

# STRATEGIC PROCUREMENT (An Often Overlooked Approach)

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# Introducing the Presenter...

**Manoj R. Yermalkar** is a Thought Leader in supply chain with over 26 years plus extensive experience in supply chain projects

Currently, he is Head of Procurement in ACG Engineering and also a Pune Chapter of ISM India.

He has worked in Project, process, product and engineering industries and has an additional experience of establishing supply chains in South East Asia. He proudly states to be alumni of Symbiosis International University.

His is basically a Mechanical engineer, enhanced his technical skills to Materials Management and International Business.

He considers himself as fortunate to hold great supply chain & procurement roles that have allowed me to understand and contribute in different industries.

He invests his available time in online course creations, related to procurement and supply chain, which are available on platforms like Udemy.

## RISK MITIGATION

How to De-risk the Supply Chain



## 5 CORE PRINCIPLES OF SOURCING

Coherence, Alignment, Rigour, Openness & Commerciality



## VALUE

You will understand how to deliver business value and competitive advantage for the organization.



# KEY TAKEAWAYS

STRATEGIC  
PROCUREMENT

## STRATEGY CREATION

Importance of Procurement Strategy Creation



## BENEFITS

Benefits of Strategic procurement in terms of bottom-line improvement



## AGILITY

You will learn how Strategic Procurement makes the function Agile



# A

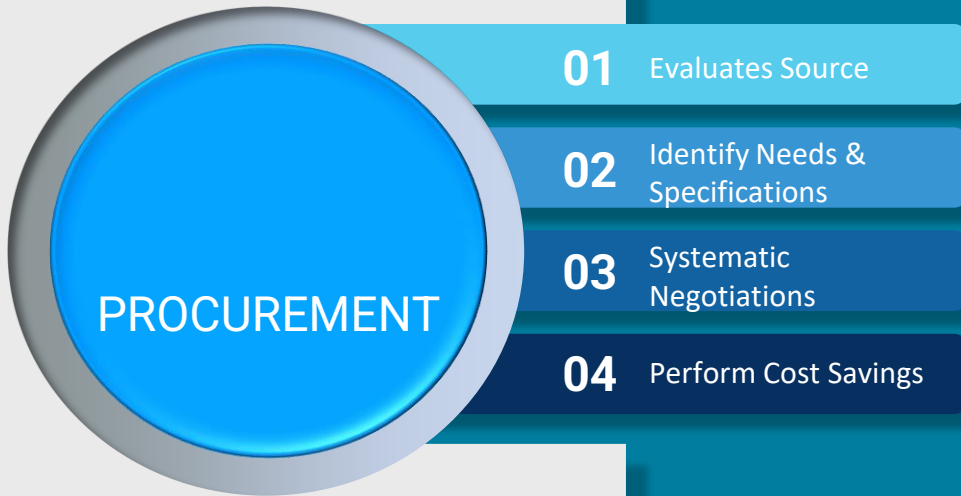
Procurement concentrates on the strategic process of product / service sourcing, for example researching, negotiation and planning

## V/S

### Procurement & Purchasing

# B

Purchasing focuses on how products and services are acquired and ordered, such as releasing purchase orders and arranging payment.



# Different Types Of Procurement

01



## OPERATIONAL PROCUREMENT

Operational Procurement deals with meeting the daily purchasing needs of organization. EXP: MRO Purchasing

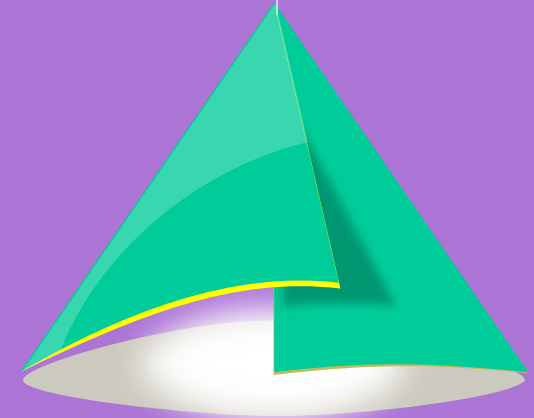
02



## TACTICAL PROCUREMENT

Result in business processes receiving the right goods and services. This involves handling the procurement process from the specification of needs to negotiation and contracting. Other important aspects include the management, control and assessment of supplier relationships as well as continuous improvement of supplier performance.

03



## STRATEGIC PROCUREMENT

Besides dealing with buying products on time and budget, focuses on finding efficiencies across spend categories, minimizing supply risks, improving vendor selection, and bringing greater visibility to pricing and forecasting.



UNDERSTANDING THE  
WHAT, WHY, & HOW OF  
**STRATEGIC SOURCING**

## What is Strategic Procurement

**Strategic procurement**, also known as strategic sourcing, refers to the long-range plan to ensure a timely supply of material and services that are critical to an organization's ability to meet its core objectives / strategies / business plans

**Strategic procurement** deals with the development of cost-saving potential, IT, improved procedures and logistics, high consumer demands, increasing environmental awareness and transparency requirements, and dynamic competition.

