Avetta

STRATEGIC PROCUREMENT IN ACTION

Data Driven Insights for Supplier Risk and Safety Management

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Introduction

In today's dynamic global economy, supply chains face increasing complexity and threats from a range of risks and potential disruptions. The broad array of challenges gives procurement and supply chain management (SCM) professionals the daunting task of navigating through uncertainty while ensuring sustained performance. Traditional metrics and benchmarks, while valuable for assessing past performance, identifying performance trends, and monitoring risk, are insufficient to predict and mitigate future performance in the face of the broad range of risks affecting businesses today. This whitepaper delves into the strategic approaches necessary to elevate supply chain and procurement practices, offering insights into:

- Leading Indicators
- Benchmarking
- Continuous Improvement
- Procurement Strategies
- Supplier Lifecycle Management

Understanding the importance of using both lagging and leading indicators in procurement is the first step towards effectively managing supply chain risks. Unlike lagging indicators, which evaluate past performance, leading indicators provide proactive insights into the potential impact of future disruptions. By integrating forward-looking metrics such as business risk, safety, and ESG, organisations can build more resilient supply chains through the ability to make more informed, strategic decisions. These tools enable procurement teams to anticipate challenges, align with organisational goals, and drive long-term success. This success hinges on proactively changing behaviors to design resiliency into the supply chain by addressing all factors that are within an organisation's control. This effort extends beyond the traditional practices of monitoring performance and developing short-term mitigation plans.

Benchmarking represents a critical component of modern supply chain and procurement strategies. By comparing performance metrics against industry standards, across industry segments, or even across internal business units, organisations can identify strengths, weaknesses, and opportunities for improvement. Collaborating with external partners and leveraging advanced analytics allows procurement professionals to gain deeper insights and implement best practices that drive measurable improvements.

Ultimately, achieving excellence in supply chain management and procurement requires a commitment to continuous improvement. Leveraging information and benchmarking insights, procurement teams must go beyond reactive measures to establish processes that address root causes and drive sustainable change. When coupled with effective procurement strategies and robust supplier lifecycle management, these efforts enable organisations to transform procurement from a transactional function into a strategic driver of value creation.

We will explore each of the above concepts in depth, providing a roadmap for procurement professionals aiming to lead their organisations toward resiliency, efficiency, and success.

Section One:

The Importance of Leading Indicators in Procurement - Anticipating Risk in the Supply Chain

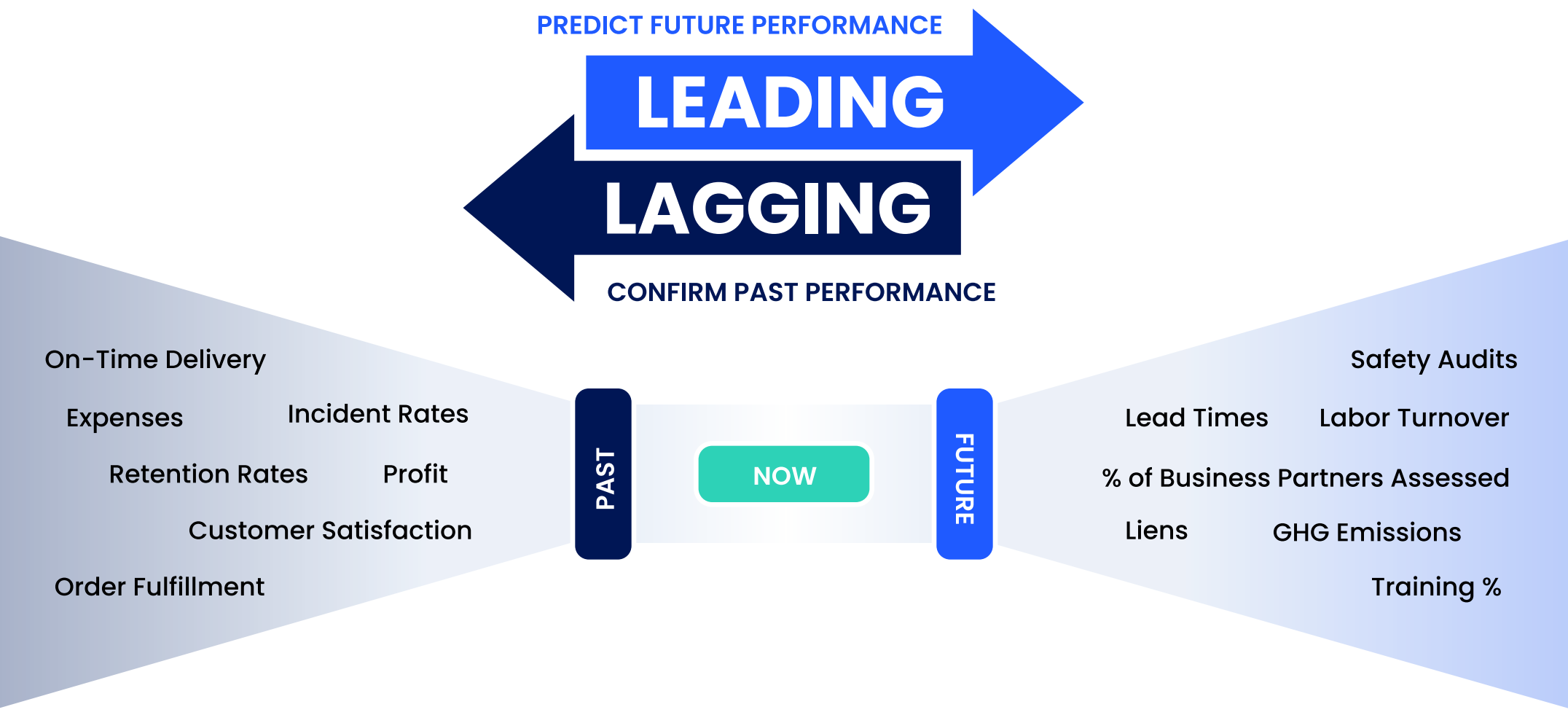
Why Leading Indicators Are Important

Traditional business and SCM/Procurement metrics measure performance from a prior period (week, month, quarter, year). These lagging indicators measure order fulfillment, on-time delivery, cost, quality, lead times, margin, and customer satisfaction, among other value drivers. Such traditional key performance indicators (KPIs) represent proven and accepted methods for measuring how a business and supply chain has performed (past tense), and many organisations use this as a proxy for how they believe the business will perform (future tense).

However, just as in the investment world past performance is no guarantee of future performance, focusing only on lagging indicators will not necessarily translate into supply chain performance nor lower-risk suppliers. The world that organisations operate in is dynamic and changing daily. This is why leading indicators around business risk, operational risk, safety risk, cyber risk and product lifecycle, among others, are important for providing a comprehensive picture for strategic decision-making.

As such, forward-looking SCM and Procurement organisations typically integrate past performance metrics with leading indicators to develop a comprehensive view of how the supply chain may perform based on the expected future demand profile. They assess various aspects of the supply chain including demand, capacity, categories, and individual suppliers. While there are no absolute crystal balls, statistical analysis tools can analyse such data to create robust models that predict the percentage of risk for different risk types, adverse events, and disruptions.

