

# Supply

MANAGEMENT  
INSIGHTS

ISSUE 08

Find answers with

# ADVANCED ANALYTICS





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## Dear Readers,

The future is digital, there's no doubt about that, and it's also clear that the possibilities are currently far from being exhausted. Companies are setting large-scale digital transformation projects in motion, and dealing with new technologies. However, many projects fail because of a lack of organizational readiness, as it's vital to set up the prerequisites for successful digitalization first. In our cover story we look at the question of what's important here. Are you ready for the future?

In procurement, advanced analytics is one of the most effective methods for achieving success quickly with the help of digitalization - we will show you how you can use it to achieve significant gains in efficiency.

The issue of digitalization runs through all areas of procurement. This is proven by the results of our current studies on strategic raw material procurement and working capital management, and we'll be presenting the results to you in this issue.

In Scandinavia, digitalization is already a lot further ahead - Denmark took first place in the DESI (Digital Economy and Society Index) in 2019. Our new Managing Director in Copenhagen, Morten Bøgh Skaarup, reports on what else is moving the country's economy.

Happy reading, and good luck on your path to the future,

A handwritten signature in blue ink that reads "Thibault Pucken". The signature is fluid and cursive.

**Thibault Pucken**  
On behalf of the Management Board





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## Digital Procurement

Faster and better decisions with  
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## How Buyers Can Use Advanced Analytics

# Ready for the FUTURE?

Digitalization and new technologies have changed our private and professional lives and actions significantly over the last five years. Companies are not only noticing these trends in the changing patterns in consumer demand, but also through the entire supply chain.

**M**any companies are currently in a race for customers, on the one hand, and for raw materials on the other, and they are investing more and more money in digital transformation. However, many digitalization projects fail because of a lack of specialist understanding and the right focus. There has long been a wide range of tools available that can make staff's work more efficient and effective. In procurement, too, companies can and should make use of digital tools and methods such as advanced analytics, e-sourcing, KI & ML. >



### / Advanced analytics

Advanced analytics encompasses a wide range of assessments that can help bring about changes and improvements to business processes. While traditional business intelligence (BI) analytics tools examine historical data, advanced analytics tools focus on predicting future events and behaviors. They provide what-if analyses, making the effects of potential changes in company business strategies predictable. (Source: TechTarget)

If it can link these complex structures, advanced analytics isn't just a crucial component in any company's digitalization strategy, but also a lucrative investment.

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Sometimes, the minds behind the greatest science fiction stories had a good idea of what the future might look like; for example, the people who designed the bridge of the legendary Starship Enterprise: large screens on the walls and in front of them buttons for controlling the entire starship. Similar control rooms might very soon be reality in supply chain managers' and buyers' offices – definitely before the year 2200, and not just for space travel, but in companies worldwide. The rise of **advanced analytics** in every area has created new opportunities for data analysis and visualization.

Soon, anyone keen to optimize business processes won't be sitting in front of mountains of paper any longer, but in front of large monitors that show where potential can still be exploited, in real time.

New, powerful tools now make this possible. It's a quantum leap, especially for procurement. The corporate sector might have a large amount of data, but it also has a fragmented system for recording it. Procurement doesn't just happen in the procurement department: it has interfaces to every part of a company, each with its own databases.

If it can link these complex structures, advanced analytics isn't just a crucial component in any company's digitalization strategy, but also a lucrative investment. But for this to pay off, a structured approach is essential; your organization must prepare for this kind of restructuring in advance, to achieve **organizational readiness**: clear responsibilities are crucial.

Digitalization only works if every user is on board and if top management creates the right incentives and makes resources available. People with the necessary skills also need to be brought together. The buyer has specialist knowledge, and the digitalization expert has technical expertise. In many companies, there is still too little dialog between these departments; improving this is vital if a company is to initiate a targeted and effective change process.

### / Competence profiles





## / Organizational Readiness

Recognition of how prepared an organization may be based on the current conditions prior to implementing change.  
(Source: IGI Global)

Digitalization does not follow a “one size fits all” principle; every company is structured differently. A tailor-made roadmap for your digitalization process should take this into account. Your specific company structure and existing decision-making processes should also be considered.

As soon as you’ve defined the roadmap, the next task is making the relevant processes transparent and digitizing them with the aid of tools. The main foundation is an agile and cross-departmental way of working. Concepts such as SCRUM are helpful, but it’s important to get training or talk to experts first.

It’s only when you’ve reached organizational readiness that it makes sense to take concrete measures; projects involving advanced analytics, in particular, require a fundamental paradigm shift in procurement. It’s not just about creating descriptive, retrospective data analyses, but ensuring that future events and scenarios can be modelled, for example, predictive analytics, digital twins or simulations. >

## The Organization’s Digital Maturity

The essential first step is to define your expectations of digitalization, because these can often be wide-ranging. Machine learning, artificial intelligence and blockchain will certainly be of help in the future, but these concepts are often still very abstract and it’s important to put them in concrete terms concerning a company’s purpose and requirements.

First of all, those responsible for digitalization need to demystify the process. Usually, it’s not about turning all of the company’s processes upside down in a disruptive way, but just about adapting some processes to make them more effective. Instead of going straight for a blockchain solution, aspects such as e-sourcing, process performance or advanced analytics can be a sensible first step. Managers who formulate concrete and realistic expectations can take the pressure off themselves and allay employees’ fears.



### Why Advanced Analytics?

Advanced analytics is one of the most effective ways to quickly reach a sense of achievement as part of the digitalization of procurement. This is because the methods behind the term use resources that have long been in the company. Many managers believe their records to be incomplete or inaccurate, but this is often an unjustified concern: existing data is valuable, but most of the time it's difficult to extract and analyze using traditional tools.

