

Enhancing the Value of Extended Supply Ecosystems



Enhancing the Value of Extended Supply Ecosystems

Summary Report for Participants, January 2020

© IACCM 2020. All rights reserved

Enhancing the Value of Extended Supply Ecosystems

January 2020

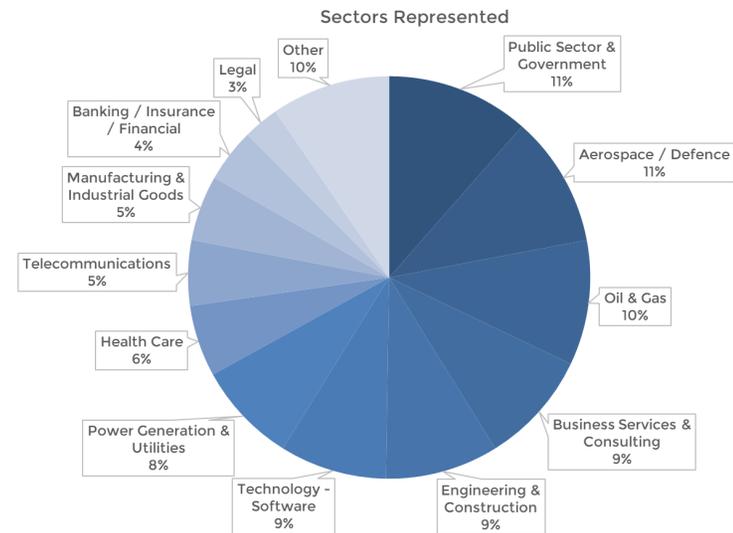
Corporations on average spend 60%+ of total revenue on external sources of supply. Many also rely on external partners to support the sale, distribution and support of their products or services, with these partners interfacing directly with customers and the market. This IACCM research has confirmed the growing importance of visibility into supply chains, not only where there is a direct relationship, but potentially extending across multiple tiers of sub-contractors or channels. However, external supply chains and networks are complicated to manage and gaining visibility raises a host of issues, only some of which have clear or emerging answers.

Why do we see supply ecosystems as important?

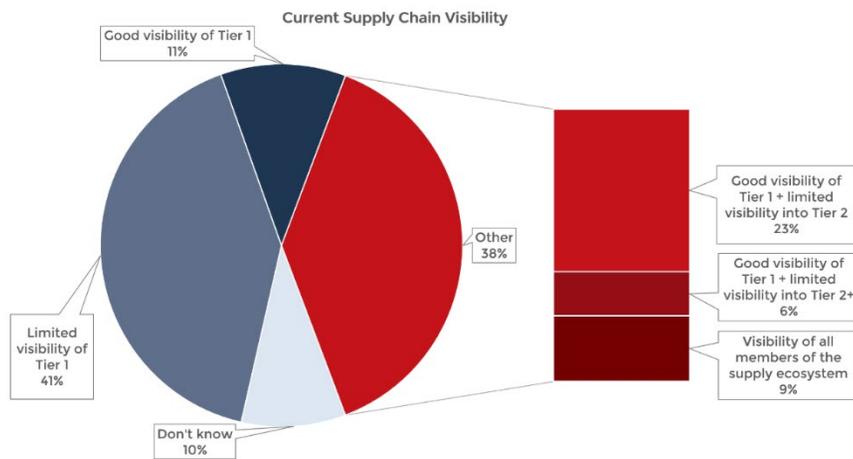
Attributes/purpose of supply ecosystems - ranked in order of importance	Performance risk (e.g. failure to perform; failure to deliver against contractual obligations etc...)
	Actual performance (e.g. delivery of deliverables)
	Regulatory risk (e.g. compliance with relevant regulations)
	Transparency
	Access to capabilities and/or resources
	Flexibility
	Potential cost savings
	Innovation and/or continuous improvement
	Potential competitive advantage

We start this summary report with the results of an IACCM survey of its members. Their responses identified issues and opportunities associated with ecosystem visibility and the chart (left) divides these into two categories, with those seen as being of primary importance being shown in red, and those of secondary importance in blue. It is interesting to note that the factors associated with potential negative risk take considerable priority over those which represent potential opportunity. Overall, the focus is skewed towards compliance and control, and this may be one factor that is inhibiting progress in achieving increased visibility. It restricts the business case for investment and also potentially increases resistance from the supply base, who fear the consequences of greater transparency.

