



# The Journey to World-Class

## **Procurement BPO: A Critical Capability in Procurement's Emerging *Service Delivery Model***

The Hackett Group Procurement Advisory Webcast

Featured Presenter: Rio Tinto

August 19, 2010

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# Learning Objectives

- What are the latest trends in BPO as it relates to Procurement?
- What were the drivers leading to Rio Tinto's BPO decisions?
- How has Rio Tinto prioritized Procurement processes along their BPO journey?
- What type of governance structure was put in place to manage the BPO relationships?
- What have been some of the critical success factors to the BPO journey?

# The Hackett Group

## Kurt Albertson, US Practice Leader, Procurement Advisor

- Mr. Albertson is the US Practice Lead for The Hackett Group's Procurement Advisory Program. In this capacity he discuss with Procurement executives latest trends and best practice, conducts research into topical issues, and leads client conferences, webcasts and related events.
- Mr. Albertson has over 15 years experience in assessing procurement and finance capabilities focusing on sourcing, risk and supplier management, purchasing and accounts payable operations, and travel expense management. He offers a blend of consulting and industry experience, having served a wide variety of clients across many industries.
- Mr. Albertson holds an MBA from the University of North Carolina and a bachelors degree in engineering from the University of Michigan.

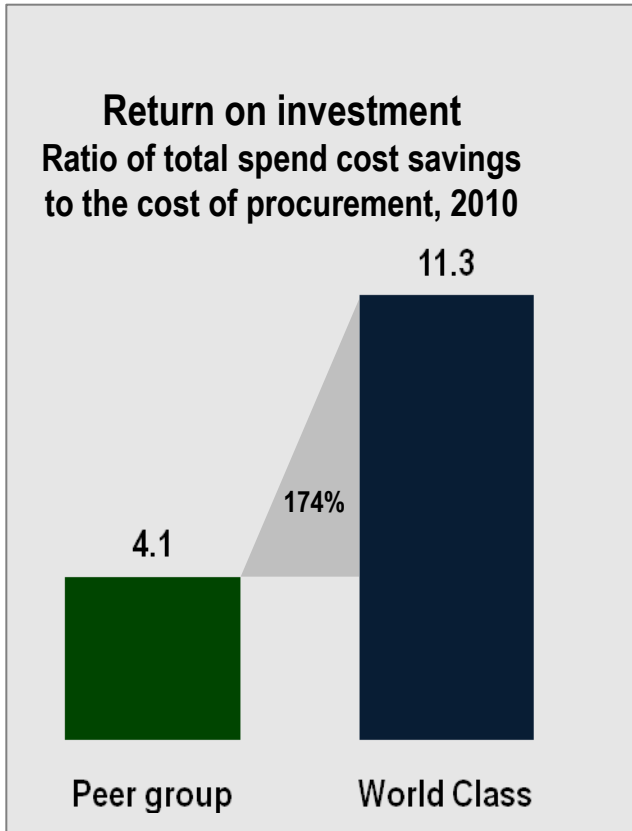




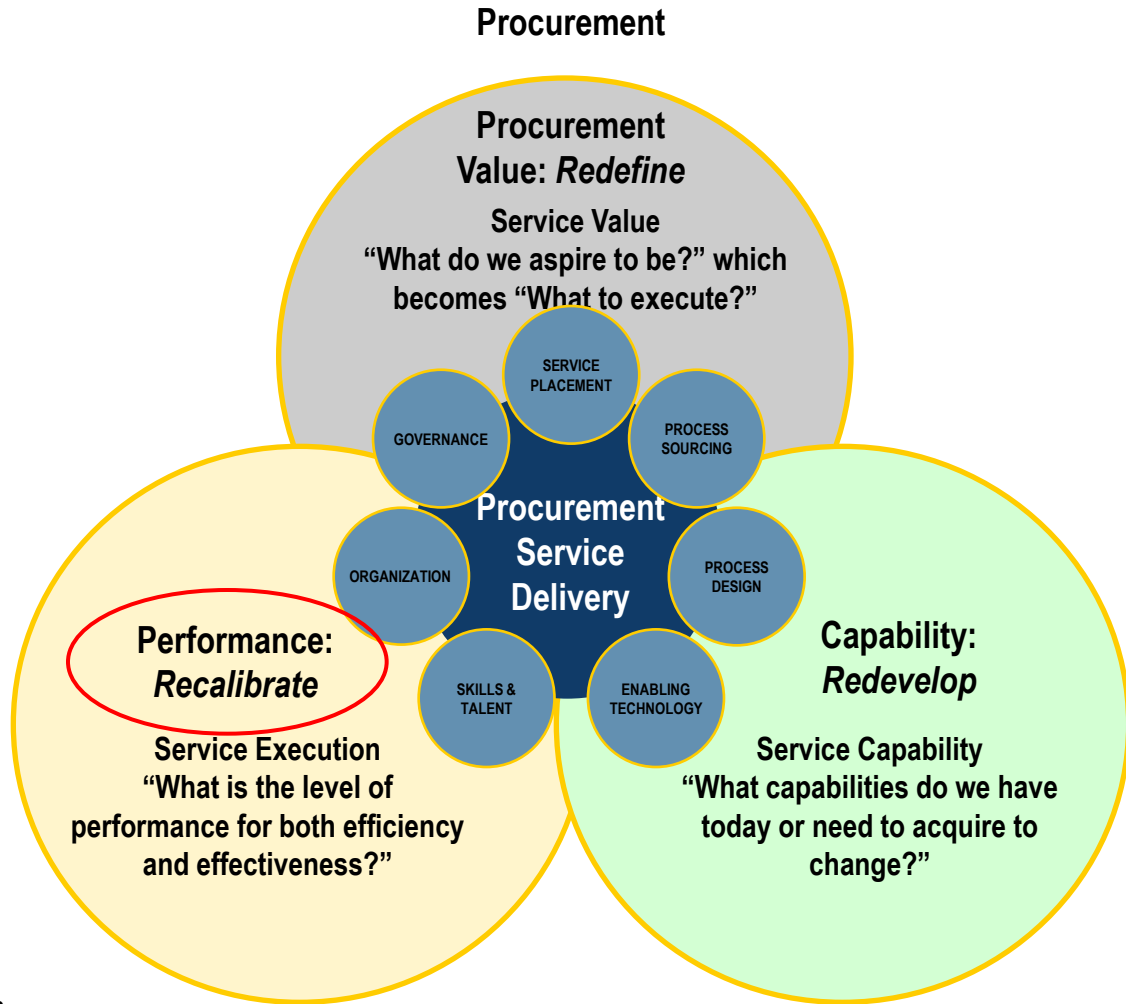
## **Peter McNamara; General manager - Project Procurement & Development, Rio Tinto Procurement**

- Peter McNamara has 31 years experience in the resources sector and has held a variety of roles covering technical, product support, marketing and project evaluation functions. For the past 14 years Peter has been deeply involved in Procurement and Supply Chain Management.
- Peter has been a key architect in the transformation of procurement in Rio Tinto. During Peter's time with Rio Tinto Procurement the function has progressively moved from its origins as an independent site based function to the current centre led, hub and spoke model in which Rio Tinto Procurement manages all external spend for the Group. Peter has been directly involved in the strategic, operational and customer facing aspects of this transformation. In 2000, Peter spent two years based in the United States establishing the strategic sourcing initiative there. Peter led the procurement integration work arising from Rio Tinto's \$38 billion acquisition of Alcan.
- Peter currently role as General Manager Project Procurement and Development encompasses leadership of RTP's procurement outsourcing initiative, leadership of a team of procurement professionals working on capital procurement across Rio Tinto's extensive portfolio of growth projects, and RTP's approach to training and development.
- Peter holds an MCIPS, MBA and BSc.