The most significant impact of advanced analytics is that it enables important decisions to be made much more quickly, based on more solid facts. If you know exactly what you currently have in your warehouse, for example, you can reorder much more accurately, and analysis means you have a future-oriented view, for example, through simulations based on data sets.

Companies can assume that the quality of analysis will improve in the years to come. The amount of data that can be fed into tools is growing and this data doesn't only come from the companies themselves: extra information from business partners, suppliers and public sources open up entirely new possibilities. It is important that the system architecture is designed from the start so that new data sources can be flexibly linked up, enabling you to optimize the benefits of the tools even more.

**Overview cockpit:**  
most important  
procurement function  
KPIs on one dashboard





It's important to set clear goals: analysis for the sake of analysis won't bring about promising results.



### Advanced Analytics in Procurement

Advanced analytics promises major efficiency gains, especially in procurement. There are many potential applications. So much is possible, from pure visualization using customized dashboards to the analysis of trends and simulation of future scenarios.

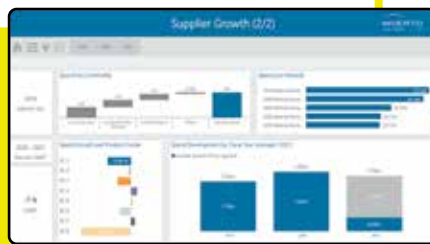
First, however, comes the data extraction. It's not about going deep into databases and looking for hidden data; instead, everyone involved should help to create transparency – from identifying relevant data sources and their storage location to the possibility of linking them.

You can then define the analysis you want more specifically, based on this data and the goals you want to achieve. Depending on your goals, this could be, for example, a seasonal comparison, logistics costs per kilometer, and external indices such as raw material prices or currency fluctuations that have an indirect effect on your business. The collected data then needs to go through what we call a "sanity check": incorrect data that could distort the analysis results need to be filtered out. This can often be commonplace, especially when data is updated manually. It can lead to many errors, for example with prices if an extra zero appears in your document. The actual analysis begins with the clean data set. For the analysis it is important to set clear goals: analysis for the sake of analysis won't bring about promising results. >

**Category cockpit:**  
to identify category specifics  
and procurement levers

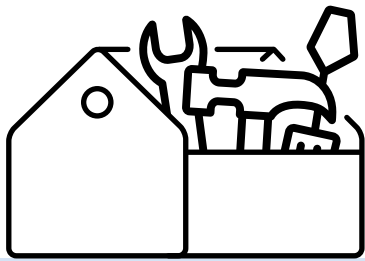


**Supplier cockpit:**  
to analyse supplier data  
and developments to  
prepare for negotiations



**Spend fragmentation:**  
to identify spend fragmentation  
and consolidation potential





## A good tool box can take you from separate standalone solutions to consolidated, meaningful dashboards

Our example of a large transmission manufacturer shows how much potential lies hidden in advanced analytics: for many years, the company had a very fragmented approach to the use of data analysis in their procurement. Each department used its own analysis tools and different databases, which meant a consolidated view and exploitation of the company's existing analysis potential was impossible.

Using a few small but effective measures, we were able to build ten procurement-related dashboards from the existing data, all highlighting different aspects. For example, these dashboards visualize exchange rate fluctuations and help identify possible sales advantages for suppliers so that these findings can be used in negotiations. Should-costing analyses are also part of the company's new toolbox: by using in-house and external data, it's now possible to precisely evaluate the price a supplier is charging and determine what a reasonable price for this product would be.

The database required for this very comprehensive toolbox was by no means complex: the company just needed order data for the last three years, with some extra information from the accounting department. It also includes data from publicly available sources, such as exchange rates. Employees can easily update the toolbox with new datasets so that the analyses created are always up to date. They can also adjust how the dashboards look without any in-depth IT expertise. Thanks to the toolbox, the company has managed to use existing company data combined with external sources. This way, it could exploit the full potential of procurement data and gain insights that now make decision-making easier.

|    |   |
|----|---|
| 1. | Purchase Price vs. Quantity Development |
| 2. | Supplier Competition on Material Numer  |
| 3. | Best Price Potential                    |
|    | ...                                     |

Price-quantity development per SKU



Below, we offer some specific, beneficial use cases that companies can use as a guide:

**The Spend Cube**

Companies can use a spend cube to analyze their entire spending structure and identify opportunities. As well as orders and invoices, companies can also feed in external data sources such as material prices. The analysis tools behind the scenes work much faster than an employee could: millions of files can be processed quite easily.

The overview can also be helpful when it comes to ordering times, for example: are certain materials cheaper in spring than in the fall? Is it perhaps worth buying earlier and storing for longer? Which suppliers charge higher prices? Can these differences be explained by material costs? By using spend cubes, procurement managers not only control their organization’s purchasing behavior more efficiently, but also have sound data as the basis for supplier negotiations.

**Inventory Optimization**

Companies can add another dimension to their expenditure data by optimizing their inventory with inventory lists and sales figures. Whether it’s in the warehouse, pre-production or the end user’s business, some parts and products stay on the shelf longer than others. Procurement can identify which items are in particular demand and adjust accordingly; why continue placing orders at the same rate for “deadstock”? And if demand for certain products should change, decisions can be revised thanks to the real-time nature of the data being processed.

