

Sourcing to Strategic Sourcing

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Traditional Sourcing

- Order Placer / Expeditor / Concentrates on Administrative functions such as invoice discrepancies & gathering approvals
- Dependent on manual processes / Ineffective use of automated tools / Not fully trained on the automated tools available
- Operates in corporate isolation / Labor-intensive / Lengthy processes / Outdated processes and technologies
- High costs related to sourcing activities / Ineffective negotiations and decision-making activities / Suppliers viewed as adversaries
- Limited value to the organization / Ineffective use of resources / Insufficient time and resources to devote to high value activities

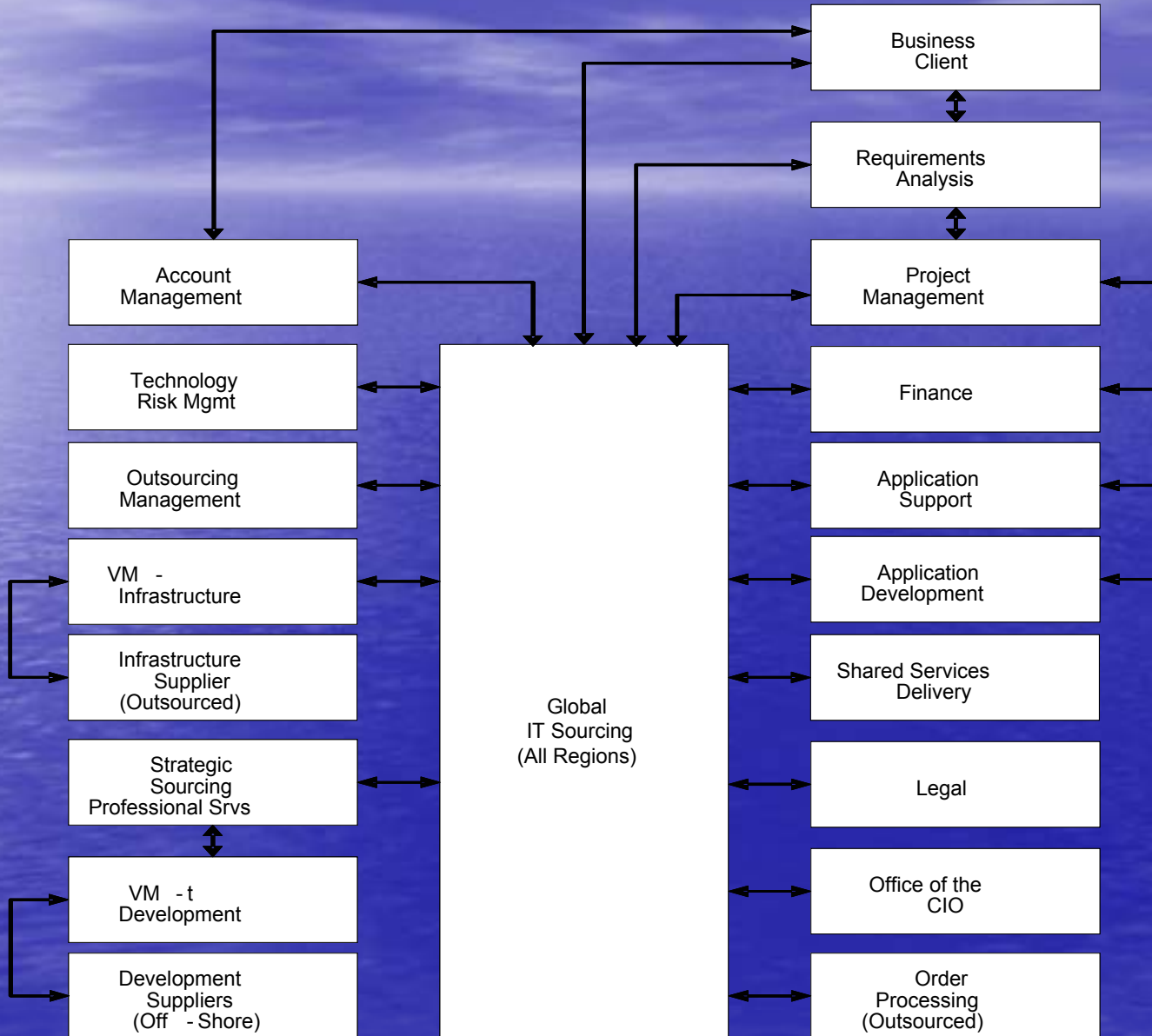
Relationships with IT, Business Units & Vendors may be strained

