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Increasing value in supply chain and procurement

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Welcome

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Agenda

Increasing value in supply chain and procurement

- Stretch of the function
- Need for doing more
- Realizing latent supply chain value
- Applying structured approaches for sustainable value
- Bringing it all together…
- And ensuring the supply chain is a strategic enabler

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In today's market, supply chain is being asked to do more … with less

Increasing Customer Demand:
Quickly react to increasing demand for **customization** while balancing **shortened product life cycles**

Risk Management:
Address risk associated with supplier failure, natural calamity, product/service quality, and commodity price volatility

Increasing value by using supply chain as competitive differentiator

Corporate, Environmental and Social Responsibility:
Invest in **greener and cleaner supply** chain while meeting expectations for **environmental responsibility** and **transparency**

Globalization:
Leverage **expanded supplier network** and options to optimize sourcing cost and quality

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For the Energy and Natural Resources industries, the ask from supply chain is further complicated by the downturn

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Looking beyond the tactical and reactionary cuts

The low hanging fruit has been captured

- **Brute force** methods of inventory reduction and supply chain cost containment
- **Pushing risk** upstream and downstream in the value chain rather than reducing risk
- **Slashing fixed assets** across the board
- **Indiscriminate** price cutting / **focus on price**
- **Indiscriminate across the board** reductions in resources, training and expenses

Achieve value through a strategic and measured approach

- Include KPIs in service level agreements to ensure vendors are **accountable** for delivery in a **measureable** way
- **Prioritize** targeted **cost reduction** opportunities and efficiency gains based on risk and **impact to service levels**
- Determine what **selective investments** in supply chains will **payback** in the near-term and help plan for long term growth
- Take a **collaborative** "end to end" approach to identifying and **mitigating** supply chain **risk**
- Develop **flexibility & responsiveness** by utilizing penalties and incentives

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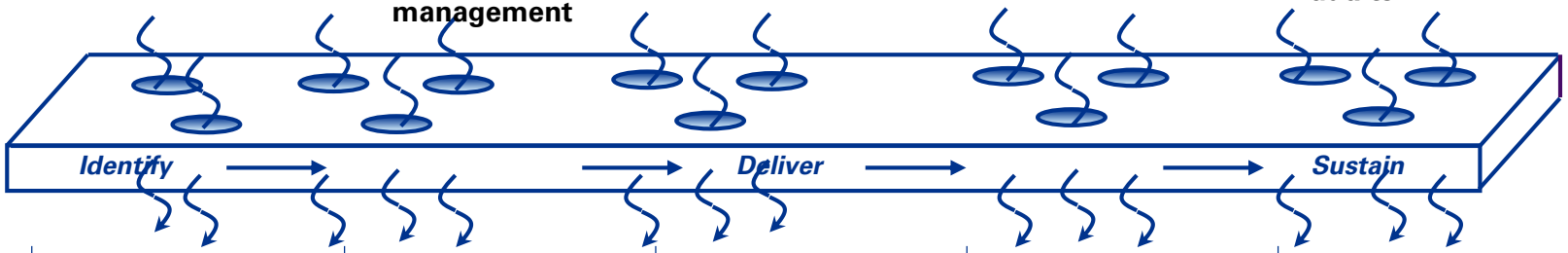
Significant supply chain latent value can be realized by reducing leakage

	Strategic Sourcing	Contract Management	Operational Procurement	Procurement Intelligence	Supplier Management
Leading Practice	— Total **cost levers** — **Cross-functional** team approach — **Rigorous tracking** of generated savings	— Established **contract management teams** — Defined **contract management plans** — Active **performance and transition management**	— Documented **policies and procedures** — **End-to-end** process visibility and transparency — **Standardization and automation**	— Defined **KPIs** and metrics — Enterprise **tracking and Reporting** — **Data** accuracy and reliability	— Formalized **supplier management program** — Dedicated **supplier account teams** — Aligned **KPIs** — Periodic **supplier audits**
Poor Practice	— Lack of **buy-in** for **sourcing strategies** — Buyers too **focused on tactical purchasing**	— **Limited visibility** to negotiated contracts — High degree of **off-contract ('rogue') spend** — No standardized performance management	— 'After-the-fact' approvals — **Duplicate processes**	— **Incomplete, incorrect, inconsistent data** – materials and vendors — Spend data dispersed across multiple systems	— **Tactical interactions** versus strategic relationships — Exception-based supplier management



Poor practices create **value leakage** throughout the **end-to-end** procurement cycle

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But why is the obvious supply chain promise, illusive?

