

N.A. Procurement Process

From Transaction Agents to Business Managers

Day One Agenda

- Kick-Off (Don and Ed)
- Our Vision Statement
 - Measurements
- What is Strategic Sourcing?
- How to Transition to Business Manager
- Procurement Process
 - Portfolio Strategies
- Complexity Analysis
 - Confirmation

Day Two Agenda

- Training Activity

Day Three Agenda

- Portfolio Strategy
 - Format
- Timeline
- Concerns/Issues
- Next Steps

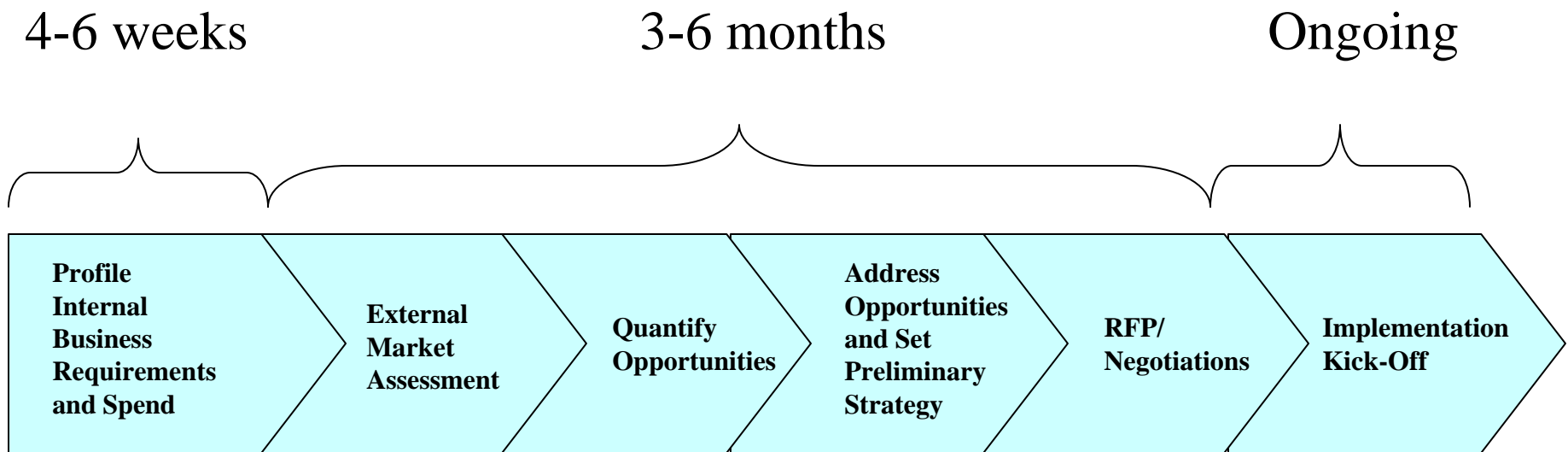
NA Procurement Process

- Well-defined 6 step process
- Provides a replicable process that is flexible enough to meet the demands of any RM
- Each step is completed prior to initiating a subsequent step
- Communication of Process is key to developing professional validity within CHR

