

PSS Insight: 2021 China Procurement Report

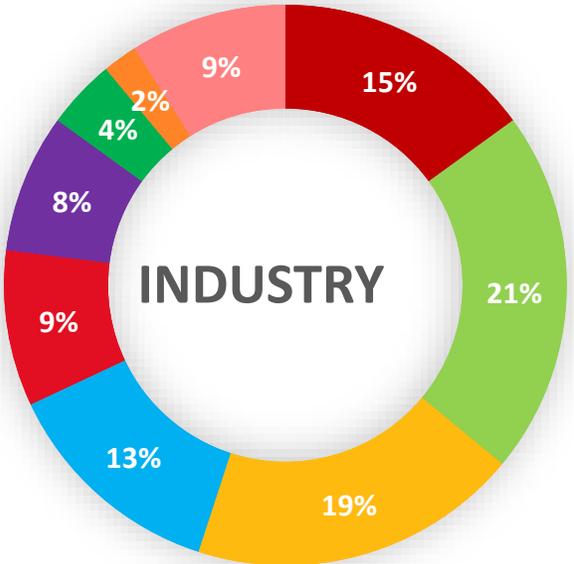


In the middle of adversity there is great opportunity

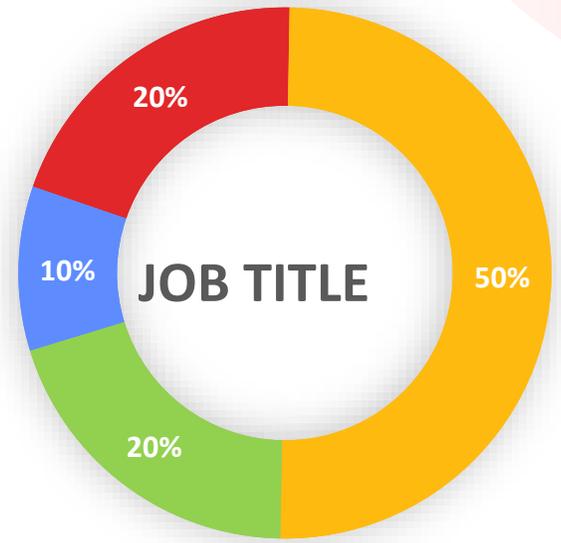
China is the world's second-largest economy, and the only major economy to report positive GDP growth when the virus exacted a devastating global toll. So Chinese entrepreneurs are still full of hope for the future. The McKinsey Global Institute's (MGI) new China-World Exposure Index shows that in the past 10 years, the world's relative exposure to China has increased, while China's to the world has fallen.

With changing business dynamics and increasing layers of complexity, procurement organizations need to work closely with strategic suppliers and partners to drive continuous improvement.

SURVEY DEMOGRAPHICS



- Biotechnology & Pharmaceuticals
- Chemicals, Oil & Energy
- Automotive & Machinery
- Retail & Consumer Goods
- Food & Beverages
- Electrical & Electronic Manufacturing
- Internet & Telecommunications
- Semiconductors
- Others



- Director / VP
- Manager
- Supervisor
- Senior Buyer

Direct Procurement : Indirect Procurement = 1:1

This report reflects the view of 312 executives. Thanks to all executives who contributed to this study.

