

Selling Procurement to Sales Personnel in a Project Business Environment

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95th Annual International Supply Management Conference, April 2010

Abstract. To ensure a successful project, the sales team should require integration and involvement from procurement early in the project process so a strong pricing and sourcing strategy is developed. In a project business environment, both sales and procurement must work together during the design and development stage to guarantee success. This session uses firsthand experiences to demonstrate successful and early collaboration.

Introduction: In a typical Purchase to Pay Workflow Process, Procurement is involved when a work team in the organization needs to purchase a material or service to support company operations. In a project business environment found in the Construction Industry, sourcing strategies required to win the award of a project at an acceptable margin are developed by the sales team when establishing a price proposal for presentation to the customer. Procurement needs to become integrated with the sales team to provide strategic support to develop a pricing strategy with the sales team to win the project and define the appropriate sourcing strategy to meet the needs defined by the pricing strategy.

This session describes how this was accomplished in a Fortune 500 company implementing a green field centralized procurement organization in a project business environment that did not have an established professional procurement organization. This abstract focuses on the performance of the Company's West Region Procurement Team in achieving integration, Early Procurement Involvement in Project Business, and the lessons learned. This abstract will show how a Regional Procurement Team increased the percentage of Cost Reduction Dollars to Total Direct Project Spend from 5% to 17% over a four year period.

History. Siemens acquired this company in 1998 with the acquisition of Electrowatt, Ltd. which included the operating company of Landis and Gyr (Landis Staefa) in North America. This was a company consisting of a number of decentralized branches across the United States and Canada responsible for offering a complete technical infrastructure and systems provider for electronic security, fire safety, comfort and energy efficiency in commercial buildings and public places. Procurement was a responsibility spread across the local organization's sales and project management/operations team. Procurement sourcing activities leveraged weak national agreements and was local in scope

Project Business Workflow. To understand the problem, an understanding of the workflow of project business must be reviewed. Project business has two major phases. The first is the Sales Phase where a selected sales opportunity is pursued until it is awarded and a sales order is received ("Booked"). The second phase belongs to Project Management or operations and is the actual installation or implementation of the project. Figure 1 shows the Process workflow of the Sales Phase.

Sales Workflow Phase with Procurement Touch Points

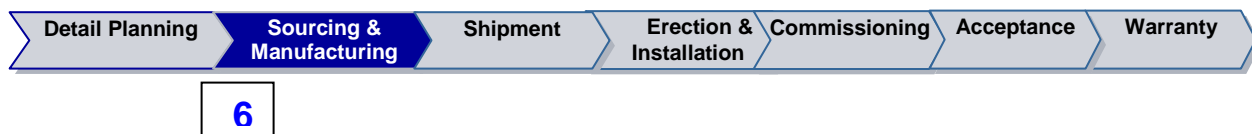
Figure 1



At the end of this phase the project is “booked” or the order is entered and the project moves into the Project Management Phase as shown in Figure 2.

Project Management Workflow Phase with Procurement Touch Point

Figure 2



The blue numbers in Figure 1 and Figure 2 show the Procurement Touch Points for each of the two phases. This review of the Project Business Workflow combined with the identification of the Procurement Touch Points in each phase and stage clearly indicates the need for Early Procurement Involvement and Integration in Project Business during the Sales Phase of the project.

The Sales Process. To develop a plan to address the problem, the Sales Process must be understood. The Sales Team develops a “Sales Funnel”. This “Sales Funnel” can usually be found in one form or another in any company. It is a list of sales opportunities that are being pursued and managed by the sales team. This tool is used to forecast sales and plan future operational requirements based on the forecast. Sales Management should insure the funnel reflects realistic sales opportunities. Limited Procurement resources impact the number of potential sales opportunities in the sales funnel that Procurement can support. On average, a sales funnel will have 100 or more separate opportunities at any one time to one (1) District Project Procurement Manager. Therefore the strategic few for procurement involvement have to be identified from all the opportunities in the sales funnel

Procurement Value in Project Business. Procurement value means cost reduction of the Total Direct Cost (TDC) in Project Business to achieve Contribution to Net Income (CNI). Cost Reduction includes the traditional Purchase Price Change (PPC) where the last price paid or average annual price paid is the benchmark to calculate cost reduction with the new lower price. Material Cost Productivity (MCP) cost reduction is the result of a cost reduction effort due to design to cost, target costing, value engineering and project purchases that deal with costs that have a “previously defined reference model”. Savings are defined as either Value Engineering Savings if it occurs during the Sales Workflow Process, or Final Negotiations if it occurs after the project has been booked. In every case, the cost reduction can only be claimed if a sales order is received and the project is booked.

