



Procurement Excellence in Croatia vs. CEE

**CAP Conference:
“Purchasing – status quo and trends“**

Roland Berger Strategy Consultants

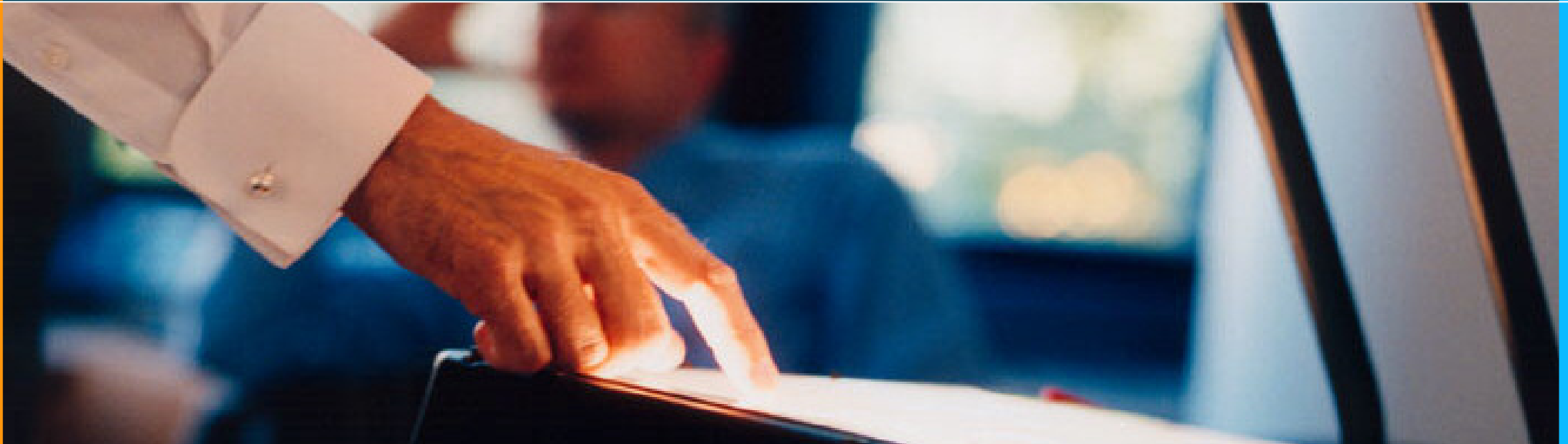
Zagreb, April 19, 2007

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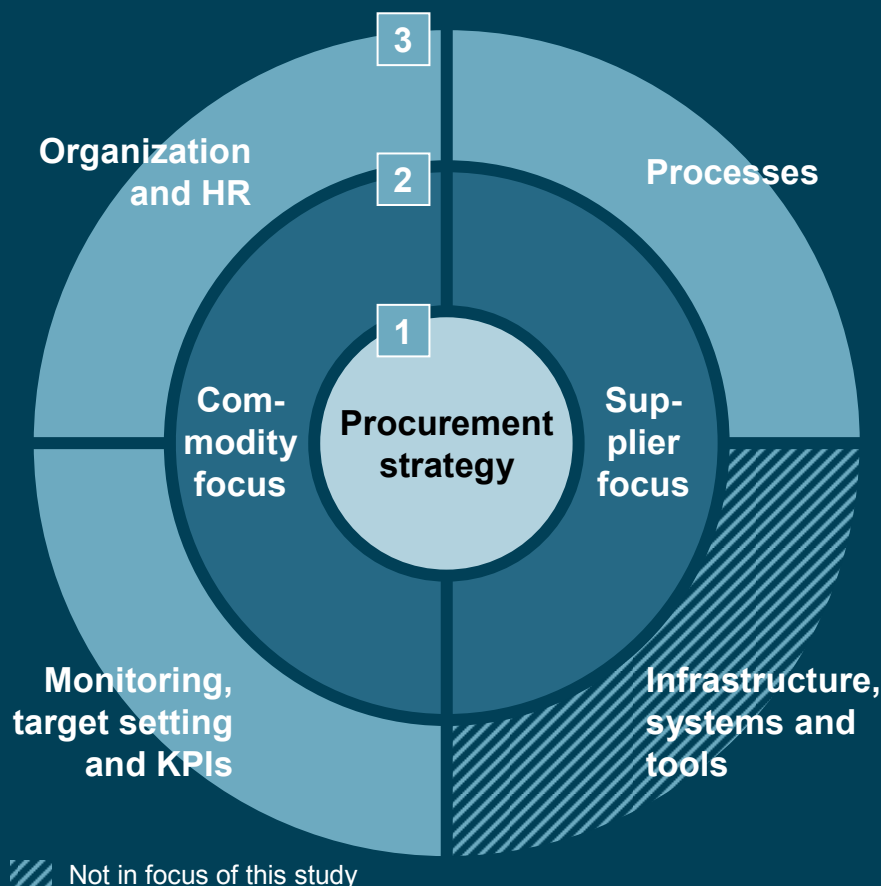
B. Study results

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A. Roland Berger's approach to procurement and framework of the study

Successful procurement covers all building blocks – Structure for the procurement study



Building blocks

1 Procurement strategy

- Links procurement initiatives to corporate strategy and to division strategies
- Gives a clear guidance on expectations and performance improvement targets

2 Procurement performance

- Ensures realization of cost savings by optimizing procurement performance with focus on commodities and suppliers

