



The Purchasing Chessboard™

*Tapping hidden opportunities in procurement
for financial service providers*

Frankfurt am Main, January 30th, 2009

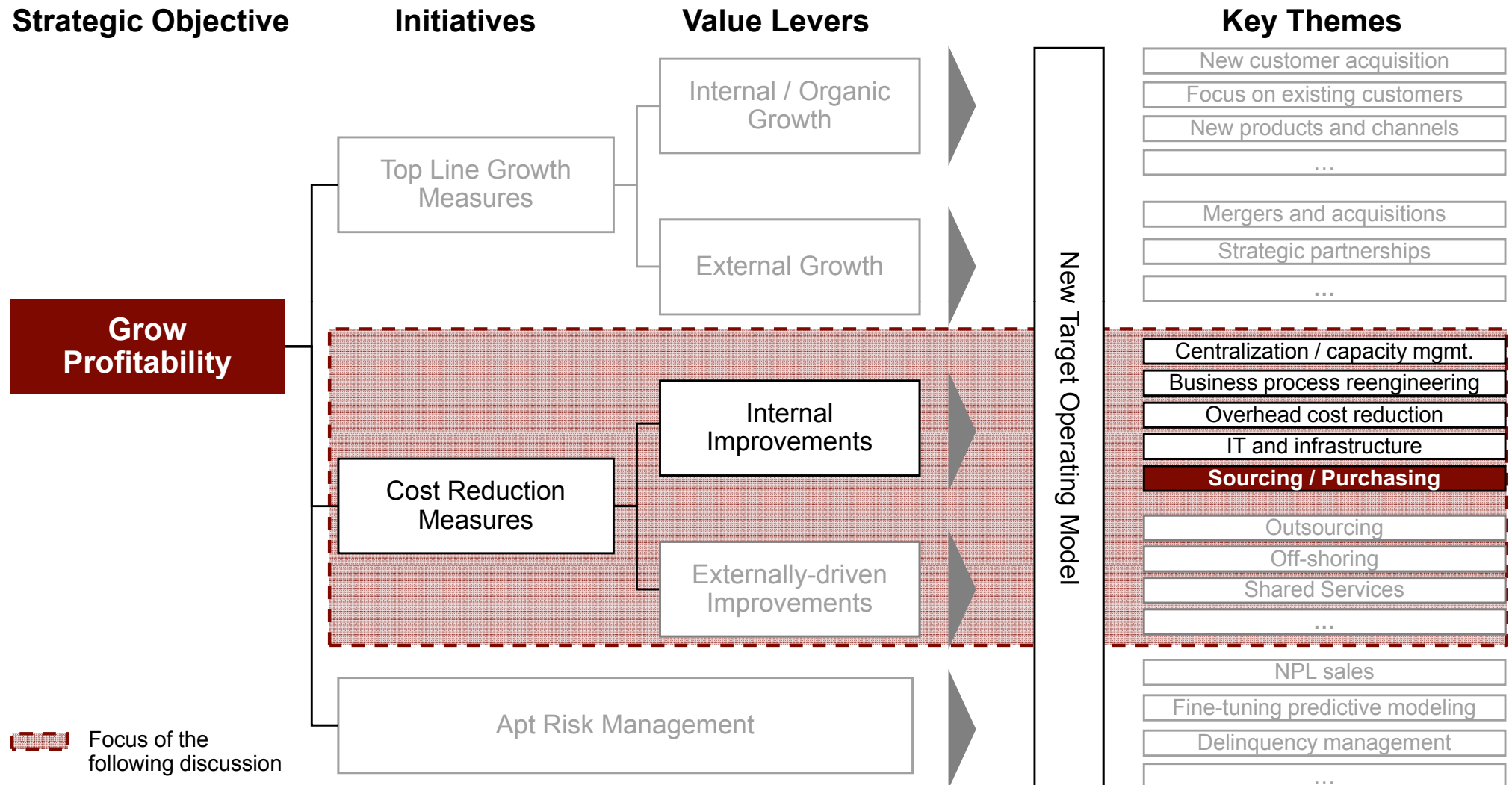
Focus of today's presentation is the A.T. Kearney Purchasing Chessboard™


Topics for today

- What is it?
- How does it help financial service provider?
- What benefits can be achieved by applying it?

From a profitability perspective, purchasing is one of the major levers for cost reduction

Profitability Crisis – Key Considerations

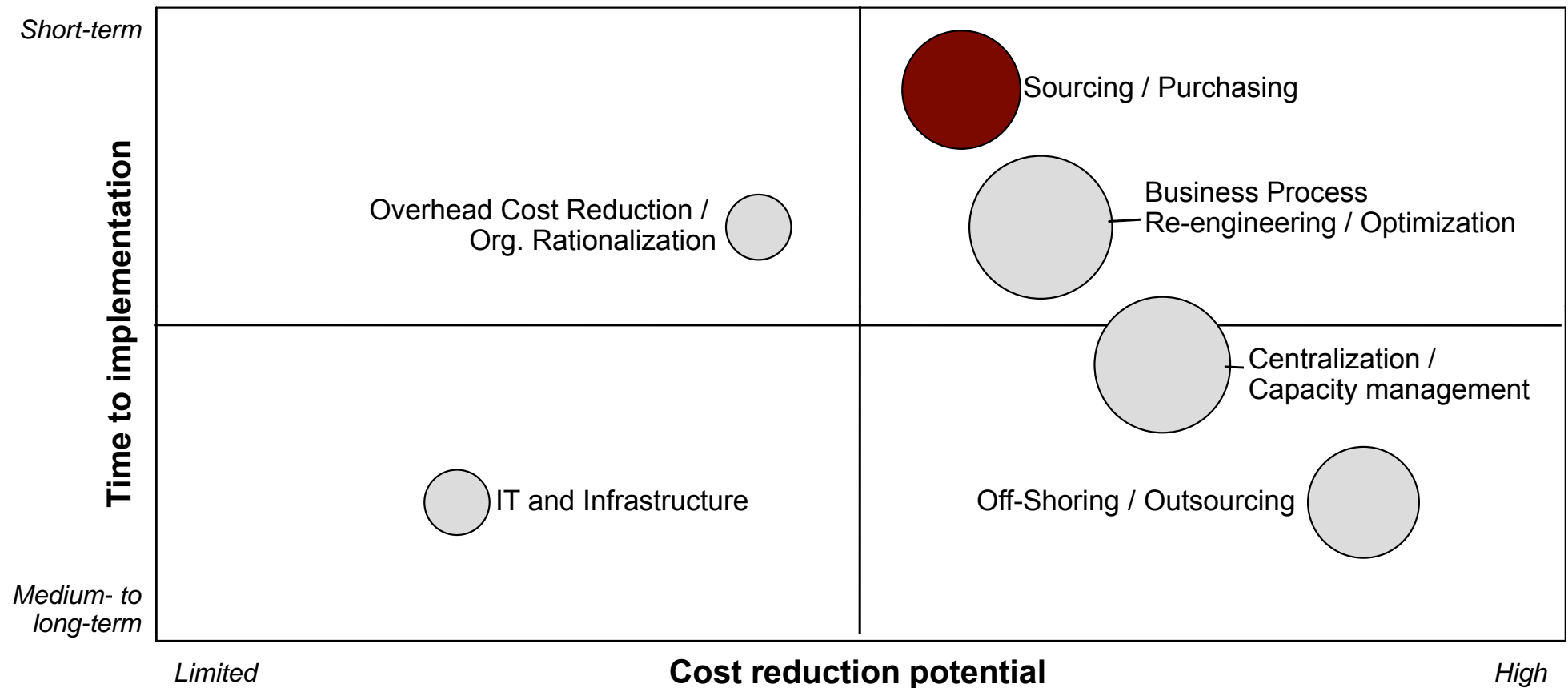


 Focus of the following discussion
Source: A.T. Kearney analysis

Purchasing combines short-term implementation with rather high cost reduction potential

