Procurement Masters

High-Performance Procurement in Chinese Enterprises

High performance. Delivered.
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Executive Summary
High-Performance Procurement in Chinese Enterprises

China has emerged as a major global economic powerhouse since initiating economic reforms over three decades ago. Many Chinese enterprises have been successful in taking advantage of immense domestic and international growth opportunities generated by China’s boom. However, competition has intensified, economic growth has slowed and Chinese enterprises will have to be world class to thrive in the future, demonstrating the highest levels of skills across all enterprise functions.

Two parallel developments have put a particular spotlight on the procurement function in Chinese enterprises: Increasing input costs—of labor as well as raw materials and manufactured goods—and a trend toward producing higher-value goods and services.

Accenture believes that achieving procurement mastery will yield a competitive advantage for Chinese organizations across all industries. From September 2012 to April 2013, Accenture teamed up with the China Federation of Logistics and Purchasing (CFLP) to analyze Chinese organizations’ progress in procurement. The study covered state-owned enterprises, private companies, multinational corporations and joint ventures across diverse industries.

Of the 92 organizations surveyed, we identified 16 as “Procurement Masters,” with a high level of skills across the six dimensions. We classified the remaining 76 as “Contenders.” The opportunity for Chinese organizations to create value through more effective procurement is immense. Our research shows that Chinese Procurement Masters achieve 50 percent higher cost savings on every billion dollars spent than Contenders (see Exhibit 1). In comparison, Accenture’s global benchmark is 30 percent. Procurement Masters also incur 50 percent lower procurement operation costs.
Companies around the world are recognizing the strategic role of procurement and the vast potential of cost reduction through procurement transformation. One of the largest global mining companies was facing the dual challenge of securing supply to maximize revenue during a period of exponential growth, and of managing input costs more effectively to conserve cash and retain profitability during the recent economic downturn. It designed and implemented a three-year program to build a world-class procurement organization that identified US$1 billion in potential cost savings. At the end of the first year of the program, the company had already achieved US$526 million in savings and was on track to deliver its US$1 billion savings target by the end of the third year.²

To achieve procurement mastery, Chinese organizations must develop and maintain a high level of skills across six dimensions: procurement strategy, sourcing and category management, requisition to pay (R2P), supplier relationship management, workforce and organization, and technology.

Our research illustrates that while Chinese organizations have developed a high level of procurement skills in a number of areas, several gaps still remain. These gaps represent significant opportunities for value creation. Some of the biggest opportunities are in:

- Establishing a strong focus on value delivery.
- Building more centralized procurement operations.
- Increasing the focus on sustainability.
- Establishing a mature risk management system.
- Adopting a partnership approach with suppliers, focusing on win-win outcomes.
- Focusing on training, procurement skills and talent management as procurement becomes a strategic function.

However, Chinese organizations should develop and implement holistic strategies rather than focusing on just building individual procurement capabilities. This report provides a road map that business leaders can use to guide their transformation journeys. In this way, they can measurably improve organizational performance and business results (see Exhibit 2).

We hope this research will contribute toward enhancing the competitiveness of Chinese organizations and look forward to guiding their journey toward procurement mastery.

Exhibit 1: The value opportunity—Chinese Procurement Masters achieve 50 percent higher savings and 50 percent lower procurement costs.

<table>
<thead>
<tr>
<th></th>
<th>Procurement Masters</th>
<th>Contenders</th>
</tr>
</thead>
<tbody>
<tr>
<td>TCO Savings (%)</td>
<td>Approximately 6%</td>
<td>Approximately 9%</td>
</tr>
<tr>
<td></td>
<td>More than 50%</td>
<td>More than 50%</td>
</tr>
<tr>
<td>Cost to procure</td>
<td>Less than 50%</td>
<td>More than 30%</td>
</tr>
<tr>
<td>Savings delivered</td>
<td>More than 50%</td>
<td>Less than 50%</td>
</tr>
</tbody>
</table>
Procurement Strategy

- Place strategic focus on transforming indirect material and service management capabilities and leverage synergies.
- Implement a much broader risk framework to reduce cost and mitigate disruptions.
- Centralize the procurement organization.
- Embed sustainability into corporate strategy to gain competitive differentiation.
- Develop a procurement sustainability strategy that supports the end-to-end life cycle of products and services.

Sourcing and Category Management

- Build capabilities in strategic activities such as supply markets and internal demand analysis, total cost of ownership (TCO) management and procurement risk analysis.
- Develop centralized multiyear category management plans for strategic categories.
- Implement a cross-functional governance mechanism to manage strategic categories and drive continuous improvement in category cost structures.

Requisition to Pay

- Invest in developing—and continuously improving—efficient and transparent end-to-end procurement processes.
- Develop technology-enabled assisted buying channels, such as internal buyer portals, that support the procurement function and the wider business to adopt best practices and compliance behavior.

Exhibit 2: Achieving procurement mastery

Opportunities and Action

[Procurement Masters: High-Performance Procurement in Chinese Enterprises]
Supplier Relationship Management

• Move beyond tactical service-level management.
• Emphasize shared visibility of information in the key areas of collaboration, including forecasting and demand planning.
• Define and agree on win-win initiatives aimed at realizing value together with strategic suppliers.
• Work closely with suppliers so they support the enterprise code of business ethics.

Workforce and Organization

• Shift resources from transaction-based efforts to high-value strategic activities.
• Move from the practice of rotating procurement resources regularly to building deep procurement capabilities underpinned by an effective framework of compliance-related policies, processes and technology.
• Support the development of strategic procurement capabilities through focused investment in learning and talent management.
• Maximize compliance with procurement processes by building a high level of procurement awareness and understanding among key segments of the broader workforce.

