Strategic Procurement Transformation – 4 Steps Approach
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Presenter & Company

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Strategic procurement roots

Ready for a breakthrough in procurement?
Procurement’s value contribution – myth or reality?

Suppliers profitability in comparison to airline industry

Average yearly economic profit 2007 – 2014, in billion USD

Procurement’s value contribution – myth or reality?

Suppliers profitability in comparison to OEMs

Source: Capital IQ, company reports excludes goodwill, source: International Air Transport Association
What is strategic about procurement / sourcing?

Impact on costs in product / service development process

Cost impact

% 0% 20% 40% 60% 80% 100%

Idea/Concept Function definition Specification definition Supplier pre-selection Sourcing? Contract & Ordering

Cost Reduction Opportunities

Here you win!

Here you try not to lose!

Three types of sourcing

A
„Category review or big tender” sourcing

B
„Framework agreement” sourcing

C
„Ad-hoc” sourcing
Sourcing type B & C – „business as usual“

- Sourcing limited to current, known and few new suppliers
- Supplier base in most of categories remains the same for years
- Sourcing approach – content, format, people mainly unchanged
- THE RESULT: no breakthrough – savings within expected bandwidth

Sourcing type B & C - folklore

“Old habits die hard” – same approach = same results
Sourcing – currently nothing much to win

Application of sourcing type B & C in the commodity market

Hot rolled steel EUR / mt – Source: Kairos commodities (incl. forecast)

<table>
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<tr>
<th>Year</th>
<th>2011</th>
<th>2016</th>
<th>2017</th>
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<td>40% price decrease between 2011 and 2016</td>
<td>55% price increase in one year</td>
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Sourcing type A – hidden champion

- Mobilization of all internal clients involved in the value creation process inclusive top management
- Establishment of regular Steering Committees in the strategy validation and implementation process
- Mobilization of the supplier market – high number of suppliers, RFI / RFP / negotiation approach
- Well managed and aligned communication towards suppliers
- Changing the rules of the game on tactical level: changed RFx approach, new negotiators, new rules...
- Based on the big picture – category and supplier strategy
Sourcing type A - change the paradigm
Change the rules of the game – increase threat towards current suppliers

Strategic procurement starts from business requirements

Company strategy
Business requirements on procurement
Procurement strategy
Procurement transition plan
Category strategies
Supplier strategies
Risk strategies
Strategic procurement & football analogy

What is procurement transformation?

- Firefighting, cost reduction, low impact / no breakthrough
- Value generation, risk mitigation, total cost of ownership
What is procurement transformation?

- Procurement automation
- E-tools - SRM, e-RFx, e-auctions
- Digitalization, increase of competences, new organization
- Innovation, 3D printing and disruption – to create new supply and value chains
- Connectivity, Internet of Things, Bitcoins – to increase transparency, comparability and traceability
- Automation and digitalization to increase process efficiencies and improve communication
- Big data, predictive analytics and cognitive ability – to accelerate the businesses and display new opportunities.

Major trends will shape the future of procurement

- Innovation, 3D printing and disruption – to create new supply and value chains
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Future procurement – digital and strategic

• “Strategy to Operations” in procurement
  - Strategic procurement – focus of humans supported by predictive and cognitive abilities
  - Tactical and operational procurement – highly digitalized and automatized

• Agility of supply chain and value contribution to increasing replace cost reduction

• Risk management to gain importance given accelerated market changes

• Outsourcing of procurement to continue

Structured approach in strategic procurement

4 steps for development and execution for Categories, Supplier & Organization

1. Analysis
   Develop new perspectives on a category, supplier or procurement function. Understand spend, business requirements, cost drivers, supply market, category risks, SWOT analysis, supplier rating etc.

2. Strategy
   Develop category / supplier / procurement strategy and validate with internal stakeholders. Strategy to address cost reduction, cost avoidance, risks and new value

3. Initiatives
   Develop initiatives to ensure the execution of the strategy = project management within the category management. Install regular review for the progress of initiatives.

4. Results
   Measure financial impact of initiatives as well as progress of the strategy execution
The first step - Analysis

New perspective on cost savings, value creation, supplier’s strategy and the supply market

- Spend Analysis
- Supply Market Analysis
- Five Forces Analysis
- Business Requirements
- Risk Management
- Cost Drivers
- Cost Breakdown & Simulation
- SWOT Analysis

The first step - Analysis

- Spend Analysis
- ABC Analysis
The first step - Analysis

Product and Market Analysis

Business Requirements Analysis

Risk Assessment

Risk Mitigation Plan
The first step - Analysis

Cost Drivers

Cost Breakdown

Porter’s 5 Forces Analysis

SWOT Analysis
The second step - Strategy

Strategy based on 8 key strategy modules and power ratio between suppliers and buyers

- Structures procurement knowledge around categories and supplier information
- 100 levers for categories including sourcing Type A, B and C
- Leverage on knowledge of more than 1,000 pre-defined categories and supplier strategies

Kraljic Matrix

Supplier Preferencing
The third step - Initiatives

Category and Supplier strategy is translated into tactics – a set of initiatives and tasks

Initiatives management

The fourth step - Results

Results are consolidated and displayed in intuitive and practical manner

Cost benefits displayed in the category tree

Category and Supplier strategy achievement tracking

Cost benefits plan and realization by initiative
Premises for change – competences

New role of CPO and procurement managers

Development of competences in areas of strategy & digitalization

• Analytical skills
• Strategy development
• Persuasion & sales skills
• Presentation skills
• Communication & social skills
• Digital tools / advanced computer literacy
• Languages (yes, there is still a significant gap!)

7 painful questions about leadership in procurement

Top management - How important is procurement to us? What do we expect from procurement? Who is our CPO and is that person in tune with the market, as well with digital and competency innovations? Do we have to think about outsourcing our procurement department?

CPOs - Honestly, am I a leader or just an employee? Do I have the necessary skills and foresight to transform procurement into a strategic and digitally supported function?

Procurement managers - Do I have skills beyond operational ones (analytic/strategic/soft) that will make me invaluable to the company?
Embrace your success, become a true procurement leader

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Procurement – Well Worth Doing Right