

Strategic Procurement Management

How procurement can bring added value to your organisation

Steve Mallaband; Ros Howard; Counterpoint Courses Ltd




Download free books at

bookboon.com

Steve Mallaband and Ros Howard – Counterpoint Courses Ltd

Strategic Procurement Management

How procurement can bring added value to
your organisation



Strategic Procurement Management

1st edition

© 2016 Steve Mallaband, Ros Howard – Counterpoint Courses Ltd & bookboon.com

ISBN 978-87-403-1198-3

Contents

	About Counterpoint Courses	9
	Introduction	10
1	What is Strategic Procurement Management?	11
1.1	Introduction	11
1.2	A way of thinking about Strategic Procurement Management	11
1.3	Best Practice	13
2	Category Management	15
2.1	Introduction	15
2.2	A way of thinking about Category Management	16
2.3	Category Management at a Glance	17
2.4	Best Practice	17



Discover the truth at www.deloitte.ca/careers

Deloitte.

© Deloitte & Touche LLP and affiliated entities.



Click on the ad to read more

3	Strategic Sourcing	18
3.1	Introduction	18
3.2	A way of thinking about Strategic Sourcing	19
3.3	Strategic Sourcing at a Glance	20
3.4	Best Practice	20
4	Contract Management	21
4.1	Introduction	21
4.2	A way of thinking about Contract Management	22
4.3	Contract Management at a Glance	23
4.4	Best Practice	23
5	Supplier Management	24
5.1	Introduction	24
5.2	A way of thinking about Supplier Management	24
5.3	Supplier Management at a Glance	27
5.4	Best Practice	27

© 2013 Accenture. All rights reserved.

be > your degree

Bring your talent and passion to a global organization at the forefront of business, technology and innovation. Discover how great you can be.

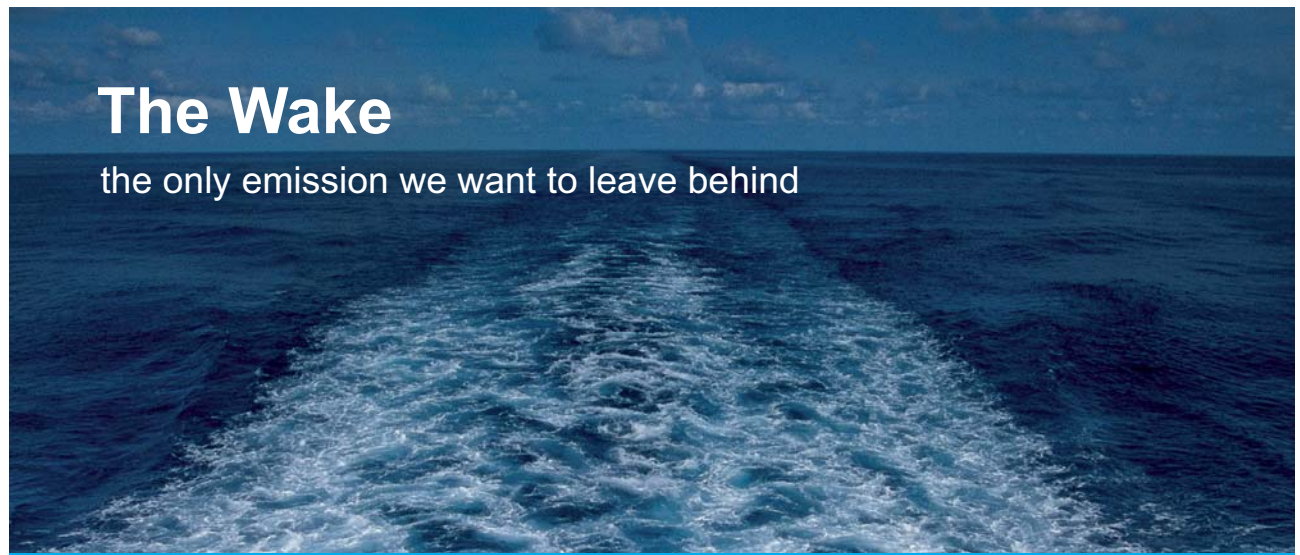
Visit accenture.com/bookboon

Be greater than.
consulting | technology | outsourcing

accenture
High performance. Delivered.



6	The Procurement to Pay Process	28
6.1	Introduction	28
6.2	A way of thinking about the Procurement to Pay Process	29
6.3	The Procurement to Pay Process at a Glance	30
6.4	Best Practice	30
7	Measuring Performance and Savings	31
7.1	Introduction	31
7.2	A way of thinking about Measuring Performance and Savings	32
7.3	Measuring Performance and Savings at a Glance	33
7.4	Best Practice	34
8	Management, Organisation and Capability	35
8.1	Introduction	35
8.2	A way of thinking about Management, Organisation and Capability	35
8.3	Management, Organisation and Capability at a Glance	36
8.4	Best Practice	36




The Wake

the only emission we want to leave behind

Low-speed Engines Medium-speed Engines Turbochargers Propellers Propulsion Packages PrimeServ

The design of eco-friendly marine power and propulsion solutions is crucial for MAN Diesel & Turbo. Power competencies are offered with the world's largest engine programme – having outputs spanning from 450 to 87,220 kW per engine. Get up front!
Find out more at www.mandieselturbo.com

Engineering the Future – since 1758.
MAN Diesel & Turbo



9	Systems, Tools and E-Procurement	38
9.1	Introduction	38
9.2	A way of thinking about Systems, Tools and E-Procurement	38
9.3	Systems, Tools and E-Procurement at a Glance	39
9.4	Best Practice	40
10	Successful Communication in Strategic Procurement Management	41
10.1	Introduction	41
10.2	A way of thinking about Successful Communication in Strategic Procurement Management	41
10.3	Successful Communication in Strategic Procurement Management at a Glance	43
10.4	Best Practice	44
11	Sustainable Procurement	45
11.1	Introduction	45
11.2	A way of thinking about Sustainable Procurement	45
11.3	Sustainable Procurement at a Glance	46
11.4	Best Practice	47

SMS from your computer

...Sync'd with your Android phone & number

Go to

BrowserTexting.com

and start texting from your computer!

BrowserTexting

FREE
 30 days trial!



	Appendix 1 – Successful Communication	48
A1.1	Introduction	48
A1.2	Purpose	48
A1.3	Knowing your audience	49
A1.4	Structuring your Message	49
A1.5	Delivery	50
A1.6	Listening	52
A1.7	Asking Questions	52
A1.8	Leading Discussions	53
A1.9	Summarising	54
A1.10	Tips for persuading the Budget-Holders	54
A1.11	Tips for carrying out Commercial Negotiations	55
	Appendix 2 – Some simple Tools to support Strategic Procurement Management	56
A2.1	Bid Analysis Checklist	56
A2.2	Porter’s Five Forces	57
A2.3	The Sourcing Category Positioning Matrix (Kraljic Matrix)	58
	Appendix 3 – Further Reading and Resources	59
	About the Authors	60

About Counterpoint Courses

Counterpoint Courses is a specialist consultancy and training business focused on Procurement and Commercial Negotiations. Its vision is to see a world where:

- People have the necessary communication skills to express their needs clearly and concisely, negotiate well and write effective contracts.
- Procurement is practised professionally such that goods and services are bought at the right price, right time and right quality.
- Suppliers are viewed as valuable assets of an organisation, and great care is taken to manage them well.
- Time and money are not wasted in fruitless negotiations, endless misunderstandings and problems with suppliers.

More details can be found at www.counterpointcourses.com.

Introduction

This book is designed to be easy to understand and easy to use. Unfortunately, the real world has a habit of getting in the way of simplicity, and adds a degree of complexity that prevents the use of the words “and easy to apply”. Each book gives you the knowledge to go out into the real world, put into practice what you have learnt, make some mistakes, reflect on the good and the bad, and to keep trying until you really have mastered the subject. The rewards for your organisation are high, and so is the personal satisfaction of carrying out something to the best of your abilities.

Strategic Procurement Management is an exposition of the authors’ conviction that by buying things well you will improve the overall health of an organisation as well as saving a lot of money. The first chapter provides a summary of the whole field of Strategic Procurement Management, and each subsequent chapter discusses a specific concept. A short set of Appendices contains further information on certain topics, and also includes a list of books and other resources for those who want to carry on learning.

Each chapter is structured in the same way and begins with a short introduction to the subject matter. This is followed first by a fuller description, setting out a way of structuring your thinking, and then by a diagram that explains the subject “at a glance”. The chapter ends with a definition of best practice.

1 What is Strategic Procurement Management?

1.1 Introduction

A lot has been written about Sales, less so about Procurement, but behind both disciplines lie distinct processes that can be learnt and applied to great effect.

In terms of procurement, the process at its simplest is all about deciding what you are going to buy, buying it, paying for it and then living with the consequences (in terms of delivery and supplier performance). This can be illustrated as the procurement life cycle, as follows:

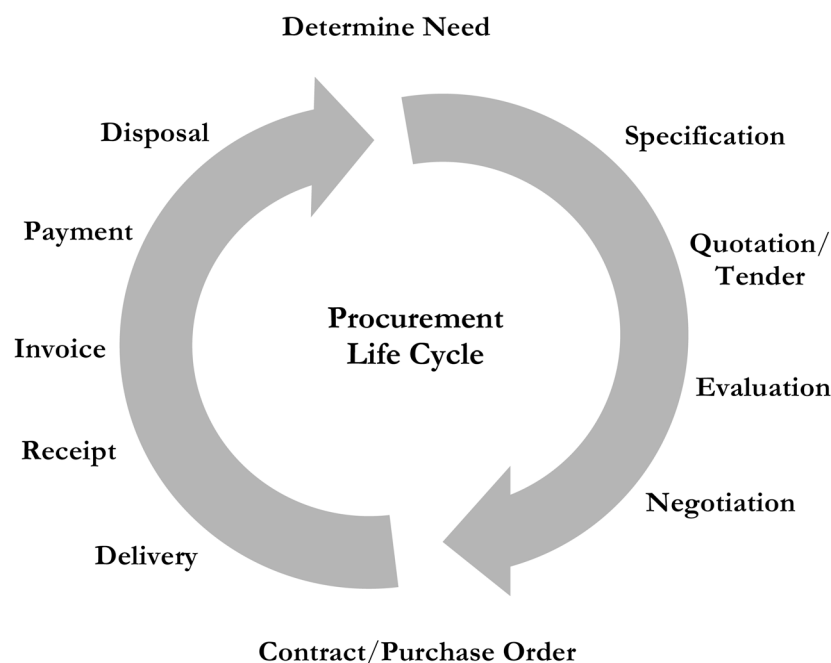


DIAGRAM 1 – The Procurement Lifecycle

This simple process always lies there in the background, at the heart of things, but the challenge is to make sure that it is implemented in the best possible way. Strategic Procurement Management is the name given to the way that this is done.

1.2 A way of thinking about Strategic Procurement Management

One way of looking at strategic procurement management is to consider first the Core Processes that need to be executed well, next the management, organisation and capability required to execute these processes, and then the choice of appropriate Systems and Tools that support all this.

There are six core processes: strategic sourcing, category management, contract management, supplier management, procurement to pay and performance management. These are covered in Chapters 2 to 7.

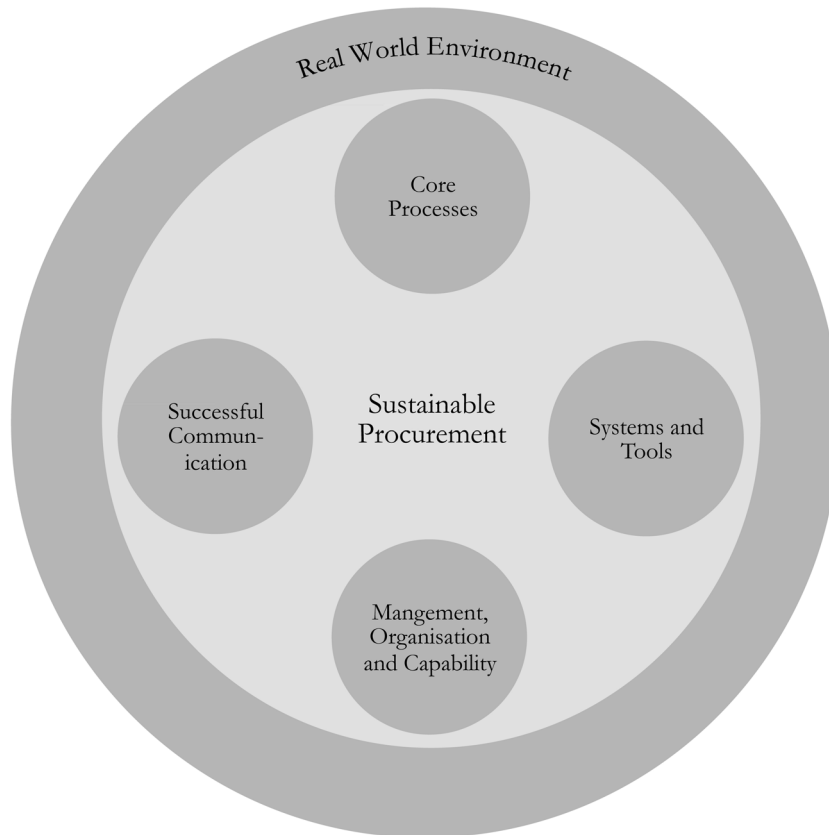
Additionally, there are six main challenges faced by the management, organisation and capability required to execute these processes: Functional management, role and reputation, procurement policy, structure and organisation, capability, and stakeholder management and business alignment. These are the discussed in Chapter 8.