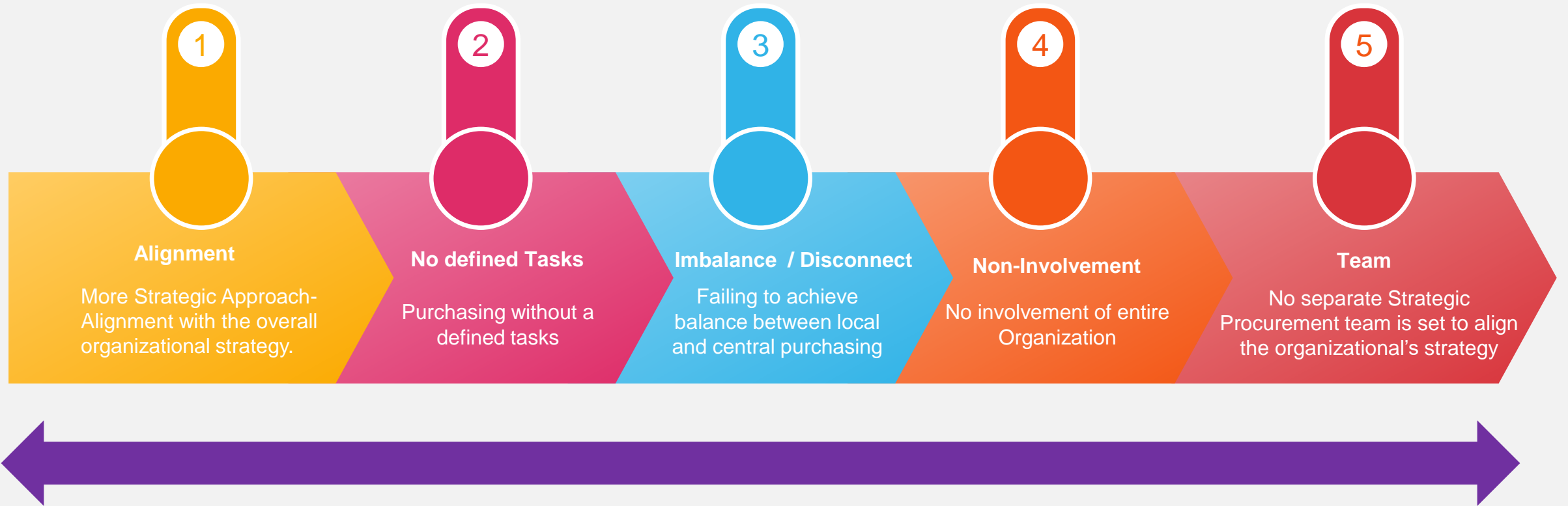
**As compared with regular procurement**, strategic procurement involves finding efficiencies across spend categories, minimizing supply risks, improving vendor selection, and bringing greater visibility to pricing and forecasting.

**It incorporates actions** aimed at rationalizing the overall supplier base, effective negotiations, systematic communications, and working to maintain long-term relationships with supply chain partners.

**Strategic sourcing views** suppliers as crucial value partners and aims to build sustained, collaborative relations.

**When done correctly**, strategic procurement can help an organization optimize its profit margin, lower risk, and streamline the internal process of procuring goods and services necessary to achieve business outcomes.

# What is Missing Today





# Traditionnel Procurement vs. Strategic Sourcing

## Strategic sourcing principles

- Decisions based on big-picture value
- Partnerships preferred over transactional interactions
- Considers total cost of ownership
- Prioritizes the most important elements of a vendor's offer
- Highlights the value of the procurement department

## Strategic sourcing vendor considerations

Taking a holistic approach that weighs all aspects of the supplier relationship, the strategic sourcing process dip dives into anything that influences value. The subsequent vendor evaluation process then identifies which of these many considerations are most important.

- Quality of goods and services
- Brand reputation
- Financial stability
- Customizability of solution
- Technology adoption
- Customer satisfaction and support
- Vendor innovation
- Subcontracting and outsourcing
- Reliability and responsiveness
- Company culture and values
- Sustainability and diversity

# 5 Core Principles of Strategic Procurement



01

**COHERENCE**

Applying an end-to-end logic and consistency to the whole sourcing process i.e. understanding the aims and goals before you even start engaging the market,

02

**ALIGNMENT**

will ensure that our sourcing strategies and activities are well aligned with the needs of our organization and our internal stakeholders.

03

**RIGOUR**

Professional & Structured approach to generate good outcomes

04

**OPENNESS**

Open to new ideas, processes, suppliers etc

05

**COMMERCIALITY**

Whatever we chose must fetch commercial benefits to the Organization

## Strategic Procurement: an often overlooked approach

- ❖ An often overlooked approach, is what is called *strategic procurement*, which deals with how we purchase in a non-transactional matter.
- ❖ Strategic Procurement is all about purchasing better, by purchasing category or SKU (stock keeping unit – per individual type of item).
- ❖ You need to understand the supply market for each purchase category and also how important these goods or services are for your operation.
- ❖ Having this understanding allows the procurement area to understand that not all SKUs have the same importance, the same risk, and the same market conditions, which is the first step in changing the strategies for buying based on the criticality of the SKU or the supply conditions in the market.
- ❖ The potential benefit of doing your procurement more strategically cannot be overstated: A reduction of \$1 in the purchasing cost can be equal to an increase of up to \$6 or \$7 in new sales. It would depend on your company's own specific cost structure, but do the arithmetic with your own P&L.

