

Connecting the Dots on Suppliers

A CVM Solutions Whitepaper

March 2010



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"The biggest challenge we face is really on the supplier side."

Jim Lentz, President Toyota Motor Sales USA (March 12, 2009).

Six months before the first of many recalls started.

Importance of Supplier Management

Supplier management has indeed moved from the back office to the boardroom. To manage their business, company executives must effectively manage more complicated supply chains and supplier relationships. In other words, they need to connect the dots on suppliers.

The constant pressure to “do more with less” that has redefined supplier management in the last decade shows no sign of letting up in the next one. Globalization continues to accelerate. Business models that once defined processes and policies have fallen by the wayside. Consolidation of companies and resources, and the global integration of business strategies, have created even more complexity and produced new motivation to improve performance – especially with suppliers that are now the lifeblood of every global brand.

The motivation to reduce costs is driving organizations to scrutinize expenditure budgets even more. New investments will focus on cost savings, requiring shorter payback periods. As the global population becomes more diverse, companies with changing customer constituencies will look to access local markets and to build diverse communities where they sell their products.

Global organizations that have absorbed newly acquired business units, combined with evolving customer bases, and supply chains extended into hundreds of countries, must still deliver high quality products on time, at the right price and in the right location. The inability to manage suppliers effectively – while maintaining flexibility and product excellence – is a major barrier to globalization.

At the same time, global economic pressures will require companies to understand supplier viability and risk more broadly and in more depth. There is no doubt that today’s global economic downturn has driven lots of organizations to evaluate supplier risk solutions over the last few years, and with good reason. Suppliers across all industries are struggling to manage cash flow. Bankruptcies in the supply chain have become a growing threat.

Real-Life Example of Connecting the Dots

A recent example will help to show why connecting the dots in supplier management is so critical in mitigating risk. This example crystallizes the importance of not just relying on a simple third-party financial “risk” score, since a single score cannot possibly summarize the entire risk scenario and often is based on old data. A reactive indicator, the single score is not able to identify actual risk levels as or before they arise.

CVM’s supplier management services provided one large client with an early warning that one of its largest suppliers posed a supply chain risk. Twenty months before the supplier posted its largest quarterly loss in seven years, and 22 months before it filed for Chapter 11 bankruptcy protection and other third-party “risk scores” downgraded this supplier to “high risk,” CVM warned that the supplier was in greater than average financial stress compared to others in its industry based on a decline in demand -- putting stress on its own suppliers and potentially causing supply chain disruption and jeopardizing equipment delivery schedules.

As this example shows, a robust supplier risk management approach needs to go beyond traditional predictive model approaches to mitigate credit and supplier risk by identifying signs of financial stress months before they surface in public financial disclosures.

Meeting the Challenge of Supplier Management Globalization

The emergence of globalization, off shoring and outsourcing have made supply chains more fragile and more complex, and made company success dependent on effective supplier management. To ensure product continuity and quality, successful companies need robust diversity programs, proven supplier compliance and risk processes, and a comprehensive supplier management solution.

Daunting as it may seem, managing today’s complex supply chains can be improved dramatically. By combining access to accurate data on suppliers, with the ability to efficiently manage the supply base, procurement organizations can deliver dramatic efficiencies and bottom line results very quickly.

Having inaccurate, redundant or out of date supplier data can cost organizations in many different ways. The table below summarizes the common business problems that poor supplier data can cause.

Business Problem	Problem Description	Example
Data Accuracy & Quality	Supplier data becomes out of date over time causing processing errors	In one CVM customer example, the purchasing system had one supplier location address and the AP system had another -- causing delayed invoice processing and rework.
Data Redundancy	Duplicate suppliers and misclassified locations causing rework, wasted time, and resources	Cost one CVM customer \$20 to audit each supplier. CVM data enrichment helped remove around 10K duplicate records – creating \$200K in savings.
Spend Misclassification	Correctly collating, grouping, and categorizing suppliers is required for accurate spend analysis	One customer maintained separate independent contracts with IBM, Tivoli, and Lotus without realizing they are all IBM. Allows renegotiating for better contract terms and discounts.
Risk Identification	Risk of fraud and supply chain disruption can occur without required and accurate supplier data	One CVM customer identified potential supplier safety issues and missing insurance certificates -- mitigating supplier risks.

