coupa | Business Spend Management

Threading the Supply Chain Needle

How to break down silos to build resilience and sustainability

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EXECUTIVE SUMMARY

Keeping your supply chain design current is essential to building and maintaining resilience in today's business environment. In this fast-paced environment of disruption, the ability to respond starts with gaining the visibility to identify and address risks. And it doesn't end there.

As organizations strive to make their supply chain design a reality through planning and source-to-pay processes, many remain constrained by organizational silos and disparate systems. But by leveraging the right technology to bridge digital divides between supply chain, procurement, and finance, organizations can collaborate to make smarter and faster decisions to achieve profitability, resilience, and sustainability objectives.

Thriving amidst uncertainty

The COVID-induced disruptions have been challenging for supply chain, procurement, and finance leaders, and new issues continue to mount. Even as the world learns to live with COVID, organizations now face geopolitical and financial risks in addition to new sustainability regulations. Department leaders find themselves fighting fires and reacting to problems they never anticipated.

For example, a key lane of transportation that becomes unavailable can impact inbound supplies, wreak havoc on production schedules, and make getting the product out the door that much harder. This ultimately results in lost revenue and demonstrates how procurement, supply chain, and finance all face the brunt of the impact.

Nearly 90% of supply chain professionals have said that within two years, they will make investments to boost resilience and agility in their supply chains, according to a **Gartner survey.**

However, it takes a thoughtful approach to thrive in this evolving, uncertain environment. *The status quo mindset of operating in siloed departments and then only joining heads for annual planning events can no longer keep pace. When department heads try to manage it alone, the problems often grow bigger.* Collaboration and cross-functional visibility are key to resiliency and agility. While these departments can all offer individual value to stakeholders, they often operate in fragmented ways, focused only on their own goals and failing to see the big picture and optimize for the larger organizational mission.

For example, while procurement negotiates the best discount possible based on volumes, the supply chain can run into a feast or famine situation with the purchased material availability. Meanwhile, finance's goals are to optimize liquidity, reduce risk, and ensure top and bottom-line targets aren't compromised. However, these goals can be jeopardized by departmental misalignment.

To address the mounting pressures and find new opportunities, supply chain, finance, and procurement must work together to make smarter, better, and faster decisions around a supply chain designed to meet the overall business goals. And in order to achieve these goals, organizations need technologies and processes that make it easier to bring together inputs and requirements from procurement, supply chain, and finance.

When business spend is seen as the common thread, these departments can break down silos, make supply chains more dynamic, and drive optimal decisions that benefit the entire organization. This enables leaders to make decisions that ensure product availability, make and move products with less risk, stay compliant with regulations, and make the world a better place by cutting down on emissions.

One thing that threads supply chain, procurement, and finance together? Business spend.

WHAT IS BUSINESS SPEND?

Business Spend is an amount of money spent over a specific period of time by a business to achieve a desired outcome. Spend includes the capital expense and operational costs for a company, including cost of goods sold and other operating expenses, often called selling, general, & administrative (SG&A) expenses.

Within the supply chain, there are four primary categories of spend:

Operational expenses for sourcing, making and delivering products

Working capital related to building inventory buffers and safety stock

Capital investments to facilitate growth and expansion, such as investment in new facilities or capacity expansions

MRO (Maintenance, Repair, & Operations) materials and parts needed to support production and distribution activities

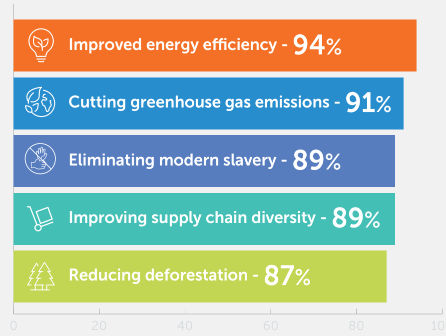
Building resilience and sustainability is a team sport

Many organizations now place a much greater focus on resilience, often starting with how they can make the **most optimal choices in their supply chain**. New regulations **around the globe**, such as the German Supply Chain Due Diligence Act, are encouraging all departmental leaders to think about factors like environmental impact, human rights, emissions, and how their business model affects the world around them. In the United States, the Biden Administration has also announced a target for the U.S. to achieve a 50-52% reduction from 2005 greenhouse gas levels by 2030.

