Securing Benefits By Assessing and Transforming the Supply Chain Function

November 2010
Introductions

KPMG LLP

• The audit, tax, and advisory firm is the U.S. member firm of KPMG International.

• KPMG International’s member firms have 137,000 professionals in 144 countries.

• KPMG delivers a globally consistent set of multidisciplinary services based on deep industry knowledge.

• Our industry focus helps KPMG professionals develop a rich understanding of clients’ businesses and the insight, skills, and resources required to address industry-specific issues and opportunities.

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Agenda

• Total Value Delivered

• Performance Measurements by Attribute
  – Talent Management
  – Operational Excellence
  – Right Sourcing
  – Supplier Relationship Management
  – Supply Chain Innovation
  – Customer Alignment

• Comparator Assessment Key Features

• Case Study - Large Integrated Oil & Gas Company

• Transformation Map
Total Value Delivered is a culmination of interdependent attributes.

- Total Value Delivered
- Customer Alignment
- Right Sourcing
- Supplier Relationship Management
- Supply Chain Innovation
- Operational Excellence
- Talent Management
Talent Management

Interactive Questions

<table>
<thead>
<tr>
<th>Example Metrics</th>
<th>Qualitative</th>
<th>Quantitative</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Depth of Team’s Skill Set</td>
<td>• Attrition/Turn-over Rate</td>
<td></td>
</tr>
<tr>
<td>• Organization Knowledge Risk</td>
<td>• Number of Certifications</td>
<td></td>
</tr>
<tr>
<td>• Succession Planning</td>
<td>• Training Hours per Employee</td>
<td></td>
</tr>
</tbody>
</table>

To what degree does your organization currently use talent based metrics?

1. None currently used
2. Identified but not tracked
3. Tracked
4. Tracked and acted upon
### Operational Excellence

#### Interactive Questions

<table>
<thead>
<tr>
<th>Example Metrics</th>
<th>Qualitative</th>
<th>Quantitative</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Confidence Level to Respond to Emergency Needs</td>
<td>• Delivery Delays</td>
</tr>
<tr>
<td></td>
<td>• Degree Group is Proactive</td>
<td>• Average transaction time</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• % of e-catalog enabled POs</td>
</tr>
</tbody>
</table>

To what degree does your organization currently use operational based metrics?

1. None currently used
2. Identified but not tracked
3. Tracked
4. Tracked and acted upon

![Degree Operational Metrics are Used](image-url)
Right Sourcing

Interactive Questions

<table>
<thead>
<tr>
<th>Example Metrics</th>
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<th>Quantitative</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Supplier Risk Exposure</td>
<td>• Spend Under Management</td>
</tr>
<tr>
<td></td>
<td>• Level of Market Analysis Conducted</td>
<td>• Sustainability Index</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Realized Benefits vs Forecast</td>
</tr>
</tbody>
</table>

To what degree does your organization currently use sourcing based metrics?

1. None currently used
2. Identified but not tracked
3. Tracked
4. Tracked and acted upon

Degree Sourcing Metrics are Used

1. None
2. Identified
3. Tracked
4. Acted
# Supplier Relationship Management

To what degree does your organization currently use supplier relationship based metrics?

1. None currently used
2. Identified but not tracked
3. Tracked
4. Tracked and acted upon

## Interactive Questions

<table>
<thead>
<tr>
<th>Qualitative</th>
<th>Quantitative</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Importance of Collaborative Improvements</td>
<td>• # of Suppliers with Scorecards</td>
</tr>
<tr>
<td>• Depth of Supplier Scorecards</td>
<td>• # of Supplier Issues Identified</td>
</tr>
<tr>
<td></td>
<td>• % of Suppliers by Performance</td>
</tr>
</tbody>
</table>

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Supply Chain Innovation

Interactive Questions

<table>
<thead>
<tr>
<th>Qualitative</th>
<th>Quantitative</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Perceived Level of Innovation by Internal</td>
<td>• # of Initiatives</td>
</tr>
<tr>
<td>Customers</td>
<td>• Additional Value Captured</td>
</tr>
<tr>
<td>• Maturity versus Competition</td>
<td>• % of Suppliers by Performance</td>
</tr>
</tbody>
</table>

To what degree does your organization currently use supply chain innovation based metrics?

1. None currently used
2. Identified but not tracked
3. Tracked
4. Tracked and acted upon

Degree Innovation Metrics are Used

- 1. None
- 2. Identified
- 3. Tracked
- 4. Acted
Customer Alignment

Interactive Questions

<table>
<thead>
<tr>
<th>Example Metrics</th>
<th>Qualitative</th>
<th>Quantitative</th>
</tr>
</thead>
</table>
|                  | • Demonstration of Contracts Supporting Company Objectives
|                  | • Level of Integration into Process
|                  | • Strategic Sourcing Rating
|                  | • Customer Satisfaction Survey
|                  | • Frequency of Communication

To what degree does your organization currently use customer alignment based metrics?

1. None currently used
2. Identified but not tracked
3. Tracked
4. Tracked and acted upon

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Which Attribute Is Most Undervalued in Reporting?

