



## **Using Contemporary Sourcing Practices For the Human Resources Portfolio**

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**June 8, 2006**

**ISM Meeting**

# Agenda

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- About Pfizer
- HR Overview
  - Mission, Business Issues and HR Strategies
- Procurement Engagement in the HR Category
  - Learning the Landscape; What is the Value Add; Key Tools and Processes
  - Examples of Sub Category Sourcing Activity
    - Staffing, Training, Professional Services, Benefits Operations, Benefits
- What is next
  - Emerging Trends and How Procurement can Add Value
- Questions



## Agenda

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### ► **About Pfizer**

HR Overview

Procurement Engagement in the HR Category

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Questions

# Pfizer Is A Fortune 50 Leader

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## **“Life is Our Life’s Work”**

### **OUR PURPOSE:**

We dedicate ourselves to humanity’s quest for longer, healthier, happier lives through innovation in pharmaceutical, consumer, and animal health products.

### **PFIZER INC.**

- Is the *#1 Health Care Company* in the World
- Is the *12th Most Valued Company* in the World\*
- Earned *\$51.3Billion in Revenue* in 2005 in Over 150 Countries
- Is the *#1 Sales Force* in the Industry

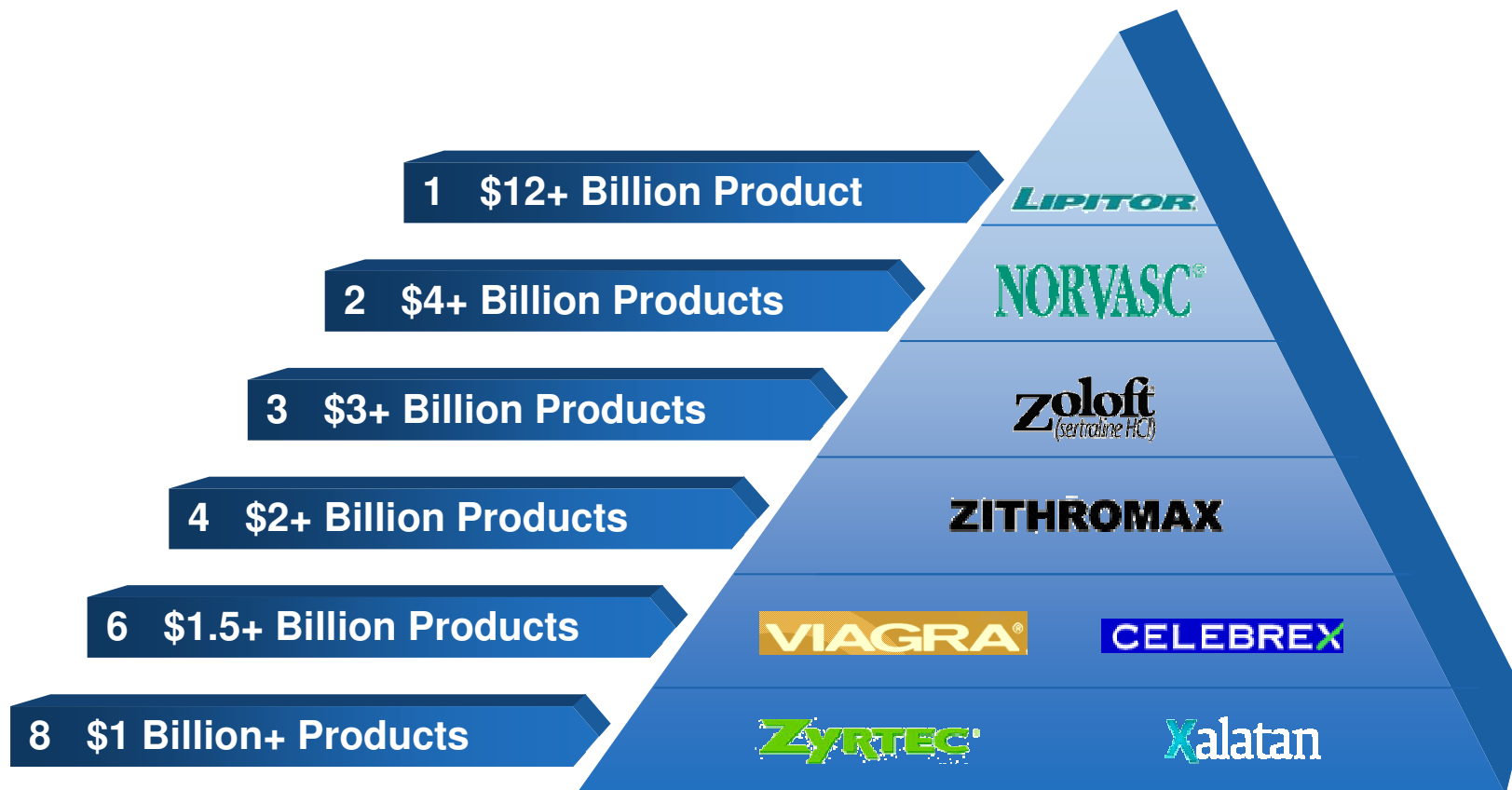
### **OUR MISSION:**

We will become the world’s most valued company to patients, customers, colleagues, investors, business partners, and the communities in which we work and live.

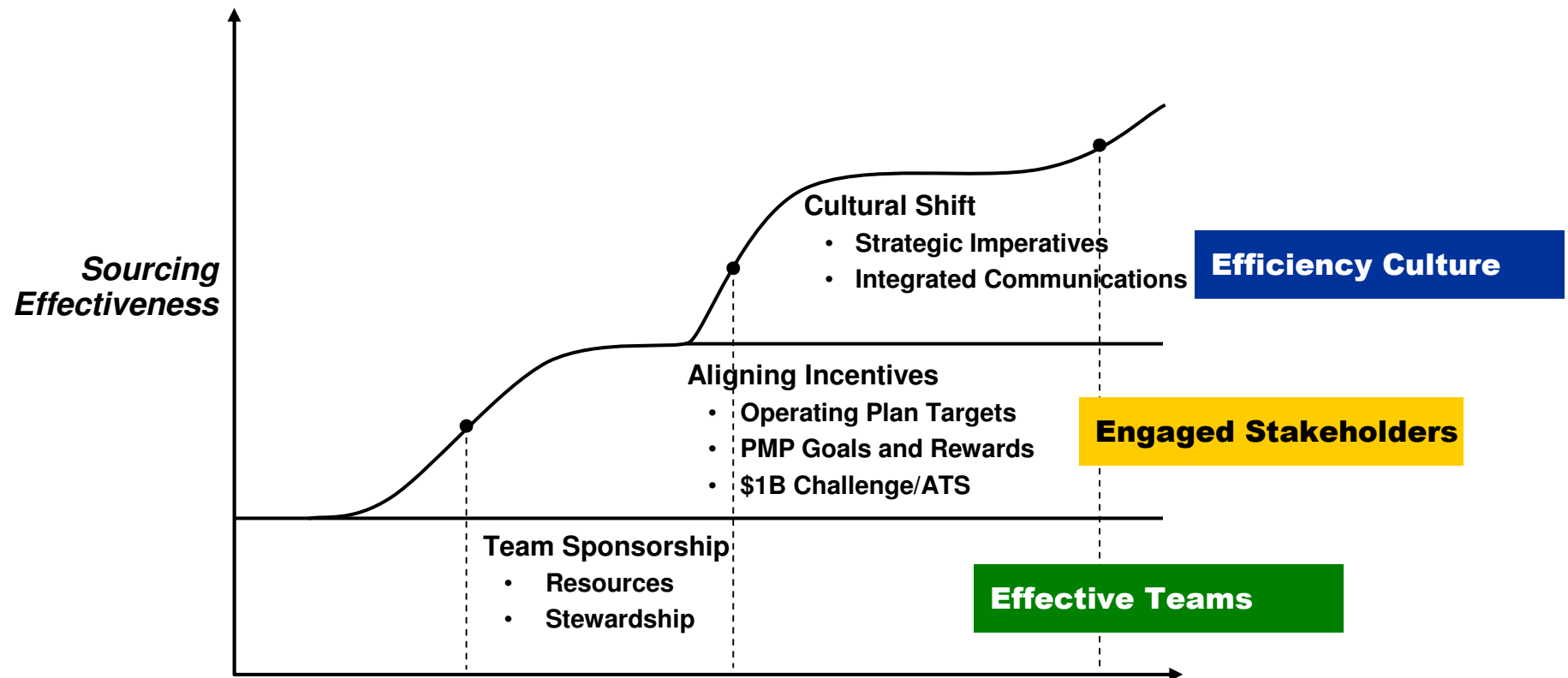
# Pfizer Manufactures and Markets Leading Pharmaceutical And Consumer Brands



## Leading Pharmaceutical Products



# Sourcing Effectiveness Increasing as Pfizer Embraces Efficiency Culture



**Greater Integration Will Allow Pfizer to Adopt Efficiency Culture**



## Agenda

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# HR Prime Directive – Attract, Develop and Retain Talent

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**You Bet on People, Not Strategies**





