



The Changing Face of Supply Management

Exploring the Benefits of Functional Alignment

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Agenda

- ❖ Why Align?
- ❖ Obstacles to Alignment
- ❖ Overcoming Obstacles and Mitigating Risk
- ❖ Access and Adoption: The Functional Groups
- ❖ Conclusions
- ❖ Open Discussion

Why Align?

Achieving Savings Goals

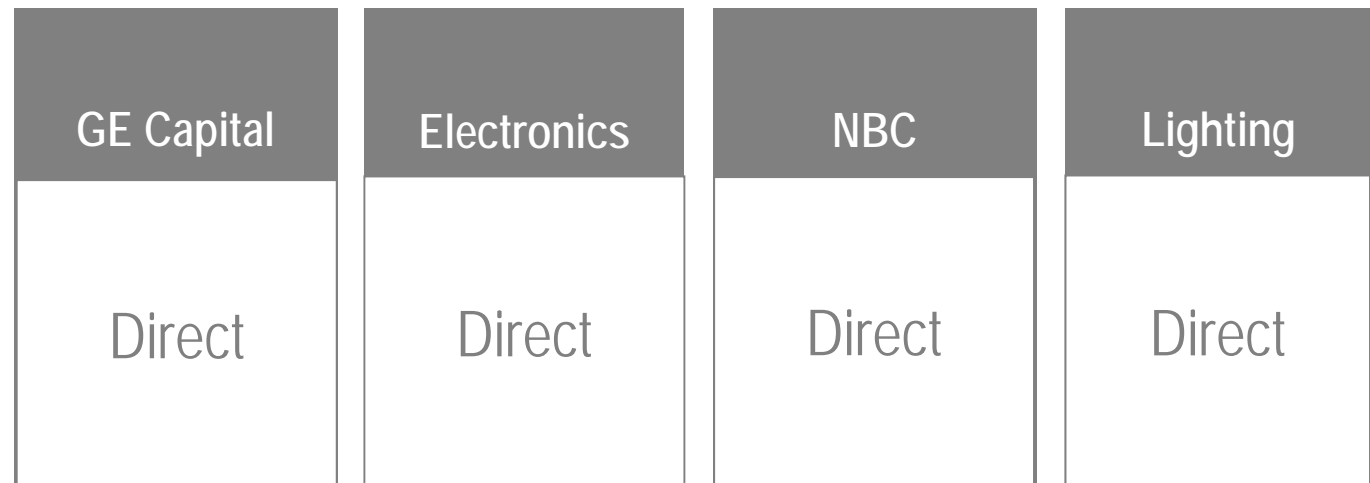
Spend categories emanating from HR, Facilities, Finance, and other administrative functions.

