

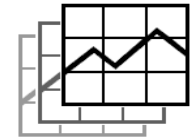


ISM Services Group Conference



December 1, 2005

Program **M**anagement & **S**ourcing
of
Non-traditional Services



Presented By: H. Lee Muller c.p.m
Group Procurement Director
Waste Management Inc.

Content Overview



Non-traditional Services

- List of Non-traditional Services

The Growing importance of Services (Update 2005)

- GDP
- SG&A
- Inflation

Program Management

- Building Plan
- Making the Case
- Gaining Support
- Manage the Program



Traditional & Non-traditional Services

Traditional Services

- Office Supplies
- Office Equipment
- Promotional Items
- Office Furniture
- Janitorial Services
- Uniforms
- Travel Services
- Wireless Services
- Signage & Labels
- Printed Materials
- Computer Hardware
- Small Packages
- Security Guard Services
- Contingent Labor Services
- Waste Management Services
- Contractor Services

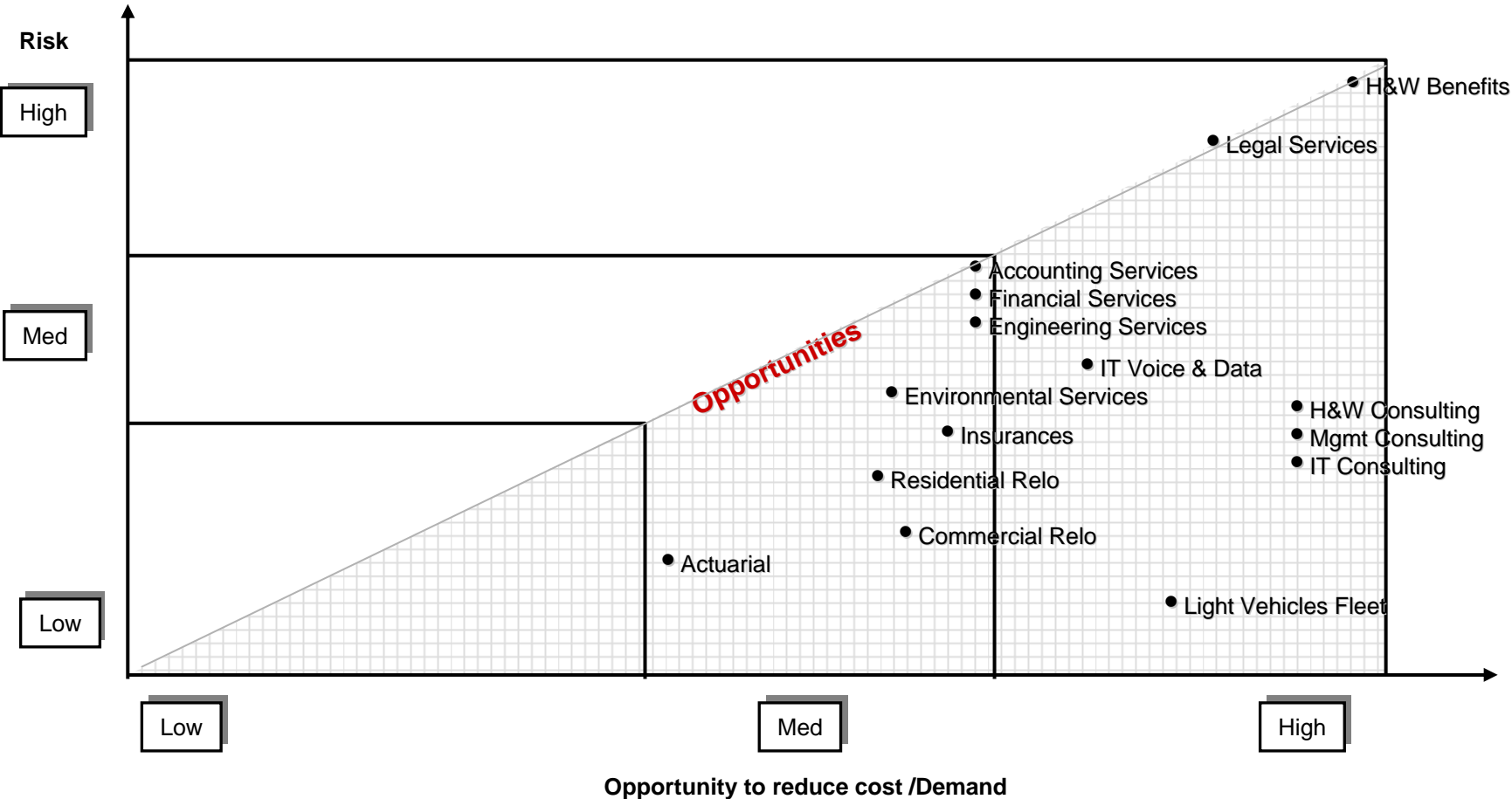
Non-Traditional Services

- Actuarial Services
- Insurance Services (P&C)
- Accounting Services
- Financial Services
- Engineering Services
- Legal Services
- Health & Welfare Benefits
- H&W Benefits consulting
- Mgmt Consulting (Strategy)
- Mgmt Consulting (Non-strategy)
- IT Consulting Services
- IT Contractor Services
- IT Voice & Data Services
- Environmental Services
- Light Vehicle Fleet
- Commercial Relocation
- Residential Relocation

