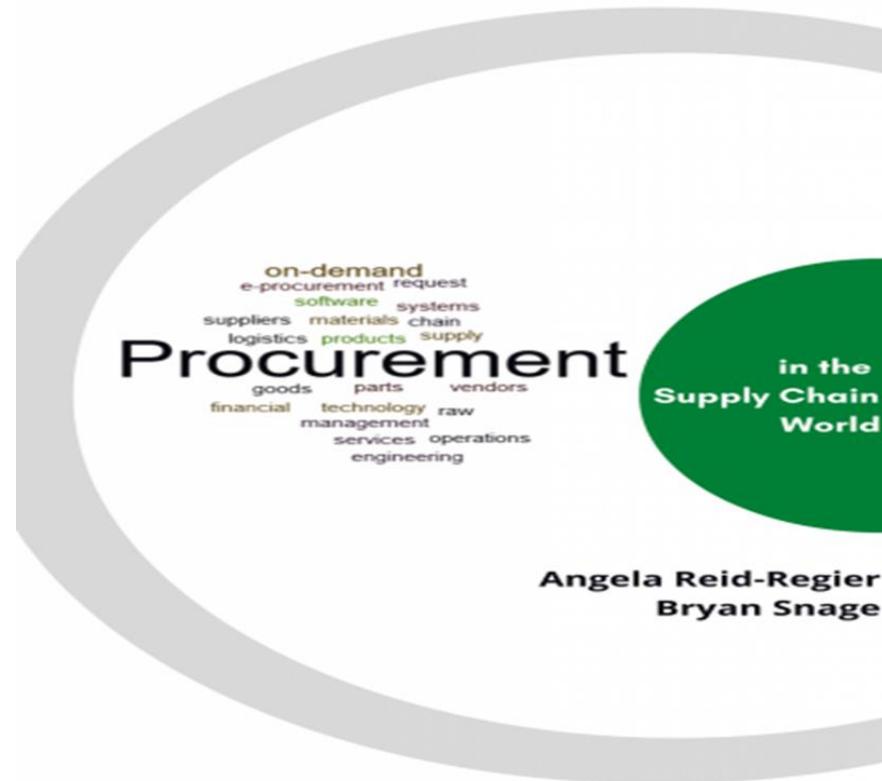


Procurement in a Supply Chain World

Chapter 2: Procurement Strategy



Accessibility Statement

- This PowerPoint is compatible with assistive technology
- Images have alternative-tags applied
- Complex images have long descriptions and are available in the notes section of each slide
- We welcome your feedback if you notice an area not addressed, please contact the authors listed here

Chapter 2 Learning Objectives

Learning Objectives:

- Recognize key strategic sourcing principles and objectives.
- Understand portfolio analyses and their use in developing procurement strategies.
- Explain the commodity strategy development process and the key steps in that process.
- Apply the procurement of goods and services based on their relative strategic importance.
- Analyze the various procurement strategies used to achieve competitive advantage.
- Evaluate current and evolving strategies in the procurement field.

Strategic Sourcing

Strategic sourcing is defined as the process of determining long-term supply requirements, finding potential sources to fulfill those needs, selecting and approving suppliers to provide the services, negotiating PO agreements, and managing suppliers' performance.

Procurement and Organizational Strategy

The organizational strategy contains long-term goals and objectives, including elements that restrict organizational current or desired activities and markets. These strategies are typically achieved using portfolio analysis:

- Strategic Company Goal
- Procurement Goal
- Procurement Objective

Procurement Scorecard

Procurement Scorecard analysis involves classifying procured items and services into one of four categories, according to the relative cost and supply risk associated with each item.

- Each quadrant needs a different procurement strategy.

