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Happy holidays and welcome to a new issue of *The Source*, the electronic newsletter from [ICG Commerce](#), the leading Procurement Services Provider. Leveraging a combination of deep expertise and hosted technology to support the entire source-to-pay process, ICG Commerce provides flexible services to help companies achieve maximized, measurable savings year over year.

Each issue of *The Source* will continue to offer the company's perspective on key procurement trends based on our experience with over 150 leading companies. In the last issue, we explored the value purchase-to-pay transaction management delivers to organizations beyond basic buying efficiencies. Here, we consider the importance of category management in ensuring year-over-year cost improvements from procurement initiatives.

**Category Management: The Key to Driving Continuous Procurement Improvements Year over Year**  
*By Keith Hausmann, Vice President Category Management and Implementation*

Achieving cost reductions is one thing. Keeping those savings and continuously finding more is another matter. Most companies don't have the resources to fully manage all of their direct and indirect buying categories on an ongoing basis, making it difficult to manage supplier performance, drive compliance against negotiated contracts and find additional savings opportunities post-sourcing.

That's why companies are recognizing the importance of focusing on ongoing category management to drive improvements that go well beyond savings identified in initial sourcing efforts. Dedicated category managers play a vital role in the procurement process by helping continually monitor expenditures and supplier performance across all parts of their organization and exploring additional ways to further reduce costs for the company.

Effective category management programs typically focus on three main areas:

- **Spend & Compliance Reporting:** reviewing expenditure and compliance data to help companies overcome new supplier adoption hurdles and ensure suppliers are meeting or exceeding contractual commitments
- **Supplier Management:** monitoring supplier performance to drive quality and service improvements
- **Continuous Cost Improvements:** continuously analyzing spend, market data and benchmarks to drive additional savings through better compliance, demand/TCO management, process changes, product rationalization or additional sourcing

*Leveraging Tools to Report on Savings and Enforce Compliance*

It's no secret that the success of any newly negotiated supplier agreement depends upon the end users' willingness to purchase from the negotiated supplier and accept new buying methods. However, as with the introduction of any significant change, buyers are naturally resistant to comply with the new agreements. As a result, many companies struggle to realize their negotiated savings or meet their cost reduction goals. In our experience, companies that do not measure compliance may realize as little as 25 percent of the savings committed to management. Just when procurement is gaining credibility as a strategic cost reduction lever, lack of compliance and missing savings can unravel even the best strategic sourcing program.

As we discussed in previous issues, automation of procurement transactions is a key pre-requisite for

capturing spend information. Once spend information is visible, companies can maximize benefits by continuously measuring and monitoring compliance and proactively address issues. These activities need to be coupled with strong change management support to reduce buyer and supplier resistance: ongoing training, communications and collection of user feedback. By identifying resistance points early, companies can help address their specific issues, improve compliance and accelerate results.

Strong spend and compliance management includes the ability to:

- Track category expenditures by company, by location or by person
- Monitor the end-user compliance for each specific supplier agreement
- Analyze changes in usage and identify target areas to increase compliance

#### *Optimizing Supplier Performance Through Proactive Management*

Whether a company is a large manufacturer that relies on critical components for their production line or a national retailer that must have supplies to stock hundreds of stores each day, supplier performance plays a major role in the operations of every company. If a product is shipped late or to the wrong location or is delivered with the wrong quantity, the company making the purchase can suffer lower productivity. Even while things are running smoothly, savings opportunities can easily be overlooked with a lack of dedicated supplier performance monitoring.

So much of the success of a procurement initiative is dependent upon supplier performance that many companies have developed dedicated category management teams for their most strategic categories. The category managers apply years of experience in their respective buying categories, as well as a deep understanding of the supply market, to ensure better service. Leading companies are applying these same resources and approaches to all major buying categories.

Supplier performance measurement activities include:

- Calculating spend vs. plan (compliance)
- Quantifying realized savings vs. plan
- Tracking electronic transaction (POA, Invoice, Credit, ASN) accuracy and timeliness
- Recording order fill rate, fill cycle times, and freight term compliance
- Identifying exceptions by type (damaged, incorrect items, overage)
- Generating supplier scorecards for rating supplier performance

#### *Building on Savings With Continuous Improvements*

While savings from sourcing can certainly make an impact on a company's bottom line, it's the continuous improvement of savings and supplier performance that will have the lasting effect on any procurement cost reduction initiative. However, as one can imagine, it requires dedicated analysis of the market and benchmarking by experts who work within that category every day and know it inside and out. Continuous market analysis and benchmarking identifies opportunities to improve value in supplier agreements and enables companies to continue to reduce costs long after the initial supplier contract.