# Procurement must deliver “ROI”, but cost savings and efficiency only go so far



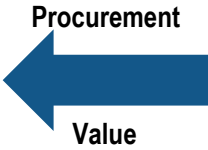
Savings: 7% for World Class and 3.1% for Peers  
Cost (as % of spend): 0.62% for World-Class and 0.74% for Peers



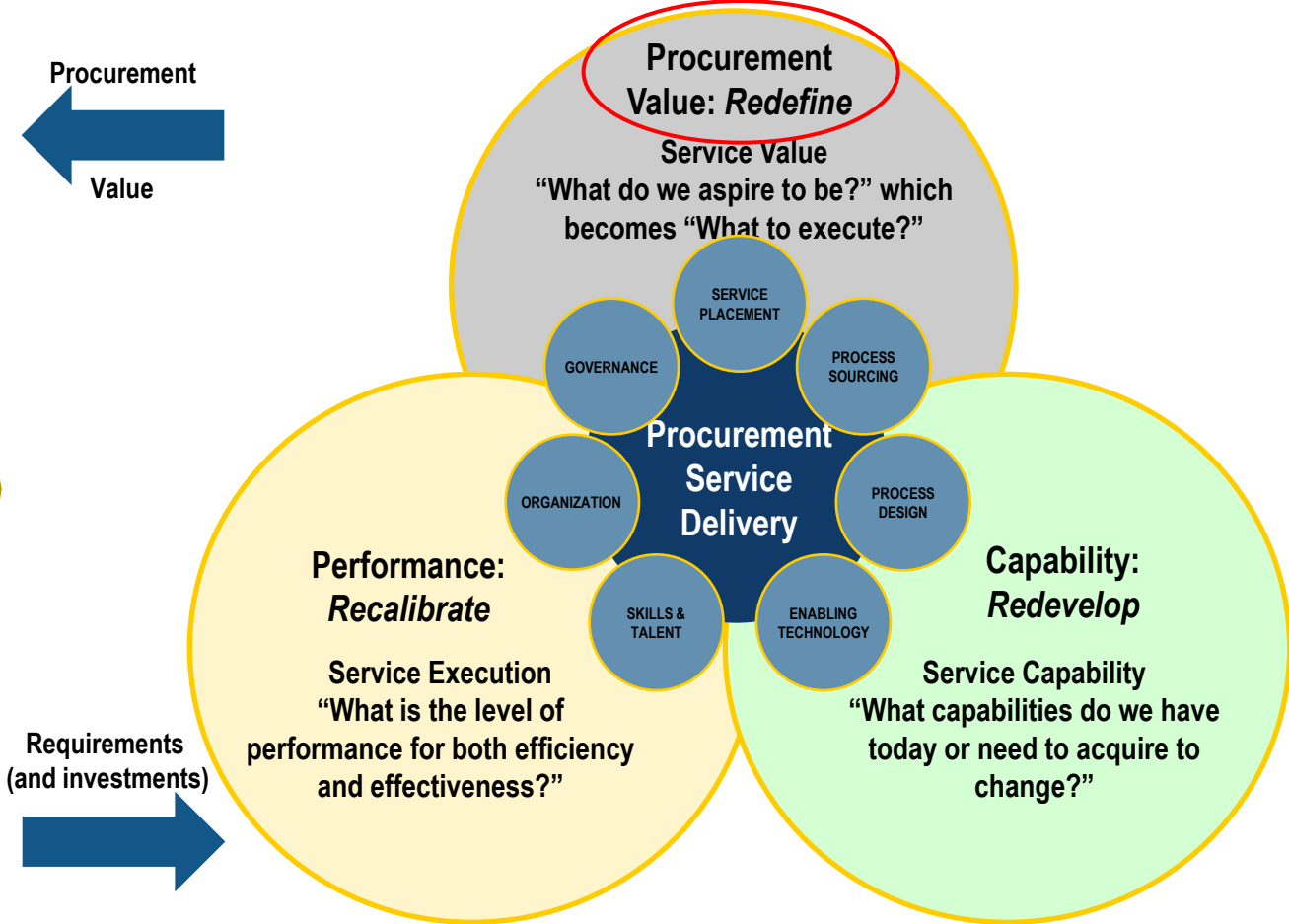
Source: The Hackett Group Procurement Functional Benchmark, 2010

# Procurement is trying to elevate its broader value (and related capabilities) to define performance beyond cost savings