- **Data might not be readily available,**
- **Purchasing personnel might be more operational and unfamiliar with the strategic procurement methodology, and thus even if the data is there, processing it to accomplish a spend analysis might be new territory for your procurement function.**
- **Your decision making culture may not be to place facts and data analysis first with the highest priority when taking a decision.**
- **Perhaps your more common tools are past experience and subjective managerial criteria, although highly qualified, but still subjective.**
- **Many companies have simplified their purchasing into “one size fits all” rules and policies that treat most SKUs as if they were the same, had the same importance or impact for the business.**
- **When there are variations or exceptions, they are either historical or circumstantial.**

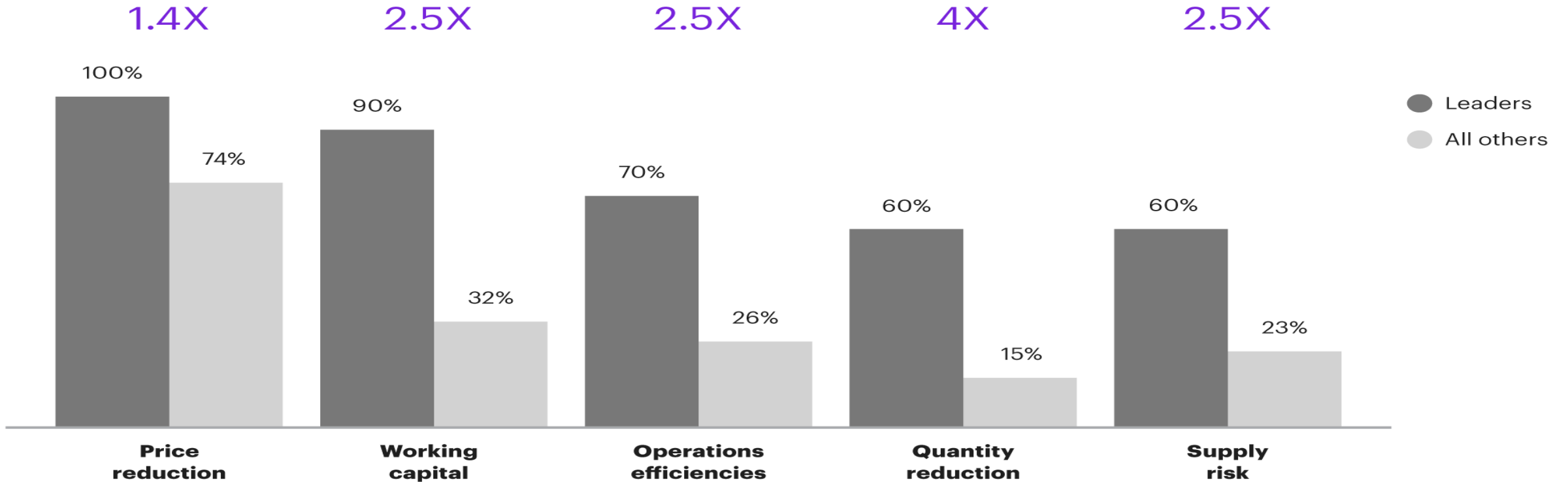
- An opportunity exists for Procurement professionals to drive real value for their organizations and – as a result – tangible competitive advantage
- According to our survey, many Procurement functions still do not operate at a strategic level within the context of their wider organizations and – as a result – are neither recognized nor delivering as a true partner to the business
- Most companies outside of the Retail sector indicate that less than three-quarters of their direct spend is currently under contract.
- With the exception of Retail, less than 75% of third-party spend is under an active contract
- By increasing the level of spend under contract, Procurement can achieve significant strategic benefits for the organisation such as increased leverage of spend, improved pricing, higher discounts, reduced risk of supply failure or contractual disputes.
- Moreover, effective contract management also tends to result in better supplier segmentation allowing businesses to identify and track their top suppliers and – as a result – better manage risk (an area of particular importance given the high volatility experienced by most businesses in recent years).
- 31% admitted they do not participate in ‘make versus buy’ decisions

# A.T.KERNEY & KPMG Findings- Global Survey of Procurement Functions

## Procurement has made a high impact in several areas at businesses with leading procurement organizations

Percentage of respondents reporting that procurement had a high impact on each dimension of value

Leaders get a broader array of value (% responding "high impact")




Sources: 2019 AEP; Kearney analysis



# WHY DO WE NEED STRATEGIC SOURCING?





## WHY DO WE NEED STRATEGIC SOURCING?

### Increased Level of Cost Savings

The most obvious benefit businesses will experience from strategic sourcing would be higher levels of cost savings. By identifying and selecting suppliers that will provide the highest value at the right pricing will enable an organization to continuously achieve higher cost savings.

01

### Better Alignment of Sourcing and Business Objectives

Aligning the sourcing activities of a business to its organizational goals and objectives is at the crux of strategic sourcing.

02

### Optimization of Ideal Suppliers

In order to effectively implement strategic sourcing in your organization, it is necessary to analyze the suppliers, their profiles, and core capabilities.

