VALUE BASED PROCUREMENT

SEAMLESS INTEGRATION OF VALUE BASED PROCUREMENT

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Chief Procurement Officer – The Global Fund
“in Italy for 30 years under the Borgias they had warfare, terror, murder, and bloodshed, but they produced Michelangelo, Leonardo da Vinci, and the Renaissance. In Switzerland they had brotherly love - they had 500 years of democracy and peace, and what did that produce? The cuckoo clock”  *

* The Third Man 1949 ~ Harry Lime
WHY MOVE TO A VALUE BASED MODEL?

I could give you the text book on what a value based Procurement system is all about, but for this discussion I would rather focus on a range of activities that you can embark on either singularly or together that will accelerate your value journey.

Where do we start?

- Multiple Iterations of category management are depleting traditional routes to saving
- Constrained economies are tightening margins and increasing bottom line focus
- We use the term partner very loosely ~ Value based procurement builds partnerships
- Move away from adversarial to collaborative
- Value based procurement engages us with the business and integrates us into the functions
FROM ADVERSARIAL TO TOTAL COST OF OWNERSHIP

Many businesses lack the capability to track total cost of ownership, even at a superficial level. It is important to get your head around this!
AS A BASIS FOR TODAY'S DISCUSSION

Communications

Foundation

Innovation

Supplier Development (Quality)
The Foundation

Activity Based Maturity Profiling

Maturity

Innocence
- Savings Generation against targets
- Savings Generation against benchmarks
- Data availability
- Market Analysis

Awareness
- Savings Generation against targets
- Savings Generation against benchmarks
- Data availability
- Market Analysis

Understanding
- Savings Generation against targets
- Savings Generation against benchmarks
- Data availability
- Market Analysis
- Supplier Analysis
- Opportunity Analysis
- Strategy Documented
- Methods Deployed

Competence
- Savings Generation against targets
- Savings Generation against benchmarks
- Data availability
- Market Analysis
- Supplier Analysis
- Opportunity Analysis
- Strategy Documented
- Methods Deployed
- Seniority of Team
- Capability of Team
- Spend levels
- Role Clarity
- E-Procurement

Excellence
- Savings Generation against targets
- Savings Generation against benchmarks
- Data availability
- Market Analysis
- Supplier Analysis
- Opportunity Analysis
- Strategy Documented
- Methods Deployed
- Seniority of Team
- Capability of Team
- Spend levels
- Role Clarity
- Leveraged Purchasing power
- Optimized supplier base
- Categorization

Low Effort

Tools

Low Complexity

High Complexity

High Effort
Create Categories for Innovation / Process Improvement

One of the quickest change drivers which I employ is to create category heads for non-conventional categories………..

**Innovation**- I employed an engineer with an MBA, someone with an exploring mind who knows our specific industry but also has the capability and desire to discover new and better ways.

**Process Improvement** –I employed a lean guru who new a little about procurement and a lot about process improvement. He worked on improving the procurement teams capability in this area, held supplier workshops and launched and managed value related projects / programs

I also hired an expert knowledge manager......................
**THE FOUNDATION**

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<thead>
<tr>
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<tbody>
<tr>
<td><strong>1</strong></td>
<td>Transparency to facilitate open book costing, higher levels of easily accessible market knowledge ……Quick and Simple approach Research function for difficult to acquire data</td>
</tr>
<tr>
<td><strong>2</strong></td>
<td>Personalized commodity pages for each sourcing professional with key commodities which are portfolio relevant, internet alerts and messaging. Refreshes on start-up.</td>
</tr>
<tr>
<td><strong>3</strong></td>
<td>Social networking as a knowledge management tool……..the future of knowledge management</td>
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<tr>
<td><strong>4</strong></td>
<td>Create reference tools both on a category guide rolled up into a manual and a spend cube basis. Keep fresh. Allow access for key business partners. Don’t forget hard copies where relevant</td>
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*Create Reference Tools*
Incentivize value add activity

Paying to save sounds counter intuitive........

<table>
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<tr>
<th>Conventional Price $100</th>
<th>--$</th>
<th>++$</th>
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<tbody>
<tr>
<td>Incentivized Volume</td>
<td>--Vol</td>
<td>+++ Vol</td>
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Potential Upside

- Incentivize on Volume or Price or both
- Ensure that upside is covered by the value of the improvement 2X+
- Have flexibility around what you incentivize around, process improvement, innovation, speed, co-development are all value add
- You may incentivize for several different elements.....Quality, HSE etc.
- Take care not to over-penalize
Don’t get hung up on the notion that Procurement is the face to the supplier – learn to share..................

You could have a Supply Quality Assurance personnel integrated into your sourcing function with reporting responsibility to sourcing.