Strategic Sourcing

- Understands the internal customers / Cognizant of overall business objectives / Corporate teams are developed with Legal, Business, IT, Risk Management, Finance etc. / Globally Focused / Quick response and agility / Integration and Collaboration
- Beyond cost cutting / Focus on total costs not just price / Considers full lifecycle issues and other important factors such as risk / Minimizing risk including Legal, Audit, Contractual, Financial, etc. / Ability to significantly impact the company's bottom line
- Supplier management and alliances / Improving supplier performance / Market knowledge and research / Creates competitive environments for Suppliers / Creates the potential for competitive advantages and opportunities within the enterprise / Benchmarks and applies best practices.
- Objective measurement of current performance and realistic understanding of expected future improvements / Provides operational improvements and evaluations
- Effective use of processes, automated tools and methods / Better demand management / Improved internal and external workflows / Gets to market faster and easier.
- Is considerate of human factors and the effective use of resources / Strategic Sourcing understands their importance and value to the organization and the enterprise appreciates and realizes their contribution and value
- Brings alignment throughout the global enterprise
- The ability to effectively communicates these attributes to the enterprise

Peer Team Relationship Map

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Challenges & Issues

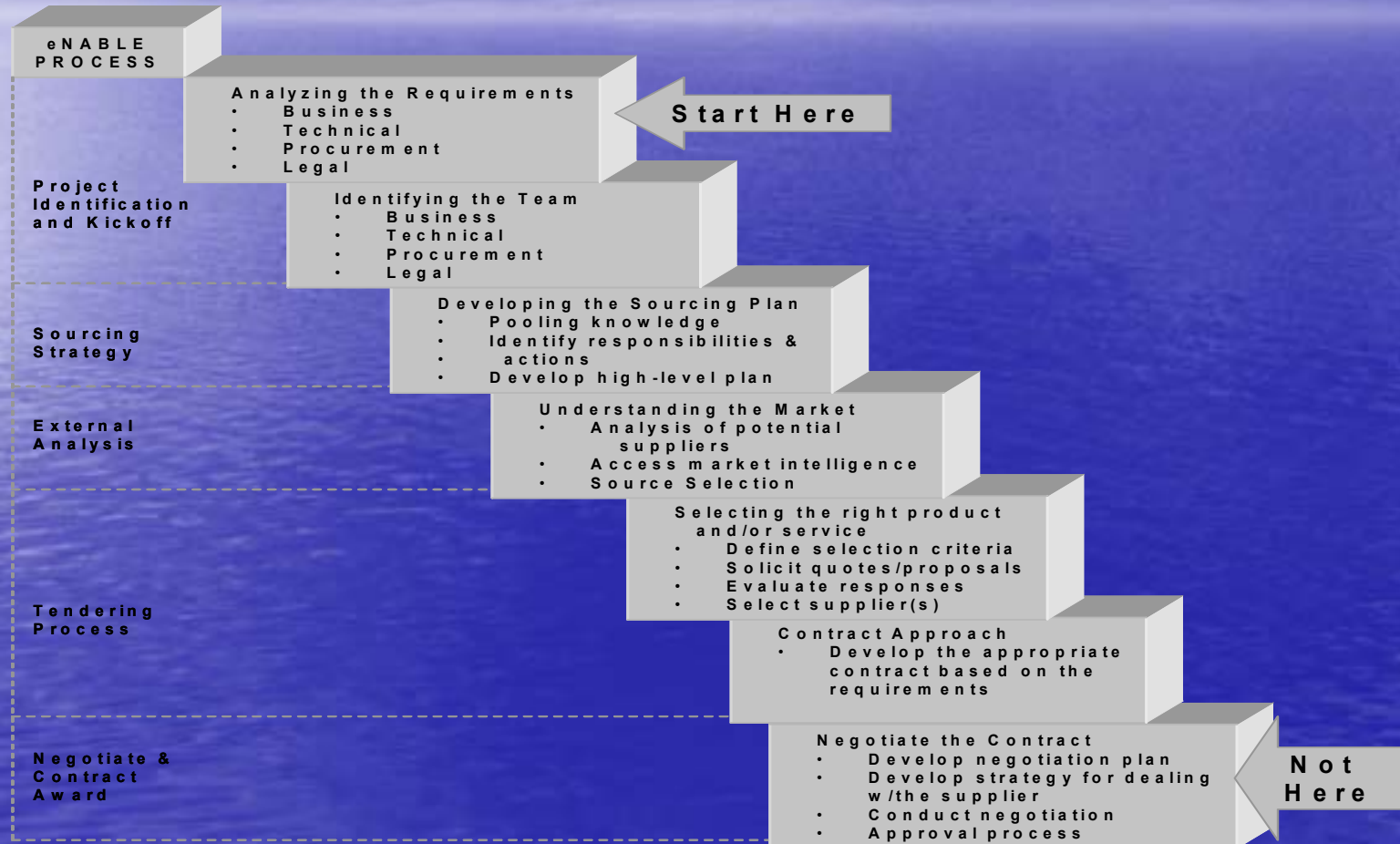
- Business / Client Executives
 - Why does the contracting process take so long?
 - Why is there such a long approval process?
- Support / Application Development Group
 - We need to be engaged sooner
 - We don't understand the projects you have asked us to review
 - Contracts are deficient
 - We want better contracts and QC procedures
 - We want to understand deviations from the standard checklist
 - We need a process in place
- IT Sourcing
 - Not engaged early in the contracting process
 - Deals come to us already negotiated by the business that compromise our ability to negotiate savings and the proper contractual terms and conditions
 - Engaged in many clerical and administrative processes

