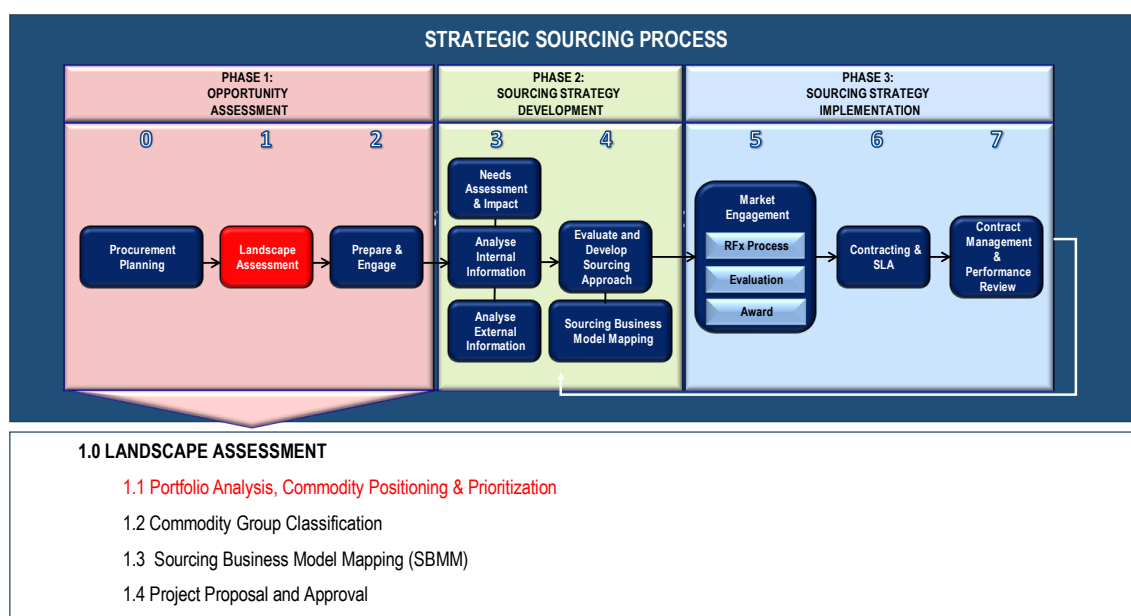


### Using this guide

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

## COMMODITY POSITIONING WITHIN THE STRATEGIC SOURCING PROCESS



### 1.0 Introduction

- Commodity positioning is one of the first steps of the landscape assessment stage where the sourcing specialist gets an understanding of the organisation's spend profile for strategic planning and procurement planning purposes.
- Landscape assessment entails gaining insight into the commodity spending patterns to adopt the most appropriate sourcing business model and commodity positioning.
- This involves identifying spending areas where there are opportunities to reduce costs or improve processes as part of the portfolio analysis.

- iv. Understanding the different commodities and ensuring correct positioning to prioritise spending areas in line with the procuring institution's service delivery objectives are critical at this stage.
- v. The following good practice guides and templates apply to commodity positioning:
  - a. Using the Kraljic matrix to position the commodities
  - b. Using the Kraljic matrix to map generic sourcing objectives
  - c. Generic sourcing strategies, approaches, tactics and actions

### **1.1 The objective**

- i. To determine the generic sourcing strategy, approach, tactics and actions for specific commodities to achieve the best results for procurement initiatives.

