

Change Management Techniques and Best Practices in Sourcing Services

How these approaches are improving the bottom-line

June 8, 2006



JVKellyGroup – Background/Experience



JVKG Is:

- A firm of 60+ professionals providing high quality, high impact engagements with value-based costing

JVKG Does:

- Spend management consulting end-to-end
- Analysis of spend data/Strategic sourcing
- Category & Contract management / Project management and subsequent implementation
- Supply management client training
- Process reengineering
- Purchasing outsourcing, Sourcing Out-tasking, Travel Management Outsourcing, Print Management Outsourcing
- Development of management dashboards
- Outsourced Purchasing Partner for D&B and others

Benefits to Clients Include:

- Documented Savings and Cost Avoidances
- “Library Card Concept” – use the power and return when done
- Guaranteed Results



About Our Client – D&B

- ❖ D&B ([NYSE:DNB](https://www.dnb.com)), the leading provider of global business information, tools, and insight, has enabled customers to Decide with Confidence for over 160 years. D&B's proprietary DUNSRight™ quality process provides customers with quality information whenever and wherever they need it.
 - Quality information is the foundation of D&B's solutions that customers rely on to make critical business decisions.
 - Customers use D&B Supply Management Solutions to identify purchasing savings, manage risk and ensure compliance within the supply base. For more information, please visit www.dnb.com.



Decide with Confidence

The Blueprint for Growth Is the Roadmap to D&B's Aspiration



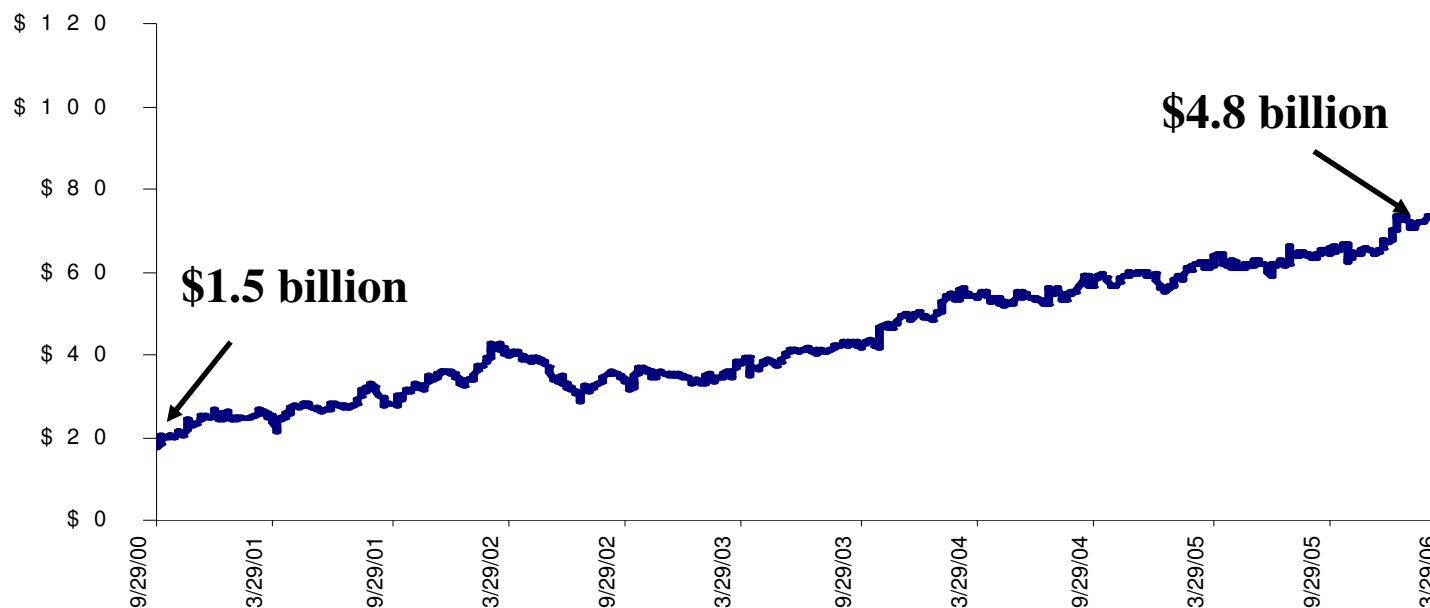
The Flexible Business Model Enables D&B to Invest in Growth and Deliver Shareholder Value

❖ D&B's Flexible Business Model is a competitive advantage



- We view almost every dollar that we spend as flexible.
- We continually reevaluate our spending to find opportunities for improvement.
- Then, we reallocate the savings in other areas of the business to drive growth.
- This approach enables us to free up funds for investment – even during a challenging business environment – and maximize shareholder value.
- JVKG plays an ongoing important role in this process

Financial flexibility has been critical to our success over the last several years



What was the primary challenge?

