

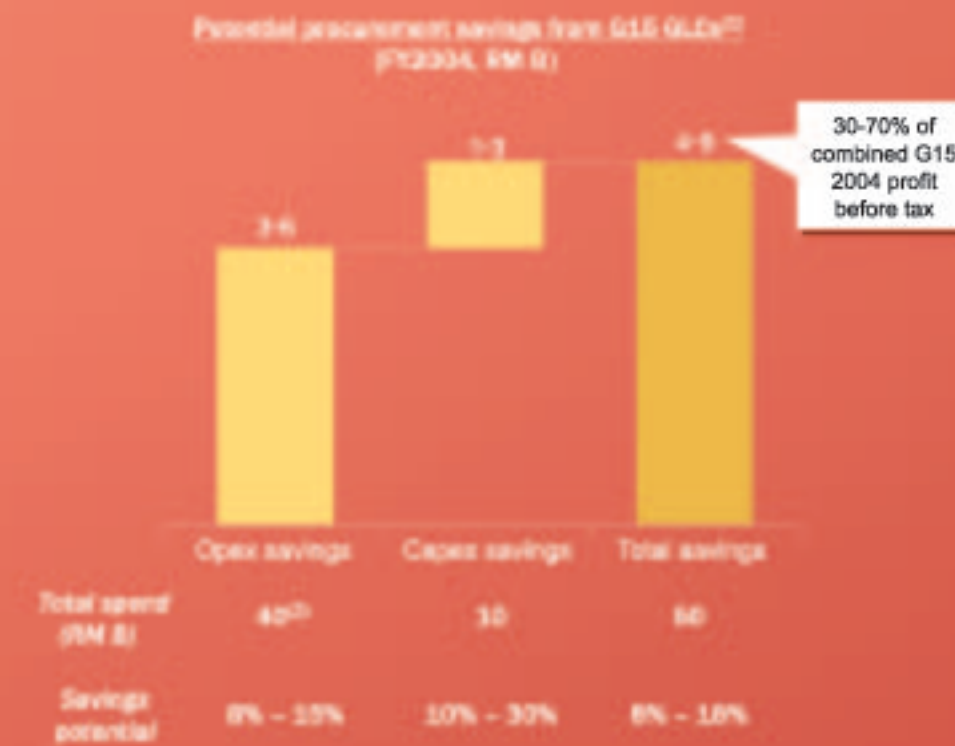
RED BOOK AT A GLANCE



Chapter 1: Importance of procurement

Significant Benefits Can Be Realised From Improving Procurement

GLC procurement spend is large and potential savings are significant



Malaysian Companies have already realised significant benefits from improved procurement functions

Procurement Improvement	Actions taken	Benefits
Reduce cost savings	Aggregated demand, increased supplier competition	RM1.30M or 20% in savings
Reduce procurement cycle time	Introduced differentiated purchase methods, Conducted non-core processes in parallel	20% reduction in cycle time
Enhance supplier management	Implemented structured process to register, track and graduate vendors	20 vendors have graduated, several are regionally competitive

Chapter 5: Getting started - Ensuring traction for a procurement initiative

GLC Boards And CEOs Have Specific Implementation Roles

To create a strong platform for implementing the Red Book, GLC Boards should:

- Adopt the Red Book as the primary reference for procurement best practices
- Set initial top-down CEO targets and milestones in relation to Red Book implementation
- Where appropriate, elevate the reporting line for the Head of Procurement to no more than two levels below the CEO
- Where appropriate and relevant to the GLC, revise current procurement policies and targets based on Red Book's approach

To initiate a procurement initiative and gain immediate traction, GLC CEOs should:

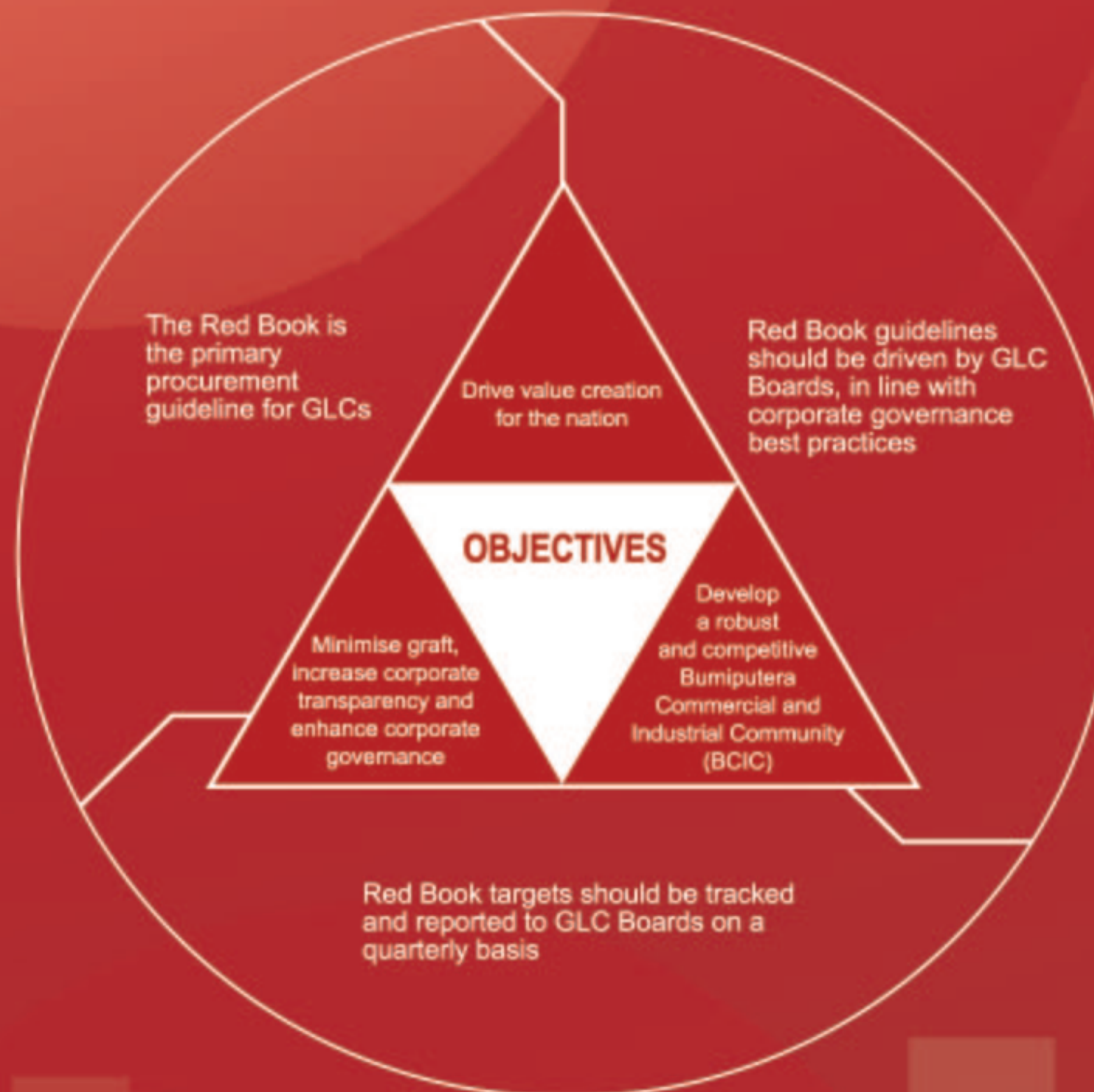
- Establish the importance of the procurement initiative and its implications for the organisation
- Gain immediate traction in the organisation by:
 - Appointing an internal initiative champion
 - Validating an initial assessment on procurement issues and gaps
 - Determining procurement priorities and scope of the initiative
 - Setting timelines, targets and reporting frequency
 - Communicating with procurement teams on need for change
 - Securing Board approval on procurement plan

