The New e-PROC

Procurement’s Return on Compliance

Daiichi Sankyo
Joseph Shatynski
Head of Strategic Business Services

Zycus
Richard Waugh
Vice President, Corporate Development
The New –PROC: Procurement’s Return on Compliance:
Today’s Speakers

Joe Shatynski
Head of Strategic Business Services, Senior Director Finance, Daiichi Sankyo, Inc

Joe Shatynski, P.E., C.P.M., CPSM, leads the strategic business services function at Daiichi Sankyo Inc as Senior Director – which includes strategic sourcing, agency management, patient assistance programs, production operations, procurement, fleet, real estate portfolio strategy, sample compliance and promotional distribution functions.

Areas of focus include building a world class business operations, strategic sourcing and supplier management program and driving innovation, continuous improvement and efficiencies to the Procure to Pay process.

Joe led international procurement teams for marketing & sales at Pfizer and Pharmacia and R&D, manufacturing & buying/planning procurement teams at Roche. Previously, he worked in new product process development at Roche.

Joe holds an MBA from NYU in Marketing & International Business, an MS and BS in Chemical Engineering from NJIT. He is a licensed professional engineer in the state of NJ. Joe is chair of the ISM Pharmaceutical Forum and has been named to the Industrial Advisory Board of the Chemical, Biological & Pharmaceutical Engineering Department at NJIT.
Today’s Speakers

Richard Waugh
VP Corporate Development, Zycus Inc.

As Vice President for Corporate Development, Richard leads strategic initiatives in the areas of new product introduction, market development, thought leadership, analyst relations, and strategic partner development programs. Richard has an extensive background in B2B E-Commerce. He helped launch GE’s Trading Process Network (TPN), the first on-line Marketplace for Sourcing and Procurement. He was also Co-Founder of B2eMarkets, one of the first SaaS (Software as a Service) Sourcing Suite providers and later covered the Supply Management market as an Industry Analyst for the Aberdeen Group.
About Zycus – Comprehensive Source-to-Pay Suite

Recognized by Leading Analysts

Zycus is NOW a P2P Leader

Ranked as a Leader in The Forrester Wave™: eProcurement, Q2 2017

Zycus has been recognized as a Leader for the 4th time in a row in Gartner’s Magic Quadrant for Strategic Sourcing Application Suites 2018.
Today’s Agenda

- The Many Facets of Compliance:
  - Spend, Regulatory, Process, Contract, Supplier, Social/Sustainable
  - Charting the Course for Compliance – Best Practices for Implementing Compliant Procurement

- Compliant Change – the Role of Change Management in Changing Behavior

- How Compliant Is Your Organization? – Benchmarking with the Best-in-Class

- The (Business) Case for Compliance – What is Your ROC (Return on Compliance)?
Many Facets of Procurement Compliance

Procurement Compliance

- Spend
- Social/Sustainable
- Regulatory
- Supplier
- Process
- Contract
Problem Statement: Spend Visibility Cloudy for Many

Top Performers have nearly 100% line item spend visibility while the overall peer group is below 40% - what accounts for this growing disparity and what best practices help ensure not only that line item detail is captured, but that it is also accurate?

Best Practices

- **Artificial (Not Natural) Intelligence** Assigns Category, G/L, Budget Codes on Requisitions/POs
- **Line Item Approval Routing** Verifies Accuracy of Coding as Well as Appropriateness of Purchase
- **Automated Reconciliation** of Cart Line Item Coding to P-Card Billing

Line-Item Spend Visibility Rate

<table>
<thead>
<tr>
<th></th>
<th>Peer</th>
<th>Top Performer</th>
</tr>
</thead>
<tbody>
<tr>
<td>38%</td>
<td>99%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Hackett Group P2P Performance Study 2017
Spend Classification – Before AI

Data
- Distributed data
- Multiple GL codes
- Multiple languages
- Multiple classification standards

Garbage In → Data Warehouse → Garbage Out

Spend Report
- Inaccurate reports
- Low reliability
- Low spend visibility
- No ROI
Spend Classification – After AI

**Data**
- Distributed data
- Multiple GL codes
- Multiple languages
- Multiple classification standards

**Spend Report**
- Statistical model based data classification
- Handles erroneous data
- Automated and rapid classification
- Quick ROI

