Sourcing Processes
Federal Acquisition Advisory Council

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Topics

- GE Overview

- Spend Profile, Drivers, Enablers

- Starting Point for Meeting a Need
    - > Outsource? Make vs. buy pre-work
    - > Source?

- Engagement Structure

- Applying Sourcing Process Rigor
    - > Compliance
    - > Benefits

- Contract Terms - Highlights

- Post Contract: Supplier Relationship Management

One Company
A family of businesses, aligned with our customers' needs

Infrastructure

Commercial Finance

Industrial

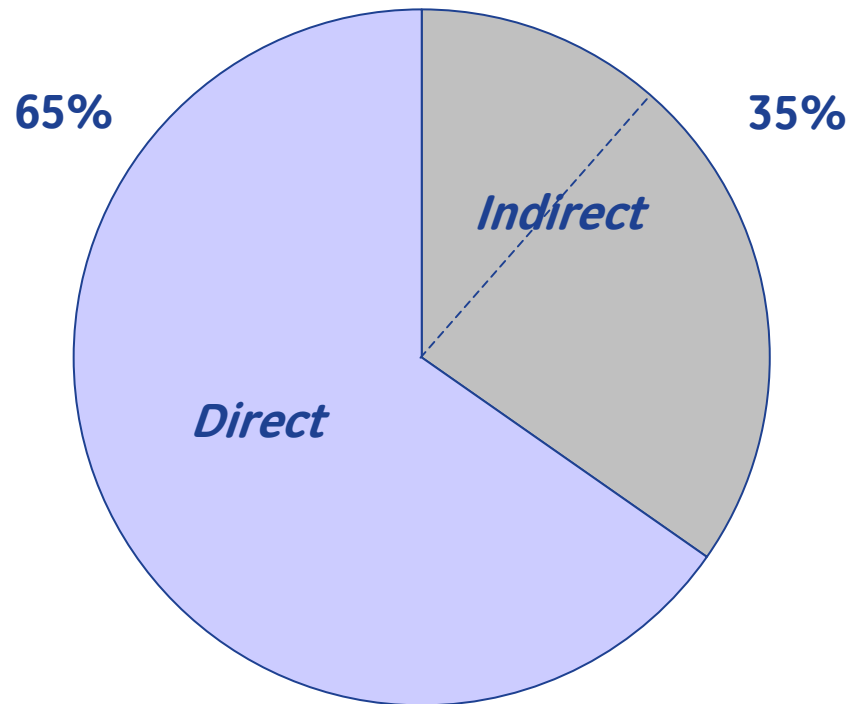100+ countries --- 300,000 employees worldwide --- manufacturing facilities in 40+ countries

Consumer Finance

Healthcare

NBC Universal
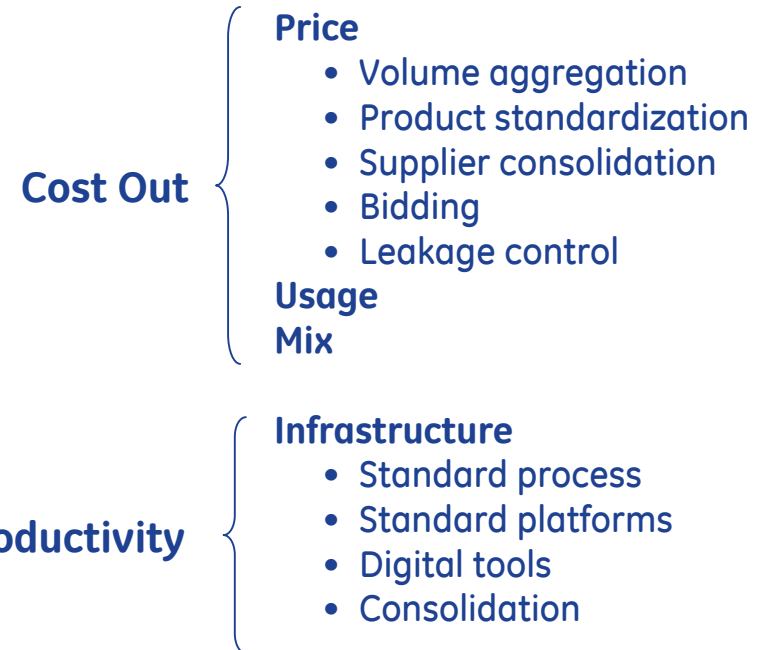
Profile and Drivers

Savings Goals

65%   35%

Indirect

Direct

Cost Out
- **Price**
  - Volume aggregation
  - Product standardization
  - Supplier consolidation
  - Bidding
  - Leakage control
- **Usage**
- **Mix**

Productivity
- **Infrastructure**
  - Standard process
  - Standard platforms
  - Digital tools
  - Consolidation

Indirect Cost Reduction Enablers

Standardize ➡️
- Indirect Procurement System
- Common Policies & Practices
- Managing Compliance

Consolidate ➡️
- Cross-cutting commodities
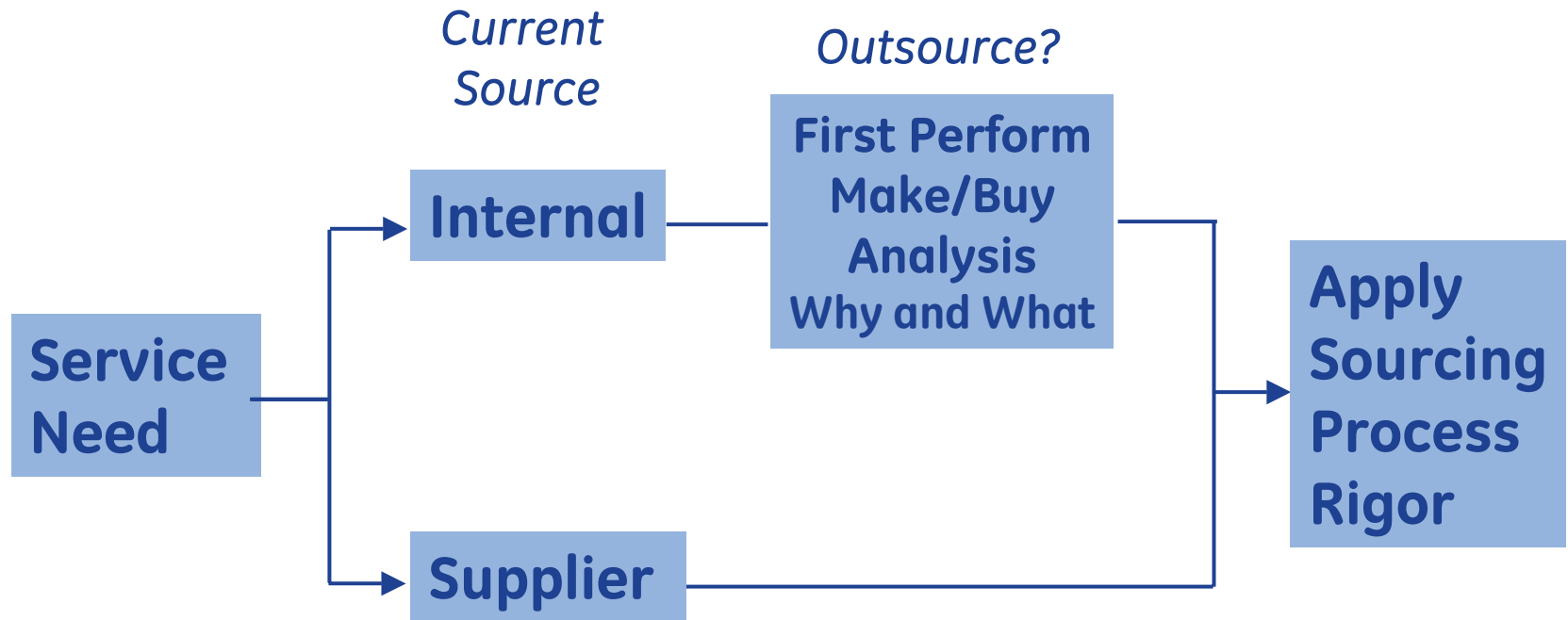
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Opportunity $\Rightarrow$ Policy

Consolidate Indirect

- Common suppliers

- Standard contracts, country specific SOWs

- Standard Platform
  > Standard Buy to Pay processes and IT platform
  > Supplier database
  > Requisition and buy tools
  > AP platforms
  > Data mining capabilities

- Take Broad Market View

- Market Analysis, RFPs, Rigorous Analysis, SLAs
  $\Rightarrow$ Drive for SOW based "Fixed Price" type Contracts

Cross-Business Teams, Shared Metrics

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Frame Need vs. Current State

Current Source

Outsource?

