

Procurement

For AKAM Diploma students



The Association for
Key Account Management

Colin Scott

Professionalising Key Account Management | a4kam.org



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Introduction – Colin Scott



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Organisations:

Partner with consultancy colin.scott@grangepartnership.com

Non-executive director – global manufacturing

Business School Contributor/Programme Director, London Business School,
Cranfield School of Management

Professional Qualifications and publications:

Durham University UK, Nottingham Business School UK, Diploma in Logistics

Published Books - Guide to Supply Chain Management (Scott et al) Springer
2011 and 2018 2nd edition

Accredited in Team Management Profiling (Tmsdi)



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Procurement Module Content

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This Module contains six, 20 minute sessions:

1. What is Procurement?
2. Why is Procurement important?
3. How does Procurement work – the pre and post-order steps
4. How does Procurement work – Category Management
5. Negotiating with Key Account Managers
6. Key initiatives for Procurement Managers today



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Procurement Module Learning Objectives

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At the end of this module learners will be able to:

1. Explain what Procurement is and why it is important?
2. Determine how the Procurement process works, the pre-order, post-order steps and category management.
3. Explore how Procurement Negotiate with Key Account Managers and identify key initiatives for Procurement Managers today.



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1. What is Procurement?

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This session will cover:

- a. Clarification of Procurement, purchasing, sourcing, buying, supplier and vendor management concepts
- b. What does Procurement actually do?
 - i. Direct Procurement
 - ii. Indirect Procurement



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Clarification of Procurement, concepts

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What is the difference between Procurement, purchasing, sourcing, buying, supplier and vendor management?





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Clarification of Procurement, concepts

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- Procurement - is the act of obtaining goods or services, typically for business purposes
- Purchasing - is the process a business or organization uses to acquire goods or services to accomplish its goals
- Sourcing - is the process of selecting suppliers to provide the goods and services you need to run your business
- Buying - obtain in exchange for payment
- Supply/supplier management - the process that ensures maximum value is received for the money that an organisation pays to its suppliers
- Vendor management - a discipline that enables organizations to control costs, drive service excellence and mitigate risks to gain increased value from their vendors throughout the deal life cycle



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What does Procurement actually do?

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What does Procurement actually do?





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What does Procurement actually do?

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- In the business world it is the interface between suppliers and the buying organisation
- At high level we can split sourcing into two main business activities.
 - The first one is selecting new suppliers.
 - The second is then to manage the supplier over a period of time, one-off or multiple purchase
- Many tangible benefits can be achieved by better Procurement (e.g. shorter lead times) but also intangible benefits can result, such as improving brand value through more sustainable sourcing.



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Procurement – Two main activities

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Two main activities:

- The first one is selecting new suppliers
 - Find them!
 - Set criteria (for example price, quality, reliability)
 - The tender process
- The second is then to manage the supplier over a period of time
 - one-off – facility, fork truck, system
 - multiple purchase – raw material, stationery, utilities

In Product organisations, example from a drinks company:

Direct	Indirect
Glass	Factory security
Carbon dioxide	Consultants
Label	Cleaning
Sugar	Electricity
Closure (cap)	Protective clothing
Flavouring	Stationary

Procurement categories – methodology to optimise



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2. Why is Procurement important?

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This session will cover:

1. Corporate and non-corporate Procurement
2. What are the benefits of Procurement

Session 1
0 – 20 minutes



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Corporate and non-corporate Procurement

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From the Key Account Managers perspective they may have very different objectives:

Corporates

Separate legal entity with its own legal rights and obligations. Finances are separate to the personal affairs of its owners. Any profits generated are retained by the company – and shareholders.

Non-corporates

Co-operatives, Mutual societies, Partnerships, Community-supported schemes (CSA), Social enterprises / not-for-profits, Trusts

- Can you think of some objectives specific to corporate organisations?
- Can you think of some objectives specific to non- corporate organisations?





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Corporate and non-corporate Procurement

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From the Key Account Managers perspective they may have very different objectives:

Corporates

Sales growth, improve cash flow, drive efficiency, innovate faster

Non-corporates

Serve the members, reinvested in the community, proceeds earned are spent in accordance with the stated aims of the charity

Corporate

- Company – General Motors
- Objectives - To become the world's most valued automotive company (world and Value \$)
- Spend \$80 Billion (2019)



Non-corporate

- Organisation – National Health Service (England)
- Objectives - Continuously improve care quality, help to create the safest, highest quality health and care service (personal, effective, safe, dignity, compassion)
- Spend \$180 Billion





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What are the benefits of Procurement

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Can you think of 3 or 4 benefits of Procurement?





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What are the benefits of Procurement ?

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RAQSCIR:

1. Regulatory
2. Assurance of Supply and lead time
3. Quality
4. Service
5. Cost and Cash flow
6. Innovation – product, process and technology development
7. Risk



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Procurement is a key driver for bottom line improvement within organisations

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€1 million!

If a sales force wins a €10 million contract and the contract gives a 10% margin, the contribution is a healthy €1 million for the business.

€2 million!!

However, if the sourcing team deliver €2 million savings, this is equivalent to a €20 million sales contract.

One could argue that the sourcing team are performing better than the sales team! This bottom line contribution is enormously valuable yet often underrated in organisations.



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3. How does Procurement work – the pre and post order steps

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This session will cover:

1. The Pre-order steps
2. The Post-order steps
3. The P2P Cycle

Session 3
40 – 60 minutes



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What are the End to End steps in the Procurement Process

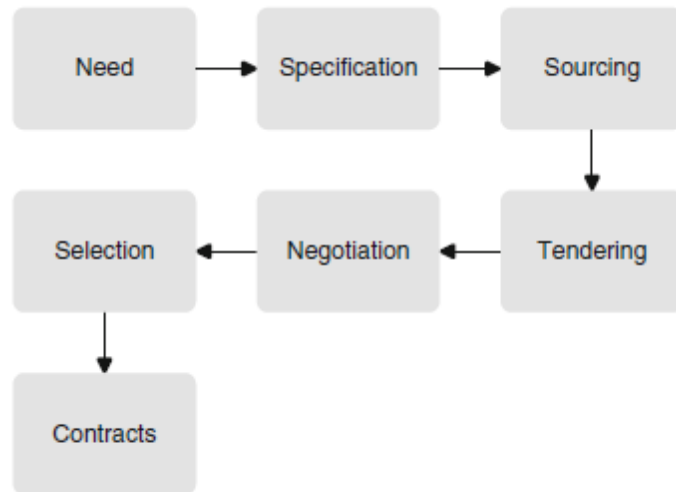
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Think of a large fashion or clothing retailer you've bought some clothes in for yourself.

