



AT A GLANCE

- Supply chain risk management is an increasing area of focus for boards, governments and consumers alike.
- Spend on third-party solutions is following suit as more and more companies seek external support.
- There is a multi-billion euro market opportunity for providers and investors, double-digit growth rates, and significant white space to penetrate.
- Solutions are often mission-critical, highly embedded into customer processes and have attractive recurring revenue models. This makes the market highly investible for private equity and corporate buyers.

BUILDING RESILIENCE

Business leaders are responding to the fresh challenge of managing risk and compliance in highly complex webs of suppliers.

Most multinationals today do business with tens of thousands of suppliers. Even small and mid-sized companies rely on a complex web of vendors, and not just the firms which sell them goods and services, but the businesses those firms buy from. There is an ever-expanding universe – the edges of which are frequently invisible to those at its centre.

To some extent, this is not new. Companies have relied on goods and services from third parties for years. But today, business leaders face fresh challenges as stakeholders across the board want or need to know more about a company's suppliers than ever before:

- Stakeholders are increasingly demanding transparency.
- Governments are increasingly adding regulatory burdens on businesses to responsibly manage their supply chains but they differ from one jurisdiction to another, and change is frequent.
- Corporates are taking more proactive responsibility for their ESG impact.

- Boards are demanding KPI tracking and reporting around their suppliers and supply chains.
- Geopolitical volatility is adding pressure to supply chain reliability.
- Flexibility is increasingly important to build supply chain resilience.

From an investor perspective, ESG issues are now at the centre of most decision-making processes. And there is a tangible shift in customer attitudes too, with consumers making active choices about what they buy, depending on where products come from, how they are made and how workers are treated all along the supply chain. Even within the boardroom, directors are putting supply chain management at the centre of their strategic thinking, recognising the operational, financial and reputational risks associated with failure in this field.

Lack of transparency in supply chains

Source: 2023 Global Supply Chain Risk Report
Survey of 800 senior decision-makers, including risk managers, supply chain and logistics managers, and CEOs.



of those surveyed lack the data and knowledge to understand risks.



agree that supplier concerns about IP make it difficult to get full transparency of their supply chains.



of those surveyed said they had identified all the data they need to manage supply chain risks.

SECTOR PERSPECTIVE

The challenges that arise through the supply chain are evident across sectors, with consumer-facing organisations bearing the brunt of the most public backlash in recent years.

The EU's Corporate Sustainability Due Diligence Directive (CSDDD) requires EU and non-EU companies to conduct environmental and human rights due diligence across their operations, subsidiaries and value chains. Under the CSDDD, businesses failing to prevent or mitigate potential supply-chain violation can face fines of up to 5% of global turnover. This stresses the need for businesses tackle these challenges proactively.

However, although supply chain management is most visceral in industries such as food and clothing, it is no less problematic elsewhere. Automotive manufacturers, mobile phone producers, white goods specialists – all rely on thousands of global suppliers for raw materials, component parts, electronics and labour, skilled or otherwise.

Additionally, nor is the need for effective supply chain management limited to goods alone. Service businesses are exposed to risk too, across issues such as health and safety, regulatory compliance and ethical work practices.

