Strategic Sourcing in the Digital Economy

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Strategic Sourcing in the Digital Economy

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Agenda

- Introduction
- Strategic Sourcing in Digital Economy
- Abercrombie & Fitch Strategic Sourcing Journey
- Q & A
Digital Economy fueled by hyper-connectivity

2.5 billion
Connected **people** on social networks by 2020

75 billion
Connected **devices** by 2020

$65 trillion
Global **business** trade by 2020

“The Internet of Things”
Hyper-connectivity is everywhere
Innovators connecting people, devices and business
Megatrends

Cloud

Mobile

Social

Big Data
Changing business environment increases pressure on companies

- **Economic volatility**
  - Volatility in markets
  - Decreased stock valuation
  - Slow economic growth
  - High expense ratio

- **Increasing Globalization**
  - Expansion into new markets
  - Global process standardization
  - International supply chains
  - Increased off / near shoring

- **Greater risk**
  - Supply chain disruption
  - Ingredients / materials cost
  - Commodity risk

- **More competition**
  - Pricing pressures
  - New sources of competition
  - Decreased budgets and spending

- **Regulatory changes**
  - Increasing disclosure requirements
  - Country-specific regulations
  - Industry-specific disclosures

- **Accelerating technological change**
  - Changing business models
  - Faster innovation cycles
  - Expanding partnerships and channels
  - Leveraging big data for decisions
Creating a Challenge/Opportunity for Procurement

**Top 3 Procurement Drivers**

- **54%** cutting cost
- **44%** quality suppliers
- **51%** becoming more strategic

*Source: Procurement Leaders*

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**Where is there “great” opportunity for Procurement to increase its contribution?**

Percentage of respondents rating the procurement function’s opportunity to contribute as a “great opportunity”

- Serving an advisory role in M&A deals: 14%
- Expanding into new markets/business lines: 25%
- Managing financial risk: 29%
- Managing working capital: 36%
- Managing risks to business performance: 44%
- Working with suppliers to enhance product offerings: 57%
- Strengthening relationships with supplier: 64%
- Finding opportunities for cost savings: 73%

*Source: CFO Research Services*
Top 3 Priorities for CPO’s

Savings continues to be the #1 driver for CPO’s

- Savings: 42%
- Processes: 39%
- Compliance: 33%
- Innovation: 28%
- People: 27%

And Strategic Sourcing remains the quickest path to get there

- Early Engagement of Sourcing Opportunities: 66%
- New (or Improved) Technology: 53%
- Larger and/or More Talented Staff: 53%
- Better Communication Plan: 48%
- Better Team Execution: 44%

The CPO’s Top Priorities (Next 3 years)

The CPO’s Top Driver for Future Success

Strategic Sourcing Professionals
What Keeps Them Up at Night?

Supply Risk
- Uncertainty regarding suppliers’ financial, legal, and operational health
- Inadequate supplier performance management program

Spend Management
- Inconsistent, incomplete, unclassified data
- Lack of visibility into enterprise-wide spend leads to missed savings opportunities

Compliance
- Poor and ineffective contract management
- Reduced ability to author and drive contract creation and compliance

Manage Savings
- Lack of efficiency in sourcing project management and activities
- Savings claims are difficult to measure and guarantee
Strategic Sourcing at Abercrombie & Fitch

Quave Burton
Vice President, Abercrombie & Fitch

SAP Ariba

SAP
Topics

Company Profile
Challenges
Strategic Sourcing Program
Who we are

Abercrombie & Fitch Co., operates as a global retailer of casual apparel for men, women, and kids. Its stores sell casual apparel, such as knit shirts, graphic t-shirts, jeans, and woven shirts; and personal care and other accessories under the Abercrombie & Fitch, abercrombie and Hollister.

A&F operates a total of 1,022 stores. They include:

**Domestic**
- **278** Abercrombie & Fitch stores
- **154** abercrombie kids stores
- **486** Hollister Co.

**International**
- **17** Abercrombie & Fitch
- **6** abercrombie kids stores
- **101** Hollister Co.

Challenges we faced

- Disparate systems and methodologies
- Inconsistent reporting
- No formal contract management process
- Goals and objectives not aligned
- Enterprise understanding of what is strategic sourcing
- No aggregate view of spend data
Our Areas of focus

- Savings
- Improved Payment Terms
- Reduced Risk
- Improved Budget Productivity / Increased ROI
- Decreased Effort with Contracts under Legal Review
- Increased Compliance with Legal Approved Contract Language
- Corporate Procurement Policy
- Procurement as a Financial Control
Sourcing program goals/capabilities

OUR FOCUS

- Transparent
- Easy to understand
- “Not” ground breaking
- Ability to flex
- Reportable
- Consistent, Streamlined Sourcing processes that supports rapid turnaround SLA's

OUR FOCUS

- Smart
- Fast Learners
- Data Driven Strategic Sourcing Category/Commodity teams
- Fast Paced Environment
- Process & Technology Driven Tactical Purchasing Organization
- Communication to the business: Frequent, In-Person, Customer Service Oriented

OUR FOCUS

- Complete Suite of Sourcing, Contracting & Purchasing tools
- Easy to Use, Relevant Reporting Tools (Budget Tracking & Compliance)
- SaaS
- Fast Implementation
- High number of users
- Ability to integrate
- Secure
How we do it