There are many Systems and Tools which are used in Strategic Procurement Management and these can provide support for purchase requisitioning/ordering, carrying out e-auctions and other kinds of electronic commerce, managing spend and savings, looking after contracts etc. They can be developed in-house or bought from third-party suppliers. Systems and Tools are covered in Chapter 9.

Successful communication in strategic procurement management is very important, underlying as it does virtually all procurement activities. It is dealt with in Chapter 10 and in more detail in Appendix 1.

Procurement does not take place in a vacuum but in the environment of the real world, and this significantly influences how things need to be done. This “how” not only encompasses an interaction with the environment at the everyday level, but also includes the attitude of mind in which strategic procurement needs to be carried out, in order to successfully face the challenges of the real world. This “how” is known as sustainable procurement, which is increasingly recognised as a key component of corporate social responsibility. This is covered in Chapter 11.

Strategic Procurement Management at a Glance

**DIAGRAM 2** – Strategic Procurement Management

1.3 Best Practice

By looking at how organisations successfully carry out Strategic Procurement Management, it is possible to come up with a good idea of best practice. And it turns out that it involves the following things being fully checked/clarified:

- There is a separate purchasing function whose head is a senior manager within the organisation. The function is well managed and appropriately structured and organised. It is home to the right number of capable, well-trained staff. The purchasing function leads procurement activities within the organisation and does not get side-tracked into logistics or day-to-day contract management, unless this is explicitly agreed.
- The purchasing function is well respected within the organisation in terms of the quality of its staff and the value it delivers. Its role and responsibilities are formally defined in a Procurement Policy document and are clearly understood. Internal relationships with other business functions are good.

- There is a strong culture of Business Alignment and of cross-functional collaboration at all levels within the organisation, which ensures that what is bought reflects the real needs of the organisation as a whole.
- The spend of the organisation is well known and understood. It is divided into categories for the purposes of management, and each category is managed by a cross-functional category team. The category team is responsible for the selection and recommendation of suppliers via the strategic sourcing process and for the subsequent management of contracts and suppliers.
- Appropriate contracts are signed with suppliers, and once signed are not forgotten. Adherence to contractual obligations is monitored and enforced where necessary. Difficulties are dealt with effectively and renewal dates are flagged in good time.
- Buying does not stop with the placing of a purchase order or the signing of a contract, but suppliers are actively managed. Strategic suppliers are identified and worked with closely to improve service levels, reduce costs and access innovation. Suppliers are treated as valuable assets of the organisation.
- Appropriate systems and tools are in place to support all procurement activities. Purchasing staff are well trained in how to use these and supported in their use.
- Procurement Performance is measured according to agreed principles, and reported to management on a regular basis. The Purchasing function is “sold” to the organisation on the basis of this performance, and it is recognised that Strategic Procurement Management contributes to the overall performance of the organisation, not only in terms of money saved, but also in terms of supply-chain integration and supplier-led innovation.
- The Procurement to Pay Process is fully automated and functions smoothly, ensuring that orders are placed, invoices are handled and payments are made on time with minimum intervention from the Purchasing function.
- E-Procurement is aggressively carried out where it can add real value.
- Communication skills are regarded as a key enabler to success.
- The environment and social responsibility are key issues that are taken into account when buying goods/services and when selecting suppliers. Sustainable Procurement is adopted as a mindset.

2 Category Management

2.1 Introduction

Category Management is the process by which the range of bought-in goods/services purchased by an organisation is broken down into discrete groups of similar goods/services. These groups are known as categories, and are managed separately in a systematic and disciplined way. Category Management extends from the identification of categories, through supplier selection, to the management of contracts and suppliers.

In defining categories it is normal to take into account the business needs of the organisation, how the organisation itself is structured, how much is being spent and on what, and how the marketplace is organised.

It is common for organisations to make a distinction between direct and indirect goods/services and some companies have separate purchasing functions for direct and indirect procurement.

**YOUR WORK AT TOMTOM WILL
BE TOUCHED BY MILLIONS.
AROUND THE WORLD. EVERYDAY.**

Join us now on www.TomTom.jobs
follow us on **LinkedIn**



#ACHIEVEMORE **TOMTOM** 



The word “Direct” refers to any goods/services that go into the manufacturing process and end up as a part of finished goods. Direct categories typically include raw materials and packaging materials. The word “Indirect” on the other hand, refers to goods/services that are used in support of the manufacturing process. Indirect categories typically include capital goods, IT/IS, utilities and marketing.

2.2 A way of thinking about Category Management

One way to think about category management is to consider it as a cross-functional procurement process led by category managers within an organisation’s purchasing function. It is used to manage defined categories of spend in such a way as to satisfy business needs while maximising the value delivered from the supply base.

The process begins with a spend analysis of which goods/services are being bought by the organisation and how much is being spent on each. This is then used as a basis for dividing the spend into categories; a process known as Category Identification.

Category managers are appointed, and a stakeholder analysis is carried out to determine who in the business should be part of the cross-functional category team. As a minimum, other members of the team include the relevant budget-holder or internal customer, and may well also include subject-matter experts, e.g. engineers, IT staff or external consultants. Key to the success of category management is the continuing involvement of the business stakeholders.

This team then carries out category analysis which a) looks inwards to understand the business needs, category spend and existing suppliers/contractual obligations, and b) looks outwards to understand the supply market and the suppliers in it. As a result of this analysis, a category plan is drawn up setting out the procurement actions, which will take place in the short, medium and long term.

Once the category plan has been drawn up, the category team implements it using the processes of strategic sourcing, contract management and supplier management. These are the subjects of subsequent chapters.

The category manager actively manages the category team and by revisiting the process above, ensures both that the category plan remains relevant and alive, and that the implementation takes place according to the plan.

Two key tools used in category management are Porter’s Five Forces (“The five competitive forces that shape strategy”, Michael Porter, Harvard Business School, 1979), and the Sourcing Category Positioning matrix or Kraljic matrix (“Purchasing must become Supply Management”, Peter Kraljic, Harvard Business School, 1983). These are referred to in Chapter 9 – Systems, Tools and E-Procurement – and covered in more detail in Appendix 2.

2.3 Category Management at a Glance

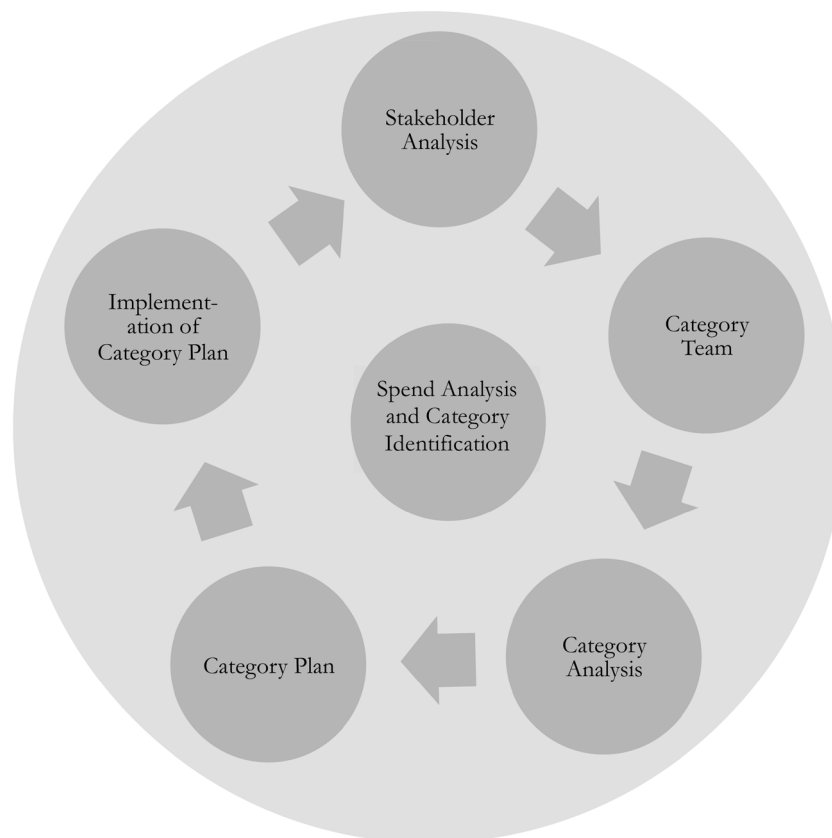


DIAGRAM 3 – Category Management at a Glance

2.4 Best Practice

Best Practice in category management involves the following things being fully checked/clarified:

- The spend of an organisation is well known in terms of how much is being spent on what goods/services and by whom. It is appropriately categorised, depending on the amount, the organisation's internal structure and how the market is structured.
- Category managers from the Purchasing function are appointed to manage each spend category, and they head up cross-functional Category Teams with strong participation from the business.
- Category analysis is carried out rigorously to ensure that the organisation's internal needs and spend are understood, and that the potential of the market to fulfil these is identified.
- Each category has an actively managed and up-to-date category plan that sets out how the goods/services within the category will be purchased in the short, medium and long term.
- The category teams are responsible for managing the strategic sourcing, contract management and supplier management processes for each spend category.
- The category managers form part of the purchasing function's management team and meet on a regular basis to update each other and to exchange ideas.

3 Strategic Sourcing

3.1 Introduction

Strategic sourcing is the process used to source the various goods/services required, through the choice of appropriate suppliers.

Category analysis identifies sourcing issues and opportunities based both on internal needs and on what the market has to offer, and the category plan sets out how these should be addressed in terms of which goods/services should be bought, when and how. Strategic sourcing takes this plan and applies it separately to the various goods/services to be bought, in order to select suppliers for these.

Strategic sourcing comes under the umbrella of category management, and is managed by the cross-functional category management team.



Brain power

By 2020, wind could provide one-tenth of our planet's electricity needs. Already today, SKF's innovative know-how is crucial to running a large proportion of the world's wind turbines.

Up to 25 % of the generating costs relate to maintenance. These can be reduced dramatically thanks to our systems for on-line condition monitoring and automatic lubrication. We help make it more economical to create cleaner, cheaper energy out of thin air.

By sharing our experience, expertise, and creativity, industries can boost performance beyond expectations. Therefore we need the best employees who can meet this challenge!

The Power of Knowledge Engineering

Plug into The Power of Knowledge Engineering.
Visit us at www.skf.com/knowledge

SKF

3.2 A way of thinking about Strategic Sourcing

One way to think about strategic sourcing is to break it down into a number of steps.

The process begins by gathering requirements and with the identification of what the business needs. These requirements are then documented in a written specification, which is sent to suppliers later in the process.

A market analysis is carried out, to understand the dynamics of the market and to identify potential suppliers. Taking into account the spend, the business needs, the current supply-base and market dynamics, a decision is made on how to source the goods/services and this is documented in a Sourcing Plan. A very useful tool again here is the Sourcing Category Positioning Matrix described in Chapter 9 – Systems, Tools and E-Procurement – and in Appendix 2.

Next, supplier selection allows suppliers to present their proposals and prices. This can take many forms, as there are many different (and when correctly used, equally effective) ways to choose a supplier. These include:

- Doing nothing – or renegotiating with the existing supplier.
- Single sourcing – because only one supplier is genuinely able to meet the business need.
- Competitive bidding – using the RFI, RFP or RFQ tools, as described in Chapter 9.
- E-Auctions – and other forms of e-procurement, as described in Chapter 9.

In all cases suppliers are sent the specification and also other documents, which may include:

- Bidding instructions – setting out how and when the bid should be submitted.
- Confidentiality agreement – often sent out in advance so that suppliers do not receive the Specification and other documents until they have signed this.
- Data protection and data security agreements.
- Supplier Code of Conduct – for sustainable procurement.

Evaluation of the bids is often an iterative procedure, and can involve shortlisting, rebidding and negotiation of one sort or another until a supplier is chosen. At this point the cross-functional team makes a recommendation to internal management, the Decision to proceed with the chosen supplier is made and approval is given.