Service Need

Internal

First Perform Make/Buy Analysis Why and What

Supplier

Apply Sourcing Process Rigor

Make vs. Buy - Why

Focus Limited Resources

- Focus on improving internal capabilities for producing strategic, value added, customer facing services

Improve Shareholder Value

- World-class capabilities of others facilitate achievement of business goals

Capitalize on Supplier Comparative And Competitive Advantage

- Rely on suppliers who have core competency or comparative advantage (scale, investment, technology)

Speed

- Outsourcing can increase speed:
  - Speed of new services to market
  - Speed of customer service
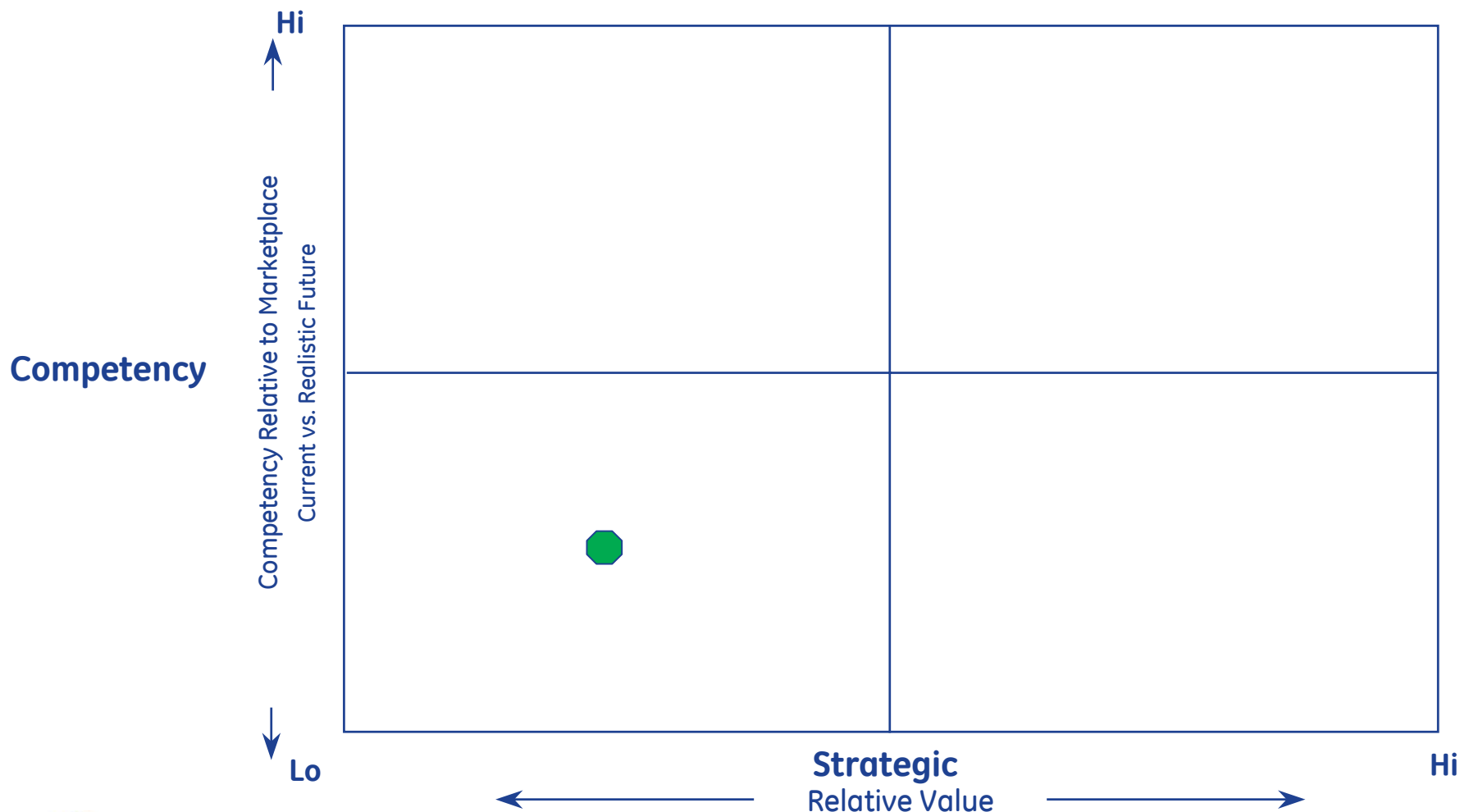 - Speed of service delivery

Maximize Resources

- Fund high-priority business objectives

Controllership/Compliance

- Reduce risk

Make vs. Buy - What

Simple Starting Point for Classifying Services/Processes

Competency

Competency Relative to Marketplace
Current vs. Realistic Future

Hi

Lo

Strategic
Relative Value

Lo ← → Hi

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Engagement Structure

When Outsourcing . . .
Resources are transferred
- Assets
  - Hardware, equipment, real estate
  - Software
- Personnel
- Third party contracts

When Out-tasking . . .
- Narrower band of what is transferred, broader band of what is retained.

When Sourcing . . .
Customer is relying on supplier's expertise, processes, assets, personnel, 3rd party contracts . . .
- Medium to longer term
- Anticipate uncertainties
- Coming home strategy
- Retain intellectual Capital

Key requirements that apply to any of the above scenarios
- Should not assume arrangements are permanent
- Master contract. statement of work, service level agreement, scorecard

- ***Sourcing Services Means Ensuring an Agreement with a Qualified supplier***
- ***Requires Rigorous Process, Carefully Negotiated Contract and Retention of Key Competencies & Resources***

