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Is Digital Transformation Working?

Business leaders spend significant time planning for the year ahead: reviewing strategies, forecasting sales and setting budgets. But, as modern management teams can attest, it's challenging to stick to any plan in a "normal" environment, let alone during a once-in-a-century global health crisis.

In April 2021, Institute for Supply Management® (ISM®) partnered with GEP, headquartered in Clark, N.J., to conduct a survey to illuminate how the coronavirus (COVID-19) pandemic has impacted procurement operations and supply chains. Another goal: understand the implications for ongoing digital transformation. Did companies who were already heavily invested in a digital strategy do better than those who had yet to start?

The survey included more than 350 respondents, with 59 percent from manufacturing. Companies were fairly evenly spread in terms of annual revenue: 37 percent of respondents are from those with more than US\$4 billion, 38 percent from those with less than \$500 million and 25 percent from those in between. Fifty-four percent of respondents are managers or directors; another 23 percent serve in executive roles. Relevant to this study, 34 percent of respondents consider their suppliers as critical; this designation is more prevalent in the services sector than in manufacturing.

It's important to note that some questions in this survey use a pick-and-rank technique. In this two-step method, respondents choose all answers that apply, then rank them. This approach is more powerful than choosing all that apply, where the most popular answer may be inadvertently assumed to also have the most impact. Used together, these two dimensions provide a more accurate perspective of both pervasiveness and impact.

Direct and Indirect COVID-19 Disruption

We began by asking respondents why some of their plans for 2020 did not come to fruition. To be expected, the most frequent response (75 percent) was "supply chain disruption." Tied for second were "state/local or government restrictions" and "remote working challenges" at 51 percent each. These most popular responses are all external and COVID-19 related.

The remaining nine responses were largely internal issues, led by "increased costs" (45 percent), "lack of staff bandwidth" (45 percent) and "unavailability of personnel" (42 percent). Noteworthy responses for "other" included a "priority focus on employee well-being and COVID safety," "customer shutdowns/lack of sales," and inability "to travel and meet face to face."

The frequency of responses is highly correlated with the top-ranked, or most impactful, responses, but there are some subtle differences. As noted above, "remote working challenges" was tied for second-most frequent, but was sixth-most important, meaning it was not among the most impactful outcomes. This is evidence that many modern workforces and corporations adapted swiftly to the work-from-home reality, and that people were ostensibly productive.

Unlike previous years, where productivity-related surveys uncovered technology issues, this survey found "the main blockers to getting things done aren't only the systems, the data, or the networks of suppliers, but the means to effectively use them and put them to work," says Paul Blake, director of product marketing for GEP. "This perhaps suggests that in many cases, we need to be forced to use the tools we've invested in," as we all have with remote

Figure 1. Plans for 2020 did not come to fruition. What were the primary reasons? (Mentioned)

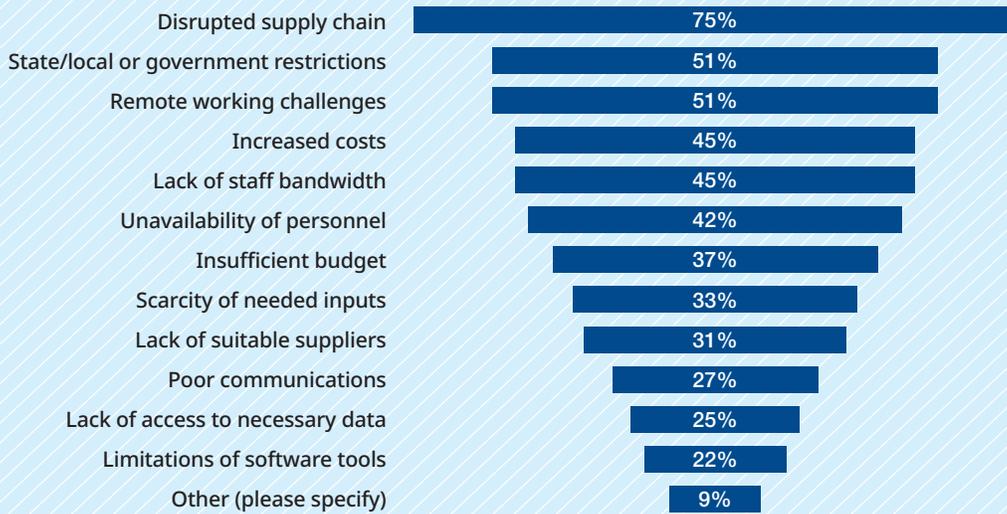
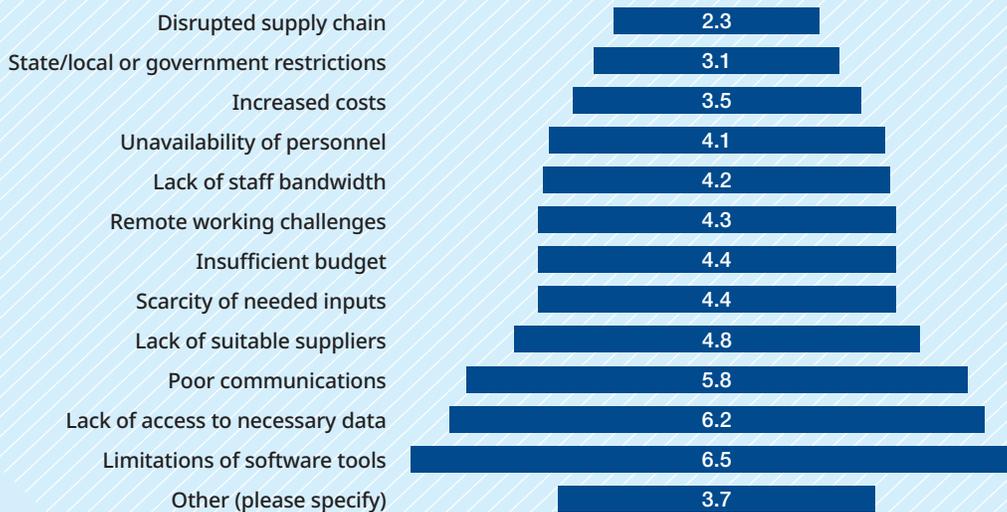


