



A Strategic Approach to Procurement

The Leverage of Procurement

- No other activity affects a company's bottom line as powerfully as the process of procurement
 - Example – 17% net profit improvement at ETSA Utilities through improved procurement processes
 - Example – 16% reduction in the cost of non-core goods and services at Wesfarmers through the implementation of a strategic approach to procurement

A Definition - Procurement

- The series of activities which need to be performed to acquire and deliver an item, material or a service to a user

Procurement and Supply

- The challenge in procurement is to extract maximum benefit from the activity of acquiring goods and services
- Benefits can be achieved in a number of areas –
 - Direct cost savings through lower prices paid
 - Indirect savings through value adds
 - Savings achieved through procurement process efficiencies
 - Savings achieved through a more efficient supply chain e.g. freight efficiencies, visibility
 - Utilization of appropriate technologies:
 - getting eProcurement ready!

Procurement Issues

Many Issues are
Linked

Risk and Strategy are
Important

- There are many issues that need to be addressed -
 - Do I know what I am buying and how much it is costing?
 - Am I buying at the best possible price and how do I sustain best pricing?
 - Is my procurement providing competitive advantage?
 - What risks exist with procurement and are these properly managed?
 - Does my approach to procurement complement my business strategy?

Procurement Issues (continued)

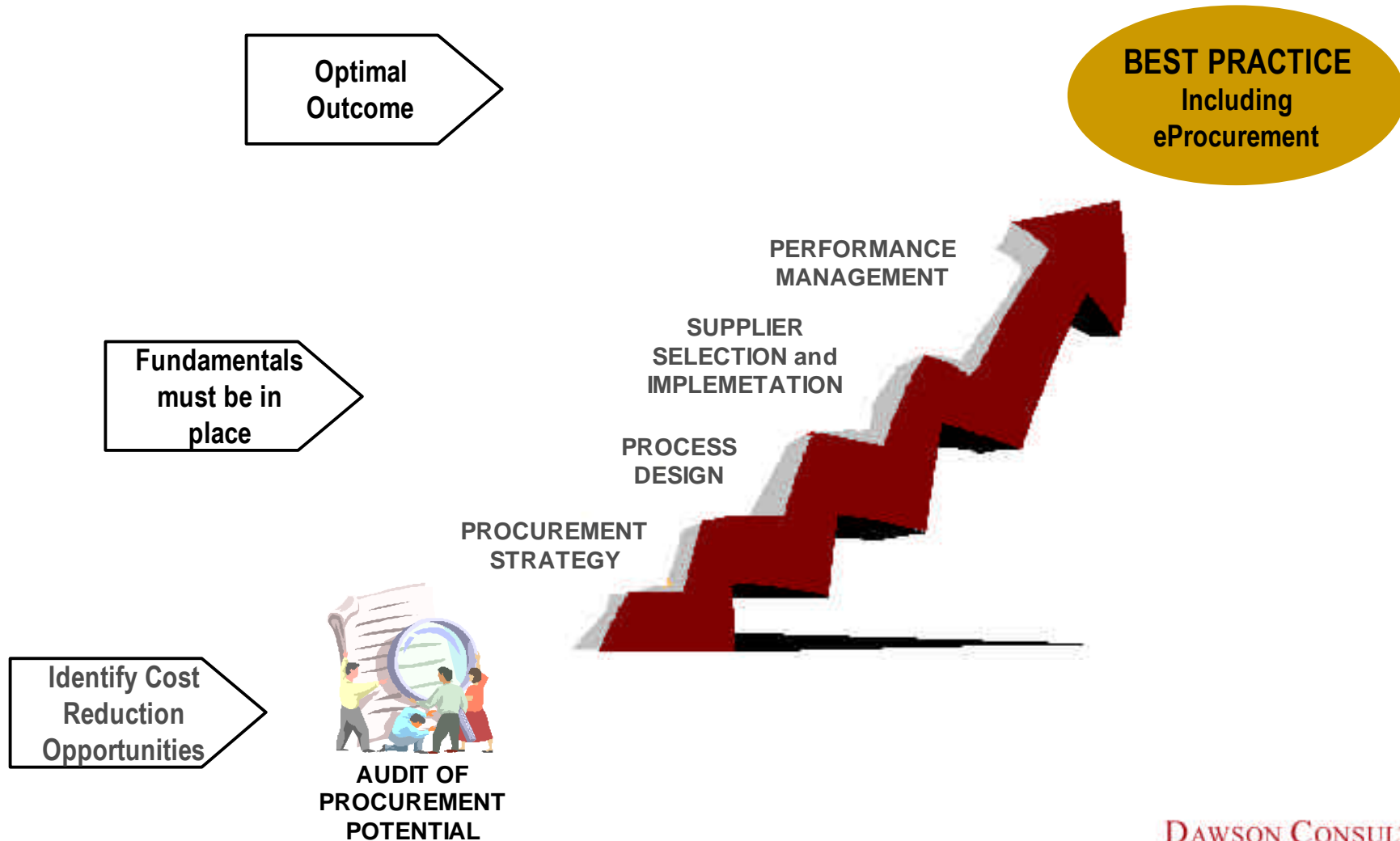
**Process and Supply
Chain Benefits Exist**

- Is my procurement process efficient and does it deliver value?
- Are all opportunities in my supply chain being exploited?

**There are IT
opportunities**

- What opportunities does technology offer and what is right for me?

