



Services Procurement Conference

**Navigating Uncharted Sourcing Territory:
How to Gain and Maintain
Access to the Relationship Categories**

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Supply Management Article 25 Sept 2011

- “47% of CPOs and CFOs express high levels of satisfaction with the management of indirect spend”
- “60% of CFOs are dissatisfied with the inability of buyers to influence the attitudes and behavior of stakeholders”



Corporate Executive Board Perspective 9/28/11

- The average procurement organization can realize savings of \$100 million through increased coverage and greater compliance across its indirect spend categories. Despite this opportunity, and the significant effort procurement organizations have put into capturing this spend over the past 5 years, most have experienced a "stall" when engaging the more complex, indirect categories...Across HR Benefits, Legal, Marketing, and other tough-to-engage categories, 70% of procurement organizations have experienced a "stall" of some sort.
- Mitigate delays by picking the best opportunities in indirect categories, making a strong case for early, strategic involvement in sourcing projects, protecting new category coverage by ensuring stakeholders stay focused on spend compliance and accurately communicating value added.

3



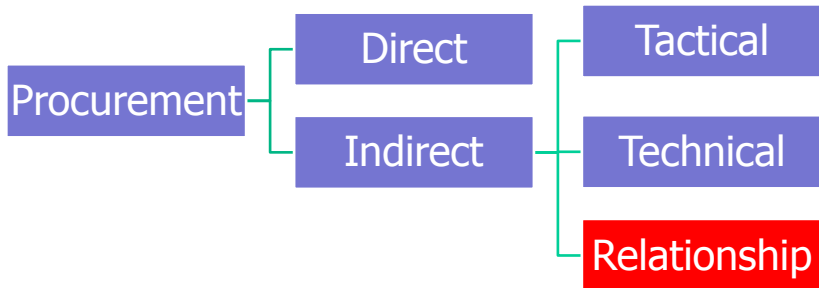
Discussion Agenda

- **Definitions**
- Relationship Challenges & Strategies
 - Client
 - Supplier
- Solutions Options
- Sourcing/e-Sourcing (Auctions)
- Talent Selection
- Expectations/Outcomes
- Q&A

4



Segmenting Procurement Categories helps Organize Strategy



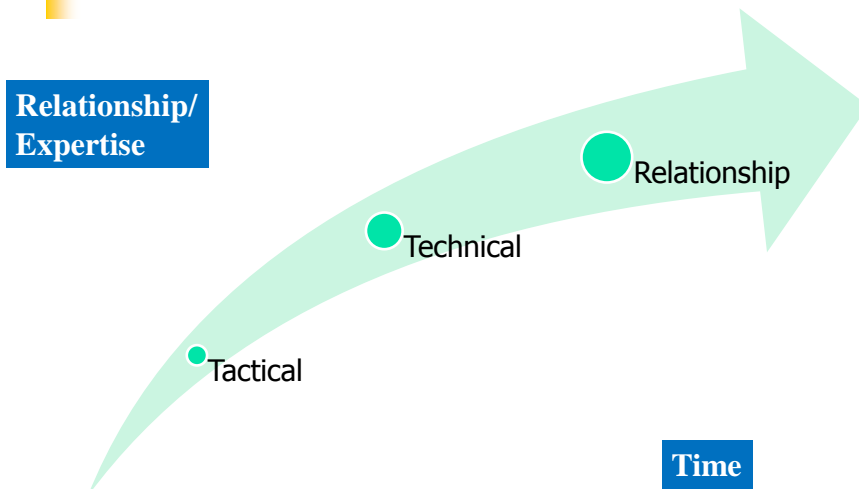
Direct: Procurement needs required for the products your company sells

Indirect: Products & services needed to support infrastructure which enables your company to function

5



As Relationship Increases so Does the Expertise & Time Required



6



Mapping Components of Categories Helps Determine Procurement Approach

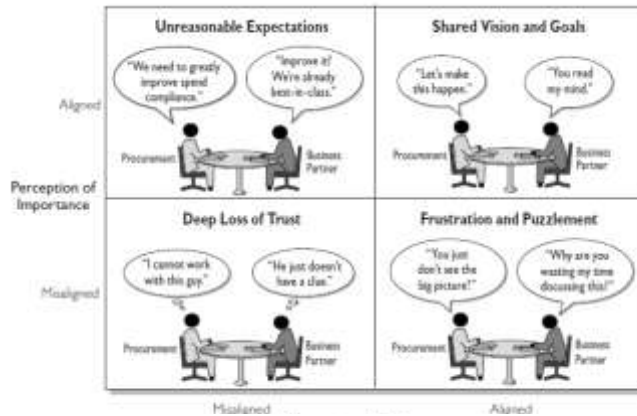
	Tactical	Technical	Relationship
Supply Base	High	Medium	Low
Predictability	High	Medium	Low
Complexity	Low	Medium	High
Criticality	Low	Medium	High
Trust	Low	Medium	High
Volume/Cost	Low	Medium	High
Management	Low	Medium	High
Procurement Investment	Low	Medium	High
Procurement Approach	Project Cost 3 Bids/ Auction & Buy	Project or Defined Service, RFQ Auction, Volume Discount	Multi-faceted, Unclear, RFI/RFP Auction, Negotiation, Volume Discount



