Five Steps to Building a Successful Procurement Strategy
strategy:
1) A method or plan chosen to bring about a desired future, such as achievement of a goal or solution to a problem;
2) The art and science of planning and marshaling resources for their most efficient and effective use.”

Procurement Strategy
Defines a plan for
• Optimizing external spend, procurement operations and other value contributions
• In a manner that supports the overall corporate agenda

Without a comprehensive Procurement Strategy in place, it’s impossible to know whether or not your procurement organization is aligned with the corporate strategy, and whether or not progress is being made
Procurement Strategy Components

**INPUTS**

**Business Unit Data**
- Strategic Plans
- Budget
- Capital Projects

**Market/Economic Data**
- Regional Economic Forecasts
- Major Commodity Indices
- International Monetary Trends
- Supplier M&A Activity
- Category Market Intelligence

**Corporate Financial Data**
- Earnings Projections
- Tax Treatments
- Cash Flow Projections
- Growth Projections
- Cost of Capital

**STRATEGY**

Procurement Strategy
- Category Strategies
- Operational Strategies

**OUTPUTS**

**Spend Forecast Data**
- Cash Flow/Savings Forecasts
- Demand Forecast

**Operations**
- Cost of Procurement
- Efficiency Metrics
- Quality & Service Metrics

**Earnings / Budget Impact**
- Capital
- O&M

Monitor & Feedback
What’s in a Procurement Strategy?

**Gap Analysis of Current State**

**Examples of Procurement Strategy Components**

**Opportunity Analysis**

**Resource Plans**

**Vision**

**Strategic Plank Roadmaps**
Five Steps For Creating an Effective Procurement Strategy

1. Understand where your procurement operations are today.
2. Identify what’s important — to the procurement organization as well as to the overall company.
4. Develop measurable targets that define success.
5. Implement and measure your strategy.
Polling Question

How would you describe your organization’s approach to Procurement Strategy

A. We do not utilize one
B. We informally have a strategy, but it’s not documented
C. We have a simple documented strategy, but it’s not very comprehensive, more of a vision statement
D. We develop a procurement strategy annually, using a formal approach and it is documented and distributed throughout the organization
Understanding Your Current Baseline

Value

Understand how your procurement organization is currently adding or creating value

Efficiency

Understand your organization’s current operational efficiency and effectiveness
Determining Where You Are Today

Gather current performance data

Get feedback from stakeholders and suppliers

Benchmark against industry peers
Developing your “Value” baseline

TYPICAL VALUE BENCHMARKS & DATA

• Percentage of spend under management
• Percentage of contract compliance
• Total savings and savings as a percentage of spend
• Return on procurement investment
• Category coverage
• Supplier counts; Suppliers with 80 percent spend
• Savings breakdown by source
• Opportunity estimates by category
Developing your “Efficiency” baseline

TYPICAL EFFICIENCY BENCHMARKS & DATA

• Procurement cost-per-dollar spend
• Procurement spend per employee
• Procurement cycle time
• Organizational size
• Budget cost per employee
• Turnover percentage
• Number of sourcing events
• Technology utilization
• Payment terms
Determining What’s Important – Linking Corporate & Procurement Objectives

- Growth targets
- Profitability
- Corporate budgets
- Product mixes
- Outreach & diversity

**Corporate Level**

- High level cost, quality and service metrics
- Metrics rolled up to the overall combined supply chain/procurement

**Operational Level**

- Process oriented metrics
- Efficiency and effectiveness
- “Point and click” drill down capability
- Direct roll-up of portfolio metrics

**Department Levels**

- Sourcing
- Logistics
- A/P

**Portfolio/Supplier/Individual Level**

- Cost/Quality and Service metrics
  - By Category
  - By Supplier
  - By Buyer

- Mix of efficiency and effectiveness targets
- High level cost, quality and service metrics
- Metrics rolled up to the overall combined supply chain/procurement level
### Example: Linking Corporate & Procurement Objectives

<table>
<thead>
<tr>
<th>Corporate Objectives</th>
<th>How Procurement Contributes</th>
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</thead>
<tbody>
<tr>
<td>Process Simplification</td>
<td>Streamlining procurement policy, processes, and procedures</td>
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<tr>
<td>Operational Leadership</td>
<td>External spend reduction, operational efficiency</td>
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<tr>
<td>New Product Introductions &amp; Product Innovation</td>
<td>Early supplier involvement/innovation programs</td>
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<td>Global Market Expansions</td>
<td>Establishing global supplier networks</td>
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<tr>
<td>Corporate Social Responsibility</td>
<td>Growing supplier diversity programs, green supply chain</td>
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</table>
Polling Question

How well do you link corporate and procurement objectives?

A. Not formal process for linking the two
B. They’re linked, but mostly as it relates to corporate cost savings targets
C. We formally link corporate and procurement objectives, and have regular dialogue to ensure that we stay consistent
Defining Success

When defining success, be holistic. It’s not just about savings. Consider all dimensions of Procurement in defining success.

