

# Thriving Through Volatility

Core Actions For Procurement Leaders In An  
Ever-changing Economic Reality

April 23, 2024



# Today's presenters



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## Hosts and contributors

**“Over the past three years, we have faced a series of crises, grappling with supply chain shortages, price increases, and labor constraints. However, the market dynamics are now shifting, and it is now the time for procurement to play offense”**

Fortune 100 Global CPO



# During 2023, 50% of procurement leaders prioritized mitigating or reversing price increases from suppliers

## 2023 procurement leaders' priorities

## % of respondents



# Inflation: Higher for HOW MUCH longer?

Volatility in 2024

— 3-month change   ■ 12-month change   - - - Central bank “target”

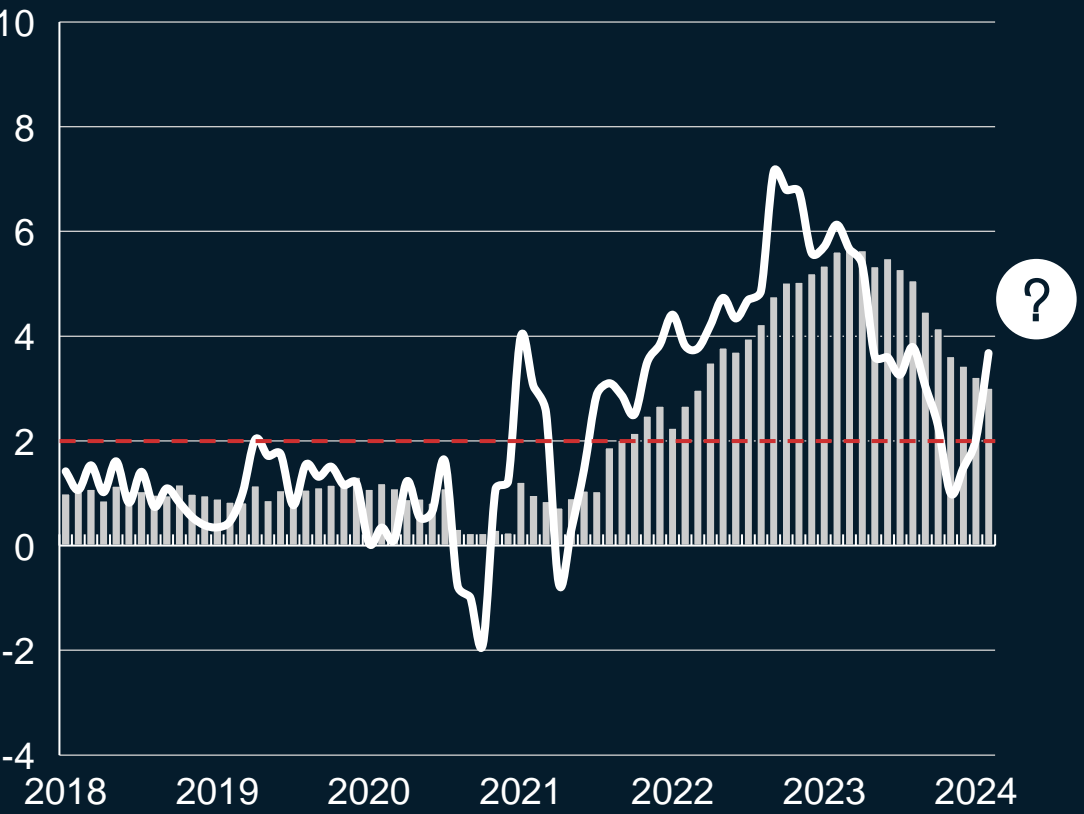
## US CPI growth—excluding food & energy

Annualized percent change, through February 2024



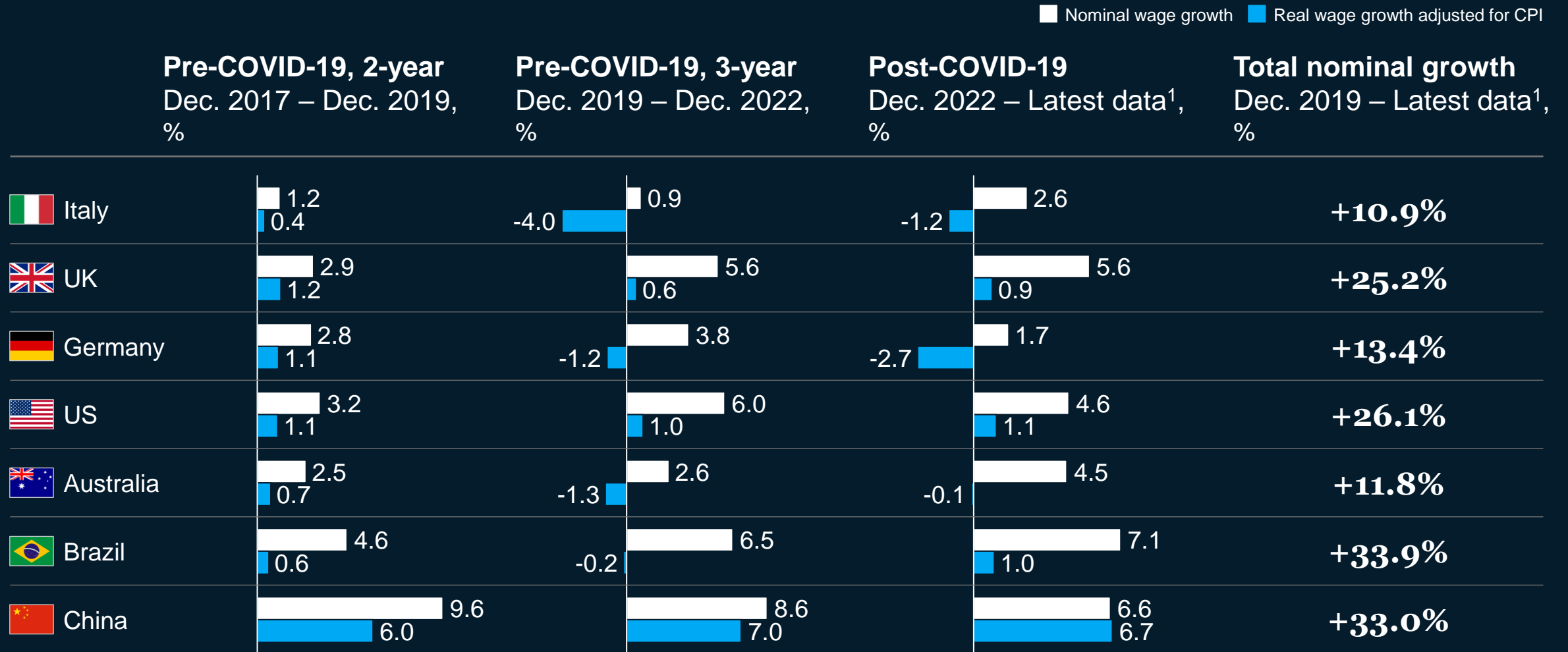
## Eurozone CPI growth—excluding food & energy

