

The CPO Agenda 2016

Focus topics for the
Chief Procurement Officer

Study results

May 2016



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A. Management summary



Management summary

- > Roland Berger provides a **unique perspective** on the **major challenges** and performance **levers** in procurement – The **topics defining the CPOs' agendas**, analyzed specifically for 7 major industries
- > Around **200 managers** with responsibility for procurement **surveyed**
- > **Per industry**, the **current and anticipated future** impact of major **industry challenges** on procurement are analyzed – **Urgency** KPIs and **implementation gaps** indicate need for action
- > **Savings generation and measurement** are and will **remain the major challenges across industries** – However, delivery ability, quality, and proactive innovation management are and/or will become equally important
- > **Reaping** the procurement **benefits of increasingly digitized value chains** is **THE upcoming challenge** in procurement – With currently low maturity across all industries, fast and decisive action can turn into a competitive differentiator
- > **Chemicals, Automotive and Healthcare/MedTech/Pharma** procurement setups are overall **best prepared** to handle the current procurement challenges – However, **perceived maturity** to cope with the "new" **digital challenge falls short** compared to the ability to handle the "established" challenges of savings generation, delivery ability and quality management

B. Study objectives and design



The 2016 edition of the "CPO Agenda" provides a strategic look at trends, challenges and levers the CPO needs to address now

Background

- > Today's volatile, uncertain, complex and ambiguous (**VUCA**) **business environments** create **strategic challenges** that companies need to meet with a **holistic approach**
- > **Procurement** can make a **significant contribution** to the creation of strategic advantage – **Expectations on the Chief Procurement Officer (CPO)** are continuously rising in respect of **setting the right agenda**:
 - A **long-term plan** to achieve excellence in procurement
 - A **short-term plan** to consider the **imminent/current challenges and levers**

Objectives

The "CPO Agenda 2016":

- > **Identifies trends** in the industry and their **impact on procurement**
- > Specifies **key challenges** for **procurement**
- > **Defines main levers** for procurement to cope with the challenges
- > **Compares 2016 findings** to **results of previous 2014 edition**

The "CPO Agenda 2016" supplements the range of procurement studies provided by Roland Berger on a regular basis

Procurement studies

Selected examples



CPO Agenda 2016

NEW



E.g. excellence in procurement, sustainability, rare earth challenge, etc.

Hot CPO topics for 2016 – Industry trends impacting procurement; main challenges and levers for procurement

The "CPO Agenda 2016" focuses on seven core industries

"CPO Agenda 2016" – Study setup

Study setup

- > Participation: ~200 procurement executives
- > Timing: Survey conducted in February 2016
- > Design: Closed survey, answers mainly based on Likert scales



Automotive



**Healthcare,
MedTech and
Pharma**



Chemicals



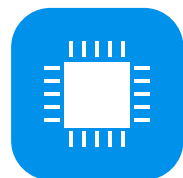
Transportation



**Consumer
Goods**



Utilities



**Engineered
Products and
High Tech**

C. The CPO Agenda 2016 across industries



Trends differ by industry – Procurement needs to find industry-specific answers to deal with the resulting challenges

Top 3 trends per industry with the highest impact on procurement



Automotive

- > Technology innovations
- > Connectivity
- > Shift of vehicle production to Asia



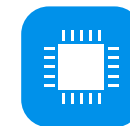
Chemicals

- > Feedstock access
- > New competitors
- > Changing end-user demands



Consumer Goods

- > Lifestyle of health and sustainability
- > Customer convenience
- > Change of buying behavior due to rising prices



Engineered Products and High Tech

- > Product cost
- > Value-added services
- > Digitized process



Healthcare, MedTech and Pharma

- > Cost pressure
- > Limited growth perspectives
- > Tender pressure



Transportation

- > Profitability
- > Alliances and cooperation
- > Cost pressure







Utilities

- > Digitization
- > Risk management
- > Conventional assets "out of the money"

NEW 2016

Nine challenges keep CPOs awake at night – The impact varies by industry

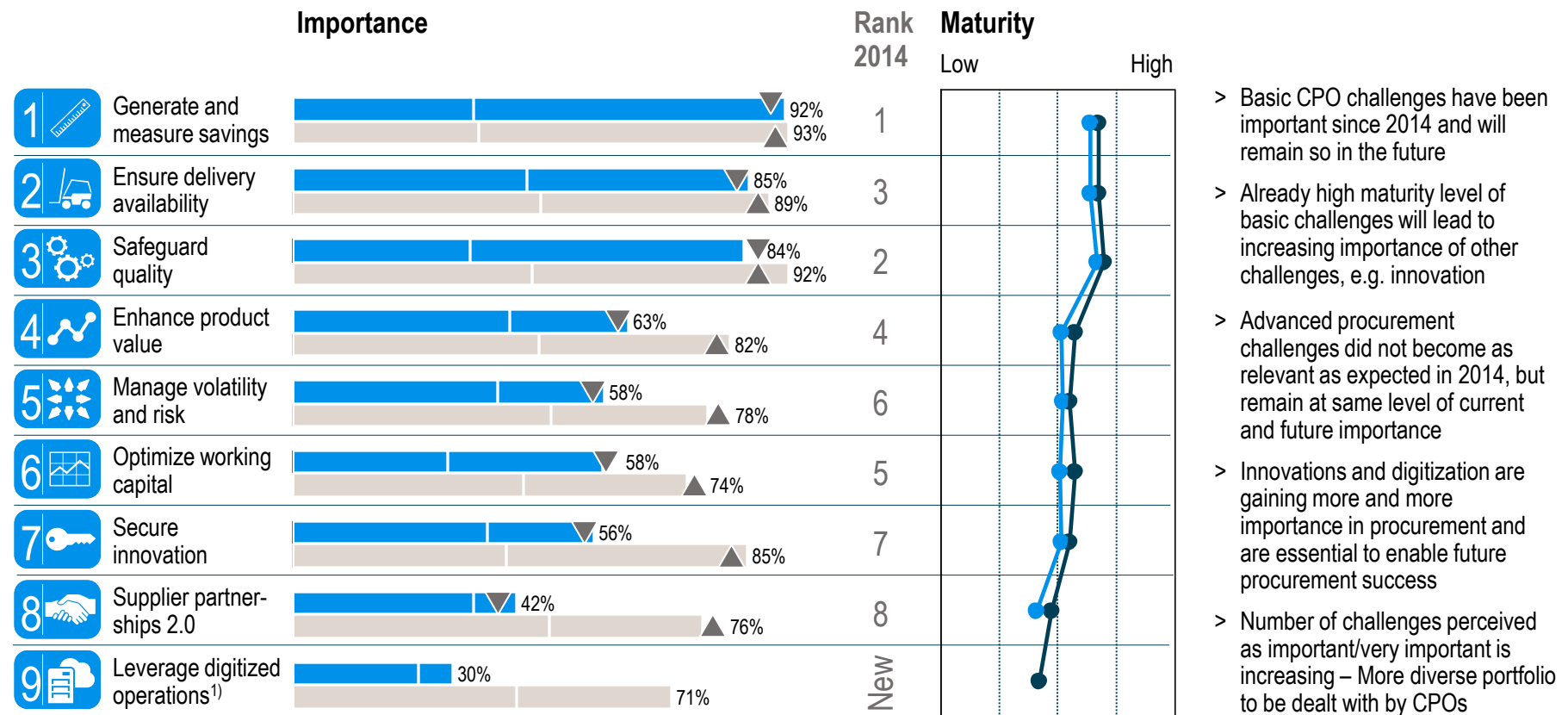
Nine cross-industry procurement challenges

- 
Generate and measure savings
 (Generating the required savings to keep the business competitive)
- 
Safeguard quality (Safeguarding the required quality of products and services in line with company positioning and customer expectations)
- 
Ensure delivery availability
 (Ensuring availability of pressingly needed goods and services)
- 
Enhance product value (Continuously optimizing the product and service value to provide customers with products with the desired features/performance at minimum cost)
- 
Optimize working capital
 (Managing and aligning working capital requirements)
- 
Manage volatility and risk
 (Managing volatility and corporate risks by making trade-offs between aspects like cost and quality)
- 
Secure innovation
 (Securing access to innovation to enhance/defend the competitive position of the company)
- 
Supplier partnerships 2.0 and contribution to optimization of business model
 (Shaping business models and securing innovation)
- 
Leverage digitized operations – Industry 4.0
 (Leverage data generation and established process optimizations)





NEW 2016

The top 3 CPO challenges are and will remain important – However, other challenges will increase in importance within 3-5 years

CPO challenges across industries (sorted by current importance)



- > Basic CPO challenges have been important since 2014 and will remain so in the future
- > Already high maturity level of basic challenges will lead to increasing importance of other challenges, e.g. innovation
- > Advanced procurement challenges did not become as relevant as expected in 2014, but remain at same level of current and future importance
- > Innovations and digitization are gaining more and more importance in procurement and are essential to enable future procurement success
- > Number of challenges perceived as important/very important is increasing – More diverse portfolio to be dealt with by CPOs

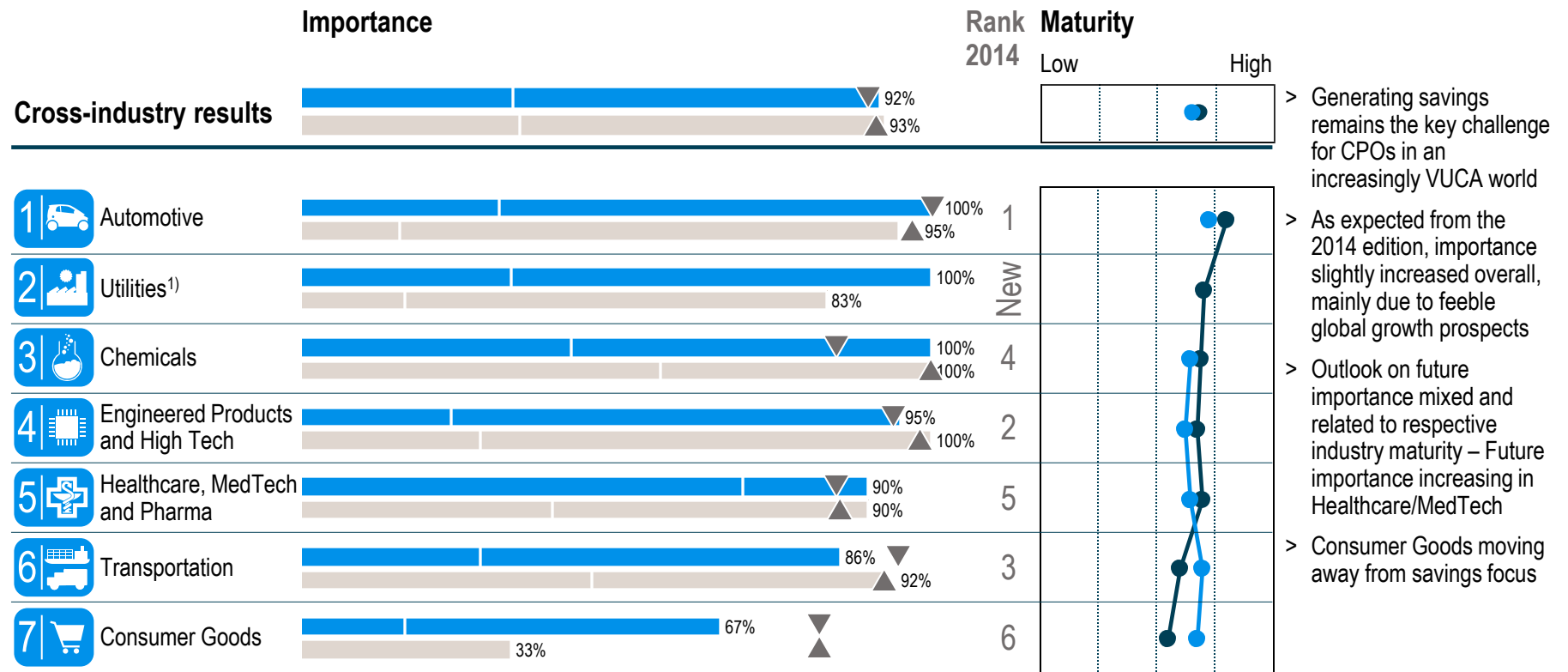
Importance today Important   Very important **Importance in 3-5 years** Important   Very important ▼▲ 2014

● 2016 ● 2014

1) New in 2016

Savings generation and measurement have highest importance and maturity in Automotive – Growing less relevant in Consumer Goods

Industry performance (sorted by importance)



> Generating savings remains the key challenge for CPOs in an increasingly VUCA world

> As expected from the 2014 edition, importance slightly increased overall, mainly due to feeble global growth prospects

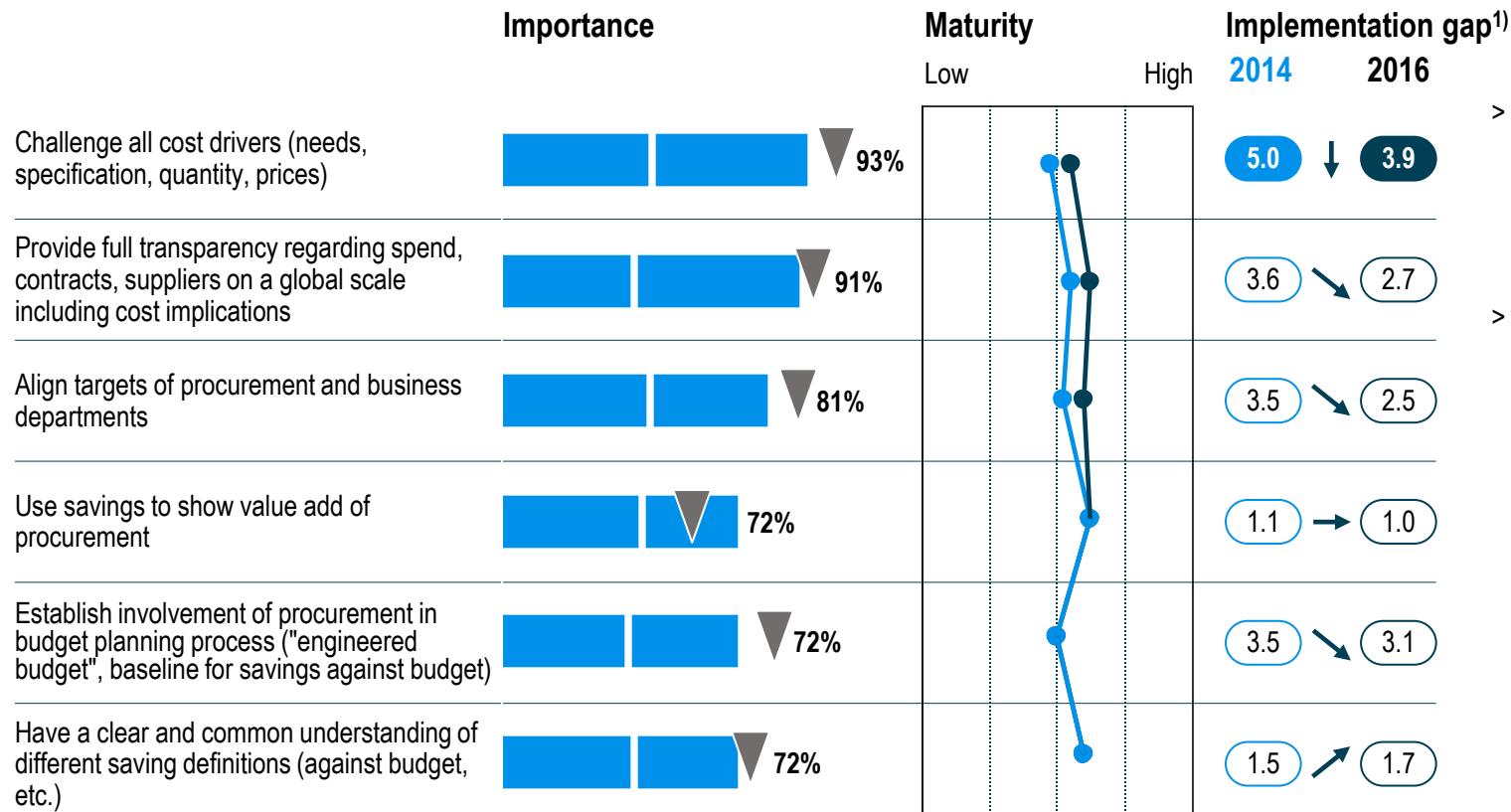
> Outlook on future importance mixed and related to respective industry maturity – Future importance increasing in Healthcare/MedTech

> Consumer Goods moving away from savings focus

1) New in 2016

Across industries, the most important lever is to challenge all cost drivers – Basis to unleash the full savings potential

Cross-industry levers to meet the challenge (sorted by importance)



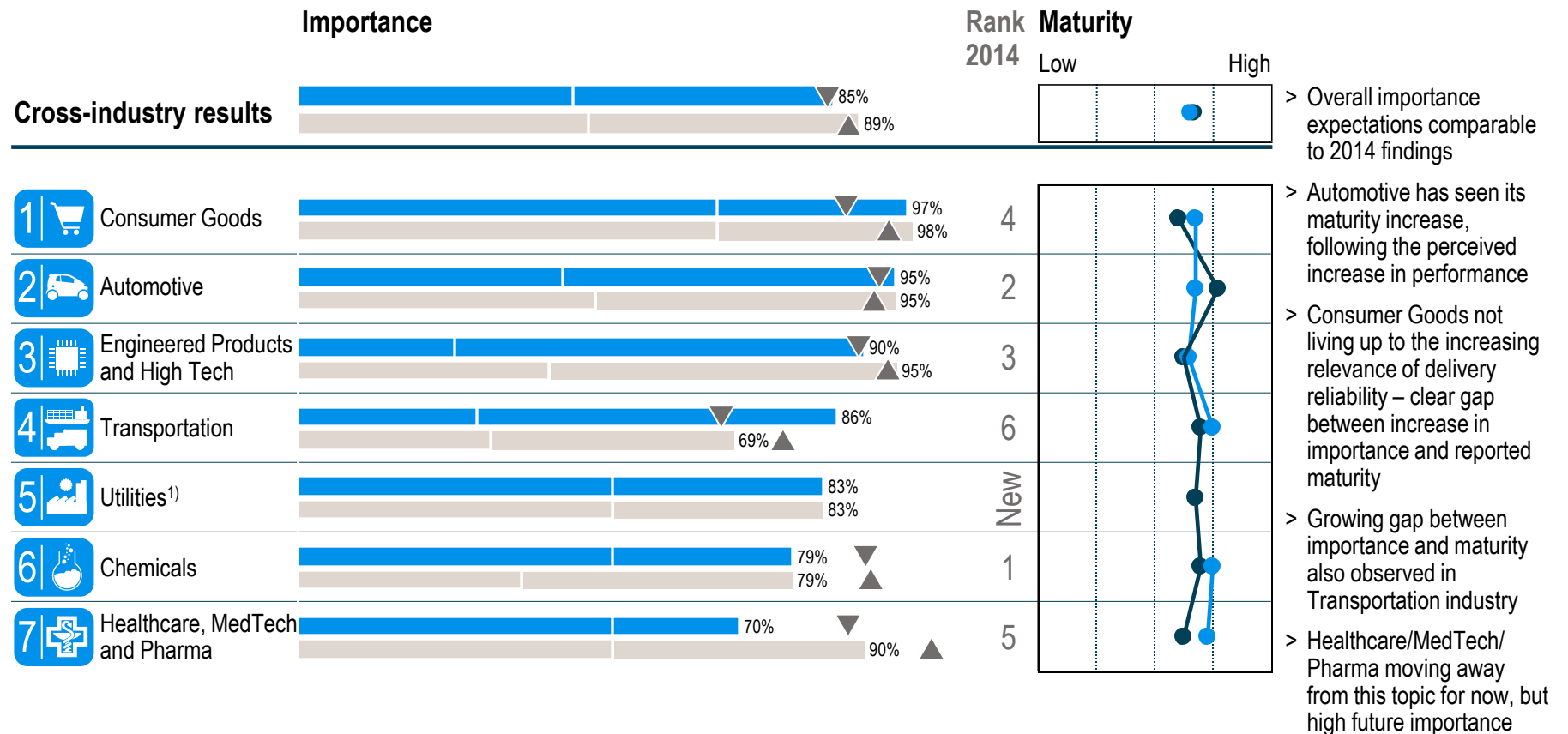
- > Overall, savings levers exhibit stable relevance but higher maturity – As a result the implementation gap is narrowing for the savings challenge
- > Explanation of value add of procurement function is gaining importance

Importance today Important   Very important ▼ 2014 ● 2016 ● 2014

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

Ensuring delivery availability is most important in Consumer Goods and Automotive – Yet Consumer Goods not living up to it

Industry performance (sorted by importance)

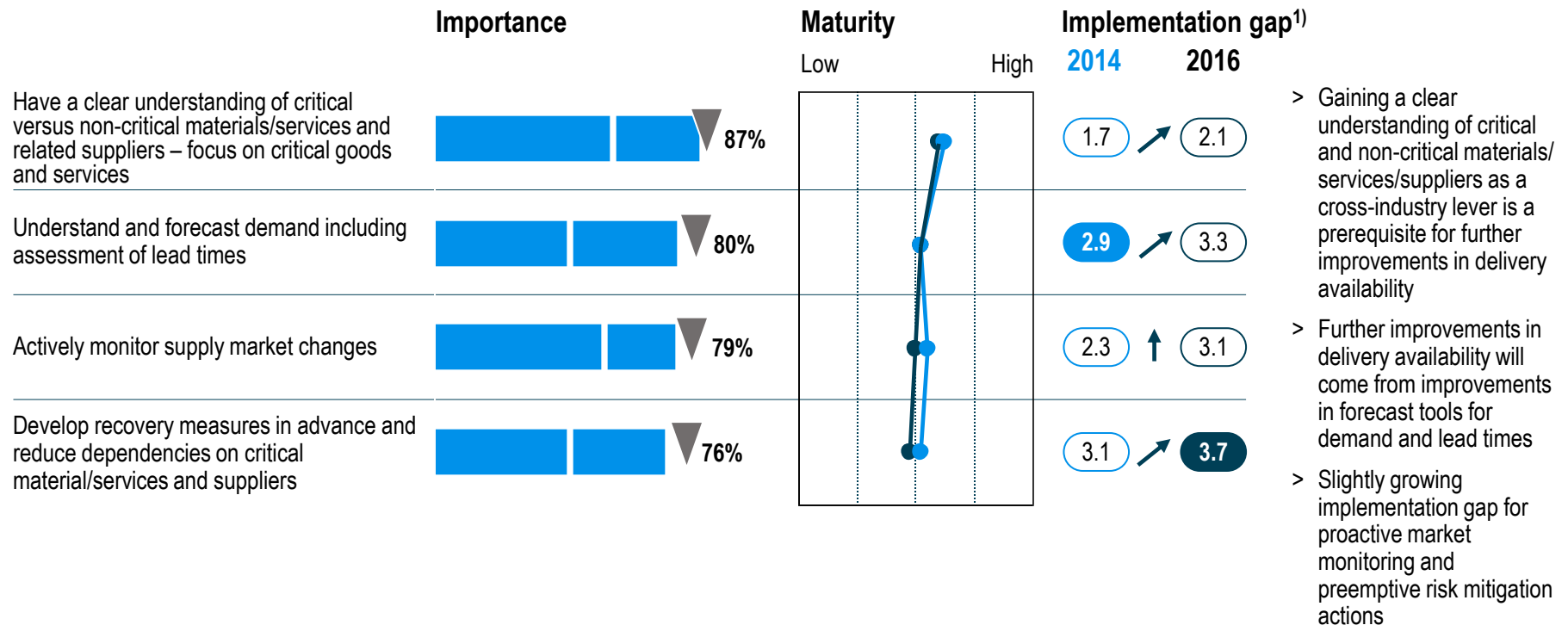


Importance today Important   Very important Importance in 3-5 years Important   Very important ▼▲ 2014 ● 2016 ● 2014

1) New in 2016

Across industries, all levers are rated as equally important to ensure delivery availability – Significant differences in urgency

Cross-industry levers to meet the challenge (sorted by importance)

