



OFFICE OF THE CHIEF PROCUREMENT OFFICER

STRATEGIC PROCUREMENT FRAMEWORK

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2	February 2024	Included the: <ul style="list-style-type: none">• Social values in line with the RDP (1994)• Sourcing business model mapping selection• The Public Procurement Bill• Procurement methods

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Terms and descriptions

Terms or Acronym	Full description
Mis-procurement	Refers to a situation where a procurement activity is not carried out according to statutory rules and regulations
Category management	It is a strategic approach that organises resources to focus on specific areas of spend, using recognised framework and a range of tools and models.
Cross-functional sourcing team	A group composed of different experts from various units/sections with different technical skills to contribute to the team success in developing a comprehensive sourcing strategy.
Strategic sourcing	Is a structured, systematic proactive process for sourcing goods and services using various sourcing approaches and methods.
Strategic procurement	Refers to a long-term approach and positioning of procurement within an institution to achieving the organisation's strategy.
Procurement Methods	A procurement method is a process used by a procurement team to acquire goods or services.
Value for Money	Value for money is a term used to describe the optimal use of resources to achieve the intended outcomes. It is not about achieving the lowest initial price, but rather the most desirable possible given expressed or implied restrictions or constraints
Government Social Values	Government social value refers to how public spending can improve the socio-economic, and environmental wellbeing of an area or the citizens.
Original Equipment Manufacturer (OEM)	A company whose products are used in the manufacture of its own or another organisation's products.
Conflict of Interest	A situation where a person has opposing loyalties
Compliance	Conforming to rules and regulations
Code of ethics	A document detailing acceptable behaviour within an organisation or profession.
Framework agreement	An arrangement that is put in place with one or more suppliers for the provision of a range of supplies (goods or services) in which the prices (or a pricing formula) and terms and conditions are all agreed for the duration of the period of the arrangement.
Code of Conduct	A series of rules set by an organisation that define suitable behaviours and values that should be used and applied by a member of that organisation, for the purpose of acting in suitable manner, as well as demonstrating uniformity and upholding the standards of the organisation.
Critical Success Factors	Identify the key objectives and essence of a contract and determine the conditions that will deliver these objectives.
Corruption	Abuse or misuse of a person's entrusted position, power, or authority for personal gain. In procurement, this could

Terms or Acronym	Full description
	include a person with authority agreeing to give a specific supplier privileged information or contract before a fair procurement process has been carried out.
Approved Supplier List	A list of approved suppliers who have the skills (for example, technical, functional, or financial) to undertake specific work that requires such specialised know-how.
Service Level Agreement	An agreement between a supplier and a buyer based on quality, delivery, availability, and other measurable criteria. It is a document that it used as a tool to manage the performance of the contract of which both parties agreed.

Table 1 Terms and Descriptions

Acronyms and abbreviations

Terms or Acronym	Full description
AO/AA	Accounting Officer / Accounting Authority
AB	Annual Budget
APP	Annual Performance Plan
CPO	Chief Procurement Officer
OCPO	Office Chief Procurement Officer
CFO	Chief Finance Officer
GDP	Gross Domestic Product
SPF	Strategic Procurement Framework
GPG	Good Practice Guides
VFM	Value for money
SCOA	Standard Charts of Accounts
SCM	Supply Chain Management
RDP	Reconstruction and Development Programme 1994
SBMM	Sourcing Business Mapping Models
MTEF	Medium-Term Expenditure Framework
SS	Strategic Sourcing
NDP	National Development Plan
SLA	Service Level Agreement
NT	National Treasury
PT	Provincial Treasury

Table 2 Acronyms and abbreviations

1. Introduction

A few governments globally have realised the strategic importance of public procurement as a mechanism and tool to not only meet the citizens' service delivery expectations but also as a vehicle for achieving social values and driving economic development¹. Rightfully positioned and applied, public procurement can directly contribute to sustainable development, poverty reduction, creating fiscal space and sustainable jobs, while stimulating private sector growth². In the developing countries public procurement contributes between 15-22% to the GDP. The public sector spending in goods and services in South Africa runs into billions of rands every year, thereby necessitating a differentiated approach to procurement. By adopting the strategic procurement framework, National Treasury, through the office of the Chief Procurement Officer commits to driving the best public procurement practice that will seek to achieve a balance between compliance and outcome.

Public procurement is a key governmental activity that impacts a country's economic and social development. ³These dynamics may not be achieved by the procurement skills that only focus on the technical knowledge and skills such as the regulatory framework, market research and analysis and drafting of tender documents, it goes beyond that, first and foremost, the procurement function need to be elevated to the strategic level to develop and implement the procurement strategies through the various strategic sourcing strategies.

High levels of compliance on its own is not a sustainable scenario. Like governments all over the world, the Republic of South Africa critically needs to achieve more with the limited available finances and resources. The successful service delivery scenario is only realised when high levels of both compliance and business performance are achieved simultaneously and in a predictable manner.

This document is a framework for strategic procurement within the public sector that combines the best of private and public sector techniques with the objective of stabilising procurement over the long term in delivering quality services whilst driving value for money and enhancing socio-economic outcomes.

¹ https://content.unops.org/publications/ASR/ASR-supplement-2009_EN.pdf

² <https://www.worldbank.org/en/topic/procurement-for-development>

³ Professionalising the public procurement workforce, OECD 2023,

The strategic procurement framework aims to emphasise that strategic procurement must be linked to the budgeting and strategic plans of the organisations, and that it operates within the legislative frameworks governing the application of supply chain management. It will also highlight the processes to follow when undertaking a strategic sourcing project, the methodology to be followed will be highlighted with all the details outlined in each stage of the strategic sourcing methodology process.

2. Strategic Procurement Framework (SPF)

- i. The purpose of the 2023 revised strategic procurement framework (SPF) is to ensure the adoption and ease of implementation of the tools by the supply chain management practitioner.
- ii. To achieve this, it would be written from a “User and SCM jobs to be done” perspective.
- iii. The framework will further apply various sourcing business mapping models (SBMM) that will improve the achievement of the government social outcomes.

2.1 Budgetary framework

- i. The budgetary framework plays a strategic role in the procurement of goods and services.
- ii. It drives the procurement of goods and services.
- iii. The Annual Budget (AB) sets out what funds an institution is allocated to deliver services.
- iv. The Annual Performance Plan (APP) shows funded service-delivery targets or projections. It indicates the resources available for the year ahead and sets indicative future budgets over the Medium-Term Expenditure Framework (MTEF).
- v. The budget covers the current financial year and the following two years.
- vi. The annual budget is developed within the framework of the Strategic Plan and must inform and be informed by the Annual Performance Plan.
- vii. The preparation of annual budgets is guided by budget circulars issued by the National Treasury which are subsequently issued by the Provincial Treasuries.

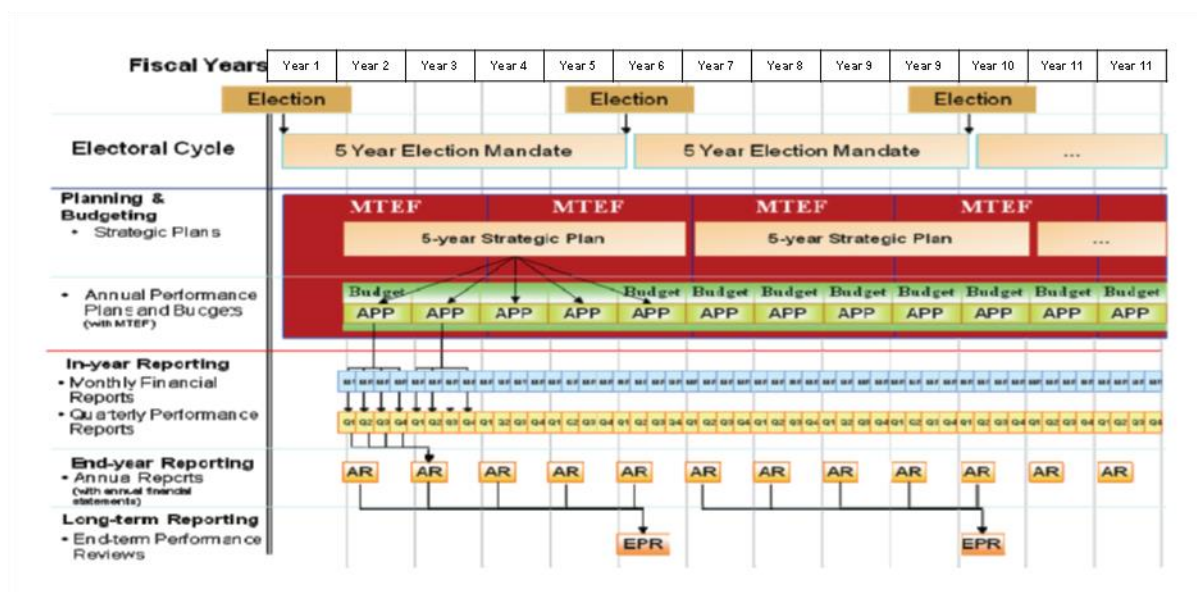


Figure 1 Annual planning of budget cycle (Check a proper process with NT Finance)

