



PROCUREMENT TRANSFORMATION

Collaborating to Create Sustainable Results

October 20, 2011

Introductions

NAME

COMPANY

EXPERIENCE

Mike Fath



- VP, Chief Procurement Office for Caesars Entertainment
- Over 25 years of Procurement & Supply Chain Management experience
- Industry experience: manufacturing, transportation, healthcare, hospitality, financial services, and energy
- Former SVP of Procurement at First Group
- Former Consulting Partner with KPMG/Bearing Point

Conrad Snover



- Executive Vice President with ProcureAbility
- Over 14 years of supply chain consulting experience
- Industry experience: hospitality, utilities, oil and gas, high tech, banking, and insurance
- Focus areas: supply chain strategy design, category management, strategic sourcing, supplier development, and organizational sustainability

Agenda

BACKGROUND & INTRODUCTIONS

ProcureAbility and Caesars company overviews

Caesars operational background and project history

PROCUREMENT TRANSFORMATION OVERVIEW

Process

Technology

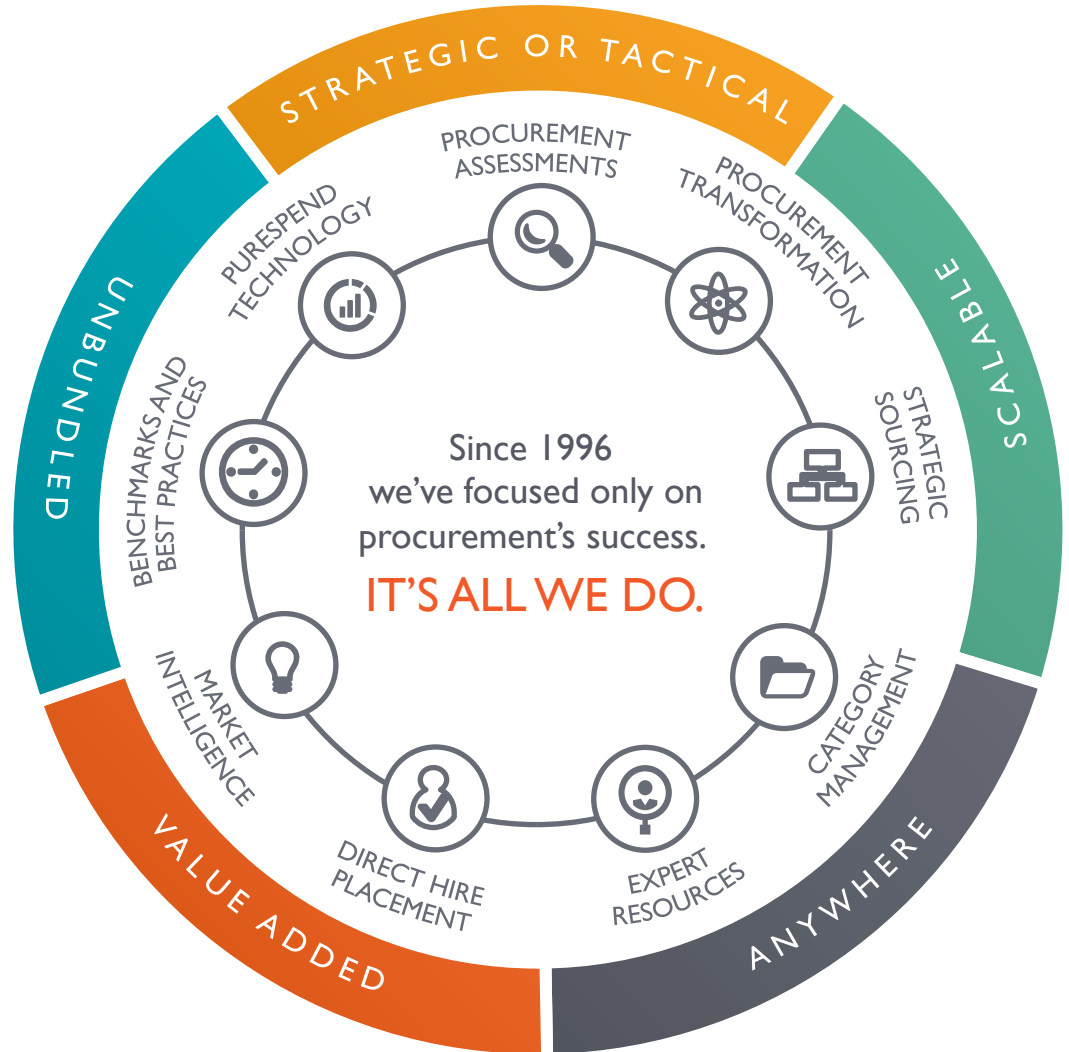
Organization

ProcureAbility

ADVISORY + TALENT YOUR WAY

AN APPROACH UNHEARD OF
IN TRADITIONAL CONSULTING
AND STAFFING FIRMS

We give clients access to unbundled resources, plus the ability to selectively add value through leading-edge methodologies, the latest best practices, and specialized insight and advice.



Caesars Entertainment is the largest casino company in the world

- World's largest and most diversified gaming company with 52 casinos in 7 countries and \$9 billion annual revenue
- Brands include Caesars, Harrah's, Horseshoe, World Series of Poker, and Total Rewards, the industry's largest affinity program 40 million members
- Nearly \$3 billion annual spend with 30,000 suppliers. Major categories include Marketing, Food & Beverage, Facilities, Construction, Hotel, Casino, Professional Services, and IT
- In the midst of a multi-year journey from a decentralized to centralized organization including the people, processes and technology to maximize the leverage with our vendors
- Superior guest service is our competitive differentiator. This requires that we deliver a seamless supply chain. Securing the lowest price is often not the primary goal of our business operators



Within Procurement, three groups manage spend through five channels, each with its own challenges

Three Groups:

Strategic Sourcing
35 FTE' s

- 2,000 national / regional / local contracts
- Commodity buy-ins
- Strategic projects

Purchasing / Warehouse
375 FTE' s

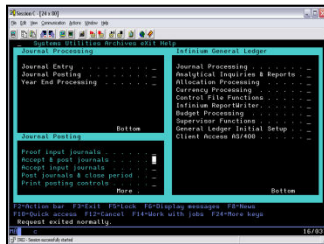
- 2,300 orders per day and 10,000 items per day
- 1,600 outlets