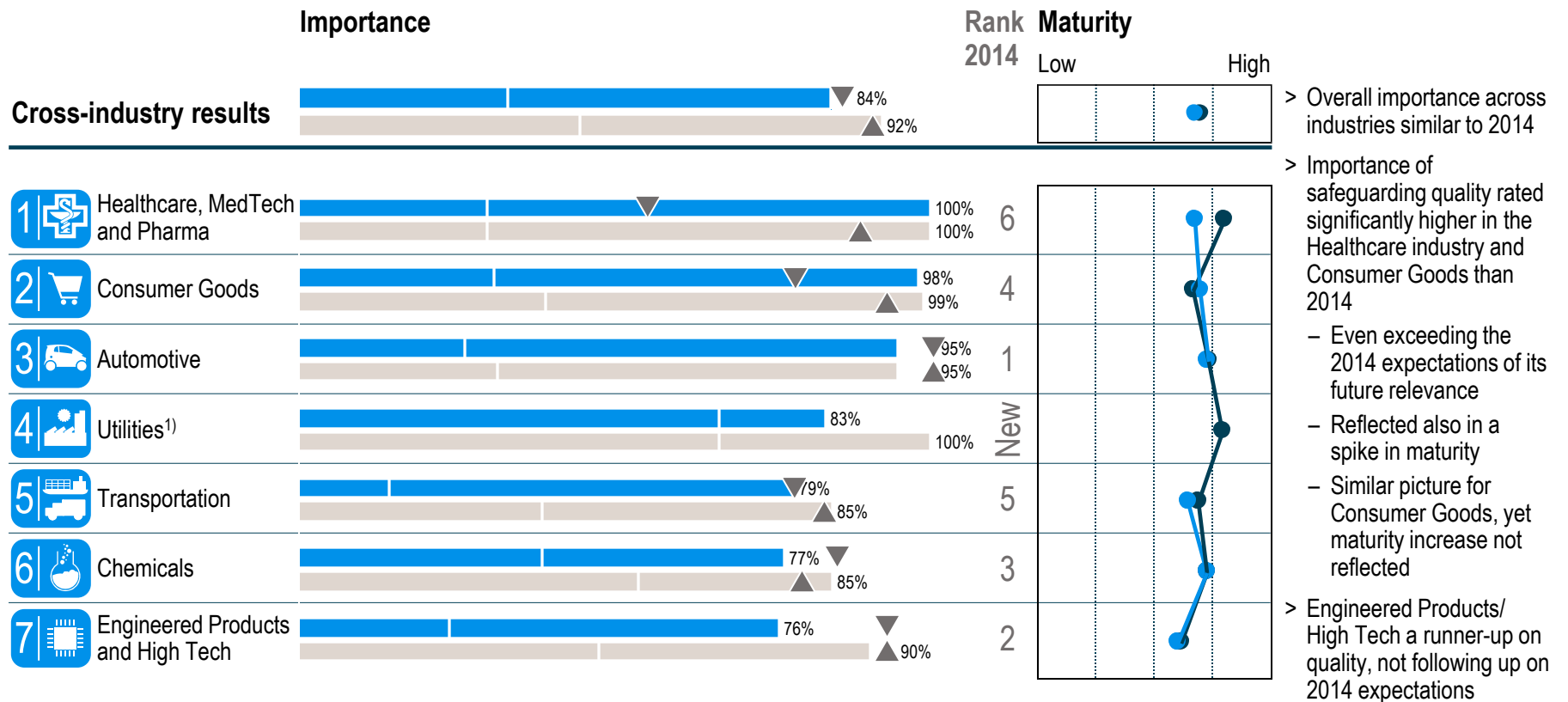


Importance today Important   Very important ▼ 2014 ● 2016 ● 2014

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

Quality pushed forward in Healthcare, MedTech & Pharma and Consumer Goods – Even stronger than originally expected in 2014

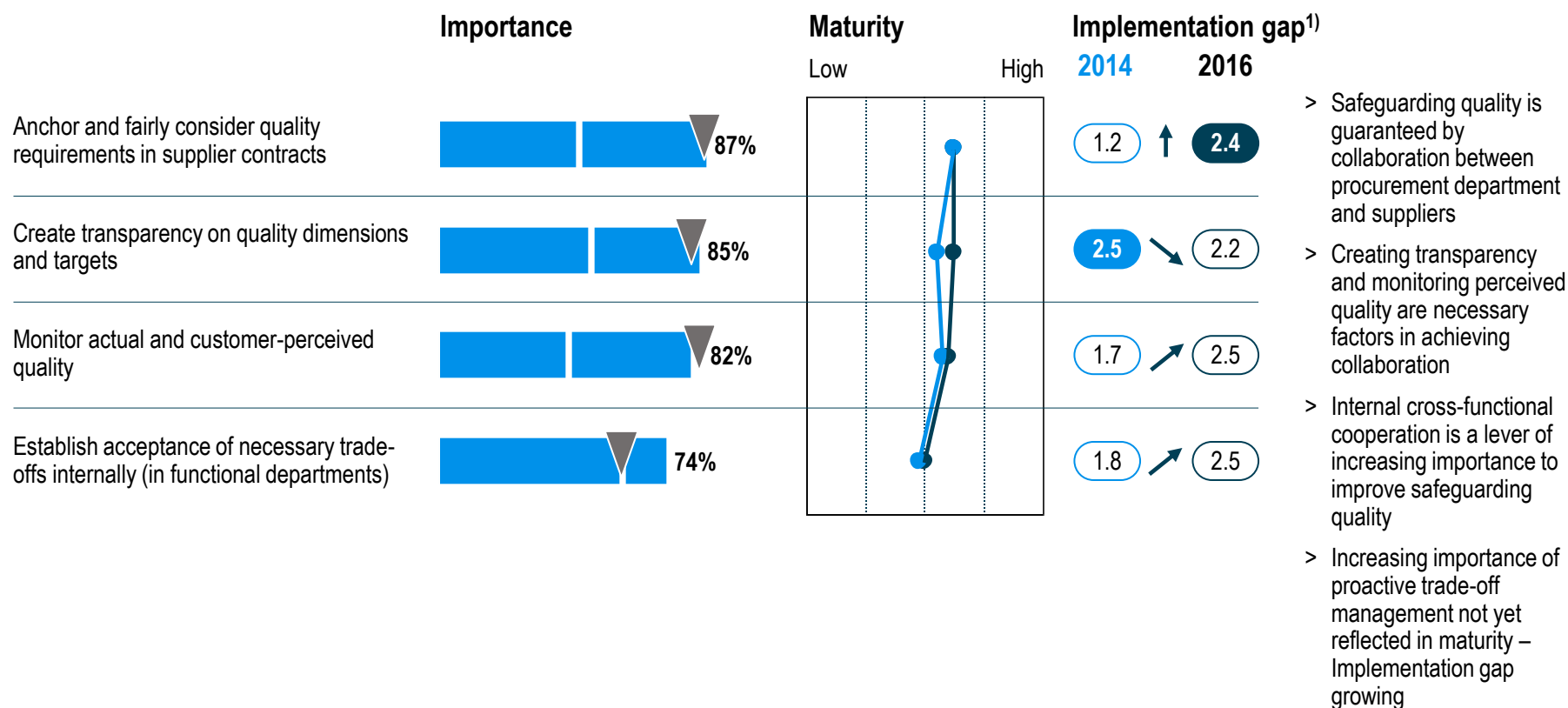
Industry performance (sorted by importance)



1) New in 2016

Across industries, the most important lever is to anchor quality requirements in supplier contracts

Cross-industry levers to meet the challenge (sorted by importance)

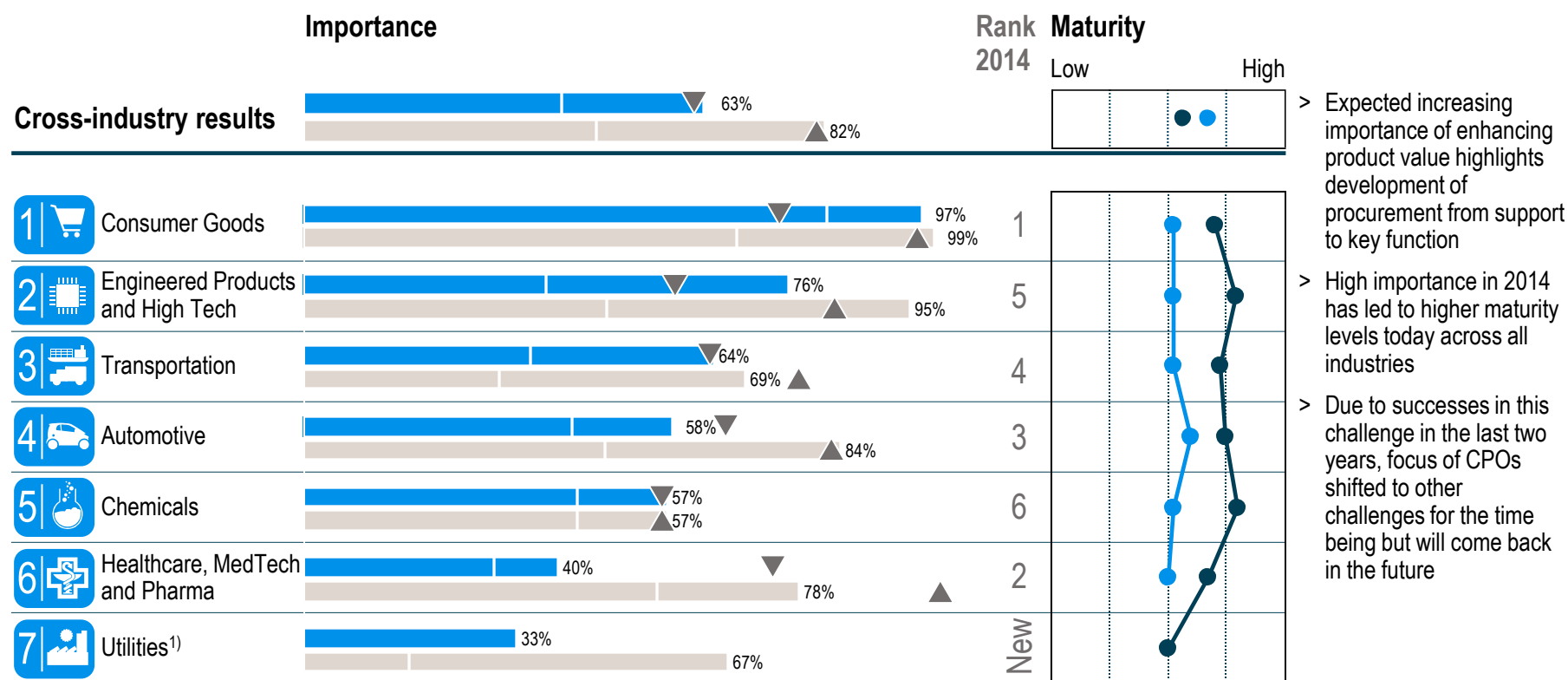


Importance today Important ■ Very important ▼ 2014 ● 2016 ● 2014

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

Enhancing product value will become more important in all industries in 3-5 years – Highest importance in Consumer Goods

Industry performance (sorted by importance)

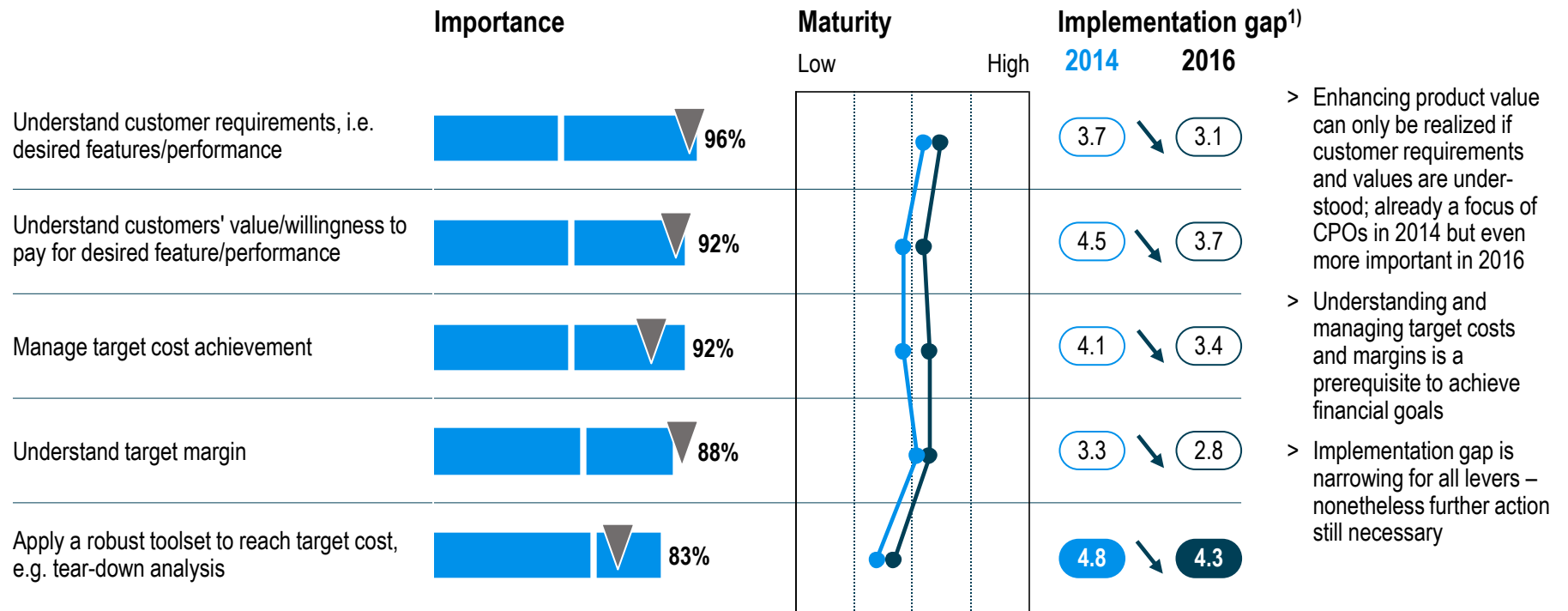


Importance today Important ■ ■ Very important
 Importance in 3-5 years Important ■ ■ Very important
 ▼▲ 2014 ● 2016 ● 2014

1) New in 2016

Across industries, most important levers are to understand customer requirements, their willingness to pay and target cost management

Cross-industry levers to meet the challenge (sorted by importance)



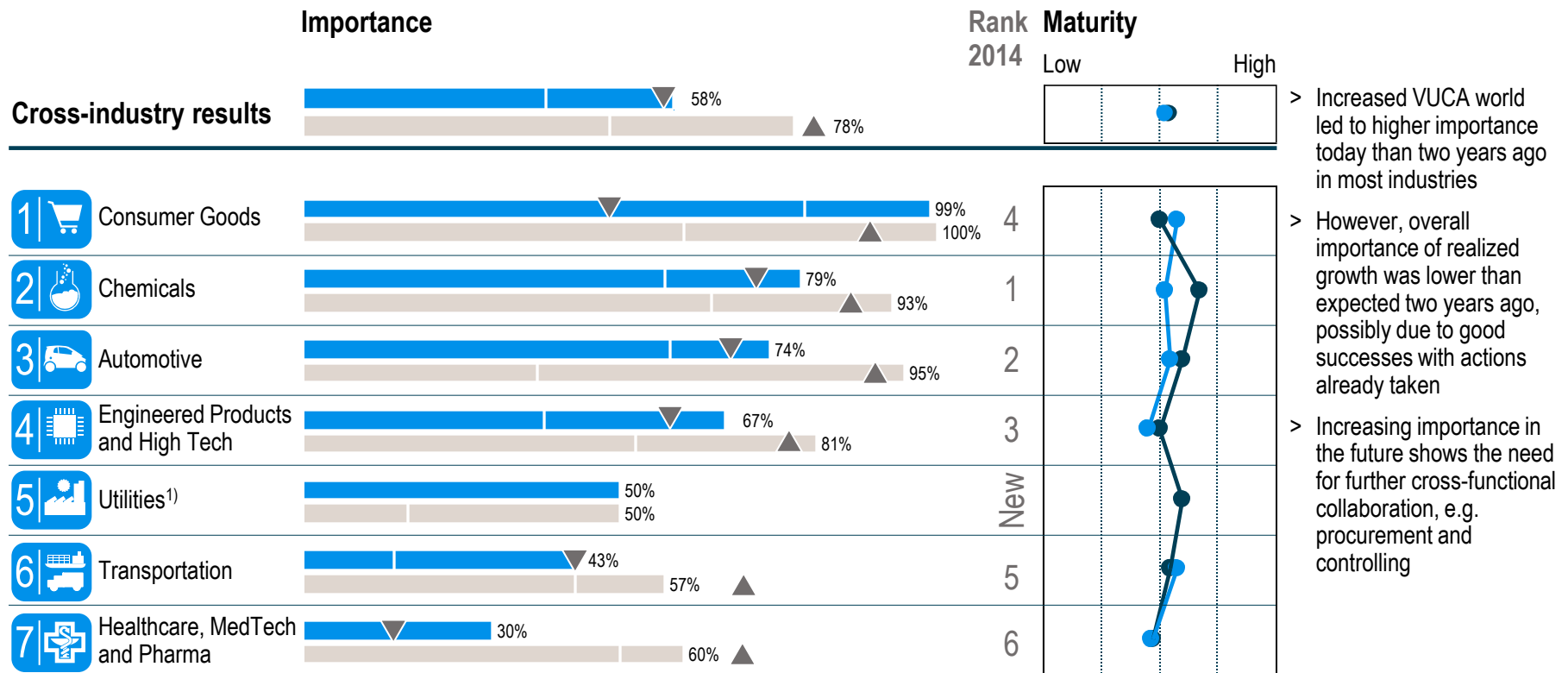
- > Enhancing product value can only be realized if customer requirements and values are understood; already a focus of CPOs in 2014 but even more important in 2016
- > Understanding and managing target costs and margins is a prerequisite to achieve financial goals
- > Implementation gap is narrowing for all levers – nonetheless further action still necessary

Importance today Important ■ ■ Very important ▼ 2014 ● 2016 ● 2014

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

Importance of managing volatility and risk is highest for Consumer Goods – Importance expected to increase in all industries

Industry performance (sorted by importance)



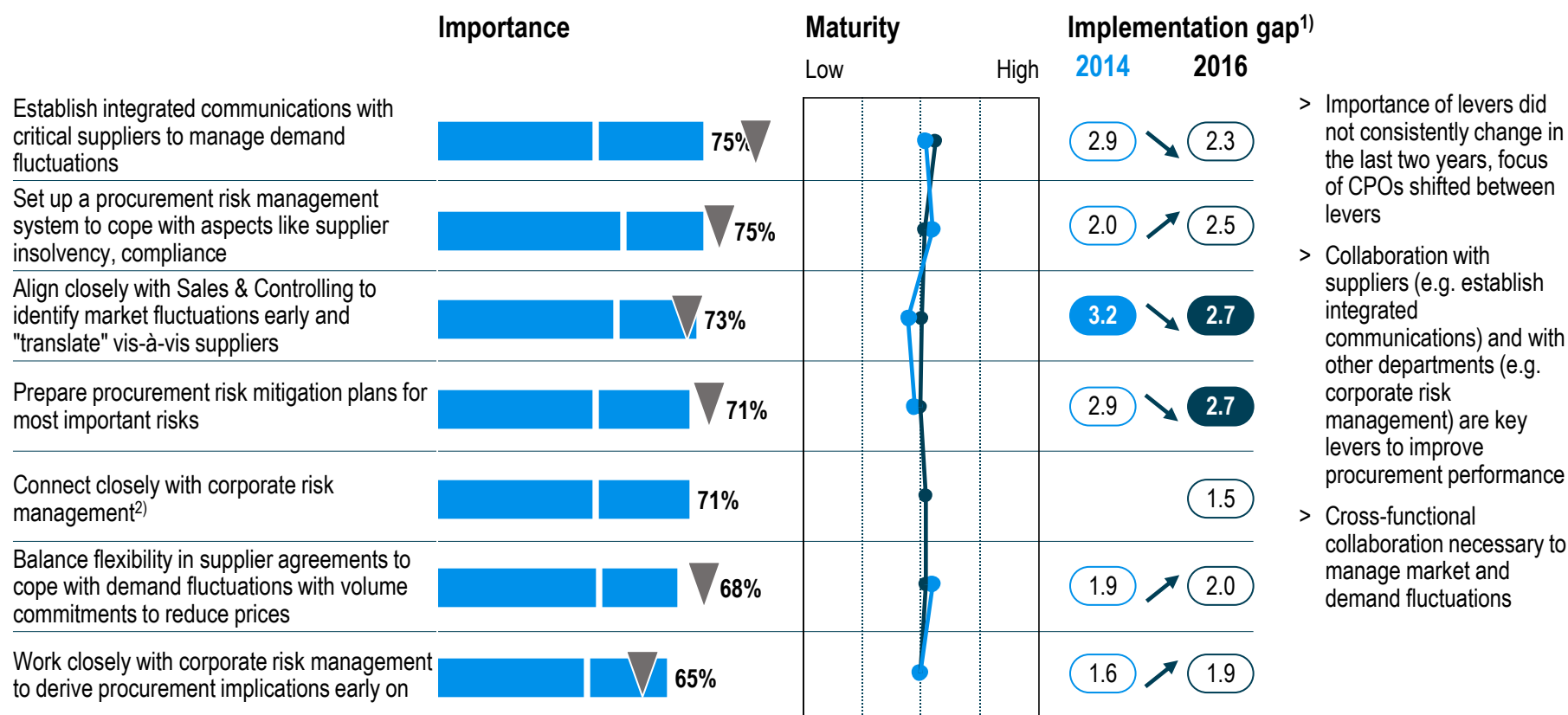
- > Increased VUCA world led to higher importance today than two years ago in most industries
- > However, overall importance of realized growth was lower than expected two years ago, possibly due to good successes with actions already taken
- > Increasing importance in the future shows the need for further cross-functional collaboration, e.g. procurement and controlling

Importance today Important Very important Importance in 3-5 years Important Very important ▼▲ 2014 ● 2016 ● 2014

1) New in 2016

Across industries, the top lever is to establish integrated communications with critical suppliers to manage demand fluctuations

Cross-industry levers to meet the challenge (sorted by importance)



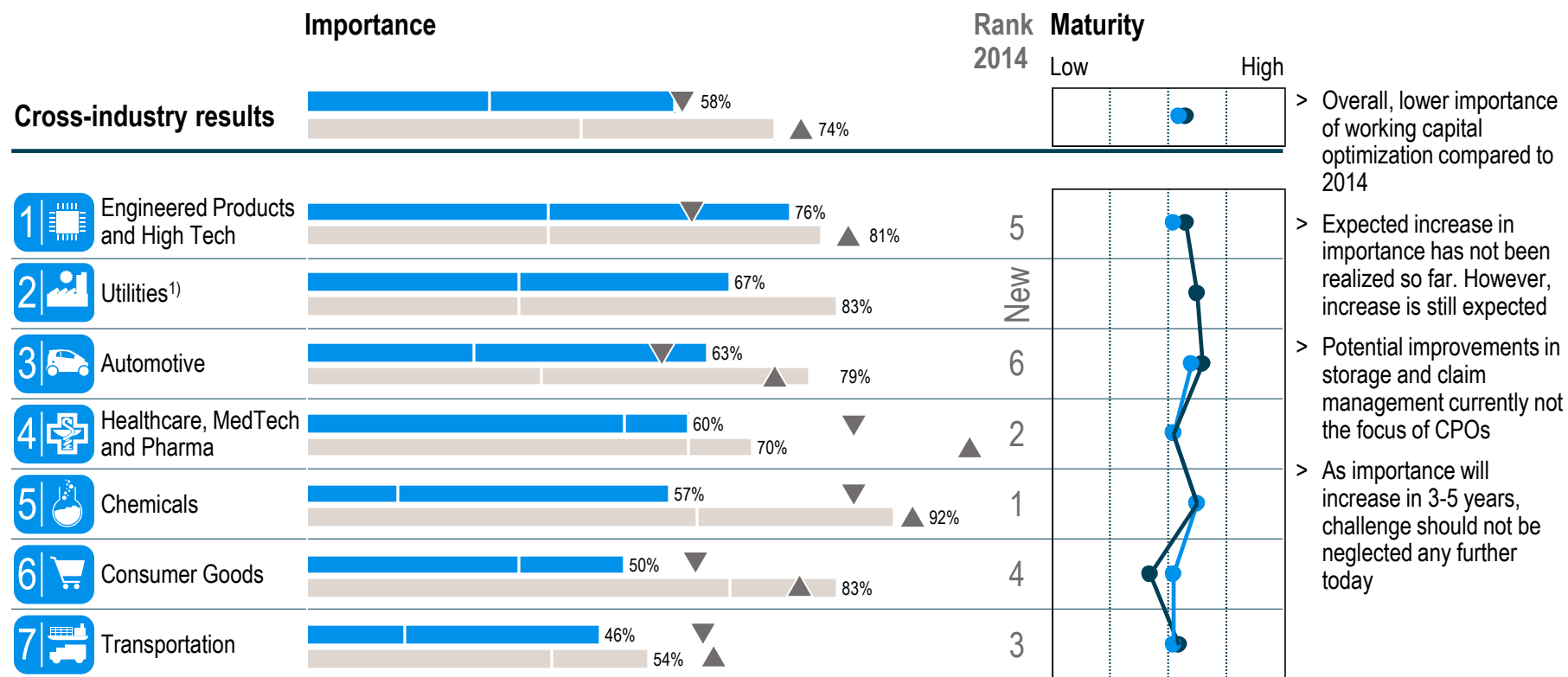
Importance today Important ■ ■ Very important ▼ 2014 ● 2016 ● 2014

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

2) New in 2016

Optimizing working capital will increase in importance – Need for action in all industries

Industry performance (sorted by importance)

