



CASE STUDY 1

Procurement Transformation - Leading Canadian Telco (“Client”)

Challenge:

Execute a transformational re-engineering of a national “Services / In Direct Materials” procurement department that was widely viewed as underperforming and unable to address strategic business requirements. Additionally, there could be no headcount increase in tactical (e.g. PO management, reporting, etc.) procurement roles to support corporate cost control.

Solution:

Through an 18-month comprehensive procurement transformation, the Client achieved all 10 of the Project Objectives committed to in the Charter including:

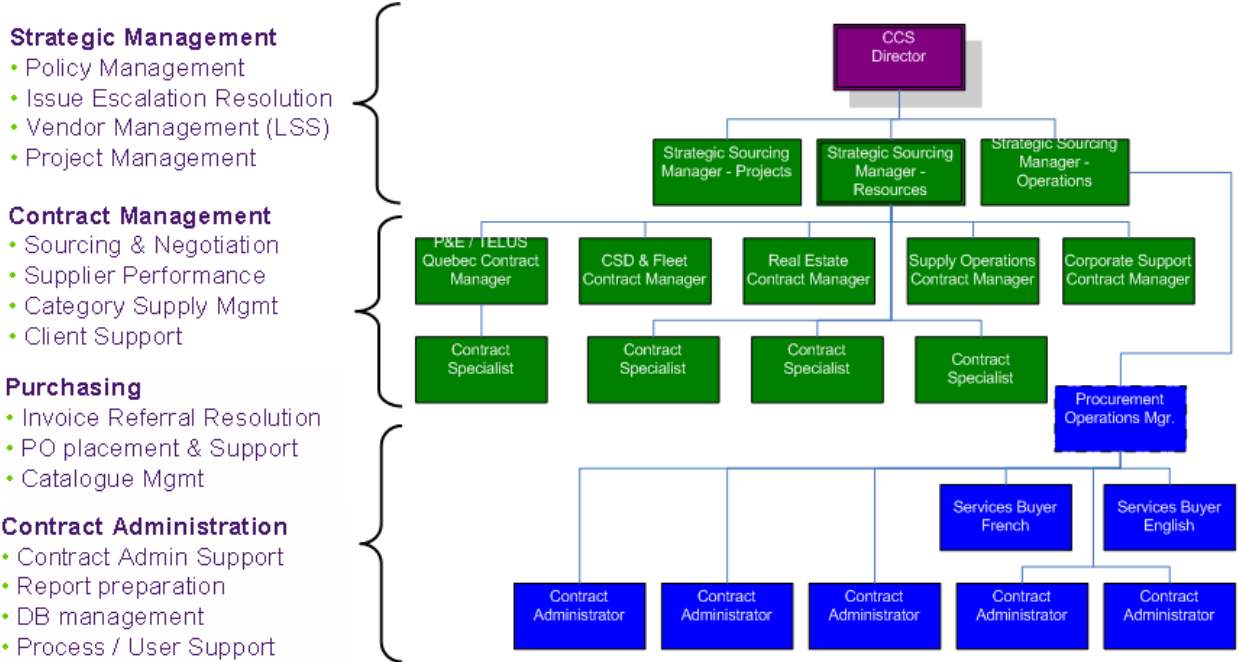
- Creating a three-tiered organizational structure focused on strategic value-add activities while outsourcing tactical activities offshore; transforming these functions into a rigorously managed operation with performance measured through a penalty-reward SLA and cost efficiency targets;
- Implementing SMART performance metrics at the team member and department levels (linked directly to their variable pay);
- Organizing “Shared Services Councils” involving senior business clients to align corporate and regional spend management (to optimize supply and demand) while leveraging Lean Supply Chain best practices to drive annual efficiencies (projected at 5-7%).
- Authoring then receiving Senior Executive Team ratification for a comprehensive ISO-standard Procurement Policies & Procedures Manual, incorporating key stakeholder input (“Voice of the Customer”), to drive organizational change and mitigate risk while improving effectiveness via standardization, clarity, & endorsement.
- Leading a cross-enterprise team leveraging “Design for Lean Six Sigma” to deploy an enhanced “procure-to-pay” process to address SOX deficiencies and improve spend management;

