

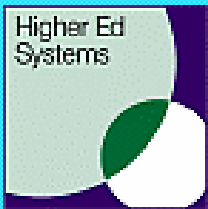


The University of Sydney
Australia

Implementing Strategic Procurement Initiatives to Increase Spend Influence and Deliver Recognised Value to the Organisation

5th National University Finance & Procurement Conference 2005

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05 July 2005 @ Macquarie University

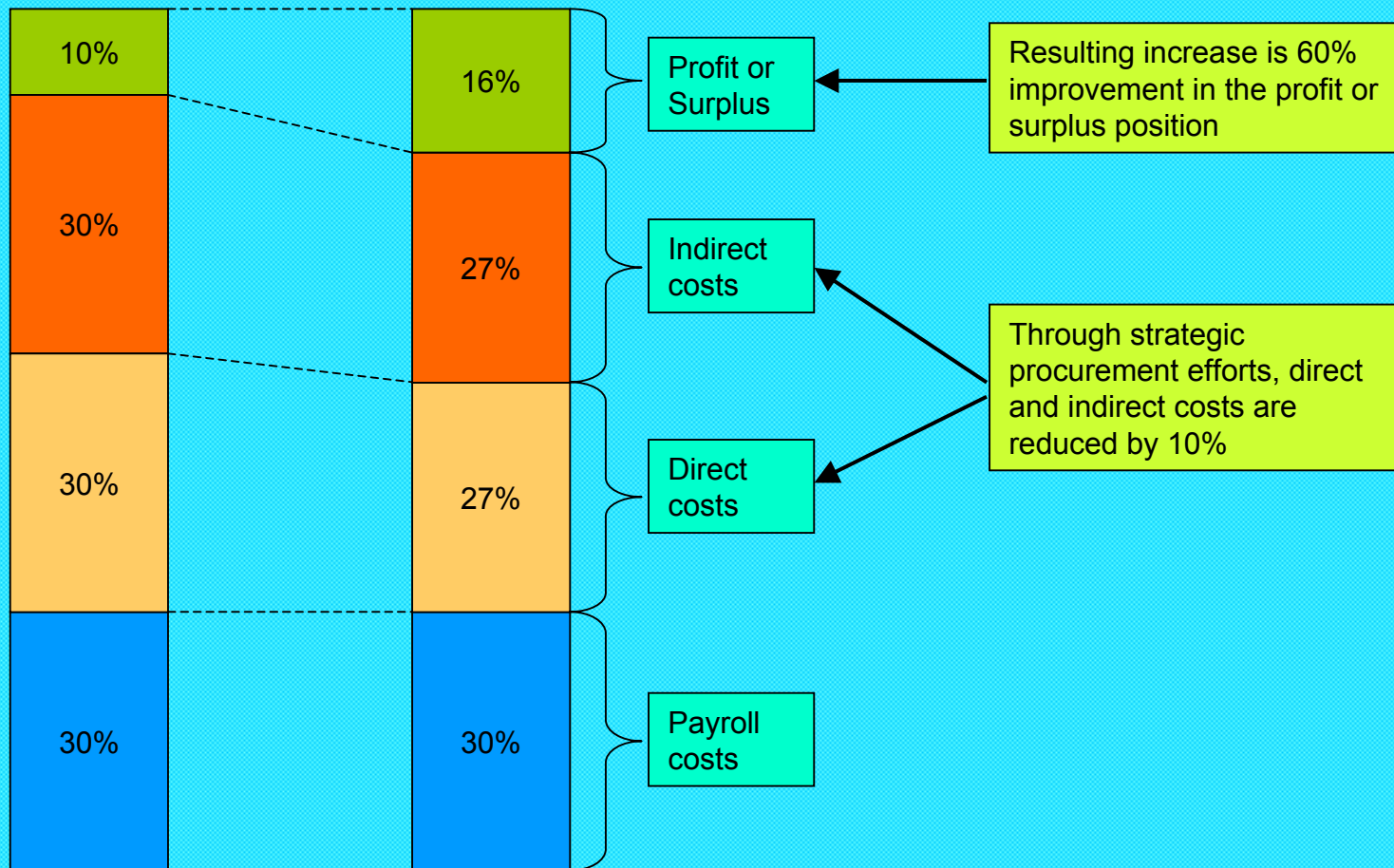




Strategic Procurement's relative importance is best illustrated when recognising the stunning contribution it makes to the bottom line