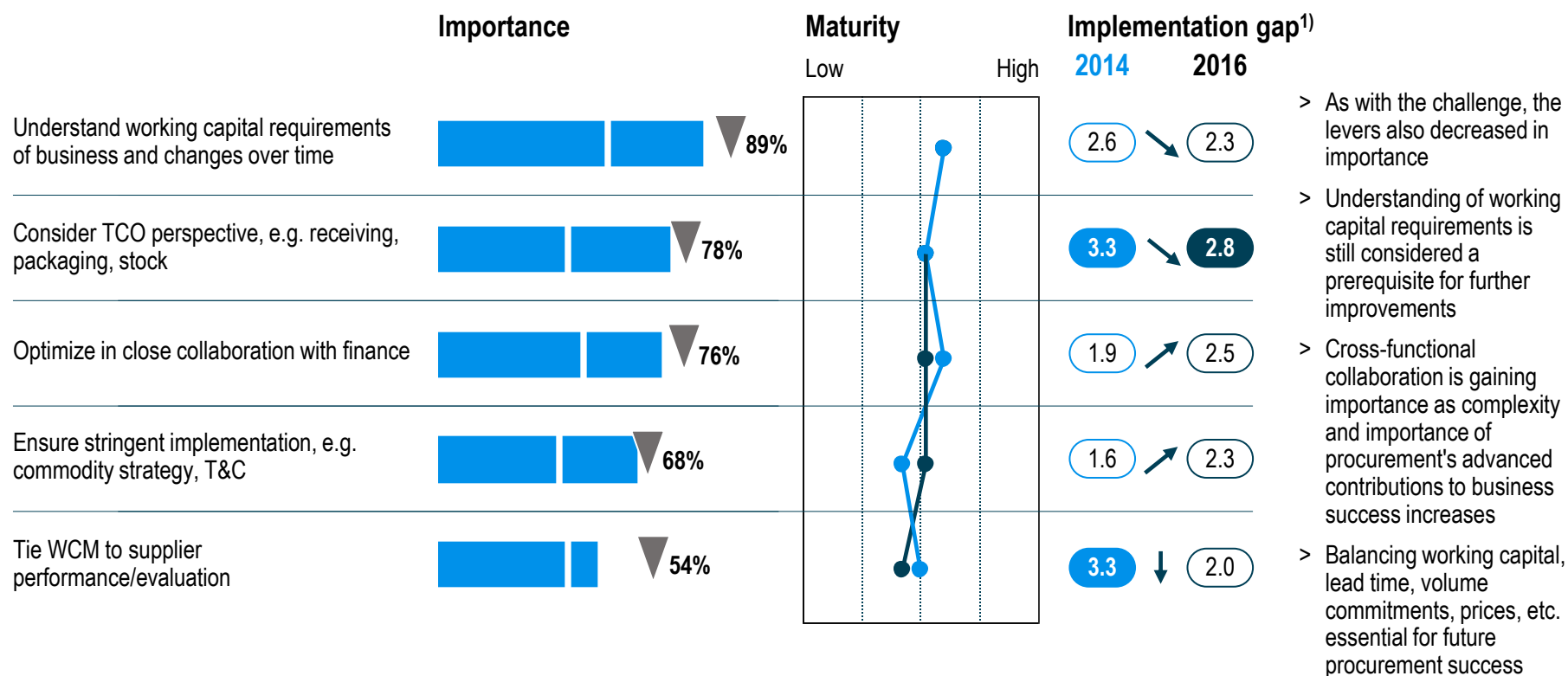


Importance today Important Very important Importance in 3-5 years Important Very important

1) New in 2016

Across industries, understanding the working capital requirements of the business and their changes over time is the most important lever

Cross-industry levers to meet the challenge (sorted by importance)

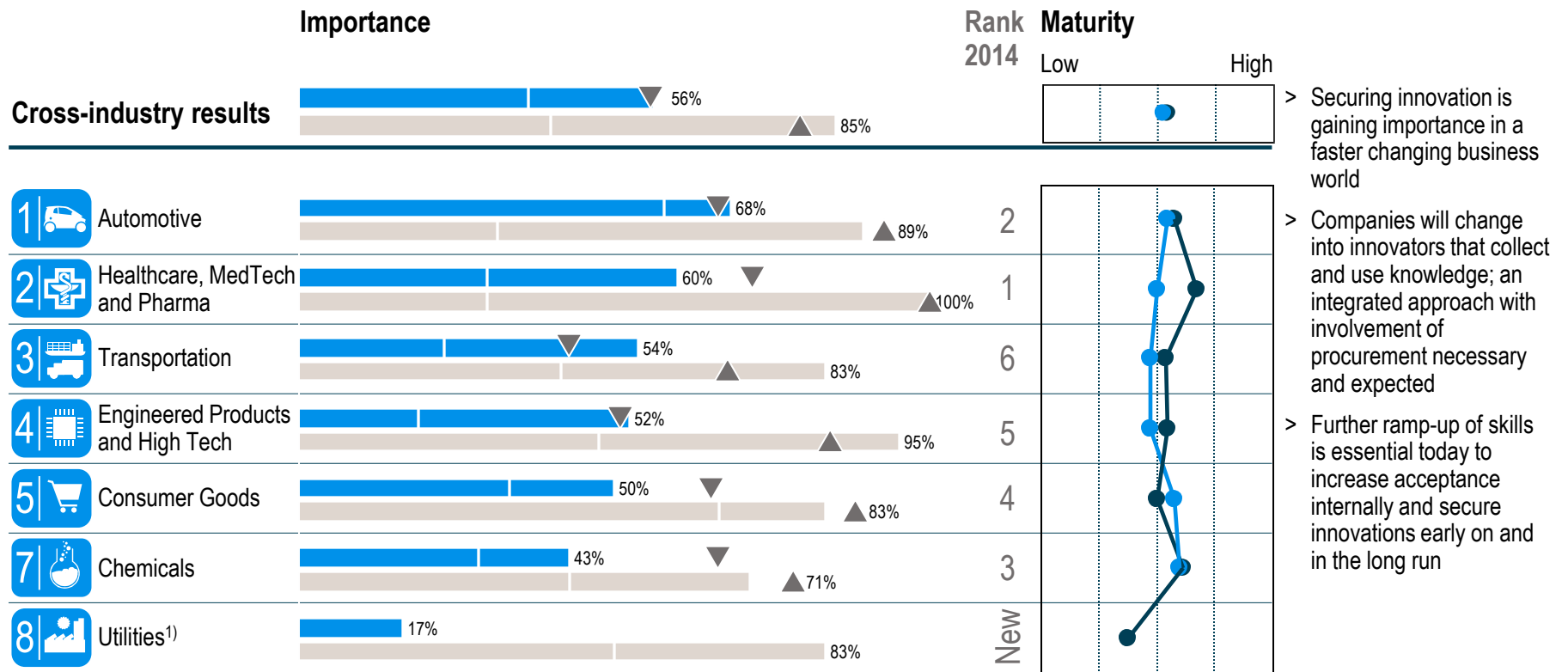


Importance today Important   Very important ▼ 2014 ● 2016 ● 2014

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

Huge increase in importance anticipated for securing innovation – Highest maturity in Healthcare, MedTech and Pharma today

Industry performance (sorted by importance)

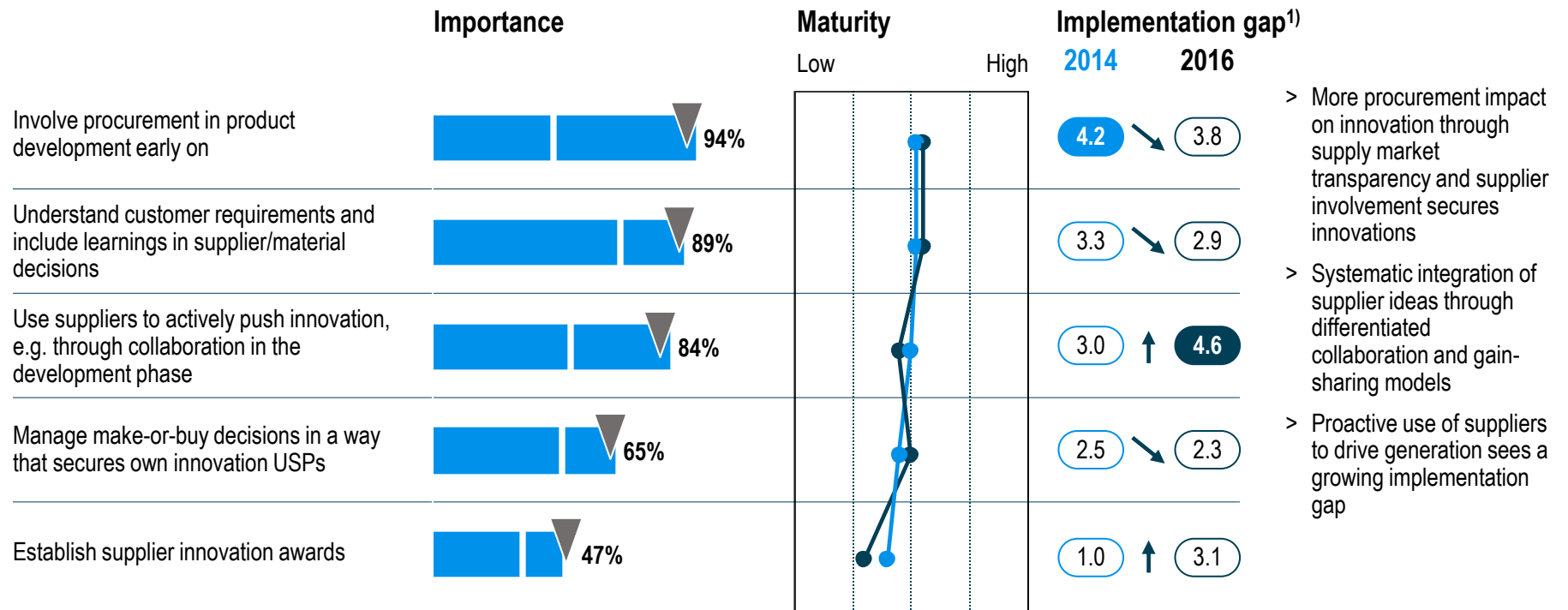


Importance today Important Very important Importance in 3-5 years Important Very important 2014 2016 2014

1) New in 2016

Across industries, the most important lever is to ensure early involvement in product development

Cross-industry levers to meet the challenge (sorted by importance)



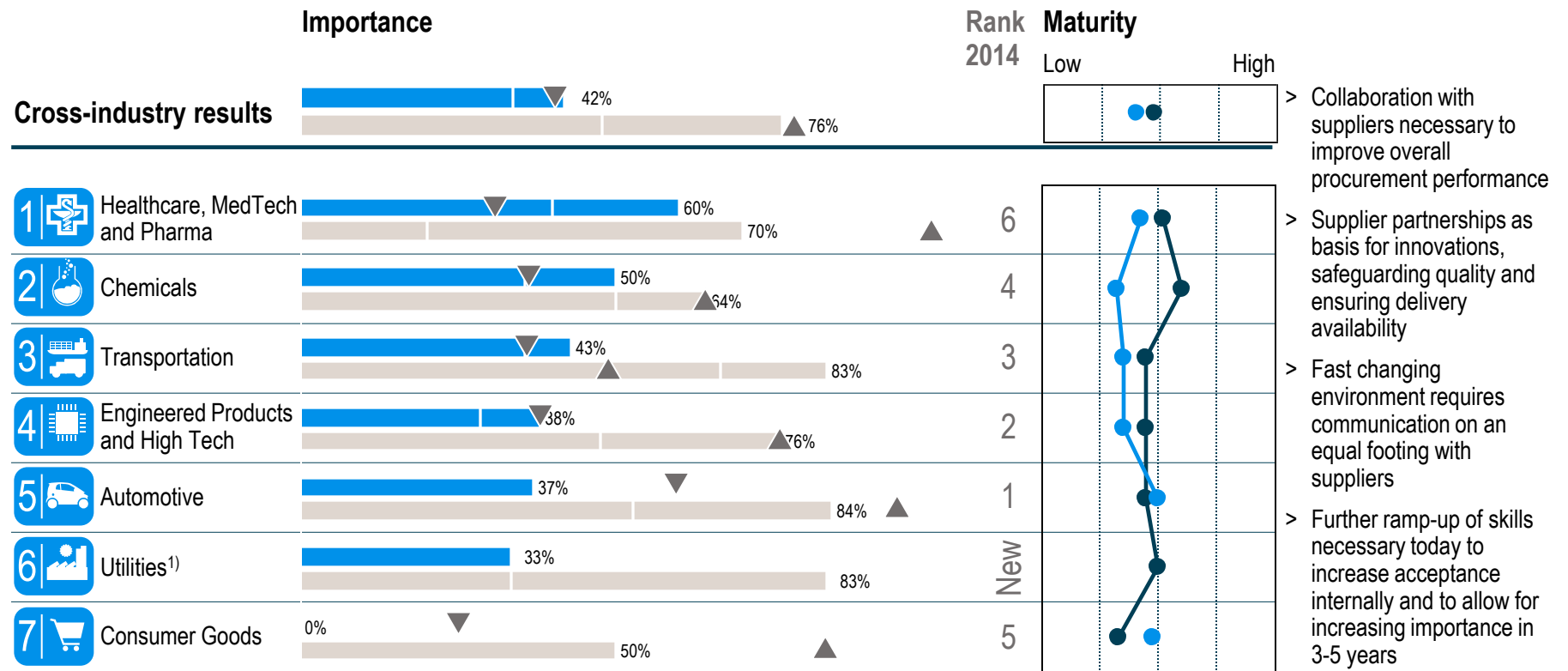
- > More procurement impact on innovation through supply market transparency and supplier involvement secures innovations
- > Systematic integration of supplier ideas through differentiated collaboration and gain-sharing models
- > Proactive use of suppliers to drive generation sees a growing implementation gap

Importance today Important   Very important ▼ 2014 ● 2016 ● 2014

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

The importance of supplier partnerships 2.0 is expected to increase dramatically – Need for action in all industries as maturity is low

Industry performance (sorted by importance)

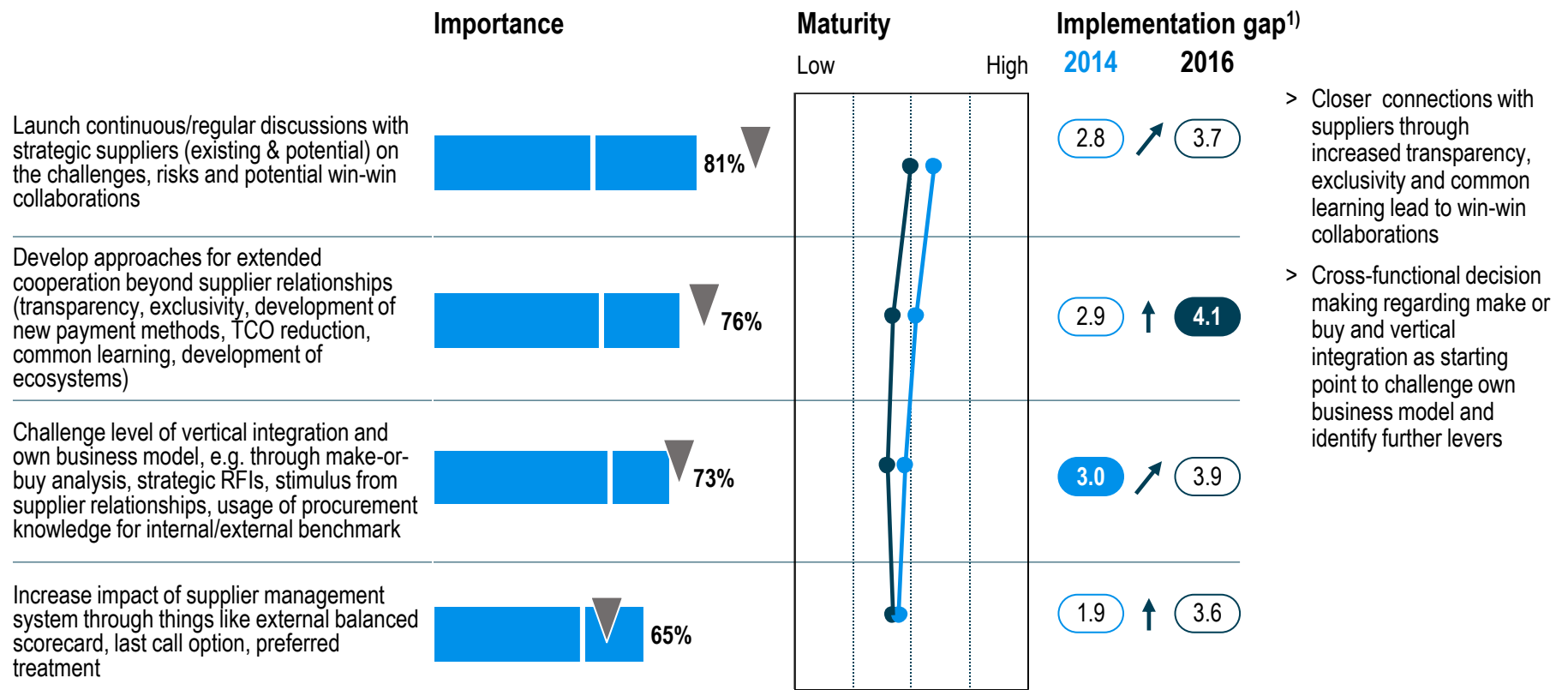


Importance today Important   Very important Importance in 3-5 years Important   Very important ▼▲ 2014 ● 2016 ● 2014

1) New in 2016

Across industries, the most important lever is to launch regular discussions with strategic suppliers, e.g. on win-win collaboration

Cross-industry levers to meet the challenge (sorted by importance)



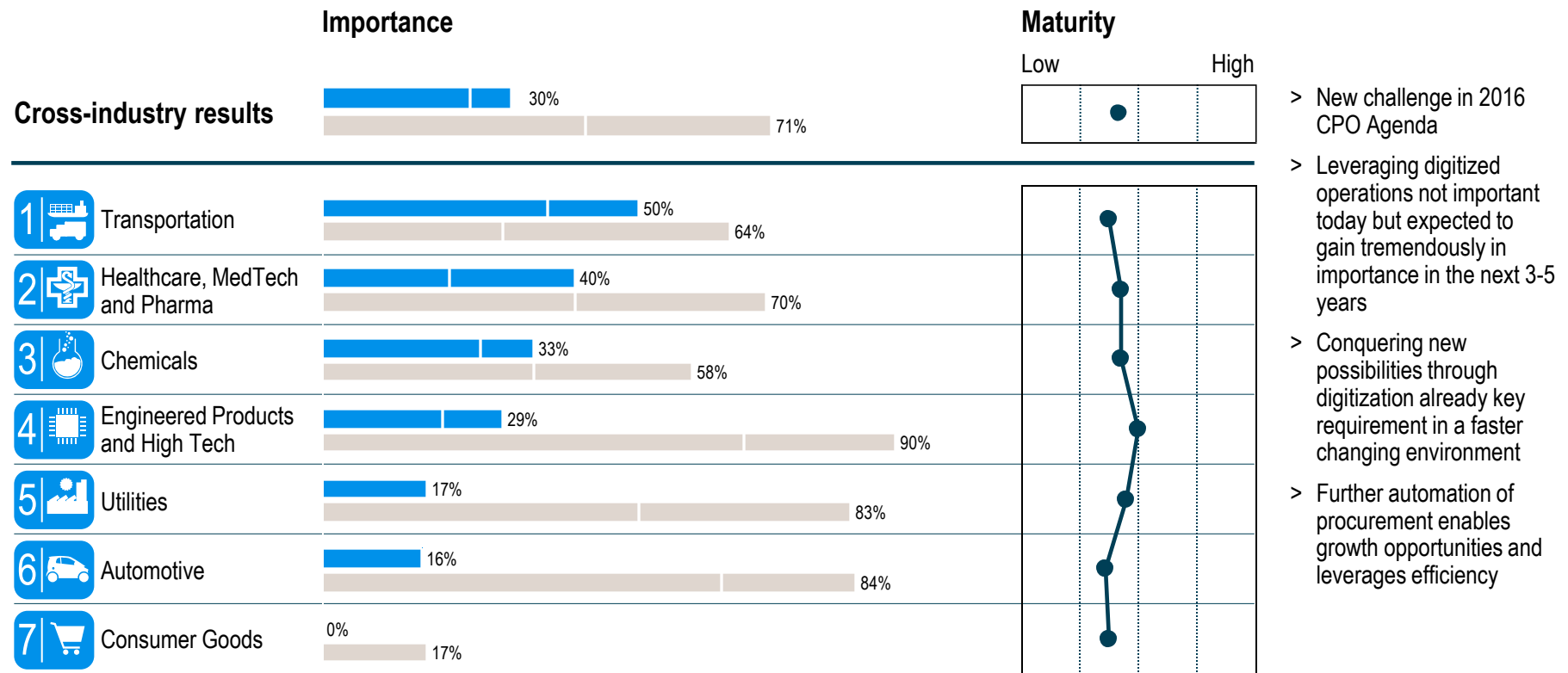
- > Closer connections with suppliers through increased transparency, exclusivity and common learning lead to win-win collaborations
- > Cross-functional decision making regarding make or buy and vertical integration as starting point to challenge own business model and identify further levers

Importance today Important   Very important ▼ 2014 ● 2016 ● 2014

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

The importance of leveraging digitized operations is skyrocketing and high on the agenda for the next 3-5 years – Maturity low overall

Industry performance (sorted by maturity)

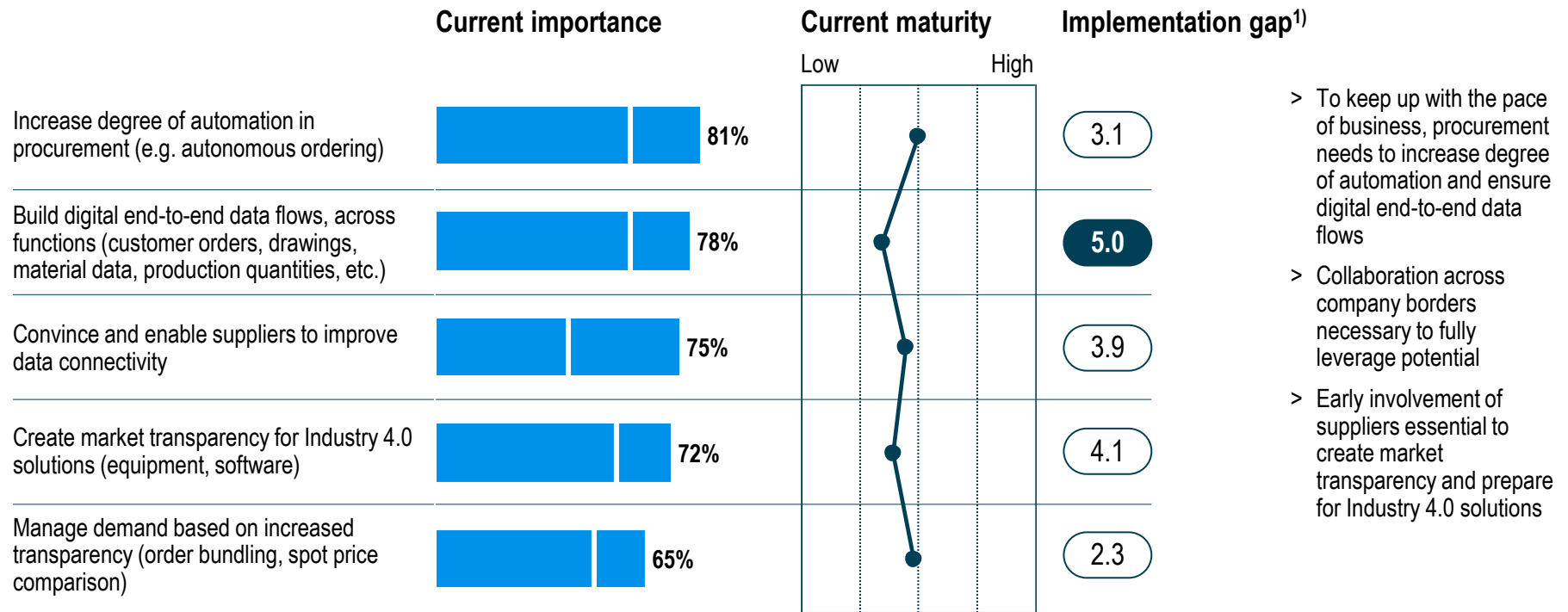


- > New challenge in 2016 CPO Agenda
- > Leveraging digitized operations not important today but expected to gain tremendously in importance in the next 3-5 years
- > Conquering new possibilities through digitization already key requirement in a faster changing environment
- > Further automation of procurement enables growth opportunities and leverages efficiency

Importance today Important   Very important Importance in 3-5 years Important   Very important ▼▲ 2014 ● 2016 ● 2014

Across industries, the most important lever is to increase the degree of automation in procurement

Cross-industry levers to meet the challenge (sorted by importance)



