WHITEPAPER

PROCUREMENT IN THE NORDICS 2020

Sponsored by: OpusCapita

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EXECUTIVE SUMMARY

- → Procurement teams in the Nordics are among the most advanced in the world but are still focused on cost reduction. While they are generally operating strategically, managing complexity is hindering progress.
- → For cultural reasons, procurement teams in the Nordics often operate a hybrid model where some procurement is centralized while other responsibilities remain localized. Many consider this model the optimum as it allows businesses to retain local relationships while also benefiting from the increased efficiency and commercial leverage that comes from centralization. Hybrid models do add a little complexity though, so there is a cost to this operating model.
- → The procurement of services represents the biggest challenge. Services contracts can be hard to specify, negotiate and measure. The challenge presented by services is only set to increase as more spend categories switch from being product based to service based due to changing supplier business models.
- → Technology has played a big part in the simplification of procurement processes, but investment has focused on physical supply chains and tactical spend. Managers of services spending utilize whichever tools they have available be that an ERP or e-procurement platform. Many services buyers in the Nordic, and elsewhere in the world do not have access to systems optimized for the sourcing and management of services.

THE EVOLUTION OF THE PROCUREMENT FUNCTION

The procurement function is undergoing a fundamental change due to both its own past success and changing pressures from those the function supports. Leading procurement functions have reached a point of diminishing returns in their pursuit of cost reductions and have proven their ability to have a strategic impact on the business. These advanced functions often choose to focus next on fostering supplier enabled innovation. Operational procurement does not disappear, but these functions tend to remove complexity and apply technology to reduce the pressure it places upon the function.

The current wave of procurement transformation is defined by three key areas of change:

1. **From price to value:** Price will always be an important measure for the procurement function, but for procurement to advance price reduction can't be the primary objective. In order to make business-value based procurement decisions procurement teams must have the skills and connections to assess the business impact of differing solutions. This can be extremely complex to assess for some areas of spending.
2. **Centralization:** The centralization of the procurement function is closely related to the advancement of the function. Centralized functions can have greater power internally and externally and better drive consistency and efficiency. This must be done without losing connections with local stakeholders and suppliers though, so most businesses maintain a local presence.
3. **Supplier Collaboration:** Once pricing has been optimized and procurement begin seeking greater business value, the best path forward with many suppliers is greater collaboration. Collaboration with suppliers requires a new skill set and far more open communication. Collaboration is also time consuming, so while it is highly valuable it does not reduce resource pressures on the function.

