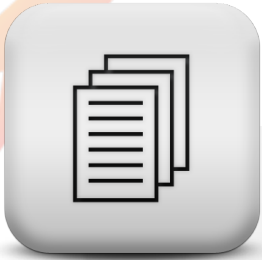


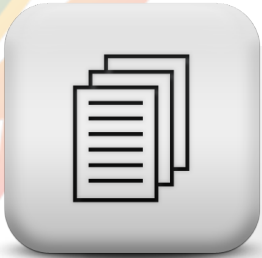
CONTROLLING SOW-BASED SERVICES

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and SOW Practice Director
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What does controlling SOW-based services spend mean to you?

WE FREQUENTLY GET TWO VERY DIFFERENT TYPES OF ANSWERS TO THIS QUESTION:



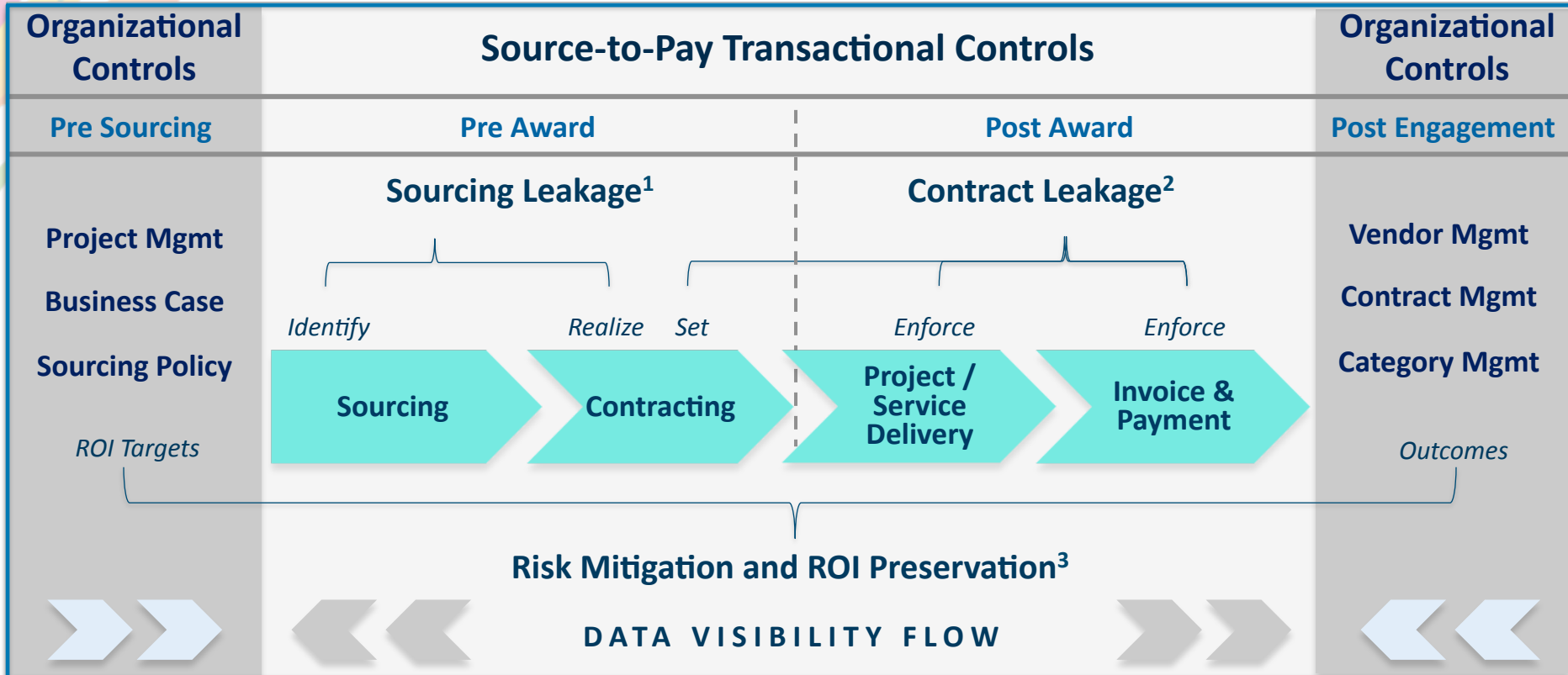
1. **Answers focused on contract compliance or POST AWARD controls; and**
2. **Answers focused on quality of requirements and vendor selection or PRE AWARD types of controls.**

These answers are as different as *chocolate* and *peanut butter*!

