



- Phil: Hello everyone. This is Philip and this is Tanya and we're here for week number two on how to create a commodity strategy. Last week we talked about the internal influencing factors - the internal view on how to create your commodity strategy. As promised, this week we are talking about external tone of view and external forces that influence our commodity strategy.
- Tanya: Exactly. Because like we talked about last week, an internal view plus an external view equals strategy
- Phil: and as a special gift to our valued audience...next week we're going to put this all into action. We're going to apply these strategies that we talked about last week and this week to some interesting material fields for you that you can see it really in action. No more ivory tower talking but actionable stuff. So, Tanya, I think I'm looking at the external view. Maybe one of the first topics we want to talk about is a balance of power. What are your thoughts on this?
- Tanya: Yeah, I think it's really important that you step back and really analyze your commodity but also analyze how much power you have to buy. So for example, is the market, is there, is it a monopolistic market? Is there only one supplier that you can buy from? Obviously that would dictate your strategy. Are there a lot of entrants on the market? Are you able to create some competitive tension? I think that by reviewing the external forces and really looking at the market overall in your commodity definitely helps you dictate the strategy of what you should do. And can you break an imbalance of power? Can you, I don't know, slice up the pie to give different suppliers more? That's all the types of things that we will get into later on. But I mean what is your view as well on the balance of power Phil?
- Phil: I really liked the idea about having this as a kind of first question. Like do we have monopolies? And I would even maybe tend to in some cases, to extend this a little bit to the question, have we created these monopolies ourselves? Maybe that happens - sometimes as we all know,
- Tanya: We rely on our supplier...
- Phil: Exactly. Yeah. And the same question that you, that you asked, this is true here, can we break that monopoly and in also in what timeframe? Is it possible to break it short term? Do we have alternatives at hand or what would it take time to build up something like a second and third source?
- Tanya: And I think also phase in phase out is very important as well. And we also need to think about our current contracts and when they are renewed, because if you have volume commitments, that also factors into whether you can just remove a supplier and bring in a new entrant. I think the other thing that we talk about in a balance of power situation is the context of this. The context of our commodity in market forces. For example, is there any political discussions at the moment which would impact supply or pricing? So



for example, um, you know, obviously, you know, it's, it's one that comes to mind, but Brexit just as an example, tariffs, you know, obviously there's a, there's a, you know, there there's tariff's and there's, um, you know, trade embargo's in/with certain countries. We also need to look at legal market forces such as data protection laws, any kind of breaches of law. Can you import the commodity? All of those type of topics, um, commodity prices within the market, trends, et cetera.

Phil: Absolutely. And especially I think the topic of trends is where the value of a strategic procurement function comes into play. Usually we can, if we're set up the right way, spot trends early on. As an example that I was thinking of if you're buying transportation these days - this might be quite a dynamic markets transportation in regards to personal transportation because all these standard and established models - they change, talk about Uber, talk about car companies entering these markets as service providers, providing cars as a service that completely changes your market. Also like companies like Tesla or others focusing on completely different types of costs, completely changes your market. And that is a, it is always where the holistic view of a procurement department becomes quite important.

Tanya: Absolutely. I think if you take that example, we're talking about driverless cars now in the future as well. Um, you know, we are talking about different modes of transportation and so, I agree with you that it's not only what is required now, but it's also what is required in future where the market is going. I mean we all know the stories of the Kodak's of the world and of the like... Because they didn't innovate fast enough, they're nowhere near the strong position that they once were.

Phil: Absolutely. And that also is a good transition. One of the next and very important questions - what is the market structure? What players are in it? Is it only major players? Are we also talking SMEs, small and medium enterprises delivering services? That may have a heavy influence on your contract's structure, on your pricing structure and so on. So what are your thoughts on this?