While this analysis shows the relative priority of the drivers and motivators, it doesn't necessarily give the whole picture. Their relative urgency and consequent pace of improvement varies between sectors. For example, a robust regulatory environment within the Banking/ Insurance/ Finance sector means that change is not optional. Within the Engineering and Construction sector, a focus on potential margin improvement is the motivator; in consumer goods, reputation risk is the primary concern.



How much visibility do we have today?



About 40% of respondents have limited visibility of their Tier 1 suppliers, compared with 50% who have good visibility. For 38% (colored red), in addition to good Tier 1 visibility, there is already some level of visibility of Tier 2 or further into their supply ecosystems.

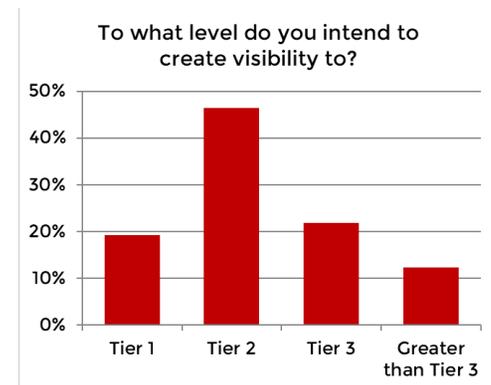
What we see today in most organizations is a very human-centric approach to supply chain management, with extensive reliance on spreadsheets and a heavy focus on internal data flows.

Creating meaningful transparency past Tier 1, there is a need for improvements in the use of automation and data/information flows with the aim of freeing up the people to focus more on the enhancement of the relationships through capabilities created by

Relationship Resource Planning (RRP).

How much visibility do we aspire to?

Over half of respondents said that they have plans to enhance supply ecosystem visibility and of those some 80% aspire to create visibility to Tier 2 or beyond. It should be remembered that not all supply ecosystems are multi-tier and complex and there is a cost to creating and maintaining visibility, not only financial, but potentially in disrupting existing Tier 1 relationships. It is notable that those planning to go deeper than Tier 2 in many cases come from sectors with more complexity in their supply ecosystem, including: Aerospace & Defense; Public Sector; Telecoms; and Oil & Gas.



And how do we achieve this – today and tomorrow?

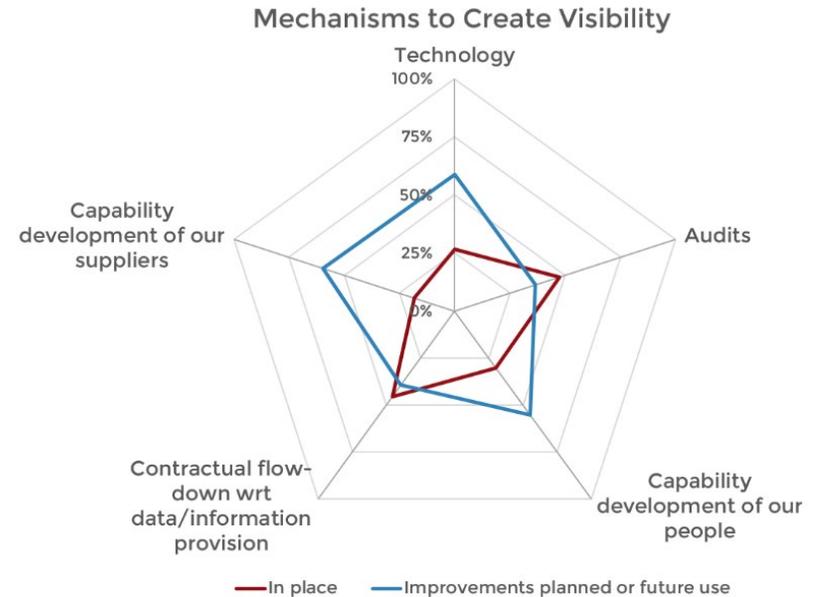
Looking at five broad categories of commonly used mechanisms, it is clear that in today's environment we rely on compliance mechanisms such as contractual flow-down and audit, yet the term 'audit is not enough' comes up frequently in conversation on supply ecosystem transparency. It is therefore not surprising that for the future there is an increased expectation of greater reliance on technology and capability development of people within the overall supply ecosystem.

