AVAYA

Managing Your Human Capital Suppliers

December 3, 2004

Janine M. Battaglia

Agenda

- **Introductions**

- **Background**

- **Commodity Objectives & Strategy**

- **Performance Results**

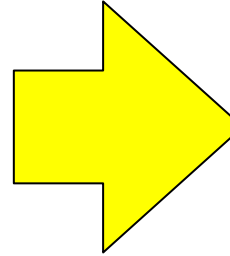- **Roadmap – Action Plans**

- **Questions & Answers**

Avaya, The Leader In Business Communications

- **We enable businesses, large to small, to communicate, compete, conquer**
  - Century of experience and innovation in our DNA
  - Today: #1 positions in IP telephony, contact centers, unified communication, and services

- **Avaya Labs, leader in communications software sciences: 1,800+ patents**
  - Pioneered voice mail, IVR, skills-based call routing, unified communication, CTI, audio conferencing, virtual LAN

- **1 million customers -- 90% of FORTUNE 500® rely on Avaya**

- **15,000 people in 50 countries**

- **2,500 Business Partners**

Non-Employee Worker Sub Classifications

Placement Types

- **Temporary Worker**
  - Traditional Staff Supplementation; works under Avaya direction and control; typically hourly based pay

- **Project Consultant**
  - Fixed priced arrangements; set deliverables; don't pay for unsatisfactory work/re-work
- **Independent Contractor**
  - Sole proprietor of business; hired for expertise for set period; no Avaya supervision
- **Outsourced Worker**
  - Performs work that is non core to Avaya; under supervision and control of 3rd party
- **Service Worker**
  - Performs work directly for Avaya customers; minimal supervision; responsible for their deliverables

- **Request For Quote (RFQs)**
  - Temporary Workers competitively sourced through Preferred Suppliers
- **Direct Source**
  - Pre-identified Temporary Workers sourced by Manager and converted into NEW Program on "one time purchase order"
- **Independent Contractors**
  - Pre-identified resource engaged by Avaya Manager
- **Payrollers**
  - Contractors that have no affiliation with an agency or employer that are direct sourced by Avaya Manager. Become employee of our 3rd party Payroll Supplier.
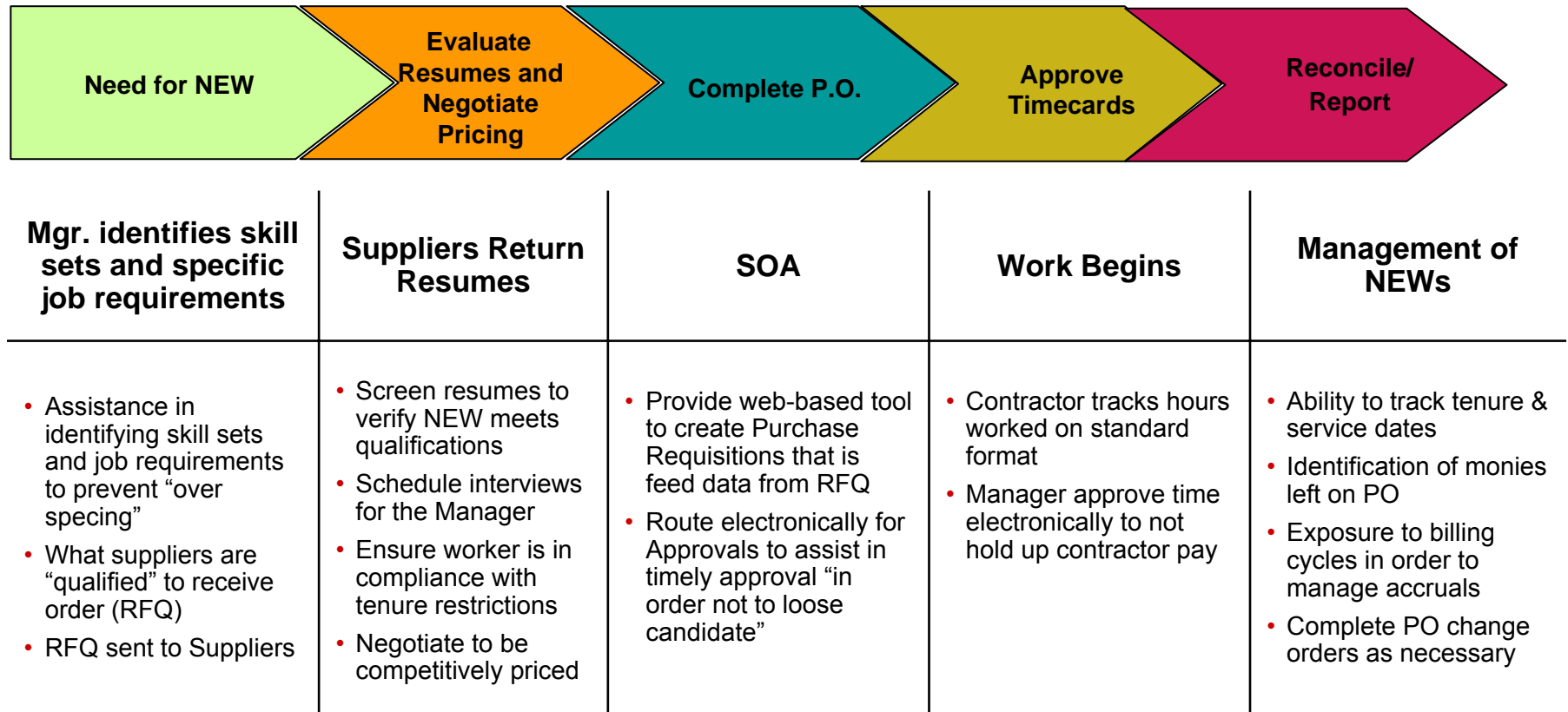
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Original Spend Analysis Revealed:

- **Over $60M in staff supplementation spend (US-only)**

- **Approximately 688 temporary workers (referred to as non-employee workers or NEWs)**

- **More than 250 suppliers**

- **International company, but did not have visibility to NEW spend outside the US**

Requirements

Avaya Managers responsible for sourcing temporary workers were surveyed to understand their requirements. These employee service expectations drive the NEW Commodity Strategy.

Service Expectations for Management of NEWs

Need for NEW	Evaluate Resumes and Negotiate Pricing	Complete P.O.	Approve Timecards	Reconcile/ Report
Mgr. identifies skill sets and specific job requirements	**Suppliers Return Resumes**	**SOA**	**Work Begins**	**Management of NEWs**
• Assistance in identifying skill sets and job requirements to prevent "over specing" • What suppliers are "qualified" to receive order (RFQ) • RFQ sent to Suppliers	• Screen resumes to verify NEW meets qualifications • Schedule interviews for the Manager • Ensure worker is in compliance with tenure restrictions • Negotiate to be competitively priced	• Provide web-based tool to create Purchase Requisitions that is feed data from RFQ • Route electronically for Approvals to assist in timely approval "in order not to loose candidate"	• Contractor tracks hours worked on standard format • Manager approve time electronically to not hold up contractor pay	• Ability to track tenure & service dates • Identification of monies left on PO • Exposure to billing cycles in order to manage accruals • Complete PO change orders as necessary

Based On The High Volume Of Spend And Transactions Avaya Needed To:

- **Reduce managers' time spent on recruitment efforts**

- **Drive competitive sourcing and selection of qualified candidates**

- **Consolidate/optimize supply base for leverage and reduction of supplier charges through standardized contracts and qualification criteria**

- **Provide cost savings benefits to user organizations**

- **Manage and reduce Avaya's risks of working with third party suppliers and Independent Contractors**

- **Support corporate and HR policy as well as data requirements**

- **Provide reporting capabilities to track non-employee worker (NEW) activity and spend**

Objectives For Human Capital & Services Procurement

Service and Support

- **Enable Engagement and Project Managers to create and manage self-generated RFxs**

- **Effective supplier management (e.g. supplier scorecards)**

- **Increase efficiency and velocity of processes**

- **More comprehensive information for better decision making**

Spend Management

- **Improve compliance**

- **Improve leverage**

- **Improve benchmarking and negotiating effectiveness**

- **Vastly improve tracking and reporting capabilities through standardized and ad-hoc reports**

Increased Savings and Business Unit Margins

Business (Functionality) Requirements Summary

Requirements	Brief Description
Ability to address different types of service/demand	Ability to handle multiple segments and category types across multiple geographies
Supplier Identification and Management	Ability to support and guide user's search for suppliers
RFx	Ability for users to self-generate RFxs as well as manage and evaluate RFx responses
Negotiations and Contracting	Ability to support and manage negotiations as well as contract development
Request-to-Order	Ability to manage multiple types of orders as well as change orders, approvals, and status reports
Order to Payment (timecard, invoices)	Abilities and flexibilities in managing timecards, expenses, milestones, and payments in a variety of currencies
Technology and Integration	Ability to securely integrate into various Avaya systems and provide support globally
Procurement Data Management	Ability to provide and manage a master taxonomy and track supplier scorecards
Reporting and Compliance Management	Ability to provide standardized and ad-hoc reporting as well as alerts on supplier qualification issues
Change Management	The usability of the tool with minimum training requirements

