



RAPID STRATEGIC SOURCING

Five Strategies for Tangible Results in 2009

July, 2009



ProcureAbility Presenters



John Evans

President and CEO

ProcureAbility

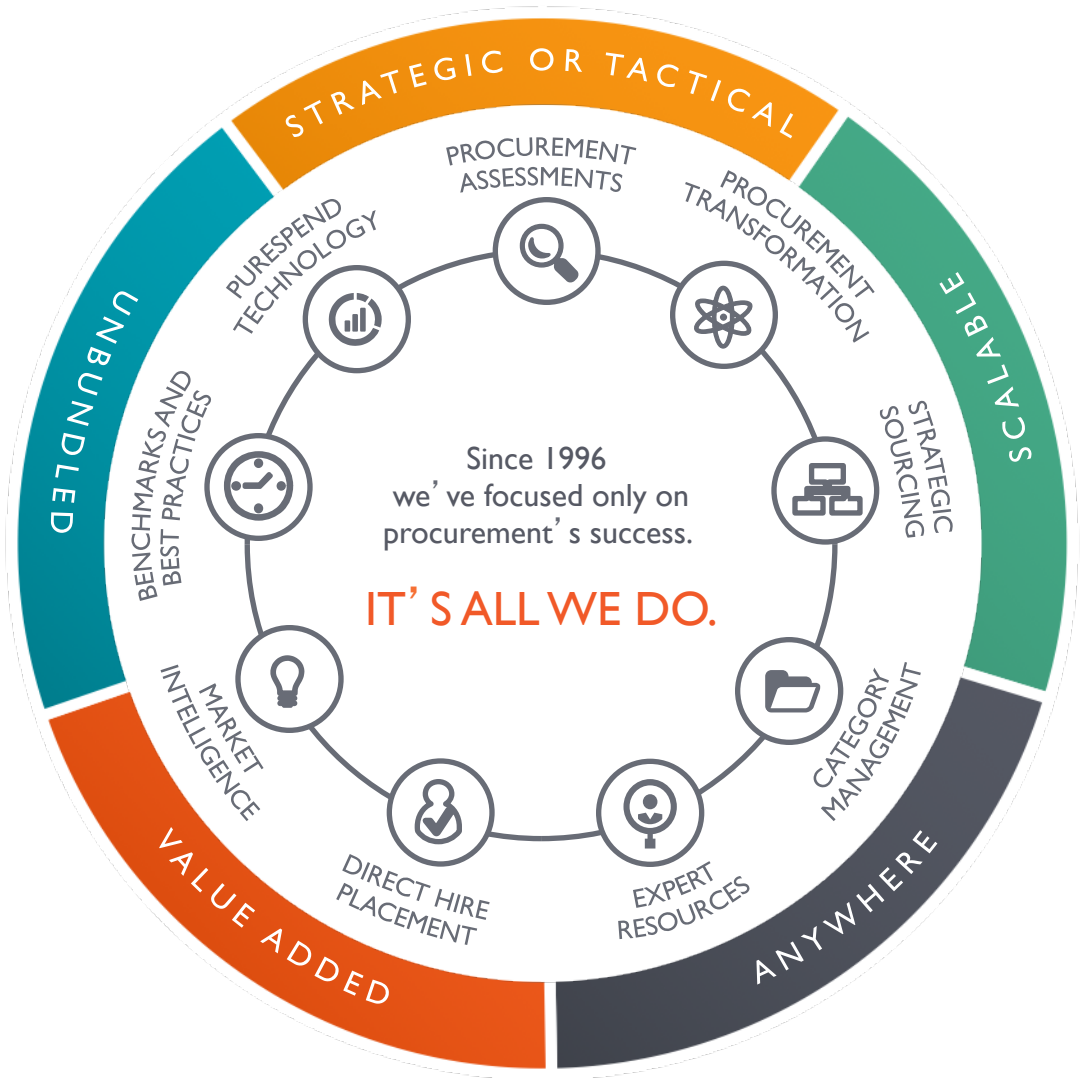
jevans@ProcureAbility.com

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Agenda

Background – Today' s Sourcing Environment

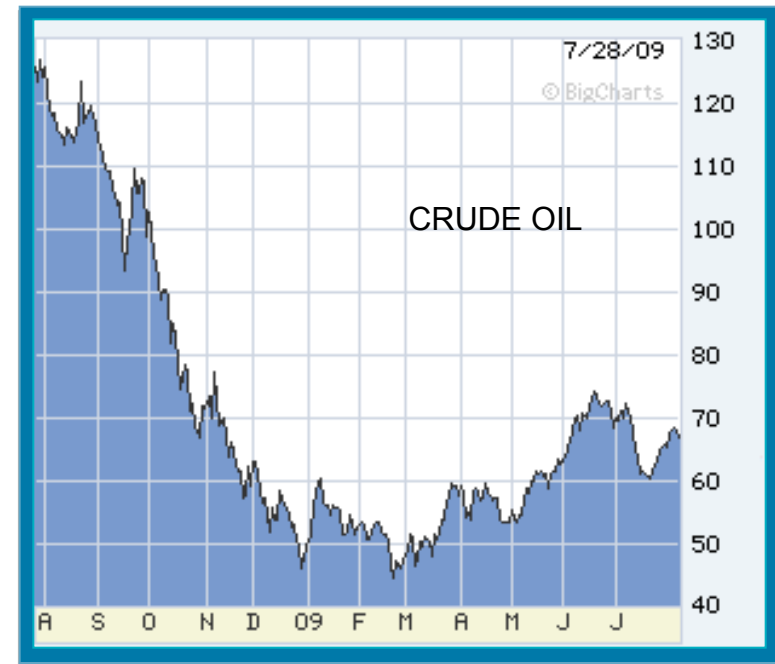
Five Strategies for Tangible Results

Wrap-Up

Today's Sourcing Environment

Recession continues ... prolonging one of the biggest “buyers markets” in decades

- In May, exports were down 21.3 percent, and imports were down 31.3 percent. (BEA, 07/2009)
- Trident Steel Cancels over \$2.8 million in orders for oil country tubular goods from China and Taiwan. (AMM, 07/2009)
- Gold Falls as Oil Declines, Dollar Turns Higher. (WSJ, 07/2009)



With the exception of Gold, ALL commodities are trading materially less than their levels of a year ago.

Supply Markets: Looking Back, Looking Ahead

Category	Price Change (%)			
	2006	2007	2008	2009 est
Crude Oil, (NYMEX)	17%	10%	38%	-40 to -45%
Aluminum (COMEX)	32%	3%	-2%	-35 to -40%
Copper (COMEX)	83%	4%	-3%	-25 to -30%
Steel (CR Sheet)	8%	-10%	55%	-40 to -45%
Financial Services (BLS)	6%	1%	-9%	-8 to -10%
Trucking Freight (LTL – BLS)	5%	3%	6%	-3 to -5%

Our overall outlook for the forecast period can be summarized as:

- 2009 & 2010 negative
- 2011 & 2012 neutral
- 2013 & 2014 positive

Today's Sourcing Environment

In general, today's economy represents a buyer's market across most spend categories

Buyer's Market : Situation where goods are plentiful but demand is weak, therefore buyers can influence prices to suit their estimate of value. Also called soft market. Opposite of sellers' market.

Most procurement professionals experienced significant price increases during the seller's markets of 2003-2008, yet many haven't re-negotiated contracts or re-sourced spend to adjust prices that reflect today's economic reality

Significant opportunities are being realized by companies that are taking an aggressive approach to contract re-negotiation and re-sourcing

A formal, fact-based, fast-paced approach is required to optimize procurement value creation
in 2009

Time is running out; in order to realize 2009 savings, sourcing and contract renegotiations must start now!

