

# **Intel Case Study: Using Your Purchasing Department as a Savings Solution for Rising Healthcare Costs**

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# Agenda

- **Intel Overview**
- **Purchasing Engagement with Human Resources**
  - **Organizational Overview**
  - **Health Benefits Commodity**
- **Engagement Strategy**
  - **Organization Structural**
  - **Internal Environment**
  - **Key Challenges**
  - **Business Partner Plans**
  - **Sourcing Teams**
    - **Sourcing Team RFP and Audit roadmaps**
- **Cost Savings Results**
- **Lessons Learned**

# Nearly 40 Years of Experience

From our founding in 1968, we've grown into the world's leading silicon innovator with nearly 100,000 employees, approximately 300 facilities in 50 countries, and \$38.8 billion in revenues.



# Accolades from experts everywhere

Top 100 Global  
Most Sustainable  
Corporation  
*World Economic Forum*

Best Companies  
to Work for  
*Fortune Magazine*  
2005 Best Lists

Fortune 500, Global 500  
Blue Ribbon Companies  
*Fortune Magazine*  
2005 Best Lists

#17 of the  
World's Most  
Innovative Companies  
*BusinessWeek magazine*  
2006 Top 25 List

2005 recipient of  
first-ever Corporate  
Social Responsibility  
(CSR) management  
award  
*Business Ethics*  
magazine

Top 20 "Best  
Corporate Citizen"  
since List inception  
*Business Ethics*  
magazine

