



Building a Business Case for Services Procurement

ISM Services Conference

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Today's Topics

- ▲ Challenges and Opportunities When Addressing Procured Services
- ▲ Start With Procurement, Not Sourcing?
- ▲ The “Land and Expand” Approach
- ▲ Building and Executing a Business Case

Challenges and Opportunities When Controlling Procured Services

Challenges:

- ▲ Spending decisions dispersed throughout the enterprise
- ▲ Entrenched suppliers and business owners
- ▲ Many fragmented categories, geographical suppliers
- ▲ Often difficult to get good spending information
- ▲ Deliverable definitions and quality specifications are unique to each requisition
- ▲ Many unknowns at sourcing & contracting time

Opportunities:

- ▲ Large and growing services spending
- ▲ Significant cost savings possible
- ▲ Personnel-related risks of services (security, safety, co-employment, etc.) can be greatly reduced
- ▲ Services have high impact on business results - can increase value year-over-year

Services Spending

BIG OPPORTUNITY

CAPS Study:
Average Services Spend
is 31% of all Spending

- ▲ 12% of revenue on average
- ▲ 28% have no formalized procedures, 45% are decentralized, highly manual
- ▲ Maverick spending (24%) twice that of goods purchases
- ▲ Average savings 18% from end-to-end automated processes

"Managing Your 'Service Spend' in Today's Service Economy"
D. Steven Wade, Director of Research/Benchmarking
CAPS Research © July 2003

GROWING IMPORTANCE

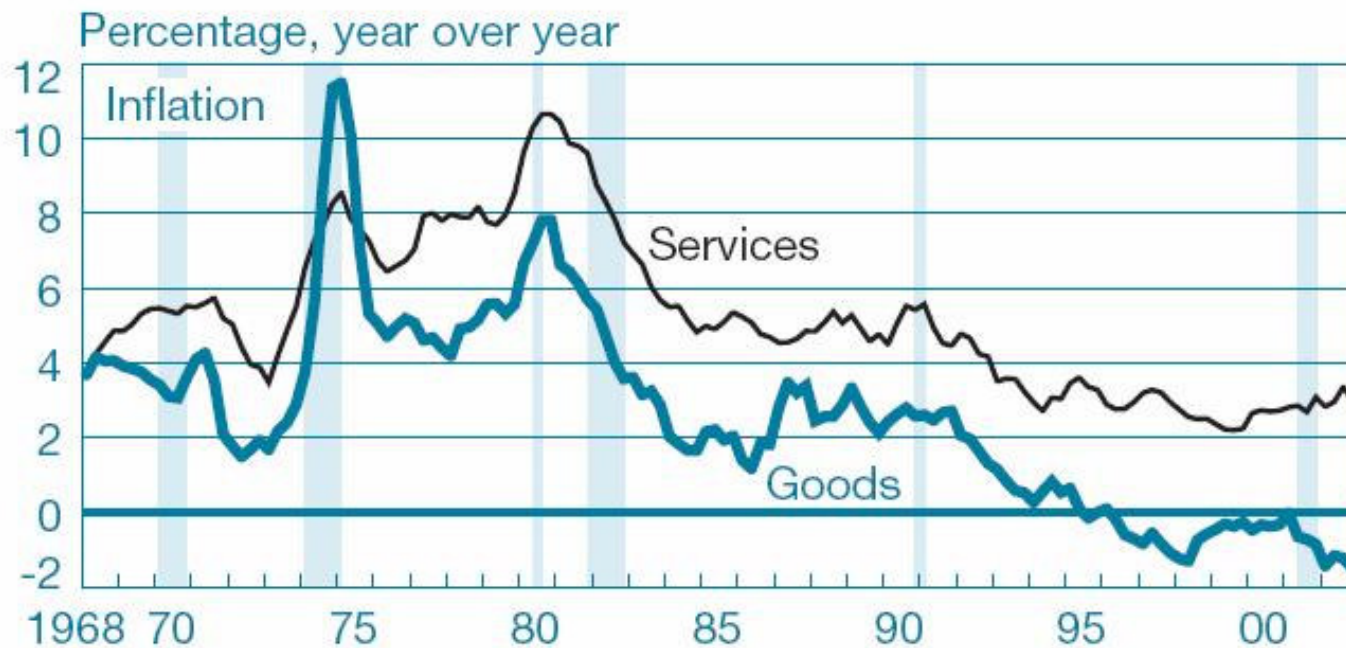
Aberdeen Study:
79% Said Controlling
Services Spending Important

