Innovation is a key element of Procurement’s mission today

Activate sources of growth and value
• Gain access to innovation, leverage strategic suppliers
• Differentiate based on unique capabilities
• Benefit from and enable disruptive change

Manage risks
• Create transparency on supply chain risks
• Build and manage resilience in supply chains
• Address corporate risks via supply strategies

Achieve cost excellence
• Realize savings (direct/indirect cost, Capex)
• Involve purchasing into full value chain
• Track savings, cash flow, efficiencies

Source: Oliver Wyman
Value from innovation: Several sources for procurement

**Source of value**

- Supplier innovation
- New business models
- Superior customer value
- Revolutionary products
- Supply chain security & integration
- Innovative procurement services

**Examples**

- Create and manage **open innovation platforms**
- Innovative **business models based on new** digital procurement/supply chain capabilities
- **Joint value creation** with innovation partners
- **Breakthrough value proposition** via Disruptive Product Cost Innovation
- **Manage 3rd Party Risk, protect intellectual capital**
- **Start-ups on advanced analytics and market intelligence** based on an open **innovation culture**

Examples on further pages
Supplier Innovation
Open Innovation platforms: Need for action also for advanced players

Typical hurdles and action needs to boost External Innovations

No overarching strategy

Re-think the sourcing process
- Top-management mandate to leverage external innovation
- Critical: Dedicated innovation teams

<50% of EuroStoxx50 firms have dedicated innovation teams

Resources not (yet) available

Establish new forms of collaboration
- Go beyond suppliers and academia
- Leverage digital platforms

“Not invented here”

Build an open innovation culture
- Match value drivers and own strengths
- Adjust incentives and org structure

“Where can we be even stronger?”

Source: Oliver Wyman article in “Beschaffung aktuell” 09/2015
Supplier Innovation
“Innovation day” with Exco members to encourage supplier innovation

Context and issues

- Example **Consumer Goods**: packaging is a key product differentiation and innovation brought by suppliers can be a differentiator

- A **standard SRM approach was established** across purchasing domains and categories
  - Due to the **formal SRM process**, **costs and risks** management are mostly a priority.
  - **Internal organization complexity** makes it difficult for suppliers to “promote innovation”

To motivate innovation, the **group organized an annual event** where **suppliers** can **showcase their innovation**

- Executive Committee members attend the meetings
- 100% probability that some projects will be selected for further development

Results

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>1</td>
<td>Annual event</td>
</tr>
<tr>
<td>3</td>
<td>Categories (packaging, CM and POS)</td>
</tr>
<tr>
<td>10</td>
<td>Strategic suppliers selected</td>
</tr>
<tr>
<td>37</td>
<td>Innovations presented</td>
</tr>
<tr>
<td>7</td>
<td>ExCo members involved (incl. CEO)</td>
</tr>
<tr>
<td>5</td>
<td>Awarded products processed into development stage</td>
</tr>
</tbody>
</table>

Source: Oliver Wyman benchmark
New business models
Procurement’s role: Navigator among new digital business models
Example Transportation: Digital brokers emerge as new intermediaries

INTEGRATED BROKER
Forwarder Broker
- Established players
- Asset / Non-Asset based
- Platform mostly closed for other carriers
- Process automation depending on proprietary IT

DIGITAL BROKER
- Mostly new market entrants
- Non-Asset based
- Open platform
- Full process automation
- Digital transactions

Emerging differentiated business models

Long-haul trucking
- CoyoteGo
- TimoCom
- uShip
- ...

End-to-end shipping
- Flexport
- Shyp
- Shipster

Freight rates
- Freightos
- Veritread
- Freight Filter
- ...

3PL models
- CloudFulfillment
- Shipwire
- ...

Crowd shipping
- UBERCargo
- ...

Other
- KeepTruckin
- TruckTrack
- Transporeon
- ...

Key challenge: guidance for business to select best platforms for rollout

New business models
Procurement’s role: leverage new digital capabilities
Key challenge: define and pilot use cases for automation and Big data

Procurecon Benchmark 2016: Priorities of Digital Procurement

**Biggest benefits** of implementing a digital procurement strategy?

[1. ProcureCon/Oliver Wyman Benchmarking Study 2016; interviews among 100 leading CPOs and procurement managers]

- Increasing efficiency: 54%
- Cost reduction: 40%
- Procurement intelligence: 38%
- Risk mitigation: 37%
- Innovation: 20%
- Corporate social responsibility: 11%

**To what extent** is your organization using the following technologies in procurement?

- **Big data**
  - Heavily interested: 47%
  - Perhaps in future: 45%
  - No interest: 8%
- **Cloud technology**
  - Heavily interested: 42%
  - Perhaps in future: 43%
  - No interest: 14%
- **Social media**
  - Heavily interested: 16%
  - Perhaps in future: 28%
  - No interest: 37%
- **Mobile technology**
  - Heavily interested: 6%
  - Perhaps in future: 21%
  - No interest: 36%

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Superior customer value
Transfer best practices from other industries to accelerate joint innovation along product development and supply chain

Joint Value Creation program retailer/supplier: radically advance joint commercial activities

- Leading European food retailer (~1,000 stores)
  - Joint innovation, increased freshness
  - Increased efficiency and lower total cost
- From “margin split” and confrontation to joint KPIs and optimized supply chains