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From Corporate Executive Board, Procurement Strategy Council Research, "Bridging the Gap: Voice of the Internal Client" 2004



...and raise critical questions for Procurement

- ① What are the attributes of an effective procurement organization?
- ② How well is Procurement aligned with business partners' priorities?
- ③ How do business partners across the enterprise rate Procurement's performance?

Relationship Challenges - Client

Client

- Trust is not assumed
- Problems w/ procurement process
- Relationship is difficult
- No knowledge of business, challenges, goals
- Easier to talk than listen
- Loss of control
- Non-compliance w/ procurement policy
- Cost reduction = labor reduction

Procurement

- Data helps convey points
- Implement solutions
- Focus on business; it's not personal
- Learn their business, language, goals
- Ask questions, listen
- They decide
- Give them credit
- Influence leadership
- Value is theirs to manage



Managing Push Back with Eloquence Enables Trust

- Enable customer to maintain control/ownership
- Use what they say and build on that
- Create healthy tension (challenge, question, use silence, Hmm...)
- Agree with them; "but" VS "and"
- Seek to understand
- Remove barbs/negative emotions and restate or reframe
- Be aware of your emotions and those of customer; keep in check
- Express appreciation
- Gas Pedal Concept – when they push back let up a bit and explore a different approach
- Remove "we VS them" by listing all issues and have everyone face them to develop solutions

11



Defining Roles & Responsibilities Helps Reduce Fear

Procurement

- Develops strategy
- Facilitates process
- Manages & summarizes RFX results
- Communicates w/ suppliers
- Negotiates
- Calculates value
- Conveys value

Client

- Contributes to strategy
- SME (SOW, specifications)
- Evaluates fact-based results
- Determines outcome
- Provides input into negotiations
- Confirms & applies value
- Communicates value

12



Relationship Challenges - Suppliers

Supplier

- Relationships are too tight
- Go around process to obtain exceptions
- No/Low risk negotiations
- Lack of perceived motivation to change
- Use threat of change/unknown to advantage

Procurement

- Grow trust
- Over communicate
- Agree to supplier communication w/ stakeholder
- Inform suppliers of communication flow and consequences
- Research best practices/benchmarks

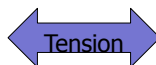
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How Do External & Internal Procurement Relationships Differ?

External

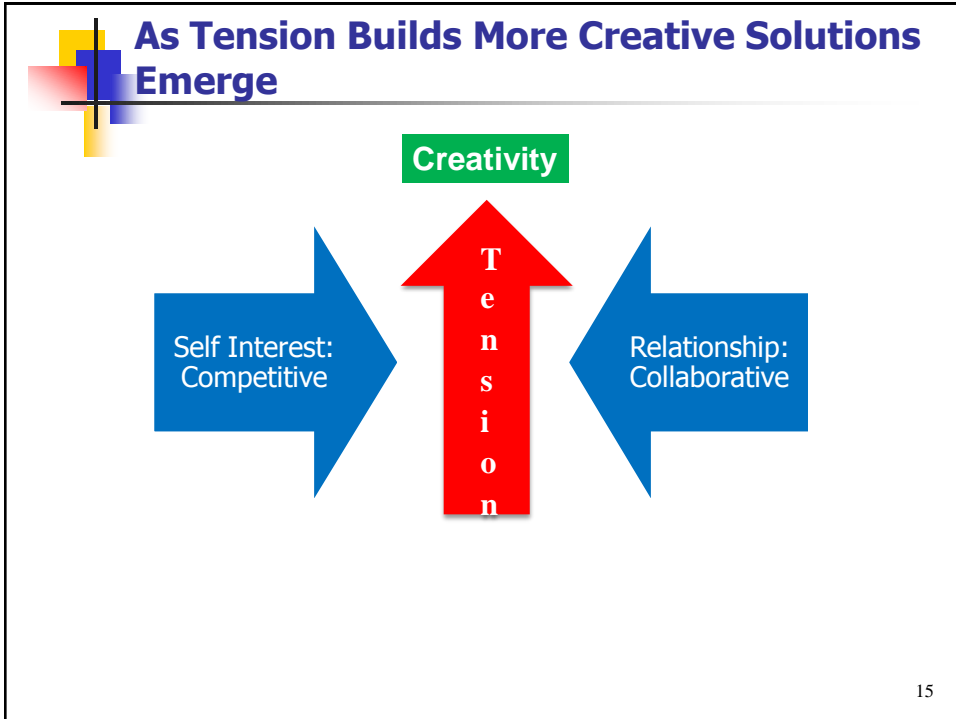
- Maximize outcomes; revenue
- Can choose to discontinue
- Trust not required; enabling
- "Salesy"
- Seller tries to please Buyer
- Titles have reduced impact
- Fear of losing sale
- May involve games/manipulation (Good Cop/Bad Cop)
- Circumvent process



