

Thank you Eric, for having these speakers here this evening at the Financial Service Club.

As Eric said, I am a complete outsider to your field. I grew up in the world of procurement and I worked for companies like Procter & Gamble and for the last 8 years, for ATK.

I typically work with the Chief Procurement Officer, you might have seen the title often already, the CPO's, these are the guys who run the procurement department and probably they are not really at arm length with you. They are a little bit further down the usual supply chain. So I will tell you about how procurement looks at the financial supply chain. At this moment, I am in new a territory; you will have much more knowledge than I have.

Let me quickly introduce ATK, I don't know whether you are all familiar with ATK. There was once a man called McKinsey, he and Mr. Kearney were partners, until they split. Both of them are still in the market and both of them are doing successful businesses. So we have about 50 offices and over 2500 consultants, and from the right hand side, you can see the areas that we are working in, like financial services , or automotive and many more service practices. We made about 750Mio. USD in 2007.

In procurement, we are the leader. Worldwide.

And it started about in 1990' when we were working with General Motors and a couple of famous names there, when we created what is now called strategic sourcing and global sourcing. We developed the 7 steps methodology which is adopted by actually several of your companies, because we worked with several of your companies worldwide. We created the sourcing Gemstone which shows the key leaders from how to extract value from their supply chain. We created the House of purchasing which I will introduce to you later. And our most recent development is the purchasing chessboard, which basically has 64 different strategies how to meet the challenges that you may have in procurement.

The slide on the right hand side shows we sourced about 400 billion USD in our last 20 years. As I said, we are probably the market leader. We know we are the market leader. Something interesting that we do every couple of years and that is, we go out to the market and do a major survey. And when I say major it is painfully true. It takes a full day to fill in the questionnaire online. One full day. Its not many companies you expect would be willing, CPOs who are willing to spend one of their 227 working days into filling that survey. Actually, this year, initially we already have 295 companies who filled in the questionnaire and these are the major players around the world. And since we published the first set of results, we now have more and more companies, roughly around 444, and growing.

Now what we do here is, we look at what best practice in procurement, who are the leaders who are in, and who are the followers. The framework we are using is the House

of Procurement. Let me quickly introduce it to you: You have 8 dimensions in the House of Procurement. You start at the top which is supply chain management strategy. There you check, is the supply management strategy in sync with the business strategy. That is one of the key questions.

Organizational Alignments: How are you aligned internally: with your other functions, your manufacturing, with finance. How are you linked to outside functions?

And in the middle, you have a row of three elements, three components.

These are definitely the sourcing aspects. There is category management, this is where the supplier relationship is situated, so how well am I aligned with the supplier, will you bang them over the head every year or do you extract other values. And here is all the transaction side. What is performance management, do you know where you are, what your current dashboard situation is. Knowledge and information management, i.e. do you have real time information. And the human resources management, do you have the right resources. In 2008, we have made a couple of very interesting insights and there the CPO takes that on board.

Traditionally, I take as an example on Procter & Gamble: If I would in 1987 have gone to the head of marketing and would have said, give me your suppliers, I want to negotiate better prices with them, he would have told me there to go. Nowadays, companies, where marketing is not purchased by procurement, are the followers. So the world has changed.

Also at the middle section, we are not looking simply at sourcing, we are looking out at dynamically value creation strategies that means to going over and beyond sourcing. Having new ways of collaborating with suppliers, creating networks, extended networks, where you and the suppliers will interact.

For example, winning the war for talents. That's a difficult one for you, that's a difficult one for us as well. So these are some of insights from the 2008 AEP version. And there are the topics we are talking today, in the supplier relationship management what can I do when I interact with my suppliers. What can I offer my supplier in order to get additional value?

Because, let us be honest, these days, I work a lot in the brewing industry and whoever plans a barbecue this year, I advise you to buy your beer early, because we will have a worldwide shortage of crops and more. So the brewers did not make enough beer. So if you have been not very nice to me two years ago, I may not be nice to you now.

So supplier relationship management, in that financial supply chain, is something that helps you.

That is what we are talking about today. And if you have any questions, let me know. You have changing patterns, dramatically changed patterns of relationships between

suppliers and manufacturers. You know solar energy, we all talked about it. We all know there is a shortage of silica; we all know that by 2011, there will be a surplus. So what do you do now, that you know that in 3 years time, there will be a surplus? You can take advantage of the surplus in the marketplace. That is just one example of findings in the study. Let's pick out one page. We talked about collaboration of buyers and suppliers.

And it turns out that only 6% of the companies have collaborated relationships with their suppliers. That is very, very little. However, of the leaders, that we have identified, 70% have those collaborated relationships. Which means, - a step back, we have identify 18 leaders, 18 companies, that are leaders in procurement - 70% of these are from those 6%.

