



Exploring the Benefits of Functional Alignment

Vice President | Corporate United

Agenda

- ❖ Why Align?
- ❖ Obstacles to Alignment
- ❖ Overcoming Obstacles and Mitigating Risk
- ❖ Conclusions

Why Align?

Achieving Savings Goals

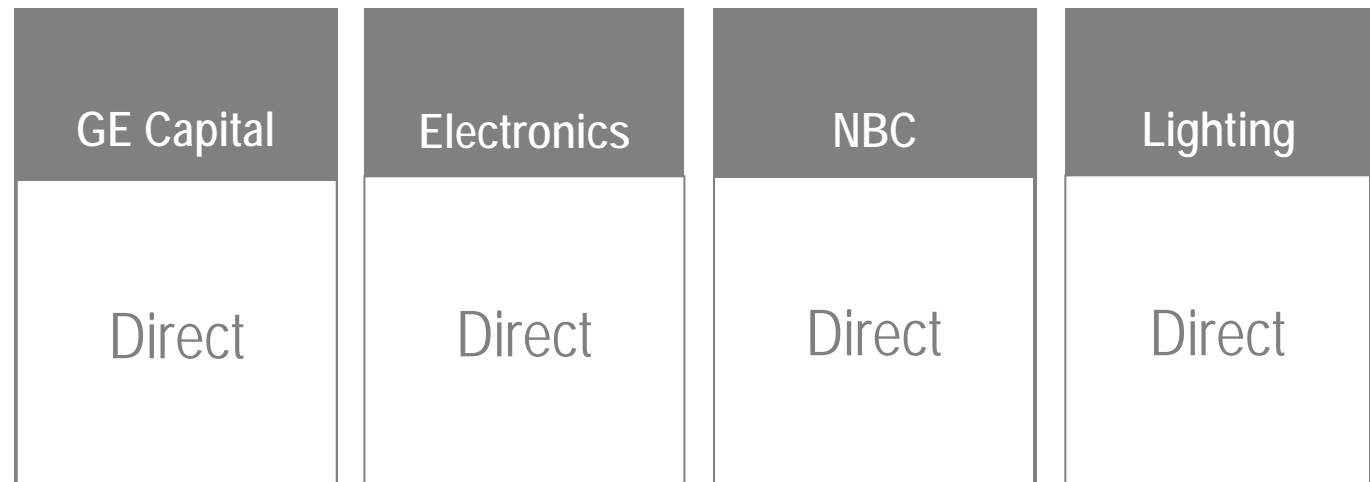
Spend categories emanating from HR, Facilities, Finance, and other administrative functions.

Most organizations don't have the diversity of General Electric, but the story remains the same; corporate procurement **will not reach their goals** without accessing indirect spend.

Common Indirect

"Uncommon" Indirect

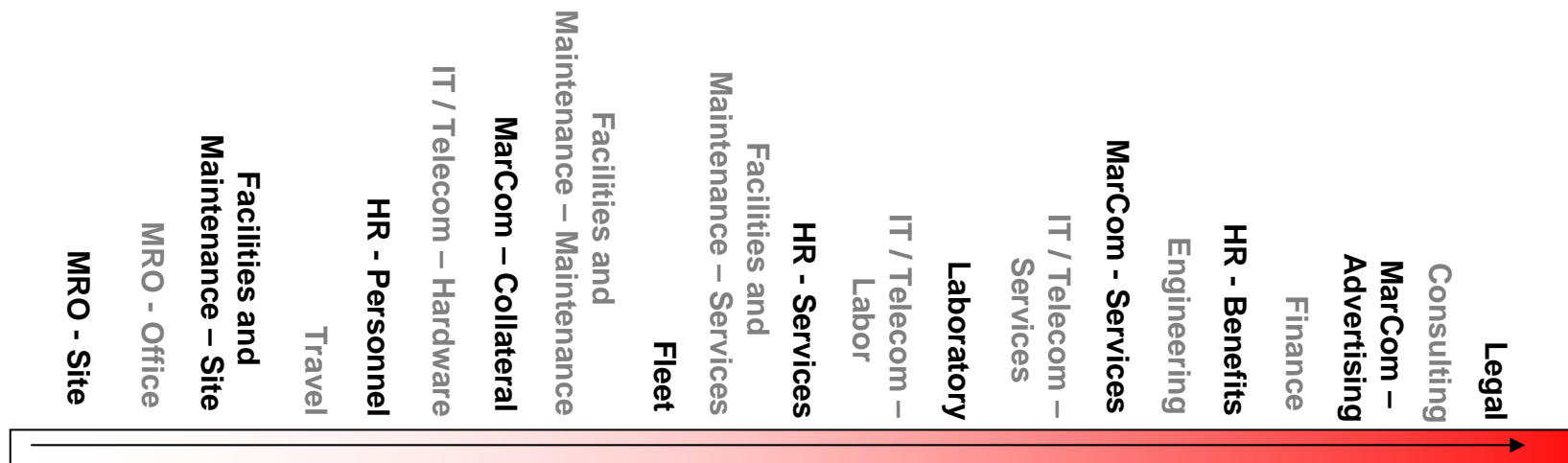
Transportation, Travel, Marketing, and contract labor that may be more specific to a business unit.



