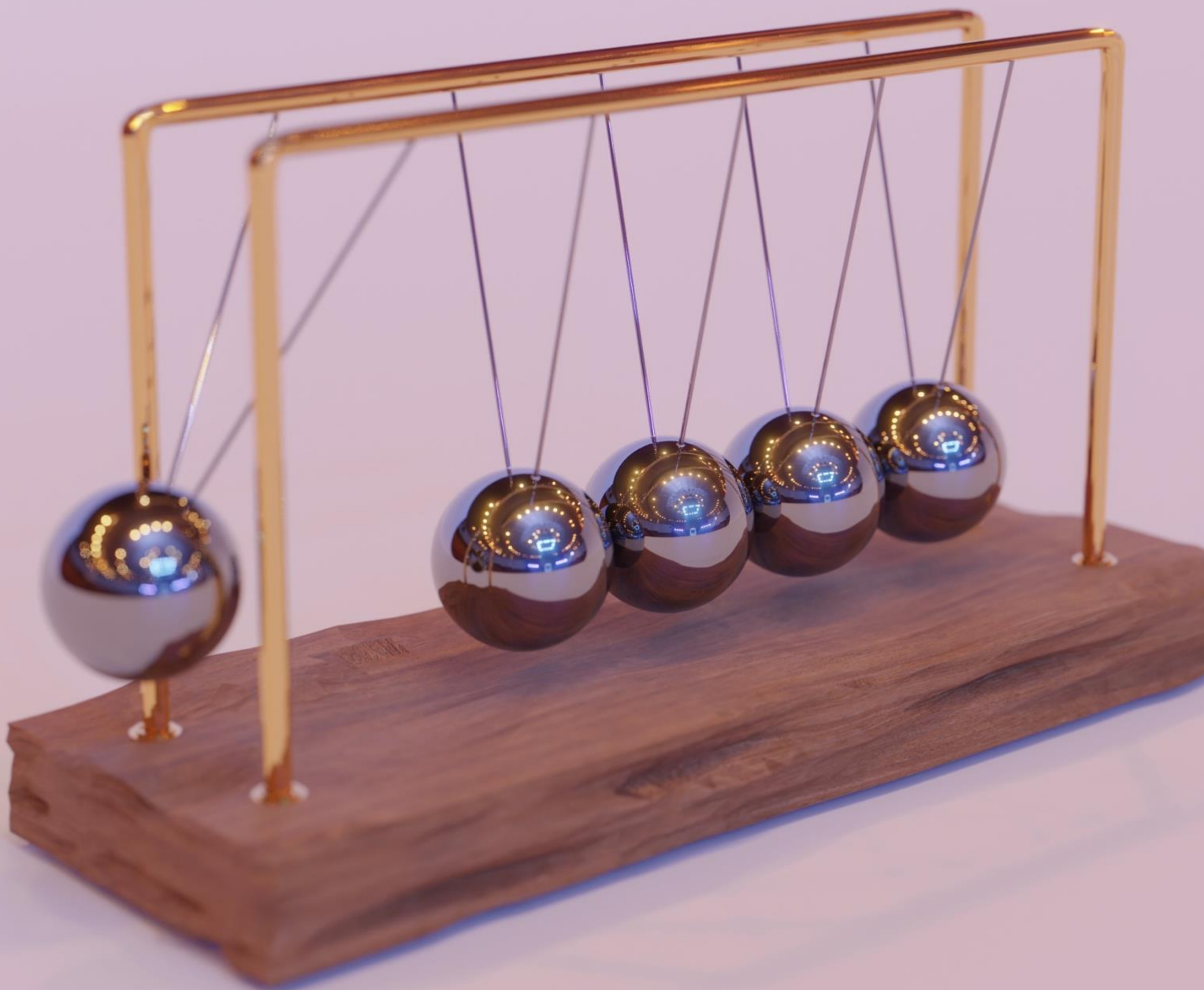


# The Impact of Inflation

A market survey undertaken in July 2022



## Table of Contents

|  |          |
|--|----------|
| <b>Introduction .....</b>                              | <b>3</b> |
| <b>Survey Findings .....</b>                           | <b>4</b> |
| <b>Impact on Negotiations and Contract Types .....</b> | <b>4</b> |
| <b>Artificial Intelligence: providing support.....</b> | <b>5</b> |
| <b>A Case Study.....</b>                               | <b>5</b> |
| <b>Appendix: On-line Survey Results .....</b>          | <b>6</b> |
| <b>2022 Inflation Survey.....</b>                      | <b>6</b> |

## Introduction

This report is based on input from 443 respondents, representing 23 different industries and a worldwide perspective. It draws from both customer and supplier viewpoints and indicates that inflation is creating tensions in trading relationships, though at differing levels and with differing results.

Many buyers see this as just another challenge in the pattern of disruption that has occurred since the on-set of the pandemic. In an environment of such uncertainty, where the balance of power is so volatile, there is recognition that the spirit of 'we are in this together' must be sustained. But there are suppliers who are quite clearly taking advantage of the situation and there are buyers and suppliers struggling to change traditional behaviors and attitudes. 'Collaboration' is viewed as necessary, but it is not easy to shift established organizational culture or performance measurement systems.

For the customer, the experience of the last three years is resulting in rationalization of buying, a focus on what it means to be 'a good buyer'. Market conditions require much greater sophistication in making and managing volumes and commitments, in more holistic understanding of the value of the business they place, in making it easy for the supplier to deliver. These factors are making 2022 all about transparency and planning – together with selective improvements in collaboration.

---

*“There is a new tension between risk-averse, transparent supply chains versus cheapest source of supply.”*

---

Suppliers in many cases show a degree of skepticism over whether their customers have really changed. Past experience makes many reluctant to share data – and in truth, many do not necessarily have good cost data to share.

The results from the survey – contained in the Appendix – confirm the tensions that exist, at present most notably in product costs, though also in some service areas, such as transport and logistics. They reveal the extent to which buyers and suppliers see the future differently, in particular in the form of future contracts and charging mechanisms and expectations regarding transparency. These differences are going to result in challenging negotiations, yet each side has an interest in trying to find ways to lessen inflationary pressures.

WorldCC is developing a series of webinars where we will explore this topic in greater depth and discuss ways that buyers and suppliers can best work together in tackling this latest market disruption.

# Survey Findings

---

*“Inflation is the latest in a series of challenges and must be viewed in that context.”*

---

This statement represents a majority view from 450+ survey responses and interviews regarding the impact of inflation on business relationships, with particular focus on long-term services agreements. While there is no evidence of panic measures, the potential impact of inflation is being taken seriously. Buyers and suppliers are taking a variety of steps to protect themselves – and sometimes each other – from this latest disruption to markets and relationships.

Key findings from the survey are:

- Inflationary pressures are generating increased tension between customers and their suppliers. On a scale 1-10 (where 10 is a major increase), the respective ratings are 7.4 (customers) and 8.2 (suppliers).
- The reaction is not uniform and multiple factors influence the scale of pressure. These include industry, geography, type of contract and strength of relationship.
- It is strength of relationship that both buyers and suppliers see as having the greatest influence on behavior – and both feel that the pandemic and subsequent events have improved levels of collaboration.
- This heightened collaboration is reflected in a readiness to engage in discussions on how best to manage inflationary pressures, in particular through cost reduction or margin protection measures.
- A majority of both buyers and suppliers are reviewing contract terms related to price changes and in many cases seeking to insert new (but contradictory) provisions. It seems inevitable that these will generate increased levels of negotiation.
- There is also an expectation of shifts in the contract types that are used. Buyers and suppliers are agreed that there may be sizeable uplifts in performance, outcome, and agile contracts. However, there is less accord on the types of charging models that will be used, again suggesting increased tension in negotiations.
- The pandemic and subsequent market disruptions are having significant impact on many Procurement organizations, causing re-evaluation of their role and purpose. There is less direct evidence of similar appraisals in sell-side commercial teams, although the interviews suggest increased urgency in technology deployment and skills uplift.

## Impact on Negotiations and Contract Types

Survey respondents indicated that around 70% of today’s contracts have price increase provisions, with the use of indices being the most common, followed by more general annual price reviews. 67% of buyers and 76% of suppliers are now inserting new or revised clauses relating to price changes into their future contracts. These differ in form. For example, buyers are applying greater thought to what indices to use; they are also requiring greater transparency from suppliers on cost make-up, potentially also on margins and pushing for ‘open book’. Many also want to ensure future price or charge reductions when inflationary pressures and input costs reduce. For suppliers, the primary revisions are inserting new or updated pricing provisions, typically index-linked, and more frequent rights of review. There is widespread belief that contract types and charging models will change. Previous benchmarks have indicated this trend; inflationary pressures are generally acting as an accelerator.

