Highly Effective Advanced Sourcing Strategies

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Highly Effective
Advanced Sourcing Strategies

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BravoSolution Overview

Leading Strategic Procurement Solution

- **Market leading**, integrated platform
- **End-to-end automation** of the complete Strategic Procurement lifecycle
- **Flexible, Secure and Scalable** supporting a diverse range of deployment models and customer needs

Global Scale

- **600+ customers** worldwide
- **65,000+ purchasing users** collaborating with **700,000+ suppliers**
- **Direct support in 12 countries** for implementation & advisory expertise
- **11th year of consecutive profitable growth**

Practitioner Experience

- **600+ procurement professionals** worldwide
- **15+ years of experience** in industry and strategic procurement processes
- **Value-added services across** technology implementation, customer support, market operations, and strategic advisory services
For more than 100 years, C. R. Bard, Inc. has been developing innovative medical devices that meet the needs of healthcare professionals and patients. From a one man shop in 1907 to a global leader in the medical device industry we are committed to enhancing the lives of people around the world.

Bard pioneered the development of single-patient-use medical products for hospital procedures; today Bard is dedicated to pursuing technological innovations that offer superior clinical benefits while helping to reduce overall costs.

Our four divisions focus their efforts around the disease areas of:

- Vascular
- Urology
- Oncology
- Surgical Specialties

Our approximately 15,000 employees are committed to creating innovative, potentially life-saving medical technology products that improve the quality of life for people worldwide.
Are you familiar with the term “Optimization” in the context of Sourcing as it relates to the award decision process at the completion of an RFP or sourcing event?
What You Will Discover Today

- What is optimization-based sourcing
- How optimization can reduce bid evaluation time
- Advanced sourcing techniques to unlock hidden savings
- How to become more efficient, effective and strategic
Today’s Agenda

• Procurement Value Drivers
• Sourcing Challenges
• Optimization-Based Sourcing
• Advanced Sourcing Techniques
• Case Study
• Q & A
Procurement Value Drivers

- Sourcing
- Spend
- Contracts
- Savings Management
- Compliance
- Risk
- Supplier Management

Time
Sourcing Evolution

- From Buying to Sourcing
- Formal Sourcing Organizations Created
- Common Sourcing Processes
- Competitive Bidding (eSourcing/eAuction)
- Sourced Many Categories/Plateaued Savings
- Move to Other Value Drivers
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Sourcing Challenges

- Projects/RFP's More Global & Complex
- Working with More Stakeholders
- Support of Corporate Initiatives (i.e. Diversity/Sustainability/Risk...?)
- Award Scenarios Are More Complex
- Teams of People to Analyze Bids
- Limitations in Most Sourcing Tools
- Perceived Plateaus on “Sourcing” Savings
### Procurement’s objectives for 2016

<table>
<thead>
<tr>
<th>Objective</th>
<th>Critical (%)</th>
<th>Major (%)</th>
<th>Total (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduce and avoid purchase costs</td>
<td>26</td>
<td>58</td>
<td>85</td>
</tr>
<tr>
<td>Elevate the role of procurement to a trusted advisor</td>
<td>26</td>
<td>56</td>
<td>81</td>
</tr>
<tr>
<td>Increase spend influence</td>
<td>17</td>
<td>59</td>
<td>76</td>
</tr>
<tr>
<td>Improve agility</td>
<td>23</td>
<td>51</td>
<td>74</td>
</tr>
<tr>
<td>Increase stakeholder satisfaction</td>
<td>18</td>
<td>52</td>
<td>70</td>
</tr>
<tr>
<td>Reduce supply chain risk</td>
<td>20</td>
<td>49</td>
<td>68</td>
</tr>
<tr>
<td>Deepen influence on complex indirect spend categories</td>
<td>16</td>
<td>48</td>
<td>65</td>
</tr>
<tr>
<td>Strengthen/protect the company’s brand</td>
<td>17</td>
<td>46</td>
<td>63</td>
</tr>
<tr>
<td>Tap supplier innovation</td>
<td>16</td>
<td>39</td>
<td>55</td>
</tr>
</tbody>
</table>


### Procurement’s four critical development areas

- Reduce and avoid purchase costs
- Elevate the role of procurement to a trusted advisor
- Increase spend influence
- Improve agility
- Increase stakeholder satisfaction
- Reduce supply chain risk
- Deepen influence on complex indirect spend categories
- Strengthen/protect the company’s brand
- Tap supplier innovation

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“...decision optimization is the application of rigorous analytical techniques to a well-defined scenario to arrive at the absolute best decision out of a multitude of possible alternatives in a rigorous, repeatable, and provable fashion. “

“Furthermore, the analytical technique must be capable of analyzing every possible solution to the scenario (complete) and be capable of performing such analysis accurately (sound).”

Source: Sourcing Innovation
Available at: http://www.sourcinginnovation.com/glossary/DecisionOptimization.php
How Does Optimization Apply?

At the conclusion of a sourcing event, SourcingPlus will leverage optimization to help you decide which Suppliers get awarded which Items.
Where Can Optimization Save Time?

