

Innovation in Indirect Procurement

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Definitions

Each organization, book, internet site has its definitions.

For clarity we use the following in this presentation

- Sourcing: the proactive management of a supply market to insure access to adequate resources required for the long term needs of the firm
- Purchasing: the transaction resulting in the acquisition of a good or service
- Procurement: all the supplier management responsibilities, starting with sourcing and ending with the transaction and its optimisation. The CPO is the “Chief Procurement Officer”

Agenda

1. Indirect Procurement Evolution

2. Competitive Advantages

3. Collaborative Sourcing

4. How to do it?

... as Procurement moved beyond supply chain

Procurement Scope

1990's

Today

Supply Chain

Maintenance
Repair
Operations

Non
Production
Goods

Capital Goods

Services
Intellectual
Property


Cost of Sales as %
of revenues

- Assembly: 80%
- Steel: 50%
- Pharma: 15%
- Service: 0%

21st Century
economic activities
requires world class
procurement beyond
Supply Chain



Today, most supplier relations bring short term benefits

- ❑ Strong competitors work on Procurement equally hard
 - ❑ ... and
 - ❑ ... that
 - ❑ Those not im or pro share
 - ❑ Is Pro satisfied?
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sition
- you

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The Key to Success is Creating Competitive Advantages

“The key to investing is not assessing how much an industry is going to affect society, or how much it will grow, but rather determining the competitive advantage of any given company and, above all, the durability of that advantage”

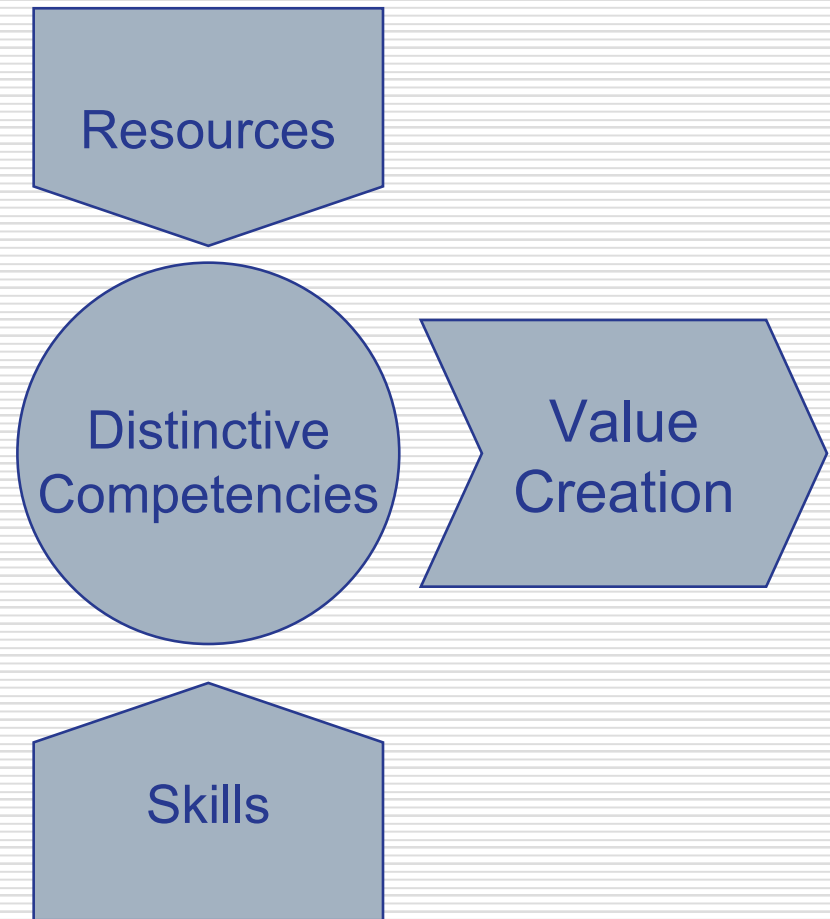
Warren Buffet, Nov. 1999



Competitive Advantages deliver Value

PORTER*

- Resources are the firm-specific assets useful for creating a cost or differentiation advantage and that few competitors can acquire easily.
- Skills refer to the firm's ability to utilize its resources effectively
- Firms use their resources and their skills as distinctive competencies to create value

