

# Meaningful Involvement in Services Purchasing: Practical Applications

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## Agenda

- ◆◆—◆◆—
- ✦ Background
  - ✦ What is Meaningful Involvement?
  - ✦ Purchasing's Evolving Role
    - ✦ How can we get to where the involvement is meaningful?
    - ✦ What are the obstacles?
    - ✦ How can involvement be facilitated?
  - ✦ Revised Services Matrix
  - ✦ Case Study -- Workshop

## Services and Indirect: the Next Frontier

- ✦ Services are growing in magnitude and impact for most organizations
- ✦ Increased outsourcing of services increases this spend category impact on business results.
- ✦ How can purchasing have “meaningful involvement” in services spend?
- ✦ Establishing “value” is absolutely essential here
  - ✦ Value in terms of what is REALLY needed
  - ✦ Value in terms of what supply management can contribute if it is involved in services (and indirect)
- ✦ Based on data compiled from focus group participants in May of 2012

## What are types of services is purchasing currently involved in?

- |                   |                       |
|-------------------|-----------------------|
| ✦ Research        | ✦ Technology Sourcing |
| ✦ Procurement     | ✦ Travel              |
| ✦ Human Resources | ✦ Logistics           |
| ✦ Marketing       | ✦ Consulting          |
| ✦ Legal           | ✦ Financial Services  |

## Purchasing's Move to Meaningful Involvement

- ✦ Involvement in materials versus complex services
- ✦ Have already done as much as we can do in goods; opportunity in services
- ✦ Ongoing shift between centralized and decentralized purchasing
  - ✦ “Decentralization occurs because someone comes in (potentially a change of leadership) and you try to convince them that you are adding value, but they can’t see it.”
  - ✦ Some services lend themselves to centralization – a way to achieve stakeholder buy-in
- ✦ Responsibility is increasing, however budget owners generally have control
  - ✦ Not consensus on right level of control for SM

## What Does It Take To Get Involved?

- ✦ People skills
- ✦ Customer service orientation
- ✦ Management of Perceptions
- ✦ Goal alignment with budget owners
- ✦ Clear set of objectives – “What are you trying to accomplish?”
- ✦ “Have to be able to bring “visibility on saves” and add value beyond “cutting price”



“...probably the one thing I would do differently is be more service-oriented toward the internal customer...”

– Dave Nelson, former CPO of Honda of America, Deere, & Delphi (September 2011)

## What hinders our progress toward meaningful involvement?

- ✦ Stakeholder resistance – differences in risk tolerance, needs requirements, and KPI's
- ✦ Budget ownership
- ✦ Lack of visibility and transparency in services spend
- ✦ Lack of creativity or “inability to think outside of the box”
- ✦ Lack the appropriate “conversational skills” to engage stakeholders
- ✦ Incentives, rewards, conflicting objectives: “kind of a thankless job”.

## What facilitates involvement?

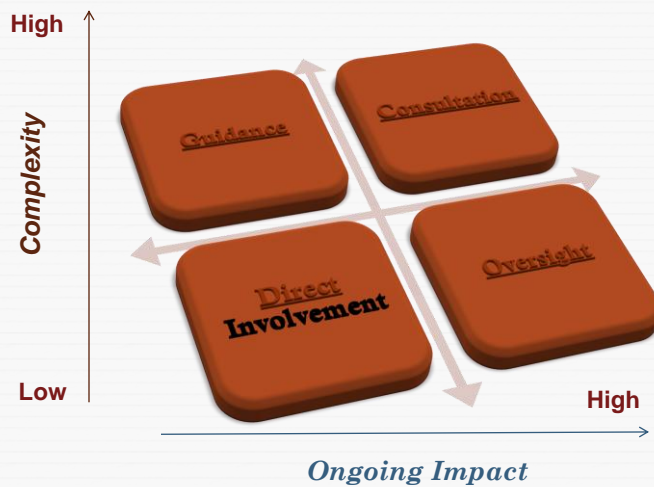
- ✦ Financial trouble, economic issues
- ✦ C-Suite/Executive Level Support
- ✦ Cooperative planning
- ✦ Training
- ✦ Metrics (esp. non-financial)
- ✦ Understand objectives
- ✦ Develop processes and incorporate technology (for transparency and greater visibility)

*“In terms of getting involved in new areas, purchasing’s best friend is tough economic times.” –VP of Finance*

