



Lufthansa Group on the up with e-procurement

Lufthansa AG is one of the airline companies that have been affected the least by the global crisis. An important reason for this is the consistent efficiency strategy adopted by the Group, which plays a central role in its procurement processes. The company has built a high-performance e-procurement platform, which not only enables significant cost savings, but also optimizes sustainable procurement processes.

The Lufthansa Group operates on a global scale with around 400 subsidiaries and associated companies in over 80 countries and more than 108,000 employees. The company is split into five business segments comprising Logistics, Maintenance Repair Overhaul, Catering, IT Services and the Passenger Airline Group. Despite difficult economic conditions, 2008 saw Deutsche Lufthansa AG match its previous year's results and report an operating profit of around EUR 1.35 billion.

This success is founded on a company strategy that consistently focuses on quality, efficiency and cost optimization. Procurement is an important strategic part of this approach, as at the last check; Lufthansa's annual procurement volume amounted to an impressive EUR 15 billion. The Group recognized at an early stage that a sustainable cost reduction in the procurement department is not possible without efficient processes





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**Gerold Carl,
Director e-Purchasing Deutsche
Lufthansa AG**

that are standardized with a high-performance IT infrastructure. Since the turn of the millennium, Lufthansa has therefore focused on the development of appropriate solutions.

Electronic procurement to promote efficiency

Gerold Carl has been employed at Lufthansa AG in various management positions for over 20 years and has been involved in this development from the very beginning. The data processing specialist, who has an academic background participated in the implementation of the Purchase Card. This formed the starting point for the initial concepts of a Group-wide e-procurement solution, which was introduced in 2001. Today, as General Manager, Gerold Carl is responsible for the strategic e-procurement carried out by the German airline company.

"Working closely with our Group's finance department, we have analyzed procurement within the Group and identified optimization potentials for processes that the procurement department previously did not focus on", said Carl. "The results of this analysis were incorporated into the construction of a complex IT architecture, which covers the entire procurement process". This process comprises the areas of Strategy/ Planning, Sourcing, Procurement, Fulfillment and Payment. For the last three areas, Lufthansa set up

the e-Procure-to-Pay-Portal LUPUS (Lufthansa Procurement System), which is supported by SAP ERP solution and an Intranet portal. The technological and procedural foundation of LUPUS forms the basis for solutions offered by IBX on-demand platform.

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Massive cost reduction

Meanwhile, the 35 largest businesses in the Lufthansa Group have adopted the IBX on-demand solution, with over 5,000 operators using the platform at 87 sites across the world. Over 300 associated suppliers not only offer conventional products, but also complex services for marketing, facility management and handling visa applications in over 150 integrated catalogues. All in all, orders for indirect goods and services amounting to over half a billion euro have been processed via LUPUS. Functions such as catalogue and content management, supplier network management, order and system administration were brought together in a Lufthansa Shared Service Centre employing eight people.

The use of IBX on-demand technology, which started in 2000 and was significantly extended in 2007, has led to a significant reduction in costs: while a standard procurement requisition (BANF) via SAP costs on average over EUR 100 (order plus invoice), an order made via LUPUS costs less than EUR 10. Since this time, 96 percent of items ordered are processed automatically via catalogues in LUPUS while only four percent are still processed manually. The invoicing processes are also integrated. The



increase in efficiency is also reflected in personnel costs: "Over the years we have been able to almost halve the number of staff", said Carl. "Without e-procurement we would now be facing a serious personnel resource problem".

However, the reduced costs are just one advantage of the system: at the same time, the procurement department is relieved of routine operative work and can dedicate more time to strategic tasks relating to the development and management of the supplier network. According to Carl: "Lufthansa's target value is 'Zero BANF'; this means complete automation of the Procure-to-Pay process. For structural reasons, we will never quite reach the zero value, but we hope to get as close as possible".