Why Align?

Significant and Compressible Dollars Available

Effectively **procuring indirect goods and services** means understanding the unique differences in these categories, what drives these markets, and what it takes to ensure that **service levels are maintained or increased** in a cost competitive environment.



While very few indirect categories (energy, transportation, benefits) carry the same weight as direct materials, in total **these spends equal about 20%** of a company's revenue.

Why Align?

Straight to the Bottom Line

Direct materials appear to be more measurable, with unit price comparisons and predictable high volumes, but part (or all) of savings can be offset on the sales side of your business. With Indirect, the measurement may not be as straight forward and the volumes not as high, but most savings should impact the bottom line.

\$4mm direct savings; half going in price reduction

\$4mm indirect savings

Income Statement

Rev	\$1,000
COGS	<u>(\$500)</u>
Gross Margin	\$500
SG&A/Op Ex	<u>(\$350)</u>
OI	\$150
Other Exp / Int	(\$50)
Taxes	<u>(\$50)</u>
Net	\$50
# shares	20

EPS \$2.50

Income Statement

Rev	\$998
COGS	<u>(\$496)</u>
Gross Margin	\$502
SG&A/Op Ex	<u>(\$350)</u>
OI	\$152
Other Exp / Int	(\$50)
Taxes	<u>(\$50)</u>
Net	\$52
# shares	20

EPS \$2.60

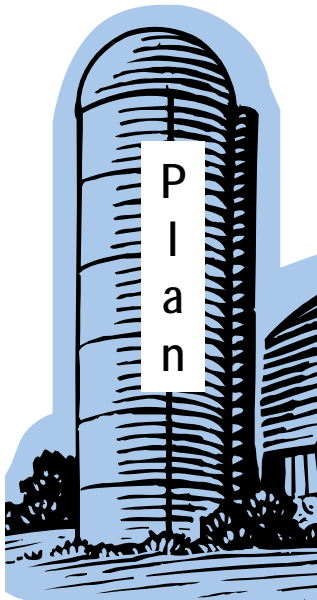
Income Statement

Rev	\$1,000
COGS	<u>(\$500)</u>
Gross Margin	\$500
SG&A/Op Ex	<u>(\$346)</u>
OI	\$154
Other Exp / Int	(\$50)
Taxes	<u>(\$50)</u>
Net	\$54
# shares	20

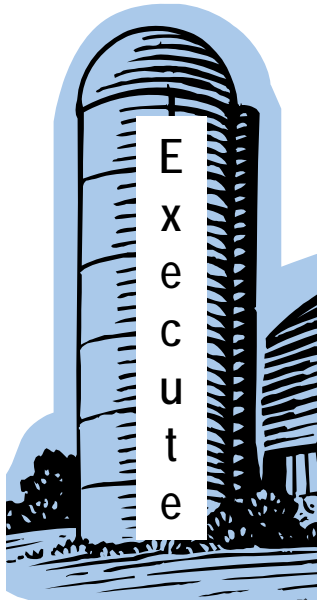
EPS \$2.70

Why Align?

