

# SUPPLY CHAIN

# SUPPLY CHAIN ACT



# Overview

Supply chain is much more than just a buzzword; more than ever, SCM is currently evolving into an important success factor for a company. The smooth operation of integrated planning and control along the value and supply chain is the basic requirement for this. Just how sensitive this system is has become clearly evident with the global pandemic. Companies, and ultimately consumers, were made painfully aware of both the vulnerability of seemingly stable supply chains in the face of disruptions as well as of the emerging consequences which now need to be dealt with. Now, companies are facing a new challenge, the Supply Chain Act, which is about to enter into force.

# Intension

The number and complexity of global trade relations have increased enormously in recent years, resulting in an immeasurable product variety. The price is an increased burden on people and the environment, especially in emerging and developing countries the implications are severe. To put this in concrete terms, here are some figures: 25 million people worldwide are in forced labor, 75 million children are subject to exploitative labor, 43 million tons of chemicals are used per year in the textile industry alone, which also causes 35% of microplastics found in the oceans. These fundamental violations of human rights such as child labor, exploitation or lack of labor rights, as well as environmental destruction such as water, soil, air pollution or illegal logging, are components of global supply chains from which German companies profit as well. The sales volume of German companies in imports amounted to 1.1 trillion euros in 2019.

” Prosperity must not be based on the exploitation of people and nature.



## Taking responsibility

## Legal content

The law obliges companies to take responsibility for complying with human and environmental rights along the entire supply chain. This applies both to the company's own operations and direct suppliers and, to a varying degree, to indirect suppliers or subcontractors. These due diligence obligations serve to prevent abuses, but should be proportionate and reasonable for the company and include the following cornerstones:

- Risk management
- Risk analysis
- Plan of measures
- Complaint management
- Report management

Risk management comprises the identification and elimination of risks to the entire SCM processes as well as transparent communication. The assessment and prioritization of identified risks is anchored in the risk analysis and implemented by means of concrete corrective measures. The provision of grievance mechanisms within the company is responsible for following up on indications of human rights and environmental violations as well as for initiating further steps. The fulfillment of due diligence obligations needs to be completely documented and reported to the responsible departments.

## Use

Under the draft legislation, companies based in Germany with more than 3,000 employees will be subject to the regulations from January 1, 2023. One year later, the scope will be extended to companies with more than 1,000 employees. The fact that this law will be vigorously enforced is reflected in the already defined and high sanctions for non-compliance. Failure to comply with the duty of care can result in fines of up to 10% of total sales and exclusion from public tenders.

## Challenge

For companies, the Supply Chain Act means complete transparency in the supply chain. A survey conducted by the Capgemini Research Institute in December 2020 shows that this poses a major challenge: Only 10% of the companies surveyed had fully mapped their supplier network, while 44% had not carried out any activities in this area. Now, the task is to transform the often fragile construct of the global supply chain into stable and transparent processes that meet legal requirements. In doing so, it is important to ensure that potential weaknesses are identified in advance, that solutions are implemented smoothly in the systems, and that the reporting management provides comprehensive documentation.

## Sensitive Processes

In practice, this means extreme efforts for the companies. The pandemic visualized how sensitively supply chain processes react to changes, as well as the serious effects that can result. This shows that the entire supply chain processes must be intensively analyzed so that serious economic effects can be identified and timely measures can be taken. SCM tools offer solutions, but these are often not sufficient to map complex requirements. What is needed are modern, intelligent tools that incorporate innovations in practice and thus generate real benefits for the company.

## Collaboration

The supply chain law requires an end-to-end collaboration of all involved partners. In its Supply Chain Collaboration solution, Oracle shows that this can be directly achieved. Identifying, analyzing and fixing vulnerabilities within your organization and with your key trading partners is simplified through intelligent process automation. This allows the entire supply chain to become more efficient and responsive with multi-level visibility of all stakeholders. The tool is built on three pillars, the first being collaboration, i.e. incorporating partners from the start.

## Orchestration

The orchestration covers processes from order management, contract manufacturing, inventory management to delivery, and offers extended possibilities for individualizations as well as analyses and visualizations based on current and forecast-related data. Compatibility refers to the seamless integration of the different systems and thus enables a dynamic network environment.

Another challenge lies in the different infrastructures of the partners. The range is extreme, from sophisticated IT systems to outsourcing, from global corporations to micro-enterprises, all suppliers need to work together in unison. Dedicated portals, secure message functions or a library for specific applications support harmonization along the supply chain.

## Minimizing risks

The benefits of such an integrated and multidimensional solution are evident. Responding quickly to changes in supply or demand reduces the inventory liability risk and administrative costs, and provides more transparency and enhanced reliability for all partners along the supply chain.

## Supplier management

The Supply Chain Act requires companies to do much more than just bring suppliers together. Uncovering risks and vulnerabilities, as well as the resulting actions derived and combined with comprehensive reporting are necessary to operate in compliance with the law. The solution lies in a qualification management system that improves supplier compliance, data accuracy and visibility.

Oracle Supplier Qualification Management Cloud provides the necessary functionalities in this continuous supplier qualification process.

## Sensitive processes

The complete solution covers the management of qualifications and skills, including monitoring for compliance with company policies and the required documentation. These complex tasks are implemented by means of an intelligent query. Coordinated question catalogs are available in a library and adapted to the specific assessment goals and criteria of the suppliers. Assessments are carried out on the basis of defined criteria and are processed automatically. For example, appropriate notification processes are triggered when risks are identified. The system also automatically checks validity periods and notifies improvements. This means that the latest information on suppliers, including their qualification status, is always available. This ensures the necessary transparency, minimizes risks and provides security with regard to a legally compliant supply chain process.

# Conclusion

The upcoming Supply Chain Act presents companies with the fundamental challenge of taking an intensive look at their entire supply chain. The focus is on compliance with human rights and the conscious and responsible treatment of the environment.

As a side effect, however, the weak points of the supply chain can also be identified, which opens up an opportunity to optimize established processes and generally minimize the risks that are almost always present in sensitive SCM processes.



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