Property Operators
5,000+ FTE' s

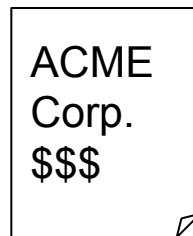
- Daily orders
- Outlet PAR' s
- Purchase req' s & PO' s

\$2.1B spend:

Stratton Warren



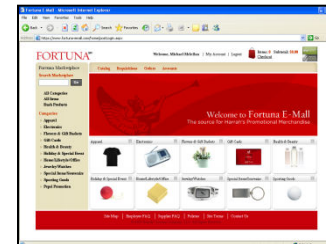
Paper PO



Wire Transfer



Portals



P-Card



Challenges:

1980' s technology

Lack of data & controls

Implementation & user adoption

Disaggregated spend

Current state

A lot of spend with suppliers...

- 30,000 suppliers
- 10,000 employees
- 1,800 suppliers with spend > \$100K
- Only 50% of those have a contract in place
- Current systems are hard to use
- Under utilizing the unique leverage as the world's largest gaming company

...but little coordination of efforts...

- Nearly 50% of contracted spend does not go through a standard process
- 20+ different Caesars groups does contracting
- These are functional experts stuck “moonlighting” in legal / procurement roles
- No use of techniques proven to optimize commercial agreements

...means a lot of savings potential from a standard process

- Double our savings target
- Clarify the role for each person in the process, but reduce the time required
- Leverage “best athlete” SME's across regions
- Use proven technology like eAuctions

Future State Objectives

Gain...

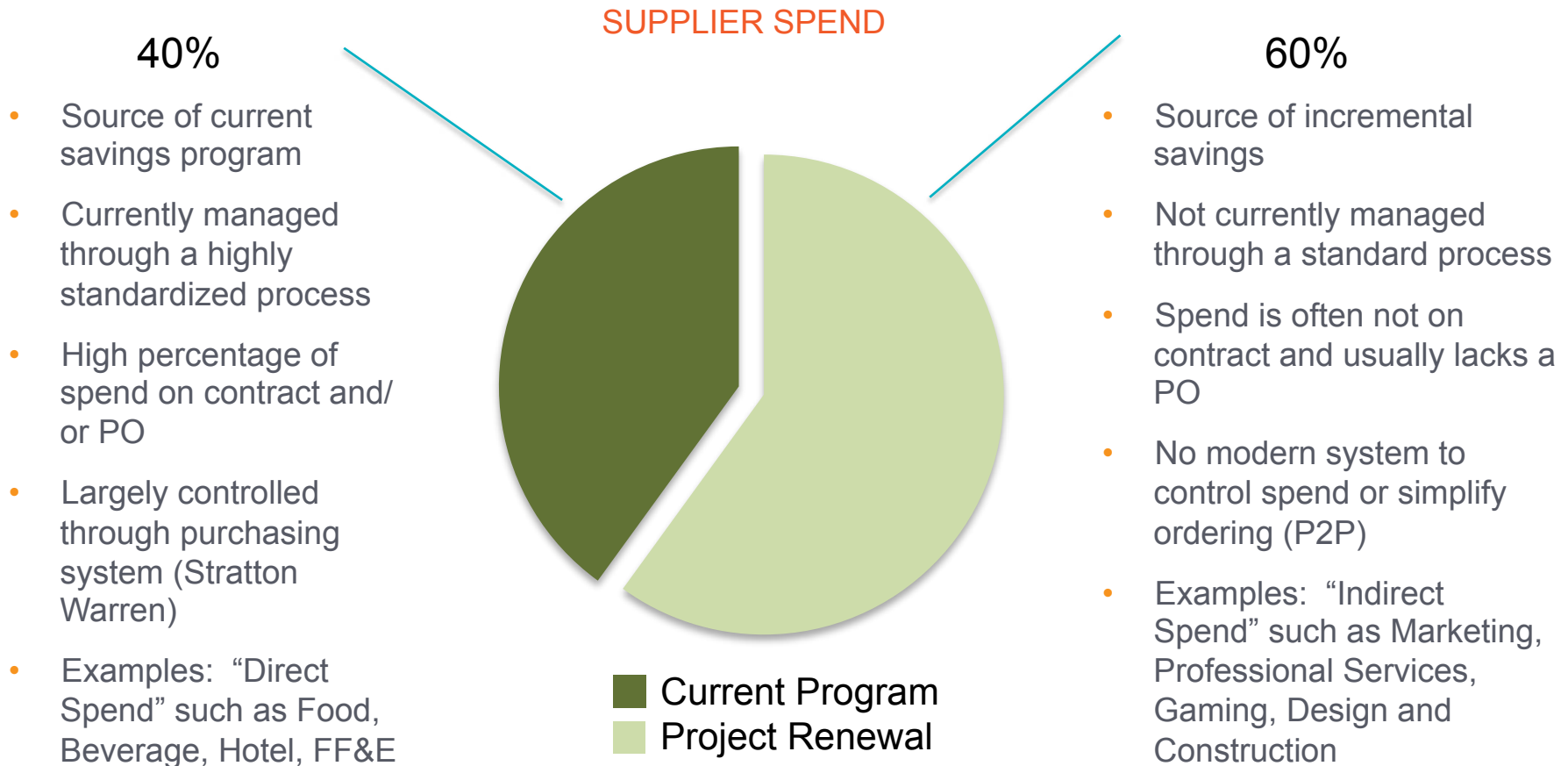
- More than double our annual savings program through better commercial terms
- Control over who can commit the company to commercial agreements
- Streamlined process including clear roles and decision rights
- Consistent use of preferred Legal and Risk Management terms & conditions
- Consistent application of “best athlete” SME’s across regions

...without sacrificing

- Ability of impacted business units to make the final decision
- Ability to make a decision quickly
- Flexibility for unique situations
- Service and quality requirements in addition to price considerations

This is NOT a proposal to remove decision authority from the ultimate business owner. Rather, it's a proposal to ensure the business owner engages in a standard process for commercial agreements

Savings derive from driving the other 60% of Caesars spend through a standard process