Efficiency Levers and Savings Potential

Estimates

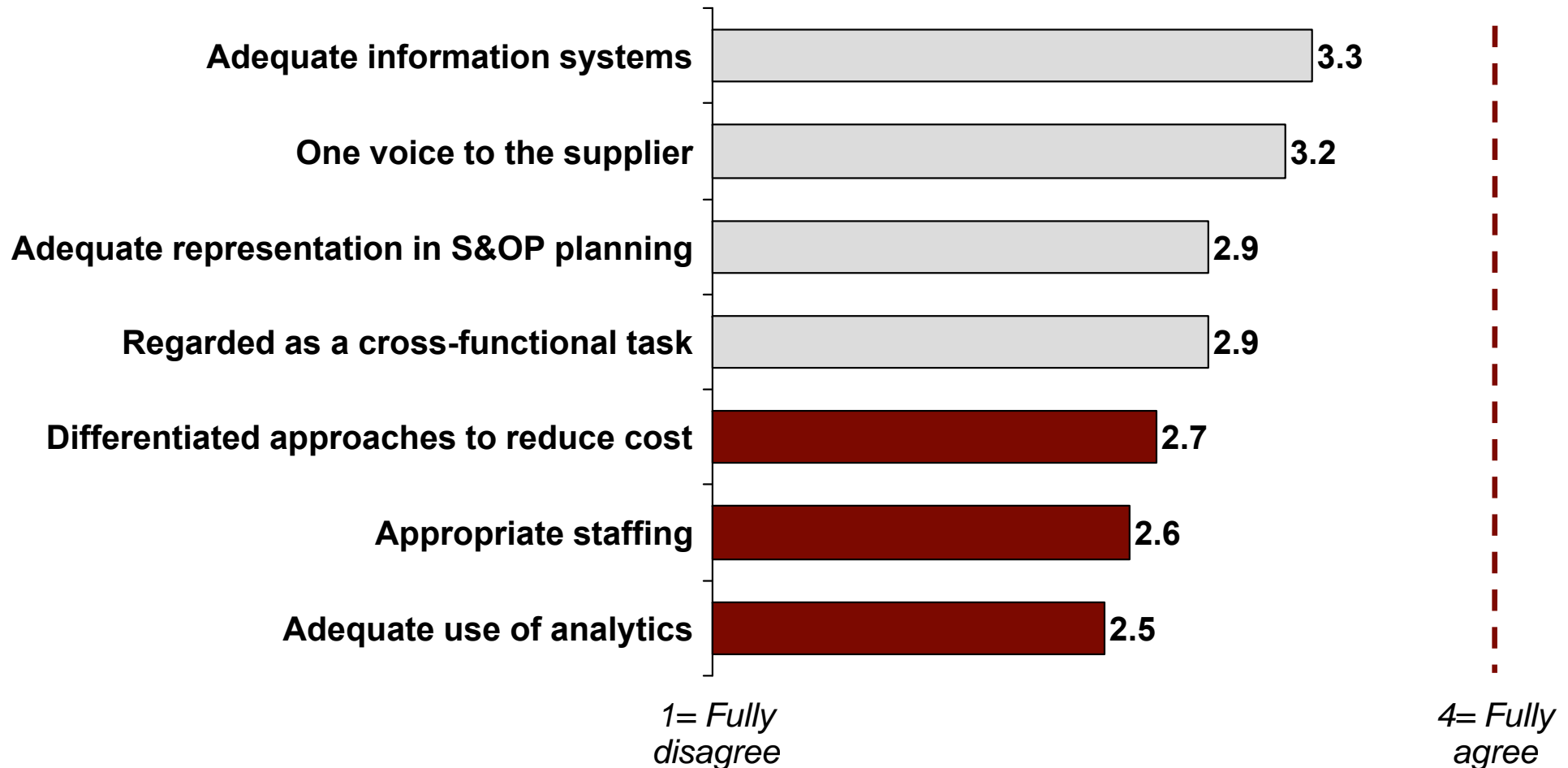


○ Bubble size = Addressable scope

1) Based on A.T. Kearney experience
Source: A.T. Kearney analysis

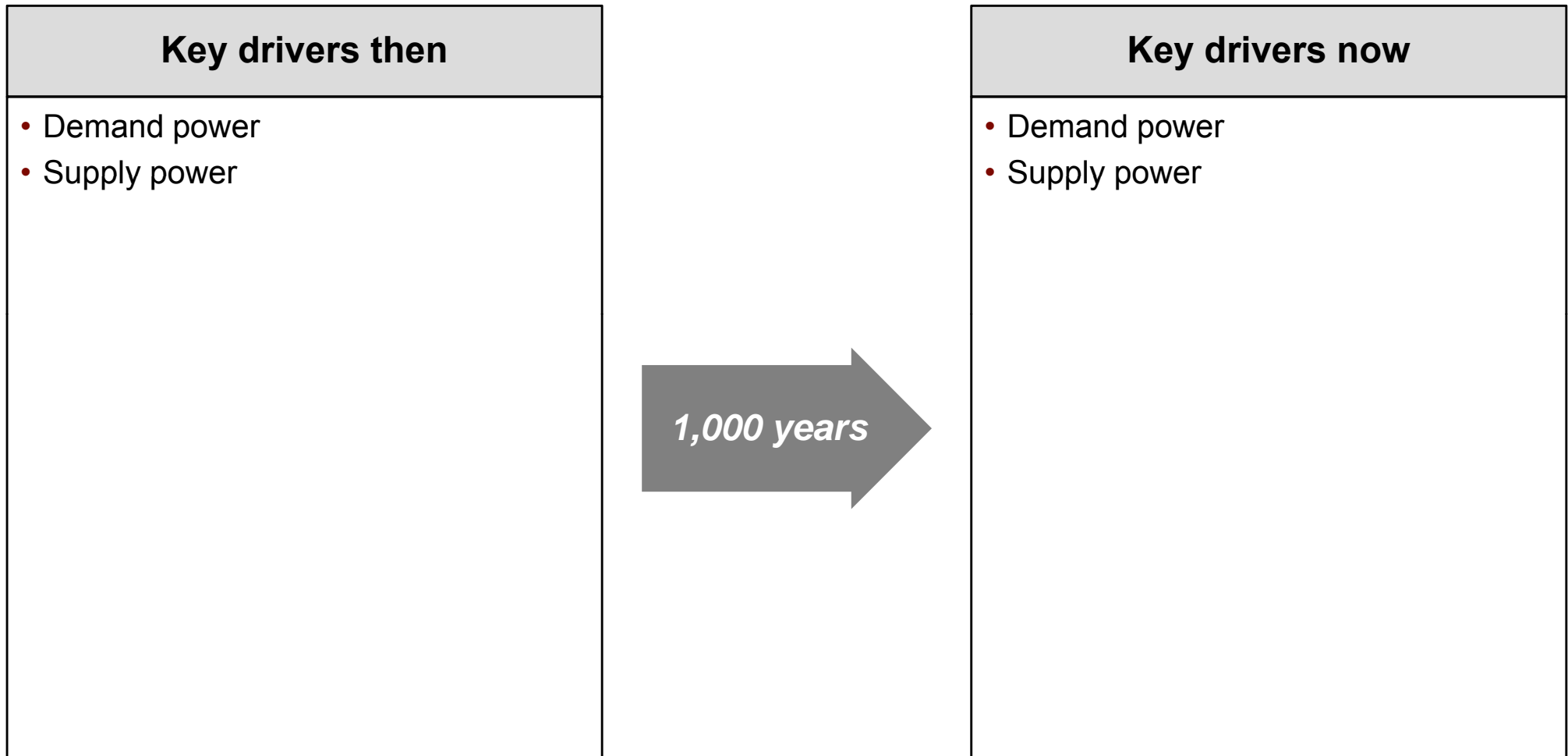
An A.T. Kearney survey shows that CEOs see purchasing unfit for the challenges of today's market

200 CEOs survey on their company's purchasing



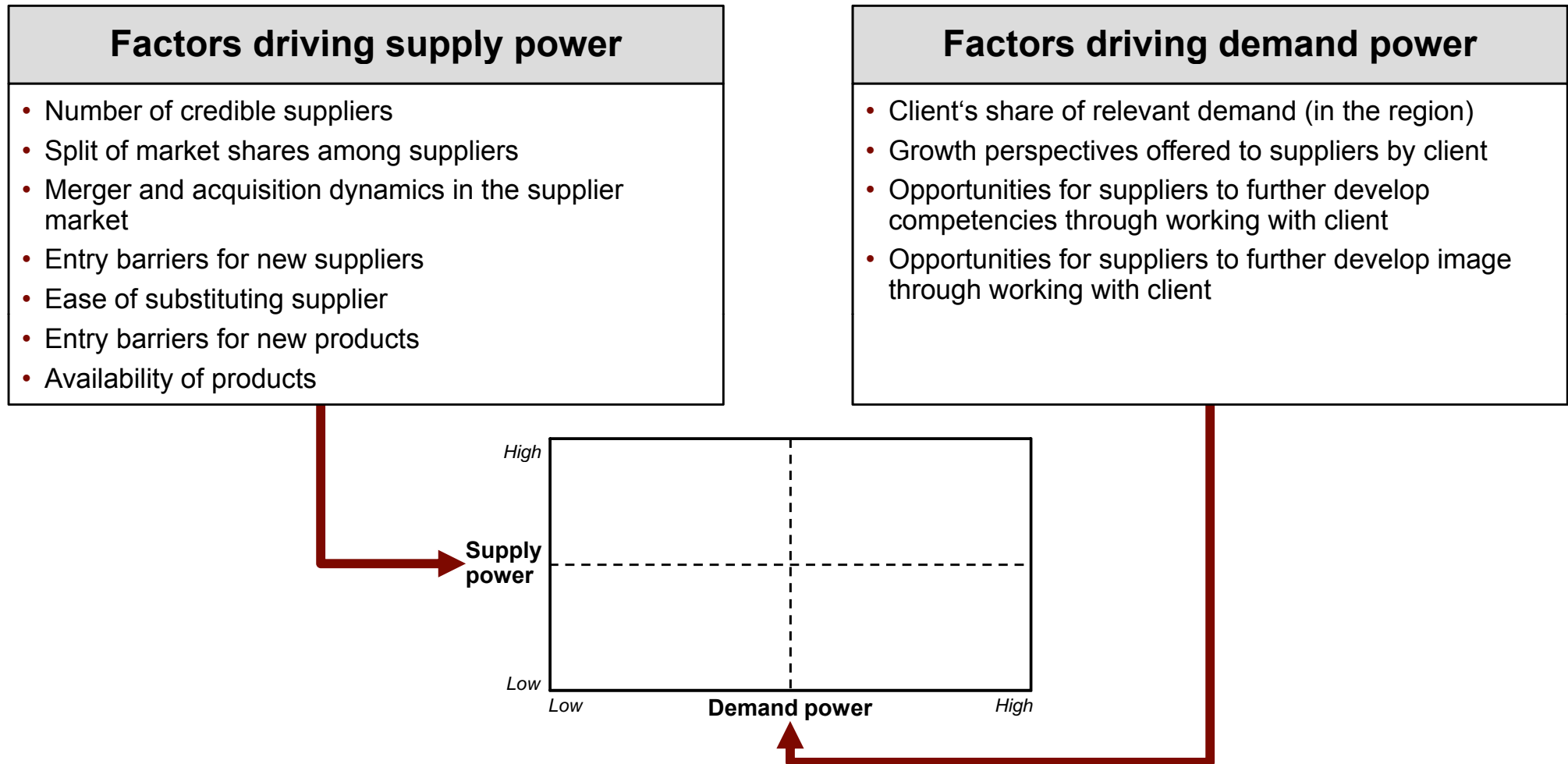
We found that an ancient concept works best to describe the challenges of today's purchasing

