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Introduction
This material is for your benefit. This (and other parts of the “Secrets of Procurement Success” course) is provided to help your development as a Procurement Practitioner. This document provides just one step on your journey ... you need to work through the full 52 week course to get all of the benefits.

Of course every member on the course will have different ways of approaching the material but here are some suggestions for getting the most from it. Remember, you don’t have to use them all! – pick and choose from the ideas and give the ones you value a go.

1. Print the document out – that way you can keep it close to hand as a handy reference as you put the ideas into practice.

2. Read through the document quickly to get a quick overview and then write down the key learning points you have identified – then check back through the material to test your understanding.

3. Share the learning with a couple of other people – teaching someone else is the best way to learn the lessons yourself.

4. Put the learning into practice – doing this as soon as possible after reading will help to embed the learning points into your daily ways of working and also show you what you need to do to tailor it for your own organisation.

5. Don’t expect success first time – this material has been written in such a way that everyone who reads it can take away some learning but in its raw state may need to be adapted for your own circumstances. If it goes a little wrong, be kind to yourself – change has its ups and downs!

6. Keep it simple – don’t over-complicate it. Discover what works best for you and then don’t look too deeply after that.

7. Keep a note as to the changes that the learning points make. Stories of the difference you have made in your own work and that of others is a great way of marketing yourself and procurement to others.

8. Don’t try to change everything at once – every organisation and its people can only cope with a certain amount of change in a given period of time. Pace the changes you want to make after your learning and build on successful change that you have already made (don’t forget to use the stories you have gathered!).

9. Take a time-out now and then to acknowledge the differences you have made in your own performance and skills – give yourself a pat on the back for having a go at this!

Now, on to this week’s learning!
What is a Sourcing Strategy?

A sourcing strategy is the documentation of how you propose to go to market to procure a defined category of spend.

The steps in a strategic sourcing process are:

1. Defining the category of spend for your strategy and agreeing the requirements of the user or budget holder (what do we need to buy?)
2. Assessing your current spend (what is bought where?)
3. Assessing the supply market (who offers what?)
4. Analysing the total cost (how much does it cost to provide those goods or services?)
5. Identifying suitable suppliers
6. Developing a strategy (where to buy what taking into consideration the demand and supply situation and at the same time optimising risk and costs)
7. Managing a tendering process and/or negotiating with suppliers
8. Implementing the new supply arrangements
9. Tracking results and benefits
10. Defining the trigger events that will re-start the sourcing process which means sourcing strategies are a continuous cycle.

The material in this part of “Procurement Secrets of Success” covers the first step in the sourcing strategy process – “what do we need to buy?”

Setting the scope of your sourcing strategy

The scope of your sourcing strategy determines what you can and can’t consider when creating your sourcing strategy.

The scope (along with the business requirements we cover in the next section) is probably the most important part of what you do in preparing a sourcing strategy.

Get this wrong and the possibility of achieving a breakthrough result (one which delivers cost reductions of 15%, 20%, 30% or even more and one which delivers improved service quality and innovation) will be greatly reduced.
The starting point is to decide how to define the category of what you are sourcing.

Here is an example of what I mean ...

Suppose you are going to market for a cleaning contract to service a number of offices. You will get a price which may, or may not, be better than the one you are currently paying.

If you add to the scope other facilities related services such as gardening, security or maintenance then you are increasing the value of the contract and so your leverage in the marketplace ... but this may have to be balanced by the fact that you may be potentially reducing the number of capable suppliers.

But how about going further?

You may decide that you want to outsource the whole of your property management – or even sell and lease back your property portfolio. This will dramatically increase the value of the contract and take you into a different league of potential cost savings but will also increase the complexity of the procurement and the range and number of stakeholders who need to be involved, adding significant time that is needed to arrive at a solution that is acceptable to everyone.

Even if you decide that this is the scope that you want, there may be another alternative that adds even more value.