Polling Question

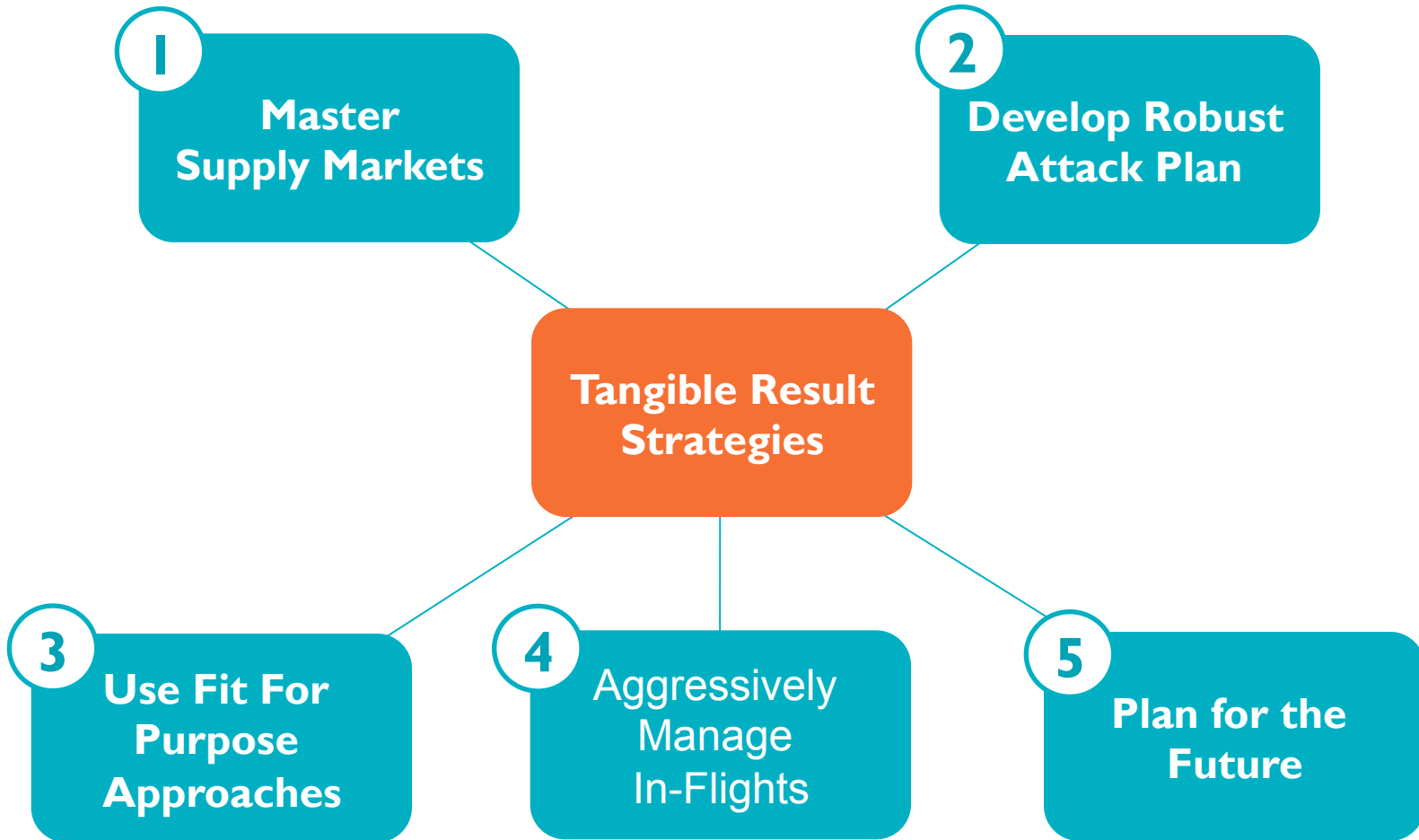
What are the expectations of your sourcing organization, in terms of savings goals in today's environment?

- Expected to provide more savings in today's environment
- Savings targets are about the same as in previous years
- Savings targets are less than in previous years
- We have no savings targets

What to do?

Five Strategies for Achieving Tangible Results in 2009 from Strategic Sourcing

Five Tangible Strategies for Tangible Results in 2009



1 Become a Master of Supply Market Intelligence

Understanding Supply Market Intelligence is critical to identify specific cost driver impacts to category costs, and ultimately prioritize opportunities

Focus on Cost Reduction

- First-cost price reductions through better insight into cost drivers, pricing trends and forecasts
- Total-cost reductions through an increased understanding of best-practice sourcing strategies, cost drivers & value levers
- Timing of the impact raw material price decreases will have on material purchases

