Sourcing’s Trojan Horse – Getting Your Arms Around The Spend In Functional Silos

Presented by:
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Creating Shareholder Value

Profitable Growth
Operating Efficiency
Continuous Focus on Medical Costs
Disciplined Capital Management

Improve Return to Shareholders
Sustainable Growth
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<th>Access</th>
<th>Trojan War</th>
<th>Spend Management War</th>
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<td>Change Management Process</td>
<td>War</td>
<td>Collaboration</td>
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<td>Objective</td>
<td>Destruction</td>
<td>Value Creation</td>
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Getting Excited About Going Into a Silo

% of Spend Covered vs. % Compliance

$
Getting Into a Silo

At Aetna, the company’s mandate to achieve industry SG&A leadership has provided Procurement compelling reason to be “in the Spend Silos”

- Involvement and support of senior leadership
- Alignment with corporate objectives
- Formalize Spend Management (organization, process)
- Set improvement targets and milestones
Getting Into a Silo

Silo ≡ Tall cylinder used for converting/storing fodder into succulent feed for livestock through an acidic fermentation process

Find the Compelling Reasons Why Procurement Should Be Invited In

- Ability to address gaps in corporate or business area objectives
- Differentiation opportunity
- Process or information management capabilities beyond what the business areas can do by themselves
- Service offerings that add value and provide competitive advantage
What Do We Do Once We’re In a Silo?

• Analyze spend by business area and spend category
• Cross-functional workgroups drive change to targets
• Spend Management performance reviews with all business areas
• Use communication to drive culture change
What Do We Do Once We’re In a Silo?

• Get to know the customer

• Detailed, actionable opportunities to reduce spend through leverage, policy compliance, demand management and other enablers

• Project list reflects business plan priorities
What Do We Do Once We’re In a Silo?

• Brainstorm “innovation opportunities”

• Communication to review project performance and continued alignment between sourcing strategy & business plans
## Expense Management Scorecard

<table>
<thead>
<tr>
<th>SG&amp;A Expense By Commodity</th>
<th>Supplier Diversity Metrics</th>
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<tbody>
<tr>
<td>• $ by Month and Year-To-Date</td>
<td></td>
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<tr>
<td>• % Spend Managed</td>
<td></td>
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<tr>
<td>• Status (Red/Yellow/Green)</td>
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<tr>
<td>Contracts and Project Management Metrics</td>
<td>$ by Transaction Channel</td>
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How Do We Get Out of a Silo?

Travel Spend Category Example

• Establish preferred suppliers for air, car rental, hotels and meeting management
• Require on-line travel arrangements
• Widely communicate travel policy
• Report out-of-policy spend
• Establish non-compliance consequences
• Provide cost savings opportunity feedback
• Quantify cost savings
Sourcing Lifecycle

Horse # 1
Project Definition

Horse # 2
Market Research & Supplier Qualification

Horse # 3
RFX

Horse # 4
Proposal Analysis & Supplier Selection

Horse # 5
Contracting

Horse # 6
Project Closeout
Spend Management Solution Benefits

Automate and Standardize the Sourcing Lifecycle to:

- Improve spend under contract
- Realize negotiated savings
- Improve compliance
- Increase productivity
How Do We Keep The Silos From Being Rebuilt?

- Lead by example by aggressively managing your own expenses and results
- Make the hard staffing decisions required to obtain and keep top sourcing talent
- Quantify and articulate the sourcing value proposition across multiple dimensions (cost reduction, revenue growth, risk, quality, customer service)
How Do We Keep The Silos From Being Rebuilt?

• Use external benchmarks to frame the change required to deliver competitive advantage
• Build the right culture
• Don’t keep what you’re doing a secret
Don’t Keep It a Secret

• Communicate progress to all constituents

• Use multiple communication channels
  – Newsletter
  – Performance reviews
  – Website
  – Face-to-face
In Closing…

• Build upon each success

• Be prepared for the results

• Keep “beating this horse”
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