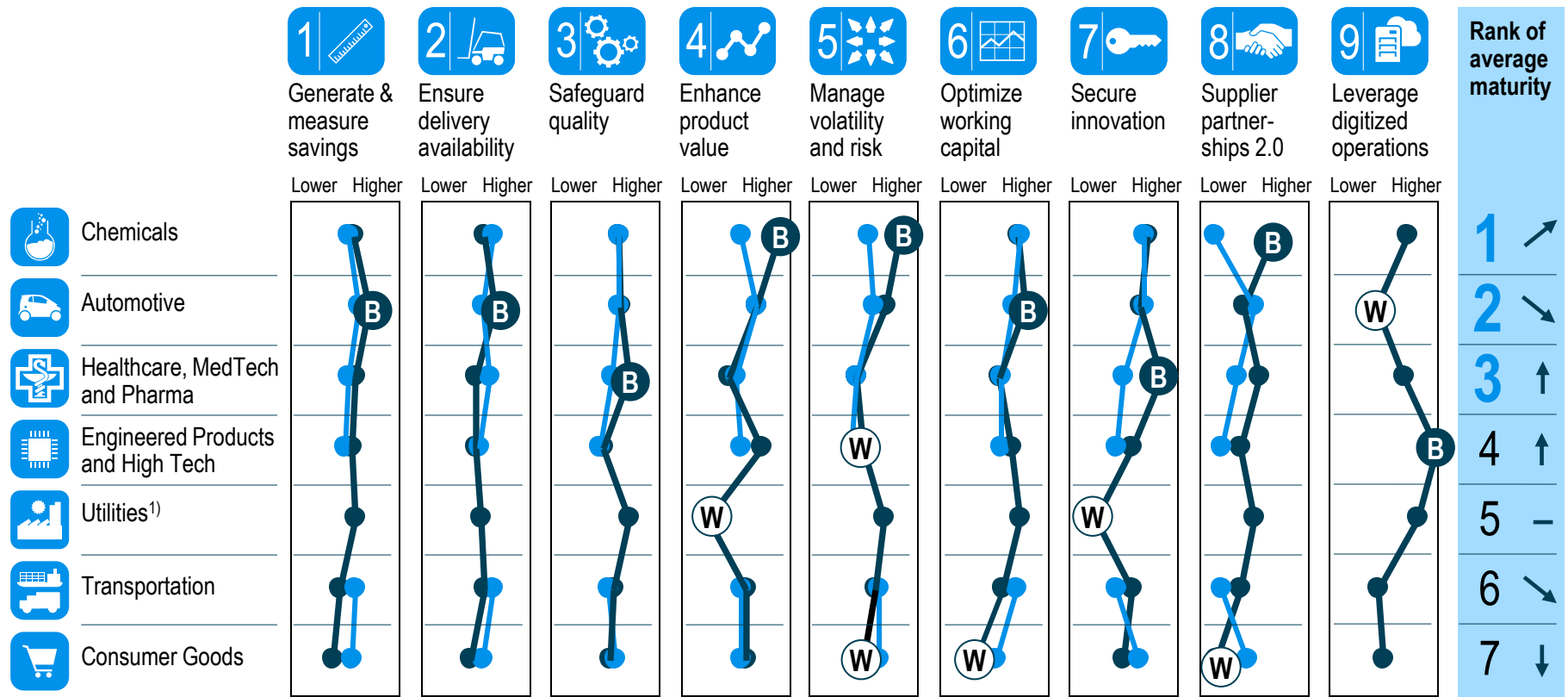
- > To keep up with the pace of business, procurement needs to increase degree of automation and ensure digital end-to-end data flows
- > Collaboration across company borders necessary to fully leverage potential
- > Early involvement of suppliers essential to create market transparency and prepare for Industry 4.0 solutions

Importance today Important   Very important ▼ 2014 ● 2016 ● 2014

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

Chemicals and Automotive are best performers in most challenges – Consumer Goods slipped down the rankings since 2014

Industry benchmarking: Current maturity per challenge



Likert scale: 1 = Low, 5 = High. This graph shows a scale from 2 to 4 ● Best ○ Worst ● 2014 ● 2016

1) New in 2016

D. The CPO Agenda 2016 per industry



D. The CPO Agenda 2016 per industry



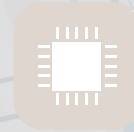
Automotive



Chemicals



Consumer Goods



Engineered Products and High Tech



Healthcare, MedTech and Pharma



Transportation

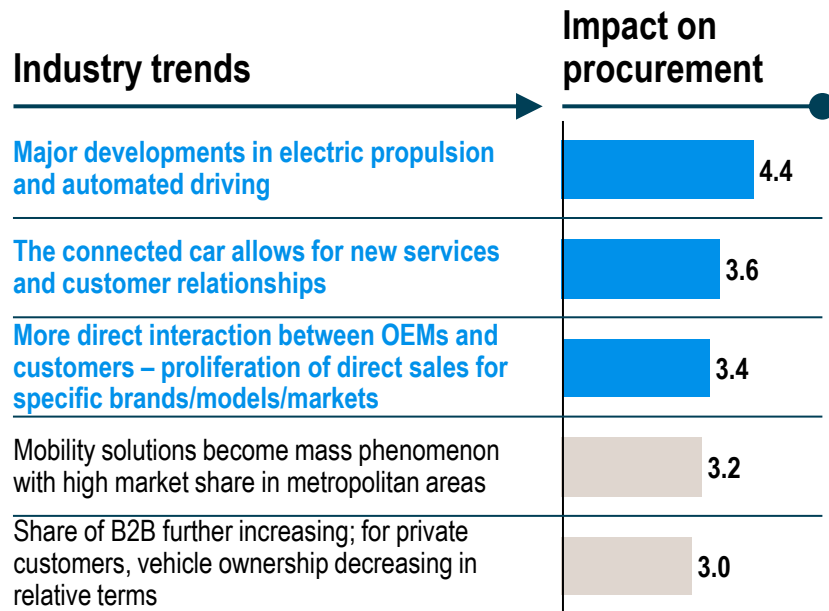


Utilities

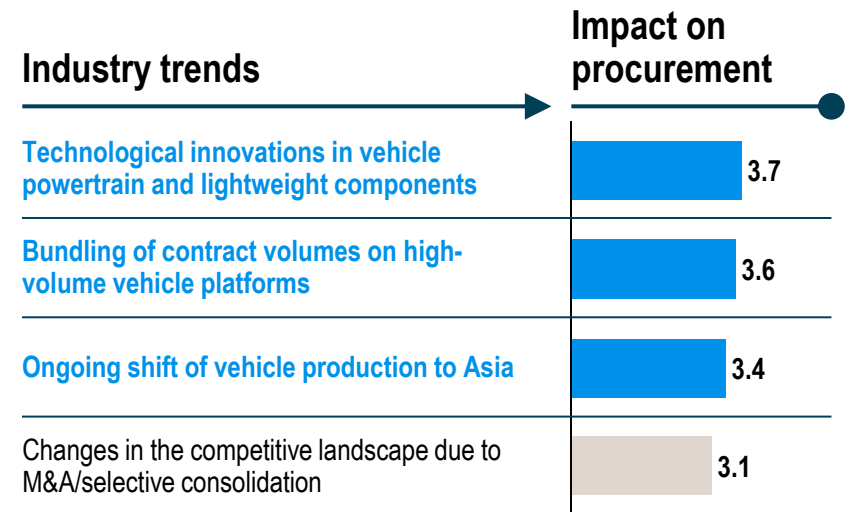


The industry trends with highest procurement impact for OEMs and OESs: Technical innovations, e.g. electric propulsion, connectivity

OEM



Supplier

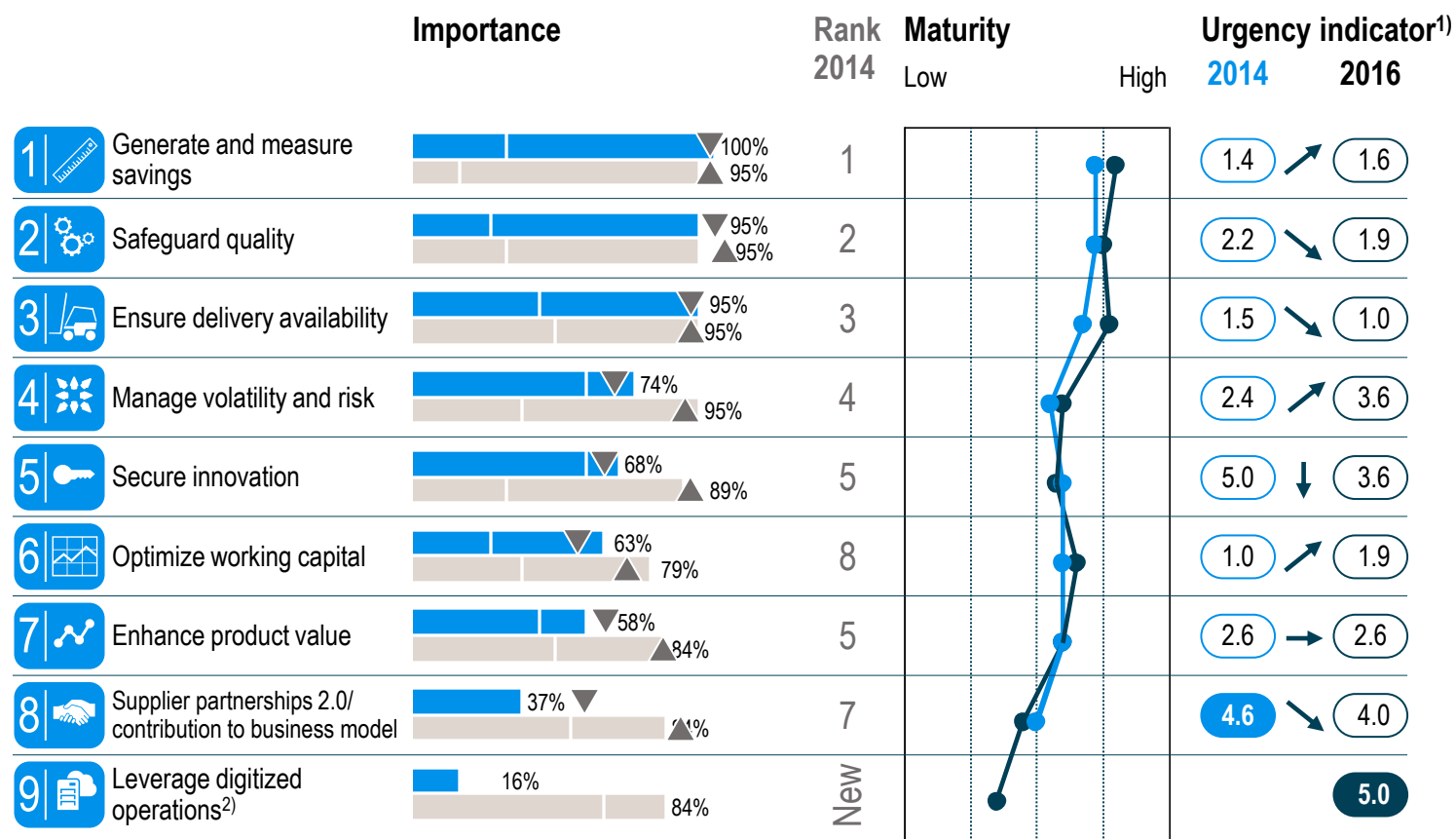


Three industry trends with the highest impact on procurement Other trends

1 = Low impact of an industry trend on procurement 5 = High impact

The two most important challenges for Automotive CPOs remain generating and measuring savings and safeguarding quality

CPO challenges ranked by importance



- > Savings, quality and delivery are and will remain the three most important challenges – Same results as 2014
- > Working capital climbs from rank eight to six
- > Product value and supplier partnership 2.0 soar in 3-5 years, like they did in 2014 – Looks like repeated hockey-stick planning without a solution

Importance today Important ■ ■ Very important Importance in 3-5 years Important ■ ■ Very important ▼▲ 2014 ● 2016 ● 2014

1) Weighted difference of importance today, importance in 3-5 years and maturity (1 = Least urgent, 5 = Most urgent) 2) New in 2016



The Automotive CPO Agenda 2016: Most urgent challenges & levers

Automotive trends with highest impact on procurement

OEM

- > Major developments in **electric propulsion** and **automated driving**
- > New **services** and **customer relationships** facilitated by the **connected car**

Supplier

- > **Innovations** in **vehicle powertrain** and **lightweight components**
- > **Bundling** of **contract volume**

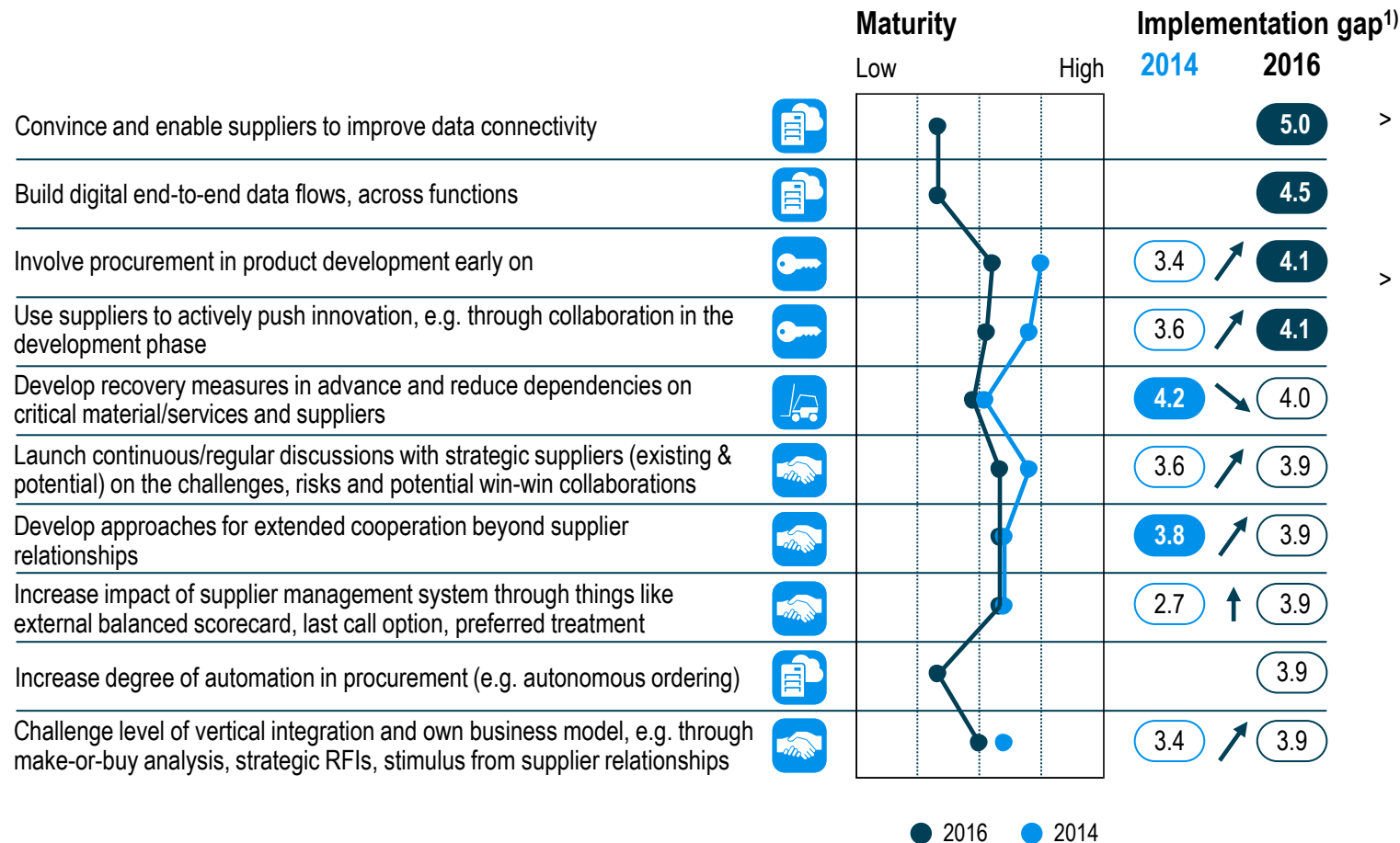
Automotive CPO Agenda 2016

(Three least implemented levers for the four most urgent challenges)

	<p>Leverage digitized operations (urgency indicator: 5.0)</p> <ul style="list-style-type: none"> > Convince and enable suppliers to improve data connectivity > Build digital end-to-end data flows, across functions (customer orders, drawings, material data, production quantities, stock levels, purchase orders, quality assurance, etc.) > Increase degree of automation in procurement 		<p>Supplier partnerships 2.0 (4.0)</p> <ul style="list-style-type: none"> > Launch continuous/regular discussions with strategic suppliers (existing & potential) on the challenges, risks and potential win-win collaborations > Develop approaches for extended cooperation beyond supplier relationships > Increase impact of supplier management system
	<p>Manage volatility and risk (3.6)</p> <ul style="list-style-type: none"> > Align closely with Sales & Controlling to identify market fluctuations early and "translate" vis-à-vis suppliers > Balance flexibility in supplier agreements to cope with demand fluctuations with volume commitments to reduce prices > Prepare procurement risk mitigation plans for most important risks 		<p>Secure innovation (3.6)</p> <ul style="list-style-type: none"> > Involve procurement in product development early on > Use suppliers to actively push innovation, e.g. through collaboration in the development phase > Manage make-or-buy decisions in a way that secures own innovation USPs

Across all challenges, the most urgent levers include improved data connectivity with suppliers and end-to-end data flows

Ten most important levers across all challenges ranked by urgency



- > The two most important levers address the new cluster of levers around digitization – Three in the top ten
- > Among the top ten most important levers, four are related to supplier partnerships

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



Our perspective on the results of the CPO Agenda – It is time to act!

Roland Berger perspective: CPO Agenda 2016, Automotive



- **Savings are a must:** Generation of savings is still the most important challenge for CPOs – However, due to the high maturity level of cost improvement levers, other challenges (e.g. digitization, innovation, supplier partnerships 2.0, risk management) must be tackled – Inherent target conflicts must be better managed
- **New frontier:** Leveraging digitization is not of high importance for Automotive CPOs yet, but will soar in the next 3-5 years – Procurement needs to reap the benefits in terms of savings, but also in terms of agility, efficiency or innovation. In addition, digitization bears huge potential to add new value to internal business partners, thus potentially increasing the acceptance and credibility of procurement. Playing field for procurement involves collaboration with suppliers, internal business partners and also within the procurement organization itself
- **Finding answers – Finally:** The decrease in importance of "product value" & "supplier partnerships" is a huge surprise. Especially "supplier partnerships" appears to be a "hot potato". Study results as well as our consulting experience indicate that procurement struggles to find sustainable answers to those challenges. A breakthrough is required on aspects like target conflicts, KPIs and mindset
- **People matter – Even more:** Procurement has been struggling for some time with its capacity to catch up with business requirements. With digitization and the challenge of finding sustainable answers to supplier partnerships etc., that challenge becomes even more severe

D. The CPO Agenda 2016 per industry



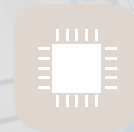
Automotive



Chemicals



Consumer Goods



Engineered Products and High Tech



Healthcare, MedTech and Pharma

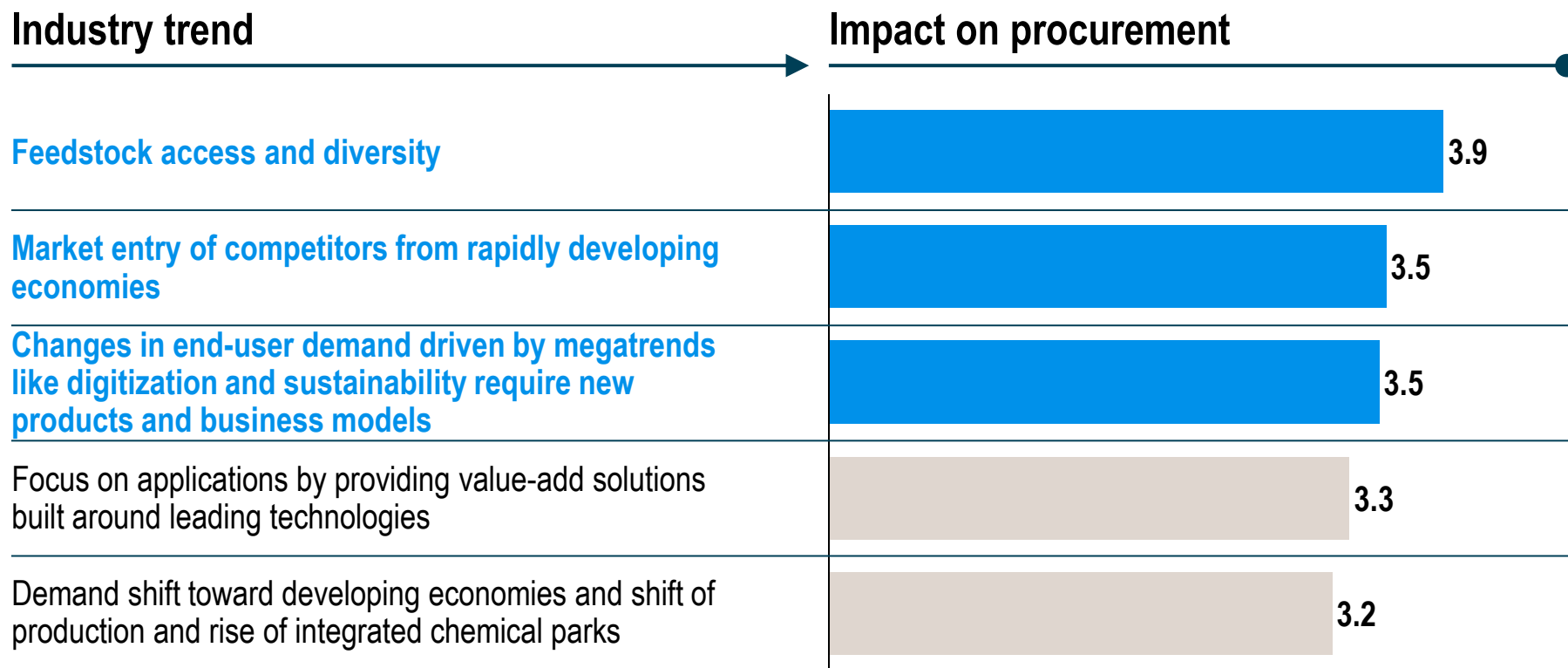




Transportation



Utilities

The three industry trends with highest procurement impact: Feedstock access, new competitors and end-user demand changes

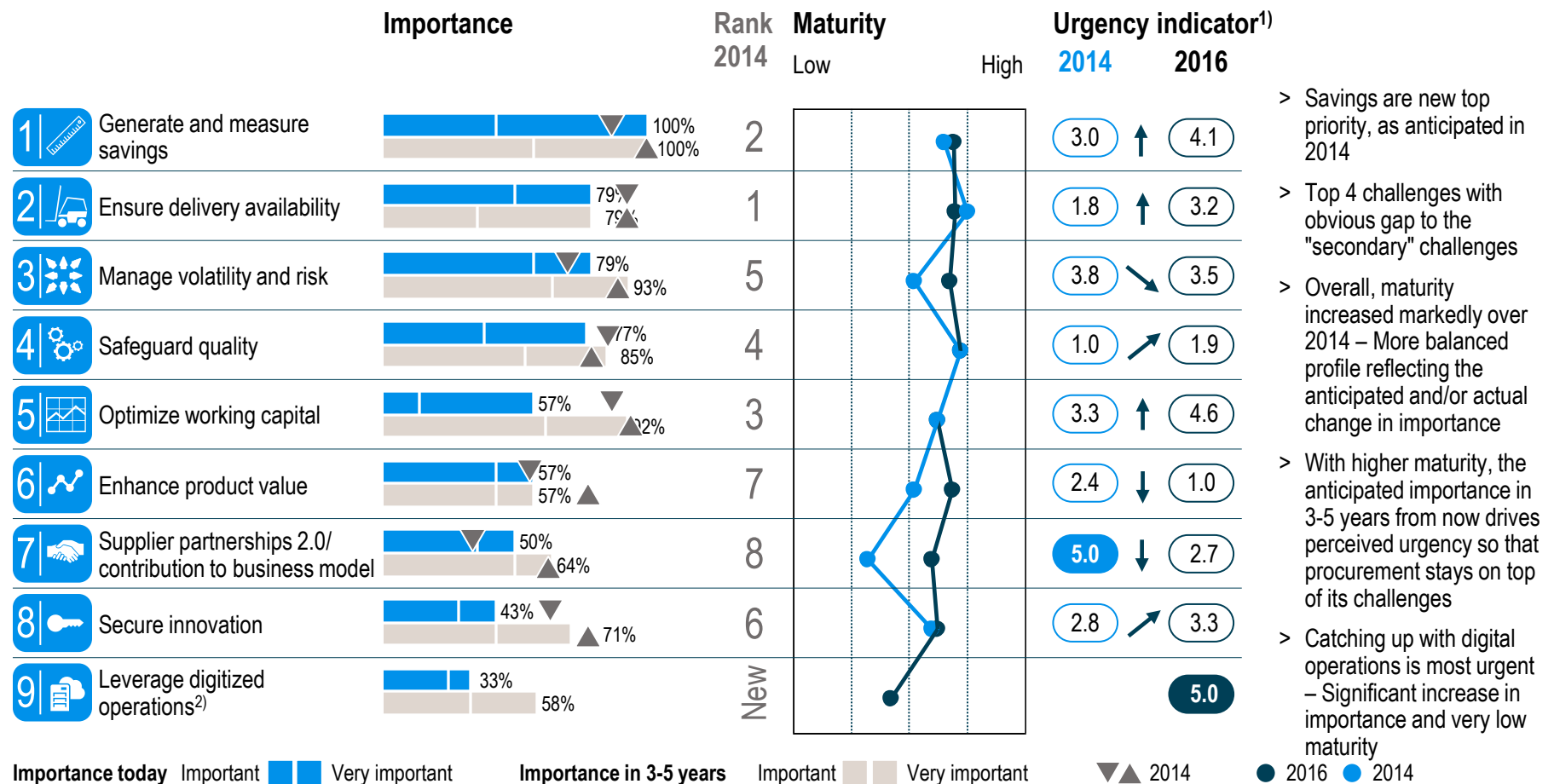


 Three industry trends with the highest impact on procurement  Other trends

1 = Low impact of an industry trend on procurement 5 = High impact

The two most important challenges for Chemicals CPOs are generating and measuring savings and ensuring delivery availability