Recommendations

- IT Sourcing should be engaged up front with the Business and CE. Our ability to negotiate contractual and commercial terms would be enhanced if that were the case.
- Use a team approach when working with Legal, IT, Sourcing and Business.
- Limit the amount of clerical / administrative work.
- Quicker turn around on review of contracts, Legal, IT, Sourcing and Business.
- Additional Legal Support when legal resources are taxed.
- For important projects assign primary and secondary resources to project.
- Signature / approval levels for contractual documents should be reviewed.
- Backup's when principals are not available.
- Information should be more comprehensive when coming from VM,
- information should include (funding, corp/rc, project manager, business client, etc.)
- Develop an agreed upon Service Level Agreement and Escalation Procedures and who is responsible for timeline to completion.
- Automate approval chain. Expedite signoff of the contract signature form (CSF).
- Develop a useful and transparent method for communicating the status of a request to the principal parties. (IT, legal, finance, Business etc.)
- Introduce a requisition process and obtain finance approval prior to submission of procurement request.
- Combine information to use only one CSF/CRPO form.
- Set the proper expectations with the client and IT.
- Develop quality assurance checklists to be used by Sourcing for reviewing contracts.
- Quality Control Process.
- Communicating to the IT and the business, who we are, what we do, when and how to engage us, and our team members, website and phone numbers.
- Create a process that works for all parties involved in the contracting process.

Strategic Sourcing Process

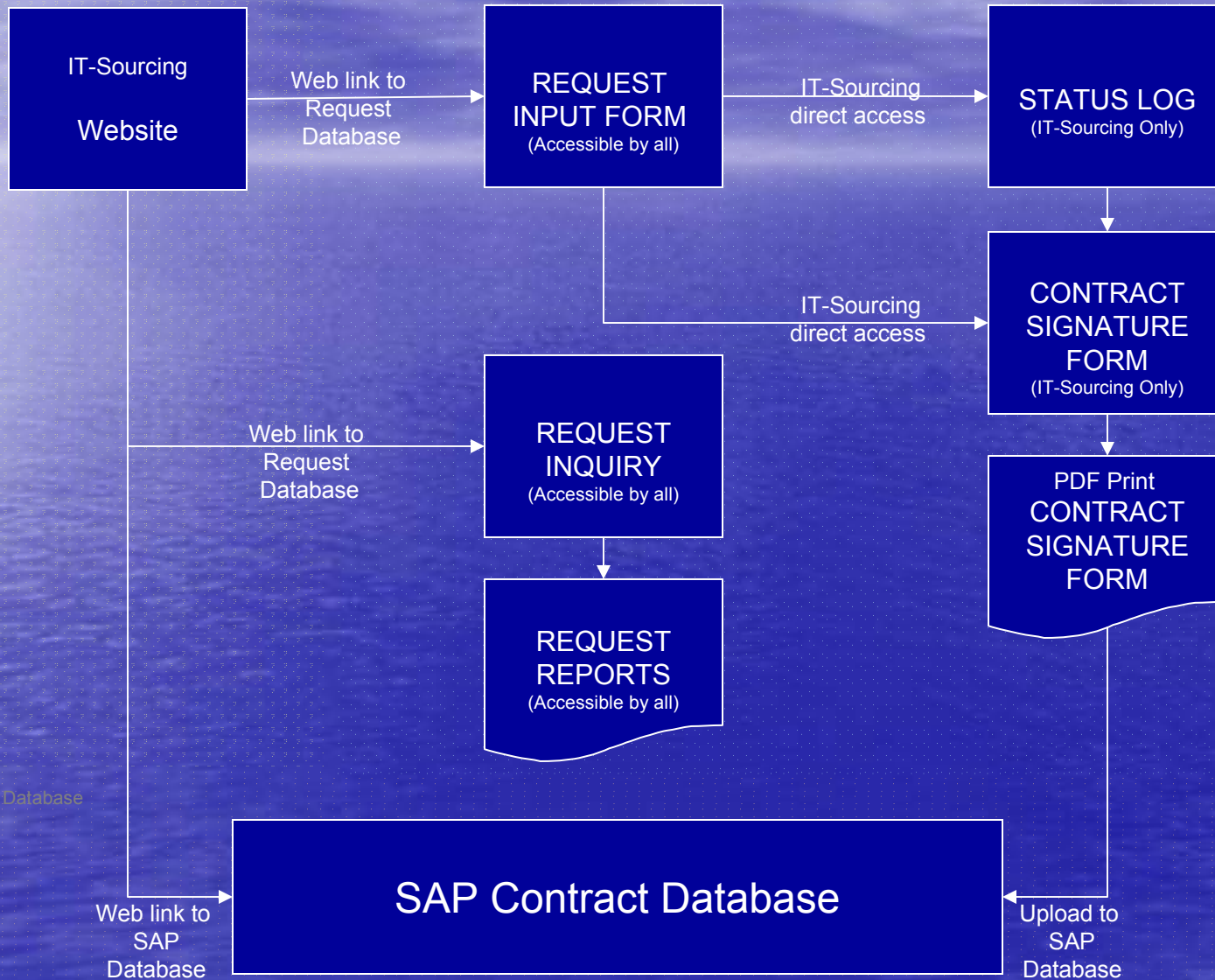
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IT-Sourcing – Global Automation Architecture (All Global Regions)

