Five Steps to Building a Successful Procurement Strategy

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Our Subject Matter Experts Today:

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About Denali Group

**Denali Consulting**
Procurement Transformation, Strategic Sourcing, and Category Management

**Denali Sourcing Services**
Sourcing, Contracting, Supplier Management, Analytics, Managed Source to Pay Programs

**Denali Intelligence**
Subscription and Custom Supply Market Intelligence

**Denali Academy**
Learn, Play and Reinforce: Category Management and Strategic Sourcing Training

**Denali Recruiting & Staffing**
Staffing and Recruiting of Procurement Professionals

Expanding Procurement’s Value for The Global 1000 for Over 15 years

3 year growth rate: 237%
**Strategy Definition**

**Strategic Definition**
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?

Examples of Procurement Strategy Components

Vision

Opportunity Analysis

Resource Plans

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.

3. **Define** what **success** looks like.

4. Develop **measurable targets** that define success.

5. **Implement** and **measure** your strategy.
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

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

Operational Level

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

Department Levels

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

Portfolio/Supplier/Individual Level

- Growth targets
- Profitability
- Corporate budgets
- Product mixes
- Outreach & diversity
## Linking Corporate and Procurement Objectives

### Example: Linking Corporate & Procurement Objectives

<table>
<thead>
<tr>
<th>Corporate Objectives</th>
<th>How Procurement Contributes</th>
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<tbody>
<tr>
<td>Process Simplification</td>
<td>Streamlining procurement policy, processes, and procedures</td>
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<td>Operational Leadership</td>
<td>External spend reduction, operational efficiency</td>
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<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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<td>Corporate Social Responsibility</td>
<td>Growing supplier diversity programs, green supply chain</td>
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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
When defining success, be holistic. It’s not just about savings. Consider all dimensions of Procurement in defining success.

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

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<thead>
<tr>
<th>Category Management</th>
<th>2013</th>
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Developing Measurable Targets

Procurement Dashboard Example

- 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

**Cost Metrics**
- **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
- **Cost of Sourcing/Procurement**
  - Procurement Cost per $
    - Spent
  - $ Sourced per Procurement Professional
  - Procurement Cost vs. Budget

**Quality Metrics**
- % Order Completeness
- % Returns
- % Defects
- % Rework
- # Complaints
- Report Card Scores

**Service Metrics**
- % On-Time Delivery
- % On-Time Job Completion
- PO Cycle Time
- Response Time

**Operational Metrics / Information**
- Open Sourcing Projects
- % of Spend Managed
- % of Spend Sourced
- Schedule vs. Actual By Project
- Personnel Assignments & Status
- Market Trends
Managing Implementation of the Procurement Strategy

**Key Stakeholders**

- Procurement
- Client Departments
- Support Functions
- Suppliers

**Executive Steering Council**

**Project Management Team**

**EXAMPLE**

**Plank Teams**

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

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