Category Management in Procurement

(Amplify your procurement team’s reach, relevance and enterprise-wide impact)

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President & CEO
ISM-INDIA
Introducing the Presenter...

**Krishan K. Batra** has diverse experience of 4 decades in the field of Technology & SCM. He enjoys engaging people in sustainable transformation and inspiring business excellence. In his last assignment with UN organization as Chairperson of the supply chain, he was instrumental in re-engineering business processes and implementing ERP worldwide.

He started his career with TATA Group after completing M.Tech from IIT Delhi. Later he completed MBA from Syracuse University in USA. Krishan has worked in Switzerland, Denmark and USA in different capacity. He is the founder of UNSPSC which is global standard for coding goods and services. He has worked with many organizations to optimize supply chain and build their professional capacity.
LEARNING OBJECTIVES

- Procurement Journey & Evolution
- What is Category Management & Why Implement?
- Differences between Category Management & Strategic Sourcing.
- Practical Approach to implement Category Management.
- Spend Analysis 101
- Long Term Gains of Category Management
- Digitalization of the Process.

**Objective:** Move procurement from an operations focus to a business focus & drive proactive rather than reactive behaviour.
MISCONCEPTIONS ABOUT PROCUREMENT
Misconceptions

• Procurement is not a difficult task. Anybody can organise a sourcing project, it's a piece of cake.
• Procurement is not a function of choice, but rather a necessary evil.
• Procurement is back office; it is a service/support/control function.
• Indirect procurement is up to the requestors (budget holders).
1. Procurement is — still — largely viewed as a secondary activity in most organizations’ value chains.

2. Porter’s Value Chain
Traditional Procurement Cycle

1. Define the need
   - Specification

2. Identify the need
   - Requisition or bill of materials

3. Contract/supplier management
   - Monitor, review and maintain performance

4. Award the contract

5. Negotiate best value

6. Develop contract terms

7. Source the market
   - Identify potential suppliers

8. Appraise suppliers

9. Invite quotations or tenders
   - Request for quotation (RFQ) or invitation to tender

10. Analyse quotations and select most promising supplier

Leading excellence in procurement and supply
Today’s Procurement (Key Enabler)

STRATEGIC
20% of time spent on these activities

TACTICAL
80% of time spent on these activities

- Stakeholder Management
- Strategy Development
- Procurement Execution
Key Procurement Trends

- Strategic Sourcing
- Category Management
- Value Management

Price Management

Tactical to Category Level

- Tactical Purchasing
  - Executing orders, reducing costs by negotiating lower supplier profit margins
  - Price-driven
  - Buying at an item level

- Strategic Sourcing
  - Increasing value in a category through one or more strategies
  - One-time value add
  - Category level

- Category Management
  - Producing year-over-year value adds in a category
  - Continuous value add
  - Category level
Future of Procurement (Trends)

- Procurement is shrinking, and operative procurement is becoming autonomous in most areas.
- Expectations of, strategic procurement & value contribution are growing.
- In the future, procurement will traditional purchasers will be a thing of the past.
- Personal relationships will also continue to be extremely important in Procurement 4.0.
- Procurement is not fully responsible for the implementation of Industry 4.0, but it does play an essential role.
Strategy-Ugly Duck of Transformation
Strategic Sourcing & SRM
Category Management Framework

Mission/Business Strategy

Procurement Strategy

Enterprise-Wide Category Management Approach

- IT Category Team Strategy
- Office Supply Category Team Strategy
- Facilities Category Team Strategy
- Consulting Category Team Strategy

Category Team Tools

- Strategic Sourcing
- Demand Management
- Supplier Management
- Contract Management
- Contract Optimization
Category Management: VALUE CENTRIC

UPSTREAM
Creating Value

Category Mgmt

Strategic Sourcing

Contract Mgmt

Spend Analytics

DOWNSTREAM
Delivering Value

Governance

Invoice & Payment

eProcurement

Supplier Mgmt
Category Mgmt. Vs. Strategic Sourcing

- Category management is not just a new name for strategic sourcing.
- Rather, strategic sourcing is one of the tools used by category teams to manage procurement expenditure to achieve mission value.
**What is Category Management?**

Category Management is a structured approach to the procurement of goods and services.

