

SIME DARBY BERHAD

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# Sime Darby Creates RM 179 million Procurement Benefits Through Collaborative Procurement Transformation in 2 years

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Frost & Sullivan Case Study Series

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# INTRODUCTION

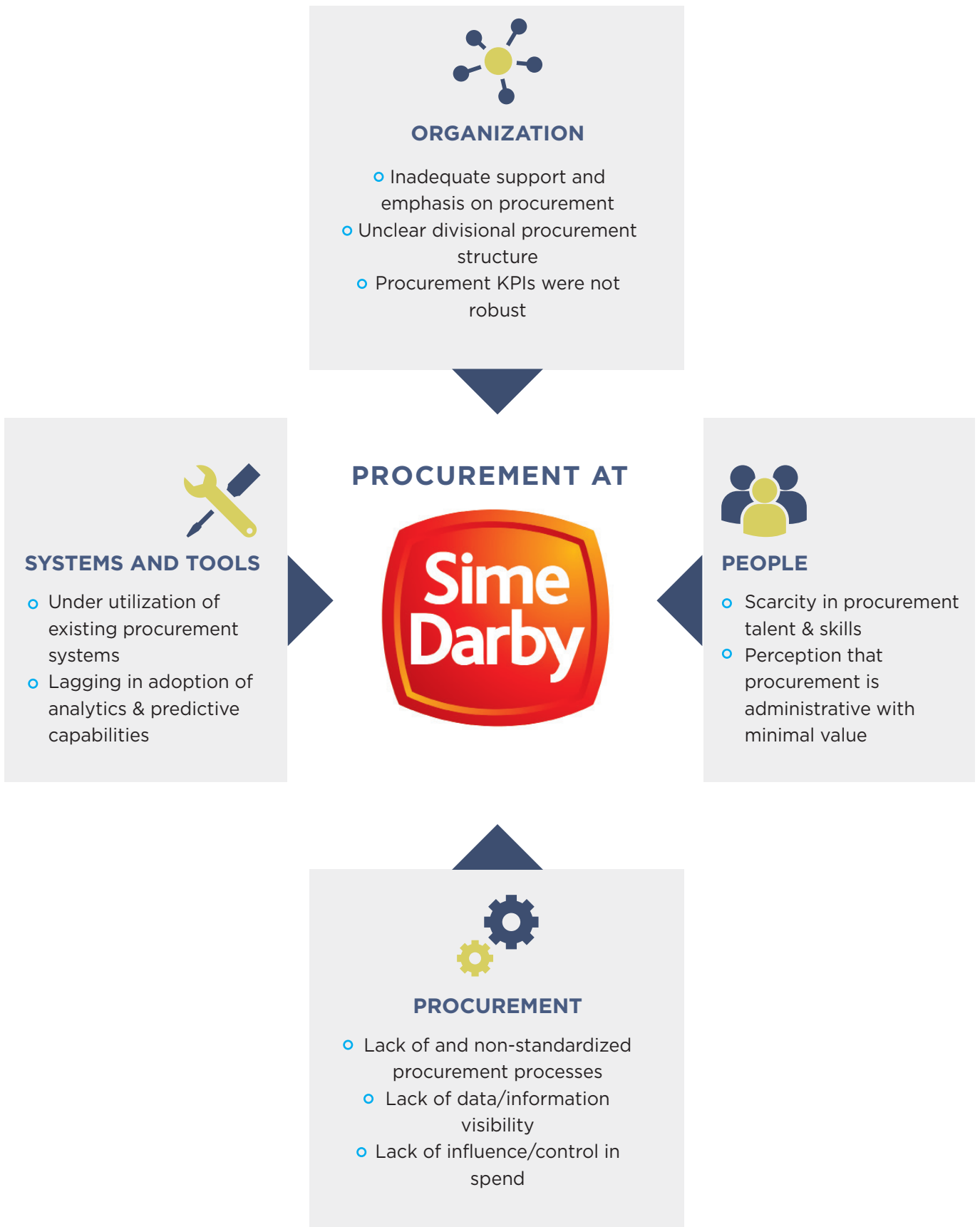
Sime Darby is a diversified multinational corporation and a key player in the Malaysian economy, with businesses in key growth sectors, namely, plantation, industrial equipment, motors, property and energy & utilities with operations in 26 countries and 4 territories. Committed to developing a sustainable future, Sime Darby strives to maintain an equitable balance between increasing value for shareholders and responsible development that brings value to society and safeguards the environment. Sime Darby is one of the largest companies listed on Bursa Malaysia and has a market capitalization of RM45.01 billion (USD11.03 billion) as at 25 May 2016.