Sourcing Website

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Defined Processes and Automated Tools

- Well defined process flows that incorporate transparency and collaboration that facilitate global participation and support.
- Project management capabilities that enables the development, management and oversight of strategic sourcing processes.
- Automated RFx and reverse auction capabilities with advanced negotiation functionality that facilitate complex price negotiations and flexible bidding options.
- Analytical tools that support bid, spend and cost analyses including more advanced modeling functionality.
- Document management functionality that enable the exchange, modification, approval and retrieval of documents that can facilitate collaboration on a global scale.
- Knowledge management functionality that provides a central repository for supplier and market information, which also supports the management and reuse of strategic sourcing information and strategies.
- Management information and reporting functionality which facilitates the gathering of information related to Internal clients, Strategic sourcing and Suppliers.

Best Practices in Sourcing Require a Move from Tactical Sourcing to Strategic Sourcing

The transformation should include:

- Effective Sourcing governance structure
- Clear definition of organizational roles and responsibilities
- Alignment with the Business, IT, Legal, Risk Management, Finance, External Suppliers ,etc. / Service delivery rules and agreements / Internal and external SLA's
- Crossing corporate boundaries and becoming integral to the Business and IT / Linking service delivery to meet the strategic goals of the organization
- Employing management processes which support multiple service providers
- Supplier development / Supplier relationship management (SRM)
- Well-defined processes, automated systems and methods to support the identification, evaluation, negotiation and selection of appropriate suppliers

Recommendations

RFx process and related automation tools can precisely define the criteria for assessing and selecting suppliers

On-line auctions can provide transparency as it relates to competitive bidding and market price and allows suppliers to compete on equal terms

Commodity based goods and services (i.e. Hardware) that can be simply and effectively sourced through on-line product catalogs

Understands that the sourcing of “non-commodities” that are specific to business goals (i.e. Specialized Software) require a high degree of collaboration, integration and cooperation between the Business, IT, Sourcing, Legal, Risk Management, Suppliers, etc.. This type of Sourcing requires highly skilled and dedicated Sourcing Specialists that can support these complex transactions

Buyers and suppliers develop increased trust, work on processes that are more closely aligned and tend to work as partners (SRM)

The value add is immediate savings right to bottom line, insuring future cost reductions, effective use of resources and automated tools, better supplier relations and reduced risk to the enterprise

Recommendations

- Create simple on-line auctions and catalogs for the purchase computer hardware and shrink wrap software
- Use SAP, Oracle and Ariba tools in all sourcing activities and expand its functionality
- Collaborate and cooperate with Global teams to ensure standard and best practices
- Provide risk analysis of contracts and engage Legal in these contract reviews
- Create cross functional teams that work together on sourcing activities
- Create a Sourcing Expertise Center that customers can come to with confidence that will meet their needs
- Create goodwill and trust with suppliers so that they are more willing to renegotiate unfavorable contracts and broaden “right to use”. This is very important in an outsourced environment

Recommendations

Early engagement with clients to set up RFX and on-line auctions (e.g. Desktops)

Collaborate and cooperate with Global teams to ensure maximum leverage and standard practices – Oracle, Microsoft, SAP, Documentum, etc. Lead weekly Global strategy meetings with Europe, Asia and South America (Brazil).

Demand management (e.g. redeployment unused of licenses, terminate unnecessary maintenance agreements, renegotiate contracts, consolidate applications)

Create cross functional teams that work together on sourcing activities.
(Engage IT & Business Staff to understand future demand, foster good relations and communicate our attributes to the clients)

Expanding services beyond IT. (e.g. Outsourcing & BPO)