



Tomorrow's Supply Chain: Disruption Around Every Corner

THE BEST RUN



Message from Michiel Verhoeven

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Prior to the pandemic, organisations were already scrutinising their supply chains. With more than **50% of total global CO2 emissions** being generated by the supply chains on only eight industries, it has become a major focus in the race to being carbon neutral. Then the pandemic happened. Almost overnight commerce shifted from being demand driven to supply driven, its lasting effect on businesses, governments and economies became and continues to be front of mind for every executive.

What impact would shortages have on goods, how could costs be managed accordingly, and where to go next if raw materials simply couldn't arrive were questions everyone was needing answers to. That uncertainty has taken many forms – from the closure, opening and then closure again of Chinese factories, port logjams and the start of an international war.

Whilst this has shone a spotlight on the fragility of the UK's supply chains, solutions are emerging. We're seeing an increasing acceptance that they need to be brought into the modern era as businesses switch from a 'just in time', to a 'just in case' model. Whilst the term unprecedented has been overused so far this decade, organisations of all sizes recognise that success or failure may well depend on the capability of their supply chains, when more disruptions occurs not if. To make that transition happen, organisations are using technology to solve two challenges:

1. To make them as resilient as they can be
2. To ensure they are more sustainable than ever before

Resilient supply chains must be sustainable, not only in terms of the environment, but robust to developments in technology and infrastructure in the UK and abroad.

For decades, supply chain management has focussed on cost – where keeping them lean and fast has been the priority. This is different from being agile and resilient. With the end of 'just in time' models, businesses have to start putting the same expectations on their supply chain as they do on their wider business, structuring themselves to be 'just in case,' so that when the inevitable disruption occurs, they can adapt. Those who don't make this change are in for a very tough 18 months.

When reading this report, it would be easy to feel like the situation is little bleak – but solutions are at hand. SAP operates the world's largest Business Network inside Ariba, which allows suppliers and buyers to connect and do business on a single platform. It improves the overall vendor management system of an organisation by providing less costly ways of procurement and making business simple.

Furthermore, employers are experiencing the great resignation, with expertise and capability leaking from organisations like never before. Retention has often been an overlooked element of leadership, yet today its impact is felt across all facets of business.

Supply chains are crucial. Transforming them will significantly help organisations of all sizes achieve their sustainability goals and weather whatever the future holds for us, let alone get us through the current storm. As Peter Drucker said: *"The only thing we know about the future is that it will be different"*, and what we know from the past is we have to be ready.

Methodology

Coleman Parkes, a B2B market research specialist, conducted this survey using phone to web methodology during January and February 2022. It targeted two hundred senior decision makers (Owners, C-Suite and Head/Directors), responsible for logistics/supply chain strategy within their organisation in small, medium, and large enterprise businesses with a representative sample in the UK and Ireland.



Intro

Before the Covid-19 pandemic, the supply chain was taken for granted. It was an intangible part of business operations that just 'worked.' Inventory was 'dead money' and stock in warehouses being kept to a minimum with the aim of reducing costs wherever possible. In fact, logistics as a topic of conversation rarely made headlines and bulletins, certainly less so the dinner table, business meetings and on social media. During the pandemic, the **World Economic Forum** released the second report in its series for the Net-Zero Challenge. It highlighted the opportunity that all companies have for huge climate impact through action to decarbonise global supply chains. It showed that eight supply chains: food, construction, fashion, fast-moving consumer goods, electronics, automotive, professional services, and freight account for more than half of all global greenhouse gas emissions. The race to Net-Zero created another challenge for supply chain leaders and added fuel to the crisis we see today.

That crisis comes in the form of half empty shelves in the supermarket, we are not surprised when we hear of petrol shortages, and we do not have as much expendable income due to inflation rates growing at an exponential rate. As such, manufacturers, raw materials, warehouses, transportation, and distribution centres, are all topics of media, business meetings and the dinner table. Times have changed, and with it so must the supply chain.

The evolution of the supply chain crisis has been complex, with issues emerging over many years. Even more complex is the factors that drive the crisis. The short-term sporadic shortages of specific goods will always make media headlines. From a shortage of carbon dioxide that threatened traditional Christmas dinners up and down the country, or the regular occurrence of seeing queues for petrol

stations, car production lines being halted by a lack of semiconductors, supermarkets running out of toilet paper or the World Health Organisation reporting barriers to insulin availability relied on by hundreds of thousands of patients, as well as anti-depressants and blood pressure tablets – the stories have been endless.

