


Will 2023 be the most challenging year for procurement?

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The procurement sector is currently facing an incredibly difficult period. In past years, but particularly towards the latter half of 2022, an array of challenges presented themselves to the industry.

We've seen a downturn in the global economy, alongside geopolitical uncertainty and a swathe of complications catalysed by climate change. In light of these unpredictable and evolving challenges, planning for the next year is tough given that the situational circumstances of each challenge can change rapidly.





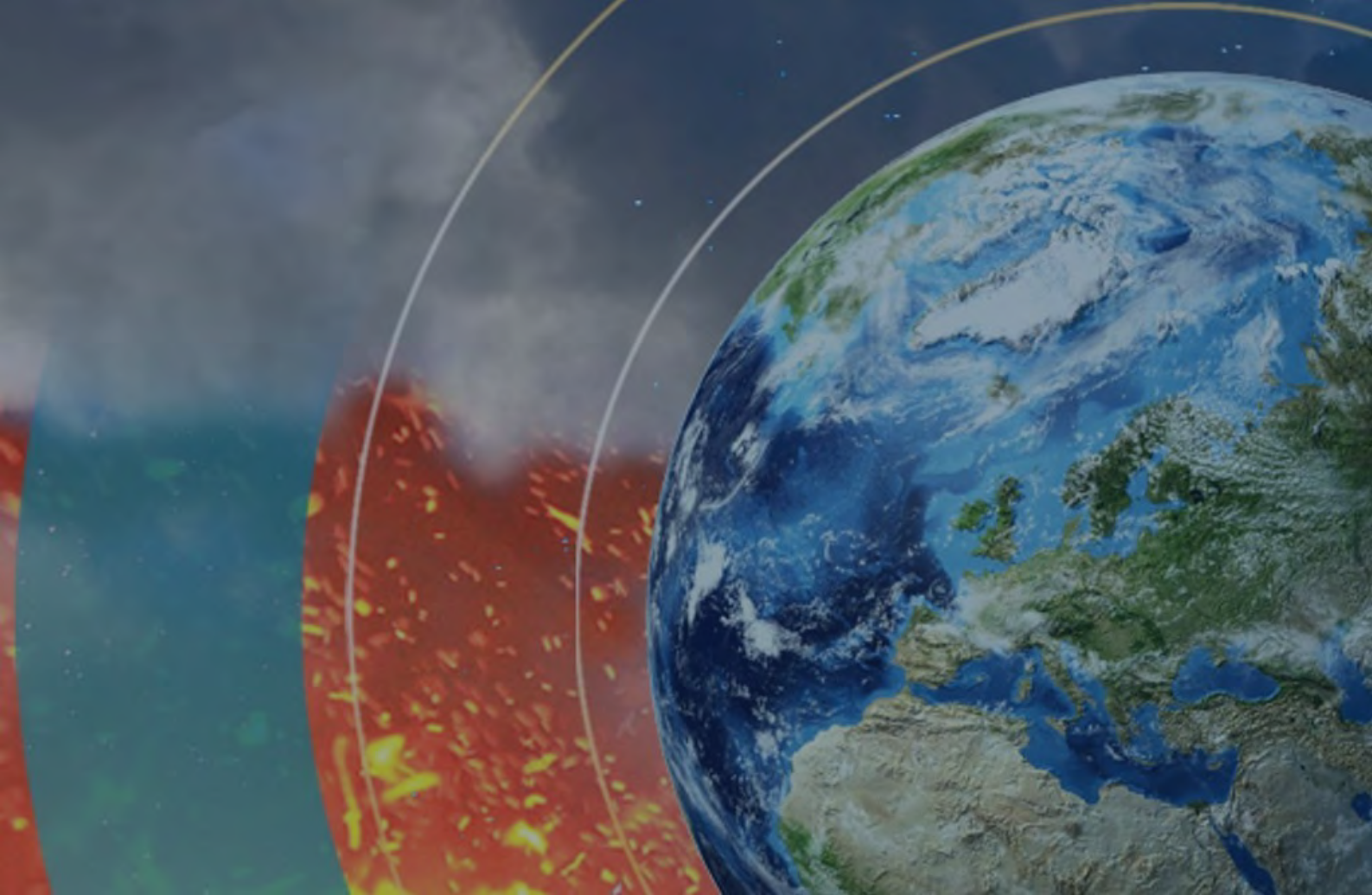
Geopolitical circumstances driving price volatility

