Strategic Sourcing 2.0: *Managing a More Effective Program*

Wednesday - June 6th, 2012

Speaker Introduction

Senior Market Research
AberdeenGroup

An analyst in the global supply management practice, Constantine G. Limberakis researches and examines how procurement professionals are utilizing technology and streamlining "source to pay" processes in the areas of strategic sourcing, purchasing, contract management, and supplier relationship management.

Emily Rakowski
SAP

Heading up the Procurement Solution Marketing team at SAP, Emily drives the direction and market awareness for SAP's portfolio of procurement solutions to ensure customer value and business growth. She has been observing and counseling customers leveraging strategic sourcing and procurement automation for over a dozen years.

Aberdeen's Research Methodology

- ❑ Web-based / online benchmark survey (35 to 40 questions)
- ❑ Analysis of data aggregate
- ❑ Dissection into Maturity Framework (Best-in-Class, Industry Average, and Laggard)
- ❑ Benchmark research reports
- ❑ 5-to-7 page research derivatives (Analyst Insights, Sector Insights, etc.)
- ❑ Follow-up discussions with select end-users for quotes and case studies
- ❑ Webinars, assessment tools, social media, etc.

Latest Benchmark - Advanced Sourcing:
Maximizing Savings Identification

Aberdeen*Group*
A Harte-Hanks Company

Advanced Sourcing:

Maximizing Savings Identification

June 2012

Constantine G. Limberakis
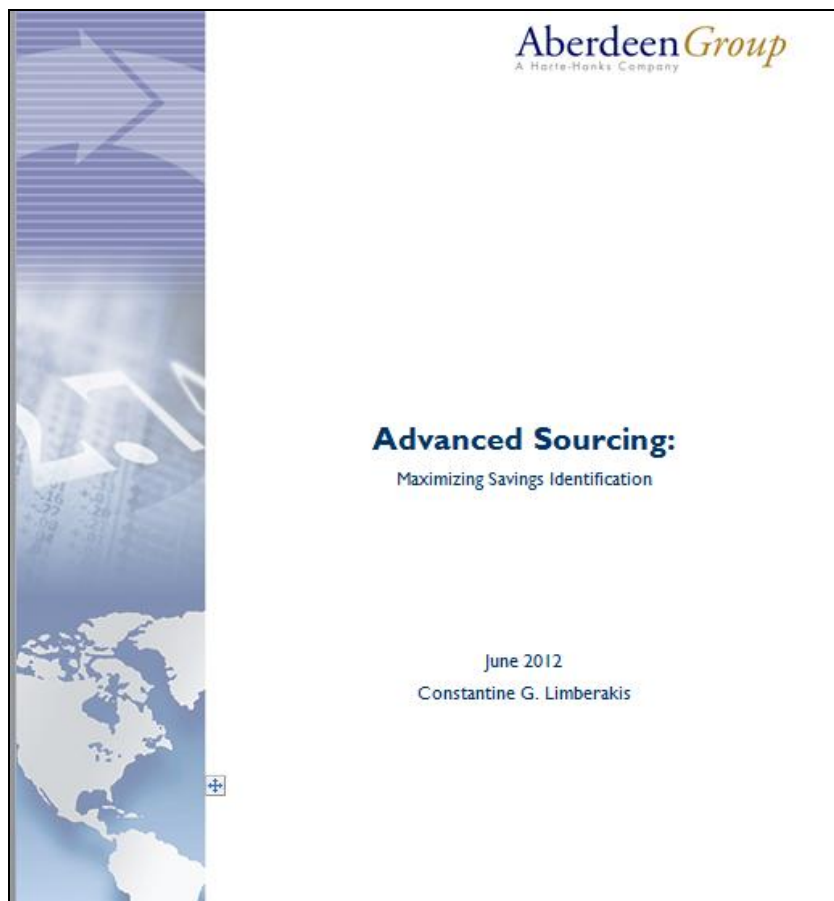
- ❑ **Job title:** The research sample included respondents with the following job titles: Manager (40%); Director (28%); VP / EVP / SVP (4%); C-level / executive office (3%), Consultants (8%), and Others (7%).

- ❑ **Industry:** The research sample included respondents from the following industries: health/medical/dental (11%); industrial equipment/products (10%); financial services (8%); education (6%); consumer packaged goods (5%); and 28 others.

- ❑ **Geography:** The majority of respondents (55%) were from North America. Remaining respondents were from the following regions; Europe (25%); Asia / Pacific (10%); Middle East and Africa (3%); and South / Central America (3%).

- ❑ **Company size:** 25% of respondents were from very large enterprises (annual revenues above US $5 billion); 27% were from large enterprises (annual revenues between $1billion and $5 billion); 22% were from midsize-large enterprises (annual revenues between $50 million and $1billion); and 17% of respondents were from small businesses (annual revenues of $50 million or less).
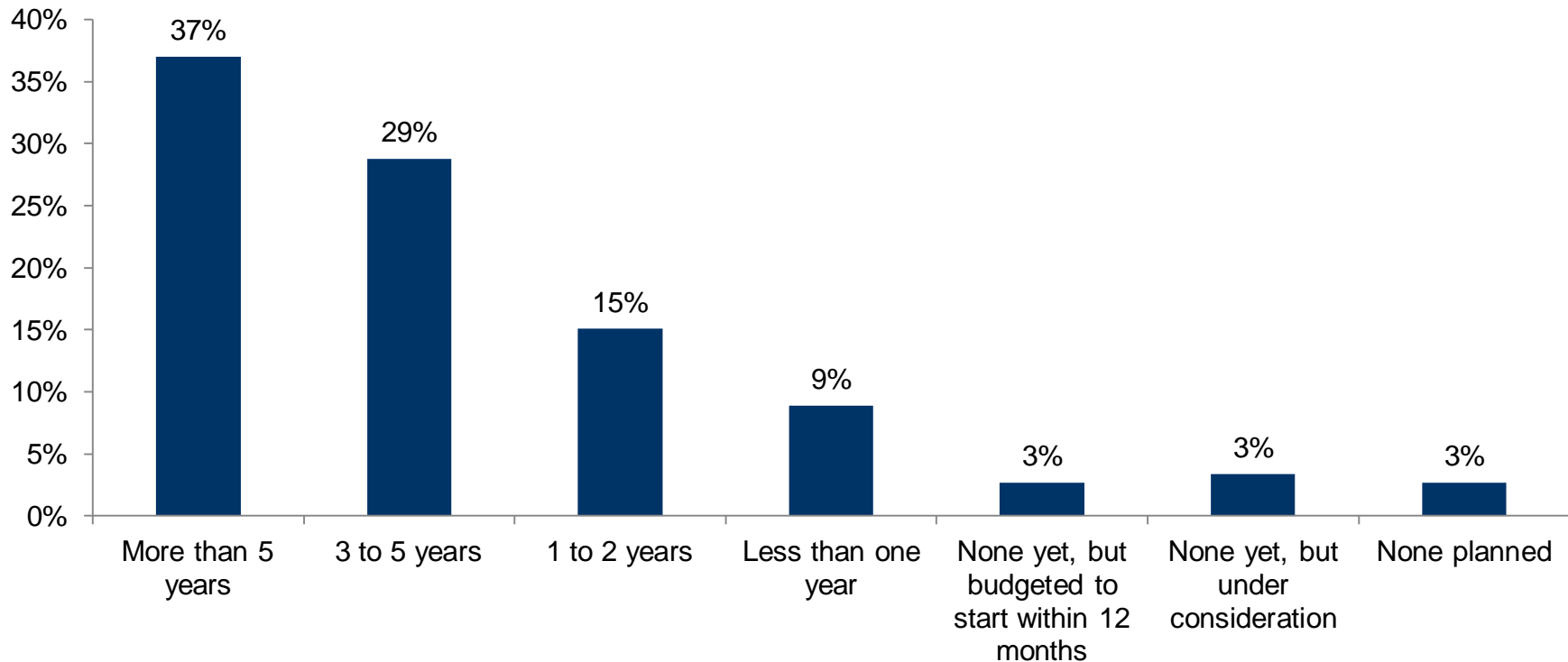
Importance of Strategic Sourcing in your organization
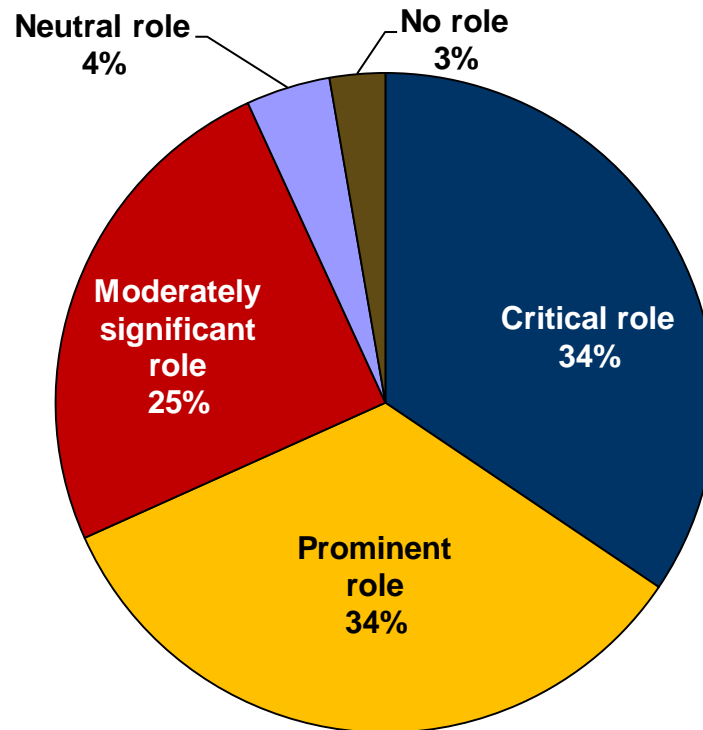
(Percentage of survey respondents, n=146)

