

KONECRANES

KONECRANES®
Lifting Businesses™

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PROCUREMENT **CMD, November 23, 2010**

Pekka Lettijeffer, CPO

PRESENTATION CONTENTS

- Realities in global sourcing today
- Konecranes Procurement objectives, operational model and strategy
- Mitigation model for volatile raw material markets
- Collaboration with suppliers

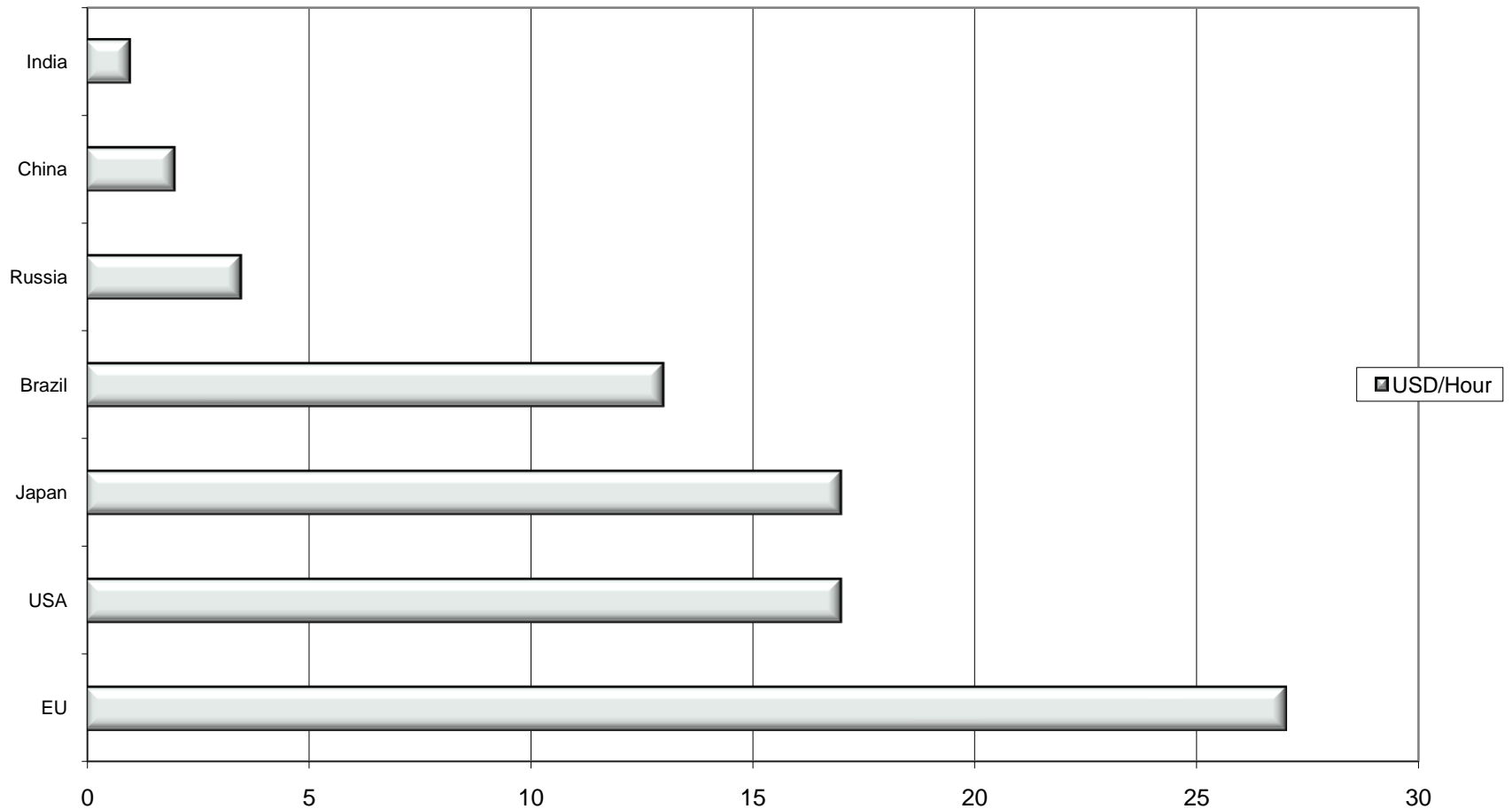


REALITIES IN GLOBAL SOURCING TODAY



MANUFACTURING LABOR RATES

