

STRATEGIC PROCUREMENT FRAMEWORK

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national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Introduction

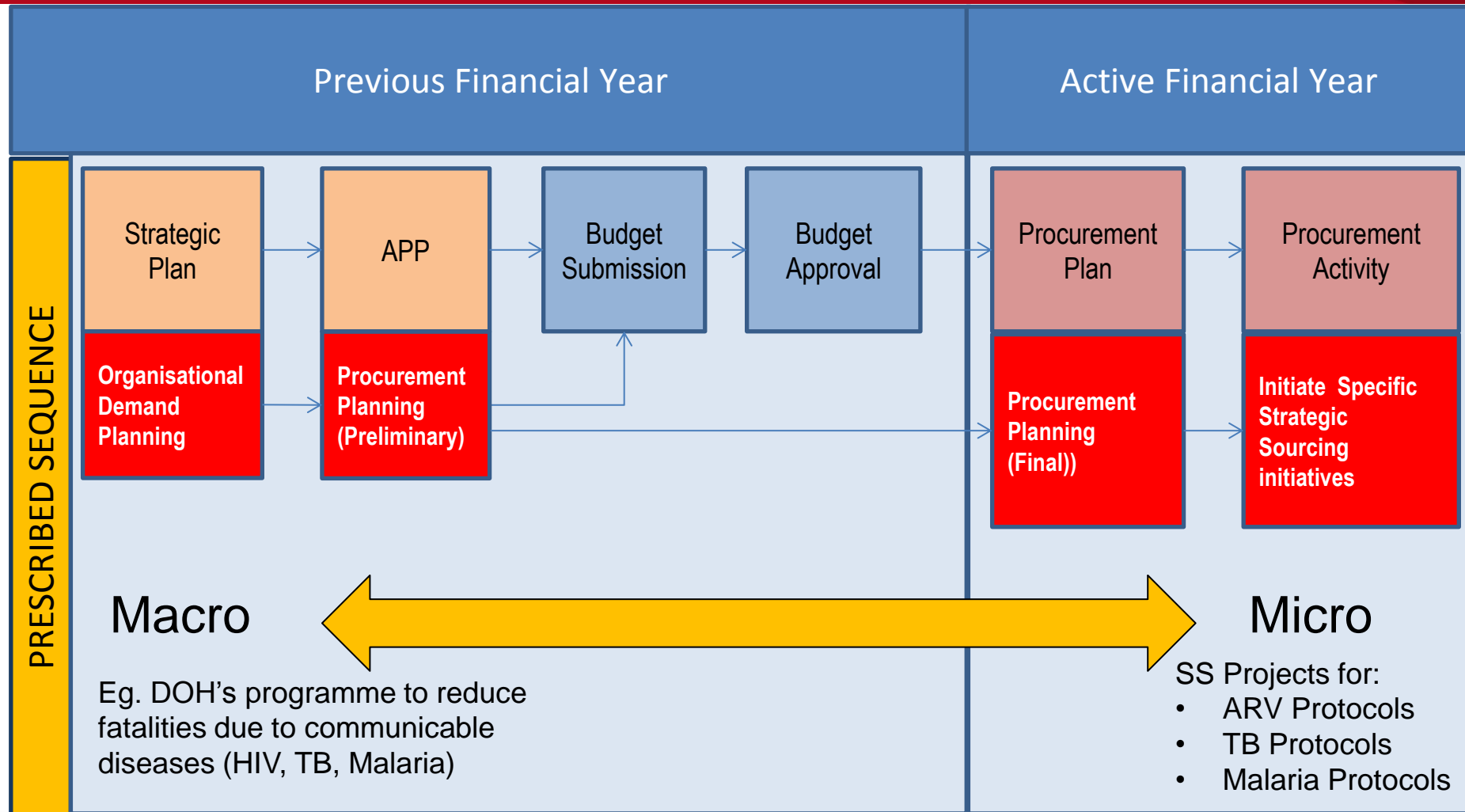
The National Treasury has introduced a Strategic Procurement Framework to support a more strategic and efficient approach for procurement of goods and services. Under this framework, procuring goods and services now has an **emphasis on complexity and risk** with each procurement requiring forward planning.

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

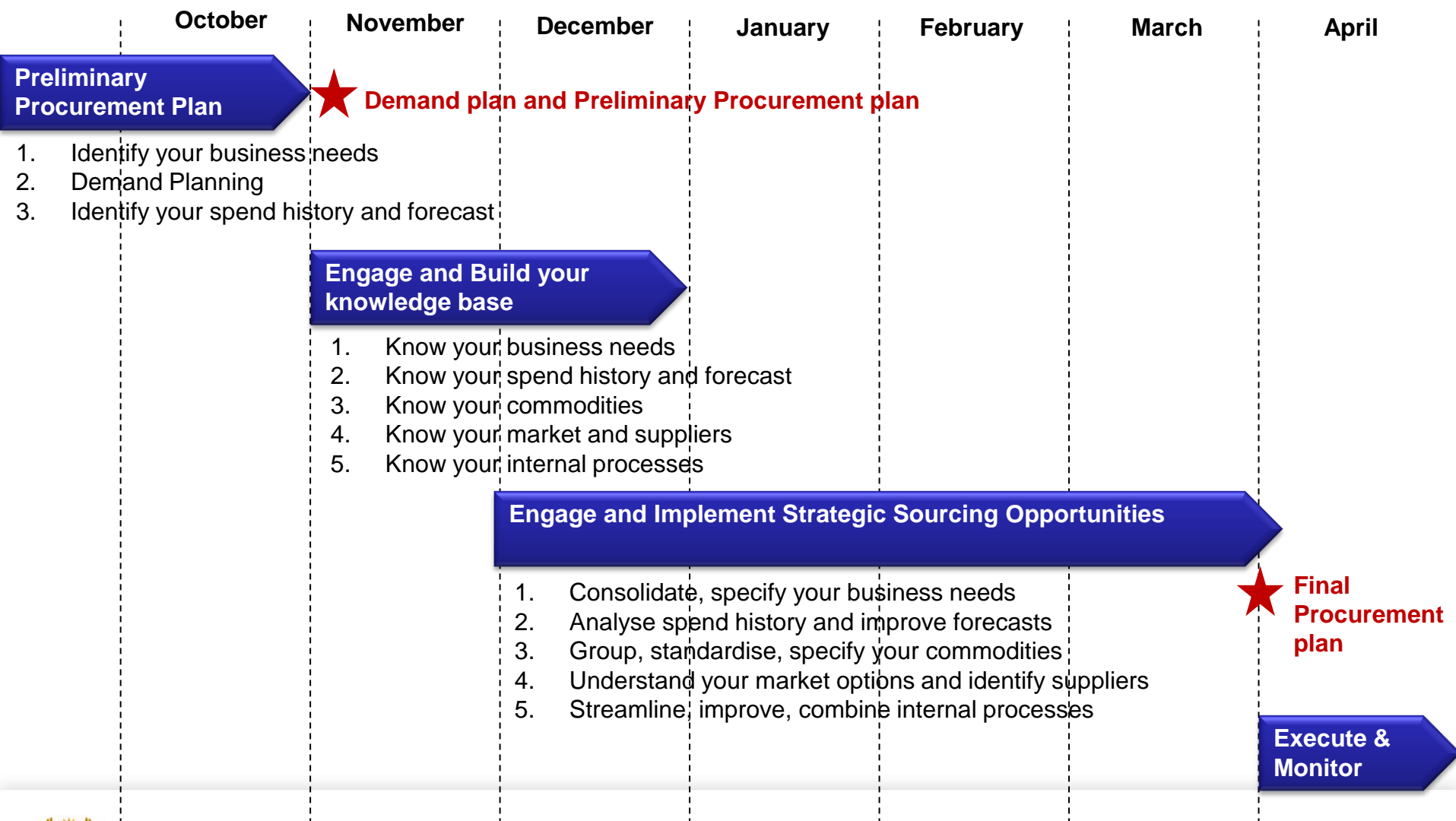
The National Treasury Strategic Procurement Model consist of three main documents and is supported by good practice guides, tools and templates to ensure consistency across government. They are:

- 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

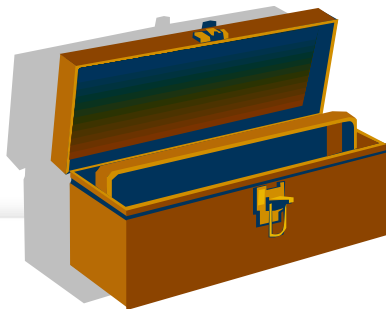
- Strategic Procurement positioning in budgeting and planning process
- The guiding principles of Strategic Procurement
- Broad guidelines to SP principles
- Not prescriptive

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 sets the signposts.

LEVEL 3: THE SS TOOLKIT

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

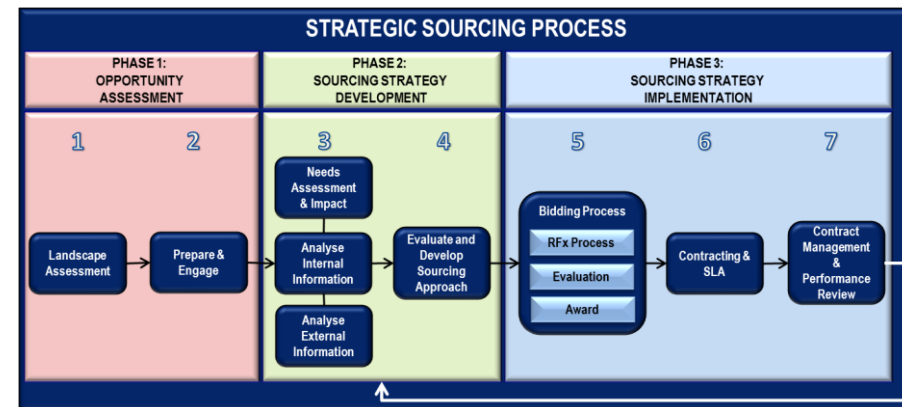
The toolkit is there to facilitate idea generation, provide focus, facilitate teamwork and workshops. The toolkit should not replace common logic, creativity or detailed analysis.



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?