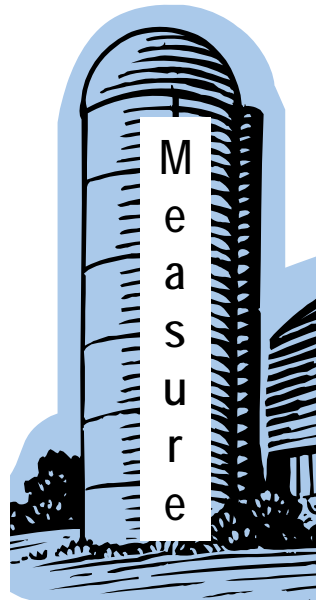
Showing Your Value



Business Unit or
Functional Group



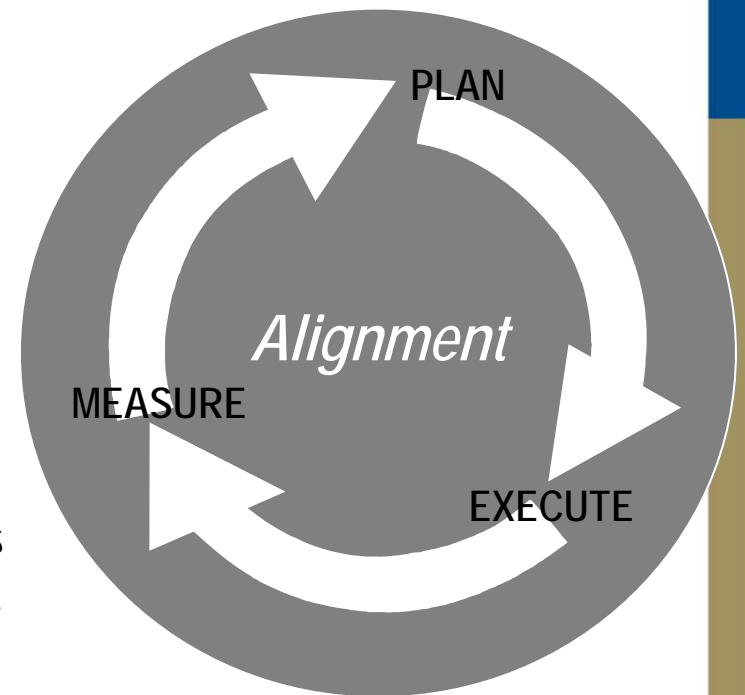
Procurement



CFO

The boardroom remains elusive to most procurement groups, but tighter alignment could expose a reason to become more involved at a higher level.

Indirect spend management professionals have the right skills and information to contribute throughout the budget cycle.



Obstacles to Alignment

"We're different."

The one thing that all of the functional groups within your organization have in common is that saving money is, at least, secondary. A purchasing process that makes savings the primary goal can be counter-productive.

All corporate procurement professionals have heard the refrain about how different everyone is, but it's important for us to remember how these groups are the same;

Stakeholder Control

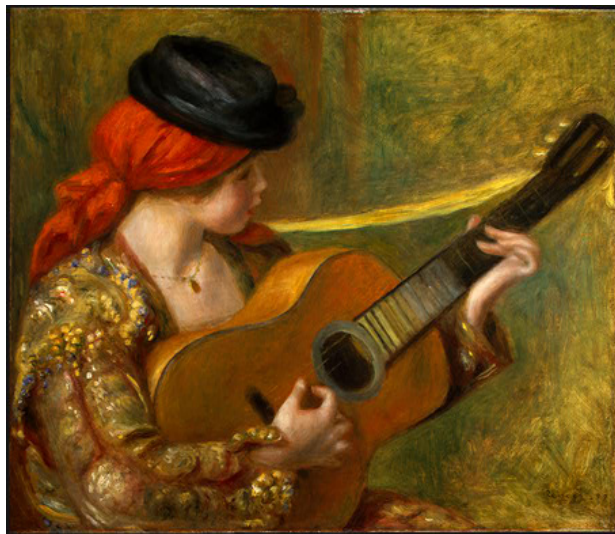
Protect Service Levels

Risk Mitigation

Obstacles to Alignment

"This is not a product, it's a service."

Internal customers will insist that suppliers are presenting disparate solutions, and that creating an "apples-to-apples" environment is not a possibility. Ask yourself whether or not it needs to be.



Whether you prefer Renoir or Braque, both paintings are of a woman with a guitar.

Obstacles to Alignment

"This is too risky."

No one wants to be responsible for a service failure caused by the search for savings, no matter how significant the pricing difference might be. Most stakeholders become paralyzed by their impression that procurement is there to reduce price...at any cost.