Engagement Structure

```
┌─────────────────┐         ┌─────────────────────┐         ┌─────────────────┐
│    Request      │         │  Master Services    │         │    Supplier     │
│      For        │ ──────▶ │    Agreement        │ ◀────── │    Proposal     │
│   Proposal      │         │                     │         │                 │
│     (RFP)       │         │      ( MSA )        │         │                 │
└─────────────────┘         └─────────────────────┘         └─────────────────┘
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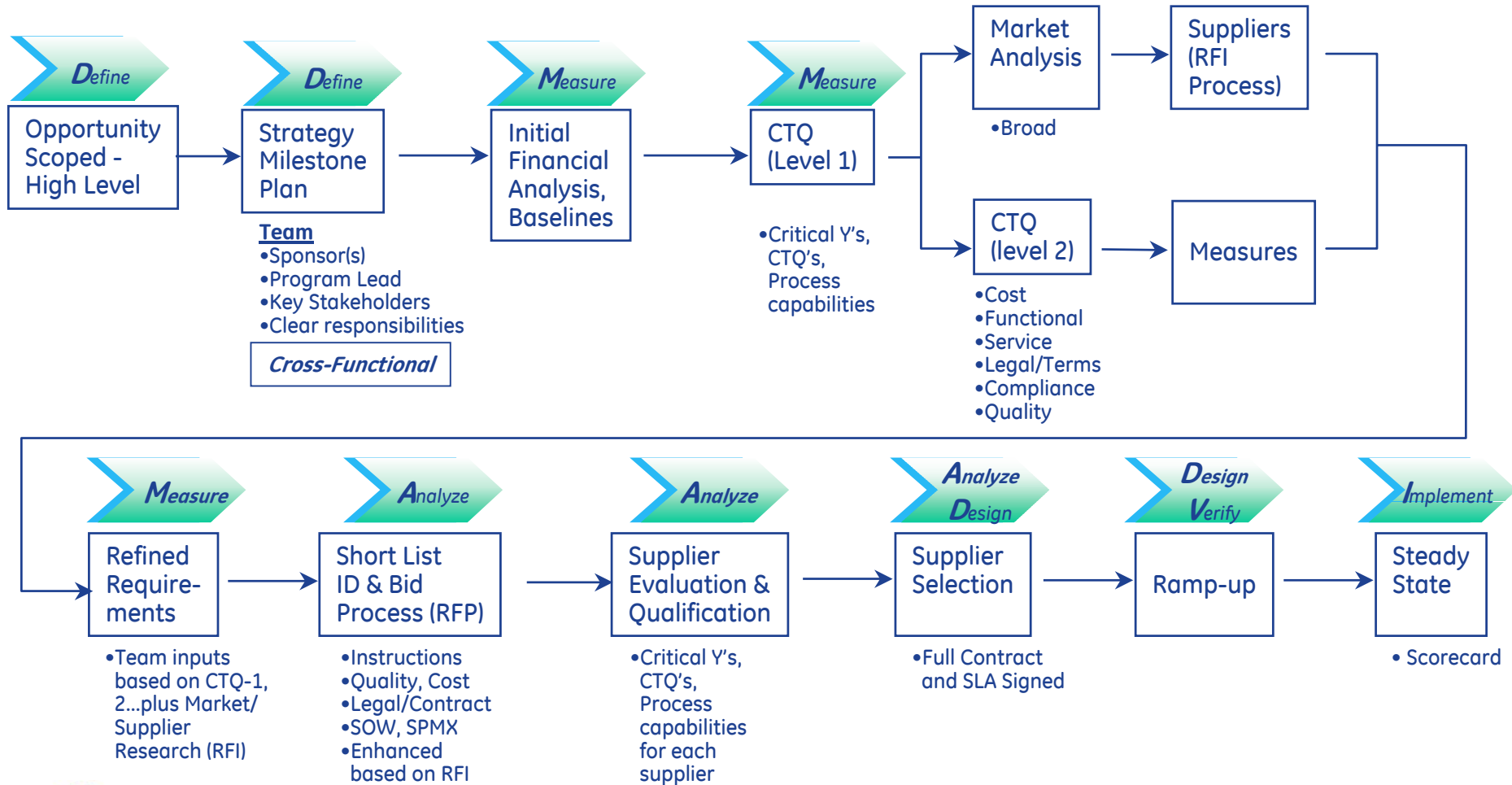
Request For Proposal (RFP) → **Master Services Agreement (MSA)** ← **Supplier Proposal**

Service Level Agreement (SLA)
- Measuring Methodology
- Change Order process
- Escalation procedures
- Penalties & Incentives
- Remedies

Statement of Work (SOW)
- Describes Work
- Roles
- Documentation
- Change Order
- May have many

Supplier Scorecard
- Summary Metrics
- Effective with Management
- Clear, concise Format

Sourcing Process Rigor

Applying 6 Sigma and Sourcing Methodologies

Define
Opportunity Scoped - High Level

Define
Strategy Milestone Plan

Team
- Sponsor(s)
- Program Lead
- Key Stakeholders
- Clear responsibilities

Cross-Functional

Measure
Initial Financial Analysis, Baselines

Measure
CTQ (Level 1)

- Critical Y's, CTQ's, Process capabilities

Market Analysis
- Broad

Suppliers (RFI Process)

CTQ (level 2)
- Cost
- Functional
- Service
- Legal/Terms
- Compliance
- Quality

Measures

Measure
Refined Require-ments

- Team inputs based on CTQ-1, 2...plus Market/ Supplier Research (RFI)

Analyze
Short List ID & Bid Process (RFP)

- Instructions
- Quality, Cost
- Legal/Contract
- SOW, SPMX
- Enhanced based on RFI

Analyze
Supplier Evaluation & Qualification

- Critical Y's, CTQ's, Process capabilities for each supplier

Analyze Design
Supplier Selection

- Full Contract and SLA Signed

Design Verify
Ramp-up

Implement
Steady State

- Scorecard