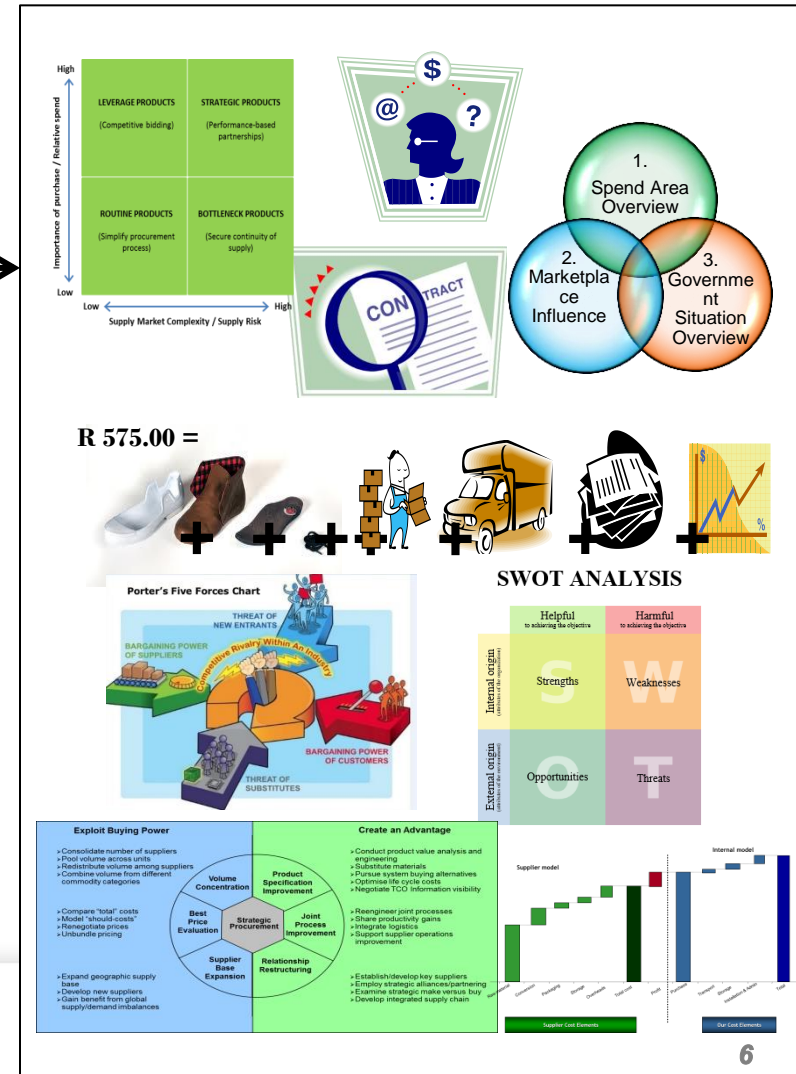
SP Framework



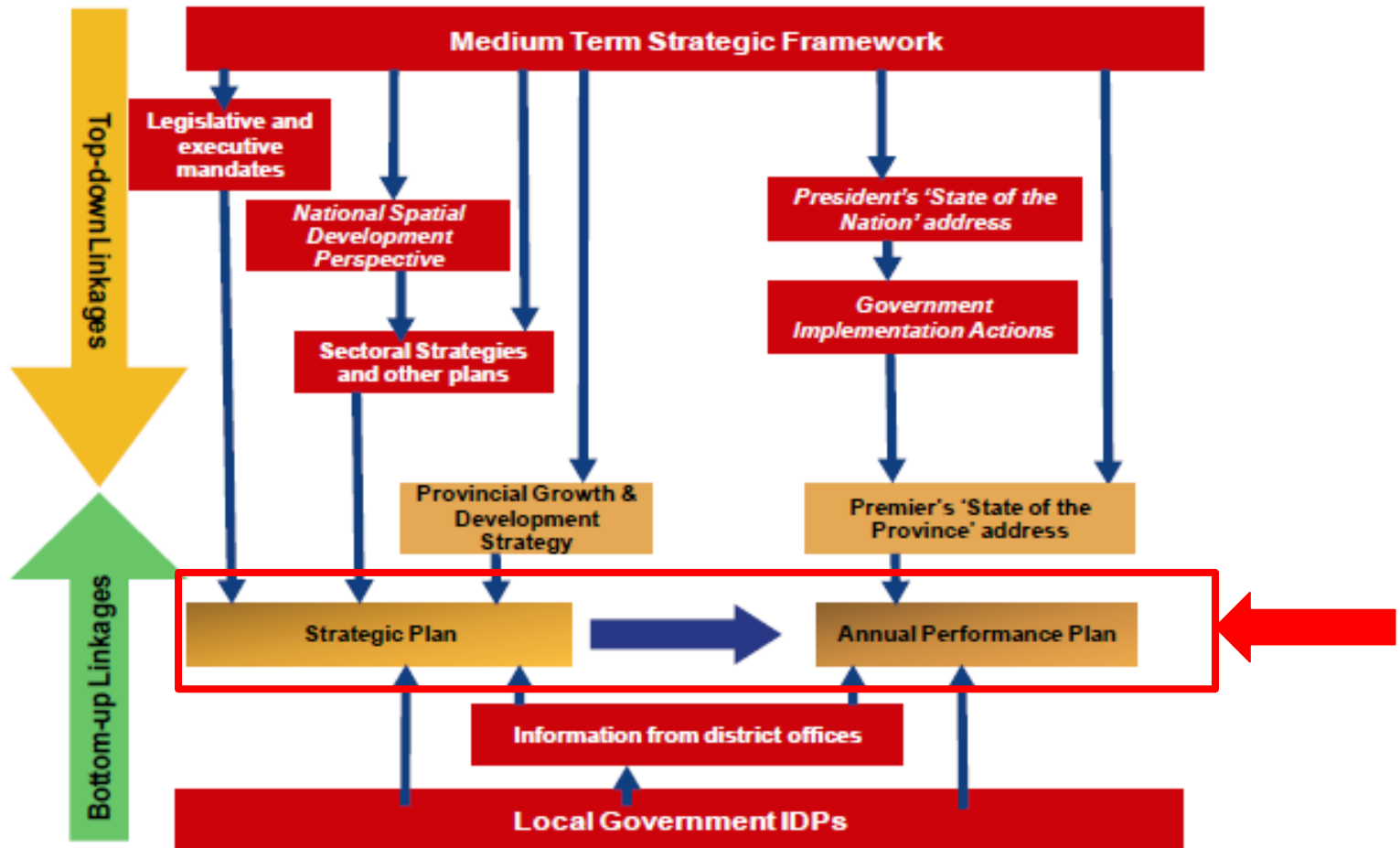
Good Practice Guides for Strategic Sourcing



