

STRATEGIC PROCUREMENT PROCESS

Compiled by:
Chief Directorate: Strategic Procurement
Office of the Chief Procurement Officer



national treasury

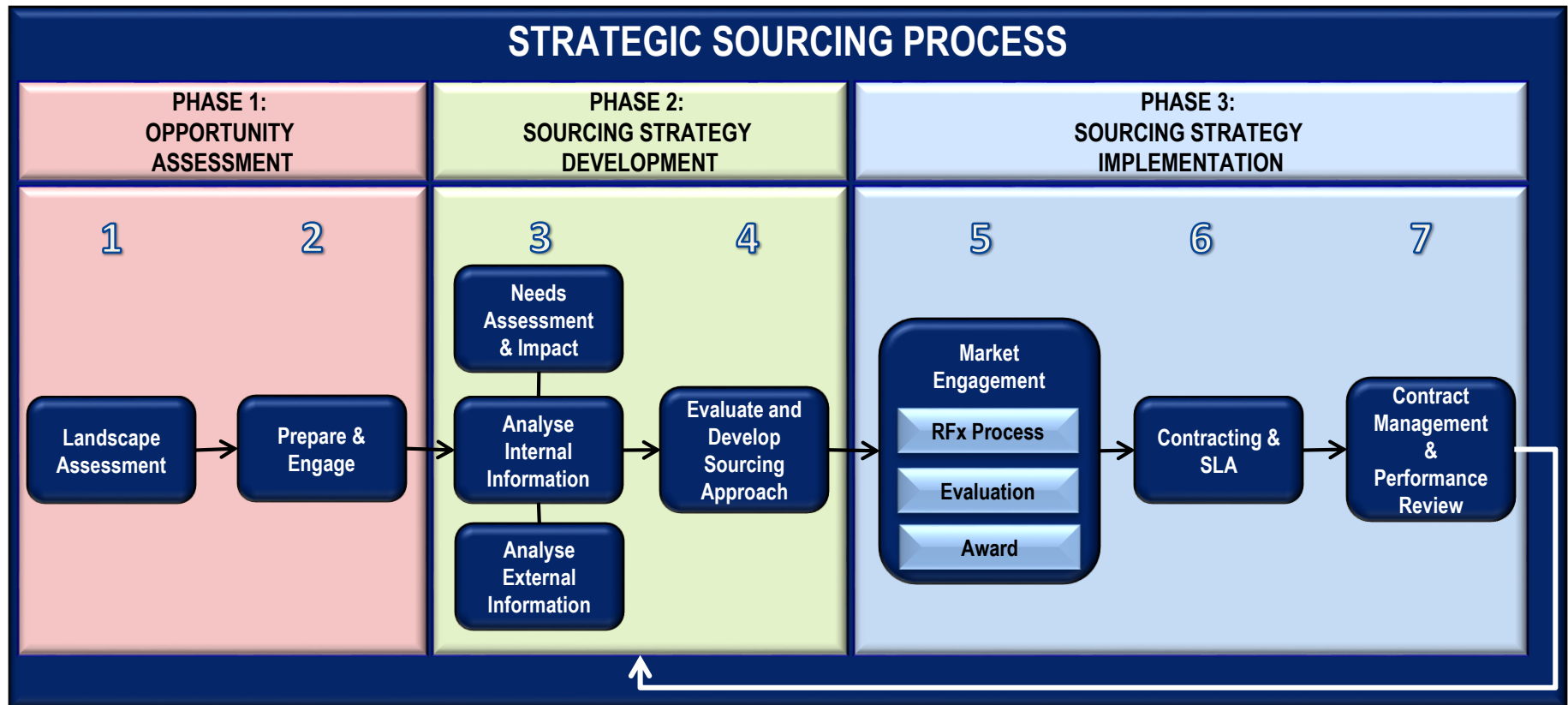
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Document Control

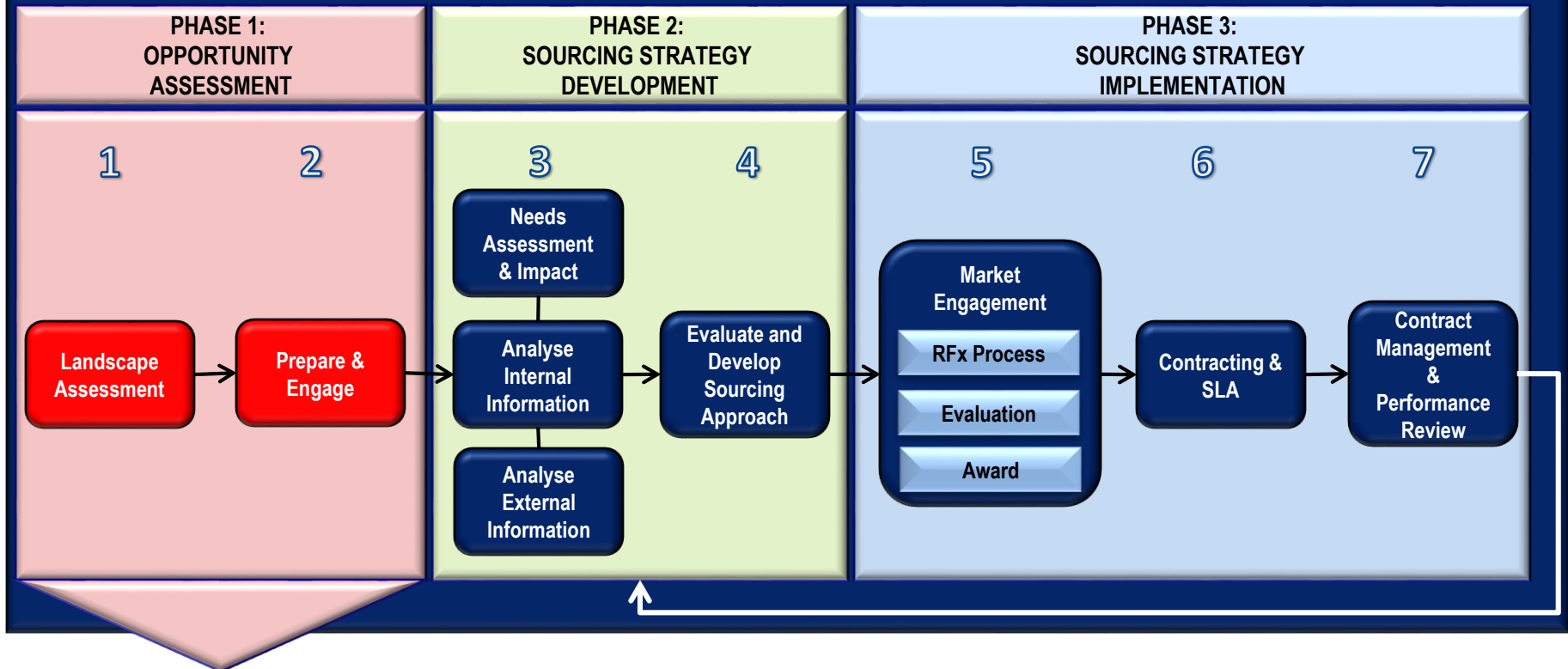
Document Management			
Version	Description	Person	Date
V1.0	SS Methodology – Working Drafts Stages 1-7	Estelle Setan	May 2016

Seven Essential Steps in Strategic Sourcing

The Strategic Sourcing Process provides a structured approach to the development and implementation of sourcing strategies.



STRATEGIC SOURCING PROCESS



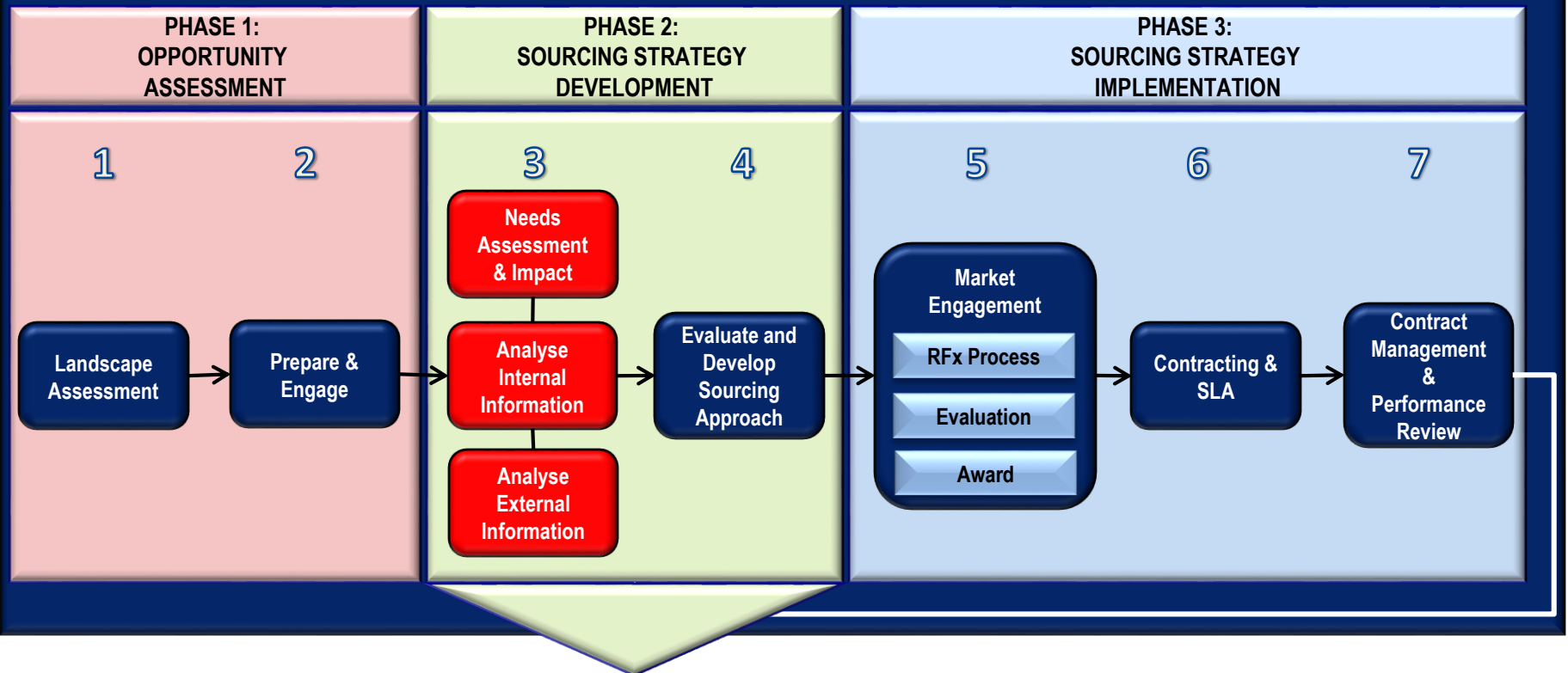
1. LANDSCAPE ASSESMENT

- 1.1 Portfolio analysis, Commodity positioning & Prioritization
- 1.2 Commodity Group Classification
- 1.3 Project Proposal and Approval

2. PREPARE & ENGAGE

- 2.1 Establish cross-functional project team
- 2.2 Stakeholder identification and mapping, Governance structure & Communication Plan
- 2.3 Project Scope
- 2.4 Project Plan & Project Charter

STRATEGIC SOURCING PROCESS



3. DATA COLLECTION & ANALYSIS

3.1 Needs Assessment & Impact

- 3.1.1 Preparing for stakeholder engagements
- 3.1.2 Identify business needs and requirements
- 3.1.3 Obtain and review existing sourcing plans and contracts
- 3.1.4 Collect, document and review technical specifications

