

The Source
ICG Commerce Confidential

Welcome to the third issue of *The Source*, the 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 the first two issues of *The Source*, we outlined the ASETmax approach for addressing the entire procurement value chain and delved into the first step in that chain - ASSESS. In this issue, we explore the elements of an effective sourcing strategy.

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.

In this issue:

- ICG Commerce Point of View
 - [Saving at the Source](#)
 - [Case in Point: Harrah's](#)
- Other Company News
 - [UPSIDE Magazine Names ICG Commerce One of Hot 100 for 2002](#)
 - [News Behind the News](#)
 - [The Andersons Inc. Selects ICG Commerce Procurement Services to Help Achieve Annual Cost Savings](#)

Saving at the Source

By Christine Fisher, ICG Commerce, Managing Director Enabled Sourcing Services

When planning for current economic challenges, companies have increasingly focused their efforts on effective sourcing solutions. The reason is simple: the majority of savings, 73%, are established during the sourcing process. Today, companies have a variety of options to help them source and, in turn, drive significant savings. We believe by combining a rigorous sourcing process, appropriate technology and category domain expertise, companies can accelerate both the sourcing process and resulting savings.

Select the Category Strategy

Depending on the unique company and category situation, the best strategy may include demand aggregation, total cost modeling, process reengineering, product and SKU rationalization, supplier development or pre-sourced solutions for non-strategic spend. Once a strategy has been identified, determine the best eSourcing tools (eRFx; eAuction) to accelerate the category sourcing process and drive additional incremental savings.

Identify and "Weigh" the Requirements

Fully define the requirements for the category being sourced. Conduct stakeholder interviews to understand the requirements, define performance specifications for the requirements and lastly, weigh price and non-price factors to develop an optimal "total cost model".

Use Expertise and Tools to Speed Negotiations

Analyze the supply market to identify key forces and players. Leverage category and market expertise to identify the best time to source, thoroughly qualify suppliers, and optimally structure negotiations. Capture this knowledge in a sourcing and content database for future use. If the supply base is large, global or has significantly changed, engage and qualify a larger pool of suppliers quickly with an eRFI tool. Speed negotiations and create a more competitive bidding environment by using an integrated eSourcing suite that incorporates the results of the RFI to support eRFP, eRFQ and auctions.

Determine the Best, Total Value Award

Optimize awards based on requirements defined earlier, such as dual source needs, regional service requirements, MWBE requirements, etc. Use decision optimization tools to quickly model and compare multiple scenarios from the integrated eRFx responses to arrive at a best, total value award. By focusing on total value, evaluating both qualitative and quantitative factors, leveraging the right tools, best practices and category expertise, companies can repetitively negotiate the lowest total cost agreements and significantly reduce sourcing time and effort. The results: more categories sourced, more effectively with greater savings.

The renewed focus on the importance of sourcing has created many new entrants into the market and resulting alternatives for a company to evaluate. Some procurement companies provide services and sourcing content, while others provide only technology. We recommend companies select solutions that support a comprehensive approach that combines a rigorous sourcing process, integrated toolset and expertise to capture to achieve and sustain maximum sourcing results.

Below, we provide an example of the benefits of this sourcing approach from our work with a large gaming company.

Case in Point: Harrah's

In late 2000, Harrah's Entertainment Corporation set out to develop a world-class sourcing group that would be empowered to impact 21 separate properties. Historically, Harrah's did not have a sourcing group but had relied on purchasing groups at each location. Without a strong, centralized sourcing organization in place, renegade purchasing was the norm at each property.

To ensure that the initial goal of \$10 million in savings within six months was met, Harrah's enlisted strategic sourcing support from ICG Commerce. In keeping with the methodology outlined above, ICG Commerce began by conducting interviews with stakeholders and sourcing team members to gain a better understanding of the requirements involved and align experience and skill sets with appropriate roles and responsibilities. At the same time, a top-down spend analysis was conducted that identified five major categories to be sourced in four waves. These five categories covered gaming equipment, food and beverage, casino and hotel construction, guest furnishings, and MRO. This led to the formation of cross-functional teams based on category expertise that were built around the five category areas, each associated with its own key stakeholder.

