

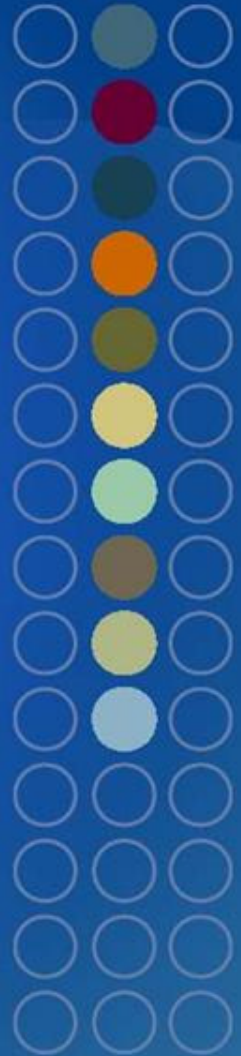


Building a Business Case for Services Procurement

ISM Services Conference

Brett Walker, Sourcing Portfolio Manager – Business Services

12.07.06



Topics

- **CUNA Mutual/Sourcing Services Overview**
- **Business Case Input/Estimated Benefits**
- **Project Phases & Timeline**
- **Cost Benefit Analysis (CBA) / Return on Investment (ROI)**
- **Communication**

Enterprise



Overview

CUNA Mutual Group is the leading provider of financial services to credit unions and their members worldwide, offering lending, protection, financial, employee and member solutions through strategic partnerships, technological innovations and multiple service channels. The mutual insurers of the CUNA Mutual Group are owned by their policyholders and operate to serve their best interests.

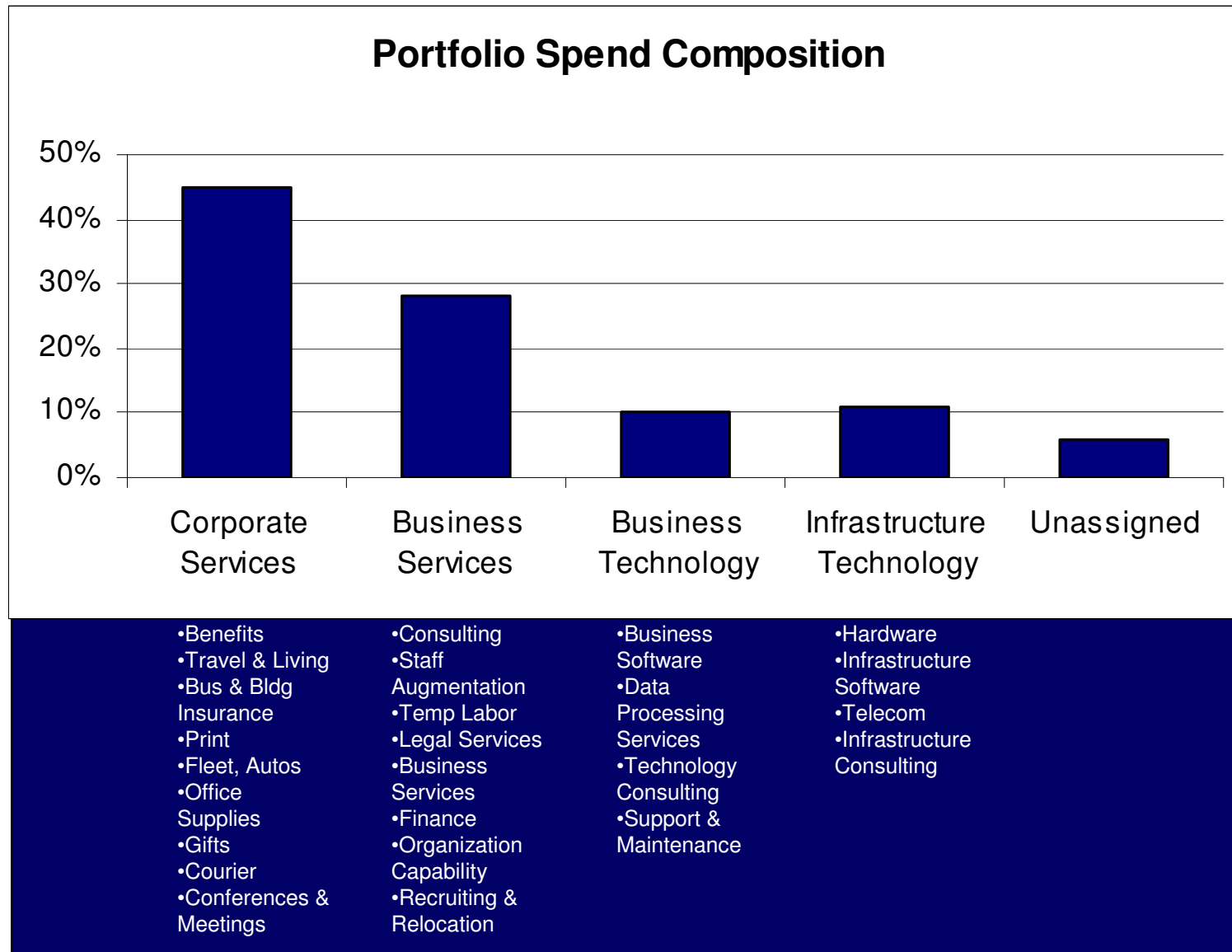
Corporate Headquarters

5910 Mineral Point Road
Madison, WI 53705-4456
Phone: 800-356-2644

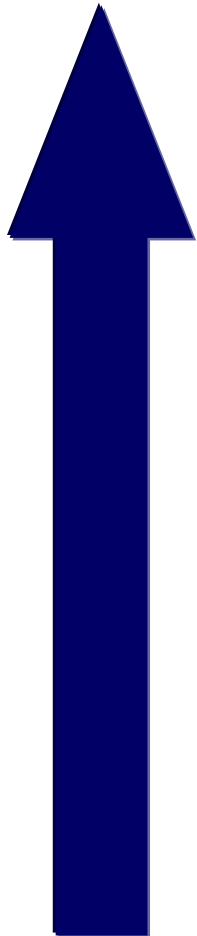
Number of employees: 5,500 worldwide (including CUMIS of Canada), with more than 2,000 in Madison, Wisconsin.

Financials: The CUNA Mutual Group had \$14.6 billion in assets, \$12.9 billion in liabilities, and \$1.66 billion in policy owners' surplus as of December 31, 2005.

Sourcing Services



External Labor Segments



Consulting	Must Buy <ul style="list-style-type: none"> - Do not have skillset internally - Want to develop know ledge - >\$500K spend on transformational projects - Majority \$50-150K vertical engagements 	Outsource Design Outsourced Build Strategic Mapping Program Management
Outsourced Services	Choose to Buy <ul style="list-style-type: none"> - Not core business function - Reduce management overhead requirement via outsourcing 	Supplier Manages to internal requirements/SLAs
Staff Augmentation	Can Build or Buy <ul style="list-style-type: none"> - PM/IT resource augments current staff - High Value Added - Adds Capacity/Increases Flexibility & Scalability - Typically < \$500Kspend/project 	Adds Capacity Build per internal requirements
Temporary Labor	Can Build or Buy <ul style="list-style-type: none"> - Not core business function - Do not have or want to develop skills or know ledge - Task oriented/low er value - Adds Capacity/Increases Flexibility 	Supplier executes per internal requirements

Why Services Procurement is Difficult

- **Business services are complex purchases in terms of configuration, pricing and availability**
- **Not easily managed using web-based catalogs and e-procurement systems such as those used in procuring indirect materials**
- **Requires multiple activities and parties to be involved in their procurement and ongoing management**

Successfully implementing a services procurement project requires understanding services spend, prioritizing areas for improvement and getting management on board

