

Supply Chain Management

Supply chain management is an important sustainable business strategy resulting in effective procurement in terms of quality goods and services and procurement timing associated with economical values in terms of budgets and resource used. Bangchak implements sustainability risk management for supply chain, strategic procurement, and green procurement for our supply chain management. In addition, corporate governance, anti-corruption, labor practice, safety and environment and social development participation are implemented in our supply chain management.

Strategy 2019



Develop competency of suppliers using Supplier Code of Conduct (SCOC) and sustainability risk assessments



Develop the Approved Vendor List (AVL) for significant working groups to promote relationship between suppliers and Bangchak and to evaluate potentials of suppliers



Promote good understanding and improve procurement processes of the Bangchak Group to pursue excellence in procurement following international standards

Supplier Risk Management

Bangchak has set up Bangchak’s Supplier Code of Conduct (SCOC) for Sustainable Business Development focusing on environmental, social and governance (ESG) practices for suppliers. Suppliers are encouraged to follow the SCOC by conducting SCOC self assessment which has 5 categories as the following:

- ✔ Business ethics
- ✔ Labor Practice and Human Rights
- ✔ Safety and Occupational Health
- ✔ Environment
- ✔ Participation in community development

Bangchak has conducted a preliminary SCOC assessment for sustainable business development with our suppliers since 2016. The aim of the assessment was to encourage 100% of critical tier 1 suppliers to accept and participate in the performance evaluation in accordance with the SCOC Assessment by the year 2020. It was apparent that every critical suppliers or 100% accepted the company’s invitation to join in the SCOC assessment this year. Meanwhile, 24 suppliers or 45.3% out of all suppliers completed the SCOC assessment.

The Process of Supply Chain Risk Assessment



In addition, Bangchak has analyzed the sustainability risks in the supply chain. (3 years evaluation cycle) covering raw material suppliers, transportation suppliers and product and service groups. The assessment starts from the analysis of critical suppliers and assessment of possible sustainability risks that may affect the company on economic, social and environmental areas. The value of the contracts with aspects in addition to contract size. Suppliers with high and critical level of sustainability risks would assign risk mitigation approaches and risk monitoring by site visits by the company to provide consultation and recommendation associated with assessment results of suppliers. This is also a way to enhance relationship between the company and suppliers.



In 2019, Bangchak completed the analysis of 53 critical supplier representing 5.4% of the total suppliers. Furthermore, the company has 57.6% share of the total procurement spent with this group of critical suppliers from the total of 979 suppliers. The sustainability risk assessment was applied to 100% of our suppliers. The sustainability assessment showed critical-high risks of 5 suppliers (equal to 0.5% of total suppliers) in economic risk of higher costs of raw materials / poor quality of raw materials / delay delivery of goods and services / contract breaking, social risk of complaint by the community due to improper operations and environment risk of chemical and oil spills. The company has put in place diversified risk mitigation measures to prevent and reduce any impacts that may occur from these risks (100%) without any termination. (Disclosure 308-2, Disclosure 414-2)

In 2019, with the encouragement of the company, 100% of the suppliers with critical and high risks took corrective actions to lower the risks within one year. The company also conducted risk monitoring and site visits in accordance with risk assessment processes for 11 suppliers representing 20.8% of all critical suppliers. (Disclosure 403-7)

Moreover, Bangchak has extended the implementation of sustainability risk analysis throughout the supply chain to include critical non-tier 1 suppliers. The objective of this effort was to encourage our critical tier 1 suppliers to take action in the analysis of their critical suppliers and to assess sustainability risks that may occur or affect the critical tier 1 suppliers. The target was set at 100% by 2020 through the same process as Bangchak.

In 2019, 100% of critical tier 1 suppliers completed sustainability risk assessment of their supply chain according to the aforementioned process. The result showed that there were 101 critical non-tier 1 suppliers. These suppliers did not do business with Bangchak directly. 22 critical non-tier 1 suppliers (equal to 21.8% of critical non-tier 1 suppliers) had critical and high risk level in of economic risk, social risk and environmental risk with 20, 6 and 7 suppliers, representing 19.8%, 5.9% and 6.9% respectively.

