

# Smart Sourcing Summit: Managing Risk in Uncertain Times

October 14, 2009 3.30pm

## The Optimized Purchasing Organization: Outsourcing as a Competitive Lever

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Caterpillar

Presented by

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Industrial Supply Co.

# Agenda

- Introduction (5 min)
  - Infosys, Sourcing & Procurement BPO
  - Procurement outsourcing
- The Caterpillar experience (30 min)
  - About Caterpillar
  - Caterpillar's Purchasing organization
  - Outsourcing journey
  - Benefits, Challenges & Learnings
- Q&A (10 min)

# About Infosys (NASDAQ: INFY)

- Global Company
  - 105,000+ employees of 64 nationalities, 47 offices globally
  - 600+ customers world-wide across 50+ countries
  - Highly respected for governance, financial transparency
- 25 years in business
  - Fiscal year 2008-09: 4.66 billion in revenues
  - Market capitalization ~\$ 25 billion
  - Zero debt, 2bn in cash & cash equivalents
- Differentiators
  - Breadth of services across industry verticals
  - Low-risk Global Delivery Model (GDM), perfected over 2 decades
  - Focus on excellence in execution, contributing to increased customer profit and growth
  - Employer of choice: Best company to work for (Source: – Hewitt Survey)
  - High customer satisfaction: ~ 95% repeat business

