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Procurement DPWN

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Re-organization of Procurement 2003 – 2004

**Critical Success Factors in Procurement -
Challenges and Achievements**

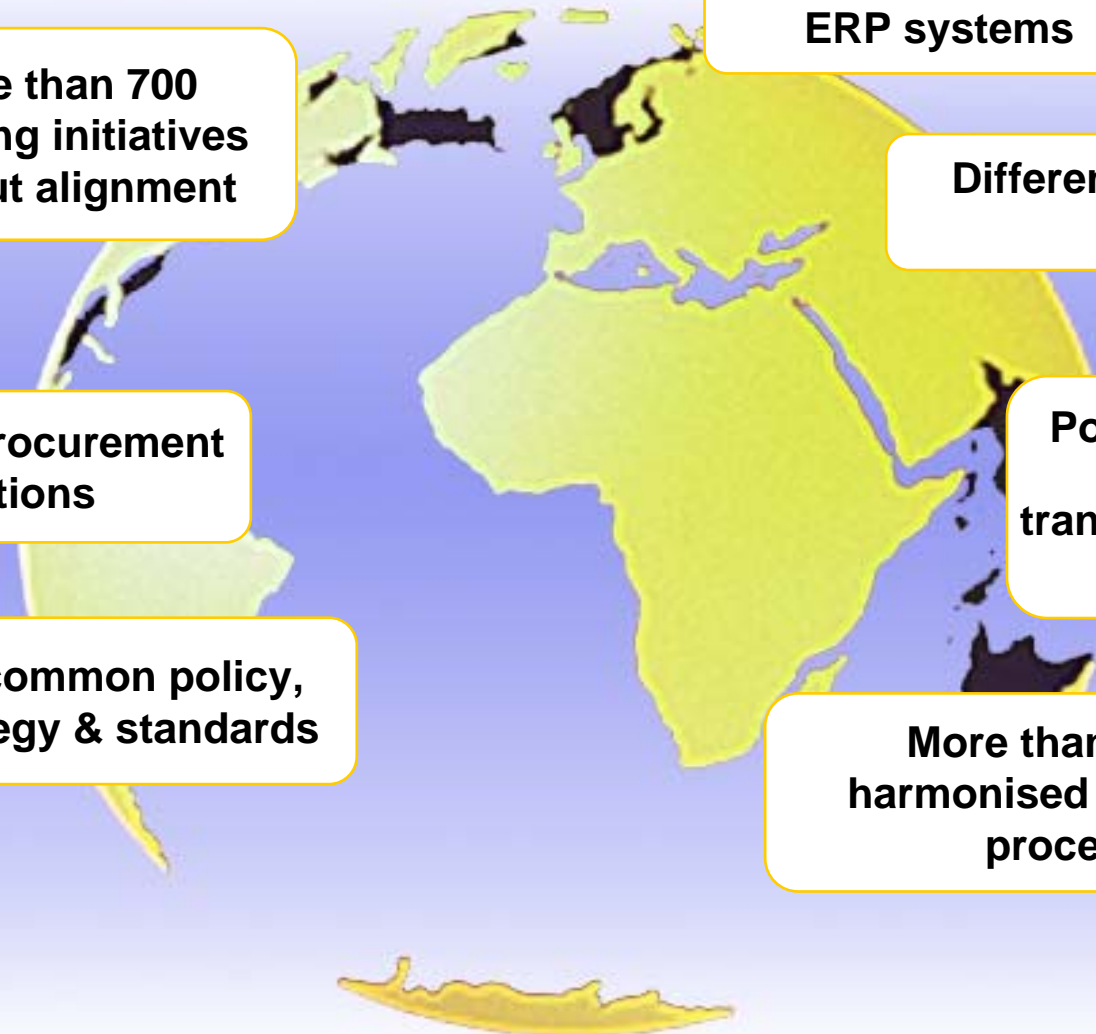
Outlook 2005



- In support of DPWN's goal to be the premier company in global Logistics, the role of Procurement is to manage Purchasing spend and control cost of purchased goods and services.
- In order to consolidate the DPWN demand and exploit the inherent synergies, Procurement is organized as a corporate function across divisions, legal entities and countries.



