Risk Management is a Team Sport

Who are the players and what's your game plan?

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A founding member of Reed Elsevier's (RE) Global
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organizational lines into a centrally coordinated spend management department.

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PAST
FUTURE

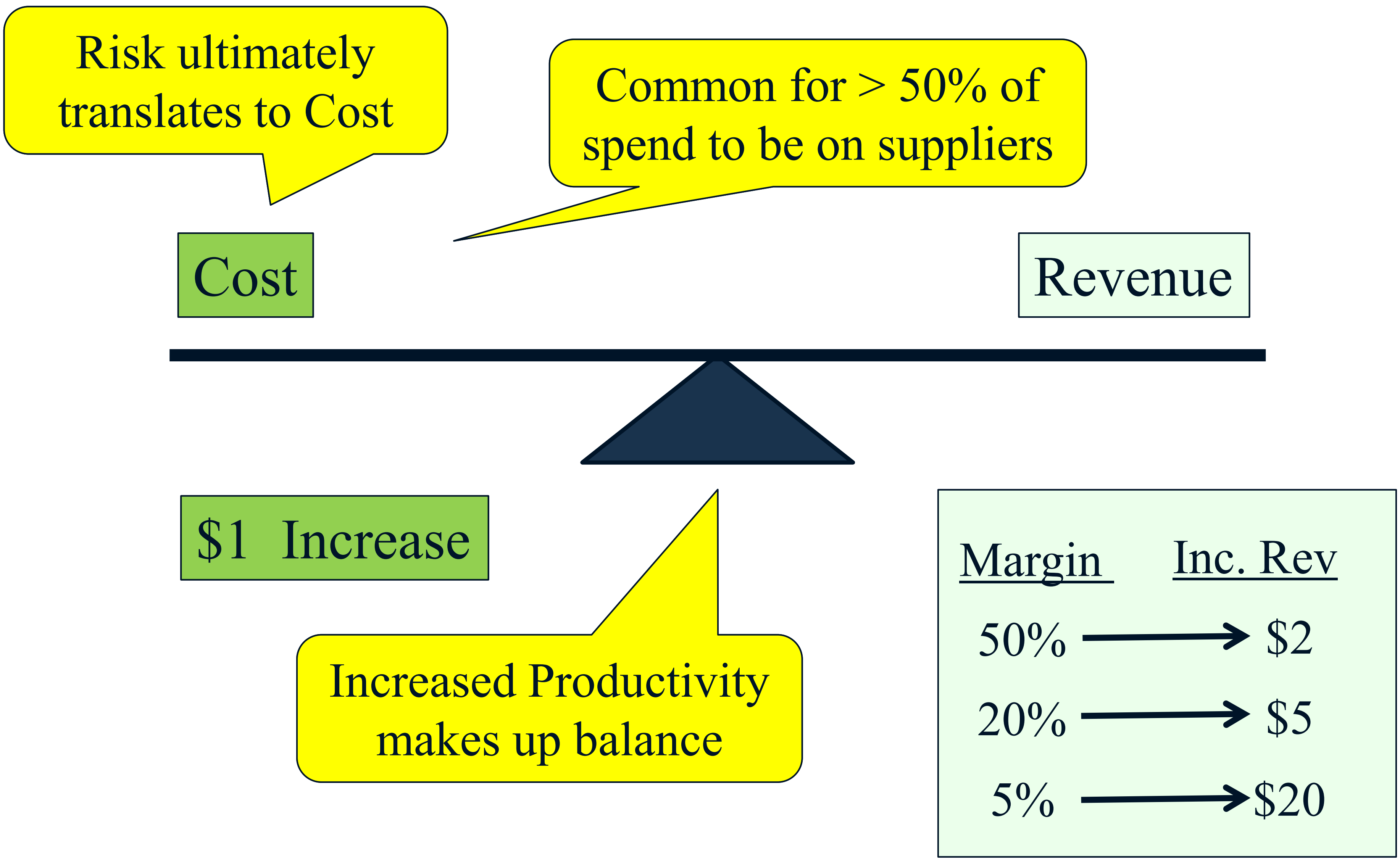

BIG
CHANGES
AHEAD!

ISM Conference Tracks

ISM2015 ANNUAL CONFERENCE
May 3-6, 2015 | Phoenix

- Track 1: High Performing Value Chain Management
- Track 2: Best Practices in Procurement
- Track 3: Strategic Partnerships
- Track 4: Risk Management
- Track 5: Leadership Strategies
- Track 6: Delivering Financial Results
- Track 7: Strategic Profitable Growth

Supply Mgmt. can have significant leverage




Supply Risk Mgmt: It's a team sport

Who are the players and what's your game plan (going forward)?

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2014 World Cup vs. Supply Risk Mgmt.

The World Cup had more in common with Supply Risk Mgmt. than you might expect

- Large & Complex
- Outsourcing, Sub-contracting
- High Expectations
- Push to be Faster & Cheaper

2014 World Cup vs. Supply Risk Mgmt.

- Large & Complex: Supply chains becoming more complex, larger, and less transparent with increasing drive for efficiency

- Outsourcing, Sub-Contracting: Increasing lack of operational controls

- High Expectations: Rising expectation in light of increased regulations, security threats, safety requirements, and financial vulnerabilities

- Push to be Faster & Cheaper: Creating motivation to disregard to codes of conduct

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2014 World Cup Lessons for Supply Risk Mgmt.

1. The situation can quickly shift…stay vigilant. Disruptions can be devastating
2. Don’t get “bit”…there are often early warning signs
3. Collaboration creates value, but it takes a game plan & discipline
4. Dedicated specialists important creates focus and can inspire
5. More eyes the better…your bench players often make the difference
6. Massive investments don’t always have expected returns. Known players don’t always know best

2014

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2014 World Cup Lessons for Supply Risk Mgmt.

1. The situation can quickly shift…stay vigilant.
Disruptions can be devastating

Switzerland Stuns Ecuador With Winning Goal In Final Seconds

Germany’s 7-1 defeat of Brazil was a merciless thrashing in the semifinals and defied belief

