



SIMPLY JOINED
CONSULTING

MINDING THE GAP BETWEEN PROCUREMENT AND FINANCE

Reducing loss of savings and adding value

The logo features the text 'edenscott' in a white sans-serif font, with 'scott' in a light green color, set against a black square background.

edenscott

Thursday 20th November 2014

Edinburgh

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www.simplyjoined.com

Introduction

Simply Joined Consulting Ltd was established to offer bespoke consultancy services to support businesses and organisations, aiming to develop, review, or maintain robust Procurement & Supply Chain Management (PSCM) principles and practices in simple terms that join up the various aspects of their operations.

The Simply Joined philosophy is that the relationships and working mechanisms between suppliers and clients should avoid being unnecessarily complex. At Simply Joined Consulting Ltd we can offer a range of tools and techniques that can be used to build a solid platform on which to do business.

We believe that having your people, systems, policies and processes ‘Simply Joined’ to the needs and expectations of your core clients and suppliers, will result in a cost effective and efficient business model that supports you, your clients and your suppliers for the long term.



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Introduction

Whether you want to identify cost reduction opportunities, recruit or train people, or simply want to understand what tools & techniques are available to your business or organisation to give your PSCM arrangements a regular health-check and improve your profile with clients and/or suppliers, we are here to assist.

We offer a service tailored to suit the needs of the individual business or organisation, which typically fall under the following headings

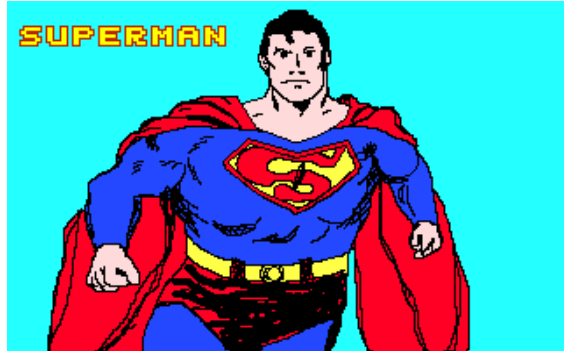
Training & Consultancy - Health-checks - Recruitment



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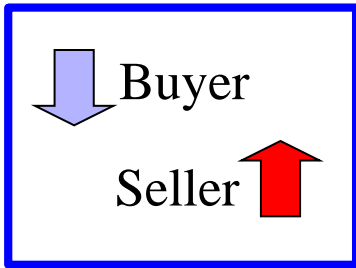
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How others see Procurement and Finance



