

10th Annual ISM Services Conference

Workshop Code: UC

Developing an Effective Strategic Procurement Plan - “Addressing the Five W’s (and one H)”

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Agenda

- Defined
- Why?
- Process overview
- The Five W’s (and one H)
- Plan structure example
- Final steps



What is a Strategic Procurement Plan?

A Strategic Procurement Plan is a dynamic roadmap that navigates the Sourcing/Procurement/Purchasing organization through its fiscal periods, aligning its direction with company goals and vision. When carried out, the initiatives identified in the Plan mature the organization and prepare it to manage the internal and external factors that affect the team's progress and success.



Why have a Strategic Procurement Plan?

- Do you know where your Procurement organization will be next year? Two years? Three years?
 - Now the BIG questions – Have you communicated this to executive management? How do you know they retained the information?
- Your organization does not know what you do not tell them
 - Without explanation of *what* Procurement is doing/planning to do, organizational leaders will only see results (good and bad)..... and wonder.
- Do you know how you will get there?
 - You get what you focus on
 - Strategic Procurement Plans focus your time on the important initiatives
 - Does your team know what initiatives will be necessary?
- To become more pro-active



Why have a Strategic Procurement Plan?

- Past success is not an automatic indicator or future success
- Effective, adhered to plans produce results
- Focuses the combined efforts of the workforce on the most important goals and tasks
 - Acts as a compass for your organization
- Your department will see the future in a clearer manner when they know the objectives they are reaching for
- Can assist in developing a competitive advantage in the market
- Fail to plan.....plan to fail



Why have a Strategic Procurement Plan?

And the number 1 reason...

- Because you cannot afford to NOT have a plan
 - Procurement is one of the leading growth areas in industry today
 - From the back-office to the front-lines

“Simply put, in no other period has sourcing had so much power to make a significant impact in support of a company’s strategic direction and overall competitiveness”

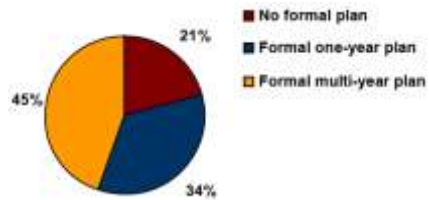
Houston, Schwarting, Spieker & Turner – Booz & Co, 2008



Why have a Strategic Procurement Plan?

“58% of Best-In-Class enterprises manage from multi-year strategic procurement plans.”

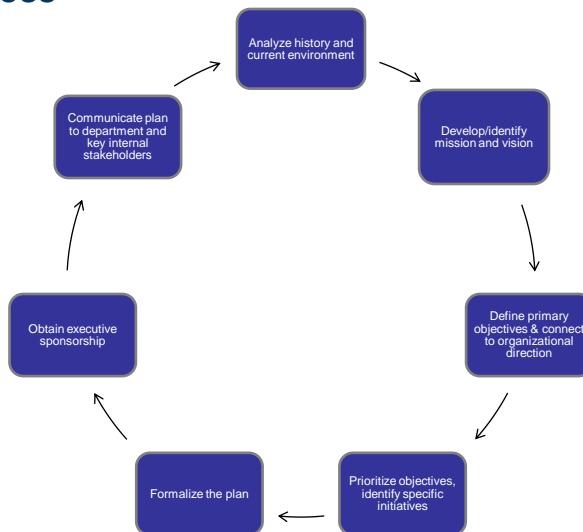
Aberdeen Group, 2008



Source: Aberdeen Group, February 2008



The Process



The Five W's (and one H)

- Effective strategic procurement plans include:
 - *What* we will accomplish (Primary goals)
 - *How* we will achieve objectives (Key initiatives to reach primary goals)
 - *Why* it is important (What organizational objectives do they align with)
 - *When* it will be complete (Estimated targets allow for resource allocation and organizational communication)
 - *Who* will benefit from the accomplishment (Develops buy-in to objectives from executives and business units)
 - *Where* value will be achieved (ROI – building further support for objectives)



WHAT

- What will be accomplished
 - Do not be too aggressive
 - Understand differences between what you want to accomplish, what you can accomplish, and what you need to accomplish
 - Objectives must be aligned with organizational vision and objectives



Strategic Objectives Prioritization



- Primary Objectives (1)
 - Highest motivation to deliver
 - Resources/technologies in place or easily implemented
 - Buy-in from business units
 - Highest degree of success
 - Aligned with organizational objectives
- Secondary Objectives (2-4)
 - Collaborative process enhancements (2)
 - Enhancements of existing, heavy-resource internal processes/capabilities (3)
 - Important improvements where no technologies/resources exist today
- “Nice-to-Have’s” (5-7)
 - Efficiencies required by business units (5)
 - Enhancement of existing, non-essential, internal processes/capabilities (6)
 - Cutting edge developments (7)



HOW

- How objectives are to be achieved
 - Initiatives are needed to demonstrate the actions necessary to achieve specific objectives
 - Objectives are elephants
 - Initiatives allow carving out of short-term achievements/milestones
 - Initiatives are easier to develop timelines for completion
 - This is vital for resource or cross-functional team needs



WHY

- The Importance of alignment with organizational goals
 - Ensures Procurement is in support with organizational direction
 - Fall behind, and risk being Left Behind
 - Builds collaboration and endorsement for priorities
 - Executives most likely to support what helps them move their needle
 - Is pro-active to develop initiatives that are a likely “push” down from business units or executives anyway



