Procurement Transformation on the Fast Track: Doing More with Less

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ProcureAbility Presenters

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We give clients access to unbundled resources, plus the ability to selectively add value through leading-edge methodologies, the latest best practices, and specialized insight and advice.
Agenda

Procurement Transformation Overview
Trends In Procurement Transformation
The Fast Track Procurement Transformation Approach
Getting The House In Order
Strategic Procurement Processes
Procurement Organization
Technology
Wrap-Up
Procurement Transformation
The Procurement & Supply Market Environment

Current Economic Environment

• Economy more stable, but 2010 expected to still be a very weak year
• Unemployment at 10% and still rising
• Global market remains firm with healthy import/export activity
• China leads the pack, with India and Brazil following
• Emerging markets closely watched for sustained recovery signs
• Commodity prices volatile, but less so than 2008/2009
• Energy, metals, resins rebounded but are still much less than earlier levels
• Going forward, we expect a stabilizing, yet constrained environment, strengthening towards end of 2010

The Procurement Environment

• Continued pressure on procurement organizations to contribute to cost savings targets
• New delivery models available to procurement organizations, in terms of technology & BPO offerings
• Increasing tendency for procurement organizations to build longer term, sustainable solutions
• Greater acceptance of category management and strategic sourcing approaches across a wider range of spend categories
• Broader expectations of procurement organizations beyond transaction management and even cost reduction support, including supply risk management, value engineering and product planning
Procurement Transformation Defined

**Procurement Transformation:** A holistic approach to improving all aspects of a procurement operation for improved results and long term sustainability

Procurement organizations appear to be trending away from “project based” insular improvement initiatives, toward more holistic approaches to build increased capability across all aspects of procurement.

Procurement organizations are balancing the need for multi-faceted, large scale improvements with the need for expediency of results.

We’re seeing innovative approaches to Procurement Transformation that combine fast-paced savings-based programs with longer term infrastructure-building programs to create transformation that meets short and long term objectives.
ProcureAbility’s Key Dimensions of Procurement Transformation

- Category Management
- Sourcing Execution
- Transactional Procurement
- Supplier & Contract Management
- Staffing, Training & Knowledge Management
- Technology, Tools & Templates
- Process & Organizational Design
- Performance Management
- Program & Change Management
Typical Procurement Transformation Objectives & Deliverables

Most Procurement Transformation programs have two primary objectives:

**Bottom Line Financial Results**
- Realized hard dollar savings, with a strong focus on external spend cost reduction
  - Immediate savings from In-Flight Negotiations
  - Quick wins on target categories
  - Mid to long-term Wins from Strategic Sourcing of prioritized categories
- Metrics designed and implemented to track cost, quality & service performance of new sourced agreements

**Sustainable Procurement Excellence**
- A new procurement “blueprint” design that will position the procurement organization for continued results beyond the cost reduction initiatives
  - Transfer of knowledge, skills and intellectual property to ensure that the right organizational resources, skills, tools and external partners are in place for long term sustainability
Polling Question

What is your organization doing with regard to Procurement Transformation?

A. Have not been involved with any type of procurement improvement initiative
B. Have had a few short-term initiatives, e.g. strategic sourcing teams, eSourcing technology, etc., but no holistic procurement transformation
C. Currently planning a broad procurement transformation program
D. Have recently implemented procurement transformation program
The Fast Track Procurement Transformation Process
The Fast Track Procurement Transformation Process

Planning The Program

1. Program Design & Assessment
   - Program design & business case
   - Spend Assessment
   - Procurement Effectiveness Assessment
   - Organizational Assessment

Building The Infrastructure

2. Future State Design
   - Process Design
   - Organizational Design
   - Training & Staff Development Plan
   - Technology Roadmap
   - Insourcing / Outsourcing Analysis
   - Performance Metrics

