

e-Procurement
Oil & Gas Sector - Unlocking Profit
through Technology*
November 2008



*connectedthinking

PRICEWATERHOUSECOOPERS 

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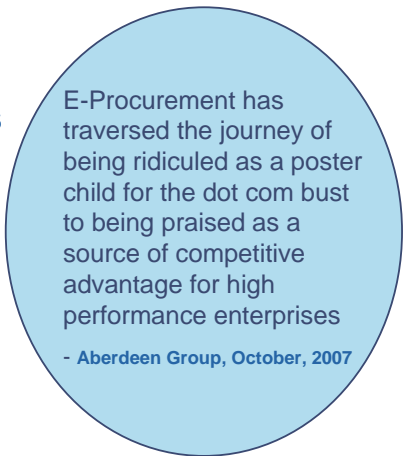
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E-Procurement - Introduction

E-Procurement – Breaking a Few Myth

1. E-Procurement is “an IT Project”.
 - e-Procurement is the established way to gain cost advantage over competition by alignment of internal processes with corporate objective – Technology as Enabler.
2. E-Procurement - “Putting up tenders using Internet”
 - much wider in scope
 - Includes Intranet and Extranet – transforming processes
 - Much larger scope than implementing EDI
3. E-Procurement – synonymous to Reverse Auction
 - Current implementations are mainly in Silos – e-Procurement looks into overall corporate strategy to restructure procurement organization so that maximum profit can be earned.



E-Procurement has traversed the journey of being ridiculed as a poster child for the dot com bust to being praised as a source of competitive advantage for high performance enterprises

- Aberdeen Group, October, 2007

E-Procurement - Defined

E-Procurement is the new paradigm in procurement which acts as **information hub** to support **business planning and decision making**. It **improves performance** of routine tasks like transaction processing, monitoring and enforcement of regulatory compliance. It increases **transparency**, eliminates **middlemen overhead cost**, improves **competition amongst suppliers** and eases **management reporting**.

E-Procurement – Cost Impact

Cost of Procurement = SUM of Costs of (Goods, Quality, Transportation, Communication, Internal Process, Reaching Suppliers, Intermediaries, Control & Compliance)

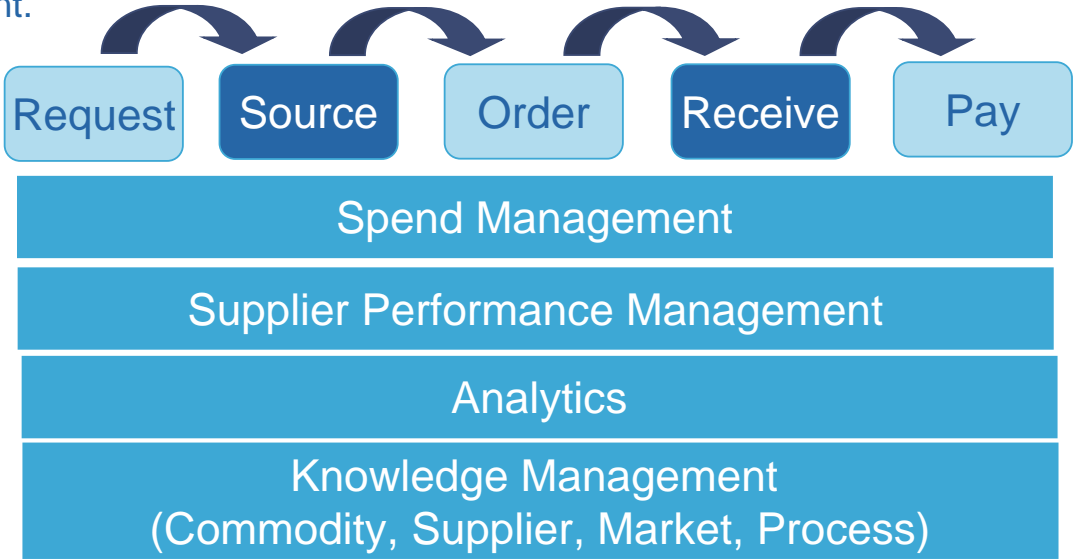
E-Procurement decreases/eliminates majority of cost elements like Communication, Internal Process, Reaching Suppliers, Intermediaries and Control & Compliance.

It also helps decreasing the cost of Goods by increasing competition amongst suppliers.

E-Procurement Implementation is self sustainable through the savings generated by adoption of the process.

