

The CPO

(Chief Procurement Officer)

Agenda 2014

Summary of study results

Roland Berger
Strategy Consultants

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Management summary (1/3)

Study background and objectives

- > Companies are acting in an increasingly **VUCA world** (volatile, uncertain, complex and ambiguous)
- > **More and more** is being **expected of the Chief Procurement Officer (CPO)**
- > Therefore, the **CPO needs to look** at both
 - A **longer-term plan** to achieve **excellence in procurement**
 - And a **shorter-term plan** to look at the imminent/current **challenges and levers**
- > To support CPOs in both dimensions, Roland Berger launched the "**CPO Agenda 2014**" study, which **supplements** the regular "**Purchasing Excellence**" study
 - Focus of the "Purchasing Excellence" study: Excellence in procurement – Main trends regarding strategy, organization, capabilities, etc.
 - **Focus of the "CPO Agenda 2014" study: Hot CPO topics for 2014 – Industry trends impacting procurement, main challenges and levers** for procurement
- > More than 200 high-level procurement executives from around the world participated in the "CPO Agenda 2014" study

Management summary (2/3)

Key results

- > Overall, **eight challenges keep CPOs awake** at night
- > In terms of the **importance** of the challenges:
 - Three challenges are and will remain highly important over the next 3-5 years: Generating and measuring savings, safeguarding quality and ensuring delivery availability
 - However, five challenges will gain significant importance in that same period: Enhancing product value, optimizing working capital, managing volatility and risk, securing innovating and developing supplier partnerships 2.0
 - Biggest change: Supplier partnerships 2.0 will double in importance in the next 3-5 years
- > In terms of **maturity** to cope with the challenges:
 - Companies are most mature in terms of generating and measuring savings, safeguarding quality and ensuring delivery availability
 - The areas with the lowest maturity – and hence, the biggest need for action – are managing volatility and risk, securing innovating and developing supplier partnerships 2.0
- > **However, different industries face different trends**
- > **Therefore, CPOs face different challenges and need to apply different levers**





Management summary (3/3)

Key results

- > As a result, the **CPO Agenda 2014** varies **by industry** –
Example: Engineered Products and High Tech (EPHT)
 - The **industry trends** with the highest **impact on procurement** are **product cost optimization, shift to Asia** and **innovation management**
 - The four **most urgent challenges** for **EPHT CPOs** are
 - **Generate and measure savings** (Urgency Indicator: 5.0) – **One main lever:** Challenge all cost drivers (needs, specification, quantity, prices) with cross-functions
 - **Safeguard quality** (Urgency Indicator: 4.7) – **One main lever:** Establish acceptance of necessary trade-offs with other functions e.g. for cost vs. quality
 - **Manage volatility and risk** (Urgency Indicator: 2.7): – **One main lever:** Align closely with Sales & Controlling to identify market fluctuations early and "translate" towards suppliers
 - **Supplier partnerships 2.0** (Urgency Indicator: 2.4): – **One main lever:** Launch regular discussions with strategic suppliers regarding challenges, risks & win-win collaborations
- > **Additional CPO agendas are available for Automotive, Chemicals, Consumer Goods, Financial Services, Healthcare/MedTech/Pharma and Transportation**

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Study Background and comparison of industries

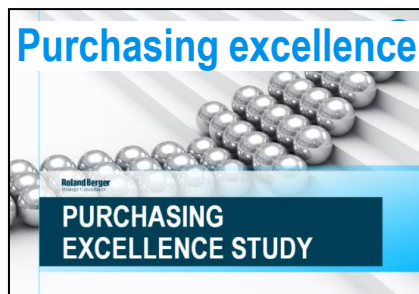
CPO Agenda 2014 per industry

Contacts and further reading

Appendix

In today's VUCA world the new "CPO Agenda 2014" provides a valuable view on trends, challenges and levers for the CPO

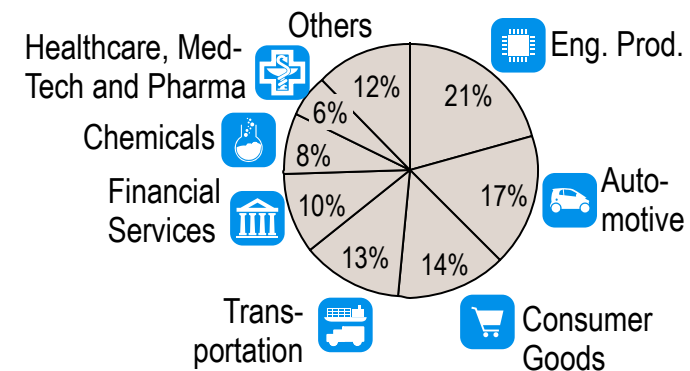
- > Companies increasingly act in a **VUCA world** (volatile, uncertain, complex and ambiguous)
- > **Expectations** for the Chief Procurement Officer (CPO) are **continuously increasing**
- > Therefore, Roland Berger provides CPOs with two studies:



- Main trends regarding
- > **Strategy**
 - > **Organization**
 - > **Capabilities, etc.**



- > **"CPO Agenda 2014" differentiated by industry:**
 - **Trends** in the industry and their impact on procurement
 - Key **challenges** for procurement
 - **Main levers** for procurement
- > Study in Q4 2014 with **>200 Procurement Executives** participating:











Trends differ by industry – This study provides answers which trends influence procurement most and which major challenges exist

Top influential industry trends

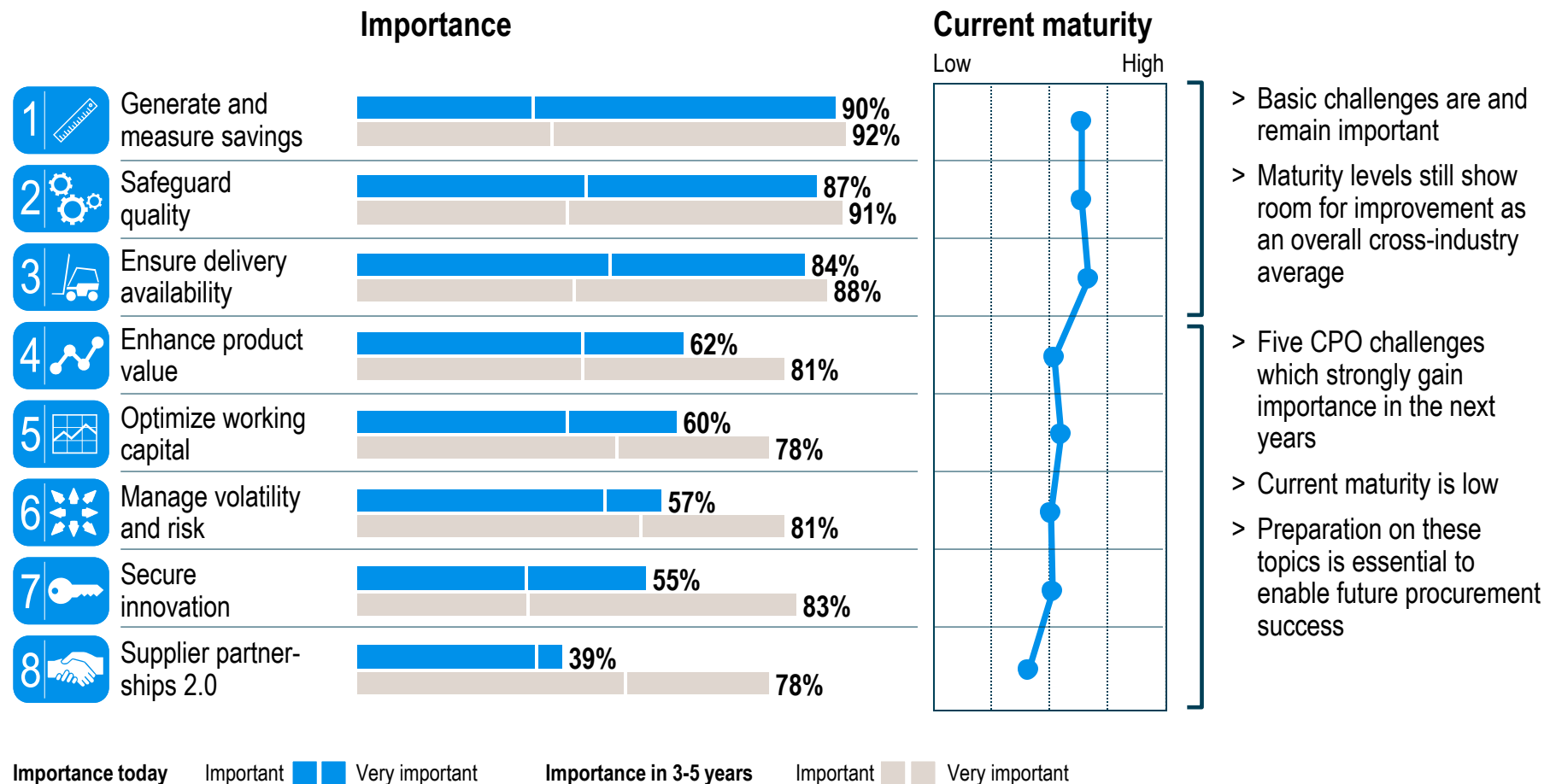
- 
Automotive
 - > Shift of demand to developing countries
 - > Value Chain configuration
- 
Engineered Products and High Tech
 - > Product cost
 - > Shift to Asia
- 
Chemicals
 - > Resource constraints
 - > Environmental and sustainability needs
- 
Consumer Goods
 - > Lifestyle of health and sustainability
 - > Lower willingness to pay
- 
Financial Services
 - > Regulation
 - > Organization and efficiency
- 
Transportation
 - > Competition
 - > Procurement alliances
- 
Healthcare, MedTech and Pharma
 - > Cost pressure
 - > Limited growth perspectives