**Table:**

<table>
<thead>
<tr>
<th>Plant</th>
<th>Item Description</th>
<th>Material code</th>
<th>Material Group</th>
<th>Invoice Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>647445 HP NC6000 LAPTOP WIRELESS</td>
<td>43211503</td>
<td>Office supply</td>
<td>293200</td>
</tr>
<tr>
<td>German</td>
<td>Latitut</td>
<td></td>
<td>Notizbuchcomputer</td>
<td>54000</td>
</tr>
<tr>
<td>Australia</td>
<td>HP NC6000 Latitude</td>
<td></td>
<td>Computer</td>
<td>38500</td>
</tr>
<tr>
<td>England</td>
<td>NX6120 notebook / 256MB RAM</td>
<td></td>
<td>&quot;Mach &amp; Equip, Misc&quot;</td>
<td>12830</td>
</tr>
<tr>
<td>Australia</td>
<td>2 latitu for DC. : KINGSTON 256MB PC2700 HP PA/VIL</td>
<td>0206ZX</td>
<td>Mainframe Purchases</td>
<td>268605</td>
</tr>
<tr>
<td>France</td>
<td>Ordinateur portable donné pour la haute de Napoleon</td>
<td>xSDF12</td>
<td>Équipement d'Office</td>
<td>32568</td>
</tr>
<tr>
<td>Russian</td>
<td>647445 п. с. NC6000 ноутбук беспроводная</td>
<td>68H8BX</td>
<td>­ing propaganda</td>
<td>102635</td>
</tr>
<tr>
<td>China</td>
<td>对于金大中笔记本</td>
<td></td>
<td></td>
<td>55689</td>
</tr>
</tbody>
</table>
Problem Statement: Managing Tail Spend Proves Challenging

Example of tail spend at a company with a non-mature procurement organization with 55% spend influence

- 80% of spend
- 40% influenced by strategic sourcing
- 10% influenced by buying desk
- 5% not influenced
- 5% not influenced by e-catalogs
- 15% not influenced
- 5% unknown

- 15-30% candidates for spot buys

New Purchasing Model

- Requisitioners enabled with self-service purchasing for most routine, sourced spend
- Senior Buyers executing Spot Buys/Tactical Sourcing events using e-Sourcing tools and marketplaces like Amazon Business and eBay
- High touch “concierge” level help desk for limited categories and high service level customers

Source: The Hackett Group
How it Works: Standardizing Self-Service “Quick Source” for Tail Spend

- Tactical, Spot Buys – 3 Bids & Buy
- Create RFQ Inquiry on Single Screen
- Create and Invite New Suppliers on the Fly
Regulatory Compliance

- GDPR
- OSHA
- Sarbanes-Oxley
- PHI/PIII
- OFAC
- Dodd-Frank
- FCPA
- Minerals
- Conflict
- REACH
- RoHS
- FDA
- FDA
Process Compliance: Achieving Digital Transformation Targets

% Electronic Transactions (Fully Automated Approval Workflow/Order Dispatch)

- Top Performer: 100% (Requisition), 85% (Purchase Order), 100% (Release to Blanket Order), 79% (PO Change Order), 63% (Invoice Receipt), 81% (Payment)
- Peer: 80% (Requisition), 66% (Purchase Order), 62% (Release to Blanket Order), 28% (PO Change Order), 28% (Invoice Receipt), 33% (Payment)

Full Automation – Digital Transformation Target: 95–98%

Source: Hackett Group P2P Performance Study 2017
Problem Statement: Few Very Effective at “Guided Buying”

**Top Performers** are better than 3X more likely to be “very effective” in driving requisitioners to preferred buy/pay channels – what best practices account for the disparity?

How effective are you at driving requisitioners to preferred buy/pay channels with the right supplier/right price/right buy method?

<table>
<thead>
<tr>
<th>Category</th>
<th>Top Performer</th>
<th>Peer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very Effective</td>
<td>44%</td>
<td>13%</td>
</tr>
<tr>
<td>Mostly Effective</td>
<td>44%</td>
<td>55%</td>
</tr>
<tr>
<td>Not Effective</td>
<td>11%</td>
<td>21%</td>
</tr>
<tr>
<td>No standard buy/pay channels have been established</td>
<td>11%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Hackett Group P2P Performance Study 2017
How It Works: Guided Buying

GUIDED BUYING

- Auto-suggest categories based on user’s natural language search term
- Steer Users to Approved Suppliers and Buy/Pay Channel
- Invoke category-specific workflows, map to GL account and default bill to/ship to based on user profile
Problem Statement: Need to Enable Multiple Workflows

For Some Purchases a 2-Way (not the Traditional 3-Way) Match is Optimal.
How Can Approval Workflows and Buy/Pay Processes be Optimized Based On:

- Purchase Type (Opex/Capex, Project)
- Category
- $ Amount
- BU/Geo/Dept.