Recommendation: Quick Wins & Transformation

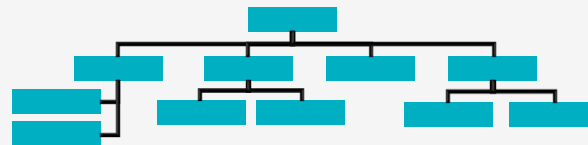
Immediately Attack Quick Wins to build savings investment

- Price consistency
- eAuctions

- 1 Design and implement a standard process to enter into all commercial agreements



- 2 Build an organization to drive and support the doubling of spend under management



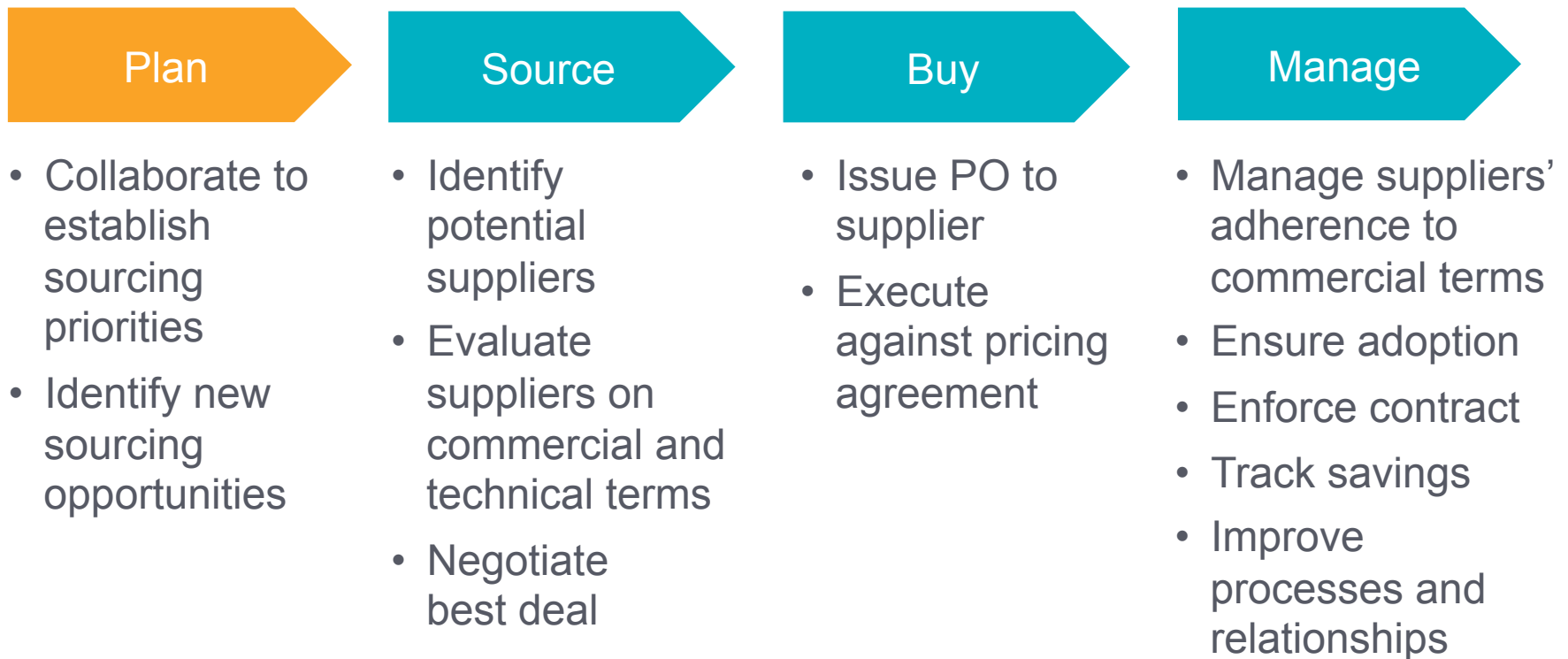
- 3 Ensure technology supports the process

- Sharepoint
- Automated WebForm
- Ariba ProSource
- Ariba Contracts Management
- Stratton Warren
- Ariba P2P
- Others
- Ariba Dashboard

