Procurement
Strategic Sourcing
AGENDA

• What is Strategic Sourcing?
• Advantages of Strategic Sourcing
• Objectives of Strategic Sourcing
• Strategic Sourcing Methodology Deliverables
• Wave 1 Project Objectives and Results
• Future Opportunities
**What is Strategic Sourcing?**

**Definition:** A systematic and fact-based approach for optimizing an organization's supply base and improving the overall value proposition

<table>
<thead>
<tr>
<th>What it is</th>
<th>What it is NOT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Focused on the Total Cost of Ownership (TCO) incorporating customer needs, organizational goals, and market conditions</td>
<td>Focused ONLY on cost</td>
</tr>
<tr>
<td>Getting the best product/service at the best value</td>
<td>Getting the cheapest product/service</td>
</tr>
<tr>
<td>Driven by a rigorous and collaborative approach</td>
<td>Ad-hoc activities involving only purchasing</td>
</tr>
<tr>
<td>Addresses all levers for savings</td>
<td>Focused on “beating up suppliers”</td>
</tr>
<tr>
<td>Decisions based on fact based analysis and market intelligence</td>
<td>Decisions based on opinion, unjustified preference, or complacency</td>
</tr>
<tr>
<td>A continuous process</td>
<td>A one time project or decision</td>
</tr>
</tbody>
</table>
Objectives of strategic sourcing surround the reduction of cost while maintaining or improving quality

- Improve the value-to-price relationship (i.e. achieve cost reductions while maintaining or improving quality/service)
- Examine supplier relationships across the entire organization
- Leverage entire organization’s spend
- Understand category buying & management process to identify improvement opportunities
- Develop & implement multi-year contracts with standardized terms and conditions across the organization
- Share best practices across the organization
Advantages of Strategic Sourcing

- Best practice sharing
- Cost savings
- Create partnerships with suppliers
- Access to new suppliers
- Improve operational efficiency
- Spec rationalization
- Standardize pricing
- Increase quality
Strategic Sourcing Methodology: Deliverables

- Identify team & hold kickoff
- Develop workplan
- Review current contracts
- Gather user specifications & requirements
- Define category scope & build baseline

- Conduct market analysis
- Create potential supplier master list

- Develop supplier selection criteria
- Complete sourcing strategy assessment
- Develop supplier engagement documents

- Publish supplier engagement documents
- Response to supplier question:
  - Initial supplier proposal analysis (qualitative & quantitative)
  - Create shortlist of suppliers for negotiations

- Identify team & responsibilities
- Develop negotiation plan for each supplier

- Develop award scenarios with savings calculations
- Make award decisions with end user and finalized savings

- Complete and validate implications of new process
- Develop change management plan (if changing vendor)

- Identify activities required for successful implementation

- Develop implementation/transition plan
- Finalize Contract and set up in required systems
- Develop Communication Plan
Wave 1 Implementation: Savings Opportunity and Metrics Development and Reporting

• Savings Opportunity and Execution of Strategic Sourcing
  • Initial scope recommended 7 categories with up to $117MM of in-scope spend potentially yielding $7.5MM in annual savings
  • Staggered timeline from April 2011 through August 2011 for Wave 1
  • Implemented six Wave 1 Categories (including Furniture, Office Supplies, Peripherals, Janitorial Supplies and IT hardware maintenance)
  • Executed contracts for furniture and janitorial supplies
  • Finalizing contracts for office supplies and peripherals

• Spend Metrics Development and Reporting
  • Defined procurement metrics to monitor and motivate operational performance and university-wide compliance across all spend categories
  • Developing flexible report templates to segment data by key variable fields (department/school, category, supplier)
In addition to Strategic Sourcing, consistent and repeatable procurement metrics were created to track spend and savings university wide

**Metrics Objectives**

- Institute a metrics tracking process and tool that provides procurement with visibility into university-wide managed spend, identified savings, realized/lost savings, and optimization
- Create clearly defined, consistent, data driven metrics that will provide Procurement and Leadership with actionable spend and savings information
- Define a process structure to ensure long-term sustainability for performance metrics tracking while minimizing resource involvement

**Future State**

- Metrics reporting will be done on a quarterly basis, with a defined process that will facilitate accurate reporting
- Data points used for reporting will be housed in one database
- Spend and savings numbers reported are consistent and derived using Procurement-set definitions
- Key metrics being tracked will include: Managed Spend, Identified Savings, Realized/Lost Savings, and Supplier Optimization
Templates were created to summarize key metrics