E-Procurement : Structural Value Chain

e-Procurement is the online purchasing of goods and services using the net and covers the full purchasing lifecycle with additional tools for better process management.



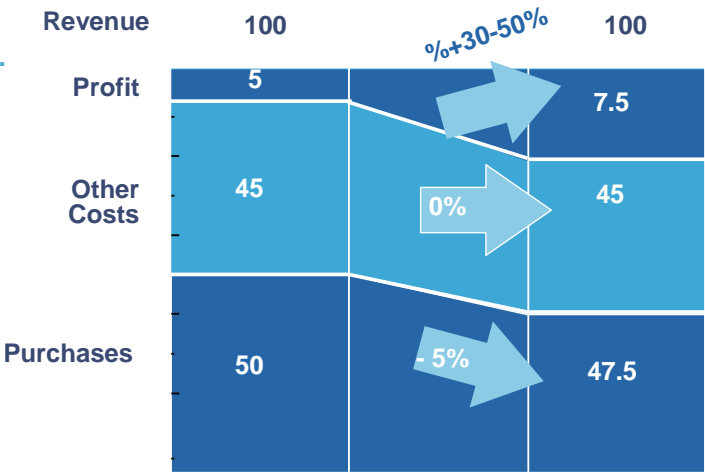
Benefits & Challenges for Oil & Gas Industry

E-Procurement Benefits

Purchased products and services account for more than 50% of the average o&g company's total costs. 5% reduction in purchase cost can result in ~ 50% increase in profit margin.

In order to obtain an equivalent impact, a firm would have to...

- Increase revenue by 50%
- Reduce overheads upto 20%
- Significantly reduce staff members [source: HBR]



E-Procurement – Typical Value Drivers

Value Drivers	Pain Points	Savings Estimates
Improved Process Efficiency	<ul style="list-style-type: none"> • Long lead times due to high manual processing, 1/3 time spent reviewing manual requisitions 	Cycle Time Reduction by 50%
Reduced Product/Process Costs	<ul style="list-style-type: none"> • High transaction costs • Long supplier negotiations • Non contract compliance drives up price 	Internal Expense less by 40% Price of goods less by 5%-10% on average
Improved Compliance	<ul style="list-style-type: none"> • Fragmented data • Compliance is manual 	Data integrity improved Better Compliance through technology
Reduced Maverick Purchasing	<ul style="list-style-type: none"> • Rampant off-contract spend (approximately 27% of indirect spend) 	Maverick spending decreases up to 51%
Reduced Inventory Costs	<ul style="list-style-type: none"> • Long lead times result in purchase of large safety stocks 	Inventory expense reduction between 25% - 50%

E-Procurement : Quantitative Advantages

Performance Area	Before	After
Spend Under Management	42%	60%
Requisition-to-Order Cost (Avg)	\$51	\$26
Requisition-to-Order Cycle (Avg)	9.6 days	3.4 days
Percentage off-contract spend	33%	20%
Incremental Price Discount	--	4.75% (aggregation, better visibility, less cost for supplier)

Source: Aberdeen Group, August, 2008

In Indian PSU context – we found Price Discount comes initially to 7-8% and Cycle time gets compressed by 15%

E-Procurement – Oil & Gas Industry Benefit

Key to transforming the procurement organization

- Automated Workflow
- Allows procurement to focus on value creating activities
- Release people for more value added strategic tasks

Extending the supply chain creates new opportunity

- Transaction cycle time improved
- Sourcing cycle time improved
- More accurate information about inventory
- Tighter integration of the company with suppliers and customers

Provides on-going decision support data

- Complete spend capture
- Immediate capture of supplier performance metrics

E-Procurement – Oil & Gas Industry Benefit

Improves transaction accuracy

- Provides for a complete electronic solution
- Minimizes manual intervention and errors

Decrease Internal Procurement Cost

- Shorter cycle time from request to purchase order
- Better Aggregation
- Less maverick spending and greater volume with approved suppliers, leading to higher volume discounts
- Fewer supplier inquiries and faster payments
- Lower administrative costs because of fewer errors and more self-service by end users
- Minimizes paper based transaction – hence Greener and Cheaper procurement

E-Procurement – Indirect Benefit to Industry via Suppliers

- Streamlined Process – Efficient and Convenient Operations
- Reduced Cost
- Control on on-line available data – RFX, Catalogs, PO, Payment Advice
- Faster notification from vendor on different procurement events
- Convenience of submission/modification/ intimation of price and specification related information