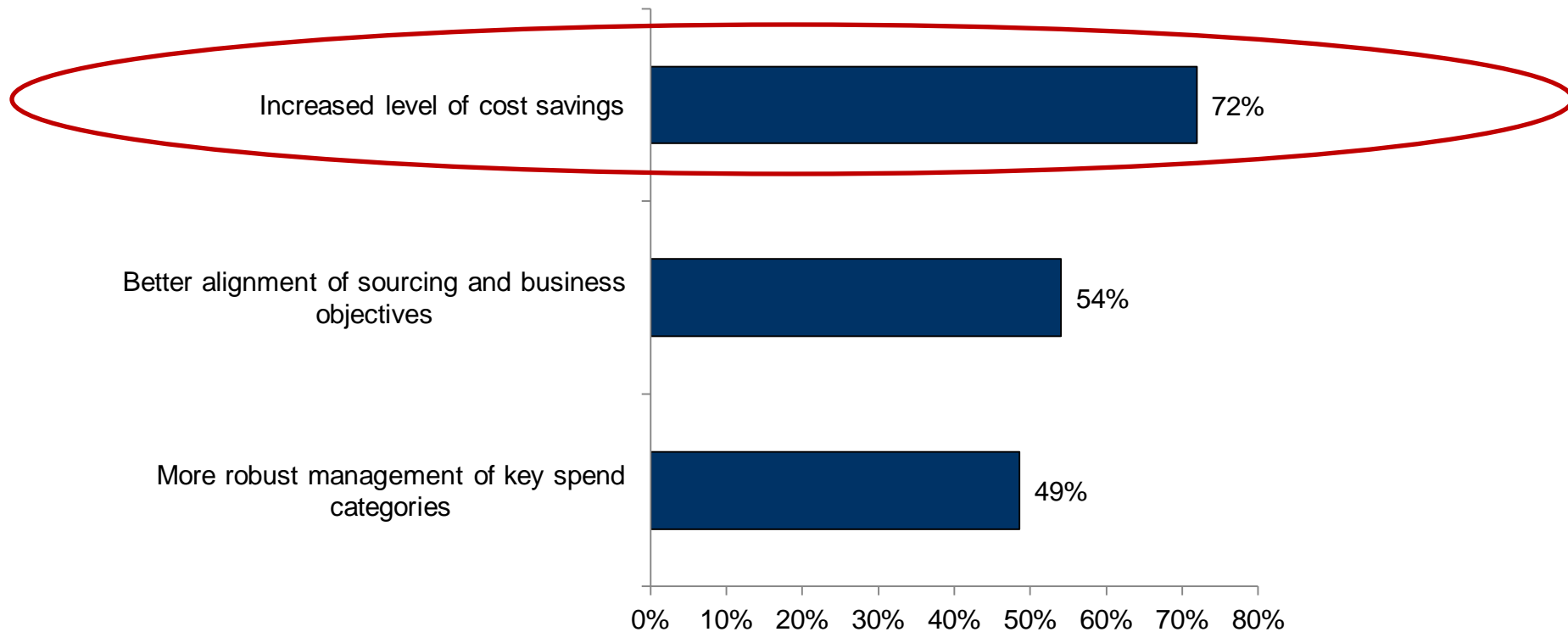**Source: AberdeenGroup, May 2012**

Formal Strategic Sourcing program

(Percentage of survey respondents, n=146)

Source: AberdeenGroup, May 2012

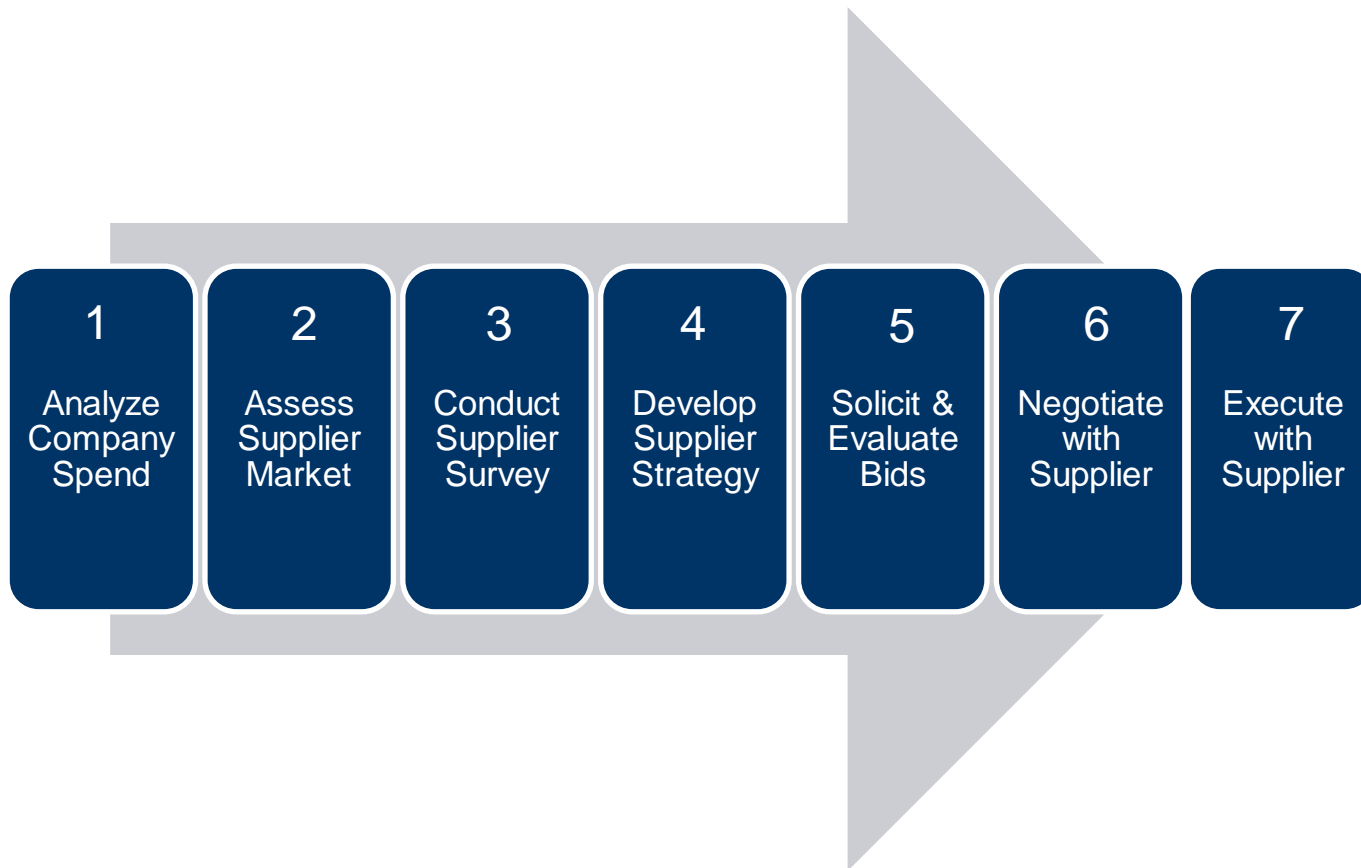# Top Benefits recognized with Strategic Sourcing

(Percentage of survey respondents, n=146)

Source: AberdeenGroup, May 2012

Question: How do you improve this process?

1	2	3	4	5	6	7
Analyze Company Spend	Assess Supplier Market	Conduct Supplier Survey	Develop Supplier Strategy	Solicit & Evaluate Bids	Negotiate with Supplier	Execute with Supplier

Problem of eSourcing with just traditional means

- ❑ Evolution of eSourcing from being a savings concept to strategic importance

- ❑ Selection of suppliers beyond just cost criteria; need to adapt to complex, multi-variant scenarios

- ❑ Sourcing has been pulled into understanding the wider-organizational challenges

- ❑ Globalization being inherent risks for managing supply chain

- ❑ Sustainability & CSR are becoming more important factors for risk and compliance

Pressures related to Strategic Sourcing

(Percentage of survey respondents, n=146)

Source: AberdeenGroup, May 2012

Gaps in Capabilities within Strategic Sourcing

(Percentage of survey respondents, n=146)
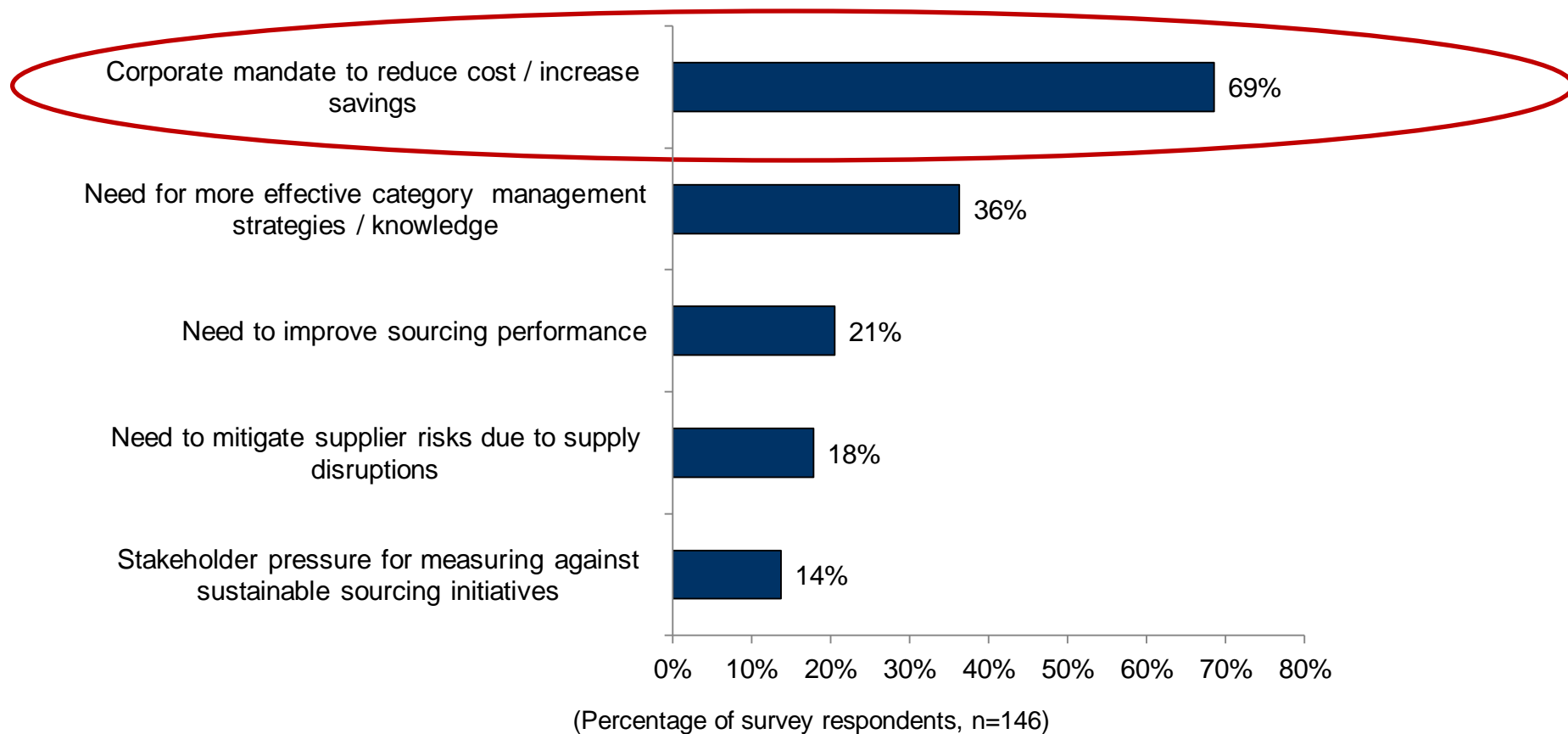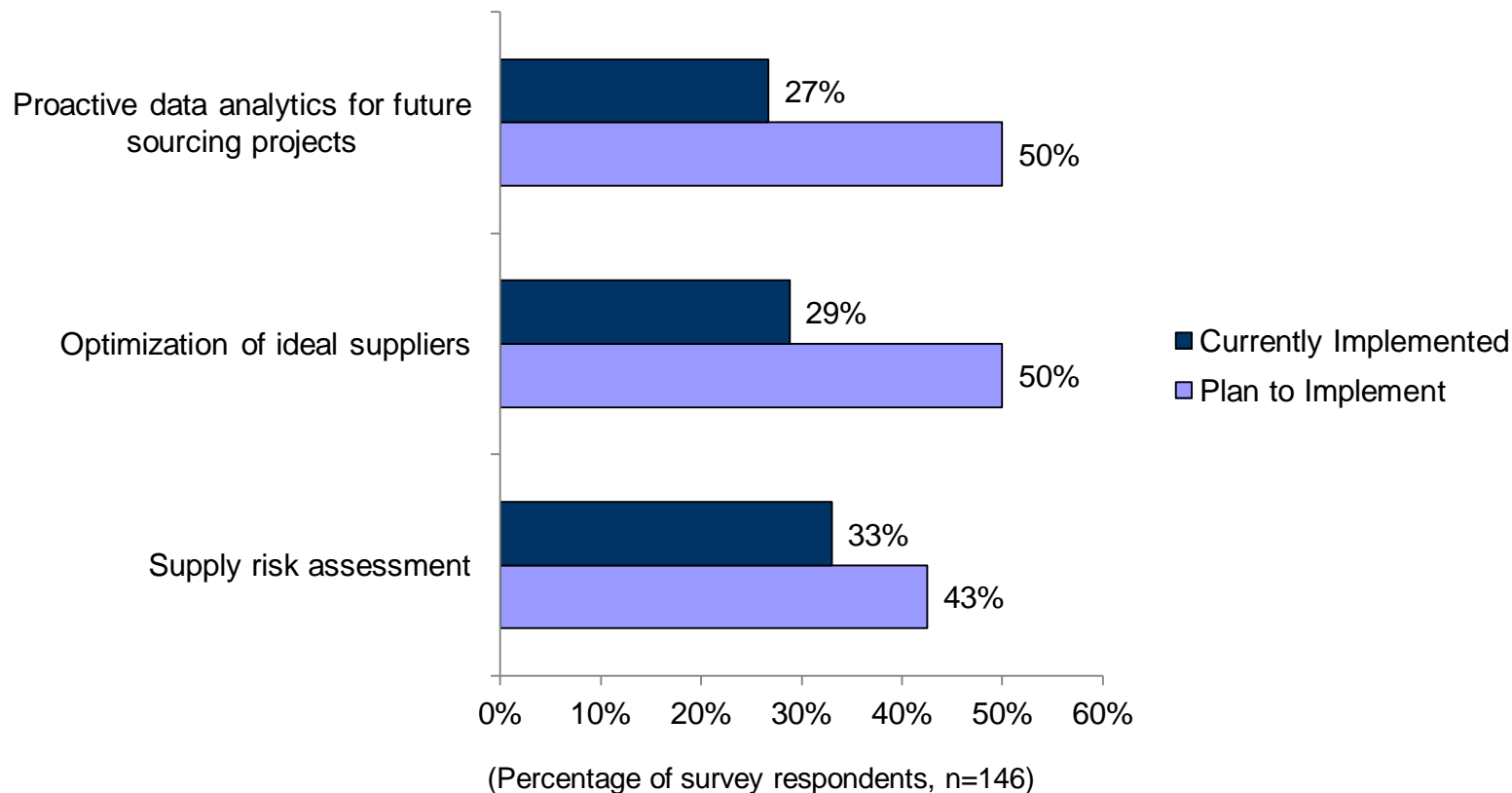
Source: AberdeenGroup, May 2012

