Using this guide
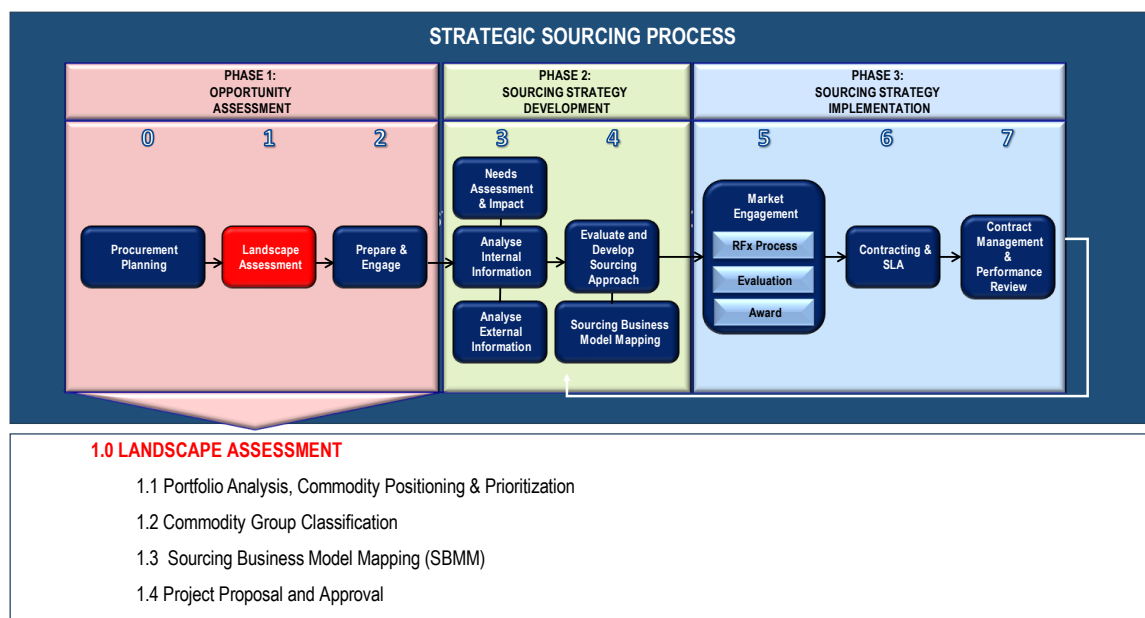
This guide accompanies the National Treasury's Strategic Procurement Framework (SPF) for Strategic Sourcing in the Public Sector. For more information, visit the National Treasury website at http://ocpo.treasury.gov.za/

The SPF can be found here:

http://ocpo.treasury.gov.za/Resource_Centre/Documents/1A.%20Strategic%20Procurement%20Framework.pdf

LANDSCAPE ASSESSMENT

STRATEGIC SOURCING PROCESS

1.0 LANDSCAPE ASSESSMENT

1.1 Portfolio Analysis, Commodity Positioning & Prioritization

1.2 Commodity Group Classification

1.3 Sourcing Business Model Mapping (SBMM)

1.4 Project Proposal and Approval

1.0 Introduction

i.   The landscape assessment aims to understand commodity spending patterns to choose the best sourcing business model and commodity positioning

ii.   This involves identifying spending areas where there are opportunities to reduce costs or improve processes as part of the portfolio analysis.

iii. Understanding various commodities and ensuring accurate positioning to prioritise spending in alignment with the procuring institution's service delivery objectives are crucial at this stage.

iv.   Prioritisation can also be based on the relative importance of purchase categories, the complexity of the supply market and the extent to which spend areas are common across the organisation.

1.1 The objective

i.   To understand the organisation's spending profile that will inform the most appropriate relational and economic model.

ii.   It also involves positioning commodity groups for prioritisation and triggering the procurement process within the procurement plans in line with the sourcing business model mapping.