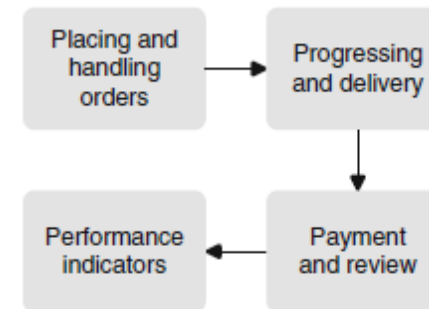


To get that item of clothing to you, what four or five steps in Procurement have they taken? (or more steps!!)

1. The Pre-order steps



2 The Post-order steps





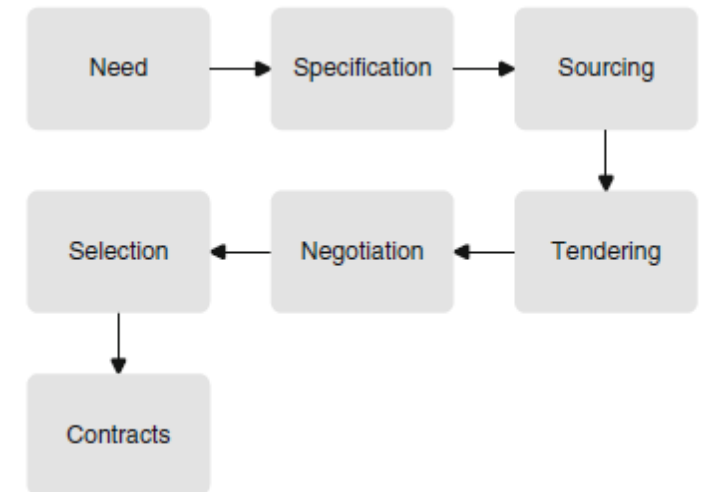
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Tender Process

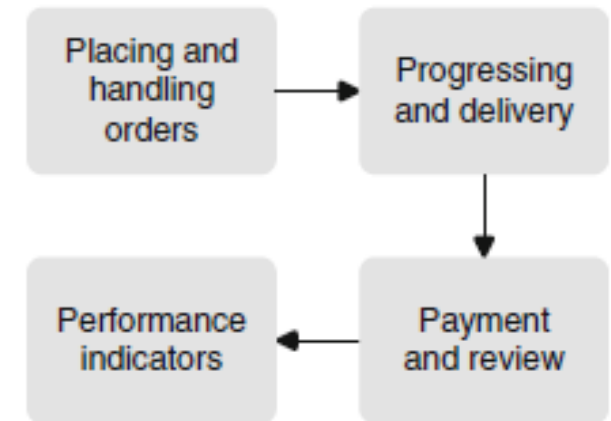
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- A clothing company identifies the need for a product,
- The design team finalises the specification
- The buying team will then start looking for potential suppliers and thus start sourcing
- The buying team will select a short list of preferred suppliers – tendering
- Negotiation will then follow with each chosen supplier
- From the supplier negotiations, the buying team will make their preferred supplier selection
- The creation of one or several contracts



- A large volume of orders being placed mandate a process of effective order handling
- Monitor the progress of the order and delivery:
 - in-bound logistics team - operations
 - buying team is - service issues
- Payment and review of the invoice, for each order in line with the agreed contractual terms
- Supplier review - performance indicators

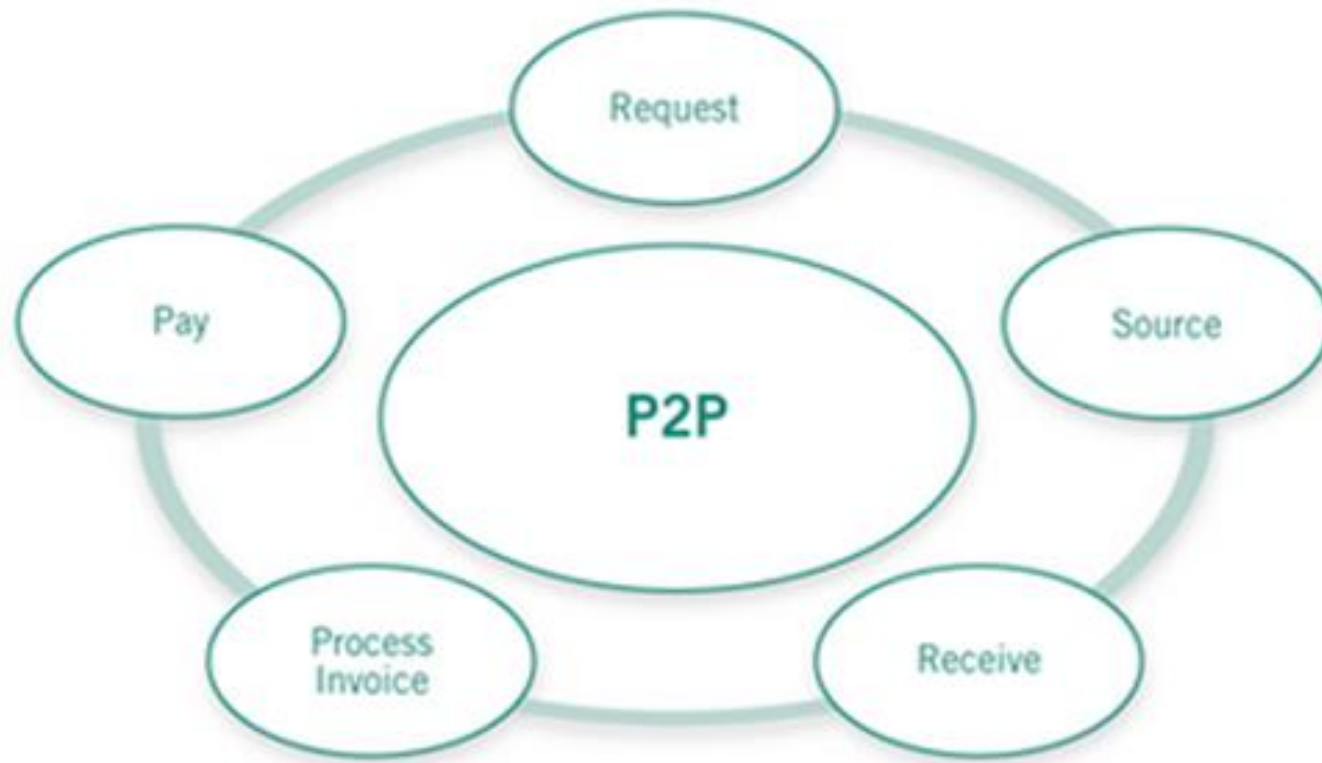




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The Purchase/Procure to Pay Cycle

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This session will cover:

1. CM definition and process
2. Stakeholder Management
3. Category mapping and opportunity analysis
4. Business needs and specification
5. Key analysis - Market, competitor, supplier, supply and value chain
6. Risk management in Procurement
7. Price and cost management

Category Management is a strategic approach to managing the spend of an organization on an ongoing basis.