Initial Situation: Inhomogeneous landscape of Procurement structures, processes and systems



More than 700 sourcing initiatives without alignment

Numerous different ERP systems

Different eProcurement tools

More than 20 Procurement organisations

Poor quality of data and missing transparency of spend and suppliers

No common policy, strategy & standards

More than 200 non-harmonised Purchasing processes

The re-organization of Procurement was launched in 2003.

“An overriding objective of Procurement is to move toward a “best in class” Global Procurement Organization.”

1 An Effective Organization

- maximises Spend managed by Procurement
- generates significant savings for DPWN
- ensures that contracted savings fully hit the bottom line

2 An Efficient Organization

- has best in class costs
- maintains internal cost transparency and control worldwide
- professionally manages suppliers

3 A Quality-Driven Organization

- satisfies internal customers
- works with the world's highest-performing suppliers
- has an envisioned, energised, qualified and enabled staff

Design and implement an effective cross-divisional global procurement organization

Establish transparency in the areas of results, compliance, processes, improvements and customer satisfaction

Develop and implement processes, methods and tools in order to enable the steering of a global cross-divisional procurement organization

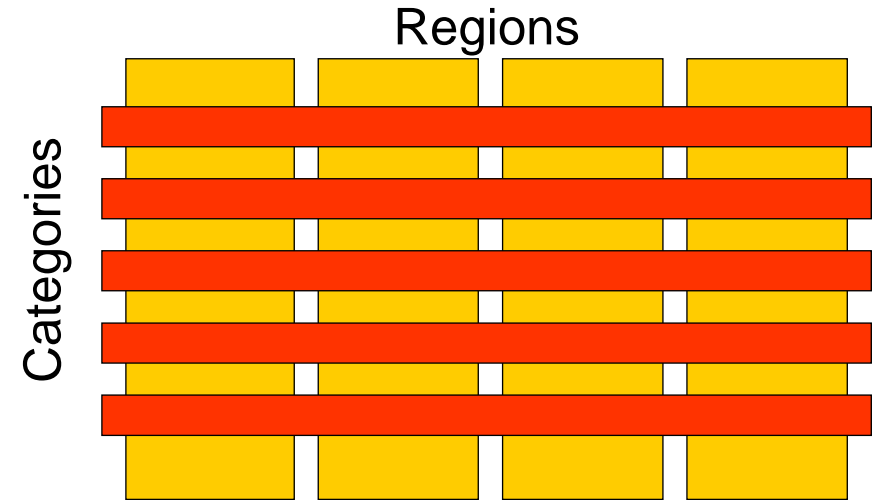
Standardize and professionalize processes and tools to enable strategic and operational procurement activities

Design and integrate sourcing across DPWN, leveraging volume buying capabilities & processes as part of new DPWN procurement organization

Organizational Alignment	Global category management anchored in regional Procurement organizations
Global Sourcing	Consolidation of group-wide requirements and exploitation of the global supply markets
Transparency	Standardization of processes and systems to ensure transparency of data and worldwide control of spend
Total Cost of Ownership	Focus on sustainable cost reductions along the entire life cycle of products and services
Innovation	Selection and development of innovative suppliers to contribute to the long-term competitiveness of DPWN
Performance Management	Tracking and systematic analyses of spend, savings and other KPIs to drive our worldwide Procurement activities

Corporate Procurement is a matrix organization of global categories, anchored in the regions

- **18 global categories** in the areas of IT & Telecommunications, Ground Fleet, Production Systems, Network Supplies and Services
- The Corporate Category Managers drive sourcing through consolidation of group-wide requirements and exploration of the global supply markets.
- **4 regions** - Germany (Bonn), Europe/EMA (Brussels), Americas (Ft. Lauderdale), Asia/Pacific (Singapore)



- The Regional Procurement Organizations are members of the category sourcing teams. They are responsible for the day-to-day operations on-site and play a key role in managing the relationship with internal customers and regional suppliers.
- The **Chief Procurement Officer** leads the worldwide Procurement organization - being in charge of target setting and performance appraisal for Category Management as well as Regional Procurement Management.

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The 5 step sourcing process ensures systematic involvement of Procurement and business units.