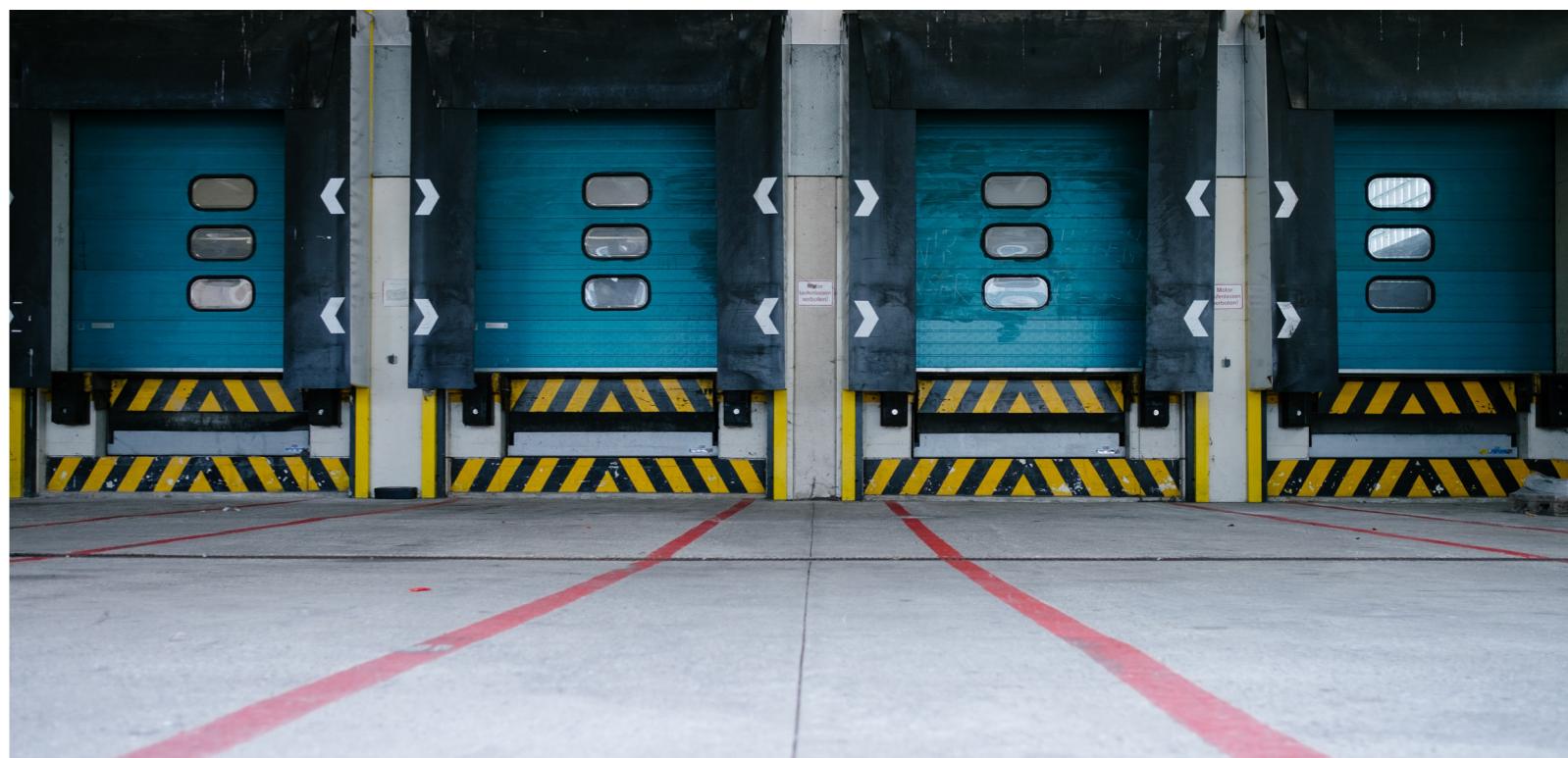
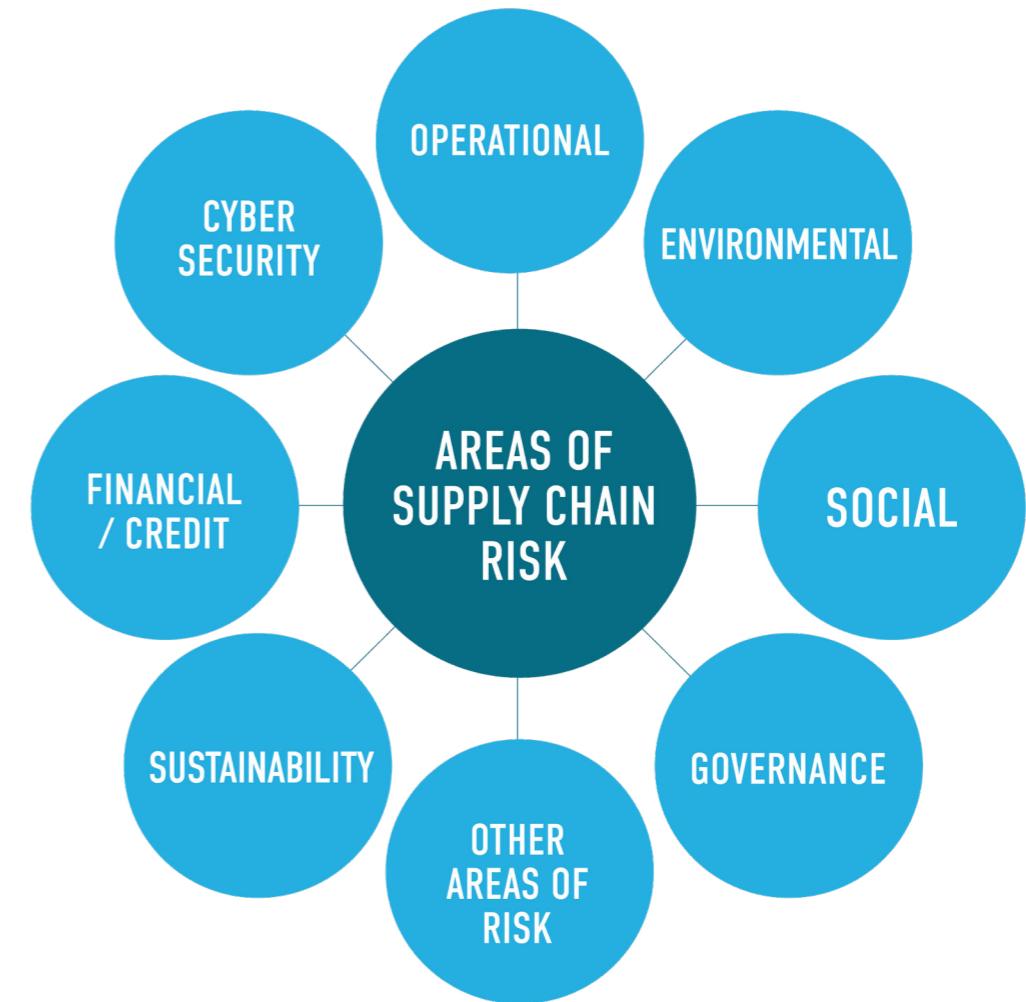
The breadth and depth of supply chain risks carry extensive implications. Historically, companies were judged on how well they managed their own operations and how well they trained and looked after their own employees. Today, their responsibilities extend further than ever before. Companies are no longer accountable for just their own ecosystem, they are expected to understand, map and control an entire galaxy of interwoven suppliers across geographies and sectors.

