

»» *IBX has been our partner during the extensive transformation journey. Not only have they delivered the tools, but their consultants have also contributed on a strategic level.* ««

*Sandra Petersson  
Project manager for Skanska's Effect program*

Efficient  
Purchasing

**IBX**<sup>®</sup>

# Taking control of purchasing in the **construction** industry



An efficient purchasing success story



# Taking control of purchasing in the construction industry

By implementing the IBX Construction Solution, Skanska has improved their purchasing processes. Control and co-ordination of purchases has greatly improved and the usage of frame agreements has increased from 15 to 25 percent, a figure unparalleled in the project centric construction industry. Today half of all coordinated purchases, including material bought by sub-contractors are called-off (ordered) in IBX eProcurement.

The IBX Construction Solution is especially tailored to meet the project centric purchasing needs of the construction industry and includes professional and managed services as well as IBX eSourcing for frame agreements, IBX eRequest for project sourcing and IBX eProcurement for call-offs.

## Solution:

- IBX Construction Solution including; IBX eSourcing, IBX Request and IBX eProcurement
- IBX Supplier Network
- IBX Professional Services
- IBX Managed Services and Support

## Value delivered:

- Increased levels of control and transparency; procurement volume from frame agreement suppliers increased to 25 percent (from 15 percent).
- Increased levels of agreement compliance.
- Sub-contractors now use Skanska's frame agreements for materials.
- Virtual warehouse with 130 000 products from 170 catalog suppliers in Sweden (340 in the nordics) and more than 700 frame agreement suppliers.
- Increased transparency and reduced costs throughout the entire purchasing process.
- Supplier development - the majority of Skanska's suppliers are positive to the new procedures.

## Success factors:

- On-demand technology delivery enabled Skanska to focus on change management issues.
- Ambitious and persistent change management program.
- A solution that supports all construction site purchases.
- An approved purchasing strategy and a communicative vision.
- Communication and training - crucial for internal commitment.
- Strategic competence to complement the tools as well as extensive experience from purchasing in the construction industry.

## Initial Situation

Over the past few years, Skanska and the construction industry as a whole have transformed their business models. Today, companies in the construction industry have a strong project focus and purchase more services than before. This has increased purchasing volumes. Unfortunate, this has also meant that more materials have been bought by sub-contractors instead of by Skanska.

When Skanska Sverige AB diagnosed the state of purchasing in the construction industry a few years ago, they saw that there were great cost cutting and enhancement opportunities available. Whilst other industries continuously decreased the cost of goods and services while maintaining profitability, the construction industry experienced continuously increasing costs for its products and services without improving on bottom line.

To shift this paradigm, Skanska wanted to create conditions for an automated purchasing process, from sourcing to paid invoice that leveraged Skanska's size. At the time, only 15 percent of the purchasing volume was coordinated, partially due to the project focus of the construction industry, and most of the purchasing process was managed manually. On a long term Skanska also saw an opportunity to reduce costs throughout the entire construction process and secure quality of purchased material by introducing a modern purchasing process.

At the top of the wish list was transparency throughout the entire process – from demand through order to delivery at the construction site. Skanska wanted to follow every product in the value chain, improve forecasts and reporting systems, and divide sub-contractor spend into service and material, leveraging Skanska's frame agreements.

## The Key Challenge

The management of Skanska Sverige AB set a high ambition level; they wanted to become Sweden's most professional construction company. The business strategy was crystal clear – increased productivity by acting as one company and benefiting from the company's size. The purchasing department aimed equally high – to coordinate 50 percent of all purchasing as well as introducing new, more modern purchasing procedures, which in the long run would reduce cost.

- Purchasing is Skanska's largest cost, so our contribution to the organization is very important. We began by formulating a purchasing strategy and a communicative vision, says **Sandra Petersson**, project manager for the Effect program, one of Skanska's purchasing initiatives improving the purchasing procedures.

## The Solution

In the fall of 2003, Skanska chose IBX for the complete on-demand delivery of eSourcing and eProcurement as well as for Supplier Network and professional services. The construction industry adaption of IBX services and solutions is called the IBX Construction Solution. Skanska wanted to spend their energy on change management so their criteria was based on functionality, proven delivery capability and on-demand delivery to ensure rapid ROI.



IBX tailored their purchasing solution to meet the needs of the construction industry adding functionality to support Skanska's project based business model (at the time being, Skanska Sverige is running nearly 3,000 construction projects). Due to the project centricity of the construction industry, the industry average of purchases from frame agreements is only 10 to 20 percent of the procurement volume. The IBX Construction Solution, including IBX eSourcing for frame agreements, IBX Request for project sourcing and IBX eProcurement for call-offs as well as professional and managed services, allows Skanska to avoid many of the common hurdles in construction industry purchasing.