Non-traditional Services may Represent large amounts of Spend



Develop a Strategy for Non-traditional Services



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Fortune top 10 Companies then and now

1954

1. General Motors
2. Standard Oil (NJ)
3. U.S. Steel
4. GE
5. Swift & Co.
6. Chrysler
7. Armour
8. Gulf Oil
9. Socony-Vacuum Oil
10. DuPont

2001

1. Wal-Mart ✓
2. Exxon Mobil
3. GM
4. Ford
5. Enron ✓
6. GE ✓
7. CitiGroup ✓
8. Chevron Texaco
9. IBM ✓
10. Phillip Morris

2005

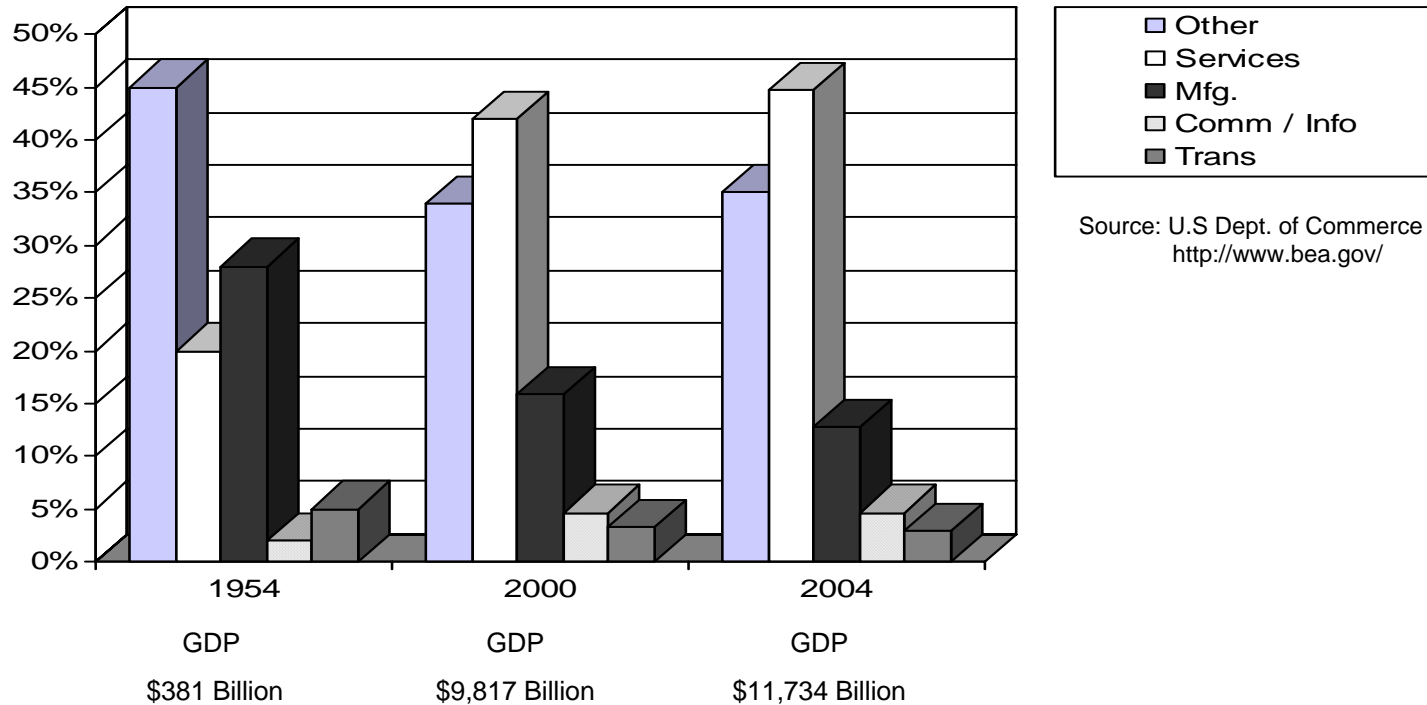
1. Wal-Mart ✓
2. Exxon Mobil
3. GM
4. Ford
5. GE ✓
6. Chevron Texaco
7. ConocoPhillips
8. Citigroup ✓
9. AIG ✓
10. IBM ✓

Source: <http://www.fortune.com/lists/F500/index.html> 2005

Services companies are growing in Economic importance and Impact



Services as Component of GDP



Services have more than Doubled as Component of GDP since 1954



SG&A / Revenue / Various Industries



On average, indirect operating expenses can equal 35% of the total revenues, and represent a significant opportunity for savings. Most companies have not addressed indirect operating expenses because the category contains multiple subcategories of spending and low-dollar/high-volume transactions.