Procurement challenges

- 
Generate and measure savings
- 
Safeguard quality
- 
Ensure delivery availability
- 
Enhance product value
- 
Optimize working capital
- 
Manage volatility and risk
- 
Secure innovation
- 
Supplier partnerships 2.0 and contribution to optimization of business model

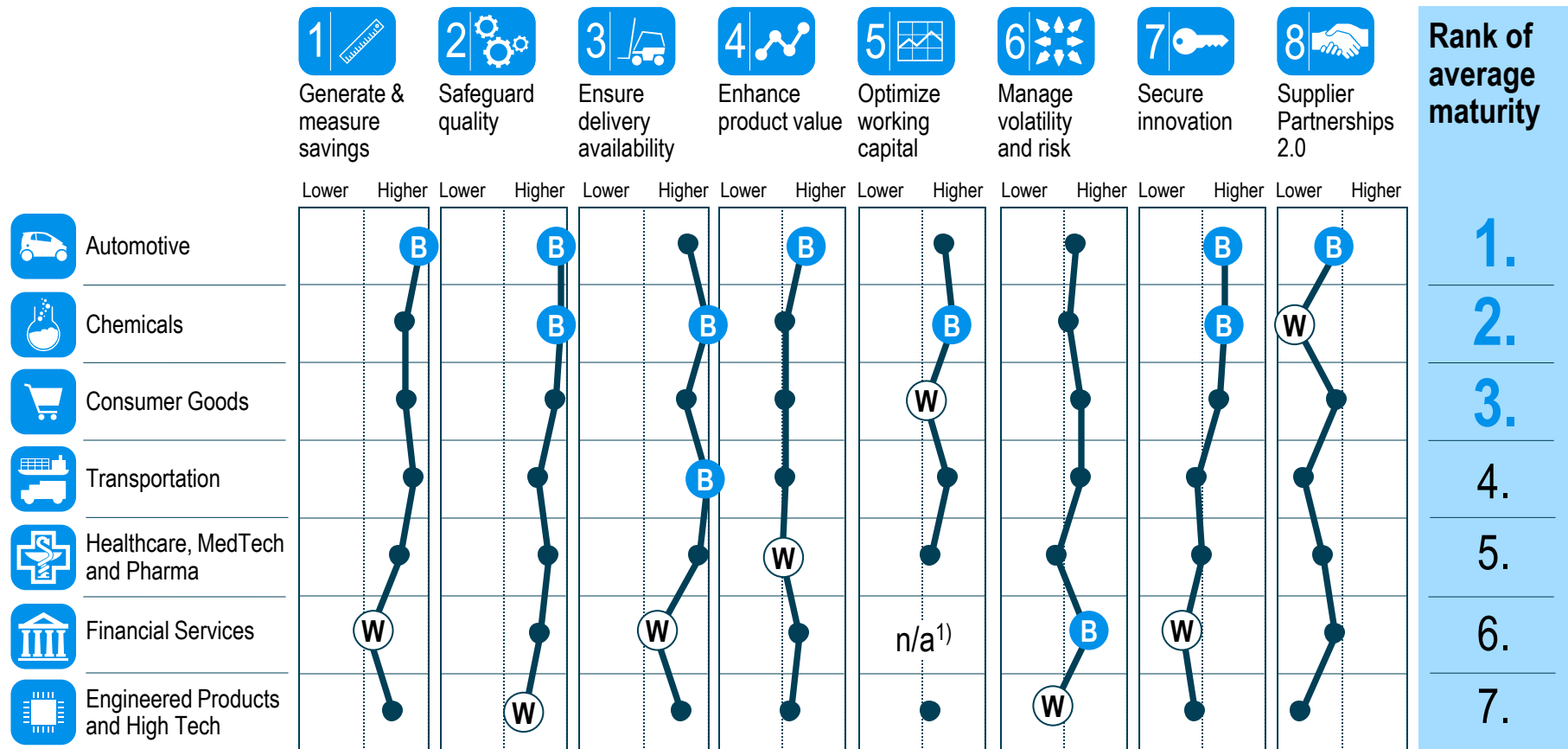
The top-3 CPO challenges are and remain important – But remaining challenges will increase in importance within 3-5 years

CPO challenges across industries (sorted by today's importance)



Automotive and Chemicals are best-performers in most challenges – Consumer Goods performs on similar level on average

Industry benchmarking: Current maturity per challenge



Likert scale: 1 = Low, 5 = High, This graph shows scale from 2 to 4 **B** Best **W** Worst

1) Note: Not relevant/applicable for Financial Services

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The Automotive CPO Agenda 2014: Most urgent challenges & levers

Automotive trends with highest impact on procurement

- > **Shift of demand** to Brazil, India, China (**BIC**) and the **next 11** developing **countries**
- > **Footprint wave 2, standardization & modularization 2.0**, flexible/modular production, **Joint Venture** & cooperation management
- > **Risk Management:** Compliance, rare earth, etc.

