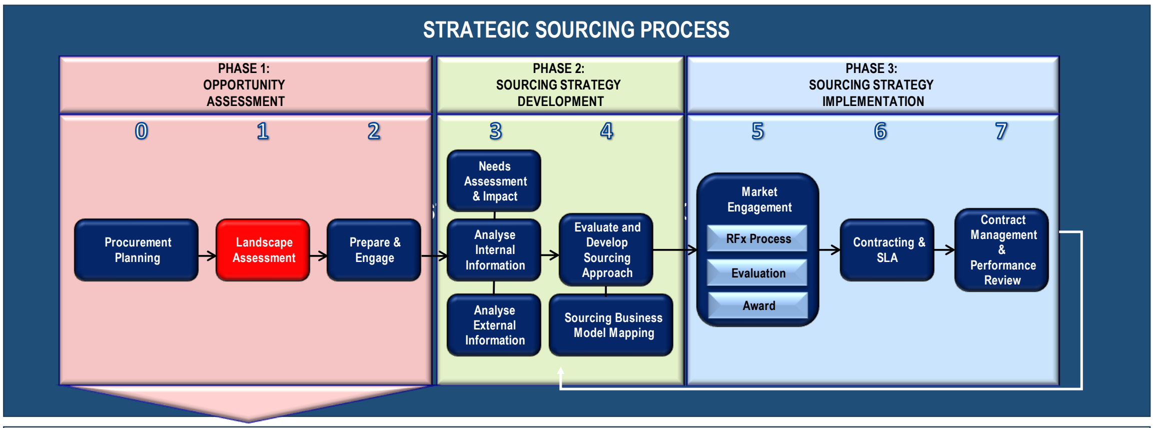
S1(1.3)
SPF GOOD PRACTICE GUIDE

SOURCING BUSINESS MODEL SELECTION

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

SOURCING BUSINESS MODEL SELECTION



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 sourcing business model helps to prioritise and understand the most appropriate economic and contracting approach for the commodity.

ii. The following good practice guides apply when selecting an appropriate sourcing business model:

   a. Sourcing business model mapping (SBMM)
   b. Sourcing business consideration checklist
   c. Categories of the sourcing models
   d. Positioning the commodities on the sourcing business models

1.1 The objective

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

ii. It also involves positioning commodity groups to prioritise and trigger the procurement process within the procurement plans in line with the sourcing business model mapping.

1.2 The output

i. Sourcing business model mapping

2.0 Good practice guides

2.1 Sourcing business model mapping (SBMM)

i. The sourcing business model is a tool that is used to determine the kind of relationship and commercial approach that works the best for the procurement.

ii. The sourcing business models are then classified into seven (7) models.

iii. Each of these models has the tools that guide the development and execution of the sourcing strategy.

iv. The seven sourcing business models are:

   a. Basic provider
   b. Approved provider
   c. Preferred provider
   d. Performance or output-based (managed services)
   e. Vested
   f. Shared Services
   g. Investment (Private-Public-Partnerships)

v. Each of these Sourcing Business Models optimises some 20 key business attributes.

vi. Each Business Model (Figure 1) has a unique value proposition, based on business needs. The seven Sourcing Business Models are:

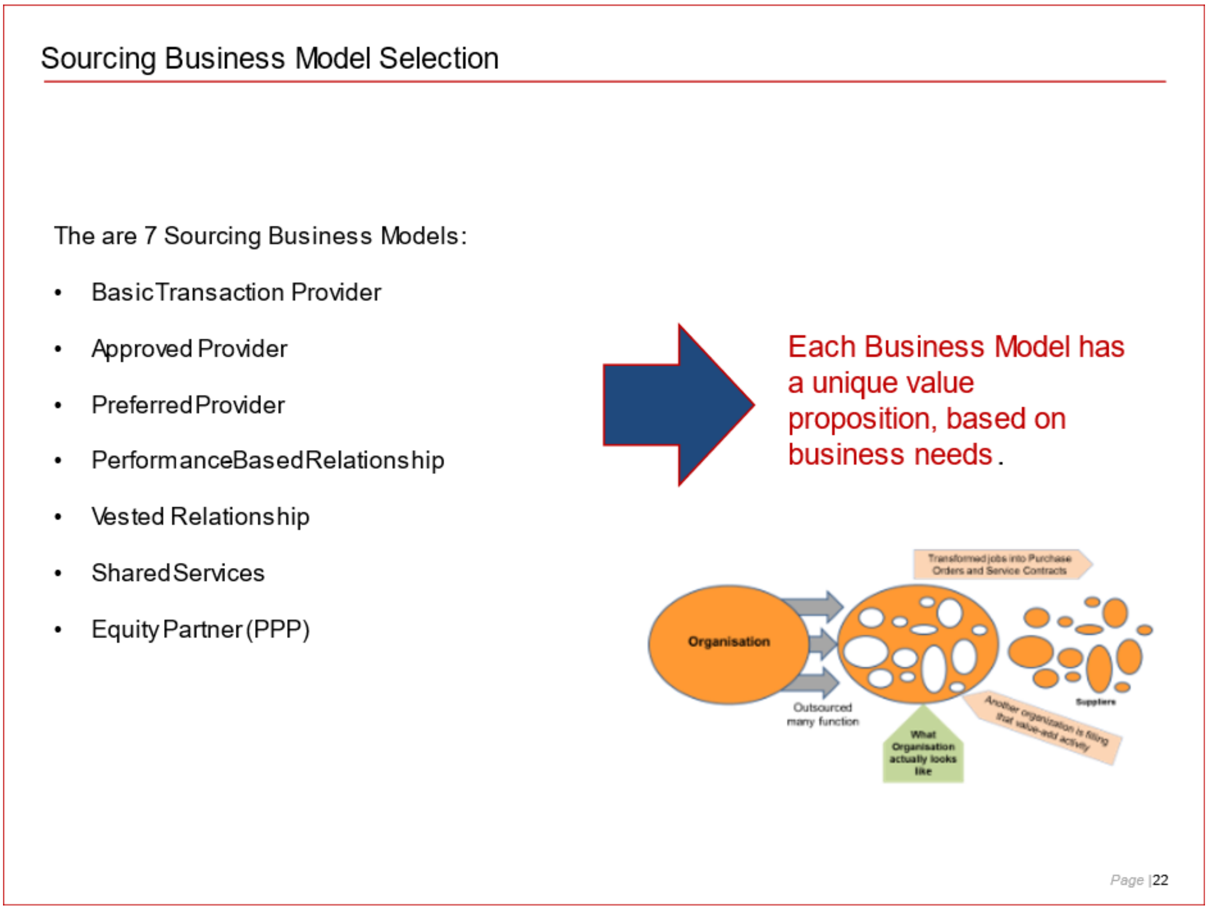


Figure 1: Sourcing business model selection

2.2 Sourcing business consideration checklist

i. A series of seven checklists (one for each Sourcing Business Model) that are easy-to-use help to ensure you do not forget any major decision points that need to be made as you work through your sourcing initiative.

ii. An example (Figure 2 sourcing consideration checklist) of the sourcing business consideration checklist (basic provider) indicates the tools available and their attributes.

Sourcing Considerations Checklist: Basic Provider Model

Consideration	Attributes
Link to Business Objective	No action—sourcing solution support primary business objectives limited to expense control or nonexistent
Requirements Analysis	Limited to no action—requisition(s) details requirements
External Market Analysis	Search for suppliers by scanning online sources, catalogs, or other supplier directories, such as diversity publications, and spot market testing through competitive bidding
Cost Analysis	Focus on administration cost only, seeking ease of order to pay (i.e., purchasing cards, pre-identified catalogs, or preset electronic-auction events)
Supply Market Assessment	No action— multiple suppliers are available and can be easily changed
Category Portfolio Segmentation	Validate portfolio segmentation—indicates requirement is best managed with a basic provider business model Category management is achieved through competitive bidding for lowest price supported by a purchase order
Total Cost of Ownership Approach	No action—TCO calculations are not used, and price is the only cost consideration because of low value impact unless delivery or inventory is a significant expense
Risk Assessment	No action—risk is minimum due to market standards, supplier must meet corporate/compliance policies and standards, or buyer will choose alternative supplier
Value Assessment and Balance	Buyer focus—lowest price Supplier focus—Receiving the order and predictable payments
RFx Solicitation / Bid Management	Yearly solicitation cycle is typical; however, can be perpetual based on industry Spot buys as frequently as daily Solicitation purpose is to seek best market price Buyer manages bid and supplier selection with no stakeholder input Use request for price Typically, 1–2 weeks to select supplier but could be same day
Supplier Selection Drivers	Supplier selection driven by lowest price standard items or services and administrative ease of ordering/managing
Risk Management	No action—category does not require active risk management due to low value and is mitigated by switching suppliers
Contract Approach	Use procurement card or purchase order (PO) to buy standard market offerings May use blanket POs if plan on repeat buys from supplier
Pricing Model	Use price based on a transactional economic model (e.g., price per unit, per call, per hour) Select the lowest competitive bid
Category Management Governance	No action—the purchase order provides the administrative and governing approach Buyer manages all aspects of category governance
Supplier Relationship Management	No specified SRM plan—"market" governs the relationship; suppliers interchangeable based on lowest price Buyer owns supplier relationship; any interactions are short term, ad hoc, and reactive based on solving a problem or addressing issues
Performance Management	Utilize a three-way match accounting process to PO (quantity, price and damage free)
Continuous Improvement / Transformation / Innovation	Identify ways to improve administration or category standards where possible
Compliance & Special Concerns	Survey supplier to verify compliance with government driven compliance requirements
Exit Management	No exit strategy required

