

Strategic Sourcing

Services Group

December 1, 2005



**Strategic Business
Solutions**

Bio

Tim Underhill

Tim Underhill is president of Strategic Business Solutions – a consulting firm whose mission is to improve its clients' profitability through increased revenues, improved supply chain management and reduced operating costs. Tim has helped companies develop commodity/service plans, evaluate suppliers based on total cost and implement supply chain initiatives. Many of his clients have achieved a 20% reduction in operating costs through their supply chain initiatives.

Tim currently sits on the ISM's national steering committee for their MRO Buyers Group and provides Supply Chain Management seminars for this association. Additionally, Tim has authored two books on Supply Chain Management 1) *Strategic Alliances, Managing the Supply Chain*, and 2) *Team Up! Profit Up! Partners in Channel Cost Reductions*. He has also developed a program for implement Supply Chain Management initiatives and measuring the Total Cost of Ownership: *SourcingStrat*, and has authored numerous articles.

Strategic Business Solutions, L.L.C.

Strategic Business Solution's mission is to "Develop the Strategies and Solutions for our Customer's Success". We accomplish this by providing our clients with a number of opportunities including:

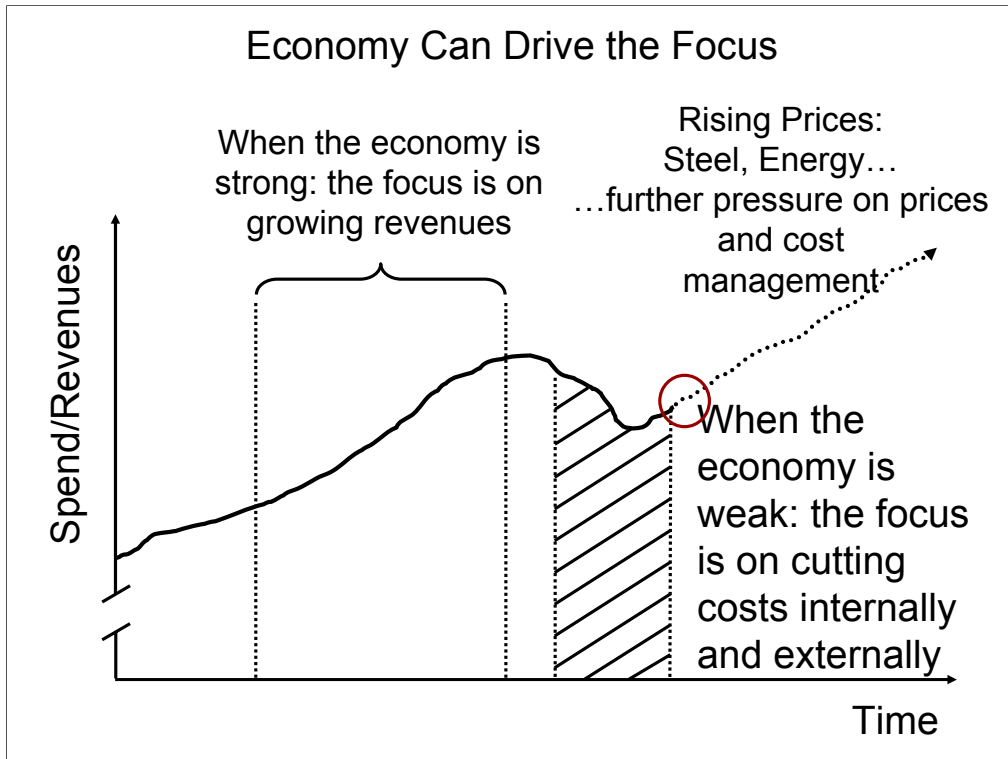
Consulting & Training

One of the most valuable assets in your company is your employees. And like any asset, they need to be "maintained" to operate at peak performance. New techniques and strategies often require training as part of the maintenance for these valuable assets. But your employees are not your only resource requiring maintenance; processes and methodologies do as well. This is where consulting can truly make a difference. By combining training and consulting we can help your entire organization to function in unison, and achieve even greater results. Our approach is to combine the best of each of these two services into one package which produces the results you need to thrive and grow in today's market.

IT Service Solutions

Almost every company has Information Technology needs, but many are falling behind due to the costs and time associated with keeping pace with ever changing IT needs. At SBS we recognized how critical this issue is to companies like yours. We combined an on-shore project development and support team with an off-shore programming team, and were able to cut the cost for IT services by more than 50%, thus allowing you the tools to operate your business more effectively and at a substantially reduced cost.

What this means to you, is we can create custom data warehousing/mining, system automation and integration solutions at a fraction of the market rate and in less time, and still guarantee your satisfaction. Both information and a cost advantage can be very powerful competitive weapons. Let us show you how we can help you to effectively accomplish your IT needs.