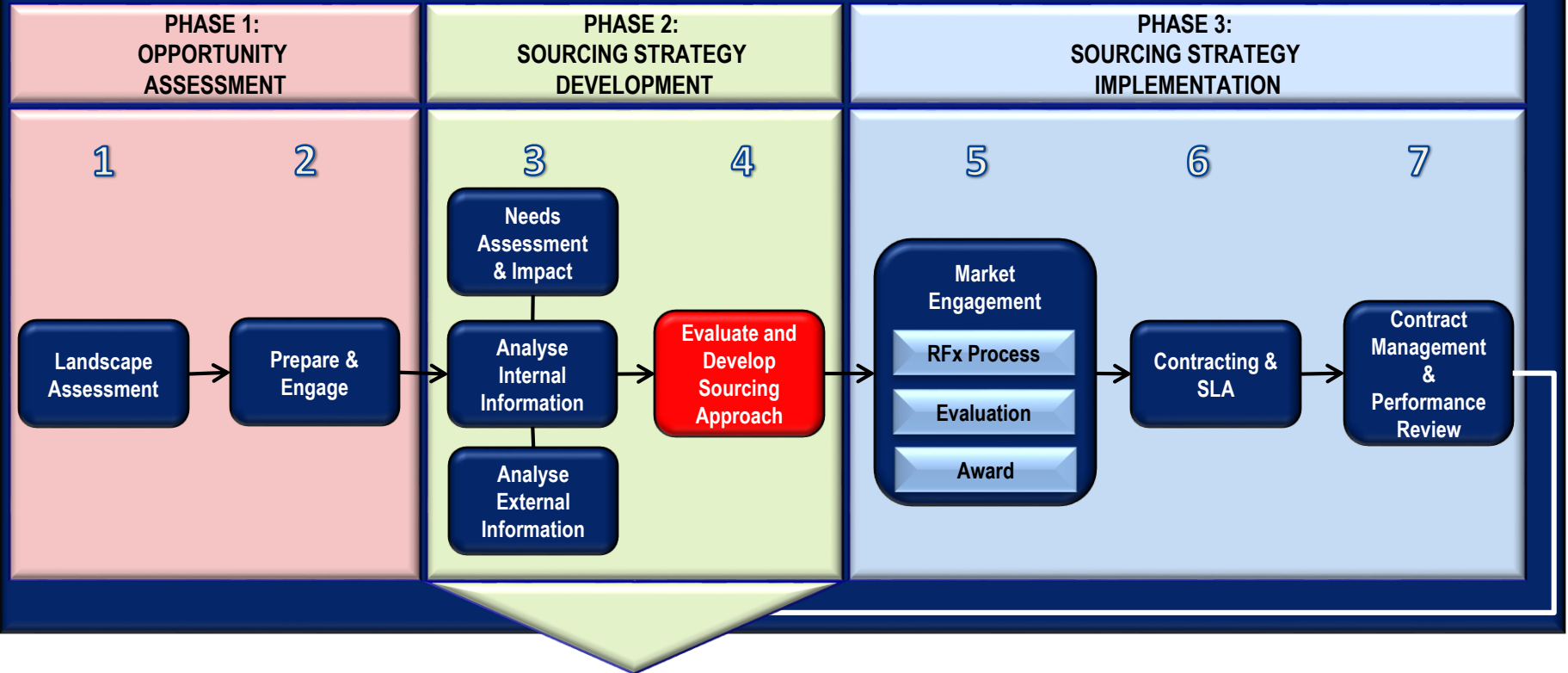
3.2 Analyse Internal Information

- 3.2.1 Spend Analysis
- 3.2.2 Demand Planning
- 3.2.3 Conduct price and cost analysis
- 3.2.4 Value Chain Analysis

3.3 Analyse External Information

- 3.3.1 Supply Chain Analysis
- 3.3.2 Supply Market Analysis
- 3.3.3 Supplier Differentiation Assessment
- 3.3.4 Identify Potential Suppliers

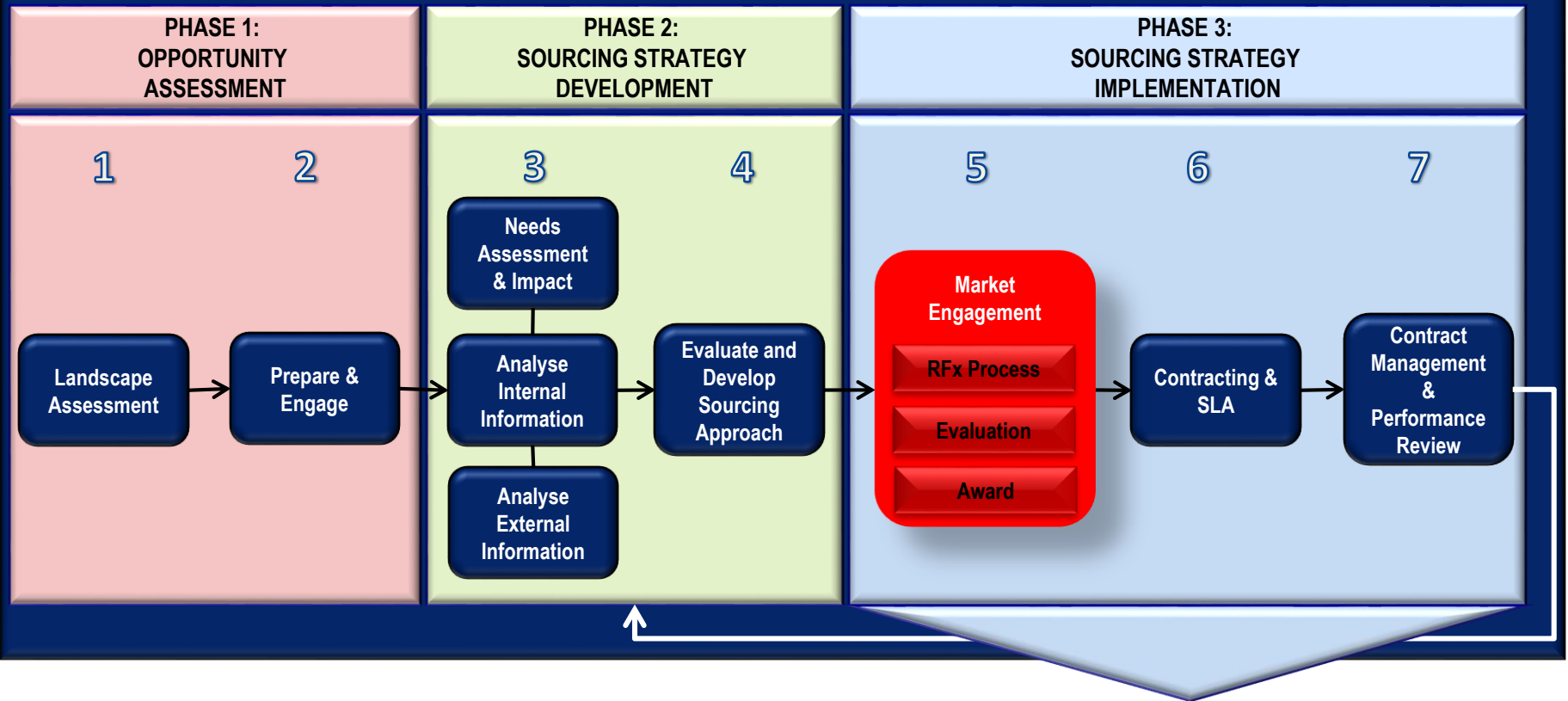
STRATEGIC SOURCING PROCESS



4. EVALUATE AND DEVELOP SOURCING APPROACH

- | | |
|--|---|
| 4.1 Consolidate understanding of Commodity | 4.7 Strategy Suitability Assessment |
| 4.2 Risk Analysis | 4.8 Define bid evaluation and award criteria |
| 4.3 TCO Analysis | 4.9 Prepare business case and submit for approval |
| 4.4 Opportunity Analysis and Ideas Generation | |
| 4.5 Develop the Sourcing Strategy | |
| 4.6 Identify the desired supplier relationship | |

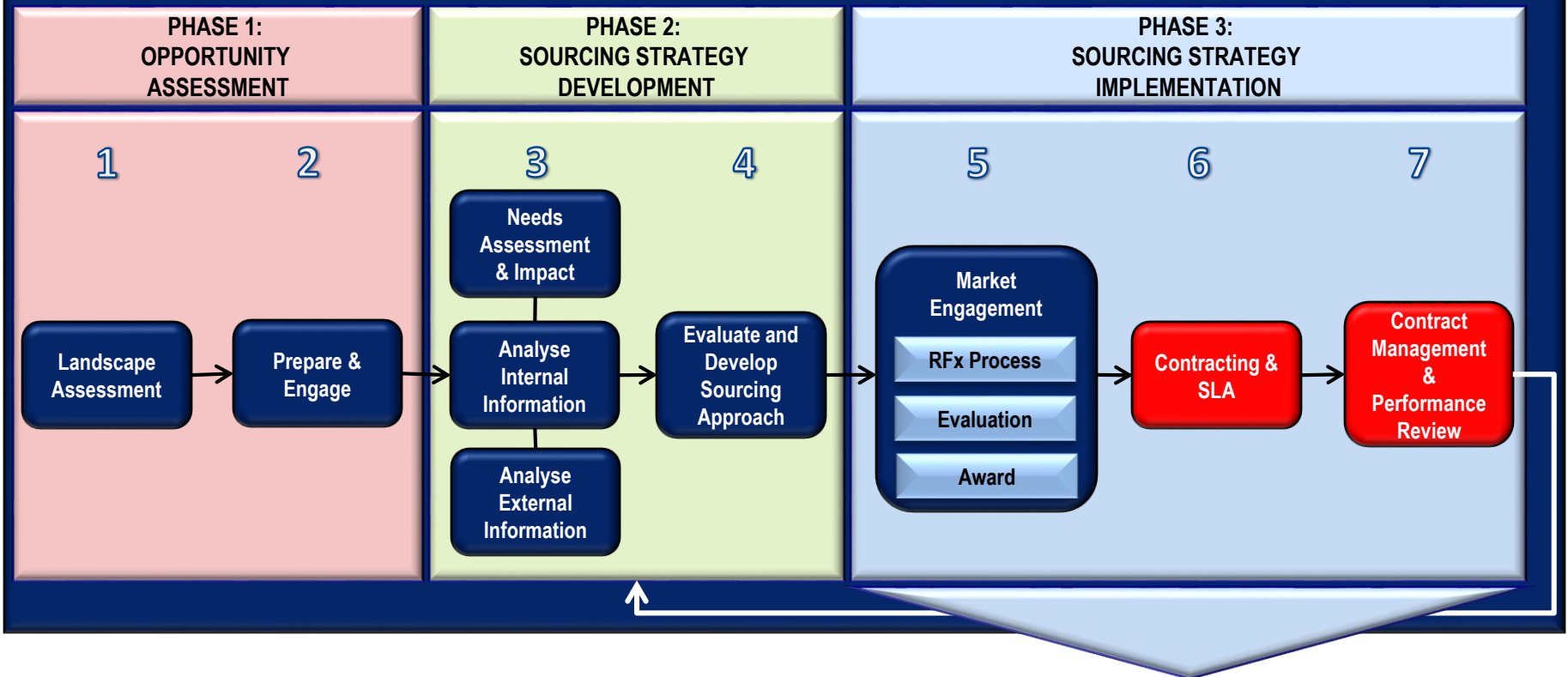
STRATEGIC SOURCING PROCESS



5. MARKET ENGAGEMENT

- 5.1 Determine approach to the market
- 5.2 Evaluation Model
- 5.3(a) RFx User Guide
- 5.3(b) Developing an Offer Template
- 5.4 Market approach process and timeline
- 5.5 Market approach
- 5.6 Bid evaluation, negotiation and Award

STRATEGIC SOURCING PROCESS



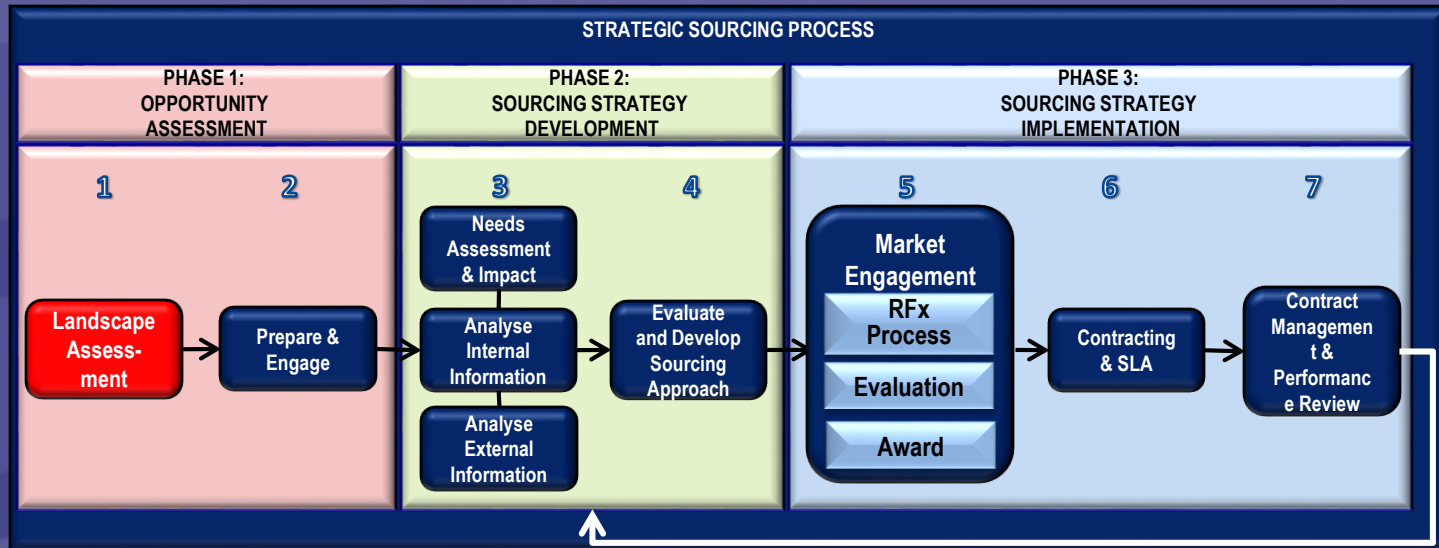
6. CONTRACTING & SLA

- 6.1 Contract transition plan
- 6.2 Develop Key Performance Indicators
- 6.3 Drafting the SLA

7. CONTRACT MANAGEMENT AND PERFORMANCE REVIEW

- 7.1 Contract Management, Administration and Close-out
- 7.2 Supplier Performance Assessment
- 7.3 Benefits tracking
- 7.4 Review and refine sourcing strategy

1. LANDSCAPE ASSESSMENT



- 1.1 Portfolio analysis, Commodity Positioning & Prioritisation
- 1.2 Commodity Group Classification
- 1.3 Project Proposal and Approval

Objective:

The objective of the landscape assessment is to obtain an understanding of the organisation's spend profile for strategic planning and procurement planning purposes. It further involves positioning of commodity groups on the Positioning Matrix, prioritising the waves of sourcing implementation and obtaining approval for initiating specific sourcing projects.