- **Data-driven & Pro-active Approach**
- **Used to develop and implement Sourcing & Supply Management activities at an aggregate level.**
- **Applies best practice tools and techniques in the development and implementation of an integrated category strategy aligned to the organization needs.**
- **Applies a robust structured strategic sourcing process to the purchase of all goods and services**
- **It involves local stakeholders in the sourcing proc**
What is Category?

A group of items or services available from the same or a similar supplier base.

Examples:
- Stationery
- Fuel
- Lubricants
- Courier Services
- Travel Services
- Legal Services
CATEGORtY MANAGEMENT

• A category is a grouping of materials or services that have similar supply and usage characteristics to meet business objectives.
• Category sourcing is the use of strategic sourcing processes and techniques to optimally source a category and its constituent commodities/ sub-categories.
• Category management is a framework and set of practices used to optimally manage supply categories to meet business objectives.
• The framework sits above and guides the content and sequencing of lower-level methodologies like strategic sourcing and supplier relationship management (SRM) to satisfy category objectives and business objectives.
PROCUREMENT SCORECARD

Value management
- 6% 3-5 years ago
- 10% Today
- 19% In 3-5 years

Demand management
- 4% 3-5 years ago
- 7% Today
- 12% In 3-5 years

TCO reduction
- 14% 3-5 years ago
- 19% Today
- 25% In 3-5 years

Price reduction
- 66% 3-5 years ago
- 52% Today
- 33% In 3-5 years

Supply assurance
- 11% 3-5 years ago
- 12% Today
- 11% In 3-5 years
Understanding Value

- Value engineering (VE) is a systematic method to improve the “value” of goods or products and services by using an examination of function.
- Value, as defined, is the ratio of function to cost. Value can therefore be increased by either improving the function or reducing the cost.
- It is a primary tenet of value engineering that basic functions be preserved and not be reduced as a consequence of pursuing value improvements.
Category Management vs. SS

- Category Management and Strategic Sourcing as **two separate but related processes**.
- Category Management is about **building relationships with the business** around key categories to help shape a **multi-year vision and plan for the entire category**.
- Strategic Sourcing, on the other hand, is the six-sigma execution of the projects identified in the Category Management process.
- Think of Category Management as the parent and Strategic Sourcing as its child.
Category Management vs. Strategic Sourcing

Category management evolved from the overall strategic sourcing approach. Some of the main differences include the following:

<table>
<thead>
<tr>
<th>Strategic Sourcing</th>
<th>Category Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Analysis conducted for immediate requirements</td>
<td>Analysis continually refreshed</td>
</tr>
<tr>
<td>One-time event</td>
<td>End-to-end process</td>
</tr>
<tr>
<td>May not include aspects of Supplier and Contract Management</td>
<td>Includes robust Supplier Management program</td>
</tr>
<tr>
<td>Typically no Demand Management program</td>
<td>Includes Demand Management</td>
</tr>
<tr>
<td>Typically no Supplier Development program</td>
<td>Supplier Development is key component</td>
</tr>
<tr>
<td>Occurs in a silo within the organization</td>
<td>Occurs with full supply chain input</td>
</tr>
</tbody>
</table>
Why Category Management?

- Manage & exploit changing business conditions
- Supplier consolidation
- Supply economics – leverage volume
- Leverage internal resources (people, knowledge, expertise) to:
  - Minimize supply chain risk
  - Develop Suppliers
  - Deliver cost savings and value
  - Improved quality and service
  - Leverage presence in the marketplace
  - Drive commodity & service innovation
Opportunity Assessment

- Based on Data Analysis, Market Analysis and interviews of key stakeholders around your business, identify and plot savings opportunity.

- Criteria are Saving effort and difficulty (saving opportunity versus spend, and ease of implementation considering the potential cost of realising the savings).