Typical Company P&L

Operating expenses	
*cost of goods sold	22%
*salaries & benefits	20%
*indirect operating expenses	35%
Taxes & depreciation	17%
Net income	6%
Revenues	100%

Industry Variation

While indirect operating expenses may equal 35% of revenues in the "typical" company, there can be considerable variation. A study by the Mitchell Madison Group found these average indirect operating expense figures for the different industries:

*Automotive	25%
*Pharmaceutical	50%
*Manufacturing	30%
*Financial Services	55%



SG&A / Revenue / Various Industries / Companies

Company	2000 COGS	2000 SG&A
ADVERTISING & MEDIA		
Cox Communications	24.4	36.3
Walt Disney	70.4	0.4
Gannett	49.1	15.6
Comcast Special Stock	54.7	15.2
Belo	35.8	33.5
Industry median	46.2	31
AEROSPACE & DEFENSE		
Goodrich	67.1	13.9
Northrop Grumman	66.5	14.1
General Dynamics	78.7	6.2
Alliant Techsystems	76.1	8.2
Lockheed Martin	89.8	0
Industry Median	77.4	7.8
AIRLINES		
Southwest Airlines	35.8	40.8
AMR	39	47.8
America West	45.2	47.2
Alaska Air Group	37.3	54.7
Continental Airlines	41.1	48
Industry median	42.5	46.4

Company	2000 COGS	2000 SG&A
BUILDING MATERIALS		
Rayonier	66.4	2.5
Vulcan Materials	68.3	8.7
Lafarge North America	69.9	9.7
USG	75.2	8.2
Armstrong Holdings	68.4	18.2
Industry median	71.2	13.7
CHEMICALS		
Sigma-Aldrich	45.3	28.8
Praxair	61	14.8
Air Products & Chemicals	59.4	15.3
Int'l Flavors & Fragrances	52.1	25.4
Albemarle	62.4	14.1
Industry Median	66.5	15.3
COMPUTER NETWORKING & STORAGE		
Cisco Systems	32.6	38.5
EMC	35.9	32.5
Enterasys Networks	50.4	40.1
3Com	50.3	41
Storage Technology	52.9	38.8
Industry median	50.4	38.5

Company	2000 COGS	2000 SG&A
PACKAGING & CONTAINERS		
Vitro Sociedad Anonima	63.8	17
Tupperware	28.5	53.9
Owens Illinois	68.6	24.5
Bemis	74.3	9.4
Crown Cork & Seal	82.1	4.3
Industry median	78.2	7.4
PAPER & PAPER PRODUCTS		
Bowater	68.7	5.3
Westvaco	68.6	7.7
Kimberly Clark	54.6	22.5
Sonoco Products	72.2	10
Longview Fibre	73.4	7.9
Industry median	74	9.9
RETAIL		
Intimate Brands	56.5	23.6
Gap	54.5	26.2
Tiffany	38.8	40.8
May Department Stores	64.2	19.4
AutoZone	55.2	30.5
Industry median	69.8	23

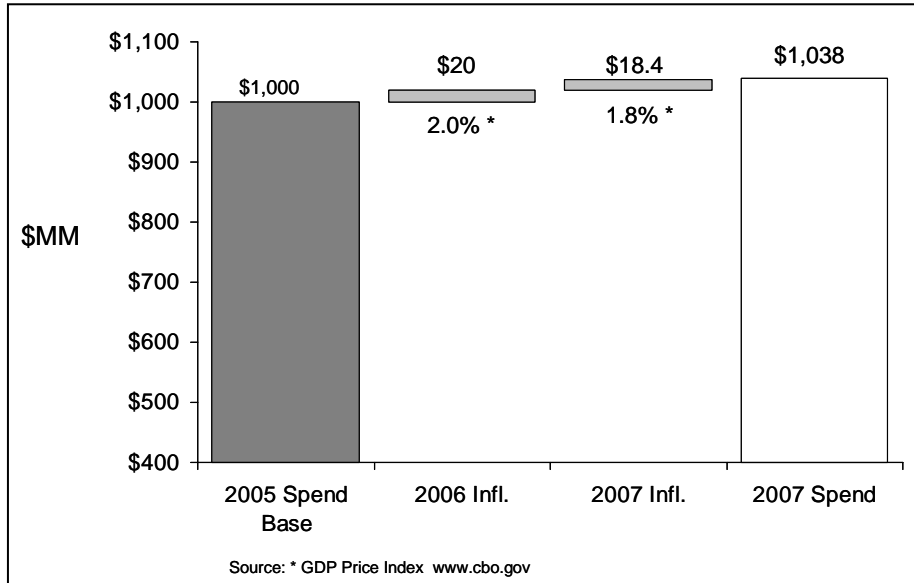
<http://www.cfo.com/printarticle/0,5317,6625,00.html>

