

Is Your Procurement Strategic? Building The Bridge From Tactical to Strategic

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Strategic Sourcing - Building the Bridge Agenda

What is “Strategic Sourcing”?

- what is tactical sourcing?

Why bother with Strategic Sourcing?

What skill sets are needed?

- how do we obtain the requisite skill sets?

The transition from tactical to strategic sourcing

Building a step-by-step methodology

How does eProcurement fit with Strategic Sourcing?

Tactical vs. Strategic - Why?

WHY BOTHER?

- **outside materials/services account for average of 70% of corporate expenditures**
- **decrease cost of outside material/services**
 - truly understand strategic expenditures
 - aggregate spend with fewer suppliers
 - leverage volume across the organization
- **increase efficiency of procurement process(es)**
 - eliminate redundancies
 - streamline each process
- **ensure your organization's competitive position!**

Strategic Sourcing - What is it?

- Development and application of a carefully crafted strategy for the procurement of quality supplies & services at the lowest total cost
- Requires comprehensive spend analysis to create the strategy(ies)
- May be applied to most commodities and/or services, from office supplies to direct materials

Strategic Sourcing - What is it?

Methodical PROCESS, which includes:

Understanding every element of company spend;

Evaluating current and potential sourcing relationships and opportunities;

Assessing value and relevance of each supplier relationship relative to long term business goals and objectives;

Formulating and applying strategy(ies) for sourcing each commodity and/or service.

It's systematic, cross-functional, and cross enterprise!

Tactical to Strategic - What?

Changing mind set/perspective

Changing organizational culture

Redefining procurement processes

Balancing transactional and strategic
requirements

Requires top down management support!!

WHERE IS YOUR FOCUS??

Where is your supply management organization's focus?		
TRANSACTIONAL	TACTICAL	STRATEGIC
Order Processing	Supplier meetings and discussion	Aligning suppliers with business strategies
Processing RFQs	Intelligence gathering and analysis	Developing organizational strategies to meet future needs
P.O. preparation	Supplier cost estimating (TCO)	Developing commodity and supplier specific strategies
Reacting to P.R from other org's	Tactical planning for negotiations	Supplier performance and relationship management
Bid evaluation	Negotiations and consensus building	Supplier participation in long-range business planning
Order expediting	Functional skill development	Comprehensive contract & relationship management

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Tactical to Strategic - What's needed?

Passion for change

Strategic mind-set

Progressive skill set

Extensive people skills

Executive management support

– cross-functional commitment

Grass roots participation (it's about people!)

BALANCE between tactical and strategic

Strategic Skill Sets

Looks to the future; asks “what if ...”

Thinks like a CEO; moves beyond assigned functions/tasks

- Understands the business; not just procurement aspects
- Aligns procurement efforts with organizational business goals

Continuously learning and growing

Challenges paradigms; changes & progresses the organization

Obtains support by persuasion - not by mandate

Integrates personnel with technology

Views the supply chain holistically, as a continuum

Creates a clear vision/plan to guide the organization

Source: Forbes

Enabling the Strategic Transformation

From “Purchasing”... ... to “Strategic Sourcing”

Tactical

- Tactical Buying
- Purchase Order Execution
- Reactive to Business Unit Demand
- Focused on Purchase Price
- Clerical Talent Profile
- Marginalized Function

PERFORMANCE METRICS AND MANAGEMENT

From Narrow and Process-Based to Broad and Value Based

- Beyond buyer productivity and process efficiency to enterprise value creation
- Beyond supplier metrics to end-customer value creation
- Beyond purchase price to total cost of ownership

TALENT PROFILE

From Tactical Buyers to Strategic Soursers

- Broader business background and general management aspirations
- Financial and analytical capabilities
- Project, people and relationship management skills

OGRANIZATION STRUCTURE

From Decentralized to Center-Led

- Enterprise-wide visibility and involvement
- Coordination of policy and contracts to reap volume benefits
- Maintenance of local flexibility

TECHNOLOGY TOOLS

From Labor-and Paper-Intensive to Digitally Enabled

- Automation of transactions for efficiency
- Analysis of data for opportunity identification and compliance monitoring
- e-Auctions and exchanges with real payback

SUPPLIER RELATIONSHIPS

From Adversarial and Zero-Sum to Collaborative and Mutually Beneficial

- Co-dependence from consolidated spend
- Mutual benefits from shared cost reduction opportunities
- Innovation and revenue enhanced by supplier collaboration

