



**Consulting Sourcing Initiative
R. Gene Richter Award - Process Category Submission
Executive Summary**

Description of the Organization:

Johnson & Johnson (J&J) is the world's most comprehensive and broadly based manufacturer of health care products, as well as a provider of related services, for the consumer, pharmaceutical, and medical devices and diagnostics markets. The more than 200 Johnson & Johnson operating companies (OpCos) employ approximately 122,000 men and women in 57 countries and sell products throughout the world. Sales in 2006 were \$53.3B

Rationale Behind the Initiative:

In 2005, J&J and its operating companies spent \$X on consulting. Procurement executives' knew that benefits could be realized if category management practices were used to manage this spending. Procurement conducted a spend analysis to identify opportunities to increase value to the enterprise. The organization quickly realized that focus and a sourcing process were needed for this category in order to understand and capitalize upon opportunities.

Initiative Date Range Compliance:

This initiative was launched March 2005 for North America. The first few months were spent on information gathering, benchmarking, data/gap analysis, opportunity identification, team building, creating the sourcing process, and training. The first set of measurable outcomes shown in the result section were realized between October 1, 2005 and September 20, 2006.

Organizational Impact:

During April 2005 J&J chartered an enterprise wide Consulting Team. Thirty leaders were assigned to the team to represent the major operating companies in North America. The team met quarterly.

The effect across the business is the team created the standardized process to understand the spending, a process to source consulting, and the basics for supplier relationship management. J&J created a competitive advantage by improving the sourcing and commercial competence of procurement, and procedures to make and manage business commitments.

Leadership and Innovation:

The thirty leaders from the OpCo's came together and worked smarter. In addition, three sub-teams were established: "Find It," "Get It" and "Keep It". These teams enabled J&J to better understand the source-to-pay process. The team broke into sub-teams to put a few people on each process. The teams started benchmarking internally first, then externally, and developed robust processes that were aligned with our process partners (law, tax, risk management, information security, office of privacy, etc.). The team had influence into customizing computer systems to further standardize process and automate the gathering of metrics. We documented these processes and trained the extended team. This Consulting team defined processes that became standard practices throughout the organization.

Results, Quantification & Validation:

"Find It" Sub-Team: (Numbers tie to result section in backup documentation.)

- 1 Created list of 21 defined UNSPSC consulting commodity codes,
- 2 Updated Ariba to load the 21 UNSPSC commodity codes and set up default code per supplier, Developed and deployed UNSPSC Purchase Order assignment education program,
- 3 Implemented software to further cleanse commodity codes,
- 4 Designed and implemented ten spend analysis reports in a reporting tool called VIEWS, and
- 5 Deployed supplier segmentation methodology.

Improved spend categorization and visibility by 44% (Validated 1Q06 by Global Proc Info Group).

"Get It" Sub-team:

- 1 Benchmarked to develop strategy of how to approach consulting spend area,

- Designed module to teach members about the techniques consultants use sell to corporations,
- 2 Created competitive bid policy, rollout tools for change management, re-programmed Ariba to have standardized measure to monitor policy compliance,
- 3 Developed Sourcing "Toolbox": Request for Proposal (RFP) for Consulting, Statement of Work (SOW) templates for consulting, SOW change order templates, cover letters, and checklist for competitive bidding which aligned the competitive bidding process with our stakeholders and provided tools at each stage of sourcing,
- 4 Created an Evaluation Matrix Tool listing criteria and weighting and to help compare bids,
- 5 Created new hire on-boarding toolkit, and
- 6 Developed presentation for use with internal clients: Explains how sourcing adds value to bidding, consultant selection, negotiation and contracting process.

OpCos reported that they realized and delivered a 73% increase in benefits over baseline. Savings/cost avoidance for award period = \$Y+ (Validated by the finance dept at OpCos).

"Keep It" Sub-Team:

- 1 Performed analysis of consultants that J&J spends greater than \$1 million/year, Designed supplier relationship assignment methodology,
- 2 Identified and appointed J&J supplier relationship managers for key consultancies, Developed list of supplier relationship manager roles/responsibilities,
- 3 Designed, piloted & enhanced supplier performance tracking scorecard template,
- 4 Documented requirements for scorecard incorporation into procurement platform,
- 5 Developed knowledge repository to store and make available industry information and newly developed policies, procedures, agreements, templates and tool,
- 6 Created education program for knowledge repository eRoom members, and Developed presentation for use with consulting firms: Indicates how consulting firms could benefit by working with procurement.