So you already know from that how important those collaborated relationship are. And that soon probably hundred of companies who know that and will shift over, and will adopt those leaderships practices. And that will have an impact of the financial supply chain. And how much CPOs need help to get there. Let's step in to the shoes of such a CPO. Has anyone of you have been a CPO?? What is a CPO dealing with at the moment. And we all have our problems; I don't want to bore you too long about it. But these are the typical issues they deal with at the moment.

As the study has begun in January, only a few things: for example, issues like terrorism, which frankly 5 years ago or 10 years ago, you didn't have to worry about. Globalization, now we buy so much abroad, we buy in China, we buy in India, we buy in Vietnam, and we buy in Cambodia. This is not the same as if you were to buy in North Hampton. You have a national supply chain, and you have a regional one, which is inside the EU, and then, of course, across borders, which is outside. Totally different demands and how to deal with it.

Talent availability. Massive issue in the world of procurement. Traditionally, bad reputation of procurement. Of course, what happened is, if you started in procurement, they will tell you, go through the factory hall and when you get out of the other side, there is a container on the right hand side and that is our procurement.

Nowadays, you hire MBA graduates, just like you do in banking and we are in the stiff competition.

The massive, massive increase of prices that we have, the oil price has increased by 80% in the past, but now, no more, Oil has increased by much more. Currency issues, just think of the dollar which has almost lost half of its value.

Updated technology, collaborate workspaces. I always say, when we are in the shipping industry and we are here in the holy halls of shipping, if you build a ship now, you have a 30 year lifespan for that ship approximately. How long will you run a ship that will run on heavy fuel? Because in 30 years you may not have that fuel anymore. So now you need to start thinking how can I replace it.

Commodity scarcity: I mentioned it; we are running out of crops and other corn. In Mexico, the people go out on the streets because the tortillas go up in the price and there are serious shortages on oil, but also copper and zinc and other minerals will be exhausted within some of our lifetimes.

So these are the things that a CPO is facing is dealing with at the moment. On top of that that he already has to meet his saving targets which a CEO does not care about how, but just says, you give me 5% this year, give me 7% next year. And the leaders maintain that range of about 4-5% year on year. Followers don't, but the leaders keep on doing that. But there are some new challenges. Now on top of that we have a credit line, credit rankings, and a credit space. And you are involved with that.

We all have additional rising costs, some costs go just through the roof, and you have an economic slowdown, so your sales side is starting to get the shares. You have less availability of credit.

Rising financing costs, which affect you and even if you are not affected so much, it will affect down your supply chain because the company in India may not get money as easily as you get. Now you give them a big order and they say, I would love to do it but I cannot invest for it. Lack of loan capital for growth initiatives, for example if you plan a merger.

So this all comes on top of the typical challenges. So the CPO has really big issues by now. Question is, who is going to help him. Because he has his MBOs, he has several MBOs, they are revolving around this.

Now let's start with costs, I will show you how it works into the financial supply chain.

For example, the automotive industry, if there is one piece missing in the car, the car cannot be sent out. This depends very much on the availability of material and services. If you pay, if you invest in your suppliers in Vietnam, in Brazil, in Cambodia, in Argentina and there is a credit crisis, and that company is not able to deliver anymore, this is a major risk for you.

Speaker: Would you say, that a reduction of transaction costs leading to a reduction of production costs?

As a CPO, I must be under a lot of pressure, I need to target every individual packet that I have, I can only get so much from my first tier suppliers, now I go further what else can I do. Transaction costs.

The exposure to risk from the low cost country suppliers. And then the time and resource risk. Because every CPO is constantly being asked to reduce his staff. Every year, procurement departments shrink, departments are being reduced so he cannot have a group of people sitting there, and typing up the orders, as he maybe used to have. The

CPO needs to optimize the global contracts. Now these are some of the themes that a CPO nowadays has to face.

So when I say, can finance supply chain management are aware of the opportunities, some of the leaders already tapped into that. Many of the followers not, and this is an interesting thing, where the gap is as wide as here. Some of the CPO are completely blank on it. But the leading companies, some of them have really worked it out. So that's what the early slide shows.

A few are advanced and many are coming behind. So there will be a change in the landscape. So what are we looking for: there are two aspects where the CPO can tap into: one is automation and that is almost a MUST. Another one is, transaction cost, where by the way, I get increased visibility as well. The other one is supply chain finance. How can I help my suppliers down the supply chain that they can finance what I need from them at improved cost.

So there is the little slide that shows there is a physical supply chain that goes all the way, and there is a financial supply chain. So, the OEM may have a super credit ranking, a AAA, but when you go down the supply chain, you don't have that anymore. So here is when the buyer tries to use his credit worthiness in order to give his supplier access to the finance chain. Now that is something he cannot do on his own. He needs a) a suitable IT platform and b) financial institutions, banks for that.

Now that opens whole new opportunities for relationships. While up until now, the bank has only work with the OEM, the bank now has the opportunity to work with a whole range of suppliers, up the supply chain. In reality, it requires multi level relationships. So collaboration between buyers, suppliers and financial institutions. We need an end to end solution for it to work. That is very different from the past.