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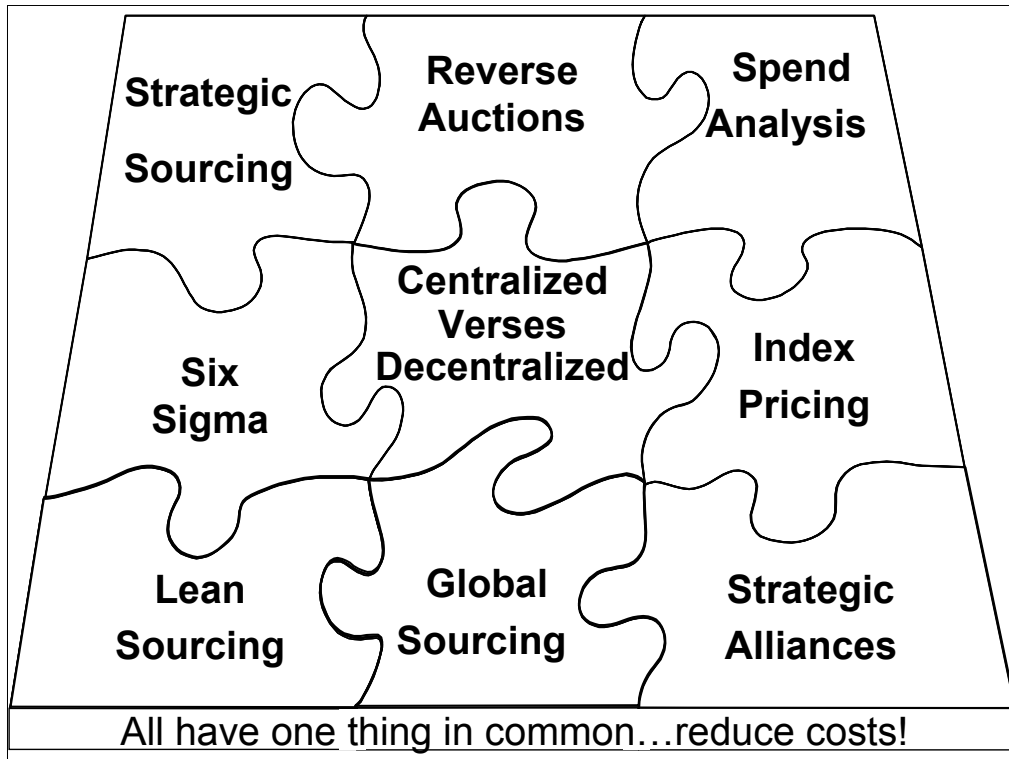


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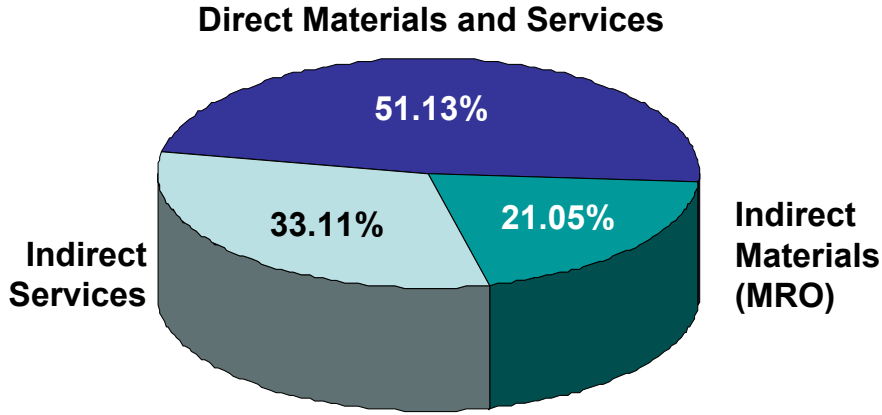
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Service Spend Is a Significant Part of the Total Spend



CAPS Research Report – 8/2002

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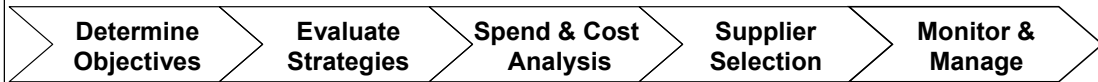
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Spend Management Plan



A Spend Management plan is a detailed understanding of:

1. What you want to accomplish and how?
2. Determination of how to achieve goals.
3. Organizational spend and operational costs.
4. How to evaluate the suppliers ability to meet your needs.
5. Identify the means to manage and control the process

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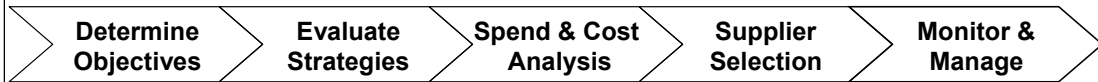
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Spend Management Plan



More than any other issue in purchasing, this is the most critical.

Generally, sourcing is pursued on a tactical basis.

But it offers a true competitive advantage...if we move outside of the box we are in and develop truly strategic plans that help create this advantage.

Develop a comprehensive holistic approach.

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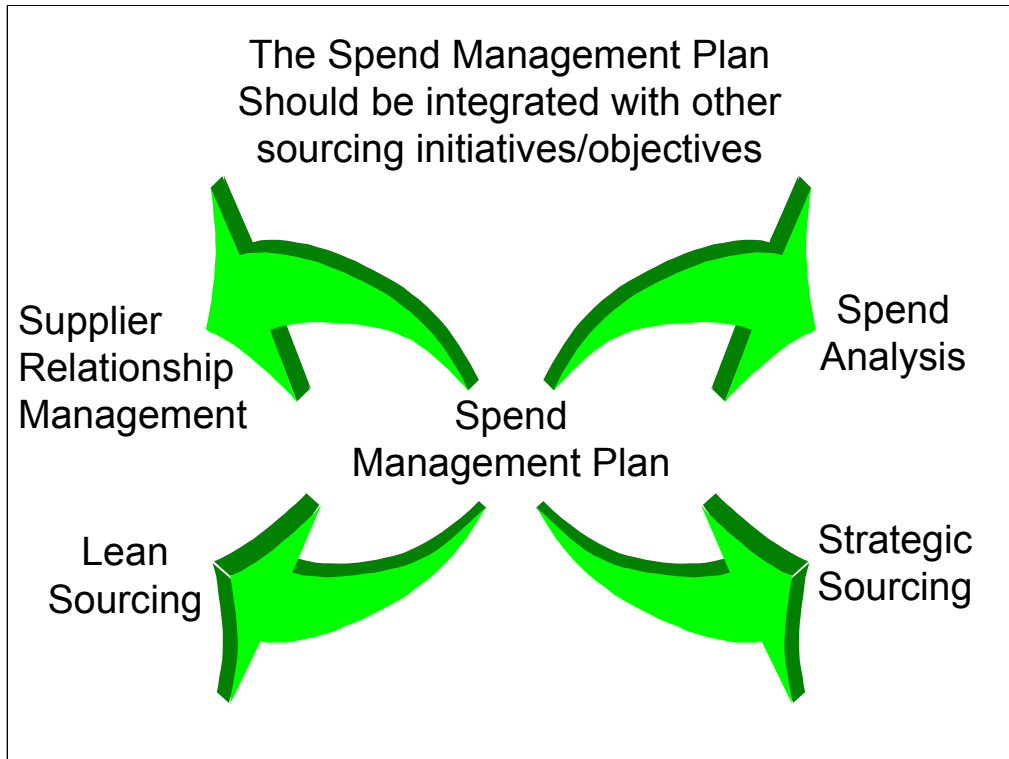


