



SIG WEBINAR

Five Steps to Building a Successful Procurement Strategy

May 2013

Strategy Definition

strat·e·gy :

- 1) A method or plan chosen to bring about a desired future, such as achievement of a goal or solution to a problem;
- 2) The art and science of planning and marshaling resources for their most efficient and effective use.”

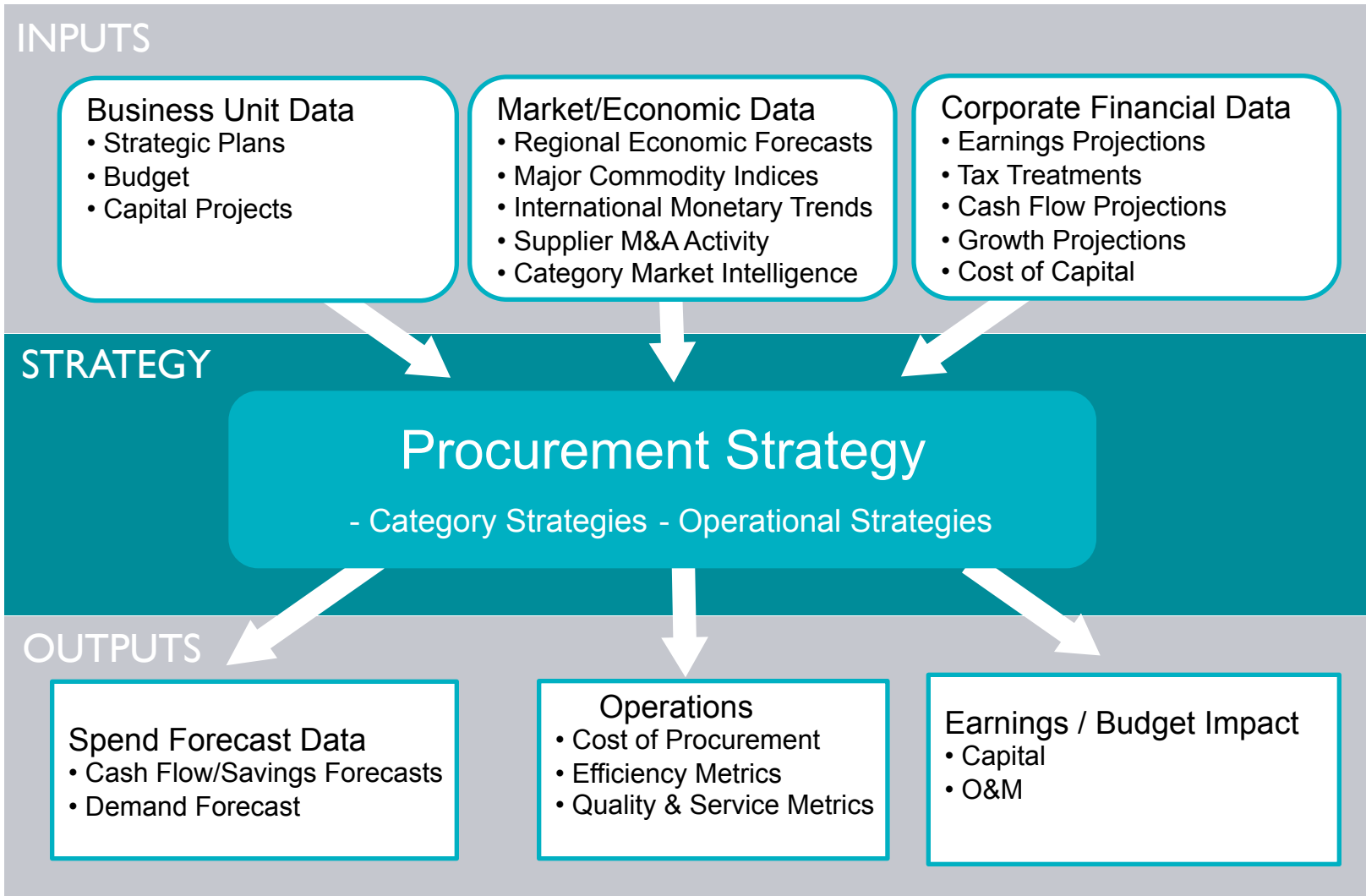
Procurement Strategy

Defines a plan for

- Optimizing external spend, procurement operations and other value contributions
- In a manner that supports the overall corporate agenda

Without a comprehensive Procurement Strategy in place, it's impossible to know whether or not your procurement organization is aligned with the corporate strategy, and whether or not progress is being made