How about selling off your property portfolio and buying in a service in which the supplier provides a defined office space per person together with everything that person needs to perform their job – heating, lighting, furniture, telephone, computer and so on. All at a cost per person but with the requirement that you may want to flex this up or down over time depending on your business needs. The onus is on the supplier to sell surplus capacity in the office building.

This changes a fixed cost to a variable cost so that your costs are more closely aligned with your needs. Eliminating the waste that comes with having excess office space can yield dramatic results. As well as potentially reducing all of the associated costs such as furniture if the supplier can bundle your requirements with those of other clients and go to market with a bigger volume than you can on your own.

Other questions you can ask in order to define the scope of the strategy include:-
• Are there any geographical boundaries that need to be considered? This may be the result of supply market capabilities (for example, the technology you need is not available in certain parts of the world) or because of your sustainable procurement strategy (for example, not to buy from areas that have a reputation for employing child labour)

• What time period should the strategy cover? For example, if the supplier will need to make an investment in equipment in order to fulfil the contract, the time period will need to be long enough for them to recover that investment cost and still achieve your price target

• Are there any organisational boundaries that you need to consider? For example, part of the scope that you are considering may already be covered by a collaborative agreement with other organisations and you are contractually bound to honour this.

The output from this process of defining the scope should be a simple statement of no more than one or two sentences.

Here are some examples:-

• All residential care homes in the county

• IT maintenance that includes all laptops, printers and multi-functional devices

• All grades of boron, carbon and high strength steels for manufacturing plants in Europe

What this cleaning contract example shows is that by considering the capability that you are sourcing instead of the narrow product or service definition, you can generate options that substantially increase the value of the category.

In the example, we did this by thinking about the capability as being the management of the working environment.

This led us from a very narrowly defined service (cleaning) to produce options that include outsourcing the management of your property portfolio. The result is more options for creating a breakthrough in your cost reduction plans.

In general, capability is the ability of a supplier to meet your specific business requirements. Typical capabilities include:-

• Specialist skills

• World class processes
• Qualifications from regulatory bodies (e.g. ISO)
• Leading-edge software
• Specific capital equipment
• Unique or dominant access to rare resources (including human skills)

Here are some Top Tips:-

− Do identify all your potential stakeholders (i.e. those with an interest in what you are sourcing) and make sure that you have a plan for engaging with them

− Don’t fall into the trap of just sourcing what has been sourced before when the contract expires

− Do be creative and look at related items to see if you can create a larger category to source

− Don’t limit yourself to the goods and services that you buy – consider the capabilities that are needed and whether there is commonality with other categories

− Do engage with the supply market before you make a final decision on the scope – suppliers may have valuable insights into what can be achieved

− Do summarise the scope of your sourcing strategy into one or two clear sentences so that you can share it with your stakeholders and get agreement

Defining your business requirements

The Business Requirements Definition (or BRD) sets out what the sourcing strategy needs to deliver if all stakeholders are to be satisfied.

It is a structured description of what you need to source from supply markets and covers the full range of stakeholder needs.

One model for identifying business requirements is called the RAQSCI model.

This model takes six themes of user requirements and ranks them in a specific order.
1. The first theme is called regulatory and covers any legal requirements or requirements of regulatory bodies. For example, in the public sector EU Directives dictate the procurement process and what you can and can’t do for specific types of expenditure.

2. Next in the hierarchy is supply. This covers the continuing availability of services when required and is based on factors such as capacity, financial stability and risk.

3. Third is quality – the consistency, repeatability and fitness for purpose of the goods and services that you procure.

4. Next is any service requirements – factors associated with the way services are supplied – for example flexibility, availability or support such as help desks.

5. It is only after the other factors have been met that you should consider cost in all its aspects of both cost and price e.g. target costs, total cost of ownership, benchmarked prices, continuous improvement.

6. Finally, you should look for innovation particularly in terms of the means of improving the customers’ experience. Examples include the use of emerging technology, customer of first choice and capability improvement.