Beyond more onerous compliance and calls for greater transparency, two further issues have become front of mind among business leaders: supply chain disruption and input costs.

Climate change, geopolitical uncertainty, labour shortages and short-term dislocation between supply and demand all contribute to a step-change in supply chain disruption, from failing harvests to border friction and to sudden shortages of crucial components.

Input costs are subject to similar tensions, with raw material prices at risk of wild fluctuations through economic cycles or even from one season to the next.

No company is immune to these pressures and therefore must find more sophisticated ways of managing the challenges.



ADDRESSING THE ISSUES

Some businesses try to shy away from all but the most pressing supply chain risks. Others try to manage every aspect of risk in-house. Many recognise that they have a problem, but do not know how to fix it.

Expenditure on supply chain management software alone totalled €4 billion in Europe in 2022, and is expected to reach >€5 billion by 2028 with a compound annual growth rate of ~5%.

Despite the size and growth trajectory of this market, fewer than one in ten companies have adopted software tools to facilitate systems and drive oversight.

There are also discrepancies in the breadth and depth of supply chain risk management. While large multinationals are far more likely to adopt software-based solutions than their SME counterparts, there is a clear focus on critical suppliers (those which form the top 10% of the pyramid and account for 90% of current spend). The wider supplier network remains largely unchecked, creating a long tail of potential risk.

Separate from the need for increased transparency, there are also cost implications. Managing the supply chain in-house is resource-intensive and, in many cases, inefficient, particularly for small and mid-sized businesses. Outsourcing all or part of a company's supply chain management to a third party can both reduce costs over the long term and crucially provide a more effective barrier against unexpected costs, be they operational, reputational or political.

