

Procurement transformation project

Highlights of a transformation project mandate

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Some numbers and characteristics have been modified to protect the confidentiality of the Client.

Ten-step transformation project

1. Initial assessment - Highlights
2. Scope of transformation and gap assessment
3. Creation of the Procurement Leadership council
4. Category definition and Spend analysis
5. Savings-based case for change
6. Clear cut definition of responsibilities
7. Joint elaboration of roadmaps and action plans
8. Organizational changes and skill building
9. Flawless delivery, change management and governance
10. Next steps – Continuous improvement

The company

- Privately owned, headquartered in Luxemburg
- Electronic / Electro mechanical devices for the aerospace, and healthcare industries.
- 435 millions euros revenue, 300 millions euros third party expenditure, direct and indirect.
- 3 BU's: Aerospace, Healthcare, Electronics
- Electronics is an internal supplier for the two other BU's
- 12 industrial sites in France, Belgium, Spain, morocco, Poland, USA and Mexico. 3 R&D centers.
- Historical growth by acquisitions, to follow customer base.
- In spite of growth, margins are eroding due to increased pressure from OEM's to reduce prices.

Initial assessment

- Initial assessment was performed by conducting 33 guided interviews either in person or via Skype.
- Key stakeholders were selected and validated by the CEO.
- The Supply Management Maturity Matrix was used to assess the Procurement function in the eight dimensions of the ATK™ House of Purchasing and Supply Management.
 - Human Resources Management |
 - Performance Management | Key enablers
 - Knowledge / Information Management |
 - Sourcing and Category Management +
 - Supplier Relationship Management + Value adding processes
 - Operating Process Management +
 - Organizational Alignment ↗
 - Supply Management Strategy ↗ Strategic direction

Initial assessment - Highlights

- Non-homogenous, fragmented ERP systems and tools.
- Lack of spend transparency and accountability.
- Processes and policies not coherent across the global organization.
- Global Procurement is in fact coordinating only France and Belgium.
- Runs one global event per year to coordinate sourcing efforts across BU's and Geography, but lacks credibility and operates without a clear mandate.
- Each plant tends to run its procurement independently.
- No systematic involvement of functions such as Operations, QA, IT, Finance and R&D in major sourcing decisions. Conversely, R&D develops projects with new suppliers without Procurement being involved.
- Skills and competencies requirements not defined globally in a consistent manner for each level. No clear reporting lines. Little transparency on individuals' performance across the entire organization.
- Inadequate, non-coherent KPI's. No Global Procurement performance reporting
- Result is a mix of global, regional and local responsibilities, with poor collaboration and lack of clarity on how categories are managed.

Scope of transformation

- Scope of transformation discussed and approved by Leadership team composed of CEO, BU Leaders and Heads of support functions.
- 18-month plan with deliverables at 6 and 12 months
- Expected outcome
 - 7 to 12 % initial savings. 3 to 5% recurring savings afterwards
 - Establishment of a Procurement organization that will ensure sustainability of initial savings and create value over time.
 - Take processes and tools to the next level.
 - Clear cut clarification of responsibilities.
 - Appropriate training for all Procurement staff.
 - Unquestionable performance reporting.
- First step: Creation of a Procurement Leadership Council.

Procurement Leadership Council

- Project governance by Procurement Leadership Council
- Global coherence was essential across:
 - Geography - Footprint
 - Business Units
 - Tools and methodologies
 - Supply market
- PLC composed of Procurement and BU Executives across the company geographical foot print.
- Roles and responsibilities:
 - Co-sponsor the transformation project, demonstrating common aim to succeed
 - Set boundaries of the project and time frame
 - Ensure availability of resources
 - Develop transformation plan and lead deployment
 - Ensure sustainability of decisions and actions

Spend cube analysis

Category management

- Sanity check on category definition across the organization.
→ Enhancement of the Procurement classification
- Data-driven spend cube analysis across categories, BU's and Geography.
- Constraint analysis performed to establishes the right level of management for each major category, taking into account the internal perspective and the corresponding supply market structure.
- Kraljic Matrix to assess potential synergies for pooling and bundling across BU's and geography.
→ Achieve global spend synergies for better price/volume.