When coupled with strong Sales Forecasting, SI&OP, and Demand Planning, SCM/Procurement professionals can use leading indicators to more accurately establish category strategies, understand the markets, understand needs, source effectively, and ensure a consistent flow of goods and services to the company. Executed at the highest level, such a combined approach can build resiliency into the supply chain, reducing the risk of unexpected incidents and ensuring consistent performance regardless of disruptions and risks that exist on the horizon.



Important Leading Indicator Categories

The following is a list of some of the most important types of leading indicators:

1. Business Risk Indicators

Overview

The predominant business risk indicators that many risk prediction tools focus on are companies' financial and operational health, including but not limited to payment history, credit, return on assets, quick ratio, % of labor turnover, management turnover, liens, legal proceedings, safety, inventory turns, and lead times.

These tools analyse patterns for correlation and offer a percentage or odds that a company may experience a significant business impact up to and including bankruptcy within a specified period of time. These indicators provide valuable information that a category management or supply chain organisation can use when planning production and supply to prevent disruptions and proactively take action well before any situation becomes a crisis.

Examples of Business Risk KPIs:

Financial Stability: Tools like CreditSafe provide predictive indicators based on historical financial data, helping forecast the probability of issues in the next 6-12 months. Financial stability, even if the risk of a complete shutdown or bankruptcy is low, may indicate a particular supplier is incapable of or challenged to make the required investments in material, capacity, workforce development, etc., to maintain their performance. All of these are worthy information points for a SCM/Procurement professional to verify, consider, and incorporate into decisions and strategies.

Adverse Media: Negative press or public scrutiny could indicate operational or reputational risks that may influence a supplier's future viability as part of a buyer's supply chain. Therefore, adverse media information is useful for SCM/Procurement to consider when hiring suppliers.

Liens: Claims against a business from creditors or tax authorities may indicate risks to a business's ability to remain operational, as assets including cash, plant property, and equipment may be at risk to satisfy that lien.

2. Safety Risk Indicators

Overview

Safety indicators provide insight into a supplier's operational safety practices, impacting their ability to meet demand without delays caused by accidents or lost workdays. Poor safety performance may impact a company's workforce availability and, therefore, available capacity, as it may be an indicator (symptom) of other financial and operational issues including but not limited to poor workforce development, high insurance costs, fines, poor machine maintenance, lower productivity, and high workforce turnover. Safety may also offer insight into how well-aligned a particular supplier is with the purchasing organisation's values.

Again, this is all critical information that, when added to business risk and other evaluation criteria, provides valuable insight for SCM and Procurement teams to make informed decisions and develop robust strategies, resulting in sustained performance and reduced crisis mitigation.

Examples of Safety Risk KPIs:

TRIFR:: Total Recordable Injury Frequency Rate is the total number of medically treated injuries and lost time to injuries and fatalities per million hours worked. A critical measure of workplace safety performance, a lower TRIFR suggests a safer workplace.

Average Days to Close Corrective Actions: This metric measures how long organisations rectify noncompliance to identified safety risks. Poor performance indicates a high likelihood of future incidents.

Number of Safety Risk Assessments/Walkthroughs Completed: Safety risk assessments and walkthroughs can reflect the strength of a company's safety culture and are used to demonstrate proactive action to identify and eliminate health and safety risks.

SMI: The Safety Maturity Index assesses an organisation's adherence to elements within ISO 45001, ANSI Z-10, and measures Safety Culture, Hazard Identification, Training, Incident Management, and Communication.

Worker Training and Competency: Well-trained workers minimise safety risks and contribute to consistent production.

Incident Management and Response: A supplier's ability to handle incidents proactively is a key predictor of their capacity to maintain consistent operations.

3. ESG Indicators

Overview

ESG indicators assess how well suppliers adhere to environmental, social, and governance standards. Leaders in this space demonstrate a focus on innovation, waste reduction, and investment. These are strong indicators of a company's values and priorities. Often, in today's complex supply chains, leaders demonstrate their ability to ensure continuity of supply by actively reducing the use of raw materials, energy, and other items that may pose risks and/or lead to disruptions. Strong social and governance processes also indicate healthy operational efficiency, which is a good indicator of supplier stability.

Examples of ESG KPIs:

Environmental Impact: A supplier's environmental policies can affect long-term viability, and stricter regulations may impact operations.

- GHG Emissions (Scope 1, 2, 3)
- Waste
- Water Consumption

Social Responsibility: Worker rights, diversity, and community impact are forward-looking indicators of a supplier's stability.

- % of Workforce Diversity
- % of Spend with Diversity Suppliers
- Total Spend with Diversity Suppliers

Governance Risks: It's important to flag potential suppliers who have a history of corruption, bribery, regulatory noncompliance, or other criminal or ethical concerns.

4. Capacity Indicators

Overview

Capacity indicators are key leading indicators for determining whether a supplier can meet future demands. Assessing a supplier's current capacity utilisation, lead times, workforce availability, etc., indicates their ability to scale up and/or maintain production levels to fulfill upcoming orders.

Examples of Capacity KPIs:

Capacity Utilisation: Typically, this is expressed as a percentage to indicate how much capacity (the availability to produce before requiring more resources) is available. A supplier operating at 80% has 20% in reserve to manage additional demand. A supplier at 100% either needs to conduct Continuous Improvement on its manufacturing processes to free up additional capacity or invest in additional resources (plant, property, equipment, labor); otherwise, they risk pushing out lead times and failing to meet customer demand.

Lead Times: While lead times can be both a lagging and leading indicator, they can be used in a forward-looking manner, especially if robust real- (or near-real-) time supplier profiles are maintained. This involves assessing whether suppliers are consistently meeting their lead times or, more importantly, undertaking projects to shorten their lead times, which helps predict their ability to meet future orders. Some organisations may also use lead times to assess the capability of their own planning and purchasing processes. Orders placed (requisitions and/or purchase orders) consistently under supplier lead times indicate poor material planning, poor forecasting, late requirements, inefficient procurement processes, or a combination of these factors. All of these are indicators of inefficient chain management practices which may contribute to higher risk.

Workforce Availability and Safety: A supplier’s workforce stability and safety metrics can be helpful as a proxy for available capacity. A strong safety profile (e.g., minimal lost workdays) is a leading indicator that the supplier will have a reliable and available workforce to meet future production needs.

Access to Raw Materials: Although not technically a KPI, assessing the availability of raw materials can be a critical element for predicting capacity. If a supplier has reliable access to necessary materials, it's more likely they can meet future demand. Many companies will use tools that look at various materials markets and the futures to try to measure demand, availability, and cost. In a services business the equivalent of access to Raw Materials may be access to Critical Trades and Services.

5. Cybersecurity Risk Indicators

Overview

Cybersecurity risk is a potential leading indicator that could impact a supplier's future viability. With increasing reliance on digital infrastructure, cyber threats can affect a supplier's operations and service delivery. This metric may be particularly important depending on the degree of electronic integration within the supply chain. If forecasts, demand, and purchase orders are enabled through electronic exchange, the impact of a cyber event disrupting this information value stream may be devastating. No less so is the impact on intellectual property protection. Losing control of or poor hygiene around cybersecurity with suppliers exposes your critical product and service information to potential competition.

Examples of Cybersecurity KPIs:

% of Business Partners Assessed: This measures how many organisations have assessed the cyber risk of either suppliers or customers. In today's business environment, the risk is real regardless of the level of electronic interconnectedness. A supplier with poor cyber hygiene may be susceptible to risks such as a cyber crime or a disgruntled employee stealing intellectual property electronically.