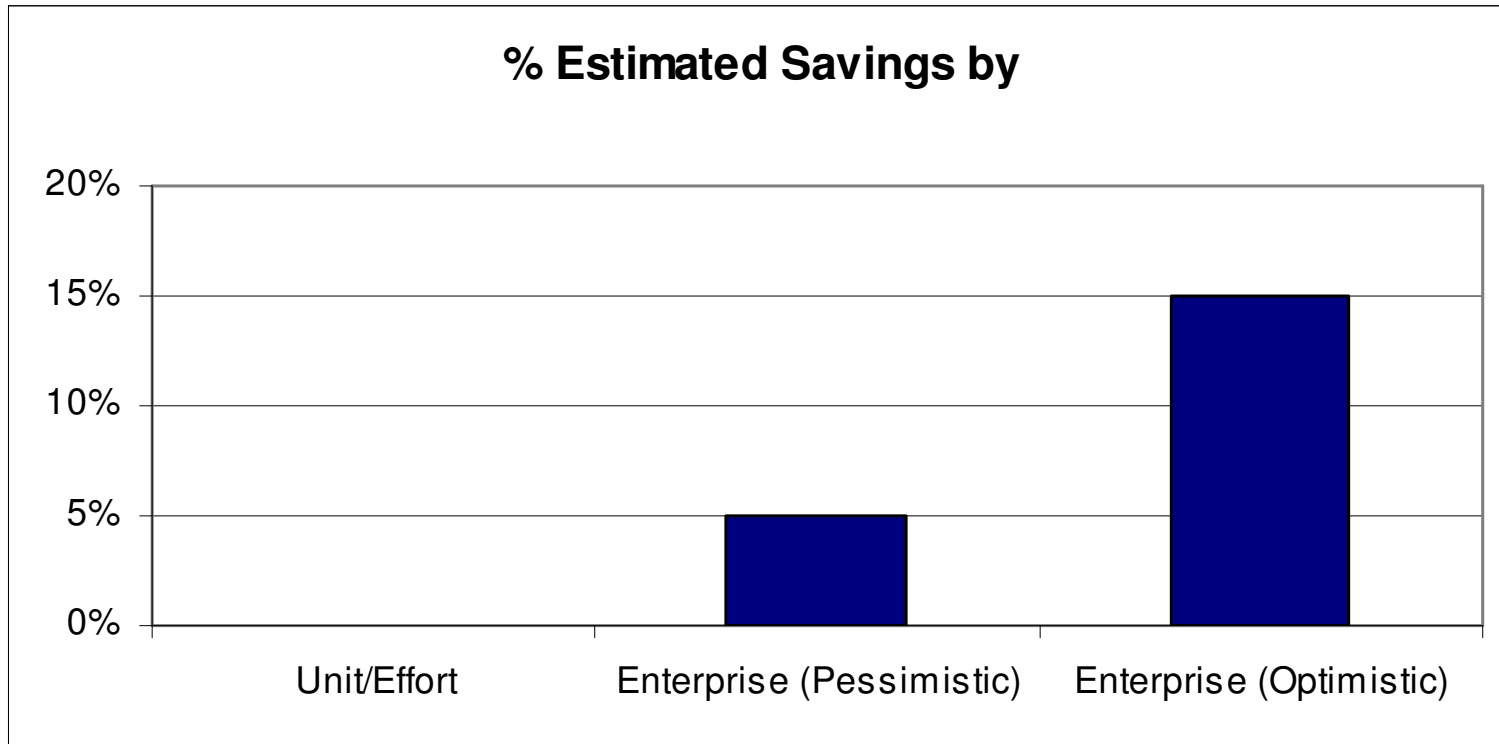
C 2005 Harry Eng & Associates, LLC

Business Case Input

- **Built business case for Vendor Management System (VMS) solution based on External Labor spend**
- **Planned phased segment deployments: Staff Augmentation and Temporary labor initial scope**
- **Defined segment flexibility as key solution requirement - plan to also leverage VMS to manage:**
 - Time & Material Consulting
 - Milestone Consulting
 - Training
 - Business Process Outsourcing (BPO) staff on-site

Sourcing recognized the need to address tactical issues while planning and socializing the strategic solution

Business Case Benefits



- **Estimated 5-15% Cost Down by sourcing Contractor and Temp Labor spend by enterprise, instead of by business unit or project effort**

Regulatory Compliance

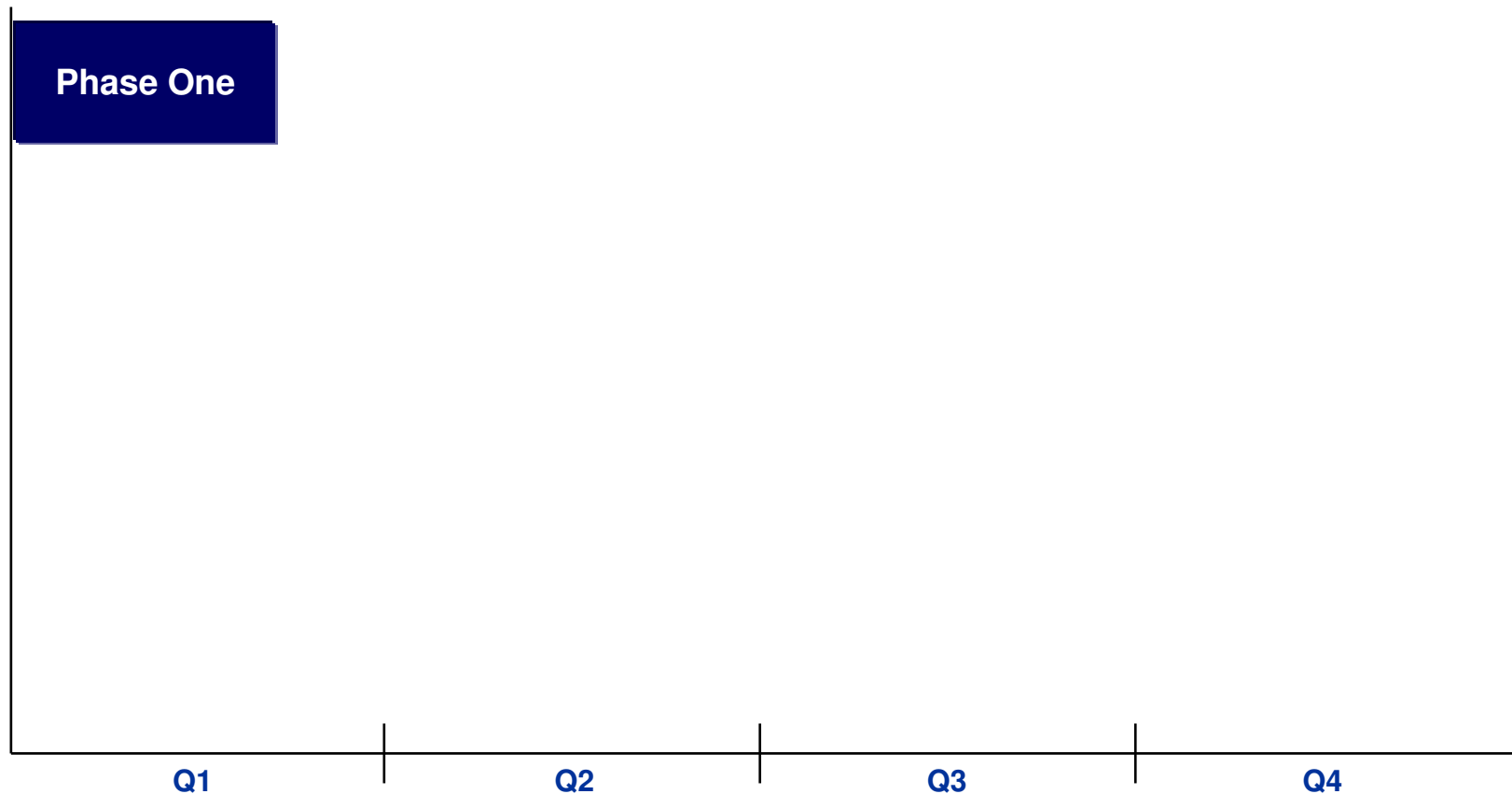
- **For External Labor, Co-Employment is primary risk, and therefore key soft benefit for business case**
- **Legal doctrine which applies when two businesses exert some control over an employee's work, and incorporated into Federal and State statutes and regulations**
- **Recent litigation:**
 - Microsoft, FedEx, Coca-Cola
- **IRS Categories of Evidence:**
 - Behavioral Control, Financial Control, Party Relationship
- **Third Party Administrator (TPA) payroll service for independent contractors**

VMS minimizes risk exposure by installing defined processes for on-boarding, performance management, and financial control

