



PROJECTS

Process Document

Sourcing & Procurement

Source & Manage Categories

Analyze and Manage Categories

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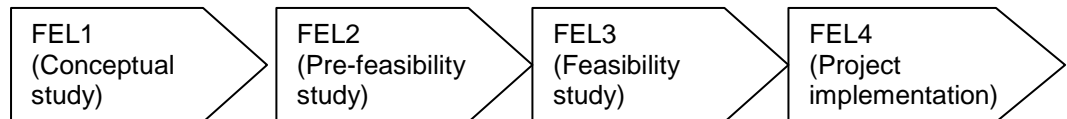
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Abbreviations

Standard Abbreviations:

KPI	Key Performance Indicator
SIPOC	Supplier, Input, Process, Output, Customer
RASCI	Responsible, Accountable, Support, Consult, Inform
FEL	Front End Loading



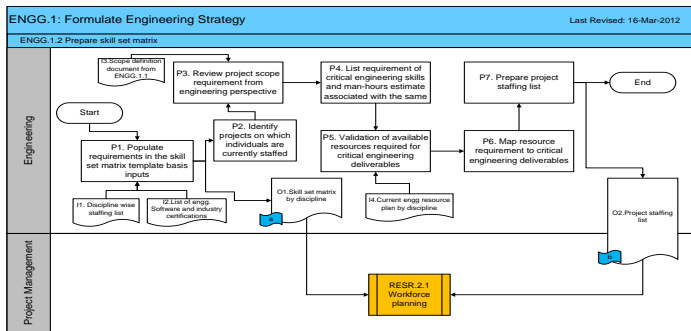
Process Specific Abbreviations:

BoQ	Bill of Quantities
BU	Business Unit
DoA	Delegation of Authority
EOI	Expression of Interest
FEED	Front End Engineering & Design
INR	India National Rupee
LLI	Long Lead Item
NFA	Note for Approval
P&L	Profit & Loss
RFI	Request for Information
RFP	Request for Proposal
ROI	Return on Investment
TCO	Total Cost of Ownership
T&M	Time & Material
UoM	Unit of Measurement
VAT	Value Added TAX
WACC	Weighted Average Cost of Capital

Process Document Structure

This Level 2 process document comprises of Level 3 sub-processes as separate chapters. Each chapter consists of the following sections:

1. Process Map



The process map details the sub processes highlighting functions/roles involved. It also demonstrates the flow of activities in the process.

The phases of the process are also defined in the process map as separators (vertical line).

2. Process Notes

ENGG.1.1: Prepare engineering scope definition- Process Notes

Phase I - FEL 3

- P1. The Project engineering manager (PEM) collects inputs for scope definition (Bankable detailed project report, technical design basis(discipline wise) and preliminary design basis report(package wise)).Inputs for the engineering scope definition for the execution phase (FEL3.4) are part of the 'Prepare and update Project definition'(FEAS.2.2) process completed as part of the Feasibility Assessment process.
- P2. The PEM circulates the technical design basis for review of basic engineering scope

Process notes detail out the activities carried out in each of the process elements. They also cover additional details required to complete the process, that do not get covered as part of the process map and SIPOC.

3. SIPOC (Supplier, Input, Process, Output, Customer)

Trigger- Closure of Toll gate 2				
Frequency- One time				
Supplier	Input	Process	Output	Customer
EC	Bankable detailed project report Technical design basis (discipline wise),		Technical design basis	PEM PM
			Design basis (major packages)	
			PFD	
			P&ID	
			GAD	

SIPOC tabulates the following:

- Supplier of inputs
- Inputs to the process
- Process* (and steps involved)
- Output of the process
- Customer of the output

* Process gets covered in the process map.

4. RASCI(Responsible, Accountable, Support, Consult, Inform)

Activity	Responsible	Accountable	Support	Consult	Inform
P1. Collect input for Scoping study	PEM	PEM	DL	HE	PM
P2. Review technical design basis for scope coverage	DL	PEM	PEM,PM,EE,CA	HE	PEM,DL,DE

RASCI table maps all activities defined in the process to all roles which participate in the respective activities in various capacity (Responsible, Accountable, Support, Consult, Inform).

5. KPI

KPI	Objective	Formula	UoM
Design changes related to scope	Minimize design changes	Number of design changes per packages	No.

The KPI of the process is defined in this table; process efficiency is measured based on KPI.

6. Templates

Number	Name	Template
ENGG.1.2.b	Project staffing list template	Project staffing template

This table lists the templates that will be used to execute the process.

Organizational Roles

Function	Roles	Abbreviations	Project/Function Resources
Corporate	Chairman	CMN	Top management
Corporate	Managing Director	MD	Top management
Corporate	Chief Executive Officer	CEO	Top management
Corporate	Chief Operating Officer	COO	Top management
Corporate	Chief Financial Officer	CFO	Top management
Human Resources	Head HR (Business)	HHR	Functional head
Information Technology	Head IT (Business)	HIT	Functional head
Accounts	Head Accounts	HAC	Functional head
Legal	Head Legal	HLL	Functional head
Business Development	Head Business Development	HBD	Functional head
Project Management	Director Projects	DP	Project
Project Management	Project Director	PD	Project
Project Management	Head Contract Administrator	HCA	Functional head
Project Management	Project Contract Administrator	PCA	Project
Project Management	Contract Administrator	CA	Project
Project Management	Risk Analyst	RA	Project
Project Management	Document Controller	DC	Project
Project Control	Head Project Control	HPC	Functional head
Project Control	Project Control Manager	PCM	Project
Project Control	Planning Engineer	PE	Project
Project Control	Cost Controller	CC	Project
Engineering	Head Engineering	HE	Functional head
Engineering	Project Engineering Manager	PEM	Project
Engineering	Discipline Lead	DL	Functional
Engineering	Discipline Engineer	DE	Project
Engineering	Field Engineer	FE	Project
Engineering	Owner's Engineer	OE	Project
Engineering	Other External Consultants	EC	Project
Estimation	Head Estimation	HES	Functional head
Estimation	Estimation Engineer	EE	Functional
Sourcing & Procurement	Head Sourcing & Procurement	HSP	Functional head
Sourcing & Procurement	Category Lead	CL	Functional
Sourcing & Procurement	Category Buyer	CB	Functional
Sourcing & Procurement	Project Procurement Manager	PPM	Project
Sourcing & Procurement	Expeditors	EX	Project
Sourcing & Procurement	Site Procurement Manager	SPM	Project
Sourcing & Procurement	Logistics Manager	LM	Project
Sourcing & Procurement	Stores Manager	SM	Project
Construction	Construction Manager	CM	Project
Construction	Area Manager	AM	Project
Commissioning	Commissioning Manager	COM	Project
Operations & Maintenance	O&M Manager	OMM	Project
HSE	HSE Head	HHS	Functional Head
HSE	HSE Manager	HSM	Project
Quality	Head Quality	HQ	Functional Head
Quality	Quality Manager	QM	Project
Equipment management	Head Equipment Management	HEQ	Functional Head
Equipment management	Equipment Manager	EQM	Project
Land Acquisition	Land Acquisition Manager	LAM	Functional

Note: The above defined roles do not correspond to organization level. All functional heads have been referred to as senior management in process note.

Objective and Applicability

Objective:

"Source and Manage Categories" is the process of formulating and executing category level strategies to achieve the objectives of cost optimization alongwith timely deliveries of supplies and services. Category strategy is formulated by analyzing both internal and external factors associated with the category.

Process of source & manage categories integrates the process of demand projection - both long term and immediate; analyzing categories based on previous procurement information, supply market evaluation and procurement risk assessment to formulate category strategy. The strategy thus formulated is executed using the strategic sourcing process. This is achieved by executing following sub-processes at category level:

- Spend analysis
- Supply market analysis
- Procurement risk management
- Strategic sourcing and
- Value tracking

The process covering analysis required for formulating category strategy (Spend & supply market analysis) and measuring the success of the category strategy (value tracking) is covered under "Analyze and manage categories" and is documented in this part of the document.

The user should go through the process document in conjunction with below mentioned processes that act as input and output to the process.

Inputs:

- Define long term procurement plan and strategy(PROC.1.1)
- Define annual procurement plan (PROC.1.3)
- Procurement risk management (PROC.2.3)

Output:

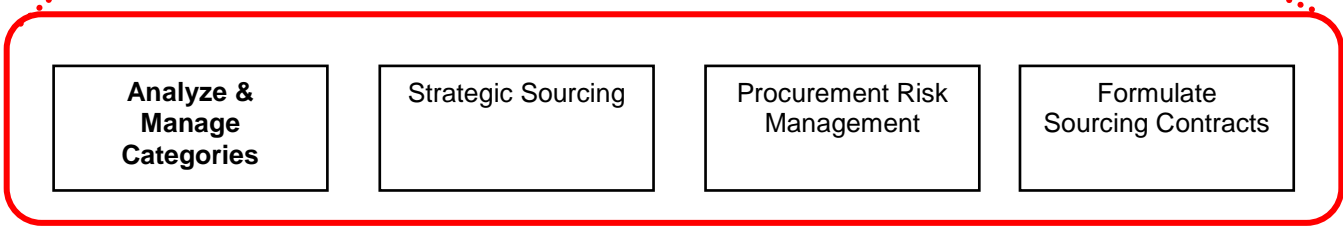
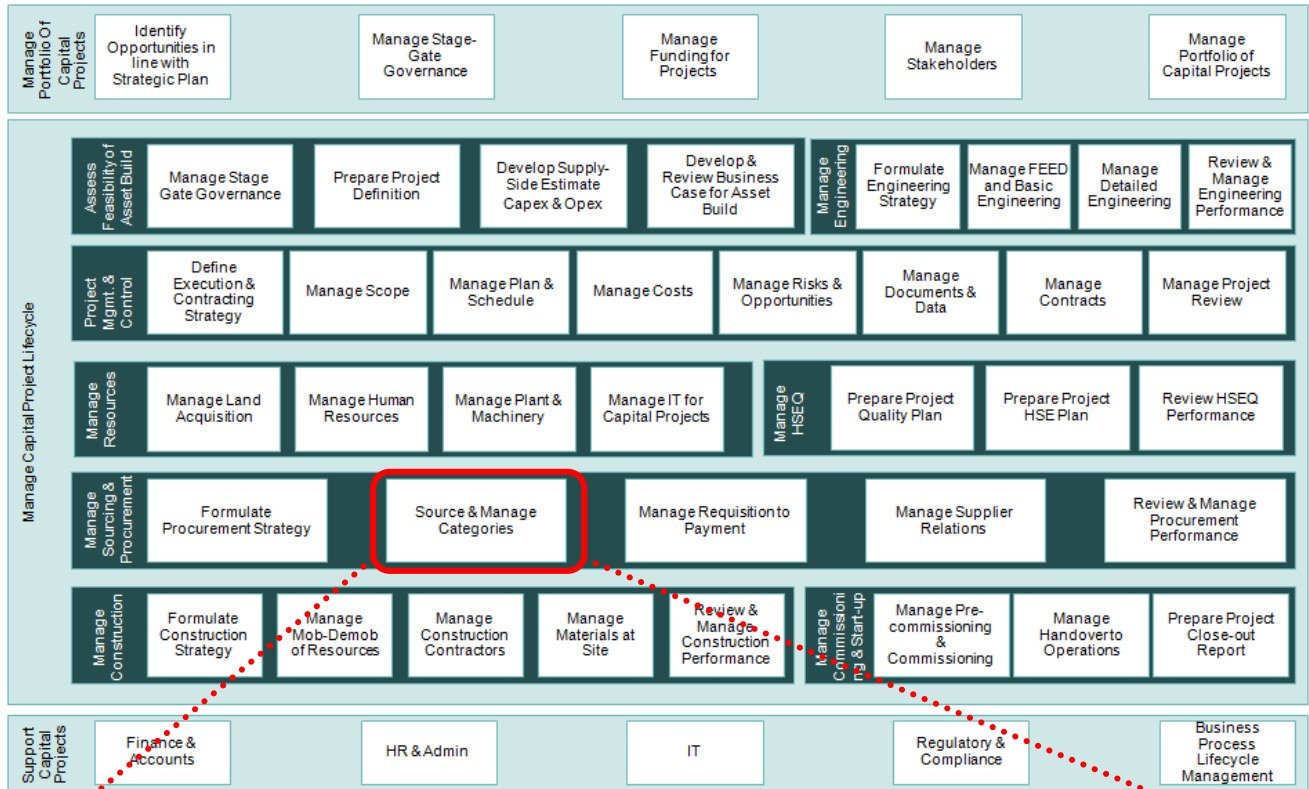
- Strategic sourcing (PROC.2.2)

Applicability:

These processes are applicable for sourcing requirements of capital projects covering:

- Engineered packages
- Packages based on BOQ
- Bulks
- Service

Operating Framework

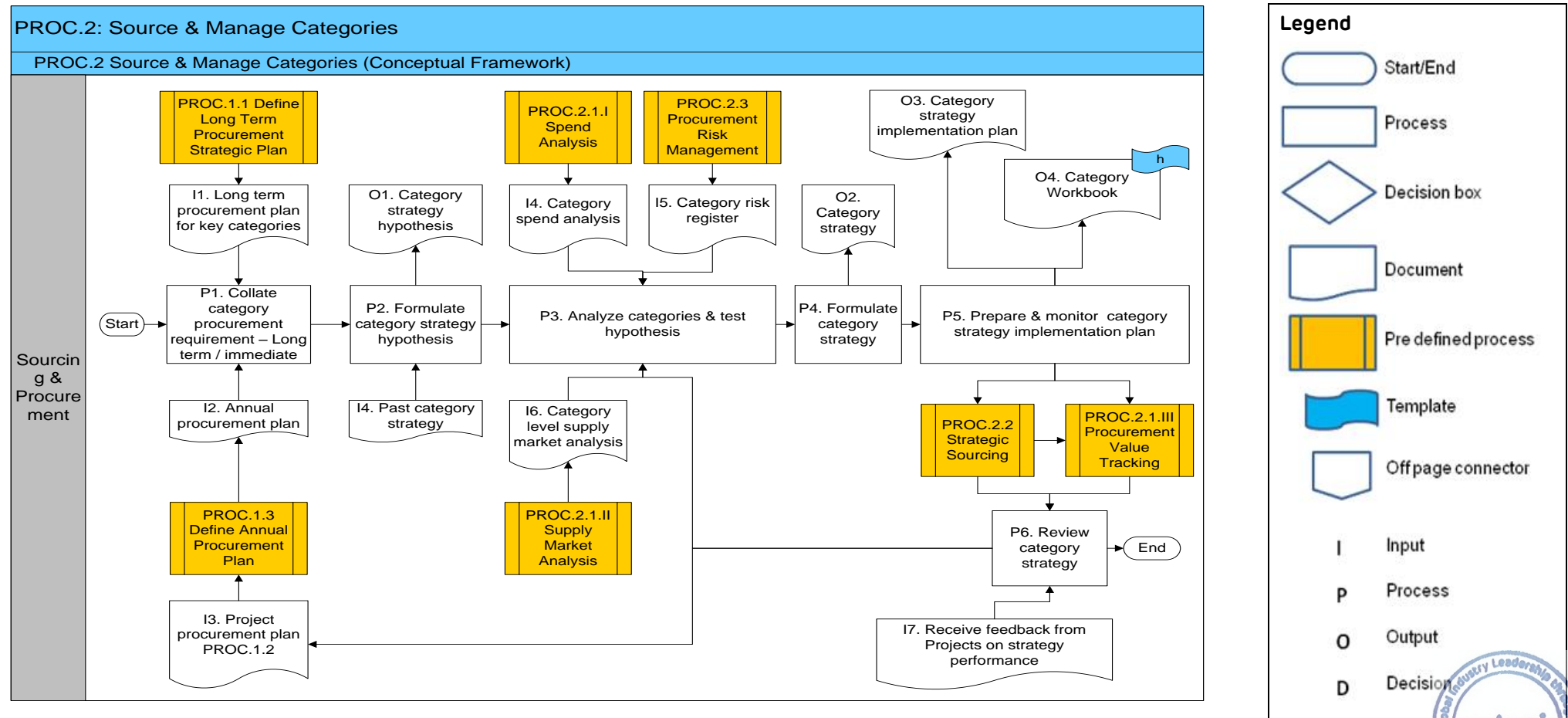


Process Documentation

PROC.2.0 Source & Manage Categories

PROC.2.0: Source & Manage Categories - Process map

1.1



PROC.2.0: Source & Manage Categories - Process notes

This process provides the end to end overview of formulating, executing and measuring effectiveness of category strategy. The process also defines the interlinkages between:

- Demand projection (*Refer Formulate procurement strategy PROC.1*)
- Spend analysis – Detailed as part of this document (*PROC.2.1.i*)
- Supply market analysis – Detailed as part of this document (*PROC.2.1.ii*)
- Procurement risk management - (*Refer Procurement Risk Management PROC.2.3*)
- Procurement value tracking – Detailed as part of this document (*PROC.2.1.iii*)

To gather all information for one category at one place, Category buyer shall prepare category workbook for identified key categories. CB shall update workbooks once in six months frequency. These workbooks carry following information for respective categories based on guideline mentioned in template .2.1.h:

- i) Demand plan
- ii) Category TCO
- iii) Past spend profile
- iv) Key supply market trends
- v) Key risks associated with category
- vi) Key sourcing strategies
- vii) Value/ KPI tracking
- viii) Key Vendors & Vendor performance tracking
- ix) Lesson Learnt

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P1. Category Lead (CL) shall collate long term and immediate category procurement requirements from following sources:

1. Long term procurement plan for key categories as defined in process '*PROC.1.1 Define Long Term Procurement Strategic Plan*'. Long term demand projection is created for key categories during the procurement planning and strategy cycle, and generally takes place in the last quarter of previous year.
2. Annual procurement plan for all categories identified in process '*PROC.1.3 Define Annual Procurement Plan*'. Annual procurement plan covers procurement requirements of all projects undertaken for execution.

P2. Based on the procurement requirement plan of respective categories and strategies implemented on past/ongoing projects, CL shall formulate a hypothesis on the applicability of strategic sourcing levers for the category in the immediate future and over long term. Potential strategic levers are listed in *Exhibit 1* below:

Procurement savings are derived from three key areas

Price-Related Savings	Non-Price-Related Savings
<p>1 Strategic Sourcing</p> <ul style="list-style-type: none"> ■ TCO analysis (Lifecycle cost analysis) ■ Value Engineering ■ Consolidate bargaining power <ul style="list-style-type: none"> ■ Volume consolidation ■ vendor rationalization ■ Part rationalization ■ Rate contracts ■ Increase pricing transparency <ul style="list-style-type: none"> ■ Price rationalization ■ Fact based negotiations ■ Cost reduction targets ■ Buy vs. hire decision ■ Create credible switching threat <ul style="list-style-type: none"> ■ Alternate sourcing ■ e-Auctions ■ Global sourcing Vs Indigenization ■ Restructure vendor relationships <ul style="list-style-type: none"> ■ Vendor qualification ■ Strategic vendor partnerships ■ Vendor performance management / development ■ Vendor agreements ■ Tax structure analysis 	<p>2 Improved Procurement Practices</p> <ul style="list-style-type: none"> ■ Optimize purchasing organization <ul style="list-style-type: none"> ■ Best suited organization structure ■ Cross-functional involvement ■ Centralized non-strategic procurement ■ Simplify and coordinate purchasing processes <ul style="list-style-type: none"> ■ Process automation ■ Procurement effort optimization ■ Easier synergy identification through spend visibility ■ Dynamic decision review ■ Consistent implementation of best practices <p>3 Effective Demand Management</p> <ul style="list-style-type: none"> ■ Govern demand/compliance across corp. <ul style="list-style-type: none"> ■ Standardize purchases enterprise-wide ■ Build demand forecasts to assist in negotiations ■ Monitor and reduce inventory and overall usage via spend analytics

Exhibit 1: Strategic sourcing levers

P3. Based on inputs from spend analysis¹, category risk register² and supply market analysis³, CL shall test the strategy hypothesis created (applicability and effectiveness) in order to select the best strategy for sourcing the respective category. Any available category strategy evaluation report for the strategies implemented in past shall also become an input to this activity.

P4. Based on the hypothesis test results, CL shall formulate category strategy for the respective category clearly identifying the strategic levers which shall be applied to the category and benefit thereof. Post analysis of spend, supply market and procurement risks, CL may add strategic sourcing levers to the initial hypothesis created. The identified category strategy shall be documented in the category strategy *template PROC.1.1.c*.

Please note that the category strategy document defined in process step P6 of process "PROC.1.1 – Define long term procurement strategic plan" are one and the same and are not to be created twice.