Estimated Cost and Implications of Supply Base Disruptions

CORPORATE EXECUTIVE BOARD
WHAT THE BEST COMPANIES DO

Large organizations spend an average of

$10M per year

supply chain disruptions

Hendricks & Singhal Study

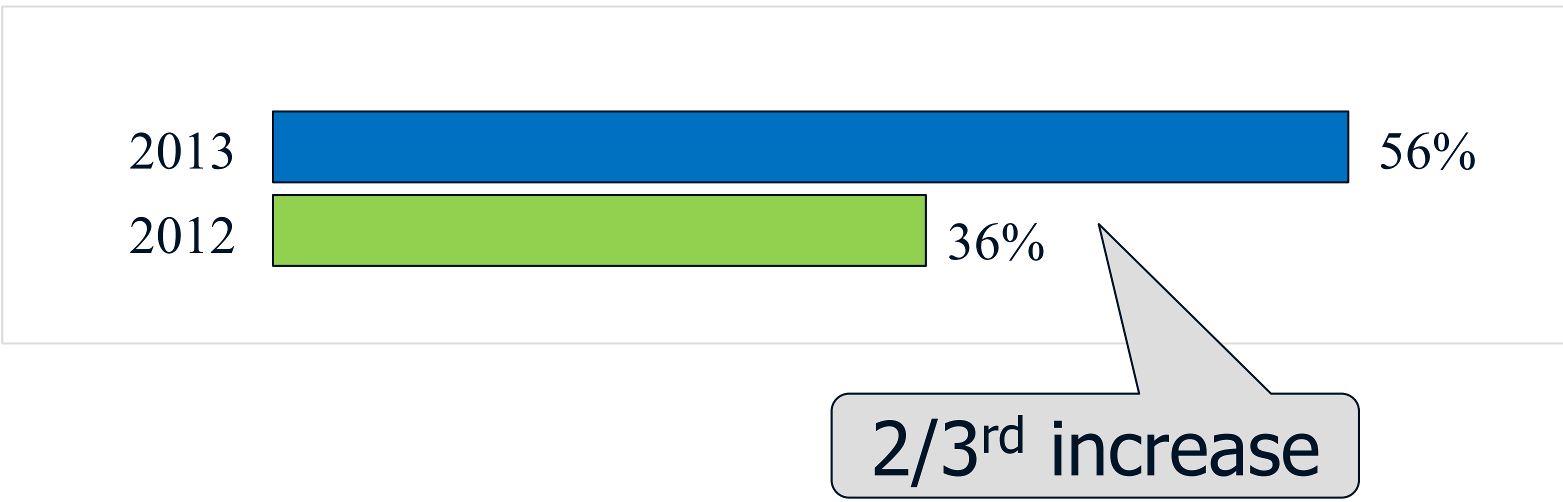
Of 827 companies issuing supplier disruption announcements over a 10 year period,

33-40%

experienced lower stock returns

Supply Mgmt. Market Forecast

Supply Market Intelligence Capability Upgrade (Processes, Resources, Tools)



<u>Source</u>: Procurement's Top Issues in 2013. The Hackett Group Procurement Advisory Webcast

Increasing Supply Intelligence Investments

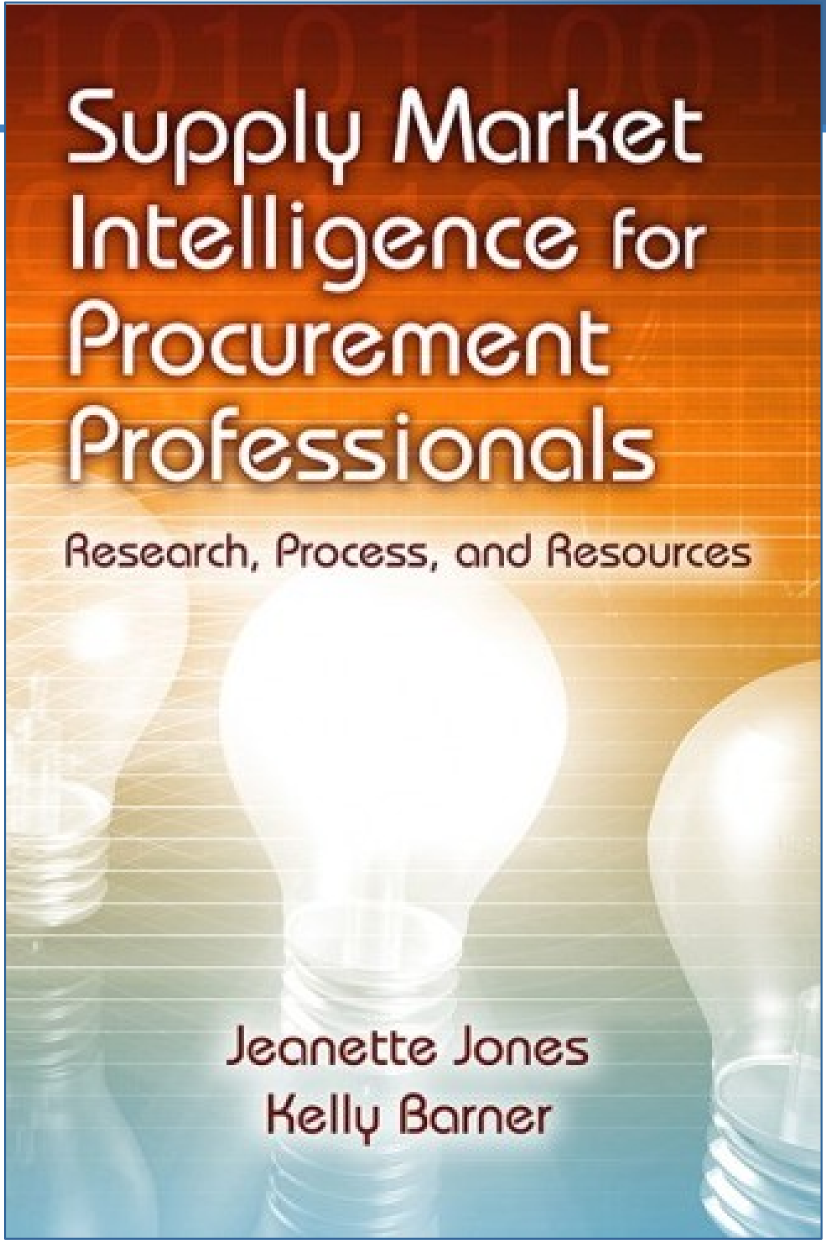
Dramatic investment acceleration in areas such as:

- Supply chain risk/supplier risk management tools, services and **content**
- **Closer linkages between information services/content providers and enterprise application investments** (e.g., LexisNexis, D&B, Thomson Reuters)
- Analytical tools that step outside the world of traditional BI by providing **integrated context and visibility within a core application rather than having to launch into a reporting module**
- Supplier mgmt. **growth 18-22 %** compounded annually between 2015 and 2017 [(1)]

Source: Spend Matters 2013/14

1) Spend Matters. Supplier Management Forecast: 2014 Market Growth, Analysis, and Predictions 4-March-2014

institute for supply management



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2014 World Cup Lessons for Supply Risk Mgmt.