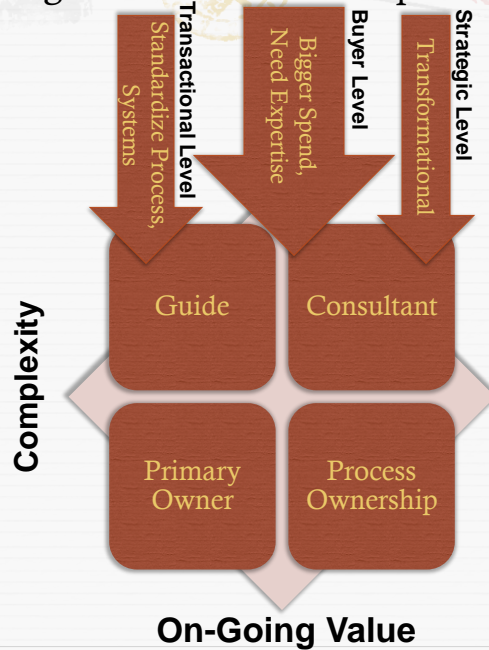
# Services Matrix

- ✦ Developed in conjunction with practitioners, in-depth case studies
- ✦ Participants in last year's conference, focus group participants in May, and article reviewers offered ideas for improvement
- ✦ Revised, updated – still a work in process!

## Purchasing Involvement in Complex Services



## Purchasing Involvement in Complex Services Spend



## Roles of Supply Management in Service Purchases

### Primary Owner

- |                                    |  |
|------------------------------------|--|
| ✦ Types of Purchases               | <ul style="list-style-type: none"> <li>⊙ Most traditional materials purchases</li> <li>Hybrid: Office Supplies</li> <li>Services: Facilities, Security</li> </ul>    |
| ✦ Supply Mgt. – Supplier Interface | <ul style="list-style-type: none"> <li>⊙ Supply Mgt. is primary interface with suppliers</li> </ul>  |
| ✦ Supply Mgt. Role                 | <ul style="list-style-type: none"> <li>⊙ Supplier selection, management and assessment (functions operate within set parameters, SM manages relationship)</li> </ul> |

## Roles of Supply Management in Service Purchases

### Guide

- |                                    |   |
|------------------------------------|---|
| ✦ Types of Purchases               | ◎ Small purchases (could be large quantity but small \$)<br>◎ Specialized Consultants |
| ✦ Supply Mgt. – Supplier Interface | ◎ No Supply Mgt. interface with suppliers   |
| ✦ Supply Mgt. Role                 | ◎ Develop process (function then operates independently)                              |

## Roles of Supply Management in Service Purchases

### Consultant

- |                                    |  |
|------------------------------------|--|
| ✦ Types of Purchases               | ◎ Specialized high value items, with strategic value for one function.<br>◎ One budget owner (advertising; research) |
| ✦ Supply Mgt. – Supplier Interface | ◎ Limited SM interface with suppliers, primarily in screening  |
| ✦ Supply Mgt. Role                 | ◎ Assist with market research, supplier selection and contract development   |



## Roles of Supply Management in Service Purchases

### Process Owner

- ✦ Types of Purchases
  - ✦ Purchases with high dollar value and ongoing impact
    - ✦ Owned by multiple functions (call centers, professional labor services)
- ✦ Supply Mgt. – Supplier Interface
  - ✦ SM interface with suppliers is secondary—in selection, gathering and summarizing performance evaluation data from users
- ✦ Supply Mgt. Role
  - ✦ Develop common process (functions operate independently)

## Case Study: Using the Matrix

- ✦ Big Pharma currently spends about \$10 Bil USD per year on research and development. About \$1 Bil is spent with companies who perform and administer the clinical trials to qualify the new drugs. Up to this point, the supply management function has had NO involvement in this area whatsoever. The head of R&D has been pressured to let the supply management group work with them, and to think about how they could retain value at a lower cost. You are the one who has received the assignment to work with the R&D scientists.
- ✦ The scientists are not thrilled about this, but know that they need to cooperate, at least on surface. You know you need to be successful or you probably will not get another chance to participate again in a long time! In order to prepare, please develop answers to the following questions:
  1. Using the matrix, where do you think it clinical trials should be placed?
  2. What do you think the value proposition is for clinical trials?
  3. How do you think the R&D scientists are evaluated and rewarded?
  4. What do you think drives the costs of R&D trials?
  5. How would you approach R&D, and what value do you think you could add?



