SupplyValue
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Procurement Trends 2018

Preface

In 2017 Supply Value celebrated its tenth anniversary and we conducted the procurement trends research for the 6th time.

2017 was a positive year for procurement, 2018 looks even more bright. The Dutch NEVI PMI rose from 57 in December 2016 to 62,2 in December 2017 and topics like adding value with procurement, innovation with suppliers, social and environmental return and streamlining supply chain processes using process mining and artificial intelligence are now on the boardroom table at most of our customers.

I'm happy to read that most organisations also realise that getting their basics in order and staying in control of their total costs are essential before they fully profit from the potential of innovation and value creation with their suppliers.

Two major trends that are key for success are ranked lower than I expected: data and talent.

Data about the performance of suppliers, the value chain, and the internal performance of procurement is in my view essential for developing sustainable procurement strategies and for monitoring the realisation of the goals defined within these strategies. As organisations become more and more mature in purchasing, the key questions in this area become more and more complex. Therefore organisations need talent able to lead a multi-disciplinary team with business, technical, legal and commercial specialists. These procurement specialists of the future are scarce and will become even more scarce in the near future is my prediction.

Hopefully this report inspires you to plan and execute the right actions for your organisation. I would like to thank all respondents for their cooperation, IFPSM, NEVI and VIB for access to their networks and my colleagues Febe, Ramon and Mark for executing this research.

Discuss the implications for your organisation? Feel free to give me a call or send me an e-mail.

I wish you all a happy 2018!

Kind regards,

Menno van Drunen
Partner Supply Value

Executive summary

For the sixth time in a row, Supply Value conducted a research about the most important trends and priorities in the area of procurement. The results of this research can support procurement professionals when setting their priorities and can help them to determine their focus areas for the coming year.

As previous years, an online survey was developed. This online survey is distributed in cooperation with IFPSM, NEVI and VIB.

Characteristics respondents

Overall, 241 respondents living in more than 10 different countries completed the survey. Most of the respondents, 93%, works for an organisation that is primarily active in Europe. In total, 60% work for an organisation that operates in the Netherlands, followed by Belgium with 21%. The largest cooperation came from people who work in the manufacturing industry, no less than 27% of the respondents works in this industry. The second largest group of the respondents (15%) work at professional, scientific or technical service companies.

The majority of the respondents, 52%, work for a large organisation with more than 501 FTE. 34% of the respondents work within a procurement department with 1 – 4 FTE and 25% work within a procurement department with 5 – 10 FTE. In line with the results of last years, 52% of the respondents work on a strategic level, 41% of the respondents work on a tactical level, and only 6% of the respondents work on an operational level.

During the research, the respondents were also asked to rank the procurement maturity of their organisations. At this moment, the largest group (45% of the total) of the respondents state that the procurement position in their organisation fits best within the third (out of five levels) level of procurement maturity named 'Coordinated procurement'. Moreover, respondents were asked where they want to place their organisations in 2018, 53% of the respondents want their organisation to be on the fourth (out of five levels) level of 'Cross-functional procurement'.

Finally, the respondents were asked what their organisation would look like in the future. Overall, respondents are optimistic and think the future of their organisation looks 'positive' to 'very positive'.

Procurement trends 2018

In the online survey, we asked respondents to indicate how much priority their organisation is planning to give 27 topics (all related to procurement) in 2018. In the survey, we used a five-point scale, where 1 equals very low priority and 5 equals very high priority. The topics with the highest scores are the trends for the coming year. The top three procurement trends for 2018 are:

1. Optimize processes within the procurement role;
2. Total cost of ownership;
3. Supplier management;

Trend 1: Optimize processes within the procurement role

The number one trend for 2018 is 'Optimize processes within the procurement role'. The world as we know it becomes more competitive each day. Organisations have to come up with new products, improved services, lower costs, and minimalize risks to beat competition.

In order to do this successfully, both big data, artificial intelligence and blockchain (or other integration technologies) play a key role.

More and more, procurement is also seen as a discipline that can help organisations to achieve their strategic goals. However, the best way to structure and organise processes within the procurement role, is yet unclear. More importantly, how do we optimize these processes to get more efficient and effective over time?

Trend 2: Total Cost of Ownership

Cost reduction has been the most important topic within procurement for many years. This year, cost reduction remains in the top five procurement trends for 2018. However, organisations also acknowledge that lowering the initial costs of a product or service is not the only way to reduce costs. More and more organisations map the total direct and indirect costs (and risks) of products and services. This is labelled the total cost of ownership or total value added, the second trend for 2018.

Trend 3: Supplier management

The number three trend for 2018 is supplier management. Monitoring and improving the supplier performance, but also building a relationship based on trust are important topics for setting up an optimal supplier management process. In today's world, in which digitalization plays a key role, organisations need to manage both internal and external stakeholders in order to stay competitive. Hence, organisations need to leverage their own and partner organisation's resources through business relationships. Managing these business/supplier relationships is an important task for the procurement department.

Recommendations

For the top three trends for 2018, Supply Value has formulated multiple recommendations based on experience and expertise.

Trend 1: How to optimize processes within the procurement role?

Most important when optimizing processes, is to start with visualizing and describing all processes within the procurement department (also in relation with other departments). Invest in simple process flows and good templates and tooling. When the base is solid, the optimization of the processes can begin. One philosophy that can help optimizing processes is lean methodology. Within the lean methodology there are several tools/methods that can help improving the efficiency and effectiveness of the processes. Last, improving the structure of a procurement department can help to optimize procurement processes.

Trend 2: How to start with Total Cost of Ownership?

At first sight, TCO seems simple to comprehend but in reality we note that implementation of TCO is difficult. This is mainly due to three major reasons that prevent the adoption of TCO: culture, education and training, and resource allocation. To deal with these constraints, organisations can start with for example: shifting the mindset of employees, training the staff and gathering accessible data.

Trend 3: How to set up a Supplier management system/process?

There are several steps to set up an optimal supplier management process/system. First all suppliers must be idented and categorized. The Dutch Windmill model (Weele, 2010) is useful to categorize suppliers. Supply Value summarized the most important steps to set up supplier management. There are three steps in the preparation phase: contract, monitoring the performance/dashboard and organisation. Next, the supplier management process can be implemented. When implemented correctly, supplier management can help to achieve lower risks, costs and increased quality.

Management samenvatting Nederlands

Voor het zesde jaar op rij heeft Supply Value de belangrijkste trends binnen het inkoopvakgebied onderzocht. De resultaten van het onderzoek kunnen inkoop professionals helpen bij het stellen van prioriteiten voor het aankomende jaar.

Net zoals voorgaande jaren is een online enquête opgesteld. Deze online enquête is, in samenwerking met IFPSM, NEVI en VIB, internationaal verspreid.

Karakteristieken respondenten

In totaal hebben 241 respondenten uit meer dan 10 landen het onderzoek ingevuld. De meerderheid van de respondenten, 93%, werkt voor een Europese organisatie. Nederland is het sterkst vertegenwoordigd met 60% van de respondenten, gevolgd door België met 21%. Met 27% is de branche 'productie' net als voorgaande jaren de branche met het meestal aantal respondenten. De meeste respondenten, 52%, werken voor grote organisaties met 501 of meer FTE. 34% van de respondenten werkt op een inkoopafdeling met 1 – 4 FTE en 25% werkt op een inkoopafdeling met 5 – 10 FTE. In lijn met voorgaande jaren werken de meeste respondenten, 53%, op strategisch niveau gevolgd door 38% op tactisch niveau en 10% op operationeel niveau.

Tijdens het onderzoek is ook gevraagd naar de inkoopvolwassenheid van de organisaties waar respondenten werken. Op dit moment geven de meeste respondenten (45%) aan dat hun organisaties zich bevinden op het derde niveau (van de vijf niveaus) van volwassenheid 'Gecoördineerde inkoop'.

Als we vragen op welk niveau respondenten hun (inkoop)organisatie graag volgend jaar zien, antwoorden zij 'Cross-functionele inkoop' (niveau vier van de vijf niveaus).

Tot slot is aan de respondenten gevraagd hoe zij de toekomst van hun organisatie volgend jaar zien. Over het algemeen zijn ze optimistisch en denken ze 'positief' tot 'zeer positief' over de toekomst van hun organisatie.

Inkooptrends 2018

In de online enquête vroegen we de respondenten om aan te geven, bij 27 onderwerpen gerelateerd aan inkoop, hoeveel prioriteit zij volgend jaar van plan zijn dat onderwerp te geven. We gebruikten hierbij een vijfpuntschaal, waar 1 voor een hele lage prioriteit staat en waar 5 voor een hele hoge prioriteit staat. De top drie trends voor 2018 is:

1. Optimaliseren van processen binnen de inkoopfunctie
2. Total Cost of Ownership
3. Leveranciersmanagement

Trend 1: Optimaliseren van processen binnen de inkoopfunctie

De nummer één trend voor 2018 is het optimaliseren van processen binnen de inkoopfunctie. De wereld wordt steeds competitiever. Organisaties moeten nieuwe producten bedenken en verbeterde diensten leveren en daarnaast zorgen voor lagere kosten en minder risico's. Om dit succesvol te doen, spelen big data, Artificial Intelligence and blockchain (en andere technologieën) een belangrijke rol. Inkoop wordt steeds vaker gezien als een discipline die de organisatie kan helpen met het behalen van strategische doelstellingen. Aan de andere kant blijft de vraag bestaan hoe de inkoopfunctie het beste gestructureerd en ingericht kan worden. En wellicht net zo belangrijk, hoe inkoopprocessen continu kunnen worden geoptimaliseerd voor meer efficiency en effectiviteit.

