

Public eProcurement in Norway

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Abstract: *The Norwegian public sector took a whole-of-government approach to e-procurement with the launch in October 2002 of <http://www.ehandel.no>. Currently 14 public buyers, 1.400 users, and 85 suppliers are on board. Public bodies are not forced to use the system but 20 have assessed the cost/benefit and 19 think it makes sense.*



As a result, procurement and sales roles for transacting parties are changing, with more time spent on negotiating frame agreements and higher value work. Buyers' use of online rules and processes has increased compliance with frame agreements. Orders and supply errors have fallen. Usage hierarchies also mean suppliers know if a buyer has authority to purchase.

But there are issues: Some suppliers find the cost of joining difficult. And some say that more diffused purchasing responsibility across a company means more diffused knowledge of vendors and products, leading at times to poor decisions.

Read the stories of a buyer and two suppliers currently using the marketplace

Setting up the marketplace

While most companies and electronic marketplaces try to come up with a catchy name the governmental e-procurement site in Norway is still known only as "the eMarketplace for the public sector". To us, the marketplace is a tool, and not a goal, says Andre Hoddevik, Project Manager for the implementation of the marketplace.

Our intention was never to build a marketplace, or even to own one. Our goal was and still is to improve efficiency within the public sector and free key personnel so that they can do the job they are supposed to do, and not spend time on purchasing.

It started in 1999 as part of the "Programme for E-commerce in the Norwegian Public Sector" where it was seen that the government had a role to play as a driving force. After having evaluated other means to drive the Norwegian business towards electronic communication, it was decided that the program should be operational - not just another report. "Our goal was to develop the tool and make sure it could be used", says Hoddevik.

To own the tool, however, was too risky. That would have meant dependency on public funding. Instead the Programme defined the specifications and had as its aim to reduce the barriers so that the new tool could be used, both by the public sector employee who wanted to buy and the smaller companies that wanted to supply.

Selecting the right partner to operate the marketplace was not easy. The Programme went through a qualification of the suppliers, and only those that were qualified were allowed to make an offer. That was not enough. Year 2000 was the time of the dot.com crisis and the period saw high uncertainty in the Internet business. The high demands that were put on maturity and service did not match the offers, and when the number of tenders decreased it was necessary to cancel the first round. "We were left with too few competing offers, and had to rethink our criteria and specifications", is Hoddevik's comments.

"Together with some of the major purchasers in Norway, such as Norsk Hydro, Orkla and Statoil, we went over the principles and services that were needed." The result was a focus on two different solutions that together would make the marketplace:

- Procurement tool – the interface for the users
- e-Business platform – the catalogue and transactions

By dividing the solution in two parts it was possible to have several suppliers of interfaces to and from the e-business platform. One experience was that traditional – and large – procurement systems were not suitable. "Traditionally the procurement solutions were production oriented, and were too big and complex for the users that we aimed for. Just filling these systems with content was too much work."

In the end, IBX was chosen as the supplier of both the Procurement tool and the e-Business platform. The marketplace went into its pilot-phase in early 2002, and was fully operational in October 2002. At the moment there are 13 public buyers, with around 600 users.

When the pilot phase was over, the transactions only amounted to about 1,5 million Euros (10 million NOK).

Has the marketplace reached its goals?

"It is difficult to measure our goals and success in terms of transaction volume", says Hoddevik. The goal was to increase efficiency, and we knew that the use of an electronic procurement tool would require organisational changes. Even though the actual training on using in the procurement system is done in a couple of weeks, we need to spend a lot of time on training – in terms of changing the roles and functions of the buyers. The procurement process is now very simple because our specifications for the solution were very demanding, says Hoddevik.

It is also important to understand that the Programme does not force the public sector to use the marketplace. Instead, each office can decide if this is the solution that suits them, or if they want to use another – or none at all. So far 20 public offices have studied the cost/benefits of the marketplace. Of these, 19 decided that it would produce an acceptable return on investment. The main cost for the public offices is the organisational change. There is no investment cost in hardware, but some costs in licences and also in training. Our figures show that it takes 18 -24 months to get a return on investment.

The main benefit and cost reduction is the improved compliance with existing agreements with suppliers. Maverick buying is not usually caused by dissatisfied buyers, but rather due to lack of information on what can be bought at which prices. The Programme has looked at previous practices and found that the public sector could have saved up to 25% if they complied with existing agreements. On average the direct savings would have been 4-7%.

"One of our goals is to create a more competitive public procurement policy. This is also a demand made of us by the European Economic Agreement," says Hoddevik. We have to adapt to this demand, as do the suppliers.

Indirect benefits of the marketplace are the improved processes. In short, the public employees can spend more of their time doing their main tasks and not spend time on talking to sales people, tracking orders and such activities.

What have been the reactions of the suppliers? Do they feel pressured?

It is not an absolute requirement that the supplier shall trade through the marketplace, but it is one of many criteria that are considered when choosing a supplier. Such demands are nothing new, however. "It is only natural that the public sector sets demands on the suppliers. Often the public sector has different payment schedule demands than the private sector, " says Hoddevik.

The relationship to the suppliers has not been the best but the main disagreement has been the cost that the supplier had to pay to use the IBX system. We negotiated with IBX a maximum price for the system and wanted a strong focus on a Small Business model. There should be a low threshold to join as a supplier – and this is the case today."

There are now about 40 suppliers that are connected to the marketplace, and the number of suppliers will increase as the public offices finalise their evaluation of the system and prepare for electronic procurement.

The buyers

Olav Holden, responsible for MA procurement at NTNU (The Norwegian University of Science and Technology) in Trondheim, is one of the pilot users of the Governmental eProcurement marketplace. With over 20.000 students and 3.200 employees, NTNU has a budget of about 300 million Euros and a procurement need of about 100 million Euros.