- Spend **most time** sourcing **one-off** urgent items and in the process going outside the agreed procedures ('**rogue**' contracts)
- Struggle to work closely with suppliers and come up with **leading and innovative** ways to secure supplies at optimal prices due to **lack** of **contract and supplier management** process
- Struggle to manage **inventory** due to poor **data quality** challenging stock level assessment and safety if wrong part is ordered

The result of ineffective supply chain management imposes key issues to any business

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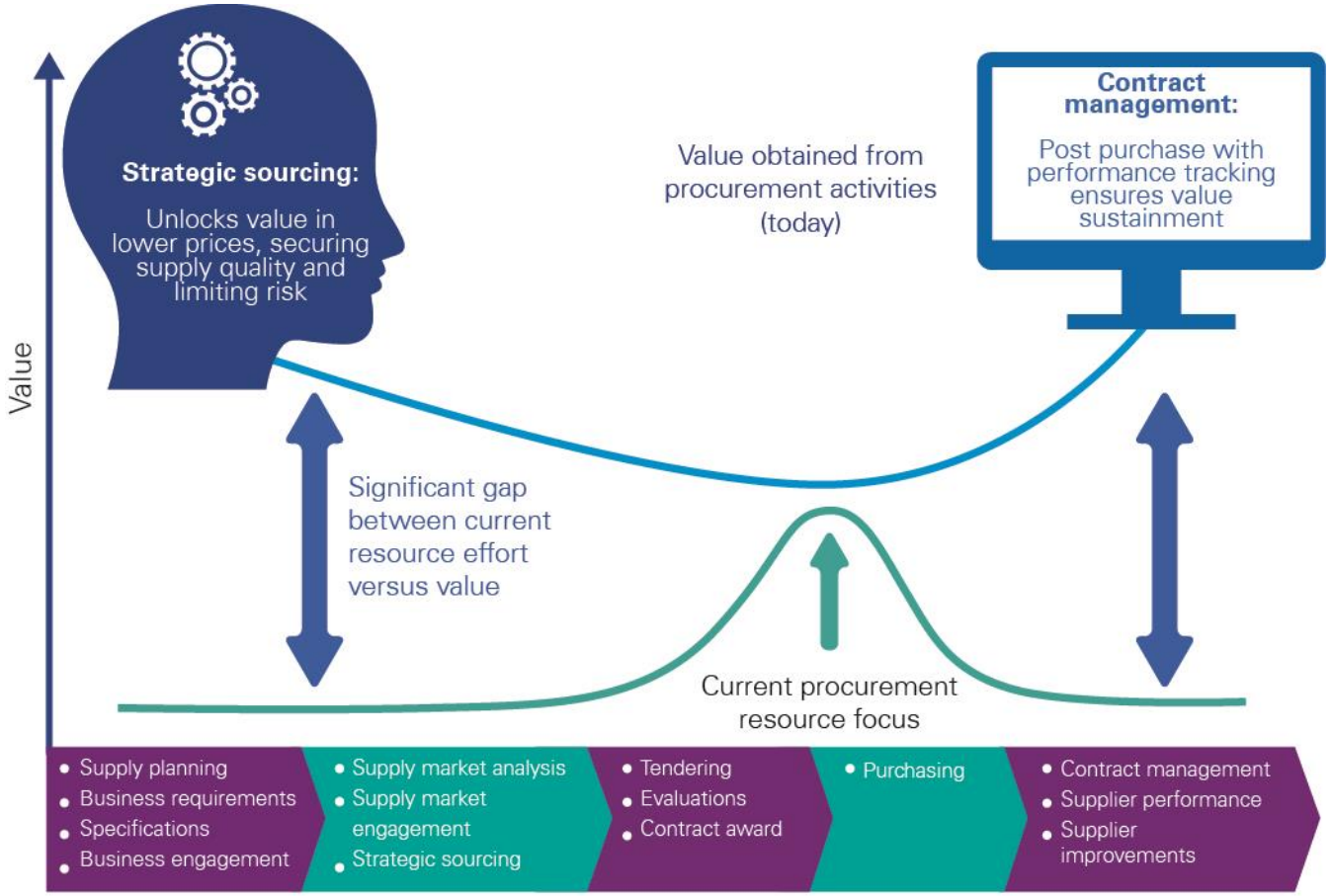
Resource realignment unlocks value in building a strategic supply chain and reducing leakage



Supply chain life cycle activities

Source: KPMG International, 2016.