1.2 The output

i.   Portfolio analysis, commodity positioning and prioritisation

ii.   Commodity group classification

iii. Sourcing business model mapping (SBMM)

iv.   Project proposal and approval

2.0 The narrative

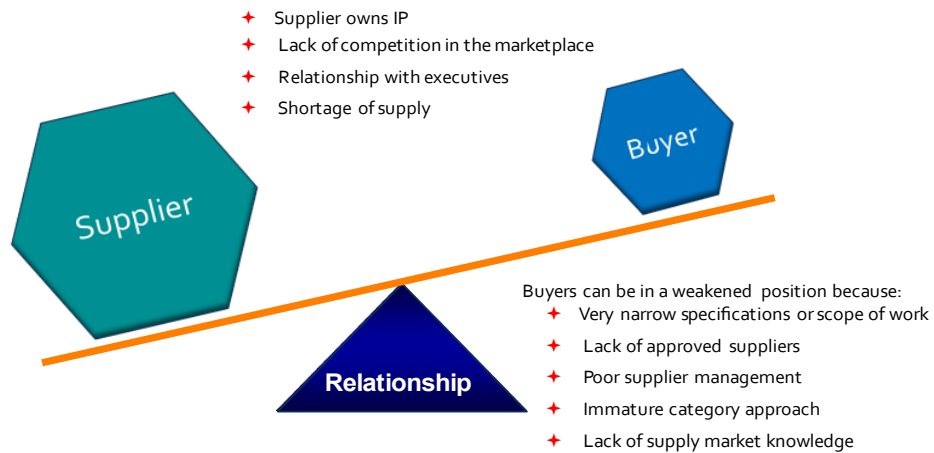### 2.1 Portfolio Analysis, commodity positioning and prioritisation

2.1.1 What is portfolio analysis?

i.   Portfolio analysis in strategic procurement digs deep into the commodity mix to grasp spending patterns for sourcing strategy development.

ii.   Spend visibility is critical to understanding spend data for category management.

iii. Many organisations implement category management by making a distinction between direct and indirect costs.

iv.   Portfolio analysis diagnoses the organisation's spending.

v.   Take the organisation's TOTAL spend and:

   a.   Divide it into categories (either by similarities in function or characteristics or same supplier markets) – e.g. Standard Chart of Accounts (SCOA) classification.

b. Each category is divided by business units or locations (Departments, provinces, municipalities, regions, business units within these entities, etc.).

vi. These analyses, in the context of the government's planning framework, can be done at two levels:

a. For strategic planning purposes

i. The organisation's total spend profile.

ii. This initial diagnostic is required to be only around 80 % accurate to have relevance and to offer valuable insight.

b. For procurement planning purposes

iii. The organisations spend by category/commodity group

iv. When sourcing teams refine spend data for each category to develop sourcing strategies.

vii. Classify these spend categories according to complexity in the supplier marketplace compared with how important they are to the organisation.

viii. As part of the category management process, an organisation needs to understand what the balance of power is, and what can be achieved using portfolio analysis.

ix. Figure 1 (buyer-supplier relationship pendulum) indicates an unbalanced power between the government as the buyer and the suppliers, despite the government's high spending on goods and services.

The lopsided supplier relationship may seem like an impossible situation to resolve...

Suppliers can have lopsided power for one or more of these reasons

+ Supplier owns IP
+ Lack of competition in the marketplace
+ Relationship with executives
+ Shortage of supply

Buyers can be in a weakened position because:
+ Very narrow specifications or scope of work
+ Lack of approved suppliers
+ Poor supplier management
+ Immature category approach
+ Lack of supply market knowledge

Figure 1: Buyer-supplier relationship pendulum

x.   This results in a spend category matrix that will help direct the team towards a potential sourcing strategy for each category at the same time elevate the government's spending power.