Spend cube analysis

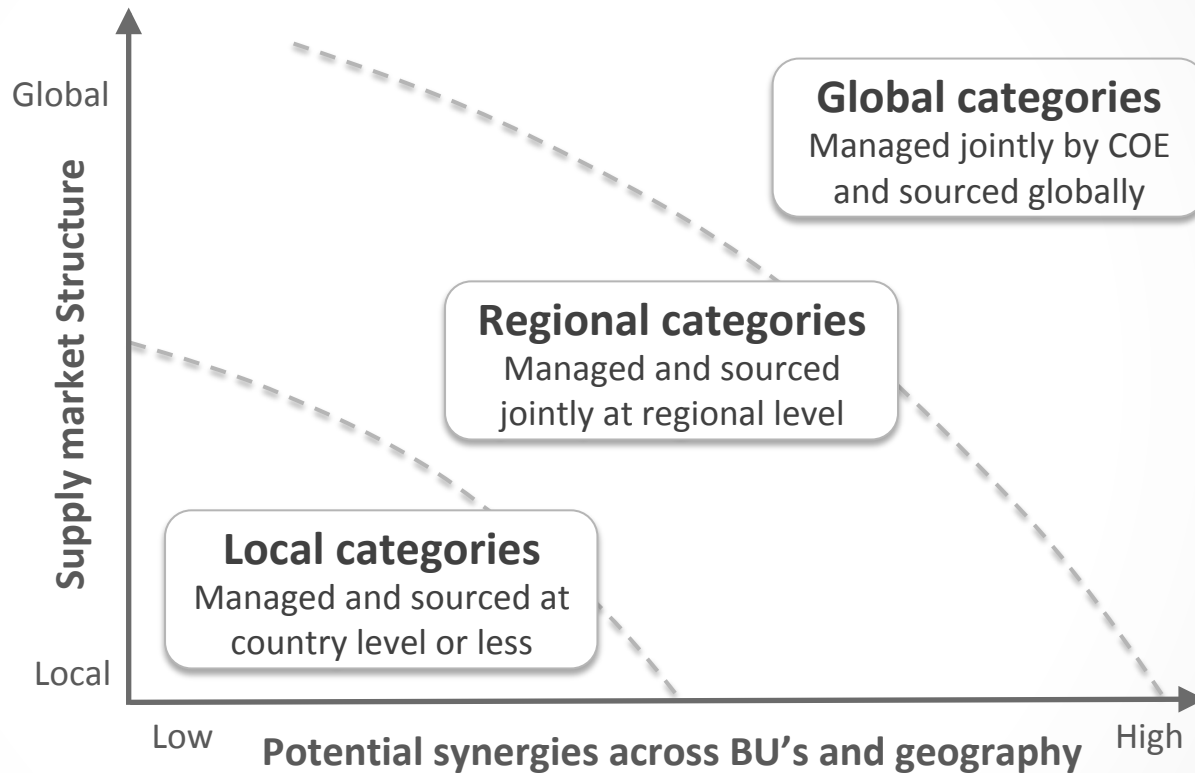
Category management

- ATK Chessboard™ and category experts to elaborate a category management matrix with a mix of quantitative analysis and qualitative expertise.
- Fact-based mapping of the different categories to be managed at the appropriate level, Global – Regional – Local.
- Organizational setup became a logical consequence based on market constraints, Manufacturing and Engineering footprints, and savings potential.
 - Two regions (Europe-North Africa and Americas)
 - One Corporate Center of Excellence
 - A coordinated category network.

Category mapping

External view

- Players in the market and geographical span
- Product mobility
- Level of standardization, COTS



Internal view

- Bu's and geography to be involved in synergies
- Commonality in categories and specifications
- Overall volume generated and expected savings

Savings-based case for change

- Nothing was more convincing than 100-day cash flow savings and 12-month accelerated strategic sourcing initiatives.
- Definition of how savings would be calculated for the three levels of category management.
 - Proposed by PLC and approved by Finance.
- Agreement on governance and progress monitoring.
- Consensus on how and who will track and validate savings.
- Savings potential and probability of success validated jointly with category experts and BU's.
- Generation of an 18-month project pipeline with owner, target and deadline for each initiative.

Clear cut definition of responsibilities

- Procurement organizational structure is always important for efficiency and success, but the underlying decision roles and related processes are actually much more important.
- Success of an organization lies in better, faster decisions followed by better, faster, flawless execution.
- All stakeholders, functions, BU's and geographies have to work together seamlessly, with each individual having full clarity on roles, responsibilities and interfaces.

Clear cut definition of responsibilities

- Step 1: A one-pager set of guiding principles for working together was elaborated. It included a commitment to collaboration and a description of the general roles and relationships among different global teams.
- Step 2: The Procurement process was redefined, with enough granularity to highlight the key decision points.
- Step 3: For each key decision point in the procurement process, responsibilities of the various stakeholders were assigned at the global, regional and local levels across all functions involved.
- DREAM methodology was used to assign the key elements of decision-making accountability.

