“Procurement and Executive level alignment – how procurement is becoming a strategic advisor to internal stakeholders – The Eskom journey & experience”

May 2013

“The strategic role of professional procurement in the development of Africa”
Contents

1. Eskom Overview - Quick Facts & Figures
2. Procurement Positioning - Context
3. Centres of Excellence - the evolution of a new aligned organisation
4. Operating Model and business partnering as a strategic advisor
5. Some tangible benefits of an aligned organisation
6. Concluding recommendations
Introducing Eskom – our purpose, core business and values

**PURPOSE**
To provide **sustainable electricity solutions** to grow the economy and improve the quality of life of people in **South Africa** and in the region

**OUR CURE BUSINESS**
Core business is electricity covering **GENERATION, TRANSMISSION, DISTRIBUTION** and **TRADING** thereof

**OUR VALUES**
- **ZERO HARM**
- **INNOVATION**
- **CUSTOMER SATISFACTION**
- **INTEGRITY**
- **SINOBUNTU** (caring)
- **EXCELLENCE**
Key facts about Eskom – Ownership, Sales, Workforce, Capacity, Credit Rating and Customer view

- Strategic **100% state-owned** electricity utility, strongly supported by the government
- Supplies **approximately 95% of South Africa’s** electricity and more than **40% of Africa’s electricity**
- For the six months ended 30 September 2012:
  - Electricity sales of **110 766GWh** (2011: 114 043GWh) and electricity revenues of **R71.9bn** (2011: R63.1bn)
- As at 30 September 2012:
  - **44 913 group employees** (September 2011: 41 756)
  - **4.9 million customers** (September 2011: 4.7 million)
  - Net maximum generating capacity of **41.7GW** (September 2011: 41.3GW)
  - **372 031km** of cables and power lines
  - Moody’s and S&P ratings: Baa3 and BBB respectively with a negative outlook
  - **17.1GW of new generation capacity** by 30 September 2018, of which 5.8GW already commissioned
In support of Significant progress in the build programme – began in 2005 with completion in 2018

In addition, we plan to spend more than **R41 billion over the next 5 years** to strengthen, refurbish and expand our Distribution network.

Significant spend remains to be explored towards 2018.
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The context within which procurement occurs is critical if alignment with C-level executives is to be achieved.

**Centralised vs. Decentralised**

- **Centralised** procurement organisation managing one procurement system for all procurement needs across divisions of a company in a wide geography.
- **Decentralised** procurement in a multi-divisional organisation where each division has relative autonomy on the execution of procurement activities.

**Procurement Centre of Excellence**

Focuses on corporate procurement & supply chain strategies, strategic commodities, best practices, knowledge sharing, etc. while leaving tactical execution to each business unit.
• Historically corporate procurement & supply chain was a **sub-function of finance**
• Line functions at divisional and site level had **procurement teams with autonomy**
• **Various instances** of the ERP system with various **master data sets** e.g. vendor master
• Procurement **systems and processes were not standardised** across the various business units
• Developmental imperatives were fragmented with **limited strategic direction**
• Very **limited strategic influence on strategic stakeholders** outside of procurement
Some implications of the decentralised procurement approach that has been historically part of the Eskom approach

<table>
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<tr>
<th>Symptoms</th>
<th>Representative quotes</th>
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<td>Inconsistent application of policies and best practice</td>
<td>“Our systems and processes permit us quite a lot but we are not using them appropriately“</td>
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<td>Little leverage of purchasing power, limited focus on savings</td>
<td>“We are not even sure where a lot of our spend is going”</td>
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<td>Perceived inefficiency in procurement process</td>
<td>“…Because buyers do not complete the reports appropriately the process is held up”</td>
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<td>Gaps in supplier and local development management</td>
<td>“Suppliers play one division against another”</td>
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**Root causes**
- No SLAs in place
- Divisional silos and non standard tools e.g., cataloguing
- Functional KPIs not optimising supply chain
- KPIs not standardised and not strictly enforced
- Staff mindsets indicate lack of motivation
- Skills not meeting requirements
- Mindsets of procurement staff are not customer centric
- Insufficient IT support and/or not used effectively
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The Eskom context can be described by three burning platforms that needed strategic response and interventions in a balanced manner.
A Corporate Structure that speaks to addressing the organisational context has evolved - centre of excellence approach is the core driver