Revenue



**Manage & Grow
the Portfolio**

Expense



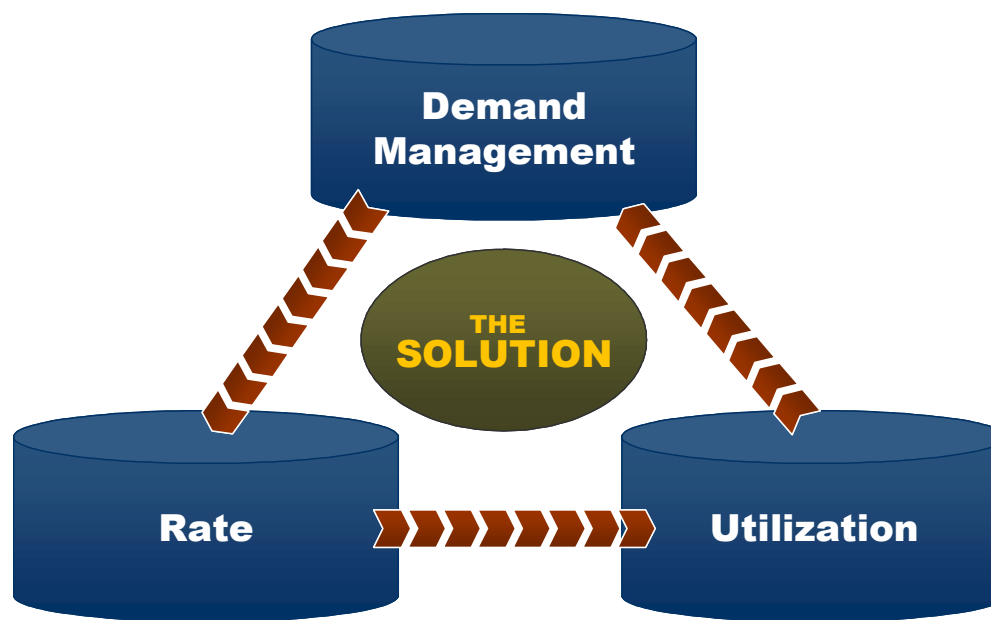
**Reduce Expenses &
Control the Risks**

We began with a balanced approach to expense control

3

If rate is optimized and contracts are utilized, then Demand Management is the last lever to control expenses

Change Management is the catalyst for **sustainable rather than episodic** cost containment



1

*Use **D&B Data Services** to turn data into spend information then perform Strategic Sourcing based on analysis of spending patterns*

2

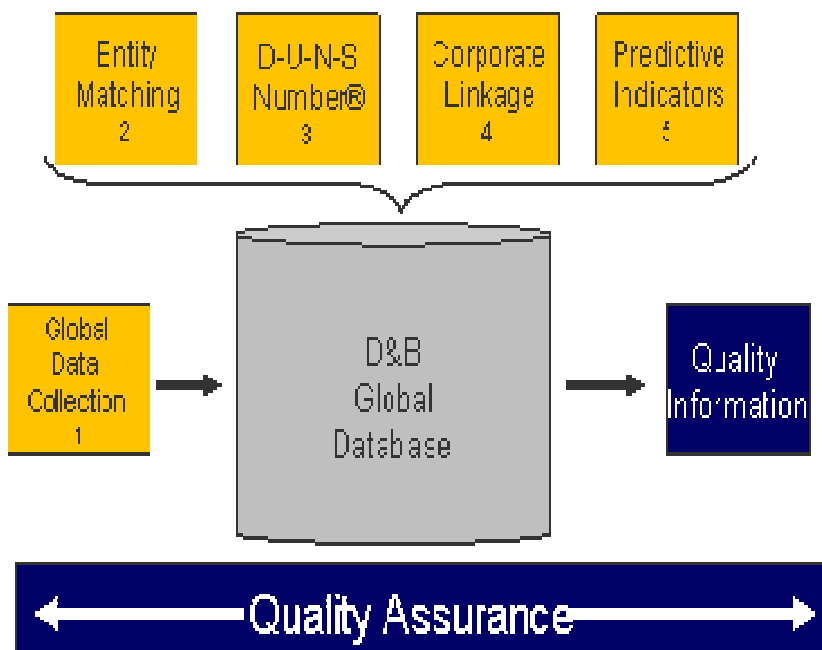
*Use **D&B Supplier Optimizer** to track progress in implementation quarterly*

