



Supply Management 2006

Finding Hidden Value

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Chair, ISM Board of Directors*



Finding Hidden Value

Agenda

- Trends in Services Procurement
- Explosive Growth
- The Opportunity
- Mining The Hidden Value



The Big Trends in Services Procurement

- Outsourcing fever
- Emergence of System Integration bundled solutions
- Desire for One-Stop-Shopping
- The need to manage risk (S-Ox)
- There is now an enormous global market place for services and a screaming need for a new breed of “buyer”



Outsourcing Fever!

Companies are outsourcing
some or all of ...

- HR
- Legal
- IT
- Fleet
- Engineering
- Service and Repair
- ...
- Finance
- Insurance
- Advertising
- Manufacturing
- Logistics
- Temporary labor
- ...



Systems Integration is Emerging Everywhere

- Integration Services solutions are exploding in nearly every industry.
 - In-house IT systems
 - Solutions for external customers that don't have the technical skills in-house
- System Integration solutions often include 3rd party:
 - Products
 - Software
 - Services
- New demands on buyers ... we are now integrators of complex bundled solutions



Desire for One-Stop-Shopping

- As buyers, we want suppliers that can provide a broader range of services. Move up the value chain.
 - Example: 3PLs vs. purchasing individual logistics services (fleet, light assembly, packing, shipping, site installation, inventory)
- As buyers for the companies that are recipients of outsourced business processes, we consolidate for greater leverage.
 - Services consumed internally
 - Services for bundled solutions for customers
 - OEM branded products



The Need to Manage Risk

- Services spend is still largely controlled by other organizations.
- Maverick Purchases are scary, ugly, nasty, risky, unprotected, potentially-deadly, liability-laden deals that are full of land mines, any one of which could put your company on the front page of the Wall Street Journal.
- Sarbanes Oxley is our friend. It is the single greatest windfall benefit to our profession in the history of Supply Management!

*This is the moment we've been waiting for ...
go for it!*



The Impact of Explosive Growth in Purchased Services

- Creates a huge services global marketplace.
 - \$6 trillion in the US
 - \$33 trillion worldwide
- The things that companies used to do themselves are now “services” that must be purchased.
- Services are more complex than MRO or direct materials.
 - Everyone’s an expert ... just ask them!
 - Very few IT systems can effectively manage purchased services
 - Only 10% of e-commerce transactions are for services, yet services are 64% of the global economy.



Far Too Many Employees Make Sourcing Decisions

Consequently:

- >33% of purchased services are “Maverick” spend (no meaningful involvement by Procurement). Average premium paid is 20%.
- The number of suppliers expands rapidly to an unmanageable level
- Can't direct purchases to preferred suppliers – cost and credibility issues
- There are a LOT of bad contracts out there
 - Unclear deliverables
 - No transfer of warranty
 - Undeclared liabilities
 - No meaningful contractual remedies
- Rates and prices vary by as much as 60% for the same services from the same suppliers



Where's The Hidden Value?

- Sarbanes Oxley lets us go where few buyers have gone before.
- Outsourcing fever + systems integration + one-stop-shopping = consolidated spend = leverage=lower costs + reduced risk
- We now impact the top line, the bottom line, and everything in between.
 - Integrate/bundle for customers (revenue)
 - Help business and function leaders reduce discretionary spend (costs)



How Do We “Mine” The Hidden Value?

- Delegation of Procurement Authority (Sarbanes Oxley is the catalyst)
- Upgrade systems (seamless interface between users and preferred suppliers)
- Change behaviors with metrics and goals
 - Align goals with client’s needs
 - Be flexible (success isn’t always about price)
 - Competitive advantage created is a better metric
 - Be prepared to measure both ways



Procurement Authority

- Board of Directors or CEO policy that only Supply Management/Procurement have authority to make sourcing commitments

Benefits:

- Consolidate all purchases and streamline supply base – maximum leverage
- Dramatically reduce risk and liability through well constructed supply agreements with clear deliverables, metrics and meaningful remedies.



Upgrade Systems

- Make doing the right thing easy
- Create a "shopping mall" environment for employee business services

Benefits:

- Increase compliance, lower costs and strengthen supplier relationships
- Eliminate "maverick spend"
 - Lower costs
 - Reduce risk exposure
- Aggravation factor goes away



Change Behaviors

- Processes and Systems
 - Make it easy to do the right thing (e-commerce)
 - Make it incredibly painful to do the wrong thing
- Goals
 - Link to the internal client (it's not always about lower prices)
- Metrics
 - Measure competitive advantage created
 - Competition among buying teams can be fun

If all else fails, public hangings still work!



Traditional Goal Setting versus Competitive Advantage

	Traditional Goal	Results	Traditional Outcome	Market	Competitive Advantage
Buyer A Capacitors	-10%	-12%	Promote or reward for good performance	-20%	Lost 8 pts
Buyer B Travel	-10%	- 3%	Fire or demote for poor performance	+ 2%	Gained 5 pts



Mining Hidden Value

- Take advantage of Sarbanes Oxley
 - Consolidate services spend
 - Eliminate Maverick spend
- Get a great EBS e-commerce platform
- Update and upgrade metrics and goals

Typical results are 15-25% in the first year!



Final Thoughts

- The new-age services buyer is an integrator.
- Well managed purchased services offer great financial returns and reduced risk. S-Ox is your friend!
- Metrics can make or break you.
- Link compensation to client success (cost, speed, technology, reliability).
- Measure competitive advantage delivered vs. annual cost reduction
- Watch out for the non-value-add intermediary. Get the new disruptive e-commerce platforms that make doing the right thing cheaper, easier, safer and wildly profitable.
- An occasional public hanging is a good remedy for Maverick spending.
- Remember, this is just like taking candy from a baby.



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Finding Hidden Value For Your Organization

Thank You!