In Order To Meet These Objectives, Avaya Decided To Outsource This Commodity Management To ProcureStaff Because:

- **ProcureStaff's core competency fit the scope (Vendor Neutral)**

- **ProcureStaff utilizes their own proprietary software that can be modified to meet Avaya's business rules without additional costs**

- **Demonstrated continuous investment in technology**

- **ProcureStaff not only provides the technology but also the specific Industry Knowledge to support the procurement functions**

- **Services compare to benchmarks (Managed Service Programs)**

- **Cost analysis and value proposition agreed to by Finance Department**

- **ProcureStaff has demonstrated willingness to share risks and be flexible**

- **Growth of new customer base**

- **Internal customers are satisfied**

What Does ProcureStaff Do For Avaya?

- **Outsource all procurement & payables functions (including sourcing & supplier management) for staff supplementation (temporary) workers**

- **Program is live in US, Canada, and 5 EMEA countries (England, Ireland, Belgium, Germany and Netherlands)**

- **ProcureStaff is on-site in Basking Ridge, NJ, Guilford, UK, and Munich, Germany**

- **ProcureStaff maintains proprietary software (Consol) used to administer the NEW engagements**

- **Strategic Partner in identifying savings opportunities and managing compliance**

NEW Procurement Center Functions

- Qualify suppliers based on Avaya requirements
- Manage web-based competitive sourcing system for the acquisition of NEWs
- Review RFQ requirements with managers and post to preferred suppliers
- Qualify resumes and submit candidates to managers for review and feedback
- Coordinate interviews with managers and candidates/suppliers
- Negotiate most competitive rates to secure cost savings for affected organizations
- Process purchase orders
- Manage electronic timecard processing
- Validate, process and initiate payment of supplier invoices
- Reduce administrative burden for Avaya
- Educate users regarding system, processes, policies and Avaya NEW business rules

Consol System – To Source & Track NEWs

Process Overview

AVAYA

Contractor

Enter timecard and expense information (weekly)

Supplier

Review requirement and submit candidates

Receive payment from ProcureStaff → End

ProcureStaff PO Specialist

Create PO and engage candidate

Avaya Manager

Start → Create requirement

Select candidate

Complete purchase requisition for new PO

Approve timecards and expenses (weekly)

