



INNOVATE · ACCELERATE · CHALLENGE

Procurement next step: value creation through RoCE optimization

*Hands-on strategy
& competitive solutions.*

By engineers.



What represents 3% of the workforce but manages 50-80% of the costs?

1

The CEO?



2

Accounting?



3

Procurement?



What represents 3% of the workforce but manages 50-80% of the costs?

Procurement



Agenda & Presenter

PRESENTER



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Partner

Head of the Procurement Practice

MODERATED BY



Thomas Reignard
Manager

AGENDA

1. Why procurement is a significant company value driver

2. Focus on RoCE

3. Focus on 2 levers

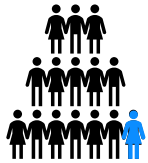
4. Case study of RoCE in an industry

5. Procurement RoCE impact potential

6. Q&A

Procurement is a critical company value and cost driver

Why procurement is important?



3% of the workforce manages:



50-80% of the total cost



And a significant value and innovation lies within the supply chain

Historic focus on cost



Cost reduction



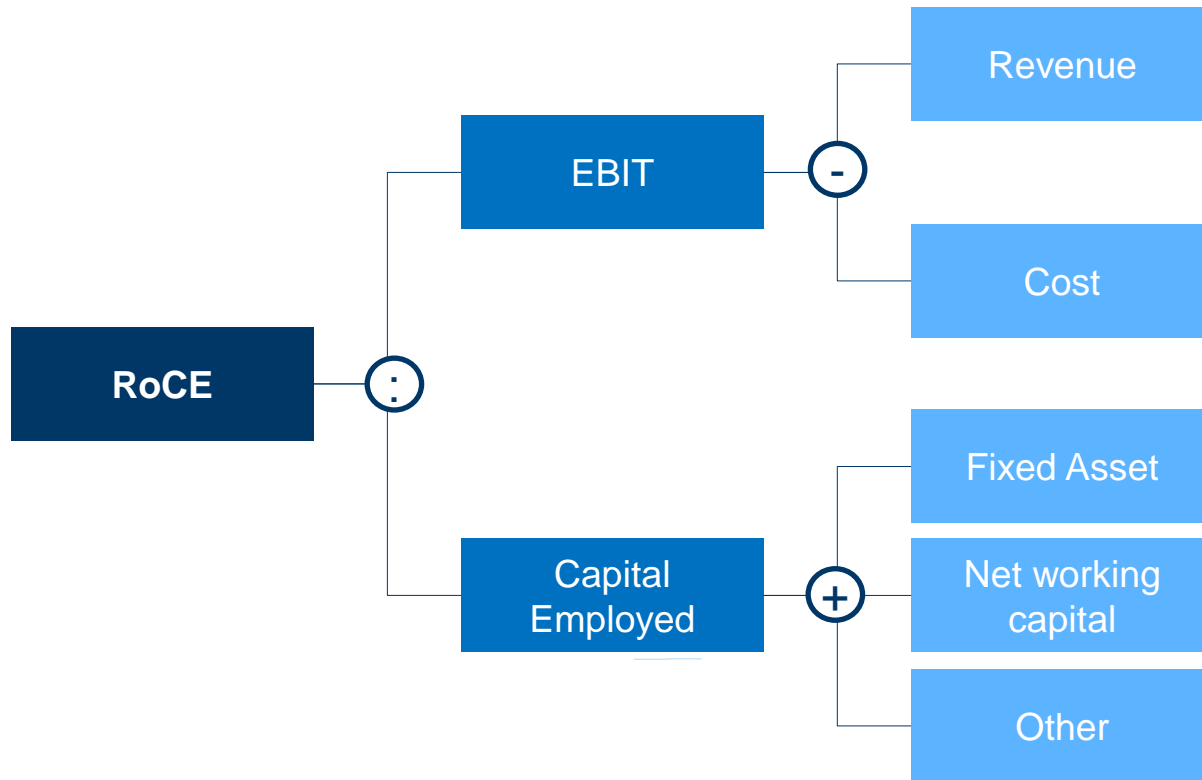
Supplier performance



Procurement rarely focus on improving the competitive advantage and the capital efficiency

Procurement needs to frame and focus on improving the RoCE, Return on Capital employed

The RoCE measures the value creation, and all its components can be addressed by procurement levers



Optimization levers selection

- Design-to-green
- Reduced time-to-market
- Business continuity
- Category management and commercial negotiations
- Natural hedging increase
- TCO improvement
- Buy ratio increase (i.e. Make vs Buy)
- Working capital improvement
 - Vendor managed Inventory
 - Payment terms
 - Leaner supply chains
- Risk reduction



Deep dive on selected levers

1. Design-to-Green

2. Make vs Buy

IAC partners Design-to-Green brings together cost management and sustainability impact for the right trade-off to impact the top line

DESIGN-TO-GREEN

WHY and HOW?