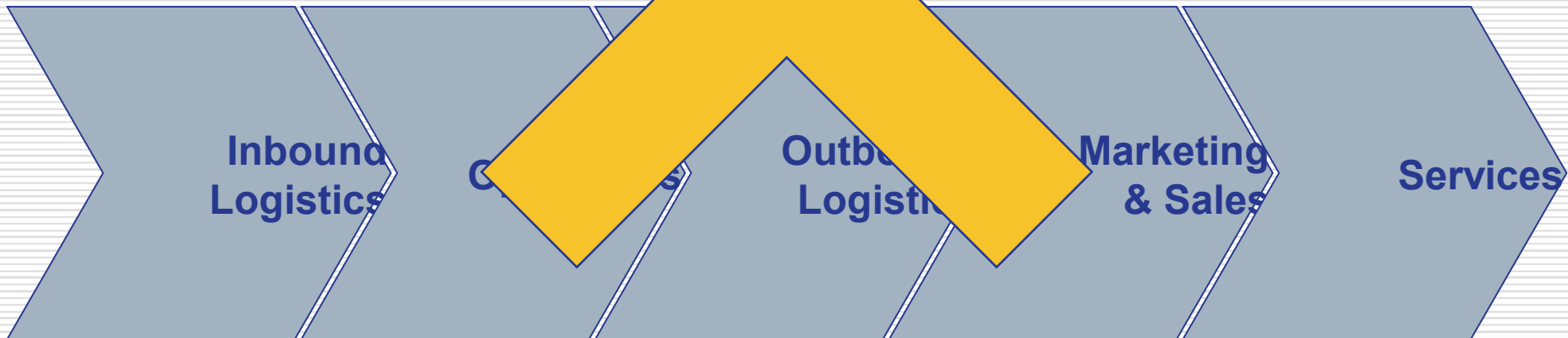


Porter's Original Value Chain did not integrate Procurement

Support Activities



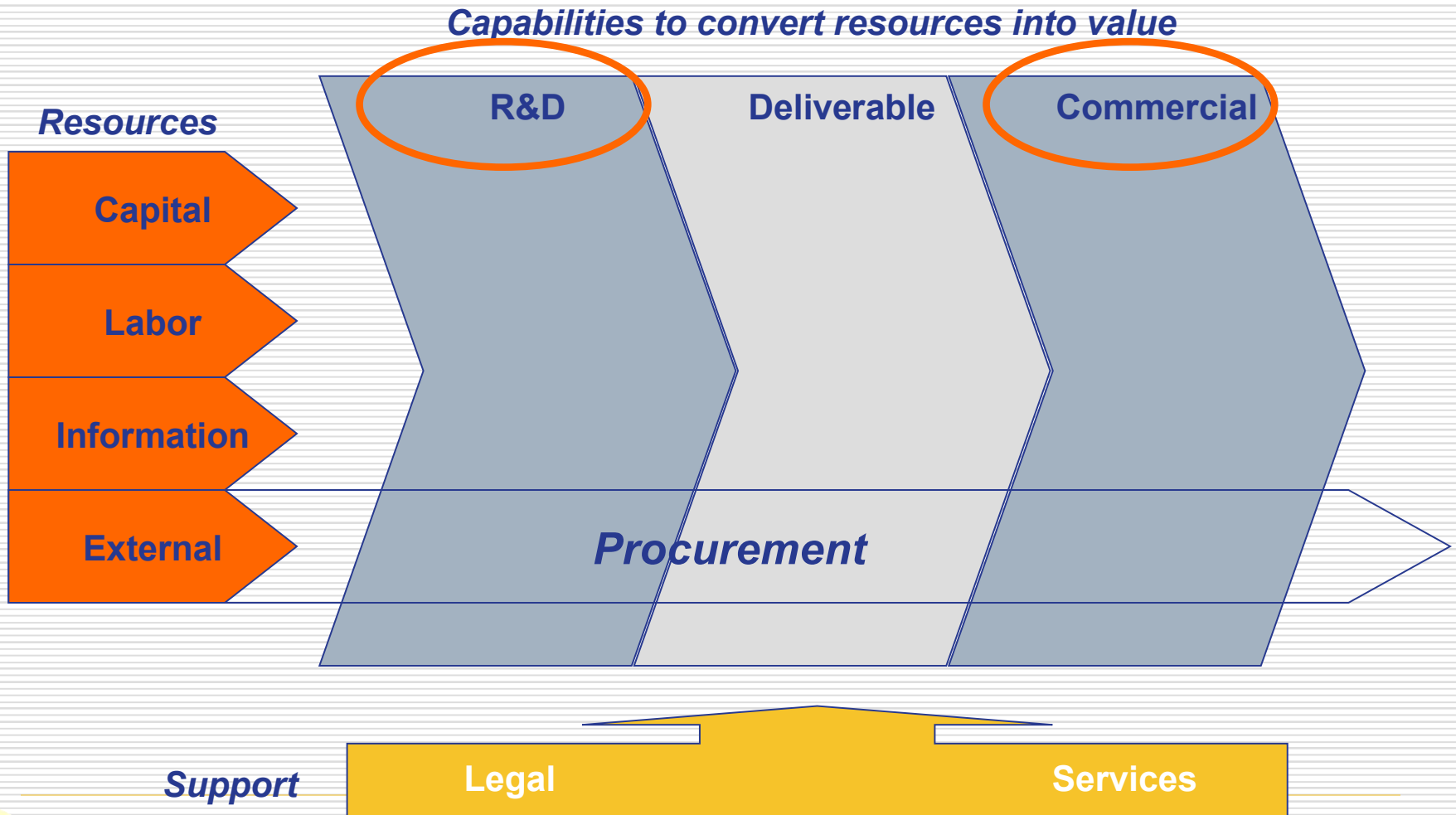
Primary Activities



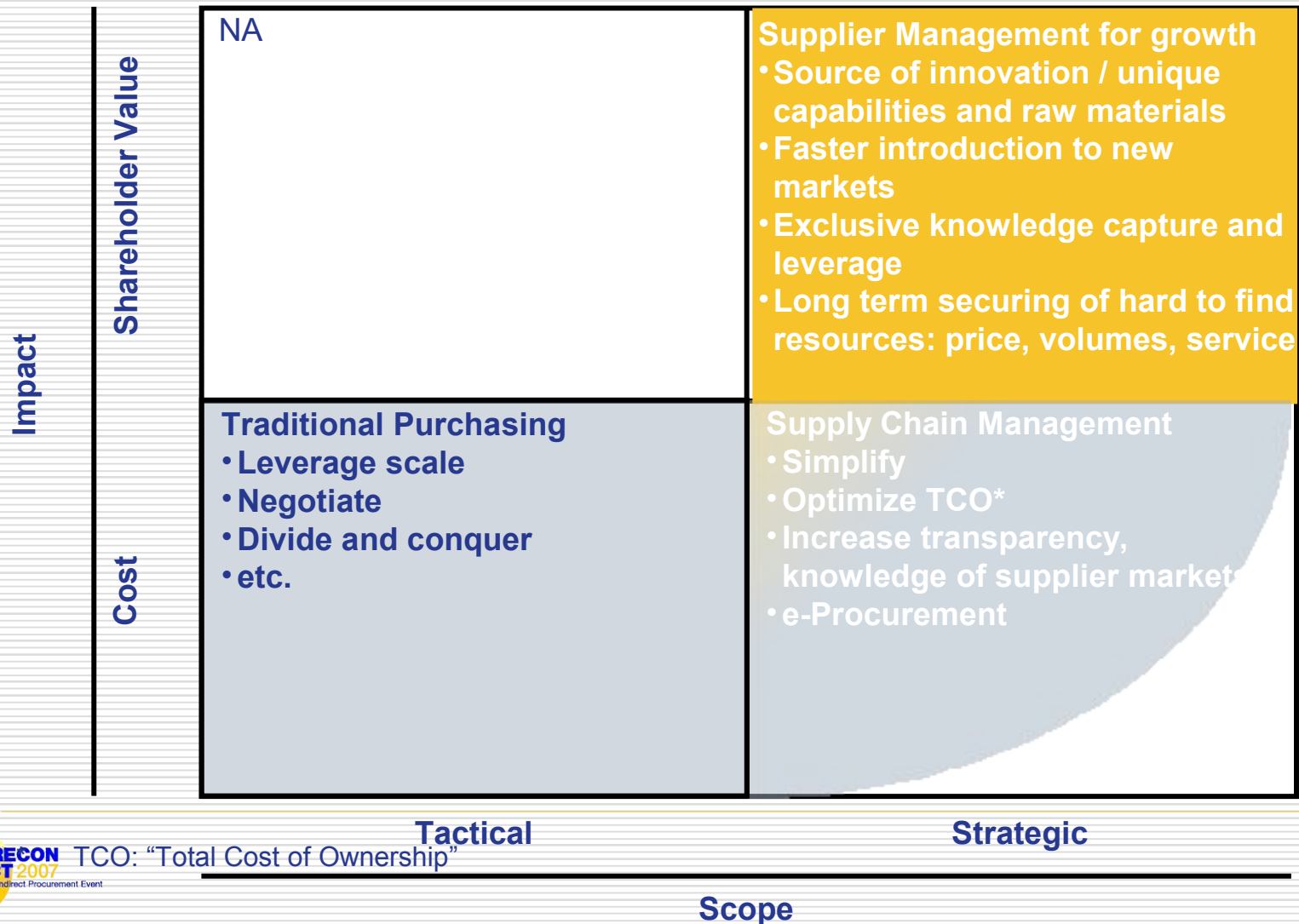
Today Procurement can deliver value

- Characteristics of Value Creating Resources*
 - Valuable
 - Rare
 - Imperfectly imitable
 - Not substitutable
- Suppliers can provide competitive advantages if they meet those four criteria

Therefore we adapt Porter's view



... highlight our Value Creation role



Strategic Procurement redefined

- Use of Procurement skills and best practices to define, search, capture, isolate, manage and improve resources external to the firm capable of delivering sustainable competitive advantages
- Create value for vendor and client
- Cross functional
- On the CEO agenda