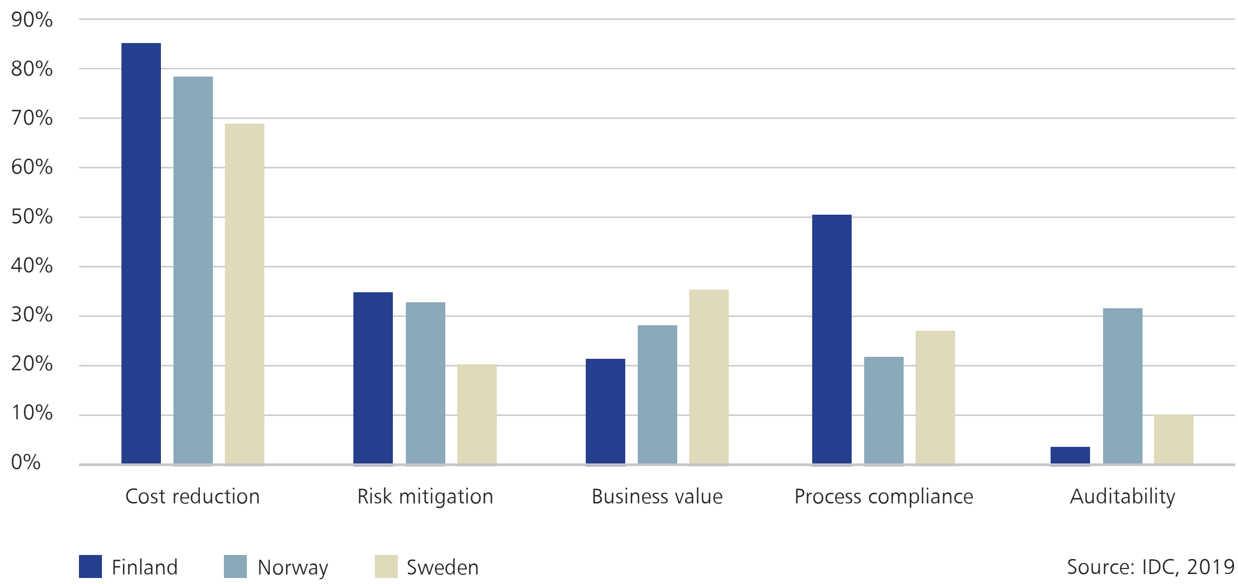
PROCUREMENT IN THE NORDICS

Procurement functions in the Nordics are relatively advanced and on a par with their equivalents in the rest of Western Europe and the United states. The sophistication of procurement varies by industry and the Nordic countries are home to several industries where strong procurement is essential, such as the manufacturing sector in Sweden.

When we ask procurement functions in the Nordics what their objectives are (Figure 1) we can see that business value is often one of the top two priorities. From the same figure we could conclude that Sweden is home to the region's most advanced procurement functions, due to the more closely balanced prioritization of cost reduction and business value.

As with procurement function in the rest of Western Europe, the reality is that the majority of functions continue to focus on cost reduction, while risk mitigation and business value creation come a close second. This picture is changing quickly though, as procurement functions begin to accept that not all risk or uncertainty is bad, and that business value will ultimately overtake cost reduction.

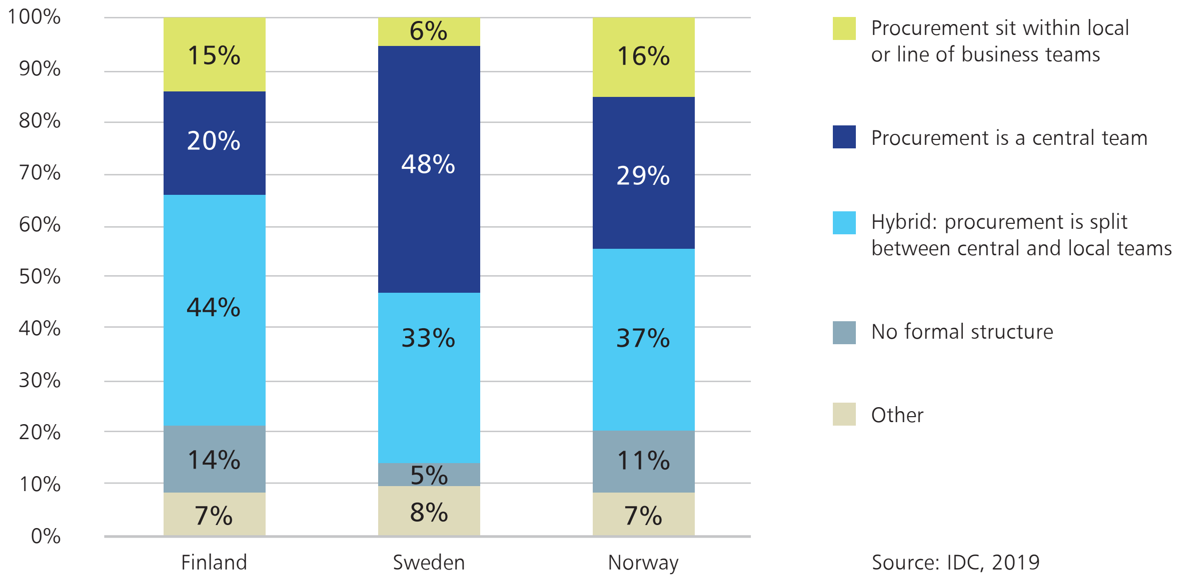
FIGURE 1 | Which are your two most important procurement objectives?