OpCos worked smarter together and leveraged more of the spending. Metric in place measures if an invoice comes in against a contract. June 2006 analysis showed a 67% improvement in spend managed by procurement than was stated in baseline studies (Validated by individual OpCos).

Sustainability:

In July 2006, J&J re-organized Global Procurement into Global Category Management. One of the fourteen categories is Consulting, Professional Service, and Temporary Labor, which was announced in September 2006. The Consulting Team will expand to include services. We will re-visit the team membership in the US to ensure alignment and start a second team in Europe.

Spend Visibility: UNSPSC code assignment audit process was designed for operating company use. This is done quarterly to ensure that code assignment improves so spend visibility increases. Root causes of improper code assignment are captured and corrective actions taken to circumvent a reoccurrence. VIEWS reports are issued quarterly. These reports are used by the "Find It" team to further supplier segmentation, and OpCos who use them to identify additional opportunities for spend leveraging.

Spend Capture: During the fourth quarter 2005, operating companies set quarterly spend capture targets for 2006. A reporting process was put in place and the operating companies send J&J Category Management quarterly results. In August 2006, J&J's Ariba system was enhanced to allow for the entry of information to indicate if the competitive bid policy was followed. This helps track compliance. In addition, designs are being discussed at this time to update Ariba so that compliance is tracked based upon contract existence.

Benefit Realization: J&J is moving to an enterprise-wide savings reporting tracking tool in Jan 2007. This reporting tool, along with the Global Policy on standardized methods and definitions used to calculate the savings, will improve benefits reporting process. All savings and value adds will need a commodity code associated with the project.

Knowledge Repository: The team is using the eRoom daily to access the industry intelligence and sourcing toolbox elements but the eRoom has limitations. We are in the process of designing a website to allow easier access to this information.

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Back up Documentation

"Find It" Sub-team - Improve Spend Visibility:

Goal: To understand what Johnson & Johnson and its operating companies spent on consulting using UNSPSC Commodity Codes.

Opportunity: If we know the type of consulting J&J and its operating companies are buying in North America we can find opportunities to leverage the spend in order to create additional value, reduce our supplier base, and better direct consulting spend to the optimal partners.

Overview/Results: The "Find It" sub-team focused on improving spending visibility and identifying leverage opportunities. The March 2005 analysis showed spending was assigned to only four UNSPSC commodity codes (*mgt/business, educational/training, engineering/technology, other*), which did not provide enough detail to allow us to leverage spending and identify opportunities. To remedy this, we undertook the following process.

First, the team analyzed historical purchase orders to identify and list the various types of consulting services purchased, then summarized them into twenty-one consulting commodity codes (*Mgt/Business, Market Research, Manufacturing & Engineering, Pre-clinical & Discovery, Creative Advertising, Computer, Project Management, R&D Clinical Trials, Product/Package Design Engineering, Supply Chain, Human Resource Consulting, etc*), aligned the list with stakeholders to ensure all consulting had a defined commodity code, and programmed Ariba to only allow these commodity code options. This allowed future consulting purchases to be classified into a clearly defined list of twenty-one codes for the users to choose from.

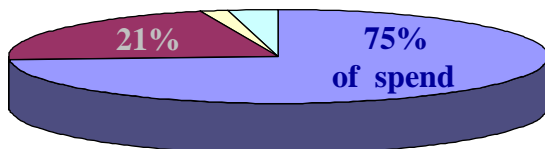
Second, the team analyzed spending with the top 1,000 consulting companies and assigned a default commodity code to each supplier profile that represented the predominant service procured from the consulting company. Ariba functionality was updated so that the default commodity code would be displayed for that supplier when an Ariba requisition was created. Fourteen classes were conducted across North America to train requisitioners and buyers at the Operating Companies (OpCo's) to show how to change the proposed (default) commodity code if a different type of consulting was being purchased. This drove commodity code selection to, at a minimum, the supplier's core competency.