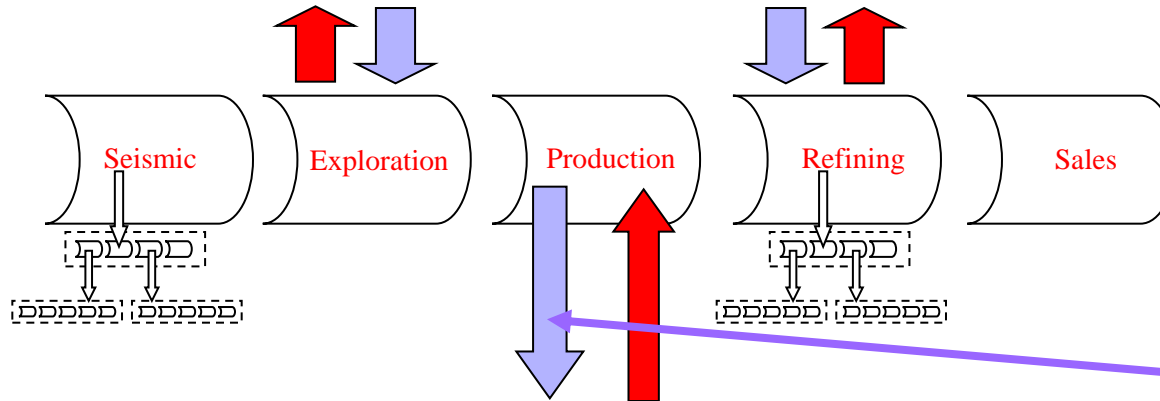
Probably a combination

Oil & Gas Industry Supply Chain

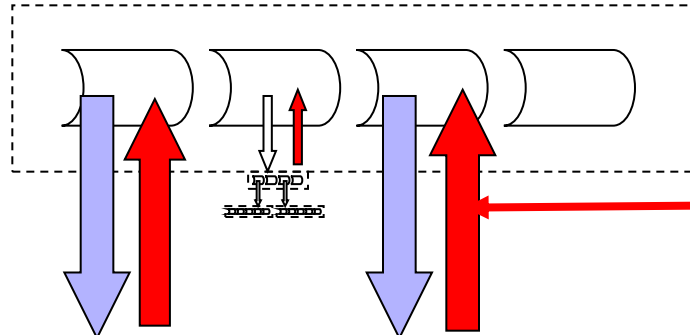


Customers of the Operators
You, me, other consumers, pretty much every business

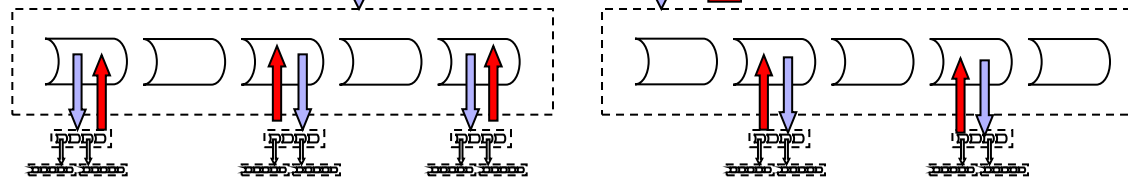
Operator



Contractors



Subcontractors



BUYERS
Cost reduction
Performance
Risk Mgt

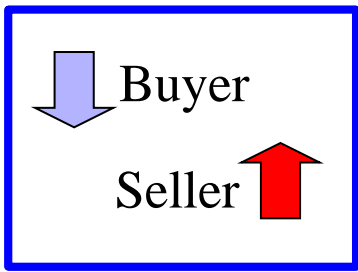
SELLERS
Revenue
Margin
Risk Mgt



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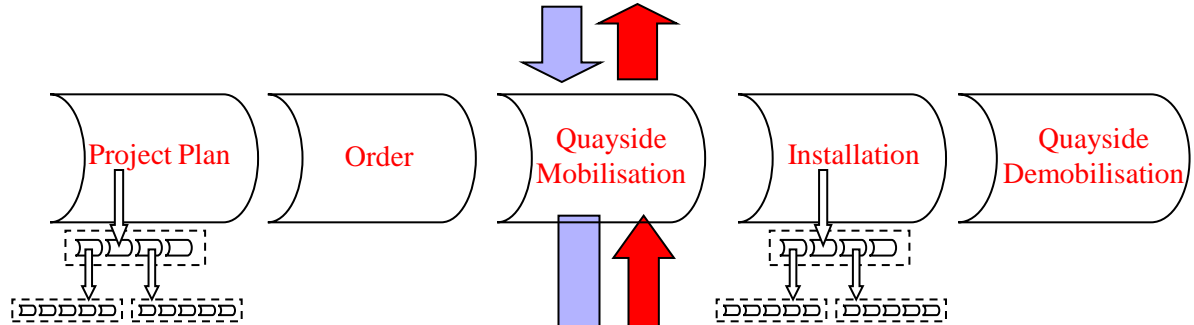
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Tier 1 Contractor Supply Chain ?

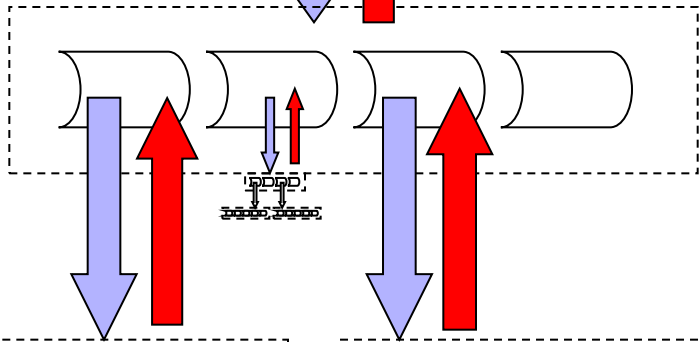


Subsea Installation for Client

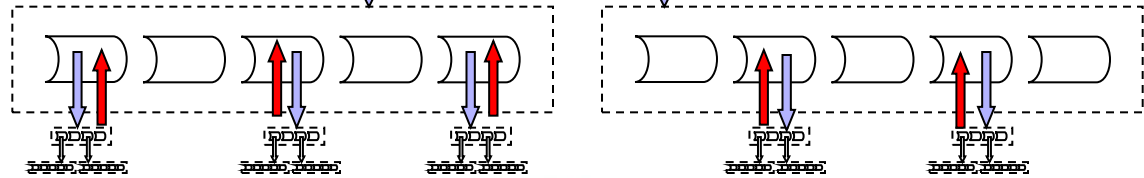
Tier 1 Supplier
Subsea Company



Tier 2 Suppliers
Quayside activities
Goods & Services
Logistics



Subcontractors
Raw materials
Equipment
Protective Clothing
Logistics
Labour Agencies



Potential Risks
Financial
Scope creep
Commercial/Legal
Health and Safety
Environmental
Other

Forecasting ?
Planning ?
Shared info ?



