

# Procurement Transformation in Mining and Metals Industries

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Wednesday 12 September





# Agenda

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## **Creating Value For Your Business**

- Procurement Transformation is about Enabling Operational Excellence

## **Procurement Transformation How and Where to Start With**

- SAPs Suggested Approach

## **SAPs Competences & Expertise Able To Execute Procurement Transformation**

- SAPs Services, Solutions, and ECO System to Drive Procurement Transformation

## **What do Analysts say about SAP in Procurement**

## **Point Of Proof**



# Creating Value For Your Business

Procurement Transformation is about Enabling Operational Excellence



# Creating Value For Your Business

## Procurement Transformation Is The Enabler For Operational Excellence

Procurement Transformation is about,

“creating a customer-focused enterprise to achieve increased effectiveness, efficiency, & compliance”

which will result in significant financial benefit

Globalization, regulatory pressures, procurement automation, outsourcing, and supply market instability have simultaneously elevated the procurement discipline and increased supply management challenges.

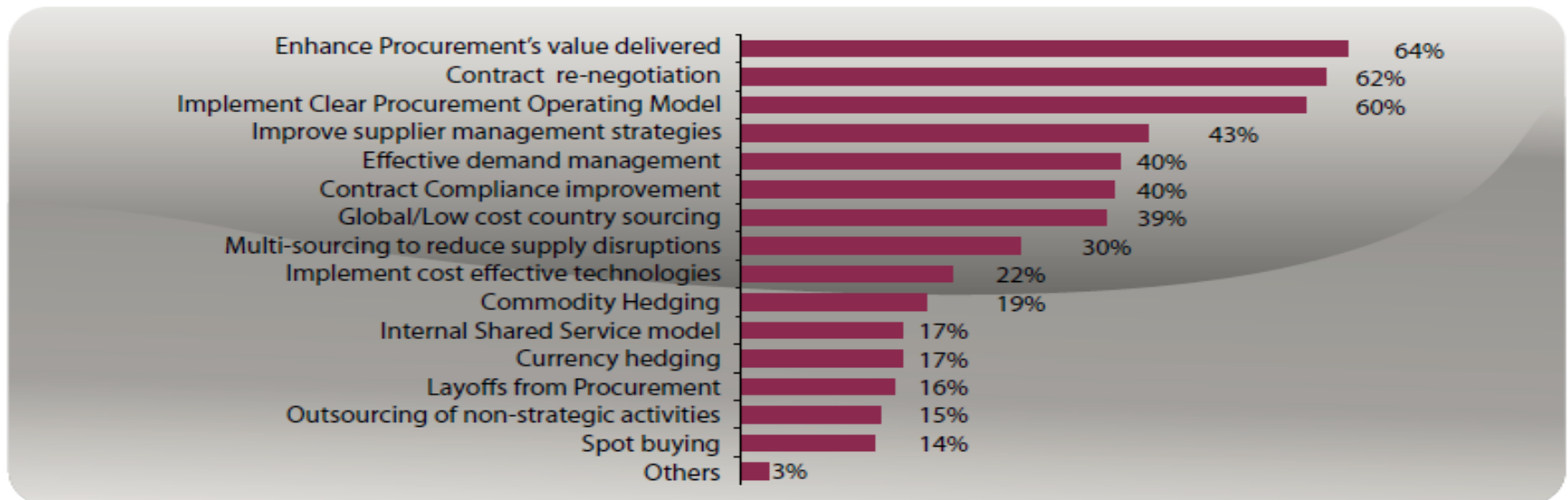


Figure 2: Procurement strategies during tough economic conditions / Source Cap Gemini

# Creating Value For Your Business

## Procurement Transformation Is The Enabler For Operational Excellence

In order to be more competitive and excellent in operational execution companies and their business networks need to:

differentiate by consistently delivering products or services to customers more profitably, at the right cost, quality, quantity, date and location.



### KPIs:

- Profitability / Margin
- Operating cost
- Cost savings
- Cost/unit
- Inventory days
- Productivity
- Operating cycle-time
- Quality (goods and services)
- Number of quality defects
- Customer service level

- **Reduce costs** by cost-effectively and efficiently managing your end-to-end operational processes
- **Sustain superior performance** by ensuring continuous improvement of your processes and systems
- **Deliver high-quality products or services** with integrated quality standards
- **Improve customer service** by delivering on promises
- **Accelerate decision making** with complete visibility on operations performance
- **Ensure business viability** by complying with legal mandates such as for environment, health and safety or e-invoicing compliance

# Creating Value For Your Business

## Operational Excellence

Income Statement	Current (\$ Millions)	Decreasing External Spend by 5% (\$ Millions)	Increasing Revenues by 5% (\$ Millions)
Revenues	\$1,000	\$1,000	\$1,050
Cost Margin	\$700	\$677.50	\$735
Selling General and Administrative	\$200	\$178	\$210
Operating Income	\$100	\$145	\$105
Taxes at 38%	\$38	\$55	\$40
Net Income	\$62	\$90	\$65
Change in Net Income		\$28	\$3
Change in Net Income %		45%	5%

Did you know that a 5% reduction in spend contributes to up to a 45% improvement in Net Income??