5 years as  
Sector Leader  
*Dow Jones*  
*Sustainability Index*

Technology Sector  
Leader for  
5 years running

#8 Most  
Respected Company  
*Barron's*



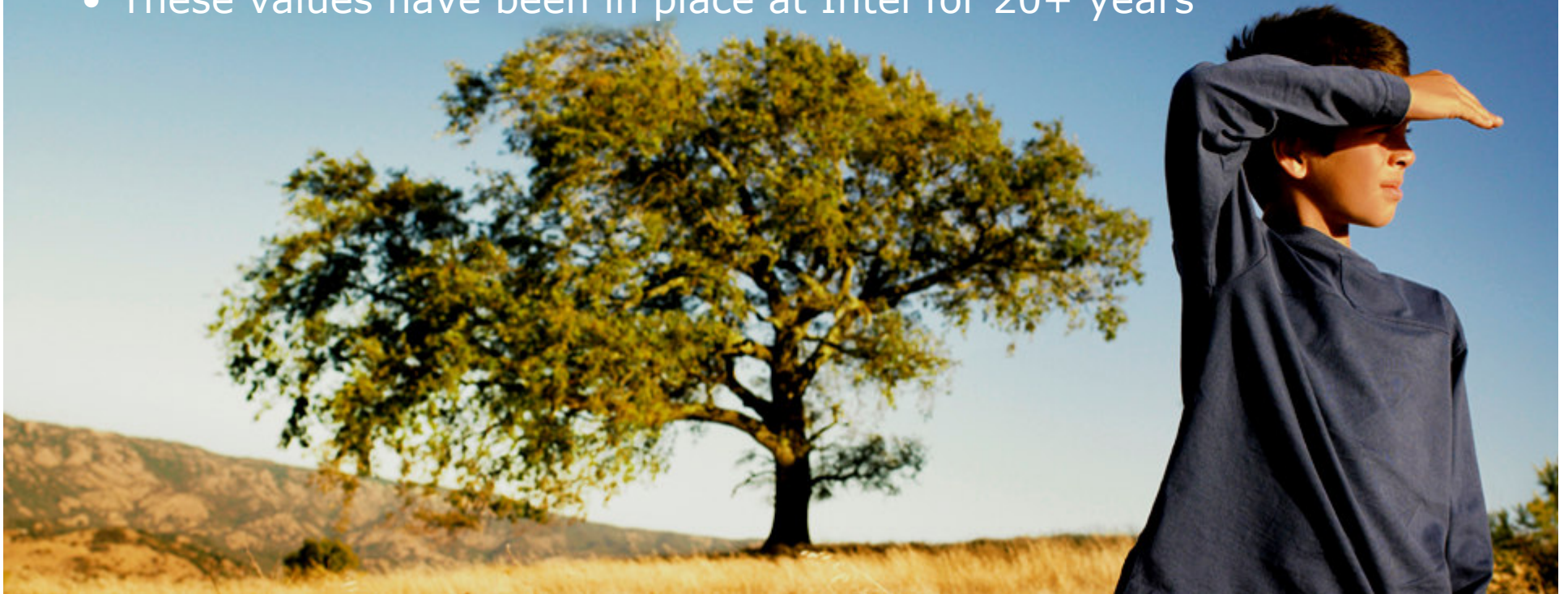
# We're on a Mission

- To advance life through breakthrough technology
- To move industries forward
- To inspire others
- To change the world...again and again

# Corporate Responsibility

Our commitment runs deep in our corporate culture

- Dedicated to being a global benchmark
- Leadership in internal governance practices
- These values have been in place at Intel for 20+ years



# Organizational Structure - Purchasing

- Corporate Purchasing has evolved into Global Indirect Procurement (GIP)
- From a Global Sourcing Focus
  - Emphasizing commodity expertise
  - Increased focus to engage with HR, Treasury, and Legal
  - Global sourcing teams formed for relocation, benefits, and temporary and permanent staffing
  - Sourcing teams sponsored by Sr. Management from HR, Materials (GIP), and Finance
- To a Global Strategic Sourcing Focus
  - Four distinct functional areas dedicated to tier 1 suppliers
  - Provides best in breed support model

# Organizational Structure - Human Resources

- Historically WW C&B responsible for the contracting and negotiation of employee benefits services and fees
- From a Decentralized HR Organization
  - Regional Management with movement to global structure underway
  - Administration and Design under two different HR organizations
    - Design responsible for our plan design and employee contributions
    - Administration responsible for eligibility, billing and supplier management
- To a Global HR Organization
  - Global Management with Regional Support
  - Design and Administration continue as two organizations within HR



# Global Benefits Commodity

## Healthcare

- Medical
- Prescription Drug
- Vision
- Mental Health
- Employee Assistance Program (EAP)
- Wellness Clinics



## Dental

## Life and AD&D Insurance



2006 Est. Spends > \$550M



## Retirement Plans



## Stock Programs

### Spends exclude:

- Employer taxes for government mandated healthcare programs
- Employee co-payments



## Childcare and HR Consultants



## Disability and Leave of Absence Plans



# US Health Benefits Commodity Team – Former Structure



## HR Business Partners



# What is our Global Health Benefits Strategy for Procurement?

## Engage

- Connect with our Business Partners and establish clear roles, goals and processes
- Develop and drive global sourcing team roadmaps
- Understand their needs and internal environment

## Evaluate

- Inclusion in plan design evaluations with business partners
- Influence design towards best total cost
- Verify competitiveness of supply base through consistent sourcing and MI practices

## Execute

- Drive global sourcing excellence through development of new tools & processes
- Maintain supplier compliance through contract T & C's, audits and supplier management

# Internal Environment - Key Drivers

- **Global pressure to balance cost, quality and employee satisfaction**
  - Changes and impacts to benefits programs must be looked at holistically as part of our total compensation philosophy
  - Global procurement team must balance needs of stakeholders, business partners and regional healthcare environment
- **Variation in global costs due to design and funding differences**
  - Competitive benefit levels and country practices vary by region with many countries having government sponsored health care
  - US HR requirements & legislation dictates ability to source off-cycle projects
- **Alignment with Business Partner Strategic Objectives (SO's)**
  - HR SO's not necessarily aligned with Materials SO's
  - Engagement with business partners varies by region
  - Tremendous amount of work at sourcing sub-team level driving results