**Process**
- **ANALYZE CATEGORY SPEND**: Understand internal spend and current state
- **DEVELOP BUSINESS NEEDS**: Understand business requirements
- **ASSESS SUPPLY MARKETS**: Understand market players and key market drivers
- **DEVELOP CATEGORY STRATEGY**: Develop strategy to effectively source category
- **EXECUTE STRATEGY**: Develop and execute sourcing strategy and negotiation plan
- **IMPLEMENT NEW AGREEMENTS**: Sign new agreement, develop implementation plan
- **SUSTAIN RESULTS**: Monitor supplier performance, capture savings, evaluate market

**People**

**Technology**

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A&F STRATEGIC SOURCING PROCESS

**KEY ACTIVITIES**

- ID stakeholders, sourcing team
- Roles and responsibilities
- Work plan
- Collect internal baseline
- Understand requirements
- Sign-off on baseline
- Document current sourcing approach
- Develop market insight
- ID opportunities
- Develop sourcing strategy
- Align on potential opportunity
- Finalize objectives
- Develop supplier selection criteria
- Develop supplier list
- Profile supplier capabilities
- Filter using pre-screening criteria
- Review final list
- ID Strategic Sourcing position
- Align stakeholders with strategy and workplan
- Develop go-to-market approach
- Develop/publish RFPs
- Analyze bids
- Develop negotiation plan
- Develop award scenarios, anticipated benefits
- Create negotiation team, hold negotiations
- Finalize awards
- Notify suppliers
- Create transition team
- Develop implementation plan
- Finalize contracts
- Implement new agreements
- Track performance
- Participate in savings audits
- Periodically re-evaluate purchases and supplier performance

**DELIVERABLES**

- Team member/stakeholder list
- Workplan
- Draft cost model
- SWOT analysis
- Current procurement process map
- Incumbent supplier list
- Supplier assessment matrix
- Sourcing Strategy
- Negotiation plan
- Draft transition plan
- Stakeholder approval checklist
- Signed contracts
- Finalized transition plan
- Key Learning report
- Supplier management plan
- Savings tracking plan

**GATES**

- Financial Baseline
- Sourcing Strategy
- Execute Contract
How we do it

Process

1. **Analyze Category Spend**
   - Understand internal spend and current state

2. **Develop Business Needs**
   - Understand business requirements

3. **Assess Supply Markets**
   - Understand market players and key market drivers

4. **Develop Category Strategy**
   - Develop strategy to effectively source category

5. **Execute Strategy**
   - Develop and execute sourcing strategy and negotiation plan

6. **Implement New Agreements**
   - Sign new agreement, develop implementation plan

7. **Sustain Results**
   - Monitor supplier performance, capture savings, evaluate market

People

**Sourcing / Category Leads**

Technology
TEAM STRUCTURE

- VP GEMS
  - SUSTAINABILITY
  - TRAVEL
    - TRAVEL & EXPENSE
    - TRAVEL AGENTS
    - $500MM+ SPEND UNDER MANAGEMENT
  - GLOBAL UTILITIES
    - EUROPEAN UTILITIES
    - VENDOR SETUPS
  - IT/DTC
    - IT/DTC
  - STORE SUPPORT
    - HOME OFFICE SUPPORT
How we do it

**Process**
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**People**

**Sourcing / Category Leads**

**Technology**
- **SOURCE**: GEMS
- **PROCURE**: AP
- **PAY**: AP
The SOURCE-TO-PAY technology

SOURCE
GEMS

PROCURE
AP

PAY
AP

Spend Classification
Commodity Management

Supplier Enablement
Invoice Exceptions

Payment Gateway
Supplier Collaboration

Commodity Management
eSourcing

Requisition Management
Supplier Collaboration

ERP
Invoice Imaging & Workflow

Opportunity Identification
Contract Management

Catalog

Vendor Portal
Payment Audit

Supplier Performance Management

Supplier Registration

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OUR SOURCE-TO-PAY MODEL

- **People**
  - Supplier Registration
  - Spend Analytics
  - 7-step Sourcing
  - Pay
  - Procurement
  - Contract Management

- **Technology**
  - GEMS
  - Manage supplier information and track performance
  - Create, store, search contracts & track compliance

- **Process**
  - GEMS
  - Use this information to source efficiently

Ensure compliant procure-to-pay cycle on a daily basis

Manage supplier information and track performance

Use this information to source efficiently

Create, store, search contracts & track compliance
Lessons Learned

- Grow into Solution – “Evolve At a Steady Rate”
- Leverage Existing Budgets – “Avoid Special Funding Requests”
- Obtain Executive Support – “Leverage Organizational Alignment”
- Build Transparency – “Maintain Pipeline”
- Create Center of Excellence – “Drive Adoption”
- Optimize Sourcing Process – “Add Velocity”
- Alignment of Resources – “Do what you do best”
- BE PATIENT!!
Thank you

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Evaluation How-to:

Why?
- Your feedback **drives** SIG Event content
- By signing and submitting your evaluation, you are automatically entered into a prize drawing

How?
Option 1: App
1. Select **Schedule**
2. Select **Schedule by Day**
3. Select **Day**
4. Select **Session**
5. Scroll to **Description**
6. Click on the **Evaluation link**

Option 2: Browser
1. Go to [www.sig.org/eval](http://www.sig.org/eval)
2. Select **Session (#S29)**

COMPLETE & SUBMIT EVAL
Session #29

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