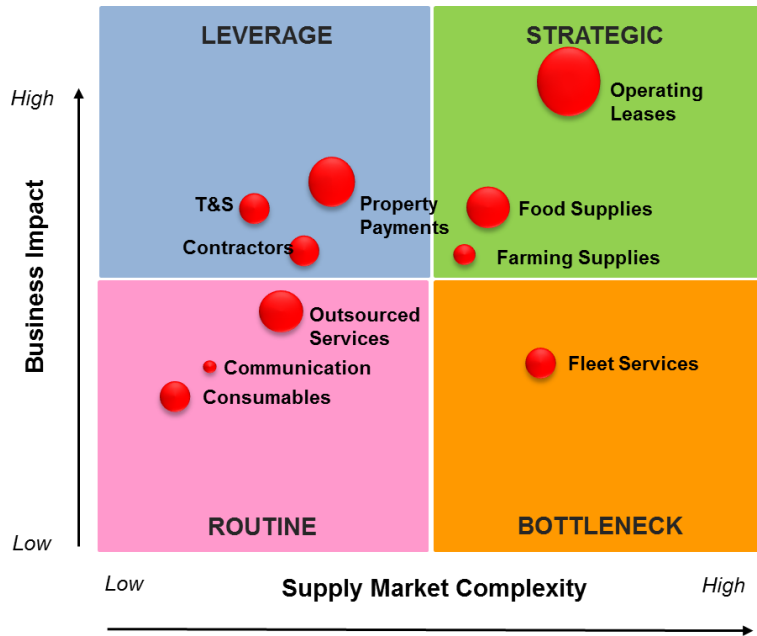
### **1.2 The output**

- i. A spend map for procurement planning purposes
- ii. A wave implementation matrix

## **2.0 Good practice guides**

### **i. Using the Kraljic matrix to position the commodities**

- a. Figure 1 (Positioning commodities on the Commodity Positioning Matrix) indicates how the Kraljic matrix is used as a tool to position the commodities in the various quadrants.



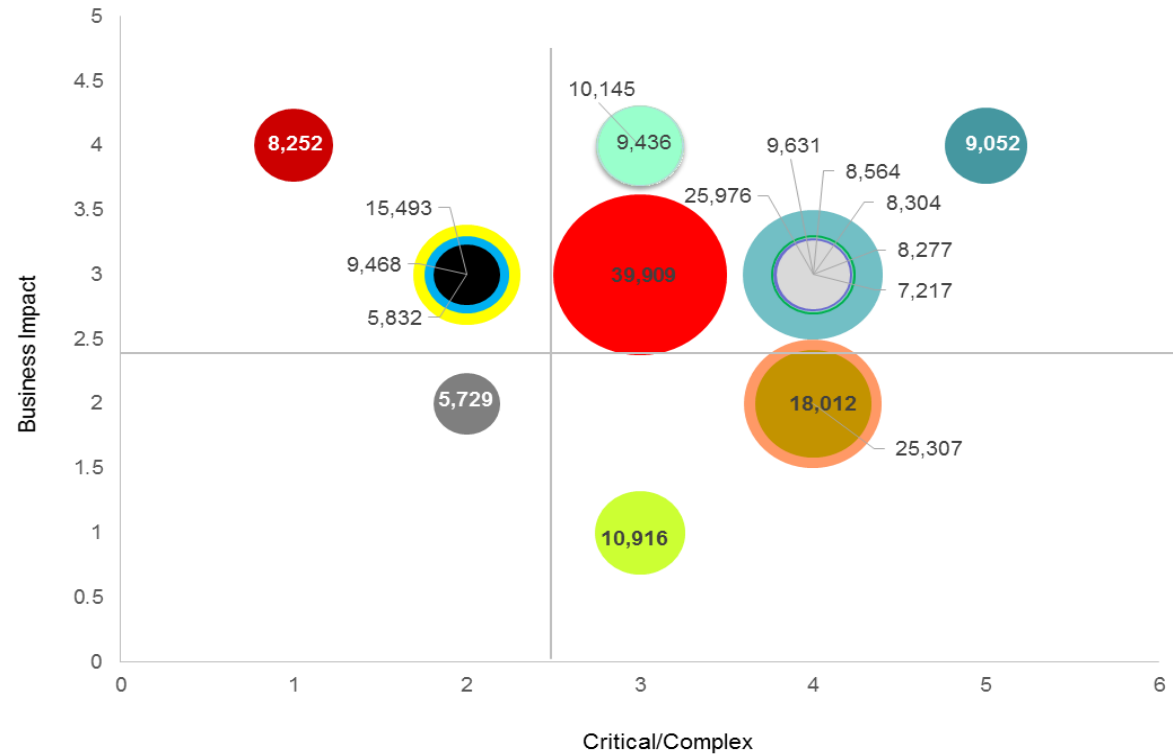
**Figure 1: Positioning commodities on the Commodity Positioning Matrix**