But short-term fixes won't solve the crisis long-term.

Significantly it's not just the pandemic that causes these problems. Disruption to one single shipping route cost \$400m (£292m) an hour in global trade when, in March 2021, mega-container ship Ever Given ran aground in the Suez Canal for six days. As Brian Deese, the top economic advisor at the White House, tweeted after the Ever Given was freed: *"Just another reminder of how imperative it is to ensure the resilience of our supply chains going forward."*

As companies around the world grapple with bottlenecks, inflation, rising energy costs, staff shortages and burgeoning demand, supply chain management has moved to the top of corporate agendas. As a result, UK companies are not entirely abandoning existing supply chain policies, but they are overhauling them to build additional resilience.

Supply chains are being more affected by acute issues than ever before – it's why in our own recent research of UK & Ireland businesses, every organisation believes their supply chain needs improving to some extent, of these 59% think their supply chain needs a lot/significant improvement. Alarmingly, there's no quick fix - almost a quarter (23%) of businesses anticipate their supply chain issues will still be a problem in the Summer of next year.

What is causing the UK's supply chain issues

Since the start of the pandemic supply chain issues have negatively impacted businesses in several ways, in particular through delays in production of goods/delivery of services, a decrease in revenues, and a loss of customers. According to the [Institute for Government](#), labour shortages, Brexit trade barriers, global supply problems and panic buying are all contributing to supply chain disruptions in the UK.

Uncertainty is the new certainty. And as a result, interruptions are regularly caused through a lack of transparency across every stage of the supply chain—from design, planning and manufacturing to logistics and ongoing maintenance.

The pandemic has been the main factor causing current supply chain issues in the UK, with 98% of UK businesses agreeing that factors such as social distancing restrictions, travel restrictions, speed of vaccine distribution and remote working being to blame. Secondly, 86% said that the impacts of Brexit, such as visa and border restrictions and a lack of available talent, are to blame. Since then, new challenges have emerged with record inflation numbers and a huge increase in energy prices are adding to the challenges.

To counteract this, 48% of UK businesses plan to move more of their operations outside of the UK, increasing to 67% amongst construction organisations, and 64% from organisations in London. Macro factors will always impact supply chains, whatever they are and as the restrictions surrounding Covid dissolve, businesses still expect the impact to have lasting effects.

Where once supply chain management was mostly about cutting costs, businesses are faced with the challenge of staying ahead of consumer demand, while improving resilience, cutting carbon emissions, and whilst still keeping costs down. Years of political, social, and economic uncertainty, on top of a global pandemic, have exacerbated challenges with the UK's current supply chain models. Whatever future external factors disrupt the movement of goods/services, our on-demand consumer culture is only going to increase, and businesses know they need to be prepared.

It's important to note that while Covid has clearly left a permanent mark on economies around the world and been the trigger for plunging global trade into crisis, many of the reasons for the inability of supply chains to cope with this shock to the system pre-date the pandemic.

Spotlight on industry – who has been hit hardest?

- **66%** have experienced delays in production of goods/delivery of services
 - Rising to 79% in healthcare sector
- **64%** have seen revenues decrease while over half (58%) have experienced a loss of customers
- **58%** were forced to take out new financing measures
 - Rising to 78% in construction
- **Half** were unable to pay employees
 - Rising to 76% in financial services
- **Over a third (34%)** have felt the impact of the great resignation, with a loss of talent in the business:
 - Rising to 70% in professional services
- While B2C organisations' revenues suffered marginally worse than B2B (66% reported a decrease in revenue, compared to 60% in B2B), more B2B organisations were unable to pay employees (56% compared to 45%).