2. Don't get "bit"…there are often early warning signs

There were two previous biting incidents during matches before the World Cup resulting in short-term punishments

Uruguay World Cup striker Luis Suarez, who bit Italy player Giorgio Chiellini

Suarez was banned from rest of World Cup, the next nine Uruguay international games

Fatal Fire in Bangladesh Highlights the Dangers Facing Garment Workers

Published: November 25, 2012

MUMBAI, India — More than 100 people died Saturday and Sunday in a fire at a garment factory outside Dhaka, Bangladesh, in one of the worst …

… Amsterdam. Experts say many of the fires could have easily been avoided if the factories had taken the right precautions. Many factories are in cramped neighborhoods, a… have too few fire es…es, a…

Could this have been anticipated? - YES

- LexisNexis monitoring uncovered >50 stories that provided warning signs to companies that there was a clear risk of major fires
  - *One story reported just prior to the fatal fire gaps in the implementation of fire safety plans in Bangladesh factories*

- Coupling 3rd Party Intelligence with Internal & Supplier data enables companies to better anticipate and mitigate supply risk

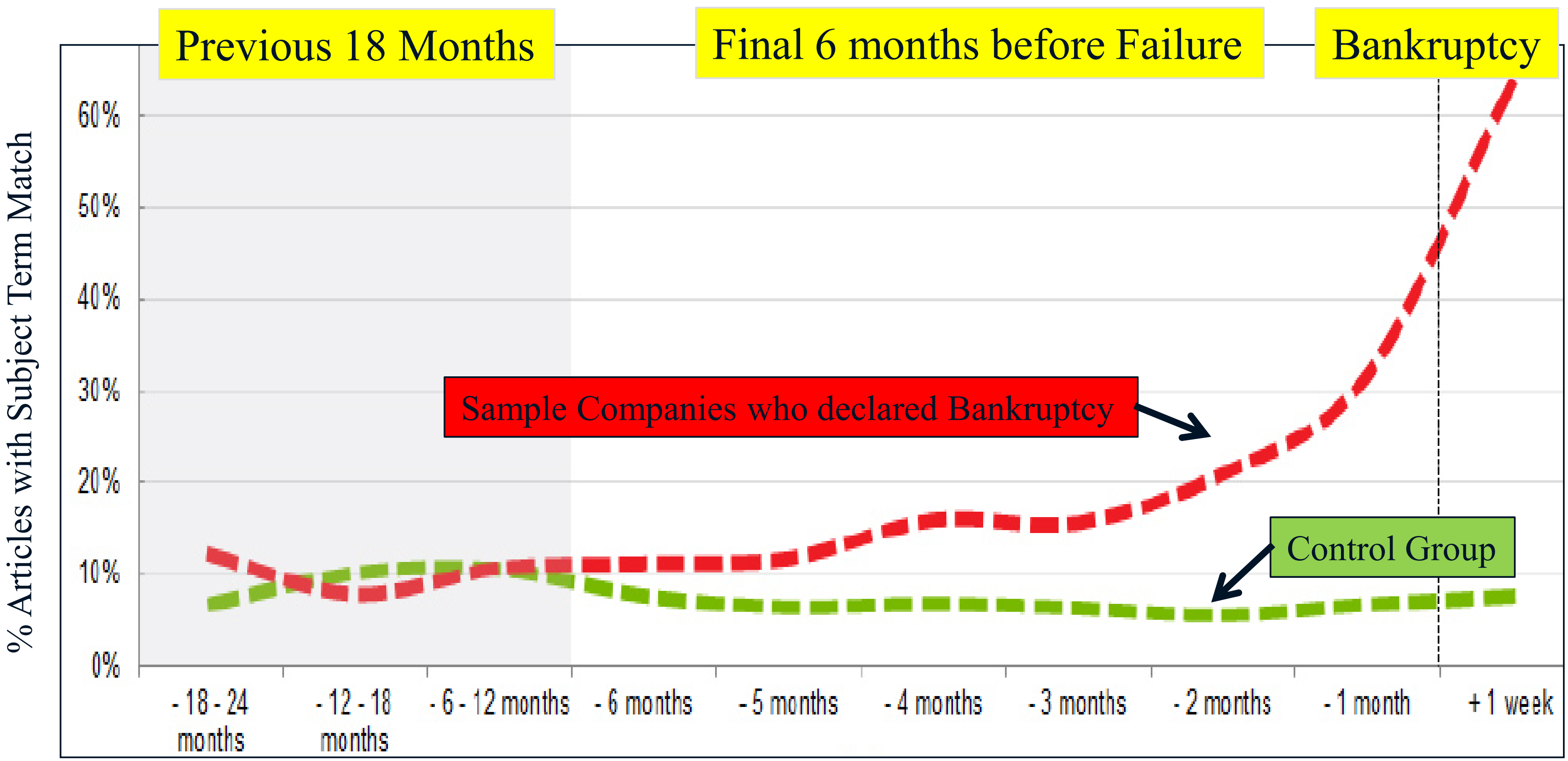
Positive correlation between negative news and future supply risk events

- LexisNexis & State of Flux researched 23 failed companies since 2008 analyzing >90k articles in the run up to bankruptcy

➢ Early warning signs identified risk in >80% of bankruptcies

- Early warning signs were either 'strong' or 'very strong' in >50% of cases
- Warning signs clearly seen six months before companies bankruptcy and became more pronounced the closer the companies got to failure
- Pattern of early warning signs was unique to failing companies and not seen in a sample of healthy companies

Pattern of early warning signs was unique to failing companies compared to healthy companies



Taken from LexisNexis 2013 whitepaper "Spotting the early warning signs of a company's impending finical collapse"

2014 World Cup Lessons for Supply Risk Mgmt.

3. Winning consistently requires a game plan & discipline

Germany's win was well earned. They were the best collective unit, most consistent team in the tournament, and fully committed to the team objective

Supply Risk Mgmt. Requires a Game Plan

- Political unrest
- Closing of borders
- Tariffs
- Leadership changes

Political

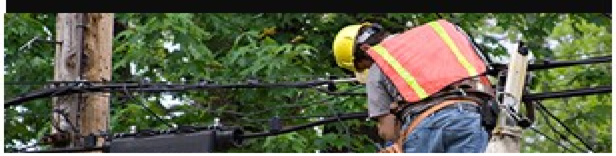
- Supplier Insolvency
- Failure of second-tier customers
- Exchange rates
- Commodity prices

Economic

- Human rights violations
- Labor problems
- Pollution/sustainability
- Animal abuse

Societal

Technical



- Cyber theft & security concerns
- IT Failure
- Product tampering
- Product recalls or quality issues
- Utility failure

