

# strategic sourcing

## Bayer's Rx: INNOVATION

*Emphasis is on global collaboration, rethinking old approaches, tackling big new areas such as fleet costs, and achieving aggressive objectives.*

BY DOUG SMOCK

**B**ayer Corp. initiated 750 cost reduction projects in 2001 and 2002 in the NAFTA region, netting cost reductions of more than \$125 million, procurement officers said in recent interviews in Pittsburgh. In some cases Bayer buyers took new approaches to old problems—including several sole source agreements for mega chemical contracts. NAFTA Chief Procurement Officer Robert A. Rudzki also challenged buyers to go back to the drawing boards on long-term contracts and look for win-win combinations on new terms.

In a new initiative, the recently formed polymers company within Bayer launched its first global standardization project on a major equipment category. The project highlights increased global collaboration within the German-based chemicals giant. Bayer buyers throughout the global organization also attacked new spend targets in fleet, travel and consulting services, and put significant emphasis on boosting procurement's contribution to corporate working capital objectives.

Bayer's biggest product buy is chemicals raw materials at \$1.5 billion annually in the NAFTA region alone. Bayer is among the biggest buyers in the world for major plastics and urethane precursors such as benzene, styrene, butadi-

ene, and toluene. Chief chemicals buyer William Forrester has a 14-person strategic sourcing team in NAFTA's polymers unit who participates on global commodity teams so that the 175 NAFTA chemical contracts are coordinated. "The two individuals who are responsible for the benzene buy are students of the aromatics industry," says Forrester. Their own market intelligence is supplemented by outside consultants.

They face major issues on make or buy, long-term contracts and foreign

versus domestic sources. All are under review. Bayer made a major move to captive chlor-alkali production because of potential for problems in rail transport of chlorine. Bayer built a chlorine/caustic plant in Baytown, Texas, adjacent to isocyanate facilities where it is consumed.

Some outsiders may be surprised at how frequently Bayer is going to sole-source contracts for critical chemical materials. About 20% of the total chemicals buy at Bayer NAFTA is now sole



Bayer, a leading producer of CD materials, is putting more emphasis in global coordination, say Bob Rudzki, left, in Pittsburgh and Gerhard K. Römer, based in Leverkusen, Germany.

sourced. "What we're looking for is producer-like economics," says Forrester. Some suppliers, not surprisingly, balk at providing confidential cost data. "We tell them, 'if you don't want to be a sole source, then don't do it.'" What about force majeure? "It's incumbent upon the supplier to solve the problem," says Forrester. Bayer won't pay premiums.

The net result of the strategy, says Forrester, is that "we get better than market pricing." Often the savings are better than 10% of market prices. Bayer is also looking for suppliers to own inventory for as long as possible and meet new payment terms objectives.

Some of the biggest buying breakthroughs at Bayer in recent months have come in nontraditional areas.

## Nontraditional targets

At the same time that procurement is pursuing opportunities in traditional areas of spend, procurement at Bayer is also becoming more involved in facilitating cost reductions in non-traditional areas of spend. The approach, which internal stakeholders are finding easy to support, is based on the idea that procurement can provide professional assistance to the internal stakeholder who has traditionally had responsibility for that area of spend, without procurement appearing to "take control" of the spend.

Significant successes have already been achieved in areas such as fleet, consulting services, travel management, and legal services. Additional areas are being targeted for focus in 2003.

For the first time at Bayer, a strategic sourcing team tackled the fleet buy. "The purpose of the team was to standardize and streamline vehicle acquisitions and leasing services for the NAFTA region," says Soheila Lunney, sponsor of the project. Within the NAFTA region, Bayer buys or leases more than 5,000 vehicles at a cost of about \$23 million annually.

