Procurement Knowledge Management Program

March, 2011
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.
Knowledge Management is becoming a critical component in today’s Procurement talent management environment

**Procurement Organizational Trends**

Procurement organizations are seeking to find more creative approaches for attracting, motivating and retaining Gen Y workers

Procurement organizations are increasingly using dedicated Centers of Excellence that focuses on capture and use of knowledge:

- Process Knowledge
- Technology Know-how
- Market Intelligence (External and Internal)
- Category Knowledge (templates, learnings etc.)

More creative training approaches are being explored to support talent management programs

The use of advanced technology (eSourcing, Spend Analysis, etc.) is becoming more of the standard, requiring more specialized skills and training

Procurement organizations are increasingly separating strategic from tactical work in efforts to provide more focus on the strategic element of the function
Why is Knowledge Management more important today than ever before?

**The Outgoing Baby Boomers**
- 2011 is the year that the leading edge of baby boomers turns 65
- More baby boomers will retire than new workers entering the workforce
- The Bureau of Labor Statistics predicts that the American workforce will drop by 8 percent between 2010 and 2020

**The Incoming Generation Y**
- At 70 million strong, Gen Y will soon become the largest generation in the workplace.
- A recent survey found that 64 percent of Gen Y employees intend to stay less than two years with their employer.
- Most members of Generation Y will have 25 jobs in their lifetime.

The most prolific workforce segment in our history is starting to retire, and taking with it decades of institutional knowledge

**Knowledge Management Imperative**

The incoming Generation Y will need efficient processes for training as well as systems to capture new knowledge, given their high expected rate of turnover
Knowledge Management
- Does This Happen in Your Organization?

“We always seem to re-invent the wheel when we start a new sourcing effort”

“Sourcing is an art - everyone has their own special approach”

“Once we source a category, we leave the supplier relationships up to the business units”

“I don’t know what we would do if Jane Doe left this group”

“Everyone has their own RFPs and templates on their hard drive – it’s too difficult to share”

If so, then a Knowledge Management program will help
Polling Question

How would you describe your organization’s approach to knowledge management?

A. No program in place
B. Some knowledge management activities, but mostly focused on training and personal development
C. Just beginning to develop a holistic knowledge management program
D. We have a robust knowledge management program in place
An effective knowledge management program includes 4 key elements

The following four elements are essential to building an effective knowledge management program

**Process Knowledge**
- Sourcing & SRM Toolkits
- Job Aids and Templates
- Total Cost Models
- Spend Analysis

**Technology Knowledge**
- Business-Specific Tools
- Project Tracking & Reporting
- eSourcing Tools

**Training & Skills Development**
- Sourcing Training & Development Curriculum
- Skills Assessment & Certification

**Category Knowledge**
- Category Playbooks
- Stakeholder Requirements
- Sourcing Best Practice Database
- Market Intelligence
Knowledge Management - Considerations for What to Capture

<table>
<thead>
<tr>
<th>Capture This….</th>
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<tbody>
<tr>
<td>▪ All sourcing related processes, e.g. Strategic Sourcing, Supplier Development, Annual Market Review, Performance Management, etc.</td>
</tr>
<tr>
<td>▪ Relevant, recent market intelligence</td>
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<tr>
<td>▪ Relevant spend category information, including specification rationale, user requirements, cost drivers</td>
</tr>
<tr>
<td>▪ Best practice RFX’s, Supplier Evaluation Templates, Site Visit Guides, Internal &amp; External Assessment Templates, Strategy Templates, etc.</td>
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<table>
<thead>
<tr>
<th>But Not This….</th>
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<tr>
<td>▪ Notebooks full of old process charts</td>
</tr>
<tr>
<td>▪ Folders with useless and dated market intelligence</td>
</tr>
<tr>
<td>▪ Thousands of drawings and specification files</td>
</tr>
<tr>
<td>▪ Every document used by every sourcing team (unless required by law)</td>
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Be careful not to capture too much - information overload will create a Knowledge Management program that is never used
Using web based toolkits for key processes (Sourcing, SRM, Spend Assessment, etc.) allows for efficient organizational distribution and effective version control.
The expansion and complexity of Procurement technology is creating additional knowledge management challenges

## Typical Procurement Technology Footprint

<table>
<thead>
<tr>
<th>Best in-class Capabilities</th>
<th>Spend Analysis</th>
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<tbody>
<tr>
<td>Data Cleansing</td>
<td>Supplier Management</td>
</tr>
<tr>
<td>eSourcing</td>
<td>Catalog &amp; Requisition Management</td>
</tr>
<tr>
<td>Contract Management</td>
<td>Invoicing and Payment</td>
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</table>

### 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
- 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

### Catalog & Requisition Management
- Enable over 80% of applicable spend within the e-procurement solution
- Proactively manage catalogs / categories
- Drive high policy compliance
- Integrate the solution with contract price compliance management
- Automate Supplier Information Management
- Drive continuous improvement in the supply chain
- Supplier collaboration to create new value
Skills Assessment, combined with Training & Development is an essential element of a Knowledge Management program

Based on each individual's skills assessment results, develop a fit-for-purpose training & development program tailored to upgrade the desired skill set.