Technology

• Deploy an integrated technology platform for sourcing and procurement activities—one that integrates sourcing tools, online procurement catalogs and portals with the enterprise resource planning (ERP) system.
• Implement a unified master data management system across categories and suppliers for shared visibility across the business.
• Use analytics for risk and category management, starting with descriptive or retrospective analytics, and moving to predictive analytics.
Creating a More Strategic Procurement Function

Interview with Yin Shaorong, senior director, Global Sourcing, Lenovo Group

For many companies, coordinating procurement with research and development (R&D) and sales is a major challenge, which can lead to breakdowns in the overall supply chain and cause delays in getting new products to market. How can global companies achieve better coordination in these areas?

Yin Shaorong: The R&D teams in our business units are charged with creating a rich variety of products across our entire portfolio—computers, smartphones, television and so forth—to meet our customers' needs, and taking into account competitive and market conditions. Our sourcing unit focuses on developing a sourcing strategy during the product design period and then seeks out potential suppliers to involve in early development and innovation.

Then, more generally, our sourcing unit coordinates our company's procurement activities, led by Offering Delivering Teams—ODTs—that work across different portfolios and prepare for the next generation of products. These teams are led by senior project managers within Lenovo's business units, and include functional project managers and representatives from departments such as system support and quality control. Each ODT has weekly meetings, management oversight and regular audits of project progress. In this way, we make sure procurement is integrated more deeply into the strategy of the business.

How can the sourcing function manage risks more effectively during procurement—risks such as breakdowns in supply or poor quality?

It is important to have a well-established supplier inspection system. This process monitors the supplied products and assesses the vendor's financial eligibility, supply capacity, quality assurance systems and how the company functions overall. Further, each supplier must use materials that can be traced using serial numbers. This process allows us to manage our operational risks.

One of the key areas we monitor is a supplier's ability to respond to the needs of particular markets in different geographies. This can involve such things as assessing the quality of raw materials used, the capabilities of their labor force, their ability to respond to supply chain breakdowns and so forth.

This inspection system is accompanied by a risk management and control plan, which allows us to quickly identify risks and deploy third parties to investigate and analyze issues. Using this approach means we can effectively manage problems such as supplier bankruptcies and natural disasters. For example, after the 2011 Fukushima earthquake in Japan, we quickly found new suppliers to sustain our supply chain before many of our competitors, enabling us to maintain production.

We also carefully tend to our key supplier relationships through cooperation programs, long-term investment and development, and joint promotion of specific products to reduce risks caused by supply variability.

What are some of the important qualities to look for in a supplier?

For today's business needs, suppliers need to think of themselves as business partners. This means not just providing a piece of the overall value chain but understanding your impact across the entire chain. So, we consider a supplier's cost effectiveness, to be sure, but also their understanding of their role as a strategic partner and their ability to drive innovation. We also look for high manufacturing standards and their capabilities to provide high-quality follow-up support. For those suppliers who are responsible for developing products, we apply the same controls and processes that apply within Lenovo.

What steps are you taking to improve cost control in today's increasingly competitive environment?

As everyone knows, the price of high-tech products is constantly falling and margins are shrinking. That makes cost control vital, which, in turn, makes procurement especially strategic. This requires that we pursue innovations in terms of developing beneficial procurement relationships, and putting in place universal designs that require fewer customizations and, therefore, reduce expenses.

We analyze costs at every step of the production process. We regularly assess the cost of raw materials, software and intellectual property. Further, our products use multifunctional software that can be used in a range of products, which helps us keep costs down.

In addition, Lenovo's cost-analysis process has rigorous criteria. For instance, we specify that deviations between forecast and actual costs should be less than 2 percent within 90 days of production and less than 3 percent within 180 days. Before a product is finalized, the cost analysis must also be backed by a robust business case.
How can companies balance local and overseas procurement arrangements in a global sourcing environment?

Local procurement—in China, in our case—generates a variety of benefits, as we can closely monitor and manage factories, processes and product quality. We can also quickly respond to changes in market conditions. For some other types of materials, international markets such as Brazil, Hungary, India and Mexico offer lower prices than sourcing them locally in China.

However, effectively choosing between local and foreign sourcing depends on balancing supply and cost. For instance, although certain packaging and accessories are cheaper in China, it takes a long time for us to transport goods to Mexico or other countries. For this reason, we use local suppliers for these tasks.

For goods that we need to ship overseas to be built or enhanced, we require our suppliers to establish vendor-managed inventories or provide their own assembly lines to ensure they can manage changes in supply. In some jurisdictions, governments require a certain percentage of production or procurement to take place locally. In these locations, Lenovo asks suppliers to set up their own factories to support local supply.

What challenges does the high-tech industry face from a procurement perspective and how do companies need to evolve their sourcing strategies in light of those challenges?

Today’s global supply chain presents substantial challenges. For instance, a small number of large companies control valuable technology and work with key suppliers, but we also need this technology and access to these suppliers to support our future growth. We have a strong share of the global personal computer market—almost 16 percent at this time—and this position can support a strong partnership with major suppliers.

In addition, innovation will grow increasingly important as a means of competitive differentiation. From a sourcing perspective, this means we need to take steps to better integrate our value chain and form closer strategic partnerships with suppliers to foster joint investment and innovation. By improving this integration, we can become more flexible and better able to quickly respond to changing market conditions.

The issue of sustainability is increasingly on the minds of consumers and companies. How do you view the importance of sustainable development in procurement?

Sustainability is very important to Lenovo and to our customers, and our sourcing function plays a key role. Our standard purchase order contract states that our suppliers must comply with environmental regulations, avoid the use of hazardous substances and substances that accelerate ozone depletion, issue liability insurance and guarantee the safety of imported and exported products.

As part of our supplier performance evaluation, we assess the number of sustainable development projects suppliers are undertaking. We issue around 200 supplier audit reports each quarter to assess supplier performance and to encourage these companies to grow with us.

Based on Lenovo’s environmental standards, we classify suppliers according to their level of sustainability risk. For example, our environmental auditors pay special attention to suppliers that need to deal with emissions of harmful substances and product life cycle management. These suppliers may need to meet additional environmental conditions.

We also measure and report our carbon emissions and water use in accordance with Electronic Industry Citizenship Coalition guidelines, and we urge our suppliers to do the same.