E-Procurement – Challenges

Complex Business Environment – Mutually exclusive buys for upstream & downstream

Segregation of Categories and identification of categories amenable to e-Procurement

Creation of Formal Procurement Process

Clear Program Ownership/Sponsor

Employee Adoption of the System

Scaling up of Knowledge across organization

Managing complex/strategic Procurement

Enabling Suppliers and Integration with Supplier Data

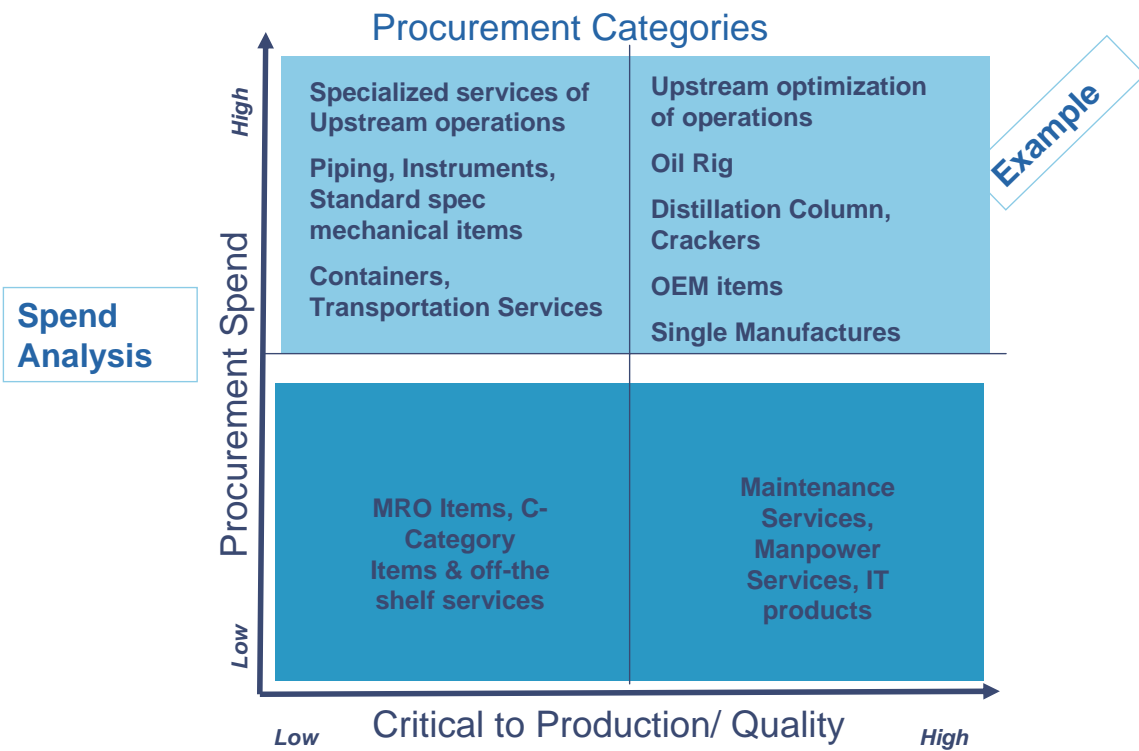
Buy-in of key stakeholders

E-Procurement – Key Takeaways

- More and More Strategic Tasks by Procurement Organization as e-Procurement implementation frees up executive time
- E-Procurement technologies extend beyond on-line negotiations to instill process consistency and knowledge management
- Becoming standard operating procedure for Fortune 1000 and beyond
- Increased Profit - Cost savings from internal process optimization over and above savings from competitive pricing due to on-line negotiations, increases profit and releases fund for more critical activities
- Strong Value proposition