Key elements to supplier management optimization include:

- Managing complexity with up-to-date supplier data that provides linkages to parent companies and crosses business unit boundaries internally
- Improved management competency with common platform and best practices for supplier managers
- The implementation of a solid operational strategy, along with a tactical framework to facilitate execution

Increasing effectiveness, improving flexibility and more effective engagement of suppliers will play a key role in success. A single vendor master for direct and indirect purchasing is needed to address the following three critical business issues:

- Strategic sourcing is difficult due to lack of a true picture into supplier activity
- Increased time and management cost is incurred due to duplicate and out-of-date records

- Supplier linkages cannot be determined for all activity at the ultimate corporate parent level due to lack of parent-child information

To address these challenges, a central repository of data about company suppliers with easy access to critical information at a high level, along with detailed drill downs whenever needed, is required to provide a true picture of supplier activity.

Companies also must be able to automate the on-boarding and overall management of suppliers, as well as to enrich existing information and add new vendors, to save the time and cost caused by duplicate or out-of-date records. They also must be able to sort out complex vendor organizational hierarchies to determine supplier linkages for all activity at the ultimate corporate parent.

Additionally, companies need a proactive program to identify minority and women-owned

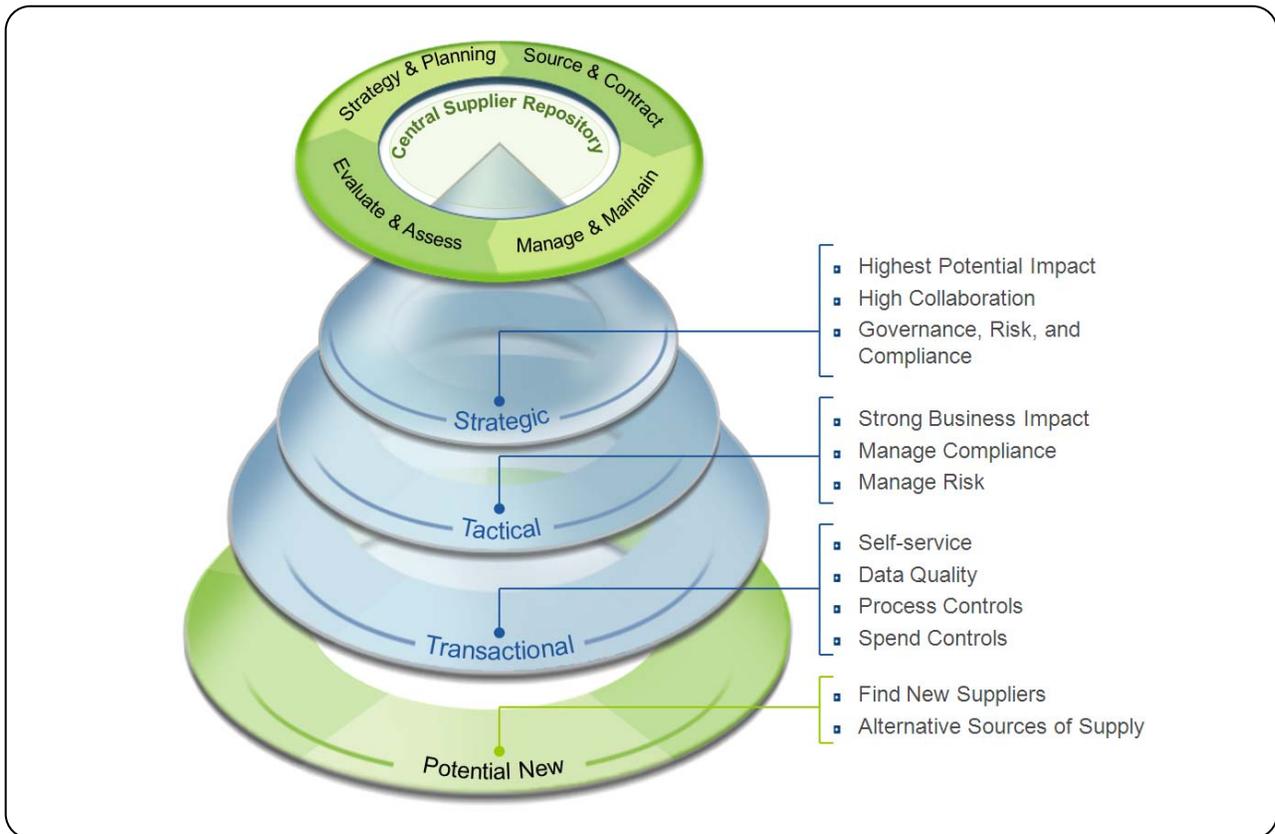


Figure 1: Logical Groupings of Suppliers

suppliers that supports corporate diversity goals.