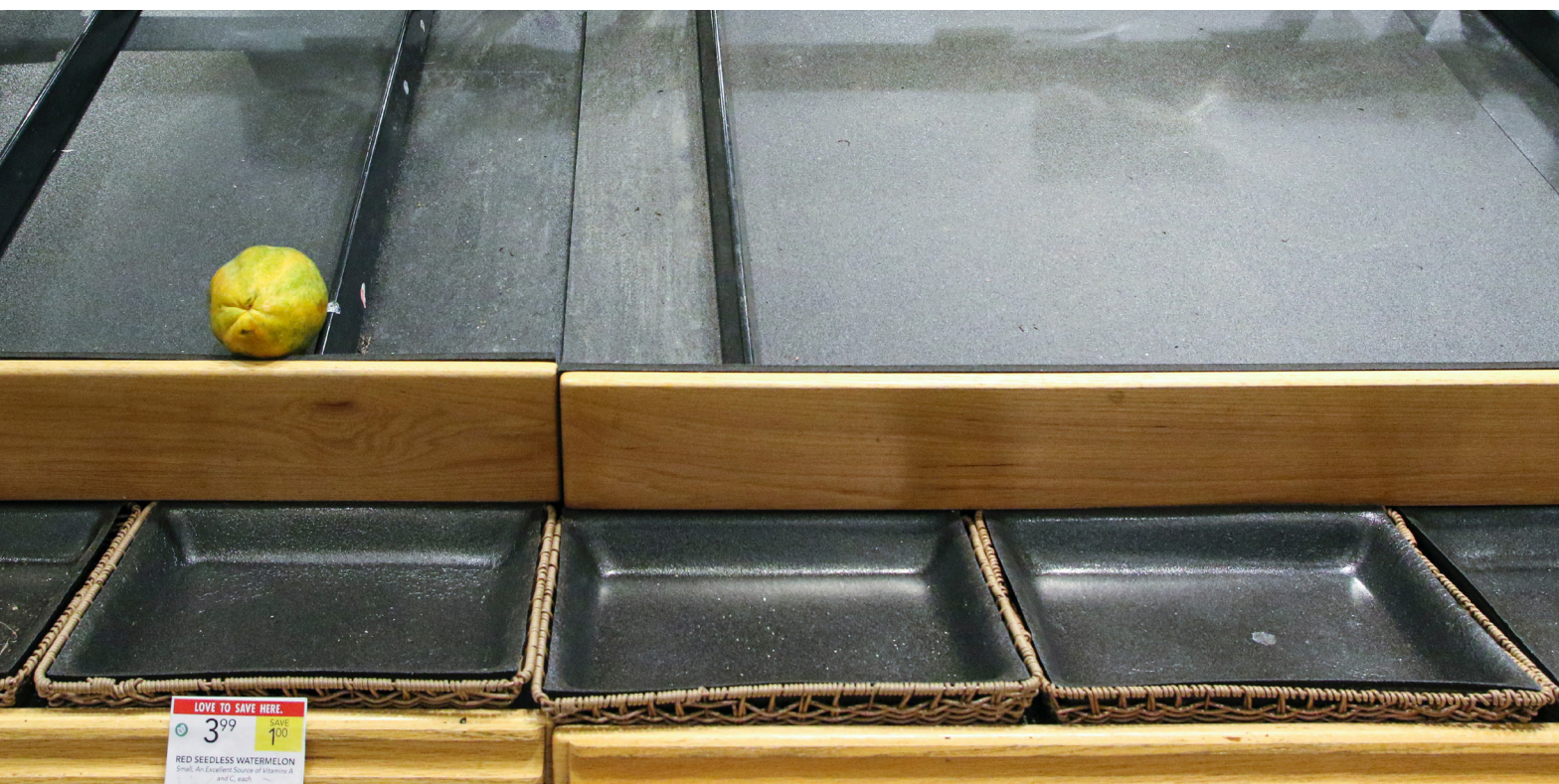
What challenges will we face this year? And what can be done?

With almost a quarter (23%) of businesses anticipating their supply chain issues will still be a problem in the Summer 2023. Fears are echoed by the International Monetary Fund (IMF), which predicts problems in the global supply chain are likely to continue for years, causing further inflation and undermining the fragile recovery from the coronavirus pandemic.

Our research found that UK businesses expect to see continued shortages in raw materials, emptier shelves, and reduced availability of healthcare products/medication.