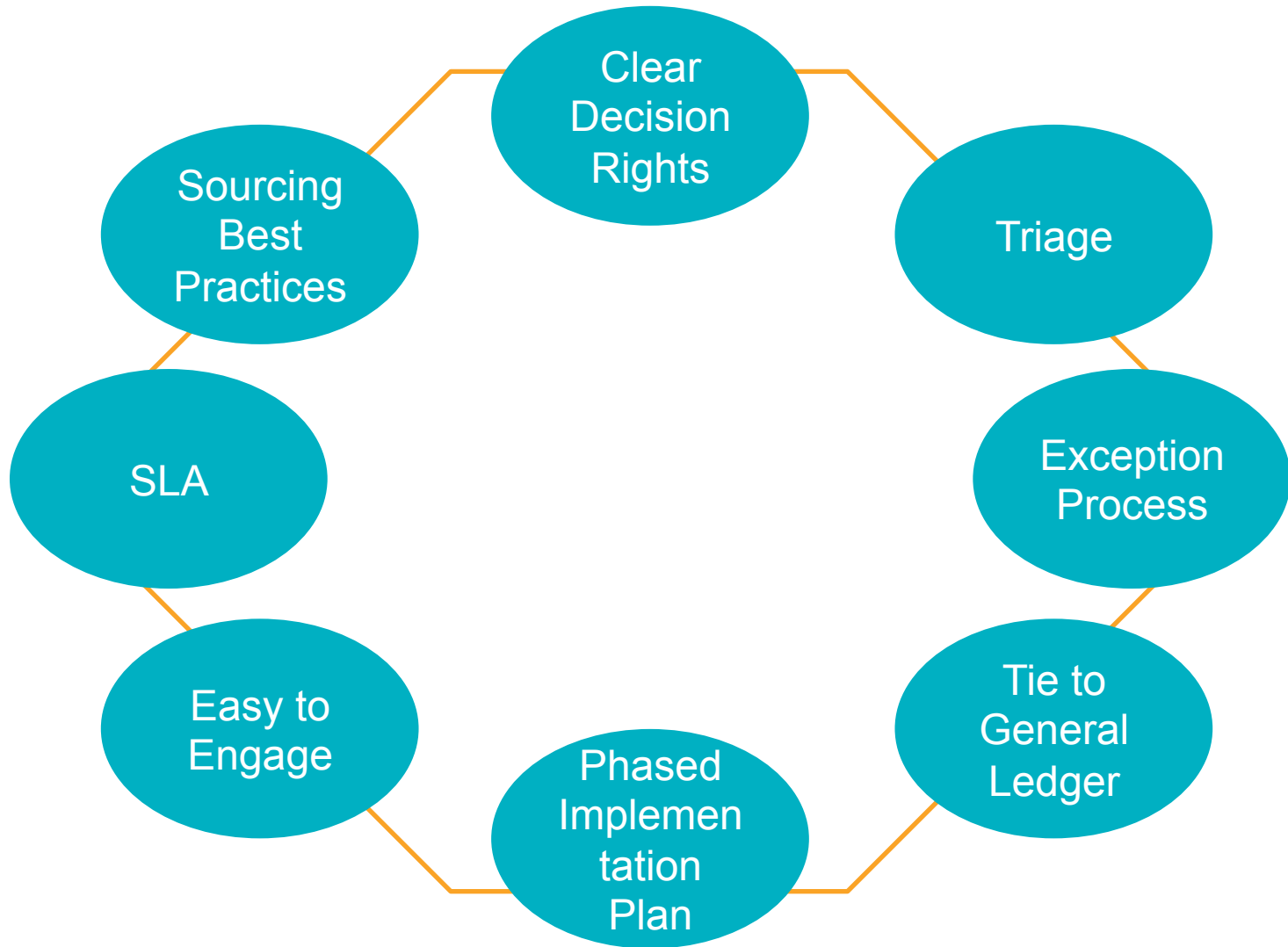
Transformation

1 Process

The transformed Business to Vendor (B2V) process begins with prioritizing the internal customers' needs through contracting and buying and utilizes enabling technologies for efficiencies

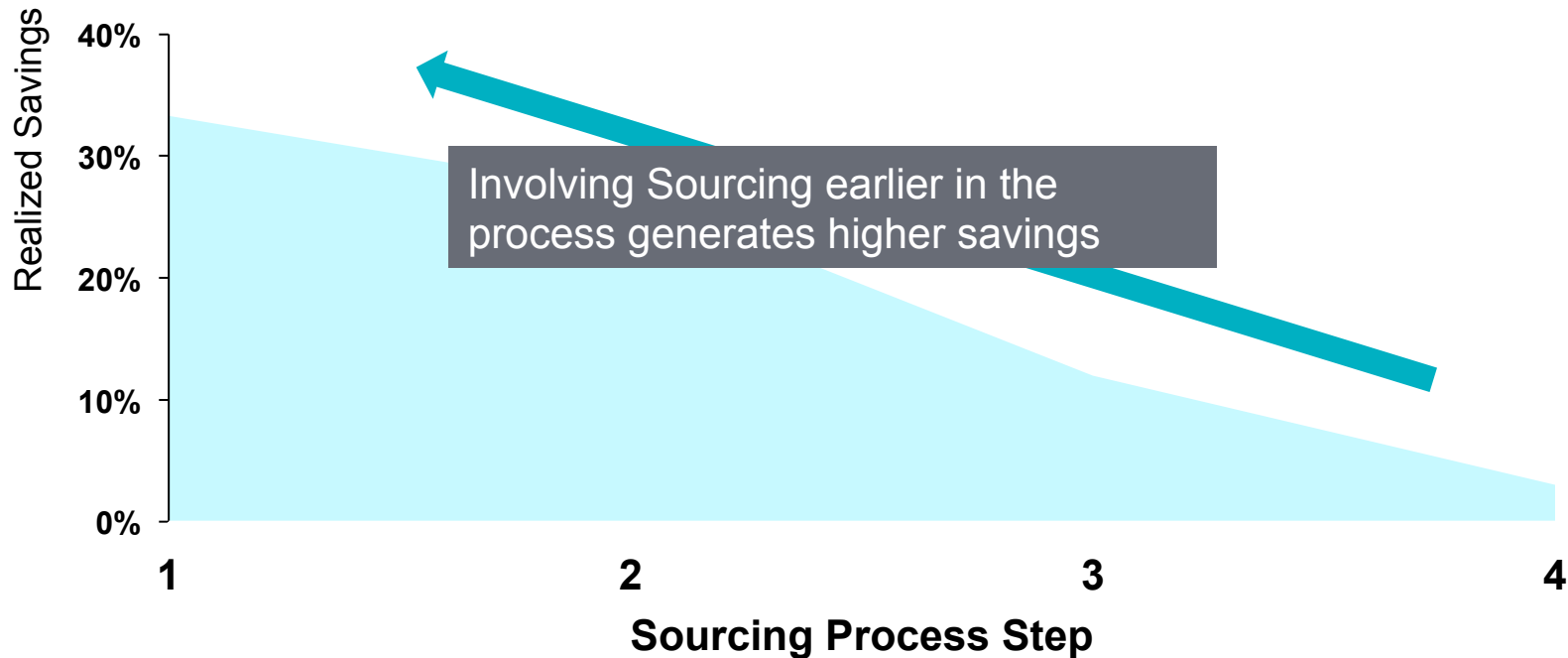


The new standard process maximizes savings but also addresses needs of the business



The process must start early when Caesars has leverage – up to 5x more savings

Lesson Learned: Explain the process to the stakeholders using plain English!



