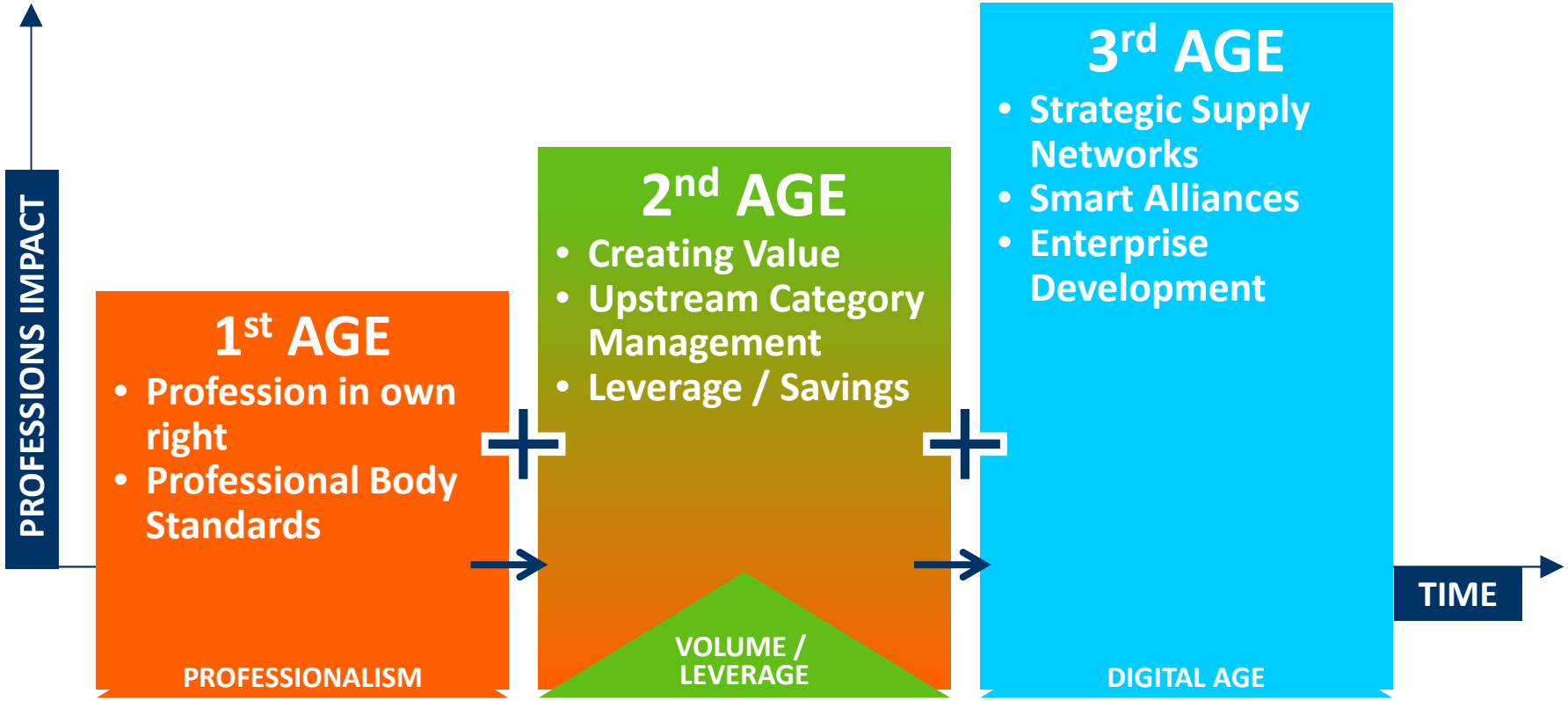
CIPS
Chartered Institute of Purchasing & Supply

