

Source to Pay in Marketing

Nokia Ltd.

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Agenda

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- History of Sourcing involvement in Marketing at Nokia
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 - Purchasing process
 - Implementation
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- Summary
 - Key success factors
 - Lessons learned

Indirect Sourcing at Nokia

What is Indirect Sourcing?

- Indirect Sourcing (INS) is responsible for strategic sourcing and purchasing of Nokia's **indirect products and services**
- INS works in close cooperation **with business owners** from different business-and horizontal groups in Nokia to source and purchase the right products and services for their requirements

There are two types of sourcing in Nokia:

- **Indirect** Sourcing is responsible for sourcing of goods and services needed to **run Nokia's day-to-day business**:
 - Computer HW & SW
 - Test Equipment & Calibration
 - Manufacturing Equipment
 - Travel
 - Office Supplies
 - Marketing
 - Professional Services
- Networks Sourcing and Mobile Device Component Sourcing are **direct** sourcing, responsible for sourcing of items needed to produce a **finished Nokia product**
 - Components
 - Raw materials
 - Assemblies

Indirect Sourcing Category Scope

A category is grouping of products and services, which have a common supply market and characteristics

Below the twelve major categories of indirect spend in Nokia are shown, INS has people in the regions responsible for managing this spend

Travel

**Facilities
Services**

**Operator
Services**

IT Hardware

Software

IT Services

**Manufacturing
Equipment**

**Test Equipment
& Calibration**

Marketing

Consultancy

**External
Resources**

**Financial
Services**

Indirect Sourcing Strategic Intent & Mission

Our Strategic Intent

Recognized for providing the world's best indirect sourcing services

Our purpose

We ensure business' sourcing requirements are clear, agreed & met

*Assurance of supply, **Q**uality, **S**ervice, **C**ost, **I**nnovation, **R**egulatory*

We implement robust processes to manage Nokia's indirect spend

We reduce risk and save money

Our Strategic Objectives

People
Development

Business
Benefits

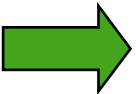
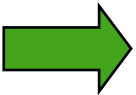
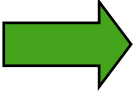
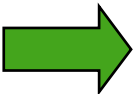
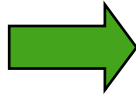
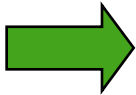
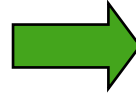
Business
Engagement

Transformation

Transformation to world-class

From:

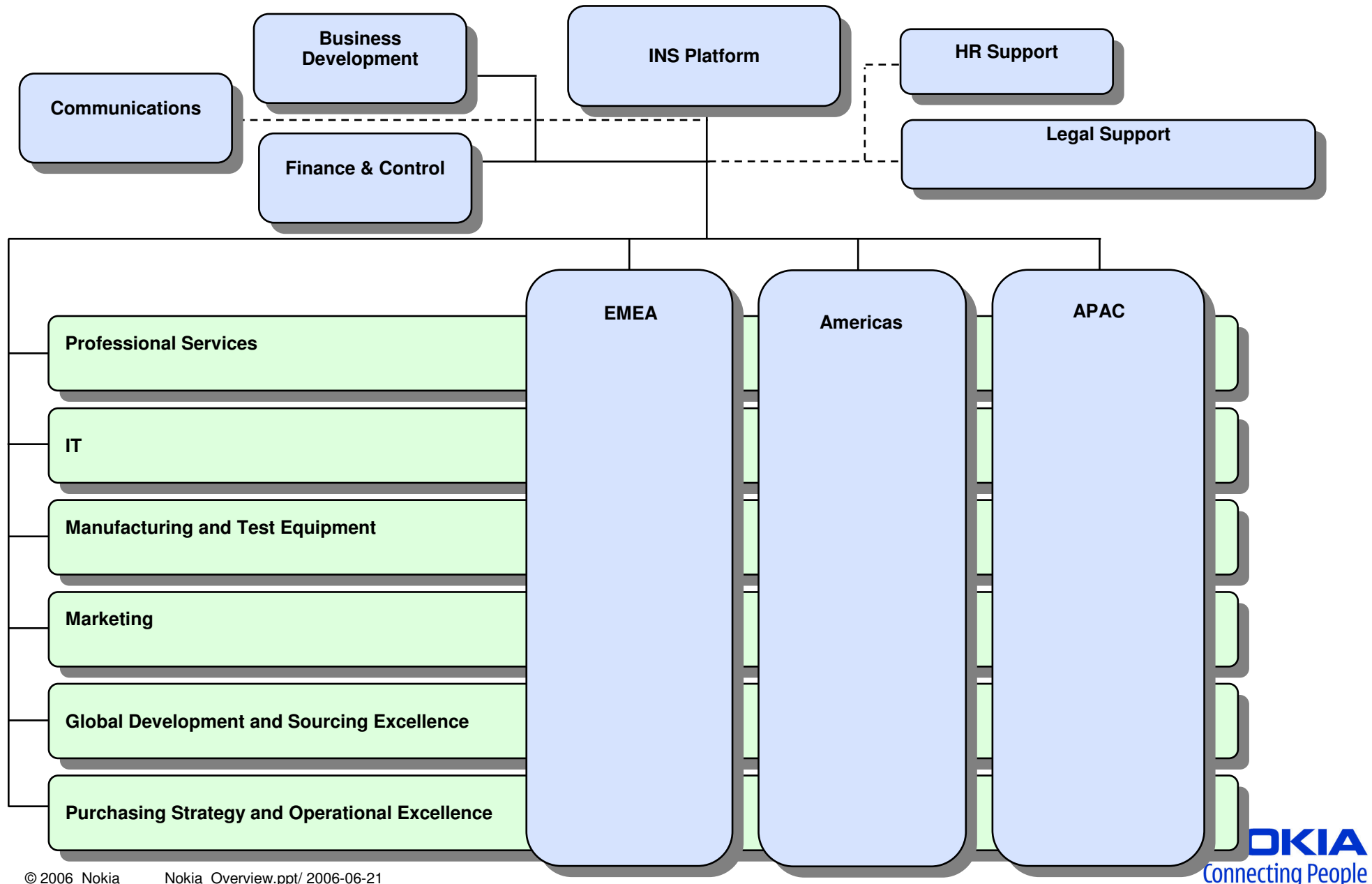
- Manual PO's
- 30% Purchase Order (PO) coverage
- Paper requests for information and prices (RFI, RFP)
- Project based category management/sourcing process
- Annual Internal Customer Satisfaction Survey
- 30,000 indirect suppliers
- Internal Key Performance Indicators
- Non-integrated processes



To:

- eTransaction enabling automation
- 100% PO coverage
- eSourcing
- Category strategies, category management and supplier management and measurement with higher clock speed
- Real-time surveys and follow up
- Consolidated supply base with Nokia approved supplier program
- Benchmarking across industries
- Integrated source to pay process, Sourcing Manual, SOX controls

Indirect Sourcing



History of Sourcing involvement in Marketing at Nokia

Evolution of Marketing/Indirect Sourcing cooperation

- June 2002
 - INS has 1 sourcing manager focussing on Marketing services
 - Mixed opinions on INS involvement in Marketing at executive level
 - Started building relationships at regional level
- 2003 – mid 2004
 - Current State & Opportunity Analysis conducted in each region in turn
 - Gained support from regional business management
 - Recruitment of Marketing sourcing specialists in each region
 - Regional projects start to deliver benefits
- 2005
 - 21 people now in INS Marketing sourcing
 - INS involvement in Marketing sourcing accepted and desired
 - Governance process created to identify & manage cross regional & cross business group opportunities
- 2006
 - Project Max to accelerate marketing sourcing to cover all key suppliers and markets
 - Max will also address competence and behaviour change, contract templates, tools and checklists for Marketing etc.
 - Headcount increase to 40 Marketing Sourcing specialists