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

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

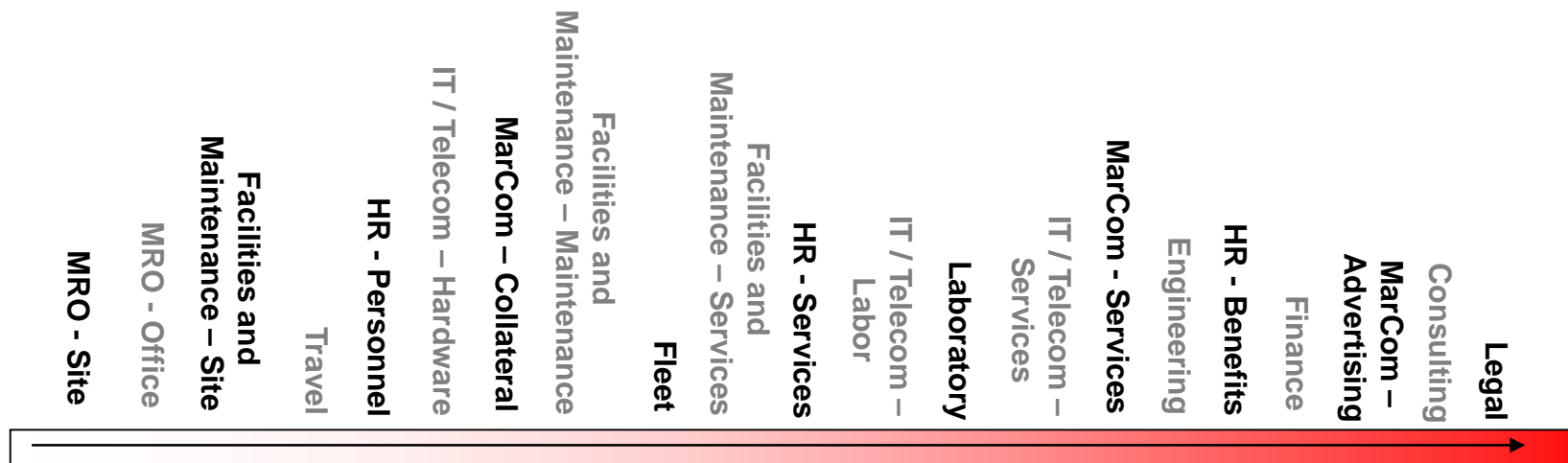
"Uncommon" Indirect



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

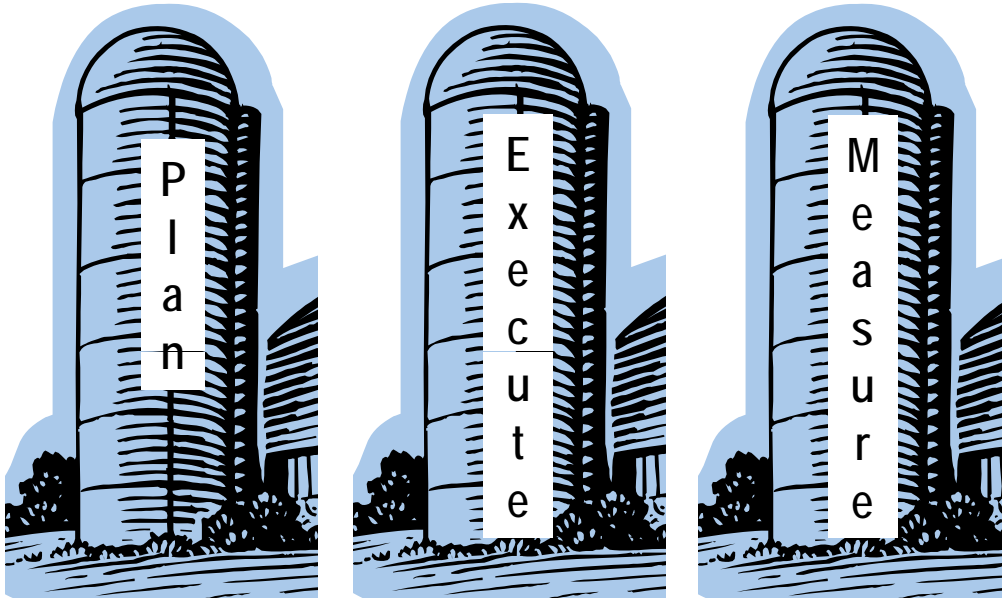
Income Statement

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



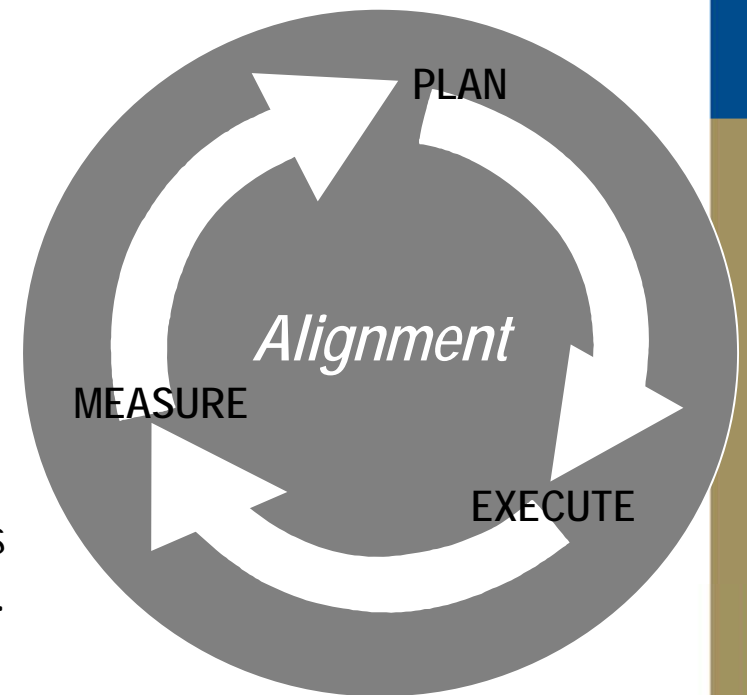
Business Unit or
Functional Group

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.



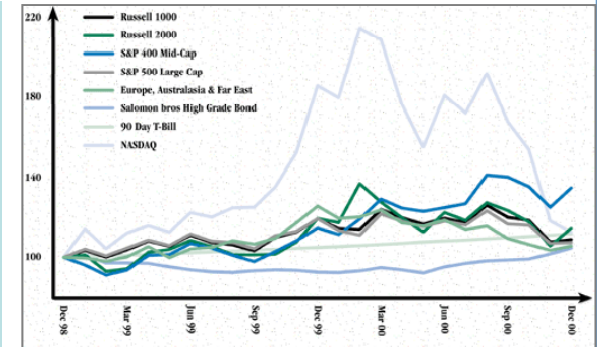
Learning total cost approaches is more than a way in the door, it's a way to demonstrate that the greatest risk is the one you don't take.

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	OBJECTIVE - Action	FLSA STATE	Time Frame
Administrative	Plan & Organize	Executive	May 23, 2003

SUMMARY:
This position is responsible for supporting a Department. Supporting a Department is defined by handling the department's telephone and visitor communications, providing computer reports, performing administrative tasks, performing maintenance, and administering financial accounting control systems in support of business objectives.

ESSENTIAL DUTIES AND RESPONSIBILITIES/PERFORMANCE EXPECTATIONS:

1. Handle and route incoming mail. Locate and attach appropriate files to correspondence to be answered by employee.
