SCM **World**

C-LEVEL INTERVIEW

HARNESSING THE POWER OF THE NETWORK TO DELIVER RESULTS

Barbara Kux

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SIEMENS

For the past decade Barbara Kux has been one of the highest-profile (and most highly paid) procurement and supply chain leaders anywhere in the world.

She joined Philips in 2003 as Chief Procurement Officer, having previously worked in general management roles at Ford, ABB and Nestlé, and for the consulting firm McKinsey, before being lured to the German industrial giant Siemens in 2008 as the first female managing board member in its 161-year history.

During this period she has steadily climbed *Fortune* magazine's annual ranking of the most powerful women in business outside the US and currently holds fourth spot, ahead of most female European and Asian CEOs. As well as her full-time executive position at Siemens, Kux also sits on the board of directors of Total, the French oil and gas compan y.

SCM World sat down with her at Siemens' corporate headquarters in Munich to talk about the steps she's taken to deliver reported savings of €8-9 billion during her tenure – and why she will be leaving the company in November.

THE BUSINESS CHALLENGE

What was the situation you inherited when you joined Siemens in late 2008?

Siemens had just undergone quite a major overhaul. The portfolio changed dramatically after the business had been streamlined and focused on three core sectors. It had affected the company in many ways. In that context, the managing board had been adjusted and each manager from top to bottom got clear responsibilities. The overall structure of the company became more transparent and much faster. The second factor was the economic crisis that had also hit important branches of our business. At the board level our intent was to master this crisis in a very professional way with the least possible impact on the company's bottom line. Supply chain management was seen as a substantial opportunity; its importance was enhanced by the crisis.

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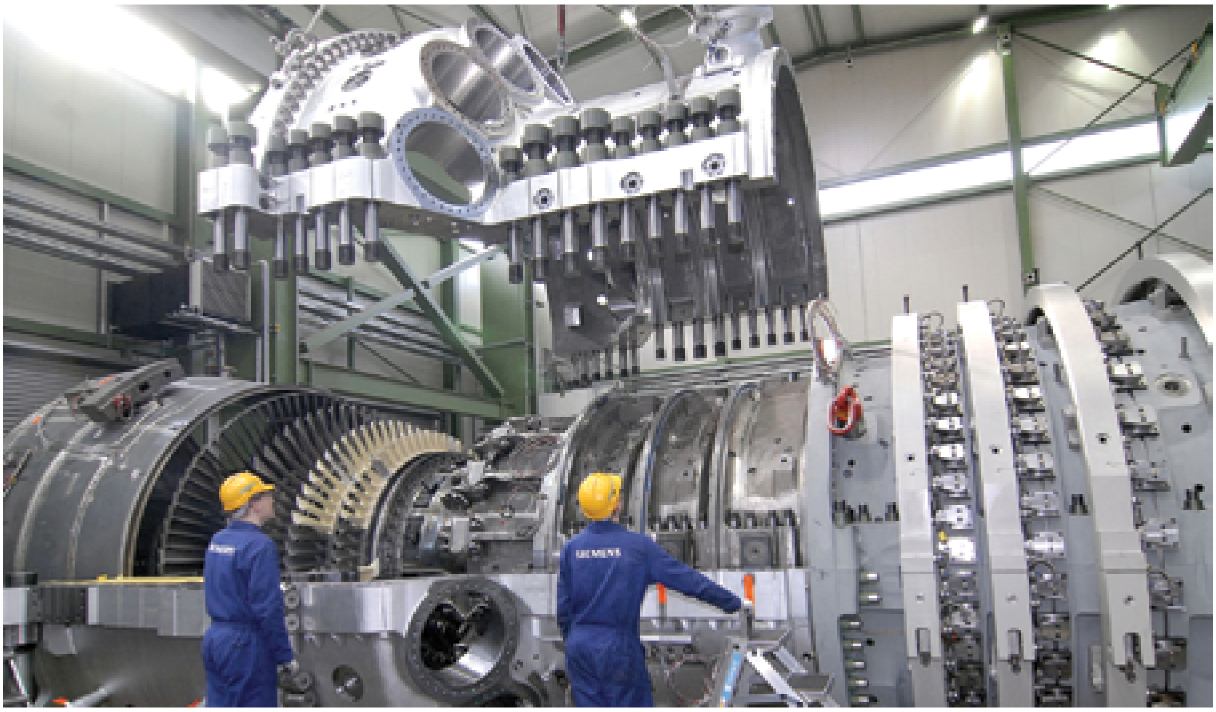
From a procurement and supply chain perspective, what needed to change?