Output:

- 1. Spend map for Strategic Planning purposes
- 2. Spend map for Procurement Planning purposes
- 3. Wave Implementation matrix
- 4. Commodity group classification
- 5. Approved project proposal(s) for strategic sourcing initiatives

1.1

Portfolio Analysis, Commodity Positioning & Prioritisation

Objective:

The objective of the Portfolio analysis is to identify, position and prioritise the spend categories under your management for two purposes:

- Strategic planning and budgeting purposes
- Procurement Planning Purposes

Output:

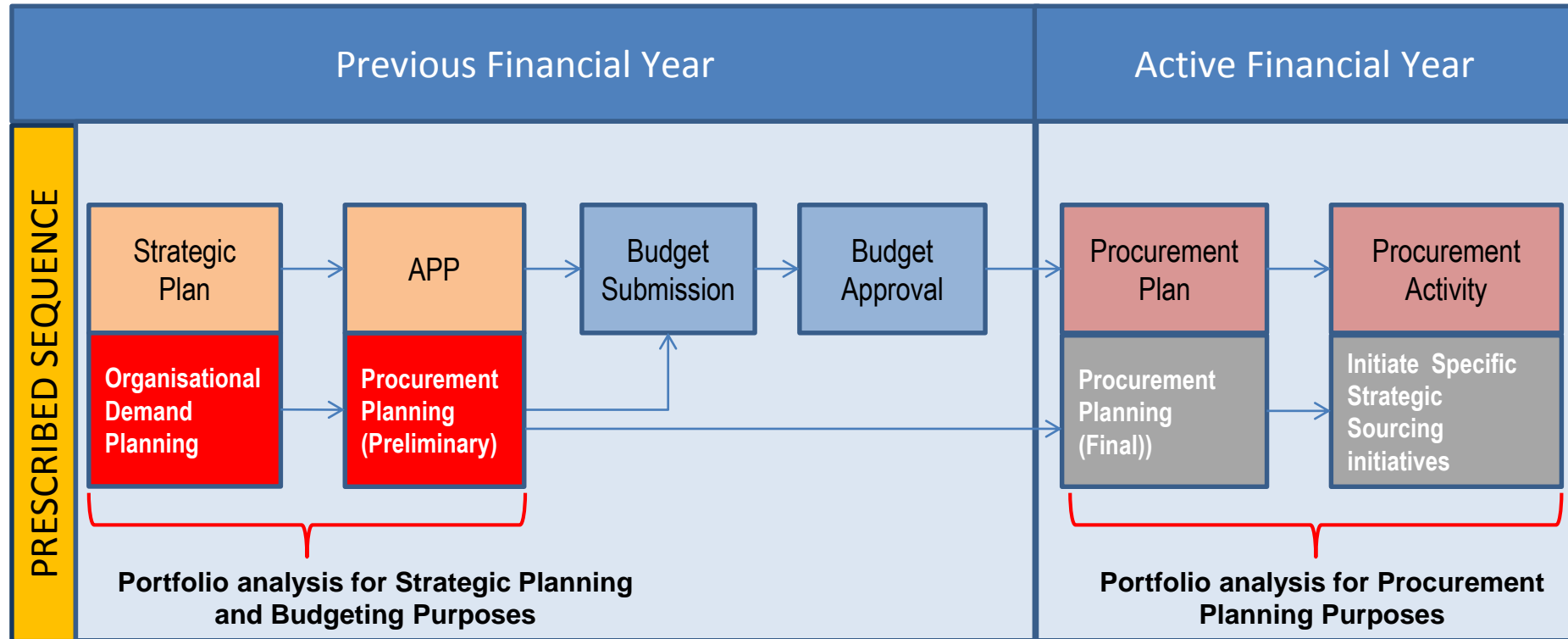
- A spend map for Strategic Planning and Budgeting Purposes
- A spend map for Procurement Planning purposes
- A wave implementation matrix

Portfolio Analysis

What is Portfolio Analysis?

- Portfolio analysis is a **diagnostic** of the organisation's spend.
- Take the organisations TOTAL spend and divide it into:
 - Categories (either by similarities in function or characteristics or same supplier markets) – e.g SCOA classification
 - Each category divided by business units or locations (Departments, provinces, municipalities, regions, business units within these entities, etc)
- This diagnostic provides a spend map for two purposes:
 1. For **strategic planning and budgeting** purposes
 - The organisation's total spend profile
 - This initial diagnostic is required to be only around 80 per cent accurate to have relevance and to offer valuable insight.
 2. For **procurement planning** purposes
 - The organisation's spend by category
 - When sourcing teams refine spend data for each category for the purposes of developing sourcing strategies.
- These spend categories should be classified according to complexity in the supplier marketplace compared with how important they are to the organisation.
- This results in a spend category matrix that will help direct the team towards a potential sourcing strategy for each category.

Portfolio analysis - Two purposes



- High level spend classification
- 80% accuracy is sufficient
- Fairly good idea of spend categories

- Lower level spend classification
- Refined categorisation
- 90-100% accuracy
- Accurate spend trends

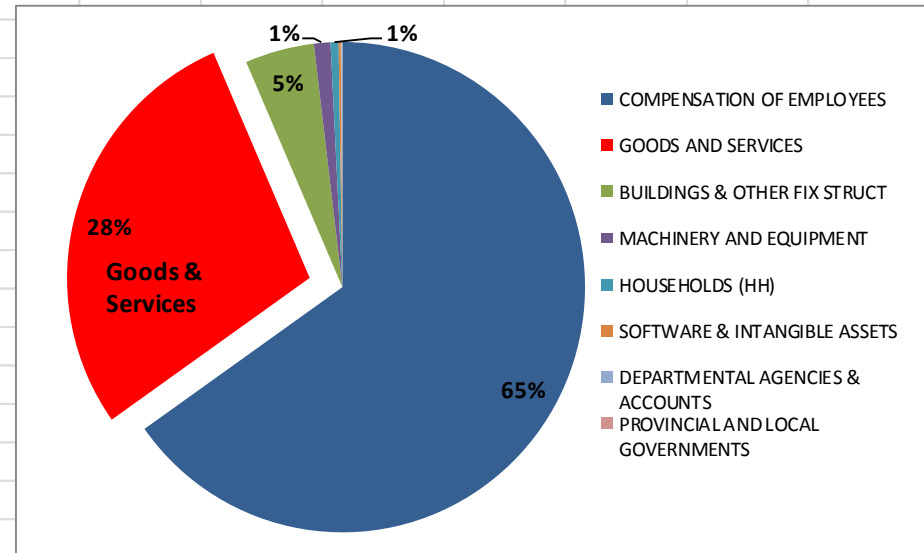
Portfolio analysis - Real life example

1. This sample shows a Department's expenditure profile at SCOA Item Level 3.
2. Level 3 provides high-level insight in spend categories for Strategic planning and budgeting purposes.
3. Extract the expenditure that is related to SCM (e.g. Goods & Services, Machinery & Equipment, etc.), in other words, items that is subjected to a procurement process.

Department: <NAME>

Financial_Year: 2013/14

Sum of Total_Expenditure	
Item_Level_3	Total
COMPENSATION OF EMPLOYEES	12,190,066,718
GOODS AND SERVICES	5,295,611,121
BUILDINGS & OTHER FIX STRUCT	862,354,251
MACHINERY AND EQUIPMENT	205,330,070
HOUSEHOLDS (HH)	99,466,857
SOFTWARE & INTANGIBLE ASSETS	27,036,436
DEPARTMENTAL AGENCIES & ACCOUNTS	8,454,825
PROVINCIAL AND LOCAL GOVERNMENTS	4,180,397
PAYMENTS FOR FINANCIAL ASSET	3,670,231
BIOLOGICAL ASSETS	2,950,864
INTEREST AND RENT ON LAND	889,512
Grand Total	18,700,011,282

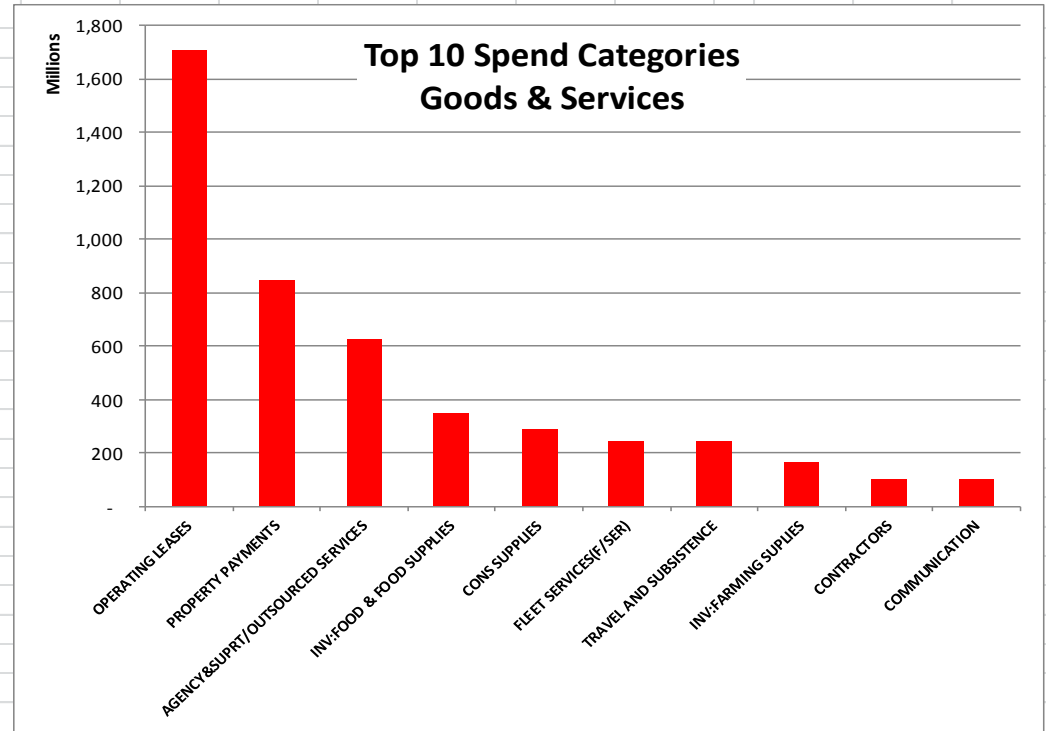


Next Page

Portfolio analysis - For Strategic Planning and Budgeting Purposes

1. Goods & Services expenditure were extracted from the previous sample
2. The top 10 spend categories are highlighted and will be used for the next step (Commodity positioning).....