Dedicated category experts continuously analyze market information, including category-specific trends and benchmarking, to identify additional cost reduction opportunities. Companies that can deploy category managers across all of their buying categories have the unique advantage of gaining valuable, timely insight and information from the market. They, in turn, use this information to identify continuous savings opportunities and competitive advantages.

Continuous improvement strategies and approaches include:

- Continuous comparison of price with non-proprietary, industry standard published indices for each category
- Evaluations of price trends month-to-month or year-to-year for each customer
- Validation of OEM price changes and the source of them

- Auditing of supplier margin or formula agreements
- Analysis of customer product usage trends to determine where most aggressive pricing should be applied
- Re-engineer business processes to reduce TCO or achieve additional discounts
- Conduct product and inventory analysis and rationalization
- Target low adopting locations, address issues and re-implement
- Substitute lower cost but equal form, fit and function products and services

Below, we provide a brief look at how we've brought this capability to bear on behalf of our customers.

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### **Cases in Point:**

#### ***Extensive category management drives improvements for the largest aluminum supplier in North America***

In 2001, Indalex, a leading aluminum manufacturer, knew the importance of strategic category management but lacked the tools and resources to address all buying categories. Recognizing the value of partnering with a company that has extensive category management experience and would focus on their non-core categories, Indalex brought in ICG Commerce.



Since joining forces with ICG Commerce, the company has begun receiving and using monthly spend reports that provide detailed spend by location, category and supplier. Reports are forwarded by the vice president of procurement to each location and feedback is requested for areas of non-compliance. By using this information and employing effective change management tactics, Indalex has increased end-user compliance and adoption rates significantly in 2003, averaging between 70-100 percent.

Indalex also has implemented a variety of other product substitution, process changes and proactive supplier improvements to reduce total cost of ownership for goods and services.

- Substituting plastic for metal strapping – 40 percent cost reduction
- Additional sourcing reduced impending price increase from 10 percent to 2 percent
- Proactive replacement of valve saved \$250,000 in repair costs

#### ***Compliance and sourcing drive continuous savings for Alltel***

Alltel's Corporate Purchasing group partnered with ICG Commerce to centralize its procurement and identify and realize savings in both white and blue collar MRO purchasing categories.



ICG Commerce provides comprehensive category management services in several indirect categories that affect 2,600 U.S. locations and has assisted in driving continuous improvement through strategic sourcing, bi-weekly compliance reviews and reinforcement of corporate mandates to use preferred supplier agreements. Example strategies include:

- Renegotiating existing agreements to drive additional savings - an additional 4.5 percent for commercial print and 5.38 percent for rolled paper
- Sourcing categorizes to increase savings and service - achieved 4.6 percent savings in general industrial supplies by sourcing and recommending a supplier switch from Graybar to Grainger
- Bi-weekly category reviews identify areas of non-compliance and recommend corrective actions
- Reinforcement of initial executive level mandate maintains adoption levels of 75-80 percent

To learn more about how ICG Commerce can help companies effectively manage more categories, please click [here](#).

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## Other Company News

### ***ICG Commerce Manages Subcontractor Labor Procurement for IT Services Specialist QualxServ***

At the end of September, ICG Commerce, announced that it has secured an extension of its procurement outsourcing contract with IT services specialist QualxServ.



The outsourcing engagement focuses on QualxServ's largest and most strategic external purchase as an organization: contract labor services. From sourcing to purchase-to-payment transaction and vendor management, the ICG Commerce team provides the full range of purchasing expertise, resources and technology needed to strategically automate and manage all aspects of subcontract labor procurement on QualxServ's behalf.

"Although our services are predominantly delivered by employees, we do complement our workforce with subcontractors as engagements require, so the procurement of subcontract labor is something we take very seriously," said Bob Lerner, chief executive officer of QualxServ. "We decided to outsource the function to ICG Commerce because we knew they possessed both the category expertise and the technical know-how to help us find the right group of vendor partners and make the financial aspects of working together as efficient as possible. We look forward to continuing and expanding our partnership with ICG Commerce to bring additional tools and resources to both the commercial and government sectors of our business."

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

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## News Behind the News

### ***ICG Commerce Professional Services Procurement Module***

The latest contract extension between QualxServ and ICG Commerce calls for the implementation and management of ICG Commerce's Professional Services procurement module, a component of the company's comprehensive set of fully hosted sourcing, purchasing and payment tools. This module, which automates the entire purchase-to-pay process for service related purchases, has been designed to completely eliminate the back-end invoice reconciliation process that plagues service-related categories. In addition, the technology is completely integrated with QualxServ's proprietary project management and dispatch systems. As a result, the company's project managers have complete visibility into request status, real-time labor tracking, invoicing and payment.