# Internal Environment

## INTERESTS

Employee "Entitlement" mentality

Employer-Funded Healthcare

Headcount growth in emerging markets

Global employee perception of benefits as high value

## NEEDS

### AMR- US

- Mostly Employer Funded
- ERISA regulations
- Long design cycle
- Paid through Inter Trust

### GER

- Mostly government funded; employers purchase additional/secondary benefits
- Significant variations between countries
- Paid through PO

### AMR- non-US

- Mostly government funded; employers purchase additional/secondary benefits
- Significant variations between countries
- Paid through PO

### GAR

- Mostly government funded; employers purchase additional/secondary benefit
- Significant variations between countries
- Paid through PO

## INTERESTS

Global Cost Reduction Efforts

Govt. Mandated/ Funded Healthcare

Regionally competitive plan designs

Balance Benefits with Total T-Comp Philosophy

Create Global core benefits

-Global HR, Materials, Intel Employees, Board of Directors, Stockholders, Industry Marketplace, Global Governments, Benefits Admin Committee (BAC)

## KEY STAKEHOLDERS/INFLUENCERS

**Conflicting needs and interests must be managed when determining our sourcing strategies and priorities**



# Key Challenges

## Business Partnering

### **Business Partner Alignment and Engagement**

- Engagement varies by region
- Sourcing Teams need to be aligned for RFP roadmap execution
- Strategic Objectives not consistently aligned
- BP alignment with Purchasing global team structure

## Business Processes

### **Quality Procurement Tools, Processes and Strategies**

- New tools and strategies given new Purchasing partnership
- Process development to address commodity needs
- Audit process not robust and consistent

## Company Dynamics and Cost

### **Cost and HR Total Compensation Objectives**

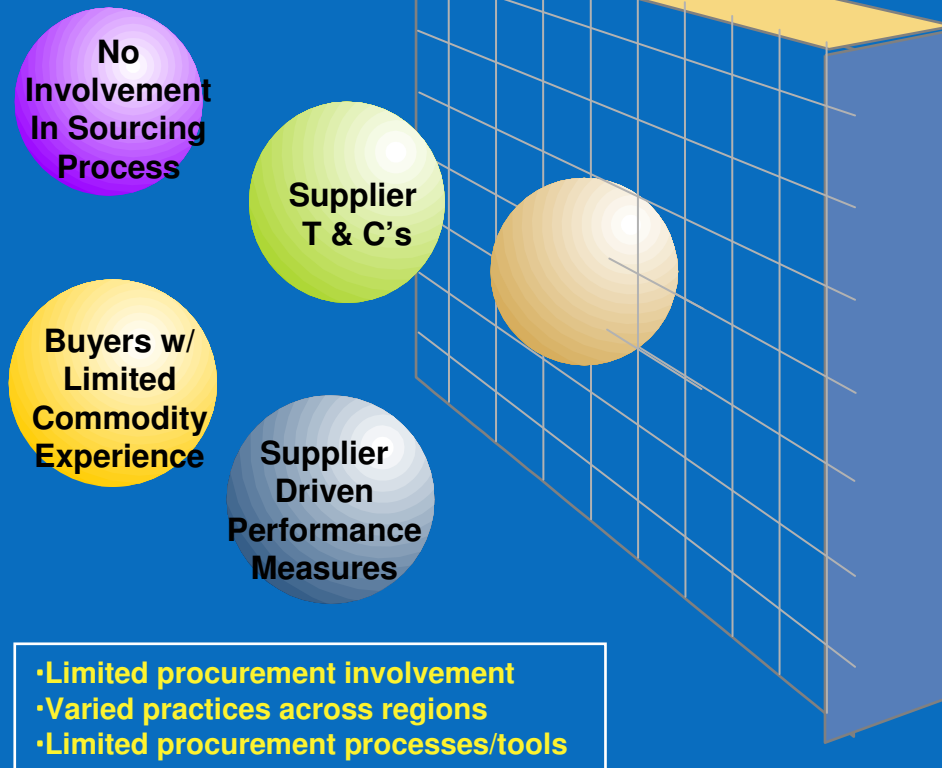
- Balancing quality, employee satisfaction and cost
- HR ownership of plan design and changes
- US plan design and Open Enrollment cycle limitations