Annualized percent change, February 2024



# Wide dispersion of wage growth rates across countries

Nominal wages rarely fall delivering a permanent cost reset in most countries

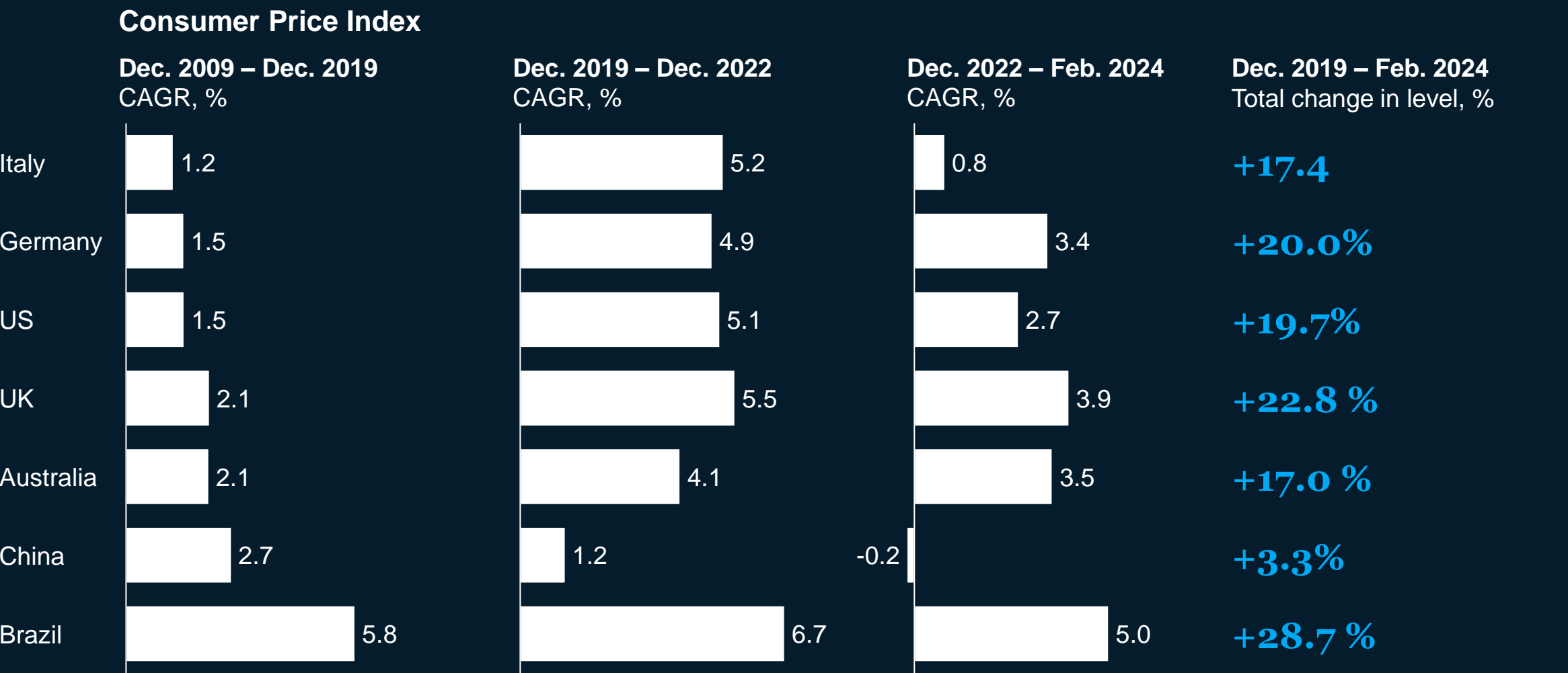


1. US through March 2024, Italy through December 2023; UK through January 2024, Brazil January 2013- February 2024; Germany quarterly through 2023 Q3, Australia quarterly through 2023 Q3, China quarterly through 2023 Q4

Note: Aggregate wages capture: Italy; Brazil; Australia - total economy; Germany, the UK & the US - private sector; China total urban and rural earnings per employee

# Overall change in consumers' pay prices are similar across the US and Europe despite significantly different policies

Even as the rate of inflation eases, price levels will largely stay at higher levels



