



Building a High-Impact Indirect Sourcing Function

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Topics



- Terex Overview
- Setting the Stage:
 - Vision
 - Opportunity Assessment
 - High Impact Targets
- Buy-in and Execution
- Structuring the Organization
- On-going Operations

About Terex

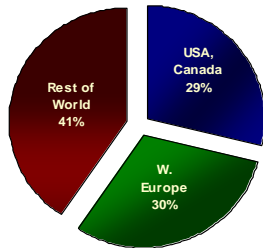
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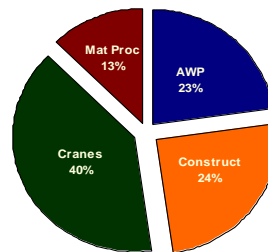
- Diversified global manufacturer of capital goods machinery used in a broad range of industries and applications
- Headquartered in Westport, Connecticut
- 2011 Revenues of ~\$6.5 Billion (est)
- 5 Global Segments with 21,000+ Team Members
- 50 manufacturing facilities worldwide



2011 Sales Mix by Geography



2011 Sales Mix by Business Segment



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Terex Products

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Aerial Work Platforms



Boom Lifts Scissor Lifts Telehandlers Light Towers Utility Products

Construction



Compact Construction Off-Highway Trucks Material Handling Roadbuilding (Asphalt / Concrete Plants, Mixer Trucks)

Cranes



All Terrain Rough Terrain Crawlers Towers Port Equipment

Materials Processing



Crushing Screening & Feeders Trommels, Recycling & Washing

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Recently Added Business

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Annual Sales = \$1,481m
June 2011 Employees = 6,001

Industrial Cranes

Sales: \$658m

- Standard and Process Cranes
- Crane Construction Kit
- Rope and Chain Hoists
- Drives



Port Technology

Sales: \$360m

- Mobile Harbor Cranes
- Automatic Guided Vehicles and Stacker Cranes
- Software solutions



Services

Sales: \$463m

- Maintenance
- Modernization
- Sale of spare parts
- Full-service contracts



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Start with a Vision

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Terex Global Supply Management Team Vision

“The Terex Supply Management Team exists to create value and competitive advantage by reducing total cost and improving supply chain performance.”

Terex Indirect Sourcing Team Vision

“The Terex Indirect Sourcing Team exists to create value by reducing total cost and improving supplier performance as measured by our internal customers.”

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Operating Principles

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- Implement best practice sourcing solutions on all significant indirect spending categories
- Sourcing solutions to be national, regional or global, depending on the nature of the individual spend category and the structure of the supply market
- Heavy emphasis on service capabilities and meeting the operational needs of the stakeholders
- Focus on continuous improvement – today's solutions need to produce on-going incremental benefits

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Opportunity Assessment

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What is an Opportunity Assessment?

- Analytical approach to prioritize savings opportunities based on the nature of the spend category, its sourcing history, and the supply market conditions



- **Output:** The basis of a strong savings plan, with specific spend areas targeted, and a series of related savings projects identified

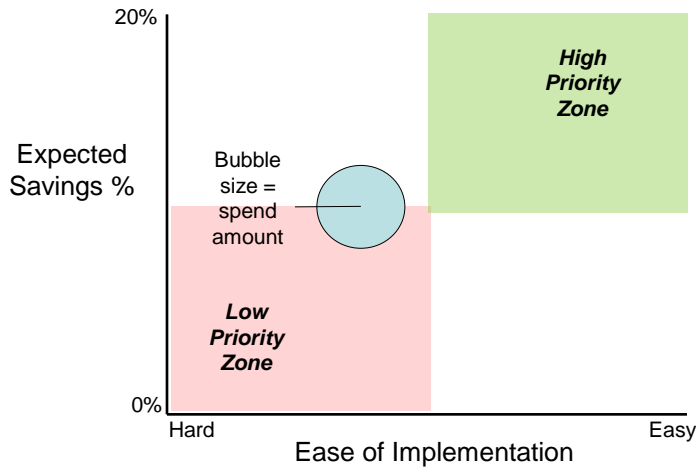
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Opportunity Assessment

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Map the indirect spending categories based on savings potential and ease of implementation, while considering absolute spend amounts



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Opportunity Assessment:

Expected Savings

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For each spend category, the following dimensions are systematically assessed to position it on the Expected Savings axis

Expected Savings

- **Supply Industry Competitiveness**
 - Number of capable suppliers (market depth)
 - Intensity of the competition (are suppliers fighting to take share)
 - Low cost country sources
 - Availability of substitutes
 - Terex relative buying power / scalability
 - Switching cost
- **Internal Considerations**
 - Spend concentration (the more concentrated the better)
 - Specification accuracy
 - Time since last competitive bid

Note: these criteria used for indirect categories, direct spend used different criteria

