Optimizing the Source to Contract Process to Maximize and Lock in Savings

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Cardinal Health
Head of Indirect Procurement
Program Goals and Overview

Goal
Share our strategy and approach for implementing an optimized and efficient sourcing discipline that removes roadblocks and delivers sustainable value.

Key Points
- Overview of Cardinal Health & Indirect Procurement
- Road Blocks / Challenges
- Indirect Procurement Strategy
- Implementation Strategy – Programs
  - Spend & Contracts
- Implementation Strategy – Projects
  - E-Sourcing & LPO
Cardinal Health Overview

Cardinal Health
A global company dedicated to making healthcare safer and more productive

At the Intersection of Evolving Points of Care

- Distribution
- Inventory management
- Logistics support
- Product selection
- Financial transactions
- Risk management
- Patient safety
- Pharmacy management
- Quality and integrity
How do we Make Sourcing a Sustainable Organization?

**Starting Point**
- Cardinal Health Founded in 1971
- 43 years of growth through acquisition.
- Managed as a holding company model:
  - Sourcing / Procurement Function
  - Decentralized by business unit by Commodity type

**Transformation**
- Move to an Operating Company model
- Development of Shared Services
  - Primary focus (EIT, Finance, HR, etc.)
  - Secondary focus – Strategic Sourcing – “value add services”
Challenges and Roadblocks

How do we remove the obstacles blocking our ability to deliver year over year savings?

- Sourcing Lifecycle “diminishing returns”
- Budget / Resource Constraints
- No Executive Presence
- No formal policy
- No formal control of contracts
- No Aggregate View of data
Sourcing – Savings Fundamentals

**Category – “Program”**

**Sourcing Trend:** “Strategic to Transactional”
- Diminishing returns on savings
  - Rate Reduction
  - Program Optimization

**Required Change**
- Drive efficiencies into management of commodities
- Identify more sourcing opportunities
- Implement controls on sourced commodities

**Category – “Project”**

**Sourcing Trend:** “Multi round negotiations”
- Negotiation delivers value
- Time Constraints to execute project.

**Required Change**
- Develop sourcing framework to support projects
- Realign tasks to the appropriate resources
- Leverage technology to optimize process
Sourcing Organization Growth Model

**Sourcing Profile**

- **Compliance (Procurement / SRM)**
- **Spend Under Management**
- **Sourcing Coverage**
  - 50%
  - 70-80% BIC
  
  - Strategic (Programs)
  - Transactional (project based)

**Characteristics**

<table>
<thead>
<tr>
<th>Strategic Sourcing</th>
<th>Transactional Sourcing</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Characteristics</strong></td>
<td><strong>Characteristics</strong></td>
</tr>
<tr>
<td>▶ Structured / forecasted spend</td>
<td>▶ Unstructured / non-forecasted spend</td>
</tr>
<tr>
<td>▶ Master Agreements (multi-year agreements)</td>
<td>▶ Consulting / Statement work agreements (&lt; 1 year)</td>
</tr>
<tr>
<td>▶ Normalized supply base</td>
<td>▶ On-demand supply base</td>
</tr>
<tr>
<td>▶ Standardized requirements</td>
<td>▶ Ad-hoc requirements</td>
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</table>

**Commodities**

<table>
<thead>
<tr>
<th>Strategic Sourcing</th>
<th>Transactional Sourcing</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Temp Labor</td>
<td>▪ Consulting Services</td>
</tr>
<tr>
<td>▪ Small Package</td>
<td>▪ Marketing/Advertising</td>
</tr>
<tr>
<td>▪ IT Hardware / Software</td>
<td>▪ Print</td>
</tr>
<tr>
<td>▪ Real Estate</td>
<td>▪ Travel</td>
</tr>
</tbody>
</table>
## Indirect Procurement Strategy

### Vision
Implement a disciplined spend management program to manage Cardinal Health’s indirect goods and services expenditures to deliver sustained value year over year.

### Strategy
Transform Cardinal Health’s indirect goods and services purchasing culture to a sourcing mindset through the utilization and proliferation of sourcing policy, process and tools that can be leveraged across the organization.

### Priorities

<table>
<thead>
<tr>
<th>Transform CAH Culture “How to buy”</th>
<th>Establish Policy and Governance “Executive Buy-in”</th>
<th>Increase Spend Under Management ”Negotiate”</th>
<th>Optimize Supplier Management “Realize Savings”</th>
</tr>
</thead>
</table>

- Develop a sourcing framework that provides transparency: “Where are the Opportunities”
  - Organize and Process development
  - Spend Analytics
  - Contract Management
  - Procurement Activities

- Optimize Sourcing process by: “Add Velocity”
  - Driving Value through E-Sourcing Event
  - Organizing Resources - Align task to appropriate resource
Implementation Strategy

Profile Category
Develop Sourcing Strategy
Identify Supplier
Evaluate Suppliers
Negotiate with Suppliers
Transition Suppliers
Manage Suppliers

