



IBM Global Procurement

Optimizing an Integrated On-Demand Supply Chain *for Services*

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IBM Integrated Supply Chain

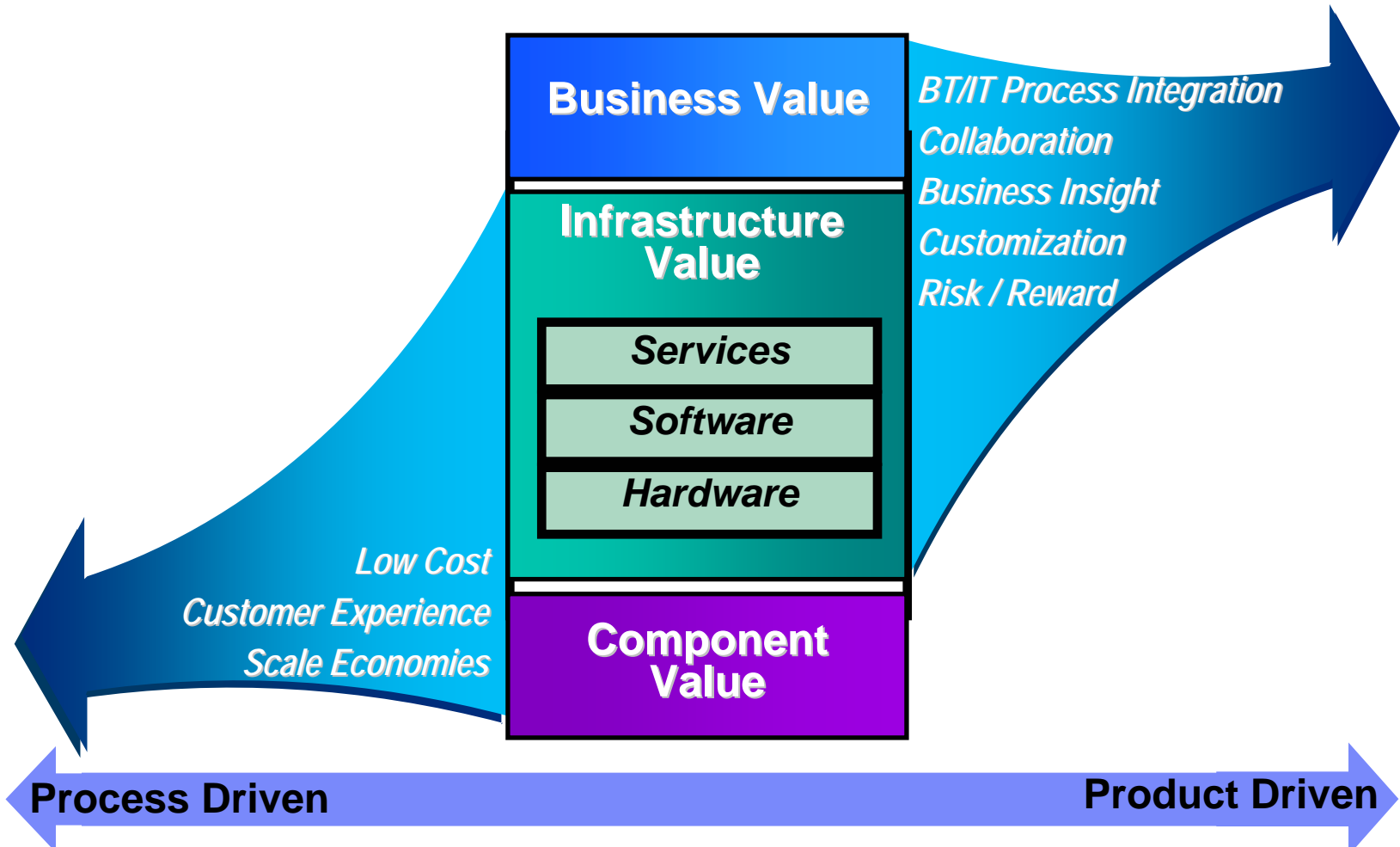
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ON DEMAND BUSINESS™

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IBM's Business Strategy

Strategic Landscape Dividing into Two (2) Distinct Value Models



ISC's Four (4) Strategic Imperatives

Our mission is to deliver the most efficient, responsive supply chain in the industry for our clients and suppliers.