Source: National Treasury, Strategic Planning Framework

2.2 Procurement strategy, professionalism, code of ethics, and strategic sourcing

A well-executed procurement strategy will avoid procurement errors. Such errors may lead to inappropriate procurement methods adopted.

2.2.1 The procurement strategy

- i. A procurement strategy outlines how the institution runs its procurement function.⁴
- ii. Section 217 (2) permits government bodies to enforce procurement policies that include preferences for specific categories, aiming to promote or safeguard individuals who have been unfairly disadvantaged by discrimination. Such policies must guide the overall procurement strategy.
- iii. It provides an overview of your governance framework and a roadmap for the way your institution conducts its procurement activity.
- iv. It provides the governance structure in terms of stakeholder engagement and the cross-functional sourcing teams, and how they are constituted.
- v. It provides a roadmap to reach the institution's long-term goals through an efficient process in acquiring goods, services, and works in a cost-effective manner.

⁴ <https://www.procurement.govt.nz/assets/Uploads/procurement-for-the-future-strategy.pdf>

- vi. A procurement strategy deals with strategy alignment, portfolio analysis, governance, and performance management.
- vii. Procurement strategies often focus on options like reducing costs, mitigating supply risks, and economic empowerment.
- viii. A sourcing strategy is then developed as a mechanism to achieve the procurement strategy.
- ix. The government procurement system will ensure a consistent supply even in the face of volatility and uncertainty caused by events like pandemics and natural disasters. These increase risks in the supply chain as and when they deploy strategic sourcing.

2.2.2 Professionalism

- i. Since supply chain management is designed to work with a wider spectrum of role players, the conduct of the practitioner must demonstrate respect, dignity, integrity, courteous behaviour, treating people with equality and observing non-racialism. These are all elements of professional conduct.
- ii. Professionalism in this context then entails applying the strategic sourcing principles and processes within the prescribed rules and legislative environment that will lead to value for money and service delivery.

2.2.3 Code of ethical standards in SCM

- i. All procurement activities are undertaken in line with the code of conduct.⁵
- ii. All SCM officials must adhere to the Code of Conduct prescribed by National Treasury.
- iii. A code of ethical standards in SCM should promote:
 - a. Mutual trust and respect
 - b. An environment where business can be conducted with integrity, fairly and reasonably.

⁵

<https://www.dpsa.gov.za/dpsa2g/documents/accc/public%20service%20code%20of%20conduct.pdf>

- c. SCM officials always behaving ethically; they should treat all providers and potential providers equally.
- d. SCM officials not using their position for private gain or to improperly benefit another person.
- e. SCM officials not accepting any reward, gift, favour, hospitality, or other benefit directly or indirectly, including for any close family member, partner, or associate of that person.
- f. SCM officials declaring details of any reward, gift, favour, hospitality, or other benefit promised, offered, or granted to that person or to any close family member, partner, or associate of that person.
- g. SCM officials declaring any private or business interests.
- h. SCM officials recusing themselves from procurement / disposal processes or when awarding contracts if there is private interest.
- i. SCM officials being scrupulous in their use of property.
- j. SCM officials combatting fraud, corruption, favouritism, and unfair and irregular practices in the supply chain.

2.2.4 Strategic sourcing

- i. Strategic sourcing is not a new phenomenon. It has been widely implemented in both the private and the public sector environments.
- ii. The strategic sourcing process provides step-by-step guidelines for the procurement of goods and services. This results in achieving value for money.
- iii. Although in the public sector there are specific rules and guidelines due to the legislative environment, if properly applied, it can yield very good outcomes.
- iv. In general, where regulations apply in the public sector, organisations will have to:
 - a. Advertise an intention to procure, normally through a competitive bidding process.
 - b. Only exclude a tenderer for justified reasons. The evaluation criteria are normally published in the document pack. Give tenderers the reasons why they

were not successful in the tender so that they have the option to appeal the decision.

- c. Award the contract based on the results of the evaluation process and the rules set out at the outset.
- v. The successful implementation of strategic sourcing may enhance the understanding of government spending patterns, and so optimise the budgeting and planning process. In turn, this enables sourcing practitioners and decision makers to make better informed decisions. In addition, the deployment of strategic sourcing principles offers alternative methods to improve services and reduce administrative costs.
- vi. Strategic sourcing is a collaborative, structured approach to analysing government's spending; using the information from this analysis to acquire commodities and services effectively; and as a result, supporting government's service delivery objectives.
- vii. It helps supply chain managers to plan, manage, and develop the supply base in line with these objectives; and creates an understanding of the categories of goods and services in government's spending portfolio, their intended use, and the sources of supply. This helps to identify the leverage points, develop appropriate sourcing strategies, reduce costs, and increase the benefits and value of the service or commodity to the government.
- viii. Strategic sourcing involves understanding the impact of procurement decisions on society and therefore needs an alert and informed group of procurement professionals who can apply this flexible, market-aware methodology.
- ix. Strategic Procurement is NOT the purchase of goods and services on a day-to-day, transactional basis. Instead, Strategic Procurement is the opposite: it is a long-term and all-encompassing means of achieving procurement and strategic business goals.
- x. It is also a process of understanding categories of goods and services, their intended use and their supply markets based on rigorous analysis. This aids in identifying leverage points and developing the appropriate sourcing strategy. This strategy should reduce the total cost to the government and/or increase the benefits/value of the service/commodity to the government.

- xi. The form and shape of any procurement strategy adopted by public institutions will vary from organisation to organisation. It is thus not possible to be prescriptive. However, any strategy that is adopted should reflect the requirements of public procurement and achieve value for money, cost-effectiveness, fairness, transparency, and equity. The procurement approach followed by government organisations for goods and services should be linked to the overall strategic objectives of the organisation and to the business planning process.
- xii. Strategic Sourcing (SS) strategy will guide the organisation on what to do, not necessarily always yielding to a tender process.

2.3 The legislative framework and the social values

- i. Public Procurement operates within a defined regulated environment.
- ii. There are South African Acts and regulations that directly and indirectly impact the public procurement process. The procurement practitioner must consider these in making or developing a sourcing strategy.
- iii. The Government of South Africa has developed various legislations, regulations, and policies to govern but also to direct and use such instruments as a mechanism to achieve its strategic goals.
- iv. The principles of strategic procurement are enshrined in the Constitution of the Republic of South Africa, Section 217 which stipulates a procurement system which must be 'fair, equitable, transparent, competitive, and cost-effective'.
- v. These principles are not only in line with sustainable public procurement but are a prerequisite for sustainable and performance-based public procurement.
- vi. The Strategic Procurement Framework takes the requirements and good practices provided for in the supply chain management legislation and accompanying regulations, implementation guidelines, and instruction notes into account.

2.3.1 Public procurement guiding principles and objectives

- i. Section 217 of the Constitution requires that when an organ of state contracts for goods and services, it must do so by principles of fairness, equitability, transparency, competitiveness, and cost-effectiveness.

