



Consulting and interim management specialising in strategic procurement & supply management



**The most successful ways to cut costs
... and what is important to really succeed**

www.emarticon.de

AGENDA

A) The major cost management strategies

B) List of the most successful cost reduction levers *...and what really matters...*

C) About Emarticon

D) Explanations / glossary

First, decide which cost management strategies you want to use

6 basic strategies for cost management in procurement

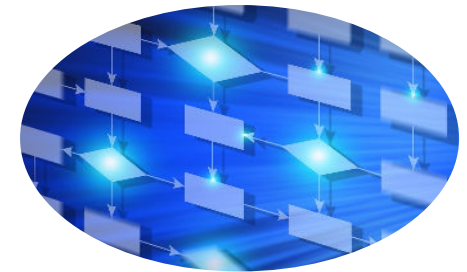
1 Managing Volume



2 Increase competition



3 Optimize processes



4 Product variation



5 Optimize goals



6 Optimize strategic constraints



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Every cost reduction strategy has different levers and challenges

Strategies for cost reduction and levers (I)

Strategy	Lever	What is important?
1 Managing Volume 	1. Demand Management*	<ul style="list-style-type: none"> • Limit this lever to selected purchasing categories • When selecting the categories and in the respective communication, make sure that negative influences on the entire company remain minimal • Coordinate your approach carefully with those affected
	2. Volumen-Pooling*	<ul style="list-style-type: none"> • In contracts, make sure that you correctly assess future demand - do not just extrapolate previous demand without checking • Before bundling, first check standardization options; approx. 50% of pooling effects depend on ensuring overall standardization!
2 Increase competition 	3. Introduce new suppliers	<ul style="list-style-type: none"> • Take enough time to qualify new suppliers • If necessary, pay attention to regulatory processes at an early stage • Make sure that the test phase is well planned
	4. Conducting tenders	<ul style="list-style-type: none"> • Make sure that your company is "serious" about the tender. Potentially new suppliers should have a real chance • An appropriate pre-selection and number of competitors is crucial; on the shortlist should be 3 to 8 companies • Achieve an agreement of your final selection criteria with all stakeholders right from the start!

Every cost reduction strategy has different levers and challenges

Strategies for cost reduction and levers (II)

Strategy	Lever	What is important?
2. Increase competition (cont.)	5. Global (Right)-Sourcing*	<ul style="list-style-type: none"> • First make a coordinated make-or-buy decision* (see point 18) • Discuss the advantages and disadvantages of outsourcing / insourcing as well as local, near and off-shoring* with your stakeholders • Start the project first with a realistic estimate of a cost reduction; in many projects 30% - 35% were a good starting point
	6. "Advanced Negotiation**"	<ul style="list-style-type: none"> • Check which negotiation techniques are suitable for certain product groups • Ensure a correct process when using auctions or e-auctions* • Check the need for external support - especially when using game theory*
3 Optimize processes	7. Early Involvement*	<ul style="list-style-type: none"> • Make it clear to your company that early involvement of the procurement function is a simple and at the same time extremely powerful cost-reduction lever
	8. Process-Compliance*	<ul style="list-style-type: none"> • Create processes that are as simple as possible • Track every process (if possible) with a workflow system • Limit the number of people approving sourcing requests to a maximum of 4 - ideally only 2 persons





Every cost reduction strategy has different levers and challenges

Strategies for cost reduction and levers (III)

Strategy	Lever	What is important?
3. Optimize processes (cont.)	9. Contract-Compliance*	<ul style="list-style-type: none"> • Speak to the departments that directly work with the suppliers to understand the situation regarding contract compliance • Measure the non-conformance costs* and ensure that the participants react accordingly
	10. Supplier Integration	<ul style="list-style-type: none"> • Ensure a consistent supplier management and development program prior to starting supplier integration • Ensure appropriate actions to supplier ratings • Set clear goals for improving collaboration • Measure the improvement through its monetary effects • Ensure long-term planning with major effects after 1-3 years
	11. Logistics*	<ul style="list-style-type: none"> • Pay attention to the high quality of forecast accuracy in the rolling order forecast* - this reduces transport costs, storage costs and material costs • Make the Sales function not just operational responsible but also officially accountable for the quality of the sales forecast • If possible, support the forecasting activity by using incentives* for achieving quality • Transfer responsibility for those parts of the logistics process to you supplier that your supplier can influence easier than your own company. Negotiate respective framework agreements

Every cost reduction strategy has different levers and challenges

Strategies for cost reduction and levers (IV)