1

**DRIVE FOCUS, FLEXIBILITY, QUALITY
AND COST COMPETITIVENESS**

2

**COMPLETE THE ROLLOUT OF OUR
CORE STRATEGIC PROCESSES**

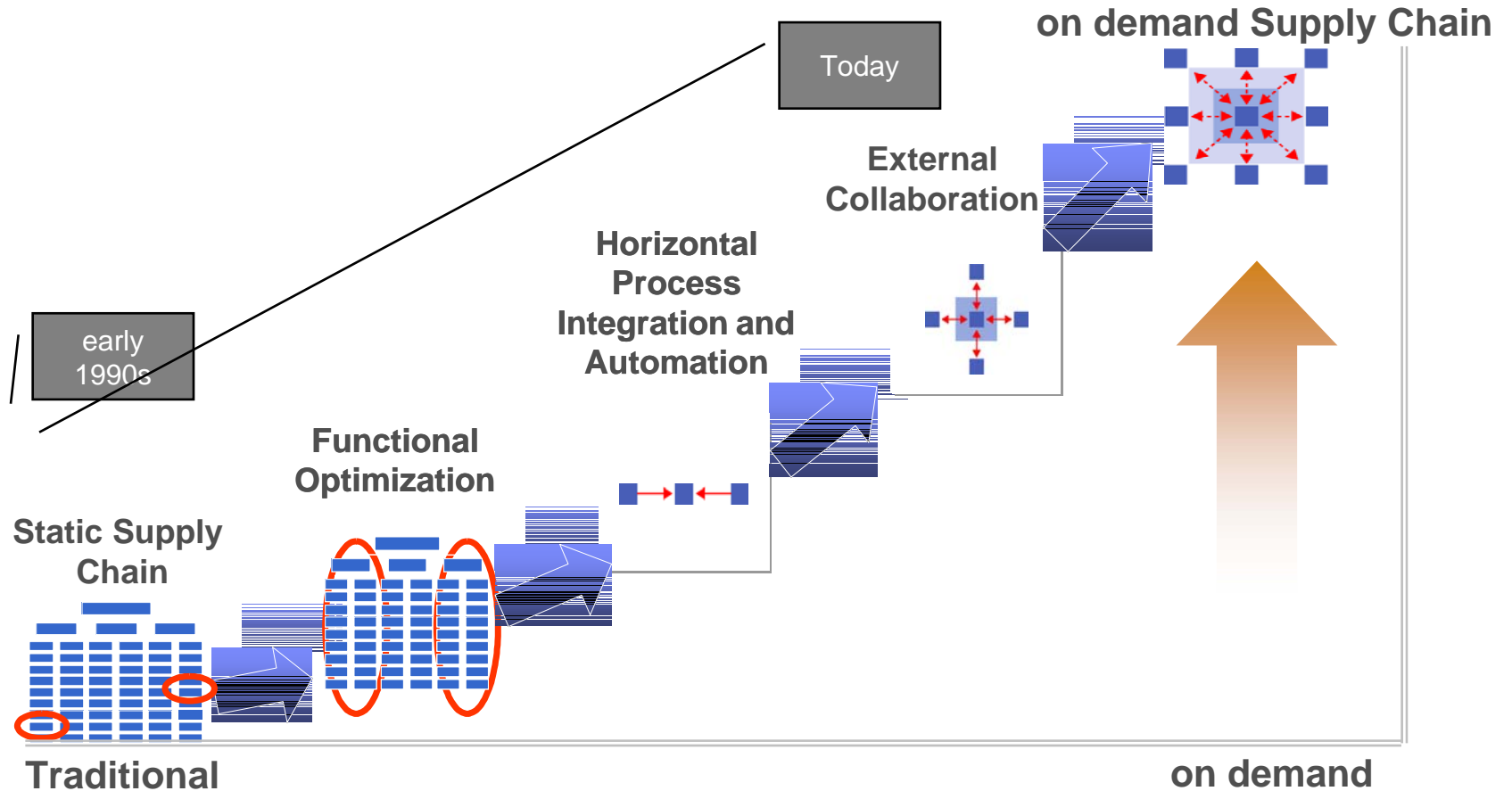
3

**EXTEND SUPPLY CHAIN PRINCIPLES TO
OUR LABOR-BASED BUSINESSES**

4

**PROVIDE INDUSTRY-LEADING SOLUTIONS
INTEGRATION AND DELIVERY CAPABILITY**

We have been on a transformation journey to turn our supply chain business operations into strategic competitive advantage for IBM



Business at IBM (FY 2004)

Industry Sectors & Revenue %