# Strategic HR Issues

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- **Marketplace Competitiveness and ‘Globalization 3.0’**
  - Examples – Airline, Automotive and Technology industries
- **Employee Engagement**
  - Global Talent and Performance Management Program design
  - New Health Plan and Retirement plan designs
    - Pfizer’s Healthy Directions - an innovative, preventive healthcare benefits design model
- **Managing HR related transactions**
  - Single country structure support; Regional or Global opportunities
  - HR expense tracking and control, globally
  - Self service HR transactions for colleagues and managers, globally
  - Outsourcing and Offshoring
- **‘Policy’ and Compliance**
  - Safe Harbor, Sarbanes-Oxley, Diversity and Inclusion

**Just As HR Was Able To Get To The Answers,  
The Business World Has Changed All The Questions**

# Benefits Sourcing - Healthcare

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**Recent cost increase trends have been in the 8-13% range**

**Best Performing Employers rely on a combination of new and old tools**

- Communications that Promote utilization of Quality Providers
- Ancillary Health Improvement and Productivity Programs
- Manage appropriate use of medical services through hard data
- Internet resources for side by side coverage comparisons
- Integrate health, disability, EAP and work/family programs

**Sourcing can play a key role in vendor selection for Implementation**

- Large employers typically offer multiple choices for employees and retirees

# Pfizer HR Activities Driven By Business Priorities



## Human Resources Activities



# **Healthy Directions Is a Key Component of Our Business and Employer of Choice Strategy**

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**Health is of vital importance at Pfizer**

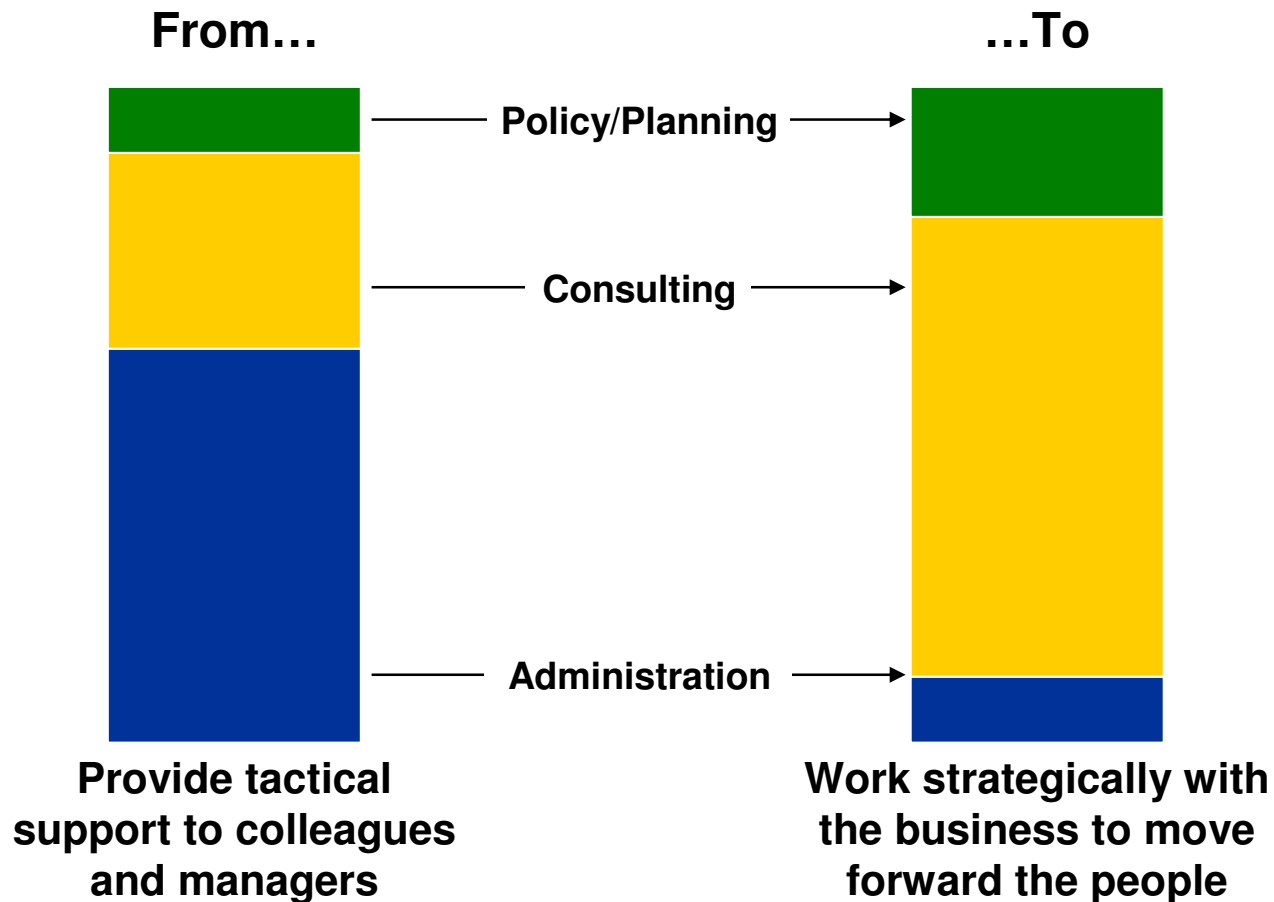
**Pfizer is committed to providing customizable health care services and benefits to all our colleagues and their families**

**We want to inspire every Pfizer colleague to be a champion for healthy living**

**Pfizer is leading the way in giving colleagues and their families the necessary tools and resources to support and encourage their health goals**

**Our Goal Is To Treat The Health Of Our Colleagues With As Much Respect  
As We Treat The Health Of Our Customers**

# For Organizational Effectiveness, New HR Service Delivery Model Is Key Enabler In Allowing Business Partners To Fulfill More Consultative & Strategic Roles...



**...Whilst Providing A More Focused Approach To 'Foundational' HR Activities**

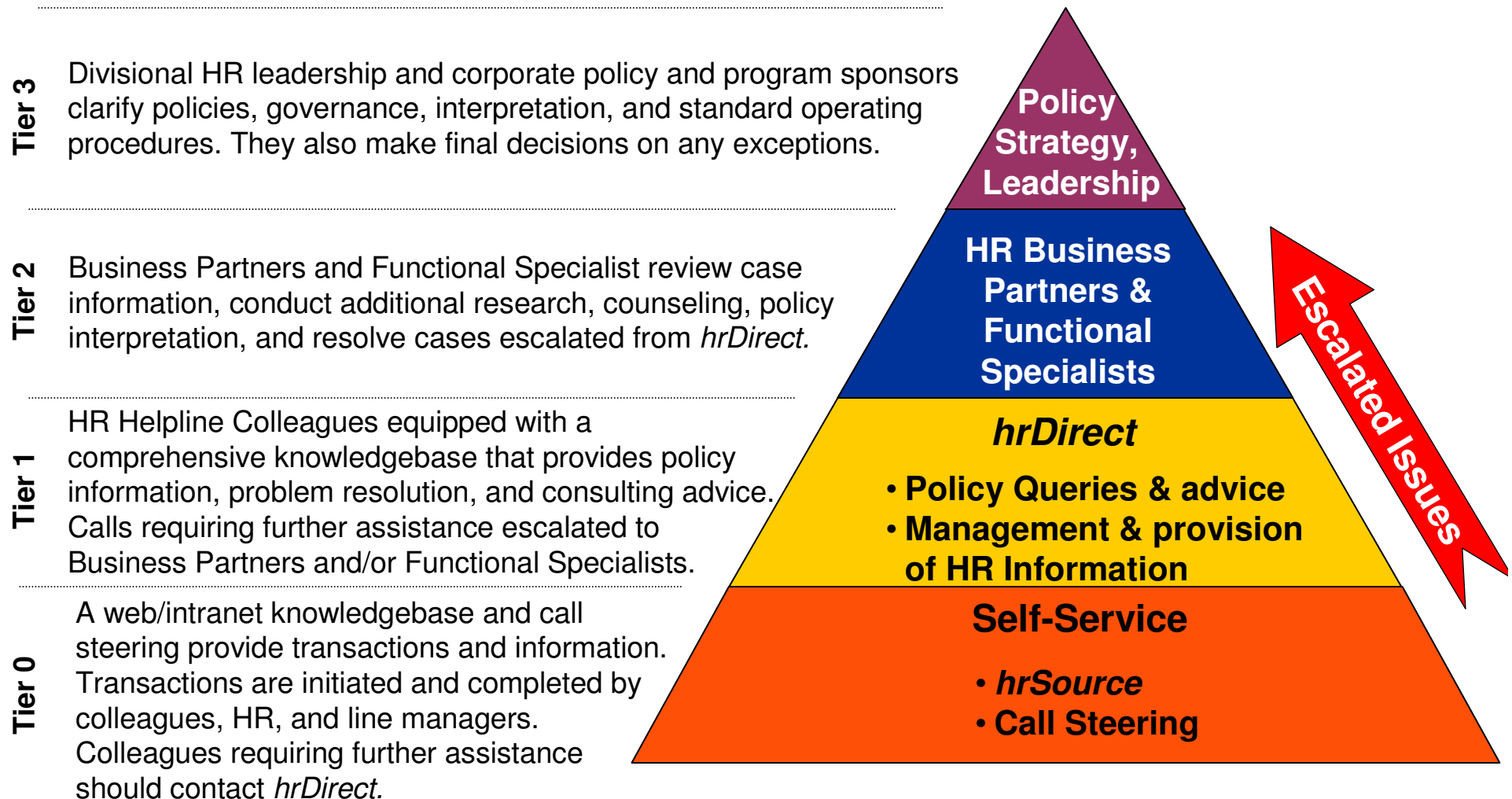
# With the Adapting to Scale Initiative, HR Identified Six Opportunities/Themes