P5. Based on the identified strategies for respective categories and project procurement requirements, CL shall prepare the strategy implementation plan. *Template PROC.1.1.d* as defined in process document "PROC.1.1 – Define long term procurement strategic plan" shall be used for preparing the implementation

¹ Detailed in chapter PROC.2.1.1 of this document

² Detailed as part of the process document PROC.2.3 – Procurement risk management

³ Detailed in chapter 2.1.II of this document



plan and monitoring the category strategy implementation. Implementation of category strategy shall also trigger following processes:

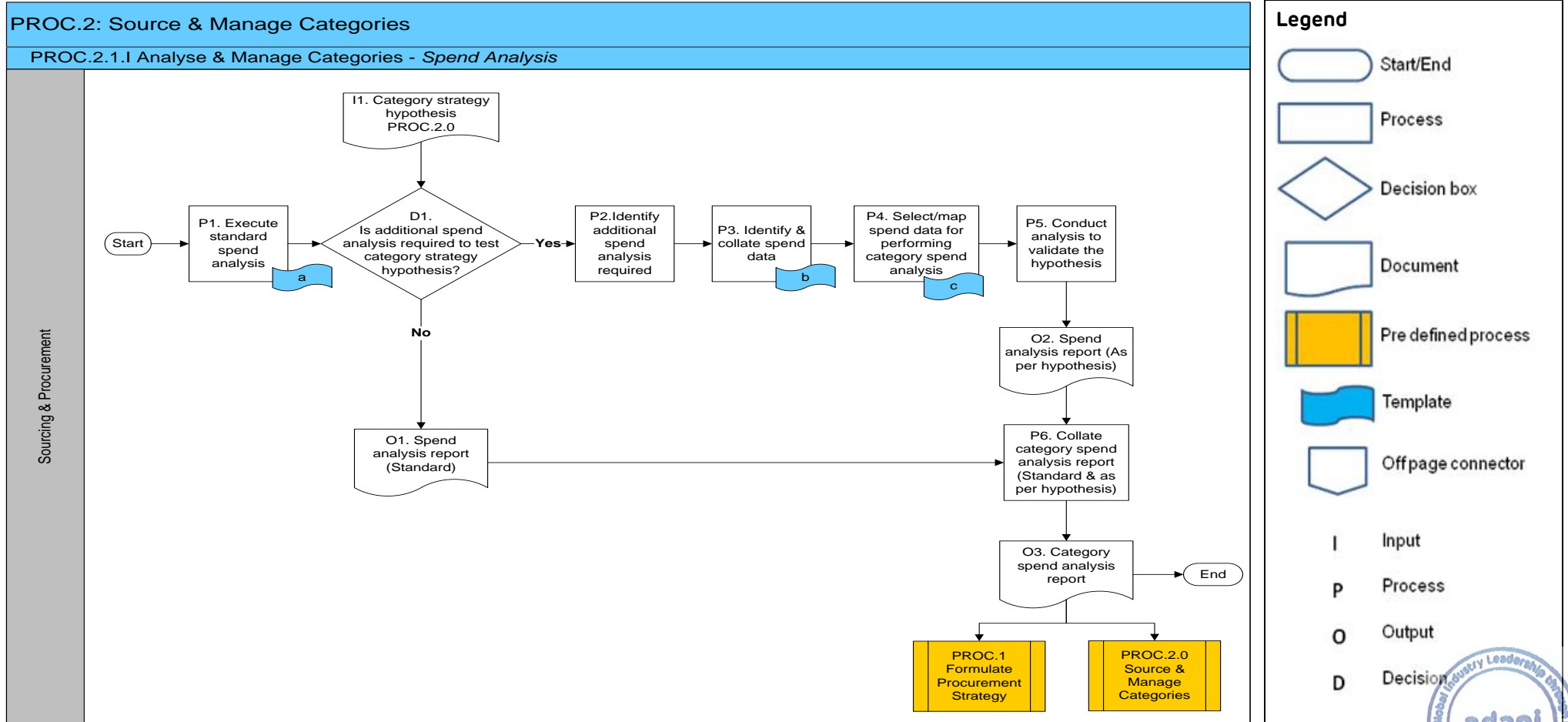
1. Strategic Sourcing process (for Packages,bulk materials and services) as detailed in process document *PROC.2.2*).
2. Procurement value tracking for benefits realized by planning and implementing various sourcing strategies for respective categories. The process is detailed out in process document *PROC.2.1.III*.

P6. Based on the report on benefits realized received from '*PROC.2.1.III* Procurement Value Tracking', and project control schedules received from respective Project Control Manager (PCM), CL shall review the category strategy and use the learning further to analyze respective categories, as required.

Process Documentation

PROC.2.1.I: Analyze & Manage Categories

PROC.2.1.I: Analyze & Manage Categories – Spend analysis-Process map



PROC.2.1.1: Analyze & Manage Categories – Spend analysis- Process notes

Spend analysis is the systematic review of historical purchase data. The output of spend analysis is a summary of purchases by various variables, such as category, vendor, project, geographical location and/or business unit. The objectives for conducting spend analysis:

- Identify value creation opportunities
- Leverage spend across BU/ Projects
- Develop category specific strategies
- Identify and control areas of maverick spend
- To accelerate ROI on strategic sourcing/ procurement efforts

P1. Category Buyer (CB) shall execute standard spend analysis in SAP for the category owned by him/her based on guidelines as per *template PROC.2.1.a*. CB shall download the report from SAP and forward it to Category Lead (CL). Following is the lists of the standard spend analysis:

- Sub-category level analysis:
 - Spend value for each sub-category
 - Number of items in each sub-category
 - Number of vendors in each sub-category
 - Number of sub-categories supplied by each vendor
 - Sub-category level regional distribution
- Vendor share of business analysis:
 - Share of business at category level
 - Share of business at sub-category level
 - Extent of single sourcing, dual sourcing and multi-sourcing at category level
 - Share of domestic vendors vs. global vendors at category and sub-category level
 - Sub-category share of business at project level
- Project level analysis:
 - Item level price comparison – basic & landed prices
 - Vendor share of business comparison across projects

D1. Based on the standard spend analysis report, CL shall make an assessment whether any further analysis is required to test the 'Category Strategy Hypothesis' created in '*PROC.2.0 Source & Manage Categories*'.

P2. In case standard spend analysis is not sufficient to validate/ test the category strategy hypothesis, CL shall identify and list the additional spend analysis required to test the 'Category Strategy Hypothesis'. CL shall provide the identified list of spend analysis to the CB to carry out the spend analysis.

P3. CB shall identify and collate the spend data i.e. download the data from SAP providing details as shown in *Exhibit 2* (The same is available in *Template 2.1.b*).

Field	Description	Comments
Division	Full name of the Business Division / Group	If using acronyms, use the same consistently
Document nos.		
PR	Purchase Requisition identity no.	Ensure all of these correlate to the same invoice / line item therein
Contract	Contract number (if available)	
PO	Purchase Order no.	
GR	Goods Receipts identity no.	
Invoice	Invoice number	
Date		
PR	Pertains to date of creation / date mentioned	Ensure all of these correlate to the same invoice / line item therein
PO		
GR		
Invoice		
Material details		
Code	Purchase Requisition identity no.	Ensure all of these correlate to the same invoice / line item therein
Description	Purchase Order no.	
Category	Goods Receipts identity no.	
Sub-category (if any)	Invoice no.	
Nature of Expense	Type of expense such as, Consumables, Equipment repairs, Spares etc.	
Supplier details		
Code	Supplier id, if any	Within current system
Name	Name of supplier	-
Location	Location of supplier	-
Manufacturer	Name of manufacturer of material	In the event that the supplier is a reseller or, an agent or, distributor
Quantity		
UOM	Unit of Measurement	For lumpsum items, mention LS / Lot
PO	Quantity ordered through the purchase order	
Received against invoice	Quantity received against a specific invoice	Could be part quantity / full - mention actuals
Cost / price details		
Currency	Currency in which prices were quoted / PO placed	
Exchange rate (INR : Curr rate)	Prevailing exchange rate when payment was made	
PO value	Total cost as indicated in PO	
Price / unit	As indicated in PO / Invoice	Mention two prices, if price changed / discount provided
Freight cost	As charged in invoice	Indicate whether on actuals / %-basis
Tax amount	Amount paid as taxes	
Tax type	Type of tax such as, Customs / Excise / VAT etc.	
Total Invoice Price	Final, total cash outflow through one invoice	
Payment terms (days)	Number of days by which payment should be realized by supplier against the invoice	
Comments	Any specific points that may be highlighted	

Exhibit 2: Details of Spend Data required for Spend Analysis

P4. CB shall map/ select the data required to conduct the additional spend analysis for validating the category strategy hypothesis as per *template PROC.2.1.c*.

P5. CB shall conduct the additional spend analysis as identified in process step P2. If the analysis is applicable to other categories also or if the analysis has to be



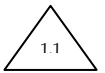
conducted frequently, CL may send a request to HIT for IT enablement of the same.

P6. CB shall collate the spend analysis report from:

1. Standard spend analysis executed
2. Additional spend analysis performed

CL shall use the collated spend analysis reports results to validate/ test the category strategy hypothesis. CL may add/ modify the hypothesis based on spend analysis results.