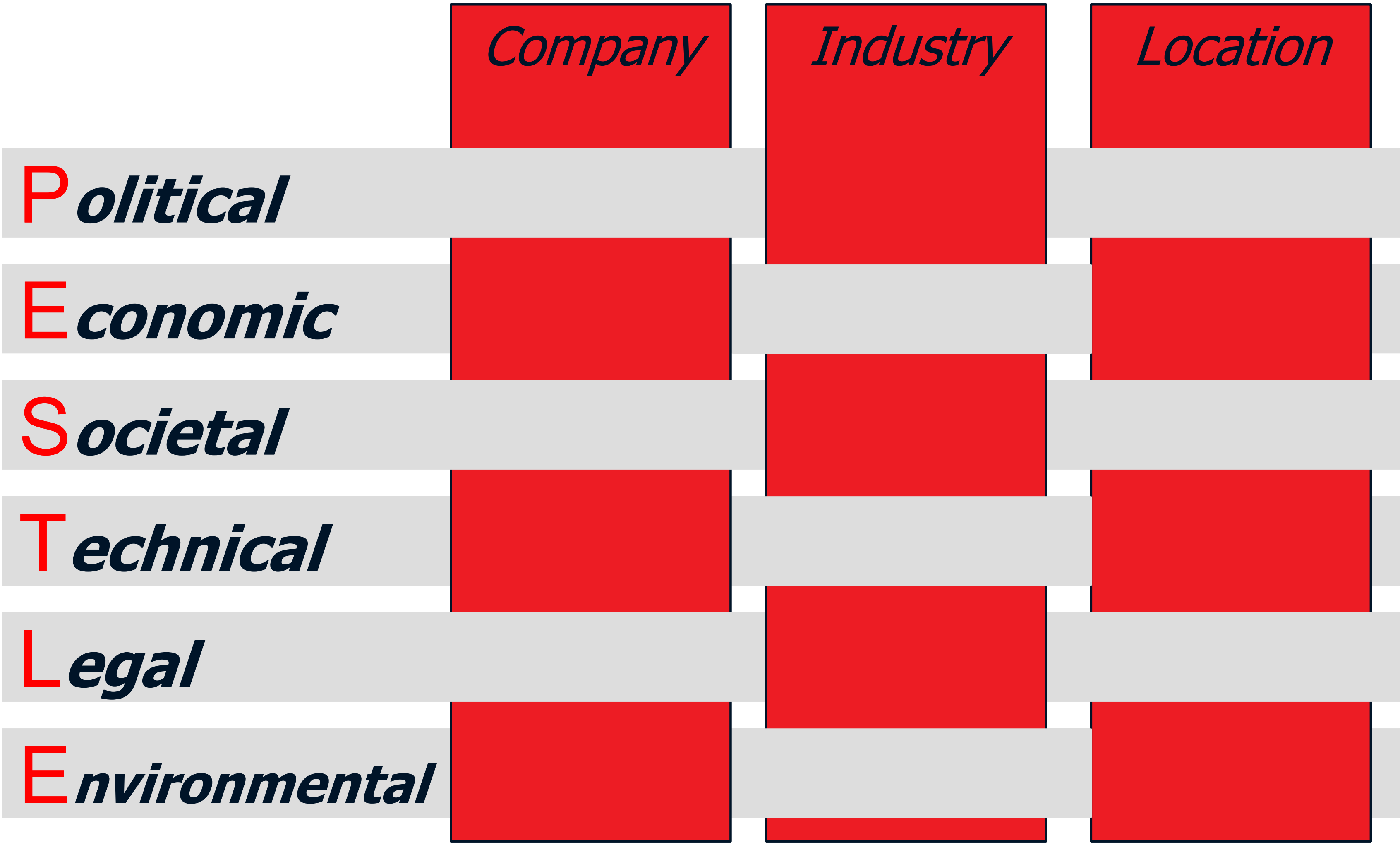
Legal

- Legal shutdown
- Injunction
- Anti-Bribery/Corruption
- Compliance Violations
- IP/counterfeit
- Product Recalls/Litigation

Environmental

- Natural or man-made disaster
- Weather
- Pandemic
- Volcano eruption
- Transportation disruptions

Discipline to Execute a Holistic Approach



2014 World Cup Lessons for Supply Risk Mgmt.

4. Dedicated specialists create focus and inspire

Team USA's goalie Tim Howard's performance against Belgium was hailed as a key reason USA advanced to elimination round

http://sports.yahoo.com/photos/best-and-worst-moments-of-the-world-cup-2014-slideshow/

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Center of Excellence Strategy Focuses Resources on Supply Risk Assessment & Monitoring

3rd Party Intelligence critical for Risk Assessment and Monitoring

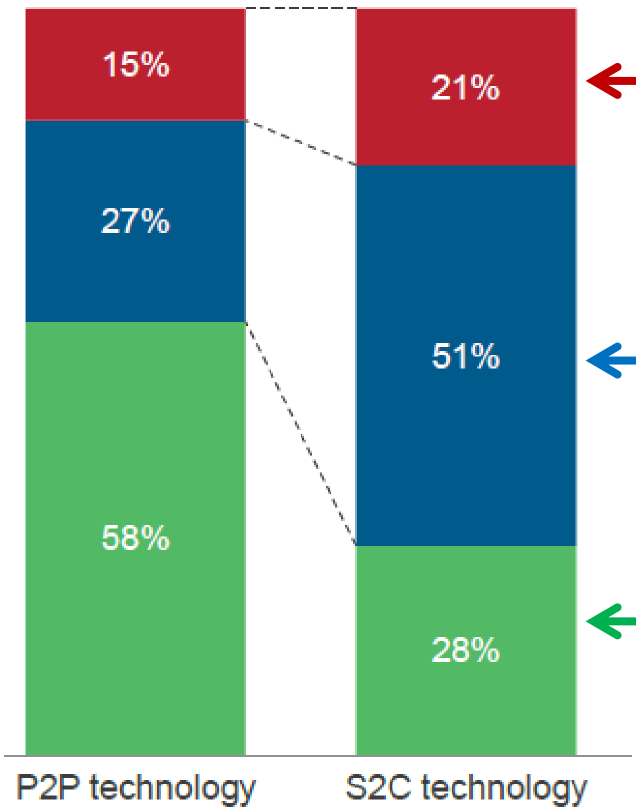
Centers of Excellence

- Teams with specialized expertise
- Provide subject matter guidance and/or deliver tangible business services.

Source: The Hackett Group

Procurement Outsourcing can open access to previously untapped Supply Risk monitoring services

Procurement Outsourcer often provides access to advanced technology/services the buyer doesn't have



Platform-based Technology
(Pre-configured application owned by service provider)

Augmented Technology
(Service provider delivers "add-on" tools to address specific gaps)

Tie-an-run Technology
(Service provider plugs into the buyers systems)

