White Collar Productivity
Transformation on track – target increased
Jean-Christophe Deslarzes, Chief Human Resources Officer
White Collar Productivity
Transforming to a leaner, more agile and more customer-focused ABB

Topics covered:
WCP starting point and achievements
Business function example: SCM
Support function example: HR
Market-oriented complexity reduction

1 GBS: Global Business Services; 2 SCM: Supply Chain Management; 3 HR: Human Resources
White Collar Productivity starting point
Recap from ABB Capital Markets Day 2015

**Business functions**
- Fragmented footprint, scale not leveraged
- No common sales processes, customer face time underutilized
- Low automation levels
- Supply Chain Management spend mainly handled at local level

**Support functions**
- 68 country-based shared service centers
- Low level of standardization (20%)
- Limited presence in low-cost countries (<20%)

**Organization complexity**
- 5 Divisions, 8 Regions, 23 business units
- 12 management layers and narrow span of control
- Inflated HQ covering classic HQ, business line and transactional activities
Examples of transformational change

Customers

Marketing & Sales

Salesforce.com rolled out in 92 countries
23,000 active users
Single CRM Tool across all businesses

New customer interaction model “cost to serve”
Implemented in 16 countries
Covering multiple businesses across two Divisions

$90 mn investment in marketing & sales

1CRM: Customer Relationship Management
Examples of transformational change
Driving our businesses

**Engineering**

- ~1,500 engineers in centers in India and Czech Republic
- Standard resource planning tools in 2 Divisions

**Supply Chain Management**

- ABB factories transitioning to transport management centers
- Currently ~90 factories in 15 countries in transition

**Global Business Services**

- GBS implementation well on track, serving 24 countries
- >2,000 employees in GBS centers

1 include support functions in Finance, HR, IS and SCM
White Collar Productivity

Business function example: SCM

Topics covered:

SCM transformation

*Daniel Helmig, Head of Supply Chain Management*
Supply Chain Management

Delivering on cost reductions

Annual cost reduction performance

- World class according to benchmark\(^1\)
- ABB SCM

Continuous savings performance over several years

- Delivering a significant part of 3 – 5% annually reported CoGS\(^2\) reduction
- Recognized as leaders in SCM employee competence building

World-class savings performance

\(^1\)Based on The Hackett Group benchmarks; \(^2\)CoGS: Cost of Goods Sold
Supply Chain Management
Our starting point: high savings performance, opportunities on productivity

<table>
<thead>
<tr>
<th>Transport &amp; Logistics</th>
<th>Transactional Procurement</th>
<th>Strategic Sourcing</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fragmented</strong></td>
<td><strong>Plant level</strong></td>
<td><strong>Low leverage</strong></td>
</tr>
<tr>
<td>$1.5 bn external spend managed mainly locally</td>
<td>26,000 orders per day managed on plant level</td>
<td>World-class cost reduction performance</td>
</tr>
<tr>
<td>&gt;3,500 road forwarders</td>
<td>50% of plants without EDI(^1) connection to suppliers</td>
<td>Significant spend still sourced at plant level</td>
</tr>
<tr>
<td>~60% of trucks less than full capacity utilization</td>
<td>Number of buyers well in excess of benchmark</td>
<td>Opportunities in optimizing our supply base</td>
</tr>
</tbody>
</table>

Below productivity benchmarks\(^2\)

\(^1\)EDI: Electronic Data Interchange; \(^2\)Based on The Hackett Group benchmarks
## Supply Chain Management

WCP enabled transformational change

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<td><strong>Transport Management Centers</strong></td>
<td><strong>Global Business Services</strong></td>
<td><strong>Centers of Expertise</strong></td>
</tr>
<tr>
<td>Move to 10 TMCs(^1)</td>
<td>Move to GBS Centers</td>
<td>Create &gt;250 category leads</td>
</tr>
<tr>
<td>15 out of 22 countries in transition (90 plants)</td>
<td>26 plants already live in GBS Krakow &amp; Bangalore</td>
<td>BUs identified 130 categories to be managed globally</td>
</tr>
<tr>
<td>21st century logistics software live in first TMC</td>
<td>USA, Europe &amp; China plants transitioning in 2016</td>
<td>$11 bn out of $16 bn spend moves to global category management</td>
</tr>
<tr>
<td>&gt;30% lower cost for early TMC adopters</td>
<td>Roll-out of digital solution for 90% of transactions</td>
<td>Pilot CoE(^2) “Indirect” ($4 bn) increased savings by 25% y-o-y</td>
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Our flight plan = 20% productivity improvements and even more CoGS savings

\(^1\) TCM: Transport Management Center; \(^2\) CoE: Center of Expertise
White Collar Productivity
Support function example: HR

Topics covered:
HR transformation

*Sylvia Hill,*
*Head of Global HR Services and HR Transformation*
## Human Resources

### Our starting point

<table>
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<tr>
<th>Roles &amp; responsibilities</th>
<th>Overlapping</th>
<th>Non-coherent definition of roles within HR, redundant activities</th>
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<tr>
<td>Transactional activities</td>
<td>Scattered</td>
<td>HR Business Partners spending 40% of their time on transactional activities</td>
</tr>
<tr>
<td>HR analytics</td>
<td>Limited scope</td>
<td>Missing common metrics and dashboards</td>
</tr>
<tr>
<td>End-to-end processes</td>
<td>Diverse</td>
<td>Optimized at country level, globally varying</td>
</tr>
<tr>
<td>External spend</td>
<td>Fragmented</td>
<td>Costly vendor landscape (e.g. &gt;4,000 learning providers)</td>
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Human Resources

WCP enabled transformational change

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<th>Roles &amp; responsibilities</th>
<th>Redesign</th>
<th>Migrated to GBS</th>
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Three pillar model: business partnering\(^1\), global governance\(^2\), and service delivery\(^3\)

50% of ABB employees served from GBS centers, up to 30% cost savings

Established portfolio of global standardized people reports

Global delivery capability, e.g. 70,000 individual performance scorecards automatically delivered out of a global center

Streamlined vendor landscape resulting in 25% savings

GBS centers up and running – employee satisfaction increased

\(^1\)Through HR Business Partners; \(^2\)Through Centers of Expertise; \(^3\)Through Global Business Services
White Collar Productivity

Market-oriented complexity reduction

Topics covered:

Organizational simplification

Haider Rashid,
Head of White Collar Productivity Program

Lean business functions

Support functions and GBS

Market-oriented complexity reduction
### Complexity reduction initiatives delivering benefits ahead of schedule

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<th>Measures announced at CMD 2015</th>
<th>Status today</th>
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<td>Simplify the organization – 20% complexity reduction in all dimensions</td>
<td>From 5 Divisions and 8 Regions to 4 Divisions and 3 Regions</td>
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<tr>
<td>Reduce management layers from 12 to 8</td>
<td>98% of employees in 8 layers</td>
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<tr>
<td>Leaner HQ focused on strategy, governance and control</td>
<td>HQ reduced by 30%(^1), moved from 4 to 1 existing building</td>
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\(^1\)Including relocation of business leaders and some functions closer to markets
Delivering a leaner, more agile and more customer-focused ABB

- Lean business functions
- Support functions and GBS
- Market-oriented complexity reduction

Increased target from $1 bn to $1.3 bn
Scope, measures and costs\(^1\) remain unchanged

\(^1\)Combined total restructuring and White Collar Productivity implementation costs