Finally, a commitment is made to the supplier for a purchase order or a contract. This is covered in Chapter 4 – Contract Management.

3.3 Strategic Sourcing at a Glance

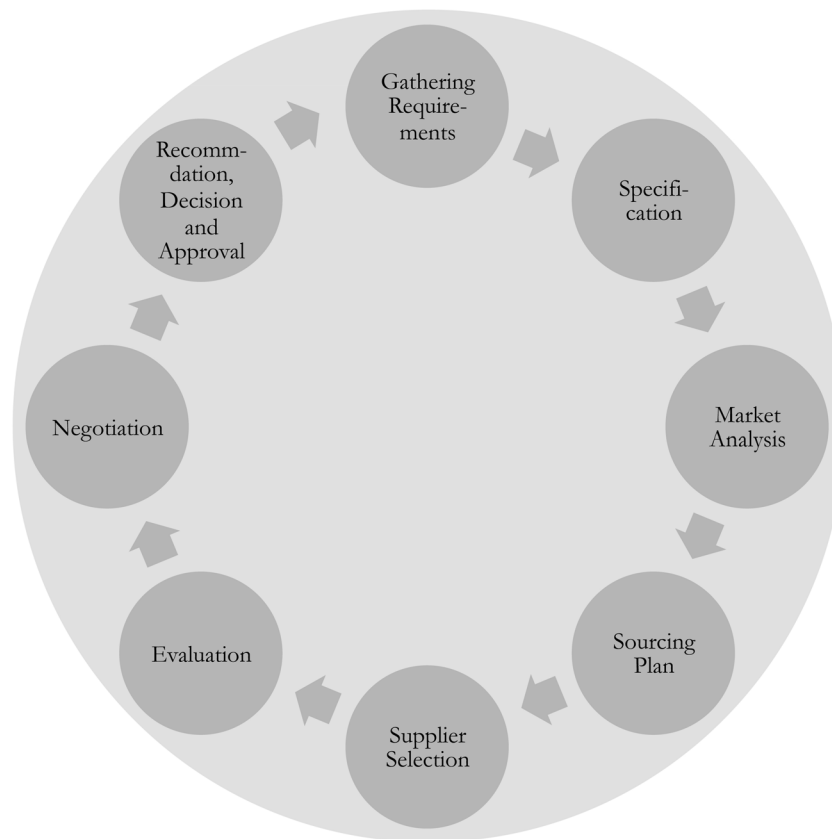


DIAGRAM 4 – Strategic Sourcing

3.4 Best Practice

Best practice in strategic sourcing involves the following things being fully checked/clarified:

- When gathering requirements, the emphasis is placed on capturing needs and not “wants”.
- Appropriate specifications are always written and are used as the basis for suppliers to bid against. The responsibility for writing specifications generally lies with the business but support is given by the purchasing function.
- Thorough market analysis is carried out, potential suppliers are identified and screened, and formal sourcing plans are drawn up and executed.
- Care and attention is given to deciding on a case-by-case basis the most appropriate way to choose suppliers. E-Auctions and other forms of e-procurement are aggressively used where they are deemed to add real value.
- Supplier selection and bid-evaluation are carried out in a fair and consistent way by cross-functional teams. All decisions on choice of supplier are approved at an agreed senior level within both the purchasing function and the business.
- Buyers are well trained and skilled in the art of commercial negotiation. They lead the negotiation process but ensure that the business is fully involved.

4 Contract Management

4.1 Introduction

Contract management is the process of managing an organisation's contracts in a structured and disciplined way. Contracts are managed from signature and throughout their active life, until their termination and/or renewal. Contract management also extends to ensuring that contracts are safely stored in a secure but readily accessible way.

Contract management is a process that comes under the umbrella of category management, and is managed by the cross-functional category team.



> Apply now

REDEFINE YOUR FUTURE
**AXA GLOBAL GRADUATE
PROGRAM 2015**

redefining / standards 

agence.cdg. © Photonistop

4.2 A way of thinking about Contract Management

One way to think about contract management is as a process that begins with the negotiation and signature of a contract, proceeds through supplier engagement and ends when the contract itself ends due to termination or expiry. These three steps are embedded in the discipline of contract lifecycle management.

During negotiation and signature the terms of a contract are agreed and documented, and both parties sign the contract. A contract is a legally binding document that regulates the rights and duties of both parties, and the contents of the contract are subject to legal provisions, which vary from country to country.

Contracts should be written because a) the very act of drawing them up is valuable, as it forces each party to think clearly about what is being bought and under what terms and conditions, b) it avoids misunderstanding and ensures consensus on what has been agreed, and c) it holds each party accountable for what they have agreed to. This does not mean that contracts always have to be long. A simple purchase order and its acceptance constitute a contract, and this is particularly effective if the order is backed up by reference to standard terms and conditions of purchase.

A contract contains terms that deal not only with price, delivery, quality and conformance to specification but also with what happens when things go wrong. It can also include a service level agreement that regulates performance on a day-to-day basis. See Chapter 5 – Supplier Management. Supplier engagement regulates how business proceeds commercially during the lifetime of the contract. It includes holding regular commercial reviews with the supplier and dealing with such issues as force majeure, breach of contract and monetary claims.

A contract comes to an end due to termination or expiry and these are carefully managed to ensure that continuity of supply is maintained, either from the same supplier (via renewal) or from a new supplier (selected using the strategic sourcing process).

Contract lifecycle management ensures that a contract is safely stored and that it can be easily retrieved and shared. It also ensures that amendments are made in a controlled manner, different versions are tracked and renewal dates are flagged well in advance. The use of a contract management system is a significant help to this process. See Chapter 9 – Systems, Tools and E-Procurement.

4.3 Contract Management at a Glance

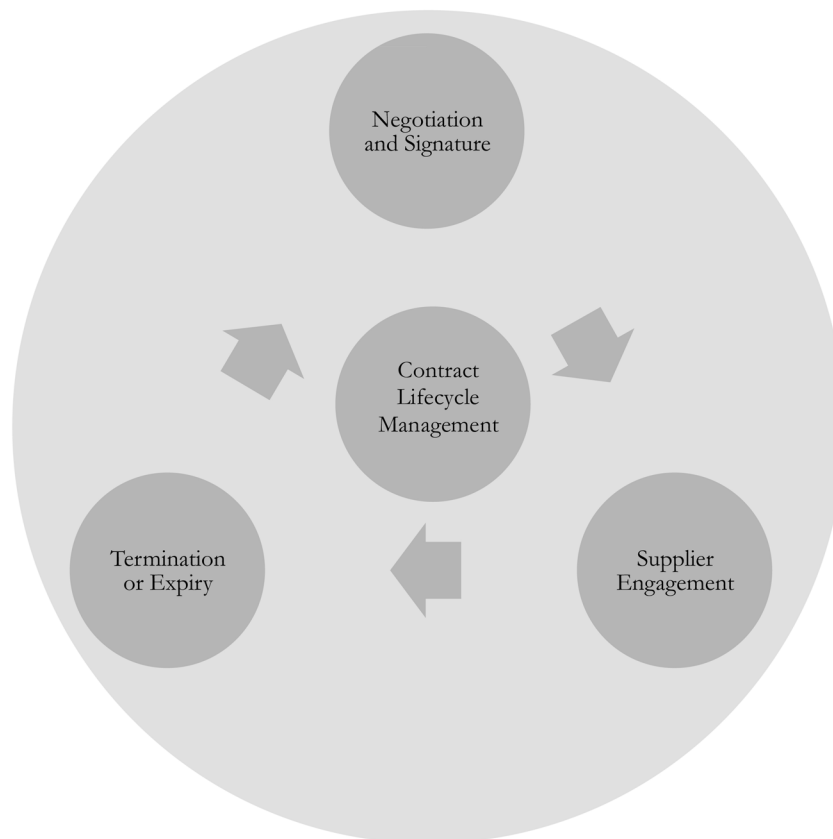


DIAGRAM 5 – Contract Management

4.4 Best Practice

Best Practice in contract management involves the following being fully checked/clarified:

- Responsibility for drawing up contracts lies with the Purchasing function. Buyers are supported by the legal function where necessary and appropriate.
- Well-written and appropriate contracts (including Purchase Orders) are in place with all suppliers.
- Contracts are regarded as valuable assets of the organisation, regulating business with the supply base in a healthy and supportive manner.
- Contracts are treated as living documents and are actively used in the commercial management of suppliers. Contractual issues, such as force-majeure and breach of contract, are effectively dealt with, should they arise.
- Care is taken to ensure that termination and expiry of contracts is handled well and that there is no loss of business continuity during these events.
- Systems and tools are in place to ensure that contracts are safely stored and can be readily retrieved, that renewal dates are flagged well in advance, and that contracts are kept up-to-date via formal amendments and version control.

5 Supplier Management

5.1 Introduction

Supplier management is the process of managing an organisation's suppliers in a structured and disciplined way. New suppliers are formally approved and then managed on an individual or group basis, depending on how important they are to the organisation. Steps are taken to control the overall number of suppliers, in order to reduce costs. Also included is the management of risk in the supply base to avoid disruption in the supply of critical goods/services.

Supplier management is a process that comes under the umbrella of category management, and is managed by the cross-functional category team.

5.2 A way of thinking about Supplier Management

One way of considering supplier management is to break it down into a number of separate activities:

In general, the higher the spend with a supplier and the higher the dependency of the organisation on a supplier, the more important the supplier is to the organisation. Therefore, it is usual to define strict spend and dependency criteria to break down the supply base into separate groups of suppliers by a process known as supplier segmentation, and then manage the suppliers in each group appropriately. The sourcing category positioning matrix is again a useful tool here. See Chapter 9 – Systems, Tools and E-Procurement – and Appendix 2.

Typical groups are:

- Strategic suppliers – a small number of suppliers that are managed intensively, often via collaborative relationships, in order to reduce costs and harvest innovation. They are treated as valuable assets of the organisation.
- Key suppliers – typically 10–100 suppliers of important goods/services. They receive less management attention than strategic suppliers but are still managed on an individual basis.
- Core suppliers – a larger number of suppliers of goods/services that are essential to the organisation. These suppliers can often be substituted and merit individual management only on an exceptional basis.
- Basic suppliers – a large number of suppliers that have low spends and can very easily be substituted. They receive almost no management attention.

New suppliers are identified via market analysis and then subject to supplier qualification, in order to assess whether they are suitable for use by the organisation. Qualification criteria depend on the types of goods/services provided and can include financial stability, assurance of supply, quality, service, cost, innovation and regulatory compliance. Audits of critical suppliers are carried out on an on-going basis to ensure continuing compliance.

An online supplier portal can be used to allow suppliers access to the organisation and to structure the qualification process. Special programmes can be run to encourage smaller suppliers and/or suppliers of a particular type.



LIGS University
based in Hawaii, USA

is currently enrolling in the
Interactive Online **BBA, MBA, MSc,**
DBA and PhD programs:

- ▶ enroll **by October 31st, 2014** and
- ▶ **save up to 11%** on the tuition!
- ▶ pay in 10 installments / 2 years
- ▶ Interactive **Online** education
- ▶ visit www.ligsuniversity.com to find out more!

Note: LIGS University is not accredited by any nationally recognized accrediting agency listed by the US Secretary of Education. More info [here](#).



All suppliers are placed in one of the groups identified by supplier segmentation, and then supplier relationship management (SRM) comes into play to manage the relationship between the organisation and the supplier. This can include the following activities:

- Regular meetings and reviews
- Relationship management across functional boundaries
- Adherence to contract terms
- Agreement of a Service Level Agreement (SLA), including defining and measuring Key Performance Indicators (KPIs)
- Problem solving and issue management
- Risk management
- Performance management
- Supplier development (performance improvement, joint cost-reduction, new product development, access to innovation etc.)
- Special projects

For strategic suppliers, meetings and reviews take place on a regular basis, and supplier development (in terms of performance improvement, cost reduction, new product development and access to innovation) is a key topic. For key suppliers, regular meetings and reviews may take place less frequently and often concentrate only on performance management by use of KPIs.

The management activity with core and basic suppliers is often concentrated on finding ways to reduce the number of suppliers by a process of supplier consolidation. This can lead both to reduced prices (due to an increase in volume for suppliers) and a lowering of the administrative costs associated with a large supply base.

Risk management is concerned with the identification and handling of risk in the supply base, in terms of threats to the supply of critical goods/services. It has become increasingly important due to tighter supply chain integration, the general reduction of stock (which acts as a buffer against supply shortages), and financial instability in the supply markets. Risks are identified on a supplier-by-supplier basis and their severity is assessed. Based on this, countermeasures are taken to reduce the risk of occurrence of adverse events, and contingency plans are drawn up to cover disruptions in supply.

Where risk is assessed to be particularly great or dependence on a supplier particularly high then proactive risk monitoring is carried out. This can involve regular reviews of a supplier's financial status and use of market intelligence to monitor risk factors, such as changes in senior management, involvement in litigation, environmental issues etc.