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Typical Examples of Client/Supplier conflict

Warranty Period

- Start/End date
- Notification of faults
- Critical if stored prior to use
- Cost & place of return

Incoterms

- Transfer of Title & Risk
- Responsibility for Customs
- Clearance
- Cost of delivery
- Cost of (country specific) duty payable

Jurisdiction

- Expertise
- Remedies

Termination

- Timing & cost
- For breach
- For convenience

Amendments & Variations

- Substitutes
- Equivalents

Liabilities / Indemnities

- Cost
- Insurance

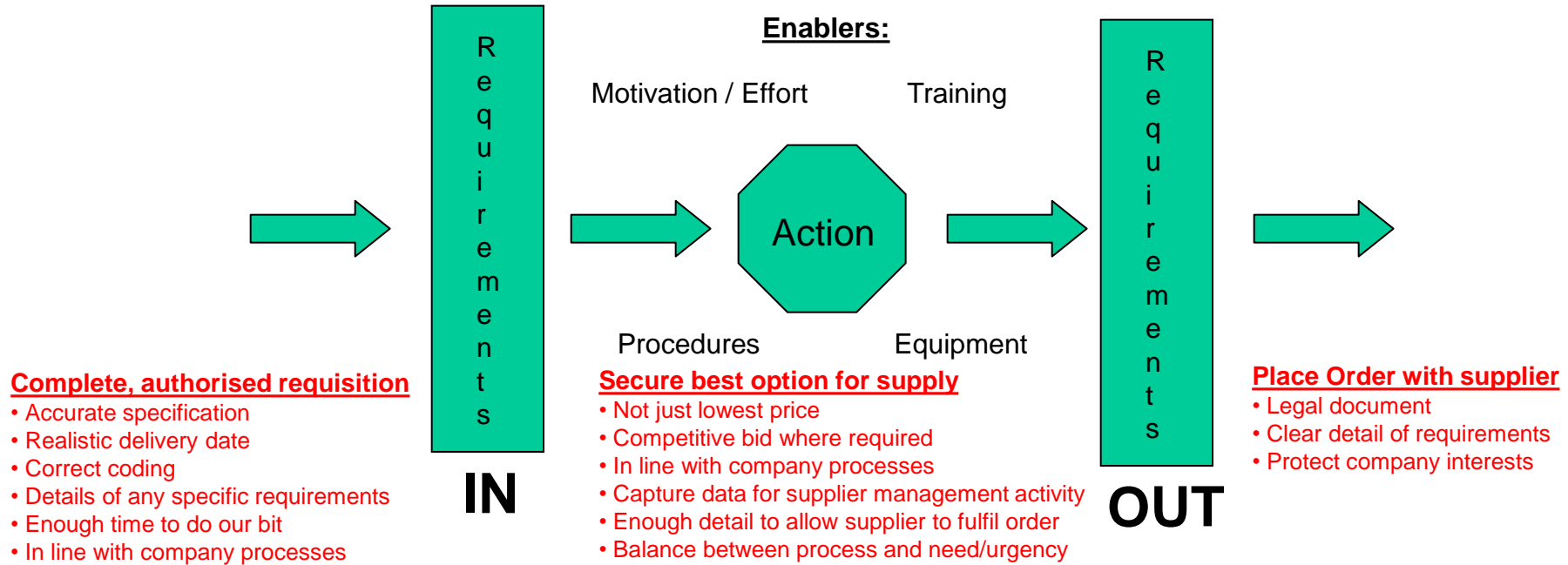
Liquidated Damages

- Genuine pre-estimate
- Non punitive

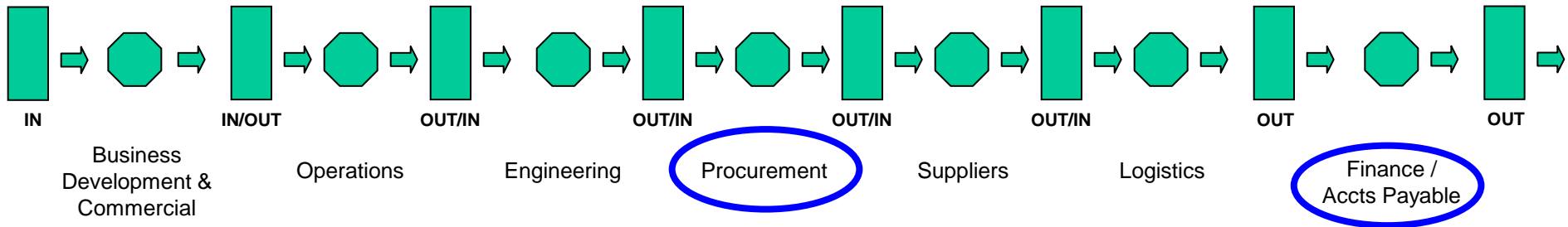
Payment Terms

- Payment trigger?
- 60 days
- 30 days
- On shipment
- Prior to shipment

The Internal Supply Chain



Example Internal Supply Chain



Underpinned and supported by HSEQ, HR, Finance, Facilities, IT, Board, Group & Industry drivers

Some misconceptions about Procurement and Finance

Procurement

Obsessed with procedure
Asks too many questions
Always wanting codes
Holds us up
Police state