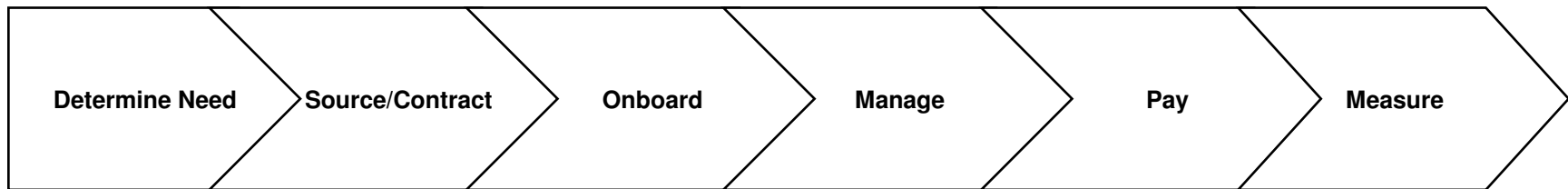
Project Phases & Timeline

Phase One: Identify pain points/define new process and policies

- Work with business areas to gather requirements/understand pain points
- Map exist process



P2P Process



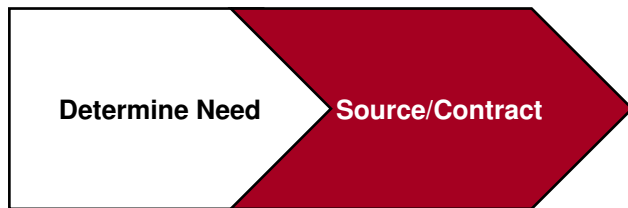
- Worked with business areas to define key stakeholders
- Leveraged stakeholders to define current state process pain points – develop burning platform for change

P2P Burning Platform

Determine Need

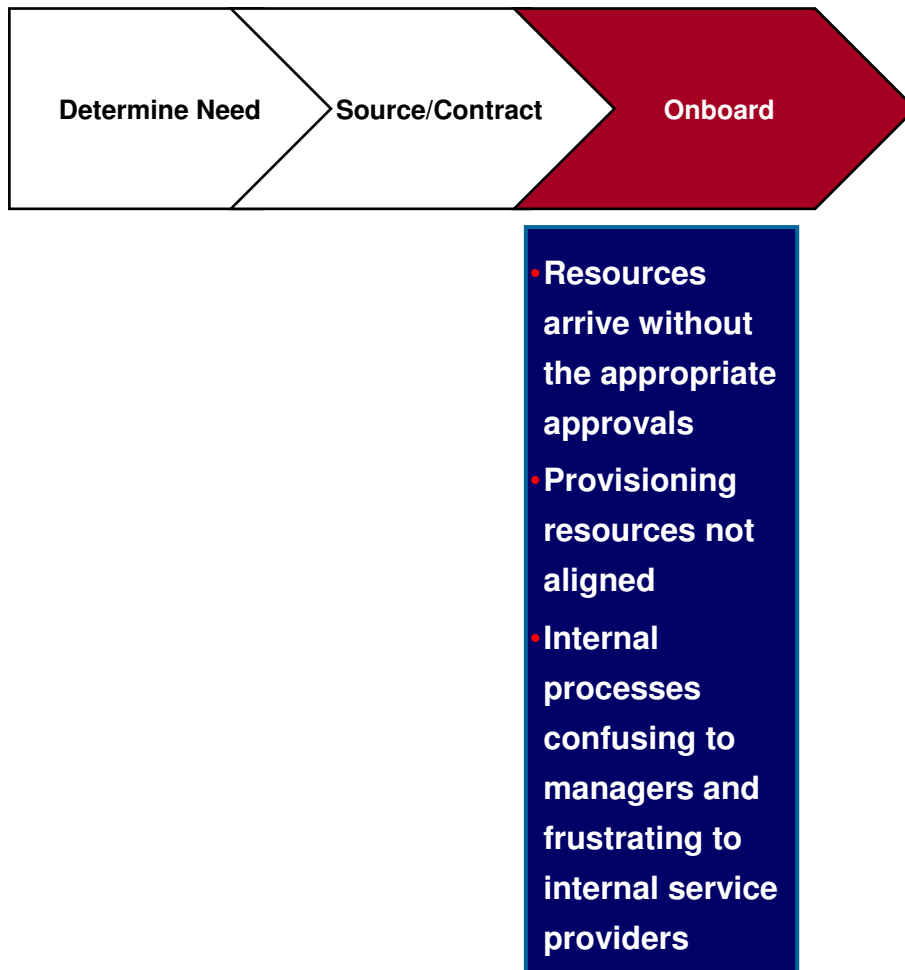
- Approval process varies by business area
- Sporadic enterprise capability for selecting appropriate resources
- No clear corporate guidelines for engaging outside services supplier

P2P Burning Platform

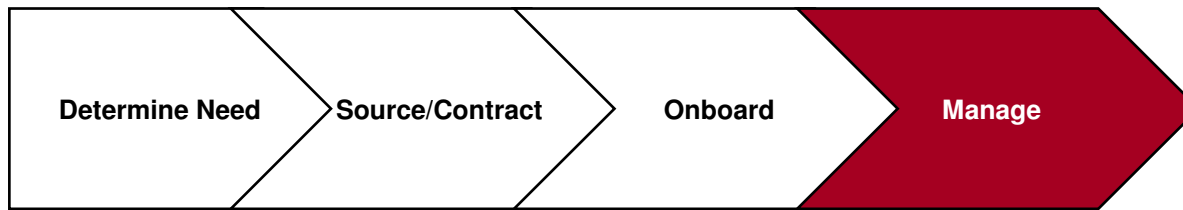


- Preferred suppliers not identified and/or leveraged
- Legal and/or Sourcing not engaged, or engaged late in process
- Non-optimized contract terms
- Spend not leveraged
- Business Units have preferred incumbents

