Overview

IBM Global Process Services for procurement outsourcing helped Korea Exchange Bank (KEB) optimize sourcing and supplier management, standardize processes and contracts, and transform business controls and performance measurements. New procurement capabilities brought 10 percent savings within the first five months. By leveraging IBM’s global supply chain expertise, marketing intelligence, supplier relationships and infrastructure capabilities, the bank gained better control, visibility and internal compliance of its procurement operations. With approximately 50 percent of its procurement staff redeployed to core banking functions, the bank was able to refocus on its core competencies and growth initiatives.

Procurement outsourcing helps KEB focus on banking and growth

As financial institutions remain under close scrutiny, banks across the globe are rising to the occasion to assure customers of their strength, stability and intrinsic value. With a 42-year history of solid growth, Korea Exchange Bank (KEB) was recognized for its merit long before the markets stumbled. In fact, 2009 was the fourth consecutive year KEB was honored as Best Cash Management Service Bank in Korea, and the fifth consecutive year as Best Foreign Exchange Bank in Korea, according to the global financial monthly Asiamoney.

KEB is Korea’s largest foreign exchange bank and fifth largest bank in Korea by assets, representing one of the most dynamic regions of the world, Northeast Asia. With a global network of some 325 domestic branches and nearly 30 locations in 15 other countries, it maintains a competitive presence in both corporate and private markets.

However, as sophisticated and multifaceted as it is, KEB recognized that there are still areas for improving their processes, including procurement, with nearly all such operations conducted in house. KEB chief operating officer Alexander S. Kim said that situation led to an “inability to get a handle on our total spending amount, which was spread across multiple divisions. The budgets were owned by different managing directors who had their own vendor preferences. This decentralized structure offered no opportunity to leverage scale and no way to track actual spend. So, cost savings was not a top priority at first, but rather doing a better job of managing the bottom line and improving cost efficiency.”

Such procurement inefficiencies also exposed the bank to opportunities for errors, waste and other irregularities in three primary areas: overlapping duties that put one person in control of multiple stages or processes; decentralized supplier contracts that were loosely managed, recorded and tracked, with no central repository to support contract management practices and procedures; and widespread maverick buying, with various purchasing teams performing their own procurement functions, making it difficult to achieve volume savings.
In order to maintain the bank’s leadership position and to add momentum to its global growth initiative, KEB leaders sought out procurement experts to optimize processes, improve sourcing efficiencies and increase procurement compliance. More important, said Kim, leaders were eager to return their banking professionals to what they do best—attending to the credit, sales, deposits and financial interests of their customers.

Fortunately, said Kim, “We have a CEO who saw the need to rely on partners who could do a better job than we could.”

Smart spending adds value through a multifaceted approach

“Our thought was that if we were going to spend a dollar, we wanted to get the maximum value out of every dollar—to spend it smartly,” said Kim. “In order to do that, we saw clear limitations in relying on internal personnel because we did not have the expertise or internal management infrastructure to build purchasing expertise.” He explained that as part of the bank’s mandatory rotation policy—a fraud-prevention measure used by companies across industries—even if employees gained working knowledge of procurement basics, they could serve in a position for only two years, when a novice would assume their role.

The bank’s desire to spend each dollar “smartly” was a clear fit with IBM’s smart spending strategy—a multifaceted approach to managing procurement spend. It combines sound fundamental procurement practices with innovative technology, enhanced analytics and greater leverage of spend and infrastructure. Businesses gain additional value by strategically leveraging external capabilities to complement and enhance internal procurement functions.

Letting bankers be bankers

In August 2009, KEB selected IBM to provide a full range of strategic sourcing and procurement services. As the first total procurement outsourcing contract in Korea’s financial industry, the decision reflects the bank’s forward-thinking mindset.

“The CEO support and wholehearted commitment was very important because there was no precedent for this. Bankers are a very conservative group, and there were no examples to follow in the industry,” said Kim.

The decision also reveals the importance of looking at new ways to think about managing a process and exploring all aspects and inhibitors. Korea, for example, has strong a labor union culture. The bank faced this up front, demonstrating to union leaders that procurement did not provide a career path for employees and that employees’ positions would likely be
strengthened by engaging a procurement provider because it allowed bankers to return to banking.

In fact, Kim said, “We were able to redeploy approximately 50 percent of the procurement staff back into other core banking functions. It showed that this was not a simple cost takeout move, but would benefit employees as well.”

