

# STRATEGIC PROCUREMENT FRAMEWORK

Presenter: Estelle Setan | Chief Director : Strategic Procurement |



**national treasury**

Department:  
National Treasury  
REPUBLIC OF SOUTH AFRICA

# Introduction

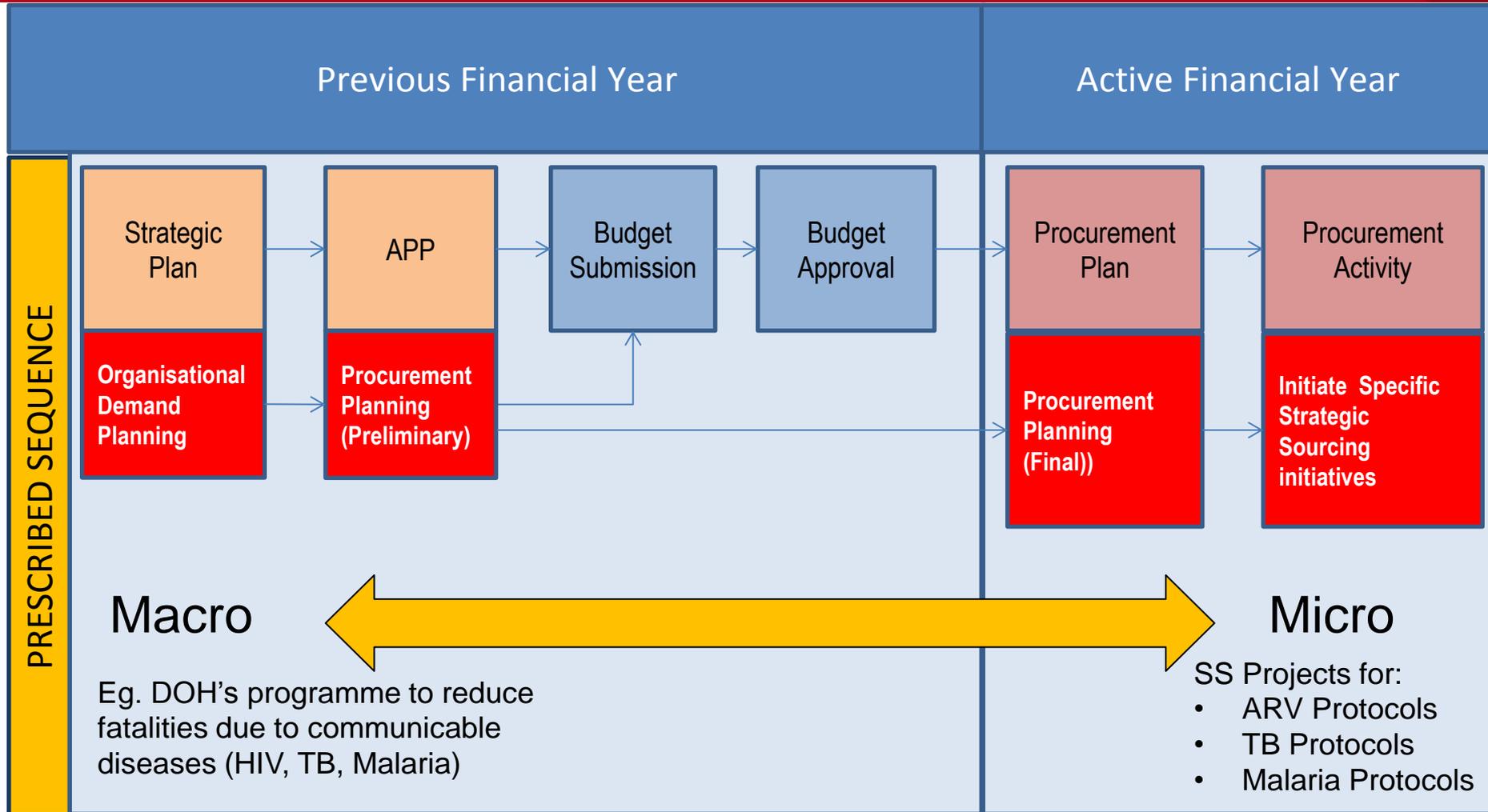
The National Treasury has introduced a Strategic Procurement Framework to support a more strategic and efficient approach for procurement of goods and services. Under this framework, procuring goods and services now has an **emphasis on complexity and risk** with each procurement requiring forward planning.

The National Treasury recognises procurement as a **core business function** and moves away from a transactional model to a complexity and risk based model.

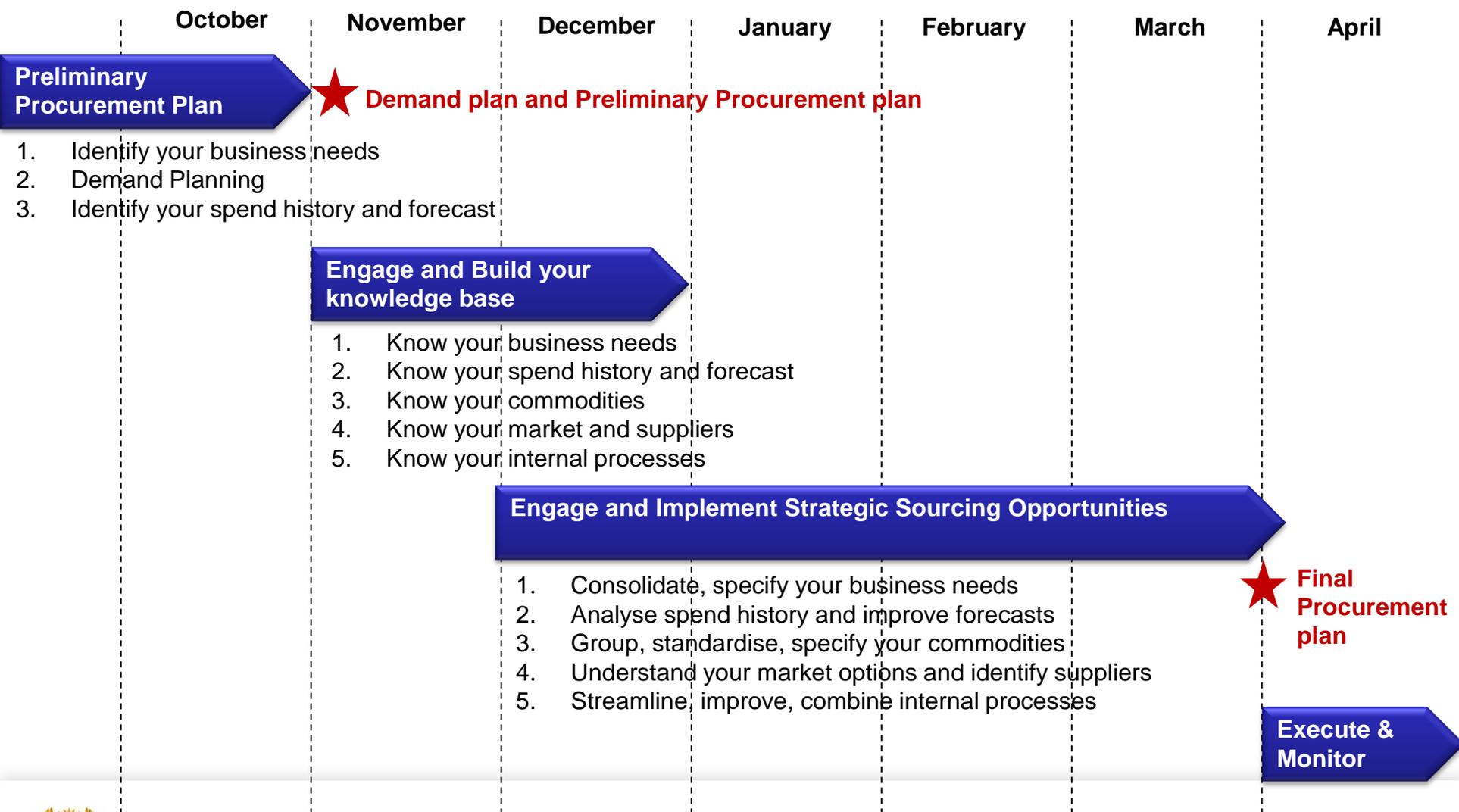
The National Treasury Strategic Procurement Model consist of three main documents and is supported by good practice guides, tools and templates to ensure consistency across government. They are:

- The Strategic Procurement Framework
- Good Practice Guidelines: Strategic Sourcing in the Public Sector
- Toolkit for Strategic Procurement

# Strategic Procurement in the Planning Process?



# Strategic Sourcing in the Procurement Planning Process



# SP FRAMEWORK, PROCESS & TOOLKIT

## LEVEL 1: THE SP FRAMEWORK

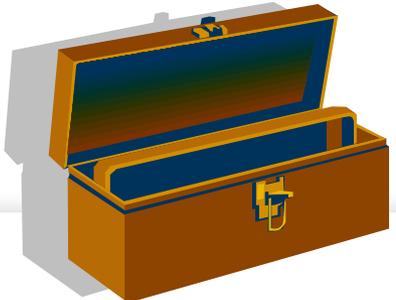
- Strategic Procurement positioning in budgeting and planning process
- The guiding principles of Strategic Procurement
- Broad guidelines to SP principles
- Not prescriptive

*The SP Framework gives the guiding principles of Strategic Procurement. The SP Framework does not tell you exactly how to do Strategic Sourcing. The SP Framework simply set the signposts.*

## LEVEL 3: THE SS TOOLKIT

- Specific templates or tools to assist the practitioner
- Task or practice specific directions

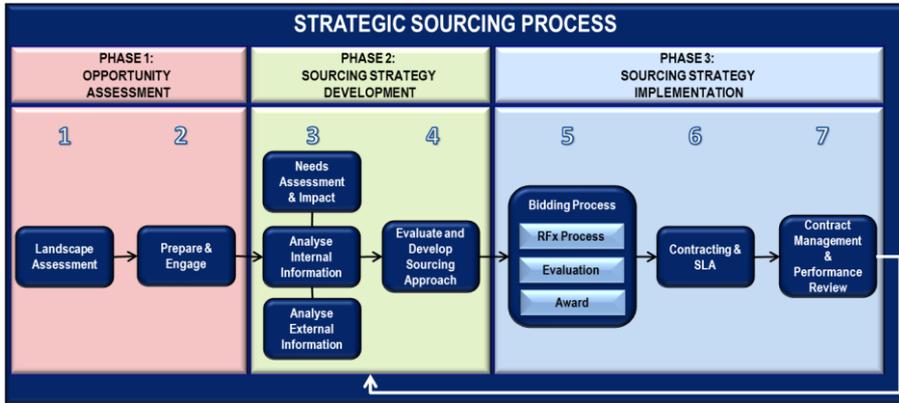
*The toolkit is there to facilitate idea generation, provide focus, facilitate teamwork and workshops. The toolkit should not replace common logic, creativity or detailed analysis.*



## LEVEL 2: THE SS PROCESS

- Based on global best practice
- The process to be followed
- Specific step by step directions

*The SS Process specifies how SS will be done. It is the 'recipe' by which the process is implemented.*



# How do the framework, methodology and toolkit link with each other?

## SP Framework



**national treasury**  
Department:  
National Treasury  
REPUBLIC OF SOUTH AFRICA

**Office of the Chief  
Procurement Officer**

**Strategic Procurement  
Framework**

April 2015



## Good Practice Guides for Strategic Sourcing



**national treasury**  
Department:  
National Treasury  
REPUBLIC OF SOUTH AFRICA

**Office of the Chief  
Procurement Officer**

**Good Practice Guidelines:  
Strategic Sourcing  
in the Public Sector**



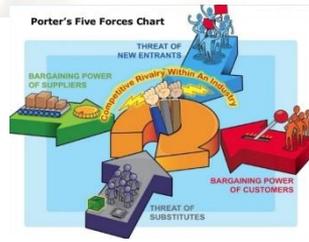

## Toolkit



**R 575.00 =**



**Porter's Five Forces Chart**



**SWOT ANALYSIS**

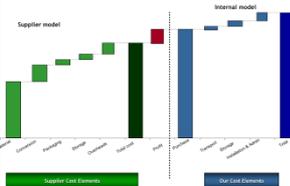
	Helpful to achieving the Objectives	Harmful to achieving the Objectives
Internal origin (related to organization)	Strengths (S)	Weaknesses (W)
External origin (related to environment)	Opportunities (O)	Threats (T)