For each category, ICG Commerce worked with the Harrah's team to evaluate the market, existing contracts and suppliers, product requirements, organization and relative category priority to determine the best sourcing strategy. Sourcing professionals were then trained in the five-step strategic sourcing process and provided with a structured methodology that included both analytical and change management skills.

Over the course of the two-year program, ICG Commerce and Harrah's leveraged all major sourcing strategies focusing on achieving the lowest total cost, including demand aggregation, supplier rationalization, product rationalization, sole source, sealed bid, specification improvement, inventory management, and reverse auctions. By executing these sourcing strategies, ICG Commerce and Harrah's were able to save nearly 15% on more than \$250M in spend.

By taking this strategic approach to sourcing, Harrah's was not only able to exceed its initial savings target but the company also was able to obtain CFO and property-level sponsorship that paved the way for even bigger things to be achieved from the programs and contracts that were implemented. Having learned on the job as they sourced categories, Harrah's new internal sourcing organization developed into a cohesive unit more than capable of continuing the work going forward.

UPSIDE Magazine Names ICG Commerce One of Hot 100 for 2002

UPSIDE Magazine announced recently that ICG Commerce has been selected to receive the 2002 Hot 100 Award, UPSIDE's annual award recognizing excellence and innovation among the hottest technology industry companies. UPSIDE has published the Hot 100 Award winners in its June 2002 issue and also unveiled the winners online at UPSIDE.com.

The 2002 UPSIDE Hot 100 were selected by a team of UPSIDE editors, venture capitalists, financial analysts, market researchers and other industry luminaries who evaluated more than 400 nominations. The UPSIDE Hot 100 Award is judged on a company's technological achievements, customer acceptance of products or services, financial performance, industry partnerships, financial backing, management savvy and marketing.

"We evaluated hundreds of great companies that spanned a broad range of technology market segments, and we are pleased to recognize ICG Commerce as one of this year's winners," said Jerry Borrell, editor-in-chief of UPSIDE Magazine. "Over the seven years of its existence, this award has consistently recognized companies that have become the hallmark of excellence in technology, achieving successful IPOs, or merging with other companies. We expect big things from this year's winners and look forward to following ICG Commerce's success."

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

News Behind the News

Whereas in year's past, UPSIDE Hot 100 list focused primarily on companies likely to complete successful IPOs, this year the emphasis is on a clear path to profitability. As Editor Cheryl Huang writes, "For these modest times, this year's Hot 100 comprises companies with promising technologies, solid business models, and meaningful growth over the past 12 months - a monumental achievement in this economic climate."

The Andersons Inc. Selects ICG Commerce Procurement Services to Help Achieve Annual Cost Savings

ICG Commerce announced last month that it has signed a new agreement with The Andersons, Inc. (Nasdaq: ANDE). Under the terms of the agreement, The Andersons will use ICG Commerce's Managed e-Procurement services over the next five years to achieve measurable savings and increased efficiencies on the procurement of goods and services.

"The Andersons is committed to utilizing external expertise and sourcing tools to strengthen our business processes and to realize immediate, measurable savings," said Glenn Underwood, Director of Strategic Sourcing and Procurement for The Andersons. "ICG Commerce's tools and services help create a center-led procurement process to ensure the company is leveraging its expenditure with an optimized supplier base."

As part of its Managed e-Procurement offering, ICG Commerce has aggregated the volume of its global customer base and negotiated optimal pricing and service levels with best-in-class suppliers.

"ICG Commerce's solution will bring The Andersons significant, tangible savings and improved service through pre-existing supplier agreements," said Gary Smith, Vice President Finance & Treasurer for The Andersons. ICG Commerce enables companies to access these savings through pre-built, online catalogs hosted on ICG Commerce's RealExchange(-- a proprietary Web-based purchasing tool that automates an order from requisition to payment. The Andersons will utilize this solution to automate its purchase process and obtain reduced pricing on indirect goods used throughout the company.

"The use of ICG Commerce's tools and services will provide The Andersons a means to extend those corporate supplier agreements to our facilities nationwide and streamline our purchasing process," Smith said.

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

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

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