
ICG Commerce Confidential

Welcome to the inaugural issue of *The Source*, the monthly electronic newsletter from ICG Commerce, the leading Procurement Services Provider for Global 2000 companies. Leveraging its wealth of sourcing and purchasing expertise and flexible technology, ICG Commerce provides tailored services for the procurement of direct and indirect goods that deliver maximized, measurable savings.

In addition to providing updates on ICG Commerce activities, each issue will provide our perspective on key trends developing in the marketplace. In this first issue, we focus on the importance of addressing the entire procurement value chain in order to realize and sustain total cost savings.

As ICG Commerce's PR partner, our goal is to help keep you informed of important company developments and to serve as a resource for your research in the areas of sourcing and procurement. If you have any comments or questions or wish to receive additional information, please refer to the contact information at the end of this newsletter.

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Addressing the entire procurement value chain for *real* and sustainable procurement savings

By William D. Toler, ICG Commerce, Senior Vice President and President North American Operations

Companies face several common barriers to maximizing procurement opportunities:

- Lack of complete spend information due to disparate systems or manual processes
- Lack of spend control due to business unit or functional autonomy
- Inadequate tools to expedite and optimize sourcing and purchasing activity
- Not enough resources and expertise to effectively manage all direct and indirect categories

Many have turned to technology-driven solutions to address these challenges. What they've found is that technology alone cannot fulfill their needs. Traditional e-Procurement solutions focus on soft cost savings alone and often impose additional challenges and cost in the areas of implementation, content development, and maintenance while adding compliance and adoption complexities to the equation. E-Sourcing solutions can help companies negotiate savings but stop short of helping them drive compliance of sourcing agreements. The net result is a far less substantial bottom-line impact than the company originally set out to achieve.

In order to generate greater, faster ROI from corporate buying initiatives, with measurable and sustainable results, companies should seek both hard and soft costs savings and address the entire procurement value chain from savings identification, to negotiation, and most importantly *realization*. ICG Commerce describes the critical steps in maximizing and realizing total cost savings as follows:

- **Assess:** Any savings initiative should start with a thorough understanding of what a company buys from whom. A complete spend assessment including supplier categorization will provide powerful visibility into a company's needs, their total buying power and the degree to which they are leveraging

it.

- **Source:** Equipped with an understanding of needs and opportunities, companies "find" a majority of savings through effective sourcing. To maximize sourcing results companies need category specific expertise and must deploy the right sourcing strategy and tools. Whether aggregation, eRFx or on-line auction, the strategy must fit the category to achieve total cost savings.
- **Enable:** The end result of even the best sourcing efforts is a piece of paper - a negotiated contract that defines pricing and service terms. In order for companies to realize negotiated savings, they must enable end-users to easily buy off these contracts. Herein lies the real value of e-procurement tools, which far exceeds the value of the highly touted "soft cost savings". Such tools allow companies to extend negotiated savings to buyers and end-users - turning contracts into commerce. To truly enable companies to realize savings they must not only connect users to contracts via e-procurement but also provide catalog content within the tool and drive user compliance.
- **Transact:** Once buyers have easy access to sourcing savings they will need an efficient means of placing requisitions, routing them for approval, and processing payments. By utilizing a comprehensive "req-to-check" engine, companies not only drive compliance against contracts but also streamline transactions and increase control and visibility of spending.
- **Maximize:** Finally, in order to maximize and sustain savings, companies need to aggressively drive compliance improvements and leverage category experts to manage suppliers, drive continuous performance and cost improvements.

Each of these activities is vital to actually attaining real, measurable savings. Skip any one step, and some or all of the savings potential will *never* hit the bottom-line.

Each step requires the appropriate technology and category specific expertise. The ICG Commerce model was developed to support each of these key steps with the right combination of expertise and tools to ensure significant, measurable savings.

To illustrate the impact of this model, we provide a brief outline of our work with Nordstrom.

Case in Point: Nordstrom

When faced with a target of cutting \$25 million from its purchasing budget within two years, Nordstrom recognized the importance of going beyond e-procurement technology to drive savings. With limited sourcing resources and a highly decentralized purchasing process that stretched across 140 facilities, the retail leader partnered with ICG Commerce to analyze, organize and capture procurement processes efficiencies as well as hard-dollar unit cost savings throughout their organization.