# Global commodity prices have come down since the invasion of Ukraine but remain above vs. pre-COVID averages

This slowdown will play through to CPI and PPI inflation in coming months

— Agriculture — Metals — Livestock

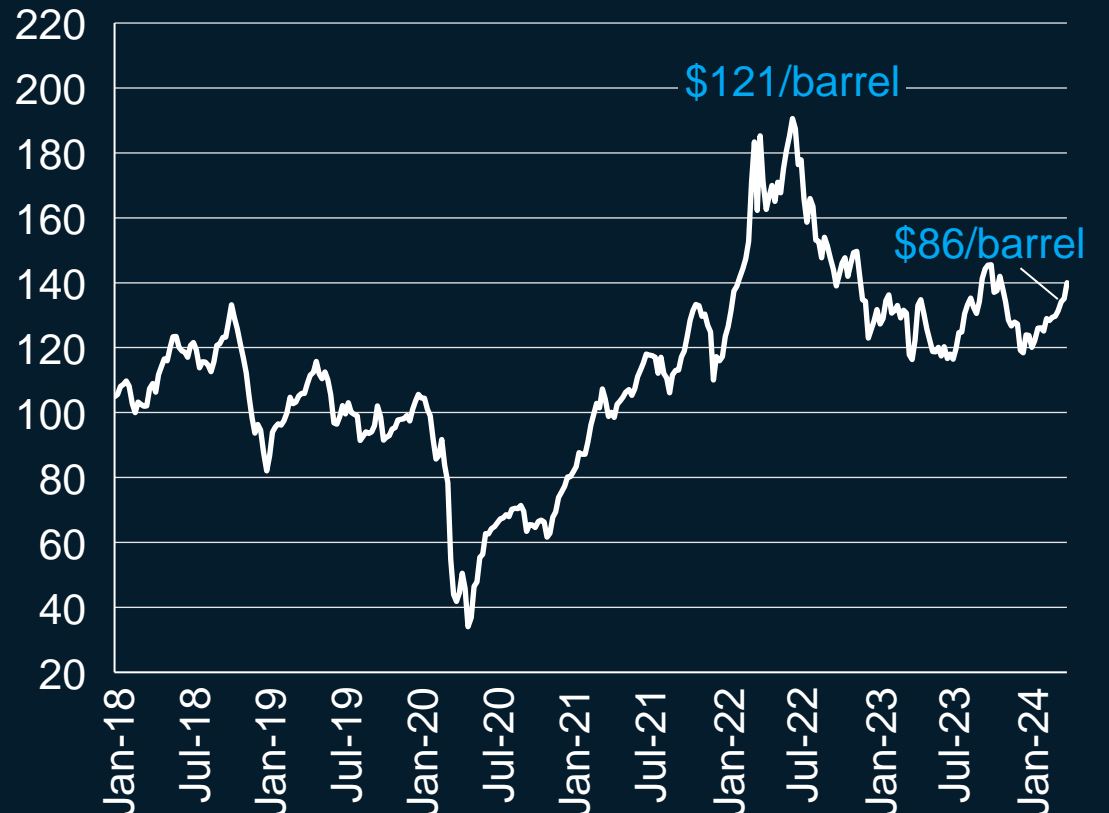
## Global commodities

Index, 2019=100, weekly through Apr. 5, 2024



## Brent crude

Index, 2019=100, weekly through Apr. 5, 2024



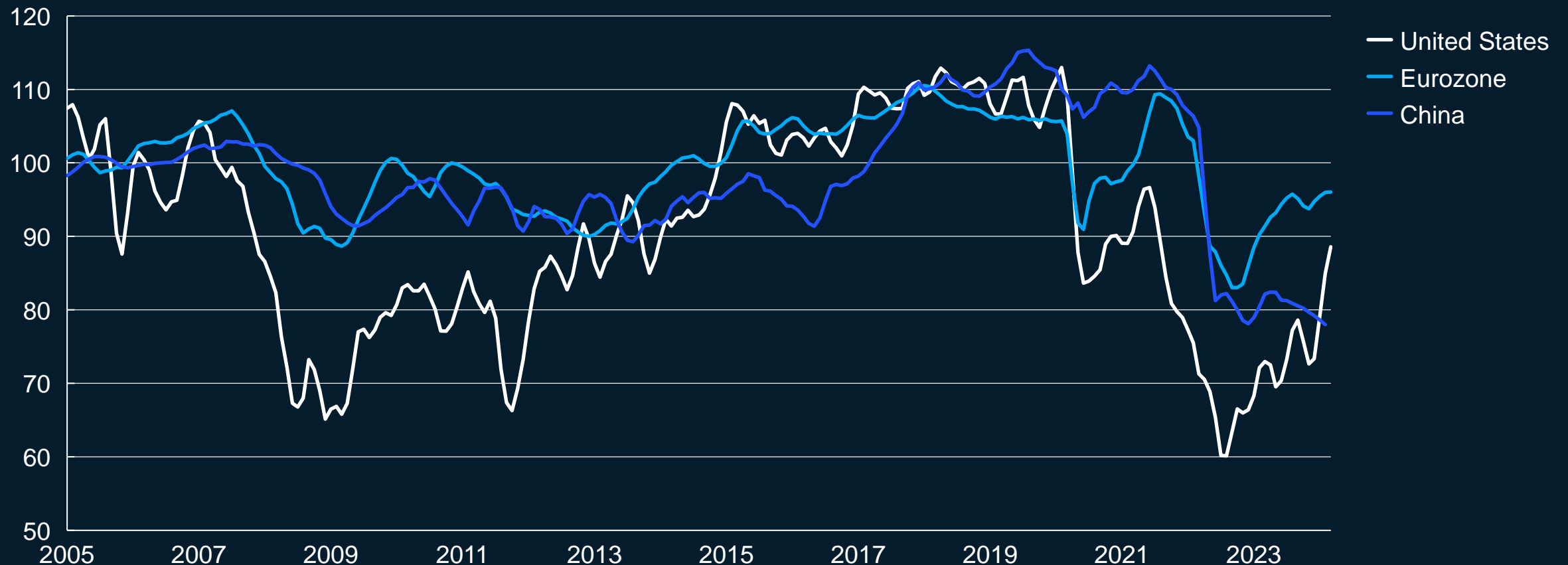


# Consumers remain cautious about the future across major countries globally

Consumer confidence in China deteriorates further

## Consumer confidence

Index, 2005=100, China through February 2024, Eurozone through March 2024, US through March 2024