Better visibility offers a comprehensive approach to procurement spend

KEB had other reassurances as well. Before the contract was signed, IBM conducted a diagnostic assessment of the bank’s existing procurement environment and delivered a high-level sourcing plan that identified opportunities for improvement in five areas: governance, strategy, organization, process and information technology (IT) infrastructure. By identifying KEB’s needs in each of the areas, IBM demonstrated the value of its source-to-pay processes. The analysis gave the bank a deeper view into its procurement baseline spend, potential savings opportunities, the scope and extent of the procurement outsourcing contract, and transformation and transition plans. Using IBM calculation methods for maintenance, repairs and operations (MRO) categories, the plan also demonstrated IBM’s due diligence in identifying the most effective saving lever for each of the categories and provided KEB with an opportunity roadmap for cost reduction.

Once the contract was signed, within just five months, KEB was concentrating on procurement planning and process management while the IBM team was running the bank’s overall sourcing and procurement operations end to end, covering nine indirect procurement categories as varied as IT, marketing, services, facilities management and supplies. IBM has established and supports the bank’s purchasing strategies, provides guidance for streamlining its purchasing process and systems, and manages strategic sourcing processes and relationships with suppliers.

Greater control helps improve compliance and reduce risk

Other capabilities IBM brings to KEB include process optimization through proven global procurement management; better control, visibility and internal compliance through global infrastructure investments and supplier relationships; and reduced risk based on IBM’s expertise and experience.

The delivery model currently includes procurement buyers in the IBM Delivery Center in Shanghai, China to conduct tactical buying, procurement operations and catalog management. More IBM specialists
are co-located with the bank’s team at KEB, focusing on sourcing and project management within the bank’s Korea operations.

The engagement also includes a partnership with a local e-marketplace provider, eNioB, which manages supplier sourcing and supplier negotiations for MRO. This collaborative relationship with an established firm with ready catalog content has helped KEB shorten time to savings. It also demonstrated IBM’s readiness to work with other vendors and partners and to phase in changes in a well-paced manner.

**Leveraging IBM’s global reach and expertise offers scalable solutions**

“It came down to trust and hands-on experience in managing procurement in business,” he continued. “IBM has a stake in having the rules and procedures and the people to execute, because IBM is a manufacturing company, so has the need to do it well.”

IBM also fit the bank’s need for worldwide capabilities. KEB has launched a five-year plan for expansion into markets outside Korea, and leaders wanted a business partner with global experience and a strong supplier network that could be leveraged to meet procurement requirements domestically and overseas. While the initial contract is limited to Korea, IBM’s ability to start on a limited scale—with global capabilities, technology and personnel ready to hit the ground running when the bank is ready to expand—suited the bank’s growth strategy.

Further, with IT being one of the bank’s largest spend categories, IBM’s strong relationships with other leading IT vendors helped convince KEB that IBM was focused on the hardware, software and maintenance specific to their needs. As the engagement progressed, IT was the source of most the bank’s initial 10 percent cost savings, which gave leaders a practical and tangible example of smart spending to show other divisions as they contemplate additional areas for optimization. In addition, flexible, performance-based variable pricing offered KEB an attractive return on its investment for the engagement.

“IBM was willing to share in the risk as well as share in the benefits,” said Kim, “and willing to put their own people to work in our office space, to work as a real partner with us.”
**New procurement capabilities help bank focus on growth**

KEB’s sweeping new procurement capabilities are already reaping savings, reducing costs and opening doors for KEB to take its procurement organization to the next level, and to other back-office functions such as finance and administration, human resources, and its customer relationship management processes.

“Overall, we were able to identify a lot of conflicts of interest, changed a lot of policies and worked with HR to redefine roles and responsibilities. We now have a mechanism in place to track spending, supplier relationships and contracts. We are still building on it, but we have a professional platform with all of the procedures in place. Now, we can focus on our core competencies, global reach and capacities.”

“This is not a one-shot deal in the Korean market, but a move to support long-term expansion of KEB in the Asian region,” said Kim. “We expect continued support and involvement from IBM in building out and managing a global operation.”

**Tailoring indirect procurement strategies to match your needs**

At a time of historic economic pressures, procurement executives across the globe are exploring a variety of outsourcing solutions to help rein in spending and hone their purchasing capabilities. Outsourcing is now well established as a means to help reduce costs, improve procurement functions through access to better skills and expertise, achieve greater leverage with suppliers, upgrade tools and technology, improve compliance and user satisfaction—even to avoid capital expenditures and move toward broader organizational transformation.

**For more information**

To learn more about IBM Global Process Services for procurement outsourcing, please contact your IBM marketing representative or visit: [ibm.com/services/outsourcing](http://ibm.com/services/outsourcing)

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