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Opportunity Assessment: Ease of Implementation

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For each spend category, the following dimensions are systematically assessed to position it on the Ease of Implementation axis

Ease of Implementation

- **Complexity of the Product or Service**
 - Number of SKUs
 - Number of team members impacted
 - Technical complexity
 - Ability to specify
- **Business Impact Considerations**
 - Criticality to the business
 - Customer touch (external customers)
 - Safety
 - Senior management impact
 - Passion level

Note: these criteria used for indirect categories, direct spend used different criteria

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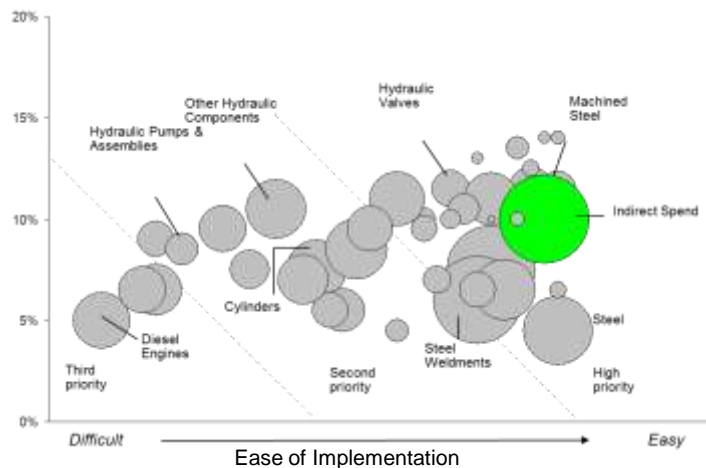
Opportunity Assessment: All Commodities View

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Global Commodity Analysis

Expected average savings



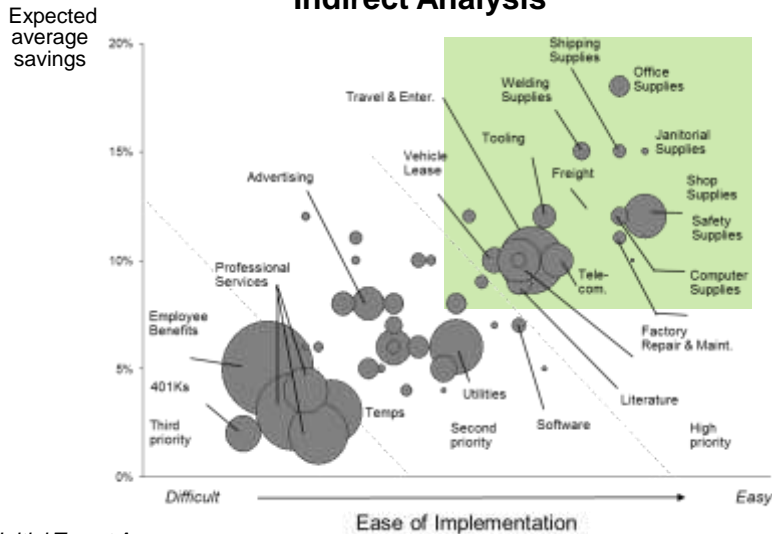
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Opportunity Assessment: Indirect View

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Indirect Analysis



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Project Execution

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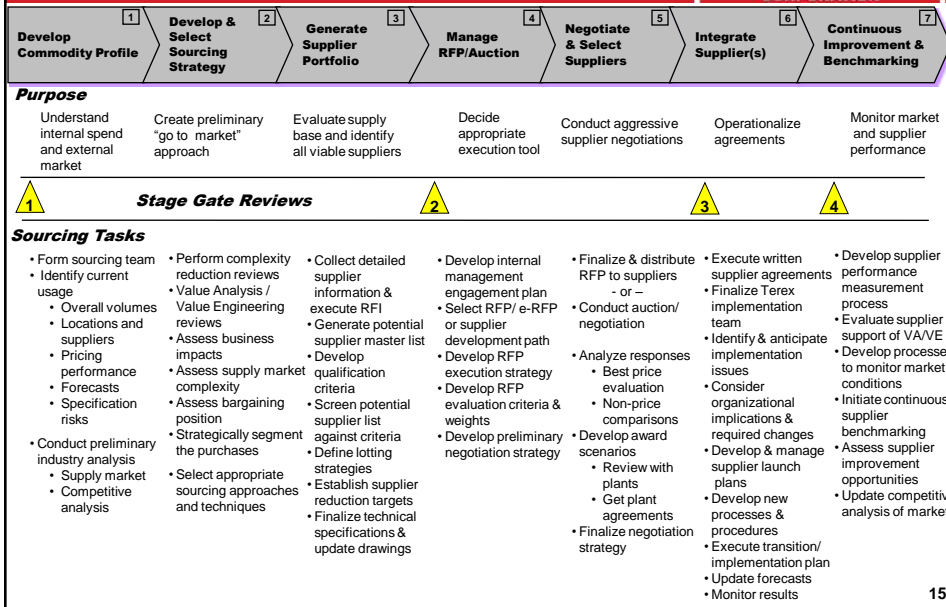
Key Success Factors for reaching implementable solutions that deliver the expected savings:

1. Identify the key stakeholders associated with the spend category – include them on the team as full participants
2. Understand the history and relationships involved with the current supplier(s)
3. Document service requirements in detail
4. Follow the sourcing process
5. Get Finance sign-off on the savings calculations and tracking methodology
6. Make a team decision
7. Promote the results as a team success

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Strategic Sourcing Process

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Category Comments

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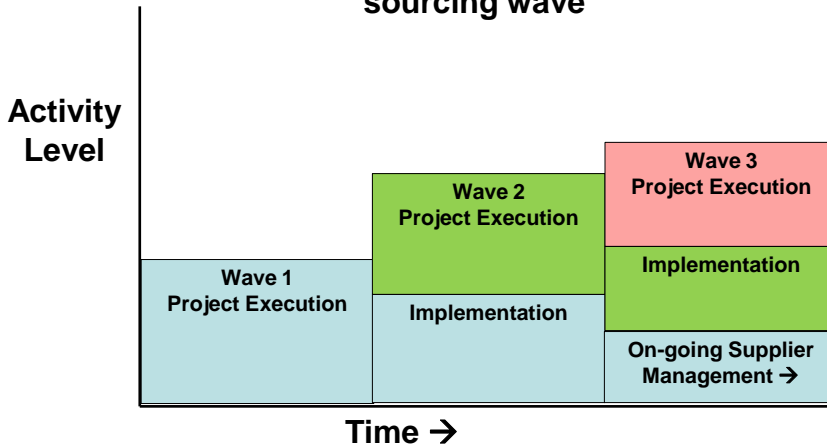
| Category | Comments | Category | Comments |
|-----------------------------|--|---------------------|--|
| Travel | <ul style="list-style-type: none"> Take it one step at a time Start regionally, not globally Senior executive support is critical Resource spend appropriately | MRO | <ul style="list-style-type: none"> This is a service business Focus on consumption savings as much as piece price Enhance spend visibility and controls |
| Fleet | <ul style="list-style-type: none"> Relatively small savings on fleet management service Larger opportunity is standardizing options and enforcing policy Need HR appetite to tackle | Legal | <ul style="list-style-type: none"> Start with the most standardized services – such as patent filing and immigration services |
| Temp Labor | <ul style="list-style-type: none"> Big opportunity if a first time consolidation as mark-up rates can vary widely Good reverse auction candidate | Shipping | <ul style="list-style-type: none"> Start by ensuring all sites are using the same corporate umbrella accounts |
| Pharmacy Benefit Mgmt (PBM) | <ul style="list-style-type: none"> Consider external subject matter expertise as plan comparisons are complex Look at Collaboratives | Translation Service | <ul style="list-style-type: none"> Profile the requirements – customer, technical, internal, etc Utilize technology Own the IP |
| Office Supplies | <ul style="list-style-type: none"> Very aggressive conversion and retention offers available Watch price creep | Cleaning | <ul style="list-style-type: none"> Limited opportunities for national programs Focus on site level competition |
| | | Other Services | <ul style="list-style-type: none"> Pension management, recruiting, catering (challenge the status quo) |

Plan Resources

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Plan resources based on implementation support and on-going supplier management to follow initial sourcing wave



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Organizational Structure

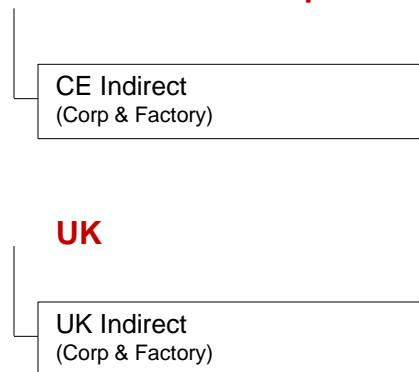
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North America



Continental Europe



European and UK activities to be split by corp services and factory operations as a later phase

On-going Operations

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- Align savings plans and big initiatives with key business stakeholders, including General Managers
- Create balanced savings plans that include sourcing events, re-negotiations, and supplier-lead improvements
 - Give suppliers annual savings targets, measure quarterly
- Align with corporate cost reduction activities, be part of the solution
- Track savings – use methodology agreed by Finance and keep them involved in the reporting
- As the organization matures, site-level team members can take on broader category responsibility (e.g. manage certain suppliers across all sites)
- Formalize communications – regular calls with indirect sourcing councils, quarterly or semi-annual meetings
- Publicize achievements!

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Thank you!

Questions?