

Practical Ways to Select and Manage Service Suppliers in a Challenging Economy

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Tyco International Overview

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Tyco International Highlights

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- A diverse portfolio of market-leading businesses in electronic security, fire, safety services and products, valves and controls, and other industrial products
- 2009 annual revenues of more than \$17 billion
- Present in more than 60 countries
- Strong global businesses in attractive markets
- Broad service activities generate over \$7B of service revenue
- Investing to grow our businesses
 - emerging markets
 - technology and innovation
- Strong balance sheet, cash flow generation and financial flexibility

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Tyco's Five Business Segments

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ADT Worldwide



We are the world's largest electronic security and alarm monitoring provider to residential, commercial, industrial and governmental customers.

Safety Products



We design, manufacture and sell fire detection and fire suppression products, breathing apparatus, intrusion security, access control, video management systems, electronic article surveillance & RFID.

Electrical and Metal Products



We design, manufacture and sell galvanized steel tubes, armored wire & cable and other metal products for construction, electrical, fire and security, mechanical and automotive customers.

Fire Protection Services



As the leader in fire and life safety, our fire detection, fire suppression and special-hazard solutions are used to protect commercial, industrial and institutional customers around the world.

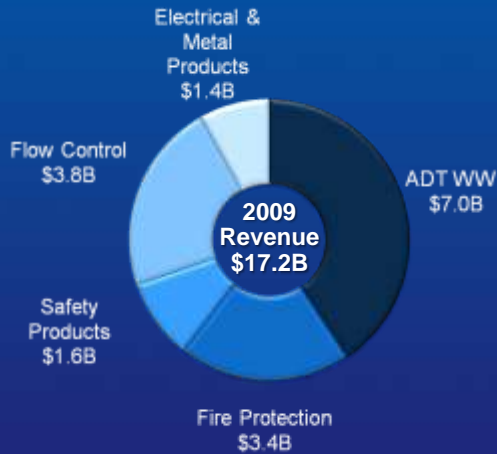
Flow Control



We are the world's largest manufacturer of flow control products and heat-tracing solutions for the oil and gas, power, food and beverage, chemical, water and other process industries.

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We Have a Diverse Portfolio of Businesses



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We Are Well-Positioned in Attractive Markets



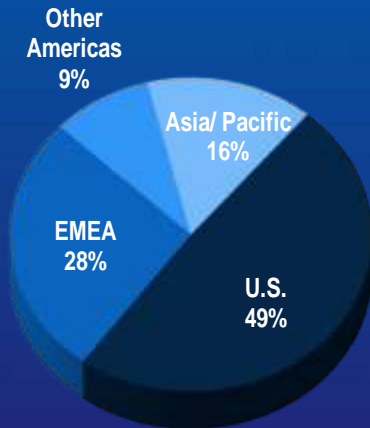
With Market Leading Positions

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Source: Freedonia, McTrain, Industry and Management Estimates

Balanced Geographic Presence

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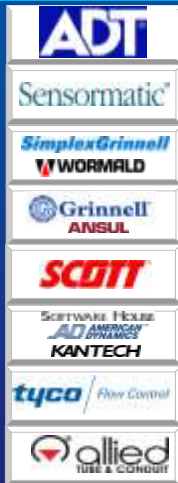


- We operate in 60+ countries
- 100,000+ employees
- >50% of our revenue is generated outside the U.S.
- Emerging markets are a large growth opportunity

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...Have Achieved Market-Leading Positions

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Global leader in security alarm monitoring

Global leader in anti-theft systems

Global leader in fire alarms and services

Global leader in fire suppression systems

U.S. leader in emergency breathing systems

Global leader in video and access control

Global leader in industrial valves and controls

U.S. leader in electrical conduit

A Global Market Leader in Most of Our Businesses

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Focusing on The Tyco Core Values

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Our Tone At The Top Sets The Example For Our Company

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Service Suppliers

...The Challenge

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Service Spend in a Challenging Economy *tyco*

- In general, performance continues to disappoint
 - Average new orders – down 25%
 - Revenue – down 20%
 - Earnings per share – down 35%
- Executives pour over the balance sheet to find opportunity
- Cost containment thrives
 - Cut travel
 - Restructure
 - Remove all nonessential expense

Significant Opportunity to Add Shareholder Value

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How Services Sourcing Evolves