Strategic

- Strategic sourcing
- Supplier Relationship Management
- Proactive Procurement-Led Initiatives
- Focused on Bottom-Line Value (TCO)
- Well-Rounded Business Management Skills
- Core Strategic Function

Strategic Sourcing Evolution

Key Elements

Evolution	Stage 1	Stage 2	Stage 3	Stage 4
Attribute	Fragmented	Integrated Processes	Integrated Suppliers	Value Network/Virtual Company
Strategy	Sourcing mostly at local level	Regional/Division level sourcing	Supplier's spend included in corporate sourcing model; Supply markets assessed globally	Global/consortium level assessment; Real-time, global opportunity assessment.
People	Clerical focus Transactional skills	Cross-functionally trained, basics of sourcing strategy; supplier evaluation; knowledge of materials/services to investigate supply markets	Creative at developing sourcing strategies; impact <u>customer</u> cost; develop and integrate suppliers; deep material/service requirements knowledge; requirements consolidation and supplier qualification.	Add direct value to <u>customer</u> products; form consortiums; drive outsourcing decisions; expert in material/service requirements; influences supply markets.
Technology	Independent Systems; Islands of Automation	Integrated Applications; Process Automation	Electronic Commerce enabled; Scaleable; portable; cross-platform	Electronic marketplace enabled; Virtual links between customers, company and supplier(s)
Process	Product sourcing; Planning, Requisitioning, Receiving and payment are fragmented; Emphasis is on transactional processes Negotiates prices, P.O. to P.O.	Processes are integrated - transactional procurement is no longer a focus; Sourcing & consolidation are dominant; growing interest in supplier development. Negotiates contract prices for some commodity groupings. No controls in place to monitor "maverick" buying.	Supplier processes are improved and interfaced; sourcing process includes supplier buys; suppliers assist in consolidation; suppliers involved in product development. Negotiates contract prices for most commodity groupings. Controls in place to measure and enforce compliance to contract buying.	Rapid supplier process integration; suppliers design and develop customized product manufacturing; suppliers assist in data-warehouse; web-driven sourcing strategy Long term supplier partnerships committed to continuously drive down total cost. System enabled ordering and high supplier service levels eliminates the need and opportunity for "maverick" buying.

Strategic Sourcing Evolution

Key Elements

Evolution	Stage 1	Stage 2	Stage 3	Stage 4
Attribute	Fragmented	Integrated Processes	Integrated Suppliers	Value Network/Virtual Company
Culture	Purchasing considered a low-value function.	Purchasing gets some recognition as a means to reduce costs.	Procurement becomes an integral part of the supply chain team.	Strategic Sourcing viewed as a key facilitator of the networked enterprise.
Structure	Buyer reports to Purchasing Dept. at Business Unit level, with limited cross Business Unit interaction	Centralized co-ordination of leveraged commodities; decentralized order/receipt; centralized settlement	Centralized co-ordination of leveraged, competency related materials/services. Consortium based purchase of non-competency related materials and services	Rule-based systems/processes enable decentralized but coordinated sourcing and transactions.
Measurements	Mostly functional; Purchasing measures mostly related to purchasing price from fragmented supplier base. No formal supplier performance measurement process	Measures more process based; mostly internal focus. Supplier performance metrics established but are difficult to obtain. Spend data available but fragmented.	Processes extend into supply base; suppliers measured and accountable for process outcomes. Supplier performance measurements are readily available to buyer and are shared with suppliers on a periodic basis. Material & supplier spend data analyzed periodically.	Supply base is an integral stakeholder; measured so that success directly impacts supplier profitability. Real-time supplier performance measurements are available to buyer and supplier via internet. Real-time, comprehensive material & supplier spend data analyzed on a regular basis.

Balancing Transactional & Strategic

“I am so busy keeping up with the sheer volume of P.R./P.O./Receipts that I can’t focus on a strategic plan.”

FIRST - get the transactional volume under control

- how can we “get rid of” transactions?

ABC Analysis - General **Categorization**

<u>Category</u>	<u>% of Transactions</u>	<u>\$ Dollars</u>
A	8-10%	80-85%
B	10-15%	12-15%
C	70-80%	4 - 6%

Where should you focus your time & company resources??