Key decision points in the Procurement process

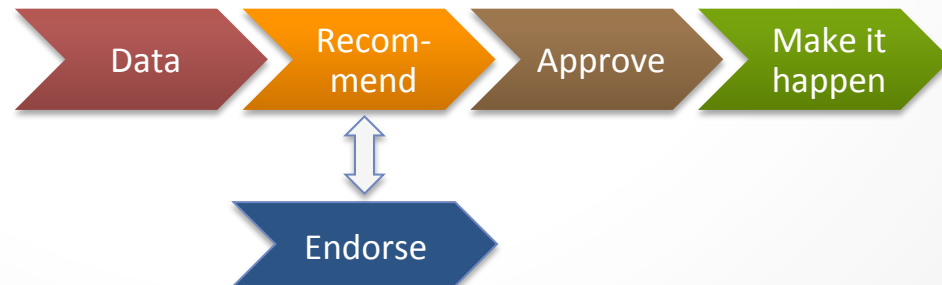
| | | | | | | |
|-----------------------------------|------------------------------------|--|---|----------------------------------|---|------------------------------------|
| Global | | | | | | |
| Main Process | Global Procurement strategy | Category management | | | Purchasing | Performance Management |
| | | Category strategy | Sourcing | Supplier Relationship Management | | |
| Sub-processes and decision points | Global organization and governance | Organize sourcing team | Demand forecast | Maintain Supplier database | Ongoing demand scheduling | Procurement performance management |
| | Procurement strategy | Profile category | Identify supplier portfolio | Evaluate and develop suppliers | Check and challenge specifications | Continuous improvement |
| | | Identify opportunities | Select sourcing process | Manage claims and litigations | Generate Requisition for goods and services | |
| | | Select sourcing strategy | Define shortlist and implement strategy | Qualify new suppliers | Requisition approval workflow | |
| | | Assign Category Managers | Negotiate | | Issue Purchase Order | |
| | | Assign Category Country Leaders | Award contract | | Reception and inventory monitoring | |
| | | Category initiative business case review | Implement contract | | Ongoing compliance monitoring | |
| | | | | | Three-way match and payment | |

Same table was elaborated for Regional and Local Procurement

Key decision points

DREAM for decision-making accountability

- **DREAM** stands for **Data**, **Recommend**, **Endorse**, **Approve**, **Make it happen**.
- **Data**: Who needs to provide relevant data?
- **Recommend**: Who is responsible for presenting the case?
- **Endorse**: Who needs to agree or has a veto right?
- **Approve**: Who makes the decision to proceed with the agreed upon recommendation and will ensure it delivers the planned outcome?
- **Make it happen**: Who will implement the decision and deliver the planned results?
- The idea is to decide beforehand with an agreed-upon tool how decisions will be made at each critical decision point.
- It should lead in most cases to a single decision maker (The Approver).



Joint elaboration of roadmaps and action plans

- Executive sponsorship from BU's was active and visible.
- Key stakeholders were involved across the organization to create buy-in and positive momentum.
- Less controversial categories were used to run a pilot that was nevertheless representative of the complexity of the whole business.
- All specific local issues raised at country or plant levels were actively addressed.
- Final consensus was key to success at deployment phase.

Joint elaboration of roadmaps and action plans

- Workshops with multi-functional teams involving a good mix of categories, functions, experts, BU's, geographies and influencers. Conducted at global and regional levels to identify potential savings and corresponding enablers.
- “Buy less, buy better, buy cheaper” methodology and strategic sourcing best practices were followed.
- More than 40 multifunctional workshops conducted.
- Generation of an 18-month project pipeline of more than 120 initiatives identified and validated.
- Very wide range of projects, involving all functions.
- Initial potential of the project pipeline was 31 millions €.

organizational changes and Skill building

- A “3P” Center-led Procurement organization was approved with clear job descriptions by levels and job types.
- A systematic assessment of the existing procurement talent pool was performed against clear job descriptions and skill requirements.
- Elaboration of a pragmatic 2-year skill-building plan.
- Definition of a career track for top performers, bridged to other functions to facilitate crossovers.
- Elaboration of a plan for attracting top procurement talents from inside and outside the company.
- Provision for a Buyer rotation plan and a succession plan for management levels.

Outstanding delivery, change management and governance

- Co-creating the solution and having a clear full-potential view were key success factors.
 - Owned by the front line (Local teams) and coordinated globally (CoE).
- Risks with local changes were identified and mitigated on an ongoing basis.
 - Risk management awareness was raised.
- It proved to be essential to have change management capabilities at country/site and regional levels.
 - Communication plan tailored to each level.

Outstanding delivery, change management and governance

- An appropriate governance at all levels to support change and remove roadblocks quickly was a big success factor.
- Country level was addressed first to implement
 - 1– The right reporting lines to local management (Direct) and higher Procurement levels (dotted).
 - 2 – A strong category management.
 - 3 – A clear delineation of operational and strategic Procurement roles.
- Once the right setup was in place for each country/Plant, it was then possible to build effective procurement organizations at regional and global levels.

Situation after 12 months in the project

- Procurement has reduced in size but improved in competencies and efficiency. It is a recognized business partner that supports local Operations and Projects while realizing global synergies on major categories.
- Initial savings for categories that were addressed fell in the range from 8 to 12%, for an average of 9% of the total addressed purchasing volume (80% of total spend).
- Further annual savings of 3 to 5% can be expected after transformation is completed on the condition that the same steps and methodology are undertaken through continuous improvement projects.
- ERP alignment and implementation of a Procurement suite will facilitate every step of Source-to-pay.
- “Electronics” BU could be outsourced in the future.

Conclusion and recommendations

- A large-scale Procurement transformation project proved to be far more successful than a series of one-off uncoordinated procurement initiatives.
- An external support with multi-sectorial transferable expertise was widely recognized to be instrumental in achieving this exceptional result.
- Such project takes time, skills and broad executive level experience.
- Multifunctional approach and teamwork are essential.
- Most of all, it takes unconditional CEO support.

Thank you

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Questions?

Next steps