Overlapping Opportunities In Organization, Process And Sourcing



<b>HR Operational Excellence</b> <ul style="list-style-type: none"> <li>■ Critical to credibility</li> <li>■ Adopt Six Sigma Methodology</li> <li>■ Communications plan/metrics</li> <li>■ Enhance standardization of US policies and programs</li> <li>■ Streamline US Payroll</li> <li>■ <b>Assertively manage key suppliers</b></li> </ul>	<b>HR Delivery of COEs</b> <ul style="list-style-type: none"> <li>■ Standardize processes and share best practices across divisions and geographies</li> <li>■ Increase use of shared services globally (Ops, Comp, Staffing)</li> <li>■ <b>Increase outsourcing selectively</b></li> <li>■ Integrate service delivery of all different specialty groups</li> </ul>	<b>Country / Regional Structure</b> <ul style="list-style-type: none"> <li>■ One HR organization per country or one regional HR organization</li> <li>■ Shared services within country (Ops, comp, Staffing)</li> <li>■ Standardize HR processes</li> </ul>
<b>Consulting Spend</b> <ul style="list-style-type: none"> <li>■ Reduce variable consulting spend 10%-20%</li> <li>■ <b>Better use of Global Sourcing capability to negotiate contracts and identify preferred suppliers</b></li> <li>■ Develop skills internally</li> </ul>	<b>Flatter Organization</b> <ul style="list-style-type: none"> <li>■ Increase # of direct reports per manager through broader business restructuring</li> <li>■ Eliminate bottlenecks and bureaucracy</li> <li>■ Streamline decision-making processes</li> </ul>	<b>Consolidate Corp. HR Support</b> <ul style="list-style-type: none"> <li>■ Better leverage talent across Corporate groups</li> <li>■ Consolidate groups and increase service levels</li> <li>■ Streamline decision making</li> </ul>

# New 'Tiered' Model For HR Service Delivery Allows Resources To Be Redeployed For HR Transformation



# HR's Management of Human Capital Activity is Changing and Increasing Sourcing Opportunities



Organizational Effectiveness			Compensation and Benefits				
Recruiting	Training	Outplacement	Financial Benefits	Insurance Benefits	Other Benefits	Health & Welfare Benefits	
Temp Labor			Relocation	Expatriate Admin.	Stock Option Admin		
Legal: Background Verification	Executive Coaching		Benefits Administration				
Legal: Drug Testing							
HR Professional Services (Consulting)							
HR IT							
Enterprise Applications (PeopleSoft, SAP)		Web Site Development		Call Center Technology			

**Engagement is 'Womb to Tomb', Personally and Professionally**





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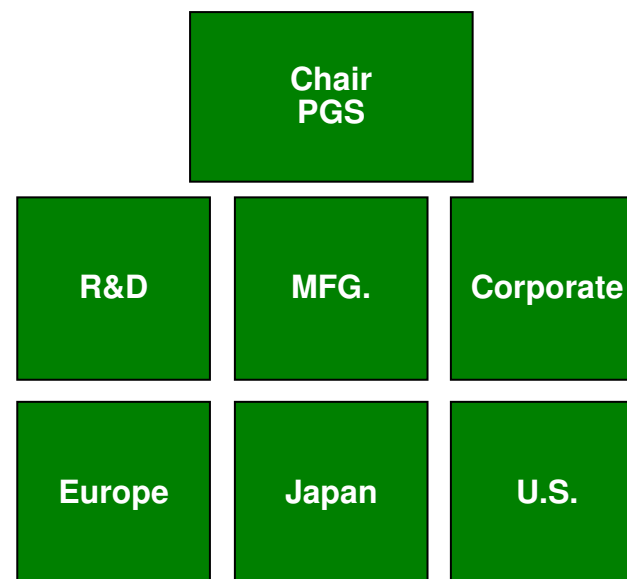
# Pfizer Procurement Groups Are Governed By A Shared Mission



## Procurement Mission

- Add value and efficiency through sourcing leadership by achieving Pfizer's strategic business imperatives, goals and objectives
- Provide focused and structured procurement services and innovative programs through:
  - Analysis of internal and external data
  - Purchase-to-pay process
  - Negotiating
  - Contracting
  - Supplier management process
- Deliver services on a global scale, with a keen understanding of regional and local needs

## Key Business Linkages: Global Procurement Council



## Operating Teams

Decision  
Support/  
Policy &  
Procedures

P2P  
Process  
Standardization

Best  
Practice  
Sharing

Supplier  
Management

**Procurement Efforts Unified By Sourcing Guiding Principles**

# Sourcing Approach

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**Regardless of Mandates/No Mandates; Centralized/Decentralized Orgs.**

**Create an Interactive Dialogue that encourages Two-way Exchange**

- Educate Sourcing on HR Strategy, Short/Long Term Objectives, Issues/Challenges
- Educate HR on what Sourcing Skills and Processes can help, Sourcing Role and Commitment

**Develop Teamwork**

- New relationship needs time for 'Forming, Storming and Norming'
  - Note: Changing the Role and Involvement of the Consulting Community

**Foster Trust**

- Respect the Confidential Nature of HR work

**Sourcing Goal: Become A Trusted Advisor That Helps HR Execute Strategies Focused On Business Objectives, Not Just Savings**

# Education Begins in Explaining that Sourcing Includes a Broad Range of Initiatives



## Types of Procurement Activities

### Strategic

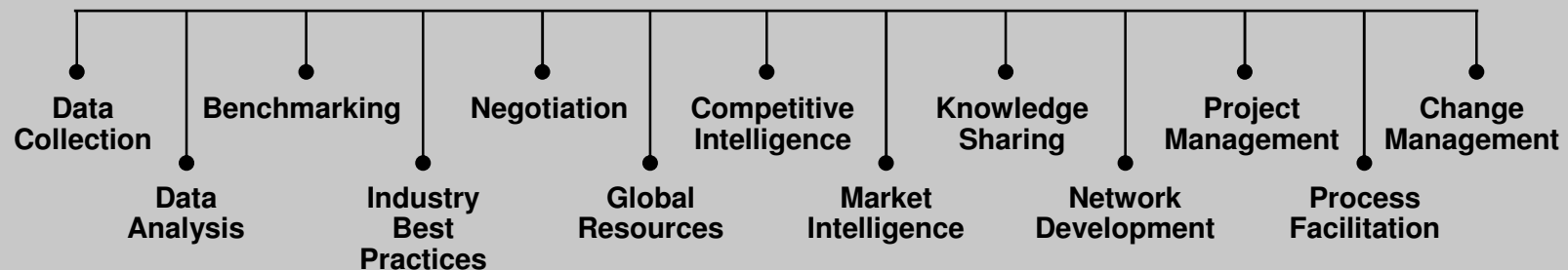
- Category Management
- Outsourcing
- Total Cost of Ownership
- Process Mapping/ Improvement
- Supplier Management
- Quality
- Sourcing