ABC Analysis - Methodology

- **Sort procurement spend into categories**
 - Arrange in descending order
- **Determine which items constitute 75%-85% of transactions**
 - generally constitute 5% - 10% of dollars spent
 - these become your Category C items
- **Get these transactions out of Procurement cycle**
 - Blanket (annual) orders
 - e-Procurement catalogs
 - P-cards

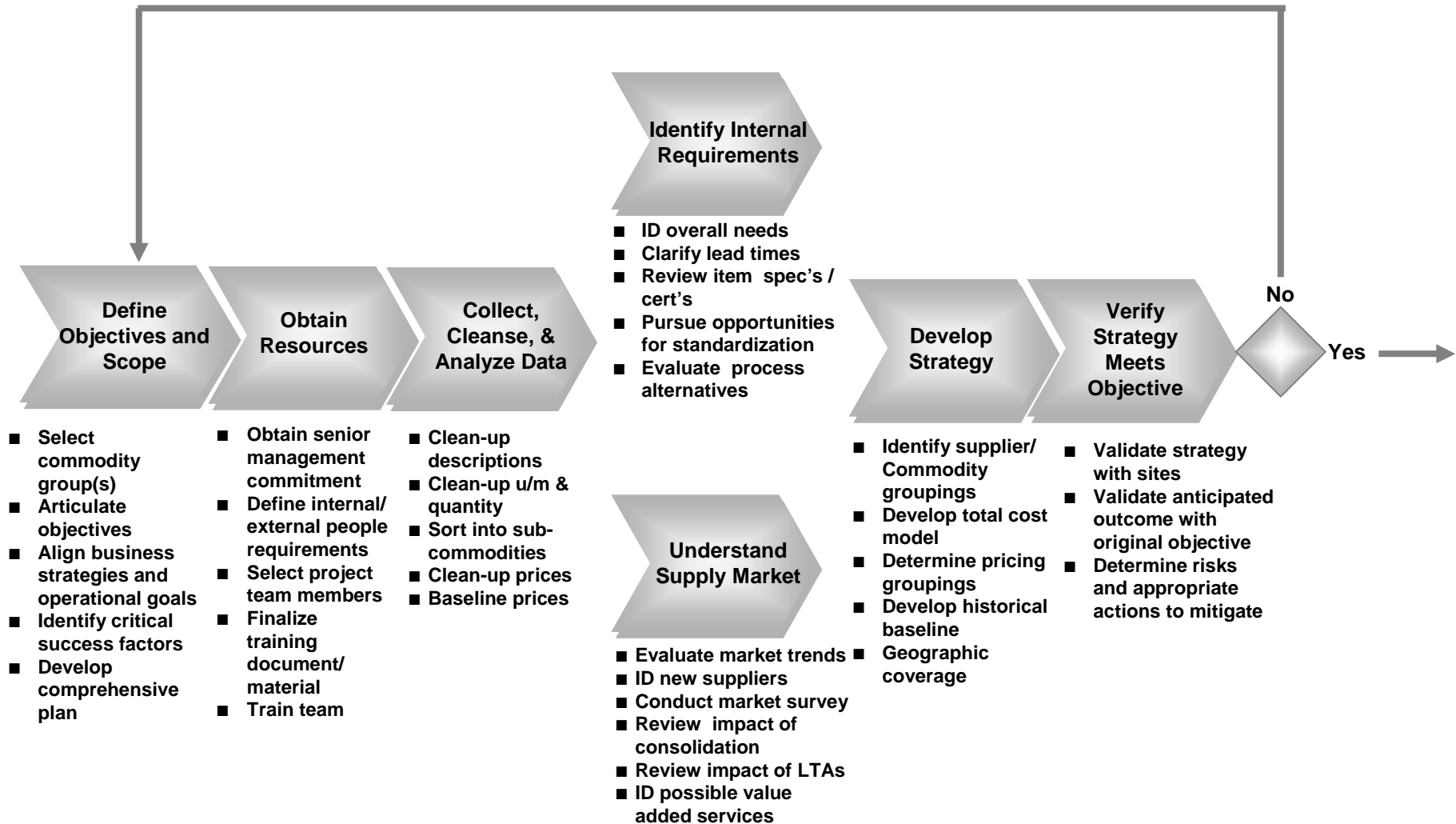
Next step(s)?