Disruption will really impact the public's lives:

- **34%** expect to see reduced availability of healthcare products / medication
- **62%** said they expect to see reduced availability of raw materials in the UK
- **51%** expect disruptions to public transport due to lack of drivers
- Nearly half (**46%**) are anticipating reduced availability of food in supermarkets
- **36%** expect to see flight disruptions due to lack of available staff



Supply chain challenges will only add to cost-of-living woes as UK businesses will cut jobs and increase prices if their supply chain costs increase

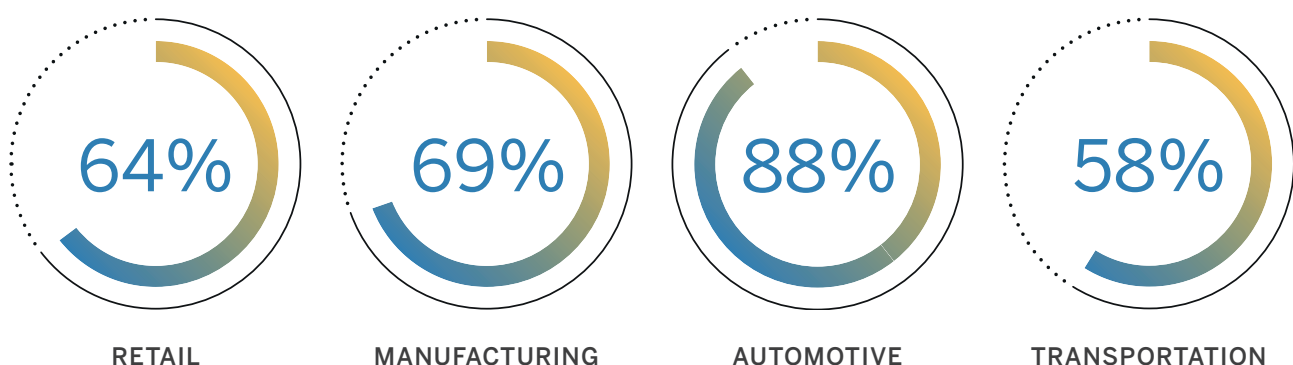
Economic forecasting, always an arduous task, provides a bleak outlook for the rest of the year. The Office of Budget Responsibility (OBR) forecasts inflation to peak at 9% at the end of 2022 – a dramatic update of its forecast in October 2021 that predicted inflation at slightly over 4%. If the EU were to ban all oil imports from Russia, Chancellor Rishi Sunak estimates that the war could cost the UK economy £70 billion.

Earlier this year, the Chancellor argued that “the supply chain crisis felt by so many businesses could in fact provide an impetus for companies to improve productivity, and thus ensuring higher wages are not cancelled out by rising inflation,” but our research tells us a different story. The interconnectedness of supply chains means that price rises in one part of the network will lead to price rises elsewhere. Increases in labour, energy and transport costs are contributing to inflation. The risk of not seizing this opportunity to transform supply chain operations will be felt by business and individuals alike.

For many UK businesses, increasing the price of their products/services isn't an option to cover increases in supply chain costs. Instead staff will bear the brunt of any cost rise, as 68% plan wage/recruitment freezes and 61% plan job cuts, which will only exasperate the Great Resignation trend in the UK. Vacancies in the UK are already at the highest level in 50 years, with **almost a quarter** (24%) of workers planning to change jobs within three to six months.

Some sectors may be forced into passing costs onto customers. UK business leaders in retail (64%), manufacturing (69%), automotive (88%) and transportation (58%) all see increasing the selling price of goods/services as an option, but as the cost-of-living crisis continues, stretched expendable incomes will lead to a drop in sales should prices increase.

UK business leaders from the below sectors see increasing the selling price of goods/services as an option



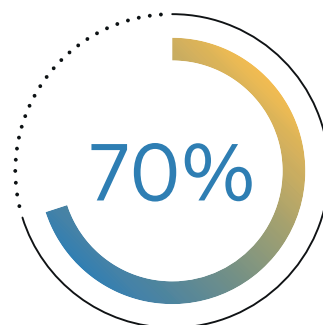
Businesses are exploring various avenues to improve their supply chain, in particular adopting innovative technology and implementing new contingency measures.

Talent shortages and raising prices of goods and services won't further exacerbate the long-term issues in the UK's supply chains, so businesses are looking to advanced technologies to fundamentally transform. Business leaders must enhance their real-time understanding of activity in complex supply networks and use continuous scenario planning to optimise the balance of cost against risk and agility of their production capacity footprint.