CPO challenges ranked by importance



- > Savings are new top priority, as anticipated in 2014
- > Top 4 challenges with obvious gap to the "secondary" challenges
- > Overall, maturity increased markedly over 2014 – More balanced profile reflecting the anticipated and/or actual change in importance
- > With higher maturity, the anticipated importance in 3-5 years from now drives perceived urgency so that procurement stays on top of its challenges
- > Catching up with digital operations is most urgent – Significant increase in importance and very low maturity





The Chemicals CPO Agenda 2016: Most urgent challenges & levers

Chemicals trends with highest impact on procurement

- > Resource constraints: **Rising and volatile energy and feedstock costs**
- > Competition: Market entry of **competitors** from rapidly **developing economies**
- > **Changes in end-user demand** driven by **digitization** and **sustainability**

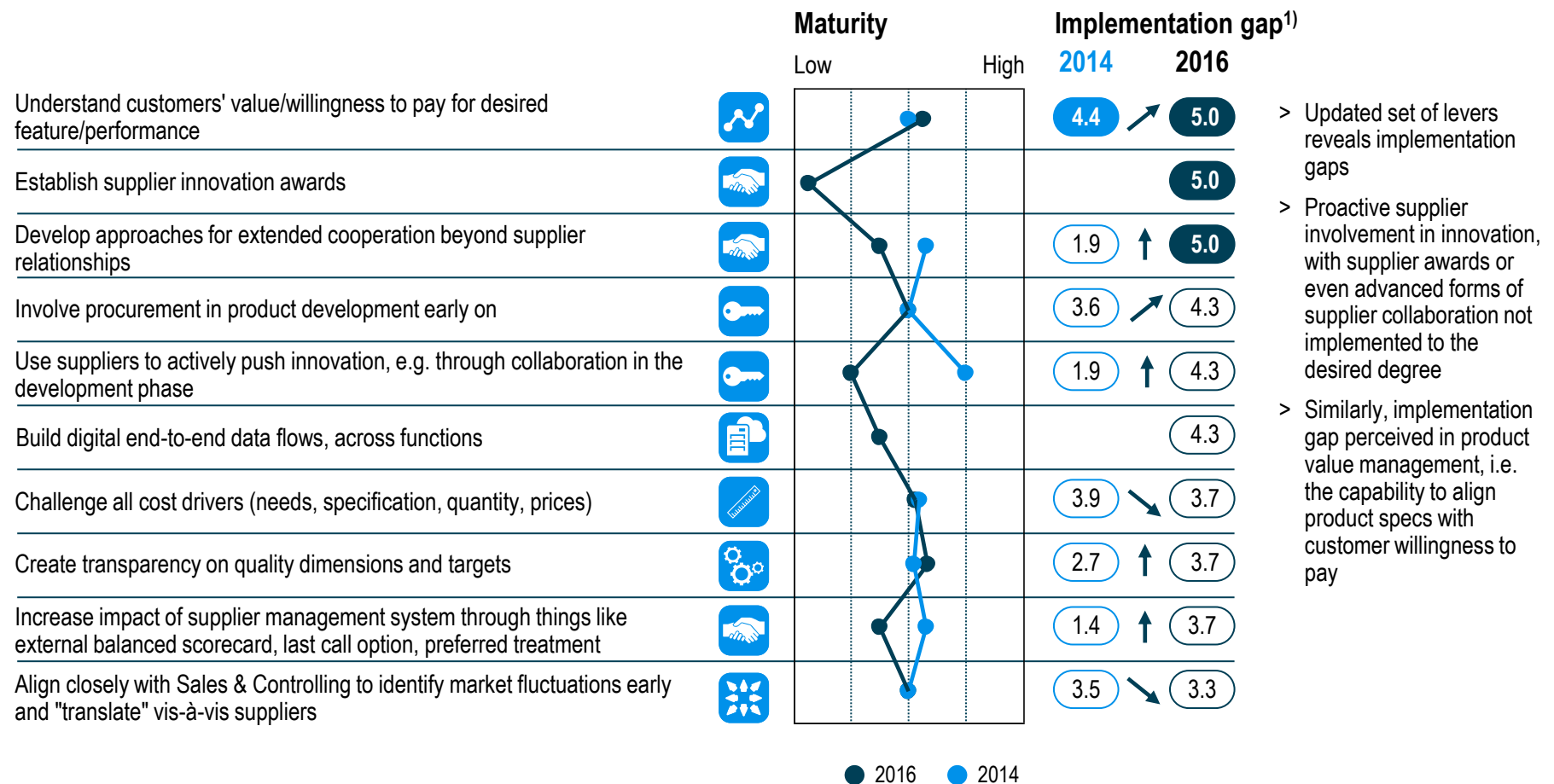
Chemicals CPO Agenda 2016

(Three least implemented levers for the four most urgent challenges)

 <p>Leverage digitized operations (urgency indicator: 5.0)</p> <ul style="list-style-type: none"> > Build digital end-to-end data flows, across functions (customer orders, drawings, material data, production quantities, stock levels, purchase orders, quality assurance, etc.) > Convince and enable suppliers to improve data connectivity > Increase degree of automation in procurement 	 <p>Optimize working capital (4.6)</p> <ul style="list-style-type: none"> > Understand working capital requirements of business and changes over time > Consider TCO perspective, e.g. receiving, packaging, stock > Ensure stringent implementation, e.g. commodity strategy, T&C
 <p>Generate and measure savings (4.1)</p> <ul style="list-style-type: none"> > Challenge all cost drivers (needs, specification, quantity, prices) > Provide full transparency regarding spend, contracts, suppliers on a global scale including cost implications > Have a clear and common understanding of different saving definitions (against budget, etc.) 	 <p>Manage volatility and risk (3.5)</p> <ul style="list-style-type: none"> > Align closely with Sales & Controlling to identify market fluctuations early and "translate" vis-à-vis suppliers > Establish integrated communications with critical suppliers to manage demand fluctuations > Prepare procurement risk mitigation plans for most important risks

Across all challenges, the most urgent levers include understanding customers' value and supplier innovation awards

Ten most important levers across all challenges ranked by urgency



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

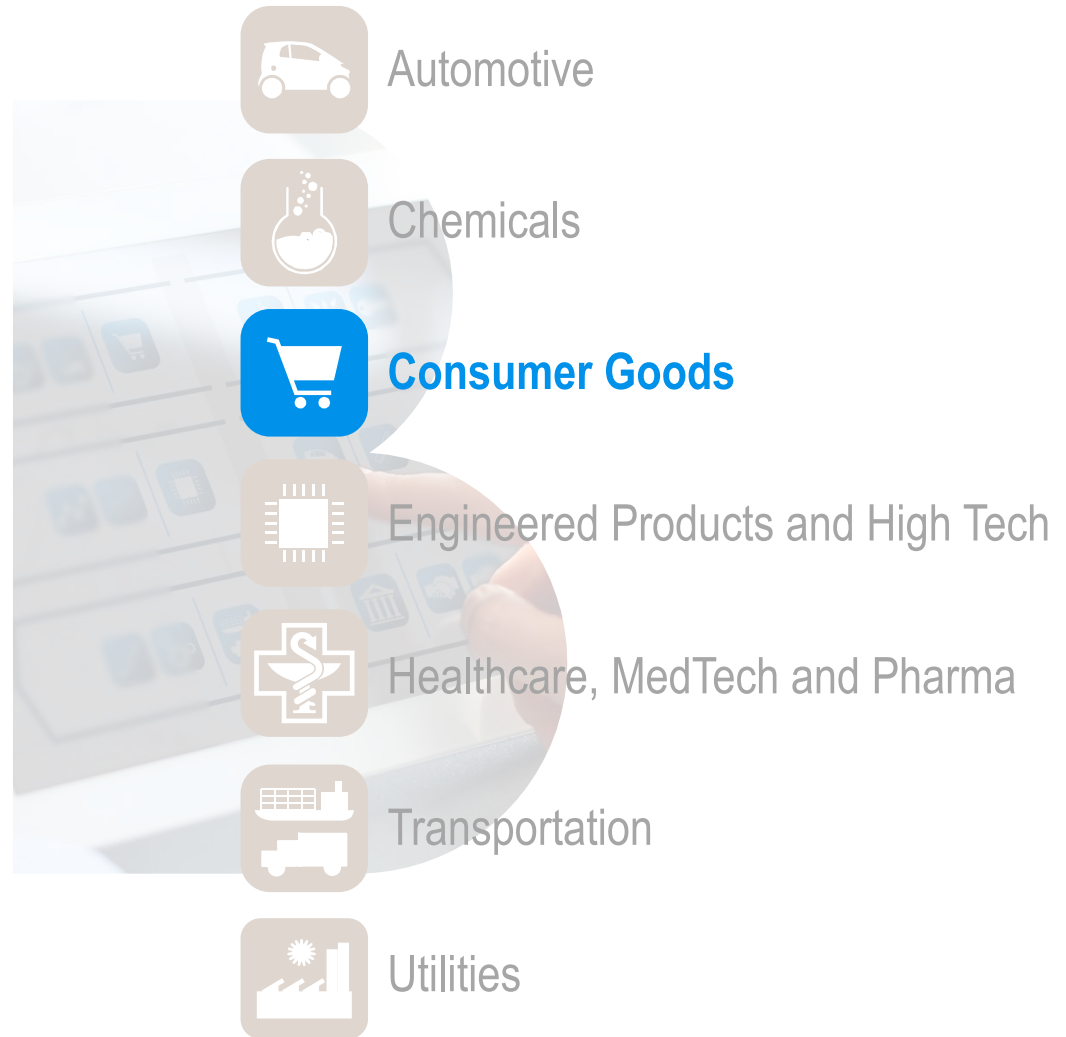
Our perspective on the results of the CPO Agenda – It is time to act!

Roland Berger perspective: CPO Agenda 2016, Chemicals



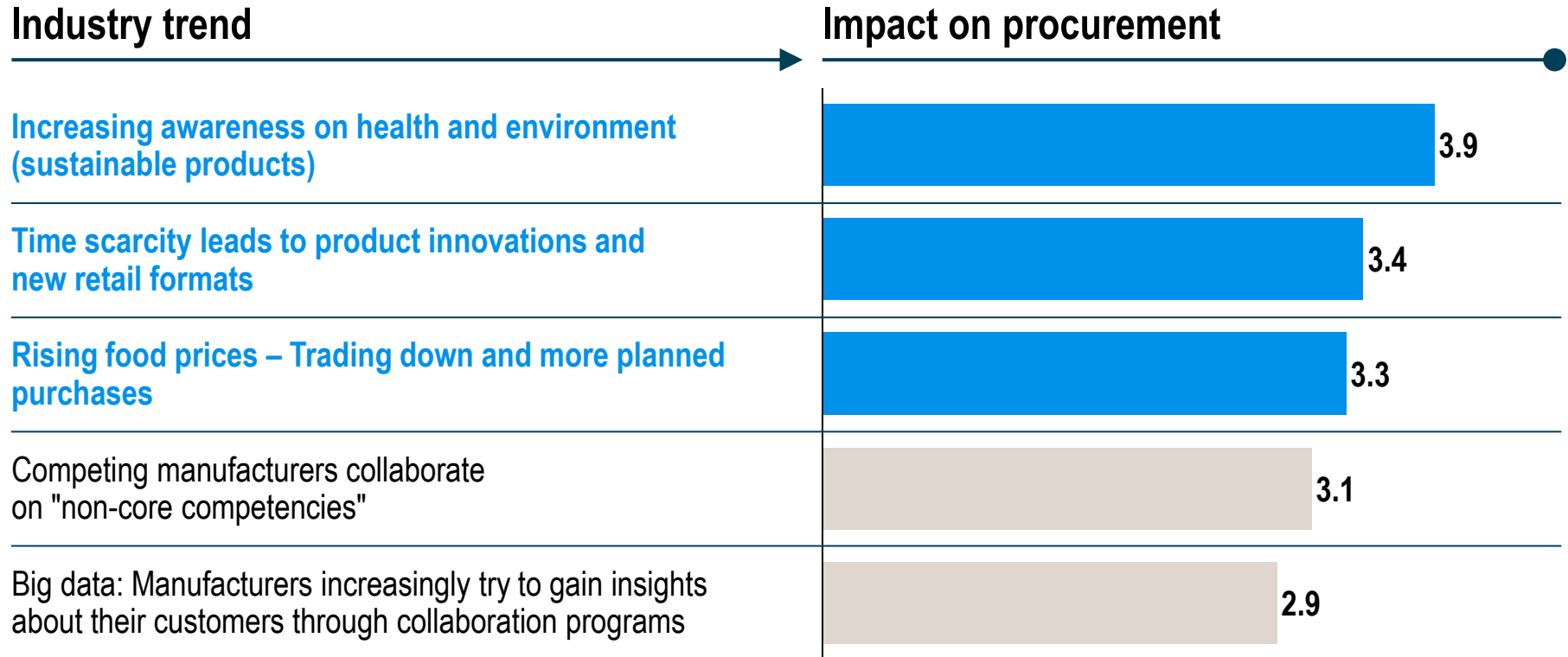
- **Digital challenge:** Deeply integrated and already highly automated value chains in Chemicals are increasingly getting digitized – Fast pace to be expected, creating the need for procurement to understand the arising transparency and levers end-to-end along the value chain. Our consulting experience indicates that procurement is not always in a position to highlight the full potential – dialogue on an equal footing with product management, sales, supply chain and IT, as the key functions, is required to identify and realize the opportunities arising in the next 3-5 years.
- **Managing the volatility/savings struggle:** The requirements to secure supply and prevent cost spikes in highly volatile, global supply markets while achieving minimal material costs amplifies the challenge of managing the upstream partners carefully. Simple supplier partnerships with long-term contracts will not create the cost benefits and supply security sought for competitive advantage any more. Advanced models are required to balance conflicting interests and create sustainable competitive advantage.
- **End-to-end cost perspective:** With the importance of savings generation further increasing and working capital optimization considered a major topic in the next 3-5 years, proactive management of the (internal) clients' demand turns out to be a major lever for procurement. From our experience, the divide between technology-driven business functions carrying the actual demand and procurement is still considerably larger than in many discrete industries. Capability improvements to catch up with business requirements and to become a valued discussion partner are major enablers to strengthen procurement's position.

D. The CPO Agenda 2016 per industry





The three industry trends with highest procurement impact: Increasing health awareness, time scarcity and rising food prices

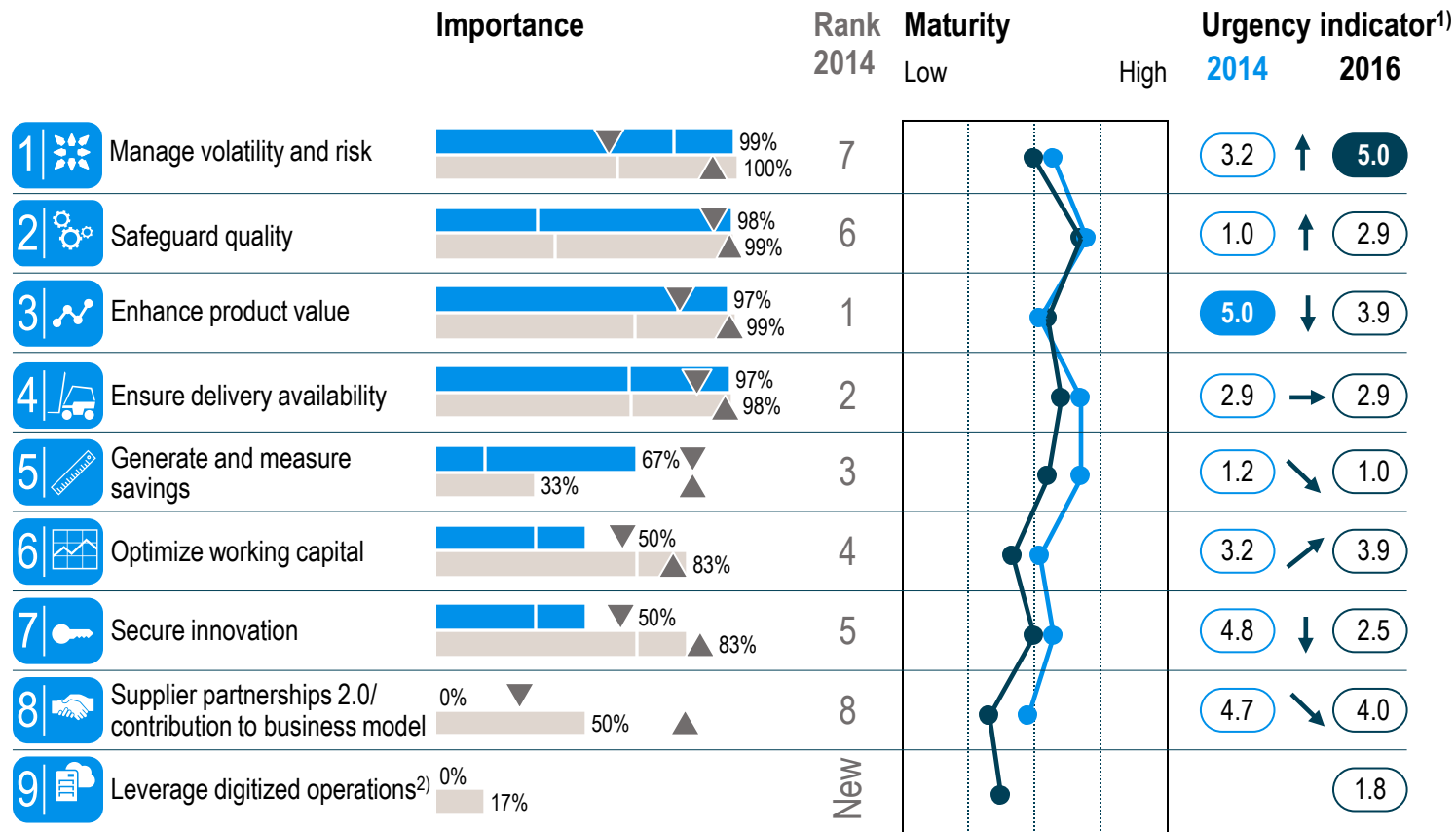


■ Three industry trends with the highest impact on procurement ■ Other trends

1 = Low impact of an industry trend on procurement 5 = High impact

Four challenges are especially important for CPOs – Importance of volatility/risk as well as quality jumped to 1st and 2nd rank

CPO challenges ranked by importance



- > Tremendous change in the two top-ranked challenges
- > Managing volatility/risk and safeguarding quality jumped from 6th and 7th to 1st and 2nd rank
- > No changes in order of other CPO challenges
- > The four most important challenges in 2016 gained importance since 2014, and will also be very important in 3-5 years
- > Rest of challenges lost ground since 2014, but will catch up again in 3-5 years (except for savings)
- > Digitized operations exhibits surprisingly low importance today and in the next 3-5 years

Importance today Important Very important Importance in 3-5 years Important Very important ▼▲ 2014 ● 2016 ● 2014

1) Weighted difference of importance today, importance in 3-5 years and maturity (1 = Least urgent, 5 = Most urgent) 2) New in 2016







The Consumer Goods CPO Agenda 2016: Most urgent challenges & levers

Consumer Goods trends with highest impact on procurement

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

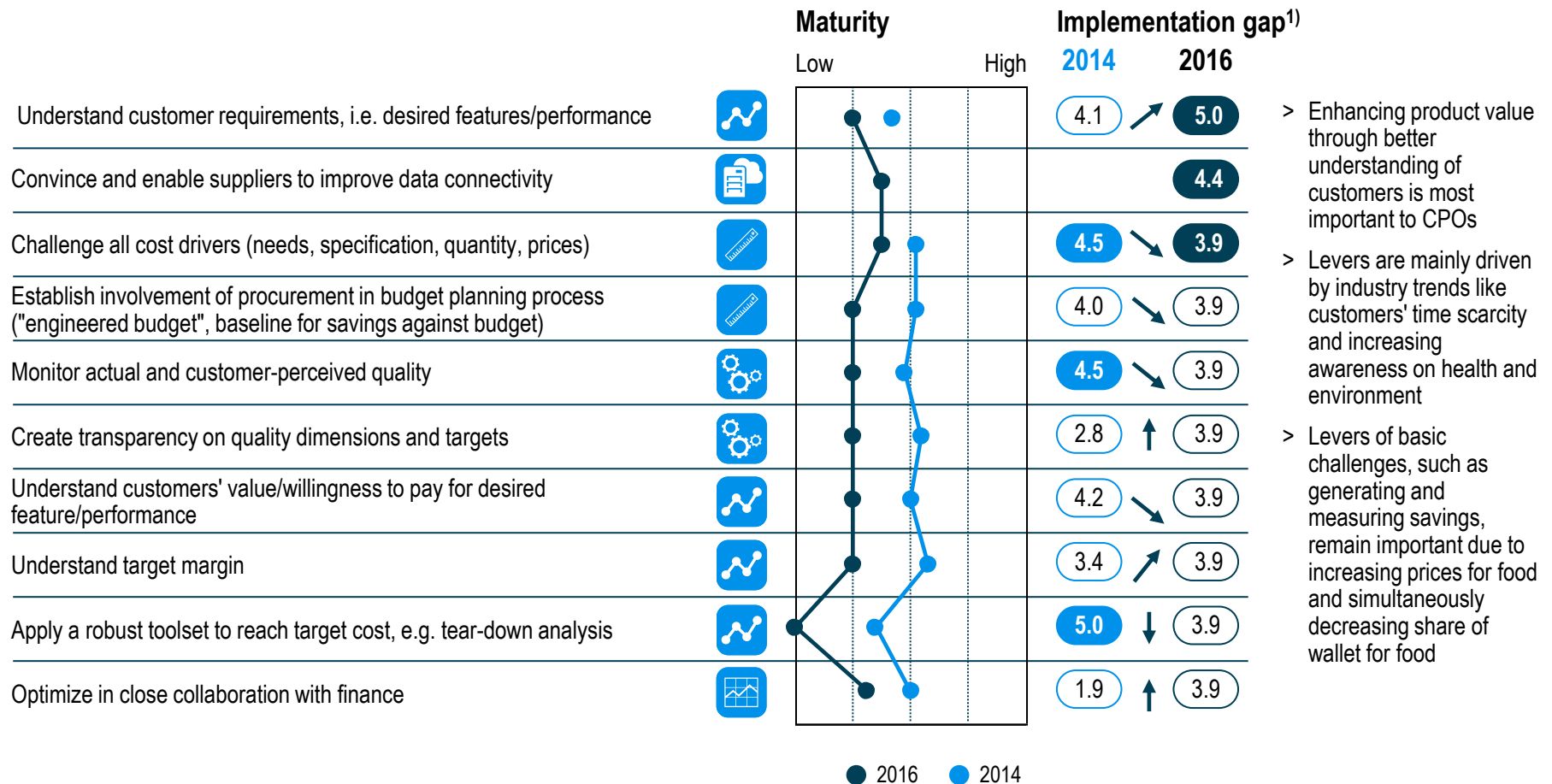
Consumer Goods CPO Agenda 2016

(Three least implemented levers for the four most urgent challenges)

 <p>Manage volatility and risk (urgency indicator: 5.0)</p> <ul style="list-style-type: none"> > Set up a procurement risk management system to cope with aspects like supplier insolvency, compliance > Connect closely with corporate risk management > Establish integrated communications with critical suppliers to manage demand fluctuations 	 <p>Supplier partnerships 2.0 (4.0)</p> <ul style="list-style-type: none"> > Develop approaches for extended cooperation beyond supplier relationships > Challenge level of vertical integration and own business model > Launch continuous/regular discussions with strategic suppliers (existing & potential) on the challenges, risks and potential win-win collaborations
 <p>Enhance product value (3.9)</p> <ul style="list-style-type: none"> > Understand customer requirements, i.e. desired features/performance > Understand customers' value/willingness to pay for desired feature/performance > Understand target margin 	 <p>Optimize working capital (3.9)</p> <ul style="list-style-type: none"> > Optimize in close collaboration with finance > Understand working capital requirements of business and changes over time > Ensure stringent implementation, e.g. commodity strategy

Across all challenges, the most urgent levers include understanding customer requirements and improved data connectivity

Ten most important levers across all challenges ranked by urgency



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



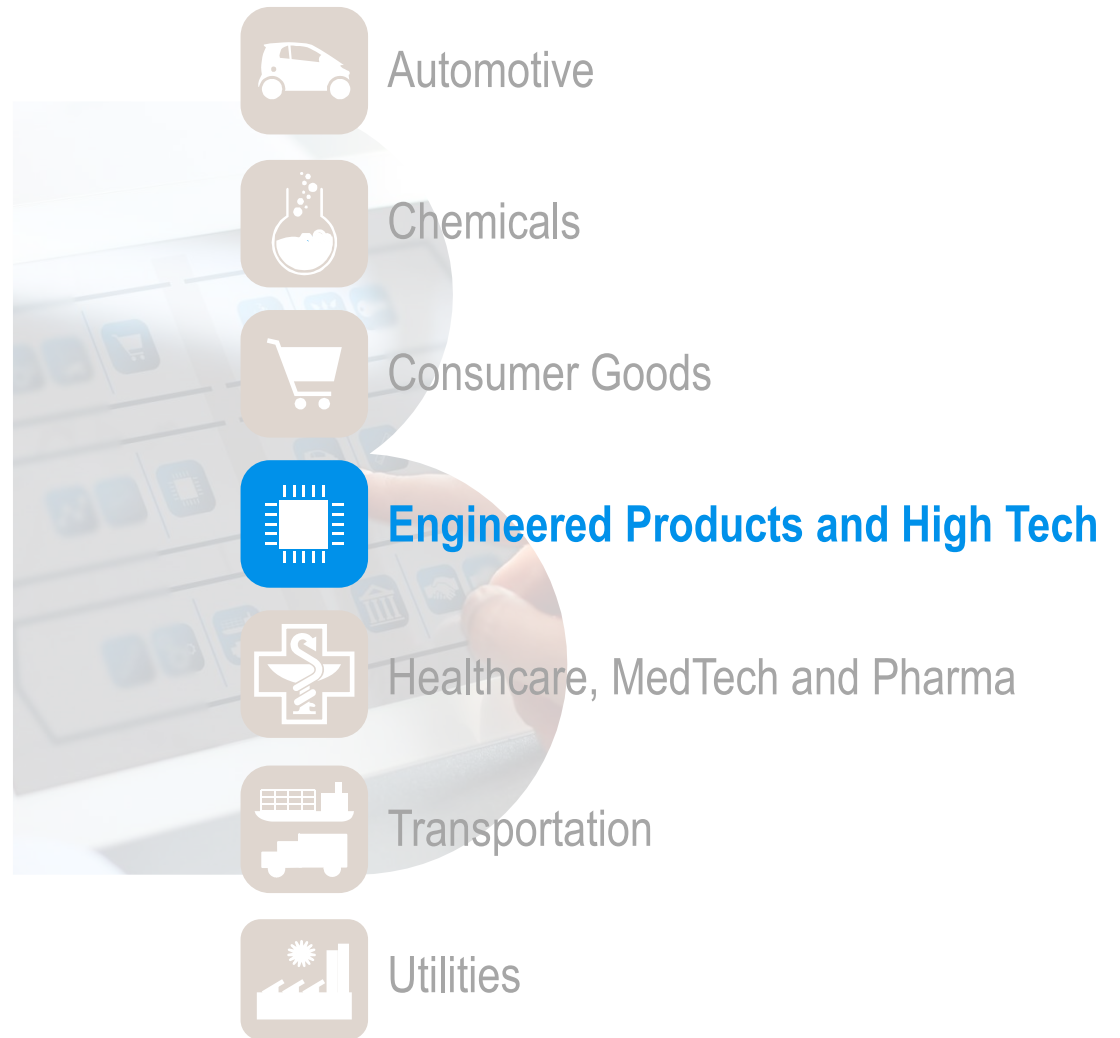
Our perspective on the results of the CPO Agenda – It is time to act!

