



The Power of Procurement

The Nordics

2016

Key findings, market trends and predictions for 2016 and beyond.

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The Power of Procurement
- the Nordics, is part of a series
of publications that document
KPMG's insights and expertise
in procurement.

Introduction

Effective procurement is a powerful function for any organization. Procurement adds value primarily in two ways: firstly through focus on cutting and eliminating costs in the supply chain, which has become critically important for many Nordic organizations, and secondly through ensuring lean, compliant and efficient availability of products and services that meets the high standards of end-user demand.

We believe strongly that in a world with increased information sharing, and where innovative top-line advantages erode faster than ever before, procurement can be a main driver to increase competitiveness, deliver shareholder value, and make a difference on the bottom line. In *The Power of Procurement – the Nordics*, we wanted to see how Nordic organizations utilize their procurement functions to meet these aims. Moreover, we wanted to see if there were further steps to make their procurement function a valuable business partner.

Our findings are based on a survey of 153 organizations across the Nordics – which we believe is the most comprehensive survey of Nordic procurement to date. It covers four key themes: value, risk, capability and sustainability. In the sections that follow, we outline our key findings and recommendations across the study, followed by more detailed observations across each of the four themes.

Nordic differences



Many of our actual findings across Nordic procurement organizations apparently reflect the findings of KPMG's global studies – take talent shortage: a striking 84% of respondents consider this to be a real issue, in line with our recent *Global CEO Outlook*. So, where are the differences when looking to the Nordics? A very significant difference we noted was spend management: only about one half of respondents stated that direct material spend was fully managed and for indirect materials, responses came in at only 30%. This is quite notably lower than in our global studies and highly relevant, as cost savings largely depend on comprehensive spend management. Taken positively, Nordic organizations may have significant savings potentials yet to deliver.

Hans-Jörg Robert
Partner, KPMG Norway

Key findings

1. Most organizations can still make better use of their procurement functions for spend management.

A surprising finding was that only one-half of those surveyed made full use of their procurement functions to manage their direct spend. This proportion decreased to an even lower 30% for indirect spend.

There appears to be significant scope for many organizations to get more value out of their procurement functions. Our findings suggest that a good starting point would be to ensure that procurement is fully involved in developing a sourcing strategy that underpins the overall business strategy, before taking the lead in managing the sourcing process.

2. Most organizations do not dedicate the resources needed for risk mitigation planning in the supply chain.

The vast majority of those surveyed include procurement risk analysis as part of their overall risk map. However, nearly half do not set strategies to manage their supplier risks, while half do not have internal control systems in place. This translates into an awareness of risk, but few

concrete mitigation steps to reduce said risks. Identifying critical risks for key procurement categories and understanding the risk-horizon of your suppliers and sub-suppliers should be one of the core responsibilities of the procurement function.

3. Investment in training decreases with centralization of the procurement function.

Centralized procurement organizations generally allow for a better return on training investment, as employees are more likely to put their training into practice regularly. However, we found that centralized procurement functions train their staff less than organizations with local/decentralized procurement.

4. The more strategically oriented the procurement function is, the more widely sustainability goals are set and prioritized in the organization.

As regulations tighten, proactively reaching sustainability goals will be key to avoid added costs in many organizations. Our survey suggests, perhaps not surprising, a correlation between procurement functions that have a large degree of strategic

competency, and those with ambitious sustainability targets. Increasing the level of strategic competency within the procurement function can therefore be one of the main drivers for sustainability in an organization. Leveraging this will help ensure that your organization is equipped for meeting new regulations, and achieve potential first-mover advantages from sustainability initiatives linking to your core business.

5. Benchmarking the procurement value-add against market levels can show the value of procurement to the rest of the organization and other stakeholders.

Benchmarking externally is an area most procurement functions are found lacking across all sectors, with very few making full use of such benchmarks to compare savings or other procurement KPI's to similar organizations. In the absence of this data, identifying the return of investment for specific improvement initiatives is challenging at best. External benchmarks help verify and guide your procurement initiatives, and is a practice we recommend.

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About the survey

Our survey reviews the procurement experience across the Nordic countries Sweden, Finland, Denmark and Norway, and builds on the findings of the KPMG 2013 Global Power of Procurement survey. We used an online survey tool to collect qualitative and quantitative data from senior procurement professionals over a six-week period from February to April 2016. We focused on four key areas:

- 1 What value does the procurement function deliver?
- 2 How does procurement manage risk?
- 3 How does procurement ensure it has the right capabilities?
- 4 How does procurement incorporate the sustainability perspective?

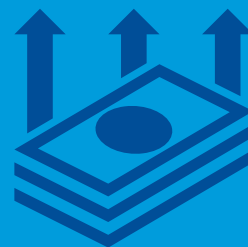
4 Dimensions surveyed

Value, risk, capabilities and sustainability.
More than 40 questions.



N=153

Organizations
responded



BN 1,1 EURO

Average revenue of respondents

Respondent breakdown

	Automotive	1
	Banking and Capital Markets	6
	Energy	11
	Financial Services	2
	Food, Drink and Consumer Goods	5
	Government & Public Sector	17
	Industrial manufacturing	41
	Infrastructure	7
	Life Sciences	9
	Media	1
	Mining	2
	Real estate	7
	Retail	32
	Technology	4
	Telecom	3
	Transport & Logistics	8



6,9%

Average savings by procurement

ON AVERAGE



50%

purchase orders electronically approved

27%

of spend is being processed through eProcurement tools

BN 0,42 EURO



Average spend among respondents



5 1/2 DAYS

Average spent on procurement related training



Part 1:

Value

The procurement function has traditionally focused on reducing costs through negotiations and contracting, but procurement is now taking an increasingly strategic role for adding value to the business.

Our questions focused on:

- What value procurement brings to the organization
- How procurement achieves value
- How procurement interacts with the rest of the organization
- Which aspects of procurement contribute most to the organization

Value

Nordic organizations value the savings their procurement functions bring to the table, but procurement can do more. By benchmarking procurement (savings, FTEs, productivity) against companies of comparable size and industry in the market, organizations can set goals and targets while still keeping their feet planted on the ground.

Our survey results reveal opportunities for organizations to extend the scope of their procurement operations. We believe that there is substantial untapped potential, most notably for the public sector, to achieve greater cost savings and value adding through greater use of effective centralized procurement.

Organizations do not make full use of their procurement functions to manage spend.

Only about one-half of respondents use procurement to fully manage their direct spend; another 30% “somewhat” use procurement for this purpose. The comparative proportions for indirect expenditure are 30% for “fully” and 35% for “somewhat”. These findings suggest that organizations are not leveraging the full potential of their procurement function in getting the most value from their spend. Organizations that are not putting their procurement capabilities to full use need to assess why this is the case. Procurement teams are specifically mandated to achieve cost savings, and it is the management’s responsibility to ensure they are enabled to do so.

Procurement teams with highly mature category management practices in place are more inclined to attempt increasing effectiveness in managing direct spend. However, from KPMG’s experience, it is the overhead costs that tend to balloon if unchecked and not managed properly. Over time this can significantly impact the bottom line.

Overhead savings often carry little risk to the business given its distance from core business operations. However, since cuts in overhead affect daily administrative activities, the indirect impact can extend across business units. Cuts in overhead must mitigate for inadvertent consequences. This can be ensured through thorough category management work and conducting root cause analyses.

The survey results also show that the public sector has the least developed category management, with only 38% putting significant effort into managing direct spend and practically nobody managing indirect spend. The comparable results for the private sector were 88% for direct and 72% for indirect spend. Although there are differences in the circumstances under which these sectors operate, this still suggests that there is substantial untapped potential for cost savings in the public sector through the introduction and professional use of procurement functions.

Procurement functions add value beyond merely delivering cost savings. Nordic organizations also appreciate procurement for its role in delivering transparency and reporting on significant KPIs.

About 9 out of 10 of procurement functions say their organization identifies and tracks KPIs other than cost saving, i.e. process compliance, supplier performance management and service level improvement.