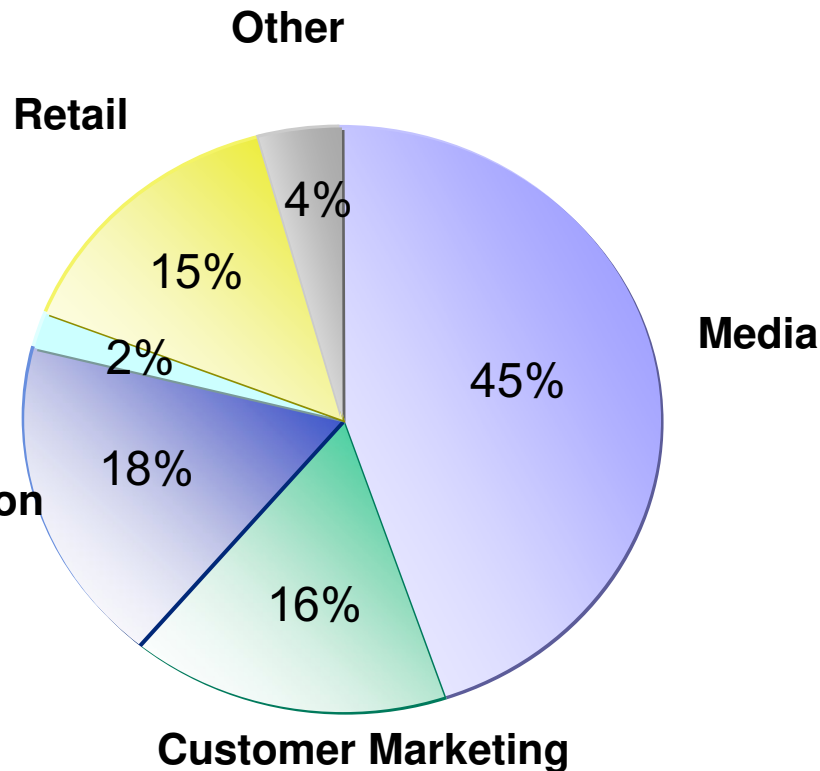
Marketing Sourcing

What is in Marketing

Expenses related to retail activities:
– promotional items, display phones

Customer Relationship
Management:
- Customer retention,
agency fees

Activities to induce consumers to
buy products or services:
- Events, Launch Costs,
Sponsorships, Agency Fees

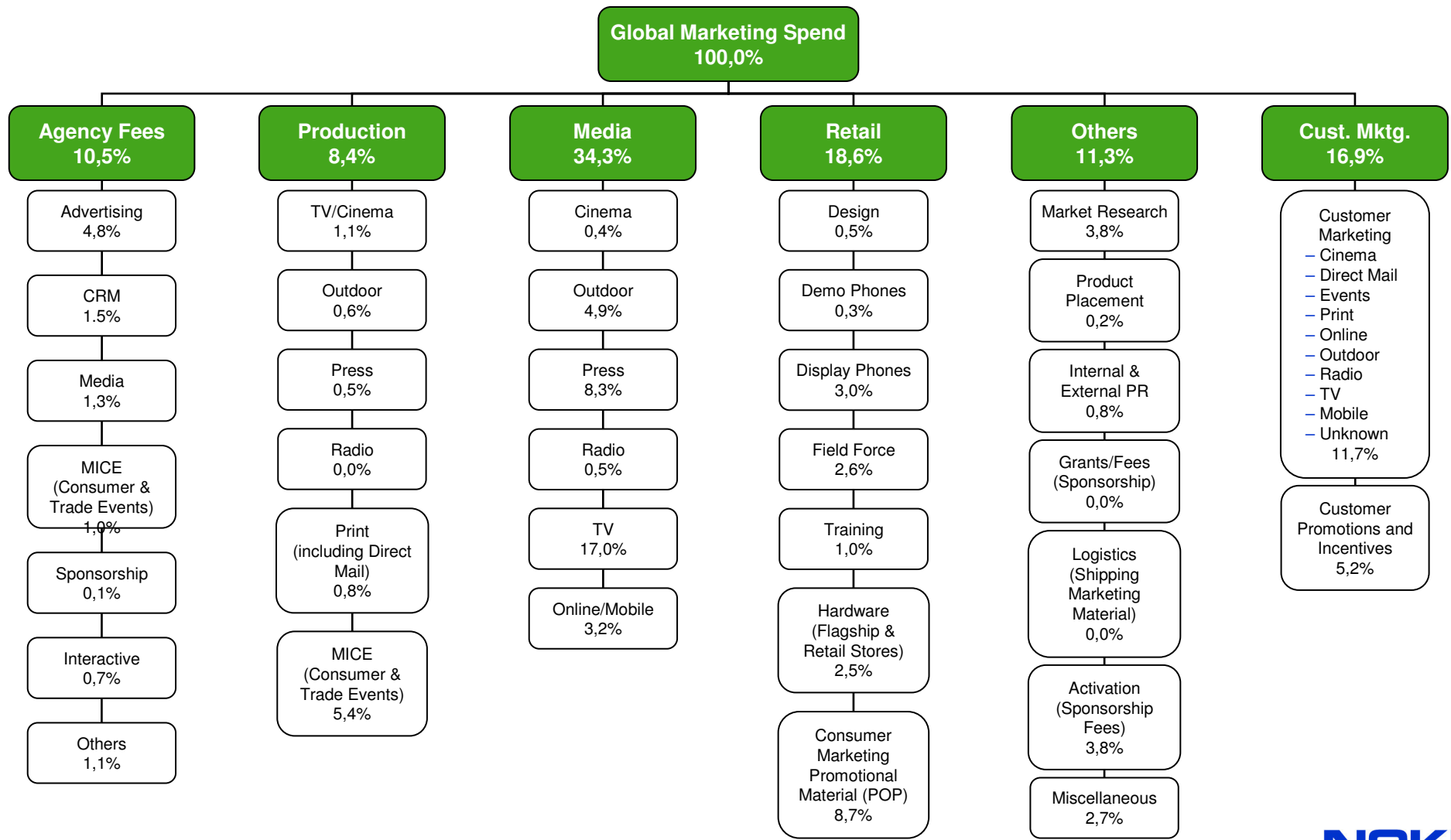


- Media agency fees
- Media Production
- Media time
- Creative agency fees

Marketing done together with customers
and 3rd parties towards the consumers
including:- Production and Media



