

Building speed and sustainability into supply chain logistics



Introduction



After three years of unprecedented disruption and pressure on the way goods are sourced, produced, transported, and delivered, logistics executives are looking to transform and fortify next-generation global supply chains to be more reliable and sustainable. This transformation is driven not only by lessons learned in the years of “permacrisis” but is also underpinned by customer demands for speed, personalization, and sustainability.

To better understand how companies are navigating systemic shifts in the supply chain, Oxford Economics worked with SAP during the first quarter of 2023 to survey 1,000 executives from mid-market and large companies, in diverse industries around the world.

These executives represent all business functions from logistics to manufacturing, to supply chain planning. This paper focuses on the 166 executives in the logistics function—a lagging segment in the transformation journey. We found that:

- **Customer demand for faster, reliable, personalised, and sustainable deliveries** is transforming the logistics landscape.
- As the key player standing between customer and retailer, **logistics carries the greatest burden for delivery time and personalization among all functions**—and they have aligned their supply chain goals accordingly.
- **Rising customer expectations and a lack of visibility are presenting serious challenges to the logistics community.** Logistics executives are struggling to maneuver a profoundly transformed operations environment and are falling behind both competitors and peers in other areas of their organizations.
- **Logistics executives seem uncertain about (or perhaps unprepared for) the transformation.** To tackle these challenges, introspection regarding their organizations’ processes is required, yet tested approaches such as digitization are being back-burnered.
- **There is opportunity to integrate sustainability throughout logistics responsibilities.** Low visibility and minimal digitization have, at least in part, caused logistics organizations to fall behind on sustainability transformation—but with focus, these gaps can be closed.



Speed and visibility

In the age of convenience, keeping customers satisfied chiefly means achieving ever-shorter delivery times. Nearly two in five logistics executives (39%) know that customers in the aftermath of the pandemic are less forgiving of delays than they were prior to its onset. While fully understanding customer demand for speedy deliveries poses a real challenge to their success, this group (more than any other function in our survey) is heeding the call for speed—12% cite reducing time to delivery as the number one goal for their supply chains (vs. 8% overall). They have already identified and acknowledged that the quest for speed can be turbulent, with just over one-fifth saying that meeting customer demands on time (e.g., speed) is the greatest challenge they face, the highest of any function (21% compared to 16% overall).

Of course, customer demands extend beyond speed—57% of logistics executives say clients expect more customized or personalized products than they did three years ago, the largest percentage of any function. And that demand for personalization intersects with the call for speed, with more than half of those in the logistics function (56%) agreeing that customers expect real-time updates and tracking.

Ensuring customers are satisfied while also realizing typical business goals like efficiencies and productivity gains requires a high level of visibility into the value chain, as logistics executives are well aware: nearly one-quarter (22% vs. 17% overall) view visibility into the supply chain as the number one challenge they face. When it comes to tangible actions, however, key features of delivering goods on time—such as knowing when products will be completed and how suppliers operate—are open to improvement. Indeed, the logistics function slightly lags all others when it comes to executive-suite visibility into product manufacturing (67% vs. 72% overall).

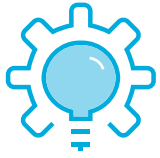
Logistics executives may eventually improve visibility once they advance initiatives that address this challenge. Fewer than half said they were either well into first efforts or had completed an initiative to improve visibility into supplier and vendor activities (47% vs. 54% overall). This limited access has implications for the relationships that can be fostered across their value chain. Even with their closest Tier 1 suppliers, fewer than half of logistics executives report “seamless” or “highly collaborative” relationships—the least of any function (49% vs. 55% overall).

Those numbers are even lower when it comes to the same quality of relationships with outsourced manufacturers (31% vs. 38% overall) and less than one-fifth have such relationships with Tier 3 or lower suppliers (18% vs. 25% overall). Although universally low across functions, visibility into Tier 2 suppliers is particularly obscured for those in logistics—just over a quarter (29%) have seamless or highly collaborative relationships with these partners (compared with 39% of supply chain executives).