% of Business Partners with Cyber Risk Scores: Beyond assessment, this metric measures whether the organisation has assigned a cyber risk score to suppliers' and customers' profiles and established an acceptable threshold. Business partners above the stated threshold may only be monitored, while those below may be at risk of being replaced. Establishing the thresholds may be conducted in collaboration with the IT organisation and or an outside party such as a Cyber Insurance underwriter.

% of Business Partners with Cyber Contingency Plans: Monitoring is a first step. Requiring and verifying that business partners have contingency plans in place offers organisations insight into how prepared partners are to respond to an event and may also provide valuable information into how long normal operations may be impacted.

% of Phishing/Cyber Testing/Training Compliance Rates: Training and testing represent indicators that measure an organisation's attention to and vigilance for risky behaviors that may expose organisations to cyber risk. Like EHS lagging and leading indicators, addressing cyber risks and behaviours proactively and consistently represents a strong methodology for reducing risks.

The Bottom Line on Key Performance Indicators: Find Balance

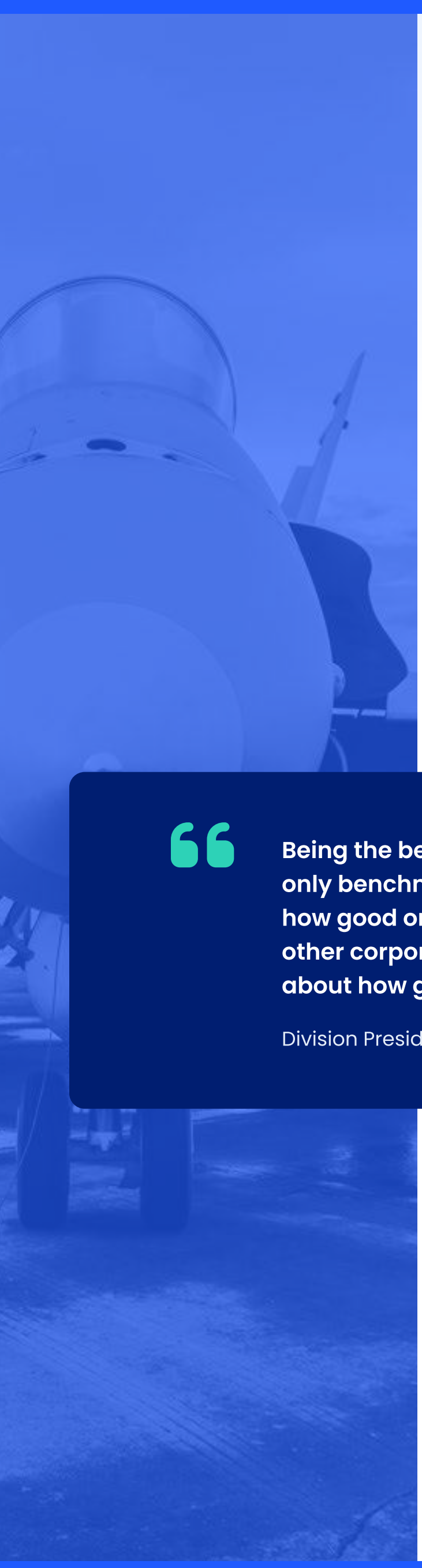
Procurement organisations must drive their supply chain like a high-performance sports car, using all available information to plan, design, and execute. Balance your rear-view mirror KPIs with forward-looking leading indicators to realise greater value through better planning, strategy, and execution.

Early visibility provides an advantage in being strategic versus reactive and crisis management focused. Using leading indicators in procurement allows stakeholders to act in aligned concert across the extended enterprise (suppliers, customers, operations, stakeholders) to optimise results, plan for production, plan for service delivery, optimize processes, and plan for information flows to drive the intended results.

The key message: Find the right balance between both leading and lagging indicators. Additionally, recognise that while there are limitations, finding the right combination of factors to track, analyse, refine, and leverage offers the best opportunity to drive performance.

Section Two:

The Power of Benchmarking in Procurement – Driving Success and Strategic Planning



During a business review in 2001, a divisional president from a multinational aerospace and defense company asked about his organisation's procurement team's performance on cost optimisation for the General Procurement area for a range of services and supplies. The corporation and its divisions were pursuing a comprehensive initiative to eliminate waste and reduce costs. The other divisions had identified a range of opportunities which were comparatively larger than his division.

His team answered, "We're best in class!"

He responded, "Compared to whom?"

"Compared to the other divisions within the corporation," his team said.

"Did you benchmark any companies outside of ours within aerospace or from other industries?" the president asked.

"No."

His next response explains why benchmarking is such a powerful tool:

> **Being the best of the worst is nothing to be proud of. Since we only benchmarked against ourselves, we really have no idea how good or bad we really are. Go benchmark a range of other corporations, and then we will have a conversation about how good or bad we really are.**
>
> Division President, Multinational Aerospace and Defense Company

Over the next two years this corporation and its divisions delivered superior results. It became a benchmark target for other corporations as it pioneered new techniques and defined what best-in-class looked like.

As the above example illustrates, benchmarking involves comparing a company's performance to that of other organisations across the industry. It provides a snapshot of a company's performance relative to competitors and offers insights into where improvements may be required.

Benchmarking in Supply Chain and Procurement

Benchmarking can be used to compare supplier performance, procurement costs, lead times, quality, on-time delivery, productivity, safety, compliance, and other key metrics against other organisations and standards. It helps teams understand their strengths, weaknesses, threats, and opportunities; all key elements of a traditional SWOT analysis.[1] Benchmarking also forms an informational foundation for other strategy tools like Porter's Five Forces[2], which shows the relative leverage in the marketplace that a buyer or seller may have.

Procurement professionals benefit from benchmarking as it highlights where they stand in the marketplace and offers targets for improvement. It helps address competitiveness and, when used effectively, reduces the risk of falling behind. Often, companies that are not direct competitors are willing to create benchmark networks to learn and share best practices. Together, the information exchange helps the participating organisations gain valuable insights, lessons learned, and best practices.

Benefits of benchmarking include:

- **Identifying Strengths, Weaknesses, Opportunities, and Threats (SWOT):** Benchmarking allows organisations to see how they compare to others within their specific industry segment or to industry leaders in general, providing a clear understanding of areas where they lead, meet expectations, and/or need improvement. Benchmarking is a valuable tool in conducting a traditional yet proven SWOT analysis.
- **Identifying Purchasing Power:** Benchmarking offers valuable information for organisations trying to assess their power in the buyer-seller dynamic. This knowledge may be instrumental in planning and executing sourcing strategy, bid methodology, and negotiations.
- **Insights into Strategic Planning and Risk Management:** Benchmarking offers a lens into risks by identifying gaps between an organisation's procurement processes and industry best practices. It also supports strategic planning by pointing out key areas for growth.
- **Improving Procurement Maturity:** Benchmarking helps procurement organisations assess their maturity in areas such as skills, process, and technology, offering insights into how far along they are in optimising their procurement processes and practices. The goal is to identify improvement opportunities to realize value for the organisation.