- For each area, we then create an opportunity sheet identifying the resource and investment expected to deliver the saving, including findings from the diagnostic, and key market trends and opportunities based on our market expertise.
Assessing the Opportunity

**Actions**

- Where to buy?
- When and how much to buy?
- Reviewing Market Dynamics
- Risk Identification
- Evaluating Major Cost Elements

**Outcomes**

- Alternate Suppliers
- Supply Market Analysis
- Identification of specific sourcing opportunities and issues
- New Technologies and Products
- When and how to buy?
- Conditions and constraints related to particular product.
Spend Analysis

The process of spend analysis involves pulling together purchase history data to answer and assess the who, what, when, where, why, and how of an organization’s expenditures.

- What are we buying?
- Who are we buying it from?
- Who is buying it?
- How often do we buy?
- When did we buy it?
- How much did we pay?
- Are we getting what we had been promised?
- Where were the items delivered to? (geographical location)
- How does the data compare from previous years?
Spend Diagnostic (STEPS)

1. COLLECT Spend data
2. CLEANSE Spend data
3. VALIDATE Allocation of data
4. GROUP Spend into categories
5. ANALYSE Spend
# Pareto Analysis of Spend Categories

<table>
<thead>
<tr>
<th>Spend Category</th>
<th>Amount ($1000s)</th>
<th>Total Spend (%)</th>
<th>Cumulative Spend (%)</th>
<th>Classification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Printing Services</td>
<td>$4,438</td>
<td>36%</td>
<td>36%</td>
<td>A</td>
</tr>
<tr>
<td>Office Furniture</td>
<td>$3,922</td>
<td>32%</td>
<td>68%</td>
<td>A</td>
</tr>
<tr>
<td>Transportation</td>
<td>$2,229</td>
<td>18%</td>
<td>86%</td>
<td>B</td>
</tr>
<tr>
<td>Scientific Equipment</td>
<td>$641</td>
<td>5%</td>
<td>91%</td>
<td>C</td>
</tr>
<tr>
<td>Office Supplies</td>
<td>$620</td>
<td>5%</td>
<td>97%</td>
<td>C</td>
</tr>
<tr>
<td>Sports Apparel</td>
<td>$425</td>
<td>3%</td>
<td>100%</td>
<td>C</td>
</tr>
</tbody>
</table>
How does UNSPSC work?

XX Segment
The logical aggregation of families for analytical purposes

XX Family
A commonly recognized group of inter-related commodity categories

XX Class
A group of commodities sharing common characteristics

XX Commodity
A group of substitutable products or services

XX Business Function
The function performed by an organization in support of the commodity
The spend cube is a unique way of taking a look at spend data because it is projected in a multidimensional cube. It refers to the three dimensions of the cube – Suppliers, Corporate business units, and Category of item. The dimensions could include subcategories of the different units across the organization, from suppliers, categories and cost centers.
Spend Analysis allows many cuts of data and can take many forms

Transaction Data Stores
- A/P
- G/L
- Master Files
- POs
- Others

Data Preparation
- Manual Data Entry
  - Extract

Data Management
- Strategic Procurement Database
  - Cleansed and Staged Data
  - Intellectual Capital
  - Desktop Tool

Spend Analysis
- User
  - Categories
  - Supplier
  - Intellectual Capital

Analysis Tools
- Analyzers
  - Drill Down 1
  - Drill Down ...
- Queries
- Reports
- Spreadsheets

**Relational Database Management Systems

Final Deliverable Formats
- Raw Database
- Database with end-user interface
- Data-ready for Spend Analyzer or OLAP* tool
- On-Line Analytical Processing

If repeatable data capture processes and data cleansing capabilities are created, the spend analysis solution can be maintained over time
Enterprise Spend Visibility

Analyzing spend along any combination of dimensions

Simplified Illustration of Spend Cube

- **Supplier Dimension**
  - Resolution of redundancies and corporate linkage
  - Siemens → Siemens Dematics

- **Commodity Dimension**
  - Organizes expenditures into sourceable commodity buckets
  - Ground Fleet → Fleet Goods & Services → Spare parts