Understanding demand and supply



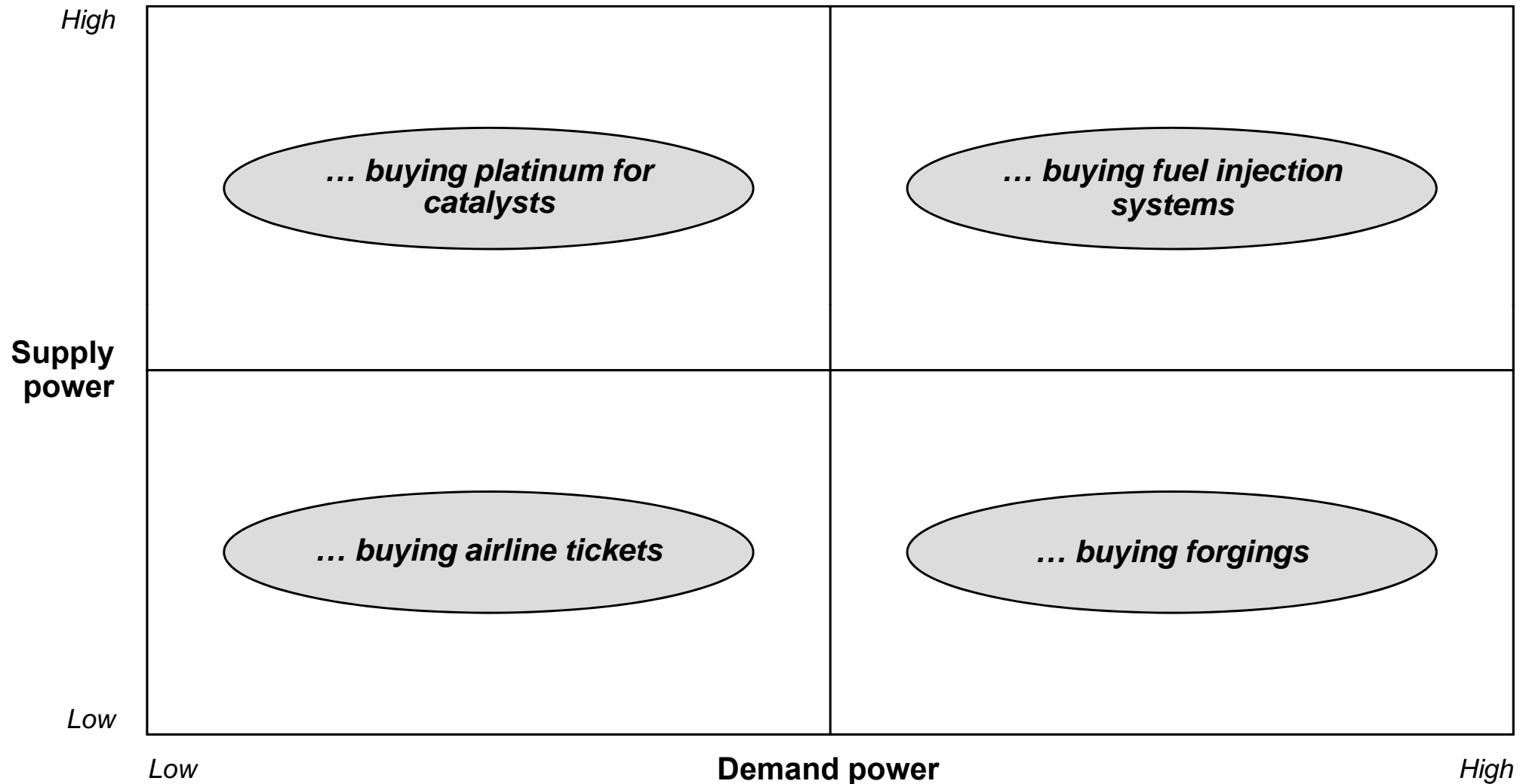
The correct positioning of commodities in the Chessboard requires detailed insights

Positioning of commodities in the Purchasing Chessboard



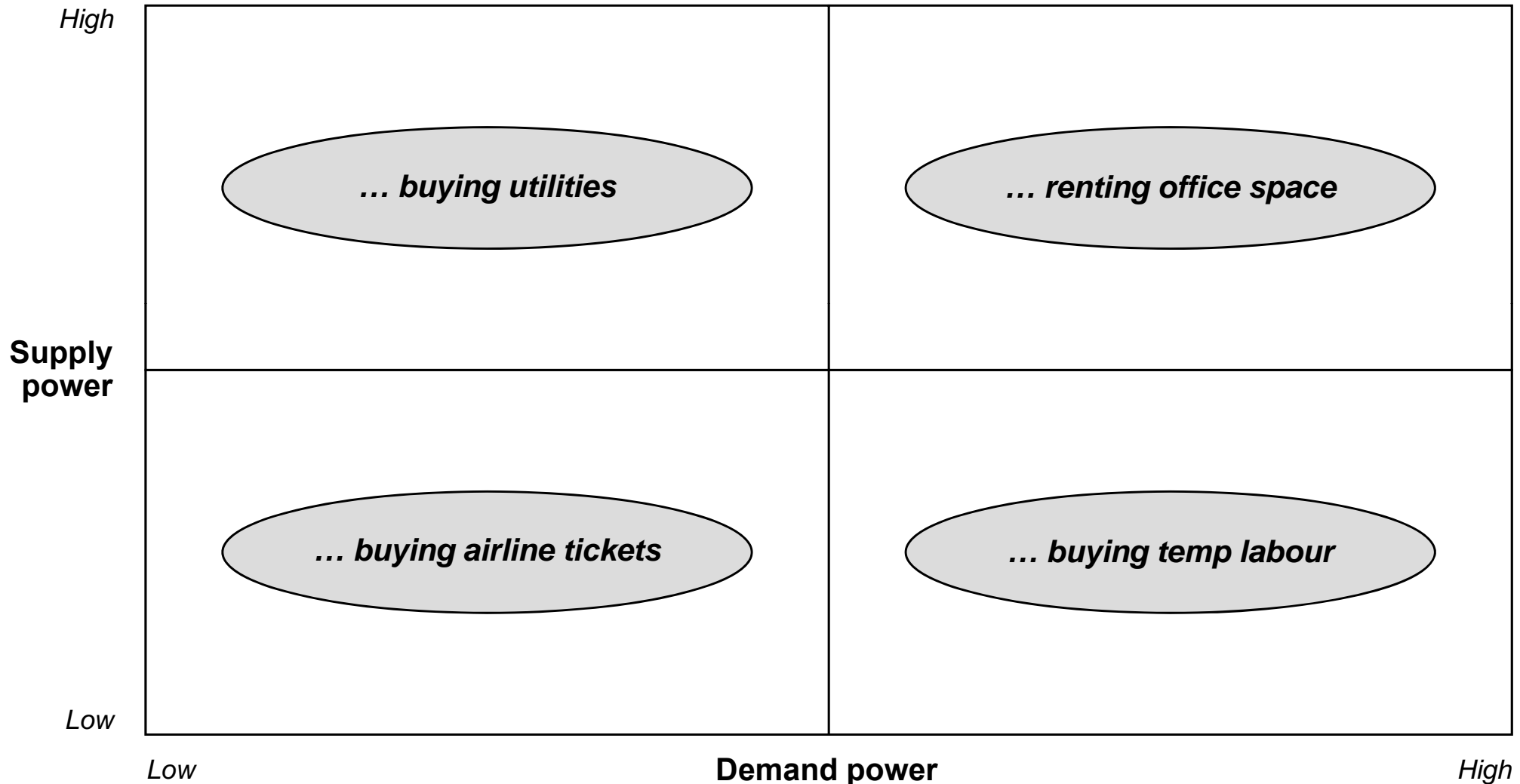
The framework of supply and demand power can be applied for direct material in manufacturing industries....

The playing field of a large Automotive OEM



...as well as for the „production“ spend of financial service providers (FSP)

The playing field of a typical financial service provider



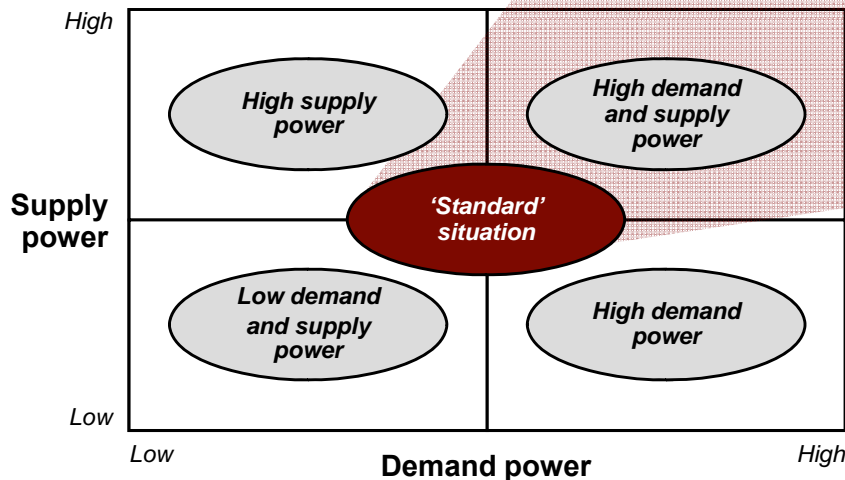
Standard RFI/RFP sourcing has been deployed effectively at most companies around the globe