Source: IDC, 2019

The majority of Nordic procurement teams are also to some degree centralized, in each country at least two thirds of firms are either centralized or hybrid in nature. This region does seem to have a particular preference for the hybrid model (Figure 2), which proponents describe as being the best of both worlds, with the power and efficiency of centralization combining with some local freedom. The hybrid model may be popular due to its fit with Nordic business culture, where flat management structures and delegated decision making are the norm.

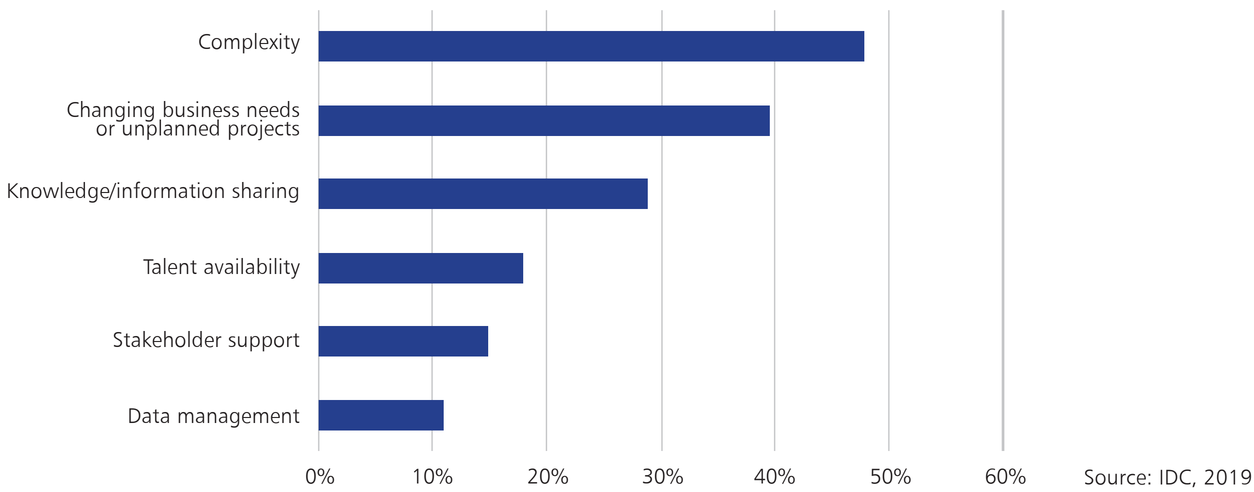
FIGURE 2 | Procurement operating model



THE CHALLENGES

It is widely accepted that the procurement function must transform and focus on maximizing the value each supplier relation creates for the business, yet the majority of businesses are still measuring their performance on cost reduction.

FIGURE 3| What are the biggest challenges faced by procurement?



The tendency to measure on cost reduction emerges because of some major barriers which both prevent transformation and can compromise the day to day operation of the procurement function. If we ask Nordic procurement functions which challenges they face (Figure 3) complexity is highlighted by nearly half of all respondents. Procurement faces a particular challenge with complexity – procurement as an explicit function is relatively new – and this challenge is typical for any newer business function. Complexity has been accumulating since the founding of the business and can double when a merger or acquisition occurs. It can take procurement functions many years to remove this complexity through standardization and rationalization.