ProcureStaff Relationship Manager

Review requirement & post to suppliers

ProcureStaff Accounts Payable/Receivable

Create invoices from weekly T&E data and submit to Avaya

Pay suppliers

Avaya Accounts Payable

Pay invoices to ProcureStaff
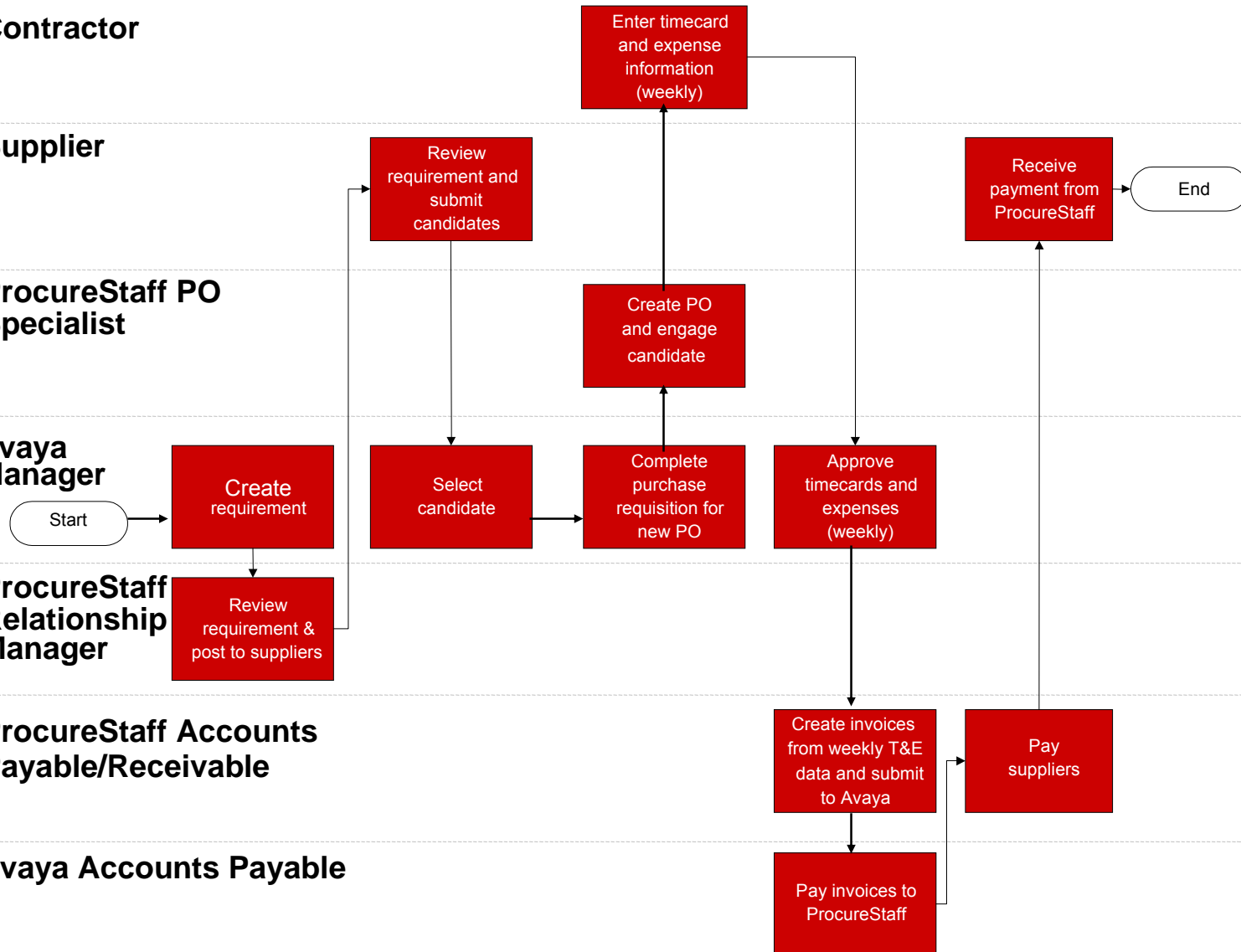
Supplier Management – Optimization

- **When the Program was introduced, all existing suppliers were invited to participate in the program (if they qualified)**

- **Subsequently, every six months:**
  - **Suppliers' performance is tracked and monitored**
  - **Audits are conducted to verify compliance with contract (including verification of background checks and W4 status)**
  - **Rightsizing of Supply Base Analysis is completed**

- **Rightsizing criteria includes:**
  - **Focus on top performing suppliers: technology, geography and MWDVBE**
  - **Continually evolve supplier list based on performance**
    - **Switch to non-preferred suppliers with zero engagements.**
    - **Switch to non-preferred suppliers with a low ranking on their individual scorecard**

- **Increase supplier focus on Avaya's needs through partnering**
  - **Hold supplier summits and open houses**
  - **Allow suppliers access to key Avaya customers to understand scope of projects and desired skill sets**

Supplier Performance Criteria

ProcureStaff ©1999 Associate Supplier - Internet Explorer Provided by Cox High Speed Internet

File   Edit   View   Favorites   Tools   Help

Back   Forward   Stop   Refresh   Favorites   Media   History   Mail   Print   Edit   Copy   Paste   Links

Address http://www.avayanewprocurementcenter.com/vendor/Frame.asp   Go

AVAYA

- Home
- Orders
- Submittals
- Interviews
- Contacts
- Purchase Order
- Application Activity Report
- Time Cards and Expenses
- Profile
- Log Out

NEW Procurement Center WEB Application Activity
(07/01/2003 - 09/26/2003)

Supplier	Accountemps (Niche)	Individual Supplier Performance Measurements	
# of RFQs Posted	1		
# of RFQs Responded to	1	Your RFQ Response %	100.00%
# Resumes Submitted	2		
NPC Declined Resumes	0		
EM Declined Resumes	1		
Total Declined Resumes	1	Your % of Declined Resumes	50.00%
Candidates Engaged	1	Your Engagement %	50.00%
# of PO's	1		
# of Direct Source PO's	0	Direct Source PO's %	0.00%
Your Response Time (hours)	3		

Infractions:

# of Direct Source infractions	0	# of Third Party Subcontracting	0
# of Solicitation of Customer	0	# of Inability to produce ABC Documents	0
# of Inability to produce Background Check results	0	# of Inability to produce Drug Testing results	0

One or more Direct Source Infraction could result in the SUSPENSION or TERMINATION of your AGREEMENT!
Examples of Infractions: -
Direct Source – Third Party Subcontracting – Solicitation of Customer – Inability to produce ABC documents – Inability to produce Background Check results – Inability to produce Drug Testing results – Actions that result in the removal of a Contractor from assignment prior to end date.