Most view indices as critical instruments for control, but also appreciate it is complicated to determine what index – or mix of indices – is appropriate. CPI remains the ‘index of choice’, but often involves the need for fall-back positions – for example, insertion of a cap, or an agreed split of the rate, or incentives to be creative in avoidance – perhaps a more favorable division of benefits from cost reductions. Many buyers seek evidence of specific increases from their suppliers yet may find it hard to push back due to a lack traditional competitive alternatives.

# Artificial Intelligence: providing support

## A Case Study

With inflation continuing to rise in many countries and GDP growth slowing or moving into reverse, it's clear that this period of financial and business uncertainty will be a sustained one.

While technology may not be able to change the economic landscape, it can assist in its management. [ThoughtRiver](#) provides us with this example, helping clients to navigate the uncertainty by empowering them with a powerful contract analytics capability to help the legal or commercial team to answer questions from the business. Questions like “which of our customer contracts contain a price indexation clause that allows us to raise prices”? Or “what protections do our contracts offer against price increases?” While these may seem like simple questions to answer, when you need to search across thousands of contracts it becomes impossible for many organizations to effectively answer in a reasonable timeframe. That is where an AI-powered platform can review tens of thousands of contracts for such a clause in a fraction of the time (minutes per contract) and with even greater accuracy.

One ThoughtRiver customer has used this to find all of their customer contracts that contain language allowing them to raise prices, another is using it to look for risk in their supplier agreements, but no matter the question you want to ask, the AI can be quickly trained to answer it.

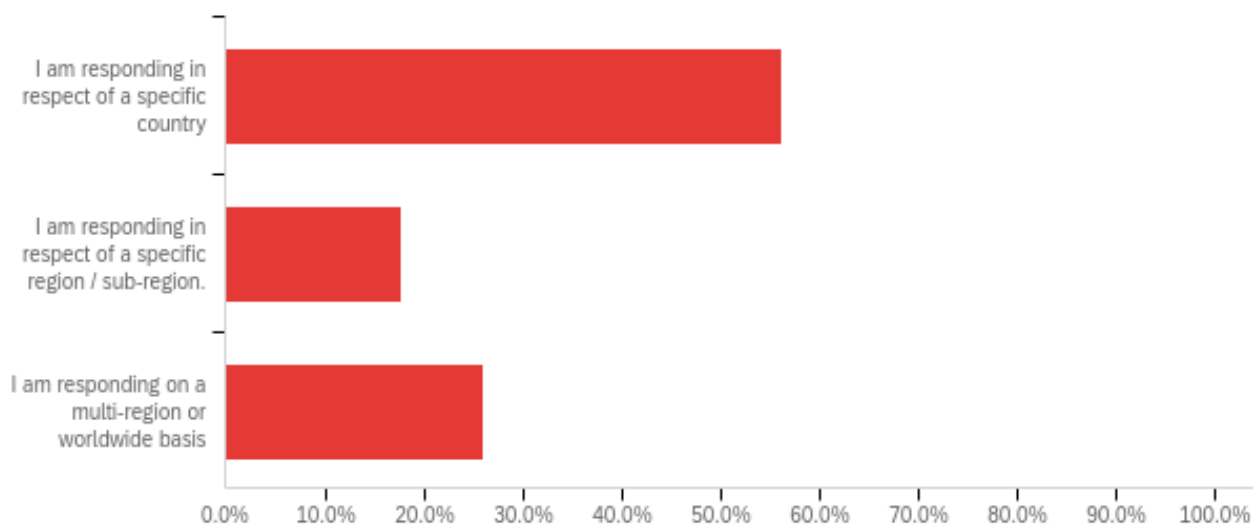
### **What would you ask?**

# Appendix: On-line Survey Results

## 2022 Inflation Survey

July 18th 2022

Please indicate the geographic context for your reply:

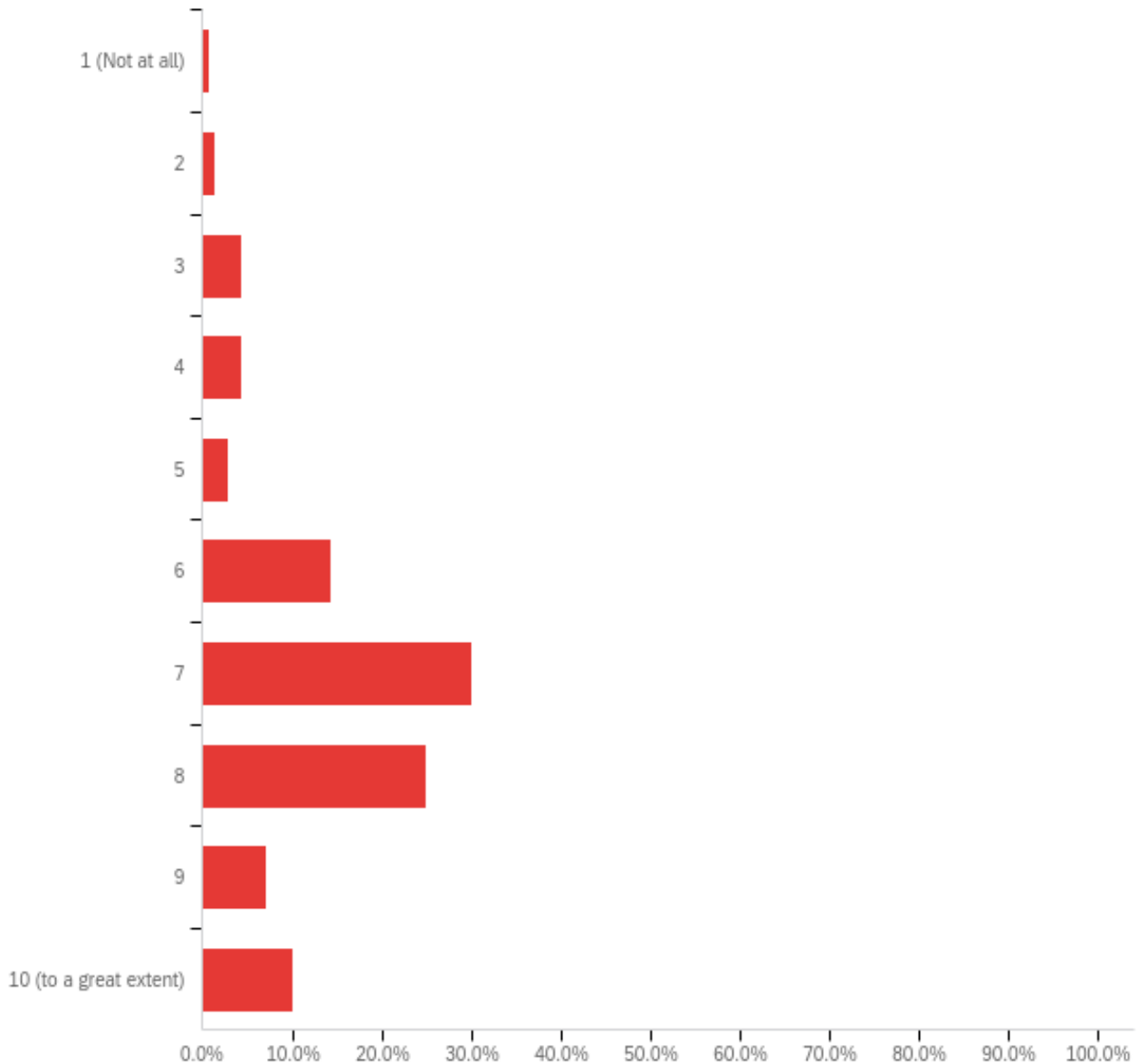


| # | Please indicate the geographic context for your reply:        | Percentage |
|---|---|------------|
| 4 | I am responding in respect of a specific country              | 56.2%      |
| 5 | I am responding in respect of a specific region / sub-region. | 17.8%      |
| 6 | I am responding on a multi-region or worldwide basis          | 26.0%      |
|   | <b>Total</b>  | <b>443</b> |

| # | Please respond to this survey as either a buyer or supplier of goods and services. | Percentage |
|---|--|------------|
| 1 | I am responding as a supplier  | 58.7%      |
| 2 | I am responding as a buyer   | 41.3%      |