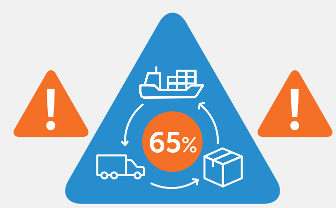
These regulations will require companies to comply across multi-tier supply chains. They raise the risks around Environmental, Social, and Governance(ESG) compliance, propelling companies to better vet and monitor suppliers and third-party providers. A **survey of 800 business leaders** conducted by Coupa Software found top concerns now include energy efficiency, reducing greenhouse gas emissions, eliminating modern slavery, and improving supply chain diversity. While poor sustainability performance can damage brand value, it will soon lead to hefty fines. Under Germany's Supply Chain Due Diligence Act, these fines can be as high as 2% of a company's annual revenue.

Evaluating these risks and vulnerabilities requires greater visibility and collaboration when considering changes to supply chain design. While supply chain leaders have traditionally viewed all decisions as a trade-off between cost, service levels, and inventory, they must now consider critical factors like ESG and resilience. *However, the responsibility for these factors often doesn't lie within the supply chain, procurement, or finance in isolation. To consider the trade-offs with ESG, these departments must collaborate.*

WHAT ARE YOUR TOP ESG PRIORITIES?



Nearly two thirds of businesses cannot tell if their closest supply chain partners are meeting any kind of ESG standards.



TOP 3 BARRIERS TO ASSESSING ESG RISK OF SUPPLY CHAIN PARTNERS

48%

Lack of data on suppliers' ESG credentials

40%

Limited financial resources

36%

Reliance on technology not designed for complying with ESG standards

Continuous design and collaboration for dynamic course corrections

In this complex environment, it's almost impossible to make optimal decisions from departments that operate in silos. To address the continuous and unexpected challenges, organizations need to adopt a new way of thinking. Supply chains have become so deeply intertwined, global, and complex that legacy planning methods based on static design assumptions no longer work and only add to the cost and risk. Business leaders need the means to assess internal and external variables and move supply chain design from an annual occurrence to a continuous process that will benefit supply chain, procurement, and finance. **Continuous design can reduce risk, improve resilience, and turn supply chain challenges into opportunities.**

Continuous design is the development and ongoing refinement of optimal supply chain structures, policies, and flows. This is achieved through analysis, scenario planning, and simulation with end-to-end digital models, fueled by AI and powerful algorithmic engines.

As disruptions become more common, supply chain design and planning and source-to-pay (S2P) cycles must become increasingly able to adapt to change while staying connected. Many leading organizations recognize this and have worked to better align procurement, supply chain, and finance organizations to support the business's overall objectives. Through strategic collaboration, the **CPO and CSCO are smarter together with the support of the CFO** and can create a sustainable competitive advantage for the organization.

However, more dynamic course corrections require these leaders to consider how their departments and related work processes interact. Establishing a two-way street of feedback, information sharing, and collaborative planning backed by scenario planning leads to more optimal decision-making. In many organizations, business spend is now the common thread that can bring together these seemingly disparate functions to make better and smarter decisions. The emerging practice of **Business Spend Management** can help organizations bring these departments together.