- **Location/Org. Dimension**
  - Organizes expenditures along geographic or business lines
  - N America → US → Texas
  - Total Co. → Division 2

Spend Visibility Examples

- **Organization**
  - Entity → Total Company
  - Sub-Entity → Division 2

- **Geography**
  - Region → North America
  - Country → United States
  - State → Texas

- **Supplier**
  - Supplier → Siemens Dematic

- **Product Category**
  - Cluster → Ground Fleet
  - Category → Fleet Goods & Services
  - Sub-Category → Spare Parts

- **Time**
  - Year → 2003
  - Quarter → 2nd
  - Month → April
### Spend Visibility Options

#### Transactional & Master Data

- **Data Sources**
  - Operating Co. 1 (A/P data mart)
  - Operating Co. 2 (A/P systems)
  - Operating Co. 3 (A/P systems)

- **Data Mapping/Categorization**

- **Output**
  - "The Spend Cube"

#### Transformation

- **Category**
  - Suppliers
  - Organization

#### Output Files

- **Standard Reports/Views**

#### Presentation Alternatives

- **Analytics Platform**

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**Table**

<table>
<thead>
<tr>
<th>Rank</th>
<th>AT Number</th>
<th>Ultimate Parent Name</th>
<th>Sites</th>
<th>Total Spend</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>18700001</td>
<td>KELLOGG SNACKS</td>
<td>3</td>
<td>$3,917,127.74</td>
</tr>
<tr>
<td>2</td>
<td>16103000</td>
<td>THE DOW CHEMICAL COMPANY</td>
<td>2</td>
<td>$1,104,278.72</td>
</tr>
<tr>
<td>3</td>
<td>23730005</td>
<td>M TOLUENE SPECIALTY COMPANY</td>
<td>4</td>
<td>$47,167,542.12</td>
</tr>
<tr>
<td>4</td>
<td>13800000</td>
<td>ESSO WORLD CORPORATION</td>
<td>5</td>
<td>$42,771,924.69</td>
</tr>
<tr>
<td>5</td>
<td>62000002</td>
<td>CHEVRONPhillips CORPORATION</td>
<td>4</td>
<td>$4,400,380.54</td>
</tr>
<tr>
<td>6</td>
<td>13950001</td>
<td>SUNOCO INC</td>
<td>1</td>
<td>$8,103,750.21</td>
</tr>
<tr>
<td>7</td>
<td>12200001</td>
<td>CREDIT CORPORATION</td>
<td>2</td>
<td>$8,302,090.91</td>
</tr>
<tr>
<td>8</td>
<td>52400009</td>
<td>LAMAR AGENCY RESEARCH INC</td>
<td>2</td>
<td>$8,888,393.91</td>
</tr>
<tr>
<td>9</td>
<td>35000010</td>
<td>FEDEX CORPORATION</td>
<td>4</td>
<td>$30,405,140.22</td>
</tr>
</tbody>
</table>

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**Image**

- "The Spend Cube" diagram showing the integration of data sources and outputs.
- Table showing ranks, AT numbers, ultimate parent names, sites, and total spend.

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**Logo**

- ISM India logo

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**Text**

- Leading excellence in procurement and supply
Market Intelligence

Competitor Intelligence

Product Intelligence

Market Research

Market Analysis

- Acquisitions
- Pricing
- Key Product Concerns
- Brand Awareness
- Technology Trends
- Investments
- Market Segmentation
- Customer Preferences
- Market Size
- Customer Feedback
- Strategy
- Market Share
- Market Features
Supply Market Analysis

- **Objective:** To identify the suppliers to whom we will send out an RFx.