It is a medium to long-term approach that directs resources to where they can best support the organization's overall goals and objectives, while minimizing supply risk and maximizing supply value

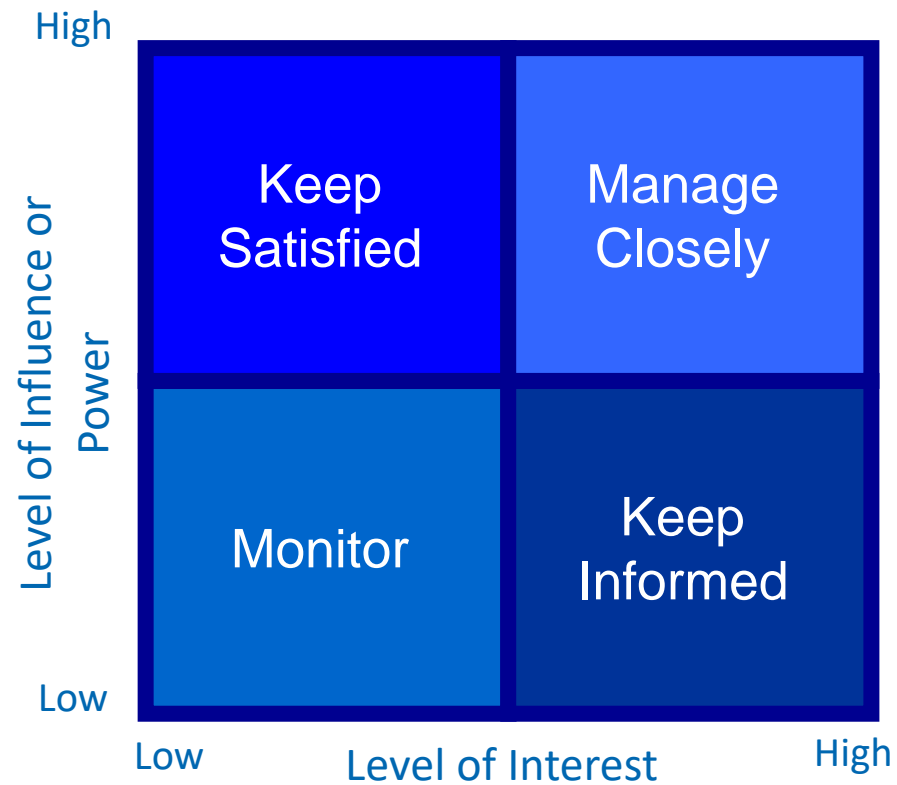




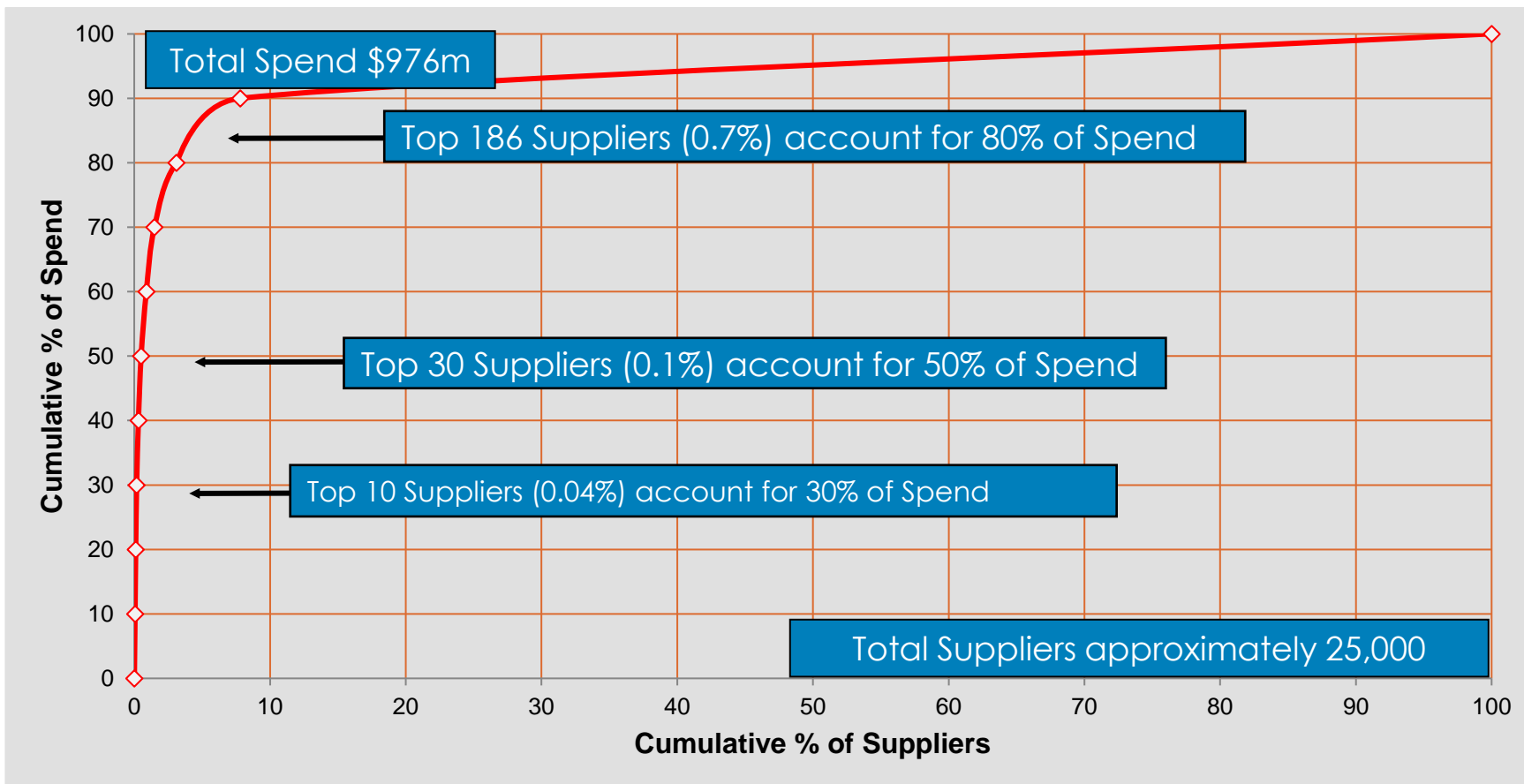
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Stakeholder Management