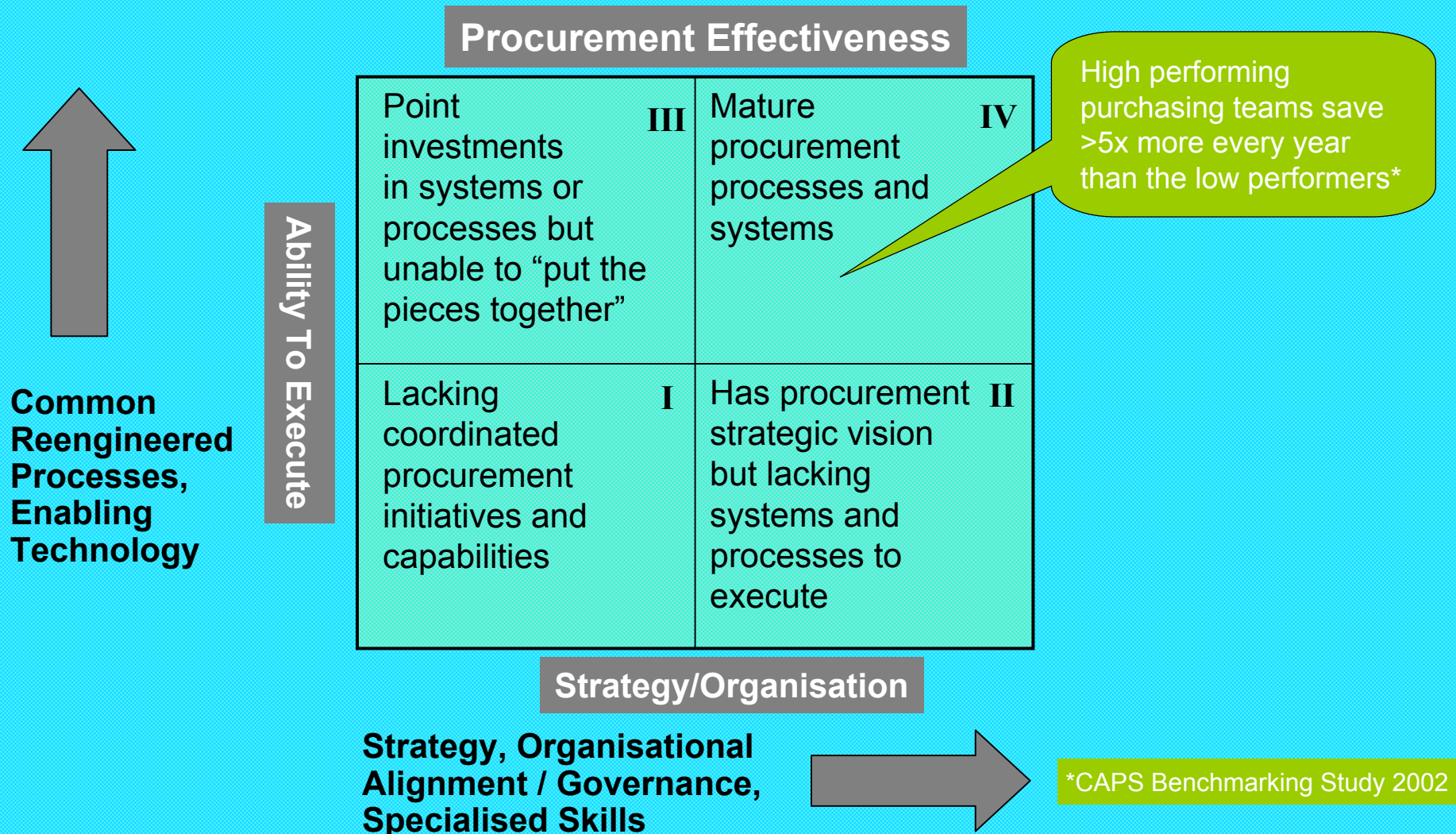
Typical Cost Structure

Illustrative



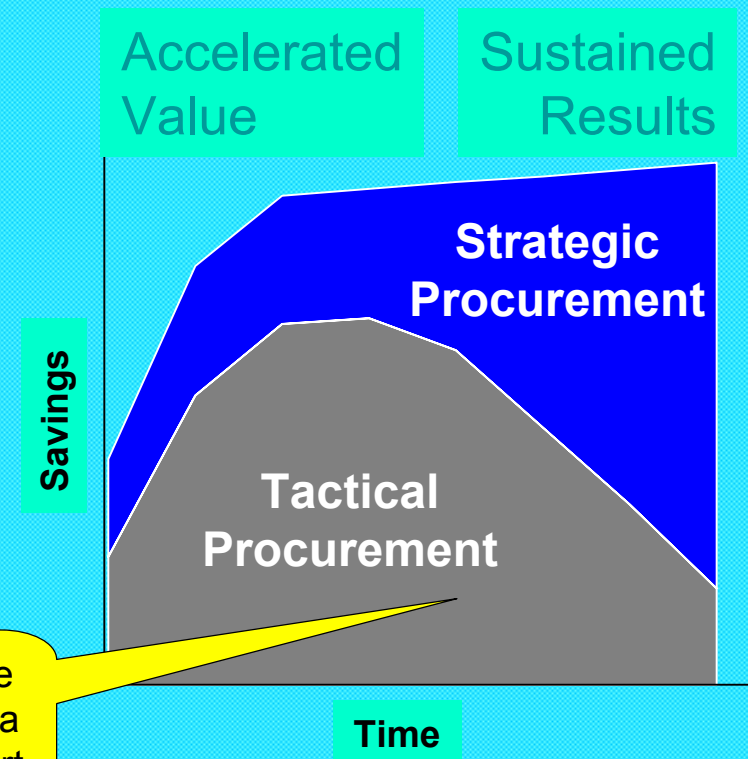
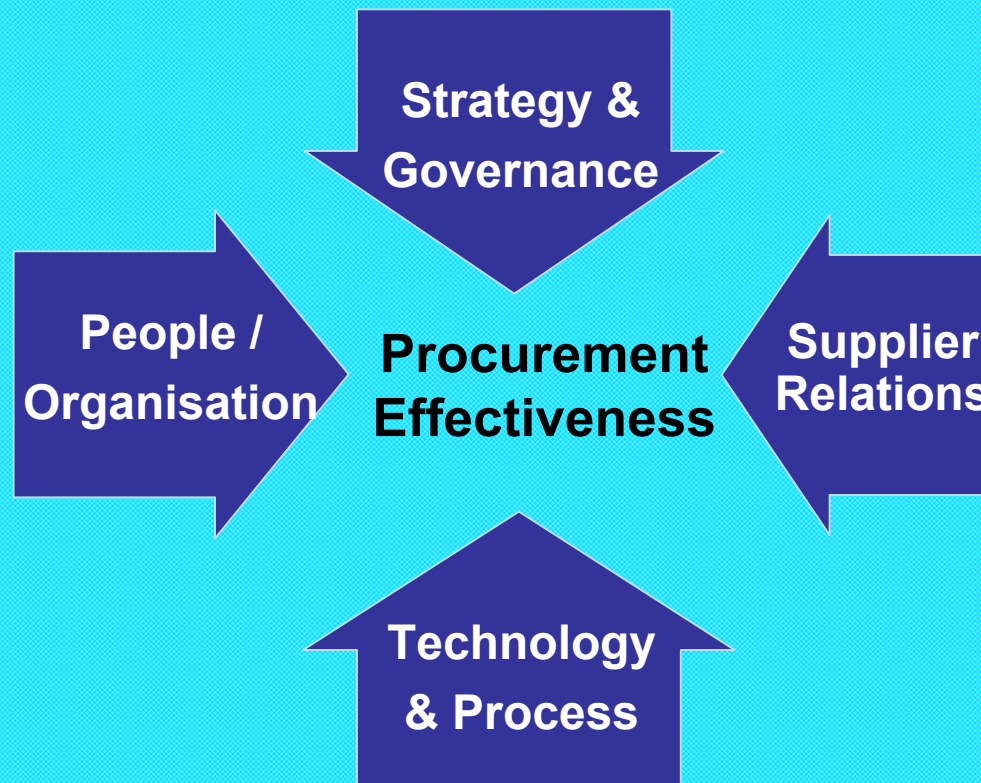