ProcureAbility’s Dimensions of Procurement Effectiveness
Define success through actionable implementation planks

<table>
<thead>
<tr>
<th>Plank</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
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<td><strong>Category Management</strong></td>
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<td>- Spend Assessment &amp; Opportunity Prioritization</td>
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<td>- Category Management Design &amp; Rollout</td>
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<td>- Market Intelligence &amp; Risk Management</td>
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<td>- Low Cost Country Sourcing Review</td>
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<td>- Supplier Responsibility Program</td>
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<td>- MEAT Program</td>
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<td><strong>Operations &amp; Logistics Excellence</strong></td>
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<td>- Lean Implementation</td>
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<td>- Transportation Management Technology</td>
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<td>- Major Project Planning</td>
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<td>- Enterprise Risk Assessment</td>
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<td>- Logistics Assessment &amp; Optimization</td>
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<td>- Document Mgt / Retention Mgt</td>
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<td><strong>Technology</strong></td>
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<td>- ERP Implementation (Supply Chain Related)</td>
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<td>- Bridging eSourcing Tools</td>
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<td>- Supplier Technology Integration</td>
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<td><strong>Supply Chain Performance</strong></td>
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<td>- Supply Chain Performance Mgmt. Program</td>
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<td>- Supplier Qualification Integration</td>
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<td>- Savings Tracking</td>
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<td><strong>Organization &amp; Resources</strong></td>
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<td>- Supply Chain / Category Mgt Org Strategy</td>
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<td>- Org / Structural Realignment / Staffing</td>
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<td>- People Performance Management</td>
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<td>- Supplier Diversity Integration</td>
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<td>- Sustainability Program</td>
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<td>- Training &amp; Development</td>
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Developing Measurable Targets

PROCUREMENT DASHBOARD EXAMPLE

Procurement Dashboard Model

- Helps to ensure linkage of corporate objectives to category-specific savings targets
- Allows for visibility of key cost, quality and service performance at various levels
- Provides a consistent tool to track key metrics linked to the Procurement strategy
- Ensures the Procurement organization is focussed on mutually-agreed upon, consistent performance metrics
- Provides the basis for a formal continuous improvement approach to Procurement
### Sourcing Dashboard Metrics

#### Examples of Sourcing Dashboard Information

<table>
<thead>
<tr>
<th><strong>Cost Metrics</strong></th>
<th><strong>Quality Metrics</strong></th>
<th><strong>Service Metrics</strong></th>
<th><strong>Operational Metrics / Information</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cost of Materials/Services</strong></td>
<td>% Order Completeness</td>
<td>% On-Time Delivery</td>
<td><strong>Open Sourcing Projects</strong></td>
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<tr>
<td>• Total Supply Chain Cost</td>
<td>% Returns</td>
<td>% On-Time Job Completion</td>
<td><strong>% of Spend Managed</strong></td>
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<tr>
<td>• Annual Savings</td>
<td>% Defects</td>
<td>PO Cycle Time</td>
<td><strong>% of Spend Sourced</strong></td>
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<tr>
<td>• Market Basket Indices</td>
<td>% Rework</td>
<td>Response Time</td>
<td><strong>Schedule vs. Actual By Project</strong></td>
</tr>
<tr>
<td>• Cost per Unit (Category Specific)</td>
<td># Complaints</td>
<td><strong>Personnel Assignments &amp; Status</strong></td>
<td><strong>Market Trends</strong></td>
</tr>
<tr>
<td>• $ Spend Under Management</td>
<td>Report Card Scores</td>
<td><strong>% of Spend Sourced</strong></td>
<td><strong>Schedule vs. Actual By Project</strong></td>
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<tr>
<td>• Contract Compliance</td>
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<td><strong>Personnel Assignments &amp; Status</strong></td>
<td><strong>Market Trends</strong></td>
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<td>• Inventory Levels</td>
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<td>• Transportation Cost</td>
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<tr>
<td>• # of Suppliers</td>
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#### Cost of Sourcing/Procurement

- Procurement Cost per $ Spent
- $ Sourced per Procurement Professional
- Procurement Cost vs. Budget

#### Cost of Materials/Services

- Total Supply Chain Cost
- Annual Savings
- Market Basket Indices
- Cost per Unit (Category Specific)
- $ Spend Under Management
- Contract Compliance
- Inventory Levels
- Transportation Cost
- # of Suppliers
Managing Implementation of the Procurement Strategy

KEY STAKEHOLDERS

- Procurement
- Client Departments
- Support Functions
- Suppliers

Executive Steering Council

Project Management Team

EXAMPLE

- Category Management
- Skills Development
- Technology Implementation
- Service Excellence

Plank Teams

Suppliers

Skills Development

Technology Implementation

Service Excellence

Category Management
Thank You

JOHN EVANS
President and CEO
ProcureAbility
530.550.8306
jevans@ProcureAbility.com

DON DOUGHERTY
Executive Vice President
ProcureAbility
614.220.9090
ddougherty@ProcureAbility.com