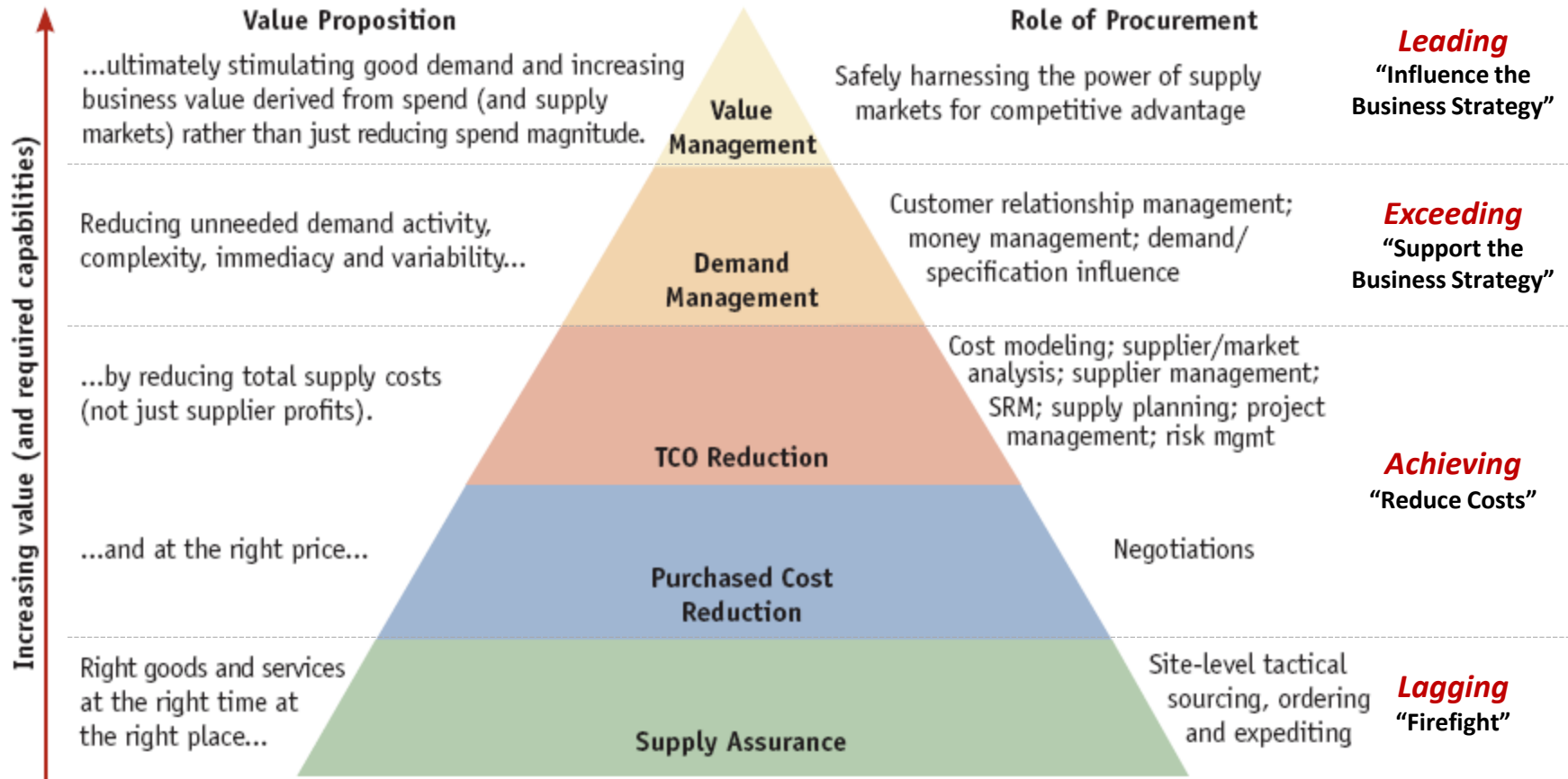
## Business



## Procurement



# As Procurement continues to evolve its value proposition it strives to capitalize on TCO, Demand Mgmt, and Value Mgmt opportunities

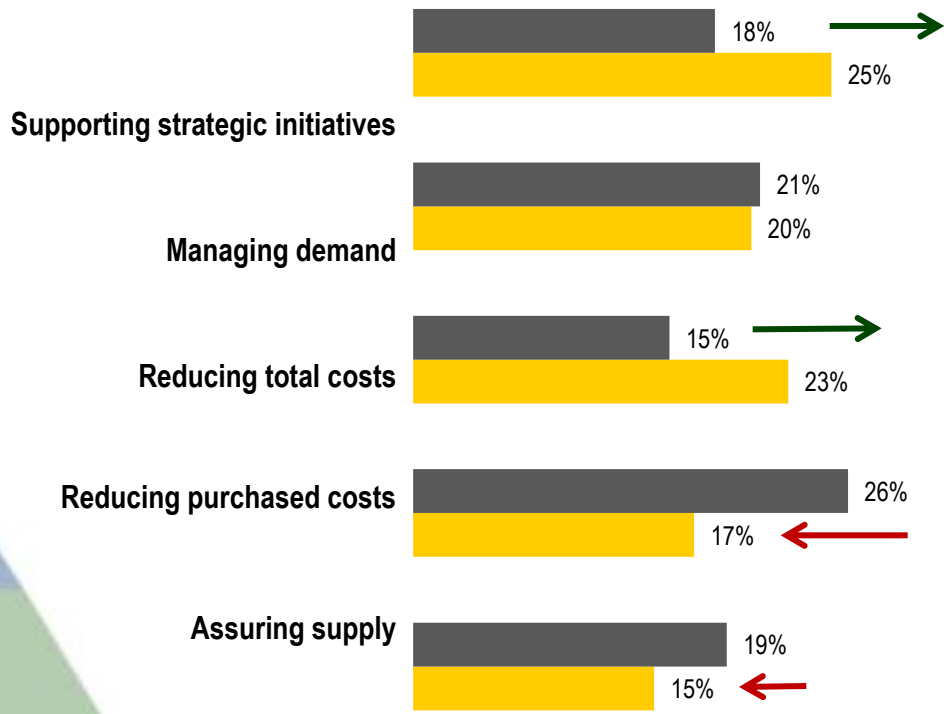




# But Procurement still struggles to free itself to perform strategic activities focusing too much time and energy at the base of the pyramid



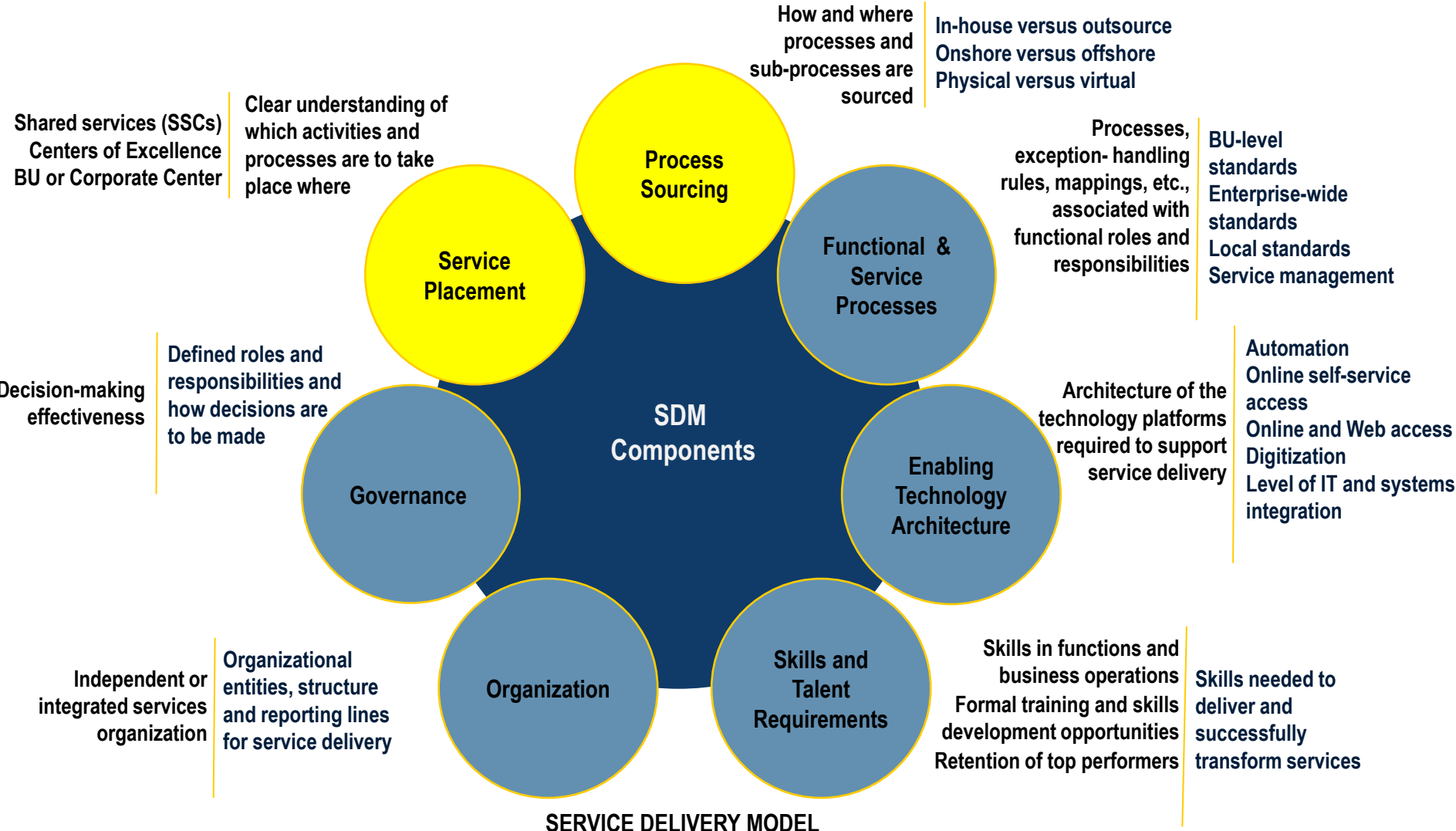
Percent of time spent on procurement activities by non-transactional FTEs