P2P Burning Platform

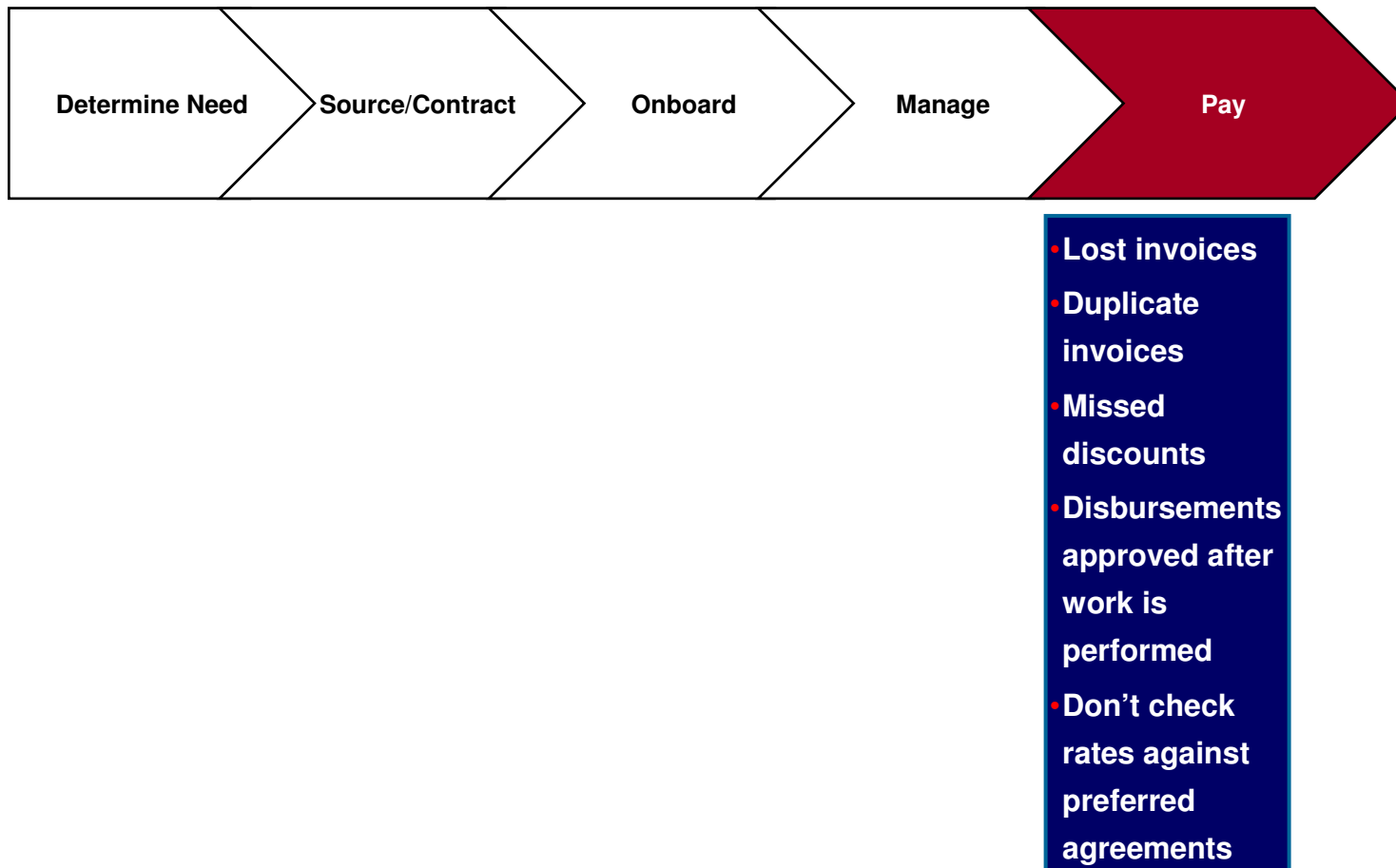


P2P Burning Platform

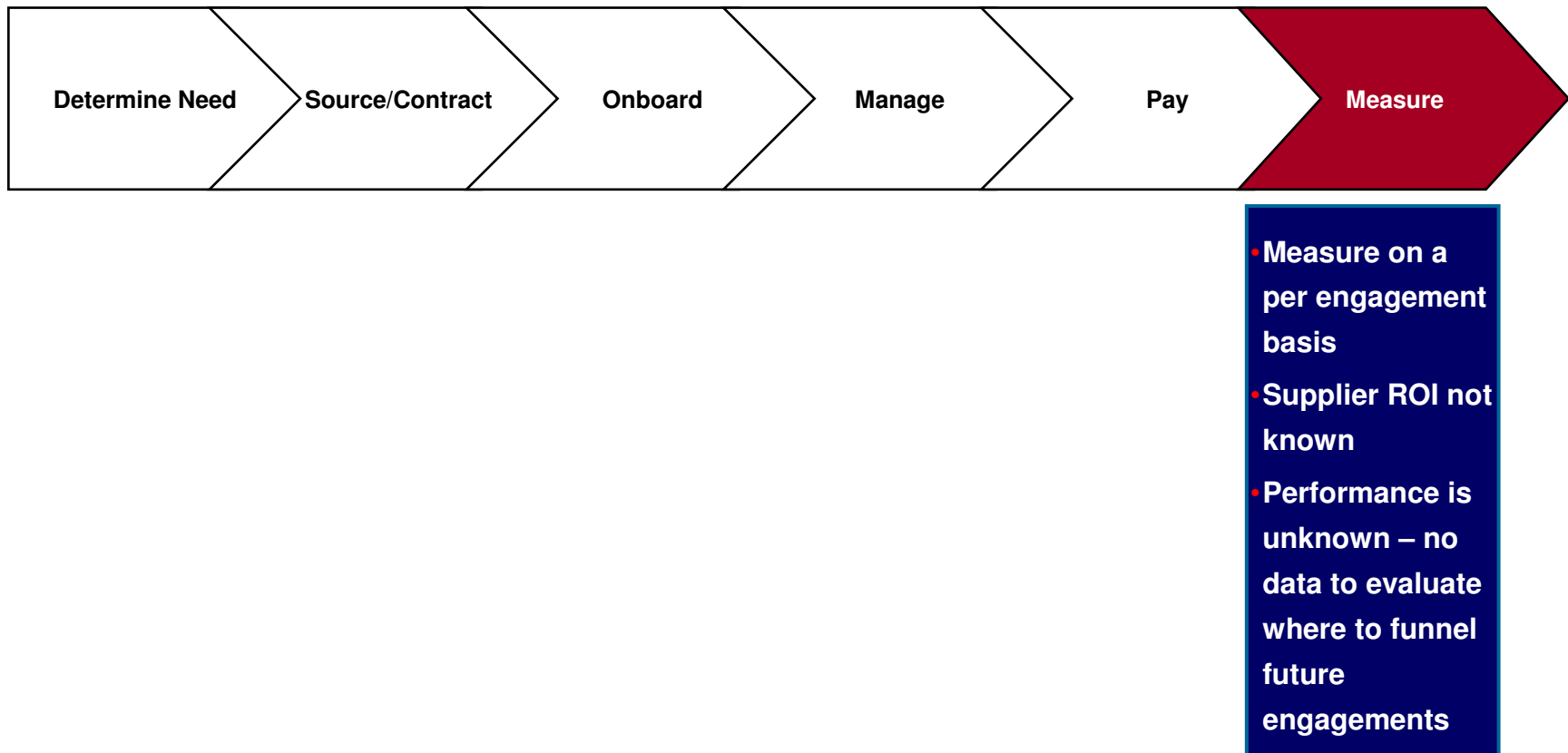


- Manage per-engagement
- KPIs not defined, or optimized
- Results not reported globally across engagement
- Difficult to hold suppliers accountable for consistency across engagements

