

Transforming Procurement into a Competitive Advantage

In all industries, a company's procurement function is often an area in which significant cost reductions are possible yet seemingly unattainable. The reality is that procurement is a complex function that touches nearly every aspect of the enterprise with many companies spending between 40 percent and 60 percent of their total budgets on third-party materials and services.

Organizations that are not effectively sourcing products and services are suffering from overspending and inefficiencies. The upside is that there are tremendous opportunities within a company's procurement function to not just reduce cost, but to dramatically improve overall business performance.

In many companies, procurement invests a considerable amount of time and resources on transactional purchasing.

In order for companies to operate a productive and sustainable procurement function, focus needs to shift toward more strategic activities, such as supplier performance management, sourcing and contract compliance.

Increasingly, companies are adopting innovative ways of confronting these challenges. With the growth over the last five years of procurement business process outsourcing (BPO), which includes strategic sourcing, commodity management, procurement operations, compliance management and accounts payable, more companies are outsourcing their procurement function—oftentimes for the same reasons they might outsource other back-office functions, such as payroll or IT.



At most companies, purchasing indirect or non-critical materials, as well as managing their associated transactional processes, is considered a non-core activity, meaning it adds little value to their business. Procurement BPO allows the company to focus on core, strategic activities while the outsource provider generates spend savings, operational cost reductions and improved efficiencies.

Outsourcing also serves as a change agent to enable companies to obtain rapid results within their procurement operations. In the past, companies have worked to upgrade their procurement capabilities, often by hiring additional employees or by overhauling related processes and technologies with internal resources. Today, more companies are leveraging an outsourced procurement environment, where under a contractual agreement, the outsourcer is incented to meet or exceed service level commitments, resulting in improved service delivery. Change can be enacted more quickly and efficiently by a provider that considers procurement a core capability, while the company's internal resources remain focused on more strategic, value-add activities.

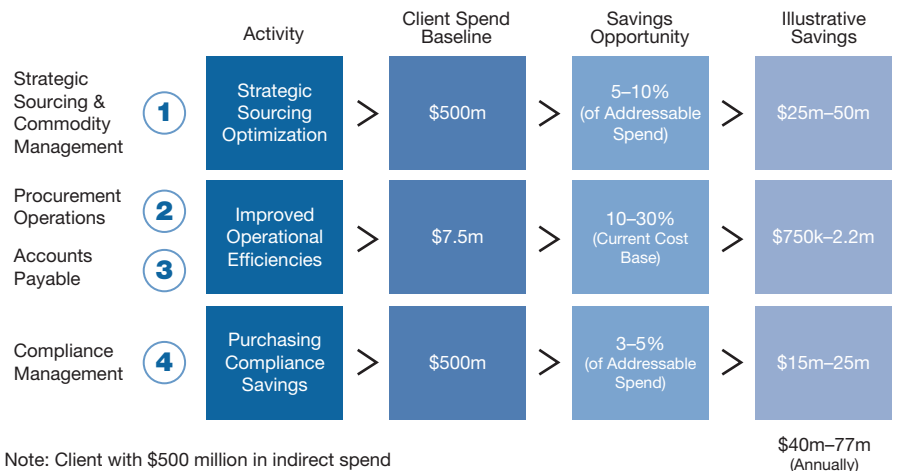
Transforming Procurement

Capgemini's approach for transforming the procurement function focuses on re-engineering and improving the four key areas within the procurement process:

- Strategic Sourcing and Commodity Management
- Procurement Operations
- Compliance Management
- Accounts Payable

Within these four processes are opportunities for dramatic improvements, yielding a strong and compelling business case. Capgemini's experience indicates that real economic and strategic value can be gained—a savings of 10–30 percent on the total procurement operational baseline—by transforming procurement processes, increasing control of spending and refocusing employees to higher-value functions. As illustrated in Figure 1, a company with \$500 million in indirect spend can realize annual savings of \$40 million to \$77 million through outsourcing.

