact customer satisfaction.

Fig. 3: Leaders are much more effective at working with suppliers to resolve issues

Percentage of executives who are highly effective at collaborating with suppliers to remediate the following issues



Direct spend leaders are

2X more

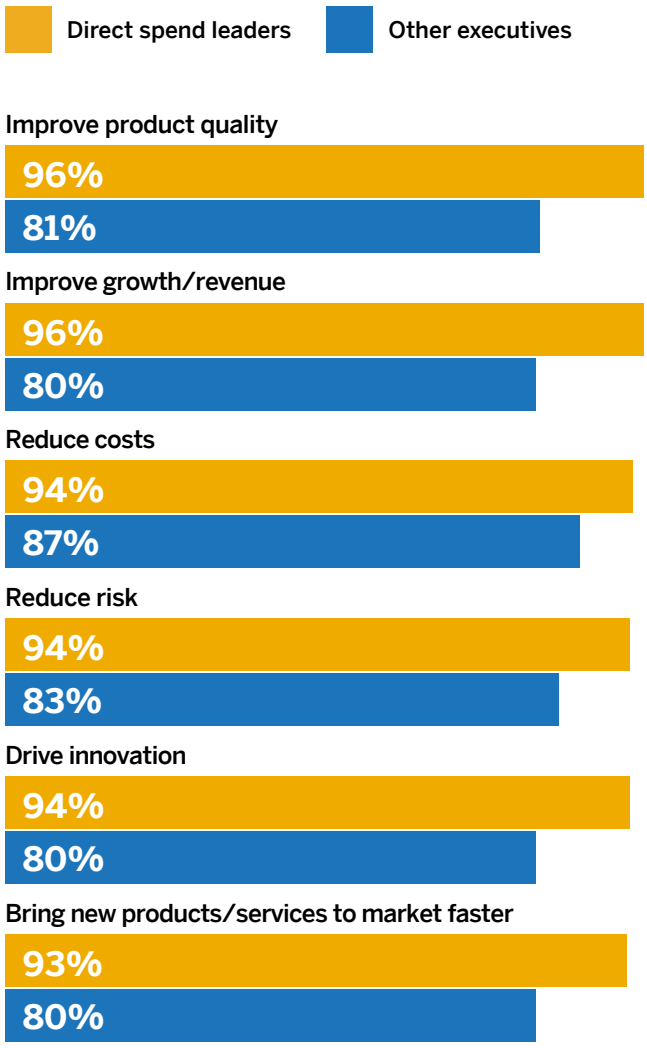
effective at working with suppliers to remediate potential shortages or overages

2 Think like a shareholder

Direct spend leaders view Procurement as a strategic contributor to the business. They recognize Procurement's huge impact on achieving business goals, including improving product quality, driving innovation and improving growth/revenue. This goes far beyond Procurement's traditional focus on reducing costs and risk.

Fig. 4: Leaders view Procurement as a more strategic contributor to the business

Percentage of executives who say Procurement "somewhat" or "significantly" helps the organization achieve the following business goals



88% direct spend leaders

vs

62% others

say that Procurement is critical to selecting suppliers for new product development