NA Procurement Process

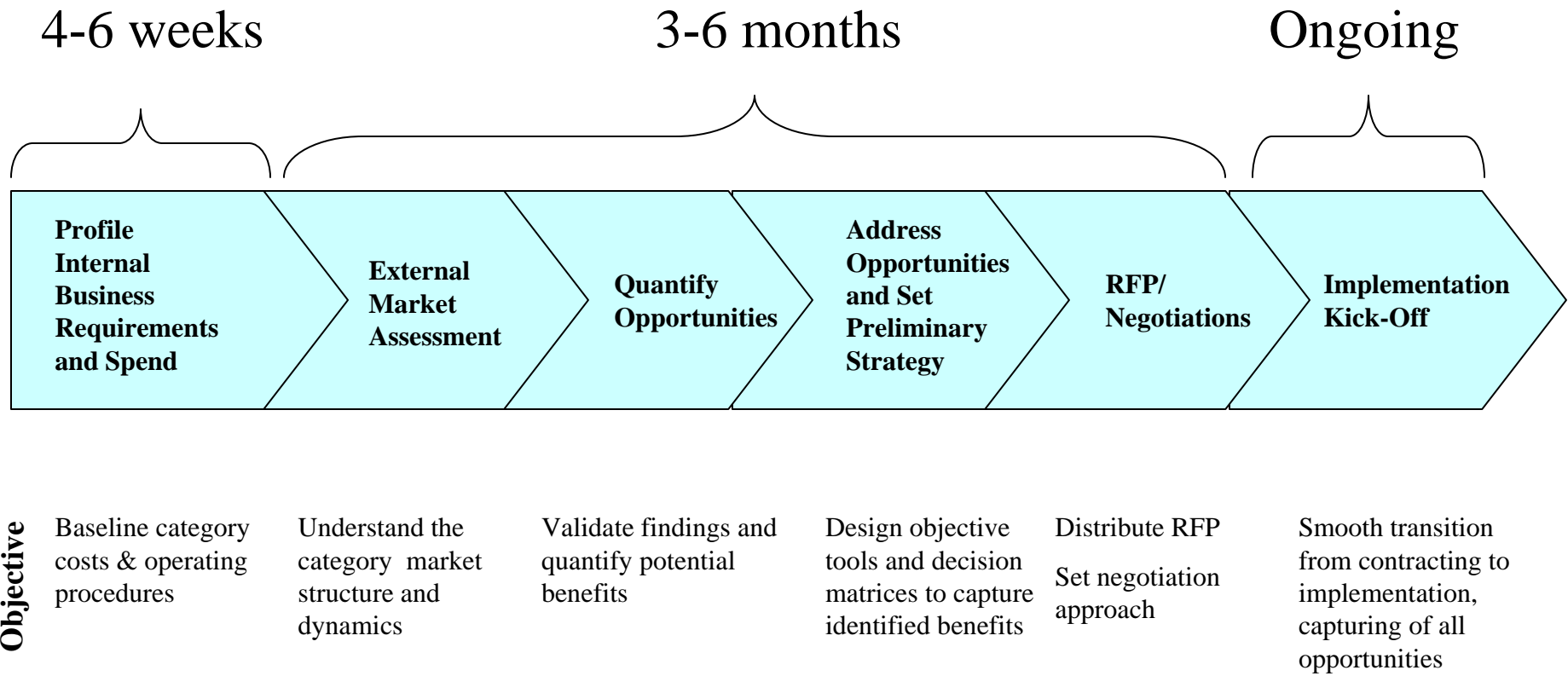
- It is expected that all Buyers and Managers utilize the Process to manage their Portfolio.

Procurement Process

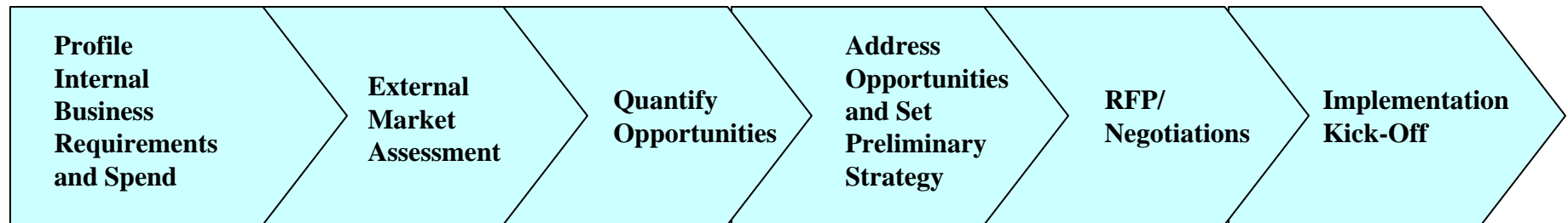


Sourcing complexity and risk profile determines actual timeline.