Chapter 4: Approach to procurement best practice implementation

Example Of A Gap Analysis

Topics	Assessment	Rationale for assessment	Potential action steps to address gaps
Category purchasing strategy	Leading Best Practice	<ul style="list-style-type: none"> Most analyses undertaken on an ad-hoc basis Sourcing centre processes, operational staff decides 	Perform systematic analysis on each product category
Proactive supplier management	Leading Best Practice	<ul style="list-style-type: none"> Significant use of retailers Supplier portfolio being rationalised for some categories 	Reduce number of suppliers used and buy directly from distributor
Sourcing coverage	Leading Best Practice	<ul style="list-style-type: none"> Difficult as most key products are service-based 	Relative role of sourcing centre to include validation of specification
Specification standardisation	Leading Best Practice	<ul style="list-style-type: none"> Business units (BU) require customised specifications 	Consolidate volumes across BUs and geographies
Demand aggregation and management	Leading Best Practice	<ul style="list-style-type: none"> Common commodities not consolidated across BU 	Increase number of frame agreements to lock-in prices and provide suppliers with base load demand
Supplier development programmes	Leading Best Practice	<ul style="list-style-type: none"> No supplier partnerships, or development programmes in place 	Enhance role of sourcing centre
Enablers, e.g. process and organisation	Leading Best Practice	<ul style="list-style-type: none"> Sourcing centre too administrative and passive 	

PRINCIPLES



Red Book targets should be tracked and reported to GLC Boards on a quarterly basis

Chapter 2: Guidelines on supporting national development

Recommended Approach Increases GLC Flexibility And Focuses On Results

	Summary description
Simple	Red Book approach supports three national development objectives <ul style="list-style-type: none"> Promote use of local content Ensure Bumiputeras' equity share of economic growth Develop capabilities of local and Bumiputera vendors Approach uses spend targets to quantify and monitor GLC support for the national development objectives
Driven by GLC Boards	Approach is applicable to all listed GLCs Spend targets are determined and approved by Boards based on type and size of GLC procurement spend

Chapter 3: Procurement best practices

GLCs Should Implement Best Practices That Are Relevant To Their Organisations

Key objectives of Red Book guidelines	Description
Minimise total cost of ownership	<ul style="list-style-type: none"> Reduce total cost of ownership of products procured, resulting in initial and on-going cost savings by using appropriate levers and tools such as specification and demand management, and e-procurement The cheapest bid may not necessarily be the most cost effective over the life of the product
Ensure efficient procurement cycle times	<ul style="list-style-type: none"> Enhance procurement unit effectiveness by consistently delivering products requisitioned in a timely and efficient manner, resulting in, for example, reduced downtime, additional revenues and enhanced competitive responsiveness
Enhance transparency and eradicate corruption	<ul style="list-style-type: none"> Minimise opacity in the procurement process by adopting a clear disclosure policy and leveraging on e-procurement where possible Cultivate an ethical working environment that will reduce graft, enable products to be purchased at competitive market prices, and ultimately improve profitability
Enhance organisation capabilities and governance	<ul style="list-style-type: none"> Develop a strong in-house procurement unit to support the company's long term profitability objectives Establish robust mechanisms to ensure agreed practices and processes are adhered to
Establish a stable and competitive supplier base	<ul style="list-style-type: none"> Build strong, long-term relationships with strategic suppliers and help develop local vendors Use continuous evaluation and feedback to drive down costs and improve quality and service Help develop capable Bumiputera vendors by establishing a programme that focuses on capability enhancement, evaluation and graduation

(1) GLC GLCs are Telekom Malaysia Berhad, Malayan Banking Berhad, Sime Darby Berhad, Tenaga Nasional Berhad, Bumiputra-Commerce Holdings Berhad, Prasarita Holdings Berhad, Malaysian Airline System Berhad, Golden Hope Plantations Berhad, Afn Holdings Berhad, Kumpulan Sahaja Berhad, Boustead Holdings Berhad, IHH Holdings Berhad, UEM World Berhad, Malaysian Resources Corporation Berhad and Malaysian Dairymilk Society Berhad
 (2) Excludes regulated fuel cost, independent power producer contracts, international telecommunication outpayments, universal service obligation outpayments and any other non-sourcing related costs
 Source: Red Book