- ii. These guidelines are issued by the Government not only as a prescription of standards of behaviour, ethics, and accountability that it requires of its public service, but also as a statement of the Government's commitment to a procurement system that enables the emergence of sustainable small, medium, and micro businesses. These businesses will add to the prosperity of our country and the achievement of enhanced economic and social well-being of all South Africans.
- iii. Procurement principles should be used to guide decisions pertaining to procurement practice.
- iv. To achieve sound procurement practice and preserve public trust and public interest, a procurement system must adhere to and uphold the basic principles of best practice.
- v. All procuring institutions must ensure these practices are observed and applied indiscriminately.⁶
 - a. Value for money
 - The best value for money means the best available outcome when all relevant costs and benefits over the procurement cycle have been considered.
 - The decision is not only limited to price.
 - b. Open and effective competition
 - A procurement process and method that is based on the principles of law, legislation, policies, practices, procedures, and instruction notes.
 - All government officials involved in the procurement system must adhere to and ensure the following:
 - a) All potential suppliers have reasonable access to procurement opportunities.
 - b) All available opportunities are notified through the various platforms, such as the E-tender portal, newspapers, and bulletins, etc.
 - c) Adequate and timely information is provided and made available to the suppliers to enable them to bid.
 - d) That any biasness and favouritism or perception thereof is eliminated.
 - e) That the costs of bidding for opportunities do not discourage competent suppliers from participating.

⁶ Ambe IM, et al, Supply chain Management, A Balanced Approach, 3rd Ed. (2022), Van Schaik Publishers

- f) That the costs incurred in promoting competition are at least in line with the benefits received.

c. Ethics and fair dealing

- All persons involved in the procurement process must comply with the ethical standards to maintain the integrity of the process.
- The matters regarding the conflict of interests have been dealt with in line with the institution's policies.
- Look out for and develop a system that will eliminate fraud and corruption.

d. Accountability and reporting

- All personnel or officials involved in the procurement process are answerable and held accountable for their plans, actions, and outcomes.
- There is adequate reporting and monitoring to enhance accountability and transparency.

e. Equity

- An equitable process is the one which is aligned to S217(2), allows organs of state to implement procurement policies providing for categories of preference to advance or protect persons disadvantaged by unfair discrimination.
- This principle also places responsibility on the institutions that through procurement activities, there is a commitment to economic growth and social values.

2.3.2 The key role players involved in public procurement.

Key Role Player	
National Treasury Office of the Chief Procurement Officer	<ul style="list-style-type: none"> • Introduce and oversee the implementation of Supply Chain Management best practice. • Develop treasury regulations. • Issue guidelines, general conditions of contract and bid documents to the accounting officers. • Set minimum reporting standards. • Monitor policy outcomes. • Through the OCPO, Government will enhance transparency in the SCM system by:

Key Role Player	
	<ul style="list-style-type: none"> ○ Developing and prescribing a public disclosure framework which governs transparency within the SCM process. This should result in institutionalising disclosure. ○ Prescribing that all information in the bid process be disclosed publicly. This includes bid committee reports, minutes, and contracts. ○ Improving the accessibility of information. All information will be housed on the OCPO's website. All government entities will be required to publish information on their respective websites in line with a public disclosure framework prescribed by the OCPO. ○ Improving the quality of information and encouraging its strategic use. ○ Creating an environment conducive to stakeholder participation in the different stages of the SCM process. ○ Building the capacity of the private sector, civil society, and relevant stakeholders to take part effectively in enhancing transparent public SCM.
Provincial Treasuries	<ul style="list-style-type: none"> ● Assist departments/municipalities with the implementation of SCM. ● Support departments/municipalities by providing advice and building capacity. ● Coordinate training in the province. ● Monitor policy outcomes.
vi. Accounting Officers/Chief Executive Officers/Municipal Managers	<ul style="list-style-type: none"> ● Establish an SCM unit. ● Compile and implement an SCM policy. ● Adhere to guidelines and supporting documents for the implementation of SCM issued by the National Treasury. ● Develop internal procedures and processes. ● Ensure that officials are trained and adequately skilled. ● Report to the relevant treasury. ● Comply with ethical standards.

Key Role Player	
Chief Financial Officer/SCM Unit	<ul style="list-style-type: none"> Recruit, select, develop, and manage skills to build and maintain effective SCM units. Provide training, skills, and resources to develop managers and supervisors to enable them to operate and manage the various SCM activities, facilities, and networks.

Table 3 Key role players of the South African government SCM and their functions

Source: Adapted from National Treasury (2005)

2.3.3 Incorporating social values in strategic procurement

- i. Governments have long used public procurement as a powerful tool to promote socio-economic objectives. The procurement process thus becomes a 'vehicle' to address social and economic objectives, and/or maximise local or regional community outcomes.
- ii. To determine 'where such outcomes can be realised', it is important to be able to systematically consider the issues that can determine the scope for community benefits in the context of the procurement in question.
- iii. The following content provides a practical approach to promote awareness and understanding of how to leverage public sector procurement within the Government.
- iv. It must be noted that this approach may be improved and modified by the procuring institution as better insights are obtained over time. In this regard, all procuring institutions are encouraged to share their learnings.

2.4 The need to adopt a strategic procurement framework

- i. The revised framework now introduces stage zero (0) within the opportunity assessment phase which is designed to link the procurement plans with the strategic sourcing process.
- ii. Stage zero (0) also seeks to integrate the social values in achieving the value for money (VFM) aspects.
- iii. The South African Planning Commission's National Development Plan (NDP) 2030: *Our future – make it work* proposes that the following five areas be focused on in designing

a procurement system that is better able to deliver value for money while minimising the scope for corruption:

- a. Differentiate between the different types of procurement that pose different challenges and require different skill sets.
 - b. Adopt a strategic approach to procurement above the project level to balance competing objectives and priorities rather than viewing each project in isolation.
 - c. Build relationships of trust and understanding with the private sector.
 - d. Develop professional supply chain management capacity through training and accreditation; and
 - e. Incorporate oversight functions to assess value for money.⁷
- iv. A good sourcing strategy is one that achieves a balance between performance, compliance, and value-for-money.
 - v. Performance-based procurement will allow a better alignment of incentives between the public procurers and the suppliers because the suppliers are made responsible for the performance of a product or service. Allocating the risks properly will ensure that the best-performing product, service, or integrated solution available is being provided.⁸
 - vi. Strategic Procurement is a robust and sustainable solution for use by the Government to exert much more control over procurement spend. The framework that follows is a tried and tested solution globally, including private and public sector organisations.
 - vii. The basic premise to be considered is that the nature and business of Government organisations in South Africa do not change significantly over time. The service provision remains the same. The items procured and buying patterns of public sector organisations are stable and predictable. And so there is a need to position the government for long-term stability within procurement.

⁷ The South African Planning Commission's National Development Plan 2030: Our future – make it work.

⁸ Moving towards sustainable performance-based procurement in the Western Cape

- viii. The Strategic Procurement Framework (SPF) is a guided process with methods and tools to focus the procurement efforts on projects that would meet the procuring institution's top strategic priorities for service delivery.

2.4.1 The benefits of using strategic sourcing methodologies in the public sector

Increasingly applying strategic sourcing across the South African public sector will bring a few benefits. It will:

- i. Use the size and value of spending on commodities commonly purchased across the government to leverage the state's buying power.
- ii. Greatly reduce duplication of effort. Currently, numerous tender processes for similar goods and services take place across departments.
- iii. Reduce inconsistency in prices between the private and public sectors and between government procuring institutions. In some cases, procuring institutions buy the same product or service from the same suppliers at different prices.
- iv. Encourage common government policy positions on certain commodities and services. It will, for example, point the relevant authorities towards a common position on broadband or software licensing.
- v. Encourage the development and use of standardised specifications of common commodities. Examples are school furniture, office equipment and IT hardware. This will discourage end-users from over-specifying, insisting on "the best" when a more modest alternative may be adequate for service needs.
- vi. Increase government efficiency by providing information on the government's spending patterns. This will help better and more informed decision-making from the product, quality, cost, and socio-economic perspectives.
- vii. Strategic sourcing provides for a greater understanding of the supplier market and how to involve them in the procurement process.
- viii. Create expertise about commodities among purchasing officials and reduce complexity for end-users.
- ix. Encourage the use of a thorough understanding of the specialised commodities within their environment that Government supply chain practitioners. These practitioners generally manage administrative functions.