THE FOLLOWING SECTION CONTAINS RESPONSES FROM BUYERS ONLY

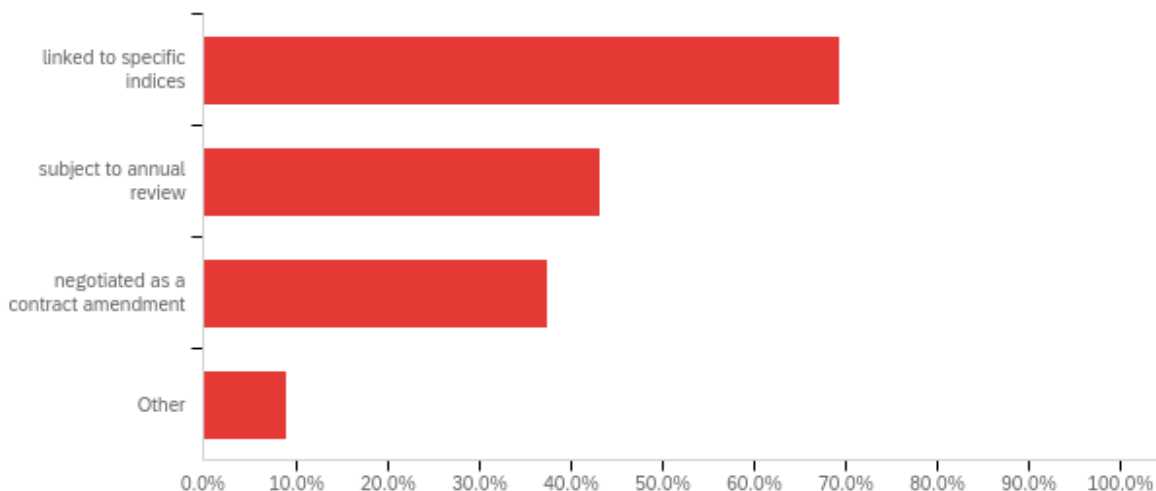
Overall, to what extent do you feel that inflationary pressures are resulting in increased tension between buyers and suppliers.



Do your contracts typically contain cost / price change provisions?

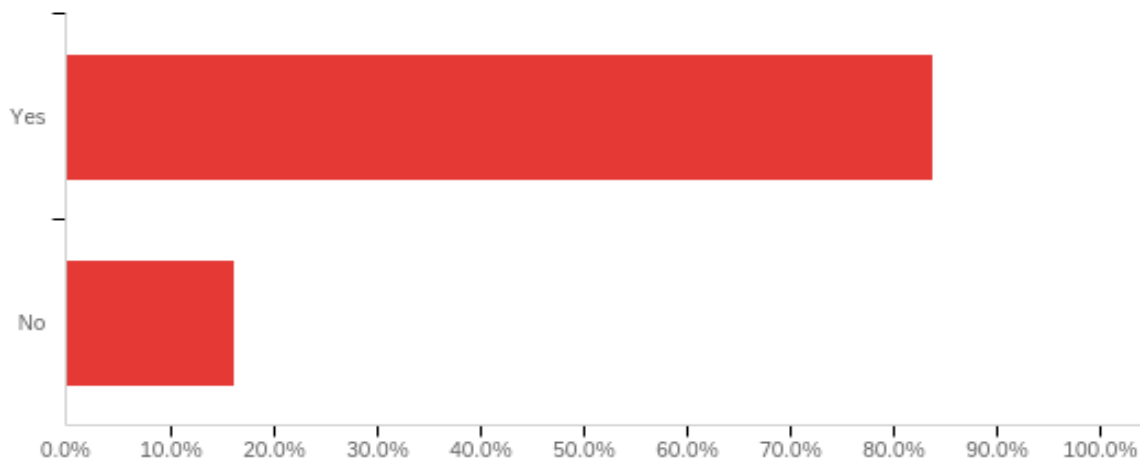
| # | Do your contracts typically contain cost / price change provisions | Percentage |
|---|--|------------|
| 1 | Yes  | 67.4%      |
| 2 | No   | 32.6%      |

Which of the following apply



| # | Which of the following apply - Selected Choice | Percentage |
|---|--|------------|
| 1 | linked to specific indices                     | 69.3%      |
| 2 | subject to annual review                       | 43.2%      |
| 3 | negotiated as a contract amendment             | 37.5%      |
| 4 | Other  | 9.1%       |

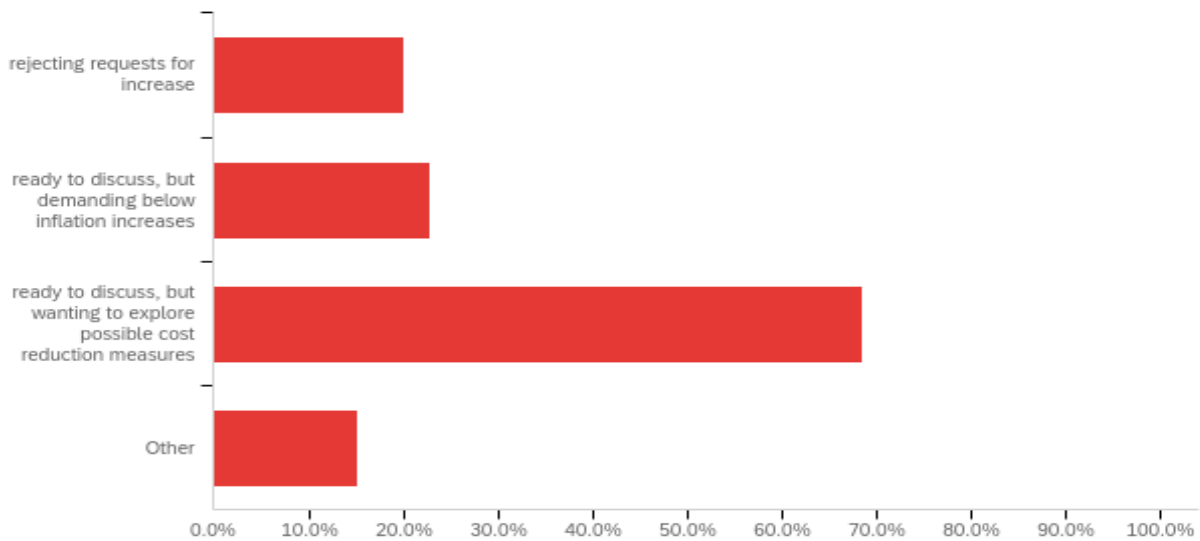
Given current inflationary conditions, are you experiencing significant pressure from suppliers for price increases?



| # | Given current inflationary conditions, are you experiencing significant pressure from suppliers for price increases? | Percentage |
|---|--|------------|
| 1 | Yes  | 83.7%      |
| 2 | No   | 16.3%      |

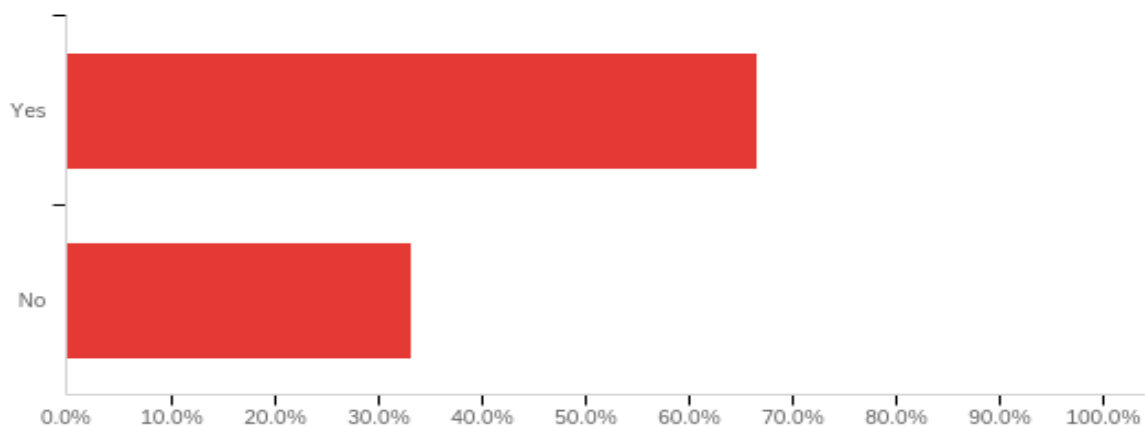


How are you typically responding? (Select all that apply)