The DUNSRight™ process provided Actionable Visibility in spend data

DUNSRight™



ACTIONABLE SOURCING VISIBILITY



Data Standardization creates a consolidated Supplier Master

Parent/Child Linkage offers visibility into Leverage

Dependency is exposed to help mitigate Risk

Supply Market opportunities are identified by Category

Cross Market opportunities are identified by Supplier

Balance of Trade is another input to guide strategy

Supplier Diversity is tracked against goals

Public Affairs information identifies the congressional districts where money was being spent

Compliance can be tracked against almost any metric

We mapped the process steps and completed a Gap Analysis to secure stakeholders' support

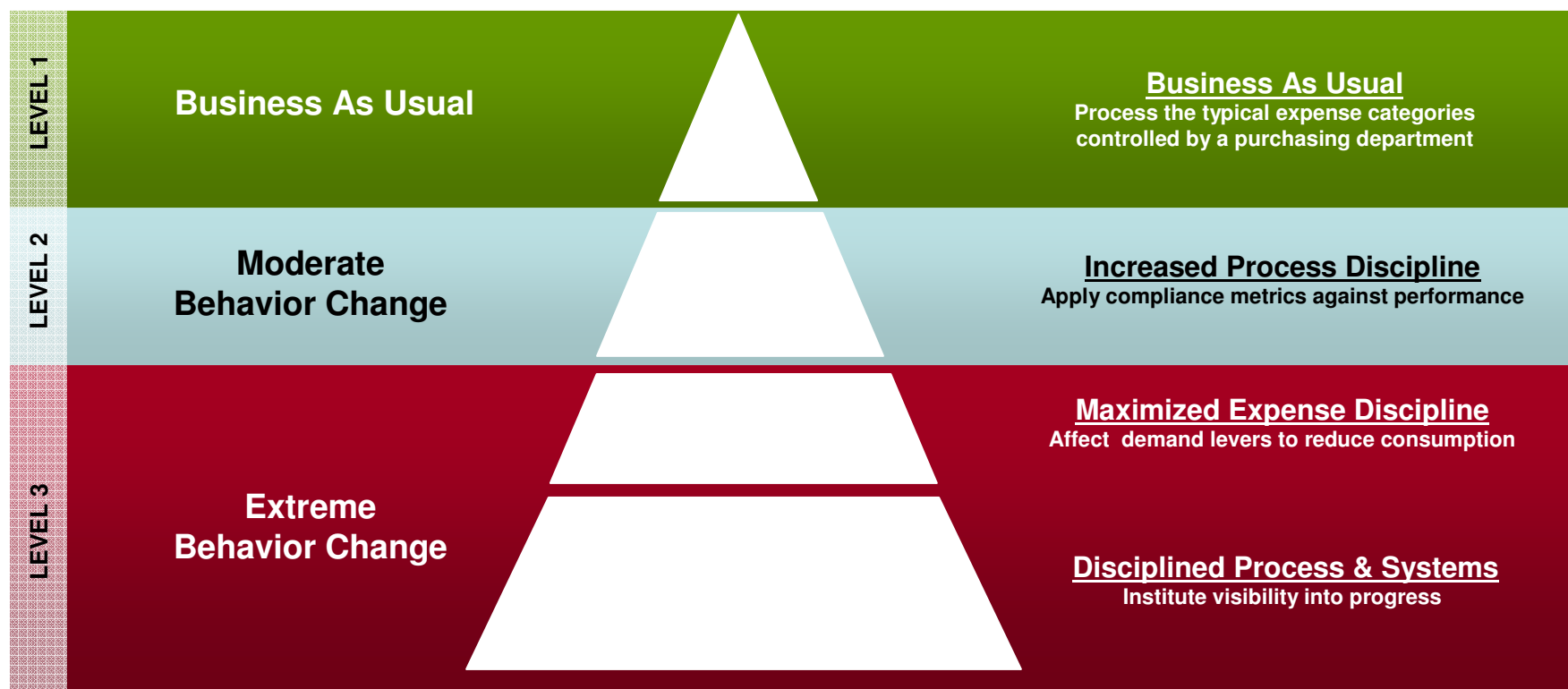
❖ Working with the business units we identified the “as is”, and the “desired” state