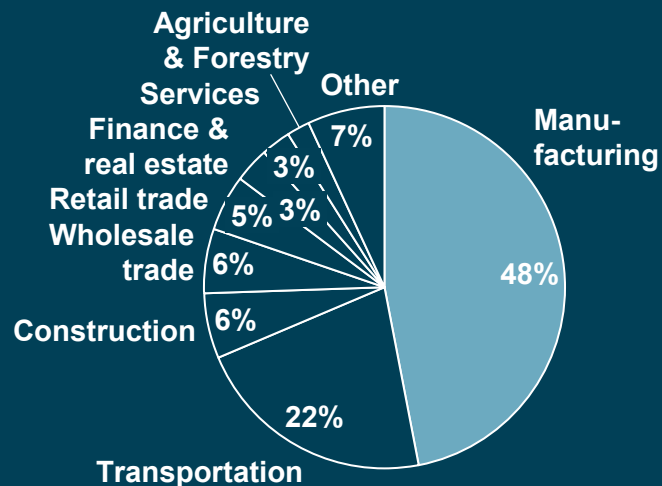
3 Procurement enablers

- Ensure and guarantee the sustainability of performance improvements

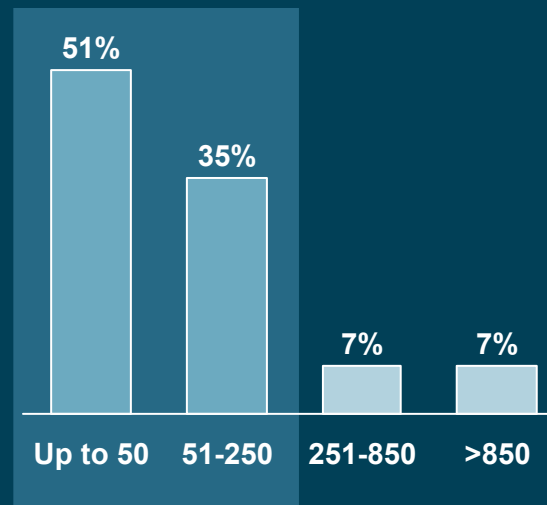
In 2006, more than 100 companies in five CEE countries were interviewed for this study

Response rate according to selected general criteria

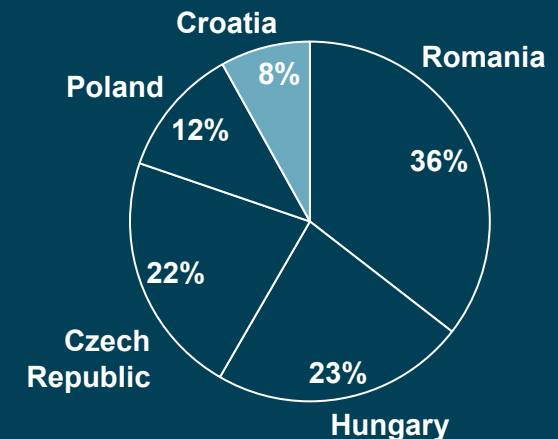
Company share by industry



Company share by procurement volume 2005 [EUR m]

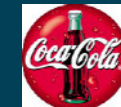


Company share by country



The study covers a wide range of companies in Central Eastern Europe – Local and global

Selection of interviewed companies





B. Study results

CEE companies are on the level of Western Europe...

Key advantages in CEE in comparison to Western Europe (WE) 1/2

- ➔ Almost 90% of the investigated companies formulate a **clear purchasing strategy**. Also the **usage of procurement instruments** is higher in CEE than in WE, based on a comparable study for DACH 3 years ago
- ➔ CEE companies have a more **balanced country portfolio** for their suppliers than WE companies have – No sourcing region has a dominant share – **Global sourcing** is even considered more important
- ➔ Purchasing function is in nearly 40% of the cases of CEE companies **at board level** – This marks a higher importance than for WE countries
- ➔ **Ecological criteria** do play the same role in evaluating suppliers compared to WE

... nevertheless, there is still room for improvement

Key disadvantages in CEE in comparison to Western Europe (WE) 2/2

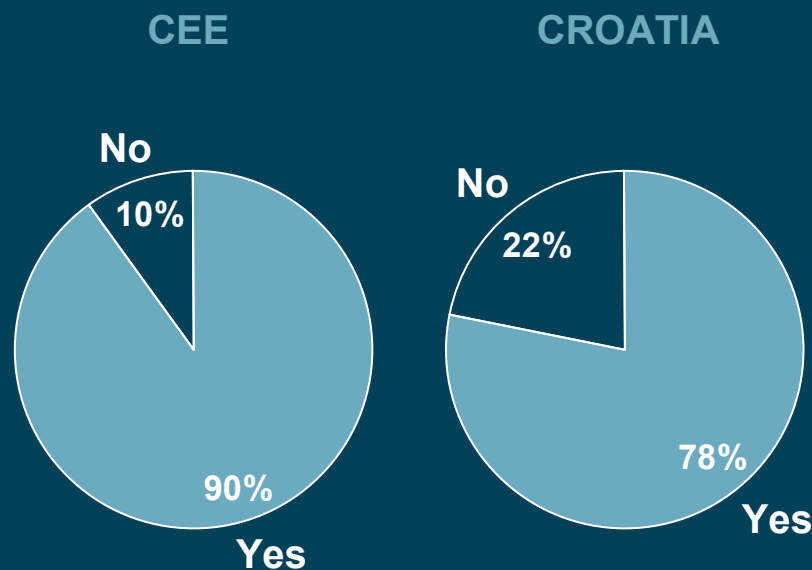
- ➔ **Supplier integration** in CEE is still weak – Suppliers are not yet fully linked with **product lifecycle**
- ➔ **Systematic supplier management** in WE is much stronger – Only a few **supplier incentive systems** are in place in CEE
- ➔ **Operational activities** in purchasing departments are still very high in CEE – Lack of **strategic purchasing**
- ➔ Purchasing activities in CEE still tend to be **decentralized** – In WE more centralized approaches are to be found



78 % of Croatian companies have a procurement strategy – If in place, better developed/communicated