SG&A / Revenue Ratio can Range Dramatically

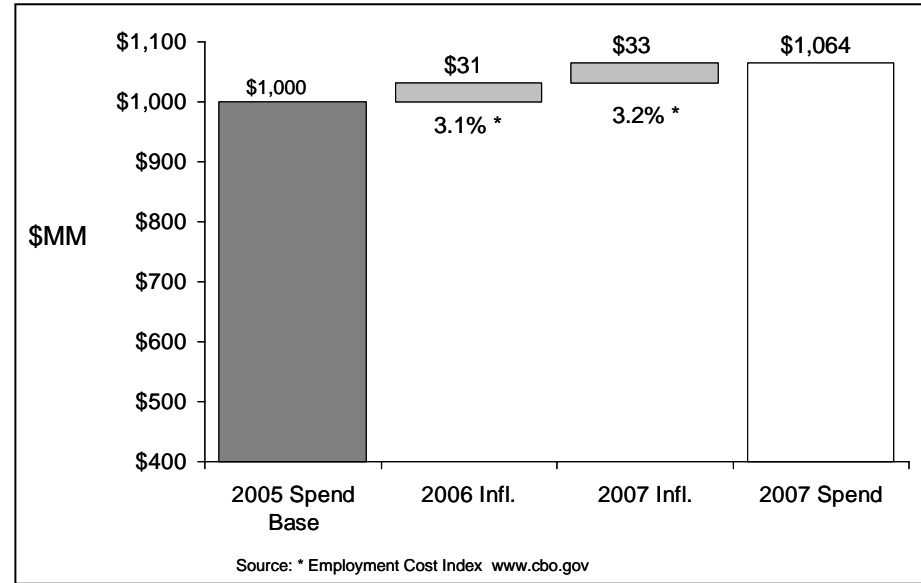


Inflation Impact on Non-traditional Service Spend

Scenario 1: Low Labor Content Services



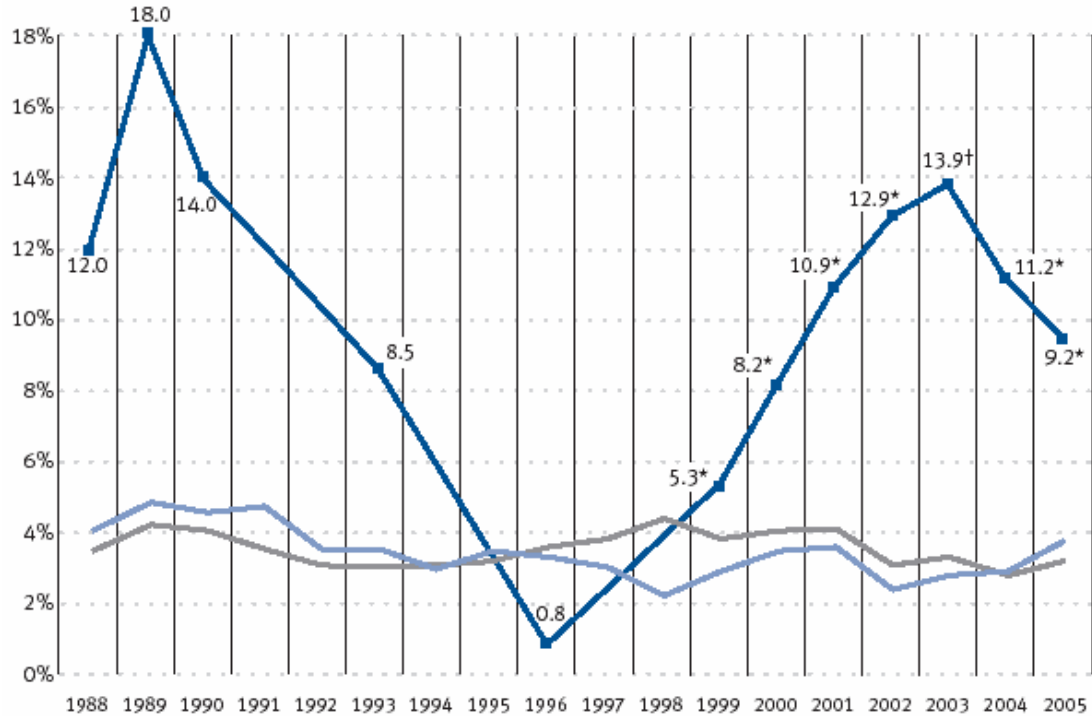
Scenario 2: High Labor Content Services



Inflation Impact on Non-traditional Services Can be Significant



Increases in Employer Health Insurance Premiums



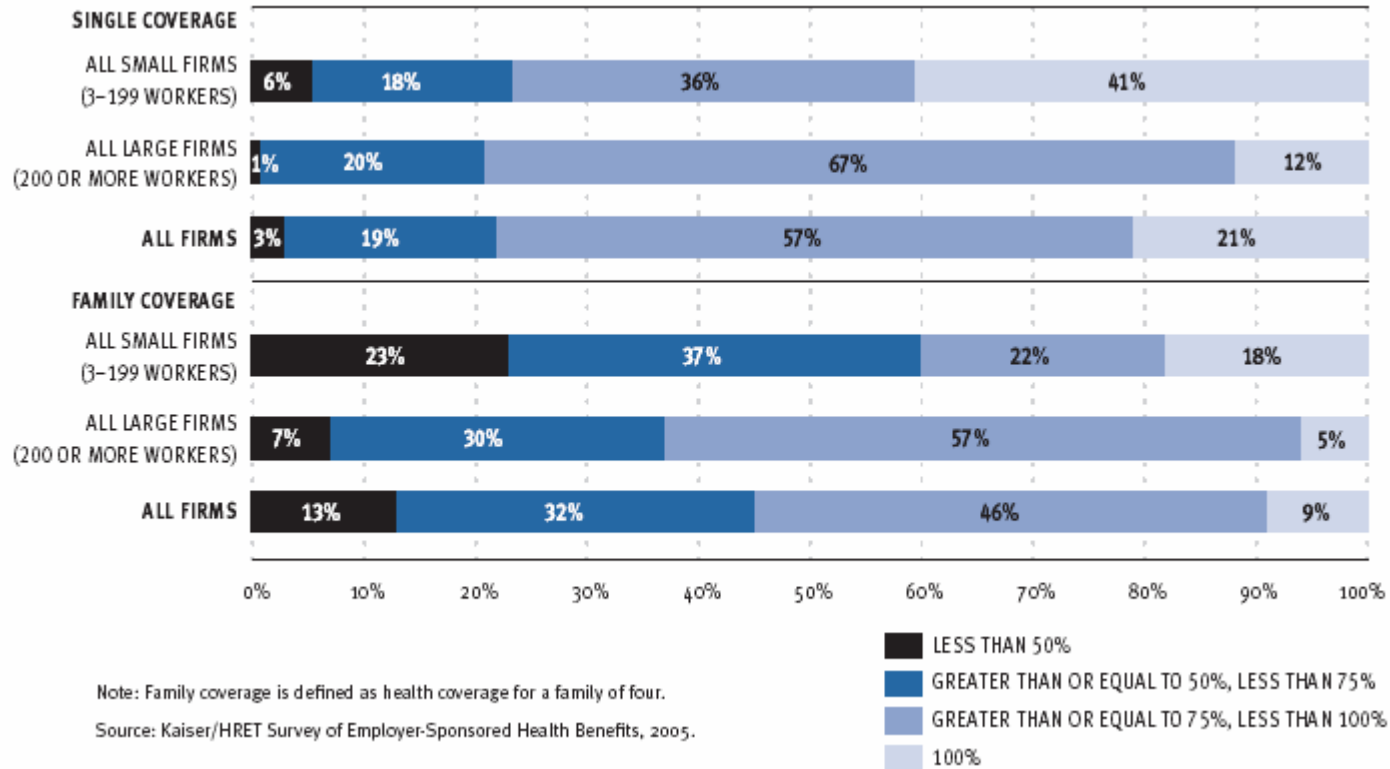
1988	1989	1990	1993	1996	1999	2000	2001	2002	2003	2004	2005
12.0	18.0	14.0	8.5	0.8	5.3*	8.2*	10.9*	12.9*	13.9†	11.2*	9.2*
3.9	5.1	4.7	3.2	2.9	2.3	3.1	3.3	1.6	2.2	2.3	3.5
3.1	4.2	3.9	2.5	3.3	3.6	3.9	4.0	2.6	2.9	2.2	2.7

Source: Kaiser Employer Health Benefits Survey 2005

Health & Welfare Present Unusually large Opportunity