Automotive CPO Agenda 2014

(Three most urgent levers of the four most urgent challenges)



Supplier partnerships 2.0

(Urgency Indicator: 5.0)

- > Develop approaches of extended **cooperation beyond supplier relationships**
- > Launch continuous/regular **discussions** with strategic suppliers (existing & potential) **regarding** challenges, risks and potential **win-win collaborations**
- > **Challenge** level of **vertical integration** and own business model



Generate and measure savings

(5.0)

- > **Challenge all cost drivers** (needs, specification, quantity, prices)
- > Provide **full transparency** regarding spend, contracts, suppliers on a global scope including cost implications
- > **Align targets** of procurement and business departments



Safeguard quality

(4.3)

- > Anchor and fairly consider **quality requirements** in supplier contracts
- > Establish **acceptance** of necessary **trade-offs** internally (at functional departments)
- > Monitor actual and **customer perceived quality**



Secure innovation

(4.1)

- > Understand **customer requirements** and include learnings in supplier/material decisions
- > **Use suppliers to actively push innovation**, e.g. through collaboration during development phase
- > Manage make-or-buy decisions in a way to **secure own innovation USPs**

The Chemicals CPO Agenda 2014: Most urgent challenges & levers

Chemicals trends with highest impact on procurement

- > Resource constraints: **Rising and volatile energy and feedstock costs**
- > Environment and sustainability: **Sustainability of end products and raw materials**
- > Competition: Market entry of **competitors from rapidly developing economies**

Chemicals CPO Agenda 2014

(Three most urgent levers of the four most urgent challenges)



Manage volatility and risk (Urgency Indicator: 5.0)

- > **Align** closely with **Sales & Controlling** to identify market fluctuations early and "translate" towards suppliers
- > Establish **integrated communication** with critical suppliers to manage demand fluctuations
- > **Balance flexibility** in supplier agreements to cope with demand fluctuations with volume commitments to reduce prices



Supplier partnerships 2.0 (4.3)

- > Launch continuous/regular **discussions** with strategic suppliers (existing & potential) **regarding** challenges, risks and potential **win-win collaborations**
- > Develop approaches of extended **cooperation beyond supplier relationships**
- > **Challenge** level of **vertical integration** and own business model



Generate and measure savings (4.3)

- > **Challenge** all **cost drivers** (needs, specification, quantity, prices)
- > Provide full **transparency** regarding spend, contracts, suppliers on a global scope including cost implications
- > **Align targets** of procurement and business departments



Enhance product value (3.6)

- > Apply a robust tool set to **reach target cost** e.g. tear down analysis
- > **Understand customers'** value/willingness to **pay** for desired feature/performance
- > Understand **target margin**



The Consumer Goods CPO Agenda 2014: Most urgent challenges & levers

Consumer Goods trends with highest impact on procurement

- > Increasing **awareness** on **health** and environment which **drives** the sales of functional food and **sustainable products**
- > **Prices** for food **rise** whereas the **share of wallet** for food **shrinks** – Trading down and more planned purchases as a result
- > Customer's **time scarcity** leads to product **innovations** and new retail formats

Consumer Goods CPO Agenda 2014

(Three most urgent levers of the four most urgent challenges)



Enhance product value (Urgency Indicator: 5.0)

- > Apply a robust tool set to **reach target cost** e.g. tear down analysis
- > Manage **target cost achievement**
- > **Understand customer requirements**, i.e. desired features/performance



Ensure delivery availability (4.0)

- > Develop in advance **recovery measures** and reduce dependencies on critical material/services and suppliers
- > Understand and **forecast demand** including assessment of lead times
- > Actively **monitor supply market** changes



Generate and measure savings (3.9)

- > **Align targets** of procurement and business departments
- > **Challenge all cost drivers** (needs, specification, quantity, prices)
- > Provide full **transparency** regarding spend, contracts, suppliers on a global scope including cost implications



Optimize working capital (3.3)

- > Understand **working capital requirements** of business and changes over time
- > Consider **TCO perspective** e.g. receiving, packaging, stock
- > **Tie WCM** to **supplier performance/evaluation**



The EPHT CPO Agenda 2014: Most urgent challenges & levers

EPHT trends with highest impact on procurement

- > Product cost: Further **product cost optimization**
- > **Shift to Asia**: Not only shift of volume, but also production and engineering footprint
- > Innovation process: Establishment/**optimization of innovation management/process**

Engineered Products and High Tech (EPHT) CPO Agenda 2014

(Three most urgent levers of the four most urgent challenges)



Generate and measure savings (Urgency Indicator: 5.0)

- > **Challenge** all cost drivers (needs, specification, quantity, prices)
- > Establish **involvement** of procurement in **budget planning process** ("engineered budget", baseline for savings against budget)
- > Provide full **transparency** regarding spend, contracts, suppliers on a global scope including cost implications



Safeguard quality (4.7)

- > Create **transparency** on quality dimensions and targets
- > Monitor actual and **customer perceived quality**
- > Establish **acceptance of necessary trade-offs** internally (at functional departments)



Manage volatility and risk (2.7)