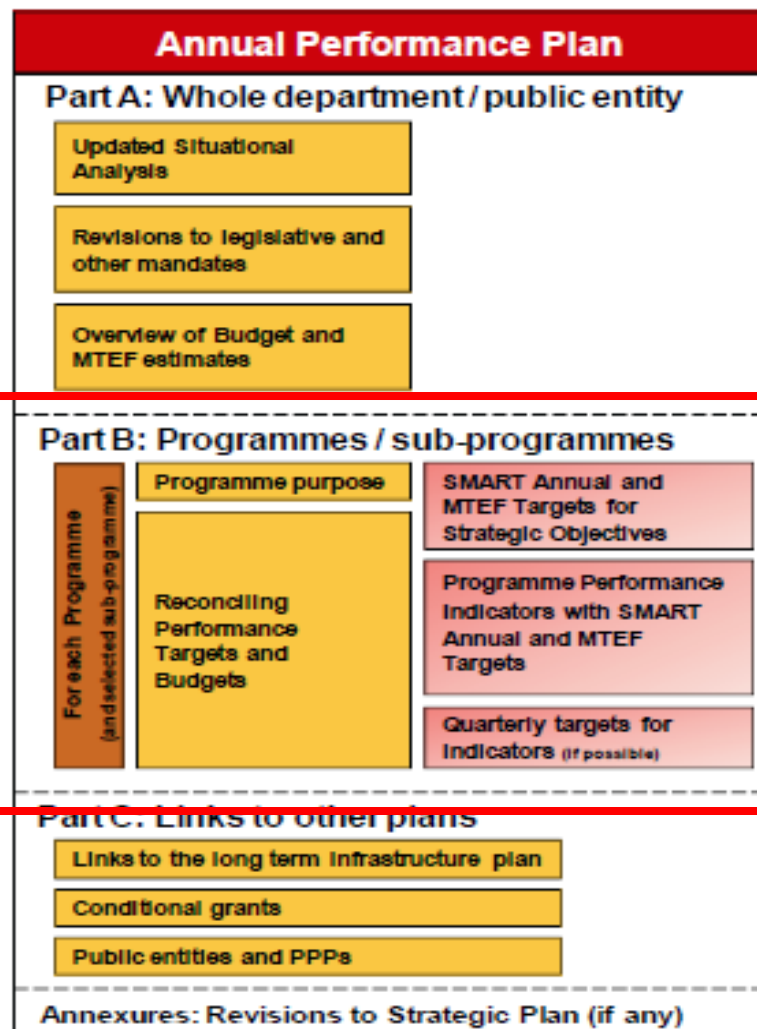
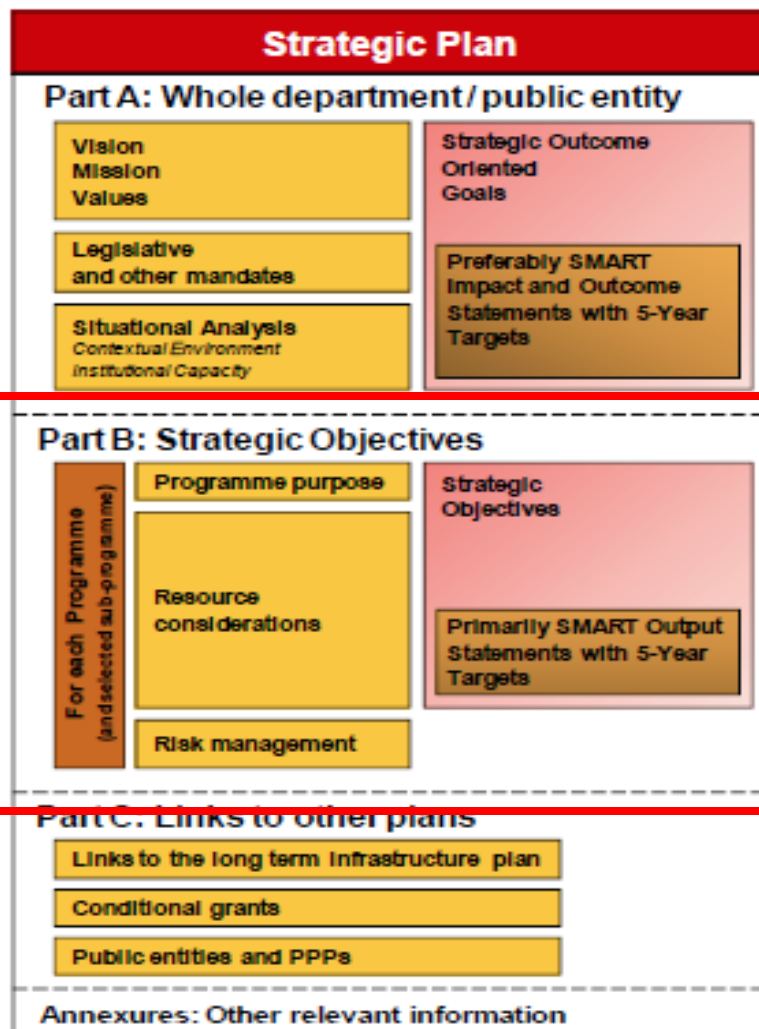
Toolkit



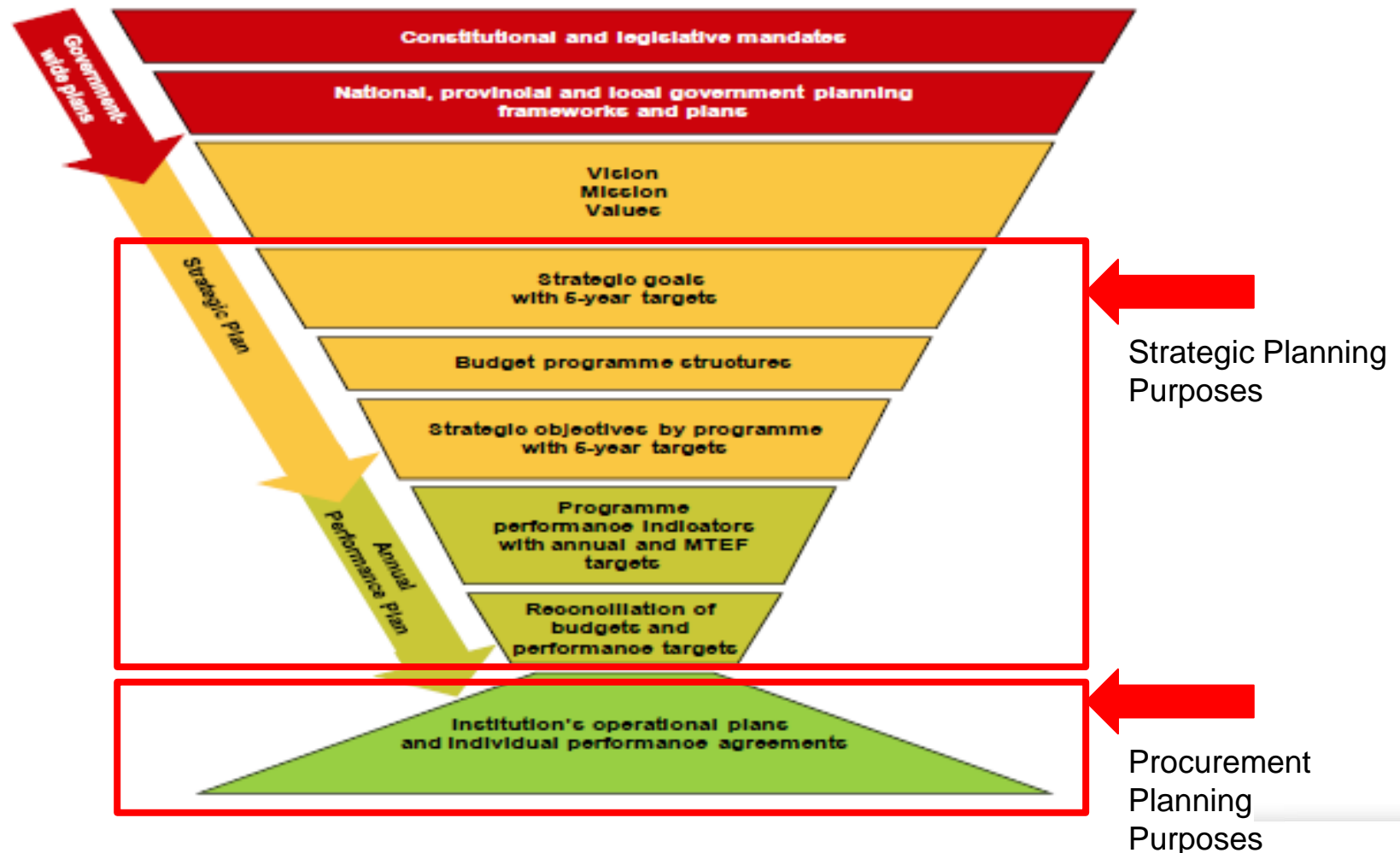
Links to planning frameworks and other plans