Finance

Obsessed with procedure
Asks too many questions
Always wanting codes
Holds us up
Police state

Some of what we bring to the party

Legal and statutory compliance

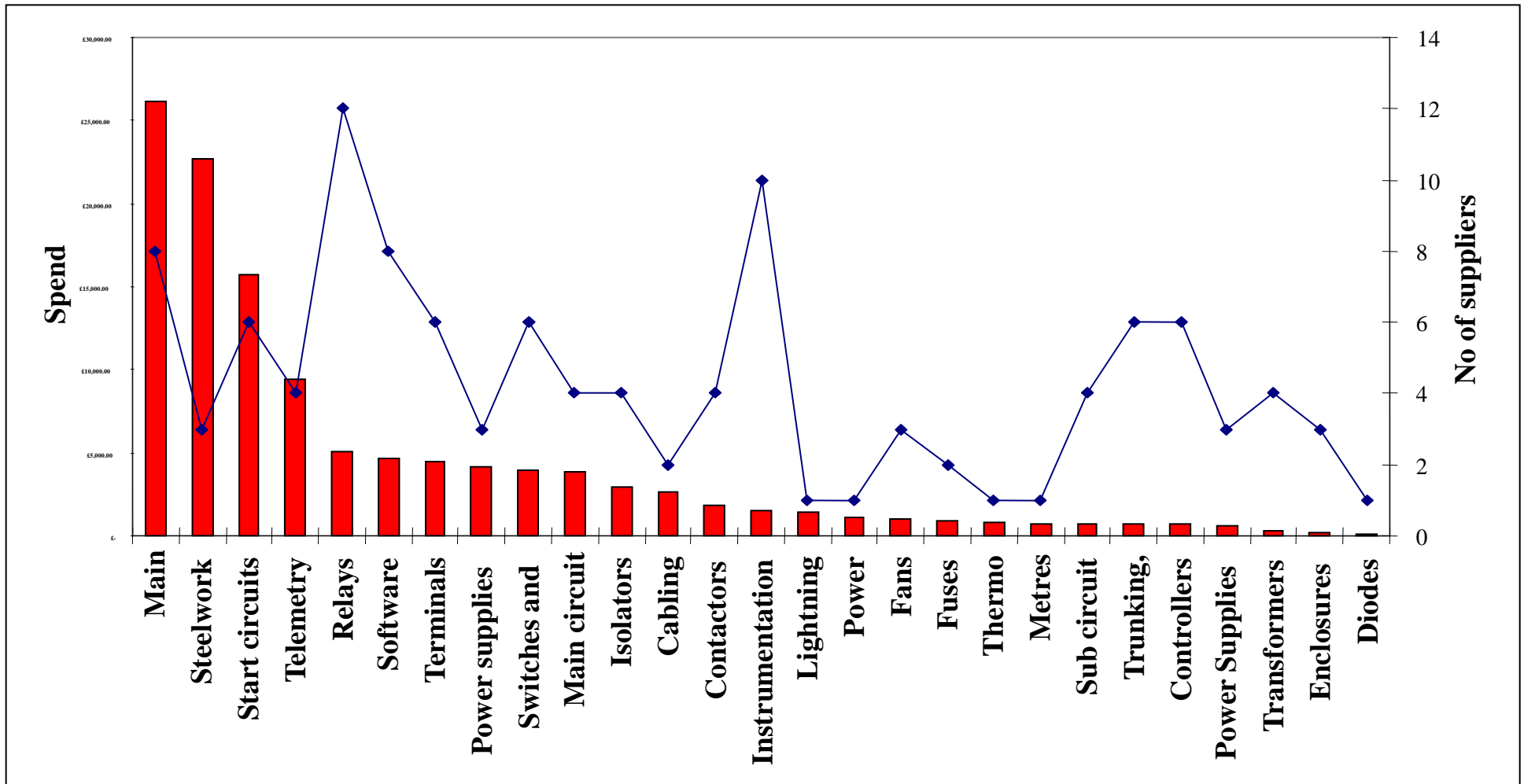
Strategic direction

Level headedness

Challenge

Spend Analysis

Looking at Suppliers



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Profit Leverage of PSCM Best Practice (1)

Typical spread of a £25M Spend

Over 1m.....	2
£100k – 1M.....	20
£30k -100k	40
£10k – 30k.....	70
£5k – 10k.....	400
£1k – 5k.....	1200
£500 – 1k.....	650
£100 – 500.....	950
Below £100.....	250

3,582 POs

3,450 POs under £10k = 96% of all POs

3,050 POs under £5k = 85% of all POs

1,850 POs under £1k = 51% of all POs

Orders without PO ?
Estimate V Actual ?
Unplanned 'Extras' ?

Industry average cost to raise a PO is approx £60.