“Enabling Profitable Growth through Procurement: Transforming the Sourcing and Procurement Organization”, an SAP Insight paper by Vanessa C. Smith, Shruti Goel and Tushar Gulhane and published by the ASUG/SAP Benchmarking and Best Practices program

### Benefits of Best Run Procurement Organizations

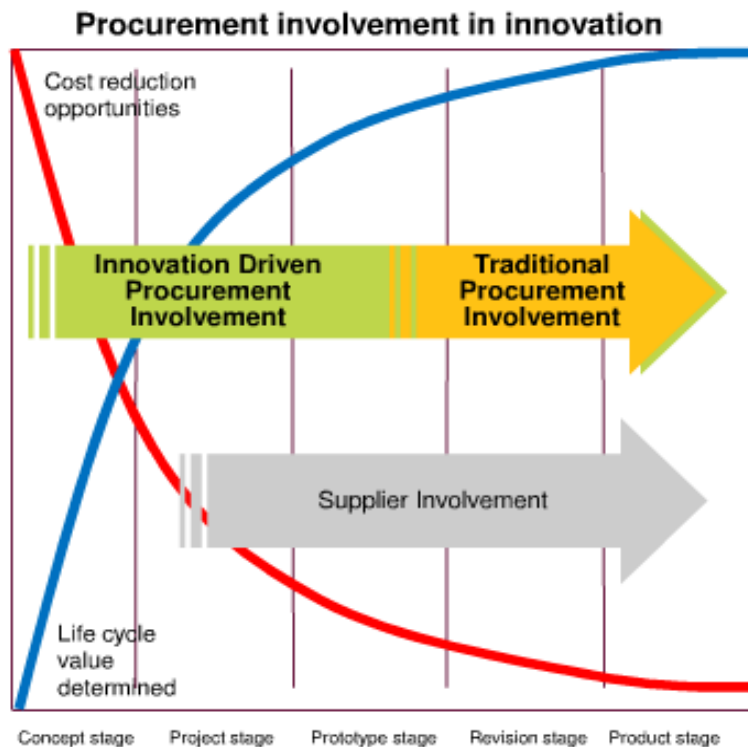
- 82% of spend under management
- 81% have automated the source to pay process (companies have achieved a 30% higher rate of cost savings using automated spend analysis)
- 24% savings leakage by not integrating the source-negotiations-contract compliance process

Source – Aberdeen, CPO 's Agenda 2009

# Creating Value For Your Business

## Early Involvement ...

**Early involvement will enable Procurement to add value when the potential impact is greatest**



### Traditional Involvement

- Product Development (R&D, marketing, etc.) tends to involve suppliers early on
- Procurement is involved once specifications are (nearly) fixed and the potential impact on costs is limited to negotiation gains
- Late involvement of Procurement may speed up initial design phases, but will require additional effort in later stages and it may cause conflicts

### Innovation Driven Involvement

- Innovation teams including early Procurement involvement are critical to leverage supply market capabilities from the start
- A shared value proposition for the external client will allow Procurement to focus on the right targets
- Supplier involvement is based on the full life cycle and is based on a strategy balancing R&D and Procurement interests