Roland Berger perspective: CPO Agenda 2016, Consumer Goods



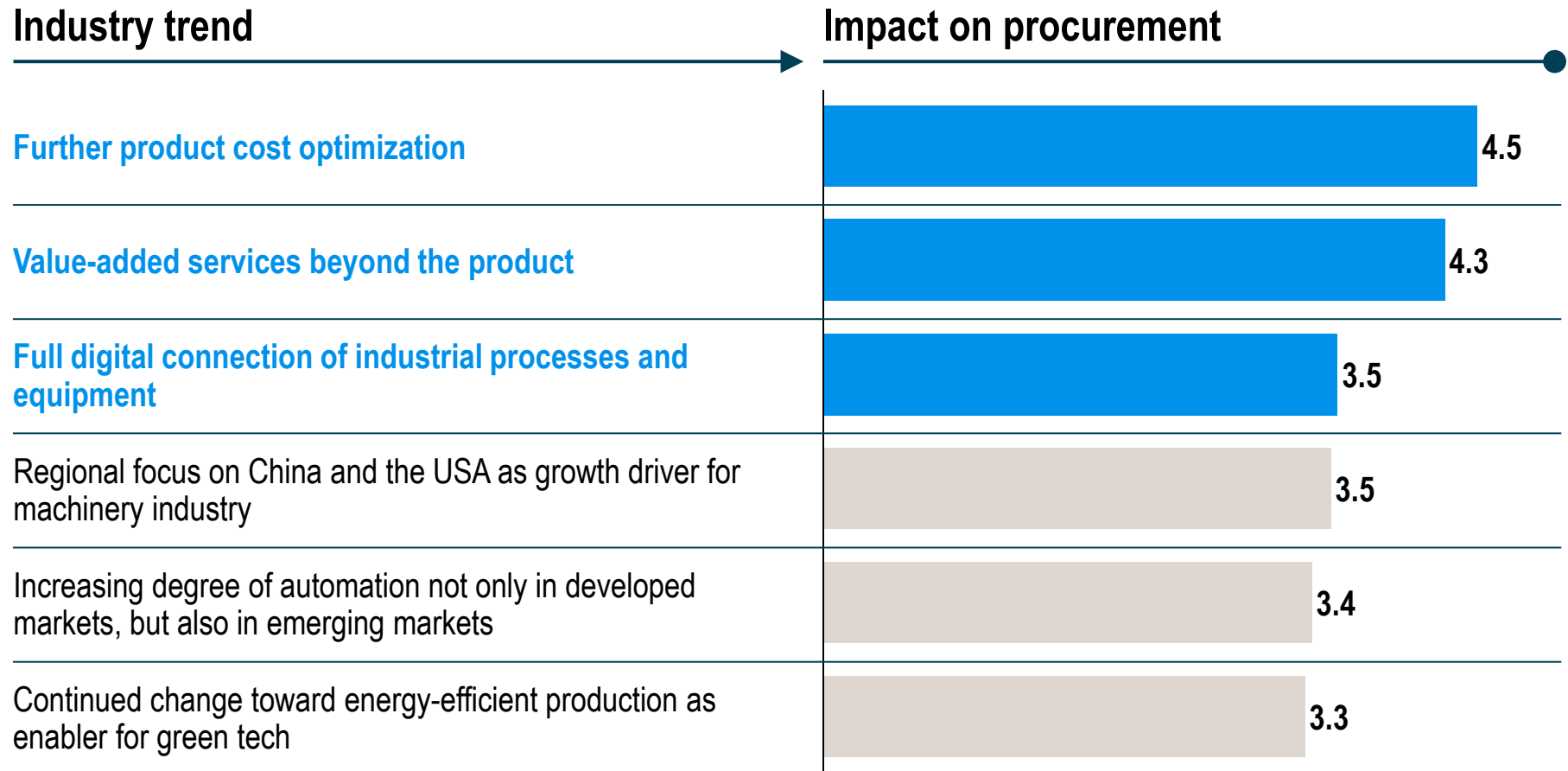
- **Focus and balance:** We were not surprised that four challenges ranked equally high in importance. From our own experience, managing volatility is a very important challenge for the extremely globalized Consumer Goods companies. However, the consumer needs to be the focus of all activities along the SC. Thus, it is no surprise that consumer-related challenges ranked high as well. Procurement in Consumer Goods needs to focus and to balance its resources wisely to manage the most important challenges efficiently and successfully.
- **"Must have" capability:** In our experience, leveraging digitization is highly important in the Consumer Goods industry. Thus, we expected the current and the future importance to be rated high. We are very surprised to see that CPOs rate the importance low and expect it to increase only marginally in the coming years. From our point of view, leveraging digitization is a "must have" capability in Consumer Goods – not only with regard to sales but also for procurement.
- **Accepted business partner:** Importance of "product value" decreased since 2014. By contrast, our experience indicates that "product value" and/or "frugal products" remain hot topics for Consumer Goods companies. Therefore, they provide a good opportunity for procurement to add value to the business and to increase internal standing as a valuable business partner
- **People matter – Even more:** Procurement has been struggling for some time with its capacity to catch up with business requirements. With digitization and the challenge of finding sustainable answers to volatility and quality etc., that challenge becomes even more severe

D. The CPO Agenda 2016 per industry





The three industry trends with highest procurement impact: Product cost optimization, value-added services and digitization



Three industry trends with the highest impact on procurement



Other trends

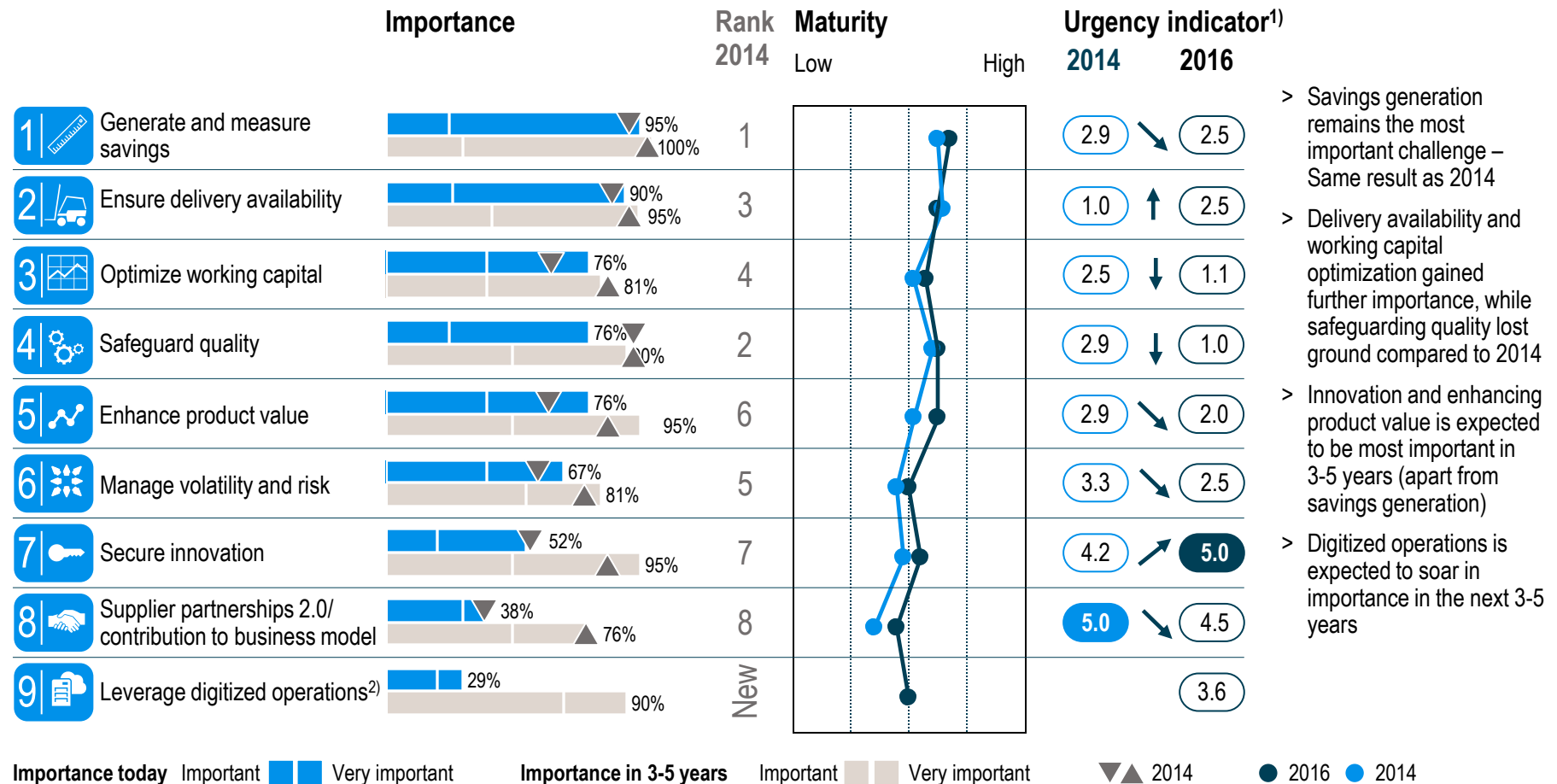
1 = Low impact of an industry trend on procurement

5 = High impact



Two most important CPO challenges relate to savings and delivery availability – In comparison to 2014, importance of quality reduced

CPO challenges ranked by importance



1) Weighted difference of importance today, importance in 3-5 years and maturity (1 = Least urgent, 5 = Most urgent) 2) New in 2016



The EPHT CPO Agenda 2016: Most urgent challenges & levers

EPHT trends with highest impact on procurement

- > Product cost: Further **product cost optimization**
- > Services: **Value-added services** beyond the product become even more key to meet market **requirements** and exploit business **opportunities**
- > Digitization: Full **digital connection** of industrial processes and equipment

Engineered Products and High Tech (EPHT) CPO Agenda 2016

(Three least implemented levers for the four most urgent challenges)



Secure innovation

(urgency indicator: 5.0)

- > Use suppliers to **actively push innovation**, e.g. through collaboration in the development phase
- > Understand **customer requirements** and include learnings in supplier/material decisions
- > Establish **supplier innovation awards**



Supplier partnerships 2.0

(4.5)

- > Launch continuous/regular **discussions** with strategic suppliers (existing & potential)
- > Develop approaches for extended **cooperation beyond supplier relationships**
- > Increase **impact of supplier management system** through things like external balanced scorecard, last call option, preferred treatment



Leverage digitized operations

(3.6)

- > Build digital **end-to-end data flows**, across functions (customer orders, drawings, material data, production quantities, stock levels, purchase orders, quality assurance, etc.)
- > Create **market transparency** for **Industry 4.0** solutions (equipment, software)
- > **Increase** degree of **automation** in procurement



Generate and measure savings

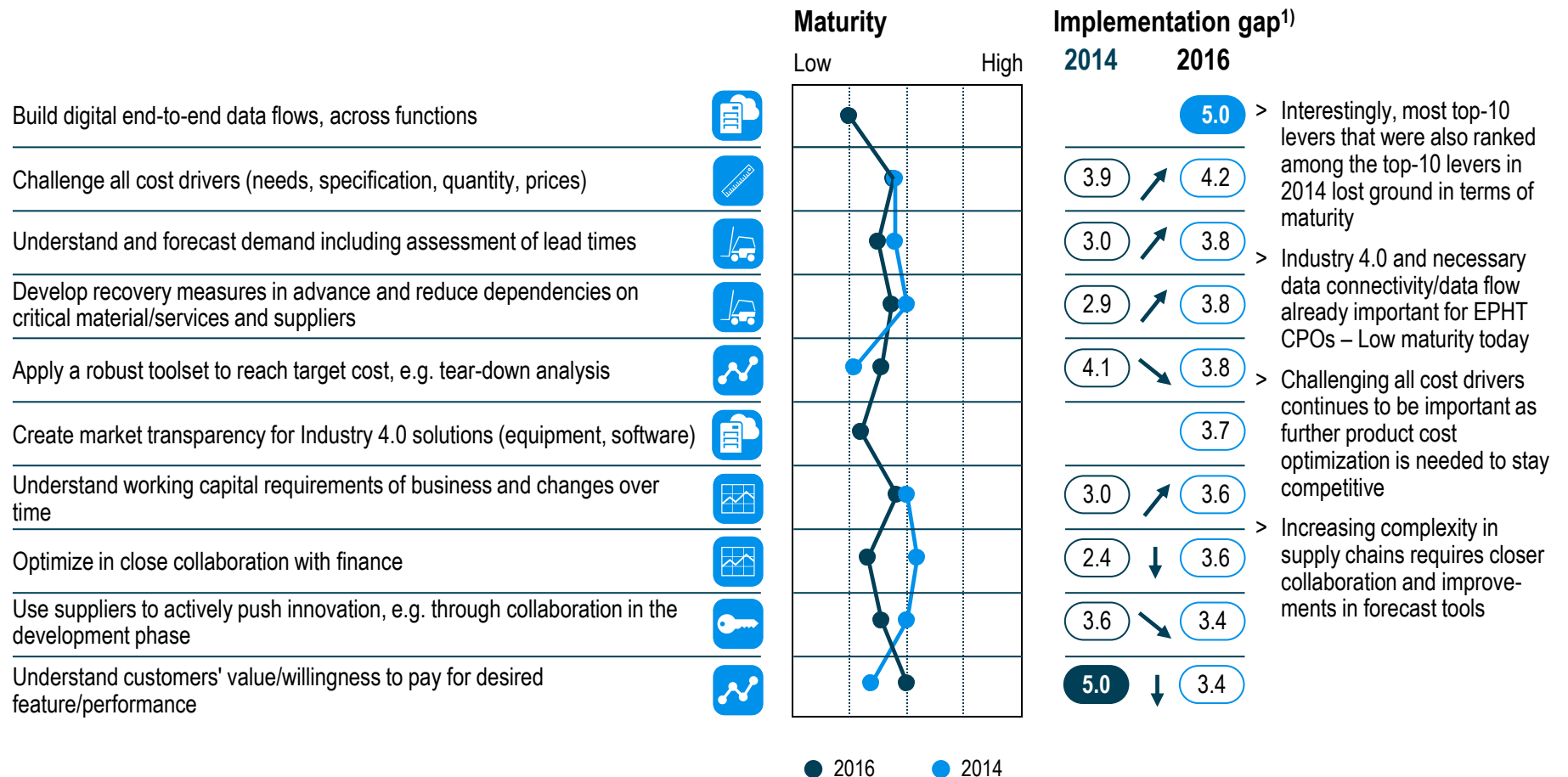
(2.5)

- > **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 scale including cost implications



The most important levers for CPOs are related to leveraging digitized operations and generating savings

Ten most important levers across all challenges ranked by urgency



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



Our perspective on the results of the CPO Agenda – It is time to act!

Roland Berger perspective: CPO Agenda 2016, Engineered Products and High Tech



- **A new perspective:** Generation of savings is still the most important challenge. However, our experience indicates that Engineered Product CPOs need to go beyond the "commodity perspective" and put much more focus on i) project procurement in close alignment with Engineering and ii) product value/cost optimization to reach the next level in terms of savings and internal business partner acceptance – After all, the business thinks in profit and product not savings and commodity
- **New frontier:** Leveraging digitization is not of high importance for Engineered Product CPOs yet, but will soar in the next 3-5 years – Procurement needs to reap the benefits in terms of savings but also in terms of agility, efficiency or innovation. In addition, digitization bears huge potential to add new value to internal business partners, thus potentially increasing the acceptance and credibility of procurement. Playing field for procurement involves collaboration with suppliers, internal business partners and also within the procurement organization itself
- **Finding answers – Finally:** Results on "innovation" and "supplier partnerships" are a big surprise and appear to be a classic "hot potato". Study results as well as our consulting experience indicate that procurement struggles to find sustainable answers. A breakthrough is required on aspects like alignment with business partners, target conflicts, KPIs and mindset
- **People matter – Even more:** Procurement has been struggling for some time with its capacity to catch up with business requirements. With digitization and the challenge of finding sustainable answers to supplier partnerships etc., that challenge becomes even more severe

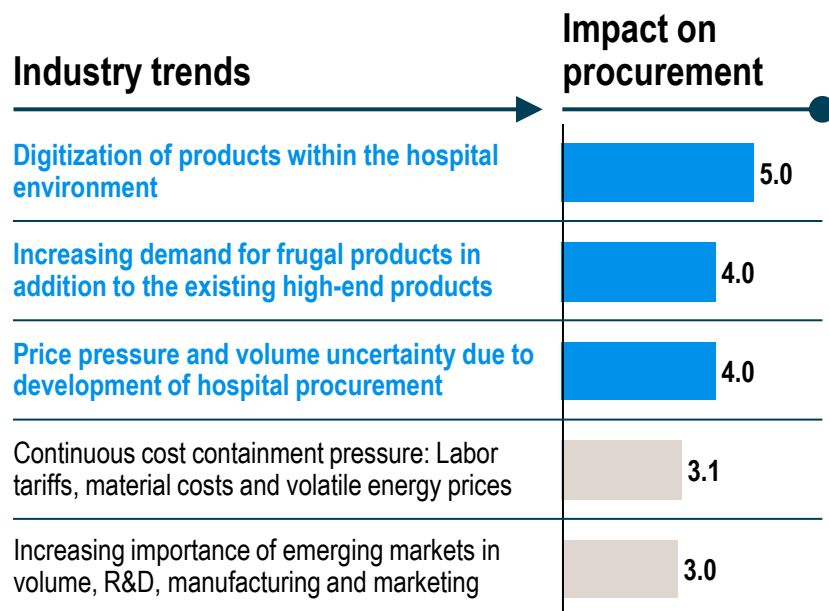
D. The CPO Agenda 2016 per industry



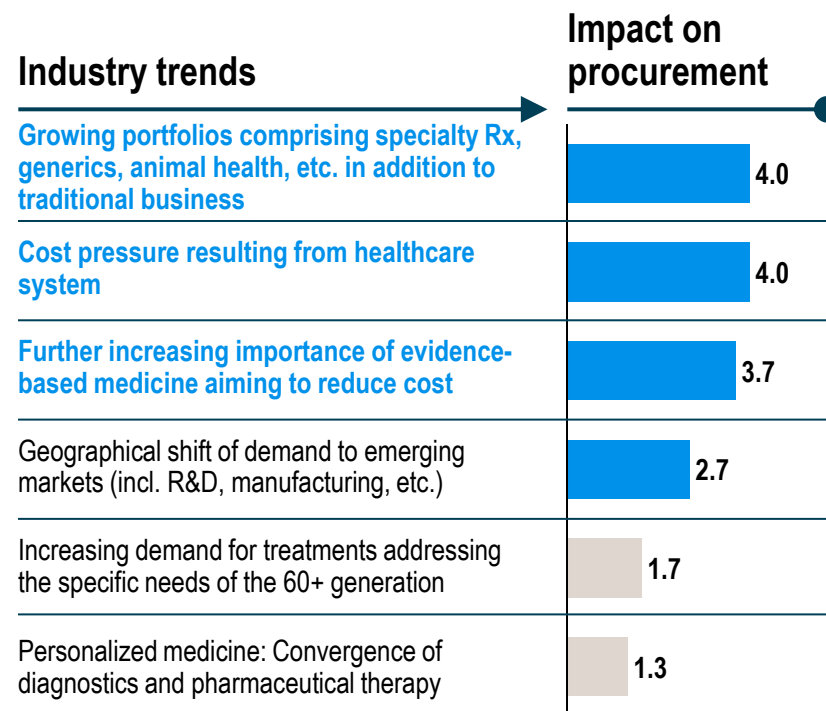


Industry trends with highest procurement impact: Digitization in Healthcare/MedTech and growing portfolios in Pharma

Healthcare and MedTech



Pharma



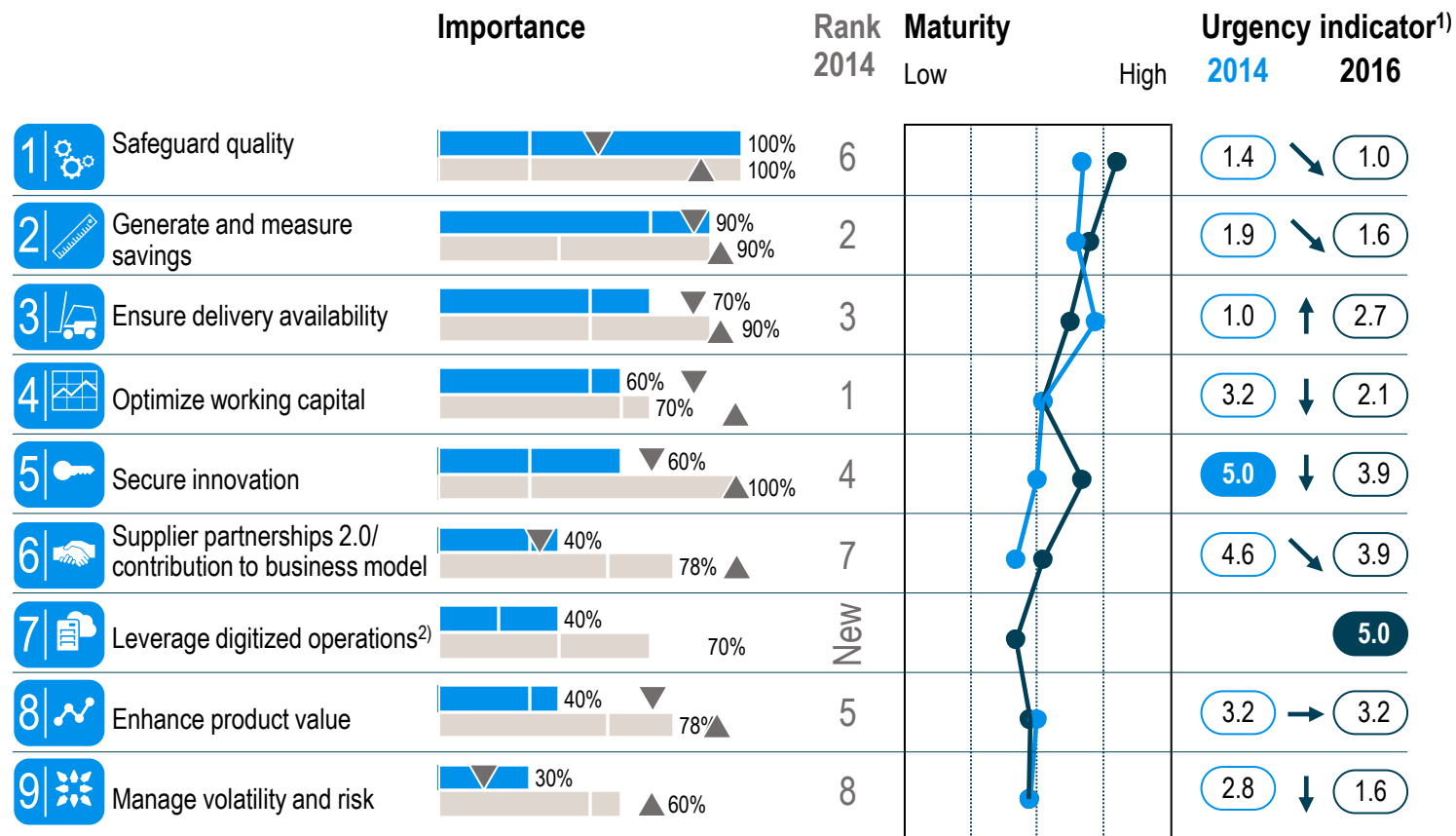
■ Three/four industry trends with the highest impact on procurement ■ Other trends

1 = Low impact of an industry trend on procurement 5 = High impact



The two most important challenges are safeguarding quality & generating savings – Importance of quality jumped from 6th to 1st rank

CPO challenges ranked by importance



- > Safeguarding quality jumped from 6th to 1st rank compared to 2014, maturity further increased
- > Optimizing working capital fell from 1st to 4th rank compared to 2014
- > Securing innovation is expected to soar in importance to 1st rank
- > Supplier partnerships, securing of innovation and management of volatility & risk is expected to significantly increase in importance in the next 3-5 years – Comparable to 2014
- > Digitized operations is expected to soar in importance in the next 3-5 years

Importance today Important ■ ■ Very important Importance in 3-5 years Important ■ ■ Very important ▼▲ 2014 ● 2016 ● 2014

1) Weighted difference of importance today, importance in 3-5 years and maturity (1 = Least urgent, 5 = Most urgent) 2) New in 2016



The Healthcare, MedTech and Pharma CPO Agenda 2016: Most urgent challenges & levers

Industry trends with highest impact on procurement (extr.)