Back

We also track Quality as part of the Avaya Mgrs customer satisfaction survey

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To Identify Savings – Creation of Job Library

Specific Examples of Savings Delivered

Small % reduction in rates but remaining hours were large

The sum of "small" savings is significant

Job Class	Organization	Current Rate	Renegotiated Rate	Savings Realized*
Business Documentation Specialist	CSAG	$87.63	$73.14	$6,710
Training Consultant	Services	$75.99	$56.05	$20,586
Clerical Administrator	CSAG	$29.23	$25.00	$4,474
Marketing Analyst	SMBS	$146.13	$80.49	$12,357
Technical Projects Historian	CSAG	$153.14	$100.00	$2,314

$$$$

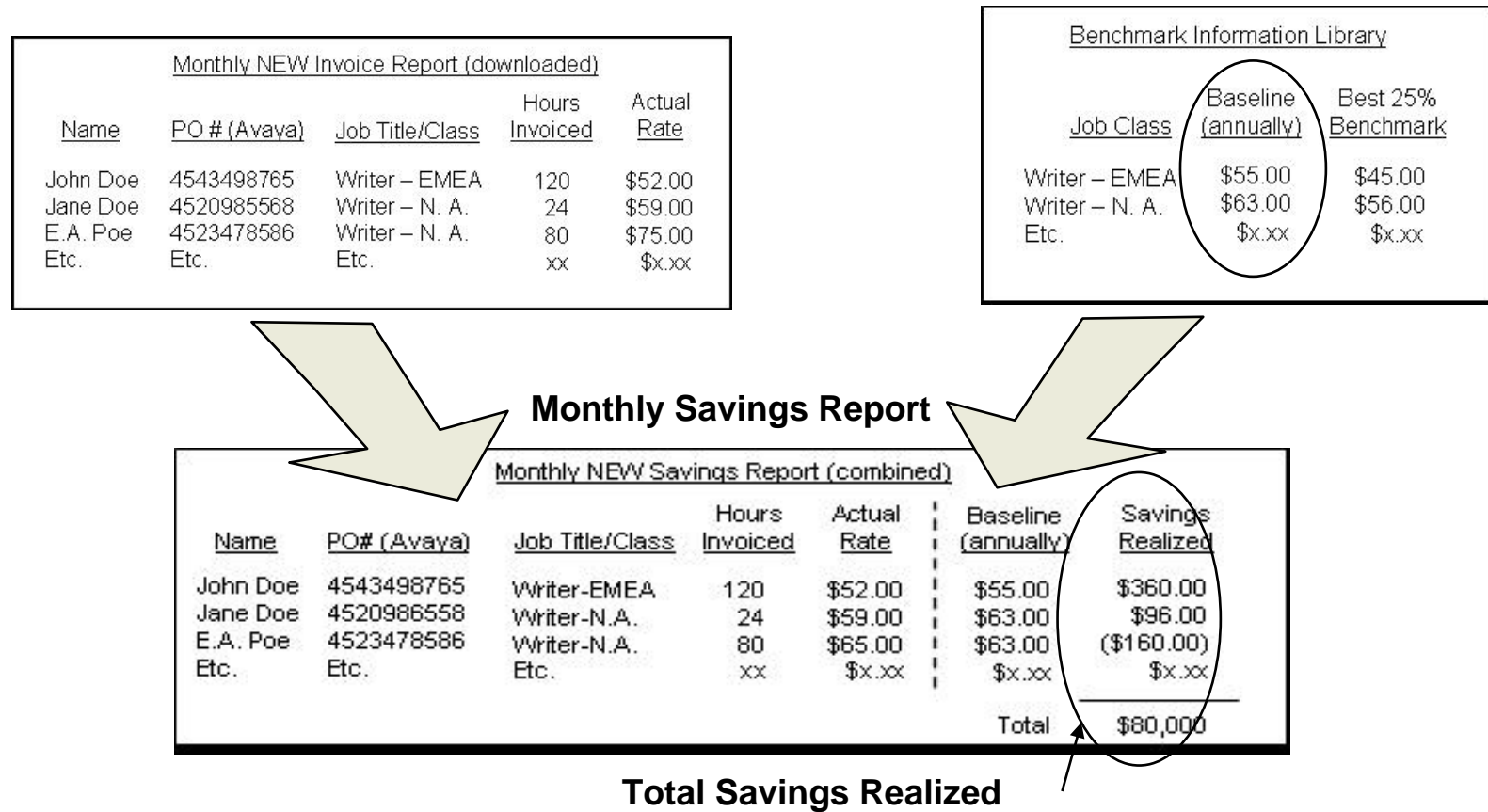**Opportunities across all Business Units**