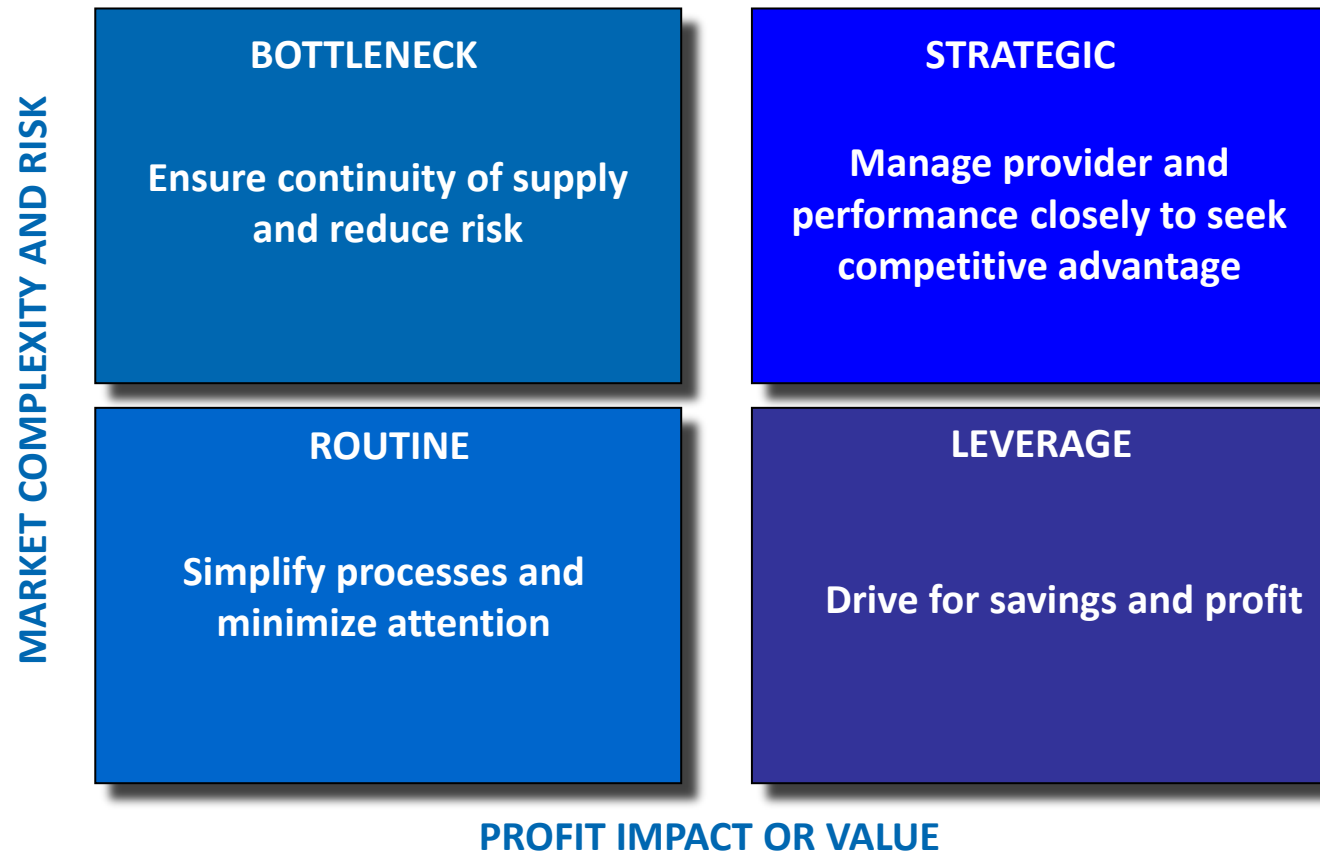
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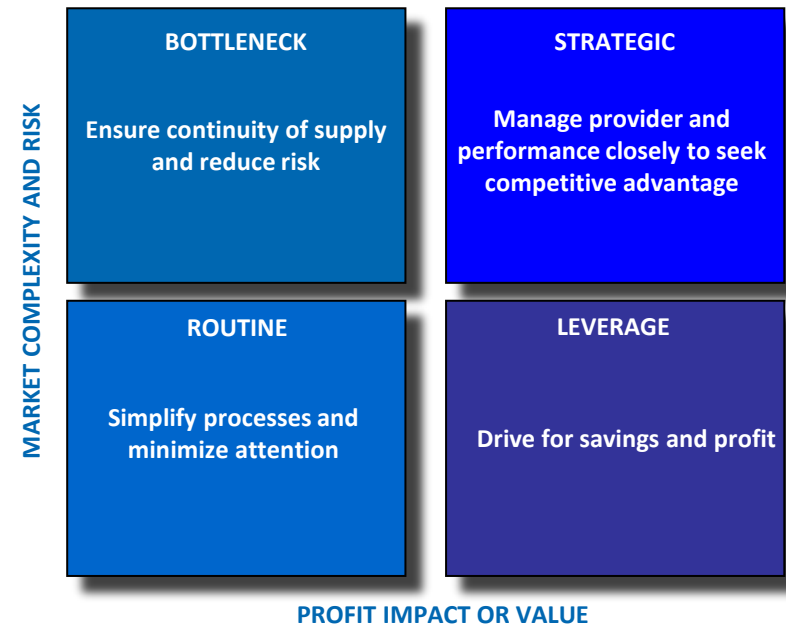
Pareto directs focus towards large areas of spend but does not take into account risk, business impact or market complexity

