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1.0 OBJECTIVE AND SCOPE

- 1.1 The objective of this Standard Operating Procedure is to define a standard and consistent approach to Strategic Sourcing activities to be undertaken by the Procurement department. A rigorous, disciplined and systematic Strategic Sourcing Process should be employed in selection of Suppliers for all Sepracor external spend, with the objective to improve the value derived from purchased goods and service through cost reduction, process and productivity improvement, and quality improvement.

2.0 RESPONSIBILITY

- 2.1 This Standard Operating Procedure applies to all employees of the Company and those who act on its behalf for procurement purposes
- 2.2 Procurement is responsible for the maintenance of this Standard Operating Procedure.

3.0 REFERENCED DOCUMENTS

Related policies and SOPs regarding expenditure authority, approval and signing authority have been established elsewhere. Important matters related to the commitment of Sepracor funds and resources are discussed in these policies. Please refer to the following as appropriate:

- Procurement Policy
- Procurement SOP, PRO-001
- Supplier Relationship Management SOP, PRO-003
- Approved Supplier List Management SOP, PRO-004
- Procurement Glossary, PRO-005
- Purchasing Requisitions SOP, PRO-006
- Purchasing Card SOP, PRO-007
- Expenditure Commitment and Invoice/Payment Approval Policy
- Invoice/Payment Approval SOP
- Approval Authority SOP
- Receiving Goods & Completion of Services SOP, PRO-008
- Contract Review and Signing Authority Policy
- Contract Signing Authority Procedure
- Contract Management SOP, PRO-009
- Supplier Qualification of Hardware, Software, and IT-Service Providers SOP
- Travel Policy
- External Communications Policy
- Educational Grant Policy
- Health Professional Consultant Policy
- Code of Conduct and Ethics

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- Customs–Trade Partnership Against Terrorism Program and Tier-One International Suppliers SOP.
- Note that new and revised policies and SOPs may be approved by Sepracor from time to time and should also be referred to, as applicable. All policies and procedures can be found on the Compliance Portal of the SEPResource.

These policies and SOPs have been documented to standardize the procurement process. Important matters related to the commitment of Company funds and resources are discussed in these policies. Please become familiar with them prior to engaging in purchasing activities.

4.0 GENERAL

4.1 Definitions

- 4.1.1 Please refer to the associated Procurement Glossary Document, found on the SEPResource Purchasing Portal and in the Corporate Standard Operating Procedures (SOP's) and Memorandum of Standards (MOS's) Index.


4.2 Roles & Responsibilities

4.2.1 Stakeholders are responsible for:

- Involving Procurement **at the earliest possible opportunity** during the Supplier selection process, as described in the Procurement SOP, PRO-001.
- Providing data, process descriptions and feedback throughout the Strategic Sourcing process as required.
- Making the selection and evaluation decisions throughout the Strategic Sourcing process, including the final Supplier selection.

4.2.2 Procurement is responsible for:

- Leading or co-leading the Strategic Sourcing event based on the category and business requirements, in accordance with the best Strategic Sourcing practices and the guidelines established in this SOP.
- Maintaining tools and templates for Strategic Sourcing events, including RFx materials, Supplier responses, scorecards, and other documents.
- Quantifying the impact of Strategic Sourcing decisions, communicating it to the category Stakeholder group and assisting the Stakeholder group with Supplier selection.
- Maintenance of this policy.

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5.0 PROCEDURES

5.1 The following process and procedures outline a consistent, structured seven step process based on proven best practices that should be utilized for all Strategic Sourcing activities. While Procurement would typically lead or co-lead this process, Stakeholders leading a sourcing event should adhere to the following process, as applicable:

5.1.1 Step 1 – Profile Category

Objective: Understand Sepracor's category and business needs and the external market for the category.