Trend 2: Total Cost of Ownership

Kostenreductie is lange tijd het belangrijkste doel van inkoop geweest. Ook dit jaar blijft kostenreductie in de top vijf trends staan. Aan de andere kant erkennen organisaties steeds vaker dat het verlagen van de aanschafprijs van een product of dienst niet de enige manier van kostenreductie is. Meer organisaties brengen de indirecte en directe kosten van producten en diensten in beeld kijkend naar de gehele levenscyclus van het product of de dienst. Deze Total Cost of Ownership is de tweede trend voor 2018.

Trend 3: Leveranciersmanagement

De derde trend voor 2018 is leveranciersmanagement. Het monitoren en verbeteren van de leverancierssprestaties maar ook het bouwen aan relaties gebaseerd op vertrouwen zijn belangrijke onderwerpen voor het opzetten van een optimaal leveranciersmanagementproces. Organisaties opereren al langer niet meer alleen, maar zijn deel van een netwerk. Organisaties dienen hun eigen bronnen en bronnen van partners goed te managen om competitief te blijven. Het managen van de relaties met leveranciers is een belangrijk onderdeel van inkoop (en contractmanagement).

Aanbevelingen

Gebaseerd op de trends voor 2018 heeft Supply Value op basis van haar expertise en ervaringen aanbevelingen geformuleerd.

Trend 1: Hoe kunnen de processen binnen de inkoopfunctie geoptimaliseerd worden?

Essentieel bij het optimaliseren van processen is dat de inkoopfunctie start met het visualiseren en beschrijven van alle processen binnen die inkoopfunctie in relatie met de processen van andere afdelingen. Daarbij is het aan te bevelen om te investeren in proces flows en goede templates. Wanneer de basis staat, kan de optimalisatie beginnen.

Een mooie filosofie om processen te optimaliseren is de lean methodologie. Binnen de lean methodologie zijn meerdere tools/methoden die kunnen helpen bij het verbeteren van inkoopprocessen. Tot slot kan het verbeteren van de structuur van de inkoopfunctie helpen bij het optimaliseren van processen.

Trend 2: Hoe kunt u beginnen met Total Cost of Ownership?

Op het eerste gezicht lijkt Total Cost of Ownership makkelijk te begrijpen, maar toch zijn er een aantal knelpunten bij het implementeren. Dit komt voornamelijk door de volgende drie redenen: cultuur, opleiding en training en het analyseren van verschillende kosten. Om deze knelpunten op te lossen, kunnen organisaties starten met bijvoorbeeld het veranderen van de mindset van medewerkers, training, beschikbaar stellen van de juiste resources en zorgen voor goede data die beschikbaar is voor iedereen.

Trend 3: Hoe kan een leveranciersmanagement systeem / proces opgezet worden?

Er zijn meerdere stappen voor het ontwikkelen van een optimaal leveranciersmanagement proces/systeem. Eerst dienen alle leveranciers te worden geïdentificeerd en gecategoriseerd. In het geval van strategische leveranciers kan leveranciersmanagement opgezet worden. Supply Value heeft hiervoor een stappenplan ontworpen. Er zijn drie stappen in de voorbereidingsfase: contract, het monitoren van prestaties en de organisatie.

Daarna kan het proces worden geïmplementeerd. Wanneer het proces goed geïmplementeerd is, kan leveranciersmanagement leiden tot lagere kosten, minder risico's en een verhoogde kwaliteit.

Content

1. Introduction

Since 2010 Supply Value annually conducts a survey on important trends and developments in the field of procurement for the forthcoming year. The goal of this research is to support procurement professionals in setting their key priorities and to help them with their priority setting for the next year (2018).

Survey

In this research an online survey is set up. This survey is distributed in cooperation with IFPSM, NEVI and VIB. Also, Supply Value invited over 2.000 procurement professionals to participate in the survey. Overall, 241 procurement professionals from over 10 countries completed the survey.

Research design

In the online survey, we asked respondents to indicate, for 27 subjects related to procurement, how much priority their organisation is planning to give the subjects in 2018. In the survey we used a five-point scale, where 1 equals very low priority and 5 equals very high priority. The subjects with the highest scores are the trends for the coming year.

This research also covered other topics like optimism of the procurement professionals, the size of the organisation, the job level of the respondents, the continent and country the respondents work in and the type of industry the respondents work in.

Some of these topics could influence the trends. Thus, in this research, not only the general trends will be detailed, but it will also be examined what differences there are in trends for certain type of respondents. For example, this report will explain what the difference in trends is between respondents working on a strategic level and respondents working on an operational level.

This report

This report starts with a description of the top three trends for 2018. In chapter three the characteristics of the respondents and their organisations will be described. The characteristics of the respondents and their organisations could have an impact on the type of trends respondents think are important. Therefore, in chapter four differences in trends between these groups will be discussed. In the fifth chapter, the main recommendations for the top three trends is described. More information about this research and about Supply Value and contact details can be found in the last chapters of this report.

2. Trends

As explained in the introduction, this year's survey has one important question:
Please indicate for each of the subjects (27 subjects related to procurement) how much priority your organisation is planning to give each subject in 2018.

All 241 respondents identified for each of the 27 subjects how much priority their organisation is planning to give each subject in 2018. The survey used a five-point scale where 1 equals very low priority and 5 equals very high priority. The subjects with the highest scores are labelled as the procurement trends for 2018.

In figure 2.1 on page 10 an overview of the trends for 2018 is shown.

The top three trends for 2018 are:

1. Optimize processes within the procurement role

2. Total Cost of Ownership

3. Supplier management

2.1 Trend 1: Optimize processes within the procurement role

The number one trend for 2018 is 'Optimize processes within the procurement role'. Respondents give this subject an average score of 4.13 (in between high priority and very high priority).

The world as we know it becomes more competitive each day. Organisations have to come up with new products, improved services, lower costs and they have to minimalize risks in order to beat the competition.

More and more procurement is also seen as a discipline that can help organisations to achieve these strategic goals. However, questions remain about how to structure and organise processes within the procurement role. Clearly, in accordance with the organisation's other processes. Next, organisations need to optimize these processes to get more efficient and effective over time.

There are many ways to optimize processes within the procurement role and these ways differ for each organisation. However, one thing that is relevant for all organisations is the visualisation of processes. Once the processes within the procurement role are visualized and described, for example by the means of big data and blockchain, the procurement department can think about the next step to optimize their processes, for example using templates, the lean methodology or changing the structure of the procurement department.

2.2 Trend 2: Total Cost of Ownership

Cost reduction has been the most important topic within procurement for many years. This applies also to this year, as cost reduction is ranked fourth in the top five procurement trends for 2018. However, organisations also acknowledge that lowering the initial costs of a product or service is not the only way to reduce costs. More and more organisations map the direct and indirect costs (and risks) of products and services over a lifetime. This is called Total Cost of Ownership and this is the second trend for 2018 (score of 3,94).

