



Strategic Sourcing & eProcurement:

"Reaping the Benefits"

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Charlie Villaseñor, CSSP, CPSM



Background and current positions:

President and CEO, **TransProcure Corporation** CEO, **ADR ASEAN** Chairman, **Procurement & Supply Institute of Asia (PASIA)**

Lead supply chain organizations of Chevron (Asia, Middle East and Africa), Coca-Cola, 3M and became the Regional ASEAN Head of Ariba and pioneered the largest Procurement eMarketplace in Asia

Board Member, UN/WTO International Trade Center (ITC-MLS Program on Supply Chain)

Board of Director, International Federation of Purchasing & Supply Chain Management (IFPSM)

Chairman, Procurement & Supply Chain Committee, Management Association of the Philippines

Board of Advisor, Unibersidad Los Andes School of Management, Bogota, Colombia



Agenda

Background

Introduction Case Study

Strategic Sourcing

Overview Process, Methodology & Impact

eProcurement

Models, Types Reaping the Benefits

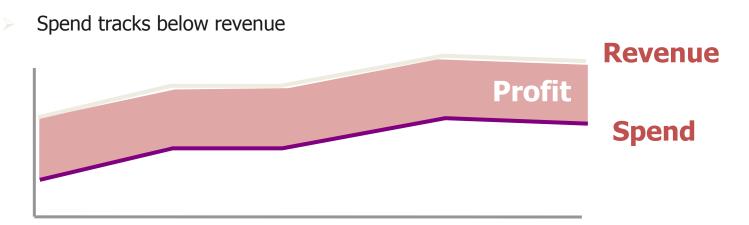
Summary



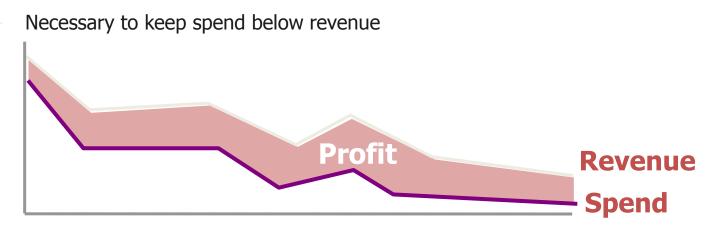
The New Business Normal – Risk & Volatility



In a strong economy



BUT in a slow economy





Not Business As Usual

Three Options:

- Increase Revenue
- Cut cost i.e.; Lay Off
- Manage Spend



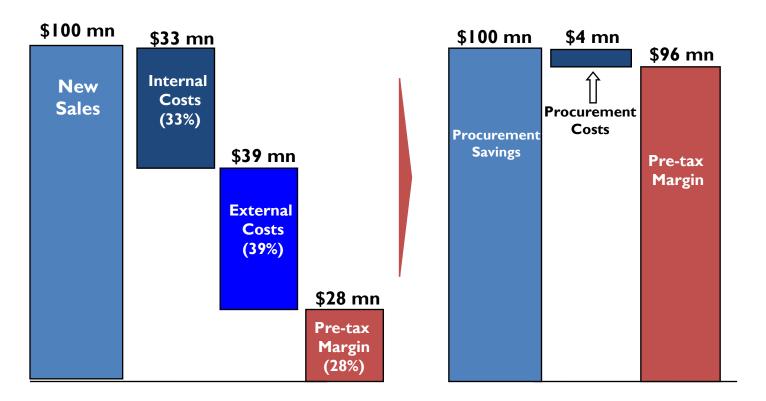
Balancing Cost, Risk & Value Creation





Why we're now all focusing on Procurement

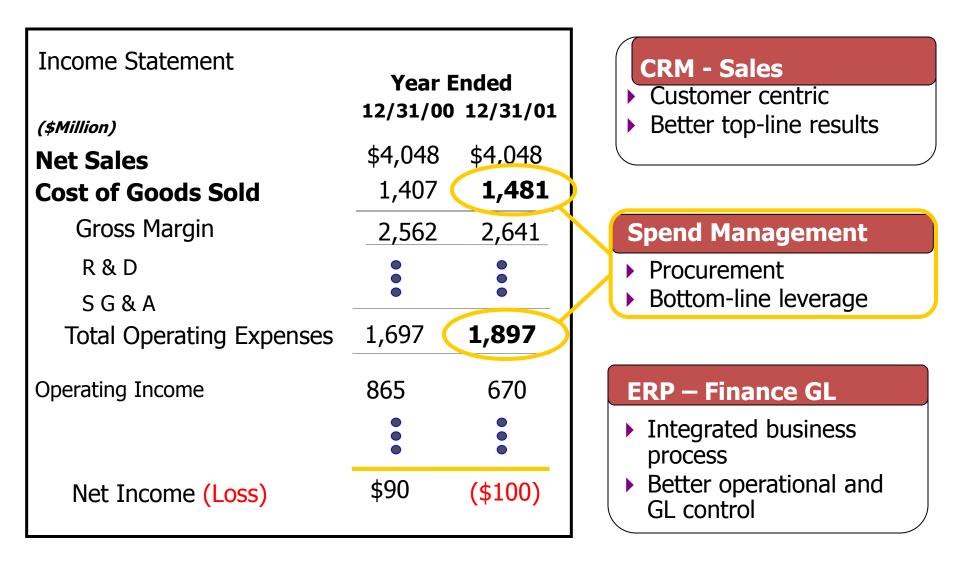
Example: \$100 mn in new sales vs. \$100 mn in procurement savings



*Assumes 30% tax rate; 10x earnings multiple; Source: CAPS, A.T. Kearney analysis,



