ProcureAbility

YOUR PROCUREMENT EXPERTS

Procurement Transformation on the Fast Track: Doing More with Less

SIG SOURCING INTERESTS GROUP

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ProcureAbility Presenters

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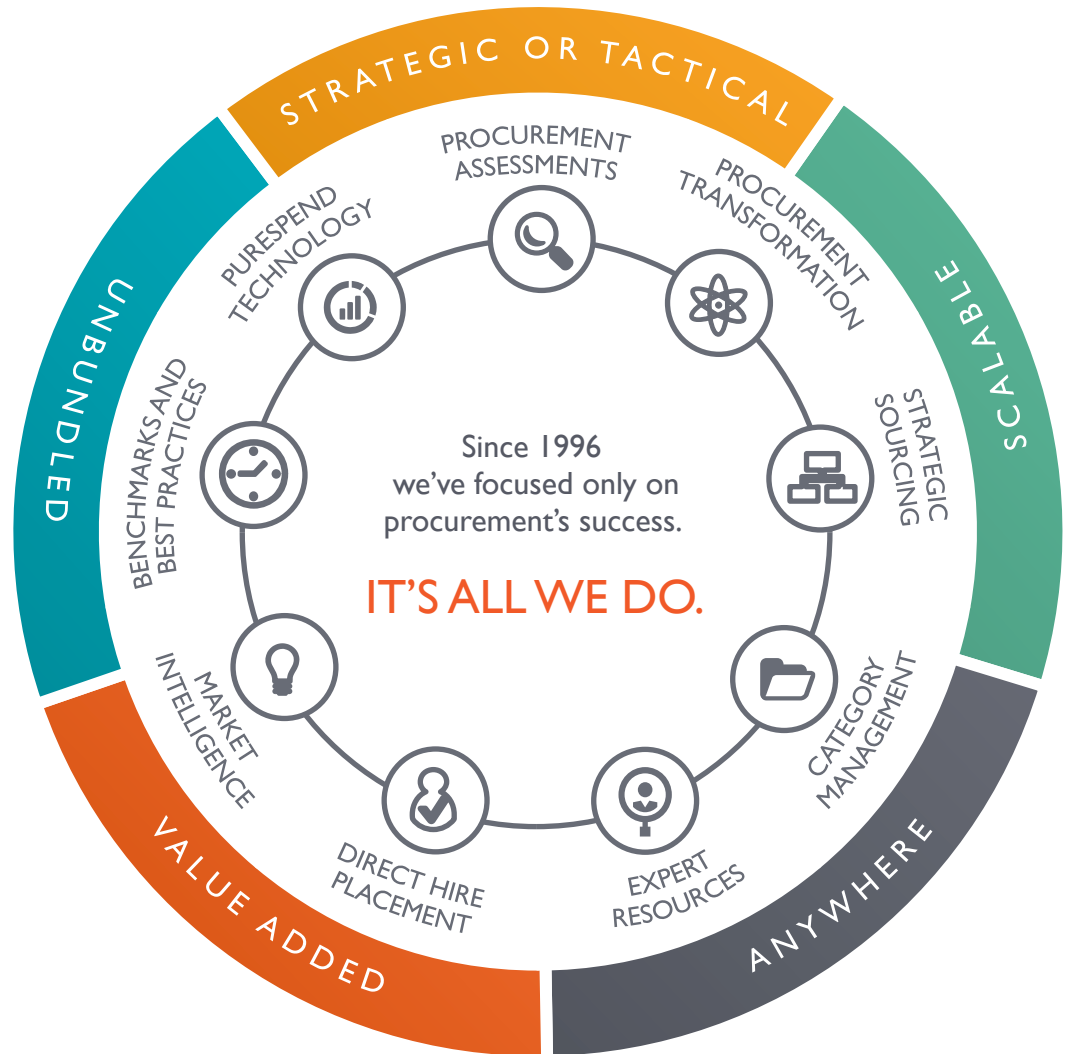ProcureAbility
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ProcureAbility

ADVISORY + TALENT YOUR WAY

AN APPROACH UNHEARD OF IN TRADITIONAL CONSULTING AND STAFFING FIRMS

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.

STRATEGIC OR TACTICAL

SCALABLE

ANYWHERE

VALUE ADDED

UNBUNDLED

PROCUREMENT ASSESSMENTS

PROCUREMENT TRANSFORMATION

PURESPEND TECHNOLOGY

STRATEGIC SOURCING

BENCHMARKS AND BEST PRACTICES

Since 1996 we've focused only on procurement's success.

