Profit in Procurement

Tuesday 9th October 2012
Chris Parrack
Clive Memmott
Chief Executive Greater Manchester Chamber of Commerce
Key success differentiator or victim of its own success?

David Noble, CEO, CIPS
What keeps CEOs awake at night?

- Risk
- Sustainability
- Efficiency
The CEO’s Dilemma

How can we be a continually transforming organisation - fast & responsive?

How can we transform from vertical asset rich to virtual?

How can we satisfy the changing expectations of the environment & workforce?
Key Global Trends

- The scramble for raw materials
- Increased environmental and social responsibility
- Acceleration of technological progress
- Changes in the geo-political & macro-economic environment
- Demographic change
- Shift in the economic centre of gravity

Divestment of assets, reliance on effective relationship networks – Key Differentiator

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The Evolution of the Profession
Supply: the Competitive Differentiator

Sustainability
- Environment
- Awareness
- Sustainability Index

Risk
- Supply Best Practice
- Supply Risk Index
- Insurance

Efficiency
- Cost Savings
- Supply Chain Efficiency
- PMI Index

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Costs - the changing face

The nature of business has changed...

12.9% Labour cost

68.3% Non-labour costs

FTSE 350 costs as a % of revenue

Businesses spend 2/3 of their revenue on non-labour costs

...and the trend is increasing

71% of finance leaders agree that their 3rd party costs are increasing

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The Big Opportunity

Non-labour cost control has a far greater impact on profitability than labour cost reduction...

- Reducing non-labour costs by 1% increases EBITDA by 3.6%
- Whereas, reducing labour costs by 1% increases EBITDA by only 0.8%*

* Average across the FTSE 350 in 2011

...and equates to £10 billion for the FTSE 350

Hot sectors

Potential EBITDA improvement is more pronounced for some sectors:

<table>
<thead>
<tr>
<th>Sector</th>
<th>EBITDA Increase produced by 1% reduction in non-labour costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction Materials</td>
<td>17.2%</td>
</tr>
<tr>
<td>Chemicals</td>
<td>11.0%</td>
</tr>
<tr>
<td>Food &amp; Drug Retailers</td>
<td>11.0%</td>
</tr>
<tr>
<td>General Retailers</td>
<td>8.6%</td>
</tr>
<tr>
<td>Energy</td>
<td>6.7%</td>
</tr>
</tbody>
</table>

* Average across the FTSE 350 in 2011
The Risks to the Profession

Others sell themselves better

Skills inefficiency

Lack of capability exposed

Own & occupy this space

Customer Demand

Customer Delivery

Other functions define

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Building and Owning the Boundaries

Master Awards

Other Professional Institutes

Capital Projects

Enterprise Building

Other Professional Institutes

Procurement & Supply

Other Professional Institutes

M & A Due Diligence

Risk:
- Hedging
- Supply Diagnostic

Other Professional Institutes

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The Profession’s Future?

Virtual or tax efficient entities P&Ls in their own right (creators of excellence)

Fully licensed and regulated

Manages and protects critical raw materials acquisition Creators of new supply markets

Board level strategic role (shape of the enterprise)
CIPS: Professionalising the Profession

- Corporate Academy
- Corporate Award
- Qualifications
- Membership

People

Process

Performance

World Class Supply Journey

Capability Gap Analysis

Certification

Leading global excellence in procurement and supply
### CIPS Branches – UK & Europe

<table>
<thead>
<tr>
<th>Description</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>33 active UK branches</td>
<td></td>
</tr>
<tr>
<td>50% increase in branch attendance in the UK</td>
<td></td>
</tr>
<tr>
<td>First European branch launched on the 5th September in Switzerland</td>
<td></td>
</tr>
<tr>
<td>First increase in UK Membership since 2005</td>
<td></td>
</tr>
<tr>
<td>Delivery of increased number / relevance of FREE member events in 2012</td>
<td></td>
</tr>
<tr>
<td>Joint partnership agreements now in place with ITM/ISMM and IOD with further discussions underway with other relevant institutes – RICS, CIMA</td>
<td></td>
</tr>
</tbody>
</table>
Coming Soon…

Soon…
CIPS Sustainability Index

Soon…
CIPS Risk Index

Soon…
Supply Business

Soon…
CIPS Qualifications New Syllabus

Leading global excellence in procurement and supply
In celebration of the past 80 years of CIPS and the forthcoming two decades

SM supplement  
80:20 vision  
A History of CIPS
CIPS Future

- The premier global procurement and supply body
- Defining and redefining the profession’s boundaries
- Provision of leading capability and skills
- The ‘go to’ for leadership and knowledge
- Global networks drive profession’s innovation
- CIPS standards mandated extensively
- Centre for public good
Chartered Institute of Purchasing & Supply

Winning Work in the Public Sector

Presented by Nigel Barr

9 October 2012
Why is public sector procurement difficult?

- Public sector spend £billions of public funds
- Subject to audit
- Subject to EU and UK legislation
- Accountable to government and the electorate
- Many services are sensitive or high profile
What are the benefits to you?