**Sample Dashboards – ILLUSTRATIVE ONLY**

**University of Michigan - Procurement Metrics Dashboard**

### Managed Categories Snapshot

- **Total Managed Spend**: $592,411,529
- **Optimized Spend**: $207,000,000

### Spend for Managed Categories

<table>
<thead>
<tr>
<th>Optimized Spend</th>
<th>All Other Spend</th>
<th>Total Managed Spend</th>
<th>% Utilization</th>
</tr>
</thead>
<tbody>
<tr>
<td>$206,607,392</td>
<td>$385,804,137</td>
<td>$592,411,529</td>
<td>35%</td>
</tr>
</tbody>
</table>

**UMH and Medical School Snapshot**

- **Total Managed Spend**: $317,000,000
- **Optimized Spend**: $111,000,000

**Campus Snapshot**

- **Total Managed Spend**: $275,000,000
- **Optimized Spend**: $96,000,000

### Spend for Managed Categories

<table>
<thead>
<tr>
<th>Health System and Medical School</th>
<th>Optimized Spend</th>
<th>All Other Spend</th>
<th>Total Managed Spend</th>
<th>% Utilization</th>
</tr>
</thead>
<tbody>
<tr>
<td>$110,821,493</td>
<td>$205,775,445</td>
<td>$316,597,940</td>
<td>35%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Campus</th>
<th>Optimized Spend</th>
<th>All Other Spend</th>
<th>Total Managed Spend</th>
<th>% Utilization</th>
</tr>
</thead>
<tbody>
<tr>
<td>$95,785,899</td>
<td>$180,287,685</td>
<td>$276,073,584</td>
<td>35%</td>
<td></td>
</tr>
</tbody>
</table>
## Potential Future Savings Opportunities

<table>
<thead>
<tr>
<th>Category</th>
<th>Spend ($MM)</th>
<th>Savings %</th>
<th>Savings ($MM)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lab Supplies &amp; Chemicals</td>
<td>$30.0</td>
<td>8%</td>
<td>$2.4</td>
</tr>
<tr>
<td>Temporary Staffing</td>
<td>$14.1</td>
<td>6%</td>
<td>$0.8</td>
</tr>
<tr>
<td>Building Supplies</td>
<td>$7.5</td>
<td>11%</td>
<td>$0.8</td>
</tr>
<tr>
<td>Food Supplies</td>
<td>$13.2</td>
<td>6%</td>
<td>$0.8</td>
</tr>
<tr>
<td>IT Software</td>
<td>$14.8</td>
<td>4%</td>
<td>$0.6</td>
</tr>
<tr>
<td>Electrical Supplies</td>
<td>$5.0</td>
<td>8%</td>
<td>$0.4</td>
</tr>
<tr>
<td>IT Software Maintenance</td>
<td>$5.0</td>
<td>8%</td>
<td>$0.4</td>
</tr>
<tr>
<td>PPVF</td>
<td>$4.0</td>
<td>10%</td>
<td>$0.4</td>
</tr>
<tr>
<td>Servers</td>
<td>$3.6</td>
<td>8%</td>
<td>$0.3</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$97.2M</strong></td>
<td><strong>7.1%</strong></td>
<td><strong>$6.9M</strong></td>
</tr>
</tbody>
</table>
Questions?
Central Procurement Moves to Commodity-Based Teams
Background

• As part of our ongoing efforts to be good stewards of the university’s financial resources and to provide you with better customer service, Procurement Services recently reorganized its central (Ann Arbor campus) procurement area.
New Team Alignments

• Under the new structure, procurement teams on the Ann Arbor campus are now supporting the following commodity lines:
  – Facilities
  – Print and Professional Services
  – Research
  – Technology
  – Travel, General Goods and Services
Why Change?

• Formerly, some procurement agents supported units as “generalists,” administering purchasing efforts for most products/services.

• Others focused on specific commodity lines, including technology, food, print, and facilities.

• Our new team-based approach will enable us to more efficiently help you in all phases of the purchasing process and remain a center of expertise on negotiations.
What this Means for You

• Since many of you have been purchasing your goods and services through our commodity-based teams for some time, there will be no change in the way you use our services.