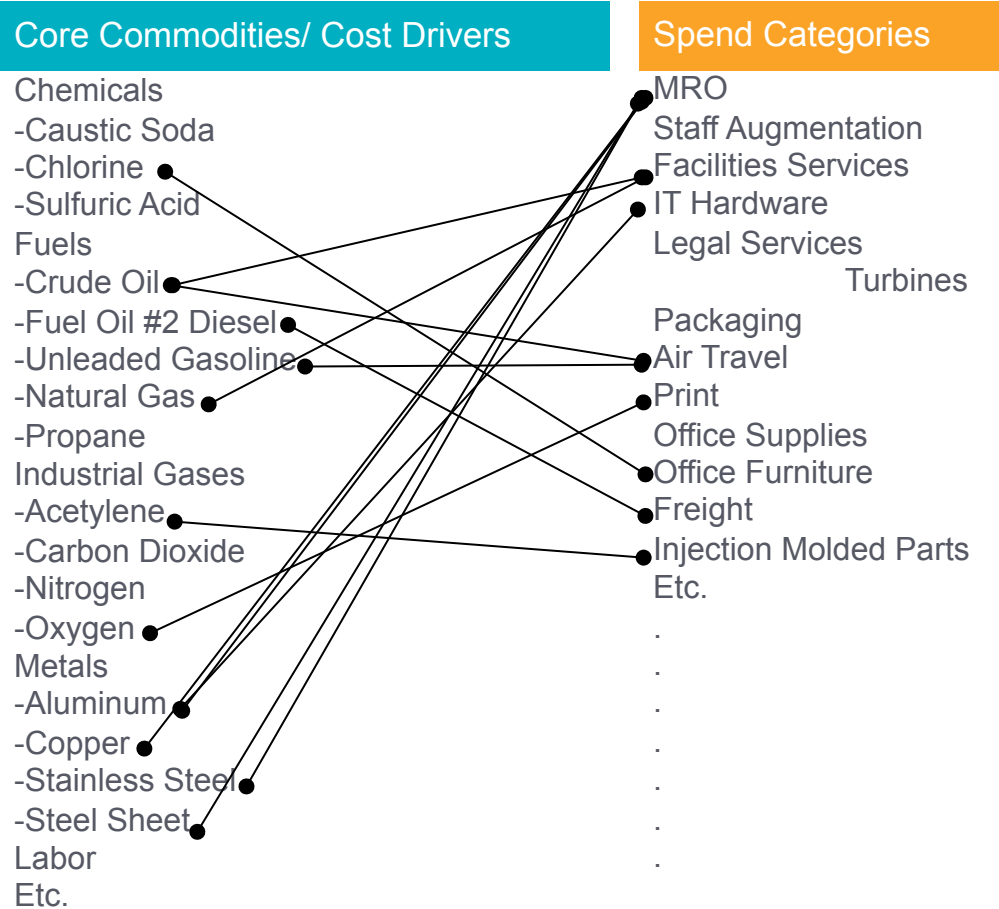
Focus on Risk Mitigation

- Alert to trends affecting spend management to aid in timing of sourcing events, purchase negotiations and budget variance explanations
- Alert to potential supply disruptions
- Alert to trigger a new sourcing event or contract extension

Use Market Intelligence to Prioritize Sourcing Opportunities

A Map Cost Drivers To Spend Categories to identify opportunities

Example Only

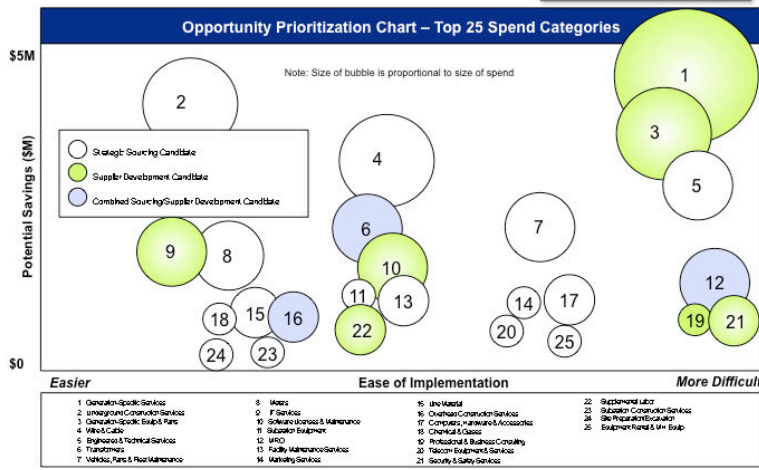


B Using Cost Driver Analysis, Develop Cost Model To Quantify Potential Impacts Of Core Commodity Price Changes/Forecasts

C Using Market Intelligence (As Well As Other Opportunity Assessment Criteria), Quantify Opportunities At The Spend Category Level

D Prioritize & Select Opportunities

Illustrative Example Only





Incorporate Market Intelligence in developing sourcing and negotiation strategies

Negotiation Strategy Template

Negotiation Preparation Worksheet			
Sourcing Category: _____		Today's Date: _____	
Objectives And Potential Negotiating Issues			
Category	Objectives	Sourcing Techniques	Potential Negotiation Issues
Price/Cost			
Specs			
Process			
Value Added Services			
Other			
Most Desirable Outcome (MDO)		Least Acceptable Agreement (LAA)	Best Alternative To Negotiated Agreement (BATNA)
Communication Plan			
Action	Responsible Party	Date	

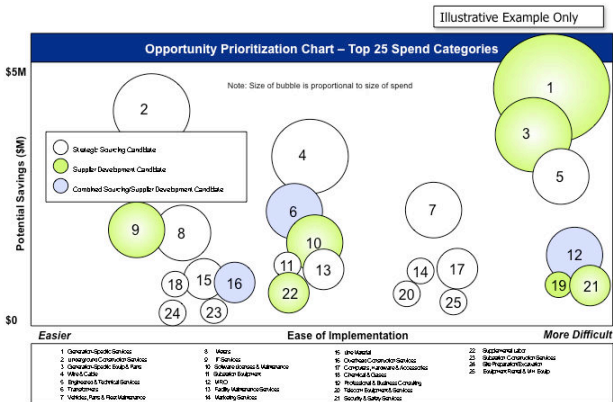


Use Market Intelligence To Support Negotiations & Re-Sourcing Strategies

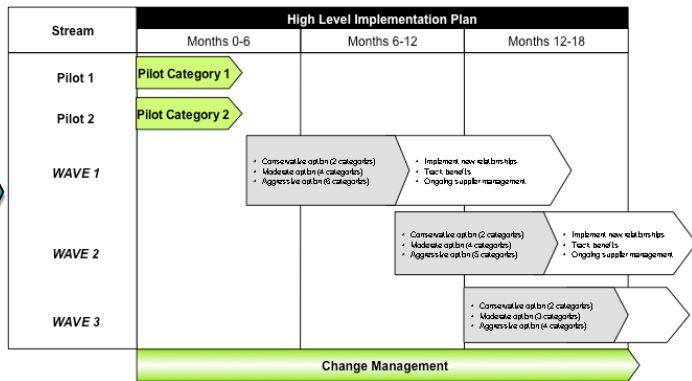
- Establish target pricing based on price benchmarks, finished goods/services pricing trends, and cost driver analysis
- Understand supply demand/capacity imbalances, to your advantage
- Anticipate supplier hot buttons & “must have” negotiation points
- Identify new suppliers to include/leverage in negotiations & sourcing efforts