Core elements of planning documents



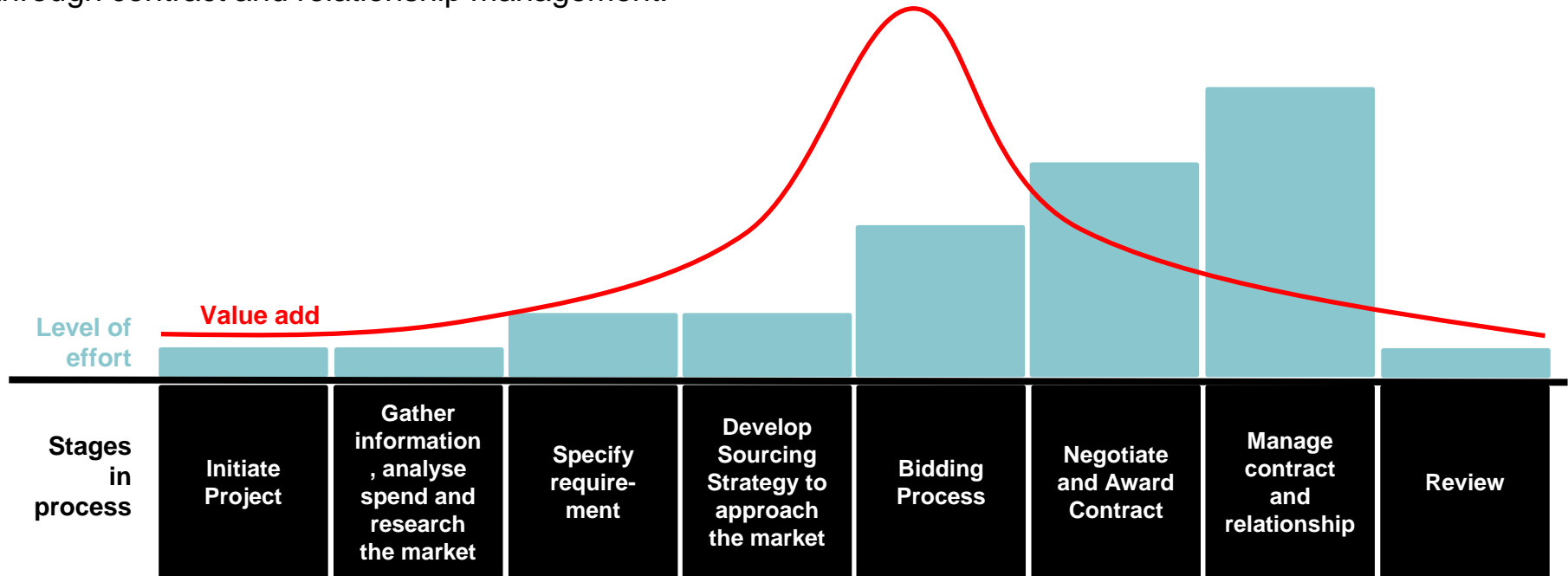
Hierarchy of the relationship between planning concepts



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.