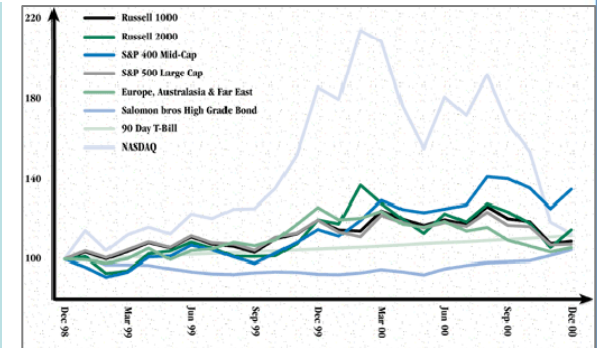
Learning total cost approaches is more than a way in the door, it's a way to demonstrate that the greatest risk is the one you don't take.

Overcoming Obstacles

Making a Business Case

“Even if I know what other companies are paying, how do I know that’s competitive?”

- No industry standard indices exist for services.
- Very few companies are strategically sourcing this spend.
- Benchmarking services is like comparing custom components.
- My internal customers don’t have the information they need to accurately measure their market position.



“In the absence of this information, how do I approach these categories?”

- Recognize that the objective is to identify true market value for the service level being requested.
- Adopt a process and tool set that brings transparency into the process, allowing real market forces to affect cost.
- Create training and support to help internal customers create clear scopes and supplier evaluation methods...not to negotiate.

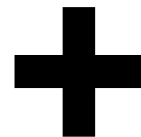
SVC CORPORATION - JOB DESCRIPTION			
JOB TITLE	Customer Service - Admin. Assistant	FLSA Status	Non Exempt
DEPARTMENT	IT Support	Reporting To	IT Support Manager
LOCATION	IT Support	Start Date	May 23, 2000
SUMMARY:			
This position is responsible for supporting a Department. Supporting a Department is defined by handling the department's telephone and video communications, providing computer support, performing administrative tasks, performing maintenance, and administering financial accounting control systems in support of business objectives.			
ESSENTIAL DUTIES AND RESPONSIBILITIES/PERFORMANCE EXPECTATIONS:			
<ol style="list-style-type: none"> 1. Handle and route incoming mail. Locate and retrieve appropriate files to correspond to be answered by employee. 2. Operate and update computer correspondence. 3. Operate and maintain file system, and file correspondence and other records. 4. Answer and screen manager's telephone calls, and arrange conference calls. 5. Coordinate company's schedule and calendar. 6. Develop schedule calendar and calendar to assign date and/or person. 7. Arrange and coordinate travel and accommodations. 8. Conduct research, and compile and type statistical reports. 9. Coordinate and manage meetings, prepare agendas, minutes and prepare facilities, and records and issue the minutes of meetings. 10. Make copies of correspondence or other printed materials. 11. Prepare and type mail and correspondence, including e-mail and faxes. 12. Obtain and maintain supplies, and arrange for equipment maintenance. 			
EDUCATION AND EXPERIENCE:			
Education: High School graduate or equivalent. Experience: Two years office experience.			
SKILLS:			
<ul style="list-style-type: none"> - Functional operational skills - Fluency and professional interpersonal skills, including telephone communication skills - Functional written and verbal communication - Functional personal presentation - Self-motivation and follow-up skills 			
ABILITIES:			
<ul style="list-style-type: none"> - Able to read 			
PHYSICAL DEMANDS:			

Overcoming Obstacles

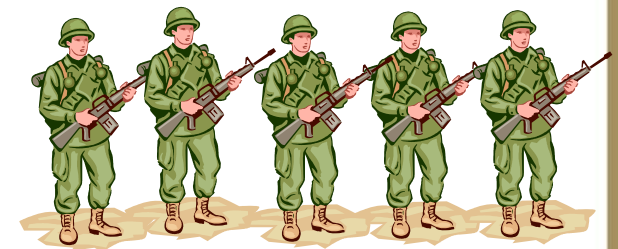
Air Cover and Grassroots Efforts



A c-level mandate is the ultimate catalyst, but there is more to a successful effort than accelerating the process. While leadership support is important, it can also cause functional group leaders to feel as though they are being attacked.