Procurement Scorecard Image

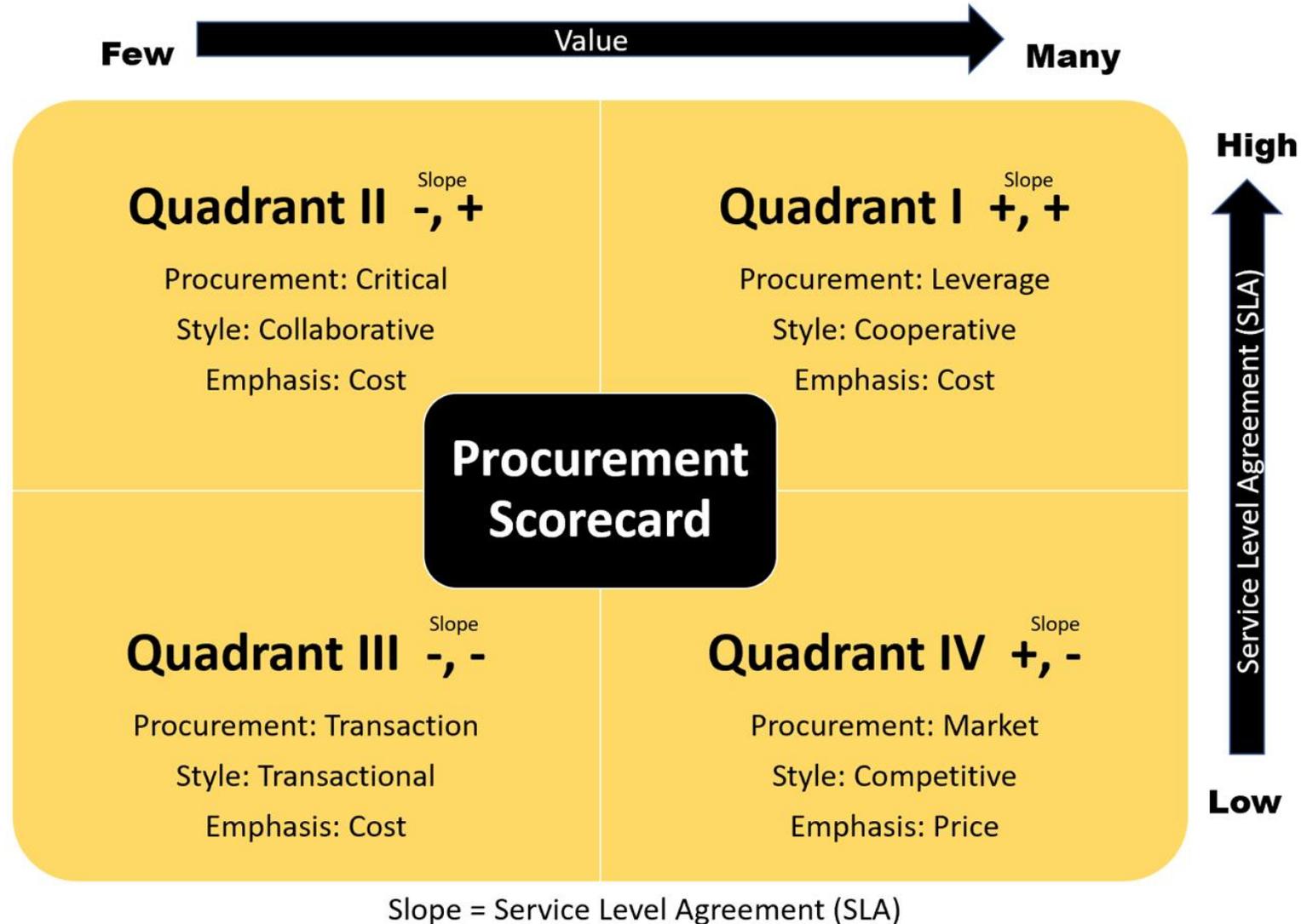


Figure 2.1 Procurement Scorecard Image attributed to Snage, Alternative Text Description in Notes

Quadrant I: Leverage

Leverage Items:

- A grouping of items which are bought in volume to allow for a discount.
- Are often long-term agreements.
- Takes up roughly 80% of all purchase dollars.

