



TREASURY RESOURCES

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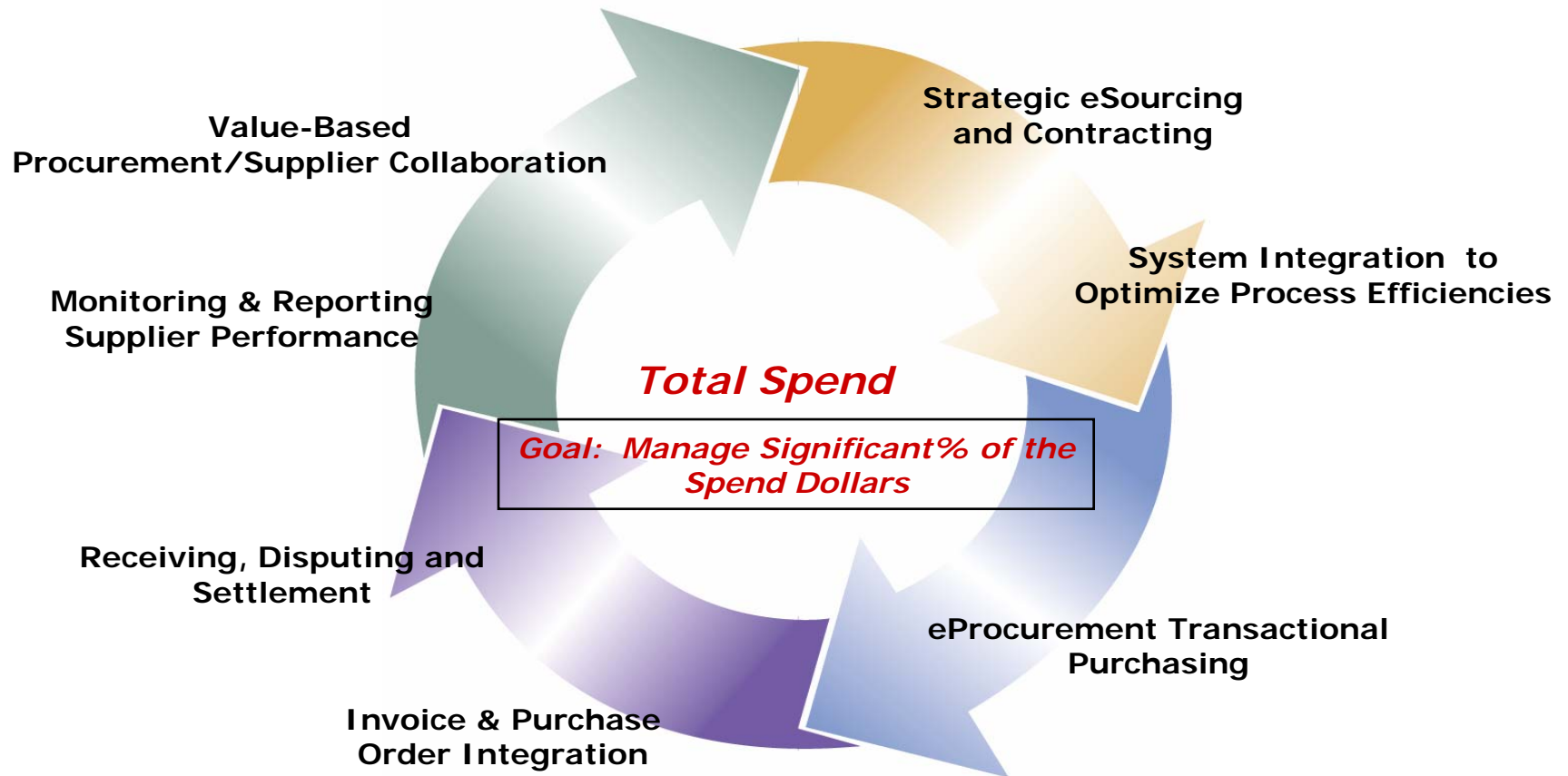
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Introduction & Purpose

- Procurement Overview
- Procurement Practices
- E-Procurement
- Examples
- Assessment of Treasury Procurement Practices
- Opportunities & Recommendations
- Questions