Strategic goal: Group-wide implementation of the system

Extending the positive impacts, experienced with LUPUS by the German Airlines in the Group, to other areas in the Group, is something Carl sees as an important task. Intensive discussions and advocacy are required in Lufthansa AG, due to its de-centrally organized structure. "We have to continuously test our solution and keep striving to find improvements, as this is the only way we can convince our colleagues of this approach", explains Carl. However, the benefits are clear, which is why Swiss International Air Lines has now also signed up and project-oriented talks are already underway with Austrian Airlines. Furthermore, there is great potential for using this solution: Lead Buyers who are employed by the Lufthansa Group assume the role of internal or even external Group-wide experts responsible for the procurement of designated product groups. This means that services that are purchased multiple times within the Group can be bundled together. The Lead Buyer negotiates strategic framework contracts for the whole Group and beyond. Contracts also apply to members of Star Alliance which comprises 21 airlines.

Outlook: shaping the future of procurement

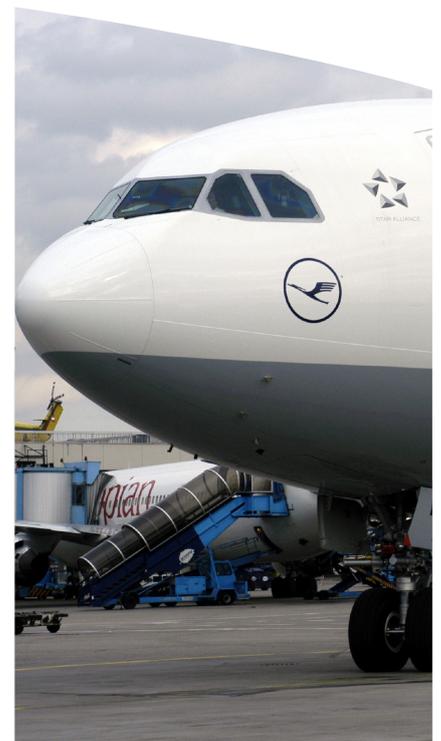
Lufthansa is one of the companies that is already well advanced in the implementation of its e-procurement strategy. "The foundations have definitely been built, but we cannot come to a standstill", emphasizes Carl. On one hand, this concerns the user-friendliness of the e-procurement systems, which has to move in the direction of B2C applications, such as Google and Amazon. While on the other hand, the potential of developments such as Web 2.0 and Cloud Computing must be checked with regard to electronic procurement, emphasized Carl. In doing so, attention is primarily focused on young users and future employees, who expect these technologies and can use them intuitively. Thomas Neubauer, Sales Director at Capgemini Procurement Services, sees future developments in the same way: "Just as our customers are continuously advancing, we also constantly adapt our solutions to the demands of our customers with regard to both technology and organization. Changing user behavior therefore plays an important role".

From a non-technological perspective, he views Shared Services—the grouping of service processes into one operationally independent entity—as a very fruitful concept for procurement. Finally, he has also identified unused potential in supplier management where logistics concepts such as the Vendor Managed Inventory (VMI) and a stronger grouping of supplier services are of interest. "The optimization of the procurement structure is an ongoing process, but we are confident that we are on the right path", emphasizes Carl.

Basic information about the Lufthansa Group

Deutsche Lufthansa AG is a global aviation group and one of the largest airlines in the world comprising around 400 subsidiaries and associated companies. The Group