Procurement Strategy Components

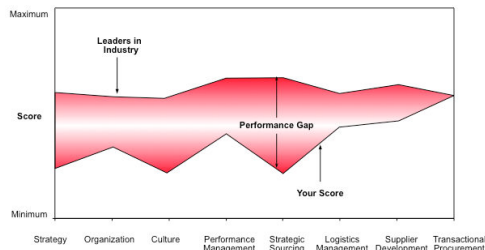


Monitor & Feedback

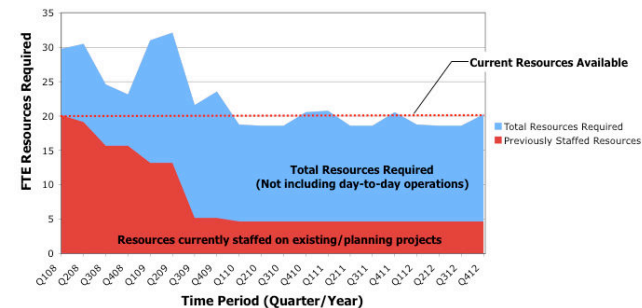
What's in a Procurement Strategy?

Examples of Procurement Strategy Components

Gap Analysis of Current State



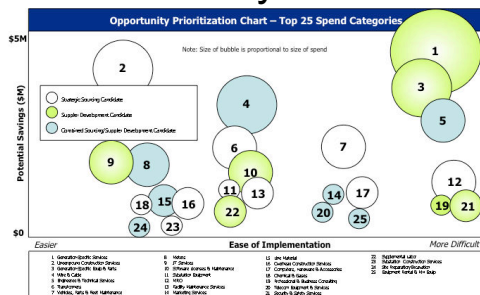
Resource Plans



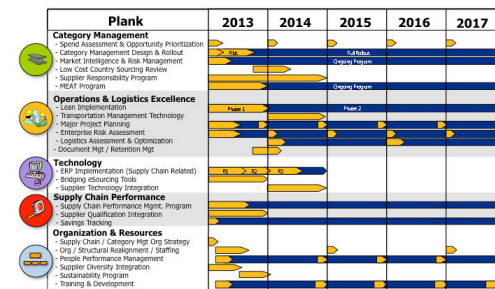
Vision



Opportunity Analysis



Strategic Plank Roadmaps



Five Steps For Creating an Effective Procurement Strategy

1. Understand where your procurement operations are today.
2. Identify what's important — to the procurement organization as well as to the overall company.
3. Define what success looks like.
4. Develop measurable targets that define success.
5. Implement and measure your strategy.

Polling Question

How would you describe your organization's approach to Procurement Strategy

- A. We do not utilize one
- B. We informally have a strategy, but it's not documented
- C. We have a simple documented strategy, but it's not very comprehensive, more of a vision statement
- D. We develop a procurement strategy annually, using a formal approach and it is documented and distributed throughout the organization

Understanding Your Current Baseline

Value



Understand how your procurement organization is currently adding or creating value

Efficiency



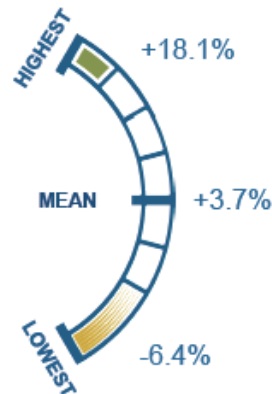
Understand your organization's current operational efficiency and effectiveness

Determining Where You Are Today

Gather current performance data



Get feedback from stakeholders and suppliers



Benchmark against industry peers

Developing your “Value” baseline

TYPICAL VALUE BENCHMARKS & DATA

- Percentage of spend under management
- Percentage of contract compliance
- Total savings and savings as a percentage of spend
- Return on procurement investment
- Category coverage
- Supplier counts; Suppliers with 80 percent spend
- Savings breakdown by source
- Opportunity estimates by category