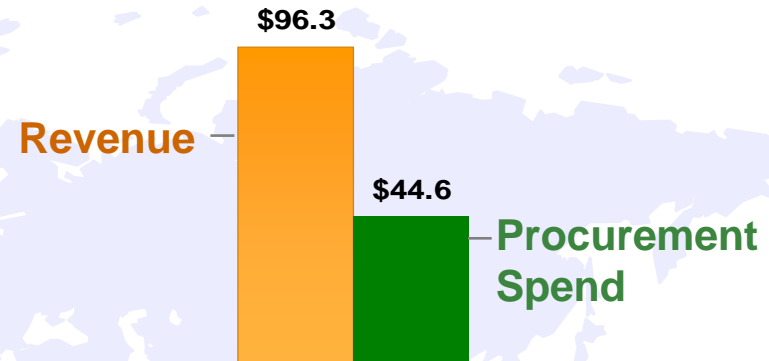
- Global Services 48%
- Hardware 32%
- Software 16%
- Global Financing 3%
- Enterprise Investments/Other 1%

People

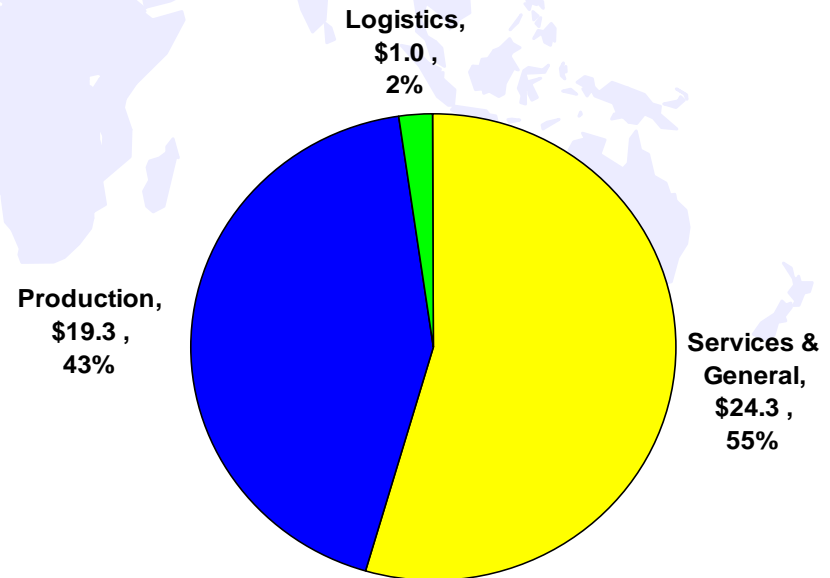
- ~320,000 Employees Worldwide
- Over 120,000 users of the Procurement Process

Revenue/Spend

in \$ Billion (US)



Procurement Spend (\$44.6B)



The Journey to "On Demand" Procurement



1994-1995

1995-1997

1998-2002

2003

Our Practices resulted in significant achievements over a transformation span of ten+ years