The Practical use of Procurement Tools

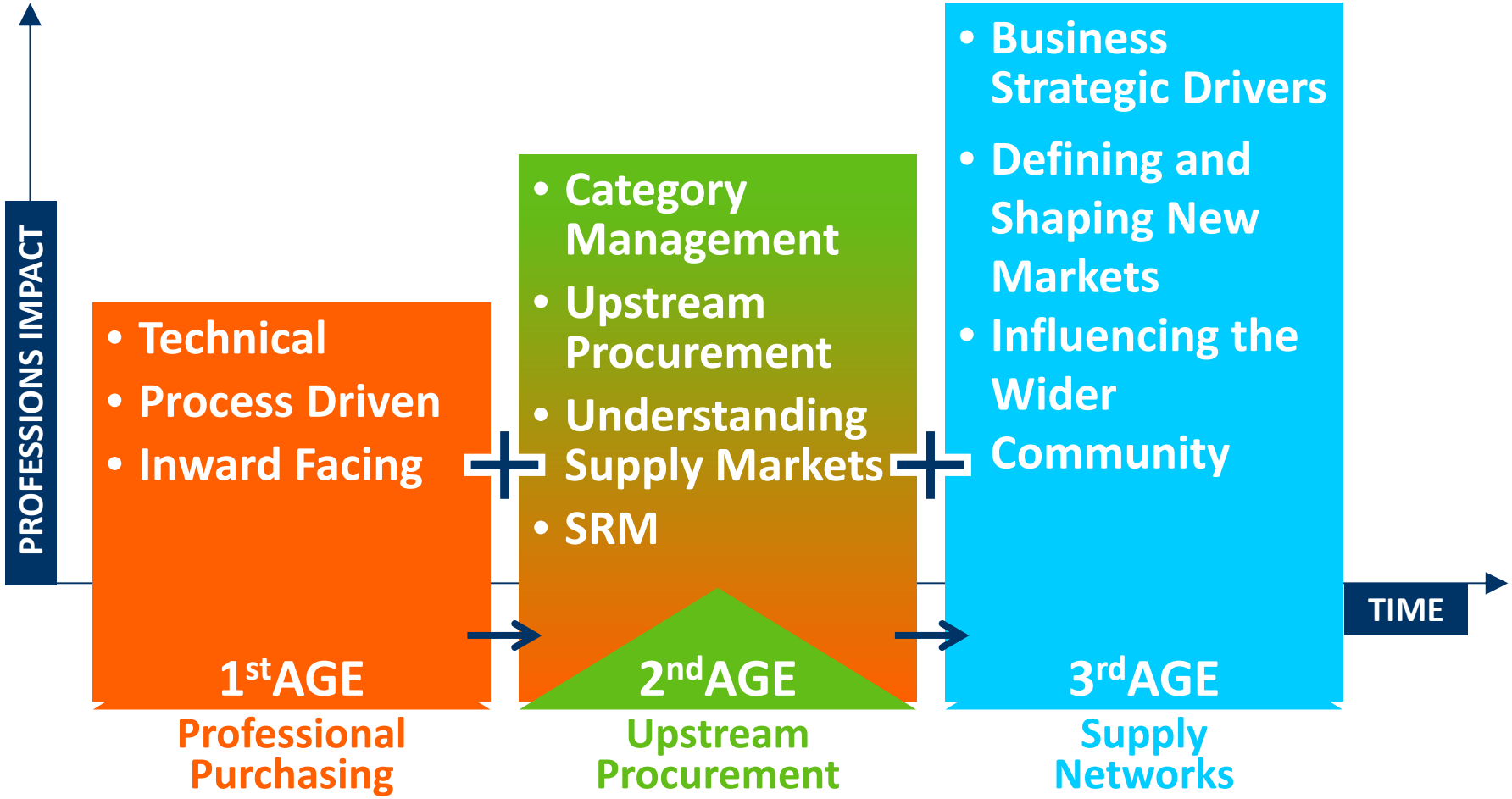
PCMG Workshop - London

Duncan Brock – Group Customer Relationships Director
22 January 2014

