

## More competitiveness through cultural change in Procurement

*BENTELER Steel/Tube is one of the world's leading manufacturers of steel tubes. But the industry has been under pressure for years. The company has decided on a package of measures for 2019. Procurement plays a central role in this.*



Manufacturers of steel tubes are well advised to consistently implement optimization potential. BENTELER Steel/Tube has already responded to the difficult economic situation in 2019 and successfully adopted a package of measures to reduce costs and increase efficiency from 2020. With success, as is now evident.

The most important decisions included adjusting necessary capacities and optimizing the product portfolio and distribution structure. In addition, short- to medium-term changes relevant to success were made in Procurement. Important levers here are,

- a cultural change in the orientation of the Procurement organization,
- the implementation of innovative purchasing methods, and
- the optimization of working capital.

The overall objective is,

- build strong and long-term partnerships with key suppliers,
- to make a significant contribution to the success of the company through continuous improvements in purchasing prices and quality levels, and
- optimize the division's working capital in the long term.

Employees from BENTELER Steel/Tube's Procurement department work closely with colleagues from other divisions, especially Production, to jointly implement the new tools.

The changes focus on three goals: First, to establish a performance culture with entrepreneurial responsibility on the level of each individual. This includes striving for above-average results in the department - strengthened by disruptive thinking and innovative purchasing methods such as 360° workshops or negotiation events. Secondly, to sustainably reduce purchasing costs through price reduction and cost-out measures (measures to optimize costs), irrespective of market price developments. The third goal of BENTELER Steel/Tube is to optimize working capital. To this end, it is planned to consistently extend payment terms, make greater use of supply chain finance ("reversed factoring") and introduce consignment warehouses. In detail, the changes are as follows.

## **Organization of supplier days**

The concept of negotiation events, at which several competing suppliers meet with BENTELER Steel/Tube, is known primarily from the automotive sector. The aim is to put together the most attractive packages possible for the suppliers to challenge them to make their best offer. First, BENTELER Steel/Tube identifies those purchasing categories with the greatest potential for negotiation. Then BENTELER Steel/Tube invites various suppliers on site. During this meeting, the participants conduct several rounds of negotiations until the optimal result is achieved. These negotiation events have been an integral part of the procurement strategy since 2019 and form the basis for future cooperation with partners.

## **Conducting 360° workshops**

The goal of the 360° workshops is to achieve savings through more efficient or intelligent action. BENTELER Steel/Tube first starts by gathering information on specific products or purchasing categories, such as historical purchasing volumes, the cost structure of selected components, or certain material specifications. In the next step, the company focuses on three key areas: Cost, design or specification, and process. In the workshops, participants develop ideas on how to achieve improvements in these three areas. Here it is very important to involve a cross-functional team of employees from production, development, quality and cost planning.

The result is concrete work packages to reduce costs, with clearly defined responsibilities on the part of BENTELER as well as the supplier. One result of a workshop, for example, is the standardization of different types of packaging, which enables the supplier to optimize production to fewer variants and thus reduce costs per unit. Since the ideas developed in the workshop are often real cost reductions and not just price reductions, BENTELER Steel/Tube generates a win-win situation for both sides and thus creates the motivation to implement the suggestions and requests. In addition, the extent to which measures decided upon have been implemented is regularly monitored.

Cost modeling is a tool for creating more transparency in suppliers' cost structures and processes. Based on a detailed model, BENTELER Steel/Tube analyzes the cost structures and initially determines the manufacturing costs itself. The company then requests quotations from suppliers in the form of a breakdown of costs, so-called "cost breakdowns". This makes it possible to compare the total price as well as the individual cost components. Together with its existing suppliers, BENTELER Steel/Tube wants to openly discuss the price the company is currently paying on the basis of this in-depth analysis of manufacturing costs and optimize it on the basis of "benchmarking". The goal is to be no more than 5 percent away from the suppliers' offers with these cost models.

## **Increased cost modeling**

An initial interim summary of the measures implemented is very positive: BENTELER was able to achieve significant savings through the use of innovative purchasing methods such as negotiation events. Optimization of working capital also makes an active contribution, for example through inventory reductions or improvements in delivery and payment terms. Innovative purchasing

methods thus improve the competitiveness of BENTELER Steel/Tube, because they reduce purchasing costs and optimize the company's key business figures in the long term.

The changes in Procurement are taking place as part of a cultural change and restructuring of BENTELER Steel/Tube as a whole. In the future, the Steel/Tube Division will continue to hold on to optimization potential beyond purchasing in order to make a valuable contribution to the restructuring of the company.

#### **About BENTELER Steel/Tube:**



The globally operating BENTELER Group is organized in the divisions BENTELER Automotive and BENTELER Steel/Tube. BENTELER Steel/Tube develops and produces seamless and welded quality steel tubes. As one of the leading manufacturers, we offer our customers solutions worldwide, along the entire value chain – from material development to tube applications. In this way we create tailor-made tube products for the automotive, energy and industry market segments.