Using clear and relevant procurement KPIs lead to better corporate decision-making. KPIs need to be combined with accurate and credible communication with the stakeholders so that all involved understand and agree upon the value generated by procurement.

Savings can be made tangible by benchmarking against market levels.

Only 13% of procurement functions systematically use external benchmarks to compare savings to market levels. Benchmarking the value-add of procurement strengthens the robustness of data and supports the credibility of the CPO among other C-level executives. Benchmarked companies need to be comparable in size or industry as it works as a necessary reality-check and helps calibrate expectations. Leverage the benchmarks to define future business goals and identify room for improvement.

90%

of procurement functions say their organization identifies and tracks other KPIs than just cost saving.

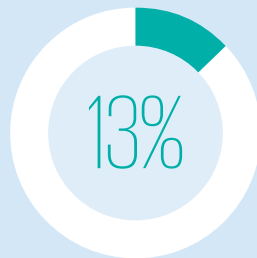
Our procurement related reports include other KPIs than savings

We use external benchmarks to rate the value of the organizations savings compared to market levels

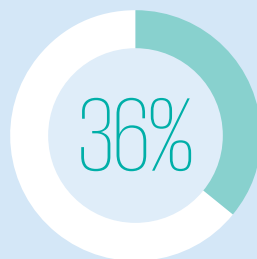
We put significant effort in the category management of direct spend

We put significant effort in the category management of indirect spend

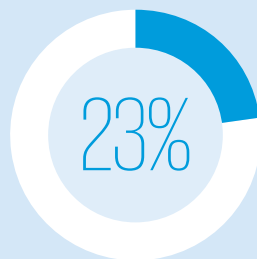
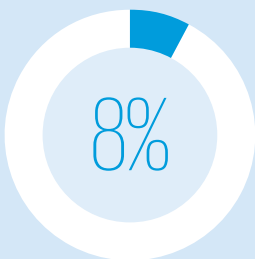
Fully agree



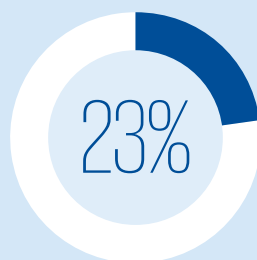
Somewhat agree



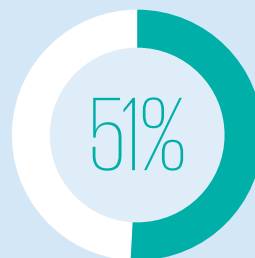
Somewhat disagree



Strongly disagree



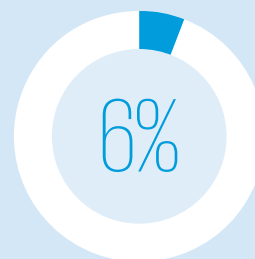
Fully agree



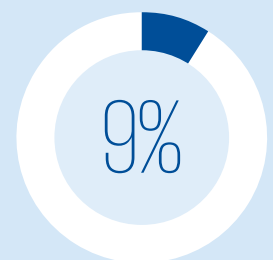
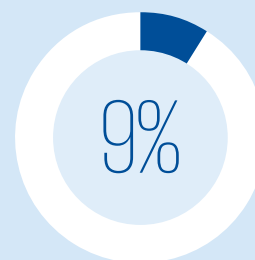
Somewhat agree



Somewhat disagree



Strongly disagree



Procurement is not sufficiently involved in the early phase of the sourcing process.

When not involved, the extent to which procurement can add value to the business is naturally limited. We believe that there is significant scope for the procurement function to add value in the early stages – a fact that 9 out of 10 respondents agree with.

Only one-third of respondents are organized to manage demand, benefit from economies of scale, and exert competitive pressure on their strategic suppliers.

Two-thirds of respondents say their procurement functions do not take the lead in managing and controlling demand. More than one-third of organizations do not involve procurement at all when sourcing.

A procurement function that partners well with internal clients will achieve better results. Centralizing and managing demand gives more bargaining power to drive prices down.

Several organizations develop sourcing strategies without alignment between procurement and business.

Nearly two-thirds of respondents said sourcing strategies are developed in a partnership between the business and the procurement function, with the procurement function taking the lead 52% of the time.

30% of the respondents state procurement has exclusive say over sourcing. Although this generally leads to higher cost savings, there is a risk that purchasing decisions do not adequately consider business needs.

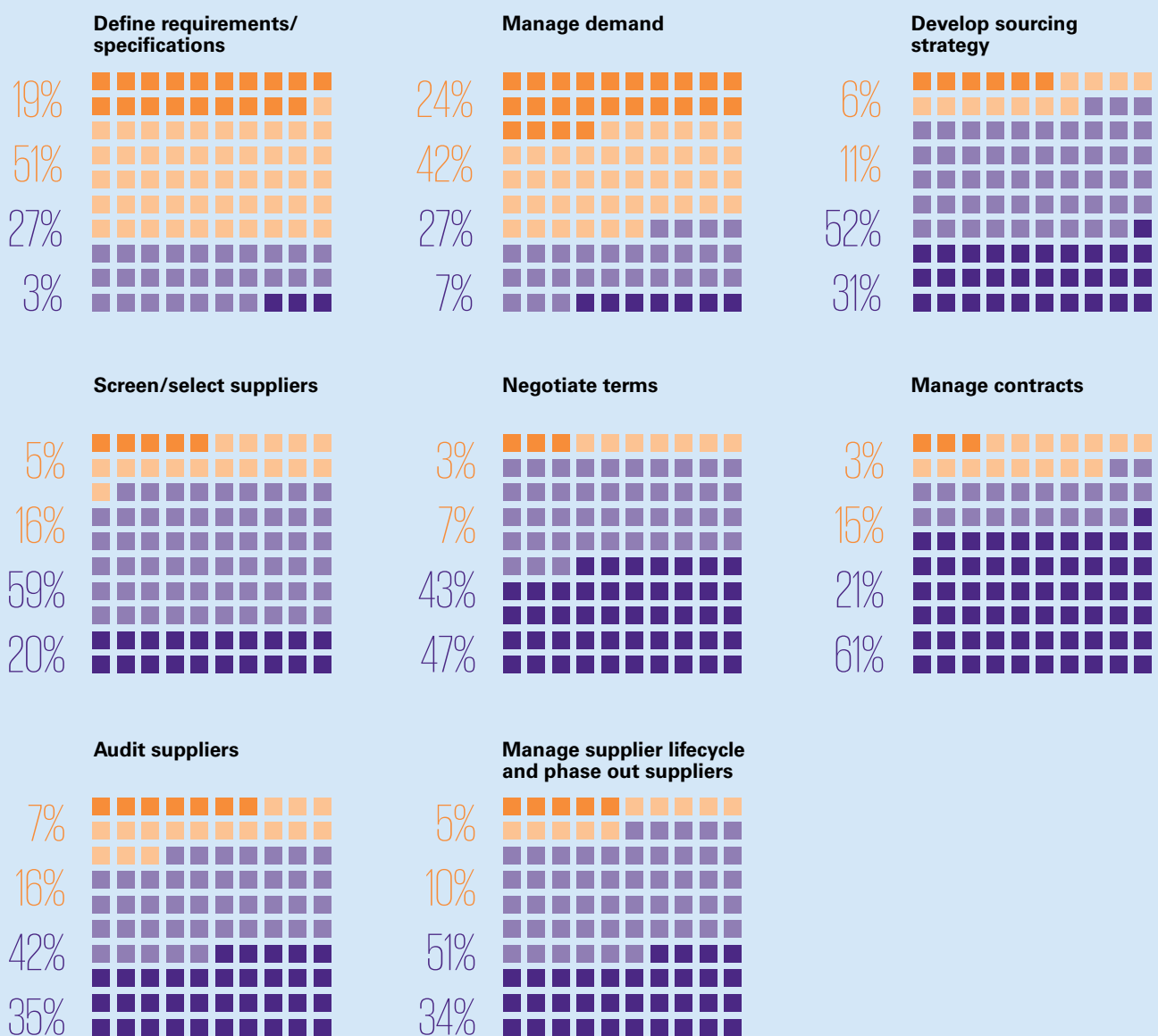
In a minority of cases (6%), sourcing strategies were exclusively developed by the business without consulting procurement. Such an approach is sub-optimal, as the business demand-owners do not have the holistic view of the entire organization, which makes it difficult to benefit from synergies. This leaves the business unable to benefit from stronger bargaining power and efficiencies of scale.