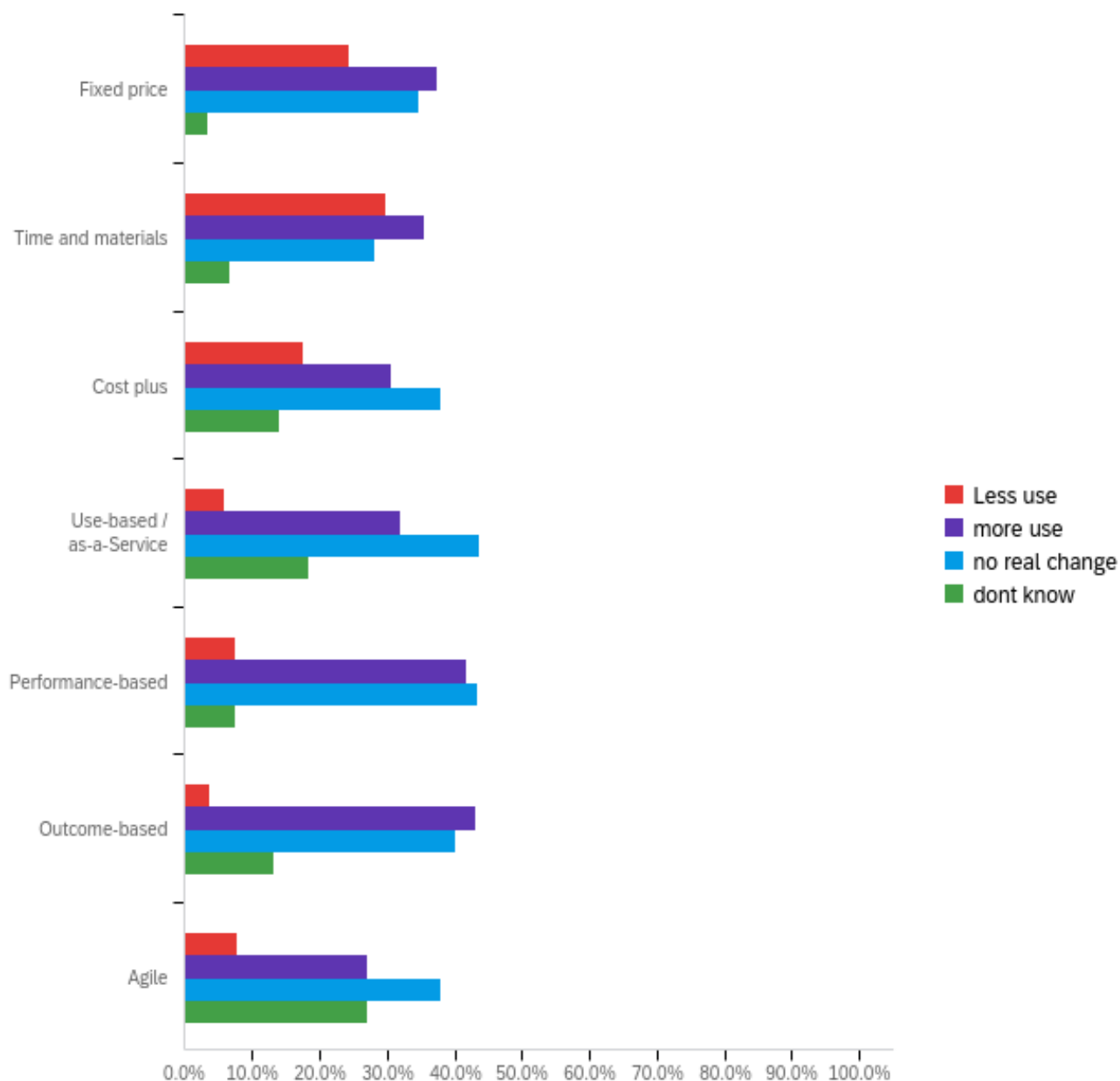
| # | How are you typically responding? (Select all that apply) - Selected Choice | Percentage |
|---|---|------------|
| 1 | rejecting requests for increase   | 20.0%      |
| 2 | ready to discuss, but demanding below inflation increases                   | 22.9%      |
| 3 | ready to discuss, but wanting to explore possible cost reduction measures   | 68.6%      |
| 4 | Other   | 15.2%      |

Given current pressures, have you, or do you plan to, insert new or additional clauses relating to price increases into your future contracts?



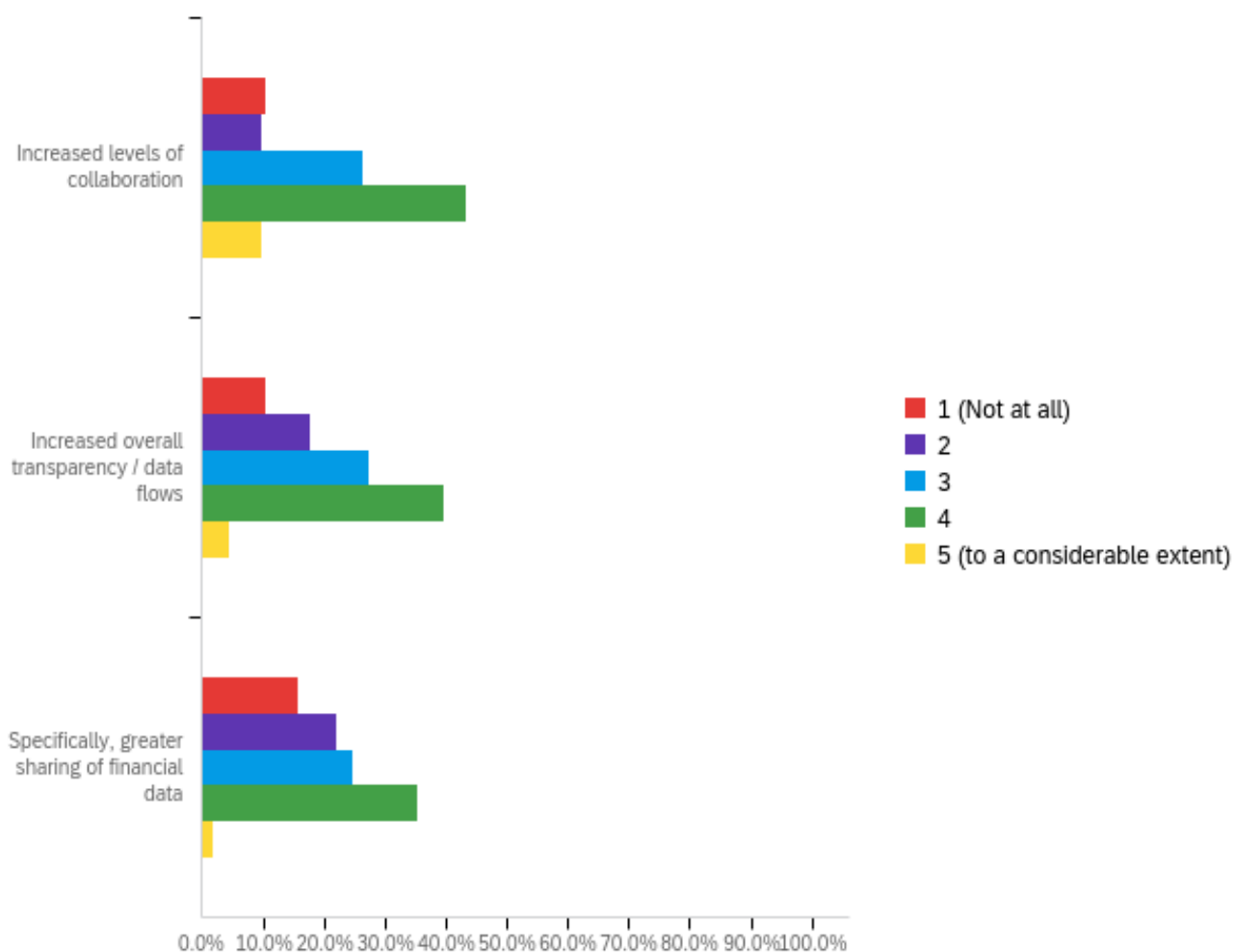
| # | Given current pressures, have you, or do you plan to, insert new or additional clauses relating to price increases into your future contracts? | Percentage |
|---|--|------------|
| 1 | Yes  | 66.7%      |
| 2 | No   | 33.3%      |

Given current pressures, have you, or do you anticipate, altering the pricing / charging or contracting models being sought?