- x. Improve vendor performance. As the clarity of requirements increases, relationships with suppliers tend to improve and they are encouraged to identify new and innovative solutions.
- xi. Ensure that competition for government business increases, and contract-structuring and performance management systems to measure vendor performance improve.

2.5 Public Procurement Challenges in South Africa

- i. While rising costs are cause for dismay, the reality of diminishing funding and the question of how to ensure service delivery, are greater problems.
- ii. The demands unavoidably exceed available funds, hence a balance of the 4Es has become critical, that is.
 - a. Economy (spending less),
 - b. Equity (spending fairly),
 - c. Efficiency (spending well), and
 - d. Effectiveness (spending wisely)
- iii. Using public procurement as a vehicle for transformation, producing benefits and industrialisation is key to Government's agenda.
- iv. Due to the challenges around the 4Es, it leads to an imbalance in the economic scale, between the suppliers and government entities, as depicted in Figure 2 (the supplier-buyer pendulum):

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

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

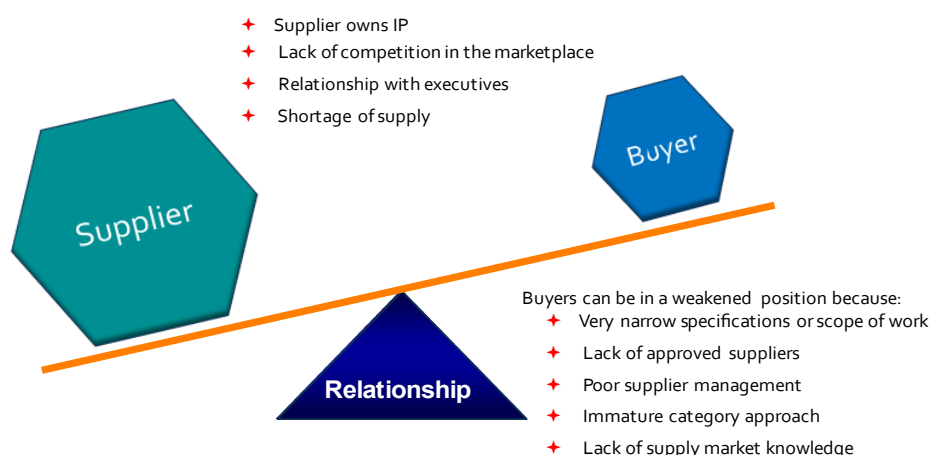


Figure 2 The supplier-buyer pendulum

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

- v. The lopsided supplier relationship may seem like an impossible situation to resolve.
- vi. As a result, the government has a choice to make either to have the status quo persist, exit the relationship, and face the consequences or re-balance the relationship.
- vii. The table 3 (options to deal with the lopsided relationships) indicates the options.

Option	Result
1. Do Nothing	<ul style="list-style-type: none"> Loss of Value for Money Potentially Poor Cost Management & Compromised Service Delivery Heavy Investment in Reactive Remedial Supplier Management Procurement Can Lose Credibility Audit Findings and Condonations
2. Exit The Relationship	<ul style="list-style-type: none"> High Switching Costs Supplier Identification & Qualification Brand Image Risk and Litigation
3. Re-Balance the Value Proposition	<ul style="list-style-type: none"> Capture Mutual Perceived Value Drive Innovation Enhance Sustainable Enterprise & Supplier Development Programmes

Figure 3: Options to deal with lopsided relationships

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

- viii. It is important to note that SCM is an integral part of procurement in the South African public sector. Therefore, it is used as a tool for the management of public procurement practices. However, despite the employment of SCM as a strategic tool, public procurement in South Africa still faces enormous predicaments. Figure 3 presents an illustration of the dilemma facing supply chain management.



Figure 4 The SCM dilemma

These include, among others:

- a. Lack of proper knowledge, skills, and capacity
- b. Non-compliance with SCM policy and regulations
- c. Poor data and limited high-quality data and insights.
- d. Procurement activities
- e. Incompatible technology
- f. Siloed working
- g. Sourcing and compliance- experience oriented practices
- h. Inadequate planning and the linking of demand to the budget
- i. Poor value for money

- j. Lack of accountability
- k. Fraud and corruption
- l. Inadequate monitoring and evaluation of procurement outcomes
- m. Unethical behaviour
- n. Too much decentralisation of the procurement system
- o. Limited/no post contract management and supplier relationship management.

2.6 The need for differentiated approach to government procurement

- i. The strategic procurement framework is designed to respond to the conflicting demands of public procurement. So, a one-size fit-all approach to the procurement of goods and services in government will not address these demands, that is find a balance between compliance to regulations and the social values.
- ii. A world-class procurement approach is responsive to various situations such as disasters, emergencies, and unforeseen and foreseen circumstances.
- iii. As a result, the strategic procurement framework requires that the government adopt a differentiated approach to procurement of the various commodity groups.
- iv. Households do not procure their monthly goods in the same way as they buy property. Buying property is a strategic decision. In the same way, the government should not procure catering services in the same way as specialised and expensive medical or agricultural equipment.
- v. Using the principles of strategic sourcing means distinguishing between the various categories of commodities and developing appropriate sourcing approaches for each.
- vi. To achieve a differentiated approach, a departure from the traditional approach to a strategic approach will be essential.⁹

⁹ <https://www.confer.co.nz/seo2017/wp-content/uploads/2017/07/GUIDEMasteringProcurement.pdf>

- vii. The traditional approach to procurement views it as buying goods and services. Irrespective of how critical a transaction may be, the government currently uses competitive bidding, a standard method of buying.
- viii. A strategic approach involves a combination of understanding the importance of procurement to enable the government to achieve its objectives; identifying suppliers and managing relationships with them; and obtaining value for money. There is a need to move from transactional buying to commercial decision-making.

2.6.1 The traditional approach

- i. In the traditional approach to procurement, the procurement decision-making process is normally reactive with a relatively small percentage of the overall effort going into the initial planning phase.
- ii. The supply chain management function is not involved early in the process.
- iii. As a result, as indicated in Figure 4, less effort is applied in the initial planning stage, and effort tends to increase in the bidding phase. In turn, this results in greater levels of effort in the contract and relationship management phases, where little extra value can be gained.

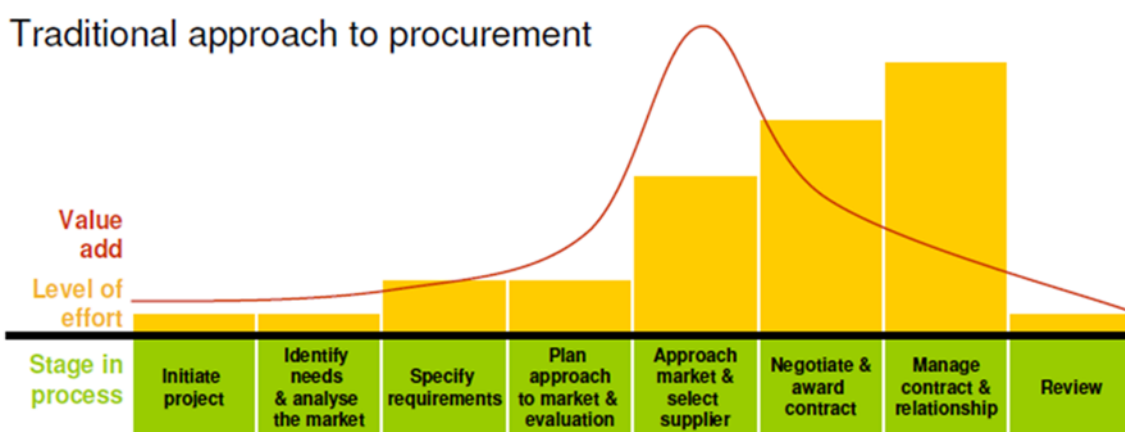


Figure 5 The traditional approach to procurement

2.6.2 The strategic approach

- i. The strategic approach to procurement works methodically through each stage in the process.