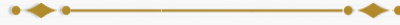
# Some Insights

- ✦ Spend approximately \$1 billion per year in Clinical Trials.
- ✦ SM collaborates with many organizations in R&D – often share the costs – risks and benefits to develop and market products.
- ✦ SM focus typically emphasizes cost with quality being non-negotiable
- ✦ Issue is that the scientists need resources while procurement needs cost savings

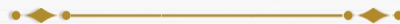
- On average it takes 12-15 years for an experimental drug to travel from the lab to U.S.patients
- Only 5 in 5000 that enter pre-clinical testing make it to human testing
- Only one in five that is tested is approved



# Round 1

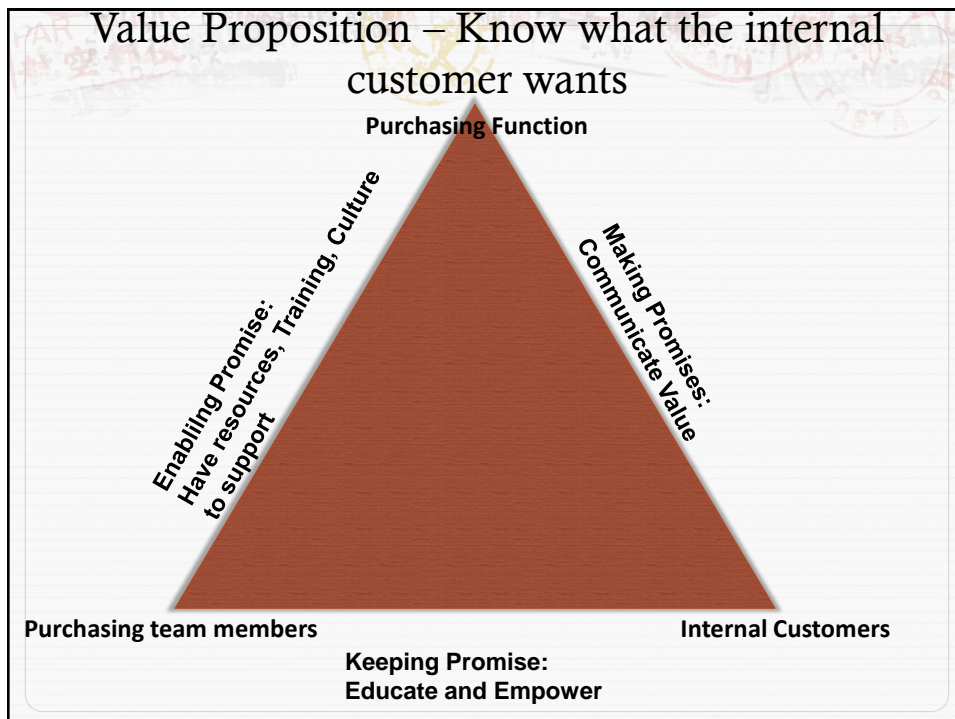


## Life Cycle Phases



- ✦ Phase 1: Discovery and Development
- ✦ Phase 2: Pre-Launch
- ✦ Phase 3: Launch
- ✦ Phase 4: Growth
- ✦ Phase 5: Maturity

## Round 2: How can purchasing add meaningful involvement?



# Overall implications

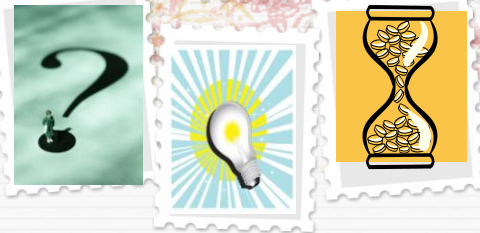
- ✦ Saved money AND improved the value proposition for this service
- ✦ Huge revenue implications, far greater than any potential cost savings
- ✦ More options for internal customers
- ✦ Reduced risk for the firm

## Managerial Lessons Learned

- ✦ If the internal customer is currently “satisfied”, SM must find a way to provide access to improved service (VALUE)
- ✦ Value can only be defined by the customer
- ✦ The cost savings are often for top management, not the budget owner
- ✦ Understanding and removing potential bottlenecks in getting products to market or meeting customer needs can have revenue implications that can remove significant barriers to SM involvement

## Key Insights - Conclusions

- ✧ Varying opinions on the “right level” and right type of involvement
- ✧ Patterns we have observed as effective are characterized in the matrix
- ✧ There is a minority view that SM should have full authority and responsibility for services, mirroring goods (process owner or primary owner)
- ✧ Is this viewpoint the wave of the future, or an outlier?



Thank you