Figure 1: Business Case for Procurement BPO



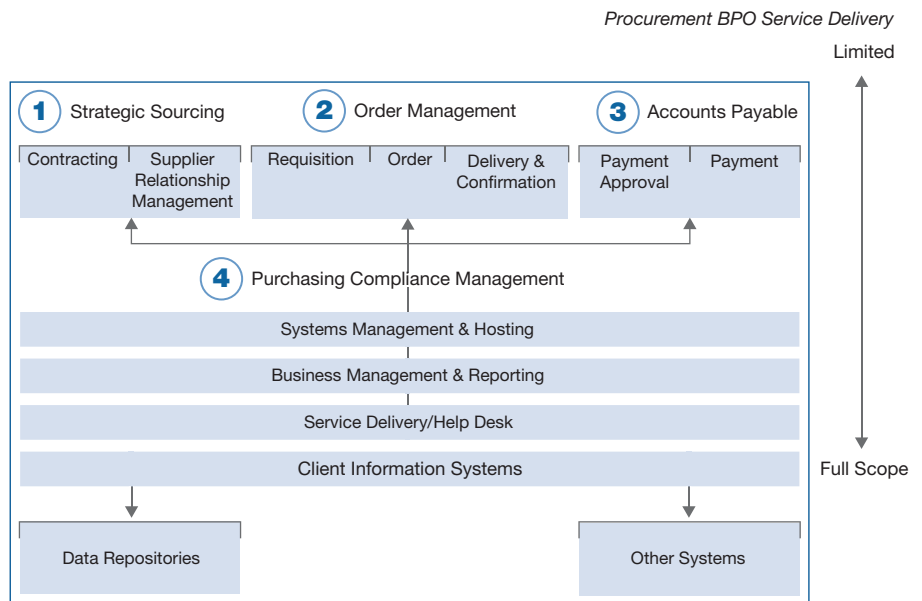
Capgemini's Procurement BPO offering can improve operational effectiveness through the following:

- Applying strategic sourcing principles that can result in typical savings of 5–10 percent for outsourced commodity categories. Capgemini brings the added leverage of more than \$10 billion of managed spend and existing supplier agreements;
- Increasing purchasing compliance from less than 50 percent to more than 90 percent through the use of preferred supplier agreements and enabling technology;
- Implementing procurement best practices and processes as part of the transformation initiative;
- Automating many of the manual purchasing processes, such as purchase order processing, contracting, compliance tracking and invoice management, helping to reduce associated costs immediately;
- Leveraging technology investments, reducing the need for large up-front expenditures and allowing companies to extend technology improvement costs over the life of the deal; and
- Focusing existing sourcing and procurement professionals on strategic commodity areas, enabling companies to hand off less strategic commodities and supplier relationships.

As an example, a leading utility company recently outsourced their procurement function to Capgemini. The utility established a centralized purchasing function at a Capgemini Delivery Center, where all related purchasing functions now take place. As a result, the utility company has achieved operational savings of more than 30 percent.

Capgemini's Procurement BPO offering drives the implementation of standardized, best-practice processes which can be supported by enabling

Figure 2: Capgemini Procurement BPO Scope of Services



technology. This results in increased operating performance and a renewed focus on core business for our clients.

Robust Delivery Capability

Today, Capgemini operates five global Procurement Delivery Centers, supporting over 30 languages and managing over \$10 billion of annual spend for our procurement clients. We have proven experience transitioning large and small purchasing operations from our clients' facilities to our global Delivery Centers. Our integrated solution encompasses the entire procurement process from sourcing to payment and helps drive process efficiency and significant savings [see Figure 2].

Capgemini's collaborative business approach ensures that we work with companies to deliver flexible solutions that will best fit their individual needs, and allows us to offer better, faster, more sustainable results.

Why Capgemini?

With over 30 years of outsourcing experience, Capgemini is among the world's leading procurement outsourcing providers. Our procurement professionals bring a wealth of first-hand knowledge in sourcing, operations, payables and compliance management to clients. Beyond standard business practices, we have a passion for procurement and what it can do to impact a company's bottom line.

What makes Capgemini truly unique is our talent, our ability to collaborate and our proven track record. Combining our procurement expertise with our global delivery capabilities and deep industry knowledge allows us to not only reduce costs, but to deliver speed-to-value with minimum risk, and ultimately transform your procurement function into a competitive advantage.



About Capgemini and the Collaborative Business Experience

Capgemini, one of the world's foremost providers of Consulting, Technology and Outsourcing services, has a unique way of working with its clients, called the Collaborative Business Experience.

Backed by over three decades of industry and service experience, the Collaborative Business Experience is designed to help our clients achieve better, faster, more sustainable results through seamless access to our network of world-leading technology partners and collaboration-

focused methods and tools. Through commitment to mutual success and the achievement of tangible value, we help businesses implement growth strategies, leverage technology, and thrive through the power of collaboration.

Capgemini employs approximately 68,000 people worldwide and reported 2006 global revenues of approximately \$9.625 billion or EUR 7.7 billion.

More information about our Outsourcing services and research is available at www.us.capgemini.com/bpo

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