Within Siemens there were very professional procurement functions in the different businesses, but the set-up was quite decentralised. Every business basically had its own suppliers; there was very little overall leadership centrally looking at how to exploit the synergies by bundling purchasing volumes. We had over 100,000 suppliers across our €40 billion annual external spend and just 29% of that was bought Siemens-wide, mostly in indirect materials. So that was one big opportunity.

The second opportunity was to increase our share of spend in emerging markets, where we were under-represented. And, of course, commodity prices – the market headwinds at that time were such that we just needed to exploit them. It was about exploiting the opportunity for the company.



What steps did you take to address these opportunities?

In January 2009, some 40 days after my start, our top 100 SCM managers from all over the company gathered for a two-day meeting – the first of its kind in our history. Jointly we decided what would be our contribution to the bottom line of Siemens for the next two years. We set quite ambitious targets, I have to say, but all of us agreed to go for them.

The first target was a savings target for 2009 and 2010, which we decided not to disclose publicly. We also set three enabling targets, three KPIs: to increase our bundling by 60%, specifically in indirect materials, but also in any direct material where we saw synergies; to increase our share of "global value sourcing" (GVS) – we don't call it low-cost country sourcing, because we want to source value in emerging markets, not just cost – by more than five percentage points to above 25%; and, thirdly, to reduce our supply base by 20%.

IMPLEMENTATION

What organisational changes did you make to pursue these targets?

We created a project office rather than a completely new organisation, composed of a team that already existed within the company. For indirect materials, representing roughly 30% of our total spend, we appointed a central person with responsibility for the first time at Siemens and we built up a clear structure focusing on global spend categories for mobility services, professional services, logistics, IT, and industrial.

On the direct materials side, we created an SCM network across our three business sectors at that time: Energy, Industry and Healthcare. For each of the 30 commodities where we saw synergy opportunities – electronics, cables, metal parts, transformers and so on – we appointed a head of what we called “pooled direct materials”. This individual sat in the business that had the biggest demand for the particular commodity, only now they had responsibility for the total spend of Siemens. These heads were supported by a small corporate team responsible for the whole set-up, to activate this SCM network, enhance best-practice sharing, create momentum and ensure that we reached the targets.

In 2012, pooled direct materials reflected almost a quarter of our total spend. Altogether, our Siemens-wide managed volume – indirect materials and pooled direct materials – represented more than half of our total spend in 2012, and with this new set-up we were in a position to realise our synergies.

I also created an SCM Board, which consists of our sector SCM heads, who have a dotted reporting line to me, our CFO for the function and our corporate heads of indirect materials, pooled direct materials and programmes and systems. The board meets every second month to set strategy, agree targets and resolve issues. I see my role as being the conductor.

In practice, how did this new structure affect the way people worked?

Very simply, they got an overall target – for instance, for electronics. There was a target for indirect materials and a target for pooled direct materials, and each sector also got a target for 2009 and 2010. These targets were agreed jointly with my colleagues on the managing board leading each sector; we both signed for them and there was quite a buy-in for that, because they all needed the savings quickly. If you were the head of electronics pooled direct materials, you first of all created transparency of the total company spend and then you started to optimise, to negotiate with suppliers.