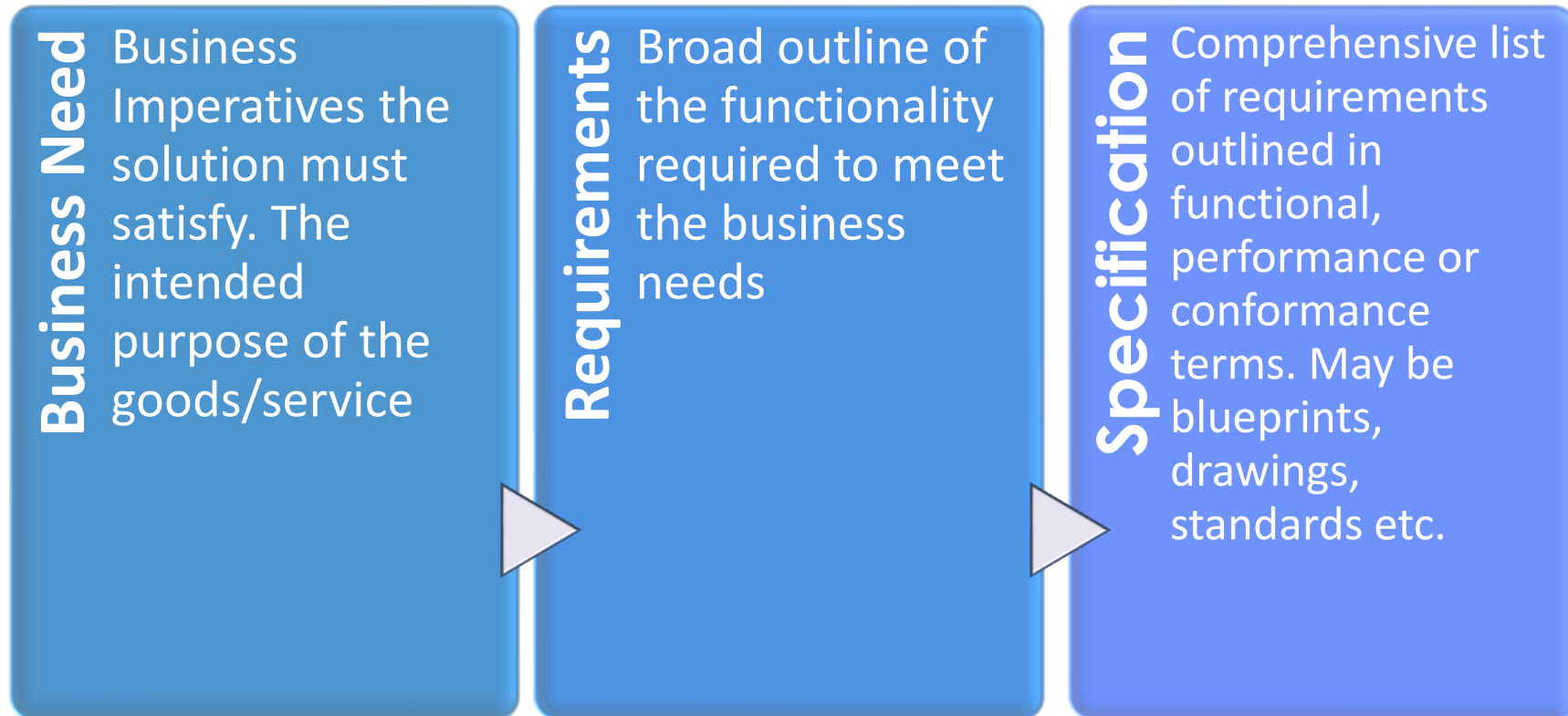


- Perhaps the most important tool in strategic sourcing
- Used to segment expenditure and position sub-categories