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Applying Competition – Single Tier Approach

Cross Company Team

Determine
Suppliers
Who are
Best in Class,
Preferred
Supplier Base

Market	Bidders	Down select	Award MSA – Preferred Suppliers
S_1	S_1		
S_2			
S_3	S_3	S_3	S_3
S_4			
S_5	S_5		
S_6	S_6	S_6	
S_7			
S_8	S_8	S_8	S_8
S_9	S_9	S_9	S_9
S_{10}	S_{10}	S_{10}	

Defined Need: ═══════ *Apply Sourcing Process Rigor* ══════➤
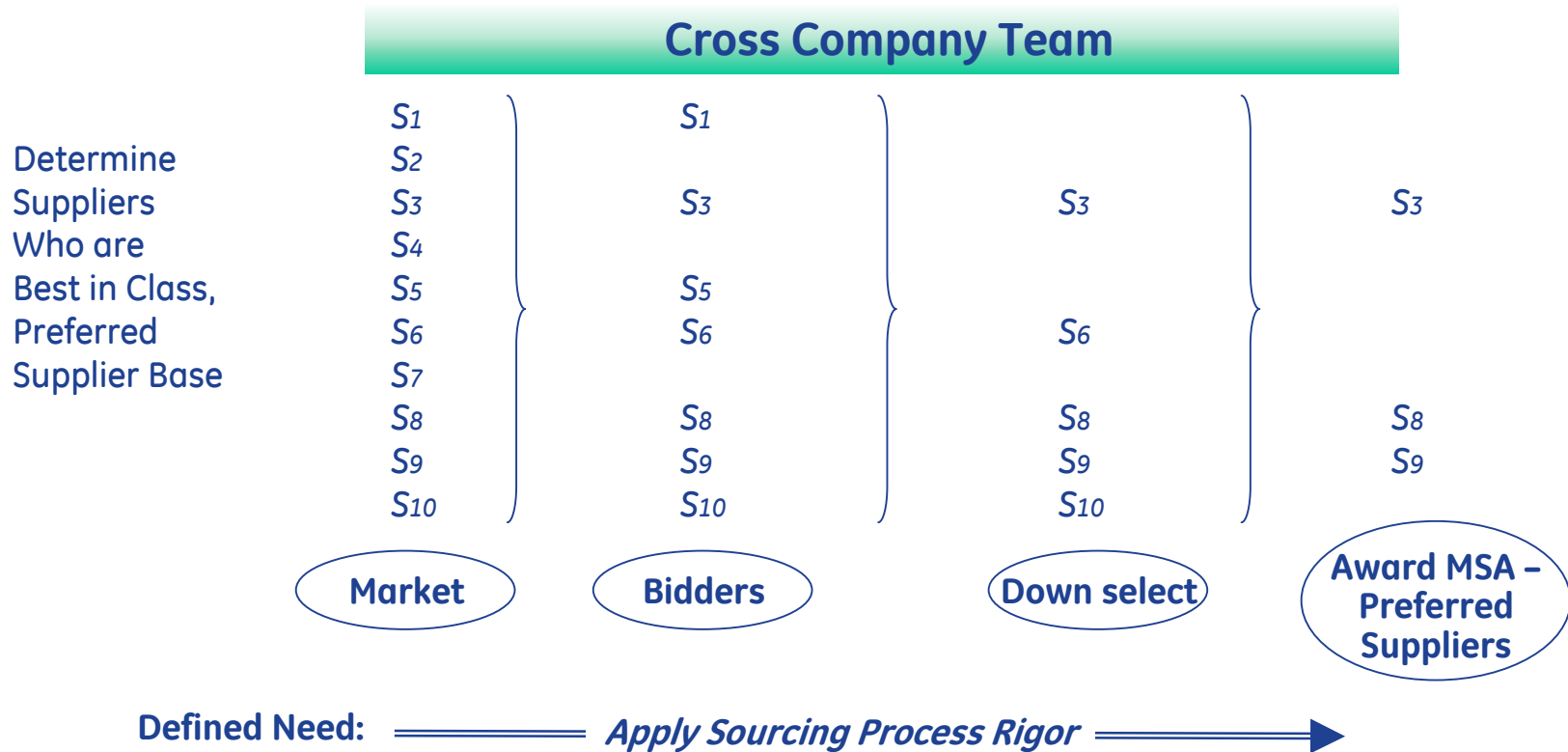
- *Pricing negotiated is best available*
- *If better pricing identified, MSA revised to reflect*

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Applying Competition – Two Tier Approach

Cross Company Team

Tier 1

Determine
Suppliers
Who are
Best in Class,
Preferred
Supplier Base

Market	Bidders	Down select	Award MSA – Preferred Suppliers
S_1	S_1		S_3
S_2			
S_3	S_3	S_3	
S_4			
S_5	S_5		
S_6	S_6	S_6	
S_7			
S_8	S_8	S_8	S_8
S_9	S_9	S_9	S_9
S_{10}	S_{10}	S_{10}	

Defined Need: ————— *Apply Sourcing Process Rigor* ————→
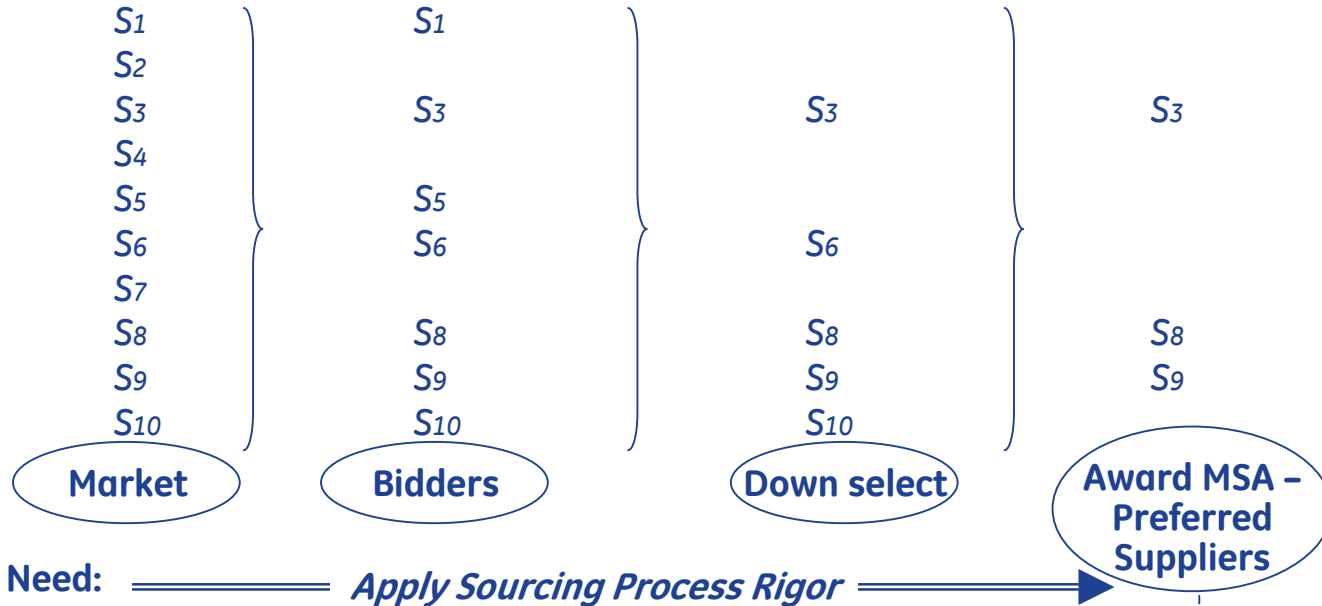
How Businesses Apply (example)

Tier 2

Business
Specific –
SOW's

>$10K →
- Yes → Spec/SOW → Bid within Pool of Preferred Suppliers → Award
- No → Spec/SOW → Award to 1 of the Preferred
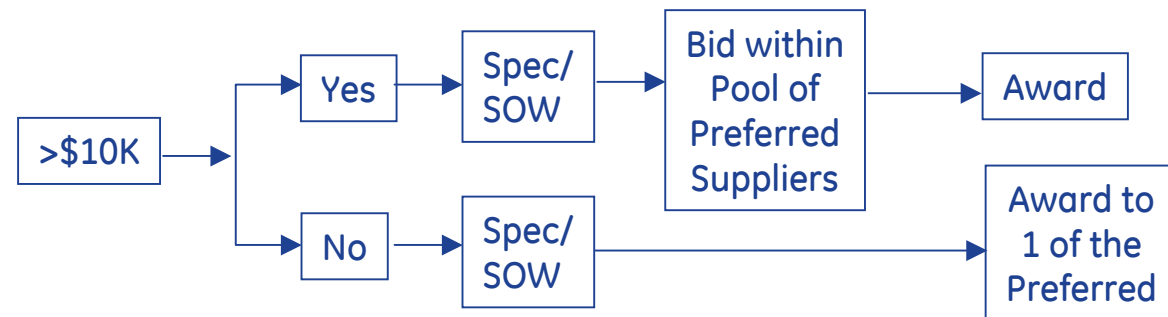
Compliance

IT Example

Standard
> A mandatory, non-negotiable product or service selected because of a compelling company-wide need driven by interoperability and/or economic factors
> No business option
> Example: e Mail.

Recommended
> A product or service that must be used unless there is an overriding business case (price, availability, migration…). Use of a product or service other than strongly recommended is subject to review
>> – Senior level approval required
> Businesses may have options for more than one (1) preferred supplier to select from
> Example: helpdesk(s).

Best Practice
> Product or service has been used successfully by one or more GE business(es)
> Businesses have option to source from multiple suppliers