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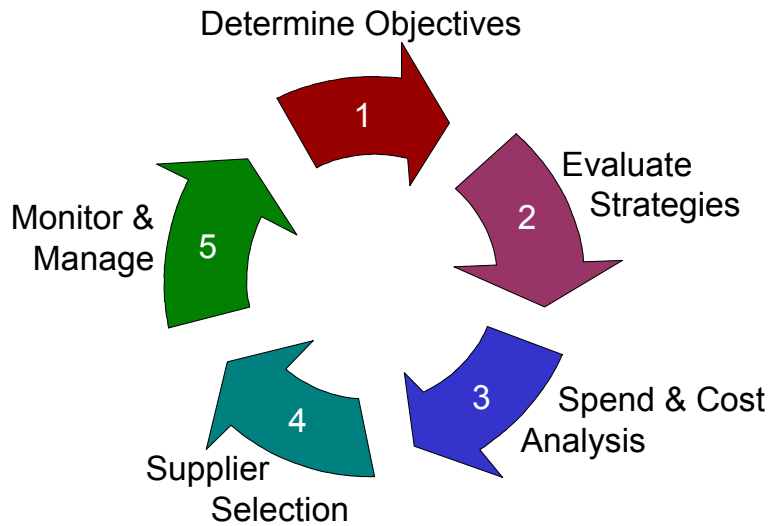
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Spend Management Plan & Strategic Sourcing



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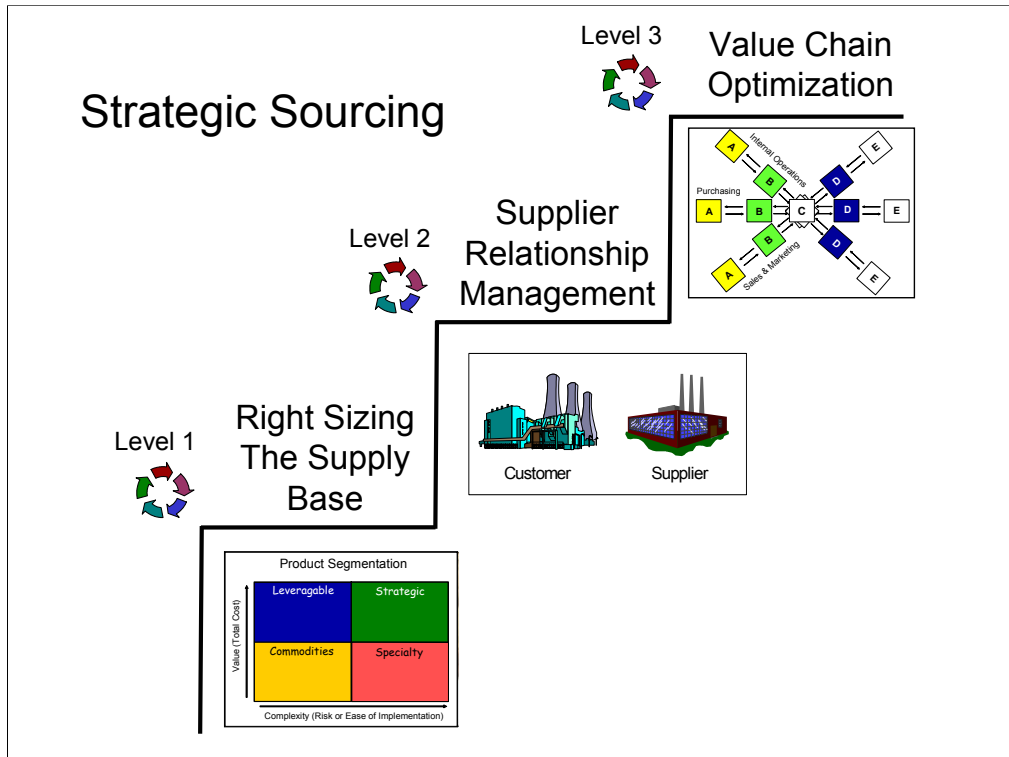


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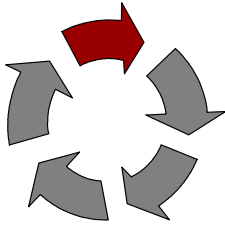


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Strategic Sourcing

Determine Objectives

1. Start with the end in mind: what do you want to accomplish?
 - Better control (spend, usage, trigger points)
 - Consolidation (standardization, suppliers)
 - Leverage (price, costs, services)
 - User needs/satisfaction
2. Focus: to reduce first cost, landed cost, total cost
3. How is success measured?

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Determining Objectives: Investment Strategy

- Return**
- Risk**
- Performance Requirements**
- Investment**

What is your Investment Strategy?

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Investment Issues

- Price**
- Value Added**
- Improved Performance**
- Objective Attainment**
- Risk Mitigation**

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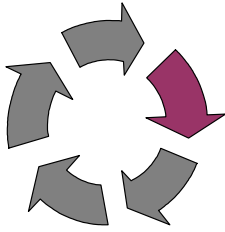


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Evaluate Strategies

1. Segment Products and Services
2. Identify Commodity / Service to Pursue
3. Determine basic strategy that best meets needs
4. Identify specific actions can best accomplish your objectives
5. How will the strategies impact Total Cost

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Product/Service Segment

Value: Price, Operational Efficiencies, Impact on Customer, Innovation, Volume

And (pick one)