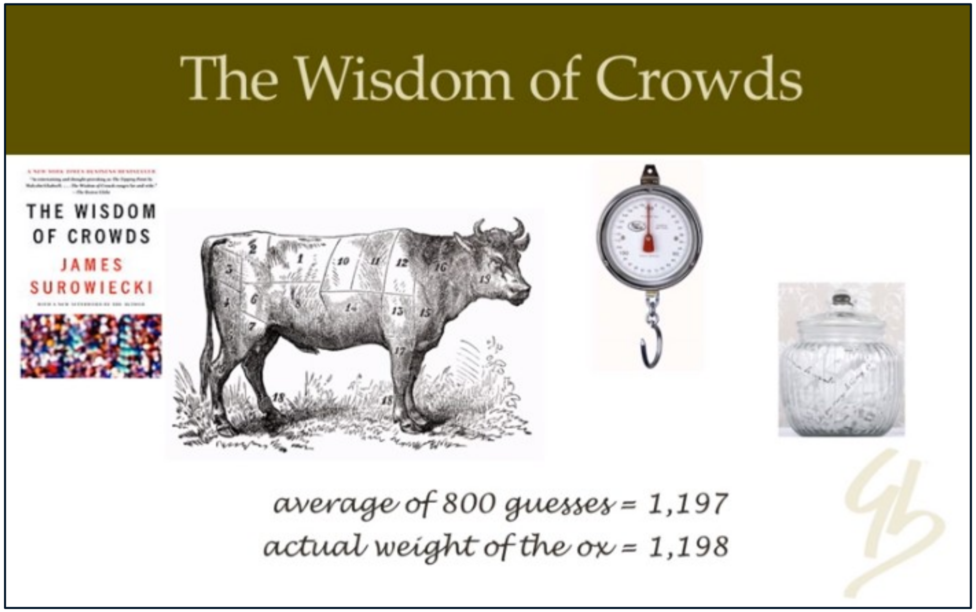
Source: Everest Group

2014 World Cup Lessons for Supply Risk Mgmt.

5. A strong bench makes the difference

More goals were scored by substitutes than ever before, including the tournament's final to have Germany win the World Cup

The importance of Diversity in Decision Making



"…the more power you give a single individual in the face of complexity and uncertainty, the more likely it is that bad decisions will get made."

- James Surowiecki, The Wisdom of Crowds

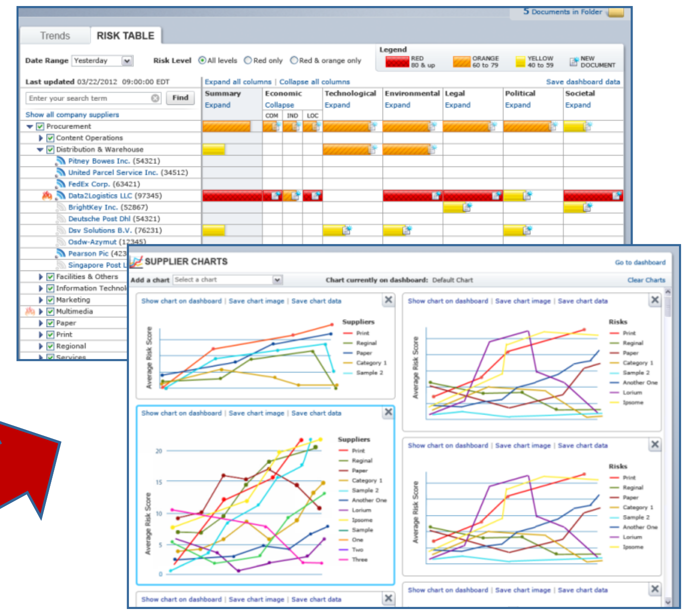
Research consistently shows coordinated aggregation of diverse inputs enables better decision making

The importance of Diversity in Supply Risk Mgmt.

Key Diversity Elements in Supply Risk Mgmt.

- Broad stakeholder engagement
- Monitor across supply base
- Wide range of inputs (*going beyond financial scores*)

Illustrative example of Supply Risk Monitoring dashboard and alerting tool that leverages diversity of content and audience to proactivity identify risk



Supply Risk Monitoring programs need to encourage broad participation and efficient & holistic monitoring across supply base