- ii. As indicated in figure 5, the initial effort spent on planning, research and analysis helps significantly to identify solutions that meet needs.
- iii. The early involvement of the supply chain management unit is critical.
- iv. The focus on developing and managing relationships with suppliers after awards have been made means that less time is spent resolving issues and more on assessing the quality of delivery and identifying opportunities for cost savings and benefit gains.
- v. Ability to respond quicker and efficiently to natural disasters and pandemics which may affect supply chains and service delivery.
- vi. A strategic approach delivers greater sustainable value and drives towards achieving the 4Es (economy, equity, efficiency, and effectiveness).

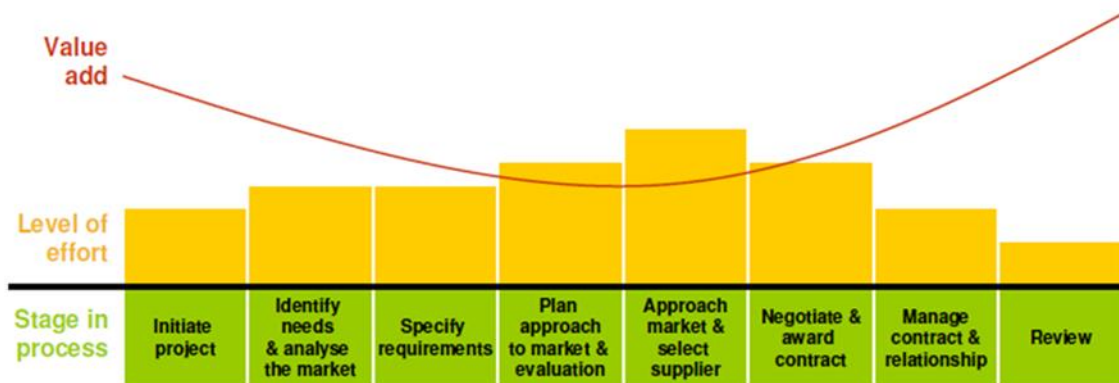


Figure 6 The strategic approach to procurement

2.7 Introducing the sourcing business mapping model (SBMM) concept

- i. The Sourcing Business Model Mapping (SBMM) is a tool designed to find an optimum balance in a sourcing strategy between the economic aspects and the desired supplier relationship.¹⁰
- ii. If properly applied, the sourcing business model mapping (SBMM), will help address the lopsided relationship as indicated in Figure 2.
- iii. The differentiated approach promotes a sourcing approach that meets the business needs.

¹⁰ Source: Used with permission. Vested® www.vestedway.com. Vested, Inc

- iv. The outcome of this consultation is a more holistic “Sourcing Business Model Mapping” decision framework that allows an organisation to align its business attributes with the most appropriate sourcing business model.
- v. The Sourcing Business Model Mapping selection seeks to respond to the “What, Why, Who, How, and When” in the procurement process.
- vi. A Sourcing Business Model defines how the relationship between the procuring institution and the service provider is structured and managed.
- vii. The model is a combination of the relationship model and economic model.
- viii. An SCM practitioner must select the Sourcing Business Model most appropriate for their sourcing situation, to optimise value.
- ix. There are seven Sourcing Business Models, each serving to optimise 20 key business attributes.
- x. As indicated in Figure 6, suppliers typically view the government as disintegrated and uncoordinated. So, the introduction of sourcing business model approaches will help design a procurement process that is fit for purpose.

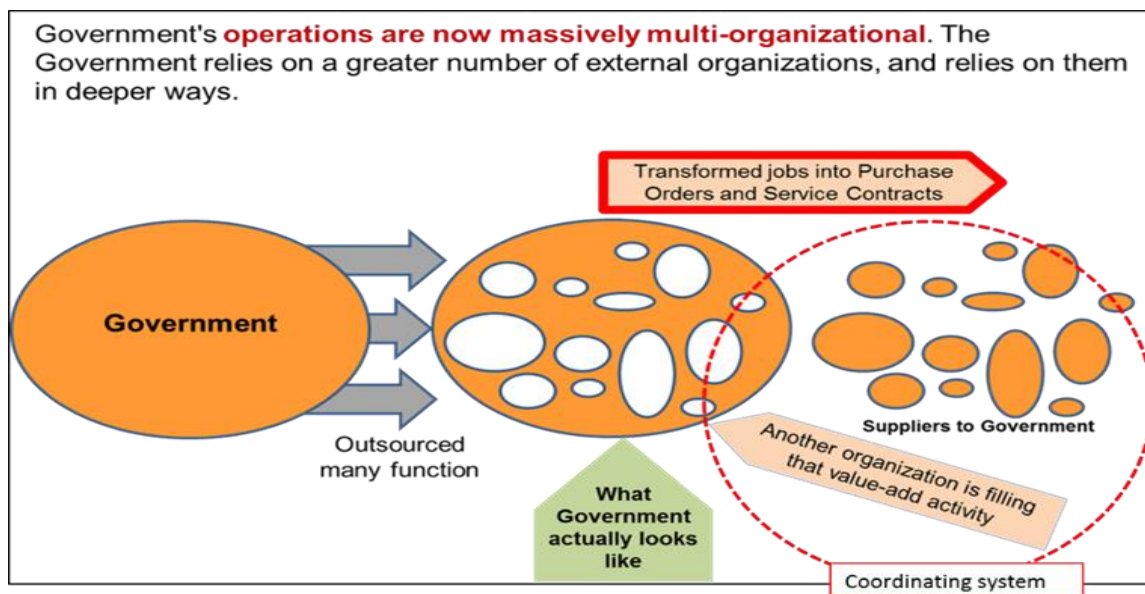


Figure 7 The state of government procurement

- xi. To determine the most appropriate sourcing business model that will drive the most value and balance in the relationship, two critical decisions must be considered.

- a. What relationship model is needed to drive performance and value?
 - b. What economic model is required to meet business needs?
- xii. The two key decisions to consider when selecting the appropriate sourcing model hinges on the decisions below.
- xiii. To determine the most appropriate sourcing business model that will drive the most value and balance in the relationship, we consider two aspects:.
 - a. Relationship model – a relationship model determines how you will formally control or influence your supply source.
 - b. Economic model – an economic model determines how you will manage the economics of the relationship.
- xiv. Using the typical commodities within the Education Department such as schoolbooks, stationery and office stationery, the appropriate sourcing business models can be recommended.
- xv. Decision 1: Relationship model**
 - a. There are three Relationship models that should be considered.
 - b. These are the Transactional Contract (Market), the Relational Contract (Hybrid), and the Investment / Vertical Integration (Hierarchy).