Depending on the organisation's starting position there can be significant investment required to commence the strategic procurement effort





Investment in four key areas is required to enhance procurement effectiveness and sustain strategic procurement transformation benefits

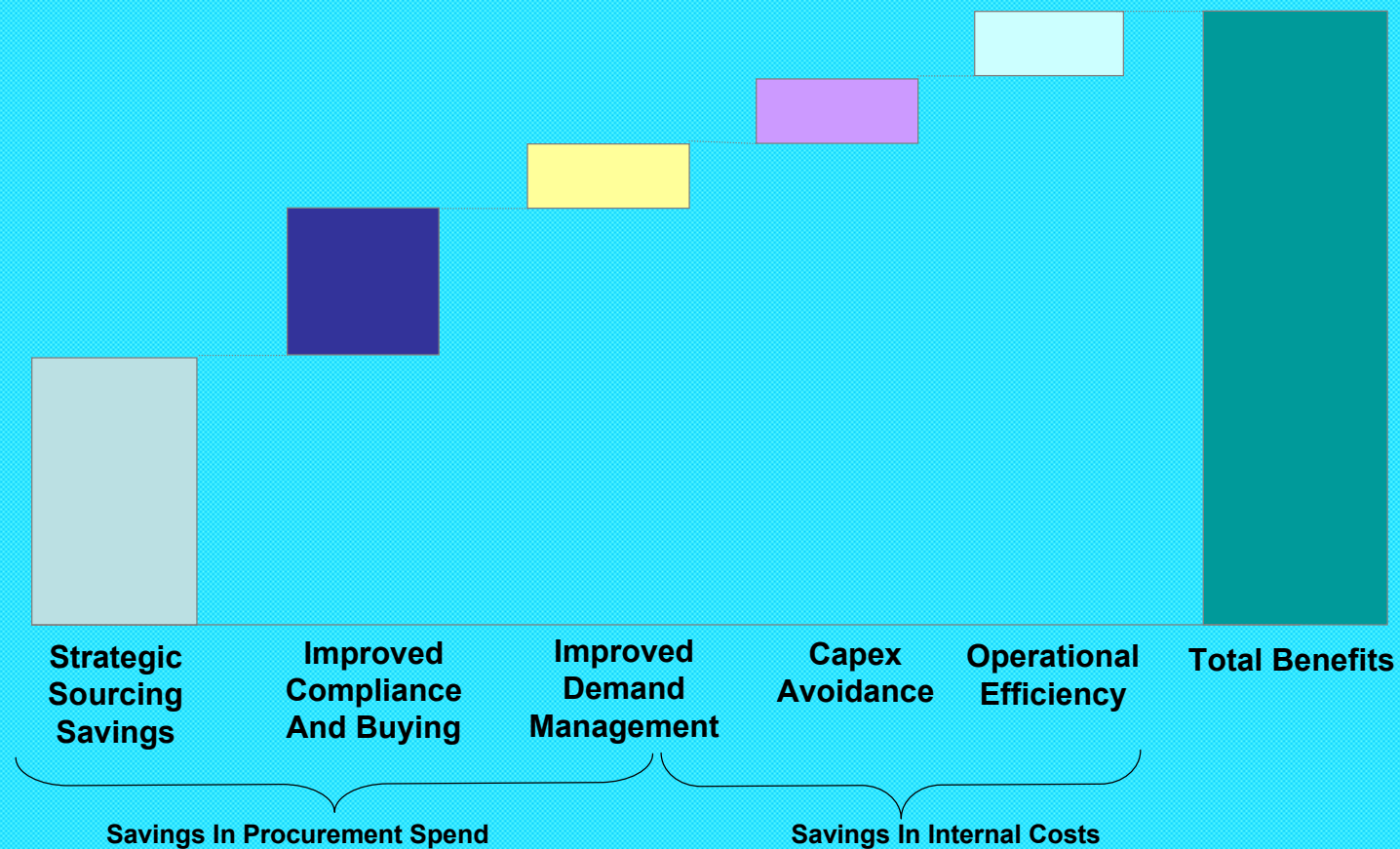


Should also be interpreted as a headcount chart