5.3 Supplier Management at a Glance

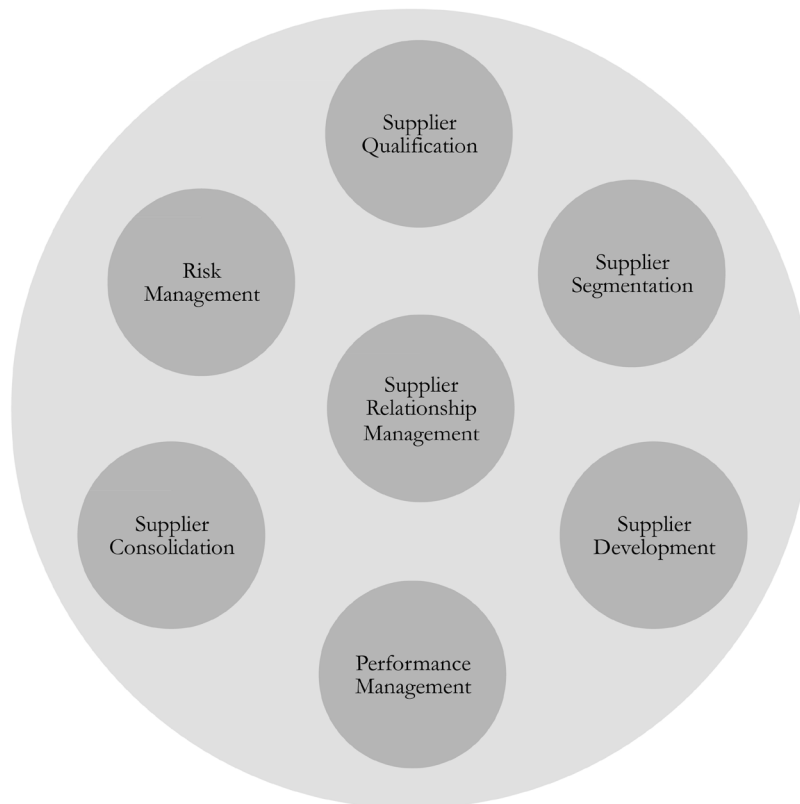


DIAGRAM 6 – Supplier Management

5.4 Best Practice

Best practice in supplier management involves the following things being fully checked/clarified:

- The supply base is segmented and, as an absolute minimum, strategic and key suppliers are identified. Management attention is concentrated particularly on the strategic suppliers.
- All suppliers are qualified for fitness to supply, and approved for inclusion in the supply base. Regular audits take place of critical suppliers to ensure compliance to quality standards etc.
- Suppliers, and particularly strategic suppliers, are regarded as valuable assets that can contribute strongly to profit, growth and innovation. They are managed carefully in order to derive maximum value from the relationship.
- Serious steps are taken to consolidate the supply base and reduce the number of suppliers, in order to drive savings and improve manageability.
- Suppliers are treated with integrity and respect: fairly, reasonably, honestly, ethically, and courteously.
- Risks are identified and managed in a systematic way, in order to ensure continuity of supply. Countermeasures are taken to minimise risk, and contingency plans are drawn up.
- Buyers are well trained and skilled in the art of supplier management. They lead the process but ensure that the business is fully involved.

6 The Procurement to Pay Process

6.1 Introduction

The Procurement to Pay Process (P2P Process) is vital to ensure that goods/services are formally requisitioned and ordered/called-off from contracts, and that orders/call-offs are correctly approved. Then once the goods/services have been delivered and invoiced, it ensures that they are paid for according to the agreed payment terms. The P2P Process oils the wheels of strategic procurement management and it is essential that it functions well.

It is often a highly automated process with support from proprietary software and solid links to the organisation's main financial systems.

The process also provides a financial audit trail for all procurement transactions.

TURN TO THE EXPERTS FOR **SUBSCRIPTION** CONSULTANCY

Subscribe is one of the leading companies in Europe when it comes to innovation and business development within subscription businesses.

We innovate new subscription business models or improve existing ones. We do business reviews of existing subscription businesses and we develop acquisition and retention strategies.

Learn more at [linkedin.com/company/subscribe](https://www.linkedin.com/company/subscribe) or contact
Managing Director Morten Suhr Hansen at mha@subscribe.dk

SUBSCR✓**BE** - to the future



6.2 A way of thinking about the Procurement to Pay Process

One way to think about the P2P process is to break it down into a number of discrete steps.

The process begins with a purchase requisition, which is a request from an internal customer to place an order for certain goods/services. Depending on the organisation's procurement policy, the requisition is dealt with in different ways. For example, a requisition for goods/services with an estimated cost of €30,000 may (according to the procurement policy) require the involvement of the purchasing function and three competitive bids, whereas one for less than €10,000 may be directly converted into a purchase order.

After the Requisition has been dealt with in the correct way, it is converted into a purchase order, which is a formal legally binding commitment to a supplier. Before the order is issued it is subject to management approval, as set out in the procurement policy.

Once goods/services have been ordered and have been safely delivered by the supplier, a delivery note is raised to confirm receipt, and this is matched to the order.

On invoice receipt, the invoice is checked against both the delivery note and the purchase order, and if all is well payment to the supplier is scheduled. Payment is made according to the payment terms previously agreed with the supplier, which are often repeated on the purchase order for clarity.

All the above activity requires active supplier database management to ensure that supplier details (including name, address, bank account and payment terms) are entered into a supplier database. This is given careful attention to ensure that supplier details are kept up-to-date and unused suppliers are deleted.

6.3 The Procurement to Pay Process at a Glance

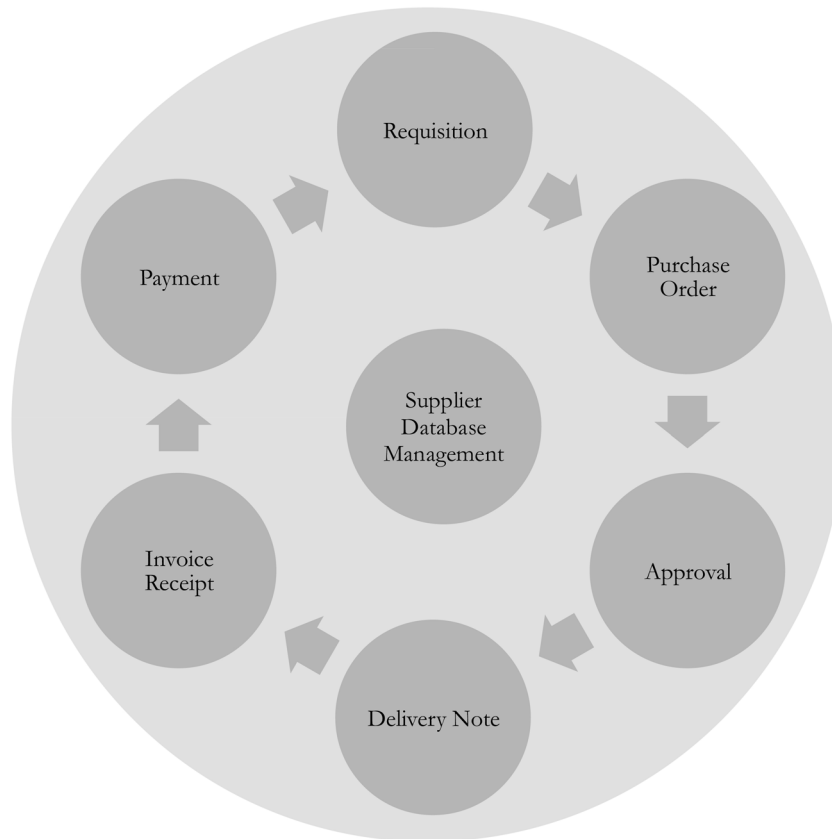


DIAGRAM 7 – The Procurement to Pay Process

6.4 Best Practice

Best Practice in the Procurement to Pay Process involves the following things being fully checked/clarified:

- An efficient, effective and easy-to-use P2P Process is implemented, with tight integration into the organisation's main financial systems.
- The various systems behind the P2P process can easily be interrogated to find out the status of orders, deliveries, invoices and payments etc. Invoices are available to be viewed in their original format through use of document scanning and other digital techniques.
- The supplier database is rigorously maintained, in order to ensure that it is up-to-date and accurate.
- Aggressive use is made of alternative order-invoice-payment processes where this can add real value. These include catalogue-buying, self-invoicing, purchasing-cards etc.
- An attitude of zero-tolerance is applied when attempts are made to bypass the P2P Process, for example by placing telephone orders.

7 Measuring Performance and Savings

7.1 Introduction

It is vital that the practice of strategic procurement management is seen to be adding measurable value to the organisation. The usual way to do this is by systematically measuring performance and in particular by counting savings.

Great care is needed in the calculation and reporting of savings. Clear calculation rules are used to ensure this, usually backed up by the involvement of the finance function to ensure consistency and fair play.

In order to get a more balanced and complete view of procurement performance, other financial and non-financial measures are also used. However, savings remains by far the most important measure and its yearly value is often used as a KPI of the organisation itself.



"I studied English for 16 years but...
...I finally learned to speak it in just six lessons"
Jane, Chinese architect

ENGLISH OUT THERE

Click to hear me talking before and after my unique course download

7.2 A way of thinking about Measuring Performance and Savings

One way to think about measuring performance and savings is to break down the measurement first into financial measures and non-financial measures, and then further under each of these headings into a number of discrete measures themselves.

The key financial measures of procurement performance are:

- Spend coverage – how much of the organisation's bought-in spend is actively under the control of the purchasing function.
- Savings – how much money has been saved.
- Compliance – how much of the spend under control has actually been bought according to procurement policy. Spend outside of policy is often called "Maverick Spend".
- Working capital reduction – this is measured in terms of either a) extension in payment terms or b) reduction in stock due to actions by suppliers.

Non-financial measures vary more from organisation to organisation but can include:

- Innovation – the contribution of suppliers to innovation that takes place anywhere in the supply chain or in finished product development.
- Supplier Integration – the inclusion of suppliers into supply-chain-integration, cost-reduction or new product development programmes.
- Speed to market – increases in the speed to market of new products due to supplier performance.

Performance calculation rules are defined, which regulate exactly how savings and other performance measures are calculated, targets are set and formal performance reporting and approval is carried out on a regular basis. The finance function is involved, in order to introduce objectivity and independence.

A saving can be made not just as a result of a price reduction, but also because of a reduction in volume, a relaxation of specification, an increase in value for same price etc. These savings are normally only counted towards the Purchasing function's targets when they arise from actions proposed by the function itself.

Measuring savings is not easy because volumes change, exchange rates move, the supplier wants a price-rise, goods/services are being bought for the first time or money saved on one thing is spent on another. All these factors can lead to situations where despite significant efforts by all concerned to reduce prices, no real money-out-of-the-door savings (as visible in the organisation's financial accounts) are achieved.

Thus a distinction needs to be made between the savings measured as procurement performance and real reductions in the expenditure of an organisation. If real reductions in expenditure are required then further action must be taken to reduce volumes and cut budgets, actions that are not within the control of the purchasing function.

Further difficulties arise in the definition of savings itself, concerning the choice of price baseline against which Savings are measured. Where goods/services have been bought before, there is a clear baseline – the price at which they were bought before the new price negotiation. However, where the goods/services have not been bought before, or the supplier has asked for a price rise that has subsequently been negotiated downwards, the baseline can be less obvious and in some sense weaker.

To get round this, two separate definitions are often used:

a) Savings are calculated as:

Number of units bought this year multiplied by (price/unit this year minus price/unit last year).

b) Cost avoidance is calculated as:

Lowest price bid as a result of competitive bidding minus final negotiated price; or number of units bought this year multiplied by (new price demanded by supplier minus final negotiated price).

It is essential that cost avoidance is counted as part of procurement performance. Depending on what goods/services they buy, some organisations make no distinction between savings and cost-avoidance and count them both as savings. Other organisations consider them, however, as two separate performance measures.