Organizations should analyze the effectiveness and relevance of their existing sourcing strategies to make sure that they underpin the wider procurement- and business strategies. These analyses need to be compared to stated and agreed-upon targets. Meaningful input-gathering from internal stakeholders is apparently a key challenge for Nordic businesses today.

Procurement's main responsibility in most organizations is (still) contract management.

There is broad agreement across industries that contract management is the main responsibility of the procurement function, with 82% of respondents agreeing with this statement. While this finding is not surprising, our experience is that contract management is in reality one of the more challenging procurement activities, and to realize the full benefits of effective contract management, need to assume a more comprehensive role.

Describe the level of involvement between the business and the procurement function in the following activities:



- Led by business
- Led by business with procurement support
- Led by procurement with business support
- Led by procurement



Part 2:

RISK

Risk management is an important part of the modern procurement function. Strong risk management can help companies navigate issues such as multi-tiered global supply lines and supply chain disruptions due to natural disasters, strikes or other unforeseen events.

Our survey considered how Nordic procurement functions approach and manage risks. In particular, we looked at how procurement risk management aligns with organizational risk management and how procurement manages supply-side risks.

Risk

Procurement ensures the availability of products and services to the organization when they are required, that they are fit for purpose, and that the right amount is procured at the right time and for the right price. The procurement function has to identify and assess the risks of not achieving these objectives – balancing the costs of volume predictability and quality with the organization’s needs and flexibility.

While procurement functions in Nordic organizations do consider risks, there is not enough emphasis on risk mitigation activities after the risks are identified.

Over 85% of respondents reported alignment between the procurement and the organizational risk agendas. This result is welcome, as it demonstrates that supply chain risk management is a recognized, important factor for business success. However, the question of how respondents follow through on risk mitigation is less clear. A surprising 4 out of 10 do not maintain mitigation strategies for managing supplier risks. Furthermore, 5 out of 10 do not have proper internal control systems in place.

These findings speak of an awareness of the importance of monitoring and considering risks, but lack of action to follow up with concrete action steps to manage the risks.

There is less alignment between procurement risk and organizational risk in the public sector than in the private sector.

The KPMG survey found a strong alignment in focus on procurement risk and organizational risk in much of the private sector. However, the public sector tells a different story. This lack of alignment could be related to how the public sector is organized, in particular the fewer financial incentives to manage risks or frequent change of leaders. The reality is that impact from risks such as deviations in quantity, quality and delivery times are the same for all organizations, regardless of the sector in which they operate, and they deserve the same level of attention.

We recommend that monitoring and managing risks in the value chain should have an equally high priority for the public sector as for private organizations.

Operational and direct financial risks are seen as more important than data privacy risks.

Respondents are most concerned with risks relating to daily operations, financial performance and regulation. Less emphasis is given to risks with less of a direct impact on the business. These risks include reputational, environmental and data privacy risks. While these risks might appear less tangible, their monetary impact can be substantial. A 2015 IBM & Ponemon study¹, found that data breaches cost on average \$68 per record lost in the public sector and \$121 in the private sector. This cost is rising steadily, and should be reasonable cause for a consideration of how your organization manages risks.

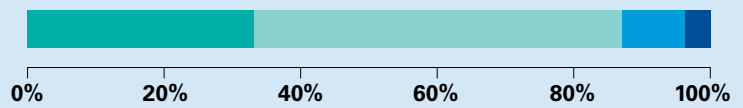
85%

of respondents reporting alignment between the risk agenda for procurement and the overall organization.

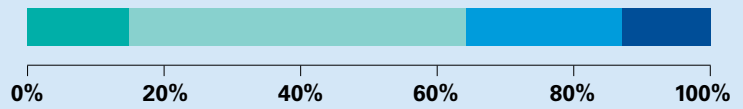
¹ Ponemon, L. (2015). Cost of Data Breaches Rising Globally, 2015 Cost of a Data Breach Study: Global Analysis. Security Intelligence.

How does your procurement function approach risk management?

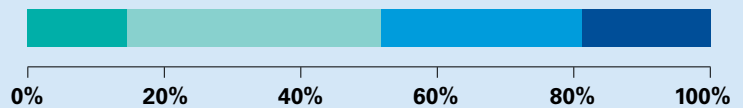
There is alignment between the procurement functions and the organization's risk agenda



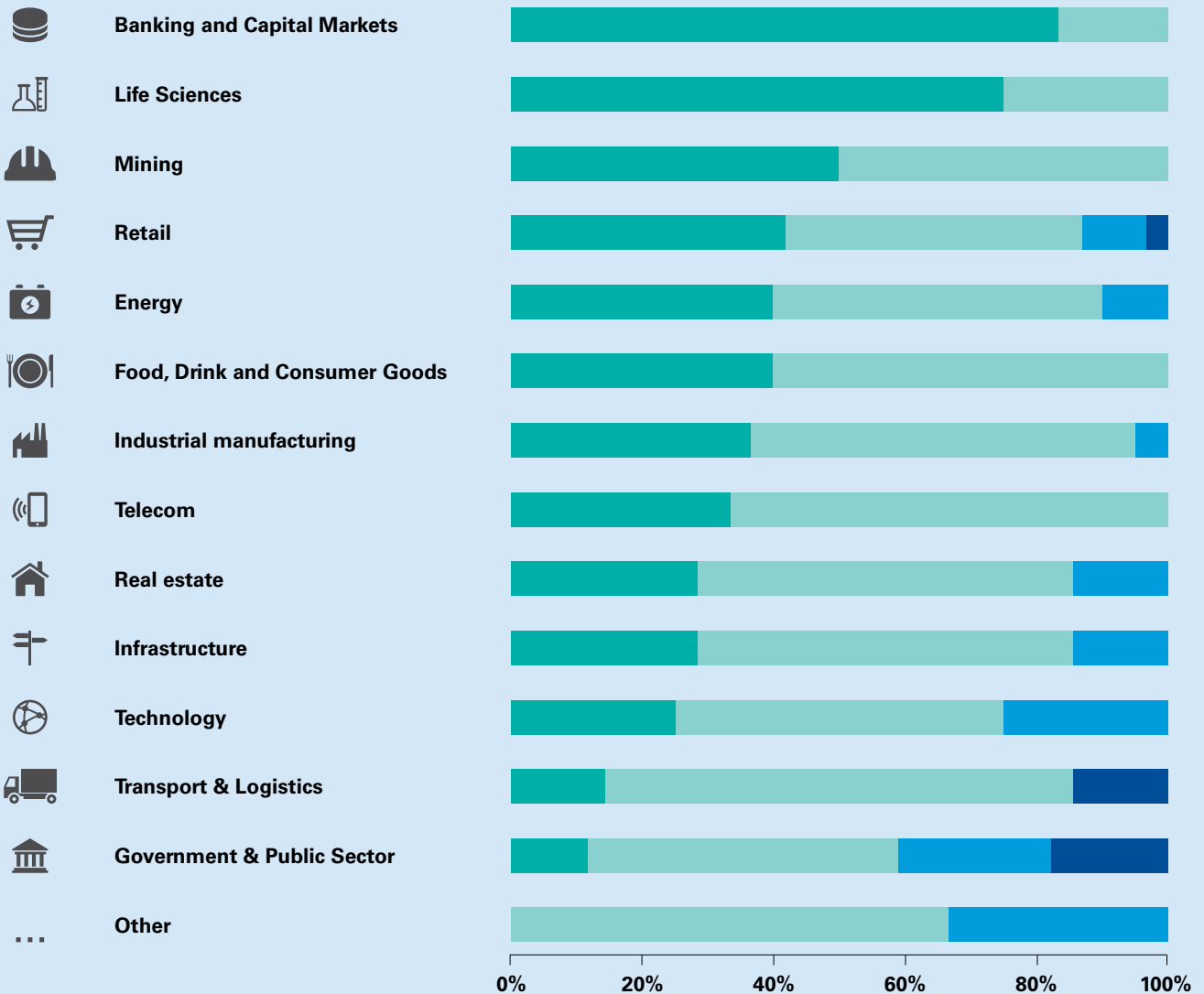
Documented and managed scenario plans exist for the management of supply risk, including risk mitigation steps, contingency plans and review points



There are automated internal control systems implemented for monitoring compliance with internal procurement policies and processes (i.e. "continuous monitoring")



There is alignment between the procurement function's and organization's risk agenda/strategy



Many procurement functions support the risk management of second and third tier suppliers to ensure a stable and resilient supply of goods and services.