The Sales Entrepreneurial Persona. The sales person is an opportunistic individual performer selling solutions to their customers. Depending upon the complexity of the solution, he or she will manage the sales process and should bring in what ever company assets are needed to make the sale. Procurement was not a resource or asset that sales could utilize until 2005 at Siemens Building Technologies. This procurement person is considered a roadblock and someone who drove down the sales price and the sales person's commission on the sale. What value would the Siemens's PPM bring to the sales effort and the solution being sold?

The perception was the sales person had to navigate around an internal procurement roadblock as well as the external procurement roadblock to win the sale. The sales person had no idea of the value internal strategic procurement resources could bring to the sales effort. These resources were new to the organization and the sales person was being asked to relinquish some level of control and leadership over developing costs for a project. The implementation effort for procurement policies and procedures targeted at providing lower costs, improved competitiveness, transparency, and a procurement change of focus to a national and global supply base was perceived as a sales prevention effort rather than a sales enhancement effort.

The Problem. A review of the West Region's 2006 savings documentation indicated that 30% of the savings was Value Engineering and 70% was Final Negotiation savings. Procurement integration was at Procurement Touch Point 6 rather than in the Sales Phase of Project Workflow. Change Management was required to provide a solution to the sales team supporting procurement's value rather than trying to police procurement compliance to policies and procedures. Procurement team had to ensure the solution answers the "What's in it for me?" question for sales. The procurement team had to establish an operational model that promotes integration and the opportunity to build relationships between sales and procurement. The bottom line was that the Procurement Team had to become as good as or better at selling their procurement value solutions than the District Sales Teams.

Actions Taken. The West Region Procurement Team had to develop a solution that would meet the needs of each District Management team. The West Region enjoyed a higher level of executive support than was found in the North or South Regions which was a key enabler for all actions that were taken. Key bases that needed to be covered in the solution were to establish credibility and confidence in the PPM as a member of the district management team. Develop access to opportunities where procurement value can be demonstrated. Develop opportunities to establish, build and nurture relationships with the sales team. Share the same Key Performance Indicators (KPI) and goals. Speak the same business language.

From an operational standpoint, PPM's were provided a desk in the sales area of the District Office to provide opportunities to build relationships with the sales team. Access was provided to the district sales funnel. Salary incentives based upon attainment of the district's financial goals were provided to the PPM's. Full membership and access to the District Management Team as a key team member plus approval and release responsibility for all Purchase Orders released in the District provided a defined role and responsibility. Procurement input in go/no go decisions in the Sales Phase of the Project Workflow to validate project costs, sourcing plans and risks was part of the procurement role and responsibility.

PPM's were tasked to seek Sales support; don't wait for Sales to seek procurement support. Attend Sales meetings on a regular basis and meet with Sales Managers. Establish a "Savings" Funnel based upon the Sales Funnel and then utilize the "Savings" Funnel in discussions with District and Regional Management Teams.

The Savings Funnel Tool. It initially started in the West Region to forecast cost reduction the PPM's were working. The PPM's were tasked to provide a list of sales opportunities based on the Sales Funnel that was reviewed with the Sales Managers. Sales opportunities that were strategic to the district, had a high potential of being closed and had a third party savings potential with an equally high potential of being achieved were to be included on this list. Sales Managers and PPM's were tasked with using **Target Costing** and **Target Pricing** concepts to identify and forecast potential savings targets for each sales opportunity. The principle was that if you did not have a target to shoot at, how did you know if you were hitting anything when you shot? This tool provided focus on procurement productivity on all levels.

Skills Development and Training. It became apparent that PPM's who had sales experience in their career tended to be more successful attaining integration than those that did not. Internal training began to focus on sales training for PPM's, teaching the skills to sell solutions to the internal team, and finally to take the same sales classes the sales team was required to take. This had a number of benefits: The PPM learned to speak the same business language by going through the same learning process provided to new sales personnel; PPM's taking the same class with new sales people was able to begin a professional relationship early in the career of the new sales person. This helped early integration. The sales training staff recognized that sales personnel needed to look at procurement as a sales support asset and began to provide training using procurement personnel to begin selling the potential procurement solutions available in the sales training classes.