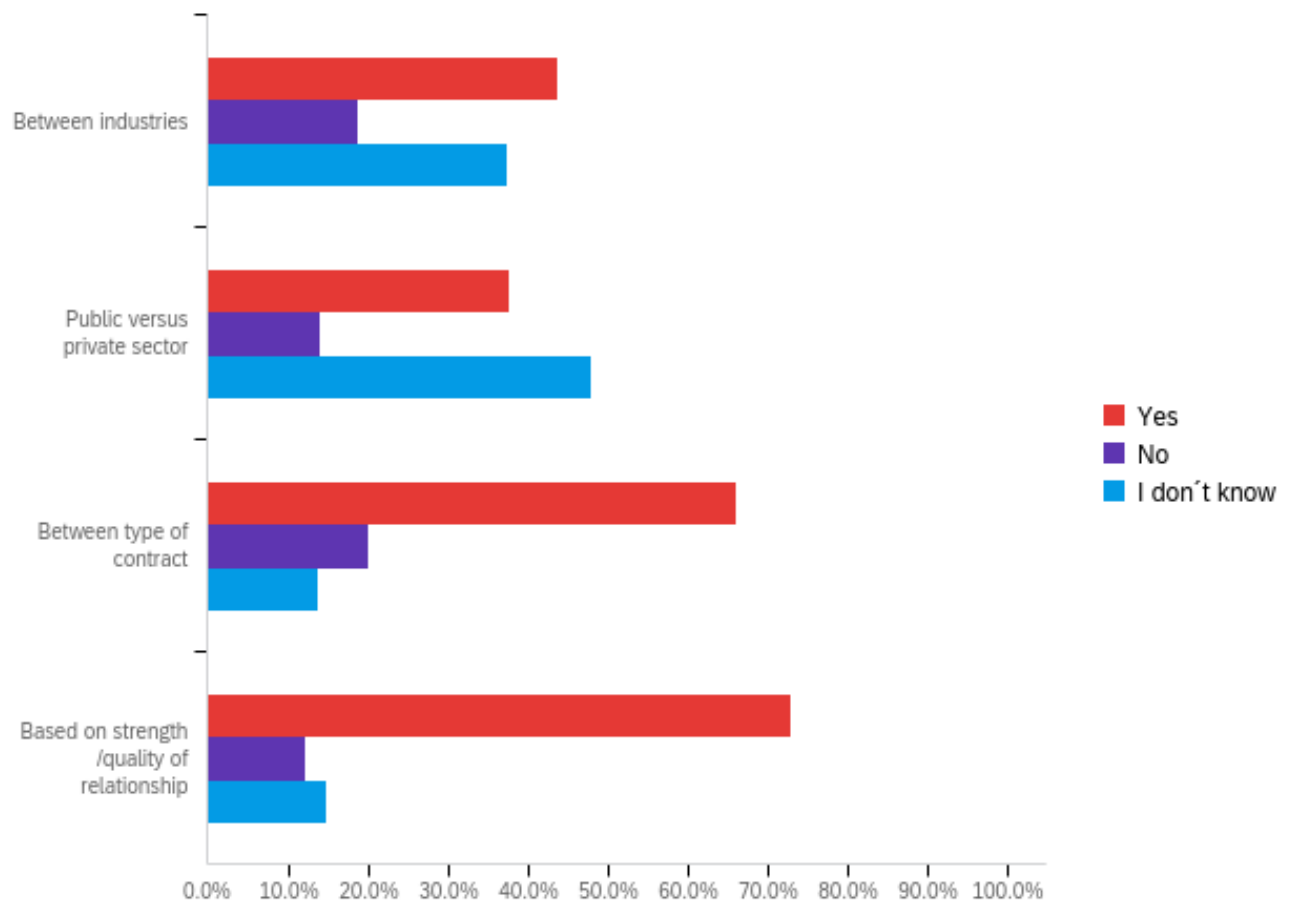
| # | Question                 | Less use | more use | no real change | dont know |
|---|--------------------------|----------|----------|----------------|-----------|
| 1 | Fixed price              | 24.3%    | 37.4%    | 34.8%          | 3.5%      |
| 2 | Time and materials       | 29.9%    | 35.5%    | 28.0%          | 6.5%      |
| 3 | Cost plus                | 17.6%    | 30.6%    | 38.0%          | 13.9%     |
| 4 | Use-based / as-a-Service | 5.8%     | 32.0%    | 43.7%          | 18.4%     |
| 5 | Performance-based        | 7.4%     | 41.7%    | 43.5%          | 7.4%      |
| 6 | Outcome-based            | 3.7%     | 43.0%    | 40.2%          | 13.1%     |
| 7 | Agile                    | 7.8%     | 27.2%    | 37.9%          | 27.2%     |

WorldCC research showed an expectation that the sequence of disruptive events starting with COVID would lead to shifts in market behavior. To what extent are you experiencing any of the following trends:



| # | Question  | 1 (Not at all) | 2     | 3     | 4     | 5 (to a considerable extent) |
|---|---|----------------|-------|-------|-------|------------------------------|
| 3 | Specifically, greater sharing of financial data | 15.9%          | 22.1% | 24.8% | 35.4% | 1.8%                         |
| 2 | Increased overall transparency / data flows     | 10.6%          | 17.7% | 27.4% | 39.8% | 4.4%                         |
| 1 | Increased levels of collaboration               | 10.6%          | 9.7%  | 26.5% | 43.4% | 9.7%                         |

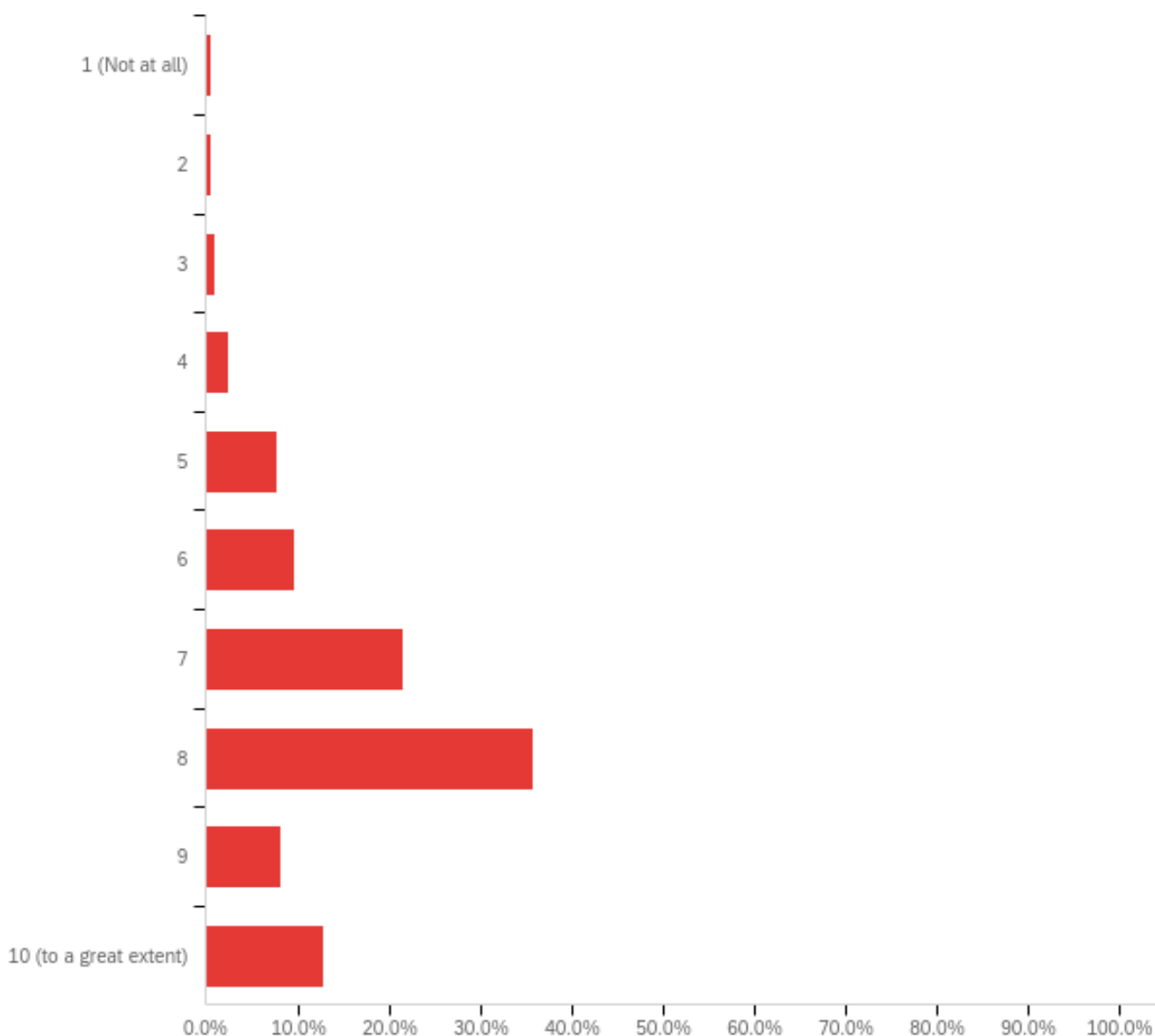
In the context of your answers to the questions above, are you observing discernible market variations in approach, for example:



| # | Question                                   | Yes   | No    | I don't know |
|---|--|-------|-------|--------------|
| 2 | Public versus private sector               | 37.7% | 14.2% | 48.1%        |
| 3 | Between type of contract                   | 66.1% | 20.2% | 13.8%        |
| 1 | Between industries                         | 43.9% | 18.7% | 37.4%        |
| 4 | Based on strength /quality of relationship | 72.9% | 12.1% | 15.0%        |