■ Current Allocation ■ Desired Allocation

Source: The Hackett Group Procurement Value Proposition and Capability Study, 2009

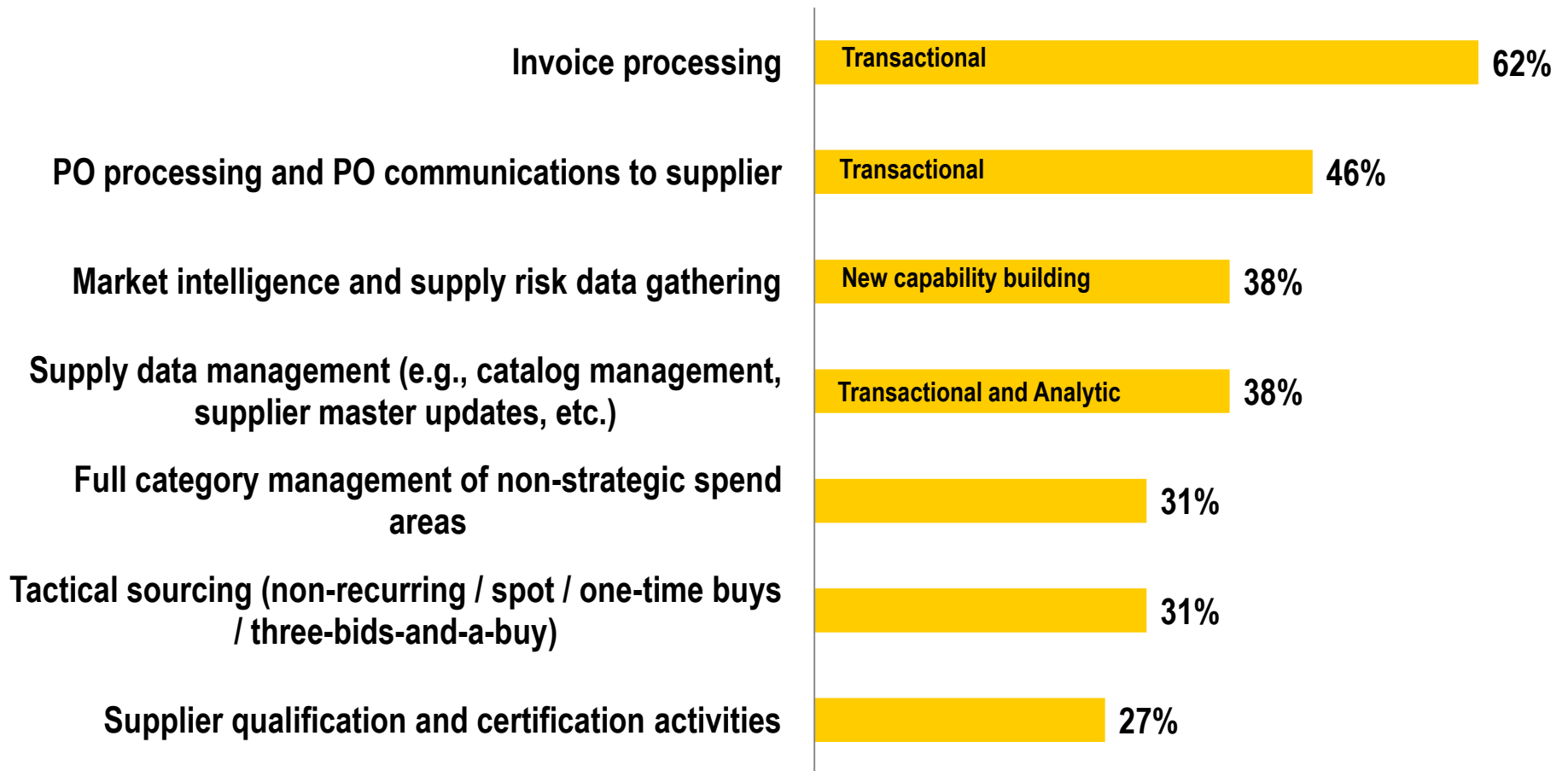
# Much of this has to do with the misalignment of the current Service Delivery Model particular “Service Placement” and “Process Sourcing”



**SERVICE DELIVERY MODEL**

# Procurement BPO is still heavily transactional, but market intelligence, tactical sourcing & full category management are increasingly in play