Approx 3,582 POs = \$200+k

Industry average cost to process an invoice is approx £20

Approx 4,000 invoices p.a. = \$80k

Profit Leverage of PSCM Best Practice (2)

Spend - \$25M

If we can reduce cost (**not just price**) by just 1%, across the company, this would bring an extra \$250k contribution to profit

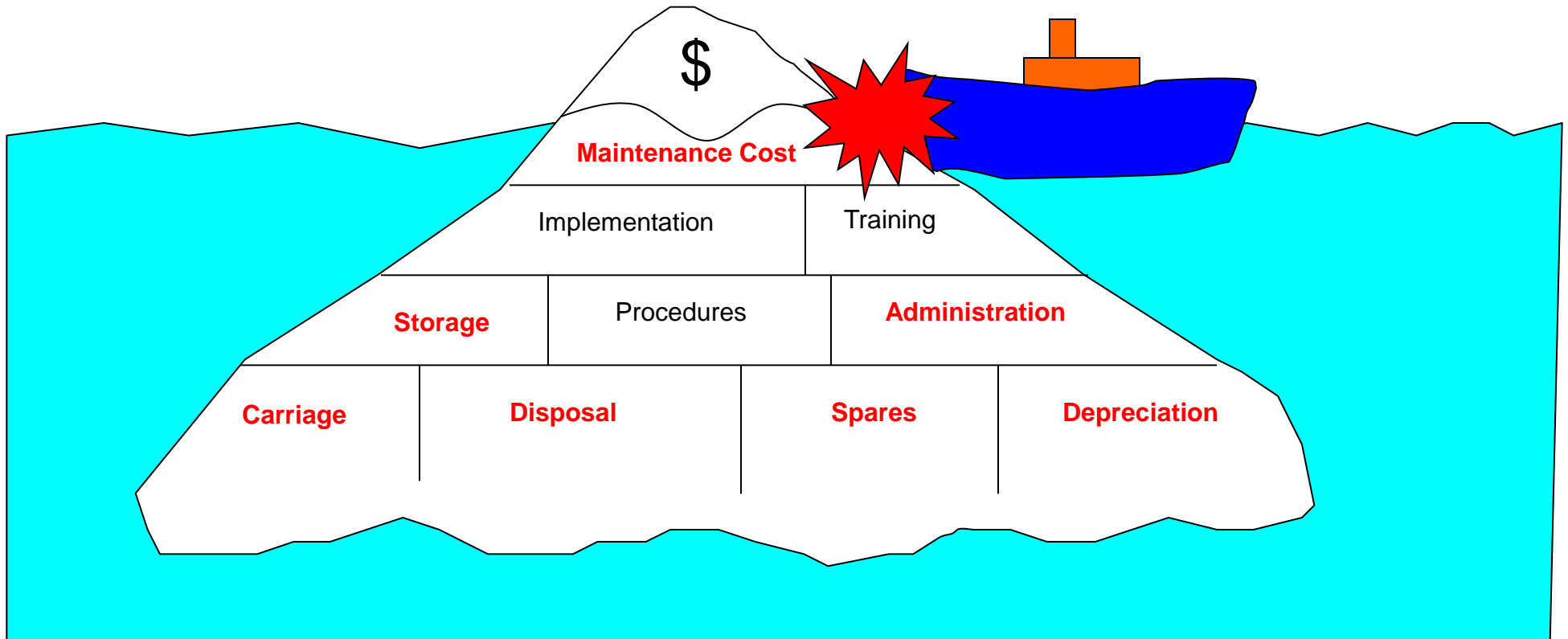
If, for example, a company's **net profit is 10%**, then every **\$250k** saved on the bottom line is the equivalent of winning a **\$2.5M** contract

How can this be done?

- Reduce short notice purchases (emergencies cost more)
- Frame Agreements (Leverage of spend and reduced administration)
- Standardisation (eg. Light fittings)
- Prompt Payment (suppliers will discount for improved cash flow)
- Improved planning (easier to say than do, but worth it if we can)
- Variation/Amendment reduction
- Rolls Royce V Trebant

Cost Management

Whole Life Costing
(or)
Total Cost of Ownership



PSCM Processes

Ordering Process

Raise Requisition

- ♦ Originator – The person who wants the goods or services
- ♦ Raised by – The person that does ‘the paperwork’

Authorise Requisition

- ♦ Budget holder approval, in line with approval matrix

Place Order

- ♦ In line with PSCM Strategy and Spend Thresholds

Receive Goods/Service

- ♦ Warehouse
- ♦ Vessel
- ♦ Other

Receive Invoice from Supplier

- ♦ Matches PO ??
- ♦ Enough details to facilitate prompt payment??