2

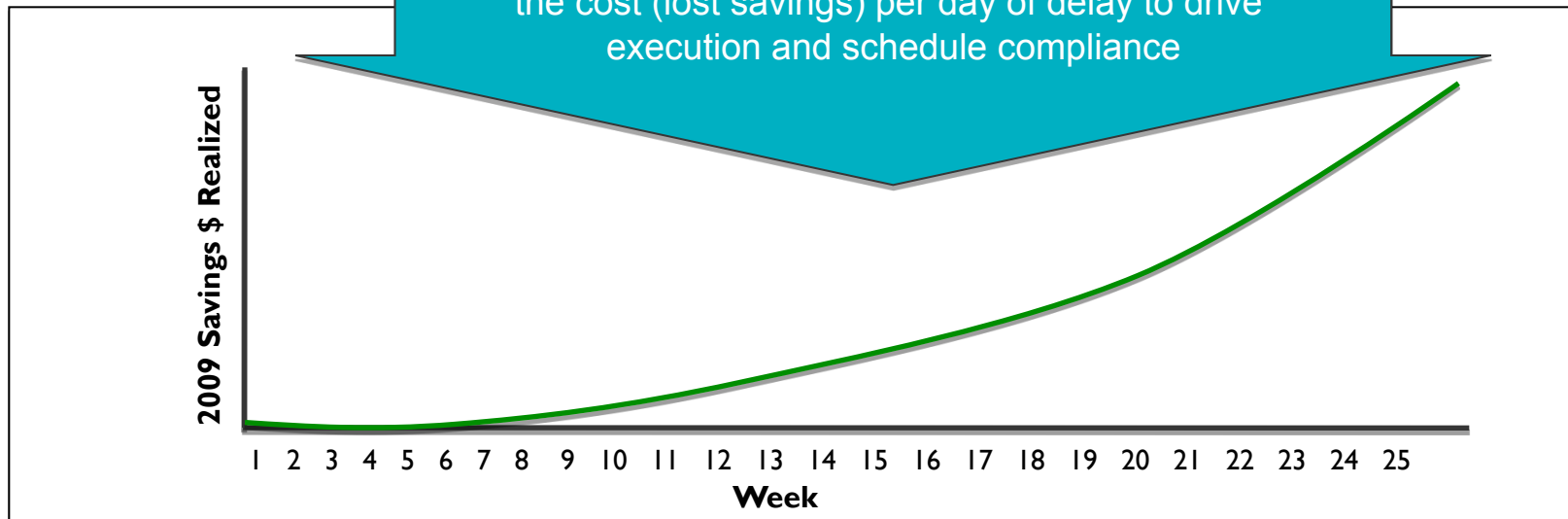
Develop savings roadmap to visibly drive schedule compliance (Attack Plan)



Convert the opportunity prioritization into a detailed sourcing/renegotiation roadmap...



Then create a savings roadmap to clearly articulate the cost (lost savings) per day of delay to drive execution and schedule compliance



2 Calculate and point out cost of not doing anything to drive compliance and urgency

Clearly articulate the daily cost of schedule slippage for each initiative

Keep savings and schedule results visible

- Create savings and schedule dashboards and/or websites to increase visibility
- Celebrate success visibly and loudly
- Understand and make visible savings and schedule gaps and their associated costs

Define clear accountability for each sourcing/renegotiation initiative

Expect mitigation plans for savings shortfalls

- Actively discuss risk mitigation plans/tactics to eliminate the shortfalls
- Potentially add new initiatives to make up for shortfalls