Fast Paced Results

0. Sourcing Waves
1. Negotiations
2. In Flight

Creating Sustainability

3. Transformation
   - New Process Rollout
   - Creating Centers of Excellence for Process Standardization and Continued Improvement
   - Hiring & Development of Staff
   - Technology Rollout
   - Tracking Performance & Results
Planning The Procurement Transformation
Planning for Procurement Transformation

- Procurement Transformation is not a “one size fits all” program; program design can depend on such factors as:
  - Maturity of current sourcing/procurement organization
  - Skill level of current employees
  - Company culture
  - Buy-in from internal clients regarding progressive procurement practices
  - Current level of automation technology sophistication
  - Spending level and distribution across spend categories

- In order to design a Procurement Transformation program that will succeed, careful analysis of the current state of procurement should be completed before the detailed design is started

- Key stakeholders, inside and outside of Procurement should be included in the up-front assessment activities

- The planning phase is a fact-based data and information gathering process that should create valuable insight into the design phase
Key Components of the Program Design & Assessment Phase

Spend Assessment

Program Design & Business Case

Procurement Effectiveness Assessment

Organizational & Skills Assessment

<table>
<thead>
<tr>
<th>Category Management</th>
<th>Sourcing Execution</th>
<th>Transactional Procurement</th>
<th>Supplier &amp; Contract Management</th>
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<tbody>
<tr>
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<td>Program &amp; Change Management</td>
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- **Determine Desired Strategic Skills**
  - Identify skills gaps
  - Systematic organizational gaps
  - Individual gaps
- **Assess Organization's Skills**
  - Conduct assessment
  - Online testing
  - Case studies
- **Identify Gaps & Develop Upgrade Strategy**
  - Determine strategy for upgrading organization skills through combination of development & acquisition
  - Document specific requirements to close gaps
- **Design & Implement Skill Improvement Program**
  - Create skills development plans
  - Individual plans
  - Holistic organizational plan
  - Determine development & acquisition sources (internal/external) and approaches
  - Motivate & track acquisition & development programs
Designing the Procurement Infrastructure
Designing the Future State Blueprint

**Blueprint Components**

**Organizational Strategy**
- Key Components:
  - Alignment with Corporate Strategy and Objectives
  - Vision and Goal Setting
  - Organizational Design
  - Skills Assessment
  - Development Plan & Training
  - Resource Plan with Job Descriptions
  - Recruiting Plan
  - Individual Performance Metrics

**Processes & Technology**
- Processes and Tools:
  - Spend & Opportunity Assessment Toolkit
  - Strategic Sourcing Toolkit
  - Supplier Development Toolkit
  - Category and Supplier Metrics/Dashboard
  - Procurement Technology
  - End to End Assessment and Design
  - Cost Benefit Analysis
  - RFP for evaluation and sourcing

**Strategic Initiatives**
- Key Initiatives:
  - In-Flight Negotiations
  - Spend Assessment & Opportunity Prioritization
  - Strategic Sourcing Rollout
  - Knowledge Transfer Program
  - Spend Visibility and Dashboard Implementation
  - Organizational Implementation
  - Vendor Management
  - Technology Implementation

**Change Enablers**
- Leadership Team
- Organization / Infrastructure
- Staffing / Personnel Development
- Data and Information
- Information Technology
- Measurement Systems

**Internal Influencers**
- Company Culture
- Functional Relationships
- Competitive Pressures
- Reward Systems
- View of Procurement
- Internal Expectations
- Economic
- Government
- Environment
- Legal
- Competition
- Technology Trends

**External Influencers**
- People / Skills
- $ / Assets / Process
- External Resources

**EXAMPLE**

**Company Culture**

**Functional Relationships**

**Competitive Pressures**

**Reward Systems**

**View of Procurement**

**Internal Expectations**

**Economic**

**Government**

**Environment**

**Legal**

**Competition**

**Technology Trends**

**Company Culture**

**Functional Relationships**

**Competitive Pressures**

**Reward Systems**

**View of Procurement**

**Internal Expectations**

**Economic**

**Government**

**Environment**

**Legal**

**Competition**

**Technology Trends**
Building the Infrastructure – Future State Design Components

Process Design
- What key processes will the “new” procurement organization include?
  - Category Management
  - Sourcing Execution
  - Transactional Procurement
  - Supplier & Contract Management
- What will be done in-house, what will be outsourced?