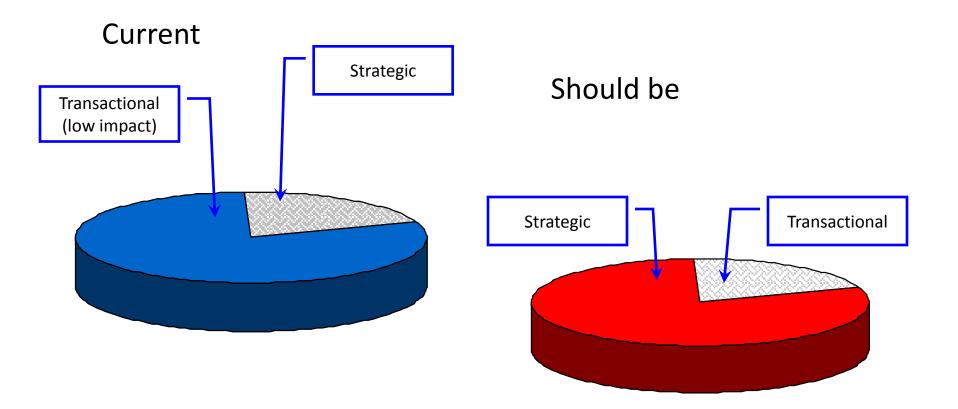
Managing the Cost & Competitive Side





Procurement Volume & Focus of Work

AMOUNT OF INTERNAL FOCUS/RESOURCES IN PROCUREMENT





The Pressure is Rising : 2/3 of World economy will be in Asia

New Inputs

- Internet connectivity
- New global suppliers
- Rise of outsourcing
- Information transparency
- Competitive markets
- Enabling technology
- Compliance

New Expectations

- Higher realized savings
- Improved responsiveness
- Better supplier relationships
- More efficient processes
- Faster, better decisions
- Good governance
- Broad adoption

- Cost is key to competitive advantage and maintaining profitability
- Procurement is key to enhancing efficiency and cost
- Procurement offers greatest opportunity to savings and improve market values



We reviewed our procurement and we saw a lot of opportunities for improvement:

- 📥 Too many suppliers
- No coordination of spend across geographic & business boundaries
 - Not taking advantage of the scale of their spend
- 声 Brother-in-law relationships
- Antagonistic win/loose relationships with our suppliers
- Not utilizing our suppliers' capabilities
- Dealing with too many third party intermediaries
- Not fully utilizing Internet technology
 - More tactical than strategic work is being done
 - Trained professionals are not easily available
 - Best practices are not made available to others



Changes Happened; People made it Happen!

- People thinks WE not ME
- Implementing eProcurement, ePayment & eLogistics
- Directing the spend to those suppliers with electronic catalogues
- Reducing our dealings with third party intermediaries
- Channelling more of our business to our best suppliers
- Paying our suppliers faster through our new ePayment system
- Reducing logistics headaches for ourselves & our suppliers
- Working on being the preferred customer for our suppliers.

Ultimately;

- Going for more strategic sourcing initiatives & alliancing



A co-ordinated approach

Strategic Sourcing

- Focus on business Success
- Disciplined & rigorous process
- Significant impact

<u>eProcurement</u>

- Easy procurement
- Compliance, transparent
- Data & information

We have reduce cost of materials & services by 10% - 20% Conservative Estimate!



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Strategic Sourcing - change in perception from necessary evil to strategic imperative

YESTERDAY

Jack Welch (GE) once said

"Engineers who can't engineer things, operators who can't run their equipment, and accountants who can't add become Strategic Sourcing professionals"
 TODAY

"Organizations that employ leading-edge strategic sourcing techniques achieve almost double the margins of companies with below-average sourcing capability - 20.2% versus 10.9 %"

- McKinsey



Evolution of Strategic Sourcing

| | Sourcing working alone | | Sourcing working with internal stakeholders | | Sourcing working with internal stakeholders and suppliers | |
|------------------------|--|--|---|---|--|--|
| Theme | "Serve the Factory" | "Lowest Unit Cost" | "Co-ordinated Procurement" | " "Category Management" | "World-class supplier management" | "Entrepreneurial procurement" |
| Organisational Form | Everybody buys Reports to ?? | "Buying" at SBU level Reports to Operations. Direct spend only Transactional still priority | Centralised procurement Cross-unit coordination. Recognisable buyers Reports to senior manager | Split between Strategic & Transactional Purchasing Center-led with execution in SBU. Extensive use of cross-functional teams. Lead Buying | Cross-functional supplier development teams. | Cost/profit center. Network with strong communities of practice. |
| Key skills | Logistics focus Transactional | Price focused 3-bids. Negotiation. | Price Focused Sourcing strategy. Organization-wide coordination (e.g., building procurement database). | Supplier cost focus Supplier development. Cross-functional problem solving. | Should cost focus Relationships mapped. Supplier capability improvement and measurement. | Internal customer orientation. Linking sourcing strategy to org strategy & shareholder value. Learning organisation. |



The Value Gap (or Margin Squeeze)

Why Strategic Sourcing is Important to your business



- Increased competition
- Price pressures from best cost countries
- Suppliers consolidating and increasing their power
- Commodity price increases driving up costs
- Margins squeezed
- P&L and balance sheet impacted

"Companies today are being driven to deliver more services, more functionality and more value for less money ... It's all part of a broad and pretty dramatic improvement in productivity that's going on in multiple industries". Champy, James: Business Author and Chairman of Perot Systems