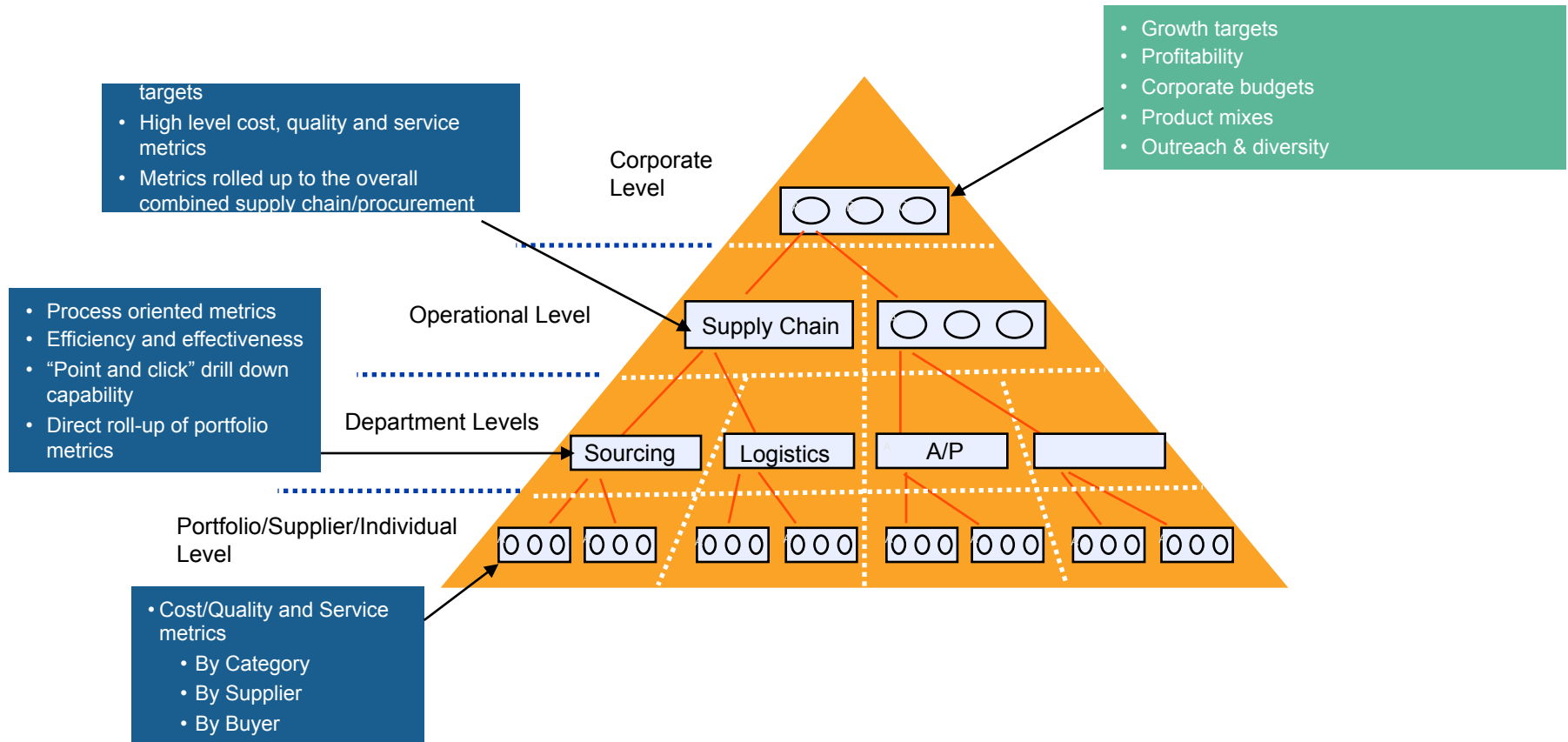
Developing your “Efficiency” baseline

TYPICAL EFFICIENCY BENCHMARKS & DATA

- Procurement cost-per-dollar spend
- Procurement spend per employee
- Procurement cycle time
- Organizational size
- Budget cost per employee
- Turnover percentage
- Number of sourcing events
- Technology utilization
- Payment terms



Determining What's Important – Linking Corporate & Procurement Objectives



Linking Corporate and Procurement Objectives

Example: Linking Corporate & Procurement Objectives

| Corporate Objectives | How Procurement Contributes |
|--|--|
| Process Simplification | Streamlining procurement policy, processes, and procedures |
| Operational Leadership | External spend reduction, operational efficiency |
| New Product Introductions & Product Innovation | Early supplier involvement/innovation programs |
| Global Market Expansions | Establishing global supplier networks |
| Corporate Social Responsibility | Growing supplier diversity programs, green supply chain |

Polling Question

How well do you link corporate and procurement objectives?