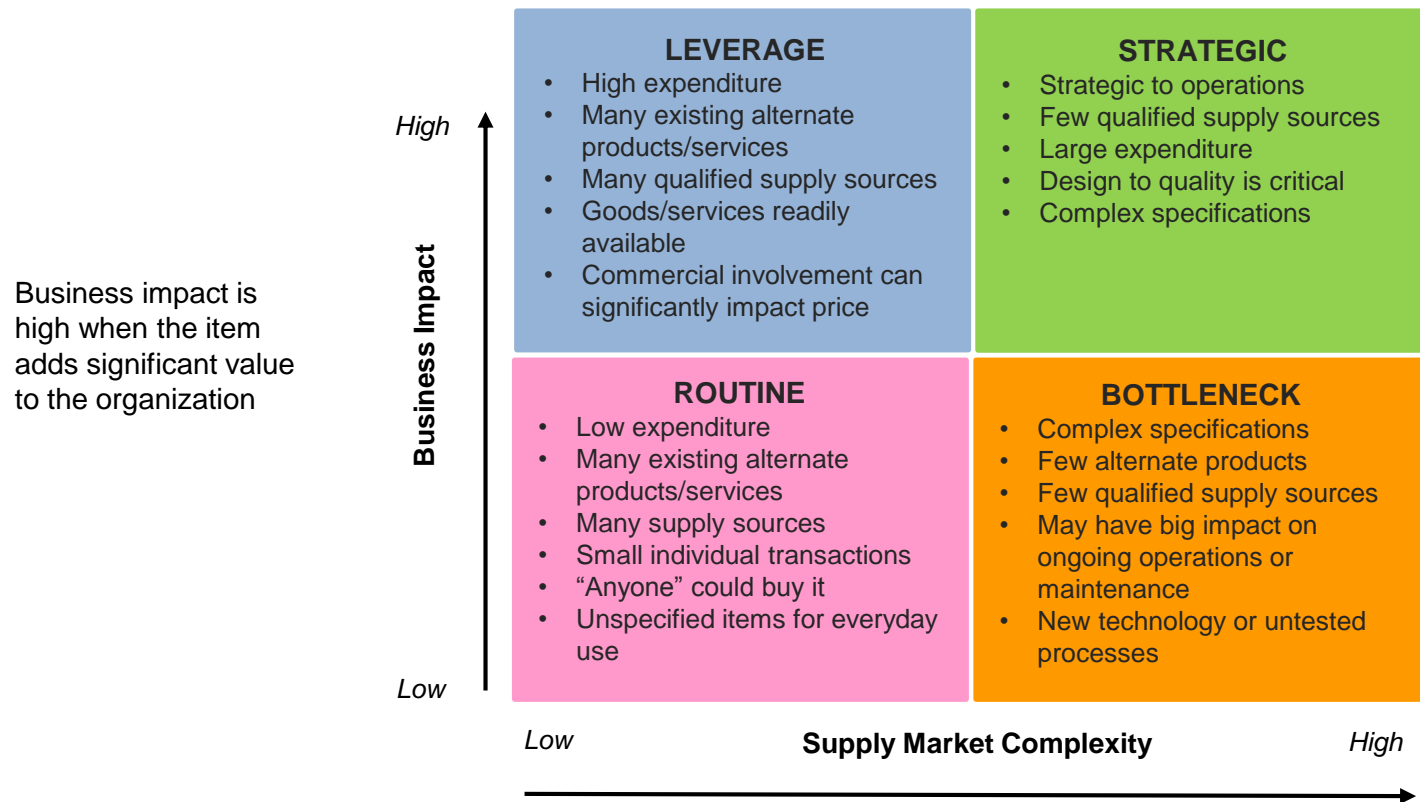
Item_Level_3	GOODS AND SERVICES
Sum of Total_Expenditure	
Item_Level_4	Total
OPERATING LEASES	1,704,419,443
PROPERTY PAYMENTS	845,871,841
AGENCY&SUPRT/OUTSOURCED SERVICES	625,070,473
INV:FOOD & FOOD SUPPLIES	349,372,637
CONS SUPPLIES	285,684,405
FLEET SERVICES(F/SER)	244,224,533
TRAVEL AND SUBSISTENCE	242,306,213
INV:FARMING SUPPLIES	166,140,999
CONTRACTORS	103,482,792
COMMUNICATION	99,929,941
COMPUTER SERVICES	93,596,008
INV: MEDICINE	84,702,746
INV:MATERIALS & SUPPLIES	64,263,032
CONS:STA,PRINT&OFF SUP	56,345,315
AUDIT COST:EXTERNAL	47,346,628
CONS/PROF:BUSINESS&ADVISORY SERV	43,614,758
INV:CLOTH MAT&ACCESSORIES	41,523,660
CATERING:DEPARTML ACTIVITIES	34,990,251
CONS/PROF:LEGAL COST	29,667,031
INV:FUEL, OIL AND GAS	24,058,002
MINOR ASSETS	22,039,439
CONS/PROF:LABORATORY SERVICES	14,105,397
OPERATING PAYMENTS	13,385,553
ADVERTISING	12,743,416
VENUES AND FACILITIES	9,907,036
RENTAL & HIRING	6,095,643
TRANSPORT PROVIDED DEPT ACTIVITY	5,959,475
ADMINISTRATIVE FEES: PAYMENTS	5,858,898
TRAINING & DEVELOPMENT	5,569,240
INV:LEARN&TEACH SUPP MATE	5,089,458
CONS/PROF:INFRASTRUCTRE&PLANNING	3,497,596
BURSARIES (EMPLOYEES)	2,819,432
INV:MEDICAL SUPPLIES	1,462,559
ENTERTAINMENT	256,852
INV:OTHER SUPPLIES	210,418
Grand Total	5,295,611,121



Next Page

Commodity Positioning

- Portfolio Analysis (also called “commodity positioning”), refers to the positioning and classification of spend categories according to strategic importance and suggest generic sourcing objectives.
- Identify all the commodity groups / categories under your management (your portfolio) and evaluate them on the following two factors:
 - factors relating to the risk and complexity (Supply Market Complexity) – X axis
 - factors relating to the spend value and importance of purchasing category (Business Impact) – Y axis



Importance of Purchase Category (Business Impact)

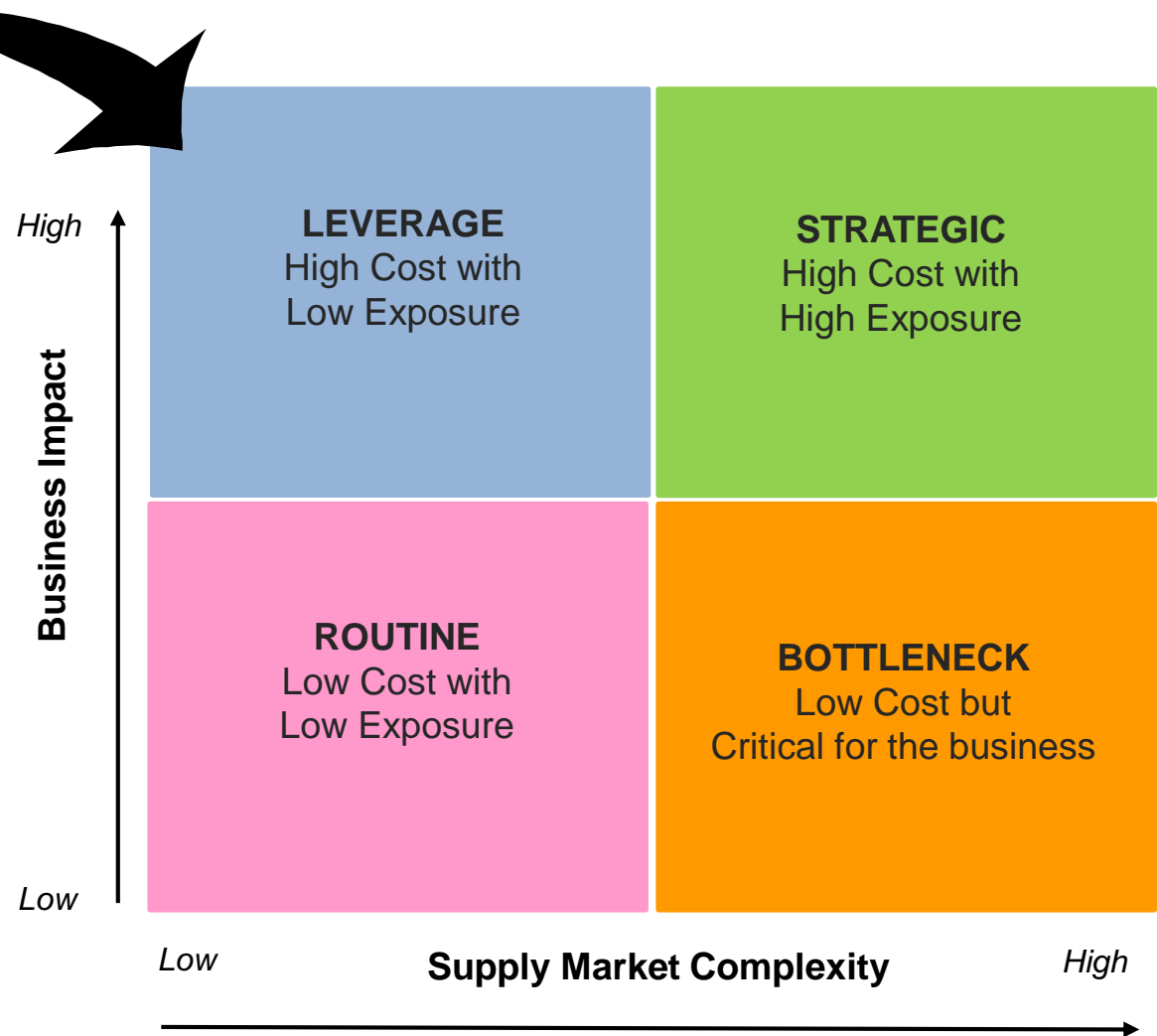
Category Business Impact

effects on TCO and the organisation's core service delivery objectives

- Expenditure levels
- % of expenses
- Price volatility/impact of non-delivery
- Relationship to core service delivery mandate
- Value added to end-users

Determine business impact by answering the questions below:

- How important is the category's value in the organisation's total spending?
- Do the end users perceive this category as adding significant value?
- Does the category differentiate the end product significantly?
- Would a category failure affect the end user satisfaction?



Supply Market Complexity

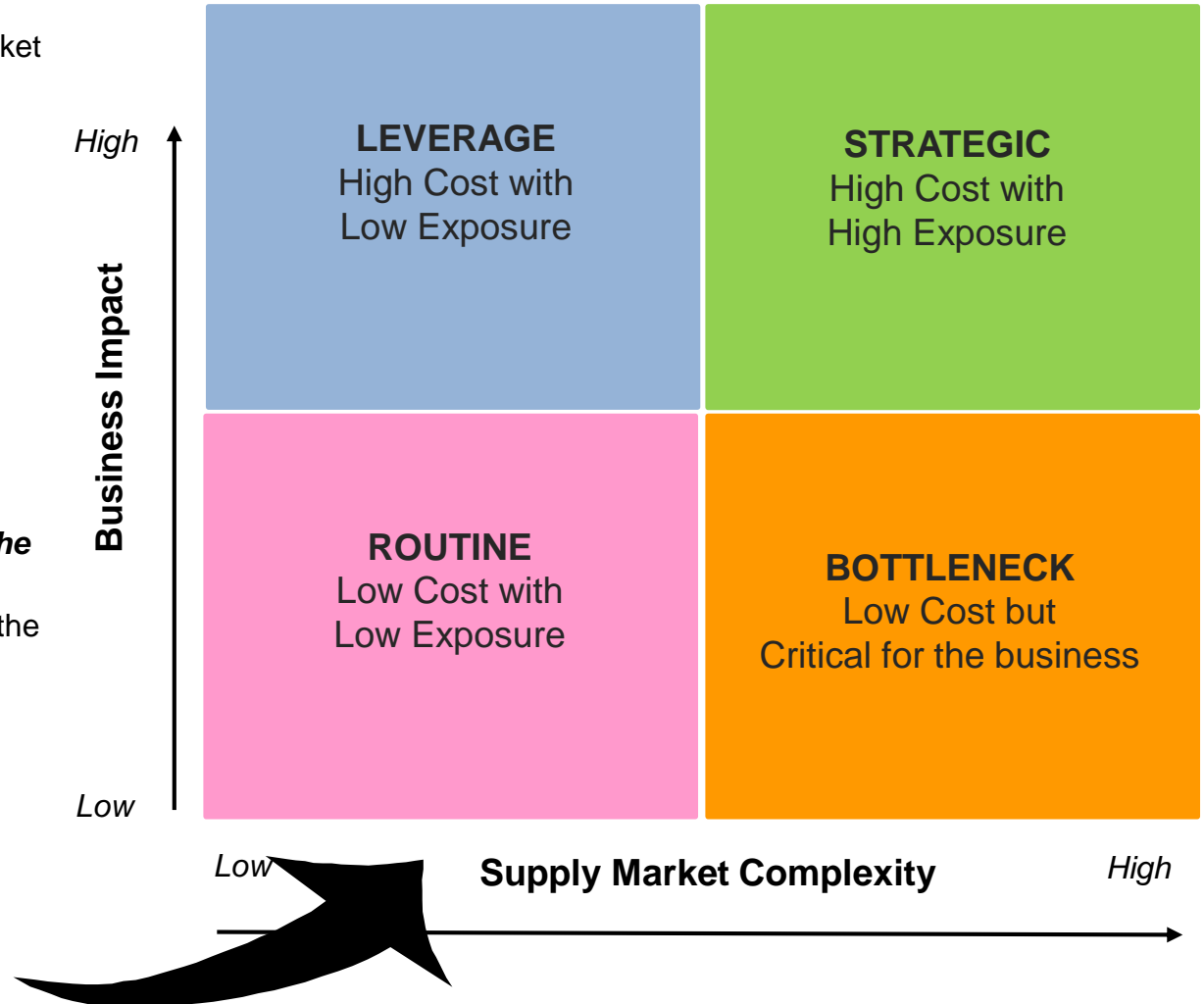
Supply Risk & Complexity

criticality to business processes and market availability

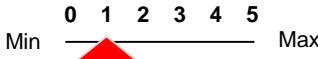
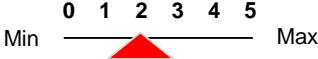
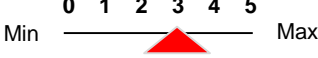