Quadrant I: Leverage Image

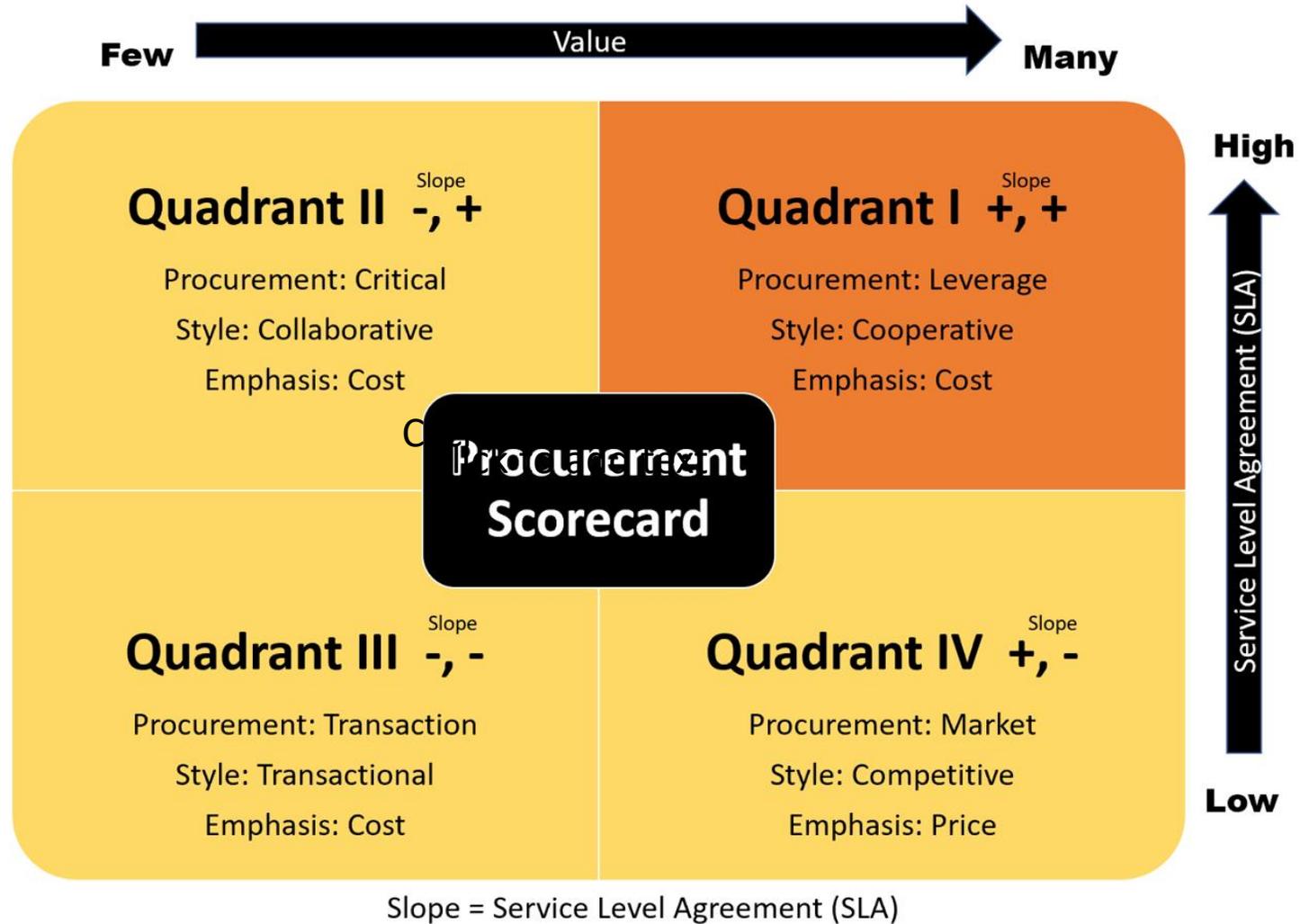


Figure 2.2 Quadrant I, Leverage

Image Attributed to Snage, Alternative Text Description in Notes

Quadrant II: Critical

Focus is on customization instead of standardization:

- Are necessary for production or service or are custom.
- Take up a lot of the purchasing budget.

