Increasing value in supply chain and procurement

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Welcome

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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
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

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

**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**
For the Energy and Natural Resources industries, the ask from supply chain is further complicated by the downturn.
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
Significant supply chain latent value can be realized by reducing leakage.

**Leading Practice**

**Strategic Sourcing**
- Total cost levers
- Cross-functional team approach
- Rigorous tracking of generated savings

**Contract Management**
- Established contract management teams
- Defined contract management plans
- Active performance and transition management

**Operational Procurement**
- Documented policies and procedures
- End-to-end process visibility and transparency
- Standardization and automation

**Procurement Intelligence**
- Defined KPIs and metrics
- Enterprise tracking and Reporting
- Data accuracy and reliability

**Supplier Management**
- Formalized supplier management program
- Dedicated supplier account teams
- Aligned KPIs
- Periodic supplier audits

**Poor Practice**

**Strategic Sourcing**
- Lack of buy-in for sourcing strategies
- Buyers too focused on tactical purchasing

**Contract Management**
- Limited visibility to negotiated contracts
- High degree of off-contract (‘rogue’) spend
- No standardized performance management

**Operational Procurement**
- ‘After-the-fact’ approvals
- Duplicate processes

**Procurement Intelligence**
- Incomplete, incorrect, inconsistent data – materials and vendors
- Spend data dispersed across multiple systems

**Supplier Management**
- Tactical interactions versus strategic relationships
- Exception-based supplier management

Poor practices create value leakage throughout the end-to-end procurement cycle.
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
Resource realignment unlocks value in building a strategic supply chain and reducing leakage.

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

### Generate the Value

<table>
<thead>
<tr>
<th><strong>1</strong></th>
<th><strong>Strategic Sourcing</strong></th>
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<tbody>
<tr>
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<td>Leverage predictive purchasing and capture full efficiencies of scale of purchases</td>
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**Savings:** 4% to 20%

### Capture the Value

<table>
<thead>
<tr>
<th><strong>2</strong></th>
<th><strong>Materials Management, Logistics and Warehousing</strong></th>
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<tbody>
<tr>
<td></td>
<td>Minimize inventory and logistics costs, while maximizing service levels and preventing inventory stock-outs</td>
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**Savings:** 9% to 21%

<table>
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<th><strong>2</strong></th>
<th><strong>Procure-to-Pay (P2P) Excellence</strong></th>
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<tr>
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<td>Right contract/price for each product while avoiding fragmented routing and approvals; and most efficient process to support and pay</td>
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**Savings:** 4% to 7%

### Protect the Value

<table>
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<tr>
<th><strong>2</strong></th>
<th><strong>Contract &amp; Supplier Relationship Management</strong></th>
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<tr>
<td></td>
<td>Preserve savings and maximize supplier performance</td>
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**Savings:** 5% to 10%

### Supply Chain Management Enablers

<table>
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<th><strong>3</strong></th>
<th><strong>Master Data Management &amp; Supply Chain Analytics</strong></th>
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<tr>
<td></td>
<td>‘One Source of Truth’ to support planning, forecasting, and other Supply Chain activities</td>
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**Savings:** 2% to 5%

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<th><strong>3</strong></th>
<th><strong>Technology Enablement</strong></th>
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<td></td>
<td>The right systems and tools to support Supply Chain integration and efficiency</td>
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**Savings:** 4% to 20%

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Note: Numbers 1, 2 and 3 are detailed in the following slides.
Organizations need to focus more on demand planning and strategic sourcing

Understand and project future supply


Category Strategy
Category Approach, Category Opportunities, Strategic Sourcing

Understand and project future demand


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

<table>
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<th>The Challenge</th>
<th>The Solution</th>
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<tbody>
<tr>
<td>Contractual supply chain is not fit-for-purpose: stems from failure to manage EPCMs and EPCs appropriately</td>
<td>Include KPIs in service level agreements to ensure vendors are accountable for delivery in a measurable way</td>
</tr>
<tr>
<td>Based on low cost, simple transactional relationships</td>
<td>Engage with contractors early to identify and resolve challenges</td>
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<tr>
<td>Often fail to incentivise suppliers when successful and fail to penalize if not</td>
<td>Focus on improving the client and supplier relationships through collaboration and value add initiatives</td>
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<tr>
<td>Unclear contract oversight has led to supply-chain inefficiency and inaccuracy</td>
<td>Review contracts regularly</td>
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<tr>
<td>Arbitrary risk allocation that results in excessive premiums</td>
<td>Share lessons learned</td>
</tr>
<tr>
<td>Supplier reporting primarily based on technical considerations and light on commercial and strategic considerations</td>
<td>Ensure appropriate penalties and utilize incentives</td>
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</table>
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
Key to success is organizational alignment and integration...

Silo approach to supply chain activities

- Category Mgmt./Strategic Sourcing
- Contract Management
- Spend Analytics
- Supplier Collaboration
- ERP
- Operational Procurement
- Invoicing

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

- Master Data Management
- Contract Management
- Spend Analytics
- Category Mgmt./Strategic Sourcing
- Invoicing
- Supplier Collaboration
- Operational Procurement

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.
... 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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