- A. Not formal process for linking the two
- B. They're linked, but mostly as it relates to corporate cost savings targets
- C. We formally link corporate and procurement objectives, and have regular dialogue to ensure that we stay consistent

Defining Success

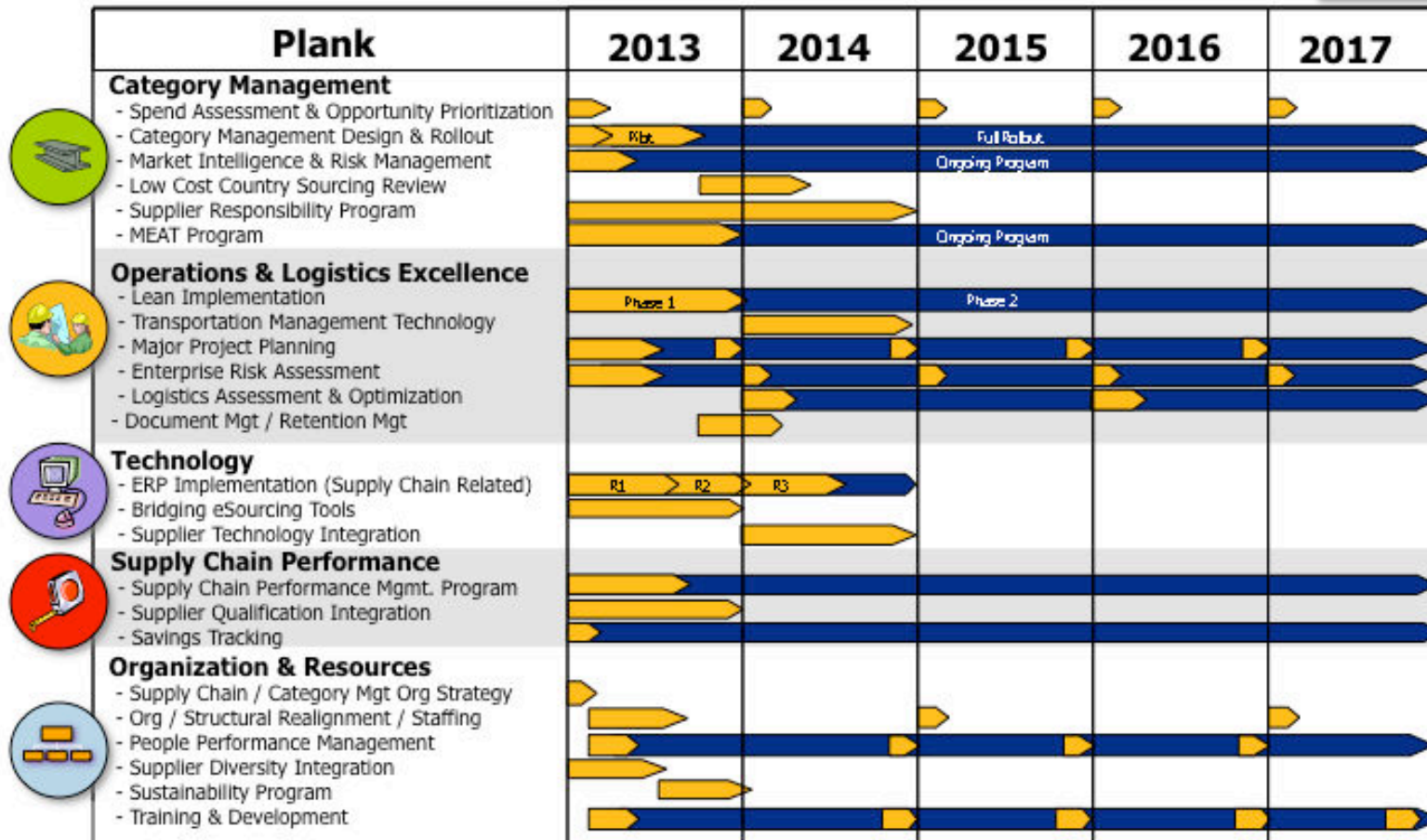
When defining success, be holistic. It's not just about savings. Consider all dimensions of Procurement in defining success.