Fig. 1: What customers want

Q: To what extent do you agree with the following statements about your customers?





Transforming the supply chain

Digitizing across their value chain, from storage to inventory control to distribution, could help improve visibility and create more efficient, personalized customer experiences. Despite this potential though, logistics executives have been slow to embrace digitization and the automation that comes with it.

Efficiency and visibility are as much about looking to the future as they are about unpacking current data. But just one-third of logistics executives say they currently have big data and predictive analytics capabilities in their value chain. Such skills are likely required to succeed in the next-generation trading landscape, where uncertainty cannot be eliminated but rather can be managed by organizations that are adaptable and agile. Yet just 37% of logistics executives say their organizations can capture data and act on it in real time—and only 14% actively use AI and predictive analytics to capture real-time insights.

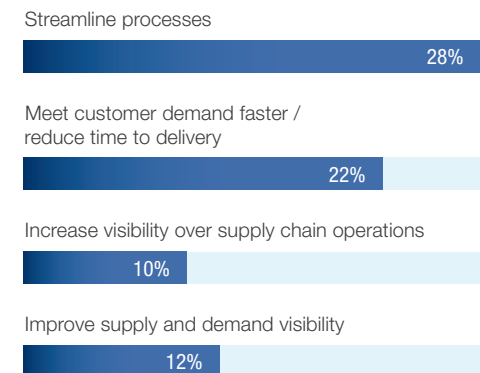
Seven in ten logistics executives are seizing the opportunity to streamline systems, reduce costs, and improve trust and collaboration among partners by employing blockchain technology, which has the potential to improve transparency, traceability, and accountability in the supply chain. Surprisingly, though, nearly one-third are not making use of blockchain and are not planning to do so. Logistics executives do not distinguish themselves as technology implementation leaders by any means, although one may think they

would, considering their core role in addressing the challenges of speed and personalization. But many are well on their way to technology excellence: more than half (56%) have at least begun integrating intelligent technologies into product value chain functions. Nearly one-third (28%) say the top goal of using intelligent technologies is to streamline processes, while nearly one-quarter (22%) are doing so to meet customer demand faster and reduce time to delivery—higher, in both cases, than any other function.

However, unlike with efficiency goals, where digitization is appreciated as a salient solution, there appears to be a disconnect between the visibility risk and the steps logistics executives are taking to mitigate it. Only 10% say increased visibility over supply chain operations is their top ranked goal for implementing intelligent technologies—the fourth most likely Rank 1 option to be chosen by logistics executives. When they are asked to rank their top two and top three goals for implementing intelligent technologies, visibility over supply chain operations becomes the fifth most likely goal to be chosen for these samples.

Fig. 2: Turning to technology

Q: What are the top goals your product value chain functions hope to achieve through its use of intelligent technologies?





SIDEBAR | Logistics seeks sustainability

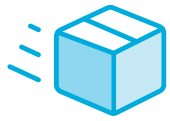
As with digitization, logistics executives are aware that sustainability should be a fundamental part of their operations focused on meeting their own goals as well as customer demands. Indeed, improving sustainability metrics is logistics executives' second most chosen strategic goal for supply chains in Rank 1 and Rank 2 samples and the third most chosen in Rank 1, Rank 2, and Rank 3 samples. Moreover, as testament to the position of logistics executives at the forefront of customer interactions, they are the most likely to at least agree that customers are increasingly concerned about buying sustainably sourced, ethically designed products (51% vs. 46% overall).

Although logistics executives seem to hold sustainability in high priority, even in their core

operation—the delivery process—just 28% said sustainability was either a major or top-of-mind concern at all stages, with more saying it was a minor concern or not a factor at all (33%). Indeed, as with visibility challenges, salient targets have not translated into tangible actions.