Our Profession's Evolution



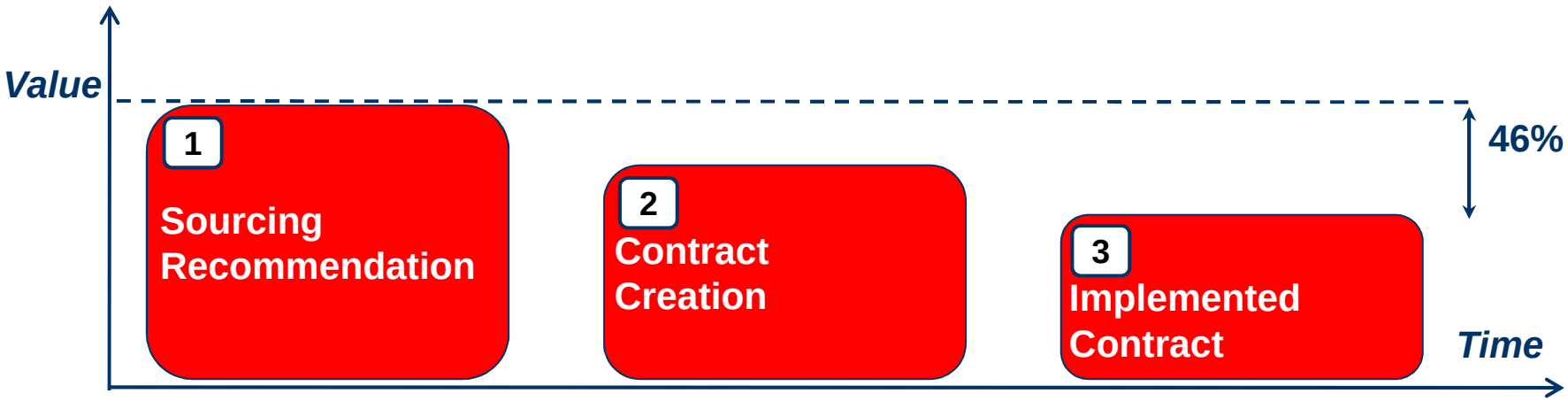
What Skills are Required



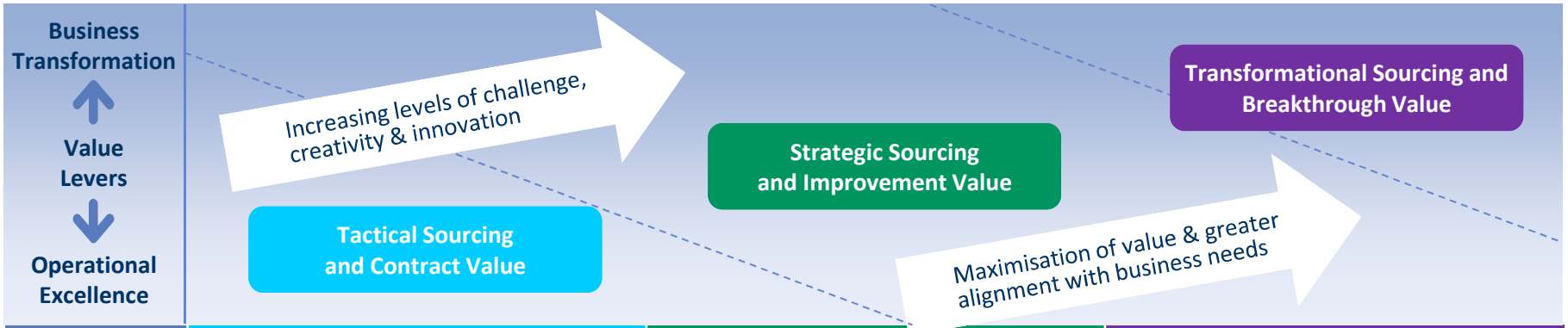
Performance Improvement – The "Value Gap"

