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Procurement: Perception, Stigma and Reality

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PCMG: Why Procurement is the Future Workshop

Transforming Clinical Trials

Stigma

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"Procurement" typically prompts an unfavourable initial response from those that hear it – both in CRO and sponsor companies

Procurement´s Role – Lack of Understanding?

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"Didn't that used be known as Outsourcing?"

"Isn't it just a posh word for Outsourcing?"

"Just rebranding"

"Some or other new initiative"

Perception

"People that buy paper clips?"

Perception

"All about finance – not ability"

"People who don't understand our business"

Graphic: : Knowledge 4inovation
13-Jun-14

Perception

"Beat you up on price"

"Bean counters"

"Generic negotiators"

Graphic: : Knowledge 4inovation
13-Jun-14

So what does Procurement do?

- **Category know-how** integrating the market to the business requirements
- **Economical proficiency** to understand the market and trends
- **Procurement expertise** to develop the right strategy
- **Negotiation skills** and **process proficiency** to translate these into success
- **Contracting knowledge** to make the success sustainable

Why Procurement?

- Third party spend accounts for single biggest cost:

- Reduce cost in one area = increased profit
  - Profit – increase sales
  - Staff – restructure / headcount reductions
  - Overheads – IT, automation, six sigma
- Focus on all areas

Benefits of Procurement

Company X*	
Sales revenue	$1million
Profit	$100,000 (10%)
3rd party spend	$450,000

- How can we increase profit to 13.5%?
  - Reduce third party spend by 3.5%
  - Increase sales by 13.5%
- Clearly a reduction in cost can have a large impact to bottom-line as increased profit.

Other Benefits??

*Source: strategic sourcing training

Benefits of Procurement

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- Supply Chain Security
- Risk Management
- Consolidation of Supplier Base
- Drive Supplier Innovation
- Corporate Social Responsibility goals
- Additional Supplier Value
- Operational Efficiency
- Total Cost

Management of spend to achieve business goals

Procurement Reality - From a CRO prospective

- *Heterogenious approach in the industry*
  - *from „paperclips“ approach to very professional contract negotiations*
- *Cost saving important but successful CRO contracting goes beyond*
- *A „tight contract“ often a short term goal and fires back later*
- *Shift in paradigm to „cost, timelines and quality“*
  - *Pay for performance*

Shift of Paradigm to „Cost, Timelines and Quality“

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- *Clear specification of service tasks and expectations*
- *Upfront dentification of Key Performance Indicators*
- *Open communication platforms*
- *Pay for performance*
- *Risk sharing*
  - *Fixed contracts*
  - *Bonus/penalty clauses linked to timelines and quality*
- *Partnerships*
  - *Governance*
  - *Relationships; efficiencies, pricing*
- *Value for Money*

The Procurement Manager

- Benefits of procurement manager for the life-cycle of the project:
  - Financial understanding
  - Rapid turn around of contract amendments
  - Effcient execution of the contract amendment
  - Supportive of milestone payments
- But role may also incorporate:
  - Issue escalation and resolution
  - Stakeholder management
  - Partnership oversight of KPIs etc.

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A Clear Difference