"Standard" situation

RFI/RFP sourcing

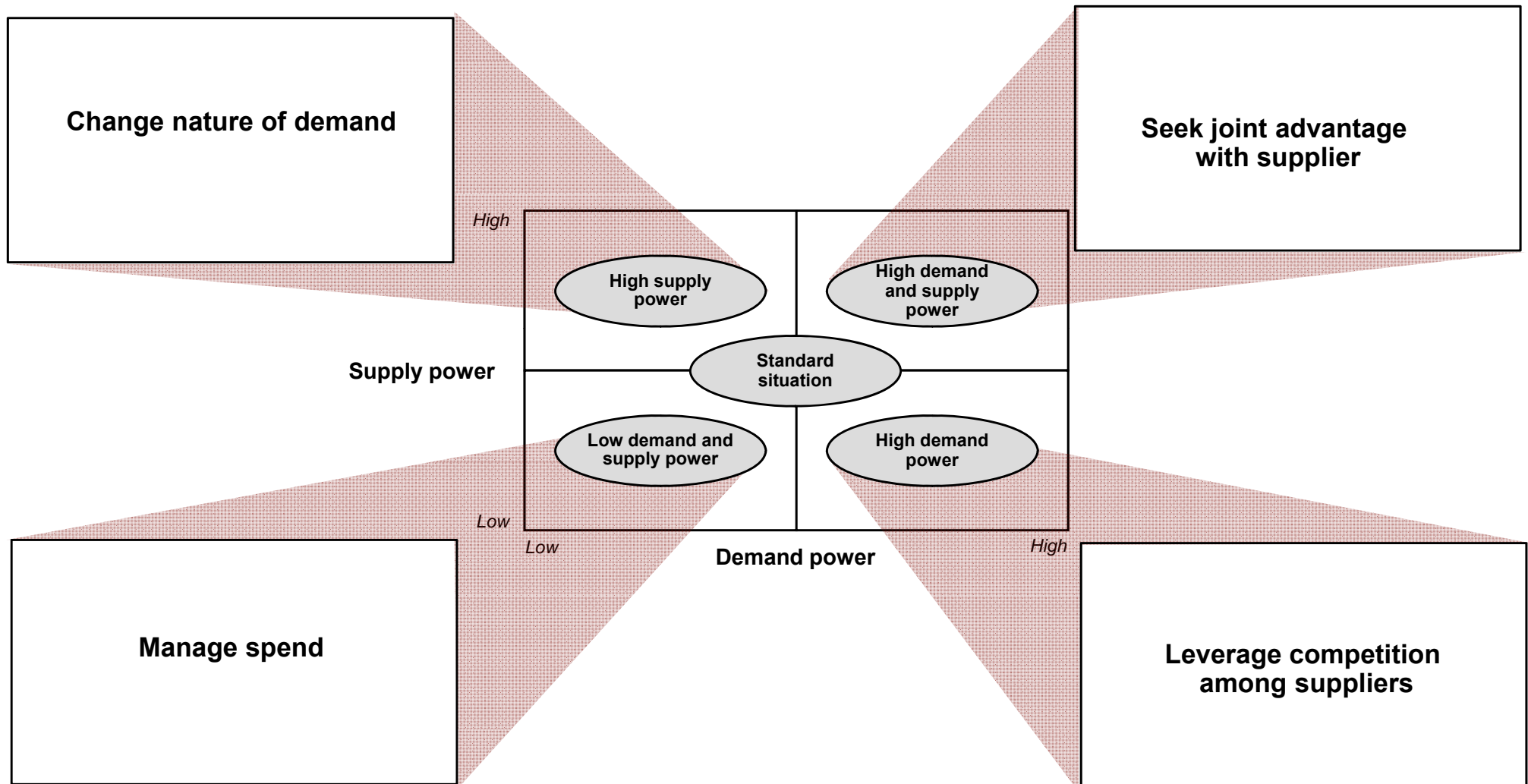
The image shows three sample forms from Constantia Packaging:

- Form 1 (Cover Letter):** Contains contact information for the Purchasing Director and details of the RFI/RFP program.
- Form 2 (Request for Information (RFI)):** A structured form with sections for Company Name, Address, Contact Name, and various checkboxes for product categories.
- Form 3 (Request for Proposal (RFP)):** A more detailed form with sections for Company Name, Financials, and a list of product categories with checkboxes.



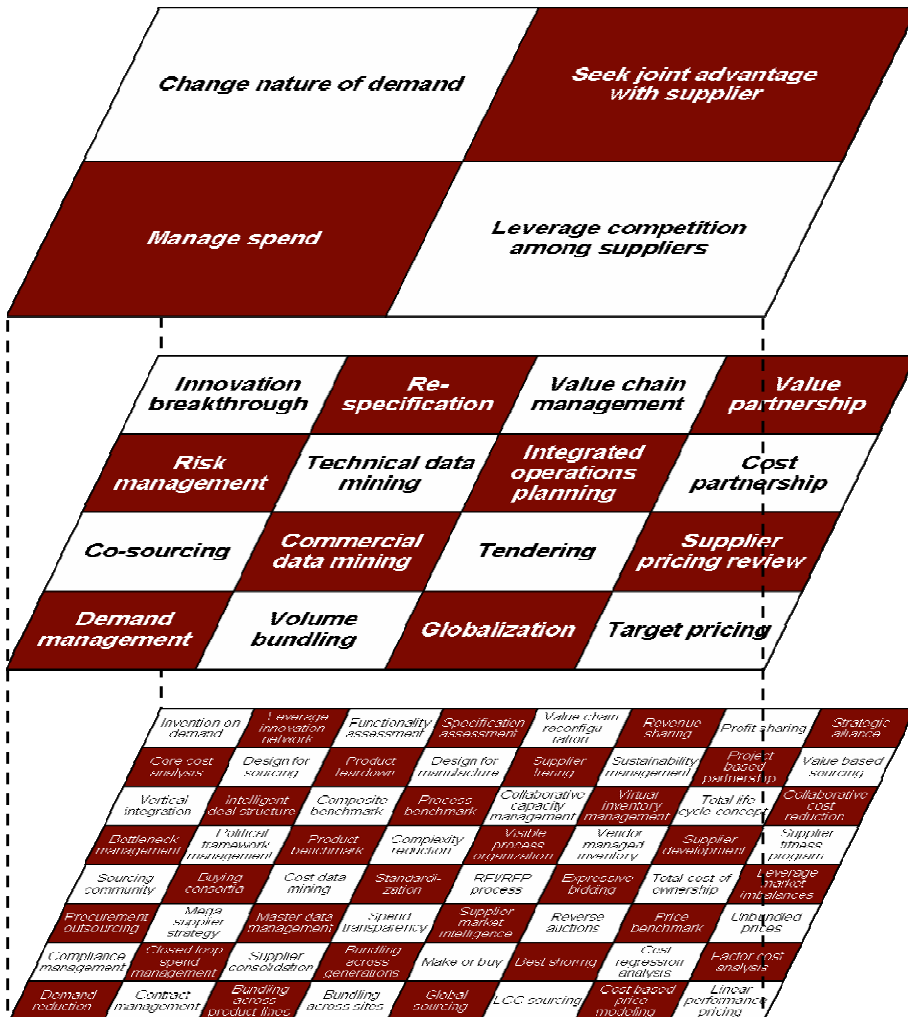
Being successful in the supply market requires profound understanding of demand and supply power

Non "standard" situations



To help buyers master the tools of their trade, we developed The Purchasing Chessboard™

Framework to select sourcing strategies



- 4 basic strategies

- 16 approaches

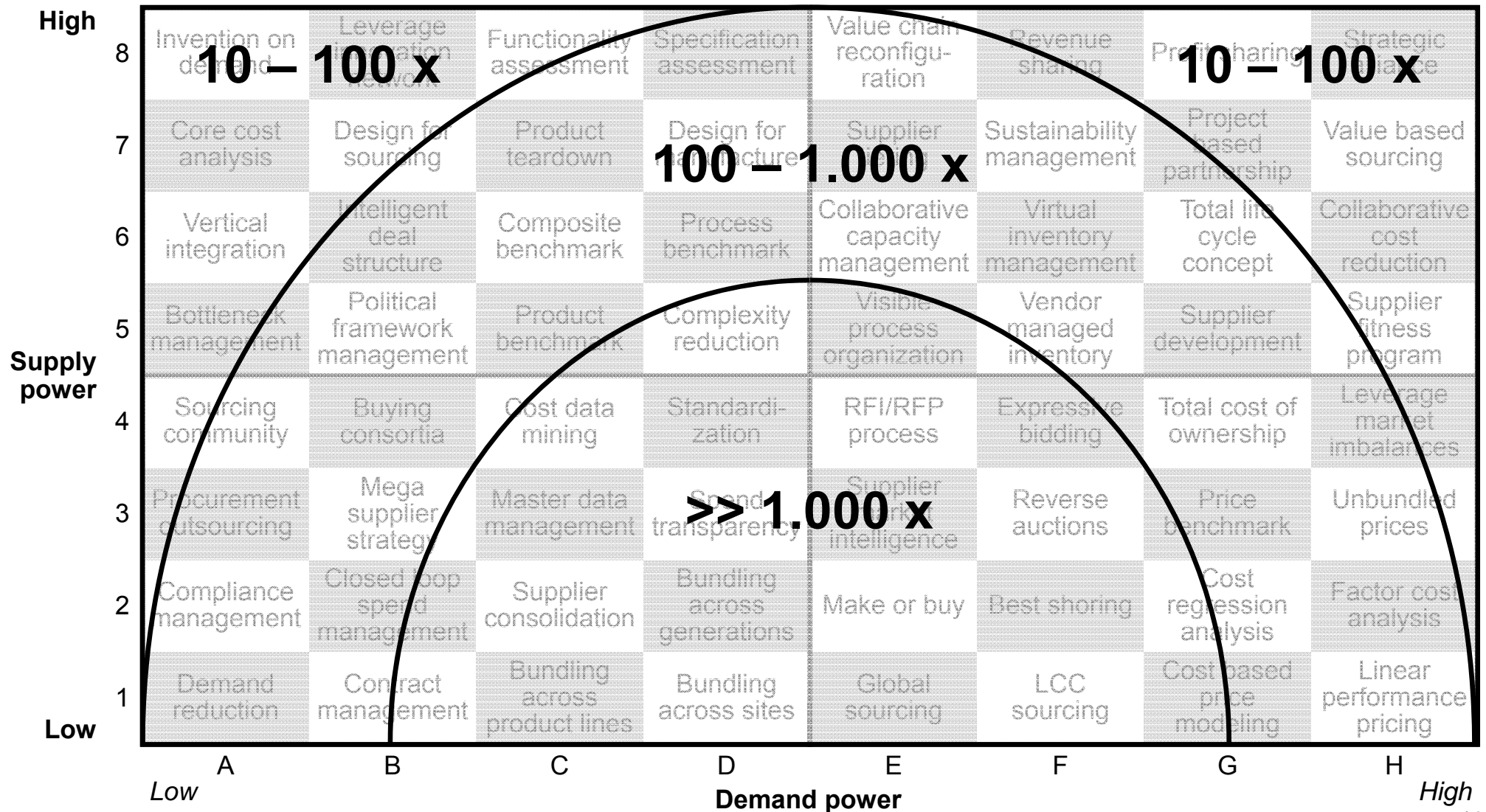
- 64 methods
- Supported by comprehensive training material
- Backed up by sanitized benchmarks from > 500 purchasing projects in the past 3 years