Procurement strategy and relevant details

Response regarding procurement strategy



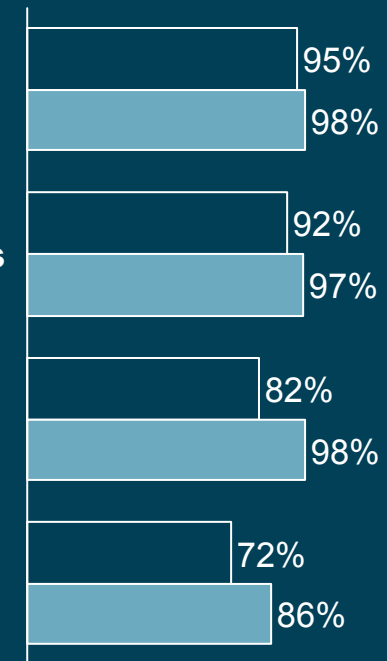
Details regarding procurement strategy

Procurement strategy is deducted from overall strategy

Development process of corporate strategy includes procurement strategy

Procurement strategy is broken down into targets for procurement divisions

Procurement strategy is communicated to employees



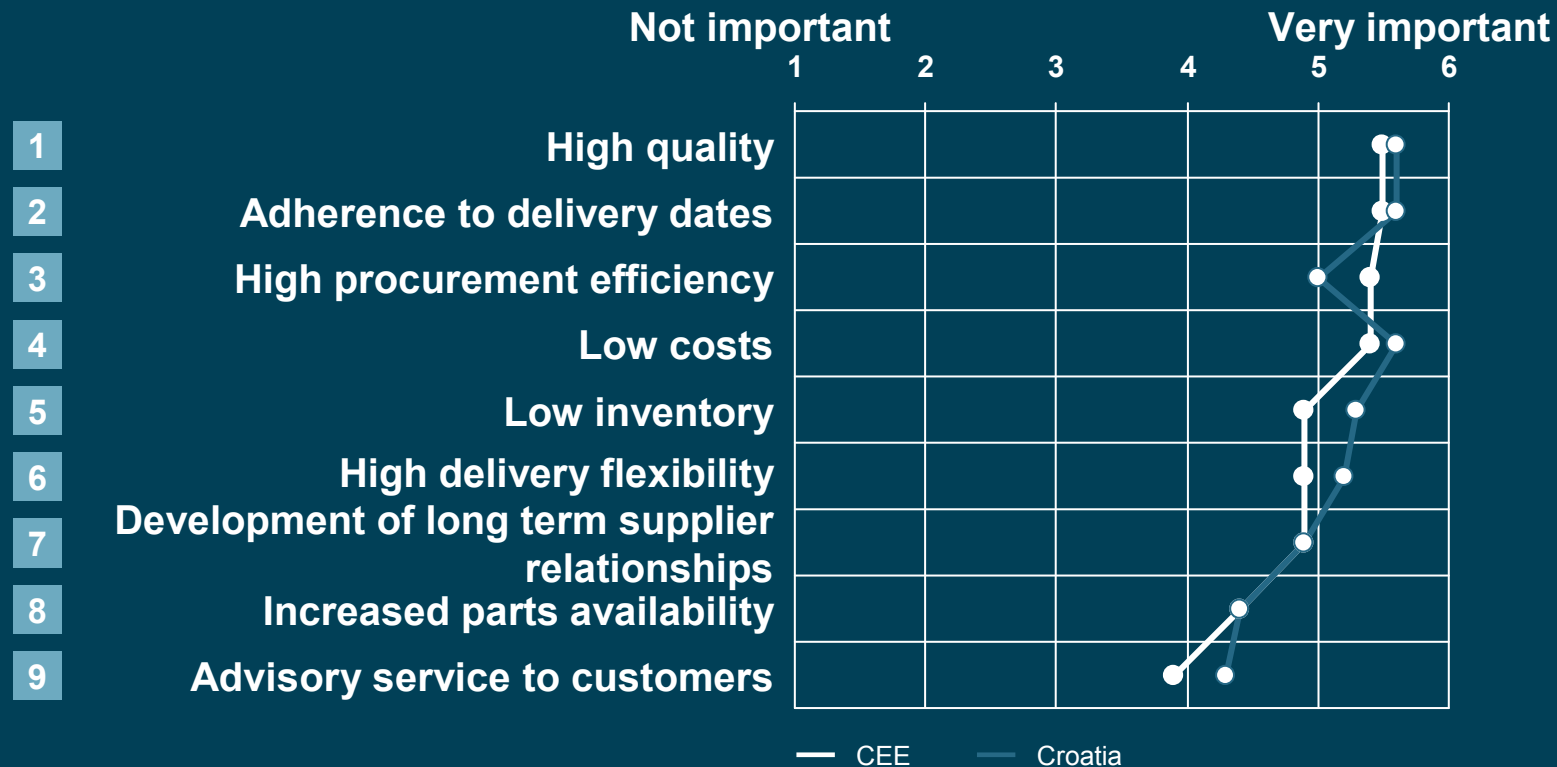
□ CEE ■ Croatia



In Croatia, high procurement efficiency is ranked far behind CEE average

Assessment of strategic procurement objectives

Assessed importance of procurement objectives





Best-price evaluation and procurement cooperation will be the most important instruments for Croatia

Strategic procurement instruments in Croatia



- Demand bundling and supplier development are ranked high in Croatia
- Best-price evaluation, procurement cooperation, and global sourcing will be the most important procurement instruments in the near future