2 Impacting Budgets with Savings Through Strategic Sourcing

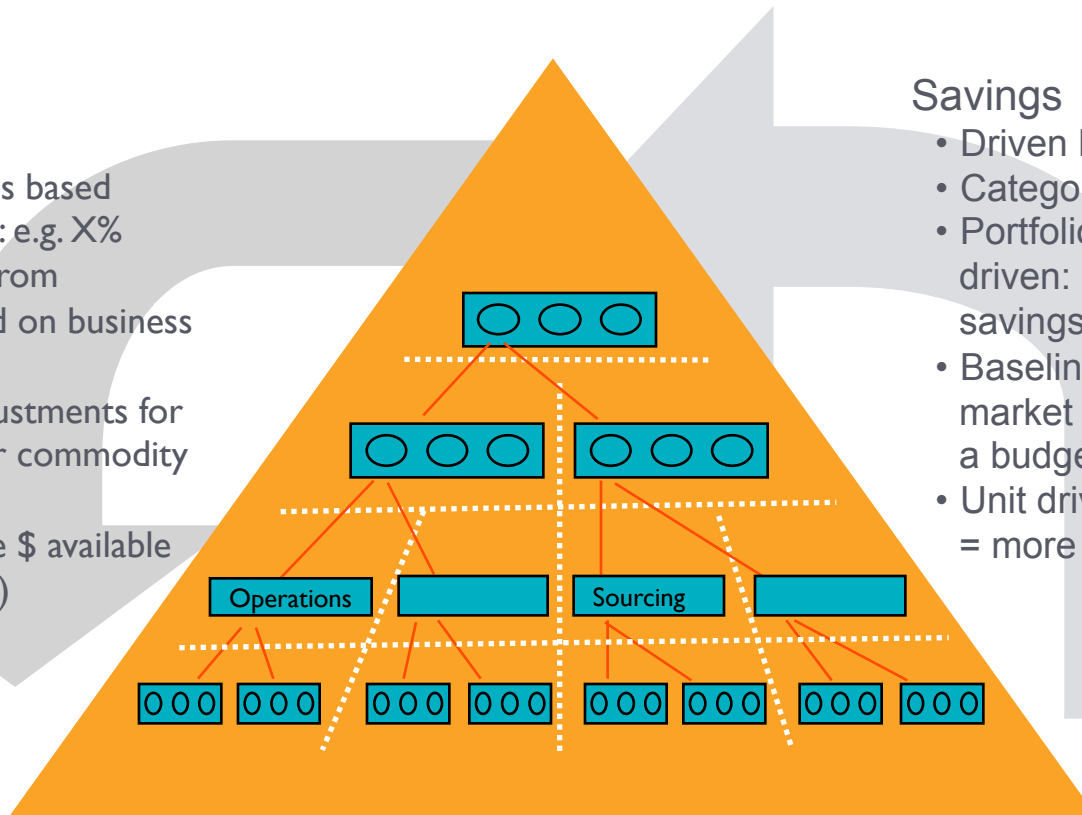
While sourcing organizations can calculate savings based on total cost modeling, mapping the savings to a direct budget impact is difficult since budgets are not “bottoms-up”

Budgets

- Driven by the LOB
- Project or Initiatives based
- Executive direction: e.g. X% increase/decrease from previous year based on business conditions
- Do not include adjustments for anticipated labor or commodity market fluctuations
- Work driven (more \$ available = more work done)

Savings

- Driven by Sourcing
- Category based
- Portfolio/category goal driven: e.g. increase savings by x%
- Baseline can fluctuate by market movements within a budget cycle
- Unit driven (more spend = more savings)



2 Clearly Link Savings to Budgets to Drive RAPID Implementation

Create a cross-functional finance team to identify savings priorities and be part of the savings strategy process

Define different types of savings, and determine areas of focus for the initiative

- O&M vs. Capital
- Product vs. Process
- “Soft” vs. “Hard”

Create a savings dashboard that clearly & visually tracks completed savings initiatives to realized budget impacts, tracked regularly and often (weekly)

Conduct regularly schedule savings review meetings with the sourcing project management group and the cross-functional finance team to drive alignment and course adjustment

Polling Question

How would you describe the urgency for savings in your sourcing organization?

- Less urgency today
- More urgency – but not necessarily to deliver savings in 2009
- More urgency – must deliver savings in 2009
- More urgency, but based on budget area (capital vs. OM)

3

Use fit-for-purpose, fast paced approaches to maximize 2009 savings

- If the objective is to maximize 2009 savings, then the focus should be on approaches that can drive savings in the shortest time possible
- Use fit-for-purpose approaches, even if only 80% effective
- The fastest solutions will likely be less focused on value engineering/process redesign efforts, more focused on price and contract renegotiations
- Keep track of opportunities not realized in 2009, for pursuit in 2010
- Use stretch targets to motivate stakeholders and suppliers