**Spare Parts Management**

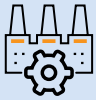
Thanks to advanced analytics, companies are also approaching warehousing from a different perspective. Traditional spare parts management can be made much more efficient by using new tools. Unnecessary warehousing results in high costs. With the help of analysis tools, it’s easy to identify which parts have been lying around forever, which parts you have too many of and whether parts are stored in different locations at the same time, for no reason. In practical terms, some stock can be reduced by up to 50 percent. >

**IT application management SLA cost**



**Best price exploitation per material**

# Advanced Analytics offers a wide range of possibilities



## Industries

- Retail
- Industrial goods
- Packaging
- Automotive
- Pharmaceuticals



## Projects

- Opportunity analysis
- Implementation phase
- Tender preparation
- Negotiation support



## Spend

- Direct spend
- Indirect spend



## Categories

- Utilities
- Cleaning
- Packaging
- Maintenance
- Logistics
- IT
- MRO
- Food & beverage
- Fashion



## Data

- Invoices
- Purchase orders
- Sales data
- Inventories
- Shipments
- Service tickets
- Project mgmt. data
- Transportation costs
- Production volumes
- Consumption volumes



## Analyses

- Spend cube & analysis
- Service level optimization
- Payment term optimization
- Maverick buying
- Role analysis
- Product portfolio analysis
- Margin analysis
- Should cost analysis
- Project tracking

### Scenario Simulation: Digital Twins

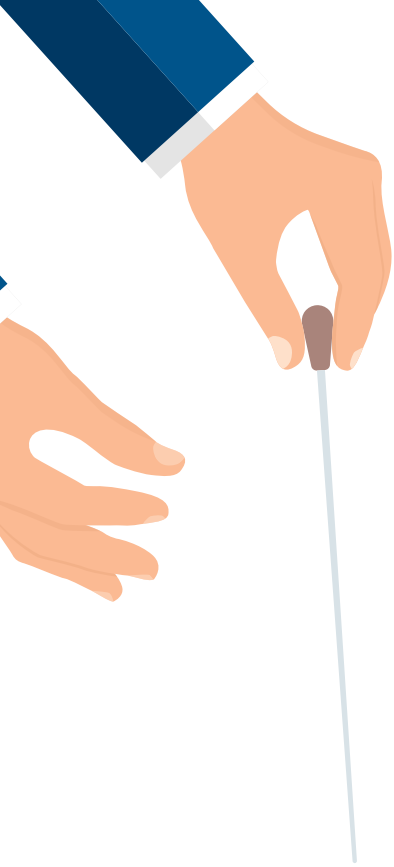
As well as transparency of the status quo, advanced analytics also offers the option of preventing potential problems that could arise in the future. The Covid pandemic and delays in the supply chain have made it clear how fragile supply chain security is for some companies. Advanced analytics simulates extreme situations like these and shows what effects they can have on your network. For example: what alternatives are there? How would cash requirements change? How long would the delay be? You can play out all these scenarios. If the results show that things could be precarious, buyers can use these simulations to prepare and develop emergency plans.

### Continuous Improvement

For all these use cases, it is important for companies not to just install the tools and leave it at that; they will need to be updated regularly in order to be more effective and productive. Managers will need to keep an eye on the increasing possibilities, but at the same time, there's no need to be overenthusiastic and seize every opportunity to input further data: more doesn't always mean better. The data must be relevant for your company's goals, and contribute to your procurement targets. Once employees have familiarized themselves with the new tools, the goals, which may have been moderate at first, can become a little more ambitious.



Logistic routes



The dividend on the original investment will grow exponentially over time.



**CONCLUSION: Turn Advanced Analytics into Profit**

Companies must take advantage of advanced analytics – and for them to lay the foundations now. More and more business sectors and industries will be driven by data in the future. Any company that doesn't move quickly to start developing the appropriate skills in their employees and equipping them with the necessary tools may be in danger of lagging behind.

If you manage to bring functional and technical expertise together, you'll create the ideal conditions for your company's continuous improvement. Once your employees have the skills, it's also easier for them to recognize the relevant data, analyze it and use it profitably. The dividend on the original investment will grow exponentially over time.

Advanced analytics may not trigger an entire revolution, but it's simple for many companies to implement now, and the benefits will soon become profitable. Positive effects will quickly be visible once you've implemented the tools for it, and the transformation will make life easier for the staff who have supported its implementation.



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# Experts

on  
**DIGITAL  
TRANSFORMATION**

Interview with Oleksandr Vodotyka,  
MBA, Head of Procurement and  
Supply at Coca Cola Hellenic  
Bottling Company, on the topic  
of **Digital Transformation**



„Don't Shut Yourself  
Away in an **Ivory Tower**“



**Oleksandr Vodotyka, MBA, has been a Head of Procurement and Supply at Coca-Cola Hellenic Bottling Company, responsible for Austria and Group Service Centers since 2016. Apart from functional operations and service agenda for his Business Units, he has been actively supporting the digital transformation of procurement as well. Some initiatives developed and piloted by his teams for process optimization and automation are now rolled-out at many other countries of the company. In our interview, he explains how far the business has already come, and why standardized processes supported by technologies are so important.**

**Mr. Vodotyka, you've been a driving force behind the digital transformation of Coca-Cola Hellenic's procurement processes. How did this come about?**

Our CPO and the leadership team, who brought me to the company, gave the go-ahead for restructuring procurement in 2015. Company-wide, we'd set ourselves the goal of optimizing the costs, working more closely with our stakeholders, and making our supply chain agile and secure. We wanted to establish consistent standards. It was clear to us that we could only achieve these strategic ambitions in conjunction with optimized and digitalized procurement.

**Your functional transformation has started as far back as six years ago; how far have you already come with the program?**

Every transformation has a concrete starting point, but it never really ends. Our program had three phases. The first phase was all about achieving transparency for all our spend areas. We also made the strategic decision that procurement would take responsibility for every Euro that leaves the company. Before that, traditionally, different departments were responsible for negotiating and reviewing agreements with suppliers as part of their regular operations. It was also important to define the specific requirements, to find new ways of working together, and to use them to achieve a new service level within the organization.