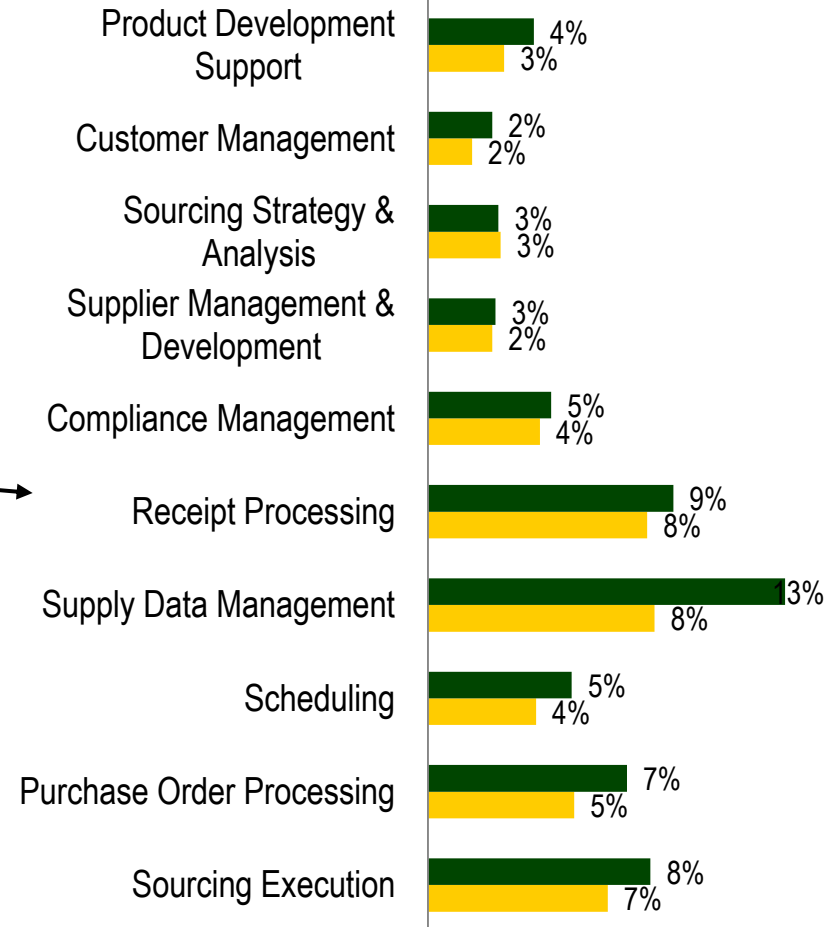
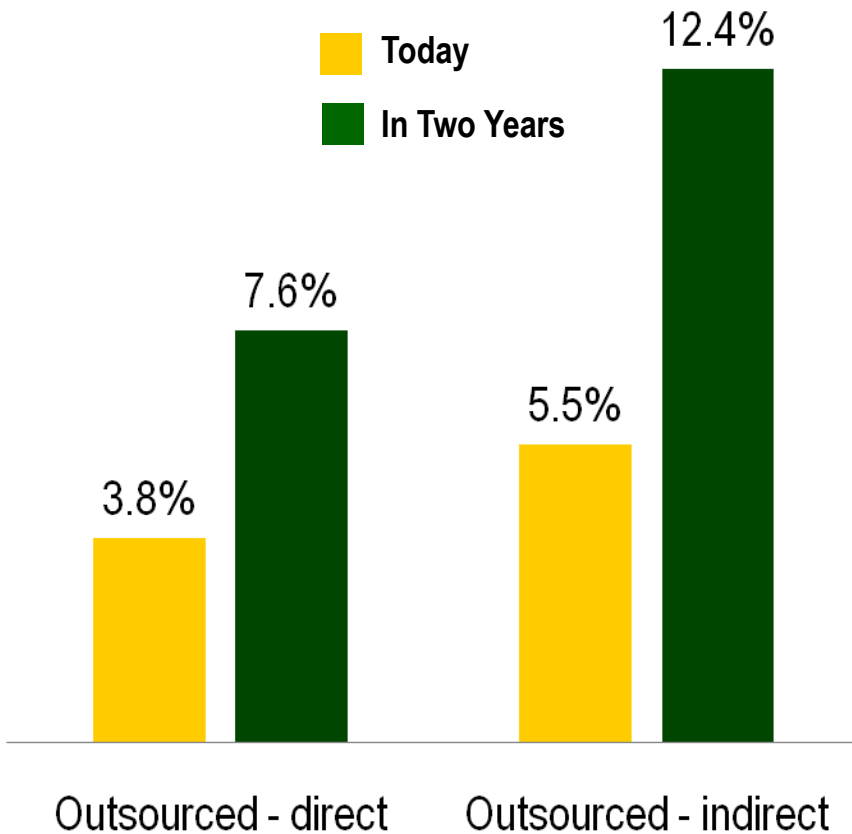
## Percent of companies citing processes where BPO will be used as major strategy



Source: The Hackett Group 2010 Key Issues Study

# Procurement Outsourcing is on the rise and increasingly coordinated by “GBS organizations”

Percent of Procurement Activity Outsourced  
(Large organizations with “GBS” Organizations)



Source: 2010 Global Business Services Study, 2010 Procurement Functional Benchmark, Hackett Analysis

# Tactical/Spot Sourcing of Non-Recurring Business Critical category can represent 20-32% of indirect spend

- Strategic, recurring (e.g., Telecom Services, PC upgrade, Advertising agency, Recruiting services)
- Tactical, recurring (e.g., Catalog/ rate based low dollar goods and services such as Print, Office supplies, Temps)
- **Non-Recurring Business Critical** (e.g. custom software, specialized marketing campaign / services, specialized training services, capital expenditures)
  - High activity (37% of req's are free-text)
  - Poorly managed
  - A 2% savings opportunity on indirect spend



% of Indirect Spend by Spend Type



Source: The Hackett Group Study on Non-Recurring Business-Critical Expenditures, 2009

**Procurement BPO is a capability that can support this under managed spend category**

The Rio Tinto logo is written vertically in a white, serif font on a red background. The letters are stacked from top to bottom: 'R', 'i', 'o', 'T', 'i', 'n', 't', 'o'.

# Rio Tinto

The background of the slide is a photograph of a molten metal stream, likely copper, being poured from a ladle. The metal is bright yellow-orange and is surrounded by dark, industrial machinery. The lighting is dramatic, highlighting the texture of the molten metal.