Complexity: Unique Features, Market Volatility, Channel Requirements

Risk: Performance, Quality, Availability, Sources

Ease of Implementation: Resistance, Contract Limitations, Specifications

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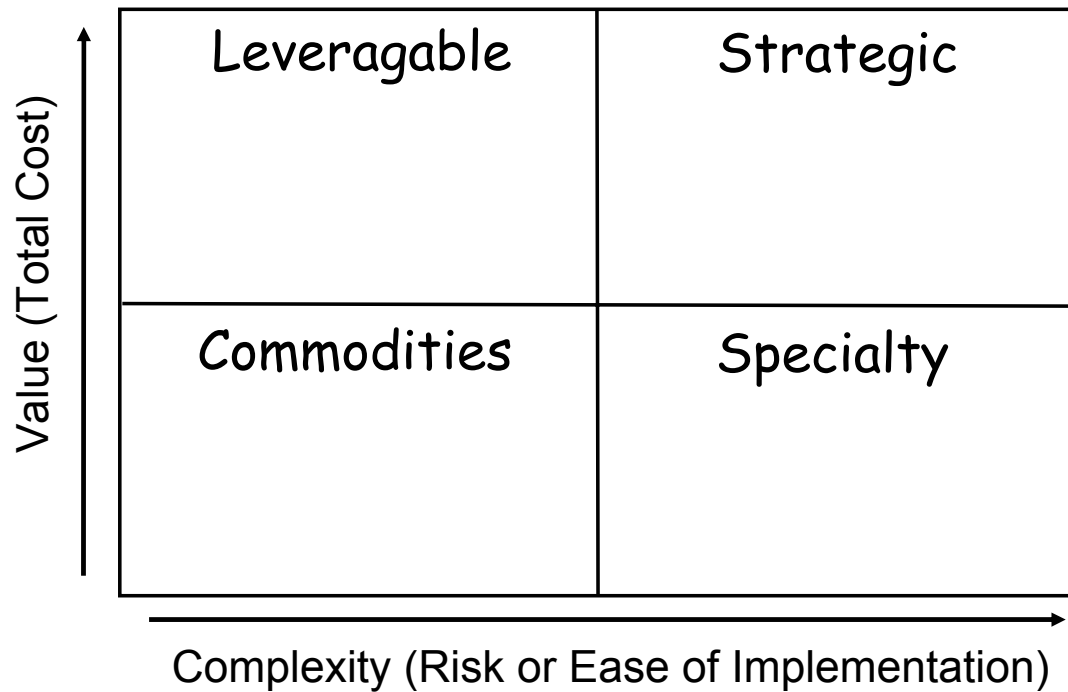
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Product/Service Segmentation



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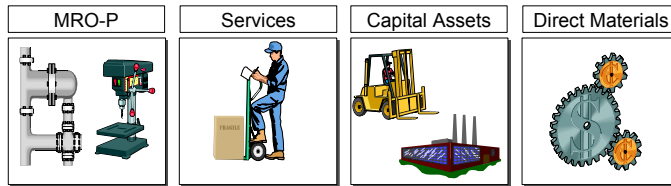
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Many experts estimate that 20% to 30% cost reductions exist in the supply chain.

This opportunity is not available through price alone.

And the opportunity varies by spend.



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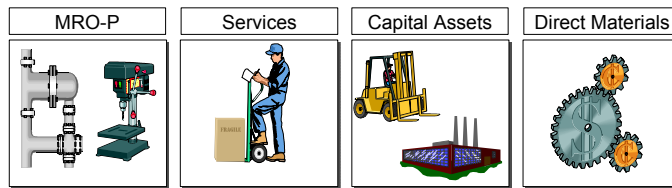
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Each Spend Area needs to be looked at in how it impacts costs, the strategic objectives, risk and performance issues throughout the organization.



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Basic Strategies

1. Service Consolidation
2. Service Rationalization (do you need it?)
3. Specification Evaluation (over/under specified)
4. Supplier Base: Reduction Vs Competition
5. Transfer Responsibilities (Core Competencies)
6. Process Efficiency (Lean it)
7. Early Supplier Involvement
8. Total Cost (Service Extras/Solutions)
9. Risk Containment
10. Supply Chain Integration (impact on other suppliers)

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Strategic Sourcing Filter: Identifying Potential Candidates

| Score each cell: Yes = 1 No = 0 | Travel | IT Services | Facilities Maint. | Con- struction | Temp Services | Gases / Chem. |
|--|----------|----------------|----------------------|-------------------|------------------|------------------|
| Is there a significant amount of spend in this category? | 1 | 0 | 0 | 1 | 0 | 1 |
| Is this category of spend decentralized? | 1 | 1 | 1 | 0 | 1 | 0 |
| Are user's going around purchasing in this area of spend? | 0 | 1 | 0 | 1 | 0 | 0 |
| Do divisions have different operating systems (computer networks)? | 1 | 0 | 1 | 0 | 1 | 0 |
| Is the spend in for this service area "spot buy" in nature (Alternatively: is the contract about to expire)? | 1 | 0 | 1 | 0 | 1 | 0 |
| Are there more than five suppliers from whom you are currently purchasing these services? | 1 | 1 | 0 | 0 | 0 | 1 |
| Are there a high number of "units" purchased annually? | 1 | 0 | 0 | 1 | 1 | 0 |
| Are there significant opportunities for standardization/consolidation of services? | 1 | 0 | 1 | 0 | 1 | 0 |
| Is the complexity of purchasing for this service low? | 1 | 0 | 0 | 1 | 0 | 0 |
| Are there a high number of locations that utilize this service? | 1 | 1 | 1 | 0 | 1 | 0 |
| Total (count) | 9 | 4 | 5 | 4 | 6 | 2 |

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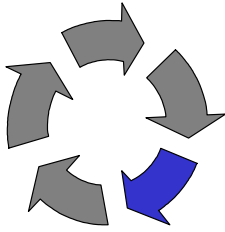


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Spend & Cost Analysis

The foundation for any improvement plan is understanding the who, what and why of your spend.

But spend is only part of the costs that can be impacted.

Need to include a Cost Analysis – how will changes impact other operating costs – with some form of Spend Analysis?

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What is Spend Analysis?