PROC.2.1.1: Analyze & Manage Categories – Spend analysis - SIPOC



Trigger–Category procurement requirement (Through long term procurement plan or annual procurement plan)

Frequency– As and when required for input to 'PROC.2.0 Source & Manage Categories'

Supplier	Input	Output	Customer
HIT	Spend data	Standard spend analysis reports	CL
CL	Category strategy hypothesis		




PROC.2.1.1: Analyze & Manage Categories – Spend analysis - RASCI

Activity	Responsible	Accountable	Support	Consult	Inform
P1. Execute standard spend analysis	CB	CL			
D1. Is additional spend analysis required to test category strategy hypothesis?	CL	CL	CB	PPM	
P2. Identify additional spend analysis required	CL	CL	CB		
P3. Identify & collate spend data	CB	CL			
P4. Select/map spend data for performing category spend analysis	CB	CL			
P5. Conduct analysis to validate the hypothesis	CB	CL			
P6. Collate category spend analysis report (Standard & as per hypothesis)	CB	CL			HSP, PPM

PROC.2.1.1: Analyze & Manage Categories – Spend analysis - KPI

KPI	Objective	Formula	UoM
Adherence to spend analysis schedule	To ensure compliance	Plan vs. actual	%age adherence
Time required to gather data for spend analysis	To measure effectiveness of enablers for spend analysis	Number of days from specifying clear spend data requirements to receipt of complete data	Number of days
Time required to complete spend analysis	To measure efficiency of spend analysis	Number of days from receipt of spend data to completion of spend analysis	Number of days
Percentage of spend analysis reports automated	To measure system enablement of spend analysis reports	Automated spend analysis reports as percentage of spend analysis identified in the spend analysis plan	%age

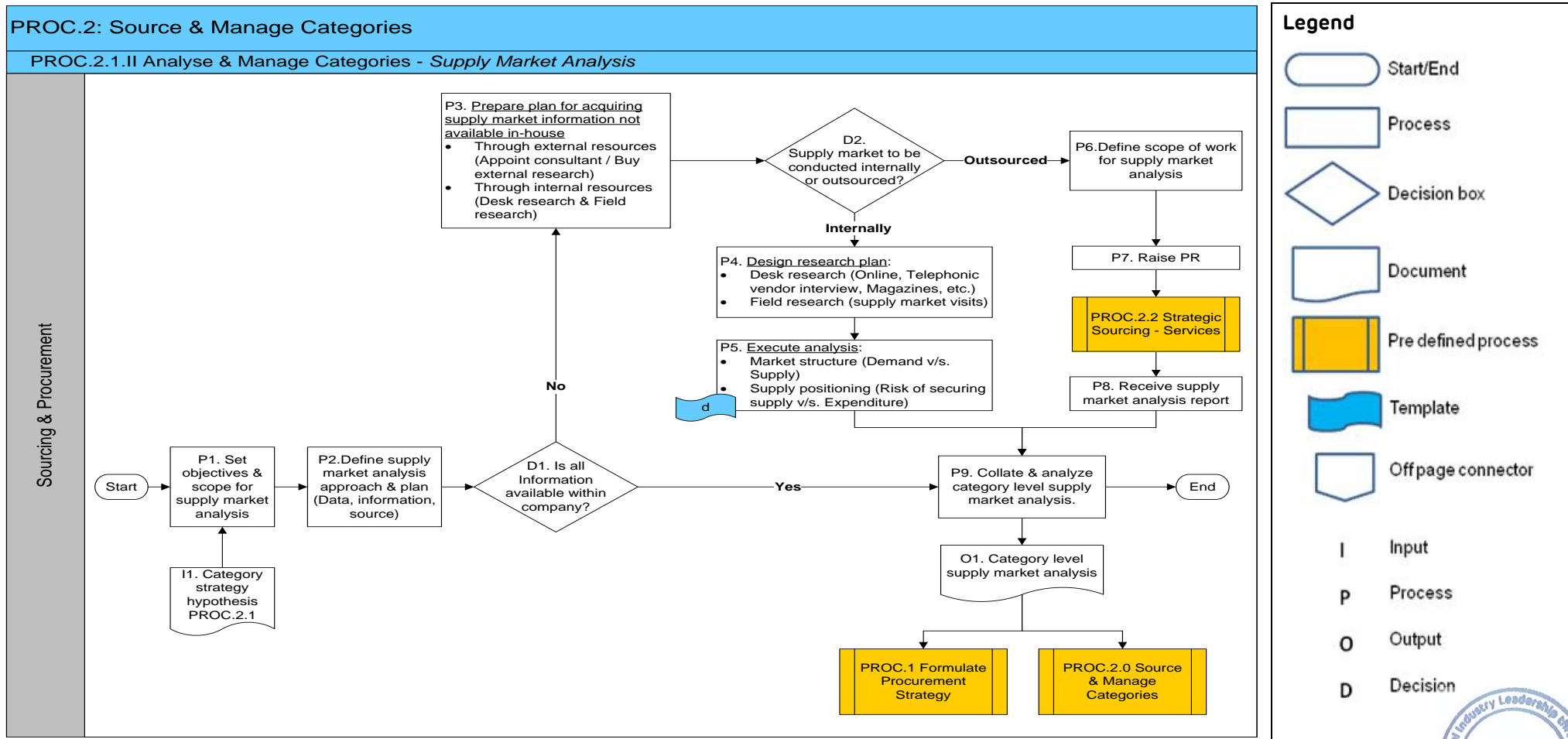
PROC.2.1.1: Analyze & Manage Categories – Spend analysis - Templates

Number	Name	Template
PROC.2.1.a	Spend analysis guidelines	 PROC.2.1a-Spend Analysis Guideline.xlsx
PROC.2.1.b	Spend data format	 PROC.2.1b Spend data.xlsx
PROC.2.1.c	Spend analysis	 PROC.2.1c- Spend Analysis.docx

Process Documentation

PROC.2.1: Analyze & Manage Categories

PROC.2.1.II: Analyze & Manage Categories – Supply market analysis - Process map



PROC.2.1.II: Analyze & Manage Categories – Supply market analysis - Process notes

Supply market analysis is a technique which enables category lead to understand:

- How supply market works?
- What is the direction in which supply market is heading?
- What is the competitiveness of supply market?
- Who are the key vendors?
- What is the level of rivalry between vendors?
- What is the value that vendors place on the buying organization?

This can help inform, improve and shape the sourcing process leading to improved sourcing outcomes such as better value for money or service, reduced prices and/ or improved delivery. Supply market analysis is an important input to procurement risk assessment and category strategy.

P1. Based on category strategy hypothesis, demand forecasting and past category strategy, Category Lead (CL) shall set objective and scope for supply market analysis. CL shall also identify the supply market analysis required to understand the supply market dynamics of the category. A typical supply market analysis reports shall include:

- Vendors in the market
- Supply market categorization – by size, products/ services offered, geographies served
- Vendor capabilities and positioning⁴
- Key supply markets⁵
- Availability of supplies
- Volatility of prices
- Vendor consortiums⁶ if any
- Geographic challenges
- Industry financials
- Vendor financials
- Statutory restrictions
- Cost elements
- Cost drivers

Basis the identified supply market analysis requirement, CL shall define the data required to perform the necessary supply market analysis.

Supply market analysis shall provide the degree of complexity of supply market and the challenges and opportunities thereof.

⁴**Vendor positioning:** Understanding of vendor strength and weaknesses in terms of cost, quality and delivery parameters

⁵**Key supply markets:** Geographical regions where large vendor capacities exist or concentrated

⁶**Vendor consortium:** A formal or informal association of vendors for an industry, meant to leverage combined selling power of the member vendors. For e.g transporter associations at district level

P2. CL shall prepare supply market analysis approach and identify the data and data sources for conducting the supply market analysis. The probable sources of data could be:

- Publicly available data like company annual reports, balance sheets, P&L, analyst reviews, news articles etc.
- Data collected from various vendors as part of vendor evaluation and strategic sourcing activities
- Database vendors (online/ offline)
- Secondary research through an specialized agency
- Industry journals Vendor survey
- Internet
- Commodity exchanges

D1. CL shall check for the availability of information within company for conducting the identified supply market analysis.

P3. If sufficient information is not available in-house, the CL shall evaluate the following options:

- Through external resources (Appoint consultant/ Buy external research),
- Through internal resources (Desk research & Field research).

D2. CL shall finalize approach for supply market analysis, either internally or outsourced. The decision will depend on the effort required for gathering and analyzing the data, ease of gathering the data, availability of resources, existing in-house analytical capabilities and criticality of the analysis required.

P4. For conducting supply market analysis internally, CL shall prepare plan for conducting desired analysis. The supply market analysis plan should cover following:

- Data to be gathered
- Sources of data
- Analysis to be conducted
- Time duration
- Method of research to be adopted:
 - Desk research: data will be gathered from internet, vendor interviews & interactions, industry journals, vendor RFIs etc.
 - Field research : this would involve visiting the vendors, interacting with their top management

P5. Conducts supply market analysis for respective categories. Various elements of the supply market analysis have been defined in the process step P1. The findings

of the supply market analysis shall be documented in the supply market analysis *template PROC.2.1.d – Supply market analysis.*



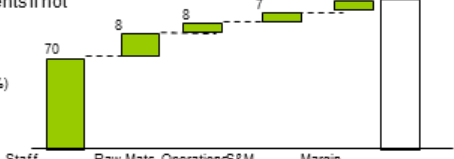
Supply Market Definition	Supply Market Statistics & Trends												
Global/Regional/Local Categories included - SIC codes/UNSPSC codes Is the category global, regional or local? Which geography are covered by the analysis? Which type of suppliers? What level in the supply chain? What is excluded as well as what is included?	Supplier market size, growth, etc. Lifecycle (growth, decline, consolidation, fragmented, static, dynamic) Nature of relationships Forces driving market, e.g. technology, environment 												
Key Suppliers	Market Rivalry – Porter's 5 Forces												
<table border="1"> <thead> <tr> <th>Supplier</th> <th>Revenues</th> <th>Year</th> </tr> </thead> <tbody> <tr> <td>A</td> <td>Rs. M</td> <td></td> </tr> <tr> <td>B</td> <td>Rs. M</td> <td></td> </tr> <tr> <td>C</td> <td>Rs. M</td> <td></td> </tr> </tbody> </table>	Supplier	Revenues	Year	A	Rs. M		B	Rs. M		C	Rs. M		Buyer Power: High or Low Supplier Power: High or Low Threat of Substitute Products: High or Low Threat of Substitute Suppliers: High or Low Competitiveness: High or Low 
Supplier	Revenues	Year											
A	Rs. M												
B	Rs. M												
C	Rs. M												
Industry Cost Drivers	Supplier Cost Structure & Drivers												
<ul style="list-style-type: none"> Costs of raw materials Cost of services Cost of design/manufacturer Legislative requirements Cost of labour, etc. Switching Cost (breaking existing contracts, additional training for new equipment) If possible place in sequential order 	<ul style="list-style-type: none"> Typical category supplier cost structure, best displayed as a graph Or components if not known 												

Exhibit 3: Summary supply market analysis

- P6. In case of outsourced approach for supply market analysis, CL shall define scope of work for supply market analysis including:
- Countries to be included in the research
 - Categories & sub-categories
 - Specific analysis required/ key insights required
 - Time period for analysis is required
 - Frequency at which analysis needs to be conducted
 - Format of analysis and data
- P7. CL shall raise PR for supply market analysis outsourcing and performs process as mentioned in *PROC.2.2 -strategic sourcing– (services).*
- P8. CL shall receive supply market analysis report from the spend analysis service provider. The spend analysis report should be evaluated for completeness and correctness through a review process.
- P9. CL shall collate the internal supply market analysis and external supply market analysis to prepare a comprehensive supply market analysis report. CL shall analyze collated information to execute category level supply market analysis. Supply market analysis is a critical input to category strategy formulation.