Lets focus on innovation rich spend categories

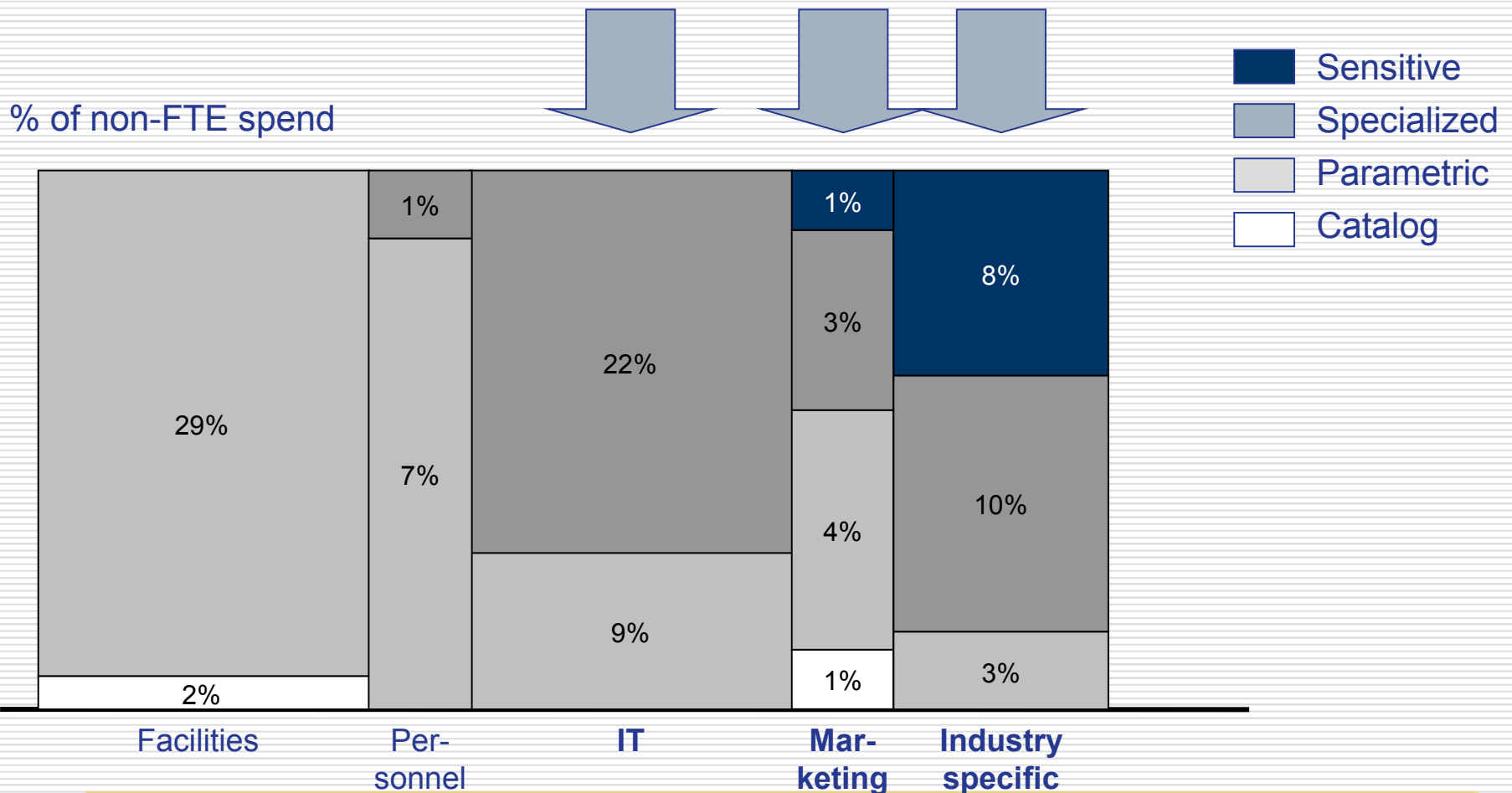
| | Catalogue | Parametric | Specialized | Sensitive |
|-------------|--|--|--|---|
| Description | Commodities. Strictly defined. Requirements usually available on a pre-defined catalog | Unique products or services. Cost can be set through a set of parameters | Unique products, usually of strategic value to the company | Usually services Supplier selection involves long term relationships, unique skills difficult to compare, etc. |
| Example | <i>Office supplies</i> | <i>Printed matter Car fleets Office Equipment Cleaning</i> | <i>Advertising campaign IT development outsourcing</i> | <i>Some professional services, Sponsorship</i> |
| Drivers | Transaction efficiency Transparency | Cost understanding, cost models | Optimized need Supply economics | Relationships In-depth expertise |
| Tools | Catalogues P-cards ePSM | Cross functional teams to reduce purchase to set of known drivers | Cross functional teams Relation building | Limited purchasing involvement, usually to provide or source expert advice |

Increasing Commonality

Increasing Complexity

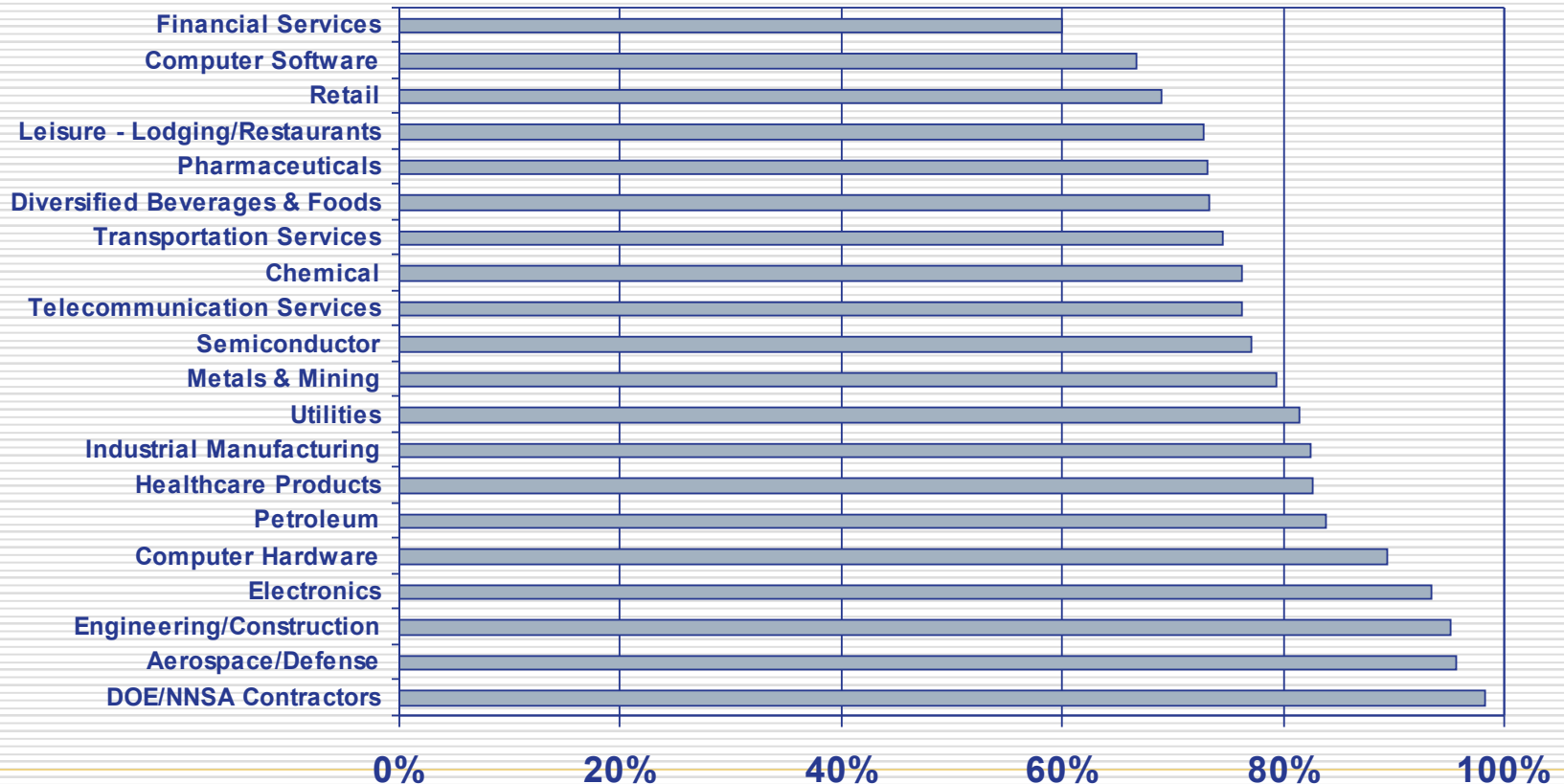
Increasing Involvement of Functions in multi-function teams