**What did the second and third phases focus on?**

The second phase was probably the most challenging one. We had to completely redefine our operating model in procurement; it was all about more streamlined processes, a customized organizational structure and, of course, implementing new technologies. In some cases, we first had to utilize better those procurement tools, which were already in place but were not used to the full potential for our transformation (like e-sourcing and e-auction portal). In the third phase, that's where we're now, our focus is on accelerating the

function for the business even further. We want to continue to automate our processes end-to-end. An important milestone of this ambition is our decision to roll out the corporate source-to-pay integrated suit for upstream and downstream procurement across all countries during the upcoming years. We also redefine the ways how we approach and automate the tale spend at the company, where we provide integrated solutions to our internal customers for easier order management through internal and external catalogs and marketplaces. This leads to new and exciting experiences for internal customers and provide procurement with more space for strategic initiatives and continuous improvements with our suppliers. >

It was clear to us that we could only achieve these strategic goals in conjunction with optimized and digitalized procurement.





**The coronavirus crisis has put many companies to the test. How robust has Coca-Cola Hellenic's procurement proved to be in the midst of its transformation?**

The pandemic appeared to be a crash test for our improvement journey. In many areas, we could see that we were already in good shape, but in some, there was room for improvement. We were able to maintain production in Austria throughout the entire crisis, for example, thanks to our earlier implemented contingency and business continuity measures together with the functional partners. The COVID-19 situation also suggested that in some areas we had to make decisions faster. For example, the lockdown back in April last year helped us move to e-signature internally and with external partners as one of the critical means to continue our operations.

**What's been the biggest challenge so far in the transformation?**

I've learned that you can't just shut yourself away in your ivory tower to draw up a plan on your own. You might have developed the best strategy and have good analysis at hand, but if you don't coordinate with other departments, you'll never achieve the desired excellence.

From the start, we had to convince all our stakeholders that we needed to change our ways of working and that a professionally organized procurement function could become a source of greater longer-term value. We were organizing multiple cross-disciplinary workshops together for all areas of the company spend (both direct and indirect spend). We wanted to bring together all our talents to look for the best common solutions around costs, services, and the speed of execution. It was crucial to support our departments' functional expertise with the structured data analysis and modelling to help us discuss and agree on business cases for the benefiting departments. We followed a detailed project plan, with shared responsibilities and defined timelines. For more complex initiatives, we also allowed us to pilot them on a smaller scale before expanding to full functionality and scope.

**What role did your procurement team have?**

Our procurement team probably played one of the most crucial roles. Especially at the beginning, we positioned ourselves as a piloting laboratory, where we tried new approaches, best practices, methods, and tools. That was made possible by the large number of committed and enthusiastic colleagues we had who wanted to join and drive the pilot projects. It was also important to work closely with everyone during implementation and to build on their skills and awareness. They're now even prouder that procurement is completely tailored to our company's needs. They now feel they're really driving value creation and are tracking it through the available tools, and they've also contributed to building new organizational capabilities and improving our engagement with internal customers.

**You have invested a lot of energy in the transformation over the last few years. Was it worth it?**

Yes, without a doubt. We are now completely clear about the strategic, tactical, and operational roles that procurement plays for the company. We've managed to standardize our processes across departments, and now, for example, in every business unit, we use the same procedure to place and manage orders. New ways of working and source-to-pay processes supported by modern technologies provide greater opportunities for our international talent development across multiple locations. For example, our new procurement support lead in Austria, who's responsible for the effective system processes, compliance, and analytics, has started her career at our procurement service center in Bulgaria. I am hopeful we will witness even more examples like this in the future as a part of our functional excellence journey! //



# Experts on DIGITAL TRANSFORMATION

**Peter Jeitschko, Solutions Sales Specialist for Artificial Intelligence at Microsoft Austria, talks in an interview about trends, collaboration between data teams and business departments - and what all this has to do with smoking at petrol stations.**

## „Organizations have a data complexity problem”



### **Peter Jeitschko**

has been working in various IT consulting and sales positions for over 20 years, for leading brands including Volvo Cars, IBM, Oracle, and the data specialist Datameer. He is currently a Solutions Sales Specialist and AI expert at Microsoft Austria.

**Mr. Jeitschko, big data has been a trend for years. Is it now more than just a buzzword?**

It is certainly more than just a buzzword. However, "big" implies that we are talking about large volumes of data. But most companies don't have a volume problem, they have a data complexity problem. For this reason, the term "Big Data" is misleading in the vast majority of cases.

**What does it mean in concrete terms?**

Companies usually do not have a central data repository, but instead many different data sources in various formats, from which it is necessary to generate added value for organizations. We are not necessarily talking about huge amounts of data. Data quality, scalable data platforms, and user-friendly analysis tools are essential to tap into this treasure trove of data.

**Is that unlikely to change in the future?**

That's right. For one thing, new data formats are being added all the time. In many cases, it's audio or video files that need to be combined with structured information from databases. Cloud applications are then added to the in-house on-premise databases. This, in turn, increases the complexity of data integration and data analysis. >

### Could new technologies, like machine learning and artificial intelligence, help?

We clearly see that the trend is moving in this direction. After all, the concepts behind machine learning and AI are not new but are based on thinking that dates back, in part, to the 1970s and 1980s. What has changed is the computing power and the price of processing data. Today, this enables new opportunities: for example, AI and the right analytical tools can be used to analyze machine noise and detect early on when a machine is about to fail. These use cases fall into the category of "predictive maintenance". Other use cases in image and video recognition go in the direction of security. For example, AI can be used to automatically detect whether someone is smoking at a petrol station, or whether someone is wearing appropriate safety clothing at a construction site to trigger an alarm if necessary. In the future, we will see more and more use cases like this.

### Which organizations find it particularly difficult to deal with complex data?

I've had the privilege of working on projects at listed corporations, as well as smaller mid-sized companies and start-ups. In data projects, the size of an organization plays a subordinate role in dealing with data complexity. However, there are cultural differences when dealing with data. In Anglo-American areas, data is handled differently than in Austria, Germany or Switzerland, for example.