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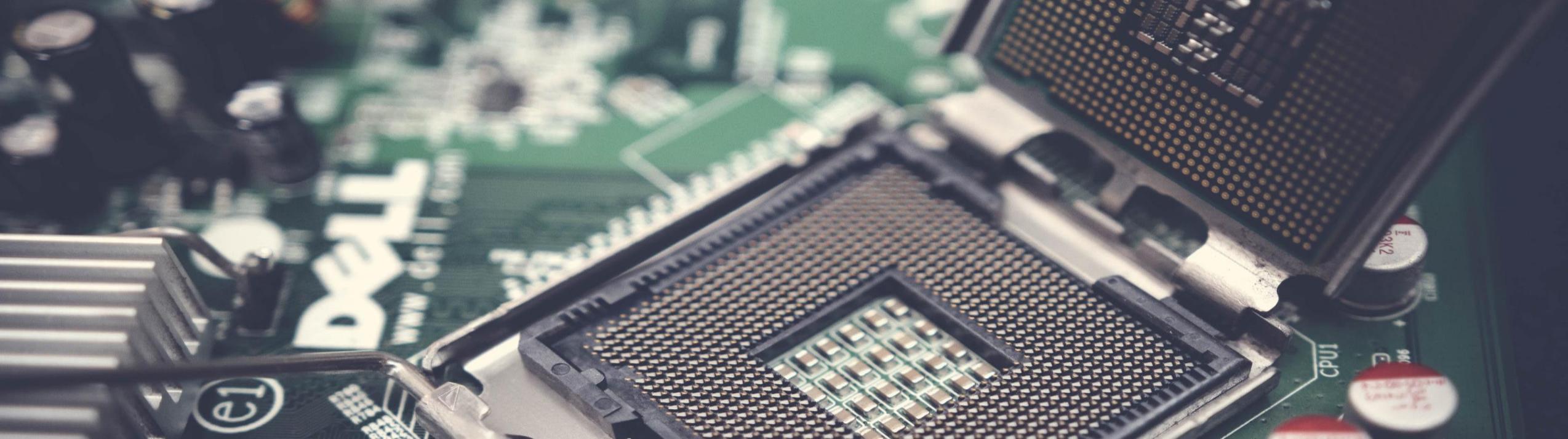
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LEADERSHIP IN THE NEW NORMAL



'Chips Scarcity' Became a Bottleneck in Supply

Chip supply has been drastically disrupted by epidemic together with other natural disasters, which results enterprises stuck in producing dilemma. Cost is no longer to be regarded as the most critical consideration for many categories and industries due to the insufficient supply of materials represented by chips. Reducing supply risk also ensuring continuous supply become the top priority of procurement work.

Commodity Inflation

Over the past 20 months, a global commodity price boom raised amid inflationary pressure.

Manufacturing enterprises react by adjusting procurement strategy, controlling cost, supporting suppliers with capital turnover, optimizing suppliers structure when facing the shock of increasing raw material price.



Energy Curtailment & 'Dual-Control' Management

China issued the "dual control" policy to retrench energy consumption during the 14th 'Five-Year Plan' period. Energy curtailment cut down the capacity in energy-intensive industries, which results a significant impact on raw material supply chain. The stock guarantee was risked by the failure to make in time delivery from upstream factories.





Accelerating Digital Transformation

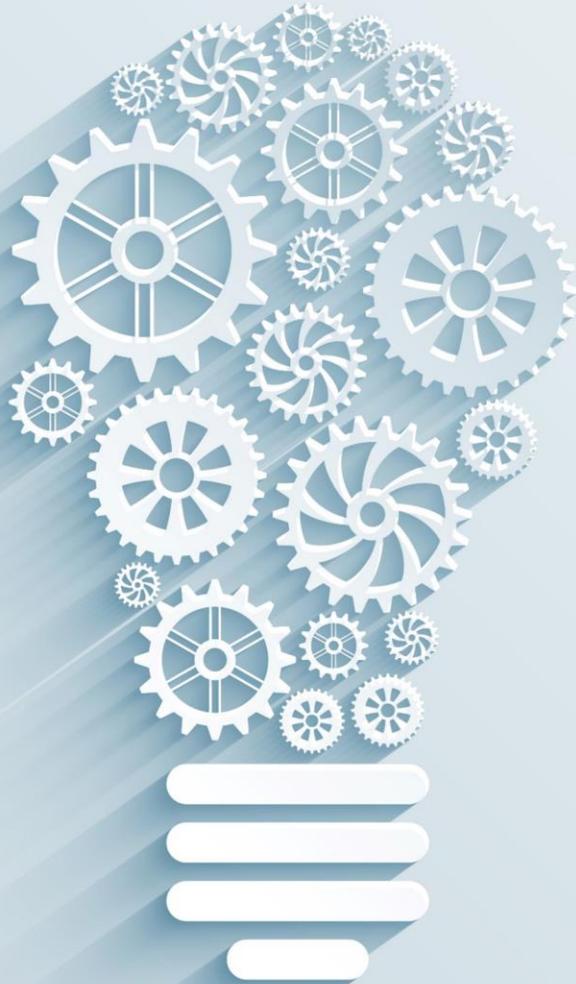
Epidemic accelerates the digital transformation process in enterprises. CPOs from those mature business who adopting demand analysis tools recognized the significance digital procurement had contribute to business growth. Digital transformation is to be an imperative.