7.3 Measuring Performance and Savings at a Glance

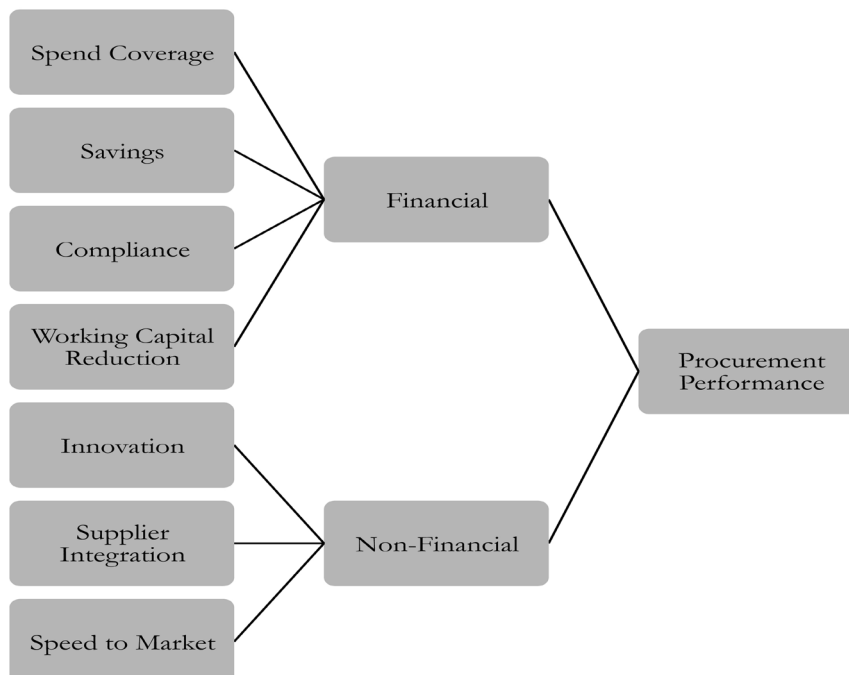
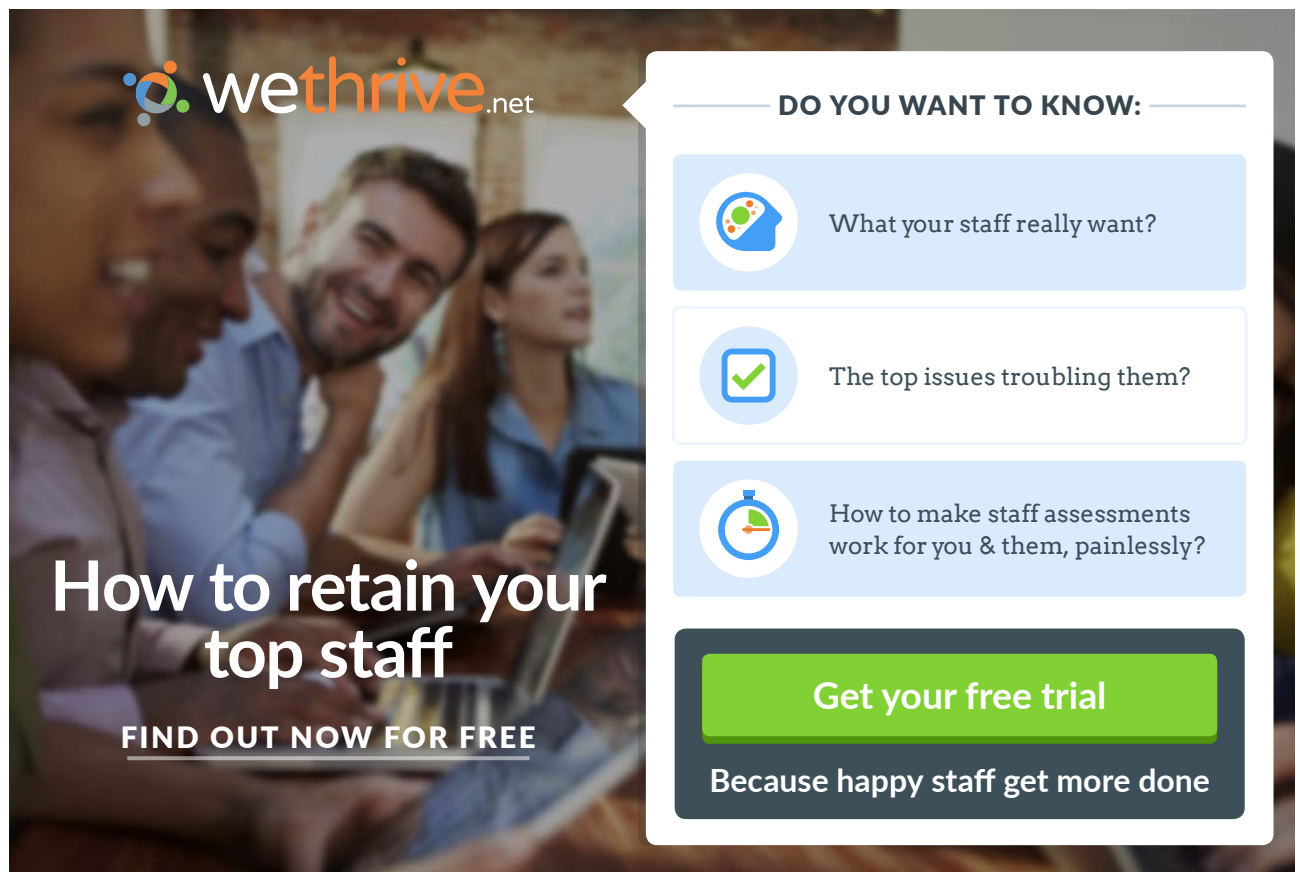


DIAGRAM 8 – Measuring Performance and Savings

7.4 Best Practice

Best practice in Measuring Performance and Savings involves the following things being fully checked/clarified:

- Procurement performance is measured and approved in a formally agreed way. It is regarded as a KPI (Key Performance Indicator) of the organisation as a whole.
- Performance targets are set as part of the organisation's budgeting process. Savings are estimated in advanced and progress is regularly tracked.
- Performance is measured not only in terms of savings but also by use of other financial and non-financial parameters. The various measures are carefully defined and are designed to incentivise behaviour that maximises the creation of real value for the organisation.
- Great care is taken to ensure that the use of the word savings is clearly understood to be a measure of procurement performance and not a measure of actual money saved.
- Where significant amounts of identifiable bottom-line savings are required, a cross-functional savings initiative is put in place to ensure that volumes are reduced and that money saved is not spent elsewhere.



wethrive.net

How to retain your top staff

FIND OUT NOW FOR FREE

DO YOU WANT TO KNOW:

- What your staff really want?
- The top issues troubling them?
- How to make staff assessments work for you & them, painlessly?

Get your free trial

Because happy staff get more done

8 Management, Organisation and Capability

8.1 Introduction

Management, organisation and capability are three separate facets of the management challenge facing strategic procurement management within an organisation. And in all but the smallest organisations there is a separate purchasing function, headed by a senior manager, whose role it is to meet this challenge.

8.2 A way of thinking about Management, Organisation and Capability

One way to consider management, organisation and capability is to break it down into a number of separate activities:

In terms of functional management, the head of the purchasing function is normally a senior manager within the organisation and has clear reporting lines. Purchasing traditionally reports into the finance function but this need not be so and depends on the organisation: in an engineering company it may make more sense for Purchasing to report into the technical function. Since procurement is a highly cross-functional service-oriented activity, the head of function needs particular skills in communication, organisational politics and business alignment.

Concerning role and reputation, it is important that the purchasing function is well respected within the organisation in terms of the quality of its staff and the value it delivers. Its purpose and function must be well understood and internal relationships with the various other business functions must be good.

A written Procurement Policy is an essential management tool. This sets out just how procurement takes place within an organisation and what the roles and responsibilities of the various stakeholders are. It lays down some rules to control purchase ordering according to what goods/services are being ordered, the anticipated spend, and when the purchasing function must get involved.

The structure and organisation of the purchasing function depends on the size and shape of the organisation itself and on what goods/services it buys. In small organisations a flexibly staffed function is adequate, whereas large multinationals require global, regional and local purchasing functions with matrixed reporting lines and a clear and effective means of collaboration. In larger organisations it is usual to have a procurement services or development section that supports the category teams.

The capability of the purchasing function depends very much on the capability of its people. Procurement is a professional discipline and the status of the Purchasing function is key to attracting good quality staff. Procurement skills can be learnt, although technical procurement usually requires some technical knowledge and/or a willingness to learn fast. Training is important, particularly in negotiation and communication skills.

Stakeholder management and business alignment are very important because the purchasing function nearly always spends another function's money. The budget-owner is normally the primary stakeholder and other stakeholders often include (depending on what is being bought) staff from the engineering, project management, logistics, legal, treasury and tax functions. Good working relationships, built on clear communication, active cooperation and trust are key to ensuring success.

8.3 Management, Organisation and Capability at a Glance

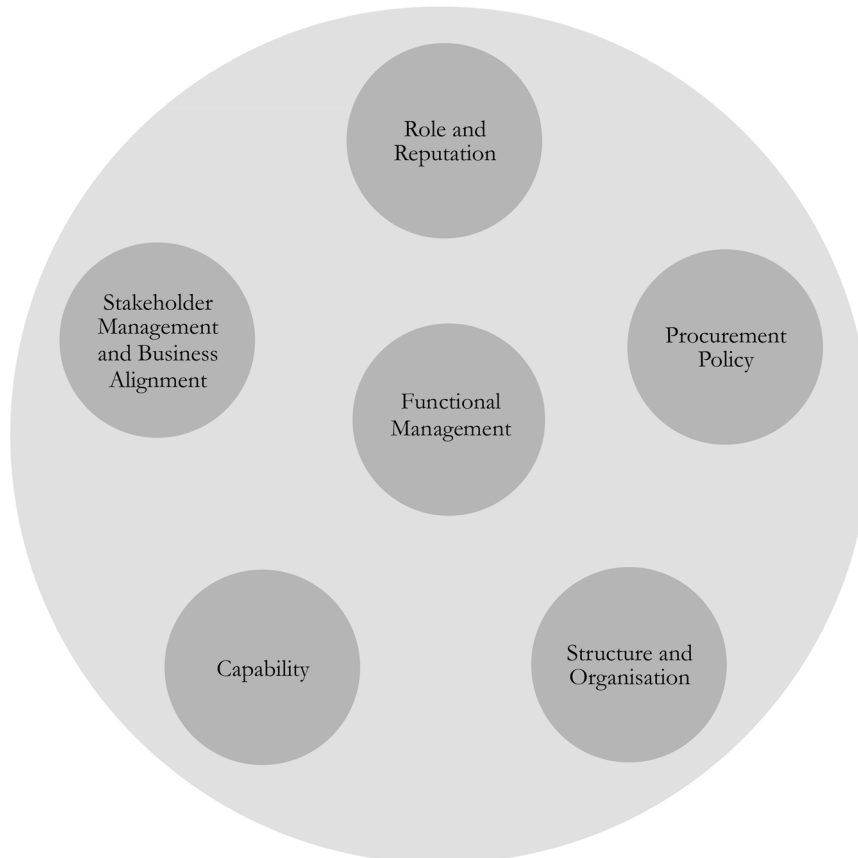


DIAGRAM 9 – Management, Organisation and Capability

8.4 Best Practice

Best Practice in Management, Organisation and Capability involves the following things being fully clarified/checked:

- The purchasing function is managed by a well-respected senior manager within the organisation, who reports in at a very senior level. The head of the function is often known as the CPO (Chief Purchasing Officer), in order to enhance status in line with the use of CFO (Chief Financial Officer) and CIO (Chief Information Officer).
- Considerable care is taken to ensure that the role of the purchasing function within the organisation is clearly defined and well understood.

- There exists a living procurement policy document, the content of which has been clearly communicated to the business.
- The reputation of the purchasing function is carefully nurtured, such that the practice of professional procurement is highly valued and the purchasing function itself is well respected. This is complemented by a strong culture of business alignment and of cross-functional collaboration at all levels within the organisation.
- The purchasing function has a well-thought-out structure and organisation, adapt'ed to the organisation's own structure and fitting for the goods/services to be procured.
- Great care is taken to ensure that talented staff are employed, and are given appropriate training and support. The procurement function is well supported so that staff can concentrate on procurement and not get side tracked into taking responsibility for logistics or other organisational issues.

 **gaiteye**[®]
Challenge the way we run

**EXPERIENCE THE POWER OF
FULL ENGAGEMENT...**

.....

**RUN FASTER.
RUN LONGER..
RUN EASIER...**

**READ MORE & PRE-ORDER TODAY
WWW.GAITEYE.COM**

9 Systems, Tools and E-Procurement

9.1 Introduction

There are many systems and tools that can be used to support the core processes of procurement. These range from simple paper methods used to categorise suppliers or to evaluate bids, through to full E-Procurement (Electronic Procurement) software suites, which almost claim to carry out strategic procurement management on their own.