3 Simplify Your Sourcing Process

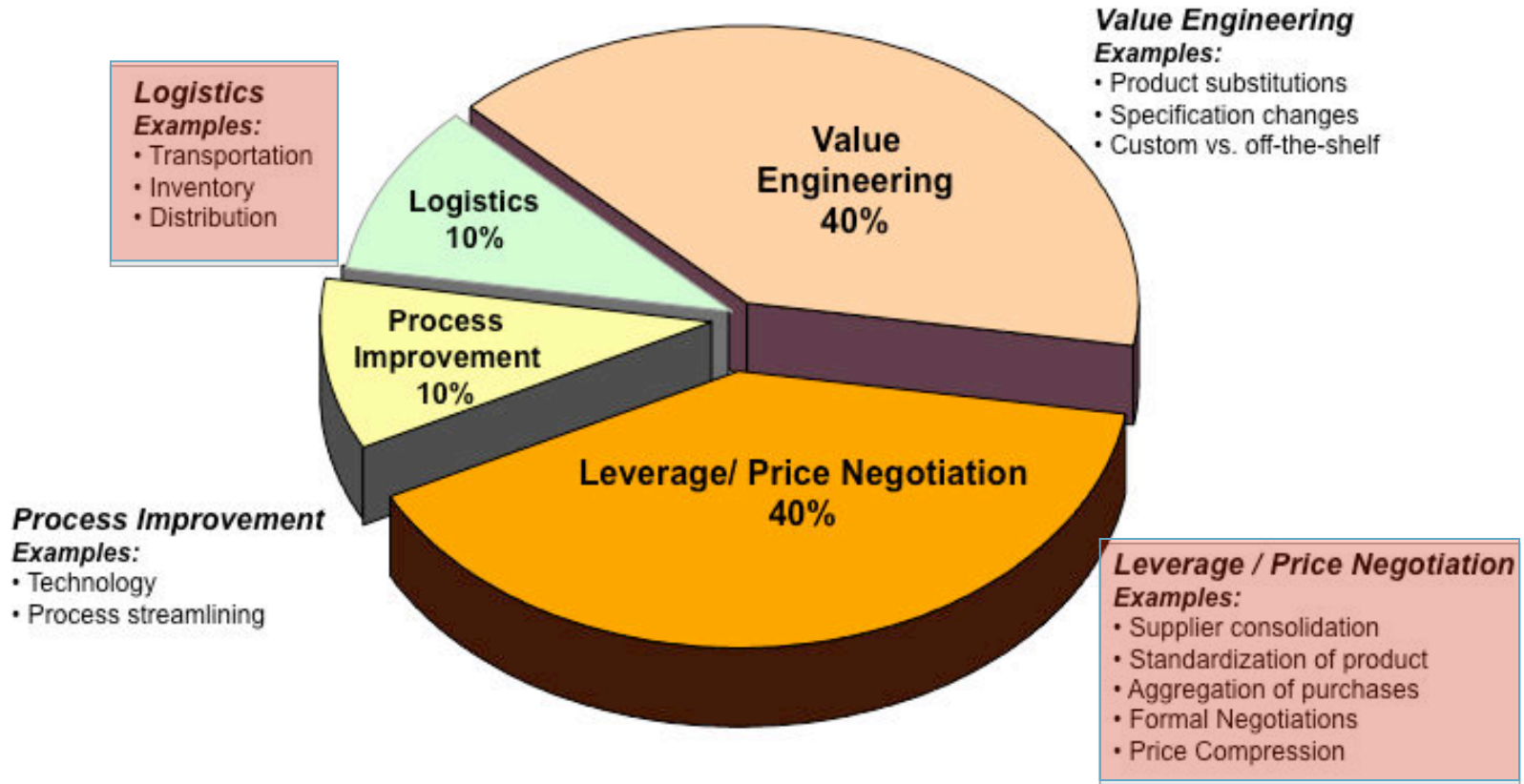
RAPID sourcing process focuses on the fundamentals to reduce overall total cost in the shortest amount of time possible.

3-6 Months
2-6 Weeks



3 Focus on sourcing levers that will deliver results in 2009

Typical Sources of Strategic Sourcing Savings



Typical RAPID Sourcing focus areas for accelerated results*

* Some Value Engineering Opportunities May Be Considered as Well

3 Top approaches for RAPID sourcing savings

Contract Renegotiations

- Focus on contracts where market intelligence indicates variance between current and market prices
- Utilize formal, structured negotiation approaches
- Ensure that negotiation team is trained on effective negotiation approaches