Businesses are seeking tools that can help them to:



Collate information and insight to support decision making



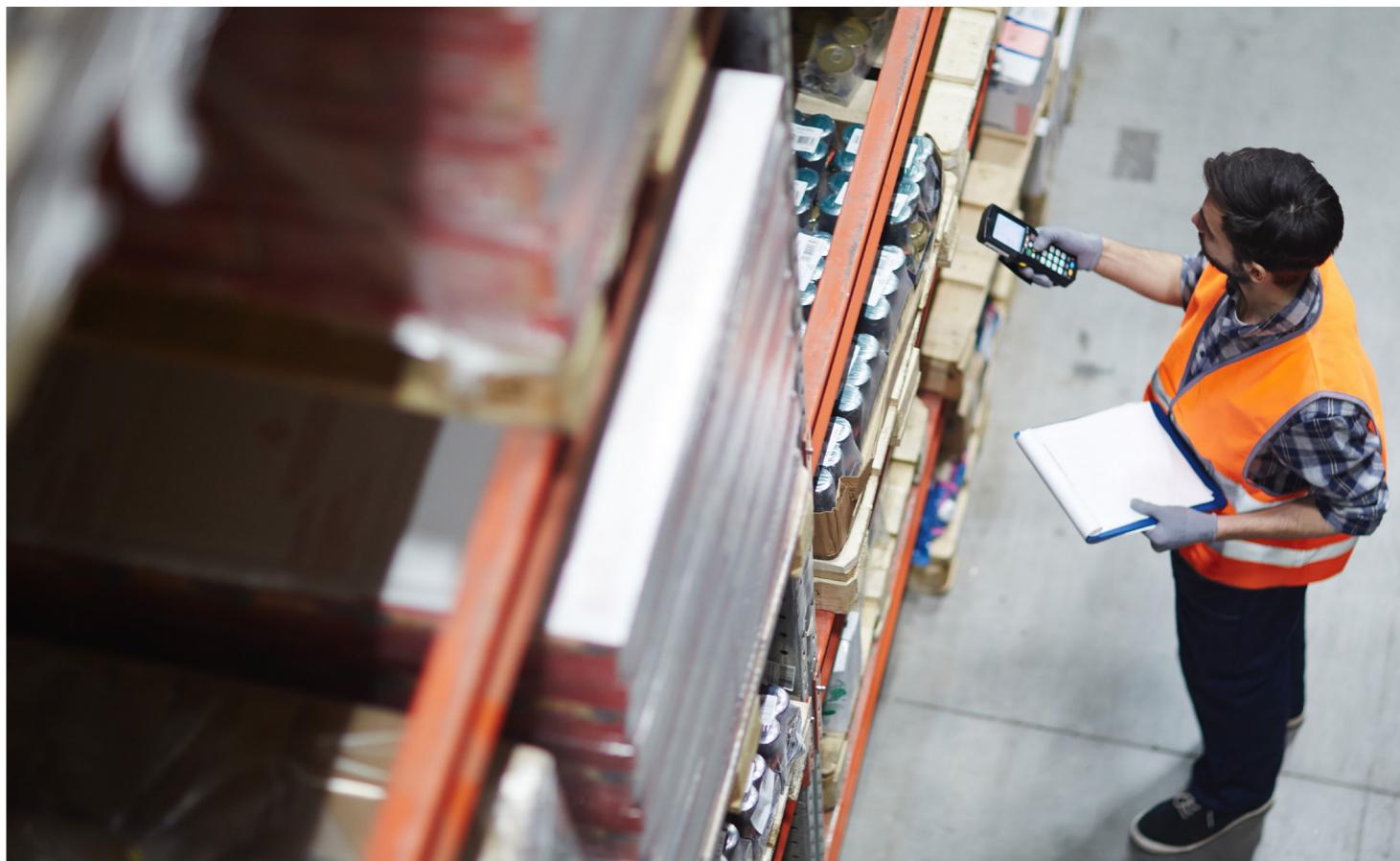
Create workflows to enable more efficient management



Authenticate compliance and provide audit trails



Quantify compliance levels with dashboards and reporting



Recently, specialists have begun to offer solutions in specific areas, for example:

1 Standards & compliance

Within this sphere, operators offer systems, software testing and inspection to ensure that suppliers conform with regulatory requirements across multiple jurisdictions. Some players also monitor regulatory changes and feed these through to businesses across the supply chain to ensure they remain compliant. Such services do not just improve effectiveness, they also reduce the burden on procurement teams.