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	Normal Times	Recession	Recovery	2010 Expectations
Characteristics of Sourcing Work	<ul style="list-style-type: none"> •Price is king •Competition strong •Many/new suppliers 	<ul style="list-style-type: none"> •Margins shrink •Relationships & alliances emerge •Disappearing suppliers 	<ul style="list-style-type: none"> •New pricing models •Relationships expanded •Consolidate suppliers 	<ul style="list-style-type: none"> •Refined sourcing strategies •Simplification of supplier portfolio
A Working Model	Incumbent supplier of PC hardware provides 25% discount over existing prices to retain business in an RFP response	Customer requests price reductions and offers contract extension in exchange. Checks suppliers solvency	Customer aligns executives with supplier for mutual benefit. Supplier gains services and software business	Supplier's revenue from customer doubles. Customer manages portfolio of needs through supplier
A Broken Model	Existing supplier of peripheral hardware with multi-year contract and service contract, frequently refers to contract for direction	Customer requests price reductions, supplier resists and relies on existing contract for guidance	Customer sources in the marketplace to gain better pricing and better relationship	Customer & supplier invest time and resources in bid process. Supplier loses margin, business and lucrative services contract

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Recession Example – Application Development

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The Perfect Storm:

- ✓ Financial Services crisis
- ✓ Companies deferring or cancelling projects
- ✓ Offshore application services suppliers losing revenue

Problem	Plan	Outcome
50+ service providers	Reduce supply base	Four service providers
Fragmented decisions	Streamline engagement model	Plug and play toolkit
Premium pricing	Leverage buying power	Pricing reduced 25-70%
Uncoordinated management	Develop oversight	Global program

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Service Suppliers...

...The Tools

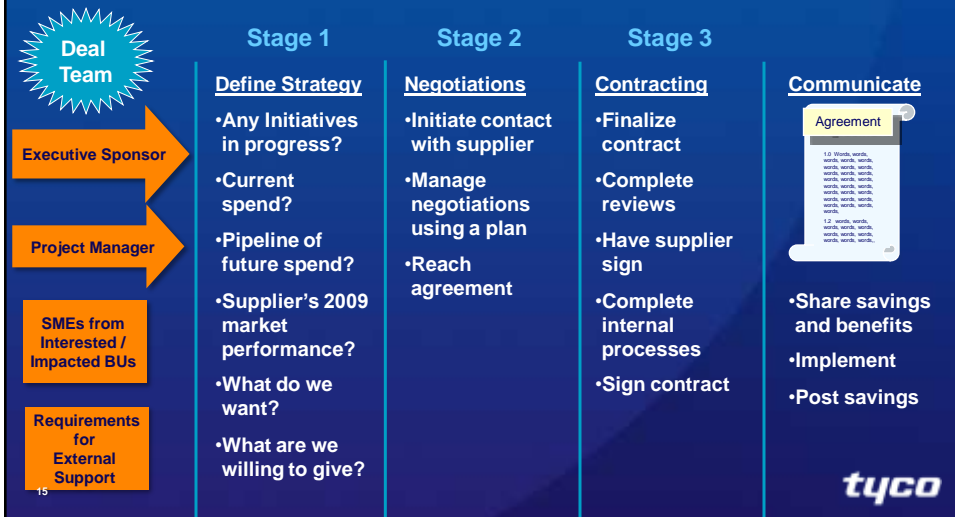
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Tool # 1 – Improve what you have

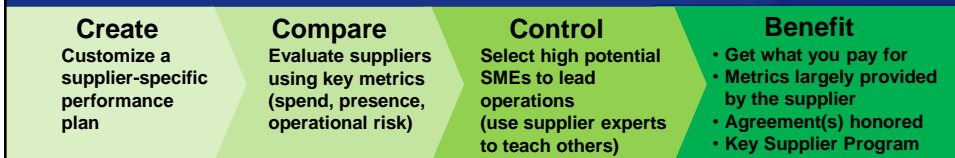
You can improve savings mid-contract with top suppliers



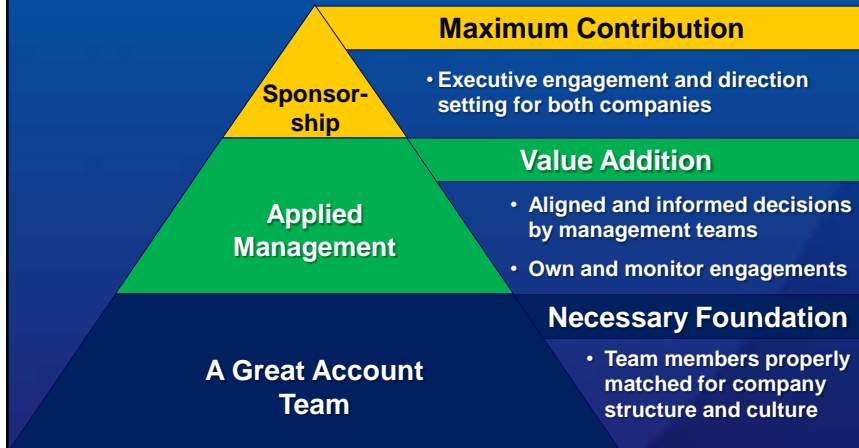
Tool # 2 - Supplier Management



- Decide which suppliers to manage – not all suppliers warrant the time and resources
- Create a custom supplier performance plan using a standard set of processes and tools
- Control the program while delegating much of the work effort to the supplier team