They can represent ¼ to ½ of total spend



But often outside CPO responsibility

% Spend under CPO control



Source : CAPS / Institute for Supply Management™ and Arizona State University Cross Industry Study 2006

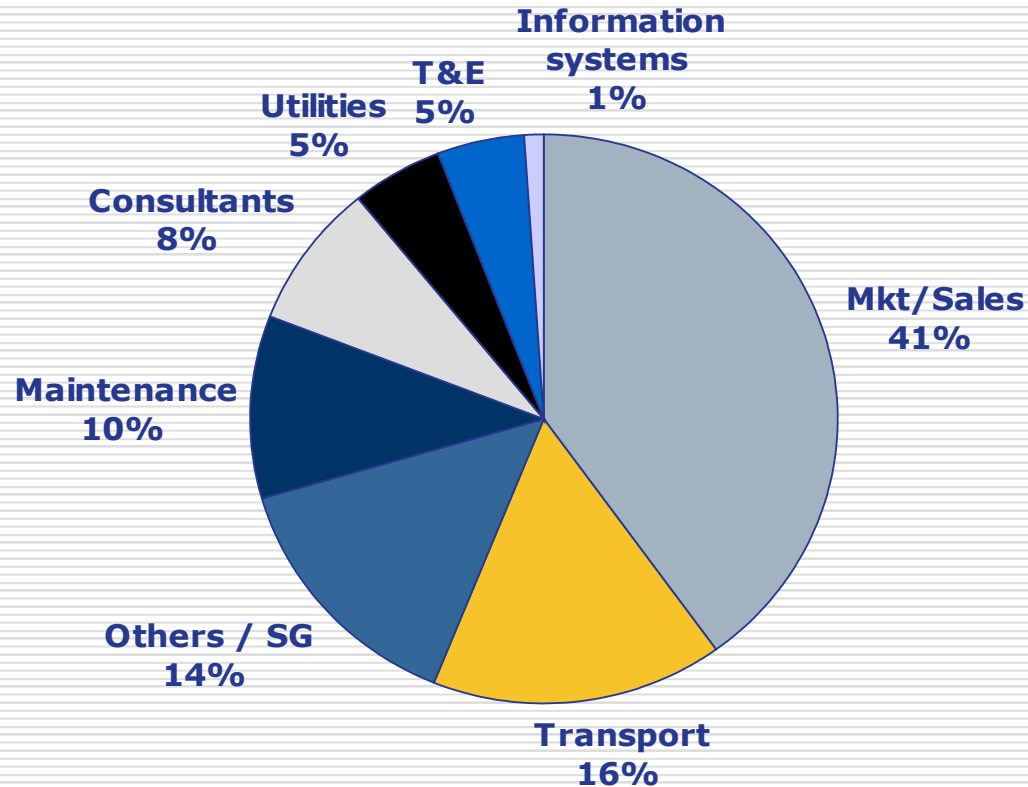
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Examples

- ❑ FMCG: Innovative Displays
- ❑ Pharmaceutical: Critical support to clinical testing
- ❑ Biotech: Capital

In consumer goods, marketing is the largest category

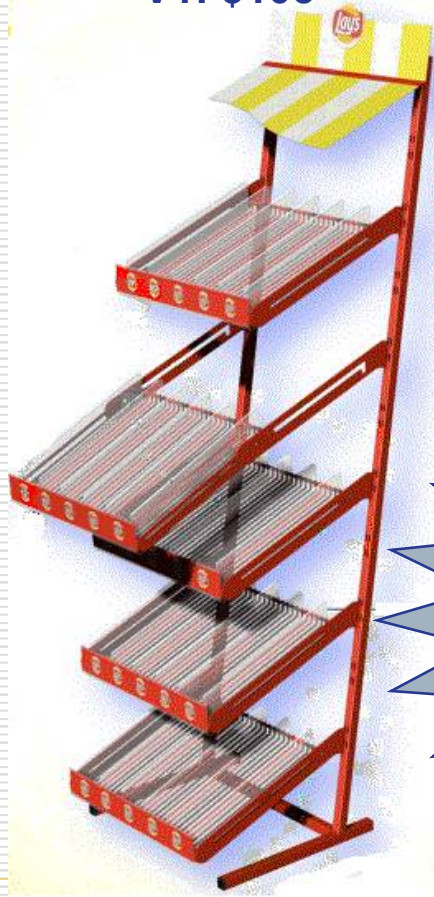


Better displays

Before Project: \$173



V1: \$105



V2: \$80



- Faster refilling
- Better visibility
- Less product damage
- Lower cost
- **Exclusive Design**

Corporate Sustainable Advantages Mission Logo

MISSION

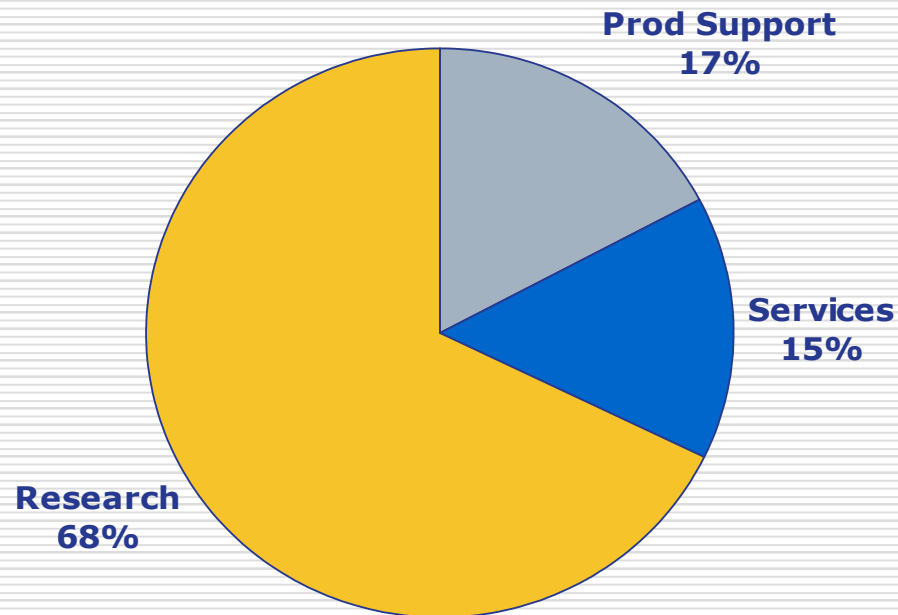
Our Objective is to leverage Purchasing as a significant source of Sustainable Cost Advantage and Proprietary Barrier to Entry, whilst delivering 100 % Consumer preferred specifications to every plant, every day.