• We’re in touch with units across the university that have been working with procurement generalists to assist with the transition to the new model.
Team Contact Information

Visit the Procurement Services Contacts page for team members and contact information

http://finance.umich.edu/procurement/contacts

<table>
<thead>
<tr>
<th>Team</th>
<th>Team E-mail Address</th>
</tr>
</thead>
<tbody>
<tr>
<td>Facilities</td>
<td><a href="mailto:procurement.facilities@umich.edu">procurement.facilities@umich.edu</a></td>
</tr>
<tr>
<td>Print &amp; Professional Services</td>
<td><a href="mailto:procurement.pps@umich.edu">procurement.pps@umich.edu</a></td>
</tr>
<tr>
<td>Research</td>
<td><a href="mailto:procurement.research@umich.edu">procurement.research@umich.edu</a></td>
</tr>
<tr>
<td>Technology</td>
<td><a href="mailto:procurement.technology@umich.edu">procurement.technology@umich.edu</a></td>
</tr>
<tr>
<td>Travel, General Goods and Services</td>
<td><a href="mailto:procurement.travelgoodsvc@umich.edu">procurement.travelgoodsvc@umich.edu</a></td>
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</table>
Travel & Expense Update
Our Discussion Today

• New Travel and Expense Advisory Committee
• We’re Listening – Recent Concur Enhancements
• Concur Best Practices
• Expense Approver Training Reminder
New Travel and Expense Advisory Committee

• New committee with rotating membership formed in July 2011
• Its purpose is to provide a direct line of communication between university representatives and Procurement Services as we continue to pursue opportunities for improvements to Concur and related policies
Current Committee Membership

- Carolyn Batts, ISR
- Lisa Beymer, University Audits
- Charles Koopmann, MD, SACUA
- Mahendra Kumar, Art and Design
- Lynda Lyall, Internal Controls
- Debbie Mero, ITS
- Jayne Nyman, School of Dentistry
- Sean O’Neil, Ross School of Business
- Pat Ridenour, UMHS
- Steve Schlecht, LSA
- Candace Terhune-Flannery, School of Social Work
- Procurement Services: Carolynn Blankenship and Jeanette Frost, Lyn Fyfe, Committee Chair
We’re Listening

• New U-M Detailed Report available with expenses sorted by transaction date
• Coming soon: improved Subject line information for Concur system-generated e-mail messages
  – Tip: configure your mailbox to automatically move messages to folders (contact your local IT support for assistance)
Concur Best Practices

- The university has been fully live in Concur since February 15, 2011
- As thousands of employees have used the system over the past 8 months, we have identified (and will continue to identify) recommended best practices to follow when using Concur to maximize efficiencies and savings
Build Expense Reports Over Time

- Concur allows flexibility in creating and submitting expense reports
- Multiple report submissions, however, result in unnecessary expense to the university and an extra burden on the expense approver
Build Expense Reports Over Time

- Best practice is to submit reports once or twice a month by building a single report over time
- Out-of-pocket business expenses are the exception and can be submitted more frequently to ensure timely reimbursement to the employee
Resource

• More information about building expense reports over time can be found on the new Concur Best Practices web page:

http://www.finance.umich.edu/procurement/travelexpense/concur/bestpractices
Expense Approver Training Reminder

- Those serving as approvers on expense reports are required to complete the Expense Approver Training course in MyLINC before reviewing and approving expense reports.

- Training must be completed annually.
  - Tip: put a reminder on your e-mail calendar a month prior to your training anniversary.
Communications
e-Newsletter

• This month we’ll launch our new quarterly Procurement Services e-Newsletter
• Updates on source-to-spend policies and processes; travel and expense; best practices; upcoming events; and more.
• Subscribe by joining the M-Community group: *Procurement Services News*
  – You can unsubscribe at any time
Website News Resources

• We’ve added new items to the Procurement Services website, where you can find recent news and communications
  – News and Events
    http://www.finance.umich.edu/procurement/news-events
  – New in Concur
    http://www.finance.umich.edu/procurement/travelexpense/concur/new
Interchanges

• With the completion of the Concur implementation, Procurement Services has resumed our regular schedule of large audience sessions

• Interchange series will be held three times a year on all campuses
  – Fall (October/November)
  – Winter (February/March)
  – Spring/Summer (May/June)
Questions?