How this happens: two ways

1

Proactive

- Sourcing engages business leads to develop joint savings opportunities based on budgets and planning
- Results in a pipeline of jointly identified projects
- Regular review cycles for status and adjustments

2

Reactive

- Simple request submittal process when something is needed
- Requestor completes a simple web form
- Sourcing assigns the appropriate personnel

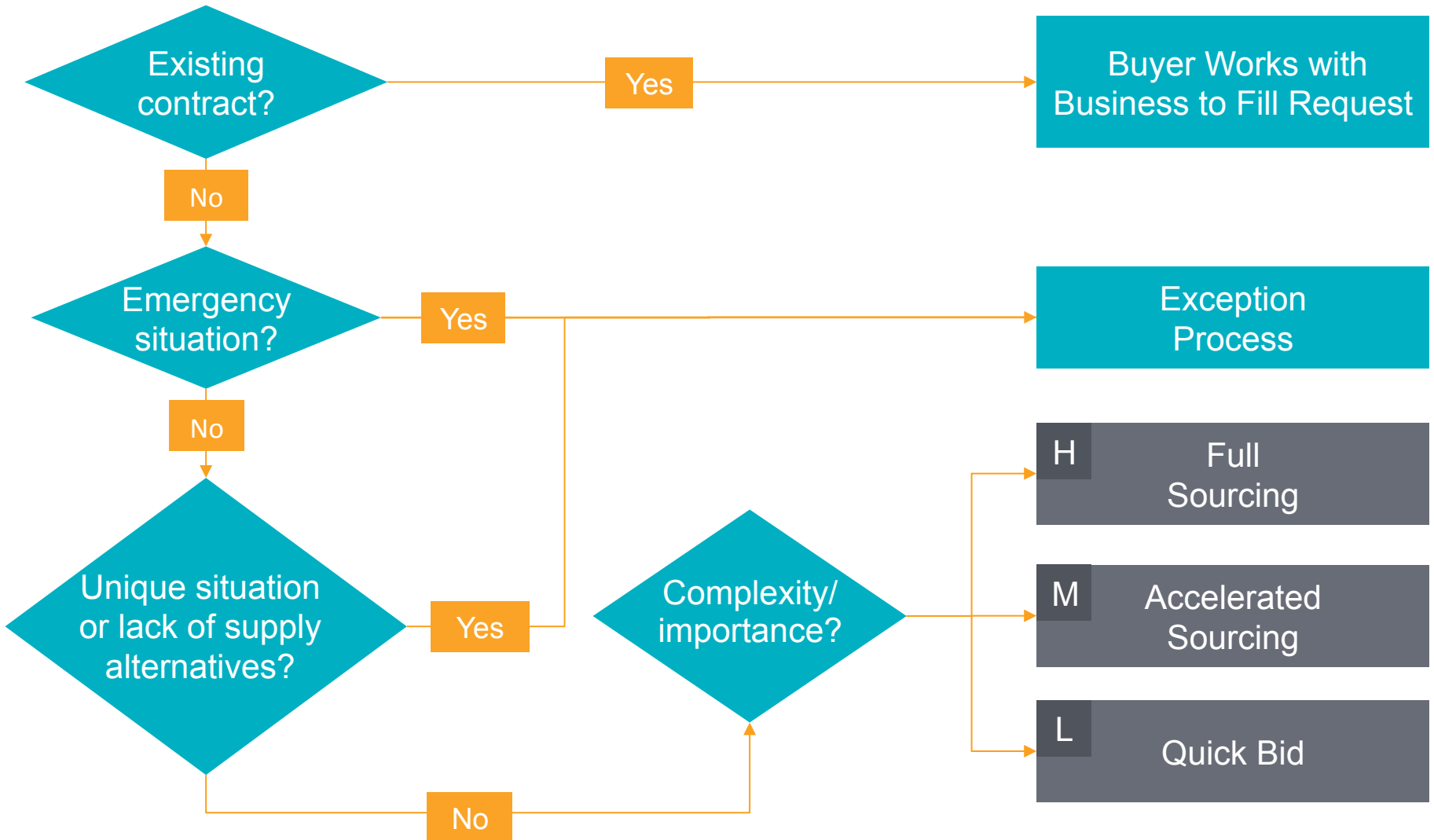
Project Planning and Review		
Topic	Participants	Focus
Annual Planning Meeting	<ul style="list-style-type: none"> • CPO • Portfolio VPs/Directors • Corporate Function VPs/Directors • Property GMs/Asst. GMs 	<ul style="list-style-type: none"> • Annual project planning and priorities, long-range supply-base planning
Quarterly Action	<ul style="list-style-type: none"> • Category Managers • Corporate Function VPs/Directors • Property GMs/Asst. GMs 	<ul style="list-style-type: none"> • Progress reporting against annual plan
Monthly Pipeline	<ul style="list-style-type: none"> • Category Managers • Corporate Function VPs/Directors • Property GMs/Asst. GMs 	<ul style="list-style-type: none"> • Review and adjust project pipeline priorities based on changing business needs

The screenshot shows a web browser window with the URL http://www.caesars.org/strategic_sourcing/default.asp. The page title is 'Strategic Sourcing' and the CAESARS ENTERTAINMENT logo is visible. Below the logo are navigation links for 'Home', 'SmartSource', and 'FAQs'. The main content area features a 'SmartBuy' form with the following fields and options:

- Name***: [Text input]
- Email Address***: [Text input]
- Phone Number***: [Text input]
- Department***: [Dropdown menu, selected 'Marketing']
- Property***: [Dropdown menu, selected 'Harrah's - Las Vegas']
- Describe what do you need to buy?***: [Text area]
- One Time Purchase?**: [Radio button, selected 'X']
- Category***: [Dropdown menu, selected 'Promotional Print Direct Mailer']
- Date Needed***: [Text input, '12/1/2011']
- Estimated Annual Spend:** [Text input, '10,000']
- Notes:** [Text area, containing 'This mailer is 4 color offset litho']
- File Attachments:** [Browse button]

A red 'Submit' button is located at the top right of the form area.

Triage Process



Exception Process

In every conversation about the new sourcing process, Business Stakeholders required that an exception process be established

- Triage Process is designed to allow exceptions when justified by a business need
- Category Leader verifies that other alternatives or suppliers do not exist
- Category Leader records the event in the exception log and provides details of the proposed solution
- The process is flexible and emergencies are managing through compliance reporting



Savings tracking and Finance sign-off

- Finance sign-off required during triage step
- Excel-based form for each savings initiative over \$100K
- Identifies addressable spend, forecasted savings, savings “lever” to be applied, and compliance tracking mechanism
- Finance helps identify impact to general ledger, and formally signs-off
- Form populates a database for analysis by property, department, general ledger code, etc.