**Exploit Buying Power**

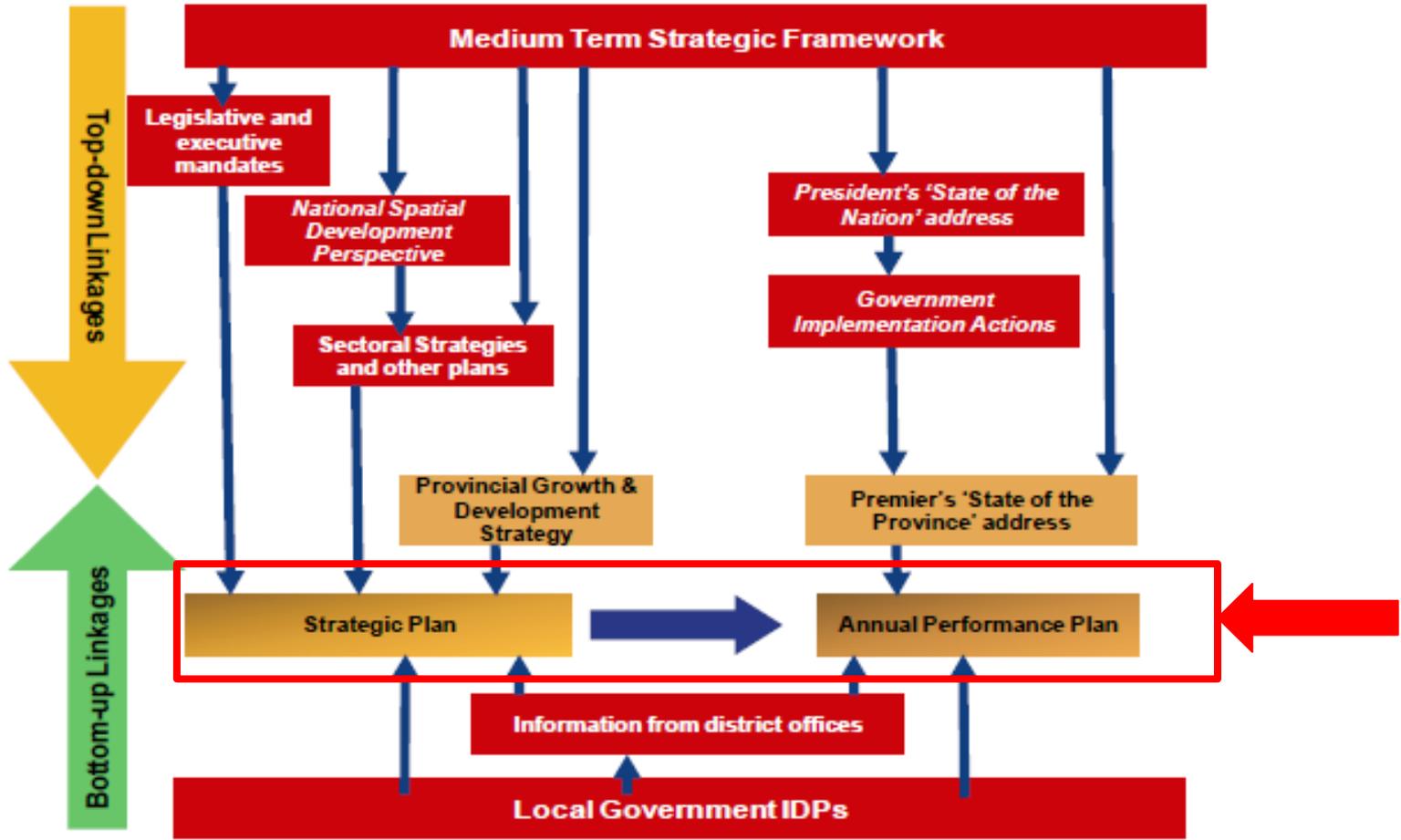
- Consolidate number of suppliers
- Pool volume across units
- Redistribute volume among suppliers
- Combine volume from different commodity categories
- Compare "total" costs
- Model "should-costs"
- Renegotiate prices
- Unbundle pricing
- Expand geographic supply base
- Develop new suppliers
- Gain benefit from global supply-demand imbalances

**Create an Advantage**

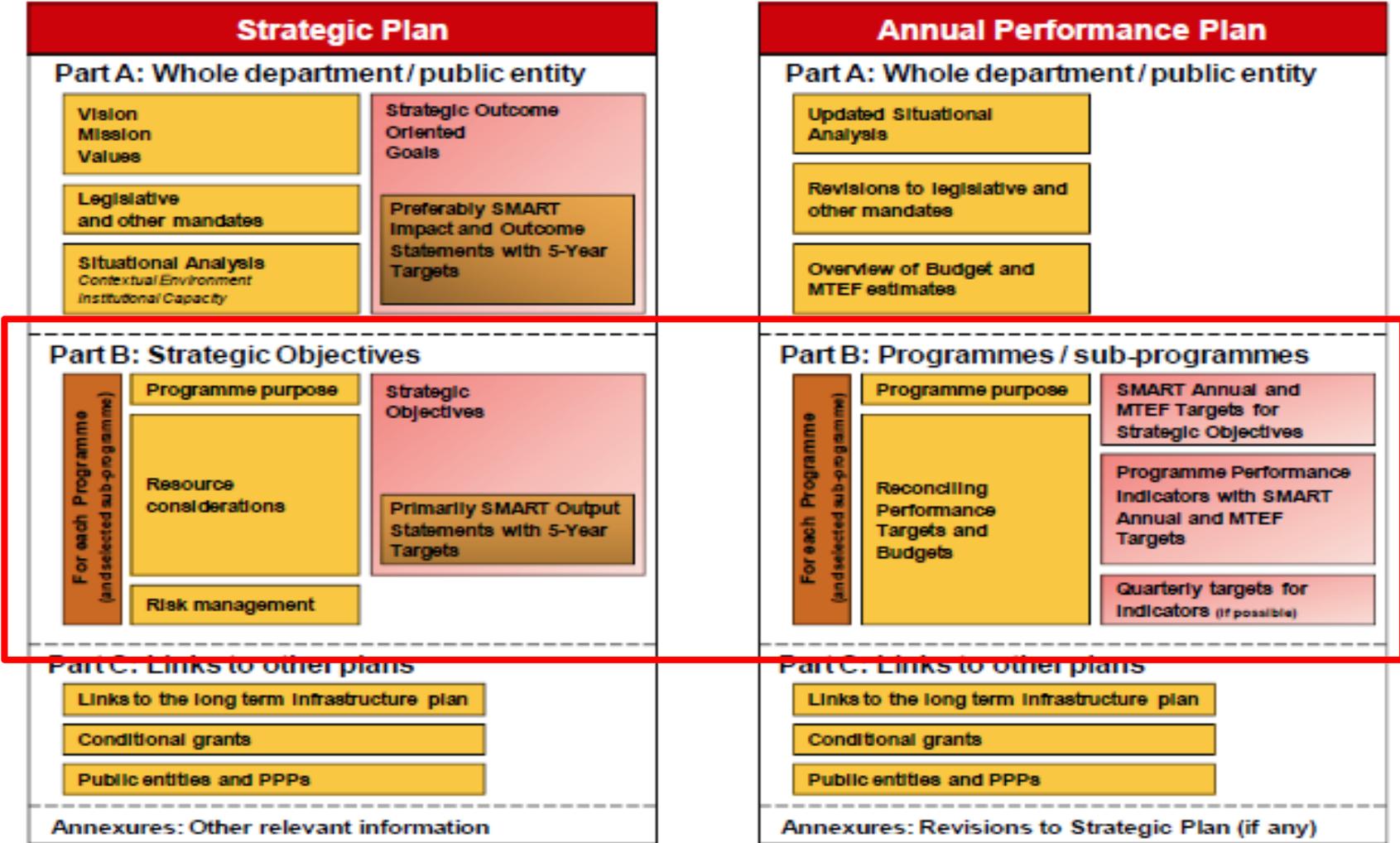
- Conduct product value analysis and engineering
- Substitute materials
- Pursue system buying alternatives
- Optimize life cycle costs
- Negotiate TCO
- Information visibility
- Reengineer joint processes
- Share productivity gains
- Integrate logistics
- Support supplier operations improvement
- Establish/develop key suppliers
- Employ strategic alliances/partnership
- Examine strategic make versus buy
- Develop integrated supply chain