USD/Hour

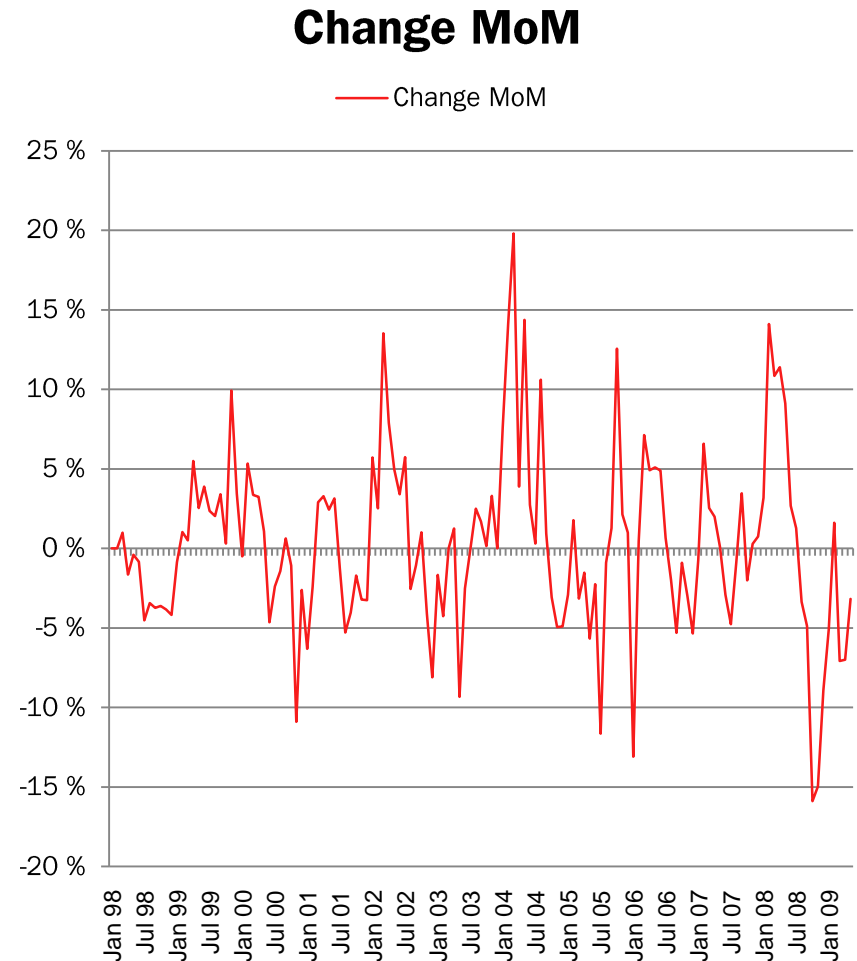


Source: Euromonitor, US Department of Labor.

Note: India labor rates based on growth of 103% from 2006 to 2010.

"FIXED OR STABLE PRICES – A MEMORY FROM THE PAST?"

- Customers are seeking price stability to ease decision making
 - Underlying volatility of steel market keeps increasing
 - Suppliers not willing to take price risk (or at least not for any reasonable price)
- How can suppliers and customers cooperate?