And both are very good answers all by themselves, but they are even better when combined...

CONTROL LANDSCAPE MAP

The "CONTROL" capability provides near term and strategic benefits



¹ Sourcing preferences are identified during sourcing and realized in the SOW / contract. Sourcing leakage refers to unrealized preferences.

² Commercial terms are set in the SOW / contract and then enforced throughout the engagement via delivery acceptance, invoicing and payments.

³ Poor vendor selection represents the greatest risk to third party engagements and potential drain on ROI and outcomes. Quality vendor selections and positive outcomes are the primary objectives of Organizational Controls.

CALCULATING CONTRACT LEAKAGE

Contract Leakage is overpayment for any reason

$$\text{Contract Leakage} = \left(\frac{\text{Contract Terms}}{\text{Contract Actuals}} \right) - 1$$

» Example 1

- Company engaged Firm for \$100,000 of consulting services. After the engagement concluded it was discovered that \$105,000 was actually paid to the consulting firm due to a duplicate payment of one invoice. That's *contract leakage*.

$$\frac{\$100,000}{\$105,000} = .95 - 1 = -.05 \text{ or } -5\%$$

CALCULATING SOURCING LEAKAGE

Sourcing Leakage is when preferences don't make it into the contract

$$\text{Sourcing Leakage} = \left(\frac{\text{Preferences Identified}}{\text{Contract Terms}} \right) - 1$$

» Example 2

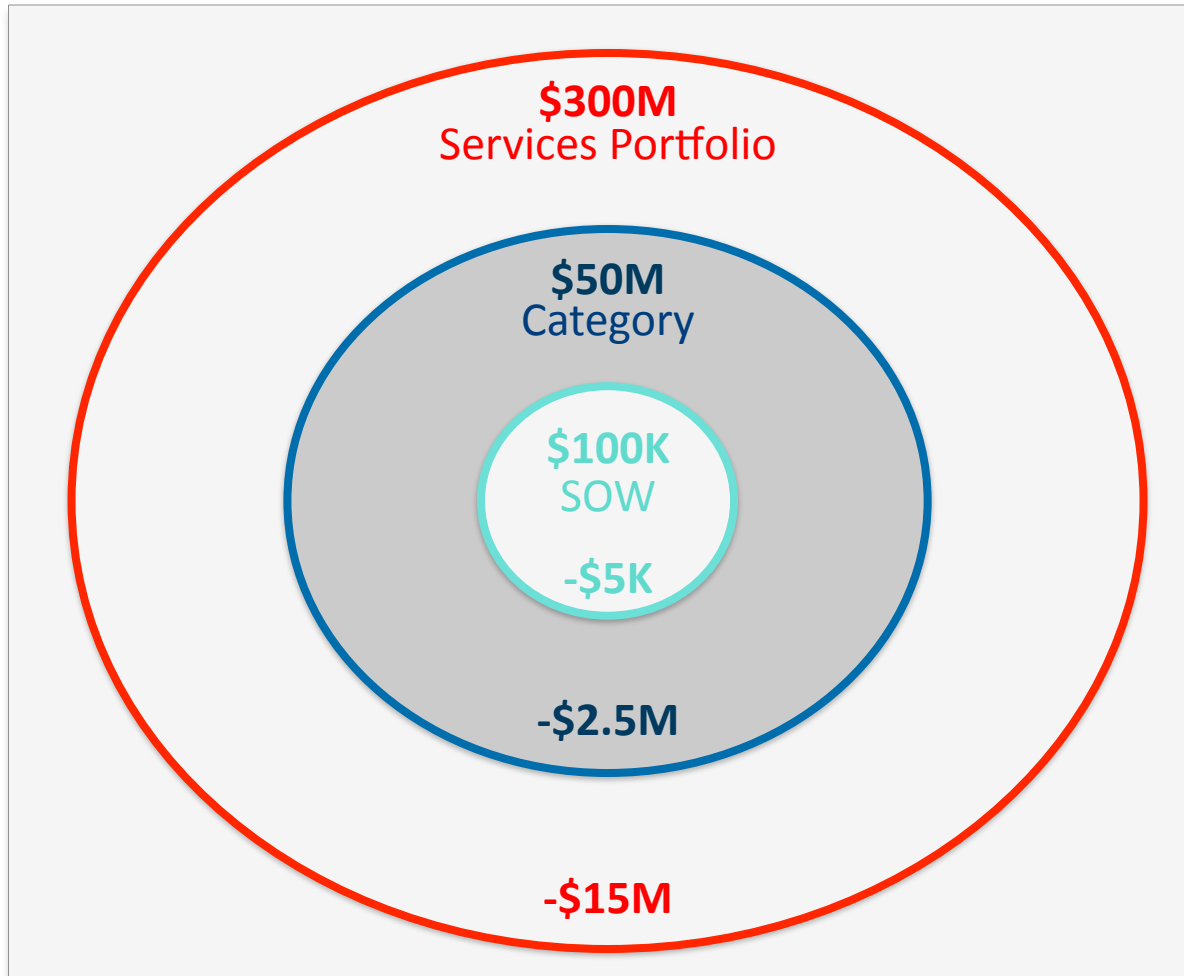
- Sourcing Mgr at Company head quarters in NY negotiated a 5% reduction in global rate card with consulting Firm. Company IT Mgr in LA engaged the local office of the consulting Firm for a \$100,000 project engagement, but was unaware of the renegotiated rate card, so unwittingly executed a contract at the old rates. That's *sourcing leakage*.