Tanya: Yeah, absolutely. And I also think it's important to flick it around and to think about how the supplier views you - do they view you as a cash cow? You could have a lot of spend with them from your side, but from their side you are nowhere near as important as their top 10 customers. I think it's also very important to think about the relationship from a suppliers point of view. Are they giving you enough attention? Maybe they think that they are or they think that's all you deserve. Whereas you believe require the Rolls Royce special treatment...all of these kinds of topics I think are quite important as well. When you look at the players and you look at current supplier base and who is currently performing which service?

Phil: Exactly...it depends of course a little bit on what you're buying but also this is influenced by what delivery locations and and what delivery models can be offered.... For example, I think major players, if you're looking into service business, they usually have, especially when it comes to remote services, maybe not parts but remote services they can



Offshore - something that a small local supplier cannot do. Whereas the small local supplier maybe does not have that much overheads and hence can you have faster decision models....so all have their, all of these players have several points to consider when it comes to determining your, your commodity strategy.

- Tanya: Exactly. Is offshoring even possible? Maybe the market forces dictate that it is not for such a commodity, although maybe the market is saying that, you know, the raw material prices are so low in the certain market that it's time now to start thinking about that. All of these types of topics, from a delivery location point of view definitely will feed into your strategy and also your pricing.
- Phil: And I think also looking at the suppliers....what is quite important here is which experience have we made with these specific suppliers? No matter if it's an SME or a major player, but have we any experience? And if so, what experience was that? What are your thoughts?
- Tanya: Yeah, that is very true. I mean just say, you know, five years ago they performed badly and they might have great pricing now or they might've borrowed (money) significantly or they might've taken over a few competitors. I think it's important to understand what has changed and it's also important to understand the growth pattern of the supplier. Have they gained market share, have they lost market share? All of those kinds of topics. And if they weren't telling you, I always recommend asking them those questions yourselves because it also, it shows them that you know, you understand a little bit about the market or at least you're trying to understand a little bit about the market. But if they won't tell you - a competitor will. So I'm a big fan Phil. I'm not sure if it's the same with you, but I'm a big fan of meeting suppliers that you have done no business with or you currently have no official relationship with them because I really believe that they give you the most information about the market.
- Phil: Absolutely, absolutely. And I think, I mean that's also a good approach. I think procurement here can really serve as a, as a good, how do you say, as a good filter. Maybe that's, that can look at certain suppliers rather than pushy or not different than you or not, but can look at them and say well we should talk to these guys because our experience combined with the market information that we get from someone who wants to get in can really be a big advantage when it comes to defining your strategy and then executing your negotiations based on that strategy.
- Tanya: Completely agree. And I think, you know, the other topic, and I think we touched on it slightly before, but are there any contractual obligations or any commitments that require us to stay with one supplier for the short or medium term? Do we have to pay a penalty to get rid of them or to exchange them? Do we have volume commitments? Do we have term commitments? Sometimes we have term commitments, but we have no volume behind it. So we are able to switch suppliers easier. I mean all of these kinds of topics I think are all should also be factors into your commodity strategy. And then



obviously because you know, you look at what is out there, what's the external market, but then you also have to be realistic and understand what is possible.

Phil: Absolutely. And that there it is again, once again topic that we mentioned nearly as often as early involvement, which is total cost of ownership. I mean that's what you have to include in a potential, however you call it, evaluation, or business case calculation or total cost calculation, whatever you call it. But that's what you have to include because that's what drives it doesn't matter if you can reduce the hourly rate or the item price by 10% if you have to pay off \$1 million penalty.

Tanya: Absolutely. And also the cost for change as well. Yeah. Sometimes, you know, the lifecycle of direct material or CAPEX - could potentially be five year cycles, sometimes they're 10 year cycles depending on if we're talking about, capex material. And so from that side, everything needs to be considered whatever you think is, is necessary for this commodity. Whether it be a slow moving, a slow moving commodity or a fast paced commodity. And I think from there you take all of those inputs. So you take your internal inputs that we talked about last week and take the external inputs, the market forces, and then really you need to start thinking about your strategy. So just as an example, you could potentially establish a multi tier strategy so you could have your preferred suppliers, you could have your watch lists and your challengers.