But if successful, there is a lot of benefit in there for the corporations, and for the CPOs.

So we have a higher productivity of the staff. Actually we have a chance to redeploy or reduce staff which is always welcomed by the CEO. We have an increase visibility of the supply chain, the financial supply chain, and the physical supply chain, and very important, how collaborated are the suppliers.

And if you remember , how I talked about supplier relationship management, this is getting to be more and more the norm, we cannot afford to bash the supplier over the head, as we used to in the past.

On the financing side, you have reduced financing costs that is good news. You have improved control over the payment timing, this is very important as well.

Because every CFO will challenge the CPO and say, what 45 days payment terms? 60 days! 90 days! And the further you go south in Europe, it will be 120 days!

So now the CPO is in a conundrum. On the one hand, he knows that his suppliers are all, or several of his suppliers are already tight on money, and at the same time, the CFO is telling him to squeeze more money out of them. So is there anything he can offer them? Well, in this case he can, and of course, since he has the transparency, he can offer them improved risk management and risk, as we said, is high on the agenda. On top of all that he now has a relationship with his supplier, he can give them something. He can hand over something there is something that is tradable.

I remember, in the automotive industry, about 10 years ago, there was once per year, the procurement department would send a letter out to all of the suppliers and would say, for economic reasons we demand a cost reduction of x%.

And it was always called economic reasons. We need to send out a letter for economic reasons. Nobody ever explained how the economics worked, but that was a letter that went out to the supplier every year. Of course, the suppliers over the time figured, that the letter was coming, so they build those x% in into their prices.

But now, the CPO has the supply chain and finance chain management, he can offer something and he gets access to new suppliers.

Because the new suppliers, these tend to be the weakest. The ones in Cambodia, the ones in Vietnam, these are the ones that he wants access to, but the business risk is dramatically higher. And of course another thing is obviously, the missing relationship.

The following part is fragmented, because the speaker is just too far away from the tape recorder, and lots of things are unclear.

Speaker: Excuse me, a question; I heard at a conference in Tokyo a month ago, they saying that procurement in organization generally will clashed? With the suppliers? And that things like supplier timing ----

They were really skeptical about ----- -- 6 month or a year, and that the responsiveness of procurement is slow? And that the responsibility held by procurement isn't very large....

I am just saying, the reputation of procurement, is that still in issue...

Wolfgang: Imagine Ignacio Lopez would walk into your door and bring along flowers, and start to talk, would you trust Ignacio Lopez? Probably not.

I give you an example, Porsche, you all know Porsche, they build the probably most powerful cars in the world. They are a very successful company. So how do you get the power of these engines into the car and onto the road? The key is the gearbox. And they have a successful relationship with a company called Zahnradfabrik ZF Ludwigschafen. They are building superior gearboxes only for Porsche, which allows

Porsche to bring the power of these engines onto the road. If anyone of them needs anything from the other partner, it works, because they have this trusted relationship.

The companies will need more and more of these relationships because otherwise you will be constantly on risk in your business.

So procurement department and that's the point, have to change. And that is what we can see in the Assessment of Excellence in Procurement study. And this is, what we see happening in the market. And that is also, what we are hearing from the suppliers. And you are in this dramatic change.

The tape ends here, and the other side of the tape is empty.

Dominik's Notes:

- Who is driving the decision to implement Financial Supply Chain Management?
 - 90% of CPO's do not know what working capital is.
 - There are three types of CPOs: the buyers, they are called procurement and divide responsibilities by commodities and the CPO in the board – fully integrated. The last one is still the exception. Treasurers and CPOs have different objectives and living in silos. CPOs and Treasurers do not speak to each other. Banks should bring the silos together. Before that they need to investigate themselves. It is not the treasurer anymore to help to improve the working capital. The CPO needs to be part of it as well
- What are the objectives of a CPO?
 - Cost per unit and reliability. These should be the objectives to get into the companies.
- Is there a need for a common solution due to fragmented markets – individual/banks solutions?
 - Corporates do not achieve collaboration with banks, FSCM may force collaboration.
 - Collaboration within banks is far beyond other industries. Without a common voice no standardization possible.
- Our mini survey shows that companies never heard of PSD,...? Banks are talking about it for years, but nothing happened.
 - It is not interest to of the banks
 - Banks just move by legal pressure
 - Will it be that companies will change the paradigm (expl. Aribaba)
- There are two types of suppliers – for commodities and specific products. Do they have different approaches?

- As a commercial lender the product line is a commodity. If a bank sells commodity products you get pressured even more compared to tailored products.
- How well you compete on transactions?
 - The competition on transactions is mainly driven by price.
 - The Banks perception of corporate needs is how to increase my margin.
 - Faster payments are costing banks but are valuable for customers.