## Procurement BPO

Peter McNamara  
General Manager Rio Tinto Procurement

19/8/2010



# Rio Tinto – Who We Are

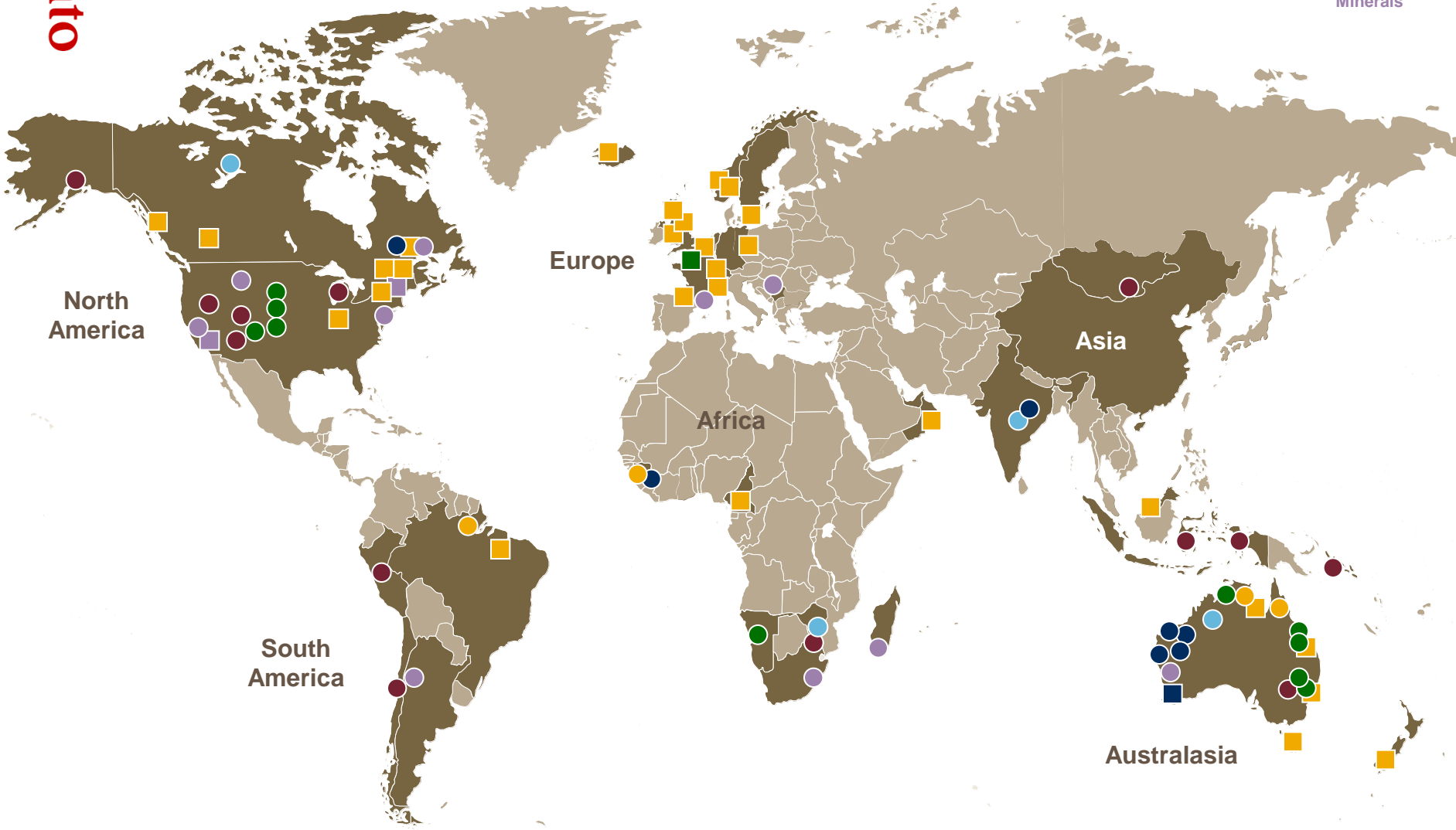


- Leading international mining group listed in Australia and UK
- Major products:
  - Iron ore
  - Aluminium,
  - Copper
  - Coal
  - Diamonds
  - Gold
  - Industrial minerals
- US\$44 billion in sales revenue
- US\$5.8 billion profit
- 100,000 employees

# Rio Tinto Operations Worldwide

- Key**
- Mines and mining projects
  - Smelters, refineries, power facilities and processing plants remote from mine

- Aluminium
- Copper
- Diamonds
- Energy
- Iron ore
- Minerals





# Rio Tinto Procurement



*“Source, Buy, Deliver”*

- US\$12 billion spend
- 38 spend categories
- 50,000+ suppliers
- 2.5 million purchase orders
- Staff in more than 20 countries
- 10 hubs
  - **Asia Pacific:** Brisbane, Perth, Shanghai, Singapore
  - **EMEA:** Johannesburg, Voreppe
  - **North America:** Montreal, Salt Lake City
  - **BPO:** Pune India, Monterrey Mexico

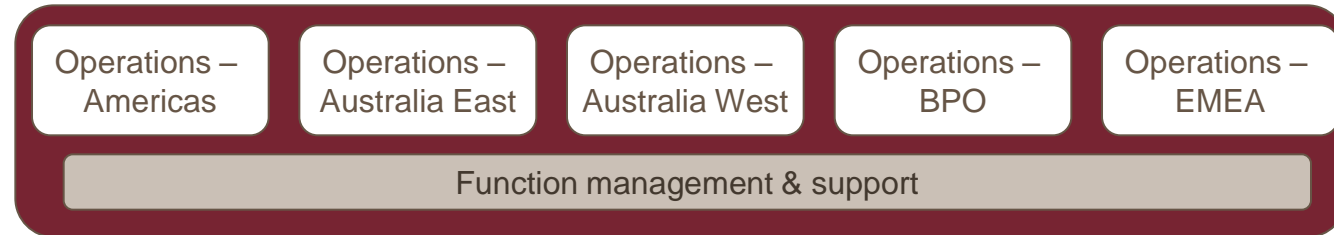
# The RTP Operating Model



Global Categories



Regional service delivery hubs



On-site delivery



# Rio Tinto Procurement Re-engineering

## 2010 – 2012 RTP strategy

**Our mission**  
To increase shareholder value by leveraging our procurement expertise and leveraging Group scale

**Our vision**  
To provide the Rio Tinto Group with the best procurement solutions by collaborating with our customers

Health, safety and environment | Our people | Our customers | Our performance

## 2010 RTP operating plan

**Our mission**  
To increase shareholder value by leveraging our procurement expertise and leveraging Group scale

**Our vision**  
To provide the Rio Tinto Group with the best procurement solutions by collaborating with our customers

**Health, safety and environment**

- Reduce environmental impact
- Reduce waste
- Reduce energy consumption
- Reduce greenhouse gas emissions

**Our people and culture**

- Attract, develop and retain the best talent
- Foster a culture of innovation and continuous improvement
- Encourage diversity and inclusion

**Our customers**

- Engage with our customers to understand their needs and expectations
- Provide tailored procurement solutions
- Deliver exceptional customer service

**Our performance**

- Increase procurement spend
- Reduce procurement costs
- Improve procurement efficiency
- Enhance procurement risk management

**RIO TINTO**

**The way we buy**

June 2008  
[www.procurement.riotinto.com](http://www.procurement.riotinto.com)

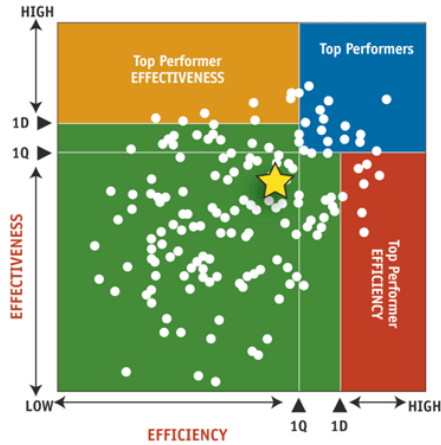
**Source Buy Deliver**

Our statement of procurement practice

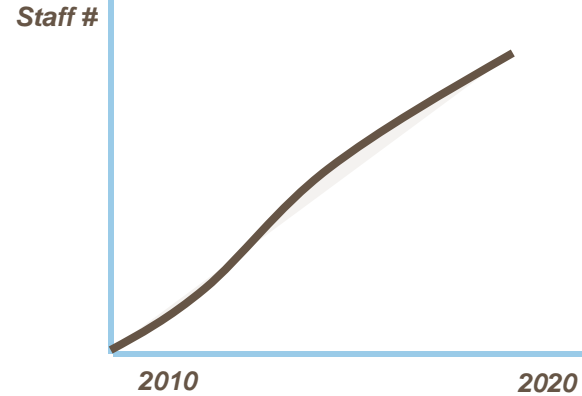
- M&A integration
- LEAN to drive process simplification
- Purchase to Pay Optimization
- Emerging markets sourcing
- Learning and Development
- Capital procurement

# Rio Tinto's Outsourcing Imperatives

## Hackett benchmark



## New hires forecast



## Remote locations



theage.com.au Ad Blocked  
 THE AGE  
**BusinessDay**  
 Victoria National World Environment National Times Business Tech Digital Life Entertainment  
 You are here Home » Breaking News Business » Article  
**Rio ups stake in Mongolia project**  
 October 26, 2009  
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 Updated Thursday, August 5, 2010 11:20 am TWB, AFP  
**Rio to invest additional US\$170 mil. in huge Guinea iron-ore mine**  
 CONAKRY -- Anglo-Australian mining giant Rio Tinto announced Tuesday it would invest an additional US\$170 million in the joint development of a huge Guinean iron-ore field with China's Chalco.

