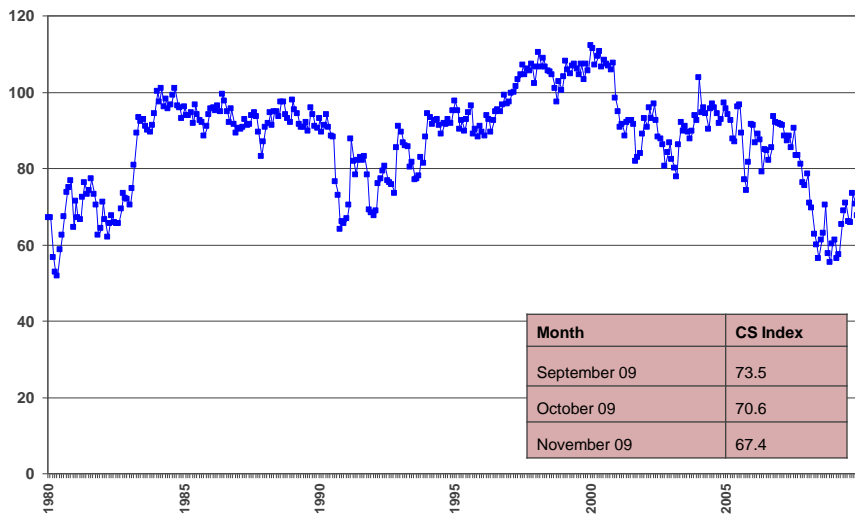


# Putting Service Back Into Services Procurement

Mickey North Rizza  
 Research Director  
 AMR Research, Inc.

