

Building procurement's confidence to generate value

A case study

by Dr Stefan Gassner

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The situation

Goods and services procurement for contracts in excess of \$250,000 was previously centralised at the NSW Department of Finance and Services. Recent changes have devolved accountabilities and responsibilities for most procurement activities to government agencies accredited under the NSW Scheme for Goods and Services Accreditation (the Scheme).

The Scheme requires agencies to perform a fundamental shift from operational procurement activities to strategic sourcing activities. This change has the potential to be disruptive for agencies as the capabilities, systems, skills and day-to-day activities of strategic procurement are significantly different from those required to run a tender process for procurements under \$250,000.

The challenge

Our client had obtained accreditation in 2013 and was subsequently able to independently procure most of its goods and services.

The procurement leadership team understood accreditation as one, albeit important, milestone on their journey to better procurement practice. They realised their strategic goal of adding value to their clients would not be achieved with accreditation alone.

Our client operated in a highly fluid environment where legislative requirements changed the role of every team member. Agencies needed to also address the challenges arising from a shift in responsibilities between government departments.

For our client this meant bringing together different approaches to procurement from a handful of smaller agencies in one Centre of Excellence. Procurement practices varied greatly between the smaller departments with various degrees of procurement capabilities, different systems, different policies and processes.

Our client understood that agency-wide transformation was an opportunity for procurement to be seen as a leader in the organisation. With the strategic goal to generate value for the agency, procurement was determined to introduce new processes, responsibilities and continuous improvement initiatives.

The solution

Grosvenor recommended our client adopt a tailored version of Grosvenor’s template Procurement Framework, which is depicted in Figure 1 below, to guide their transformation.

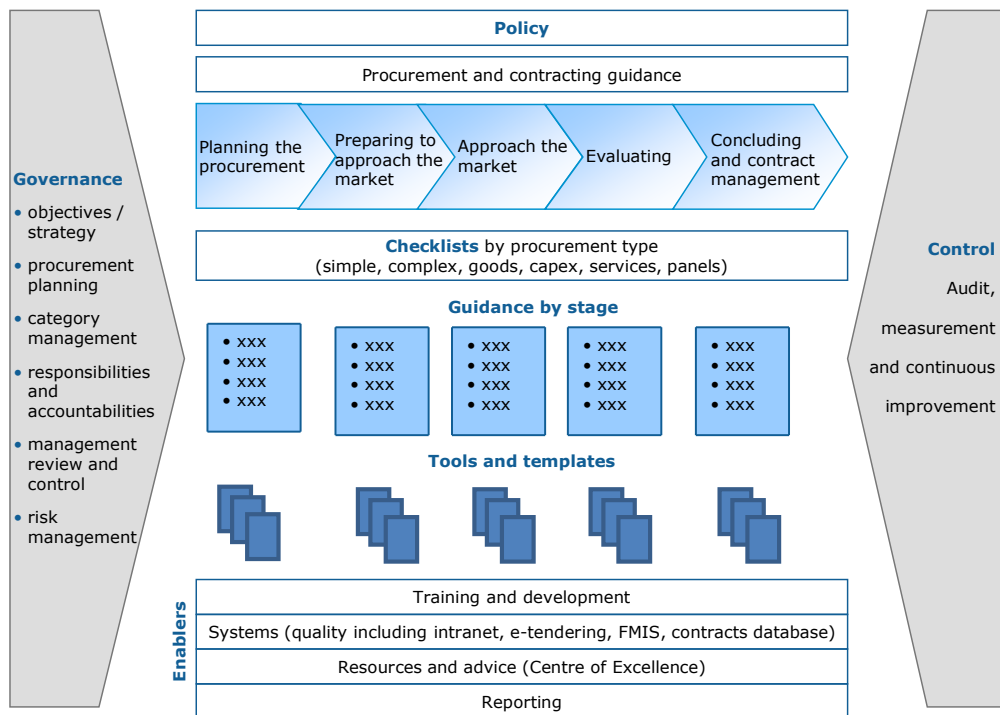


Figure 1: Procurement Framework; the centrepiece of transformation

Through the adoption of the Procurement Framework our client was able to:

1. move from operational procurement to strategic sourcing and add greater value to the business
2. gain visibility and control of all procurement activities across the relevant agencies

3. obtain the additional resourcing required to undertake high value and high risk sourcing activities.