Typically we focus our efforts on tactical activities but the most value is found in strategic activities

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More planning, equals greater value

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There are key questions you should be asking to achieve supply chain value

Value Seeking and Benefit Tracked

- Is your Supply Chain organized to **generate, capture and protect optimal value** by focusing on value/performance outcomes rather than just cost or tactical activities?
- Is there a consistent **benefits tracking** framework that captures, realizes and reports benefits?

Structured Approach and Tools

- Are **category management** and **strategic sourcing** with competitive sourcing mandated?
- Is **Supplier Relationship Management** active with performance managed, including strategic supplier identification, metrics setting and non-performance measurements and follow-up?
- Does the Procurement function lead or is actively involved in **demand definition** and management?
- Is **risk management an integrated part** of supply chain day-to-day operations, and contract management process? Are contract audits performed on a regular and rigorous basis?
- Are Procurement processes **automated**? Is there a fully integrated e-Procurement solution?

Organizational Alignment

- Are key activities **linked** and organizational stakeholders **fully engaged** in the development of supply chain strategy, and does this reflect the wider organizational strategy?
- Is **policy used** as a mechanism **for driving behavioral change** throughout the organization?

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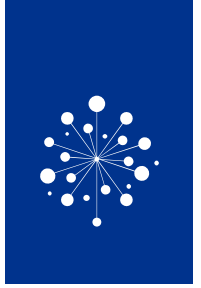
Applying structured approaches and enablers help address these key challenges and embed sustainable value



Generate the Value

1

Strategic Sourcing
Leverage predictive purchasing and capture full efficiencies of scale of purchases

Savings: 4% to 20%

Capture the Value

Materials Management, Logistics and Warehousing
Minimize inventory and logistics costs, while maximizing service levels and preventing inventory stock-outs

Savings: 9% to 21%

Procure-to-Pay (P2P) Excellence
Right contract/price for each product while avoiding fragmented routing and approvals; and most efficient process to support and pay

Savings: 4% to 7%

Protect the Value

2

Contract & Supplier Relationship Management
Preserve savings and maximize supplier performance

Savings: 5% to 10%

Supply Chain Management Enablers

3

Master Data Management & Supply Chain Analytics
'One Source of Truth' to support planning, forecasting, and other Supply Chain activities
Savings: 2% to 5%

Technology Enablement
The right systems and tools to support Supply Chain integration and efficiency

Note: Numbers 1, 2 and 3 are detailed in the following slides

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Organizations need to focus more on demand planning and strategic sourcing

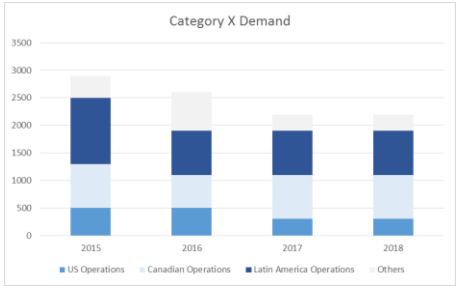
Understand and project future supply

Who? Size? Strength? Opportunities? Value drivers?

Category Strategy

Category Approach, Category Opportunities, Strategic Sourcing

Understand and project future



Size? Relative Strength? Demand? Risk? Value Drivers?

- Categories are profiled by **spend, demand, value chain, and total cost of ownership**
- **Pricing and trends** for each category are monitored & analyzed with **key vendors** being **profiled**
- **Procurement activities** are aligned with category strategy and **penalties/ disincentives** are introduced to ensure compliance

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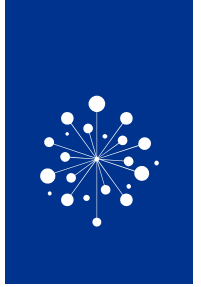
To realize a competitive advantage, contractual relationships need to be reconsidered



The Challenge

- Contractual supply chain is **not fit-for-purpose:** stems from failure to manage EPCMs and EPCs appropriately
- Based on **low cost, simple transactional** relationships
- Often **fail to incentivise** suppliers when successful and fail to penalize if not
- Unclear contract oversight has led to supply-chain **inefficiency and inaccuracy**
- Arbitrary **risk allocation** that results in **excessive premiums**
- Supplier reporting **primarily based on technical considerations** and light on commercial and strategic considerations

The Solution

- Include KPIs in service level agreements to ensure vendors are **accountable** for delivery in a **measureable** way
- Engage with contractors **early** to identify and resolve challenges
- Focus on improving the client and supplier relationships through **collaboration** and **value add initiatives**
- Review contracts **regularly**
- Share **lessons learned**
- Ensure appropriate penalties and utilize **incentives**