Sources and Best Practices for Benchmarking Data

Sources of Benchmarking Data

Organisations can obtain benchmarking data from multiple sources, including platforms like Avetta, independent research from consulting firms like Kearney and McKinsey, and industry-specific reports like the Report on Business from the Institute for Supply Management (ISM)[3].

Many of today's supply chain management and procurement SaaS solutions have analytics capabilities that offer benchmarking comparisons of suppliers, categories, and industries. This information is valuable when the team uses the analysis around people, process, and technology to drive outcomes.

Best Practices for Benchmarking in Procurement

- **Clearly Identify Your Benchmarking Goals:** The key to effective benchmarking is to (a) define what the function hopes to gain from the exercise, and (b) ensure that the benchmarks constitute a legitimate baseline that offers realistic and actionable information. This may require work to properly define the problem statement.
- **Use a Variety of Sources:** Seek benchmarks from many sources. An organisation may artificially appear stronger than reality if the benchmarks are not carefully selected from a wide range of sources. Seeking diversity of viewpoints helps organisations think outside the box to drive innovation.
- **Continual Use of Benchmarking Data:** To get the most out of benchmarking, procurement specialists should regularly compare their performance against the best-in-class, identify actionable insights, and adapt their strategy to address any weaknesses. Benchmarking should never be a "one-time" effort. A minimum of once a year, if not biannually or quarterly, depending on the scope, is best practice. As stated, the business environment changes dynamically throughout the year. Therefore, benchmarking needs updating with some frequency either based on a specified time period, or within a certain period of time following an event.
- **Leverage Information from Solutions like Avetta:** Procurement teams can use platforms like Avetta to benchmark their performance against industry peers and gain valuable insights into how they can improve efficiency, reduce costs, and mitigate risks.

We operate in a dynamic world where the business environment is always changing. Innovation and disruptive technologies present opportunities and risks all the time. Benchmarking allows organisations to identify trends and build strategies to address them faster and more precisely.

Benchmarking is therefore an essential tool for procurement professionals. It enables organisations to stay competitive, understand their market position, and strategically plan for future growth and risk mitigation. By setting goals, using a wide variety of sources, and leveraging modern tech platforms, procurement teams can lay the foundations for a data-informed continual improvement process that can greatly increase the efficiency and maturity of their procurement organisation.

Section Three:

How to Create Continuous Improvement Processes for Supply Chain and Procurement Organisations

Continuous Improvement in Procurement

Once the data gathering and benchmarking described earlier have been completed, a simple question must be answered:

Now what?

At this point, procurement teams must decide whether to continue collecting, analysing, and reviewing information or take action. This may seem self-evident, however the cliche “analysis paralysis” exists for a reason. Organisations can fall victim to a doom loop of constantly trying to find perfect data, collect everything, continue monitoring, and continue analysing—without ever committing to action.

Many organisations believe that monitoring and early warning form a robust risk management process. They believe that these two components alone offer them protection. Other teams use this data and benchmarking to develop risk playbooks with reactive plans to use in the event of disruptions. However, both of these levers tend to create a false sense of security, coupled with crisis management, followed by a reset back to the current state after a crisis passes. Does this sound familiar?

The key question is, why hit reset when the information, benchmarking, and learnings offer a chance to use continuous improvement processes for your supply chain development and risk management? Why not use the power of information to design performance in, and to the greatest extent possible, risk out?

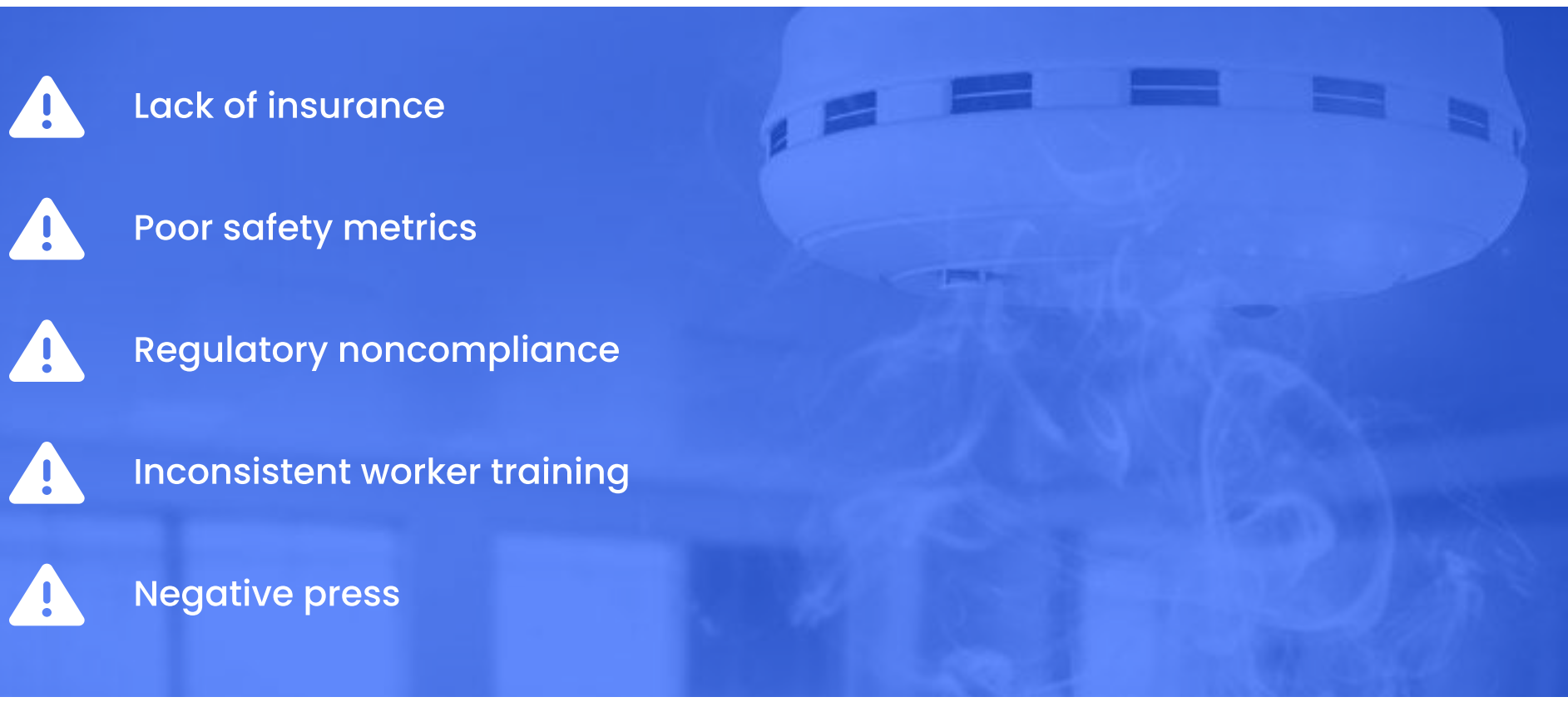
The Importance of Continuous Improvement

How do you react to a smoke detector going off?

95% of us ignore it or, worse, take the battery out or dismantle the smoke detector. We have become so conditioned to false positives that very few of us actually investigate to determine the root cause. Perhaps, the detector is faulty, the batteries bad, maybe there is an electrical issue, someone burned dinner, or some other issue.