# Business Partnering

## Prior Engagement

## Strategic Partnering

## Current Engagement



**Business Partnering Plans**

**Materials SM Tools (SCQI, SRC)**

**Provide BM and MI data to influence Design**

**Global Sourcing Teams**

**Specialists with Commodity Expertise**

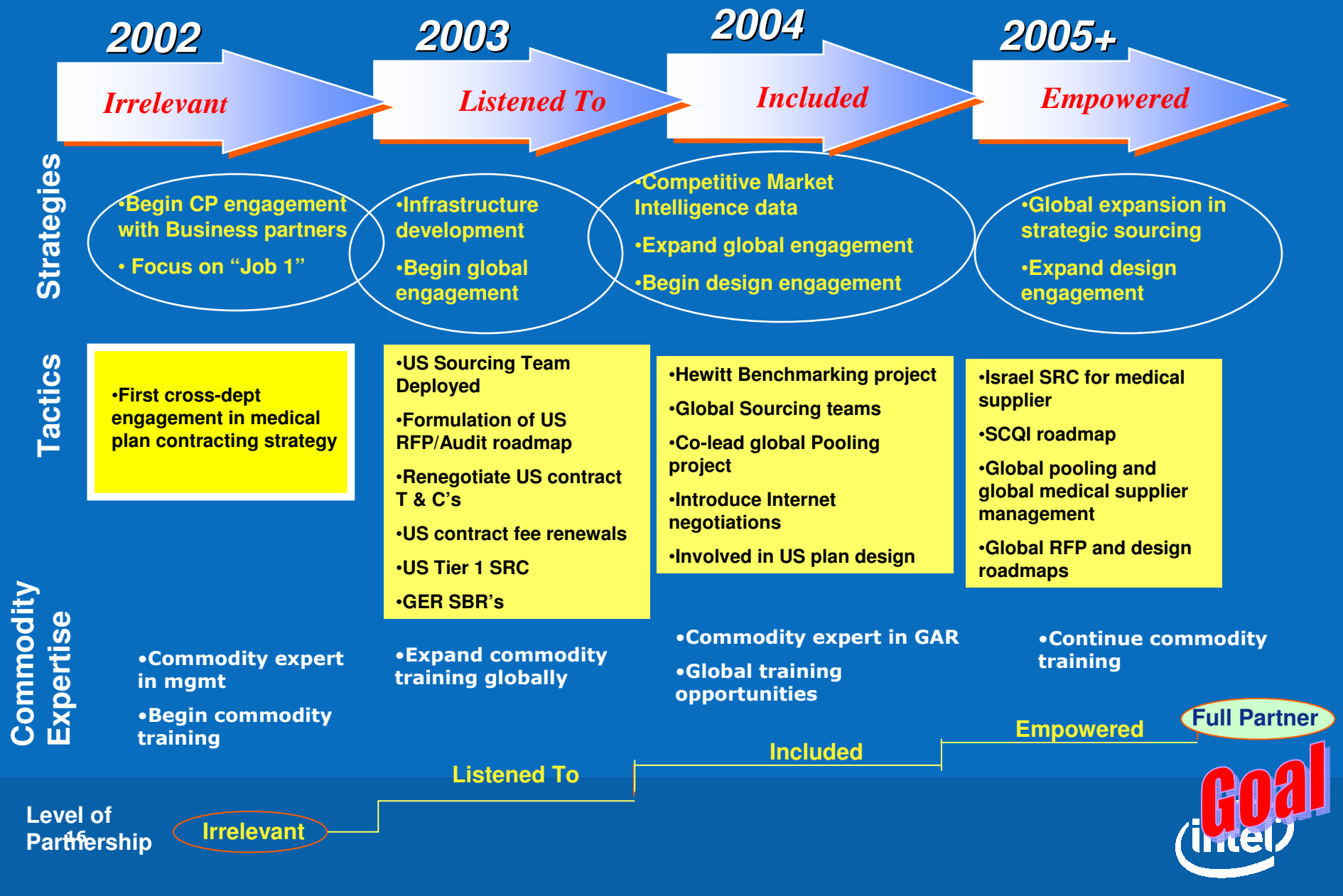
**RFP and Audit Roadmap**

**Internet Negotiations**

- Global procurement groups
- Procurement processes, tools and BKM's
- Business Partner engagement
- Influence on benefits design
- RFP and audit roadmaps