$$\frac{\$95,000}{\$100,000} = .95 - 1 = -.05 \text{ or } -5\%$$

VALUE OF TRANSACTIONAL CONTROLS

Achieving portfolio scale of transactional controls is a key business case driver

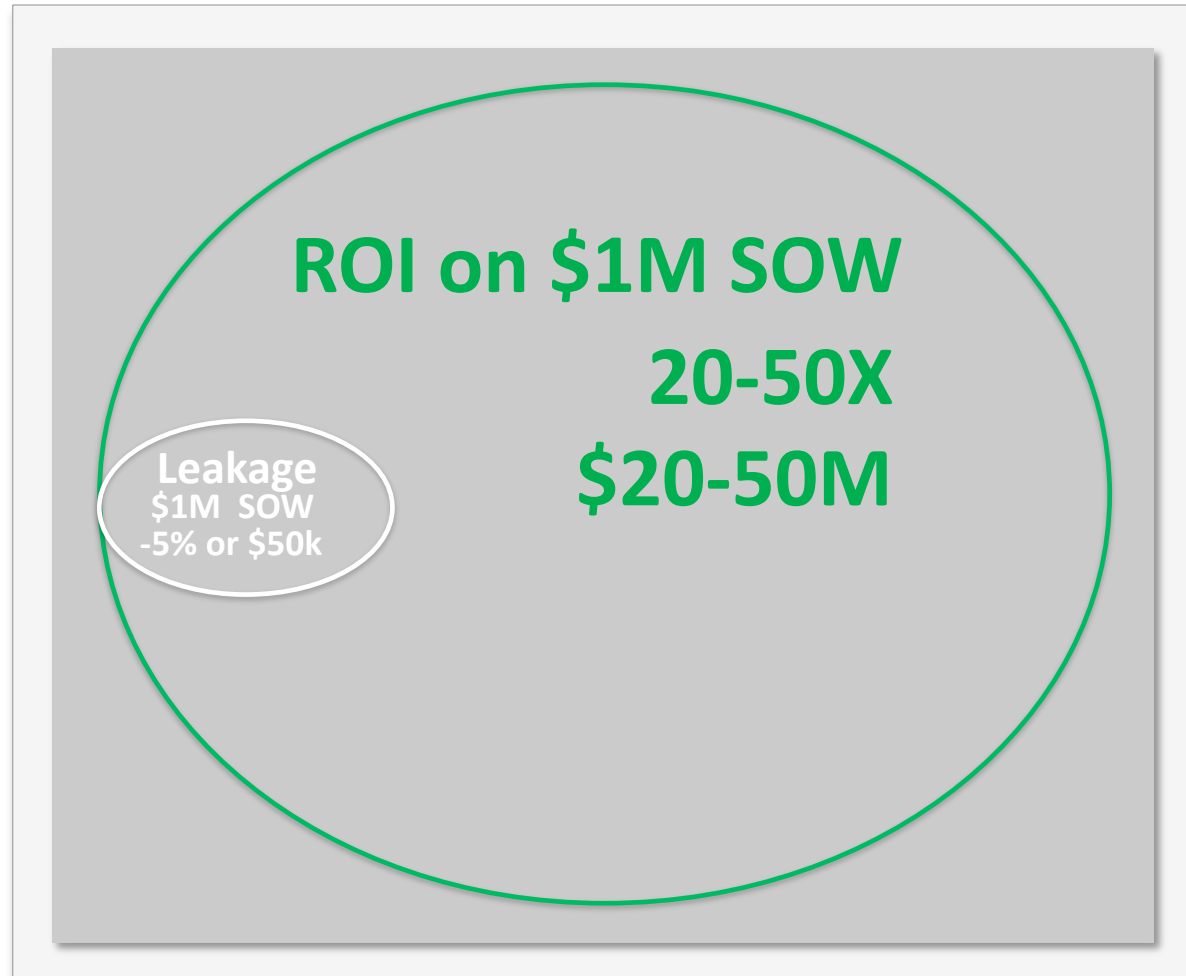
Impact of -5% leakage at the SOW, Category and Services Portfolio level...