- **Scope:**
  - Supplier Market Analysis
  - Demand Analysis
  - Supplier Review
  - Category Risk Level

- The outcome from the supply market analysis should be a better working knowledge of the supplier market and your place in it.
Summarizing the Market Analysis

Risk Analysis

Supplier Analysis

SWOT

Value Chain

Porter's Five-Forces

A Compelling Story—Basis for Strategy
Porter’s Five Forces Model

1. Threat of New Entrants
2. Pressure from Substitutes
3. Supplier Bargaining Power
4. Buyer Bargaining Power
5. Market Internal Competition

Other possible forces:
- Globalization
- Digitization
- Deregulation

Source: Competitive Strategy, Michael E. Porter (1980)
Segmenting the Supply Market

- Segment when the market is sufficiently competitive to make it worthwhile
- Segmenting means grouping together all suppliers for whom risks and opportunities are similar
SWOT Analysis

**Internal Factors**
- Broad customer base
- Established product range
- Established distribution channels
- Emergence of other uses and markets
- Emerging overseas markets
- High entry barriers

**External Factors**
- Low product innovation
- Traditional, unionized business processes
- Low patent protection
- Emerging overseas suppliers
- NPD costs are high
- Environmental regulations

**Strengths**
- Broad customer base
- Established product range
- Established distribution channels
- Emergence of other uses and markets

**Weaknesses**
- Low product innovation
- Traditional, unionized business processes
- Low patent protection
- Emerging overseas suppliers

**Opportunities**
- Emergence of other uses and markets
- High entry barriers

**Threats**
- Environmental regulations
Supplier Classification Hierarchy

- **Strategic**
  - Percent: 0.1-0.6%
  - Supplier characteristics: Strategic in nature; high impact to business; critical to achieving long-term goals; require significant resources

- **Critical**
  - Percent: 0.5-3%
  - Supplier characteristics: Key to category operations; potential incremental value from developing ongoing relationships; difficult to replace

- **Important**
  - Percent: 2.5-7%
  - Supplier characteristics: Short-term relationships; more commodity-centric; largely cost/delivery-driven

- **Tactical**
  - Percent: 89-97%
  - Supplier characteristics: Short-term, one-off, transactional relationships

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ISM
INSTITUTE FOR SUPPLY MANAGEMENT
ISM-INDIA

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## Kraljic’s Supply Matrix

<table>
<thead>
<tr>
<th>High</th>
<th>Bottleneck Items</th>
<th>Strategic items</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>*Supplier’s technology critical</td>
<td>*Unique specifications</td>
</tr>
<tr>
<td></td>
<td>*Difficult to substitute</td>
<td>*Supplier’s technology critical</td>
</tr>
<tr>
<td></td>
<td>*Unique requirements</td>
<td>*Difficult to substitute</td>
</tr>
<tr>
<td></td>
<td>REQUIRES CONTINUITY OF SUPPLY</td>
<td>*Unique specifications</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Low</th>
<th>Non-critical items</th>
<th>Leverage items</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>*Many suppliers available</td>
<td>*Large volume purchases</td>
</tr>
<tr>
<td></td>
<td>*Easy-to-find substitute products</td>
<td>*can find substitutes</td>
</tr>
<tr>
<td></td>
<td>REQUIRES SYSTEMS CONTRACT</td>
<td>*many suppliers available</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Low</th>
<th>Profit impact</th>
<th>High</th>
</tr>
</thead>
</table>
Tool for Supplier Survey: RFI

- A request for information (RFI) is a standard business process whose purpose is to collect written information about the capabilities of various suppliers. Normally it follows a format that can be used for comparative purposes.
- An RFI is primarily used to gather information to help make a decision on what steps to take next.
- Typically, vendors will not respond to an RFI unless the effort to do so is not excessive and there is an expectation that an order or at least an RFP will follow.
An example:

3 Appraisal criteria:
- Technical performance
- **Product reliability**
- Lead-time to delivery...

Allocating weights:
- Technical performance = 10 points
- **Product reliability = 10 points**
- Lead-time to delivery = 9 points

**Product reliability = 10 points**
- Low meantime between failures (3 points)
- Low outage rate (3 points)
- Durability of equipment (4 points)
Appraising Suppliers is:

- A way of determining how a supplier will perform
- A basis for developing a list of approved suppliers
- A basis for developing a supplier development programme
- A basis for developing a vendor rating system
- The start of a business relationship
Determining appraisal criteria...