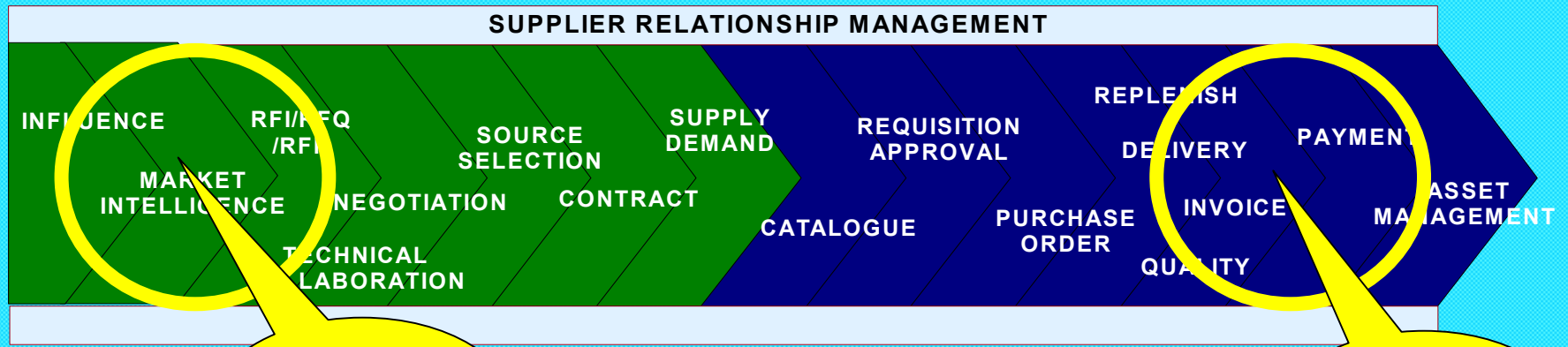
The potential benefits of commencing procurement transformation projects come from a variety of sources not just reduced unit cost

Sources of Savings





Source to Pay (S2P) Process



Value Contribution

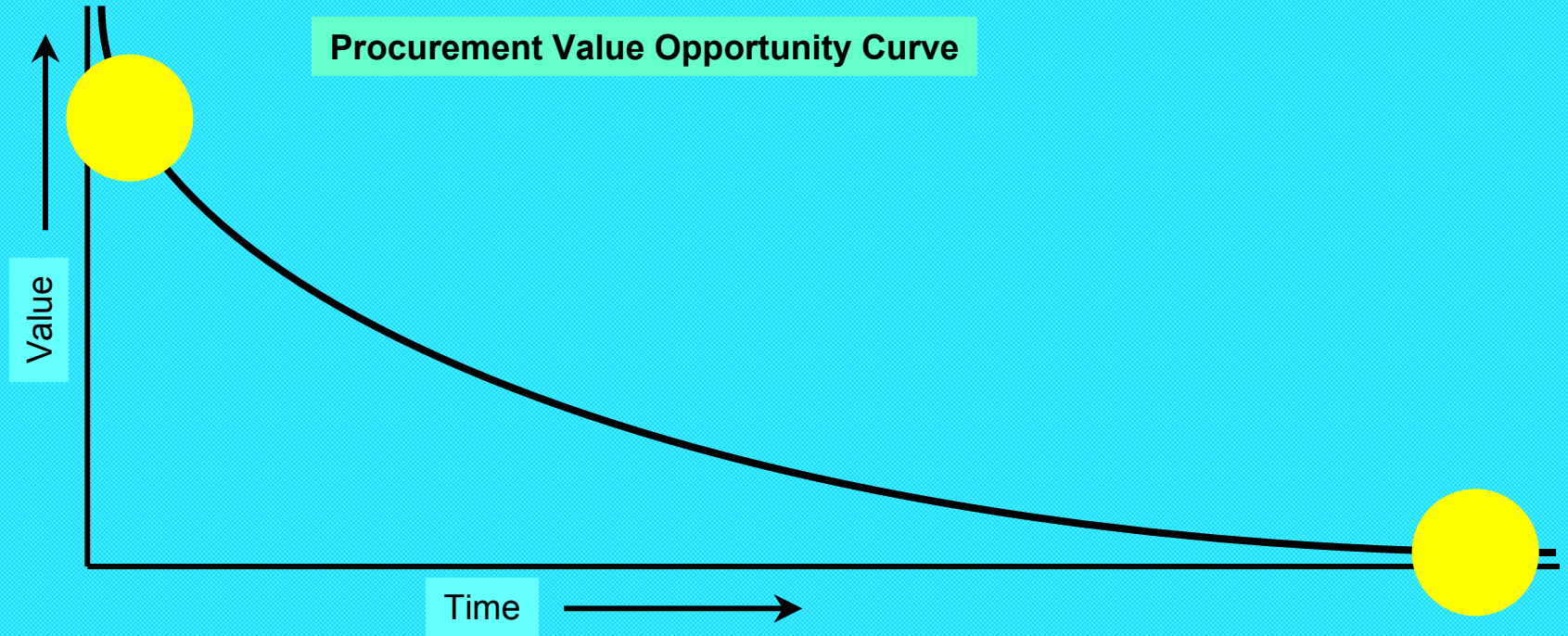
Objective of strategic procurement initiatives