Prior to the review by the strategic sourcing team, these conditions were in place:

- No formal fleet policy,
- Vehicles were acquired throughout the year,

## Bayer's cost-relief pills



- Empower travelers to make their own reservations online using negotiated discounts. Savings result when buyers opt in for lower fares based on flexibility issues only they know.
- Boost travel system effectiveness with rapid feedback study when travelers return.
- Apply strategic sourcing principles to fleet management and other nontraditional areas of spend.
- Employ sole sources for major chemical contracts when the benefit is compelling.
- Improve terms on extended length contracts.
- Work closely with internal stakeholders to identify and implement standardization opportunities.
- Create central database for asset recovery.
- Utilize Bayer's global procurement network to leverage spend and ideas, and to identify new suppliers.

- There were multiple suppliers,
- Negotiations were conducted annually,
- There was limited standardization,
- Sports utility vehicles were ordered extensively, and
- There was no single voice from Bayer.

The team conducted a benchmarking study among similar-sized companies and found that most bought from a single supplier and had much stricter vehicle selection criteria. The others all charged a fee for personal use of the vehicle, usually around \$80-100 a month.

The Bayer team developed a new corporate policy that dramatically reduced vehicle types and strictly controlled SUVs as an option. The new fleet policy also stipulates a personal usage fee and limits ordering cycles to spring and fall to optimize the remarketing value of the vehicles. A sole supplier was selected and several other benefits were negotiated. Total annual costs savings are estimated at 14%.

The team is now collaborating with its worldwide colleagues on a global fleet cost reduction initiative.

## Innovative travel management

Bayer's procurement teams also implemented two changes to travel management that cut costs and improved service.

The first is an online travel booking tool in lieu of the traditional person-to-person contact with the corporate travel agency. "Travelers and travel planners

access e-Trip (the online service) through Bayer's Web page," says Tom Phalin, the purchasing official who coordinates the program. "E-Trip applies the discounts that Bayer has negotiated with airlines, hotels, and car rental companies and accesses the same airline/hotel/car rental reservation and pricing systems used by the designated travel agency," adds Phalin. "The traveler sees numerous scheduling and pricing options while viewing e-Trip," says Phalin. "This encourages the traveler to be more flexible in scheduling the trip to take advantage of lower fares." The same travelers are often reluctant to tie up busy travel agency personnel to study all possible options.

"Bayer's average airfare differential between e-Trip and agency-booked tickets is 14%," says Phalin. The differential between e-Trip and agency-booked hotel rates is 16%. Furthermore, there is a 60% reduction in transaction fees through use of e-Trip. As of PURCHASING'S visit late last year, about 20% of all Bayer trips were being booked through e-Trip. The goal is 75% for all simple domestic round trips. Management of Bayer has now issued a mandate for all travelers to use the system.

In another innovation, Phalin's group had just implemented a rapid feedback "welcome home" survey. In the previous system, the designated travel agency had surveyed about 1% of all travelers monthly and only about 10% responded. The statistical size was invalid plus there was a perception that the agency could cleanse the data.

In the new system, travelers receive an e-mail from the travel department upon their return. Travelers are asked if the specific services were satisfactory and to provide details about problems. Only about 7% of the respondents indicate problems, but the responses are invaluable to Bayer negotiators. "For example," says Phalin, we had a secondary car rental supplier that wanted additional business, but was receiving one complaint per 58 rentals. The primary supplier was receiving one complaint per 100 rentals. We gave them the data and told them to fix their problems before we would negotiate."

### Big contract review

In another initiative, Rudzki launched a re-evaluation of all major long-term contracts. "I wanted to eliminate the 'captive mindset'—the mentality that no changes or improvements can be achieved in long-term contracts until the contract expires." Rudzki adds: "It's important to involve key stakeholders and clients up front in the process to obtain buy-in and to ensure any changes required will occur smoothly." He said that the process must be conducted with a great deal of ethics so that both parties benefit.

A five-member core team from procurement was established to assess potential changes and opportunities. Focus is on those contracts with at least three years and \$2 million of spend remaining. The team has reviewed 70 contracts totaling \$850 million in spend. Items considered include payment terms and inventory ownership (current hot buttons with Rudzki), additional business opportunities the company could have with Bayer, how the items are used by Bayer, and the current supply situation in the marketplace. The size of the opportunity is plotted in a matrix against the complexity involved in renegotiating the contract. This assessment is used to guide the strategy-development phase, which includes key internal stakeholders. Engaging the supplier follows.