Key Performance Indicators	1993	2004
Sourcing Expertise in place	<10%	100%
Cost Savings Contribution	?	\$6.5B
Supplier Quality Level (Shipped Product)	85%	99%
Escapes / Bypasses (Maverick Buying)	>35%	<0.2%
Acceptable Business Controls (Audits)	55%	100%
Client Satisfaction	40%	84%
Electronic Catalogs	0	1,000+
e-Enabled Supplier Connections	<500	33,000
Electronic Purchases	<20%	98%
Buyer-less Transactions (“Hands-Free”)	0%	98%
Purchase Order Processing Time	30 Days	<1 Day
Contract Cycle-Time	6-12 Months	< 30 Days
Contract Length	40+ Pages	6-8 Pages

IBM's Global Procurement has reduced expenses and improved its efficiencies and productivity, as well as enhanced how it is viewed by its clients and others.

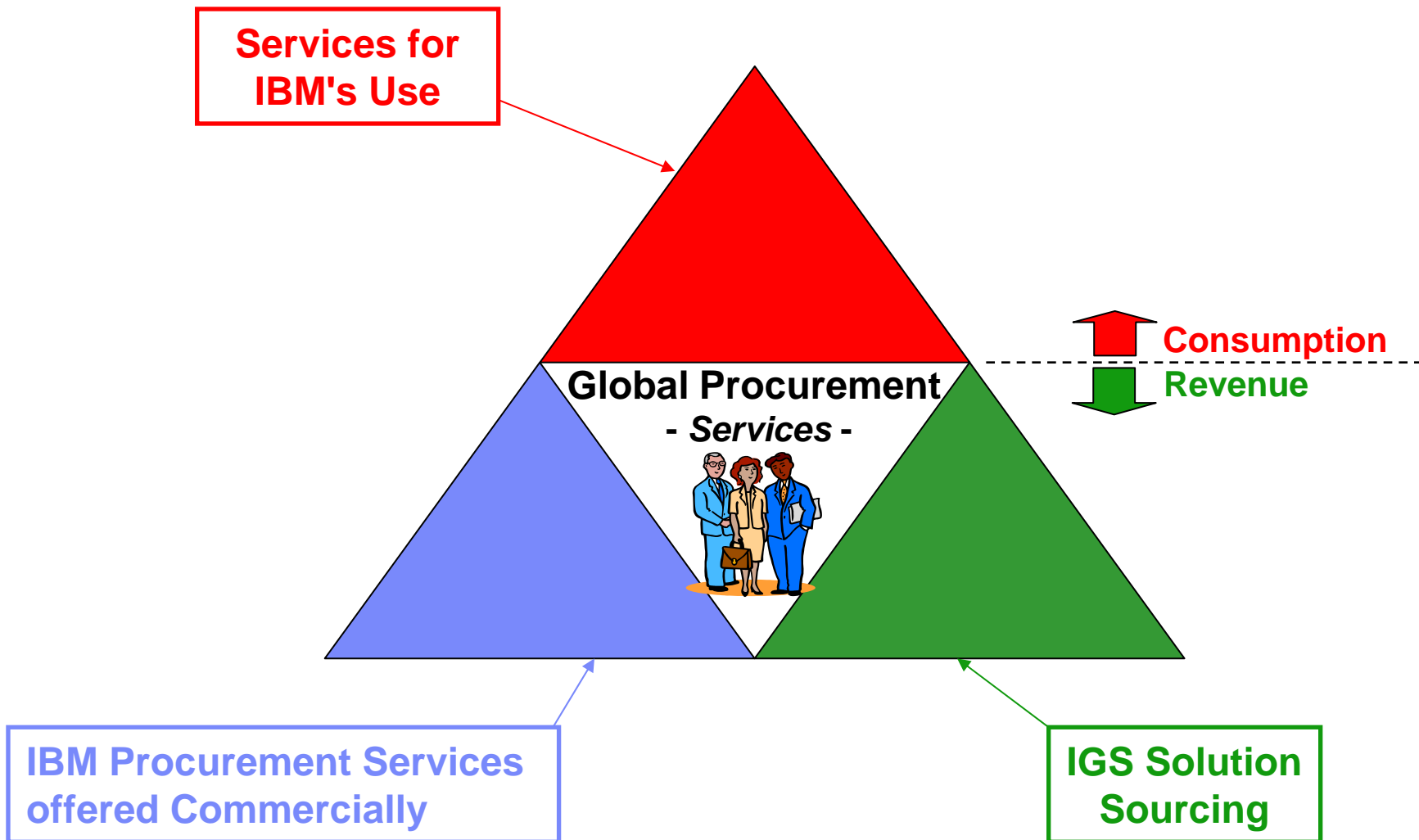
Winner of MIT Sloan School's award for transformation of Procurement and Payables