Decision 1 : Relationship Model

- As you move across the continuum, dependency and investment in the relationship increase (time, cost and effort)

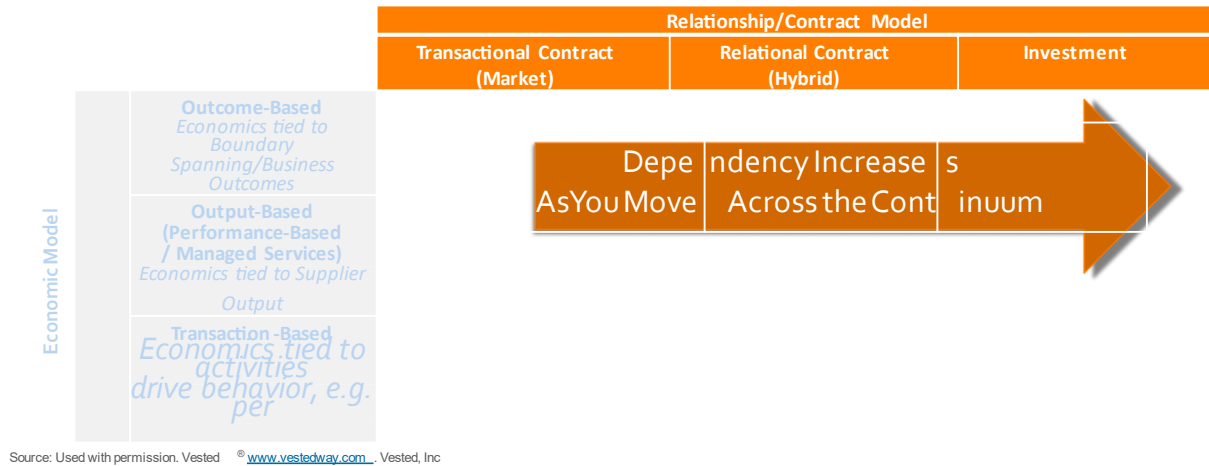


Figure 8: The Relationship Model

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xvi. Decision 2: Economic model

- There are three Economic models that should be considered.
- These are: the Transaction-Based (payment of the service provider is based on the 3-way matching, purchase order, proof of delivery and invoice), the Output-Based (payment of the service provider is based on certain output as provided in the SLA), and the Outcome-Based (payment of the service provider is based on a shared risk/shared reward basis).

Decision 2 : Economic Model

- An organization can derive more value by thinking in terms of “outcomes” versus simply “transactions”.

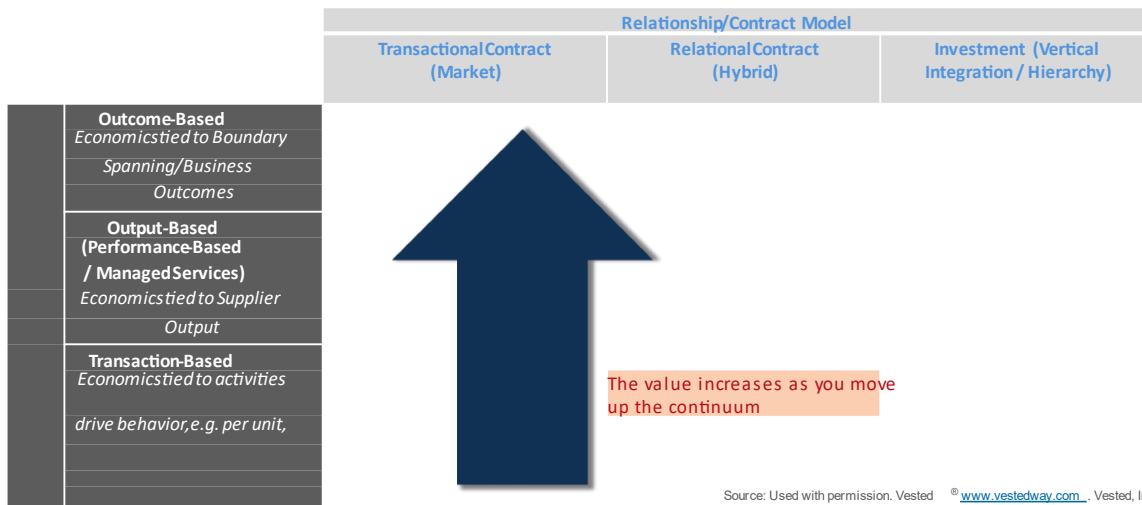


Figure 9: The Economic Model

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- xvii. There are seven Sourcing Business Models to select from when developing a commodity sourcing strategy. This sourcing model will be in line with the procuring institution's objectives and priorities.
- Basic Transaction Provider (routine)
 - Approved Provider (panel)
 - Preferred Provider (framework)
 - Performance-Based Relationship
 - Vested Relationship
 - Shared Services
 - Equity Partner or Private-Public-Partnerships
- xviii. Each Sourcing Business Model has a unique value proposition and attributes, based on business needs.

- xix. Further, each sourcing business model can be aligned to different procurement methods to provide for a differentiated approach.
- xx. Figure 9 indicates a combination of the relationship and economic models in developing a fit-for-purpose sourcing strategy for the two commodities, schoolbooks, and office stationery.

		Relationship/Contract Model		
		Transactional Contract (Market)	Relational Contract (Hybrid)	Investment (Vertical Integration / Hierarchy)
Economic Model	Outcome-Based <i>Economics tied to Boundary Spanning/Business Outcomes</i>	Mis-Match – Not a Viable Strategy	Vested (balance the social and economic aspects on a strategic and sustainable basis.) • SCHOOL BOOKS & STATIONERY	<ul style="list-style-type: none"> Equitable Partner (e.g. Joint Venture, Subsidiary) Vested Shared Services
	Output-Based (Performance-Based / Managed Services) <i>Economics tied to Supplier Output</i>	Mis-Match – Not a Viable Strategy	<ul style="list-style-type: none"> Performance-Based-Managed (SLA) Agreement 	<ul style="list-style-type: none"> Equitable Partner (e.g. Joint Venture, Subsidiary, Co-Op) Shared Services
	Transaction-Based <i>Economics tied to activities drive behavior, e.g. per unit, per hour, per</i>	<ul style="list-style-type: none"> Basic Provider Approved Provider OFFICE STATIONERY 	<ul style="list-style-type: none"> Preferred Provider (Framework Agreements) 	<ul style="list-style-type: none"> Equity Partner (e.g. Joint Venture, Subsidiary) Shared Services

Figure 10: The combination of the relationship and economic models

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- xxi. An appropriate sourcing strategy is influenced by typical questions, such as:
- Are there any specific economic outcomes that need to be achieved with this sourcing strategy?
 - How can this economic outcome be sustained through the sourcing strategy?
 - How will this sourcing strategy enhance supplier innovation that can translate into value for money and a win-win- approach?
 - How will the SMMEs be brought onto the economic mainstream through this strategy?

- e. Which type of supplier relationship will best support the selected sourcing strategy?
- xxii. When the supplier relationship (Sourcing Business Model) is managed with the appropriate Relationship and economic models aligned, value is optimised.
- xxiii. Likewise, if the relationship is managed with either the Relationship or Economic model “out of equilibrium”, value is lost and perceptions clash.
- xxiv. Understanding the level of Dependency and Expected Value inherent in the supplier relationship is critical to determining the best Sourcing Business Model for the category.
- xxv. The selected Sourcing Model will also inform the PRACTICE GUIDES, the APPROPRIATE TEMPLATES, the type of CONTRACT and the MANAGEMENT of it. This saves the SCM practitioner time.

3. The strategic sourcing methodology

- i. A framework provides a structure and direction or a set of guidelines on a preferred way to do something without being too detailed or rigid. A methodology is an approach to ‘doing something’ with a defined set of rules, methods, tests activities, tools, models, deliverables, and processes that typically serve to solve a specific problem.¹¹
- ii. It is from this perspective, that the strategic sourcing methodology will provide a step-by-step process with appropriate tools in the form of good practice guides and templates to aid in the implementation of the strategic sourcing process in the acquisition of goods and services.
- iii. A methodology provides a process that, if it is followed, predetermines the outcome.
- iv. It is from this basis that the strategic sourcing methodology if properly followed, will predetermine the outcomes.
- v. The strategic sourcing will have a methodology that provides a step-by-step process.

¹¹ Scott Ellis' article “Frameworks, Methodologies and Processes”

- vi. The strategic sourcing methodology is divided into three phases and distinct stages 0-7 (as indicated in Figure 7) that contain the guides of good practice and the applicable tools.

3.1 The structure of strategic sourcing methodology

- i. The strategic sourcing methodology will follow a systematic structure across all the stages as indicated in Figure 7.
- ii. Further, the toolkit will be packaged in a way that will enhance implementation. It will follow a systematic process.

3.1.1 Introduction

- i. This will provide a high-level introduction to the purpose of the stage within the strategic sourcing methodology.