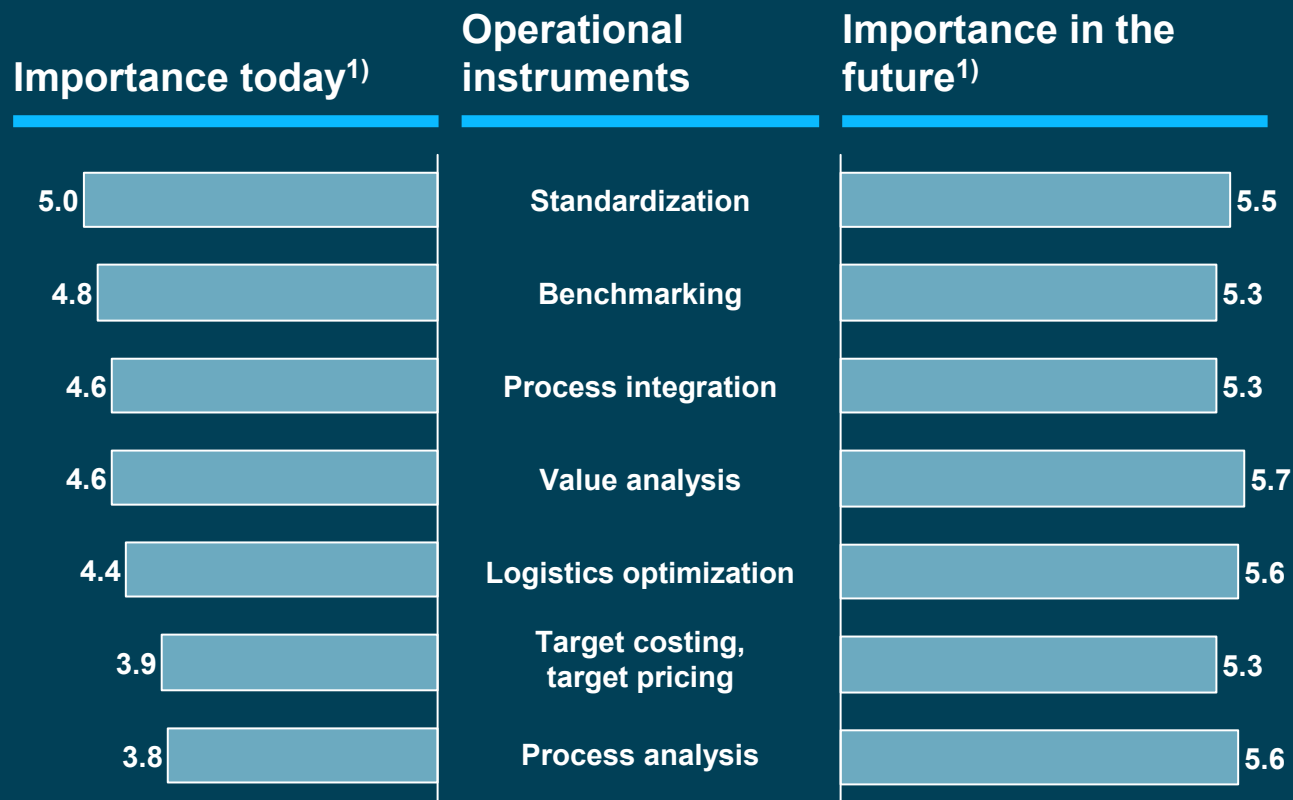
Scale: 1 = not important; 6 = very important

1) Importance of the respective procurement instrument as seen by the companies



Value analysis, logistics optimization & process analysis will be most important instruments

Operational procurement instruments in Croatia



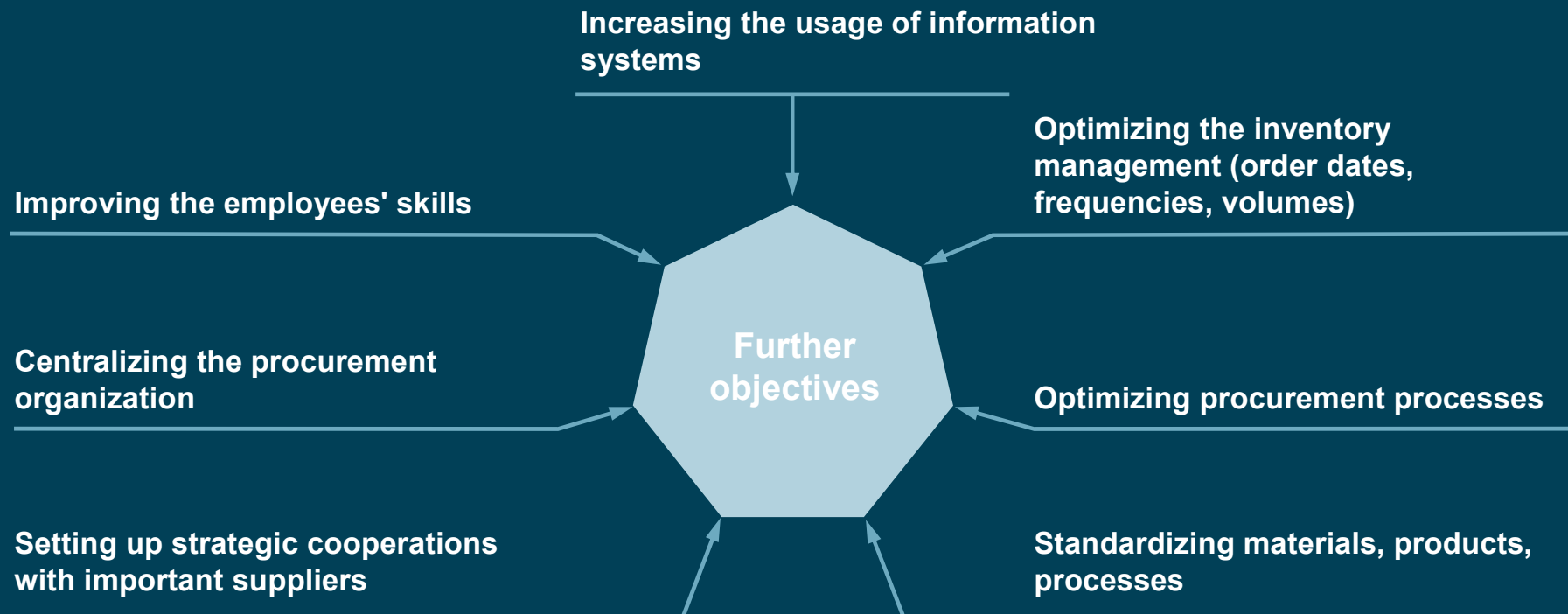
- All operational procurement instrument's importance will remarkably increase
- The most important instruments will be **value analysis, logistics optimization and process analysis** with
- **Process analysis** gaining most in importance

Scale: 1 = not important; 6 = very important

1) Importance of the respective procurement instrument as seen by the companies

Further objectives comprise the enforcement of information systems usage and employees's skills