Pressures driving Sustainability as part of Strategic Sourcing efforts

(Percentage of survey respondents, n=146)
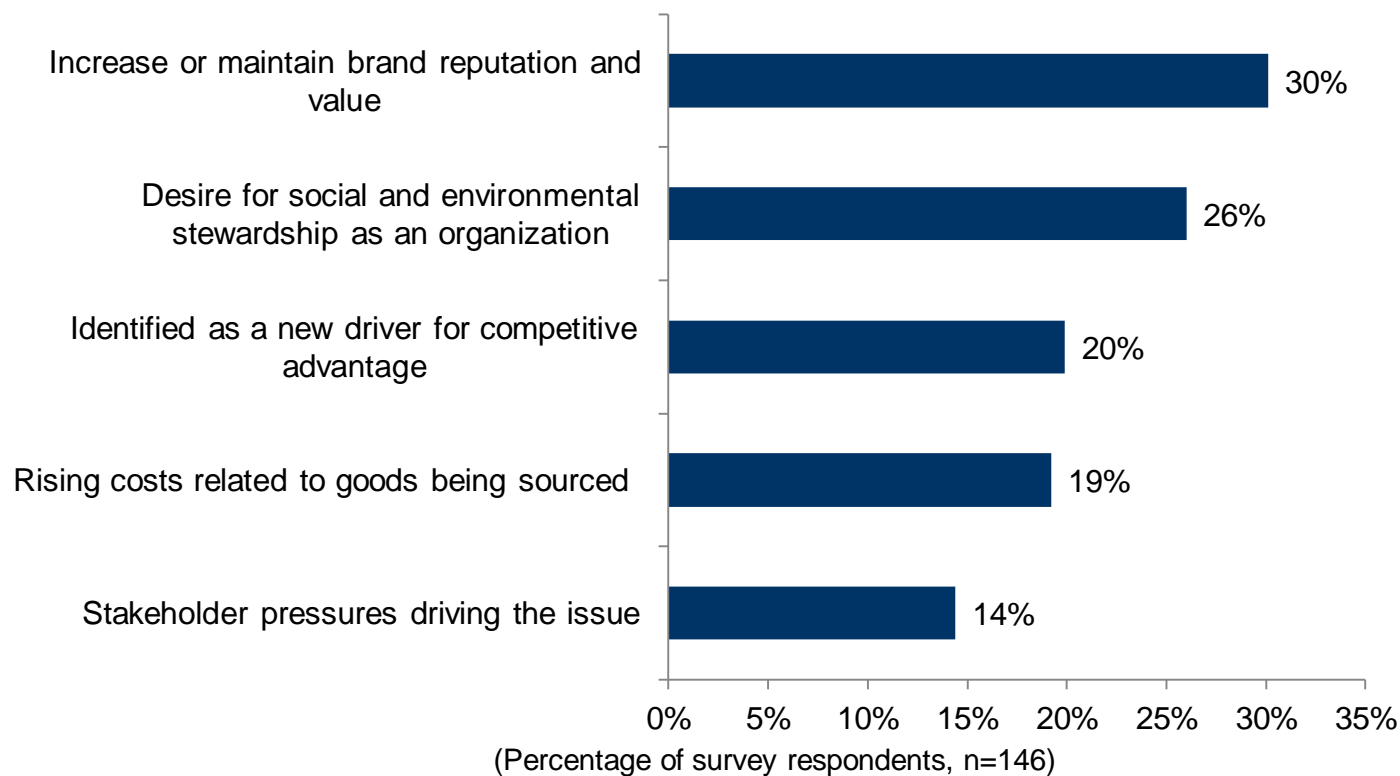
Source: AberdeenGroup, May 2012

Sustainability/CSR as a decision criteria for Spend

Sustainability / corporate social responsibility has been incorporated into some key spend process areas (e.g. supplier selection, category management, spend analytics) — 38%

Sustainability / corporate social responsibility is currently not a part of our decision-making process for spend — 34%

Sustainability / corporate social sesponsibility has been incorporated into our strategies for all spend areas — 15%

0% 5% 10% 15% 20% 25% 30% 35% 40% 45%

(Percentage of survey respondents, n=146)

Source: AberdeenGroup, May 2012

The Best-in-Class Maturity Framework

Table 1: Top Performers Earn Best-in-Class Status

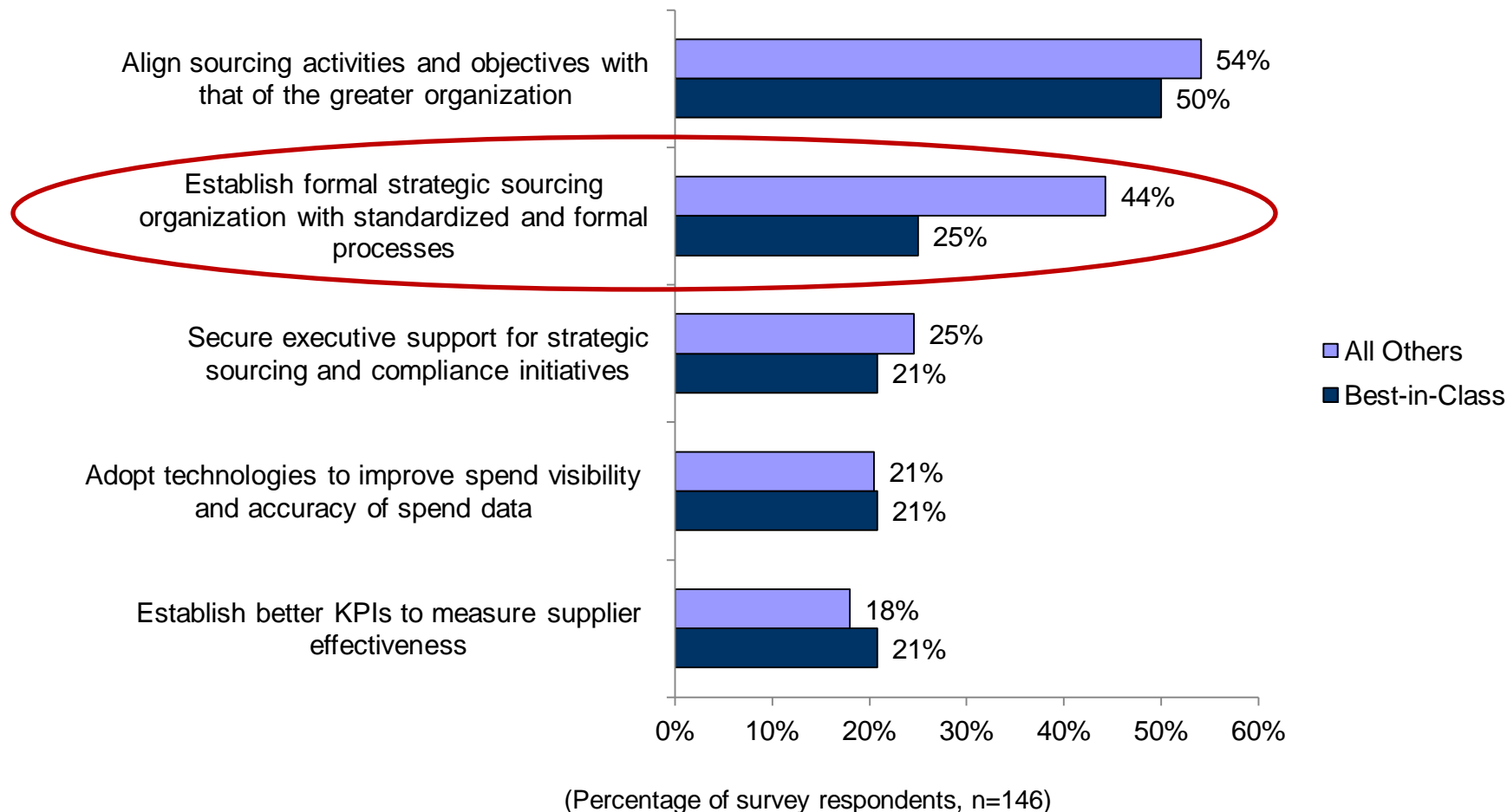| Definition of Maturity Class	Mean Class Performance
Best-in-Class: Top 20% of aggregate performance scorers	▪ **76% - percent of total spending sourced using a formal strategic sourcing process** ▪ **32% - percent total spending sourced based on sustainable strategic sourcing approaches** ▪ **16% - average yearly savings identified by sourcing team**
Industry Average: Middle 50% of aggregate performance scorers	▪ **54% - percent of total spending sourced using a formal strategic sourcing process** ▪ **21% - percent total spending sourced based on sustainable strategic sourcing approaches** ▪ **8% - average yearly savings identified by sourcing team**
Laggard: Bottom 30% of aggregate performance scorers	▪ **29% - percent of total spending sourced using a formal strategic sourcing process** ▪ **11% - percent total spending sourced based on sustainable strategic sourcing approaches** ▪ **4% - average yearly savings identified by sourcing team**