❖ We then mapped the actions required to change processes

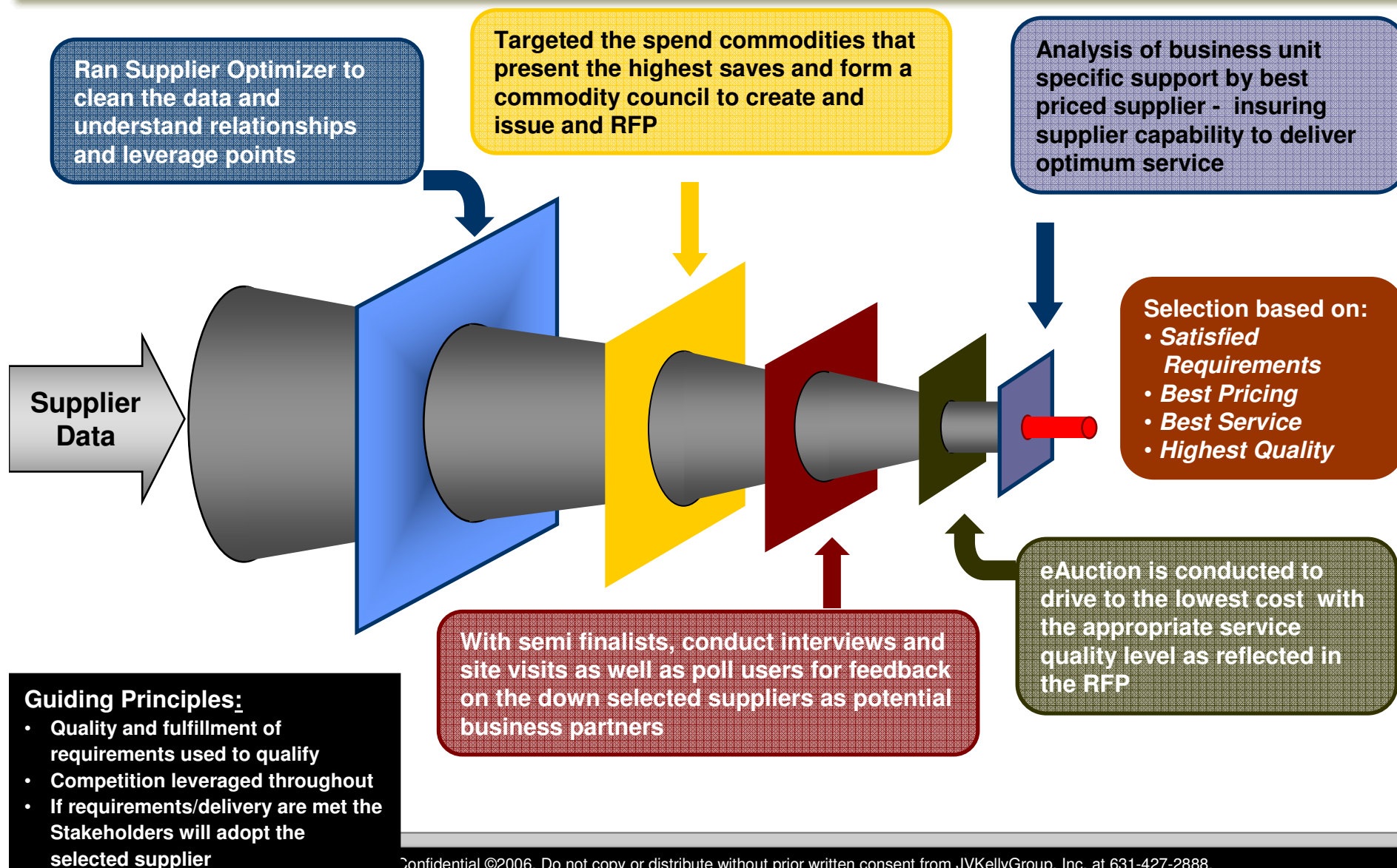
❖ We also identified the roadblocks to success and set milestones to keep our cost reductions on schedule