Procurement should support enterprise to integrate digitization agenda, at the same time push the digital transformation of procurement itself.

Sustainable Procurement

The pace to go Global carbon neutrality is accelerating. Sustainable procurement will be a powerful driving force in achieving goals of sustainability, also in building new growth engines. As for procurement, pursuing sustainable supplier development, low-carbon procurement, and to measure costs via whole life cycle, which are vital for the transformation process of carbon neutrality.





Innovate, Innovate Again

Procurement enhances its efficiency through digital transformation, process optimization, supplier innovation... to better cope with challenges arose in ever-changing business environment. But innovation is far more than a urgent need, it should be treated as a long-term strategy, a keyhole to the future.



Diversity & Inclusion

Diversity and inclusion have long become a tendency. By working with diverse suppliers, new value can be injected into company's supply chain and be able to demonstrate a diverse and inclusive corporate culture. More procurements have incorporated diversified suppliers into the requirements of supplier bidding, selection, and management processes.

A person wearing a white shirt and a black smartwatch is holding a glowing, semi-transparent globe of the Earth in their open palm. The globe is centered over the Americas and is surrounded by a soft, white glow. The background is a plain, light-colored wall.

Increase Procurement Value

To facing the supply chain challenge, procurement needs to establish deep and firm collaborations with both internal and external stakeholders to be a real strategic partner, meanwhile rising its voice. Procurement should continue its value creating while coping with complexity and risk in tough times.

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Priorities of China procurement organization

The number of priorities is increasing. Ensuring supply and enhancing risk management are raised to unprecedented heights.