03

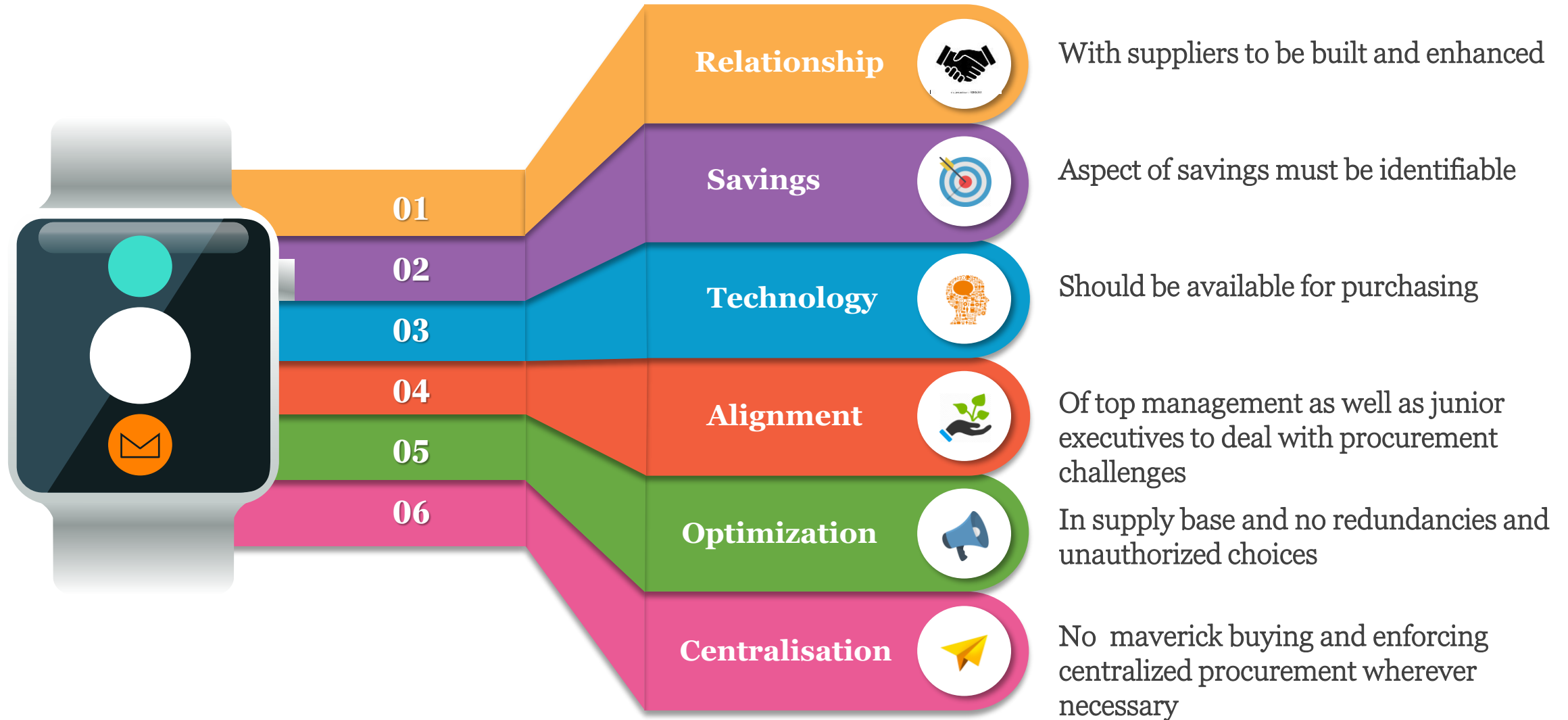
### Long-term Relationship Building with Suppliers

Focus on creating synergy between Organizations and it's suppliers. Suppliers feel motivated, valued & it helps in optimizing their performance, to meet Organization's objectives

04



# Prerequisites



## Identification and Categorization of Spend Profiles

Identify the spend and Categorize it based on criticality to prioritize the sourcing areas. The categorization can also be domestic / international spend

## Build a sourcing strategy

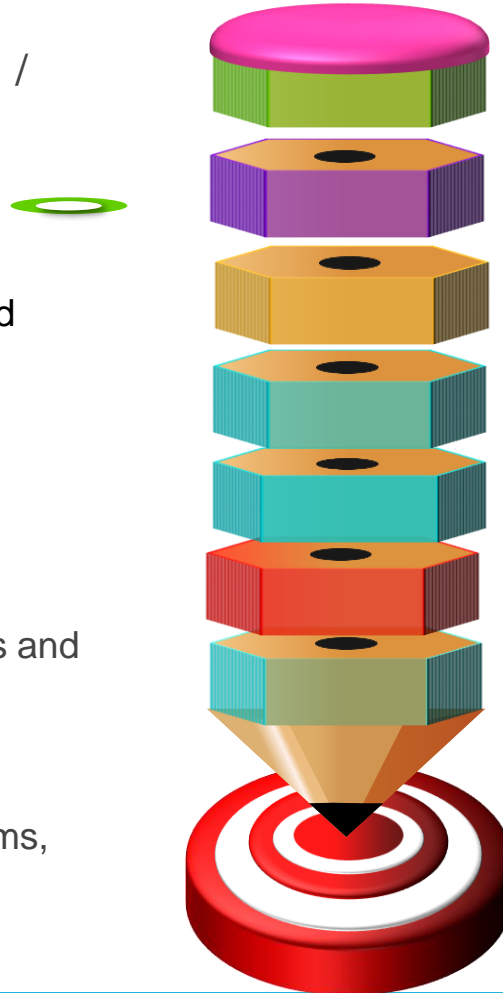
Building a strategy on how each categorized spend area will be approached. Goals, objectives and communtimelines must be absolutely clear..

## Analysis of Supplier Market

From where to source, supplier market share, risks and opportunities surrounding the supplier market

## Initiate RFP/ RFQ Process

Clear requirements and specifications, quality norms, warranty etc to be spelled out completely



## Supplier selections and on boarding

## Supplier Performance Measurement & Periodic Tracking

This can significantly help organizations understand supplier risks and design strategies to mitigate all possible supply chain disruptions.