Bangchak also held seminars to receive suppliers' feedbacks and suggestions to collaborate on process improvement. In addition, the company took the opportunity to explain about the company's operating guidelines and share the knowledge of the company's procurement practices to promote better understanding of the mission of Bangchak.

2019 Results from Supply Chain Management

Total number of suppliers	Number	Share of total procurement spent (%)
Total 1 suppliers	979	100%
Critical tier 1 suppliers	53	57.6%
Critical non-tier 1 suppliers	101	-

Sustainability risk assessment – Tier 1 suppliers	Number	Percentage	2019 Targets
Tier 1 suppliers	979	100%	100%
Critical–high sustainability risk suppliers	5	0.5%	
Critical–high sustainability risk suppliers in term of			
• Economic risks	5	0.5%	
• Social risks	5	0.5%	
• Environmental risks	5	0.5%	

Sustainability risk assessment - Critical non-tier 1 suppliers	Number	Percentage	2019 Targets
Critical non-tier 1 Suppliers	101	100%	100%
Critical–high sustainability risk suppliers	22	21.8%	
Critical–high sustainability risk suppliers in term of			
• Economic risks	20	19.8%	
• Social risks	6	5.9%	
• Environmental risks	7	6.9%	

Sustainability risk monitoring of critical suppliers	Number	Percentage
Total critical suppliers (Critical tier 1 suppliers and critical non-tier 1 suppliers)	154	100%
Critical-high sustainability risk suppliers	27	17.5%

Critical–high risk management measure	Percentage
Percentage of critical suppliers having corrective action plans	100%
Percentage of critical suppliers with corrective action plans which have improved their ESG performance completely following the plans	100%

Indicators	2019	2021 Target
Percentage of critical suppliers who accepted BCP supplier code of conduct (SCOC) assessment invitation	100% (53 suppliers)	100%
Percentage of critical suppliers who achieved the BCP supplier code of conduct (SCOC) assessment	45.3% (24 suppliers)	100%
Percentage of sustainability risk assessment of tier 1 suppliers	100% (979 suppliers)	100%
Percentage of sustainability risk assessment of critical non-tier 1 suppliers	100% (101 suppliers)	100%

Besides sustainable supply chain management, the company has developed and improved the procurement operations of goods and services by using technology and adjusting work process to reduce cost, shorten the time of procurement and increase satisfaction of suppliers and users. The important actions taken on this are as follows:

Develop procurement processes for the Bangchak Group through strategic procurement

Bangchak analyzed products, service, vendors and service providers in accordance with UNTAD WTO by using risk analysis for products and service which is in line with the Five Force Model. The data obtained were used to analyze points of improvement to define strategies for work processes, products and services. The following actions were taken based on the results of analysis:

1. Standardization

The use of special products from sole source distributor can pose risks to the company. Therefore, Bangchak analyzed current used products to check if alternative products and suppliers can be used to facilitate competitiveness in terms of prices in the market. This increases the bargaining power of the company among suppliers.

2. Procurement of goods from alternative countries

Bangchak has considered the procurement of equipment and spare parts used in the refinery from countries with low-cost products. However, this move though does not undermine the quality and standard of the products. This is to open the opportunity for competition and cost reduction in the procurement of products

3. Digital Transformation in Procurement:

Bangchak has used E-catalog technology to reduce administrative costs, which in effect can reduce the procurement and payment processes. Also, it is more convenient, fast and traceable for users as they can order products of their choices through the online channel. At present, E-Catalog has been used with office supplies and is extending to other group of products in the future.

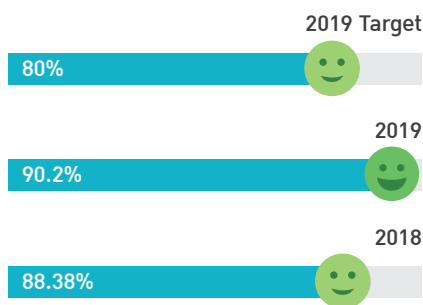
4. Prepare Approved Vendor List (AVL)

Bangchak has prepared Approve Vendor List (AVL) for significant working groups which were construction group, equipment group and the IT group. The groups assessed their potential suppliers based on evaluation criteria of each group. This is to promote good relationship with suppliers and reinforce confidence in the quality of suppliers to users.