Gap Analysis - Advertising & Promotion						
No.	Advertising & Promotion	Best in Class	Current Practice	Severity (G Y R)	Courses of Action	Implications
1	Billing Appropriate to Skill Level	Rates for skills are known, and appropriate skill levels are assigned to work.	Not evident, needs further investigation.	Y	Review contracts, and agreements. Statements of work/invoices need detailed billing.	Over charges. Paying for more skill than necessary.
2	Measurement of Success of Program	Performance is measured. Compensation is tied to success of program.	Measurement of performance is not evident. Needs further investigation.	Y	Review contracts, and agreements. Establish metrics.	Paying for programs whether they are successful or not. Don't know if agency deserves compensation. Don't know which agencies are working for you vs those that are not.
3	Agency Management of Decision Process Within Client	Formal process with ROI clearly spelled out.	Not evident, needs further investigation.	Y	Review policies and procedures, map current process. Establish formal policies and procedures if none exist.	Commitments are made at inappropriate levels. Budget may be spent on less productive or desirable programs (smaller ROI).
4	Uniform Agency Selection Process	Criteria for consistency in agency selection exists as part of a company's policies and procedures.	Not evident, needs further investigation.	Y	Map current process and establish formal policies and procedures for agency selection.	Inappropriate agencies will be selected resulting in dilution of advertising spend and inappropriate rates.
5	Audit of Invoices	Invoices audited on a regular basis.	Not evident, needs further investigation.	Y	Determine if an audit process exists. Establish an audit process if none exists. (Purchasing?)	Incorrect fees could be paid. No measure of compliance to predetermined rates.
6	Ensure Appropriate Use of Established Rate Cards	Rate cards exist where appropriate and usage is enforced.	Not evident, needs further investigation.	Y	Review existing rate cards and compliance to them.	Projects may be re-quoted at a non-negotiated rate.
7	Segmentation of Products (Print, Fulfillment, Logo Items, etc.)	Business is focused with companies having functional expertise.	Some printing and fulfillment is purchased through Advertising Agencies.	Y	Marketing should be advised to use Agencies for creative primarily, and involve purchasing for sourcing production items.	Potential higher costs by using nonpreferred suppliers, plus agency markup costs.
8	Benchmarking Rates	Rates are benchmarked with industry norms and against internal sources.	Not evident, needs further investigation.	Y	Benchmark current rates to internal and external sources.	Could be paying noncompetitive prices relative to competition.
9	Line Item Details on Invoices	Predetermined rates, invoices clearly spell out charges.	Many invoices do not show rate details.	R	Require vendors to provide line item detail on invoices.	Inappropriate costs can be hidden in lump sum invoices without clear detail.
10	Fixed Price vs. Time and Material	Project based billing with outcome based incentives.	Not evident, needs further investigation.	Y	Review agency contracts or agreements and renegotiate where applicable.	Predeline costs and agency is incentivized based on performance.
11	Version Iteration in Scope of Work	Version iterations are anticipated and included in scope of work. Pricing for additional iterations is known upfront.	Preferred agency contracts specify iterations in scope of work. Not evident with other agencies.	Y	Review adherence to current agreements. Define iterations in scope of work with other suppliers.	Predeline pricing parameters prevents cost creep.
12	Definitive Service Level Agreements	Deliverables are clearly defined and tied to compensation.	Not evident, needs further investigation.	Y	Agency contracts or agreements need to be reviewed and renegotiated where applicable.	Without clear SLA's recourse is limited.
13	Number of suppliers is optimized	Category spend is focused with no more than 3-5 suppliers depending on the size and complexity of the spend.	Several categories have more than the optimal number of suppliers.	Y	Determine the number of suppliers being used in each category to highlight where there is potential for consolidation.	By spreading business with multiple suppliers opportunities for cost savings and higher service levels are missed.
14	Appropriate Use of Available Technologies in the Purchase to Pay Cycle	Electronic means of ordering and payment are utilized whenever possible.	In most instances, paper invoices are issued.	Y	Review capabilities and communicate desired processes to suppliers.	Provides an efficient and cost effective method of processing orders/invoices. Provides controls and compliance metrics.