The Project leveraged effective leadership and change management to re-engineer the procurement department to deploy world-class Best Practices, including the following steps:

- Continually communicated and reviewed the plan (vision) for the “future mode of operations” with the Client’s procurement team, soliciting their input and buy-in, to ensure successful adoption. The Project team then executed a detailed plan to effectively close that gap;
- Directly assessed the effectiveness of each team member in the current mode of operations (interviews, reviewing their initiatives, working directly with them on activities, etc.);
- Conducted team workshops to identify tactical versus strategic activities then re-defined the positions and roles to outsource, eliminate and/or automate those responsibilities that were non or had limited value-add (the internal resources now focus on strategic, high value activities);
- Conducted weekly sessions in which team members were trained on the new processes or standards being introduced;

- Recruited highly skilled procurement professionals to augment the existing team with the desired expertise and experience from having operated in a complex supply chain environment.
- Once the organization achieved steady-state (one year after initiation), annual, formal external benchmarking of the team’s performance against external best-of-breed peers was introduced.

The organizational structure implemented through the Project was based on a three-tiered strategy to deliver optimal procurement services. **Tier 1** was focused on key client management activities, strategic sourcing, projects, and operations that were performed by senior Strategic Sourcing Managers. **Tier 2** was comprised of Contract Managers and Contract Specialists performing daily Category management for specific business units. **Tier 3** was focused on tactical procurement operations performed by Contract Administrators. This organizational strategy was designed to fully utilize the Client’s indirect procurement skills in a cost-effective manner. Overall workload is shared and balanced through the new model and new reporting capability for workload balancing (monthly activity reports, forecasts, etc.).



In the first full year after deploying the new department scorecard, the KPI results achieved by the Client’s team included:

STRATEGIC	2007 ACTUAL	January 2008 ACTUAL	2008 YTD ACTUAL	THRESHOLD (0.5X)	TARGET (1.0X)	STRETCH (1.5X)	STRETCH (2.5X)
Global Purchase Base	\$1.87B	\$120,188,395	\$120,188,395				
Net Procurement Contribution	1.0%	9.2%	9.2%		2.0%		
Procurement Return	\$18.2M	\$12,139,364	\$12,139,364				
Forecast Cost Savings	\$7.5M	\$6,685,927	\$6,685,927				
Realized Cost Savings	n/a	-	-				
Cost Avoidance	\$10.7M	\$5,453,438	\$5,453,438				
Category Effectiveness	-	tbd	tbd				
Supply Management							
QBR's	11	1	1				
Supplier Rationalization	-	tbd	tbd				
Payment Terms Improvement	83.0%	88.0%	88.0%				
Competitiveness Coverage	10.2%	0.0%	0.0%				
Client Satisfaction	-	tbd	tbd				
Supplier Performance	65.7%	tbd	tbd				

The effectiveness of the new procurement organization achieved through the transformation project the Client's team to pursue more comprehensive and complex improvement initiatives in subsequent years.

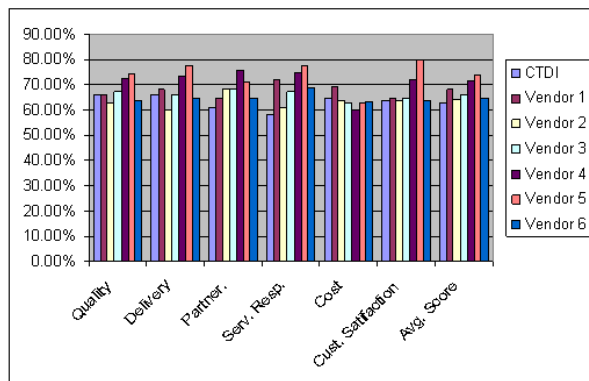
Results:

Beyond the hard metrics, the team also garnered credibility with the business units they supported because of the solid performance they had provided executing all of the BU's requested procurement activities. The newly created "Strategic Sourcing Managers" were welcomed by the Executives and Directors of the departments who were their key customers and were presented an "Annual Procurement Strategy" that contained recommendations to improve the quality and cost effectiveness of their departments' suppliers in the upcoming year. A snapshot of the recommendations is included below:

Strategic Procurement Recommendations		Q1	Q2	Q3	Q4
NP&E	1. Investigate areas where there is no current CCS support				
	2. Identify the core business of each Strategic Supplier and which BU is using them				
	3. Work in collaboration with CSD to leverage the use of common suppliers				
TQ	1. Work with Finance to obtain services spend for Karen Radford's team				
	2. Perform educational sessions with the key stakeholders on procurement processes				
Supply Ops	1. Competitively bid the Repair portfolio				
	2. Consolidation of disparate Courier contracts				
Corporate Support	1. Work with BT to identify non IT spend classified under Contractor/Consultant costs				
	2. Identify opportunities for competitive bids and effective management of suppliers				
	3. For top Consulting Vendors, identify areas that can be influenced by CCS				
CSD / Fleet	1. Complete Outside Plant Construction Services RFP				
	2. Complete Installation & Repair Services RFP				
	3. execute a new Vehicle Purchase Tender				
	4. Execute a Van Interiors RFP				
Real Estate / ES	1. Execute external Benchmarking of Real Estate Costs and Organizational Structure				
	2. Execute RFI to source alternate property and facility management providers				
	3. Identify opportunities for procurement synergies with TQ Real Estate portfolio				

Comparison to Peers' Rating

■ Performance is below TELUS' expectations of 75%



Supplier Performance Review

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The Procurement Transformation Project also embedded a culture of quality and continuous improvement in the department by instilling a focus on Lean Six Sigma principles in all operational matters and encouraging/supporting Six Sigma training as a key part of the team's professional development, which ensured the gains realized were sustained and enhanced in steady state.

This was reflected in the Supplier Performance Program we implemented with key internal stakeholders and suppliers as illustrated in the example (above). This program further enhanced the credibility established with the stakeholders and was often referenced as a

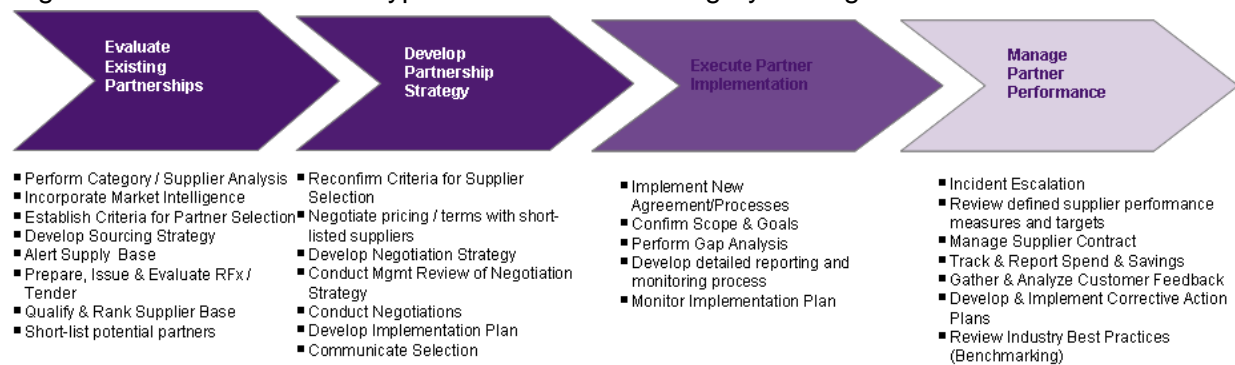
distinct and welcome change in our operational support the team provided.

Category Management Deployment

A central component of any procurement transformation is to manage spend requirements through a process known as Category Management. Category Management aligns services with substantive similarities into groups (Categories) to enable more synergy and deeper development of category expertise in procurement team members. The application of this structure, combined with the usage of best practice tools, enable procurement teams to hone the procurement skills necessary to facilitate both general and specific category procurement activities and to develop comprehensive sourcing strategies to drive greater cost savings and other efficiencies.

Solution

The Category Management process deployed for the Client was used to manage each Category from initial sourcing requirements through to ongoing long term supplier management. The diagram below describes the typical flow of these Category Management activities.