**Increasing influence and engagement with business partners**

# Business Partner Engagement Strategy





# Sourcing Team Structure



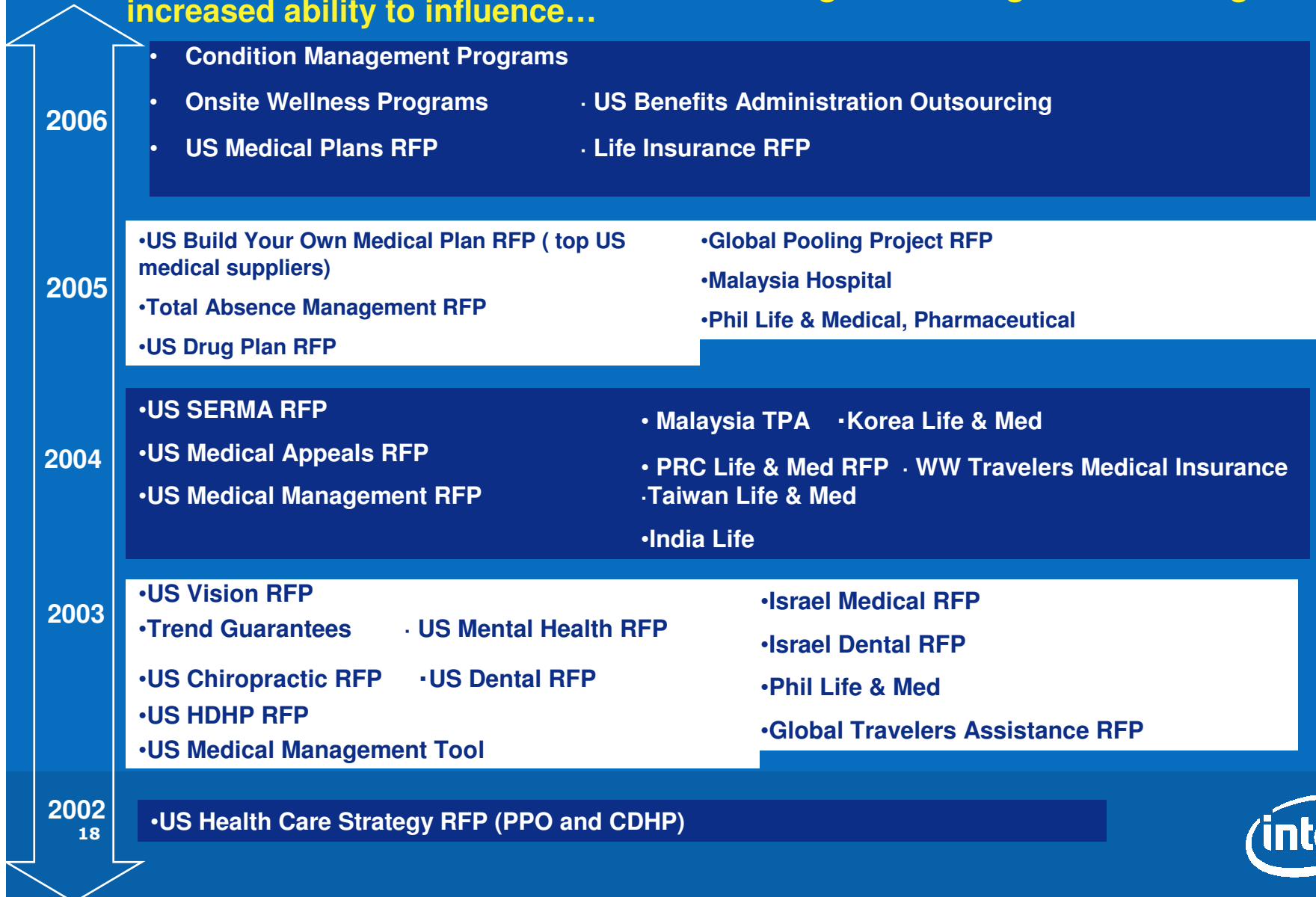
## Commodity Sourcing Team Organizations