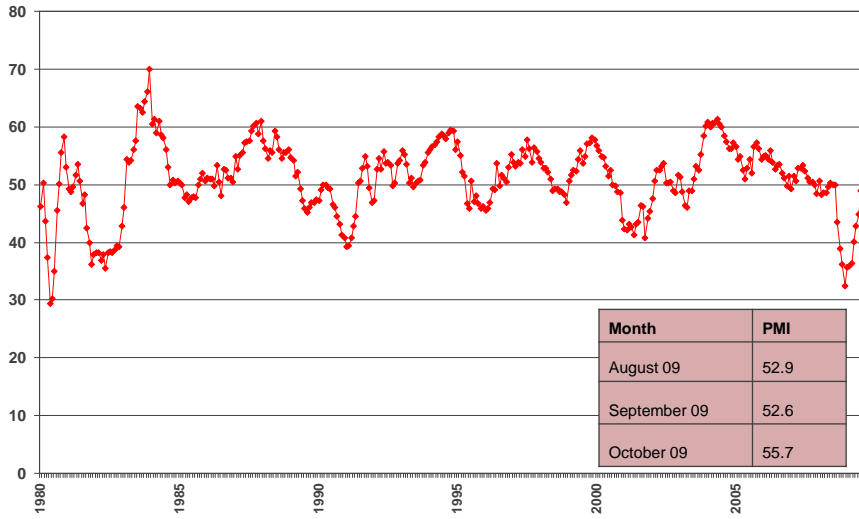


## Consumer sentiment – rebounding from near record lows



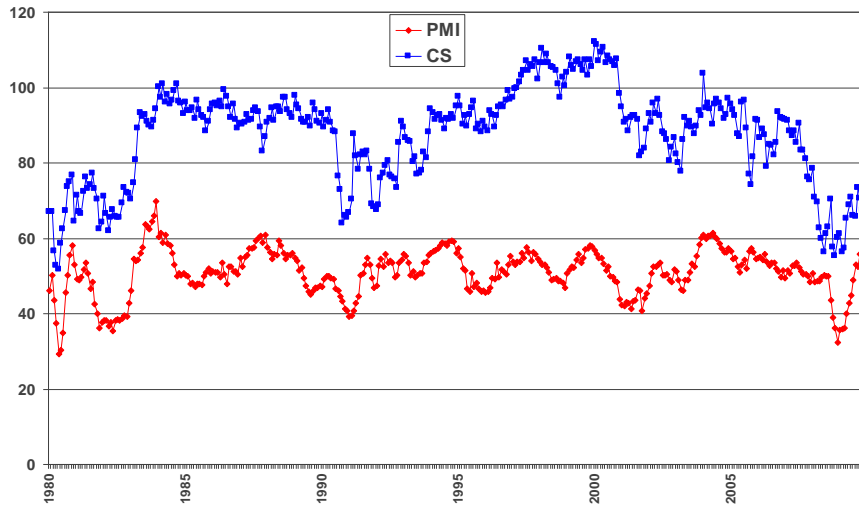
Updated 10-16-09

### Purchasing managers index – mfg back to positive growth

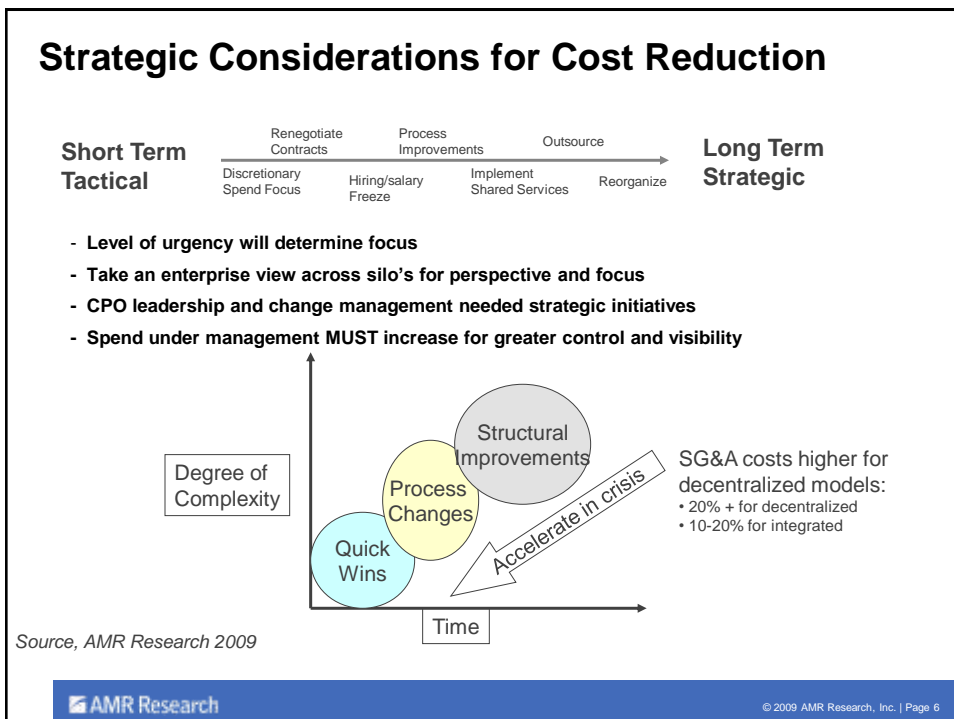
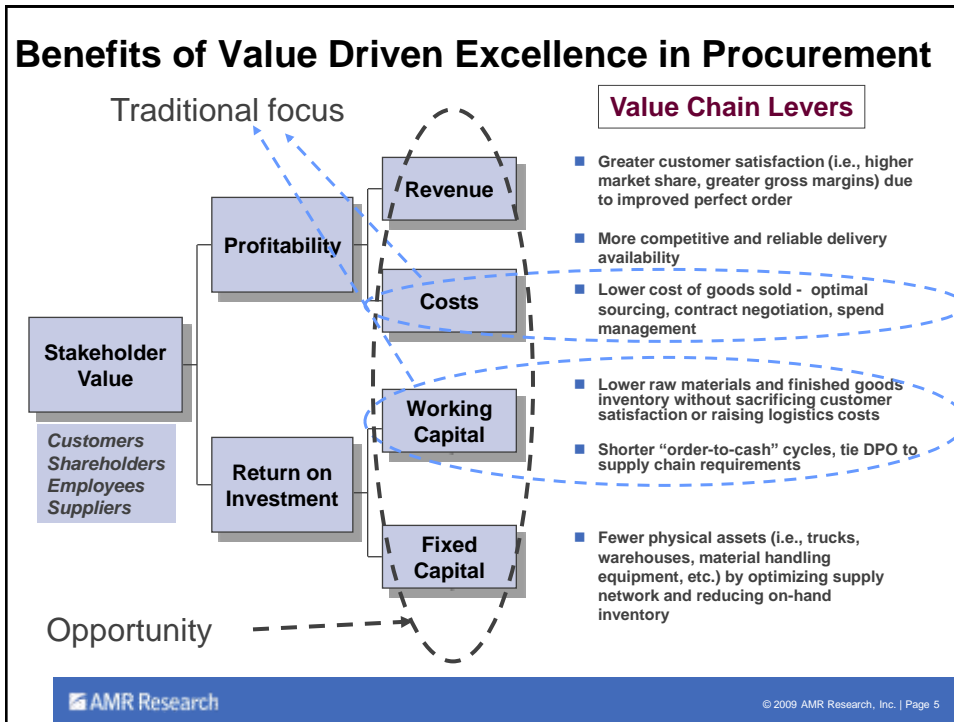