Quadrant II: Critical Image

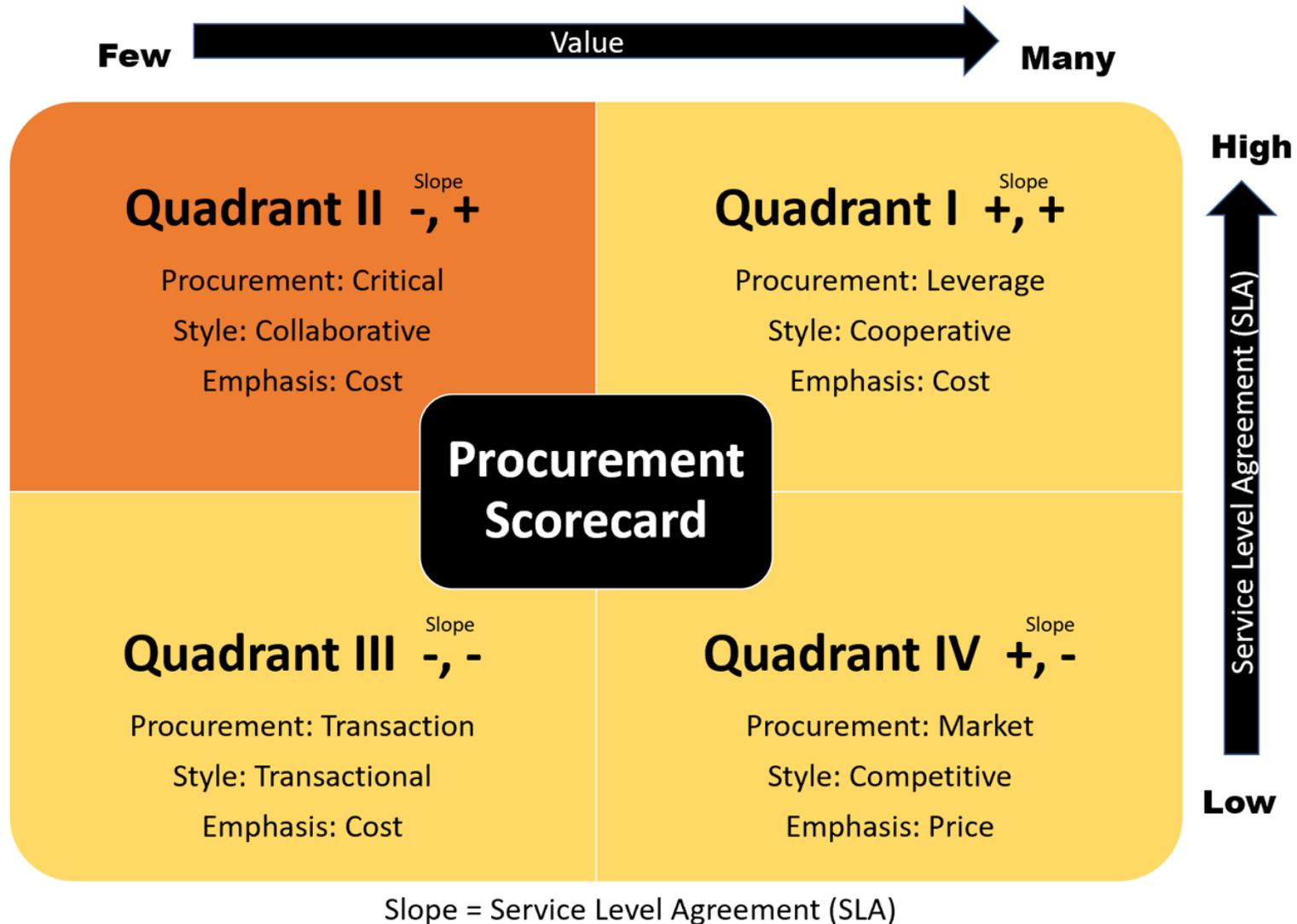


Figure 2.3 *Quadrant II, Critical*

Image Attributed to Snage, Alternative Text Description in Notes

Quadrant III: Transaction

These items are of lower value and low supply risk. The best price is achieved through use of electronic systems or procurement cards.

- Miscellaneous office supplies
- One-time purchases
- Magazine subscriptions to trade journals
- Emergency tools needed at remote locations