Operational Efficiency

10% Operational Efficiency

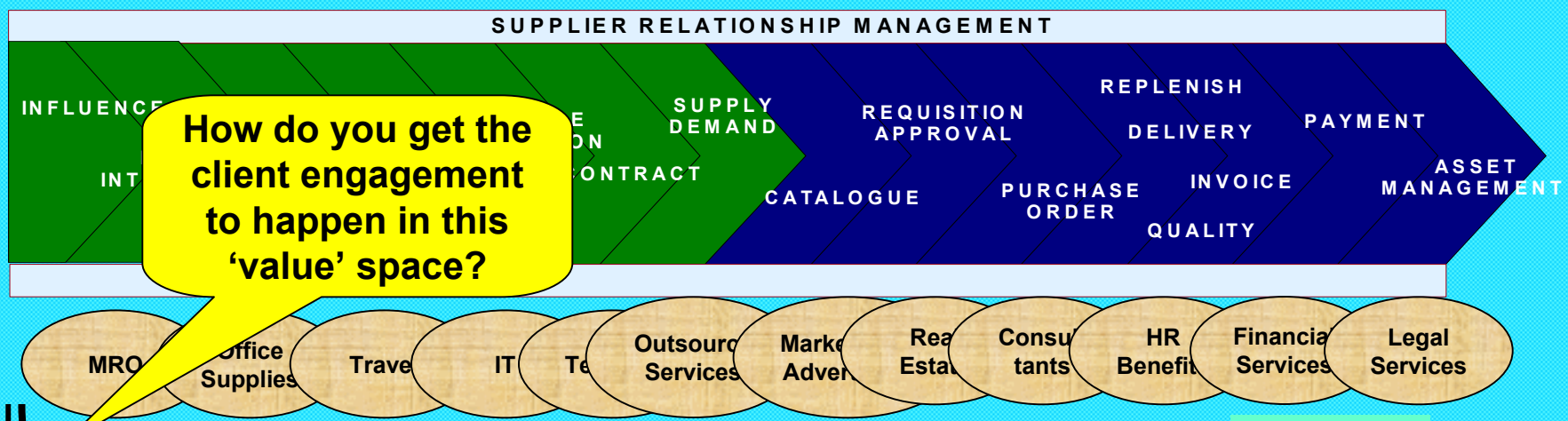
Typical pre-transformation area of operation