- > **Align** closely with **Sales & Controlling** to identify market fluctuations early and "translate" towards suppliers
- > **Balance flexibility** in supplier agreements to cope with demand fluctuations
- > Establish **integrated communication** with critical suppliers to manage demand fluctuations



Supplier partnerships 2.0 (2.4)

- > **Challenge** level of **vertical integration** and own business model
- > Develop approaches of extended **cooperation beyond supplier relationships**
- > Launch continuous/regular **discussions** with strategic suppliers (existing & potential) **regarding** challenges, risks and potential **win-win collaborations**

The Financial Services CPO Agenda 2014: Most urgent challenges & levers

Financial Services trends with highest impact on procurement

- > Higher **complexity** and costs due to increasing **regulatory requirements**
- > Industrialization of the **value chain**, shared services and outsourcing of functions and processes due to **cost pressure**
- > Near field communication, social media enable **new sales channels**, client interaction and **business models**, strong **need for security**

Financial Services CPO Agenda 2014

(Three most urgent levers of the four most urgent challenges)



Generate and measure savings

(Urgency Indicator: 5.0)

- > **Challenge** all **cost drivers** (needs, specification, quantity, prices)
- > Establish **involvement** of procurement in **budget planning process** ("engineered budget", baseline for savings against budget)
- > **Align targets** of procurement and business departments



Safeguard quality

(4.4)

- > Monitor actual and **customer perceived quality**
- > Create **transparency** on **quality dimensions** and targets
- > Anchor and fairly consider **quality requirements** in supplier contracts



Ensure delivery availability

(3.8)

- > Understand and **forecast demand** including assessment of lead times
- > Actively **monitor supply market** changes
- > Have a **clear understanding** of **critical** versus **non-critical** materials/services and related suppliers – focus on critical goods and services



Secure innovation

(3.8)

- > Manage make-or-buy decisions in a way to **secure own** innovation **USPs**
- > Establish **supplier innovation awards**
- > Involve procurement in **product development** early on



The Healthcare, MedTech and Pharma CPO Agenda 2014: Most urgent challenges & levers

Industry trends with highest impact on procurement (Extract)

Healthcare and Medtech

- > **Limited growth** perspectives also due to restricted budgets for public healthcare
- > Continuous **cost containment pressure** (labor, material, energy prices)

Pharma

- > **Cost pressure** resulting from healthcare system
- > Further increasing importance of **evidence based medicine** aiming to reduce cost

Healthcare, MedTech and Pharma CPO Agenda 2014

(Three most urgent levers of the four most urgent challenges)



Optimize working capital

(Urgency Indicator: 5.0)

- > **Tie WCM** to **supplier** performance/evaluation
- > Consider **TCO perspective** e.g. receiving, packaging, stock
- > Understand **working capital requirements** of business and changes over time



Generate and measure savings

(4.4)

- > Provide full **transparency** regarding spend, contracts, suppliers on a global scope including cost implications
- > **Challenge** all **cost drivers** (needs, specification, quantity, prices)
- > Establish **involvement** of procurement in **budget planning process** ("engineered budget", baseline for savings against budget)



Secure innovation

(4.4)

- > Involve procurement in **product development** early on
- > Understand **customer requirements** and include learnings in supplier/material decisions
- > Use suppliers to **actively push innovation**, e.g. through collaboration during development phase



Enhance product value

(3.3)

- > Apply a robust tool set to **reach target cost** e.g. tear down analysis
- > **Understand customer requirements**, i.e. desired features/performance
- > Understand **target margin**

The Transportation CPO Agenda 2014: Most urgent challenges & levers

Transportation trends with highest impact on procurement (Extract)

Logistics service providers

- > Dropping freight rates in air/sea/land transports due to overcapacities

Shipping companies

- > Consolidation of procurement volumes via carrier consolidation or Alliances

Airlines

- > Increasing acceptance of LCCs and also Middle Eastern carriers by customers

Airports

- > Increasing acceptance of LCCs and problems of legacy carriers drive pressure on cost

Transportation CPO Agenda 2014

(Three most urgent levers of the four most urgent challenges)



Enhance product value (Urgency Indicator: 5.0)

- > **Understand customers'** value/willingness to **pay** for desired feature/performance
- > Understand **target margin**
- > Manage **target cost achievement**



Generate and measure savings (4.7)

- > **Challenge** all **cost drivers** (needs, specification, quantity, prices)
- > **Align targets** of procurement and business departments
- > Establish **involvement** of procurement in **budget planning process**, ("engineered budget", baseline for savings against budget)



Safeguard quality (3.9)

- > Monitor actual and **customer perceived quality**
- > Create **transparency** on **quality dimensions** and targets
- > Anchor and fairly consider **quality requirements** in supplier contracts



Supplier partnerships 2.0 (3.3)

- > **Challenge** level of **vertical integration** and own business model
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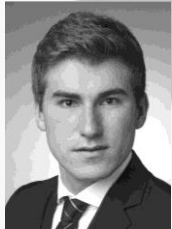
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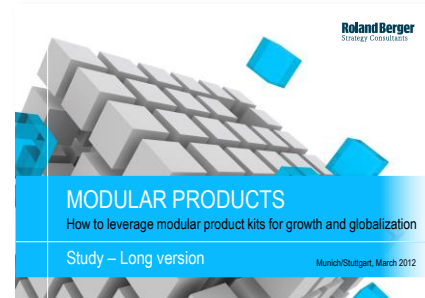
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Further reading for CPOs and COOs – Get in touch with us!