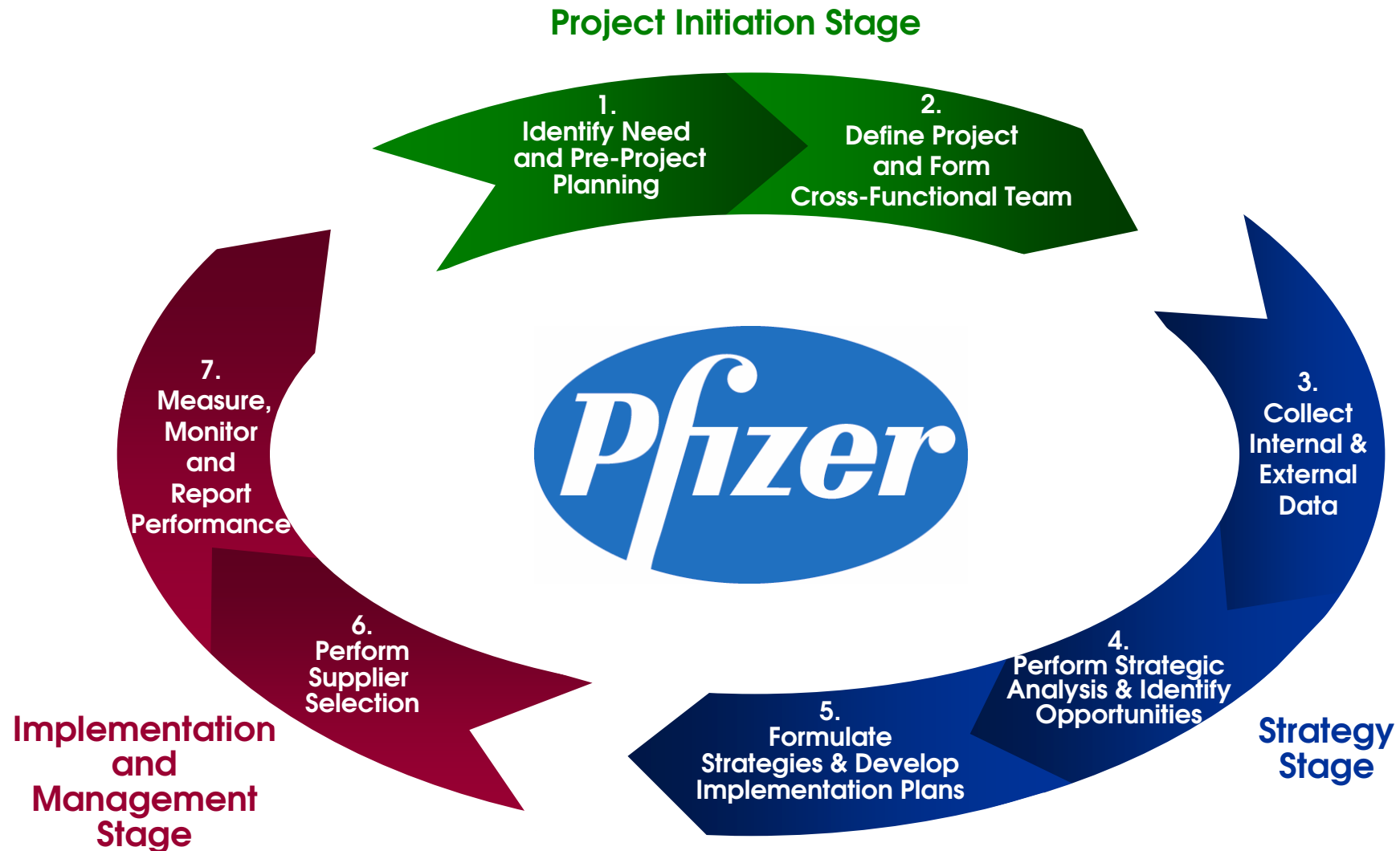
### Operational

- Quality
- Supplier Performance Management
- Order Fulfillment
- Client Relationship Management
- Contract Negotiation and Administration
- Preferred and Improved Payment Methods
- Supply Chain Efficiency

## Toolkit



# A Consistent Process Facilitates All Sourcing Projects



# Contracted Resources Is An Area That Sourcing Has Been Successful In Managing

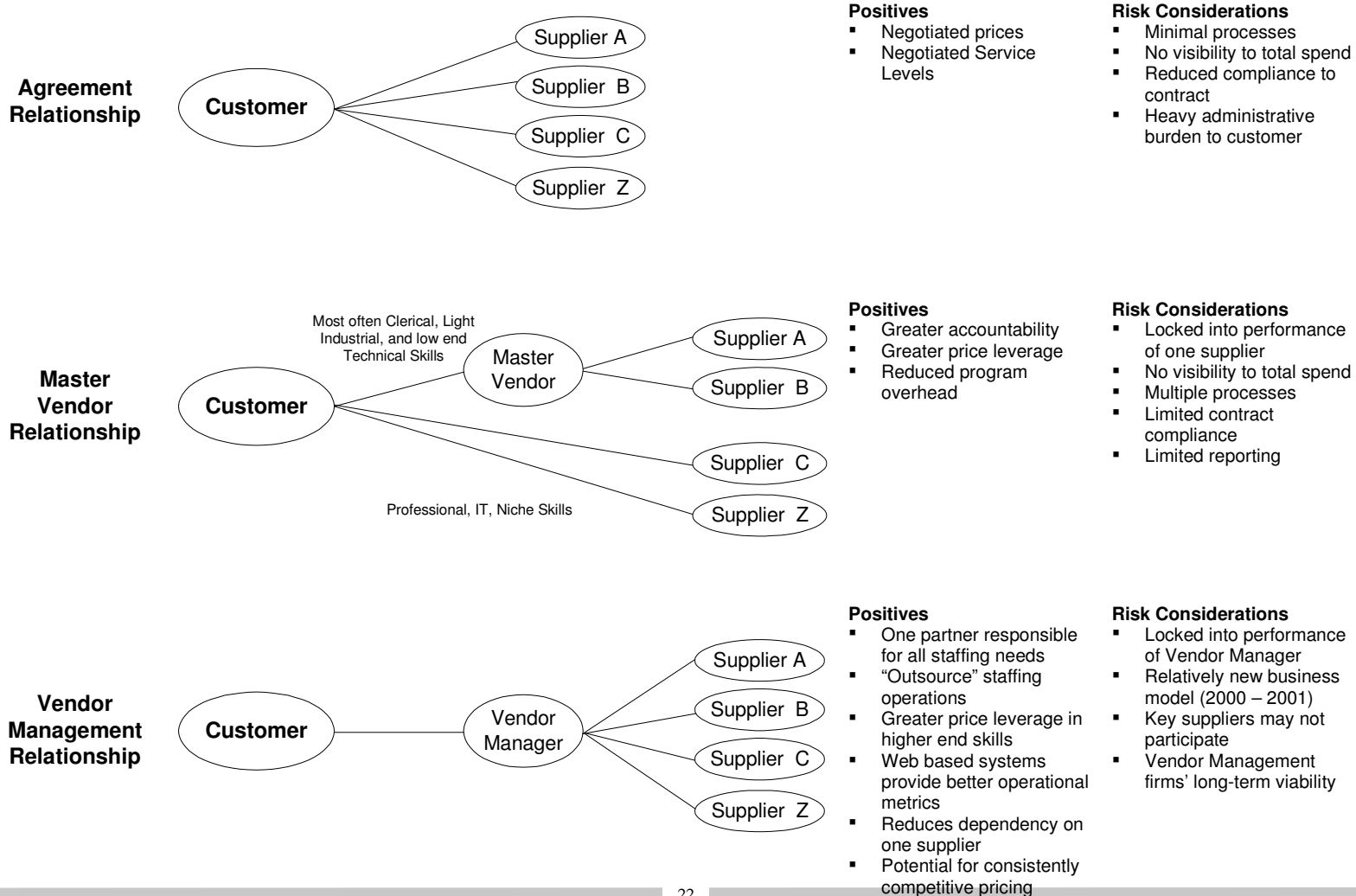


<b>Background</b>	Contracted Resources is one of the largest global HR spends; vital to allow for flexible resources to meet changing business requirements	
<b>Scope</b>	Temporary Labor and Independent Contractor requirements globally	
<b>HR Requirements</b>	Census reporting, Co-employment protection, Candidate screening, efficient staffing process, ability to convert to permanent employees	
<b>Market Overview</b>	<ul style="list-style-type: none"> <li>• Mature, with historical sourcing involvement and leadership.</li> <li>• Global supplier capabilities and technology.</li> <li>• Opportunities to consider broader outsourcing of functions, e.g. recruitment administration</li> </ul>	
<b>Sourcing Considerations</b>	<ul style="list-style-type: none"> <li>• Process and satisfaction</li> <li>• Operating Model</li> <li>• eProcurement capability</li> <li>• Level of supplier consolidation/site transitions</li> <li>• Managing performance via metrics and survey to improve quality levels</li> </ul>	<ul style="list-style-type: none"> <li>• Supplier diversity</li> <li>• Rate benchmarking</li> <li>• Scalable Contract</li> </ul>
<b>Issues</b>	'Leakage', 'permatemps', country laws impact operating models, migrating country deals to global umbrella contract, and cost transparency	

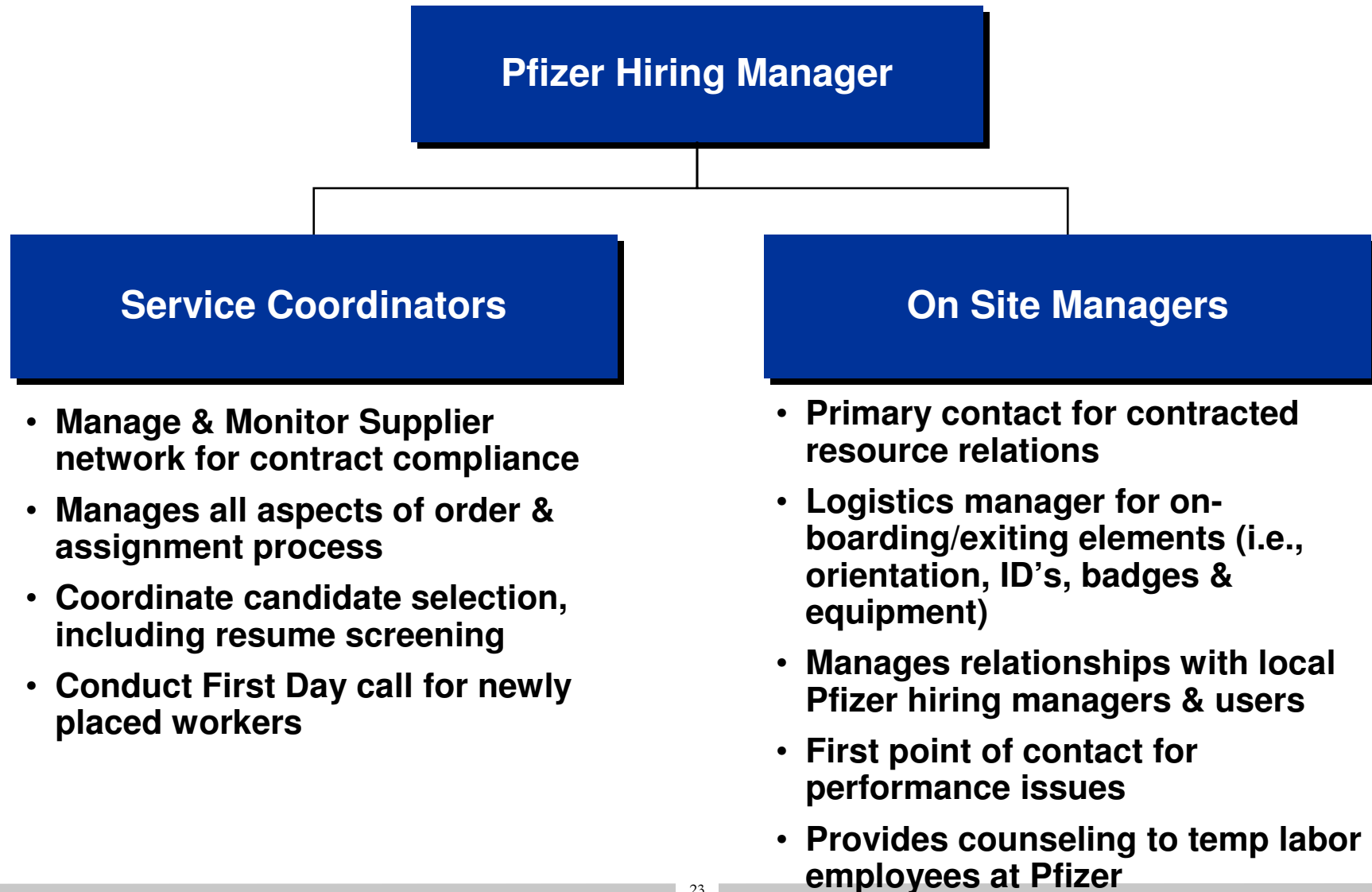
# Common Operating Models Used for Contracted Resources