This order is crucial as it focuses attention on potential tradeoffs that may have to be made.

| Defining your business requirements is a team game in that you must involve the appropriate stakeholders in your organisation. This will mean that the full set of needs is taken into account and an agreement reached on any trade off that is needed between conflicting requirements. |

| These requirements are critical to a successful sourcing outcome because they are a key input to a number of steps in the sourcing process. These include:- |

| deciding on the evaluation criteria to be sued in selecting the preferred supplier |
| testing your sourcing options so that the one that most closely meets your organisation’s overall needs is chosen |
| developing the most relevant performance measures to include in the contract |
| deciding whether circumstances have changed so much that the sourcing strategy needs to be re-visited |
Here is an example of a BRD ...

<table>
<thead>
<tr>
<th>Regulatory requirement</th>
<th>Must comply with Safeguarding Vulnerable Groups Act 2006</th>
</tr>
</thead>
</table>
| Availability requirement | Must have the capacity to offer 98% of our placement needs on demand  
Must be able to demonstrate financial stability |
| Quality requirement | Must have a minimum of 2 star CQC rating  
Evidence that the supplier has processes in place that assure quality standards are achieved consistently |
| Service requirement | Must have a help desk available to enquirers for core hours 09:00 to 17:00 Monday to Friday |
| Cost requirement | Unit prices will be at or below published average levels  
Processes in place to deliver continuous improvement that achieves agreed deflation levels year over year |
| Innovation requirement | Processes in place to adopt and adapt new technology available to the sector to improve service standards |

Top tips:-

- do gather as much data on the future direction of your organisation as you can so that you can test that your business requirements match the needs of the organisation. This includes corporate and business unit strategies, policy statements, business plans and technology plans.

- do identify and meet with all of the stakeholders to understand and challenge their perceived needs in order to separate needs from wants and to understand their priorities.
– Do challenge the needs to make sure that you are not just replicating the previous solution.

– Do consult with as many people as possible who have a role to play in the acquisition or use of the product or service and make sure that there are no changes that they know about to technology and processes that may change the requirement.

– Do share the summary of all of this analysis so that a consensus can be reached that accommodates everyone’s need and buy-in can be achieved.

**This week’s challenge**

Now that you have read through this material you need to make your learning stick by taking action!

You can do this by looking at a sourcing strategy you are currently working on (alternatively use one that you have done before) and work through the exercises in the following page.

Have a great week putting these ideas into action!

Best wishes

Steve Carter

Steve Carter
Academy for Procurement Excellence


**Coming up next time ...**

**Part 4 – How to Analyse a Supply Market**

Gathering data and analysing it in the right way can give you valuable insights into your spend categories and how you should approach developing a sourcing strategy – learn what data to collect and what analysis tools you can use.
Use the following table to work out the scope of your sourcing strategy. Write down your answers to each question in the box provided and then use the result to agree the scope with the budget holder.

<table>
<thead>
<tr>
<th>Core item(s) being sourced</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capability needed to meet your needs</td>
</tr>
<tr>
<td>Related items that use this capability</td>
</tr>
<tr>
<td>Pro’s for including related items in the scope</td>
</tr>
<tr>
<td>Con’s for including related items in the scope</td>
</tr>
<tr>
<td>Recommended scope for budget holder to agree</td>
</tr>
<tr>
<td>Reason for scope definition</td>
</tr>
</tbody>
</table>

Use the framework below to decide your business requirements.

<table>
<thead>
<tr>
<th>Regulatory</th>
<th>This is the content</th>
<th>This is the test the content needs to pass</th>
<th>This is how it will be measured</th>
<th>So this is the business requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Availability/supply</td>
<td>You put here how the user or budget holder has described their needs</td>
<td>This is what you agree with the user / budget holder as to how they recognise the need has been met</td>
<td>This is the key performance indicator you use</td>
<td>This is the description of the need and KPI that will be written into the contract and contract award criteria</td>
</tr>
<tr>
<td>Quality</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Cost</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Innovation</td>
<td></td>
<td></td>
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</tbody>
</table>