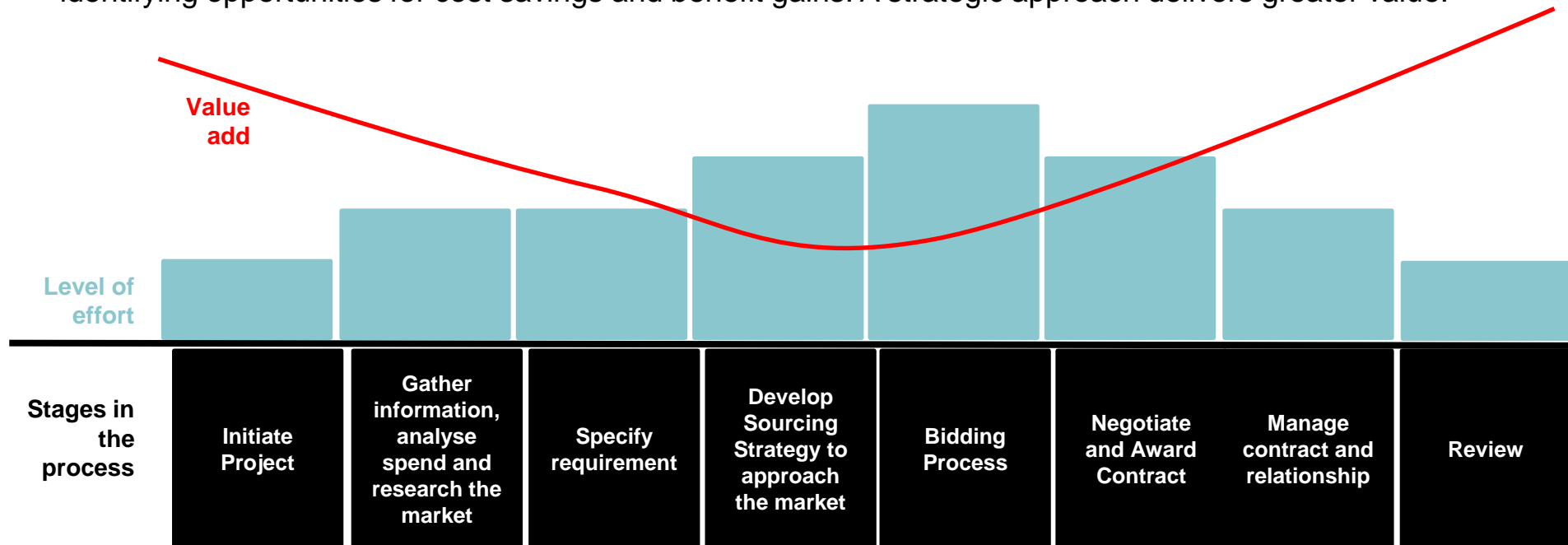


Adapted from: New Zealand Ministry of Business, Innovation and Employment 2011, *Mastering Procurement: A Structured Approach to Strategic Procurement*, available at <http://www.business.govt.nz/procurement/for-agencies/strategic-procurement/mastering-procurement-the-guide>

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.



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WHAT IS STRATEGIC SOURCING?

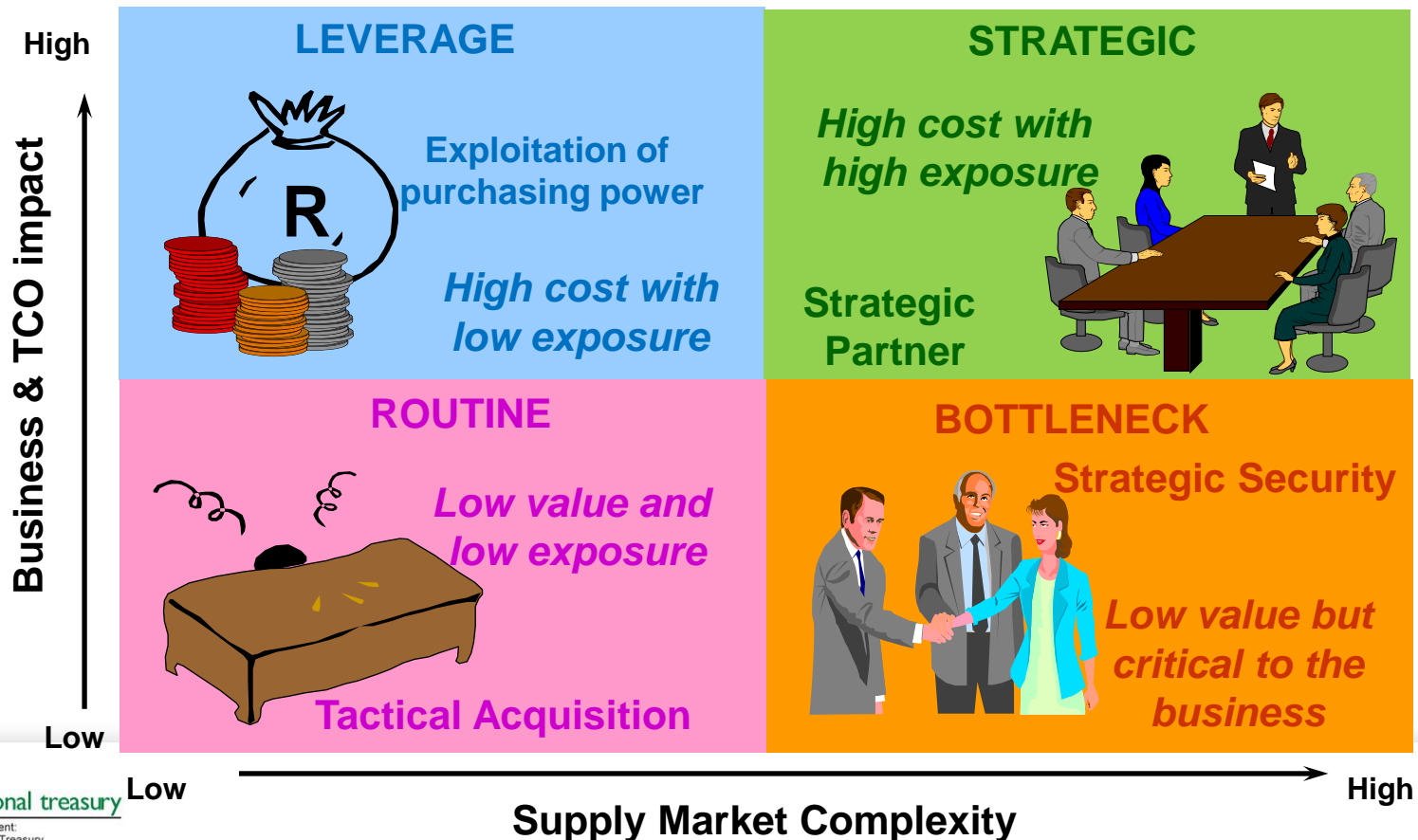
Back to Basics - Definition of strategic sourcing

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.

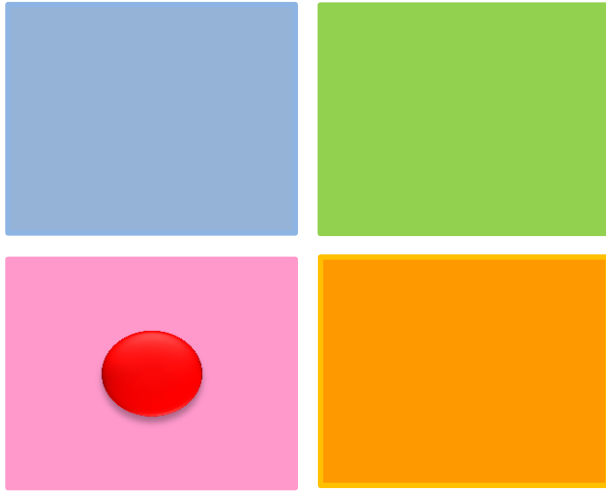
It is a **process** to **better understand** the categories of goods and services within your portfolio, their **intended use** and their **supply markets** based on rigorous **analysis**, in order to identify the **leverage points** and develop the appropriate sourcing strategy which **reduces the total 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