THE FOLLOWING SECTION CONTAINS RESPONSES FROM SUPPLIERS ONLY

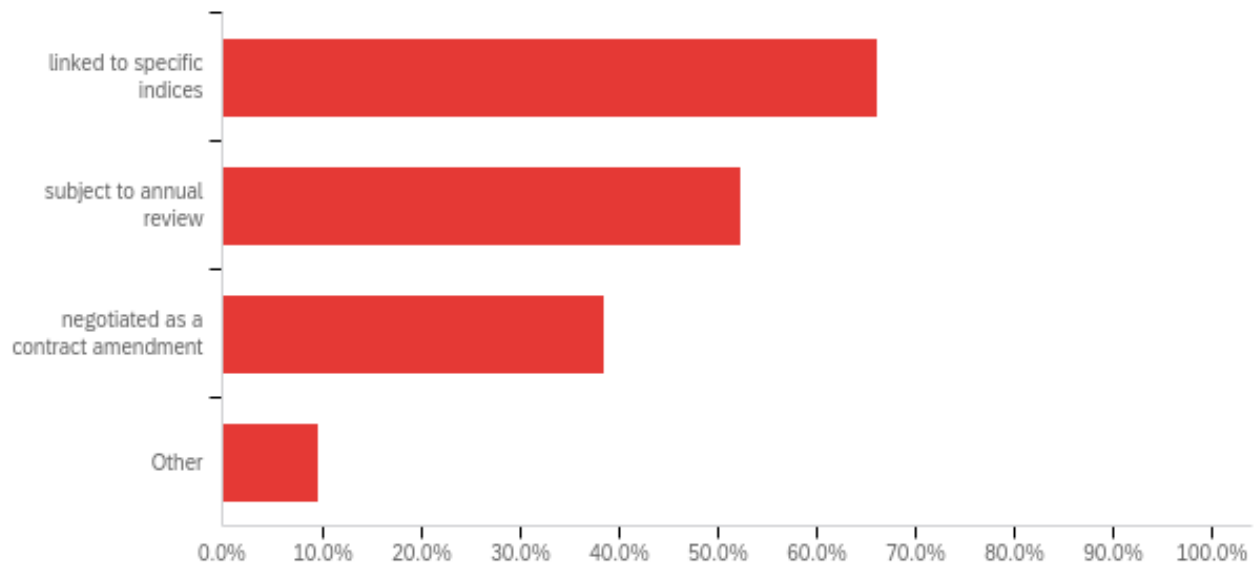
Overall, to what extent do you feel that inflationary pressures are resulting in increased tension between buyers and suppliers.



Do your contracts typically contain cost / price change provisions?

| # | Do your contracts typically contain cost / price change provisions | Percentage |
|---|--|------------|
| 1 | Yes  | 71.0%      |
| 2 | No   | 29.0%      |

Which of the following apply

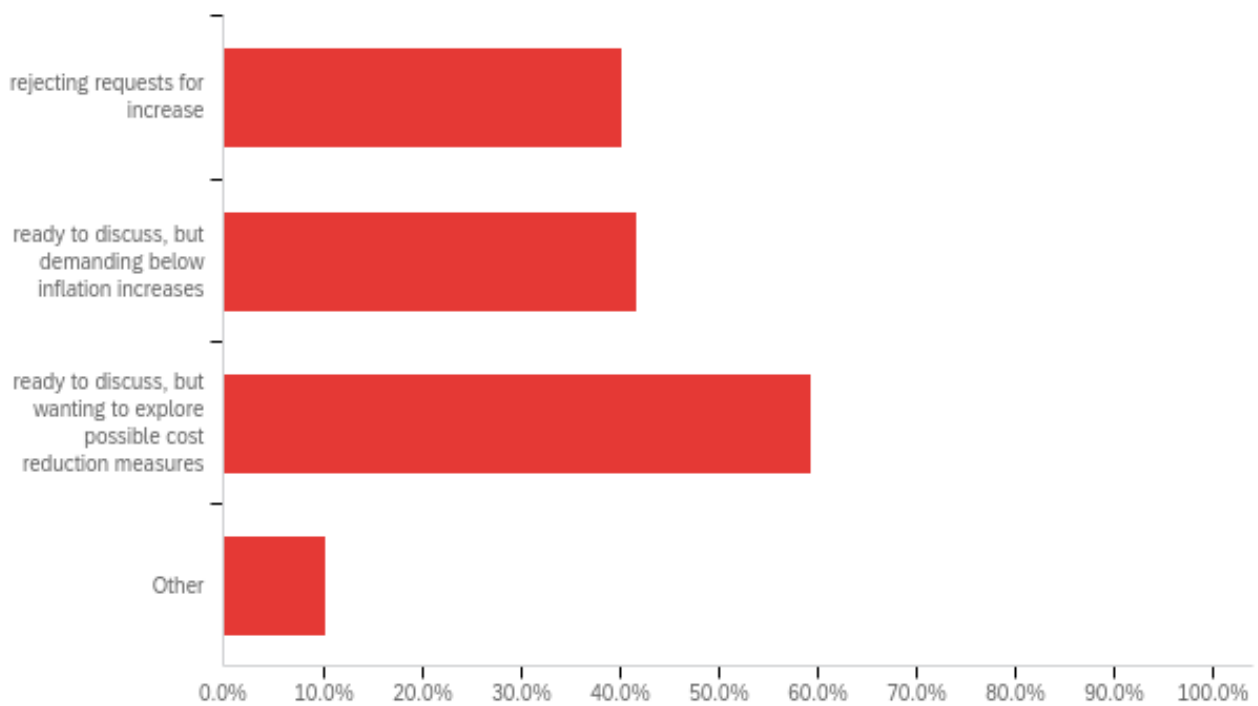


| # | Which of the following apply - Selected Choice | Percentage |
|---|--|------------|
| 2 | subject to annual review                       | 52.4%      |
| 3 | negotiated as a contract amendment             | 38.6%      |
| 1 | linked to specific indices                     | 66.2%      |
| 4 | Other  | 9.7%       |

Given current inflationary conditions, are you actively seeking to increase prices / charges?