Some companies demanded that their suppliers just take 10% off their next invoices. What did Siemens do?

We didn’t do that, because many of our suppliers are also our customers. But to negotiate, say, logistics with a total spend of several billion euros instead of €10 million, which was the case before, made a difference; it gave us a totally different approach with our suppliers, many of whom also got a bigger share of our spend and no longer had to be qualified by each different Siemens business. This went totally without noise, I have to say.

How successful was this initial programme and what happened next?

Each and every team fully achieved their objectives, in terms of both savings and the enabling KPIs, during this first phase, which was about building our SCM network and exploiting the opportunities. I then proposed to the

board to integrate the project organisation into the normal Siemens structure and built up an SCM organisation based on the successful project set-up of the SCM initiative.

Phase two, in 2011-12, was about consolidation. We set new savings targets, which were again ambitious. We also kept our enabling KPIs but added a new one for e-auctions; we felt that was important and we had a big opportunity there. When I joined, usage of e-auctions was extremely low – they accounted for just 1% of our spend and we were using about 10 different e-auction systems.

We also began to develop our SCM strategy, based on the business strategy of the company. A key objective was to boost innovation power with our suppliers and get closer co-operation. In 2009, we had looked at the 30 most strategic partners for Siemens in both direct and indirect materials, and started a CEO-level supplier forum – that was a strong signal to show that suppliers are partners. The selection was done jointly with the businesses and it was about the strategic importance of suppliers, not just their size. At our first meeting we had asked what we could do together in terms of a win-win for the future, and we identified with each of these suppliers programmes of what we call "Lighthouse Projects".

For all the commodities, and specifically starting with the indirect and pooled direct materials, each leader had to create a commodity strategy on one page. This was really the first time this had been done in Siemens. The aim was to estimate the demand for, say, rare earth minerals or copper, over the next five years based on our future business plans and our growth needs in countries like Germany, UK, Brazil, Mexico, China and India. We then started to identify our preferred suppliers for each of these commodities and to increase their share of our spend. This was quite a lengthy process, because I wanted everybody – the engineers, the business – to be at ease with this selection. Today, we probably still have too big a list of suppliers, but it was important to have that process done very carefully, because you can make a lot of mistakes in industries like ours that are extremely technical.

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RESULTS & IMPACT

You mentioned results for 2009-12. What do they look like overall?

The increase in savings is over 60% on average in the last four years. That's a cumulative profit contribution in the upper single-digit billion euro range overall. The targets we set every year are stretching and it is fantastic that the teams have achieved almost all of these. Our savings performance remains at a very high level and we have shown that we can continue to generate savings that are substantially above market price indices. Our benchmarking also shows that we are looking very good in terms of the savings rate compared with what other companies have achieved during this same period.

In terms of the four enabling KPIs, the bundling has increased by over 90%, compared to our initial target of 60%. E-auctions have increased by over 1,000% and are now at 14% of our spend. Global value sourcing has increased to 26%, against a target of more than 25%. And we have reduced supplier numbers by 20% and increased the coverage of preferred suppliers by 80%.

What other positive impacts has the SCM initiative had for Siemens?

In terms of innovation power with our suppliers, it has really been taken up beyond the pilots in many areas. In 2012, for instance, we ran projects with a welding supplier in replacement materials, with an IT provider in supply chain optimisation and the area of "green IT", with a forging supplier in capacity expansion, which is important for our growth, and also with an equipment assembly company from the healthcare business, which has used our lean programme for its own production.

GVS growth is also increasing. Based on the overall strategy, we need to further increase our sourcing in the GVS countries. This can't go incrementally, it needs a massive programme and we are doing that in defined regions.

In the last two years, what the function has been able to show in addition to being better, faster and cheaper is also to be resilient. Fukushima was a good example. A number of our suppliers' factories in Japan were just gone and one of our most profitable businesses was affected by it. One hour after the incident happened our pooled direct teams had full transparency of the risk positions and they were buying up everything they could on the world spot markets. I didn't order them to do that, they just did their job like an entrepreneur, they felt empowered.

