

PROCUREMENT AND SUPPLY CHAIN MANAGEMENT

STRATEGY - PROCUREMENT

Our goals connected to our strategic foundations:

EXPANDING OUR NETWORK OF QUALITY LOCAL SUPPLIERS; APPLYING TECHNOLOGY TO MAXIMIZE THE TRANSPARENCY AND COST EFFICIENCIES OF THE COMPANY'S SUPPLY CHAINS.

SACC's total annual purchasing amounts to more than SR 1 billion and covers a vast number of products and services that are essential to its highly diversified operations – from food to electronic goods, perfume to cutlery, washing-powder to canvas tents. To manage the immense scale and complexity that this entails, a transformation program has been initiated to make the process more cost-effective and dynamic.

Working with specialist consultants – AT Kearney on procurement and Kuehne + Nagel on supply chain – gap analysis has been completed and the transformation program will be launched from April, 2018. Fully-automated processes will be implemented for transactions, procurement, and logistics. This has achieved dramatic results in eliminating manual work.

The functionality and user-friendliness of the e-bidding system for suppliers has been continuously upgraded since its launch in 2015. In addition to flexibility and an improved user interface, system enhancements give more accurate reports and better benchmarking capabilities. Data generated by the system enables easy evaluation and comparison of bids according to established indicators, facilitating highly informed and transparent decision-making.

Most importantly, by giving accessibility to a broader range of suppliers, technology has also helped to forge new supplier relationships and heightened competition in bidding, driving an overall reduction in raw material costs. E-bidding is steadily expanding into non-food supplies such as disposables, stationery, uniforms, and hardware, contributing to impressive cost savings.

Fully-automated processes have been implemented for transactions, procurement, and logistics.



The next phase centers on increasing the volume of local Saudi Arabian content in procurement contracts, supporting national food producers, goods manufacturers, and service providers. This would help stimulate the domestic economy while boosting employment and job creation, in line with the Kingdom's Vision 2030.

Technology has also played a major role in the centralization of procurement, contributing to increased efficiency in the production process and consistency in product quality. And by embedding technology in supply chains, working with strategic logistics vendors to track shipments of important materials online in real time, potential delays are flagged early, helping to consolidate freight costs and minimize losses.

SACC will continue to invest in technology, conscious of the central role of procurement in realizing the Company's cost control goals and upholding its standards, while aligning with the government's vision for the nation as a leader in adopting and applying the most advanced high-tech resources.

RISK MANAGEMENT

SACC is exposed to various risks through the normal course of its activities. Every business has to accept a certain level of risk, and any expected gains from business activities must be assessed against the relevant risks.

The purpose of risk management is to ensure the Company can effectively execute its strategies and achieve its targets, in the short term and beyond. The key is to identify the risks that could prevent the Company from reaching its goals, and then to determine an acceptable level for those risks. Risks identified need to be avoided, mitigated, transferred, or monitored.

SACC's management processes use a set of reactive, proactive, protective, and preventive tools to protect it against threats, and to turn some of the risks into opportunities.

To be managed, risks need to be identified and understood in advance. Risk treatment and mitigation plans must be established, and continuous follow-up must be in place for the related controls. Consequently, risk management is an essential part of SACC's strategic and operational management.

STRATEGIC RISK FACTORS

Strategic risk assessment is part of the Company's strategic planning process. A risk is defined as strategic if it could have a long-term impact on the business. The Company defines the areas of strategic risk as:

Business environment risk

Business cycles in the economy, and in customer industries, influence the demand for SACC's products, as well as its financial condition and operating results. Some sectors of the business could be affected by adverse changes in economic conditions and employment levels.

The Company's diversification strategy provides a degree of stability in cyclical markets.

Market and customer risk

SACC's business relies on securing and retaining a diverse range of clients in various industry segments. Despite this diversification, SACC's business still relies largely on its relationship with Saudia, so any adverse development affecting the airline could have a negative impact on SACC.

The Company has strategies in place to strengthen long-term relationships with clients and consumers based on quality, value, and innovation. The diversification strategy ensures that SACC does not rely on a particular sector, geography, or group of clients.

Global political risk

The airline industry is global and therefore dependent on political and economic developments in Saudi Arabia and worldwide. SACC's businesses largely depend on the airline industry and may be negatively affected by global events and trends.

The Company tries to anticipate and contribute to important changes in public policy whenever possible.

Competition

SACC operates in various businesses, some of which are highly competitive. The levels of concentration vary by segment. Some markets are relatively concentrated with one to three key players. Others are fragmented, offering opportunities for consolidation. Aggressive pricing by competitors could impact SACC's revenues and margins.

The Company aims to minimize this by promoting differentiated propositions and focusing on its points of strength, such as flexibility in the cost base, innovation, and the quality of its services.