The current geopolitical situation, and the challenge it brings, is multifaceted. War in Ukraine has sparked tertiary tension over territory between many nations including China and Taiwan, the USA, and Russia. This renewed sense of hostility between nations across the globe, owing largely to this conflict, has catalysed those in the procurement profession to challenge some long held strategies of operation.

Firstly, addressing the wider economic background to the Ukrainian war and wider international tensions is a crucial aspect of understanding the way in which the conflict is impacting supply chains. We know that we have potentially seen the peak of inflation in some countries. Whilst this is good news, it doesn't look like this is the case in the UK, and across much of Europe. This does not bode well for trade, and indicates that the war is having an adverse effect on the GDP of some countries as a result of the fall out.

We've seen interest rate rises, increasing the likelihood of a deep recession which reaches each corner of the globe, threatening to tamper with traditional quotas of supply and demand. The turbulence that this situation invokes for the procurement sector will certainly follow us into the next year.


Concurrent to the bleak economic outlook, shortages of materials including food, raw materials, metals and minerals are rife due again to the war in a large part, among other factors. Shortages of these commodities drive price volatility which will impact the economic efficiency of the procurement sector. These instances of low supply in commodities are augmented by labour shortages, thanks to the so-called 'great resignation' – a socioeconomic phenomenon catalysed by stagnant wages due to inflation, creating increasingly difficult working conditions. Therefore, scarcity of goods may see geopolitical relations corrode further over issues of trade, and demand outstripping supply of necessary goods on a global scale.



Climate change

Consumers now expect companies to be proactive regarding their ESG activities. It is rapidly becoming a baseline standard across all industries. Meanwhile, climate disruption is inevitable for the procurement industry. It can now be regarded as a solidified operational risk as we're seeing extreme weather events in some countries which are wreaking havoc on supply chains. If you have key suppliers in areas which are vulnerable to rising sea levels, to floods, to wildfires, and other extreme weather phenomena, it is important that your strategy absorbs and accounts for this risk, should the conditions worsen in the new year.

In the same vein, you need to look further down the supply chain than the end product which you are procuring in order to ensure that climate risk is mitigated. If you're buying anything complex, you need to understand how it's made and what goes into it in a literal sense. Comprehending the physical journey of your resources as they are compiled into units which you will purchase is essential, as you can account for any potential weather events in your planning.



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Market volatility

In 2023, and potentially years to follow, the key risk to which the procurement sector is exposed lies in market volatility and supply chain disruption from external sources.

When a company is exposed to external shocks of the magnitude seen across the last year, and predicted into 2023, the very first port of call should be to discover how the firm can utilise its pre-existing capabilities and procedures to weather the shock and adapt in line with the new needs generated by it.

Wheat is a particular commodity for which market volatility has been particularly prevalent. The peak of the graph below (?) shows that at one point, prices appreciated by around 100% across the year, before dipping by 30%, and then increasing once more. This turbulence has spelt trouble for procurement professionals who source wheat from a single supplier as inflated prices have likely been locked in for the duration of a contract, irrespective of any downturns.

Predetermined hedging strategies for procurement can also come undone as a result of this surge. As we have moved into the new year, it is clear that a crucial apparatus for the procurement sector to weather this volatile market environment is adaptability. Building flexibility into strategies for the year will leave the sector with options if this volatility persists.

Food commodities including wheat are not the only costs which have surged. The cost of sea freight, for instance, has proven to be incredibly volatile, as well as several metals and minerals as well. Clearly, these are challenging times generally.