P2P Burning Platform



P2P Burning Platform



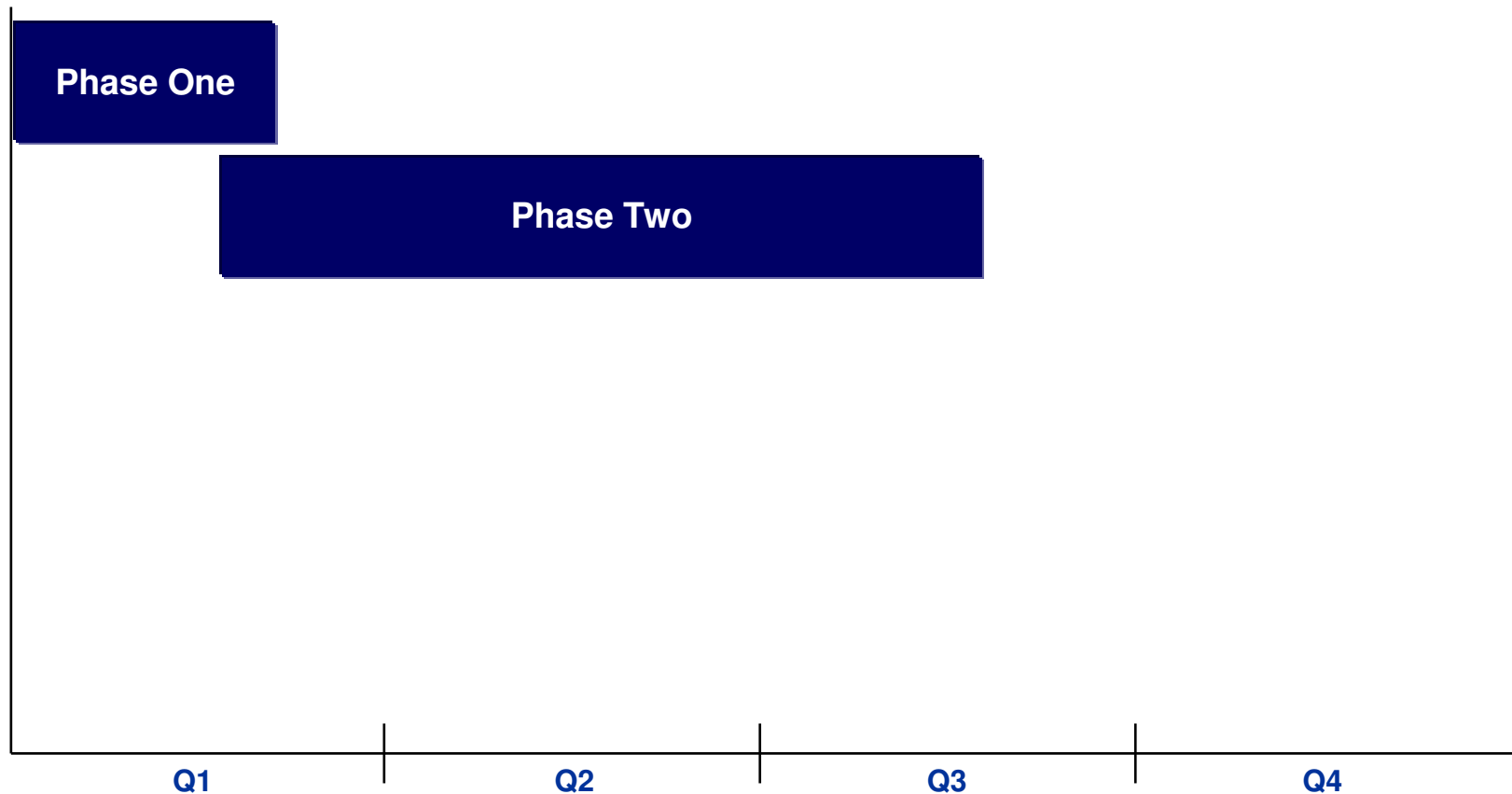
Non-Optimized P2P Summary

- **Productivity**
 - Reinvent process for each new project
- **Speed**
 - Find and qualify resources for each project
 - Negotiate rates by project
 - Build SOWs from scratch, often without Master Services Agreement (MSA)
 - Inconsistency in delivery of provisioning resources upon arrival
- **Quality**
 - Risk inconsistent quality based on the approach applied by each team
 - No consistent methodology for assessing quality of firm or resource
- **Locus of Control**
 - Firms at times have more control
 - At times, we negotiate using firm's contracts
 - No formal linkage between expense and budget

Project Phases & Timeline

Phase Two: Implement tactical manual process/source solution

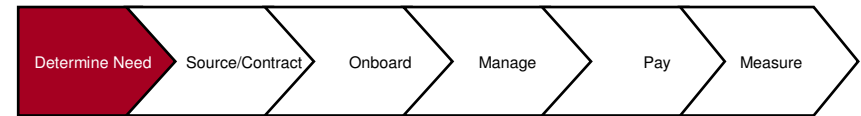
- Identify and root cause issues
- React to changing expectations/needs
- Create client buy-in



Action Plan: Determine Need

Current State Issues:

- Approval process varies by business area
- Sporadic enterprise capability for selecting appropriate resources
- No clear corporate guidelines for engaging outside services supplier



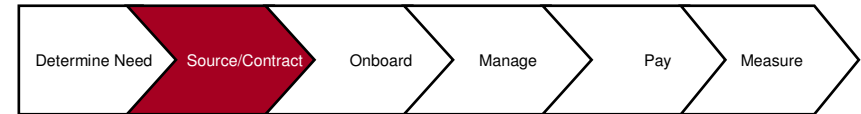
Action Plan:

- Develop policies for External Labor engagement

Sample rules:

- Staff Augmentation Contractor uses specific skills to complete projects, may be a sub-set of a corporate staffed project
- Temporary Workers defined as non-professional, typically clerical role filled for short period of time
- The project or effort is short-term, resources not available internally
- Leverage VMS to obtain approval to bring resources on-board
- Sourcing effort to install Tier 1 suppliers drives selection of appropriate firms
- VMS process drives engagement through appropriate channels

Action Plan: Source/Contract



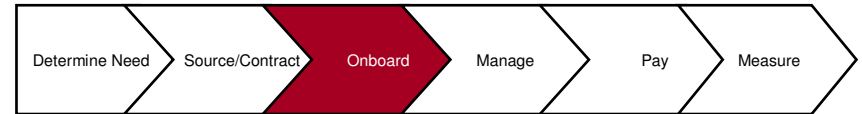
Current State Issues:

- Preferred suppliers not identified and/or leveraged
- Legal and/or Sourcing not engaged, or engaged late in process
- Non-optimized contract terms
- Spend not leveraged
- Business Units have preferred incumbents

Action Plan:

- VMS process funnels SOW to preferreds – removes incumbent bias
- Require the use of Sourcing/Legal to ensure:
 - Optimized contracts with preferred terms
 - Spend category leveraged
 - Supplier competition to obtain best rates when no preferred rates exist
 - Suppliers selected have proven track record
- Pre-negotiated preferred rates with top tier firms will shorten the time to market
- Standard intake form improves spec and time to solution

Action Plan: Onboard



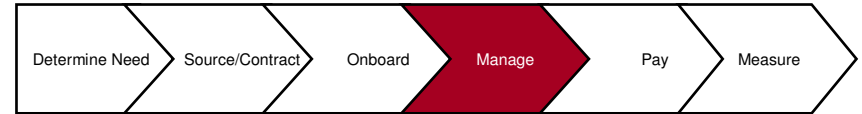
Current State Issues:

- Resources arrive without the appropriate approvals
- Provisioning resources not aligned
- Internal processes confusing to managers and frustrating to internal service providers

Action Plan:

- Leverage VMS for all on-boarding of External Labor resources; eliminate multiple forms, create standardized process
- Drive appropriate and timely approvals
- Give internal business and provisioning resources advanced notice
- Communicate turn-time expectations to managers so that labor resources can be scheduled based upon provisioning resource availability (i.e. if IT cannot complete technology request in time, delay resource arrival)

Action Plan: Manage



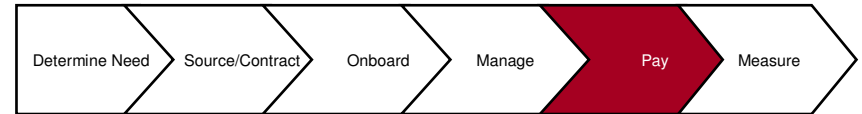
Current State Issues:

- Manage per-engagement
- KPIs not defined, or optimized
- Results not reported globally across engagement
- Difficult to hold suppliers accountable for consistency across engagements

Action Plan:

- Engagement management remains within business unit
- Leverage BU information collected on engagement performance [Project Management Office (PMO)]
- Track engagement ROI, quality and timeliness of work, and quality of labor resources
- Collect performance centrally, and use to select suppliers eligible for future engagements
- Quality of work, resources committed and timing captured up front in contract

Action Plan: Pay



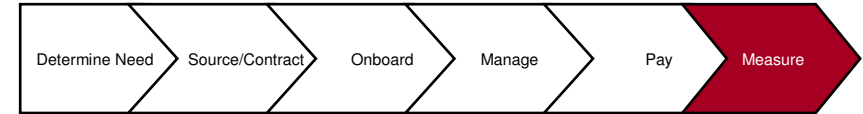
Current State Issues:

- Lost or Duplicate invoices
- Missed discounts
- Disbursements approved after work is performed
- Don't check rates against preferred agreements

Action Plan:

- Leverage VMS to manage payments
 - Supplier requests payment at time intervals
 - CUNA Mutual manager receives email payment request
 - Automatic supplier disbursement upon approval; without receipt of invoice
- In the absence of a contract, VMS forces pre-approval of engagement
- Connecting each engagement with Sourcing function ensures pre-negotiated hourly rates

Action Plan: Measure



Current State Issues:

- Measure on per engagement basis
- Supplier ROI not known
- Performance is unknown – no data to evaluate where to funnel future engagements