## CHALLENGES FOR PROCUREMENT IN SIME DARBY

Over the years, procurement in Sime Darby has faced numerous challenges, impacting its ability to contribute. Adding to the complexities were its diverse businesses (Plantation, Property, Industrial, Motors and Energy & Utilities) with a group-wide spend of more than RM30 billion and more than 130,000 employees across the globe.

<p><b>ORGANIZATIONAL CHALLENGES</b></p>	<p>From an organization perspective, procurement professionals across the Group lacked the support and emphasis on strategic procurement. There was a lack of established and empowered procurement structure in the divisions and operating units. In addition, the procurement department did not measure themselves against common objectives and similar key performance indicators.</p>
<p><b>PEOPLE CHALLENGES</b></p>	<p>In the area of people, there was a drastic scarcity in procurement talent &amp; skills. The perception towards procurement personnel was more administrative who add minimal value. Procurement processes being practiced were at times lacking in compliance and standardization. There was a lack of data and information visibility (from a Group perspective) coupled with a lack of influence and control over spending.</p>
<p><b>PLATFORM CHALLENGES</b></p>	<p>Sime Darby did not have a common electronic platform that would help facilitate its procurement activities. Different ERP systems existed and the procurement functionality was under-utilized. As a result of a benchmarking exercise, it was confirmed that there was a lag in the adoption of automation, analytics &amp; predictive capabilities.</p>

Figure 1: Sime Darby's Procurement Challenges



Source: Sime Darby

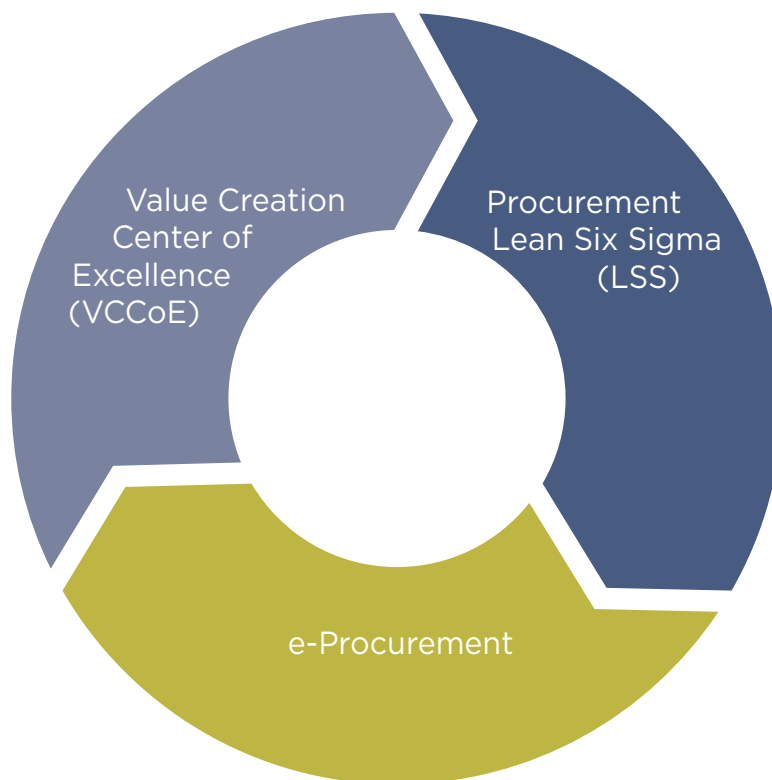
## HOW SIME DARBY ADDRESSED THE CHALLENGES

To address the organizational and people challenges, Group Procurement worked together with divisional management and procurement to establish the appropriate strategic procurement organization. This was to ensure that capable procurement professionals were situated at the divisions and operating units to drive the principles of strategic procurement. Shared objectives and targets were then set for key performance indicators, such as volume of vendor registration and pre-qualification, volume of contracted purchases, and so on.

## RE-FOCUS ON THINGS THAT MATTER

A collaborative 3-pronged strategic approach was adopted in tackling the challenges and drive procurement value in the organization.