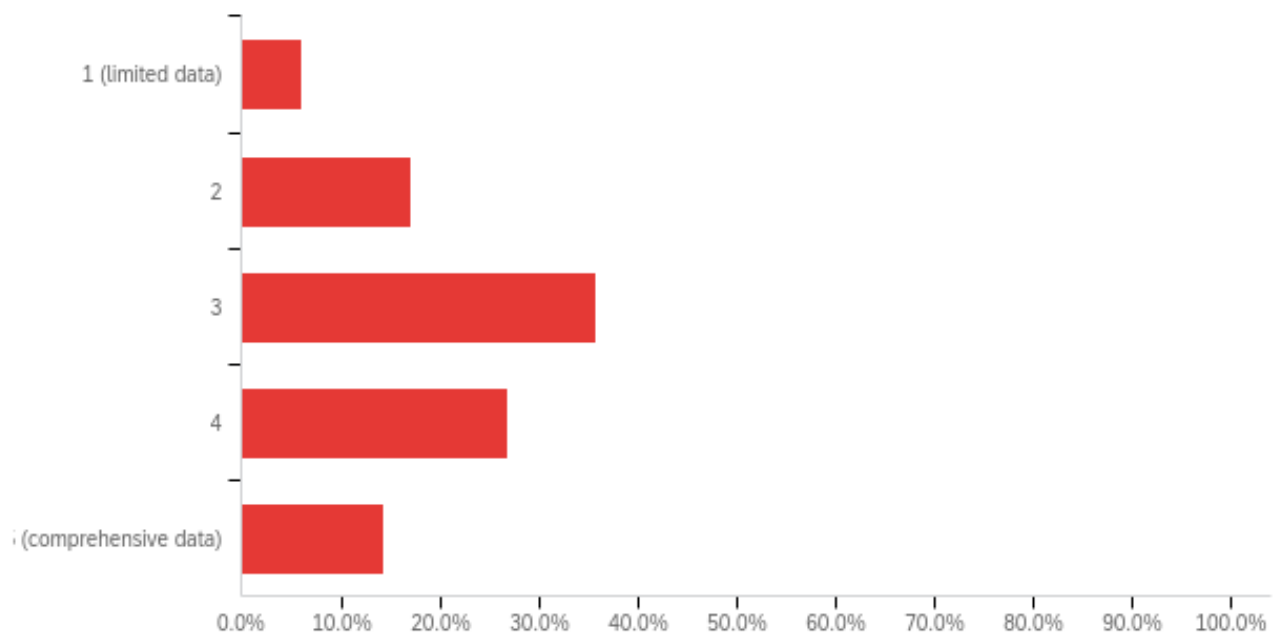
| # | Given current inflationary conditions, are you actively seeking to increase prices / charges? | Percentage |
|---|---|------------|
| 1 | Yes   | 82.8%      |
| 2 | No  | 17.2%      |

How are customers typically responding? (Select all that apply)



| # | How are customers typically responding? (Select all that apply) - Selected Choice | Percentage |
|---|---|------------|
| 1 | rejecting requests for increase   | 40.2%      |
| 3 | ready to discuss, but wanting to explore possible cost reduction measures         | 59.3%      |
| 2 | ready to discuss, but demanding below inflation increases                         | 41.8%      |
| 4 | Other   | 10.3%      |

To what extent do you have access to accurate data demonstrating actual changes in costs?



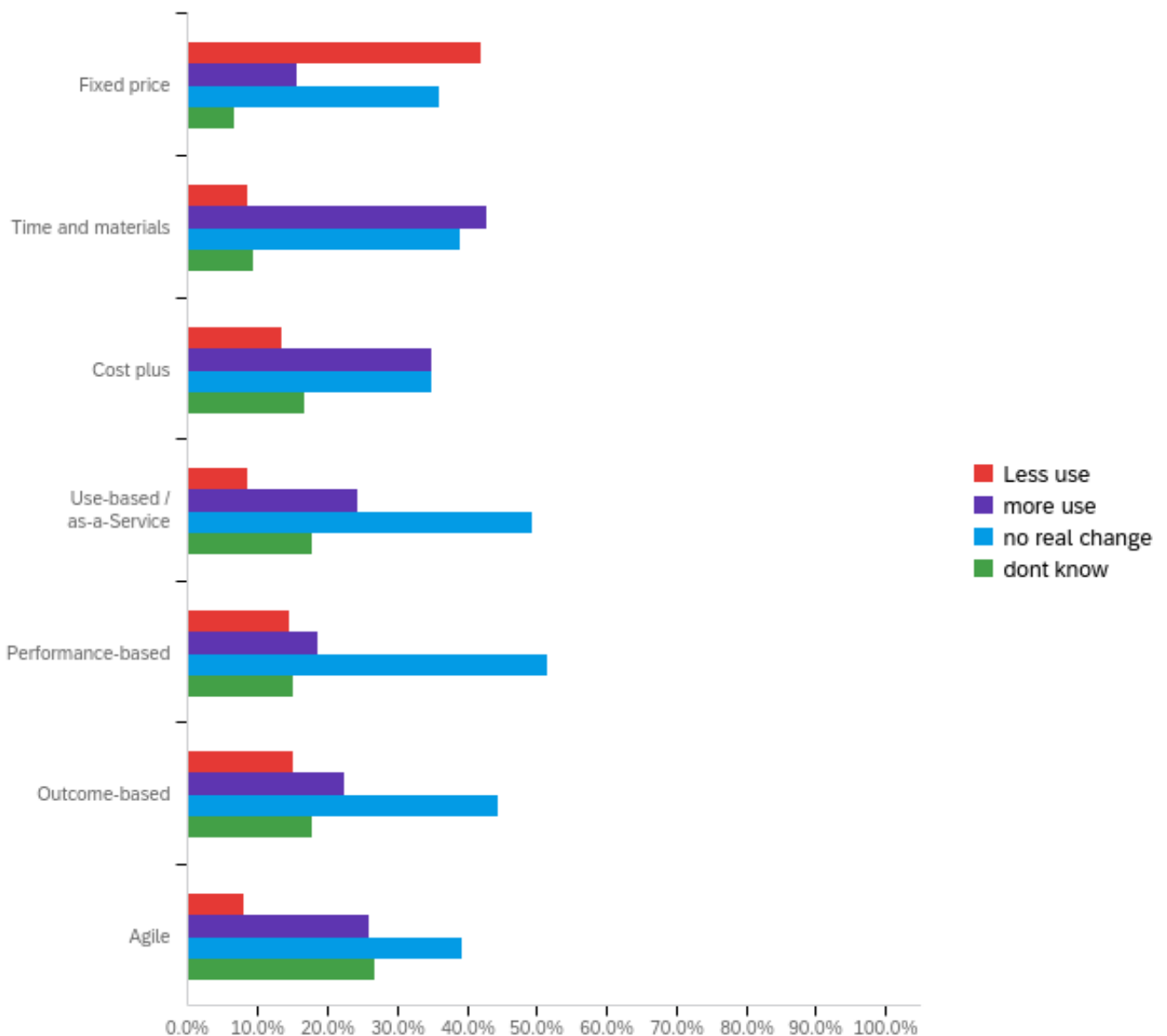
| # | Data demonstrating actual changes in costs | Percentage |
|---|--|------------|
| 1 | 1 (limited data)                           | 6.0%       |
| 2 | 2  | 17.0%      |
| 3 | 3  | 35.7%      |
| 4 | 4  | 26.9%      |
| 5 | 5 (comprehensive data)                     | 14.3%      |

Given current pressures, have you, or do you plan to, insert new or additional clauses relating to price increases into your future contracts?

| # | Given current pressures, have you, or do you plan to, insert new or additional clauses relating to price increases into your future contracts? | Percentage |
|---|--|------------|
| 1 | Yes  | 76.2%      |
| 2 | No   | 23.8%      |