Procure-To-Pay Spend Management

Integrated Solution

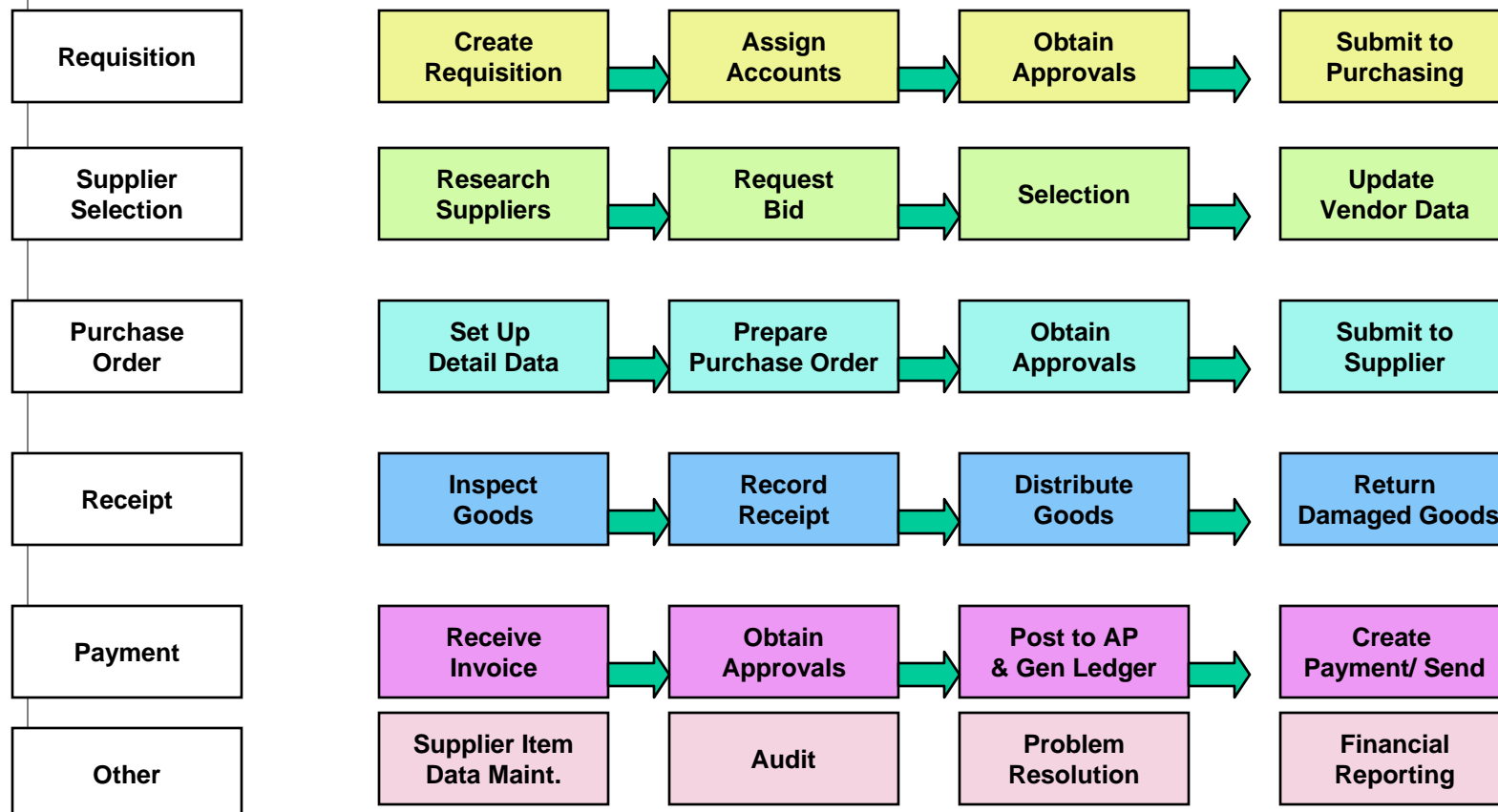


Current Procurement & A/P Challenges

- Retaining internal Procurement and A/P knowledge centers
- Procurement & A/P Staffing and employee benefits (Acquisition, maintenance & growth)
- Coordinating information with internal purchasing function(s)
- Improving supplier terms and performance
- Offering vendor self-servicing for issues resolution
- Leveraging suppliers across Organizational boundaries
- Enhancing ERP software functionality
- Reducing costs per purchase order and costs per vendor invoice