Winner of Purchasing Magazine's Medal of Excellence



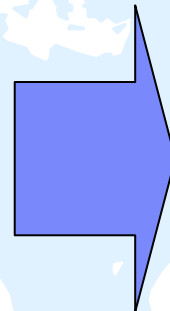
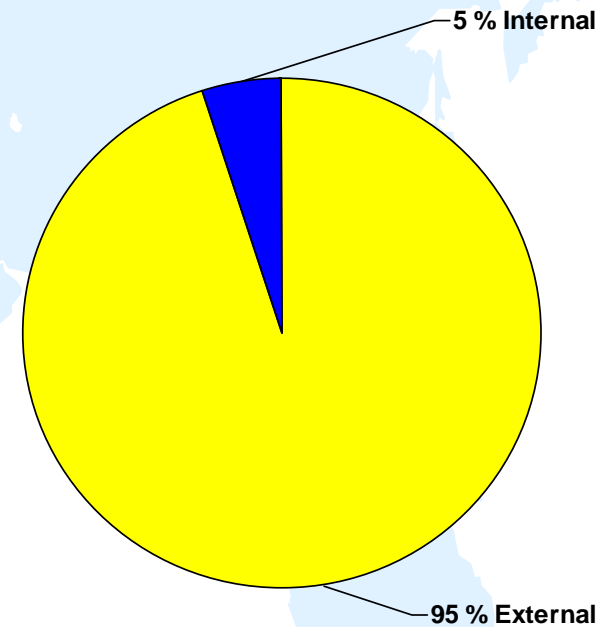
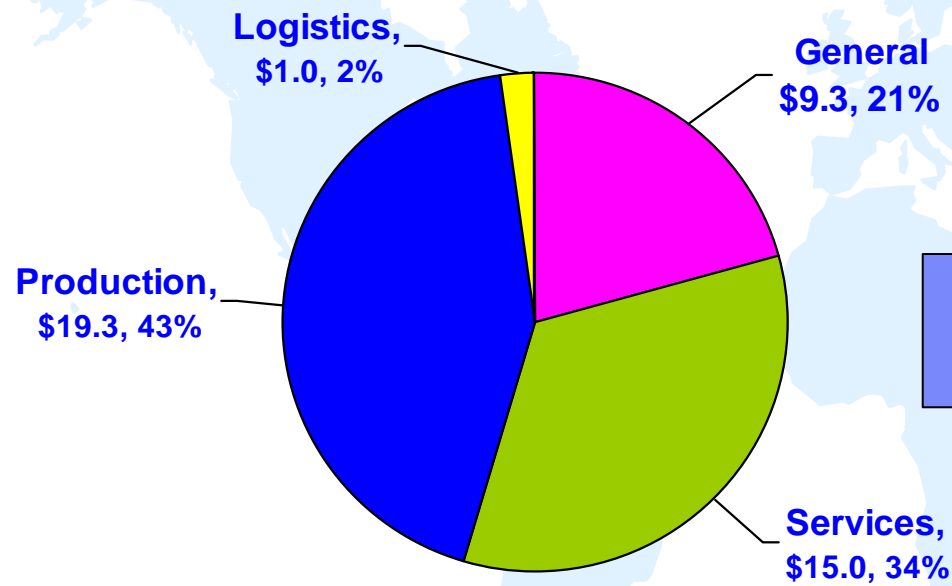
Multiple Perspectives of Services Procurement in IBM



Services Spending

Procurement Spend by Business Segment (\$B)