Procurement Value Opportunity Curve

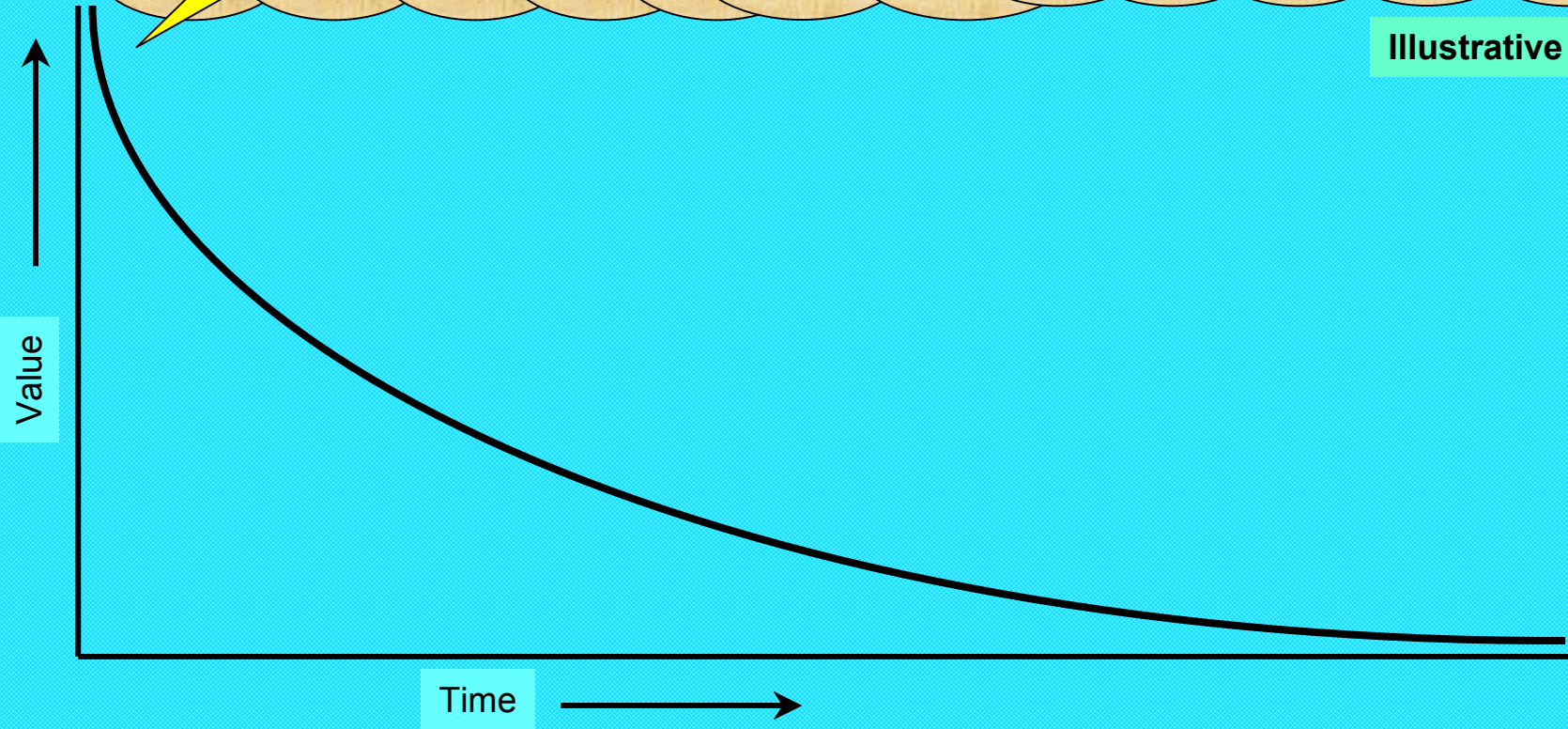




Analysis of a typical category engagement profile

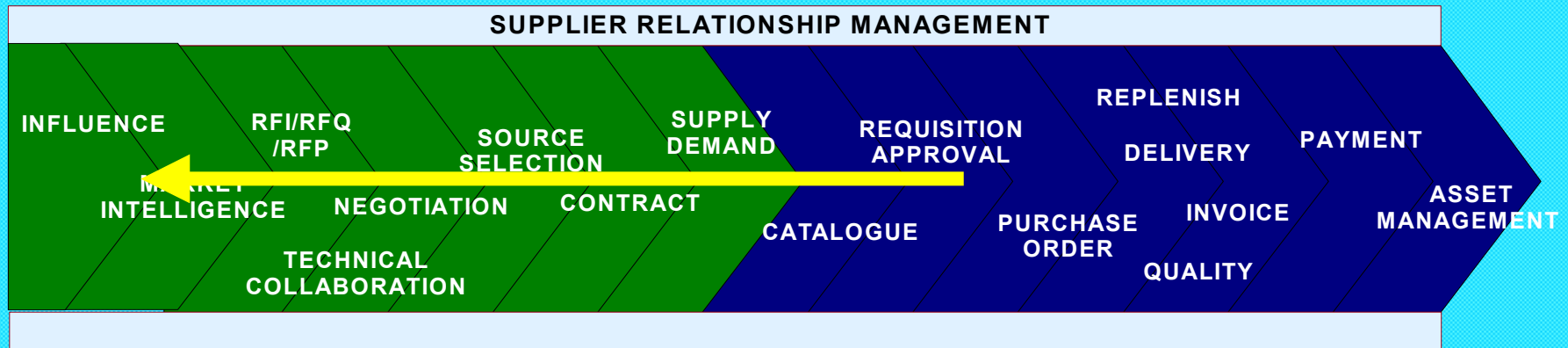


Illustrative





Moving upstream in the procurement value chain

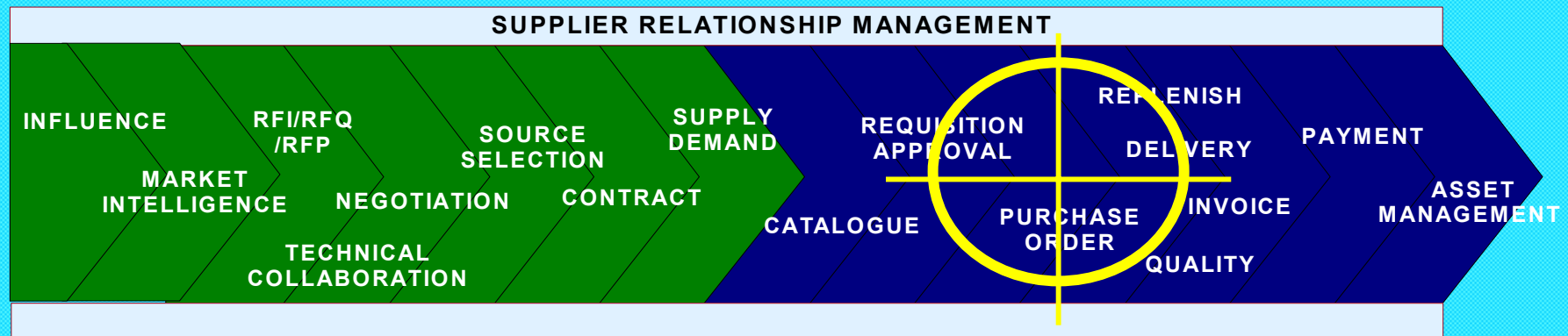


Some questions for analysis:

- Are you satisfied with the procurement contribution in your organisation?
 - direct v indirect – is there a difference?
- Who is doing the sourcing in your organisation?
 - procurement, client, supplier, x-functional team?
 - how are the benefits qualified, sustained, and recognised?
- Is your reporting line a help or a hindrance?
 - CFO, administration, other line executives?
 - where do you think you should be reporting?
- What is the client perception of your role?
 - who is the client?
 - manager, line exec, internal client, external client, other stakeholder?
 - what is value in the eyes of your client?
 - how do you hear the 'voice of the client'?
- What contribution do you make in the strategic and business planning process?