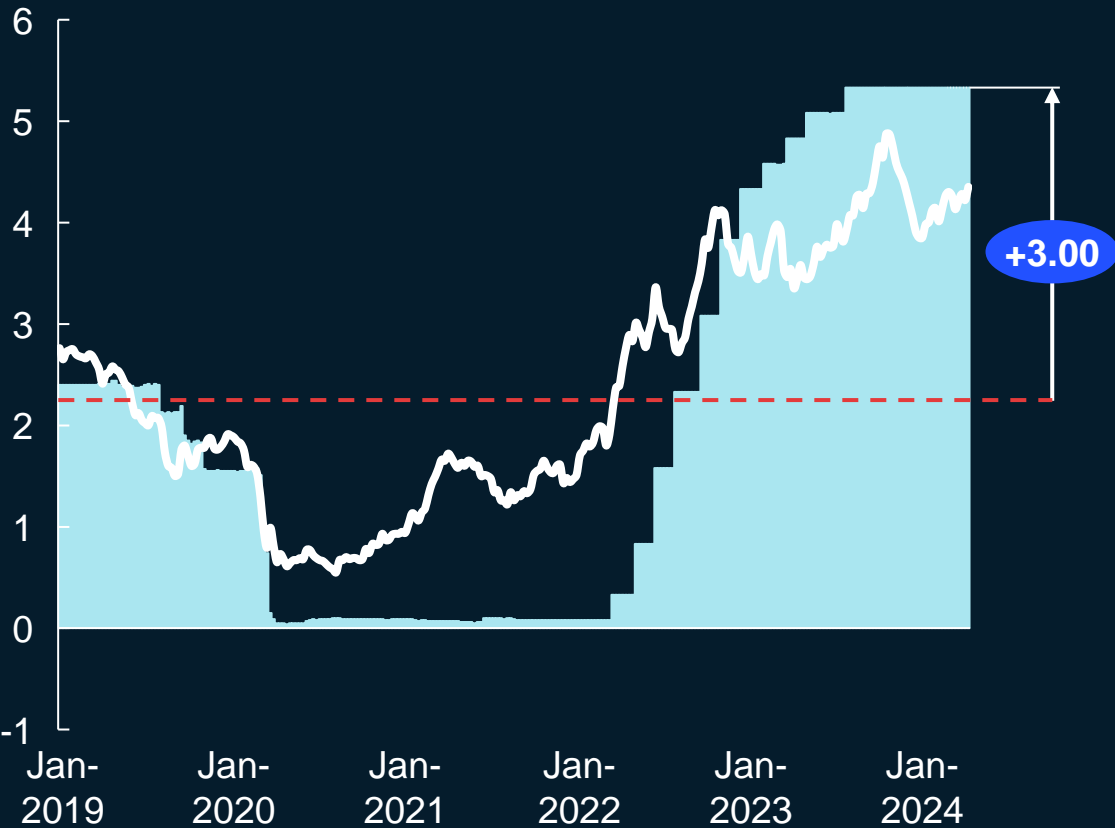


# Interest rates: Higher for HOW MUCH longer?

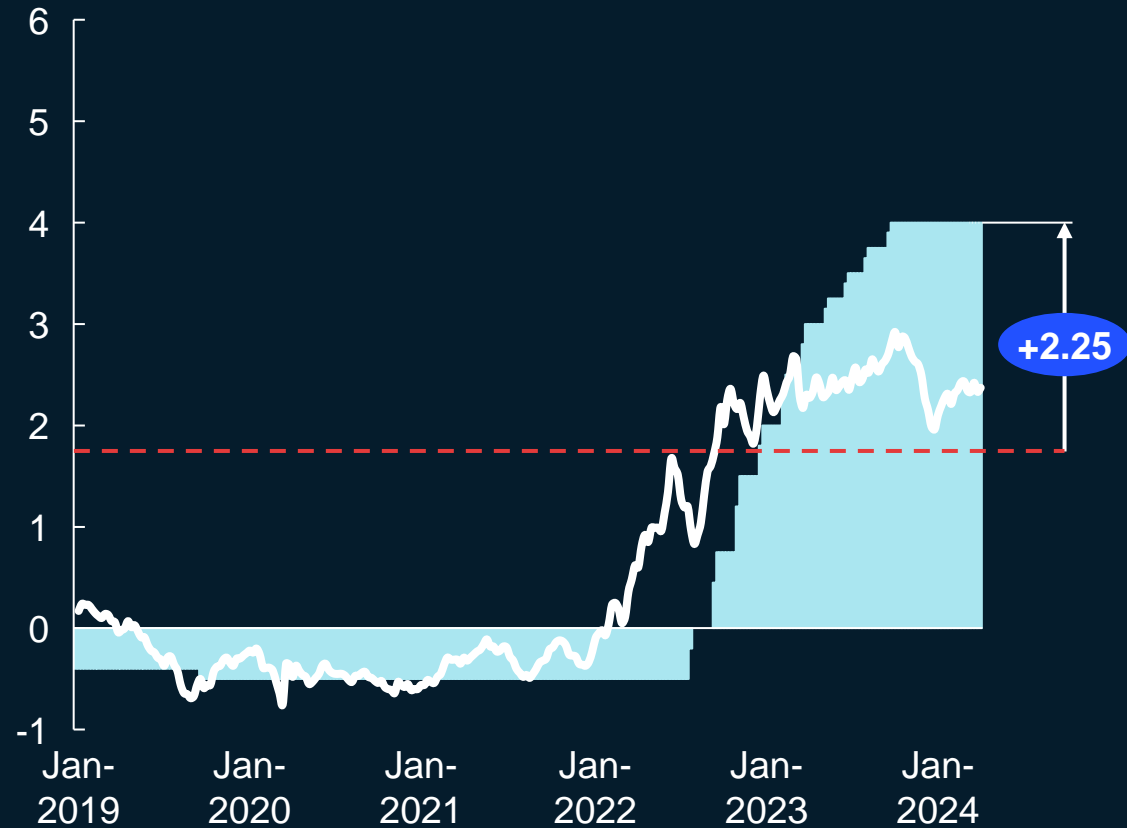
Volatility in 2024

— 10-yr. yield   ■ Central bank rate   - - - - "Neutral" policy rate

**US: 10-yr yield, Federal Funds rate**  
Percent, weekly, through April 5, 2022



**EUZ: German 10-yr yield, ECB Deposit Facility rate**  
Percent, weekly through April 5, 2024

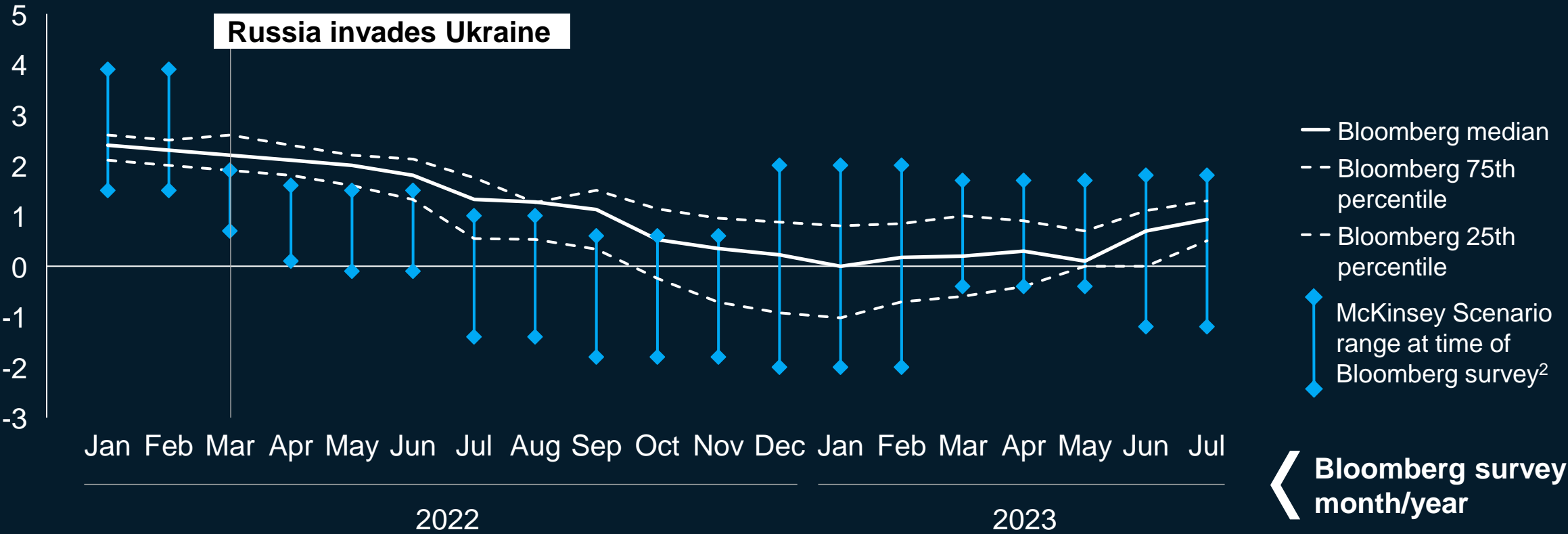


# Economic outcomes are notoriously difficult to predict

Bloomberg survey and McKinsey Scenarios for expected real US GDP growth in 2023