Traditional Purchasing Process Tasks

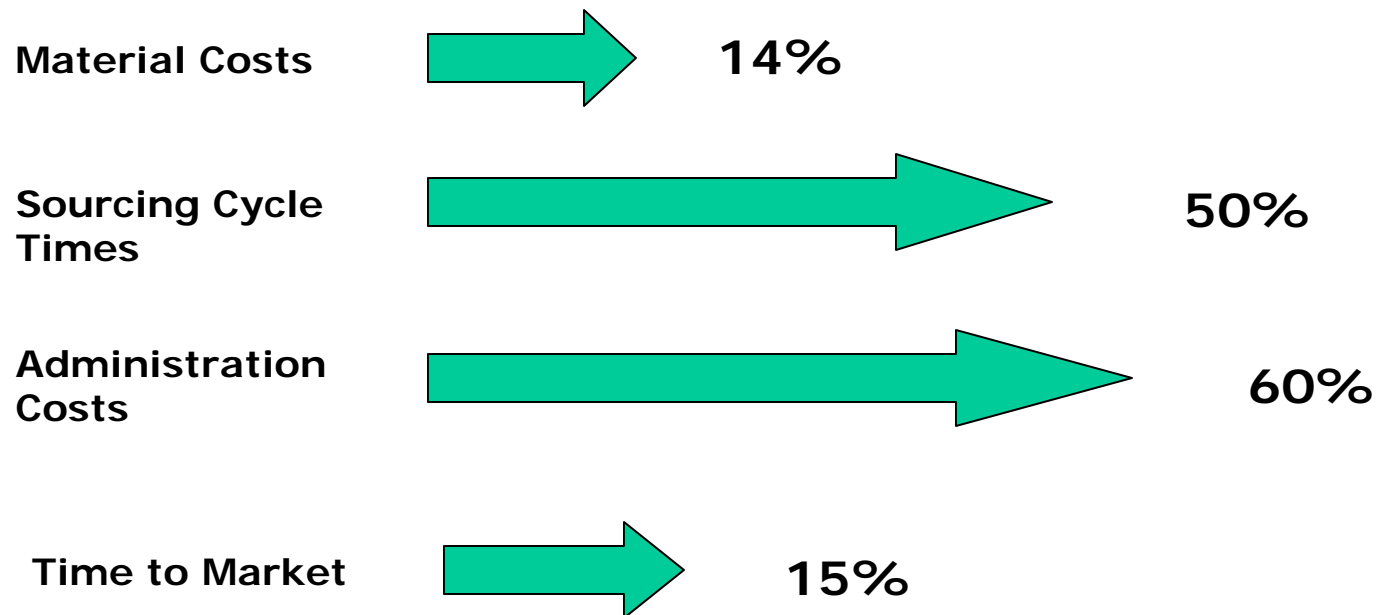
Source: VISA USA



Objectives of e-Sourcing

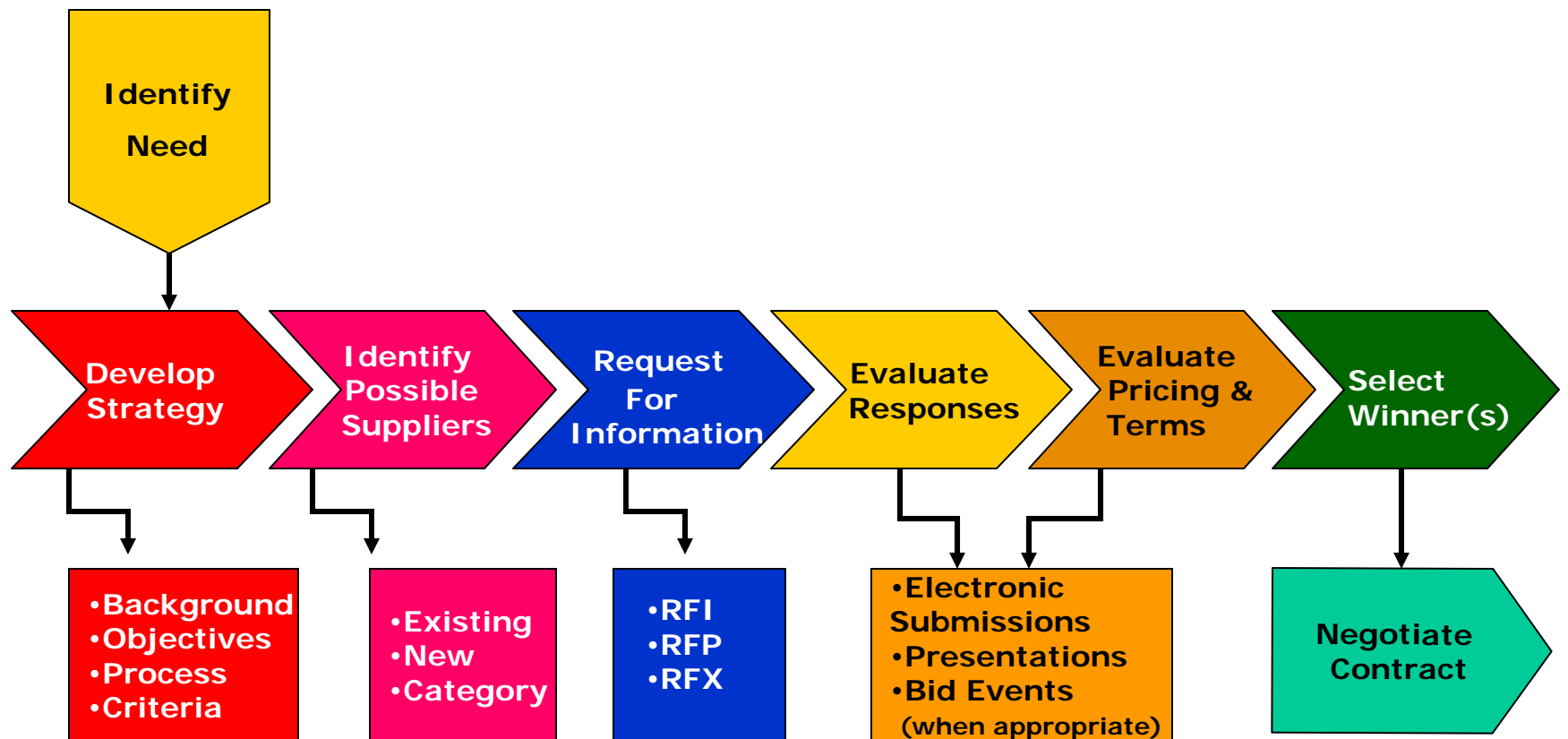
- Optimize internal resources
- Drive down costs
- Eliminate paper-based docs
- Reduce “Maverick” spending
- Enhance contract-based purchasing enforcement
- Reduce need to load & manage catalogues
- Integrate with ERP system(s)
- Integrate master vendor data
- Streamline processing
- Standardize purchasing reporting

Broad Benefits of e-Sourcing



Source: "Strategic Sourcing in the Mid-Market Benchmark", Aberdeen Group, December, 2005