Source IBM

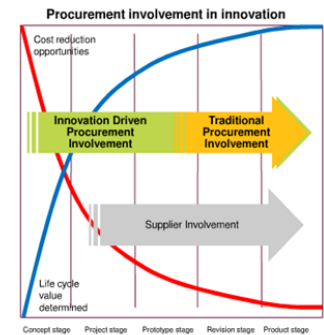
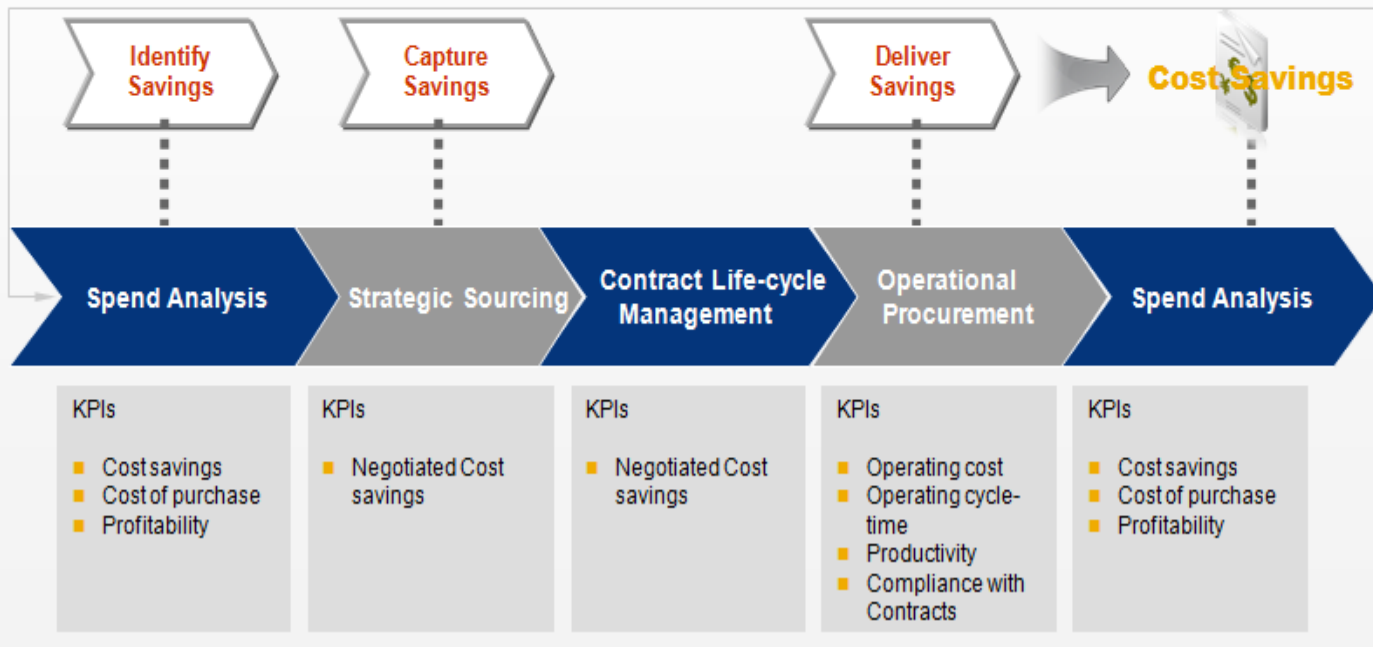


# Creating Value For Your Business - How To Do - Integrated Strategic Sourcing and Procure To Pay

The business value from procurement is typically generated in the strategic sourcing cycle and then delivered in the procurement order cycle



CPO





# Procurement Transformation

How and Where to Start...

# Procurement Transformation

How and Where to Start ... <https://valuemanagement.sap.com>

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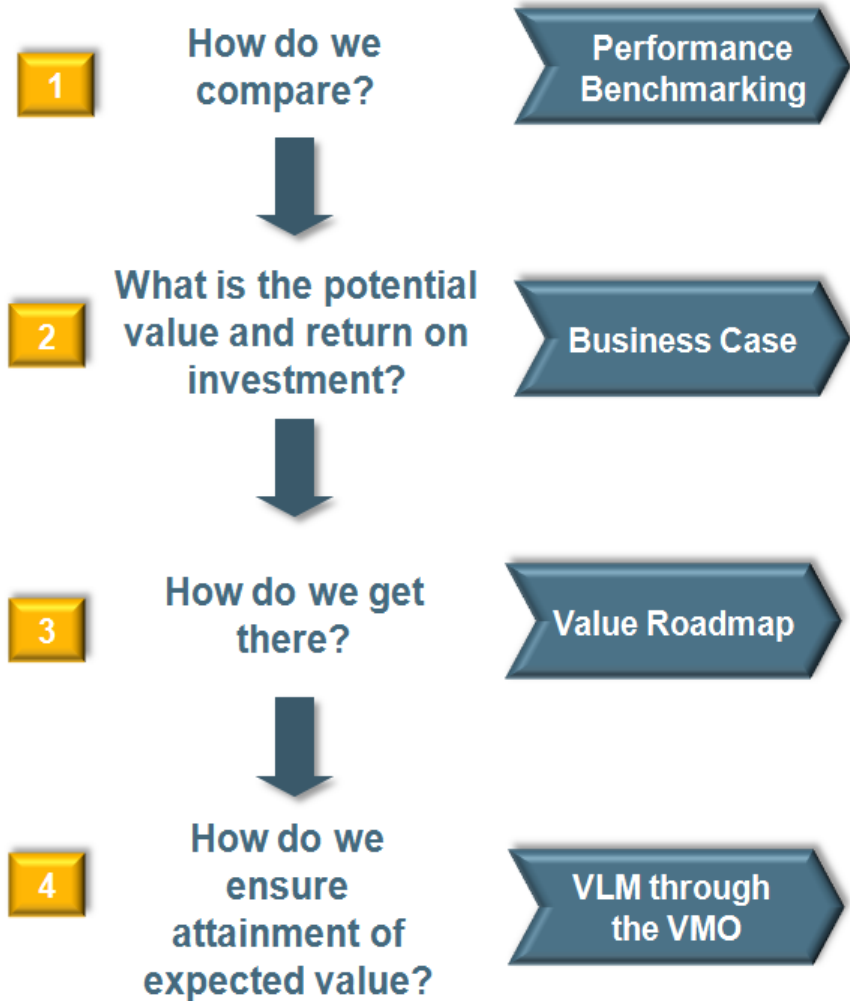