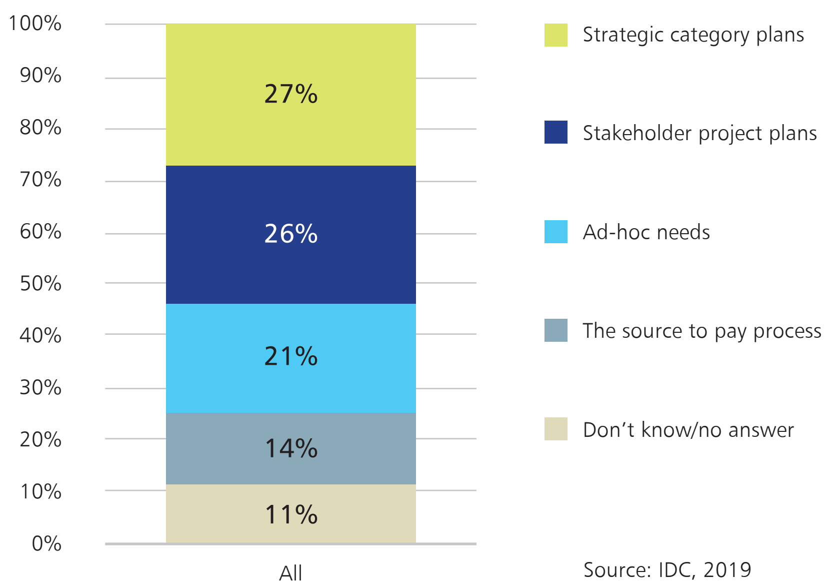
Complexity can take several forms, each of which must be tackled with differing methods:

1. Supply base complexity: Over complexity of the supply base must be addressed through a business wide effort to identify and rationalize suppliers with overlapping capabilities. Good spend data is a prerequisite for doing this at scale. In the Nordics 24% of businesses have a low spend concentration, whereby the top 10% of their supplier base represents less than 40% of their spend.
2. Process complexity: Procurement functions have historically had to use processes to control spending, in many cases this has resulted in complex procurement processes with multiple approvals and other steps required. Technology has an important role in addressing this.
3. Product and service complexity: For many businesses the very nature of the products and services purchased provides an element of complexity.
4. System complexity: Procurement systems have often emerged from stand-alone systems with limited integration to the main enterprise resource planning (ERP) system. In addition, different types of products and services may have separate systems. Acquisitions and mergers add to complexity by introducing additional systems. As a consequence, the related processes also becomes complex or broken.

The main impact of complexity along with the second most common challenge - changing business needs and unplanned projects - is that the procurement function is unable to be proactive and can only operate in a transactional fashion. In the Nordics 53% of businesses are working in accordance with either their category plans, or stakeholder project plans (Figure 4), so will be in a position to tackle complexity and improve their function. For the remaining 47%, progress will be difficult and slow.

In the Nordics the availability of talent is not seen as a standout challenge. In other parts of the world this is often cited as the most significant challenge for the procurement function.

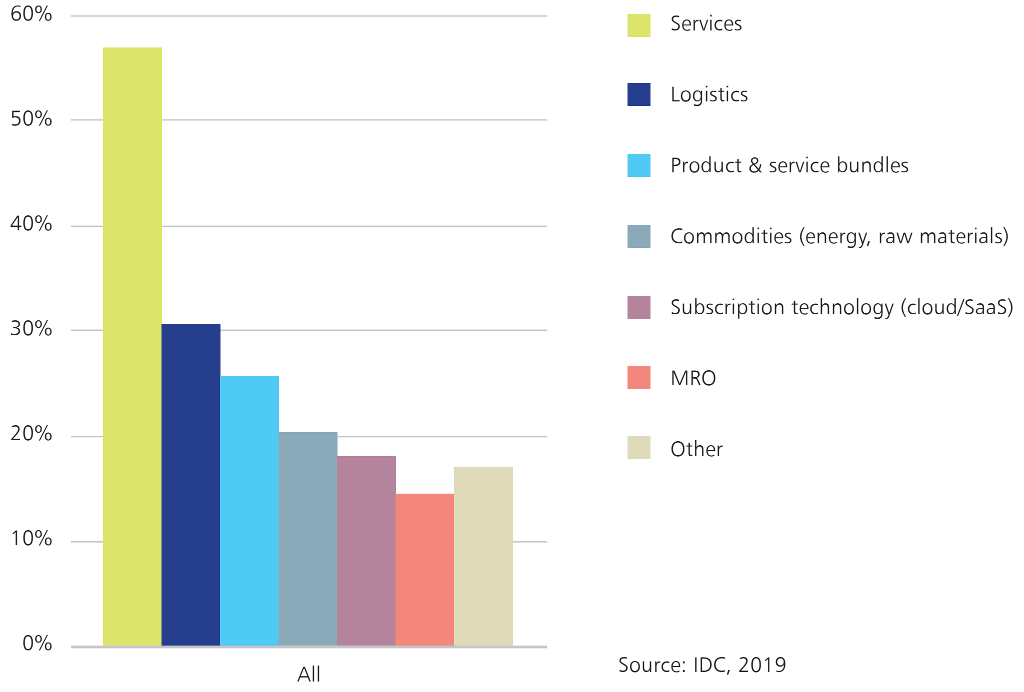
FIGURE 4 | Which process drives the day-to-day work of your procurement team?