Source: Steel Business Briefing , SBS

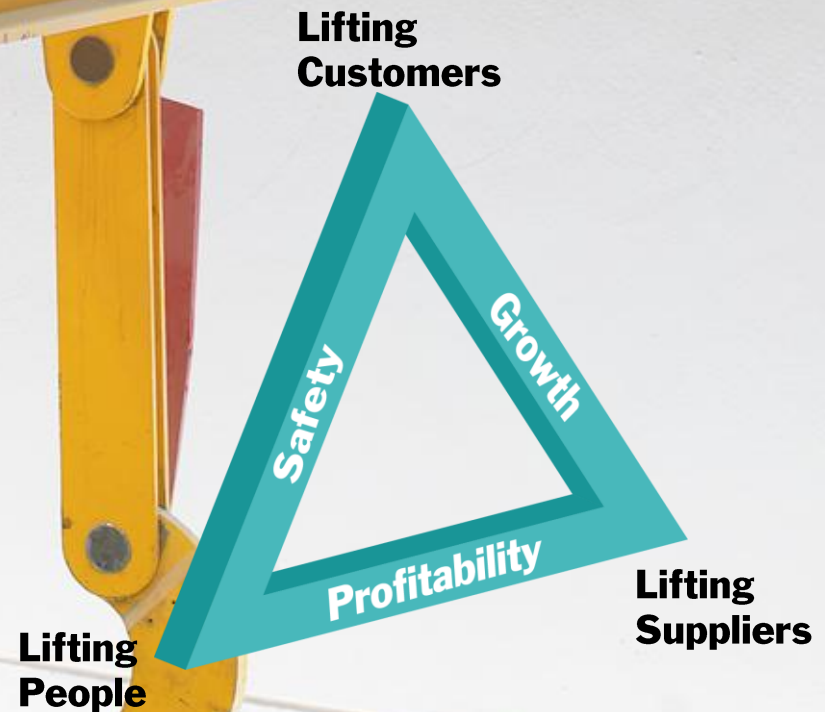
KONECRANES PROCUREMENT OBJECTIVES, OPERATIONAL MODEL AND STRATEGY

Region Americas HQ Springfield, Ohio

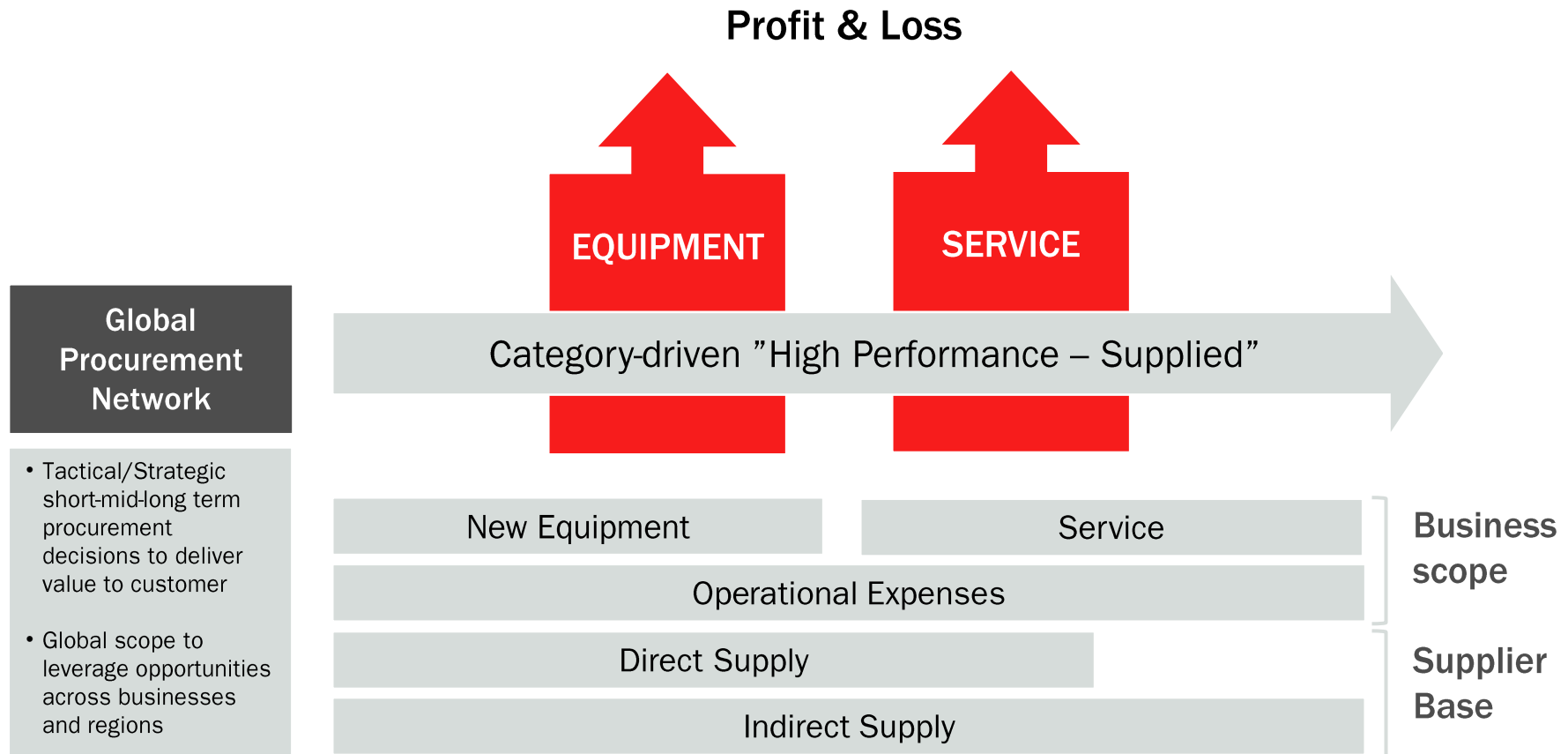
Corporate HQ - Region EMEA HQ Helsinki, Finland