## Mine of the future

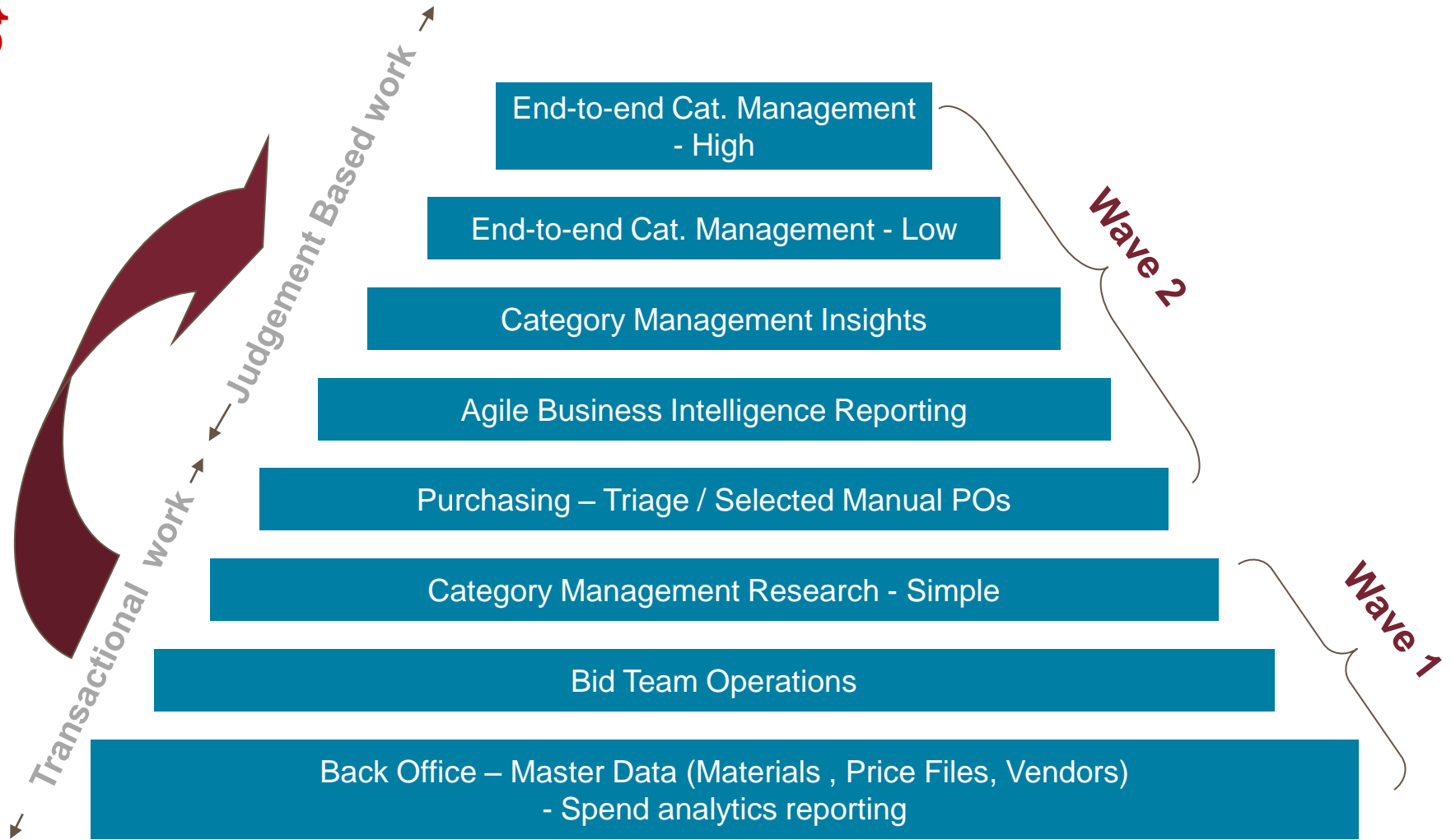


# Sourcing and Contracting Approach



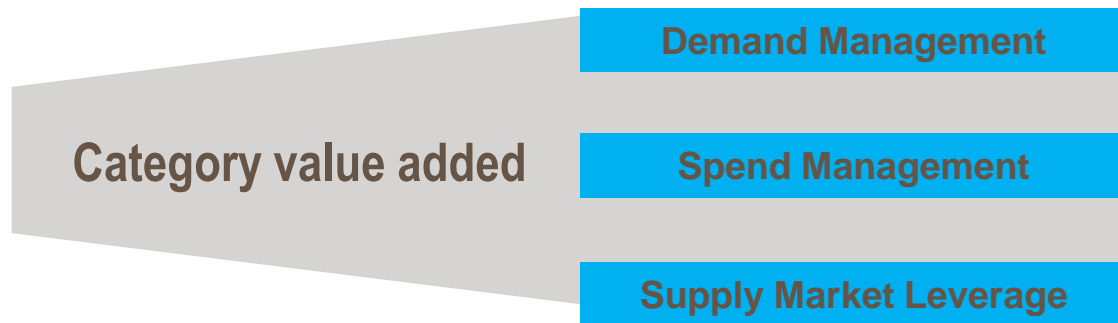
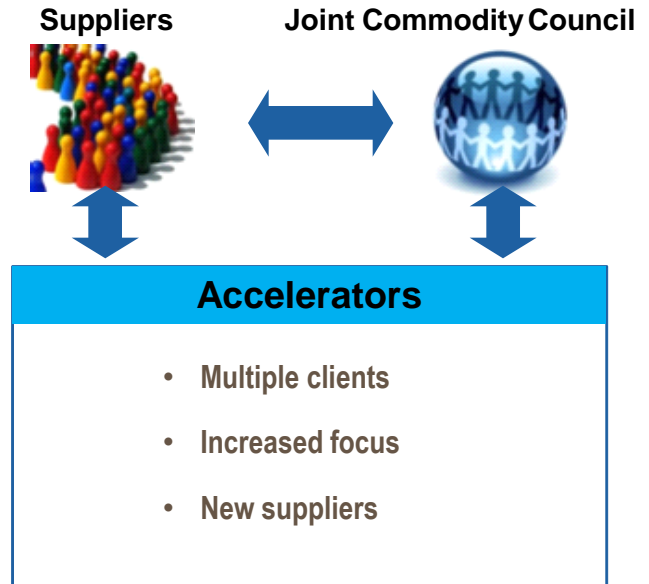
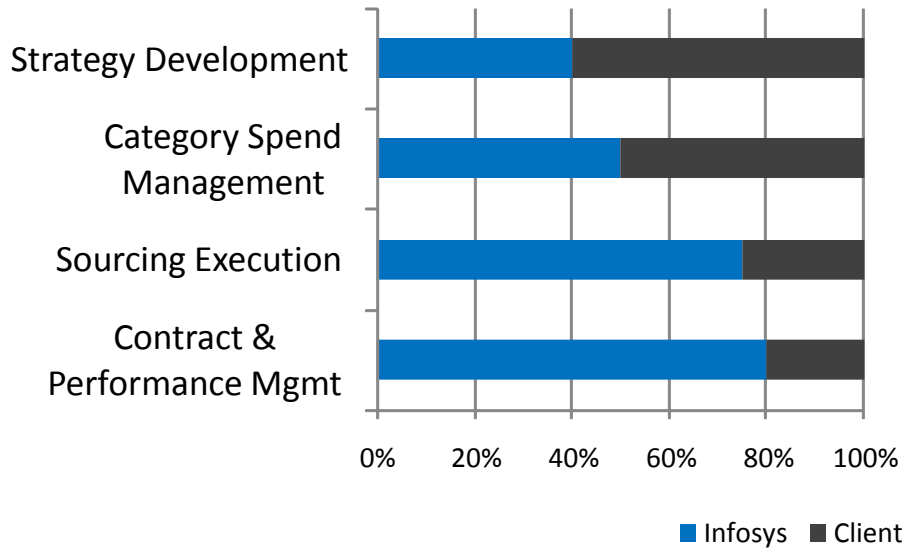
- Very short bidders list
- Transparent base lining with bidders
- Comprehensive TCO model
- Stress tested phase I outcome with competitive bid for phase II
- Contract structured around MSA and critical service level measures