Key Activities:


- **Identify required cross functional Stakeholders and form the category team.** This team should include all of the cross-functional Stakeholders required for category decision making, including representation from Legal Affairs, Financial Planning and Analysis/Accounting, Compliance, Marketing, R&D, IT, etc., as applicable.
- **Conduct a working group** to set baseline assumptions for the category sourcing activities, **identify roles and responsibilities for individual Stakeholders** and communicate rules of engagement for the category.
- **Create a Demand Profile for the category.** The Demand Profile consists of the baseline internal usage data for the category for the projected future timeframe appropriate for the category. The Demand Profile will become the basis of Supplier evaluation materials and, as such, it is important to collect the appropriate level of detail, including: quantities procured, detailed unit pricing, appropriate units of measure, a Total Cost of Ownership model, detailed description of goods or services in the category, regulatory and other requirements, etc.
- **Create a Supply Profile for the category.** The Supply Profile is required for an appropriate level of understanding of the supply market capabilities to meet the requirements identified in the Demand Profile. At minimum, the Supply Profile contains the initial potential Supplier list and a summary of their capabilities to provide the category goods or services.

5.1.2 Step 2 – Develop Sourcing Strategy

Objective: Evaluate profiles and develop category appropriate sourcing strategy.

Key Activities:

- **Develop specific and measurable objectives and success criteria** for the category.
- **If applicable include possible performance criteria** as described in the Preferred Supplier Relationship Management SOP, PRO-003.
- **Identify the Strategic Sourcing position for the category** i.e., determine whether the Supplier or the buyer holds a strategic advantage in the market.

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- **Develop specific sourcing levers and tactics** based on the category strategy. These may include:

- Price lever (competitive bidding, rebates, volume discounts, spend aggregation, schedule or rates, complementary spend, conversion considerations)
- Demand lever (Demand management, rationalize supply base, seek alternate specifications)
- Process lever (Contracts, rationalize specifications, payment schedule, freight)
- Working capital lever (cash management, payment terms)
- RFI process followed by an RFP
- An RFP or an RFQ process
- An electronic reverse auction
- Direct negotiations with incumbent Suppliers
- Focus on internal demand management activities
- Change in specifications for category good or services
- Or any combination of the above

- **Identify the rationale, risks, and the required resources** for the chosen category strategy and tactics.

- **Conduct a Stakeholder working group to acquire buy-in** for the chosen category strategy and tactics.

5.1.3 **Step 3 – Identify Suppliers – RFI Process (optional)**


Objective: Establish selection criteria and conduct Supplier assessment, if required.

Why This Step is Optional: These activities should be conducted if a more thorough assessment is required to identify capabilities existent in the market or to narrow down the supply base, based on determinations made in Steps 1 and 2. This supply market assessment is typically conducted using an RFI process. The RFI process may be skipped if:

- The market capabilities are already well known
- The supply base is sufficiently narrow not to warrant additional narrowing of the Supplier universe
- The Supplier assessment activities can be easily conducted in conjunction with Supplier evaluation activities in Step 4

If the category warrants the use of this step, the following key activities should be performed.

Key Activities:

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- **Prepare the Supplier selection package** (RFI) including establishing clear selection criteria, expectations, objectives and gathering any additional required materials, e.g., Confidentiality Agreements, standard terms and conditions.
- **Acquire buy-in from the Stakeholder group** on the selection package.
- **Execute the selection event.** The focus of the selection event should be on narrowing down the Supplier base and determining Supplier capabilities, not on acquiring detailed pricing for good or services
- **Rate the Supplier responses** and select Suppliers that meet the requirements for the next stage of the selection process

5.1.4 Step 4 – Evaluate Suppliers – RFP Process (optional)

Objective: Conduct a Supplier evaluation event and finalize sourcing plan, if necessary

Why This Step is Optional: During formulation of the Sourcing Strategy, if the determination was made that the external supply market offers no credible alternative to the current Suppliers, the switching costs are too high or the potential savings from a external sourcing event are insufficient, a Supplier evaluation may not be necessary. Instead the category activities could be focused on improved demand management, specification changes or direct Supplier evaluations.