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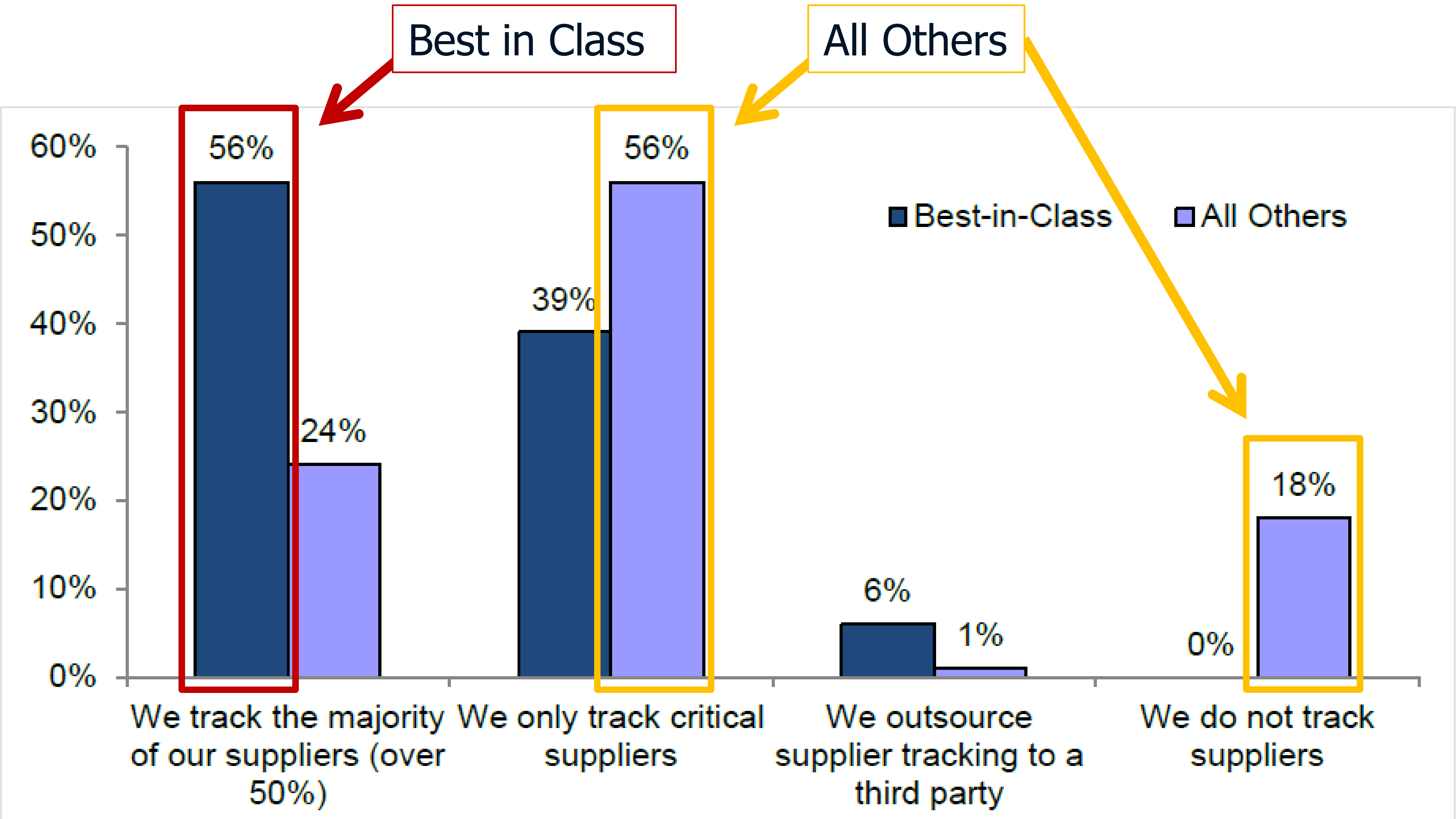
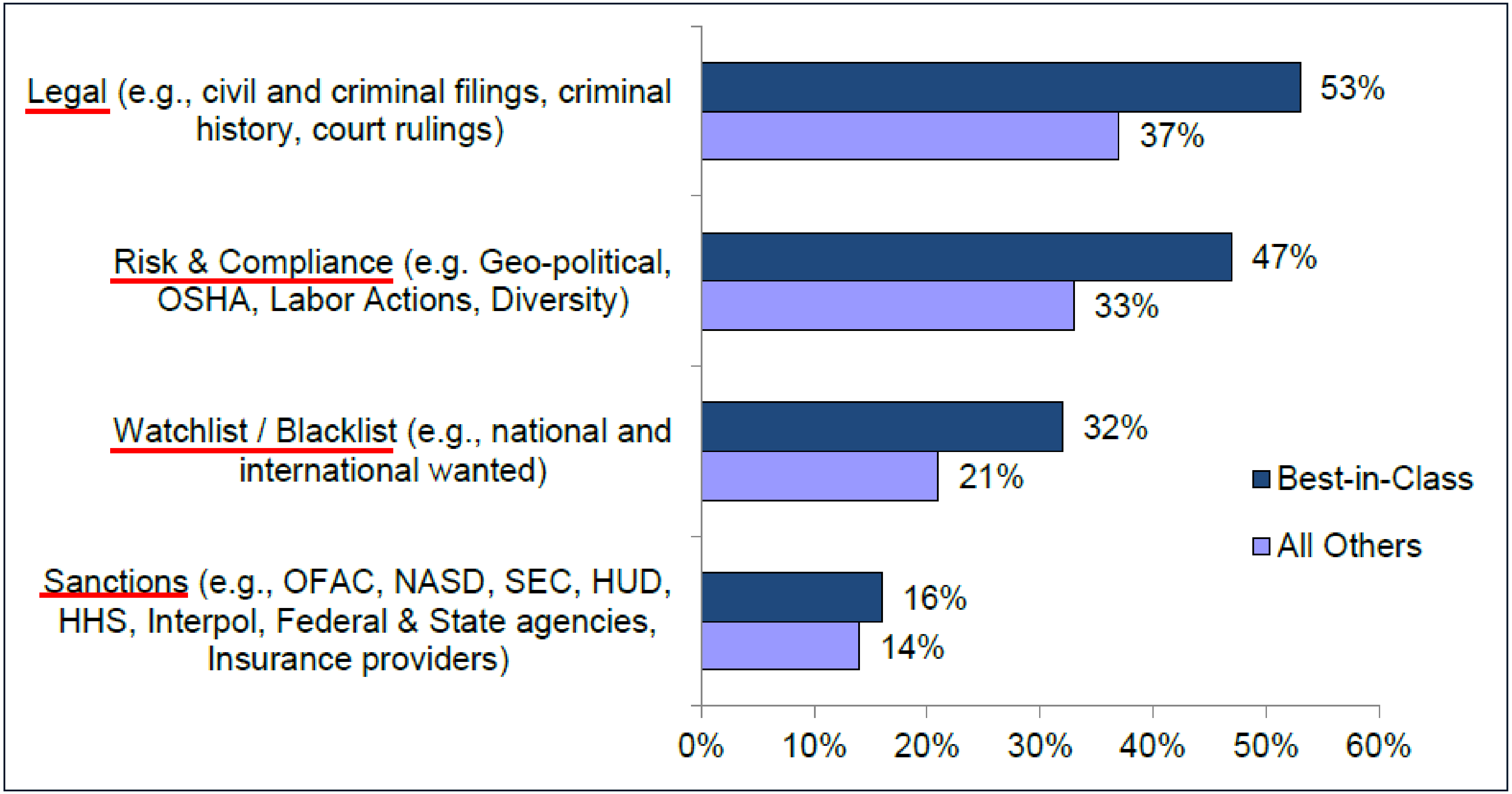
Best-in-Class companies track the majority of their suppliers



Source: Aberdeen Group, June 2012 (Percentage of survey respondents, n=132)

Best-in-Class goes beyond financials to identify risk



Source: Aberdeen Group, June 2012 (Percentage of survey respondents, n=132)

2014 World Cup Lessons for Supply Risk Mgmt.

6. Massive investments don't always have expected returns. Known players don't always know best. Execution wins!

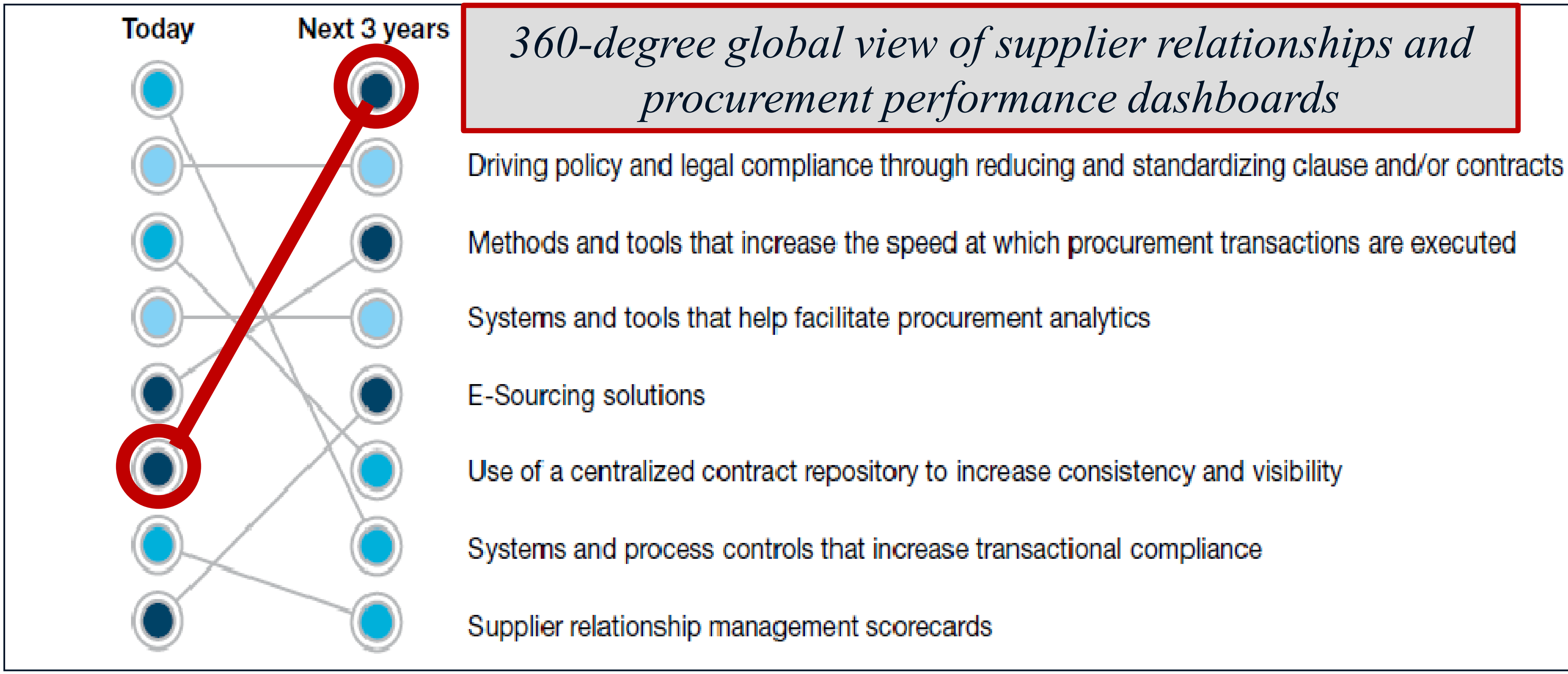
Brazil spent ~$14 billion on the Cup while millions of its citizens lack basic services