As a result, we expect to see traceability becoming even more critical, allowing businesses to record data for carbon footprint estimates along the supply chain and meet regulatory compliance requirements. It will also act as a competitive differentiator for value creation by supporting customers purchase decisions. Nike for example has recently taken the lead on this – we expect more companies to follow.

Our research shows that 70% of UK businesses plan to adopt modern technology to help overcome supply chain challenges in the next 1-2 years, with a view to these being resilient to unknown potential macro-factors during that time.

UK businesses planning to adopt modern technology to help overcome supply chain challenges in the next 1-2 years



Amongst the challenges facing individuals and businesses, sustainability remains a key priority. Another **SAP Insights study** recently found that sustainability remains a key business action for over one third of UK executives, replacing other, more traditional, business strategies on the priority list. This recognition of sustainability as the cornerstone of revenue and efficiency is a departure from the conventional paths to growth and efficiency. This study revealed that just 28% would turn to new business partnerships to drive revenue today, and only 23% would consider expanding to new markets.

It's no different in the supply chain as 51% of UK businesses plan to find new environmentally friendly supply chain solutions, increasing to 62% amongst manufacturing organisations.

Where the UK plans to lead the world on supply chain innovation is via a new model. 84% of UK businesses are planning to move on from the 50-year-old 'just in time' supply chain model, which prioritised costs primarily when selecting suppliers, to a 'just in case' approach.

Finally, over half (56%) plan to prioritise UK-based supply chain solutions, rising to 69% and 68% in consumer goods and retail, respectively but only 38% in automotive industries, posing the question as to whether globalisation remains a key driver of growth in the UK.

- **'Just in time' supply chain model:** A stock control method where the business does not store any raw materials. Instead, it has regular deliveries that bring only what is needed before its existing raw materials run out, so buffer stock is not needed.
- **'Just in case' supply chain model:** A stock control method that involves producing or purchasing stock with excess, or buffer stock in place. This means that there is always stock available for the business if required.

The case for 'just in case' over 'just in time'

Businesses exposed by pandemic shortages, rising inflation and energy prices, and shipping bottlenecks are being forced to rethink their operations. The past two years have seen significant geographical shifts in supply and demand, which in turn has created problems for finely tuned global supply chains.

It's not that companies were completely ignorant of danger. They had experienced serious supply chain disruptions: a tsunami in Japan, floods in Thailand, a volcanic eruption in Iceland. Companies were able to minimise the effects of those disruptions because they fit the pattern that has guided supply chain design for decades: the breakdowns were localised, temporary, and fixable.

Trends that were apparent pre-pandemic, such as increases in online shopping and driver and other skill shortages, are now causing real problems. The answer has been to turn to a different supply chain philosophy.

For decades, companies prioritised costs, speed, and convenience primarily when selecting suppliers, building factories, and deciding how much stock to keep on hand.

The 'just in time' philosophy seemed inviolate – the drive for the lowest production costs, the prioritisation of tier-one suppliers, the concentration of suppliers in one region or location, a reliance on historical data to predict demand, and distribution by the pallet-load. These have now fallen away.

The majority of UK businesses (84%) now think they should move on from a 'just in time' supply chain model to a 'just in case' model to overcome potential supply chain crises this year. Due to resource depletion, and climate crisis, and much more – businesses are faced with broader and more frequent global shocks over the next decade and beyond.