## SRM Implementation

SRM enhances the level of collaboration between an organization and its suppliers by transforming a mere customer-buyer relationship into strategic value partners.. It helps in value maximization

- While strategic sourcing skills are critical the most widely needed skills in procurement are business skills  
Exp. Relationship Management, Business Acumen, Problem solving etc.
- To be viewed by stakeholders as more strategic (e.g. trusted advisor) we need well developed category strategies
- Working cross-functionally is an important enabler for the strategic sourcing process

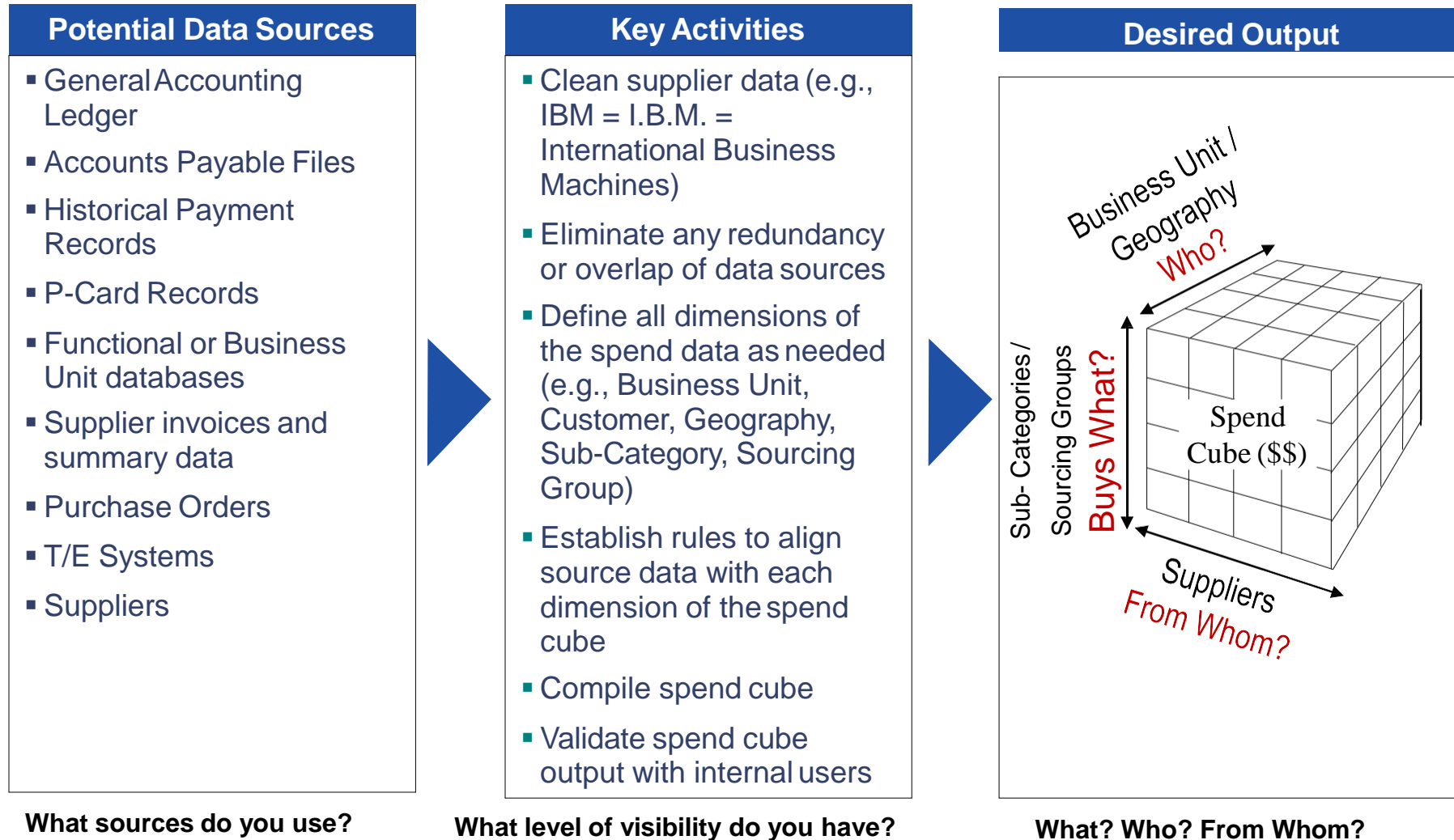
### Tools that help drive a successful strategic sourcing process

- Spend Analysis (Demand Profile)
- Market Analysis
- Strengths, Weaknesses, Opportunities, and Threats (SWOT)
- Total Cost of Ownership (TCO)\*

These tools build upon one another to arrive at the category strategy and are best applied through facilitated

# Spend analysis looks at who is buying what from whom?

A spend cube is multi-dimensional view of all external vendor spend categorized by commodity, supplier and a regional / organizational component



## Market analysis seek to understand key aspects of the external supply market that provides the category

1. Industry Level Analysis –explores the trends, technologies, cost drivers, etc.. of the supply market
2. Supplier Level Analysis –identifies key and niche suppliers, profiles capabilities, strengths, and weaknesses of suppliers
3. Sourcing Strategy Best Practices –document sourcing strategy levers being used by other companies with supply market

# Total cost of ownership analysis models all relevant costs associated with a sourcing decision for a material or service

## ▪ Supplier Price and Terms

- Unit price charged by a supplier to create a material or service ready for delivery and transaction terms for payment

## ▪ Delivery Costs

- Cost to deliver a completed material or service to its internal point of use

## ▪ Operations and Quality Costs

- Operational cost and supporting infrastructure implications associated with purchasing a material or service from a supplier
- Quality cost implications of purchasing a material or service from a supplier

## ▪ Other Costs

- Miscellaneous standard and situational costs associated with purchasing a material or service from a supplier