Source: IDC, 2019

Digging more deeply into the challenges procurement teams in the Nordics face (Figure 5) we see that certain categories stand out, and services and logistics top the list. The top of the list is dominated by categories with complex deliverables, rather than those with complex supply markets . While services do not have the high transaction rates of tactical "tail spend" or the negotiation challenges of commodities, the process of establishing customer needs, sourcing these and then embedding the deliverables in a contract and service level agreement is a time consuming process. Part of the challenge with services procurement is always having to consider what might have been omitted or gone unspecified. Thankfully, modern e-procurement solutions are able to aggregate supplier catalogs with virtually unlimited numbers of items so if it may be easier to pull in a catalog of 1 million items rather than negotiate it down to the 30,000 you might think you need.

FIGURE 5 | Which of the following category areas present the greatest challenges?



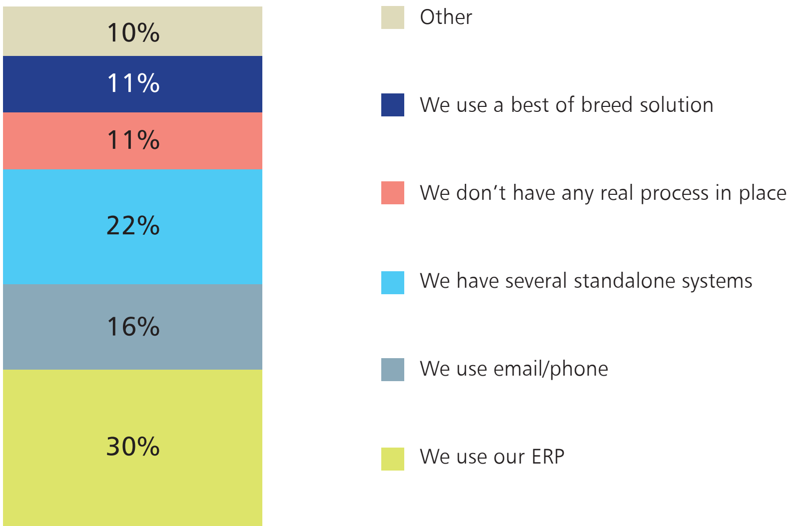
Source: IDC, 2019

Many industries are going through a process of introducing new business models, often a result of digital transformation. Many businesses are choosing to move to service business models, joining the "as-a-service" trend. This and continued outsourcing means that the proportion of spend that is classified as services continues to rise, placing a pressure on the procurement function to improve the ways it handles the procurement and management of services contracts. Procurement skills, processes and technology must adapt to better enable businesses to operate int the services economy.