27

Figure 2: Sourcing business consideration checklist

Source: Used with permission. Vested® www.vestedway.com. Vested, Inc

2.3 Categories of the Sourcing Models

The seven sourcing models are further classified into three broad categories as indicated in Tables 1, 2 and 3:

i. The Transaction-based types

   a. In a transaction-based model, the commercial aspects around the most competitive price (MCP) are prioritised ahead of the relationship. It is based on a Purchase Order (PO) three-way matching (PO, Invoice & Delivery Note).

b. The three types classified under transactional are the simple transaction providers, approved providers, and preferred providers sourcing models.

c. Table 1 (the transaction-based models) indicates the main characteristics of the simple transaction, approved and preferred providers.

Sourcing Relationship	Focus	Interaction	Cooperation Level	Required Trust Level	Characterized by
Simple Transaction Provider	Cost and Efficiency	Standard Terms, Fixed Price	Low- Automated where possible	Minimal – single transaction	Abundant and easy to resource, no need for a relationship
Approved Provider	Economies of Scale, Ease of transactions	Blanket, Negotiated Terms, Pricing Agreements	Medium – based on pricing or specifications	Medium – common terms and price agreement	Managed by category locally and across business sector, purchases bundled for economies of scale
Preferred Provider	Capability, Capacity, and Technology transactions	Contract, SOW, Pricing Agreement, Possible Gain Sharing SLAs	High – Set out in long term service contract	High – defined by contract, high spend zone	Integral supply across business units, delivering added value and capability, not so abundant, a pain to re-source

Table 1: The Transaction-based models

Source: Used with permission. Vested® www.vestedway.com. Vested, Inc.

ii. The outcome-based

a. An outcome-based business model pays a service provider for achieving a defined set of business outcomes, business results, or for achieving agreed-on key performance indicators.

b. The two types classified under outcome-based business models are performance-based and vested relationships.

c. Table 2 (the outcome-based models) indicates the main characteristics of the performance-based and the vested sourcing business models.

Sourcing Relationship	Focus	Interaction	Cooperation Level	Required Trust Level	Characterized by
Outcome-Based/ Performance-Based Relationship	Outcomes or Performance	SRM Governance, Performance Incentives, Fees at Risk	Integrated	Integrated	Longer term relationship
Vested Outsourcing Relationship	Mutual Gain, Shared Outcomes	Vested Agreement, Vested Governance Framework, Performance Incentives, Margin Matching	Integrated – cooperative, Win-Win	Integrated – behave as single entity	Interdependent outcomes, aligned, mutual gain, managed performance, long term relationship

Table 2: The Outcome-based models

Source: Used with permission. Vested® www.vestedway.com. Vested, Inc.

iii. The Investment-based

a. Organisations that struggle to meet complex (high investment in technology skills and resources) business requirements using conventional transaction-based or outcome-based approaches, typically invest to develop capabilities themselves through a process of insourcing.

b. The two types are shared services and equity partner sourcing business models.

c. Table 3 (the investment-based models) indicates the main characteristics of the shared services and the equity-partner sourcing business models.