2.2.2 Commodity positioning

What is commodity positioning?

i.   Commodity positioning helps to map the commodity in the right quadrant within the Kraljic matrix.

ii.   The commodities can either be classified as:

     a.   Strategic

     b.   Leverage

     c.   Bottleneck

     d.   Routine

iii.   The commodity can be positioned on the Commodity Positioning Matrix by making use of the generic questionnaire in the Strategic Procurement Toolkit, taking into account the various factors at play.

iv.   Answers to the questions are weighted to give an overall score which is used to plot the commodity in one of the quadrants.

v.   Please note that although the positioning toolkit strives to be as comprehensive as possible, the questions and examples are not exhaustive. You may add your own and amend the prompts to suit your situation.

2.3.3 Commodity prioritisation

What is commodity prioritisation?

i.   Prioritisation allows the procuring institution to manage its budget allocation based on the strategic needs of the institution.

2.2 Commodity group classification

2.2.1 What is commodity grouping/classification?

i.   Commodity grouping or procurement categorisation is one of the steps in the Landscape Assessment stage where the sourcing specialist identifies groupings of similar goods or services with common supply and demand drivers and suppliers.

ii.   Example: A chair is a commodity whereas "furniture" is the procurement category or commodity group in which a chair is categorised.

iii.   A commodity group or procurement category can be defined at any level above a single procurement.

iv.   Categories will vary according to size and type of organisation and the supply market.

v.   The objective of commodity grouping or categorisation is to obtain the optimum grouping of similar goods or services that share similar supply processes, internal uses, specifications, technology, supply and demand drivers.

2.2.2 Why use commodity groups/procurement categories?

i.   Procurement categories can improve procurement processes and increase productivity.

ii.   Procurement categories allow you to:

a. Develop targeted strategies for the best way to procure similar goods/services;

b. Get a better picture of procurement spending across your organisation;

c. Generate significant discounts; and

d. Establish aggregated supply arrangements to cover a category of multiple transactions.

iii. Example: Rather than approaching different suppliers for different items, work out exactly how much your organisation spends on all furniture items and what those items are.

iv. You can then develop an agreement with one or a limited number of suppliers to meet your requirements.

v. This approach can generate significant discounts and greater procurement efficiency.

2.3 Sourcing business model mapping (SBMM)

2.3.1 Sourcing business model mapping (SBMM)

i. Strategic sourcing methodologies have been a subject of research and development.

ii. The Kraljic matrix (1983), although still very much applicable and used as a basis for developing strategic sourcing, a few limitations of the Kraljic matrix have been identified.

a. Although easy to apply, it is often inaccurately applied by classifying too many suppliers as strategic when in fact they are not.

b. It also does not take into account how the suppliers view their customers. How much a supplier is prepared to do in developing a partnership depends on your level of importance to their business. [1]

iii. As a result, a new process for developing strategic sourcing approaches to complement the Kraljic matrix has been developed.

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[1] The Chartered Institute of Procurement and Supply (CIPS) and the International Association for Contract and Commercial Management (IACCM) promotes a business model mapping process to guide you to the most appropriate sourcing model.

iv.   The sourcing business models in modern procurement seek to respond to various procurement needs and propose a differentiated approach.

v.   The economic realities require that the Government apply better sourcing business models.

vi.   The models are designed to address the complex and non-complex aspects of procurement in meeting government objectives.

vii.   The SBMM will be used to determine the most appropriate sourcing business model that will drive the most value and balance in the relationship and economic models, thereby providing the "best fit" for your procurement.

viii.   There are seven (7) sourcing business models that procurement can use when acquiring goods and services.

ix.   Under each sourcing model, there are specific tools that help in decision-making.

2.3.2 The sourcing business model clusters

i.   The seven sourcing business models are further clustered within the three broad categories.

      a.   The Transaction-based types

      b.   The Outcome-based types

      c.   The Investment-based types

2.4   Project Proposal & Approval

2.4.1 What is a project proposal?

i.   A project proposal is a brief document justifying a proposed project by addressing key questions surrounding a major project.

ii.   A project proposal briefly but adequately describes what the project intends to achieve, emphasising identified objectives and providing a cost-benefit analysis.

iii.   Motivation for the proposal is crucial for approval.