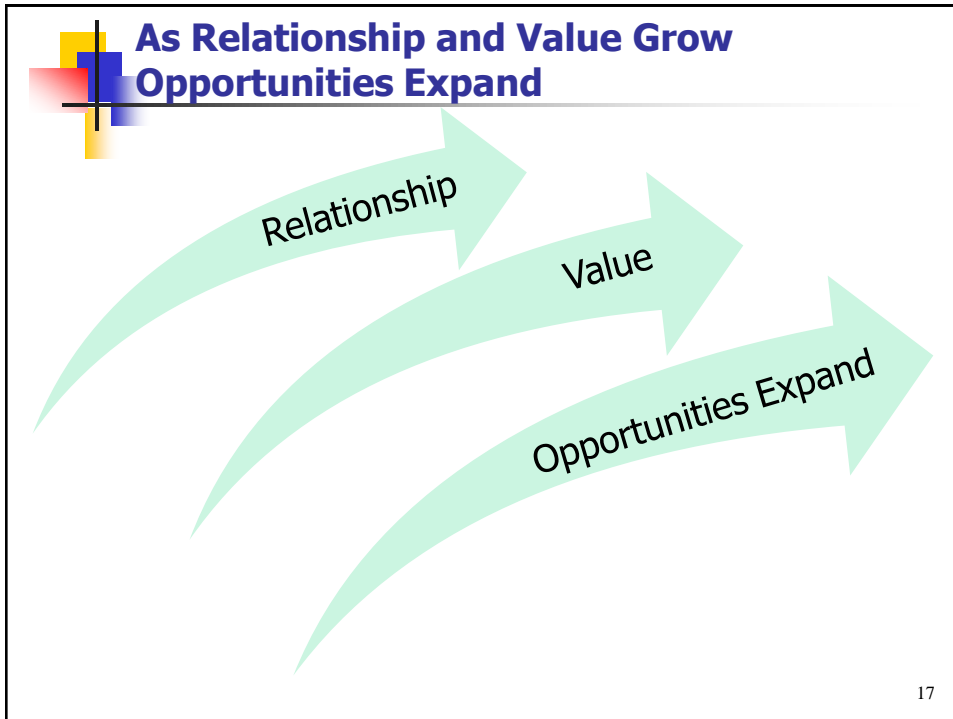
Internal

- May/May not tie to revenue
- Maintaining relationship is critical
- Trust based
- Not selling anything; sincere
- Focus on what's best for company
- "Emotional Intelligence" required
- Usually longer term
- Games are unproductive
- Politics, impact of rank
- Reciprocity is expected

14



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- 16



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- Stakeholder Buy-In**
- Identify senior executive champion
 - Ensure stakeholder buy-in prior to RFX
 - Agree that this should be competitively bid then pursue auction as a tool to facilitate bidding
 - Conduct auction demonstration for client
 - Show previous outcomes
 - Collaboratively develop bidding strategy, timeline, bidder's conference, auction demo & communications
- 18



Managing these Relationships

- They are driving; not you
- They make decisions; not you
- They push back hard
- They trust suppliers more than you
- They KNOW you will make mistakes
- They are guarded
- Give them knowledge to drive better
- Give them tools for better decisions
- Identify/Share best practices
- Reply w/ trust, data & details
- Give something they value – Free consulting & improvements
- Acknowledge upfront likelihood of mistakes & agree to actions
- Be open, communicate assertively/succinctly

19



Use Labeling Standards to Enable Competition & Comparison

Consulting Firm

- Partner
- Senior Consultant
- Consultant
- Junior Consultant
- Analyst

Law Firm

- Partner 1
- Partner 2
- Of Counsel
- Associate 1
- Associate 2
- Paralegal

Phase	Date	Cost
1		
2		
3		

20



Relationship Pricing/Negotiations

- Professional Services
 - Project total (always get a breakout)
 - Project phases (payment based on Phase Gate Management)
 - Hourly rates based on set groups of titles
 - Volume discounts (set volumes or set rates)
 - Travel expenses (% or cost)
- Considerations: local talent, expertise (bios), availability, timeline, value add, training, communications
- Define acceptance criteria (what is the basis for payment?)
- RFI/RFP/Auction or Negotiation

