Supply chain transparency: creating stakeholder value

Enabling new business models and value propositions
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The call for supply chain transparency

Today’s business climate is becoming more and more interconnected and complex. Customer needs and expectations are increasing and businesses, while meeting these expectations, are required to be valuable, profitable, flexible, safe and cost-efficient. Simultaneously, business models are shifting towards partnerships and platform-based businesses. This requires companies to actively engage with different third-party organizations. Additionally, complexity is on the rise due to outsourcing, globally dispersed partners and constant pressure on costs. Such aspects lead to intertwined and multiplex supply chains that can be difficult to administer and are prone to risks.

The Supply Chain Worldwide Survey revealed that 70% of the companies surveyed perceive their supply chain as ‘very’ or ‘extremely’ complex.

Non-transparent supply chains and upstream operations can leave companies sightless, resulting in greater uncertainty, a higher exposure to risks, and supply chain disruptions. On top of that, supported by the omnipresent upswing and use of technology and social media, companies are facing scrutiny of their supply chain from governments, consumers, NGOs, investors and other stakeholders. For example, (1) nowadays the food industry is obliged to be transparent about ingredients, food fraud, animal welfare and child labour. The ability to fully comply with different guidelines that relate to business practices, sustainability mandates and track-and-trace laws, has become crucial. (2) The pharmaceutical industry recently went through a regulatory shift requiring it to identify individual tablet packs of medicine (‘serialization’). This was to enable origin traceability and track counterfeit, as a pack of medicine passes through different countries and different companies. It created new standards and methods to drive transparency across the medicine supply chain.

KPMG conducted a survey on digital supply chain investments where visibility and traceability came out as the key investment driver in both 2018 and 2019.

Exhibit 1: Respondents (including CXOs) indicate traceability and visibility as #1 investment driver

<table>
<thead>
<tr>
<th>Top of investment drivers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ensure traceability and visibility</td>
</tr>
<tr>
<td>Manage new distribution nodes</td>
</tr>
<tr>
<td>Lower total cost to serve</td>
</tr>
<tr>
<td>Maintain legacy systems</td>
</tr>
<tr>
<td>Improve speed to market</td>
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</tbody>
</table>

Sources: KPMG Research
Exhibit 2: Transparency is recognized as one of the key C-level issues in supply chain management that requires attention to deliver growth and control risk.

<table>
<thead>
<tr>
<th>C-level issues</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost</td>
<td>57%</td>
</tr>
<tr>
<td>Risk and Compliance</td>
<td>56%</td>
</tr>
<tr>
<td>Talent Management</td>
<td>29%</td>
</tr>
<tr>
<td>Technology</td>
<td>50%</td>
</tr>
<tr>
<td>Transparency</td>
<td>27%</td>
</tr>
<tr>
<td>Operations Effectiveness</td>
<td>29%</td>
</tr>
<tr>
<td>Effectiveness</td>
<td>29%</td>
</tr>
<tr>
<td>Risk and Compliance</td>
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<td>13%</td>
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<tr>
<td>Effectiveness</td>
<td>13%</td>
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</tbody>
</table>

Source: Digital Supply Chain Investment Survey, KPMG & BlueYonder

Changing business and social-economic climates increasingly require transparency across an organizations’ supply chain… …this is reflected by qualification of transparency as a key C-level issue.
What is supply chain transparency?

Achieving supply chain transparency is the fundamental process of increasing visibility, traceability and transparency by collecting and sharing information throughout the supply chain and communicating it to authorised internal and external stakeholders. It provides the ability to gain insights, learn and act on supply chain information to make better informed decisions.

The request for supply chain transparency originates from multiple stakeholders trying to achieve different objectives. E.g. from business leaders to manage large and complex companies, partner organizations to increase collaboration and reduce waste and costs, regulators to track policy translation, consumer groups to influence preferences, etc.

We distinguish three levels of supply chain transparency as shown in exhibit 3:

Exhibit 3: Supply chain transparency requires key actors to enable visibility and traceability on multiple levels
Smaller companies and internal functions of large companies tend to focus on the internal transparency whereas larger corporations seem to put more effort into getting full supply chain transparency.

Driving innovation and partnership across the supply chain can act as a key lever that can deliver step change to companies. There are challenges that cannot be solved by companies individually but need to be driven by a collaborative innovative effort. These joint innovation initiatives need transparency and create transparency in the value chain.