1. Global research by Vantage Partners identified the value realised from strategic sourcing as 54%.

2. Typical sourcing activity is leaving 46% of the value identified on the table.



Three different approaches



Indicators			
Activity Focus	• Price focused • Securing tactical delivery	• Cost and value focused • Securing performance and value	• Cost, value, revenue & risk focused • Securing capability and advantage
Typical Initiatives	• Quick wins sourcing • Contract management	• Core category management • Supplier performance management	• Business initiative led sourcing • Supplier value management
Typical Deliverables	• Leveraged price reduction • Performance to contract	• Cost down and value up • Top quartile supplier performance	• Transparency on cost drivers • Capability access and innovation
Leadership & Resourcing	• Buyer led • Procurement team members	• Category manager led • Cross-functional team members	• Executive director led • Business leader team members

Delivering benefits

	Price Down	Cost Down	Cost Out
Cost	• Negotiation and restructuring price • Price benchmarking and levelling • Supplier price list analysis • Arbitrage and rapid price switching • E-auctions and competitive leverage	• Purchase price and cost analysis • "Should be" pricing and cost modelling • Life cycle costing • Contract driven cost improvement • Formula based costing	• Removing over-specified cost • Day one and target costing • Design to cost and margin • Strategic cost innovation projects • Supply chain cost transparency
	Contract Value	**Improvement Value**	**Breakthrough Value**
Value	• Measuring performance to contract • Application of warranties and penalties • Clawback for contract failures • Preferred contract compliance • Demand management	• Supplier auditing and accreditation • Supplier performance scorecards • Value analysis & value re-engineering • Supplier improvement projects • Lean tools and process flow initiatives	• Strategic supplier value audits • Strategic supplier forums • Joint design & early NPD involvement • Open innovation sourcing • Preferred access to capability
	Reduced Risk	**Mitigated Risk**	**Balanced Risk**
Risk	• Guaranteed contractual allocation • Changing the sourcing mix • Spot vs long-term contracting • Floating vs fixed price agreements • Specified contractual remedies	• Improved conformance to specifications • Supply chain and process mapping • Risk transparency and visibility • Joint working to mitigate risk • Preferred supplier / customer initiatives	• Design out high risk materials • Hedging on high risk commodities • Co-location of manufacture • Preferred capacity access • CSR and reputation protection

Key organisational challenges faced

Engaging stakeholders and working cross functionally on categories of spend and improvement projects

Building the procurement and business capability to develop and implement procurement improvement plans

Developing the policies, processes and toolkits with limited in-house resources and capabilities

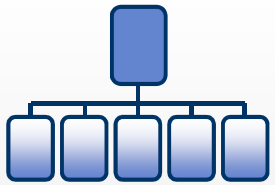
Creating the ways of working and internal alignment to fully leverage the capability of major suppliers

Managing the activities to ensure they are delivering the promised benefits within the agreed timescales

Sharing and capturing information and knowledge about categories and suppliers across different locations