An effective supplier management solution will result in cost reduction and improved competitiveness through comprehensive supplier base rationalization and a simplified and streamlined ability to find and manage new, improved suppliers. Other major supplier

management benefits include the identification of savings or new revenue opportunities through the improvement in working capital by leveraging linkages in the existing supply base to manage same suppliers' payment terms, and increased community involvement and competitiveness from minority- and women-owned businesses.

How to Connect the Dots on Suppliers?

To connect the dots on their suppliers and get their suppliers under management, companies can achieve control by taking three simple steps: **Clean and Enrich**, **Collect and Manage**, and **Measure and Mitigate**. Critical supplier management processes include accounts payable enablement, qualification and compliance management, risk management, supplier scorecards and supplier diversity.

An effective process and set of best practices for managing suppliers is outlined in the illustration below.



Figure 2: Three Steps in Connecting the Dots on Suppliers

Benefits of the **Clean and Enrich** step include:

- Improved data accuracy
- Improved sourcing effectiveness by identifying linkage for spend leverage

- Supplier rationalization
- Increased use of preferred suppliers

Benefits of the **Collect and Manage** step include:

- Lower costs by improving processes through the use of a centralized vendor repository
- Reduce cycle times required to manually route forms

Benefits of the **Measure and Mitigate** step include:

- Avoid significant risks posed by potential adverse events
- Increase compliance to established policies and procedures
- Early detection and mitigation of supplier issues
- Monitor suppliers by exception to optimize resources
- Increased supplier visibility including spend

CLEAN AND ENRICH

Industry best practices dictate that, before they deploy supplier portals and other projects, companies must undergo the process of data cleaning and enrichment because they cannot manage suppliers without clean, quality and up-to-date data. To halt the perpetuation of bad data across the enterprise, initial “Clean and Enrich” steps include gathering missing or incomplete data, removing duplicate suppliers, standardizing names and categories, and establishing supplier dependency and global corporate family linkages.

For example, to maximize supplier leverage and minimize supplier costs, companies need to better understand if they are doing business with more than one “related” company in a family tree or corporate structure. They can achieve “buying power” by being able to identify these families and leverage their spend for more favorable contract terms. Additionally, they can reduce costs and increase buying power by migrating away from related companies with low spend to families with more spend.

The acquisition of a major drug maker by another provides an excellent example of the power of “Clean and Enrich”. This purchase presented the challenge of cleaning up and enriching two disparate systems related to their shared suppliers. Analysis of supplier records found that they did in fact have overlap in supplier spend by the combined companies.

By identifying overlapping suppliers in each category, the acquiring company now will have the opportunity consolidate supplier spend in each category. Additionally, by identifying parent/child linkages, the acquiring company will be able to consolidate its spend by supplier family.

COLLECT AND MANAGE

A \$5B+ energy provider found that the diversity, safety, financial and risk information it had available wasn't complete, thorough or consistent enough to satisfy its needs. This company had a decentralized manual process that was poorly maintained and inconsistently enforced in the places where they operated. So, as a critical initial step in the "Collect and Manage" process, it developed a central data depository that included supplier self-service questionnaires, insurance certificate requests, and quality and safety workflows as part of its supplier on-boarding process.

Additionally, it collected and verified the data against public and private databases, and by using other publicly available information, and developed individual risk assessments that were maintained in the system for access in real time on a company-wide basis. This allowed the company to capture detailed supplier information with flexible, business-unit specific questionnaires for integration into the company's ERP system. The search engine in the supplier management system allows users to locate and drill down to detailed supplier information. The system further provides suppliers with the ability to upload documents. Additionally, the system generates automated reminders for suppliers to update their expiring documents and certifications. The reporting capabilities are flexible and customizable and provide a comprehensive view into the supplier base.

These simple but extremely important improvements have allowed this company to reduce its supplier audits and overall supplier management costs. The company estimates that within one-and-a-half years it will have reduced supplier management costs to less than \$200 per supplier. By using CVM as its supplier management products and services provider, it also has avoided the enormous cost and complexity of hiring and training new FTEs who would constantly be struggling to not only gather and verify, but also keep the information up to date.