... and many others ... visit www.rolandberger.com/media

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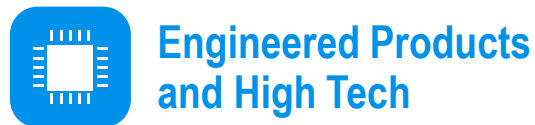
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Get in touch with us for detailed industry results – This summary contains a sample for the Engineered Products and High Tech

Available in-depth industry study results

The following pages illustratively show detailed results for:

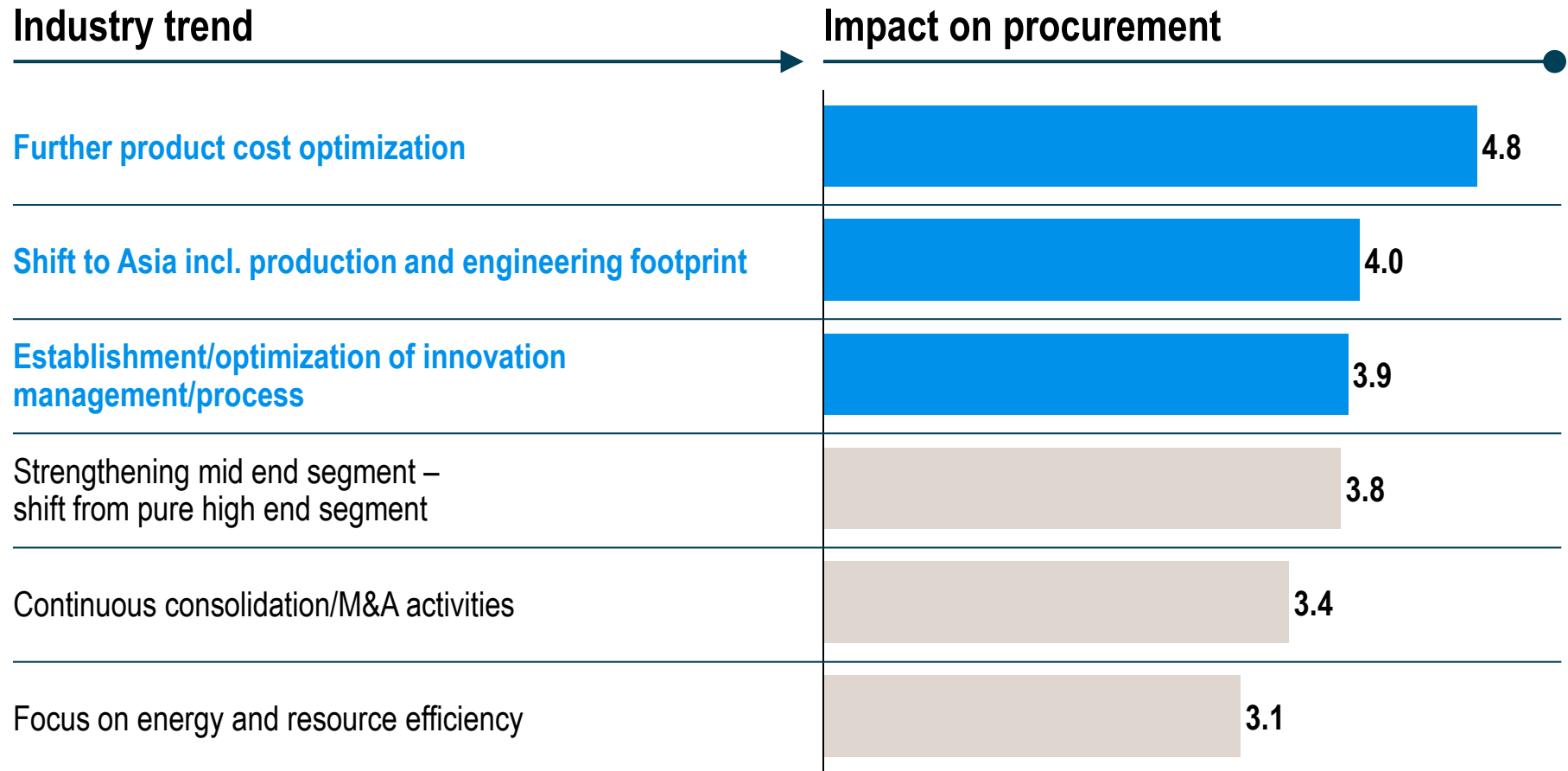



Please contact us to receive this analysis also for one of the following industries:





The three industry trends with highest procurement impact: Product cost optimization, shift to Asia and innovation management



 Three industry trends with the highest impact on procurement

 Other trends

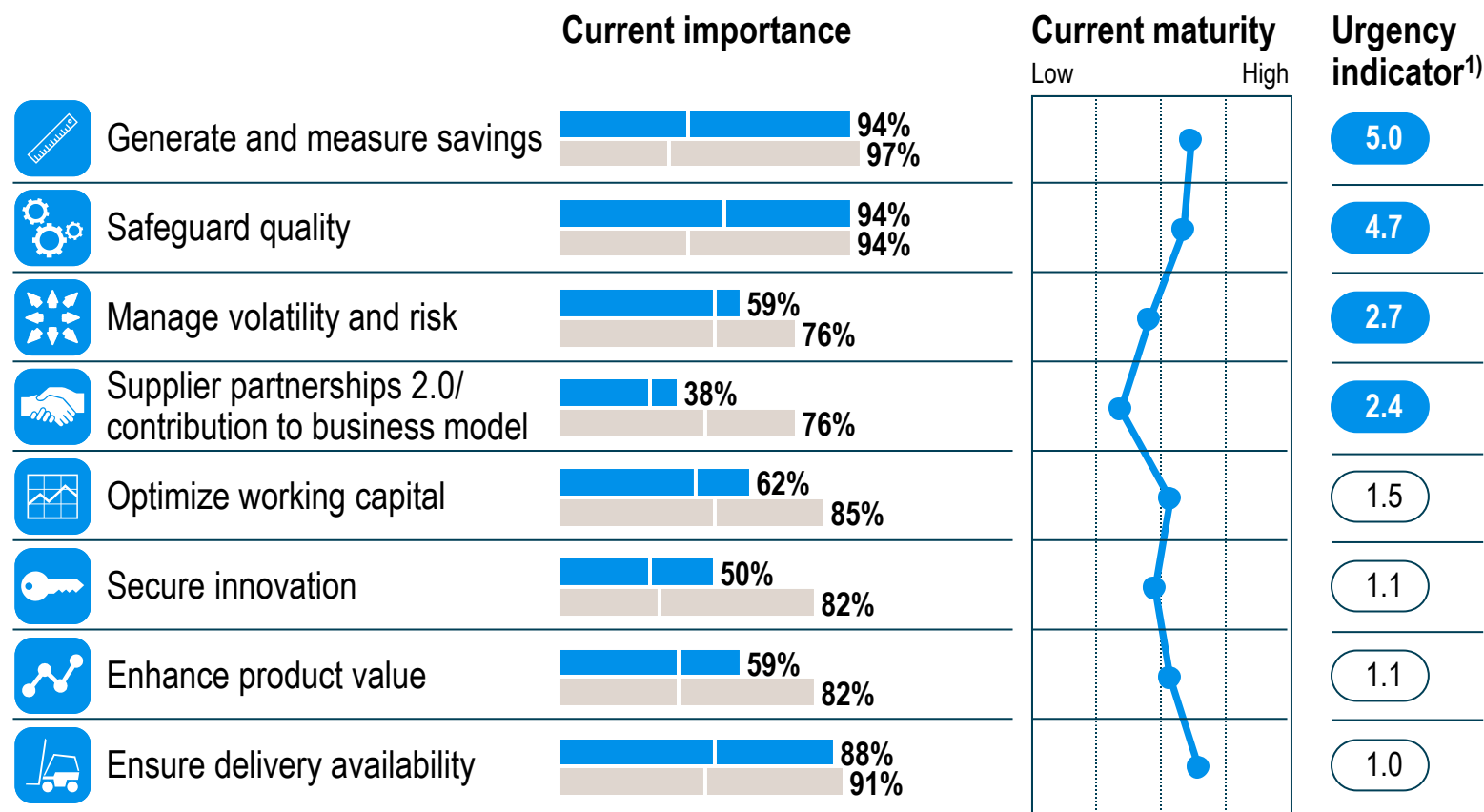
1 = Low impact of an industry trend on procurement

5 = High impact



The four most urgent challenges for EPHT CPOs include generating savings and safeguarding quality

CPO challenges ranked by urgency



Importance today Important ■ ■ Very important Importance in 3-5 years Important ■ ■ Very important

1) Weighted difference of importance today minus maturity (1 = Least urgent, 5 = Most urgent)



The EPHT CPO Agenda 2014: Most urgent challenges & levers

EPHT trends with highest impact on procurement

- > Product cost: Further **product cost optimization**
- > **Shift to Asia**: Not only shift of volume, but also production and engineering footprint
- > Innovation process: Establishment/**optimization of innovation management/process**

Engineered Products and High Tech (EPHT) CPO Agenda 2014

(Three most urgent levers of the four most urgent challenges)



Generate and measure savings

(Urgency Indicator: 5.0)

- > **Challenge** all cost drivers (needs, specification, quantity, prices)
- > Establish **involvement** of procurement in **budget planning process** ("engineered budget", baseline for savings against budget)
- > Provide full **transparency** regarding spend, contracts, suppliers on a global scope including cost implications