Let’s call this team SQA or Supplier Quality Assurance.......responsible for Supplier development, Process improvement and Lean activity, Change control, Audit preparation etc. The SQA personnel will become your face to the Supplier

The increased knowledge generated by being integrated with suppliers will help drive process improvement and cost reduction activities, and with alignment of strategies and processes

Perform opportunity in conjunction with risk analysis across your top partners and deploy your SQA personnel accordingly

Think about sharing audit loads, move from policing to partnering
COMMUNICATIONS

For suppliers who embark on this journey with you, you will need to go the extra mile on communications to keep both them and your own business partners engaged: I used four steps to do this

1. Portal........you may already have a portal, if so shake it up, see whether it can be simplified, and above all personalize it to the specific supplier in terms of dashboards and performance
2. Treat the suppliers on this journey differently to the rest, bring them together once a year, recognize them, have a unique and common theme and newsletter. Engage all the way up to C level.
3. Porthole – this was a great way to learn from the supplier
4. Create an App..............it is a lot more cost effective than you would think and again can be driven with targetted invitation, this works well for internal engagement as well.
INNOVATION

End to End Value Stream analysis and Mapping

- Procurement Led
- High Energy / Loud / Fun
- Involve all levels
- Create project teams and governance on the spot
- Manage the program
- Keep it simple
- Use simple templates
- Create a comms’ plan
- Leadership support, add status
- Create a ‘product team’ identity
- Join the Functional dots, facilitate the network
- Total End to End from Development through to Suppliers, Logistics, Manufacturing etc.
- Map in the morning, identify process / value improvements around these
Innovation Porthole

- Create a mechanism for suppliers to reach you
- Keep it simple, simple easy to find template that can be dragged into a porthole or similar
- Ensure that this is responsibly managed and that follow-ups are done and any issues closed off
- You can make this as wide or as narrow as you like, including other functionality outside of innovation.
# COMMUNICATION

## Driving Value with a Portal

<table>
<thead>
<tr>
<th>Visibility &amp; Transparency</th>
<th>Supplier Dashboard</th>
<th>Innovation Platform</th>
<th>Knowledge Management</th>
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</thead>
<tbody>
<tr>
<td>• Full demand visibility</td>
<td>• Enable mutual value by incentivized contracting</td>
<td>• Accelerate Innovation through effective Supplier collaboration</td>
<td>• Specification</td>
</tr>
<tr>
<td>• Enable new Value Add Business Scenarios e.g. VMI</td>
<td>• KPIs</td>
<td>• Evaluation and follow up of Supplier ideas (the porthole)</td>
<td>• News</td>
</tr>
<tr>
<td>• Streamline Business Processes</td>
<td>• Create a competitive environment</td>
<td></td>
<td>• Improve 3rd party communication</td>
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<tr>
<td>• Increase Purchasing efficiency</td>
<td>• Exclusive Club</td>
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Tear Down Workshops

Do not think that this does not apply to your industry, I have used it in many guises from drug delivery devices through to packaging and gearboxes.

- Keep it structured
- Professional facilitation
- Capture opportunities and ownership

- Involve senior management, Finance, R&D production managers and operators, supply chain, academia if relevant
- If possible tear down your competitors product along side yours
- Start from the retail state (include the packaging)
- Understand your warranty / customer feedback upfront
- Involve your suppliers where relevant
Range Finding

- Potentially the biggest single impact on your bottom line…Challenge your status quo
- Works best with established vendors
- Choose a range or basket of products within a supplier’s capability
- Create a war room with good facilities
- Involve Key Decision makers preferably C Level who will make it happen rather than ask if it can happen
- Go open book
- Let the supplier understand what he / she can do better
- Give access to functions across your business
- Sign the memorandum of agreement there and then
- Chasing the big number drives the urgency

$15M
$120M
$40M
Range Finding

Range Finding is a process whereby to bring together the leadership of your company and a chosen partner and have both go open book on a range of product to see where opportunities can be driven.

A good deal of preparation understanding capabilities and capacities needs to precede the event, with the basic understanding that agreement should be reached on conclusion of the event.

The event should be held in a well appointed ‘war room’ with call on anyone within your company required to support or clarify the detailed discussions. Frequent breaks with calls home for the vendor should be encouraged to create balance.

I have held these where they have lasted several days. They are high profile, high energy and results are grouped as ‘go’ projects, ‘further investigation’ or ‘no go’.

The leadership signs up to the ‘go’ projects on conclusion of the event.
INNOVATION

Innovation as a Category ??

• A category manager
• Savings targets
• An innovation budget

• The Supply porthole
• Trade Show trawling
• Publications
• Innovation Board or similar mechanism
• Innovation workshops to various levels of inclusivity
  • Supplier
  • Academia
  • Internal
  • Combination
Innovation as a Category ??

- Innovation as a category works on several levels.........I have created innovation category managers who:
  - Looked internally at what we had missed, studied old projects to reassess current viability.......balanced against lifecycle
  - Connected with academia and created visibility and a conduit for discovery into our organization, hosted lectures and workshops for our relevant functions - Arranged and hosted innovation workshops with suppliers, academia or both
  - Looked into our supplier base for new developments relevant to our business and ensured that we had both access and exclusivity where relevant
  - Hosted teardown exercises for our business
  - Looked for process improvement opportunities using new technology
  - Created an innovation board and secured project funding for those projects chosen
  - Managed an innovation ‘porthole’
The Five things that you can do right now:

1. Value Incentivized contracting
2. Product based End to End value stream mapping and analysis
3. Tear-down workshops
4. Supplier innovation workshops and events
5. Range Finding

The Support System that you can build in the longer term:

- Create Categories/category managers for innovation and process improvement
- Activity based maturity profiling
- Knowledge Management capability & system
- A SQA team doing supplier development
- Supplier Value focused Portal
- Porthole for idea generation
- Create an App, inward and outward facing
Straight from the Horses Mouth

Questions ?