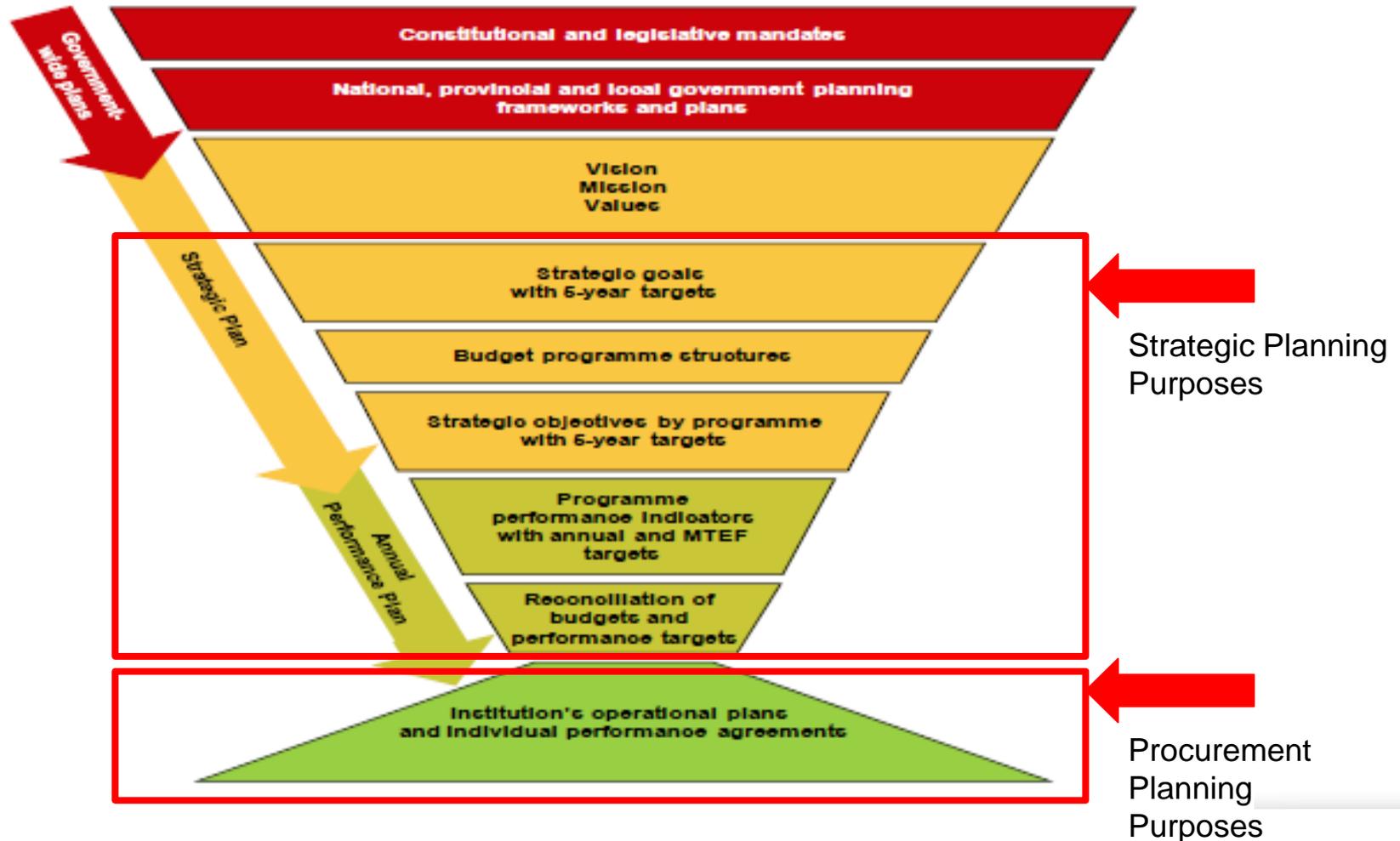
# Links to planning frameworks and other plans



# Core elements of planning documents



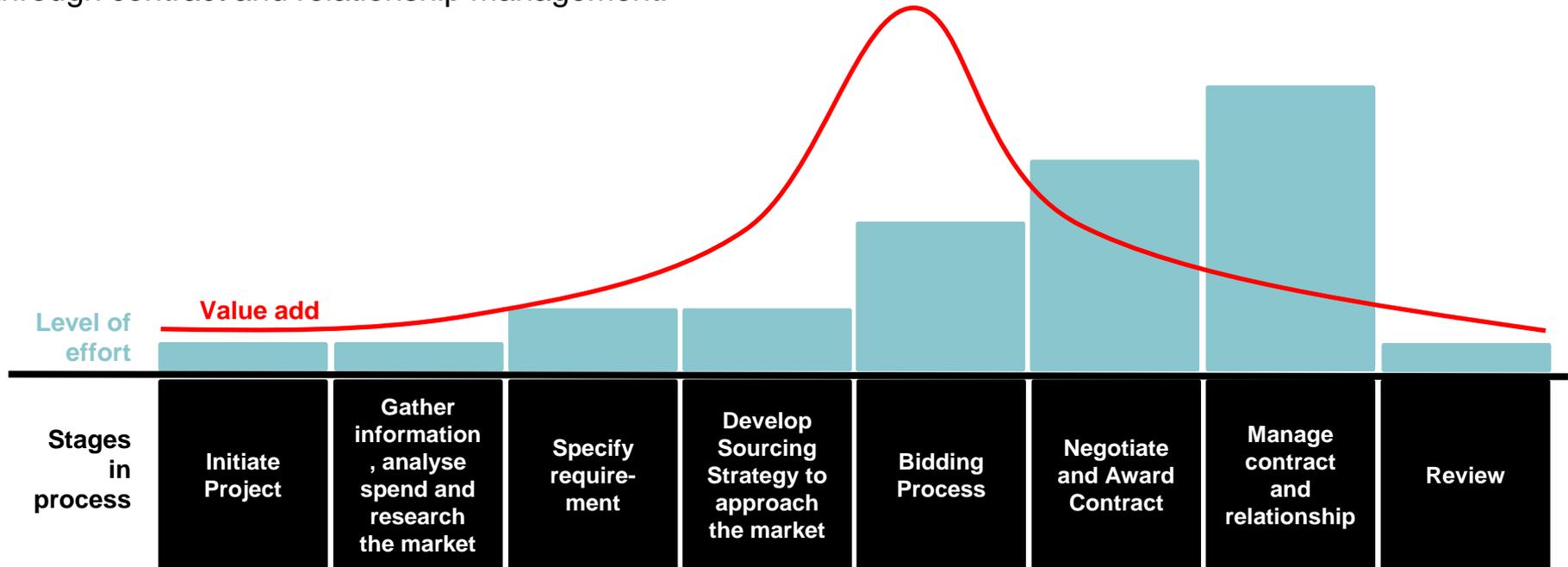
# Hierarchy of the relationship between planning concepts



# Traditional approach to procurement

## Traditional approach

This diagram illustrates a traditional approach to procurement **where little time is spent on planning**. As a **consequence** of insufficient analysis in the planning stages increasing levels of effort are required through contract and relationship management.