Pre-pandemic, the procurement industry benefited from the level of predictability seen across markets for some time, and this allowed firms to devise detailed plans and strategies. As we enter a new era of political and economic instability, the major question is how the procurement sector might build a level of predictability back into its operational processes whilst weathering shocks that may be unexpected. Looking to what is actionable, and seeking solutions, will benefit procurement professionals in stabilising their business' output, even whilst the events of 2023 might seem uncertain.

A further issue which has arisen for procurement professionals due to market volatility is the manner in which suppliers who seem to take advantage of the economic crisis to exaggerate their price list. It is crucial for the sector to ready themselves for more shrewd negotiation in 2023 by using devices such as cost modelling to ensure that price negotiations are data driven whilst being based on trends and exposure stemming from different theories found through research. If firms perform due diligence before any cost negotiations, then it is very possible to have a balanced conversation with strategic suppliers, and minimise any surplus outgoings related to sourcing in the new year.

Wheat milling Euronext Paris



Using technology to address risk


Technology plays a major role in aiding firms to become more adaptable. In the current climate, if a firm is stalling its efforts in digitisation and modernisation of their technological function, it is probably already falling behind in terms of mapping the critical risks coming from the supply landscape as we move into 2023.

Identifying and tracking risk from operational, financial, strategic, and hazard standpoints gives firms the capacity to rapidly adjust their activities to align with risk plans.

Mintec helps to acquire data driven insights and analytics. From the data, we can map how the supply landscapes are moving, how they are evolving, and, more importantly, how they move in line with trends, from a duration and amplitude point of view. Foremost, it's about forecast stability and building in predictability, as aforementioned.


The current market volatility highlights the deep importance of dynamic forecasting, specifically for categories of commodities which are exposed to the geopolitical risks. For example, energy and grain come under this umbrella due to their embroilment and weaponisation in the Russia – Ukraine war.

When time is of the essence, and supply chains are strained, using technology to make onboarding easier and faster for suppliers is a way that procurement professionals can simplify their operations.



"From the data, we can map how the supply landscapes are moving, how they are evolving, and, more importantly, how they move in line with trends..."

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"...the use of sophisticated hedging methods and technologies is invaluable."

Solutions for overcoming a difficult period in procurement

Market data and intelligence is an invaluable tool for procurement professionals. It can aid in discovering solutions to remedy problems brought on by the Ukrainian conflict and its wider fall out.

There is a wealth of information out there in order for firms and individuals to conduct fundamental research in house. Alternatively, there is a robust data and intelligence marketplace where companies are able to pay for an array of incredibly useful data sets. Many large companies globally use this method of acquiring market intelligence.

A further way for a procurement outfit to build resilience is through increasing and building stock levels. Many companies, from small start-ups to large multinationals, work on a 'just in time' basis. This is particularly true of raw materials. However, at times as turbulent and unpredictable as these, it is integral for firms to question whether this is the right strategy when we're approaching times of potential shortage.

Moreover, procurement professionals can look to buying and hedging as a shrewd method of boosting resilience in their operations. Practices such as extending contracts longer than you might normally with regular suppliers will go a long way in bolstering your company's defences against economic shocks. In addition, the use of sophisticated hedging methods and technologies is invaluable. Firms can use the global commodities markets – such as buying and selling futures - to boost security for their business' success.

In times of strife in the procurement industry, it is also crucial to broaden your supply base. A common trend in the procurement profession is to opt for a reduction in the number of



suppliers we have. However, now that we have entered a period of commodities scarcity, having more suppliers is better than having fewer as procurement professionals will have more sources at their disposal to ensure supply chain efficiency. If you work in a manner which is integrated with your firm's cross functional environment, such as procurement collaborating with the Quality and Compliance teams for example, procurement professionals can elevate the likelihood that their endeavours will be a success by ensuring that a broad range of suppliers are available and a broad range of internal personnel are working together to accommodate the widened supply base.