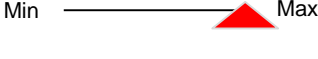
- Supplier concentration
- Threat of substitution
- Potential of new supplier
- Buyer leverage
- Share of market
- Time sensitivity
- Quality and technical risk

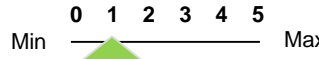
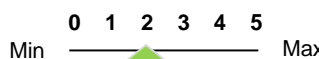

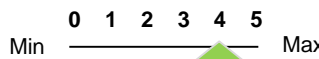
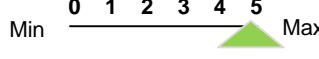
Determine supply risk by answering the questions below:




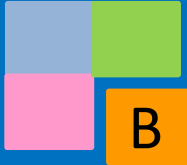
- How strong is the competition among the market players?
- Can you easily switch to another category?
- What is your buying power for this category?
- What is the bargaining power of suppliers?
- Can new entrants be easily found and invited to tender?



Complexity and Business Impact Scale

Complexity	Rationale
	<ul style="list-style-type: none"> Low complexity commodities include consumable items, services provided by utilities, and administrative services due to ease of sourcing.
	<ul style="list-style-type: none"> Low medium complexity commodities include travel and subsistence, catering services, office equipment and fuel due to the large supply base and ease of finding substitutes.
	<ul style="list-style-type: none"> Medium complexity commodities include security, human resources and advertising related services. Due to the specialised nature of the services, which however there is still a number of substitutes available
	<ul style="list-style-type: none"> Medium high complexity commodities include facilities, medical and legal goods and services, due to difficulty in substituting products and specialised technology of suppliers.
	<ul style="list-style-type: none"> High complexity commodities such as software, licenses and project management services, due to the stringent contractual and IP protection requirements

Business Impact	Rationale
	<ul style="list-style-type: none"> Low business impact commodities including support materials and services.
	<ul style="list-style-type: none"> Low medium business impact such as administration, equipment and machinery rental services because these do not have a direct impact on business activities.
	<ul style="list-style-type: none"> Goods and services that do not have a direct impact on business operations, but are important for staff morale such as training and development, events and office furniture.
	<ul style="list-style-type: none"> Relatively high business impact items that are important to the operations of the business such as utilities and professional services.
	<ul style="list-style-type: none"> Very high business impact items that are critical to the operations of the business such as medical and IT goods and services

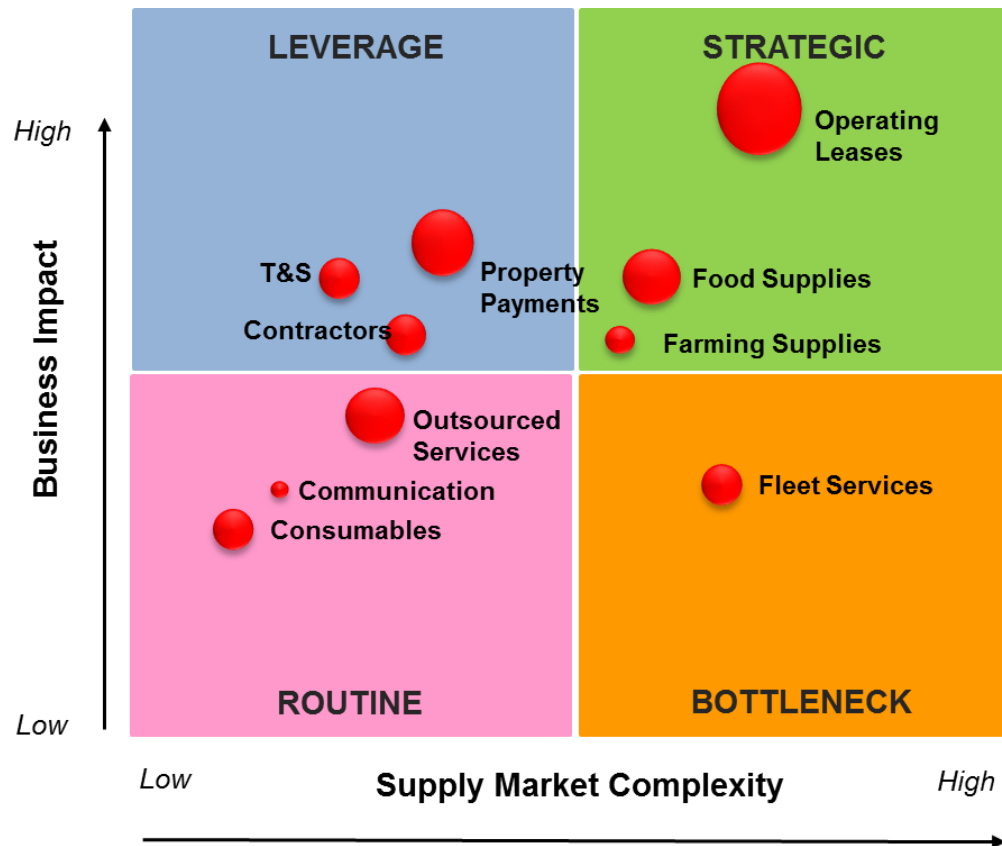
				
Characteristics	<p>Many alternative products and services</p> <p>Many sources of supply</p> <p>Low value, small individual transactions</p> <p>Everyday use, unspecified items</p> <p>Anyone could buy it</p>	<p>High expenditure</p> <p>Many qualified sources of supply</p> <p>Large marketplace capacity</p> <p>Many alternative products and services</p> <p>Market / price sensitive</p>	<p>Critical to operations and service delivery</p> <p>Few qualified sources of supply</p> <p>Large expenditure</p> <p>Design and quality are critical</p> <p>Complex and/or rigid specifications</p>	<p>Complex specifications</p> <p>Complex manufacturing or service process</p> <p>Few alternative sources of supply</p> <p>Huge impact on operations / service delivery</p> <p>New technology</p>
Strategy	Simplify acquisition process	Maximise commercial advantage	Form partnerships with suppliers	Ensure supply continuity Reduce Risk
Tactics	<p>Increase role of systems</p> <p>Reduce buying effort</p>	<p>Concentrate business</p> <p>Maintain competition</p>	Increase role of selected suppliers	<p>Decrease uniqueness of suppliers</p> <p>Manage supply</p>
Action	<p>Rationalise supplier base</p> <p>Automate requisitioning and order process</p> <p>Minimise administration costs</p> <p>Little negotiation</p> <p>Aggregate and standardise</p> <p>Move to Leverage</p>	<p>Use market competition</p> <p>Shorter term relationships</p> <p>Exploit market cycles/trends</p> <p>Procurement coordination / aggregation</p> <p>Use industry standards</p> <p>Active sourcing</p> <p>Move to Strategic</p>	<p>Heavy negotiation</p> <p>Supplier process management</p> <p>Analyse market / competition</p> <p>Use functional specifications</p> <p>Move to Leverage</p> <p>Stay Strategic</p>	<p>Remove entry barriers</p> <p>Reduce dependency on suppliers</p> <p>Widen specification</p> <p>Find other solution</p> <p>Develop new suppliers</p> <p>Attempt competitive bidding</p> <p>Move to Routine</p>
Approach	<p>Re-engineer transactional processes</p> <p>Prescriptive procedures and controls</p> <p>Highly systemised</p> <p>Delegated processing</p> <p>Stockless procurement</p> <p>Well organised</p> <p>Focus on process</p> <p>Attention to detail</p>	<p>Market analysis</p> <p>Market price testing</p> <p>Competitive bidding</p> <p>Hard negotiation</p> <p>Supplier development for continuous improvement</p> <p>Low/zero inventory</p>	<p>Market, technical and supplier analysis</p> <p>Negotiations</p> <p>Supplier performance and relationship management</p> <p>Risk Analysis</p> <p>Prepare contingency plans</p> <p>Competitor analysis</p> <p>Creative options generation</p> <p>Relationship building</p> <p>Teamwork</p>	<p>Medium-term contracts to cover risk</p> <p>Market, technical and supplier analysis</p> <p>Risk analysis</p> <p>Contingency planning</p> <p>Analytical</p> <p>Innovation</p> <p>Multi-function teams</p>

So how do we go about Positioning our Commodity?

The objective of positioning the commodities on the Commodity Positioning Matrix is to determine the generic sourcing strategy, approach, tactics and actions for specific commodities to achieve the best results when considering procurement initiatives.

The commodity can be positioned by making use of a generic questionnaire taking into account the various factors at play. Answers to the questions are weighted to give an overall score which are used in positioning the commodity on the graph.

See the [Commodity Positioning Tool](#) (MS Excel) in the SPF Toolkit.



Note:

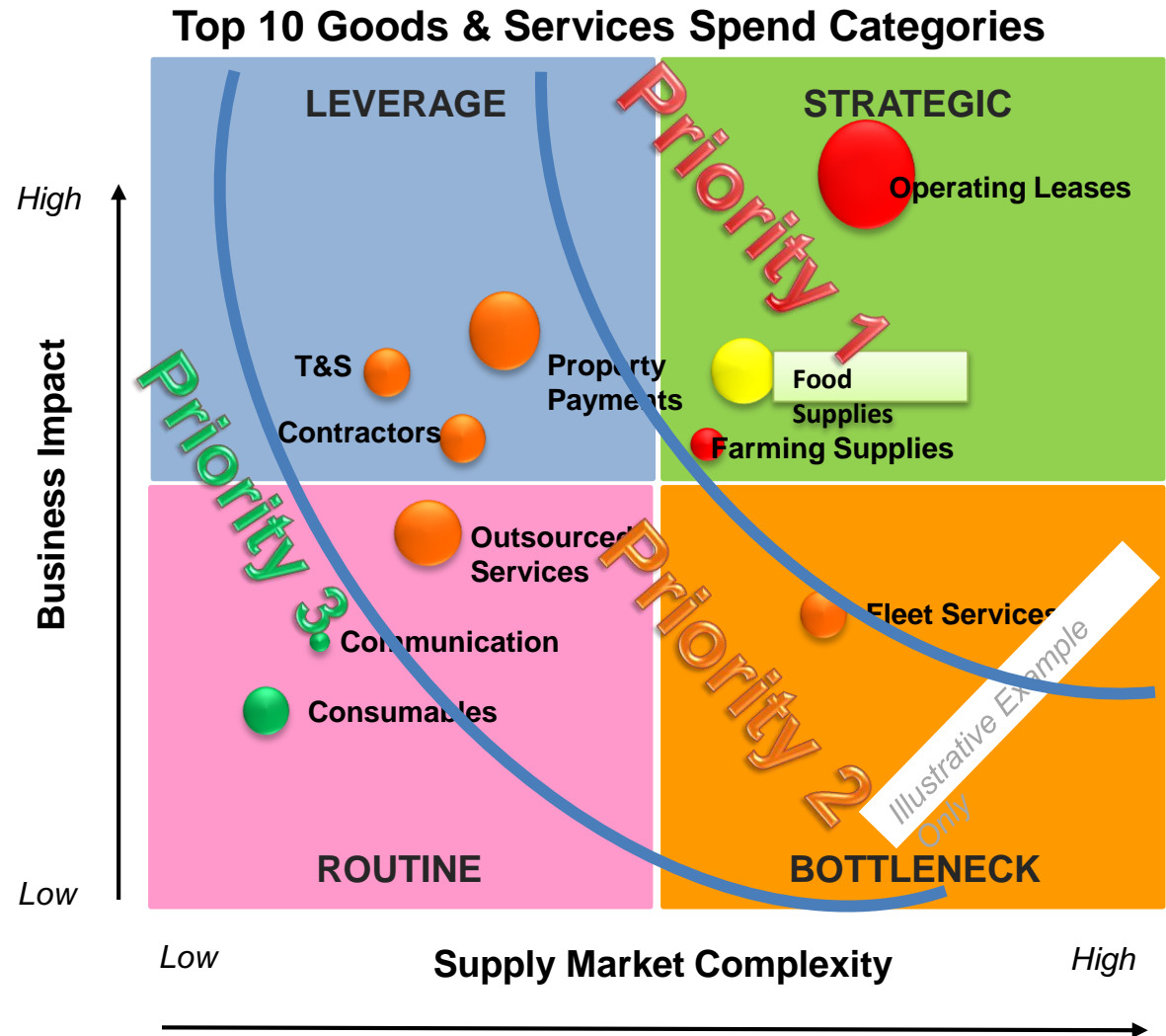
Exact placement of the category is less important than its relative placement