Source: AberdeenGroup, May 2012

PACE Framework

Table 2: The Best-in-Class PACE Framework

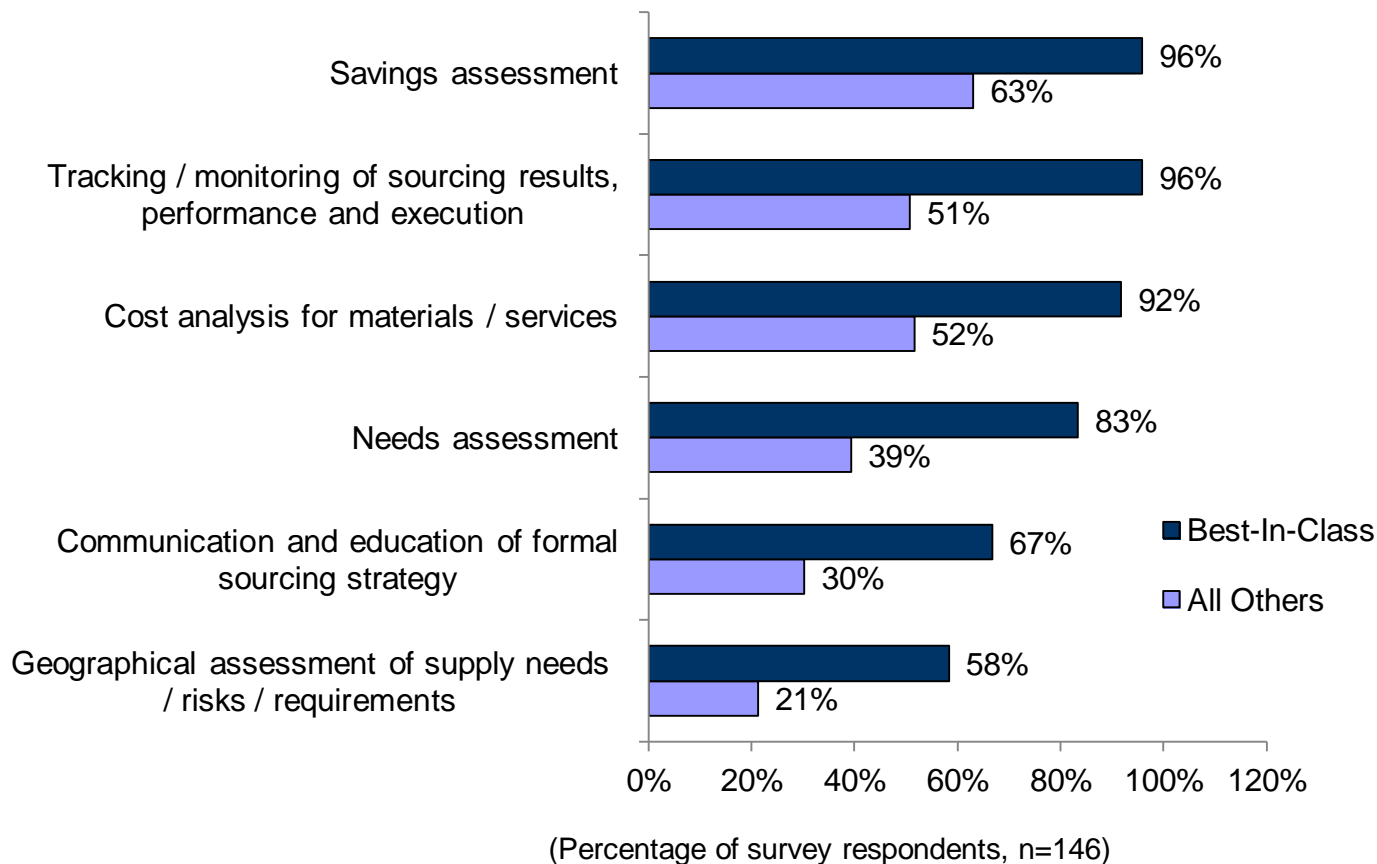| Pressures	Actions	Capabilities	Enablers
▪ Corporate mandate to reduce costs / increase savings	▪ Align sourcing activities and objectives with that of the greater organization ▪ Establish formal strategic sourcing organization with standardized and formal processes	▪ Commodity councils actively engaged in sourcing process ▪ Cross-functional coordination with finance, product, and sourcing groups ▪ Ability to collect spend data from multiple sources ▪ Ability to enrich spend and supplier data ▪ Implemented sustainable sourcing strategies by engaging key suppliers	▪ Spend analysis ▪ E-sourcing (RFx) ▪ eAuctions ▪ Sourcing Optimization ▪ Commodity management ▪ Contract repository ▪ Contract authoring / workflow ▪ Supplier performance and risk management ▪ Supplier portal / network

Source: AberdeenGroup, May 2012

Strategic Actions by Maturity Class

Align sourcing activities and objectives with that of the greater organization — 54% (All Others), 50% (Best-in-Class)

Establish formal strategic sourcing organization with standardized and formal processes — 44% (All Others), 25% (Best-in-Class)

Secure executive support for strategic sourcing and compliance initiatives — 25% (All Others), 21% (Best-in-Class)

Adopt technologies to improve spend visibility and accuracy of spend data — 21% (All Others), 21% (Best-in-Class)

Establish better KPIs to measure supplier effectiveness — 18% (All Others), 21% (Best-in-Class)

■ All Others
■ Best-in-Class

0% 10% 20% 30% 40% 50% 60%

(Percentage of survey respondents, n=146)

Source: AberdeenGroup, May 2012

Functional Attributes by Maturity Class

(Percentage of survey respondents, n=146)

Source: AberdeenGroup, May 2012

Groups collaborating with Sourcing Team

Finance (CFO): Best-in-Class 92%, All Others 68%
Operations (COO): Best-in-Class 79%, All Others 72%
Product development (VP PD): Best-in-Class 67%, All Others 43%
IT (CIO): Best-in-Class 63%, All Others 57%
Manufacturing (VP SCM): Best-in-Class 63%, All Others 49%
Executive office (CEO): Best-in-Class 58%, All Others 42%
Sales / Marketing (CSO/ CMO): Best-in-Class 58%, All Others 44%
Sustainability office (CSO): Best-in-Class 33%, All Others 27%

■ Best-in-Class
■ All Others

(Percentage of survey respondents, n=146)

Source: AberdeenGroup, May 2012

Capability Gaps with Best-in-Class

Cross-functional coordination with line of business and sourcing groups
- 88%
- 67%
- 33%

Cross-functional coordination with finance, product, and sourcing groups
- 83%
- 63%
- 30%

Ability to collect spend data from multiple sources
- 79%
- 55%
- 28%

Ability to enrich spend and supplier data
- 67%
- 37%
- 24%

Commodity councils actively engaged in sourcing process
- 63%
- 33%
- 15%

Legend:
- ■ Best-in-Class
- ■ Industry Average
- ■ Laggards

0%   20%   40%   60%   80%   100%

(Percentage of survey respondents, n=146)

Source: AberdeenGroup, May 2012

Top Six (6) Stated Sourcing Strategies
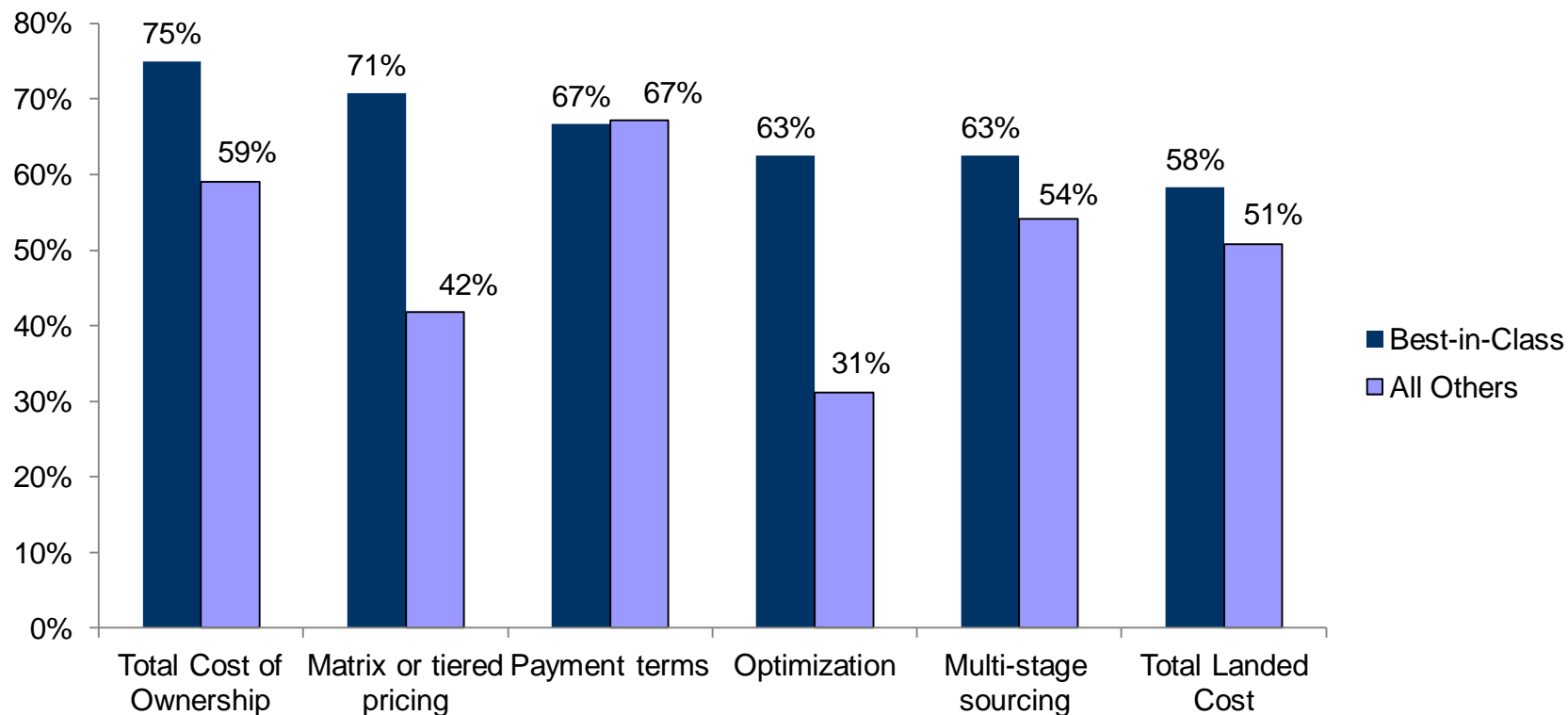
(Percentage of survey respondents, n=146)

Source: AberdeenGroup, May 2012

Ranked Criteria for strategic sourcing initiative (1-low 3-high)

Dollar value of the opportunity	2.63
Potential savings	2.50
Strategic importance of the category	2.29
Executive sponsorship	2.29
Relative complexity of item or service	2.21
Amount of value-added services	2.04
Number of incumbent suppliers	2.00
Contract status (i.e. expired, expiring soon)	1.92
Location of the targeted supplier	1.83
Time since the category was last sourced	1.83
Number of internal stakeholders and users	1.42
Other supply market factors	1.79
Location of internal stakeholders and users	1.33
Adherence to corporate social responsibility goals	1.67

Source: AberdeenGroup, April 2012

Category Areas Strategically Sourced

"TOP 10"