Global Marketing Spend tree



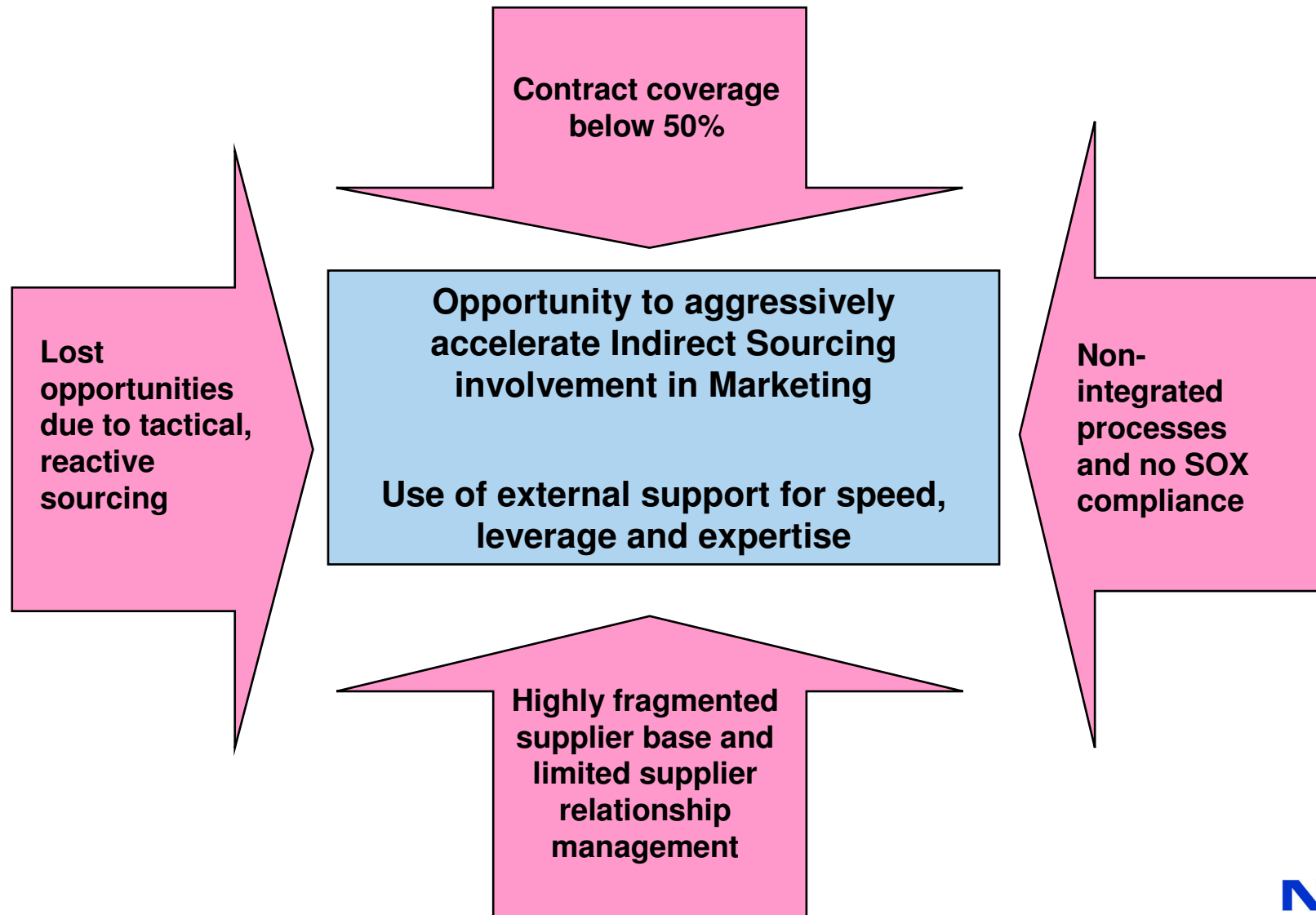
General Marketing Industry Issues

- Marketing spend has been largely handled by agencies
- Agencies have had little consideration for how the clients' money has been spent as they mostly make their profit from production as kickbacks, typically hidden from clients
- Some agencies routinely use their own production houses without informing clients of the practice
- Mundane production and non-creative work often billed at creative rates
- No transparency to third party spend has been the norm
- Professional sourcing people are now successfully challenging the current business model – agencies are struggling to react to change

➤ This is an industry in search of a best practice

Project Max

Why did we start Project Max?



Four key objectives for Project Max

Project Max is a joint initiative between Indirect Sourcing and Marketing, to transform the way Nokia Sources Marketing services

1

Develop world-class strategic sourcing competences and capabilities of both INS and Marketing

2

Develop and manage a global supplier base that delivers vs. Nokia's brand objectives and global marketing strategies

3

Maximize commercial value from supplier base, improve quality of service, and expand contract coverage

4

Move Nokia from working in a tactical and reactive manner into a proactive strategic sourcing organization

What Project Max is & isn't?

- It **is not**...

- A mere cost-cutting or sourcing project

- Just another project or series of projects

- Going to be completely different in each region

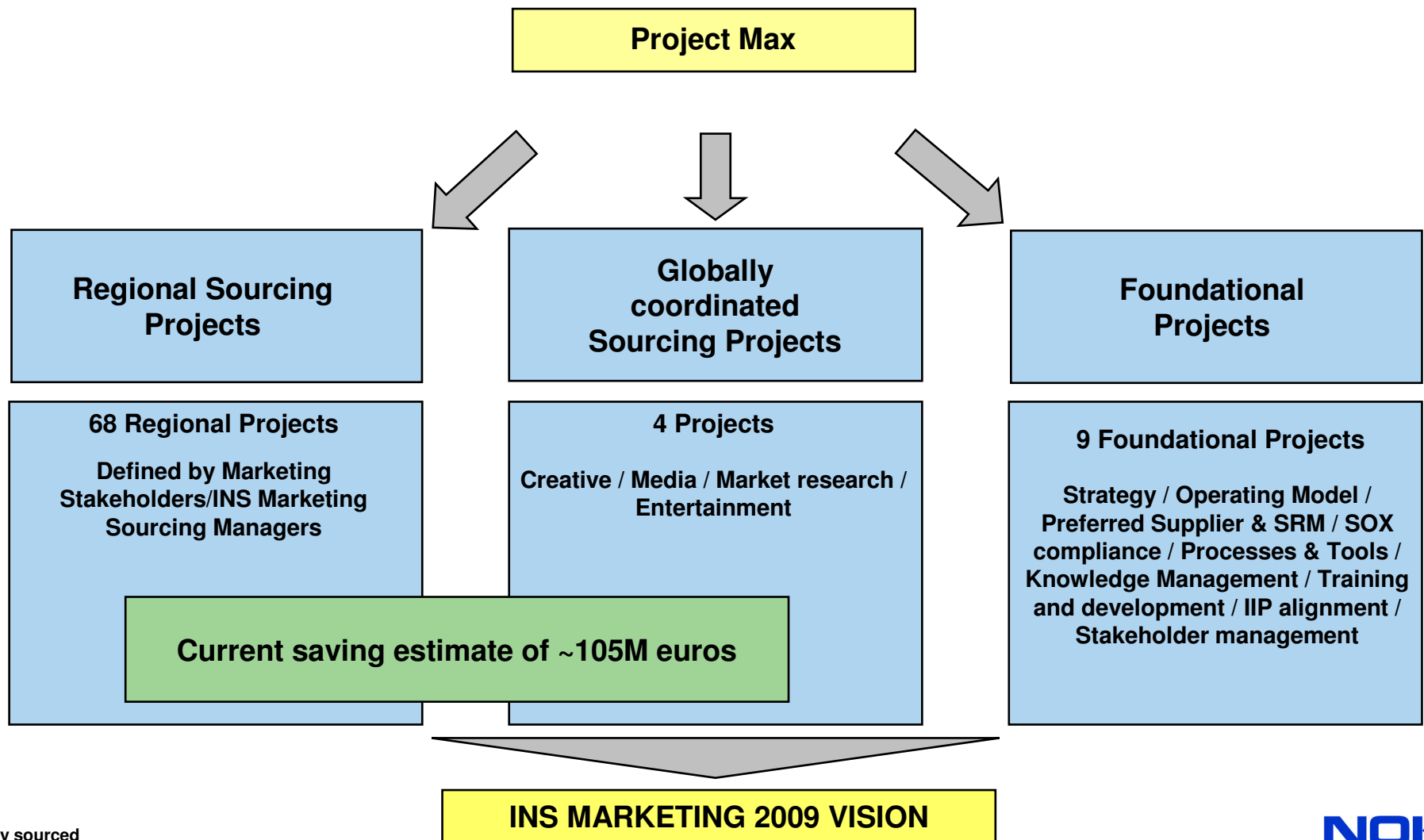
- It **is**...