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Finally, master data management is foundational for effective decision making

Increased Capacity

- Reduce **rework** and **duplication** of effort
- Drive process **efficiency** to free up capacity

Better Management of Risk

- **Effective** risk management
- Demonstrate compliance with **SOX, Safety and Environmental**
- Increase **reliability** of materials

Reduced Production loss

- Better **information** about what we need and when we need it
- Increased **automation** and reduced cycle time

Better Informed Decision Making

- Ability to make faster and better **informed decisions**
- Improved visibility of purchase materials and enhanced **forecasting and demand planning**

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Bringing it together

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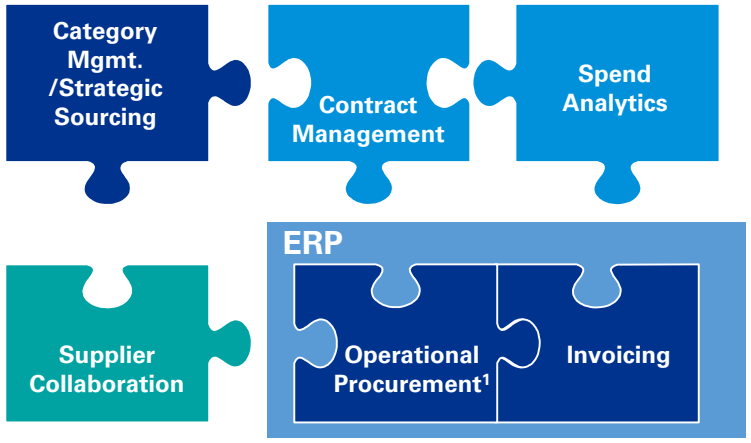
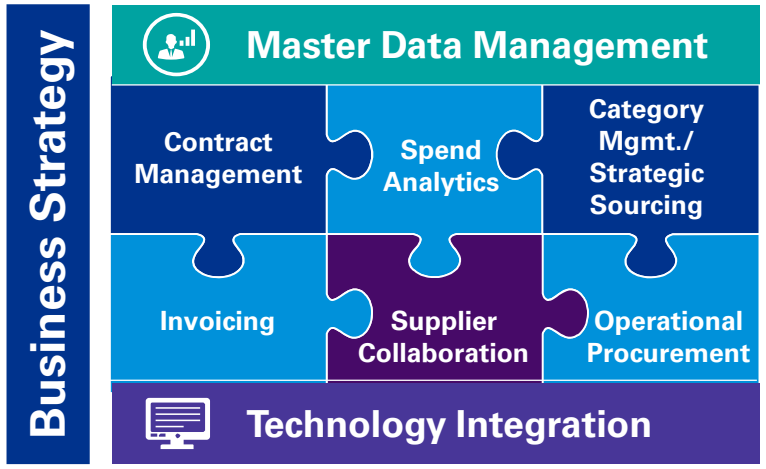
Key to success is organizational alignment and integration...

Silo approach to supply chain activities



Disjointed manual silos and systems / tools that don't talk to each other can lead to value leakage and business disruptions

Integrated approach using Master Data and Technology Enablers



An integrated end-to-end solution allows various business silos and systems / tools to work together and in alignment with your Business Strategy to provide insights that drive additional value

[1] Operational procurement includes requisitioning, purchase order, and receiving functions.

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… And putting strategic supply chain management in practice

Elevating supply chain to strategic organizational player means moving

— Reactive to proactive
— Tactical to strategic
— Supply chain capability as a competitive advantage

In conclusion, the ABC's of opportunity to unlock the supply chain value include:

— **Address** sub-optimal Supply Chains to focus on value in sourcing, capturing and protecting value
— **Bolster** Supply Chain as tougher projects, global environments and lower commodity prices demand a more rigorous and innovative approach
— **Collaborate** across the supply chain both internally and with suppliers
— **Deploy** Supply Chain technology and data that can improve productivity and drive effective decision