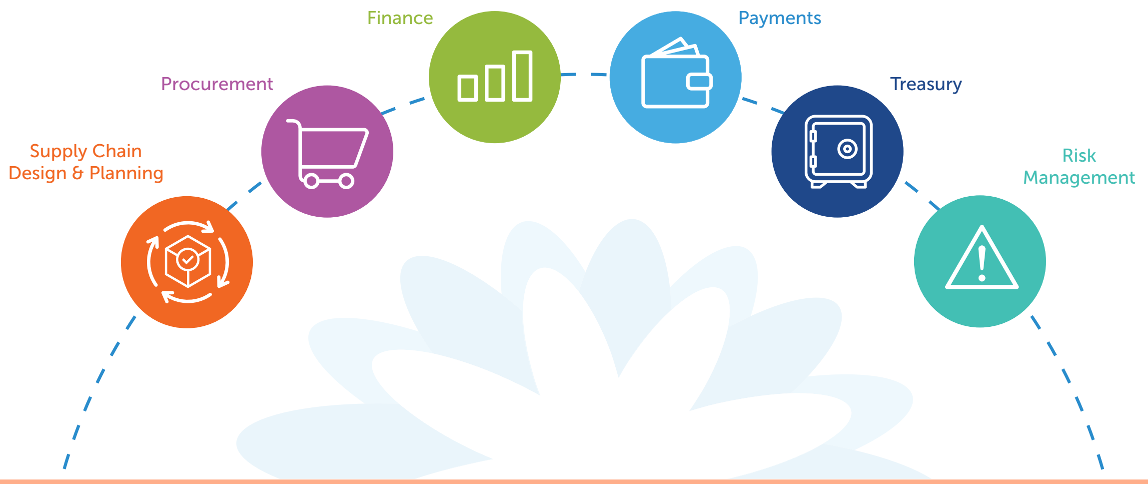
WHAT IS BUSINESS SPEND MANAGEMENT?

Business Spend Management is an emerging practice to:

- Provide complete visibility into every dollar spent
- Collaborate across functions and manage spend wisely to support the business objectives

The goal of Business Spend Management is to maximize the value of every dollar spent. Maximizing value for the supply chain community ensures product availability, strategic positioning of inventory buffers, ensuring business continuity, and doing the above at an optimal cost.

Dynamic, collaborative course corrections also require a comprehensive data model to help drive end-to-end decisions. It's especially critical where optimization requires cross-functional inputs, such as logistics sourcing, "make vs. buy" decisions, or risk management and mitigation. Capacity needs, service levels, equipment availability, eligible routes, and other considerations must all factor into supplier selection and other attributes, such as supplier ratings and ESG scores. And as calls grow to invest in new transportation methods, such as electric vehicles, to meet ESG goals, finance needs visibility to plan investments and cash accordingly.



Many companies are now looking to cross-functional alignment to improve sustainability and resilience:

Compagnie de Saint-Gobain S.A., a global manufacturer headquartered in Paris, is leveraging **transport optimization to reduce supply chain emissions.** Over the past several years, numerous advanced analytics initiatives using supply chain modeling have helped the company reduce transport emissions by 40-60% for several brands. Saint-Gobain uses a control tower concept with a team of cross-functional experts who understand the needs of different business units but maintain a holistic view. By merging the control tower team with corporate purchasing in each business unit, it can work collaboratively towards organizational excellence. Such collaboration requires individuals to step out of their respective comfort zones and reach across teams to drive collaborative decisions.

A very large technology company decided to evaluate and diversify its supply base, which is concentrated primarily in China. In considering Mexico, it weighed higher labor costs offset by shorter transportation lead times. While overall spend rose, the company reduced its carbon footprint and achieved greater sustainability while improving its speed to market. The head of supply chain resilience collaborates closely on such decisions with the head of sustainability. Finance reviews and approves such recommendations to ensure the spend maximizes the overall value for the enterprise and its customers.

A private fuel distribution company leveraged strategic transportation optimization and carrier bidding to help drive $34 million in savings. It created a new framework to source transport services using a combination of distance and volume and then collaborated with suppliers on pricing and capacity. The company then redesigned its supply chain to optimize its short-term and long-term transport strategy. In addition to savings, it could automate and improve bidding transparency to drive better governance and audit management. Such capability requires sourcing, procurement, logistics, and finance teams to work in tandem.

These examples demonstrate the concept of resilience and ESG in action. Business leaders now realize they need a clear understanding of the impact of cross-functional decisions, potential consequences, and what is required to address it. Organizations can no longer operate on the assumption that conditions will remain stable, that "normal" patterns will persist, or that ambitious sustainability initiatives will be voluntary.

As the world moves to more stringent sustainability compliance requirements, continuous design can improve efficiencies and reduce costs, and affect speed to market and the ability to meet new mandates. By using continuous design and technologies such as AI and natural language processing to tap into unstructured data and flagging risks, organizations can reduce risk, improve resilience, and turn their supply chain challenges into a competitive advantage.