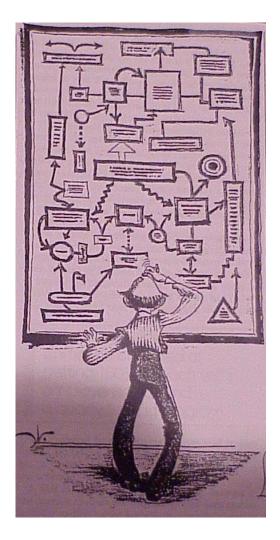
Your Customers

YOUR BUSINESS

Your Suppliers



WORLD CLASS Strategic Sourcing FRAMEVVORK

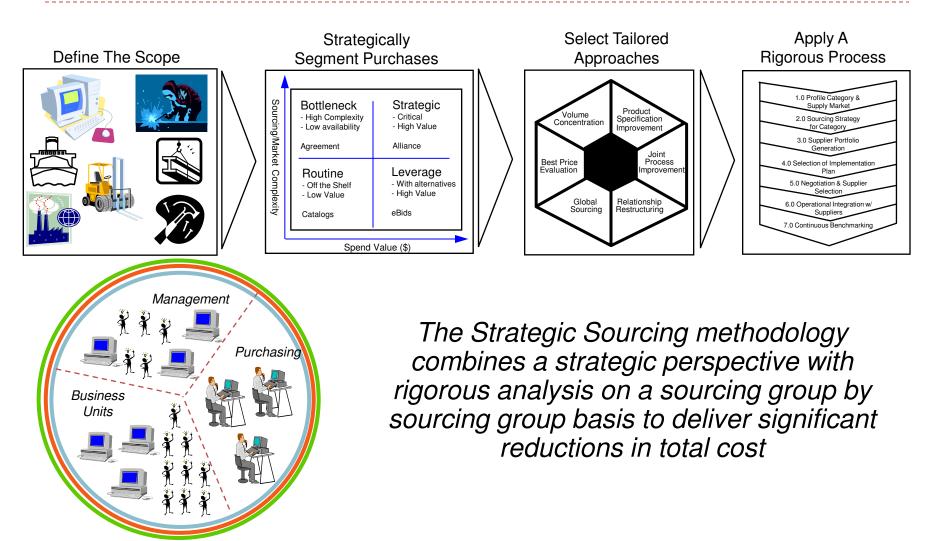


SO MANY ACTIVITIES -YOU NEED A MAP!



Strategic Sourcing

Key to Transparent Procurement





Strategic Sourcing Steps

There are many different types of strategic sourcing process.

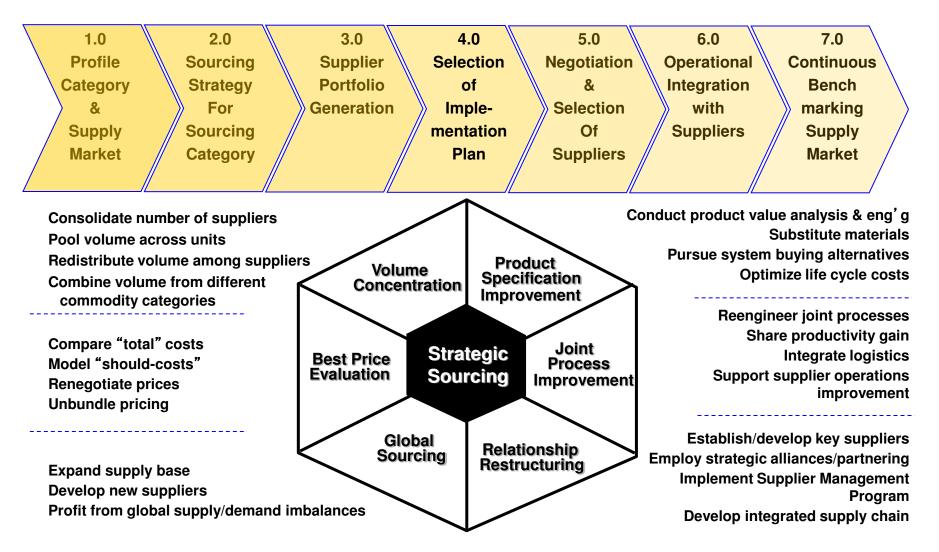
Typically a strategic sourcing process as a number of clearly defined steps:



- **STEP 6 = Sourcing Recommendation**
- **STEP 7 = Sourcing Strategy Implementation**
- STEP 8 = Supplier Management



Strategic Sourcing Methodology





Source: AT Kearney

Project Activities and Deliverables

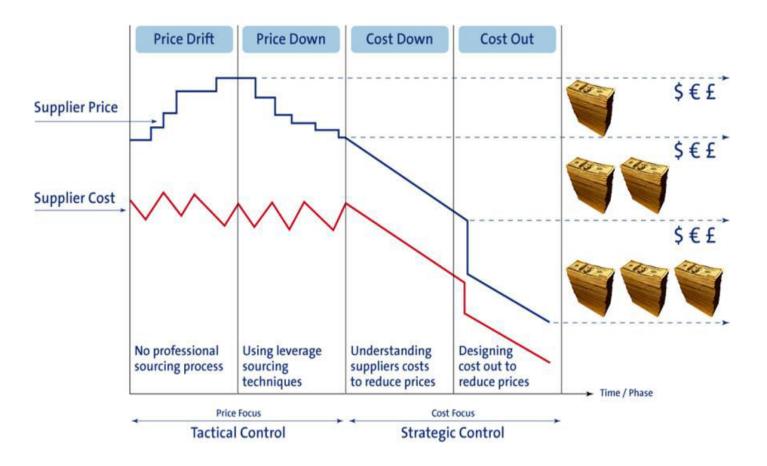
| Steps | Profile Category | Develop Sourcing Strategy | Supplier Portfolio | Select Implem Plan | Supplier Selection |
|--------------|--|--|--|---|--|
| Activities . | Finalize spend profile with historical and future spend, pattern and trends End-user shares req' ts, specs, current practices, contracts, and decision points Identify TCO components and determine cost drivers Gain alignment, sign-off and commitment from internal customer | Analyze market Develop procurement strategies Conduct needs analysis Review and confirm with stakeholders | Determine information needed to assess Develop shortlist of suppliers Develop and execute RFI Evaluate RFI responses Benchmark supplier performance Conduct supplier visits Review and confirm with stakeholders | Pre-qualify suppliers Develop and execute RFP Collect RFP pricing Evaluate RFP responses Prepare initial T&Cs Agree on negotiation approach and team Review and confirm with stakeholders | Conduct supplier negotiations or eSourcing Prepare supply transition planning Finalize T&Cs Generate savings report Review and confirm with stakeholders |
| ables | Commodity Definition Spend Analysis Demand and Supply Profile Savings Assessment and Baseline | SWOT Analysis Porters 5 forces Sourcing Matrix Strategic Sourcing Approach | RFI Supplier List RFI Template and Evaluation Matrix RFI Evaluation Report | Matrix RFP Evaluation Report | Negotiation and/or Bid Results Supply Transition Plan Final Report |
| | Estimated 25 Elapsed Working Days | Estimated 10 Elapsed Working Days | Estimated 30 Elapsed Working Days | Estimated 20 Elapsed Working Days | Estimated 15 Elapsed Woriking Days |