Strategically Sourced	BIC	OTHER
Computer equipment and peripherals	75.00%	51.60%
IT hardware	75.00%	47.50%
IT software	75.00%	51.60%
Direct materials	70.80%	59.80%
Capital equipment and / or machinery	66.70%	45.90%
IT services	66.70%	59.00%
Office equipment	66.70%	17.20%
Office supplies	66.70%	48.40%
Telecommunications services	66.70%	39.30%
Office furniture	62.50%	50.80%

"BOTTOM 10"

Strategically Sourced	BIC	OTHER
Education supplies	29.20%	18.90%
Medical / Surgical / Healthcare	29.20%	23.00%
Strategic Meetings	29.20%	27.90%
Benefits	37.50%	25.40%
Fleet management and operations	41.70%	37.70%
Legal services	41.70%	16.40%
Semi-custom and custom production materials	41.70%	44.30%
Specialty chemicals	41.70%	37.70%
Temporary labor	41.70%	47.50%
Advertising / marketing services	45.80%	28.70%

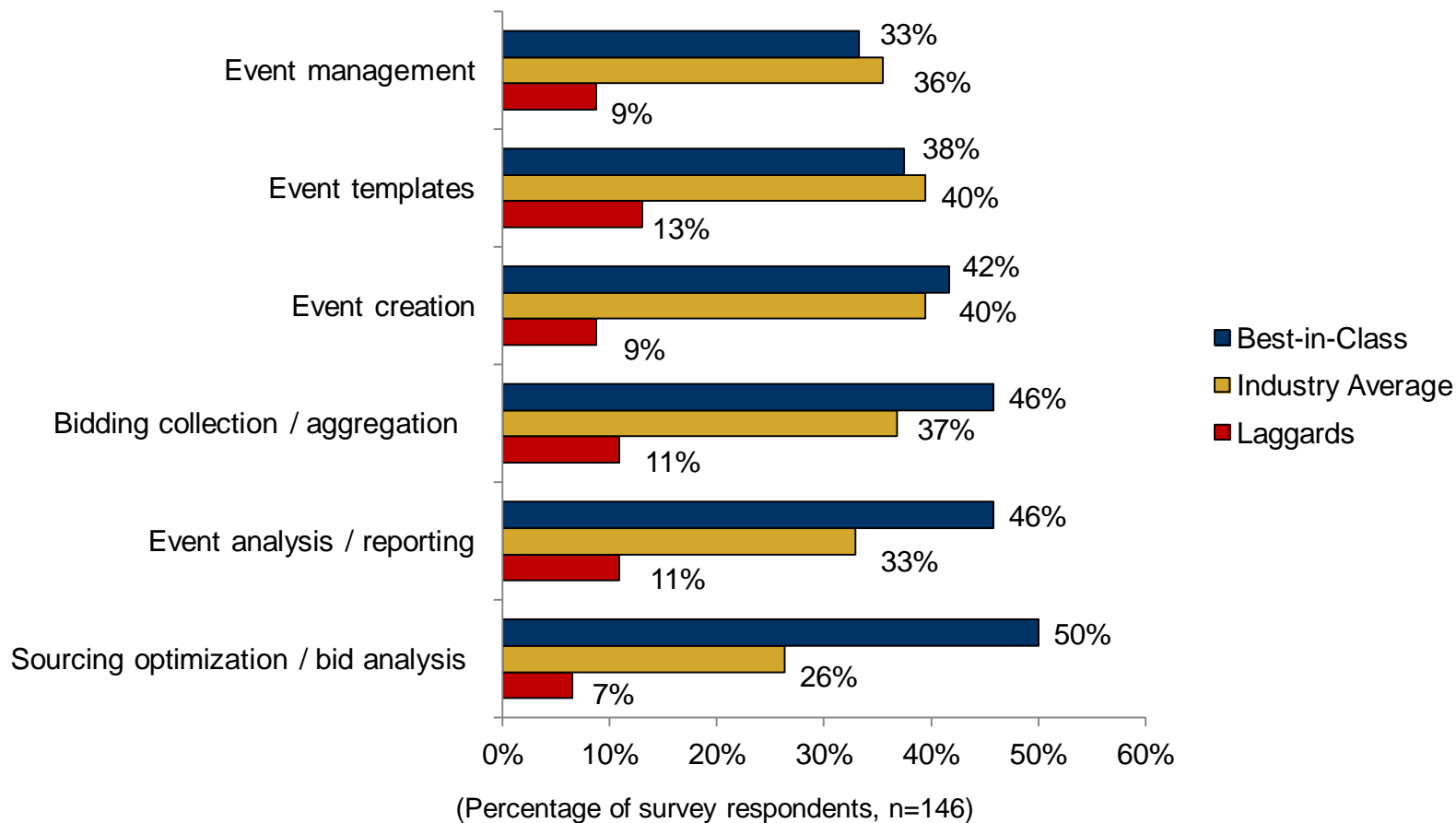**Source: AberdeenGroup, April 2012**

Percent of Spend through eSourcing
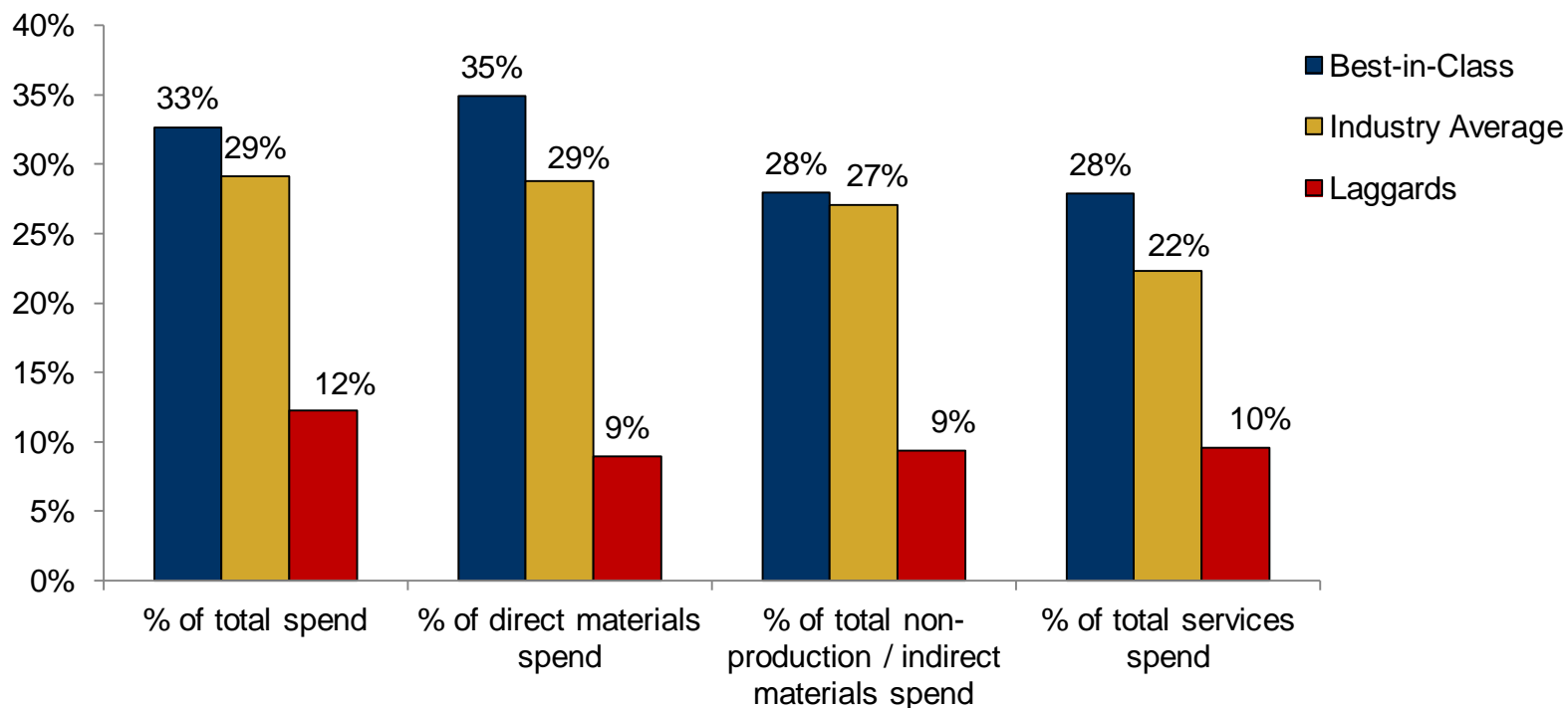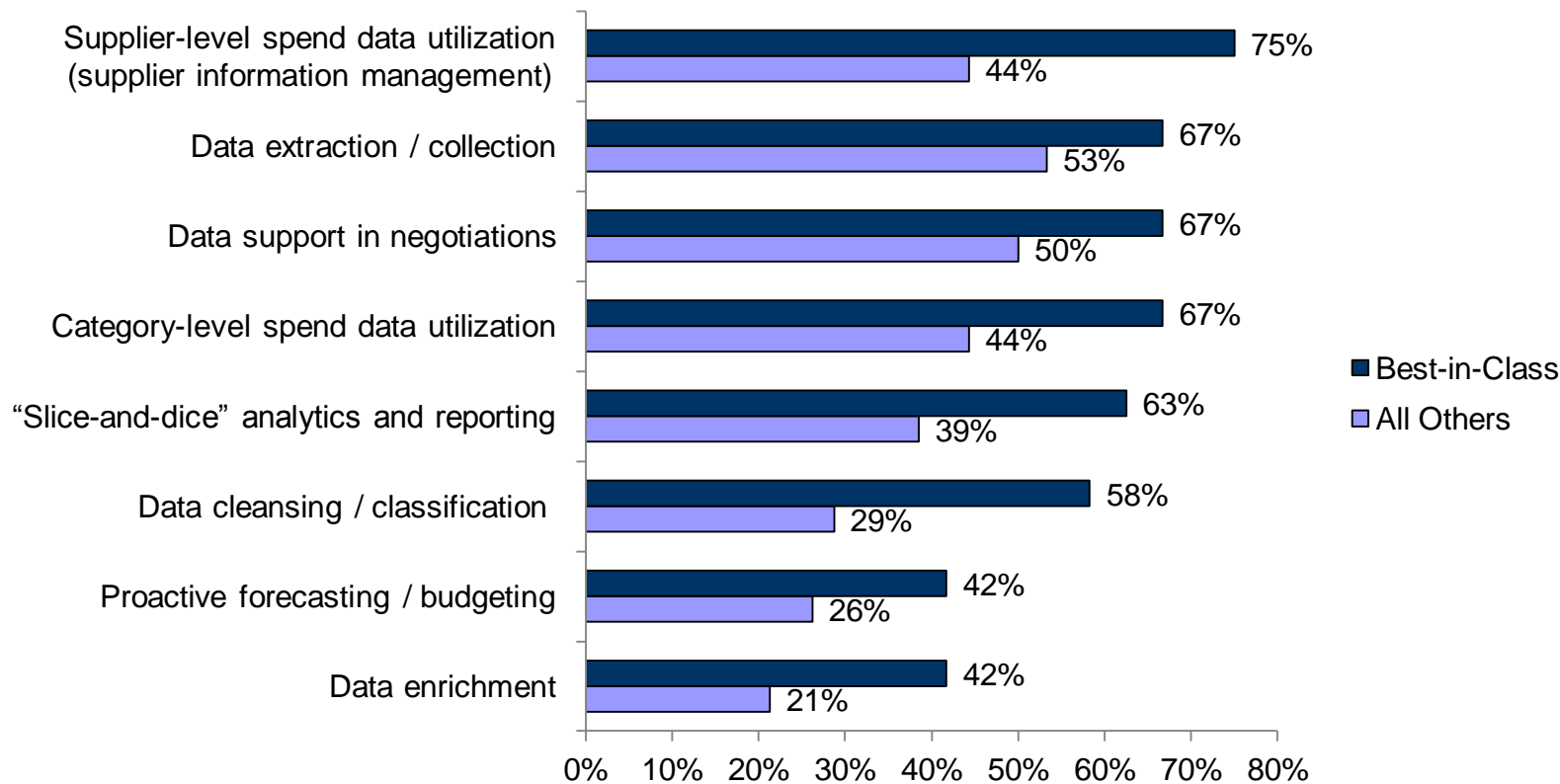
(Percentage of survey respondents, n=146)