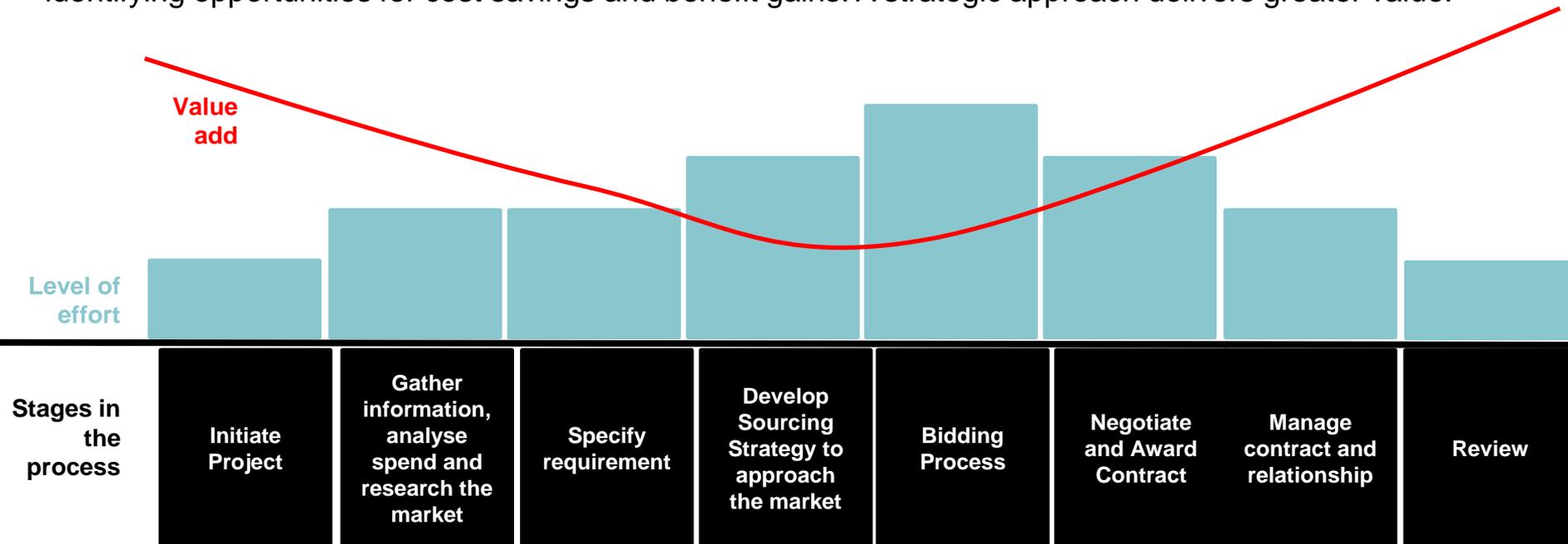


Adapted from: New Zealand Ministry of Business, Innovation and Employment 2011, *Mastering Procurement: A Structured Approach to Strategic Procurement*, available at <http://www.business.govt.nz/procurement/for-agencies/strategic-procurement/mastering-procurement-the-guide>

# Strategic approach to procurement

## Strategic approach

This diagram illustrates a strategic approach to procurement which methodically works through each stage in the procurement process. The time taken to **plan, research and analyse** add significant value to identifying solutions that will meet the needs. A focus on relationship development and management means that less time is spent resolving issues and more time applied to assessing quality in delivery and identifying opportunities for cost savings and benefit gains. A strategic approach delivers greater value.



Adapted from: New Zealand Ministry of Business, Innovation and Employment 2011, *Mastering Procurement: A Structured Approach to Strategic Procurement*, available at <http://www.business.govt.nz/procurement/for-agencies/strategic-procurement/mastering-procurement-the-guide>

# WHAT IS STRATEGIC SOURCING?

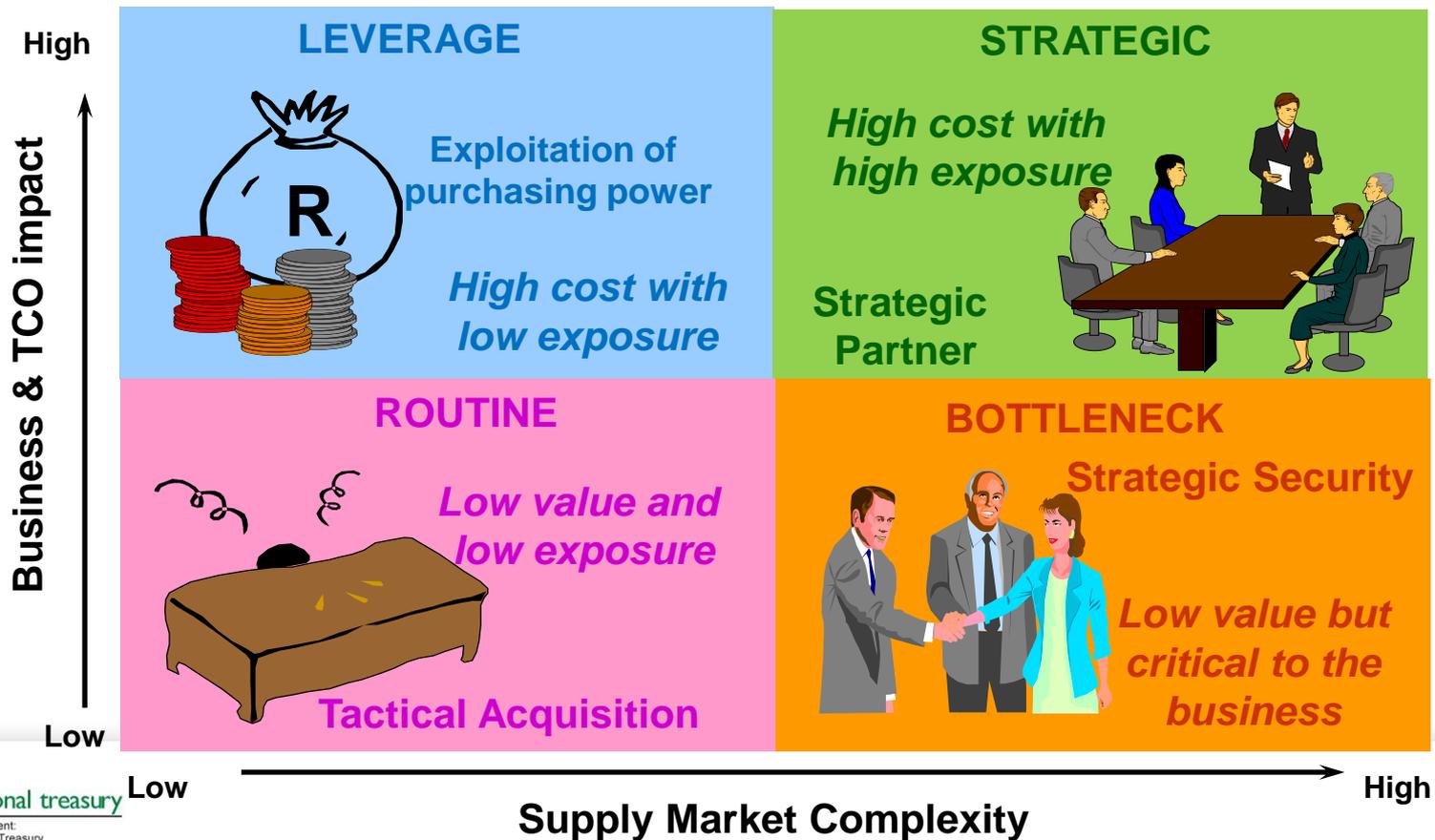
## Back to Basics - Definition of strategic sourcing