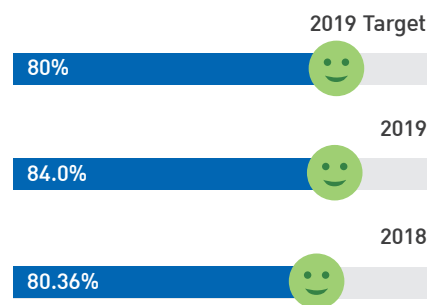
Results from strategic procurement

Indicator

Percentage of supplier satisfaction on the performance of the procurement officers



Percentage of user satisfaction on the operations of suppliers



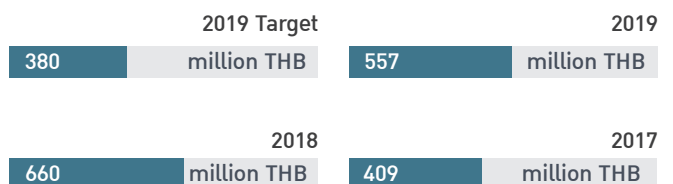
Indicator



Average duration of procurement / employment (days)



Cost saving (million THB)

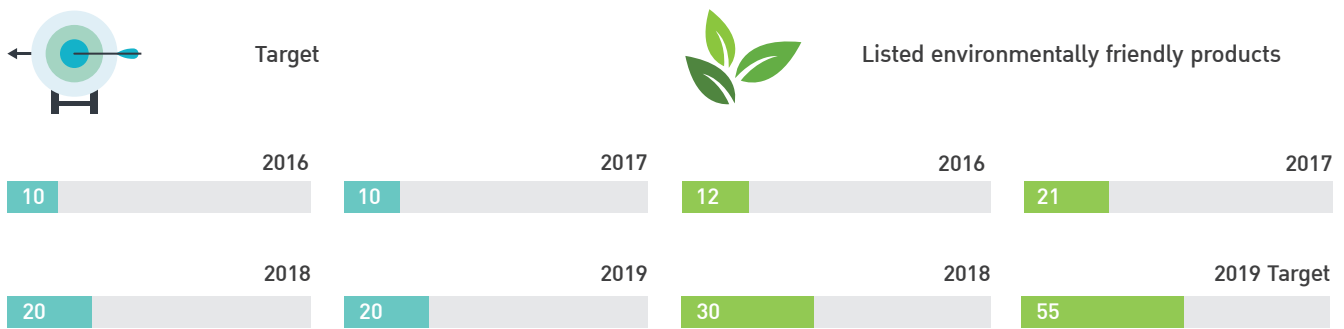


Procurement of Environmentally Friendly Products and Services

In addition to Bangchak’s Green Procurement Policy for the procurement of environmentally friendly products and services, the company gives the importance to the procurement of product and services from local suppliers (Thai suppliers) through the local supplier procurement guideline. The company has created a list of environmentally friendly products to promote environmental recognition in procurement practices and national economy.

As Bangchak has refinery located in Bangkok and service stations located throughout Thailand, the 2019 proportion of spending on local supplier was 98%, which was also determined to use environmentally friendly products. In addition to this, the company encouraged local products and services which include agricultural and community products.

Number of Listed Environmentally Friendly Products



2020 Targets

	<p>Percentage of suppliers who accept and participate in the “Bangchak Suppliers Code of Conduct (SCOC)”: 100 %.</p>		<p>Reduce the procurement costs through effective cost management to be at least 5% of the annual budget.</p>
	<p>Promote the procurement of 40 environmentally friendly products and services (Green Procurement)</p>		<p>Develop and manage relationship with suppliers by hosting a supplier seminar at least 1 time per year.</p>