2. Complete and type routine correspondence.
3. Organize 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 make appointments.
6. Develop and maintain calendar and schedule to aggregate area or person.
7. Arrange and coordinate travel and make reservations.
8. Conduct research, and compile and type statistical reports.
9. Coordinate and manage projects, projects, agendas, events and prepare facilities, and records and issues 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. Order and maintain supplies, and arrange for equipment maintenance.

KNOWLEDGE AND EXPERIENCE:

Required:

- High school graduate or equivalent.

Preferred:

- Two years office experience.

SKILLS:

- Exceptional organizational skills.
- Fluency and proficiency in personal skills, including telephone communication skills.
- Excellent written and verbal communication.
- Professional personal presentation.
- Self-motivated and follow-up skills.

ABILITIES:

- Ability to learn.

PHYSICAL DEMANDS:

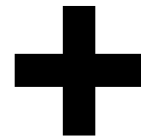
SVC Corporation - Job Description - 05/23/03

Overcoming Obstacles

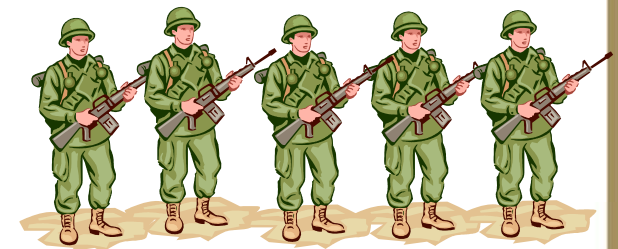
Air Cover and Grassroots Efforts



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.