However, this move is early in its development. If we take the technology axis, a significant number of respondents are yet to define or understand the nature of the technology that they require and, of those that do have a view, many expect to leverage their existing CLM / ERP route maps. A small number anticipate new technologies and tools will provide enhanced insights and performance.

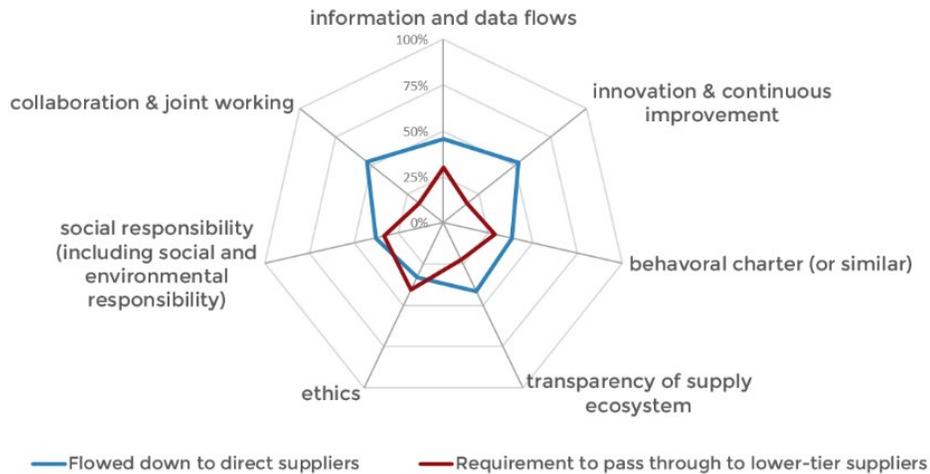
An example of this is the use of blockchain within the food supply chain, where Walmart and IBM are leading the way. Together they have created a solution that gives enhanced traceability, transparency and digitizes a product's journey from the farm to the supermarket shelf. In the event that there is an issue with a particular product they can identify which specific batch is affected and withdraw the affected products from the shelf. They can do this in seconds, meaning they can pinpoint affected product rather than having to withdraw whole product lines.

While this is a leading example, and there has also been progress in financial services and logistics, more widespread adoption of technology is slower and more problematic. In many ways, gaining supply chain visibility can be compared to the requirement for banks to track financial flows. Even with the drive from regulation and massive fines, tying together the technology to support reliable data flows has been really difficult to achieve.

The big question is whether newer technologies are going to change this? And will any change work without the active support of the ecosystems? Large scale success will depend upon a holistic view and a motivated supply network which sees such visibility as a benefit, rather than a threat. BIM (Business Information Management) within the construction sector offers a case in point, where even though integrated data flows have been shown to deliver broad benefits, it still proves hard to gain adoption across the extended supply community.



Flow Down of T&Cs to Extended Supply Ecosystem



Taking a second axis, contractual flow-down, the chart on the left shows that, at best, around half the participants flow-down common terms and principles associated with good supply management and in most cases this is only to direct suppliers. Only in the areas of ethics and social responsibility do we see more extended flow-down. As the recent IACCM report into supplier led innovation¹ highlights, are we missing a big opportunity here around innovation and collaboration?

Three things to consider:

How can you unlock your supply ecosystems as sources of competitive advantage?

How much transparency is value adding in your context?

What mechanisms can you collectively deploy to drive better performance from enhanced transparency?

Next Steps

This report is one element of a major study being undertaken by the IACCM Research Forum. In-depth findings will include insight to leading practices and how best to operationalize improvements in supply ecosystem management. Participation in the Research Forum understandably involves an additional fee to cover the significant expense associated with its work. For further details regarding membership, please contact info@iaccm.com

¹ Supplier-Led Innovation and Continuous Improvement - How Best to Achieve them in Contracting - IACCM, August 2019



About IACCM

IACCM is a not for profit association active in over 170 countries, with a mission to improve the quality and integrity of trading relationships. With more than 60,000 members representing over 17,000 organizations, IACCM is dedicated to raising individual, organizational and institutional capabilities in contracting and commercial management. It achieves this by providing research, benchmarking, learning, certification and advisory services to a worldwide, cross-industry audience of practitioners, executives and government.

For further information, please contact the report authors:

Tim Cummins *President IACCM*
tcummins@iaccm.com

Sally Guyer *Global CEO IACCM*
sguyer@iaccm.com

Adrian Furner
Research Consultant IACCM
afurner@iaccm.com

www.iaccm.com