## S1(1.1.2) SPF GOOD PRACTICE GUIDE

## PORTFOLIO ANALYSIS, COMMODITY POSITIONING AND PRIORITISATION

### Case 1: example of a Commodity Potitioning Matrix

Commodity Title	Spend (R Mn)
(New Buildings & Other Fix Structure)	39 909
Commercial or industrial facility rental	25 976
(Upgrade and additional building & other fix structure )	25 307
(Refurbishments & Rehab Buildings & Other Fix Structure)	18 012
(Infrastructure maintenance services)	15 493
(Support material)	10 916
Blood Analysis Laboratory Services	10 145
(Building maintenance service - contracted)	9 631
Catering services (Education Facilities)	9 468
(Safeguarding & Security of property)	9 436
(Project Management)	9 052
(Medsas- Stock Purchase General)	8 564
(Inventory Medicine: Antiretroviral Drug)	8 304
(Inventory Medicine from Medical Depot)	8 277
Supply of three phase electricity	8 252
(Inventory Medicine : Other Medicine)	7 217
(T& S Domestic Accommodation)	5 832
(T&S Domestic- KM Allowance)	5 729

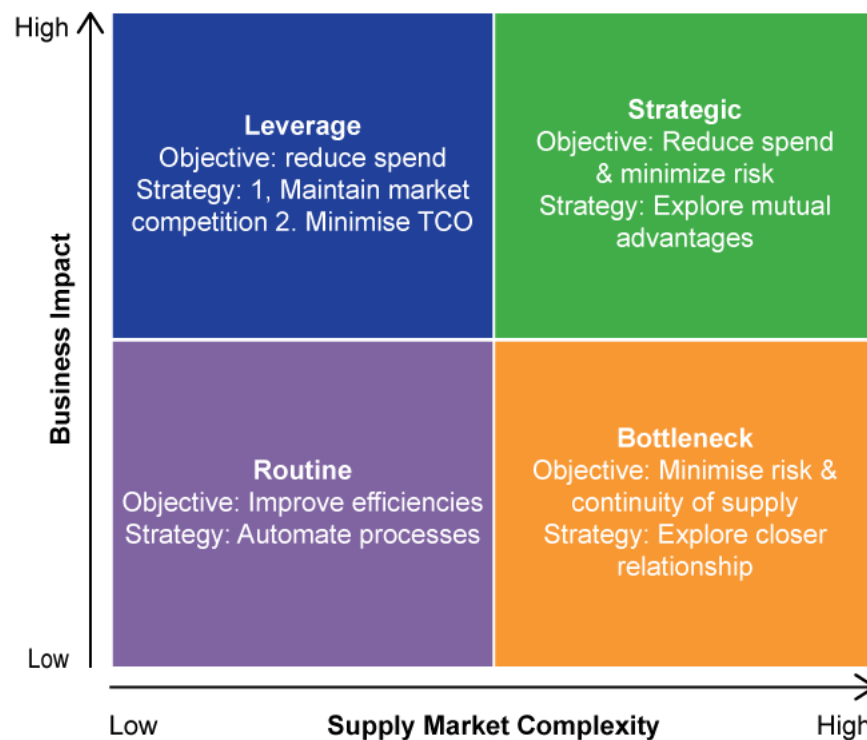


\* (R in Millions)  
\* Spend between R 5Bn to R40Bn

Figure 2: Real case example of positioning commodities on the Commodity Positioning Matrix

**ii. Using Kraljic matrix to map generic sourcing objectives**

- a. Each quadrant of the sourcing category matrix defines the primary objective that the selected strategy should serve as well as likely actions for each quadrant.
- b. These can be used to debate and develop options specific to the commodity.
- c. Figure 3 (generic sourcing objectives for each quadrant) indicates the priorities per each commodity based on categorisation or positioning within the Kraljic matrix.



**Figure 3: Generic sourcing objectives for each quadrant**

- d. Table 1 depicts the generic sourcing objective (strategy), as well as some approaches, tactics and actions for each quadrant that can be used to achieve the generic sourcing objective.

- e. Table 2 is a real case example of generic sourcing strategies, approaches and actions for some of the commodities that were illustrated in Figure 3.