1. **Strategic Sourcing is the collaborative and structured process of critically analysing an organisation's spending and using this information to make business decisions about acquiring commodities and services more effectively.**
2. **It is the systematic process that directs supply chain managers to plan, manage, and develop the supply base in line with the government organisation's strategic objectives.**

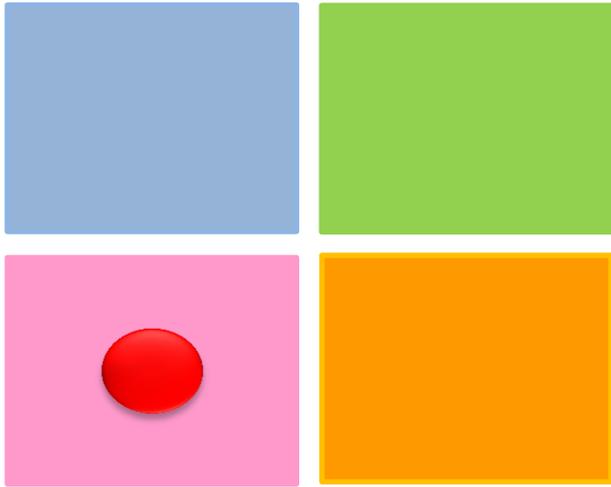
It is a **process to better understand** the categories of goods and services within your portfolio, their **intended use** and their **supply markets** based on rigorous **analysis**, in order to identify the **leverage points** and develop the appropriate sourcing strategy which **reduces the total cost** to government and / or increase the benefits / value of the service / commodity to government.

# DIFFERENTIATED APPROACH TO PROCUREMENT

To identify **smarter ways of procuring** commodities and services that are **relevant** to the client base and in line with industry dynamics. This is done through a **differentiated approach** to procurement where different sourcing approaches are employed for different commodities and services.



# ROUTINE QUADRANT



**Example: Stationery & Office Supplies**

**R600m pa**

## **CHARACTERISTICS**

Many alternative products and services  
Many sources of supply  
Low value, small individual transactions  
Everyday use, unspecified items  
Anyone could buy it

## **STRATEGY**

Simplify acquisition process

## **TACTICS**

Increase role of systems  
Reduce buying effort

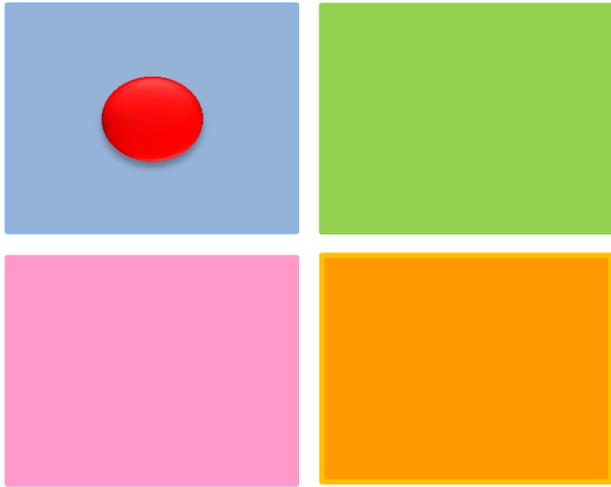
## **ACTIONS**

Rationalise supplier base  
Automate requisitioning and order process  
Minimise administration costs  
Little negotiation  
Aggregate and standardise  
Move to Leverage

## **APPROACH**

Re-engineer transactional processes  
Prescriptive procedures and controls  
Highly systemised  
Delegated processing  
Stockless procurement  
Well organised  
Focus on process  
Attention to detail

# LEVERAGE QUADRANT



**Example: Travel & Accommodation**

**R5bn pa**

## **CHARACTERISTICS**

- High expenditure
- Many qualified sources of supply
- Large marketplace capacity
- Many alternative products and services
- Market / price sensitive

## **STRATEGY**

- Maximise commercial advantage

## **TACTICS**

- Concentrate business
- Maintain competition

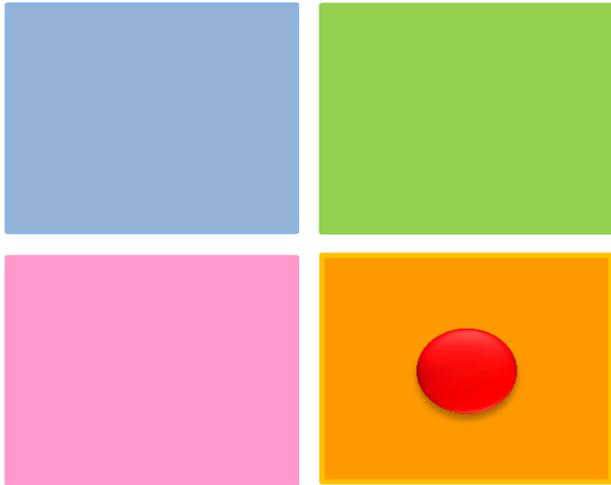
## **ACTIONS**

- Use market competition
- Shorter term relationships
- Exploit market cycles/trends
- Procurement coordination / aggregation
- Use industry standards
- Active sourcing
- Move to Strategic

## **APPROACH**

- Market analysis
- Market price testing
- Competitive bidding
- Hard negotiation
- Supplier development for continuous improvement
- Low/zero inventory

# BOTTLENECK QUADRANT



## CHARACTERISTICS

- Complex specifications
- Complex manufacturing or service process
- Few alternative sources of supply
- Huge impact on operations / service delivery
- New technology or untested processes

## STRATEGY

- Ensure supply continuity
- Reduce Risk

## TACTICS

- Decrease uniqueness of suppliers
- Manage supply

## ACTIONS

- Remove entry barriers
- Reduce dependency on suppliers
- Widen specification
- Find other solution
- Develop new suppliers
- Attempt competitive bidding
- Move to Routine