As a result, we were also able to stratify our Change Management requirements

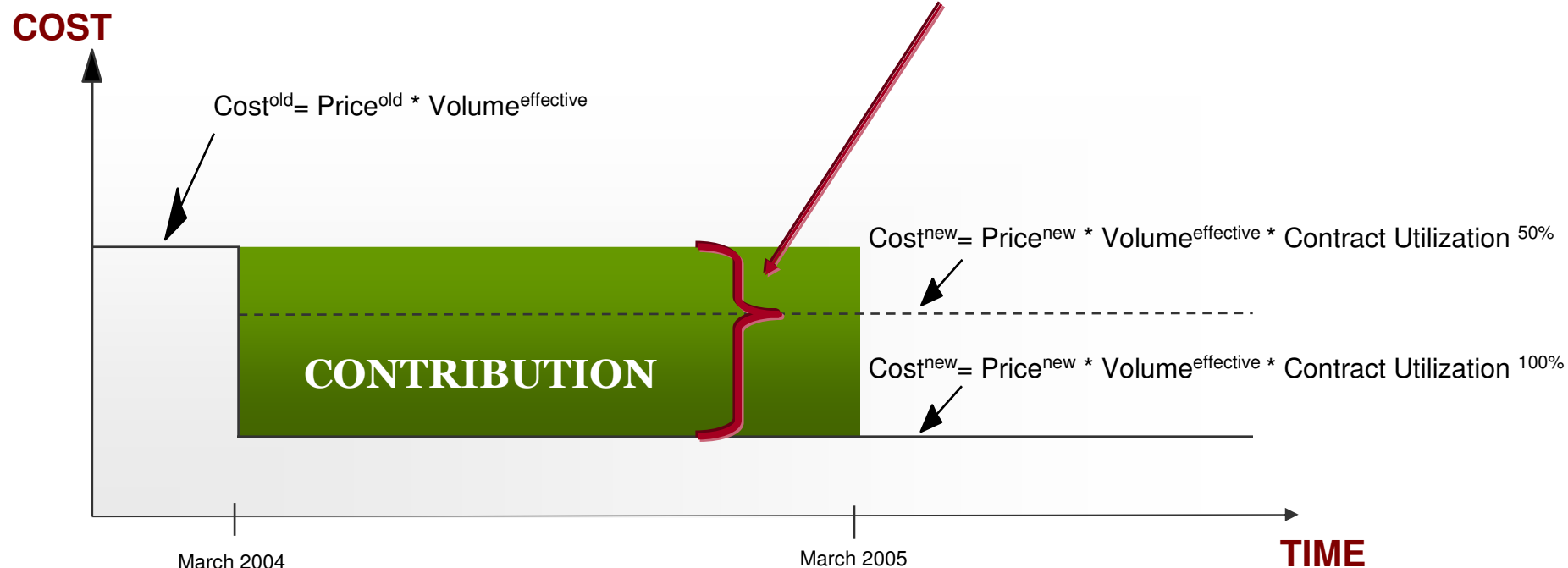


Then we sourced the targeted Categories



A critical success driver was implementing Budget Links to capture the reductions

Isolating the projected savings from the budgets, as the rates are reduced, protects against undirected re-use of the funds



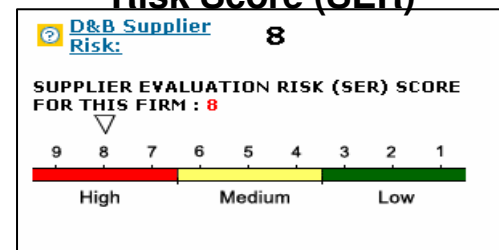


Decide with Confidence

We now use Supplier Optimizer to continually track compliance to programs and for proactive Risk Mitigation

UNSPSC Code	UNSPSC Description	Supplier Name	Q1 Spend	Approved
			\$20,271,620	
44120000	Office Supplies	Supplier #1	\$16,477,223	Yes
		Supplier #2	\$2,115,093	No
		Supplier #3	\$1,234,058	No
		Supplier #4	\$445,246	No

Supplier Evaluation Risk Score (SER)

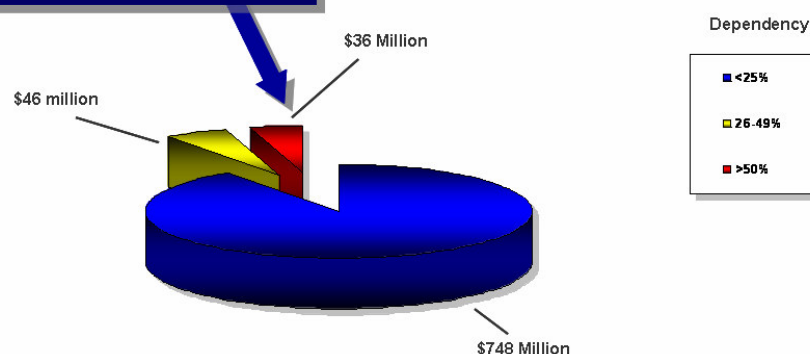


SER scores of 7, 8, 9 represent the highest risk of financial distress

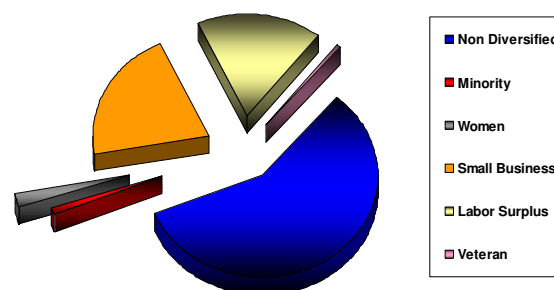
Tracking end user compliance to approved suppliers

Proactive Financial Risk Monitoring

\$36 Million in spend is with suppliers classified as **highly dependent**... >50% of their Total Sales is with Gorman.



Understanding supplier dependency levels



Tracking & reporting against supplier diversity goals

NOTE: Data shown in these screen shots is not actual company data and is for illustration purposes only

The results were measurable...

Professional Services

Background

2004 Achievements

- Estimated Target Spend - \$4.5 million – Finance; \$12 million Business Strategy
- Aligned with D&B Audit Group to execute a vendor selection process for the 2004-2005 Sarbanes Oxley Initiative
- Implemented a selection process that allowed D&B to effectively screen potential resources
- Identified and engaged outside audit firms to provide supplemental resources for the existing internal audit team
- Negotiated competitive rates at a significant reduction vs. existing rates

Goal & Timeline

Savings Goals

- Finance Consultants
- Business Strategy Consultants

Timeline

- Identify and review existing contracts – 6/2005
- Develop and present policies and procedures for vendor selection – 6/2005
- Propose revisions on select contracts – 8/2005
- Renegotiate contracts – 9/2005