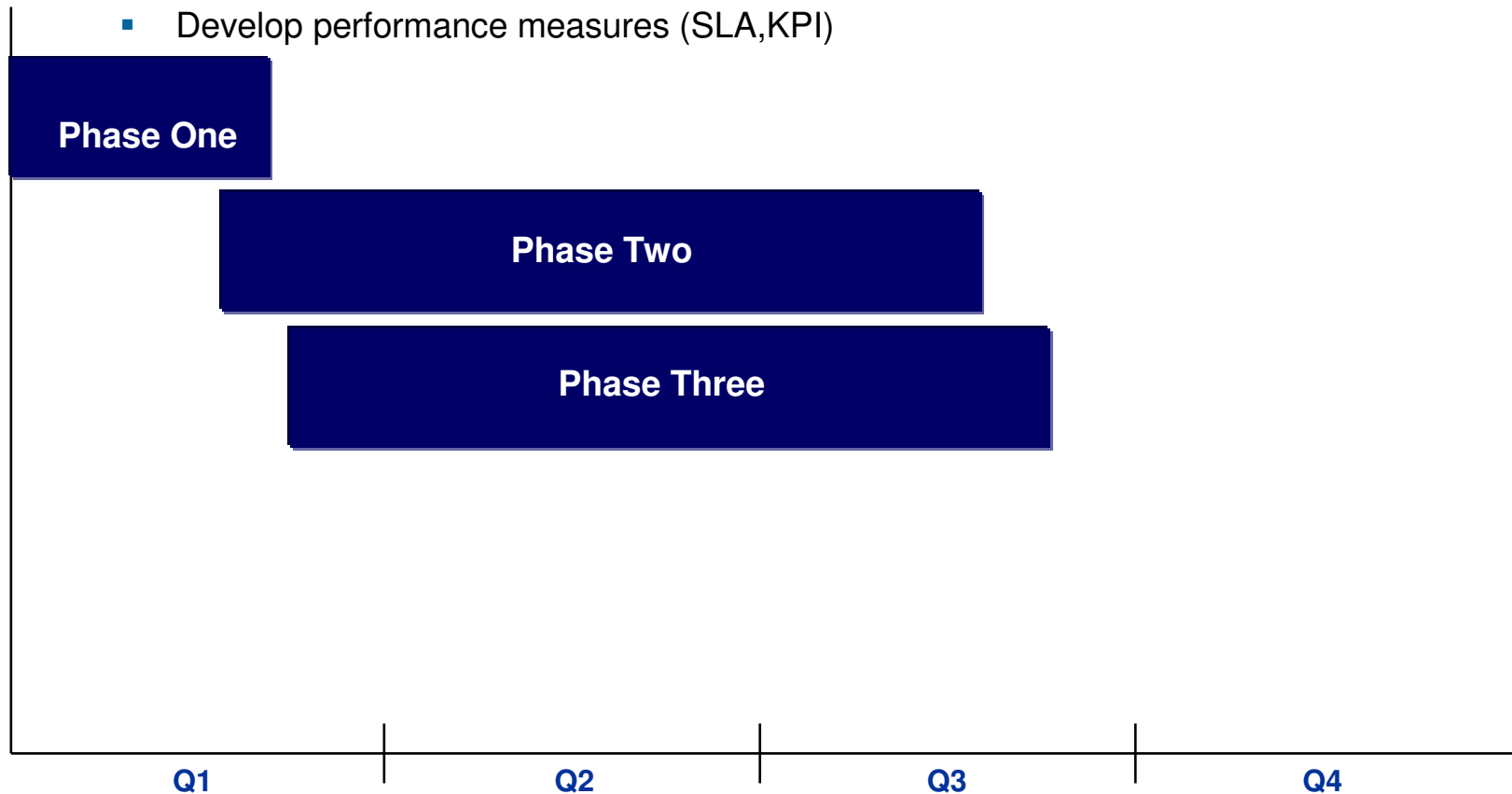
Action Plan:

- Collect, maintain, and track supplier performance in central repository
- Better manage supplier relationship/global Scorecard
- Periodic review by Exec and Sourcing relationship Mgr
- Report performance to key:
 - Business consumers
 - Finance stakeholders
 - PMO leaders

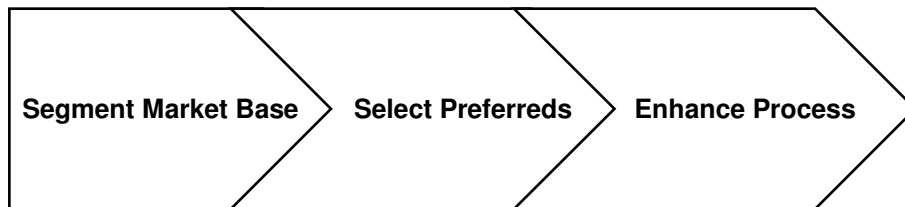
Project Phases & Timeline

Phase Three: Execute Sourcing Project/Select Preferred Partners

- Reduce supplier count
- Negotiate long term partner agreements; execute umbrella Professional Services Agreement (PSA)/MSA
- Develop performance measures (SLA,KPI)



Future State: Preferred Suppliers



Segment the market base

Identify potential suppliers and strongest players

Determine market rates for each role

Identify and select preferred partners

Reduce the number of firms, increase leverage, decrease rates

Negotiate long-term preferred partner agreements, execute umbrella service agreements

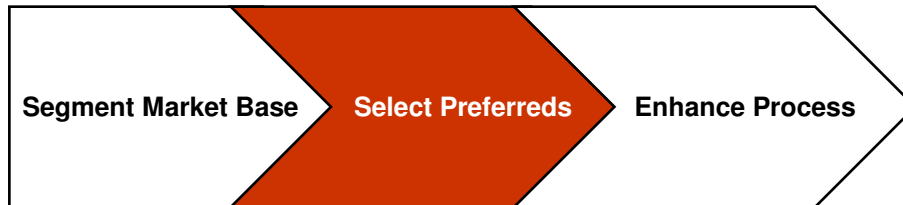
Enhance qualification, selection and management process

Create an easy to use database with preferred consultant information

Consolidate process best practices and launch them in an easy to use Intranet tool alongside the database

Enhance monitoring & measurement for strategic suppliers, better on/off-boarding activity mgt

Future State: Preferred Suppliers



Round 1: RFP

Request for Proposal


**External Labor Management -
Staff Augmentation Preferred Suppliers**

Important: Please note Confidentiality Provision on the following page.

March 28, 2005

Submitted to:

Prepared by:
External Labor Process Improvement Team

 **CUNA MUTUAL GROUP**

P.O. Box 391, r. 5910, Mineral Point Road
Madison, WI 53701-0391
Phone: 608-231-3173

Savings Analysis



Round 2: Reverse Auction

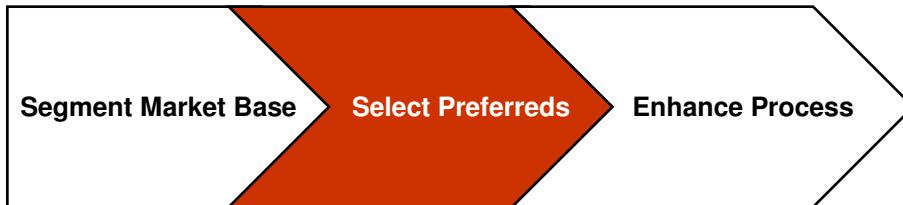
Top 10 spend = eBid Top 10 supplier ave rate x 2004 hrs

All Supplier spend = eBid all supplier ave rate x 2004 hrs

Incumbent spend = eBid incumbent ave rate x 2004 hrs

2004 baseline by role = weighted ave rate x 2004 hrs

Future State: Preferred Suppliers

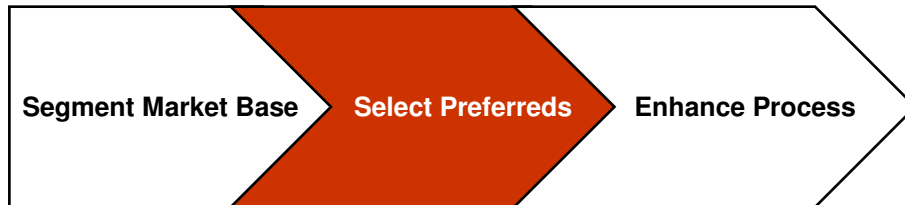


Round 3: Smart Buy

CHARACTERISTIC		Attribute	Attribute Weight	Consensus Score*	Weighted Score	% of Total
CANDIDATE FIT	30%	# Candidates	10%	8	8.00%	78.3%
		Candidate quality (Reviews, Sample, History)	15%	7	10.50%	
		Geographic location of candidates	5%	10	5.00%	
INTERNAL PEOPLE QUALITY MANAGEMENT	15%	Recruiting	5%	8	4.00%	68.3%
		Retention	5%	7	3.50%	
		Process Quality	5%	5.5	2.75%	
SERVICE & DELIVERY	14%	Client Fulfillment (Responsiveness, Resolution, Flexibility, VMS)	8%	7	5.60%	74.3%
		Location of fulfillment office	2%	10	2.00%	
		Candidate background checking	4%	7	2.80%	
BUSINESS STRENGTH	14%	Financial	3%	7	2.10%	67.9%
		Management	3%	6	1.80%	
		References/Internal Customer Satisfaction	5%	7	3.50%	
		History/Future Viability/Vision	3%	7	2.10%	
TERMS	27%	Pricing	23%	10	23.00%	95.6%
		SLA	4%	7	2.80%	
TOTAL	100%		Total	100%	79.45%	

* = 4-10 (See Rating Scale Criteria)
 * Note assumptions or information needed for rating, etc..

