

Digitization trends in Procurement

An overview of the Asian market with a special perspective on SMEs in India



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Introduction:

Asian economies have proven to be capable of keeping up or even surpassing others when it comes to doing business. Economic growth reached significant heights in the years before the Pandemic. The last three years however, have resulted in a setback for multiple Asian countries. India is one of the most promising countries when it comes to development and business perspective. It has one of the largest numbers of upcoming businesses and it shows a lot of potential to foreign investors. The SMEs of India are a driving force of their growing economy. These businesses can be the difference when it comes to bringing back the huge economic growth. Procurement is one of the topics that these SMEs are struggling with. The Covid-19 pandemic is slowly reaching its end, but its effects on the global economy will still be prominent for a long time. Procurement officers have to deal with constant disruptions along the supply chain. These disruptions result in a lower resilience and more problems for the future. Taking time to look at these problems could provide a solution for the future of procurement.

This report will dive into the procurement digitization trends within the Asian economy, which can provide a solution to the problems created by the Covid-19 pandemic. Next, there will be an analysis on the business trends of Indian SMEs, and how SAP Ariba can help in solving these problems.

E-Procurement in Asia:

Over the last few decades, the use of and need for e-procurement systems has risen significantly in Asian countries (Asian Development bank, 2018). These systems are preferred by private companies, public companies and governments. While the switch to e-procurement systems has been slow, the Covid-19 pandemic has greatly accelerated the process (McKinsey, 2021). An Interview by McKinsey showed that 92% of the interviewed senior supply chain executives had initiated a plan to improve the resilience of their supply chain. The Covid-19 pandemic has highlighted the flaws in a traditional supply chain. By not having a clear and structured overview of all suppliers and what business you have with them, a company is greatly increasing their costs for no reason. This is caused by a significantly lower efficiency, the frequency of the duplication of processes, and a high rate of processing and communications time. The pandemic has opened the eyes of supply chain managers to all the possibilities that an e-procurement system could provide. The most important realization is that it is better to spend resources on increasing and improving the supplier base than to increase the inventory along the supply chain (McKinsey, 2021). A second point that the pandemic has showed is that localizing your supply chain will save a lot of costs and is an important focus point for future procurement.

Asian Governments are promoting the use of e-procurement for companies in their own way. Different governments have a different approach to this topic. While some countries opt for a centralized system, by using a nationwide platform that is accessible by all, other countries prefer a decentralized approach (Asian Development Bank, 2018). Every country has a unique set of rules and regulations when it comes to procurement. The Asian Development Bank is worried that there is no budget for most Asian governments to create a single centralized e-procurement platform, which indicates that an approach on agency level is preferred. The Asian development bank has created its own platform for Asian public companies to find new suppliers in an effective and sustainable way. Everyone can get access to this platform by asking for access at the Asian Development Bank.

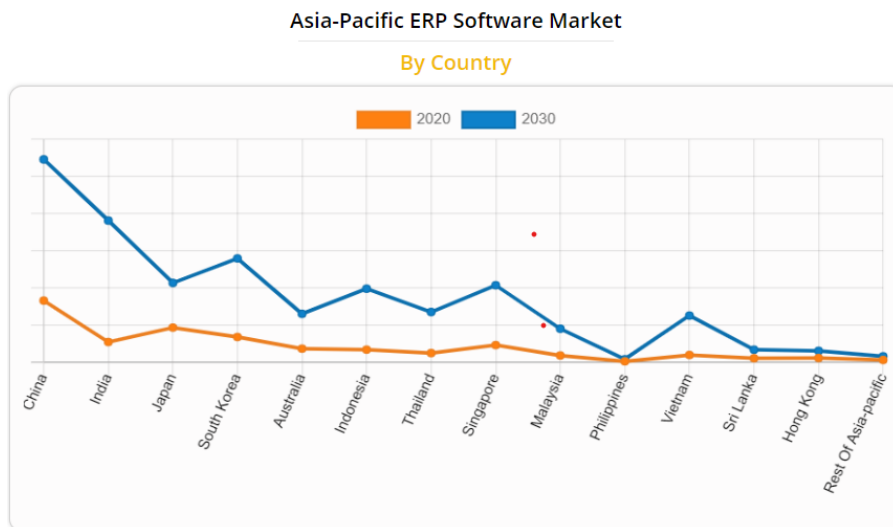
For the private sector, things are different. While the Asian Development bank is providing loans, consults and expertise to the public sector, the private sector still has a lot of room for improvement. SAP has seen that the amount of SAP users in the APAC region was not improving much. This is why they

introduced the Rise with SAP program in January of 2021. Since then they have gained over 100 new customers. 80% of these customers consist of small and medium-sized enterprises (Tan, 2021). They believe that the APAC region will lead the world going forwards when it comes to SAP usage. SAP Ariba is one of the modules that has been requested within these countries. This has mainly occurred because of the changing image of corporate responsibility (McKinsey, 2021).

The rise of digitalization in Asia has had a big part in the huge economic growth of the region. From 2015 to 2019 the size of the digital economy of southeast Asia had tripled to 100 billion dollars and it will triple again by 2025 (Davis et al., 2019). Where Indonesia and Vietnam are the fastest growing countries with an annual digital economy growth of 40%, countries like Malaysia, Thailand, Singapore and the Philippines are also experiencing a 20% to 30% growth a year. While these are impressive numbers, these are only the fastest growing countries in southeast Asia. India has the fastest growing digital economy in the world. The prime minister of India is expecting that by 2025, the value of the Indian digital economy will surpass 1 trillion dollars (Technology for you, 2022). The digital economy thrived through the Covid-19 pandemic as people were concerned about face-to-face transactions. The next target for India is to higher the daily amount of digital transactions to 1 billion in the next five years (Technology for you, 2022). The growth of Asia’s business environment and digital economy has attracted the attention of a lot of future potential. This is either in the form of skilled, young, ambitious workers or outside investment in future technology.