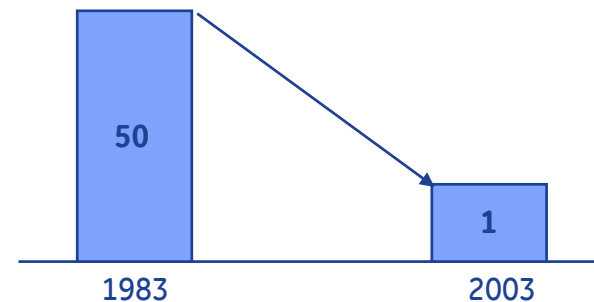> Example: wireless devices

Benefits - Example

FTE

Central

5%

67%

95%

BU

1983   2003
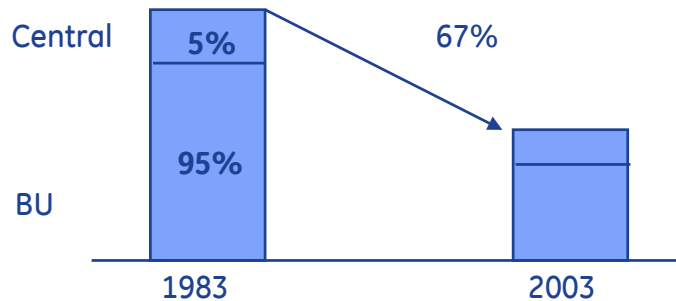
Suppliers

1983: No concentration of the Buy, 600+ suppliers

2003: 70% of buy with global strategic suppliers

Price (Indexed to 100)

50% lower average unit costs

1983   2003

Support Systems

50

1

1983   2003
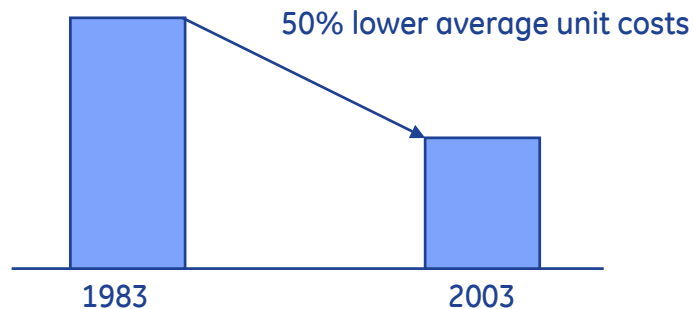
1983: 50+ Freight invoice payment systems
2003: Single Freight payment database

Contracting Terms Highlights

- Scope and Contracting Parties
  - > Objectives, Competitive market dynamics, Meeting user needs

- Contract "owner"/manager
  - > Program management lead/supplier management lead
  - > The "steward" ensures strategic focus, operational rigor

- Warranty

- Change order process
  - > Defined and managed, clear roles

- Books and Records
  - > Audit rights – financial, quality, processes/operations
  - > Cost/fee verification
  - > Record retention

- Insurance Levels
  - > Minimum required

- Indemnification
  - > General and specific

- Compliance with Laws
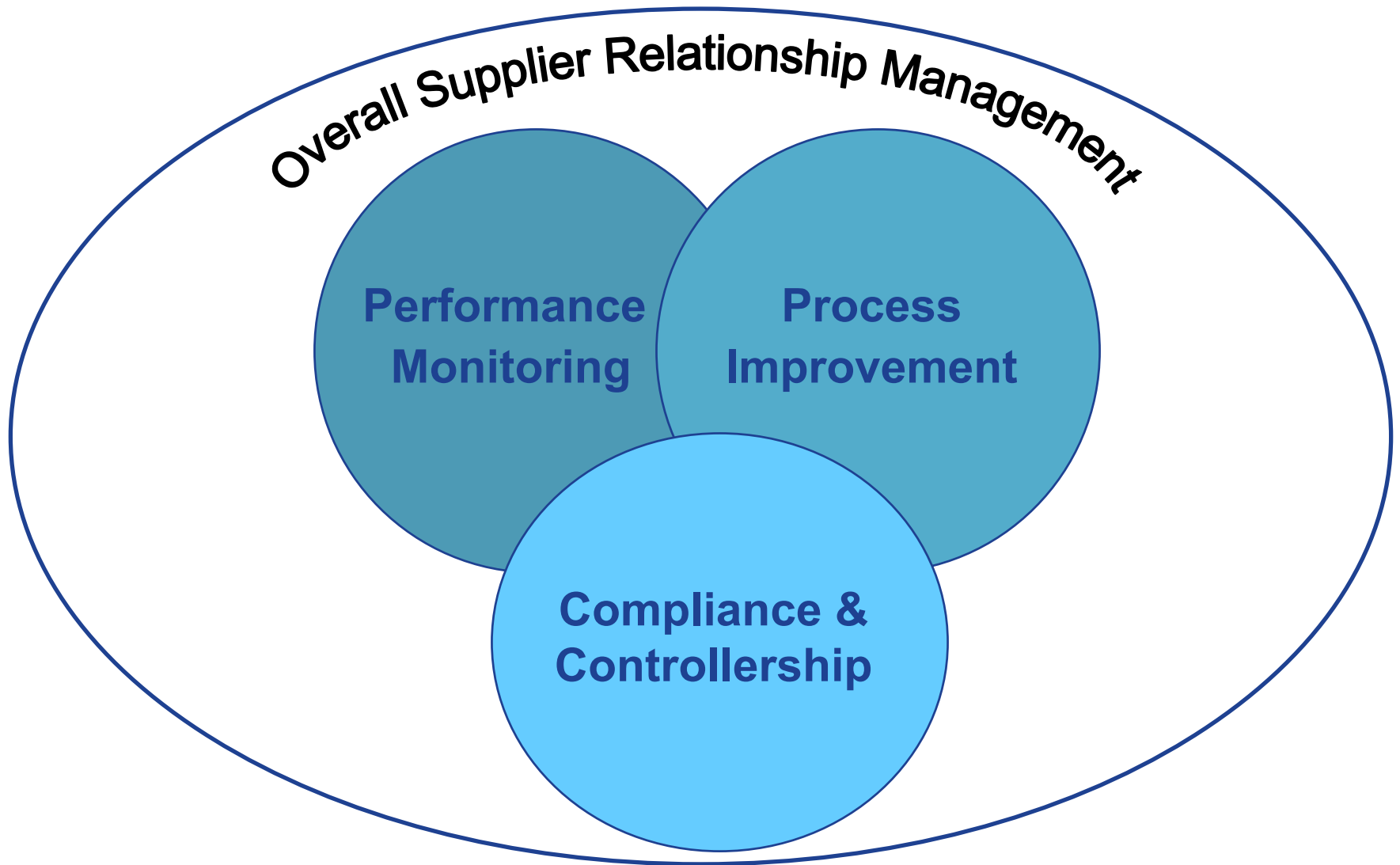
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Contracting Terms Highlights

- Integrity and Privacy Guidelines

- Supplier Relationships
  - > Compliance warranties, right to audit, annual certification

- Dispute resolution
  - > Cooperation, arbitration

- Ownership rights

- Use of 3rd parties and subcontracting
  - > Savings opportunities

- Extraordinary events
  - > Acquisitions, divestitures

- Cost and pricing for services
  - > Detailed Statement of Work, with pricing
  - > Maximize application of fixed price
  - > Fixed price, with cost details

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Contracting Terms Highlights

- Term, termination/default
  - Terminate for cause
  - Terminate for convenience
  - Rights upon termination – assistance, return of materials
  - Termination for default/adverse financial condition

- Benchmarking and competitiveness
