Sourcing Execution
A Transition to a Shared Service Sourcing Model

Agility, Responsiveness, and Value
A Technology-Agnostic Shared Service Solution Focused on Sourcing Execution

- Over $8 Billion in Spend Sourced
- Two Global Delivery Centers supporting 4 continents
- Average Savings 16%
- Supporting 20 countries & 17 languages

Service Offerings

- Spend Analytics
- Sourcing Execution
  - eRFx and Auction Management
- Contract Management
- Supplier Performance Administration
- On-Demand Category Expertise
- Program Management
Procurement As a System Producing Corporate Value

“...Any manageable system is limited in achieving more of its goal by a very small number of constraints, and that there is always at least one constraint”  E. M. Goldratt*

Goal
Maximize Procurement Value to the Organization

Throughput #1
Number of Sourcing Decisions Influenced

Throughput #2
Number of Contracts Executed

Throughput #3
Number of Suppliers Performance Managed

Discussion: Constraints in Achieving Agility, Responsiveness and Value

What constraints prevent you from achieving agility, responsiveness, and value?

- Category Maturity
- Operating and Resource Model
- Integration of Client and Provider Capabilities
- Stakeholder Engagement Model
- Standardization of Work Processes
- Knowledge Capture and Reuse
- Disintegrated Systems
A New Mission: Become a Customer-Centric Service Organization with Excellent Execution Capabilities
Supplier Performance Administration

Due to a flawed operating model, most organizations today are unable to drive a company-wide supplier performance management initiative.

*Shared Service Execution is the engine that drives sustainable SPM*
Separate Strategic Work from Tactical Execution

Strategic sourcing has very different characteristics than transactional procurement, making it challenging to scale and move to shared services.

<table>
<thead>
<tr>
<th>Scope of Work</th>
<th>Characteristics</th>
<th>Approach</th>
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</table>
| **PROCUREMENT** | - Purchase Requests  
- PO Hygiene  
- Supplier Setup  
- Invoicing  
- Audit | - Highly transactional  
- Mostly driven by technology  
- Not many variations in the process  
- Does not require specialized skill set  
- Scalable | - Define an efficient process  
- Implement technology to automate  
- Normalize requirements  
- Deliver through centralized shared service model |
| **STRATEGIC SOURCING** | - Spend Visibility  
- Spend Analysis  
- Market Analysis  
- Stakeholder Mgmt  
- Supplier Management  
- RFx Execution  
- Negotiations  
- Contracting | - Heavy knowledge based activities  
- Mostly manually driven  
- Variations in process by category  
- Requires unique skill set in each stage  
- Not scalable  
- Requires face time with stakeholders | |

**SHARED SERVICE**

**CATEGORY MANAGEMENT**
- Knowledge based  
- Not scalable  
- Relationship based  
- Requires expertise

**DEDICATED SUPPORT**

**SOURCING EXECUTION**
- Project based  
- Template and Playbook driven  
- Can be standardized  
- Often the bottleneck
Service Oriented On-Demand Procurement Organization

Focus is value generation for your stakeholders and the company
- Mask procurement complexity and simplify the engagement model
- Manage spend at both the macro- and micro-level
- Offer integrated capabilities through menu-based services
- Enable service with best in-class, integrated technology
- Capture, manage, and apply knowledge
A Menu-Based Services Approach

VALUE GENERATION FOCUS

✓ Drive Innovation and Quality
✓ Reduce Total Cost
✓ Manage Performance and Quality
✓ Drive Efficiency
✓ Manage Risk
Prerequisites for Customer-Oriented, On-Demand Procurement

- Clearly understand customer needs, requirements, priorities, touchpoints
- Create a services menu based on current and potential stakeholder needs
- Use a stakeholder and service management tool, including a requisition system for handling requests
- Document category knowledge in category playbooks – the bridge between strategy and tactical execution
- Clearly document your Procurement policy
- Create an organizational model with scalable resources
- Deliver sourcing and other Procurement services through a technology platform
- Align accountability with services offered
Case Study: Managing Spend in a Decentralized, Global Organization

**BACKGROUND**

- **Client:** Fortune 50 High Tech Company
- **Total Spend:** $14 Billion
- **Major Categories:** Marketing, Professional Services, Technology, Facilities
- **Scope of Service:** Increase spend under management through centralized sourcing services in more than 20 countries

**CHALLENGES**

- Money being spent without procurement involvement
- Bottlenecks in sourcing execution - most of the time spent developing category strategy and building relationships with budget holders
- Not enough competitive bidding occurred due to aggressive timeline and lack of early planning
- Confusion among the organization about the role corporate procurement played and how to engage

**APPROACH**

- Separate Category Management from Sourcing Execution
- Create category cards that capture overarching category strategy (AVL, pricing criteria, bidding thresholds)
- Implement a shared service sourcing team to execute sourcing projects directly with budget holders and offload tactical work from Category Managers
- Develop a simple engagement model for change management
- Implement competitive bidding and online reverse auction methodology where applicable

**RESULTS**

- Increased spend under management by over 10x in 3 yrs
- Delivered over $500M in savings opportunity

**Spend ($,000) and Project Count**

<table>
<thead>
<tr>
<th>FY05</th>
<th>FY06</th>
<th>FY07</th>
<th>FY08</th>
<th>FY09</th>
<th>FY10</th>
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<tr>
<td>$250*</td>
<td>$375</td>
<td>$450</td>
<td>$1,270</td>
<td>$3,400</td>
<td>$5,100</td>
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Start of Shared Service Sourcing Model
The Research Analyst Firm focused on Global Sourcing

HfS Research
Collaborative sourcing intelligence

- HfS Research is the leading research analyst firm and social networking research community, focused on helping enterprises make complex decisions as related to their global outsourcing strategies.

- The largest web and social media presence in the sourcing industry: 120,000 web visitors monthly; 50,000 subscribers; 12,000 LinkedIn Group members

- A major following from the buy-side: 40% of readership comes from sourcing buyers

- We leverage our vast community of sourcing professionals to deliver rapid insights on global sourcing industry trends & developments: Surveyed over 8,000 organizations in 2010 on their sourcing intentions and dynamics
Sourcing Shared Services: Getting the transition right

Know your Maturity
- Process
- Technology
- Category

Know your Story
- Standardization
- Cost Reduction
- Management Information
- Profitability!

Know your Destination
- 3-5 Business Outcomes
- Time-bounded
- Help you “see” victory
1. Establish measurable business outcomes for the initiative
2. Leverage existing shared service operations
3. Listen to all stakeholders, but be clear that this is not a democracy
4. Implement according to culture/maturity of the organization
5. Drive standardization, but not for its own sake
6. Leverage and apply knowledge across all categories
7. Communicate successes in dollars
7 Attributes of Sourcing Shared Services Train Wrecks

1. Forget “what’s in it for me?”
2. Fail to establish when to declare victory
3. Overreach in standardization
4. Devolve authority to business units/category managers
5. “Fake sharing”: Cost center changed but work did not
6. Implement the wrong categories first
7. Confuse process and technology
Things that may Surprise you

There is as much value in the management information and insight as there is in the efficiency and arbitrage.

Your organization will be concerned with where and who, but the right questions are what and how.

After the transformation, continuous improvement will be both faster and institutionalized.
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