But what happens if there really is a fire? With our smoke detectors turned off or ignored, we are underprepared and must react quickly to either put the fire out or risk losing the house.

Afterward, many of us react by saying, "But we had smoke detectors. Not sure why they didn't work." Had we looked at our behaviors, available information, and completed some basic root cause analysis, we might have addressed the real issues and prevented a potential fire.



Continuous improvement focuses on developing a sound problem statement and driving to the root cause. Too often, in supplier risk management, teams focus on symptoms, not root causes. Within a continuous improvement framework, however, analysis is performed specifically to look for trends and correlations between data points, such as leading and lagging indicators, among other KPIs like cost, quality, OTD, and lead times. The goal centers on identifying the root cause of the impact to the organisation of supply chain risks and disruptions.

Warning flags, such as noncompliance, lack of insurance, or poor safety metrics, are all potential risk indicators with operational and financial impacts. Ultimately, the continuous improvement analysis converts all this raw data into actionable information that allows teams to implement plans to improve their processes, remove the unexpected, and sustain performance.

Many proven continuous improvement methodologies exist, including Six Sigma[4] and Lean[5]. Within these frameworks, tools like A3s[6], 8Ds[7], DMAIC[8], and FMEA[9] provide structure for determining relentless root cause analysis (RRCA) and developing mistake-proofed solutions. Any one of these frameworks will provide the necessary support to develop continuous improvement plans and lead to a successful implementation.

The key is ensuring the team develops a sound problem statement and determines the real root cause in performing the RRCA. Otherwise, the results will not be sustainable as the team will likely have addressed a symptom of a larger issue.

As the team drives to the root cause of impact from risks and disruptions, tying the solutions developed to KPIs supported by benchmarks allows for effective development of larger strategies and a more powerful continuous improvement flywheel. Showing changes in these KPIs and benchmarks also provides evidence that measures progress and demonstrates impact.

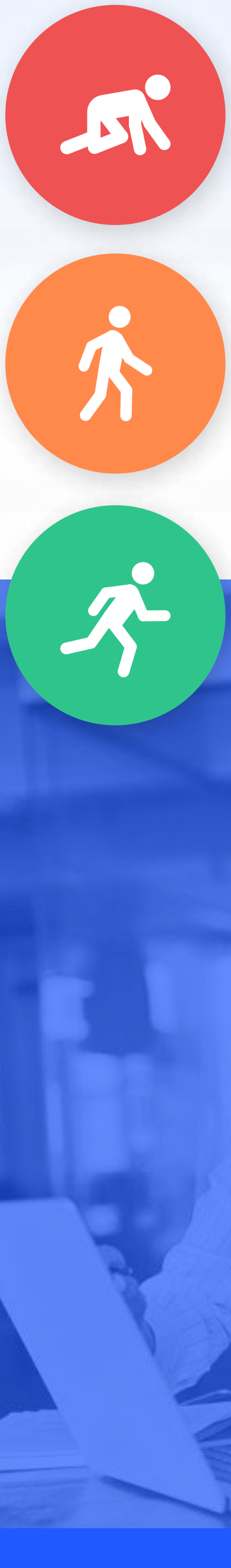
Make sure to document each continuous improvement project. This simple step ensures the organisation builds a history of what has been done and provides a valuable research tool within the organisation to learn, share, and communicate.

If investment is required in resources (quality, engineering, supplier development), new designs, suppliers, or technology to address and eliminate the conditions creating the risk, these factual references offer proof and credibility that many executive teams require to make an informed decision. They want assurance that investment in continual improvement will positively impact their strategic plans and are aligned with corporate goals (revenue, profit, customer satisfaction, etc.).

Additionally, it is important to note that this process must be repetitive and continuous. Business is dynamic—conditions in the world change minute by minute. The way to remove uncertainty and the unexpected while developing supply chain resilience is by proactive continuous focus on using information to identify vulnerabilities and opportunities, and then take action. Often combinations of factors contribute across the equation to compound risks. Therefore, broad assessments and even the use of scenarios to test solutions offer the best opportunity for effective continuous improvement.

Best Practices for Implementing Continuous Improvement Plans

- **Face the Brutal Facts[10]:** Selective data gathering leads to bias and incomplete or inaccurate conclusions. Facts should be viewed as opportunities no matter how bad a picture they paint.
- **Avoid Ad Hoc Improvements:** This must be a systematic, not ad hoc, process. Ad hoc improvements lead to missed opportunities or a false belief that the issue has been resolved when, in reality, the team only addressed a symptom of a deeper issue.
- **Executive Buy-In:** Leadership support is essential. Identify sponsors and get their buy-in using data and insights from your KPIs and benchmarking.
- **Break Down Silos:** Build support across functions and groups. Input and viewpoints from broad perspectives drive better outcomes.
- **Clear Communication and Change Management:** Setting clear milestones, metrics, and timelines is important for implementing strategic cross-functional continuous improvement plans. This discipline represents a key component of any continuous improvement process and planning. Something is going to change if the continuous improvement process is completed properly. Change is never easy and requires detailed preparation. Consider who should participate in the process, who should sponsor, how to and to whom the team needs to communicate, and how to measure improvement. Success depends on it.
- **The Plan-Do-Check-Act (PDCA) Cycle:** As stated, continuous improvement is a repetitive cycle that involves an ongoing process rather than a one-time event. One of the best methods for creating this improvement cycle is PDCA[11]. Comparing data to baselines and re-benchmarking ensures progress and allows you to adjust strategies as required.
- **Crawl-Walk-Run:** Don’t be afraid to start small. As with any large strategic shift, the most important thing is to get started and scale up as knowledge and resources allow. One of the best ways to do this is by taking a crawl-walk-run approach where your team gradually builds up processes and maturity in benchmarking and continuous improvement. Success is then the result of many small steps versus giant leaps. If we lean into the process continually, eventually, we build momentum that sustains itself.



Take Action in the Face of Uncertainty

As with any strategic shift, the most important thing is to take action. Don't merely gather and analyse data but use those KPIs along with benchmarking to develop plans for taking actionable steps to improve your procurement organisation and supply chain resilience.

By proving your case with data, getting leadership buy-in, breaking down siloes, following a PDCA process, and making sure first to crawl, walk, and then run, you will create a virtuous continual improvement cycle that transforms your organisation from just monitoring to systematically eliminating risk in your supply chain.

Section Four:

Maximising Procurement Success

The Importance of Information

What do leading indicators, benchmarking, and continuous improvement have in common?

Information!

The great college basketball coach, John Wooden said, “Failing to prepare is preparing to fail.”

Similarly, Sun Tzu states in The Art of War, “If you know the enemy and know yourself, you need not fear the result of 100 battles.”

Both quotations point to the fact that the key to effective preparation and strategy development centers on information, or “knowing” as much as possible.

The more informed your organisation is, the greater the depth of insight and the better prepared you will be to address any situation, identify and mitigate risks, create better strategies, and achieve better results. Additionally, such results will not be measured merely in terms of compliance but also in terms of value creation: profit, revenue, market share, customer satisfaction, stakeholder impact, and time to market, to name a few.

Indicators, benchmarking, and continuous improvement represent key elements in preparation and knowing oneself. They provide foundational information at the center of strategic planning.