Source: TransProcure

At the Category Level Category Segmentation

PACE[™] – Price & Cost Evolution





Source: ADR Intl

Categories for Strategic Sourcing

Partial list of indirect spend

| | i | | | |
|--|--------------------------|--|---------------------------|--|
| Advertising/Media Services | Doors, Glass and Windows | Floor Sealing | Inspection Services | |
| Apparel/Uniforms | Electrical Supplies | Freight Services | Insurance Services | |
| Brokerage Services | Electrical Systems | Fuel | IT Hardware | |
| Building and Grounds Maintenance | Electrical Works | Garbage Hauling Services | IT Maintenance and Repair | |
| Building and Technical Audit Services | Electronic Appliances | Garden and lawn maintenance | IT Software | |
| Building Repainting | Elevator Maintenance | General Cleaning Services (window cleaning) | Janitorial Services | |
| Catering Services | Equipment Leasing | Generator Sets | Landscaping | |
| Civil Supplies (backfill, cement) | Events Services | Hauling Services | Laundry Services | |
| Cleaning Supplies | Financial Services | HVAC Equipment | Legal Services | |
| Computer Consumables | Fire Protection Systems | HVAC Equipment Supplies | Lighting Supplies | |
| Consulting Services | Fleet Management | HVAC System | Mail/Courier Services | |

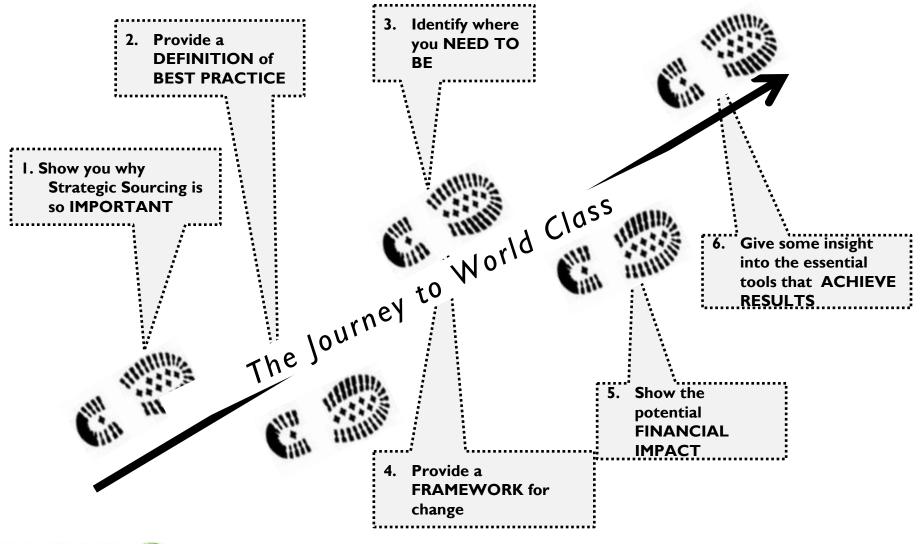


Some of these are "untouchables" driven by business users Partial list of indirect spend ----there are a lot.

| Maintenance & Repair on all Electro-Mechanical Works | Office Supplies | Process Equipment (genset, pumps, compressor etc.) | Signages |
|---|---|---|---|
| Maintenance of Roadways and Drainage | Paint Supplies | Processing Services | Structural Supplies |
| Major & Minor Civil Wworks and Repairs | Pantry Supplies | Promotional Items | Testing and Commissioning |
| Marble Crystallization | Payroll Services | Record Management | Toilet Supplies |
| Market Research Services | Personnel Recruitment Services | Refrigeration System | Transportation Services |
| Mechanical Works | Pest Control Services | Safety Supplies | Travel Services |
| Merchant Card Processing | Photocopying Services | Security Alarm and System | Trucking and Hustling Services |
| Messengerial Services | Piping/Valves/Fittings (Plumbing) Supplies | Security Services | Waste Management Services |
| Office Equipment | Plumbing Works and Maintenance | Sewage Treatment | Water Proofing |
| Office Furniture | Postage Services | Shampooing (carpets/chairs) | Water Supply and Distribution System |
| Office Furniture Maintenance and Repair | Printed Forms | Shuttle Services | Web Services |



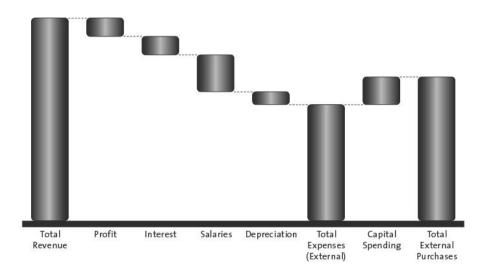
The Journey to World Class Strategic Sourcing





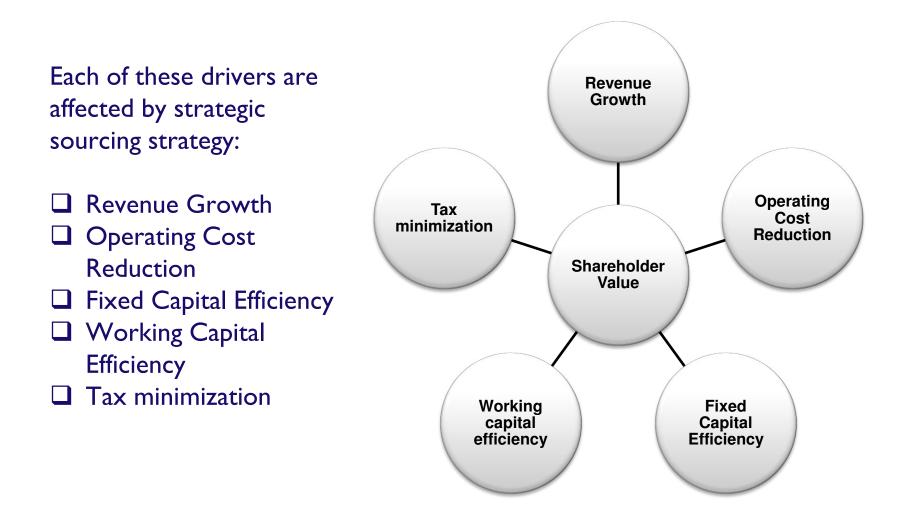
Why is Strategic Sourcing so important to YOU?