**SAP Value Management Center:**  
Increase On-Time, On-Budget, and On-Value Performance

- Benchmark the Health of Your Business
- Identify Performance-Improvement Opportunities
- Diagnose Causes of Performance Gaps
- Centralize Performance Assessment

# Procurement Transformation

## How and Where to Start ... SAP's Suggested Approach



KPI	Benchmark Performance						
Procurement Costs as % of Spend	<table border="1"> <tr> <td>Bottom 25%</td> <td>Average</td> <td>Top 25%</td> </tr> <tr> <td>1.0</td> <td>0.7</td> <td>0.6</td> </tr> </table>	Bottom 25%	Average	Top 25%	1.0	0.7	0.6
Bottom 25%	Average	Top 25%					
1.0	0.7	0.6					
Average Annual Savings (Overall) (in %)	<table border="1"> <tr> <td>Bottom 25%</td> <td>Average</td> <td>Top 25%</td> </tr> <tr> <td>1.4</td> <td>5.9</td> <td>14.3</td> </tr> </table>	Bottom 25%	Average	Top 25%	1.4	5.9	14.3
Bottom 25%	Average	Top 25%					
1.4	5.9	14.3					
Spend Managed Strategically (Overall) (in %)	<table border="1"> <tr> <td>Bottom 25%</td> <td>Average</td> <td>Top 25%</td> </tr> <tr> <td>55.0</td> <td>68.7</td> <td>95.3</td> </tr> </table>	Bottom 25%	Average	Top 25%	55.0	68.7	95.3
Bottom 25%	Average	Top 25%					
55.0	68.7	95.3					
Maverick Spend (Overall) (in %)	<table border="1"> <tr> <td>Bottom 25%</td> <td>Average</td> <td>Top 25%</td> </tr> <tr> <td>9.5</td> <td>7.2</td> <td>3.2</td> </tr> </table>	Bottom 25%	Average	Top 25%	9.5	7.2	3.2
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9.5	7.2	3.2					

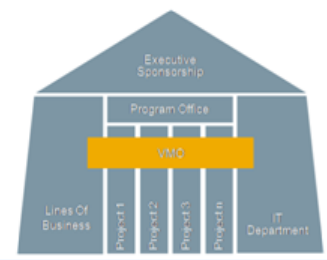
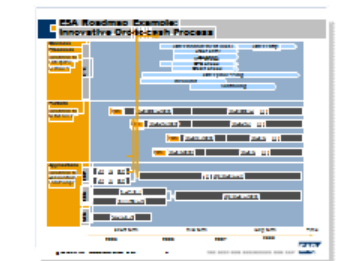
Estimated Solution Benefits (\$M)

Category	Item	Value	Start	End
Procurement	Procurement Savings	100	2010	2012
	Procurement Savings	100	2010	2012
	Procurement Savings	100	2010	2012
	Procurement Savings	100	2010	2012
Spend Management	Spend Management Savings	100	2010	2012
	Spend Management Savings	100	2010	2012
	Spend Management Savings	100	2010	2012
	Spend Management Savings	100	2010	2012