Moving upstream in the procurement value chain



Challenges to obtaining early engagement come in many forms:

- No perceived reason to include (or increase) procurement involvement
- Securing objective management information to validate opportunities
- Chequered track record of success – respect is earned not given
- Sponsorship

Some strategies that may move the 'cross hairs' upstream

- Client relationship management
 - selectivity about which categories to target
 - procurement & marketing: two sides of the same coin
 - communicate, communicate, communicate
- Qualify the opportunities
- Get help – find sponsors, target key influencers and 'deciders'
- Don't take 'no' for an answer



Maintaining a scorecard that identifies key performance indicators for the function will illustrate if targets and goals are being achieved

Procurement Scorecard Dimensions

<u>Metric</u>	<u>Last Month</u>	<u>Trend</u>	<u>Focus Items</u>
Value (\$)			
Influence			
Efficiency			
Contract Management			
CRM			
SRM			
Training			

Value is calculated across:

- Cost reduction

Influence is measured by:

Efficiency metrics focus on

Contract management looks at:

Client Relationship Management:

Supplier Relationship Management:

Training metrics focus on:

- Training hours
- Core skills
 - Relationship mgmt
 - Risk analysis
 - Project management
- Application of training



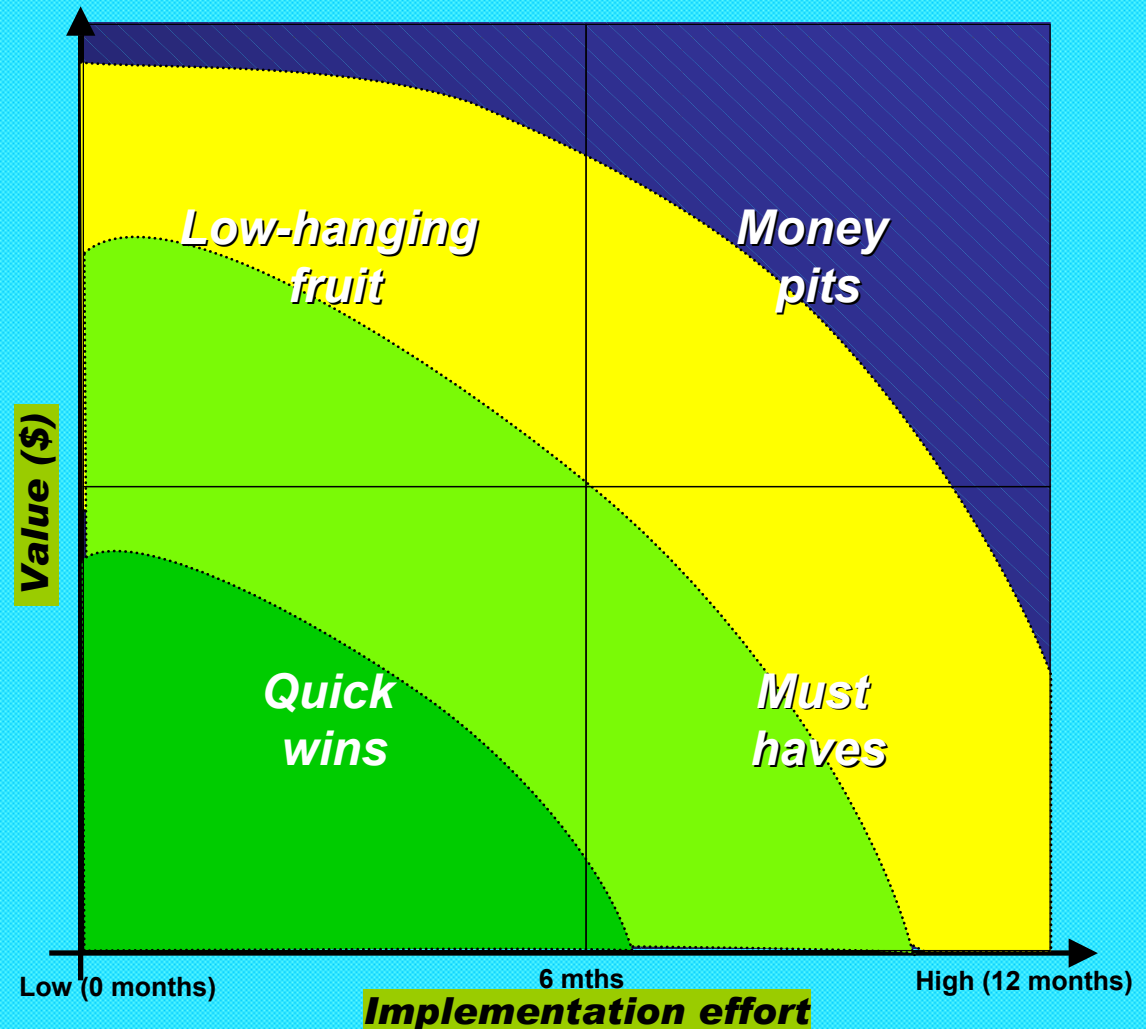
An example of what we are doing at the University of Sydney to implement strategic procurement initiatives that will deliver value in the form of reduced cost and improved client satisfaction



Category sourcing strategy 'size of the prize' analysis is completed by plotting time to value to prioritise activity