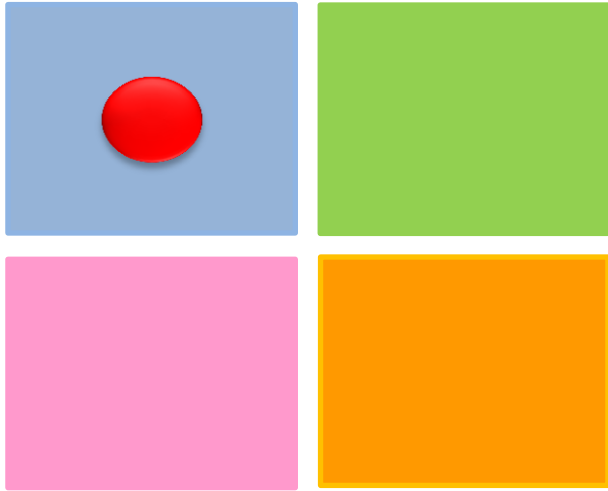
ACTIONS

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

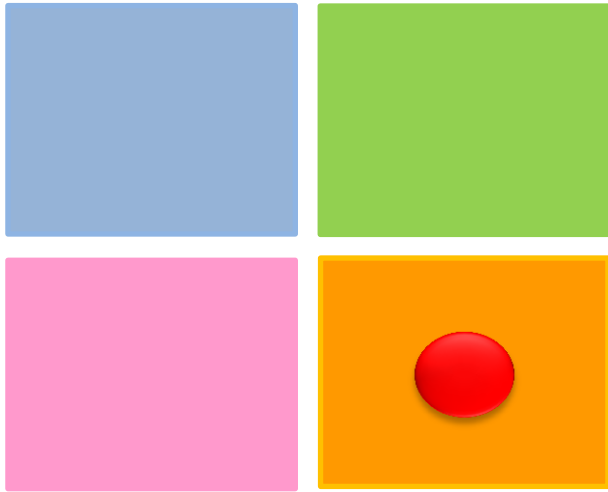
ACTIONS

- 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

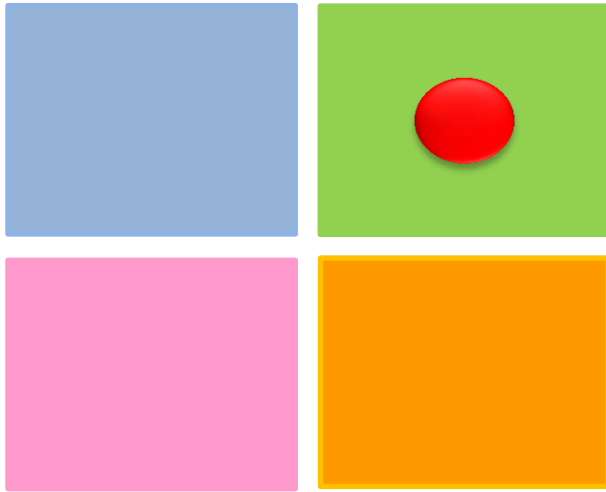
- Medium-term contracts to cover risk
- Market, technical and supplier analysis
- Risk analysis
- Contingency planning
- Analytical
- Innovation
- Multi-function teams



**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

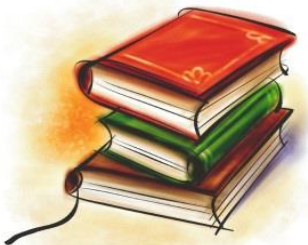
- Increase role of selected suppliers

ACTIONS

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

APPROACH

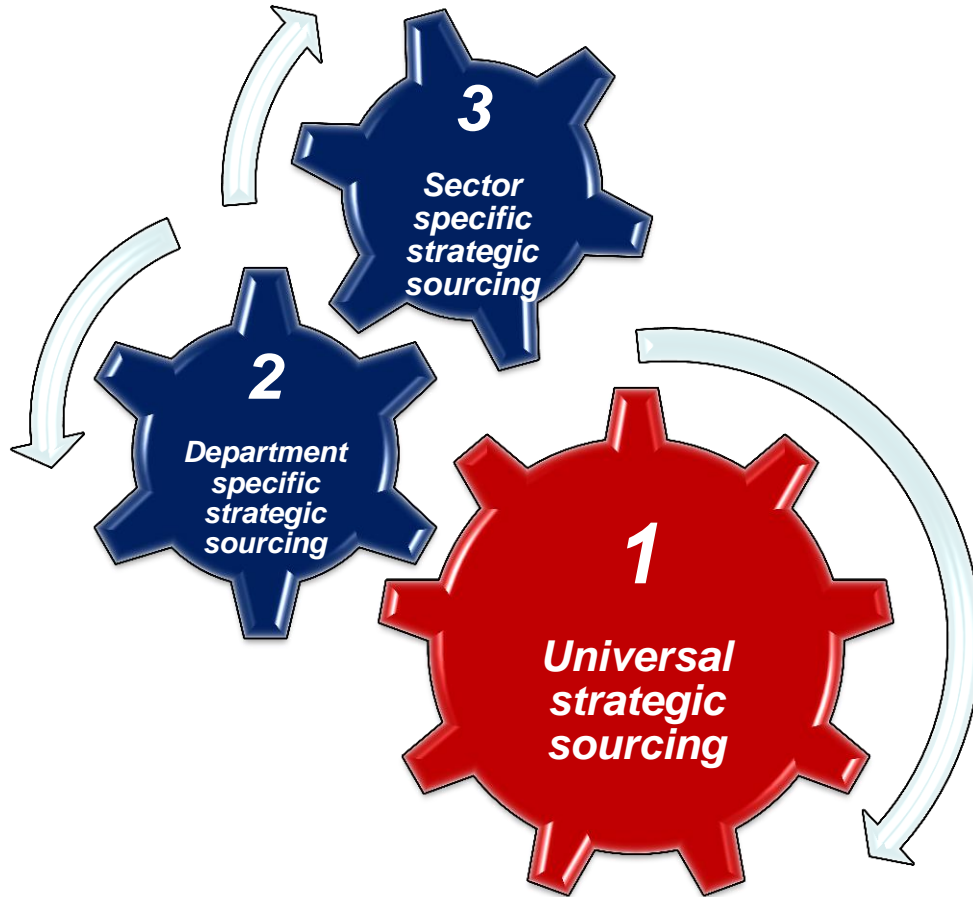
- Market, technical and supplier analysis
- Direct negotiations with selected suppliers
- Supplier performance and relationship management
- Risk Analysis
- Prepare contingency plans
- Competitor analysis
- Creative options generation
- Relationship building
- Strategic negotiations
- Teamwork



