

Telstra: Changing the way procurement works

Overview

■ **Business Challenge**

Telstra, the premier telecommunications company in Australia, sought to support its strategic corporate transformation plan by streamlining and simplifying internal processes and systems. In addition, the company sought to reduce the cost of running the business.

■ **Solution**

Telstra teamed with IBM on a seven-year, multi-phase project to transform and outsource its procurement processes, leveraging IBM procurement infrastructure investments and supplier relationships to gain greater control, visibility, responsiveness and internal compliance, as well as save hundreds of millions of dollars.

■ **Key Benefits**

- *On track to save A\$700 million over seven-year period*
- *Improves internal compliance*
- *Enables Telstra to maintain control over key supplier relationships while leveraging IBM buying power for general procurement*
- *Standardizes procurement across the entire enterprise*



When a company grows to the size of Telstra, Australia's leading telecommunications provider, the efficiency of internal operations becomes a major consideration. Core functions are of such a massive scale that they almost become significant operations in their own right.

For example, for Telstra to provide a complete range of services including fixed lines, Internet, and mobile service, it requires over 500 employees working in procurement operations and related services alone. Procurement accounts for around A\$11 billion annually, and

involves around 8,000 suppliers across 46 different commodity families—everything from ordinary office supplies to mission-critical network hardware.

Beyond direct cost savings, Telstra has another compelling reason to pay close attention to optimizing its operations: greater competitiveness in a dynamic and unpredictable market. In late 2005, the company instituted an end-to-end corporate transformation strategy designed to give its customers a truly seamless user experience across all devices and platforms. To support this strategy, the company's leadership

Saving millions through greater procurement control

Business Benefits

- Achieved procurement savings of A\$355 million over two years (FY '07 and '08). Savings are, in large part, due to Telstra's new approach to procurement, including its supply chain activity with IBM
- On track to save a total of A\$700 million over the course of the seven-year supply chain contract with IBM
- Leverages proven; effective IBM procurement processes and automation technology
- Improves internal compliance, giving greater visibility to spending; ensures procurement is correctly engaged in all purchasing activities and that the right vendors are used to obtain the best available prices
- Reduces cycle times for vendor payment processing
- Enables Telstra to keep control over key supplier relationships while leveraging IBM buying power for general procurement
- Standardizes procurement across the entire enterprise, increasing efficiency and consistency
- Provides a platform for improved management of Telstra inventory, repair and logistics, thereby providing greater responsiveness and competitive advantage

“Our supply chain was once seen as just a back-office function, but is now a competitive advantage.”

— Ian Wheatley, executive director for Telstra procurement

knew that they would have to change the way it does business and gain greater control over internal processes—including its procurement supply chain—to provide critically needed efficiencies, as well as more accurate information about the true state of the company to support planning and decision making.

It had become increasingly apparent that the internal workings of the company were going to directly impact its competitiveness. According to Ian Wheatley, executive director for Telstra procurement, “Our supply chain was once seen as just a back-office function, but is now a competitive advantage.” With this realization came the impetus for the end-to-end transformation of Telstra's procurement processes. The company saw that it could not only save millions, but also put itself in a much stronger competitive position by improving its business responsiveness.

Challenges to be overcome in the procurement process

Like most large enterprises, Telstra's internal processes for procurement worked, but were not necessarily optimal. Different business units within the company were doing their procurement independently, and employees could procure goods and services in many ways. Telstra did not have a single view of all of its supplier activity and annual spending.

Many different vendors were supplying the same goods and services to the company, often at different prices. Although a purchase order process was utilized that provided a degree of monitoring and compliance with procurement policies, compliance was not as good as it could have been. In reality, only 50 percent of the total spending went through that existing process, with the rest managed by paper-based, manual processes—the result being no true end-to-end visibility or accountability and no reliable way to determine if suppliers were delivering the promised goods at the promised prices.

This situation not only hampered Telstra's ability to get new projects and services off the ground quickly, it also posed unnecessary challenges to vendors because of inefficient manual and paper-based processes that led to slower payments.

Telstra knew it was time to create—and enforce—a single, standardized procurement process and platform to connect to suppliers, and optimize its inventory, spare parts management and logistics operations to drive down costs while boosting responsiveness and efficiency. Only in this way would the company be able to support its overall transformation strategy.

Partnership was the best option

After examining the feasibility, cost and effectiveness of developing and instituting an entirely new procurement capability—complete with a new supporting IT infrastructure—in-house, Telstra turned to IBM.