PROC.2.1.II: Analyze & Manage Categories – *Supply market analysis* - SIPOC

1.1

Trigger–Category procurement requirement (Through long term procurement plan or annual procurement plan)

Frequency– Prepared annually, reviewed quarterly, As and when required for strategic sourcing (PROC.2.2)

Supplier	Input	Output	Customer
CL	Category strategy hypothesis	Category level supply market analysis	CL, CB
	Scope & objectives for supply market analysis		
	Supply market data & information		
	Supply market research		


PROC.2.1.II: Analyze & Manage Categories – Supply market analysis - RASCI

Activity	Responsible	Accountable	Support	Consult	Inform
P1. Set objectives & scope for supply market analysis	CL	CL	CB		
P2. Define supply market analysis approach & plan (Data, information, source)	CB	CL			
D1. Is all Information available within company?	CB	CL			
P3. Prepare plan for acquiring supply market information not available in-house <ul style="list-style-type: none"> Through external resources (Appoint consultant / Buy external research) Through internal resources (Desk research & Field research) 	CB	CL			
D2. Supply market analysis to be conducted internally or outsourced?	CL	HSP	CB		
P4. <u>Design research plan:</u> <ul style="list-style-type: none"> Desk research (Online, Telephonic vendor interview, Magazines, etc.) Field research (supply market visits) 	CB	CL			
P5. <u>Execute analysis:</u> <ul style="list-style-type: none"> Market structure (Demand v/s. Supply) Supply positioning (Risk of securing supply v/s. Expenditure) 	CB	CL			HSP
P6. Define scope of work for supply market analysis	CB	CL			HSP
P7. Raise PR	CB	CL			
P8. Receive supply market analysis report	CB	CL			HSP
P9. Collate & analyze category level supply market analysis.	CB	CL			HSP, HES

PROC.2.1.II: Analyze & Manage Categories – Supply market analysis - KPI

KPI	Objective	Formula	UoM
Adherence to supply market analysis schedule	To ensure compliance	Target vs. actual	%age adherence

PROC.2.1.II: Analyze & Manage Categories – Supply market analysis - Templates

Number	Name	Template
PROC.2.1.d	Supply market analysis	 PROC.2.1d -Supply Market analysis.docx

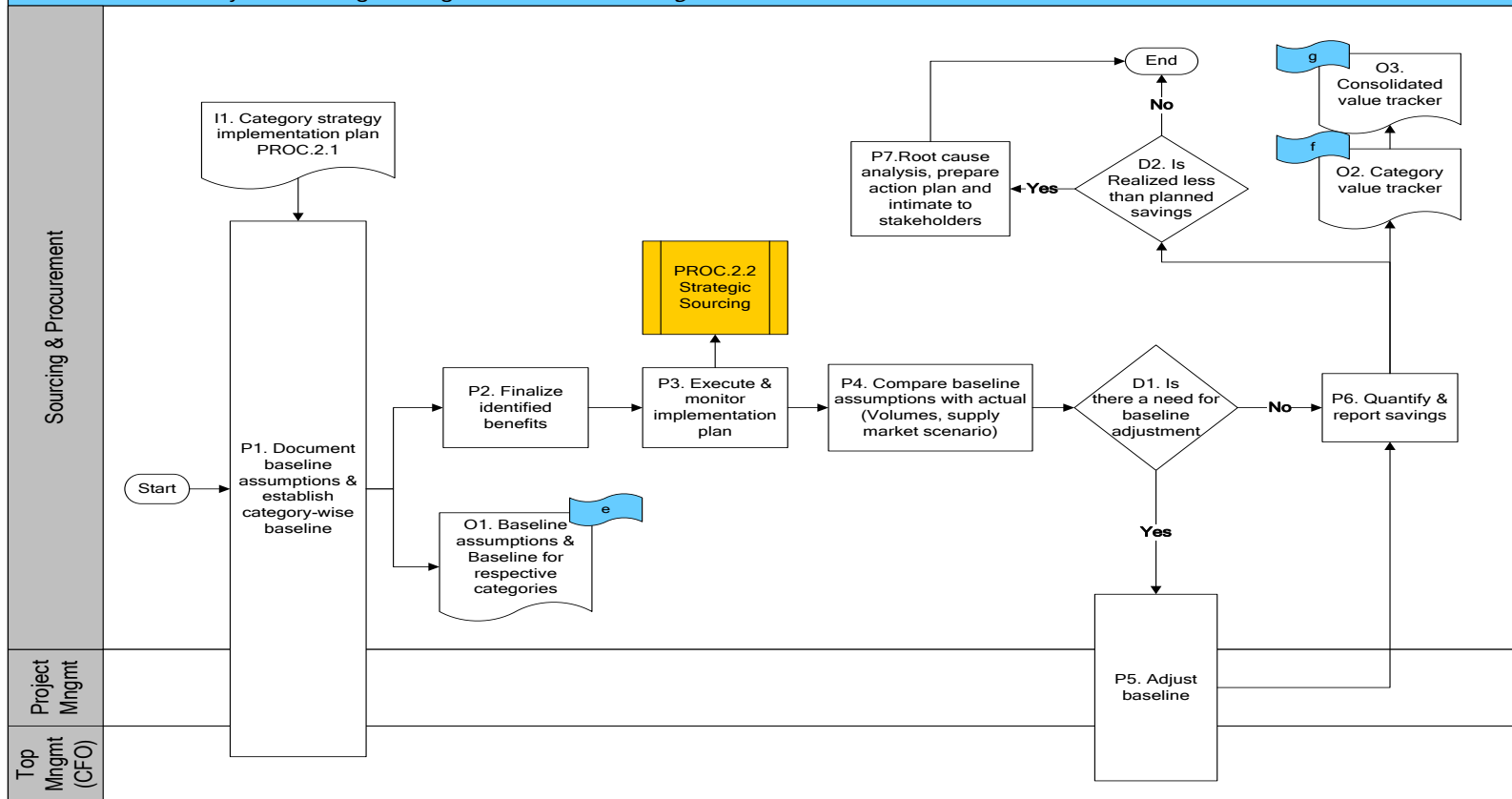
Process Documentation

PROC.2.1: Analyze & Manage Categories

PROC.2.1.III: Analyze & Manage Categories – Value Tracking -Process map

PROC.2: Source & Manage Categories

PROC.2.1.III Analyze & Manage Categories - Value Tracking



Legend

- Start/End
- Process
- Decision box
- Document
- Pre defined process
- Template
- Off page connector
- I Input
- P Process
- O Output
- D Decision



PROC.2.1.III: Analyze & Manage Categories – Value Tracking - Process notes

Value tracking is the process for measuring the benefits which are delivered by sourcing and procurement function by executing various category strategies/ initiatives. Benefits are both in terms of hard cash Benefits and time Benefits. Value is tracked with respect to various baselines for the category like budget/ estimate, market price, initial bid price (lowest/ average).

P1. CL shall prepare the baseline assumptions along with PD routed through PPM (for volume assumptions) and HES (for price assumptions). CL shall document the baseline assumptions and prepare the baseline documents. The baseline thus arrived will be the basis for value tracking and reporting. These assumptions will be tabulated in template *PROC.2.1.e*.

Baseline approach	Nature of suitable categories	Examples
Last purchase price or contract price – compare savings with last purchase price of similar items	Categories / items which are regularly procured and have standard specifications.	MS Pipes, Motors, Fittings, material handling equipments, Steel sheets, valves.
Benchmarking by alternate quotes – get quotes (directly or indirectly) from alternate suppliers before starting sourcing exercise	Categories / items which are not regularly procured or are being procured for the first time and have custom specifications	BTG, Cooling towers, Coal handling plant, Ash handling plant. Chimney
Indexing – Track published market prices or link to underlying price trend	Categories whose pricing is linked to an underlying commodity price	Copper, Aluminum, Transformers, Cables, Bitumen
Supply market intelligence – Track the price paid by competition for similar categories	Categories where competitive information is available. Even prices of specific packages can be used as an indicative benchmark	All

Exhibit4: Guidelines for baseline

Basic guidelines for establishing baseline are mentioned below:

- The Baseline is the foundation of the benefit calculation. It serves as a benchmark, creating a realistic starting point for a comparable like-for-like benefit calculation. Establishing a baseline is the first step in the measurement process.
- The baseline should be approved and 'signed-off' in accordance with the governance standards of company supply chain. Normally this baseline shall be approved by the HSP during the annual category strategy formulation exercise.
- It is recognized that upon review changes in the baseline may occur. These changes should be documented and approved by the HSP/ Top Management and if necessary reflected in the opportunity register with a note indicating



the basis for the new scope/ baseline. These changes in baseline may occur due to revision in estimate, external market conditions, changes in the projected volumes or changes in currency exchange rates.

1.1

- Procurement value creation is based on “Total Cost of Ownership (TCO)” principles. Total cost of a product/ service over the lifetime of the product from acquisition to final disposal can be described as the “Total Cost of Ownership”. The key cost elements involved could be Product acquisition cost, Product life cycle cost and product residual cost. All costs (like acquisition costs, direct material costs, indirect costs i.e. administration, maintenance, transportation costs and ultimately costs related to disposal) related to a purchase should be taken into account to determine the baseline. The baseline is the total of all amounts paid to vendors plus others (like inventory varying cost, transportation cost, transit insurance cost etc.) relevant TCO components. TCO elements can be defined for key categories based on template PROC.2.1.i & PROC.2.1.j.
- A “normalized baseline” excludes effects which supply chain cannot influence, such as exchange rate fluctuations and changes in commodity market prices. The process of excluding these effects from the baseline is referred as normalization (*refer Exhibit 5*).
- The baseline has to be fixed at a detailed level: commodity, scope of supply, business unit and if required province or country level.