The Procurement Process



Payables Decision Elements

Qualitative

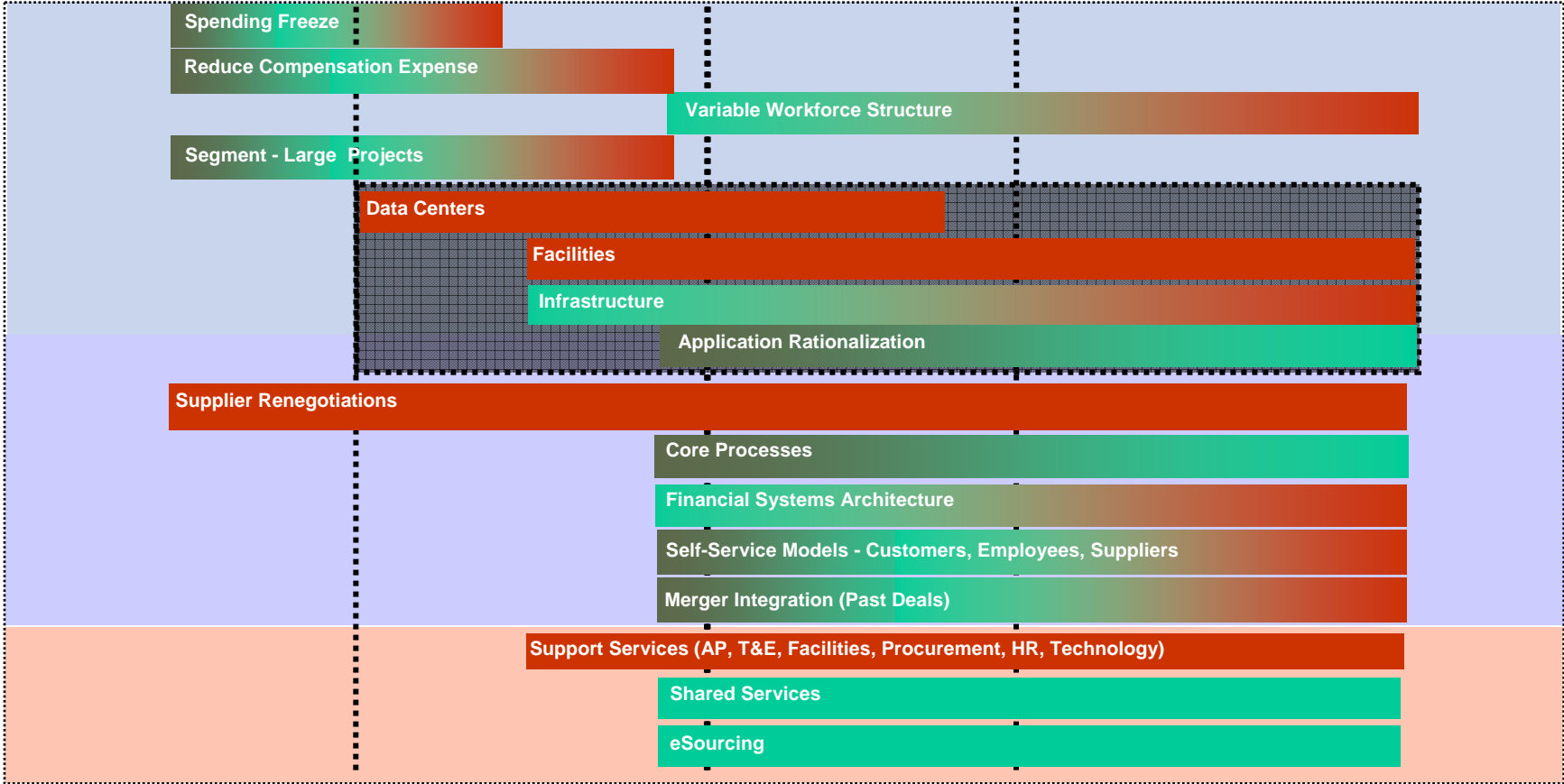
- Contract Terms
- Vendor Relationships
- Provider Status
- Internal Considerations
- Vendor History
- Performance Criteria
- Goods or Services Sensitivity/ Priority
- Established Protocols
- Current Practices

Quantitative

- Payment Size
- Frequency of Payment
- Cost of Payment (both buyer & seller)
- Discount already offered
- Payment timing
- Payment Risk

Payment Method Decision

Cost Reduction Strategies- a Brief History



Source: Bearing Point LLC



"Typical" * Corporate Paper- based Payables Costs

	Bank Information Technology	Large Corporation
ID of Optimal Sources	0.62	0.13
ID/Requisition Purchasing Need	0.41	0.31
Generate, Process, Administer Purchase Orders	1.49	1.01
Matching Receiving Reports, P.O. and Invoice	0.99	1.05
G/L coding	0.41	0.50
Obtaining Approvals	0.66	0.35
Making Payment	0.91	0.68
Handling Vendor Inquiries	0.83	0.72
Handling Disputed Amounts	1.82	1.43
Discounts Lost	0.16	0.03
Totals	\$ 8.27	\$6.21 *

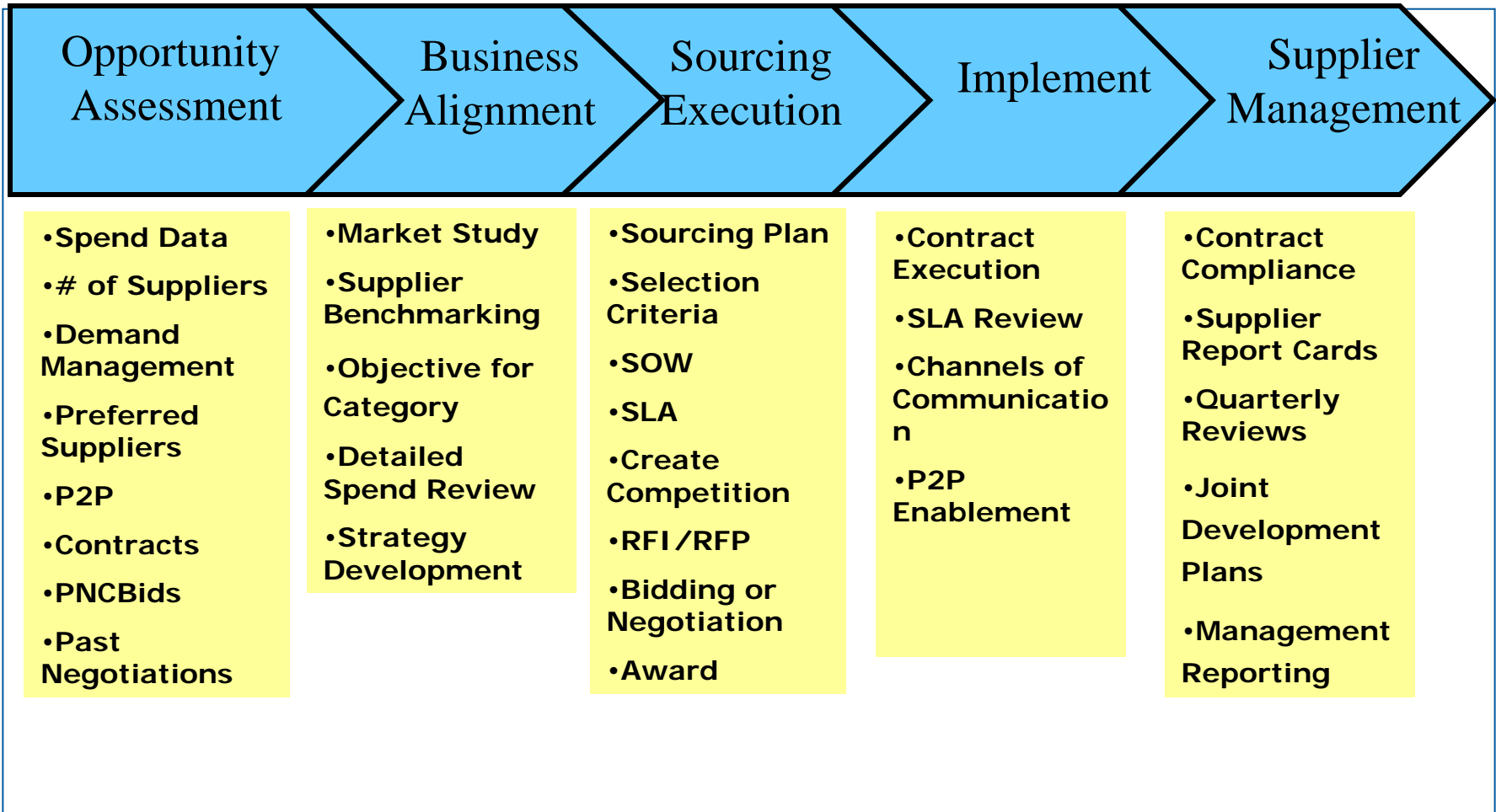
* Actual Large Corporation – Paper-Based Costs