2023 expected real US GDP growth<sup>1</sup>, %, average of annualized Q/Q changes

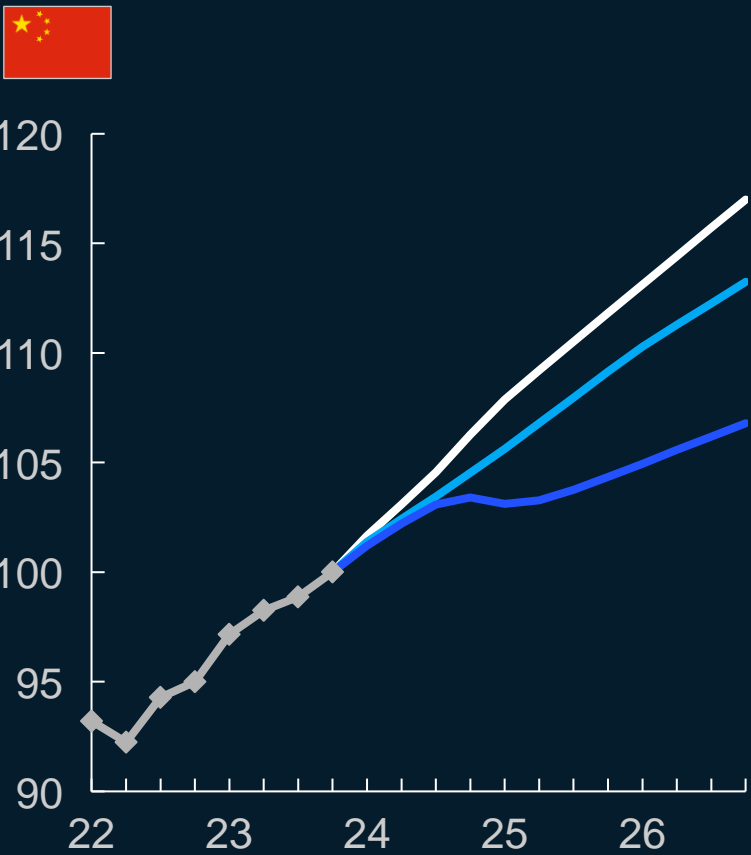


1. Based on Bloomberg surveys sampled in each month represented, N=60 reporting institutions  
2. December 2021 update, Prosperity & Limitations; February 2022 update, Quick resolution & Protracted Limitations; March 2022 update, 2A-3C; April 2022 update, 2A-3C; June 2022 update, scenarios B1-B3; September 2022 update, scenarios A1-C3; December 2022 update, scenarios A1-C3, March & June 2023 update, scenarios A1-C3

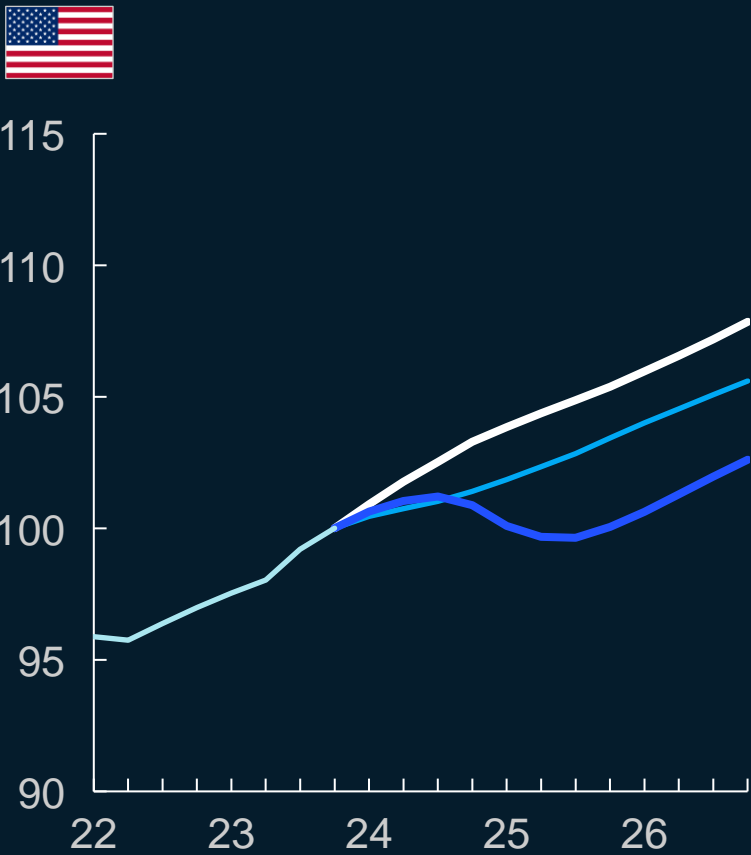
# Widely divergent growth possibilities globally