Updated 11-25-09

### Consumers & manufacturers in synch – but consumers led this recession



Updated 10-16-09



## Successful Strategies Deliver Results



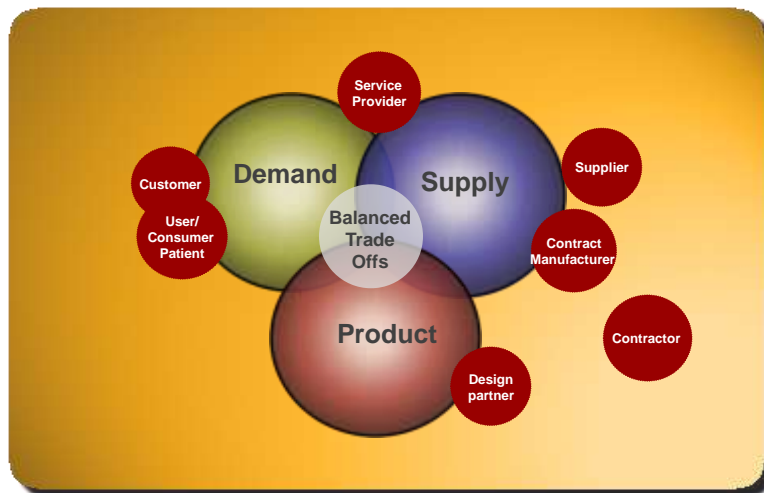
Procurement KPIs	Laggards	Average	Leaders
Average Savings	4%	8%	17%
Cost Avoidance*	8%	11%	23%
Managed Spend	3%	25%	65%
Manual Touches	11	8	3
Technology Applications	1	3	4

\* Based on suggested alternatives, still resulting in a buy activity

## & Competitive Advantage

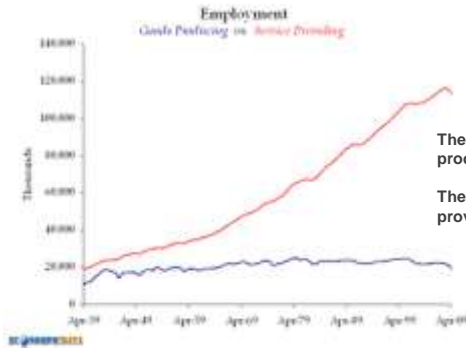
Source, AMR Research 2009

## End to End Business Transformation Around Supply Chain and Product Supply



### DDVN: Demand Driven Value Network

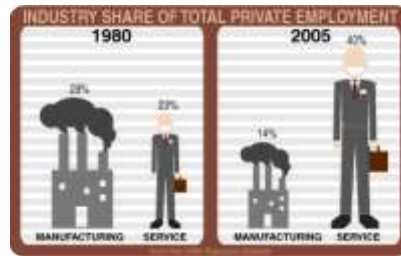
## Services vs. Goods



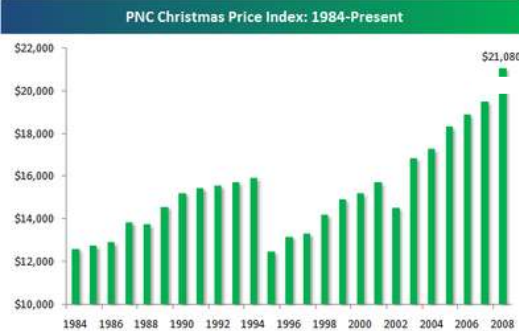
The U.S. economy began to shift away from goods producing industries more than 70 years ago.