- A tremendous opportunity for Nokia to drive costs out and value into the marketing function

- A major catalyst for INS and Marketing to work and develop together in new ways

- Going to be a balance of global and regional priorities and practicalities

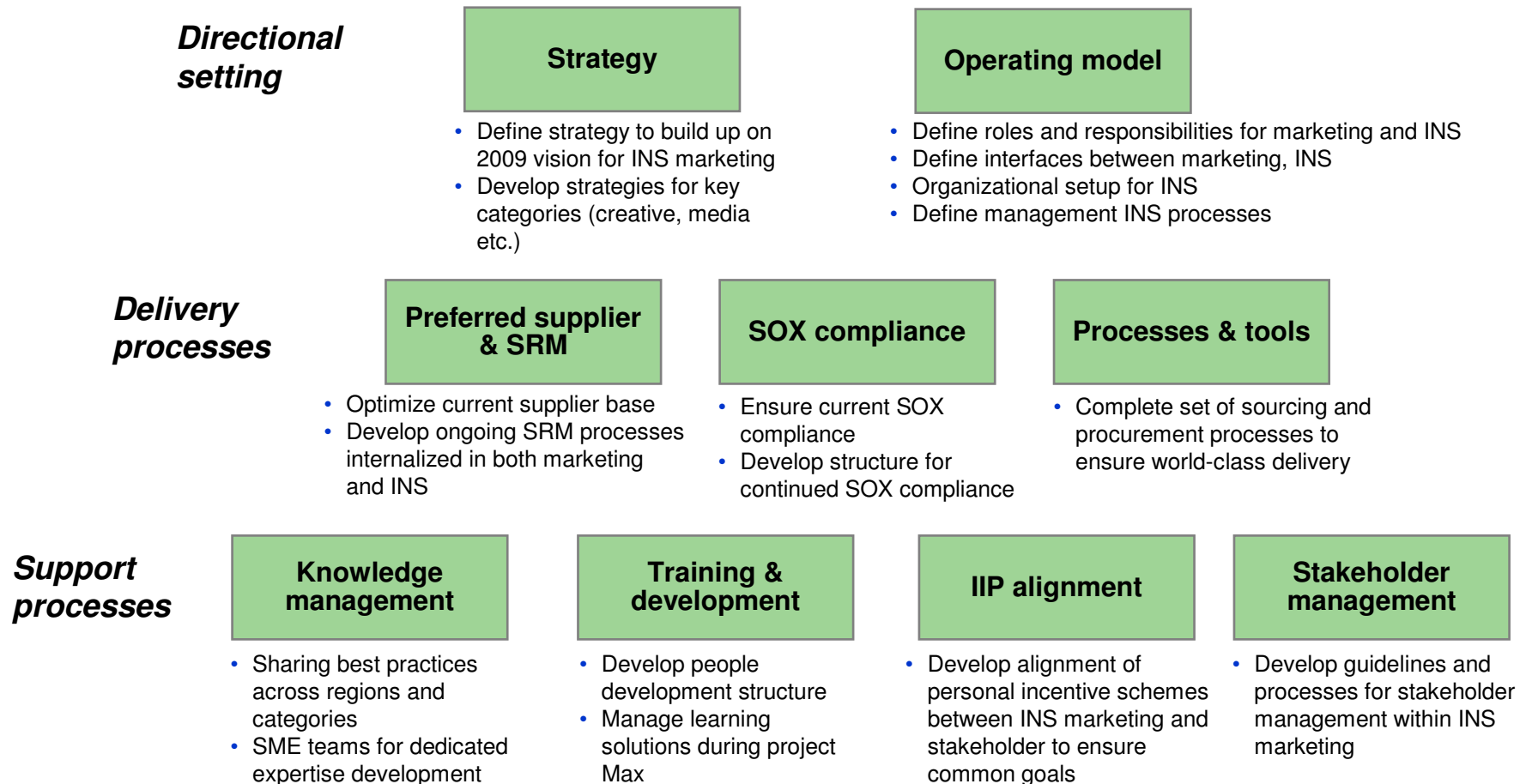
Project Max is a combination of the following; regional and global sourcing projects and foundational projects



*Globally sourced

Combined, the foundational projects cover all aspects of world-class procurement

Overall purpose of the foundational projects within Max



Summary of Project Max

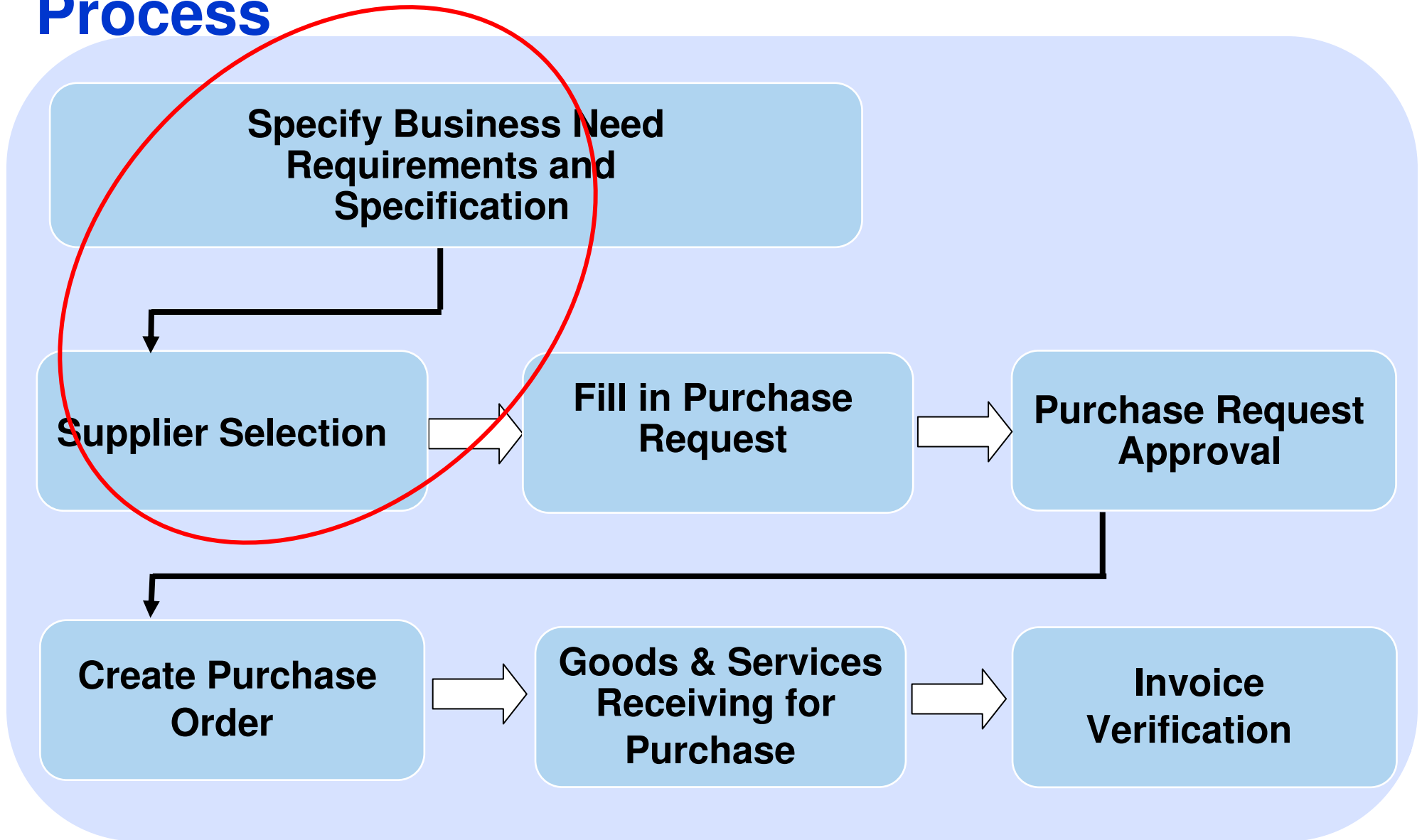
- Project Max approach resonates with the business climate and expectations:
 - Increased cost consciousness
 - Sox requirements
 - Strong support also with the new marketing leadership
 - Senior management awareness and attention
 - Legal and Finance
 - High level of trust in INS
- There are still many untapped areas of sourcing to cover which we can now approach