Dawson Consulting's Systematic Approach will Identify Procurement Cost Opportunities



Auditing the Current Situation will Highlight the Benefits to be Gained

Objective

- To identify opportunities that can be leveraged from adopting best in class procurement practices

How

- Evaluate spend categories and volumes and benchmark
- Understand:
 - existing supplier arrangements
 - information and product flows
 - internal procurement processes
- Evaluate 'fit' between procurement strategy and business strategy
- Assess 'fit' between suppliers and the business
- Understand current information technologies

Deliverable

- Development of a benefits statement and action plan

Critical Point

- An initial audit of the current procurement operation is an essential starting point

The fundamentals underpinning the procurement function must be in place



One or more elements may need overhauling

PROCUREMENT STRATEGY

PROCESS DESIGN

SUPPLIER SELECTION and IMPLEMENTATION

PERFORMANCE MANAGEMENT

ePROCUREMENT READINESS

- Each element contributes to overall procurement success
- Optimal outcomes only occur when each has been done to best practice standards

Critical Point

A Procurement Strategy is essential in ensuring Procurement Success



Objective

- To develop a plan that ensures maximum procurement benefit and compatibility with other business imperatives

How

- Understand:
 - overall business strategy and objectives
 - the size of the procurement task
 - the nature of goods and services supplied and the market for each category
 - E.g. sources, competitiveness, inbound supply chain
 - the risk profiles associated with different categories
 - existing procurement processes and resources used
 - the supply chain issues associated with each category
 - the application of information technology - eBusiness potential

Deliverable

- Provide an integrated approach to procurement that addresses –
 - procurement organisation structure
 - business risks that have to be managed
 - procurement methodologies that should be employed
 - capacity for benefits from eBusiness

Procurement Processes must be Effective and Efficient



Objective

- To develop efficient processes that are able to achieve the planned outcomes of the procurement function

How

- Define current processes
 - product or service specification
 - methods of sourcing and contracting
 - pricing mechanisms
 - ordering and payment processes
 - monitoring and reporting methods
- Understand organisation structure
- Identify gaps in processes, assess effectiveness
- Identify potential for eBusiness

Deliverable

- Process maps outlining optimum core processes
- Description of information flows to support core processes
- Description of IT interfaces and opportunities
- Organisation structure required to support procurement processes

Supplier Selection is Critical to being able to Achieve Desired Outcomes



Objective

- To develop a supplier base that can consistently deliver best practice procurement outcomes in terms of direct price, value-added benefits and supply chain efficiency

How

- Develop detailed requirements specifications
- Conduct market research to target pre-qualified suppliers
- Develop tender documents and tendering rules
- Develop evaluation models
- Issue tenders and receive responses
- Determine a shortlist and seek clarification and validation of offers
- Conduct detailed evaluation and compare with benchmarks

Deliverable

- Suppliers that can consistently deliver desired outcomes
 - that are a good fit with the overall business strategy
 - that deliver benefits today and into the future
 - that can keep up with the pace of change
 - that are innovative and progressive

Implementation is Difficult – Turning Plans into Reality and making it Stick!



Objective

- To implement arrangements with suppliers and/or changed processes so that benefits are achieved

How

- Develop an implementation plan
- Develop contracts with suppliers and communicate new arrangements
- Train and familiarize staff - both internally and at supplier
- Establish accounting and payment processes
- Joint roll-out of new arrangements
- Establish required IT systems

Deliverable

- Changed arrangements and/or processes that work!
- New supplier contracts
- Documented information and product flows

Critical Point

- Change issues and how well they are managed will have a major impact on successful implementation

Performance Management – making sure you Continue to Benefit!



Objective

- To develop a systematic way of monitoring progress and outcomes that triggers corrective action as required

How

- Develop key performance measures for critical elements of the procurement arrangements
- Determine methods of acquiring measurement data and the frequency of reporting and review
- Create a joint review team with each supplier, define steps for corrective action and assign responsibilities
- Design a feedback loop

Deliverable

- Measured progress and achievements for each arrangement
- Clear, formal communication with suppliers that is results and action focused

Critical Point

- ✍ The majority of procurement arrangements either under-perform or fail completely when robust performance management is absent

eProcurement? The Fundamentals must be Right

eProcurement
requires a solid
procurement
foundation

- eProcurement facilitates access to and greater sharing of information
- eProcurement can bring about transaction efficiencies
- Redefinition of procurement structures and product flows can occur
- How well the elements of best practice procurement are managed will determine the gains to be achieved through eProcurement

Winners
and
Losers

Why Dawson Consulting?

Industry Knowledge

- Our value-add is based on two platforms –
- Industry knowledge which gives us:
 - Benchmark prices and processes
 - Tender and Contract templates

Experience

- The lessons we have learned
 - Most important is sustainability of savings through
 - residual knowledge, and
 - recognition of how non-price benefits, risk and communication impact on sustainability
 - There are significant differences between product groups which must be recognised in the procurement process
 - The ability to generate and sustain savings depends on the ability to understand where products fit and how markets behave

Typical Benefits

Illustrative Examples

- Depending on the aspect of procurement, benefits range from 5% to 50+%
- For illustrative purposes the following results are typical:
 - Implementation of best practice procurement of non-core items:
up to 50% reduction
 - Implementation of best practice procurement of core items:
up to 40% reduction
 - Procurement process design:
up to 45% reduction in process costs
 - Implementation of optimum supply chain:
up to 30% reduction in indirect product costs

Next Steps

Benefits Statement and Action Plan

- An initial audit of the current procurement operation is an essential starting point

Best Practice Standards

- Benefits Statement and Action Plan detail fundamentals that need attention.