Real GDP, Index, 2023 Q3=100; December 2023

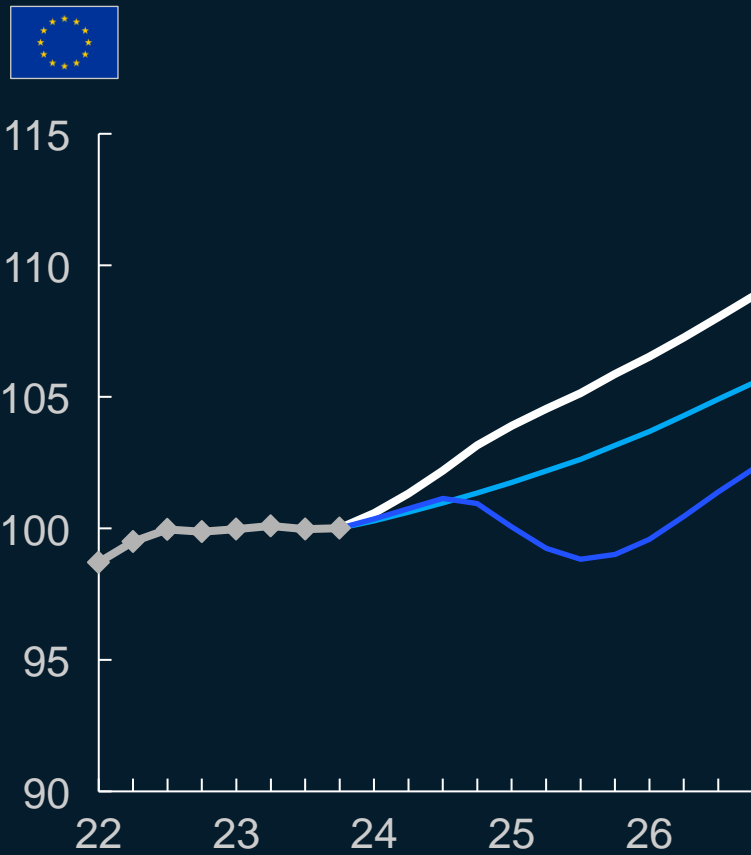
—  $\alpha$ 1: Productivity acceleration —  $\beta$ 2: Return to past era —  $\gamma$ 2: Central bank led recession X% 2027-2033 CAGR



4.4% 2.2%



3.4% 1.4%



2.4% 1.0%

# To cope with volatility, procurement organizations have learned...



**Lots of  
opportunity to  
capture**



**Lots of  
complexity to  
manage**



**Requires  
operating model  
upgrade**

# Procurement organizations can take 10 actions to meet evolving challenges in 2024

XX Deep dives to follow



## End-to-end value capture

- 1 Utilize new-frontier analytics and AI**
- 2 Create an RFP engine**
- 3 Re-design value creation with key suppliers**



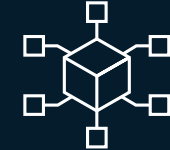
## New venues of value

- 4 Manage volatility**
- 5 Optimize operations from end to end**
- 6 Integrate ESG and optimize upstream Scope 3**



## Integrated margin management

- 7 Coordinate response for integrated margin management**
- 8 Redefine portfolio and product design**



## Operating model of the future

- 9 Digitize end-to-end procurement processes**
- 10 Build new capabilities for the buyer of the future**

# 1A Using AI to forecast input cost scenarios, understand cost drivers and inform purchasing decisions

## Internal and external data

Commodity trends



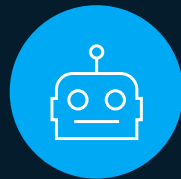
Financial



Weather



Internet. Commerce



The model ingests historical data (market, weather, etc.) from selected sources



Generated **~1-4%** on gains over average buying and selling prices in commodities such as:



Corn



Ethanol



Bovine meat



Barley



# 1B Procurement Negotiation Bot can help buyers achieve 5-10% savings in tail spend

## Situation

Tail spend is difficult to manage due to:

- **Large number of transactions** across multiple suppliers and POs
- Relevant data spread across **multiple sources with unstructured format**
- **Limited time capacity** of buyers



## Approach

**Procurement Negotiation Bot** incorporates relevant **internal and external data sources** for **each supplier and item** (e.g., past relationship, price trends, market conditions)

**Procurement Negotiation Bot** automatically **can:**

- **Identify rapid re-pricing opportunities** in tail spend or selected categories
- **Draft emails for buyers using GenAI** with tailored messages and levers (e.g., recent price increase, market trends, recent email received)
- **Predict possible counter-arguments** and propose promising rebuttals
- **Highlight carrots and sticks** per supplier and item