Further objectives mentioned by the study participants in CEE

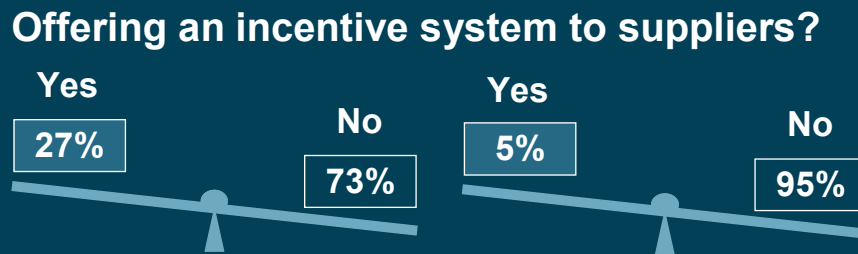
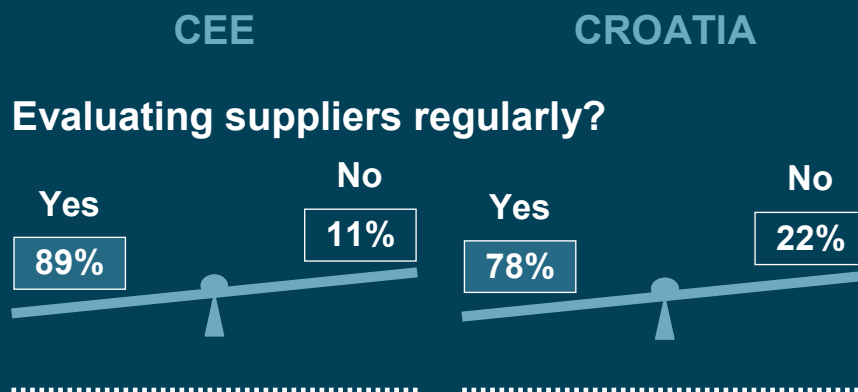




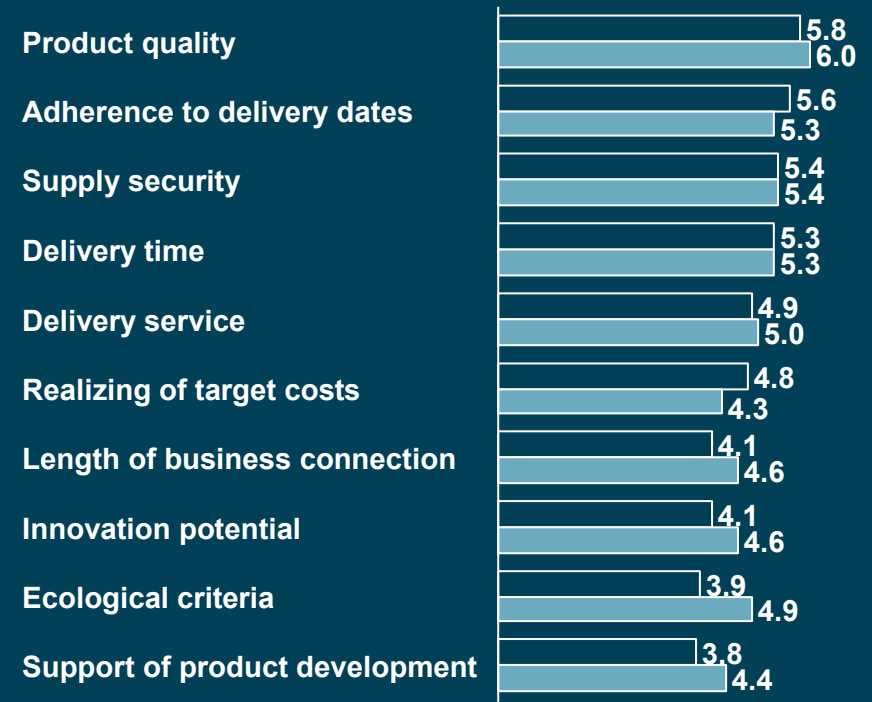
Croatian companies evaluate their suppliers less regularly – Lot of criteria, no incentive systems

Evaluation of suppliers

Evaluation of suppliers
[% of participating companies]



Importance of evaluation criteria for suppliers



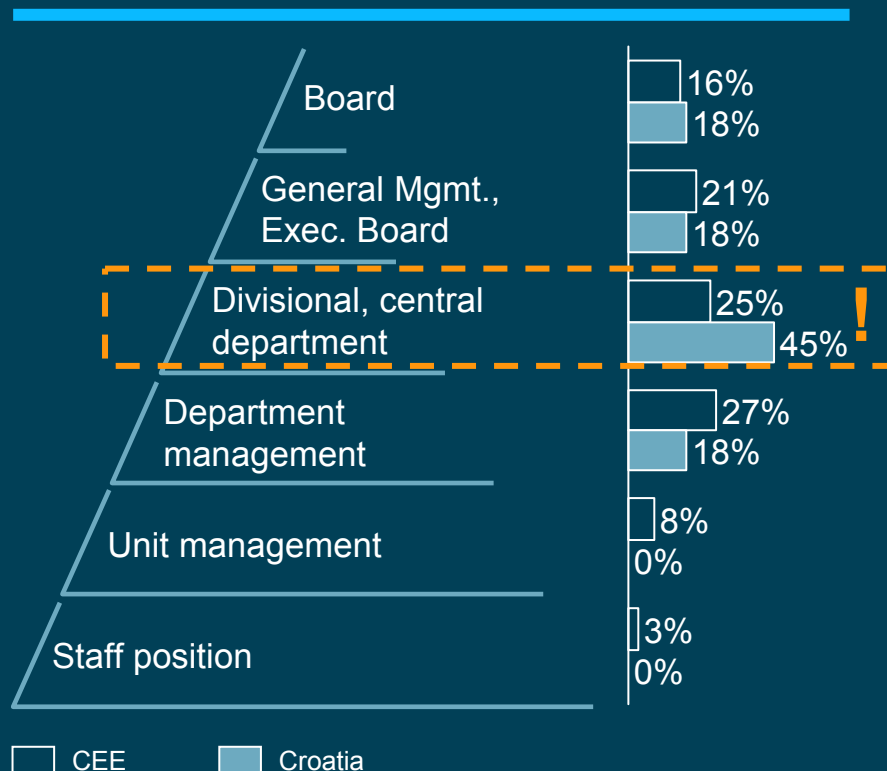
Legend: CEE (light blue), Croatia (dark blue). Scale: 1 = not important; 6 = very important