One reason may be that because digitization is still in its nascency, the tracking and assessment of sustainability metrics is even more challenging. Just 37% of logistics organizations have moved beyond the pilot stage in implementing sustainability performance tracking of suppliers and vendors. In a similar vein, just one-third are beyond the pilot stage in establishing sustainability metrics and KPIs in contracts with partners and vendors. Both findings further underscore the logistics function's lack of visibility.

Although logistics executives use metrics on par with other functions, given they have the greatest responsibility toward improving their sustainability credentials—with some of the highest emissions—they should aim to lead in this area. However, with little visibility into their partners' sustainability credentials, logistics equally struggles with other functions to appreciate how sustainable its own supply chains are. Under one-third (30%) have significant or complete visibility of ethical sourcing of necessary labor—with an equal number saying the same about carbon emissions across all aspects of the supply chain.



Prioritizing the modern supply chain

Ultimately, logistics will improve their ability to make a smooth transition from a pre-pandemic process into the post-pandemic landscape by closer examination of their own supply chains.

After 2020 saw strong signals of change within global trade, executives within logistics, as the backbone of that system, cannot afford to overlook their own supply chains—and many understand this: just under half (47%) agree or strongly agree the supply chain function has become more important in setting overall company strategy during the past three years (compared to 52% overall). When the supply chain is not prioritized in company strategy it can have wide-ranging, tangible impacts on initiatives to digitize and become more sustainable, something logistics executives have discovered more than any

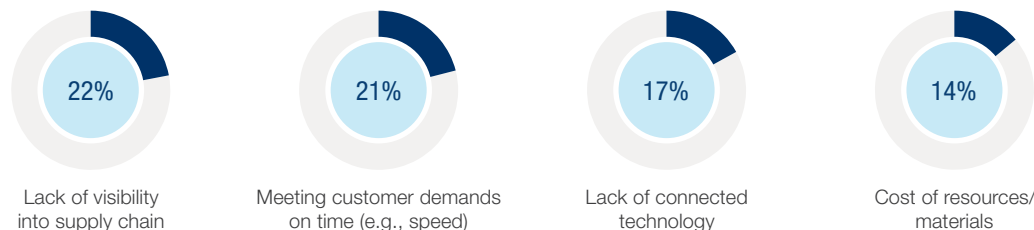
other function. Only a third of logistics respondents believe their efforts to support their organizations' sustainability plans have at least been significantly successful. Moreover, logistics executives are also the least likely of all functions to have been successful in breaking down silos across the product value chain over the past three years, with just over half being able to do so (55% vs. 61% overall).

Internal improvements could better position logistics to engage in on-shoring and near-shoring, another central strategy of the modern world that businesses

are pursuing to reduce their supply chains' impact on the environment and improve visibility. The logistics function is wary of this shift, however, with nearly half (49%) of logistics respondents suggesting on-shoring and near-shoring will have a negative impact on their ability to deliver high-level customer experiences. Perhaps that explains why just 34% of logistics organizations indicate they have begun near-shoring more of their manufacturing activity. But by bringing operations closer to home, the logistics function could start to address visibility concerns, while also improving their sustainability credentials.

Fig. 3: Supply chain goals

Q: What are the top challenges your organization faces in meeting its supply chain goals?



Conclusion

These findings further illustrate the lack of—and need for—continuing and more radical digital transformation within logistics to address efficiency, personalization, and visibility challenges to better position their companies in the next generation of global trade. Fortunately, logistic executives appreciate this: they are the most likely of all functions to say their organizations have a three-year investment plan that prioritizes value chain investments to improve their future state (64% vs. 59% overall).

For more on our leader group and a deeper dive into this research program, you can view our *overview report*.

To overcome their many challenges and fortify the modern supply chain, logistics executives should pursue the following:

- **Recognize the link between digitization and visibility, as well as digitization and sustainability**, as has been done for digitization and efficiency.
- **Address technological deficiencies with upfront investment**, keeping up with the other functions.
- **Prioritize visibility** to meet the ever-growing customer demand for speedy deliveries and personalization.
- **Ramp up the use of blockchain** to streamline systems, reduce costs, and improve trust and collaboration among partners.



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