Not all respondents conduct assessments and evaluations of their suppliers. The good news is that over 70% do this for both their suppliers and their sub-suppliers (i.e. second tier suppliers). Procurement functions that assess and mitigate second and third tier supplier risks are better prepared to handle unforeseen events.

In the past, supplier risk management has mainly focused on first tier suppliers. Our results reveal a growing maturity in procurement as attention shifts to the inherent risks of increasingly complex supply chains.

Supply chain risk assessments can be used to create risk profiles and concentrate resources on high-impact suppliers.

More than 60% of respondents carry out variations of supply chain risk assessments, segmenting suppliers according to their risk profile and potential impact on the supply chain.

If an organization's core business value is dependent on responding to customers with short lead times, it is naturally recommendable to conduct a full assessment of its supply chain and develop tailored risk management strategies for high-impact suppliers. The clear benefit of using smart supply chain risk management methods is to increase risk awareness and mitigation. Another positive but perhaps less obvious outcome is to enable organizations to develop long-term sustainable relationships throughout the supply chain.



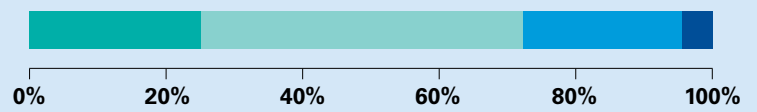
of the respondents state they carry out some form of risk evaluation of both their suppliers and their sub-suppliers.



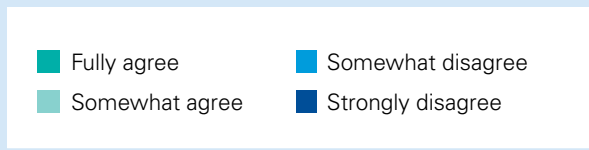
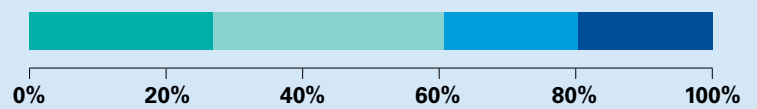
of the organizations are carrying out supply chain assessments, with suppliers segmented according to their risk profile and potential impact on the supply chain.

To what degree does the procurement function assess and manage risks among suppliers?

Evaluations are not only carried out on our direct suppliers, but also on all their sub-suppliers for all risk types



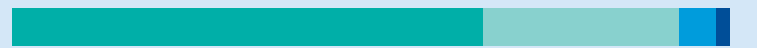
Formal assessment and segmentation of the supply base according to severity and risk type (1) is executed in order to prioritize risk management approach



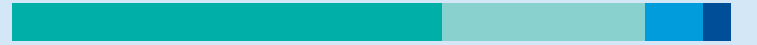
Our procurement function considers the following risk dimensions in its category strategies:



Operational



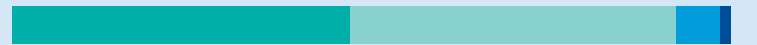
Financial



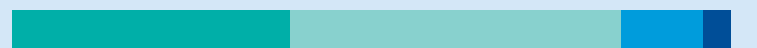
Regulatory



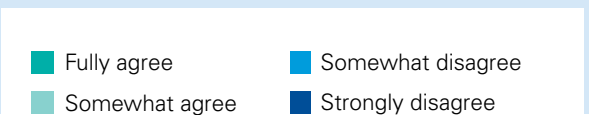
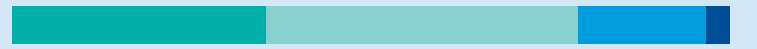
Reputational



Environmental



Data privacy





Part 3:

Capabilities

Procurement is gaining prominence at a strategic level and in the boardroom, but how do organizations make sure the capabilities on the operational level are fit for purpose? The survey considered the measures that Nordic organizations are taking to increase the professionalism of their procurement functions. In particular, focusing on training, as the zeitgeist of talent shortage makes talent development a top priority for all organizations.

Capabilities

Procurement functions must be able to achieve and deliver the business value expected. To do this they must have the capabilities to identify, negotiate and manage potential opportunities in the supply market. They must also dedicate investment to high quality training to create a lasting beneficial effect on their procurement activities.

Nordic procurement organizations are becoming more specialized.

Almost 80% of respondents say that their procurement function has become more specialized over the past couple of years. This is particularly true for the financial services, banking and capital markets, mining and telecom sectors. This finding is not surprising as these sectors are under severe competitive pressures and are thus more likely to invest in specializing their procurement functions. The government and public sector, life sciences and energy sectors experience a decline in specialization (although this might equally suggest that significant specialization has taken place in previous years).

Organizations must read the business climate and set clear specialization goals for the procurement function that are appropriate to the function's maturity. These goals should then be built into an overall capability development roadmap.

Training is still the main response to talent shortages.

About 84% of respondents consider talent shortages to be an issue. This finding is in line with those of the KPMG Global CEO Outlook 2015, which identifies talent shortage as "one of the toughest issues companies need to address to stay relevant".

A common approach to addressing talent shortages is through internal training. It is however wise not to ignore technology as a driver of capabilities. Increased technology investment can play a role in releasing procurement staff from time-consuming, low-value tasks, allowing them to concentrate on higher-value activities. Effective talent management should therefore include investment in both training and appropriate technology to get the optimal results.

Investment in training decreases with centralization of the procurement function.

Just over one-quarter of respondents with fully centralized procurement, spend more than five days training per year on each member of the procurement team. In comparison, 3 out of 5 organizations with decentralized procurement functions invest more than 5 days in training for their employees. This either suggests that staff at centralized procurement functions do not require as much training, that staff with stronger competencies is recruited, or that the centralized functions miss out on recruiting capable procurement professionals. We hypothesize that staff in centralized procurement organizations are more likely to use their training regularly, and should therefore get a higher ROI from training. This finding will be pursued in the next Power of Procurement.

80%

of respondents believe that their procurement function has become more specialized.