Significant rate savings

* Based on hours left on open POs

Reporting Savings

NEW Savings Reporting and Tracking Process

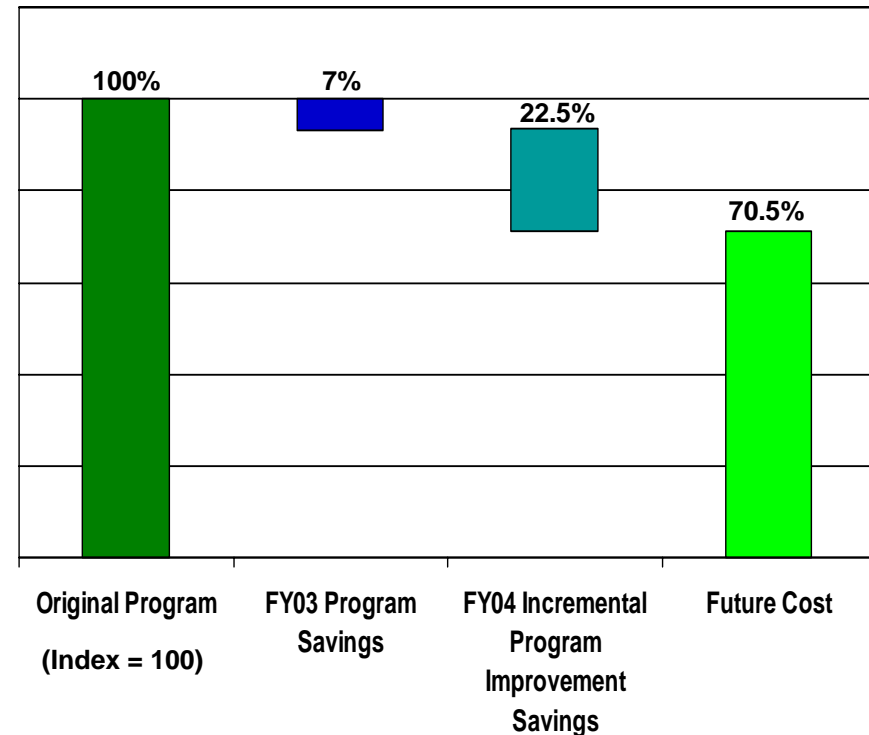**Baseline**: Average rate paid by Avaya for a given job classification

Monthly NEW Invoice Report (downloaded)

Name	PO # (Avaya)	Job Title/Class	Hours Invoiced	Actual Rate
John Doe	4543498765	Writer – EMEA	120	$52.00
Jane Doe	4520985568	Writer – N. A.	24	$59.00
E.A. Poe	4523478586	Writer – N. A.	80	$75.00
Etc.	Etc.	Etc.	xx	$x.xx

Benchmark Information Library

Job Class	Baseline (annually)	Best 25% Benchmark
Writer – EMEA	$55.00	$45.00
Writer – N. A.	$63.00	$56.00
Etc.	$x.xx	$x.xx

Monthly Savings Report

Monthly NEW Savings Report (combined)

Name	PO# (Avaya)	Job Title/Class	Hours Invoiced	Actual Rate	Baseline (annually)	Savings Realized
John Doe	4543498765	Writer-EMEA	120	$52.00	$55.00	$360.00
Jane Doe	4520986558	Writer-N.A.	24	$59.00	$63.00	$96.00
E.A. Poe	4523478586	Writer-N.A.	80	$65.00	$63.00	($160.00)
Etc.	Etc.	Etc.	xx	$x.xx	$x.xx	$x.xx
					Total	$80,000

Total Savings Realized

NEW Savings = (Baseline Rate – Actual Rate) X Hours Invoiced

NEW Program Improvements for Incremental Annual Savings

- Newly Created Tools: **Global Playbook and a Job Library** are continually updated with market based NEW cost benchmarks (labor and mark-ups)

- Increased sourcing of more NEWs through **alternate channels** (as opposed to agencies) and bring them in on the payroll of our preferred third party agency

- **Improved negotiation** and sourcing processes
  - Aggregated and pre-negotiated rate contracts where appropriate
  - More aggressive cost competitive selection process (e.g., negotiation prior to selection)