Identifying e-Sourcing Opportunities

Category Management identifies e-Sourcing Opportunities by providing the following:

- **Areas of focus based on the spend in certain categories and the vendors that provide the services or products.**
- **Areas where vendor consolidation can occur based on multiple vendors providing similar type of products or services.**
- **Ability to define clear & detailed Statements of Work for the products or services needed.**
- **Benchmarking data provides priority guidance on projects or spends to address earlier in the process.**

Category Management Approach



PNC's e-Sourcing Highlights

- Implemented an in-house e-Sourcing program using Ariba's (then Freemarket's) self service tool during the first quarter of 2002
- +\$200 million in indirect spend has been e-Sourced since then
- More than 340 on-line bids have been conducted through end of 2006
- We have achieved 20-22% average savings (compared to historical/budget/market pricing)
- Average bid cycle time compressed by 75%
- Program was highly rated by both service partners and vendors based on random distributed surveys
 - A 6.5 average rating achieved on a scale from 1-7 (7 being excellent)

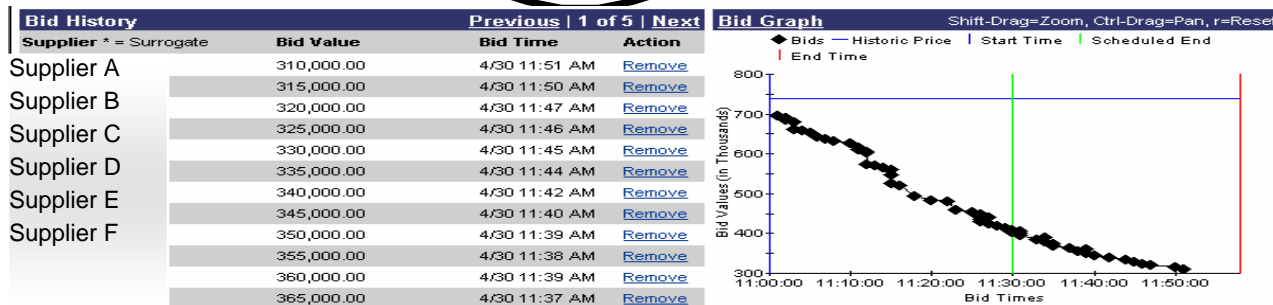
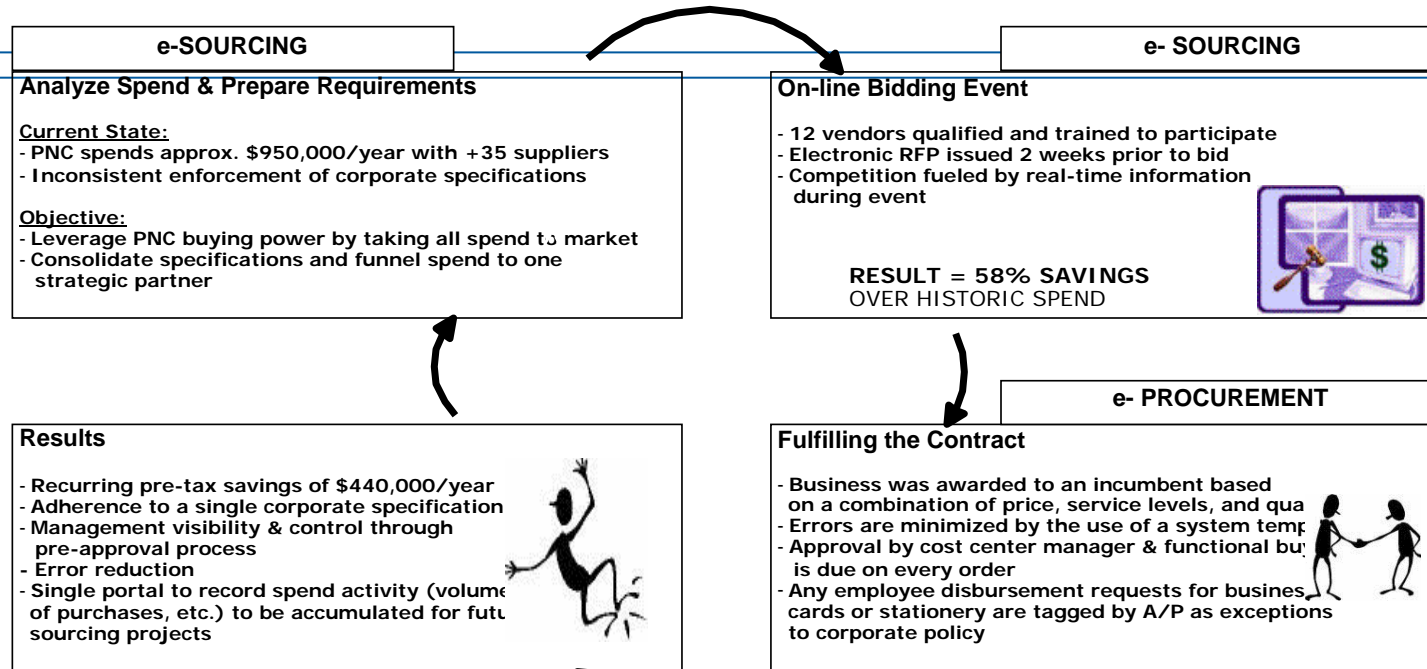
e-Sourcing Highlights