The U.S. economy is now made up of roughly 6x more service providing than goods producing workers.

Service is Critical in Today's Economy!



## Cost of Christmas: One Measure of Our Economy



**PNC's Christmas Price Index: 2008**

Christmas Items*	2008	YoY % Chg
One Partridge in a Pear Tree	\$230	33.34%
Partridge	\$20	33.33%
Pear Tree	\$200	33.34%
Two Turtle Doves	\$55	37.50%
Three French Hen	\$80	-33.33%
Four Calling Birds	\$600	0.00%
Five Gold Rings	\$350	-11.41%
Six Geese-a-Laying	\$240	-33.33%
Seven Swans-a-Swimming	\$5,600	33.33%
Eight Maids-a-Milking	\$52	11.97%
Nine Ladies Dancing	\$4,759	0.00%
10 Lords-a-Leaping	\$4,414	3.00%
11 Pipes Piping	\$2,285	3.23%
12 Drummers Drumming	\$2,475	3.23%
<b>Total</b>	<b>\$21,300</b>	<b>8.06%</b>

\*From PNC Christmas Price Index

- Costs continue to escalate: Internet vs. traditional
- Price of swans has decreased
- Price of services has increased while prices of goods have decreased
- Employee hourly wages have gone up: Maids a Milking to \$7.25/hour

Cost of Christmas: 2008 - \$86,608.51  
2009 - \$87,402.81



Source: PNC Financial Services 2009

**Service has evolved over the years.....**



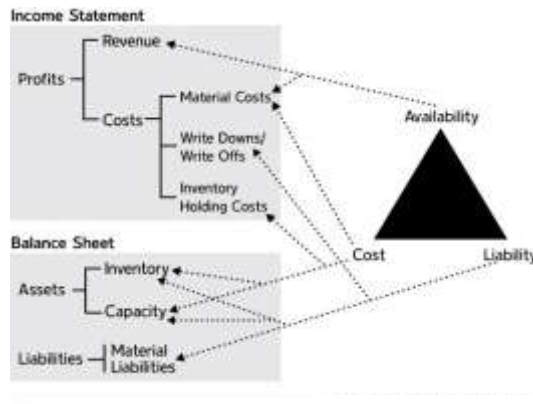
The New Norm Meeting Expectations:

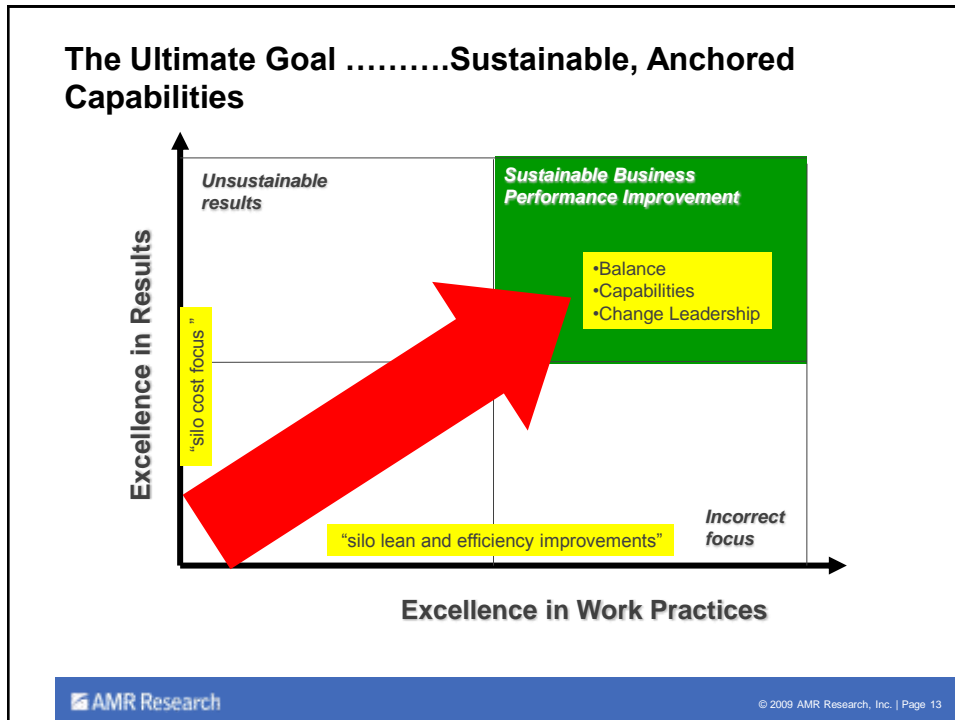
- Delivery
- Value
- Experience
- Repeatability

**The Services Economy is an Opportunity for Procurement to:**

Focus on the ultimate service for

- Shareholder Value





### But adding Service to Procurement Value also means...

Capturing and managing your spend and asking.....