Source: AberdeenGroup, May 2012

Automated Sourcing Attributes

(Percentage of survey respondents, n=146)
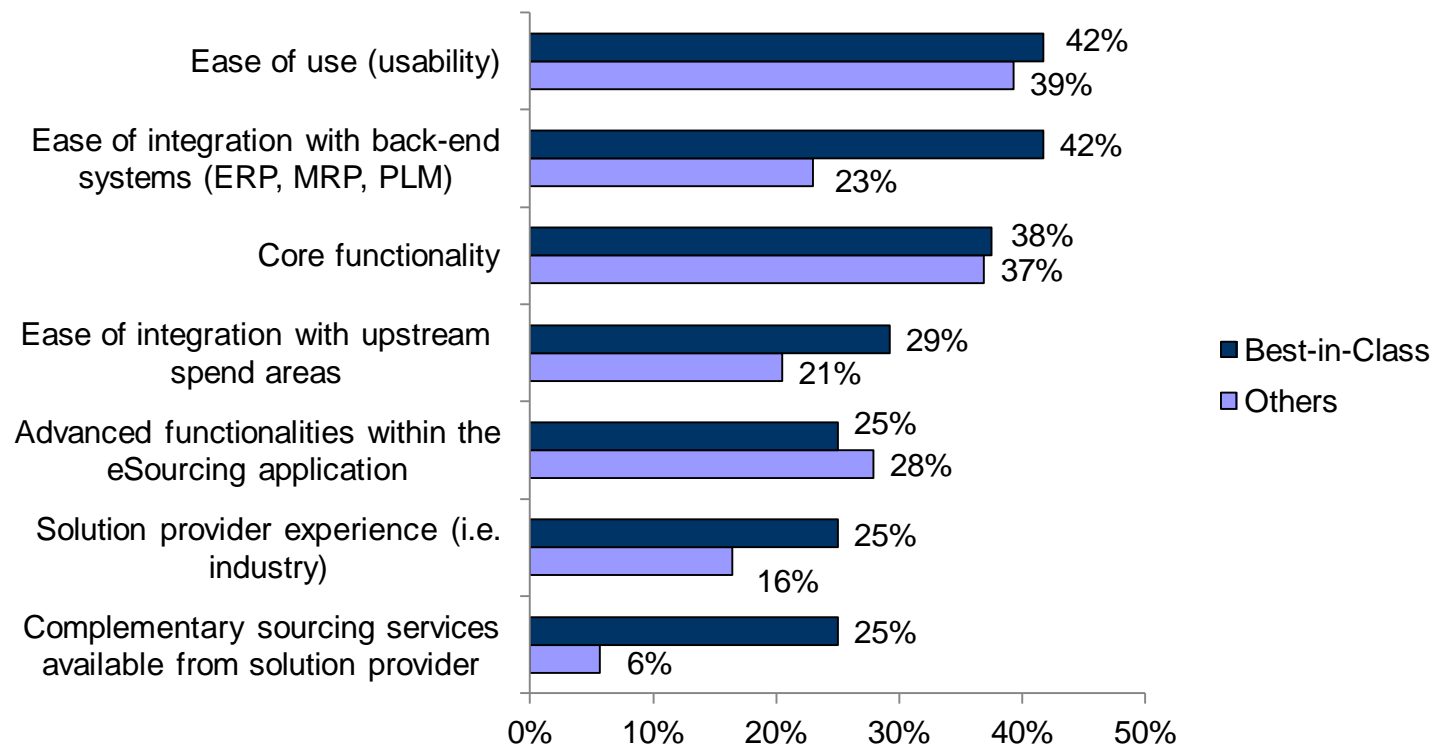
Source: AberdeenGroup, May 2012

Spend Analysis attributes used to support Strategic Sourcing program

Attribute	Best-in-Class	All Others
Supplier-level spend data utilization (supplier information management)	75%	44%
Data extraction / collection	67%	53%
Data support in negotiations	67%	50%
Category-level spend data utilization	67%	44%
"Slice-and-dice" analytics and reporting	63%	39%
Data cleansing / classification	58%	29%
Proactive forecasting / budgeting	42%	26%
Data enrichment	42%	21%

■ Best-in-Class
■ All Others

(Percentage of survey respondents, n=146)

Source: AberdeenGroup, May 2012

Key Criteria for eSourcing Selection

Ease of use (usability): Best-in-Class 42%, Others 39%

Ease of integration with back-end systems (ERP, MRP, PLM): Best-in-Class 42%, Others 23%

Core functionality: Best-in-Class 38%, Others 37%

Ease of integration with upstream spend areas: Best-in-Class 29%, Others 21%

Advanced functionalities within the eSourcing application: Best-in-Class 25%, Others 28%

Solution provider experience (i.e. industry): Best-in-Class 25%, Others 16%

Complementary sourcing services available from solution provider: Best-in-Class 25%, Others 6%

■ Best-in-Class
□ Others

Source: AberdeenGroup, May 2012

Recommendations for Action

❑ Continue to invest in diverse skills and capabilities on the strategic sourcing teams

❑ Improve supplier assessment capabilities for strategic sourcing efforts

❑ Develop the ability to enrich spend and supplier data for use in sourcing

❑ Improve the usage of optimization tools and techniques

❑ Increase the use automation in strategic sourcing tools for complex spend

❑ Implement sustainable/csr sourcing strategies across more categories

Strategic Sourcing 2.0:
Managing a More Effective Program

Best Practices in Automated Spend Analysis, Sourcing and Contract Management

Strategic Sourcing and Contracting Today
Requires the ability to deliver savings results quickly

Best-in-Class Procurement Organizations
Strategic Source-to-Contract Focus

Successful Companies Have Formal Sourcing Processes, Effective Contract Management and Supplier Programs
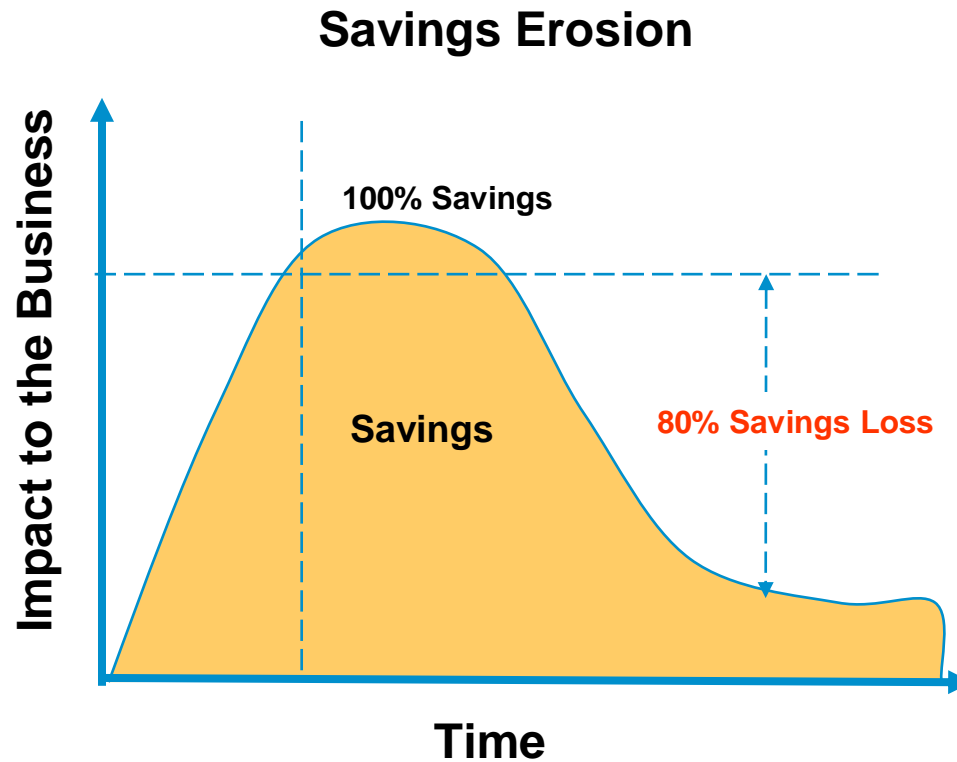

	Formal Sourcing Process	Contract Management	Supplier Program
Best in Class	71%	61%	43%
Other	32%	31%	18%
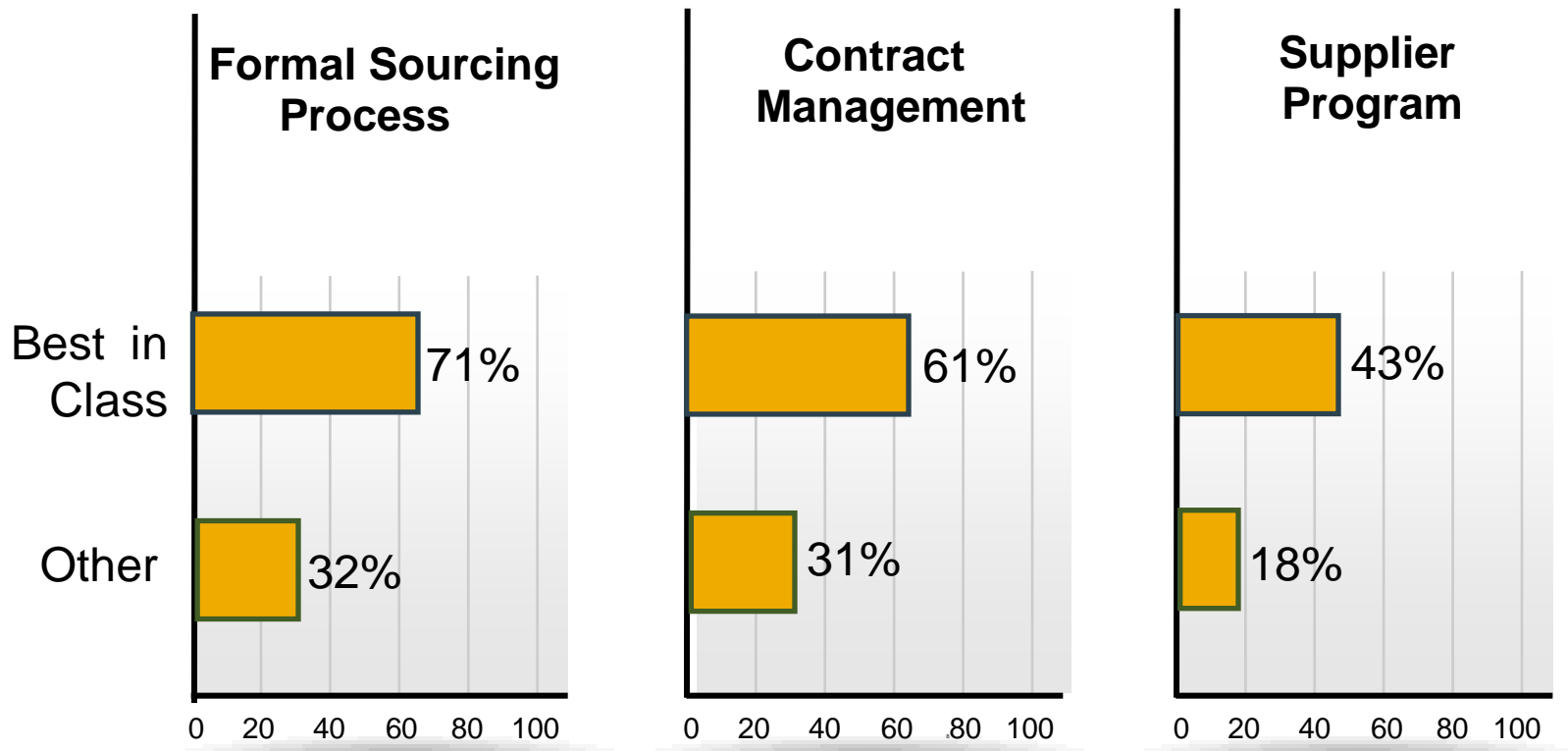
Source – Aberdeen, CPO 's Agenda

Why

is an integrated source-to-contract process important?