Source: Hackett Group P2P Performance Study 2017
How It Works: Configurable and Compliant Process Workflows

- “Drag and Drop” Workflow Configuration
- Requisition Approval Status Visibility
- Dynamic, Category-Specific Workflow
- Line-Item Level Approval Routing
- Effective Spend and Demand Management

Requisition Workflow

- Pamela L Manager
  - Submitted
  - 22/10/2014 00:43:30

- Product Class...
  - Submitted
  - 22/10/2014 00:43:10
  - Approved
  - 22/10/2014 00:43:43
  - View Comments
  - View approval paths

- Category Man...
  - Approved
  - 22/10/2014 00:43:54
  - View Comments
  - View approval paths

- Financial Bu...
  - Approved
  - 22/10/2014 00:44:26
  - View Comments
  - View approval paths

- Issa S Director
  - Approved
  - 22/10/2014 00:45:40
  - View Comments
  - View approval paths

- Buyer

- Supplier
Contract Compliance

Legal
- Clauses
- Audit
- Version Control
- Approvals

Utilization/Performance
- Demand Management
- Buying Channel
- Performance Obligations

Commercial Terms
- Pricing
- Payment Terms
- Renewals
Legal Compliance

Identify Contract Hierarchy

- Type: Procurement
- Sub-type: Purchase Agreement
- Status: Active

Maintain Version Control

- Scope of Work: Network Software
- Version: v1
- Last Modified: 07/29/2014
- Status: Not Started

- Scope of Work: Network Software
- Version: v2
- Last Modified: 07/29/2014
- Status: Not Started
Utilization/Performance Compliance

Performance and Milestone Tracking

Monitor Contract Performance

Add Milestone

Milestone Title: Review of Statement of Work
Status: In Progress
Milestone Type: Deliverable
Deliverable Type: Report
Description:

Amount Payable (USD): 36,000.00
Percentage of contract: 30
Value (USD): 36,000.00

Notification Information:

Before: 5 days
Repeat Alerts: Do not repeat
From the alert trigger date:

Track Contract Utilization and Compliance
Terms Compliance

Monitor Contract Pricing

<table>
<thead>
<tr>
<th>VENDOR NAME</th>
<th>UNSPSC_CATEGORY</th>
<th>MANUFACTURER PART NUMBER</th>
<th>PRODUCT NAME OR TITLE</th>
<th>UNIT PRICE</th>
<th>QTY</th>
</tr>
</thead>
<tbody>
<tr>
<td>STAPLES CONTRACT &amp; COMMERCIAL INC</td>
<td>Pen or flash drive</td>
<td>IMN18385</td>
<td>Imation USB 2.0 Swivel Flash Drive, Black, 4GB</td>
<td>18.14</td>
<td>250</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>Imation 4GB USB 2.0 Swivel Flash Drive, Black</td>
<td>11.46</td>
<td>8</td>
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<tr>
<td>SCHOOL SPECIALTY INC</td>
<td>Ink cartridges</td>
<td>HEW51645A</td>
<td>CARTRIDGE INK HP 51645A #45 BLACK</td>
<td>41.68</td>
<td>4</td>
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<td>STAPLES CONTRACT &amp; COMMERCIAL INC</td>
<td></td>
<td></td>
<td>HP Inkjet Cartridge, 45 (51645A), Black</td>
<td>25.58</td>
<td>2</td>
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Track Payment Terms

<table>
<thead>
<tr>
<th>Normalized Supplier</th>
<th>Payment Terms</th>
<th>Spend</th>
<th>Max payment terms</th>
<th>Payment Days</th>
<th>Difference Max Payment Term</th>
<th>Savings with Max Days Payment Term</th>
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</thead>
<tbody>
<tr>
<td>CA</td>
<td>Due Immediately</td>
<td>$2,976,875</td>
<td>30</td>
<td>0</td>
<td>30</td>
<td>$12,234</td>
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<tr>
<td>Net 30</td>
<td>$361,601</td>
<td>30</td>
<td>30</td>
<td>0</td>
<td>0</td>
<td>$0</td>
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<tr>
<td>SPAN SYSTEMS</td>
<td>Due Immediately</td>
<td>$2,228,451</td>
<td>30</td>
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<td>$9,158</td>
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<tr>
<td>Net 30</td>
<td>$516,756</td>
<td>30</td>
<td>30</td>
<td>0</td>
<td>0</td>
<td>$0</td>
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</table>