Ensuring Supply 61%

Enhancing Risk Management 52%

Driving Operational Efficiency 40%

Reducing Costs 39%

Digital Transformation 30%

Enhancing Sustainability 29%

Enhancing Supplier Diversity 23%

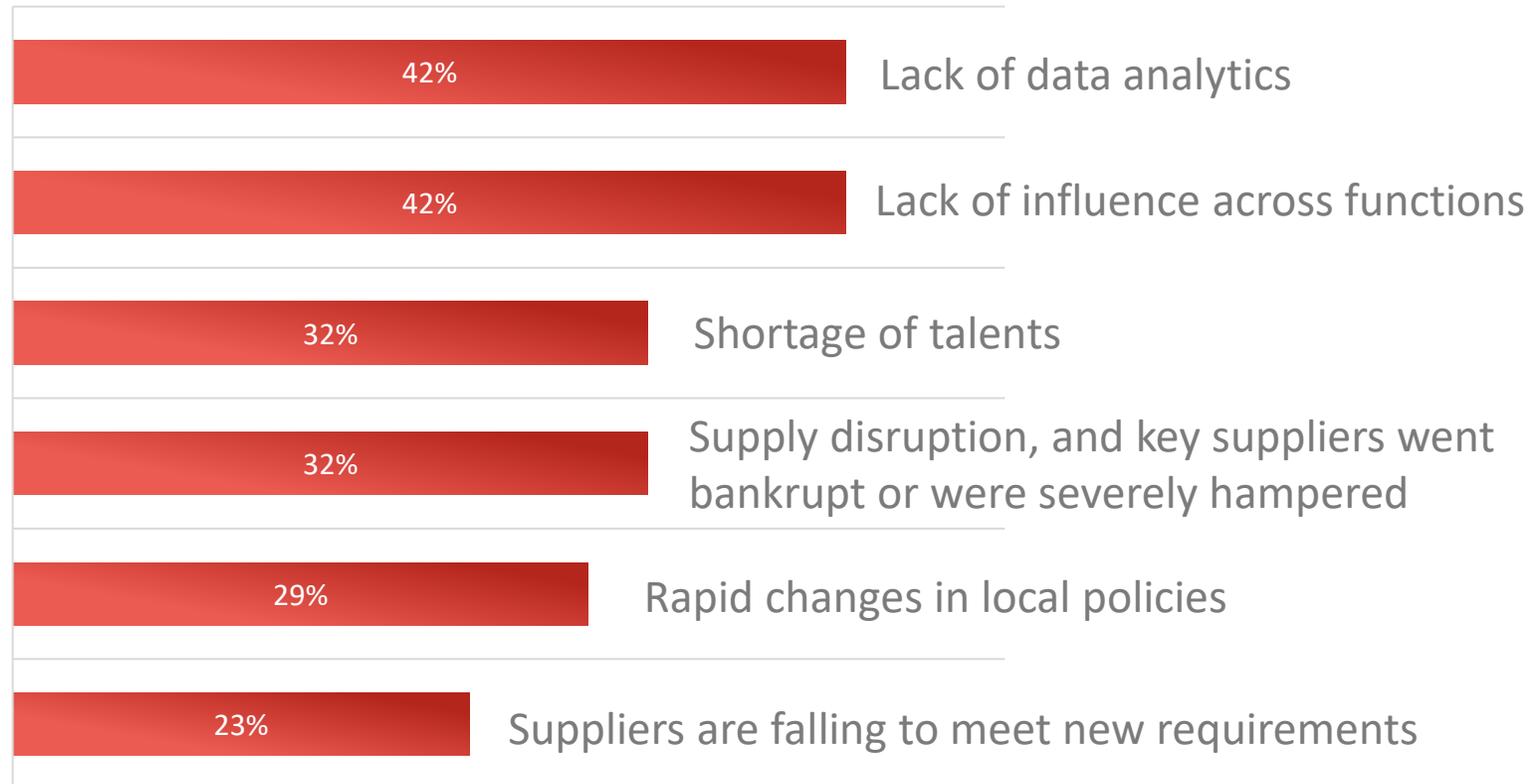
Process Innovation 18%

External uncertainties are increasing, and covid-19 is the overriding factor affecting supply chain stability.

Compared with indirect procurement departments that prioritize "process optimization", direct procurement focuses more on "supply" and "risk".

Significant barriers of to procurement

“Lack of data analytics” is a common barrier that plagues direct procurement and indirect procurement.



How to ensure assurance of supply has clearly been the biggest challenge.

Significance of disruptions to supply chains by industry

Affected by the epidemic and natural disasters and other factors, the global supply chain is still fragile. Some industries deeply integrated into the global industrial chain, such as automobile, manufacturing, footwear and clothing, are facing particularly obvious supply chain pressure.

Healthcare/pharmaceuticals/biotechnology



IT/tech/electronics



Manufacturing



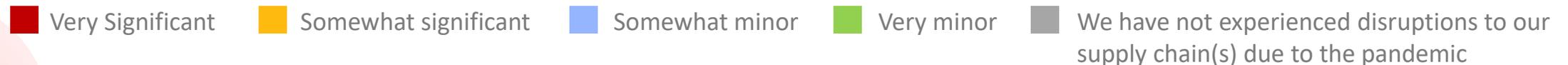
Food and beverage



Footwear and apparel



Automotive



Enterprises' top strategy to mitigate supply chain pressure

In this global epidemic crisis, China's supply chain has shown strong resilience and adaptability, which has been widely recognized internationally.



Conducting monitoring deeper into our supply chain (i.e. at third and fourth levels in the supply chain) to better anticipate any potential problems