## Expected Impact

# 5-10% savings

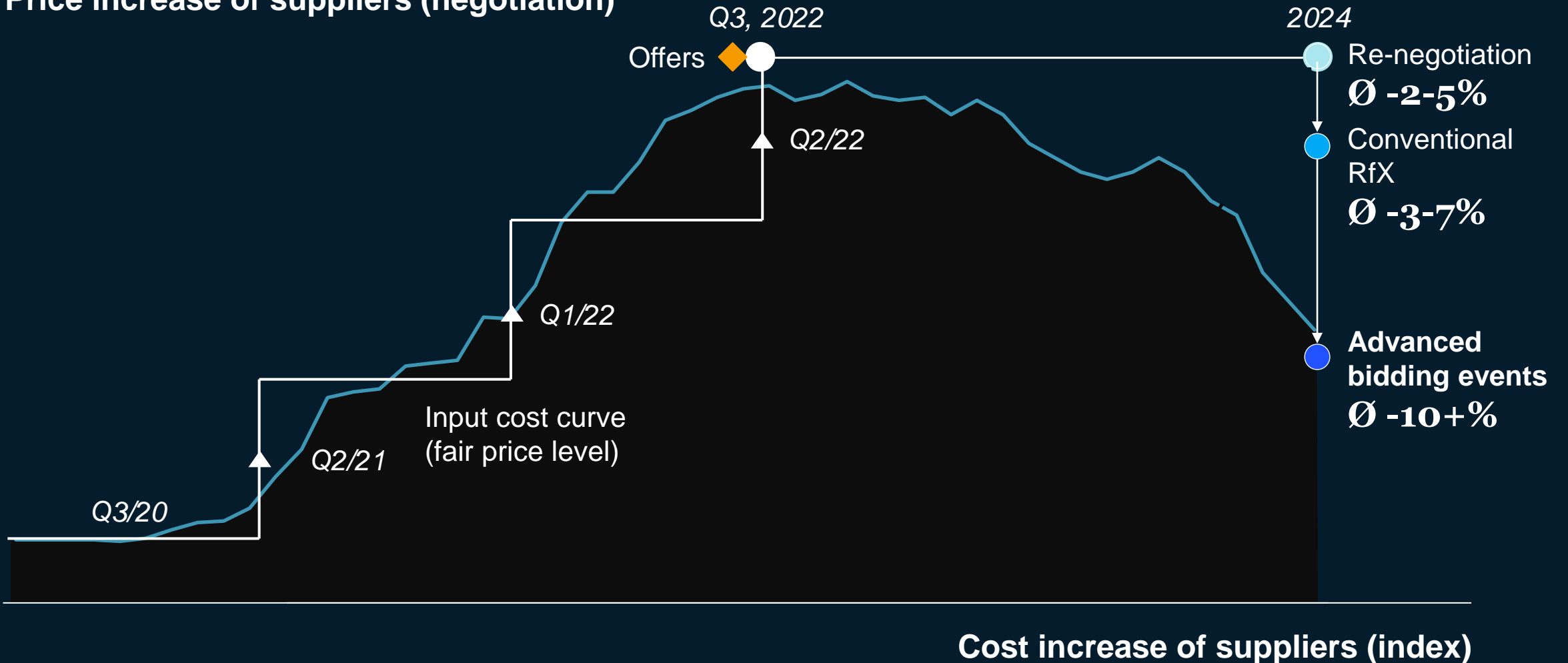
With the Procurement Negotiation Bot, buyers can:

- **Spend less time** analyzing tail spend
- **Be better prepared** for suppliers' potential arguments/levers to reduce price
- **Be able to do this at scale** for tail spend



## 2 Advanced bidding is a promising tool to capture value not seen through traditional negotiation

Price increase of suppliers (negotiation)

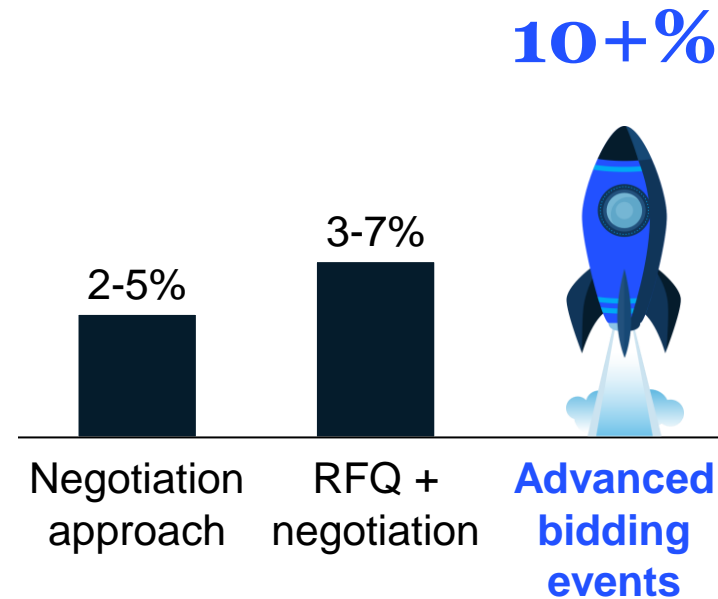


## 2 Next-gen bidding engine: Advanced bidding events to re-design value with strategic suppliers

### Advanced bidding builds on 6 pillars

- I Bidding design intelligence
- II Supplier Intelligence System (SIS)
- III eRfX execution skills
- IV Digital bid insights
- V Adaptive multi-round feedback and playbooks
- VI Category excellence library (templates, regional design)

### Average savings achieved



Impact achieved  
(client example)

> \$1bn

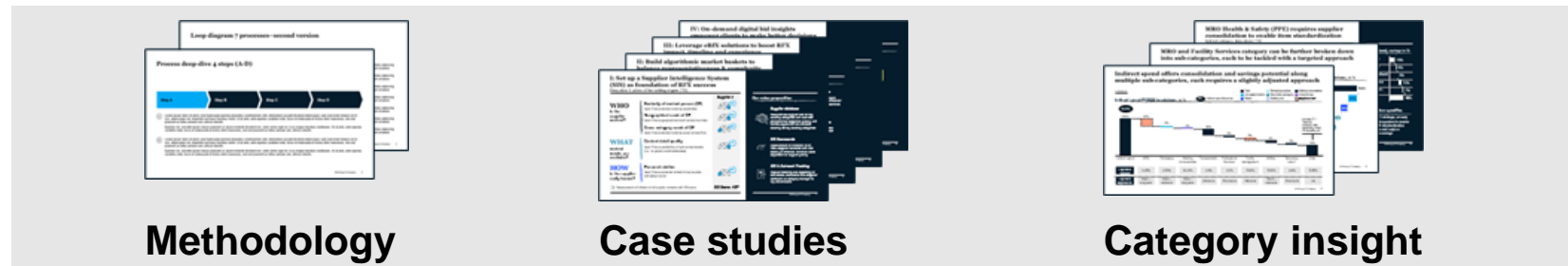
Spend considered in  
2023 in advanced  
bidding events