88% direct spend leaders

vs

55% others

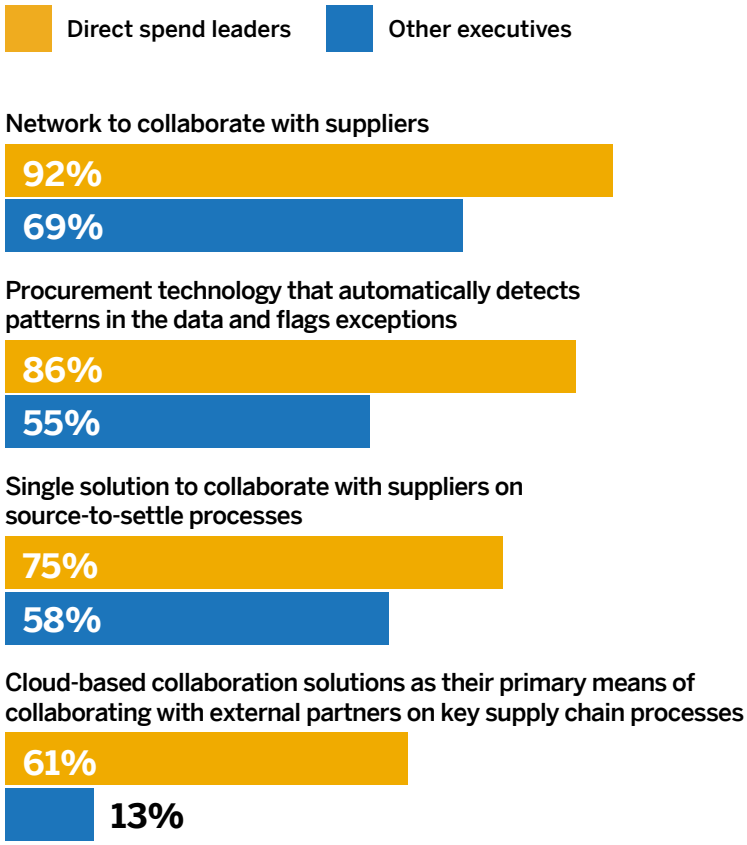
say that the procurement function partners well with internal business leaders

3 Embrace automation

Direct spend leaders make much greater use of supplier collaboration solutions to automate and speed transactions with suppliers, and collaborate on key supply chain processes.

Fig. 5: Leaders make greater use of technology

Percentage of organizations that use the following types of procurement technology



61% direct spend leaders

vs

13% others

use cloud-based collaboration solutions as their primary means of collaborating with external partners

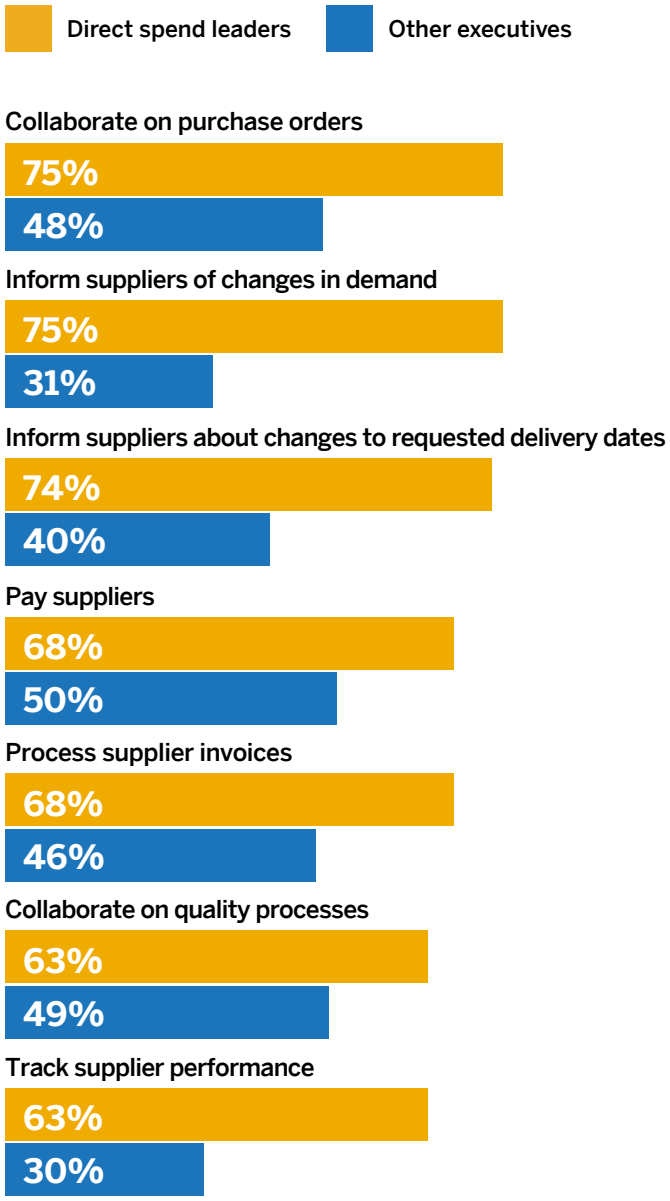
Direct spend leaders' strong use of supplier networks may help them find alternative suppliers quickly when needed, so they can be more agile and reduce the risk of disruption impacting end-customers.