The justified desire for data protection is often used as an excuse for not tackling data projects in the first place. Particularly those organizations that in some cases have invested decades in building up their IT infrastructure and are now suffering from "digital legacy". In the banking and insurance sector, for example, it is not uncommon to find systems that were introduced 40 years ago. However, it must be clear: The problems of 2021 cannot be solved with the methods and infrastructures of 1970. Other industries such as retail, telecoms and logistics have already recognized this and are leading the way.



### How can problems with such legacy issues be solved?

It is important that organizations have a digitalization strategy and, derived from this, also a data strategy. This strategy must be supported and driven by top management and consistently implemented by a "Centre of Excellence," or similar. This also means that you have to throw the traditional frameworks overboard and possibly set up completely new IT structures. From a risk perspective, however, this is not possible in every case, so it is important that new technologies in the cloud area integrate as well as possible with the existing IT infrastructure – complementing each other. These hybrid cloud application scenarios will be with us for a long time to come.

### What is your advice to organizations when tackling data projects?

It's no use building a costly data infrastructure if it doesn't ultimately solve the problem in question. So first you need a concretely defined problem or question, then a solution idea, and only then the individual technical components to be able to solve the respective use case in a meaningful way.

### Why do most data projects fail today?

Data projects fail for two main reasons: The first is the appropriate skill set of the company's own employees. Management must understand the opportunities offered by digital business models and provide employees with the opportunity for targeted training. Microsoft supports organizations in this area, for example, with the "Enterprise Skills Initiative" - an education and training program tailored to the organization's individual needs.

### And the second reason?

The second reason is a lack of a digitalization strategy or one that exists only on paper and is not lived out in the company. It is essential that the employees are closely involved in the implementation of the strategy. It is important to remember that digitalization and data projects are not purely IT projects. The respective experts from the business departments must work closely with their IT colleagues and specialists, such as data scientists. Otherwise, experience shows that data projects are doomed to failure. //





Working Capital Study

# In the Spotlight

Many companies have significantly improved their working capital management since the Covid pandemic began. Despite the high degree of maturity, companies should still keep the total cost of ownership in mind and ensure that processes and responsibilities are well structured.

Working capital management is a topic that needs to be addressed by all departments, as e.g. both sales and procurement determine key influencing factors when negotiating payment terms.



**W**here working capital management may have been an afterthought in times of peak economic growth, it suddenly came under the spotlight with the Covid-related slump in sales. Almost three quarters (73 percent) of the participants in our current Working Capital Study said the subject is a high or very high priority.

However, skills have developed significantly: in our first study in 2020, a good 50 percent of participants said that working capital was managed poorly in their company, or that there was room for improvement, whereas now two thirds consider their work in that area to be good or very good.

**Light and shadow**

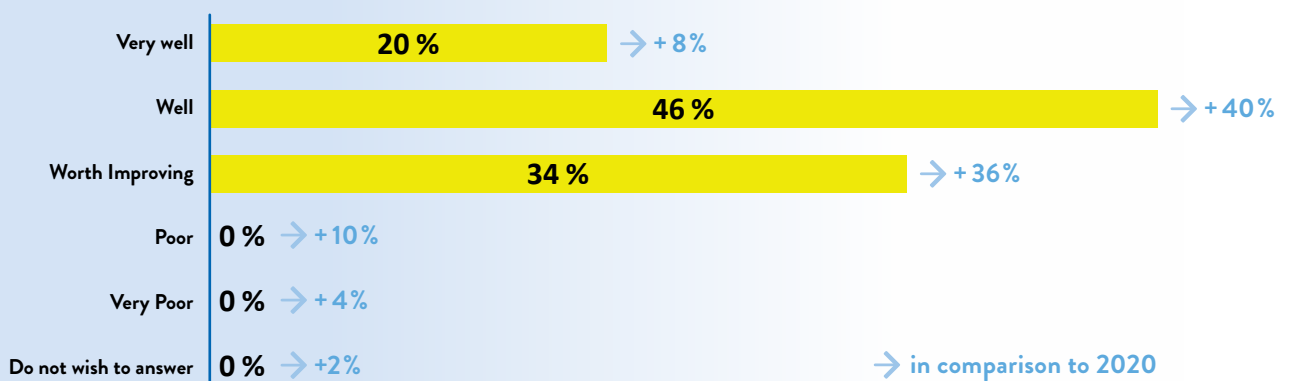
In fact, only 22 percent of the companies we spoke are currently not using standard payment terms. A year ago, it was twice as many. 59 percent now say that they can deviate from established standard payment terms if it helps them achieve a better total cost of ownership (TCO). This indicates a certain maturity: in times of negative interest rates, sidestepping standard terms is a sensible option. Using a digital tool to calculate the respective costs of alternative scenarios can be very helpful as a basis for decision making.

The trend is not so clear for the working capital KPIs: Although 61 percent of our contacts indicate that KPIs are included in management reporting, but only 44 percent say that targets are defined. Plus, only 20 percent compare their data with their peer group. Clearly, a large number of companies surveyed rely on ERP reporting alone. Practical experience shows that it is absolutely essential for companies to define targets in advance, if they are to improve and gain clarity about how successful measures are.