Tanya: So which of the suppliers that at the moment you might not have a relationship there or a formalized relationship, but you know who they are, they're increasing in the market, they are gaining market share, they've just gained some more clients and some you know, and some greater experience that could help you in the, in the long run and challenge your preferred suppliers and create that competitive tension. I think whilst doing that whilst at the same time looking at your preferred suppliers and asking yourselves - are they performing? are the business satisfied? It really allows you to really start using your procurement skill in order to get what is the best value for your business.

Phil: Absolutely and one thing I'd like to mention here is as you said, we constantly check the performance and see if it as we have agreed upon as we have contracted and as we also have discussed with them, but one thing that is quite important here from my point of view is what we call a top down, bottom up approach. I think bottom up meaning from collecting all the demands that we also talked about last week in an internal view.... What is my real volume? What are we talking about here? But when it comes for strategy and alignment, top down is really very important because if you go from demand owner to demand owner, everybody will tell you that they special needs and why they need that special partner or supplier. We talked about steering in the expense of sentences focus week. What are your thoughts on, on, on this bottom up and top down?

Tanya: I agree. I think that the strategy and the alignment definitely needs to come top down. It needs to be with senior management because ultimately they are responsible for the



company's growth and the company's success. That is not to say that you shouldn't align with your, with your stakeholders and your key interfaces because they need to make sure their voices are heard and they are along on the journey. So you need to kind of manage both bottom up and top down views. But at the same time when you're thinking about a long term strategy, it also needs to be aligned with the company goals.

Phil: Exactly. And one other idea that you might have when it comes to tiering your commodities strategy is you could also go for, for some geographical tiers. What are your thoughts on this, Tanya?

Tanya: Yeah, I think that we also need to be very pragmatic. I'm talking about if you have a global role, you also need to understand that sometimes the solution it does not work for every location. And I have had to be quite frank. I have also had experiences where I've worked in a region and I've woken up one day and I've got an email from global to say we are switching suppliers and you know, without any kind of alignment or any kind of knowledge. And, ultimately can I say that, you know, we may have got great, great benefits in other regions, but in my region the costs increased at least 20% more. The business was not happy. They did not want to switch. And we already had volume commitments without incumbent suppliers. Which, um, yeah, I mean it just shows, I would say the value of alignment.

Tanya: Um, but also the understanding that it will not work in every market and we need to compare what is right in, um, in certain areas. So as we talked about before, some areas could have legal barriers or political barriers or it could just not make sense from a cost perspective. So you could have for example, global players from multi delivery locations and local players for smaller markets, you know, you could have different agencies for freelancers...there are many different topics of how to do it global versus local. But we just need to keep in mind that one way is not always better than another.

Phil: Yeah, absolutely. Das, no magic push button solution or magic recipe that works like for everyone. I mean if we knew that, I think Tanya, we, you and I should have our own management consultancy..... selling ourselves as the most expensive consultants in the world.

Tanya: I wish, I really wish maybe one day someone will come up with this.

Phil: So...if you want to hire us, just contact us. I think what is quite important here is, is also when it comes, I think your example here for you... From the corporate versus regional procurement organizations, I think it is also important to be realistic and to say... It might be that I want to decide myself at a corporate level, but...Can I, as strategic procurement, really decide or are there other influencing factors? And from your example that you mentioned the price increased by such a big amount, 20%, as you said, that would be a major influencing factor where as contract should have been concluded that says, okay, regions A, B and D but not C, which would then be your region. I think so the question really to ask ourselves, can we really decide, it might be



that we want to, but can we really decide and whom else do we need to get in the boat to make these kinds of decisions?

Tanya: Exactly. Couldn't have said it better myself. Yeah, I mean I think that we've talked a bit about, um, a bit about local versus global, but I also think that, you know, what is next and the next wave is also very, and we talked about that a little bit, but in your opinion Phil, what do you think are other topics that haven't been mentioned that also the people listening should consider or start thinking about?