Prioritising for Strategic Planning Purposes

The objective of prioritizing the commodities / commodity groups is to determine a work plan / procurement plan over a 3-5 year period.

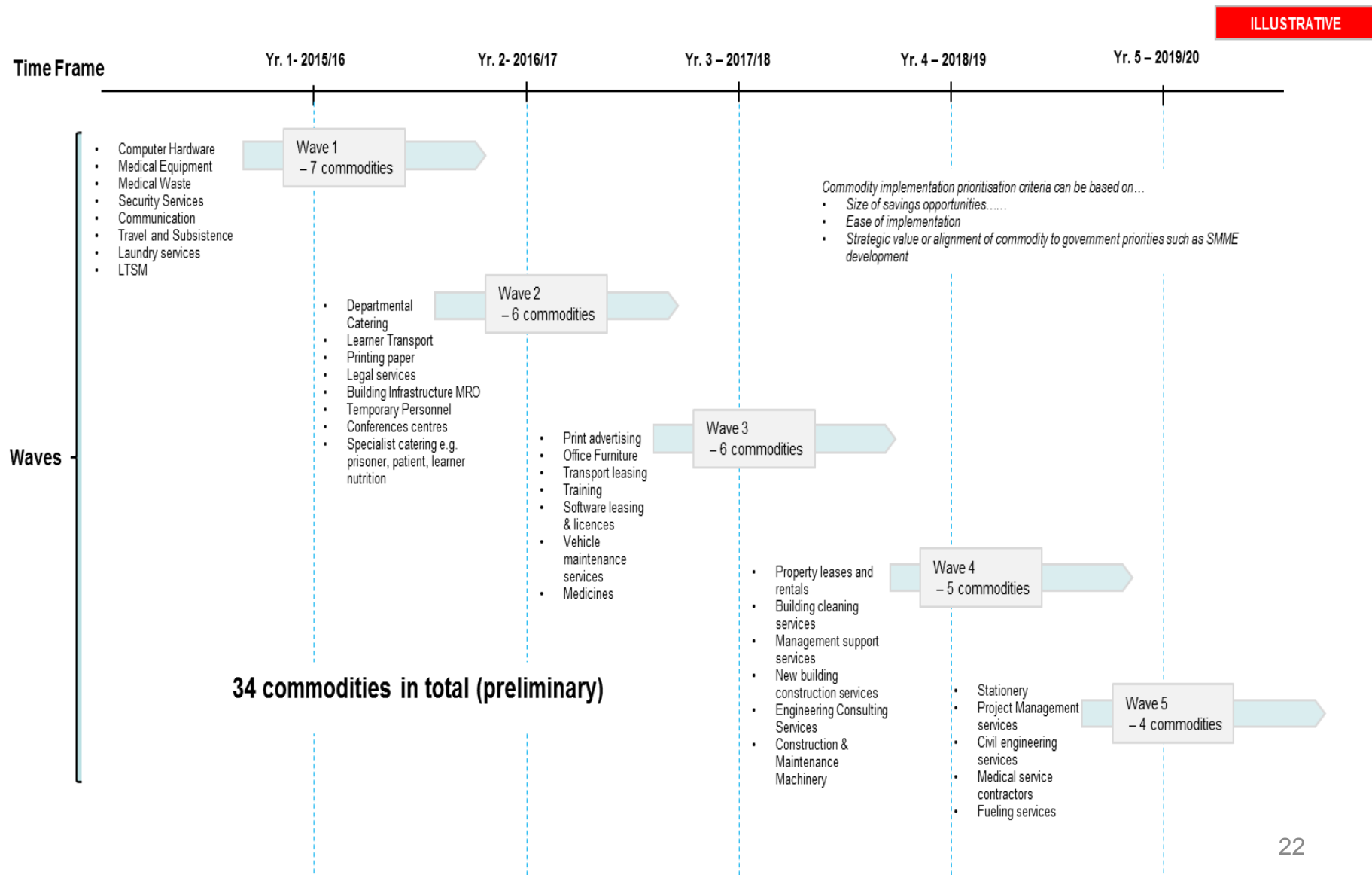
Commodity implementation prioritisation criteria can be based on:

- Size of savings opportunities;
- Ease of implementation;
- Strategic value or alignment of commodity to government priorities such as SMME development; etc..



Wave Implementation Plan

This figure illustrates a real case example of a wave implementation plan over a five year period



1.2

Commodity Group / Category Classification

Objective: To obtain the optimum grouping of similar items /services that share similar supply processes, internal uses, specifications and technology.

Output:
A commodity group or category definition

Commodity Group Classification / Procurement Categorization

DEFINITION:

- The **Commodity Group/Category** in the context of Strategic Sourcing is a group of products, goods or services which are likely to share similar supply processes, internal uses, specifications and technology that can be sourced from the same supplier groups using the same approaches.
- **Sub-group/category**: a logical subgrouping within a category with similar goods/services/market characteristics.

OTHER CONSIDERATIONS:

- It is important to consider all sourcing requirements in the context of the Commodity Group, since this aggregation enables the Organisation to measure leverage and reduce the overall number of suppliers.
- When first starting a sourcing initiative, the entire Commodity Group must be in scope so as to ensure that potential opportunities are not limited and to gain a detailed understanding of the level of complexity and connectivity associated with the Commodity Group.
- This step may require iteration to achieve the correct level of granularity. When considering services currently sourced in-house, and thus potentially deliverable via outsourcing, special care must be taken to correctly identify and define the Commodity Group.

Why use Commodity Groups / Procurement Categories?

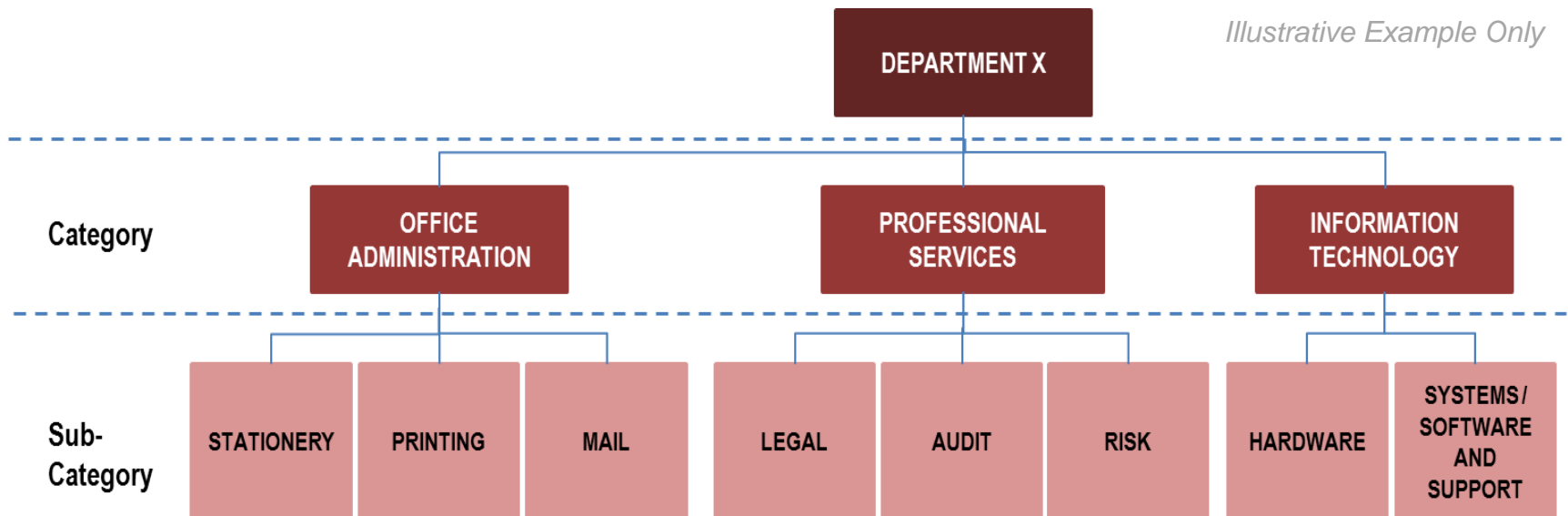
Procurement categories can improve procurement processes and increase productivity. Procurement categories allow you to:

- develop targeted strategies for the best way to procure similar goods/services;
- get a better picture of procurement spend across your organisation;
- generate significant discounts; and
- establish aggregated supply arrangements to cover a category of multiple transactions.

Example: Rather than approaching different suppliers for different items, work out exactly how much your organisation spends on all furniture items and what those items are. You can then develop an agreement with one or a limited number of suppliers to meet your requirements. This approach can generate significant discounts and greater procurement efficiency.

Is this the Optimum Grouping of the Current Services / Products?

- Discuss and challenge the current commodity groups/categories.
- What advantage could be gained by the current sourcing group/category classification?
- Identify any sub-components that should be omitted from the group or alternatively any sub-components that should logically be included.
- Define the newly reviewed Commodity Group/Category



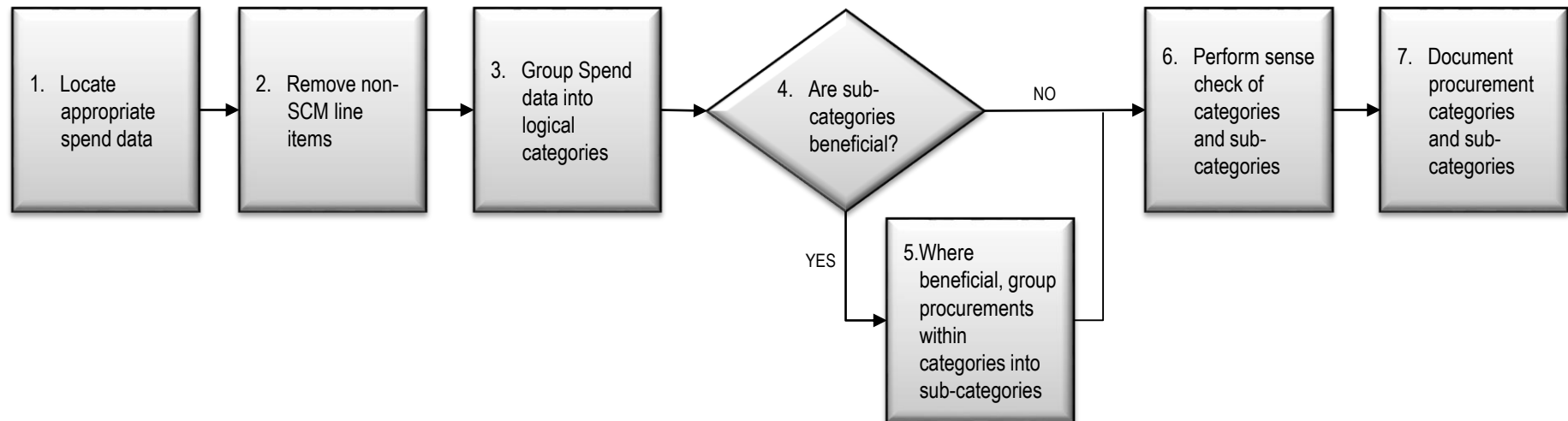
Is this the Optimum Grouping of the Current Services / Products?