IT'S ALL WE DO.

CATEGORY MANAGEMENT

MARKET INTELLIGENCE

DIRECT HIRE PLACEMENT

EXPERT RESOURCES

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

Key Components of Procurement Transformation

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
- Insource / Outsource Analysis
- Performance Metrics

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

Fast Paced Results

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Sourcing Waves

In Flight Negotiations

# 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

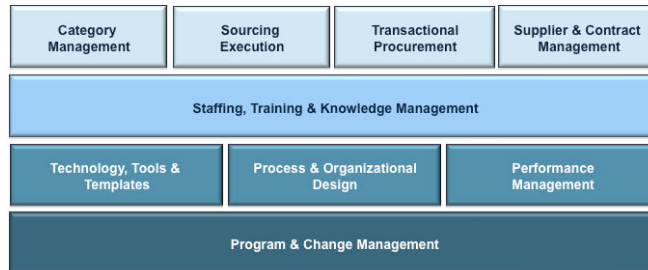# Key Components of the Program Design & Assessment Phase
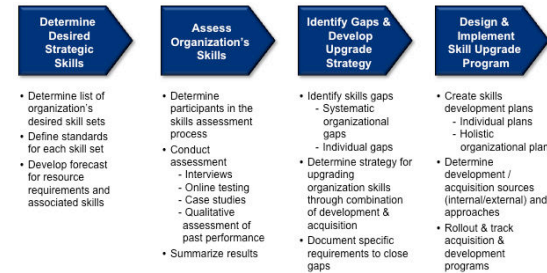
Spend Assessment
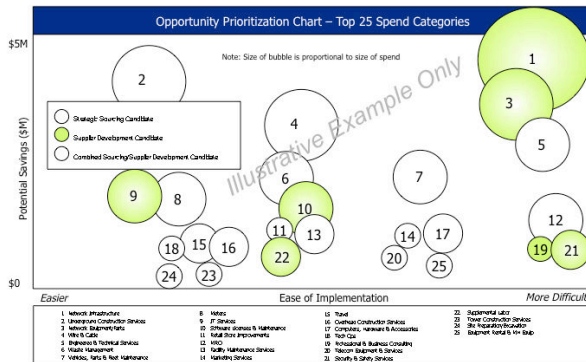
Program Design & Business Case
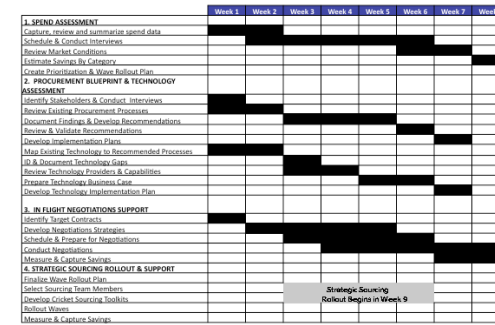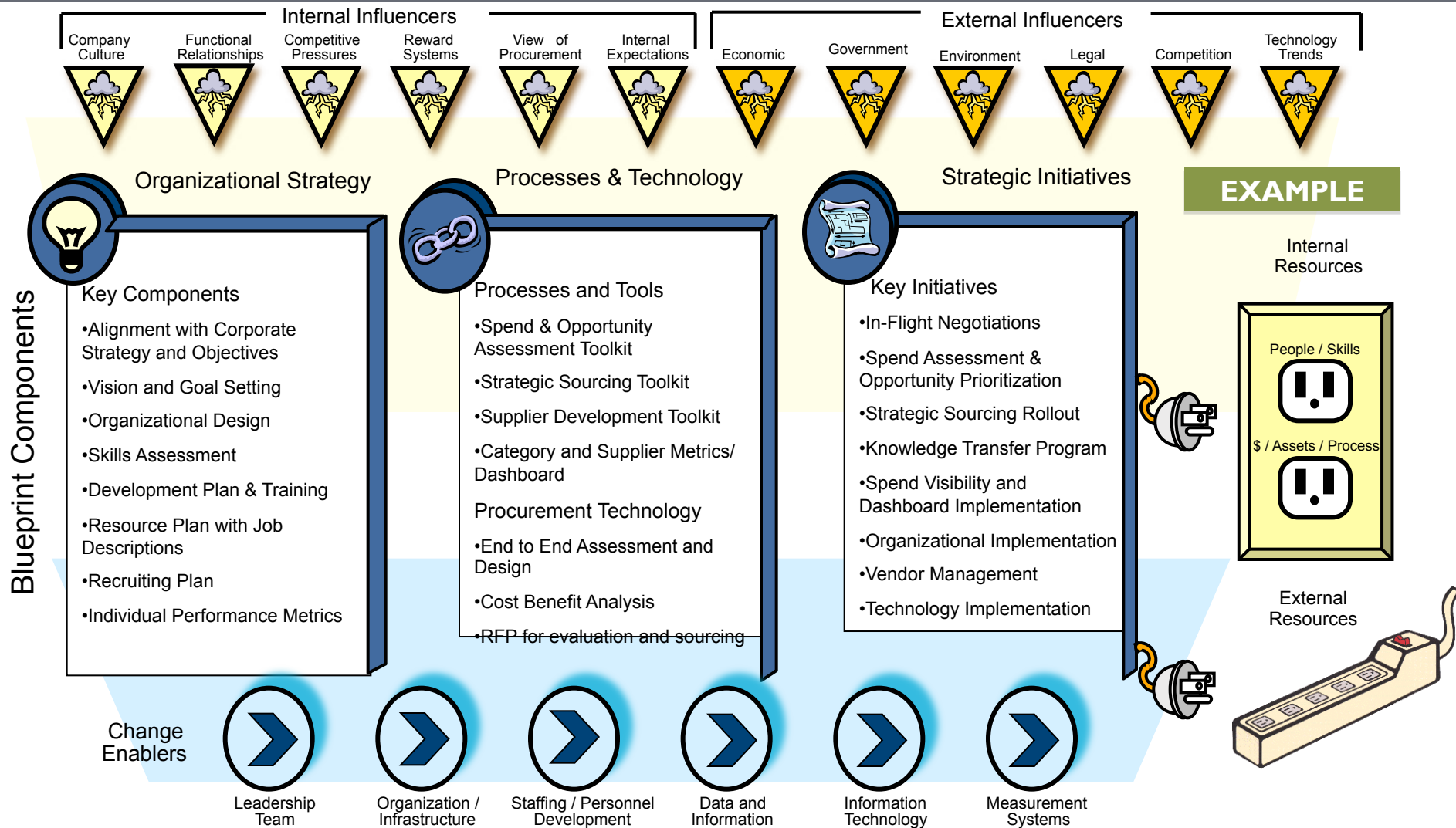