Future State: Preferred Suppliers



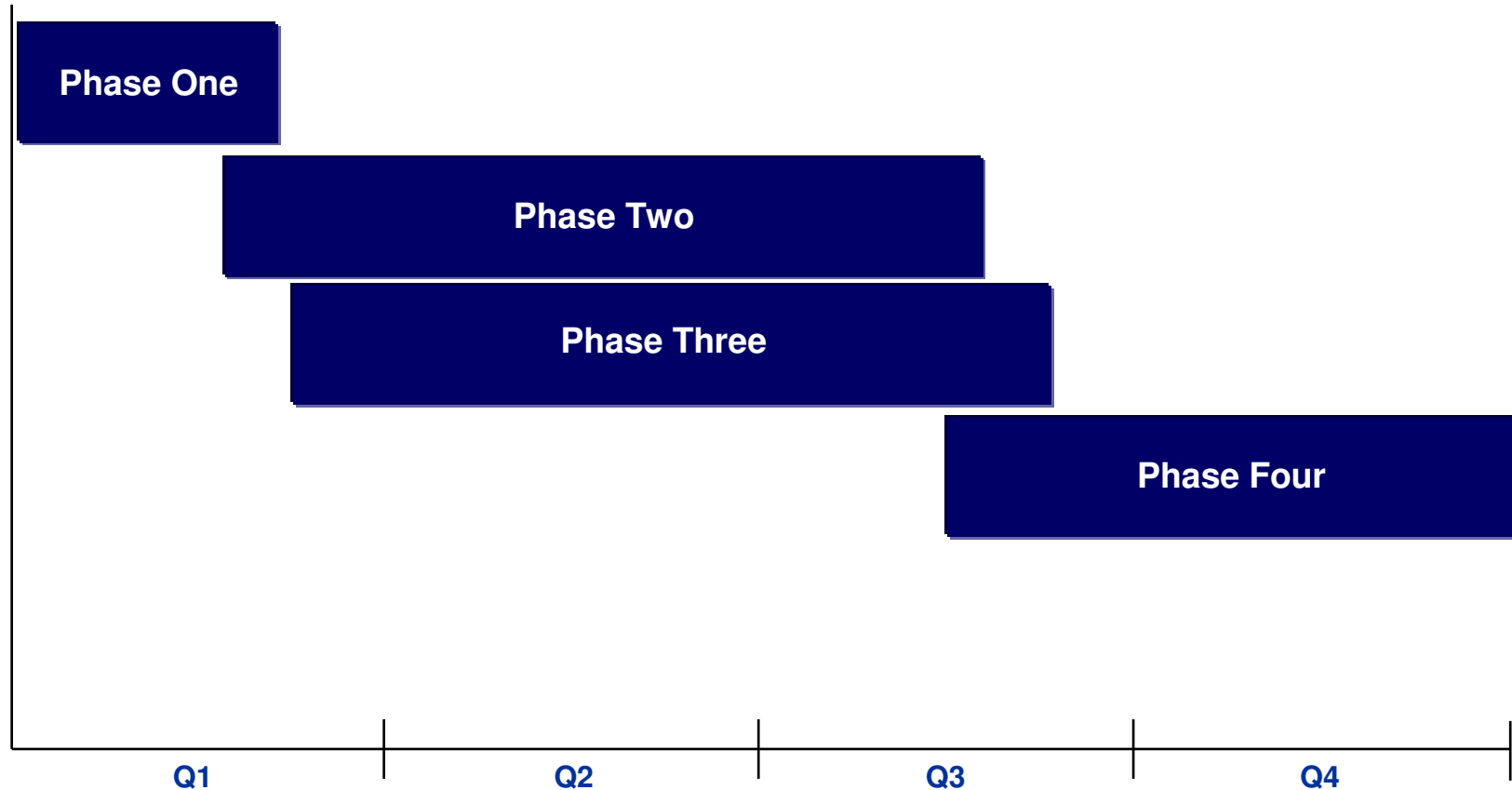
Round 3: Smart Buy

		CANDIDATE FIT	INTERNAL PEOPLE	SERVICE & DELIVERY	BUSINESS STRENGTH	TERMS	TOTAL:
	Weight %	30.00%	15.00%	14.00%	14.00%	27.00%	100.00%
1	Supplier A	85.0%	76.7%	80.0%	71.1%	97.0%	84.4%
2	Supplier B	85.0%	73.3%	74.3%	72.1%	93.9%	82.3%
3	Supplier C	78.3%	80.8%	85.7%	74.3%	88.7%	82.0%
4	Supplier D	78.3%	72.9%	77.1%	76.4%	95.6%	81.7%
5	Supplier E	71.7%	84.2%	85.7%	78.6%	89.8%	81.4%
6	Supplier F	78.3%	75.2%	74.3%	73.2%	95.6%	81.2%
7	Supplier G	85.0%	85.6%	85.7%	80.7%	71.7%	81.0%
8	Supplier H	78.3%	68.3%	74.3%	67.9%	95.6%	79.5%
9	Supplier I	71.7%	71.7%	74.3%	74.3%	87.5%	76.7%
10	Supplier J	76.7%	82.9%	70.0%	74.3%	73.4%	75.5%
11	Supplier K	85.0%	74.6%	74.3%	76.4%	65.3%	75.4%
12	Supplier L	70.0%	78.8%	70.0%	72.1%	83.6%	75.3%
13	Supplier M	61.7%	83.8%	68.6%	65.7%	92.1%	74.7%
14	Supplier N	75.0%	77.1%	80.0%	77.5%	65.7%	73.9%
15	Supplier O	66.7%	75.8%	80.0%	70.0%	76.8%	73.1%
16	Supplier P	71.7%	81.9%	74.3%	67.9%	71.7%	73.0%
17	Supplier Q	73.3%	68.8%	70.0%	63.6%	78.5%	72.2%
18	Supplier R	60.0%	85.6%	82.9%	67.9%	74.9%	72.2%
19	Supplier S	71.7%	74.2%	74.3%	72.1%	70.0%	72.0%
20	Supplier T	71.7%	86.7%	74.3%	67.9%	55.3%	69.3%
21	Supplier U	65.0%	76.7%	64.3%	61.4%	66.6%	66.6%

Project Phases & Timeline

Phase Four: Implement strategic solution platform

- Execute all Tier 1 preferreds at once
- Establish Target Date for entire category on VMS