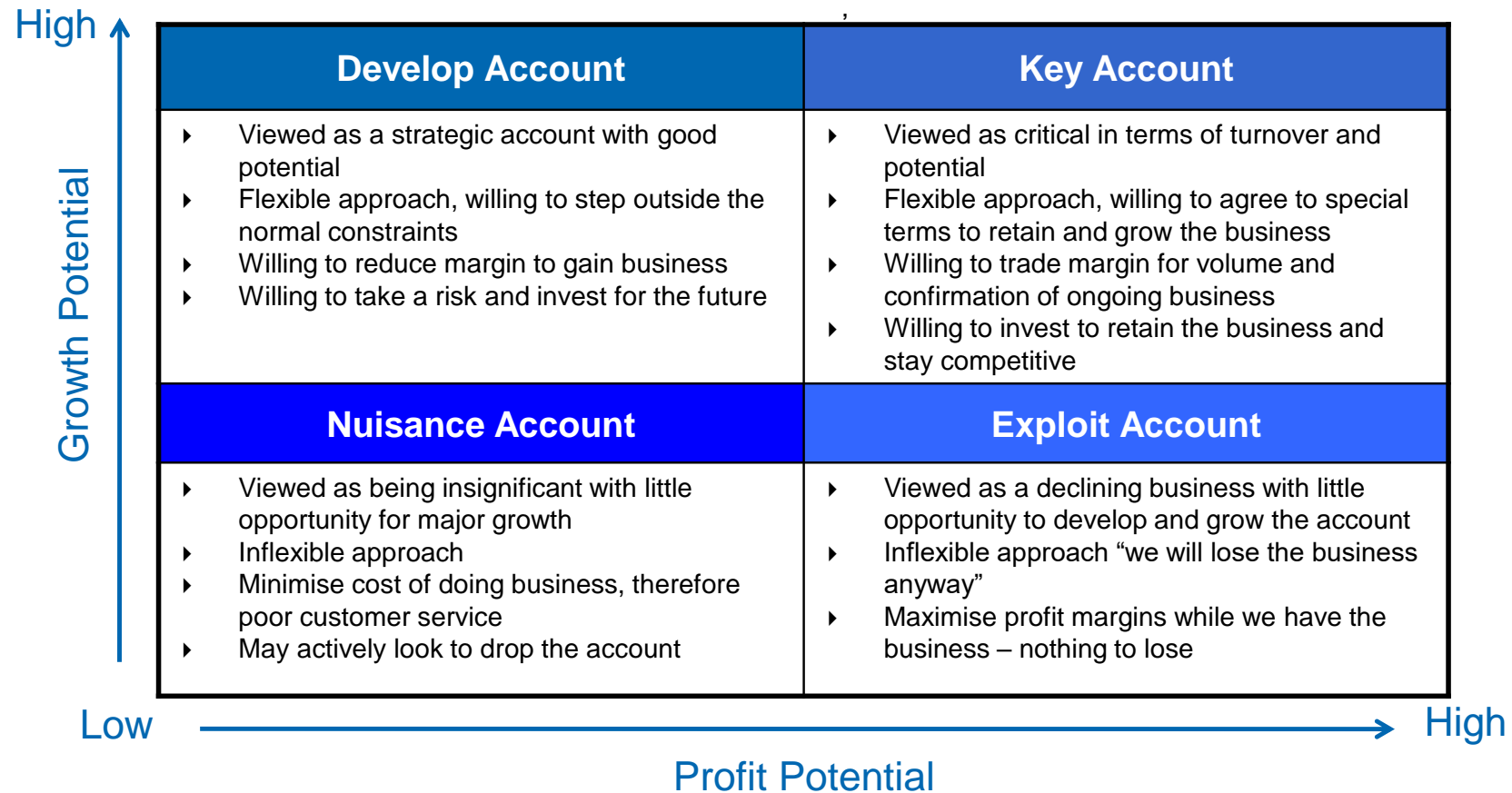


Think of a large Computer Manufacturer's global business. Suggest an item for each quadrant





1. Porters 5 Forces
2. PESTEL Analysis
3. Supplier Perception
4. Supply Chain Mapping





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Risk management in Procurement

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1. Risk management plan
2. Risk avoidance
3. Risk mitigation
4. Risk acceptance



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Price and cost management

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What's the difference between Price, Cost and Value?





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Price and cost management

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COST (what you expend)

The sum total of all expenditure incurred by a Supplier in the delivery & manufacture of goods, or in the delivery of a Service, in accordance with the specification (agreed by the Buyer)

PRICE (what you pay)

The sum of money a customer agrees to pay a supplier for specific goods or a service

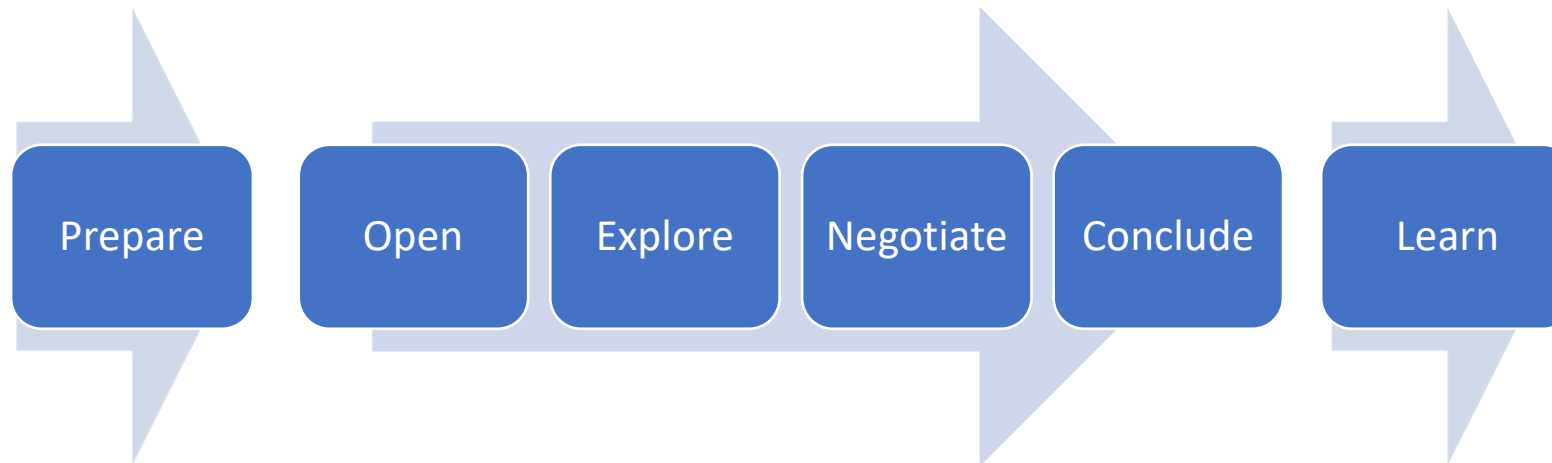
VALUE (what you get)

Value of a product or service is the utility or worth of the product or service for an individual.

Price is a myth - price can be anything a supplier sets and anything you're prepared to pay but Cost is fact.

This session will cover:

How Procurement negotiate with Key Account Managers in a six-step process:



Ground rules

- Company policies
- Sustainability policy
- Ethical rules

Legal terms & conditions

- Standard company terms & conditions
- Industry standard terms & conditions
- INCOTERMS

Category

- Expertise
- Competition
- Alternatives

Personnel

- Negotiating roles
- Mandate
- Seniority

Prepare

Open

Explore

Negotiate

Conclude

Learn

Opening

- Agenda
- Conditioning message

Exploration

- ITT/RFQ submission
- Supplier information

Negotiation

- Variables
- Limits
- Best Alternative To a Negotiated Agreement

Conclusion

- Monitoring tools

Prepare

Open

Explore

Negotiate

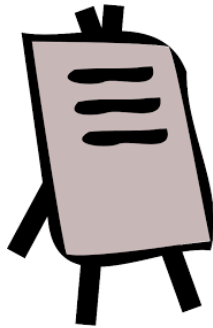
Conclude

Learn



Take the lead

- Welcome the individuals to the meeting
- Propose timings and breaks



Set the agenda

- Suggest the topics to be covered in the meeting (based upon the variables that you have prepared)



State your conditioning message

- Let the supplier know what you are expecting from them; and
- What your needs are

Prepare

Open

Explore

Negotiate

Conclude

Learn



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Explore

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Check assumptions

Build on conditioning
messages

Interests (not
positions)

“If we were supposed to talk more than listen, we
would have two mouths and one ear.” *Mark Twain*

Prepare

Open

Explore

Negotiate

Conclude

Learn



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Negotiate

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What's the best way to Negotiate?

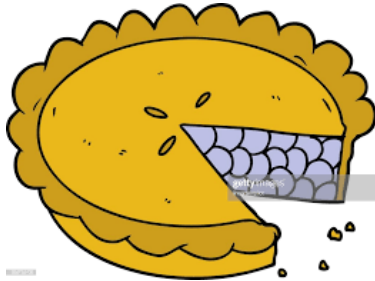


Small steps

Go high!

Trade

Record the
concessions



If I give you...
will you give
me...?