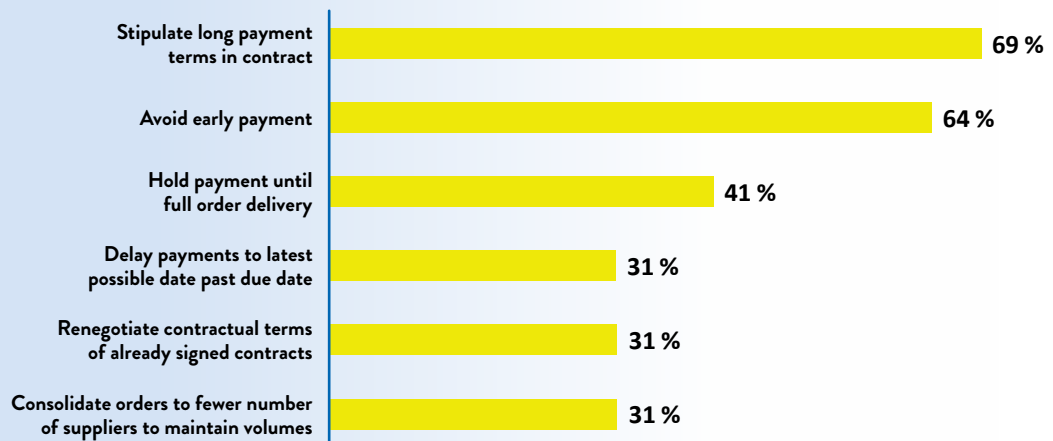
**Creating a working capital culture**

The results of our study also show that many companies still do not have an established working capital culture, which will lead to suboptimal performance. Almost half of those surveyed say that their procurement department is not given an incentive to contribute towards optimizing working capital management.

**„In your opinion: How well is working capital managed within your organization?“**



„What procurement levers (Days Payable Outstanding - DPO) do you regularly deploy to improve Working Capital? Tick all appropriate answers“



Working capital management is a topic that needs to be addressed by all departments, as e.g. both sales and procurement determine key influencing factors when negotiating payment terms. Often, however, staff in both departments are unclear about this role and think that finance is the only department responsible for it.

To raise awareness of the shared responsibility and create a genuine working capital culture in a company, the leadership team should set up a working capital management model with the finance, sales and procurement departments included. KPIs need to be specified in line with the company's goals and passed on to the appropriate department. The sections involved should then select people to be responsible for working capital, who, with the help of the management model, will review the department's success in reaching their goals. Finally, working capital targets should be included in incentives. Intelligently selected gamification elements can draw the attention of staff to working capital and increase commitment. //

**CONCLUSION:**

**Working capital management needs to be worked on across departments and staff involved need to have a basic understanding of how their actions influence working capital. It is important to define KPIs from the outset, if working capital management is to be successful, and they need to be specified for each department in turn. A management model supported by the right tools that enables continuous transparency in every area can help with achieving the goals that have been set.**



**Tobias Antefelt**

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**Study design**

Around 50 decision makers from executive management, procurement and supply chain

management took part in our Working Capital Study. They mainly come from German-speaking countries and Scandinavia, and 60 percent work for companies in the manufacturing sector.

**Raw Materials Study:**

# How Much Longer?

This year's Raw Materials Study shows the current dynamics in the raw material markets very clearly: it is dominated by concerns about business results and demand fulfillment. It's hard to beat the world market, but by using intelligent tools, companies can meet the challenges of price increases and material shortages.



Global consumption recovered faster and more strongly than expected, with the result that after months of factory closures in many parts of the world and ongoing supply chain turbulence, there are simply not enough materials to meet every requirement.



**T**he drastic price rises in nearly every raw material category seem to have taken many companies by surprise. Following the economic downturn caused by the pandemic, most economic experts were expecting there to be a longer crisis and persistently low prices. But global consumption recovered faster and more strongly than expected, with the result that after months of factory closures in many parts of the world and ongoing supply chain turbulence, there are simply not enough materials to meet every requirement.

Aluminum, iron and steel, as well as plastics, have become significantly more expensive. Almost half the study participants worry that the price rally isn't over yet. And 40 percent of those surveyed also expect the same issues when it comes to paper, wood and cellulose products. Most of the participants, however, do not fear any real supply bottlenecks. Wood and paper (29 percent) and plastics (27 percent) were mentioned most frequently.

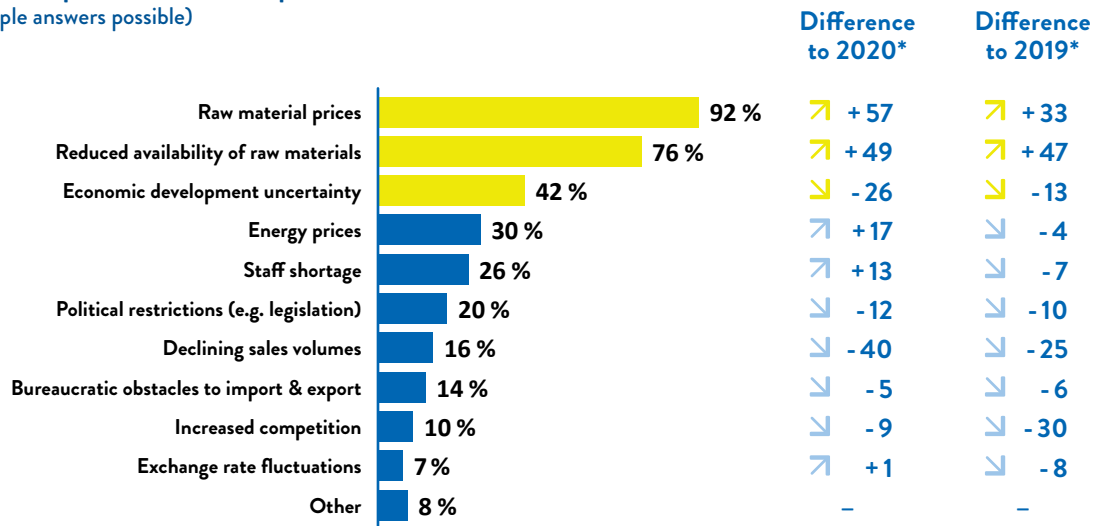
### Unpredictable Situation

The developments of oil, gas, and coal show how unpredictable the situation actually is at the moment: when we surveyed them in June, only around a quarter of respondents expected cost increases. However, electricity and fuel prices exploded after the summer break, and there are even fears of blackouts over the winter. Some exceptional factors are responsible for this: the Organization of Petroleum Exporting Countries (OPEC), for example, insisted on restricting oil production for a long time. Due to the weather, there was a lack of solar and wind energy, which resulted in more gas and coal being used for electricity production.