Summary of Project Max 2/2

- Aggressive approach and stretch results are expected
- Transforming organization, processes, tools, templates, ways of working in INS and in Marketing – equally important as individual sourcing projects
- Top marketing management supports Max objectives – provided that we do both the right things – and things right
- We have chosen the best available externals to implement Max and bring us to world class. There will be many interesting opportunities to learn and stretch our abilities

Sourcing value chain

Simplified Indirect Sourcing to Payment Process



Sourcing Process Guidelines – Phases, Stages & Steps

Phase 1

Phase 2

Phase 3

Phase 4

Scope Definition

Analysis and Planning

Negotiate & Contract

Operational Management

Prepare & Engage

Drivers, Impact & Risk

Internal Information

External Information

Analyse & Develop Approach

Evaluate Supply Base

Negotiate & Contract

Implement

Manage

- 1.1** Review operational status
- 1.2** Identify & review plan(s)
- 1.3** Initiate stakeholder comms
- 1.4** Define local needs
- 1.5** Establish team structure
- 1.6** Define project scope
- 1.7** Develop comms plan
- 2.1** Confirm business importance
- 2.2** Identify business drivers
- 2.3** Document impact & risks
- 2.4** Update & implement comms plan

- 3.1** Identify current business requirements
- 3.2** Identify internal best practice
- 3.3** Identify future business requirements
- 3.4** Review supplier performance
- 3.5** SOX decision
- 4.1** Understand market dynamics
- 4.2** Identify external best practice
- 4.3** Establish pre-qual criteria
- 4.4** Determine potential suppliers
- 5.1** Analyse & interpret information
- 5.2** Options generation
- 5.3** Options evaluation
- 5.4** Define contract award criteria
- 5.5** Create source plan

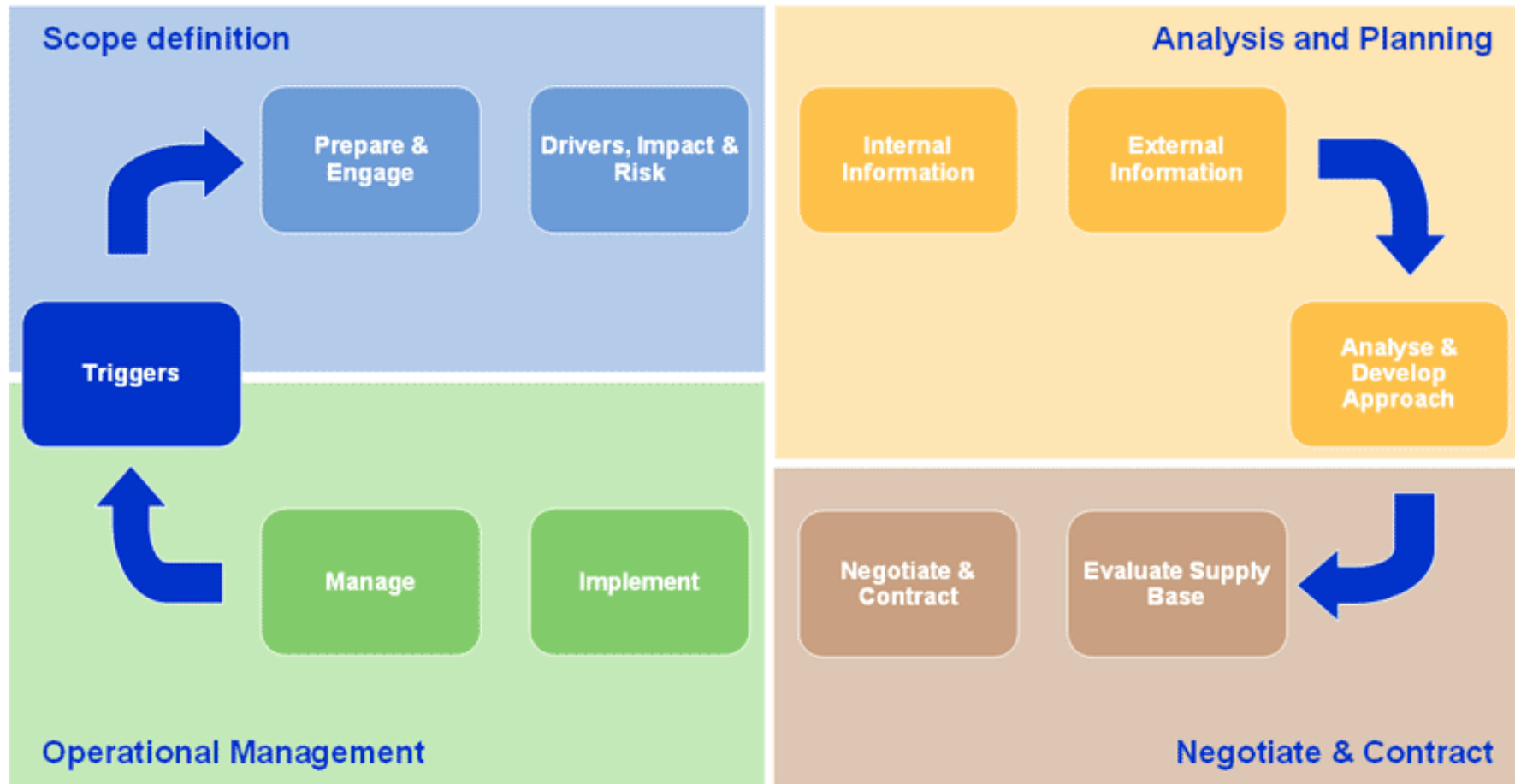
- 6.1** Create & issue quotation
- 6.2** Manage quotation process
- 6.3** Collate & analyse responses
- 7.1** Negotiation tactics & plan
- 7.2** Negotiate
- 7.3** Supplier selection
- 7.4** Develop final contract
- 7.5** Develop transition plan
- 7.6** Finalise Contract

