THE SELLER'S CHALLENGE CONCEPT CARD

FRENEMIES: PARTNERING WITH PROCUREMENT

Strategic Dynamics

Sellers Challenge: ***Develop a Sales Strategy that Incorporates Collaboration and Minimizes Conflict and Dispute with Procurement***

In building a sales plan, sellers are challenged to create a road map that allows the seller or selling team to communicate freely and openly with Procurement while accessing strategic buyers. Recent trends have seen growth in the power, size, and complexity of the Procurement function. Sellers are challenged to work collaboratively with Procurement to maximize contact with buyers, lessen pressure for price concessions, and convey a product's full value to the buying organization.

The Changing Lens

How Sellers Think:	How Procurement Thinks:
"I'd like a quick decision."	"This needs to have a thorough evaluation."
"I need to recycle my strongest, most persuasive dialogue for these guys."	"I'm tired of slick dialogue; show me the performance data I can rely upon."
"I've built strong executive relationships; they know my solution's value."	"Senior management likes these guys but wants me to provide hard evidence."
"These guys haven't even read my proposal that addresses planned benefits and projected value."	"These guys haven't even created a business case that provides measurable and convincing evidence of ROI and Payback."
"I hope we can make this simple. What one concession can I make to close the deal?"	"I'm not sure where to begin with these guys, so I guess we'll have to go over all aspects of the deal."
"I don't know what Procurement really wants other than a cheap price."	"If I can't find a compelling benefit, I guess I'll have to go back to price."
"My proposal is far superior to my closest competitor."	"If we can't get a strong deal with them, we may have to stay with the status quo and review the situation next year."

7 Myths About Procurement

Myth 1: Procurement's primary concern is to push down cost!

Myth 2: Procurement prefers to be combative instead of collaborative.

Myth 3: Procurement is just a gatekeeper.

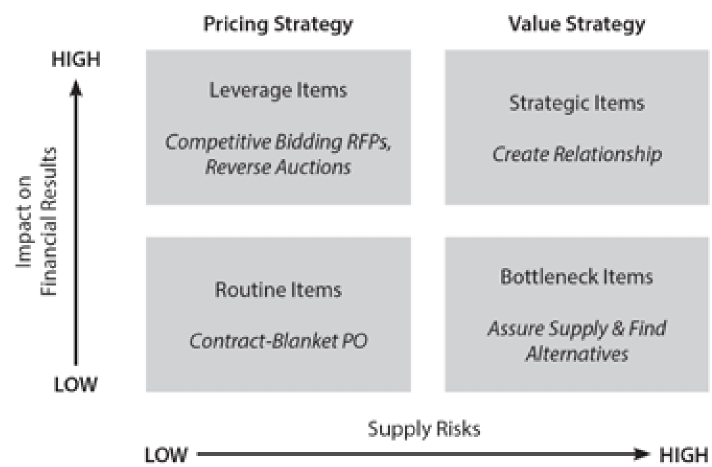
Myth 4: Procurement equals Purchasing.

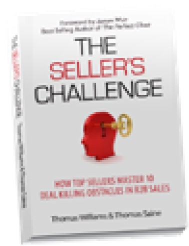
Myth 5: Procurement is an obstacle for other business functions.

Myth 6: Strategic sourcing by Procurement equals sole sourcing.

Myth 7: Procurement has all the leverage.

Supplier Segmentation





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Examples of Procurement Dashboard Key Performance Indicators

1. Savings Realized: This is the hard number that can be quantified as savings resulting from price discounts, change in suppliers, etc. Earnings per share (EPS) impact is also measured, particularly when Procurement is at the C-level and charged with leading enterprise transformation

2. Spend Under Management: This is the proportion of the organization's total spend on products (capital and consumables) and purchased services that are under the influence or control of Procurement. The higher the percentage, the lower the chance of "rogue" buying by a department or individual.