We didn't have one hour of line stop as a result of that disaster. I was meeting one of our big customers here in Germany six weeks ago and the owner told me that we were the only company that could deliver. That showed the resilience of the network and in particular the close partnership with our suppliers.

And in terms of sustainability – my other major area of responsibility – two years ago we gave our suppliers access to our own energy efficiency programme via an e-enabled version. So far, 1,300 of our suppliers have taken advantage of it. I don't think many companies are doing that. These efforts are reflected in our leading position in the Dow Jones Sustainability Index for the past few years, both in general and for SCM specifically. In 2012 Siemens was honoured as "Supersector Leader – Industrial Goods and Services". This Supersector consists of nine industrial sectors. In addition, Siemens achieved the best result in the new category, supply chain management.

> "I think centralisation is the way of the past; the way of the future is the SCM network."

Which particular contribution of the supply chain function are you most proud of?

I'm very proud of the teams, the SCM network. Not only have they generated this fantastic contribution to our profit – an increase of over 60% on average is substantial – but they are also motivated, inspired and have become much more professional. The set-up and development of this community formed the basis of our success. It's one of the strongest networks that we have in Siemens.

In recent months, some in the business press have suggested that your centralised strategy has failed and that it's now being reversed. What's your response?

The point is that we did not really centralise. I'm actually against centralisation. The central approach helps you to be cheaper, it does not help you to be faster and better, more resilient or greener. The only thing we are looking for

from a central perspective is on the indirect materials, which makes absolute sense. In direct materials, what I did was establish an SCM network, as I've described, and most of that network is in the businesses.

I think centralisation is the way of the past; the way of the future is the SCM network. In the last four years it has delivered a high single-digit billion euro savings number above benchmarks for Siemens. So this function is working and I'm very confident that it is set up in a way that will continue to add value.

CURRENT & FUTURE PRIORITIES

Siemens has a €6 billion cost-cutting programme, "Siemens 2014", in place for 2013 and 2014, of which half is to come from supply chain savings. How is that going to be achieved?

It's building on what we have done in the last four years. But there is one additional element and that is design-to-cost, which is really the third wave of our SCM initiative. Siemens has always been good on design-to-cost in many areas, but we probably didn't go for the big steps and it wasn't fully deployed. In 2009, the first priority was to attack pricing, not to set up a lot of material productivity projects. We started in 2010 with selected pilots and we now have about 300 commodity engineering projects and in addition a great number of design-to-cost projects going on around the company, many of these initiated and driven by the SCM function. But we need more.

We have been working with a number of our divisions that are faced with particularly challenging cost pressures. A good example is our wind turbine business, where we have more than 50 Chinese competitors operating with a large cost advantage. The question is how we attack that difference. From my point of view, the strong network we built up in the last few years needs to remain in place, but it also needs to be linked even closer to business operations. That's what we will be doing as a next step.

Can Siemens really compete with those companies on cost, as opposed to innovation or premium quality?

If you are a buyer of wind technology you look at lifecycle cost. And if you see a large price opportunity it's not something you just take off the table. So we need to take that extremely seriously. In many cases it *is* a cost game and we have to work substantially on the costs. The strength of Siemens is clearly technology and there are opportunities in most areas to further differentiate on the technology. So it's not always just a cost strategy, it's about maintaining the value strategies that we have been driving for the past few years.

How does design-to-cost work in practice?

The business owner asks: how much can we get from co-operation between SCM, engineering and manufacturing? How much can I do on outsourcing? How much can I do on standardisation? The ownership of that and the drive clearly needs to be in the hands of the businesses. Most of them have started already, but it needs to happen even more.

> "I'm probably not everybody's darling. I'm interested in the results. And we got the results."