## Total Cost of Ownership



By understanding the overall cost of a category we can align our strategy to deliver on a broad set of stakeholder business objectives

# A Strengths, Weakness, Opportunities and Threats (SWOT) analysis helps uncover potential value levers around the category

Internal (Within the Buyer)	External (Outside the Buyer)
<p style="text-align: center;"><b>Strengths</b></p> <ul style="list-style-type: none"> <li>▪ Buyer characteristics that create or enhance the Buyer's power in the market</li> </ul>	<p style="text-align: center;"><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>▪ External market influences that present a potential benefit to the Buyer</li> </ul>
<p style="text-align: center;"><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>▪ Buyer shortcomings that reduce or eliminate the Buyer's power in the market</li> </ul>	<p style="text-align: center;"><b>Threats</b></p> <ul style="list-style-type: none"> <li>▪ External market influences that pose a risk to the Buyer</li> </ul>

Facilitate a discussion with stakeholders around their perspectives for each of the four areas and then think about how strategy will leverage



# Strategic Procurement Translates into Real Earnings

- ❑ Competition is always fierce and Global Slowdown is an intermittent phenomenon.
- ❑ Under these conditions, you cannot increase prices and you had better have a very good reason for adjusting your pricing strategy.
- ❑ When it comes to improving the margin on P & L, company looks into three areas as below
  - ✓ **Revenue and pricing:** trying to get more revenue for the same product or service (adjusting prices), or segregating the service into tiers (“up selling”) or other tactics that bring a risk that may or may not materialize, depending on the company’s own position within the marketplace.
  - ✓ **Cost of Capital or Fresh Resources:** Depending on the country and type of market you operate in, there might be some help available in the form of subsidies or special grants, or debt conversion into lower interest
  - ✓ **Lowering your operational cost or production cost:** Trying to improve your cost position in some way (not financial cost, but the “run cost” of the operation) so that selling the same you get more income
- ❑ Strategic Procurement plays a vital role in Revenue & Pricing mainly by way of achieving cost reductions.
- ❑ The entire process centers around the goal of reducing spend. Starting with the first step of the strategic sourcing cycle, procurement professionals identify current costs overdue for optimization. Then, they gather data, explore stakeholder needs, research the current market and eventually issue a detailed **request for proposal** (RFP) to evaluate and select the ideal vendor.
- ❑ Because the selection process is more detailed than a traditional procurement project, both parties are invested in building a mutually beneficial and long-term partnership. As such, the relationship is ongoing and collaborative, ultimately resulting in reduced costs.

## What is a Procurement Strategy?

The term procurement strategy refers to a long-term plan to build strategic relationships with competitive suppliers to acquire the necessary goods and services of the best quality in a specific cost range and have them delivered on time.

**Strategic procurement** helps to determine which goods or services to select, from which suppliers, and how much to pay based on data about vendors, market, pricing, and other vital factors.

## What is the Purpose of a Procurement Strategy?

Procurement strategy reflects the company's vision, goals, and objectives and provides a set of methods and practices to align with them.

## Selecting Relevant Procurement Strategy

Every company is unique and requires implementing tailored procurement strategies.

However, several types of procurement strategies can be adjusted and adopted by organizations of any kind.

## Procurement strategy types

1 Cost reduction

2 Risk management

3 Supplier management

4 Vendor development

5 Global sourcing

6 Green purchasing

7 Corporate social responsibility

8 Total quality management

9 Procurement training

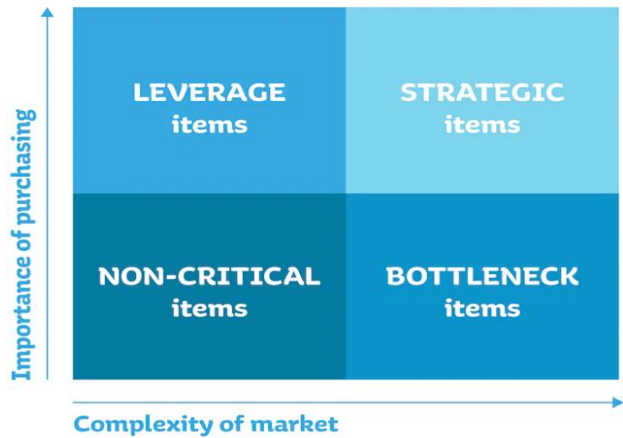
- ❖ Core task of doing procurement more strategically.
- ❖ It means analyzing and combining the criticality of a category or a specific SKU for you as a buyer with the criticality of the marketplace for this category or SKU.
- ❖ It also means that to identify which categories are critical for your operation and which ones are not that important for keeping the business running and compare these with how difficult to buy or how risky it will be if the supplier of that category would have an event that would cause scarcity with its supply.
- ❖ The **Kraljic Matrix** is a popular method used when setting up a procurement strategy. It is used to classify and analyse the purchasing portfolio of a company.
- ❖ According to Peter Kraljic, a purchasing strategy depends on two key factors:
  - ❑ The **strategic importance of purchasing**: volume of expenditure, Total Cost of Ownership (TCO), profitability, differentiation and value-added for the company and the sales process.
  - ❑ The **complexity of the supply market**: monopoly or oligopoly, entry barriers, technological evolution, logistics cost or complexity etc.