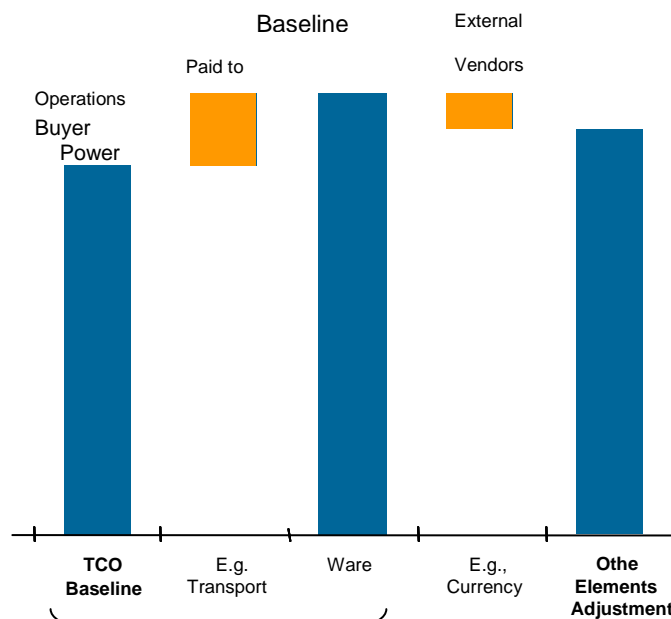


Exhibit 5: illustration of TCO and normalized baseline.

Methods to calculate the baseline

A baseline is established generally using future volumes and a past total costs (escalated or deflated) to indicate today's total cost paid by company for services and materials. The next sections describe how to determine these elements.

- **Future Volume:** Long term, project and annual Volume projections as identified in the Formulate procurement strategy process *PROC. 1*.
- **Cost:** The baseline fixes a reference cost against which value creation will be calculated. If possible, we use historic data as a reference (either the last known cost, or an average). If it is not possible to establish a historic cost there are alternative methods. The three baseline costs which shall be used for this purpose shall be:
 - Estimate / Budget / Historical cost
 - Current market cost
 - Initial bid

Historic Cost Baseline

If products or services have been purchased before, historic (going back a maximum of 12 months) costs should be used until a new contract is in place.

Additionally the following rules will apply:

Price Method	Situation	Method
1. Last actual cost paid	Used when prices are negotiated between vendors and customers, and there is no external market influence.	1. Last actual price paid in SAP or 2. Contracted price manually corrected if not yet updated in SAP
2. Average cost	- prices are set in world (commodity) markets - buyers can not influence the levels - there are transparent and independent indexes available - examples: natural gas, structural steel, copper	Average price over the past 12 months
3. Average quoted market cost	- prices are set in world markets - buyers can not influence the cost - there are no transparent and independent indexes available - "Like" bids are available - examples: a very volatile market like ocean freight, civil construction services,	Average price of the approved initial (i.e. first RFP, Auction round) "like" bids
4. Sole source purchase cost	- Cost is set thru sole source purchase	Price of the approved initial (i.e. first RFP) "like" bid
5. Average rebate price	- Prices set by percentage rebate returned to the company	Rebate times current market price in that area
6. No known equal for the service or material that is not competitively bid.	- Costs set by percentage of comparable components where the price is known or the cost of these comparable components, a target cost, for the new product/service is created for benchmark and baseline. - examples: Catalyst	Percentage of known or comparable components.

Exhibit 6: illustration of price method.



Baseline Cost Normalization: Some products or services are affected by exchange rate fluctuations or market effects that are outside the management control of supply chain. Therefore, we normalize the baseline so that we can ascertain the true value creation impact. We do this by removing the impact of factors such as currency exchange rate or market level from the comparison of cost before and after.

Normalization for Exchange Rate: Fluctuations (Applicable to purchases in currencies other than INR). The effect of fluctuating exchange rates is isolated and taken out by using exchange rate 'normalization'.

- Definitions:**
 The 'Invoice Currency' or 'Document Currency' is the currency in which the goods or services are invoiced (e.g.: a Chinese vendor invoices the BTG components he supplies in EUR for power plant in India).
 The 'Benefits Calculation Currency' is the currency in which the Benefits are calculated.
 The 'Reporting Currency' is the currency in which Company HQ is consolidating it's reports (INR).

- Guiding principles:**
 Sourcing & procurement performance is measured and consolidated across the BU or projects in each of the Benefits Calculation Currencies. These results can then be converted, as needed, into the reporting currency. Currency conversion effects are therefore is taken out of the baseline.

The currency exchange rate we apply to the baseline and Benefits calculation is the average exchange rates over the last 12 months prior to the Benefits calculation.

Baseline Type	Baseline Elements	Baseline Calculation
Historic spend baseline	A = Historic Unit Cost in INR B = Volume	$A * B$
Normalized historic spend baseline (currency effect)	A = Historic Unit Cost in INR B = Volume E = Exchange rate used for historic spend baseline F = Exchange rate at the time of the value creation calculation	$A * (F/E) * B$

Exhibit 7: Normalized Baseline Calculation

Normalization for Market Fluctuations: The cost of some products fluctuates in correlation with a public market index. This happens when the product contains a significant amount of raw material or when the commodity itself follows an index (e.g.: metals). The change in price which can be attributed to the market is explained by the change in the index. This portion of the cost change has to be taken out of the baseline (*see Exhibit 7*).

The market effect normalization is applied at the time of benefits calculation and applied to *the standard baseline method: (old unit cost – new unit cost) x volume*.



Baseline Type	Baseline Elements	Baseline Calculation
Historic spend baseline	A = Historic Unit Cost in INR B = Volume	A * B
Normalized historic spend baseline (market effect)	A = Historic Unit Cost in INR B = Volume C = Raw Material Component (% of total product cost) D = Raw Material Index Change%	A * [1 + (C * D)] * B

Exhibit 8: Normalized Baseline Calculation

Example:

- Pipe component cost per item (in 2011): INR 2.00
- Raw steel material share (percent of the raw steel component in the total cost): 25%
- Raw steel cost decrease (in 2012): 10%
- Future Volume (# of items in 2012): 10,000,000 units
- Normalized baseline calculation for 2012:

$$\text{INR.2.00} \times [1 + (0.25 \times (-0.10))] \times 10,000,000 = \text{INR. 19,500,000}$$

P2. CL shall estimate the potential cost benefits and lead time reduction potential, based on the agreed baseline and baseline assumptions and category strategy. The estimated benefits and lead time reduction potential shall be the basis for annual benefits target for the category.

P3. CL shall execute and monitor implementation plan for respective category strategy using the template *PROC.1.1.e* – Category strategy implementation monitoring. The outcome of the negotiation and the rate at which the order is placed shall be used to determine the contracted benefits per category and the baseline that would be used to track these benefits. Please note that the category strategy implementation monitoring template used is one and the same as implementation plan tracking sheet defined in *Define long term procurement plan and strategy process PROC.1.1*.

P4. CL shall compare baseline assumptions with actual (volumes, supply market scenario, indexes) and evaluate need for baseline normalization.

D1. CL shall monitor the factors affecting the baseline assumptions. On any suggested change in baseline assumption, CL shall evaluate the need for adjustment in baseline. Some of the reasons requiring change in baseline could be:

- Change in business volumes
- Change in market conditions (supply demand scenario)
- Change in the base commodity price
- Change in exchange rates

Once the order is placed, the CL shall report status on the implementation to the HSP. HSP shall discuss the normalization required to the baseline to account for the role of external factors.

P5. If required, CL, respective PPM, PD shall normalize the baseline. This baseline normalization would be approved by appropriate authority:

- Estimate / Budget / Historical cost – CEO / CMN
- Current market cost - HSP

P6. CL shall quantify benefits against baseline in the Benefits monitoring template *PROC.2.1.f* is Category strategy implementation monitoring. In case any normalization not required, CL shall quantify & report saving. The benefits shall be reported against three baselines:

- Savings against Budget / Estimate
- Savings against market price
- Savings against pre-negotiated price

Capital Project illustration of Benefit Tracking

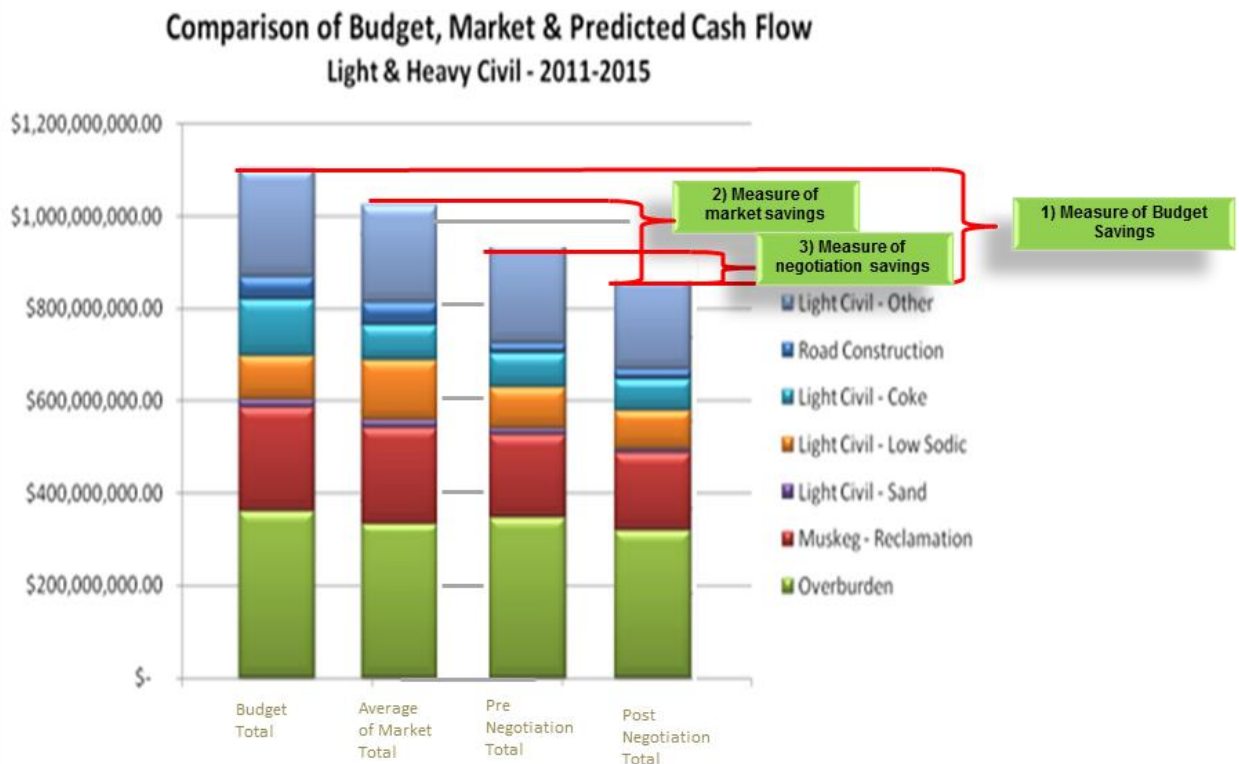


Exhibit 9: Value creation against baseline

Methods of value creation scenario with illustration are as mentioned below:**Standard Method**

Situation: The standard calculation method is used when the baseline can be determined with the standard method and when benefits come from cost difference. For example, when vendors are changed or greater quantities are bought or when similar goods/services are bundled under conditions that are otherwise the same, resulting in a more economical cost per item, labour cost / unit etc.