Category Re-sourcing

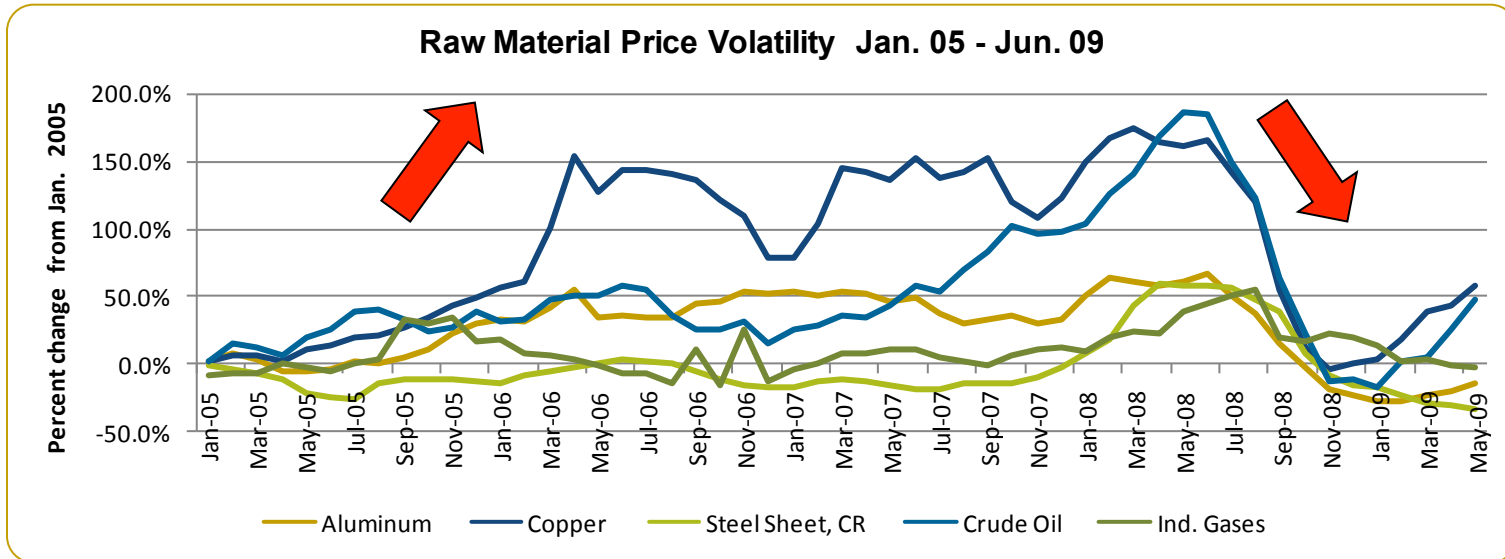
- Focus on categories where market competition will likely drive price or product costs down
- Categories that have already been sourced in the past will likely require less effort, and allow for more compressed timing
- Utilize eSourcing tools (eRFX and reverse auctions) for increased competitiveness and reduced cycle time

Use of Pre-Negotiated, Leveraged Group Contracts

- Particularly useful for categories in which your company isn't a "major player"
- Can allow for very fast realization of savings through the adoption of pre-negotiated group contracts
- Typically more relevant for indirect spend categories

3 Identifying Target Categories

Review contracts that have had price-adders, premiums, surcharges, and index-based increases over the last two years



Then

- Raw material prices increased
- Supply markets were constrained
- Suppliers requested price increases



Now

- Surcharges and prices have recently declined
- Has your pricing decreased in correct proportion?
- There could be an opportunity to negotiate a reduction

3 Category Re-sourcing

Explore re-sourcing opportunities for categories that have realized market price reductions since they were last sourced

Identify Categories with Reduction Opportunities

- Leverage market intelligence
- Look for areas with significant cost increases over the last few years
- Identify industries and suppliers where sales have taken a recent hit (excess capacity or staggering performance)

Focus Efforts on Greatest Opportunities

- Prioritize opportunities considering:
 - Timing of bottomline results (timing of prize)
 - Level of anticipated organizational resistance
 - Cost-drivers pricing index (size of prize)
 - Should-cost analysis to confirm opportunity (size of prize)

4 Aggressively Manage In-Flight Negotiations, Spending

Not only focus on existing contracted spending but also ones that are about to be committed.

Work with your executive to send out a broad message:

- We need savings
- Involve procurement with any on-going supplier discussions or negotiation
- Highlight any planned (remaining) new spending for 2009

Define how the business will engage with you

(create a new email alias: in-flight-support@YOURCOMPANY.COM)

Continue to publicize (intranet, news letters, staff meetings) how the business can engage procurement for help

Prepare your team to work on an increased number of projects (small and large)

Refresh negotiation techniques for key resources to engage in such project work

Focus on results and time to value (80/20 rule still applies)

5 Planning for Beyond 2009

- As the economy recovers, spend levels will likely increase, so consider tiered pricing to allow for additional discounts for future spending increases
- Extend the duration of the contracts where possible to take advantage of current conditions for an extended period
- If value engineering and process opportunities were not pursued in 2009, document those for future pursuit
- The market power will shift from buyers back to suppliers, to be careful to protect the supplier relationships that are important
- As markets tighten, more innovative approaches will likely be required – be prepared

Conclusion: Create a plan for moving forward

Sourcing in today's environment requires quick response to your company's need for savings. Plan accordingly.



- Utilize market intelligence to make educated decisions
- Prioritize based on which categories likely have the greatest opportunity, in the shortest time period

- If the focus is on 2009 savings, speed is more important than being holistic
- Use the 80/20 rule
- Table more complex opportunities for 2010

- Simplify your sourcing process to reduce cycle time
- Focus only on levers that will generate accelerated returns

- Get the word out, preferably from executives
- Get in-front of the PO process to stop spend before it happens

- Markets WILL turn, so don't damage supplier relationships that will be important in the future
- Factor likely budget/spending increases into your contracts to allow for future further volume discounts

Questions?



John Evans

President and CEO

ProcureAbility

jevans@ProcureAbility.com

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