

Company contact,
name, and address
redacted

Re: Preliminary Procurement Capability Evaluation

Dear [contact name redacted],

The Intuitivum Group has completed an evaluation of your procurement capability based on our preliminary benchmarking effort and confirmed your belief that [company name redacted] has a strong justification for executing a global procurement transformation effort. Based on this review of your process, systems and organization maturity, and our proposed program of work, we anticipate a Net Present Value of greater than [redacted] million for this effort. To achieve this level of savings you will need to execute a very aggressive Strategic Sourcing effort along with the proposed implementation of significant process, systems, and organization upgrades.

Note that this evaluation is based on information obtained during our one-week assessment which gave us the information needed to provide a feasibility study accuracy of -30 to +50%. This should be adequate to justify moving forward with your program of work to upgrade [company name redacted]'s procurement processes, systems, and organization.

It was a pleasure meeting with you and your staff last week. Please let us know if we can be of further assistance.

Best Regards,

[Signature Redacted]

Ross S. Harvison
Managing Partner, Supply Chain Practice

Procurement Transformation Value Assessment

Summary

[Company name redacted] has a very strong justification for executing a global procurement transformation effort. Based on a preliminary review of your current process, systems and organization maturity, and the proposed program of work, we anticipate a Net Present Value of greater than [amount redacted] million for this effort. To achieve this level of savings you will need to execute an aggressive Strategic Sourcing effort along with significant process, systems, and organization upgrades.

Key Findings

- The total system upgrade cost is anticipated to be [redacted] million for the projected ERP upgrade and [redacted] million for ERP enhancements needed to improve analysis and workflow activities
- Systems improvements and workload reallocation will reduce client non-value added tactical work by [redacted] million/year
- Proposed process, systems, and organization upgrades should deliver savings between 6.6 and 11.3% of total spend; the former being the median annual savings for an effort of this type and the later the upper decile savings level
- Your savings should fall in the upper end of this range due to low current process, systems, and organization maturity levels
- The 10-Year Net Present Value of this effort at a 10% risk adjusted discount rate will be approximately [redacted] million assuming median spend savings and increase to [redacted] million if upper decile savings are achieved

Discussion

The Intuitivum Group, LLC agreed to complete a preliminary assessment of the potential value of procurement transformation effort at [company name redacted]. This evaluation was completed to help the company confirm that an effort of this nature was justified and to provide a preliminary view of the potential path forward.

Summary of Base Data Provided by [company name redacted] –

- The company produces build to order equipment for upstream and mid-stream businesses
- Procurement is heavily decentralized with little control over field procurement activities
- Staff are highly transactional with few strategic sourcing activities
- Transactional activities are highly manual in nature
- The processes and systems needed to support Strategic Sourcing are not in place
- Vendor Relationship Management activities are minimal
- Total spend is near [redacted] million per year with a [redacted] services/materials mix
- Total global procurement staff is near [redacted] employees and contractors with a [redacted] strategic/operational mix
- The existing ERP system does not meet current company needs

Procurement Transformation Value Assessment

Discussion (Continued)

Assessment of Current Status and Anticipated Future State –

- Maturities for all major procurement process areas are near or below Level 1 (Ad-Hoc)
 - Organization Design is near Level 1
 - Performance Management is near Level 1
 - Transactional Management is near Level 1
 - Strategic Procurement is near Level 0 (Survival)
 - Vendor Relationship Management is near Level 0
- Based on this maturity assessment we believe that significant savings are available; savings in excess of 6.6% can be expected if performance improves to benchmark median levels
- Savings can be higher than 11.3% if performance improves to benchmark leading levels
- Based on the preliminary program of work and schedule, the organization should achieve an overall performance between Level 2 and Level 3 during the third year of the program, a Level 3 performance in the fifth year, and a Level 4 performance in the tenth year