9.2 A way of thinking about Systems, Tools and E-Procurement

One way to look at systems, tools and E-Procurement is to define a basic toolkit that includes the following:

- Spend Management – a means of analysing spend by type of goods/services and supplier. This requires an agreed supplier- and/or item-classification system. Implementation can range from a simple extract from the purchase ledger to proprietary software-based spend-management systems.
- Porter's Five Forces – a means of displaying and understanding the competitive nature of markets. See Appendix 2 – “Some Simple Tools to support Strategic Procurement Management.”
- Sourcing Category Positioning Matrix (Kraljic Matrix) – a means of showing how suppliers of different goods/services are positioned differently and should therefore be treated differently. See Appendix 2 – Some Simple Tools to support Strategic Procurement Management.
- RFX – a means of supporting competitive bidding by use of standardised RFI (Request for Information), RFQ (Request for Quotation) or RFP (Request for Proposal) documents. Implementation can be manual or via an e-RFX software tool.
- Bid Analysis Sheet – a simple but formal means of analysing bids. The analysis criteria are agreed before bidding takes place and a scoring system can be used to assess the different aspects of suppliers' bids. See Appendix 2 – “Some Simple Tools to support Strategic Procurement Management.”
- E-Auctions – a software tool that enables live e-auctions (electronic auctions) to be carried out.
- E-P2P – a software tool that presents the user with an easy-to-use means of handling requisitioning, ordering, delivery receipt and invoice payment. This often includes catalogue management, which enables ordering direct from internal or supplier catalogues with pre-negotiated prices.

- Contract Database – a searchable database of all contracts, which includes expiry-date tracking and version control. Implementation can range from a simple spreadsheet to a proprietary software-based contract-management system that includes collaborative contract drafting facilities.
- Savings Management – a means of estimating and reporting savings. Implementation can range from a simple spreadsheet to a proprietary software-based savings-management system that includes full planning facilities for savings projects.

There are a number of proprietary systems that carry out most of the above functions. Care is necessary in their implementation to ensure that enough time and resource is allocated to configuration, roll-out and training. Key to success in widespread adoption is simplicity, an easy user-interface and plenty of expert support.

9.3 Systems, Tools and E-Procurement at a Glance

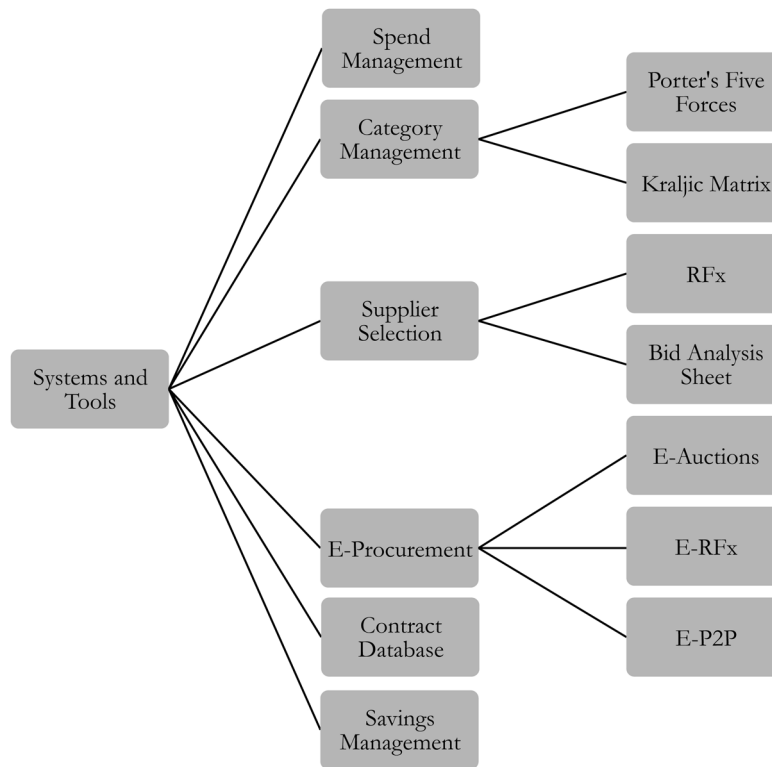


DIAGRAM 10 – Systems, Tools and E-Procurement

9.4 Best Practice

Organisations carrying out best practice in the field of systems, tools and e-procurement fully check/clarify the following things:

- A carefully chosen set of systems and tools is used effectively to support Procurement activities. Use of these systems and tools carries little operational overhead and adds real value to strategic procurement management.
- E-Procurement is aggressively carried out where appropriate and where it can add real value.
- Purchasing staff are well trained in the use of systems and tools. Day-to-day support is readily available, particularly for the more complex software systems.
- Access to additional internal or external expertise is available where more complex e-auctions or e-RFx events are run.



This e-book
is made with
SetaPDF

SETASIGN

PDF components for **PHP** developers

www.setasign.com

10 Successful Communication in Strategic Procurement Management

10.1 Introduction

Good, clear, successful communication is vital to success in strategic procurement management for many reasons: the role and responsibilities of the purchasing function need to be marketed, stakeholders need to be engaged, specifications need to be written, suppliers need to be managed and negotiations need to be conducted.

In all these situations careful attention to the general principles of successful communication will significantly improve performance. A skilled communicator will know how to:

- Define the purpose of their communication
- Understand their audience
- Structure their message
- Choose the best method of delivery
- Ask pertinent questions
- Listen
- Hold discussions
- Summarise

Communication is a subject in its own right and the general principles are covered in Appendix 1 – “Successful Communication.” This chapter explains how these principles can be applied to help ensure success in strategic procurement management.

10.2 A way of thinking about Successful Communication in Strategic Procurement Management

One way to think about successful communication in strategic procurement management is to consider when clear communication is required.

Procurement as a separate discipline and the role of the purchasing function itself are not well understood within some organisations, and need careful marketing. Budget-holders need to be convinced that professional procurement can really add value in ensuring that goods/services are fit for purpose, of the right quality, are bought at the right price and are delivered on time.

Good internal communication within the purchasing function is vital for its success, particularly in large multinational organisations where the purchasing function crosses country and regional boundaries. Likewise, clear stakeholder communication with the budget-holders, the finance and legal functions, and with the organisation's general management is essential.

Gathering requirements requires careful communication with the budget-holder and with subject-matter experts to ensure that a complete description is obtained. The same applies to documenting the requirements in an easy-to-understand Specification, which, while stating clearly what is required, also allows suppliers the flexibility to create options and propose alternatives.

Good communication during supplier selection is essential. The use of clear RFX documentation, coupled with the briefing of potential suppliers, leads to the receipt of better bids, and effective cross-functional communication in the analysis of these bids ensures that the right decisions are made.

Commercial negotiation is a skill that relies very heavily on successful communication, and excellence in this field builds a firm foundation for maximizing the value to be obtained from the supply base.



Discover the truth at www.deloitte.ca/careers

Deloitte.

© Deloitte & Touche LLP and affiliated entities.



Click on the ad to read more

Dealing with suppliers throughout the contract management and supplier management processes requires clear initial communication in terms of drawing up contracts and SLAs, and in defining the right KPIs. Good communication is then vital to success in on-going relationship management, performance management, problem solving, and joint value creation.

10.3 Successful Communication in Strategic Procurement Management at a Glance

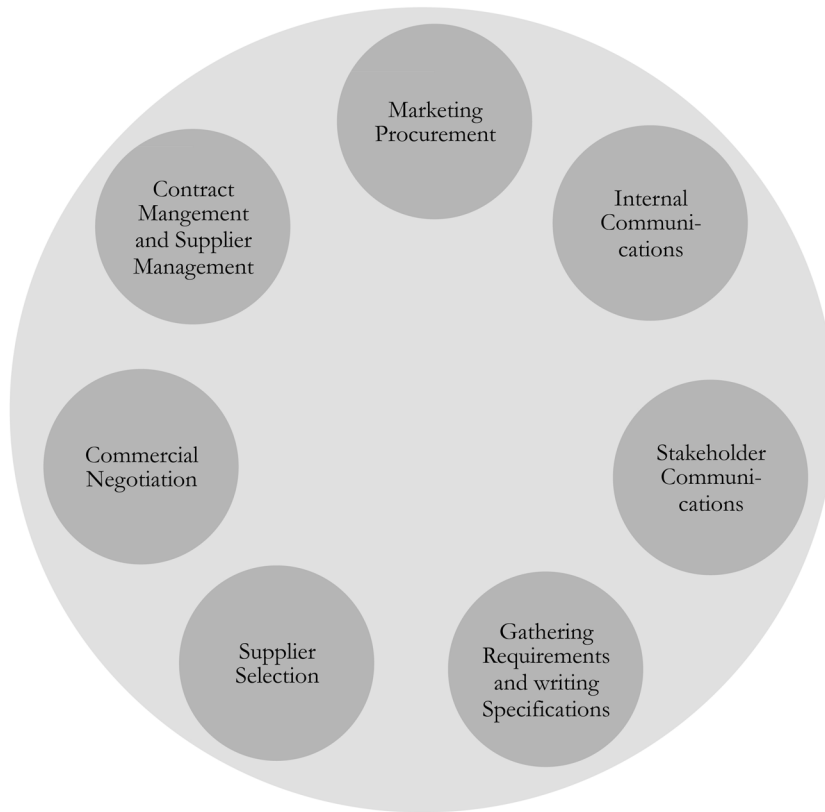


Diagram 11 – Successful Communication in Strategic Procurement Management

10.4 Best Practice

Best practice in successful communication in strategic procurement management involves the following being fully checked/clarified:

- Excellence in communication is taken seriously and every effort is taken to improve communication skills within the purchasing function and the business as a whole. Training is provided where appropriate.
- The areas in the field of strategic procurement management where good communication will make a significant difference to performance are well known.
- The principles of successful communication are consciously applied to all communications, whether internal or external.
- In critical or sensitive situations, expert help is sort from the internal communications function or from third-party experts. For example, in handling a product recall or when journalists are involved.
- The mantra, “Preparation, Preparation, Preparation,” is taken seriously for every communication.

© 2013 Accenture. All rights reserved.

be > your degree

Bring your talent and passion to a global organization at the forefront of business, technology and innovation. Discover how great you can be.

Visit accenture.com/bookboon

Be greater than.
consulting | technology | outsourcing

accenture
High performance. Delivered.

11 Sustainable Procurement

11.1 Introduction

Sustainable procurement deals with the management of environmental, social and economic impacts throughout the lifecycles of goods/services, and with the encouragement of good governance practices. It is increasingly recognised as a key component of corporate social responsibility, and makes good business sense, as well as being the right moral and ethical thing to do.

A number of different approaches to sustainable procurement have been taken, including that by the UN (based on the UN Global Compact) and that by the BSI (who has published a British Standard, BS 8903, on the subject). However, they all have at their heart the view that an organisation should meet its needs for goods/service in a way that generates value not only for the organisation, but also for society and for the economy, while minimising damage to the environment.

Economy, Society and Environment are often known as the three pillars of sustainable Procurement, and meeting the demands of each can require a very delicate balancing act.

11.2 A way of thinking about Sustainable Procurement

Sustainable Procurement can be thought of as being made up of the following elements:

- Ethics – covering such issues as business integrity, bribery, animal welfare, privacy etc.
- Labour – covering forced labour, child labour, discrimination, fair treatment etc.
- Health and Safety – covering worker protection, process safety, hazard containment etc.
- Environment – covering waste and emissions, spills and releases etc.
- Economic – covering fair competition, support for small/medium-size enterprises, business viability etc.
- Governance – covering legal compliance, training and competency, risk management, commitment to sustainable procurement and accountability for actions etc.

A Code of Conduct for suppliers is drawn up, setting out what behaviours are expected under the above headings. During supplier qualification and at regular intervals afterwards, suppliers are audited for compliance, and problems are dealt with through a formal Issue-Management process. The audit is often extended down the supply chain to the suppliers' subcontractors or to the suppliers' raw material suppliers. Depending on the type and severity of the issue, remedial action is agreed, which can include disqualification until the issue is rectified, working together with the supplier to put things right or working together on an industry basis to improve standards over a period of time.

The scope of sustainable procurement is wide and the number of suppliers is large. In practice, therefore, steps are often taken to narrow the field of concern by carrying out risk assessments based on value of contract, country of supply and type of goods/services concerned. As a result of this, attention is then focused on certain suppliers only, and maybe then only on a subset of the whole field of sustainable procurement. Child-labour, animal-welfare, anti-bribery and health/safety are sometimes singled out for special attention.