The Purchasing Chessboard™

Supply power	High	8	Invention on demand	Leverage innovation network	Functionality assessment	Specification assessment	Value chain reconfiguration	Revenue sharing	Profit sharing	Strategic alliance	
	7	Core cost analysis	Design for sourcing	Product teardown	Design for manufacture	Supplier tiering	Sustainability management	Project based partnership	Value based sourcing		
	6	Vertical integration	Intelligent deal structure	Composite benchmark	Process benchmark	Collaborative capacity management	Virtual inventory management	Total life cycle concept	Collaborative cost reduction		
	5	Bottleneck management	Political framework management	Product benchmark	Complexity reduction	Visible process organization	Vendor managed inventory	Supplier development	Supplier fitness program		
	4	Sourcing community	Buying consortia	Cost data mining	Standardization	RFI/RFP process	Expressive bidding	Total cost of ownership	Leverage market imbalances		
	3	Procurement outsourcing	Mega supplier strategy	Master data management	Spend transparency	Supplier market intelligence	Reverse auctions	Price benchmark	Unbundled prices		
	2	Compliance management	Closed loop spend management	Supplier consolidation	Bundling across generations	Make or buy	Best shoring	Cost regression analysis	Factor cost analysis		
	Low	1	Demand reduction	Contract management	Bundling across product lines	Bundling across sites	Global sourcing	LCC sourcing	Cost based price modeling	Linear performance pricing	
			A	B	C	D	E	F	G	H	High
			Demand power								

The frequency of levers actually pulled varies according to demand and supply power distribution

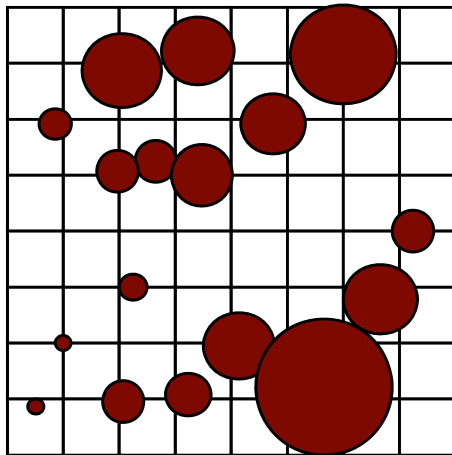
Number of times methods have been applied in past three years



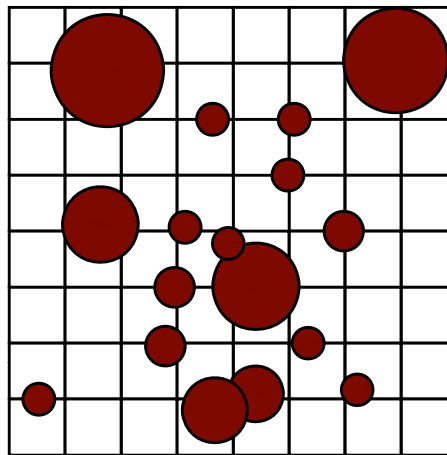
The strategy pattern for financial service providers (FSP) is rather favorable