FOCUS resources on strategically sourcing the A and B category items

- emphasis on the A category items!**
- reducing the C items should not result in headcount reductions , but only a realignment of priorities.**

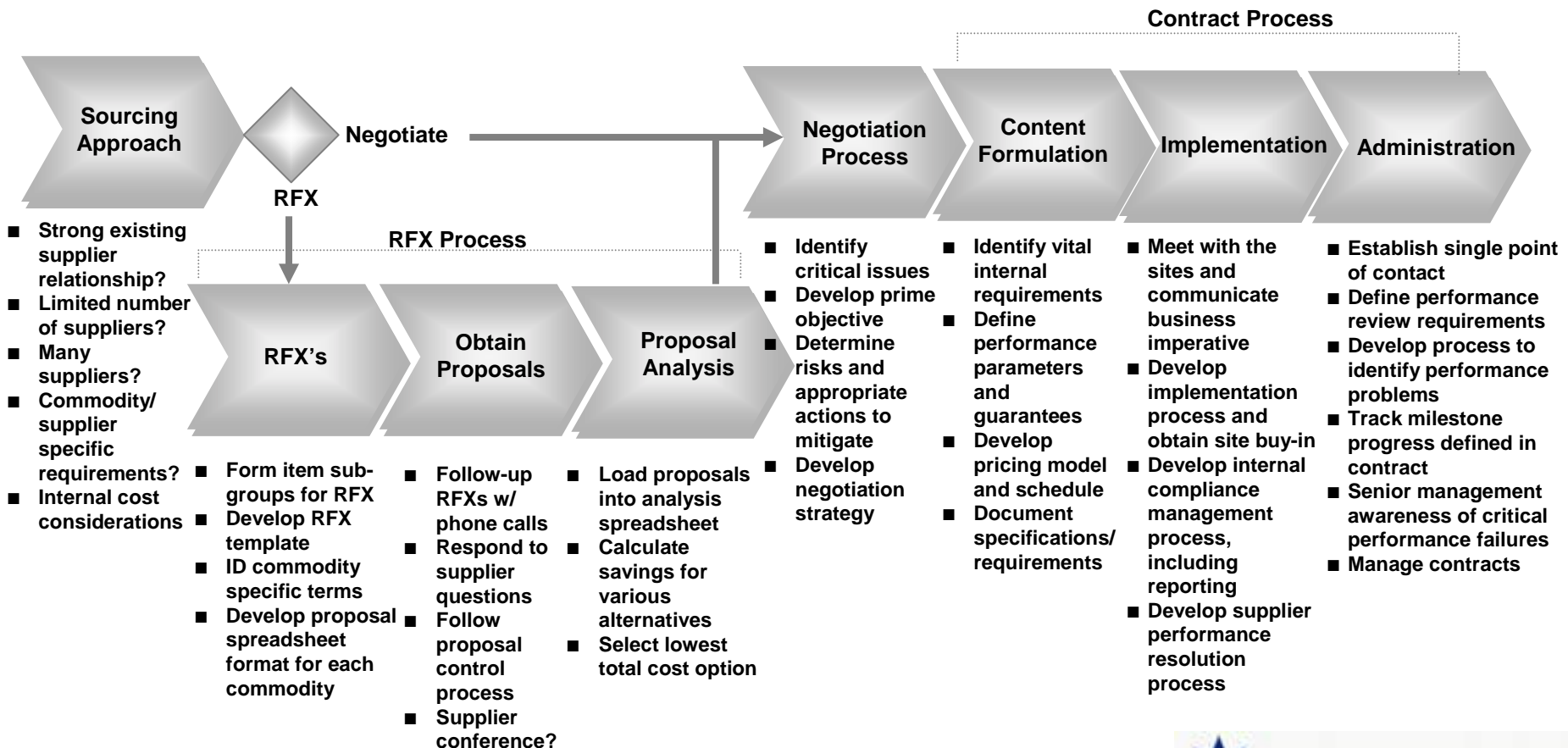
Strategic Sourcing

Methodology