These changes are outlined in more depth below.

1. Move from operational procurement to strategic sourcing

Procurement is often considered an operational function with little influence over business decisions and strategic development. Its traditional role is one of running a tender process at the business owner's request.

Better practice procurement organisations have shifted their traditional role to that of an advisor and coach for business owners, who are enabled to execute procurement activities based on the guidance provided by procurement.

The new Procurement Framework shifted the focus to tactical activities (as shown in Figure 2). These included a sound governance structure, control processes and procurement enablers. These components are guided by strategic thinking and directly influenced by the agency's business plan and the procurement strategic plan.

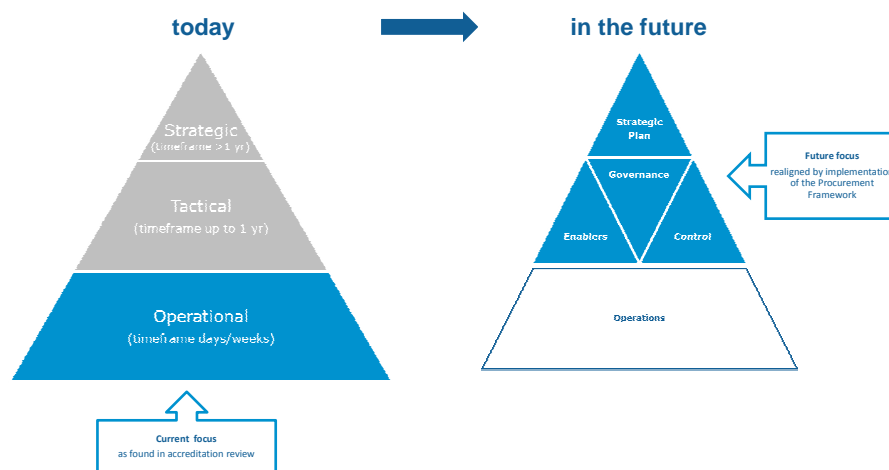


Figure 2: Our client's procurement function shifted its focus from operational to tactical and strategic activities

2. Control and visibility of procurement activities

Our client developed a Procurement Strategic Plan for the next three years, which was guided by the organisation's business strategy and included a clear definition of responsibilities between business owners and procurement using a Centre of Excellence approach. The engagement model allowed procurement to communicate responsibilities and accountabilities at the program and category level based on the complexity of the projects.

The governance component of the Procurement Framework ensured that the organisational structure, procedures, delegations, program management, category management and risk management activities are in place to support the strategic plan.

Our client implemented a control component to make sure that the whole agency complies with legislation and procurement policies, but also to measure the performance of each contract and category. Benchmarking as well as customer and supplier surveys will be undertaken to support continuous improvement.

The procurement enablers being developed will prove to be a game changer for our client. A robust contract management system and a single ERP system will support spend analysis and reporting so our client can identify opportunities and add greater value to their clients.

The procurement team will also deploy significant time and effort to train staff across the business in procurement processes and in the use of the appropriate procedures and templates. This ensures alignment with the Procurement Framework across the organisation.

Stakeholder management will become the main focus of procurement. Procurement will not only support the operational procurement process but be a partner to the business owner providing advice from the identification of the need, the planning of the procurement, throughout the procurement process up to contract management over the lifespan of the contract.

3. Additional resourcing

As a result of being able to demonstrate the additional value that procurement can deliver, our client has invested in growing the size of the procurement team in the upcoming years to implement the one-off improvements. The number of procurement staff is then expected to reduce, as the new way of doing business becomes business as usual.

Our client estimates the initial investment would be more than offset by the savings generated by better procurement management.

This belief is supported by international benchmarks, which demonstrate that savings of 3% (direct spend) to 6% (indirect spend) of cost under management can be achieved by hybrid procurement functions.

The implementation

Our client has established a formal change program to manage the implementation of the Procurement Framework. A detailed three-year Implementation Plan describes the requirements to put all components of the Procurement Framework into place and guides the change program.

The results

Grosvenor subsequently provided this client with a more comprehensive and business-specific review of their procurement function, which identified opportunities to implement better practice incorporating the requirements of the Scheme and other learnings of better practice organisations. We continue to support our client to define the future role of procurement within the agency and the requirements for implementing the Procurement Framework.