Procurement Process

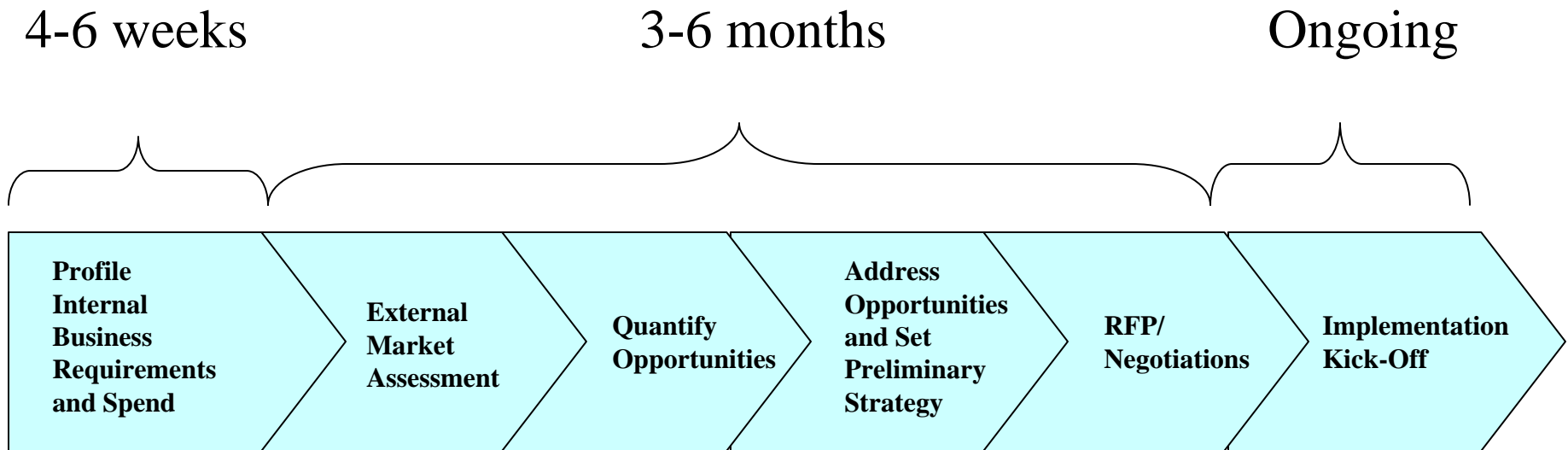


Procurement Process

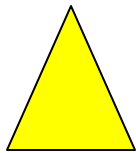


	Profile Internal Business Requirements and Spend	External Market Assessment	Quantify Opportunities	Address Opportunities and Set Preliminary Strategy	RFP/ Negotiations	Implementation Kick-Off
Objective	Baseline category costs & operating procedures	Understand the category market structure and dynamics	Validate findings and quantify potential benefits	Design objective tools and decision matrices to capture identified benefits	Distribute RFP Set negotiation approach	Smooth transition from contracting to implementation, capturing of all opportunities
Activity	Project kick-off Process Training Management Interviews Develop communication plan	Analyze the market Create supplier profiles	Best Practice Assessment Leverage NMI experts Quantification of potential financial incentives	Create RFP Suggest process changes Analyze potential strategies Initiate implementation design	Negotiation Training Develop possible award scenarios Negotiate and award business Develop comprehensive contract	Mutually agree to and execute implementation plan with suppliers

Procurement Process



Sourcing complexity and risk profile determines actual timeline.



Present Portfolio Management
Recommendation week of
Aug 23, 2004. (Risk Profile,
Cost Enhancement, etc.)

Where do I Start?!?

How do I prioritize my portfolio?!?



Analyze Raw Material Categories

You are the business manager of your portfolio.

- Understand the complexity of your sourcing portfolio, and how it relates to other buyers.
- Optimally manage your RM portfolio to derive the greatest company impact.

Complexity

- Is defined by Risk and Strategic Impact. Our goal is to correctly identify RM complexity. To Accomplish this we will:
 - define and measure “risk” and “strategic impact”
 - assign RM a low/medium/hi risk ranking
 - create a department wide analysis of RM complexity.

Portfolio Management

- Our goal is to manage our portfolio with the correct amount of resources while driving towards the greatest returns.
 - Actively mitigate high risk RM optimize
 - Pursue the best supply/cost enhancement opportunities and projects
 - “Put to Bed” those RMs not requiring strategic management

Ranking Complexity

in terms of Strategic Impact

1. Define
2. Measure

Establish Internal
Criteria

Strategic Impact Criteria

RM Categories

High Strategic

Total Dollar Spend

At or above \$6 million/year

Industry/Market Competitive Adv.