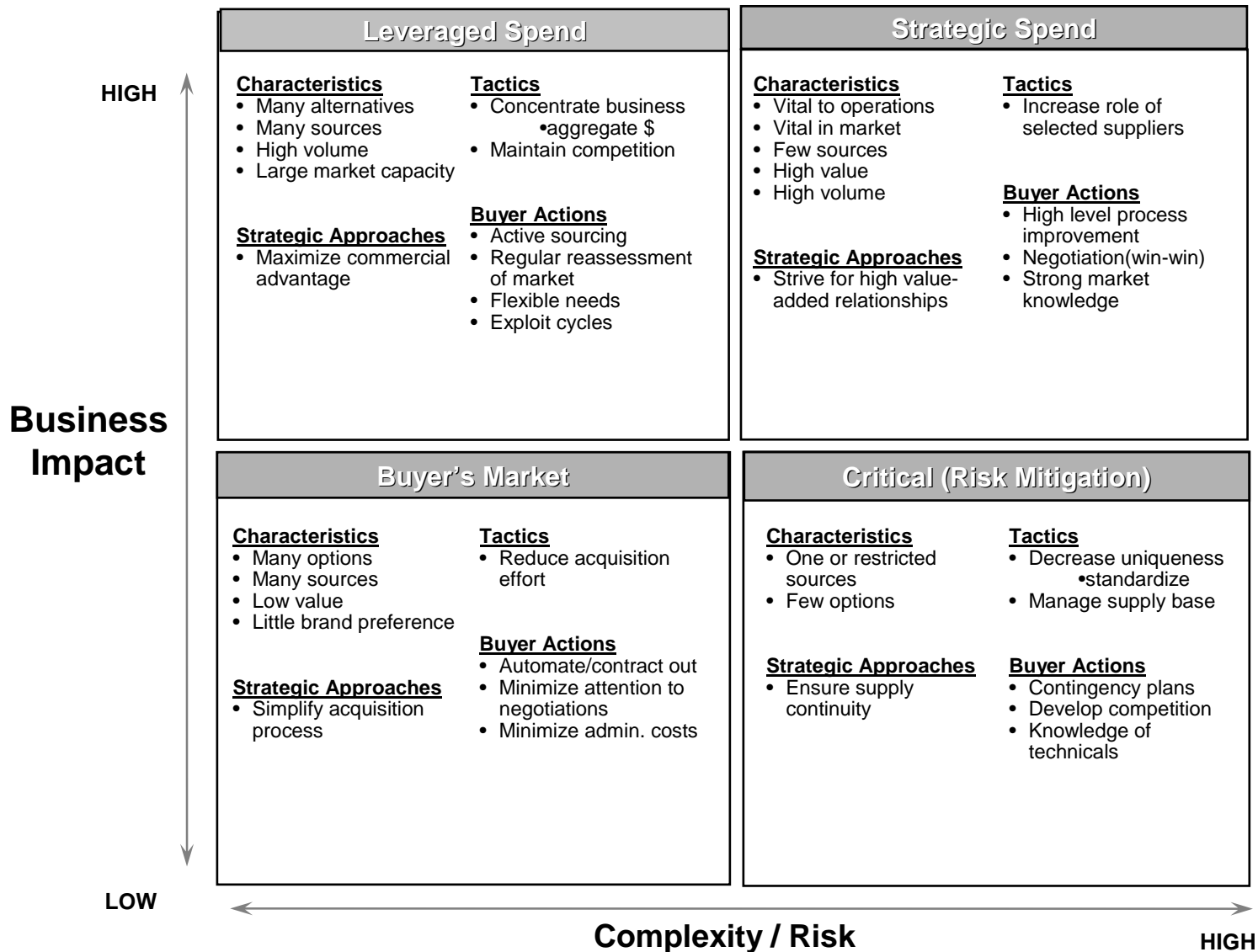


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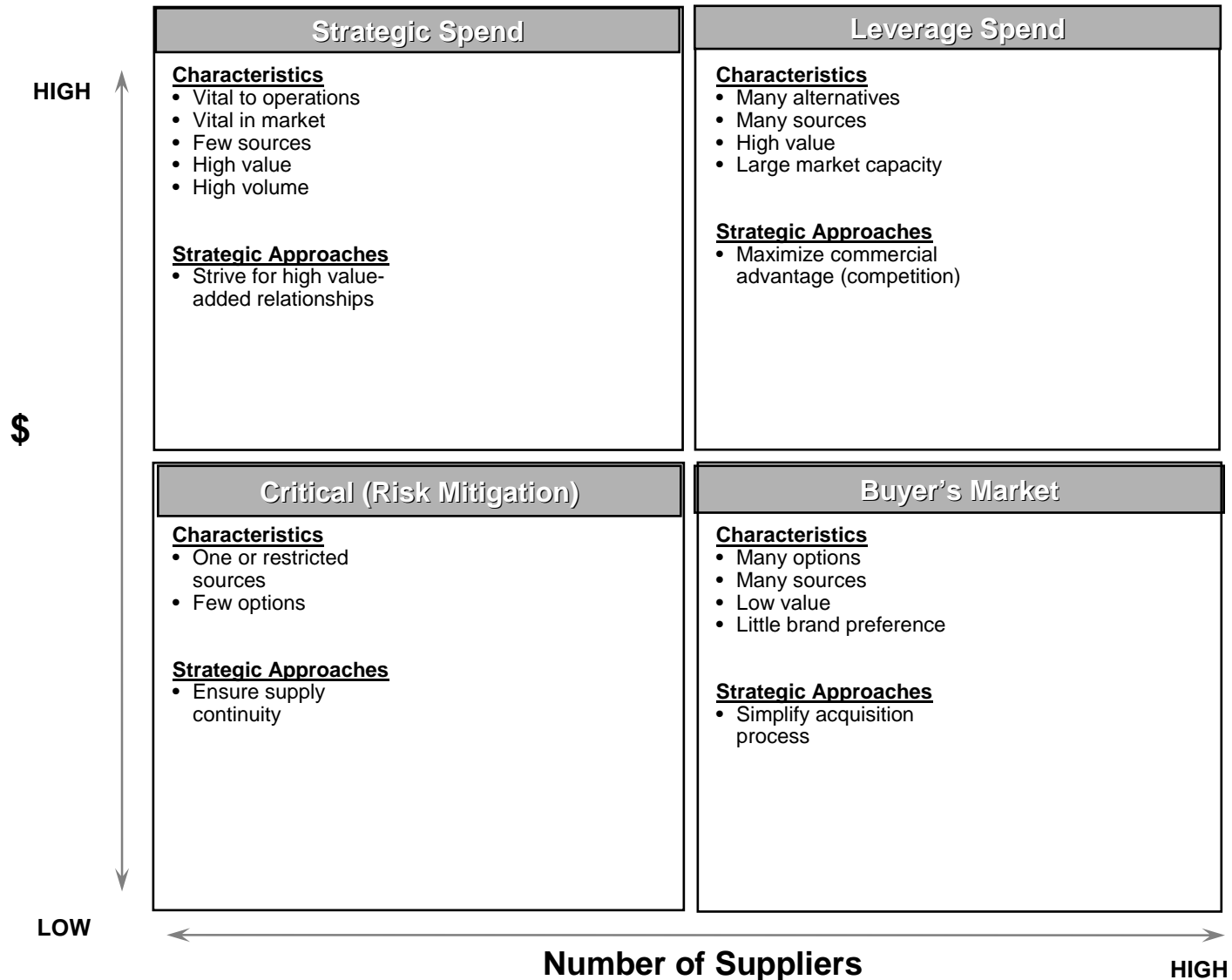
Methodology



Strategic Sourcing



Strategic Sourcing



DON'T FORGET NON-TRADITIONAL SPEND

Energy

Travel

Fleet vehicles

Temp labor

Payroll processing

Freight audit/payment

Courier services

Telecommunications

Advertising

Subscriptions

Relocation Services

H.R. Benefits Service

Strategic Sourcing v. eProcurement

**Where does eProcurement fit in the
Strategic Sourcing solution?**

Strategic Sourcing & eProcurement

Both Necessary?