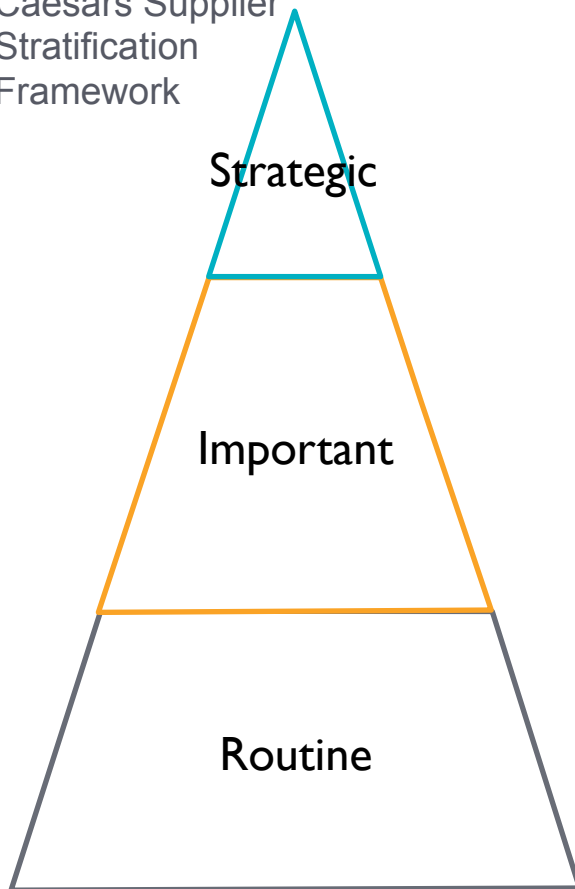
Strategic Sourcing Savings Tracking

Initiative #: 12345 Initiative Name: Frozen chicken 9-way Owner: Bill Smith Baseline Spend: \$50,000,000 Spend in Budget: Yes Estimated Savings: \$5,000,000 Savings %: 10.0% Savings Start: Jul-11 Savings (2011 Commit): \$2,500,000 Property(s): 30 Department(s): Food (2000's) Account(s): Cost of Sales Allocation Method: Cost of Sales	Initiative Description: Explain how this initiative creates savings. Summarize the sourcing strategy applied (e.g., price deflation via e-Auction) Description of Baseline
Finance Sign-Off: West: J. Smith Central: A. Person East: M. Jones Corporate: Other:	Savings / Compliance Tracking: Explain how we will track compliance (e.g., spend on contracted items vs. non-contracted items)
Other comments / concerns: (enter any other comments or concerns, if applicable)	

2 Designing the Organization

Realizing that our commercial agreements require differing levels of effort and attention, we decided to formally stratify our processes and skills required

Caesars Supplier
Stratification
Framework



KEY PROCESSES

Collaborative planning with stakeholders, and the close management of suppliers



SKILLS NEEDED

- Strategic planning
- Relationship management
- Demand management
- Retain in-house

Repeatable use of rigorous sourcing principles to execute a large number of deals



- Category management
- Supply market analysis
- Strategic sourcing
- Contract management
- Utilize on-demand support

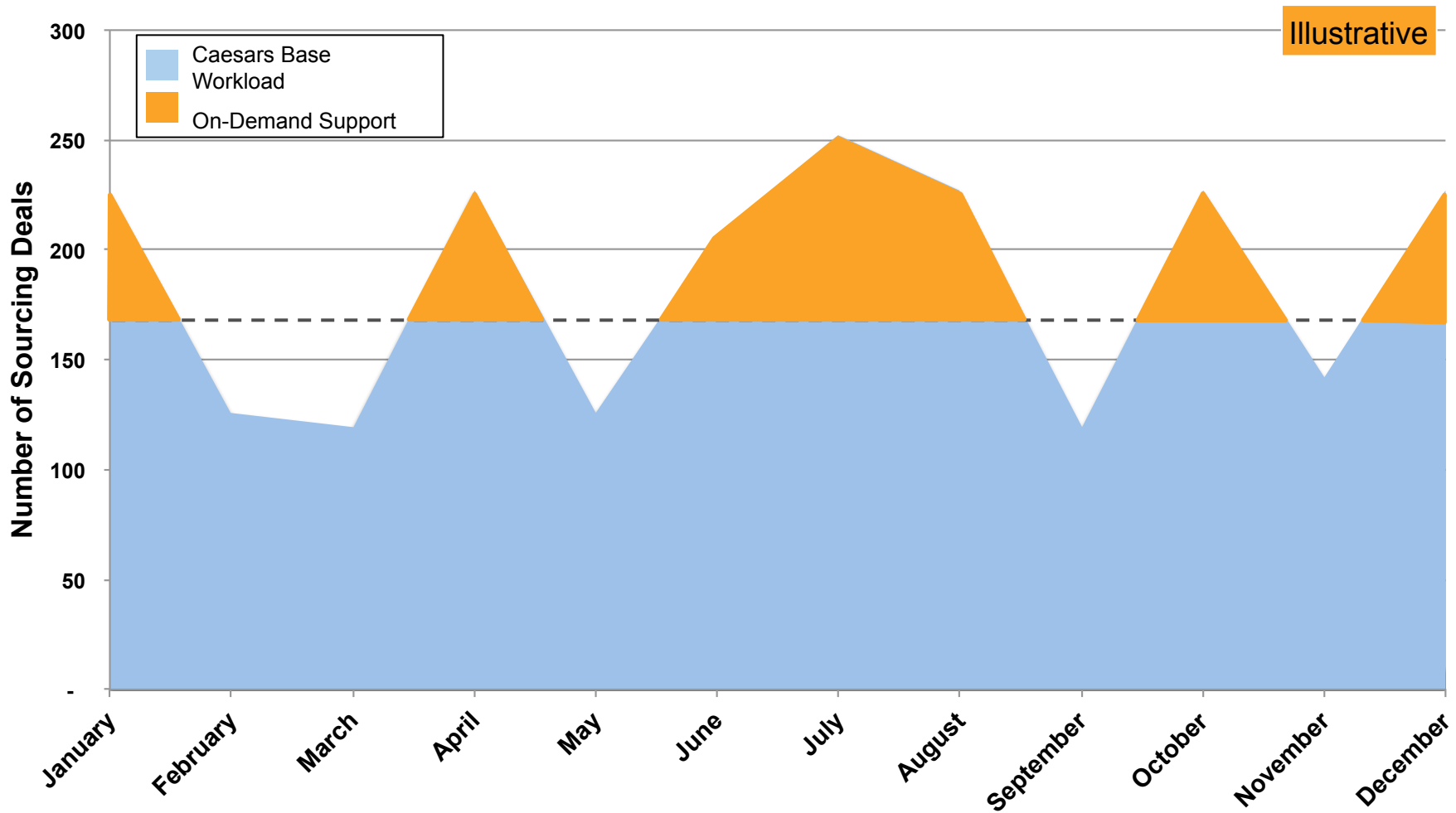
High level of transaction automation to ensure that all purchases are on a PO, at the proper price