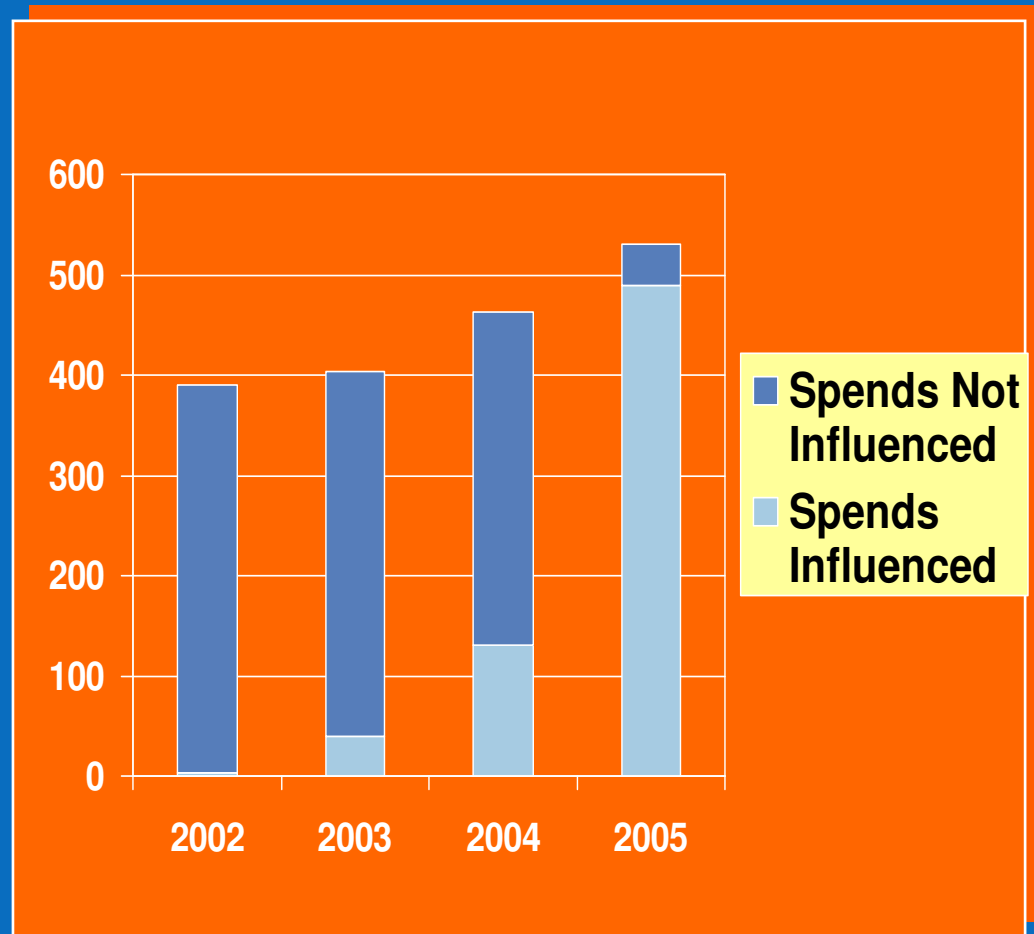
# Engagement Plan

**RFP Roadmap alignment has increased ability to influence...**

**and has generated significant savings!!**



## Cost Savings Results

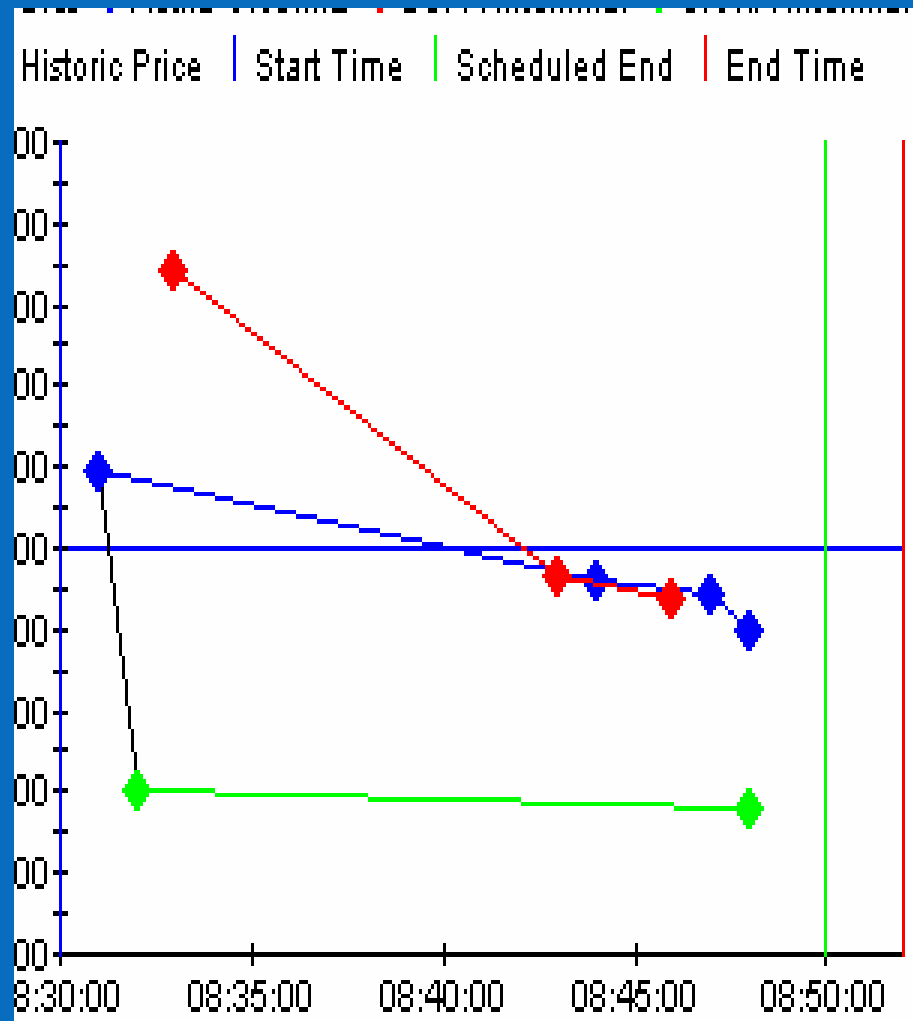


**Consultant Study confirms Best In Class  
ASO pricing with our US Health care  
Suppliers**

## Key Contributors

- Flawless execution to global sourcing roadmaps
- Integration of market intelligence data into sourcing strategies
  - Engage with HR Consultants as needed for data gathering and negotiation assistance
- Implement consistent global sourcing processes
  - Project Charter Document
  - RFP Templates
  - Supplier Selection Scorecard
  - Use of Internet Negotiations
  - Supplier Disposition Process