The process for identifying categories involves mapping an organisation/business unit's spend data. Spend mapping and identifying procurement categories should be done by personnel with sufficient knowledge and insight of the spend and procurement activities of the organisation.

Note: Procurement categories can change over time. For example, a category may change due to a changing supplier market. In today's market, IT consumables such as memory sticks and compacts discs would most likely be categorised under stationery as they are currently supplied at a competitive price by general stationers. Previously they were only procured from IT specialist suppliers.

The categorisation process occurs in conjunction with the organisation's procurement strategy and procurement activity plan.

This diagram outlines the main steps for defining procurement categories.

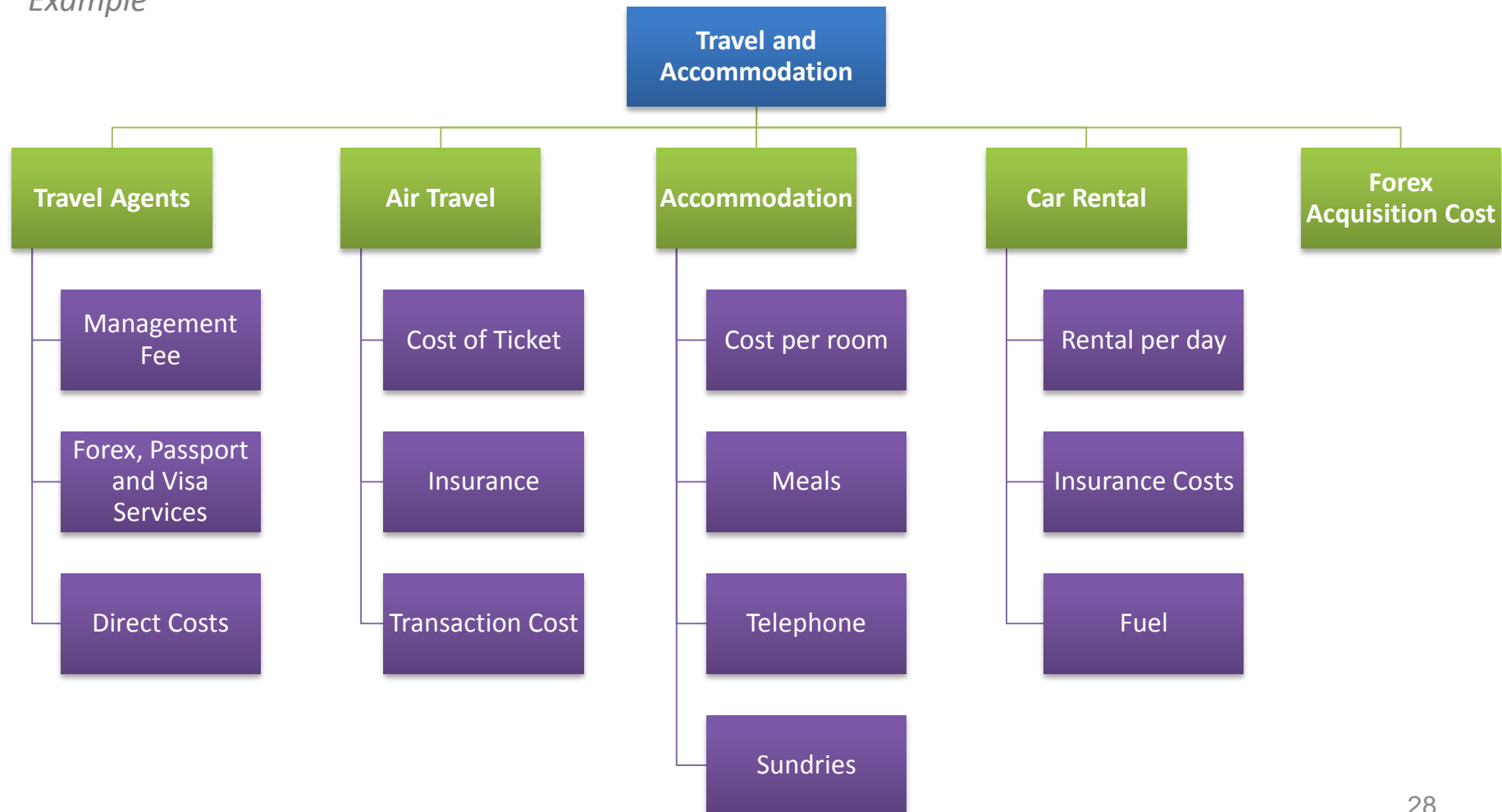


Example : Commodity Group Definition

Travel and Accommodation

Each commodity group/category and sub-group/category should have a Commodity Group Definition that sufficiently defines the purpose/composition of each category and sub-category

Example



Example: Commodity Group Definition Travel and Accommodation

Example

Element	Definitions
Travel Agent Fees	Travel agent management fees associated with the booking and management of Travel requirements. This includes Visa and Passport Cost where applicable but <u>excludes</u> cost relating to the acquisition of Forex.
Air travel	Actual cost of Air Travel (Ticket costs), Insurance and Transaction Cost
Accommodation	Actual cost of Accommodation including Cost of Room, Meals, Telephone charges, Sundries such as laundry, entertainment, bar, newspaper etc.
Car rental	These are all the consolidated costs that are related to the procurement of car rental services

1.3

Project Proposal & Approval

Objective: The objective of the project proposal is to obtain approval to initiate a strategic sourcing initiative that was identified during the portfolio analysis.

Output:

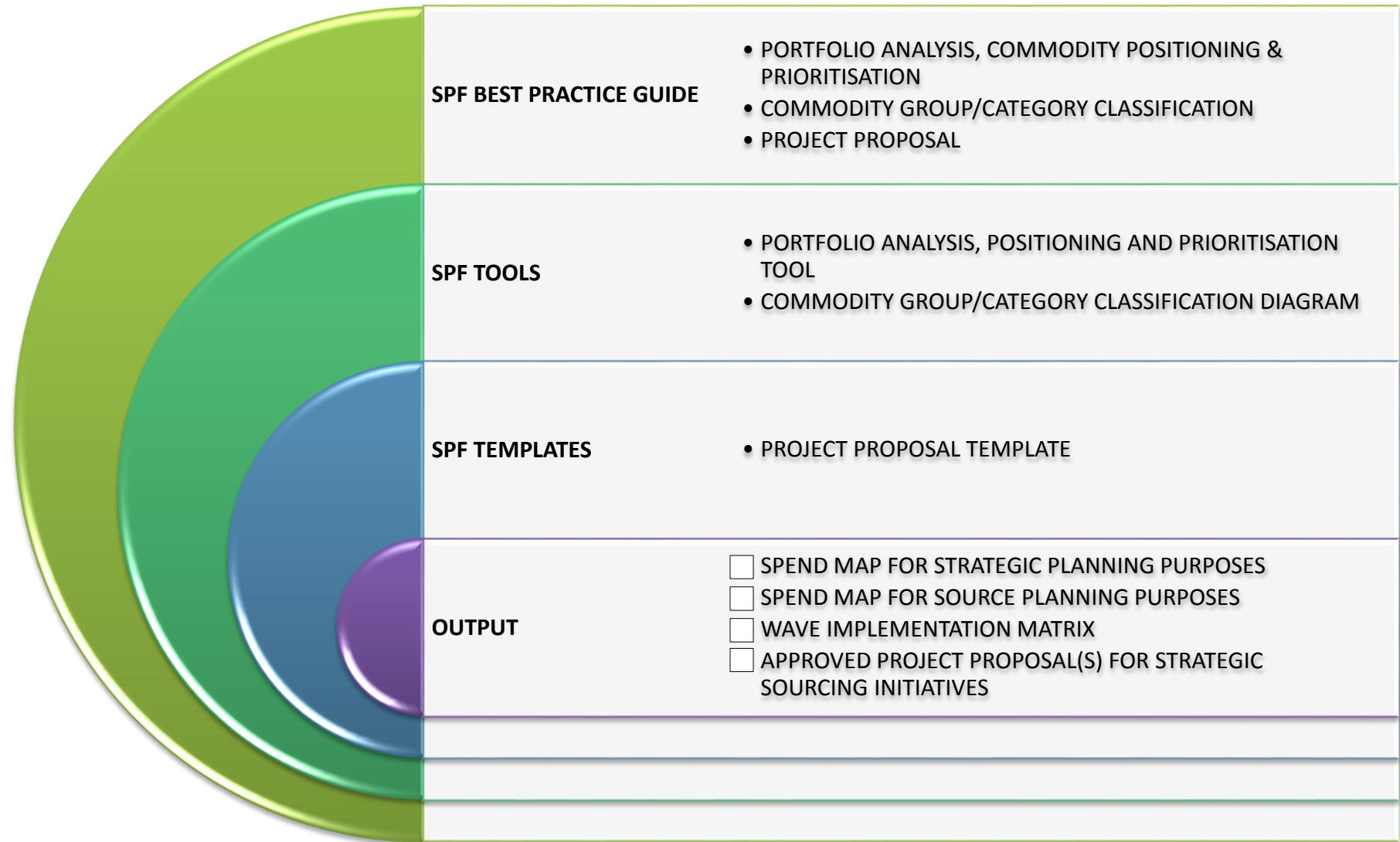
- An approved project proposal

Project Proposal Outline

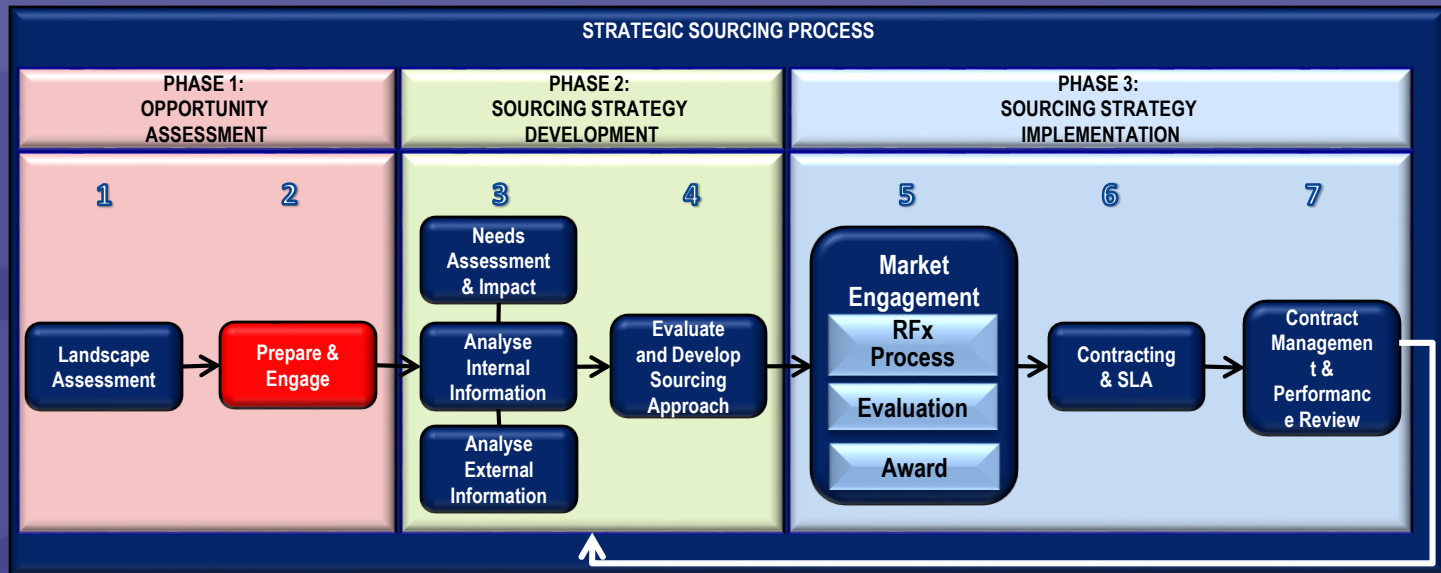
	Project Outline:
Project Rationale	You will place here project need for your business including background/context and why it require to be done
Project Purpose:	You will state overall reason for the project under project purpose heading
Project Goal:	What is the goal and end results of your project
Broad statement of Scope:	You will identify here what kind of work will be accomplished to complete your project successfully
Project Objectives:	Objectives of project will go under this heading
Project Impact	State here how the project will impact business strategies, internal and external stakeholders etc
Anticipated Benefits:	Who will benefit, how they will benefit, what is the gain if the project is successfully completed are such points which will go under this heading (E.g Savings target , process efficiency, etc)
Key Success Factors:	Factors that will be used to determine the success of the project will be listed here
Quality Definition	Quality criteria against which the project will be measured goes here
Major Deliverables:	Key deliverables and route for achieving the project and specifying final outputs/deliverables from the project will be added under this heading
Estimated Timeframe:	State the timeframes estimated for project completion.
Estimated Budget:	State here estimation of budget which is required to complete your project
Constraints:	Constraints that can limit the project e.g. time cost, quality etc. will be described here
Assumptions:	Assumptions about the project will be described under this heading
Potential Risks:	Most serious potential risks will be identified here

Stage 1 – Landscape Assessment Outcome

Stage 1 – Landscape Assessment



2. PREPARE & ENGAGE



- 2.1 Establish Cross-Functional Project Team
- 2.2(a) Stakeholder identification & Mapping
- 2.2(b) Governance Structure
- 2.2(c) Communication Plan
- 2.3 Project Scope
- 2.4 Project Plan & Charter

Objective:

The objective of Stage 2 is to mobilise the project by establishing the cross-functional project team, identifying the stakeholders and establishing the governance and communication structures. It further involves scoping the project and developing the detailed project plan and documenting it in a project charter.