Category analysis and 'the size of the prize' matrix

1. Chemicals - Biological
2. Air Travel - International
3. Air Travel - Domestic
4. Hotels - Domestic
5. Office Supplies
6. Hotels - Overseas
7. Chemicals - General
8. Furniture
9. Catering
10. Laboratory Consumables
11. Computer Equipment
12. Photocopying Charges
13. Couriers
14. Legal Services
15. Advertising
16. Equipment <\$5K
17. MRO
18. Printing
19. Admin Services
20. Professional Services





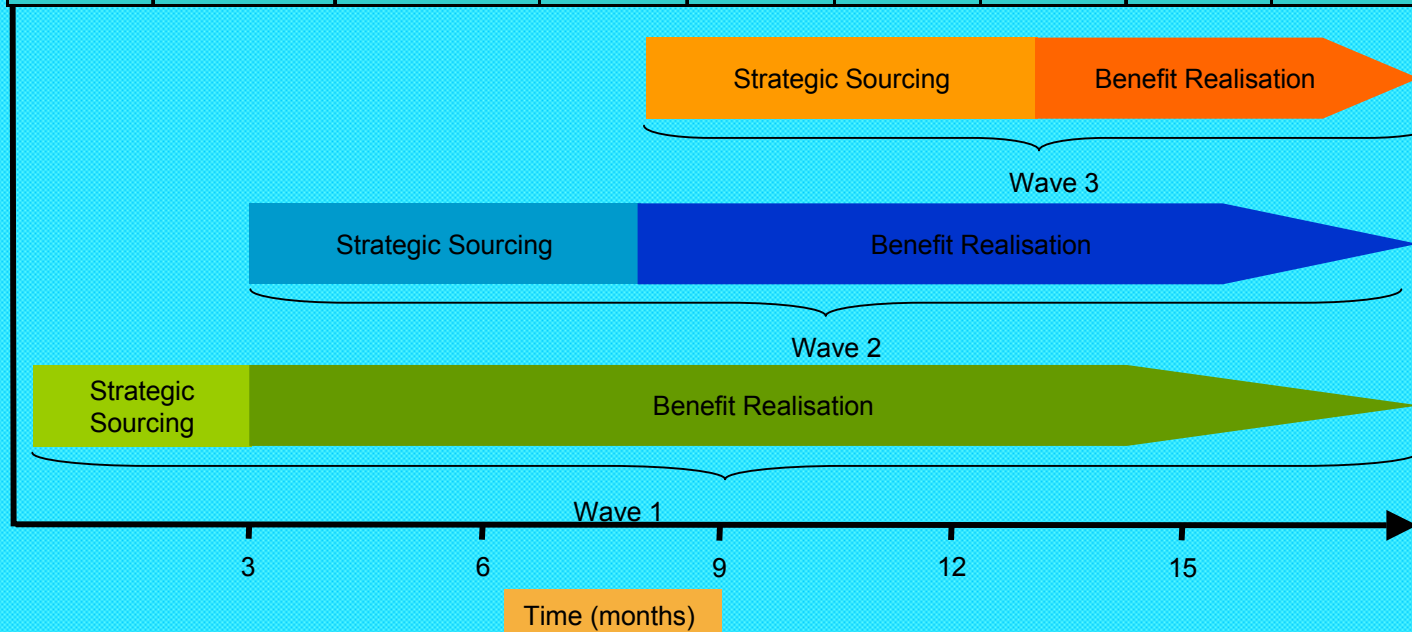
Fragmentation of known spend into sub-categories allows prioritisation of strategic sourcing effort into sourcing 'waves' based on complexity, speed of benefit realisation, and 'size of the prize' analysis

Wave 1	Wave 2	Wave 3	To Be Assigned
Chemicals-Biological	Photocopying Charges	Computer Rep & Mtce	Electricity
Other Travel Overseas	Cartage/Freight/Courier	Insurance General	Materials-Electronic Items
Airfare Domestic	Legal Costs	Telephone	Materials- Teaching
Accommodation Domestic	Advertising	Plant & Equip \$5,000 and over	Drugs-General
Stationery/Office Supplies	Plant & Equip \$1,000 to \$4,999	Computer Software & Licences	Materials-Workshop
Accommodation Overseas	Motor Vehicles \$5,000 and over	FMO Works - Building Services	IIH Payments
Chemicals/Containers-Gen	Plant & Equip Rep & Mtce		General Expenses Other
FMO Furniture & Equipment	Printing General		Consumables General
Catering	Contract Employment		Equipment Under \$1,000
Laboratory Consumables	Cleaning		Hospital/Area Health Service
Airfare Overseas	Consultants		Hospital Site Payments
Comp Equip \$1,000 to \$4,999	FMO Consultants		
	Contractors		
27,934,636	59,997,046	66,319,315	31,264,270
Total Spend of Waves 1, 2,3, & TBA:			185,515,267



Through prioritisation of sourcing activity there is an ability to qualify the savings opportunity and against known sourcing benefits (low & high)

Value (\$K)	Wave 1		Wave 2		Wave 3		Totals	
	Low	High	Low	High	Low	High	Low	High
Y1, Q1	0	0	0	0	0	0	0	0
Y1, Q2	225	920	0	0	0	0	225	920
Y1, Q3	225	920	50	2,335	0	0	275	3,255
Y1, Q4	225	920	50	2,335	28	2,470	303	5,725
Y2, Q1	225	920	50	2,335	28	2,470	303	5,725
Y2, Q2	225	920	50	2,335	28	2,470	303	5,725
Totals	1,125	4,600	200	9,340	84	7,410	1,409	21,350





Questions?