High fossil fuel prices, in turn, led to several companies in Europe and China halting production because it was simply unprofitable. This could all result in real shortages. In the case of aluminum, for example, this is already becoming apparent. >

### „Which external factors have a significant influence on your business performance at present?“

(multiple answers possible)



\* in percentage points

## Transparency More Important Than Ever

In view of such great uncertainties, it's no longer enough to simply talk to your direct suppliers about the current situation. Transparency about raw material markets is imperative along the entire supply chain, if you want to be able to make the right decisions.

The basis for this is the establishing of a professional risk management system that collects all the relevant information with the help of digital tools and brings it together in a control tower. For raw materials, these are:



**Price indices**



**Production of raw materials and auxiliary products**



**Developments in the countries producing them**



**Monitoring of delivery routes**

The choice of the right digital solutions depends on your specific information requirements and the digital infrastructure already in place in your company.

### Monitor Auxiliary Products Too

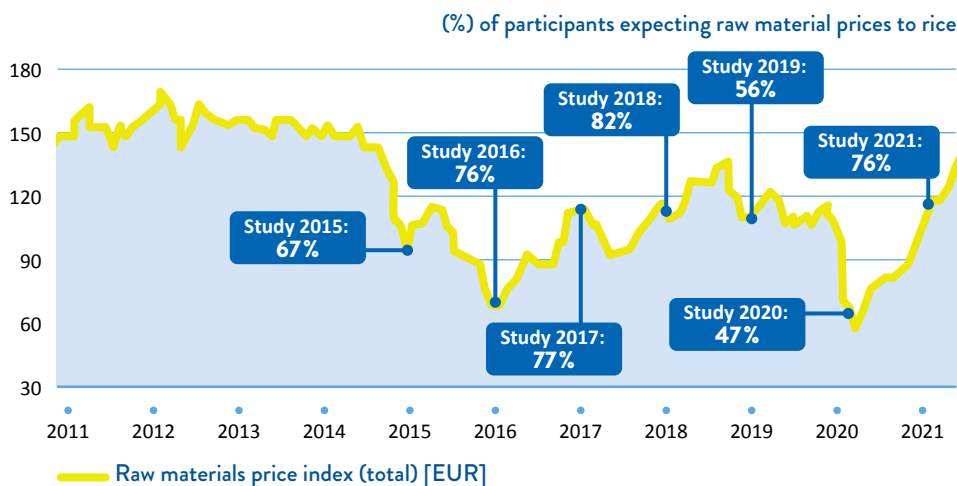
Aluminum, as an example, shows how important it is to keep an eye on the production of auxiliary materials when it comes to raw materials: in mid-October, an urgent announcement from the German Metals Association caused a scare among many companies with the warning that aluminum stocks in Europe could soon run out, as China had largely stopped producing magnesium, an essential component in aluminum alloys. Since China is currently a quasi-monopoly with a share of 87 percent of global magnesium production, other sources cannot compensate for the shortfall.

### Establish Fair Prices

Software can also help to establish prices for primary products with a high proportion of raw materials fairly and transparently within a should-costing framework. Using this method, you can establish what proportion of your total price comes from raw material prices. Using this as a basis, you can introduce an index-based price escalation clause and adjust it regularly. Your suppliers then receive appropriate compensation for their share of the added value, while the buyer can rest assured that they won't pay too much when raw material prices go down. It's a win-win situation for all parties concerned.

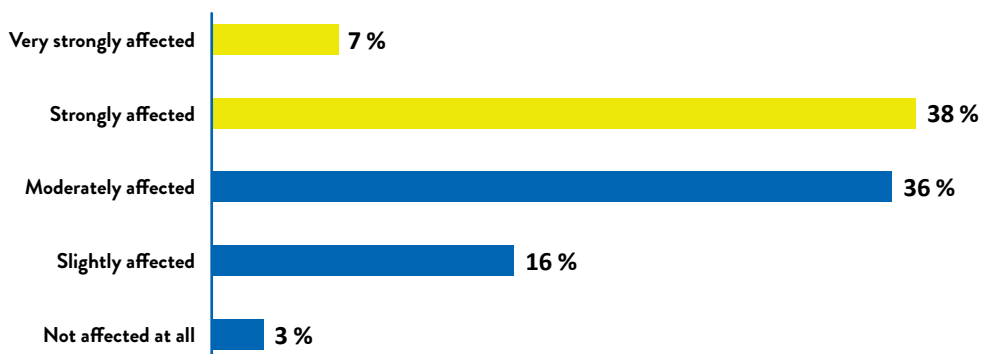
Almost two thirds (64 percent) of the respondents in our study have already concluded contracts with price escalation clauses, and 28 percent have agreed to predefined surcharges in price agreements with their suppliers. However, hardly any companies are able to implement these two concepts for all their raw material requirements; 41 percent of the participants also buy on the spot market, so they have no fixed prices at all. In the current situation, this is unquestionably risky, especially as more than half are worried they will only be able to pass on a fraction of their price increases to their own customers.

### / Comparison of the general expectation of raw material price development of the study participants 2015-2021



**76%** of this year's participants expect raw material prices to rise. This corresponds to an increase of 29%-points compared to the previous year.

## „To what extent was/is your company's raw material supply affected by the Covid-19 pandemic?"



With things as they are now, suppliers are hardly going to want to agree on agreements with fixed prices. Although 54 percent still use these fixed-price contracts, more than 80 percent of study participants said that the duration of this type of contract has reduced significantly in some cases.