## Vendor Management -- a Customer Perspective



# Pfizer Uses a Hybrid Approach for Contracted Resources







# Value Added Considerations

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## **Pay Rates**

Rate decisions can be made by our staffing partner; they can link base pay via their database to avoid overpaying; can be service metric as well

## **Drug Testing/Background Checks**

New guidelines require 10 panel drug testing and more specifics in background verification investigations. This is built into the contract.

## **Other Skill Sets**

Pfizer spends \$48+MM with over 150 staff augmentation companies covering Technical, Professional, Scientific and Market Research skill sets. Assessing financial and legal opportunity by managing these requirements under one point of contact

## **Quality guarantee**

Pfizer does not pay for poor temp work; with limitation.

## **Strengthened contractual terms**

Targeted pre-screening and indemnifications are the primary objectives; business benefits to Pfizer are extremely high

## **Productivity**

Supplier Management, Consolidated invoices, technology driven process, etc.

# Recruiting Sourcing



<b>Background</b>	Low overall turnover; exception is 20% turnover in sales, which is a critical business issue as new products are commercialized
<b>Scope</b>	Contingency and Retained Search firms; Staffing administration and Research services; internet job boards; Employment advertisement
<b>HR Requirements</b>	<ul style="list-style-type: none"><li>• Increase direct sourcing, employee referrals and optimize recruiting channels</li><li>• Improve speed to fill positions</li><li>• Improve Candidate to hire ratio</li><li>• Report and deliver qualified diversity candidates</li><li>• Leverage staffing technology to improve enterprise market intelligence</li></ul>
<b>Market Overview</b>	<ul style="list-style-type: none"><li>• Very competitive job market</li><li>• Varying vendor capabilities, global reach and technological sophistication</li><li>• Opportunities to consider broader Recruitment Process Outsourcing and bundle with Contracted Resources business requirements to some degree</li></ul>
<b>Sourcing Considerations</b>	<ul style="list-style-type: none"><li>• Standard Contracts</li><li>• Level of supplier rationalization</li><li>• Performance related fee structure tied to volume meeting service metrics</li><li>• Contract globally as possible</li></ul>
<b>Issues</b>	<ul style="list-style-type: none"><li>• Fragmented Staffing organization and marketplace</li><li>• Alignment of goals between supplier, candidate and employer</li><li>• Market conditions vs. cost per hire targets</li></ul>

# Recruiting Metrics



Metric	Good	Bad	3 Year Total Return to Shareholders Premium
Time to fill	2 weeks	7 weeks	48%
Offer to Acceptance	1 offer	2+ offers	12%
Employee Referrals	38% of all hires	<10% of all hires	25%

# Training Sourcing

Adapting To Scale Objective: Evaluate Creation Of One Business Based Operating Structure To Develop And Deliver Training

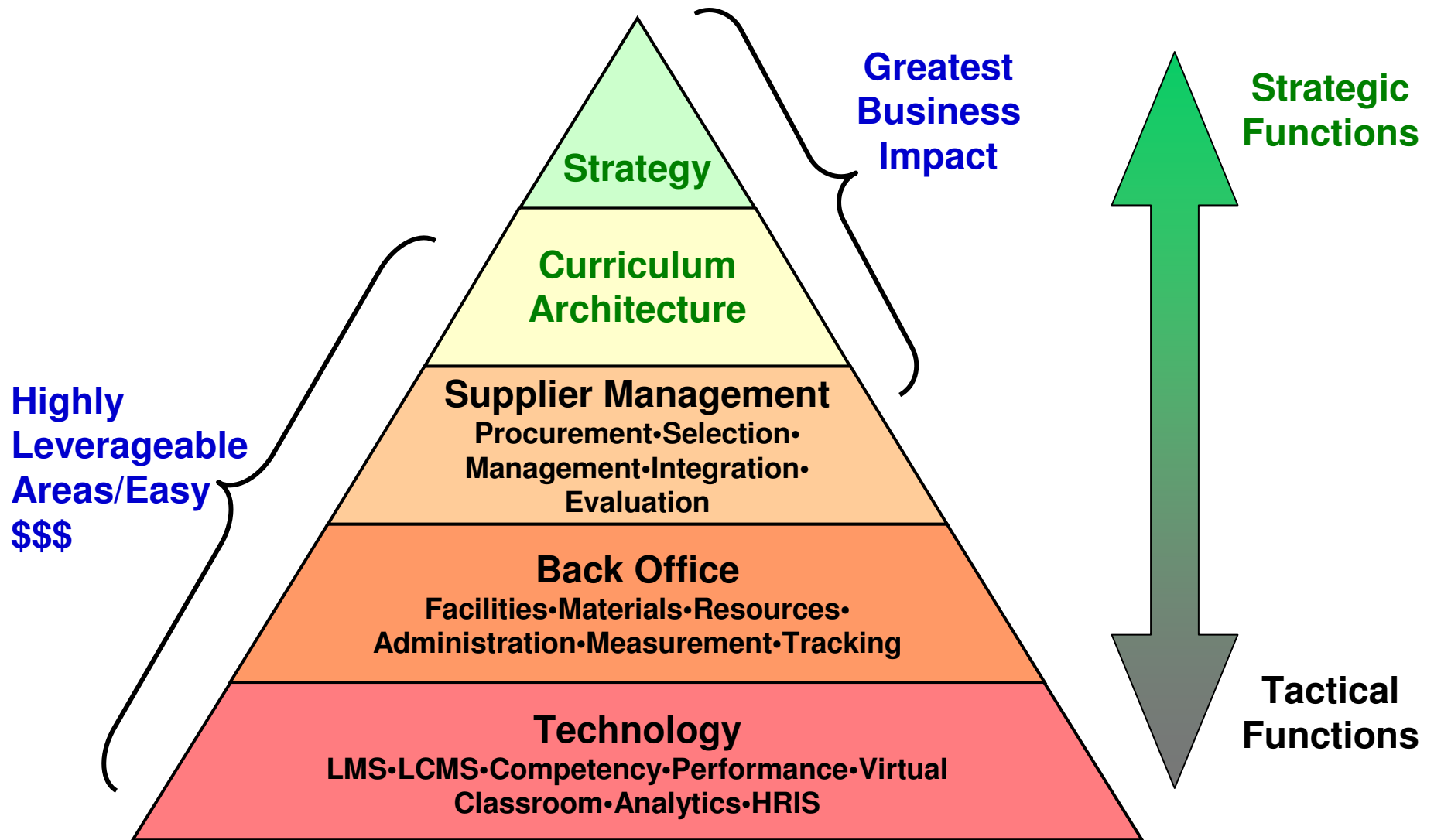


<b>Background</b>	Recognized as a Top 5 Training Organization; foundation of Sales Force competitive advantage; reinforces Employer of Choice effort
<b>Scope</b>	Software licenses for eLearning, traditional professional services related to training, learning management systems. Excludes Executive Coaching
<b>HR Requirements</b>	<ul style="list-style-type: none"><li>• Strategic approach to eliminate global redundancies, overspending, inefficiencies</li><li>• Content development agility to keep connected to changing business strategies</li><li>• Meet regulatory need to track completed training</li><li>• Optimize distance learning</li></ul>
<b>Market Overview</b>	<ul style="list-style-type: none"><li>• Niche marketplace with few global suppliers</li><li>• Small Business Enterprises are common</li><li>• Universities are emerging supplier candidates</li><li>• Emerging market for Learning Management systems</li><li>• Desktop learning continues to expand as technology advances</li></ul>
<b>Sourcing Considerations</b>	<ul style="list-style-type: none"><li>• Contractual rights to Intellectual Property as appropriate</li><li>• Curriculum and supplier rationalization</li><li>• Outsource learning management administration scalable across the enterprise</li><li>• eLearning rate cards</li><li>• Collaborate with meeting and events and IT teams</li></ul>
<b>Issues</b>	<ul style="list-style-type: none"><li>• Customization, Content overlap, lack of demand management, fragmented marketplace</li></ul>