21



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22



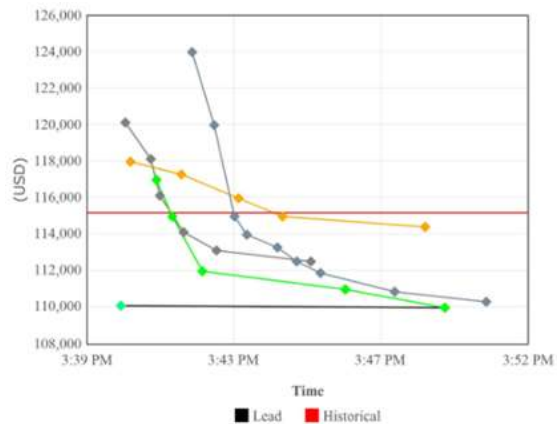
Auctions Can Influence 3 of the Sourcing Process Steps

- Internal & external analysis
- Define business requirements
- e-RFx and supplier management
- Bid collection and negotiation
 - Telephone, in-person, email, auction
- Decision optimization – Evaluation scoring
- Award and contract
- Manage supplier performance

23



13 Minute Auction Results in 11% Reduction



Source: High Tech Company Example 2010

24



Auction Strategy

- Define scope & requirements
 - Global, regional, local needs
 - Determine desired award scenario
 - Define decision criteria & integrate into technology
 - Define pricing scenario (fees, rates, units, items, lots, lump sum)
- Develop bidding timeline
- Schedule pre-bid conference(s)
- Determine confidentiality needs
- Determine auction dynamics – timeframe to input bids, overtime extensions, bidding blocks to inhibit marketplace observers, reserve price (must beat)
- Reveal rank only or rank and bids
- Reserve auction time w/ client

25



Auction Overview

- Considered online negotiation
- Creates marketplace pressure
- Provides supplier marketplace insight
- Provides immediate feedback
- RFX (I, Q, P, Auction)
- Standard initial savings 10-15% w/ additional subsequent savings
- RFX tools & templates can reduce time to complete RFX
- Volume discount input or auction

26



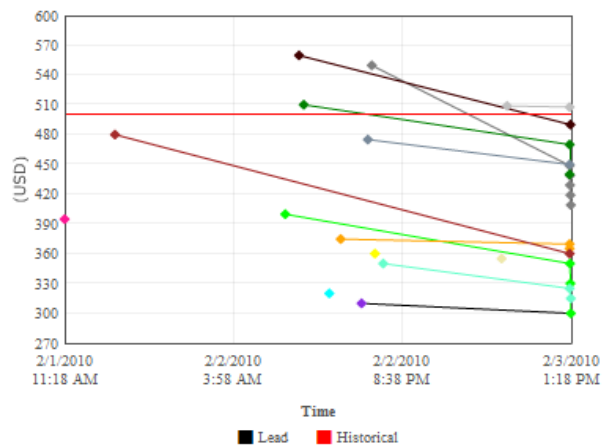
When not to use Auctions

- Client is not supportive
- Highly customized or ill-defined scope
- Spend is not significant to suppliers
- Effort required to bid exceeds business value
- Supply base <3
- Over-use may deter participation
- Do not plan to auction every RFX, mixing formats will keep pricing fresh
- Do not plan to negotiate after an auction as it reduces process validity over time

27



Example Law Firm Rate Auction



Source: High Tech Company Example 2010

28



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29



Talent Selection for Relationship Categories

- High level of emotional intelligence
- High level of soft skills
- Ability to read people
- Quick on their feet to react/revise approach
- Good listener
- Curious to learn about others and their business
- Strategic thinker
- Influencer
- Relationship builder
- Negotiator
- Produces concrete results
- Focus on process improvement
- Customer focus

30



Executive Influence

- Research audience perspectives before meeting
- Share that you are prepared to cover key points in as much or as little detail as you need
- Ask for audience input re where they would like you to focus
- Push back w/ eloquence
- Restate using positive driver/action language; remove barbs
- Don't think out loud/react; schedule time to respond
- Compliment questions
- Thank you for feedback
- Action oriented response



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Expectations & Outcomes

- Depends on
 - Market
 - Business changes (volume)
 - Perceived threat of gain/loss of business
 - Impact to relationships
- 8-10% cost reduction; some say up to 25% for legal
- Plus volume discounts that scale as volume scales
- Multiple year contracts incent volume discounts
- Implement Supplier Relationship (Performance) Management

33



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34



Summary

- Definitions can help your organizational strategy
- Relationship Challenges & Strategies
 - Client – May start adversarial and evolve to supportive as value is demonstrated
 - Supplier – May offer synergies as relationship develops
- Solutions Options – Many approaches to uncovering value by working collaboratively w/ clients & suppliers
- Sourcing/e-Sourcing – Auctions are viable for interjecting competition into bidding strategies
- Talent Selection – Soft skills are key
- Expectations/Outcomes – 8-10%

35



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36