11.3 Sustainable Procurement at a Glance

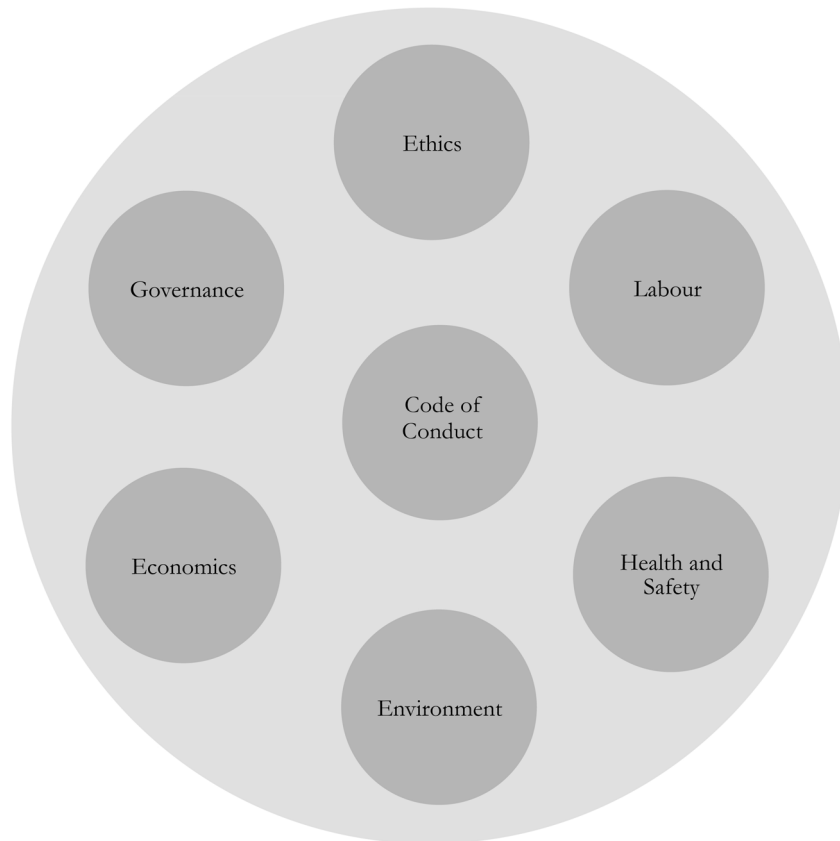
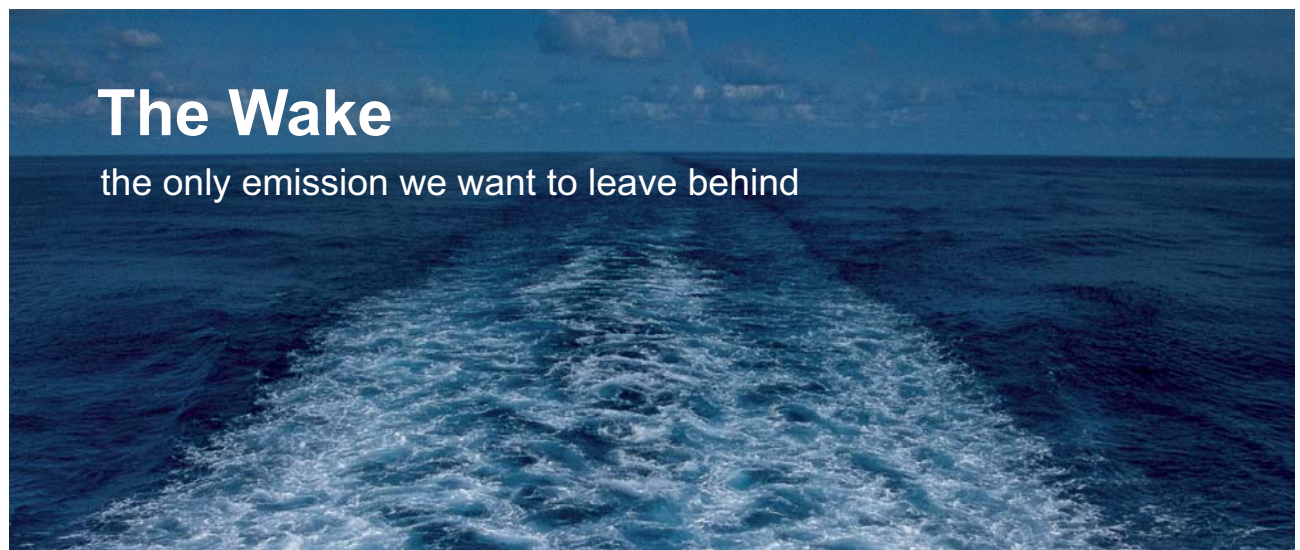


Diagram 12 – Sustainable Procurement

11.4 Best Practice

Best practice in Sustainable Procurement includes:

- Sustainable procurement forms an integral part of an organisation's corporate social responsibility programme and is viewed as a serious business commitment.
- All Purchasing staff being trained in the principles of sustainable procurement and expert support is available where necessary.
- A supplier Code of Conduct is drawn up. This is firmly based on the principles of sustainable procurement as set out by a recognised authority, such as the UN or BSI, and is used as the basis for assessing a supplier's commitment to sustainable procurement.
- During supplier qualification and then at regular intervals thereafter, a risk assessment is carried out to identify high-risk suppliers. Such suppliers are audited to ensure compliance to the supplier Code of Conduct. Audits are carried out by specially trained staff, who provide a service to the category teams.
- Remedial action is always taken to address non-compliance issues; where appropriate, joint action is taken with the supplier or with the industry to solve long-term problems.
- Care is taken in the application of sustainable procurement to balance the needs of the three pillars of economy, society and environment.




The Wake

the only emission we want to leave behind

[Low-speed Engines](#) [Medium-speed Engines](#) [Turbochargers](#) [Propellers](#) [Propulsion Packages](#) [PrimeServ](#)

The design of eco-friendly marine power and propulsion solutions is crucial for MAN Diesel & Turbo. Power competencies are offered with the world's largest engine programme – having outputs spanning from 450 to 87,220 kW per engine. Get up front!
Find out more at www.mandieselturbo.com

Engineering the Future – since 1758.
MAN Diesel & Turbo



Appendix 1 – Successful Communication

A1.1 Introduction

The greater the effort that you put into clear communication with colleagues, suppliers and (internal) customers, the closer the relationship you will build with them, the more trust they will have in you and so the more likely they are to respond to you in a positive way.

Every communication has a purpose or objective, and is aimed at a particular audience. Communication, however, is not a one-way process and skilled communicators will be able to:

- Define their purpose
- Understand their audience
- Structure their message
- Choose the best method of delivery
- Ask pertinent questions
- Listen
- Lead discussions
- Summarise

Rigorously applying these general principles of successful communication will significantly improve performance.

A1.2 Purpose

It is important that the purpose of your communication is clear to yourself before you begin to communicate to others. Most communication can be allocated to one of eight generic purpose categories as follows:

- Inform and give advice
- Convince a person or group of people to change
- Sell something or a new idea
- Help understand
- Stimulate discussion/be controversial
- Entertain
- Share an interest
- Motivate

By considering these categories you can decide which one your message falls into, and then add the subject you need to cover. For example:

“To convince the IT department to work with the purchasing function for all their projects involving third-party spend”

“To stimulate discussion on the different approaches taken by potential suppliers of the new marketing campaign”

“To motivate colleagues to change to a career in procurement”

Any of these would make a good start for a working title for your message, and will help to keep you on track.

A1.3 Knowing your audience

You need to know the audience, so that you can communicate in terms that they will understand and buy into. The more you know about your audience the better, and questions you should try and find the answers to are:

- Are they a captive audience or is attendance optional? Will you have to lure them?
- How much do they know about the subject? How much will you have to explain and how much knowledge can you assume?
- What is their position in the organisation? What is the limit of their influence or understanding?
- How many will there be? Which format will suit your size of audience?
- Will you be talking/writing in their native tongue? How much care should you take to avoid long and complicated explanations?

A1.4 Structuring your Message

Whether you are capturing requirements, writing a specification, giving a presentation or drawing up a contract, it is important to structure your thoughts so that your target audience easily understands them.

Sorting out in your own mind what you want to get across is usually what takes the most time. Limit yourself to ideally three key points that are most important to you and that the audience needs to understand. Then extract the right information from all that you know and could share that supports these three key points.

Once you have divided what you are working on into three (or at most four main themes), you should then create further similar sub-divisions within these themes until you have captured everything you want to have in your message, but in a structured way. For example:

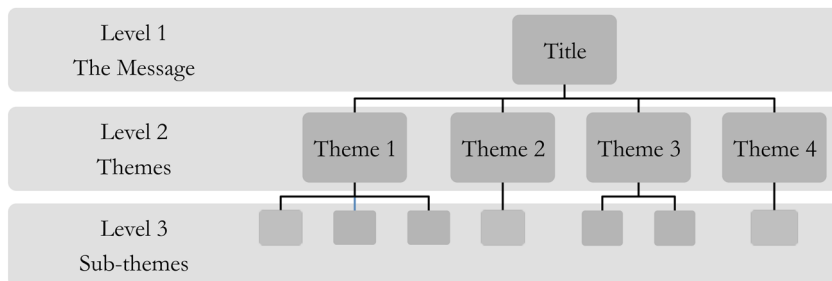


DIAGRAM 13 – Dividing up your message

A1.5 Delivery

Once you have clearly structured your message, you can choose the best method of delivering it. This could be via a newsletter, a telephone call, an email, a formal presentation, a legal document, a specification or a negotiation etc. You should think of both what format will best serve your purpose and what help you can give your audience.

SMS from your computer


...Sync'd with your Android phone & number

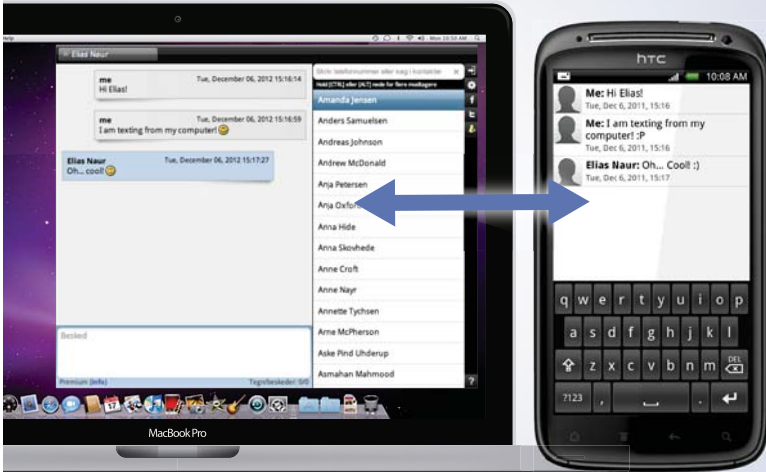
FREE
30 days trial!

Go to

BrowserTexting.com

and start texting from your computer!





 [Click on the ad to read more](#)

The closer the relationship you build with your audience the more trust they will have in you, and so the more likely they are to respond to you positively. The following diagram shows the importance of presenting your facts, your personal attributes and of appealing to people's emotions:

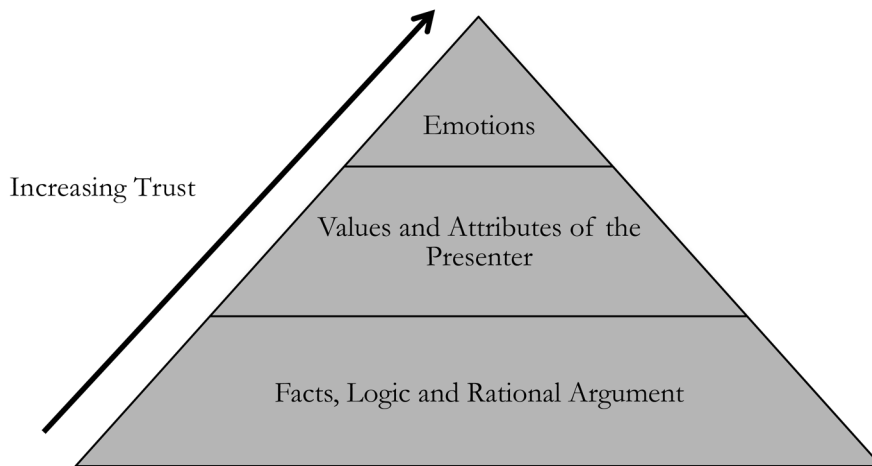


DIAGRAM 14 – Building trust to get your message across

You should be prepared to present your information in a variety of ways, as different people grasp things differently. For example, some people find graphs difficult to interpret, others have difficulty with spreadsheets and others love both. If you find yourself getting frustrated at someone's apparent inability to grasp your point, you should consider presenting it in a different manner.

There are a variety of tools that can be used to help win your audience over, including:

Audio:

- Your voice – speak clearly
- Pace – give your audience time to take in the message

Visual:

- Flip charts
- Hand-outs (if there are people negotiating in a foreign language they can be helped by hand-outs before the meeting)
- Flowcharts
- Mind maps
- Power Point presentations
- Make sure your body language matches your message
- Photographs
- Templates and proformas
- Spreadsheets

Tactile:

- Models or samples of the product
- Mock ups
- Plant visits

Finally, you should always remember that you know more about the message than your listeners; otherwise they wouldn't need to listen to you. So, depending on the medium used to deliver the message, use repetition and make sure your audience has time to take things in. You should refer to the main points of your message three times in your communication; firstly in the introduction, secondly in the main explanation and lastly in the summary.