Procurement Effectiveness Assessment

Organizational & Skills Assessment

Designing the Procurement Infrastructure

Designing the Future State Blueprint

Internal Influencers

Company Culture	Functional Relationships	Competitive Pressures	Reward Systems	View of Procurement	Internal Expectations

External Influencers

Economic	Government	Environment	Legal	Competition	Technology Trends

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

EXAMPLE

Internal Resources

People / Skills

$ / Assets / Process

External Resources

Change Enablers

Leadership Team	Organization / Infrastructure	Staffing / Personnel Development	Data and Information	Information Technology	Measurement Systems

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?
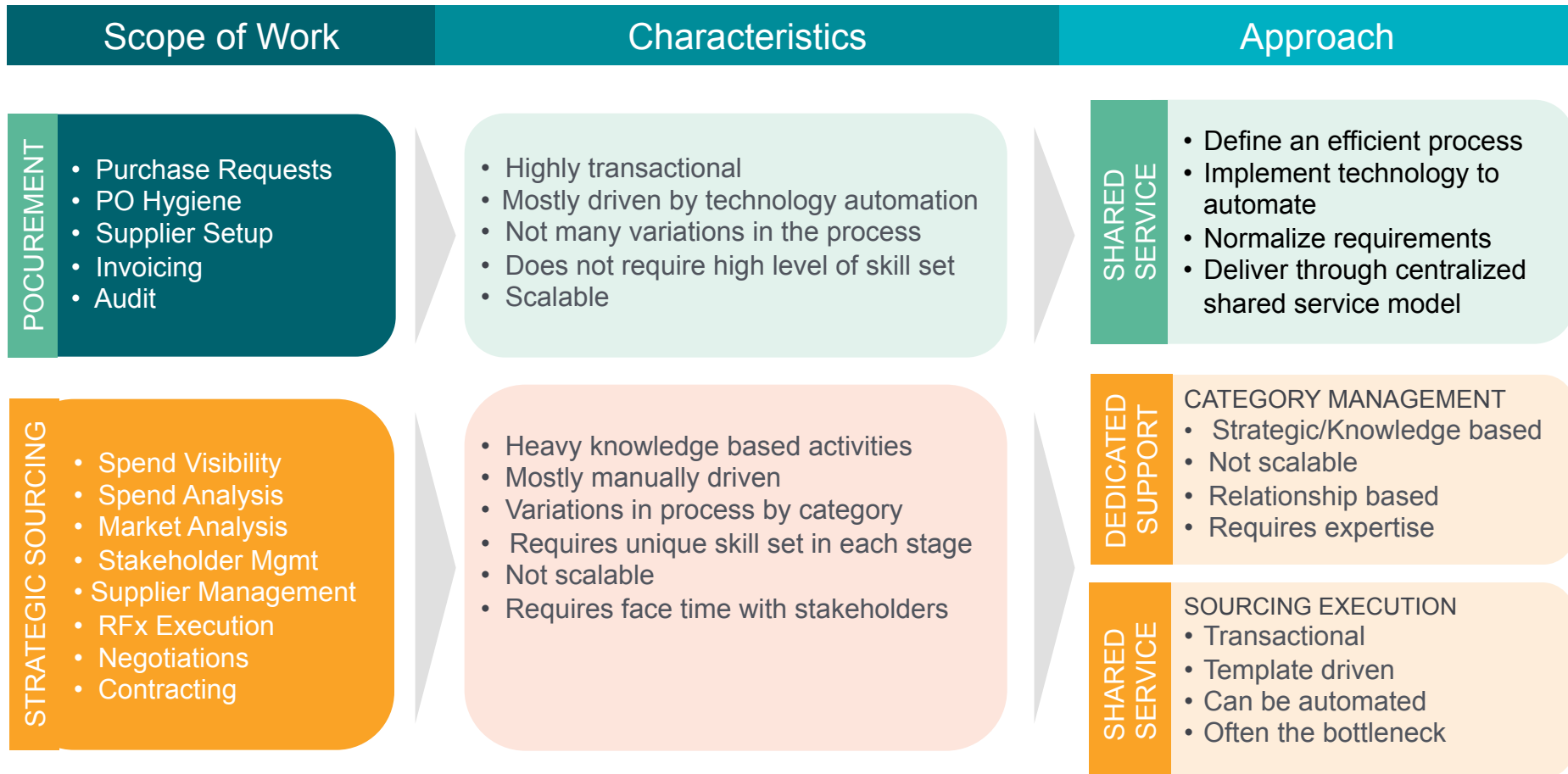- What is the technology footprint & roadmap?

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

Scope of Work	Characteristics	Approach

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

SHARED SERVICE
- 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

DEDICATED SUPPORT
CATEGORY MANAGEMENT
- Strategic/Knowledge based
- Not scalable
- Relationship based
- Requires expertise

SHARED SERVICE
SOURCING EXECUTION
- Transactional
- Template driven
- Can be automated
- Often the bottleneck

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The Procurement Technology Footprint

ProcureAbility's Procurement Technology Footprint

Spend Analysis

Data Cleansing	Supplier Management	Catalog & Requisition Management	Invoicing and Payment
	eSourcing / Contract Management		