Figure 2. Plans for 2020 did not come to fruition. What were the primary reasons? (Ranked)



workforce tools. He adds, “The limitations we thought we had can be overcome.”

Key Execution Gaps

When respondents were asked the areas with the biggest gaps in the ability to execute during 2020, no answer garnered more than 50 percent. The top two responses were, not surprisingly, supplier performance management (45 percent)

and demand planning (44 percent), followed by risk management (42 percent), inventory management (40 percent), and supplier relationship management (39 percent).

As with the first question, frequency and rank of responses are highly correlated. Demand planning ranked most important, followed by risk management, supplier performance management,

Figure 3. In which areas were the biggest gaps in your ability to execute during 2020? (Mentioned)



Figure 4. In which areas were the biggest gaps in your ability to execute during 2020? (Ranked)



risk assessment and supplier relationship management. While inventory management was the fourth-most frequent choice, it only ranked seventh in importance.

Jim Fleming, CPSM, CPSD, program manager and faculty member at ISM, was surprised at the frequency and rank of “spend visibility” this long after broad system implementations across every industry.

While this choice was the sixth least popular among 17 (including “other”), “it’s still surprising that companies don’t know perfectly well where they’re spending their money,” says Fleming.

Blake sees a “lack of information” as a common thread among the top five mentions, which are also four of the five highest-ranked in importance.

“I don’t necessarily think that equates to lack of data ... it definitely doesn’t. In fact, lack of data access scored relatively low on the (list of) reasons why plans failed.”

According to Blake, the big gap for many organizations may be not having the means to interpret and act on data.

Blake continues, “Given the circumstances of the last year, I would suggest that lack of bandwidth, analytical power and connectivity between process steps are all key factors in” the execution gaps, “which result in the lack of insight and intelligence.”

The upside for organizations that manage data and information strategically is significant, in good times and bad. “Looking at best-in-class organizations [which have] adopted advanced data-centric

Figure 5. Were there functions that performed better under the challenging conditions? (Mentioned)

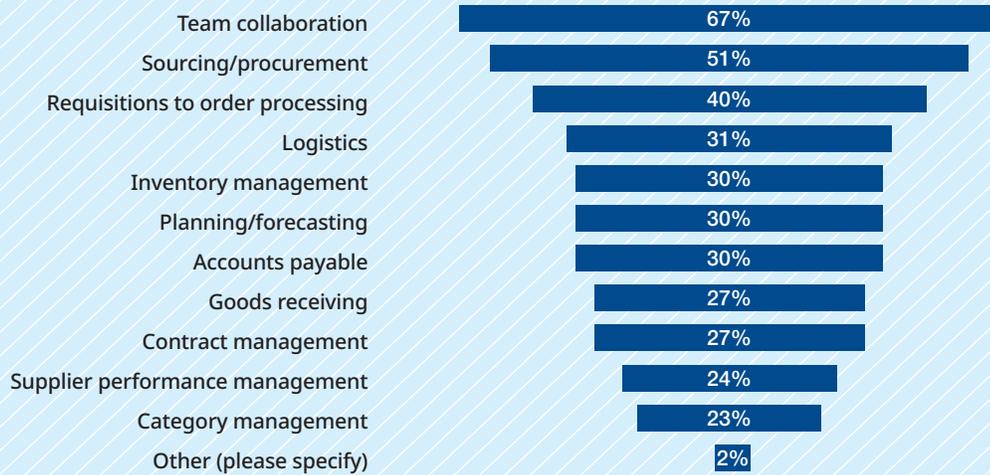


Figure 6. Were there functions that performed better under the challenging conditions? (Ranked)