The Category Management process included recommendations, contained in our Annual Procurement Plan, in regard to the consolidation, analysis and reporting on various procurement data including industry pricing, technology and supply/demand trends, and procurement Best Practices for a particular Category.

An integral part of the strategy was conducting the analysis needed to identify partners who could create business value through their provision of indirect materials and services. This identification included evaluation, selection, and ongoing performance management in consultation with internal customers and in accordance with established procurement principles. Our focus was on:

- Partners with best-of-breed, specific skills to extend our industry or functional coverage.
- Partners with an attractive cost or value advantage that complement our business.

Results

A snapshot of some of the indirect procurement activities executed in one fiscal year for Customer is included below:

2007 Completed Initiatives		Total ~Spend ('000s)	~Total Savings/Avoidance	~Annual Savings	DEFINE	MEASURE	ANALYZE	IMPROVE	CONTROL	% Closed
	Initiative Complete									
	Environmental Svcs RFI (Risk Management)	\$120	\$150	TBD						100%
	Project Dragonfly RFP (BT)	\$33,200	\$22,000	TBD						100%
	Laird Expansion	\$2,797	\$273	TBD						100%
	Mail Services RFP	\$8,460	\$548	TBD						100%
	Consumer 3PL RFP	\$40,000	\$17,000	TBD						100%
	Reverse Logistics	\$1,500	\$750	TBD						100%
	Food Services	TBD	TBD	TBD						100%
	Technicians RFP (Ontario)	\$9,850	\$417	TBD						100%
	National Security Guard RFP	\$24,000	\$372	TBD						100%
	Voltage Detector RFP	\$178	\$444	TBD						100%
	Consultant RFP	\$80	\$42	TBD						100%
	Laird Expansion RFP	\$2,797	\$273	TBD						100%
	Design Consultant RFP	\$188	\$124	TBD						100%
	Fleet Services Fuel Discount Negotiation	\$14,186	\$1,449	\$483						100%
	Total	\$134,291	\$43,403	\$483	20%	40%	60%	80%	100%	

Current CCS Initiatives		~Total Spend ('000s)	~Total Savings/Avoidance	~Annual Savings	DEFINE	MEASURE	ANALYZE	IMPROVE	CONTROL	% Closed
	On Track									
	Caution									
	Off Track									
	Initiative Completed									
	Electrical Services	\$16,000	TBD	TBD						10%
	Internal Mail/Dedicated Mail Runs RFP	\$2,000	\$75,000	\$75,000						20%
	I&R Technicians RFP (CSD West)	\$90,000	\$15,000	\$15,000						80%
	Access Design RFP	\$42,000	\$3,350	~\$1,116						60%
	OP Construction Services RFP	\$136,000	TBD	TBD						40%
	Inbound Call Centre	\$15,801	\$2,747	TBD						75%
	RFI Event Management	TBD	TBD	TBD						60%
	Outbound call centre	\$5,915	\$810	TBD						75%
	Future Friendly Furniture	\$20,191	\$911	TBD						65%
	Employee Awards & Recognition solution RFI	TBD	TBD	TBD						55%
	HR Recruitment RFI	TBD	TBD	TBD						20%
	Commodity Taxation Review RFQ	\$400	TBD	TBD						10%
	Confidential Storage RFP	\$150	TBD	TBD						10%
	Pension Administration RFP	\$2,700	\$4,000	\$800						80%
	Benefit Carrier RFP	\$34,000	\$25,000	\$5,000						20%
	Relay Services for Deaf & Hard of Hearing	\$2,700	\$1,200	\$1,200						80%
	Total	\$351,857	\$128,018	\$97,000	20%	40%	60%	80%	100%	

To ensure common goals and objectives among suppliers and to ensure that those goals and objectives were consistent with our corporate direction, our team implemented comprehensive contracts with our partners that included: effective service level agreements, robust supplier Governance structures, granular pricing models and a rigorous approach to managing performance that ensured the quality and cost-effectiveness of service delivery is always industry-leading, regardless of the specific market / industry in question. This allowed the Client to formally track sourcing related benefits, conduct special, value-added procurement-related initiatives and engage in formal discussions with suppliers regarding ongoing contract performance adherence, supplier conduct and other supply-related items.