New/Exclusive/Unique to Industry

High technology and innovation

High growth industry

Total Cost Relationship

Open book transparency

Reverse engineering/should cost

Supply chain integration

High contribution to declining cost goals

Business Unit Importance

High BU growth opportunity

Health claims/consumer fads

Formula driver

Competitive brands/marketplace

Labeling claim/issues

Medium Strategic

Total Dollar Spend

\$2 million-\$6 million/year

Industry/Market Competitive Advantage

New technology and innovation

Steady growth industry

Total Cost Relationship

Detailed cost models

Some contribution to declining cost goals

Business Unit Importance

Limited BU growth opportunity

Competitive brands/marketplace

Low Strategic

Total Dollar Spend

\$1-\$2 million/year

Industry/Market Competitive Advantage

Some new technology

Total Cost Relationship

Price/Transaction focused

Low contribution to declining cost goals

Business Unit Importance

Stagnant growth opportunity

1

2

3

4

5

6

7

8

9

10

Establish Internal
Criteria

Decision Analysis Worksheet

Defining Strategic Impact

Objective Criteria	Relative Importance	Measurement Criteria		
		Low Strategic (1-4)	Medium Strategic (5-7)	High Strategic (8-10)
Total Dollar Spend	(1-10)			
Industry/Market Competitiveness				
Total Cost Relationship				
Business Unit Importance				

Establish Internal
Criteria

Decision Analysis Worksheet

Defining Strategic Impact

Objective Criteria	Rel. Import.	Measurement Criteria		
		Low Strategic (1-4)	Medium Strategic (5-7)	High Strategic (8-10)
Total Dollar Spend	10	\$1 - \$2 million	\$2 million - \$6 million	Greater than \$6 million
Industry/Market Competitiveness	8	Category has not invested in new technology applicable for Hansen use in last 5 years. Industry research indicates little L/T R&D efforts.	Category invested in new technology applicable for Hansen and successfully applied it within last 5 years.	Vibrant Category that constantly invests in new technology applicable for Hansen use. Industry advancement has been successfully applied within last year.
Total Cost Relationship	6	Category provides less than 3% year-on-year cost savings.	Category provides 3-5% year-on-year cost savings.	Category provides 5% year-on-year cost savings.
Business Unit Importance	6	Category is easily replaced in formulas.	Category is difficult to replaced in formulas.	Category is unique to formulas. Consumers identifies with Category.

Decision Analysis Worksheet

Defining Strategic Impact Example

Objectives Criteria	Relative Importance (1-10)	Pot Total	Salt			Food Additives			Fruit Essences		
	Weight		Information	Sc	Wt	Information	Sc	Wt	Information	Sc	Wt
Total Dollar Spend	10	100	50,000/yr	1	10	\$3 million	5	50	\$6.5 million	8	80
Industry/Market Competitiveness	8	80	Category hasn't invested in new technology in past 5 years. Little R&D investment.	1	8	Category has invested in new technology and has applied it to Hansen within past 5 years. Ongoing R&D development.	5	40	Category has invested in new technology and has applied it to Hansen within past year. Significant R&D development.	10	80
Total Cost Relationship	6	60	Provides little to no cost saving contribution on annual basis.	1	6	Provides 4.5% cost saving contribution on annual basis.	7	42	Category provides 3% cost savings contribution on annual basis	6	36
BU Importance	6	60	Category can be easily replaced in formulas.	2	12	Category is difficult to replace in formulas.	6	36	Category is unique to formula.	9	54
Total Score		300			36			168			250
			Low Strategic		1	Medium Strategic		6	High Strategic		8

Establish Internal
Criteria

Result:

Consistent Strategic Impact Designation

Example Only

High Strategic

Medium Strategic

Low Strategic

Chemicals
Colors
HVPs
Salt
Spices
Starches
Yeasts

Alternative Sweeteners
Food Additives
Corn By-products
Corn Products
Dairy
Eggs
Fats & Oils
Maple Syrup (CN)
Misc. Flours & Grains
Vegetables
Vitamins
Wheat Flours
Yellow Corn

Acidulants
All other Sweeteners
Chocolate
Corn Based Sweeteners
Eggs (CN)
Flavors
Food/Snack Flavors
Fruit Essences
Gatorade Flavors
Natural Gas
Nuts
Oats
Rice
Seasonings
Sucrose Sweeteners