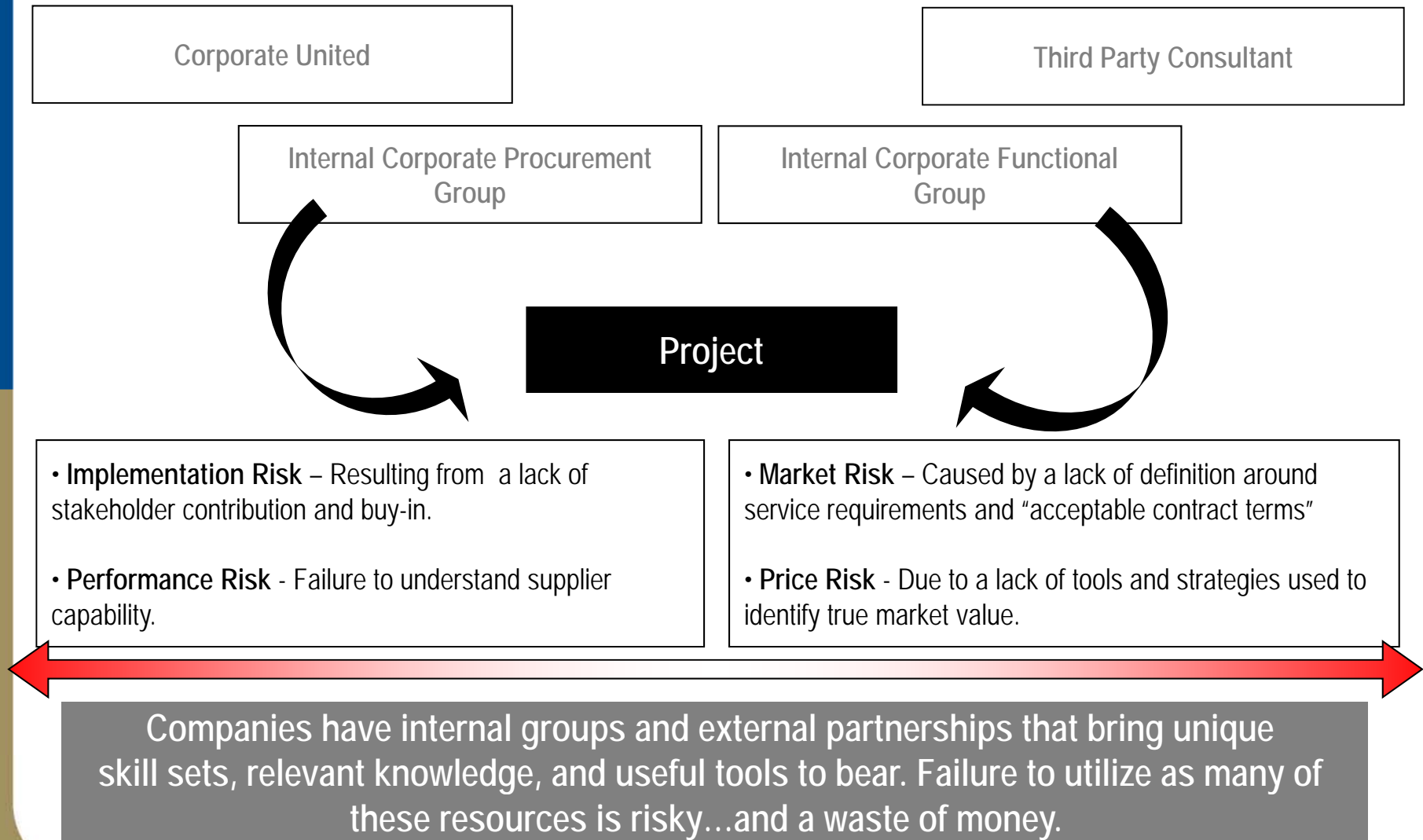


Working with functional group personnel to affect change is a slow process, but one that eventually results in opportunities to enjoy mutual successes, and creates a collaborative culture.