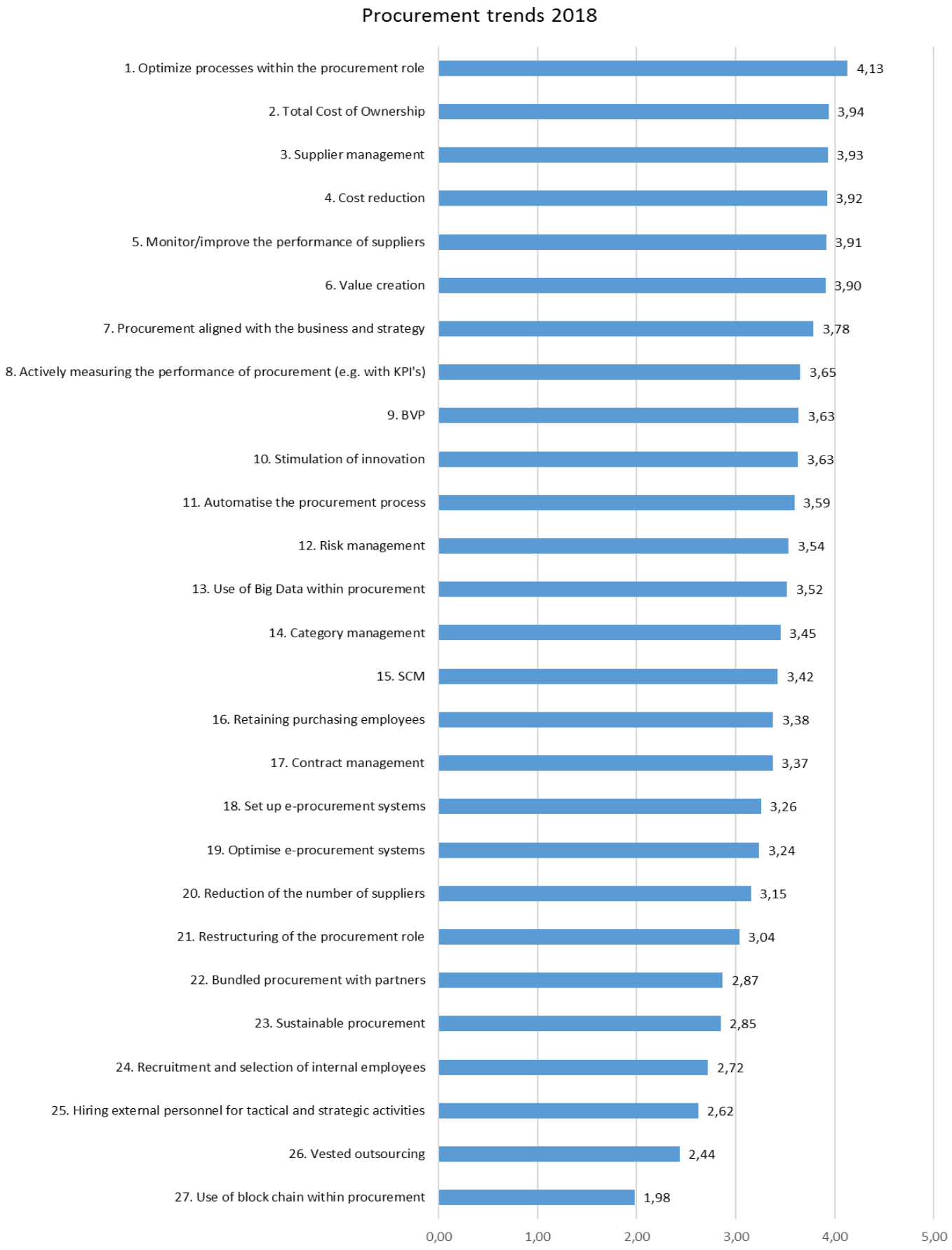


Figure 2.1: Overview Procurement Trends 2018

The main advantage of TCO is that also quality is taken into account when purchasing a product/service. Improved quality means lower indirect costs such as maintenance. This results in a lower Total Cost of Ownership for the organisation. Selecting suppliers by using the Total Cost of Ownership can also contribute to product development and innovation.

At first sight, TCO seems simple to comprehend but in reality we note that implementation of TCO is difficult. This is mainly due to three major reasons that prevent the adoption of TCO: culture, education and training, and resource allocation.

2.3 Trend 3: Supplier management

The number three trend for 2018 is supplier management with an average score of 3,93. Monitoring and improving the supplier performance but also building a relationship based on trust are important topics for setting up an optimal supplier management process. More and more, organisations don't act alone anymore, but are part of a network of business relationships. This network consists of both direct and indirect suppliers with regards to incoming goods or services. Organisations need to leverage their own and partner organisation's resources through business relationships to stay competitive. Managing these business/supplier relationships is an important task for the procurement department.

When setting up supplier management it is important to first categorize all suppliers, for example by using the Windmill model of Weele (2010). Then the strategy for each category of suppliers should be determined.

For the strategic suppliers often a partnership is set up where buyer and supplier are equal and set up mutual goals and Key Performance Indicators. There are several steps to set up a supplier management system.

2.4 Other findings 2018

In the survey we also asked:

1. What purchasing development(s) will you continue to apply in 2018?
2. What purchasing development(s) which you are currently applying will you stop in 2018?

Continue in 2018

There are five main topics that procurement professionals want to continue to apply: cost reduction, category management, optimize procurement processes, supplier management and Total Cost of Ownership.

Stop in 2018

When asking procurement professionals what purchasing development(s) they want to stop in 2018, many professionals answer 'none'. The professionals that did answer the question want to stop with cost reduction, focus on only price when selecting suppliers and reduce the number of suppliers.

So on the one hand respondents want to focus less on cost reduction, however this subject still is the number four trend this year. Procurement becomes more strategic every day, but despite this, cost reduction is often still an important goal for organisations. On the contrary, one might expect this goal to loose relevance as a result of the current economic growth. The goal of cost reduction is a goal that procurement professionals are not always happy with as the answers to the open question (What purchasing development(s) which you are currently applying will you stop in 2018?) show.

2.5 Trends 2018 versus trends 2017

The top three trends for 2017 look very different compared to the top three for 2018. The top three for 2017 was:

1. Procurement led innovation
2. Bundling procurement with partners
3. Supplier involvement to stimulate innovation

The top three for 2017 was dominated by innovation. However, this year 'procurement led innovation' is ranked only as number 10 in the overall trend list. Also bundling procurement with partners, which has an average score of 2,87, is not one of the main priorities for the coming year and is ranked as number 22 (out of 27).

The overall differences with last year show that procurement professionals first want to go back to the basics. The basic processes, structure, roles etc. have be organised right first and this is exactly what procurement professionals want to do in 2018. The results of the open questions show that procurement professionals also want to start with subjects like big data, e-procurement, automatization.

At Supply Value we recognize this in our daily activities where digitalization and data becomes more important every day.

STORK
A Fluor Company

Expert view
Bjorn Smeets
Director Procurement Stork

We have asked Bjorn Smeets, director procurement at Stork, to share his view on the trends for 2018. When we informed him about the top three trends, his first reaction was: *"What is most remarkable to me is that the top three can be traced back to cost reduction (throughout the supply chain) ".* The optimisation of procurement processes leads to lower (process) costs, total cost of ownership often means cost reduction.When implementing supplier management correctly, costs and risks decrease and quality increases. Bjorn: *"On the one hand, in practice, cost reduction comes in different forms (for example optimisation of procurement processes) and is still important. Management and the (end) customer also demand cost reduction. On the other hand, in my opinion, one extremely important topic is missing in the top three: data-use."*

(Big) data, monitoring data, and building dashboards are top of mind at Stork, a global provider of knowledge-based maintenance, modification and asset integrity in the oil & gas, chemical, food and (renewable) energy sector. The right data has to be available at the right time and different systems (for example the procurement system and sales/marketing system) should be connected at all times. Main questions are: What data do we need, how can we make this data presentable and how can we transform this data into knowledge that we then can use when selecting suppliers, improving supplier performance etc. Bjorn: *"When you have more data than your suppliers (or in general than your competitors) you can better predict the future and always be ten steps ahead of them. Consequently, this will lead to a higher performance of procurement".*

Besides data, Bjorn emphasizes the importance of the attitude and the behaviour of procurement professionals. When working at procurement, you should not be satisfied with average results, but always strive for the highest results. Not every procurement professional shares this mentality. Bjorn also states: *"Procurement professionals should show more guts now and then and should not be led by fear of not achieving targets in their work, think out of the box and beyond the beaten track / business models ".*

Last, we have asked Bjorn which purchasing development(s) he wants to start applying, wants to continue to apply, and wants to stop in 2018. Just like other procurement professionals mentioned in our research, Bjorn wants to stop with too much focus on compliance, authorisation, and (useless/unnecessarily) administration. When looking towards 2018, Bjorn states: *"We don't necessarily want to start with new topics, but we mainly want to continue with optimising our data systems and connections. Making sure data will be transformed from reporting through information to knowledge that shall result in more value for our organisation and customers."*

3 Descriptives

In this chapter the main characteristics of the respondents and their organisation will be described.

3.1 Continent and country

The respondents work for organisations that are established in three different continents (see figure 3.1): Europe, North America and Asia.

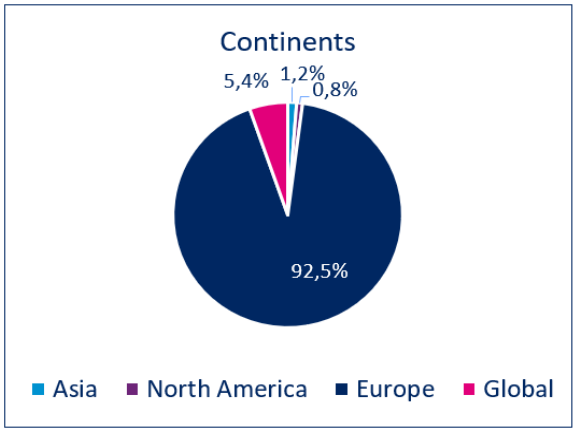


Figure 3.1: In which continent is your organisation established?

The majority of the respondents works for an organisation that is established in Europe. This is similar to previous years. Note that 5,4% of the respondents work for an organisation that operates on a global scale in multiple continents. Last year this was only 2,6%. The minority of the respondents works in Asia (1,2%) and North America (0,8%).

Respondents were also asked in which country their organisation is established. The results are shown in figure 3.2.

The respondents work for organisations in twelve countries. The majority of the respondents works for an organisation in the Netherlands (60%). This is higher than last year (50%). Next to the Netherlands, 21% of the respondents work for an organisation which is located in Belgium, last year this was 24%.

Besides the Netherlands and Belgium, 7% of the respondent works for an organisation in Slovenia, followed by Poland (4%) and the United States (4%). The other 4% of the respondents works in multiple countries: the United Kingdom, Denmark, Sweden, France, Spain and China.

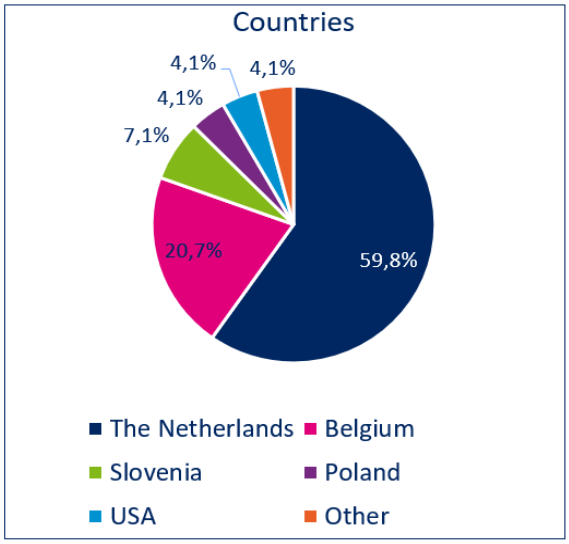


Figure 3.2: In which country is your organisation established?