- 8.1** Finalise implementation plan
- 8.2** Implement plan
- 8.3** Supplier transitioning
- 8.4** Knowledge capture
- 9.1** Contract review
- 9.2** Supplier review
- 9.3** Contract updates
- 9.4** Internal reviews

SOX decision/control points

stepkit step

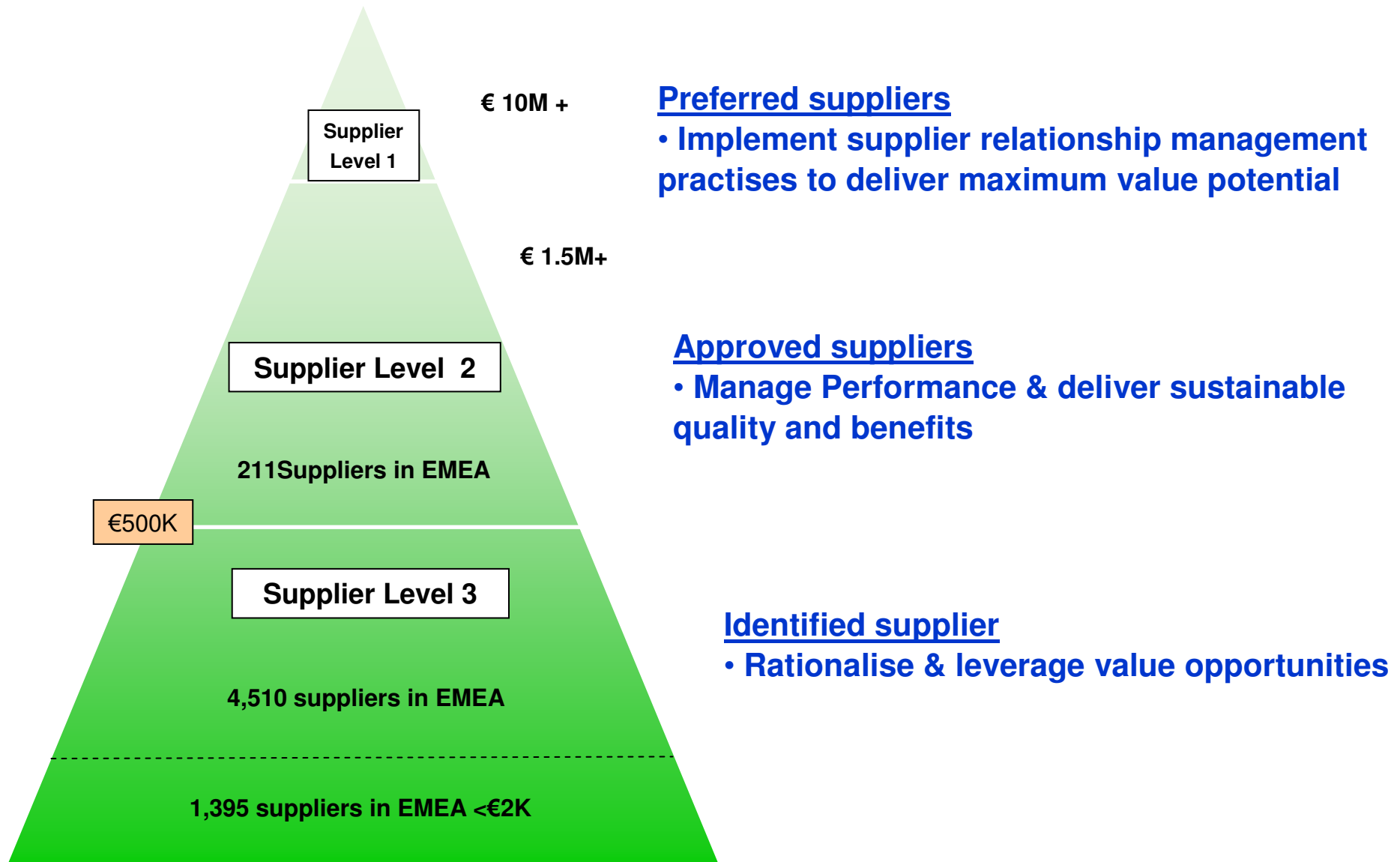
Summary of the Sourcing Process



Marketing Has Greenfield Potential...

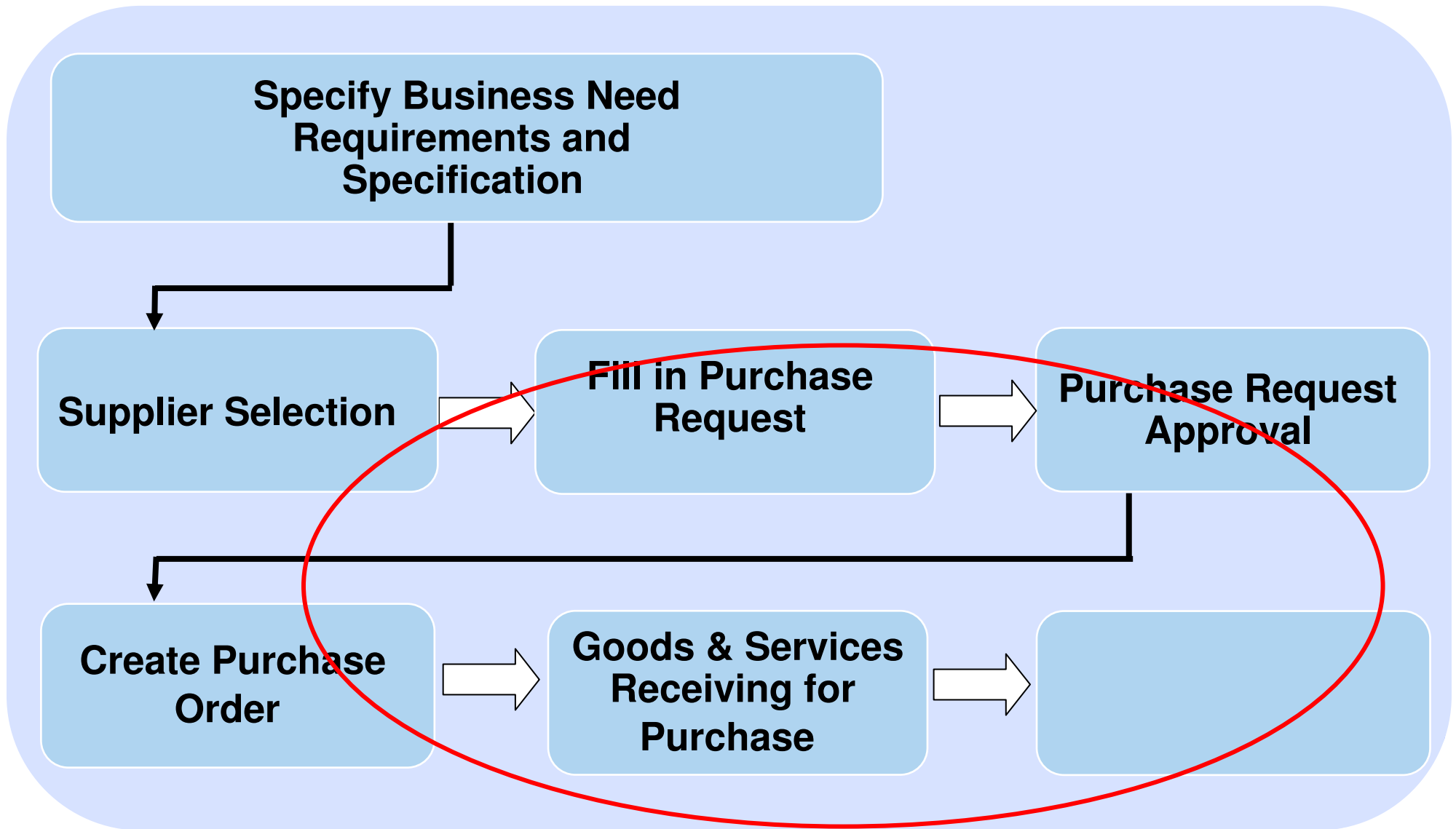
- Realizing an **87%** annual saving for a web analytics and ad serving tool plus ensuring future ownership of user data
 - Delivering a **50%** annual saving on Print (Color separation) with no change to the service turn around times or any changes to the process or supplier
 - Establishing an **18%** annual saving on display phones in addition to process and service improvements and implementation of a long term global strategy
 - Conducting a creative services audit which highlighted a number of areas where agency had contravened the contract. Net result: **3.5 MUSD** saving.
 - Reducing the total cost of operation for an internal publication by **50%** as well as introducing true innovation which benefits both Nokia and the supplier
- Savings opportunities are significant – but as marketing has a great impact on both Costs *and* Sales it is important not to sacrifice the quality and creativity of marketing services to reduce costs