Assumptions Made for Assessment –

- Benchmark data from Industrial Manufacturing will be used as a comparison for this company as its procurement is most closely represented by this type of spend
- Procurement personnel requirements throughout the project will be consistent with similar efforts; adjustments will be made to take into account the Industrial Manufacturing nature of the company's spend
- Fully burdened personnel costs will match industry benchmarks
- Systems upgrade costs will be in line with the efforts of similar size and maturity organizations
- Hardware costs will be depreciated over 5 years in line with the normal ADS recovery period for computer hardware
- Software is assumed to have the same 5-year life for tax treatment purposes
- External manpower costs associated with strategic sourcing acceleration will be taken in the year consumed
- The average term of strategic contracts executed during the program will be three years.
- The company's corporate tax rate is 35%
- The company's risk adjusted discount rate is 10%
- The program life is limited to 10 years for this analysis

Procurement Transformation Value Assessment

Discussion (Continued)

Analysis Results/Summary of Current State–

- Maturities for all major procurement process areas are near or below Level 1 (Ad-Hoc)
- The procurement organization, with [redacted] strategic individuals and [redacted] operational buyers, is not adequately staffed to execute a transformation effort
- Client operational staff execute more than 80% of the transactional procurement efforts and require [redacted] FTEs of effort
- The existing ERP system will not meet company needs to execute the transition or maintain a high level of performance after the effort is complete

Analysis Results/Summary of Future State at Three Years –

- An effective procurement transformation effort will increase the organization's process and systems maturity to between Level 2 (Localized) and Level 3 (Aligned) within three years. This will mean that:
 - The organization is center-led with effective processes in place for procurement control over field activities with greater than 50% compliance by client operational staff
 - Staff are trained on effective strategic sourcing methods and greater than 50% of their work is in this area
 - Procurement staffing levels have increased to [redacted] strategic staff and [redacted] operational buyers
 - Client led transactional activities are reduced to about 60% of all transactions, requiring only [redacted] FTEs of effort
 - Automated workflow is in place and highly utilized for materials procurement and related accounts payable activities
 - A procurement data warehouse is fully in place and effective business intelligence activities are being used by the staff to create and execute strong sourcing strategies
 - Effective vendor relationship management practices are defined, but have yet to take hold

Procurement Transformation Value Assessment

Discussion (Continued)

Analysis Results/Summary of Future State at Five Years –

- At five years the effort can increase the organization's process and systems maturity to a strong Level 3 (Aligned) in all areas except vendor relationship management. This will mean that:
 - The organization is center-led with strong cooperation from all internal organizations and client compliance is now above 80%
 - Strategic and operational staff are highly qualified for their positions and continuous development for improvement is the norm
 - Procurement staffing levels have not changed from the three year mark, but client led activities are reduced to less than 30% of all transactions requiring about [redacted] FTEs of effort
 - Automated workflow is now in place and highly utilized not only for materials procurement and accounts payable activities, but also for services and logistics procurement activities
 - Automated sourcing processes cover all aspects of RFX and are fully utilized by the organization
 - Effective vendor relationship management practices are starting to improve the bottom line

Analysis Results/Summary of Future State at Ten Years –

- At ten years the effort can increase the organization's maturity to Level 4 (Integrated) across all processes. This means that:
 - The organization structure is fully process based
 - Intra-company processes are fully integrated
 - Inter-company processes begin to be integrated
 - Procurement staffing levels are reduced to [redacted] through attrition or contractor elimination
 - Client led procurement transaction activities are reduced to a negligible amount

Analysis Results/System Upgrade Requirements –

- Upgrade ERP to current software version
- Automate decision support
- Automate materials and services purchasing workflow
- Automate invoice workflow
- Automate purchase order and invoice data transfer with large vendors
- Deploy web enabled vendor managed procurement capabilities for small vendors
- Automate contract tender and contract management for strategic sourcing activities

Procurement Transformation Value Assessment

Discussion (Continued)

Analysis Results/Strategic Sourcing Needs

- Strategic Sourcing processes that include the following elements must be deployed and personnel trained to effectively execute these processes
 - Strategic Sourcing Oversight
 - Forecast and Plan
 - Commodity Market Analysis
 - Supplier Evaluation
 - Sourcing Strategy Development
 - Sourcing Strategy Execution
 - Contract Implementation
 - Contract Management
 - Contract Compliance and Utilization