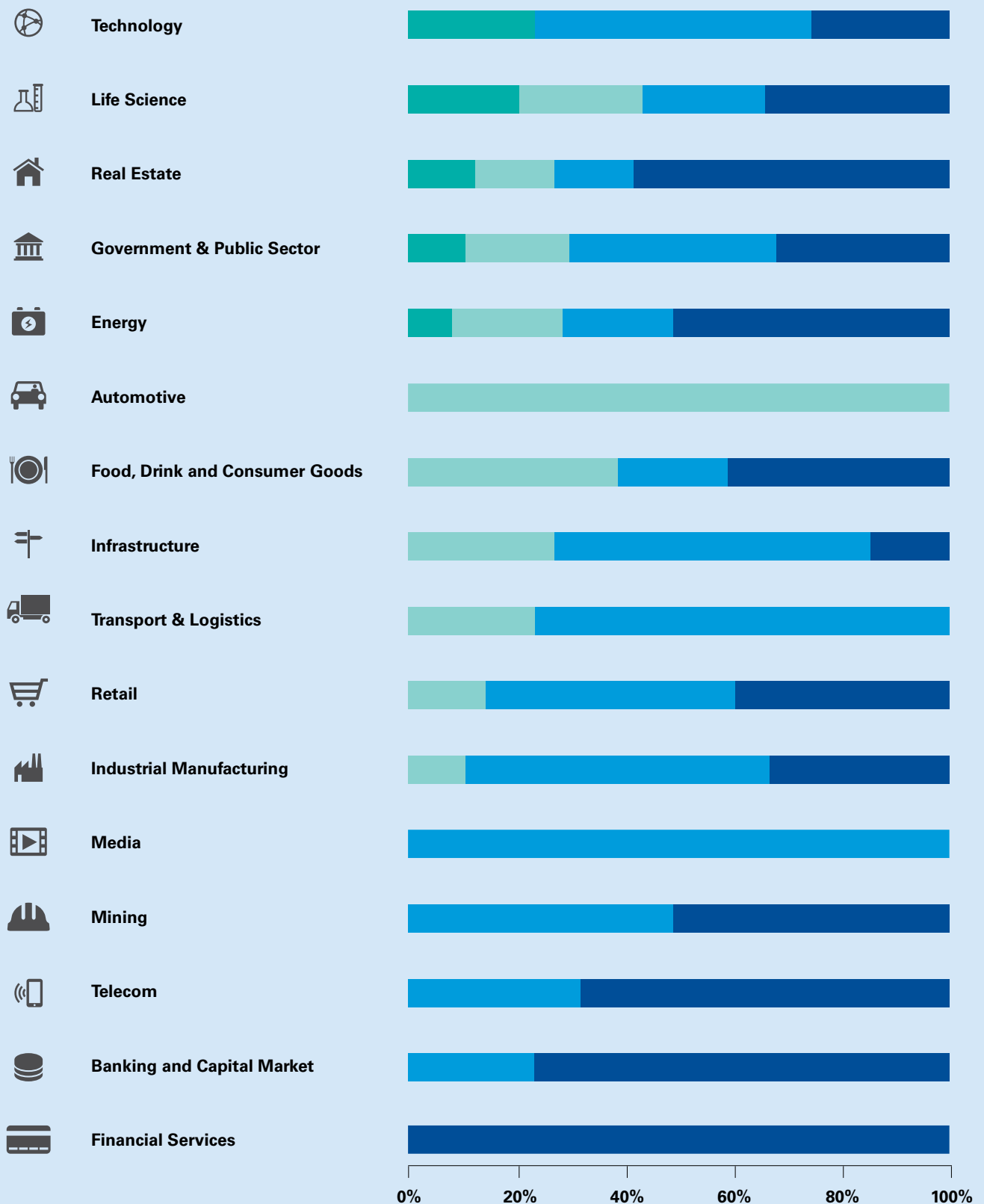
84%

of respondents consider talent shortages to be an issue.

60%

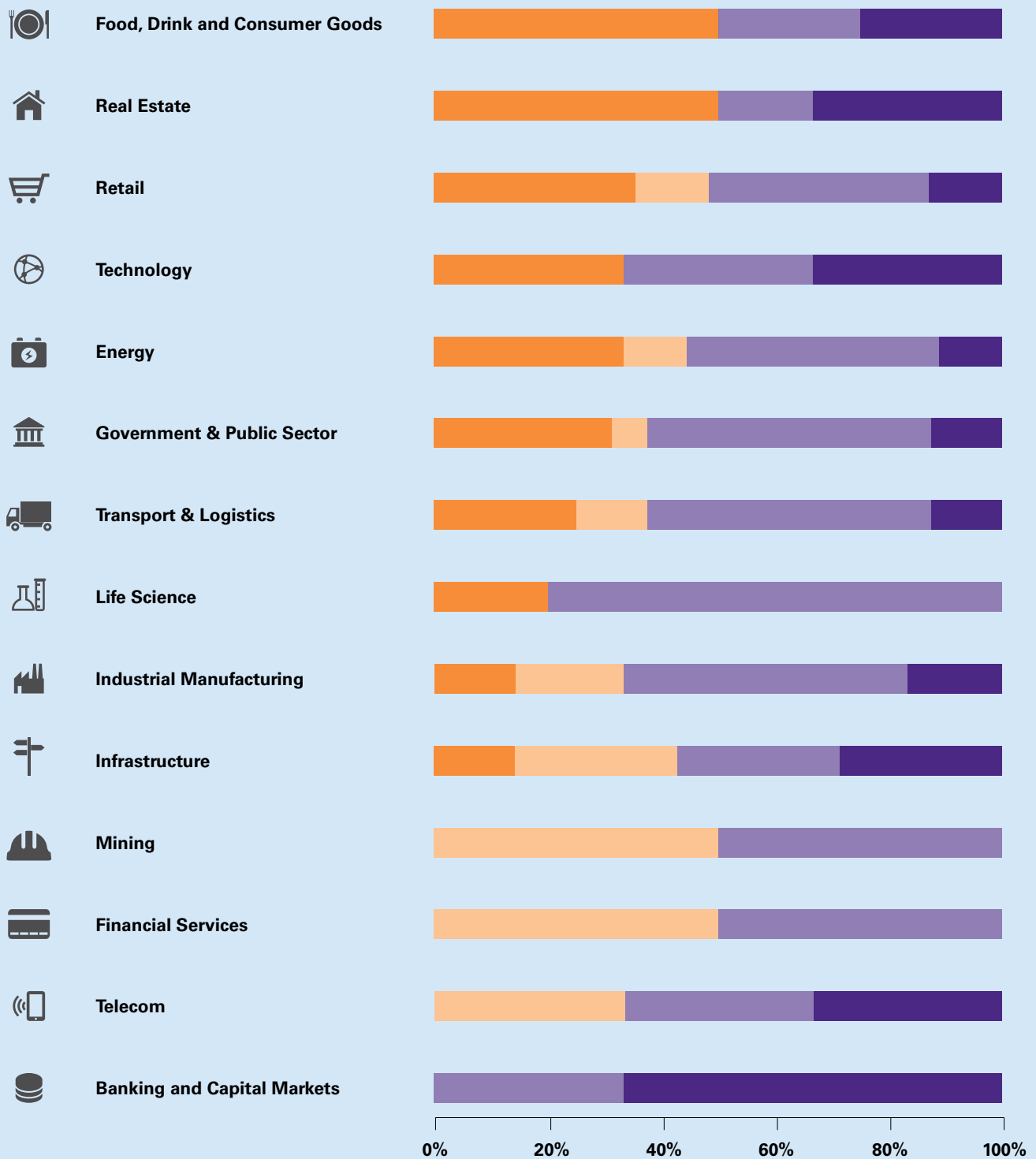
of the organizations with decentralized procurement functions invest more than 5 days in training for their employees.

Our procurement function has become more specialized in the last 2 years



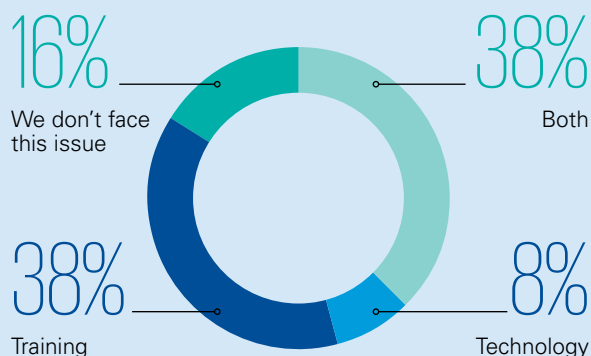
■ Fully agree ■ Somewhat disagree
■ Somewhat agree ■ Strongly disagree

To what extent is business-partnering included in training?



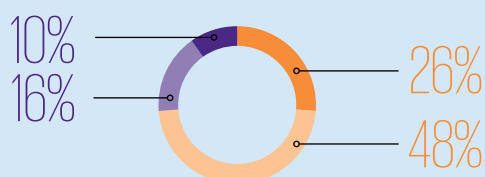
- Business-partnering skills are not covered in the training
- Business-partnering skills will be included in the training in the near future
- A few aspects of business-partnering skills are included in the training
- Business-partnering skills are well covered in the training

What is the main way in which your organization address talent shortage?

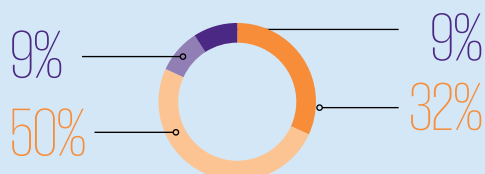


How many days a year do procurement staff participate in training?