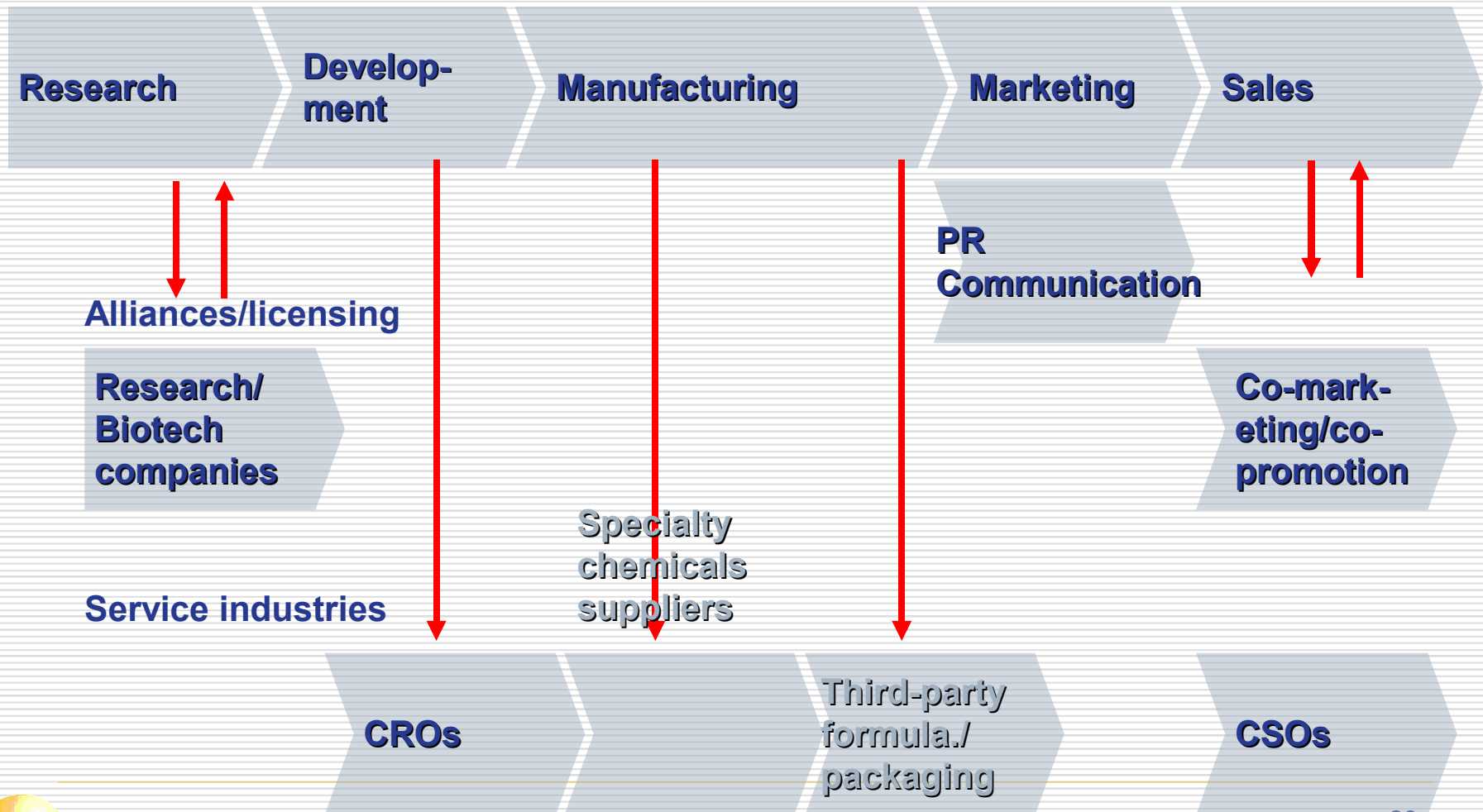
STACKED WINS

- Innovation
- Quality
- Service
- Cost

In pharma, research represents the bulk of indirect



New vendor relationships in Pharma



Pharma Example: R&D outsourcing

- ❑ Virus with about 100 variants. Some can induce lesions that can become cancerous
- ❑ Two variants are dangerous and must be identified (up to 70% of the cancer cases)
- ❑ Task: confirm that the vaccine protects against 100% of infections due to those variants in clinical studies
- ❑ The market for this vaccine is €3-6 billion in 2010, to be shared between 2 competitive solutions

Focus on the development of competitive advantages

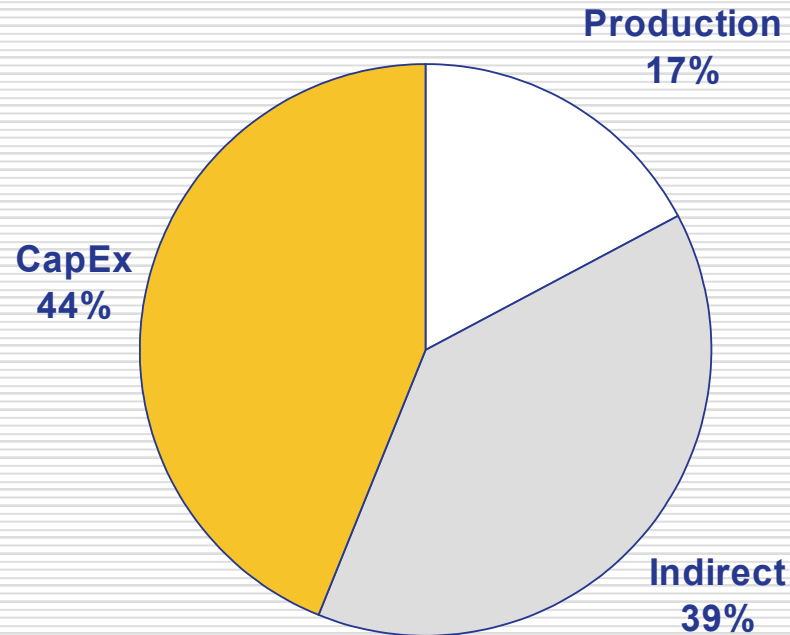
- Partnership with the company which has developed the test to increase the value of clinical results versus the competitive vaccine
- As volume increases contract with the partner to handle all the tests
 - Preferred access for 5 years
 - Investment in dedicated lines
 - Reimbursement of investments identified in the cost of processing the samples

Clinical Field Test Resources

- ❑ Rigorous TCO data analysis of insourcing, outsourcing and permanent hire options
- ❑ Identification of alternative suppliers to broaden the options
- ❑ Development of partners in critical geographical area (China, RSA, Latin Am.)
- ❑ Better knowledge of field specificities, faster subject enrolment and better tracking give more reliable results