## APPROACH

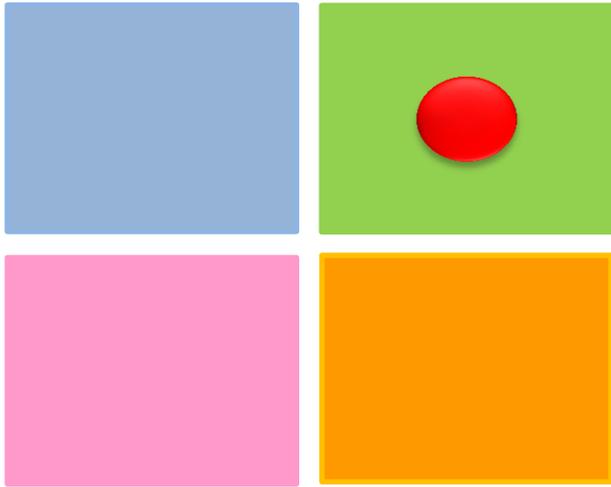
- Medium-term contracts to cover risk
- Market, technical and supplier analysis
- Risk analysis
- Contingency planning
- Analytical
- Innovation
- Multi-function teams



**Example: Medical Oxygen**

**R210m pa**

# STRATEGIC QUADRANT



## CHARACTERISTICS

- Critical to operations and service delivery
- Few qualified sources of supply
- Large expenditure
- Design and quality are critical
- Complex and/or rigid specifications

## STRATEGY

- Form partnerships with suppliers

## TACTICS

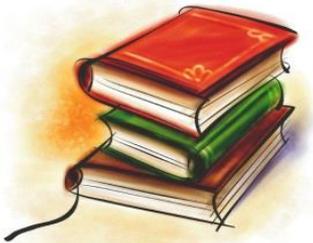
- Increase role of selected suppliers

## ACTIONS

- Heavy negotiation
- Supplier process management
- Analyse market / competition
- Use functional specifications
- Move to Leverage
- Stay Strategic

## APPROACH

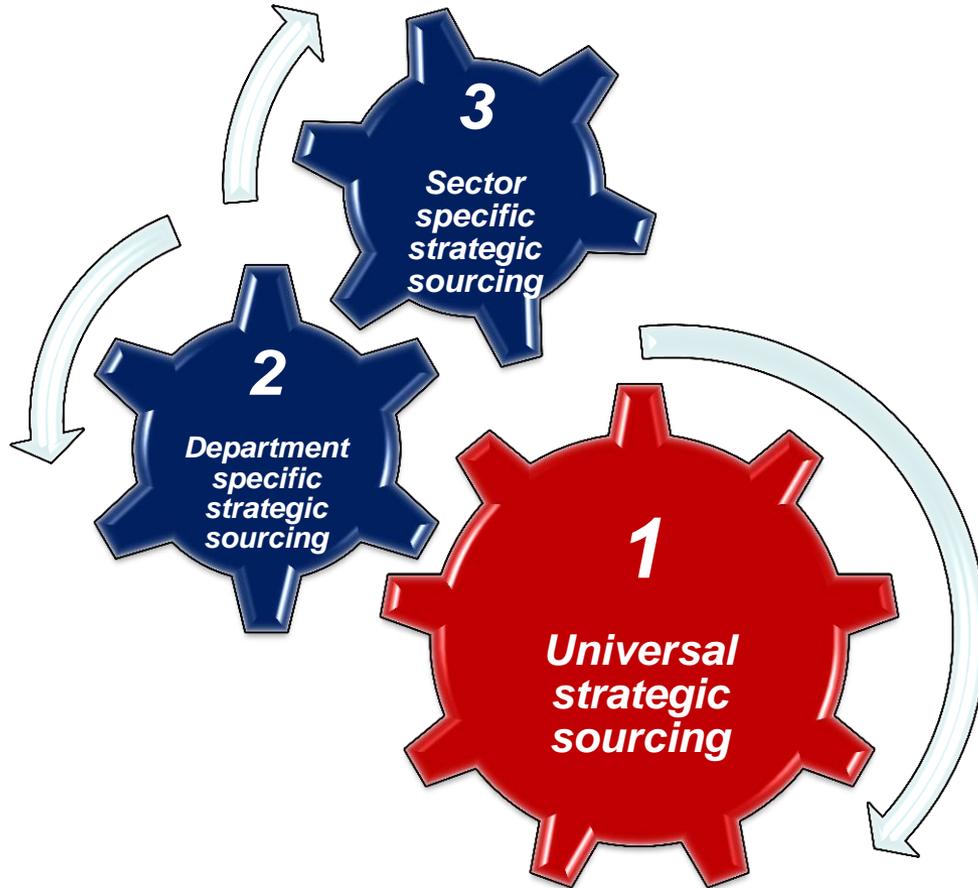
- Market, technical and supplier analysis
- Direct negotiations with selected suppliers
- Supplier performance and relationship management
- Risk Analysis
- Prepare contingency plans
- Competitor analysis
- Creative options generation
- Relationship building
- Strategic negotiations
- Teamwork



**Example: Learner &  
Teacher Support material**

**R4.3bn pa**

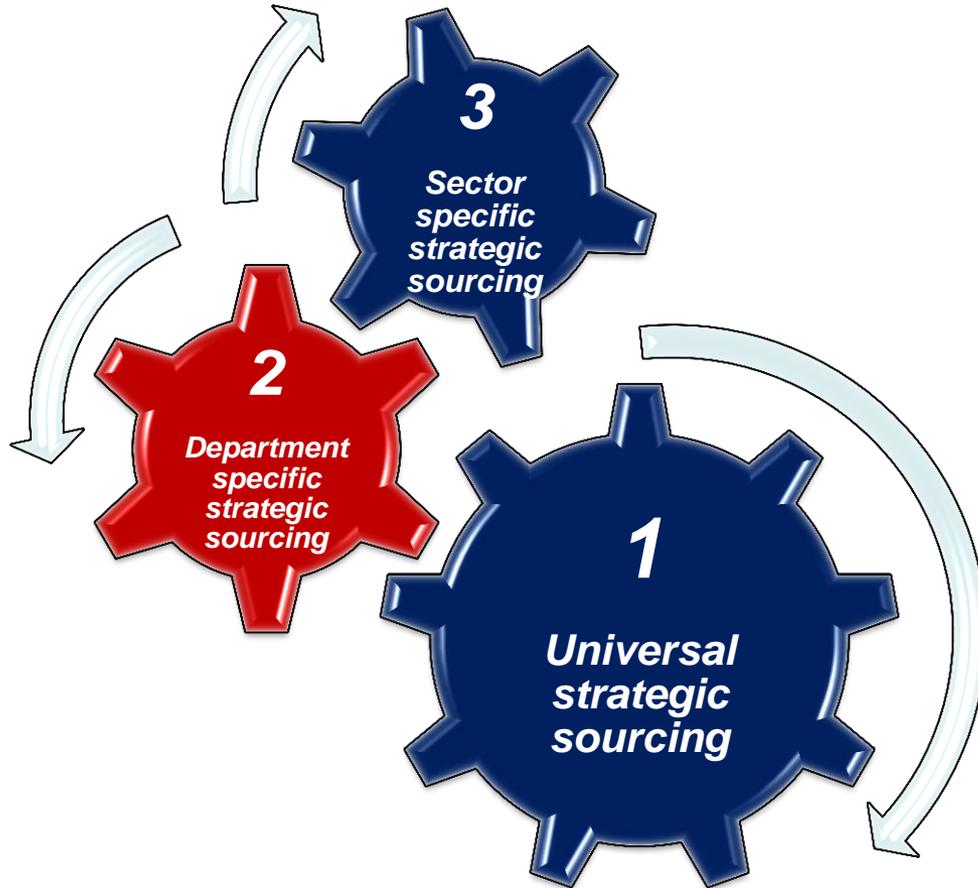
# TYPES OF SS PROJECTS IN GOVERNMENT



## 1. Universal strategic sourcing:

- This covers the procurement of goods and services that are **common across government**, such as travel and accommodation, mobile devices and subscription services, motor vehicles, to name only a few.
- This applies particularly where **economies of scale** can be derived by aggregating the volumes or quantities.
- Cost benefits flow to government from leveraging **government's buying power** and directing that purchasing capacity to a small number of suppliers.
- In addition to having more control over the supply and demand, other processes and administrative efficiencies will drive additional indirect cost savings.