3.2 Industry and segment

Similar to last years the respondents were asked in what kind of industry their organisation is primarily operating. Overall, respondents work for organisations in 17 industries. In figure 3.3 on the next page is shown in what type of industries the respondents are working.

Most respondents, 30%, are working for a manufacturing organisation. This is in line with the results of last year where manufacturing was the largest industry with 35%. Different this year is the large percentage (18%) of respondents that works for an organisation in the professional, scientific and technical services industry. Last year this was only 4%. Besides these two industries, respondents work in governmental and semi-governmental organisations.

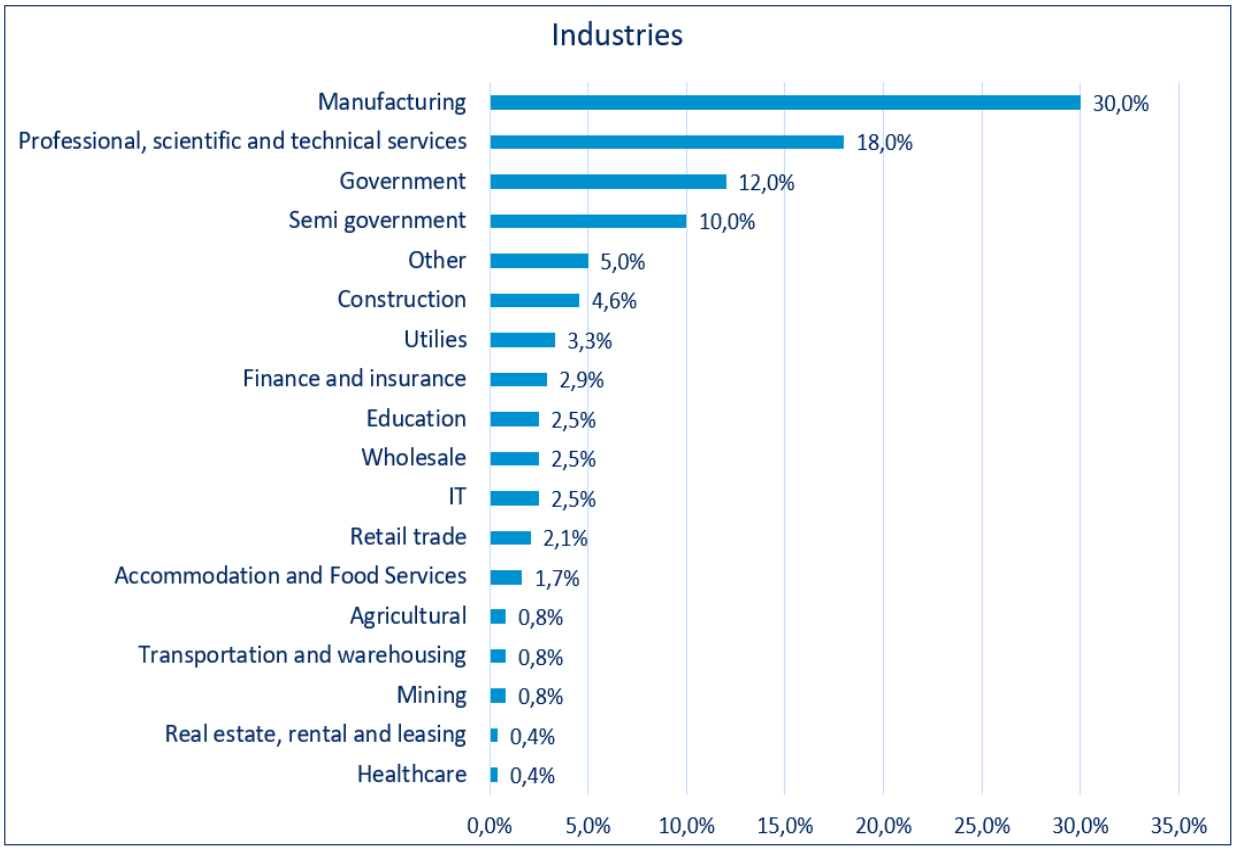


Figure 3.3: In what type of industry is your organisation primarily operating?

3.3 Organisation size

To measure the size of the organisation four questions were asked in the survey:

1. How many full-time employees does your organisation currently employ?
2. How many full-time employees are working in purchasing roles within your organisation?
3. Can you give an indication of the total annual purchasing spend (in euros) of your organisation?
4. Can you give an indication of the annual sales/revenue (in euros) of your organisation?

Number of employees organisation

The majority of the respondents, 52%, works for an organisation with more than 500 full-time employees, as can be seen in figure 4.4 on the next page.

Only 11% works for smaller organisations with less than 50 full-time employees.

Number of employees purchasing roles

As can be seen in figure 3.5, 34% of the respondents works for an organisation that has a relatively small procurement function with 1 – 4 FTE. This in line with the results of last year (34%). Only 10% of the respondents works for an organisation that has more than 51 full-time employees that work in a purchasing role.

Annual purchasing spend and sales/revenue

Figure 3.6 and figure 3.7 show the annual spend and annual sales/revenue of the organisations the respondents work for. The respondents work for organisations with an average revenue of €251 - €500 million a year and an average spend of €51 - €100 million a year.

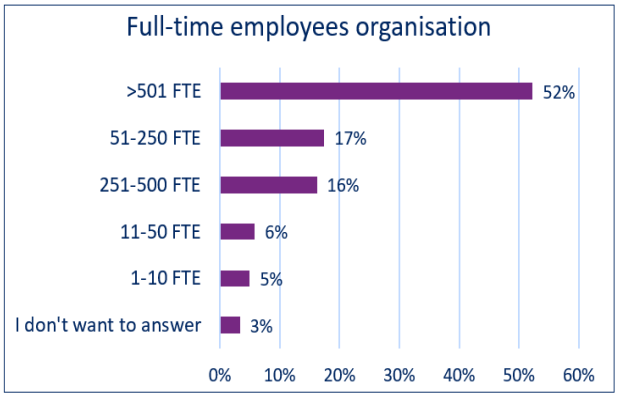


Figure 3.4: How many full-time employees does your organisation currently employ?

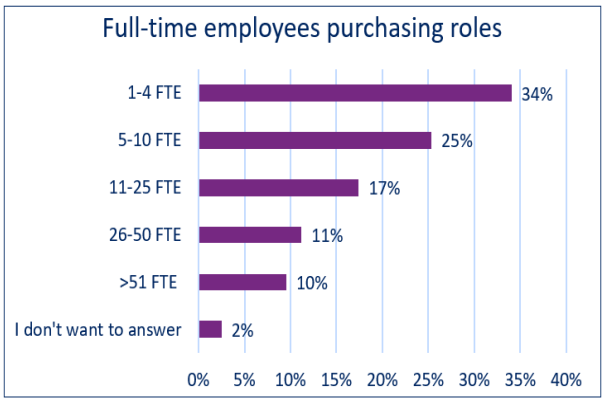


Figure 3.5: How many full-time employees are working in purchasing roles within your organisation?

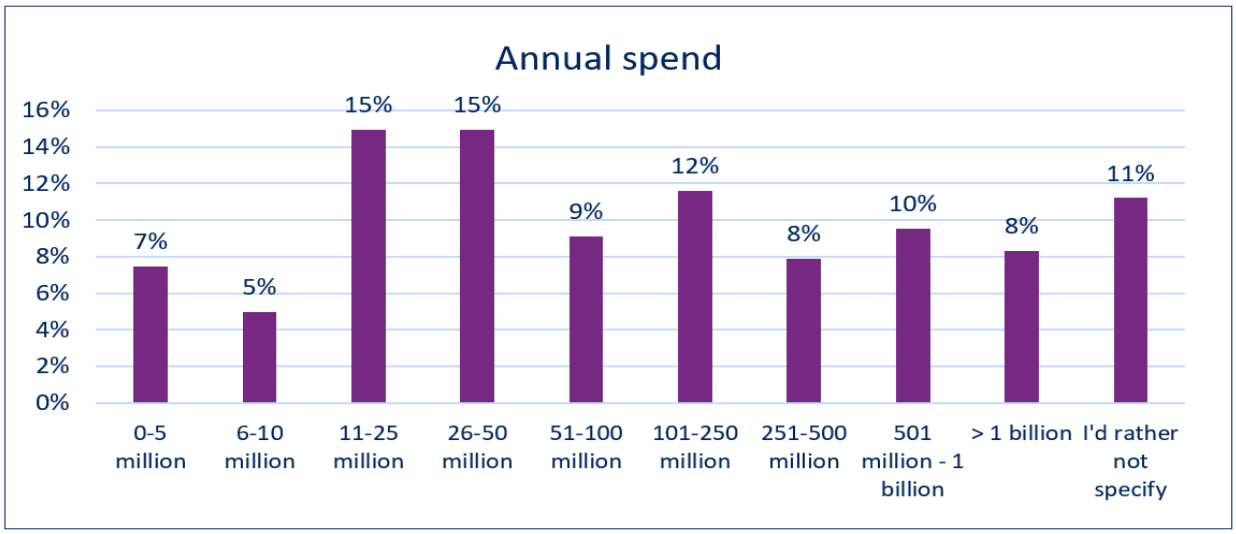


Figure 3.6: Can you give an indication of the total annual purchasing spend (in euros) of your organisation?