A1.6 Listening

Listening in silence is a powerful tool, and here are some pointers to help you do this well:

- Listen actively – don't just wait for others to finish speaking to get your counter-point in, but use empathy while the other person is talking, and try to fully understand their point of view.
- If a question occurs to you – jot it down and ask at the end.
- Show you are listening – simple nodding might work.
- Be relaxed – being stiff and rigid in posture can send the wrong message to the other party, that you are not being open-minded and not really giving them your attention.
- It is fine to take notes – but do not scribble and write while looking down the entire time the other person is speaking.
- Have your phone and your emails switched off.

A1.7 Asking Questions

Don't be afraid to ask questions, and keep going until you understand the answers and get the information you need:

- Ask detailed questions to achieve real understanding. For example, "How exactly did you arrive at these prices?" Ask for complete breakdowns, especially if you feel you are being overcharged.
- Ask "if-then" questions. For example, "If we accepted a later delivery date, then could you come down in price?"
- Ask the other party what their concerns are.
- Ask yourself if what you are doing is in the best interests of your organisation.

A1.8 Leading Discussions

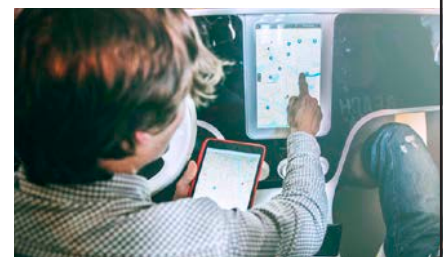
You should remain in control of discussions, using questions and answers to seek understanding:

- Remember that for some people simply being a part of the process is equally important as the issues under discussion. Everyone wants to be able to speak and to know that they are being heard. Be prepared to ask and answer questions to clarify the situation.
- Open ended questions, such as, “What would be the best way we could help you?” are often the best way to get more information, make sure you understand your supplier, clarify the issues, and deflect attacks.
- Use “I” or “We” statements, such as, “We feel frustrated when you fail to deliver on time because we then have to slow down our production and pay staff to stay later,” works much better than saying something like, “You are lazy and never meet deadlines.”
- Summarise and reflect by using such phrases as, “What it sounds like you are saying is...” and, “Am I correct in thinking that...?”

**YOUR WORK AT TOMTOM WILL
BE TOUCHED BY MILLIONS.
AROUND THE WORLD. EVERYDAY.**

Join us now on www.TomTom.jobs

follow us on **LinkedIn**



#ACHIEVEMORE

TOMTOM 



A1.9 Summarising

Playing back a summary of what has been discussed is an excellent means of checking that understanding has been reached:

- Share your conclusions and ask the other party to challenge them.
- Speak on your own behalf, not on behalf of others.
- Do not assume what others feel or think; ask them for their opinion.
- Ask your supplier for their conclusions and challenge them.

Now you should be able to understand the other party's point of view and therefore be able to identify areas of agreement and areas where work needs to be done. At this point, do not waffle on endlessly about the wonders of your project. Instead you should:

- Capture quickly what you can all agree on, and check that all parties agree with your list.
- Next, agree the points that need discussing.
- Finally, agree a timetable for discussing these points.

A1.10 Tips for persuading the Budget-Holders

Budget-Holders may be hostile to the intervention of the Purchasing function for a variety of reasons, especially if they are happy with their existing supplier, who doesn't ask them awkward questions and "just gives them what they want" – although in truth this is often what the supplier wants to sell for a given profit. Your task is to gain their trust and show them the benefits of applying the discipline of professional Procurement. You may be taking them out of their comfort zone for any or all of the following reasons:

- They are very focused on their own jobs.
- They may not see writing requirements as part of their job.
- They may not be able to visualise the solution because they are too close to the problem or simply cannot see it.
- They may not be the best at explaining issues.
- They don't know which other suppliers are available.
- They may not want to commit to specific requirements for fear they will be held responsible for them later.
- They may not be the best person in the function to talk to, as dealing with the Purchasing function can be seen as a low priority job.

It is helpful to walk in their shoes a little, in order to understand the problems they have, and then structure your approach to overcome a variety of hurdles. You need to show the budget-holder that working with the Purchasing function and using the various Procurement processes delivers real value. Your success will be judged on how well your efforts are viewed in terms of price, performance, and reliability of supply.

A1.11 Tips for carrying out Commercial Negotiations

Key to success in commercial negotiation is thorough preparation. You should know what you want to achieve and have this structured in such a way that you can easily define priorities, reassess options etc. during the negotiation itself. You should be very clear about the purpose of the negotiation and have found out as much as possible about the other party – your audience. During the negotiation you should put into practice all the general principles of successful communication:

- Structure the message in your opening position, and deliver it carefully.
- Listen to the opening position of the other party and seek understanding by use of careful questioning.
- Discuss the differing positions and summarise to understand where common ground already exists and where agreement still has to be reached.
- Proceed to agreement by trading concessions using “if-then” questions.
- Listen carefully to discover the other party’s BATNA (Best Alternative to a Negotiated Agreement) and use this to your advantage.
- Structure the message in your best and final offer, and deliver it carefully.
- Defend your own best and final offer and challenge the best and final offer of the other party.
- Close the negotiation, being careful to summarise the agreement reached.
- Write down what has been agreed in a concise, clear and unambiguous fashion, in order to avoid future misunderstandings.

The style of communication used in a negotiation is influenced by the desired supplier relationship. For example, it may be your job as a buyer to play the “Bad Guy”, so that the working relationship between supplier and your internal customer, the budget-holder, remains on a good footing. Being the “Bad Guy” means being the person who asks the awkward questions and pushes hard on prices and terms. You should, however, always remain in control, be courteous and show understanding for the concerns of all parties involved.

Appendix 2 – Some simple Tools to support Strategic Procurement Management

A2.1 Bid Analysis Checklist

Bid Analysis Checklist		Supplier 1	
Very Important: 3, Important: 2, Necessary: 1		Good: 3, Acceptable: 2, Not Acceptable: 1	
Section	Imp.	Score	Comments
Supplier Qualification			
Name			
Location			
Turnover			
Quality Audit			
Similar Projects			
References			
Compliance to Specification			
Section 1			
Section 2			
Section 3			
Compliance to commercial and contractual Terms			
Delivery Date			
Risks and Constraints			
Other Factors			
Pricing			

Diagram 15 – Bid Analysis Checklist

A2.2 Porter’s Five Forces

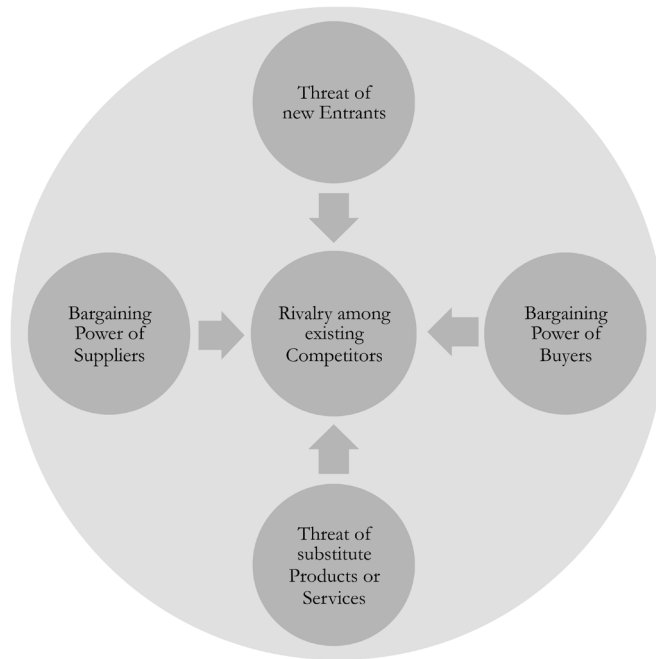


Diagram 16 – Porter’s Five Forces

The diagram shows the five different forces acting in the supply market. It is useful to consider each in turn when assessing the market for particular goods/services.

Brain power



By 2020, wind could provide one-tenth of our planet's electricity needs. Already today, SKF's innovative know-how is crucial to running a large proportion of the world's wind turbines.

Up to 25 % of the generating costs relate to maintenance. These can be reduced dramatically thanks to our systems for on-line condition monitoring and automatic lubrication. We help make it more economical to create cleaner, cheaper energy out of thin air.

By sharing our experience, expertise, and creativity, industries can boost performance beyond expectations. Therefore we need the best employees who can meet this challenge!

The Power of Knowledge Engineering

Plug into The Power of Knowledge Engineering.
Visit us at www.skf.com/knowledge





A2.3 The Sourcing Category Positioning Matrix (Kraljic Matrix)

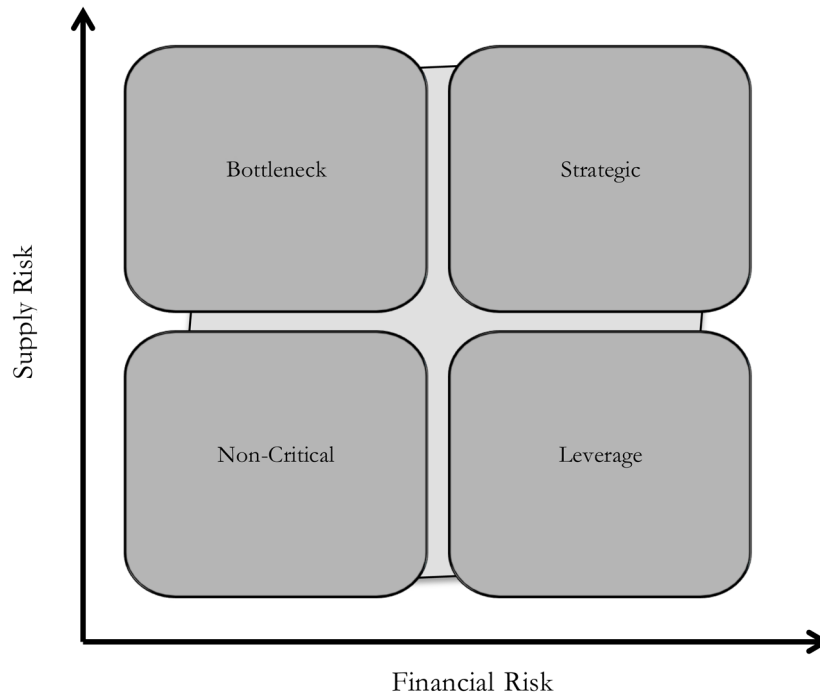


Diagram 17 – The Sourcing Category Positioning Matrix

The diagram divides each sourcing category into four segments, depending on the financial risk (usually measured by spend) and the supply risk (usually measured by the scarcity of suppliers in the market or the dependency of the organisation on the suppliers). A category with a high-spend, and where there are few suppliers capable of meeting requirements, would yield strategic suppliers, for example. Sourcing strategies for each segment will be different.

Appendix 3 – Further Reading and Resources

Negotiating Commercial Contracts, by David L Sheridan
McGraw-Hill Book Company (UK) Ltd., 1991
ISBN: 0-07-707348-7

Purchasing Performance, by Derek Roylance
Gower Publishing Ltd., 2006
ISBN: 0-556-08678-6

Category Management in Purchasing: A Strategic Approach to Maximize Business Profitability,
by Jonathan O'Brien
Kogan Page, 2nd edition, 3 July 2012
ISBN-10: 074946498-4
ISBN-13: 978-074946498-1

The Sustainable Procurement Guide – Procuring Sustainably Using BS 8903, by Cathy Berry
BSI British Standards Institution, 10 Feb 2011
ISBN-10: 058069-861-0
ISBN-13: 978-058069861-3

Supply Chain Sustainability – A Practical Guide for Continuous Improvement
UN Global Compact Office, 2010

CIPS (Chartered Institute of Purchasing and Supply)

www.CIPS.org

CIPS is a membership organisation, but lots of information is available to non-members under the headings: Knowledge and Bookshop.

Aberdeen Group

www.Aberdeen.com

The Aberdeen Group is a research organisation with interests across a broad spectrum of business areas. Their Global Supply Management practice contains useful information about Procurement.

About the Authors

Steve Mallaband is an experienced procurement professional. Following a long and successful career as an international procurement manager he founded his own consultancy dedicated to building excellence in procurement in the business world. As a consultant he has lectured, provided training, written about Procurement and provided hands-on buying expertise to a number of international clients.

Ros Howard is a highly skilled communications coach who believes that the art of communication is fundamental to excellence in business practice. Following a successful industrial career, she has dedicated herself to working with native and non-native English speakers to improve their written and oral communication skills.



> Apply now

REDEFINE YOUR FUTURE
AXA GLOBAL GRADUATE PROGRAM 2015

redefining / standards 

agence.cdg. © Photonistop