# Strategy Development-Using Kraljic Matrix



## Strategy

### THE FOUR MAIN PURCHASE CATEGORIES



- High Expenditure area
- Many products and sources available
- Exploitation of full purchasing power
- Exp: Standard Items

Strategic to profitability & Operations  
 Development of long-term relationships  
 Exp. Critical Raw Material

Product standardization  
 Process efficiency eg automated purchasing  
 Exp. Office Supplies

Low control Innovation,  
 Product substitution, replacement  
 Exp. Monopoly Items

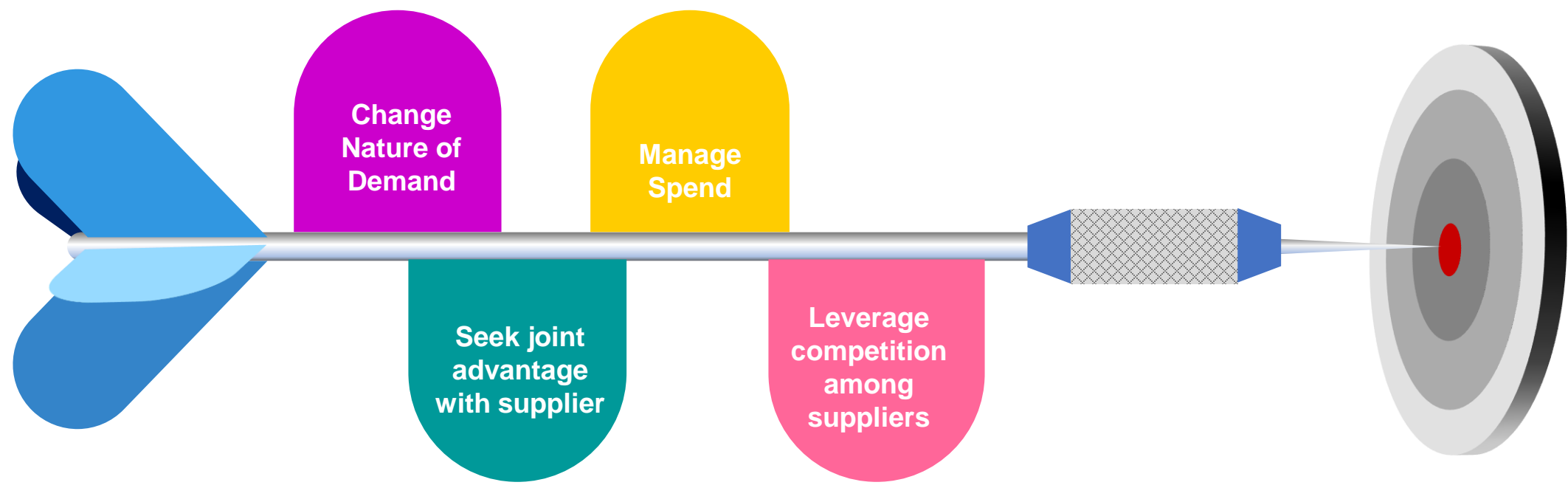
# Strategy Development- Purchasing Chessboard by A.T.Kerney: 64 Methods

<b>Invention on demand</b>	<b>Leverage innovation network</b>	<b>Functionality assessment</b>	<b>Specification assessment</b>	<b>Value chain reconfiguration</b>	<b>Revenue sharing</b>	<b>Profit sharing</b>	<b>Strategic alliance</b>
<b>Core cost analysis</b>	<b>Design for sourcing</b>	<b>Product teardown</b>	<b>Design for manufacture</b>	<b>Supplier tiering</b>	<b>Sustainability management</b>	<b>Project based partnership</b>	<b>Value-based sourcing</b>
<b>Vertical integration</b>	<b>Intelligent deal structure</b>	<b>Composite benchmark</b>	<b>Process benchmark</b>	<b>Collaborative capacity management</b>	<b>Virtual inventory management</b>	<b>Total lifecycle concept</b>	<b>Collaborative cost reduction</b>
<b>Bottleneck management</b>	<b>Political framework management</b>	<b>Product benchmark</b>	<b>Complexity reduction</b>	<b>Visible process organization</b>	<b>Vendor managed inventory</b>	<b>Supplier development</b>	<b>Supplier fitness program</b>
<b>Sourcing community</b>	<b>Buying consortia</b>	<b>Cost data mining</b>	<b>Standardization</b>	<b>RFI / RFP process</b>	<b>Expressive bidding</b>	<b>Total cost of ownership</b>	<b>Leverage market imbalances</b>
<b>Procurement outsourcing</b>	<b>Mega supplier strategy</b>	<b>Master data management</b>	<b>Spend transparency</b>	<b>Supplier market intelligence</b>	<b>Reverse auctions</b>	<b>Price benchmark</b>	<b>Unbundled prices</b>
<b>Compliance management</b>	<b>Closed loop spend management</b>	<b>Supplier consolidation</b>	<b>Bundling across generations</b>	<b>Make or buy</b>	<b>Best shoring</b>	<b>Cost regression analysis</b>	<b>Factor cost analysis</b>
<b>Demand reduction</b>	<b>Contract management</b>	<b>Bundling across product lines</b>	<b>Bundling across sites</b>	<b>Global sourcing</b>	<b>LCC sourcing</b>	<b>Cost based price modeling</b>	<b>Linear performance pricing</b>

# Strategy Development- Purchasing Chessboard by A.T.Kerney : 16 Levers

<b>Innovation breakthrough</b>	<b>Re-specification</b>	<b>Value chain management</b>	<b>Value partnership</b>
<b>Risk management</b>	<b>Technical data mining</b>	<b>Integrated operations planning</b>	<b>Cost partnership</b>
<b>Co-sourcing</b>	<b>Commercial data mining</b>	<b>Tendering</b>	<b>Supplier pricing review</b>
<b>Demand management</b>	<b>Volume bundling</b>	<b>Globalization</b>	<b>Target pricing</b>