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Building Procurement Mastery

As competition at home intensifies, input costs rise and Chinese organizations compete against leading global companies, procurement is becoming a strategic capability rather than a back-office function. This promises to revolutionize procurement and the potential value it can deliver.

Accenture coined the term “procurement mastery” based on the Accenture High-performance Procurement Research Program that identifies the best combination of skills and capabilities for making the most of advanced procurement. The current research, conducted by CFLP and Accenture, analyzes how far Chinese organizations have come in terms of developing skills in the six elements of procurement mastery—procurement strategy, sourcing and category management, requisition to pay, supplier relationship management, workforce and organization, and technology (see Exhibit 3). The report provides recommendations for improvement across these six dimensions.

Exhibit 3: Procurement mastery framework

1. Procurement Strategy: Value Delivery, Centralized Procurement Management, Risk Management and Sustainability
   • Vision, mission and core values
   • Operating model
   • Sustainability
   • Performance management
   • Category strategic planning
   • Procurement risk management

2. Sourcing and Category Management: Defining the “Size of the Prize”
   • Strategic sourcing
   • Category policy setting
   • Sustainability
   • Category management framework
   • Compliance monitoring
   • Procurement risk management

3. Requisition to Pay: Preventing Value “Leakage”
   • Transaction processing
   • Assisted buying
   • Master data management
   • Fulfillment

4. Supplier Relationship Management: Creating a Network to Deliver Value
   • Supplier performance management
   • Contract management
   • Sustainability
   • Supplier development and integration
   • Procurement risk management

5. Workforce and Organization: Building Deep Skills, and Expertise in Sourcing and Procurement
   • The right talent
   • An organization that facilitates collaboration

6. Technology: Realizing the Promise of Procurement Analytics
   • A system that integrates all functions from strategy to operations
Our research shows that Chinese Procurement Masters consistently rate higher than Contenders in best practices in procurement strategy (see Exhibit 4). This includes strategic planning, leadership support, decision making involvement of procurement, governance, innovation, sustainability and risk management.

We have identified four key areas of opportunity for Chinese enterprises—value delivery, centralized procurement management, risk management and sustainability.

**Value delivery**

Value delivery is about reducing the TCO. Chinese Procurement Masters manage a similar spend as other enterprises in our study. However, they deliver much more value from procurement. In fact, based on a similar percentage of controlled spend, Procurement Masters said they achieved 50 percent more TCO savings than other respondents (see Exhibit 5).

Procurement Masters spend significantly more time on strategic activities. They leverage technology and rigorous processes to improve visibility, compliance and automation as well as the accuracy and timeliness of reporting. This ensures that about 40 percent of their procurement employees’ time is spent on strategic activities. In contrast, for Contenders, only 33 percent of procurement employees’ time is spent on strategic activities (see Exhibit 5).

Exhibit 4: Best practices in procurement strategy
(Percentage of responses at a best practice level)

<table>
<thead>
<tr>
<th>Integrated strategic plan</th>
<th>Perception of procurement by the leadership</th>
<th>Key decision-making involvement</th>
<th>Effective governance and process</th>
<th>Innovative value provided in addition to cost saving</th>
<th>Sustainability procurement</th>
<th>Risk management</th>
</tr>
</thead>
<tbody>
<tr>
<td>36%</td>
<td>33%</td>
<td>55%</td>
<td>41%</td>
<td>37%</td>
<td>24%</td>
<td>37%</td>
</tr>
<tr>
<td>88%</td>
<td>75%</td>
<td>81%</td>
<td>94%</td>
<td>94%</td>
<td>75%</td>
<td>75%</td>
</tr>
</tbody>
</table>

1. Procurement Strategy: Value Delivery, Centralized Procurement Management, Risk Management and Sustainability

Developing a clear strategic plan—tied closely to corporate and business function strategies—is the foundation of procurement mastery.
Centralized procurement management

Accenture’s global procurement mastery research program shows that centralized management of direct and indirect materials procurement improves control and leads to more savings. Traditionally, many large Chinese enterprises manage procurement as a decentralized activity—run by individual divisions or geographic business units. Our research confirms that this decentralized approach is dominant across all types of Chinese organizations. State-owned enterprises, for example, hardly purchase any of their indirect materials and less than one-third of their direct materials in a centralized manner. Even private enterprises source just 37 percent of indirect materials and 42 percent of direct materials through a centralized system (see Exhibit 6). However, state-owned enterprises estimate that in the coming years they will source 59 percent of their direct materials centrally. Private enterprises, too, provide a similar estimate, signaling at a shift from decentralized procurement, at least for direct materials.

Exhibit 5: Procurement Masters versus Contenders: Spend under control, TCO savings and time spent on strategic activities

Exhibit 6: Centralization trends

<table>
<thead>
<tr>
<th></th>
<th>Current status</th>
<th>3-5 year plan</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>State-owned enterprises</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indirect material sourcing</td>
<td>0%</td>
<td>12%</td>
</tr>
<tr>
<td>Direct material sourcing</td>
<td>29%</td>
<td>59%</td>
</tr>
<tr>
<td><strong>Private enterprises</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indirect material sourcing</td>
<td>37%</td>
<td>42%</td>
</tr>
<tr>
<td>Direct material sourcing</td>
<td>32%</td>
<td>58%</td>
</tr>
<tr>
<td><strong>Wholly owned foreign enterprises</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indirect material sourcing</td>
<td>16%</td>
<td>26%</td>
</tr>
<tr>
<td>Direct material sourcing</td>
<td>29%</td>
<td>42%</td>
</tr>
<tr>
<td><strong>Joint ventures between state-owned enterprises and wholly owned foreign enterprises</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indirect material sourcing</td>
<td>6%</td>
<td>28%</td>
</tr>
<tr>
<td>Direct material sourcing</td>
<td>33%</td>
<td>44%</td>
</tr>
</tbody>
</table>
Risk management

Procurement organizations sometimes underestimate how risk affects enterprise performance. The most common and highly critical procurement risks relate to supplier reliability and price volatility as both directly impact profitability. The exposure varies significantly across industries. For example, in electronics, which is affected by just-in-time processes, supplier reliability is critical. In the steel industry, in contrast, the price volatility of raw materials may have a more severe impact on a producer’s viability.