WHEN

- Timelines
 - Objectives must be scheduled in concurrence with day-to-day activities
 - Resource allocation and coordination must be managed carefully
 - Priority given to objectives/initiatives where resources are readily available and those that assist organizational priorities to be completed
 - Reliance on internal/external resources, technology or information must be considered



WHO

- Beneficiaries of the successful objectives
 - Rarely are procurement objectives solely driven for procurement processes
 - Connection to business processes adds considerable value
 - Developing a diverse link to business units further enhances the cross-functional team development and demand
 - Supports the business units and their objectives with exposure to executives



WHERE

- Value Drivers
 - When identifying beneficiaries, determination as to efficiency levels will be a value driver
 - Example: Implementation of a contract lifecycle management solution decreases labor spent by legal counsel, end users, et al in regards to contract management
 - Numbers speak louder than words
 - Quantify value wherever possible
 - If objectives carry implementation cost or initial/ongoing investment, break-even, ROI timelines are important



STRUCTURE

- Introduction
 - “Letter from the CPO”
 - High-level overview of previous year
 - Key objectives (summary only – successes and failures)
 - General statement of departmental focus, industry drivers
 - Role of Procurement
 - Comparison of organizational sourcing to best-in-class
 - Introduction to key drivers (e.g. contract compliance, “maverick” spend, green purchasing practices, et al)
 - Value proposition
 - Can be summarized or broken out by stakeholder groups



STRUCTURE

- Review of Previous Fiscal Year*
 - Include the objective and key initiatives
 - Success, Failure, or Postponement
 - Key factors for results
 - If Failure or Postponement, re-assignment?



STRUCTURE

- Current Environment
 - Mission/Strategy
 - This sets the tone for the objectives
 - If you do not have a departmental mission – make one!
 - Stakeholders
 - Include EVERYONE of value
 - This recognizes who you work for and why you are relevant
 - Technology
 - Summary of ERP, P2P, CLM, other systems necessary for Procurement effectiveness



STRUCTURE

- Current Environment
 - Volume
 - At least two (2) fiscal years to demonstrate trends
 - Include key Procurement measurements
 - » Spend Under Management
 - » Total Spend
 - » RFP's
 - » Total Purchase Orders/Requisitions
 - » Contracts
 - » Human Capital (Workforce size/composition)
 - SWOT Analysis



STRUCTURE

- Objectives/Priorities
 - Perpetual Priority Areas
 - Typically not objectives that can ever be “finalized” (e.g. Customer Service, Strategic Partnerships, Talent Development)
 - One-year Objectives
 - Strategic Objectives
 - Can be labeled or coded for later connection to key initiatives
 - Must be aligned to and support organizational objectives
 - » Summarize which organizational objectives are supported by each
 - Key Strategic Initiatives/Deliverables
 - Much more itemized and specific than Strategic Objectives
 - Referenced back to strategic objectives
 - Include definition, purpose of initiative
 - Expected timeline to complete
 - Short summary of main activities



STRUCTURE

- Objectives/Priorities
 - Multi-year Objectives
 - Can be two-year, three-year or beyond, depending on the status of Procurement, market volatility, and general industry drivers
 - Should be objectives that current one-year objectives build up to achieve
 - One-Year Objective = Develop standard supplier scorecard
 - Multi-Year Objective = Evaluate 100% of key strategic partners bi-annually



STRUCTURE

- Key Measurements
 - How will Procurement be evaluated for its fiscal success?
 - Define measurement – its relation to organizational success
 - **MUST BE MEASURABLE**
 - Specific Measurements (goals) can be communicated in an appendix
 - Final measurements should be approved by Executive Leadership
 - Common measurements include:
 - Cost Savings
 - Cost avoidance
 - Spend Under Management
 - P2P Efficiency (Req to Check timelines)
 - Procurement ROI
 - Customer Service Rating



STRUCTURE

- Critical Success Factors
 - What is going to affect Procurement's ability to achieve its objectives?
 - Can be internal, external, economic, operational, industrial, environmental
 - Definitions should include contingency recommendations



STRUCTURE

- Key Relationships
 - Who is vital to the success of Procurement?
 - Internal
 - External
 - Resources (ISM, Aberdeen, et al)
 - Why are they vital?



SPONSORSHIP & FOLLOW-UP

- Gain executive sponsorship/approval for the Plan
 - Ensures maximum integration of the Plan within the organization
- Present the Plan and explain it clearly to the Procurement workforce
 - 95% of a typical workforce doesn't understand its organizational strategy*
 - 90% of organizations fail to execute their strategies successfully*
 - 86% of executive teams spend less than one-hour per month discussing strategy*

* Erica Olsen, 2007



KEY TAKE-AWAYS

- Learn from the past, do not Live in the past
- Balance your initiatives with quick wins and enterprise developments
- Find your core values, and emulate them daily
- Know your limits
- Keep your crystal ball polished
- Be a Corporate Citizen



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Questions & Answers

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Specific Environment Questions

- How often should strategic procurement plans be developed/revised?
 - Most common: Annual
- How far out should strategic procurement plans look into the future?
 - Most common: 1-3 years
- Who should be involved in developing the strategic procurement plan?
- How important is executive support and sponsorship of the strategic procurement plan?
- When should strategic procurement plans be developed/implemented?
 - Most common: Finalized by start of fiscal year
- Who should the final plan be issued to?
 - Most common: CEO, CFO, COO, Business Unit leaders supported by Procurement
- Who needs to be on the approval/review team?
- What feedback should be solicited from the plan?



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