Phil: I think personally, that a topics like digitalization, "big buzzword alert" becomes quite important...I personally see it a little bit differently than you can read it in all these white papers and these posts that out there. I see these as a grassroots movement making digitalization / automation / robotics available to everyone. Maybe without the involvement of IT would really help to improve your data. I don't want to say database, but your baseline, which, which should be based on data and which should give, can give you new insights. And we might make, um, a few episodes about this in the future. But I think analytics is becoming more and more popular. People are talking about machine learning and all this kind of stuff, it really becomes applicable also for non developers and non-programmers. And I think that's, that's a huge trending topic because it allows you to use tools that give you insights that may have not been available five to 10 years ago.

Tanya: And I think that is also super exciting because we also don't know what's going to be available, you know, five to 10 years in the future. And so I think that it needs to be discussed and thought about. Of course, very dependent on commodity, but how will robotics and how will digitalization change the way we purchase and also change the way they interact with the business and processes. And I think that that's something that should be considered in your roadmap and your technology roadmap for the future. And I think at the moment, you know, um, we've talked a lot about the market, we've talked a lot about the current supplier base and how they're performing. And then we've also talked about, you know, then through those inputs plus your internal alignment, you now need to start formulating your strategy which can be done, through tiering, through bundling. But now I think it now needs to be put to paper. What do you think, Phil, a call to action and how do you suggest that people do that?

Phil: Yeah, actually I think once you have collected all the data that you need, you should formulate or create something like a, maybe one or let's call it a few pager. Don't make it extensive so people can easily grasp it. So put your strategy down to paper. Create something like a roadmap of actions and timelines and responsible parties. And I like these kinds of papers to be very actionable. I'm not sure what your thoughts are about this, but I try to avoid the ivory tower syndrome.

Tanya: Yeah, exactly right. I think that they need to be measurable and you need to be accountable in order to do those actions. So, for example, if your strategy, if you realized that at commodity, prices are reducing by, I don't know, five to 10% next year



based upon other external market forces or a change in the tariff structure or whatever else. Is your strategy to buy more? Is it to buy cheaper? Is it to move your supplier base from one country to another? If that is your strategy, you then need to determine a way and how to do it. And that is the most important thing. And that will make you very credible with your stakeholders. It'll make you very critical with management and it will make your targets and your goals simple and easy to understand why, and it's very, very important that you do not just put all this information in a drawer and forget about it because things change, markets change, but you need to keep yourself accountable and working towards strategies. And it's okay if they change, but you need to ensure that your strategy changes with it.

Phil: And I think that that is very good for something like a closing sentence of this episode if you don't mind. So yeah, Tanya, I really like it. Put it to paper and especially as you said, live it right. Don't put it away. Um, maybe you can even get a sign off from involved parties like management and demand owners and then could use that as a baseline for the execution of your plan and for something like status updates in whatever way they happen.

Tanya: Yeah, exactly right. And I'm sure in some parts there'll be other parties that are influenced from your strategy. At the end of the day, procurement helps the business be successful and so therefore there also needs to be buy in and alignment there. And you might need to involve legal. I don't know, you might need to involve the plant manager. You might need to involve the finance director in order to, to make all of these things happen. And, it is obvious that they're all on the same page... That they've all signed off the strategy and they also understand their commitment as well to the strategy because, you know, it's all good and well to show them a very nice PowerPoint. Um, but they also need to understand, you know, what is their skin in the game? What do they need to do to make this real?

Phil: Yeah, absolutely. And I really like this to finish off this, this part of our series. So next week we're going to show you how, to apply this some examples

Phil: that we have prepared. So I'm very excited to put it into action, as we said. Call to action.

Tanya: Me Too. So yeah. So you've looked at our internal view, we've looked at our external view, and that has built our strategy and now we will take those inputs and put it in real life with an example commodity.

Great. So that's it from me, Phil, and from Tanya. Okay. Bye. Bye.