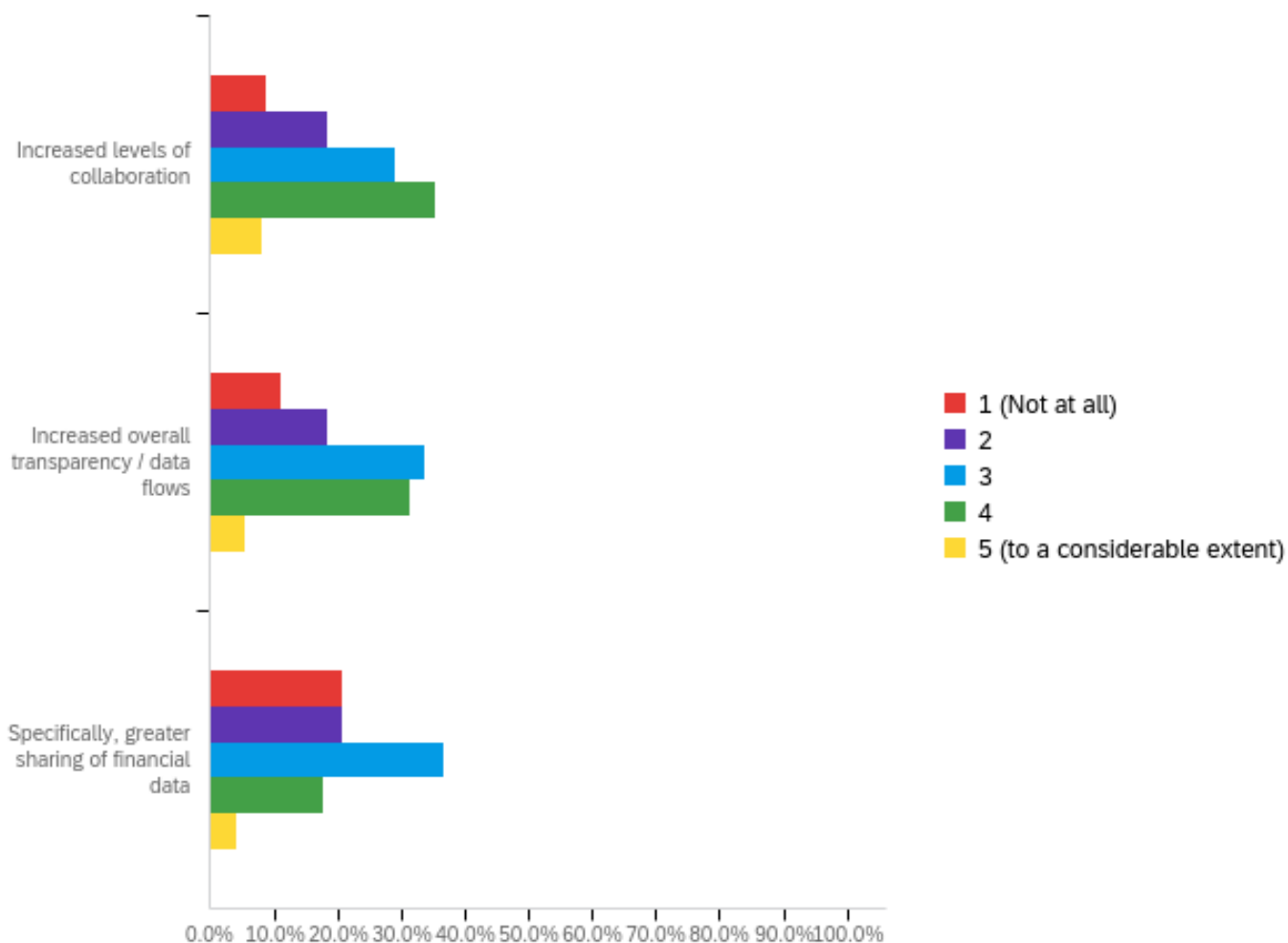


Given current pressures, have you, or do you anticipate, altering the pricing / charging or contracting models that you propose?



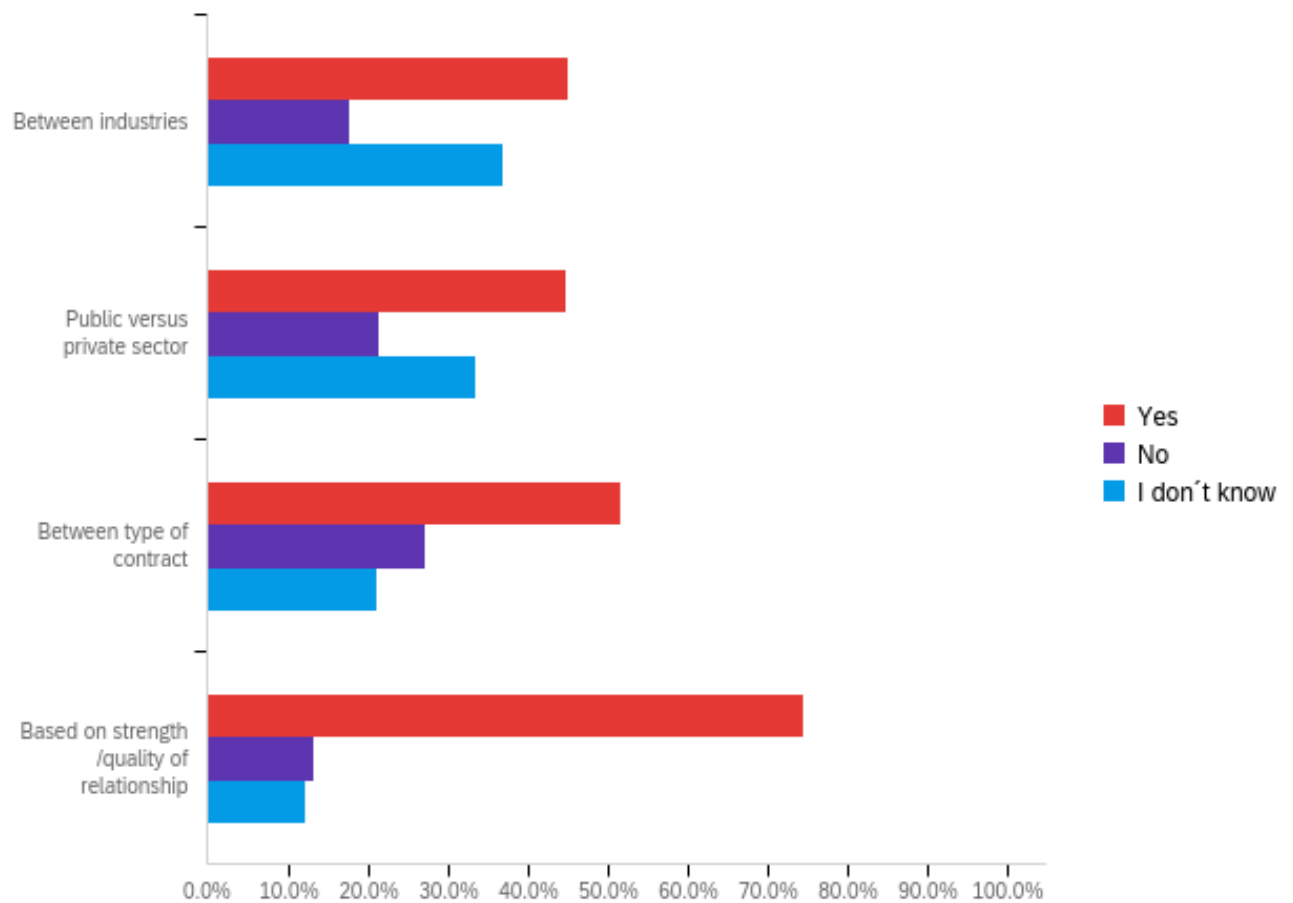
| # | Question                 | Less use | more use | no real change | dont know |
|---|--------------------------|----------|----------|----------------|-----------|
| 4 | Use-based / as-a-Service | 8.6%     | 24.3%    | 49.3%          | 17.8%     |
| 2 | Time and materials       | 8.7%     | 42.9%    | 39.1%          | 9.3%      |
| 5 | Performance-based        | 14.6%    | 18.5%    | 51.7%          | 15.2%     |
| 6 | Outcome-based            | 15.2%    | 22.5%    | 44.4%          | 17.9%     |
| 1 | Fixed price              | 41.9%    | 15.6%    | 35.9%          | 6.6%      |
| 3 | Cost plus                | 13.5%    | 34.8%    | 34.8%          | 16.8%     |
| 7 | Agile                    | 8.0%     | 26.0%    | 39.3%          | 26.7%     |

WorldCC research showed an expectation that the sequence of disruptive events starting with COVID would lead to shifts in market behavior. To what extent are you experiencing any of the following trends:



| # | Question  | 1 (Not at all) | 2     | 3     | 4     | 5 (to a considerable extent) |
|---|---|----------------|-------|-------|-------|------------------------------|
| 3 | Specifically, greater sharing of financial data | 20.7%          | 20.7% | 36.7% | 17.8% | 4.1%                         |
| 2 | Increased overall transparency / data flows     | 11.2%          | 18.3% | 33.7% | 31.4% | 5.3%                         |
| 1 | Increased levels of collaboration               | 8.9%           | 18.3% | 29.0% | 35.5% | 8.3%                         |

In the context of your answers to the questions above, are there discernible market variations, for example:



| # | Question                                   | Yes   | No    | I don't know |
|---|--|-------|-------|--------------|
| 1 | Between industries                         | 45.2% | 17.8% | 36.9%        |
| 2 | Public versus private sector               | 44.9% | 21.5% | 33.5%        |
| 3 | Between type of contract                   | 51.6% | 27.1% | 21.3%        |
| 4 | Based on strength /quality of relationship | 74.5% | 13.4% | 12.1%        |

## About WorldCC

WorldCC is a not-for-profit association active in over 175 countries, with a mission to improve the quality and integrity of trading relationships. With more than 62,000 members representing over 20,000 organizations, WorldCC is dedicated to raising individual, organizational and institutional capabilities in contracting and commercial management. It achieves this by providing research, benchmarking, learning, certification and advisory services to a worldwide, cross-industry audience of practitioners, executives and government.