Marketing and Selling the Solution. Communications is the key to market and sell procurement value. The "HOT SHEET" was a regional procurement newsletter that marketed successful sales and procurement collaboration in Project Business. This newsletter was distributed via E-mail to Sales, Service and Operation associates.

Results. Figure 3 indicates the Percentage of Value Engineering Cost Reduction from 2007 from total savings. The logic is that an increase in Value Engineering Cost Reduction is a good indicator of Early Procurement Involvement. Note the performance of the West Region to the other regions. Figure 4 shows actual cost reduction performance to the stretch goal by region.

Figure 3

Percentage of Value Engineering Cost Reduction			
	<u>2007</u>	<u>2008</u>	<u>2009</u>
North	37%	48%	41%
South	16%	21%	43%
West	50%	60%	71%
Corp.	34%	46%	56%

Figure 4

Percentage of Cost Reduction Achieved to Stretch Target			
	<u>2007</u>	<u>2008</u>	<u>2009</u>
North	110%	101%	96%
South	114%	92%	113%
West	135%	115%	148%
Corp.	119%	102%	120%

It becomes difficult to measure the impact Early Procurement Integration had on the Hit or "win" rate for sales. The economic downturn in 2008 continuing into 2009 had a dramatic

impact. Looking at the total annual direct project spend correlates to the decrease in sales by region. The table in Figure 7 indicates the percentage of change from 2007 to 2009.

Figure 5

Decrease in Percentage of Direct Project Spend from 2007			Cost Reduction as a Percent of Direct Project Spend			
Region	2008	2009	Region	2007	2008	2009
North	11%	9%	North	6%	9%	7%
South	29%	-5%	South	7%	8%	9%
West	19%	12%	West	7%	12%	17%
Corporate	20%	6%	Corporate	7%	10%	11%

The West Region's performance exceeded the other regions. The stretch goals were established as a percentage of the budgeted spend for each region. The Figure 8 provides a better visual representation related to performance to the stretch target.

Figure 7 shows that over a three year period the stretch target grew to 126% of the 2007 base line stretch target. Stating this in a different way, the trend line shows the 26% increase in the stretch target from 2007 to 2009. During the same period, total actual spend for direct project materials decreased 24%. The target or goals increased while the opportunities represented by potential spend to achieve cost reduction decreased. The trendline for the West Region is consistent to the increase shown in the percentage of Value Engineering Cost Reduction increased identified in Figure 3. The table in Figure 5 shows the decreases in direct project spend.

Figure 7

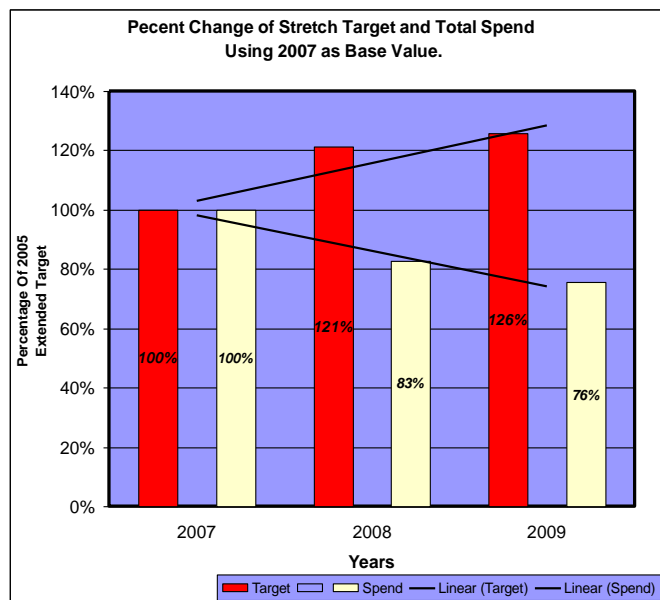
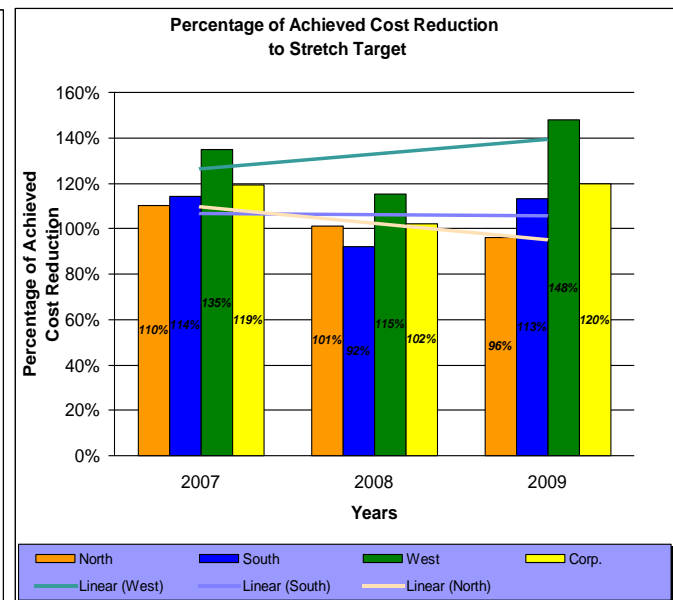