3.1.2 The objective

- i. This will briefly describe the objective of the tool or guide.

3.1.3 The output

- i. This will be in the form of a template or process that can be used as a resource to implement the sourcing strategy.

3.1.4 The narrative

- i. The narrative will provide the context and content of the stage within the strategic sourcing methodology.
- ii. It will primarily deal with the “what” and the “why”.

3.1.5 Good practice guides

- i. The good practice guides (GPGs) are documents, processes, and standards of practice that are designed to help narrow the interpretation of the processes, practice, standards, or guidelines to enhance application.
- ii. The good practice guides typically focus on the “how”.
- iii. In each of the stages, there would be specific good practice guides to assist with the application and implementation of the toolkit.

3.1.6 Templates

- i. The templates are documents that can assist in the decision-making and execution of the process.
- ii. It must be noted therefore that, some of the templates may not be applicable to certain commodities due to the procuring institutional dynamics and needs.

3.2 The strategic sourcing process: an overview

- i. As alluded to earlier in the document, strategic sourcing is not very different from the normal sourcing process except that it requires more effort during the planning and analysis phases to gain greater value throughout the process.
- ii. Figure 7 shows the 3-phase strategic sourcing methodology with stages 0-7.

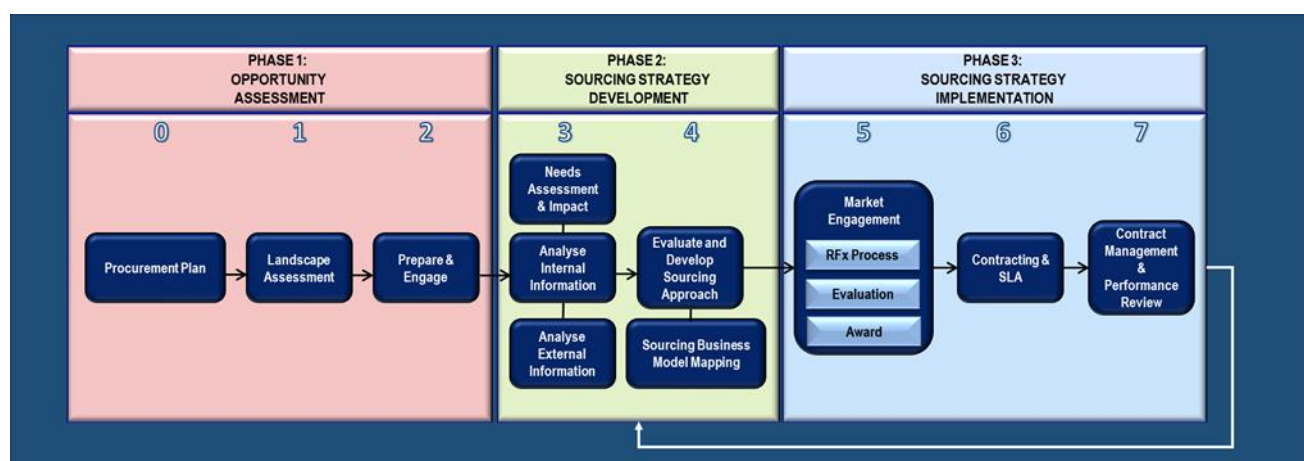


Figure 11: The 3-phase strategic sourcing methodology

- iii. The revised strategic sourcing process consists of three main phases that encompass the complete sourcing process with stages 0-7:
 - Phase 1: Opportunity Assessment.
 - Phase 2: Sourcing Strategy Development; and
 - Phase 3: Sourcing Strategy Implementation
- iv. The strategic sourcing process requires an organised approach that allows a supply chain function to work systematically and to reduce costs.

- v. As with all sourcing models, it has seven main stages. These start with procurement planning and end with contracting and managing the supplier relationship.
- vi. All the stages of the strategic sourcing methodology are outlined in detail next.

3.2.1 Stage 0: Procurement planning

- i. Planning forms an integral part of the successful implementation of the sourcing strategy.
- ii. Procurement planning starts with the development of annual plans, budgets, and time schedules to execute an operational or capital activity.
- iii. These plans are required to address, in detail, all required resources including those to be affected by procurement or asset disposal.
- iv. Procurement planning is a crucial task for any public entity's annual planning requirements as it is necessary to calculate the procurement costs likely to be incurred.
- v. The plan will include both recurring and non-recurring costs.
- vi. To avoid delivery delays, the planning of procurement activities should be carried out in advance of budget approvals.
- vii. It is during this stage that the government's social values must be discussed and prioritised.

3.2.2 Stage 1: Landscape assessment

- i. This involves identifying spending areas where there are opportunities to reduce costs or improve processes. This is usually done by the Accounting Officer (AO), Head of Department (HoD), Chief Finance Officer (CFO), Chief Procurement Officer (CPO), or at the budget holder level.
- ii. Critical to this stage is to prioritise spending areas so that they align with the institution's service delivery objectives.
- iii. Prioritisation can also be based on the relative importance of purchase categories, the complexity of the supply market, and the extent to which spending areas are common across the organisation.
- iv. The objective of the landscape assessment is to obtain an understanding of the organisation's spending profile for strategic planning and procurement planning purposes.

- v. It further involves positioning commodity groups on the Positioning Matrix, prioritising the waves of sourcing implementation, and obtaining project proposal approval for initiating specific sourcing projects.

3.2.3 Stage 2: Prepare and engage

- i. Once priorities have been determined, sourcing can begin.
- ii. This involves obtaining senior management buy-in and agreement to avoid or reduce possible resistance at the operational level where the sourcing strategy must be implemented.
- iii. During this phase the project is scoped, stakeholders are identified and mapped, and a cross-functional team is established.
- iv. The project team must put in place a governance structure, develop a communication plan, establish timelines and milestones, and create a Project Charter.

3.2.4 Stage 3: Gather information

This step requires the project team to gather information under three headings:

- i. **Needs assessment and impact of the purchase category.**
 - a. The team must obtain information on existing sourcing practices, plans and contracts, and find out from stakeholders what they need in terms of functionality, quality, volumes, and other issues.
 - b. The team must also identify opportunities to reduce costs and carry out an initial risk analysis.
 - c. The objective of this exercise is to obtain an overall view of the business impact that the commodity has on the organisation.
 - d. A complete business needs assessment based on previous history and future requirements must be done.
 - e. It also involves the review of existing specifications or developing new specifications.

ii. **Analyse internal information**

- a. Here the team collects and analyses information about past purchase trends, price history and overall spending.
- b. This is usually collected from internal customers or end-users.
- c. The team must analyse prices and costs, review the performance of current suppliers, and analyse the department's risks and vulnerability.
- d. This is done to get a clear understanding of the organisation's spending trends for this commodity in terms of Rand value, quantities, by whom, with whom and how often. It also involves determining future demand in line with strategic objectives.
- e. It may involve deconstructing the price to determine cost elements that will impact future price adjustments.
- f. The analysis of the value chain will assist in identifying the internal process from requisition to payment and where the bottlenecks are.

iii. **Analyse external information:**

- a. During this information gathering and analysis phase, the team typically looks at trends in the supply market, using tools such as Porter's Five Forces Analysis.¹²
- b. The team carries out supplier analysis to determine who the major suppliers are, how they are organised in the market and what the item's main cost drivers are.
- c. This information is usually collected from suppliers or industry bodies.
- d. This is done to get a clear understanding of external factors that influence the procurement of the commodity.
- e. It involves the analysis of the external supply chain, the market dynamics that shape the industry, and who the suppliers are in this industry.

¹² The model of the Five Competitive Forces was developed by Michael E. Porter in 1980 and has since that time become an important tool for analysing an organization's industry structure in strategic processes. Porter has identified five competitive forces that shape every industry and every market. These forces determine the intensity of competition and hence the profitability and attractiveness of an industry. The objective of corporate strategy should be to modify these competitive forces in a way that improves the position of the organization. Porter's model supports analysis of the driving forces in an industry. Based on the information derived from the Five Forces Analysis, management can decide how to influence or to exploit characteristics of the industry.