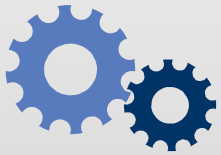
Supplier Management Essentials

Resources



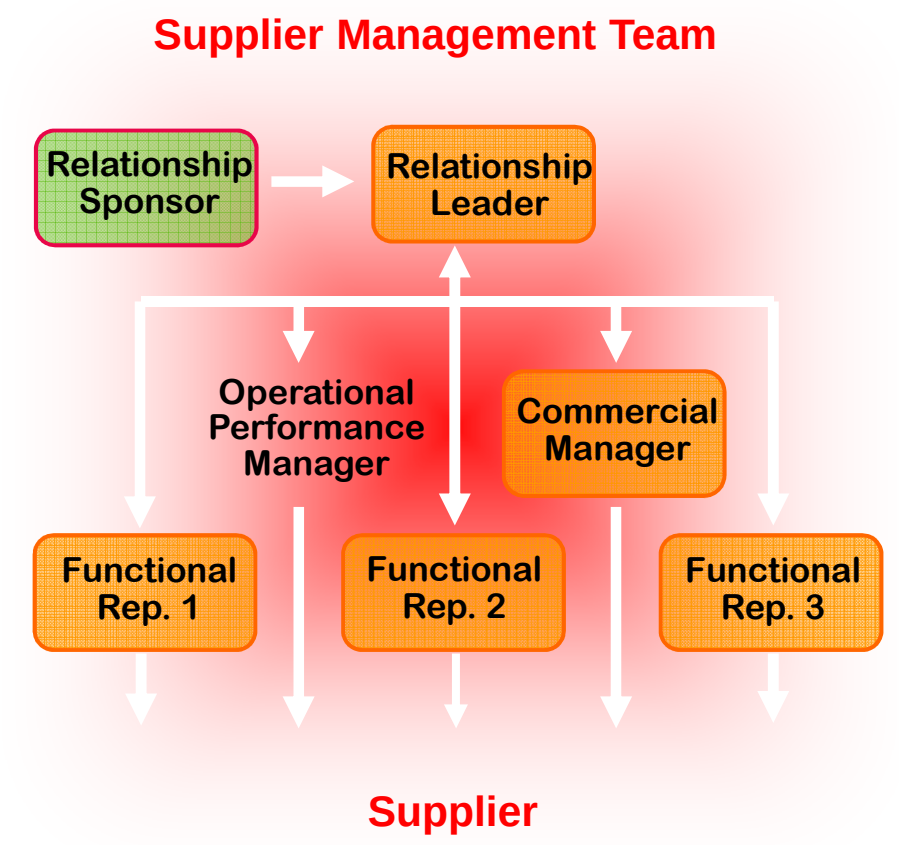
Organisational Structure

Senior Management Support



Process / Methodology / Toolkit

Creating clear relationship roles and responsibilities



Strategic Supplier Relationship Leaders may be from Procurement or the Business

Accountabilities

Relationship Sponsor

- Confirms project goals & secures resources
- Resolves serious issues & removes roadblocks
- Ultimately accountable for supplier performance

Relationship Leader

- Primary point of contact with supplier
- Progress management of the team
- Progress reporting to sponsor

Operational Performance Manager

- Manages supplier to contract service levels & KPIs
- Identifies performance improvement opportunities
- Resolves operational failures