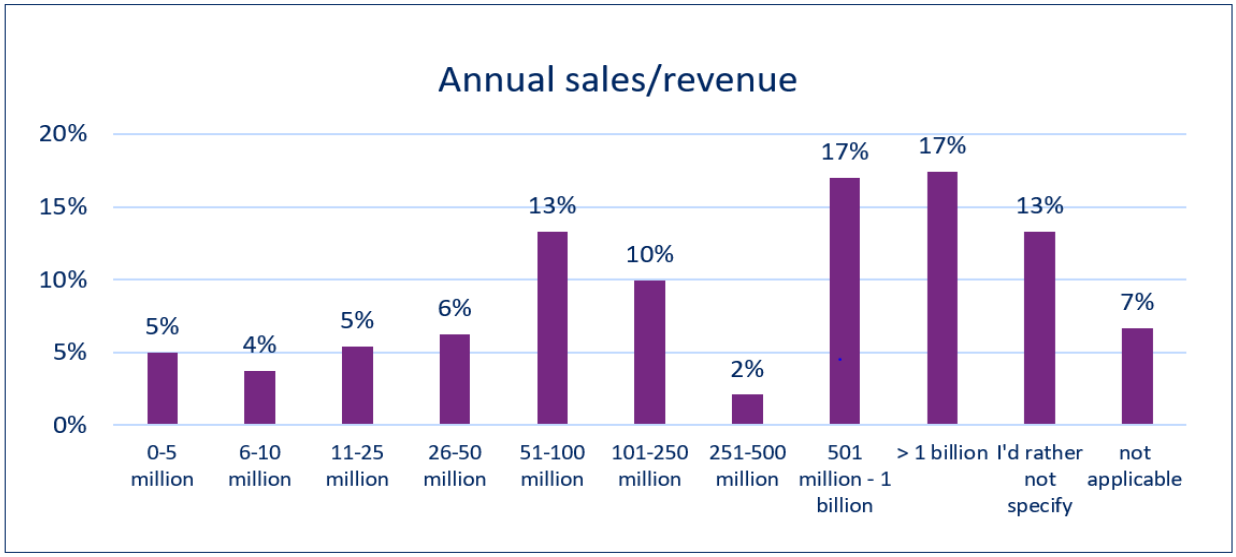


Figure 3.7: Can you give an indication of the total annual sales/revenue (in euros) of your organisation?

3.4 Job level

In this research three job levels are distinguished: operation, tactical and strategic procurement.

Figure 3.8: We recognize three levels of procurement activities. What level do you think applies most to your organisation?

The professional working on strategic level is responsible for: setting up the procurement policy, procurement objectives, the sourcing strategy and the establishment of supplier management.

Tactical procurement activities provides the actual business of the goods and services. The tactical professional is responsible for the procurement process: from the specification of requirements to the negotiation and contracting. Managing and evaluating supplier relationships are also an important part of tactical procurement.

Operational procurement includes activities related to the implementation of the ordering function. Operational procurement include planning and inventory and for example the processing of invoices.

As can be seen in figure 3.8 most respondents (52,3%) work on the strategic level, followed by 41,5% who work on a tactical level.

Only 6,2% of the respondents is occupied with operational procurement activities. This is less than last year where 10% of the respondents worked on an operational level.

3.5 Procurement maturity

The procurement maturity of organisation is measured by using the model of Keough[1].The model of Keough distinguishes 5 levels of maturity:

1. Serve the factory
2. Lowest unit cost
3. Coordinated procurement
4. Cross-functional procurement
5. World-class supply management

We asked respondents where on Keough's model (see figure 4.4) of procurement maturity their organisation currently fits best and where they want their organisation to be in 2018.

In figure 3.9 is displayed which level of Keough's model fits the organisations of respondents best in the current situation. On average, respondents think their organisation fits best on the level of coordinated purchasing (level 3 out of 5). About 27% indicates their organisation fits best on the level of cross-functional purchasing (level 4) followed by 19% on the lowest unit costs level (level 2). If we take a look at the results of last year, it is noticeable that this year 6% of the respondents think their organisation fits the level of serve the factory (level 1) best where this was only 1,5% last year. The percentage of respondents who think World-Class Supply Management (level 5) fits their organisation best is increased from 1,5% last year to 6% this year. The results regarding the levels lowest unit costs, coordinated purchasing and cross-functional purchasing are similar to last year.

[1] Keough, M., (1993) "buying your way to the top", The McKinsey Quaterly, nr 3.

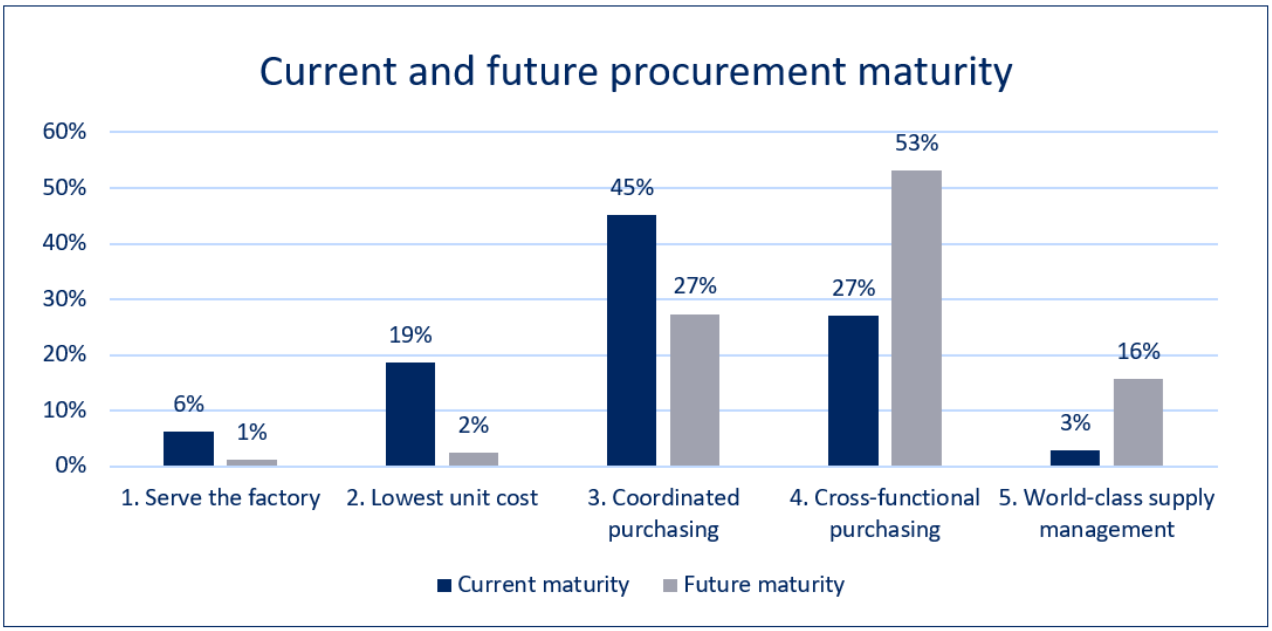


Figure 3.9: Current and future procurement maturity

In figure 3.9 is also shown where respondents want their organisation to be in 2018. On average, respondents want their organisation to be on the fourth level of cross-functional purchasing. Overall, many organisations want their organisation to move one level up (for example from serve the factory to lowest unit cost or from lowest unit cost to coordinated purchasing). On the other hand, some respondents indicate their organisation wants to stay on the same level. For example, when an organisation already reached the fourth level of cross-functional purchasing, it is not always the goal to move up to the world-class supply management level.

3.6 Optimism

Every year we also ask respondents how optimistic they are about the coming year. Last year the respondents were, overall, optimistic to very optimistic about the coming year. Also this year we see these results. We asked respondents this year: 'what does the future of your organisation look like?'.

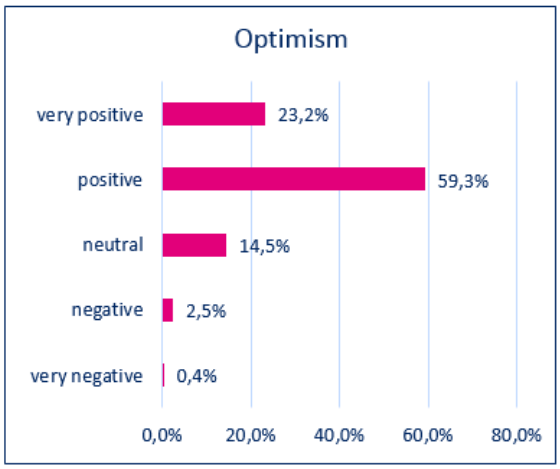


Figure 3.10: What does the future of your organisation look like?

The majority of the respondents, 59%, (see figure 3.10) indicate they are positive about next year followed by 23% that indicate they are very positive about next year. Only 3% is negative or very negative about the coming year.

4 Differences in trends

In the previous chapters the overall trends and descriptives of the respondents and their organisations have been discussed. In this chapter, the differences in trends for certain type of respondents are examined.

Firstly, the differences in trends for respondents that work in small, medium or large organisations are discussed. Secondly, it will be examined if respondents with different job levels (operational, tactical and strategic) focus on different trends. Lastly, the differences in trends for different procurement maturity levels will be described. When discussing the results, we make assumptions. It is important to know that these assumptions are not part of this study and therefore are also not necessarily 'true' of 'false'. The assumptions are based on our insights from practice.

4.1 Organisation size

To compare the trends and organisation size the respondents are first divided into three categories:

1. Respondents working for small organisations with 1 – 50 FTE;
2. Respondents working for medium organisations with 51 – 250 FTE;
3. Respondents working for large organisations with more than 251 FTE.

In figure 4.1 it is shown what the trends are for the three groups of respondents. The scores in the third column are the scores for the question 'Please indicate for each of the subjects (on a five-point scale) how much priority your organisation is planning to give each subject in 2018'.