Why ?



60% of consumers are sensitive to company sustainability



Regulation is becoming more stringent

How ?



By connecting management of cost and sustainability



Procurement can help to connect both significance of spend and environmental impact of supply chain

We strongly reduced the environmental footprint of an electrical equipment by 2025-30

DESIGN-TO-GREEN

CASE STUDY



CO2 - production to end of life (OEM & suppliers)

Reduction	
2025	2030
57%	70%

- Key actions**
- Use of recycled and recyclable materials
 - Change of technology



CO2 - Distribution

72%	80%
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- Reduce size and product weight
- Use of environment-friendly packaging technology



CO2 - Customer's operation

1%	4%
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- Switching to higher efficiency modern electronics driving less power consumption



\$ - Material costs

- 5 to 12%
Compared to 2021 design

- 6 to 12%
Compared to 2021 design

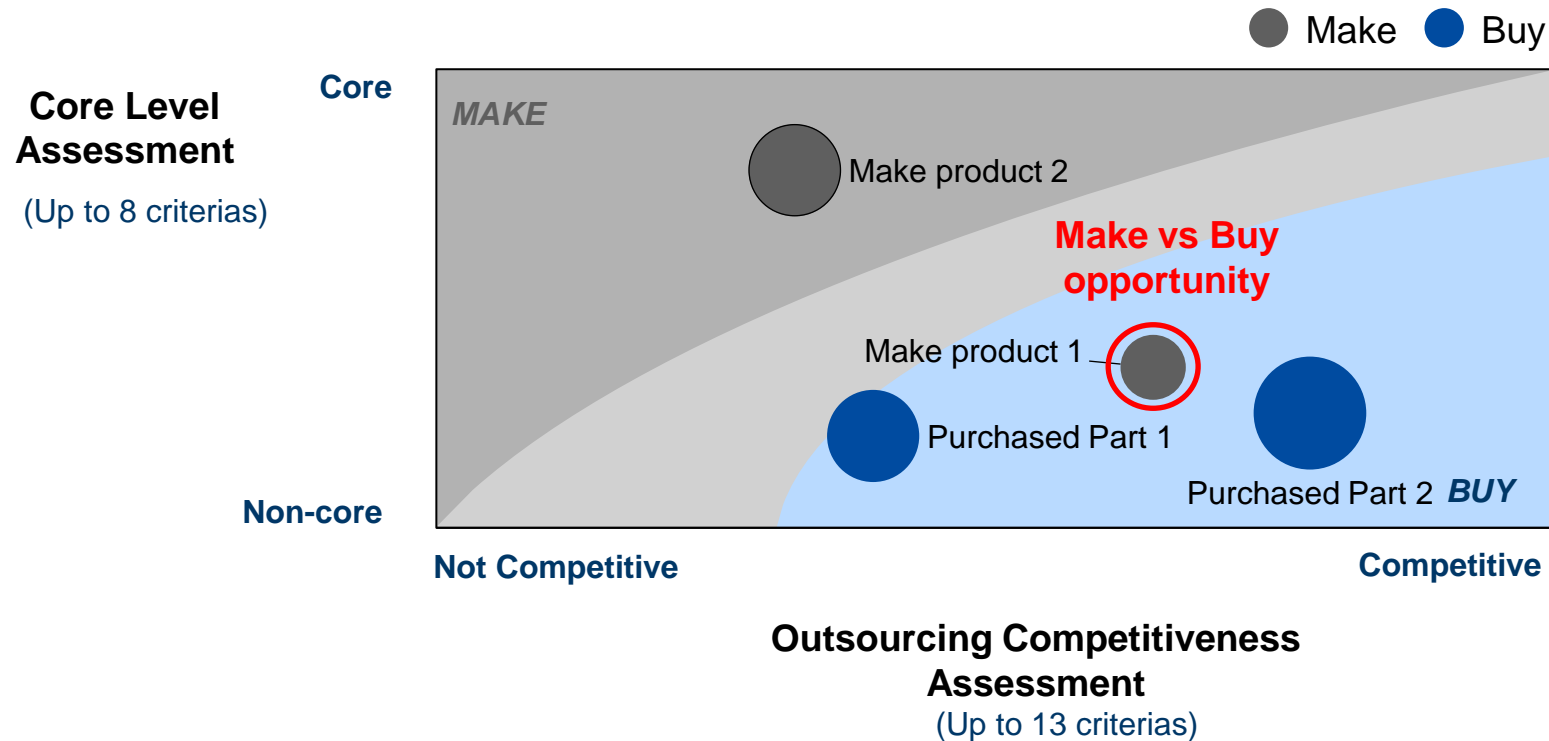
- Use of recycled material

We spot anomalies and detail the strategic change and opportunity

CAPITAL EMPLOYED MAKE vs BUY

Phase 1

Mapping core level vs outsourcing competitiveness



Phase 2

Make vs Buy strategic change

Misaligned Items are opportunities that needs to be investigated with a dedicated business case



Use case

Focus on the RoCE in the A&D sector

Stakes

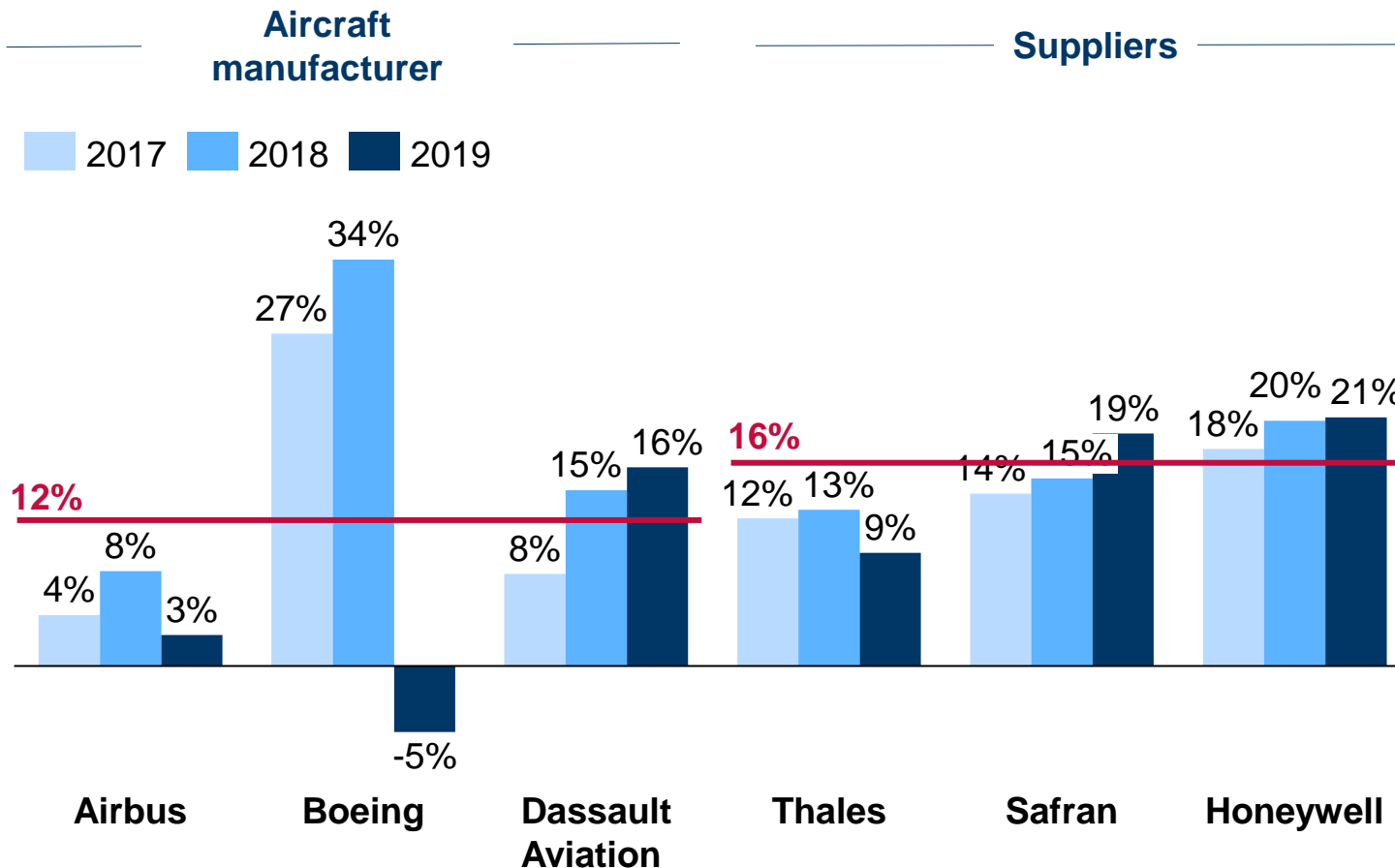
- Illustrate on the A&D industry
- Assess RoCE performance within the value chain
- Analyze COVID-19 impact