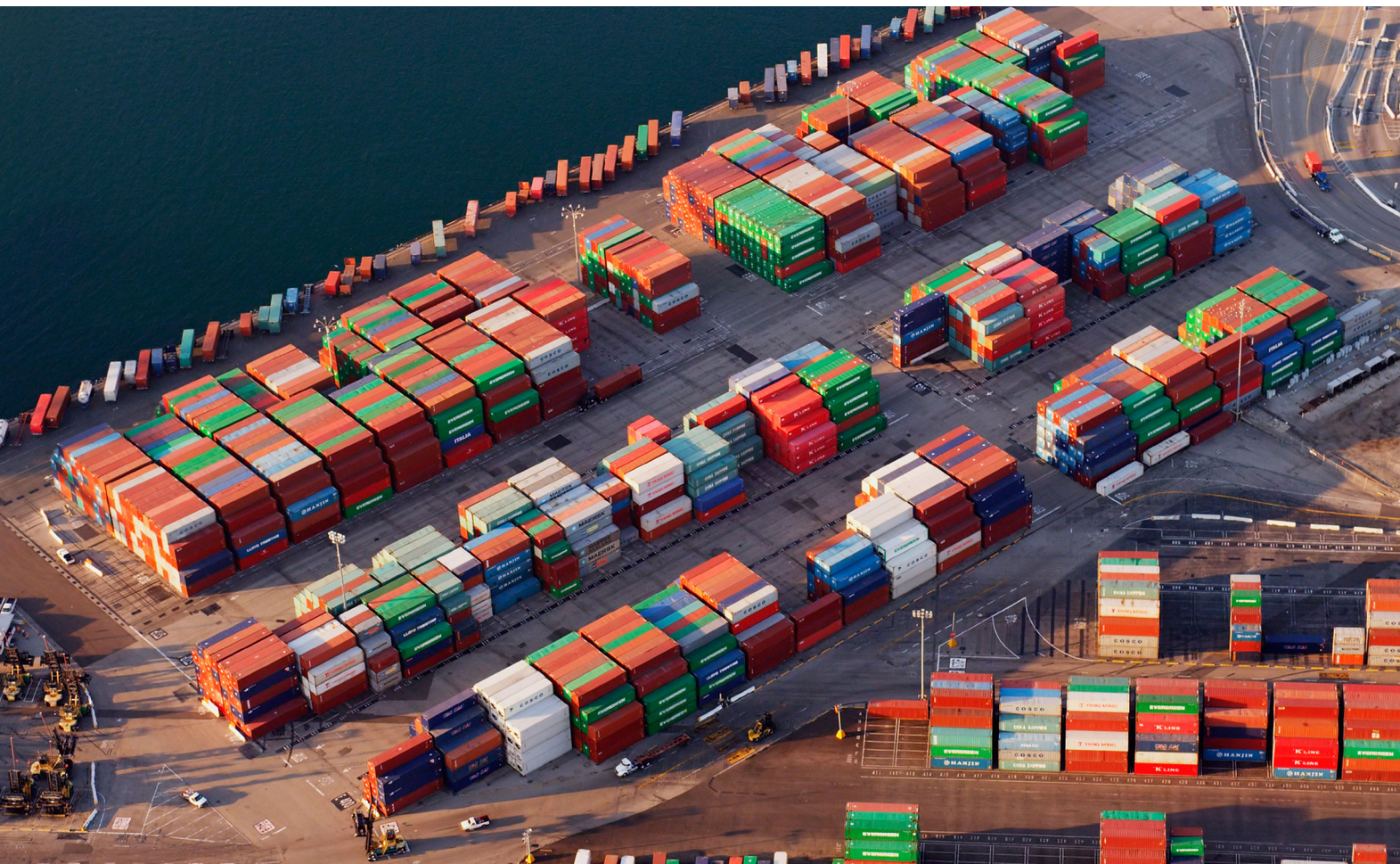
It's why the fate of global supply chains is now a topic of discussion in boardrooms, in government updates, and at dining room tables. Companies have an opportunity to not only make them stronger but to improve their competitive stance. Customers have grown to expect choice and consumer loyalty has waned over the years. The company's who are progressive with their supply chains will be well placed for the years ahead.



Global vs local – the power of AND

While some argue that the ship of globalisation is sailing away, the reality is that local and global need to live together – putting businesses under pressure to work out how they manage systems and processes that take advantage of both:

72% of UK businesses say they don't think that deglobalisation in the UK's supply chains would help UK economic growth, but over half are prioritising UK-based supply chains, highlighting how businesses are still unaware of what the impact supply chain issues have on their organisation.



Unipart Group: A first-hand view of the challenges and opportunities of supply-chain resiliency

Although deglobalisation and other structural changes to supply chains like re-shoring may help UK economic growth, the changes and hence opportunities are more complex. Global logistics, consulting and manufacturing organisation, Unipart Group is seeing that first hand.