We are really good now on cost analysis and optimisation. For most of our parts we can estimate the should-cost before we go in; we have a very sophisticated method that has been fully deployed across the company. The other thing that can really help is to work with suppliers on improvements. But again, the business owner has to decide how to deploy their engineering people or have their manufacturing people work with the supplier.

But you need procurement and supply chain to be involved from day one for this to work, don't you? And I'm guessing that isn't always the case.

That's true, but what has changed is the challenges of the marketplace. Four years ago we did not have these big cost differentials, especially with competitors from emerging markets. The SCM function can be a big part of it, but the overall plan – decisions about how you deploy engineering, how much of it is put on redesign versus new design, and so on – needs to come from the business owners.

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CHALLENGES & LESSONS LEARNED

What have been the most significant challenges you've faced in implementing your strategy at Siemens during the past four years?

The challenges we had to face were external ones. First, the economic crisis: how to deal with that, how to deal with suppliers at risk. We had also raw material challenges, as you can imagine, not just in terms of pricing but also around the availability of rare commodities. Then we had Fukushima, the Thai flooding, Hurricane Sandy. But the network has proved to be resilient and has been able to adjust to these challenges. So we were not hit in any way by these incidents.

Again, press reports have suggested that your strategy has not been popular within Siemens – and you are on record as acknowledging that you aren't "everybody's darling". Has it been difficult culturally?

The reason we were able to achieve these tremendous results was the good co-operation between the businesses and the network. Everybody has supported it. In a matrix organisation you have a constructive dialogue, because you need to generate more value for the company. That's part of the story. And yes, I'm probably not everybody's darling. I'm interested in the results. And we got the results.

You're leaving Siemens in November, midway through the current savings programme. Do you not feel that you personally can add any more value?

What I said to the supervisory board is "My mission is accomplished". The SCM network is there, it's functioning, we have achieved the results. For the €3 billion programme, all measures have been taken to achieve that. The greatest achievement is when you build something and it's so well established that you personally are not needed any more.

You've spent the past decade operating at board level. What advice can you give to other CSCOs and CPOs, and those aspiring to lead the function?

The first thing I would say is that you are in the right place. There is a lot of opportunity still for the SCM function to contribute value in terms of making supply chains better, faster, cheaper, more resilient and greener. In companies and industries, such as automotive, where SCM has been more fully deployed and has focused heavily on cost, there are still a lot of opportunities on the value side – for example, to align planning and forecasting, to align strategies, to align development projects and engineering with supply partners.

I see this very much as networking with your supply base. The future of competition in many industries will not be Siemens against GE or Philips against Samsung, it will be much more about the network that the company has been able to establish. The company with the closest and most tightly knit network with the strongest partners will simply be better than all the others.

Secondly, it's critical to have a broader understanding of general management, to be able to speak to the business stakeholders and understand the challenges from their perspective. Spending a couple of years in a different environment, working internationally, can be very helpful.

Business owners have a challenging agenda and you don't actually want to be top of that, because if they call you it usually means something doesn't work. But you need to have regular meetings with the stakeholders – every quarter or so – to ask how they see things, to agree actions. That's very important, and it's what I've done consistently. When you have a double reporting line, there is always the potential for wrong communication. And creating a 60% savings increase doesn't happen by itself.

Are there any particular personality or character traits that you need to be successful?

I don't think there is a specific characteristic; each CPO or CSCO is successful in his or her own way. What is key is to be a good strategic thinker, good analytically, good at co-operation, good at leadership without power, good at motivating people.

What's your secret for doing that?

I cannot tell you how I do it. My teams tell me that motivating people is a big strength that I have and something I have certainly developed year by year. I've also been able to learn from some great bosses. If I think back four years to that first meeting of our top 100 SCM people, we didn't even know each other. Somehow we managed to inspire ourselves, to agree a challenging target, to embrace it, and then each and every person went for it and achieved the results. ■

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ABOUT SCM WORLD

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