In fast growing companies, capital spending must also be addressed

Spend Allocation by Category Biotechnology



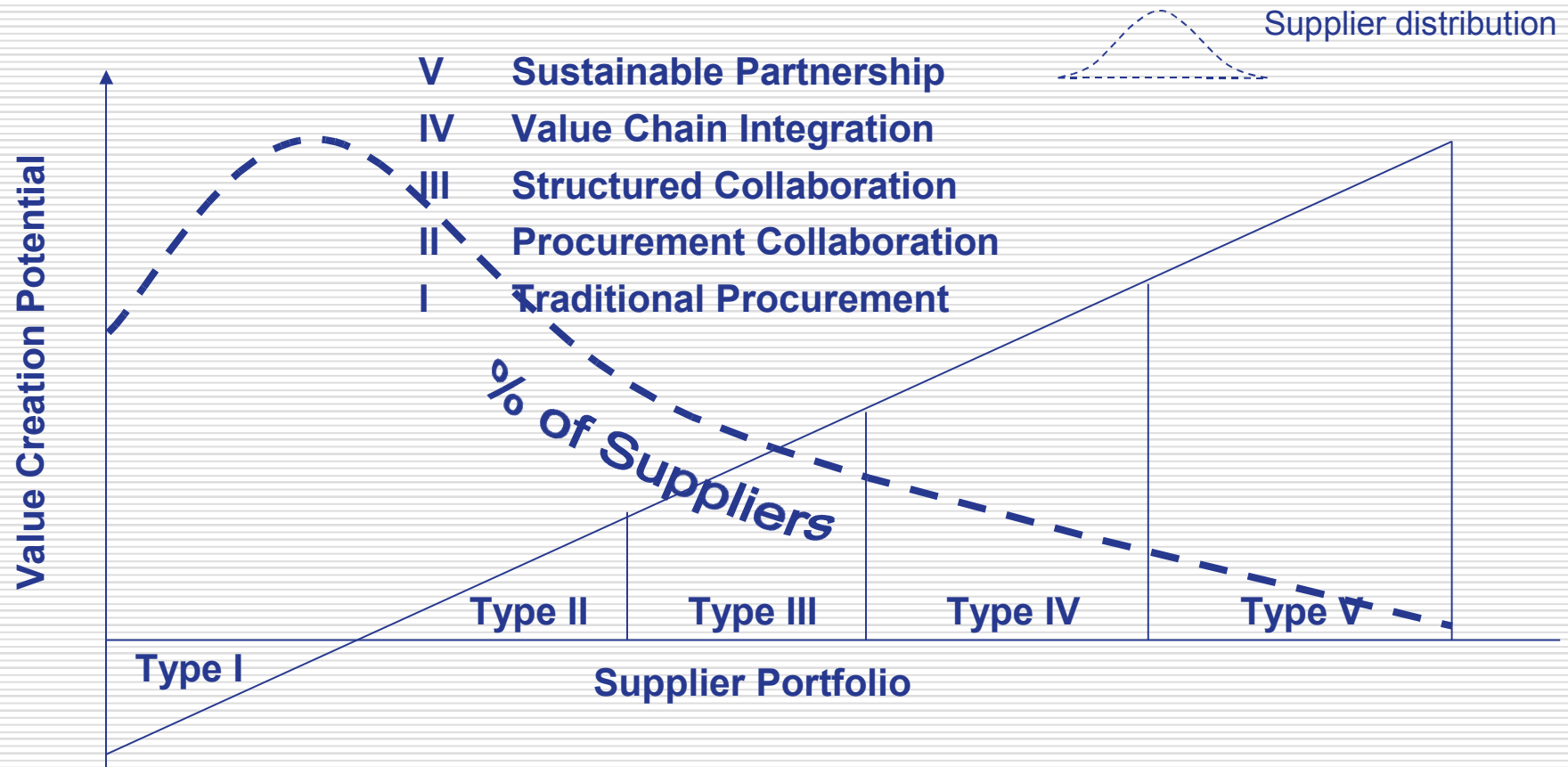
Biotech

- ❑ Development of an innovative way to network low cost computers to reach super computer performance at a fraction of the cost
- ❑ Faster and more massive processing of sequencing results
- ❑ Leapfrog of competition

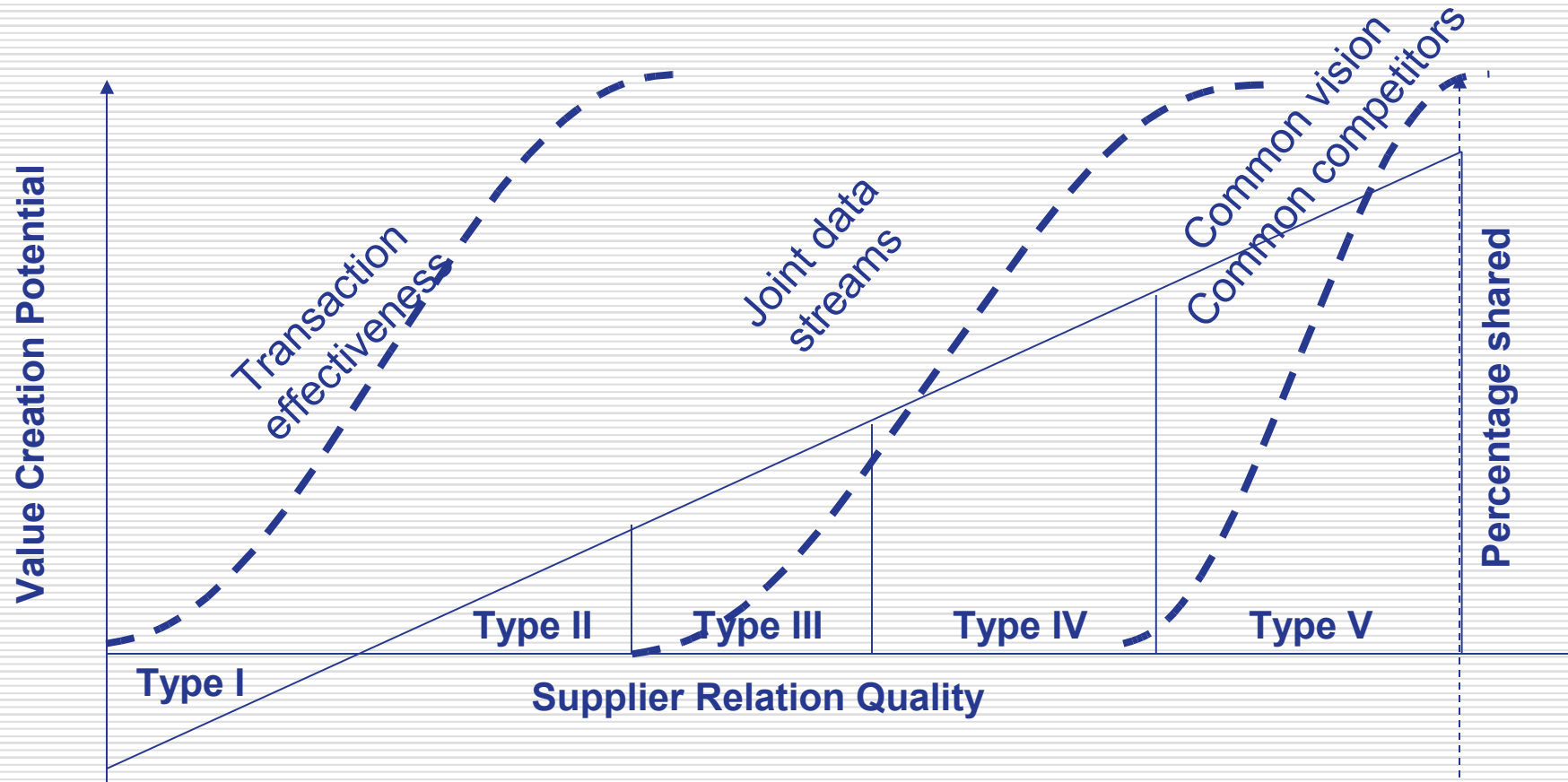
Other examples

- ❑ Entertainment software on mobile phones or in PC Banking
- ❑ Packaging equipment in FMCG
- ❑ Entertainment add-ons in fast food