Nokia Marketing Vendor Mapping



Managing compliance

Simplified Indirect Sourcing to Payment Process



Compliance management in Marketing

Challenges

- Historically Marketing has not worked with Purchase Orders, just based on budgeting planning and invoices, no PO coverage
- Marketing understood the value of sourcing but not purchasing (PO's)
- Suppliers, contracts and pricing negotiated by Sourcing were not necessarily used by Marketing
- SOX came to rescue

Targets of the Marketing Purchasing

- Create consistent purchasing *service level* across category and countries
- Develop marketing purchasing *know-how and skills* within Nokia/INS
- Implement agreed common *processes and tools* for the purchases, provide support for local implementation projects
- Ensure compliance to *SOX in Marketing* in cooperation with Marketing Finance & Control
- Ensure compliance to selected suppliers and negotiated deals

Selling the benefits of Purchasing process (1/2)

Marketing

- More transparency to agency fees
- Tracking mechanism down for orders and deliverables
- Tool for discrepancy discussions about invoices; there is always the PO as evidence of what was agreed with Supplier
- Managing period cost allocations; manual accruals are not needed in basic process
- **Transparency to spend information globally, regionally and on a country level**
- Documentation is in Ariba, no need archive
- **SOX compliance in purchasing**
- Reporting and reporting support from INS
- Workload transfer from back end of the process to front end
- Tactical sourcing support and purchasing service combined
- INS to take over some of the processing workload
- **Compliance to sourcing deals**

Selling the benefits of Purchasing process (2/2)

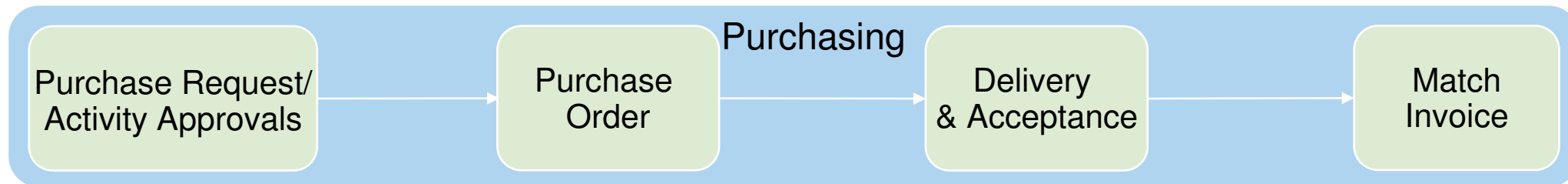
Indirect Sourcing

- Transparency to spend information globally, regionally and on a country level to support sourcing activities
- SOX compliance in Indirect Sourcing
- Spend data available in Ariba
- Opportunity for tactical sourcing
- Ability to implement contracts
- Ensuring compliance to suppliers, contracts and pricing
- Visibility to tactical (local, low to ,medium value) sourcing opportunities

Technology selected: Ariba

- Ariba was selected as a tool to manage Nokia's indirect spend
 - Economies of scale will be achieved by introducing a generic tool for support across all purchases instead of investing in function specific solutions
- Ariba is not a planning or budgeting tool
 - Marketing specific budgeting and planning tools can be used as a front-end application
 - Integration of these tools to Ariba will be reviewed case by case
- Order types
 - Initially all marketing orders in Ariba were “free text” orders
 - Different ordering scenarios are possible
 - One delivery, one payment
 - Project milestones with respective payments
 - One payment after all the work is completed with monthly accruals
 - Asset PO's for retail category
 - Catalogues are being built for promotional items

Marketing Purchasing Process in Ariba



1. Approvals by Activity

- Business Group specific approval practices
- Approval by email or signature + archiving

2. Discuss scope of work with Supplier

- Non-Disclosure Agreement
- When requesting for Offer send General Marketing Terms & Conditions to Supplier if there is no negotiated Contract
- **Quotation or Project Order**
- Support available from INS

3. Create Purchase Request in Ariba

- **Attach Quotation or Project Order** from Supplier
- Submit for approvals

4. Purchase Order is sent to Supplier

- Buyer validates & adds missing information and/or attachments.
- **This is the commitment from Nokia for Supplier to start the work.**

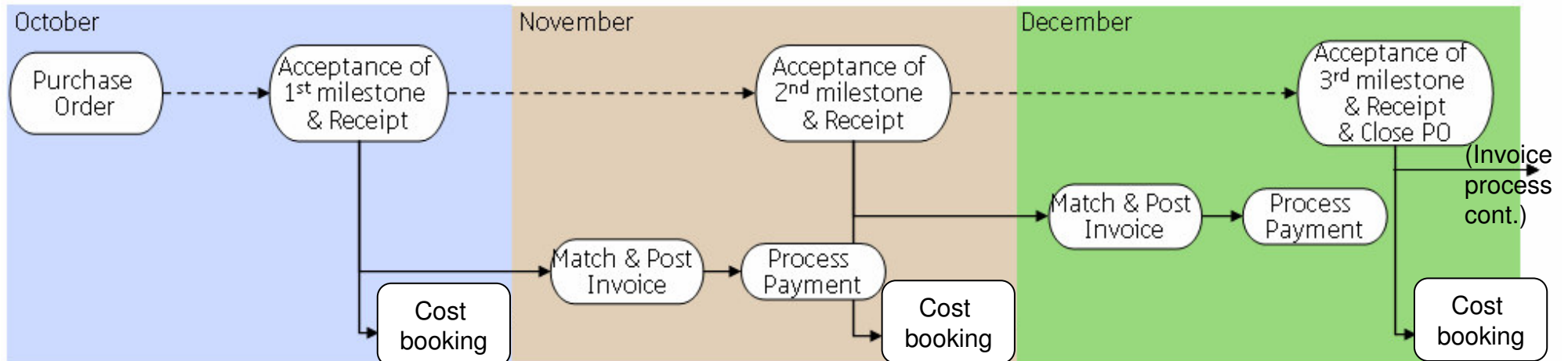
5. Receipt in Ariba

- During project do Ariba receipts monthly based on work already done (e.g. 30% of PO value already done)
- Receipt in Ariba creates the cost booking in SAP. **If you haven't done the receipt the cost has to be accrued manually for the period.**
- Supplier sends Acceptance Document before invoicing
- Attach the Acceptance Doc to the final receipt for the PO.
- Receipt is the OK for invoice to be paid. Invoice will NOT be checked and approved separately later.

