

**Procurement
Transformation
&
Strategic
Sourcing**



INFOR500

Procurement Transformation and Strategic Sourcing

The Challenge

Varian Medical Systems, is the established world leader in oncology medical devices and software solutions, with a market cap of \$11B. When we first engaged with Varian, they had an internal decentralized Procurement solution for Indirect (non-manufacturing) purchases. Inclusive of all global office locations, the company was largely performing purchasing services on an ad hoc basis by each departmental user as necessary to complete any given project. Due to the lack of formal Indirect Procurement services, Legal engagement was infrequent on most contracts, which led to unknown contractual exposure such as liability caps, indemnification terms, information security risk, and warranty gaps. Contract management and capture was generally kept by each individual user, thereby keeping an incomplete view of supplier contractual commitments. Future contractual commitments and renewals were loosely tracked, if at all, so opportunities to change suppliers and/or technologies were often missed. Various business units purchased from the same suppliers, but due to lack of a central Procurement solution, buying volumes were not being consolidated to leverage total volume purchase capabilities, be it in the US headquarters offices or other global site locations. Various resellers selling the same commodities to siloed internal users further diluted spend leverage. Departmental users negotiated to the best of their ability in the face of delivering their projects on time. Discounts were inconsistent and benchmarking against other companies with similar requirements was not a common practice. Purchase Orders were being produced by a separate department without a performance timeline, so it could be days or weeks before a PO was approved and sent to a supplier. Payment terms were inconsistent, and PO's were generally produced to help pay invoices in a tactically reactive fashion. With roughly in the magnitude of ~\$250 Million of annual indirect spend around the world, Varian was in significant need of getting their arms around how this money was being spent.

Varian had the immediate need to institutionalize repeatable Procurement processes, covering Demand Management, Sourcing Management, Contract Management, Performance, Risk and Governance. Also, fulfill back-office transactions with a

consistent Turn around Time (TAT) related to indirect procurement this included, Purchase Orders creation, Legal contact review, vendor onboarding, category management and goods receipt.

“Varian needed subject matter expertise to mature their indirect process, and talent to help fulfill the processes.”

Our Approach

Varian’s CIO engaged with InFor500 to provide a holistic outsourced Indirect Procurement service for Varian’s Corporate organizations to manage their indirect spend. The IT organization included indirect procurement services as one of the services IT provided to all corporate groups which needed how subject matter expertise on indirect commodities and it should be purchased. While delivering on day to day procurement needs the requirement was also to institutionalize robust procurement processes and back-office fulfillment. Therefore, InFor500 created and implemented a contract management system, capable of capturing historic, active, and future project spend and demand.

In order to get our arms around the challenge statement, we first had to understand the size of their issue. InFor500 leveraged Varian’s ERP system to understand and quantify the external supplier spend categorizing by commodities, by region, by functional group and by spend owner. The discovery exercise allowed InFor500 to work with various business function stakeholders, inclusive of Finance, IT, HR, Facilities, Marketing, Legal, Engineering, Sales, and Field Services to understand historic commitments, and future obligations.

Post discovery InFor500 formalized a bi-weekly cadence meeting with an identified leader for each department, such as the CIO in IT, the CHRO in HR, the General Counsel in Legal, to help them with immediate indirect sourcing\procurement needs while

working on institutionalizing future sourcing, demand, contact management processes in parallel. Behind the scenes while InFor500 was working on sufficing Varian's current immediate needs, the team was priming the to-be process, easing the functional owners to follow the to-be process. E.g when a new purchase requisition was submitted for Purchase Order generation, the team focused on working with the spend owner to understand the commodity, getting a digital copy into the contract system, making an entry in the demand management system when the renewal will happen, worked with the business and supplier to ensure all documents were in place inclusive of NDA, MSA, and any other contract related documents.

Over a period of 12 months InFor500 delivered on the processes, tools and talent needed to effectively manage Varian's indirect spend.

InFor500 identified, prioritized cost reduction areas, and created a plan to deliver on the expected annual reduction in operational and capital costs. The plan included a prioritized list of commodities across each business function to enable the client's respective reduction across each global region. To ensure long term success, InFor500 secured Varian's management approval prior to executing on the plan, taking into account the risk, change management, and time required to secure results.

InFor500 provided several options for the business to achieve the reductions, inclusive of engaging with suppliers to request price reduction concessions, going to marketing for certain commodities based on criticality, and/or changing the way certain commodities were historically procured.

Over the course of the engagement, InFor500 brought in complete outsourced Procurement processes, cadence framework, and tools required to manage Varian's Corporate Spend. These were the key components that ensured a successful and long engagement.

“InFor500 brought thorough processes, industry relationships, commodity expertise, and Procurement experience which returned money back to Varian”

Results Achieved

InFor500 engaged with each line of business and either newly negotiated, or renegotiated countless contracts across all of the client’s global regions for all major commodities, returning 18% to 22% of cost reduction off of Varian’s baseline spend every single year. On an \$250M of actual indirect spend, InFor500’s savings reduction has repeatably put \$19M to \$22M back in Varian’s pocket. InFor500 strengthened Client’s procurement function through :

- Digital commodities subject matter expertise needed by Varian
- Indirect commodities expertise and how to procure them
- Effective and efficient procurement processes for global teams
- Governance & Cadence that delivered on global spend visibility and results
- Implemented tools to deliver on the procurement processes
- Relentless pursuit of Procurement excellence

“InFor500 delivered >18% reduction each year to Varian’s indirect spend”

“InFor500 has been supporting Varian indirect procurement function since 2012, bringing strong category-specific expertise we need, and consistently returning on an average 20% reduction to external indirect spend.”

- **Larry Lindberg**
Procurement & Special Projects
Varian Medical Systems