- Usually long standing, stable customers
- Good payers and proper arrangements
- Keen to work with a broad range of suppliers
- Chance to get involved in exciting projects that you will not find elsewhere
- Open and transparent
- Supportive of success
Very diverse requirements

- Office supplies
- Schools
- Materials
- Plant
- Vehicles
- Training / educational services
- Advice and consultancy
- Research
- Waste management
- Professional services
- Social care
- Health services
- Construction
- Decorating
- Renovation
- Maintenance
- Footpaths and highways
- Landscaping
- Etc... etc... etc...
Some of the Myths and Concerns

- Companies have already been pre-selected
- Procurement teams don’t engage with SMEs and social enterprises
- The tender process is complex and expensive
- No experience of public sector – no work!
- Not easy to know when work is coming out to tender
- Different formats and forms
- Pre qualifying criteria can be strict
How are these requirements procured?

- EU Procurement Regulations
  - European Thresholds
- Contract Procedure rules / Standing Orders
  - Tender Thresholds

Evaluations based on best Value for Money

Price and Quality
Tender Procedures

Most Common:

- **Open** - Everyone who responds submits a full priced tender

- **Restricted** - The contracting authority use a ‘pre-selection’ process and invites a limited number of respondents to tender

- **Competitive Dialogue** – Used on complex projects where the contracting authority requires ideas from bidders
Frameworks or Contracts?
Procurement Considerations

What are the options?

- **Framework**
  - No Legal Commitment
  - (up to 4 years any value)

- **Contract**
  - Legal commitment
  - (any length of time or value)

- **Individual Orders**
  - (Contracts)
Traditional Process

- NEED
- DEVELOP
- PROCURE
- IMPLEMENT
Project Partnering Process

- NEED
- PROCURE
- DEVELOP
- IMPLEMENT
Framework / Strategic Partnering Process

PROCURE

NEED

DEVELOP

IMPLEMENT
Process Improvement - Time

Traditional (Sequential)

Need → Develop → Procure → Implement

Timeline Benchmark

Project Partnering

Need → Procure → Develop → Implement

5% – 10% Time Saving

Framework (Strategic Partnering)

Procure → Need → Develop → Implement

5% - 25% Time Saving
Process Improvement - Cost

Framework (Strategic Partnering)

Procure → Need → Develop → Implement

5 – 15% Cost Saving
Tender Process Overview
## EU Procurement Thresholds

<table>
<thead>
<tr>
<th>Public sector contracting authorities</th>
<th>SUPPLIES</th>
<th>SERVICES</th>
<th>WORKS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£173,934</td>
<td>£173,934</td>
<td>£4,348,350</td>
</tr>
<tr>
<td></td>
<td>(£200,000)</td>
<td>(£200,000)</td>
<td>(£5,000,000)</td>
</tr>
</tbody>
</table>

**PUBLIC CONTRACTS REGULATIONS 2006 - FROM 1 JANUARY 2012**
Two Stage Tender

- Contract Notice
- Expression of Interest
- Pre-Qualifying Stage
- PQQ Evaluation
- Invitations to Tender issued
- Prepare Tender & Submit
- Tender Evaluation
- Contract Award

stradia building confidence
Accessing Opportunities
Accessing Opportunities

- Myriad of websites and portals
  - e.g. Tenders Direct, Tender Match, Public Tenders
- High value contracts easy to find (harder to win)
- Lower value opportunities harder to find (easiest to win)
- Need to be constantly sourcing
Tiered Supply Chains

Where do you fit into the supply chain?