VALUE OF ORGANIZATIONAL CONTROLS

Organizational controls are more focused on ROI & outcomes; a much greater prize

Leakages are measured in fractions of SOW amount while ROI is measured in multiples of the SOW amount...





Control steps:

1 – Document, 2 – Compare, and 3 – Prevent or Notify

Contract Controls

- 1. Document commercial terms in the SOW / contract**
- 2. Compare invoices, payments and quality of deliverables to those commercial terms in the contract;**
- 3. Make corrections to inaccuracies BEFORE payments are made**
 - › Adjust invoices / payments
 - › Hold supplier accountable for noncompliant deliverables.

Sourcing Controls

- 1. Document procurement preferences**
- 2. Compare contract terms to expected preferences;**
- 3. Make corrections to inaccuracies BEFORE contract is executed**
 - › Adjust commercial terms
 - › Prevent contract execution



1. **Visibility**

“You can’t control what you can’t see.”



2. **ID Control Points**

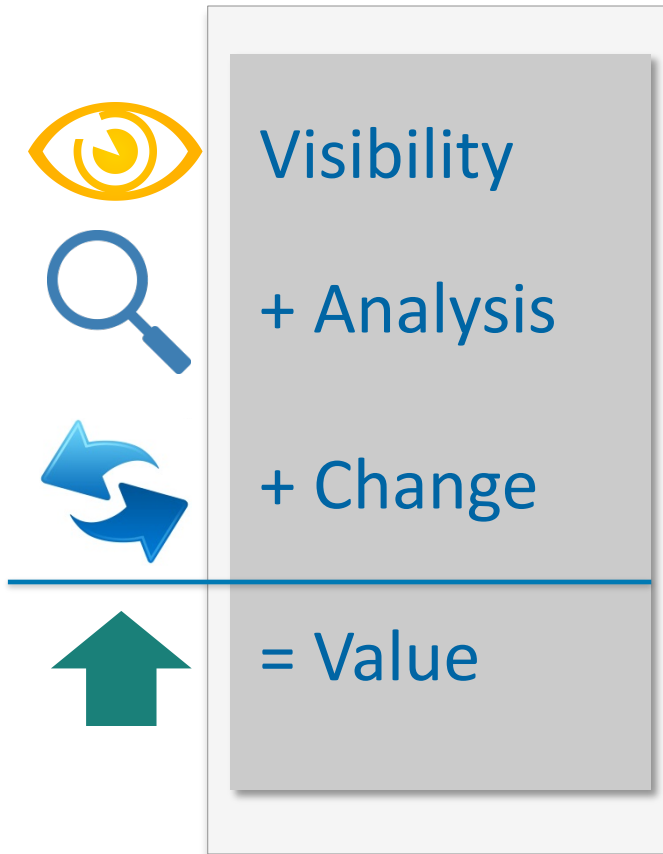
The points in a process where you establish controls.