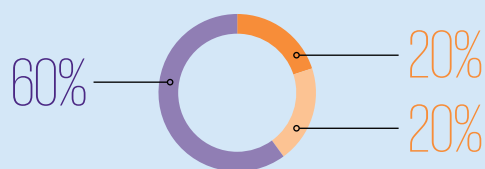
Centralized procurement organization providing support for the whole organization



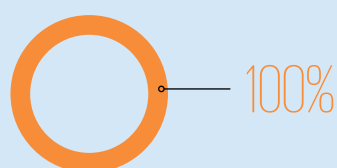
Local/regional procurement function supported by central procurement



Local/regional procurement function



No formal procurement function



Procurement training needs to include business partnering.

Just over 60% of those surveyed include a few aspects of business partnering as a minimum in their formal procurement training. This figure rises to over 80% in the life sciences and banking and capital markets sectors.

Organizations that do not do so already, should take steps to include business partnering in their formal training. This will help the procurement team better understand the demands of the business and help them engage more meaningfully with the business stakeholders.

Organizations that already include business partnering in their training should focus on the quality of that training, in terms of establishing pilots of cross-functional teams that link business with procurement. We recommend setting targets and documenting the effects of this training, also allowing for adjustments to the organization, ensuring that the cross-functional team can be implemented successfully.

The strength of procurement's business strategy and management skills is an important indicator for how the function carries out procurement processes such as demand management and defining product/service specifications.

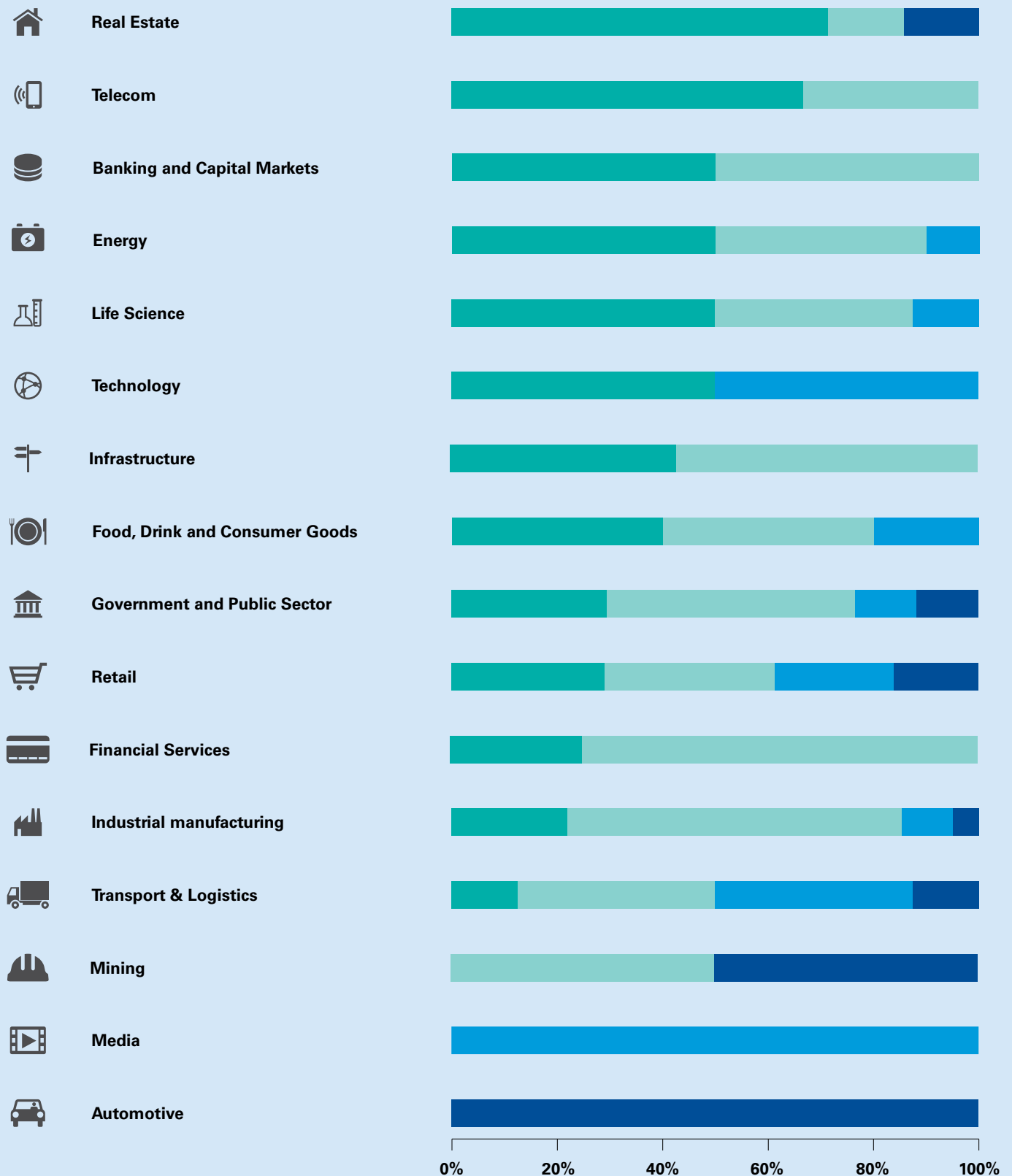
Just over three-quarters of respondents consider their procurement function to be strong in business strategy and management skills. This is positive. However, there is room for improvement, particularly in the automotive, mining and media sectors. Improving these skills will enable the procurement function to operate more effectively, get recognition by top management and deliver more value to the business.

To create true value, the procurement function must understand the business and categories it manages.

On average about 85% of respondents state that their procurement functions know enough about their categories under management. This rose to all respondents in the sectors infrastructure, financial services, banking and capital markets, energy, and the food, drink and consumer markets.

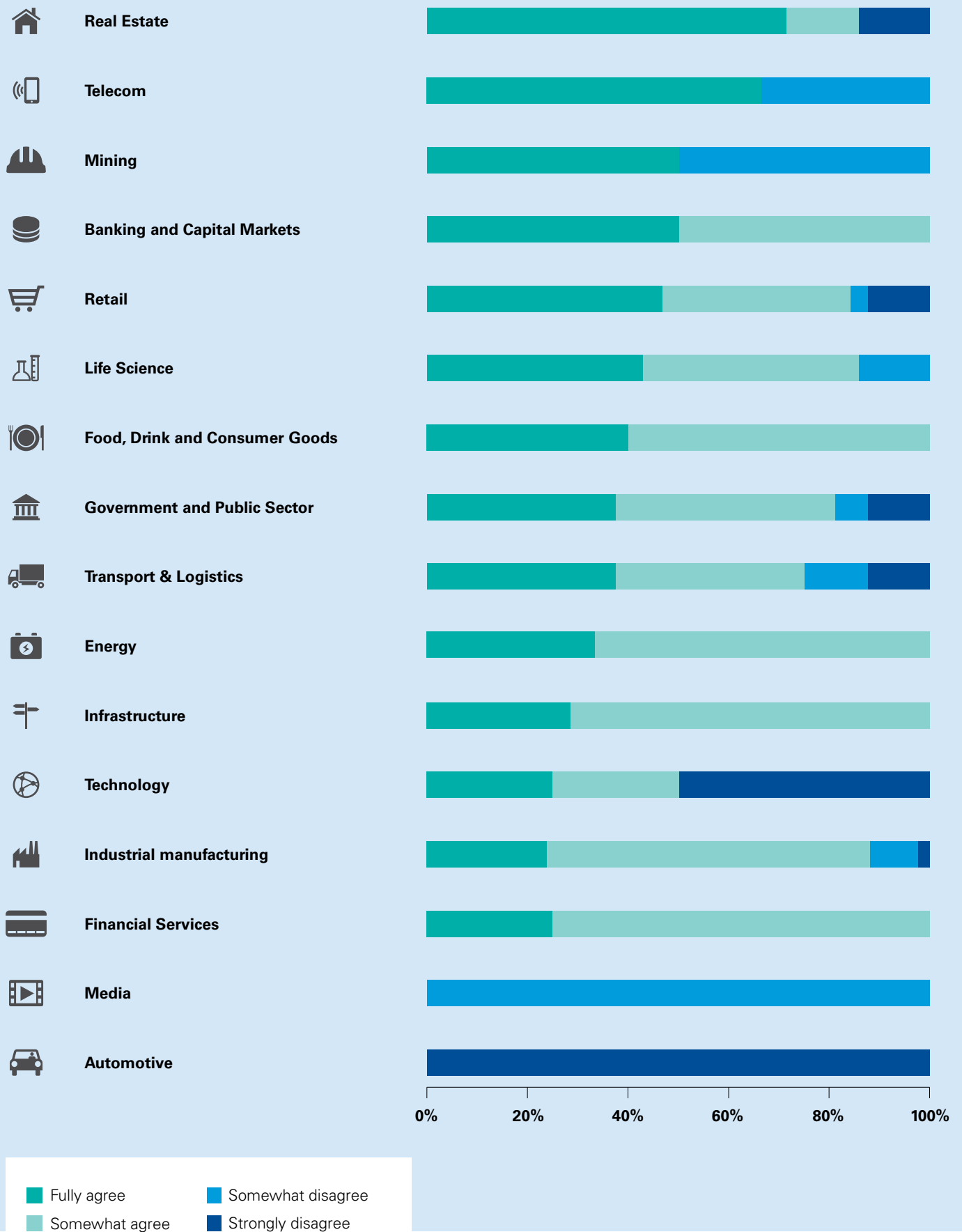
We believe that, regardless of sector, the procurement function has an imperative to understand the internal and external factors affecting sourcing decisions. Acting confident and with firm competence about categories is key to gain trust from internal stakeholders, which in turn drives better and more effective relationships.