The project began with the categorization of nearly \$1 billion in spend. With deep insight into what Nordstrom was buying from whom, ICG Commerce was able to identify immediate savings opportunities in many categories, as well as, devise an intelligent savings strategy that matched each category with the most effective sourcing solution. Nordstrom leveraged ICG Commerce's pre-sourced supplier agreements for several indirect categories including office suppliers, business forms and janitorial supplies. These pre-sourced agreements were sourced by leveraging the combined buying power of ICG Commerce's global customer base. At the same time, ICG Commerce sourcing experts assisted in the strategic sourcing of more complex categories such as corporate travel, transportation and packaging (including shopping bags).

In order to enable customers to access negotiated savings quickly, Nordstrom deployed RealExchange - ICG Commerce's Web-based purchasing tool. For selected indirect categories, RealExchange gave Nordstrom immediate access to pre-built catalogs reflecting aggregation-based pricing. By leveraging existing catalogs already populated with millions of SKUs, Nordstrom was able to avoid the long and costly content development efforts typically associated with e-procurement implementation. For e-procurable direct categories, ICG Commerce developed private catalogs and added to RealExchange, providing Nordstrom with a private supplier network from which to purchase both direct and indirect materials.

In addition to putting hard-dollar sourcing savings at the buyer's finger-tips, RealExchange has greatly enhanced Nordstrom's ability to streamline the purchasing process, reducing the amount of time required to process orders and invoices while capturing spend information and increasing control.

"We wanted a procurement technology that would give us a standardized supplier catalog approach through which we could buy goods," said Steve Kesinger, Nordstrom's vice president of procurement. "We also wanted to make procurement a more automated process and reduce the possibility of errors."

In order to drive usage of RealExchange (and thus contract compliance), Nordstrom worked with ICG Commerce to implement an effective change management program which included comprehensive training and communication. To date, Nordstrom has achieved record adoption levels in implemented categories. To continue to increase compliance and drive supplier performance improvement in ICG Commerce sourced categories, Nordstrom leverages ICG Commerce account and category management experts as a natural extension of the company's own procurement team.

"As we looked at the strategic sourcing people ICG Commerce brought in, the value of partnering them with our own commodity managers became very clear," Kesinger said. "In essence, we are extending our resources by combining our commodity managers with the category experts from ICG Commerce to enhance our capabilities."

As a result of the comprehensive approach it has taken to addressing the procurement value chain, Nordstrom has achieved double-digit percentage cost savings well ahead of its initial target date. Solid results have paved the way for additional purchasing categories to be addressed by Nordstrom and ICG Commerce in coming months.



Strong Customer Acquisition Fuels 1100% Growth for ICG Commerce in 2001

ICG Commerce recently reported 1100% revenue growth in 2001 over 2000. While other players in the space have struggled with customer acquisition, much of ICG Commerce's growth continues to be fueled by new customers.

During the quarter ended December 31, 2001, ICG Commerce added 12 new companies to its expanding customer base of 155, including The BOC Group, Komatsu, Novartis International AG, Rinker Materials and Triumph Group, Inc. In addition, ICG Commerce expanded contracts with 12 of its existing customers, including Johns Manville and Quebecor World Inc.

"We are absolutely focused on delivering measurable, hard-dollar cost savings to our customers," said Fred Festa, President and Chief Executive Officer for ICG Commerce. "In a challenging economic environment, companies are shaving costs wherever possible. Because the procurement of indirect and direct materials represents a large percentage of expenses at any organization, streamlining that effort can net enormous bottom-line savings."

"Strategic sourcing, supplier content and connectivity are key ingredients for real procurement savings, and ICG Commerce specializes in delivering these to companies quickly," Festa continued. "That, along with a proven record of savings, is what has driven growth to date and why we will continue to be successful in the future."

To view the full announcement, please click [here](#).



News Behind the News

In addition to driving 1100% growth last year, ICG Commerce's exchange has now processed more than 1.5 million transactions to date. These transaction volumes have been sustained by continually working with suppliers to improve the level of information that is supported electronically. More than 85% of ICG Commerce's 51 "Top Tier" suppliers are electronically enabled - purchase order to invoice.

For more information, please visit www.icgcommerce.com.

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