NINE STEPS TO BUILD A RESILIENT AND SUSTAINABLE SUPPLY CHAIN

Now more than ever, organizations must prepare their supply chain for the present and the unknown challenges and opportunities in the future. And even before they begin, they must realize these problems are too big for any single team—supply chain must connect with finance and procurement to treat the n-tier suppliers as an extended part of their network and become their preferred customer.

Organizations must take the following steps to bring departments to create truly resilient and sustainable supply chains:

1 Leverage external data to sense market shifts

Look to external causal factors and forecasting models to identify market shifts. Integrating external factors like consumer price indexes, GDP trends, climate change, and others into the forecast can improve signaling for supply chain design. Doing so helps organizations detect market shifts and makes supply chain decisions more forward-looking than an analysis of the past, present, and at best, a tactical view of the future.

2 Make sustainability a factor in designing your supply chain

Integrate sustainability into the supply chain design by explicitly accounting for and modeling greenhouse gas (GHG) emissions. This makes decisions not only about cost, service, and inventory trade-offs but also about risk and sustainability.

3 Discover capability gaps and create sourcing events

Seek and discover what capabilities the organization may be lacking, such as vulnerabilities or inefficiencies in transportation or supplier capacity. Supply chain design can help identify and flag such capacity and capability gaps. By identifying these gaps, you can create sourcing events to close them.

4 Enable data sharing at supplier onboarding

Improve visibility by capturing specific data at supplier onboarding, such as diversity, sustainability, and risk factors. Beyond amassing the relevant data from suppliers at onboarding, standardizing it for repeated use and updating will be critical to ensure supplier risk and performance management.

5 Monitor n-tier suppliers for risks

Continually monitor suppliers for single points of failure or new sentiment around sustainability, human exploitation, or diversity. This calls for treating suppliers as partners in a relationship built on trust and transparency that reduces risk across the supply chain and ensures business continuity.

6 Adjust supply chain design to mitigate supplier risks

As supplier risks increase, remedial actions can be initiated while scenarios can be run to assess redirecting partly or fully the orders to alternate suppliers. These scenarios should consider any financial implications, such as missing out on price breaks or preferred customer discounts

7 Earn preferred customer status

In a supply-constrained world, the tables have turned from being a preferred supplier to being a preferred customer. When materials and capacity are in short supply, earning the supplier's trust by making timely payments and providing early visibility to orders and forecasts will undoubtedly help. For this to happen, finance needs to be in lockstep with procurement.

8 Impact ESG at the point of decision

Move from passive reporting to active impact. For example, start at the sourcing process to find, all else being equal, more sustainable suppliers, women-owned, or have characteristics that support compliance. Designing vehicle routes that explicitly optimize transportation routes with carbon footprint considerations is another example.

9 Make collaboration a way of doing business

Make resilience and sustainability a team sport and a part of the company's DNA. Establishing these qualities in the C-suite and injecting them into every level of the organization can create the perfect environment to prioritize investments to drive resilience and sustainability.

UNITED BY THE POWER OF SPEND

Despite the challenging conditions and uncertainty of what lies ahead, leaders who embrace disruption and use spend to connect supply chain, procurement, and finance can find exciting new opportunities and gain a competitive edge.

However, they cannot turn supply chain design into a reality with siloed departments that work across fragmented systems. Nor can they manage supply chain designs with static spreadsheets instead of dynamic digital tools. **Organizations need technologies that bring together strategic inputs and requirements from procurement, supply chain, and finance and align them to make mutually beneficial decisions.** This includes a data-driven means of determining risk exposure levels, evaluating substitutions, enhancing resilience, and creating a framework for smarter and faster decision-making. Threading the supply chain needle gets easier when all the fibers are connected into a single, common strand.

Coupa makes supply chains more resilient and adaptable by unifying business processes across supply chain, procurement, and finance. The **BSM platform** offers everything needed to optimize spend in one place in a scalable, easy-to-use, cloud-native platform that can integrate with any enterprise resource planning (ERP) and financial system to make your supply chain resilient and sustainable.