3. **Closed-loop Enforcement**

The step in the process where non-compliance is

1. Identified **and** the option to systematically stop the transaction exists; OR
2. The non-compliance is prevented altogether.

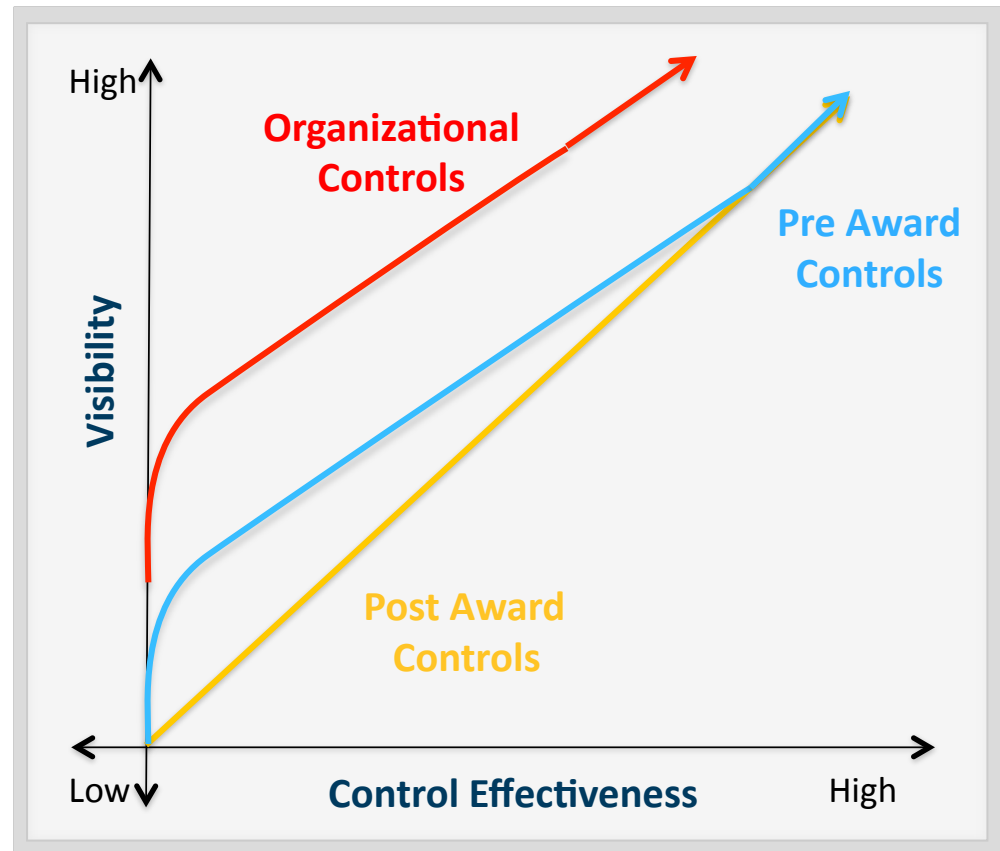


» **Relevance:**

- Drives savings quality & depth
- ID procurement process efficiencies
- **Enables Control**