KONECRANES PROCUREMENT OBJECTIVES

- Sustainable growth and profitability supported by systematic category-driven supplier base management



GLOBAL PROCUREMENT OPERATING MODEL



CATEGORY DRIVEN PROCUREMENT

Global Category Management

Selected global categories are

- Steel & structures
- Mechanical components and assemblies
- Parts subcontracting
- Electrical components and assemblies
- Indirect materials and services
- Logistics

BENEFITS OF CENTRALLY-LED DECENTRALIZED PROCUREMENT

Leverage Knowledge:

- Create a Strategic Advantage for Konecranes by capitalizing on the diverse knowledge and expertise of our worldwide employees

Leverage Volume:

- Leverage our total requirements to optimize quality, punctuality, technology and cost to create more value for our customers around the world

Leverage Resources:

- Help drive Konecranes to become a OneKonecranes

MITIGATION MODEL FOR VOLATILE RAW MATERIAL MARKETS



"THE NEED TO UNDERSTAND THE DRIVERS OF THE STEEL VALUE CHAIN"

Typical claim by supplier:

"Iron ore prices gone up 25%,
prices will increase 10%"

- Two questions arise
 - How to verify how much iron ore prices have increased
 - How much does it affect the product the customer purchases
- Need for open dialogue
 - But also value chain understanding from customer

Supply Chain Stage	Index Value	Factor	Relative Weigt	Total Weight
Mill	100	Iron ore	15%	9%
		Coal	23%	15%
		Scrap	23%	15%
		Labour cost	9%	6%
		Electricity	5%	3%
		Shipping	3%	2%
Trader	19	Shipping	95%	12%
		Commission	5%	1%
SSC	12	Warehousing	5%	0%
		Cut-to-length	35%	3%
		Transportation	60%	5%
CM	23	Cut-to-shape	70%	11%
		Transportation	30%	5%
Total	153			85%