Last year there were interesting differences in trends for respondents that work for small, medium or large organisations. However this year the trends for the different groups of respondents are quite similar.

Still there are some interesting findings when looking at the different groups of respondents. First, the respondents that work for small organisations think value creation will be an important trend for 2018. This subject is ranked sixth in the overall trends. Value creation is not mentioned by the respondents that work for medium and large organisations. A reason for this might be that procurement in smaller organisations still has to convince the owner/management team that they can create value. In bigger organisations the value of procurement becomes more obvious every day and it is more accepted that procurement can help to achieve strategic goals.

Size organisation	Top 3 trends	Score
Small organisations	1. Value creation 2. Cost reduction 3. Optimize processes	3,88 3,79 3,71
Medium organisations	1. Optimize processes 2. Total cost of Ownership 3. Cost reduction	4,17 3,98 3,85
Large organisations	1. Optimize processes 2. Supplier management 3. Cost reduction	4,17 4,02 3,98

Figure 4.1: Trends and organisation size

Respondents in smaller organisations on the other hand indicate 'optimize processes within the procurement role' as a number three trend where respondents that work for medium and large organisations think this is the number one trend. An explanation for this could be that smaller organisations still have to set up their procurement department, structure and basic processes. Later, when the procurement role is more established (as is the case in medium and larger organisations) there is time and money for the optimisation of processes.

Another interesting finding is that the Total Cost of Ownership trend (which is the #2 trend in the overall top three) is mentioned only in the top three of respondents that work for medium organisations. Next to Total Cost of Ownership, cost reduction remains to play an important role for all type of organisations whether they are small or large.

Last, it is remarkable that only the respondents that work for the larger organisation indicate supplier management as a top three trend where this subject is ranked third in the overall top trends. A reason for this could be that larger organisations have more suppliers that they have to manage and that they therefore have to set up a more extensive supplier management system.

Smaller organisations still try to set up their procurement department and supplier management is not one of their priorities.

4.2 Job level

The second comparison that will be made is the one between trends and job level of the respondents. To be able to make this comparison, the respondents are divided into three groups:

1. Respondents that work on a strategic level;
2. Respondents that work on a tactical level;
3. Respondents that work on an operational level.

The differences in trends between these three groups are shown in figure 4.2. The first remarkable result is that the respondents that work on an operational level see cost reduction and optimize processes as the biggest trends (shared first place). Whereas, for both respondents that work on a tactical or strategic level, cost reduction cannot be found in the top 3.

Moreover, the second trend for the operational procurement professionals 'monitor and improve supplier performance' is not mentioned by the respondents that work on tactical and strategic levels. The reasons for this might be that operational procurement professionals are confronted with the supplier performance more often since they track purchases.

Job level	Top 3 trends	Score
Operational level	1. Cost reduction / optimize processes 2. Monitor and improve supplier performance 3. Automatise the procurement processes	3,87 3,80 3,73
Tactical level	1. Optimize processes 2. Total cost of Ownership 3. Supplier management	4,19 3,97 3,93
Strategic level	1. Optimize processes 2. Value creation 3. Supplier management	4,11 3,99 3,99

Figure 4.2: Trends and job level

They see when a supplier doesn't deliver what is agreed on and in some cases they also have to update the system with this kind of information.

The number three trend for operational procurement professionals is automise the procurement process. There can be several reasons for this. First, operational procurement professionals might have the feeling that their responsibilities will be taken over by automatic e-procurement systems. On the other hand, operational procurement professionals of all procurement professionals work the most with e-procurement systems when ordering products/services, processing invoices etc. Since these professionals have to work with systems on a daily basis, it is not strange that they see 'automatise the procurement process' as an important trend.

The top three of the tactical and strategic procurement professionals is similar to the overall top three trends. Only when looking at the strategic procurement professionals we see more focus on value creation and not on Total Cost of Ownership. This is not strange since respondents that work on a strategic level are occupied with setting the strategies for next year and they have to make sure procurement is creating value for their organisations. On the other hand, respondents that work on a tactical level are often responsible for the selection process and will have to deal more with the Total Cost of Ownership philosophy.

4.3 Procurement maturity

The procurement maturity of organisation is measured by using the model of Keough. The results of the comparison are shown in figure 4.3. The first and last level (serve the factory and world-class supply management) had too little respondents so we only looked at the levels: lowest unit cost, coordinated purchasing and cross-functional purchasing.

When we look at the group of respondents who classify their procurement department as 'lowest unit cost' we see that cost reduction is the first trend. This is not a surprise as the model of Keough also states that the lowest unit cost stage is about striving for the lowest costs, cost savings are used as the performance indicator for this type of procurement departments.

When looking at the coordinated purchasing level we see the same three trends as in the overall top trends, only in a slightly different order (Total Cost of Ownership and supplier management are switched). When looking at the cross-functional purchasing we see that the number to trend is 'value creation' where this trend is only ranked as number six in the overall trend list. As the organisation moves on the ladder of the procurement maturity model, value creation becomes more important.

Maturity level	Top 3 trends	Score
Lowest unit cost (level 2)	1. Cost reduction 2. Optimize processes 3. Monitor and improve supplier performance	4,29 3,93 3,87
Coordinated purchasing (level 3)	1. Optimize processes 2. Supplier management 3. Total Cost of Ownership	4,15 3,93 3,87
Cross-functional purchasing (level 4)	1. Total Cost of Ownership 2. Value creation 3. Optimize processes	4,25 4,23 3,2

Figure 4.3: Trends and procurement maturity

5. Recommendations

For the top three trends for 2018 Supply Value formulated multiple recommendations based on her experience and expertise.

5.1 Optimize processes within the procurement role

Before being able to optimize the procurement process, it is relevant to ensure that a process is described/visualized well. In this paragraph, tools to describe and optimize the procurement process are provided.

1. Making the procurement process visible:

There are different ways to optimize the procurement process of an organisation. However, as mentioned in the introduction, it is relevant to ensure that a process is described/visualized well before one can optimize the procurement process. An often used method to make a process visible is a 'brown paper session'. In a 'brown paper session' a group of stakeholders uses post-its to make a process step by step visible on a brown paper. As a result of this, it is easy to determine in which parts of the process errors are made. Besides, when looking forward, another benefit of visualizing the process is that it shows both opportunities and threats.

However, the perspective of the stakeholders can be different from the reality. Therefore, process mining is more and more described as a valuable tool to describe a process. Process mining is a methodology developed on the university of Eindhoven in which data is used to automatically make a process model. Organisations have a lot of valuable data derived from, amongst others, ERP, source2contract and source2pay systems. This data can be the basis for providing insight on a process. In comparison to a 'brown paper session', process mining enables organisation to describe the processes based on real time data. Supply Value has certified process mining advisors who can help organisations in describing and optimizing their processes.

Not only should the processes be visualized, also templates can be set up to support the main processes in the procurement department. For example, for the process of selecting a supplier template for a Request for Proposal, an evaluation template etc. could be designed. These templates support executing the most common activities in the procurement department.

2. Using the philosophy of lean management to optimize the procurement process:

When a process is made visible, the methodology of lean management can be used to optimize the process. The philosophy of lean management is often used to eliminate the well-known 7 forms of waste (Defects, Overproduction, Transportation, Waiting, Inventory, Motion, Processing). However, the philosophy of lean management is especially valuable for creating value for the customer and thereby making organisation more customer-oriented. For example; where in the procurement process is it possible to create value for the internal customer? By focusing on delivering value instead of only eliminating waste, more value can be created for the internal customer.

The philosophy of lean management delivers valuable tools which can help the internal customer understand what is really needed/ how value can be created and how procurement can provide this. The following tools (not an exhausted list) can be used:
Kano: The Kano-model, is a theory for helping an organisation understand what the customers really need.

- The fishbone diagram: The fishbone diagram can be used to identify the root causes of problems in a process. By identifying and eliminating those root causes, more value can be generated for the customer.
- Kaizen: Kaizen is a methodology for continuously improving the processes of an organisation. The methodology is focused on continuously eliminating waste and thereby creating value for the customer.
- A3: A3 is a tool to systematically identify problems and identifying improvement measurements for trying to solve those problems.

By developing key performance indicators, an organisation (and the procurement division) knows where to focus on and how value can be created. The OGSM-method (Objectives, Goals, Strategies, Measures) can be used for formulating indicators in such a way that they contribute to reaching the overall objective of an organisation.

In daily or weekly day-starts the employees can discuss the progress towards reaching the norm values in the key performance indicators and eventually the objective of the organisation.

The ABCD-method can be used for performing the day- of week start:

- Achieved: What do you have achieved last week or day, in relation to the objective of your organisation.
- Benefits: Which advantages have you reached last week or day, in relation to the objective of your organisation.
- Concerns: Which difficulties do you face at this moment, in relation to reaching the objective of your organisation.
- Doing next: What are you going to do next day or week to contribute to reaching the objective of your organisation.

The members of the day- or week start use the letters A,B,C and D to explain their work in relation to reaching the objective of the organisation. It is the task of all members of the day- or week start to track the progress on the score of the key performance indicators.

3. Optimizing the structure of an organisation to grow in procurement maturity:

Besides using the philosophy of lean management to optimize the procurement processes, the structure of an organisation can also be optimized in order to grow in procurement maturity. Jeffrey van Hirtum, consultant of Supply Value, has researched how the structure of an organisation changes when organisations grow in procurement maturity. The research has focused on 6 components of structure:

- (De)Centralization: refers to in which extent authority is embedded in a business unit.
- Formalization: refers to the extent an organisation relies on procedures and rules to direct and control their own employees.
- Involvement: refers to the degree in which employees participate in procurement decisions.
- Configuration: refers to in which extent authority plays a role in the design of an organisation
- Specialization: is about the division of labour in an organisation.

