Global Procurement Transformation: New Frontiers for Global Innovation

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Abstract: LG Electronics is re-inventing its global procurement organization from highly decentralized to center-led, establishing streamline procurement leadership across five business units (companies) and eight regions. LG Electronics’ procurement is currently comprised of 2,200 staff who are part of an 84,000-strong workforce in 115 global operations. Managing US$36 Billion of total spend, the organization is led by Thomas K. Linton, Executive Vice President and Chief Procurement Officer. The profitability of LG Electronics is heavily dependent on procurement’s performance and efficiency since its spend represents 75 percent of its revenue. LG Electronics procurement is re-positioning the organization to a new level while maintaining its focus on high quality manufacturing and becoming a global top brand.

The Opportunity: Key areas of transformation that will be discussed in this workshop are:

- Speed of Transformation
- Procurement Leadership
- Strategic Organization
- Policy / Price / Process / People
- Procurement Impact

Speed of Transformation: In January 2008, the global Chief Procurement Officer role was created for the first time in LG Electronics. LG Electronics started to lay out a foundation to centralize its procurement function and it initiated a 3-year plan to transform global procurement to a fully center-led organization.

The speed, work ethic and culture to achieve this transformation are found in LG Electronics’ consensus-driven culture. This culture has a strong ‘tear-down-rebuild’ mentality whereby people get behind an initiative very quickly once a decision has been made.
**Procurement Leadership:** LG Electronics' operations and business have been deeply rooted in the hands of individual business units throughout its history. Until 2008, procurement in four companies was managed separately with decentralized business units divided by product lines. Company-driven procurement focused on excellence inside each business unit. It was losing the opportunity to leverage procurement resources and link key commodities across all companies.

All procurement teams now report to the Chief Procurement Officer, including direct materials sourcing and general sourcing. Procurement also plays an important role in LG Electronics' top executive consensus meetings between company brand towers and chief functional officers. These meetings serve as a platform to develop and promote best practices and identify key bottom-line improvements. Cross functional top management meetings run by the Chief Executive Officer are held monthly with his direct reports, including the Chief Procurement Officer. Major initiatives led by the CPO are immediately evaluated and implemented with top level consensus support.

**Strategic Organization:** LG Electronics` global procurement organization included the Chief Procurement Officer; head quarters staff; company procurement teams in Korea; regional / subsidiary procurement; international procurement offices and China procurement center (CPC) in 2009.
LGE global procurement became a center-led organization in 2010. Consolidated global sourcing organizations were created to drive corporate leverage across key commodity clusters while maintaining a high level of procurement serviceability to each company. General procurement operations has been expanded to every global region. The International procurement support (IPS) organization was established to consolidate five international procurement offices (IPOs) under one leadership.

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Transforming Policy / Price / Process / People: Ninety days after the Chief Procurement Officer joined, global procurement identified strategic issues that included: a decentralized organization with a non-matrix structure, absence of global strategy and policy, low capability overall and a large gap in overseas procurement resources. The CPO ninety days assessment were the foundation to drive global procurement transformation in Policy; Price; Process; People to build strategic center-led organization. Global procurement implemented initiatives to enhance its capability, expand its coverage, and ‘driving’ cost management across business units, rather than just ‘supporting’.

The procurement strategy group began developing the global strategy with one procurement policy ‘Good Book’ to link procurement together and to prevent bypass and maverick spending. The ‘Good Book’ was published in December 2009.

Commodity sourcing councils were formed in 2008 to drive direct material leverage across companies. Eighteen commodities included semiconductors, passives, connectors, metals, mechanicals, raw materials and other materials. It is now leveraging more than 60 percent of
direct material spend. There are twenty-one global commodity managers (GCMs) who are selected from the company procurement teams in Korea. Each has more than five years procurement experience and at least two years commodity experience. GCMs` roles will expand to outside of Korea starting in 2010. Their focus is commodity strategy development, supplier management, competitive cost index (CCI), competitive bidding and marketing intelligence (MI).

The General Procurement team was also built to manage non-material spend which had no previous organization. The spend includes seven commodity clusters of business services, logistics, marketing commerce, IT/Telecom, product material, ES/travel, and R&D products. Previously they were managed by different teams in different regions. The Chief Procurement Officer persuaded the Chief Executive Officer to reassign 150 LGE employees temporarily to start a general procurement TDR (tear-down-rebuild) task force. A ‘Boot Camp’ training was initiated in April 2009 to train the new recruits to become procurement experts since most had no background in procurement. The ‘Boot Camp’ covered best practices related to GP at leading companies: spend analysis, ‘fair value’ education, a system to calculate the appropriate price for a contract, contracting, supplier relationship management (SRM), and ‘Jeong Do’ management, the ethics behind LGE. The plan is to maintain more than 90 percent general spend coverage globally by 2012. Accumulated cost savings are estimated to be US$3.2 billion from 2009 through 2012.

Corporate level procurement engineering, Greater China procurement center, and Global trading were initiated to support procurement process innovation.

In 2008, global procurement created a corporate level procurement engineering team to develop PE projects and to standardize corporate PE processes in Value Engineering and Design to Cost.

There were four international procurement offices (IPOs) in Greater China which focused on sourcing and delivery support with separate management by Korean assignees. At the start of 2009, global procurement consolidated IPOs and built a regional procurement function called greater China procurement center (CPC) with local leadership to leverage resources and increase the skills and responsibilities of local staff.

The company is looking to expand outsourcing to 30 percent in three years and global trading will play important role. Corporate global trading was initiated in April 2009 to buy and sell strategic components to external manufacturing suppliers. The purpose is to manage the
supply of key components that are aligned to our technology roadmap. Management of these materials will increase in important as outsourcing continues to expand. It focuses on secondary key suppliers’ management, price masking and material allocation control.

‘Globalization’ is a key to drive our successful transformation. In 2008, 60 percent of LG Electronics’ manufacturing, 46 percent of its direct material and 55 percent of its general material purchase originated from outside Korea. The management team is becoming diversified and globalized to effectively support LG Electronics’ operations. Diversity of thoughts, ideas and opinions is the impetus behind LG Electronics and its procurement organization’s transformation today.

LG Electronics has historically been driven by Korean assignees in leadership positions overseas. Now its global transformation is seen everywhere from talent recruiting to local leadership in overseas operations. The diversity of international thoughts and ideas and various nationalities are valued in shaping the new LG.

LG Electronics is also recruiting external procurement talent and MBAs globally to rapidly enhance its global procurement capability. In 2008 the Chief Procurement Officer initiated the Procurement Leadership Program (PLP) and Early Identification Program (EIP) to develop a fast track procurement leadership pipeline.
**Financial Impact:** Procurement drove direct material cost savings of US$4.7 billion in 2008. In 2009, procurement drove US$5.9 billion in savings year-on-year including direct material and general spend. Procurement’s financial impact on the corporate bottom line is projected to be US$30 billion from 2008 to 2012. At this level of impact, procurement’s influence in driving material cost rate, SG&A, and effective supplier management is fundamental to the success or failure of LG Electronics in the years to come.