Risk management in procurement aims to anticipate, monitor and mitigate exposure to external and internal forces that can disrupt input costs or operations. A number of advanced risk management tools are available today. Perhaps, the best example is predictive analytics. Our research shows that Procurement Masters monitor prices of raw materials in real time, forecast future prices and use technology for faster scenario planning.

While Chinese enterprises recognize the sources of risk, a strategic response to address these is still lacking. Apart from the Procurement Masters, only 37 percent of the companies surveyed have implemented a structured risk management plan for procurement (see Exhibit 7).

A structured risk management plan typically encompasses three fundamental capabilities—anticipation, monitoring and mitigation (see Exhibit 9). We recommend every procurement organization develops and implements a risk management program that includes these elements.
Exhibit 8: Criticality of procurement risks

<table>
<thead>
<tr>
<th>Risk</th>
<th>Criticality</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supplier quality issues</td>
<td>67%</td>
</tr>
<tr>
<td>Company’s dependency on the supplier</td>
<td>61%</td>
</tr>
<tr>
<td>Supply chain disruptions</td>
<td>54%</td>
</tr>
<tr>
<td>Unanticipated price volatility</td>
<td>45%</td>
</tr>
<tr>
<td>(for example: raw material cost, currency exchange rates and labor cost)</td>
<td></td>
</tr>
<tr>
<td>Legal/regulatory</td>
<td>12%</td>
</tr>
<tr>
<td>Supplier bankruptcy</td>
<td>26%</td>
</tr>
<tr>
<td>Supplier’s dependency on the company</td>
<td>14%</td>
</tr>
</tbody>
</table>

Exhibit 9: Procurement risk management framework

- Anticipate: Develop strategies to avoid or minimize exposure to risk
  - Carefully integrate procurement risk management into each category
  - Differentiate risk management strategies by category
  - Use dual sourcing and regular negotiations with suppliers to anticipate supply risks related to quality, as well as supply chain disruptions
  - Use risk-sharing clauses and back-to-back contracts
  - Apply value engineering concepts to look at alternative materials
  - Use predictive analytics to analyze raw materials pricing, and for forecasting and scenario building on the company’s cost structure
  - Leverage hedging

- Monitor: Continuously track potential risks and raise alerts
  - Identify and assess risk at key stages of the strategic sourcing process
  - Invest in supply market intelligence
  - Implement supplier scorecards to identify, assess and continuously monitor key risks with critical suppliers at each step of the supply chain
  - Apply supplier risk management practices, such as close integration and collaboration with selected critical suppliers, and conduct Failure Mode and Effects Analysis (FMEA) of the supplier process
  - Adapt monitoring approaches to supplier categories and to different geographies and cultures
  - Use external data sources to continuously monitor supply markets, suppliers’ financial health and other key risk indicators
  - Establish an efficient risk alert system to preempt risks early on
  - Leverage scenario planning

- Mitigate: Act to minimize impact of realized risks
  - Predefine the response organization and a list of authorized decision makers
  - Develop a process to measure the impact of incidents or alerts and continuously improve risk management practices
  - Integrate the organization to address mitigation incidents, ensuring there is a transparent chain of decision-making responsibility
  - Emphasize development of mitigation and escalation plans for critical suppliers
Sustainability

The importance of sustainable procurement is increasingly driven by more stringent environmental regulation, as well as a desire to protect and enhance brand reputation and a need to manage diminishing supplies of raw materials. This focus on sustainable procurement extends to a diverse range of areas—from developing a deeper understanding of how existing materials can be recycled and reused to increasing sourcing requirements and pursuing deeper supplier partnerships that drive innovation. Leading companies are embedding sustainability into corporate strategy as a competitive differentiation. Sony Mobile Communications, for example, takes a life cycle approach to sustainability, addressing all aspects of a phone’s life covering design, production, supply, use and end of life. Throughout the life cycle, Sony seeks to minimize greenhouse gas emissions, increase use of recycled and recyclable materials, decrease use of harmful substances, and reduce waste and energy use. Its green certification program recognizes suppliers that proactively replace harmful practices with environment-friendly ones.

Our research indicates that most Chinese enterprises are aware of the potential of sustainable procurement. However, only 33 percent of the respondents have built sustainability into their procurement strategy and operations so far (see Exhibit 10).

A majority of Chinese organizations working toward improving their sustainability practices are focusing on their suppliers rather than on internal processes. Of the respondents surveyed, 57 percent are reviewing their supplier base for sustainable procurement. Close to a third of the companies are quantifying sustainable procurement objectives, such as those for energy use, emissions and waste reduction. Only 30 percent are implementing key performance indicators (KPIs) for sustainable procurement and just 27 percent are driving sustainability improvements through training, induction and culture programs (see Exhibit 11).

Making sustainable procurement an important part of corporate strategy will enable companies to develop an end-to-end sustainable procurement strategy that supports the full life cycle of products and services.

Exhibit 10: Adoption of sustainable procurement strategies

<table>
<thead>
<tr>
<th>Build sustainability into procurement strategy or operations</th>
<th>Are aware of the benefits of sustainable procurement</th>
<th>Never consider the concept</th>
</tr>
</thead>
<tbody>
<tr>
<td>33%</td>
<td>50%</td>
<td>17%</td>
</tr>
</tbody>
</table>

Exhibit 11: Adoption of programs to improve sustainable procurement

- Optimize supplier base for sustainable procurement: 57%
- Quantify sustainable procurement objectives, such as those for energy use, emissions and waste reduction: 33%
- Implement sustainable procurement KPIs: 30%
- Conduct training, induction and culture programs to drive sustainability: 27%
2. Sourcing and Category Management: Defining the “Size of the Prize”

Four elements make up sourcing and category management proficiency:

- **Structured sourcing**
  Procurement Masters have structured sourcing processes based on TCO and standardized procurement.