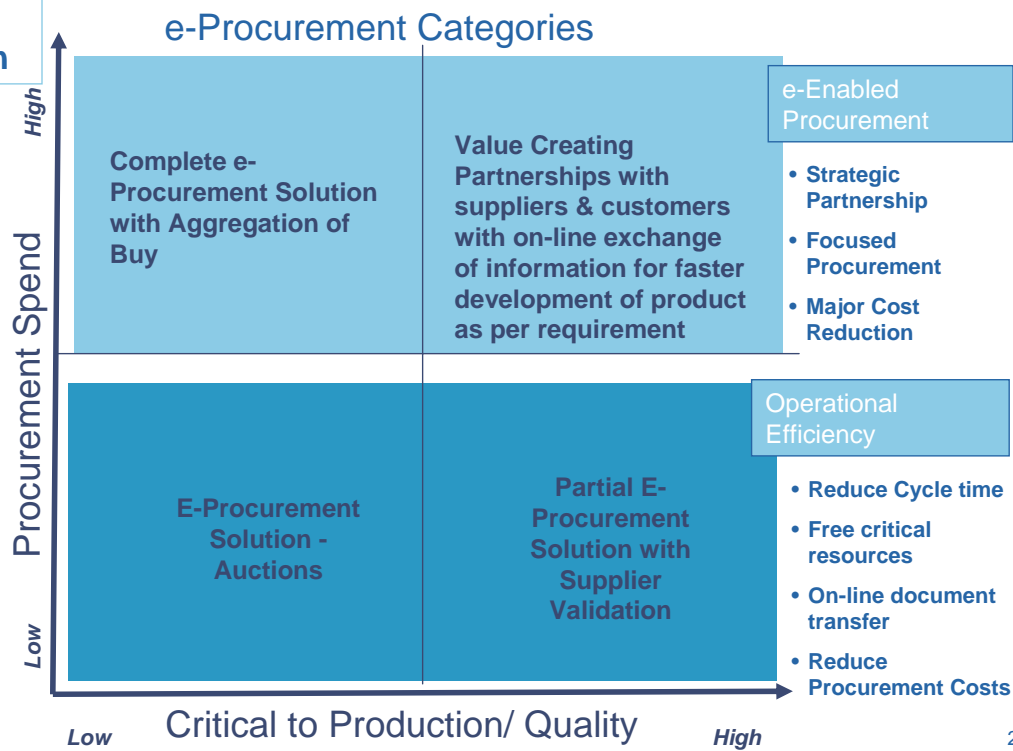
Approach - Strategy Formation To Implementation