Third, data enrichment software was implemented in conjunction with the global data warehouse, which stores spend information, to further cleanse data on a quarterly basis. This ensured that if a commodity code were picked inaccurately the reporting tool would cleanse it.

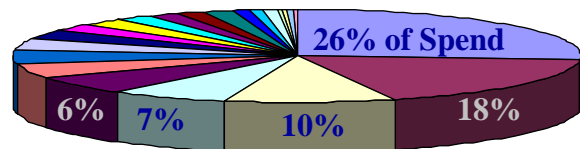
Fourth, Ten standard reports were programmed within the reporting tool called VIEWS. Some examples of these data structure include - *Enterprise spend by UNSPSC, Top Consulting Suppliers by UNSPSC, Spend by Sector & OpCo, Top Consulting Suppliers by OpCo, and Spend for UNSPSC by OpCo, etc*. Users were trained on how to use the tool and run these reports. This allowed each operating company to understand their consulting spending and help them identify leveraging opportunities.

Fifth, the team employed a supplier segmentation methodology to identify opportunities to leverage spend (see pie charts).

Baseline Analysis- June 2005
Before initiative, spend categorization visibility was poor and sourcing difficult.



New Analysis - June 2006
Categorization is more accurate, spend visibility improved, and opportunities capitalized upon.



“Get It” Sub-team - Obtain, Create & Deploy Enabling Elements:

Goal: To establish standard policies and processes and incorporate them in a sourcing toolbox. This will enable consulting sourcing professionals to quickly adopt the “J&J process”, apply it to any type of consulting engagement, and deliver additional value to J&J’s business partners.

Opportunity: Each J&J OpCo used a different process to manage consulting. Some OpCos did not have templates or training and some buyers developed their own process. By creating a standard process, gray areas such as how consultant travel is paid for, change orders to statements of work are handled, etc. could be clarified. Once invited to the table, it was necessary to ensure that we had skilled professionals with the tools necessary to source consulting services.

Overview/Results:

First, the team performed external and internal benchmarking. Externally, the team participated in industry forums, analyzed research studies from ISM/CAPS, Procurement Strategy Council, Kennedy Information, and Aberdeen, and conducted benchmarking discussions with twenty companies and consultancies to determine how consultancies sold services to corporations and what best-in-class practices were being used by industry. Internally, we designed and conducted a “voice of the customer” survey to understand the current state of processes and sourcing tools throughout J&J, identify opportunity gaps, and establish priorities.

Second, the “Get It” sub-team designed a standardized competitive bid policy that provided guidance as to when competitive bids should be conducted. Global Procurement leaders endorsed full OpCo implementation of this policy. The policy was rolled out to each operating company since they each had their own set of local issues to overcome. We also leveraged tools around change management to assist with the local rollouts.

Prior to this initiative, competitive bid policies had only been rolled out in 50% of our OpCos and these were not standardized. The benefits of this policy, which improves our cost, provides access to more innovative suppliers and reduces risk, has encouraged internal clients to invite sourcing to the table. Next, the “Get It” team designed and re-programmed Ariba to measure competitive bidding compliance and statement of work creation for consulting. When a requisition is input into Ariba, the user is required to check off if the buy was competitively bid and if it has a SOW. Standard reports were designed to track policy compliance.

Third, developed a standardized sourcing process and sourcing toolbox, such as:

- Request for Proposal (RFP) template for consulting
- Statement of Work (SOW) templates for consulting
- SOW change order templates
- Cover letters
- Checklist and tools for competitive bidding, which aligned the competitive bidding process with our internal partners and provided guidance at each stage of sourcing:
 - Pre-sourcing event questionnaire
 - Roles and responsibilities
 - Qualification factors for potential suppliers
 - Non-disclosure agreement guidelines
 - RFP discussion questionnaire
 - How to apply the Information Asset Protection Policies and Privacy Data policies
 - Reference call questionnaire
 - Pre-contract review
 - Negotiations plan sheet

All the sourcing tools were co-designed with our Law Department so they would coincide with Legal’s toolbox. These tools include: non-disclosure agreements, services agreements, and Master Services Agreements.