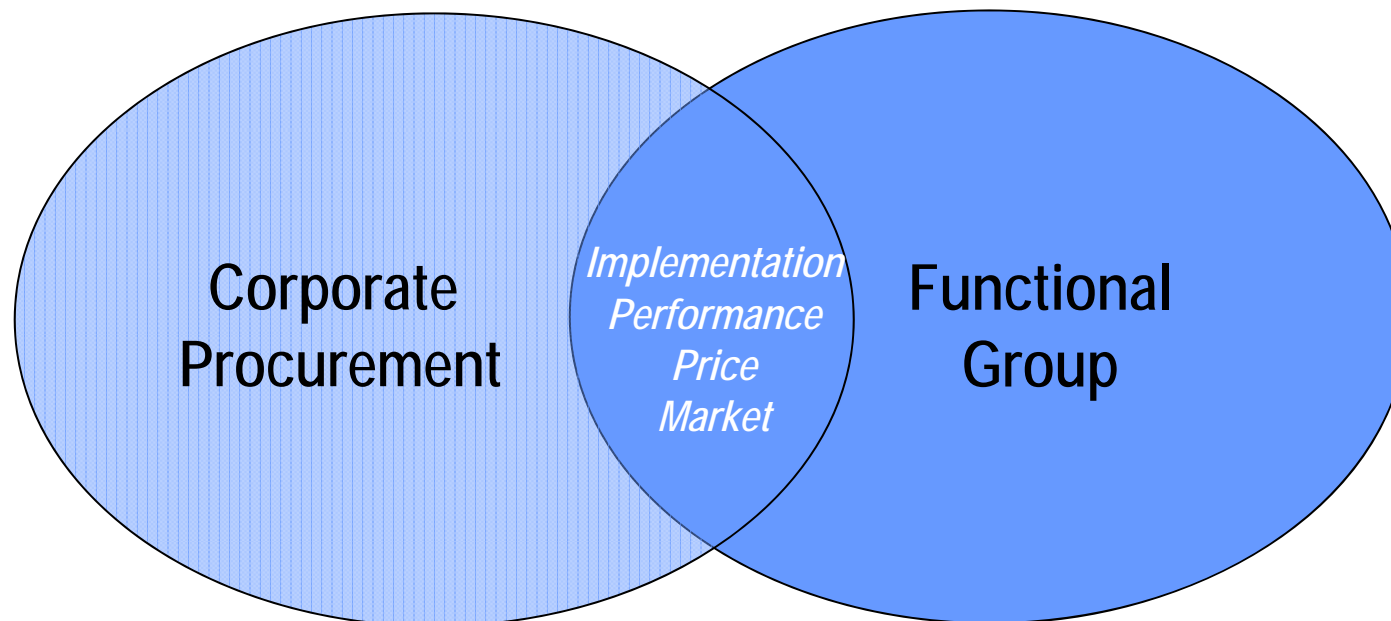


Overcoming Obstacles

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).

Human Resources

Personnel		Services		Benefits	
Temporary Labor	Bkgd. Investigations	Relocation	Globalization	Dental	Administration
Drug Testing	Recruiting	HHG Mgmt.	Consulting	Vision	Pharmacy
Outplacement	Labor Mgmt.	Training	Call Center	Medical	EAP



Human Resources Adoption Continuum

Primary Responsibility: To develop and maintain internal customer service and attract and retain talent.

Key Issue / Sensitivity: Spend categories have an impact on entire employee base, so reducing disruption is a key message.

Effective Solution: Buyer amnesty – quell the fears of spend owners by creating an environment of mutual success.

Marketing and Communications

Collateral

Brochures
Mailers
Premiums

Displays
Promotional Items
Service Awards

Services

Tradeshows
Fulfillment
Call Centers

Direct Mail
Agencies
Design

Advertising

Outdoor
Radio
Cable

Internet
Print
Broadcast

Marketing and Communications Adoption Continuum 

Primary Responsibility: To develop and maintain brand image and competitive edge.

Key Issue / Sensitivity: Spend categories have an impact on departmental budgets, efforts should be to increase buying power, not shrink capacity. Marketing has the added sensitivity of savings being equivalent to budget reductions.

Effective Solution: Add buying power – sharing savings with your partners in marketing to allow for more flexibility can buy participation.

Facilities and Maintenance

Site		Maintenance		Services	
Industrial Cleaning	ISO Registrars	Equipment	Calibration	Waste Mgmt.	Real Estate
Painting	Insulation	Tool Cleaning	Elevator	Janitorial Services	Security Guard
Lighting	Laundry	HVAC	Mechanical	Energy	Food Service

Finance, Legal, and Consulting Adoption Continuum 

Primary Responsibility: To create a safe, functional work environment.