• Accounts Payable matches invoice automatically based on Receipt

- No invoice approval required after-the-fact
- Financial Services Platform (A/P) accepts a variance of +/- 50€ between Receipt & Invoice
- NOTE: If Invoice total is over 50€ higher than original PO also new approval needed for the PO

Example: Project Milestones + Respective Payments



What happens & where:

Ariba

- PO in Ariba
- online to SAP R/3
- possible to report PO's
- 1st receipt

Accounts payable (Accounts Payable in SAP R/3)

- n/a

Controller SAP R/3 view:

- Cost booking according to 1st Ariba receipt

What happens & where:

Ariba

- 2nd receipt

Accounts payable (SAP R/3)

- Invoice receiving + matching against PO nr, 1st received total, 1st invoice total
- 1st Payment according to payment terms

Controller SAP R/3 view:

- Cost booking according to 2nd Ariba receipt

What happens & where:

Ariba

- 3rd (final) receipt

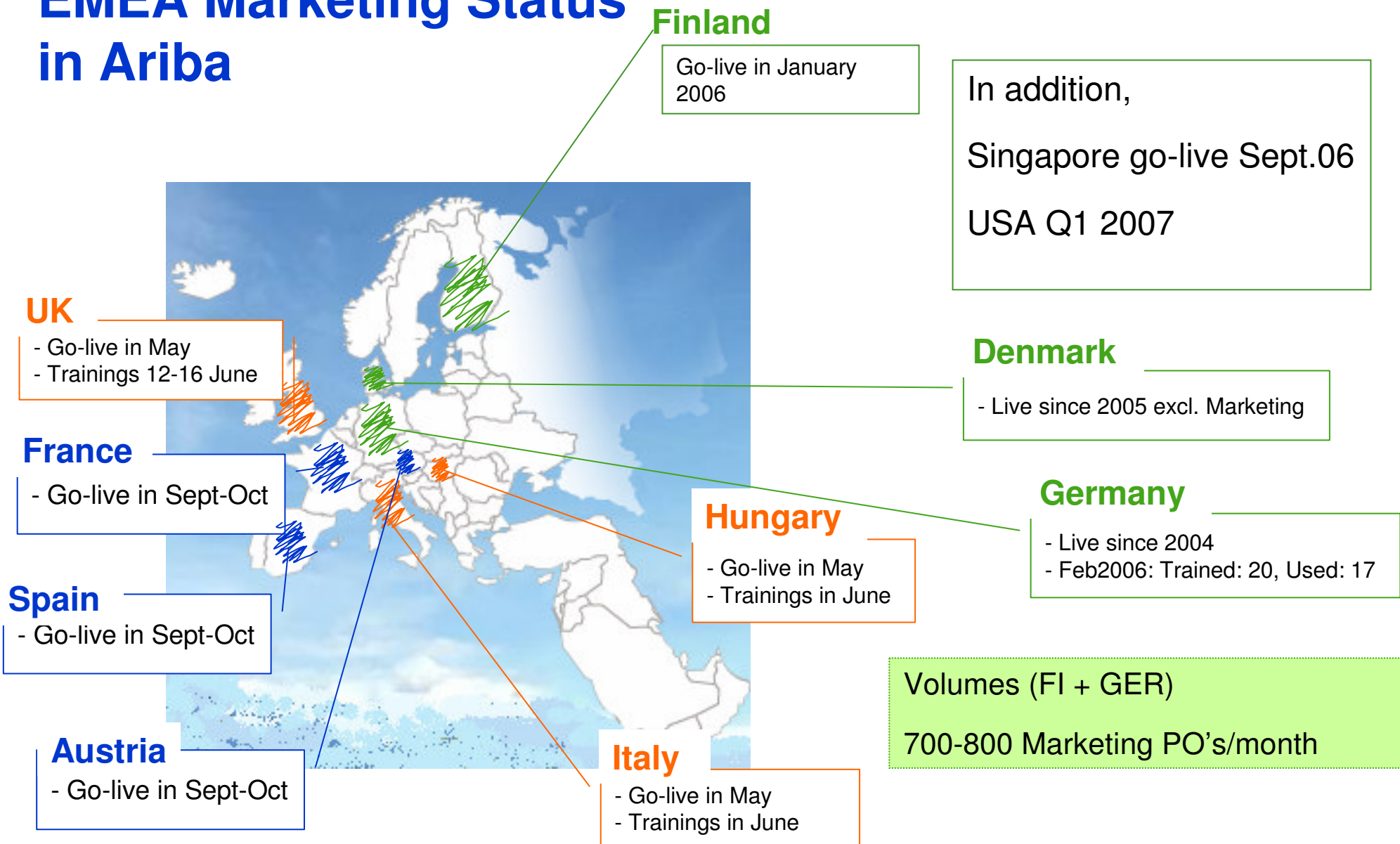
Accounts payable (SAP R/3)

- Invoice receiving + matching against PO nr, 2nd received total, 2nd invoice total
- 2nd Payment according to payment terms

Controller SAP R/3 view:

- Cost booking according to 3rd Ariba receipt

EMEA Marketing Status in Ariba



Lessons Learned

Process

- No major changes needed since pilot was started – but a lot of fine-tuning of instructions

Tool

- “Free text” ordering with Buyer support works for Marketing
- Do not underestimate the complexity of marketing ordering, sufficient transactional resources needed in Purchasing
- Frequent changes in the PO's are the single most difficult issue
 - No changes without stakeholder permission

Support model

- Close co-operation of Buyers with Sourcing Managers and end-users is crucial
- Face-to-face briefing of (biggest) suppliers is very valuable
- Prepare well for each period cut-off
- Clearly explain how/when Buyer is allowed (or: expected) to intervene in the process
- Buyer support by speaking to requester, less use of ‘Deny’ button + same applies with Controllers - email/call is preferred!
- Mandate from Marketing F&C to use PO process

Sufficient training to both Marketing buyers, end-users and controllers is key:

- Tool functionality
- Purchasing process
- SOX compliance
- Sourcing awareness
- “Cost smart”

Summary

Critical success factors

- Senior Management support and buy-in
 - Management walking the talk
- Stakeholder engagement
 - Marketing community needs to be fully committed to the whole sourcing value chain
 - Cost consciousness within Marketing
- Marketing Sourcing and Purchasing capability
 - Sourcing competencies in place
 - Marketing and soft skills
 - Transactional and tactical sourcing skills
 - Marketing category understanding
 - Customer orientation and service
- Certain degree of mandate to support change management
 - Strong communication and change management effort
 - End-uses training and education
- Technology and flexibility
 - Willingness to accommodate marketing needs within reason

Lessons learned

- Engage stakeholders
 - Make the change agenda common for Sourcing and Marketing
 - Cross-functional steering and working teams
- Implementing Sourcing cycle in Marketing takes time
 - Patience is needed
 - Influence stakeholders on all levels of the organization
 - Do not assume that senior stakeholders do the communication for you within their organization
 - Sourcing is traditionally not good at selling, but these skills are needed in convincing stakeholders
 - Start small, prove Sourcing and Purchasing capability with quick wins
- Follow up
 - Regular communication and follow up
 - Training updates
 - Celebrate success
 - Use success stories to sell the idea to new BU's or geographies