True agility means that organizations are able to reconfigure their supply chains with ease and speed.

Leaders are much more likely to use cloud-based collaboration solutions as their primary means of collaborating with external partners (e.g., contract manufacturers, contract packagers, toll manufacturers) on key supply chain processes (61% of leaders versus 13% of others). Their solutions support supplier collaboration on a much broader range of areas, such as communicating changes in demand and delivery dates, and tracking supplier performance.

Fig. 6: Leaders make greater use of supplier collaboration solutions

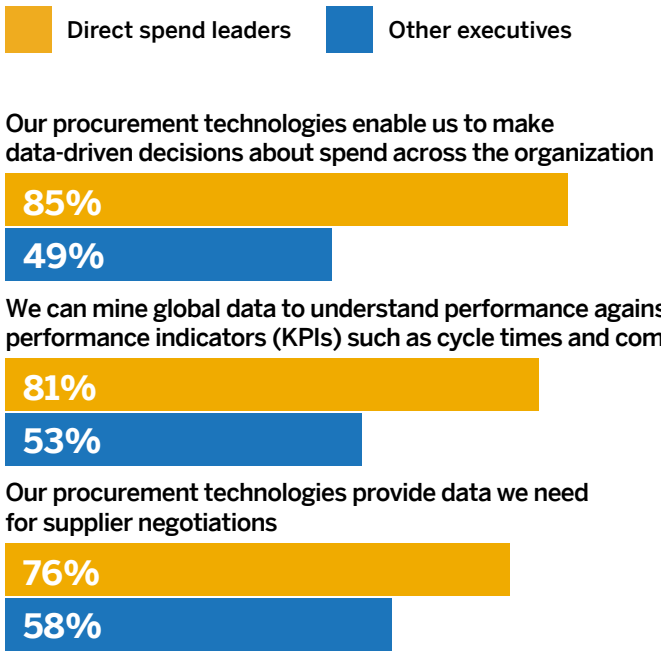
Percentage of organizations that have supplier collaboration technology that helps them in the following areas



Direct spend leaders' technologies help them make data-driven decisions, including managing spend and negotiating with suppliers.

Fig. 7: Leaders' technologies help them make data-driven decisions

Percentage of executives who "agree" or "strongly agree" with the following statements about their procurement technology



What's more, leaders can respond faster to the unexpected, using automated recommendations that flag potential disruptions to tier 1 and tier 2 suppliers.

78% direct spend leaders
vs
53% others

have an automated capability to flag events that could disrupt tier 1 suppliers

60% direct spend leaders
vs
30% others

have an automated capability to flag events that could disrupt tier 2 suppliers

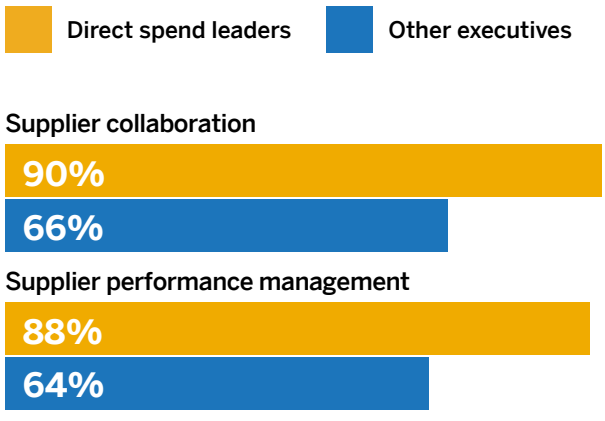
On top of that, direct spend leaders have less complex ERP landscapes. A fourth (24%) of leaders — versus 61% of others — use three or more ERP instances.