Client case examples

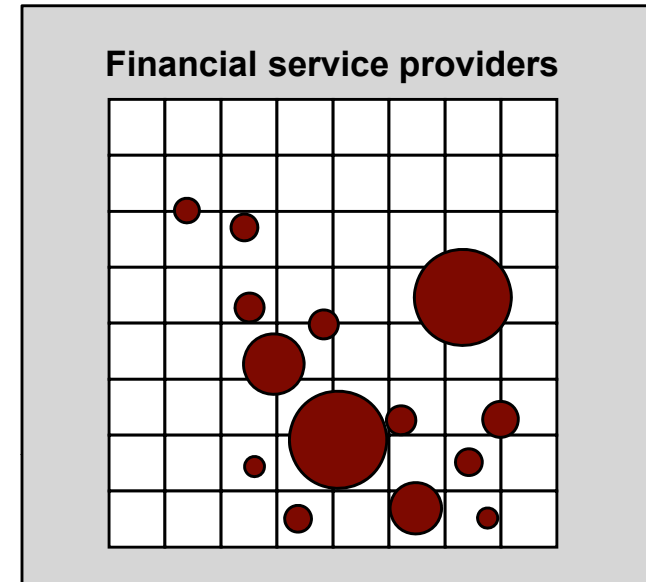
Construction equipment maker



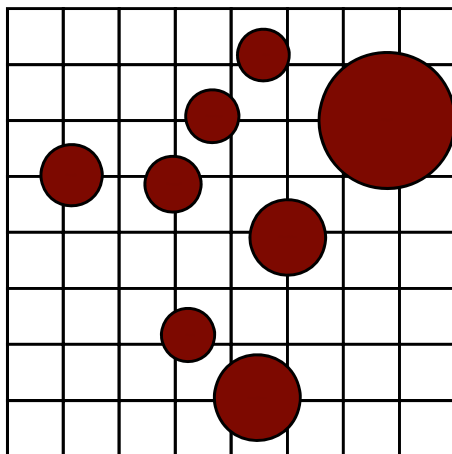
EPC company



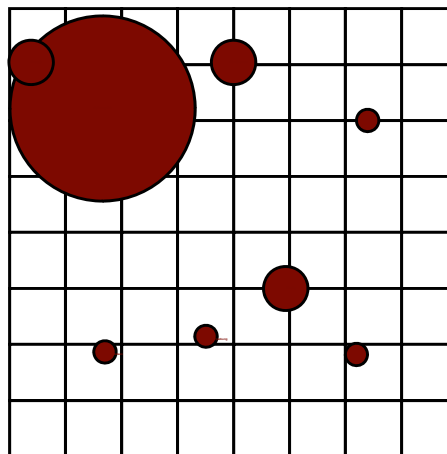
Financial service providers



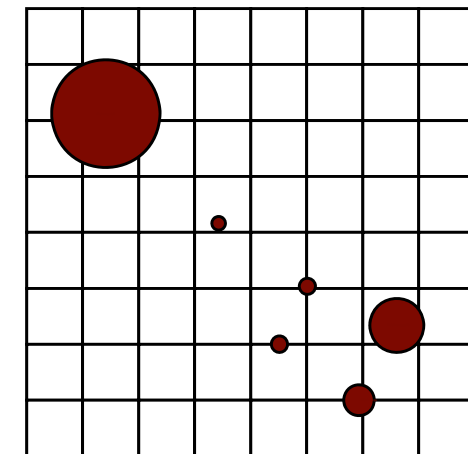
Fiber producer



Refractory producer



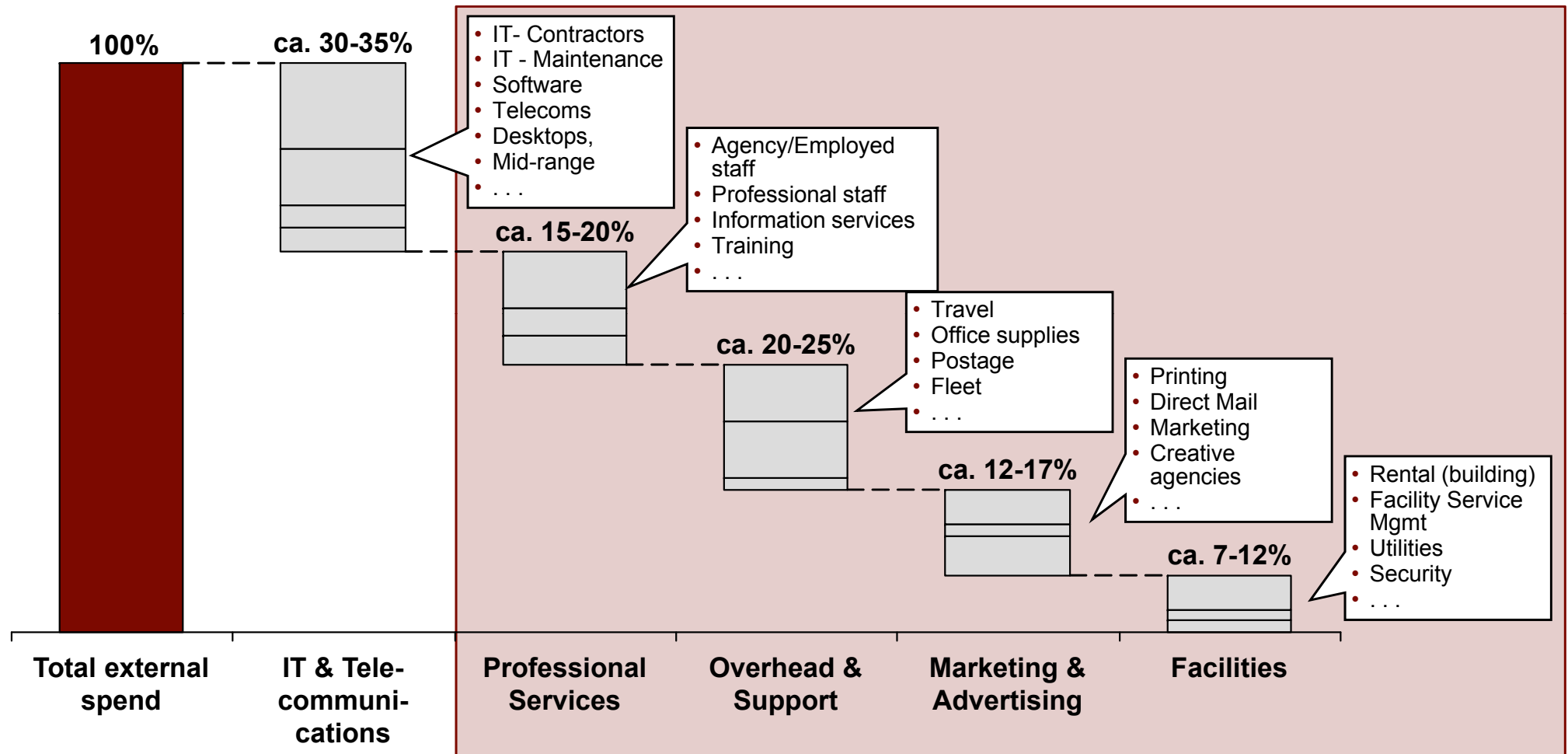
Automotive supplier



For FSP non-IT spend typically accounts for more than 60% of total external spend

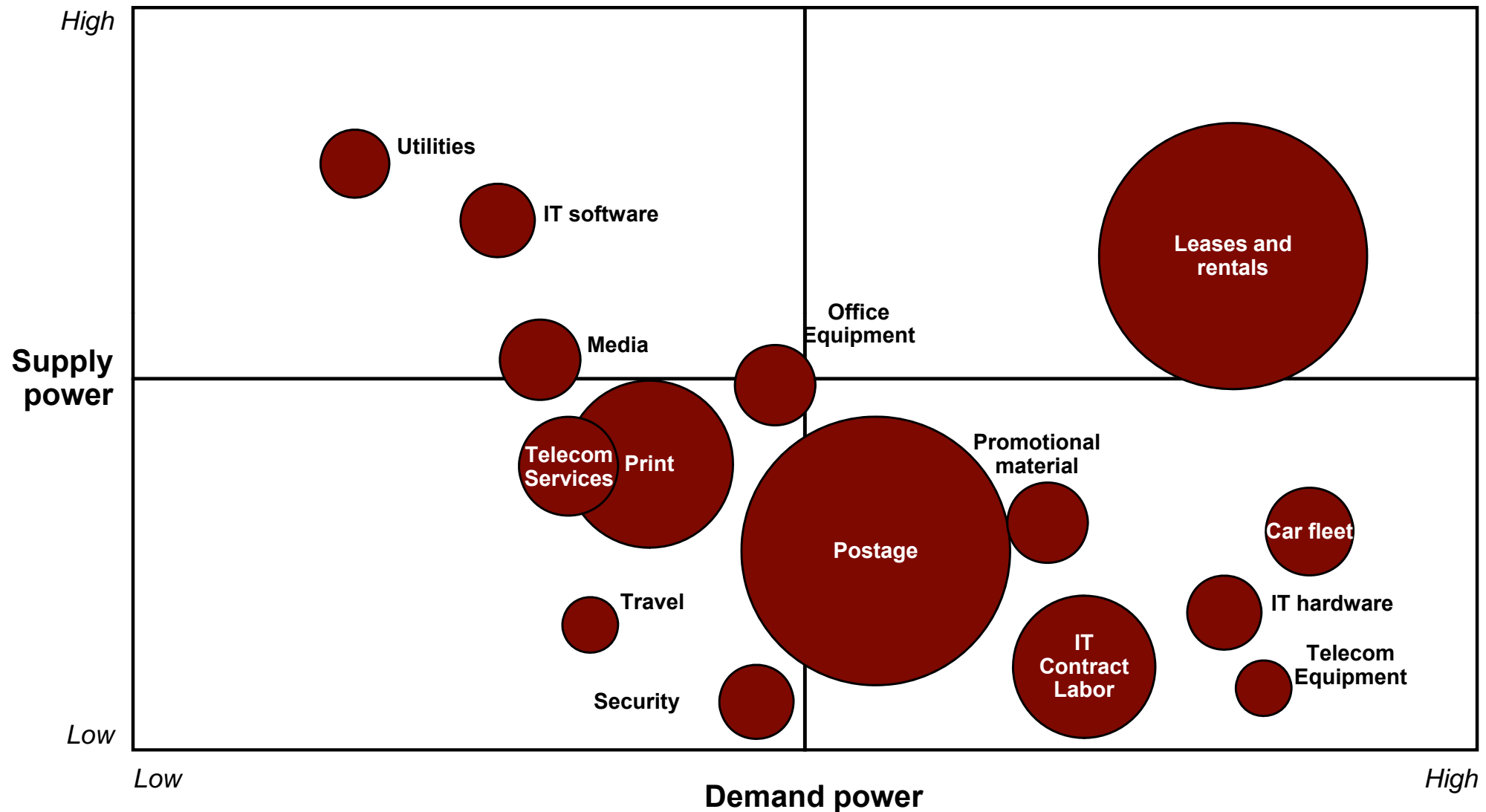
Spend distribution profile for financial institutions

Illustrative

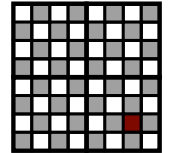


Most of the typical procurement groups are ideal for spend management and approaches leveraging competition

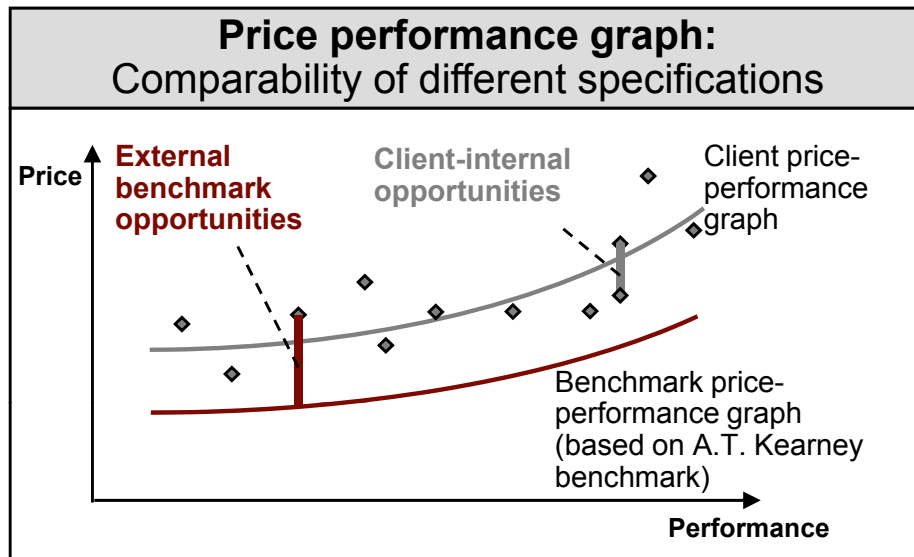
Application of the Purchasing Chessboard™ for selected categories



IT hardware: A.T. Kearney uses a unique benchmarking methodology to compare specifications



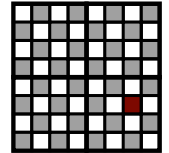
Cost regression analysis



- **Performance points**
Transition of technicals specs into performance points
- **Regression analysis**
Using regression analysis, client and A.T. Kearney benchmark prices are plotted in price-performance graphs
- **Gap analysis and quantification of opportunity**
Deduction of potentials on contract and benchmarking category level