**Sourcing and Re-engineered Training Approach Could Deliver 20% Savings**

# Human Resources AtS

## Typical Learning Organizations Functions



# Relocation and Expatriate Administration Sourcing



<b>Background</b>	High volume account; driven by sales force mobility and business realignment; primarily moving during non-peak season. Small but constant expatriate population
<b>Scope</b>	Relocation service provider, expatriate administration and tax services, household goods moving companies, household goods mover auditor, Insurance, destination services, and intercultural service providers.
<b>HR Requirements</b>	<ul style="list-style-type: none"><li>• Policy Benchmarking, Service Performance and Reporting</li></ul>
<b>Market Overview</b>	<ul style="list-style-type: none"><li>• Limited global competition</li><li>• Moving costs impacted by fuel and labor economics</li><li>• Ability to bundle or unbundle services as needed</li><li>• Housing market cooling down</li></ul>
<b>Sourcing Considerations</b>	<ul style="list-style-type: none"><li>• Developed Pfizer Standard Contract for Household Goods Movers (ongoing supplier performance predicates volume) and global contracts for relocation service provider and expatriate administration</li></ul>
<b>Issues</b>	<ul style="list-style-type: none"><li>• Cost transparency, particularly on international moves</li><li>• Actively managing performance</li><li>• 'Freight that talks back'</li></ul>

# Achieving Price Reductions And Improving Performance Is A Powerful Endorsement For A Comprehensive Sourcing Approach



## Performance Metrics – Reported by Vendor

Move Volume	
Prior	Current
606	685

Average Cost*	
Prior	Current
\$6491	\$5821

On-Time Pickup	
Prior	Current
98.9%	99.6%

On-Time Delivery	
Prior	Current
98.6%	99.0%

Turndown	
Prior	Current
0%	0%

Claims	
Prior	Current
22%	19.9%

Average Claim	
Prior	Current
\$599	\$489

COPQ	
Prior	Current
\$141	\$98

## Customer Satisfaction Metrics – reported by transferee, 5 point system

Coordinator	
Prior	Current
4.2	4.1

Quality of Service	
Prior	Current
3.9	4.0

Claim Settlement	
Prior	Current
3.2	3.4

Overall	
Prior	Current
3.9	4.0

\*Real Data from 1996-1997; undisclosed company.

# HR Consulting Sourcing



<b>Background</b>	Traditional reliance on firms for subject matter consulting, project management and RFPs
<b>Scope</b>	<ul style="list-style-type: none"><li>• <b>Contracting with Professional Services (Consulting) firms primarily used by HR</b> (i.e. Towers Perrin, Mercer, Watson Wyatt, Hay Group and Hewitt)</li><li>• <b>Excluded are firms that have a broader portfolio of consulting services</b> (i.e. Ernst and Young, Deloitte and Touche, IBM/PwC) – they are contracted in umbrella master service agreements in IT or Management Consulting</li></ul>
<b>HR Requirements</b>	<ul style="list-style-type: none"><li>• <b>Project Delivered on Time and on Budget</b></li><li>• <b>Targeted reductions in usage</b></li></ul>
<b>Sourcing Considerations</b>	<ul style="list-style-type: none"><li>• <b>Developed Pfizer Standard Contract for Professional Services with Rate cards</b></li><li>• <b>Typically rates are fixed, with business value earned depending on fee revenue</b></li><li>• <b>Scopes of work either time and material or fixed fee</b></li><li>• <b>Emerging savings opportunities in offshore work</b></li></ul>
<b>Issues</b>	<ul style="list-style-type: none"><li>• <b>Avoiding conflicts in consulting engagements and HRO candidacies, continuous project tracking and knowledge management</b></li></ul>

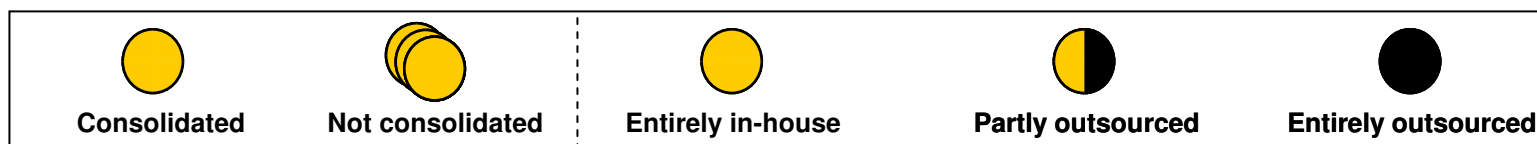
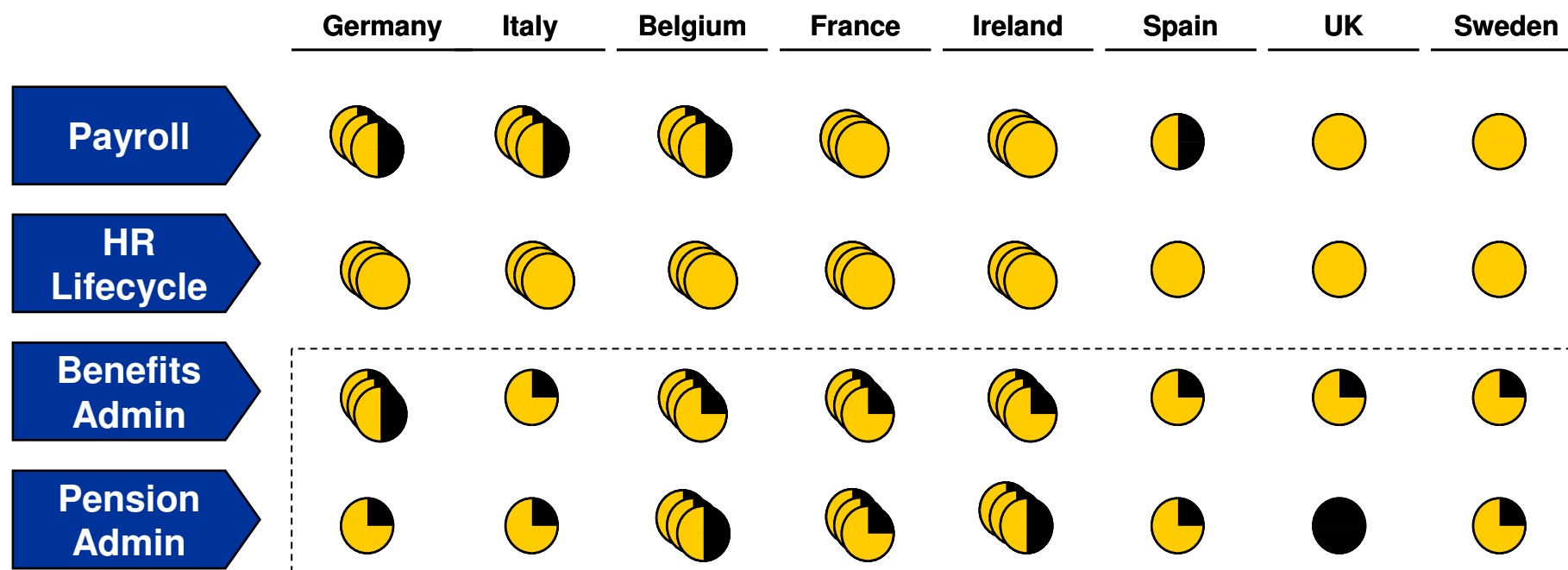


# Payroll and Benefits Administration Sourcing



<b>Background</b>	2 major acquisitions, multiple vendor relationships; Hybrid insource and outsource models that varies by/within country
<b>Scope</b>	Payroll, Savings Plan, Pension Plan, Health and Welfare, Ancillary Benefit Administration.
<b>HR Requirements</b>	<ul style="list-style-type: none"><li>• Meet Service Level Agreements, comply with country regulations, able to support plan design changes; Data security</li></ul>
<b>Market Overview</b>	<ul style="list-style-type: none"><li>• Hot spot for outsourcing; opportunities to go broader and bundle with other HR functions, Investment funds management and consulting</li><li>• Service level performance uneven and requires active management from a service level and financial perspective</li></ul>
<b>Sourcing Considerations</b>	<ul style="list-style-type: none"><li>• Significant opportunities to leverage scale</li><li>• Sourcing experience with IT Outsourcing advantageous</li><li>• Pre-Transition planning essential</li><li>• Contract complexity requires multiple stakeholder inputs ideally coordinated by sourcing</li><li>• Expend resources on pre-award due diligence on how service levels will be met so as to develop service level agreements</li><li>• Formalize ongoing supplier management process post-contract to manage performance to meet client expectations</li></ul>