3.2.5 Stage 4: Evaluate and develop a sourcing approach

Here the cross-functional sourcing team must determine the best economic and contractual relationship model that will be developed in implementing the sourcing approach:

i. Determine economic and contractual relationship models

- a. The cross-functional sourcing team makes a deliberate decision regarding the economic and relationship model to be used as the commodity strategy.
- b. The Sourcing Business Model Mapping (SBMM) is a tool designed to find an optimum balance in a sourcing strategy between the economic aspects and the desired supplier relationship.
- c. The economic model determines how the economics of the relationship will be managed.
- d. It further defines how one will measure and ultimately compensate the supplier.
- e. There are three choices of economic model:
 - i. Transaction models – suppliers paid for every transaction.
 - ii. Output-based models – the supplier's payment is linked to the achievement of pre-defined measures, such as managed services such as facilities management, consulting work etc.
 - iii. Outcome-based models – these follow a more integrated approach, with shared risk.
- f. The contractual relationship model presents three choices.
 - i. Transactional-based approach
 - ii. Relational-based approach
 - iii. Investment-based approach
- g. Value is optimised when the supplier relationship (Sourcing Business Model) is managed with the appropriate relationship and economic models aligned.
- h. Likewise, if the relationship is managed with either the Relationship or Economic model "out of equilibrium", value is lost and perceptions clash.

- i. Understanding the level of dependency and expected value inherent in the supplier relationship is critical to determining the best sourcing business model for the category.
- j. By completing a sourcing business model mapping (SBMM) exercise you determine what sourcing business model is the “best fit” for your prospective relationship.

ii. Information analysis and interpretation

- a. Here the project team analyses and interprets all the information gathered.
- b. This is usually grouped under the following headings:
 - i. Supplier characteristics
 - ii. Commodity characteristics
 - iii. Spend information.
- c. The objective is to consolidate all the information gathered, to identify possible risks associated with the project/commodity and to calculate the total cost of ownership.
- d. It further involves the identification of improvement opportunities and generating ideas on where improvement can be achieved.
- e. Identify all possible sourcing options, desired supplier relationship and evaluation criteria.
- f. A strategy sustainability assessment will identify the sourcing options that will deliver the greatest results and are in line with government procurement and other legislation.
- g. The business case can now be finalised and submitted for approval.
- h. The process now moves towards implementation.

3.2.6 Stage 5: The market engagement process

- i. This Stage involves deciding an appropriate market engagement approach, the evaluation methodology, effectively structuring the bid and planning a realistic timetable to initiate the implementation and roll-out of the chosen sourcing strategy, selecting and awarding the business to the most appropriate supplier(s).
- ii. It also involves the choice of the most appropriate procurement method.
- iii. Other activities in this stage are price benchmarking, supplier vetting, implementing a negotiation strategy and calculating potential savings.

3.2.7 Stage 6: Contracting and Service Level Agreements (SLAs)

- i. This stage formalises the award by putting a contract between the department and the chosen supplier(s) in place.
- ii. It involves planning for a smooth transition to the new arrangements.
- iii. Before signing the contract, the parties should agree to performance metrics for both sides: for example, on-time payment and on-time delivery.
- iv. All performance measures, expectations, prices, and other important contract obligations should be documented in an SLA and agreed upon by both parties.

3.2.8 Stage 7: Contract management and performance review

- i. This stage tends to be the most neglected part of the sourcing process.
- ii. Sourcing is often detailed and labour-intensive. But it often fails either because the sourcing team is disbanded or because the relationship between purchaser and supplier is not properly cultivated.
- iii. The following diagram shows the different ways in which supplier relationships can be managed in the post-contract phase and the benefits of managing these relationships well.

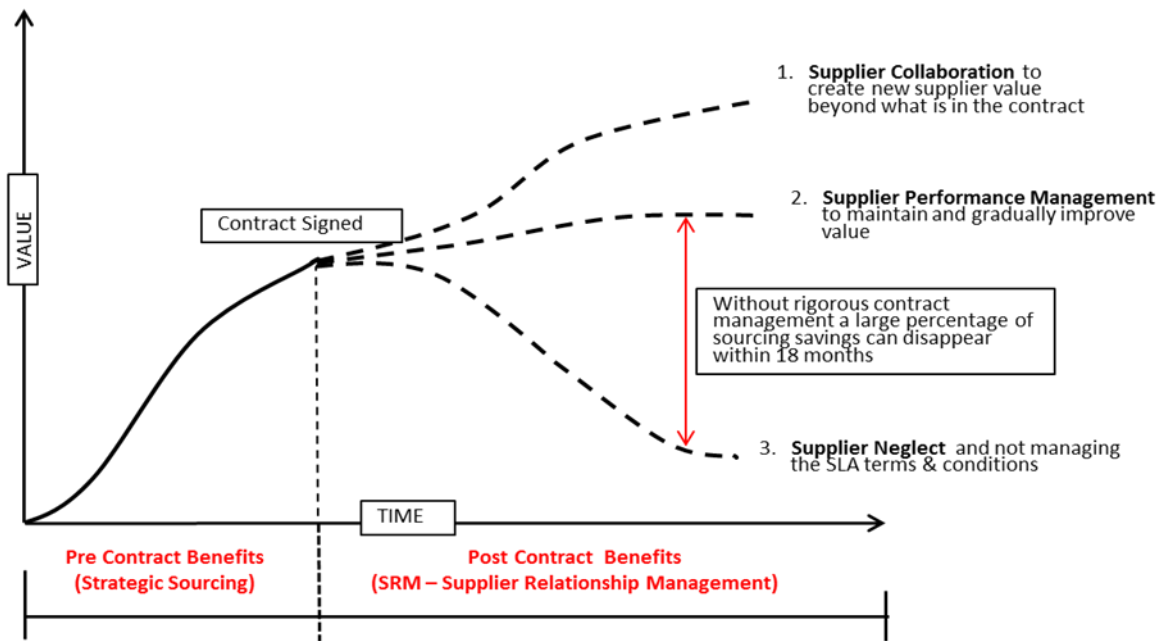


Figure 12: Different ways in which supplier relationships can be managed

iv. This stage:

- a. Involves contract management activities and various contract administration tasks.
- b. Includes continuous supplier performance monitoring and the tracking of benefits.
- c. Concludes the sourcing process but not before the sourcing strategy has been reviewed to determine the success and lessons learned.

3.3 Critical success factors (CSF)

- i. The dates reflected on the procurement plans must reflect sourcing complexities per commodity.
- ii. Proactive planning is critical.
- iii. Depending on the commodity or service, a typical sourcing project from inception to developing the sourcing strategy may take from four to six months,. This excludes the bidding, contracting, and monitoring phases.
- iv. Such a sourcing project will require at least 20 % of team members' time. It should be included in the team member's performance agreement.

- v. Depending on the commodity or service, a well-managed sourcing project can yield savings of between 5 to 15 %.
- vi. If a procuring institution has not undertaken a sourcing project before, it should not undertake too many projects.
- vii. It is better to do one or two, get quick wins and establish a process for future teams to replicate.
- viii. The teams, or at least a core part of the team, should stay in place after the award to monitor performance and progress.
- ix. The SCM organogram and job roles need to reflect a strategic sourcing approach.

4. Conclusion

- i. In line with no one best procurement approach, each commodity or commodity grouping will have to apply the specific and relevant sourcing business model mapping, good practice guides and templates.
- ii. The use and application of these is dependent on the commodity complexities and institutional dynamics.
- iii. Strategic sourcing is an organised and collaborative approach which takes advantage of the size and nature of government spending to get the best possible service and value from selected suppliers.
- iv. It is closely linked to transversal contracting, which provides a country-wide framework for maximising the government's bargaining power and in this way maximising savings.
- v. Collaboration is vital for strategic sourcing.
- vi. Rather than working in silos, professional supply chain managers must be members of cross-locational and cross-functional teams.

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