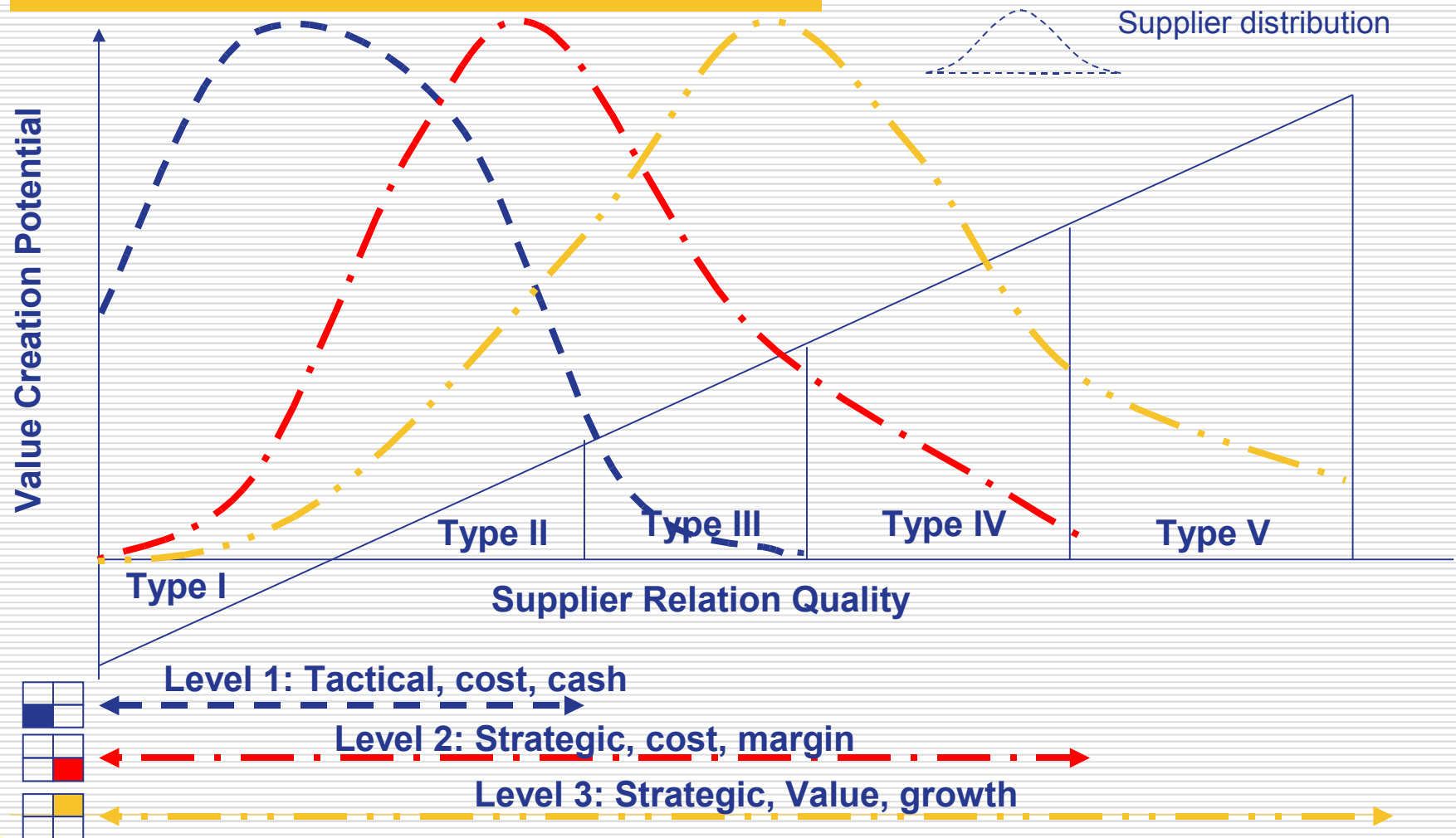
Managing multiple relationships becomes essential



Shared objectives change as relations mature



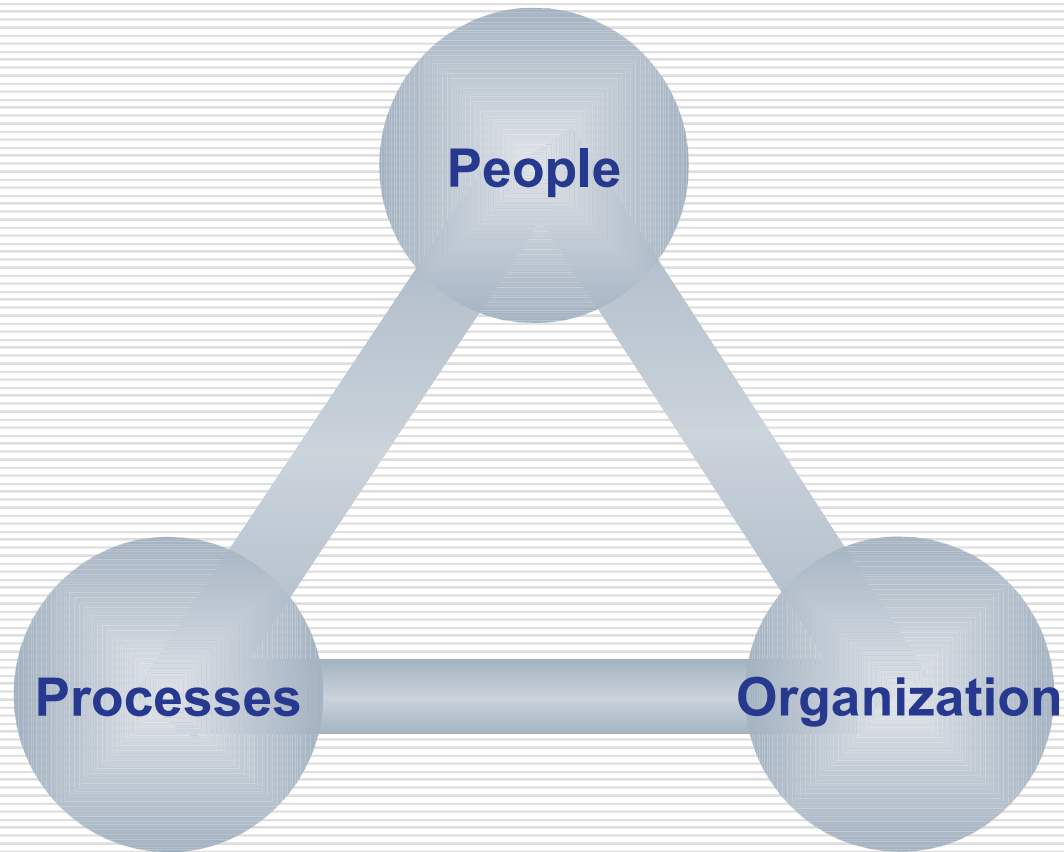
A richer portfolio in high performance organizations



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1. **Indirect Procurement Evolution**
2. **Competitive Advantages**
3. **Collaborative Sourcing**
4. **How to do it?**