Set Expiration/Renewal Alerts

Source to Pay Suite: Spend Analysis | eSourcing | Contract Management | Supplier Management | Savings Management | Project Management | Request Management | Procure-to-Pay
Governance Model: Managing Supplier Information and Risk

1. Supplier Self-Registers

   - Certifications/Documentation
   - Banking & Financial Info
   - Contact Details
   - Supplier Locations
   - Business Classifications/Product & Service Details

2. System Assigns Pre-Qualification Scoring

3. Supplier Vetting On-boarding Approval Workflow

4. 3rd Party Validation & Real-time Risk Monitoring Integrated with SIM Repository

5. ERP Sync
Governance Model: Assessing and Mitigating Supplier Risk

- **Supplier is assessed** in 5 areas: Finance, Legal, Reputation, Operations, and Strategic
- **Information is gathered** from suppliers through on-line risk surveys/questionnaires and financial analysis
- **Outputs are then assessed** and high risk areas are identified for mitigation planning and execution

<table>
<thead>
<tr>
<th>Supplier Risk Score</th>
<th>Trend</th>
<th>All Supplier's Average</th>
<th>Formula</th>
<th>Risk=High/Crt</th>
<th>Risk=Med</th>
<th>Risk=Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.00</td>
<td>0.00%</td>
<td>NA</td>
<td>( KPI1 + KPI2 + KPI3 + KPI4 + KPI5 ) / 5</td>
<td>&gt; 2.00</td>
<td>&gt; 1.00 &amp; &lt;= 2.00</td>
<td>&lt;=1.00</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>#</th>
<th>Risk Area</th>
<th>Score</th>
<th>Trend</th>
<th>All Supplier's Average</th>
<th>Risk=High/Crt</th>
<th>Risk=Med</th>
<th>Risk=Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>KPI 1</td>
<td>Financial Risk</td>
<td>2.00 / 4.00</td>
<td>0.00%</td>
<td>NA</td>
<td>&gt; 2.00</td>
<td>&gt; 1.00 &amp; &lt;= 2.00</td>
<td>&lt;=1.00</td>
</tr>
<tr>
<td>KPI 2</td>
<td>Legal and Regulatory Risk</td>
<td>2.00 / 4.00</td>
<td>0.00%</td>
<td>NA</td>
<td>&gt; 2.00</td>
<td>&gt; 1.00 &amp; &lt;= 2.00</td>
<td>&lt;=1.00</td>
</tr>
<tr>
<td>KPI 3</td>
<td>Reputational Risk</td>
<td>4.00 / 4.00</td>
<td>0.00%</td>
<td>NA</td>
<td>&gt; 2.00</td>
<td>&gt; 1.00 &amp; &lt;= 2.00</td>
<td>&lt;=1.00</td>
</tr>
<tr>
<td>KPI 4</td>
<td>Operational Risk</td>
<td>3.00 / 4.00</td>
<td>0.00%</td>
<td>NA</td>
<td>&gt; 2.00</td>
<td>&gt; 1.00 &amp; &lt;= 2.00</td>
<td>&lt;=1.00</td>
</tr>
<tr>
<td>KPI 5</td>
<td>Strategic Risk</td>
<td>1.00 / 4.00</td>
<td>0.00%</td>
<td>NA</td>
<td>&gt; 2.00</td>
<td>&gt; 1.00 &amp; &lt;= 2.00</td>
<td>&lt;=1.00</td>
</tr>
</tbody>
</table>
Social/Sustainability Compliance

Main objectives of corporate sustainability strategy

Percentage of respondents

- Staff retention: 33%
- Internal efficiencies: 42%
- Differentiate products/services & value proposition: 56%
- Improve customer satisfaction: 56%
- Avoid supply chain disruptions: 58%
- Improved brand value: 67%
- Risk management: 81%
- Reduce cost: 88%
- Compliance with regulations: 88%

Top five practices for formal sustainability-related guidelines and policy

Percentage of organizations

80% Acknowledgement of policies and guidelines during supplier onboarding.

80% Code of conduct is used to lay out the expected supplier behaviors and obligations.

74% Policies and guidelines are agreed on with suppliers during pre-qualification.