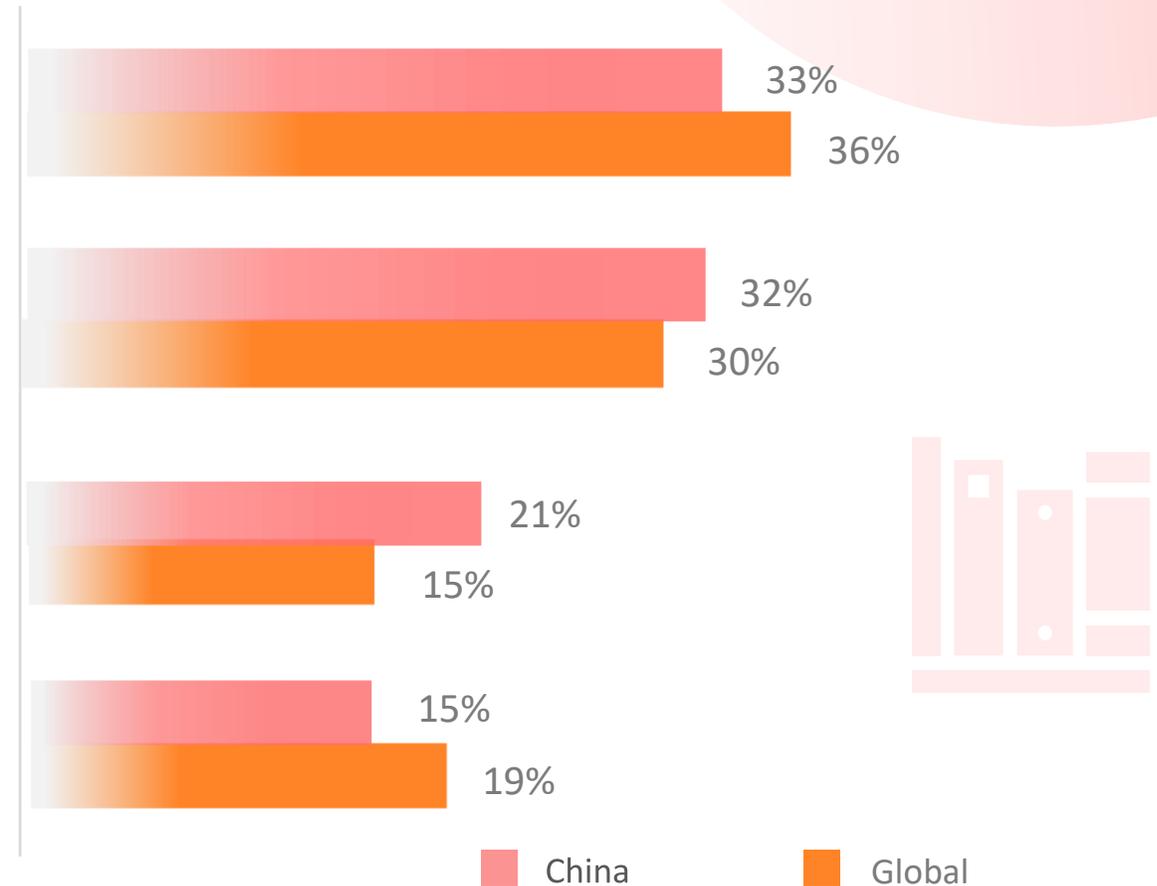
Diversifying sources of input by adding new locations of inputs to make my supply chain more resilient



Employing more strategic planning, like hedging programme and longer term contracts, to bring greater stability to our input costs



Onshoring more inputs in my supply chain to enhance our production and/or operational resiliency



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Opportunities for China procurement organizations

Although economic globalization has encountered adverse currents, the domestic business vitality and supply chain resilience are still sufficient, and the China procurement organizations have more opportunities.



Global supply chain requires China's strong support.



Chinese team can work with higher efficiency and lower costs.



Covid-19 is a trigger for global revolution and transformation.



There are more emerging technologies and innovations in China.



China's market share is rapidly expanding.

Global supply chain requires China's strong support

China has become the “mainstay” of global supply chain.

China has overcome the impact of COVID-19 to achieve innovative growth in foreign trade. As the only major economy to achieve positive growth in 2020, China has made contributions to ensure stability in global industrial and supply chains and world economic growth recovery.

China has the most complete and largest industrial system in the world, and 80% of production factors such as labor, capital, raw materials, and energy are supplied domestically.

In the first three quarters of 2021, China's exports grew by more than 20 percent compared with the same period in 2019. The epidemic has made the world more dependent on China's supply. Xuxin Mao, Principal economist of NIESR (National Institute of Economic and Social Research) said: “Strong export growth is due to industrial and supply chains becoming more independent and controllable. China's industrial and supply chains have shown strong resilience.”