Three key elements to capture the value of collaborative sourcing



Develop a new breed of professionals

Bio-pharma sourcing manager

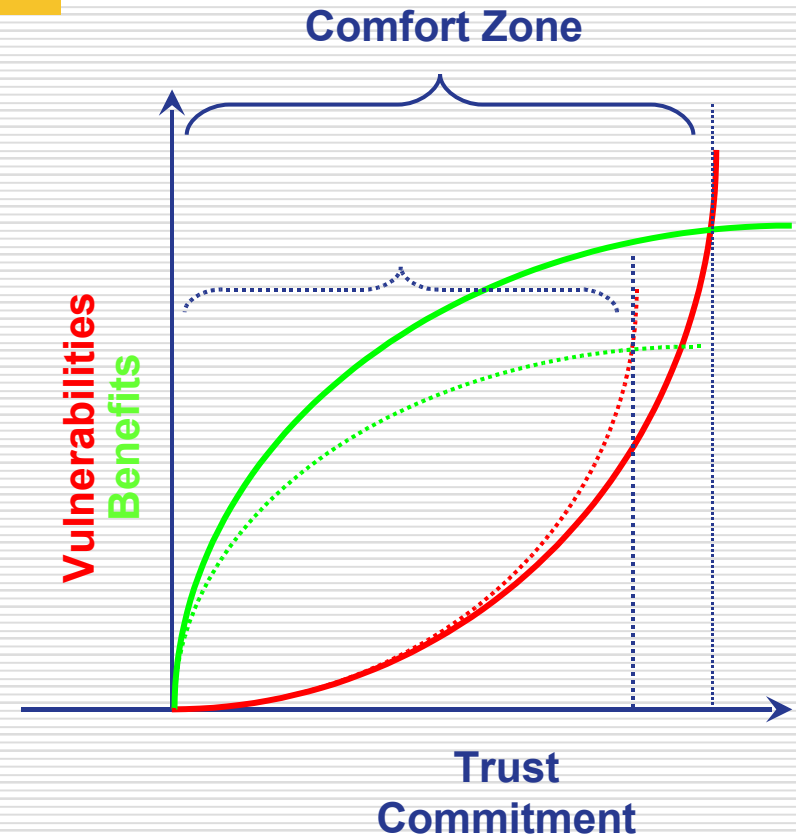
| | |
|------------------------|---|
| Area of Responsibility | Service Procurement Global leader: support sites in Europe and North America |
| Education | Post grad degree in Purchasing Management Graduate degree in Business |
| Working Languages | French, English, some Chinese |
| Objectives | <ul style="list-style-type: none">□ Convince marketing professionals under extreme time pressure of the value of professional procurement involvement□ Professionalize communication service providers commercial management□ Extend support to intellectual property contracts in clinical support |

Nurture and empower

- Leverage all what they can give. Stretch them
 - They manage much larger portfolios than their classmates
 - They are in critical project teams
- Coach them, specially in communication, for instance to rehearse their presentations to top management to teach them “consulting tricks”
- Take risks
- Provide positive and negative feedback when the issues are hot

Understand and develop trust

- ❑ Contracts are time consuming
- ❑ Contracts cannot account for all future events
- ❑ Contracts do not change attitudes
- ❑ Trust must be balanced against risks
- ❑ And take in account both partners point of view



Embed

- Main office in close proximity to function served (marketing, engineering, R&D)
- Ideally with dual expertise procurement staff
- But maintaining the organization link to CPO
 - Objective setting
 - Strong cover

Justify added value for function supported

- Focus initially on time constrained “clients”
- Take charge of all support aspects of supplier management
- Add value without threatening to take the final decision away
- Convince rather than enforce

Measure team performance with shareholder value in mind

- Understand how to blend cost and non cost objectives
 - 50% efficiency
 - 50% innovation
- Track performance on a regular basis
- Communicate outside the function

Measure also how you fare with your suppliers

- “Behavioral” questionnaire
- Grade from 1 to 7
- Annual or bi-annual edition
- Should be run by “pairs” of relation ,with different surveys if the same supplier works with different departments or groups
- Focus on strategic suppliers
 - Representing “partnership” opportunity
 - Providing innovation rather than commodity
 - Critical component of finished product or service

Focus on the relationship components

□ Trust

- Supplier trust of the client
- Open and honest communication with suppliers

□ Effectiveness

- Integrator providing timely information to suppliers
- Degree of help the client provides the supplier to reduce cost and improve quality
- Level of excessive and late engineering changes
- How early suppliers are involved in the client product development process
- Supplier's perception that its suggestions are integrated

□ Fairness

- Whether a client gives the supplier some means to recover costs on cancelled or delayed programs
- Suppliers' perceived ability to make an acceptable return over the long term on the Integrator's business

Summary

- ❑ Strategic Procurement role is to manage all external resources to reach corporate objective
- ❑ Innovation in indirect and services is the last frontier for the CPO
- ❑ Through effective cooperation with suppliers you can either increase your capacity of bringing innovative products and services faster to market than your competition, or you can drive down the cost thereby allowing you to sell more aggressively
- ❑ A vision of strategic collaborative relations is nothing without the right people, process, and organization

Collaboration is for all organizations

- ❑ Can be accomplished by any company
- ❑ Unlocks the potential of all functions
- ❑ Is the key to leveraging your suppliers' capabilities to your exclusive benefit
- ❑ Confers advantage when executed better than competition
- ❑ Should be thought of as an investment and managed for ROI

Shifting the Focus From Cost to Value

- Focusing on strategic relationships
- Managing relationships for value
- Harnessing supplier segmentation



From

Cost Out

- Price down
- Cost down
- Process redesign
- Incremental improvement

To

Value In

- Revenue growth
- Competitive advantage
- Innovation capture
- Business differentiation

Round table follow-up and future research

What is your perspective on competitive Advantages in Indirect Procurement?

- ☐ What is a competitive advantage?
- ☐ This is not for Procurement
- ☐ We understand the potential but see no applications
- ☐ We begin to look at ways to differentiate versus our competitors even in Indirect Procurement
- ☐ This is part of the company culture for all functions, top to bottom

In which area do you see potential for competitive advantages

- ☐ Email your answers to mhp@collaborativesourcing.net
- ☐ Alternatively, answer at www.collaborativesourcing.net (starting tomorrow)

Erase

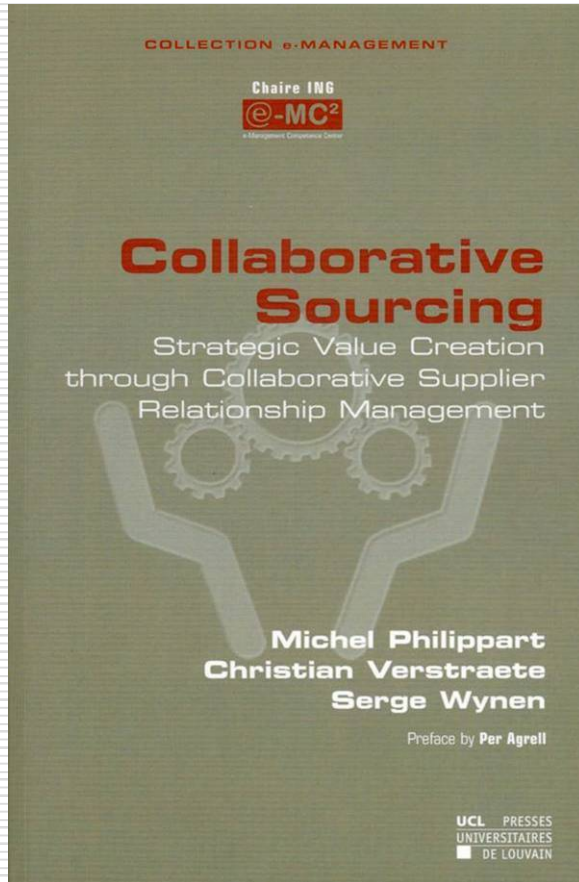
OK

Questions? Comments?

THANK YOU

- mhp@collaborativesourcing.net
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- “Collaborative Sourcing”, at www.i6doc.com

Passionate about Collaborative Sourcing



- **Collaborative Sourcing:
*Strategic Value Creation through
Collaborative
Supplier Relationship Management***
 - ***Strategic Framework***
 - ***Business Process & Infrastructures***
 - ***People & Change***
- **Co-authors: Michel Philippart, Christian Verstraete and Serge Wynen**
- **Publisher: University Press of Louvain (PUL)**
- **Distributor: i6doc.com**