1 2 3 4

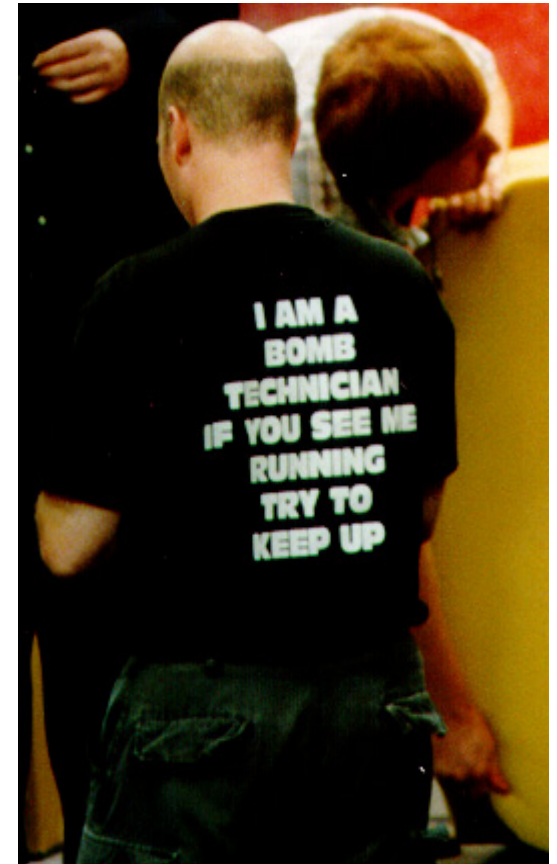
5 6 7

8 9 10

Ranking Complexity

in terms of Risk Exposure

1. Define
2. Measure



Establish Internal
Criteria

Strategic Criteria

Risk

Low Risk

Volatility

Able to contract flat price for one year and/or create fixed pricing model for multiple year contract..

Supply Base

Multiple suppliers with healthy market competition.

Unique Specification

Industry standard specification that is easily matched.

1 2 3 4

Medium Risk

Volatility

Raw Material pricing has little fluctuation per year, but year to year prices can change in excess of 3%.

Supply Base

Few suppliers with limited geographic/market competition.

Unique Specification

Specification is considered hard to match by Hansen or supply base.

5 6 7

High Risk

Volatility

Raw Material pricing fluctuates more than 3% during the course of 12 months. Suppliers agree to market based pricing mechanisms.

Supply Base

1-2 potential suppliers with no real geographic/market competition.

Unique Specification

Specification is considered unique. It is critical to Hansen's profitability.

8 9 10

Consistent Risk Designation

Objectives Criteria	Relative Importance (1-10)	Pot Total	Salt			Food Additives			Fruit Essences		
	Weight		Information	Sc	Wt	Information	Sc	Wt	Information	Sc	Wt
Volatility	10	100	Can create flat priced contract for 3 years.	1	10	Can create flat priced contract for 3 years that includes a pre-negotiated price adjustment scale.	6	60	Historic price volatility ranges from -3% to +12% year on year. Spot pricing only.	10	100
Supply Base	9	90	Three national suppliers that can replace one another's product line in entirety	1	9	Common technology allows matching of competitors product with some effort.	5	45	Single sourced raw ingredient with no known secondary supplier.	10	90
Unique Specification	8	80	Hansen uses industry standard specifications.	1	8	Hansen unique specification, but Hansen understands performance requirements.	7	56	Hansen unique specification. Only supplier "knows" functionality.	10	80
Total Score		270			27		161				270
			Low Risk		1	Medium Risk		6	High Risk		10

Establish Internal
Criteria

Result: Consistent Risk Designation

Example Only

High Strategic

Medium Strategic

Low Strategic

Chemicals
Colors
HVPs
Salt
Spices
Starches
Yeasts

Alternative Sweeteners
Food Additives
Corn By-products
Corn Products
Dairy
Eggs
Fats & Oils
Maple Syrup (CN)
Misc. Flours & Grains
Vegetables
Vitamins
Wheat Flours
Yellow Corn

Acidulates
All other Sweeteners
Chocolate
Corn Based Sweeteners
Eggs (CN)
Flavors
Food/Snack Flavors
Fruit Essences
Gatorade Flavors
Natural Gas
Nuts
Oats
Rice
Seasonings
Sucrose Sweeteners