technologies and, importantly, are actually using them well, we see a very significant shift in their ability to begin to take control of risk," Blake says.

Overcoming Obstacles Through Teamwork

On the other end of the spectrum, we inquired about which functions and capabilities performed better under the challenging conditions. According to Paul Lee, director of research & analytics at ISM, "a big, pleasant surprise was the fact that 'team collaboration' worked out much better than folks were anticipating ... along with sourcing and supply management."

Indeed, "team collaboration" was selected by 67 percent of respondents and "sourcing/procurement" by 51 percent. They were also the top two ranked. "Those were two areas that really shined under the brutal conditions that we faced," says Lee. The next two most frequent choices were "requisition to order processing" (40 percent) and "logistics" (31 percent).

The top three rankings were in the same order as the most frequent, along with a slight reordering of the next three rankings compared to the most popular mentions.

Change Acceleration Through Crisis

Perhaps the most telling evidence that digital transformation is working is how quickly organizations pivoted to a remote workforce. "It is an indicator that our central proposition for this survey — that digital transformation has worked — is correct," Blake explains. "Those companies who have invested in a digital transformation program have found it easier to cope, to flex, and to change what they're doing to meet new demands."

Blake notes that it took a crisis to force critical mass on something as important as enabling remote work. He describes the causes for change as typically

being either incentives or crises — or carrots and sticks. "What is most telling is that in many cases, organizations didn't make those changes (like a mobile workforce) sooner, despite having the means to do so."

Indeed, most business managers in recent years may have expected digital transformation to unfold through a methodical evolution rather than abrupt steps. It remains to be seen if more disruptions lie ahead, and to what degree. But given that COVID-19 may have changed supply chain management and the commercial office landscape for years to come, Blake says, "perhaps a feature of digital transformation that we didn't anticipate is that change will come as a series of transformative events, rather than as a steady flow."

We then probed about impressions of organizational resilience as of January 2020, going into the pandemic and at the end of the first quarter (Q1) of 2021. Perhaps somewhat surprisingly, responses about perceived resilience before and after the pandemic were not too dissimilar on the surface. The biggest change in total percentage responses was that only 17 percent said their organization was "one of the best" going into the pandemic, while 24 percent said the same at the end of Q1 of 2021.

Granted, both responses were given simultaneously after the fact and may lead to a blurring of impressions. Nevertheless, just more than half rated their organizations "above average," which, mathematically at least, speaks to a tendency to put a rosy spin on reality.

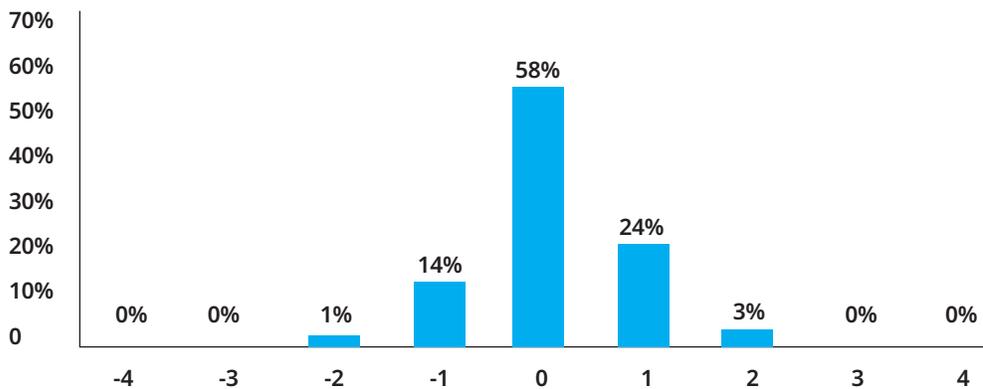
Lee says, "There was a shift, generally, upwards into the 'above average' and 'one of the best' categories, which is not bad, but it can certainly be improved."

This trend is even more evident at an individual respondent level versus the aggregate level in Figure 7. The data reveals that 27 percent of those surveyed

Figure 7. How would you rate the resilience of your organization?