ERP systems in Asia:

The value of the ERP market in Asia has been slowly increasing. In 2020 it was valued at 11,989.00 million dollars (Allied Market Research, 2022). Since the Covid-19 pandemic, Asian countries have seen the importance of digitizing their business, which has resulted in a sharp rise of ERP system usage. This growth is projected to reach a value of 48,034.00 million dollars by 2030 (Allied Market Research, 2022). ERP systems provide a company with more oversight by implementing real-time data, automated reporting and remote access.



Note: From Allied Market Research: Asia-Pacific ERP Software Market Statistics: Forecast - 2030, <https://www.alliedmarketresearch.com/asia-pacific-erp-software-market>.

This graph by Allied Market Research shows the forecasted change in adoption of cloud and mobile ERP systems for different countries in Asia. Here, India is projected as the country that will implement the most significant changes in the near future. Other countries like China, South Korea and Singapore will also experience a big growth. Looking at different business segments, the finance segment has always been the fastest increasing when it comes to the use of ERP systems. However, if we look at the forecasted period, the HR segment is estimated to be the fastest increasing with a CAGR of 18.7% (Correa, 2022). This means that segments like supply chain, inventory management and procurement are lagging behind.

Indian SMEs:

Indian SMEs contribute to around 24.63% of the total GDP from services and 33.4% of the entire countries manufacturing output (Bhatia, 2022). These numbers showcase the segment's crucial role in fortifying the country's economy. There are multiple problems that these businesses encounter when doing business with suppliers. The first problem is the shipment delays, which result in a delay in revenue recovery, added expenses and a loss of credibility. The major causes of these delays are late receipt of documents and cargo visibility. These events can severely influence a company's day-to-day business and have a significant impact on their balance sheets. Increasing the transparency and flexibility of their supply network is one of the biggest priorities that these SMEs are setting at this time.

Another challenge that SMEs are struggling with is the use of man-made data. A large part of the businesses that have the SME status, still make use of their own data. This is data that is filed by employees and needs to be checked by other employees. This is a time consuming job and often causes data to be lost or misinterpreted. A misinterpretation of this data could lead to disastrous outcomes for these companies. Making use of big data systems is there for a good solution for SMEs. Companies that are active in this branch are actively seeking for a solution to this problem.

Effectively using the data to provide accurate demand forecasts could greatly improve the speed in which products can be supplied to the customer. Speed and flexibility is also a challenge in the Indian SME industry. Improving these delivery times and being able to adapt to an ever changing market is very important for the future of doing business in India.

As mentioned before, the Covid-19 pandemic has had a significant impact on Indian businesses. SMEs are no exception. In 2020, it started with a supply shock that echoed throughout worldwide supply chains. Bottlenecks prevented a sufficient supply of all kinds of resources. This shock was followed by a demand shock. The demand for certain products was way too high for other companies to manage. Having more clear insights into alternatives would have helped to prevent these bottlenecks. Neeraj Bansal, Co-head and COO of India Global, stated that only 5% of the Indian SMEs have digitized their supply chain. For these companies, investing in digitization of business processes is not a priority. The reason for this lack of priority is mostly linked to not seeing the importance of digitization. SMEs do not see the advantages of switching to a whole other system than the one they are used to. Most of these SMEs are partnered with bigger companies, as they provide a lot of business and opportunities. Showing that these bigger partner companies are interested in digitization of procurement and recommend the usage could provide the last nudge in the right direction.

A challenge that businesses could face when dealing with SMEs in India is accessibility. Small enterprises are often found in areas that do not have the same accessibility as big industrial cities with booming businesses. These small enterprises might work together with even smaller enterprises that are even harder to reach. This might be because of road access, but also because of inadequate registration of the companies location. Not all Indian areas have a pin code. This basic infrastructure problem could provide a challenge when working with IT software. This problem can be solved by working together

with other companies and apps. These companies provide accurate encoded coordinates, which can be used in the SAP database. This type of technology is in high demand for Indian companies looking to digitize their business processes (Financial express). This problem is only applicable to the smallest section of the SMEs. Most companies that fit in this group are part of a supply chain with good accessibility.

SAP Ariba could provide a solution to big problems that are experienced among Indian SMEs. The challenges mentioned above can all be targeted by making use of SAP Ariba. There is a clearer overview of all possible suppliers and a forecast can be made of when a company needs to order what materials or products to improve the delivery times. SAP Ariba increases the flexibility of a company's supply chain. It is easier to adapt to new suppliers and localize the supply chain when necessary. Using a system like SAP Ariba in a vastly changing environment like India can provide a broad spectrum of new opportunities.

Conclusion:

Adhering to the upcoming digitization and business trends that are on the rise in Asia and especially India is a great way to make a significant impact in the market. The pandemic has caused a lot of stress for procurement officers when it comes to the future. Joining the digitization movement and investing in e/procurement is inevitable. ERP systems like SAP Ariba provide an efficient solution to a huge part of the problem. It can connect suppliers from all around the world in a more effective way. This ups the overall supply chain resilience and can help reach financial and sustainable goals. Indian SMEs need to be able to protect themselves against another major pandemic or other similar event. By being able to localize or diversify their procurement activities, they are able to keep themselves up and improve the overall economic growth within India. To be able to compete with rival companies, it is important to invest in the right solutions for your company. SAP Ariba could be the first step into the future of procurement digitization.

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