As Ian Truesdale, Unipart Logistics Managing Director, says: *"We are seeing that growth can be increased further by developing a much more sophisticated approach to understanding patterns of demand and the impact of those changes along the supply chain at a granular, stock keeping units (SKUs) level, to manage risks and prevent shortages. To achieve this, companies*

are increasingly focused on data and intelligent workflows that combine levels of artificial intelligence and machine learning that enable them to forecast, simulate and optimise aspects such as container shipping, inventory and the deployment of their people.

That's why we are re-engineering our processes and streamline our data to best suit our forward journey of growth and optimisation, focusing on process design and governance, operational execution and data & analytics. In doing so we, aim to have the ability to forecast, optimise and simulate supply chains to provide greater agility and resilience."

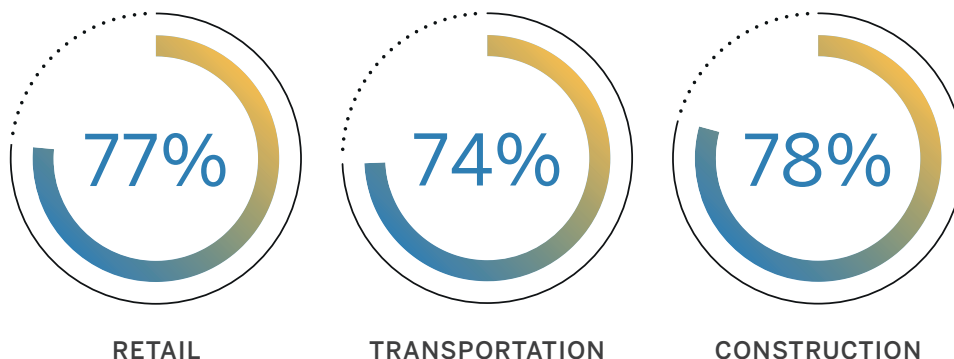


Where the UK government can help ease supply chain woes

UK businesses are calling on the government for more guidance and support to overcome the supply chain crisis. 60% want increased collaboration with industry and over half (56%) think the government should monitor the UK's supply chain itself and invest where necessary. As we "Build Back Better," 54% of UK organisations would like increased industrial policy and trade policy that is targeted at overcoming supply challenges.

Retail (77%), transportation (74%) and construction (78%) are particularly keen on the government monitoring the UK's supply chain itself and investing where necessary.

Sectors keen on the government monitoring the UK's supply chain itself and investing where necessary



Effective actions to help your business prepare for tomorrow

UK organisations don't have time to wait for additional government support. It is a shared responsibility for all businesses to take actions now. Procurement and supply chain leaders cannot change the course of world events. However, they can help to ease consumer and other businesses' concerns by making supply chains more resilient, which can limit the impact of these macro events. One way to build resilience is to connect buyers and suppliers via business networks. This makes it possible to:

- Share information to improve forecasting, identify risks, and avoid supply disruptions
- Integrate and improve business processes for faster, more efficient transactions
- Find and onboard new sources of supply quickly and efficiently

As a first step, UK organisations should conduct a supply chain health check to review their sourcing arrangements. Businesses will need to make complex calculations on inputs, processing, and sales pricing. It will be essential to dispense with Excel sheets and use the assistance of software solutions to help model rapidly changing and complex pricing and profitability scenarios, which can help manage business profitability in uncertain times. Dynamic pricing and the ability to maintain profitability under volatile conditions will make an enormous difference in your performance.

When deciding between a 'just in time' or 'just in case' supply chain model, or a mixture of the two, inventory and planning teams, commodity teams, merchandisers and planners will all need to work together to balance the higher costs of holding goods versus the very real danger of empty shelves and dissatisfied customers trading elsewhere.

With the continued challenges on resourcing as business battle the Great Resignation that grips the UK workforce, organisations need to transition their approach to retention from that of looking after their top talent to retaining almost all competence.

The multifaceted nature of supply chains has created many silos across organisations, inevitably restricting the flow of information, visibility, and insight. When products and materials move faster than data, disruption is inevitable and facilitating better data sharing and centralised analysis from all elements of a supply chain is vital.

Organisations that approach this challenge proactively will create a firmer foundation to effectively compete in the still uncertain months and years ahead. It will continue to be a challenging time, but the opportunity is huge. If UK businesses don't change now – the crisis will lead to irreversible damage to the planet. The time is now for supply chain transformation.



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