- ▲ Growth in spending twice as fast as goods spending
 - ▲ Services inherently inflationary
- ▲ Outsourcing and offshoring growing
- ▲ Growing compliance needs (financial, people)
- ▲ Automation a high priority

"Best Practices in Category Spend Management: Contract Labor."
Christa M. Degnan, Research Director, Global Supply Management
AberdeenGroup, Inc © 2005

Services Are Inherently Inflationary: Increases Opportunity & Challenge

Core PCE Goods and Core PCE Services Inflation 1968:1-2002:4



Average difference = 2.577 percentage points

Sources: U.S. Department of Commerce, Bureau of Economic Analysis;
Board of Governors of the Federal Reserve System; authors' calculations.

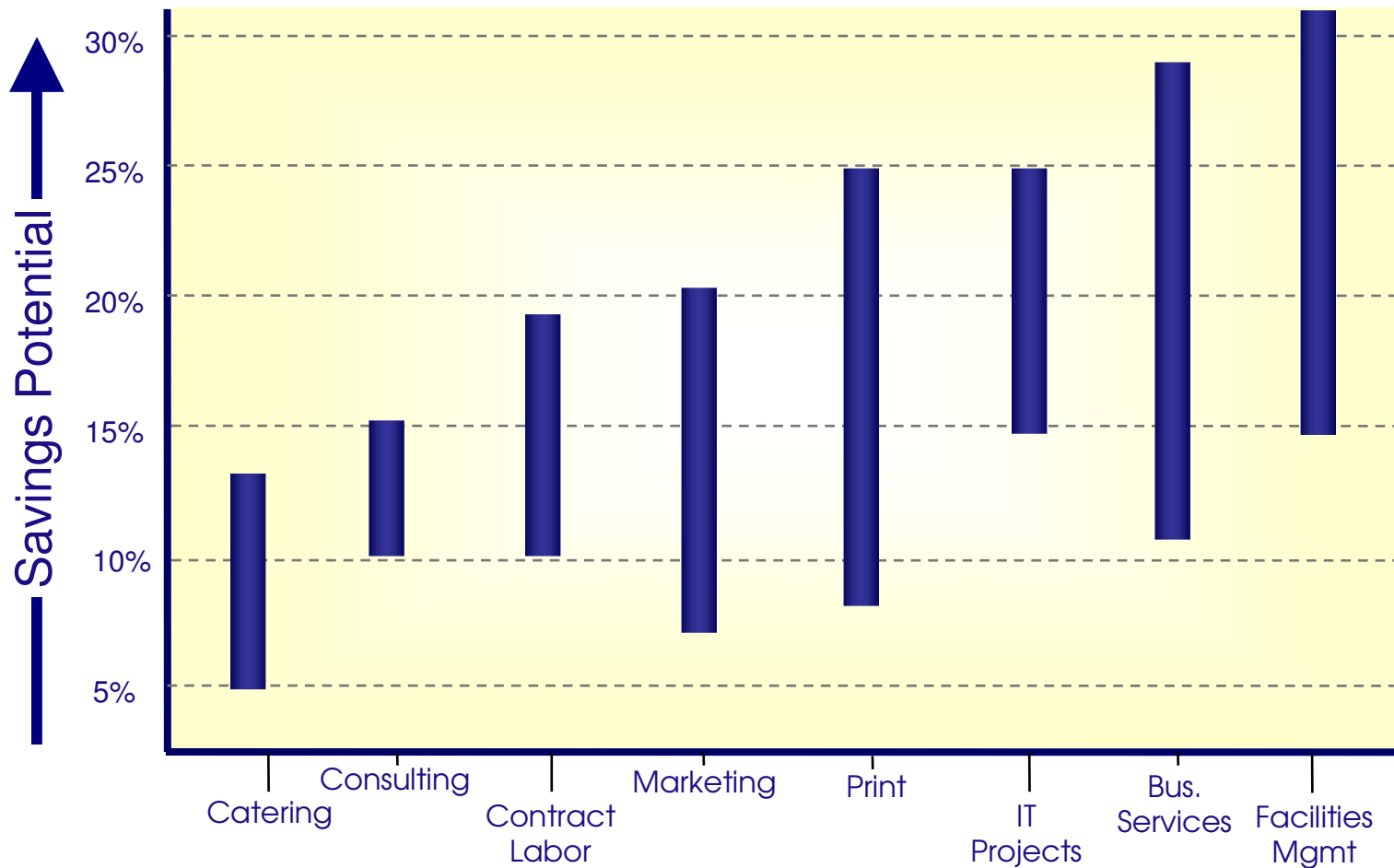
Special Risks of Procured Services

- ▲ Financial:
 - Cost leakage
 - Co-employment lawsuits
- ▲ Deliverable Quality/Value:
 - Qualitative assessments
 - Ongoing refinement/renegotiation
 - High switching costs
- ▲ Personnel:
 - Security
 - Safety
 - Past performance
- ▲ Asset Protection:
 - Insurance
 - Data security
 - Intellectual Property

What's Required to Mitigate:

- ▲ End-to-end financial control
 - Contract terms
 - Requisitions
 - Work agreements
 - Amendments
 - Deliverables
 - Invoice calculations
- ▲ Individual worker tracking
- ▲ Deliverable assessments and approvals
- ▲ Consistent contract terms
- ▲ Eliminate off-contract spending

Potential Cost Savings per Services Category



Source: Aberdeen Research

Page 7

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Better Approach: Start with Services Procurement

- ▲ Automate Procure-to-Pay first!
 - Using current suppliers, contracts, and rates
 - Avoids buyer resistance and credibility gap of sourcing
 - Improves information on spending, deliverable quality, and supplier performance
- ▲ Benefits:
 - Immediate process efficiencies (especially in Accounts Payable)
 - Eliminates invoicing errors (3-5% typical overcharges in some categories)
 - Increases compliance to procurement policies, approvals, contract purchases

Strategic Sourcing

Usual Approach:

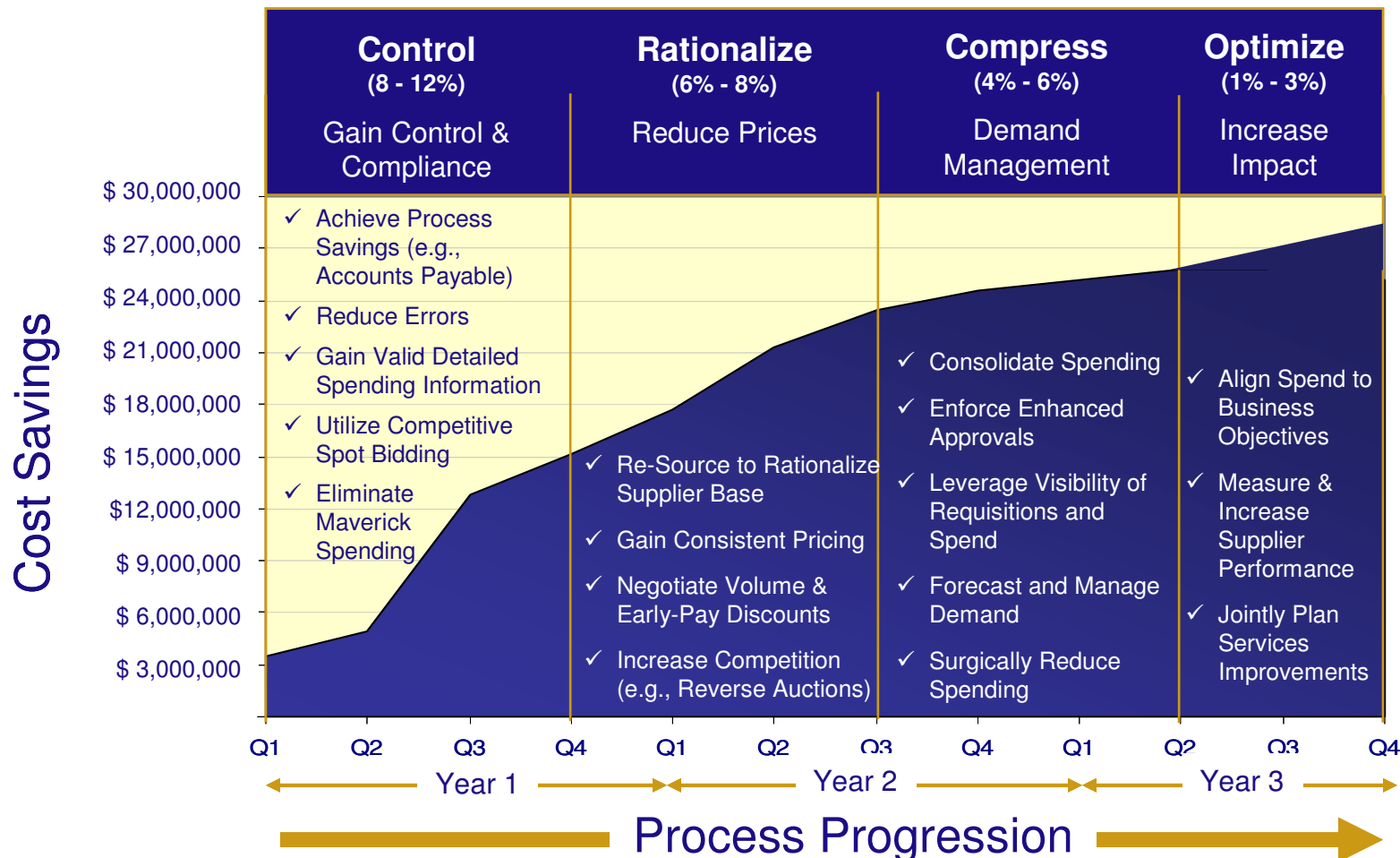
- ▲ Extract and analyze spending information
- ▲ Gather specifications and supplier information
- ▲ Perform supplier discovery
- ▲ Execute sourcing event
- ▲ Encourage on-contract purchasing

Issues With Using This Approach on Services:

- ▲ Spend information often lacking
- ▲ Generates resistance from business owners
- ▲ Insufficient credibility to source some services
- ▲ Unique specifications makes sourcing more difficult
- ▲ Maverick spending and off-contract invoices still the norm

Services Procurement Strategic Progression

Example: \$100M in Services Spend



“Land and Expand” to Gain Traction With Services Procurement

- ▲ Prioritize categories of services based on:
 1. Spending volume
 2. Potential benefits: Level of fragmentation of orders and suppliers, internal readiness for change, compliance needs
- ▲ “Land”: Automate the most-advantageous category first to capture spend, deliver benefits, and build credibility
 - In most cases, contingent workforce is the first category to bring under management
- ▲ “Expand”: Address additional categories in priority order
 - And re-source automated categories to save costs now that spend and supplier performance information is available

Building a Business Case for Services Procurement

- ▲ Think big (over time): Global spending, multiple services categories
- ▲ Design end-state for highest-priority 1-2 categories
 - Supplier marketplace
 - Contract elements
 - New P2P process
- ▲ Design a change roadmap:
 - Create “power grid” of stakeholders, identify benefits and impediments to each
 - Accomplish the program in steps, not all at once
 - Engage the spend owners
 - Design in both early wins and continuous improvement

Executing the Business Case

- ▲ Gain Executive Sponsorship
 - Through business case presentation
 - Set up steering group, gain resource commitments
- ▲ Over-manage program implementation
 - Pick a high-impact “proving ground” if needed
 - Speed and progress more important than perfection
 - Plan for follow-on stages
- ▲ Focus on change management
 - Repeatedly communicate to stakeholders
 - Emphasize benefits achieved and cost savings
 - Continually improve year-over-year