Services Client Spend



Services Procurement in IBM

■ IBM Procured Services (Internal Usage)

- Cafeteria Services, Advertising, Telephone, Education Services
- Human Resources (HR) Program Administration
- Facilities Cleaning & Maintenance
- Production Line Staffing / Manufacturing / Business Insurance

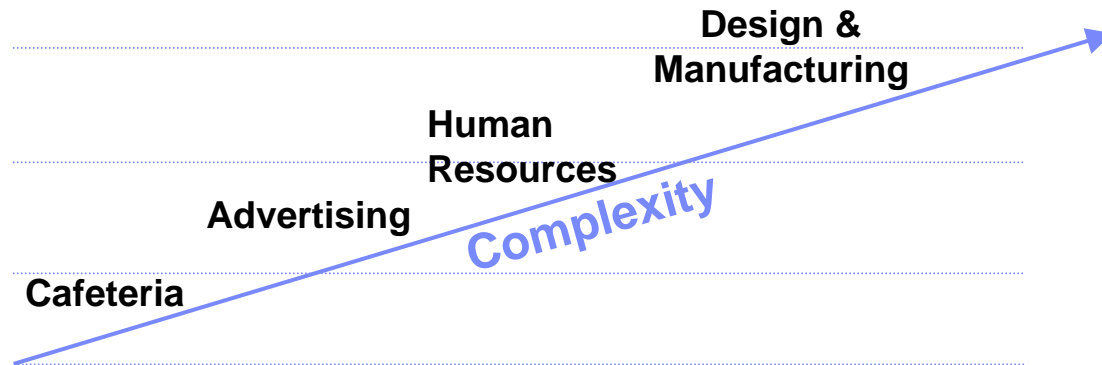
■ IGS Solution Sourcing (Solution Centric)

- Call Center Staffing, Administrative & Clerical
- Designers, Engineers, IT Consulting, Market Intelligence
- Telecommunications Installation Services, End-User Support (Solution Maintenance)

■ Commercially Offered Services (Solution Centric)

- Consisting of both Business Consulting Services and Business Transformation Outsourcing
- Leverages the "full synergy" of both the Internal and Commercial activities
- Enables Procurement/ISC to contribute Revenue Growth to IBM, and Leverage our Cost Base with Clients

Complexities of Services Procurement



Goods

- Catalogues
- Engineering Specifications
- Repetitive Buys
- Global Suppliers
- Measurements of Success
- Easier to Switch
- Contracts

Solutions / Services

- Complex Scope of Work
- Non-Repetitive Buys
- Local ==> Global
- Technical Skills
- Difficult to Switch
- Less-Repetitive Contracts

Examples of how IBM is addressing the Complexities of Services Procurement

■ Organization

- Dedicated Procurement groups to work with sales teams where some key skills reside.
- Procurement professionals evolve to Project Managers of complex services procured.

■ Investment

- Skills Matching Application
- Contract Sourcing Application
- Vendor Tracking

■ Outsourcing

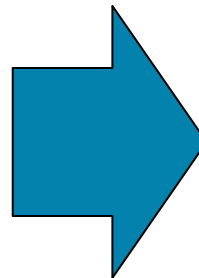
- Managing services out of low cost jurisdictions requires skill, training, planning and testing to ensure flawless execution.

IBM's Supply Chain for Services

What Will Services Supply Chain Management Achieve?

Objective: Effective & efficient use of IBM's primary asset-our people's skills and expertise

- > Establish needs
- > Establish inventory of skills
- > Establish taxonomies
- > Source:
 - Make vs. Buy
 - Most efficient
- > Repeatable Processes



- > Forecasts
- > Overage & underage
- > Match supply vs. demand
- > Source:
 - Regular vs. non-regular
 - Most qualified
- > Automate for efficiency

Opportunity worth over a \$Billion

Key Points to Optimizing the Services Supply Chain

- **Innovate**
- **Significant Investment**
- **Develop Diverse Skills and Educate**
- **Shared Risk/Rewards with all Constituencies/Partners**
- **Governance**