- Purchased Material, Goods & Services is a very significant cost for any organization
- Typically an organization will buy externally >50% of it's sales value
- Spend is made up of:
- direct materials (conversion)
- indirect materials (consumption)
- capital (investment)
- product for resale (branded)





Strategic Sourcing as a Driver of Shareholder Value





Six Key Enablers for World Class Procurement



Strategy and Vision

• Clearly defined strategy and policy for procurement reflecting the Board's expectations and aligned with the strategic aims of the business



Organisation & Structure

• Focused teams organised effectively with clearly defined responsibility, authority & accountability and clear alignment and engagement with key stakeholders



Procurement Processes

• Strategic sourcing and SRM with supporting processes to enable effective outcomes



People and Skills

• Effective application of appropriate tools & behaviours, competency profiling driving development, incorporating procurement and stakeholders with succession planning in place



Cost and Value Management

• Proactive management of spend and targeted programmes of improvement across the organisation incorporating stakeholders and budget and management reporting



Technology

• Use of world class spend analysis, e-sourcing, e-procurement (P2P) and eSRM tools



Be Valued. Be Recognized. Be Certified.



Certified Strategic Sourcing Professional™ (CSSP) Certification



Certified Strategic Sourcing Professional_{TM} (CSSP):

Leading certification for Strategic Sourcing Professionals



Certified Strategic Sourcing Professional

The Global Certification for Strategic Sourcing Professionals.

This is the pinnacle of competency in procurement. The strategic sourcing professional is capable of delivering enormous value to the organization for which they work. Value delivered as a result of strategic sourcing covers cost, quality, risk, sustainability, competitiveness, continuity and capital preservation among others. Thus delivering significant bottom line results to your company.



Certified Strategic Sourcing Professional (CSSP): An Overview

The Global Certification for Strategic Sourcing Professionals

- Focus on Strategic
 Sourcing as Key
 Value Generator
- 3 Modules 2 days each (6 days).
 One (1) exam
 Also suitable for Non-Procurement Professionals

The Need for CSSP & Focus on Strategic Sourcing

Narrow Focus

Application in Practice

Strong Impact & ROI for the Organization



The Time is Right

- Transformation to Strategic Sourcing around the world is reaching a tipping point
- Cleary differentiated
- Proven process and methodology
- Economic crisis, disasters tsunamis, earthquakes, typhoons – focused the need for Strategic Sourcing
- Ethics & sustainability factored
- No strategic sourcing specific certification





CSSP brings the value to you and your organization





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A common obstacle to achieving savings from enterprise supply agreements lies in getting business consumers to actually use the contracts in daily practice.



Reasons for Poor Compliance

- Lack of knowledge about policy and process
- Lack of knowledge about which suppliers to use
- Misinformation regarding true cost of supply
- The process is too time-consuming or difficult
- Bad match between inputs and need

Compliance is especially difficult to manage within large, highly -dispersed enterprises.



How eProcurement brings compliance

Non-compliance

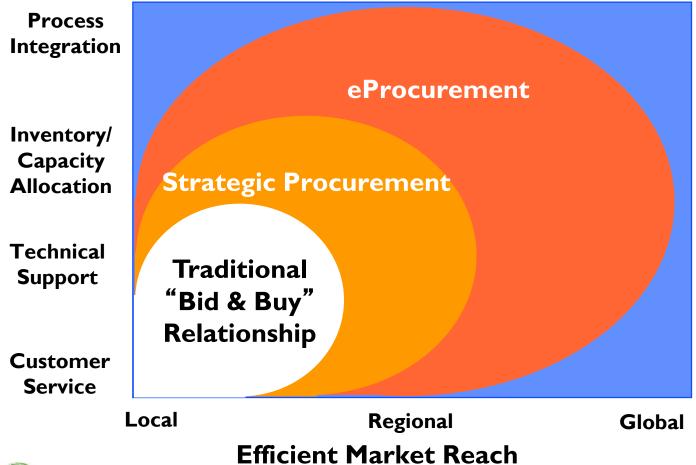
Behavioral Change (100's or 1,000's of people) An eProcurement Solution Can Help • Ease of Use => people will use it • Transparent => highly visible • Online Catalogs => approved choices first Process Guidance => fewer mistakes • Integration w/ any technology=> compatible

100% Compliance



Impact of enterprise wide eProcurement

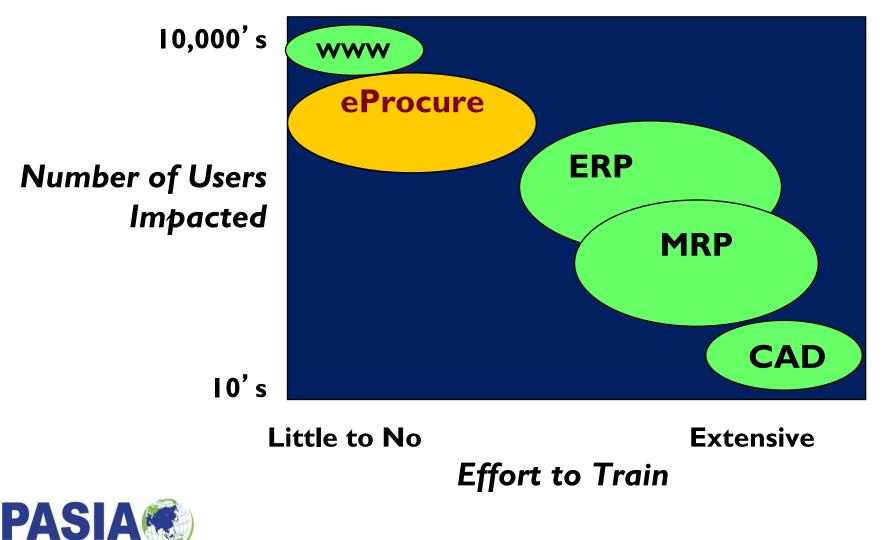
eProcurement extends your options





Impact of "Enterprise Wide System" - Ease of Use

Ease of Use is Critical for eProcurement



eProcurement Benefits





- Aggregate spend to key suppliers across the company
- Reduce number of suppliers
- Negotiate better contracts with suppliers
- Reduce cost of commodities