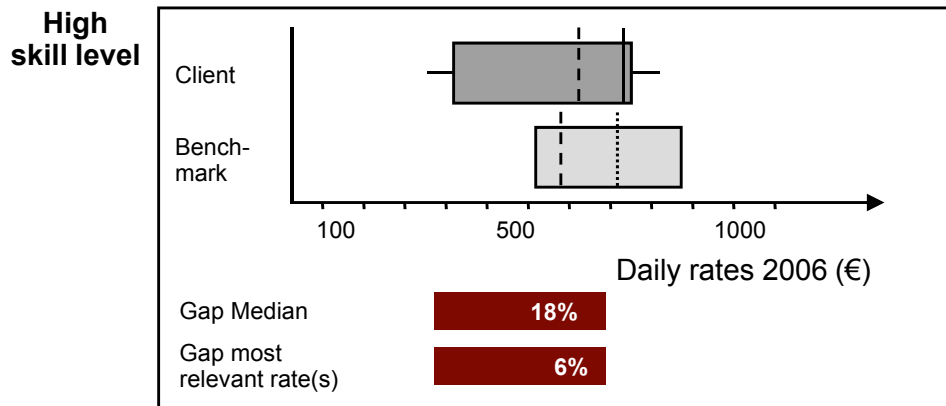
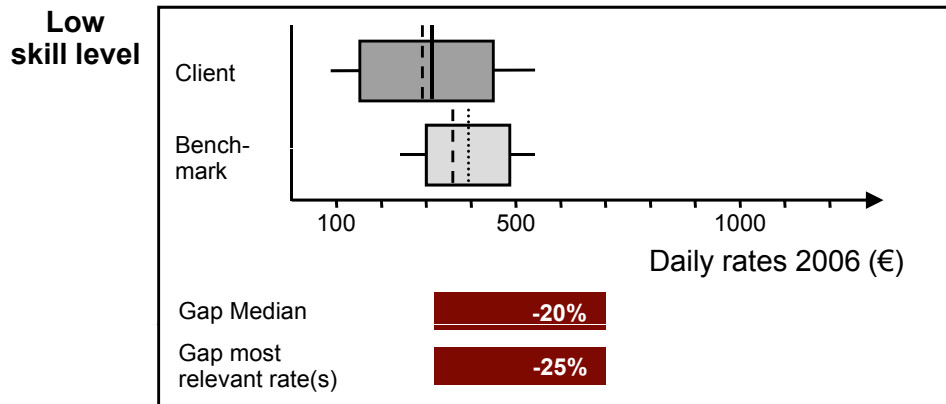
	Desktop parameters	Weight
Highly Influential parameters (>10%)	RAM (size, DIMM)	26%
	CPU (speed, cache, front-side-bus)	16%
	Warranty	12%
"Standard" influential parameters (5% < x ≤ 10%)	HDD	11%
	Optical devices (DVD, CD, ,,)	7%
	Payment terms	7%
	LAN/ WAN/ WiFi	6%
Low influential parameters (≤5%)	Graphic controller	5%
	Index-based pricing	4%
	Operating system	4%
	Lock	2%

IT services: Price benchmarking creates transparency and shows savings opportunities



Price benchmarks IT temp labor

Opportunities from price reduction



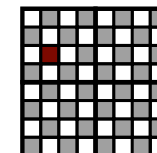
Opportunities from demand shift

Scenario I	Low	Med.	High	Σ
Spend (€ mil.)	22.0	18.0	40.0	80.0
Spend shift		50% ←		
New spend (€ mil.)	22.0	38.0	20.0	80.0
Savings pot. (Ø)	15%	8%	-	-
Savings (€ mil.)	-	1.6	-	1.6

Scenario II	Low	Med.	High	Σ
Spend (€ mil.)	22.0	18.0	40.0	80.0
Spend shift	25% ←	25% ←		
New spend (€ mil.)	32.0	28.0	20.0	80.0
Savings pot. (Ø)	15%	8%	-	-
Savings (€ mil.)	1.5	0.8	-	2.3

Distribution for 2nd/3rd quartile
 - - - - Median
 ——— Most relevant rate for client
 Benchmark percentile corresponding to percentile for most relevant client rate

IT software: Intelligent deal structure helps to achieve cost reduction in monopolistic situations

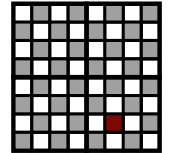


Contract clause benchmarking: example SAP

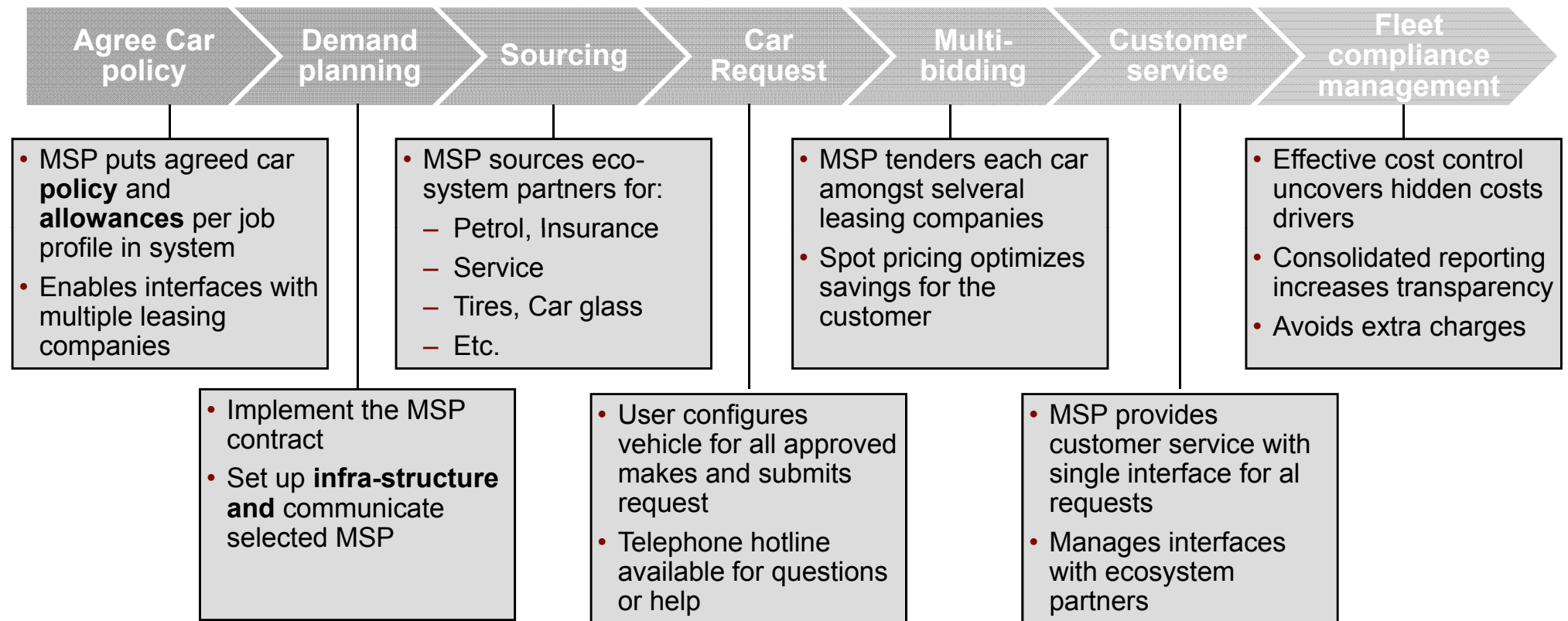
	Best-in class benchmark ¹⁾	Further practices
Modified SAP user roles	<ul style="list-style-type: none"> • Option for one single new mySAP user role • Additional discount of > 10% on Professional User fee • Right to convert existing SAP users into new user type 	<ul style="list-style-type: none"> • No user role licensing for mySAP (as part of "flat fee approach") • Modified definition of limited professional user: <ul style="list-style-type: none"> – One-module user – Max. 5 days usage per month
Pricing model	<ul style="list-style-type: none"> • Licence based pricing • Volume-staggered additional discounts beyond standard discounts negotiated • Standard maintenance rates based on net fees 	<ul style="list-style-type: none"> • "Flat fee" for all mySAP licenses based on number of employees
Additional discounts	<ul style="list-style-type: none"> • Additional staggered licence discount based on accumulated purchases for past 2 years (up to 7% for double-digit million € purchases) • Installation and implementation technical support discount of 5% (with committed volume > \$ 7 mil. discount of 7%) 	<ul style="list-style-type: none"> • Ex-post rebate by applying improved discount on previous application value • No extended maintenance markup for 2 years

1) Best-in class benchmark represents company with high double-digit million € SAP business
 Source: A.T. Kearney

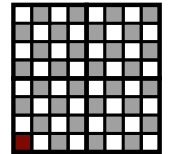
Car fleet: An external service provider helps to optimize the total car fleet costs



Managed service provider (MSP) – example car fleet



Travel: Additional demand management approaches deliver significant savings



Demand reduction

- 1

Executive Mandate

 - Top down directive to reduce all travel budgets by x%
 - Embed 'little travel' attitude into the corporate culture
- 2

Zero-Based Budgeting

 - Each cost center must plan travel budget based on expected number of trips X average cost per trip
 - Based on prior year's usage and adjusted for business changes (bottom up)
- 3

Technological Alternatives

 - Develop a comprehensive suite of technology tools that enable virtual meetings
 - Review adequacy of technology alternatives
- 4