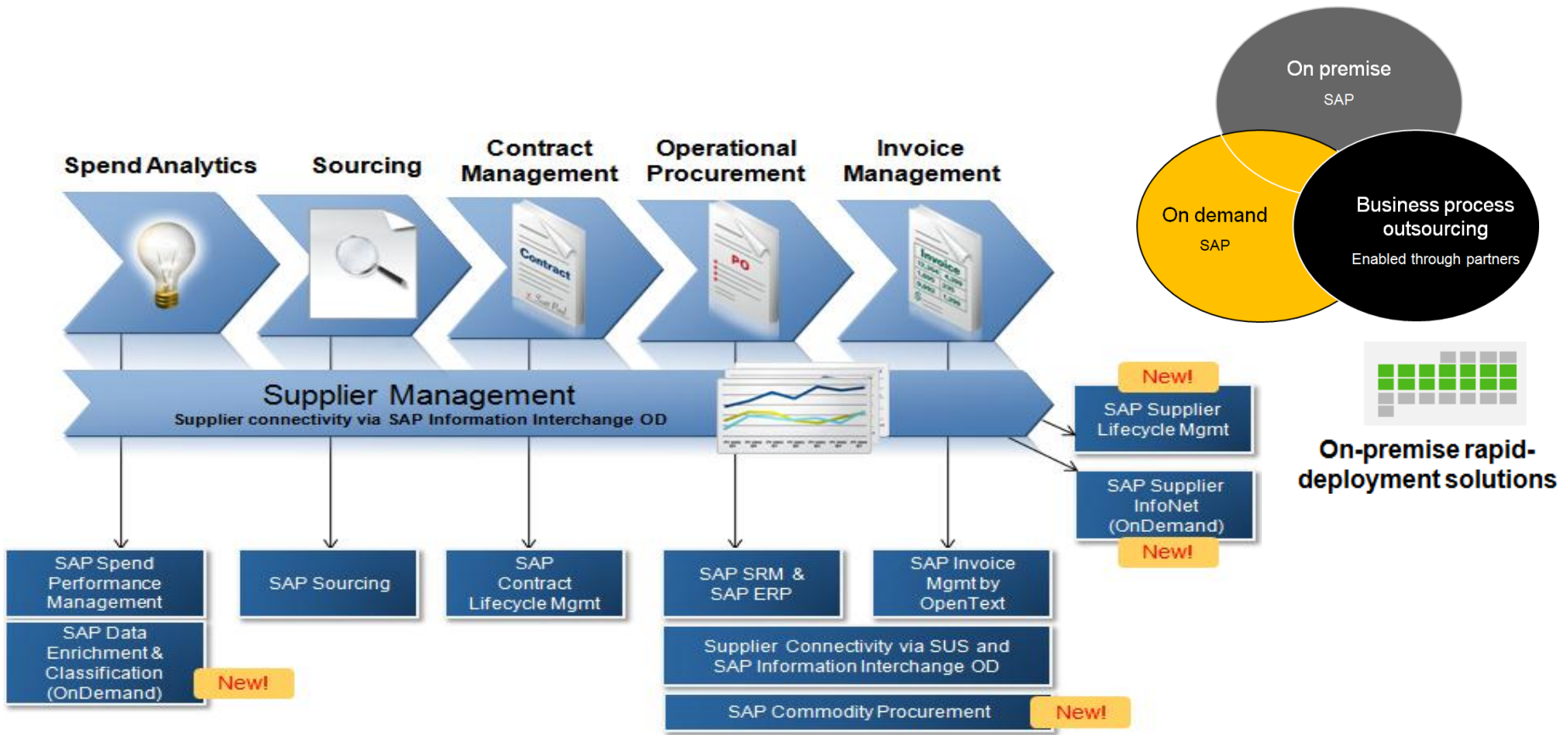
Deliverable Example: Business Initiatives Roadmap

Initiative	Start	End	Value
Initiative 1	2010	2012	100
Initiative 2	2010	2012	100
Initiative 3	2010	2012	100
Initiative 4	2010	2012	100



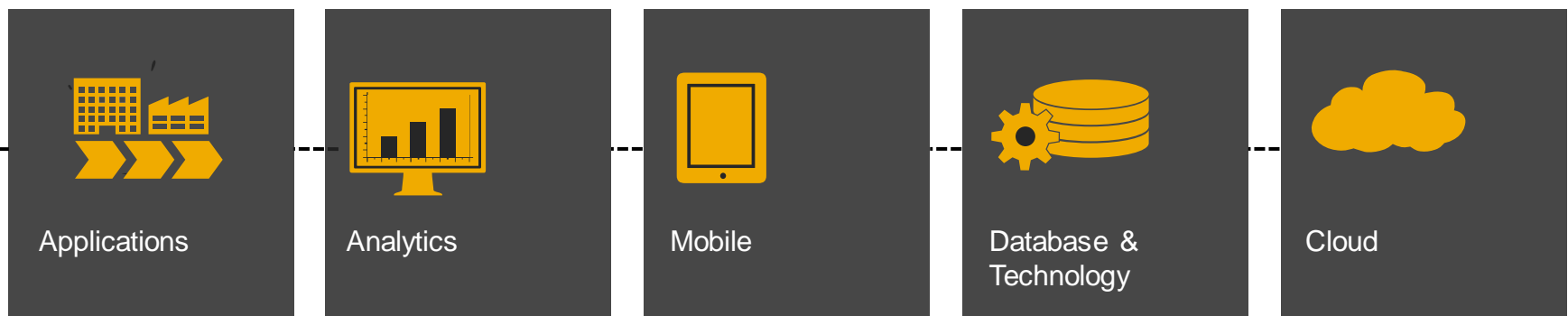
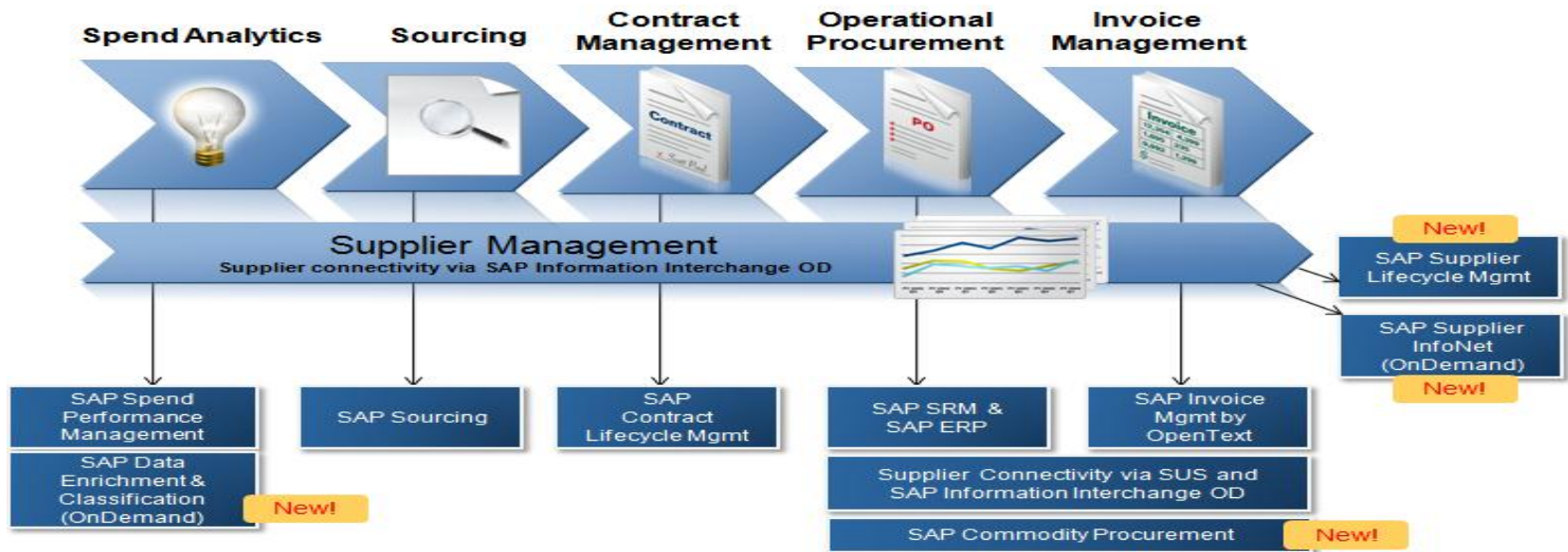
# SAP Procurement Portfolio