The procurement function consists of members who have strong business strategy and management skill sets:



■ Fully agree ■ Somewhat disagree
■ Somewhat agree ■ Strongly disagree

The procurement function consists of members who have relevant category knowledge





Part 4:

Sustainability

The external impacts of organizations activities are becoming increasingly important for organizations to manage. This comes from the realization that organizations' externalities when aggregated, significantly affects communities on a local and global scale. The concept of sustainability derives from the idea that the externalities of an organization's activities should not negatively influence stakeholders, but rather promote positive change along the environmental, social and financial dimensions. This attention to externalities bring both new opportunities and new challenges for business to address. Our survey assessed how mature Nordic procurement functions are in addressing sustainability issues.

Sustainability

Sustainability is becoming an increasingly important part of the organizational agenda. Regulation at international, national and local levels is leading to a growth in requirements that companies must follow. At the same time, stakeholders are putting pressure on companies to monitor and improve their environmental, financial and social performance. How does this influence the Nordic procurement landscape?

The majority of procurement functions considers sustainability increasingly important.

More than 70% of survey respondents report that their procurement functions have increased their focus on sustainability over the last three years. The increased focus makes sense, given that the main sustainability drivers for any organization align directly with profit-maximizing strategies (reducing risk and improving the financial performance of the supply chain), in addition to most organizations being subject to requirements by governments to report on corporate social responsibility.

Studies have also shown that sustainability pays off.² Procurement should consider the social, environmental and financial impacts of all the tiers of the organization's supply chain, especially for major suppliers. Assess all steps of the value chain to avoid negative externalities, and drive positive initiatives. This could encompass how consumption and disposing of materials happens throughout the value chain, how the end-product or service is delivered, how return logistics is organized and how products are designed to reduce negative environmental impact.

Most procurement and business strategies align on the issue of sustainability.

Nearly all respondents state that sustainability is part of their procurement strategy. Adding to this, more than 75% said that the organization's and the procurement function's sustainability strategies were aligned.

However, nearly two-thirds of respondents either saw sustainability as a secondary priority for procurement or said there is no strong buy-in for including sustainability in their procurement strategy. Almost 25% mention sustainability in their overall strategies, but do not believe this focus is trickling down to the company's procurement strategy.

Organizations, which actively manage their externalities, tend to perform better. By executing sustainability objectives, they can optimize shareholder value, and the procurement strategy is often a predecessor for such initiatives. This issue needs buy-in from the very top. To this end we recommend sustainability be included in executive metrics³.

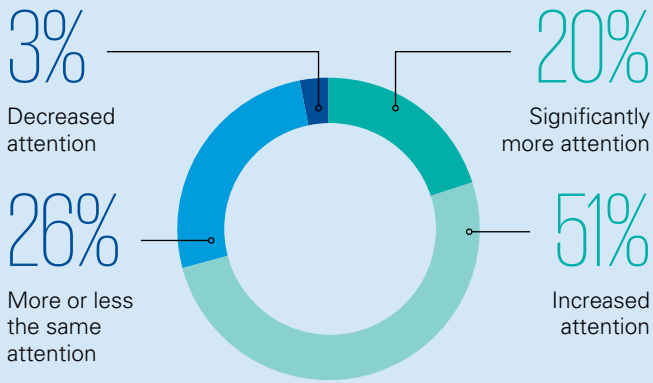
Organizations with strategically competent procurement functions are more likely to have sustainability goals more embedded throughout the organization.

The survey results indicate an alignment between highly integrated sustainability goals and a stronger strategic capability in procurement. Increasing the level of strategic competency within the procurement function is therefore one of the pillars driving sustainability in an organization. Leveraging this can be helpful in ensuring the organization is equipped to tackle new regulations and able to take advantage of potential first-mover advantages from sustainability initiatives. When recruiting, businesses can leverage the knowledge that strategy skills are important to drive sustainability initiatives. Nevertheless, several procurement functions stated having less strategic competencies, also reported alignment between the organizational sustainability and the procurement strategies. This indicates this is not a catchall answer for all organizations.

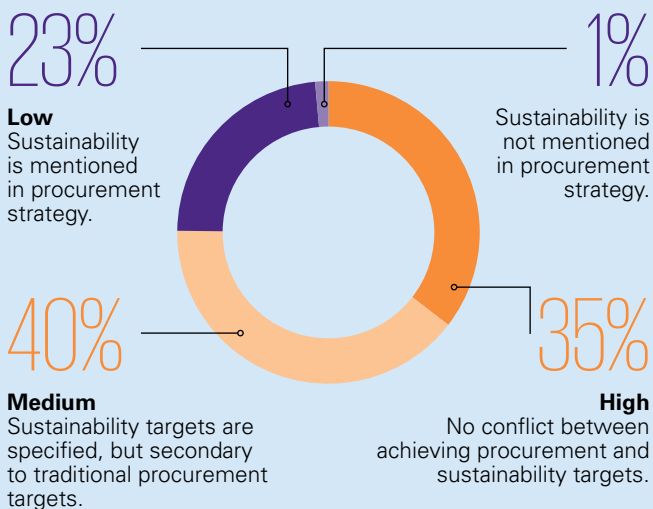
² In a 2012 study, Harvard Professor Robert Eccles followed the stock of 180 companies over 20 years. He found that companies which adopted sustainability policies experienced significantly higher growth than those which did not.

³ Measures such as reporting on a triple bottom line or using Global Reporting Index standards will require metrics from all departments, not just procurement.