Fourth, we created an Evaluation Matrix Tool that contains a robust list of items that are used in evaluating bids. The matrix allows for criteria weighting and side-by-side bid submission

comparison. It helps sourcing conduct objective analysis, which leads to fair, unbiased supplier selection.

Fifth, many of the new sourcing hires for consulting and services were acquired externally. In order to get these professionals up-to-speed quickly, the “Get It” team created a “New Hire On-Boarding Toolkit”. This was made available to OpCo’s to streamline the process of bringing on new hires. All the tools developed by the “Get It” team were included in this Toolkit plus sections on J&J culture, key contacts, roles and responsibilities, acronyms and terms, key websites, policies, supplier diversity, professional development, etc.

Sixth, We developed a presentation for use with internal clients which explains how sourcing adds value to bid management, consultant selection, negotiation and the contracting process.

Information shown below depicts increased benefits realized from implementing standard policies, processes and sourcing toolkit.

Increased Benefit Realization: OpCos reported a 73% increase in benefits. Data is reported quarterly and is validated by OpCos’ finance departments.

Period	Spend	Realized Benefit
1/1/05- 12/31/05 Baseline	\$X	\$Y
10/1/05 – 9/20/06* * Per application requirements	\$X+	\$Y+

“Keep It” Sub-team - Cultivate, Sustain & Improve Service Delivery and Value Received:

Goal: To establish, nurture, monitor, and sustain partnering relationships with consultancies in order to improve the value received from consulting relationships and projects.

Opportunity: Customer surveys indicated that consultancies were selling services to many of J&J’s OpCos. These consultancies were not being managed by a single point of contact at J&J. A “big picture” view of what projects consultants were working on for J&J and its operating companies and information about consultant delivery performance was not available. Industry knowledge, policies, processes, procedures, tools and methodologies that were created by the project teams were not shared or available for reference by other teams.

Sourcing leads had to be identified and assigned to manage and improve relationships with J&J’s key consultancies. A supplier performance monitoring process needed to be put in place. A knowledge repository needed to be created to store process documents and tools.

Overview/Results: The “Keep It” sub-team focused on creating a supplier relationship program and in establishing a knowledge repository to facilitate sustaining the program.

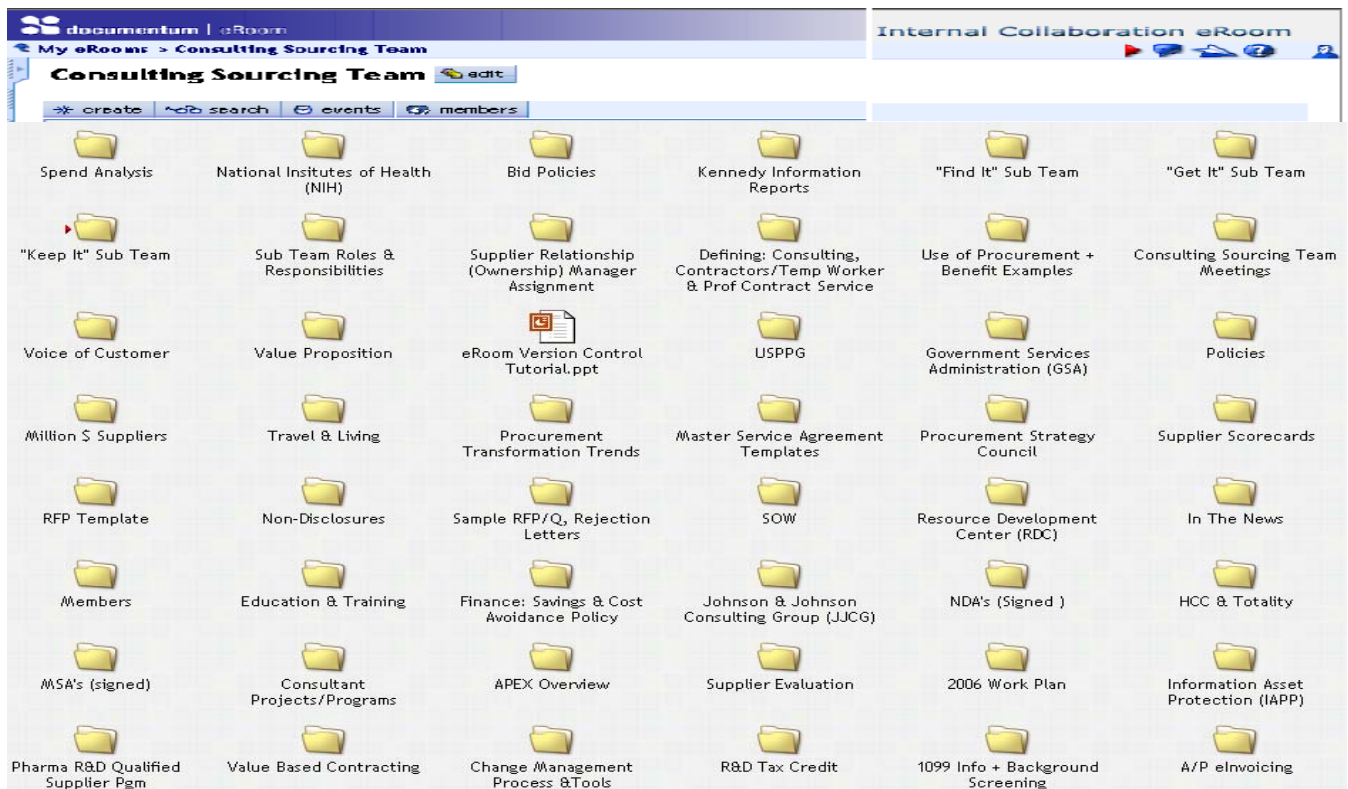
First, the team performed a spending analysis study to determine which consultancies J&J had spent more than \$1 million dollars with in the previous year. The team developed a supplier relationship manager assignment model, which looks at the types of services that J&J procures from the consultancy and the OpCos that buy services from that consultancy. This provides the information that is needed to determine what OpCo/group and individual should own the relationship with that consultancy.