The Performance Equation

$$\text{Performance} = \text{Capability} \times \text{Motivation}$$

- Evaluate the supplier’s ability to supply your company
- Evaluate the supplier’s interest & potential commitment

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Your appraisal criteria shall relate to:

Quality

Availability

Supplier service & responsiveness

Cost
Why SRM?

Procurement value realization over time

- **Cost reduction**
- **Competitive advantage**
- **Strategic SRM**
  - Unlock competitive advantage
- **Foundational SRM**
  - Retain expected benefits by complying with negotiated agreements
  - Potential lost benefits and risk exposure

Strategic sourcing and implementation
Supplier relationship management (SRM)
Defining SRM

• SRM is the **strategic management of interactions** with external providers of goods and/or services to **maximize the value** of those exchanges to the organization

• SRM entails:
  – Collaborating with key suppliers
  – Finding and obtaining additional value
  – Reducing supplier risk -- Improving performance
Traditional vs. SRM

Traditional Supplier Management

Towards Supplier Relationship Management

Marketing
Research & Development
Operations
Logistics
Information Technology
Finance

Supplier

Sales
Procurement

Competition on Price

Partnering focused on value creation

Marketing
Research & Development
Operations
Logistics
Information Technology
Finance

Supplier

Sales
Procurement

Buyer

Buyer
Supplier Segmentation

Contract Management

Focus costs and compliance

Preferred suppliers

Transactional suppliers

Supplier Relationship Management

Focus on value and joint growth!

Strategic suppliers

Development suppliers

Performance at risk

Competitive advantage and business fit
Contract Management (CM) & SRM

- SRM delivers value over and above the agreed minimum levels of performance in the contract
- SRM focuses attention on the whole value stream
- While the contract process relates to all suppliers, SRM focuses resource and activity on those relationships that are considered most critical
- Most organisations have a CM process in place, but very few operate effective SRM
- SRM can ensure the organisation becomes the “organisation of choice” for the suppliers
Supplier Strategy

Supplier Selection

Supplier Evaluation

Supplier Development

Strategic Evaluation

Phasing out of Suppliers

Supplier Strategy
Methods for defining the sourcing strategy

This sourcing strategy defines both the commercial relationships with the supply base and the internal supply management processes.

**Sourcing Strategy**

**Supplier strategy**
- Commercial relationship
  - Leverage
  - Partner
  - Buy
  - Manage

<table>
<thead>
<tr>
<th>Strategic importance</th>
<th>Low</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Difficulty of obtaining supply</td>
<td>Low</td>
<td>High</td>
</tr>
</tbody>
</table>

**Supply management process**
- Internal procedures
  - Centralise execution
  - Cross Functional
  - De-centralise ordering
  - Simplify

<table>
<thead>
<tr>
<th>Strategic importance</th>
<th>Low</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Complexity of the buy</td>
<td>Low</td>
<td>High</td>
</tr>
</tbody>
</table>
Negotiation & Procurement

• Negotiation is most important tool of the procurement profession.
• Key objective is to get best possible long term or short term agreement based on TCO.
• No one knows is exactly sure as to where commercial negotiation began except that some form of negotiation is associated with our early attempts at commercial enterprises.
• Traditional Negotiation: More of a game where seller set the agenda. Half the discussion was less than honest.
• Concepts such as JIT, Partnering, Supplier Consolidation, Supplier Certification, Strategic Alliances demand a new approach to negotiation
Negotiation – a complex skill set

POWER

Preparation & planning

Effective Negotiation

Strategies & tactics

Face-to-face skills

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STEPS FOR NEGOTIATION

1. Setting negotiation goals
2. Organization & Preparation
3. Entering the negotiation conversation
4. Analyzing phase of the negotiation
5. Negotiation phase – applying of negotiation strategies
6. Conclusion of the negotiation
7. Postprocessing of the negotiation

Steps
What is Supplier Performance Management

• Supplier Performance Management (SPM) is the means and ways of capturing, measuring, analyzing and reporting supplier’s performance.
• The endeavor of SPM is to ensure a long and sustainable supply base together with win-win relationship with the supplier.
• Supplier performance can also be termed as the ‘appraisals’ of their performance.
SPM STEPS

• Step 1-Definition of Strategy:
• Step 2-Evaluation Criteria:
• Step 3- Collect & Analyze Performance Reports
• Step 4 -Measure, report and share performance data
• Step 5-Conduct review meetings
• Step 6-Report and track action points:
• Step 7-Review and reset goals:
Setting the Stage – What do You Expect from your Suppliers?