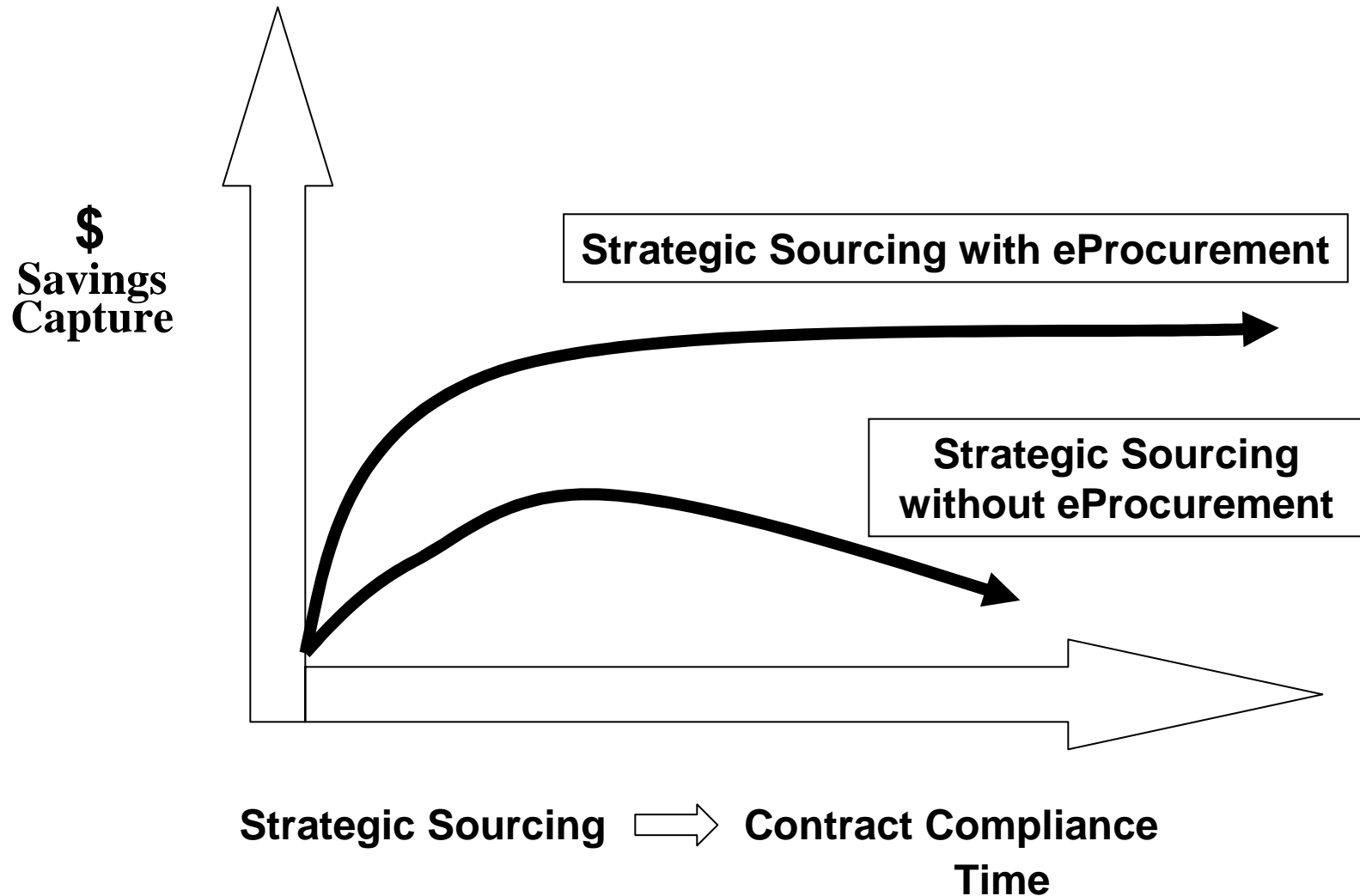
eProcurement has limited impact, if not preceded by Strategic Sourcing.

- need to aggregate spend with fewer suppliers.
- electronic ordering only speeds up process; still need underlying supplier relationship.