- New organisational structure created to support our new strategy and purpose
- New executive management committee established to support the Chief Executive and ensure that the strategic imperatives are executed

**EXECUTIVE**

- **Line functions** to focus on operations and on creating value
- **Service functions** to safeguard assets, provide expertise on day-to-day standardised services and leverage synergies in the organisation
- **Strategic functions** aim to bring about step changes in performance and provide broader strategic support to the group
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Creating a centre-led procurement organisation with ExCo was the initial step to dealing with our challenges whilst engendering the stakeholder advisory role.
At the formation of this centre-led organisation we set out a high-level journey plan.

April 2011 – 12 months “Fix the basics”
- Finalise job gradings and recruit capacity
- Formalise and standardise SLAs between Group Commercial and divisions
- Finalise Group Commercial KPI dashboards
- Finalise communication plan
- Drive process speed, conformance, savings and service delivery

13-24 months “Standardise and integrate”
- SAP integration and data clean up
- Skills development in processes and systems
- Standard and process compliance

23-36 months “End-state: One Eskom”
- Detailed operating model with smooth processes, data transparency and standardised tools
- Continuous improvement through performance dialogue

This journey has not been an easy one as we have had to review the approach along the way.
In order to deliver on the articulated requirements – a consolidated mandate was designed to ensure accountability across the board

**Mandate of Group Commercial**

Create a **Group Commercial** organisation **with clear line of sight over all external spend (incl subsidiaries)** incurred, which enables Eskom to **achieve world class capabilities and performance** in the areas of

- Procurement
- Inventory management
- Warehousing and logistics
- Supplier management and development
- Contract negotiations and establishment

by providing an appropriate **platform for effective and efficient performance** to ensure the right product/service **at the right time without causing production interruptions**

Group Commercial will achieve its objectives to provide guidance to the divisions by **creating appropriate**

- Governance
- Systems
- Processes
- Procedures
- Compliance

In addition, it will create a **centre of excellence** to **oversee, execute and optimise transactions on behalf of divisional** requirements in areas where Eskom can obtain **scale benefit** through consolidation or in areas where **complexity** of these transactions require specialist support
The centre-led approach has a compelling end-state vision reflects what is best for Eskom in the current and future context.

ONE ESKOM

- Establish Eskom as a **single procurement entity**
- Minimise the **total risk to the business** by ensuring **standardisation of procedure and process** across the organisation

CUSTOMER CENTRIC and CENTRE-LED

- Earning the right via performance to be the service provider of choice
- Enhance Eskom’s efforts in local development

COST EFFECTIVE

Focus on continuous improvement and internal efficiency

HIGH PERFORMANCE CULTURE THAT ATTRACTS TALENT

- Enhance skills within the commercial environment
- Drive accountability within the commercial function
The business operating Model is strongly influenced by the understating of the customer requirements as a basis for service definition.

Customer Service principles

- Group Commercial

- Business Requirements

- End-user needs

Execution integration between Group Commercial

- Tactical Sourcing
- Commodity Sourcing
- Project Sourcing
- SCOPs

Output

- Business Enablement
- Risk & Governance
- SD & L

The new organisational setting sets procurement as a strategic adviser to end-user department in defining the requirements.

Group Commercial have defined the roles and responsibilities for each function. Going forward, the business needs to focus on enhancing integration and driving operational improvements.

Focus on the following
- Speed of delivery
- Quality of service
- Compliance

SOURCE: Team analysis
The business operating model is underpinned by a business partnering methodology to ensure proximity of procurement as a strategic advisor.