E-Procurement – Approach- Spend & Strategy Mapping



E-Procurement – Approach- Spend & Strategy Mapping

Procurement Process Optimization



E-Procurement –Overall View

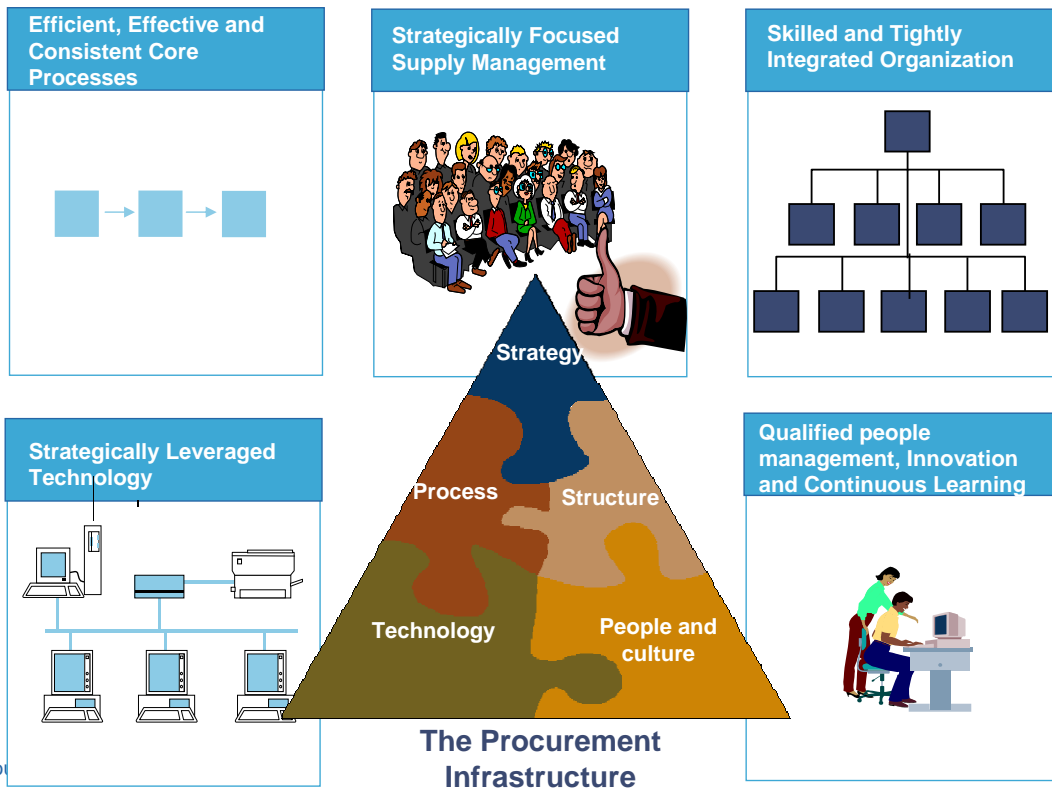


Infrastructure Analysis

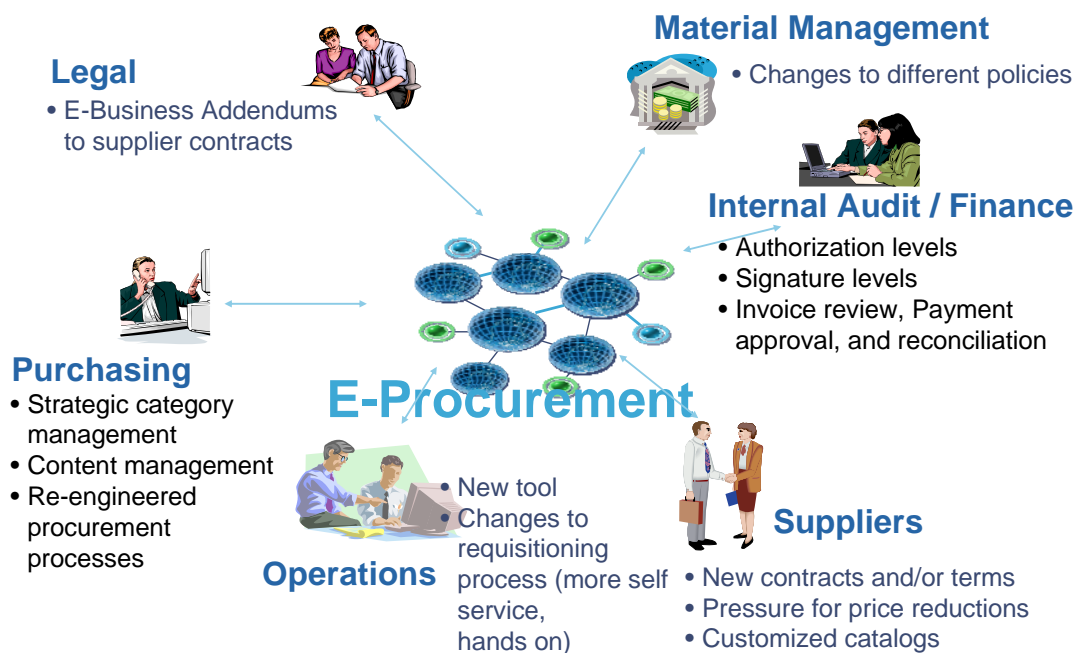
eProcurement Implementation & continuous improvement