**Example: Learner &
Teacher Support material**

R4.3bn pa

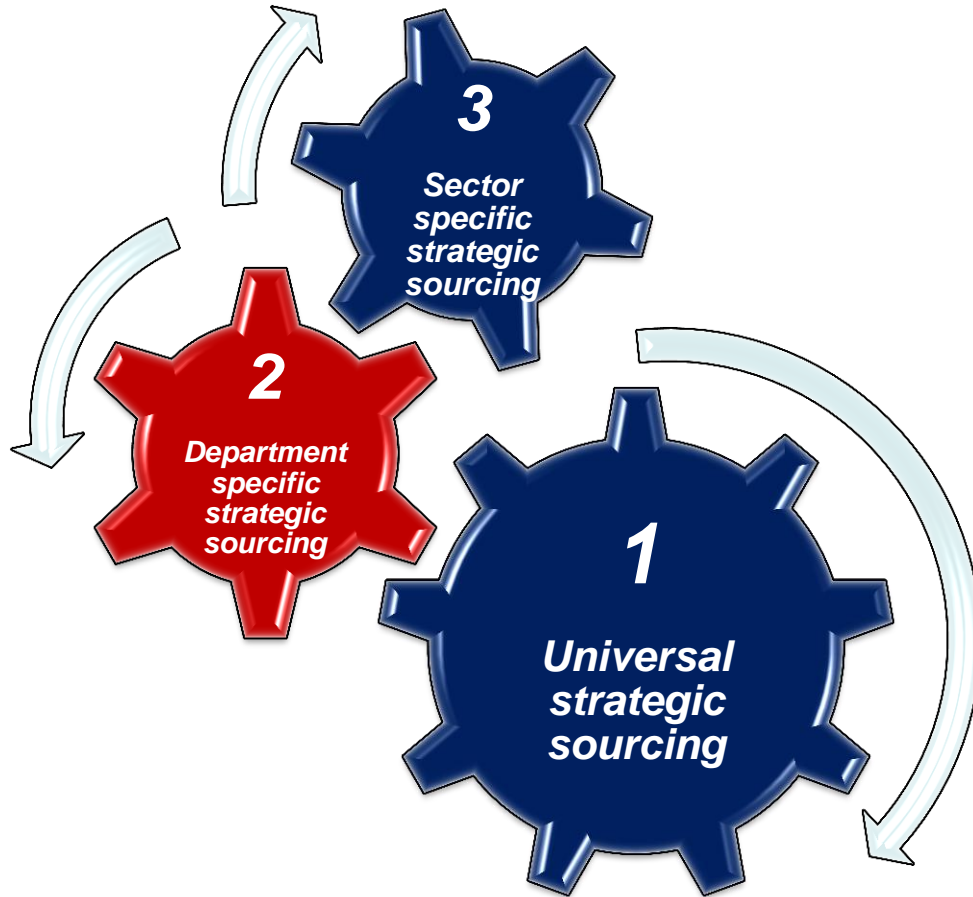
TYPES OF SS PROJECTS IN GOVERNMENT



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.

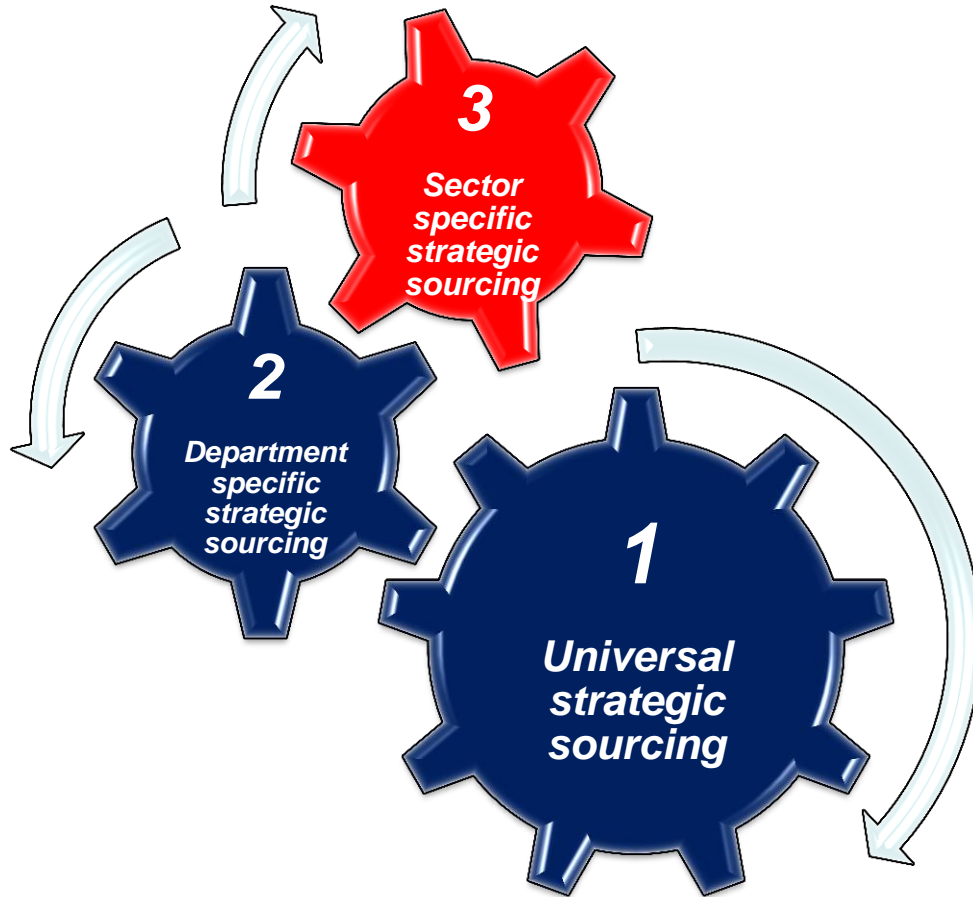
TYPES OF SS PROJECTS IN GOVERNMENT



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



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