Key Activities:

- **Prepare the Supplier evaluation package** appropriate for the category sourcing strategy. Where appropriate, this package may include:
 - A document describing the sourcing initiative, key contacts, timelines as well as the guidelines for Supplier written proposals
 - A pricing worksheet containing the items included in the selection event to be filled out by the Suppliers
 - Any applicable attachments
 - A Supplier evaluation scorecard, containing weighted criteria for Supplier evaluation, agreed to by the category Stakeholders
 - Any additional required materials, e.g., Confidentiality Agreements, Terms and Conditions documents
- **Acquire buy-in from the Stakeholder group** on the evaluation package using a working group, if necessary
- **Execute the evaluation event.** The focus of the evaluation event should be on identifying final 1 or 2 Suppliers with which to initiate negotiations. The evaluation should be based on both pricing and capabilities, weighted according to the Supplier evaluation scorecard
- **Evaluate the Supplier responses** based on the Supplier scorecard
- **Create the sourcing plan** based on the results of the evaluation **and communicate it to the category Stakeholders** in a “post-mortem” working group. The sourcing plan should contain the names of the selected finalist,

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updated category cost information and identification of any issues that the sourcing plan may present

- **Communicate the results of the evaluation event to Suppliers**

5.1.5 **Step 5 – Negotiate with Suppliers**

Objective: Develop a negotiation plan and select Suppliers

Key Activities:

- **Form a negotiation team** and assign roles and responsibilities to team members
- **Develop a negotiation plan for each Supplier**, focusing on each party's
 - Strength and weaknesses (SWOT)
 - Best Alternative to Negotiated Agreement (BATNA)
 - Most Desired Outcome (MDO)
 - Least Acceptable Alternative (LAA)
- Utilize the list of sourcing levers from step 2 above.
- **Negotiate with Suppliers and select the business recipient**
- **Create the Tenets of Agreement (TOA)**, the document containing business terms to be included in any Legal Affairs agreement with the vendor.
- **Draft a business award plan and preliminary transition plan**
- **Acquire Stakeholder buy-in** on the results of the negotiation.
- **Award business to selected Suppliers**

5.1.6 **Step 6 – Transition Suppliers**

Objective: Execute Supplier agreement and transition.

Key Activities:

- **Execute the Supplier agreement**
- **Develop Supplier scorecards** to be used in Supplier Relationship Management (SRM) activities.
- **Create a Key Learning Report**

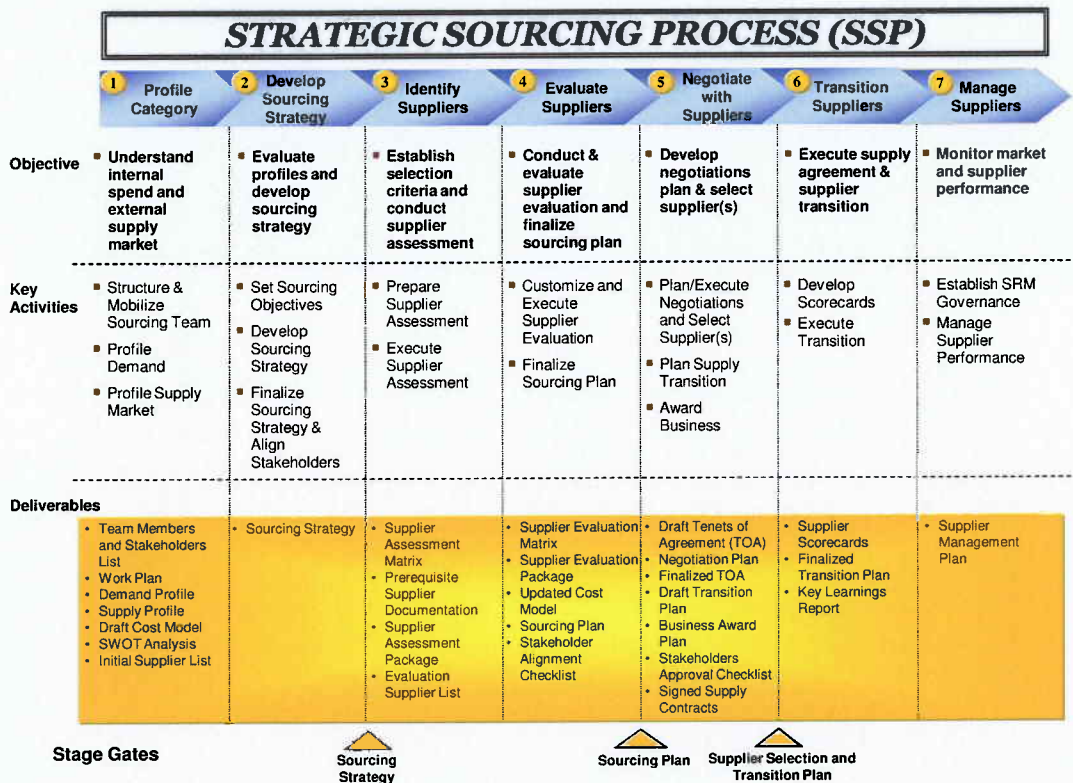
5.1.7 **Step 7 – Management of Suppliers**