Sourcing Relationship	Focus	Interaction	Cooperation Level	Required Trust Level	Characterized by
Shared Services	Leveraging Cost and Investments	Cross Company Services May include multi-company service	Integrated – cooperative, Win-Win	Integrated – dictated by equity sharing	Formal charter, intercompany governance structure, interdependent outcomes, aligned goals and objectives, managed performance, Win- Win relationship
Equity Partner	Equity Sharing	Joint Venture Asset Based Governance Framework	Integrated – cooperative, interrelated structure	Integrated – dictated by equity sharing	Legally bound, formal strategic partnerships, mergers and acquisitions, asset sharing/ holding

Table 3: The investment-based models

Source: Used with permission. Vested® www.vestedway.com. Vested, Inc

2.4 Positioning the commodities on the sourcing business models

i. Once the commodities have been classified, they are further positioned using sourcing business model mapping to determine the relational and economic model approach.

ii. Figure 3 (levels of dependency and shared value) shows the axes used to classify the business models based on dependency and shared value.

   a. The more dependency, the less the commodity-based market approach should be used.

   b. The second axis is that of shared value.

iii. The more potential rewards to an organisation, the more an organisation should strive to use risk/reward incentives that are found in outcome-based or investment-based approaches.

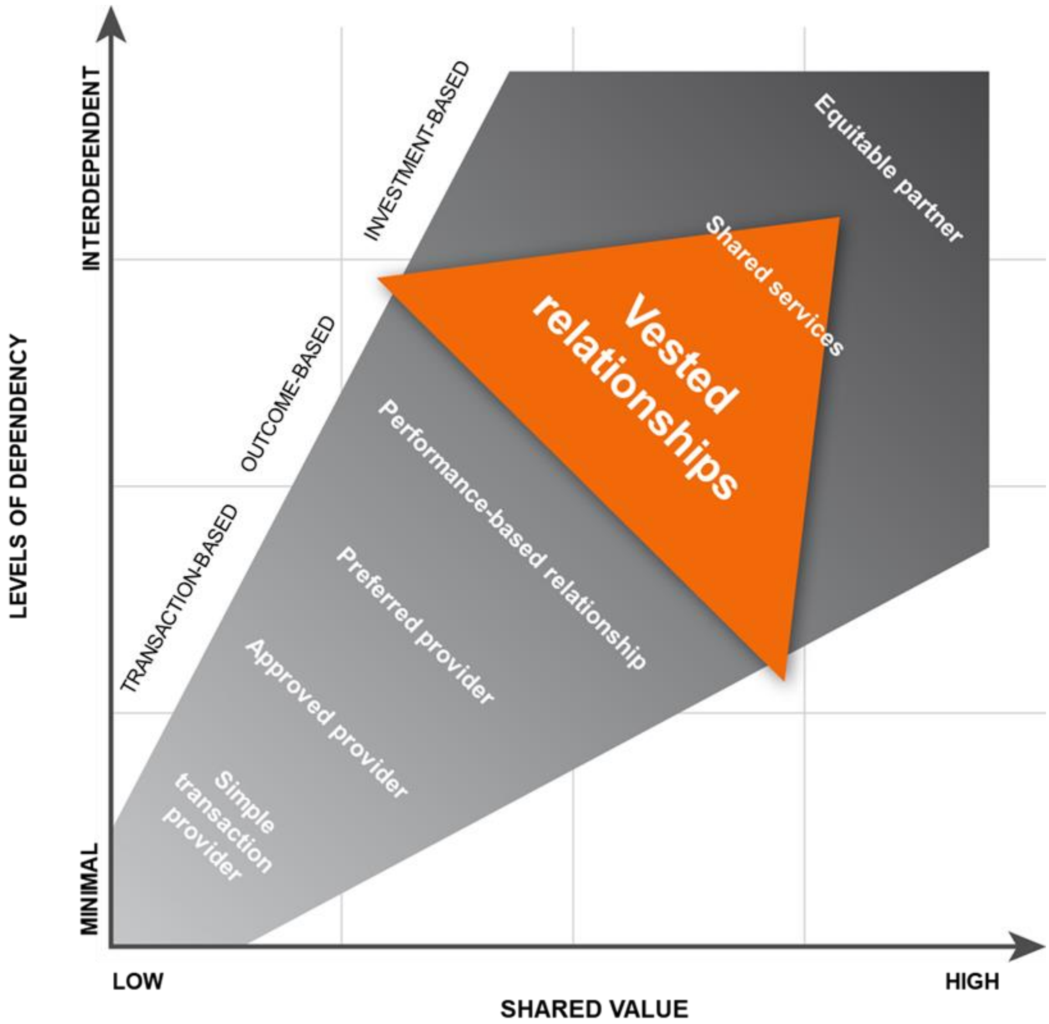


Figure 3: levels of dependency and shared value

Source: Used with permission. Vested® www.vestedway.com. Vested, Inc

3.0 The templates

i. Not applicable