MANAGING SERVICES

A key part of measuring savings, as well as business value contribution is measuring and reporting on performance during and after service delivery. Businesses with enterprise resource planning (ERP) software will tend to have access to business processes that enable the tracking of product delivery and recording and reporting of quality. These processes don't tend to be optimized for services though, and often are unable to capture the necessary details of services rendered to enable insightful reporting. Those without access to ERP systems may have access to an appropriate technology solution or may fall back on email and phone-based processes (Figure 6).

FIGURE 6| How would you best describe the purchasing of indirect goods & services?

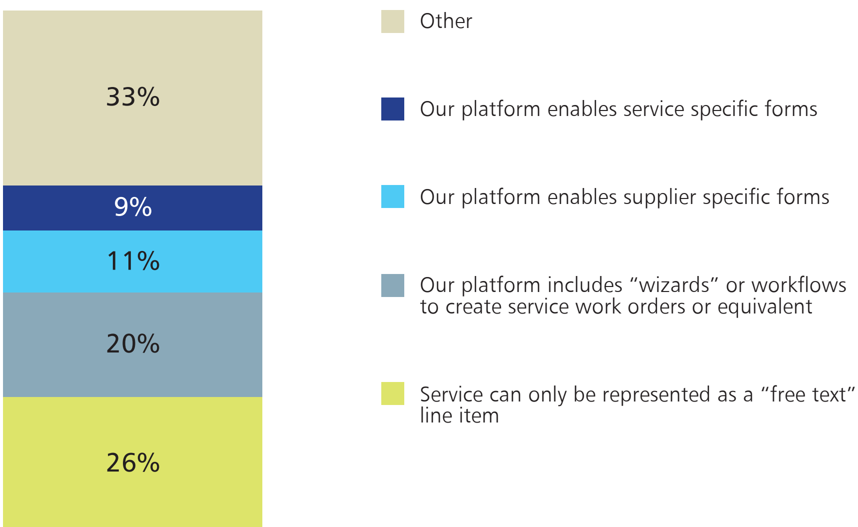


Businesses of >1000 people

Source: IDC, 2019

Procurement technology was initially designed to handle products more than services, and in many cases has struggled to keep up with customer demand for functionality to optimize the handling of services. A quarter of businesses say they can only enter services as single line items within their procurement systems, while 40% of businesses have some sort of form or wizard capability to handle services (Figure 7).

FIGURE 7| How well does your current technology handle your most complex service orders?



Businesses of >1000 stuff

Source: IDC, 2019

CLOSING ADVICE FOR THE TECHNOLOGY BUYER

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The structure of the procurement function and the spend profile of the business have a strong influence on the technology needs of a business. This is even more the case as the procurement function moves from being transaction to a strategic function collaborating internally and externally. The differentiator between procurement technologies these days is more likely to be in how the platforms assist with collaboration and complex spend categories, than in the underlying source to pay process. Artificial intelligence and big data analytics are beginning to make a mark on the procurement software market. Specific considerations in the assessment of procurement software include:

→ Internal integration: How well and economically can the system be integrated with other internal systems, particularly financial applications?

→ External integration: What are the systems capabilities to integrate supplier information, product/service catalogs and third-party marketplaces?

→ User Experience: How easy will users find it to learn and utilize the systems capabilities? This applies particularly to users who will be outside of the procurement function.

→ Reporting: How powerful is the reporting capability for both spend and supplier performance?

→ Spend category capabilities: Can the system handle the spend categories that matter to you without compromising processes and using workarounds? Does the system improve productivity and effectiveness of procurement in all spend categories?

→ Automation: Which parts of the process are automated? Which purchasing channels and/or spend categories are automated?

→ Compliance capabilities: Will the system provide the level of control for your business? How will you ensure your suppliers' adhere to your CSR or other certification requirements?

→ Collaboration: How well will the system support collaboration internally and externally? This will typically revolve around functionality that supports communication and data sharing between groups of people.

This report has been produced by IDC, and has been sponsored by OpusCapita. Questions related to this report can be directed to IDC at address given below, or to OpusCapita at opuscapita@opuscapita.com.

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