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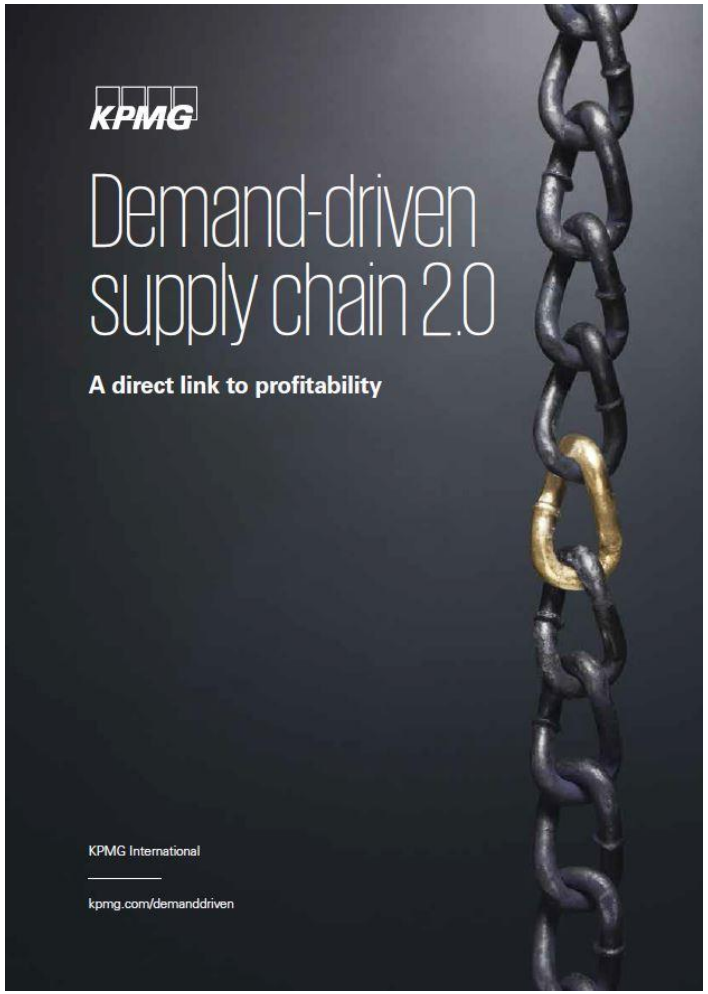
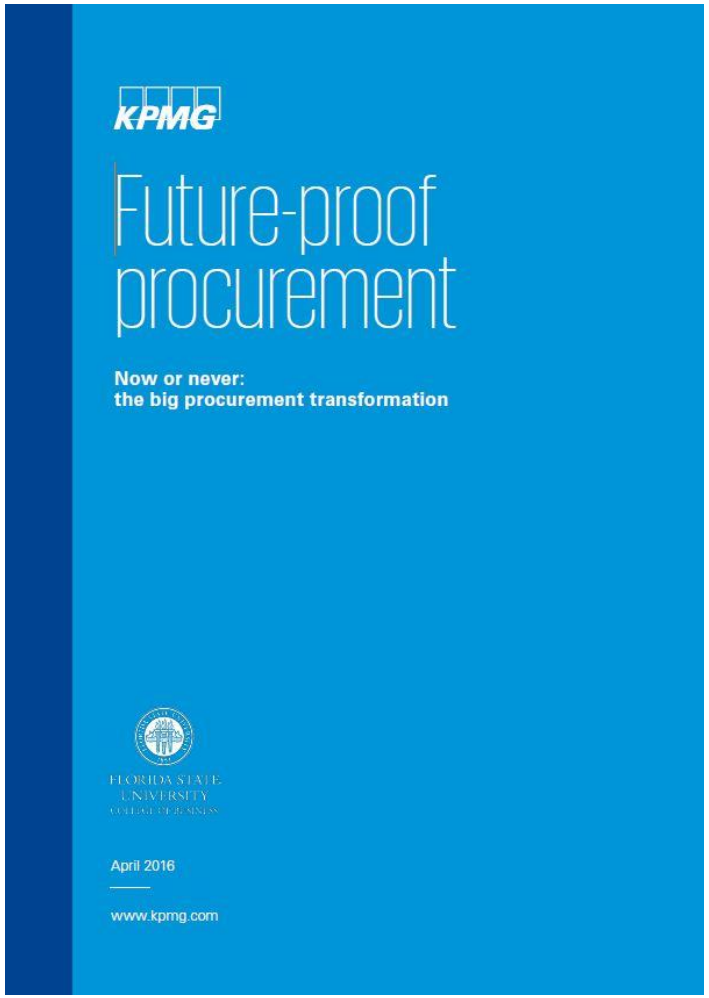
Thought leadership





Unlocking the supply chain for LNG project success

Less fire-fighting, more planning, greater value

Demand-driven supply chain

Future-proof procurement

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Questions?

Thank you

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