DPWN Sourcing Process



- Project Definition
- Category Baseline (incl. Spend Cube)
- Future Category Evolution

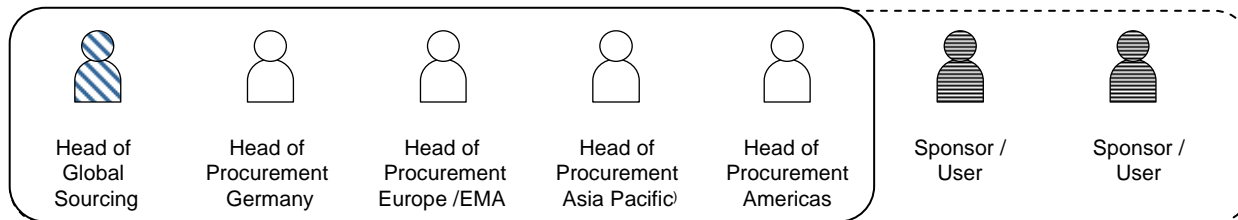
- Supply Market Analysis
- Supplier Portfolio Generation (incl. e-RFI) ¹⁾

- Sourcing Strategy
- Sourcing Approaches
- Improvement Proposal

- RFP Process (incl. e-RFP) ²⁾
- Supplier Pre-Selection (incl. e-Auction)
- Operational Qualification
- Final Negotiations
- Contract Closure

- Implementation Plan
- Benefits Tracking (incl. PBTS) ³⁾
- Compliance Reporting
- Implementation Roll-out

Sourcing Council members



1) Internet based request for information

2) Internet based request for proposal

3) Project and Benefit Tracking System

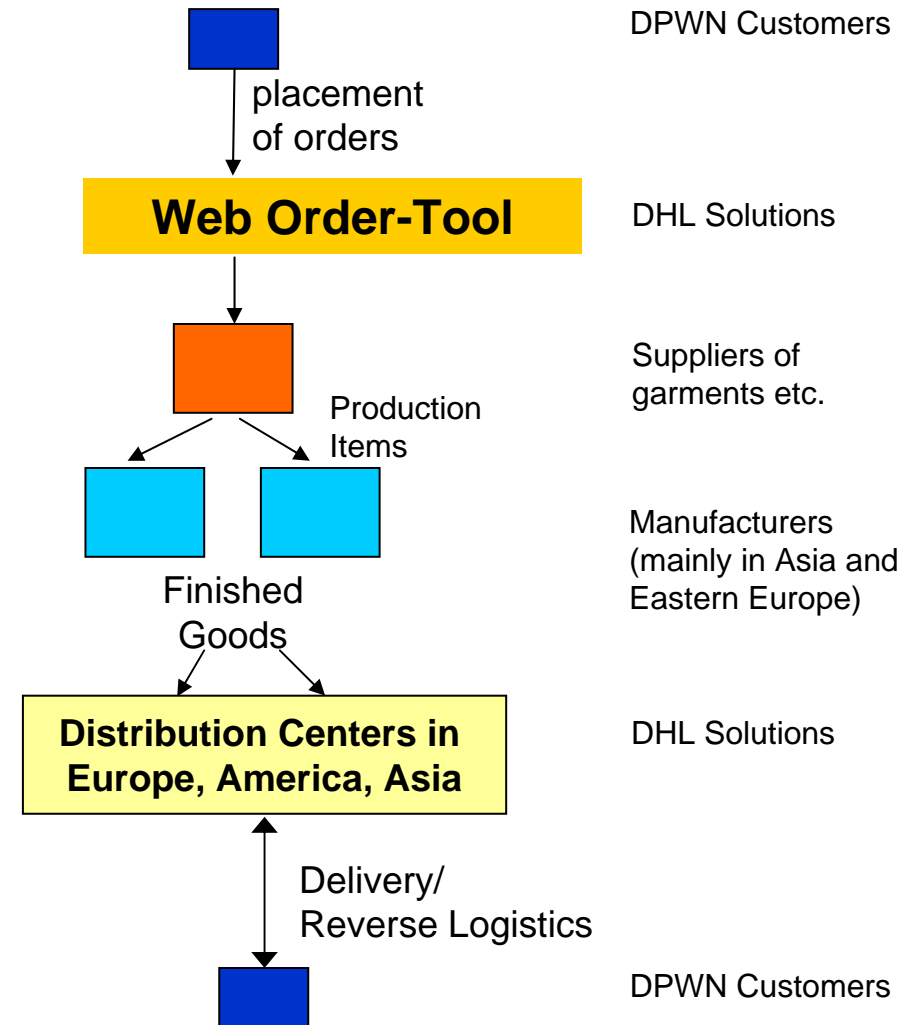
Facts & Figures

- 250,000 DPWN employees in 220 countries worldwide affected
- Corporate Procurement manages the sourcing and the ordering process
- DHL Solutions is responsible for warehousing and distribution