# Pfizer Europe: all benefits and pension activities partially outsourced to date



Source: HR AtS Phase II data collection, BCG analysis



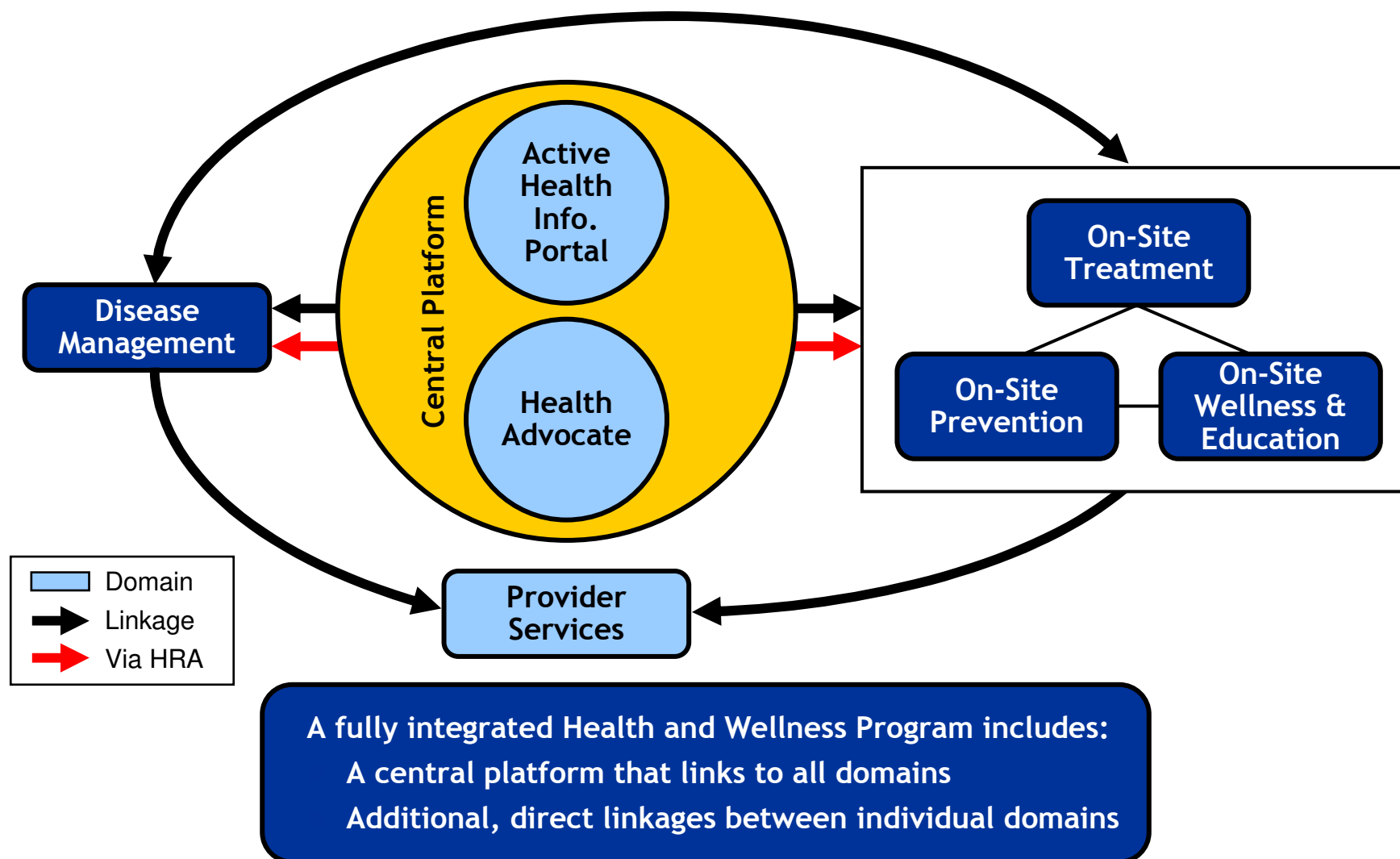
## Benefits Sourcing - Introduction

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- Benefits are an emotive area of fiscal importance
  - Health and Welfare: estimate 5 -13% of Annual Payroll
- Companies make value judgments about what is needed to Compete for Talent
  - Drives Benefit Plan Designs and Contribution Strategy for Employees and Retirees
- Global Competition and Demographics making traditional benefit designs extremely difficult to maintain
- Sourcing Involvement still evolving
  - Procurement Strategy Council – 35% surveyed actively manage Benefits
  - CAPS Study – 10-11% Savings estimated as % of Spend
  - Sourcing professionals can play a role in optimizing the Benefits investment
    - Due diligence of Benefit Provider selection
    - Analyzing cost comparisons of overall Benefits delivery
    - Negotiation and Coordination of the contract
    - Provider performance - Service levels are an ongoing opportunity to improve
    - Support Union negotiations in collective bargaining of Benefits

**Goal: To Lead A Focused, Persistent Effort To Influence What We Can**

# In The Best-in-class Model, Direct Linkages Integrate Service Domains Across The Program



# Benefits Sourcing - Medical

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- Health Plans – Leverage scale where possible
  - Compare geo access results to standards, NCQA status
  - Insurance Pricing dependent on plan design, claim experience, services required, profit and overhead
    - Scale allows self funding option; negotiate fees and possible risk sharing
    - Smaller populations – fully insured premiums; understand claim experience
  - Confirm ability to manage to your plan design – limits to fully insured plans; beware ‘outlier’ design
- Data analysis may require Consultant resource – underwriter/actuary
  - Value of underlying provider discounts on net claims cost
  - Carving in/Carving out supplemental vendors based on fact
    - Pharmacy Benefits Management (PBM), Disability and Mental Health
  - Claim Overpayment Audits should be conducted periodically
- Negotiation Strategy/Tips
  - Volume tiers – particularly for ASO/self funded providers
  - Use of Contribution differentials – Can create risk related selection
  - Deducting historical performance penalties upfront and offer as a cash incentive
    - Target gains in Medical Cost Effectiveness, Service Performance, Employee Satisfaction with Major Plan(s)
  - Fixed ASO fee or allow for CPI increase minus Productivity

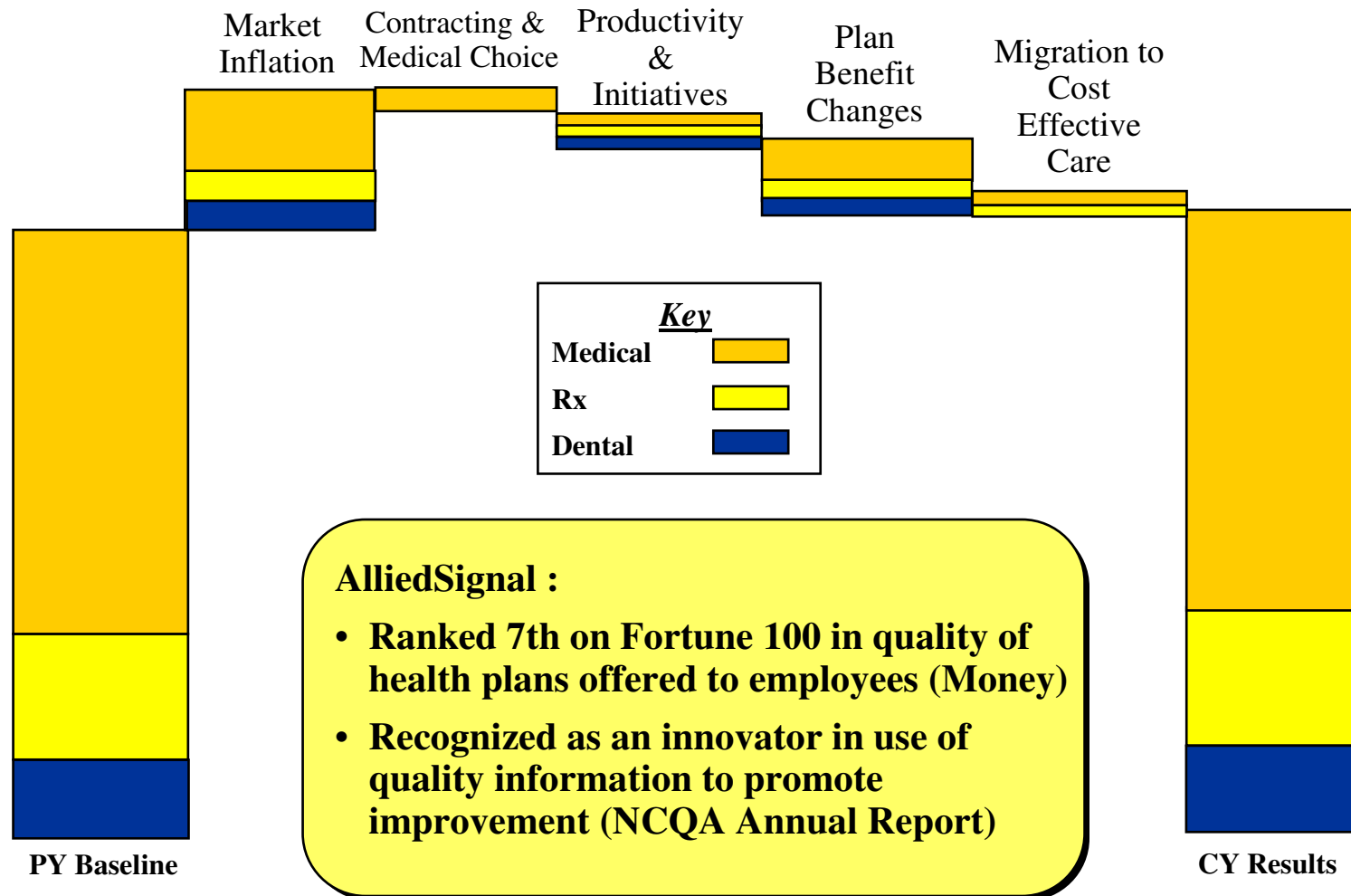
# Benefits Sourcing – Pharmacy Benefits Management