To allow for more flexibility with regard to training delivery, training programs are commonly being integrated with web-based training applications.

Use a combination of experiential classroom, interactive/virtual settings, computer-based and on-the-job training to ensure that the organization has a clear understanding of:

- Standardized processes that are expected to be utilized
- Category and market intelligence data capture format requirements
- Tools and templates that are available, and processes for submitting improvements

Training:
- Sourcing
- Negotiations
- Skills
- Cost Modeling
- Team Building
- Etc.
### Individual Development Plans
- Individual development plans for all category analysts, category managers and procurement specialists
- Training tied to developing specific skills to advance from novice to proficient to advanced to master
- Analyst development program for sourcing analysts

### Capabilities and Skills Training
- Negotiations workshops
- Presentation development & communication skills
- Business insights/analytics
  - Spend analysis and baseline creation
  - Financial analysis
  - Business plan and budget analysis
  - Strategic Planning

### Process Training
- Strategic Sourcing
- Category Strategy development
- Supplier Relationship Management
- Total Cost Modeling

Training programs should be designed at the individual and group level

Training begins with identifying skill requirements, assessing individual’s gaps relative to those requirements, and defining individual and group training to address the gaps.
Examples of Procurement Training Modules

A sample of the training modules that are typically used for Strategic Sourcing skills development include:

- Strategic Sourcing and Advanced Sourcing
- Cost Modeling and Analysis
- Supplier Collaboration
- Supplier Performance Management
- Procurement Principles
- Alliance Development
- Building Competitive Advantage
- Risk Mitigation
- RFP Development
- Managing Customer Interactions

- Leading for Excellence
- Team Building
- Empowered Decision Making
- Advanced Communication Skills
- Basic Negotiation Skills
- Advanced Negotiations
- Basics of Financial Analysis
- Effective Communications
- Time Management
- Innovation in Business

These may be available through your internal training group, local university programs, or external training/consulting organizations.
Category Playbooks are used to document all relevant information, strategies, etc. for specific spend categories.

Example – Real Estate Category Playbook (Page 1)

**In Scope:**
- Security
- Guards
- Armored cars
- System
- Lease
  - Retail Broker (no spend, commission based)
  - Auditor (no spend, commission based)

- Utilities
  - Utility management provider
- Construction
  - A&E firm
  - Project Manager
- Fixtures
- Lease administration (outsourcing – currently internally)

**Category Maturity:**

- Low
- Medium (High)

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Our Market Intelligence Solutions

PROCUREABILITY INTELLIGENCE PROVIDES ACCESS TO KEY MARKET, PRICE AND SUPPLY TRENDS FOR OVER 80 SPEND CATEGORIES

<table>
<thead>
<tr>
<th>Feature</th>
<th>Description</th>
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<tr>
<td>COMMODITY DEFINITION</td>
<td>understanding of how the category is typically defined by the market</td>
</tr>
<tr>
<td>SUPPLY MARKET</td>
<td>defines the current supply market &amp; applies competitive forces analysis</td>
</tr>
<tr>
<td>CATEGORY INSIGHTS</td>
<td>provides background information to enhance category expertise and understanding</td>
</tr>
<tr>
<td>DEMAND UPDATE</td>
<td>discusses demand drivers and indicators</td>
</tr>
<tr>
<td>SUPPLY BASE CHARACTERISTICS</td>
<td>leading suppliers, sales, financial disclosures, contacts, corporate forecasts</td>
</tr>
<tr>
<td>KEY COST DRIVERS</td>
<td>both primary and secondary covering key TCO elements for commodity</td>
</tr>
<tr>
<td>PRICING TRENDS &amp; FORECASTS</td>
<td>base pricing trends and forecasts</td>
</tr>
<tr>
<td>INSIGHTS AND BEST PRACTICES</td>
<td>summary of how leading companies are sourcing the category + new product &amp; technology developments</td>
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How do you organize for knowledge management?

A. No one is responsible
B. Responsibility is assigned throughout the organization, with various people/positions responsible for different knowledge management components
C. A combination of some dedicated resources and some responsibilities assigned as part of larger roles
D. Knowledge Management is formally organized through a centralized Center of Excellence model
Organizing for Knowledge Management is most often accomplished through a Center of Excellence model

**COE Roles**
- “Keeper of the process” for all Procurement related processes
  - Strategic Sourcing
  - Supplier Relationship Management
  - Category Management/Strategy
- Continual benchmarking and best practice assessment function
- May provide process expertise/internal consulting for specialized processes, e.g. total cost modeling, market research, etc.

**Category Management**
- Auto Fleet
- Marketing
- Facilities
- Office Supps & Svcs
- Freight
- IT

The COE typically provides the tools and templates, but category managers and analysts provide key content to the knowledge management system.
Thank You

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