Authorise Invoice

- ♦ Below certain value and matches PO values & descriptions – Is further approval required
- ♦ If over a certain level – authorised in line with approval matrix
- ♦ If no match. PO must be varied to reflect goods/services received

Pay Invoice

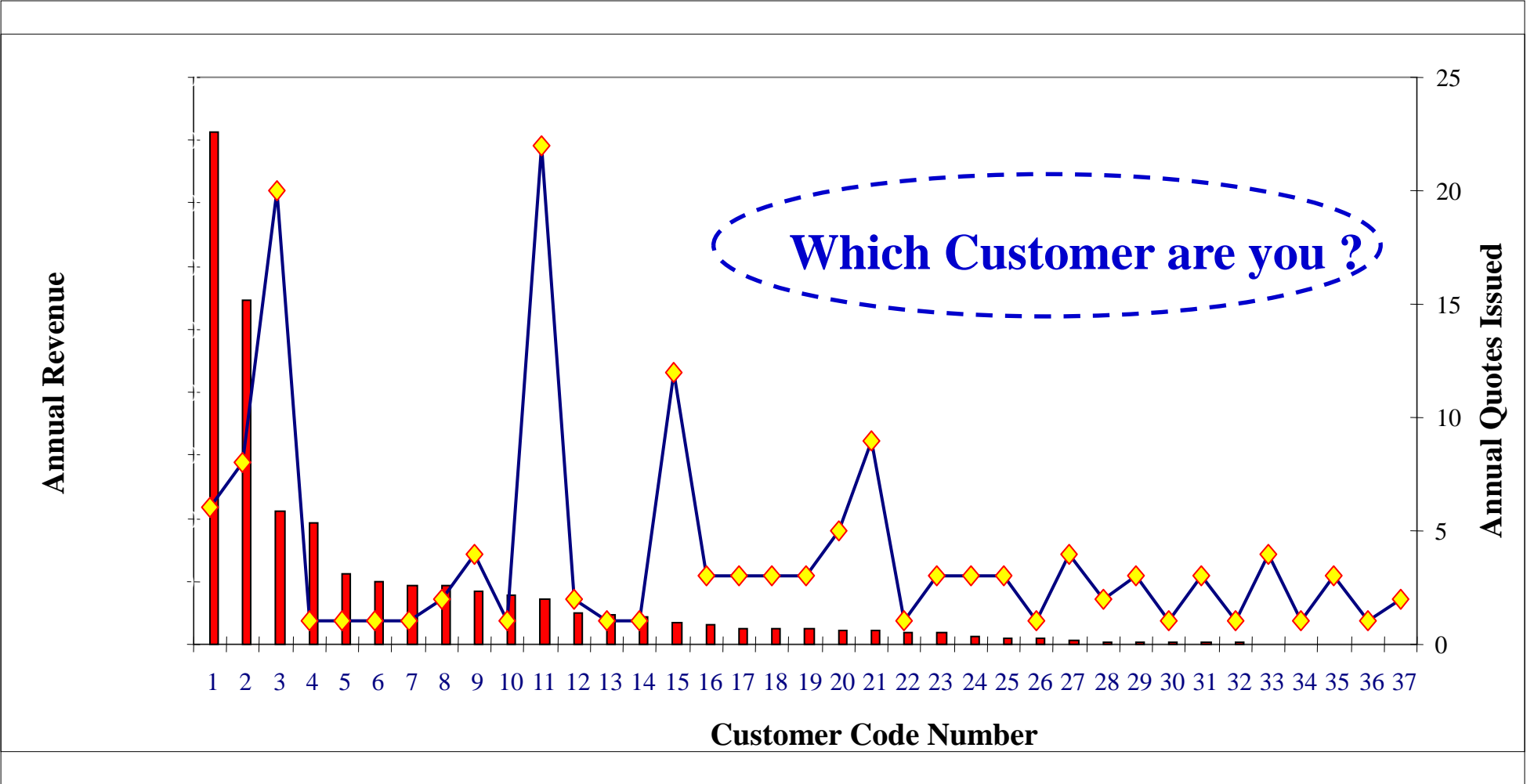
- ♦ In line with contractual payment terms