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- Industry consolidation created the big 3
- Plan design plays a big role in cost containment opportunities
  - Formulary/No Formulary, co-insurance, mail order incentives
  - Rx cost in isolation without some integration with medical costs may not tell the whole story
    - Pitney Bowes
- Large companies will have a huge database
  - Understand/Compare discounts and AWP
  - Rebates – provide some transparency
- Sourcing tips
  - Similarities to Medical
  - Expect Nominal Administration and Dispensing fees
  - Smaller companies – consider a Purchasing Coalition
  - Mutual Business Strategy/Performance Reviews bring opportunity

# Value of Sourcing and HR Collaboration



**Leading Benefits Design Aligned with Procurement Strategy**

# Contemporary Sourcing Processes Can Be Used Across HR Category, Use A Targeted Approach



Sourcing Skills and Processes	HR Related Sourcing Initiatives					
	Staffing (Contracted Resources)	Staffing (Permanent)	Consulting/ Training	Relocation	Benefit Admin	Benefits
Consultant Need					TBD	★
Six Sigma/ Continuous Improvement	★			★	★	★
eRFX and/or Reverse Auction	★	★		★	★	★
Global Contracting	★	★	★	★		
Service Level Agreements	★	★		★	★	★
Supplier Management	★		★	★	★	★
Offshoring			★		TBD	





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► **What Is Next**

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# Emerging Human Resources Trends and Sourcing Implications

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- Staying connected with the HR Community at large
  - Society of HR Management (SHRM); Conference Board Conferences
  - Supplier Client Advisory Boards, Consulting eNewsletters
- Increased Alignment of Businesses and HR
  - Developing sustainable HR programs now and in the future
  - New Challenge in Executive Compensation – use of outside advisors vs. Compensation Committee
  - Increased reliance on Sourcing as part of the HR team
    - Continuous Process improvement – faster, better, cheaper
- Staffing
  - Changing employee engagement ‘deal’ from paternalism to ‘free agency’
  - Offshore Administrative Support
  - Elder hires/contracted resources – different comp and benefit needs
- Increasing outsourcing/offshoring
  - Global Benefits Administration – broader than current market offerings
- Benefits
  - New Health and Welfare approaches creating proliferation of niche specialty vendors
  - Emerging market will require supplier assessments and due diligence prior to market consolidation

# Significance of Supplier Management



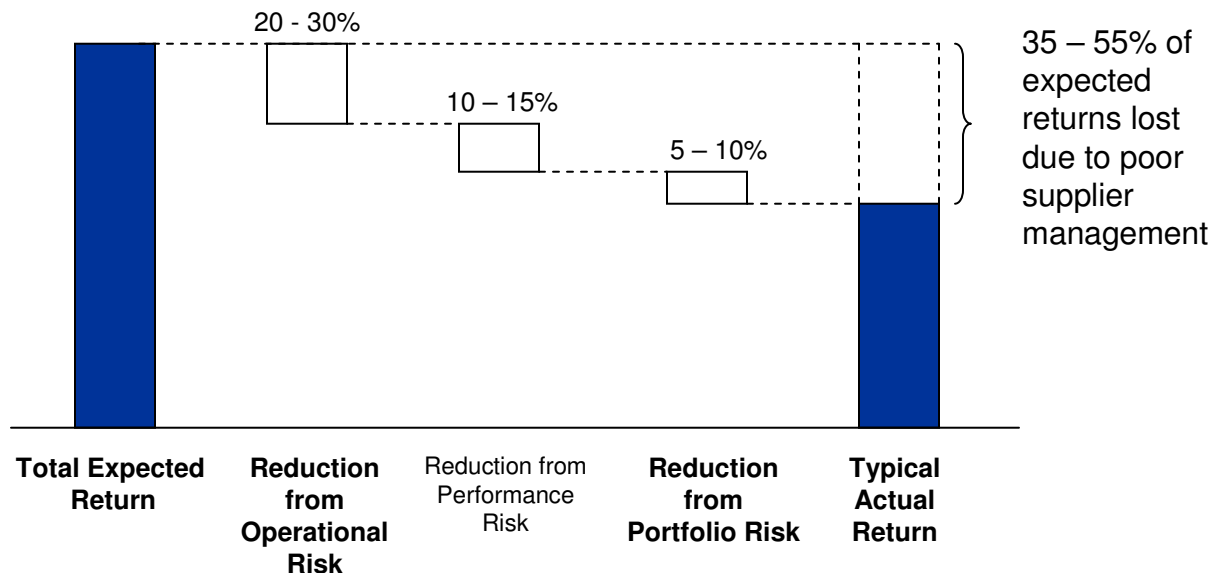
## Phases of the HR Outsourcing Process



### Risks Due to Ineffective Supplier Management

- Operational: risk to daily maintenance of relationship and processes
- Performance: risk of achieving expected outcomes and returns
- Portfolio: risk to business by preventing value capture beyond the contract

### Average Loss of Outsourcing Value

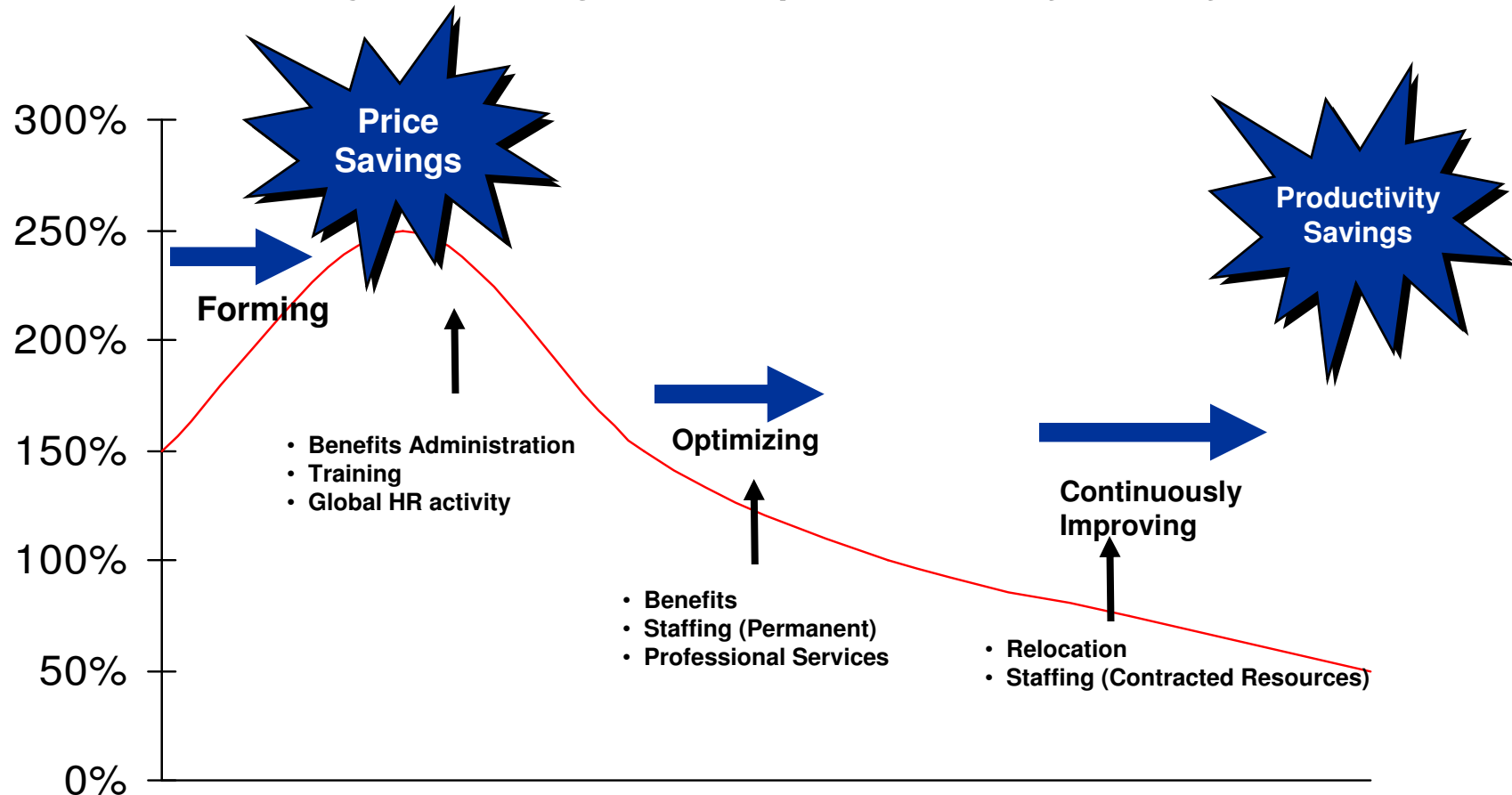


Source – Maximizing Returns on HR Outsourcing Investments, Corporate Leadership Council, June 2004.

# Sourcing Savings Will Evolve From Price And Be Generated By Productivity And Supplier Management Over Time



Projected Savings Based Upon Commodity Maturity





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