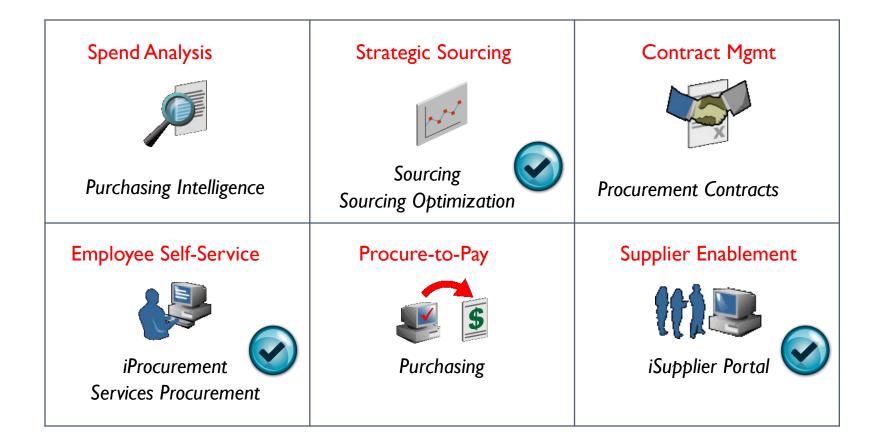
Compliance

- Fully leverage benefits of negotiated contracts / strategic sourcing efforts
- Reduced Maverick Buying from non-approved suppliers
- Ensure prices comply with contract terms and discounts



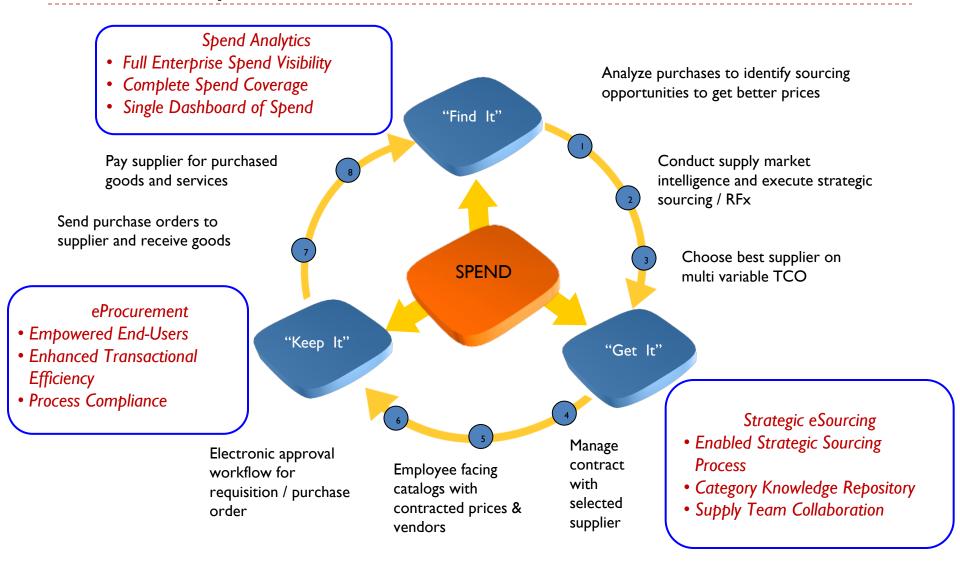
Process Efficiencies

- Reduce procurement cycle time
- Improve procurement staff productivity
- Improve workflow management



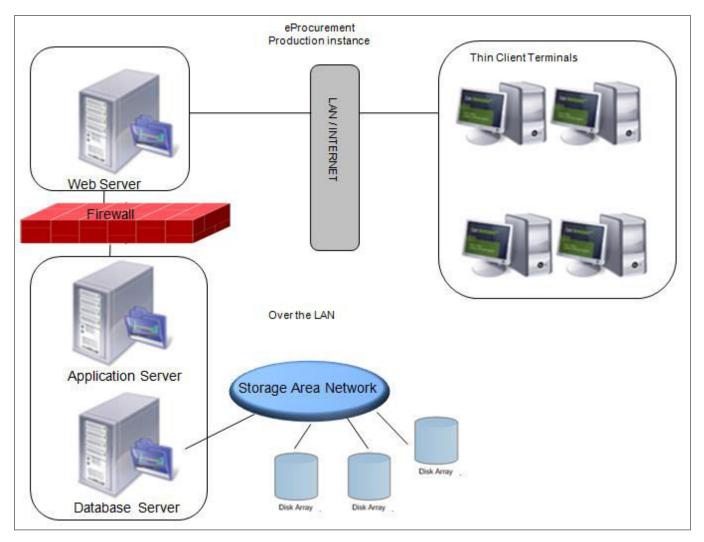


Closed loop eProcurement





Systems Architecture

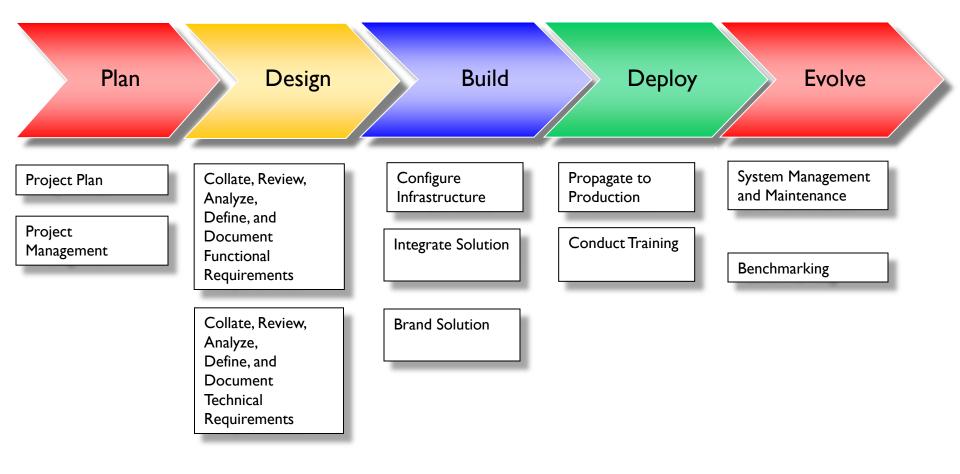


- Fully managed onsite or hosted infrastructure
- Systems maintenance and database backups
- High availability and scalability to ensure performance
- Hosted integration via secure ftp process