68% Supplier responsibilities, audit and reporting mechanisms, and penalties are formally communicated.

68% Suppliers are required to manage their network of suppliers (e.g., multiple tiers).

Compliant Change – Addressing Stakeholder Needs

**Finance**
1. Auditable processes/systems with documentation of internal controls
2. Accurate and timely financial accounting and reporting

**IT**
1. Compliance with IT Information Security Standards
2. Secure, mobile user access to information
3. Reliable integration with back-end ERP/Legacy environments

**GRC/Vendor Mgmt./Legal**
1. Ensure adherence to laws and regulations across jurisdictions
2. Compliant vendor on-boarding, risk monitoring and mitigation

**End Users**
1. Engaging, easy-to-use experience
2. Self-service access and status tracking
3. Guided buying – contextual help, visibility to policies/procedures
Benchmarking Best-in-Class Procurement Compliance

- **SUM**
  - Avg. – 55.2%
  - BIC – 92.0%
  - Source: Ardent Partners Benchmark

- **Suppliers per $1B**
  - Avg. -17,899
  - BIC - 6,795
  - Source: Hackett Group Benchmark

- **On-Contract Spend**
  - Avg. – 52.8%
  - BIC – 70.9%
  - Source: Ardent Partners Benchmark

- **Contracting Cycle**
  - Avg. – 22.2 Days
  - BIC - 11.5 Days
  - Source: Aberdeen Group Benchmark

- **Sourcing Cycle**
  - Avg. – 75 Days
  - BIC – 45 Days
  - Source: Hackett Group Benchmark

- **Spend w/Line Item Visibility**
  - Avg. – 38%
  - BIC – 99%
  - Source: Hackett Group Benchmark

- **Spend Sourced**
  - Avg. – 41.1%
  - BIC – 69.8%
  - Source: Ardent Partners Benchmark

- **Sourcing Savings**
  - Avg. – 5.6%
  - BIC – 7.1%
  - Source: Ardent Partners Benchmark

- **Cost per PO**
  - Avg. - $17.18
  - BIC - $4.93
  - Source: Hackett Group Benchmark

- **Cost per Invoice**
  - Avg. - $4.84
  - BIC - $2.23
  - Source: Hackett Group Benchmark
Best-in-Class Advantage – Realized Savings

Spend Analysis

eSourcing

Contract Management

Supplier Management

Procure-to-Pay

Savings Management

Spend/Transaction Volumes
- $1B Spend
- $2.5M Supplier Management Cost
- 75K POs
- 150K Invoices

Best-in-Class Advantage vs. Average
- 37% More SUM
- 29% Incremental Spend Sourced
- 1.5% Higher Savings Capture Rate
- 18% Higher Compliance to Contract
- 20% Lower Supplier Management Cost
- Best-in-Class Cost per Transaction
- Best-in-Class Discount Capture Rate

$287M Incremental Spend Sourced
$26.5M Incremental Savings Identified

$18.8M Retained Sourcing Savings
$.5M Supplier Management Cost Savings
$1.3M Transaction Cost Savings
$.8M Early Pay Discounts

$21.4M Incremental Realized Savings
Best-in-Class Advantage – Source-to-Cash Cycle Time

Best-in-Class Achieve Higher NPV of Savings Realized 42% Faster

| Source to Pay Suite: Spend Analysis | eSourcing | Contract Management | Supplier Management | Savings Management | Project Management | Request Management | Procure-to-Pay |

<table>
<thead>
<tr>
<th>Source-to-Cash Cycle Time</th>
<th>Best-in-Class</th>
<th>Industry Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sourcing Cycle</td>
<td>45 Days</td>
<td>75 Days</td>
</tr>
<tr>
<td>Contracting Cycle</td>
<td>11 Days</td>
<td>22 Days</td>
</tr>
<tr>
<td>Order Cycle</td>
<td>1 Days</td>
<td>2 Days</td>
</tr>
<tr>
<td>Invoice Cycle</td>
<td>3 Days</td>
<td>2 Days</td>
</tr>
<tr>
<td>Pay</td>
<td>60 Days</td>
<td>104 Days</td>
</tr>
</tbody>
</table>
What’s Next?

Big News headed your way on October 28th!
Contact Details

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Head of Strategic Business Services,  
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Session information and evaluation how-to’s

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2. Select Day
3. Select Session
4. Click on Clipboard Icon
5. Complete and submit evaluation

This was session # 8

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