- Continual evaluation of supply base to reduce number of suppliers and leverage market rate pricing and quality of candidates

Overall NEW Program Cost

100%	7%	22.5%	70.5%

| Original Program (Index = 100) | FY03 Program Savings | FY04 Incremental Program Improvement Savings | Future Cost |

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Since Introducing The NEW Program At Avaya, We've Seen Significant Return On Investment. With Over 2,000 Managers Requiring Contractors To Work At Across 67 Different Work Locations, We've Seen The Following Results:

- **Reduced our preferred suppliers by 41%**

- **Direct source activity reduced by 81%**

- **RFQ average bill rate reduced by 23%**

- **278 unique job titles have been filled and are now part of a job library for benchmarking**

- **Eliminated accounts payable costs by reducing number of invoices processed of each billing cycle to one**

Average Bill Rate: RFQ vs. Direct Source
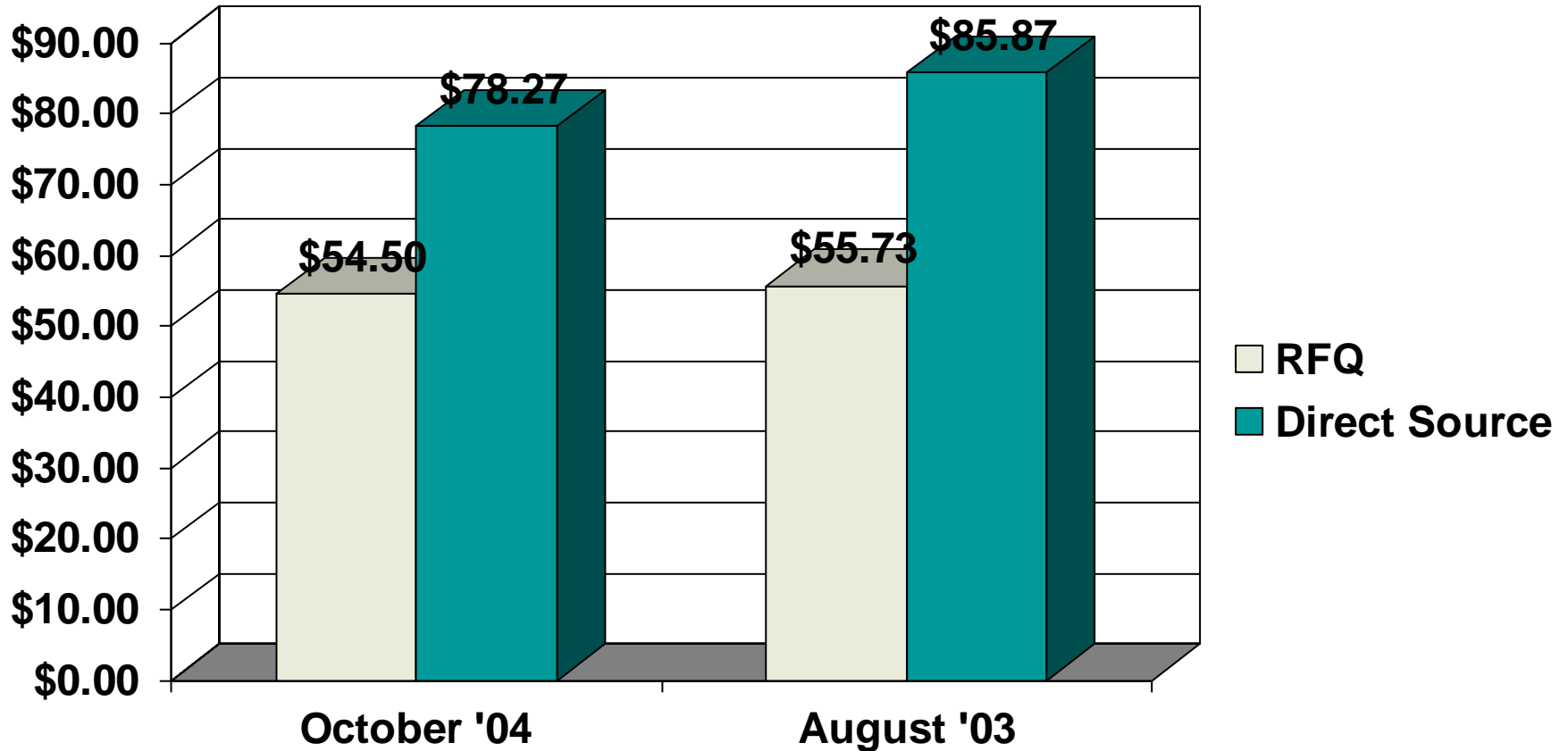
Compliance Management Framework