Benefits Calculation: The benefits are based on the difference between the old unit cost and the new unit cost.

Benefits = (Last price cost – negotiated cost) x expected volume

Example:

The product cost is reduced starting Q1 of Benefits year by INR 20. The expected quantity is 150 units.

Benefits = (INR 100-INR 80) * 150 = INR 3000

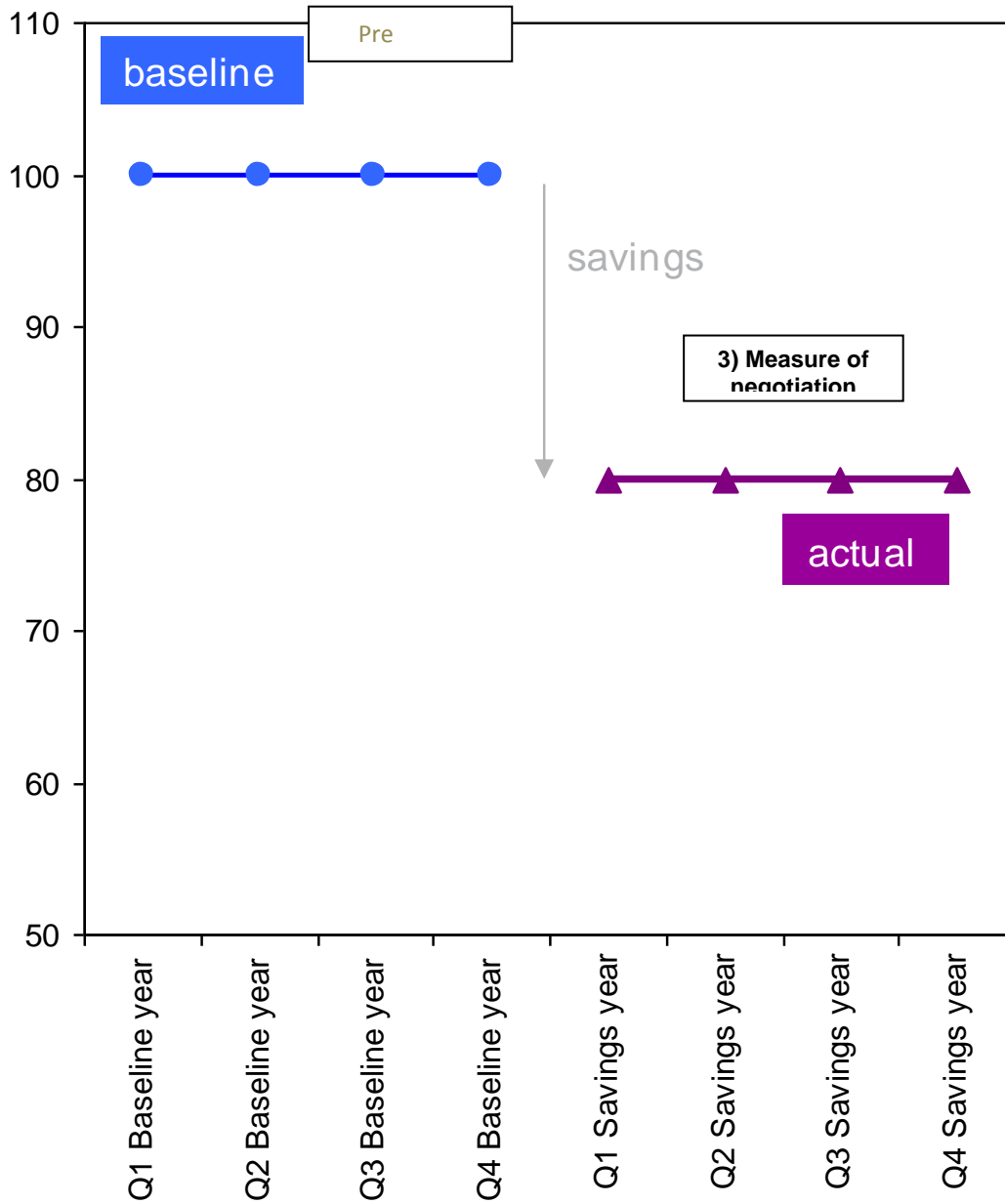


Exhibit 10: Standard Method

Free-of-charges Extras

Situation: Negotiated contract with vendor includes free of charge extras which are not included in the cost/ specifications, and have not been part of the product/ service offering of past purchases. Value added Items required in the original RFQ should be excluded from this value creation measure.

Benefits Calculation:

Benefits = Value of free of charge extra x Volume

Example:

CL has been able to negotiate additional spares or warranty terms, FOC, which were not part of the historical price data or RFP.

Fluctuating market cost with market index

Situation: This method of calculation is used when the cost Benefits can be attributed to a changed market cost (Tied to an Index) that results in a better future cost in relation to the market price.

Benefits Calculation: The Benefits are calculated as the difference between the amount Company would pay this year while keeping the historical delta (%) with market and the amount Company would pay with the new negotiated delta with market.

Spend with historical delta = (Forecasted average index cost x Forecasted volume) x (1 – historical delta).

Spend with new contract = (Forecasted average index cost x Forecasted volume) x (1 – new delta).

Benefits = Forecasted spend with historical index delta – Forecasted spend with new index delta.

If there is visibility on the fee paid to the vendor, the Achieved Benefits can be divided into Fee Benefits and Price Benefits.

Fee Benefits = (Old fee – New fee) x New cost x Expected volume

Example:

Index 12 months rolling forward INR. 25

Year 0

Index 12 months rolling forward INR. 15

Year 1

Average cost paid Year 0 INR. 24

Cost contracted Year 1 INR. 12

Forecasted Volume Year 1 20,000
 Year 0 delta = $(25-24)/25 = 4\%$ decrease
 Year 1 delta = $(15-12)/15 = 20\%$ decrease
 Spend with historical data = $(15 \times 20,000) \times (1 - 0.04) = \text{INR. } 288,000$
 Spend with new contract = $(15 \times 20,000) \times (1 - 0.2) = \text{INR. } 240,000$
 Benefits = $288,000 - 240,000 = \text{INR. } 48,000$

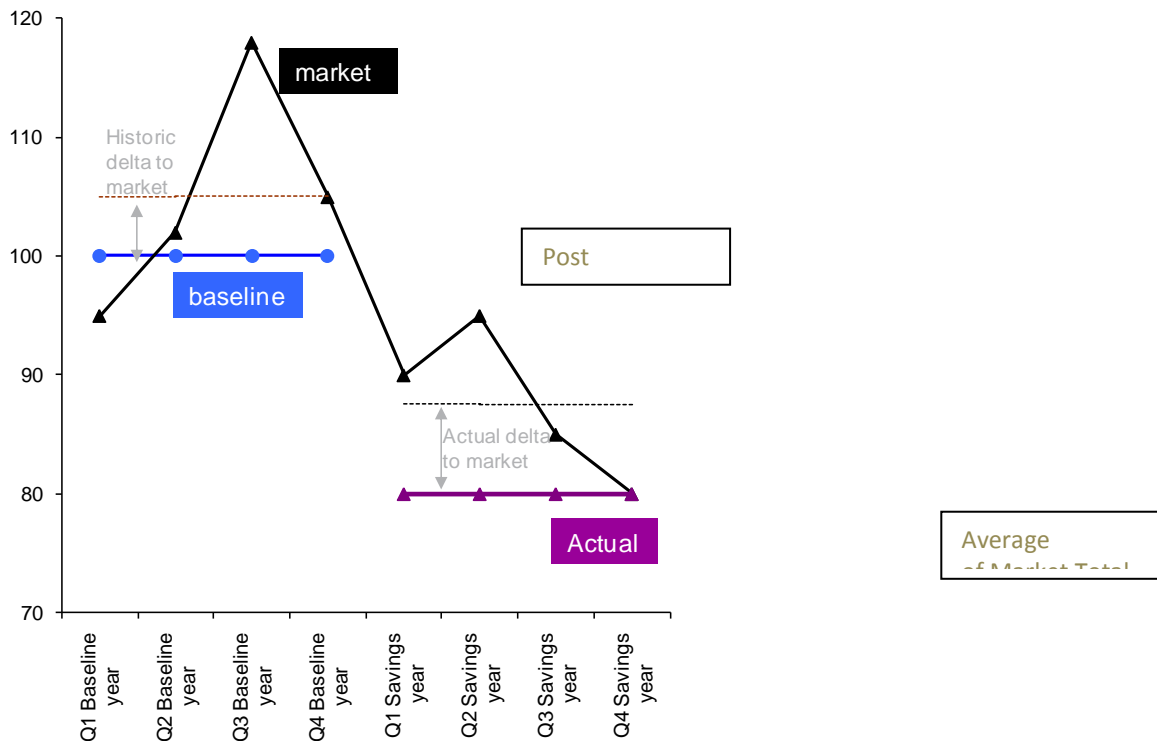


Exhibit 11: Fluctuating market cost with market index

Fluctuating market cost without market index

Situation: This method of calculation is used when cost Benefits cannot be attributed to a changing market due to lack of a transparent and broadly accepted market index. There is no good benchmark to indicate the delta with the market.

This method is applicable for materials and services.