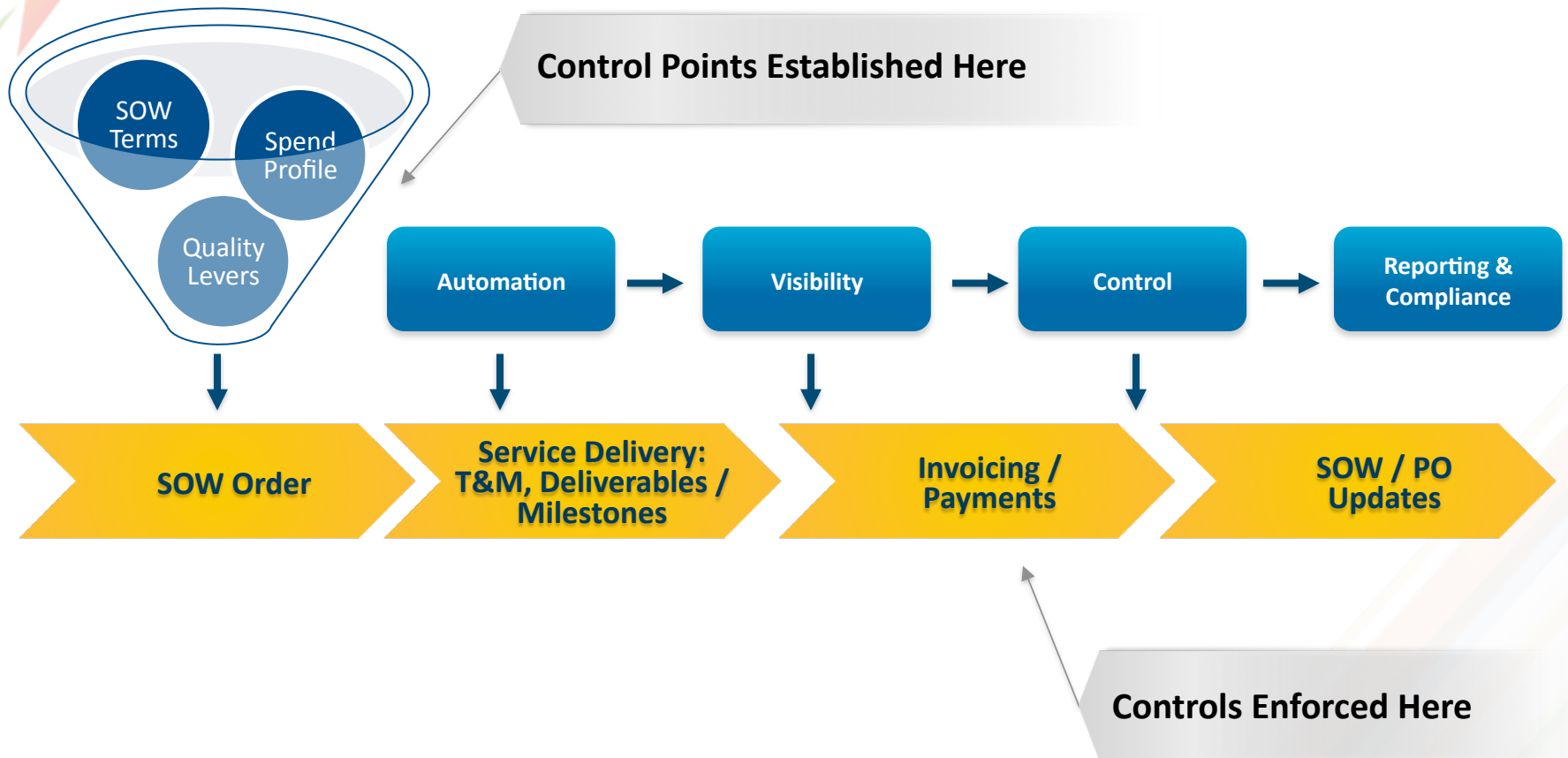
» Analysis:

- Close correlation with post award controls
- Pre award control effectiveness lags development of visibility
- Material lag with organizational controls
- **Visibility** is required for all controls to be effective