Choice	January 2020	End of Q1 2021
One of the best	17%	24%
Above average	51%	51%
Average	24%	19%
Below average	7%	5%
One of the worst	1%	1%
Total	100%	100%

Figure 8. Change in resilience as of January 2020 and at the end of Q1 of 2021



indicated an improvement in resilience of one or two ranks, and only 14 percent indicated a decline. Fifty-eight percent indicated no change.

For companies that reported an improvement in resilience, we solicited comments as to why they improved. Four of the most prevalent themes, among a total of 89 responses, were 1) communication, collaboration, and teamwork, 2) technology and the ability to adapt to remote working, 3) leadership and experience, and 4) flexibility and innovation.

The Flipside of Building for Resilience

For companies where resilience stayed the same or declined, four of the most frequent themes that emerged, among more than 200 comments, included:

- 1) "Feeling positive" and being "on the right path" for those whose performance throughout the year was consistent
- 2) Needing to improve "risk assessment and management," both internally and with suppliers
- 3) Seeking more supply chain versatility, whether it's "real-time visibility" or "additional suppliers" by type or location
- 4) "Improved communication" internally and throughout the supply chain.

Resilience in the face of a global pandemic is a lot to ask, but not because people and their ability to plan are innately subpar, Blake says. "Inevitably, progress is slower because there is huge inertia ... precisely due to the fact that our supply chain management systems were built to be as resistant to change

as possible, to make them sturdy to make them resilient. However, if resilience is built in to deal with a set of known threats — and those threats change — things can go awry. Organizations need to be able to adapt and change, as do the systems intended to support them."

To better understand the nuances of supply chain disruption, we surveyed whether the challenges of 2020 had a greater impact on direct spend or indirect spend. More than half (55 percent) said that direct spend was affected more, while 31 percent said indirect and 14 percent said no impact to either.

A key point of this question was, Blake says, "to see whether there was any correlation between digital transformation and the presence of a big direct materials component." To help find insights, Lee explains, "We bifurcated the result into manufacturing and services because we suspected that there was a material difference."

In fact, Lee says, "We see that the split between direct and indirect is skewed to the right towards direct in the manufacturing sector. Whereas in the services sector, there's much more even distribution among direct and indirect spend."

We then asked about the strategic aspects of operations organizations will focus on to increase supply management resilience. The five most frequent responses — improved planning/forecasting (58 percent), improved business processes (58 percent), better internal collaboration

(57 percent), improved systems and software (47 percent) and geographic diversification of supply base (45 percent) — were also ranked in the same order of importance.

To understand the next priority for organizations regarding new or replacement software systems, we offered 16 choices or the option to provide a custom answer. The top five selections were supplier performance management (37 percent), spend visibility (35 percent), demand planning (34 percent), inventory management (33 percent), and contract management (32 percent).

The five highest-ranked differed curiously, as supplier performance management was the most common but ranked eighth in importance. Risk assessment and risk management were ranked fourth and fifth in importance but only 10th and ninth, respectively, in frequency. The responses demonstrate a level of preparedness for exposure to the enterprise risk of business continuity for organizations highly reliant on a select set of suppliers — or when a once-in-a-hundred-year pandemic arises.

Conclusion

Today, outside forces such as global politics, social trends, trade tariffs, environmental pressures and biological threats are changing business demands. “A large part of the struggle to adapt to those changes comes from the inflexibility of the systems that were put in place at the heart of the operation,” Blake says.

The future requires a new generation of

procurement solutions, Blake says. “Built with a more agile approach, separating many of the layers that were intrinsic to the systems of old, and decoupling applications from that underlying structure.”

There is evidence in the data that digital transformation is taking hold and delivering benefits, not just in terms of early signs of improvements to efficiency, speed, accuracy, and customer experience, but in sustaining operations in the face of global challenges. Blake says, “New digital technology can really help organizations become more resilient and cope with the disruptions of a never normal world.”

The lesson of intermittent crises like the 2000 dot-com market bubble crash, the tragedy of 9/11, the 2008 financial crisis or the current pandemic, organizations would be best served by living up to the moniker of true “transformation.” As Blake puts it, “Just replacing old with new doesn’t constitute a transformation. The key idea here is that digital transformation is not a goal. It’s a process.”

To explain further, Blake says, “We should not be trying to achieve a new fixed point, however far advanced it may be from where we are now. The real transformation is changing from a position of stasis — where systems we installed to make things better have actually locked us into one modality — to a position of agility where the systems and applications can change according to what we need without disrupting what we have to do.”

That would be true transformation.