  - Customer option
  - Fee/charge comparisons
  - Can be independent third party

- Standards of performance
  - Qualitative and quantitative
  - SOW driven
    - Cost reduction, rebate
    - Best efforts to achieve cost reductions with agreed measures
  - SLA/metrics reporting
    - On customer identified medium
    - Delivery, cycle time measures . . .
  - Failure to perform
    - Investigate, advise, severity level
  - User satisfaction
  - Measuring and monitoring tools
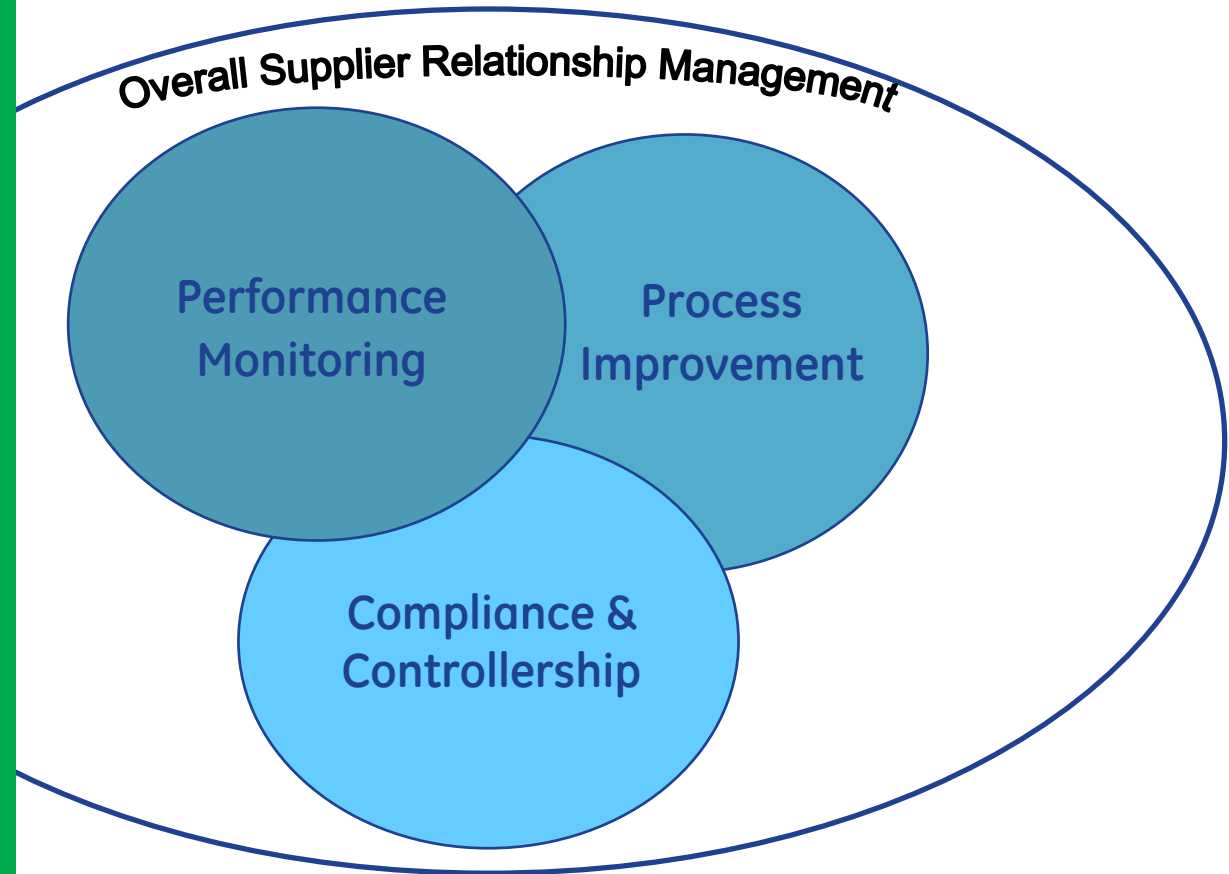
Once Contract Signed, Need to Manage . . .

Supplier Management

Overall Supplier Relationship Management

- Performance Monitoring
- Process Improvement
- Compliance & Controllership

Managing Suppliers

Performance Monitoring

- Service Performance Measurement Matrix
  - Expectation of measurement needed

- Service Level Agreements (SLA)
  - Agreed
  - Documented

- Supplier Scorecards
  - Ongoing monitoring – thermometer

- Quality and Operational Audits

- Customer Satisfaction

Overall Supplier Relationship Management

Performance Monitoring

Process Improvement

Compliance & Controllership

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Sample Scorecard

Cost & Account Management   17/25

Communicates viable ideas to maximize use of resources and minimize costs
Exceed expectations-7 Meet expectations-5 Below expectations-0   5/7

Continuous process improvement and progress resulting in additional value and cost savings
Exceed expectations-4 Meet expectations-2 Below expectations-0   0/4

Maximized employee use of enrollment web site (to the extent of their ability)
Exceed expectations-4 Meet expectations-2 Below expectations-0   4/4

Meets commitments and deadlines for on-time delivery
Exceed expectations-4 Meet expectations-2 Below expectations-0   2/4

Reporting; Measure; % On Time; Scheduled and Ad-Hoc Reports
100% - 4 99-85% - 2 <85% - 0   4/4

Demonstrates knowledge and resourcefulness in problem-solving and in implementation of new projects