Prepare

Open

Explore

Negotiate

Conclude

Learn

Session 4
60 – 80 minutes

Review the list

- Review and validate the agreed list of variables (concessions traded)
- List the open points and agree they will be left open
- Be careful not to re-launch the negotiation when concluding

Celebrate success

- Make it pleasant – it is an important moment for everyone
- Show respect – start to build the future relationship
- Try not to show emotions, but acknowledge the common success

Listen

- People can reveal a lot of information after the negotiation is concluded



Did we spend
enough time
planning and
preparing?

Which areas
needed more
attention?

Did we work
well as a team?

Do we need to
review our rules
of engagement?

Did we achieve
the objectives
we set?

If no, what could
we have done
differently?

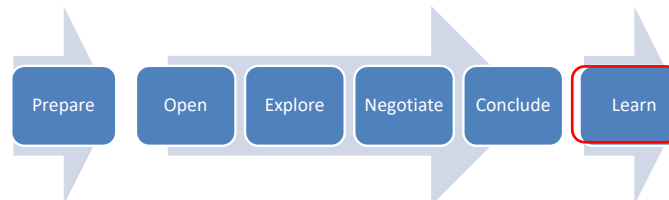
If yes, could we
have set our
objectives higher?

Was our
“conclusion”
clear and
precise?

Do we need to
change the way
we record
concessions?

Did our “opening”
create the right
atmosphere?

Should we
change our
behaviour
next time?





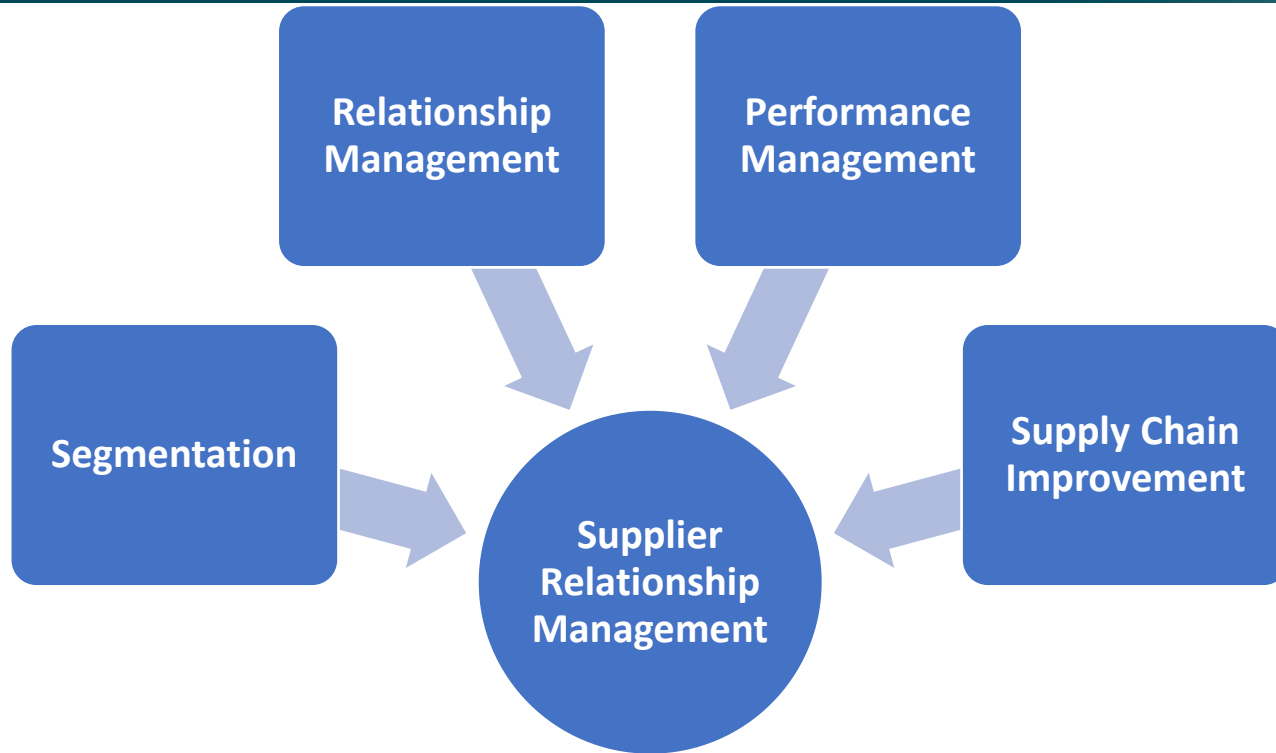
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6. Key initiatives for Procurement Managers today

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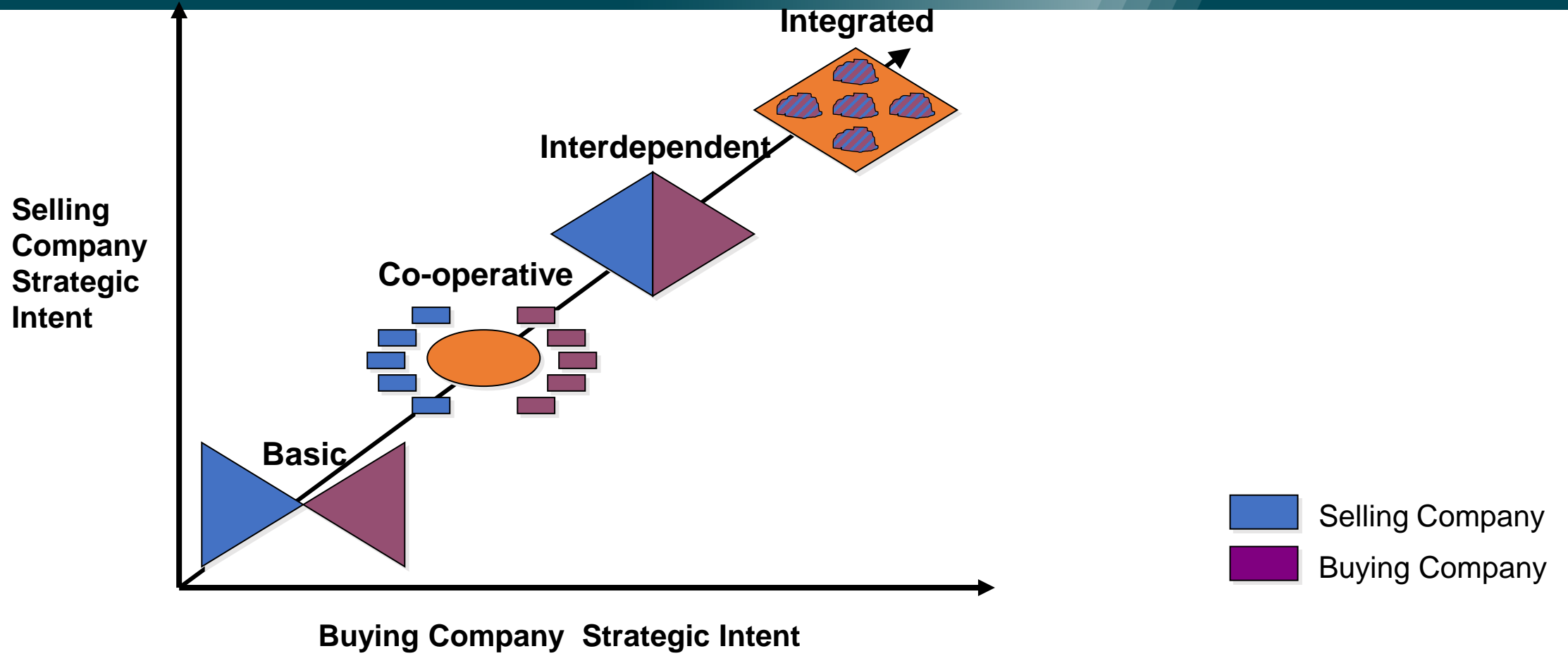
This session will cover:

1. Supplier Relationship Management
2. Sustainability in Procurement
 1. Environment
 2. Human Rights
 3. Business Integrity
3. Digitilisation of Procurement



“The philosophy of SRM is to ensure a firm has the right approaches, with the right suppliers or parts of the supply base to achieve corporate goals.”

O'Brien, Jonathan. Supplier Relationship Management. Kogan Page.





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Sustainability in Procurement

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What's does Sustainability mean for Procurement?





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Sustainability in Procurement

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‘Sustainability is both about the world we will leave our children and our grandchildren and a way of doing business that allows companies, workers and their communities to thrive’

For Procurement today its critical:

1. Environment
2. Human Rights
3. Business Integrity



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Sustainability - Environment

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Procurement initiatives working with suppliers:

- Reduce the carbon footprint of our supply chain
- Sustainability in agricultural production
- Deforestation
- Energy and water consumption
- Recycling
- Reduce CO2 and other emissions



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Sustainability – Human Rights

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Procurement initiatives working with suppliers:

- Forced Labor and Human Trafficking
- Child Labor
- Working Time
- Wages and Benefits
- Fair and Equal Treatment
- Workplace Safety
- Freedom of Association
- Land Rights
- Sourcing of Materials

Session 6
100 – 120 minutes



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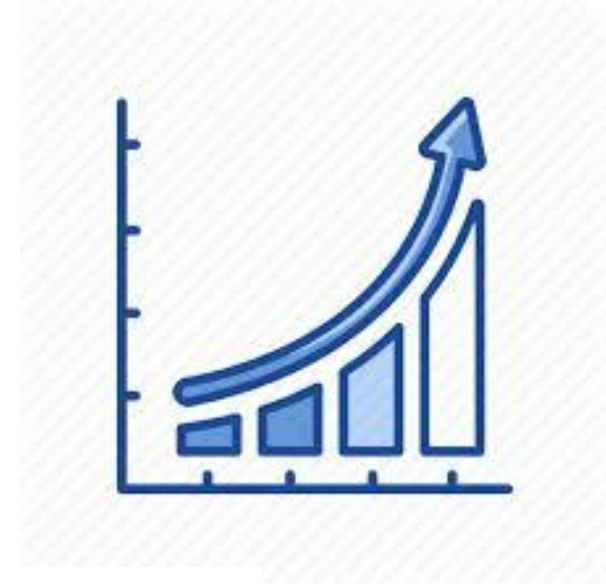
Sustainability – Business Integrity

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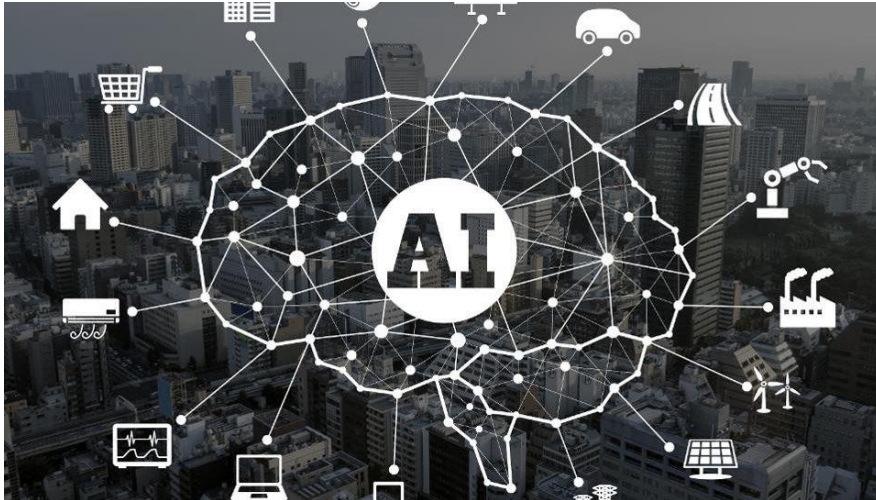
Procurement initiatives working with suppliers:

- Market with Integrity
- Bribery and Corruption
- Fair Competition
- Confidential Information and Intellectual Property
- Conflict of Interest
- Illicit Trade

- Information & communication technologies – benefits
 - Internet of Things
 - Big Data
 - Data-driven decisions



- Digital Information Flows
- Procurement automation
 - Transactional automation
 - RPA - Robotic Process Automation
 - AI - Artificial Intelligence





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Conclusion: Procurement Module Content

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1. What is Procurement?
2. Why is Procurement important?
3. How does Procurement work – the pre and post-order steps
4. How does Procurement work – Category Management
5. Negotiating with Key Account Managers
6. Key initiatives for Procurement Managers today



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Procurement Module Learning Objectives

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At the end of this module learners will be able to:

1. Explain what Procurement is and why it is important?
2. Determine how the Procurement process works, the pre-order, post-order steps and category management.
3. Explore how Procurement Negotiate with Key Account Managers and identify key initiatives for Procurement Managers today.