Covered Workers by % Contribution by Firm



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Building the Plan

Procurement Planning Process

Top-Down – Identify the Target

- Step 1. Develop economic forecast for upcoming year
- Step 2. Develop spend forecast for upcoming year
- Step 3. Determine recommended Cost Management Approach / Targets
- Step 4. Gain consensus agreement of Operations Leadership
- Step 5. Gain Operating Leadership approval
- Step 6. Operations leaders communicate targets to respective Organizations

Finalize – Present the Plan

- Step 1. Review plan with Operations leaders.
- Step 2. Gain Operating Committee Approval
- Step 3. Execute Procurement Plan

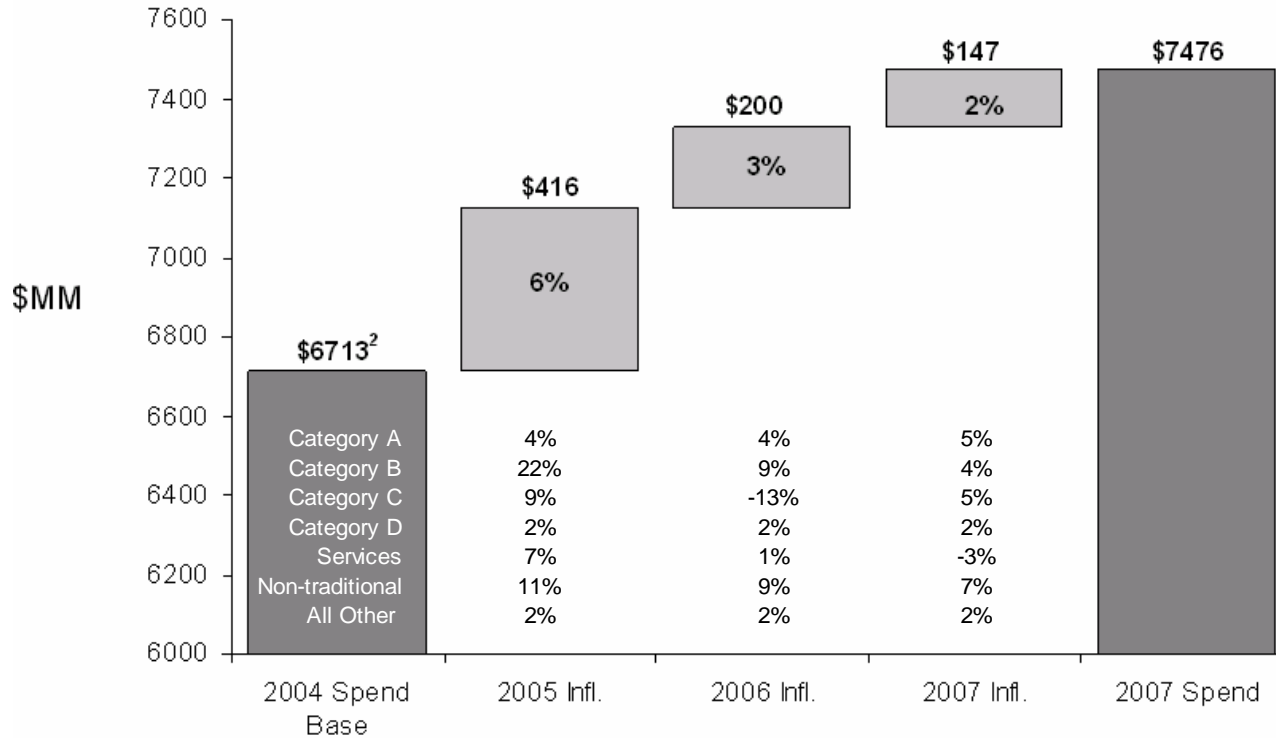
Bottom-up – Develop the Strategy to Hit the Target