- Local Authority
  - Maintenance Contract
    - Door handles
    - Painting & Decorating
  - Catering Contract
    - Fruit
    - Filter hood cleaning
Collaborative Bidding

- **Options:**
  - Subcontractor
  - Joint Bidding
  - Delivery Partner
  - Consortium

- **Pros and Cons** to each approach:
  - Brand Identity
  - Cost
  - Reliability
  - Sharing sensitive information
  - Risk
Writing the Bid

- The Basics:
  - What / How / Who / When / How Much?
- Add Value:
  - Demonstrate a clear understanding of the specification
  - Adds value and brings innovation to the specification
  - Explains “why choose us?”
- Expertise in bidding
  - In-house or external (cost/benefit)
How Tenders Are Evaluated

- Published evaluation criteria:
  - Best Price
  - Most Economically Advantageous Tender (MEAT)
- Usually evaluated by a panel
- Scoring matrix used to objectify subjective opinions
- Scores are weighted
- Tendering rigorously controlled and audited
Tender Presentations

- Often follows a prescribed format
- Little opportunity to engage
- No positive feedback
- Some simple tips:
  - Arrive in good time
  - Practice using media and equipment
  - Do not use jargon or technical terms
  - Be pleasant, professional, friendly
  - Prepare very thoroughly
  - Summarise in the last slide
Asking for Feedback

- Explain why you need the feedback
- Ask at the right time
- Give them a chance to prepare a helpful answer
- Be specific in what you want to learn
- Don’t forget to ask in successful bids too!
- Lessons learned
The Manchester Partnering Experience in Construction Procurement

Adding Value
What did MCC Achieve?

- 5 frameworks – over 1000 projects – approx. £800m
- Streamlined project procurement – over £10m saved in tendering costs
- Early Contractor/Supply Chain involvement giving ‘added value’
  - Innovation
  - Lean design and costs
  - Better risk allocation and management
  - Programme time reduction
What did MCC Achieve?

- Primary Schools – 7% lower cost than ‘average’
- Secondary Schools – Delivered at 90% of Government cost benchmark on 33 schools
- Small Works – massive reduction in project delivery timescales
- Budget and programme certainty is now the ‘norm’
- Better quality projects – design and construction
What did MCC Achieve?

‘Added Value’ outcomes through collaborative working arrangements

- Total joint working (client, end users, designers, contractors, supply chain)
- Collaborative procurement between constructor partners
- Focus on local jobs and apprenticeships (Young People into Construction Initiative)
- Local economic multiplier effect (51% of total MCC spend is with companies within the City boundary)
- Performance Management / KPI’s / Continuous Improvement
3 Construction Frameworks - High, Medium, & Low value

To work ‘horizontally’ with other public organisations in the North West and share the construction ‘Procurement formula’ that has been so successful in Manchester

£450m over 2 years – 30 clients
Any Questions?
Thank You
Maximising Value Delivery from Suppliers

Duncan Brock
9 October 2012
The Sourcing “Value Gap”

1. Global research by Vantage Partners identified the value realised from strategic sourcing as 54%.

2. Typical sourcing activity is leaving 46% of the value identified on the table.
Three different approaches

<table>
<thead>
<tr>
<th>Business Transformation</th>
<th>Value Levers</th>
<th>Operational Excellence</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>3</td>
<td></td>
</tr>
</tbody>
</table>

Increasing levels of challenge, creativity & innovation

Transformational Sourcing and Breakthrough Value

Strategic Sourcing and Improvement Value

Maximisation of value & greater alignment with business needs

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Tactical Sourcing and Contract Value</th>
<th>Strategic Sourcing and Improvement Value</th>
<th>Transformational Sourcing and Breakthrough Value</th>
</tr>
</thead>
</table>
| Activity Focus | • Price focused  
• Securing tactical delivery  
• Cost and value focused  
• Securing performance and value | • Cost, value, revenue & risk focused  
• Securing capability and advantage | |
| Typical Initiatives | • Quick wins sourcing  
• Contract management  
• Core category management  
• Supplier performance management | • Business initiative led sourcing  
• Supplier value management | |
| Typical Deliverables | • Leveraged price reduction  
• Performance to contract  
• Cost down and value up  
• Top quartile supplier performance | • Transparency on cost drivers  
• Capability access and innovation | |
| Leadership & Resourcing | • Buyer led  
• Procurement team members  
• Category manager led  
• Cross-functional team members | • Executive director led  
• Business leader team members | |
## Delivering benefits