ProcureAbility's Dimensions of Procurement Effectiveness

Define success through actionable implementation planks

EXAMPLE



Developing Measurable Targets

PROCUREMENT DASHBOARD EXAMPLE

Procurement Dashboard Model



- Helps to ensure linkage of corporate objectives to category-specific savings targets
- Allows for visibility of key cost, quality and service performance at various levels
- Provides a consistent tool to track key metrics linked to the Procurement strategy
- Ensures the Procurement organization is focussed on mutually-agreed upon, consistent performance metrics
- Provides the basis for a formal continuous improvement approach to Procurement

Sourcing Dashboard Metrics

Examples of Sourcing Dashboard Information

Cost Metrics

Cost of Materials/Services

- Total Supply Chain Cost
- Annual Savings
- Market Basket Indices
- Cost per Unit (Category Specific)
- \$ Spend Under Management
- Contract Compliance
- Inventory Levels
- Transportation Cost
- # of Suppliers

Cost of Sourcing/Procurement

- Procurement Cost per \$ Spent
- \$ Sourced per Procurement Professional
- Procurement Cost vs. Budget

Quality Metrics

- % Order Completeness
- % Returns
- % Defects
- % Rework
- # Complaints
- Report Card Scores

Service Metrics

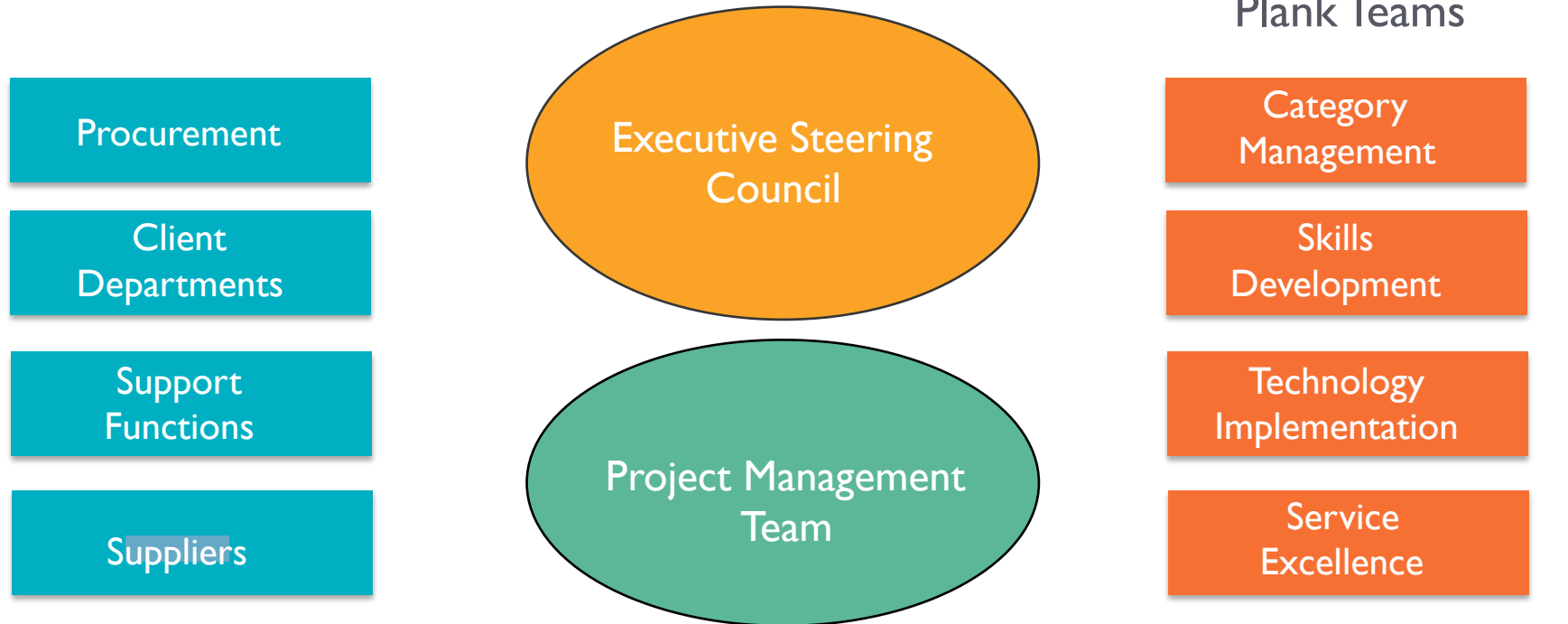
- % On-Time Delivery
- % On-Time Job Completion
- PO Cycle Time
- Response Time

Operational Metrics / Information

- Open Sourcing Projects
- % of Spend Managed
- % of Spend Sourced
- Schedule vs. Actual By Project
- Personnel Assignments & Status
- Market Trends

Managing Implementation of the Procurement Strategy

KEY STAKEHOLDERS



Thank You



JOHN EVANS

President and CEO
ProcureAbility

530.550.8306

jevans@ProcureAbility.com



DON DOUGHERTY

Executive Vice President
ProcureAbility

614.220.9090

ddougherty@ProcureAbility.com