It is a detailed evaluation of all Spend across the organization...

...for the purpose of reducing costs and improving operational performance...

... and performed by aggregating, cleansing, and analyzing corporate spending data.

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Spend/Cost Analysis

The analysis should be about more than leveraging for better price, it should include a determination of how different suppliers and services can impact:

- Revenues
- Expenditures
- Assets
- Processes

And the result these impacts can have on Total Cost throughout the organization.

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How can your impact these through your suppliers?

Revenues

Expenses

Assets

Liabilities
& Equity

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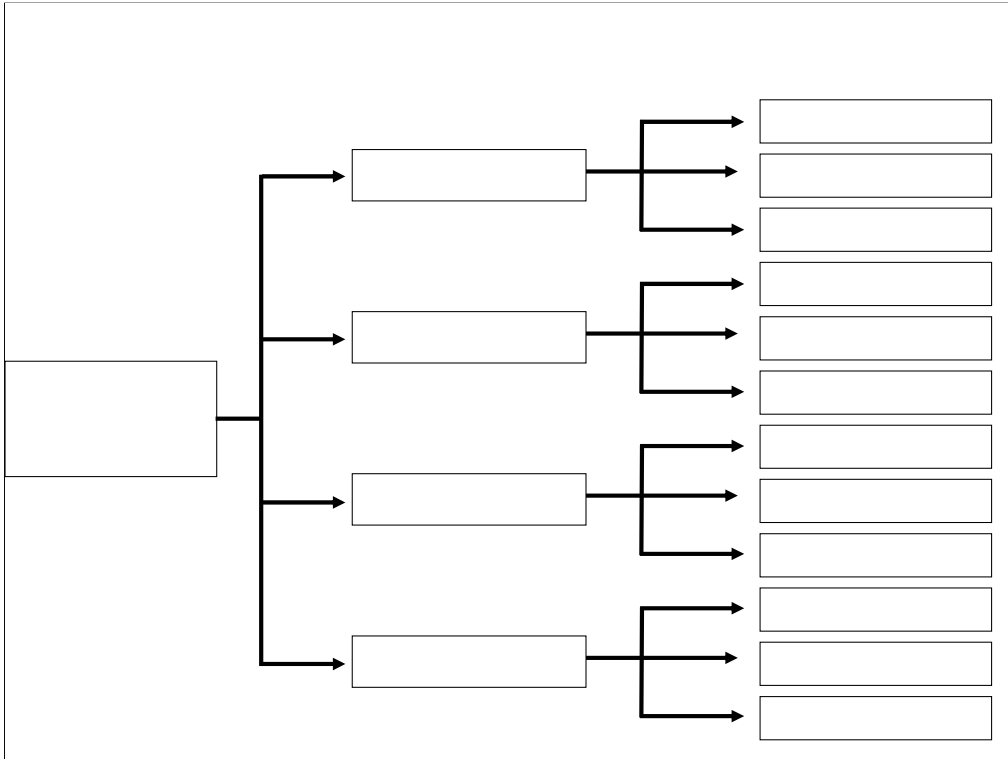
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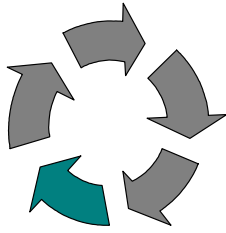


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Supplier Selection

Supplier selection is based on the supplier that can best meet your objectives and support your strategies.

Make them prove it to you!

How many suppliers do you need?

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Developing the Total Cost

For each supplier:

A. Determine Annual Expenditures: \$ _____

B. Determine Annualized Performance Costs: \$ _____

C. Sub-Total (A+B): \$ _____

D. Determine Annualized Value Added: \$ _____

E. Total Annual Cost (C-D): \$ _____

Create a Supplier Performance Index: (E/A)
to determine the Total Cost for a new Contract or to
evaluate pricing differences between supplies:
SPI * (Price or Contract)

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Example

| | <u>Supplier 1</u> | <u>Supplier 2</u> | <u>Supplier 3</u> |
|--------------------------|--------------------|--------------------|--------------------|
| Previous Spend | \$1,000,000 | \$ 900,000 | \$ 900,000 |
| <u>Performance Costs</u> | <u>15,000</u> | <u>20,000</u> | <u>40,000</u> |
| Sub-Total | \$1,015,000 | \$ 920,000 | \$ 940,000 |
| <u>Value Added</u> | <u>(255,000)</u> | <u>(55,000)</u> | <u>(5,000)</u> |
| Total Annual Cost | \$ 760,000 | \$ 865,000 | \$ 935,000 |
| SPI | .76 | .96 | 1.04 |
| <u>New Contract</u> | <u>\$3,000,000</u> | <u>\$3,000,000</u> | <u>\$2,750,000</u> |
| Total Cost | \$2,280,000 | \$2,880,000 | \$2,860,000 |

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The Results of Supplier Evaluations

After the evaluations you should be able to answer these questions:

1. What, where and how will the Total Cost savings be achieved?
2. What objectives will this help you to achieve?
3. What performance improvements are expected?
4. What risks do you perceive and how can you & the supplier control them?

If you cannot answer them, the evaluation was not sufficient!