5-50%

Savings achieved

Thousands  
of SKUs

In single RfX market  
basket covered

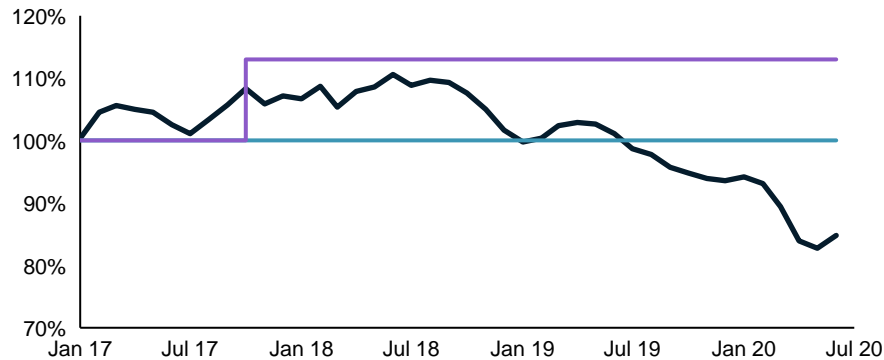


# 4 Managing volatility through input cost monitoring to benchmark parts' prices vs. a fair value index

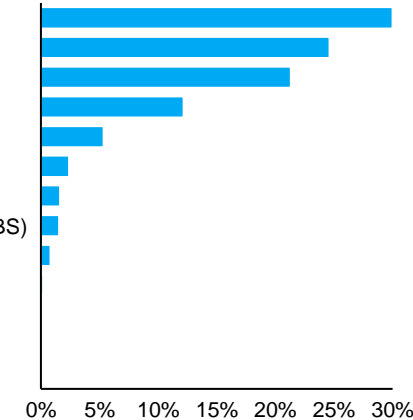
## Cockpit: Dashboard

Average Delta: 1% Current Delta: -15%

Weight composition of the component



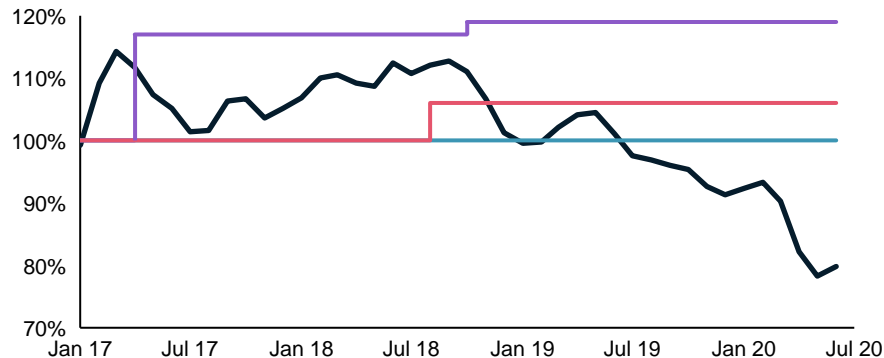
Polypropylene (PP)  
Steel  
Plastic others  
Cotton  
Aluminium  
Polycarbonate (PC)  
Metal other  
Acrylonitrile-Butadiene-Styrene (ABS)  
Polyethylene (PE)  
Nylon Resin 66  
Other  
POM  
Fiber



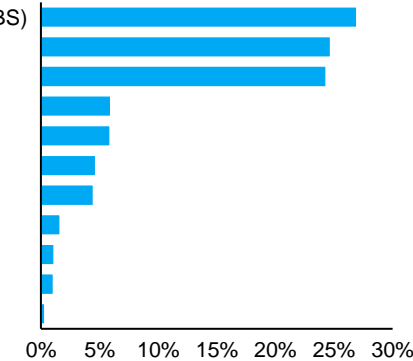
## Cockpit: Centre console

Average Delta: 2% Current Delta: -20%

Weight composition of the component



Acrylonitrile-Butadiene-Styrene (ABS)  
Polypropylene (PP)  
Plastic others  
Steel  
Other  
Polyethylene (PE)  
Polycarbonate (PC)  
Metal other  
TPE  
Polybutadiene Rubber (PBR)  
Cotton



## Approach and outcome

**Material Price Increase** creates transparency on actual price development

**Fair Market Material Price Increase** outlines the market situation based on core cost drivers (indices and commodity weighting), creating forward-looking predictions with index FCs

**Deltas as foundation for saving potentials** (supporting prioritization of negotiation levers)

# 8 Optimizing product by leveraging customer insights could result in 2-4% revenue impact

## Situation



## Approach



**Automotive OEM** wanted to understand which features and trims to include in its next series. The company wanted to:

- **Maximize customer reach** with the right configurations
- **Prioritize current configurations** for stock, removal, or BTO only
- **Establish top-preferred future configurations** for offer structure



**Capture and quantify true customer preferences**  
(e.g., conjoint, quotes vs sales)



**Model customer choices to simulate changes**, predict switching behavior, and create “what-if” analysis for feature/variant addition or removal



**Create product portfolio optimization engine** for customer-backed offering

## Impact






**+2-4%  
revenue**




By leveraging customer insights to optimize offering of:

- **Current generation** stock configurations and opportunities for complexity reduction
- **Next generation** standard content, feature, packaging, and trim level structure

# 10 A paradigm shift in the procurement operating model from tactical to strategic roles enabled by technology

Example of roles and new behaviors required

Not exhaustive		From	To	
	Category manager	Identify savings and improvement initiatives	Data crunching Gathering information Challenging category performance	Prioritizing categories and building strategies <b>Managing key partnerships</b> and supplier relationships
	Category buyer	Run negotiations	Gathering data on suppliers and previous negotiations	<b>Run negotiations</b> with Gen AI support as sparring partner and fact-pack generator <b>Monitor automated negotiations</b> and awarding done by Gen AI
		Track supplier performance	Gathering performance indicators with limited visibility to supplier intel	<b>Track quality and delivery performance</b> of suppliers
	P2P buyer	Identify business needs	Coordinating manual processes Matching invoices/shipment/ERP numbers	<b>Collect information for PO and invoice creation</b> by leveraging interactive chatbots

	New roles to enable Gen AI		<b>Data/SW engineer</b>	<b>Create data pipelines and SW interfaces</b>	Ensures Gen AI solutions have access to required data with the required quality Develops SW engineering pipelines to run as backbone for Gen AI solutions
			<b>ML/DL Data Scientist</b>	<b>Enhance models and solutions</b>	Customizes foundation models via fine-tuning, prompt engineering, and prompt-tuning to deliver desired outcome Acts as additional SME when rating model performance for specific applications

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# Key questions facing procurement leaders

- 1** Do we have **full transparency** of forecasted spend, input cost exposures, and supply chain risks?
- 2** Have we launched a focused **inflation recovery effort**, with strategies tailored to the respective approaches of each category or supplier?
- 3** Have we **equipped all category managers and buyers with tools, data, and capabilities** needed to deeply understand their supply markets, deploy all relevant levers, and address all the spend?
- 4** Have we developed a **holistic technology enablement strategy** to increase efficiency, reduce risk, improve stakeholder experience, and sustain effectiveness (savings delivery) in the face of increased workload and complexity?
- 5** Have we **fully embedded the lessons learned into sustainable processes, governance, and organizational design** choices to permanently upgrade the operating model for the new environment?