NEW Compliance Management

- Goal is to engage all NEWs (including payrollers) at or below market benchmark rates
- Conversion of Agency NEWs to Payroller after 6 months of tenure automatically (where applicable)
- Engagement Managers can not negotiate or commit to NEW rates

- Leverage the new and existing tools and services to provide tracking of metrics/performance
- Any NEW above market rate will require a clear business reason and approval of the appropriate CEO Staff member deputy and Finance
- Premium paid over market rates will be tracked and shared with leadership
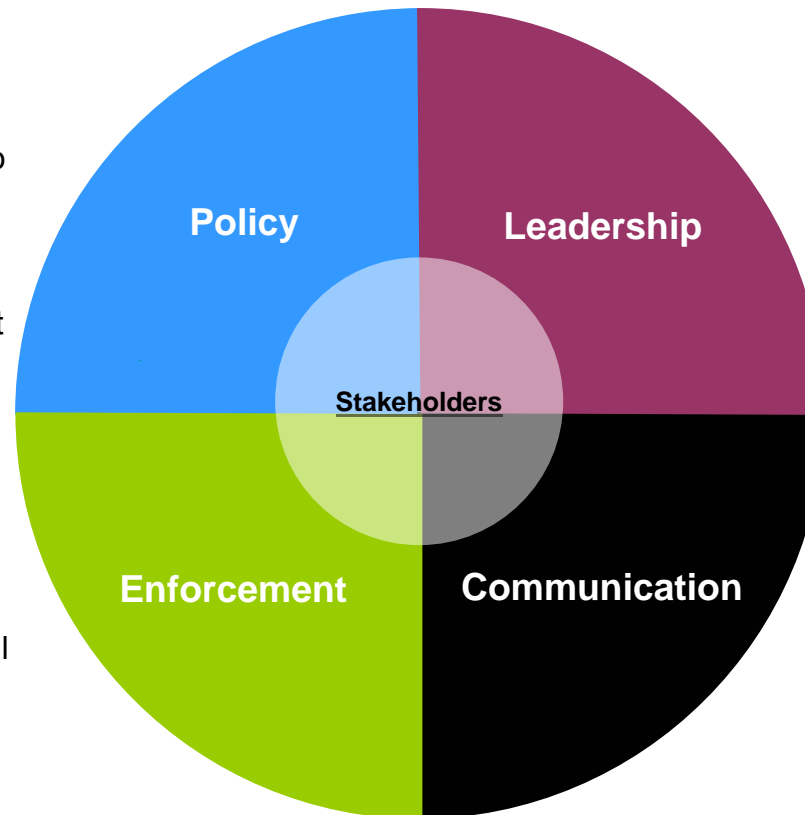
- Secure CEO Staff support to provide critical reviews of future requests to engage NEWs above market rate

- Communicate updated policies and procedures to executives and hiring managers
- Distribute compliance reports to internal stakeholders
- Revise Supplier Teaming Agreement reflecting updated policies executed by preferred suppliers

Policy

Leadership

Stakeholders

Enforcement

Communication

Recommendations For Success: Executive Support

- **Ask one of the key suppliers to assist in development of formal business case to obtain executive buy-in to outsource**

- **Support efforts to get professional service and non-traditional staffing companies signed up as preferred suppliers**

- **Require compliance at the executive and all levels of the organization to use the NEW Procurement Center for all staff supplementation needs**

- **Support requirement to use competitive process and not direct source candidates**

- **Avoid authorizing exceptions to the NEW HR policies**

- **Get buy-in that purchasing either owns the NEW policy or participates as an active partner to influence the policy**

Next Steps In The Evolution Of The Program:

- **Continue global deployment**

- **Address acquisition of project-billed work (as opposed to hourly-billed)**

- **Contract with companies based in India to do offshore time and material work**

- **Independent contractor administration**

- **Renegotiate subcontracting agreements**

  - **Pre-negotiated bill rates where applicable**

  - **Modify scopes of work**

  - **Visibility to supplier markup**

Questions and Answers

Contacts

Janine M. Battaglia

Procurement Manager, Global Procurement

Avaya Inc.

211 Mt. Airy Road

Basking Ridge, NJ 07962

jbattaglia@avaya.com

Janet Whitcomb

Senior Vice President, Sales & Marketing

ProcureStaff, Ltd.

560 Lexington Avenue

New York, NY 10022

jwhitcomb@procurestaff.com