Full Value Procurement™

E-Procurement – Integrated Approach

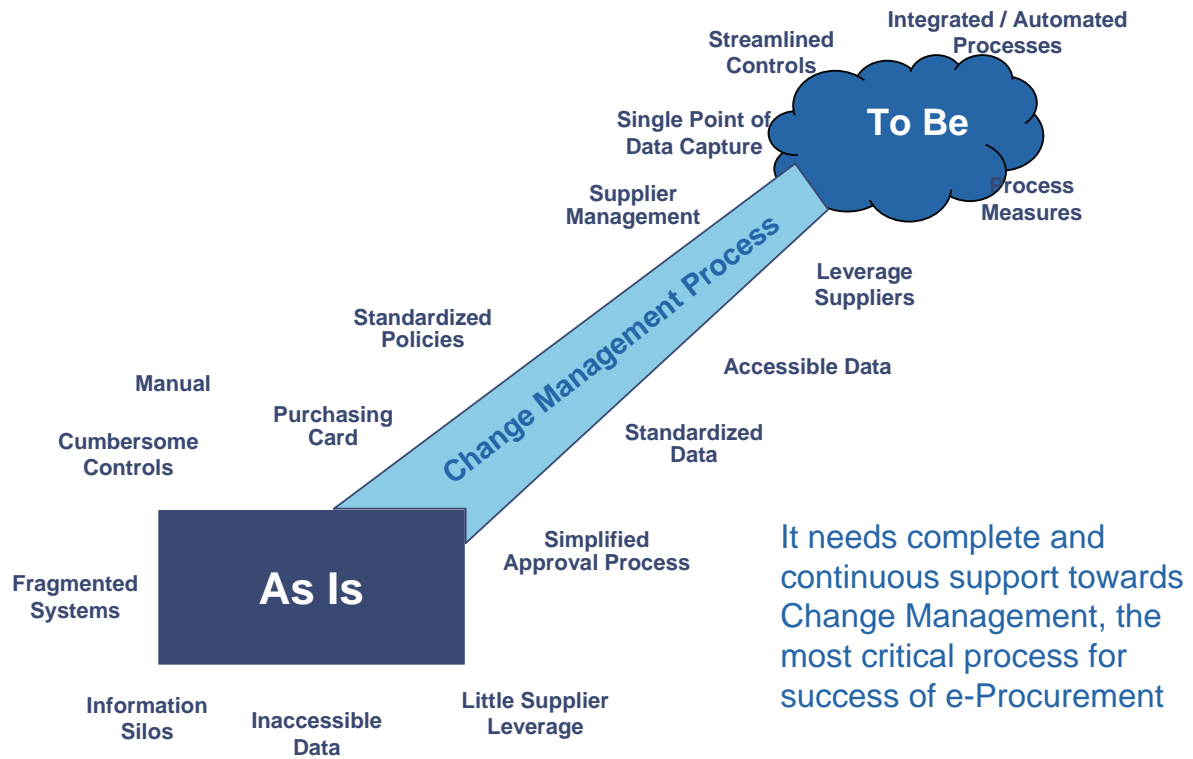


E-Procurement – Collaboration Across Departments

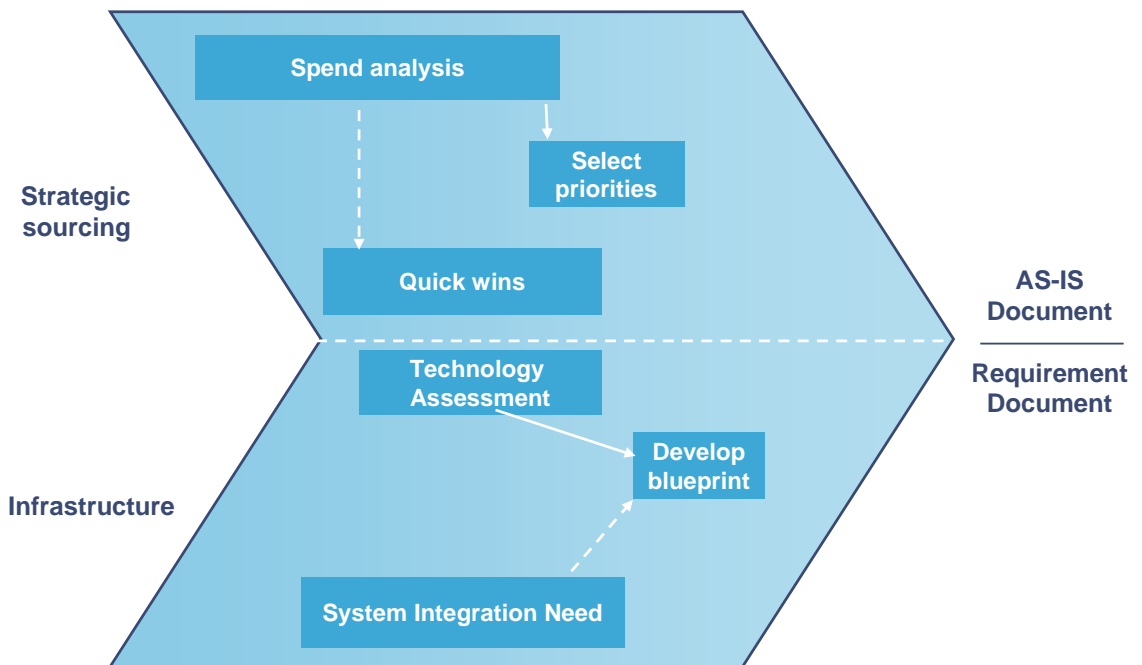


e-Procurement has impact on different systems and needs end-to-end support

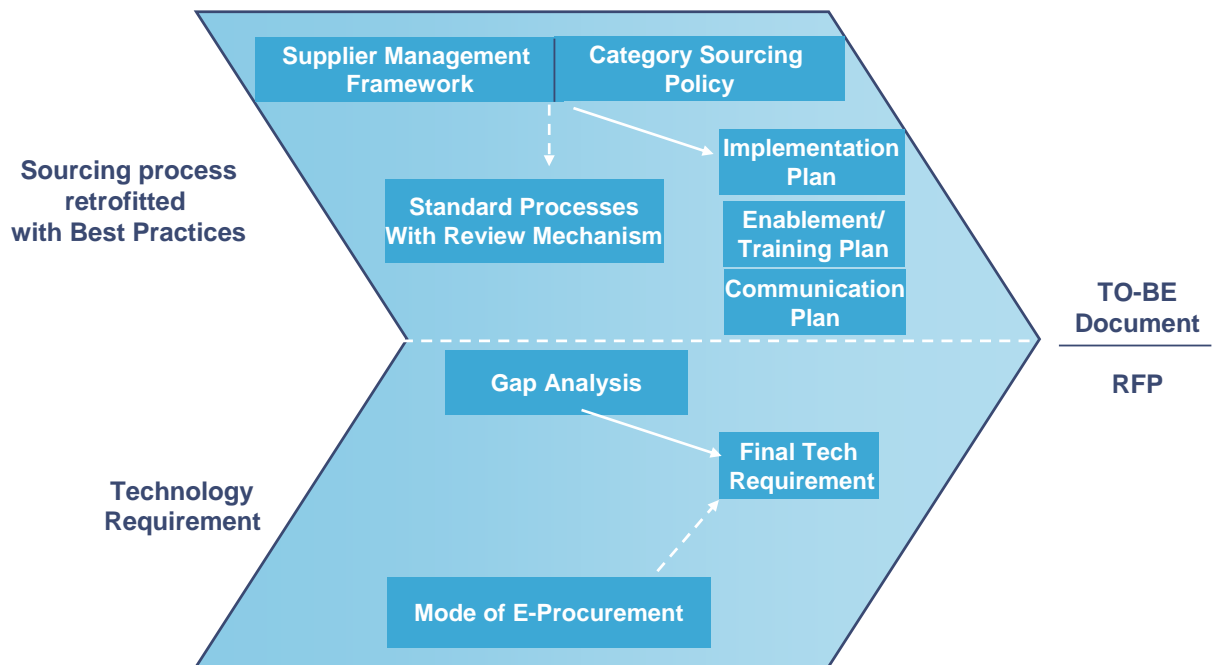
E-Procurement – Best Practice Approach



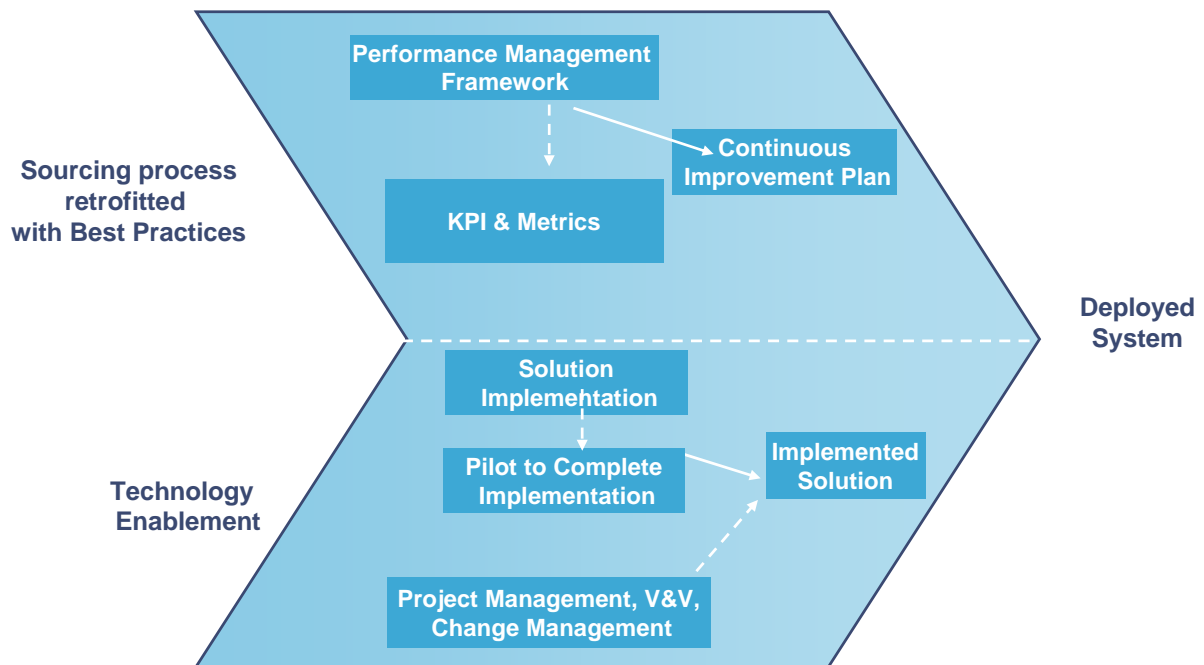
E-Procurement – Approach– FIND MONEY



E-Procurement – Approach– GET MONEY



E-Procurement – Approach– KEEP MONEY



E-Procurement – Project Management Approach



- Identify processes impacted
- Analyze spend
- Analyze supplier base
- Identify team members and key stakeholders.
- Identify potential issues
- Identify IT infrastructure & Integration issues
- Create As-Is document

- Optimize process work-flow
- Re-define Policies
- Consolidate spend & supplier base
- Draft solution of potential issues of stakeholders
- Design proper IT infrastructure need
- Design change management communications
- Create To-Be document and RFP
- Roll-out plan

- Evaluate vendor & Acquire Product
- Create implementation team
- Define gaps and needs for customization
- Phased Implementation
- Manage Legacy Data
- Integrate with existing system

- Roll out as per plan
- Create pilots
- Enable Suppliers
- Establish Pilots
- Scale up implementation
- Train People
- Final Test and Deploy
- Help in preparation of manual

Overall Project & Change Management

Sample Case Studies

Case Study

Slumberger, global technology & service provider to Petroleum and mineral exploration industry with 100 offices across world, engaged consultant to manage their e-Procurement implementation