<table>
<thead>
<tr>
<th>Price Down</th>
<th>Cost Down</th>
<th>Cost Out</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cost</strong></td>
<td><strong>Contract Value</strong></td>
<td><strong>Breakthrough Value</strong></td>
</tr>
<tr>
<td>Negotiation and restructuring price</td>
<td>Measuring performance to contract</td>
<td>Guaranteed contractual allocation</td>
</tr>
<tr>
<td>Price benchmarking and levelling</td>
<td>Application of warranties and penalties</td>
<td>Changing the sourcing mix</td>
</tr>
<tr>
<td>Supplier price list analysis</td>
<td>Clawback for contract failures</td>
<td>Spot vs. long-term contracting</td>
</tr>
<tr>
<td>Arbitrage and rapid price switching</td>
<td>Preferred contract compliance</td>
<td>Floating vs. fixed price agreements</td>
</tr>
<tr>
<td>E-auctions and competitive leverage</td>
<td>Demand management</td>
<td>Specified contractual remedies</td>
</tr>
<tr>
<td><strong>Value</strong></td>
<td><strong>Improvement Value</strong></td>
<td><strong>Balanced Risk</strong></td>
</tr>
<tr>
<td>Supplier auditing and accreditation</td>
<td>Supplier performance scorecards</td>
<td>Design out high risk materials</td>
</tr>
<tr>
<td>“Should be” pricing and cost modelling</td>
<td>Value analysis &amp; value re-engineering</td>
<td>Hedging on high risk commodities</td>
</tr>
<tr>
<td>Life cycle costing</td>
<td>Supplier improvement projects</td>
<td>Co-location of manufacture</td>
</tr>
<tr>
<td>Contract driven cost improvement</td>
<td>Lean tools and op ex initiatives</td>
<td>Preferred capacity access</td>
</tr>
<tr>
<td>Formula based costing</td>
<td></td>
<td>CSR and reputation protection</td>
</tr>
<tr>
<td><strong>Risk</strong></td>
<td><strong>Mitigated Risk</strong></td>
<td><strong>Reduced Risk</strong></td>
</tr>
<tr>
<td>Improved conformance to specifications</td>
<td>Design out high risk materials</td>
<td>Guaranteed contractual allocation</td>
</tr>
<tr>
<td>Supply chain and process mapping</td>
<td></td>
<td>Changing the sourcing mix</td>
</tr>
<tr>
<td>Risk transparency and visibility</td>
<td></td>
<td>Spot vs. long-term contracting</td>
</tr>
<tr>
<td>Joint working to mitigate risk</td>
<td></td>
<td>Floating vs. fixed price agreements</td>
</tr>
<tr>
<td>Preferred supplier / customer initiatives</td>
<td></td>
<td>Specified contractual remedies</td>
</tr>
</tbody>
</table>

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Real bottom line impact

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Addressable Spend

75% - 100%

Third Quartile
3% - 5%

Second Quartile
1% - 3%

First Quartile
< 1%

< 25%

Cost Reductions Delivered

Quality of Procurement & Supply

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Key organisational challenges faced

**Engaging** stakeholders and working cross functionally on categories of spend and improvement projects

**Building** the procurement and business capability to develop and implement procurement improvement plans

**Developing** the policies, processes and toolkits with limited in-house resources and capabilities

**Creating** the ways of working and internal alignment to fully leverage the capability of major suppliers

**Managing** the activities to ensure they are delivering the promised benefits within the agreed timescales

**Sharing** and capturing information and knowledge about categories and suppliers across different locations

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Value delivery essentials

- Resources
- Organisational Structure
- Senior Management Support
- Process / Methodology / Toolkit
Creating clear relationship roles and responsibilities

**Supplier Management Team**

- **Relationship Sponsor**
  - Confirms project goals & secures resources
  - Resolves serious issues & removes roadblocks
  - Ultimately accountable for supplier performance

- **Relationship Leader**
  - Primary point of contact with supplier
  - Progress management of the team
  - Progress reporting to sponsor

- **Operational Performance Manager**
  - Manages supplier to contract service levels & KPIs
  - Identifies performance improvement opportunities
  - Resolves operational failures

- **Commercial Manager**
  - Expert advice for contract, SLA & contractual disputes
  - Expert application of SRM process if procurement expert

- **Functional Representative**
  - Development and implementation of supplier strategy
  - Provide input on stakeholder needs
  - Secure stakeholder compliance to agreed protocols
  - Resolve compliance statistics & resolve issues

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CIPS category management process

STEP 1
Initiate/Prepare
1. Project Charter
2. Stakeholder Engagement
3. Project Governance
4. Project Planning
5. Kick-off Meeting
6. Quick Wins