1. Talent Management
2. Operational Excellence
3. Right Sourcing
4. Supplier Relationship Management
5. Supply Chain Innovation
6. Customer Alignment
Comparator Assessment Key Features

- A Comparator Assessment combines three key data points in helping provide a more holistic assessment.
  - **External Benchmarks**
  - **Peer Comparators**
  - **KPMG Maturity Assessment**

- The assessment can be tailored to fit a company’s unique situation and the key questions it wants to answer

- Assessments can be scaled to the level of detail and scope that provide a meaningful analysis
Background and Objective

• External purchases for indirect materials and services constitute significant operating costs to oil & gas companies.

• Many procurement organizations obtain the materials and services for operations in a very tactical and transactional nature, which forfeits in unrealized value/profit.

The Assessment

The six week assessment used a combination of qualitative reviews of peer companies, external benchmark data, internal interviews, document reviews, and the team’s collective background in the oil & gas to answer their four key questions.
Case Study - Large Integrated Oil & Gas Company

The Four Questions

• How do the procurement organization’s processes, effectiveness, and costs compare to key competitors?

• How do the organization structure and practices compare with peers?

• What are the metrics that could be used to compare the procurement organization’s efficiency and effectiveness with peers long-term?

• If there is unrealized value, how much value/savings/revenue enhancement might be captured if steps were taken to increase competitiveness?
Case Study - Large Integrated Oil & Gas Company

Outcomes

• Gained an understanding of the supply chain organization’s maturity as compared to industry and peer benchmark results
• Gathered a set of actionable recommendations developed to close the company’s gaps with their peers (Organization, Processes, Technology, Performance Management)
• Estimated of the potential value derived from implementing the recommendations
• Revised their Value/Saving Capture Methodology to be more inline with their peers
Case Study - Large Integrated Oil & Gas Company

Based on a comparison with identified peer companies, PROC performs on an average basis.

<table>
<thead>
<tr>
<th></th>
<th>US1</th>
<th>US2</th>
<th>US3</th>
<th>IOC1</th>
<th>IOC2</th>
<th>IOC3</th>
<th>IOC4</th>
<th>IOC5</th>
<th>DS1</th>
<th>DS2</th>
<th>DS3</th>
<th>PRO</th>
</tr>
</thead>
</table>
| **Organization**
Size and structure of organization, roles, skills mix |     |     |     |      |      |      |      |      |     |     |     |     |
| **Strategy Aligned**
Procurement strategy is aligned with business goals |     |     |     |      |      |      |      |      |     |     |     |     |
| **Sourcing & Category Management**
Org in place, process ingrained, drives process, robust supplier management, training programs |     |     |     |      |      |      |      |      |     |     |     |     |
| **Performance Metrics/ Benefits Capture**
Formal process in place with stretch targets (external and internal); hard dollar savings with formal recognition process |     |     |     |      |      |      |      |      |     |     |     |     |
| **Technology**
Common procurement systems for spend analysis, sourcing, P2P, and reporting |     |     |     |      |      |      |      |      |     |     |     |     |

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In general, we believe procurement performs well against independent DS/US peers. There are opportunities for improvement when compared to some IOC practices.
Case Study - Large Integrated Oil & Gas Company

Overview

Organization & People
+ CPO role and organizational position
+ Skill mix and blend of procurement professionals with business/operations talent
+ An active network exists with a shared services support organization
  – Business/operations talent within procurement has not been educated in supply chain practices

Process
+ Operational procurement tightly integrated with the business
  – Inconsistent definition of strategic sourcing process and non-existence of category management approach
  – Undefined Procure-to-Pay process

Technology & Tools
+ Technology investment creates opportunity to improve procurement platform
+ Innovative integration of marketplace
+ Different systems (US/DS) create data availability and visibility challenges (e.g., spend by category, total suppliers, master data errors and duplications)

Performance Management
+ Strong procurement metrics gathering process in place
+ Supplier performance management is fully defined and implemented.
  – Several key supplier scorecards are still in development.
Case Study - Large Integrated Oil & Gas Company

Compared to KPMG’s Overall Procurement Maturity Model, PROC Performs at the Median.

<table>
<thead>
<tr>
<th>COMPONENTS</th>
<th>MATURITY OF PROCUREMENT ORGANIZATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer Alignment</td>
<td>Entirely internally focused</td>
</tr>
<tr>
<td>Operational Excellence</td>
<td>Federal structure</td>
</tr>
<tr>
<td>Talent Management</td>
<td>Buyers</td>
</tr>
<tr>
<td>Supplier Management</td>
<td>Locally specific</td>
</tr>
<tr>
<td>Technology / Innovations</td>
<td>Incompatible systems and data models</td>
</tr>
<tr>
<td>Right Sourcing</td>
<td>Location-focused</td>
</tr>
</tbody>
</table>

Value driver

Global procurement function

Business partner

Standardized and enhanced

Global data model/systems

Value-focused
A Transformation Map establishes the envisioned future state of Procurement at a company compared to its current state. It also lays out a sequenced set of initiatives to begin achieving the future state in a structured and sustainable manner.
Benefit Erosion

Selecting and focusing on one aspect of a transformation sub-optimizes results.

Doing what you’ve always done gives you what you’ve always got.