Safeguard quality

(4.7)

- > Create **transparency** on quality dimensions and targets
- > Monitor actual and **customer perceived quality**
- > Establish **acceptance of necessary trade-offs** internally (at functional departments)



Manage volatility and risk

(2.7)

- > **Align** closely with **Sales & Controlling** to identify market fluctuations early and "translate" towards suppliers
- > **Balance flexibility** in supplier agreements to cope with demand fluctuations
- > Establish **integrated communication** with critical suppliers to manage demand fluctuations



Supplier partnerships 2.0

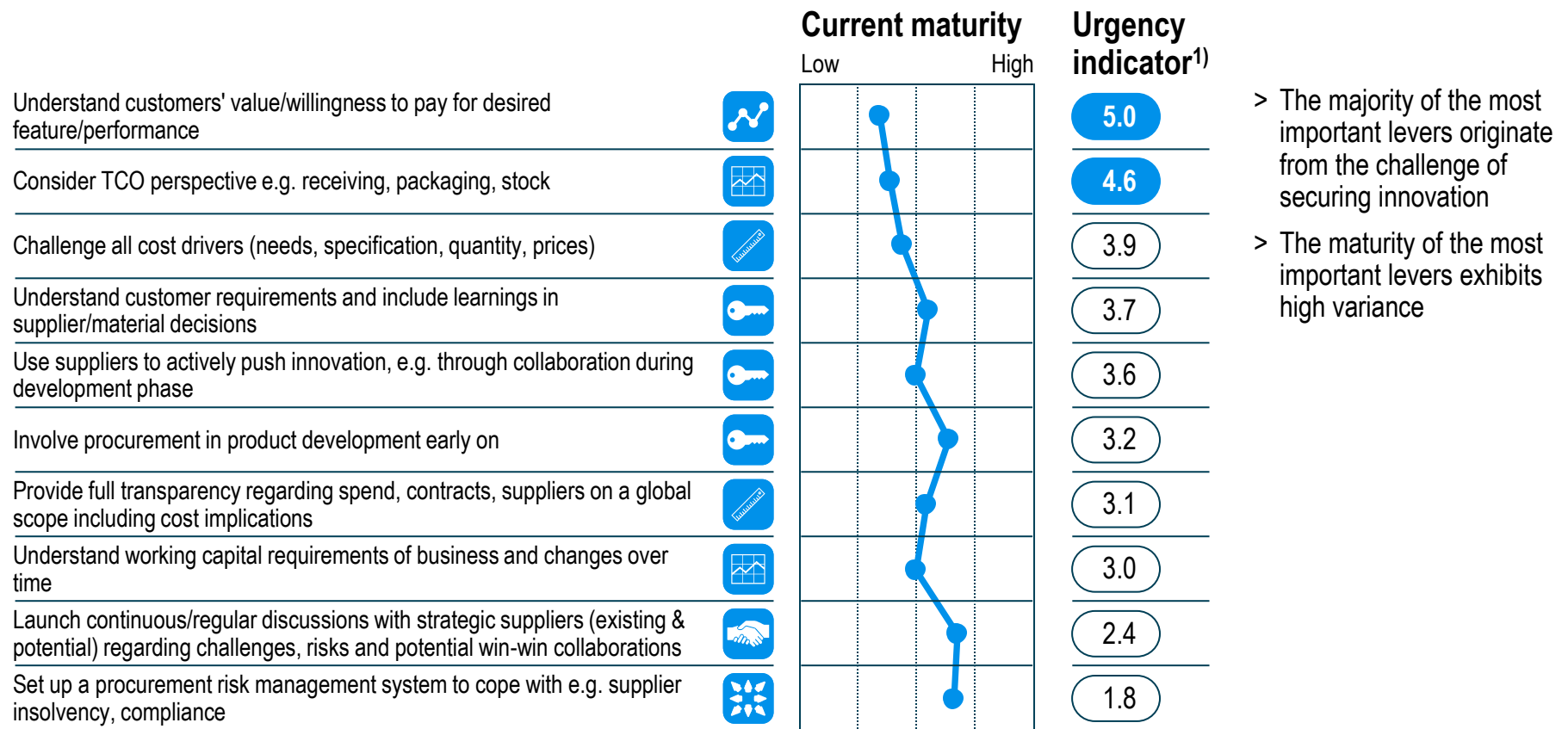
(2.4)

- > **Challenge** level of **vertical integration** and own business model
- > Develop approaches of extended **cooperation beyond supplier relationships**
- > Launch continuous/regular **discussions** with strategic suppliers (existing & potential) **regarding** challenges, risks and potential **win-win collaborations**



Across all challenges, the most urgent levers include understanding customers' value and considering the TCO perspective

Ten most important levers across all challenges ranked by urgency



1) Weighted difference of importance today minus maturity (1 = Least urgent, 5 = Most urgent)



It's character that
creates impact !

Roland Berger
Strategy Consultants