Solution Deployment

Methodology, Approach and Processes











- Maximizes time and resources
 - Free up the company's resources to focus on core competencies
 - Gains access to domain and technology experts that will key in maximizing service
- Provides lower total cost of ownership (TCO)
 - No license fees and no computer equipment to buy and manage
 - Implementation and maintenance inclusive
- Ensures service continuity and sustainability
 - No system support headaches, consistent and ongoing maintenance and upgrades
 - Regular, automated and secure data back-up
 - Built for change, use modern technology which keeps quality high and ongoing development and support costs low



Scalable Business Models

Enterprise vs. On-demand/SaaS

Enterprise

- Pay upfront license costs,
- Buy hardware and software
- Pay annual maintenance
- Long implementation time
- A need for dedicated IT team for maintenance and upgrades
- Always on-premise
- This can also be on-premise but manage by an eprocurement provider



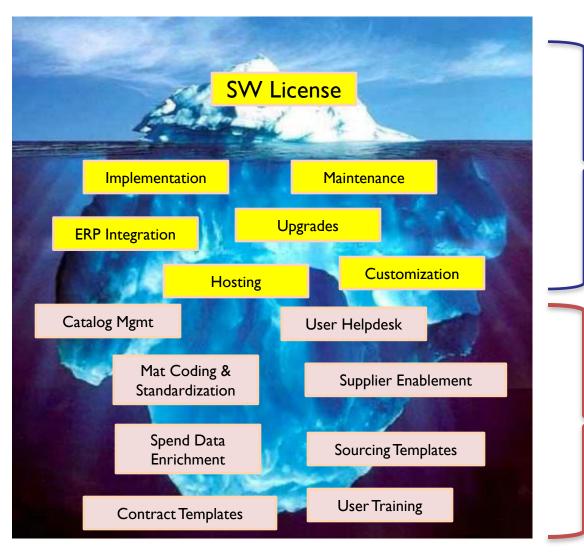


On-Demand/SaaS/Cloud

- Pay-as-you-go, Buy-as-you-need,
 Software as a service
- No hardware, software to buy
- No annual maintenance fee
- Rapid deployment
- Lower risk
- 24/7 Helpdesk support for maintenance and upgrades
- Option of on-premise or offpremise



Success is not about the software. It's the services and support that goes with it



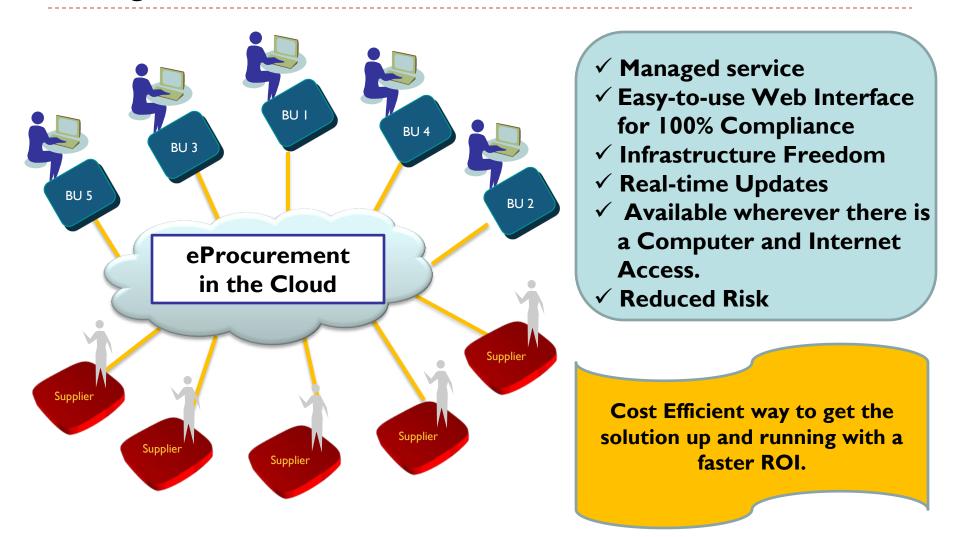
Easy to Determine But It is Not the Total Cost of Ownership – Is Not the Only Consideration

The top contributors to success would be: implementation, catalog management, user and supplier enablement, and helpdesk.

> Better Management Of This Support Services Increases Chances for Success



Manage eProcurement on the Cloud





Aberdeen Group research concludes, within five years companies not outsourcing under performing areas of the procurement function will be at a competitive <u>disadvantage</u>.

-- Aberdeen

Nearly half of the firms surveyed in Europe and the US are considering outsourcing a part of their procurement function

-- Accenture

Procurement outsourcing is shaping up as the next big trend in supply management...service providers offer the economies of scale, category experience, and infrastructure that many firms lack.... Within five years companies not outsourcing under-performing areas of the procurement function will be at a competitive disadvantage.

--Aberdeen

As enterprises find it increasingly difficult to train and staff their internal purchasing organizations, many are looking at procurement outsourcing as an alternative... ...a third of (survey) respondents expect to increase their procurement outsourcing budgets during the next 24 months.

-Gartner, Business Wire article



Procurement Service Providers

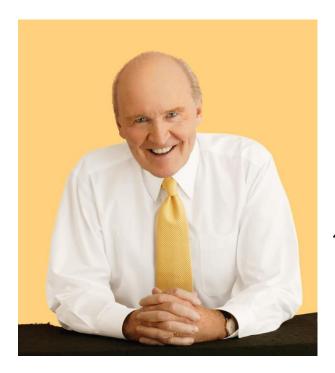
A **Procurement Service Provider**, or **PSP**, is a third party organization or consultant which is used to supplement internal procurement departments. PSP's have their own staffing which assist in a variety of tasks for their clients. These tasks include: strategic sourcing, supply market intelligence, eProcurement service, P2P processing, benchmarking, implementing best practices, supplier rationalization, supplier evaluation and negotiation.