- PO processing
- Catalogue & pricing maintenance

On-demand sourcing support will ensure Caesars doesn't "Build the church for Easter Sunday"

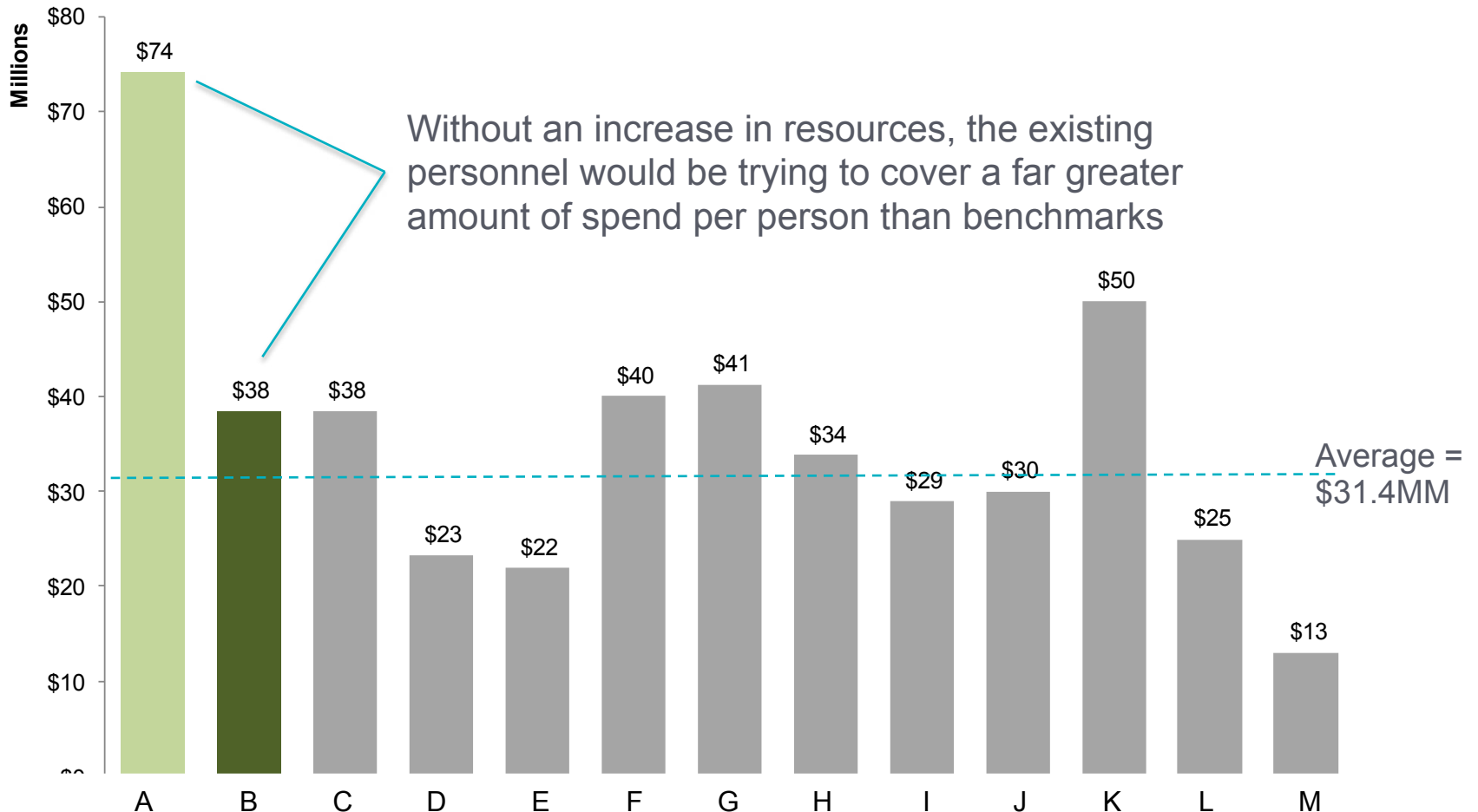
Offloading excess work to on-demand resources creates a scalable model and frees up Category Leaders to work with stakeholders to focus on generating savings