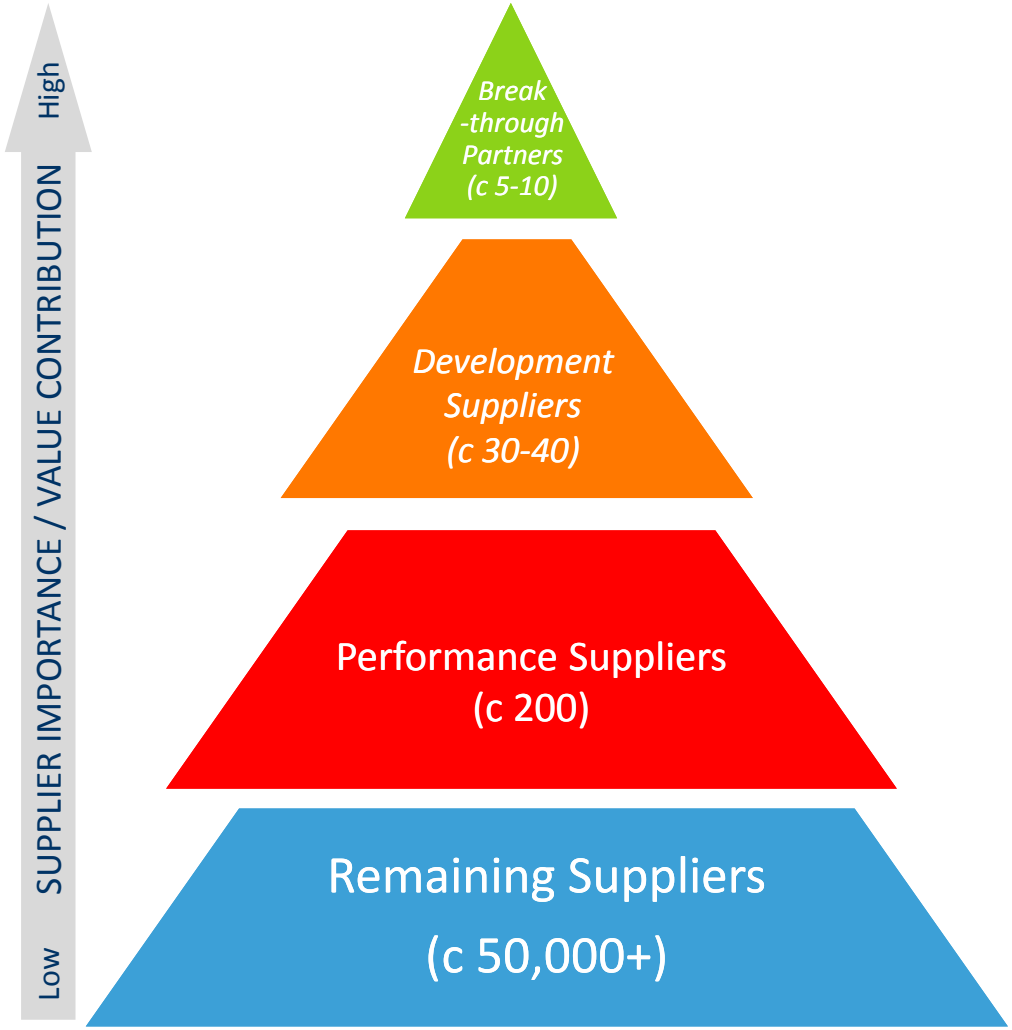
Commercial Manager

- Expert advice for contract, SLA & contractual disputes
- Expert application of SRM process if procurement expert

Functional Representative

- Development and implementation of supplier strategy
- Provide input on stakeholder needs
- Secure stakeholder compliance to agreed protocols
- Resolve compliance statistics & resolve issues

Supplier Management – focus is essential



MOST FREQUENT SEGMENTATION CRITERIA

1. **Spend:**
both historic and/or forecast

2. **Value opportunities:**
improvement areas that drive benefits beyond contract commitments

3. **Power and dependency:**
ability to economically source new supplier or switch existing supplier

4. **Risk and business impact:**
centrality to current & future business operations & competitive advantage