Figure 2: Strategic 3-Pronged Approach



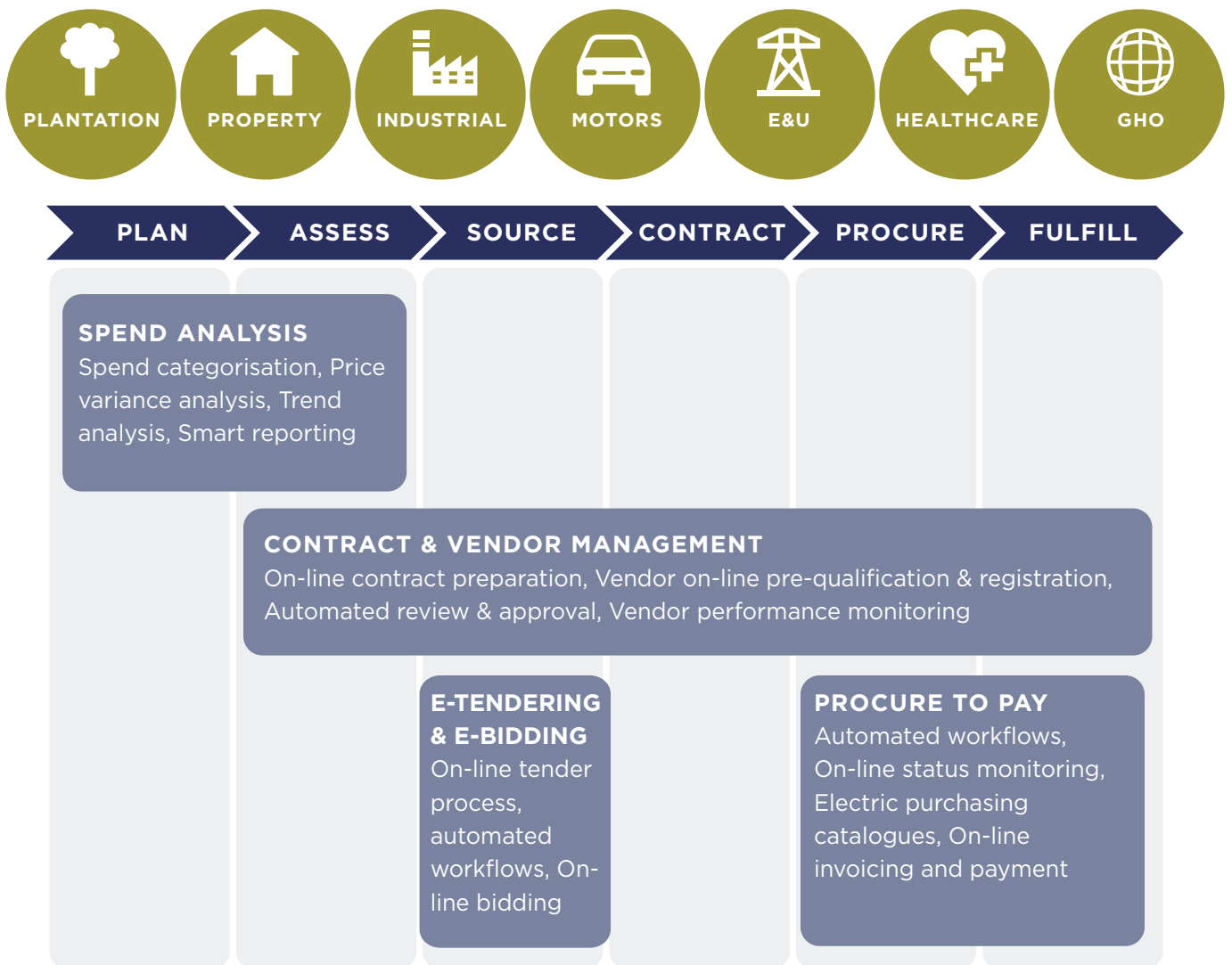
Source: Sime Darby

## E-PROCUREMENT SYSTEM

To address the systems and tools gap, a local solution provider, MyBiz Solutions Sdn. Bhd., was appointed in September 2011 to deliver Sime Darby’s Electronic Procurement (e-Procurement) suite of capabilities, to improve governance & control, efficiency & effectiveness, and analytics capability & data visibility.