Process Compliance
Avoiding Savings Erosion

Savings Erosion

Y-axis: **Impact to the Business**

X-axis: **Time**

- 100% Savings
- Savings
- 80% Savings Loss

Unless procurement infrastructure is properly designed to support strategic sourcing, the savings will erode over time

Connecting Processes Isn't Always Easy – But it Drives Results

Spend Analysis → ✖ → Sourcing → ✖ → **Contract Management** → ✖ → eProcurement → ✖ → **ePayables**

39% **37%** **36%** **20%**
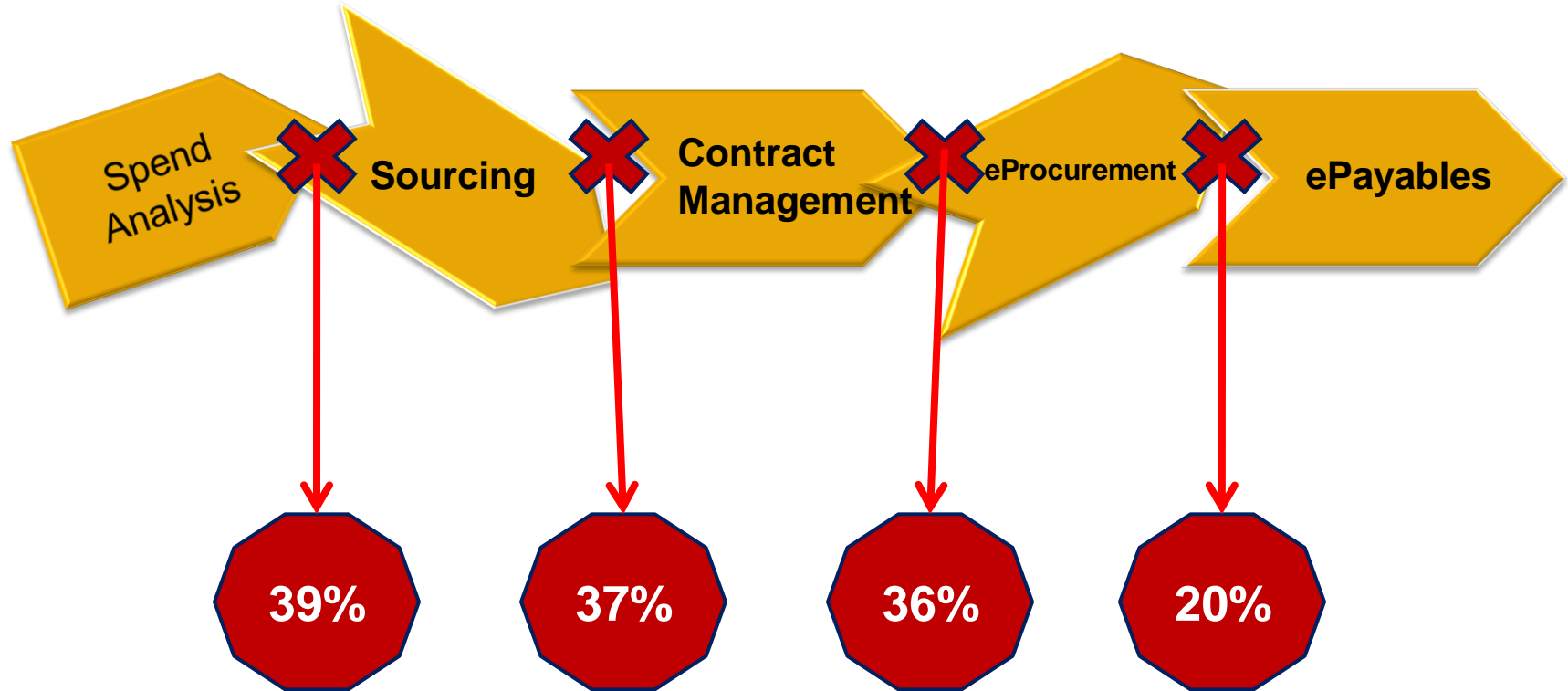
✖ **Denotes percentage of enterprises that have "no linkage" between two process areas**

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Organizational
considerations and best practices

Organizational Considerations
Internal

- Demonstrate executive level commitment and appoint a champion for the program

- Identify early adopters and build a team of change agents

- Ensure key functional areas are represented and involved

- Establish organizational objectives and metrics

- Train team members in applications and business processes

- Build awareness and momentum through communications

- Establish a pipeline of sourcing events to continue momentum

Organizational Considerations
Suppliers

- Develop a supplier strategy

- Make sure qualifying suppliers have the opportunity to win business – it's important to maintain credibility and the integrity of the process

- Provide training and support to the suppliers – you need them to run successful events

- Ensure that suppliers understand that you are committed to the process and technology

Spend Analysis

best practices

Spend Analysis Best Practices

- Find the right data; automate the data feeds

- Leverage cleansing and enrichment tools to get the whole picture

- Training is key; ensure users know how to personalize their views and use the ad hoc reporting effectively; consider broadening access to the tool

- Ensure users understand the sources of various data fields and how to interpret the data / reports appropriately

- Use the information to build stronger relationships with the business

- Jointly identify new potential savings opportunities

Sourcing

best practices

Sourcing Project Management: Best Practices

- **Sourcing requests**
  - **Provide business users outside of the Sourcing organization to request support for sourcing activities in a structured manner**

- **Centralize all sourcing documents**
  - **Maintain a centralized location for all related sourcing documents that is accessible to all stakeholders**

Supplier Qualification and Management: Best Practices

- **Supplier data management**
  - Capture key attributes about your suppliers, such as diversity status and other key business classifications

- **Supplier repository management**
  - Create a repository that is searchable based on criteria that is important to your organization

Sourcing and Evaluation: Best Practices

- **Use structured questions to qualify suppliers**
  - Craft objective questions that contain question and section weights
  - Automate the supplier response evaluation process as much as possible

- **Leverage weighting factors to determine total cost**
  - Use total cost capabilities to account for specific cost items to enable better "apples-to-apples" comparisons of price quotes

- **Use standard reporting to manage the process**
  - Leverage key reports that enable management of the sourcing process to identify exception areas where follow-up may be needed

- **Reduce cycle times to obtain market pricing**
  - Reverse auctions can be used to quickly obtain market pricing with qualified suppliers and provide an opportunity to create incremental savings

Contract Management
best practices

Determining Contract Management Priorities

Repository

- Contract portfolio assessment (active, expired; spend coverage)
- Reporting and visibility needs (for manual compliance as well)

Authoring

- Streamlining contract creation processes
- Minimizing risk relating to contract language

Compliance management

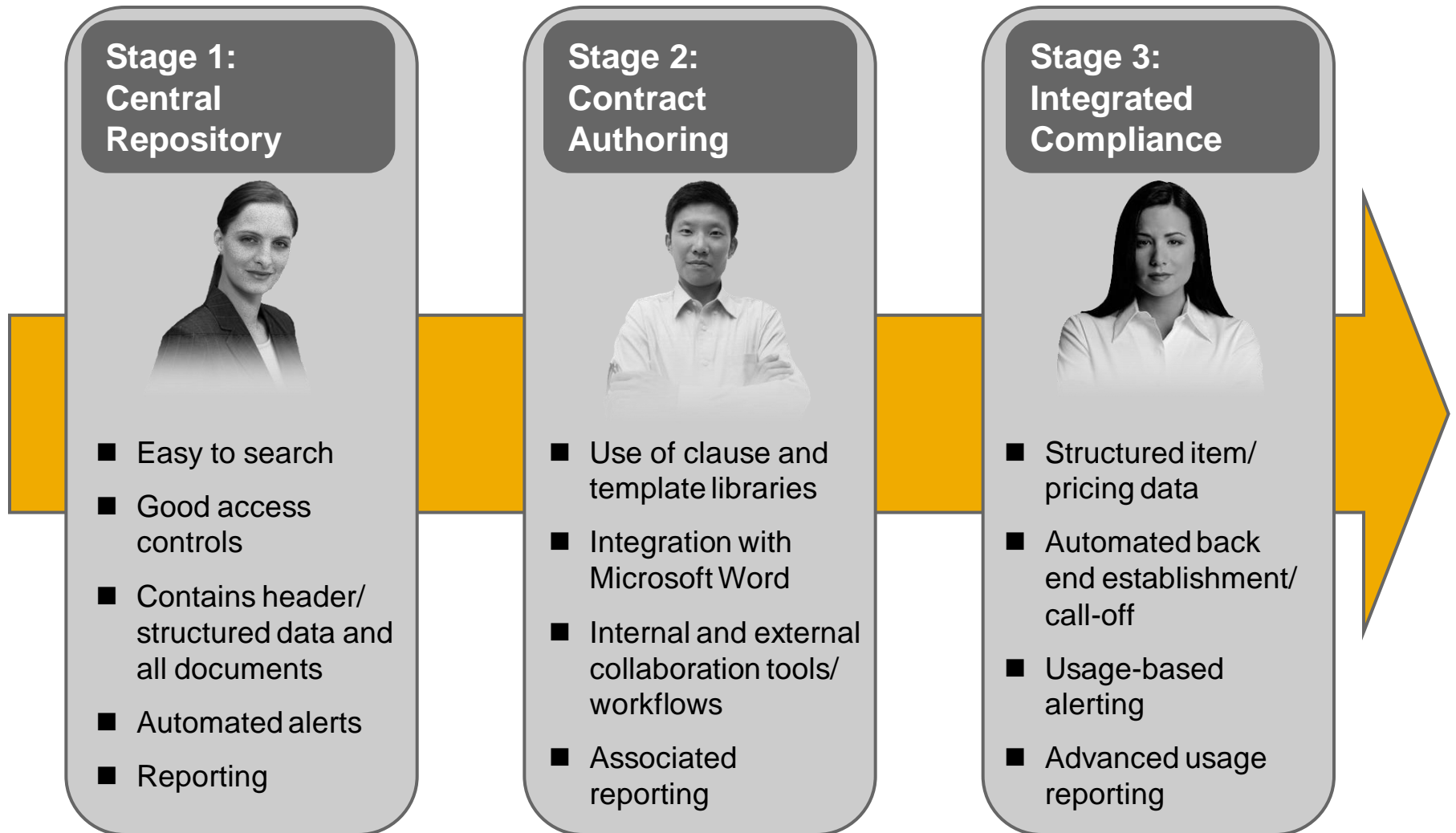- Employee usage of the right contracts
- Automating pricing structure compliance

What is your company's top priority today?