IBM has implemented a robust, automated procurement system for its own global operations. This transformation has a strong track record, saving the company some US\$20 billion over three years. Telstra realized it could leverage the work done by IBM by engaging the company as a strategic supply chain partner. By outsourcing its procurement processing to IBM, Telstra would be able to quickly implement a proven, effective solution appropriate for a large company without the need for customization.

In September 2006, a seven-year phased project was announced. In Phase I, the procurement infrastructure would be put in place and new, end-to-end procurement processes instituted. Phase II, which started in late 2007, is the truly significant part of the project from a business standpoint, says Ian Wheatley. "In Phase II, IBM will provide a single, end-to-end view of our inventory supply chain and enable us to deliver the right part, to the right place, at the right time—improving customer service and reducing costs. This is great news for our customers and shareholders." A third phase of the project, which introduces demand and supply chain planning to fully optimize operations, is planned.

It was a bold, ground-breaking move; Telstra is among the first telecommunications companies anywhere to undertake such a transformation with such speed, and the collaboration is the largest IBM procurement outsourcing relationship in the world. It is also notable for its comprehensiveness; many companies only address one aspect of procurement transformation. Telstra has completely transformed the process, company-wide, enabling true standardization, consistency and much easier integration with existing IT systems and business processes.

A robust, outsourced solution

The IBM Phase I solution is multifaceted and goes beyond procurement processing. Based on the IBM Source-to-Pay offering, it handles transactional processing for all of Telstra and its thousands of suppliers. It also provides single-view visibility and accountability for the entire procurement process, enabling Telstra to make realistic and actionable business forecasts.

By implementing a single, end-to-end, comprehensive platform for all of Telstra's procurement, many of the challenges the company faced have been fully addressed. There is now a single process to procure, and only one set of vendor relationships to consider. Procurement has thus been made much simpler and easier to manage for the company. Procurement policy compliance rates have already risen from less than 50 percent to almost 70 percent. By the end of the program Telstra aims to have compliance rates in excess of 80 percent.

Solution Components

Services

- IBM Global Business Services—Integrated Supply Chain
 - IBM Procure-to-Pay
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Smarter Telecommunications

To both support its company-wide business transformation strategy and save millions, Telstra teamed with IBM to institute an end-to-end outsourced procurement system that leverages IBM Integrated Supply Chain capabilities, buying power and supplier relationships, while keeping control over key strategic vendors in Telstra's hands. The procurement infrastructure is also being leveraged to improve Telstra's inventory, repair and logistics operations, which are key to its competitiveness.



Sharing responsibility

An important element of the relationship from a strategic point of view is how procurement responsibilities are divided between Telstra and the IBM Integrated Supply Chain organization. In procurement, there are two kinds of spending: direct and indirect. Indirect spending is general in nature, and covers those goods and services that all companies need, from office supplies to furniture to cleaning services and the like. Direct spending is specific to the company, and of strategic importance. In Telstra's case, it covers mission-critical items like network hardware.

The relationship between Telstra and IBM serves Telstra's strategic needs and works to its advantage by keeping the control over critical direct-spending supplier relationships in Telstra's hands, while handing responsibility for indirect spending over to IBM. This enables Telstra to take advantage of IBM's vendor relationships and buying power.

While Telstra retains control over key supplier contracts, those vendors remain plugged into the procurement platform, thereby maintaining the integrity of the end-to-end process.

Results that speak for themselves

Thanks to the new procurement solution, Telstra has been able to lower its costs in several ways. For instance, it is estimated that simply moving away from paper-based procurement processes has reduced paper consumption at Telstra by 200,000 reams of A4 paper per annum. Further savings have arisen through the phase-out of four existing IT systems and associated processes from Phase I activity, with eight more slated to be shut down by the completion of Phase II—meaning less maintenance, environmental and IT management costs.

Phase I of the project, which covered processes, infrastructure and procurement, was forecast to save Telstra A\$500 million over seven years. Telstra is solidly on track to achieve its goal. Ian Wheatley says that Phase II will drive an additional savings of some A\$200 million. "We're taking what we learned in Phase I to drive further efficiencies in Telstra's logistics and inventory management, and achieve a total cost reduction of A\$700 million over a seven-year period."

For more information

To learn more about how IBM can help transform your business, please contact your IBM representative or IBM Business Partner.

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