Challenges of the Project

- Establishment of uniform quality standards in 220 countries
- Different sizes and standards
- Demand Management and Inventory Control
- Warehousing and Physical Distribution around the globe
- Rules and regulations in the different regions (tax etc.)

Order & Delivery Process



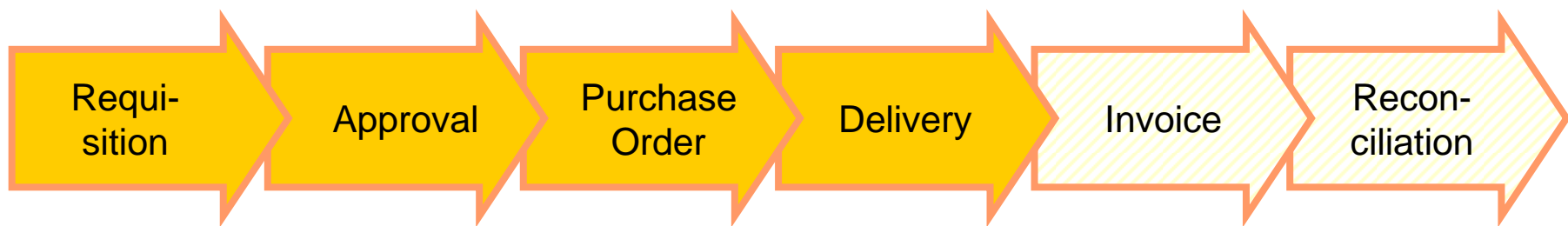
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DPWN will standardize the Purchasing process worldwide by use of an SAP based eProcurement tool.

The eProcurement system of DPWN will be implemented in 20 countries covering more than 95% of DPWN spend. It is based on SAP EBP and linked to the SAP enterprise systems of DPWN to cover the entire process from Requisition to Pay.

Roll out Plan 2005

Poland
US
Germany
France
UK
Austria



- Catalogue Requisition
- Free text requisition
- Cost centre owner approval
- PO available in GET ¹⁾
- Goods receipt entry
- Invoice entry and reconciliation in R/3

¹⁾ Global eProcurement tool and SAP

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Total Cost of Ownership - example Fleet

List price

- applicable discounts

+ delivery charge

= *Net price*

+ regular maintenance

+ tyres

+ "crash tests" (spare parts and labor)

- calculated residual value

+ calculated fuel consumption

+ management fee

+ interest

= *Total life cost*

/ total km of vehicle life

= ***Total life cost per kilometer***

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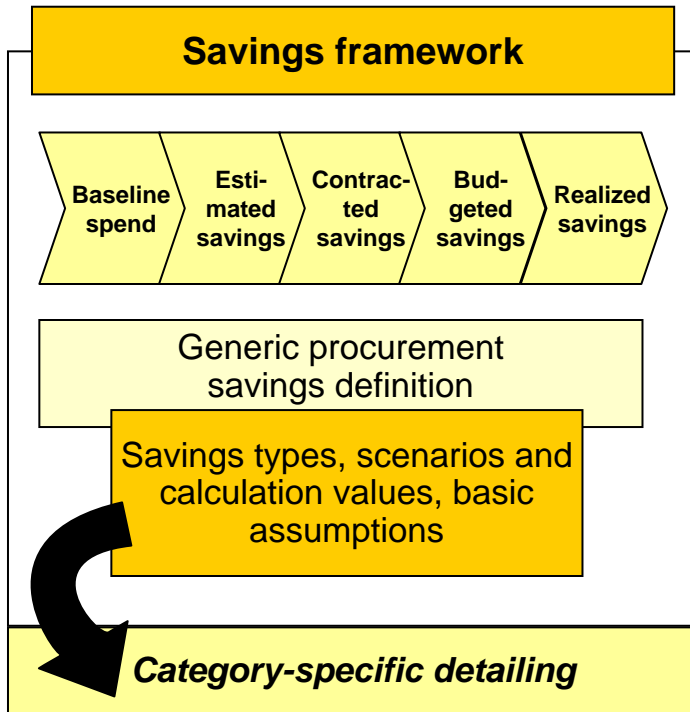
Example: Parcel pick-up system “Packstation”