Defending champions Spain were favorites, but failed to advance

Costa Rica' Executed well and became the World Cup "Cinderella Story"

http://sports.yahoo.com/photos/best-and-worst-moments-of-the-world-cup-2014-slideshow/

Executing On-Going Monitoring as part of supplier management processes



<u>Source</u>: 2013 Chief Procurement Officer Study, IBM Institute for Business Value

Supply Intelligence Nirvana = Consolidated BI Warehouse

Internal Intelligence

- ERP 1
- ERP 2
- P2P
- SCM
- Contracts
- Spend Visibility
- Supplier Performance

3rd Party Intelligence

- On-boarding related information
- CSR/EHS
- Supply Risk Mgmt.
- Third-Party Compliance
- Diversity
- Government Watch Lists
- Accreditation/ Certifications

While potentially powerful, consolidated BI Warehouse projects often involves <u>Tears and Large Budgets</u>

Suppliers

Tier 1 Suppliers

ERP 1 | ERP 2 | P2P | SCM | Contracts

Tier 2 Suppliers

Source: Spend Matters, D&B

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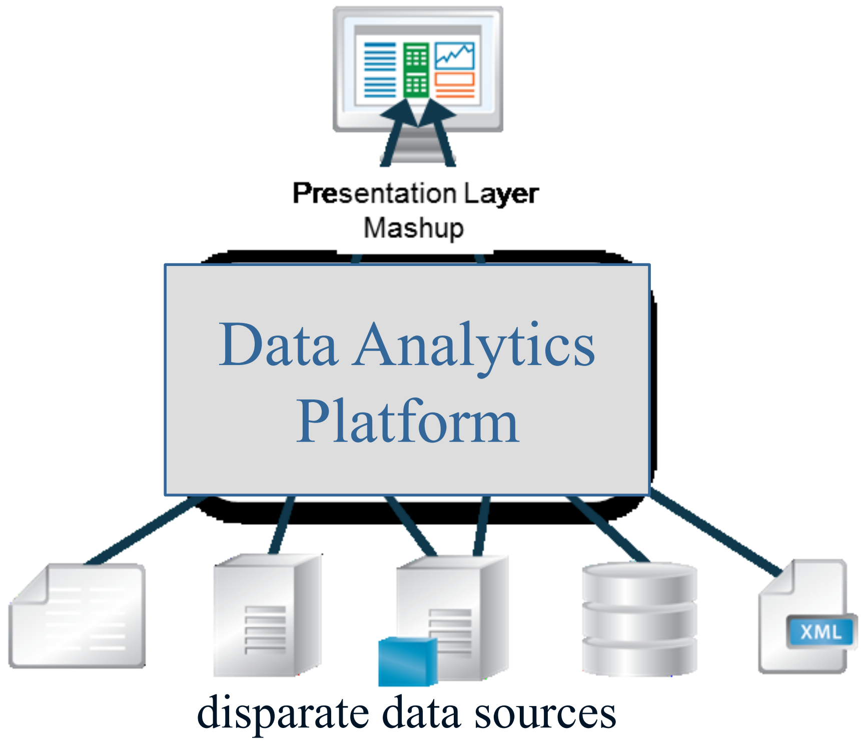
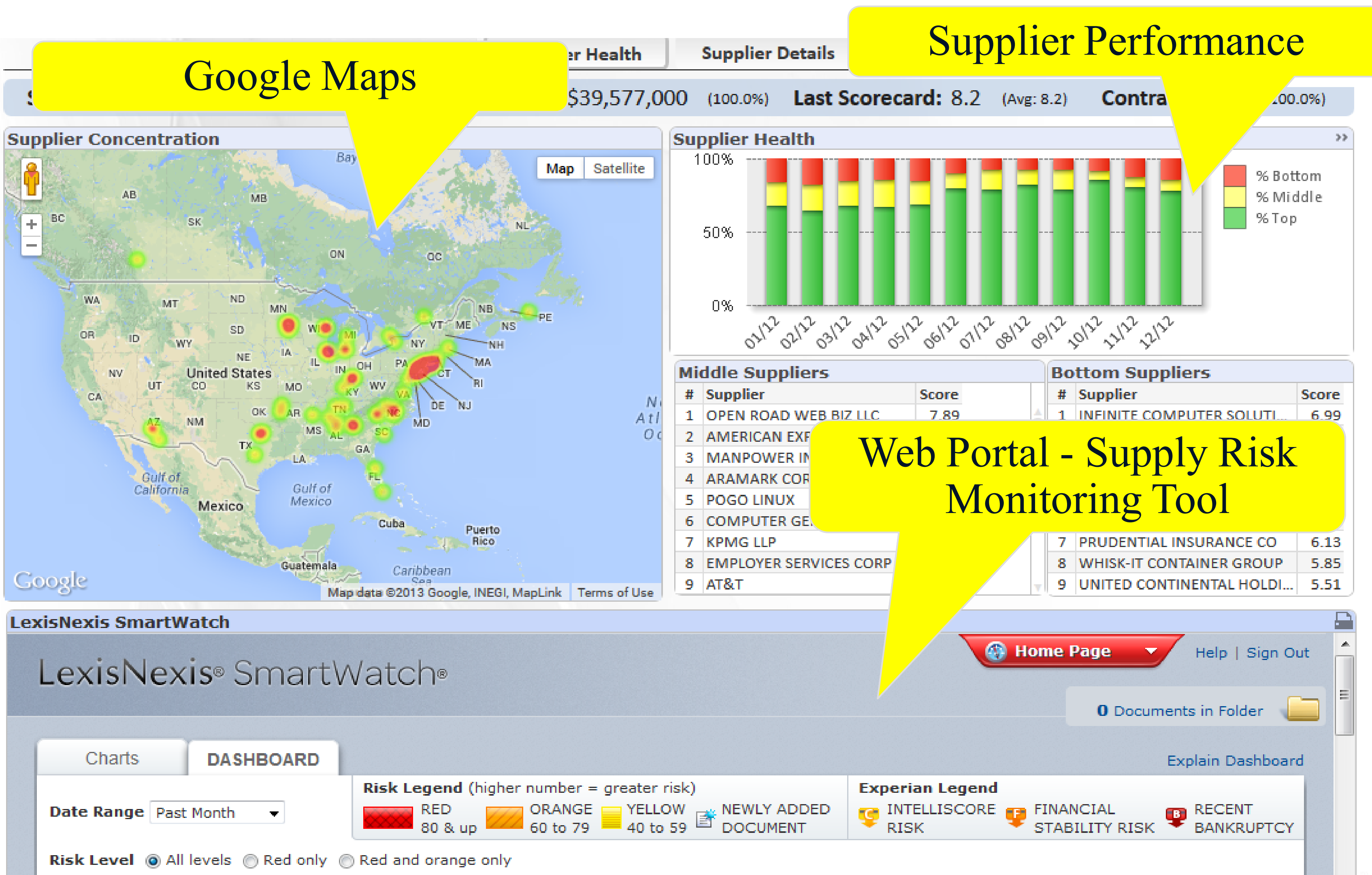
Mash-Up? What is it?