## Integrated Solutions Enable the End-to-End Source-to-Pay Process



# Procurement Transformation

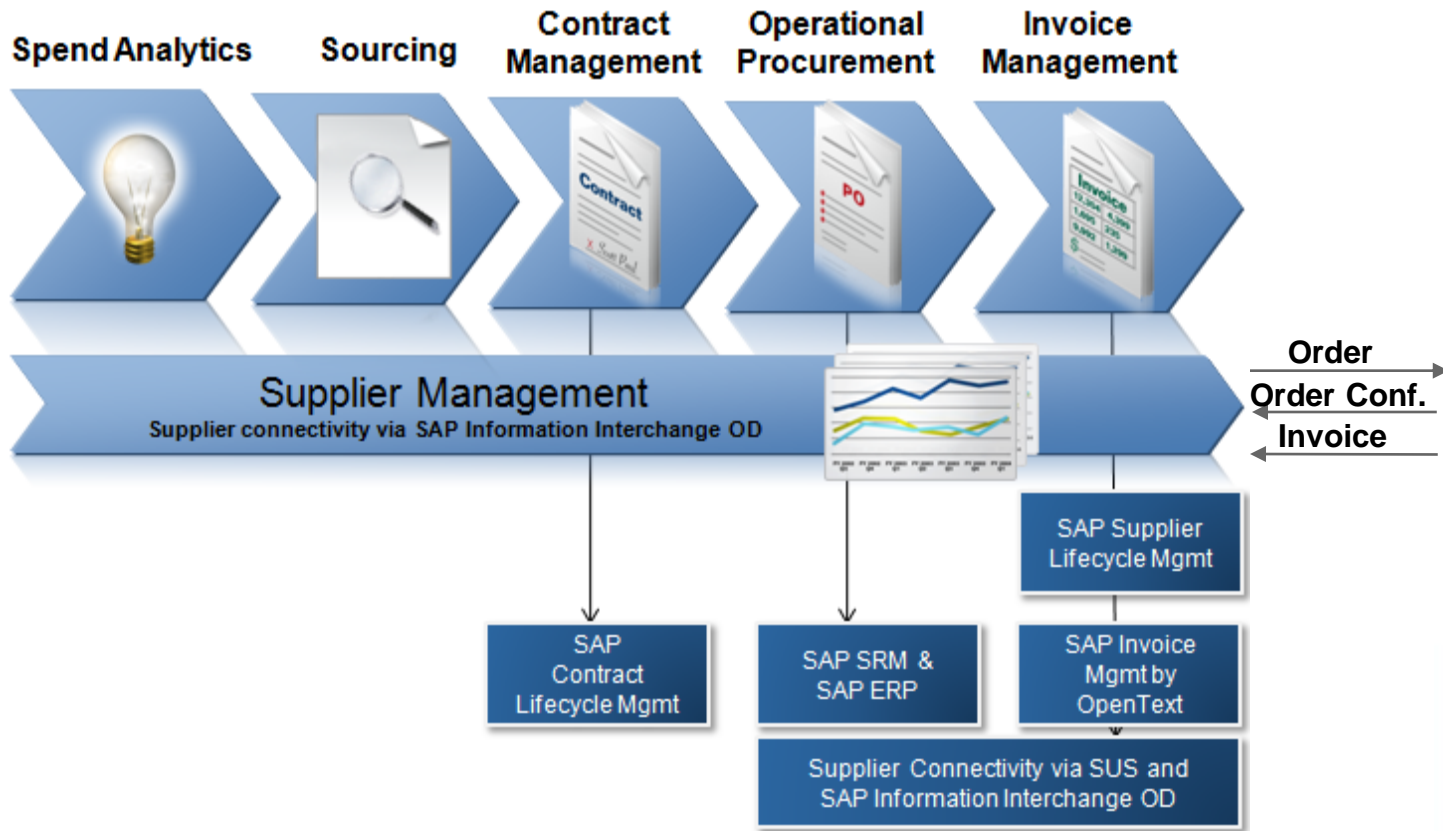
## Procurement Solution Innovation by SAP's 5 Market Categories