Healthcare & MedTech





- > **Digitization**
Products need to be able to exchange data within the hospital infrastructure
- > Increasing **demand** for **frugal products**

Pharma

- > **Growing portfolios** (Rx, generics, animal health, ophthalmology and OTC)
- > Further increasing importance of **evidence-based medicine** aiming to reduce cost

Healthcare, MedTech and Pharma CPO Agenda 2016

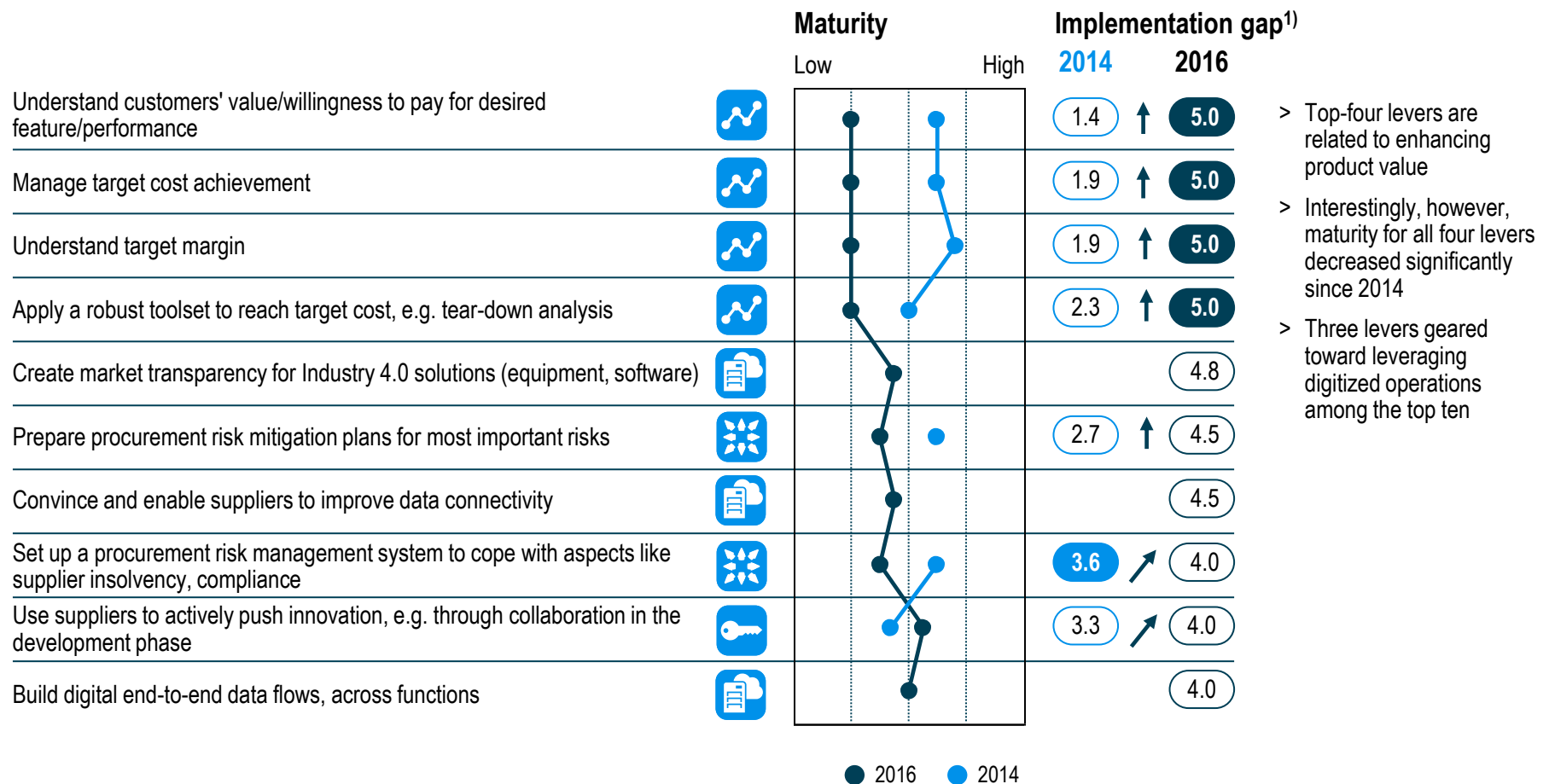
(Three least implemented levers for the four most urgent challenges)

 <p>Leverage digitized operations (urgency indicator: 5.0)</p> <ul style="list-style-type: none"> > Create market transparency for Industry 4.0 solutions > Convince and enable suppliers to improve data connectivity > Build digital end-to-end data flows, across functions 	 <p>Secure innovation (3.9)</p> <ul style="list-style-type: none"> > Use suppliers to actively push innovation, e.g. through collaboration in the development phase > Involve procurement in product development early on > Understand customer requirements and include learnings in supplier/material decisions
 <p>Supplier partnerships 2.0 (3.9)</p> <ul style="list-style-type: none"> > Develop approaches for extended cooperation beyond supplier relationships > Challenge level of vertical integration and own business model > Launch continuous/regular discussions with strategic suppliers (existing & potential) on the challenges, risks and potential win-win collaborations 	 <p>Enhance product value (3.2)</p> <ul style="list-style-type: none"> > Understand customers' value/willingness to pay for desired features/performance > Manage target cost achievement > Understand target margin



Across all challenges, the most urgent levers include understanding customers' willingness to pay and managing target costs

Ten most important levers across all challenges ranked by urgency



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



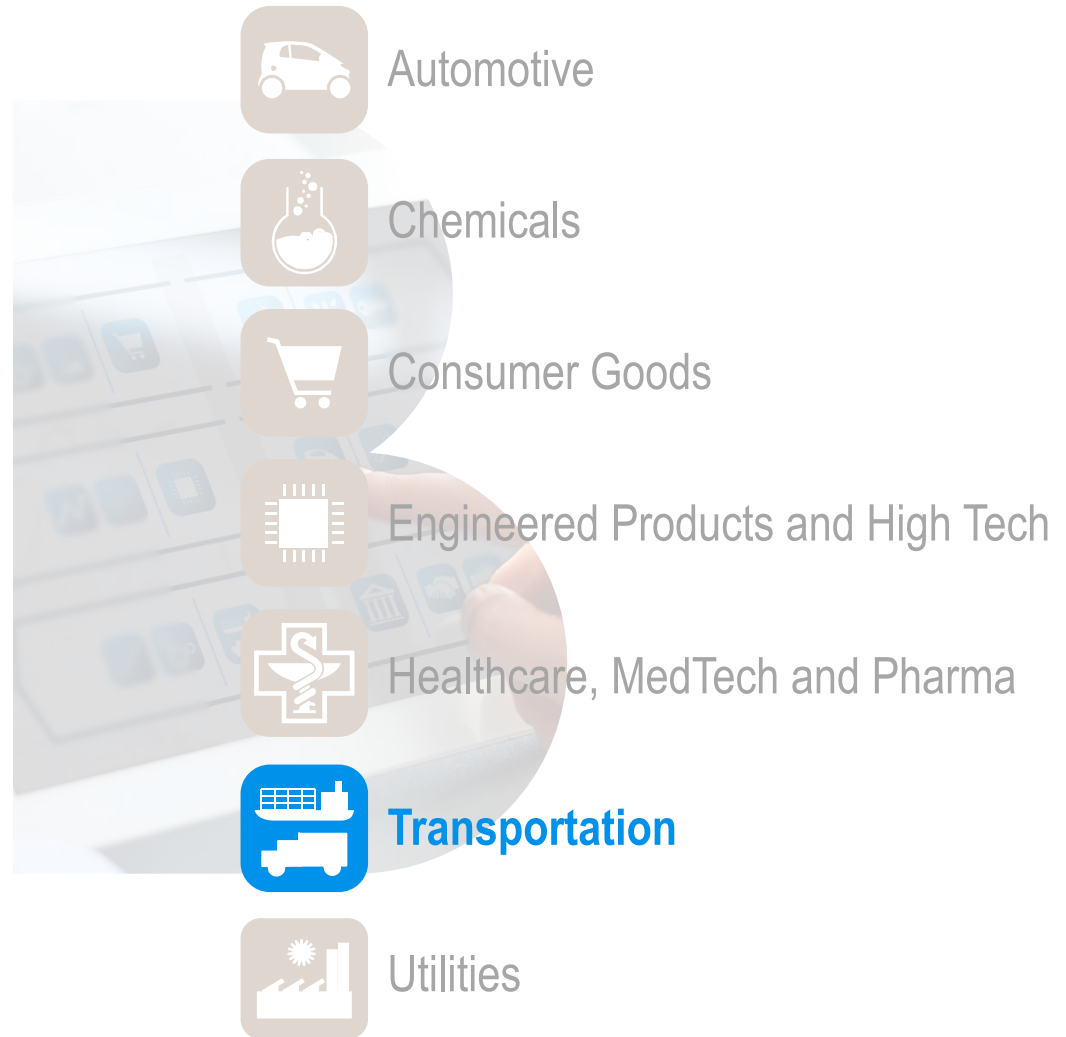
Our perspective on the results of the CPO Agenda – It is time to act!

Roland Berger perspective: CPO Agenda 2016, Healthcare, MedTech and Pharma



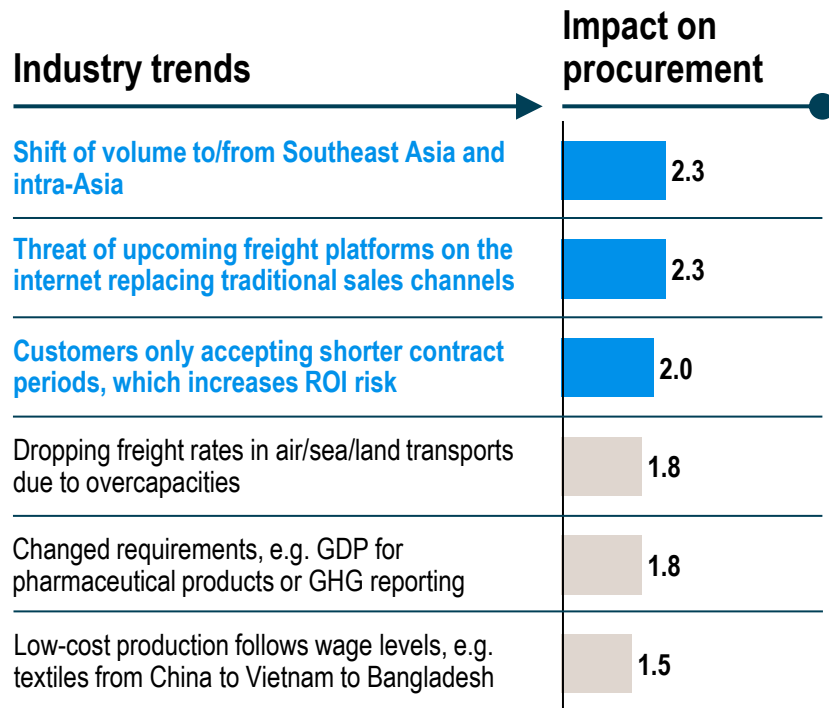
- **New challenge:** Securing innovation is expected to soar to the number one challenge in 3-5 years. This requires procurement to go new ways (e.g. in terms of cooperation/task split with R&D) and also find new, sustainable collaboration models with suppliers. Our consulting experience indicates that procurement still struggles to find sustainable answers. A breakthrough is required on aspects like alignment with business partners, target conflicts, KPIs and mindset
- **New frontier:** Leveraging digitization is not of that high importance for Healthcare, MedTech and Pharma CPOs yet, but will soar in the next 3-5 years – Procurement needs to reap the benefits in terms of savings but also in terms of agility, efficiency or innovation. In addition, digitization bears huge potential to add new value to internal business partners, thus potentially increasing the acceptance and credibility of procurement. Playing field for procurement involves collaboration with suppliers, internal business partners and also within the procurement organization itself
- **Accepted business partner:** Importance of "product value" decreased since 2014. By contrast, our consulting experience indicates that "product value" and/or "frugal products" remain hot topics in MedTech and thus provide a good opportunity for procurement to add value to the business and thus to increase internal standing as a valuable business partner
- **People matter – Even more:** Procurement has been struggling for some time with its capacity to catch up with business requirements. With digitization and the challenge of finding sustainable answers to supplier partnerships etc., that challenge becomes even more severe

D. The CPO Agenda 2016 per industry

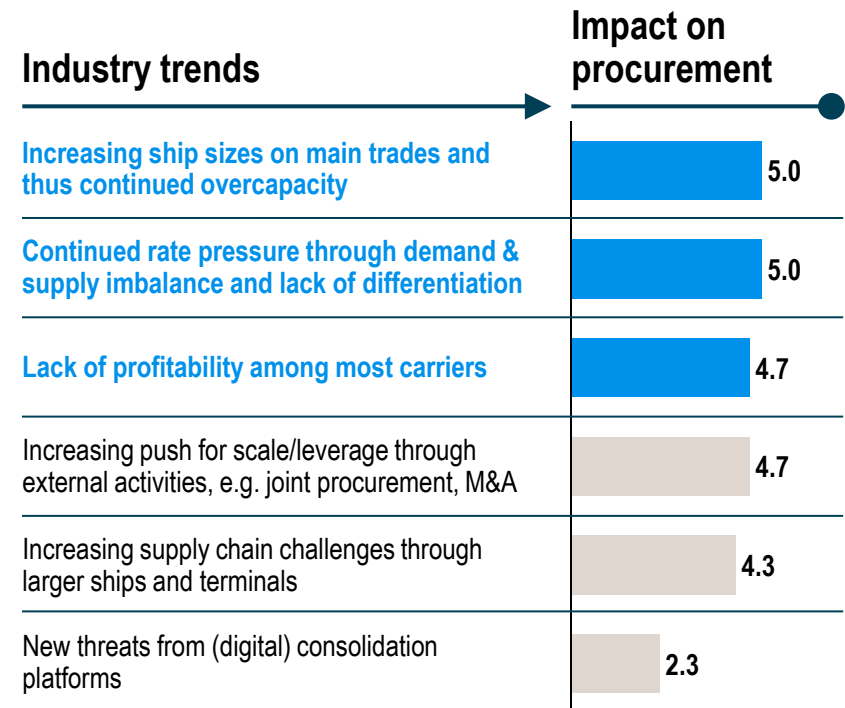


Industry trends with highest procurement impact: Shift of volume to Asia, increasing ship sizes and rate pressure (1/2)

Logistics service providers



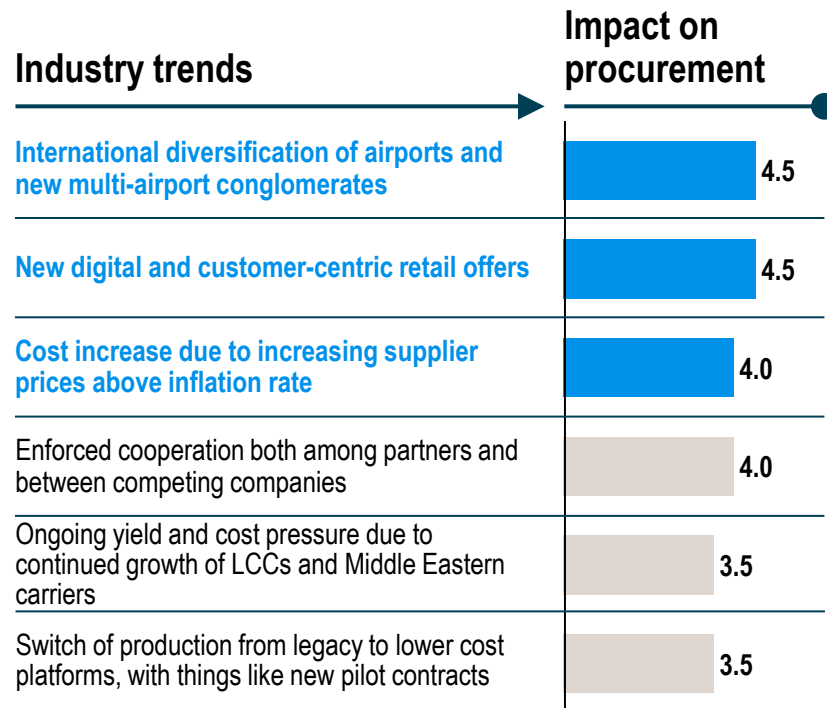
Shipping companies



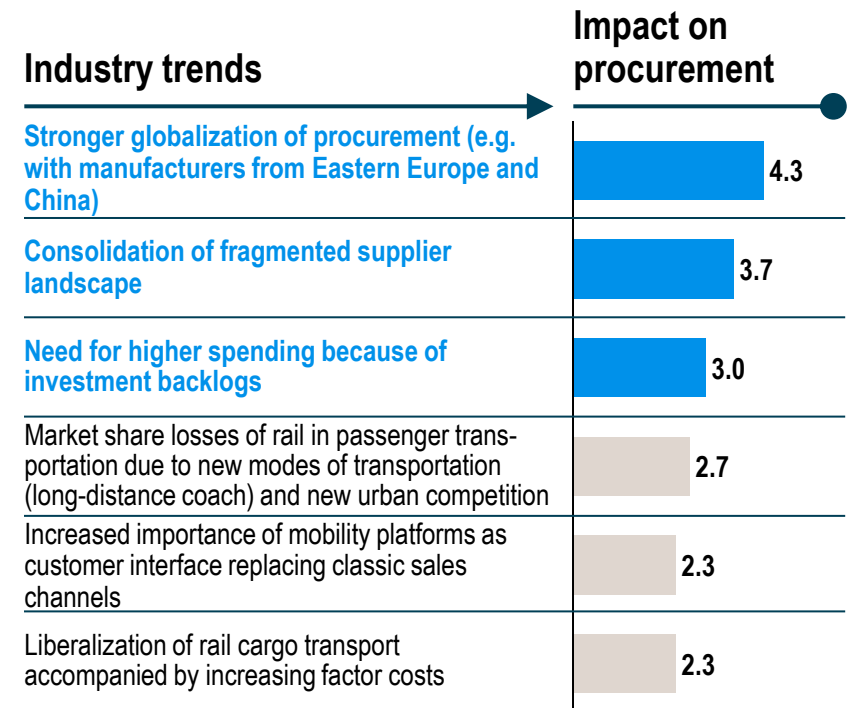
■ Three industry trends with the highest impact on procurement
 ■ Other trends
 1 = Low impact of an industry trend on procurement
 5 = High impact

Industry trends with highest procurement impact: Diversification, digitization and globalization (2/2)

Airlines & airports



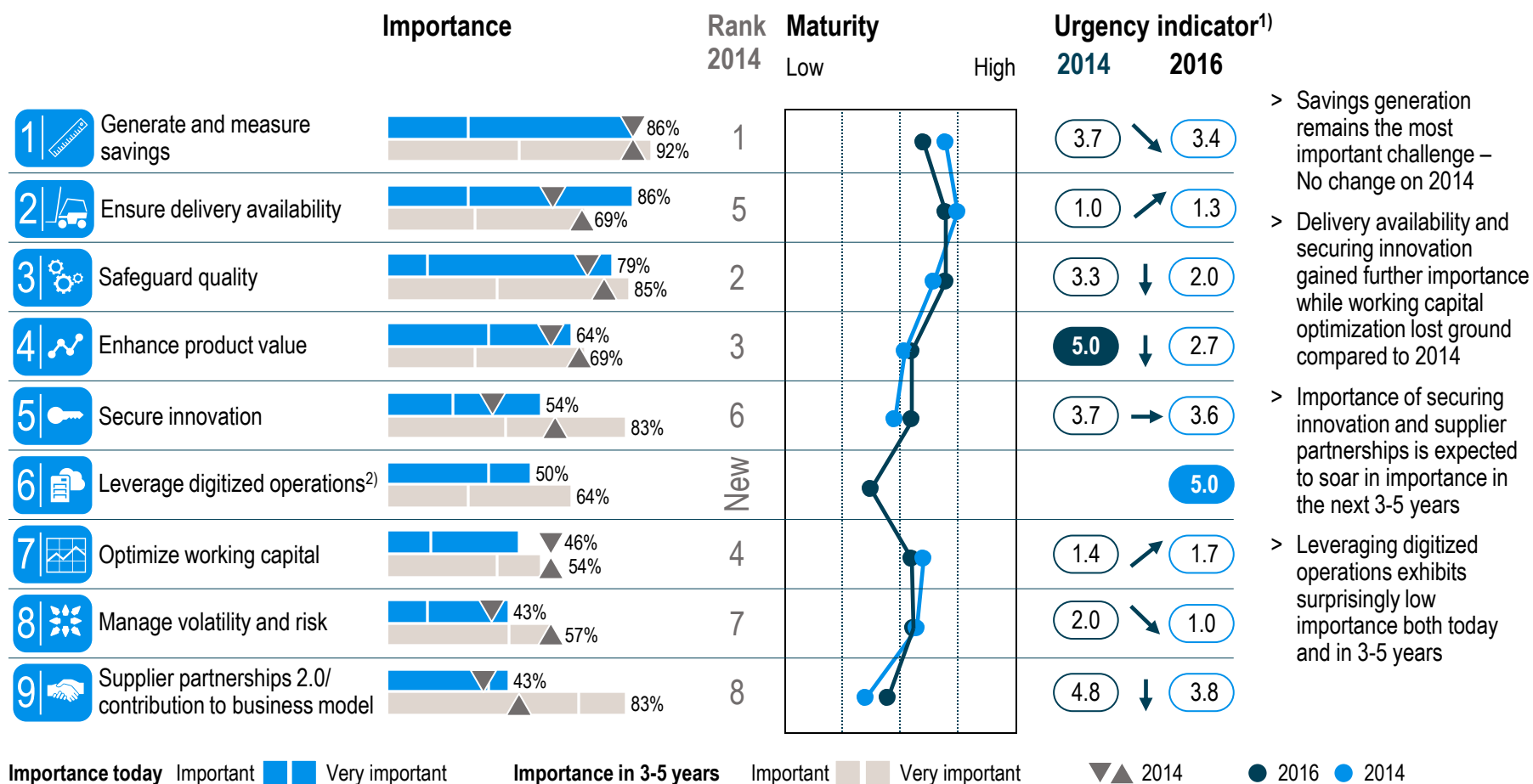
Rail & mobility



■ Three industry trends with the highest impact on procurement
 ■ Other trends
 1 = Low impact of an industry trend on procurement
 5 = High impact

Savings generation is the most important challenge for CPOs – Compared to 2014, delivery availability soared, now ranking second

CPO challenges ranked by importance



1) Weighted difference of importance today, importance in 3-5 years and maturity (1 = Least urgent, 5 = Most urgent) 2) New in 2016

The Transportation CPO Agenda 2016: "Leverage digitized operations" immediately among most urgent challenges & levers

Transportation trends with highest impact on procurement (extr.)