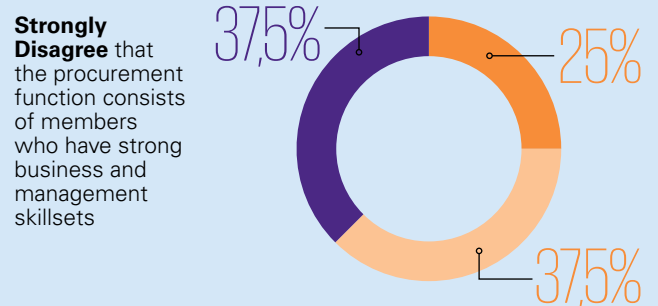
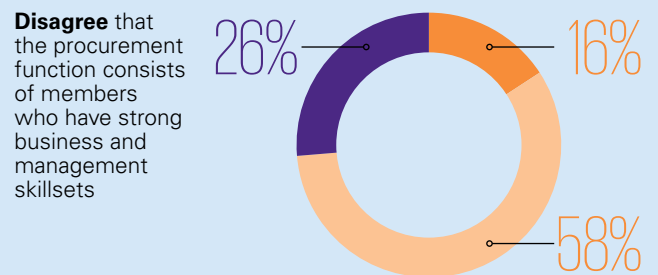
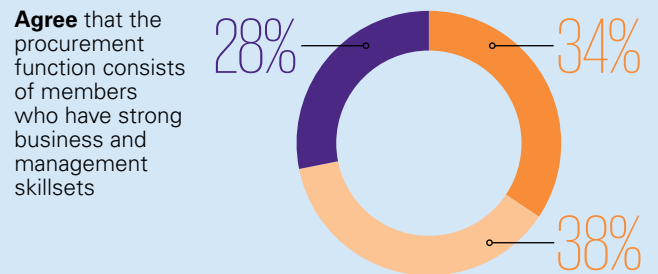
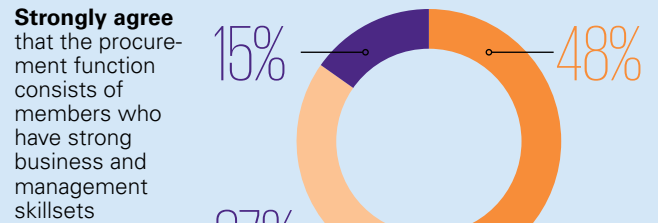
How would you describe your procurement organization's focus on sustainability over the last 3 years?



How well are your organization's corporate sustainability objectives integrated into your procurement strategy and business plans?



What is the correlation between a procurement function's degree of strategic skillsets and sustainability ambitions?



- **High:** No conflict between achieving procurement and sustainability targets.
- **Medium:** Sustainability targets are specified, but secondary to traditional procurement targets.
- **Low:** Sustainability is mentioned in procurement strategy.

Organizations are engaging more in their suppliers' sustainability efforts.

75% of respondents report that they contribute to their suppliers' sustainability measures, either by providing tools and support through co-investments or by dictating mandated compliance regulations.

The question often asked is how to balance bids between the top two economically viable suppliers if the most viable option has cost benefits but negative externalities. The answer lies in determining the real value of a product (or service) and establishing if the environmental and social costs can offset the positive outcomes from its use.

Organizations focus on social and financial factors slightly more than environmental ones.

About three-quarters of respondents consider the social and financial impact of their procurement. This proportion drops to two-thirds when it comes to environmental concerns.

This finding could be due to a perceived lesser significance of environmental issues to businesses. While almost all industries can observe their impact on social and financial matters, many organizations consider they have little environmental impact and believe they can worry less about this.

Our experience shows this is often not the case. We recommend that organizations consider this carefully, rather than discovering too late that policies covering the social, financial and environmental impact of the business should have been in place.

100%

of respondents state that sustainability is part of their procurement strategy.

75%

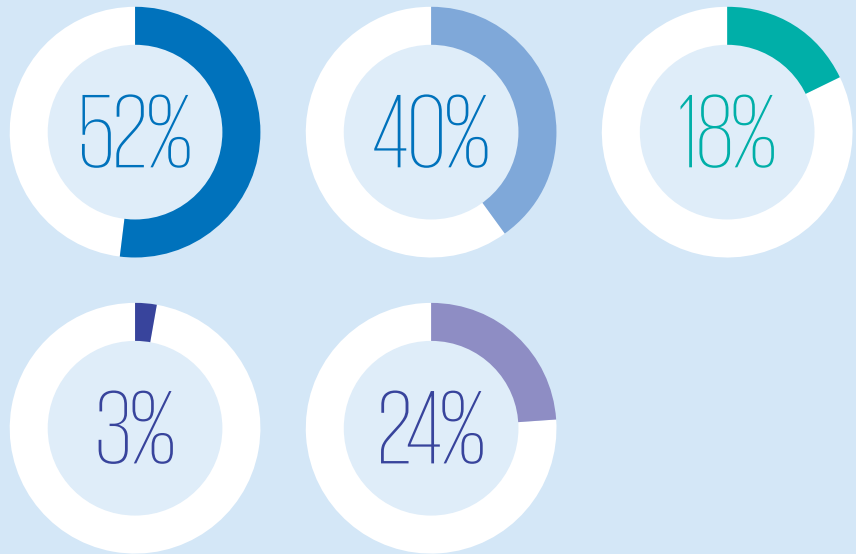
of respondents said that the organization's and the procurement function's sustainability strategies were in line with each other.

25%

of respondents mention sustainability in their overall strategies, but do not believe this focus is trickling down to the company's procurement strategy.

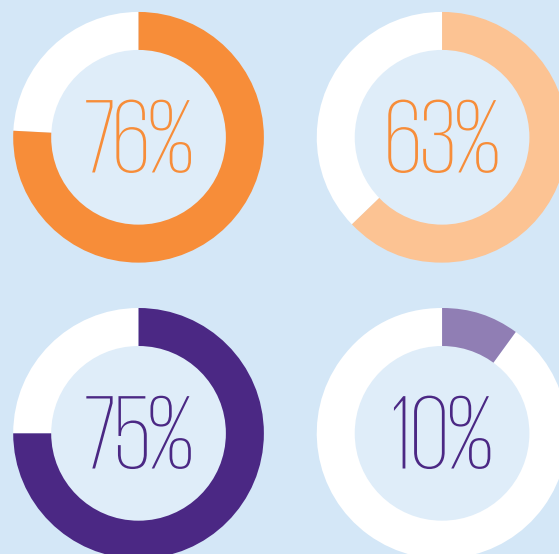
How does your organization drive sustainability at its suppliers?

- Sustainability is included in mandatory Code of Conduct/ Policy
- Periodic supplier visits/audits for strategic suppliers
- Support suppliers with methods and tools to improve sustainability performance e.g. training, conferences, reporting guidelines, etc.
- Share supplier investments to become more sustainable e.g. wastewater treatment plant, energy efficient equipment, emission reduction filters, etc.
- Not involved in our suppliers' sustainability initiatives



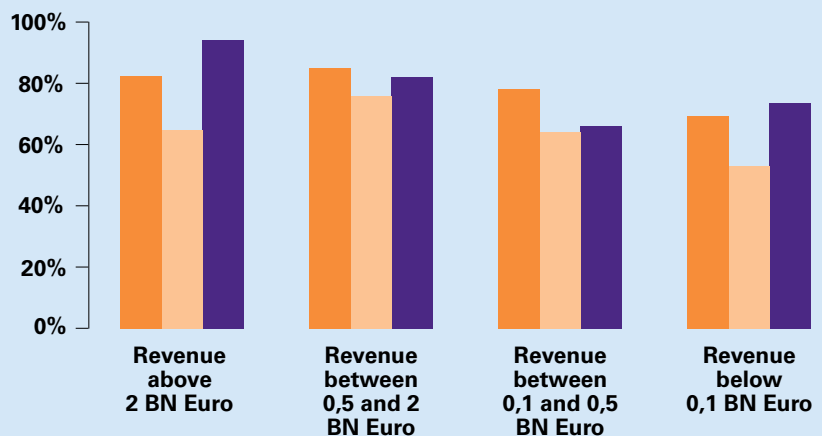
What factors are considered by procurement when considering suppliers' externalities?

- Social (child labor, health and safety, working conditions)
- Environmental (emissions, water, energy, toxic substances, product lifecycle impact)
- Economic (corporate governance, corruption, code of conduct, innovation, customer satisfaction)
- Suppliers' risk is not evaluated from a sustainability point of view



To what extent do size of the company matter when considering suppliers' externalities?

- Social (child labor, health and safety, working conditions)
- Environmental (emissions, water, energy, toxic substances, product lifecycle impact)
- Economic (corporate governance, corruption, code of conduct, innovation, customer satisfaction)



About the authors



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