- It was valuable for us that IBX had a complete platform and extensive experience with the roll-out of purchasing solutions. This meant that we got a quick start and didn't have to take on large development costs, says Sandra Petersson.

### **A virtual warehouse for both Skanska and sub-contractors**

IBX eProcurement acts as a virtual warehouse. More than 130,000 articles (goods as well as services) from over 170 frame agreement suppliers with catalogues and another 700 suppliers with other call-off methods are available in the system. IBX is responsible for content management, activating and connecting Skanska's suppliers.

IBX has developed the specific functionality in IBX eProcurement to facilitate the project centric needs of the construction industry. IBX eProcurement also enables sub-contractors to call-off on Skanska's frame agreements reducing procurement costs and ensuring quality. The e-procurement solution is based on MySAP SRM. As an application it is easy to use, which is important in a successful change of internal routines and human behaviour.

### **Supporting purchasing in the construction industry**

One major hurdle for the construction industry is the substantial need for spot- and project-sourcing. To support this, IBX provide IBX Request – a fully integrated RFQ engine – as part of IBX eProcurement. With IBX Request Skanska can capture spend that otherwise would have been lost. Buyers create online requests that can be sent to both frame and non-frame agreement suppliers. The requests can be iterated between buyer and supplier to ensure market price as well as quality. The requests are then seamlessly transferred to IBX eProcurement and processed.

With IBX eProcurement and IBX Request Skanska can co-operate with sub-contractors, providing a standardized and limited assortment of goods and services that meet Skanska's high standards and requirements.



#### **Skanska in brief**

Founded: 1887

Operations: construction-related services and project development

Revenue: SEK 126 billion (2006)

Number of Employees: about 56,000 (2006)

Stock listed 1965 on the Stockholm Stock Exchange (Stockholmsbörsen)

Markets: home markets are Sweden, the US, UK, Denmark, Finland, Norway, Poland, the Czech Republic and Argentina

It has been crucial to have a close cooperation with the suppliers to succeed with the cost reductions. Together the parties involved found new ways for cooperation, which also enabled streamlining on the side of the supplier. A large majority of the suppliers were positive to Skanska's new purchasing initiative and to e-commerce in general. For the suppliers, IBX eProcurement also give them a new marketing channel towards Skanska's buyers, which resulted in increased sales for several of them.

- IBX has experts who know what is important in order to have the best possible result. Not only do they know IT, but they also see the business opportunities in the procurement process, Sandra Petersson adds.

### **On-demand services and solutions**

Skanska's five year agreement includes more than just access to IBX solutions. Skanska also receive professional and managed services such as strategic sourcing, content management, event services and supplier activation – connecting suppliers and enhancing content. IBX is also deeply involved in Skanska ambitious and groundbreaking strategic sourcing program.

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### **“People's behaviour are not changed over night”**

It is a tough challenge to have thousands of construction staff change their working routines and behaviour patterns. Traditionally, one picked up the telephone to order what one needed. The new routines demanded computer competence and ability find the material in the virtual warehouse.

- People's behaviour can't be changed after a short training, it also takes regular communication and patience, says Sandra Petersson.

Today, more than 3,000 Swedish employees have been trained with focus on the new procurement strategy and management of the new tool. Many are now frequent users. More than 50 percent of all purchases from connected frame agreement suppliers are now coordinated through IBX eProcurement. At the same time, the number of co-ordinated purchases has increased from 15 to 25 percent, unparalleled in the construction industry. The next step within the Effect-program is to roll-out invoice-matching to automate the full procure-to-pay process. At the same time Skanska will introduce support for receiving goods.

While the work in Skanska Sverige AB went on, Skanska in Norway and Finland have introduced the same solution. All together, more than 5,500 employees in the Nordic region have been trained to use the tools in the IBX Purchasing Solution – Construction.



## The IBX advantage

IBX delivers a complete set of services and solutions for efficient purchasing, providing support for the entire source-to-pay process. Our services and solutions couples the power, speed and agility of a state-of-the-art online purchasing solution with expert strategic knowledge, operational excellence and technical assistance.

IBX is Europe's leading provider of efficient purchasing solutions. IBX provides purchasing expertise, scalable on-demand software and managed services for sourcing and procurement that increase spend under management and improve compliance to generate bottom line results.

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