Exceed expectations-2 Meet expectations-1 Below expectations-0   2/2

Bonus: Proactive Savings ideas and proposals proposed by Supplier
Points awarded at customer discretion   0/5

Customer Satisfaction   33/40

Satisfaction with "XX" Manager
18 –90% or higher/15 –89 to 85%/12 –84 to 80%/10 –79 to 75% /0 - <75%   15/18

Satisfaction with overall Customer Service
14 –88% or higher/12 –87 to 85%/10 –84 to 80%/8 –79 to 75% /0 - <75%   10/14

Satisfaction with on-line tools
8 –90% or higher/6 –89 to 85%/4 –84 to 80%/2 –79 to 75% /0 - <75%   8/8

Six Sigma/Quality   15/15

Supplier Staff/% Awareness Trained
2 = 95% or higher / 1 = 94 to 90% / 0 = <90%   2/2

% Quality Trained (targeted population)
2 = 100% / 1 = 99 to 75% / 0 = <75%   2/2

Supplier works with Customer to proactively identify and explore potential quality and lean projects
Exceed expectations = 4   Meet expectations = 2 Below expectations = 0   4/4

% of Targeted Projects Completed and Verified (to the extent Customer resources are available)
7 = 100% / 5 = 99 to 75% / 3 = 89 to 80% / 2 = 79 to 75% / 0 = <75%   7/7

Process Management   18/20

Compliance: Timeliness, Accuracy, Completeness and Imaging of "XX" Materials
Exceed expectations = 3; Meet expectations = 2; Below expectations = 0   2/3

Transaction Accuracy: " YY" Materials
Exceed expectations = 3; Meet expectations = 2; Below expectations = 0   3/3

Transaction Accuracy: "ZZ" Materials
Exceed expectations = 3; Meet expectations = 2; Below expectations = 0   3/3
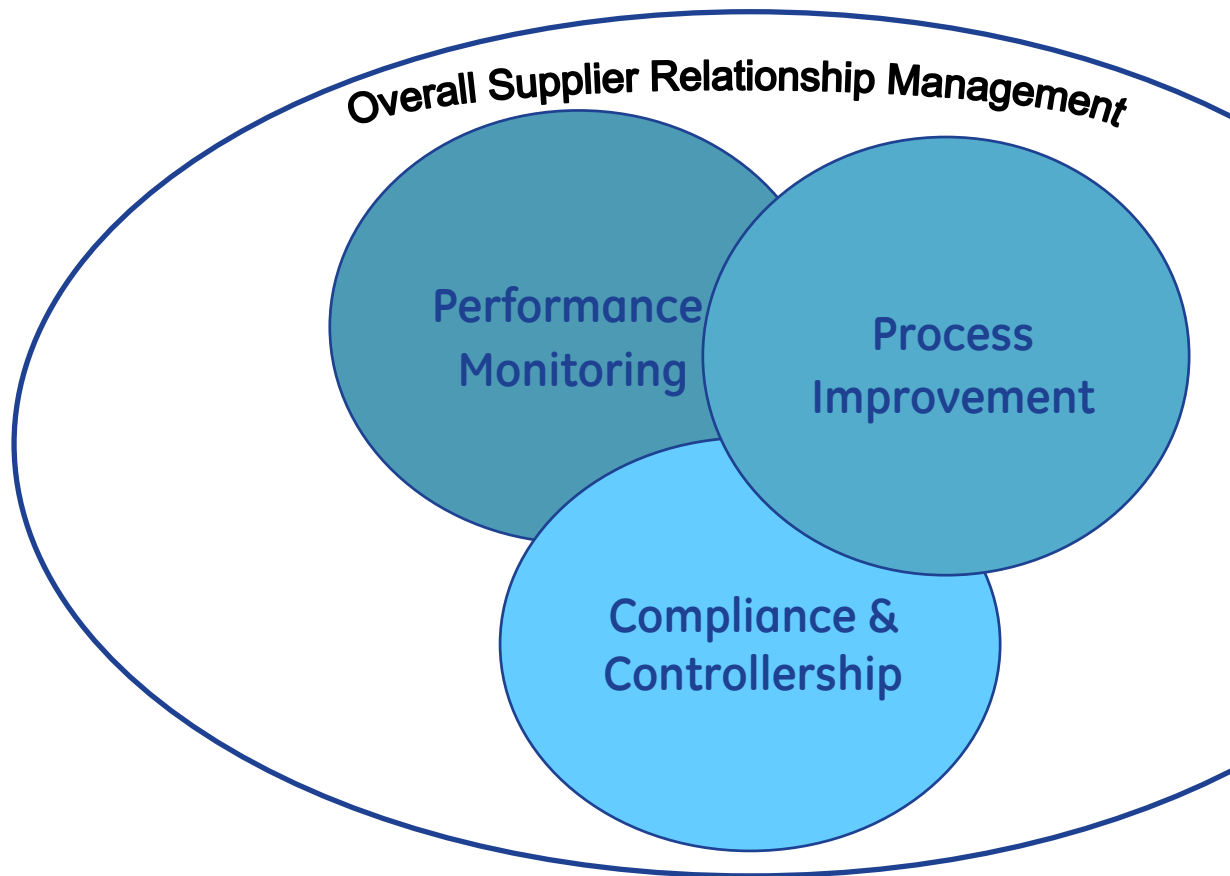
Transaction Timeliness: "ZZ" Materials
3 = 99% or higher / 2 = 98 to 94% / 1 = 93 to 89% / 0 = <89%   3/3

Transaction Timeliness: "AA" Materials
2 = 95% or higher / 0 = <95%   2/2

Transaction Timeliness: "BB" Materials
3 = 99% or higher / 0 = <99%   3/3

Call Monitoring: Randomly selected taped "XX" Manager calls
Exceed expectations = 3 Meet expectations = 2 Below expectations = 0   2/3

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Overall Score: 83/100 (sample)