The Sime Darby e-Procurement capability consists of 6 key modules that drive and maximize value creation across the procurement value chain for all the divisions.

Figure 3: Sime Darby e-Procurement suite



Source: Sime Darby

## VALUE CREATION CENTER OF EXCELLENCE (VCCoE)

Since 2013, the key focus areas for procurement have shifted, primarily towards value creation initiatives, such as the establishment of the Value Creation Center of Excellence (VCCoE). The VCCoE aims to maximize value creation through the increased emphasis on spend analytics enabled via the e-Procurement suite.

This new capability focused on spend analysis to identify sourcing projects and opportunities for all divisions in realizing cost savings/avoidance. A partnership with the solution provider was established to form a managed service model whereby they act as an extension of Sime Darby’s Group Procurement in delivering the 7-Step Strategic Sourcing Methodology to maximize value across the group.

The scope of activities include spend data analysis, identification/segmentation of products and services categories with structuring and executing e-Bidding events.

As a result, mutual up-skilling and improvement were apparent in utilizing the Spend Analysis tool and maximizing available resources in order to identify savings opportunities. Familiarity with spend categories that were relevant to each division increased, and leads were followed and discussed with the business groups. Once the opportunities proved addressable, the tender bidding processes were encapsulated in the e-Procurement tools, e-Tendering and e-Bidding, which helped maximize the benefits.

## SIME DARBY PROCUREMENT LEAN SIX SIGMA (LSS)

Also, in collaboration with the Group Sustainability & Quality Management (GSQM) department, the Lean Six Sigma (LSS) principles were adopted.

From that collaboration, a unique methodology called the Sime Darby Procurement LSS Benefit Guidelines was developed as a standard framework across the organization to achieve and validate any procurement benefits created (i.e. procurement cost savings and benefits) through a rigorous validation process involving internal and external neutral parties.

Figure 4: Relevance and connection of Lean Six Sigma to Procurement Value Creation



Source: Sime Darby

Management buy-in was key whereby a top-down approach was adopted beginning with support obtained from the Group President and Group Chief Executive and Group COO cascading down to the Head of Businesses/Divisions, Divisional CFOs and the relevant Executive Vice Presidents and other key stakeholders.