DG1

STEP 2
Identify & prioritise Opportunities
7. Historical Spend Profile
8. Forecast Spend Profile
9. Whole Life Costing
10. Business Requirements
11. Supply Market Research
12. Supply & Value Chain Analysis
13. Market Forces Analysis
14. Supplier Profile
15. Supplier Financial Analysis
16. RFI
17. Non Disclosure Agreements
18. Portfolio Analysis
19. Supplier Perception Analysis
20. Options Generation
21. Risk Assessment

Activity

DG2

STEP 3
Prepare/Present Category Strategy
22. Sourcing Strategy

STEP 4
Implement Category Strategy
23. Supplier Selection Process
24. Statement of Requirements
25. Contract Terms
26. Service Level Agreements
27. RFP’s
28. Auctions
29. Proposal Evaluation
30. Negotiation
31. Business Benefit Measurement
32. Contract Award
33. Supplier Transition
34. Project Review & Closure

Activity

DG3

STEP 5
Maintain
35. Contract Administration
36. Contract Management
37. Performance Scorecard
38. Supplier Review Meetings
39. Supplier Development
40. Sustainable Procurement

Activity

STEP 6
Improve & Enhance
38 Supplier Review Meetings
39. Supplier Development
40. Sustainable Procurement

Activity
Maximise value delivery using Portfolio Analysis

Source: adapted from Kraljic (1983)
Consistent approaches to segmentation are emerging

MOST FREQUENT SEGMENTATION CRITERIA

1. **Spend:**
   both historic and/or forecast

2. **Value opportunities:**
   improvement areas that drive benefits beyond contract commitments

3. **Power and dependency:**
   ability to economically source new supplier or switch existing supplier

4. **Risk and business impact:**
   centrality to current & future business operations & competitive advantage

5. **Account attractiveness:**
   attitude & preferential access to resources and capabilities

6. **Relationship complexity:**
   multiple touch points, difficult relationships, reciprocal trading
Scorecards are a key tool for unlocking value – best in class scorecards combine quantitative and qualitative measures.

**Performance Scorecard**

**PART 1: Operational Metrics Measurement**
(Quantitative Facts & Data)

<table>
<thead>
<tr>
<th>CRITERIA</th>
<th>WEIGHT</th>
<th>SCORE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>35% 1. PRODUCT QUALITY</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Absence of Defects</td>
<td>33.3%</td>
<td>9</td>
</tr>
<tr>
<td>Conformance to Specs</td>
<td>33.3%</td>
<td>9</td>
</tr>
<tr>
<td>Shipping Damage</td>
<td>33.3%</td>
<td>10</td>
</tr>
<tr>
<td><strong>30% 2. ON-TIME DELIVERY</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>25% 3. TOTAL COST MGMT</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Price Reductions/Rebates</td>
<td>26.4%</td>
<td>7</td>
</tr>
<tr>
<td>Kanban/Lean Initiative</td>
<td>0%</td>
<td>N/A</td>
</tr>
<tr>
<td>Consignment Inventory</td>
<td>14.1%</td>
<td>5</td>
</tr>
<tr>
<td>Response Time</td>
<td>14.1%</td>
<td>10</td>
</tr>
<tr>
<td>Leadtime Reduction</td>
<td>14.1%</td>
<td>7</td>
</tr>
<tr>
<td>Evaluated Receipt Settlement</td>
<td>0%</td>
<td>N/A</td>
</tr>
<tr>
<td>Invoice Accuracy</td>
<td>7.1%</td>
<td>8</td>
</tr>
<tr>
<td>Accept P-Card</td>
<td>7.1%</td>
<td>10</td>
</tr>
<tr>
<td>No Restocking Fee</td>
<td>7.1%</td>
<td>10</td>
</tr>
<tr>
<td><strong>10% 4. PAYMENT TERMS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>100% YOUR SCORE</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**PART 2: 360° Relationship Measurement**
(Qualitative Perceptions)