Internal Process Compliance

- Will not gain 100% compliance immediately

- Identify and leverage allies

- 80/20 rule

- 20 will come in line over time

- assuming value delivered by quality process & solution

- Focus on 80, deliver value & build consensus & momentum

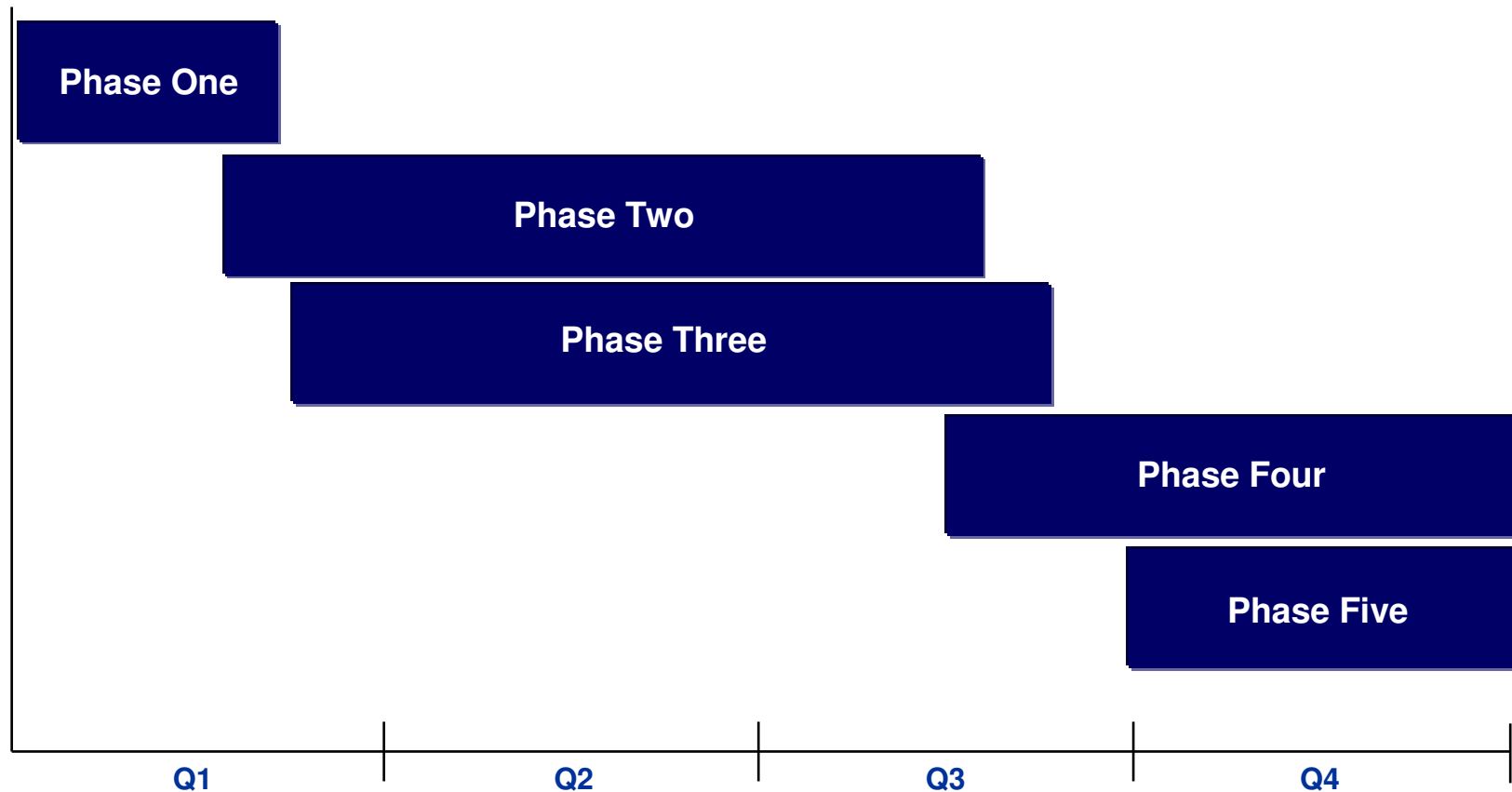
- word of mouth
- satisfied customers



Project Phases & Timeline

Phase Five: Start measuring engagement performance

- Collect & track ROI data from PMOs, surveys, and VMS data
- Develop supplier scorecard & generate dashboard on a quarterly basis

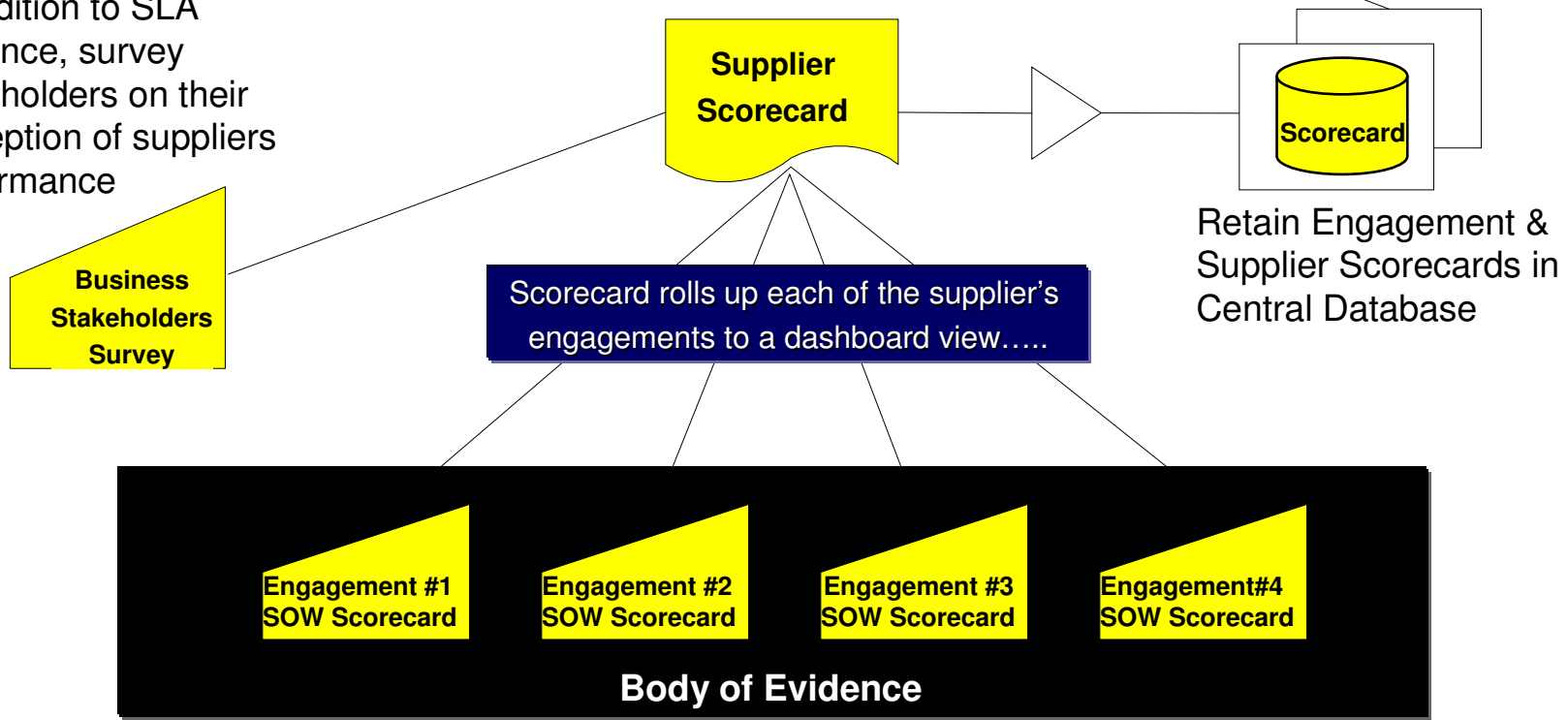


Supplier Scorecard

Periodic Review by:

1. Exec Relationship Mgr
2. Sourcing Relationship Mgr
3. Other Key Business Resources

In addition to SLA evidence, survey stakeholders on their perception of suppliers performance



CBA/ROI

- **Business Case included following elements:**

- Invoice Consolidation (Hard)
- Demand Management (Hard)
- Timesheet Approval Savings (Soft)
- Hiring Savings (Soft)

- **Total Projected Savings**

- Internal Process: ~\$432K
- Strategic Sourcing: ~\$4M over two years
- Solution self-subsidized in 6 months

- **2% Supplier Pay:** supports subsidization for solution, incorporated into contract

- **Removed supplier margin from overtime rate for preferreds** (not included in original CBA)

Communicating Successfully

- Keep it simple – elevator speech
- Use metaphors, analogies and examples
- Use multiple forums
- Rely on repetition
- Walk the talk
- Address apparent inconsistencies
- Tie communications back to the business case – your baseline

Fact: the change vision makes up only ½ of one percent of the communications the employee receives...services procurement projects being more complex require more, not less communication

Next Steps for CMG

- **Leverage additional solution capacity**
- **Migrate existing Organization Capability and Consulting preferreds**
- **Execute Sourcing project to identify remaining preferreds**
- **Migrate remaining to achieve 100% preferred onboarding for:**
 - Staff Aug
 - Temp Labor
 - Organizational Capability
 - Consulting

Questions