Best in-class Capabilities

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

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
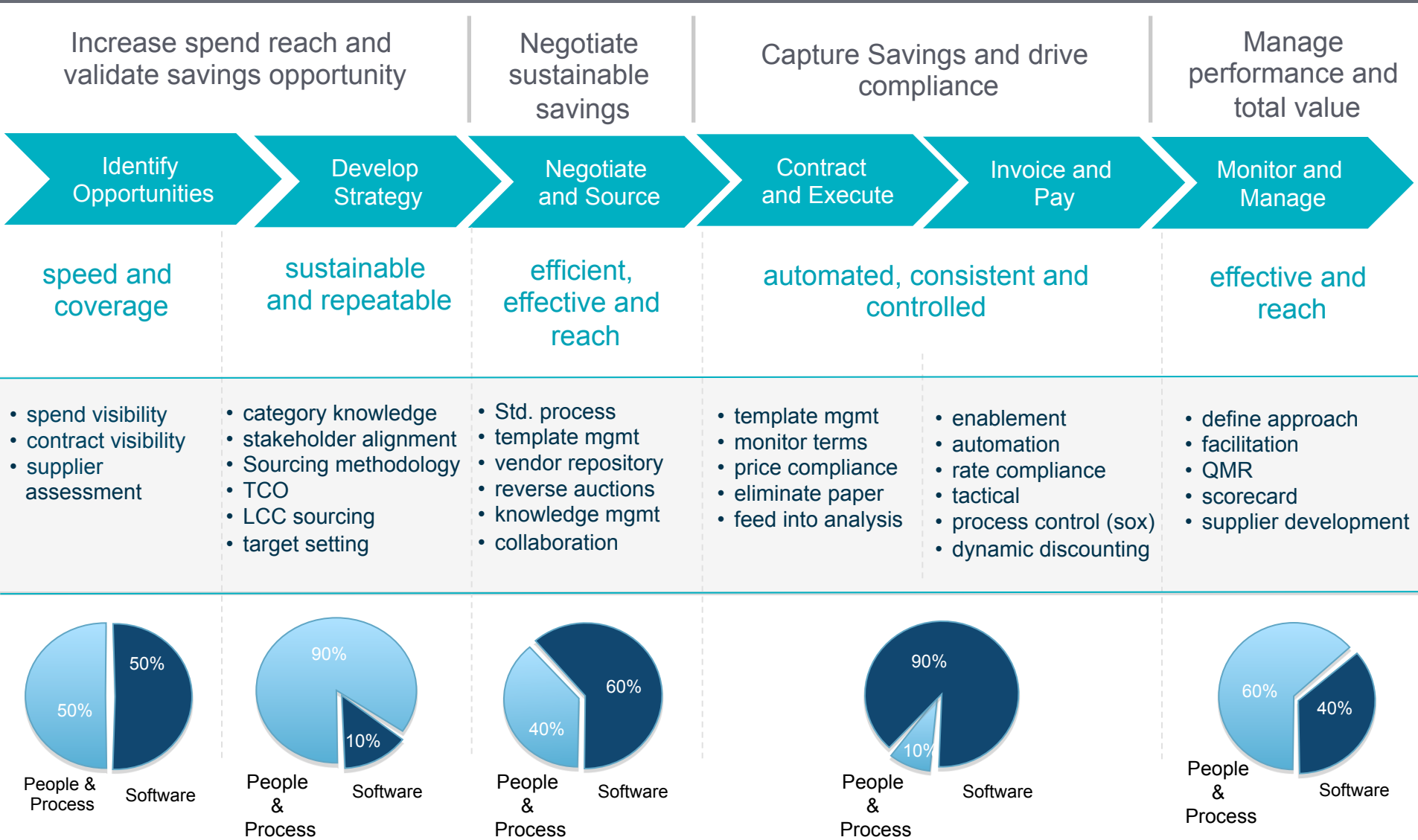
Creating Sustainability

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		Negotiate sustainable savings	Capture Savings and drive compliance		Manage performance and total value
Identify Opportunities	**Develop Strategy**	**Negotiate and Source**	**Contract and Execute**	**Invoice and Pay**	**Monitor and Manage**
speed and coverage	sustainable and repeatable	efficient, effective and reach	automated, consistent and controlled		effective and reach
• spend visibility • contract visibility • supplier assessment	• category knowledge • stakeholder alignment • Sourcing methodology • TCO • LCC sourcing • target setting	• Std. process • template mgmt • vendor repository • reverse auctions • knowledge mgmt • collaboration	• template mgmt • monitor terms • price compliance • eliminate paper • feed into analysis	• enablement • automation • rate compliance • tactical • process control (sox) • dynamic discounting	• define approach • facilitation • QMR • scorecard • supplier development

Pie charts (People & Process vs Software):
- Identify Opportunities: People & Process 50%, Software 50%
- Develop Strategy: People & Process 90%, Software 10%
- Negotiate and Source: People & Process 40%, Software 60%
- Invoice and Pay: People & Process 10%, Software 90%
- Monitor and Manage: People & Process 60%, Software 40%

Sourcing Center of Excellence

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

Process Knowledge

- Sourcing Methodology
- Job aids and templates
- Supply Market Analysis
- Spend Analysis