- Executed e-Sourcing for highly complex bids for a wide range of products and services including:

Office Supplies
Personal Computers
Telecommunications Services
Financial Systems Software
Implementation Services
Litigation Services
Dental Insurance
Architectural Services
Internet Services
Janitorial Services
Audio Teleconferencing System
Card Processing
Debt Collections/Recovery

Property Management
Marketing Services
Presort Mail Services
Furniture
Carpeting
HVAC Maintenance
Construction Management
Electrical Subcontracting
Mechanical Subcontracting
Courier Services
Disk Storage
Property and Flood Reports
Various Printing Services

An e-Sourcing Example – Stationery



Another e-Sourcing Example

- **Large Multi-National Corporate entity**
- **Cost reduction initiative made more complex due to decentralized structure and processes**
- **E-Source Provider**
 - Provided an automated solution with flexibility
 - Identified key commodity targets
 - Trained Program Team who in turn trained participants
- **Results:**
 - Evolution of a world-wide procurement process
 - A significant percentage of all buyers received training
 - Commodity auctions realized 17% savings
 - Opportunities to consolidate and leverage spend yielded additional savings

Guidelines for Successful Procurement

- Knowing the client
- Knowing the project
- Knowing the specifications
- Knowing the equipment
- Knowing the market
- Knowing the supplier
- Knowing the warranty
- Knowing Payment Practices
- Understanding limitations

Lessons Learned – e-Sourcing

- **Visibility of the auctioning process sparks competition**
 - It's clear that the passion ignited during auctions cannot be duplicated through commodity manager to supplier one-on-one discussions
- **Appoint an e-Sourcing manager that believes in the process**
 - The program will involve considerable change management.
 - Managers will pushback and the e-Sourcing manager will need to sell the process
- **To reinforce the process, award to low bidder whenever possible**
 - There will be complex projects where the low bidder may not be awarded, and a reason should be provided to the low bidder as to why they were not selected
- **Be responsive to vendors - respond promptly & answer questions clearly**
- **Pre-qualify your vendors**
 - Allows for awarding to the low bidder on a more frequent basis
 - Ensures comparable bidding as all vendors will be of about the same caliber

Lessons Learned – e-Sourcing

- **The more qualified vendors the better**
 - Invite as many qualified vendors as possible for maximum competition
- **Bundle and leverage**
 - Leverage Category Management approach
 - Bundle similar products and services to increase the bid value so that the best leverage can be attained
 - Check with other lines of business across your organization to conduct one uniform bid for the same product/service
- **Have clear and concise documentation**
 - Outline terms and conditions prior to the on-line bid
 - Make sure your pricing sheet is complete and accurate, and distributed prior to the on-line bid
- **Conduct in-house vendor training**
 - Because we know our business better than a third party, in-house vendor training provides more timely, accurate, and detailed information
 - Direct feedback gained during training sessions provides market intelligence prior to the sourcing event

Lessons Learned – e-Sourcing

- **Do not allow vendors to dictate your sourcing process**
 - Sometimes vendors may offer useful insight that a Company can choose to reflect in the respective bid; Other times, vendors may demand a change in our process that better suits their needs, yet does not suit our needs
 - Maintain a consistent process
- **Develop a back-up plan**
 - Plan for technical difficulties and have a back-up plan to address them
 - Have an emergency number available at all times during the bid
- **Have a pipeline of upcoming bids**
 - Evaluate spend data and contracts coming due so that you can build a pipeline of upcoming bids
 - Conduct regular meetings with key business partners in order to be aware of material purchases that will be made
- **Advertise results**
 - Publish successful bid results to executive management to provide exposure to the process

e-Sourcing Frequently Asked Questions

- **Does the lowest bidder win the business?**
 - Not necessarily...factors than just price when it comes to evaluating suppliers
 - The lowest bidder does not necessarily win the business every time.
 - If all suppliers are equally qualified, the preference would naturally be to go with the lowest bidder.
- **Who makes the final decision on the award of business?**
 - The buyer within the line of business/staff services area.
 - The e-Sourcing team provides tools on behalf of the buyer.
 - The team provides helpful decision-making information to the
- **Can award of business go to multiple suppliers?**
 - Yes.
 - Simply disclose the possibility of multiple supplier selection when publishing the RFP
 - Create multiple lots.
- **Who determines the participants in an RFP event or is it an open event where any supplier can participate?**
 - All procurement events at PNC are by Invite Only as determined by the buyer and sourcing analyst.
 - At the request of the buyer, research for additional suppliers is performed.

E-Sourcing Frequently Asked Questions (continued)

- **Why should an on-line bidding event (OBE) be used instead of a manual request for quote (RFQ) process?**
 - An OBE should be used when services are judged to be essentially the same across all providers
 - An OBE allows for a more competitive environment to ensure the best price is received.
 - An OBE shortens the sourcing cycle, and reduces time and energy in overall administration and final negotiations.