"Enterprises utilizing PSP's have been able to <u>improve spending</u> <u>coverage, reduce costs for goods and services, employ</u> <u>industry best practices, leverage the latest procurement</u> <u>technologies, and streamline source-to-pay processes</u> - all without taking on the risks and assets required to achieve such results. "

Source: Aberdeen Group Research Abstract, You Will Outsource Procurement: Here's Why and How - October 16, 2002







"Back rooms by definition will never be able to attract your best. We converted ours into someone else's front room and insisted on their best. This is what outsourcing is all about

Quote: Jack Welch, former CEO, General Electric





Main rationale is...

If the work is not a core competence,

thus it should be done by an organization

for which the work is a core competence!







Strategic Procurement

- Procurement Consulting
- Strategic Sourcing & Category Management
- Spend Analysis & Management
- Benchmark & Research

<u>eProcurement</u>

- eProcurement Procure to Pay Implementation
- Technology Hosting & Helpdesk Support
- eContent/eCatalog Factory & Production
- elnvoicing & Accounts Payable Automation
- Contract and Supplier Performance Management

Procurement Outsourcing

- Indirect Procurement Out-tasking
- Procure to Pay Transaction Processing
- Best Cost Country Sourcing
- Global Procurement Delivery Center

Procurement Augmentation

- Supplier Services, Enablement, & Document Management
- Training & Development
- Executive Search & Staffing
- Procurement and Trading Hub (PATH)



Why the Philippines is a Top Offshore BPO Location

| Scalable Talent Pool | 3rd largest English speaking country 100 million population, 36 million work force |
|--------------------------------------|--|
| Solid US-based Educational System | 400,000 college graduates per year (28% Business and Accountancy, 21% Engineering and IT) 93% Literacy Rate |
| Cultural Affinity with the West | Only sizeable colony of the US, 1898-1946 "400 years in the convent, 40 years in Hollywood" 1.4 million immigrants to the US, #3 immigrant group American pop culture pervasive ("They get it") |
| Service Orientation | Warm and patient ("They answer the phone with a smile") Highly empathetic, eager to please and not to disappoint Cultural bias against conflict |
| Excellent Communication Skills | Neutral accent, acceptable to American and British customers Familiar with US slang and accents Natural rapport building skills |
| Relatively Low Attrition Rates | Less than 50%; lower than India Unlike India, few other growth sectors competing for talent Positive perception of BPO careers (not just for fresh graduates) |



From Call Centers, Shared Services to Procurement

| Cost Competitiveness | Labor costs amongst lowest in the world All-in costs amongst lowest in the world |
|---|---|
| Excellent Telecom Infrastructure | Began deregulating early, in the mid-90s Cost of bandwidth has dropped over 85% in last 5 years (from \$14K in 2001 to < \$1.5K per month for E1 lines to US) |
| Plentiful Quality Office Space | Abundant and low-cost real estate in several urban areas Renters' market today, 1.1 million sq.m. in new supply 2009-2010 of which less than 10% is committed |
| Tax-Free Holidays | 4 to 8 year Income Tax Holiday Approximately 15% tax rate after lapse of holiday |
| Strong Government – Private Sector Partnership | Comprehensive McKinsey-BPAP (Business Processing Association of the Philippines) Roadmap 2010 to achieve \$10+ Billion revenues, 1 million employees |
| Global Reputation | Overtaking India (\$4.1 Billion in 12/08 versus \$4.8 Billion for India in 3/08 but faster growth rate due to security and quality concerns about India) Positive experiences of captives Dell, JPMorgan, HSBC, Citi and outsourcers Accenture, IBM, Teletech, Convergys, etc. |





Development Needs Analysis (DNA)

Learning

Consulting

Strategic Sourcing





Doing

TRANSPROCURE

Group Buying

eProcurement

Strategic Procurement And Supply Management

Procurement and Supply Chain Review

Supplier Discovery

Procurement Augmentation

The Power of 3



Certified Strategic Sourcing Professional (CSSP)

Globally Recognize Certifications

Public Trainings and Conferences

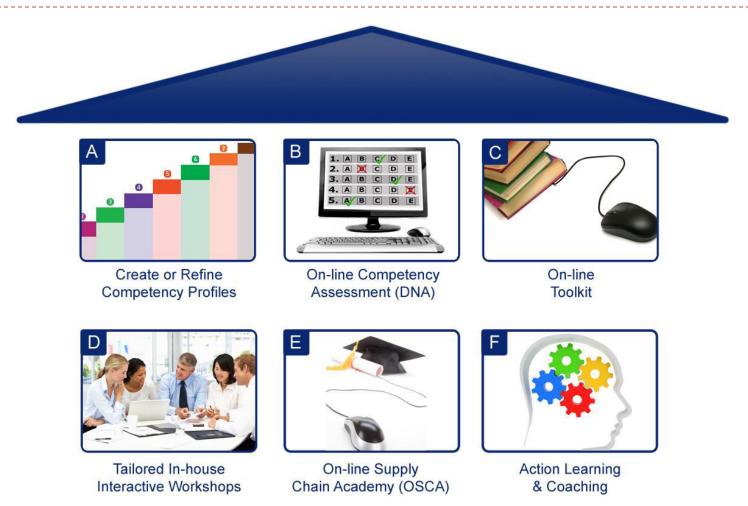
eLearning and eBooks

Individual and Corporate Membership

Assessment & Certifications



Procurement and Supply Chain Center of Excellence





Building a Country Brand in BPO - Procurement





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- » The pressure is rising for procurement and supply chain management to create value, minimize risk, optimize cost for many organizations.
- » Strategic sourcing combined with eProcurement applications positions the enterprise for competitiveness and business sustainability.
- » Global training and certification is key people, process, enablers and governance. CSSP is a must for the procurement professional.
- » PASIA, TransProcure and ADR SouthEast Asia is looking for partners! The world is flat.







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