Approval Process

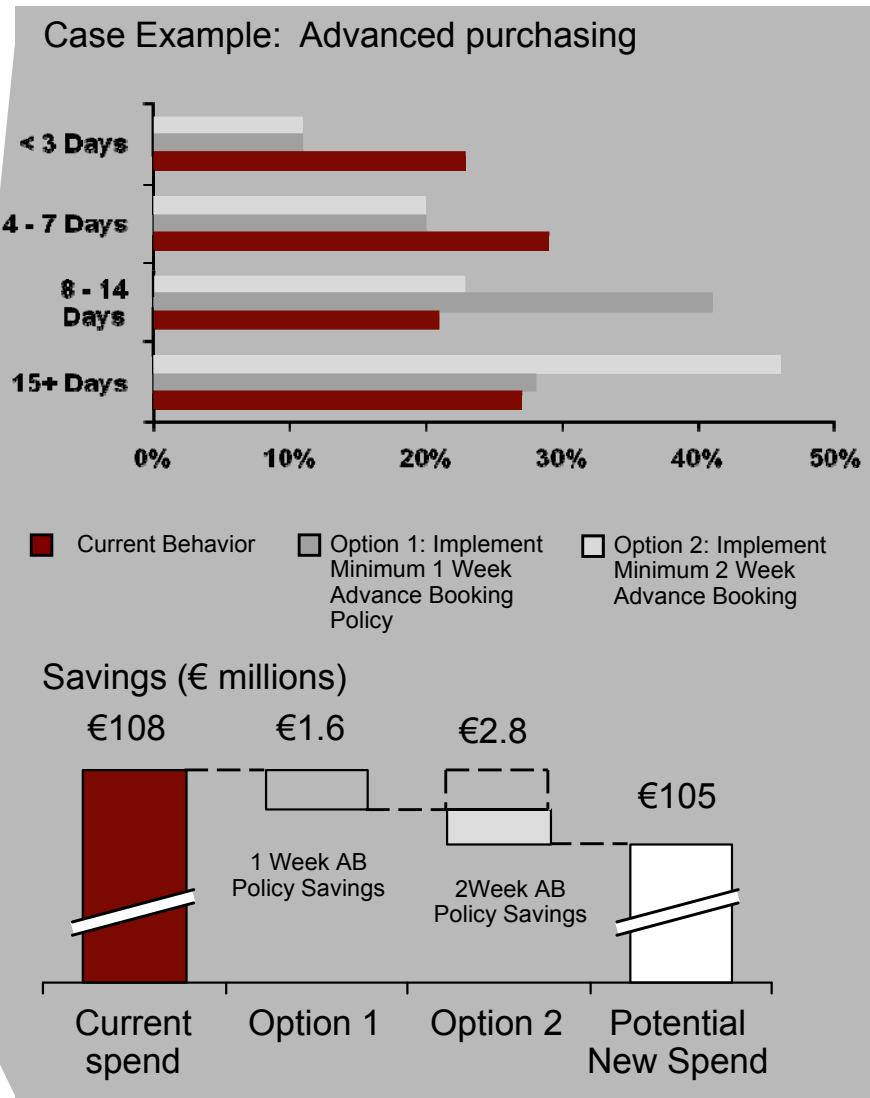
 - Require approval process for travel
 - Workflow based process
 - Technology supported back-end audits with automated flags and exception routing
- 5

Traveler Behavior Analysis

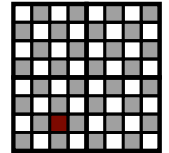
 - Statistical analysis of traveler behavior to support travel budget reduction opportunities with business partners
 - Highlight opportunity cost of each trip
- 6

Focus on Sustainability

 - Virtual meetings support reduction of carbon footprint in-line with company objectives
 - Cross-charge carbon footprint offset charges back to the travelers budgets



Cross-functional teaming between procurement and marketing is key for savings generation



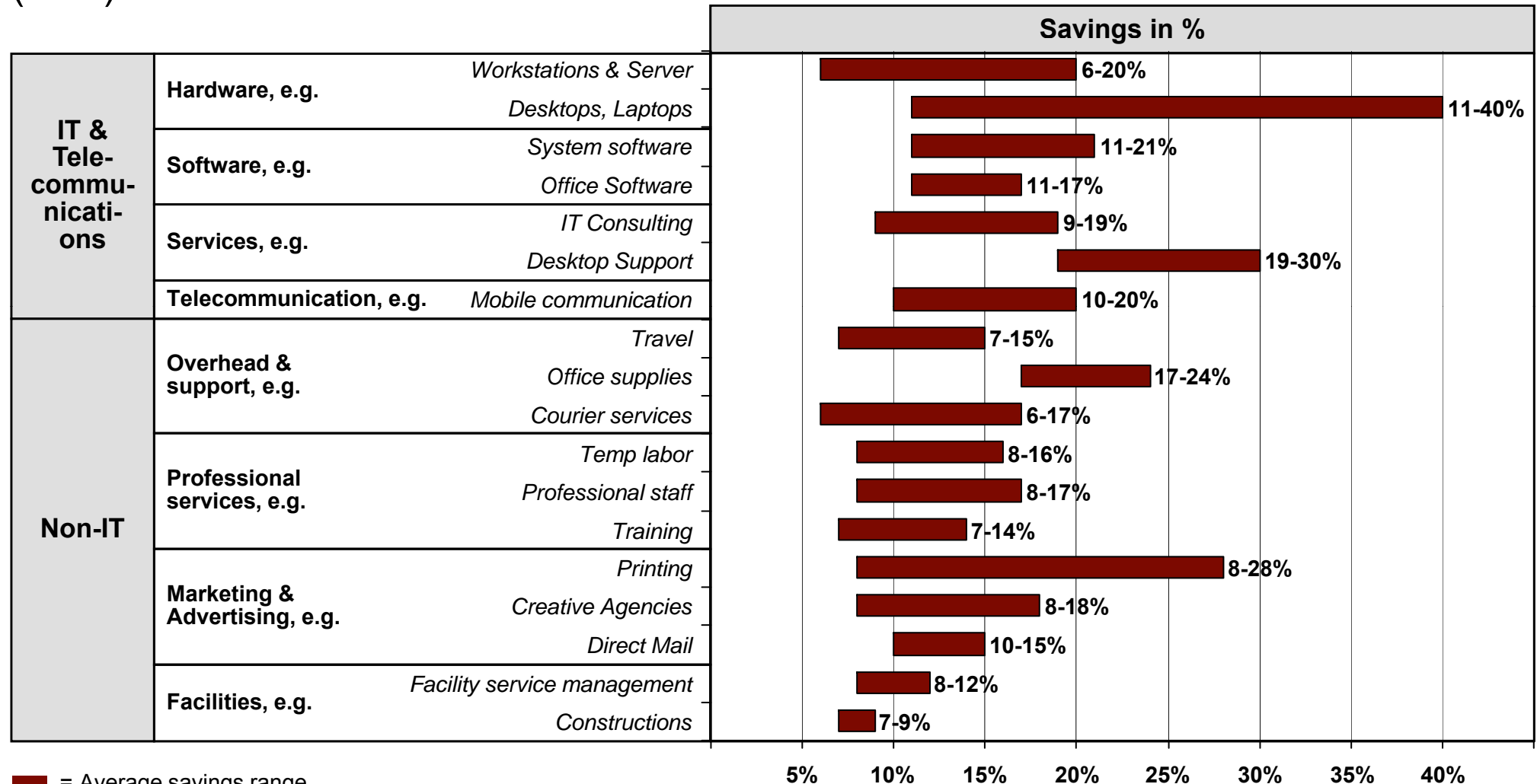
Supplier consolidation

Situation	Media agencies	Approach
<ul style="list-style-type: none"> • Process industry company • € 26 mil. addressable spend in marketing, media agency and print • No central coordination • No transparency over volume • More than 10 media agencies • Heterogeneous pricing system • Poor standardization of service levels 	<div data-bbox="792 568 1444 1088"> </div> <div data-bbox="801 1126 1438 1445"> <p>Significant cost reduction achieved without narrowing creativity</p> </div>	<ul style="list-style-type: none"> • Identification of volume in different national and international media • Bundling of volume by different types of media • Concentration of volume to few powerful preferred media agencies • Setting of service levels/ standards combined with price negotiation • Maximization of rebates and fee volume by media

In all, significant savings opportunities exist across all relevant categories

Savings opportunities for selected categories (in %)

Selection



■ = Average savings range
 Source: A.T. Kearney experience

The Purchasing Chessboard is the state-of-the-art roadmap to tap significant opportunities that exist

"The Purchasing Chessboard ..."

- ... responds to most possible challenges in the supply market
- ... assigns the right method to optimize material costs in every possible supply market situation
- ... can be used for development of purchasing strategy as well for operational optimization of material costs
- ... is a compilation of insights and experience from more than 500 purchasing projects performed worldwide over the past three years
- ... has been used successfully in a wide range of industries and countries

All information are available online as well

Websites

English

www.purchasingchessboard.com

German

www.einkaufsschachbrett.de

The screenshot shows the English version of the website. The header includes the ATKEARNEY logo and navigation links: Home, deutsch, A.T. Kearney Central Europe. The main navigation bar lists: The Purchasing Chessboard™, Publications, Events, Authors, In the Press, Links, Registration, Login, Contact. The main content area features a large red and white chessboard graphic with the title 'The Purchasing Chessboard' and the subtitle '64 Methods to Reduce Cost and Increase Value with Suppliers'. A list of authors is provided: Christian Schuh, Robert Kromoser, Michael F. Strohmer, Ramón Romero Pérez, and Alenka Triplat. A sidebar contains four sections: 'Authors' (Our authors introduce themselves), 'Shortcut' (Go directly to the 64 methods), 'Publications' (Get more information on the Purchasing Chessboard), and 'Contact' (Feel free to contact us). The main text on the right states: 'Methods in The Purchasing Chessboard™ stand for A.T. Kearney's profound experience in purchasing'.

The screenshot shows the German version of the website. The header includes the ATKEARNEY logo and navigation links: Home, A.T. Kearney Central Europe. The main navigation bar lists: Einkaufsschachbrett™, Publikationen, Autoren, Presse, Links, Registrierung, Login, Kontakt. The main content area features a large red and white chessboard graphic with the title 'Das Einkaufsschachbrett' and the subtitle 'Mit 64 Ansätzen Materialkosten senken und Wert schaffen'. A list of authors is provided: Christian Schuh, Robert Kromoser, Michael F. Strohmer, Ramón Romero Pérez, and Alenka Triplat. A sidebar contains four sections: 'Publikationen' (Erfahren Sie mehr über das Thema "Schach den Materialkosten"), 'Autoren' (Lernen Sie die Autoren näher kennen), 'Registrierung' (Registrieren Sie sich jetzt), and 'Kontakt' (Nehmen Sie Kontakt mit uns auf). The main text on the right states: 'Das von A.T. Kearney entwickelte Einkaufsschachbrett™ unterstützt Unternehmen dabei, die neuen Herausforderungen im Einkauf zu meistern und signifikante Wertbeiträge zu erzielen'. A small box indicates the book is available for 20.9€ on amazon.de.