**IT Services,  
Engineering &  
Enterprise  
Solutions**

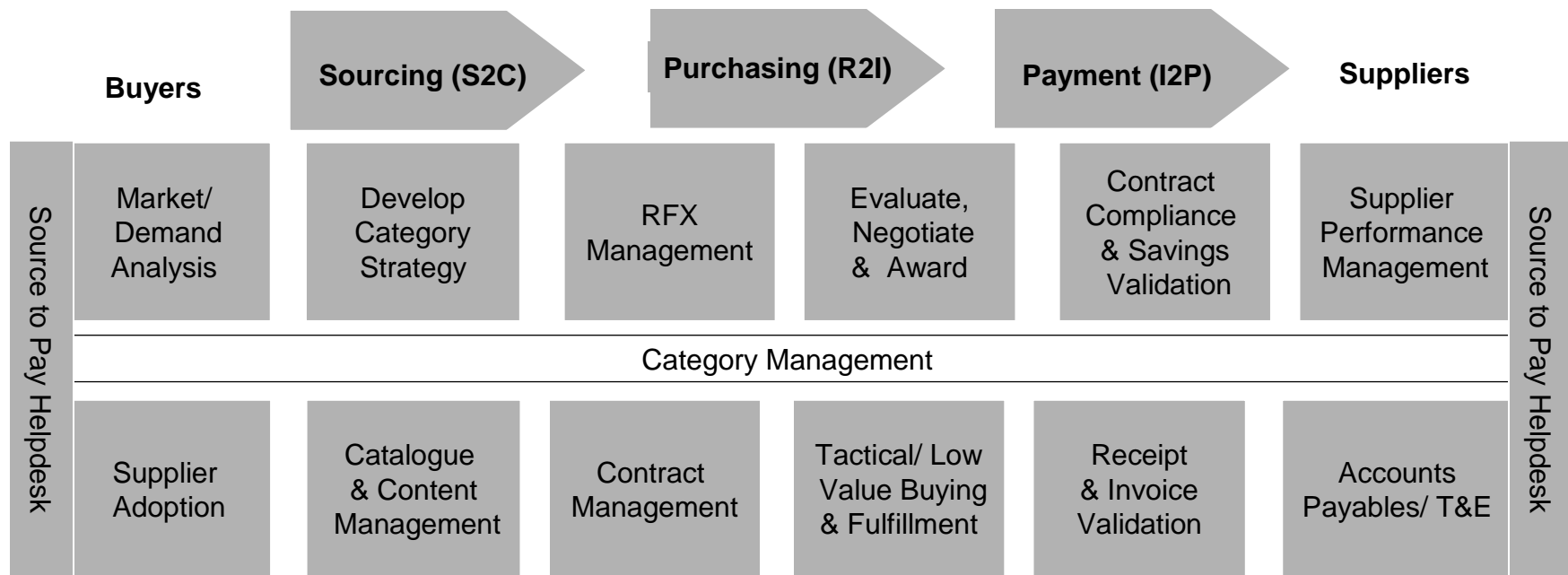
**Business  
Process  
Outsourcing**

**Consulting  
Services**

- Role model in corporate governance – Forbes
- World's most respected companies – FT
- Provider of the year 2007 & 2008 - FAO today
- Amongst the “40 companies that are reshaping the global economy” - WIRED
- Global Most Admired Knowledge Enterprise (MAKE) Hall of Fame



# Infosys BPO's Sourcing & Procurement practice

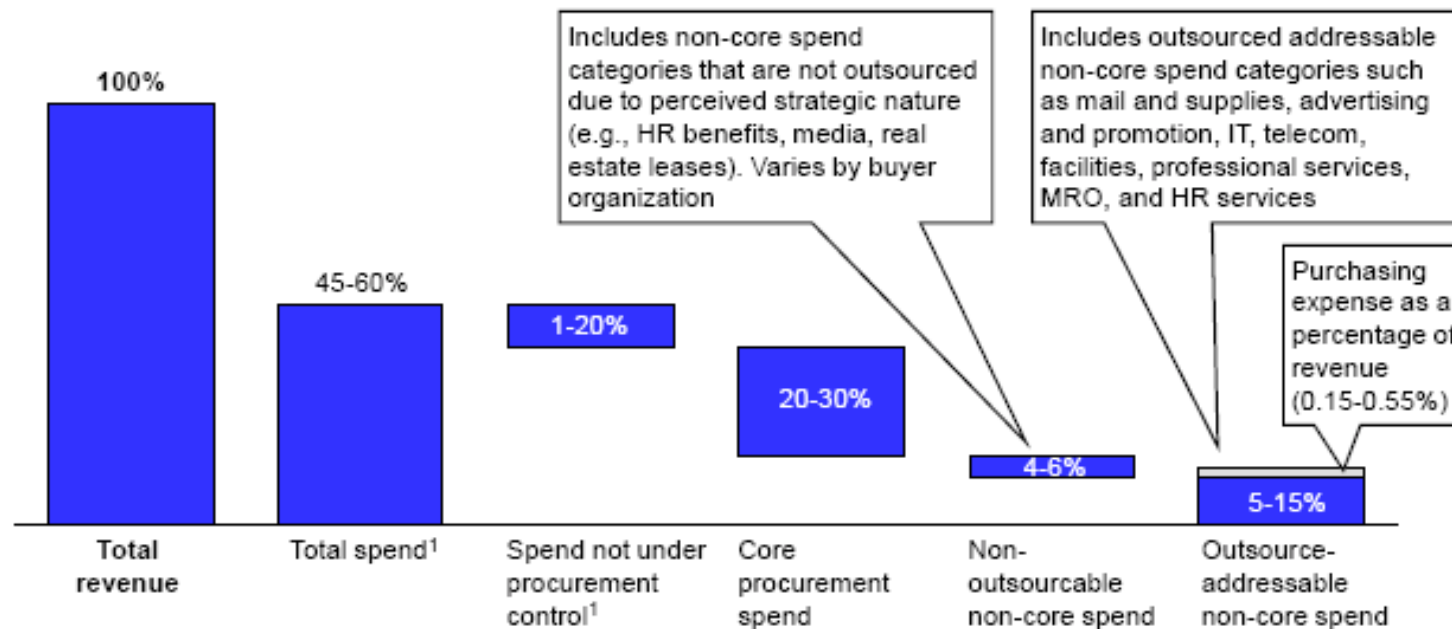


Source to Pay Platform - Package Evaluation, Implementation, Integration, Hosting, Customization, Testing and Support
Managed Flex Staffing
Enterprise Data Enrichment Services
Total Telecom Expense Management