> **Failing to prepare is preparing to fail.**
>
> John Wooden, Former NCAA basketball Head Coach

> **If you know the enemy and know yourself, you need not fear the result of 100 battles.**
>
> Sun Tzu, *The Art of War*

Three Keys to Developing a Sound Category and Sourcing Strategy: Information, Process, and Leverage

Many companies develop category strategies to drive the best outcomes in terms of risk, quality, on-time delivery (OTD), lead-time, service, customer satisfaction, and, of course, total cost of ownership.

To develop these robust category strategies, SCM and procurement organisations work closely together to gather data, analyse spend, forecast demand, and profile both needs and markets. They utilise tools such as a SWOT (strengths, weaknesses, opportunities, and threats) analysis and Porter's 5 Forces to understand the organisation's power in the Buyer-Supplier relationship. This, coupled with spend and category segmentation, provides powerful **information**.

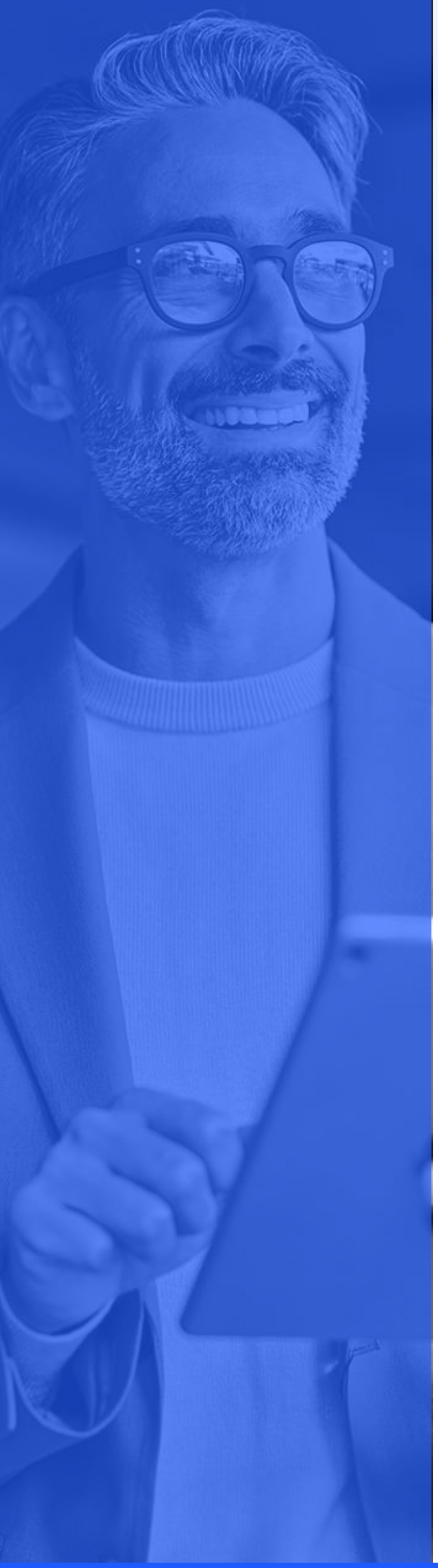
And remember, information is power. Some organisations believe that data is the priority. Data is an input variable, a collection of facts and figures. Individually, few decisions can be made from data alone. The key is transforming the data into information through analysis.

Organisations with more robust information, gathered from more sources, that balance both a review of past performance and future-looking indicators, develop more effective strategies and realise better results.

However, information alone is not enough; it must be coupled with **process**, our second key. Leading organisations utilise well-defined procurement processes that include collaboration across stakeholders, supplier relationship components, marketplace analysis, risk analysis, and spend analysis, coupled with category management and standardised Six-Step Sourcing processes that translate the category strategy into specific sourcing projects.

The final strategic key includes the power of **leverage** wherever and whenever possible. Leverage may be derived from a combination of factors, such as consolidating spend geographically or within a category, optimising suppliers, utilising supplier capabilities, or leveraging information across the organisation.

The power of information and process enjoys an exponential impact and higher return when leveraged across the organisation. Information concentrated in the hands of a few may generate value, but when information is shared across the organisation through broad access, it may be leveraged to drive change, better implement strategy, better manage risk, and better realise value in a shorter period of time for a longer period of return.



Additional Factors for Procurement Success

The Role of People

Jim Collins in “Good to Great” speaks at length about the concept of “the right people in the right seat.” Even in the age of technology dominated by IoT, Industry 4.0, Blockchain, and Artificial Intelligence, Supply Chain and Procurement teams need skilled professionals organised effectively to achieve superior results. With the right team, the right processes and the right technology, organisations today can act faster, act smarter, operate at scale, and adjust rapidly.

The Role of Technology

In today’s complex information environments, skilled teams with processes enjoy the benefits of enabling technology as a value impact multiplier in ways that were just being dreamed of 20 years ago. The ability to rapidly share information, scale, develop strategy, execute, measure results, adjust, and improve is at the forefront of our technological evolution.

Leading organisations can now utilise enabling technology to integrate information elements from sources such as their ERP, contract lifecycle management, supplier information, and spend management with their source-to-contract/pay to drive significant results. Technology alone fails to achieve results. Too often the return on investment of SaaS solutions fails to meet expectations because the organisation believes technology alone can make up for the wrong people and immature process.

Section Five:

Value Realisation Through Collaboration Throughout the Supplier Lifecycle

Sourcing: The Easy Part

For many procurement and supply chain teams, sourcing—translating needs into supplier selection, negotiation, and award—is the easy part of the process.

The procurement team follows a comprehensive process to select and award business to suppliers that your organisation hopes, based on this evaluation and assessment, will perform. The team gathers documentation on safety, quality, production, risk, cost, insurance, and many other elements, including those related to sustainability. This information is used to select suppliers and ensure an orderly onboarding.

But now the real work begins.

Supplier Lifecycle Management (SLM) and Supplier Relationship Management (SRM)

The procurement organisation issues the first purchase order, which is the first real opportunity to see a supplier in action and begin building a strong relationship. The goal for this relationship is to provide a win-win opportunity for both parties to demonstrate how and why they are the business partner of choice for driving value to the end customer together.

Though not all supplier-client relationships are equal, there are some basic common elements for successful partnerships:

- Do both parties understand how value is created and measured?
- How integrated and how much communication exists between the two parties?
- Are the metrics that will govern the relationship well-defined?
- Are the metrics that will measure performance and value creation defined and understood?
- Do both parties understand the risks to the relationship and what may impact them?

Benefits of strong SCM and SRM include reducing supplier churn, maintaining consistent quality, driving innovation, and, ultimately, supporting sustainable supply chain resilience.

The old cliche that it takes a village to raise a child may be adapted here. Managing a supplier relationship, reducing risks, and realising true value requires a village of stakeholders and partners. Suppliers interact with many different parts of your company and vice versa: engineering, operations, quality, finance, purchasing, EHS, and ESG to name a few. Communication, information, and data must flow back and forth among the various teams, departments, and organisations of both parties. The ultimate goal is to ensure the right products or services at the right cost, quality, and time for the organisation to convert to value.

Synthesising Information into Action

SCM and procurement play pivotal roles, acting as agents for synthesising all the information discussed above into action and, therefore, enabling cross-functional collaboration.

To achieve value realisation, procurement organisations must leverage a few basic components:

- Information
- Process
- People

Let's take a look at each in turn.