Disclaimer

All data presented is available through the companies' annual reports

Various RoCE performance within the A&D: Tiers 1 suppliers outbeat aircraft manufacturers

RoCE (%)



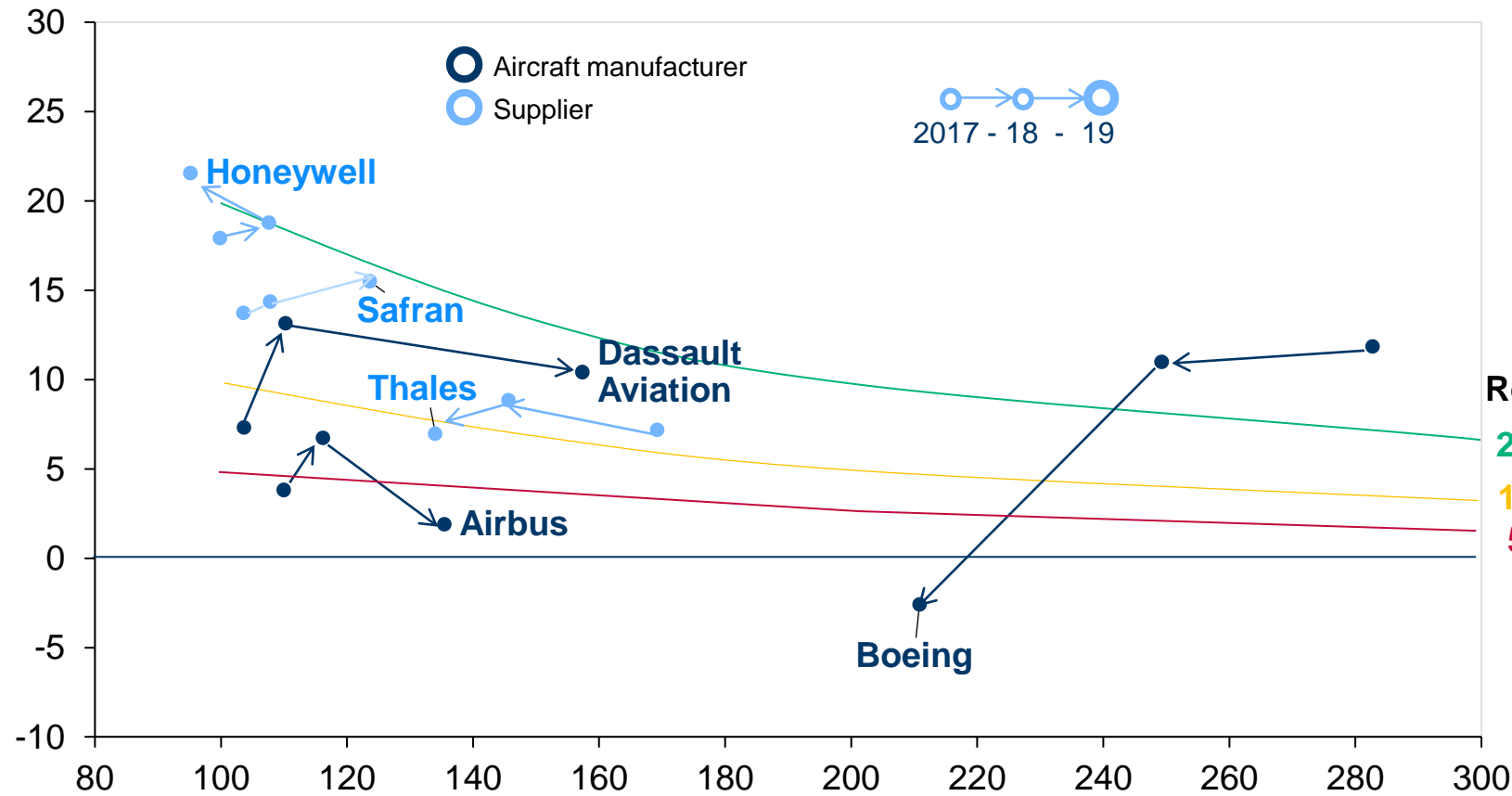
Key findings

- RoCE performance is heterogeneous within A&D from -5% to 34%
- 12% averaged RoCE for Aircraft manufacturer vs 16% for suppliers
- Boeing is structurally better than Airbus due to less plants & higher defense portfolio
- 737max crisis impacted significantly Boeing performance

Better RoCE performance from supplier are driven by higher EBIT

EBIT*
(in %)

$$\text{RoCE} = \frac{\text{EBIT}}{\text{Capital Employed}}$$



Key findings

- Suppliers have a better RoCE driven by a higher EBIT
- Aircraft manufacturer have a higher capital efficiency due to higher buy ratio
- Boeing have a better capital efficiency than Airbus due lower number of plants and US defense exposure
- Thales RoCE reduction is driven by capital utilization indicated a verticalization issue