# Procurement outsourcing has the potential to impact 5- 15% of the cost base of an organization

PO addressable cost-base in manufacturing organizations  
Percentage of revenues

HIGH-LEVEL ESTIMATES



PO has a significantly higher addressable cost-base than most BPOs. This makes the value proposition attractive as well as challenging

<sup>1</sup> CAPS Research: Cross-Industry Report of Standard Benchmarks (October 2008)  
Source: Everest Research Institute (2009)

## .. And can deliver results beyond labor arbitrage savings

<b>Cost Savings: Cost of Procurement</b>	<ul style="list-style-type: none"><li>• Reduction in operational costs of 20 -30% through labor arbitrage, process improvements, standardization and economies of scale*</li></ul>
<b>Cost Savings: Overall Spend</b>	<ul style="list-style-type: none"><li>• Effective sourcing can lead to savings anywhere from 5% to 25% of the spend base in identified categories</li></ul>
<b>Improvement in Service</b>	<ul style="list-style-type: none"><li>• Procurement outsourcing provides service level driven approach</li><li>• Enhancing service to internal departments</li></ul>
<b>Capability Improvement</b>	<ul style="list-style-type: none"><li>• Enable retained organization to focus on strategy &amp; unique/differentiating sourcing</li><li>• Leveraging spend analysis, eRFx, reverse auctions, supplier enablement, eProcurement and eInvoicing, or alternately supporting client technology</li><li>• Access to KPO areas like risk analysis or contract drafting</li></ul>
<b>Adaptability</b>	<ul style="list-style-type: none"><li>• Funding for improvement for non core processes is tough and can face significant staff reduction pressures; Service Providers can be leveraged for on a variable cost model</li></ul>
<b>Business Risk Reduction</b>	<ul style="list-style-type: none"><li>• Improved transactional / spend visibility and compliance</li><li>• Increased spend under management</li></ul>

Source: Infosys analysis



# Caterpillar Inc.



- World's largest manufacturer of construction and mining equipment, diesel and natural gas engines and industrial gas turbines
- Technology leader in construction, transportation, mining, forestry, energy, logistics and electric power generation
- Fortune 50 organization with annual revenue of \$ 51.3 bn
- Global operations with 106,518 employees

# Global Purchasing Organization

- Global Purchasing division was formed in 2002 with a vision of effective management global spend
  - Prior to 2002, Purchasing function was decentralized with sourcing decisions and spend management at site (facility) level
- GP organization is structured to provide optimum support to different business units with category expertise
  - Segment: Sourcing categories of spend globally
  - Sites: Business unit level presence to provide on-site purchasing support, assist in sourcing activity
- BPO was one of the 7 key transformational projects focused on internal processes in line with Caterpillar's Vision 2020 strategy



MAKING PROGRESS POSSIBLE



# Objectives of the outsourcing project

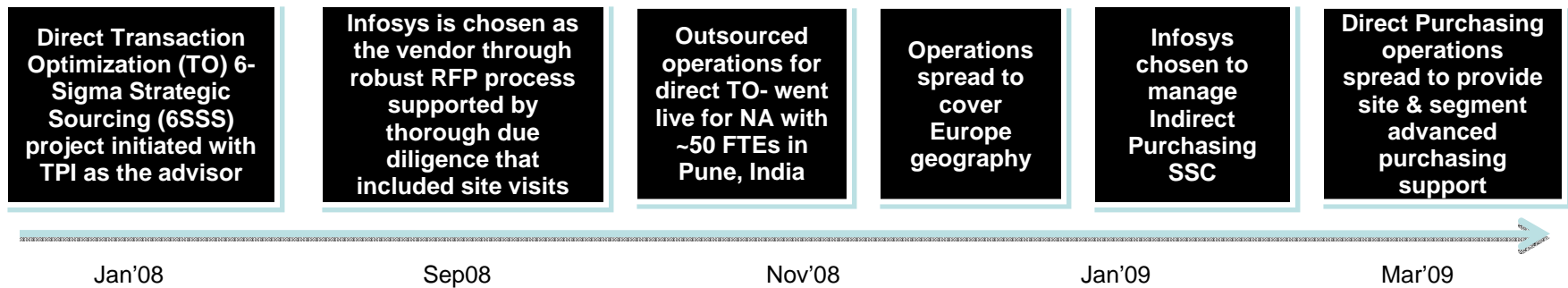
- Make transactional purchasing work more of a variable cost (easily down-sized or up-sized)
- Focus training and recruiting efforts on highly skilled areas
- Improve compliance through robust governance model and deployed standard work
- The Outsourcing Center of Excellence within your enterprise should reside in Purchasing
- Sourcing projects in low priority areas lead by teams familiar with our goals, objectives and culture