The combination of complex, fragmented and siloed supply chains with limited data sharing, dispersed data ownership & governance and a large number of actors make achieving and sustaining supply chain transparency challenging. A helicopter view is required to enable a real understanding of the end-to-end chain.
Value of transparency

The drive for transparency covers different elements and requires involvement of multiple stakeholder groups. Although this makes transparency challenging, it is a very valuable and essential exercise.

When different groups successfully collaborate, value is realized across key business units and business functions.

E.g. in a recent project, a chemical company moved away from country-based visibility (linked to business P&Ls) and created European level visibility in supply chain logistics to provide the most efficient product/service to the end customers. This led to 10-15% greater cost efficiency in inventory, transportation and higher On-time In-full deliveries to customers.

Exhibit 4: Transparency increases business value across all key value dimensions (i.e. Growth, Risk and Cost) and is therefore of interest to multiple business functions.

- **Consumers & Growth**
  - Customer loyalty
  - Brand perception

- **Risks & Compliance**
  - Compliance with legislation
  - Human Rights Due Diligence

- **Operational Excellence**
  - Reduce waste and inventory challenges
  - Control foreign exchange exposure

- **Total Business Value**

Value is realized across key business units and business functions, hence clarity of value buckets for an organization across stakeholders is a key starting point for collaboration.

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One of the most important values of driving transparency is the opportunity to enable new business models and value propositions. The relationships between companies, their suppliers and customers become stronger by creating a step change in customer value, e.g. platform thinking. This opens up the possibility to play a new role in value chains and also monetize the data that has been collected, e.g. a water distribution company handed over the tracking data on pumps to the market and is now collaborating to enable the pump manufacturers to be directly in charge of changing pumps. This creates a new type of relationship between the pump supplier and the company which differs from the relationship in a tender-based model.

Increased supply chain transparency also contributes to demystifying questionable supply chains and ensures more ethical and sustainable sourcing and production practices. In this way, businesses manage reputational risk, ensure compliance with legislation, live up to their own environmental and social ambitions and are able to respond to the growing demand of consumers for more healthy, environmentally conscious and traceable products.

Visibility helps reduce risks and costs as it guarantees fewer disruptions and waste within operations across the end-to-end chain. Companies are able to respond more quickly and more proactively to risks and operational inefficiencies.

Traceability makes it possible to accurately and efficiently monitor and prevent any issues that could arise before or after a product is delivered to consumers.

Additionally, supply chain transparency aligns performance management within organizations rather than having each department in an organization defining its own measure of success. This further enables good communication which tackles quality issues, decreases product costs, optimizes stocks and enhances a company’s ability to compete.

Examples of value delivered by supply chain transparency: new business models and value propositions, lower risk and costs as well as alignment of performance management
Capabilities needed to deliver transparency

To achieve full transparency, it is essential to ensure the right combination of capabilities.

Exhibit 5: Different capabilities are required to make transparency a success within and across organizations

- **Sustainability**
  Drive positive social and environmental impact across the value chain

- **Strategy**
  Create a future-proof strategy built on long- and short-term objectives

- **Data & Analytics**
  Disclose and use real-time and data-driven information to enable decision-making

- **Procurement**
  Focus on accurate supplier mapping and assessments

- **Customer & Innovation**
  Use innovative technologies for a customer-centric supply chain

- **Technology Solutions**
  Integrate and embrace technical capabilities and solutions i.e. ERPs

Having the right mix of capabilities is fundamental in achieving true supply chain transparency and realizing its value potential.
The journey starts with developing a transparency strategy which takes a helicopter view. This is followed by mapping of the end-to-end supply chain to identify key players and economic communities, pain and trust points, data taxonomy and gaps that lead to risks, opportunities and solutions.

In maintaining transparency, access to reliable and timely information is key. Information should be translated into valuable insights and effectively shared in order to provide real-time and data-driven answers for strategic decision-making. In this way, product, process and supplier information can be utilized to build a transparent and resilient supply chain. Therefore, companies must arrange technical capabilities and embrace today’s and future technology solutions. Transparent supply chains rely on smart platforms and ERP systems that are capable of integrating all processes in a seamless way.

Consolidating the various competences might be challenging and difficult to achieve. Nonetheless, it is the synergy of these fields that unlocks the way for a company to gain full transparency and complete control over its supply chain.
In today’s world, supply chain transparency has become crucial in order to handle uncertainty, exposure to risks and supply chain disruptions. Companies that implement full transparency receive multiple benefits enhancing business value across the complete chain. However, obtaining transparency is a challenging path. Combining the right set of skills is essential to pave the path to transparent supply chains that are built on resilience, sustainability and growth.

If you want to know how KPMG can support your company, please contact:

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