Other Post Delivery Activity

- ♦ Performance monitoring
- ♦ Variation management

Revenue Analysis

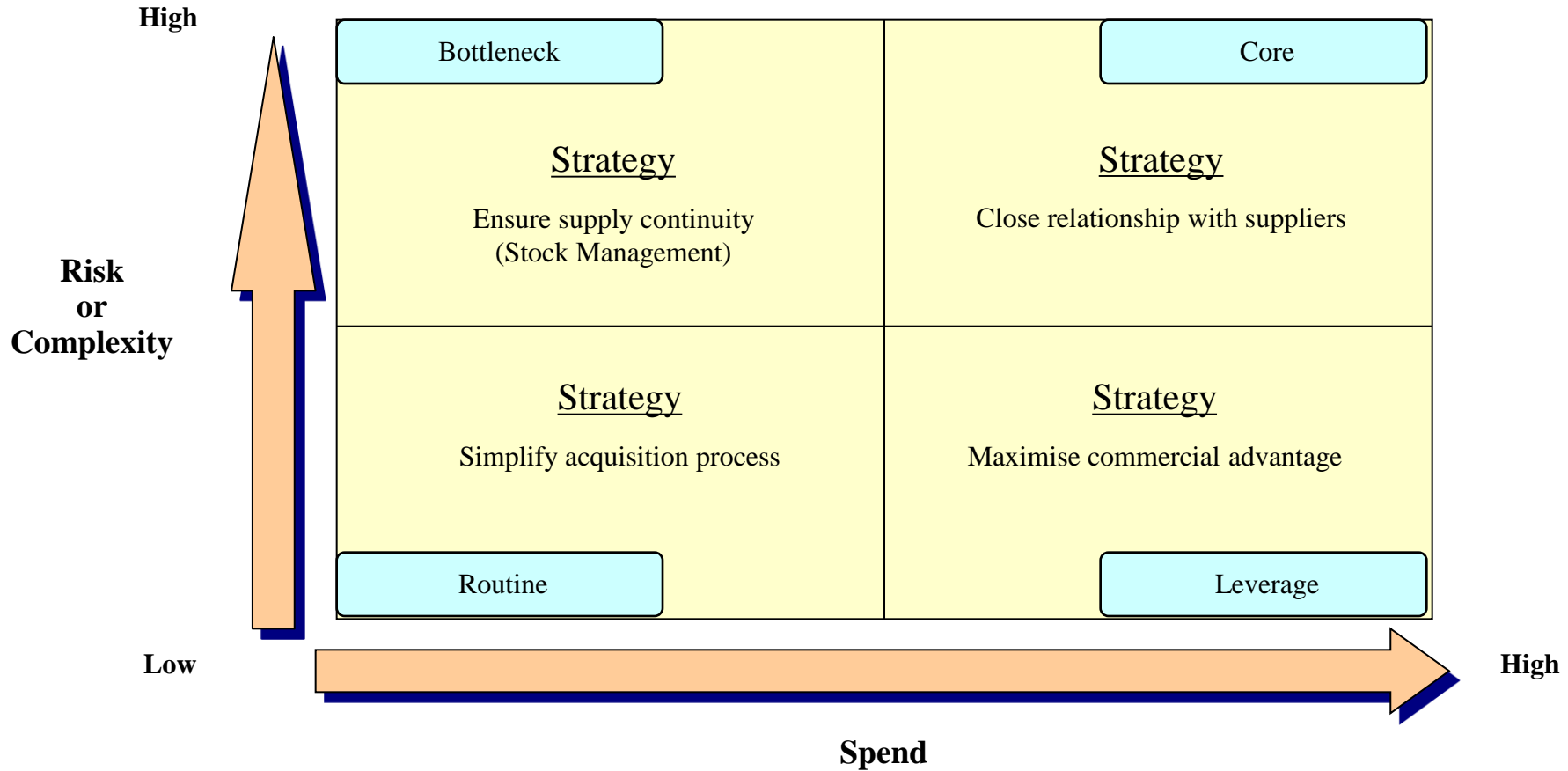
Suppliers looking at you



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Procurement Targeting

How we see suppliers

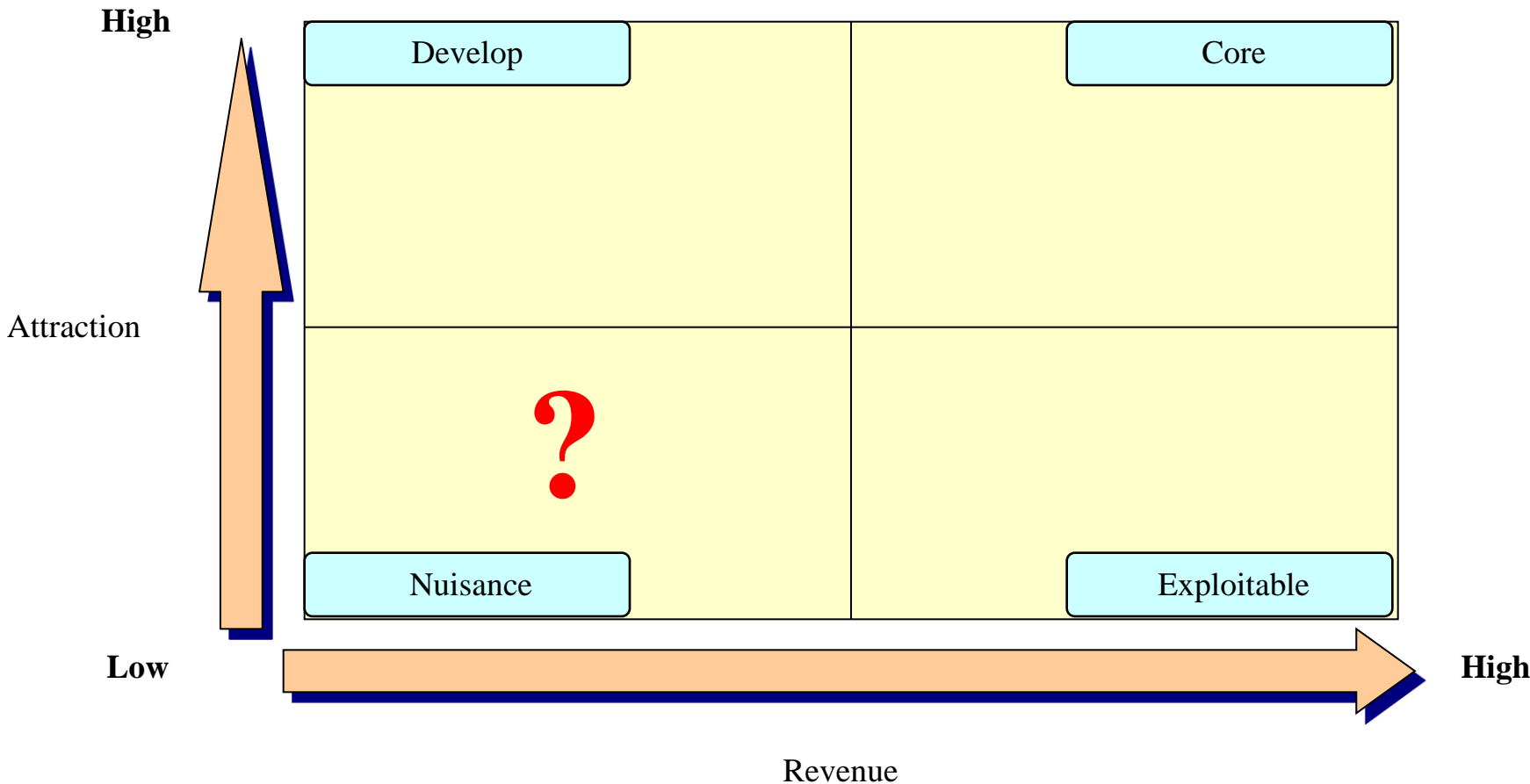


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Procurement Targeting

How suppliers see us



Supplier Profiling Strategies

Supplier Perspective

High	<u>Development</u> Seek areas of mutual dependency	<u>Core</u> Maintain long-term relationship
Attraction	<u>Nuisance</u> Change supplier Offer incentives	<u>Exploitable</u> Change supplier Monitor price and service trends
	Low Revenue	High

Widen specification, increase competition, develop new suppliers, medium term contracts, attempt competitive bidding

Actions

Decrease uniqueness of suppliers, Manage supply

Tactics

Ensure Supply Continuity

Strategy

Simplify Acquisition Process

Strategy

Increase role of systems, Reduce buying effort

Tactics

Rationalise supplier base, Automate requisitioning e.g. EDI – Credit/purchasing Cards, Stockless procurement, Minimise admin costs, Little negotiating

Actions

Supplier Perspective

High	<u>Development</u> Offer incentives Raise mutual dependency	<u>Core</u> Strong position Maintain relationship Offer other opportunities
Attraction	<u>Nuisance</u> Passive relationship Seek alternative supplier	<u>Exploitable</u> HIGH RISK Monitor price trend Increase attraction Seek alternatives
	Low Revenue	High

Supplier Perspective

High	<u>Development</u> e.g. OEM spares Work together to develop business	<u>Core</u> Potential long-term relationship