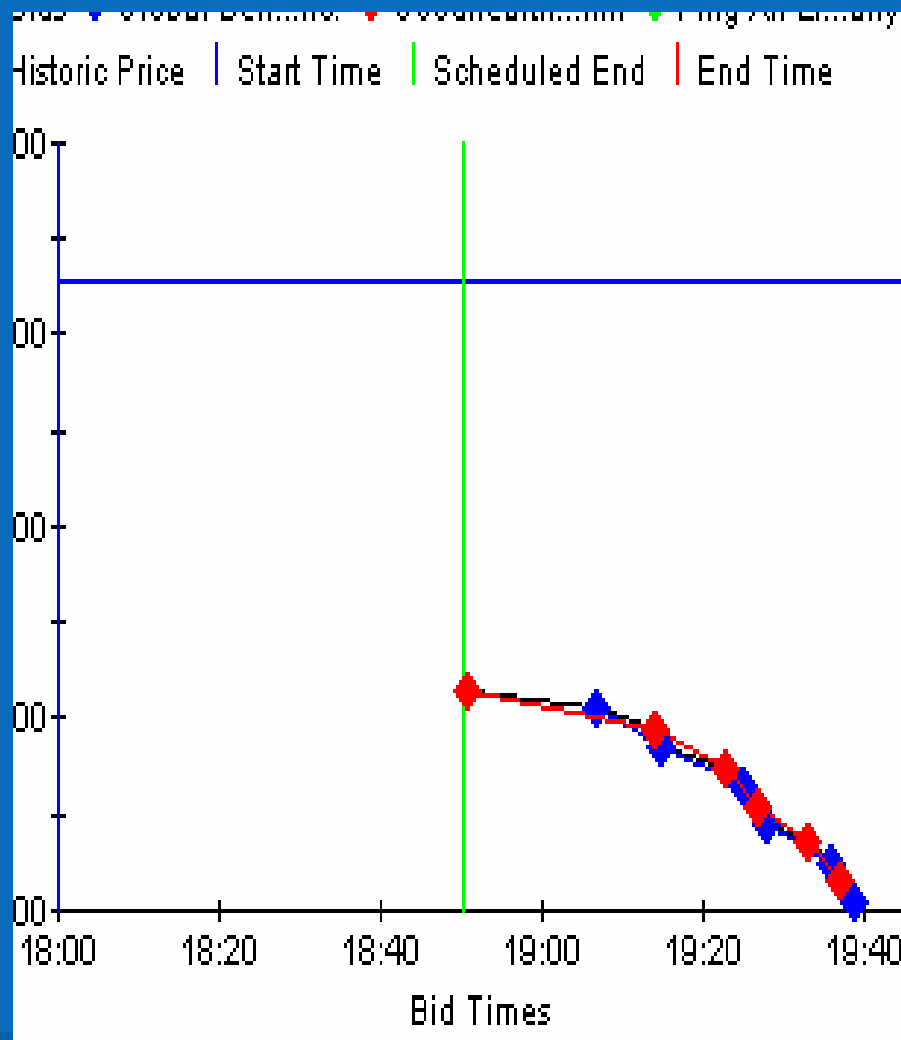
# Online Bidding: Global Medical Insurance Program



- **Global Medical Insurance Program**
- **Internet Negotiations**
  - 5 Lots
  - 3<sup>rd</sup> Country National Program, Inpatient and Expatriate Insurance, Business Travelers Insurance, Bundled Global Service
- **Number of Suppliers – 3**
- **Percent Savings Achieved – 23%**



## Online Bidding: PRC ILH Insurance



- **China Life and Health Insurance Program**
- **Internet Negotiations Strategy**
  - **5 Lots**
  - **(Single & Couples coverage, Single Parent, Family coverage, Employee dependents)**
- **Number of Suppliers – 3**
- **Percent Savings Achieved – 38%**

# Lessons Learned

|                   | <b>What Worked</b>                                       | <b>What Didn't</b>                          |
|-------------------|--|---|
| <b>Approach</b>   | <b>Demonstrate added value</b>                           | <b>Forced Engagement</b>                    |
| <b>Commodity</b>  | <b>Commodity knowledge<br/>with Purchasing Expertise</b> | <b>Purchasing Expertise<br/>only</b>        |
| <b>Engagement</b> | <b>Sourcing Teams and Joint<br/>Roadmaps</b>             | <b>One off Projects and<br/>Engagements</b> |
| <b>Focus</b>      | <b>Job #1</b>  | <b>Largest contracts</b>                    |



**Comments/Questions?**