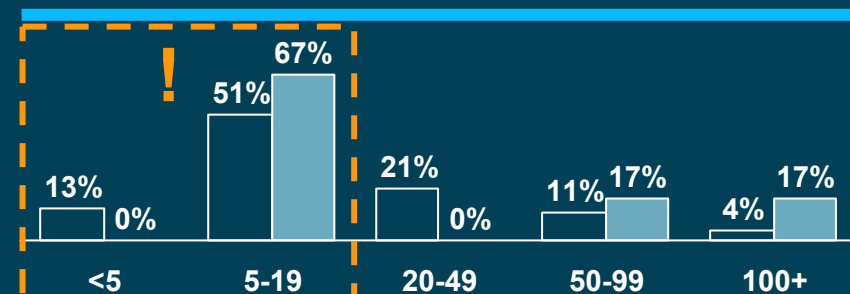
Croatian companies have more procurement employees, but with also more volume

Disciplinary and professional placement of the procurement department

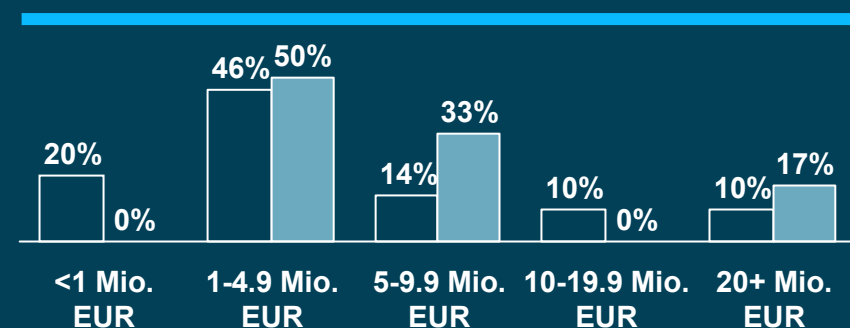
Reporting structure of procurement department [% of participating companies]



Number of procurement employees [% of participating companies]



Procurement volume per procurement employee [% of participating companies]

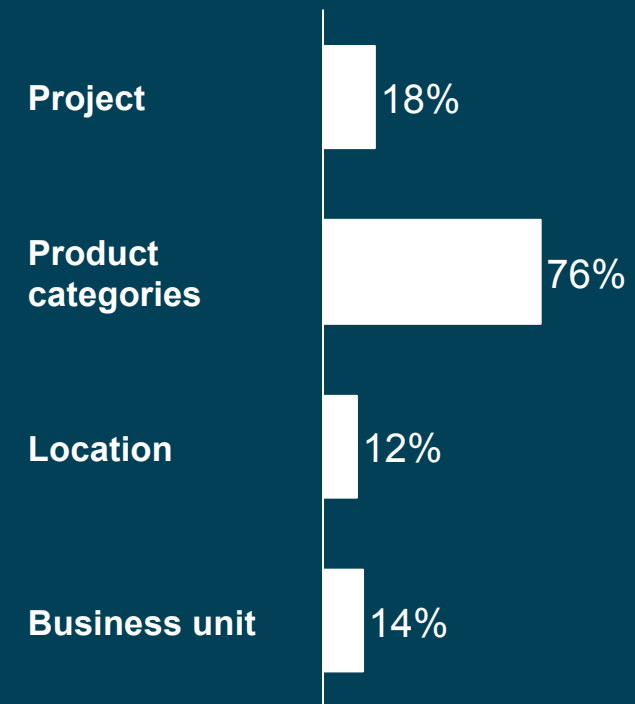
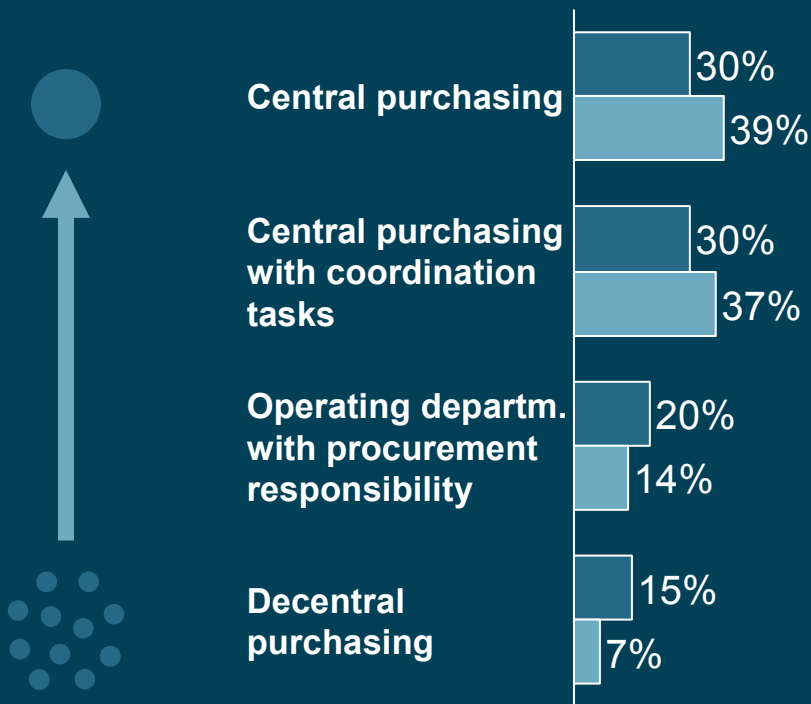


In CEE, Central purchasing is dominant and gets even stronger

CEE: Organizational structure and focus of the procurement department

Organizational structure of procurement department today and in the future [%]

Procurement focus driven by ...