Organizational Design
- Based on the process decisions, what form will the organization take?

Training & Staff Development
- Based on the skills & organizational assessment, what gaps can be filled by training, and what will need to be recruited?
- What is the plan & source for training & development?

Technology
- What technology will be required to support & automate the new processes?
- What is the technology footprint & roadmap?

Performance Management
- Based on the organization’s objectives, what are the right metrics?
Separating Strategic Work From Tactical Execution

Strategic sourcing has very different characteristics than procurement, thus making it challenging to scale

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<tr>
<th>Scope of Work</th>
<th>Characteristics</th>
<th>Approach</th>
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| PROCUREMENT         | • Purchase Requests  
• PO Hygiene  
• Supplier Setup  
• Invoicing  
• Audit | • Highly transactional  
• Mostly driven by technology automation  
• Not many variations in the process  
• Does not require high level of skill set  
• Scalable | • Define an efficient process  
• Implement technology to automate  
• Normalize requirements  
• Deliver through centralized shared service model |
| STRATEGIC SOURCING  | • Spend Visibility  
• Spend Analysis  
• Market Analysis  
• Stakeholder Mgmt  
• Supplier Management  
• RFx Execution  
• Negotiations  
• Contracting | • Heavy knowledge based activities  
• Mostly manually driven  
• Variations in process by category  
• Requires unique skill set in each stage  
• Not scalable  
• Requires face time with stakeholders | |
| CATEGORY MANAGEMENT | | | • Strategic/Knowledge based  
• Not scalable  
• Relationship based  
• Requires expertise |
| SOURCING EXECUTION  | | | • Transactional  
• Template driven  
• Can be automated  
• Often the bottleneck |
The Procurement Technology Footprint

ProcureAbility’s Procurement Technology Footprint

**Spend Analysis**
- Data Cleansing
  - 80% of spend classified
  - Level 3 of UNSPSC
  - Self-sufficient end user reporting
  - Automated data cleansing & enrichment on a monthly basis
- Supplier Management
  - Implement category-specific sourcing processes
  - Use technology to capture and re-use knowledge
  - Some level of integration among these three solutions
  - Leverage a Centralized, easily searchable contract repository
  - Collaborate electronically throughout the contract authoring process with internal parties (Line of business, legal) & external parties (suppliers)
  - Integrate contracts terms with compliance management solution
  - Digitized the supplier management program
- Catalog & Requisition Management
- Invoicing and Payment
  - Enable over 80% of applicable spend within the e-procurement solution
  - Proactively manage catalogs / categories
  - Drive high policy compliance
  - Integrate the solution with contract man price compliance management
  - Automate Supplier Information Management
  - Drive continuous improvement in the supply chain
  - Supplier collaboration to create new value

**Best in-class Capabilities**

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Polling Question

How long do you think the described transformation effort would take to complete at your organization?

A. 0 - 6 Months
B. 6 - 9 Months
C. 0 - 12 Months
D. 12 - 24 Months
E. Too Long
Generating fast paced results will require a mix of traditional and RAPID sourcing approaches

Strategic Sourcing Teams
- Traditional Strategic Sourcing teams for high-potential categories with little past sourcing efforts

Contract Renegotiations
- Focus on contracts where market intelligence indicates variance between current and market prices
- Utilize formal, structured negotiation approaches
- Ensure that negotiation team is trained on effective negotiation approaches