- Standardization: is about whether the routines and activities are precisely defined in an organisation.

From the research it can be concluded that all structural components – except centralization – become higher during the evolvement from the first till the last phase of purchasing maturity.

As shown in figure 5.1, especially formalization and standardization grow faster in comparison with the other structural components during the evolvement in purchasing maturity. This means that when organisations want to grow in procurement maturity, they should mainly focus on standardizing and formalizing the organisation.

5.2 Total Cost of Ownership

Similar to 2 years ago, "Total Cost of Ownership" (TCO) is one of the three top-ranked procurement trends. This indicates that procurement professionals pay attention to this subject for quite some time already and that the benefits of TCO for organisations are commonly acknowledged. However, there are also some constraints associated with TCO where procurement professionals should be aware of when implementing TCO.

In this paragraph we will provide insights in these constraints and how to deal with these constraints, in order to enhance an organisation's procurement performance.

Constraints of TCO

First, before diving into the constraints of TCO, let's make sure that we are on the same page by stating the definition of TCO. TCO is the purchase price of an asset plus the costs of operation. Examples of such operation costs are transportation, maintenance and training costs. It thus focuses on the long run rather than the short run, in which only the purchase price of an asset is taken into account.

At first sight, TCO seems simple to comprehend but in reality we note that implementation of TCO is difficult. This is mainly due to three major reasons that prevent the adoption of TCO: culture, education and training, and resource allocation.

- Culture: Most Dutch organisations have a culture in which employees have a mindset that fixes on price, rather than costs. For that reason, they might resist TCO approach since this means a new way of both working and thinking.

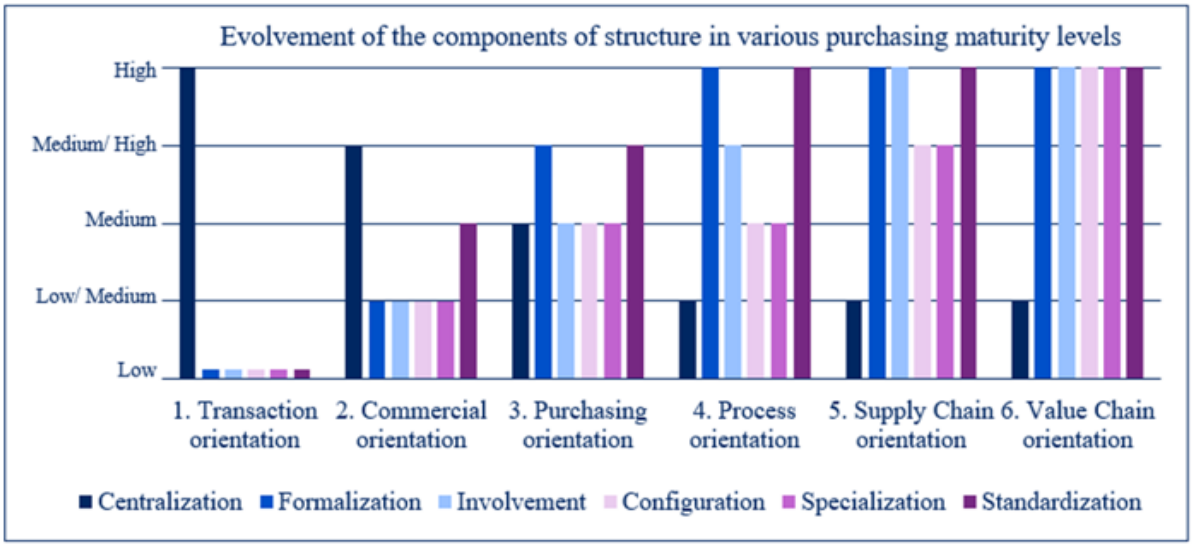


Figure 5.1: Evolvement of the components of structure in various purchasing maturity levels

- Education and training: Staff may perceive TCO as a complex approach as much data is needed in order for the approach to work. If no education and/or training is provided by the organisation, this perception may discourage staff to use TCO at all.
- Resource allocation: Before an organisation can start with TCO, conditions need to be in place, such as accessible accounting and costing data. If an organisation does not yet have these conditions in place both resources and labour of managers is needed to meet these conditions.

Handling these constraints

To deal with these constraints, organisations, among other things, can conduct the following tasks:

- Culture: To shift the mindset of her employees an organisation should execute tasks to create support for TCO. An example of such a task is to give a presentation about business cases in favour of TCO, benchmarked to the current approach used by the organisation of the examples.
- Education and training: To create support for TCO amongst staff members, an organisation can provide the staff with training and invest in tools to support staff. By doing this, they will improve their understanding of TCO and will more likely be less resistant.
- Resource allocation: To gather accessible accounting and costing data, it is recommended that an organisation invests in a support system for total cost analysis.

Concluded we can state that TCO, based on both theory and practice, offers advantages for organisations. However, take in mind that the impact of these advantages is dependent on how an organisation deals with the constraints of TCO.

5.3 Supplier management

Supplier management is the third trend in de top three trends for 2018. In this paragraph we will give recommendations on how to set up a supplier management system for strategic suppliers.

Identify suppliers

The first step is to identify all suppliers of your organisation. This sounds like a logical first step, but many organisations don't know exactly who their suppliers are and how much their organisation is spending on each supplier.

Categorize suppliers

When the organisation identified all their suppliers, is it important to categorize the suppliers. In practice we often see that organisations only map and categorize suppliers based on their own view. They don't always think about how important they are for the supplier.

For example, for a small municipality Microsoft might be a strategic supplier (since the financial risk is high and the supply risk is also high), however for Microsoft this municipality is nothing more than a routine customer that is not attractive for them. The windmill model (see figure 5.2) can help to categorize all suppliers when also taking into account the supplier's perspective. When categorizing all suppliers, the organisation should determine who are their strategic suppliers. For the strategic suppliers (in the exploitable and core quadrant) an extensive supplier management process can be set up. Of course, the other suppliers should also be managed, but in these recommendations we will focus on the strategic suppliers as these are important for the organisation.

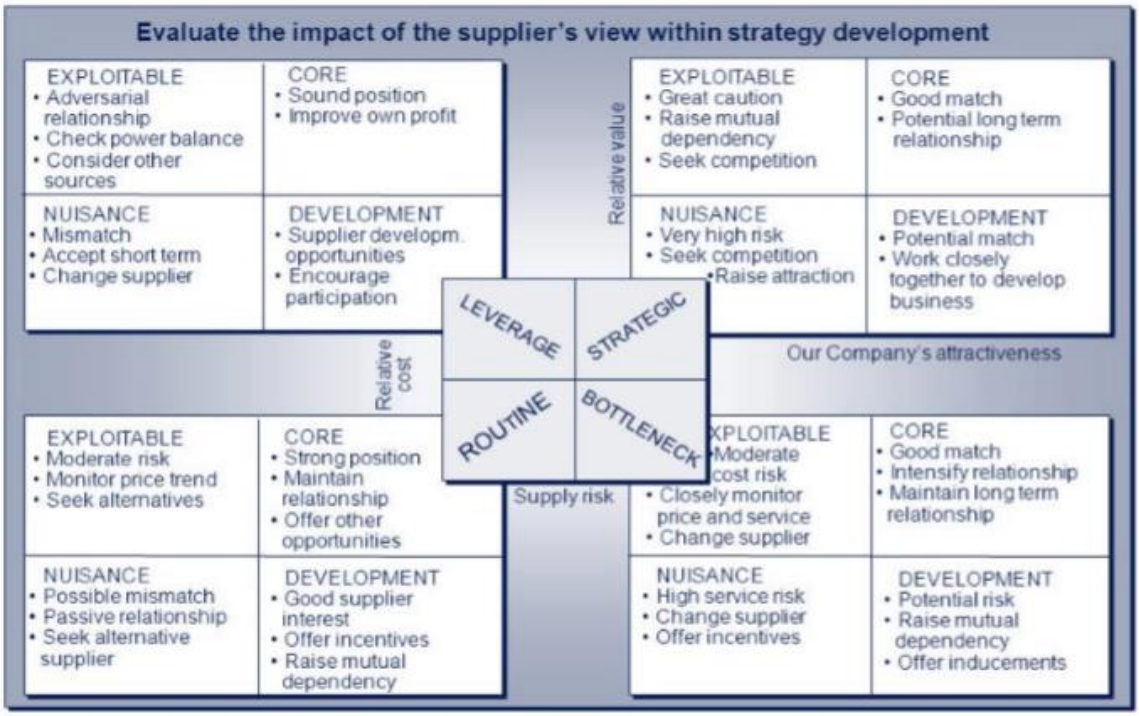


Figure 5.2: Dutch Windmill model. Van Weele (2010, p 202)

Set up supplier management process

Supply Value has developed a model for setting up supplier management. This model is shown on the next page in figure 5.3.

On the left side of the model we distinguish three important steps/aspects to set up the supplier management process. On the right side we focus on the actual implementation of supplier management and we show what the results could be of an optimal supplier management process.

Contract

The first step in the preparation phase is setting up a contract (or changing existing contracts) together with the strategic suppliers. Think about the minimal requirements and results that your organisation expects. Not only describe these requirements and desired results, but also determine the consequences if the supplier can't achieve the requirements and results.