Figure 8



The West Region had the greatest slide in Direct Project Annual Spend on a total percentage basis but was able to increase cost reduction as a percent of direct project spend. Total actual dollars increased in the West Region each year indicating the impact of Early Procurement Involvement in the Sales Phase of the Workflow. The question becomes how to measure the impact of Early Procurement Involvement with the sales "win" rate? This measure is being developed.

Direct Project Spend is down, but on a year to year basis, Cost Reduction as a Percent of Total Direct Project Spend has increased. Relating the increase in the percentage of Direct Project Cost Reduction to Direct Project Spend each year to each Region's percent of Value Engineering Cost Reduction provides a measure of the impact of Early Procurement Involvement has on the Company.

Lessons Learned.

Key sales lessons I learned include:

- a. Find, fix and sell your solution to the CEO (or the top decision maker of the business unit.)
- b. Avoid selling your solution to the technical person. Sell it to the decision maker.
- c. Sell solutions not products, policies or procedures.
- d. Listen to your customer (the sales person).
- e. Identify your customer's needs and wants.
- f. Develop a solution with the customer that meets that need or want.
- g. Let the customer think it was their solution.
- h. Ensure your solutions answers "What is in it for me?"

You know you are gaining traction when:

- a. You are invited to meet with the external customer;
- b. You begin working with the sales team to develop costs for the proposal;
- c. Sales come to your office for support;
- d. You begin to consistently exceed your stretch cost reduction target year to year;
- e. Your cost reduction to total spend consistently exceeds inflation by a large margin.

Key Enablers are:

- a. Selling your solutions and gaining the support of top management
- b. Establishing a strategic sourcing effort that brings cost benefit to the process.
- c. Developing sales skills within the Procurement Team
- d. Seeking and building relationships with the Sales Team
- e. Covering the bases:
 - i. Establish credibility and confidence
 - ii. Develop access to opportunities
 - iii. Develop solutions to those opportunities
 - iv. Share the same Key Performance Indicators (KPI) and goals.
 - v. Speak the same business language

“Show me the money!” This means establishing a presence, a role, and responsibility with sales to help develop proposals for the large strategic projects. There is limit to the value that can be provided on small projects. You need to get involved in the large projects. Provide easy to use contact lists and preferred supplier lists to direct the sales and operations team to the preferred suppliers for the small projects. Provide for the development of the tactical procurement organization by giving them the opportunity to seek cost reduction with the small projects by directing purchase orders to the preferred suppliers.

When you are dealing with the Sales Entrepreneurial Persona, keep it very simple, very quick and to the point. Avoid using huge power point presentations. Time is money. Your focus should be to help sales keep themselves in front of the customer (What is in it for me?) by relieving them of the responsibility to manage the supplier and subcontractor base. Let sales tell you how to do that and make them part of the solution.

Finally, you need **persistence combined with continual marketing and communication of the successes**. Recognize people and sales teams who do a super job in developing costs and reduction opportunities in Project Business. It is even better when you get referrals for support from the teams you helped before.