1 2 3 4

5 6 7

8 9 10

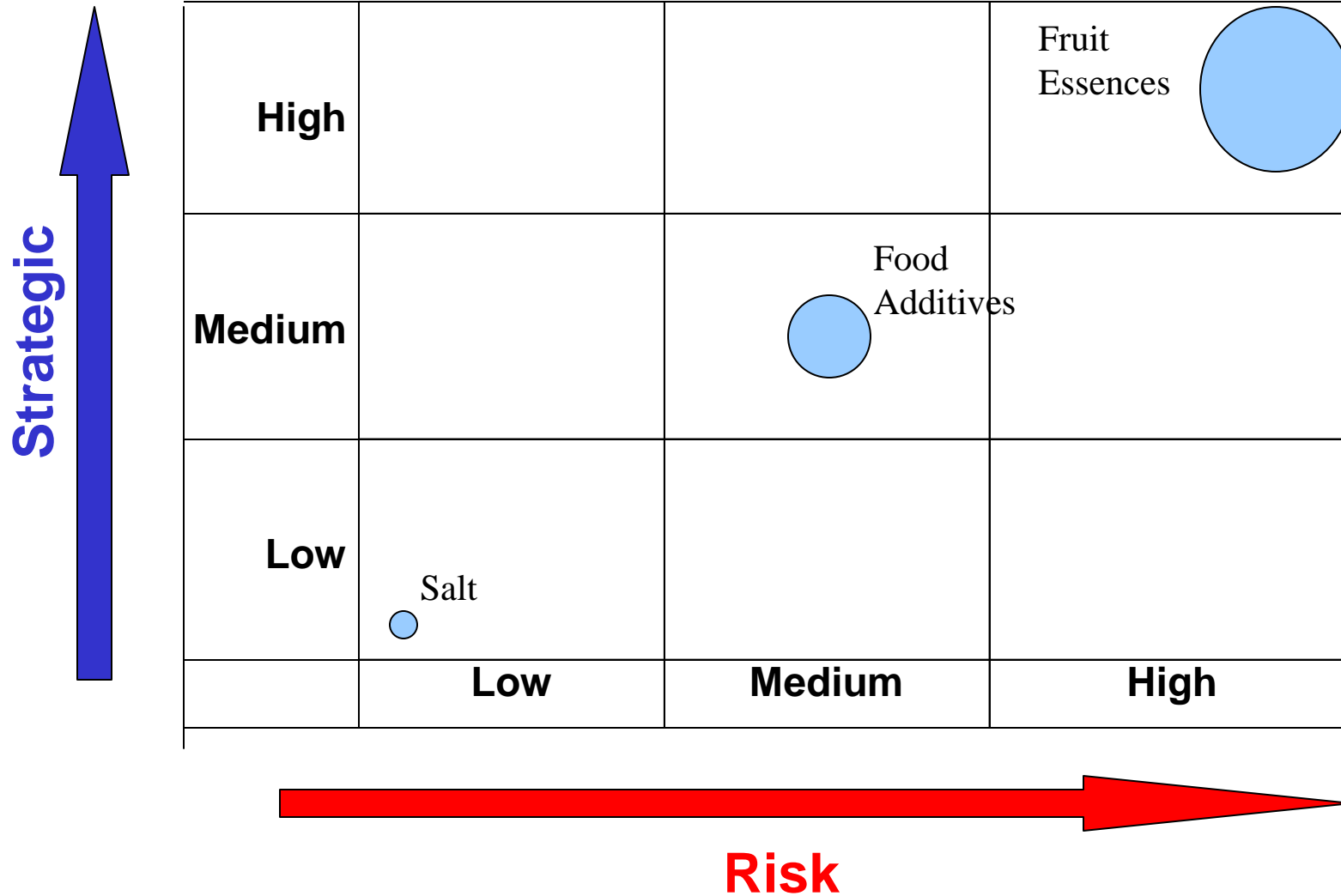
Establish Internal
Criteria

Strategic Sourcing Complexity

Create a snapshot of all RMs as they rank in terms of Strategic Impact and Risk.