Second, specific individuals were identified to be supplier relationship managers between J&J and the key consultancies based upon the results of the analysis and the model that had been developed. At this point, relationship managers have been identified for 50% of the targeted consulting firms. The team created a set of roles and responsibilities, which were designed to improve communication between the OpCos and the firms, cultivate relationships with the firms, manage supplier agreements, and improve supplier performance and leverage spending. Relationship managers collaborated with legal to negotiate and put in place 13 master service agreements with consultancies.

Third, the team conducted benchmark studies to determine how Fortune 500 companies monitored consultant performance against project deliverables. It was discovered that this practice was in its infancy and that little information was available. The team collected information to identify the elements that would be needed to track performance of consultancies. A scorecard was designed that contained twelve criteria items that could be used to evaluate the firms. The scorecard was piloted on four consulting projects that had been completed by different consulting firms.

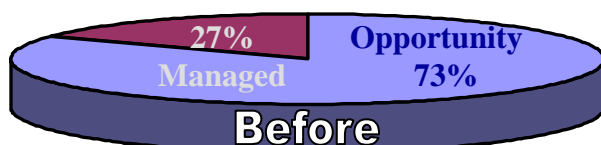
Fourth, the team provided a scorecard requirement request to J&J's Global Procurement Information Group and its software provider in order to incorporate the scorecard functionality into Ariba. The new design also included linkages to statements of work. Once fully implemented, this information will be used to facilitate conversations with firms so that they can improve their service delivery.

Fifth, the team identified which items needed to be included in a knowledge repository, such as consulting industry information, spend analysis, relationship manager assignments, master service agreements, competitive bid policy and process, RFP templates, Statement of Work templates, competitive bid criteria weighting and submission compare tool, compliance tracking process, saving/cost avoidance definitions/formula, new hire on-boarding toolkit, etc.. The team then commissioned the creation of an eRoom. Today, ninety professionals are registered members of this eRoom. Below is a screenshot of that eRoom.



Increased Spend Capture: OpCos reported a 67% increase in spend management versus the established baseline. J&J measures when invoices are received against a contract or not.

Baseline Analysis- June 2005
Before initiative, 27% of spend was actively managed by procurement.



New Analysis - June 2006
Now, 45% of spend is actively managed by procurement.