Last, if the supplier does not perform well, the supplier should get the possibility to improve their performance. It is best to describe in the contract how much time the supplier gets to improve its current performance (before there are consequences for nonperformance).

Monitoring the performance

Besides the contract, the supplier and the organisation should set up a dashboard for monitoring the performance of the suppliers. The most important and often hardest thing is to come up with relevant Critical Performance Indicators. On our website we shared seven steps on how to set up these critical performance indicators:Specify your vision and strategy

1. Describe all processes
2. Recognize and define Critical Success Factors
3. Define Critical Performance Indicators
4. Determine how data is collected and shared
5. Implement the Critical Success Factors and Critical Performance Indicators
6. Plan do check act

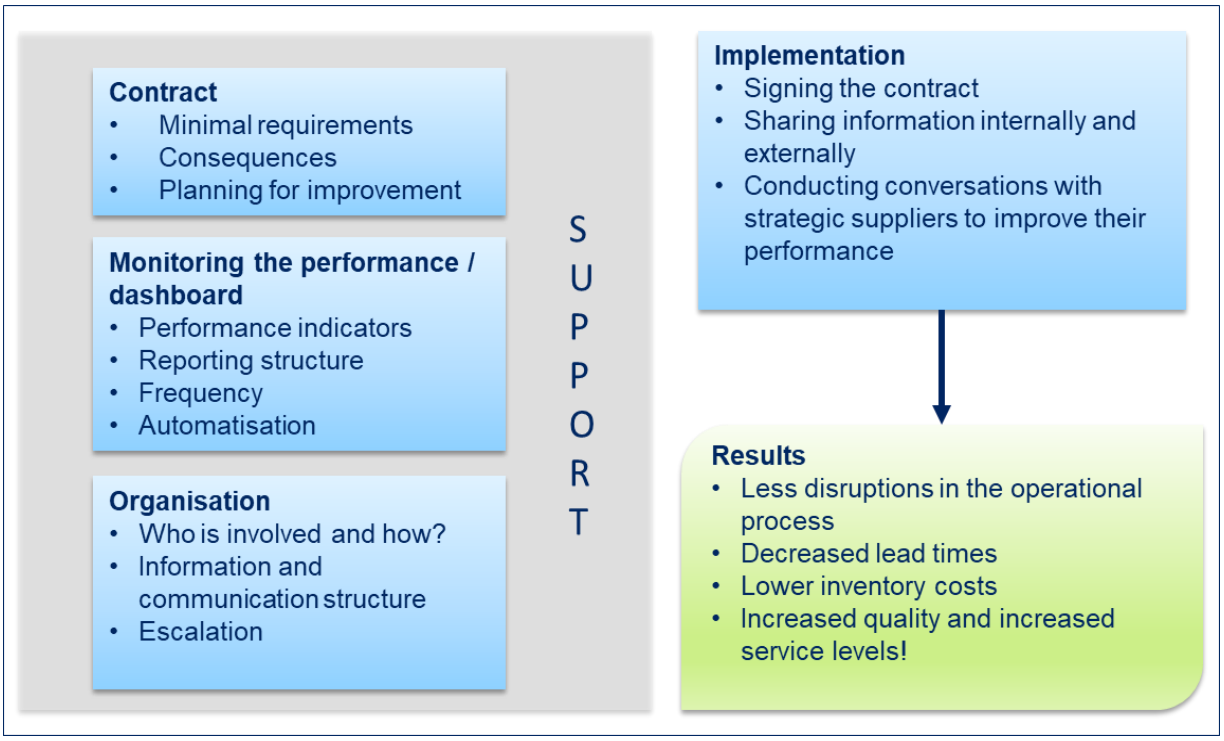


Figure 5.3: Setting up supplier management

After determining the Critical Performance Indicators the organisation should think about the way of reporting. How does this reporting structure looks like and what is the frequency? Last, the organisation can work with IT to automise the monitoring process.

Organisation

The last important thing in the preparation stage is the organisation itself. Who should be involved in the supplier management process and how? How will the communication be between the involved people? And how will information be shared? Last, think about the escalation levels when things go extremely wrong.

Support

Besides the three stages in the preparation phase, creating support for supplier management is essential. Support must be received of the management team and others involved to succeed in the end.

Implementation

When the preparation phase is finished, the implementation of the supplier management process can start. First, the contract should be finalized with input from the supplier and then signed by all parties. Then, information must be shared according to the earlier agreed on reporting structure. The information from the suppliers (and your own organisation) should be discussed frequently to see if the supplier is performing well and if not, how the performance of the supplier can be improved.

Results

The results of an optimal supplier management process are:

- Less disruptions in the operational process
- Decreased lead times
- Lower inventory costs
- Increased quality and increased service levels

What to do when conflicts arise?

Of course, conflicts can always arise when managing and monitoring suppliers. There are several type of conflicts between a supplier and the organisation:

- Relational conflicts
- Task related conflicts
- Logistic conflicts
- Contribution conflicts

Last year we conducted research on conflicts between suppliers and organisations. We found out that there are four main pitfalls when a conflict arises:

1. *Unclear agreements.* Often conflicts arise when agreements are unclear and when the supplier or organisation interprets agreements differently. Therefore the preparation stage in the supplier management model is very important to avoid unclear agreements.
2. *Lack of honest and open communication.* By exchanging information frequently and be open about your own goals conflicts can be avoided.
3. *Only take into account your own view.* Try to also take into account the view of the supplier. Conflicts can be solved by trying to find a solution that works for all parties and not just for your own organisation.
4. *Focus on the person instead of the conflict itself.* Often frustration and anger grow when a conflict arises. Try to focus only on the content and don't let the conflict get personal.

Please note that the recommendations in this paragraph are general and must be adjusted for each organisation and situation. Supply Value has experience with setting up supplier management systems/processes and can advise organisations when conflicts do arise.

6. About this research

Annually Supply Value conducts research about the most important trends and priorities for the next year. The methods used to conduct this year's research are: desk research and survey.

Desk research

To be able to compose a survey with valid trends, desk research is conducted. Firstly, Supply Value studied recent relevant literature. Then, the consultants of Supply Value were asked what trends they signal during their work in practice. Moreover, the trends that came up during the desk research are compared with the trends from previous years. Items that scored low in previous years and that were also not signalled during this year's desk research are removed from the survey. Eventually this has led to a list with 27 trends that will be examined in the survey (2 less than last year).

Survey

After the desk research was completed, the survey is designed. To make sure the results of previous years could be compared with the results of this year Supply Value used an online survey with a similar format as in 2014, 2015, 2016 and 2017.

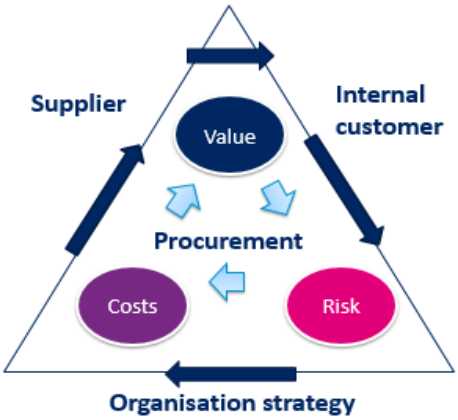
The survey was conducted in October and November 2017. The survey is distributed among procurement professionals in cooperation with Nederlandse Vereniging voor Inkoopmanagement (NEVI), The international Federation of Purchasing and Supply Management and their members (IFPSM) and Vereniging voor Inkoop en Logistiek België (VIB). In addition to the distribution by international federations, Supply Value has invited procurement professionals to participate in the study. Overall, 241 respondents from more than 10 countries completed the survey.

7. About Supply Value

Supply Value is a consultancy firm that works in the field of procurement, supply chain and information management. We are established in 2007 and we have an ISO-9001:2015 certificate. Over the last three years our customers judged us with an average of 8.6 and (in 2017 with an average of 8.7) on a scale of 1-10. 100 % of our customers recommends us to others.

Mission
Supply Value helps leaders to work together smarter, which makes it possible for them to create sustainable value against lower costs and less risks. We do this by connecting, challenging and supporting the growth of people using the best methods and resources.

Supply Value believes that these results that are unreachable for an individual could be surpassed when you collaborate. Focused on a common goal based on one's own strength



Vision on procurement
Procurement is an integral part of doing business and focuses on bringing together supply and demand aligned with the strategy and goals of the organisation. Reduction of costs and risks and the creation of value are central.

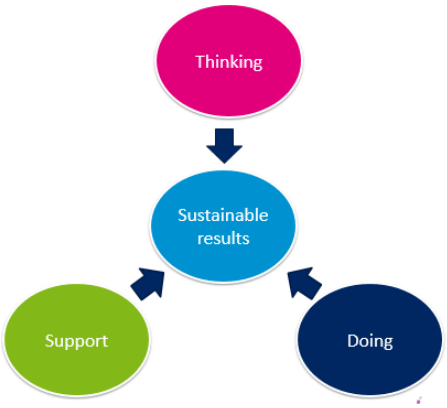
Our services
Supply Value offers consulting and interim services in the area of procurement, supply chain and information management.

Our approach
Our approach represents sustainable results and is based on: thinking, support and doing.

Thinking: We collect, analyse and present the right information to prepare vigour decision making. It all starts with preparation.

Support: We involve our customers and their supply chain partners in our advices. We listen and ask questions to discover what can be improved within their organisations. By utilize the potential of all relevant parties we make sure the process of improvement accelerates.

Doing: Our advice does not end with a nice report. We bring our employees and partners in motion and help to realise concrete results. We do this until you are able and willing to take over.



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