- Step 1. Begin collaborative process with:
 - Operating Entities
 - Functional Entities
 - Category Teams
- Step 2. Aggregate plan

Include 2 or 3 Non-traditional Categories each year



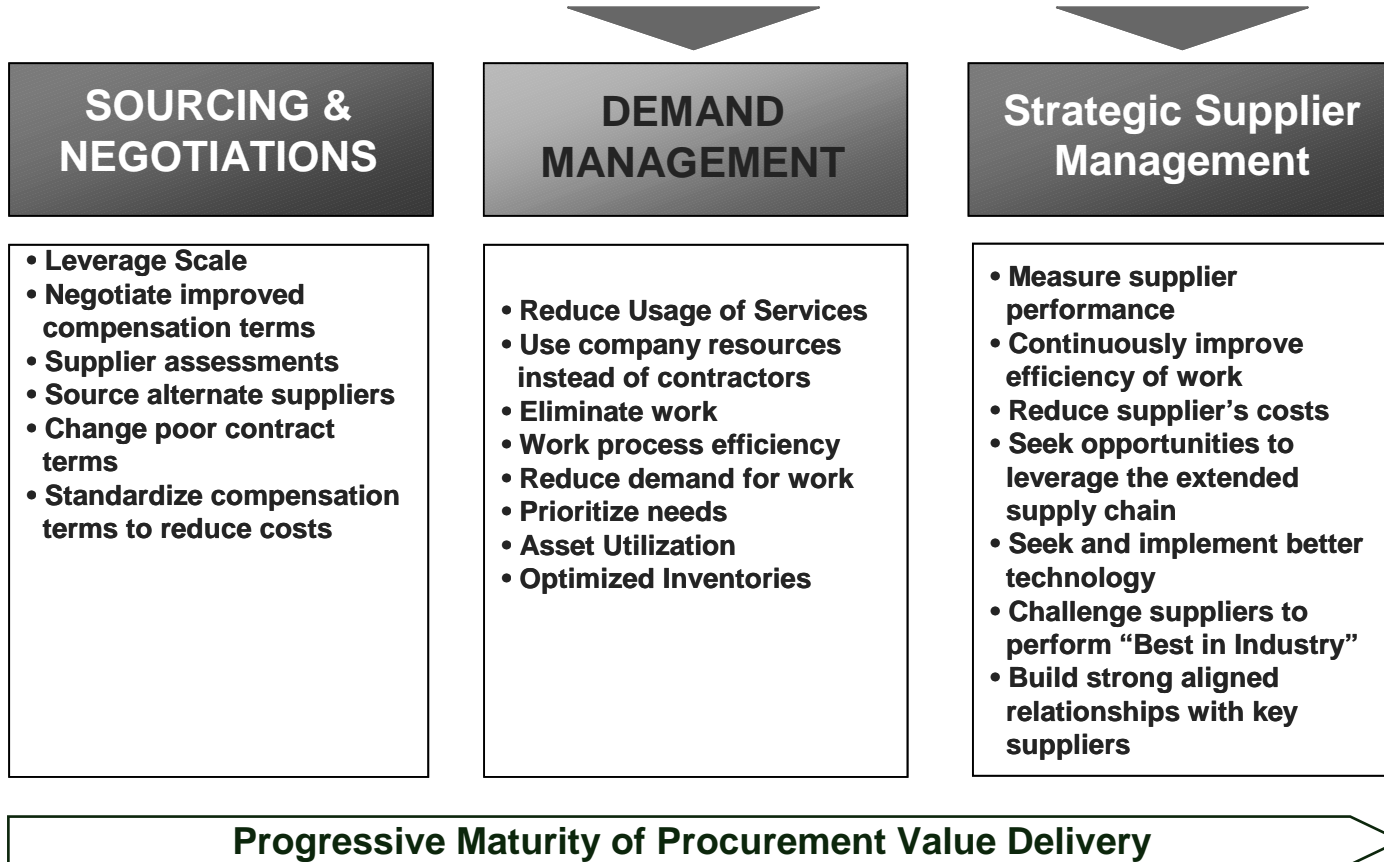
Economic Outlook



Without Intervention Prices Expected to Rise 11% by 2007



Procurement Cost Management Levers



Procurement Cost Management Levers

\$MM

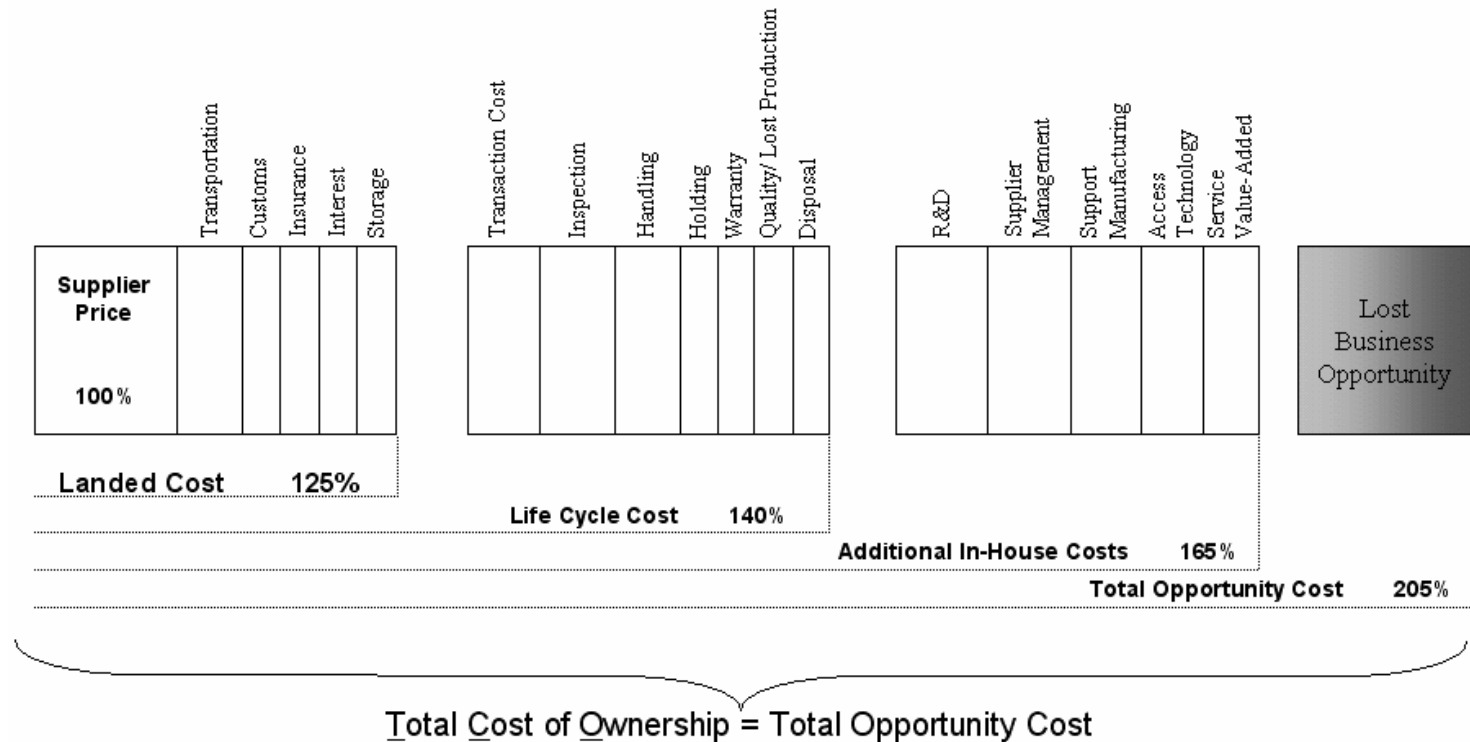
<u>Category</u>	<u>Annual Spend</u>	<u>Sourcing</u>	<u>Demand Management</u>	<u>Strategic Management</u>	<u>Totals</u>	Annual Run Rate
Category A	\$904	\$11	\$11	\$29	\$51	\$18
Category B	\$1,110	\$8	\$5	\$11	\$24	\$9
Category C	\$2,206	\$12	\$7	\$19	\$38	\$14
Category D	\$1,066	\$7	\$59	\$0	\$66	\$24
Services	\$713	\$6	\$4	\$4	\$14	\$5
Non-traditional	\$714	\$25	\$22	\$12	\$59	\$21
Totals	\$6,713	\$70	\$98	\$85	\$253	\$90