Strategy

2005

- Develop and implement a sourcing solution across Finance & Business Strategy Professional Services
- Assist in renegotiating contract terms and conditions with existing providers
- Institute a comprehensive vendor selection process for all Audit related activities
- Evaluate the validity and feasibility of creating national/global agreements with approved suppliers while providing value added transactional and strategic services.
- Analyze the feasibility of item standardization of processes while meeting team business requirements

Critical Success Factors

Moderate Behavior Change

- Must gain alignment & support from all GLT for implementing disciplined processes and systems
- Need a strong upper management project champion (GLT/GLT+1)
- Need visibility into budget breakdowns and major project detail
- Obtain GLT approval and support on new Policies and Procedures
- Need Involvement from D&B team members
- Collaboration across functional leadership for major projects

Human Resource Services

Background

Human Resource Target Areas

- Talent Acquisition & Development
 - Sales Training
 - Recruiting
 - Learning & Development
- Compensation & Benefits
 - Defined Contribution Plans (401K)
 - Defined Benefits Plans (Retirement)
- HR Systems & Compliance
 - Internal Audit & Control
 - Technology

Goal & Timeline

Savings Goals

- Reduction in each category of spend

Timeline

- Talent Acquisition & Development – 05/2005
- HR Compliance & Systems – 06/2005
- Defined Benefits – 08/2005

Strategy

- Gain alignment with D&B leaders within each category
- Identify key savings opportunity within each category
- Elimination of administrative fees for investment plans
- Consolidate Learning & Development training partners
- Create complete list of active contracts
- Renegotiate contracts pending renewal
- Develop a communication strategy

Critical Success Factors

Moderate Behavior Change

- Alignment with and support from GLT with a directive to work with Purchasing to achieve savings goals.
- Involvement from D&B management & team members
- Obtaining budgets and major project detail
- Obtaining support and issuing new PS policies and procedures
- Collaboration across functional leadership for major projects

Advertising & Promotion

Background

2004 Achievements

- Analyzed 2003 D&B spend for Advertising and Promotions. Keyword Searches and Advertising Agencies identified as the primary areas of opportunity.
- Expense Management Plan presented to GLT (or their designees) to gain alignment and authorization to proceed received,
- **Keyword Search**
 - Four D&B BUs participated in the keyword project.
 - One supplier selected for a trial
- **Advertising Agency**
 - Alignment with stakeholders not obtained. Project stalled with little incentive by BUs to proceed.

Goal & Timeline

Savings Goal

- **Moderate Behavior Change**
 - Marketing Council strengthening
- **Extreme Behavior Change**
 - Reengineered process

Timeline

- Align with GLT or designees – 04/2005
- Align with Marketing Council on projects and opportunities, define '05 goals, gain alignment and develop plan– 04/2005
- Bring keyword project to a conclusion – 05/2005
- Execute plan – 09/2005

Strategy

2005

- Realign with GLT
- **Moderate Behavior Change** - Recommend challenging the Marketing Council with a behavioral change to step up as a team to achieve savings. Make cost savings a part of Marketing Council's goals and objectives for 2005
- **Extreme Behavior Change** - Reengineer process and accountability. Make BUs accountable for achieving savings goals
- BU's to work with Purchasing to optimize savings opportunity

Critical Success Factors

Moderate Behavior Change

- Must gain approval & support from all Marketing GLT. The communication to BUs needs to come from GLT to challenge the Marketing Council accept responsibility for achieving savings.
- GLTs to make cost savings a part of Marketing Councils goals and objects for 2005 and provide a directive to work with Purchasing to assist in achieving the savings goals.

Extreme Behavior Change

- GLT to make BUs accountable for achieving savings goals and to work with Purchasing to optimize savings opportunity

Travel

Background

2004 Achievements

- Identified savings opportunities in the areas Air, Hotel Car and Travel agency. Contract negotiations and Strategic Sourcing netted a savings of \$375K
- Collaborated with Controls & Compliance to achieve 95% Online Booking penetration - \$200K savings
- Transitioned Travel reservations to Expedia providing a \$127K incremental savings

Goal & Timeline

Savings Goal

- Hotel Savings
- Transatlantic travel
- Receive rebate plus Amex 45 day float on dollar amount

Timeline

- Hotel compliance – starting 03/2005, ongoing through 2005
- Rewards – 07/2005
- Transatlantic travel – 07/2005
- Payment through Amex T&E card – ongoing through 2005

Strategy

2005

- Achieve compliance to Preferred Hotels with allowance for informed exception management
- Discontinue the Rewards Prgm
- Change Transatlantic travel policy from Business Class to Premium Economy
- Provide payment to suppliers via Amex T&E Card rather than check, funds transfer or the P-Card