Sourcing/Category Leads

Spend Analysis

Where are the Opportunities?
Indirect Procurement Spend Profile

**Total Indirect Spend by Quarter**
- Medical
- Pharma
- Corp

**Annual Spend**
- Greater than $250M

**FY14 Spend (M)**
- $1,270.39
- 85%
- 520 suppliers

**% of Spend**
- 3%

**Supplier Segmentation**
- Supplier Count (thousands)

**Strategic versus non-strategic**

<table>
<thead>
<tr>
<th>Annual Spend</th>
<th>FY14 Spend (M)</th>
<th>% of Spend</th>
<th># of suppliers</th>
<th>% of Suppliers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes (Primary)</td>
<td>$1,270.39</td>
<td>85%</td>
<td>520</td>
<td>3%</td>
</tr>
<tr>
<td>No (Secondary)</td>
<td>$219.48</td>
<td>15%</td>
<td>18,187</td>
<td>97%</td>
</tr>
<tr>
<td>Grand Total</td>
<td>$1,489.87</td>
<td></td>
<td>18,707</td>
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Spend Management Approach

- **Source to Pay Strategy** - Stakeholder Alignment
  - **Procurement Governance Board** - Organize and lead to align key S2P stakeholders

- **Source to Contract** - Segment A & B
  - **Stakeholder Alignment** – Develop relationship that is proactive & strategic
  - **Category Strategies** - Spend Profile, Sourcing Strategy, Supplier Diversity, Procurement, Payables,
  - **Supplier Management** – Establish partnership to drive innovative value, add solutions and ensure compliance.

- **Procurement to Pay** - Segment A, B, C, & D
  - **Risk Mitigation**– Ensure efficient and standard processes that implement controls to mitigate risk (supplier & contract risk)
### Category Management Scorecard

<table>
<thead>
<tr>
<th>Category</th>
<th>Annual Spend (M)</th>
<th>FY15 Saving Forecast</th>
<th>Under Management</th>
<th>% Spend</th>
<th># Suppliers</th>
<th>% Spend</th>
<th># Suppliers</th>
<th>% Spend</th>
<th># Suppliers</th>
<th>% Spend</th>
<th># Suppliers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Freight &amp; Logistics</td>
<td>$582</td>
<td>N/A</td>
<td></td>
<td>84%</td>
<td>54</td>
<td>5%</td>
<td>67</td>
<td>3%</td>
<td>73</td>
<td>8%</td>
<td>688</td>
</tr>
<tr>
<td>Technology - Software/Hardware</td>
<td>$161</td>
<td>$16.0</td>
<td></td>
<td>83%</td>
<td>21</td>
<td>12%</td>
<td>32</td>
<td>3%</td>
<td>32</td>
<td>2%</td>
<td>189</td>
</tr>
<tr>
<td>Outsourced Service Provider</td>
<td>$152</td>
<td>$15.2</td>
<td></td>
<td>83%</td>
<td>31</td>
<td>12%</td>
<td>39</td>
<td>5%</td>
<td>40</td>
<td>1%</td>
<td>164</td>
</tr>
<tr>
<td>Operations - Facilities/ Real Estate</td>
<td>$98</td>
<td>$1.5</td>
<td></td>
<td>60%</td>
<td>25</td>
<td>26%</td>
<td>52</td>
<td>8%</td>
<td>63</td>
<td>6%</td>
<td>916</td>
</tr>
<tr>
<td>Professional Service - Temp Labor</td>
<td>$71</td>
<td>$0.5</td>
<td></td>
<td>81%</td>
<td>15</td>
<td>14%</td>
<td>19</td>
<td>3%</td>
<td>14</td>
<td>2%</td>
<td>88</td>
</tr>
<tr>
<td>Enterprise Services - Fleet</td>
<td>$61</td>
<td>$0.0</td>
<td></td>
<td>99%</td>
<td>1</td>
<td>0%</td>
<td>-</td>
<td>0%</td>
<td>-</td>
<td>1%</td>
<td>2</td>
</tr>
<tr>
<td>Operations - Consumables</td>
<td>$58</td>
<td>$4.5</td>
<td></td>
<td>70%</td>
<td>12</td>
<td>18%</td>
<td>23</td>
<td>4%</td>
<td>15</td>
<td>7%</td>
<td>458</td>
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<tr>
<td>Professional Service - Consulting</td>
<td>$57</td>
<td>$2.0</td>
<td></td>
<td>69%</td>
<td>12</td>
<td>17%</td>
<td>24</td>
<td>7%</td>
<td>25</td>
<td>7%</td>
<td>94</td>
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<tr>
<td>Travel Management</td>
<td>$45</td>
<td>$3.0</td>
<td></td>
<td>84%</td>
<td>63</td>
<td>11%</td>
<td>156</td>
<td>3%</td>
<td>3,012</td>
<td>1%</td>
<td>18,632</td>
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<tr>
<td>Operation Other</td>
<td>$44</td>
<td>$0.3</td>
<td></td>
<td>60%</td>
<td>12</td>
<td>15%</td>
<td>17</td>
<td>13%</td>
<td>49</td>
<td>13%</td>
<td>531</td>
</tr>
<tr>
<td>Marketing Services</td>
<td>$27</td>
<td>$1.7</td>
<td></td>
<td>39%</td>
<td>7</td>
<td>33%</td>
<td>18</td>
<td>13%</td>
<td>23</td>
<td>15%</td>
<td>734</td>
</tr>
<tr>
<td>Enterprise Services - Other</td>
<td>$19</td>
<td>$0.3</td>
<td></td>
<td>43%</td>
<td>4</td>
<td>31%</td>
<td>11</td>
<td>15%</td>
<td>17</td>
<td>11%</td>
<td>92</td>
</tr>
<tr>
<td>Not Mapped</td>
<td>$115</td>
<td>$0.0</td>
<td></td>
<td>5%</td>
<td>4</td>
<td>13%</td>
<td>49</td>
<td>27%</td>
<td>218</td>
<td>56%</td>
<td>14,405</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$1,489</strong></td>
<td><strong>$45.0</strong></td>
<td></td>
<td><strong>73%</strong></td>
<td><strong>261</strong></td>
<td><strong>10%</strong></td>
<td><strong>507</strong></td>
<td><strong>4%</strong></td>
<td><strong>3,581</strong></td>
<td><strong>5%</strong></td>
<td><strong>36,993</strong></td>
</tr>
</tbody>
</table>
Implementation Strategy