Illustrative

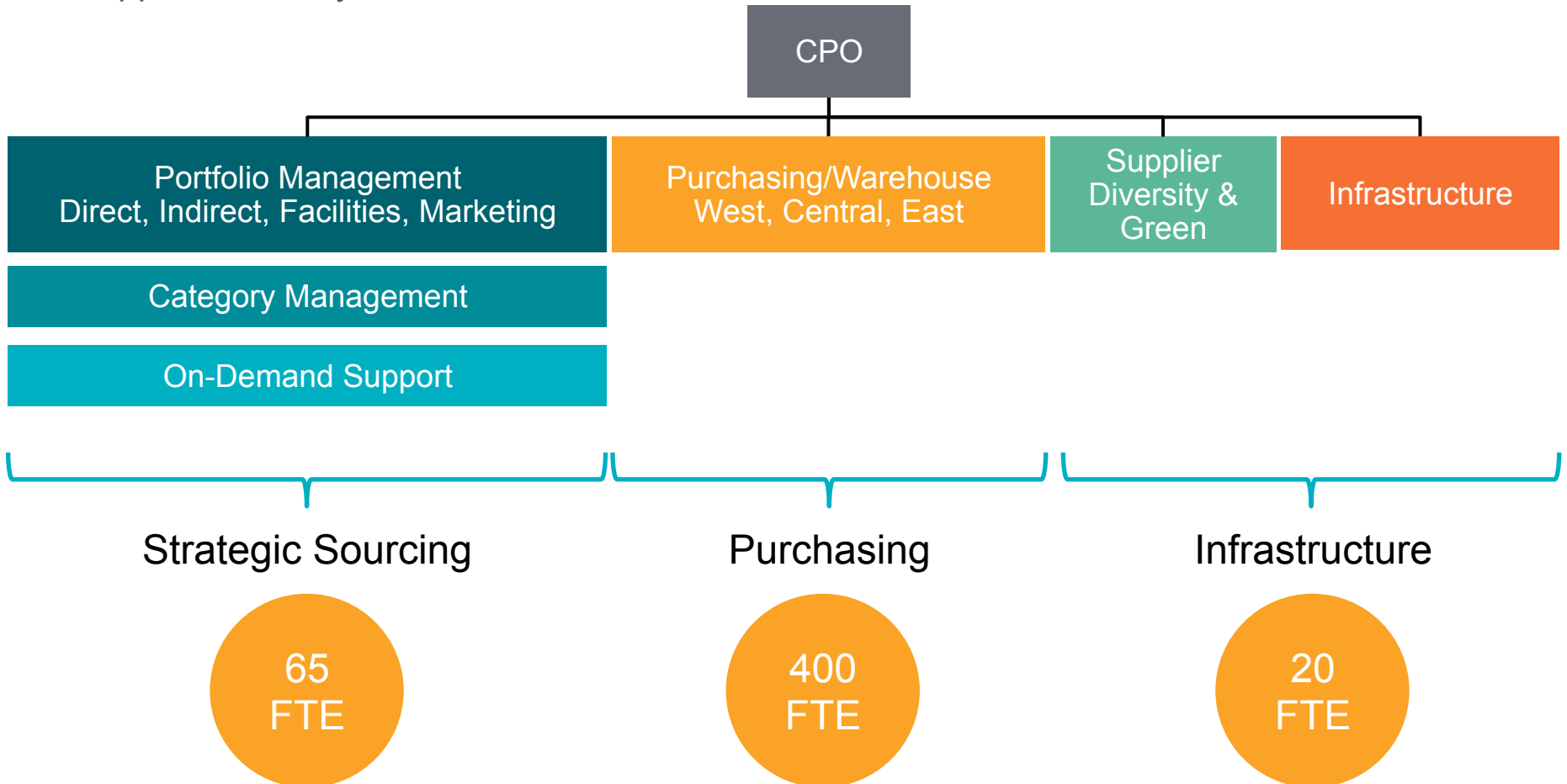
The additional full time resources requested put Caesars in-line with external benchmarks

Supplier spend per sourcing FTE

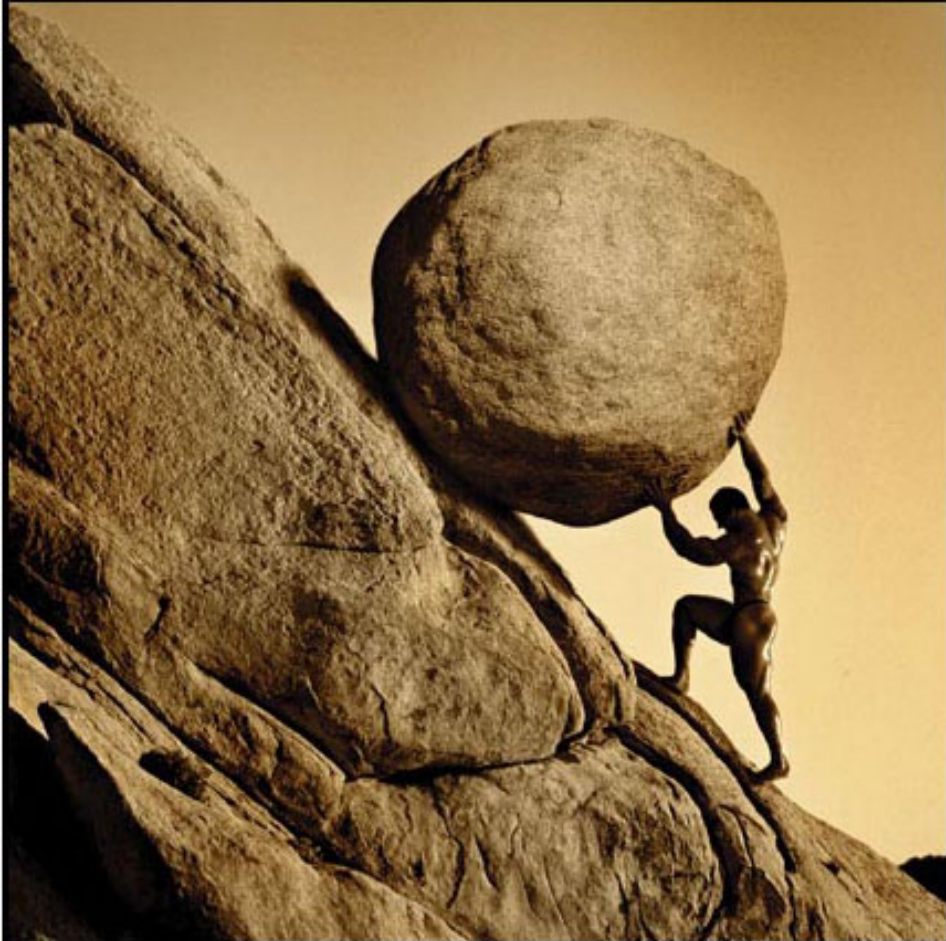


Future Organizational Structure

The Strategic Sourcing group is comprised of four portfolios, three divisional Purchasing / Warehouse / Receiving groups, supported by centralized groups for Supplier Diversity / Green and Infrastructure



Implementation: Now it gets tough



- “Change management” is easy... when it’s theoretical
- We will soon be asking people to change the way they do things, and that involves a learning curve
- But we’re going about it the right way:
- Define a standard, simplified process
- Communicate “what’s in it for them”
- Invest extra resources in training and end-user adoption

Thanks for attending

Please don't hesitate to contact us

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