### Find the Right Time to Buy

Many raw materials are subject to seasonal fluctuations. This is mainly true of agricultural products, where the price usually follows the harvest cycle. Artificial intelligence can help determine the optimal time to buy by evaluating data sets from the past as well as current information, for example about harvest quality and quantity or how consumer requirements are developing. With the current volatile developments as we work towards the "new normal", it makes particular sense not to rely solely on data from the past. //



#### Study Design

Almost 100 procurement managers and managing directors, mostly from German-speaking countries and Great Britain, took part in this year's raw materials study. 49 percent of them come from the manufacturing sector, 16 percent from mechanical engineering and 11 percent from the automotive industry.

#### Conclusion:

**The Covid pandemic has had a massive impact on raw material prices and availability. It is likely that we won't return to pre-pandemic trends: far-reaching changes such as a demand for climate-friendly economic activity or supply chain re-regionalization are emerging, and they will leave their mark on international raw material market price structures. Companies should use digital solutions now available to arm themselves against price and supply risks, with as much transparency as possible.**



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## INVERTO Office **Denmark**

# „Hygge ways of working“



**Morten Bøgh Skaarup joined our Copenhagen office as a Managing Director in August. In our interview, he talks about the challenges that Nordic companies are currently facing and their understanding of wanting to lead the way.**

**Can you please briefly describe your background and how it led you to us?**

Originally, I studied engineering and in my "first" career I built factories for global mechanical engineering and manufacturing companies in Senegal, Vietnam, China, Russia and India. An Executive MBA course then accidentally led me to procurement more than 15 years ago. This has stuck with me ever since and I developed a real passion for it, going on to work in both industry and various consulting firms, most recently my own.

**Why INVERTO? What were your expectations?**

INVERTO's strong values, entrepreneurial mindset and, last but not least, its employees played a decisive role. The Copenhagen office had just celebrated its third birthday and it's growing out of its infancy.

I want to be part of the journey, develop the team, and do my part to make us the leading procurement and SCM consultancy in the Nordics. I was also attracted by the synergies with BCG, as it gives me the opportunity to work for leading corporations.

**How were your first few months with INVERTO? Have your expectations been met?**

Completely! The people and the team culture have particularly exceeded my expectations. The support and professional structures won me over – the onboarding was extremely professional. Even an experienced manager still has a lot to learn. For me, the first few weeks in particular were all about listening and learning. In over 50 meetings, I built up my internal network, primarily with colleagues in Copenhagen, but also with other contacts at INVERTO and BCG. What I really admire is the strong growth and transformation focus. I am convinced that I've made the right decision and I'm looking forward to growing the business and especially the team.

**With regard to the team – what is particularly important to you?**

First of all, I have to say that as a Danish team we never stand alone – together with the Stockholm office, we form the Nordic part of INVERTO and work very closely together. At the moment, it's mainly about bringing the team together after the many months of remote working and figuring out how we can work as efficiently as possible in the future. As we're a very young organization, many colleagues are meeting face to face for the first time. The task now is to strengthen the relationships and the corporate culture "in the real world". To this end, we've organized a Nordic reunion and several fun events to bring team members together. I also have a paddle tournament coming up.

To make work in the office as pleasant as possible for the team, the office has been renovated. We've created more space and quiet





zones so that every colleague can come back to the office on certain days of the week- in line with the "new ways of working". We are convinced that this will enable us to develop as a team and provide the best services for our clients.

**What are your clients particularly concerned about at the moment?**

Of course, Nordic companies are also struggling with the consequences of the Coronavirus pandemic. At the top of the agenda are cost control, securing supplies, and transforming organizations. These are also the focus of most of our current projects. We are providing support primarily by strengthening and optimizing supply chains and with strategic raw materials management, for example mitigating price and supply volatility or re-engineering projects. We are also currently helping some clients in M&A to strengthen their market position and secure synergy effects.

In addition, the issue of sustainability is enormously important throughout Scandinavia. Companies like to see themselves as pioneers in the implementation of new ideas – in digitalization this has already been very successful, and now we want to be a role model for a more sustainable future.

**How do you spend your free time?**

I'm a family man and have three children with whom I like to be out and about, although that's proving rather difficult at the moment – getting teenagers out of their rooms to spend time with their dad is a real challenge. I like to travel, go hiking and play tennis. I also get out on my vintage motorcycle when the weather is nice. Then, to pay tribute to sustainability efforts, I try to compensate for that in everyday life with an electric car.

**As an insider, what would you recommend to be on our Copenhagen "bucket list"?**

Pack a picnic and enjoy the city from the water at sunset on a go-boat – these are solar-powered boats you can rent at the port. Or take a walk along the inner harbor and look at the stunning architecture reflected in the water.

Do as the Danes do, and rent a bike. Don't forget to stop at one of the small bars for refreshments before exploring the city's parks on two wheels. Finally, be sure to head to a "pølsevogn" for a traditional Danish hot dog. //



Value creation and resilience:

## Mastering the transformation

Risk management, cost optimization, meeting sustainability criteria – the environment for companies is becoming increasingly complex and challenging. In order to meet the sometimes conflicting goals and to operate successfully in the area of conflict, procurement must develop into a "trade-off manager". In our cover story, we show how you can master this challenge and effectively exploit opportunities.



**Cover story in  
the next issue**

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With our new website, we want to offer you even more relevant information and insights into our company. A variety of customer references, details on our services, publications and opinion pieces show what we stand for and provide impulses on current challenges. An improved, intuitive user interface and video sequences are also designed to make you want to come back. We hope that we can provide you with added value and invite you to share your opinion with us by answering three short questions.



## Take part in the survey

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