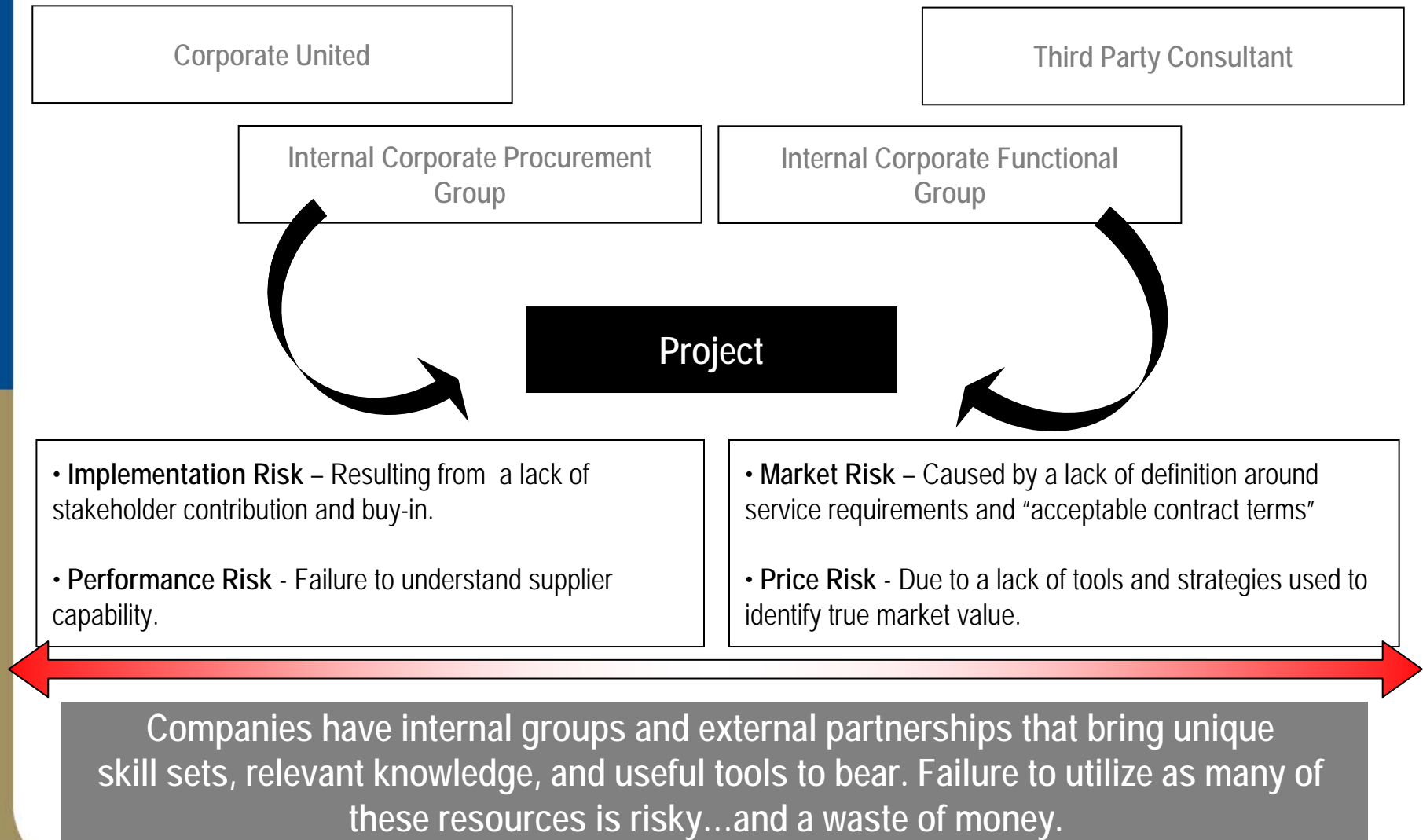


Working with functional group personnel to affect change is a slow process, but one that eventually results in opportunities to enjoy mutual successes, and creates a collaborative culture.