Technology Knowledge

- Business Specific Tools
- Project Tracking & Reporting
- Esourcing Tools

Training & Knowledge Mgmt

- Sourcing Training curriculum
- Skills Certification
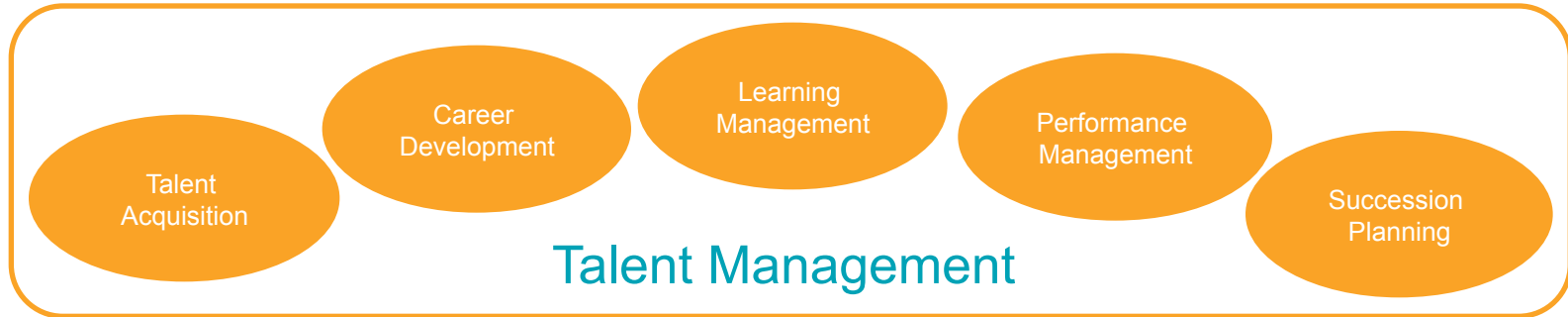- Knowledge management System

Category Knowledge

- Category SMEs
- Sourcing Project experience
- Sourcing Best Practice Database
- Market Intelligence

Common Mistakes In Selecting and Implementing Technology

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)

Building the team

Talent Acquisition

Career Development

Learning Management

Performance Management

Succession Planning

Talent Management

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

Sample Procurement Dashboard
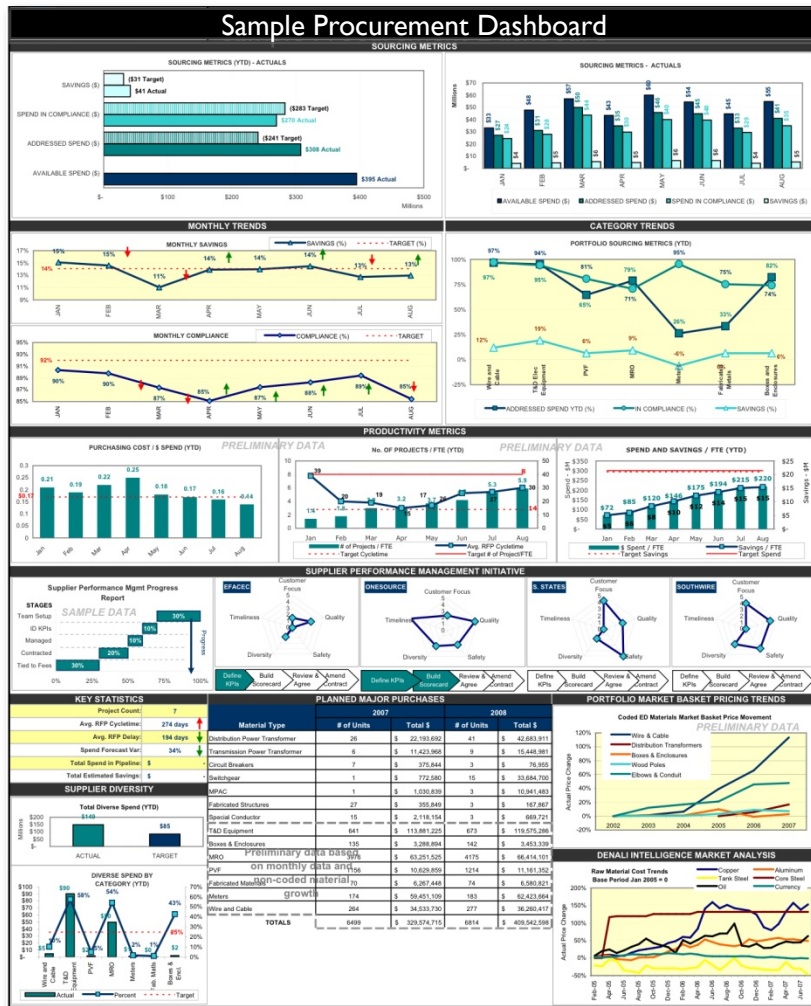
- Help to ensure linkage of corporate objectives to category-specific savings targets

- 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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