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### ***ICG Commerce Named Among Forbes 'Best of the Web' For Second Consecutive Year, Also Honored By Global Logistics & Supply Chain Strategies***



In October, *Forbes* magazine named ICG Commerce to its annual "Best of the Web" business-to-business guide for the second consecutive year.

Companies were judged on several criteria, including strategy, execution, financial staying power and web-based applications. ICG Commerce has provided technology-enabled sourcing, purchasing and procurement outsourcing services to over 150 companies to date and was selected mainly due to

successful long-standing relationships with its largely blue chip customer base. Forbes describes the company's new business pipeline as "healthy," noting that ICG Commerce had "won 58 contracts and secured \$35 million in additional funding" in the last 12 months.

Forbes also highlighted the company's position in the burgeoning procurement outsourcing market. "ICG Commerce's products and services allow businesses to fully outsource the various functions of sourcing and procurement," said Forbes. "By outsourcing [select aspects of] procurement, ICG Commerce's clients can bring strategy to what have been historically transactional processes, garner cost efficiencies and ensure aggressive, ongoing management of supplier contracts."



**GLOBAL LOGISTICS &  
SUPPLY CHAIN STRATEGIES**

The Forbes honor followed on the heels of feature recognition from leading trade publication *Global Logistics & Supply Chain Strategies* for the strategic sourcing work performed on behalf of a global consumer products customer. The publication singled out the partnership as one of only seven premier case studies included in this year's *GL&SCS Top 100*, a listing of the supply chain industry's top 100 vendors.

To read the article featuring the company's work with Dole, please click [here](#).

The customer nomination cited ICG Commerce's unique blend of quality e-sourcing tools, strategic sourcing methodologies and excellent knowledge of the diverse categories sourced, including third-party containerized ocean transportation, LTL, MRO, tin-plated steel and personal computers. The customer also made note of ICG Commerce's exceptional reach, with the sourcing process taking place on a global scale involving initiatives and teams in North America, Latin America and Asia.

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### Expert Spotlight – Keith Hausmann

Keith Hausmann has 14 years of experience in strategic sourcing, commodity and supply base management. For the past three years Hausmann has built and managed ICG Commerce's sourcing, category management, content services, trading partner integration and implementation functions. During this time, Mr. Hausmann has led numerous procurement engagements for ICG Commerce customers, including Eli Lilly & Company, Navistar International, Textron, Nalco Chemical, Becton Dickinson and Goulds Pumps. Prior to ICG Commerce, Mr. Hausmann has held positions leading indirect strategic sourcing and category management for Wyeth (FKA American Home Products, a \$15B global organization) and running strategic planning/corporate development for a \$1.5B spin-off of Campbell Soup, Pinnacle Foods.

Mr. Hausmann has experience sourcing and managing the entire sphere of a typical company's indirect spend. This includes categories ranging from outplacement services, to MRO, administrative supplies and equipment, IT equipment and services, facility services, travel, temporary labor, fleet, lab supplies and equipment, marketing services and collateral and various types of capital equipment. Mr. Hausmann also has extensive experience sourcing and managing direct categories including paper and plastic packaging, fuel/energy, chemicals/fine ingredients, stampings and castings. He also spearheaded a number of large-scale outsourcing initiatives including contract manufacturing and a wide variety of services such as benefits administration, facilities, housekeeping, security, clinical testing, fulfillment, third-party logistics and outplacement services.

Mr. Hausmann is frequently quoted in *Supply & Demand Chain Executive*, *Purchasing Magazine*, and other leading trade publications. He has been chosen to speak on the topic of sourcing at next year's national Institute for Supply Management (ISM) conference.

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## Out and About

At the end of October, ICG Commerce Chairman and CEO Ed West participated in an executive panel at the Sourcing Interest Group's Fall Conference. During the event, he outlined the company's position on the future of eSourcing, leading with three key points:

- Don't wait, start now – For most companies, the eSourcing value proposition is too great to wait the two-to-three years most experts predict it will take for the market to become mature.
- Use experts to ramp quickly – To maximize the benefits from eSourcing, companies should look for technology that will grow with them as their needs and capabilities grow and for someone to help them to help them maximize their use of it along the way.
- Don't stop at eSourcing – eSourcing is quickly evolving into a broader field of total cost management. It is no longer enough for companies to identify negotiated savings through online tools; they need to capture these savings through online transaction management and gain visibility into spend on an ongoing basis to manage compliance, supplier performance and contracts.

Stay tuned for news on where ICG Commerce executives will be out and about in 2004, as well as an exciting event being planned to coincide with the **ISM 2004 Annual Conference in Philadelphia**.



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