MAKING PROGRESS POSSIBLE

# The outsourcing journey

- Global Purchasing outsourcing journey started as one of the key initiatives for transformation beginning with the Direct Purchasing Transaction Optimization



# Services supported

- Direct Purchasing
  - RFQ management
  - PO management
  - Site & Segment Purchasing support
  - Grief resolution
  - Non-core supplier management
- Indirect Purchasing
  - Spot Buys, PO & Contract management
  - Supplier Help Desk
  - Invoice Reconciliation
  - Purchasing transactional support
  - 100+ FTEs supporting North America and Europe
  - Global Delivery Model with 15 FTEs onsite in US with the balance in India



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# Caterpillar's Approach

- Open and proactive communication
- Communication to internal stakeholders on increasing strategic focus of the organization
- 6 Sigma Black Belt deployed early on
- Measured approach based on success
- Flexible mindset

# Challenges

- Number of purchasing systems in use and also dependency on legacy systems
  - Technology tools to automate and standardize the process was critical
- Non-standardized work leading to knowledge transfer challenges
  - Process definition / due diligence phase was critical to define the processes before transitioning them
- Initial resistance from internal team
- Economic trough brought on scope creep



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# Key Learnings & Benefits

## Learnings

- Dedicated resources driving the project is absolutely essential
- 6 Sigma methodology is key enabler
- Collaborative buy-in, transparency are key for effective change management
- Leadership support on both the ends is pivotal for success of the relationship
- Flexibility and talent of service provider is critical

## Benefits

- Increased our ability to focus on core business
- Cost savings beyond arbitrage through efficiencies
- Automation of processes resulting in productivity improvements &
- Development of 'standard' work



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# Next Steps

- Relationship with Infosys has moved from “Customer – Supplier” to more of “Collaborative partners”
- We are working on several path-breaking projects such as
  - Advanced purchasing support – Expanding the scope to include advanced site and segment purchasing support and also high end analysis and reporting
  - Supplier Optimization – Improving spend through core suppliers for improved savings as well as quality and velocity
  - Selective Supplier Management



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Thank You

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Carlton B. Adams is Director of Service Parts Purchasing with responsibility for global spend management of aftermarket and remanufactured parts for the enterprise. Leading a global, matrix team of professionals, Carlton's team delivers significant bottom line savings to the corporation while developing long term, collaborative relationships with key suppliers.

Additionally, he has responsibility for Business Process Outsourcing of Caterpillar's transactional purchasing functions. In this role, Carlton's team has set the standard for BPO at Caterpillar.

Prior to joining Caterpillar in 2004, Carlton was Vice President, Customer and Sales Operations, Lenox, Incorporated, where he was responsible for sales to independent retailers, Call Center, Order Entry and EDI operations of the \$500 MM wholesale and retail dinnerware and giftware business, and consumer service line.

Carlton received a master's degree in business administration from Temple University and a bachelor's degree in Industrial Engineering from the University of Pittsburgh. He is a board member of the National Minority Supplier Development Council and Illinois Central College's Education Foundation.



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Madhusudan (Maddee) Hegde leads client services for customers in the discrete manufacturing portfolio in Infosys BPO. He works with global corporations to maximize value by helping them build their outsourcing roadmap, choose processes to outsource, implement governance models and manage and drive the performance of their outsourcing relationships. Prior to Infosys BPO, Maddee was head of automotive sales for North America for a leading IT solutions provider. Maddee holds a bachelor's degree in engineering and a master's degree in management.