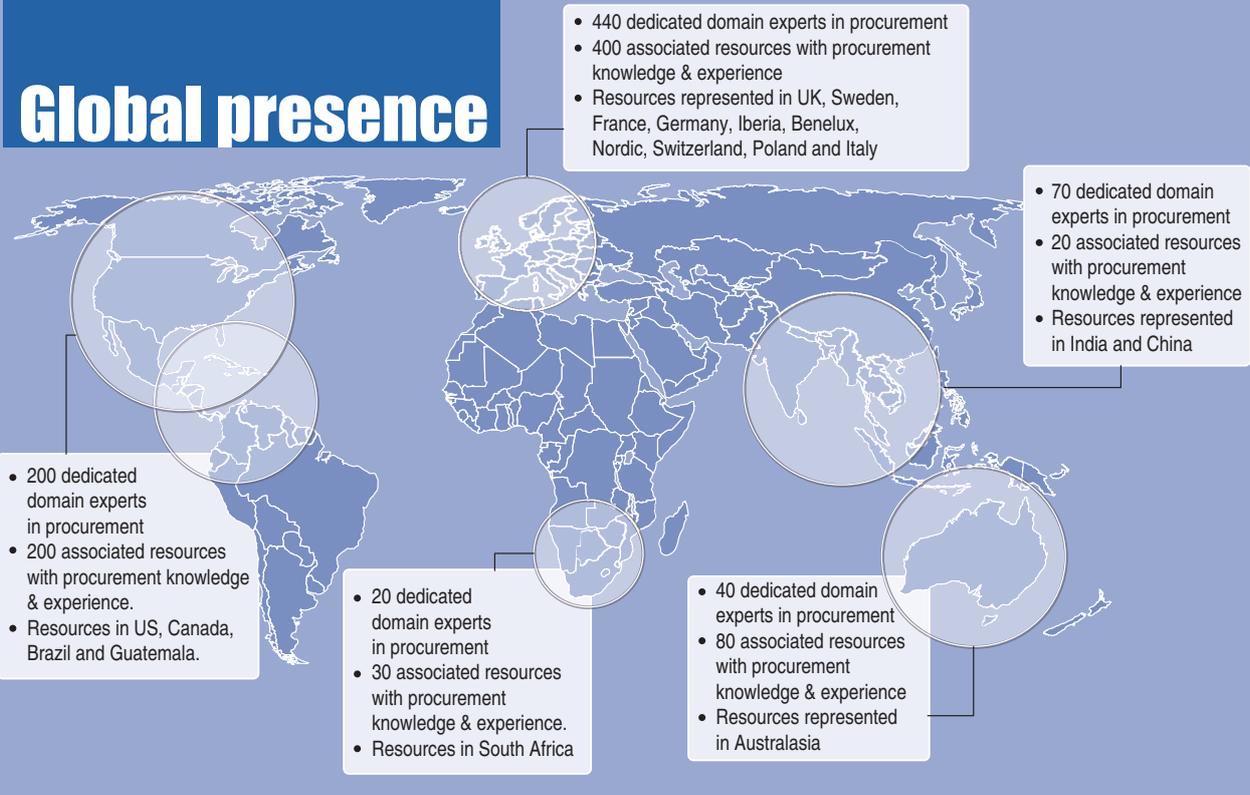
concentrates its activities on the core competencies in its five strategic business segments—the passenger airline business, logistics, MRO, catering and IT services—all of which play a leading role in the industry they operate. More than 70 million passengers flew with airlines in the Lufthansa Group to 242 locations in 87 countries. Lufthansa is also continuing to develop its cooperation with its partners. The 21 airlines in the Star Alliance, which Lufthansa also belongs to, fly to 1042 locations in 168 countries.



A typical day at Lufthansa:

- 2250 take-offs and landings every day
- Around 193,000 passengers and over 5200 tons of freight are transported every day
- More than 1,170,000 meals are served around the world every day
- Around 27,400 calls taken by the Service Centre every day
- Over 1000 aircrafts supported every day

Global presence



About Capgemini Procurement Services

Capgemini, one of the world's top notch providers of consulting, technology and outsourcing services, has recently launched 'Procurement as a Service™'. This service concept seamlessly integrates on-demand procurement tools, strategic and operational outsourcing services and consulting. Procurement as a Service is unique in the way that it is a paradigm shift from the traditional mould of lift-and-shift outsourcing by injecting best practice into the procurement transformation. Capgemini Procurement Services leverages deep competence in Non-Production (NPI) procurement categories, technology and processes.

Through active and comprehensive management of categories; the Procurement as a Service™ concept

drives year over year savings directly to the bottom line for NPI categories

The IBX On-demand Platform represents a complete set of software tools for the procurement organization, like IBX eProcurement and IBX eSourcing, all delivered on-demand. With this solution suite Capgemini Procurement Services provide clients inroads into leading practices in the industry and superior procurement processes with a very attractive return on investment.

Present in more than 30 nations, Capgemini reported in 2009 global revenues of EUR 8.4 billion and employs 90,000 people worldwide.

More information is available at www.capgemini.com / Procurement www.ibxplatform.com