Category Re-sourcing
- Focus on categories where market competition will likely drive price or product costs down
- Categories that have already been sourced in the past will likely require less effort, and allow for more compressed timing
- Utilize eSourcing tools (eRFX and reverse auctions) for increased competitiveness and reduced cycle time

Use of Pre-Negotiated, Leveraged Group Contracts
- Particularly useful for categories in which your company isn’t a “major player”
- Can allow for very fast realization of savings through the adoption of pre-negotiated group contracts
- Typically more relevant for indirect spend categories
Implementing the Transformation for Sustained Results
Creating Sustainability

New Process Rollout
Creating Centers of Excellence for Process Standardization and Continued Improvement
Hiring & Development of Staff
Technology Rollout
Tracking Performance & Results
Rolling out the blueprint

Increase spend reach and validate savings opportunity
- Identify Opportunities
- speed and coverage
  - spend visibility
  - contract visibility
  - supplier assessment

Negotiate sustainable savings
- Develop Strategy
- sustainable and repeatable
  - category knowledge
  - stakeholder alignment
  - Sourcing methodology
  - TCO
  - LCC sourcing
  - target setting

Capture Savings and drive compliance
- Negotiate and Source
- efficient, effective and reach
  - Std. process
  - template mgmt
  - vendor repository
  - reverse auctions
  - price compliance
  - knowledge mgmt
  - collaboration

Manage performance and total value
- Contract and Execute
- Invoice and Pay
- Monitor and Manage
- automated, consistent and controlled
  - template mgmt
  - monitor terms
  - price compliance
  - eliminate paper
  - feed into analysis
  - enablement
  - automation
  - rate compliance
  - tactical
  - process control (sox)
  - dynamic discounting

- Effective and reach
  - define approach
  - facilitation
  - QMR
  - scorecard
  - supplier development

People & Process
- 50%
- 60%
- 40%
- 90%

Software
- 10%
- 40%
- 60%
- 90%

Rolling out the blueprint:

- People & Process
- Software

50% 50% 10% 10% 60%
### Sourcing Center of Excellence

The following four Sourcing COE elements are essential to delivering strong sourcing capabilities:

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<thead>
<tr>
<th>Process Knowledge</th>
<th>Technology Knowledge</th>
<th>Training &amp; Knowledge Mgmt</th>
<th>Category Knowledge</th>
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</table>
| • Sourcing Methodology  
  • Job aids and templates  
  • Supply Market Analysis  
  • Spend Analysis | • Business Specific Tools  
  • Project Tracking & Reporting  
  • Esourcing Tools | • Sourcing Training curriculum  
  • Skills Certification  
  • Knowledge management System | • Category SMEs  
  • Sourcing Project experience  
  • Sourcing Best Practice Database  
  • Market Intelligence |
There are a number of pitfalls that companies experience while evaluating, selecting and implementing procurement technology.

- Allow IT to lead the project with less focus on business requirements, more on IT infrastructure
- Attempt to gain consensus from all stakeholders in deciding on technology footprint required
- Write business requirements from scratch rather than utilize and select from available functional capabilities
- Focus on integration rather than functionality
- Allow functionality to overwrite usability
- Plan a short cycle implementation, under estimating amount of change management required
- Launching technologies without a planned program wrapped around it (initiative)
- Not implementing the proper support infrastructure to assist users with adoption and migration (if applicable)
Some talent management practices to focus on in today’s economy:

- Understand your talent landscape
- Align individual and organizational goals & effectively track progress
- Emphasize employee performance management more than ever
- Invest in performance-based development
- Identify and reward high performing employees
- Have a succession plan
Creating the right metrics

- Help to ensure linkage of corporate objectives to category-specific savings targets
- Allow for visibility of key cost, quality and service performance at various levels
- Provide a consistent tool to track total Procurement results
- Ensure the Procurement organization is focused on mutually-agreed upon, consistent performance metrics
- Provide the basis for a formal continuous improvement approach to Strategic Sourcing
Questions?

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