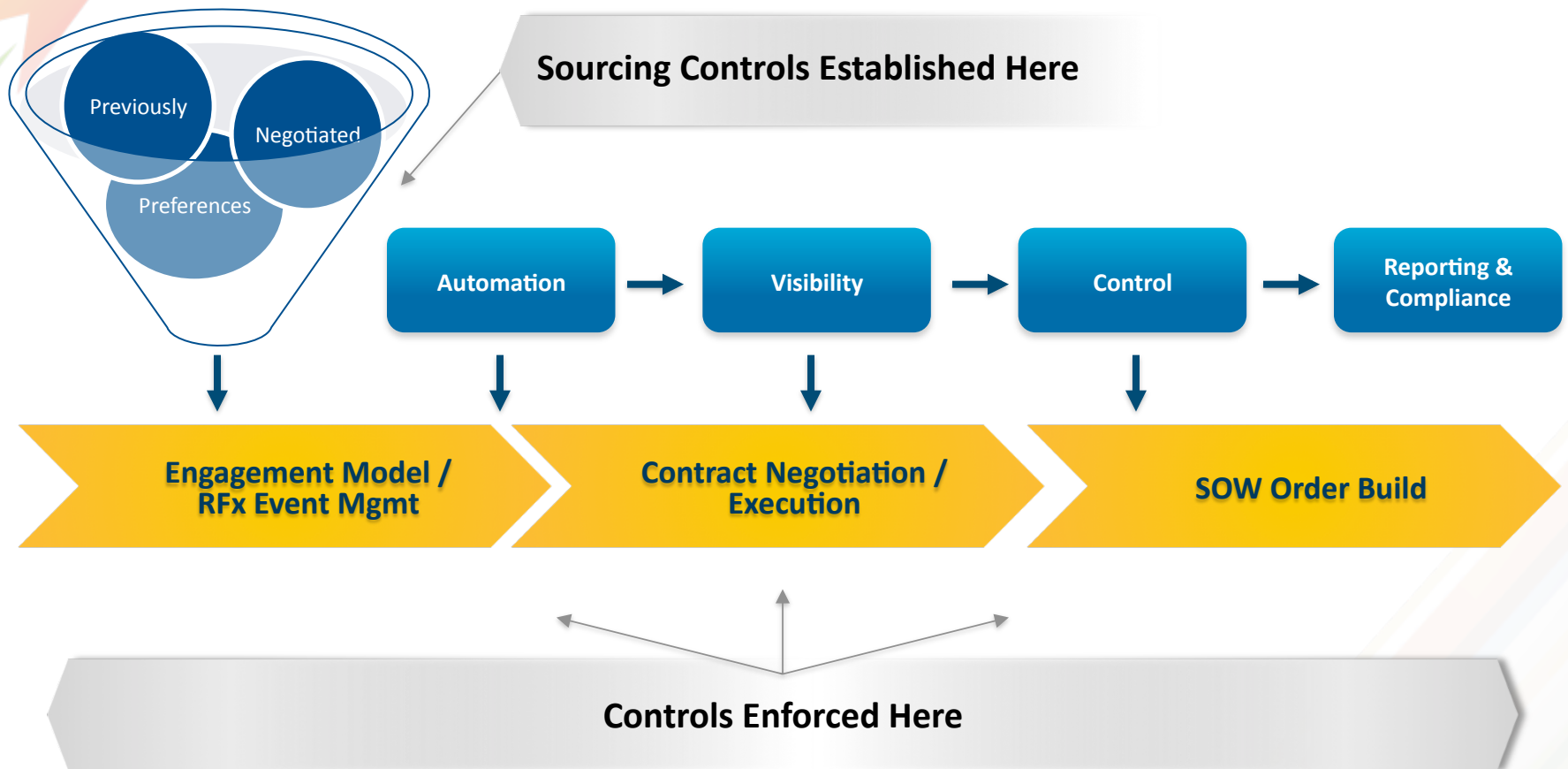
IQN's POST AWARD ENGAGEMENT CONTROLS

Objective: Realize savings and preferences; ensure contract compliance.