Managing Suppliers

Overall Supplier Relationship Management

Performance Monitoring

Process Improvement
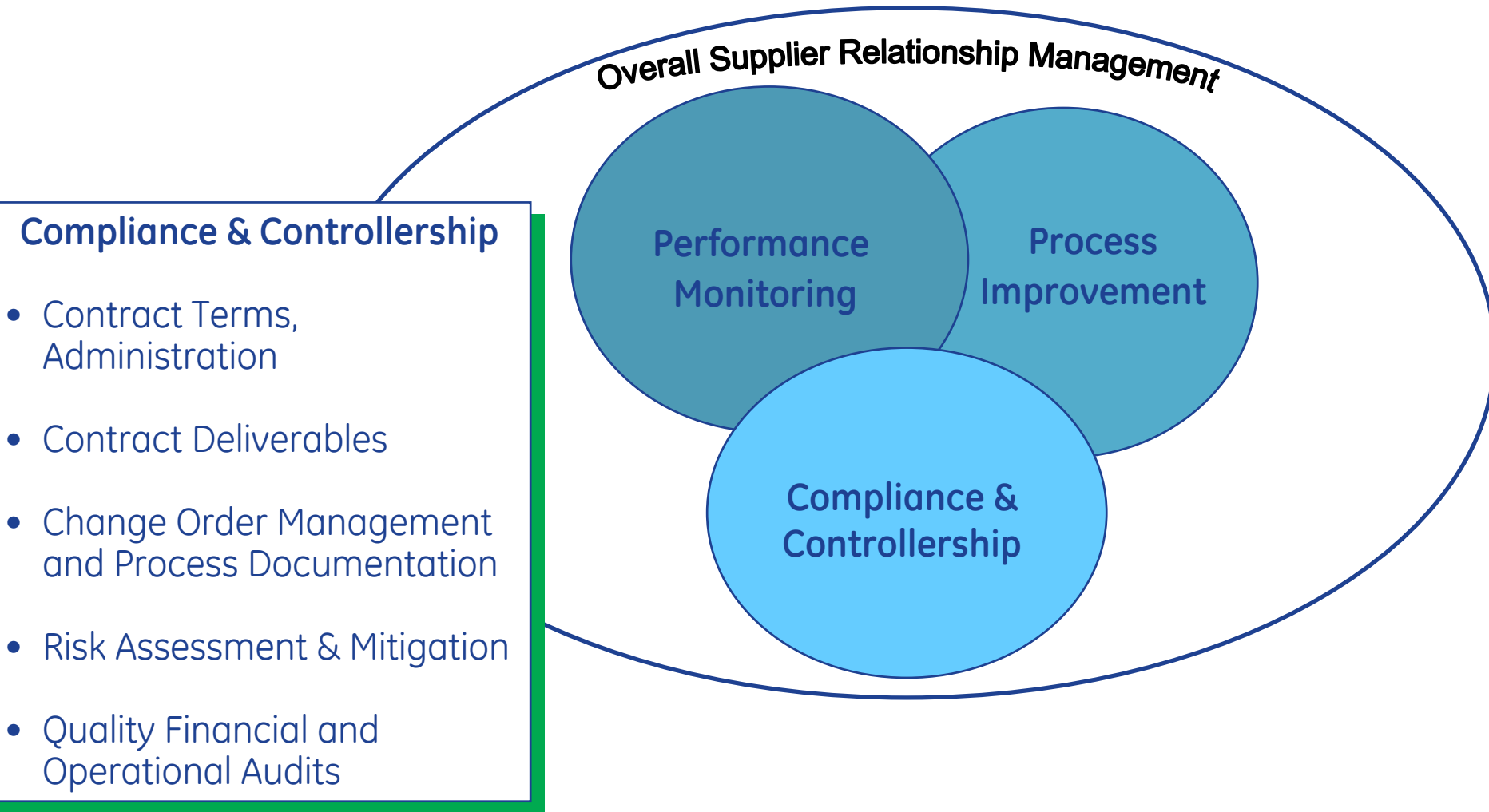
Compliance & Controllership
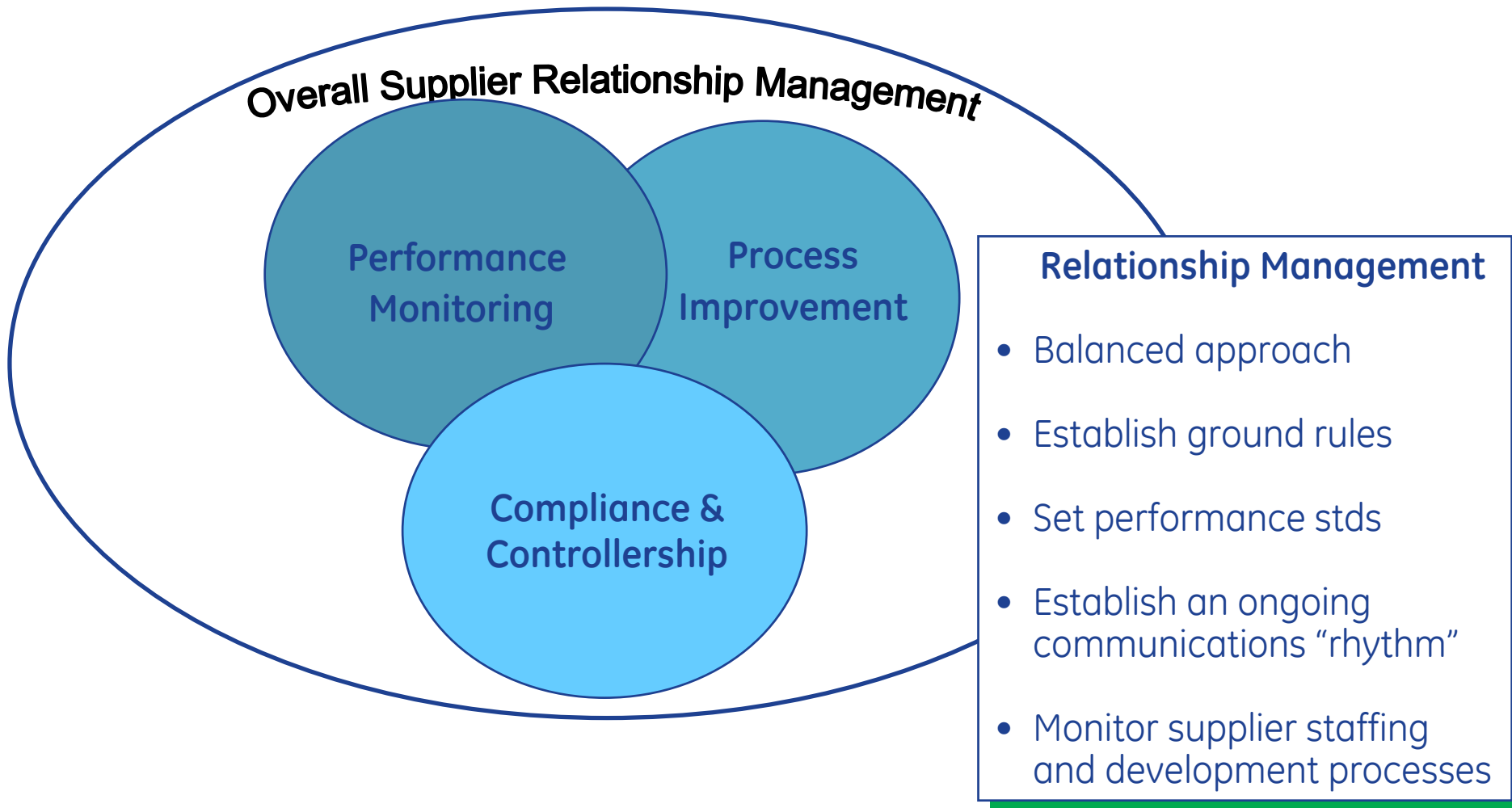
Process Improvement

- Six Sigma Projects/Lean

- Innovation (Process/ Product)

- Technology Refreshment

- Savings, Incentives, Penalties

- Knowledge Transfer/ Learning

- Understand 'end-to-end' impact

Managing Suppliers

Compliance & Controllership

- Contract Terms, Administration

- Contract Deliverables

- Change Order Management and Process Documentation

- Risk Assessment & Mitigation

- Quality Financial and Operational Audits

Overall Supplier Relationship Management

- Performance Monitoring
- Process Improvement
- Compliance & Controllership

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Managing Suppliers

Overall Supplier Relationship Management

- Performance Monitoring
- Process Improvement
- Compliance & Controllership

Relationship Management

- Balanced approach

- Establish ground rules

- Set performance stds

- Establish an ongoing communications "rhythm"

- Monitor supplier staffing and development processes

Continuous Improvement

Appendix

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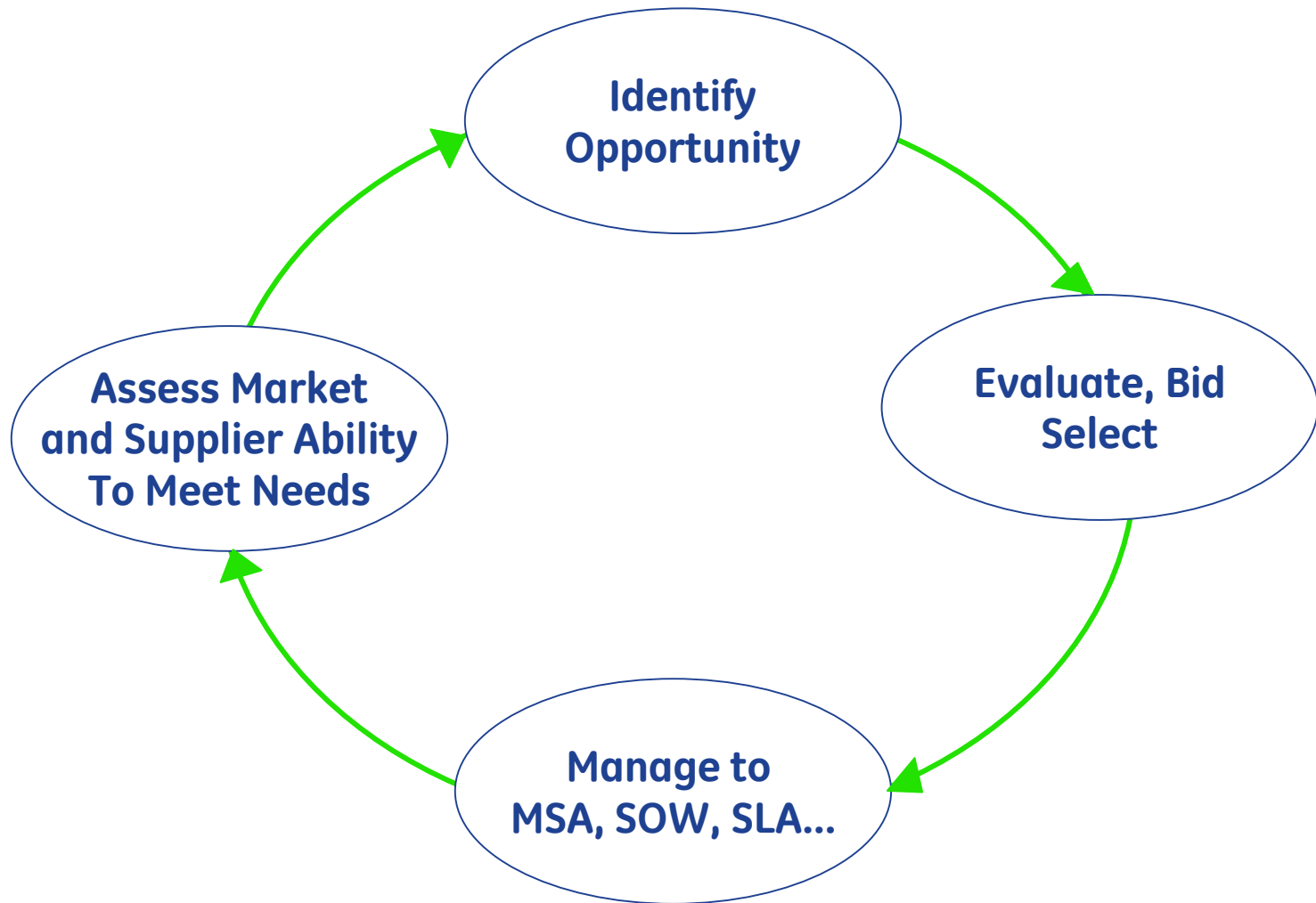
Glossary

Six Sigma – highly disciplined progress that helps focus on developing and delivering best products and services.

Critical Y's and CTQs - primary customer requirements for a product or service. Ability to meet customer requirements is dependent on process outputs. Essentially, these are attributes most important to the customer.

QFD – Quality Function Deployment is a method to translate detailed needs into measurable features.

SLA – Service Level Agreement

SOW – Statement of Work

SPMX – Service Performance Measurement Matrix. Reflects details on performance needs, how to measure, data sources –- used to support specifications and scorecards.