Combination of Levers will Vary by Category



Total Cost of Ownership Model

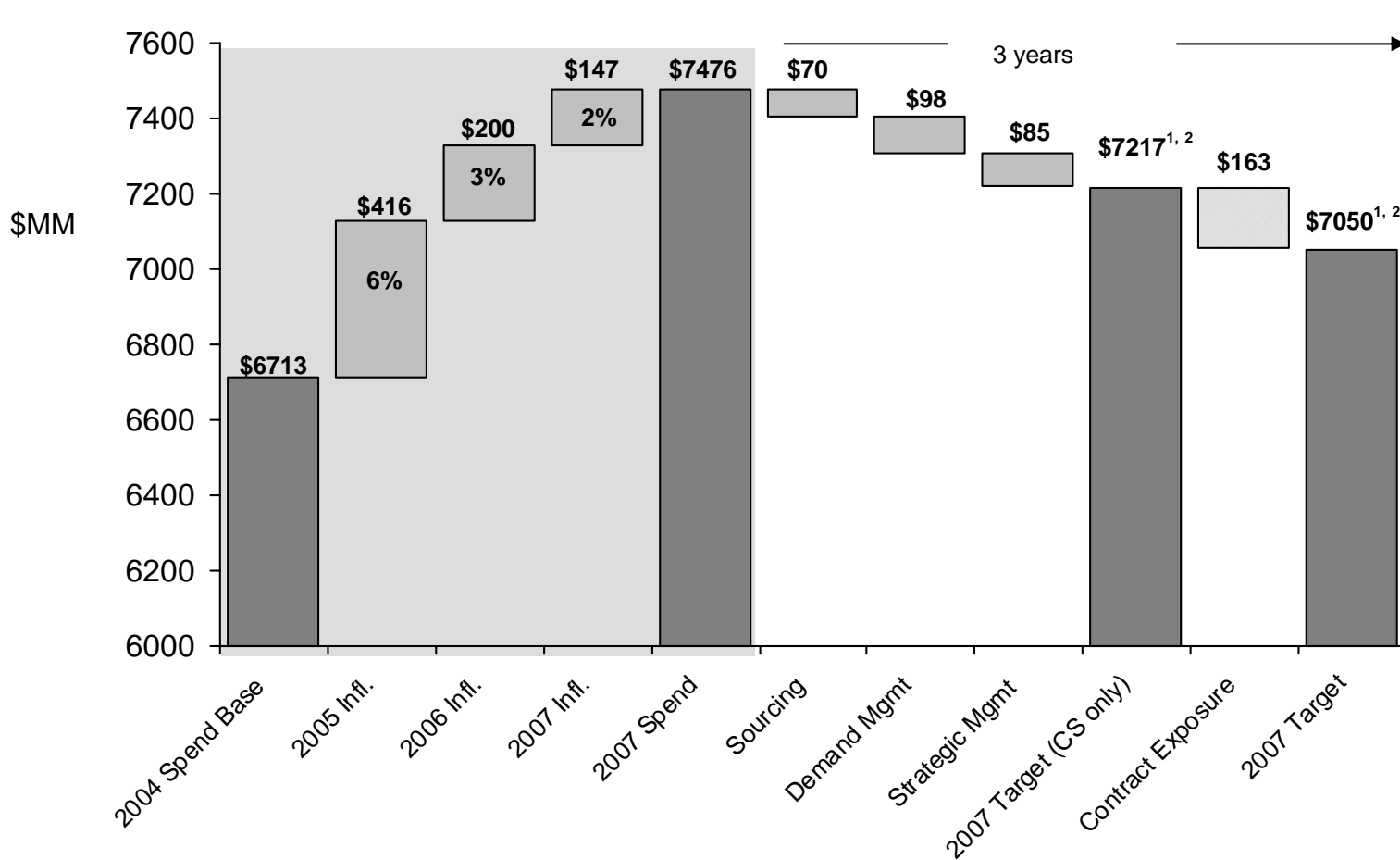
Total cost of ownership = landed cost + life cycle costs + additional in-house costs + lost opportunity costs



TCO Provides Guidance for Cost Mgmt Opportunities



Impact of Cost Management Strategy



Assumptions:

1. Assumes volume / mix neutral
2. Calculation takes into consideration time so the target number cannot be derived by subtracting \$70,\$98,\$85 and \$163 from \$7476
3. Multi-year contracts calculated as follows:
 - Second year 90%
 - Third year 70%



Making the Business Case – Non-traditional Services



Actuarial Services



Insurance Services (P&C)



Management Consulting



IT Consulting Services

\$\$ and Process Improvement Opportunity



Gaining Support & Joint Ownership



Collaborate!



Collaborate!

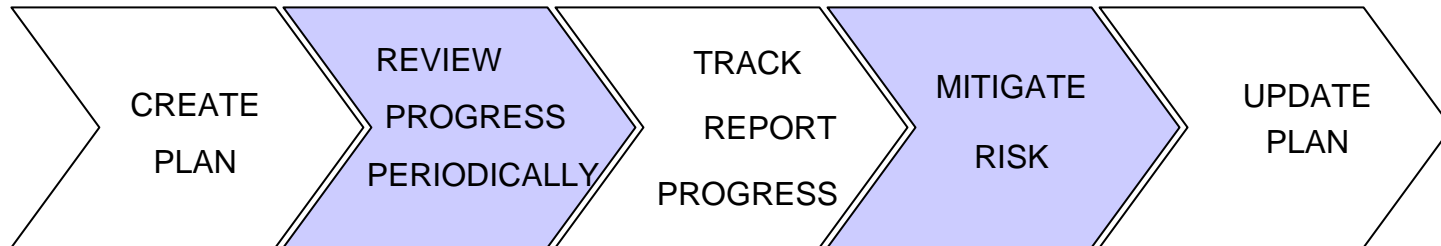


Collaborate!

Present Plan in Language of the Business



Managing the Program



Usually Executed by PMO or Functional Excellence Org.



Q&A