Analysis Results/Program Costs –

- The total systems upgrade costs are anticipated to be [redacted] million for the projected ERP upgrade and [redacted] million for ERP enhancements needed to improve analysis and workflow activities
- Systems improvements and workload reallocation will reduce client non-value added tactical work by [redacted] million/year by the end of the 5th year of the project
- This workload reallocation will increase strategic procurement fixed costs by [redacted] million/year during the same period providing an overall cost improvement of [redacted] million/year
- Funds to cover the increased manpower for program execution during the first three years are included in this analysis at an estimated total cost of [redacted] million

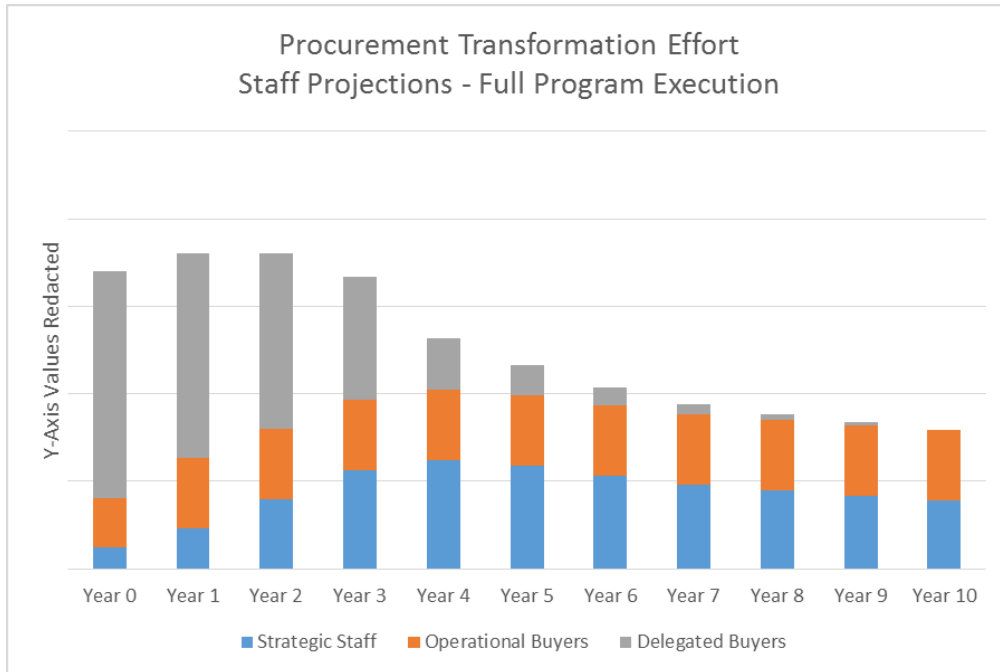
Analysis Results/Program Value –

- The 10-Year Net Present Value of this effort at a 10% risk adjusted discount rate will be approximately [redacted] million assuming annual spend savings of 6.6% of total spend
- The NVP^{10%} will be reduced to [redacted] million if the savings falls to 3.4% of spend and increased to [redacted] million if the savings are 11.3% of spend
- System and personnel cost sensitivities have a minimal impact on the NVP^{10%} calculation as these costs are significantly smaller than the anticipated savings
 - The NVP^{10%} is decreased to [redacted] million if systems costs are twice the current estimate
 - The NVP^{10%} is increased to [redacted] million if systems costs are half of current estimate
 - The NVP^{10%} is decreased to [redacted] million if personnel levels are only reduced by half of the current estimate