Key Issue / Sensitivity: Unlike other indirect spends, the majority of these markets have been competitively sourced in the past, so compression of cost is likely to be less significant. Facilities-related projects have the added challenge of dealing with many locations as well as numerous site and item-specific service requirements.

Effective Solution: Provide perspective – understand the massive scope of this group.

IT and Telecommunications

Hardware		Labor		Services	
Laptops	Switches	Programmers	Analysts	Wireless	IP / VPN
Desktops	Routers	Developers	App. Support	Helpdesk	Local / LD
Peripherals	Servers	Consultants	Implementation	Data	Maintenance

IT and Telecommunications Adoption Continuum



Primary Responsibility: To ensure functionality and create efficiencies.

Key Issue / Sensitivity: The majority of these markets trend downward, and the increased transparency provided by a strategic sourcing process helps to capitalize on those conditions. IT has the added challenge of dealing with small supply bases for equipment, and large (global) ones for services.

Effective Solution: Rely on their expertise – IT has a specific knowledge set, allow them a maximum level of participation in the process.

Travel and Fleet

Travel

Airlines	Hotels
Chauffeur	Agency Services
Rental Cars	Offsite Meetings

Fleet

Purchase	Maintenance
Leasing	Fuel
Management	Consulting

Travel and Fleet Adoption Continuum



Primary Responsibility: To provide safe and desirable travel options that map to a customer's needs.

Key Issue / Sensitivity: The majority of these costs are more addressable by means of demand management and policy than by sourcing, and suppliers are resistant to these purchasing methods being employed. Travel has the added challenge of dealing with monumental compliance issues, while Fleet is saddled with negotiating deals with a very small, very powerful supply base.

Effective Solution: Lend a hand – Assist with implementation and compliance efforts.

Finance, Legal, and Consulting

Finance		Legal		Consulting	
Corporate Cards	Audit Services	Immigration	Tax	Finance	Human Resources
Tax Prep	Check Writing	Patent	Liability	Management	Public Relations
Contingent Staff	Debt Recovery	Labor	Contract	Organizational	IT

Finance, Legal, and Consulting Adoption Continuum

Primary Responsibility: To create and maintain strategic relationships while ensuring stability and corporate compliance.

Key Issue / Sensitivity: Highly strategic responsibilities have afforded these groups the power to resist procurement efforts. Despite this fact, there are a significant number of opportunities for creating cost efficiencies while mitigating risk in the CFO's arena. While highly complex, the historic absence of transparency in these categories has resulted in strategic sourcing projects identifying unprecedented savings.

Effective Solution: Be patient – it's harder to penetrate here than elsewhere.

Maintenance, Repair, and Operations

Office		Site	
Office Supplies	Forms	Industrial Supplies	PVF
Toner	Office Equipment	Gaskets	Flanges
Envelopes	Janitorial Supplies	Safety / PPE	Electrical

MRO Adoption Continuum 

Primary Responsibility: To guarantee smooth and efficient plant and office processes.

Key Issue / Sensitivity: Although fairly “commoditized,” these buys feature thousands of unique items and difficulties in pricing and analysis. While these requirements have typically been sourced (and in many cases controlled) by procurement, modest savings are almost always available due to a lack of compliance on “non-market basket” items.

Effective Solution: Don’t underestimate – Machine-hour lost impact is huge to owners.

Engineering and Laboratory

Engineering

Contingent Staff	Design
Containment	Testing
Certification	Field Operations

Laboratory

Supplies	Chemicals
Gases	Equipment
Clinical Testing	Environmental

Engineering and Laboratory Adoption Continuum



Primary Responsibility: To provide production lines with best-in-class support.

Key Issue / Sensitivity: Purchasing most of these products and services requires a unique level of expertise that is not commonly housed within procurement groups. These buyers have the added sensitivity of being closely tied to production, making changes in suppliers...even to obtain a better deal...very difficult.

Effective Solution: Work around issues – brand loyalty is a major issue for researchers and scientists.

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.

Questions, Comments

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SYNERGY 2010

Hotel Sax Chicago
Chicago, Illinois
May 4 - 6, 2010

Thank You