Logistics service providers

- > Shift of volume to/from Southeast Asia and intra-Asia

Shipping companies

- > Increasing ship sizes on main trades and thus continued overcapacity

Airlines & airports

- > International diversification and increased cost pressure

Rail & mobility

- > Stronger globalization of procurement

Transportation CPO Agenda 2016

(Three least implemented levers for the four most urgent challenges)



Leverage digitized operations

(urgency indicator: 5.0)

- > Build digital **end-to-end data flows**, across functions
- > Increase **degree of automation** in procurement (e.g. autonomous **ordering**)
- > Manage demand based on **increased transparency** (order bundling, spot price comparison)



Supplier partnerships 2.0

(3.8)

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



Secure innovation

(3.6)

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



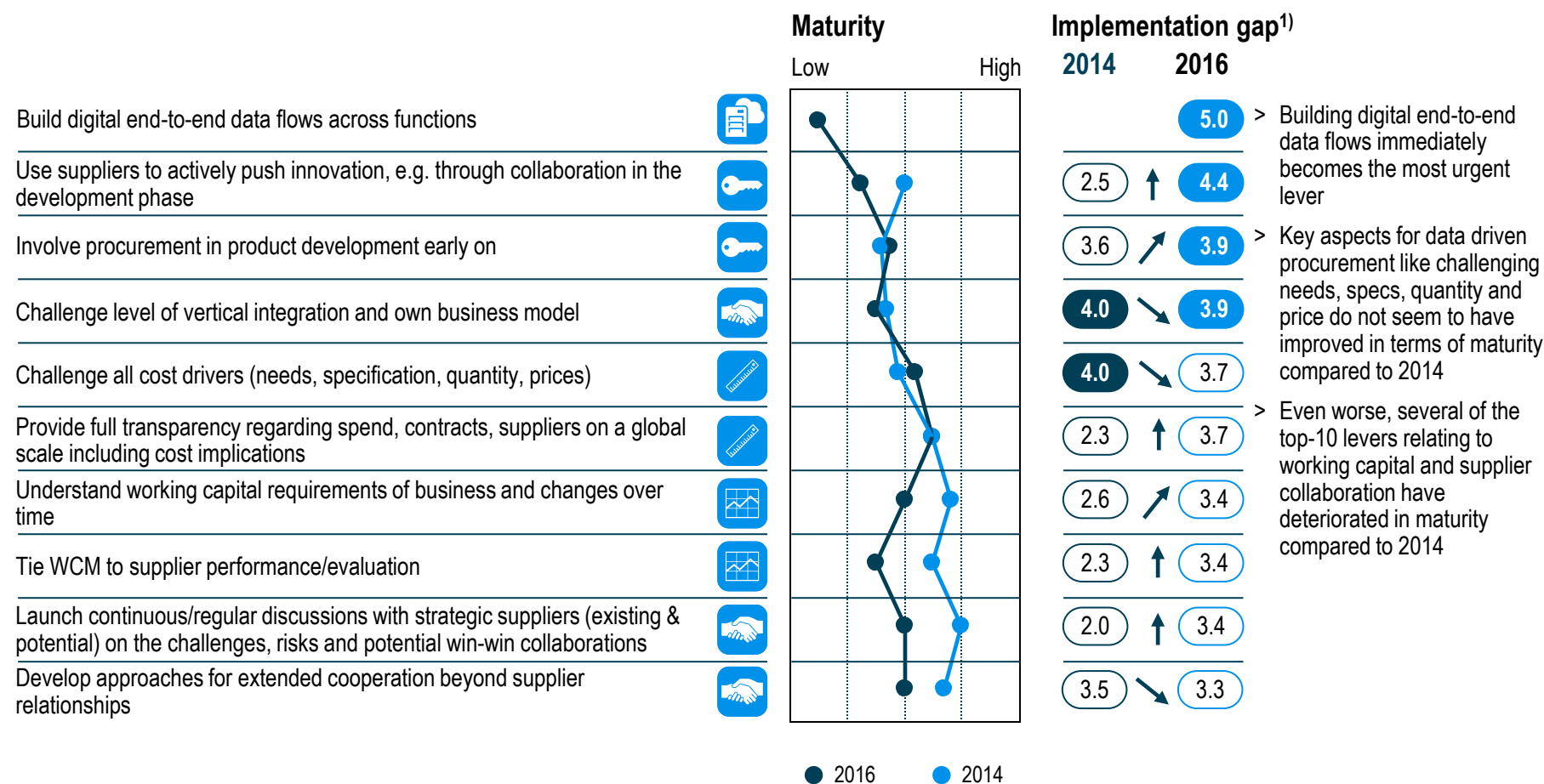
Generate and measure savings

(3.4)

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

Across all challenges, the most urgent levers include building digital end-to-end data flow and pushing innovations through suppliers

Ten most important levers across all challenges ranked by urgency



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

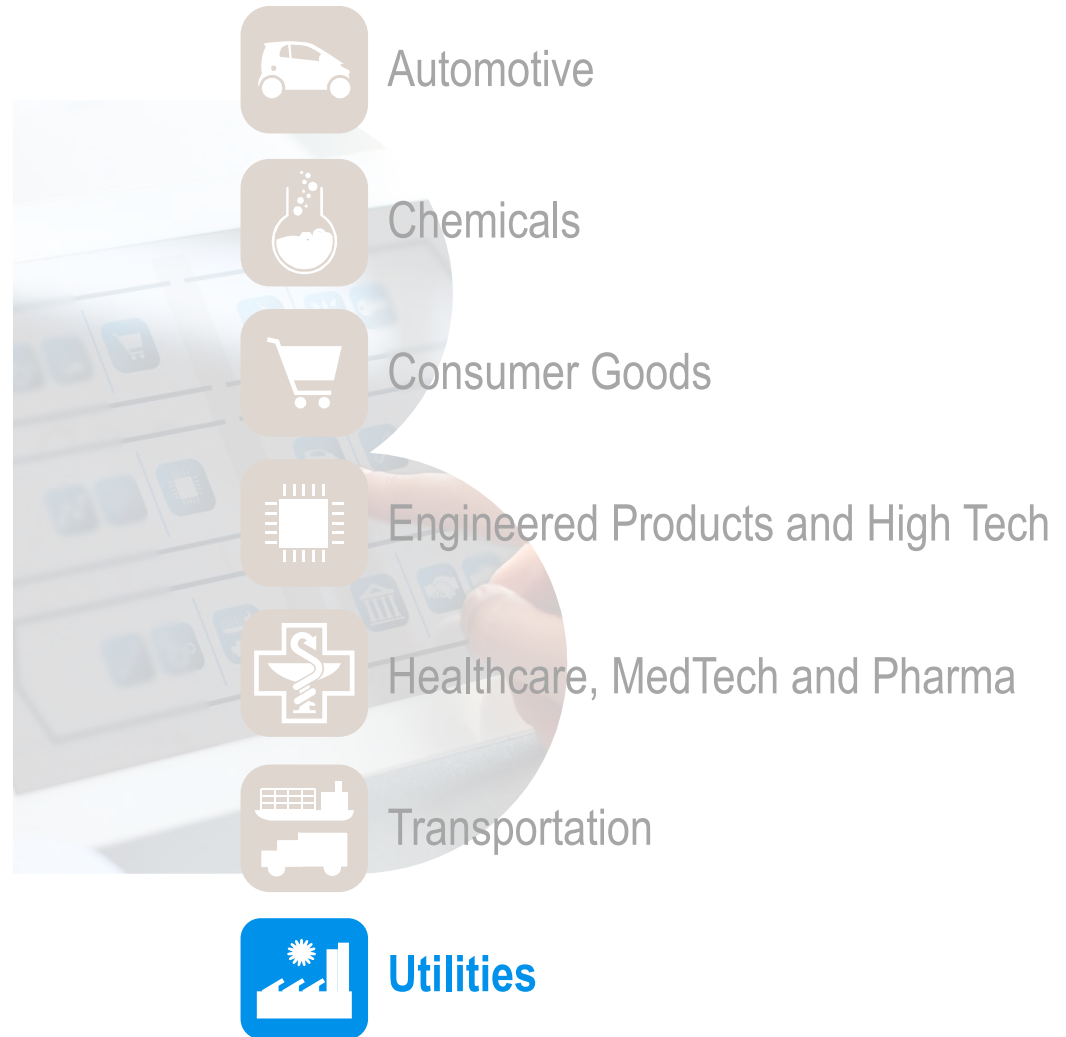
Our perspective on the results of the CPO Agenda – It is time to act!

Roland Berger perspective: CPO Agenda 2016, Transportation

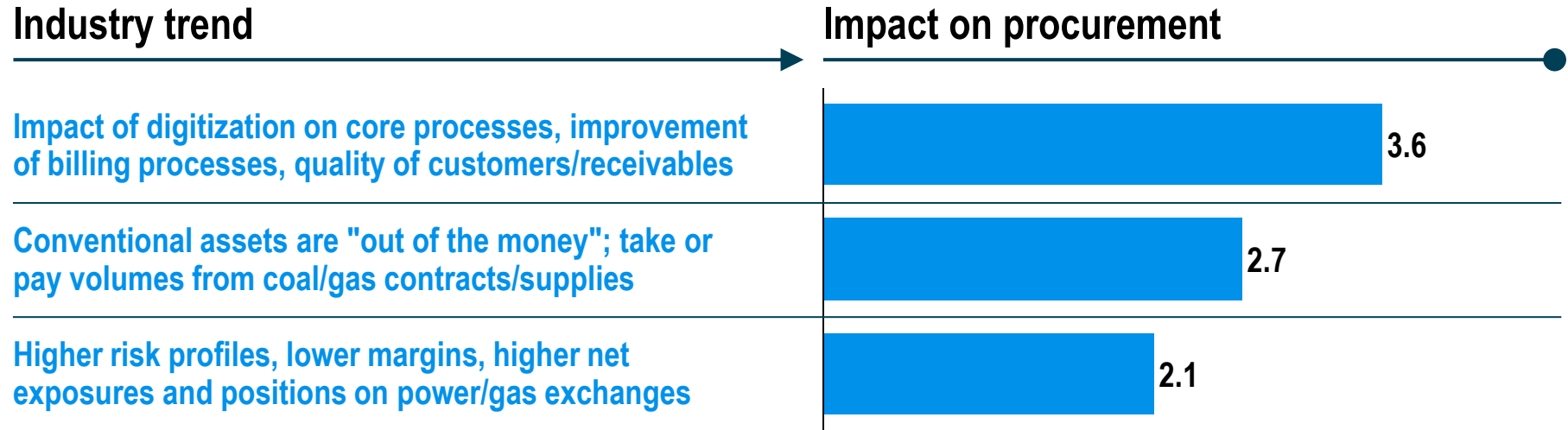




- **Best-practice:** Generation of savings is still the most important challenge and maturity is considered relatively high by industry respondents. Our experience indicates, though, that compared to best practices across industries, procurement in Transportation (at least some segments) often has significant room for improvement. Potential typically exists i) in a much more data driven and stringent procurement approach challenging needs, specs, quantity and (not only) price, ii) in systematic collaboration across functions & suppliers, and iii) in a more efficient and agile procurement organization
- **"Must have" capability:** Leveraging digitization is of great importance in the Transportation industry overall. So we expected the current importance to be rated fairly high compared to other industries. However, we are very surprised to see that CPOs expect the importance to increase only marginally in the next 3-5 years. From our point of view, leveraging digitization is a "must have" capability for procurement in Transportation, simply because the business requires it
- **People matter – Even more:** Procurement has been struggling for some time with its capacity to catch up with business requirements. Therefore, a clear plan for the way forward is required to catch up and establish the basis to meet increasing requirements from digitization etc.

D. The CPO Agenda 2016 per industry



Utilities as new industry in 2016: Process improvements building on a digitized value chain exhibit a significant impact on procurement



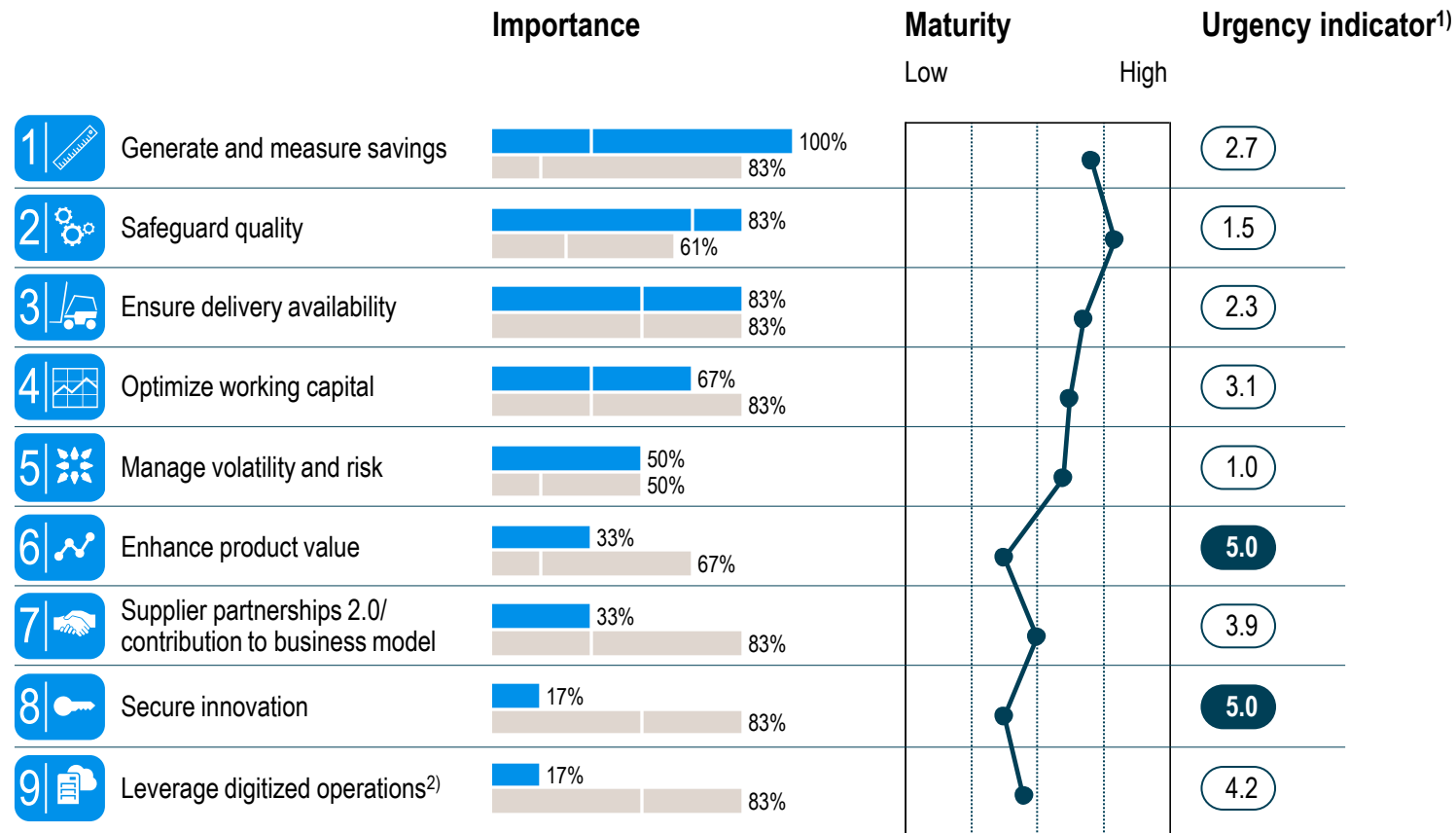
 Three industry trends with the highest impact on procurement  Other trends

1 = Low impact of an industry trend on procurement 5 = High impact





1) New in 2016

The two most important challenges for Utilities CPOs are generating savings and safeguarding quality

CPO challenges ranked by importance



- > Utilities added in 2016 edition of the CPO Agenda
- > Savings generation and quality are top priorities, however supplier partnership, innovation and the leveraging of an increasingly digitized value chain considered equally important in 3-5 years
- > Diverse set of priorities for next 3-5 years – many challenges considered to be equally high on the agenda
- > However, product value management, innovation and digitization are coupled with highest urgency to act

Importance today Important   Very important Importance in 3-5 years Important   Very important ▼▲ 2014

● 2016 ● 2014

1) Weighted difference of importance today, importance in 3-5 years and maturity (1 = Least urgent, 5 = Most urgent) 2) New in 2016





The Utilities CPO Agenda 2016: Most urgent challenges & levers

Utilities trends with highest impact on procurement

- > Increasing **impact of digitization** on core processes, billing processes and customer quality
- > New challenges in energy supply as **conventional assets** are "out of the money"; take or pay volumes from coal/gas contracts/supplies
- > **Higher risk** in energy trading: Lower margins, higher net exposures and positions on power/gas exchanges

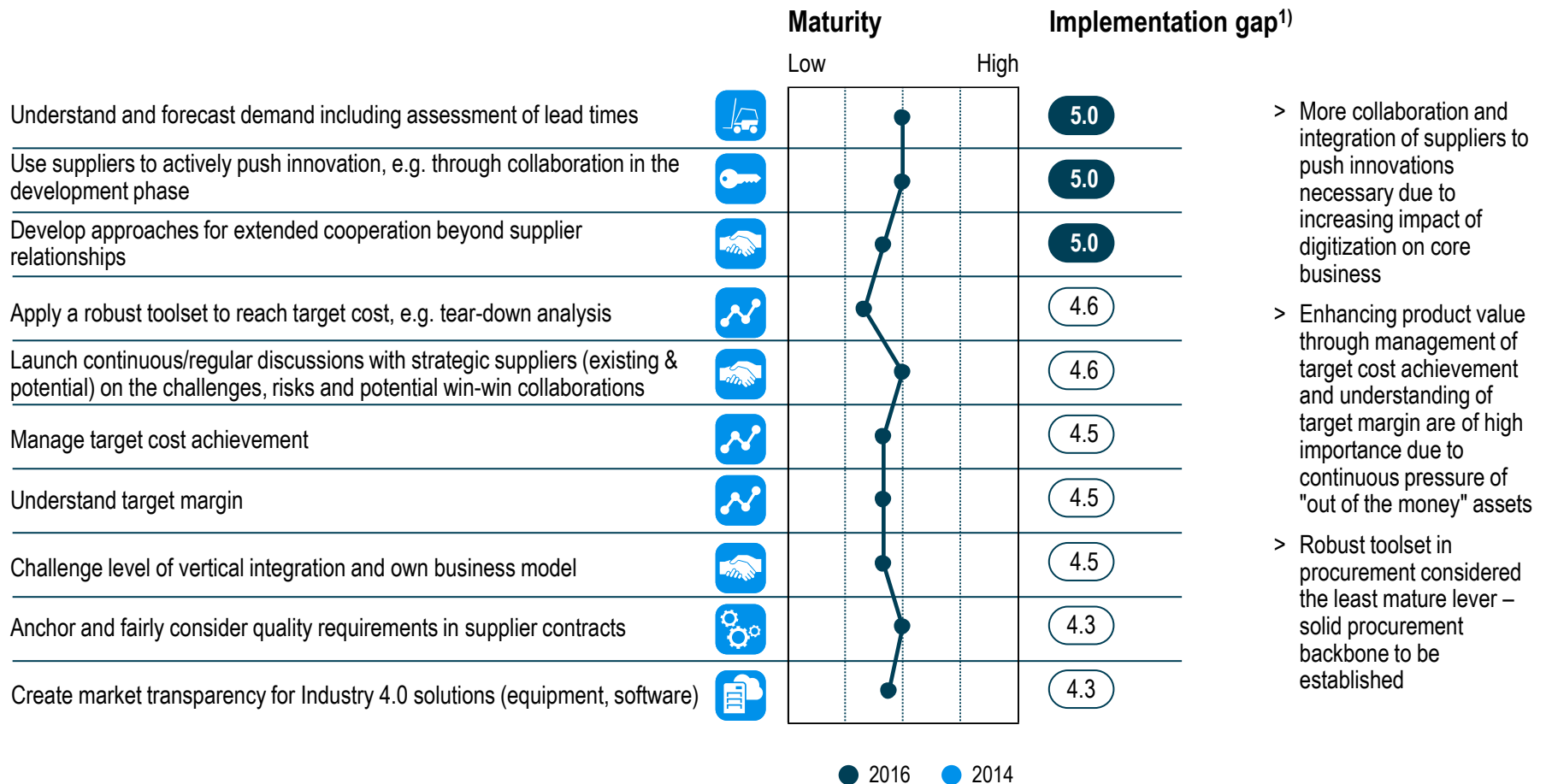
Utilities CPO Agenda 2016

(Three least implemented levers for the four most urgent challenges)

 <p>Enhance product value (urgency indicator: 5.0)</p> <ul style="list-style-type: none"> > Apply a robust toolset to reach target cost, e.g. tear-down analysis > Manage target cost achievement > Understand target margin 	 <p>Secure innovation (5.0)</p> <ul style="list-style-type: none"> > Use suppliers to actively push innovation, e.g. through collaboration in the development phase > Establish supplier innovation awards > Involve procurement in product development early on
 <p>Leverage digitized operations (4.2)</p> <ul style="list-style-type: none"> > Create market transparency for Industry 4.0 solutions (equipment, software) > Manage demand based on increased transparency (order bundling, spot price comparison) > Convince and enable suppliers to improve data connectivity 	 <p>Supplier partnerships 2.0 (3.9)</p> <ul style="list-style-type: none"> > Develop approaches for extended cooperation beyond supplier relationships > Launch continuous/regular discussions with strategic suppliers (existing & potential) on the challenges, risks and potential win-win collaborations > Challenge level of vertical integration and own business model

Across all challenges, the most urgent levers include understanding demand and using suppliers to push innovation

Ten most important levers across all challenges ranked by urgency



1) Weighted difference of importance today minus maturity (1 = Most implemented, 5 = Least implemented) 2) New in 2016

Our perspective on the results of the CPO Agenda – It is time to act!

Roland Berger perspective: CPO Agenda 2016, Utilities



- **Settling after the storm:** Business models in Utilities stabilizing after the significant impact of the "Energiewende" and major changes in regulatory framework for energy-related business and significant consolidation – increasingly stable environment to act in for procurement in energy-related business.
- **Digitization is a reality:** Digitization as a major strategic trend in Utilities is also reflected in procurement. However, need for action is perceived to be low at the moment, increasing dramatically only in the next 3-5 years. Beware of lagging behind in this regard – dynamics are high, options to reap are plentiful in terms of savings, agility, procurement efficiency or innovation in contracts and pricing schemes. In addition, digitization bears huge potential to add new value to internal business partners, thus potentially increasing the acceptance and credibility of procurement.
- **Robust backbone:** In Utilities, procurement often has not developed a toolset as broad and sophisticated as in other industries – partly due to the fact that often small utilities did not have the capacity (or need) to do so. However, consolidation is creating larger organizations that now have critical mass to leverage a robust methodological backbone.
- **Leverage procurement value add:** Procurement has not been as high on the agenda as a source of product value management and product innovation as in other industries. Yet fundamental changes in business models and consolidation should embrace this opportunity.

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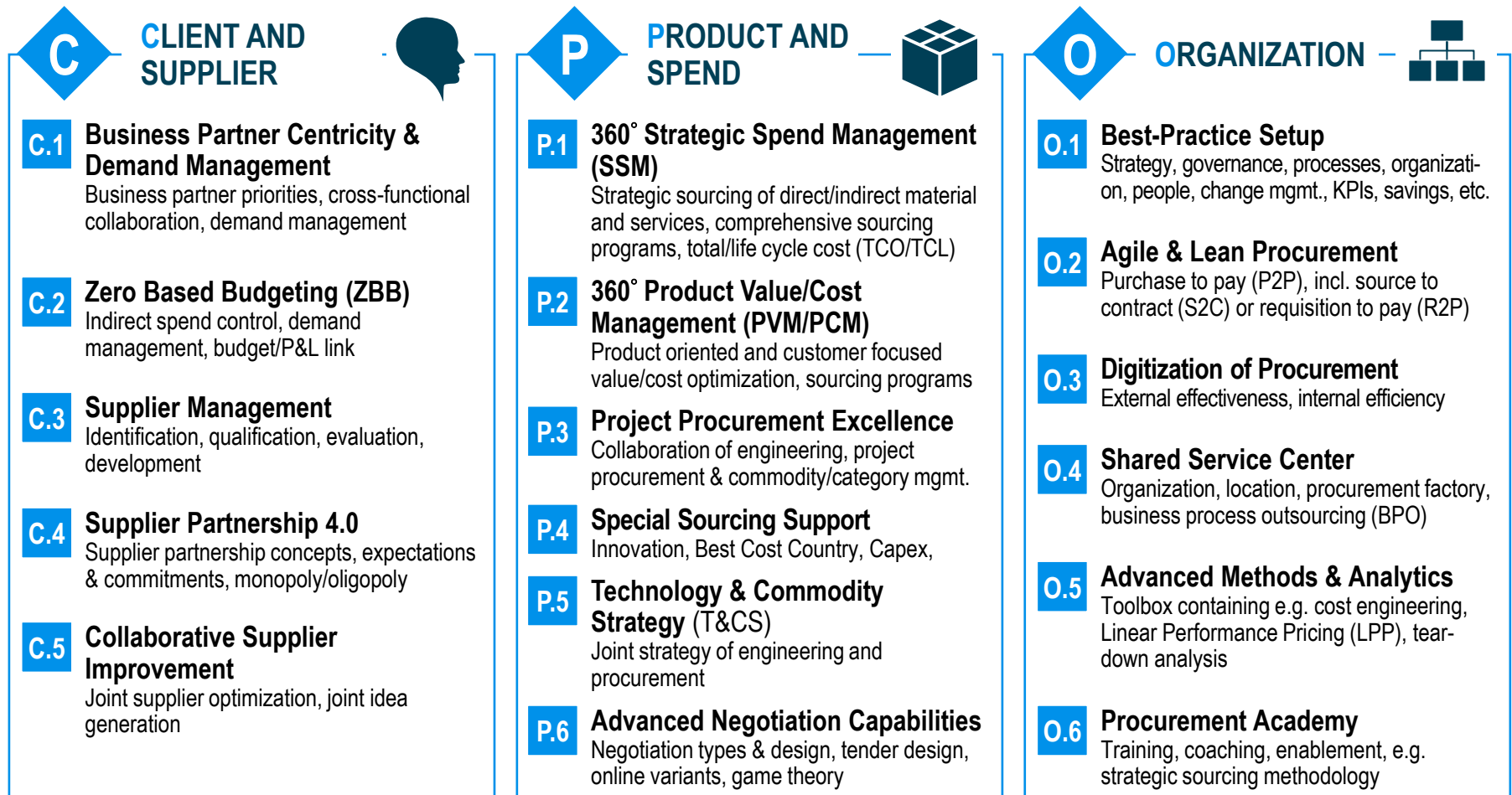
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International Contributions

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