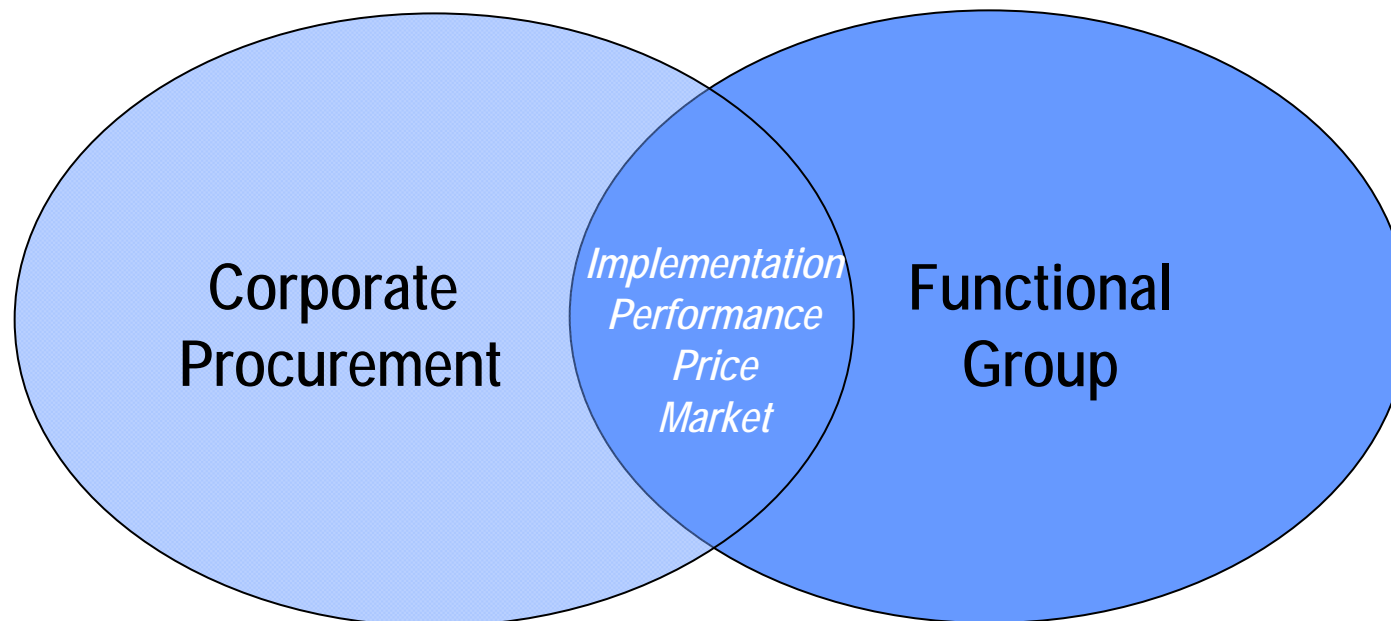


Overcoming Obstacles

Risk Mitigation



Risk Mitigation



The optimal solution to neutralize risk is one that:

- Marries the goals and objectives of each group, and
- Joins the relevant expertise of all teams within your organization to identify the best total value solution for the procured service(s).

Summary

Why Align?

- Procurement will not achieve their savings goals without getting involved in functions outside of their control.
- Spend controlled by functional groups accounts for a significant, and in some cases growing, component of overall corporate budgets.
- By demonstrating value across the organization, procurement can gain visibility and involvement that goes well beyond their current position.
- Savings realized by impacting indirect spend controlled by functional groups can have a more significant bottom-line impact than direct materials savings.

Obstacles to Alignment

- Savings is not the primary focus of functional group leadership.
- Definition of requirements is a difficult process, and in some cases a foreign concept.
- There is a significant, albeit often perceived risk that the application of procurement principles to a spend category will result in reduced service levels.

Summary

Overcoming Obstacles

- Numbers can be twisted, but they are difficult to dispute; building a business case to support procurement's involvement is critical.
- Gaining leadership support and building relationships are both important, one is not a replacement for the other.
- While stakeholders are not [primarily] savings-driven, they are risk averse; demonstrating procurement's ability to aid in mitigating risk is a genuine door-opener.

Access and Adoption

- Taking the time to learn about an internal customer's business is key to success, you don't have to be an expert; but you must be respectful and resourceful.
- Be sensitive to the adoption cycle of each function, the early steps may not be what you had in mind, but building a track record of success is critical.
- Be anonymous. In order to make friends and influence people within and outside the group you are working with, make sure they are getting the credit for wins.

Functional Alignment

CorporateUnited
Achieve More.

For more information please contact Corporate United at 440 895 0938.

Thank You