Implementing a strategy of developing longer term relationships, closer relationships, with your key suppliers, is shrewd. This suggestion is in light of the theory that if you can ensure that you are a customer of choice when resources are scarce, you are more likely to get preference and ultimately fulfil the needs of your firm.

Finally, the situation in China, Russia, Taiwan, or even North Korea and South Korea is still very volatile. Firms have been moving sourcing away from Russia, and the supply chain has been somewhat interrupted by tensions elsewhere too.

With that in mind, many firms are looking to bring some procurement closer to home. For example, in the US, that might be buying from Mexico. In Europe, it might be using some other Eastern European countries, as well as Northern Africa, or Turkey as a lower cost sourcing location. By modelling how you would respond to a situation changing suddenly and drastically, potentially meaning that you were unable to source from a country altogether, you can devise contingency plans based on scenario planning.

Our Products

Mintec Analytics

Analysis of price data helps reveal how food prices can change over time; helping you gauge the true level of food price increases.

- Quickly access +15,000 independent food ingredients & soft commodity prices & market analysis
- Use actionable insight to enable buyers & sellers to negotiate deals with confidence
- Reveal what's behind food raw material prices & driving current market trends
- Develop procurement strategies to increase efficiency, manage risk & transform trading performance.

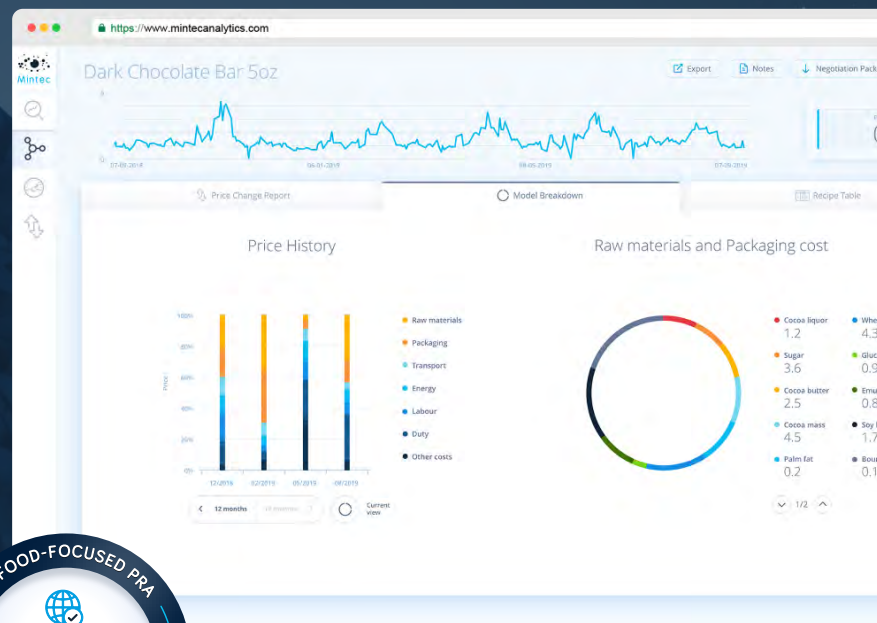
Mintec Commodity Price Forecasting

The Mintec Commodity Price Forecast Service delivers actual future price predictions, enabling buying teams to plan their raw material purchases, optimise spend, and reduce exposure to price risk.

Data Direct

Our innovative API and Excel Add-in data feeds deliver pricing data into the platforms and systems you are already using – saving you time and effort.

- **Automated** – Remove human error, save time and increase efficiency with automated data transfers and dynamic data updates.
- **Integrated** - Aggregate and integrate data with your existing systems, data sets and models more easily for deeper insights and a more efficient workflow.
- **Dynamic** - Respond to changing business, user and system needs more readily – plus benefit from enhanced collaboration and sharing capabilities.



Mintec receives IOSCO accreditation for proprietary food commodity prices

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