- **Who will train the suppliers and buyers how to use the on-line bidding event tool? And how long does it take?**
 - Your e-Sourcing team conducts training.
 - Training time varies per group but typically takes 30 minutes to an hour for basic training. A tutorial should be provided.

- **What is the average savings in a procurement event?**
 - PNC has saved on average 22% versus historical/budget/market pricing.
 - The event is helpful in benchmarking the market's "natural price" for a particular good/service.

Corporate Treasury Pricing Behavior

Annual Sales	\$100- \$249m	\$250- \$499m	\$500- \$999m	\$1- \$2.49b	\$2.5b or more
Requests competitive bids	44.7%	53.7%	54.6%	63.4%	73.3%
Buys cash management services only from current cash management banks	75.7%	72.4%	76.6%	63.8%	64.7%
Awards business principally due to low prices	23.5%	20.6%	20.9%	28.4%	26.6%
Has changed banks due to price increases	12.5%	12.0%	13.4%	12.8%	16.2%
Negotiates price guarantees for specific time periods	46.5%	51.7%	53.9%	65.8%	77.9%

Source: Phoenix-Hecht Cash Management Monitor™

Corporate Treasury Usage of Banks

Relationship Type	\$40- \$99m	\$100- \$499m	Over \$500m
Cash management only	26.2%	39.0%	30.0%
Credit only	25.5%	21.0%	31.0%
Credit and cash management	<u>48.3%</u>	<u>40.0%</u>	<u>39.0%</u>
	100.0%	100.0%	100.0%

Source: Phoenix-Hecht Cash Management Monitor™

Primary Reasons Why Bank Relationship Was Ended

Reasons:	\$40- \$99m	\$100- \$499m	Over \$500m
Credit Availability or Pricing	33.6%	28.0%	30.0%
Consolidation of Accounts	13.5%	22.5%	23.2%
Customer Service Issues	27.2%	18.3%	20.1%
Inadequate Cash Management Services	6.9%	11.7%	8.2%
Bank Mergers	12.9%	11.0%	11.1%
Cash Management Service Pricing	5.9%	8.5%	7.3%

Source: Phoenix-Hecht Cash Management Monitor™

Probability of Increasing Business Based on Relationship Type

All Bank Averages by Company Size. Relationships Classified by Respondents		Likelihood of Increasing Business	
			Very Good
Bank is a prime relationship:			
A principal, long-term provider of banking services	Over \$500 million		81.0%
	\$100-\$499 million		79.1%
	\$40-\$99 million		85.9%
Bank is a stable relationship:			
Could be replaced only if the company went through a major bank consolidation	Over \$500 million		18.2%
	\$100-\$499 million		20.3%
	\$40-\$99 million		13.6%
Bank is a marginal relationship:			
Among the first to be considered for elimination should there be a need to consolidate banking relationships	Over \$500 million		0.9%
	\$100-\$499 million		0.6%
	\$40-\$99 million		0.5%

Source: Phoenix-Hecht Cash Management Monitor™

Acquiring Treasury Services

■ Supplier Perspective

- Treasury Services historically purchase based on relationship
- Often (but not always!) influenced by Credit relationship
- Suppliers willing to provide learning and development
- Historical RFP Response Submissions
 - Capabilities
 - Qualifications
 - Implementation information
 - Pricing
 - Differentiation
 - Creative solutions encouraged & often rewarded

■ Treasury Perspective

- Procurement is Arduous... often delegated
- Sarbanes-Oxley requirements
- Pressure to reduce administrative costs
- Limited treasury resources
- E-Sourcing successes in other parts of the company

Three Key Supply Management Strategies

- **Do it yourself!**
 - Greater degree of control
 - Managing supplier connections and content is difficult & costly

- **Let your suppliers manage content**
 - Connection to individual suppliers
 - Differing supplier models makes consistent interpretation hard
 - Additional costs to maintain individual relationships

- **Partner with a Supplier management (“Advocate”) solution**
 - Gather Content and perform aggregation
 - More scalable
 - Increases dependency on Advocate, who may not know your specific business needs

Role of Procurement Advisors

- **Access to Technology**
 - Quick implementation- use of templates for repetitive set-ups
 - Define workflows and responsibilities
 - Provide management structure
 - Highly secure
- **Internal and Vendor web-based training support**
- **Assist in developing event rules & process**
- **Documentation development**
- **Standardization using best practices**
- **Access to Multiple media communication tools**
- **Success measures and criteria examples**
- **Have become a sales/ consulting team unto themselves**

Treasury Procurement Issues Today

“ ..[The] tight procurement processes currently in vogue are suppressing the development of partnering relationships and stifling innovation in solution design and deal shaping”

Source: “Suppliers: What is wrong with the BPO procurement process?”
May, 2006, Alsbridge Consulting, on Business Process Outsourcing Procurement

Some Observations

- Increasingly limited access pre-RFP response
- Viewing treasury services as commodities
- Providing shrinking time to RFI /RFP/RFX response
- Lack of differentiation between generic product education and the qualitative and quantitative facts surrounding a given supplier’s view of an opportunity
- Treasury services are rarely bought “off-the-shelf”... customization is the creative expression of differentiation- contention here is that many of these services are not commodities

Supply Side Views on e-Sourcing

- Arms-length supplier/client relationships hinder development of the right solution
- Opportunity for unreasonable Advisor/Client demands
- Over-concentration on financial considerations
- Service Quality, Innovation, Understanding of the business & the Current Situation can be unevenly weighted
- Business case development can be ineffective due to time constraints
- Inexperience of Procurement Advisors with Treasury Services can lead to irrational processes
- Shrinking elapsed project time can result in quick fixes instead of longer term strategic benefits
- Initial criteria can be interpreted strictly, or not used at all in the final decision