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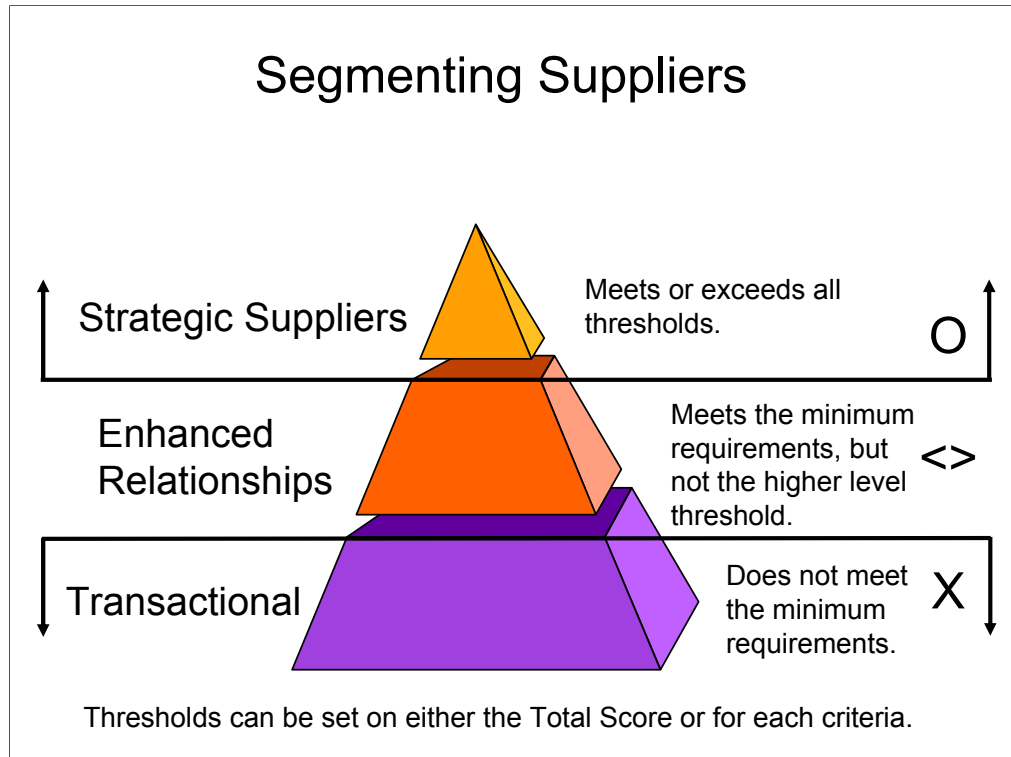
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Segmenting Suppliers



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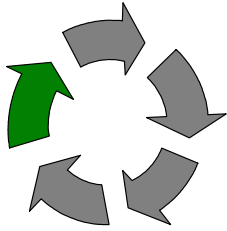


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Monitor & Manage

Are you achieving your objectives?

How has your strategy reduced your costs?

Are there areas for improvement?

Have your sourcing goals changed?

Do you need to reassess your strategy?

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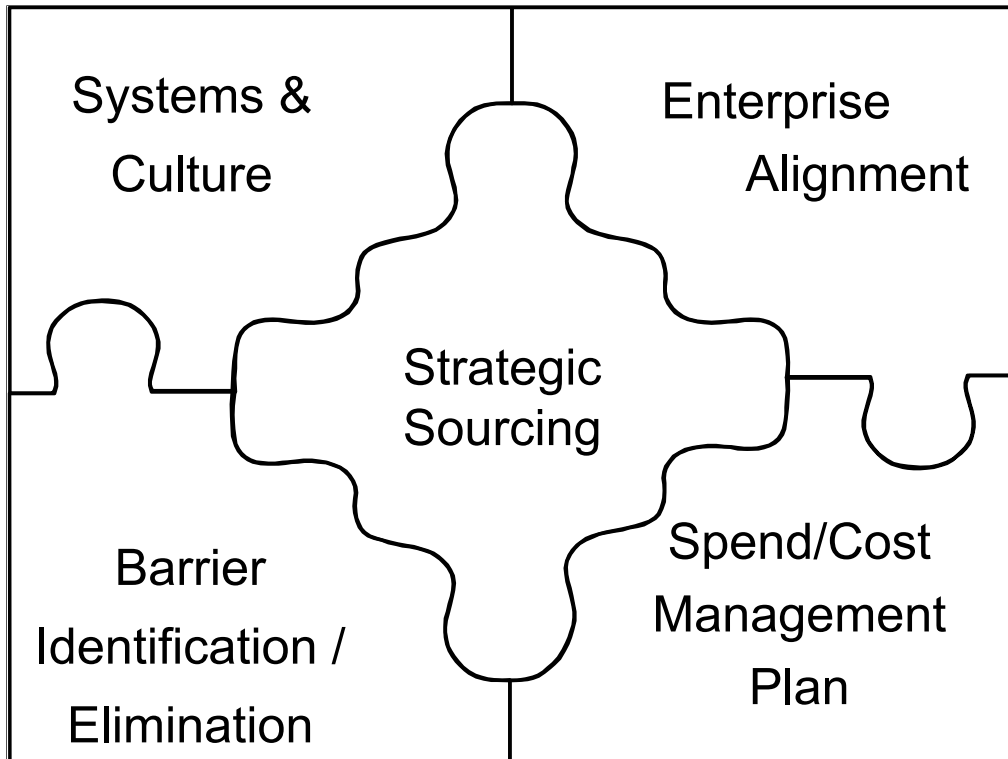
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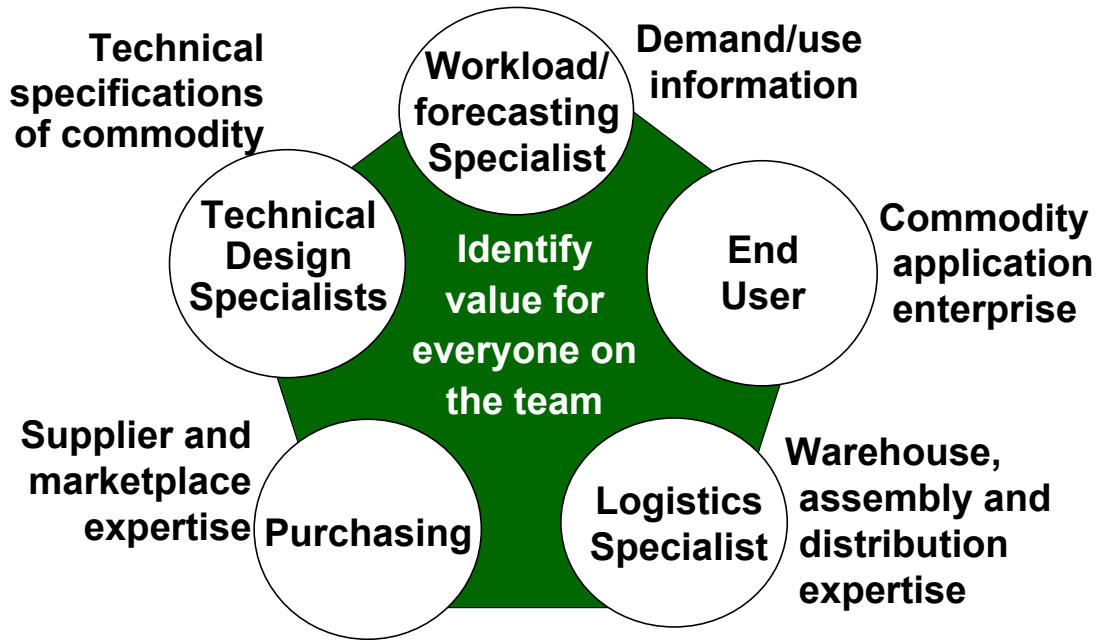
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Internal Supply Chain Team