Benefits Calculation:

There is no possibility to benchmark past and present costs against a market reference. However the market has a great effect on the direction costs are going. Therefore the only objective way to have an indication of the costs is to get quotes from the vendors. If the eventual cost is below those bids, the company has established Benefits.



$$\text{Benefits} = (\text{Initial bid} - \text{New cost}) \times \text{Expected Volume}$$

Example:

The cost in Q4 was INR 70. There is no (good) market index, therefore this cannot be benchmarked. The average of the bids thru an EOI was INR 60. After negotiation the costs were agreed at INR 50 for the new year. The expected quantity is 150.

$$\text{Benefits} = (\text{INR } 60 - \text{INR } 50) \times 150 = \text{INR } 1500.$$

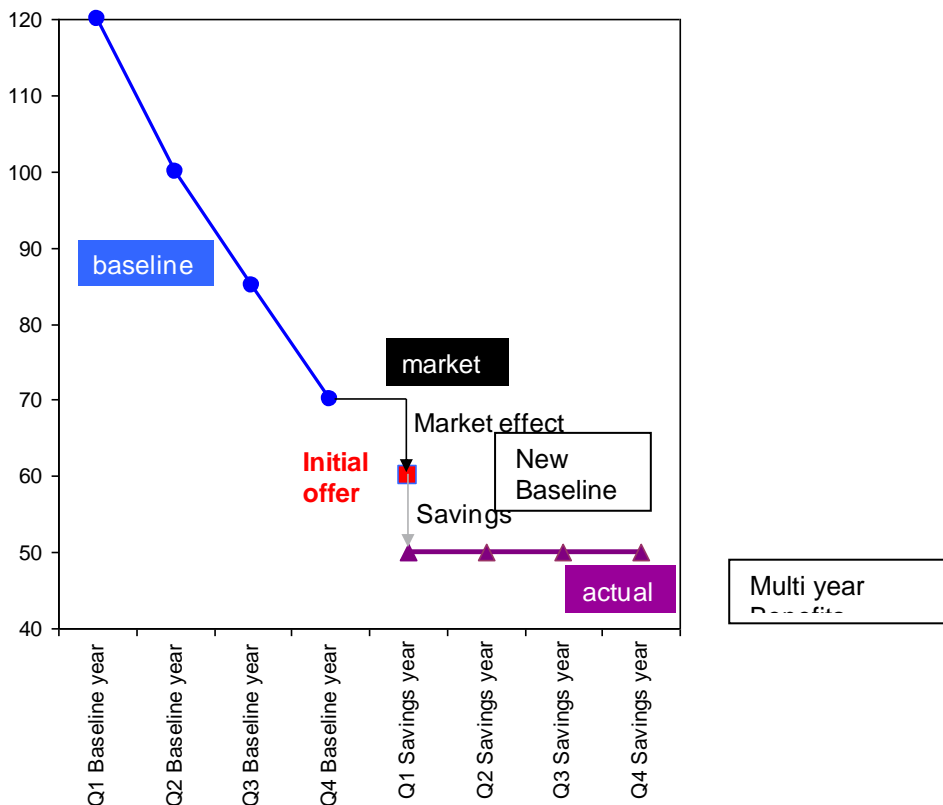


Exhibit 12: Fluctuating Market cost without market index

Note: In this case the market effect was not counted as value creation because CL did not take any action in anticipation of the change. Therefore higher costs were paid by Company. There was INR 10 of market value adjustment from INR 70 to INR 60 that is not accounted for in Value Creation. 9974563228

Volume Rebate

Situation: Negotiated contract with vendor with rebates on volume or similar incentives. Rebate/incentive granted in new contract has not been included in previous buy.



Benefits Calculation:

Benefits = (Rebate/ incentive per purchased unit new contract - Rebate/ incentive per purchased unit old contract) x Volume.

Example:

Airlines rebate x% of spend back at end of year, if at least y flights are done.

Re-engineered specifications / SKU rationalization / Value Engineering

Situation: For some products/services the specification can be changed so that the cost can be reduced.

Benefits Calculation:

Benefits = (Cost for product with old specifications – Cost for product with new specifications) x Volume

Benefits = (Cost for old SKU – Cost for new SKU) x Volume

Example:

The category manager of Personal Computer (PCs) realizes that almost nobody is using floppy drives anymore. She/he decides to work with the corporate services IT group to change the specifications of PCs by canceling floppy drives from the specification list. Due to the change of the specification the cost for the 500 PC's can be reduced by 3% from a base price of INR 500. Benefits = 1000 units x INR (500x.97).

The category manager of MRO in working with the BU decided to reduce the total number of types of gloves. He managed to reduce the total number of SKU's from 60 to 25. SKU A has been removed from the list and replaced by SKU B001, the cost is reduced by 7% due to the high volume of the new SKU B001.

Lease versus Buy

Situation: For some categories lease of products might be a viable alternative to buying (or vice versa). To compare the value creation between lease or buy of a product the cost per one unit (e.g. kilometer) need to be calculated and compared.

Value Creation Calculation:

Value Creation = (Cost of purchasing per unit (Including the cost of capital) - Leasing cost per unit) x Volume

Respectively: Achieved Benefits = (Cost of leasing per unit - Purchase cost per unit) x Volume

Alternate Pricing structure

Situation: For some categories the pricing structure will need to be changed to account for total cost of ownership costs or to reflect new pricing structures. (e.g. Moving from T&M to Unit rates, moving from lump sum to lump sum plus a performance bonus).

Value Creation Calculation:

Value Creation = (New pricing model) – (Estimated total cost of ownership in the new model using the old pricing data) x volume

The same period must be compared (e.g. buy for 5 years and lease for 5 years)

Sales of surplus / obsolete material

Situation: Sourcing & procurement involvement kicks off an inventory reduction, and results in the sale of surplus/obsolete material.

Benefits Calculation:

Benefits = (Sales price for surplus material – Handling costs) – Book value

Example:

Pipe from the Montreal Coker is sold to a third party. The original price of a random lengths of pipe is INR 10,000 with a sale of 1000 lengths. The sale price is INR 5,000 per random length. The handling costs will be paid by the buyer. The value creation is INR 5,000 x times 1000 = INR 500,000. (It should be noted that the project was cancelled and internal use of the material is not possible. The alternative to disposal is to store it forever. Note: The costs of long term storage were deemed as unacceptable by site management. A financial right off of the project was made separately).

Inventory Reduction

Situation: Due to active involvement of S&P the inventories (e.g. stock) can be reduced, (Consolidated or standardized) which results in significant cost Benefits.

Benefits Calculation:

Benefits = (Historic book value of company owned inventory – New book value of reduced inventory) x WACC (Weighted average cost of capital) + (Old warehouse handling cost – New warehouse handling cost).

Example:

The category manager of Protective Equipment and Uniforms finds out that on average there are more than 5,000 uniforms in stock. By improving the ordering cycle she/he is able to cut down the number to 2500 uniforms. The cost of a uniform is INR100. The cost of capital is 10%. Reduction of warehouse cost is INR 1000.

$2,500 \times \text{INR } 100 = \text{INR } 250,000 \times .10 = \text{INR } 25,000 + \text{INR } 1,000 = \text{INR } 26,000$

Payment terms extension

Situation: Supply chain involvement results in a change of payment terms leading to working capital improvement.

Benefits Calculation:

Benefits = Working Capital Improvement = Average monthly invoice from vendor (VAT included) * Payment terms improvement (in days)/ 30 * WACC (Weighted average cost of capital)

Example:

The category manager for steel fabrications is able to negotiate with an incumbent vendor a new contract containing new payment terms: Company will now take pay 90 days after date of invoice instead of 60 days after date of invoice.

The benefits reported by all CL shall be collated and consolidated value tracker for S&P shall be created.

D2. CL shall monitor the benefits achieved against planned benefits for the category. HSP shall review the benefits achieved on a quarterly basis, baseline assumption and validity of any changes in baseline. HSP shall check the difference between realized and planned saving.

P7. In case there is a shortfall in the realized benefits as compared to planned benefits, CL shall discuss it with HSP and finalize an action plan. HSP shall conduct root cause analysis and prepare action plan which may require a change in implementation plan. CL shall intimate learning to all stake holders.

PROC.2.1.III: Analyze & Manage Categories – Value Tracking - SIPOC



Trigger – Category procurement requirement (Through long term procurement plan or annual procurement plan)

Frequency – Quarterly, As and when required for input to 'PROC.2.0 Source & Manage Categories'

Supplier	Input	Output	Customer
CL	Category strategy implementation plan	Baseline assumption & baseline for respective category	CL, HSP
CL	Strategic sourcing	Category value tracker	CL, HSP
		Consolidated value tracker	CL, HSP







PROC.2.1.III: Analyze & Manage Categories – Value Tracking - RASCI

Activity	Responsible	Accountable	Support	Consult	Inform
P1. Document baseline assumptions & establish category-wise baseline	CL	HSP	PPM, PD	HES	
P2. Finalize identified benefits	CL	HSP	PPM, CB		
P3. Execute & monitor implementation plan	CB	CL	PPM, HSP		
P4. Compare baseline assumptions with actual (Volumes, supply market scenario)	CB	CL	PPM		HSP
D1. Is there a need for baseline adjustment	CL	HSP	PPM, CB		PD, CEO (if required)
P5. Adjust baseline	CL	HSP	PD, PPM		CEO (if required)
P6. Quantify & report savings	CL	HSP	PPM, CB		CEO
D2. Is Realized less than planned savings	CB	CL	PPM, HSP		
P7. Root cause analysis, prepare action plan and intimate to stakeholders	CB	CL	PPM, HSP		

PROC.2.1.III: Analyze & Manage Categories – Value Tracking - KPI

KPI	Objective	Formula	UoM
Benefits potential identified over current baseline cost	To measure effectiveness of category strategy in reducing cost	Percentage Benefits identified over baseline cost	%age
Reduction in procurement lead time	To measure effectiveness of category strategy in reducing lead times	Reduction in PR to PO lead time from baseline / benchmark lead time	%age
		Adherence to delivery timelines as per project schedule	%age
Realized Benefits as compared to target Benefits	To measure implementation effectiveness of implementation plan	Contracted Benefits as percentage of identified Benefits (Viz budget, market price, initial quote)	%age
		Accrued Benefits percentage of identified Benefits (Viz budget, market price, initial quote)	%age

PROC.2.1.III: Analyze & Manage Categories – Value Tracking - Templates

Number	Name	Template
PROC.2.1.e	Baseline assumptions and baseline	 PROC.2.1e Baseline assumption.xlsx
PROC.2.1.f	Category value tracker	 PROC.2.1.3f Value tracker.xlsx
PROC.2.1.g	Procurement value tracker	 PROC.2.1.3g Value tracker.xlsx
PROC.2.1.h	Category Workbook	 PROC.2.1.h Category Workbook.ļ
PROC.2.1.i	TCO Brief	 PROC.2.1.i TCO Presentation .pdf
PROC.2.1.j	TCO Definition	 PROC.2.1.j TCO definition.xlsx