Key Business Issues

- Multi-organization, currency, global roll-out support
- Support for internal catalog
- Integrate with existing legacy system
- Complex Buy Category

Solution Approach

- Project Management for e-Procurement implementation
- Development of phased implementation approach for global roll-out
- Test & Deploy
- Integrate e-Proc tool with existing legacy system
- Customization for complex business need

Case Study

Charles Schwab, the financial service industry leader, engaged consultant to manage & implement their e-Procurement solution

Key Business Issues

- 2% decrease of procurement cost in first year
- Free procurement staff from non-value added tasks
- Further centralize procurement process
- Shareholder pressure to control growth related costs

Solution Approach

- Develop a phased implementation plan targeting improvement of current process and supplier base management strategy
- Integrate ERP (HR & PO) with e-Procurement tool
- Test & Deploy
- Plan for Global Roll-out in phased manner with defined key process improvements
- Supplier enablement

Case Study

Telstra is Australia's largest provider of telecommunications and information services with sales of \$17 billion. Consultant was hired to craft an e-business infrastructure and to select and implement their e-procurement system worldwide.

Key Business Issues

- Select the most appropriate e-procurement system to be used by Telstra
- Enable a state of the art settlement system
- Test, pilot and deploy the system to Telstra employees and suppliers

Solution Approach

- Conducted a selection process for e-procurement solutions