Standardized program based on 3 pillars

1. Economic model for collaboration
2. Product development process
3. Supply chain redesign

- Integrative approach
  - Concept/review workshops with representatives from retailer and supplier
  - Detailed joint implementation planning

Results

- Breakthrough results in key consumer category:
  - Efficiency gains: 16% less FTE in development
  - Time-to-market -25% (international best in class range)
  - Net margin improvement in the joint supply chain

Value stream mapping (product development)

Supply chain process charts

Source: Oliver Wyman
Supply chain security and integration
Protection of know-how in strategic partnerships
OW study on contract manufacturing: IC protection is a priority

Different intensity of know-how protection across industries

**Electronics players** follow strict know-how protection with holistic end-to-end know-how approaches

**Automotive players** apply several know-how protection measures and retain the most critical know-how (e.g. engine technology)

**Appliance manufacturers** with moderate focus on know-how protection, mostly via contractual agreements and NDAs

**Heating technology**: know-how protection less critical, 3rd-party perceived as capability reserve

Measures to enforce know-how protection (Oliver Wyman interviews)

- “All our contracts have **extensive contractual regulations** on IP protection, e.g. exclusivity agreements”
- “We keep the **ownership of key tools and machinery** to protect our intellectual capital”
- “We use dedicated security teams to define security concepts for the facilities of our partners”
- “Key component sourcing is kept in-house to prevent suppliers from gaining broad product know-how”
- “We focus on **long-term and trustful partners** to reduce risk of IP leakages”
- “We insist on **multiple corporate and personal NDAs** to be signed for each project”

Best-in class

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Innovative Procurement Services
Innovation powered by Advanced Analytics: new skillsets required

Machine based learning: Mean Average Percentage of Error (MAPE) (%)

Accuracy of the current algorithm

Current algorithm + adjustments by forecasting team

Start +1 month +2 months

Machine learning algorithm based on Random Forests modelling

Review of thousands of decision trees based on sub-groups of explanatory variables

“We will have new profiles in procurement”

“We established a career path of data analysts”

”We now mostly hire people with coding skills for our procurement team”

Key challenge: Establish the right skillsets to drive and transfer innovation
Innovative Procurement Services
Key challenge: Provide the right culture for innovation

Smart Analytics: from identified need to market intelligence startup

Complex data capture of pricing information on European Bus travel market

Business opportunity: **Smart market intelligence services** on bus travel based on public data

New information **platform via spin-off**
- automated capture of available market data
- packaged information services/analytics
- rollout in Germany and Europe

Encourage innovation through openness for ventures and flexible employment models

Alternative organisational setups can be the best platform to test new ideas/concepts

Strong innovation dividends based on new ventures
- Highly advanced analytics and capabilities
- Enhanced offerings based on dedicated products for yield management and analytics
Your perspective on Innovation: Questions for discussion

<table>
<thead>
<tr>
<th>Challenges, success factors</th>
<th>Where do you see <strong>key challenges to capture value from innovation</strong> in your organisation?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value from Innovation</td>
<td>How do you <strong>make innovation accessible via procurement for your organisation</strong>?</td>
</tr>
<tr>
<td>Best Practices</td>
<td>What are <strong>your Best Practices</strong> on value through Innovation within Supply Management and beyond?</td>
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</table>
Oliver Wyman capabilities & presences

Oliver Wyman is the management consulting arm of Marsh & McLennan. We have 3,000 consultants in 50+ cities to serve clients around the world.

With more than 40 years of experience in consulting with leading companies in following industries:
- Automotive
- Aviation, Aerospace & Defense
- Communication, Media & Technology
- Energy
- Financial Services
- Health & Life Sciences
- Industrial Products
- Retail & Consumer Products
- Surface Transportation

Broad expertise in functional areas:
- Strategy & Growth
- Marketing & Client Relationship management
- Mergers & Acquisitions
- Corporate Finance & Restructuring
- Cost Efficiency & Operations
- Procurement & Supply Chain
- Intellectual Property & Transfer Pricing
- IT & Operations
- Organization & Processes
- Risk Management

US$1.8 BN revenues in 2015
Staff of 4,000 in 26 countries in more than 50 offices, e.g.:
- Abu Dhabi
- Amsterdam
- Atlanta
- Bangalore
- Barcelona
- Beijing
- Berlin
- Boston
- Chicago
- Columbus
- Dallas
- Detroit
- Dubai
- Dusseldorf
- Frankfurt
- Hamburg
- Hamilton
- Hong Kong
- Houston
- Istanbul
- Keller
- Leatherhead
- Lisbon
- London
- Los Angeles
- Milan
- Madrid
- Melville, NY
- Mexico City
- Milwaukee
- Montreal
- Moscow
- Munich
- Mumbai
- New Delhi
- New York
- Ottawa
- Paris
- Philadelphia
- Pittsburgh
- Portland
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- Riyadh
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- Stockholm
- Sydney
- Tokyo
- Toronto
- Washington DC
- Wilmslow
- Zurich

Source: Oliver Wyman

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For further information regarding our value sourcing and supply chain capabilities, please do not hesitate to contact us.

Grégory Kochersperger, Zurich
Global Leader of Value Sourcing and Supply Chain Practice

Dr. Stefan Benett, Munich
Global Head of Procurement Excellence Center