MEASURE AND MITIGATE

Although supplier risk levels have started to improve somewhat in 2010, many suppliers are still experiencing difficulties and posing risk as the global economy continues to generate slow growth and improvement. The interest in supplier risk mitigation consequently is growing as organizations realize they must take a more methodical approach. Any comprehensive approach to measuring and mitigating supplier risk, compliance, and overall performance would include a unified scoring model to integrate the many facets of supplier information being reviewed.

As companies have found out over the past few years, no single composite risk score or technology solution can easily solve the supplier risk problem. Measuring true supplier risk is a complex challenge involving more than just measuring the financial risk of a supplier. It involves monitoring a myriad of different metrics for a supplier, including performance, strategic importance, supply chain problems, security, financial, compliance and Tier 2 risks (those involving the supplier's suppliers). These metrics come from internal and external sources in differing intervals and often involve combining qualitative as well as quantitative metrics. As a result, truly measuring supplier risk and performance involves the challenge of combining disparate metrics into a single unified scoring model that can be tracked over time and responded to as the need arises.

CVM Solutions Empowers Connecting the Dots on Suppliers

Utilizing a comprehensive supplier management vendor like CVM Solutions, many industry-leading companies have improved their supplier performance, cut costs and lowered risks in the supplier base. CVM's Supplier Central™ product offers just the right amount of data, technology and services to address any supplier management need. CVM employs a database of over 30 million records from thousands of sources to offer the most up-to-date supplier database in the industry. CVM can also provide services to on-board, update and cleanse supplier data to ensure accuracy in the company's vendor master. CVM's Supplier Central™ provides the technology platform to manage and deliver the data and supplier master files across the entire company from a central location – connecting the dots on suppliers.

With Supplier Central™ 10.0, CVM clients achieve results through:

- A single source of truth on global supplier information
- Consistent and standardized information on all suppliers
- Automated and actionable supplier management processes
- Proactive risk, compliance, and performance management

- Supplier analytics including spend and other important metrics



Figure 3: CVM Solutions Connect the Dots on Suppliers

Effective supplier management requires a centralized technology platform, access to a broad database of supplier data and robust reporting and analytics.

To meet this need, CVM’s newest offering, Supplier Central 10.0, delivers a new level of innovation in the cloud, including:

- Unified Supplier Scoring Model
- Supplier Analytics Visual Framework
- Supplier Data Ready

Built on the industry leading Force.com Cloud Computing Platform, the world’s most trusted cloud computing platform for business applications, Supplier Central™ 10.0 enables a 10X improvement in innovation speed and offers new levels of user customization.