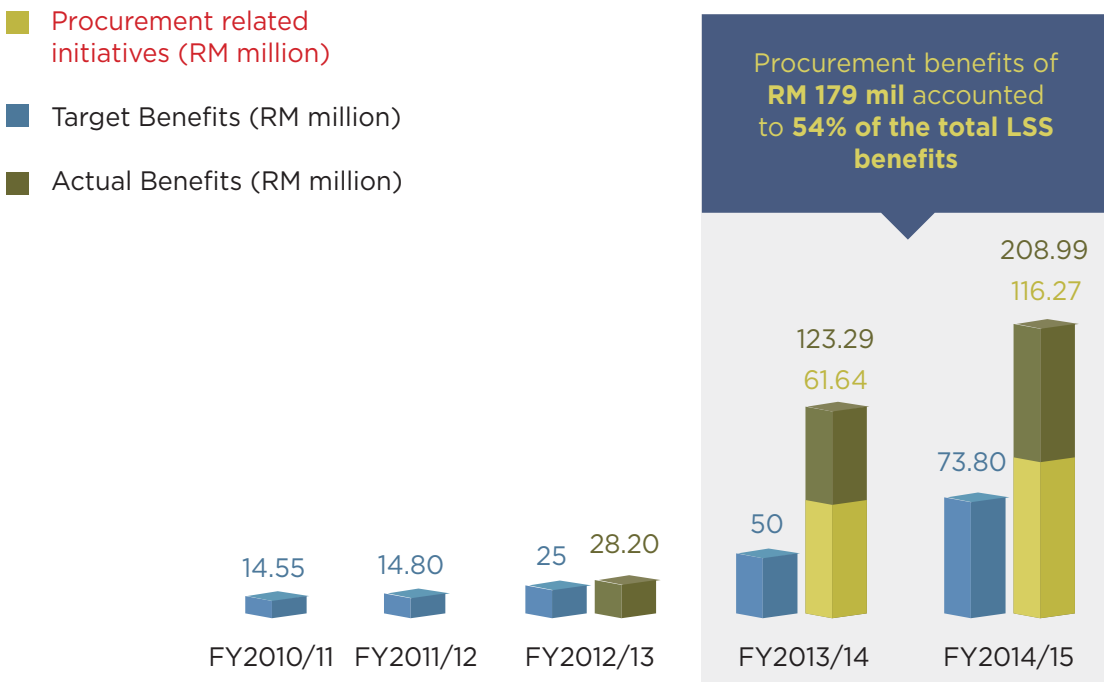
## RESULTS ACHIEVED

There was one final challenge: The Group Procurement team had to demonstrate results of the investments made, in terms of creating added value for Sime Darby, and its bottom line to the company.

This did not prove to be difficult. With this strategic collaborative arrangement, Sime Darby achieved a cumulative procurement benefits of RM179 million in the financial years of FY13/14 and FY14/15 across its divisions consisting of Plantation, Property, Industrial, Motors, and Energy & Utilities. These benefits were captured and validated through the Sime Darby Procurement LSS Benefits Guidelines.

This also resulted in the Sime Darby procurement fraternity being the top contributor of benefits captured through the group’s LSS program across the group with 54% of the total benefits.

Figure 5: For both FY13/14 & FY14/15, Procurement benefits accounted to 54% of the total Group’s LSS Benefits



Source: Sime Darby

## FROST & SULLIVAN COMMENTARY

“Large business groups operating across multiple domains typically have unique challenges that relate to their individual markets, as well as in integration of business groups to ensure maximum growth and profitability. Procurement is one of these areas where organizational structure, people and the IT platform all need to work together to form a cohesive unit to fully achieve business goals.

Sime Darby’s collaboration with MyBiz Solutions led to the creation of a 3 pronged approach that was very effective in tackling its procurement challenges, and ensuring growth in the years to come. ”



Sime Darby is a Malaysia-based diversified multinational with operations in 26 countries & 4 territories and a total workforce of more than 130,000 employees. The group is involved in 5 core sectors, namely Plantation, Industrial Equipment, Motors, Property and Energy & Utilities.


### COMPANY FACTSHEET:


<b>COMPANY NAME</b>	Sime Darby Holdings Berhad
<b>CORE BUSINESS</b>	Plantation, Industrial Equipment, Motors, Property and Energy & Utilities
<b>MAJOR INDUSTRIES SERVED</b>	Agriculture, F&B, Mining, Automotive, Property, Oil & Gas and Logistics
<b>COMPANY PRESENCE</b>	26 countries & 4 territories
<b>NUMBER OF EMPLOYEES</b>	More than 130,000 employees


### COMPANY CONTACT DETAILS

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## ABOUT MYBIZ SOLUTIONS

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MyBiz has built its service value proposition at the intersection of procurement business consulting, procurement business process services (managed services) and analytics, providing access to spend optimization specialists at a lower cost. MyBiz is recognised as the global leader in Category Management, Spend Analysis, Business Process, Cloud Operations and Savings Tracking and has the dominant share of spend management, strategic sourcing and procurement implementations in this region.

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## ABOUT MDeC

The Multimedia Development Corporation (MDeC) was incorporated in 1996 to strategically advise the Malaysian Government on legislation, policies and standards for ICT and multimedia operations as well as to oversee the development of the Malaysian Multimedia Super Corridor (now MSC Malaysia). MSC Malaysia became the platform to nurture the growth of Malaysian Small and Medium Enterprises (SMEs) in the IT industry whilst attracting participation from global ICT companies to invest and develop cutting-edge digital and creative solutions in Malaysia.

In 2011, 15 years after the introduction and successful implementation of MSC Malaysia, Multimedia Development Corporation (MDeC)'s mandate was broadened by Prime Minister to include driving Malaysia's transition towards a developed digital economy by 2020 through Digital Malaysia. Following this, in 2012, Digital Malaysia was officially unveiled as the national transformation programme to achieve this aim.


Founded on three strategic thrusts, Digital Malaysia is a natural progression to harness the building blocks already laid by MSC Malaysia. It will drive wealth creation, stimulate efficiently and enhance quality-of-life by harnessing and building upon Malaysia's varied ICT initiatives, resulting in a nation that connects and empowers government, business and citizens through a vibrant and demand-focused digital ecosystem.

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