Critical Success Factors

Moderate Behavioral Change

- Savings projections for 2005 Strategic Sourcing based on 2004 level of spend
- Obtain GLT approval for each
- Buy-in from the D&B supplier relationship owner
- Buy-in from the suppliers to accept payment through Amex T&E card



Decide with Confidence

We've achieved and sustained world-class compliance

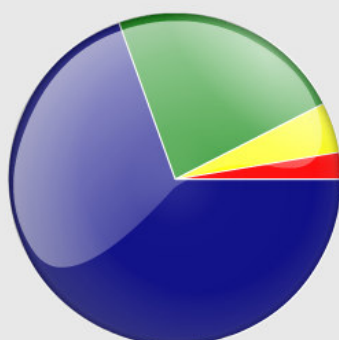
D&B 2006 Travel Dashboard

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Fee Metrics

2006 Fiscal Year Travel Spend



■ Air ■ Hotel ■ Car ■ Fee

Air Spend

Q1	\$1,390,830
Q2	\$-
Q3	\$-
Q4	\$-
Total	\$1,390,830

Car Spend

Q1	\$98,161
Q2	\$-
Q3	\$-
Q4	\$-
Total	\$98,161

Total Spend

Q1	\$2,000,286
Q2	\$-
Q3	\$-
Q4	\$-
Total	\$2,000,286

Hotel Spend

Q1	\$459,024
Q2	\$-
Q3	\$-
Q4	\$-
Total	\$459,024

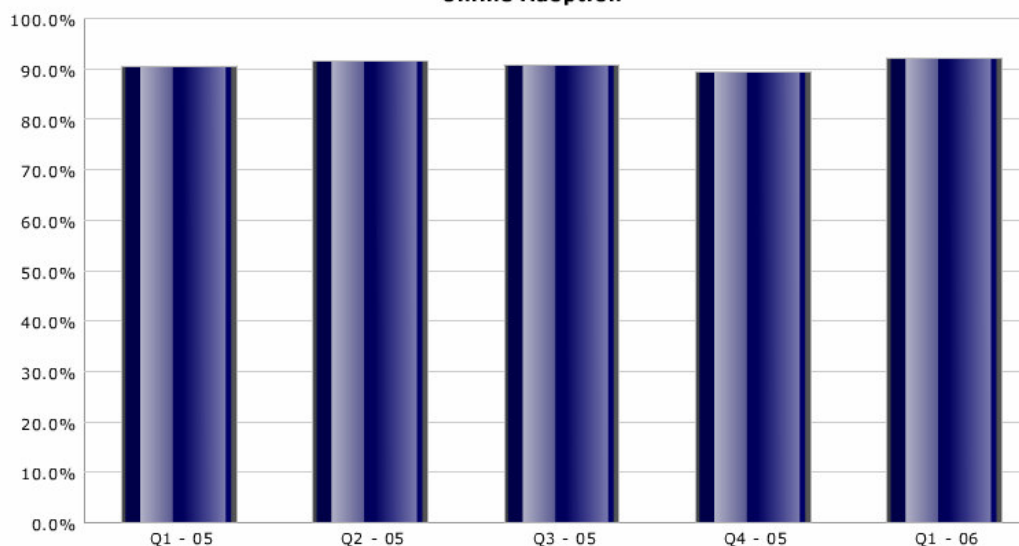
Fee Spend

Q1	\$52,271
Q2	\$-
Q3	\$-
Q4	\$-
Total	\$52,271

Fee Metrics - Detailed Reports

Online Adoption

Online Adoption



No Comment 2

The results have contributed significantly to D&B's operational and financial performance

	EXPENSE REDUCTION	COST AVOIDANCE	TOTAL CONTRIBUTION	
2004 Race to Reduction	\$4.2M	\$2.9M	\$7.1M	10.8% Contribution
2005 Race to Reduction	\$7.5M	\$0.4M	\$7.9M	
Program Effect on 2006	\$3.7M	---	\$3.7M	12.1% Contribution
Total	\$15.4M	\$3.3M	\$18.7M	

We have learned and validated many things along the way....

- ✓ **Start by understanding your current situation**
 - ✓ Clean and organized data is the first step towards insightful information
 - ✓ External business and market intelligence then creates knowledge which leads you to take action
- ✓ **Create a climate for change**
 - ✓ Financial flexibility is a core part of the culture and the strategy
 - ✓ Demand Management is not possible without a well designed and executed Change Management Program Measurement must be repeatable to track compliance with the process
- ✓ **Track results**
 - ✓ Expense Reduction needs to become a continuous process with the appropriate measurements for quarter over quarter monitoring and reporting
 - ✓ Treat your supplier base as an extension of you organization and quantify your risk exposure, monitor it, and manage it

Thank you

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