The composition of this team will be set based on the areas impacted and objectives pursued.



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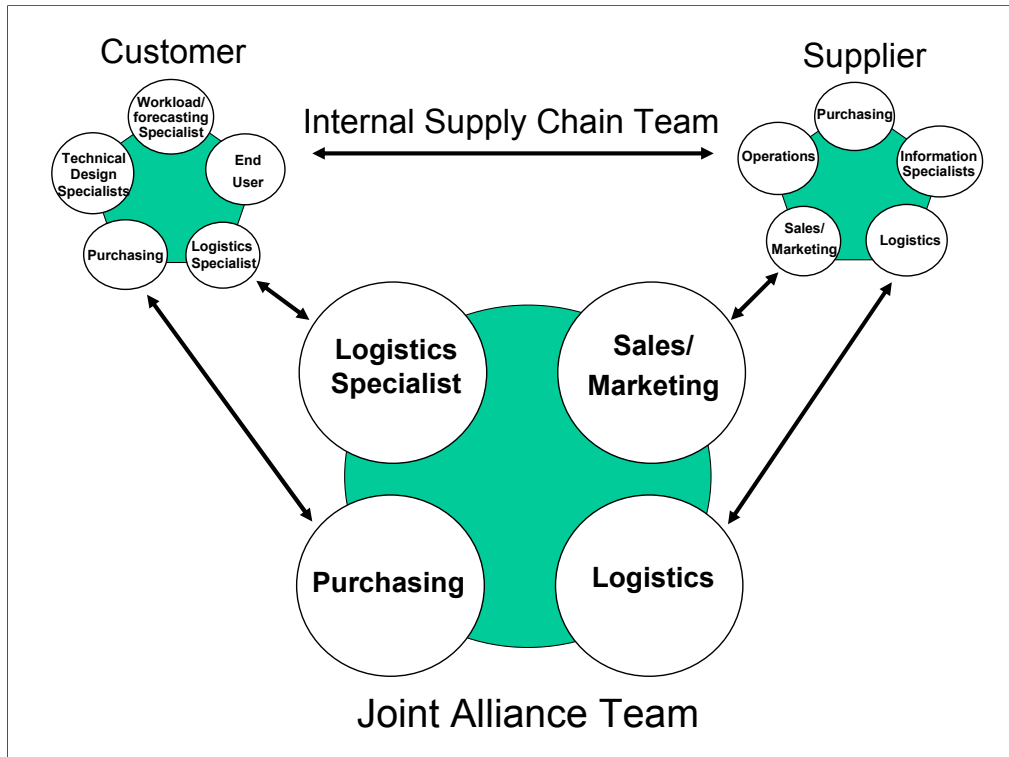


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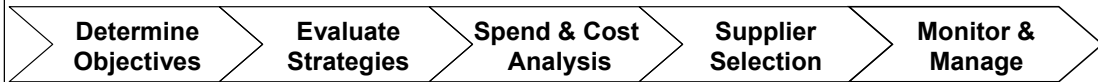
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Spend Management Plan



How much of your time is spent:

1. Sourcing?
2. Responding to an immediate need?
3. Solving problems?
4. Negotiating?
5. Filling out paper work?

Now much time do you have for planning a strategy (not a specific buy)

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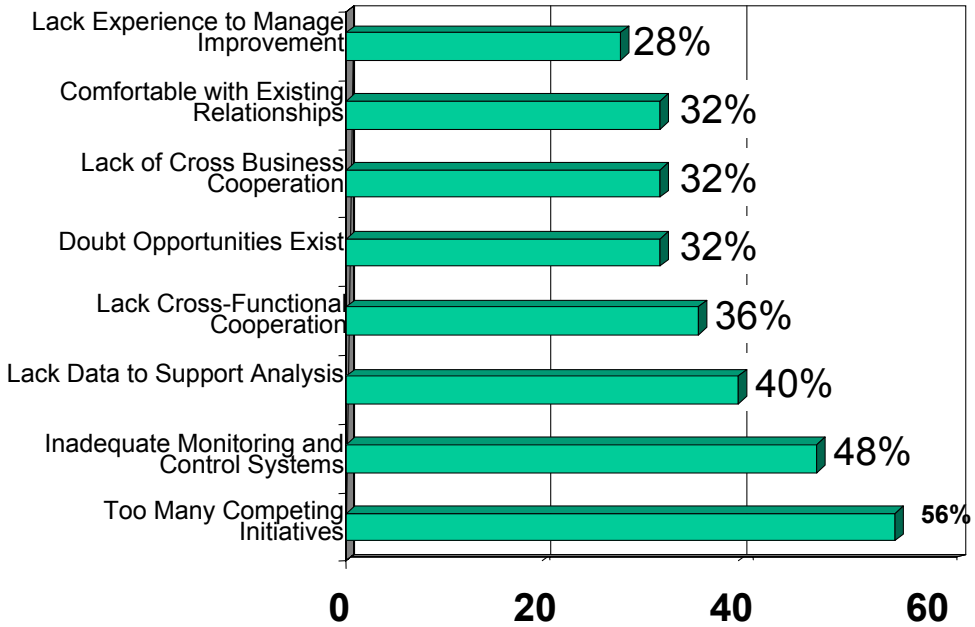
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Barriers to forming effective supplier partnerships