- **Rigorous spend analysis**
  Procurement Masters analyze spend, identify savings opportunities and take action to realize benefits. They develop expertise to understand the cost structures of key categories and associated supply markets.

- **Strong contract compliance**
  Masters employ well-established tracking measures to ensure contract compliance and, therefore, realize more value from contracts.

- **Reliable demand management**
  Procurement Masters go the distance to manage demand. They put in place reliable processes for releasing sourcing and procurement-related information, thus improving supply chain visibility.

Our research on Chinese enterprises shows that Contenders’ adoption of strategic sourcing and category management is at or below 50 percent. In sharp contrast, the figure is 75 percent to more than 90 percent for Procurement Masters (see Exhibit 12).

One Chinese enterprise that is making progress in sourcing and category management is one of the largest chemical manufacturers in China with a broad range of products and services. The organization has defined a procurement management road map and governance model at the corporate level and developed a list of KPIs as well as a cost-saving calculation model. This helped it reduce the number of suppliers for 10 categories from more than 900 to just 145 and achieve an average cost saving of 10 percent per category.

To realize more value from category management, Accenture recommends that Chinese organizations focus on three actions. First, build capabilities in strategic activities such as supply markets and internal demand analysis, TCO management and procurement risk analysis. Second, develop centralized multiyear category management plans for strategic categories. Third, implement a cross-functional governance mechanism to manage strategic categories—and drive continuous improvement of category cost structures.

### Exhibit 12: Adoption of best practices in strategic sourcing and category management

(Percentage of responses at a best practice level)

<table>
<thead>
<tr>
<th>Practice</th>
<th>Masters</th>
<th>Contenders</th>
</tr>
</thead>
<tbody>
<tr>
<td>Structured sourcing process based on TCO</td>
<td>80%</td>
<td>42%</td>
</tr>
<tr>
<td>Demand management activities</td>
<td>75%</td>
<td>42%</td>
</tr>
<tr>
<td>Leverage of spend across the organization and outside</td>
<td>94%</td>
<td>42%</td>
</tr>
<tr>
<td>Compliance with contracts</td>
<td>94%</td>
<td>42%</td>
</tr>
<tr>
<td>Procurement value accepted within the company</td>
<td>94%</td>
<td>42%</td>
</tr>
<tr>
<td>Timely and transparent sourcing and procurement information release process</td>
<td>81%</td>
<td>42%</td>
</tr>
</tbody>
</table>
The starting point for R2P is a well-defined, end-to-end process that is highly integrated with an organization’s supplier base. The next step is to reduce transaction-based workloads so that procurement professionals can focus on strategic tasks. Procurement Masters also put in place a strong and effective buying channel, ensuring an effective approval hierarchy system that minimizes “leakage” from designated procurement and supplier management policies.

Our research shows that outside of the Procurement Masters, just a few Chinese enterprises have adopted R2P best practices (see Exhibit 13). They have made some progress in mapping end-to-end R2P processes and implementing technology support for these processes. However, mastery of buying channel execution—such as buyer portals that allow more automation, enable supplier integration and ensure purchasing activities comply with best practices—is still low.

3. Requisition to Pay: Preventing Value “Leakage”

An end-to-end R2P process helps in efficiently delivering a significant amount of cost savings defined by the strategic sourcing and category management process. Procurement Masters invest heavily in R2P to establish efficient and transparent processes, develop designated buying channels and deploy integrated technology to support internal and external collaboration.

Exhibit 13: Adoption of R2P best practices
(Percentage of responses at a best practice level)

<table>
<thead>
<tr>
<th></th>
<th>Masters</th>
<th>Contenders</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mapped R2P process</td>
<td>94%</td>
<td>46%</td>
</tr>
<tr>
<td>Implementation of technology support for the R2P processes</td>
<td>75%</td>
<td>17%</td>
</tr>
<tr>
<td>Buying channel execution</td>
<td>81%</td>
<td>28%</td>
</tr>
<tr>
<td>Integration with suppliers to streamline R2P</td>
<td>88%</td>
<td>16%</td>
</tr>
</tbody>
</table>

R2P improvement is a priority for businesses worldwide

A large Asia-Pacific telecommunications company was spending more than US$3 billion each year on hundreds of vendors based on negotiated contracts. However, the organization did not have a central repository for contracts, resulting in inefficiencies, duplication, noncompliance resulting from employees not using approved vendors and an inability to track spending against negotiated contracts. As a result, the procurement function was engaged in administrative, tactical tasks, rather than value-added activities that could position it as a strategic partner to the business.

To improve its R2P process, the business implemented a 10-month transformation program. This included implementing a business process redesign of the source-to-contract and purchasing functions, developing a spend taxonomy and associated reports, and setting up an outsourced function to establish a help desk assisting employees to purchase goods and services up to US$200,000.

The program has resulted in an approximately 11 percent increase in contract compliance and is delivering savings of close to US$6–7 million per year. In addition, the procurement function now operates faster and more efficiently, allowing staff to focus on strategic activities to drive value for the business.
Procurement Masters collaborate closely and regularly with suppliers to monitor progress, support strategic efforts, identify improvement areas and devise plans to improve performance. The case study on page 7 shows how IT hardware maker, Lenovo, a Procurement Master, invests and innovates with its most strategic suppliers and is able to gain more value from strategic supplier partnerships. As part of this process, the company carefully assesses potential procurement partners’ innovation capacity, as well as their follow-up support, cost effectiveness and ability to meet exacting manufacturing standards.

Other key focus areas in supplier relationship management are category strategy and strategic sourcing, and end-to-end supply chain visibility. Procurement Masters allocate their procurement management resources to suppliers who contribute the most strategic value or can potentially cause the maximum risk to business.

A Chinese Procurement Master that has successfully addressed supplier relationship management challenges is a state-owned energy group, establishing communication channels for information sharing and collaboration with suppliers. It works with suppliers to standardize products, and provides training and resources to help them build management capability and expertise. In return, suppliers share the costs of inventory ownership as this helps them reduce total supply chain expenditure. Another Procurement Master organizes an Innovation Day for key suppliers, encouraging them to collaborate and come up with innovative ideas to meet procurement challenges.