Strategy	Lever	What is important?
<p>4 Product Variation</p> 	<p>12. Standardization</p>	<ul style="list-style-type: none"> • First of all, talk to your suppliers with the aim of quantifying the monetary effects of standardization • Discuss the advantages and disadvantages of standardization with all relevant stakeholders
	<p>13. Procurement-Engineering*</p>	<ul style="list-style-type: none"> • Clarify the role of procurement engineering as compared to product engineering • Make sure the responsibilities and tasks of the Procurement Engineering function are well understood throughout your company • Make sure the product requirements are adequate; approx. 30% of requirements are not sufficiently questioned
<p>5 Optimize goals</p> 	<p>14. Orientation towards the Total Cost of Ownership (TCO*)</p>	<ul style="list-style-type: none"> • Limit the TCO approach to those purchasing categories in which a measurement or at least a valid estimate of the total cost of ownership is possible • Pilot the TCO approach first
	<p>15. Orientation towards Target Costs*</p>	<ul style="list-style-type: none"> • Limit the target cost approach to selected purchasing categories • Create sufficient opportunities to react early on to changes in the procurement market

Every cost reduction strategy has different levers and challenges

Strategies for cost reduction and levers (V)

Strategy	Lever	What is important?
5. Optimize goals <i>(cont.)</i>	16. Zero-Based-Budgeting*	<ul style="list-style-type: none"> Together with the management, select the departments and cost categories where the method makes sense in your company Show even before the introduction how the method becomes time efficient by using the right planning tools Support the introduction and use through incentives*
	17. Use KPI*-based Contracts	<ul style="list-style-type: none"> Make sure that the KPIs are precisely described, easy to measure and can actually be influenced as desired
	18. Optimize the Make-or-Buy-Decisions*	<ul style="list-style-type: none"> Develop the decision concept together with all stakeholders Check how robust and flexible your concept is regarding changes in markets and technologies
6 Optimize strategic constraints	19. Sharing of Resources*	<ul style="list-style-type: none"> Check whether there is sufficient buffer for demand peaks Make sure you use effective – ideally cloud-based – planning tools



*see explanations in the glossary

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Emarticon: Consulting and interim management specializing in Strategic Purchasing & Supply Management

Company Overview (I) - Our areas of work

Cost reduction – cost efficiency

Procurement strategy

Sustainability in procurement

Reorganisation

Process optimization

Supplier management

Supply-Chain-Management

Global Sourcing

IT-Sourcing

Outsourcing / Insourcing

E-Procurement

Industry 4.0 / Procurement 4.0

AI-based sourcing

Interim management

Project-management

Negotiation

Emarticon works across industries

Company Overview (II) - Our services, clients and employees

Services

Management consulting
Interim management
Coaching

Clients

Industry-independent international in Germany and Europe
Clients supported by Emarticon consultants include DAX, MDAX, TECDAX companies

Employees

3 Senior Directors plus a pool of consultants with more than 50 highly qualified employees
Experts in the respective special fields
∅ +10 Years of professional experience

Clients with whom Emarticon consultants have carried out successful projects¹



¹ Companies or their successor organisation

Clemens Rinnebach, Management Consultant & Interim Manager
Expert for Procurement, Sourcing & Supply-Chain-Management



Work Experience at a Glance

- 20 years of international procurement / supply management incl. executive line functions (VP / Head of Sourcing)
- 7 years strategy consulting (4 years BCG and A.T. Kearney)
- 22 years experience in high-tech, 7 years experience in banking / insurance

Education

- MBA (Wharton '95) – finance major
- Dipl.-Ing. (eq. Master of Engineering; Hannover '92) – electrical engineering / information technology
- Siemens Leadership Excellence Programme
- Comprehensive professional trainings

Areas of Work

- Cost Reduction & Cost Efficiency
- Process Optimisation & Reorganisation
- Supply-Chain-Management
- Global Sourcing, IT-Sourcing, Outsourcing
- Procurement 4.0, E-Procurement, AI-based Sourcing

Examples of successful Jobs / Projects

- VP Strategic Procurement at Siemens Enterprise GmbH
- Head of Procurement at Allgeier SE and HypoRealEstate/Deutsche Pfandbriefbank AG
- SCM-Manager at Zeiss SMT and Schölly Fiberoptic GmbH
- Head of IT Sourcing of the Talanx Group
- International project experience in Asia, USA, South America & Eastern Europe
- Outsourced several large shared service organizations in IT, financial services and HR
- Introduced a worldwide electronic ordering process and portal
- Audited mobile phone suppliers in Asia

Core Competencies

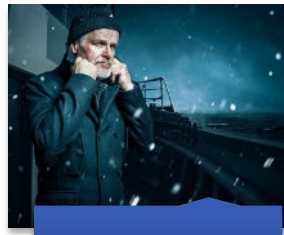
- Optimise and manage procurement organisations
- Analyse cost situations & develop and implement cost reduction measures
- Effectively conduct negotiations
- Implement efficient processes
- Lead international projects
- Develop / establish new strategies

Why us.