Direct spend leaders realize better business outcomes

Direct spend leaders' investments in digital transformation are paying off, as they are achieving major improvements in supplier collaboration and supplier performance management.

Fig. 8: Leaders' investments in digital transformation pay off

Percentage of executives who say digital transformation of their procurement function has generated a "moderate" or "significant" improvement in the following areas

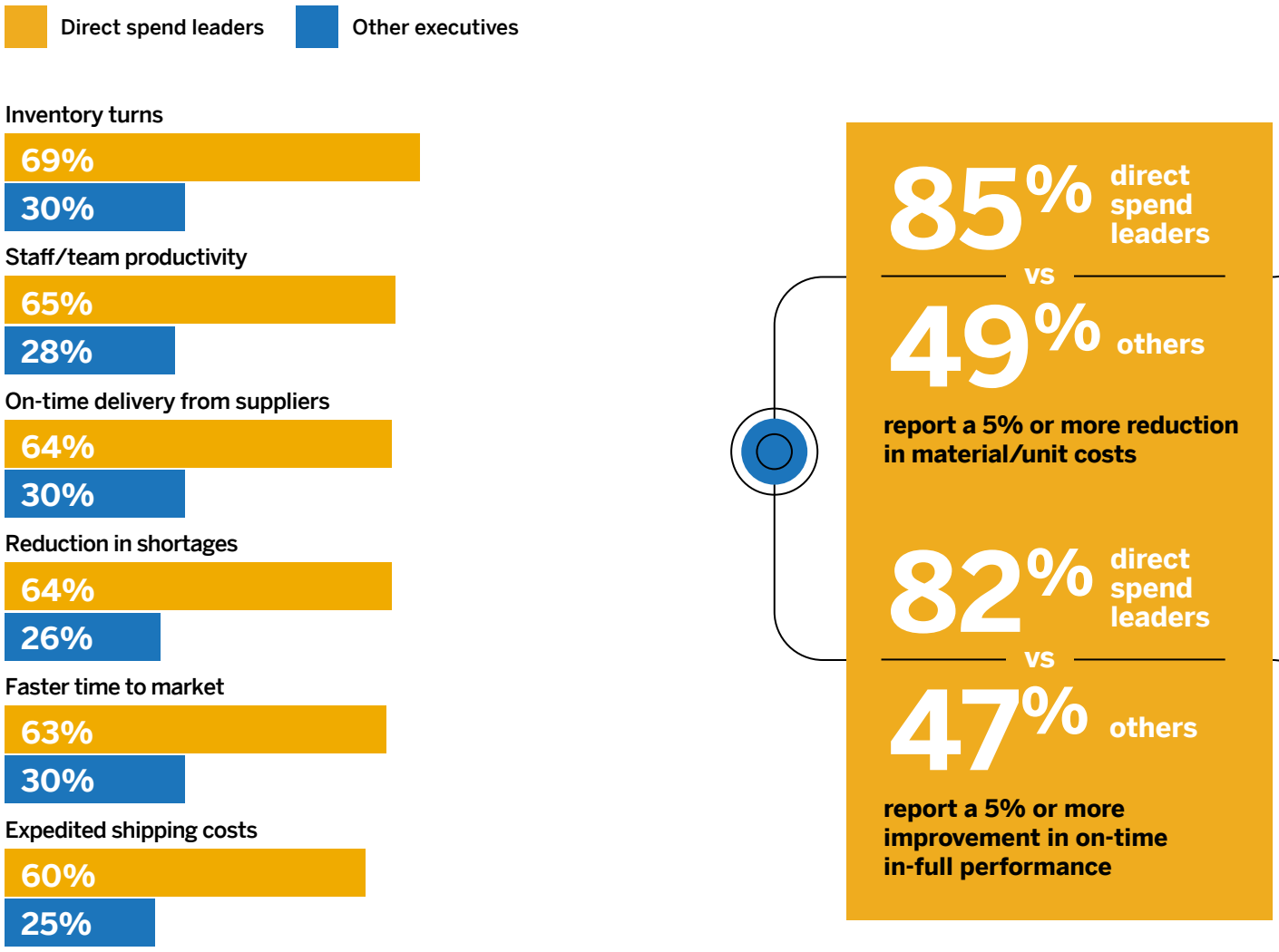


Leaders achieve much stronger benefits from digital transformation

Leaders' close collaboration with direct materials suppliers has driven significant improvements in on-time in-full, faster time to market, cost reductions, and fewer product shortages. **Leaders consistently realize 2x better results than others.**

Fig. 9: Leaders realize huge benefits from close collaboration with direct materials suppliers

Percentage of executives who report a 10% or more improvement from collaborating with direct materials suppliers in the following areas



In addition, 85% of leaders report a 5% or more reduction in material/unit costs, while only 49% of others do. And, 82% of leaders report a 5% or more improvement in on-time in-full performance, versus just 47% of others.

Conclusion

Learning from the leaders

Direct spend leaders teach us the importance of treating suppliers as partners to drive more business value from supply chains and reduce risk. Leaders build trusting, partner-like relationships with key suppliers, and give suppliers more transparency into their business needs. This is a lesson that all organizations should take to heart.

Technology plays a pivotal role in direct spend leaders' success. Automated communication with suppliers enables organizations to pivot rapidly to meet business needs. **Companies cannot be agile while relying on manual processes.** The disruptions in 2020 brought this into sharp focus, and underscored the imperative for change.

Companies must streamline their supply chains to drive simplification and efficiency. Technology is an enabler — not a silver bullet.

Although direct spend leaders' success is notable, and sets an example for others, they still have room for improvement. They must work more closely with suppliers to remediate issues, particularly potential shortages/overages and product quality issues. **Direct spend leaders should also work to gain more visibility of tier 2 suppliers and beyond to help mitigate risk and protect the business.**