3. Percentage Savings Achieved: This is often expressed as a percentage of forecast savings. In general, the higher the number, the better Procurement's performance. The reasons for a lower number could be an increase in energy costs, an influx of rush orders, higher than expected volumes, or later-than-anticipated start dates from supplier contracts.

4. Percentage Compliance/Non-Compliance: This measures the percentage of spend made by rogue buyers who are circumventing the Procurement department. If this number is 50%, it means that 5 out of every 10 dollars (if measured in USA currency) is being spent with unapproved suppliers outside of the agreed-upon contract terms and without adherence to Procurement's policies and procedures.

5. Internal Client Satisfaction: This describes how well Procurement responds to providing the product, equipment, or supplies that each department's stakeholders require when they need it. Think of this as a "delivery to required date." It can be measured as a percentage of on-time shipments that are completed along with stakeholder satisfaction. Remember, Procurement must provide value to their internal stakeholders.

6. Procurement Cycle Time: There are two ways to look at this KPI: the average time it takes from submission of the requisition to purchase-order placement, or the time it takes from the beginning of a sourcing process until a contract is signed.

7. Cost Avoidance: This is a cost reduction from a lower-than-expected spend that would not have occurred without Procurement's intervention. Examples include contracts that protect price over time, delaying a price increase, or obtaining additional services for free such as staff training and no-charge attendance at a manufacturer's service school.

8. Supplier Performance: Procurement always tracks the quality, cost, and delivery of their key suppliers. This often takes the form of a supplier scorecard.

9. Percentage of Active Suppliers Accounting for 80% of Total Spend: This KPI measures supplier consolidation and activity from one year to the next. Increased supply usage and new-product introductions can impact this metric.

10. Procurement Costs: Procurement costs money in both people and technology. Organizations measure and monitor the cost of providing service within the organization. To cut costs, Procurement often uses a range of strategies such as automation in placing and tracking orders, consolidating suppliers and SKUs, and negotiating longer contracts.

11. Procurement ROI: This KPI measures Procurement's cost effectiveness by comparing their cost savings to the department's operating budget.

12. Percentage of On-Time Delivery (OTD): This rarely refers to a specific date; it usually refers to a range of dates defined as X days before (early) and Y days after (late) the due date. A typical OTD window is 5 days early, 0 days late (can be expressed as -5+0). For example, if an item is due September 1, it would be considered on time if it arrives on any day between August 27 and September 1.

	Relationship Buyer	Price Buyer	Competitive Buyer	Value Buyer
Primary Motivation	*Trust:* Buyer wants assurance there is a strong relationship and that their needs will be met.	*Price:* Wants the lowest price—period! Many are prone to use RFPs and other tactics.	*Win:* They mask themselves as value or relationship buyers but are really price buyers.	*Business Impact:* Believes the supplier is helping to drive measurable financial results.
Focus	*Insular:* Relies on the supplier to provide a function they cannot provide internally or be a resource when needed.	*Narrow:* May or may not look at the Total Cost of Ownership (TCO). Differentiation means nothing to them.	*Win: Lose* They must win by driving down price or extracting more value from the supplier.	*Strategic:* Get as much value as they can. Standardization with 1-2 suppliers per product category is customary.
Relationship Type	*Personal:* Values the relationship with the supplier, their industry and product, expertise, support provided, and training offered. Least price sensitive.	*Demanding:* Likes to remind you that he/she has product and service alternatives, so you need to sharpen your pencil to get their business.	*Difficult:* They talk value and relationship, but their actions are all about price.	*Partner/Advisor:* Technology and data driven. Wants hard evidence.
Relationship Level	*Important and Individual:* Strong business relationships exist between one or more people in both organizations.	*Non-Existent:* Business relationships are not viewed as important. Suppliers are treated as a commodity. Procurement rules.	*Gamesmanship:* Uses every negotiation tactic possible to make the seller provide concessions.	*Favorable:* Desires a strong business relationship with key suppliers based upon mutual respect, trust, and value.