- Large Market Basket of Items
- Large Number of Suppliers
- Lowest Cost Award/Cherry pick is Not an Award Option
- “Single Supplier” Award is Not an Option
- Non-Price Factors Drive Award Decisions
  - Market Basket Attributes? (i.e. Sub-categories, compatibility)
  - Incumbency?
  - Payment Terms?
  - Diversity, Sustainability… CSR Initiatives?
Example Event
- 500 Items
- 6 Sub-Categories
- 10 Locations
- Baseline Cost of $26M

<table>
<thead>
<tr>
<th>Award Scenario</th>
<th># Suppliers</th>
<th>TCO</th>
<th>Trade-Off Cost</th>
<th>Cumulative Trade-Off</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unconstrained – Cherry Pick</td>
<td>10</td>
<td>$23,272,500</td>
<td>$0</td>
<td>$0</td>
</tr>
</tbody>
</table>
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Question

Do you have any categories that you’ve sourced multiple times and feel that you’ve plateaued when it comes to price reductions?

Are you familiar with the terms “Expressive Bidding” or “Advanced Sourcing”?
Advanced Sourcing Techniques

» Volume Discounts
» Alternate Items
» Bundles
» Contract Terms
» Payment Terms
» Etc.

+ Optimization =
Allowing your Suppliers to express a volume discount component to their bid can result in **additional cost savings** should your organization be able to reach those thresholds/discounts.

<table>
<thead>
<tr>
<th>Discount Tier</th>
<th>Minimum Threshold (USD)</th>
<th>Percent (%) Discount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tier 1</td>
<td>$200,000.00</td>
<td>2%</td>
</tr>
<tr>
<td>Tier 2</td>
<td>$300,000.00</td>
<td>3%</td>
</tr>
<tr>
<td>Tier 3</td>
<td>$600,000.00</td>
<td>4%</td>
</tr>
</tbody>
</table>
The problem lies not in the ability to capture the volume discount thresholds or alternate items for each supplier, but rather in the **ability to evaluate the impact** of those different options across an entire market basket of bids from multiple suppliers… especially when those thresholds and discounts vary across suppliers.
Volume Discounts - Example
## Keys to Unlocking Savings

### Typical Approaches

**Add Fewer Suppliers to an Event**
- Don’t invite suppliers you “think” can’t support
- Limit # of suppliers
- Narrow the funnel

**Pre-Imposed Constraints**
- Only 1 year contracts
- Must be payment terms of X

**Break up a category into smaller chunks (MRO as an example)**
- Simplify post bid analysis
- No leverage of scale

### New Approaches

**Add MORE suppliers to an event**
- Invite suppliers you “think” can’t support…maybe they can!
- Keep the funnel open

**Combine categories where you can**
- Leverage common suppliers
- Leverage scale & volume

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**OPTIMIZATION**

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Case Study

Temporary Labor
<table>
<thead>
<tr>
<th>Spend</th>
<th>Categories</th>
<th>Job Descriptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>$20M</td>
<td>4</td>
<td>100+</td>
</tr>
<tr>
<td>90+</td>
<td>6</td>
<td>35</td>
</tr>
<tr>
<td>Invited Suppliers</td>
<td>Discount Types</td>
<td>Non-Price Questions</td>
</tr>
</tbody>
</table>
Sample Business Rules & Analysis Considerations

- Favor national suppliers
- Limit incumbent transition
- Onshore vs. Offshore

- Supply base rationalization
- Force specific item-supplier award
- Meet or exceed existing service levels
Case Study

Cherry Pick
- $8M Savings
- Best price wins

Status Quo
- $0 Savings
- Keep everything the same

Final Award
- $5M Savings
- 7% Volume Discounts
- All business requirements
Advanced Sourcing Strategies
C. R. Bard, Inc.

October 20, 2016
Sourcing Strategies and Activities

- Change the Supply Chain / Outsourcing
  - Supplier Development / Outsourcing
  - Lean, CI and Business Process Improvement

- Spec Redesign / Alternate Materials
- Hedging

- Change the Supply Base
  - Reduce or Right Size Supply Base
  - Leverage Volume
  - Price Negotiation

- Sustainable Value
  - Traditional Sourcing
  - Advanced Sourcing
  - Best in Class Sourcing

- Complexity
  - Low to High
Today’s Presenters

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Evaluation How-to:

Why?

- Your feedback **drives** SIG Event content
- By signing and submitting your evaluation, you are automatically entered into a prize drawing

How?

Option 1: App
1. Select **Schedule**
2. Select Schedule by **Day**
3. Select **Day**
4. Select **Session**
5. Scroll to **Description**
6. Click on the **Evaluation link**

Option 2: Browser
1. Go to [www.sig.org/eval](http://www.sig.org/eval)
2. Select **Session** (#30)

COMPLETE & SUBMIT EVAL
Session #30

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Are You a Winner?

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All Tweeters will be entered to win a $50 Gift Card.
The winner will be announced Thursday, October 20, 2016