Objective: Monitor market and Supplier performance. Supplier Relationship Management (SRM) activities should be conducted in accordance to the Supplier Relationship Management SOP, PRO-003.

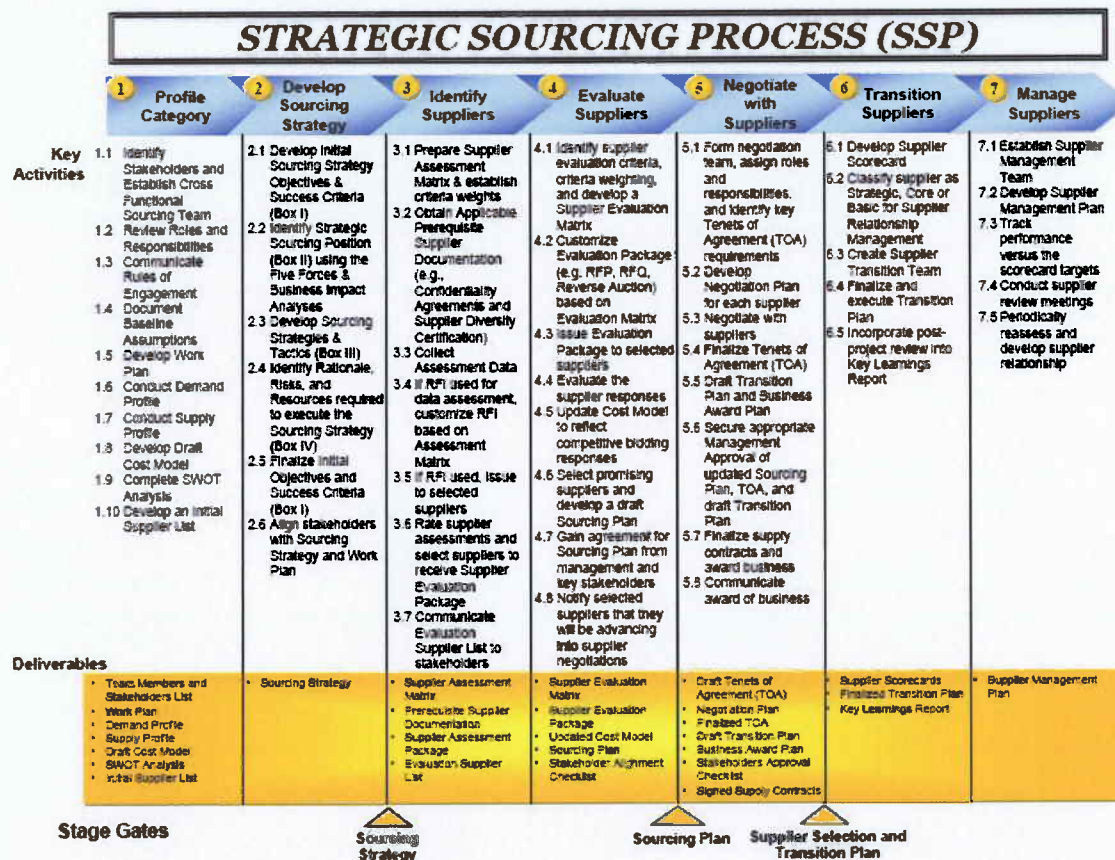
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6.0 ATTACHMENTS

6.1 Strategic Sourcing Process



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7.0 DOCUMENT HISTORY

Revision

Date Effective

Comment

00

New SOP.

The last page of each SOP is a Document History listing that includes each revision number, effective date, and summary of changes corresponding to that revision.

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