In another contract-related project, a team involving procurement and the legal department is developing contract templates for frequently purchased products and services in order to significantly reduce the cycle time on new sourcing efforts. The team has completed 12 new templates to date: natural gas, electricity, pipeline industrial gas, bulk liquid industrial gas, raw materials, marine terminal procurement, and six types of services. A new Lotus Notes database on templates can be sorted by

category, sub-category, title, and description. A "Did You Know?" section includes information on contingency planning, choice of legal venue to resolve problems, force majeure, remu-

ed and studied by a team consisting of representatives from finance, purchasing, engineering, maintenance, and operations. Previously, disposal programs were conducted locally, often by plant managers reluctant to remove equipment with some conceivable value. In some cases, whole manufacturing units are being dismantled and sold. They include a hydrogen plant in Texas, a chlorine unloading and evaporation facility in Ontario, Canada, and an insecticide intermediate facility in Kansas City. It's conceivable some equipment could be re-used if properly qualified. Benefits in 2002 were about \$2 million, including sales and redeployment.

**Reverse auction.** A reverse auction was conducted on about 10 reverse auction vendors. The result was a "very significant cost reduction" for access to software and services. Part of the savings comes from greater reliance on Bayer's buyers' market knowledge, which has enabled Bayer to shift from relying on a full service approach to a do-it-yourself desktop approach. More than 100 procurement profession-

als have been trained on the new desktop software. Full service auctions are still available for complex sourcing events.

**Global collaboration.** Whether it is the sourcing of key buys, the sharing of best practices and experiences, or the development of in-house professional training programs, global collaboration is a key priority at Bayer. "One of Bayer's inherent strengths is the global reach and location of our procurement network," notes Rudzki, who reports to Dr. Gerhard K. Römer, Bayer's global head of procurement. "This is important not just to leverage spend and ideas across the entire Bayer Group worldwide, but also to identify new low-cost suppliers—sometimes in unexpected parts of the world—that can serve the global organization." ■

### Long Term Contract Assessment Form

Presentation Date: \_\_\_\_\_ Presenter/"Owner": \_\_\_\_\_

Supplier Name: \_\_\_\_\_ Item(s) Supplied: \_\_\_\_\_

Annual Spend: \_\_\_\_\_ Original Term: \_\_\_\_\_

Annual Volume: \_\_\_\_\_ Remaining Term: \_\_\_\_\_

Current Payment Terms: \_\_\_\_\_

Supplier Relationship with Bayer: \_\_\_\_\_

\_\_\_\_\_

Other Opportunities for Supplier within Bayer: \_\_\_\_\_

\_\_\_\_\_

How Item(s) Supplied used in Bayer Production Process: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Current Supply Configuration: \_\_\_\_\_

\_\_\_\_\_

Supply Cost Data/Benchmarking Data Available? \_\_\_\_\_

\_\_\_\_\_

#### Team Assessment:

Dollar Opportunity Estimated with this Contract (\$ / %): \_\_\_\_\_

• Rationale for Estimated Opportunity: \_\_\_\_\_

\_\_\_\_\_

Complexity of Achieving \$ Opportunity (1-10; 1 = High, 10 = Low) \_\_\_\_\_

• Rationale for Complexity Rating: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**Bayer's buyers are re-evaluating all long-term contracts with at least three years and \$2 million in spend remaining.**

neration for billing errors, competitive bidding, and an assignment clause.

#### Other projects include:

**Creation of an online store.** The store allows buyers to leverage all company purchases of promotional items and to facilitate a new corporate logo rollout. Of a \$3 million spend, buyers identified a potential savings of a whopping \$900,000. Team members from purchasing, corporate communications and the printing and graphics department expanded the scope from standard logo merchandise (ships within 24 hours) to custom projects. Reverse auctions were used for a savings of 35% on the aggregated spend.

**Asset recovery database.** All plans to dispose of equipment were aggregat-