Customer Interface (for strategic stakeholder advisory) approach

The Customer interface is owned by dedicated business partners, ensuring 1-to-1 points of contact, and with support and subsequent service provided by all Functions to strengthen it.
...and improved interaction and collaboration between Functions will drive enhanced Execution Excellence and overall performance

- Increased interaction and utilisation of cross-functional teams, and the provision of projects methodology & relevant team training
- Increased interaction through regular reviews and forums: new contract opportunities and compliance to contracts
- Insights and intelligence on suppliers, markets, TCO and spend: on/off-contract and contract opportunities

- Project Sourcing
- SCOPs
- Business Partners
- Commodity/Tactical Sourcing
- Business Enablement
- Supplier Development and Localisation
- Group Commercial*

- Effective warehouse and inventory management in with demand forecasting and supply planning
- Service delivery to End-users; extensive interaction with suppliers at transactional level
- Innovative solutions to create local industries and jobs: Successes and issues in local development and possible implication for commodity strategies

* Risk and Governance support Group Commercial, guiding risk management and governance fora across all functions

- The existing operating model ensures delivery. Impact will be as follows:
  - Better organisation of the interface with End-users
  - Augmenting of interaction between functions
  - Enhanced effectiveness of execution functions
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Alignment between procurement and executive level has caused significant shifts that have inherent benefits.

### Economic Development

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<th>2012</th>
<th>2011</th>
<th>2010</th>
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<tbody>
<tr>
<td>B-BBEE attributable spend, R billion</td>
<td>72.1</td>
<td>41.9</td>
<td>20.8</td>
</tr>
<tr>
<td>B-BBEE attributable spend, %</td>
<td>73.2</td>
<td>52.3</td>
<td>28.65</td>
</tr>
<tr>
<td>Electrification, homes connected</td>
<td>155 213</td>
<td>149 914</td>
<td>149 901</td>
</tr>
<tr>
<td>Corporate social investment, Rm</td>
<td>87.9</td>
<td>62.3</td>
<td>58.7</td>
</tr>
<tr>
<td>Jobs created through capital expansion projects cumulative[1]</td>
<td>28 616</td>
<td>21 197</td>
<td>15 741</td>
</tr>
<tr>
<td>Eskom trainees / bursars (pipeline)</td>
<td>5 735</td>
<td>5 283</td>
<td>5 255</td>
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### Closer Customer Engagement

- Closer and robust **customer engagement**
- Ability to **capture customer plans earlier on and develop robust** procurement strategies
- Monthly business partnering sessions ensures a **problem solving culture**
- Enhance **customer centricity** amongst procurement professionals
Alignment between procurement and executive level has caused significant shifts that have inherent benefits

**Standardisation**

- Process Control Manuals developed to standardise procurement processes
- One SAP ERP platform creating ease of engagement with internal and external stakeholders e.g. one vendor master
- **Single approach to Supplier Development & Localisation** as defined in an ExCo approved strategy & implementation plan
- Procurement **policy and procedure** converged into a single area of custodianship

**Spend Visibility & Efficiency Gains**

- The **procurement organisation has gained visibility of trends and patterns** in order to enhance the strategic advisory role to stakeholders
- Significant cost savings have been achieved to date with more than **R3bn audited savings** in FY13
- **Visibility** on the **efficiency of the procurement staff** across the board has led to increased efficiencies albeit marginal
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Concluding Recommendations

• Our experience indicates that migration from a decentralised to a centre-led procurement organisation has allowed the procurement to be aligned to the context of the organisation.

• The centre-led organisation allowed us to increase the profile of procurement to the ExCo level which structurally allowed for alignment.

• A compelling business model coupled with a business partnering methodology has allowed procurement to be close to the stakeholders and thus be relied upon for strategic advice on procurement.

• Alignment has been further entrenched through the incorporation of procurement deliverables in all C-level executives performance contracts.

• Challenges continue to exist at lower levels on alignment to the new method of doing business however change management is assisting in bringing on board the remnants within the organisation.

• Challenges continue to exist on turnaround times as well as lower levels adherence to new organisational set up.
Thank you