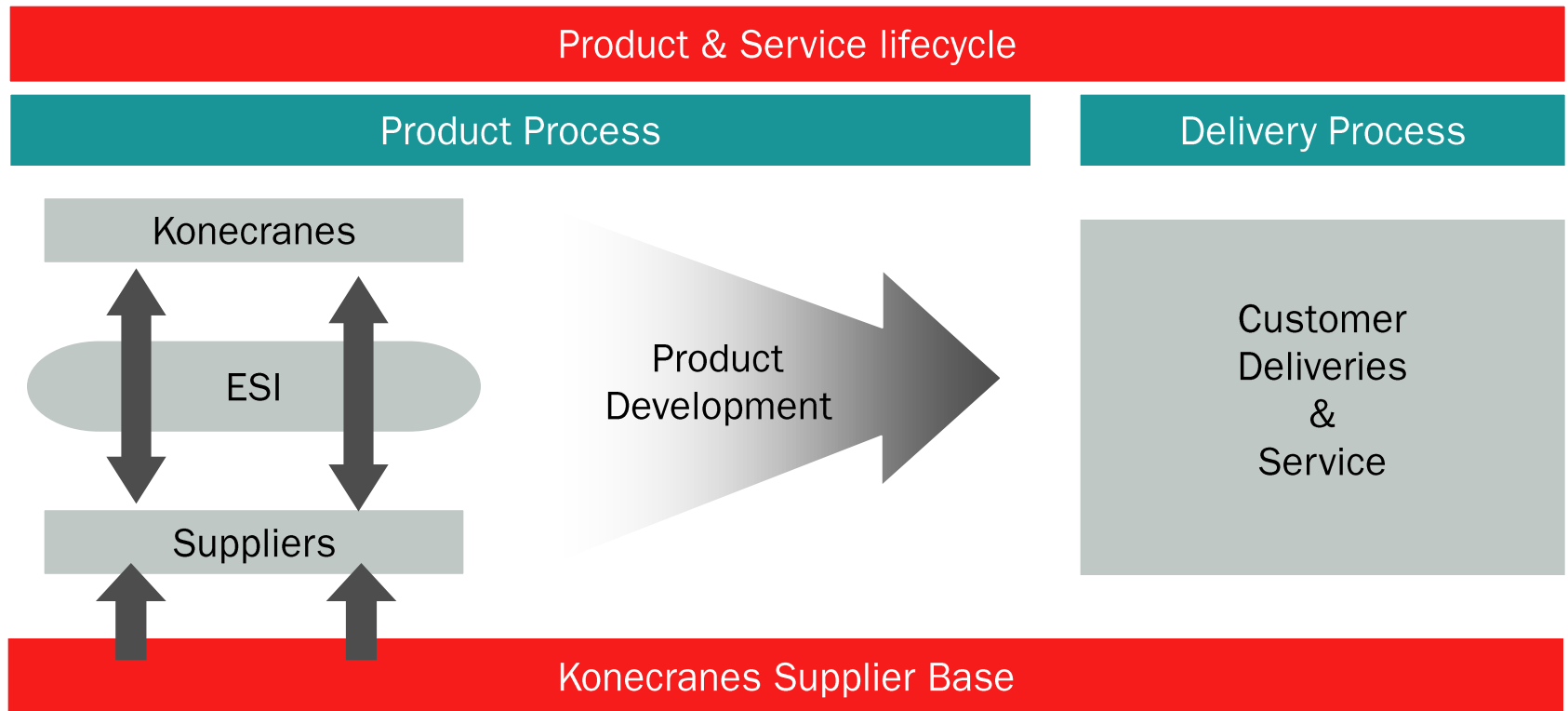
SSC = Steel service center

CM = Contract manufacturer



COLLABORATION WITH SUPPLIERS

EARLY SUPPLIER INVOLVEMENT ROLE



EARLY SUPPLIER INVOLVEMENT

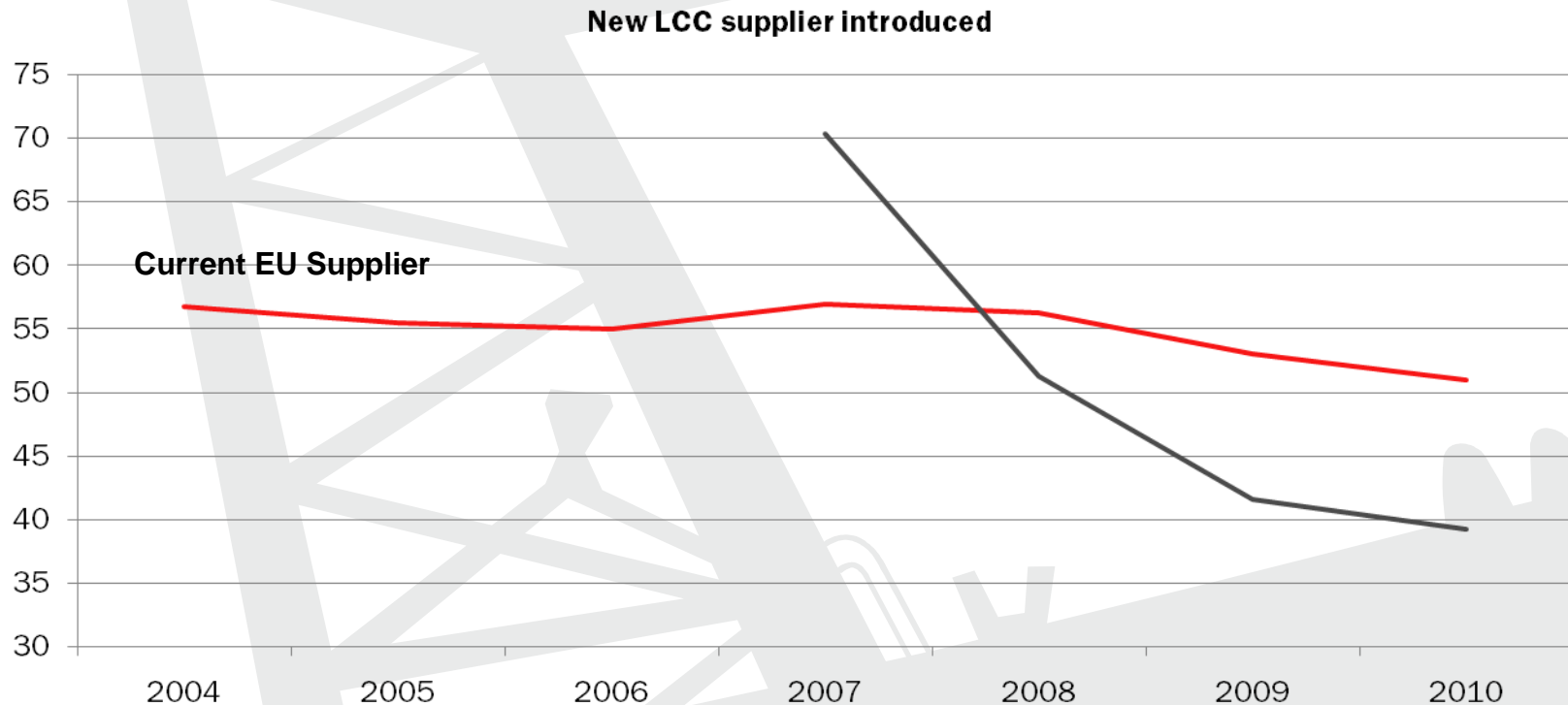
Advantages

- Shorter project development lead times
- Improved perceived product quality
- Savings in project costs
- Better manufacturability
- Shared knowledge and learning
- Improved R&D efficiency and effectiveness
- Accessibility to suppliers' technical capabilities



LCC SOURCING PRICE DEVELOPMENT CASE

Threat or opportunity?



THE BEST-OF-BEST SUPPLIER CAN IMPROVE OUR VALUE PROPOSITION

- Own long-term strategic plan with a clear desire of position in the value chain
- Understand Konecranes' customer and development needs
- Passionate attitude across supplier company to build and deliver customer satisfaction
- Strives for long-term business relationships
- Proactively delivering / suggesting business improvements and can challenge Konecranes
- Takes full accountability for own supply chain's development and performance
- Supplier's customer portfolio, <50 % with one customer. Risk management and low dependency



SHIFTING FROM COMMODITY TO VALUE PROCUREMENT

PAST

- Commodity experts
- Components
- Multiple tactical suppliers
- Stable raw material markets
- Fragmented supply chains
- Supplier delivery
- Price driven
- Tactical people competencies

TODAY-FUTURE

- Business relationship experts
- Modules / Systems
- More strategic suppliers
- Highly volatile markets
- Supply clusters
- Supplier value / ESI
- Total cost of ownership
- Increased focus on leadership and project management

WE ARE ENTERING THE SERIES OF LEGS OF OUR PROCUREMENT CHANGE JOURNEY

From doing things ...

... the yesterday's way



2009

... more efficiently



2010/2011

... to doing them differently



2011/2012



**NOT JUST LIFTING
THINGS, BUT
ENTIRE BUSINESSES**