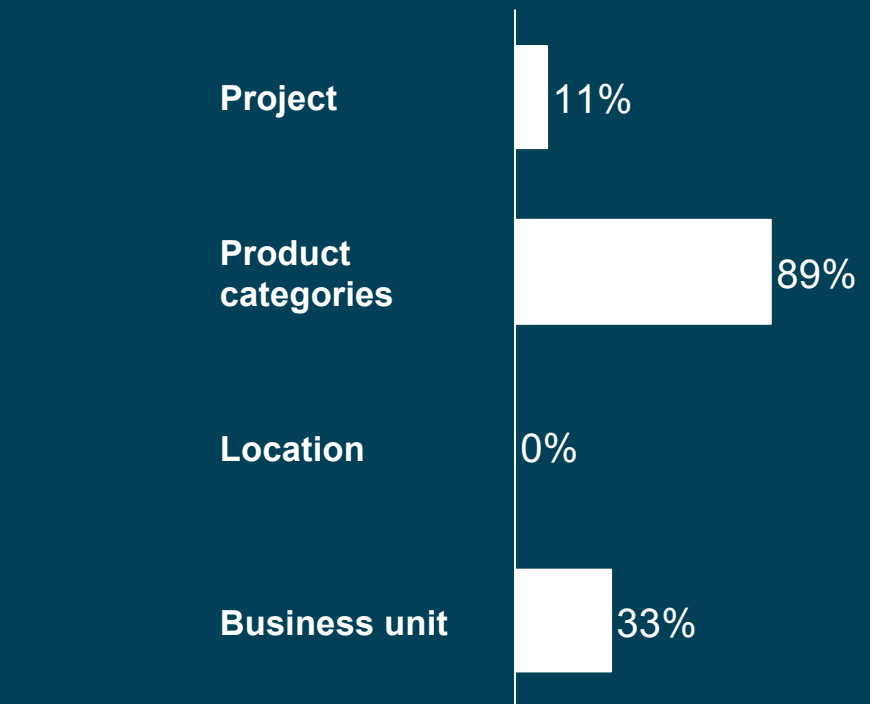
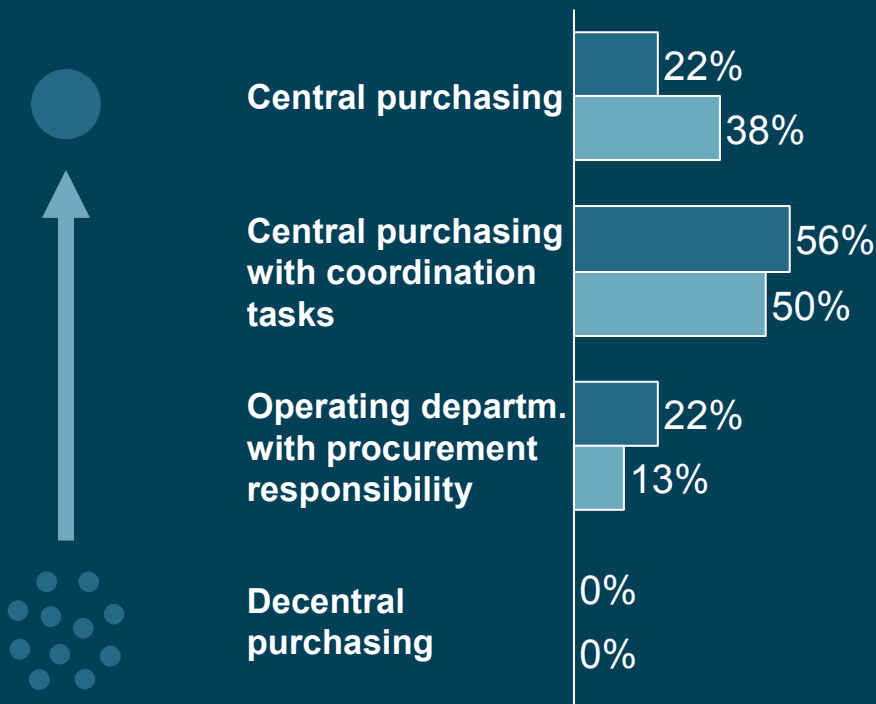
CEE Today CEE Future

In Croatia, central purchasing is prevailing as well and procurement focus is on product categories

Croati: Organizational structure and focus of the procurement department

Organizational structure of procurement department today and in the future [%]

Procurement focus driven by ...



Legend: Croatia today (dark blue), Croatia future (light blue)



Price negotiations/order processing are procurement department's most frequent activities in Croatia

Breakdown of procurement department activities

Breakdown of overall procurement capacities to procurement department activities [%]