How much Spend Do I have under management?

What does this mean to the way I look at my spend categories?

How much spend is truly managed across our organization?

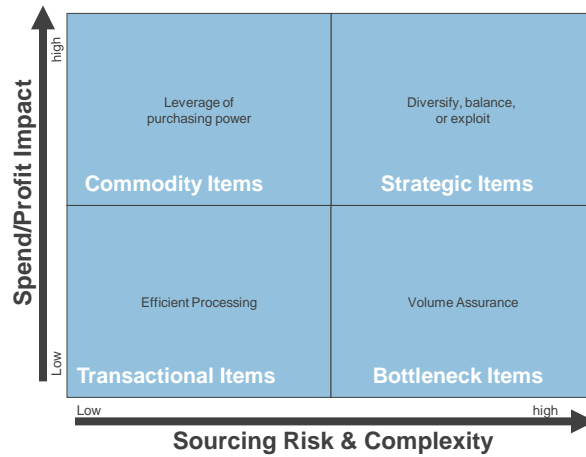
How do I provide my stakeholders value?

How do I take the services economy mentality and apply that to all our spend categories – direct, indirect, MRO, services?

Making a difference by managing and providing service to your organization in all categories of spend...

Including: **Services Spend**

## Sourcing Category Complexity



Courtesy of Peter Kraljic, The Kraljic Model

## Services Spend – Is Different, but.....

- Characteristics
  - Skill sets
  - Work hours
  - Configuration and pay structure
  - Receipt: Time cards, milestones, product
- Stakeholder's are crucial
  - Internal: Request, Receive, Approve, Pay
  - External: Service Supplier and Individual





## Services Require A Different Point of View

- Services spend: Not normally captured with Total Spend
  - Only 10% of companies actually capture and work their services spend categories
  
- Business Process: Involves many Stakeholders
  - Disparate Business Process for services categories:
    - Janitorial
    - Temporary Labor
    - Consultants
    - Print
    - Building Contractors
  
- Technology tools vary but provide extreme value in services spend

## Services Spend had not been addressed effectively

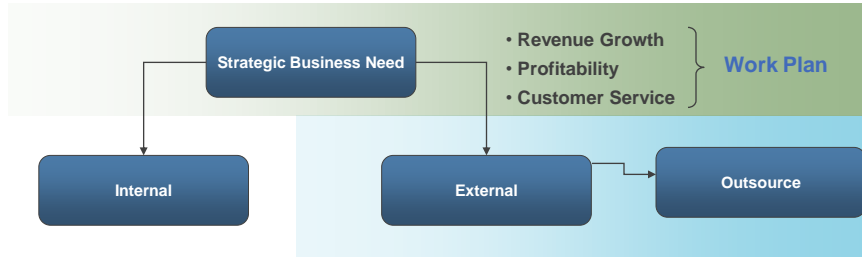
### AMR Research Findings

- Many consultants find services spend as an area that is traditionally ignored by businesses.
  
- Largest area of opportunity for more spend under management
  
- The Largest Gaps in Services Performance Management
  - Managing the internal stakeholder demand
  - Managing the global supply base
  - Inability to identify, attain and measure savings
  - Understanding and measuring end-user demand