Information

Optimising value out of your supplier relationships requires leveraging information continuously to collaborate, reduce risk, and drive impact across a range of metrics. This means focusing on leading indicator KPIs from other organisations within your company, including health, safety, environmental, social, and governance, in addition to traditional inputs such as total landed cost, quality, on-time delivery, lead-time, and customer satisfaction.

This information is not a yes-or-no compliance activity completed once at the beginning of the process—it requires ongoing attention to collect and analyse cross-functional data regularly.

Process

Supplier lifecycle management (SLM) is comprised of several components, including relationship management, performance management, and risk management. Each element requires discipline week to week, month to month, quarter to quarter, and year over year. Realising and driving sustained value creation requires collaboration across organisations, alignment and accountability, and continual attention to KPIs, communication, and risks on multiple levels.

The success of SLM, whether or not value is created or conversely destroyed, requires action, not passive monitoring. A useful framework for doing this is PDCA: Plan, Do, Check, and Act, described in an earlier section.

Following PDCA should lead to a continual improvement SLM process that engages with suppliers collaboratively to share information, risk identification, best practices, resources, and success.

The author Jim Collins, famous for his two pivotal books “Good to Great” and “Great by Choice,” wrote in the latter, “We cannot predict the future. But we can create it.”

Coupling information with processes like PDCA embodies this concept, wherein information informs a continual improvement process that creates a future where value is realised. Instead of merely surviving business cycles, disruptions, and a risk-prone world, organisations leverage process to create their own future and deliver value that generates both financial and non-financial impacts.

People

Earlier we spoke about the role of people. A core component of a strong Supplier Lifecycle Management strategy is people. Each collaborator and stakeholder has their own pool of valuable knowledge and insight. For the supply chain to perform, the right information needs to provide input to optimise the processes subject matter experts use to drive strategy and execution. However, to access the right information, you need the right people involved.

Each stakeholder offers a broad array of input variables that organisations, and specifically procurement, must synthesise into requirements that guide supplier evaluation, selection, and ongoing management. These variables may be a combination of qualitative and quantitative facts.

Building robust category management and sourcing teams, therefore, requires pulling diverse members from across the organisation, including HSE, ESG, IT, etc. The multiplicity of thought, perspectives, knowledge, and experience supports the effective selection of supplier partners and, more importantly, the informed foundation to successfully build those relationships into long-term value over the course of the supplier lifecycle.

For our purposes, this means gathering input from not just engineering, operations, or quality, but also from the environmental health and safety (EHS) team. It means expanding selection and performance criteria, which include these environmental and social elements. Why? Because it is the right thing to do? It is, but ultimately, value realisation requires it. Value realisation requires low risk, continuity of supply, and efficient processes. This is good business.

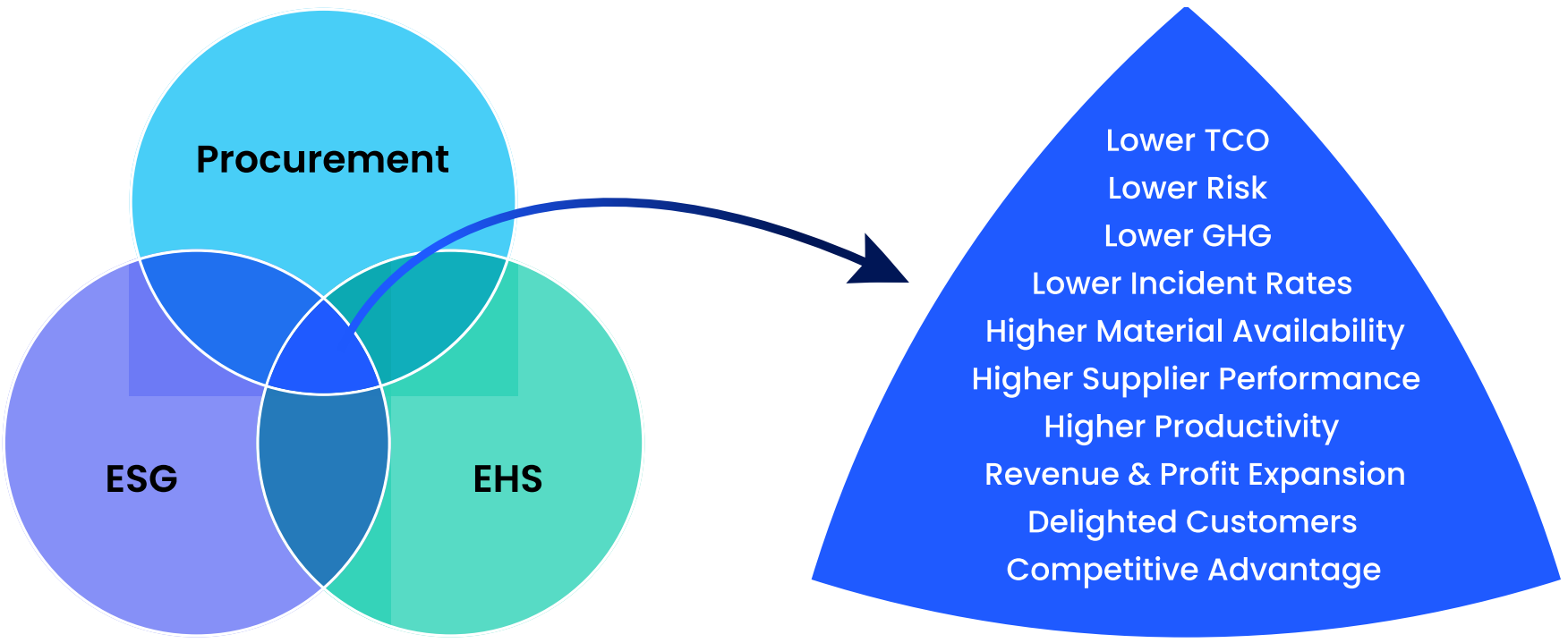
Cross-functional Collaboration — Breaking Down Silos

As supplier risk management grew as a core discipline, leading organisations expanded the metrics to include historical performance factors and forward indicators, including business risk. Today, organisations with multifactor risk management processes evaluate relationships even further with leading indicators for safety and environment (not just past GHG figures but forecasted goals and trends).

The reason again stems from good business practices. The power of this expanded information offers organisations an opportunity to assess and forecast risk. Identifying the current and potential vulnerabilities that may impact value, such as the availability of raw materials, increased costs related to health, labor, safety, social impacts, regulatory requirements, and productivity impacts from climate change, among others, are integral to risk management.

The responsibility for gathering and acting on this information falls on multiple groups within clients and their suppliers. However, the client SCM and procurement teams represent the central organisations in this relationship and value-creation formula. Working as the central hub to break down the silos between business functions allows procurement teams to succeed through increasing collaboration, alignment, and efficiency among all stakeholders, which ultimately drives value. Remember our overview of change management. Collaboration represents a core element of successful change management.