Level of Automaton for Specific Contract Management Processes

	Manual	Automated
Analysis and reporting	88%	12%
Contract creation and authoring	80%	20%
Automated workflow routing and approval	69%	31%
Searchable repository (i.e. key word, clause, etc)	63%	38%
Automated notifications of key dates and events	65%	35%
Library of clauses, terms and conditions	67%	33%
Library of contract templates	59%	41%
Electronic signatures	77%	23%
Auditing	85%	15%
Negotiations	92%	8%
Risk assessment and analysis	96%	4%

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Contract Management: Typical Adoption Stages

Stage 1: Central Repository

- Easy to search
- Good access controls
- Contains header/ structured data and all documents
- Automated alerts
- Reporting

Stage 2: Contract Authoring

- Use of clause and template libraries
- Integration with Microsoft Word
- Internal and external collaboration tools/ workflows
- Associated reporting

Stage 3: Integrated Compliance

- Structured item/ pricing data
- Automated back end establishment/ call-off
- Usage-based alerting
- Advanced usage reporting

SAP Sourcing OnDemand

customer story

About AB InBev / Company Overview

- The leading global brewer and one of the world's top five consumer products companies.

- Has portfolio of well over 200 beer brands: Budweiser®, Stella Artois® and Beck's®, Leffe® and Hoegaarden®, Bud Light®, Skol®, Brahma®, Quilmes®, Michelob®, Harbin®, Sedrin®, Klinskoye®, Sibirskaya Korona®, Chernigivske®, and Jupiler®, among others.

- AB InBev leverages the collective strengths of its approximately 114,000 employees based in operations in 23 countries across the world.

- The company strives to be the Best Beer Company in a Better World.

- In 2010, AB InBev realized 36.3 billion US dollar revenue.

With operations and license agreements around the globe, Anheuser-Busch InBev is a truly global brewer.

AB InBev's Sourcing Strategy / Key Challenges

Spend review:
- CAPEX
- Zero Based Budgeting Package

Target Setting:
- Savings
- Payment Terms

Contract signing:
- Clear workflow process
- Strict internal control

Performance metrics:
- KPI's measurement

Performance tracking:
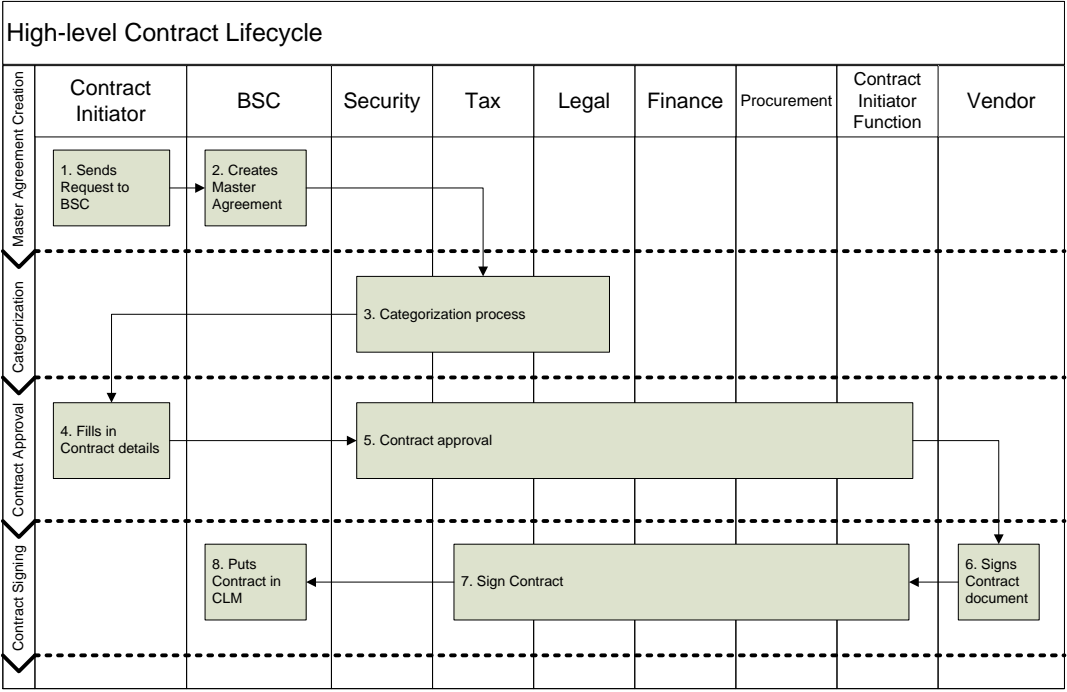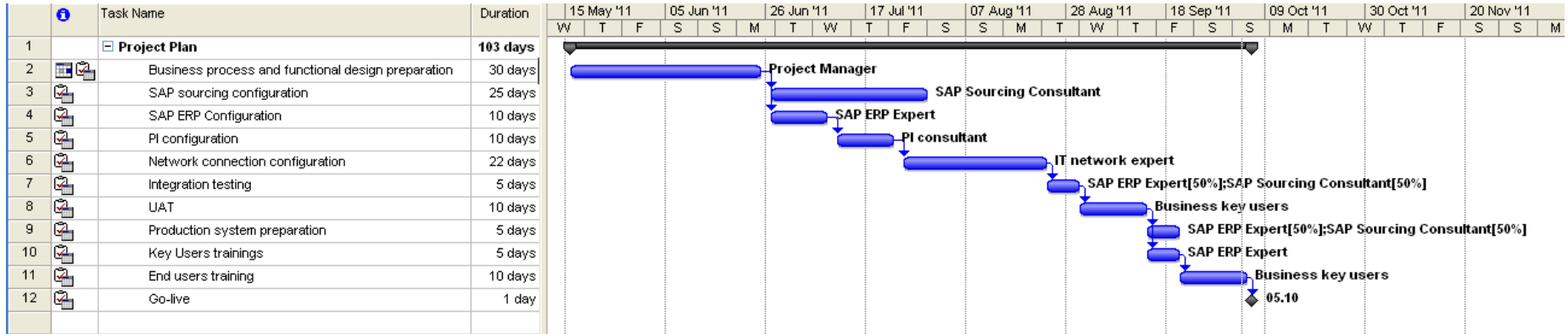- KPI reports
- Dashboards

Monitoring and evaluation:
- Supplier categorization
- Reporting

Why AB InBev Selected SAP Sourcing OnDemand

- System and supplier should be represented worldwide…
- Easily integrated with ERP system
- Flexible enough to be able to cover document flow processes of different countries and zones
- Reflects summary of best worldwide contract management practices
- Implementation does not need substantial change of current business processes
- On-demand system does not require software installation and server maintenance/support
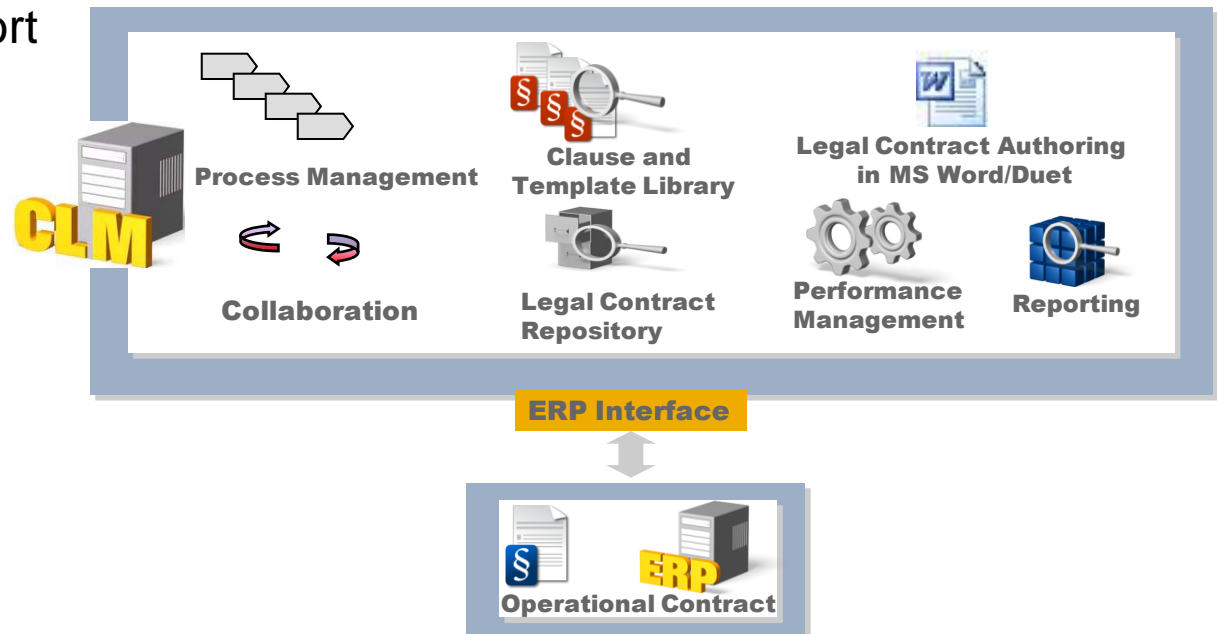
How AB InBev is Using SAP Sourcing OnDemand

#		Task Name	Duration
1		⊟ **Project Plan**	**103 days**
2		Business process and functional design preparation	30 days
3		SAP sourcing configuration	25 days
4		SAP ERP Configuration	10 days
5		PI configuration	10 days
6		Network connection configuration	22 days
7		Integration testing	5 days
8		UAT	10 days
9		Production system preparation	5 days
10		Key Users trainings	5 days
11		End users training	10 days
12		Go-live	1 day

High-level Contract Lifecycle

- Current scope • Procurement contracts for indirect materials in Russia
- Step 2 • Procurement contracts for direct materials in Russia
- Step 3 • Procurement contracts Ukraine
- Step 4 • Sales Contracts Russia
- Step 4 • Sales Contracts Ukraine

AB InBev: Benefits and Expected Benefits

Vendor Categorization
Risk Group Assignment

- Master data synchronization with SAP ERP
- Supplier black/green list creation

Contracts Initiation
Template Usage

- New contract templates in-house design, review, approval
- Automatic control of standard contract document templates and commercial conditions usage

Approval Process
Workflow Streams

- External draft contracts upload, maintenance, management
- Pre-defined approvers structure based on contract type
- Delegation of authority when out of office

Security
Contract Signing

- Elimination of illegal manipulation of contracts, for example: changing of contract pages, payment conditions, or contract values

Reporting
Statistics

- Transparency of staff workload, work efficiency, and work state
- All workflow cycles can be followed up in one system
- Simple functionality for reports

Reach Out!

- **Twitter: @ABG_SpendMngmt**
- **LinkedIn: http://www.linkedin.com/in/climberakis**
- **Aberdeen Group GSM Research Group**
  - **Aberdeen Group GSM Research Advisory Council (RAC)**
- **Aberdeen Research Blog: blogs.aberdeen.com**

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For More Research Please Visit:

www.aberdeen.com

Please note: All data findings included in this presentation are early representations of the Strategic Sourcing 2012 data pool.