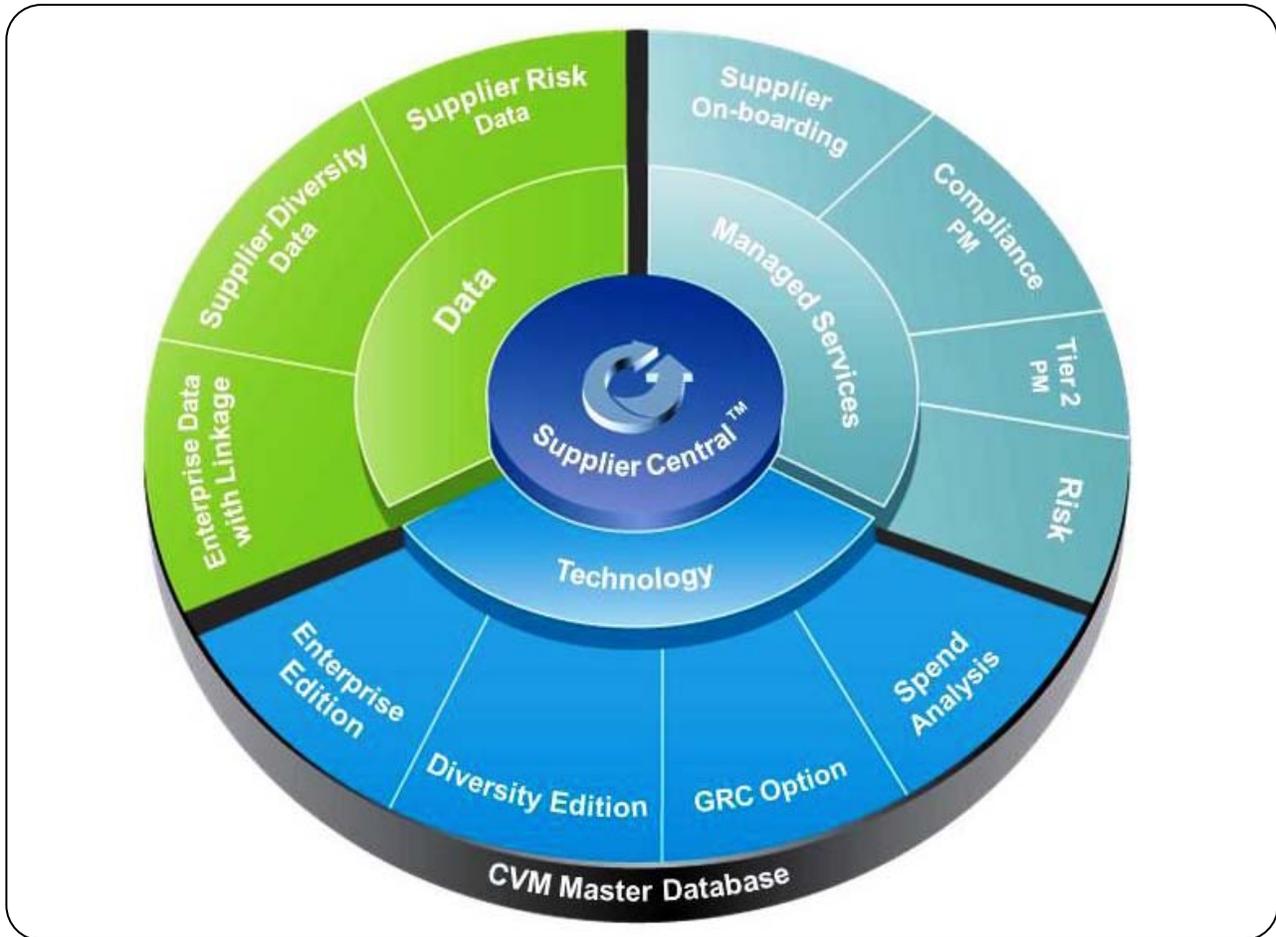


Figure 4: CVM's Supplier Central™ 10.0

Supplier Central™ 10.0 helps enterprises to deliver innovation fast to all customers, all at once, by providing a high degree of end-user configurability and flexibility. User configurability of workflow, reporting and new fields leads to a faster adoption rate and a quicker ROI, saving money.

Supplier Central™ 10.0's automatic and no cost upgrades also mean a lower cost of ownership and faster ROI.

By enabling faster time-to-market with new capabilities through improved processes and/or insight, Supplier Central™ 10.0 saves money.

CVM products and services have allowed many companies to reduce supplier issues, risks and overall supplier management costs. As noted above, one CVM customer estimates that within one-and-a-half years, it will have reduced supplier management costs to less than \$200 per supplier using the CVM products and services. It also has avoided the enormous cost and complexity of hiring and training new FTEs who would constantly be struggling to not only gather and verify supplier details, but also keep the information up to date.

About CVM Solutions

CVM Solutions is the premier provider of supplier management solutions that enable our clients to achieve operational excellence, drive **cost savings** and mitigate supplier risk. CVM provides a truly unique viewpoint on supplier management with our vast supplier intelligence, deep experience and **customer-focused** results. With innovative technology and the industry's most extensive **supplier database**, CVM has helped clients identify negotiation leverage with suppliers, assess supplier risk and achieve corporate compliance objectives.

A proven and trusted supplier management solutions provider, CVM has hundreds of successful customer deployments at a Who's Who of client names and brands. Our customers, including GE, Merck and AT&T, are the leaders in their industries.

CVM knows suppliers. CVM customers are currently managing over 4.3M suppliers in aggregate. With our vast experience and supplier data assets, CVM knows suppliers and most likely knows most of your suppliers.

Our experience means we know how to navigate the “speed bumps” to shorten implementations – saving both time and money. We have seen most supply chain scenarios before and we have successfully dealt with them. Our experience increases value for future customers time and again through best practices knowledge.

CVM enables innovation in the cloud. Our customers are demanding constant innovation and the ability to quickly respond to changes in their dynamic business environments. Seamlessly connecting technology, data and managed services allows CVM to maximize visibility and accuracy.

To find out more about enterprise supplier management solutions, programs and services from CVM Solutions, as well as our complete supplier management capabilities, please visit us on the Web at: <http://www.cvmsolutions.com> or call 630.629.5800.