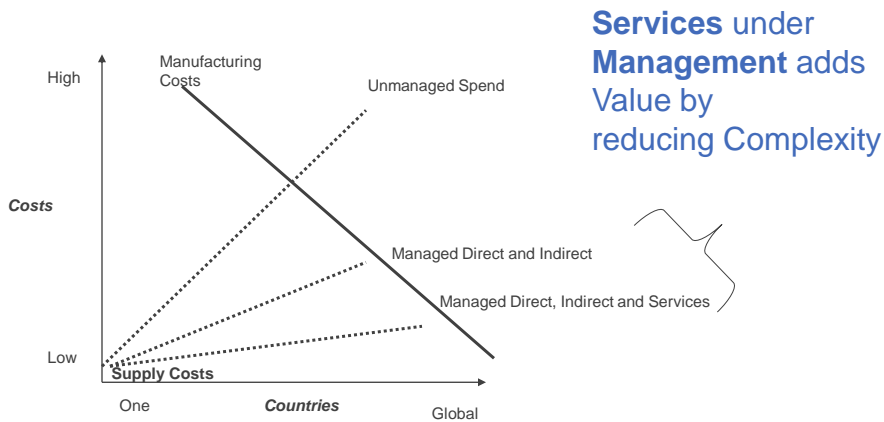


## Services Procurement Execution Requires

- What** work are they going to do?
- Who** do I need to fulfill this goal?
- Where** are the services going to be required?
- When** will I need them and for how long?
- Why** are we choosing this type of service?
- How** to measure?



## Global Complexities affect the ability to perform....



**Hindering flexibility and profitability...**

## Procurement Must Put More Spend Under Management

**"You never know what you're gonna get"**

Parent Company - \$38,959,413

Why are we talking about this?

	Spend	Item Count	Site Count
Child Company - Singapore	\$ 9,012,641	28	11
Child Company - Italy	\$ 6,612,641	67	10
Child Company - Spain	\$ 6,308,849	5	3
Child Company - Korea	\$ 5,407,585	2	3
Child Company - Canada	\$ 4,506,321	5	2
Child Company - USA	\$ 3,605,056	1	2
Child Company - Netherlands	\$ 1,802,528	5	1
Child Company - UK	\$ 1,081,517	1	1
Child Company - Brasil	\$ 811,138	1	1
Child Company - Argentina	\$ 450,632	1	1
Child Company - Isle of Man	\$ 360,506	1	1
<b>Total</b>	<b>\$ 38,959,413</b>		

23

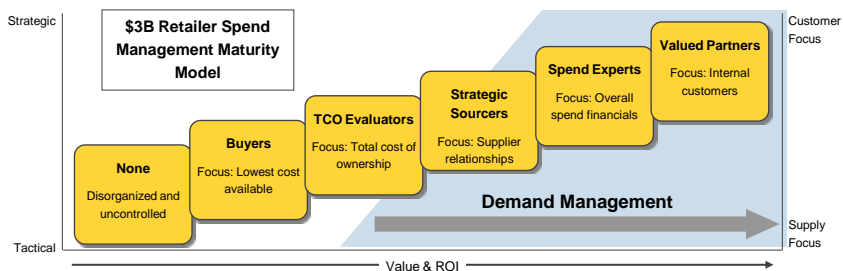
We should be talking about this.



CONSUMER PRODUCTS COMPANY  
JOHNSON & JOHNSON, JOHNSON & JOHNSON MEDICAL, JOHNSON & JOHNSON SERVICES, INC.

## Valued Services Management with Demand Management

Demand Management: Attacking the **"What"** and the **"How Many"** instead of just the "how much"



Demand Management is a critical strategy for evolving the value proposition of your procurement function.

## The Service Lens requires

- Traditional Supply Management Approaches:
  - Spend under Management
  - Suppliers to satisfy demand
  - Analysis of suppliers and their performance
  - Managing suppliers
  - Managing stakeholder expectations
- Procurement to manage
- Lean Business Processes
- Technology
- Benchmark data and statistics