**Strategies**

<b><i>Routine Commodities</i></b>	<b><i>Leveraged Commodities</i></b>	<b><i>Strategic commodities</i></b>	<b><i>Bottleneck Commodities</i></b>
<ul style="list-style-type: none"> <li>• Increase process efficiency</li> <li>• Product Standardization</li> <li>• Order Volume Monitoring/Optimisation</li> <li>• Rationalize suppliers</li> <li>• Inventory optimization</li> </ul>	<ul style="list-style-type: none"> <li>• Product substitution</li> <li>• Shorter term relationships</li> <li>• Competitive pricing</li> <li>• Order Volume Optimization</li> <li>• Develop Relationships</li> </ul>	<ul style="list-style-type: none"> <li>• Partnership</li> <li>• Joint ventures</li> <li>• Standardization/Alternate Specifications</li> <li>• Supplier Relationship management</li> <li>• Strategic Negotiations</li> <li>• Inventory management</li> </ul>	<ul style="list-style-type: none"> <li>• Risk management</li> <li>• Supplier relationship management and control</li> <li>• Backup Plans Security of inventories</li> <li>• Planning and forecasting</li> <li>• Product substitution</li> </ul>

**Approaches, Tactics and Actions**

<b><i>Routine Commodities</i></b>	<b><i>Leveraged Commodities</i></b>	<b><i>Strategic commodities</i></b>	<b><i>Bottleneck Commodities</i></b>
<ul style="list-style-type: none"> <li>• Optimise transactional processes</li> <li>• Streamline administrative costs</li> <li>• Control of inventory</li> <li>• Stockless buying</li> <li>• E- Sourcing</li> <li>• Simplify and standardise specifications</li> </ul>	<ul style="list-style-type: none"> <li>• Continuous performance improvement through contracts and relationships</li> <li>• Competitive Tendering</li> <li>• Hard Negotiations</li> <li>• Identify alternative products</li> </ul>	<ul style="list-style-type: none"> <li>• Vertical integration</li> <li>• Strategic alliance and close relationships</li> <li>• Develop new suppliers</li> <li>• Remove Barriers to entry</li> <li>• Accurate demand forecasting</li> <li>• Logistics and Inventory control</li> </ul>	<ul style="list-style-type: none"> <li>• Volume Insurance to cover risks</li> <li>• Contingency Plans</li> <li>• Develop new suppliers/ Insourcing</li> <li>• Remove Barriers to entry</li> <li>• Security of inventories</li> <li>• Accurate forecast of future requirements</li> <li>• Alternative Products/Suppliers</li> </ul>

**Table 1: Generic sourcing strategies, approaches, tactics and actions**

**3.0 The templates**

Table 2 (generic sourcing strategies, approaches, tactics and actions) is a real case example of generic sourcing strategies, approaches and actions for some of the commodities.

Strategic Items	Partnership/ Long term relationships	Joint Ventures	Standardisation/ Alternative specifications	Develop new suppliers	Remove barriers to entry	Supplier management	Strategic Negotiations	Accurate demand forecasting	Logistics and Inventory control
(New Buildings & Other Fix Structure)	X	X		X	X	X	X	X	
Commercial or industrial facility rental	X	X		X	X	X	X	X	
Blood Analysis Laboratory Services	X	X		X	X	X	X	X	
(Building maintenance service - contracted)	X	X		X	X	X	X	X	
(Safeguarding & Security of property)	X	X		X	X	X	X	X	
(Project Management)	X	X		X	X	X	X	X	
(Medsas- Stock Purchase General)						X	X	X	
(Inventory Medicine: Antiretroviral Drug)	X	X	X	X	X	X	X	X	X
(Inventory Medicine from Medical Depot)						X	X	X	X
(Inventory Medicine: Other Medicine)	X	X	X	X	X	X	X	X	X
(Inventory Medical- Blood Product and Plasma)	X	X		X	X	X	X	X	X
Field medical or laboratory medical equipment kits or related products	X	X		X	X	X	X	X	X
(Build and Construction Infrastructure)	X	X		X	X	X	X	X	X



(Department System Infrastructure)	X	X		X	X	X	X	X	X
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*Table 2: Generic sourcing strategies, approaches, tactics and actions*