Quadrant III: Transaction Image

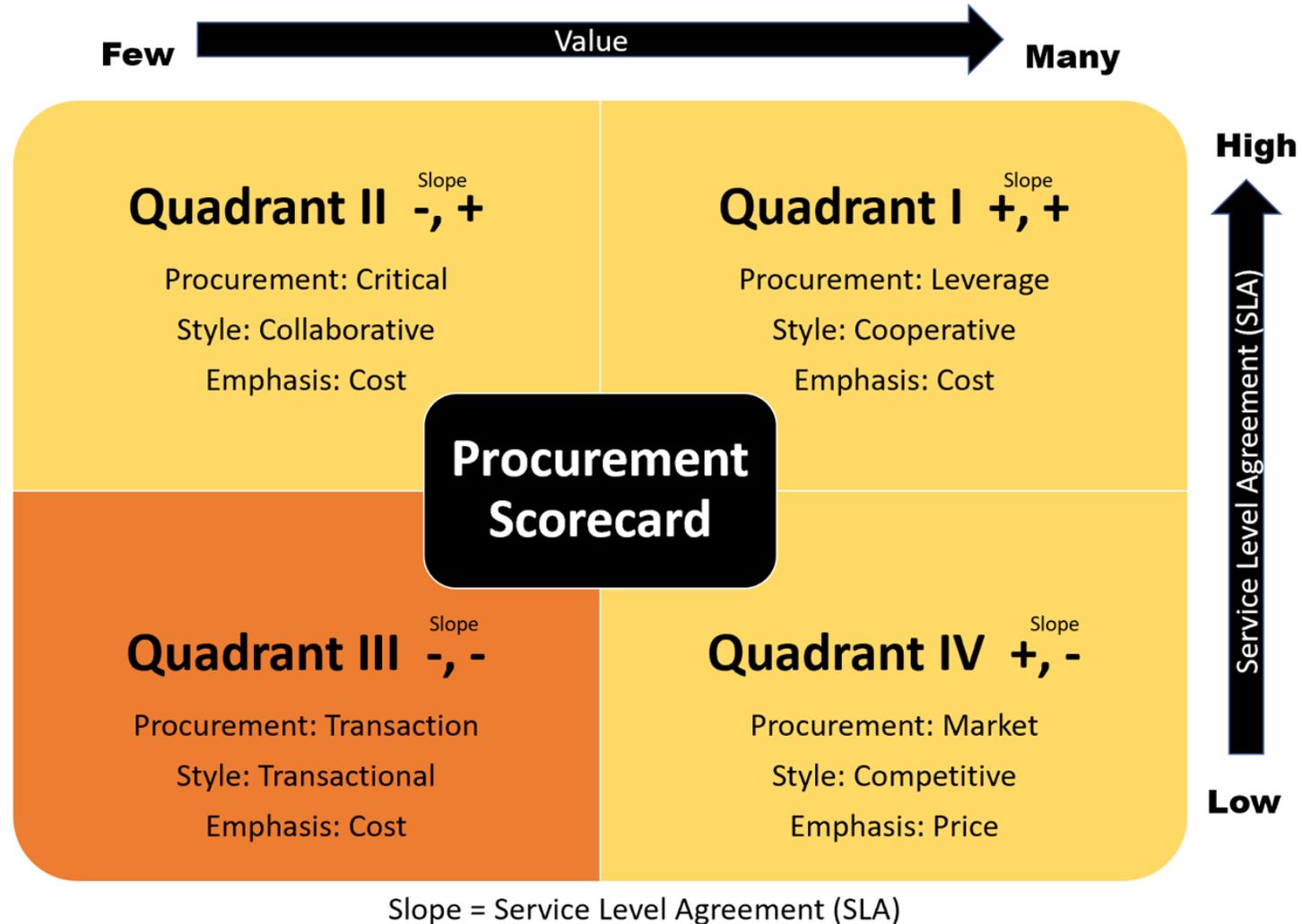


Figure 2.4 Quadrant Transaction Image Attributed to Snage, Alternative Text Description in Notes

Quadrant IV: Market

Standard supplies or services that are:

- Involved in an active supply market
- Low to medium value
- Have many suppliers
- Low cost to switch suppliers
- Well defined specifications