- Service: Customers have the opportunity **to pick up and send parcels day and night** (beyond opening hours of the post offices). They are informed about the arrival of a parcel via email or sms and pay with EC-Cash.
- Award: In 2004 “Packstation” won the **“World Mail Award”** as “most innovative post product globally”.
- Success factors: Success was based on **close cooperation between Procurement, Operations and the suppliers**. Deutsche Post World Net brought in knowledge of the market and the customers - the supplier many innovative product ideas and technological solutions. Based on that cooperation we succeeded in being first to market at a very good price-performance ratio.

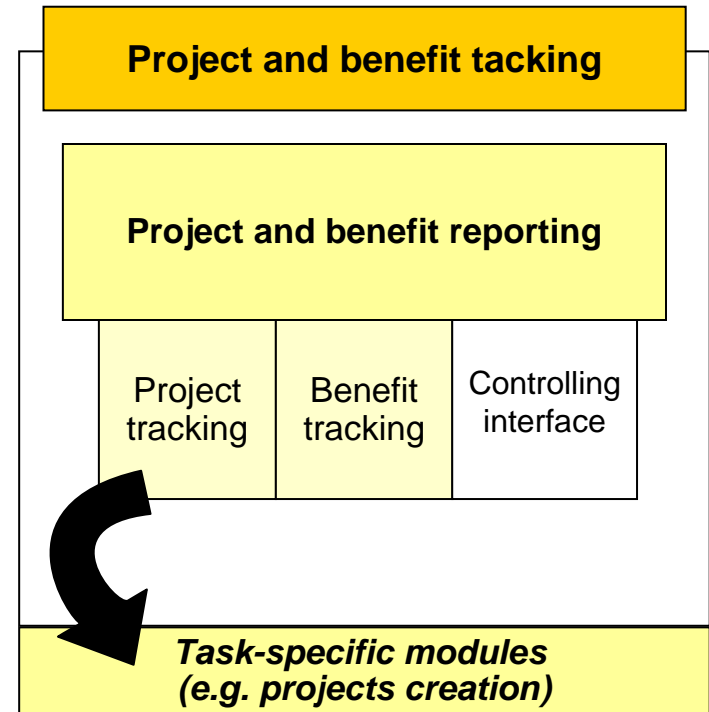


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Savings are systematically captured via a web-based Project & Benefit Tracking System (PBTS)

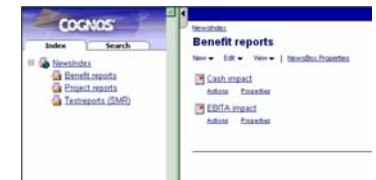


- Savings Concept and PBTS rolled out globally
- Approx. **400 active users** globally
- Concept and tool accepted by **stakeholders** (eg. Controlling, Auditing, Procurement)



Similar lean/pragmatic guidelines as formerly applied, but consistent part of overall framework ("similar situations treated similarly")

Easy-to-use modules, but seamlessly embedded into comprehensive tool, extended by additional functionalities



■ Savings

Target of 200 Mio € sustainable EBITA savings by end of 2005 likely to be exceeded

■ Procurement of Professional Services and Consultancy

New approach based on supplier portfolio management, frame contracts, competitive bidding and continuous performance evaluation

Travel Management

Worldwide consolidation of travel agencies and introduction of on-line booking tools

■ Marketing & Media

Implementation of professional Procurement support for all regions and relevant spend categories

■ eSourcing / ePurchasing

Roll-out according to project plan

■ Procurement Organization

Worldwide implementation of the HR development program to attract and train high-caliber Procurement professionals



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