The answer to this question starts with: What are your Business Objectives and how do these align with expectations of your supply base? So let’s start with an overarching Goal and Objective

**GOAL**
- Develop a business relationship with the appropriate mix of suppliers resulting in the delivery of maintenance goods and services at the lowest total cost of ownership

**OBJECTIVE**
- To reduce the overall internal & external Total Cost of Ownership (TCO) of maintenance supplies and services by X%
Supplier Performance Management Framework

The Framework is a closed loop, 4 phase system: Measure, Monitor, Report and Manage. Its objective is to support continuous improvement & where necessary, corrective action.

- **Measure**
  - Performance Indicators & Standards
  - Indicator Weighting
  - Targets & Objectives
  - Contract Type (Strategic, Major Critical, Key, Merchant)
  - Weekly/Monthly Review Meetings
  - Projects (Major maintenance routines e.g. Planned outage, annual shutdown)
  - Performance Audits

- **Monitor**
  - Budgets
  - Performance Dashboards
  - Monthly management reports

- **Report**
  - Performance Management
  - Escalating and/or expediting the process
  - Meeting/Not Meeting
  - Exemplary Status
  - Rewards & Remedies

- **Manage**

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KEY KPIs

- Compliance rate
- Supplier defect rate
- PO and invoice accuracy
- Rate of emergency purchases
- Supplier lead time
- PO cycle time
- Vendor availability
- Cost per invoice and PO
- Spend under management (SUM)
- Procurement ROI and benefits
- Price Competitiveness

These KPIs can be split into three major categories: ensure quality, improve delivery, and delivery savings. All three categories are interdependent.
What is Digital Transformation?

- Digital transformation is actually a comprehensive embrace of digital technologies by a business or organization.
- The goal is to increase productivity, identify and create sources of enduring value, and streamline business processes to improve efficiency.
- The key objective is to optimize the Procurement Process by providing E2E Visibility, Data, Knowledge of eco system (VISIBILITY GAP?)
Digital transformation is buzzing everywhere. But are we clear on its concepts?

For many 21st century business people, it’s hard to identify whether digital transformation is a sink hole or a ladder.

For those of you who think of it as a ladder, well and good.

For those of you who think of it as a sink hole, which you’re getting sucked in to and don’t actually know what to do about it, there’s good news. You’re not alone.
Evolution of IT Systems

- Procurement 4.0
- eProcurement
- ERP
- MRP

Degree of Process Automation vs. Width of Integration
## Overview

<table>
<thead>
<tr>
<th>Organisation &amp; Structure</th>
<th>Focused team with clearly defined responsibility, authority &amp; accountability for Procurement activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Procurement Processes</td>
<td>Best-in-class measurement, approvals, conditioning, negotiation, risk and SRM processes</td>
</tr>
<tr>
<td>People</td>
<td>The right people in the right positions, empowered and motivated by accountability</td>
</tr>
<tr>
<td>Learning / Skills</td>
<td>Procurement team using deconstructing price methodologies, use of P2P and educated key stakeholders</td>
</tr>
<tr>
<td>Strategic Sourcing (Category Management)</td>
<td>A structured process that embeds the involvement of key stakeholders in the development of comprehensive sourcing strategies</td>
</tr>
<tr>
<td>Technology</td>
<td>Appropriate spend analysis, e-sourcing, e-procurement and e-SRM approaches for sourcing and procurement</td>
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</tbody>
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THANK YOU!

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