Making supplier relationship management work requires an industry value mindset—a commitment to sharing rewards. However, supplier relationships in most Chinese industries have focused primarily on negotiated, fixed price and performance agreements. The value focus has been mostly on maximizing the organization’s own share of the value pie rather than on increasing the total value.

Global best practices in supplier relationship management for improved sustainability, quality and operational excellence

A leading global retailer with more than 1,700 outlets around the world sources its stock from approximately 800 independent suppliers, primarily in Asia and Europe. The company implemented a program to reassess the Asia supply base to further improve its corporate social responsibility initiatives, production efficiency and quality performance. The objective was to develop a sustainable supply chain that helps achieve its financial and social goals. Toward this, the retailer established and implemented a set of standard KPIs for monitoring supplier performance. It enforced data transparency on compliance-related information from suppliers, performed a gap analysis to identify noncompliance with labor law and put in place measures to achieve improvements in supplier performance. The organization also identified performance improvement opportunities for suppliers through standardized efficiency analysis, quality system assessments and statistical process control tools.
As a consequence, outside of the small set of Procurement Masters, adoption of supplier relationship management best practices in China is still limited. While nearly 60 percent measure supplier performance, only half of the respondents segment their suppliers in a sophisticated way. Less than a third are prepared to put in place arrangements for risk and reward sharing (see Exhibit 14).

Chinese organizations can take a number of concrete actions to achieve more value through supplier collaboration. (see Exhibit 15).

Exhibit 14: Adoption of supplier relationship management best practices
(Percentage of responses at a best practice level)

<table>
<thead>
<tr>
<th>Best Practice</th>
<th>Masters</th>
<th>Contenders</th>
</tr>
</thead>
<tbody>
<tr>
<td>Visibility management beyond first-tier suppliers</td>
<td>34%</td>
<td>88%</td>
</tr>
<tr>
<td>Supplier base segmentation approach</td>
<td></td>
<td>50%</td>
</tr>
<tr>
<td>Supplier collaboration on a risk-reward sharing basis</td>
<td>29%</td>
<td>56%</td>
</tr>
<tr>
<td>Monitoring and management of supplier assessment and performance</td>
<td>58%</td>
<td>88%</td>
</tr>
</tbody>
</table>

Exhibit 15: Increasing value through supplier collaboration

- **Win-win relationships with strategic suppliers**: Move beyond tactical service-level management and focus on collaborative value realization.
- **Business ethics**: Engage closely with suppliers to support the enterprise code of business ethics.
- **Demand forecast**: Share internal forecasts and demand predictions with multiple tiers of suppliers.
- **Inventory visibility**: Provide suppliers visibility into inventories and develop joint inventory management initiatives, such as vendor-managed inventory, to reduce total inventories in the pipeline.
- **Production capacity**: Share production and capacity status to reduce the company’s and supplier’s down time, work-in-process inventory carrying cost and capital investment, and to enable better planning.
- **Joint contracting and purchasing**: Leverage each other’s scale to jointly contract with third parties to reduce costs of common requirements.
- **Process and capability sharing**: Share best practices in processes, systems and capabilities, or jointly develop new processes or systems.
- **Collaborative product development and innovation**: Work with suppliers to share knowledge and expertise to co-develop new products and technical innovations. Also share costs and ownership of developed innovations.
- **Cultural change management**: Develop and deploy cultural communications and training.
- **Value engineering**: Work with suppliers to reduce product costs and improve functionality.
- **Joint venture**: Create a new business entity with a supplier to achieve specific goals.
- **Postpone manufacturing**: Effectively improve supply chain agility and reduce lead times by enabling suppliers to build products to a generic and module level and further engage in late-stage configuration.
5. Workforce and Organization: Building Deep Skills, and Expertise in Sourcing and Procurement

Describing the day-to-day challenges his organization faces in ensuring the availability of highly skilled people to support the business, a research participant said, "Currently, the procurement department has 40 staff members, which is not enough considering the number of projects. For example, after signing a procurement contract, we have a significant demand for people who can test equipment, track the transportation of commodities and inspect on-site storage. There are two reasons for this—project materials are worth a great deal and a large volume of nonstandard materials must be procured quickly."14

People, skills, culture and change management are critical in procurement transformation. A global fertilizer manufacturer wanted to transform the siloed procurement groups at its 22 factories into one high-performing central procurement function.15 It placed a strong emphasis on putting in place the capabilities needed to sustain targeted savings over the long term. Strategic sourcing was to be fully embedded in its culture and operations, from the boardroom to each of its plants. This meant each category procurement team had representation not just from the procurement function, but also from maintenance, production and plant management. The company also implemented individualized training plans, for its sourcing employees, including a competency assessment and access to an ongoing online "academy" style education program. Finally, it laid a strong emphasis on a formal change management program supported by the top management and involving all the employees who could impact the success of the program.

Workforce and organization are integral for bringing additional procurement sophistication to Chinese organizations. Procurement Masters place a lot of rigor on both these aspects—investing significantly more to develop optimal career trajectories for employees and improving their all-round competency. They enable employees to grow outside the procurement organization. They also assign dedicated staff within procurement to achieve innovation in supplier relationships and materials sourcing.

Procurement Masters make ethical conduct integral to their organizations. While Chinese companies recognize the importance of ethical conduct and policy compliance in achieving procurement mastery, a more stringent policy framework is needed to achieve the highest levels in ethics and compliance.

Our research shows that procurement workforce and organization are relatively weak areas for Chinese organizations. Less than half of the Contenders have adopted best practices to oversee their suppliers’ ethical conduct. Only 30 percent have a balanced scorecard to manage the procurement function’s performance and just 11 percent manage skill and competency development for their organization’s extended procurement network (see Exhibit 16).
Procurement outsourcing is not yet a priority in China

Our research shows that the adoption of procurement outsourcing in China is still low and may be limited by a preoccupation with putting core internal capabilities in place—and a lack of awareness among leaders on the strategic role that procurement outsourcing can play (see Exhibit 17).