Direct spend leaders build trusting, partner-like relationships with key suppliers, and give suppliers more transparency into their business needs.

Raise your game

Based on our research findings, we've come up with six steps you can take right now to raise your game when it comes to managing direct spend.

1. **View your suppliers as partners.** Give them transparency into your business needs and collaborate closely with them on demand planning, quality control and more.

2. **Gain better visibility into your supply chain** — particularly tier 2 suppliers and beyond — and take a proactive approach to risk management. Identify vulnerabilities in your supply chain using what-if analysis, and regularly refresh your risk mitigation plans.

3. **Better understand the needs of other business functions** so that you can make an even more strategic contribution to the business.

4. **Invest in automating supplier collaboration** to help you rapidly communicate requirements, changes in demand and delivery dates. Plan for the unexpected.

5. **Include suppliers in your transformation efforts**, and work with them to build integrated processes that automatically connect supply and demand.

6. **Strike a balance between rationalizing and simplifying your supply chain.** It's important to simplify and streamline your supply chain, yet take care not to become over-reliant on too few suppliers.

Research methodology

What makes a direct spend leader?

Around 15% of direct spend executives in our survey manage their direct spend with more rigor, compared to their peers. To identify these direct spend leaders, we analyzed executives' responses in five areas:

- Process automation
- Data-driven decision-making
- Suppliers' visibility into business needs
- Collaboration with suppliers to remediate issues
- Use of advanced supplier collaboration solutions

Our segmentation was based on responses to the following five questions from the survey. Leaders had to meet all five of these criteria:

1. **To what extent have you automated procurement processes in your organization?**

   Direct spend leaders say "most processes are automated" or "processes are entirely automated."