Tool # 3 – Structured Collaboration *tyco*



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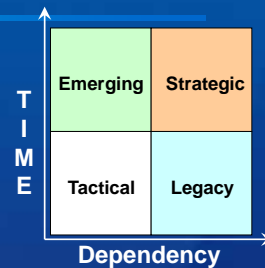
Tool # 4 - Key Supplier Program *tyco*

- Choose target suppliers

- Identify top suppliers
- Plot suppliers based on comparison of time vs. dependency
- Select suppliers for from each quadrant

- Launch program

- Align an executive and subject matter expert with each supplier
- Provide resources: kick off session, tool kit, coaching/training



- Manage the program

- Designate a supplier expert to mentor the teams, monitor effectiveness
- Have teams share best practices
- Measure and report progress



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Tool # 4 – Proven Model

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Key Supplier Program Successes:

- **Strategic Supplier**
 - Key supplier in telecom services participated in a relationship review resulting in 10% pricing reductions and improved customer relations.
- **Tactical Supplier**
 - Hardware supplier experienced >15% organic growth by providing outsourced services solutions due to opportunities to bid in new categories.
- **Emerging Supplier**
 - “Software as a Service” supplier accepted an enterprise-wide agreement leveraging all purchases; becomes a key supplier and reduces subscription rates by average 10%.

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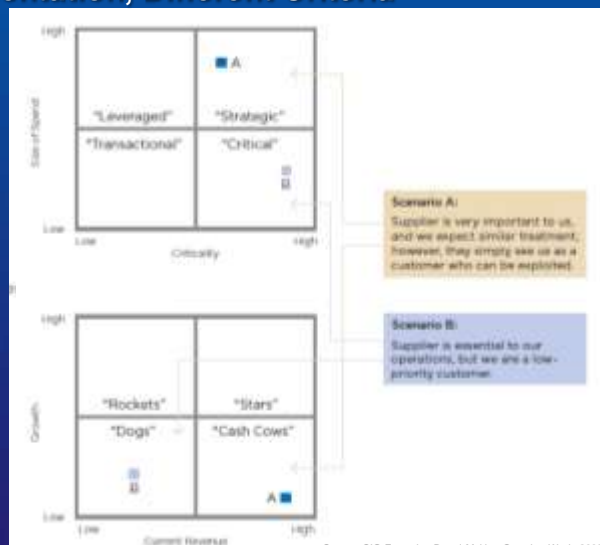
Tool # 4 – A different view

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Similar Segmentation, Different Criteria

Customer's
Supplier
Segmentation
Model

Supplier's
Customer
Segmentation
Model



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Source: CIO Executive Board Making Sourcing Work, 2009

Value Creation...

...The Benefits

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Benefits for buyer and supplier

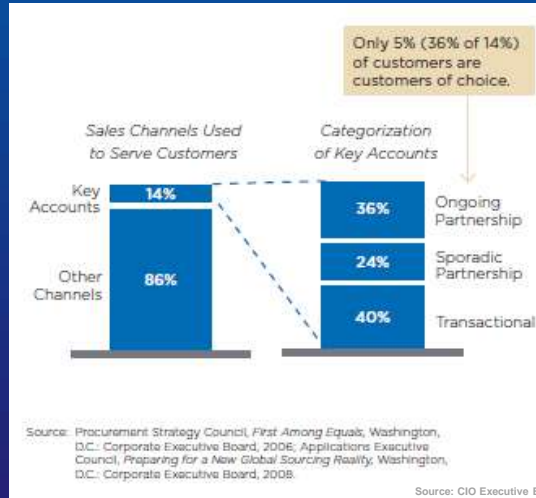
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	Relationship based model for long-term value	Goal based model for quick wins
Buyer Gains:	<ul style="list-style-type: none">• Alignment with important providers• Preferred customer status• Win/Win growth strategies	<ul style="list-style-type: none">• Greater control over short term decisions• Increase competitiveness for key suppliers with visibility• Strategic lever for negotiations
Supplier Gains:	<ul style="list-style-type: none">• Personalized relationship management• Direct access to senior leadership• Win/Win growth strategies	<ul style="list-style-type: none">• High visibility across the business• Opportunities to expand revenue quickly• Expand product/service base with customer
	Save Time	Save Money

Enjoy Key Account Status



Supplier Categorization of Customer Accounts



Recession Achievements



Thank You

Questions?

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