2 Pricing & procurement

There are monitoring tools that allow companies to understand cost trends across their supply chains. Applications such as these can help businesses source better or cheaper alternatives for goods and services. They can also alert businesses to secondary provider options, thereby reducing reliance on single suppliers and, in turn, building resilience.

3 Supply disruption monitoring

Smart technology and software can highlight vulnerabilities in the supply chain and warn businesses of potential disruptions – from port blockades to crop failure – that may affect supplies over both the short and long term.

4 Operational coordination

Here, specialists take responsibility for demand management. This includes monitoring whether goods are available, where they are and how best to ship them from source to destination so that logistics and distribution can function with maximum efficiency.

THE OPPORTUNITY

The supply chain management market is worth billions of dollars, but remains highly fragmented with significant amounts of white space, creating several opportunities for investors.

- 1 First, as a nascent market, pioneers can swiftly gain first-mover advantage and become de facto leaders in their chosen space. Clients tend to be highly sticky, and a large client base can produce a halo-effect, increasing the value of their proposition.
- 2 Second, many companies have not yet availed themselves to third-party specialists but there is every indication that they will, as pressures mount and the supply chain increasingly takes centre-stage. This backdrop creates significant headroom for growth.
- 3 Third, most operators offer software, data and / or tech solutions as a service. Contracts are signed on an annual or multi-year basis, revenues are recurring and solutions are often both mission-critical and highly embedded into customer processes. As a result, retention rates are high and revenues are predictable and visible.
- 4 Fourth, while many of the more successful players are in “expansion mode”, they frequently lack the necessary financial and operational resource to fulfil their potential. External support can provide swift and rewarding growth. Driving adoption naturally requires an “educational sell” to the target base. This, in turn, requires investment in sales and marketing.

Summary

With companies under pressure to make their supply chains more efficient, more transparent and more compliant with a range of environmental, social and governance issues, demand for frontrunners in the field is likely to only grow. Most of these specialists, while already experiencing rapid growth, could turbo-charge their development with the aid of private equity resources and expertise. The opportunities are plentiful, and investors who spot them now are likely to reap the benefits over the coming years – while also delivering better ESG outcomes across businesses and industries.

Additionally, the investment case is particularly strong, as most businesses in this space are highly scalable. High-margin and capital-light, these businesses can be developed with relative ease, entrenching first-to-market positions and enjoying further economies of scale.



ATTRACTION



INCREASING
MISSION CRITICALITY



WHITE SPACE
TO PENETRATE



RECURRING REVENUE
MODELS



INCREASED BOARD FOCUS
& BUDGETS



CLIENT
EMBEDDEDNESS



TECH OR
TECH-ENABLED

OUR EXPERIENCE

The challenges that arise through the supply chain are evident across sectors, with clothing and food retailers facing the most public backlash in recent years.



Sedex is a global sustainability data and technology provider, which helps companies navigate ESG considerations within their supply chains.



QIMA provides supply chain compliance solutions to help businesses secure, manage and optimise their global supply network. QIMA combines onsite inspections, supplier audits and lab testing with a digital platform.



BRCS is a brand and consumer protection organisation, specialising in third-party certification across the food and non-food sectors.



CHAS is a provider of risk prevention, compliance and supply chain management services. It helps contractors and clients ensure supply chain compliance, mitigate risks and supports efficient supply chain management.



Achilles allows procurement, sustainability and risk teams to quickly see a supplier's pre-qualification status, and view critical documents and information relating to their standards and capabilities.



Once For All provides procurement and supply chain management services, helping buyers source suppliers. It validates members, providing those buyers with a pool of suppliers they can engage with.



Alcumus provides technology-led risk management and compliance solutions. It helps businesses of all sizes anticipate, manage and avoid risks, and therefore improves outcomes for employee and company operations.



EthiXbase360 helps multinationals screen their suppliers against a range of criteria across four key risk categories, including: anti-corruption, human rights, labour and environmental stewardship.



FoodChain ID offers integrated food safety, quality and sustainability services to the global agrifoods industry. It provides expertise and tech-driven services that support the production of safe, ethical and sustainable food.



ArrowStream is a food-service supply chain technology company that uses data to optimise supply chain efficiency and enhance sourcing programmes.

GET IN TOUCH

CIL provides growth strategy and due diligence support to management teams and investors. We are rigorous in our approach, confident in our conclusions and experts at what we do.

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