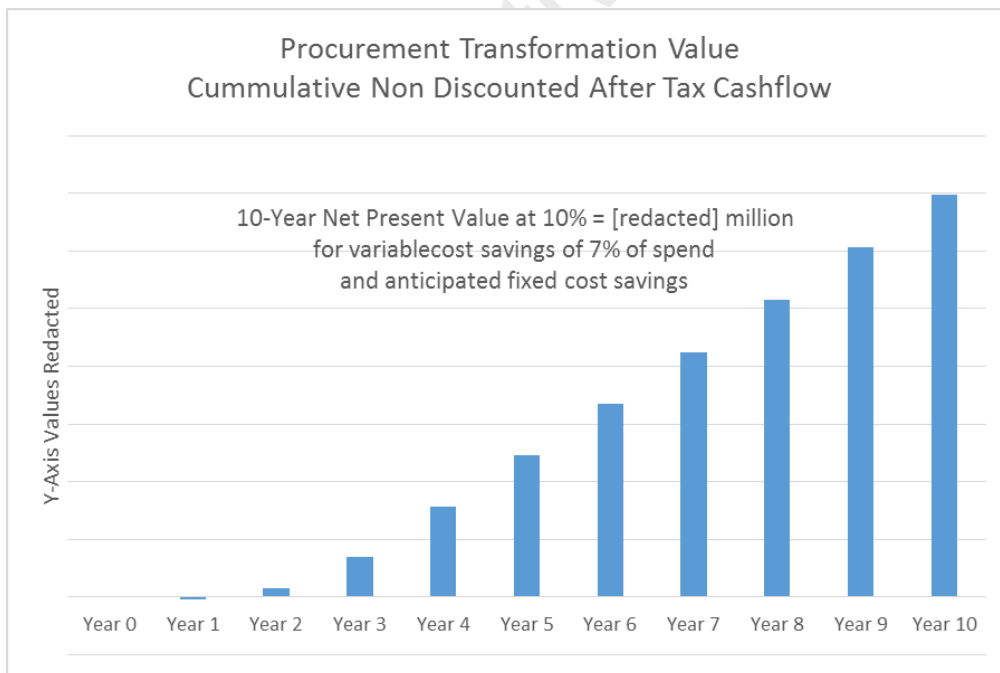
Procurement Transformation Value Assessment

Appendices (Page 1)

1.) Personnel (Full Time Equivalent) projections during the project



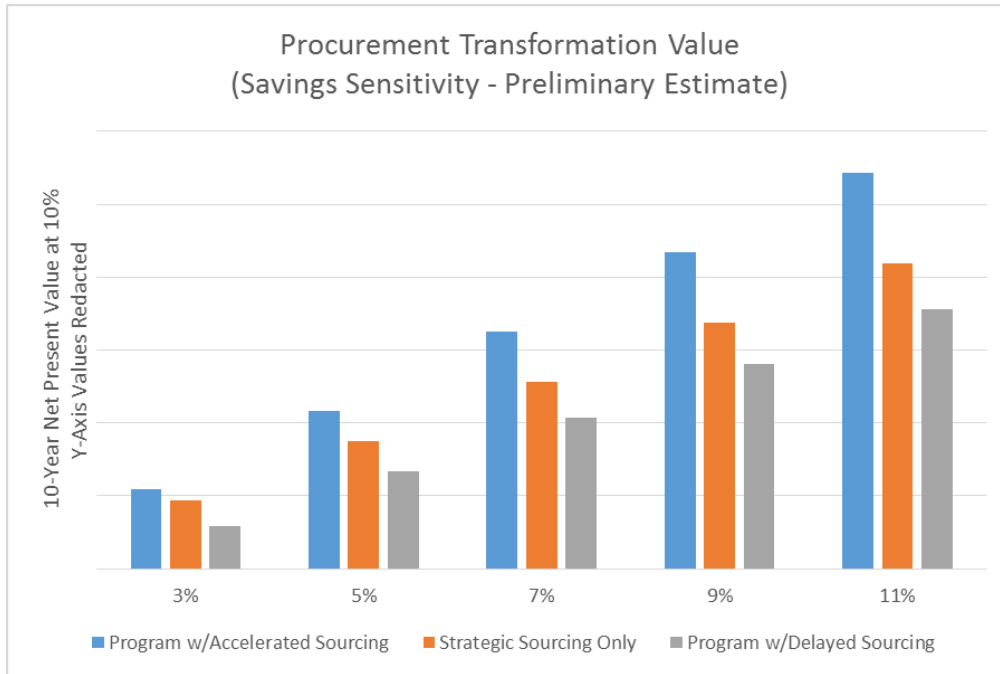
2.) After tax cash flow for the program base case



Procurement Transformation Value Assessment

Appendices (Page 2)

3.) Savings rate sensitivities including those for partial program execution



4.) Additional potential sensitivity concerns

