

Five Steps to Building a Successful Procurement Strategy

Strategy Definition

strat·e·gy:

- 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

INPUTS

Business Unit Data

- Strategic Plans
- Budget
- Capital Projects

Market/Economic Data

- Regional Economic Forecasts
- Major Commodity Indices
- International Monetary Trends
- Supplier M&A Activity
- Category Market Intelligence

Corporate Financial Data

- Earnings Projections
- Tax Treatments
- Cash Flow Projections
- Growth Projections
- Cost of Capital

STRATEGY

Procurement Strategy

- Category Strategies - Operational Strategies

OUTPUTS

Spend Forecast Data

- Cash Flow/Savings Forecasts
- Demand Forecast

Operations

- Cost of Procurement
- Efficiency Metrics
- Quality & Service Metrics

Earnings / Budget Impact

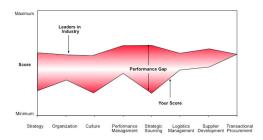
- Capital
- O&M

Monitor & Feedback



What's in a Procurement Strategy?

Gap Analysis of Current State



Opportunity

Analysis

Opportunity Prioritization Chart - Top 25 Spend Categori

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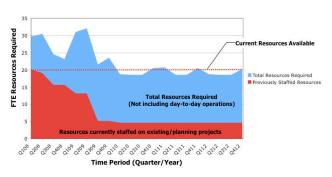
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Examples of Procurement Strategy Components

Vision



Resource Plans



Strategic Plank Roadmaps

Plank	2013	2014	2015	2016	2017
Category Management - Spend Assessment & Opportunity Prioritization - Category Management Design & Rollout - Market Intelligence & Risk Management - Low Cost Country Sourcing Review) Flbz		Fulfabr Geying Popen	•	>
Supplier Responsibility Program MEAT Program			Osoisa kosas	/	6
Operations & Logistics Excellence Lean Implementation - Transportation Management Technology - Major Project Plannille - Enterprise Pisk Assessment - Logistics Assessment & Optimization - Document Mary / Reterrition Mgt	Photo I		Page 2		
Technology - ERPI Imperientation (Supply Chain Related) - Bridging eSourcing Tools - Supplier Technology Integration - Supply Chain Performance - Supplier Qualification Integration - Savings Tracking	5 > Q	200			
Organization & Resources - Supply Chain / Category Mgt Org Strategy - Org / Structural Resignment / Staffing - People Performance Management - Supplier Diversity Integration - Sustainability Program - Training & Development		>			

Five Steps For Creating an Effective Procurement Strategy

- I. Understand where your procurement operations are today.
- 2. Identify what's important to the procurement organization as well as to the overall company.
- 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



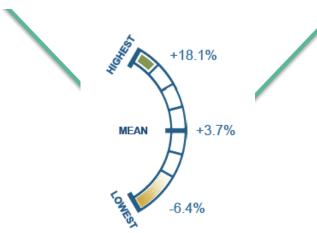
Understand your organization's current operational efficiency and effectiveness

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



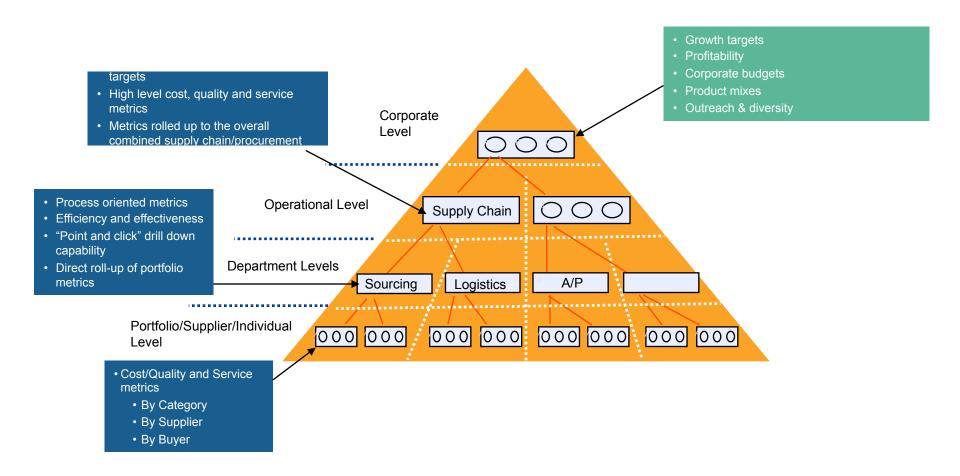
Developing your "Efficiency" baseline

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	

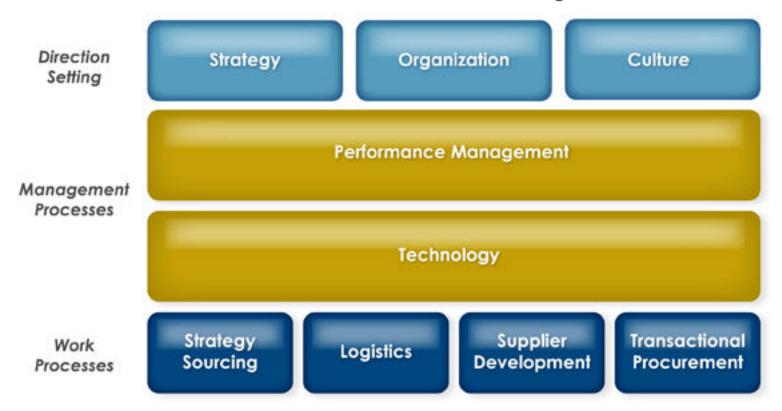
Polling Question

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

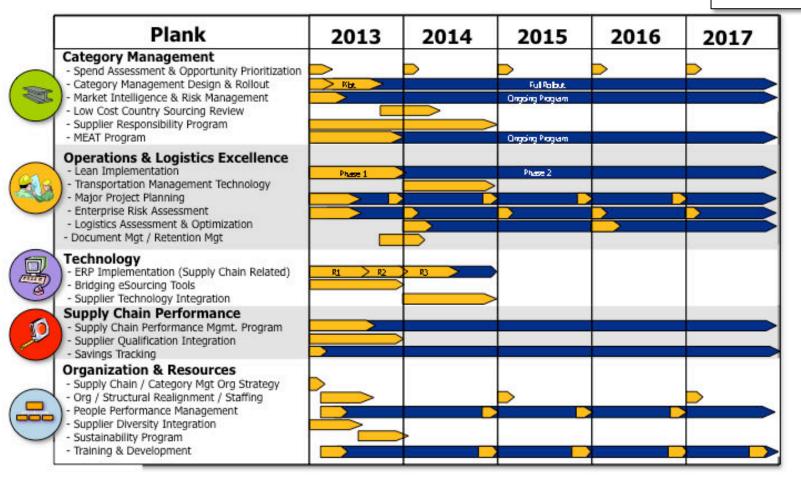
When defining success, be holistic. It's not just about savings. Consider all dimensions of Procurement in defining success.



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 categoryspecific 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

EXAMPLE

Procurement

Client Departments

> Support **Functions**

Suppliers

Executive Steering Council

Project Management Team

Plank Teams

Category Management

Skills Development

Technology **Implementation**

> Service Excellence

Thank You



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