Suggestions for Consideration

- **Decide the decision-making process & communications early**
 - Investigate and explore informally first
 - Avoid “fishing expeditions”
 - Determine and communicate requirements
 - Qualify opportunities based on pre-determined objectives, priorities and criteria
- **Separate Educational requirements from Assessment Inputs**
 - Obtain broad sources of input (AFP Chat room, Associations, peer groups, Web-based research, supplier conversations, etc...)
- **Use e-Sourcing techniques to your advantage**
 - Determine and document your requirements
 - Organize your event documents
 - Streamline the questions you ask...
 - Does the question address your requirements?
 - Are the significant key questions open ended?
 - Use the e-Sourcing methodology as a means to achieve standardization of approach across the organization
 - Analyze the RFI/RFP/RFX content- does it follow the criteria that you have chosen?
 - Avoid repetitive questions for the sake of facilitating specific interest groups
Within you project team
- **Improved productivity and visibility from an automated procurement approach helps meet Sarbanes-Oxley mandates**

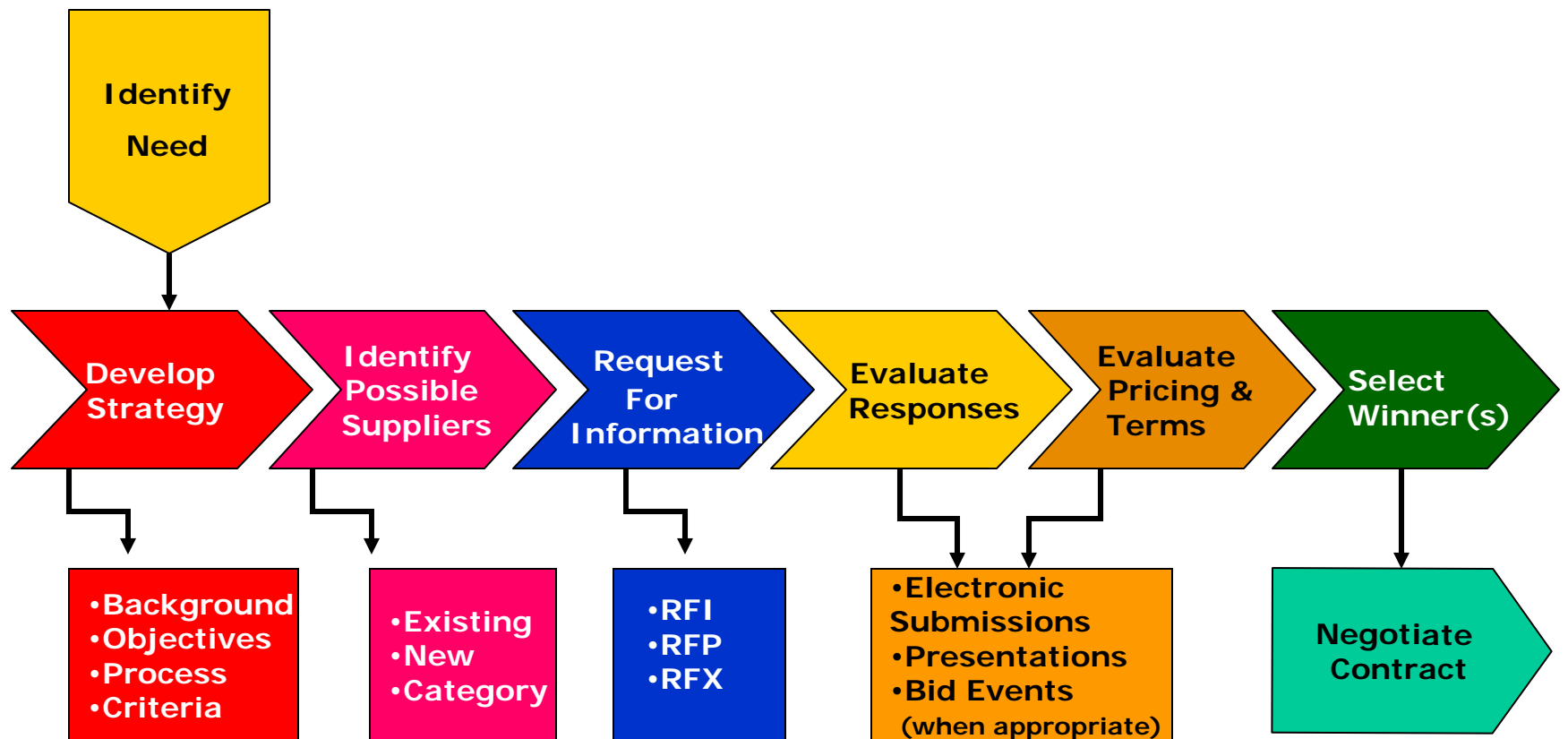
Suggestions for Consideration-continued

- **Involve your possible vendors early**
- **Ask: have we made the process more complex than necessary?**
- **Avoid reliance solely on e-Sourcing Advisors**
- **Change the focus – from buy it, receive it, pay for it, to informational analysis and policy compliance**
- **Provide scripted mini demos or illustrative cases of the issues you are trying to solve... the responses you receive will enhance your ultimate solution, but also enable suppliers to differentiate themselves**
- **Provide sufficient time to assess the supplier's personnel and ability to provide the sought services**
- **Spend more time talking to references- use scripts for consistency of content**

Concluding Remarks

- The benefits of using a disciplined approach to Treasury services procurement are many...
- Treating treasury services as commodities may produce temporary cost savings, but almost inevitably quality and delivery of the desired services suffer
- Build time into your treasury procurement process for necessary discussions
- Adopt a more flexible approach early in the process... view internal procurement and external advisors as resources, not management or decision-makers
- Construct a more standard infrastructure with each new project, and incorporate lessons learned from prior efforts

The Procurement Process



Questions?