Powered by SAP HANA

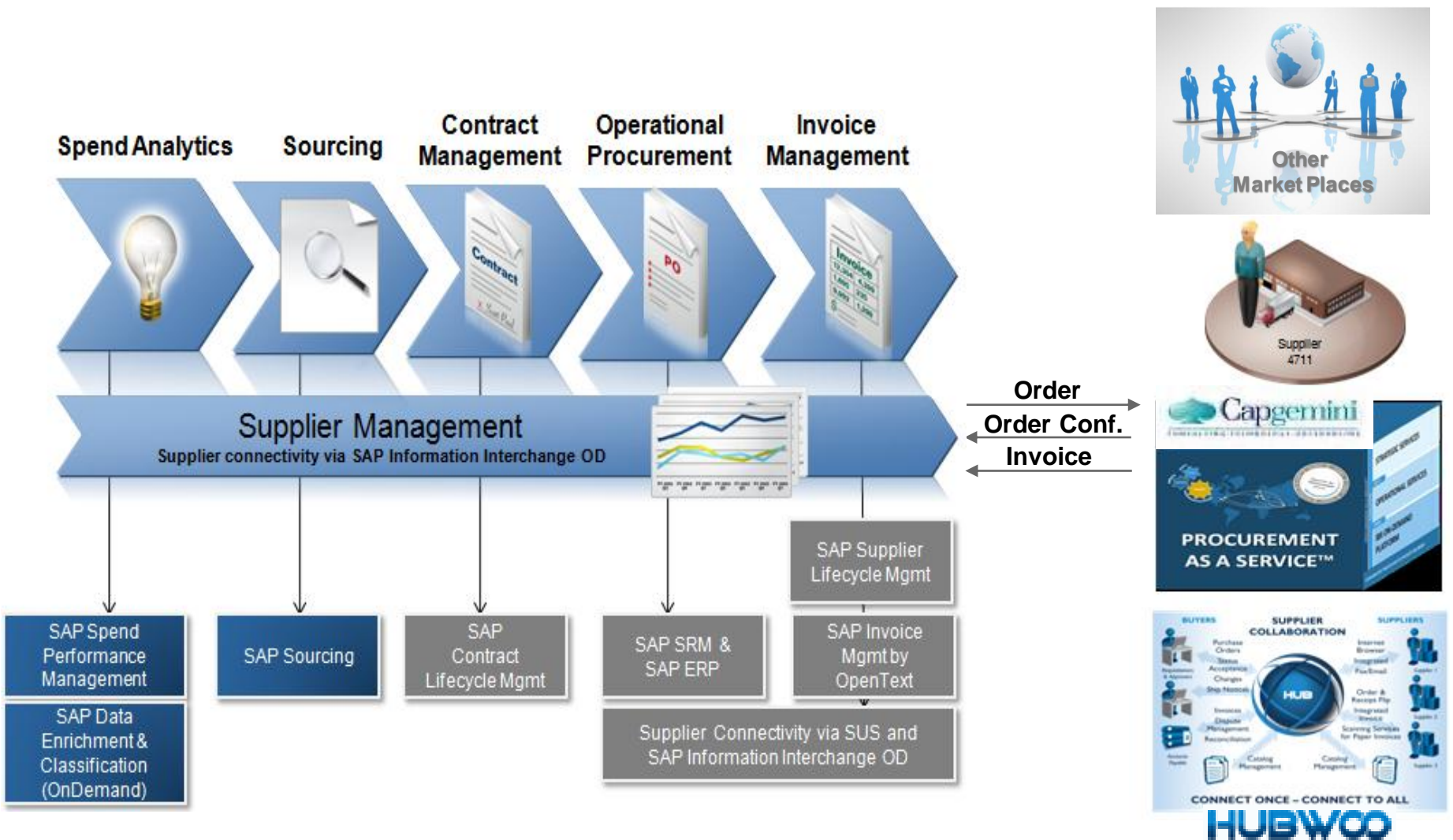


# Procurement Transformation Scenario Operational Procurement Excellence



# Procurement Transformation

## Scenario Integrated End to End Source to Pay Process







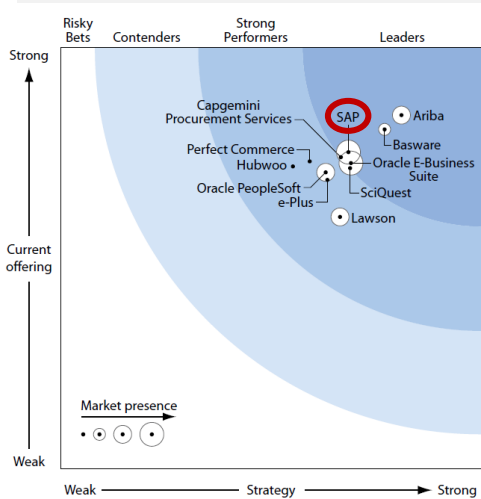
# Procurement Transformation

What do Analysts say about SAP in Procurement



# SAP – A Leader in The Procurement Market

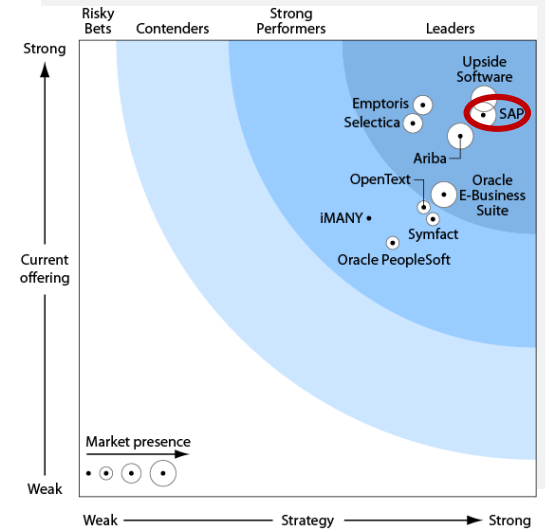
## SAP a Leader in Forrester Wave™: Procurement



## SAP a Leader in Magic Quadrant™: Sourcing Suites



## SAP a Leader in Forrester Wave™: CLM



**SAP the #1 Ranked Provider  
by CapGemini:  
SRM Research 2010-11**

Category	SAP Rank
Procurement Intelligence	5th
Project Management	1st
Sourcing	1st
Electronic Tendering	1st
eAuctioning	1st
Supplier Management	1st
Contract Management	1st
Catalog	3rd
Operational Procurement	1st
External Resources	3rd

# CONSOL Fuels Its Future with SAP® Solutions



## QUICK FACTS

### CONSOL Energy Inc.

- Industry: Mining
- Revenue: US\$4.7 billion
- Employees: 8,000
- Headquarters: Canonsburg, Pennsylvania
- Web site: [www.consolenergy.com](http://www.consolenergy.com)
- SAP® solution and services: SAP Supplier Relationship Management application
- Implementation partner: Internal CONSOL resources supplemented by the SAP Consulting organization

**“The ability to deliver sustainable value to buyers, suppliers, and end users can be achieved only through the availability of good data. We implemented SAP software so that we could achieve this goal.”**

**Darryl M. Husenits**

Vice President, Material and Supply Chain Management  