Globally, outsourcing of key procurement elements has allowed organizations to fast-track value realization by employing the mature processes and skills of external providers. Nine years ago, one of the largest global banks decided to outsource procurement and accounts payable support to integrate disparate operations across more than 30 countries. This early adoption of procurement outsourcing has helped the bank standardize processes globally. Today, it processes 1,500 purchase orders a day and manages tens of thousands of vendors. Each of its hubs in nine different countries has a standardized procure-to-pay process. In addition, as the company acquires new businesses, at home and overseas, each acquisition adopts this standardized, proven global platform.

The bank has also achieved a 27 percent savings in sourcing through e-auctions. This has enabled open, transparent and competitive bidding among multiple, prequalified suppliers on the Web. Overall, the simplification of procurement operations, significant cost efficiencies and improved controls enabled the bank to achieve its business objectives within the first four years of the original outsourcing contract.

Along with the more fundamental challenges such as a limited talent pool and high attrition rates in the procurement function making it challenging for Chinese enterprises to build a stable core workforce, they are beginning to realize the importance of their procurement teams having deep skills and high levels of professionalism. They are also recognizing the need for procurement process awareness within the workforce. Accenture recommends four near-term actions:

- Shifting key resources from transaction-based efforts toward high-value strategic activities.
- Avoiding regular rotation of procurement resources and instead building deep procurement skills based on an effective compliance framework of policies, processes and technology.
- Investing in learning and talent management to improve procurement workforce performance.
- Maximizing process compliance.

Exhibit 16: Best practices in workforce and organization

(Percentage of responses at a best practice level)

<table>
<thead>
<tr>
<th>Best practice</th>
<th>Masters</th>
<th>Contenders</th>
</tr>
</thead>
<tbody>
<tr>
<td>Distinct team focusing on supplier and procurement innovation</td>
<td>46%</td>
<td>16%</td>
</tr>
<tr>
<td>Optimal career path (competency development across the extended procurement network)</td>
<td>50%</td>
<td>11%</td>
</tr>
<tr>
<td>Balanced scorecard to manage organization performance</td>
<td>50%</td>
<td>11%</td>
</tr>
<tr>
<td>Ethical conduct</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Masters</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contenders</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Exhibit 17: Adoption of procurement outsourcing

State-owned enterprises: 23% Not likely, 14% Potential to be outsourced, 6% Already outsourced or in progress
Private enterprises: 29% Not likely, 11% Potential to be outsourced, 5% Already outsourced or in progress
Multinational companies: 20% Not likely, 15% Potential to be outsourced, 6% Already outsourced or in progress
Joint ventures: 23% Not likely, 14% Potential to be outsourced, 6% Already outsourced or in progress
A leading Chinese state-owned energy company that has built a core technology platform to support procurement. The company was already operating an integrated ERP system at the group level and had made good progress in data standardization across the organization. Taking procurement excellence to the next level, it moved to standardize procurement processes, and at the same time, implement an e-sourcing solution.17 The program supported demand planning, strategic sourcing, bidding management, contract management, e-catalog management, supplier relationship management and spend analysis. The e-sourcing program helped the energy company realize further cost savings and get an end-to-end view of procurement across the enterprise.

Our research shows that 88 percent of Chinese respondents use ERP systems to manage procurement. However, the ERP systems of only 20 percent of them are as advanced as the one the Chinese energy company described above uses. Moreover, they rarely integrate e-sourcing tools to analyze spend, enable electronic auctions, manage electronic requests for proposals, quotes, information and tenders, and manage supplier performance and contracts.

The other major component of an integrated technology support requires the implementation of procurement portals and online catalogs. This provides access to an organization’s procurement processes, improving compliance for procurement teams and the larger workforce.

Data management is critical to technology-enabled procurement. Our research shows that data fragmentation is a major challenge for many Chinese companies. Only a small number of Procurement Masters use efficient data maintenance mechanisms to harmonize master data effectively across systems and functions. Besides, slow progress in the overall supplier relationship management is exemplified by Chinese organizations’ low adoption of supplier integration technology (see Exhibit 18).

Exhibit 18: Adoption of technology-enabled procurement
(Percentage of responses at a best practice level)

<table>
<thead>
<tr>
<th>Technology</th>
<th>Masters</th>
<th>Contenders</th>
</tr>
</thead>
<tbody>
<tr>
<td>Integrated technology support</td>
<td>32%</td>
<td>69%</td>
</tr>
<tr>
<td>Master data harmonization</td>
<td>25%</td>
<td>75%</td>
</tr>
<tr>
<td>Data visibility/reporting excellence</td>
<td>17%</td>
<td>75%</td>
</tr>
<tr>
<td>Supplier integration technology</td>
<td>13%</td>
<td>56%</td>
</tr>
</tbody>
</table>
Realizing analytics’ promise

For Chinese organizations, implementing analytics presents a major opportunity to unlock significant value in procurement. Many Chinese enterprises that have taken the first steps in analytics are using descriptive analytics, for instance, to gain insights into cost modeling and supplier performance.

The next step is to use analytics to evaluate commodity price volatility and to develop price forecasting models, thereby laying a foundation for better risk management. Forecasting prices requires expertise in the commodities markets as well as mastery of complex analytical techniques. Together, such expertise and techniques help in translating mathematical approaches into effective solutions, such as scenario planning and other risk mitigation strategies.

Using advanced analytics can enable Chinese organizations to balance risk exposure with reducing costs, and provide direction on when to buy, how much and at what price. Another exciting promise of analytics surrounds the future of cost control. Analytics provides Chinese organizations with the potential to track expenditures from start to finish and also identify overpayments to suppliers. Closed-loop expense tracking drives accountability not only for savings, but also for spend visibility, ownership of internal category spend, bottom-up category budgeting, tight monitoring and control of spend, and direction for buyers and users on how to procure goods and services optimally.