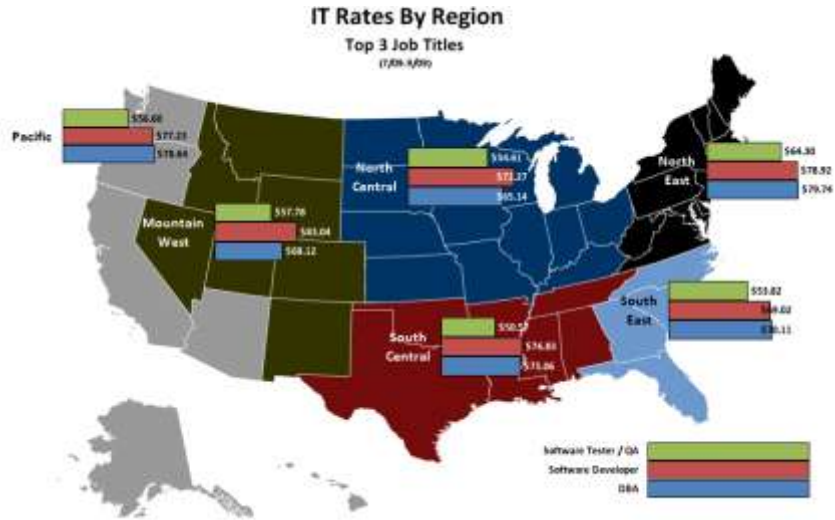


## Service requires analytics to further the value



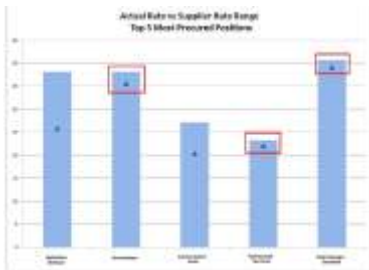
Source: Thomas Davenport, "Competing on Analytics"

## Benchmark Rate Comparisons

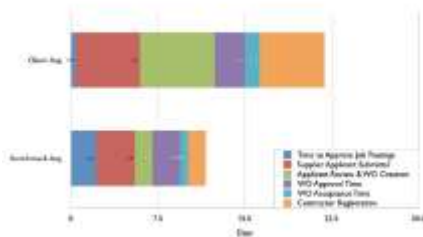


Source: IQ Navigator 2009

## Business Intelligence Reflects the Service Provided



### Compare to Peers: Benchmarking



Source: Fieldglass Inc. 2009

## Managing Services Spend is Critical for Procurement

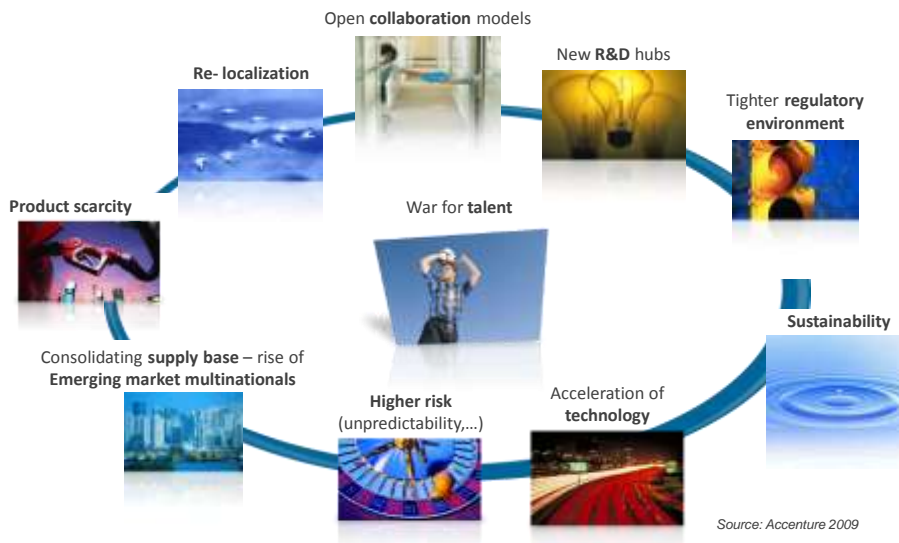
- Services Spend is .....
  - critical to our economy and our way of life
  - the largest area of spend that is not managed in business
  - complex in management and requires streamlined processes
  - prime candidate to control costs both short and long term

*“When we reviewed our services categories we found:*

- 15 categories with rogue buying
- 18% average savings across all 15 categories
- Reduced our supply base significantly
- Improved our internal stakeholder relationship
- Gained respect for our leadership to drive value”



## Fast forward look at the world in 2012



## Will your future enable you to....

- Capture more spend under management
- Address the services required in your organization to sustain business
- Provide your shareholders value
- Collaborate
- Visibility
- Transcend global boundaries with Technology
- Be an effective value driver delivering results
- Manage your supplier relationships



**Service that ultimately delivers Value for every category of spend.**



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