2. **How often does your procurement function use data to inform decision-making?**

   Direct spend leaders "always" or "frequently" use data to inform decision-making.

3. **To what extent do you agree with the following statements regarding direct procurement for your organization?**

   Direct spend leaders "agree" or "strongly agree" that critical suppliers have visibility into their organization's business needs.

4. **How effective is your organization's collaboration with its top suppliers in the following areas?**

   Direct spend leaders are "highly effective" at "remediating end-customer delivery issues and/or potential shortages or overages" and/or "remediating end-customer delivery issues."

5. **What is your primary means of collaborating with external partners (e.g., contract manufacturers, contract packagers, toll manufacturers) on key supply chain processes such as production planning and execution?**

   Direct spend leaders must say "on-premise supplier portals" or "cloud-based collaboration solutions."

Kickstart your procurement digital transformation

We have distilled the **Agile Procurement Insights Research** findings into five reports — including this one.

Read the other research reports:

Dig deep into technology, automation and data/analytics:
Procurement-powered performance: How digital transformation is elevating Procurement

Make your business more resilient: Getting closer to see further:
Procurement can embrace advanced analytics to predict and manage supplier risk

Boost ROI and reduce risk from your contingent labor and services spend:
Agility isn't always on the payroll: Gain full visibility of your external workforce to help you drive better business outcomes

Find out what leaders do that sets them apart: Leaders aim higher: Elevating the strategic value of Procurement to the business

For more information about the research, please visit: Agile Procurement Insights Research

About the research

SAP, in collaboration with Oxford Economics, conducted robust global research to understand Procurement's influence on the organization, the current state of supplier collaboration, and the impact of technology and process digitization in the procurement function. We wanted to find out whether companies that embrace technology and closer supplier collaboration are more agile and can respond more effectively to disruption.

In June 2020, we surveyed 1,000 procurement and supply chain executives responsible for direct spend, indirect spend and services including the management of contingent labor and services providers. This report is based on data from a subset of 468 executives in our survey who are responsible for direct spend. Their demographic information is provided below.

Geographical reach

Respondents come from 23 countries in four regions:

- Asia Pacific: Australia, India, Japan, Singapore
- Europe: Austria, Belgium, Denmark, Finland, France, Germany, Italy, Luxembourg, Netherlands, Norway, Spain, Sweden, Switzerland, United Kingdom
- Latin America: Brazil, Colombia, Mexico
- North America: Canada, United States

Industry reach

Respondents represent a range of B2B and B2C industries that have supply chains: automotive (manufacturers and tier 1 suppliers), chemicals, consumer products, heavy industrial/manufacturing, high tech, life sciences/pharmaceuticals, oil and gas, retail, telecommunications, and utilities.

Company size

A range of company sizes are represented in the survey (figures indicate annual revenue):

- 8% $500 m–$999 m
- 39% $1 bn–$4.9 bn
- 40% $5 bn–$19.9 bn
- 13% $20 bn or more

Executive profile

Respondents are:

- 37% C-level
- 33% VP/Direct reports to the C-level
- 29% Directors

Functions represented are:

- 73% Procurement
- 27% Supply chain

Outsourced manufacturing

Manufacturing done in-house	% of respondents
0-25%	46%
26-50%	16%
51-75%	17%
76-100%	20%

On average, the executives in our sample do 41% of manufacturing in-house.

Type of manufacturing that is outsourced	% of respondents
Parts, with finishing in-house	33%
Process manufacturing	33%
Finished goods (private white label)	23%
None of the above	27%

Number of ERP instances

On average, the organizations use 3.4 ERP instances.

Only 24% of direct spend leaders — versus 61% of others — use 3+ ERP instances.