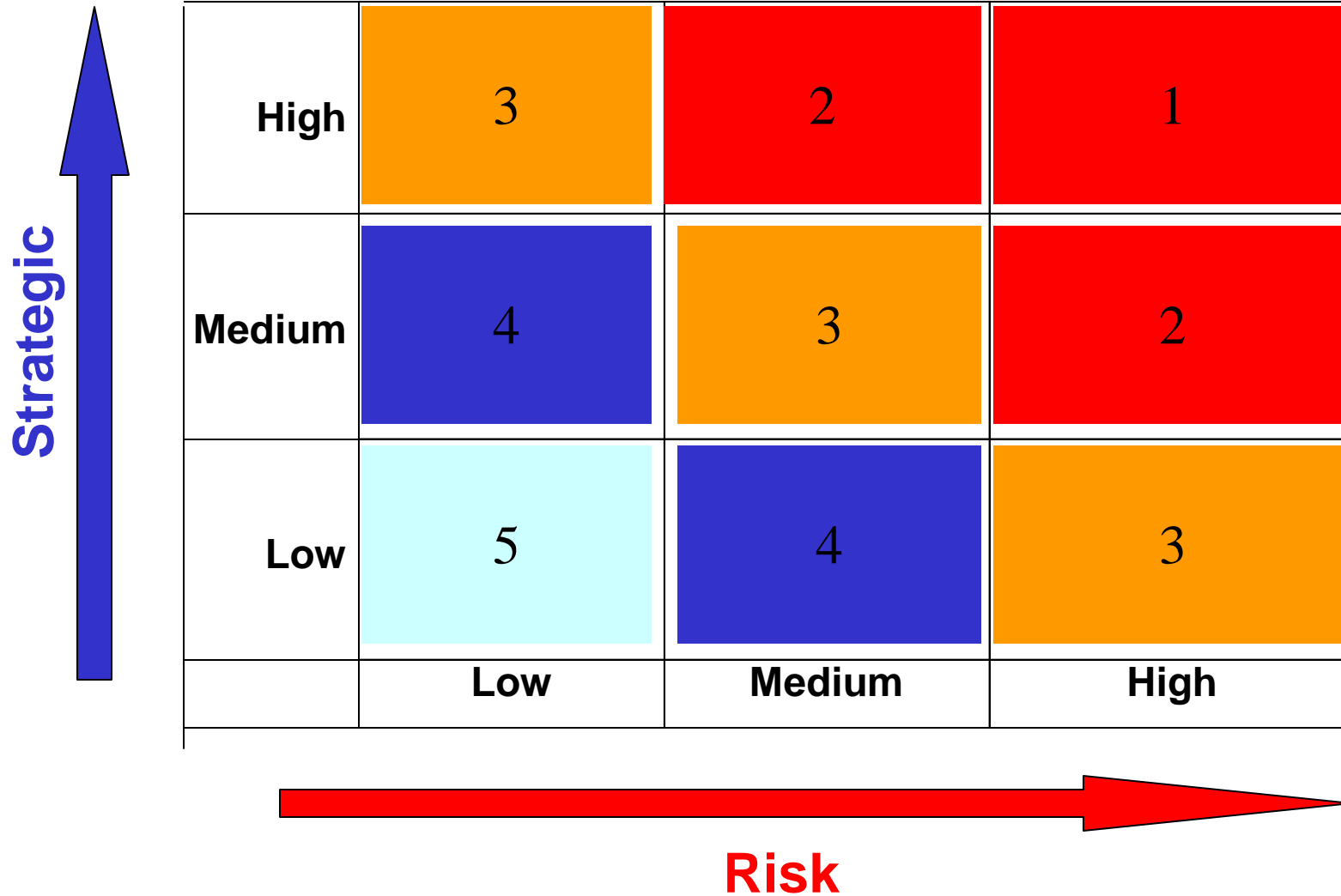
Establish Internal
Criteria

Portfolio Management



Establish Internal
Criteria

Portfolio Management



Establish Internal
Criteria

Portfolio Management

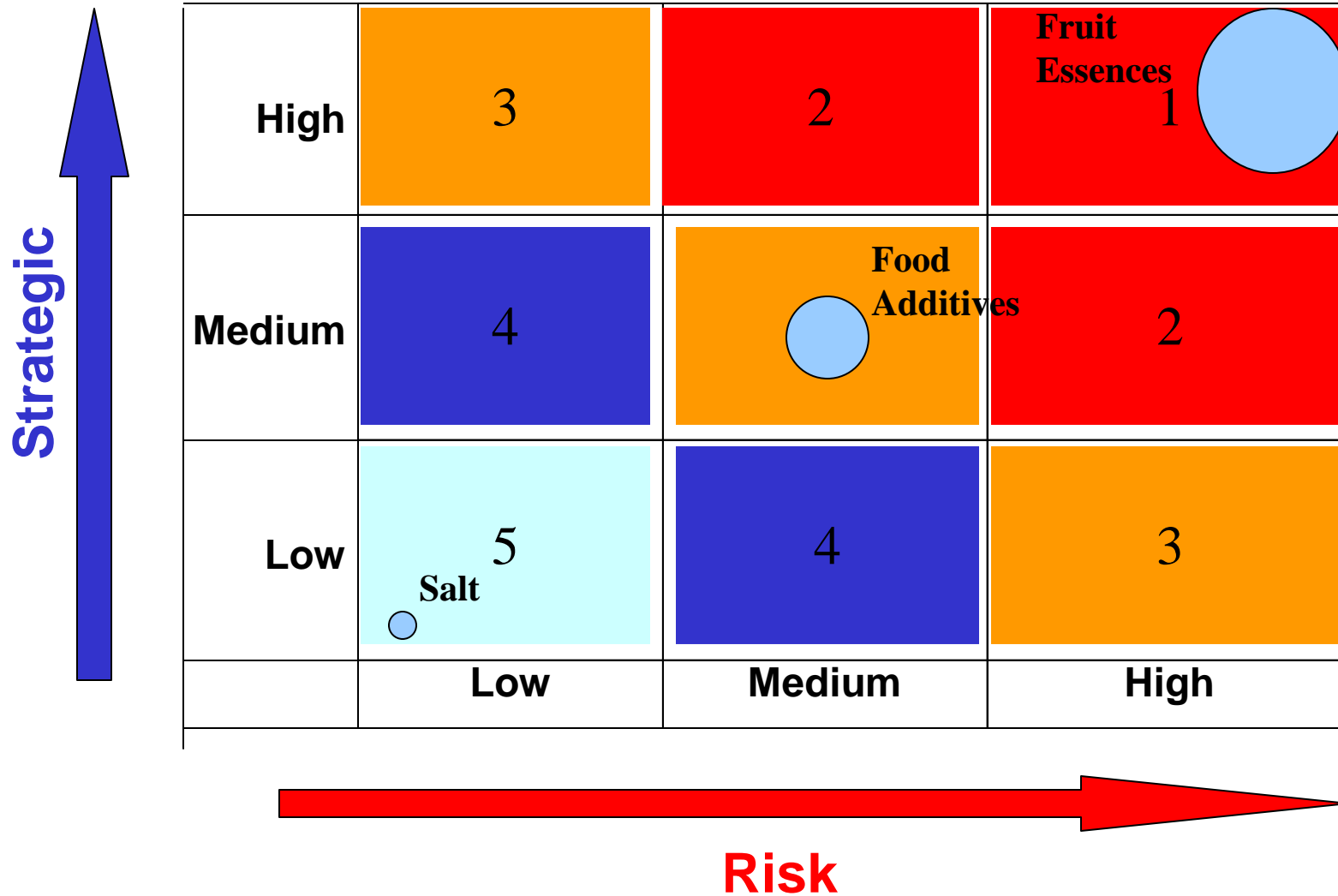
Strategic

High	3: Manage to reduce risk into Group 4. Optimize and put to Bed.	2: In-depth Strategy to Mitigate Risk. Active Management. Prioritized after Group 1.	1: In-depth Strategy to Mitigate Risk. Active Management.
Medium	4: Put to Bed. Occasional Optimization.	3: Manage to reduce risk into Group 4. Optimize and put to Bed.	2: In-depth Strategy to Mitigate Risk. Active Management. Prioritize after Group 1.
Low	5: Put to Bed. Long-Term Contract. Maintenance only.	4: Put to Bed. Occasional Optimization.	3: Manage to reduce risk into Group 4. Optimize and put to Bed.
	Low	Medium	High




Risk

Establish Internal
Criteria

Portfolio Management



Resource Allocation

<p>High</p>			<p>Executive Involvement Strategic/Planned Communication (Vendor/BU) Mutual Goal Setting Implement Supplier Driven Ideas Shared Development Costs Shared Risk/Reward Buyer Advocacy Senior Buyers (in-house expertise)</p>
<p>Medium</p>		<p>Timely Communication Annual Business Reviews Project Inclusion Access to Procurement Leadership, Market Info External Resources Technology Support Site Visits Mid-level Buyer (in-house expertise)</p>	
<p>Low</p>	<p>Annual Updates Automated / Event Communication Entry Level Buyer</p>		
	<p>Low</p>	<p>Medium</p>	<p>High</p>

Definition Confirmation

Group 1: Strategic Impact

Group 2: Risk

- Review and Revise Criteria, Definition and Weightings to better meet CHR business needs 30 minutes
- Recommend to Group 10 minutes
- Solicit and Incorporate Feedback, Change as Necessary 20 minutes
- Publish

Result

- Assigning the correct resource level to your RM allows you to pursue special projects, cost savings and process improvements that create value to CHR Hansen.
- We move from a tactical department to a strategic, value-added department.

Communications



Communicating Risk

1. Sourcing Agrees Upon Metrics and Risk Profile
2. Sourcing externally communicates portfolio strategy using consistent Metrics and Risk terminology.
3. Sourcing creates mutual development plans with CHR Hansen/Suppliers
4. Sourcing secures internal resource commitment
5. Report milestones to BU Team