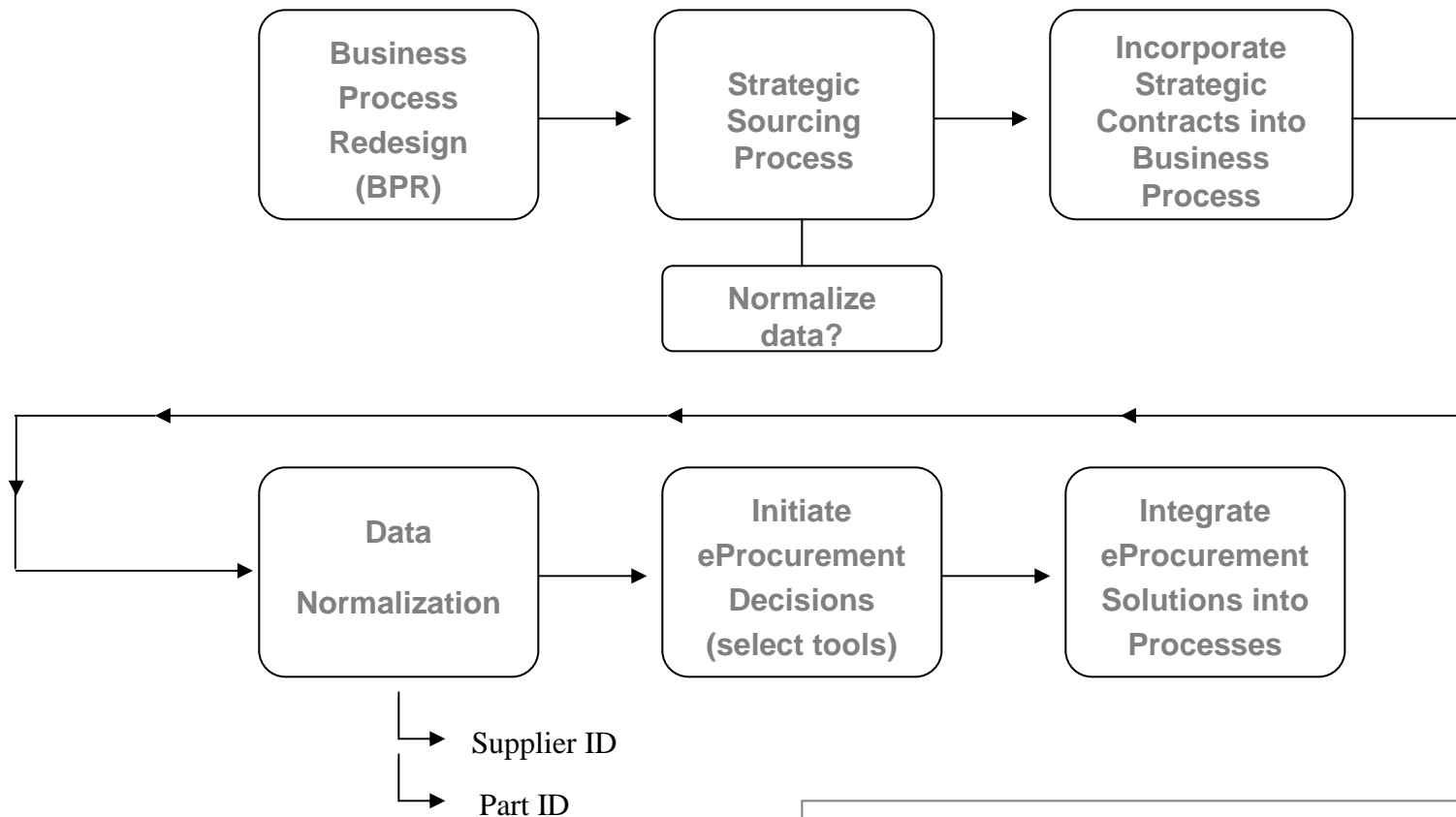
Strategic Sourcing cannot be sustained over long term without eProcurement.

- can't control supplier used
- can't track "maverick" spend

Strategic Sourcing and eProcurement



eProcurement Implementation Chronology



It's not simply automation!

Strategic Sourcing & eProcurement

CONCLUSION/SUMMARY

Strategic Sourcing should be considered for each significant expenditure

Requires comprehensive analysis of spend

- segmentation of spend into categories/strategies

ePSM may be needed to sustain strategic sourcing benefits

Should NOT be about headcount reduction!

Will require non-traditional procurement skills.

- necessitates training

Cultural barriers may present the greatest challenge!

Strategic Sourcing

Purchasing Related Periodicals

- **APICS: The Performance Advantage**

500 W. Annandale Road
Falls Church, VA 22046
(703) 237-8344
<http://www.apics.org>

- **Contract Management Magazine**

NCMA (National Contract Management Assoc.)
1912 Woodford Road
Vienna, VA 22182
(703) 448-9231
<http://www.nacmhq.org>

- **Electronic Buyers News**

CMP Publications, Inc.
600 Community Drive
Manhasset, NY 11030
(847) 291-5215
<http://www.ebnonline.com>

- **Inbound Logistics**

Thomas Publishing Co.
Five Penn Plaza
New York, NY 10001
(212) 629-1563

- **Supplier Selection & Management Report**

29 West 35th Street
New York, NY 10001
(212)244-0360
<http://www.ioma.com>

- **Inventory Reduction Report**

29 West 35th Street 5th Floor
New York, NY 10001-2299
(212) 244-0360
<http://www.ioma.com>

- **Purchasing Magazine**

Cahners Publishing
PO Box 7610
Highlands Ranch, CO 80163-7610
(303) 470-4445
<http://www.purchasing.com>

- **Inside Supply Management**

Institute for Supply Management
P.O. Box 22160
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