# TYPES OF SS PROJECTS IN GOVERNMENT



## *2. Department specific strategic sourcing:*

- This covers procurement of goods and services that are **core to a government department's key service delivery objectives**.
- Examples are numerous, but will typically be commodities such as pharmaceuticals for Department of Health, learner and teacher support material for the Department of Basic Education, prison catering for Department of Correctional Services and a myriad of other equally important commodities.

# TYPES OF SS PROJECTS IN GOVERNMENT



### 3. Sector specific strategic sourcing:

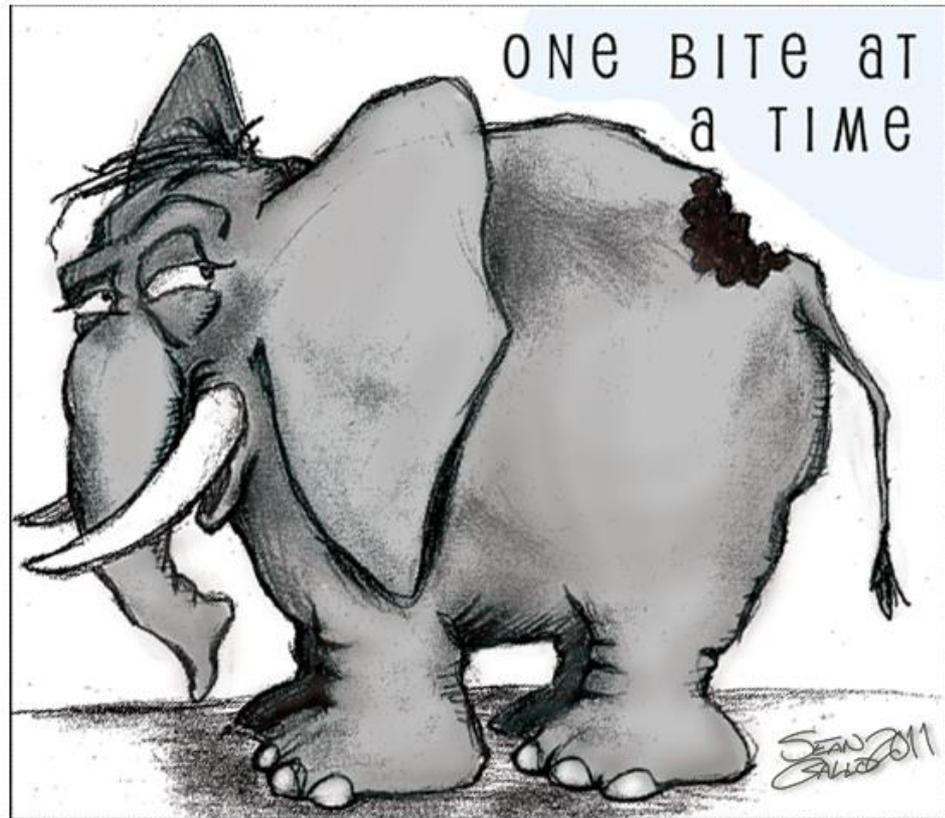
- This covers procurement of goods and services that may affect more than one government department, but involves a **specific industry sector** in which government have a specific interest to protect or promote.
- This would include commodities in the Textile, Leather and Footwear Industry where numerous government departments (Departments of Defense, Correctional Services, Health, Police) would have an interest, especially for the procurement of uniforms, shoes and boots.
- The designated sectors for local procurement are other examples of sector specific strategic sourcing.

# What we need to do...

**Think big**

**Start small**

**Scale fast**



# How do we institutionalise the SPF?



## Issue Instruction

- Issue instruction to departments to implement Strategic Procurement Framework



## Publish on Website

- Publish the Framework Package on OCPO Website
- Get IT to design a web SPF-help-portal

[Show Example](#)



## Training

- Promote the Training Intervention (3 Unit Standards)



## Project Manage

- Select projects on an annual basis in consultation with departments and PT's
- Assist Departments and PT's to project manage selected strategic sourcing interventions
- CD:SP to adopt a Flexible Resource Model (Hybrid between permanent and contracted staff).



## Track implementation

- Track the implementation of current projects
- Set targets for high spend departments
- Track the benefits over a period of time

# What we need to do...

## Package SPF

- Determine format and structure for issuing
- Package SPF in agreed format
- Determine method for issuing

## Communicate

- Determine communication method
- Issue Instruction
- Posters/ other medium
- Distribute posters /other medium
- Publish on OCPO website

## Survey

- Send out survey to obtain feedback on effectiveness of issue format
- Invite comments to refine the SPF, Methodology and Tools
- Review and publish annually

## Training Requirements

- Survey to determine training requirements.
- Liaise with Capacity Building to promote the training programme.
- Allocate internal resource to assist with SP Unit Standards

## Roadshows

- Prepare presentation for the roadshows.
- Set up meetings with Departments and Provinces for the SPF.
- Follow up on attendance prior to the meetings
- Conduct the roadshows

Q1

Q2

Q3

# STRATEGIC PROCUREMENT CONTACTS



**ESTELLE SETAN**  
**CHIEF DIRECTOR:STRATEGIC PROCUREMENT**  
**TEL: 012 315 5919**  
[estelle.setan@treasury.gov.za](mailto:estelle.setan@treasury.gov.za)

**KENNETH PILLAY**  
**DIRECTOR:STRATEGIC PROCUREMENT**  
**TEL: 012 315 5986**  
[kenneth.pillay@treasury.gov.za](mailto:kenneth.pillay@treasury.gov.za)

**GRAHAM LOUW**  
**DIRECTOR:STRATEGIC PROCUREMENT**  
**TEL: 012 315 5073**  
[graham.louw@treasury.gov.za](mailto:graham.louw@treasury.gov.za)

**BALEKILE NGALO**  
**DEPUTY DIRECTOR:STRATEGIC PROCUREMENT**  
**TEL: 012 395 6533**  
[Balekile.ngalo@treasury.gov.za](mailto:Balekile.ngalo@treasury.gov.za)