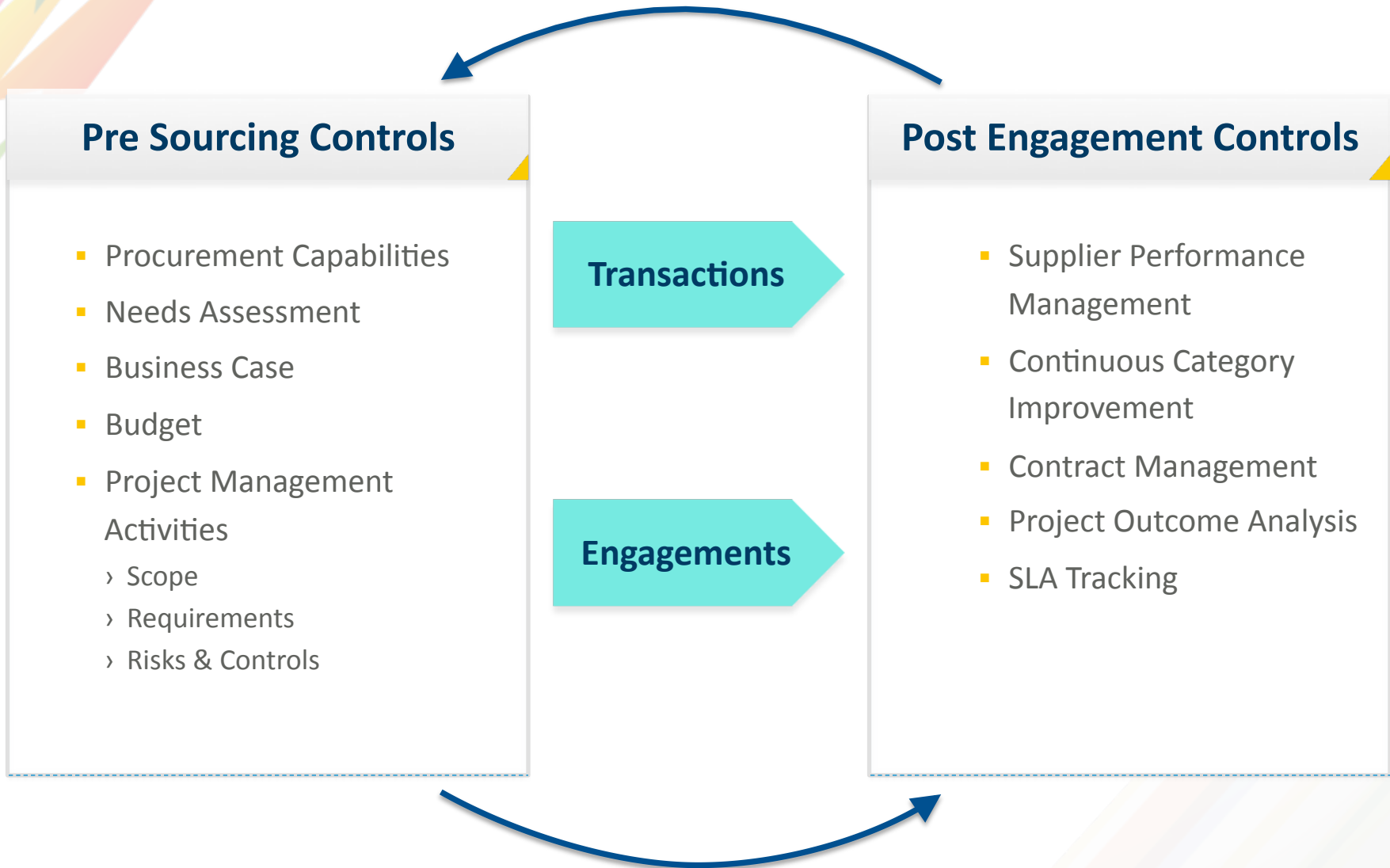
IQN's PRE AWARD SOURCING CONTROLS

Objective: Protect identified preferences; establish accountability.



ORGANIZATIONAL CONTROLS

Representative sample



- » **Transactional controls drive business cases with immediate and near term benefits by reducing leakages**
- » **Organizational controls are more complex, take more time to develop and require transactional data to be effective**
- » **The combined solution of Pre Award and Post Award Transactional Controls, and Pre Sourcing and Post Engagement Organizational Controls is indeed the preferred solution to your SOW program...**
- » **But let's be clear, chocolate beats peanut butter, every time, hands down, because it just does!**

The logo for IQNsiders 2014, featuring the word "IQNsiders" in a bold, sans-serif font with "2014" in a smaller font above the "siders". The "IQ" is in orange and "Nsiders" is in black. The background of the slide is a blue diagonal band on the left and a white background with colorful diagonal stripes on the right.

IQNsiders²⁰¹⁴

Innovate

Q&A

Decorative arrows in the top-left and bottom-right corners. The top-left corner features three overlapping arrows in yellow, orange, and pink pointing towards the top-right. The bottom-right corner features a cluster of overlapping arrows in blue, orange, yellow, green, and pink pointing towards the bottom-right.