According to Holden, about 25% of the procurement budget is suited for procurement contracts with suppliers. This is also the target (about 25 million Euro) of procurement that shall take place through the marketplace in 2003. "We call this Phase 1," says Holden.

In later phases NTNU will also include procurement without specific orders, such as energy and telephone services. "Our long term goal – and I am now talking 5 years into the future – is that all our procurement is done electronically," says Holden.

NTNU started the pilot testing of the marketplace in February 2002 and tested until May. The result is that we have decided to continue using the eProcurement marketplace and have defined the necessary hierarchy of user levels. At the moment we have 60 users at the university and continue to register new users as they are trained in the system. "We have seen that it takes time from when a user is registered, until they start buying online", says Holden.

After the pilot test there were 60 users of the system, and NTNU hopes to have 300-500 at one time. When and how many there will be is up to the manager of each unit at the university. "The demands on us are not too high," says Holden, "we have found that the user interface is easy to understand and a 3 hour training course or self-study is what is needed to learn to use the marketplace." What took time at NTNU was to build the commitment from management to use an electronic marketplace. Because of the advantages that NTNU could see, this commitment is in place and it is easier to then convince the users.

The departments that are now able to use the marketplace were first picked according to the availability of suited suppliers. So far only two of our suppliers are active on the marketplace, and another 2 are online with their catalogues. Today NTNU has 50 framework agreements that could suit the marketplace. At the end of 2003 they hope to have 15 suppliers that can be reached online.

The suppliers

Atle Berg is responsible for IT at Atea. Atea is a Nordic company with offices in Norway, Sweden, Denmark and Finland. Their annual turnover is about 3 billion Euros (20 billion NOK) and they supply the whole range of IT services and products, from consultancy of what to buy to recycling.

According to Berg, Atea joined the public eProcurement portal because the public sector was already a customer. They have not sought new customers since they joined, but some new public customers have shown positive signs that Atea already has a presence on the portal and uses the IBX system.

As a supplier Atea had the advantage that the Swedish and Finnish branch already was using IBX and the Norwegian branch could build on their experiences. In addition, Atea had already developed a product catalogue, but had to adapt their catalogue to the UNSPSC (United Nations Standard Product and Services Classification) that was required. To do this work and enter their catalogue at the portal, they were helped by Ibistic and had very few problems.

With previous experience of using electronic procurement, Atea did not experience any major changes when switching to the new system. The requests and orders arrive today via e-mail and they have so far not integrated these requests into their ERP system. It is a matter of cost/benefit and may be done in the future.

Berg tells us that the major change that they have seen as a supplier is the changes in attitudes and organisations of the buyers. There is a higher level of buyer competence required since more people can decide what to buy. Earlier, sales staff from the suppliers made contact with only specific buyers, but today everyone can place an order. This can cause problems, because different product can appear to be the same if the buyer doesn't have a good knowledge of the supplier. The tool that the buyer is using is also independent of the product and the type. "In the mind of many buyers a PC is a PC", says Berg, "and the buyer has to realise that it takes knowledge to distinguish one from the other according to detailed specifications."

The product catalogue at IBX has the disadvantage that it is difficult to group products that are usually sold together – such as a package of both the printer and the required cable. Either Atea has to make a specific product out of this "package" or the customer must remember to order both.

Atea in Norway has so far tested the eProcurement portal in its pilot stage with two customers. Their experience from Sweden is that 60% of orders now are handled electronically. This does not mean that a sales role disappears as a profession, but the tasks are changed. The activities are moved from registration of orders to discussions about frame agreements with the customers.

Eirik Håland is Technical manager at Thv Solberg AS, which supplies electric products and has many customers in the public sector of local communities. Solberg has a turnover of about 30 million NOK (about 4 million Euro) and the public sector is a major customer group. They joined the eProcurement portal on request from the Sandnes community.

Solberg did not object to this request, and with only 15 products that they supplied to the customer, the job of getting registered at IBX was done in one day. Håland assumes that bigger companies with more product lines could have more problems. An Excel spreadsheet that Ibistic gave them was used to register their products in the electronic catalogue. Solberg entered text, pictures and prices and used about 15 minutes per product line. However, they had some minor problems in the calculation of prices and it was necessary to modify the data afterwards. All in all it was an easy process, says Håland.

Probably the product catalogue will expand as more of their customers use the marketplace. Before using the marketplace, Solberg did not have an electronic catalogue. Earlier they were not on-line, and most requests came via the telephone. The customers usually needed explanations before they would buy, and it took a lot of time for the person with the product knowledge to guide the customer.

Since the marketplace is still very new to everyone, the experiences are few. However, the requests are now more easily handled since the orders are more exact, with the correct product codes and prices that have been already agreed in frame agreements. Solberg has found that the need for detailed discussions with the customer has been reduced.

The requests now come as e-mail, with details about: Product to be bought; Number of articles; Who the buyer is; and Where to deliver. The potential problem of making sure that the buyer has the right permission is handled by the customer and is not a concern to Solberg. It is the buyer that gives access rights to the users, and the supplier assumes that any order is legitimate.

Solberg expects that the trade via the marketplace will be about 70.000 Euro (500.000 NOK) in 2003 and around 100 orders per year.

When asked if they felt pressured by the customer to join the marketplace, Håland says that they had been told that the use of the marketplace was a requirement 6 months before the agreement was signed with Sandnes community. At that time they did not know the price of joining the marketplace. At the moment they have to pay 12.000 NOK (1.500 Euro) for the number of products they have registered, and the price per catalogue item reduces the more products that are in the catalogue. "The cost/benefit of using the marketplace will increase when we approach new customers," says Håland.

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