# Strategy Development- Purchasing Chessboard by A.T.Kerney: 4 Strategies

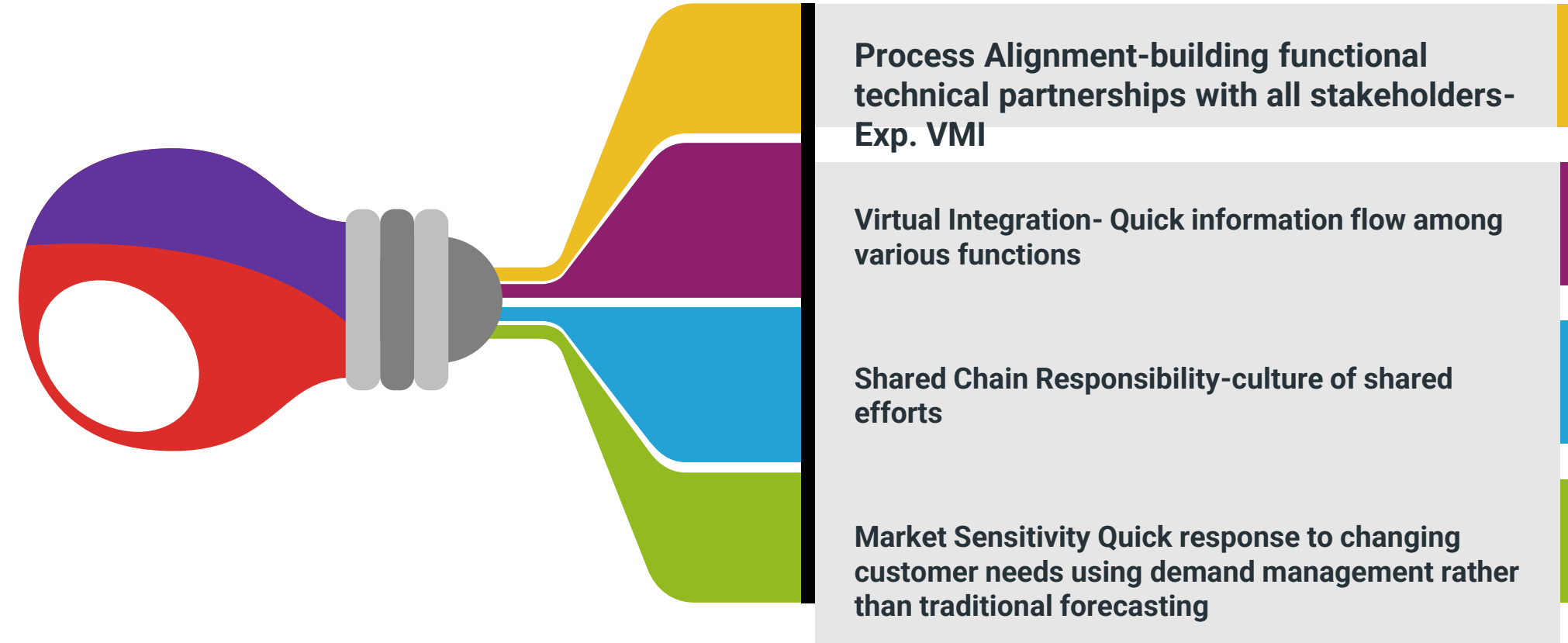




## Strategic Procurement leads to Agility in Supply Chain

- **Supply chain agility refers to an organization's ability to smoothly respond to market changes.**
- **These changes are vast and intertwined, involving everything from changes in customer preferences, to economic and market volatility, and competitor disruption, to name a few.**
- **Supply chain agility isn't adjusting the day-to-day operations and workflows to meet internal KPIs.**
- **But, improving manufacturing supply chain agility will prompt changing internal processes.**
- **Most of the time, it means adopting new technology, data management, and service agreements with vendors.**
- **The goal is to maintain a responsive, fluid, and informed supply chain that can easily navigate any changes that may come their way – whether positive or negative.**
- **Strategic Procurement helps in achieving the agility using following tools**

# Strategic Procurement leads to Agility in Supply Chain



# Strategic Procurement leads to Risk Management

*Strategic sourcing helps in formulating Risk management strategy, that minimizes the impact of unfortunate events on the procurement process.*

Following this strategy, an organization prepares to compensate for any supply chain risk.

## Five Easy Steps to Risk Management

01

### Risk Identification

Risks can range from the major (a key supplier files for bankruptcy) to the less critical (a member of the project team moves to a new role).

02

### Risk Analysis

Once identified, each risk is analyzed against two criteria – impact and likelihood (terms are interchangeable).

03

### Risk Ranking

Using a risk matrix, give the risk an overall score by multiplying impact by likelihood.

04

### Risk Mitigation

Making contingency plans

05

### Risk Monitoring

No risk register is set in stone. Impacts and likelihood will change over time; new risks will appear and some may even drop off



# Strategic Procurement Role in Supply Chain Resilience

- Supply chain resilience is the ability of an organization to avoid, absorb and recover from the business impact of major disruptions through a risk-balanced approach to product, supply chain strategy and network design.
- Resilience is a deliberate strategy aimed at strengthening supply chains' ability to manage risk and disruptive events. It's complementary to agility.
- Strategic procurement functions think beyond unit cost, instead, focus on total cost of ownership. See below how Strategic Procurement approach helps in resilience.



# THANK YOU!



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