Data mash-up refers to reporting tools that enable reporting from disparate data sources into dashboards with minimal integration.

For example:
You can "Mash-Up" content from multiple sites into a single dashboard giving users an "integrated" feel with out-of-the-box functionality



Sample Mash-Up Dashboard
Using standard reporting capabilities



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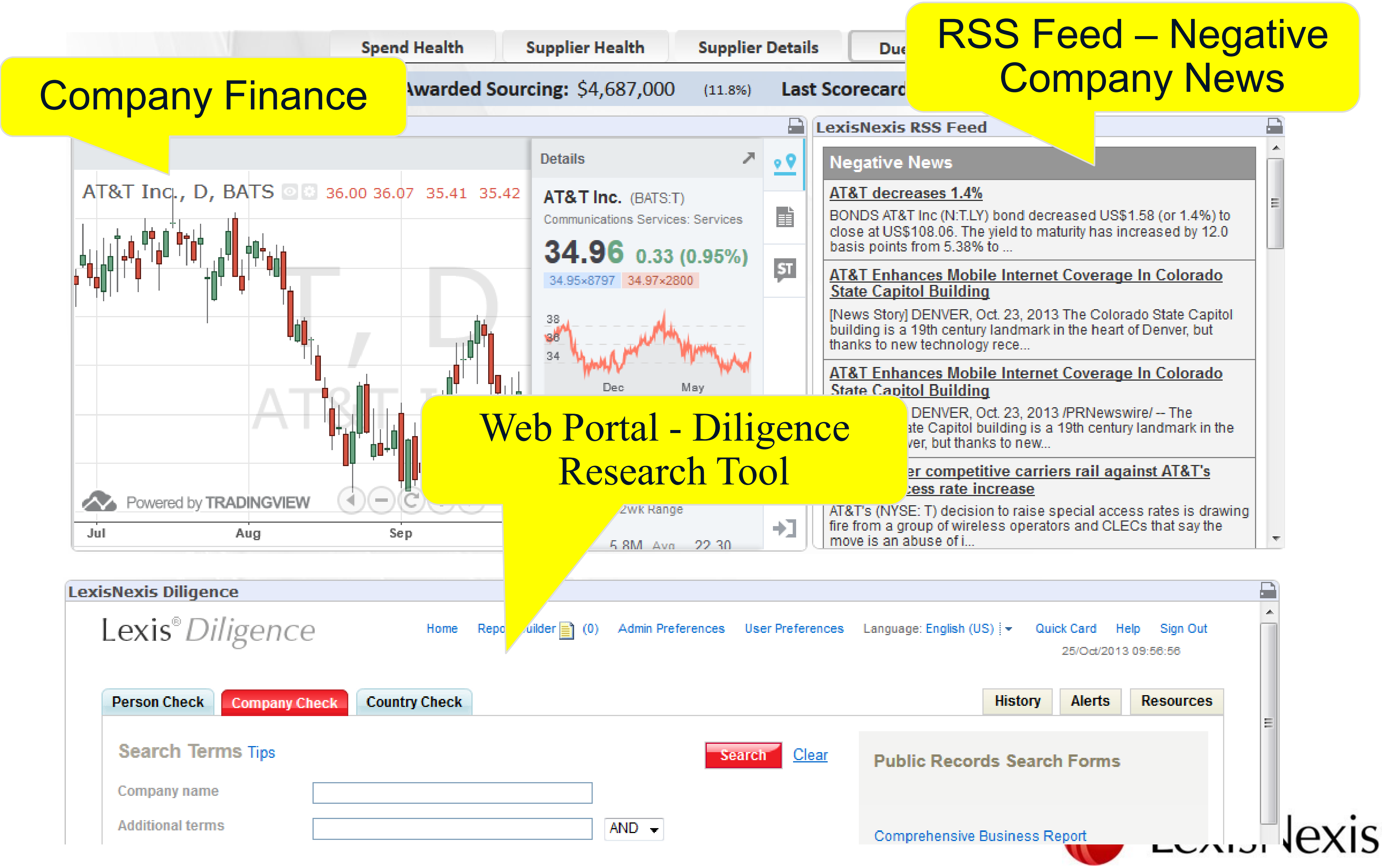

2014 World Cup Lessons for Supply Risk Mgmt.

Match Summary

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Q & A

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Thank you for attending!

Eric Walsworth - Director Supply Management,

LexisNexis, a Division of Reed Elsevier

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Procurement Skills Development

1. **Consultative aptitude.** This includes a natural curiosity, personal accountability with a results orientation, an ability to reframe business problems and to rapidly adapt new tools and models into problem solving

2. **Financial sophistication.** The new professional must have the ability to build and drive sourcing and evaluation models, and to structure deals that incorporate financial measures of value creation.

3. **Communication and change management skills.** As an agent of change, the sourcing professional must have strength in crystalizing complex ideas into straightforward messages that will drive adoption within their organizations.

4. **Technical savvy.** The world has changed and the procurement professional must be able to understand how technology is driving the business, and also how to use technology in more effectively delivering procurement-related services

5. **Vendor management skills.** Whether the professional is creating or managing the relationship, he or she must be adept at managing complexity and getting the best performance out of partners in a networked, collaborative world.

"The Cheese Has Moved: 19-Jan-2015 Supply & Demand Chain Executive