CONSOL Energy Inc.

## Key Challenges

- Control maverick procurement
- Improve inventory and spend visibility across CONSOL

## Implementation Best Practices

- Alignment of business-driven project with strategic company objectives
- Strong executive steering team with monthly meetings

## Financial and Strategic Benefits

- Better-informed financial decisions and collaboration with suppliers resulting from visibility of data
- Fact-based purchasing based on approved commodities from corporate-authorized catalogs
- Lower total procurement costs through automation and controls
- Reduction in spend by tying purchasing to budget checking

## Why SAP Was Selected

- Integration with SAP NetWeaver® Business Warehouse for reporting
- User familiarity with SAP® ERP

## Low Total Cost of Ownership

- Elimination of customized system
- Leveraging of existing IT infrastructure to increase value

## Operational Benefits

- US\$25 million delivered value in material and service spend\*
- 40% reduction in paper invoices\*
- 25% reduction in invoice errors due to e-procurement process
- 40% reduction in buyer-transacted purchase orders\*
- Fully electronic bidding process\*





## **SAP SRM**

Consol Energy Inc.

Integrating Processes. Controlling Spend

**SAP**



# Thank you

**Visit Procurement Demo Pods: 3.3 Gustav Mahler III**

**Procurement: S3**

**Commodity Procurement: S13**

**SAP Information Interchange OD: S11**

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