Procurement department activities assessed according to performance frequency

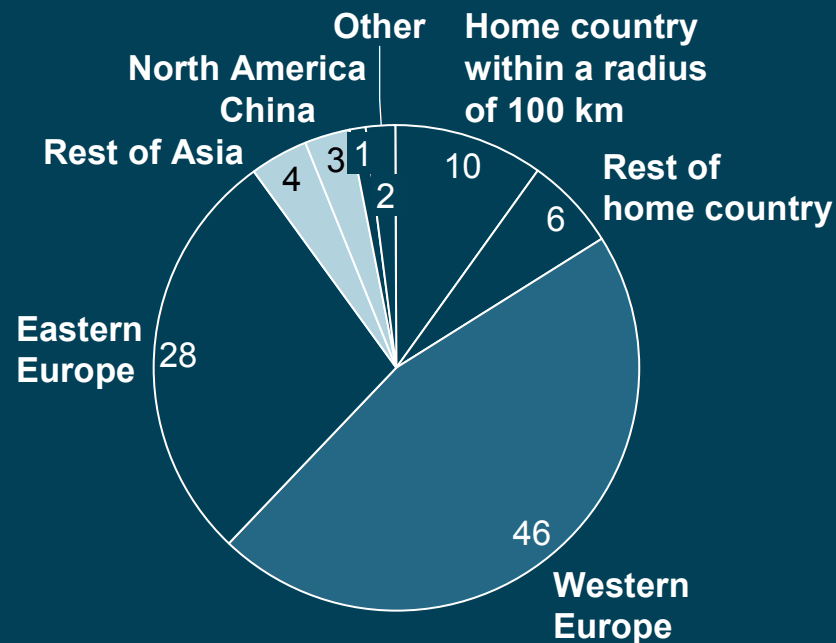




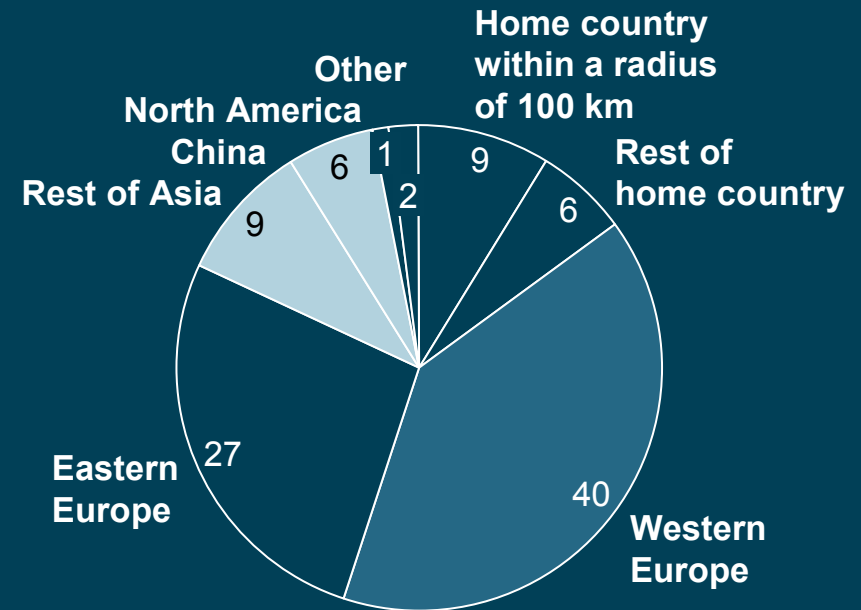
A shift of sourcing from Western Europe to Asia within the next 5 years foreseen in Croatia

Attribution of procurement volume to regions

Today [%]



In the future [%]

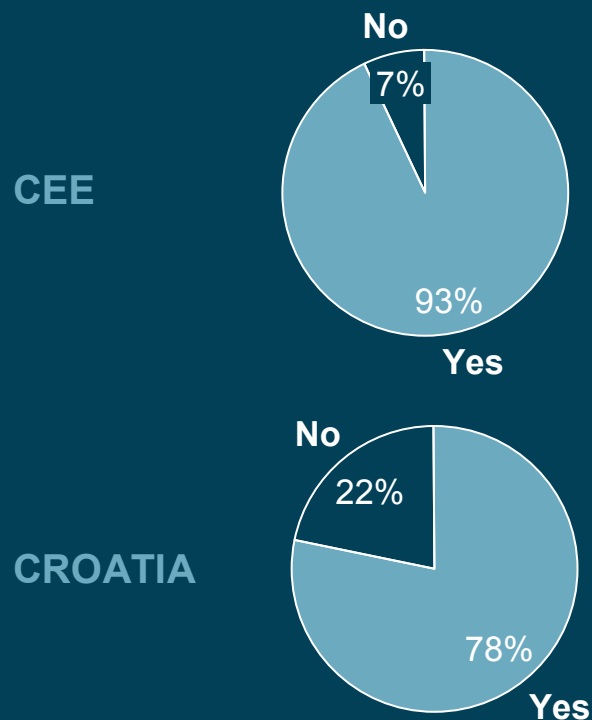




Croatian companies measure procurement success less – Criteria have higher importance than in CEE

Measurement of the procurement success

Share of companies measuring procurement success



Most important procurement success criteria

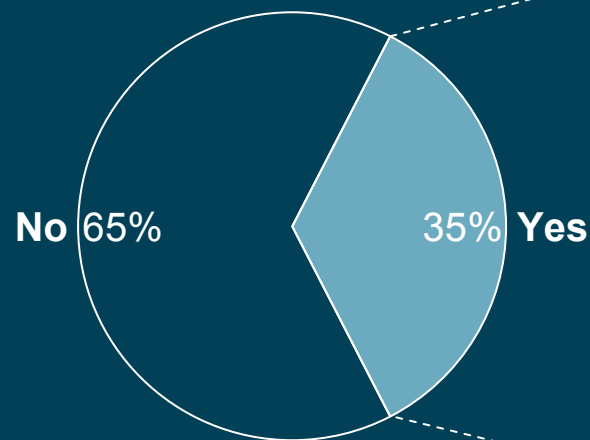




Only one fifth of Croatian companies use an incentive system for their procurement employees

Incentive system for employees

CEE companies with incentive system for their procurement employees



Incentive systems by countries

	No	Yes
Hungary	50%	50%
Czech Republic	52%	48%
Poland	69%	31%
Croatia	78%	22%
Romania	79%	21%

Summary of most important results (1/2)

- 1 Whereas 90% of CEE companies define a **procurement strategy**, only 78% of Croatian companies have one
- 2 Croatia shows a different picture compared to CEE concerning both **strategic** and **operational procurement instruments** –
 - Focus on demand bundling and supplier development, vs. tenders and procurement cooperation;
 - Benchmarking and process optimization vs. target costing and logistics optimization
- 3 Compared to CEE, average Croatian companies **evaluate their suppliers** less regularly (89% vs. 78%)

Summary of most important results (2/2)

- 3 Furthermore **incentive systems** both for suppliers and employees are lower than CEE average (5% vs. 27% for suppliers, 22% vs. 35% for employees)
- 4 Croatian companies **dominantly source in Western Europe** (45%), resulting in a potential competitive cost-disadvantage for Croatia
- 5 Compared to CEE average, Croatian companies do not measure **procurement success** that often (78% vs. 93%) – However, measurement results are not used to incentivize suppliers (5% vs. 27%)

We deliver results

Roland Berger
Strategy Consultants