Process:
- Profile Category
- Develop Sourcing Strategy
- Identify Supplier
- Evaluate Suppliers
- Negotiate with Suppliers
- Transition Suppliers
- Manage Suppliers

People:
- Sourcing/Category Leads
- System & Operations COE

Technology:
- Spend Analysis
- Contracts Management
Contract Management

Key Benefits

- **Visibility**
- Key event notifications and reminders
- Centrally managed
- Standard extraction process
- Insurance of quality
- Central reporting function
- Maintain compliance with record retention and audit provisions

- Contract workflow automation
- Key task reminders and notifications
- History of key activities
- Reporting capabilities
- Executive dashboard view of contracting process
- Deal efficiency
Implementation Strategy: Add Velocity

Process:
- Profile Category
- Develop Sourcing Strategy
- Identify Supplier
- Evaluate Suppliers
- Negotiate with Suppliers
- Transition Suppliers
- Manage Suppliers

People:
- Sourcing/Category Leads
- System & Operations COE
- Contract Management Office

Technology:
- Spend Analysis
- Contracts Management
- Sourcing
Driving Value through E-Sourcing

Program Development
• **Buyer Survey**
  – Enhanced collaboration between stakeholders, define “Profile Category” & “Develop Sourcing Strategy”

RFx Creation and Management
• **RFx Cloning**
  – Existing events can be re-used to create event faster and more effectively.
• **Supplier Inclusion**
  – Increase participation of suppliers to increase competition. “Identify Suppliers”

Supplier Evaluation and Award Scenarios
• **Scorecards**
  - Quantitative analysis replaces qualitative, supplier responses easily reviewed & analyzed.
• **Sourcing Optimization**
  – Multiple What-if scenarios, identify trade-offs to award strategies. “Evaluate and Negotiate with Suppliers”

Process Improvements - “Wins”
• Reduced project cycle time by half – “Doubled the number of projects”
• Add 1 to 2 rounds of negotiation
• Increased creditability with stakeholder – “Transparent Analysis”
Organizing Resources: Align Task to Resource

“Strategy is to have Sourcing Lead Focus on Higher Value Tasks - “Negotiation”

Developed Sourcing System and Operation Team
- Primary User of technology – “Drive Adoption”
- Translate Sourcing strategy into e-sourcing event – “Changing Culture”
- Focus on repetitive and administration tasks:
  - Build Sourcing event
  - Train / Support Suppliers
  - Create Reports / run analysis

Create a Contract Management Office
- Focus on business process and transform to utilize technology
- Establish relationship with Legal / Risk Mgt / Sourcing Lead
- Distribute contract creation tasks to appropriate resources.
There is enormous pressure to change:
- Continued post-recession demands for cost reduction and cost predictability
- Need for improved efficiency
- Demand for expanded internal capacity

There is a significant need for in-house counsel, contract management and global sourcing leaders to evolve up the value chain.

The legal, contract management and global sourcing functions are changing due to outside pressure, and the traditional model that worked yesterday is no longer sustainable.
Intelligent legal outsourcing solutions enable strategic sourcing staff to transform the way they work and make it possible to manage multiple rounds of negotiation on important sourcing projects.
Questions!