<table>
<thead>
<tr>
<th>Quality of Relationship Factors with Tier 1 Strategic Supplier</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Business &amp; cultural alignment</strong></td>
<td></td>
</tr>
<tr>
<td>1. Aligned mission, values and ways of working between us and strategic supplier.</td>
<td></td>
</tr>
<tr>
<td>2. Complementing strengths, resources, and capabilities to win business together.</td>
<td></td>
</tr>
<tr>
<td>3. Culture and personality fit, particularly between top management.</td>
<td></td>
</tr>
<tr>
<td>4. Commitment to key people and key relationships.</td>
<td></td>
</tr>
<tr>
<td><strong>Executive commitment and support on both sides</strong></td>
<td></td>
</tr>
<tr>
<td>1. Executive sponsor in place for each relationship, project, or work stream.</td>
<td></td>
</tr>
<tr>
<td>2. Agreement on governance, decision-making, and dedicated resources.</td>
<td></td>
</tr>
<tr>
<td>3. High-quality, timely, and robust project planning.</td>
<td></td>
</tr>
<tr>
<td><strong>Ethics, relationship trust and openness of communication</strong></td>
<td></td>
</tr>
<tr>
<td>1. Open, honest and timely communication.</td>
<td></td>
</tr>
<tr>
<td>2. Supplier trusts us, and we trust the supplier.</td>
<td></td>
</tr>
<tr>
<td>3. Whispers in the ear, and decisions.</td>
<td></td>
</tr>
<tr>
<td><strong>Day-to-day working relationships at the operational level</strong></td>
<td></td>
</tr>
<tr>
<td>1. We produce the necessary, accurate, and on-time product to support our objectives.</td>
<td></td>
</tr>
<tr>
<td>2. We ensure Tier 1 supplier is new product development / production planning.</td>
<td></td>
</tr>
<tr>
<td>3. Open transparency between both parties (acquisitions, costs, investments).</td>
<td></td>
</tr>
<tr>
<td>4. Close collaboration with key people and key relationships.</td>
<td></td>
</tr>
<tr>
<td><strong>Growth potential and continuity in the relationship</strong></td>
<td></td>
</tr>
<tr>
<td>1. Assessment of impact to revenue and business value growth.</td>
<td></td>
</tr>
<tr>
<td>2. Agreement on sharing of savings from cost down projects.</td>
<td></td>
</tr>
<tr>
<td>3. Agreement on additional share of revenue and cost savings.</td>
<td></td>
</tr>
<tr>
<td>4. Evidence of satisfactory transaction to supplier.</td>
<td></td>
</tr>
</tbody>
</table>
**Example scorecard based on value framework**

<table>
<thead>
<tr>
<th>1 Realization of Business Value</th>
<th>2 Realization of Business Benefits</th>
<th>3 Operational Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cost reduction</strong></td>
<td><strong>Revenue increase</strong></td>
<td><strong>Risk exposure reduction</strong></td>
</tr>
<tr>
<td>→ Cost of goods sold</td>
<td>→ Incremental revenue</td>
<td>→ Supply disruption risks</td>
</tr>
<tr>
<td>→ Overhead expenses</td>
<td>→ Incremental profit</td>
<td>→ Quality and service risks</td>
</tr>
<tr>
<td>→ Profit margin</td>
<td>→ Free cash flow</td>
<td>→ Reputation risks</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2 Realization of Business Benefits</th>
<th>3 Operational Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>→ Demand reduction</td>
<td>→ Service levels</td>
</tr>
<tr>
<td>→ Specification simplification</td>
<td>→ Quality levels</td>
</tr>
<tr>
<td>→ Access to new markets</td>
<td>→ Admin processing e.g. invoice accuracy</td>
</tr>
<tr>
<td>→ Innovative new products designed</td>
<td>→ Flexibility e.g. ability to respond to</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>4 Use of Value Levers</th>
<th>5 Health of Value Enablers</th>
</tr>
</thead>
<tbody>
<tr>
<td>→ Frequency of value improvement sessions</td>
<td>→ Level of trust</td>
</tr>
<tr>
<td>→ Number of people involved in value improvement sessions</td>
<td>→ Frequency and quality of communication</td>
</tr>
<tr>
<td>→ Number and category of improvement initiatives underway</td>
<td>→ Degree of mutual understanding</td>
</tr>
<tr>
<td>→ Implementation of joint processes / procedures</td>
<td>→ Quality of joint problem-solving and conflict management</td>
</tr>
</tbody>
</table>
Purchaser: Supplier relationship quality as measured by the WRI correlates closely with business and financial success.

Measuring the Quality of Working Relationships - Supplier Perspectives on Competitors

- Business & Cultural Alignment
- Executive Commitment & Support on Both Sides
- Ethics, Relationship Trust & Openness of Communication
- Day-to-Day Working Relationships at the Operational Level
- Growth Potential & Continuity in the Relationship

Acknowledgement Planning Perspectives Inc.
Business skills and a more collaborative mind-set are key, particularly in engaging, persuading and challenging users and stakeholders.
Maximising Value Delivery from Suppliers

Duncan Brock
9 October 2012