One of the world’s leading wireless providers is using analytics to recover overpayments to suppliers and enforce contract compliance. The analytics tool tests against a historical set of payment data to suppliers, using four separate sets of matching criteria. The analytics process has delivered results, exceeding the company’s expectations by more than 175 percent. This proactive solution is being implemented to identify and recover duplicate and erroneous payments even before they are made.18

The way forward for Chinese organizations in leveraging technology to achieve procurement mastery is to:

• Deploy an integrated technology platform across sourcing and procurement activities. This will build on the organization’s ERP systems, and integrate sourcing tools, online procurement catalogs and portals.
• Implement a unified master data management across categories and suppliers to improve the shared visibility across the business.
• Leverage analytics for risk and category management, starting with descriptive or retrospective analytics, and moving to predictive analytics.
Starting the Procurement Transformation Journey

With increasing business pressures, specifically around rising input costs and the need to produce higher value goods and services in response, Chinese enterprises require more effective procurement functions. Achieving procurement mastery will allow state-owned, multinational, private sector and joint venture enterprises to improve organizational competitiveness in the domestic market and internationally.

Chinese Procurement Masters will continue to have a lead over other enterprises in their industries. So, where does this leave the Contenders? While they have made considerable progress—taking their first steps to move toward procurement mastery—they need to catch up to meet the high levels demonstrated by the Procurement Masters.

The procurement mastery framework set out in this report can help Chinese businesses design and implement a comprehensive transformation agenda around the procurement function. This report presents specific areas of opportunity for Chinese organizations as they work toward realizing increased value from their procurement practices.

As Chinese companies set out on this journey, procurement transformation will involve improvements in processes, skills, technology and compliance. It will require the top management to demonstrate real commitment and actively champion the change management exercise. It will also require the procurement function, the enterprise and the supplier network to commit to an ongoing, long-term effort to realize a competitive advantage through procurement mastery.
About the Research

From September 2012 to April 2013, Accenture and the China Federation of Logistics and Purchasing (CFLP) collaborated on the China Procurement Mastery Study. Accenture and CFLP sought to capture the current state of Chinese organizations’ procurement capabilities.

The report draws on survey analysis, interviews, and CFLP and Accenture insights. We classified Procurement Masters and Contenders by analyzing responses to 57 questions that addressed procurement processes on six dimensions: Procurement strategy, sourcing and category management, requisition to pay, supplier relationship management, workforce and organization, and technology.

Companies that were at least one standard deviation better than the average in two categories (or more) were classified as Procurement Masters. Among the 92 surveyed organizations, we identified 16 as Procurement Masters and 76 as Contenders. Respondents represented a cross section of industries, ownership types and company sizes (see Exhibit 4). Of the total respondents, 69 percent had revenues equivalent to, or higher than, Renminbi 1 billion.

Exhibit 19 – Survey participant demographics

Industry distribution

- Communications
- Electronics and high technology
- Retail
- Consumer goods and services
- Automotive and spare parts
- Industrial equipment and construction
- Infrastructure and transportation
- Life sciences
- Chemicals
- Energy, natural resources and utilities
- Others

Annual revenues

- Less than RMB500 mn
- RMB500–999 mn
- RMB1–4.99 bn
- RMB5 bn or more

Company type

- State-owned enterprises
- Joint ventures between state-owned enterprises and foreign-owned enterprises
- Wholly foreign owned enterprises
- Private enterprises
- Procurement supervisor

Job titles

- Chief procurement officer, Chief financial officer, Chief operating officer
- Vice president or Director of procurement
- Senior vice president or Vice president of procurement
- Procurement manager
- Procurement supervisor

Level of responsibility

- Local market (within country) level
- Region/country level
- Business unit level
- Company or corporate level
References
2. Accenture client experience
4. Yin Shaorong is the executive director of Global Sourcing at Lenovo Group, a $34 billion personal technology company. Under his leadership, Lenovo’s procurement team has been extended from desktop operations in China to desktop, workstation and server operations globally.

Lv Yunbo, senior manager of Global Sourcing Operation Management/Project Management at Lenovo Group, also participated in the interview.

The interview was conducted by Fred Chen and Evelyn Yan from Accenture in China, and the China Federation of Logistics and Purchasing.

5. Accenture, “Compulsive Contributors. More is asked and more is delivered. Accenture research and insights into high performance in procurement”, 2011
6. Accenture interview, Procurement Manager, Chinese Resources company, 2013
7. Accenture client experience
8. Accenture client experience
10. Accenture client experience
11. Accenture client experience
12. Accenture client experience
13. Accenture client experience
15. Accenture client experience
16. Accenture client experience
17. Accenture client experience
18. Accenture client experience

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Accenture is a global management consulting, technology services and outsourcing company, with approximately 275,000 people serving clients in more than 120 countries. Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world’s most successful companies, Accenture collaborates with clients to help them become high-performance businesses and governments. The company generated net revenues of US$28.6 billion for the fiscal year ended Aug. 31, 2013. Its home page is www.accenture.com.

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For more information about Accenture, please visit www.accenture.com and www.accenture.cn for the Accenture Greater China site.

About the China Federation of Logistics & Purchasing (CFLP)

China Federation of Logistics & Purchasing (CFLP), the integrated non-profit organization of logistics and purchasing in China, was established in Beijing and approved by the State Council during the government institution restructure. CFLP is under the administration of the State-owned Assets Supervision and Administration Commission of the State Council (SASAC).

The main missions of CFLP are to develop logistics and purchasing industry in China, to promote the public procurement, to develop the reform in the means of production circulation sector, to fulfill the tasks commissioned by government. The government authorizes CFLP functions of foreign affairs, science and technology, statistics and standard drafting & revising, etc.

As the member organization of National Modern Logistics Inter-ministerial Joint Conference, the Chinese representative of the International Federation of Purchasing and the Supply Management (IFPSM) and the Asian-Pacific Logistics Federation (APLF), CFLP is playing an active role and widely cooperating with counterparts in many countries.

For more information please visit us at www.cflp.org.cn