Quadrant IV: Market Image

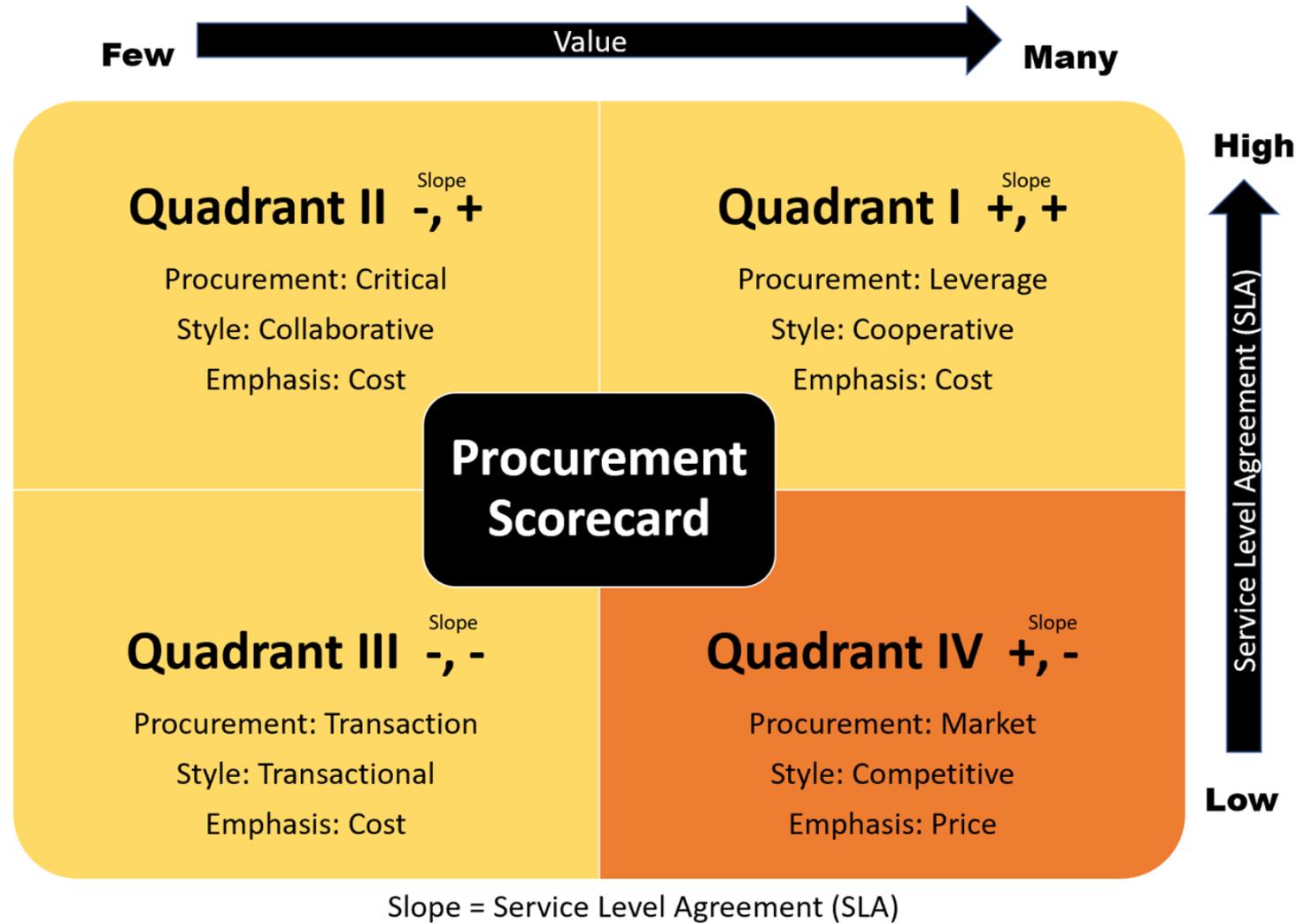


Figure 2.5 *Quadrant IV, Market Image* Image Attributed to Snage, Alternative Text Description in Notes

Strategic Sourcing Process, 7 Steps

The exact products and services that are to be subjected to this strategic sourcing process are determined through portfolio analysis. Each of the steps needs to be completed in the order indicated to help ensure that commodity strategies are developed and executed well.

1. Define Business Requirements Using Commodity Strategies
2. Define Strategic Importance of the Product or Service
3. Determine Business and Procurement Requirements, Spend, and Conduct a Market Analysis
4. Set Goals And Conduct a Gap Analysis
5. Develop Sourcing Strategies and Objectives
6. Carry Out the Strategy
7. Monitor Results and Review Performance

Types of Sourcing Strategies and Tactics

Key Strategies and tactics to achieve a competitive advantage:

- Supply Base Rationalization.
- Total Quality Management (TQM) efforts with key suppliers.
- Global sourcing.
- Long-term supplier relationships and supplier development.
- Early supplier involvement in the design.
- Total Cost Ownership
- Electronic Procurement (E-Procurement)
- Integrating Marketing and Sourcing
- Co-Locating Procurement Individuals with Internal Functions

Key Takeaways

- Procurement plays a significant role in formulating strategies for firms as a whole and with regard to individual items and services.
- This department also uses a commodity strategy development process and follows a number of key steps in that process.
- Procurement develops a strategy for, and efforts connected to, the procurement of goods and services based on the relative strategic importance of those goods and services.
- Organizations use a variety of procurement strategies to achieve a competitive advantage.
- There are a number of current and evolving strategies in the procurement field.