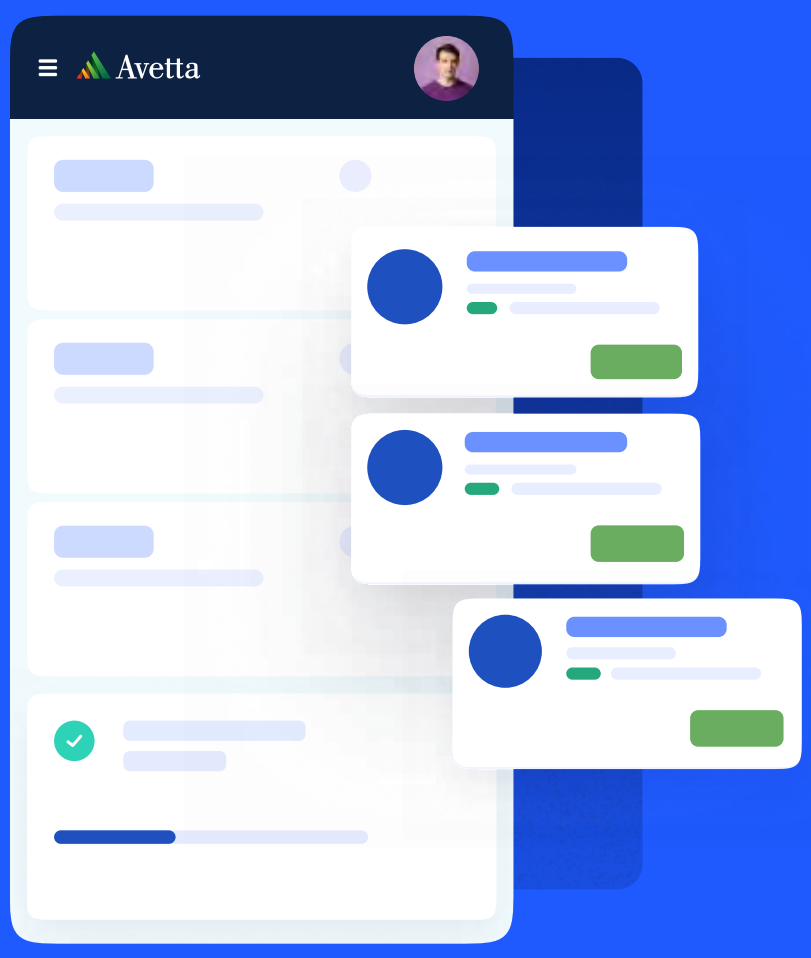
Value realisation, therefore, needs integrated collaboration among procurement, ESG, and EHS, as well as operations, quality, and finance functions, to gather and act on information within the supply chain. This will drive value by leveraging information, process, and people to avoid fragmented efforts, misalignment, and inefficiency.



Conclusion

In a world where supply chain risks and complexities continue to evolve, procurement professionals must embrace a proactive, strategic approach to maintain resilience and drive value. By integrating leading indicators, benchmarking, and continuous improvement processes into their operations, organisations can anticipate potential disruptions, align their strategies with future needs, and ensure a consistent flow of goods and services. These tools, coupled with robust sourcing strategies and supplier lifecycle management, empower procurement teams to move beyond reactive measures, positioning them as critical contributors to organisational success.

The key to unlocking this potential lies in the synthesis of information, process, and people. By leveraging data-driven insights and fostering cross-functional collaboration, procurement teams can not only mitigate risks but also capitalise on opportunities for innovation and growth. As highlighted throughout this whitepaper, the combination of foresight, structured processes, and strategic leverage enables organisations to create a resilient, value-focused procurement function that supports long-term business objectives and sustainable success.



Avetta is a SaaS company providing supplier risk management solutions which couple technology with knowledge and expertise to drive impact. Avetta's platform is trusted by over 130,000 suppliers in over 120 countries.

Visit **Avetta.com** to learn more about our supplier prequalification solutions.

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Additional Supply Chain Procurement Resources

Industry Resources

Strategic Supply Chain Management, the 5 Disciplines for Top Performance, Cohen, Shoshanah and Rousell, Joseph, McGraw-Hill, NY, 2005.

This book explores five critical disciplines—configuration, optimisation, collaboration, adaptability, and execution—that underpin effective supply chain management. Cohen and Roussel provide actionable insights and frameworks for aligning supply chain strategies with business goals, emphasising the importance of innovation and integration.

The Extended Enterprise, Gaining Competitive Advantage through Collaborative Supply Chains, Davis, Edward W. and Spekman, Robert E., Prentice Hall, Upper Saddle River, NJ 2004.

Davis and Spekman argue that competitive advantage lies in fostering strong, collaborative relationships across the supply chain. The book highlights the value of transparency, shared goals, and trust in building extended enterprises that outperform competitors.

The Power of And, Responsible Business Without Trade-Offs, Freeman, R. Edward, Martin, Kirsten E., and Parmar, Bidhan L., Columbia University Press, NY, NY 2020.

Freeman, Martin, and Parmar challenge the traditional notion that businesses must choose between profitability and social responsibility. They propose a model of "both/and" thinking, showing how companies can align ethical practices with long-term financial success.

Lean Supply Chain Management, An Executive's Guide to Performance Improvement, Donovan, R. Michael, R. Michael Donovan & Co. Inc. Framingham, MA 2003.

Donovan introduces lean principles to optimise supply chain performance, focusing on eliminating waste, improving efficiency, and enhancing value for customers. The book serves as a practical guide for executives aiming to implement lean practices across supply chain operations.

The Living Supply Chain, The Evolving Imperative of Operating in Real Time, Handfield, Robert and Linton, Tom, John Wiley & Sons, Inc., Hoboken, NJ 2017

Handfield and Linton emphasise the importance of agility and real-time decision-making in today's dynamic supply chain environments. They discuss how digital technologies enable "living" supply chains that adapt to changes and deliver value more effectively.

Additional Supply Chain Procurement Resources

Avetta Resources

1. **Moving Toward the Future: Holistic Supply Chain Risk Mitigation**: This whitepaper explores the importance of an integrated HSE and procurement approach to supplier qualification and risk mitigation, including top risk indicators often overlooked.

2. **Supplier Classification: A Differentiator in the Modern Supply Chain Landscape**: Managing a large network of suppliers and contractors means procurement departments are spread thin. A supplier classification methodology makes it more efficient to tailor prequalification requirements to each supplier without mountains of additional work required.

3. **Dodging the Bullet: Hidden Risks in Your Supply Chain That You Can't Ignore**: This article uncovers costly risks hiding in many supply chains that procurement professionals should be aware of when evaluating potential suppliers and contractors.

4. **America's Skilled Labor Shortage: Tech Tactics to Get Through Tough Times**: Finding qualified contractors and workers in skilled trade industries is harder than ever, but the right sourcing tactics can help bridge the hiring gap.

5. **Avetta Contractor Sourcing Solutions**: Procurement professionals can significantly improve their sourcing process using Avetta's active database of 130,000+ suppliers and contractors, while vastly improving prequalification and onboarding with Avetta tools.

6. **Avetta Prequalification Solutions**: Reduce administrative burden on the procurement department with comprehensive digital prequalification, vetting, and onboarding processes for suppliers and contractors.

7. **Avetta Case Study: Australian Railway Leader**: A leading railway operator with a giant fleet vastly improved a broken procurement process with Avetta, standardising and streamlining the supplier prequalification process.

8. **Avetta Case Study: Vertical Limit Construction**: Telecommunications infrastructure company Vertical Limit improved their procurement efficiency by 50% after tapping into Avetta's network of thousands of qualified suppliers and contractors.

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