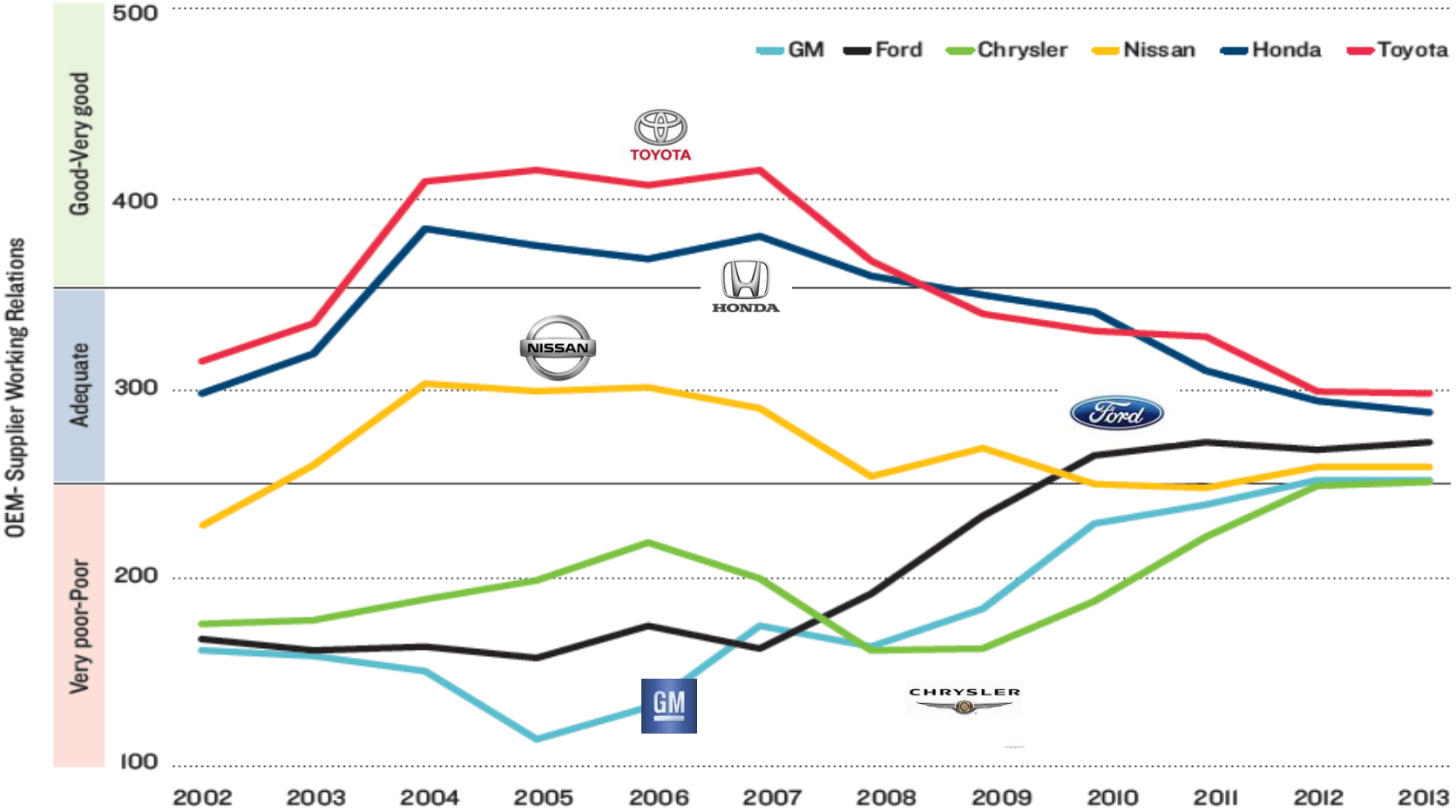
5. **Account attractiveness:**
attitude & preferential access to resources and capabilities

6. **Relationship complexity:**
multiple touch points, difficult relationships, reciprocal trading

Determine the level of contract management

Critical Contracts	Strategic Contracts
■ Continuously assess supply risks and ensure that products & services can be delivered in the future ■ Forecast future requirements and share with suppliers ■ Aim to reduce this supply risk	■ Establish a close and trusting relationship in order to benefit from the full capabilities of the supplier ■ Focus on innovation and added value deliverables ■ This type of contract requires strong relationship management capabilities
Transactional Contracts	**Leverage Contracts**
■ Strict cost control and consistency in service delivery tracking ■ Pay close attention to the price and quality of service deliveries and maintain an updated understanding of developments in the suppliers market.	■ A strong focus on price and frequent supplier market evaluations ■ Avoid longer term contracts, unless linked to market competitiveness

Procurement : Supplier relationship quality as measured by the WRI correlates closely with business and financial success



(Source: Planning Perspectives, 2013)

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Elements of the Working Relations Index (WRI)

Components	Working Relations Variables
Relationship	1. Supplier trust of OEM 2. Supplier perception of working relations with OEM
OEM Communication	3. OEM open and honest communication with suppliers 4. OEM communicates timely information 5. OEM communication adequate amounts of information
OEM Help	6. Help OEM gives to suppliers to reduce costs 7. Help OEM gives to suppliers to improve quality
OEM Hindrance	8. OEM late/excessive engineering changes (reverse measure) 9. Conflicting objectives across OEM functional areas (reverse measure) 10. Supplier given flexibility to meet piece price / tooling cost objectives 11. Supplier involvement in OEM product development process.
Supplier Profit Opportunity	12. OEM share savings from suppliers' cost reduction proposals 13. OEM rewards high performing suppliers with new/continued business. 14. OEM covers sunk costs on cancelled or delayed programmes. 15. OEM concern for supplier profit margins when asking price reductions. 16. Suppliers' opportunity to make acceptable return over long term.

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