Our strengths



Spezialization



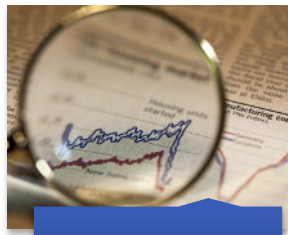
Experience



Management approach



Concepts



Tailor-made solutions



Price-Performance-Ratio

- **Our specialisation:**
 - As specialists in strategic procurement and supply management, we increase your profit
- **Our experience:**
 - You get the right solution through our experience in consulting and management
- **Our management approach:**
 - Change becomes easy through our management approach
- **Our concepts:**
 - We achieve long-term effects through our holistic concepts
- **Tailor-made solutions & custom project implementations:**
 - Because we have a purely virtual organization, we do not send you large teams when not needed but offer you exactly the flexibility you need for your business
- **Outstanding value for money:**
 - No expensive back office, therefore high-quality services at very good conditions

Our passion: getting people and businesses to work together efficiently.

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Explanations / Glossary (I)

Key word	Explanation / remark
Advanced Negotiation	Techniques that maximize the success of a negotiation by combining economic and psychological aspects. The techniques include linguistic / rhetorical methods as well as e.g. the use of game theory*
Contract Compliance	Following all regulations of a contract. For example, regulations such as price reductions for larger quantities, contractual penalties, etc.
Demand Management	Reduce the consumption / quantity products or services purchased. Often used for Indirect Material*
E-Auction	Conducting tenders according to a defined bidding process and using a respective bidding software
Early Involvement	Timely involvement of the procurement function in a company. The earlier the procurement department is aware of a procurement project, the easier it will be to reduce the corresponding costs
Game Theory	Mathematical methodology, modelling decision situations
Incentives / Incentive System	A system of explicit rewards / personal benefits for employees to support the achievement of goals
Indirect Material	All cost categories with products and services that are neither required for production (i.e. direct installation of the purchased goods as a component) nor directly within customer projects
KPI	Key Performance Indicator: Measured value that shows the performance of an external or internal service provider (e.g. supplier or purchasing function)
Local Shoring	Procurement from local suppliers
Logistics	Supply chain from the first pre-supplier to the end customer. Supply chain costs include for instance storage costs, transport costs (e.g. air freight in urgent cases), customs duties and discard
Make-or-Buy Decision	Deciding whether to procure a product or service internally or externally
Near-Shoring	Procurement from "nearby" foreign countries

Explanations / Glossary (II)

Key word	Explanation / remark
Non-Conformance / Non-Compliance Costs	Costs that result from violating regulations of processes or contracts
Off-Shoring	Procurement from overseas
Process Compliance	A behaviour that follows the processes of procurement planning and implementation, e.g. approval processes or delivery regulations such as delivery times, delivery routes or packaging
Procurement Engineering	Specialist function, aiming for measures to optimize product specifications and design with regard to the simplest and cheapest possible procurement of components or services
Resource-Sharing	Common / collective, pool-based use of products and services - can be done in-house or across multiple companies
Right Sourcing	Aims to make optimal use of all global procurement channels, including the question of whether a product or service should be procured internally or externally
Rolling-Order-Forecast (ROF)	Regularly released quantity structure showing the prospective future demand of all products and services usually created monthly. The ROF is based on the information from the sales department and determines the requirements for the supply chain
Target Costs / Target Costing / Target Cost Management	A planning and incentive approach and process that derives cost, quantity and quality goals from the company goals and tracks them through corresponding KPI*, projects and processes
TCO	Total Cost of Ownership, considering of all costs associated with purchasing a product or using a service
Volume bundling	Aggregation of all demand, also known as pooling. Is the classic way to cut prices. Can be carried out across all cost / procurement categories. The bundling of volumes can also include the use of a procurement consortium
Zero-Based Budgeting	A planning process in which the budget for each period is derived from the requirements and is not derived from the previous planning periods



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