# RTP's BPO Journey

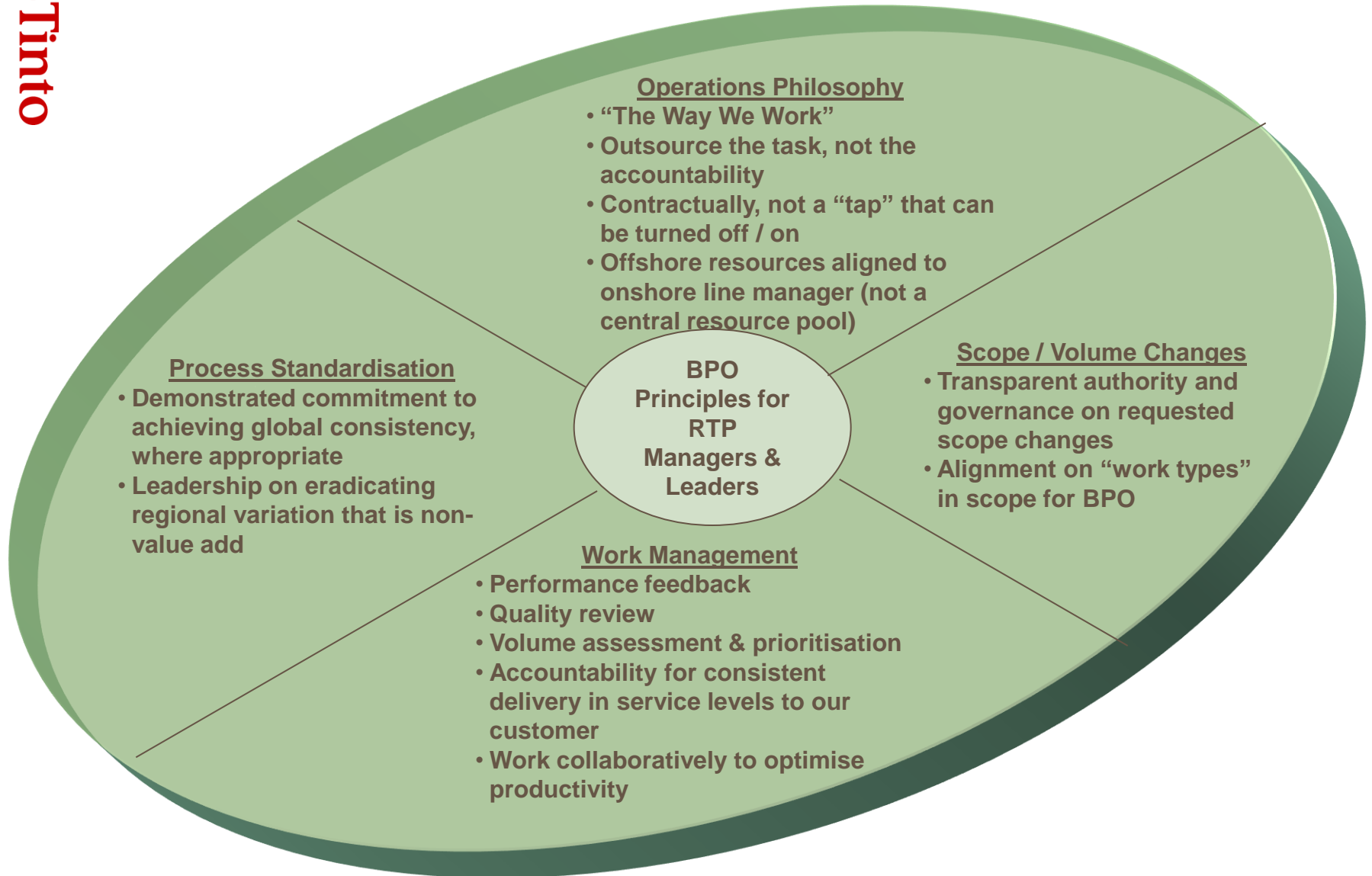


# Implementing With Our Partner

## Category Management Support



# Leaders Guide To BPO Expectations





# Governance Framework

PURPOSE

**Innovation &  
Transformation  
Board**

**Ensure we are a demanding customer**

**Global  
Operations  
Review**

**Process harmonisation / improvement**

**Operations  
Review**

**Regional value added**

**WIP Review**

**Discharge line management accountability**

# Delivering The Change



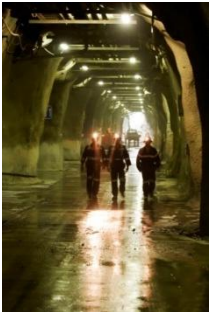
From: [Lawns, Martyn \(RTA\)](#)  
 To: **RTP General Managers**  
 Cc: [Singer, Scott \(RTP\)](#); [Sverdlov, Iouri \(RTA\)](#); [Soontiens, Roeland](#)  
 Subject: 'Spinning on a dime' with Infosys

Team

I wanted to give this piece of work some visibility as positive reinforcement of our BPO strategy and the re:

- Leadership
- Go and see
- “Drink you own champagne”
- Participatory scoping & supplier selection
- Non threatening incrementalism
- Early successes

# Additional Learnings



- It's a journey, be prepared for good days and bad
- Align the approach with your core operating model - Reinforcing line management accountability works very well for Rio Tinto
- Cultural alignment with the supplier is critical
- Invest in the relationship, including resourcing the retained organisation to sustain the strategic direction

# Rio Tinto



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