RoCE

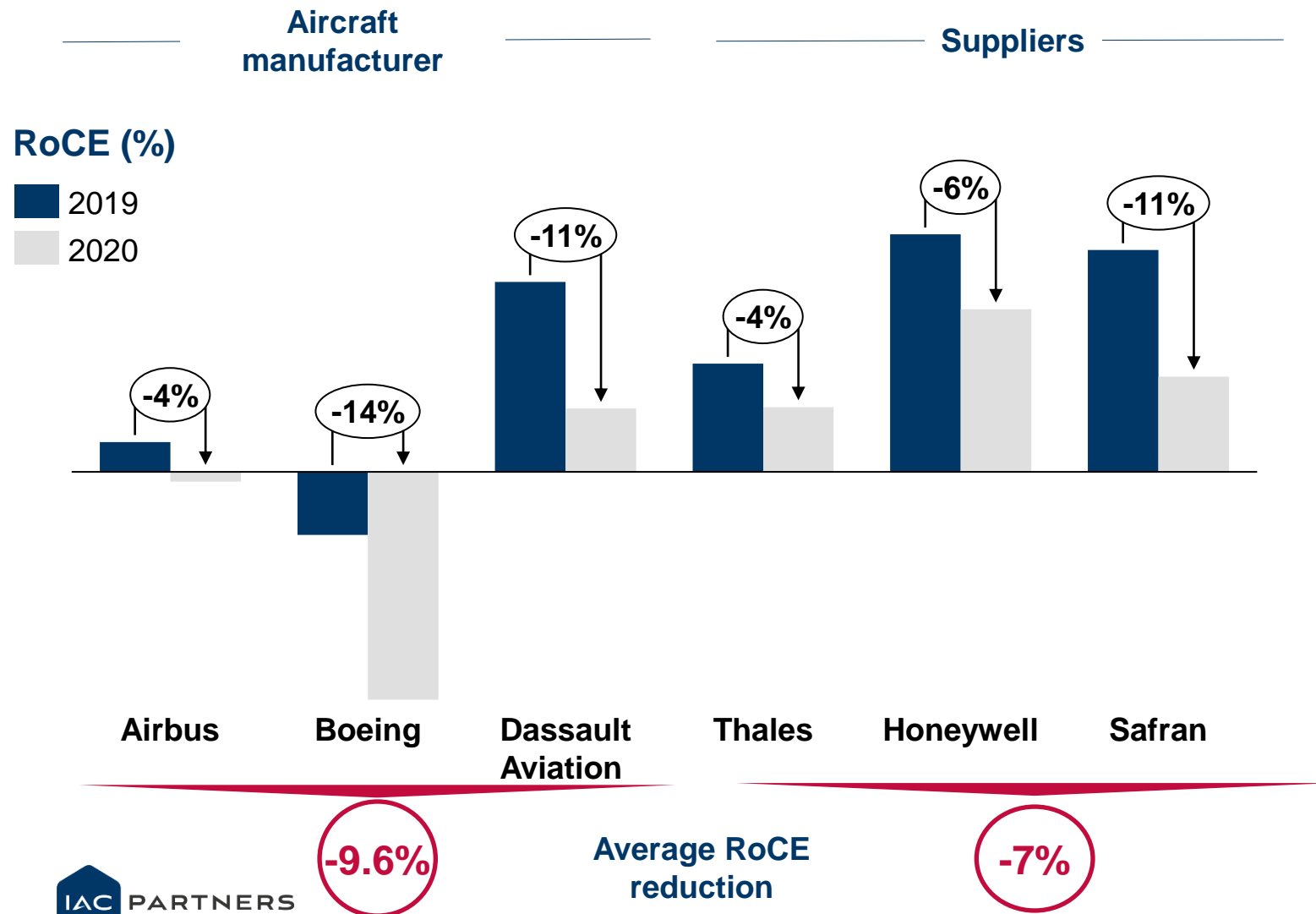
20%

10%

5%

(1/ Capital Employed*)
(in %)

-4 to -14% RoCE impact from the COVID-19 impact on A&D players; better resilience from Tiers 1 suppliers due to diversification



Key findings

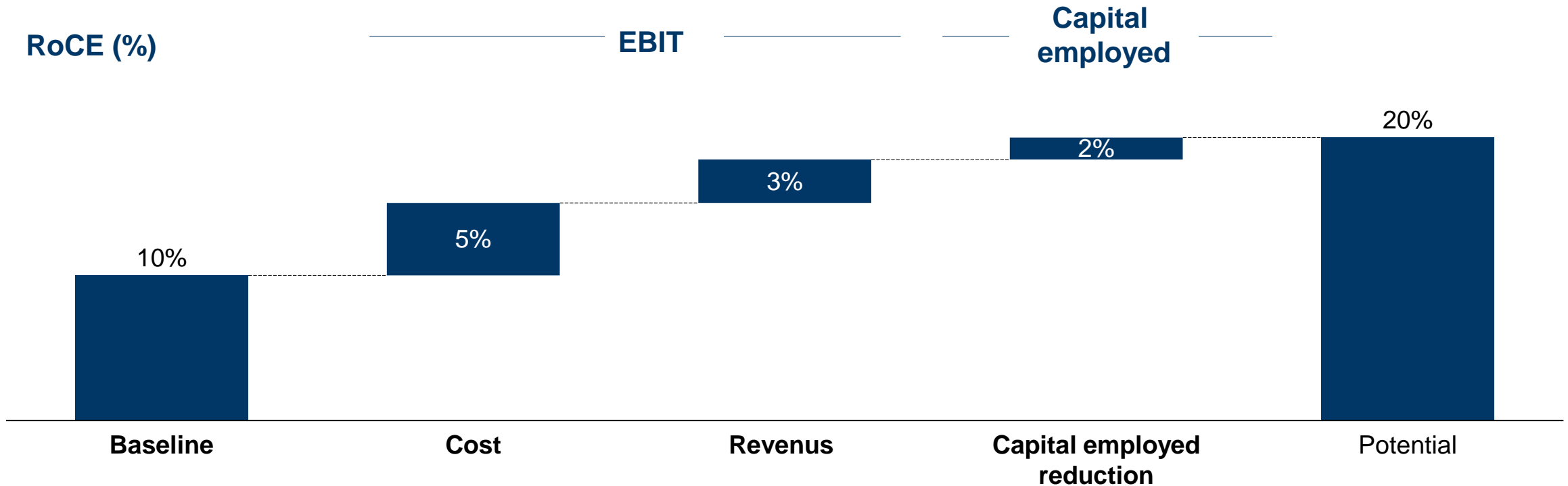
- All the value have been hit by the COVID-19 pandemic
- Higher impact on the Aircraft manufacturer than suppliers
- Thales and Honeywell have a better resilience due to industry diversification (e.g. defense)



*How much RoCE
impact can we expect
from procurement?*

Procurement can double the business Return on Capital Employed

ROCE FULL POTENTIAL



Levers

Procurement cost reduction

Time-to-market

Make vs Buy

Rationale

8% cost reduction on 60% spend

Case study: lead time reduction unlocking 10% revenues increase on a Business unit (30% total business)

Increase buy ratio leading to 15% asset reduction

Take-aways, Q&A

Q & A



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1

- Procurement is a key source of competitive advantage

2

- Time for procurement to focus on broader KPIs than cost savings

3

- Design-to-green is becoming inevitable due to consumers and regulation. Cost and sustainability needs to be addressed together.

4

- Procurement could double its RoCE performance and deliver an incremental 9% RoCE improvement