Source: CAPS

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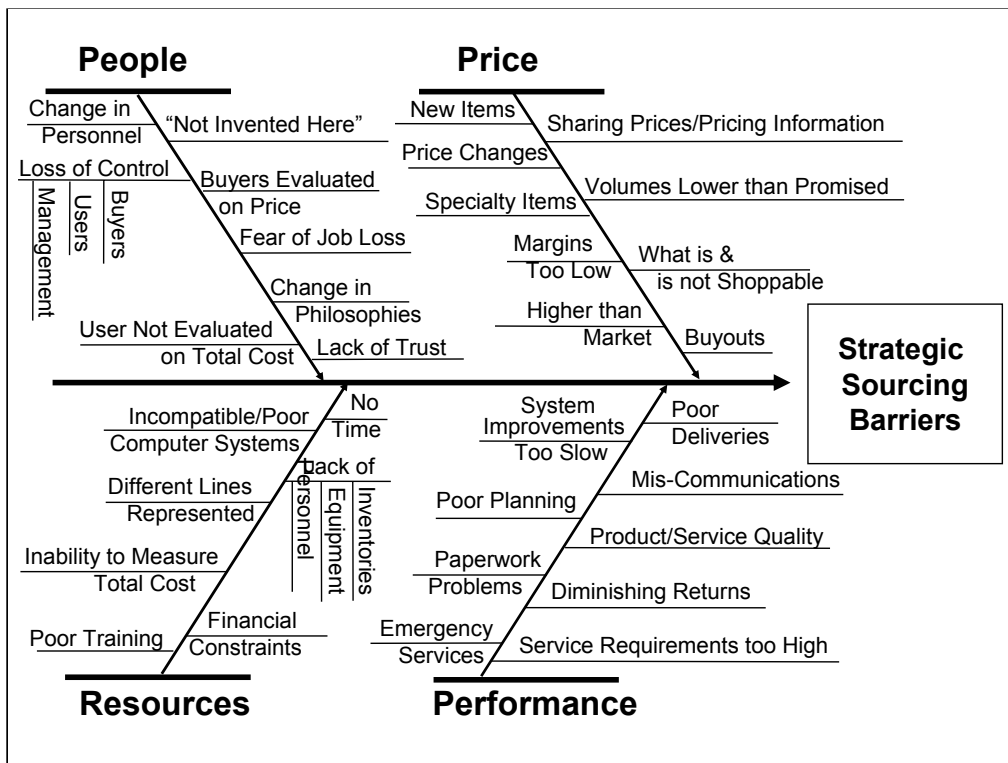


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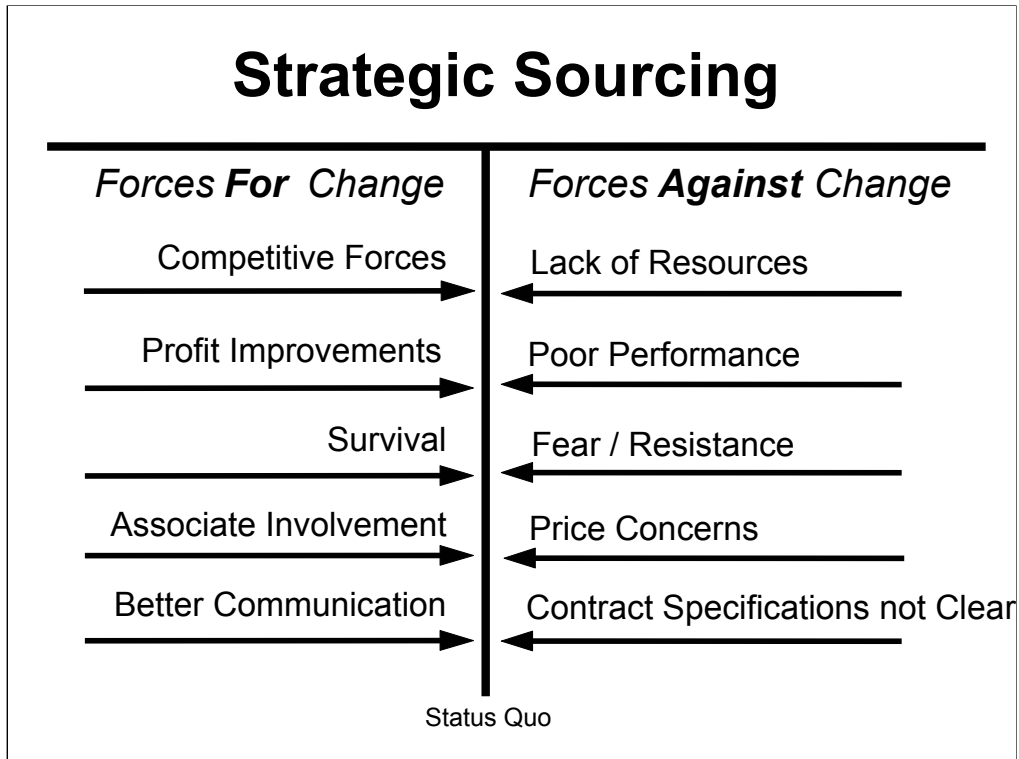
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Create The Environment

Create The Culture

- Common Objectives
- Dedication to Ongoing Relationship
- Commitment of Both Partners
- Openness to State Needs, Expectations, Concerns
- Mutual Trust & Respect
- Teamwork
- Understanding of Each Others Costs / Processes
- Willingness to Change

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Create The Environment

System Development

- Barrier Identification / Resolution
- Total Cost of Ownership Measurement System
- Risk Reward Sharing System
- Joint Improvement Methodology
- Communications network
- Planning Procedures
- Transactional Processes
- Decision Making Process
- Defined Requirements / Expectations
- Recognition System

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