The pandemic is accelerating the global revolution and transformation

In the complex and fluctuating business environment, enterprise reform, industry innovation, regional transformation, ecological construction and digital development are no longer "optional", but "required courses" related to survival and long-term development.

In the uncertain environment, enterprises must have strong anti-risk ability and resilience to seize the commanding heights of competition and grasp the development initiative.

In the midst of every crisis, lies great opportunity.



China Procurement Self Positioning

Integral Part of Global Supply Chain



China for China

Think and act globally

Track global direction

Positively impact global chain

Bring up local value to global

China market expertise

Best fit local strategy

Operational excellence



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Procurement leadership under new normal

1

Leveraging local power

Enterprises need to stay agile to correspond with local policies in contingency response. Time will be seriously consumed by adopting the centralization while global epidemic spreading was differently responded by the local. Therefore, enterprises need to foster “self-organization” capability to discover efficient and flexible problem solutions.

An excellent procurement leader needs to remain calm and stay away from emotionalizing, which needs extensive knowledge reserves, political acumen, and business sense to arm them when facing volatility and uncertainty.

2

To be a good storyteller, and raise the voice of China procurement team

China’s procurement teams often show a modest, diligent and hard-working impression when collaborating in a transnational environment.

More and more leaders suggest that China teams need to cultivate the “story-telling” ability, learn to tell success stories and share work results, so as to gain higher recognition, expand influence within global teams and enterprises.

Procurement leadership under new normal

3 Effective communication to be a necessity



In the post-epidemic era, online meetings are necessary way in maintaining information synchronization among team members. Everyone was required to convey information more clearly, speak out openly, also listen more carefully in a virtual base environment. Leaders needs more empathy and open-minds, care for employees and their families.

"I recommend everyone who involved in such frequent online meetings to open your Camera. You will find that the distance would be easier to pull closer when turning to 'face to face' than only by presenting voice." A VP of procurement in manufacturing industry said.

The daily interaction was seriously disrupted by the pandemic. Besides working, teams will regularly hold online entertainments, chatting and sharing of daily life, so as to reduce the loneliness and anxiety in remote works.



Procurement leadership under new normal

4

Aligning team vision

Unite as one, also coordinate around the strategic goals. Leaders need to align stakeholders to clarify team goals.

6

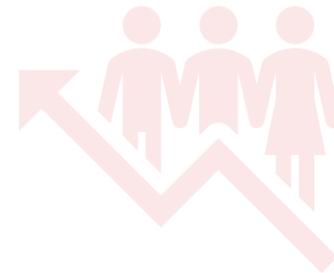
Supporting through global structure

Discovering opportunities, promoting excellent talents, and coordinating senior management in global architecture of enterprise.

5

Developing people

Considering talents as the most valuable asset for enterprise, and to provide coaching, soft skills training and talent incentives for the team.



Summary

Are you ready for the revolution?

Embrace Trends: The epidemic has brought severe challenges of supply chain disruptions to many companies. In addition, new policies and technologies are constantly emerging. Embracing these trends and those to come will be critical to success. Procurement serves as a role of bridge between enterprises and suppliers. **Digital transformation and sustainable procurement are releasing new growth drivers.**

Improve Capabilities: Uncertainty and complexity have become the norm. As the strategic partner department, procurement needs to **improve data-analysis capabilities, innovation and collaboration capabilities** to make impact within the global organization. In procurement analytics, value comes from more timely, accurate and actionable insights, and the ability to measure procurement's contribution to the bottom line. Procurement organizations can **utilize analytics to describe, predict or improve business performance.** When utilized effectively, procurement analytics can **enable data-driven decision making, where purchasing decisions and supplier relationships are managed more effectively.**

Facing the Future: The global epidemic is spreading ups and downs, while China is the first major economy to show a recovery after a slowdown induced by the COVID-19 pandemic. Facing the opportunity of accelerating global supply chain transformation, the Chinese procurement team is suggested to **focus on long-term plans, establish a holistic and systematic view, and take advantage of the trend** to create more value for the global organization.

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