- Deployed e-Proc tools in pilot programs – to evaluate effectiveness
- Linked the Telstra settlement system “Shorelink” with the e-Proc system
- Prepared plans to scale the approach on a global basis

Case Study

The Ministry of Health and Family Welfare (MOHFW), Government of India and DFID appointed a consortium to strengthen the Procurement System in the Ministry.

Key Business Issues

- The MOHFW is in the process of establishing an Empowered Procurement Wing (EPW) which would act as the centralized nodal agency for all procurement related issues.

Solution Approach

- Review of the existing procurement organisation, resources, practices and procurement system of the EPW of the MoHFW to identify areas that need further strengthening
- Map skills of the existing/proposed staff of the EPW to find out the training need requirements and prepare a training plan for them.
- Prepare an operational manual covering detailed procedure for various methods of procurement and the standard bidding documents (SBD) for each of the procedures
- Assist in establishing the procurement monitoring, reporting, supplier performance and compliant database

Questions?

Thank You

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Contacts:

Rachna Nath

Email: rachna.nath@in.pwc.com

Mobile: +91 9830065684

Direct: +91 33 23413199

Dipankar Chakrabarti

Email: dipankar.chakrabarti@in.pwc.com

Mobile: +91 9748762415

Direct: +91 33 23413192

PricewaterhouseCoopers Pvt. Ltd.

Plot No. 56 & 57, Block DN, Sector V,

Salt Lake, Kolkata – 700091

India

Phone: +91 33 23579100/9101

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