Attraction	<u>Nuisance</u> VERY HIGH RISK Raise attraction Change supplier	<u>Exploitable</u> HIGH RISK Raise Mutual Dependency Seek competition
	Low Revenue	High

Heavy negotiation, Supplier process management, Prepare contingency plans, Analyse market / competition, Use functional specifications

Actions

Increase role of selected suppliers

Tactics

Form Partnerships with Suppliers

Strategy

Maximise Commercial Advantage

Strategy

Concentrate business, Maintain competition

Tactics

Promote competitive bidding, Exploit market cycles / trends, Procurement co-ordination, Use industry standards, Active sourcing

Actions

Supplier Perspective

High	<u>Development</u> Encourage participation Seek mutual developments	<u>Core</u> Sound position Improve own profit/returns
Attraction	<u>Nuisance</u> Mismatch Change supplier	<u>Exploitable</u> Adversarial position Check power balance Consider other sources
	Low Revenue	High

Client Perspective

High	<u>Bottleneck</u> 2 Complex PO	<u>Core</u> 1 Full Contract
Attraction	<u>Routine</u> 4 Simple PO	<u>Leverage</u> 3 Simple or Complex PO
	Low Spend	High

'Simply Jointed Supplier Profiling' app



How we can work together

Spend Analysis – we do this, but together?

Supplier Relationship Management we do this, but together?

Supplier Negotiation

- Flexible payment terms
- Cost avoidance opportunities

Attend budget meetings together

- Ask probing questions earlier
- At budget setting and reviews

Mutual targets between both functions

Thank You

Any

Questions?

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