Output:

- 1. A Cross-functional Sourcing Team
- 2. Stakeholder map
- 3. Governance and Communication Structures
- 4. A Project Plan and Charter

2.1

Establish Cross-Functional Project Team

Objective:

To assemble a multi-disciplinary group of people from various functional areas of the organisation who have a mandate to make decisions on behalf of their respective functions, are all focused on a specific objective and are responsible to work as a team to improve sourcing practices.

Output:

- A committed Cross-functional Sourcing Team with clear roles and responsibilities

Strategic Sourcing is not an isolated Procurement process

- The key task at the beginning of the project is to assemble and facilitate a team of stakeholder representatives who will devote enough time and be prepared to think openly and creatively about solutions.
- The establishment of the Cross Functional Sourcing Teams (CFST's) ensure that :
 - vital information is not overlooked or excluded ; and
 - provides maximum buy-in and the consideration throughout the sourcing process.
- Cross Functional Sourcing Teams (CFST's) are made up of individuals from different functional disciplines brought together to achieve a purchasing, material or service related task in which the team must consider purchasing/sourcing goals or decisions.
- The highest perceived benefit from cross-functional sourcing teams is the ability to bring greater knowledge and skill together at one time. These individuals do not exist as separate entities with limited knowledge of what the other is doing , but rather they work together within the framework of a unified whole in order to achieve the desired outcome.

Team members should typically include representatives from the following areas, depending on the Commodity being sourced:



Functions and Responsibilities of the CFST include...

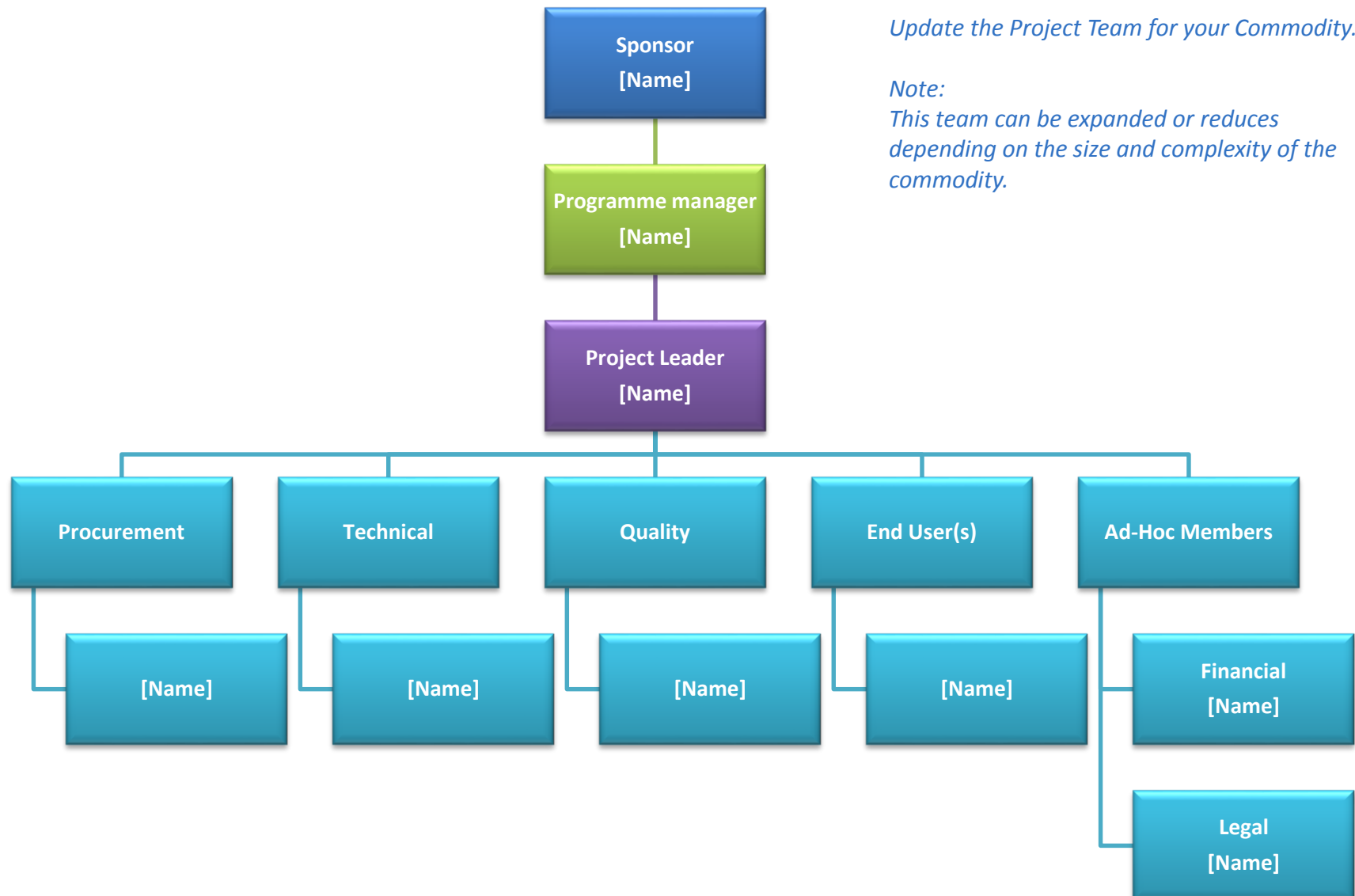


The Cross Functional Sourcing Team for [Commodity]

Update the Project Team for your Commodity.

Note:

This team can be expanded or reduces depending on the size and complexity of the commodity.



2.2

Stakeholder Identification and Mapping, Governance structures and Communication Plans

Objective:

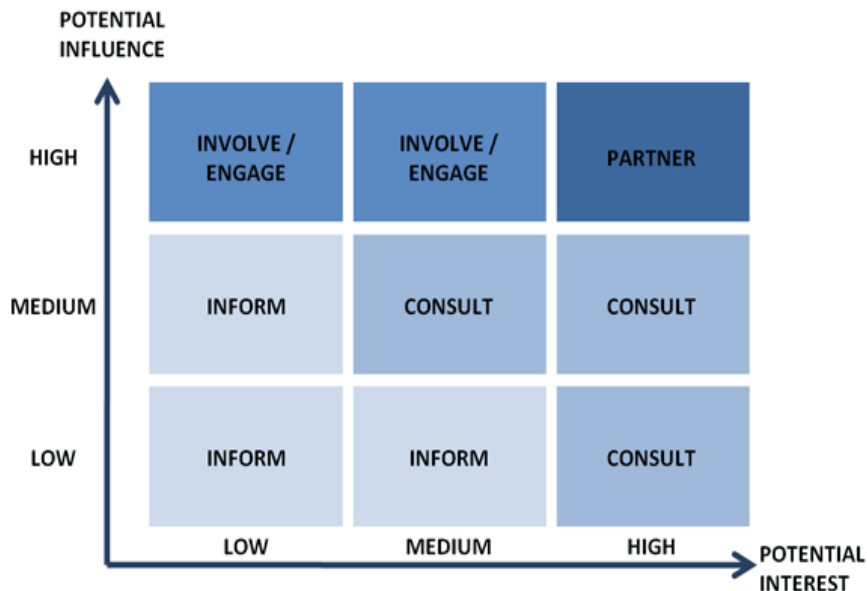
- To identify individuals and/or groups that are affected, can support or has influence over the sourcing project.
- To establish proper governance structures for oversight, direction and risk management
- To develop a communication plan to communicate progress and status of the project to decision makers and all affected parties

Output:

- A stakeholder map with a clear understanding of their power and/or influence
- A Communication Plan
- A Governance structure with clear objectives and roles

Stakeholder Management

- Stakeholders are the individuals and/or groups affected by and capable of influencing the strategic sourcing process.
- Assessment of stakeholders and stakeholder issues is necessary to identify the range of interests, affiliations, vested interests and priorities to be taken into consideration in planning any change and to generate support for the improvement efforts.
- Based on this information, it is possible to develop a list of management actions to maximise support and overcome resistance, it further reduce the likelihood of unexpected requirements surfacing later that cannot be accommodated because of schedule or scope constraints.



Stakeholder Identification and Mapping

Stakeholders are individuals, groups, or end-users who may affect, be affected by, or perceive itself to be affected by a decision, activity, or outcome of a sourcing initiative.

Stakeholders may be actively involved in the project or have interests that may be positively or negatively affected by the performance or completion of the project.

Different stakeholders may have competing expectations that might create conflict within the project.

Stakeholders may also exert influence over the project, its deliverables, and the CFST in order to achieve a set of outcomes that satisfy strategic business objectives or other needs.”

Using the above definition, project stakeholders include:

- Specific individuals, groups of people or end-users
- Internal individuals or groups (within the government organization) or external individuals or groups (outside the government organization)
- Contributors to the project – they may provide products or services that contribute to project objectives
- Recipients of products or services provided by the project
- Individuals or groups that are interested in, or can influence the outcome of the project
- People with competing objectives or opposing views that can create conflict or resistance to the project
- Individuals or groups who are affected by **how** the project is done and may provide opposition during the project

Stakeholder Identification Sources

Stakeholder identification is the first step in planning engagements and communication with project stakeholders.

Project stakeholders can often be identified during the preparation of project planning deliverables. Potential stakeholder categories identified in project planning documents are shown in the table below.

STAKEHOLDER CATEGORY								
Project Planning	CFST (Output Delivery)	Product or Service Usage (End-users)	Product or Service support	Funding or Budget authority	Contributors	Review/ Audit	Outcome affected parties	Related Projects
Potential Project Identification	X	X		X			X	
Project Priority List	X			X				X
Project Business Case	X	X	X	X			X	
Project Charter	X	X	X	X			X	
Scope Statement	X	X	X		X			X
Risk Management	X	X	X	X	X	X	X	X
Sourcing strategy	X		X	X	X	X		

Stakeholder Categories

Project stakeholders fall into one of eight categories as shown in the table below.

Stakeholder Category	Stakeholder Description
Output delivery	Individuals, groups, or organizations responsible for the delivery of the project's outputs
Product/service usage	Directly or indirectly use the project products; ultimately responsible for the achievement of business objectives using the project deliverables
Product/service support	Responsible for ensuring that the project product is available for use
Funding / budget authority	Accountable for the outcome of the project and approval for release of funding and provision of resources
Contributor	Individuals or groups who provide inputs and services to the project
Review / Audit	Groups or organizations who need to review or audit the project and its deliverables to ensure that proper processes are followed and the quality of deliverables meets appropriate standards
Outcome affected	Public/press/media, unions or bargaining units, and competitors of the organization
Related projects	Other project teams may provide inputs to or receive outputs from the project

Stakeholder Identification Sheet

Using the Stakeholder Identification sheet (summarized in the table below), identify all the project stakeholders (internal and external, individuals, groups or organizations).

Please refer to the ***SPF Good Practice Guide: Prepare and Engage Stakeholders*** for more detailed information.

Stakeholder Category	Stakeholder Name	Project Stake	Commitment Requirement	Internal/ External	Further Analysis	Preferred medium	Technology Access	Special information needs

Stakeholder Power and Influence

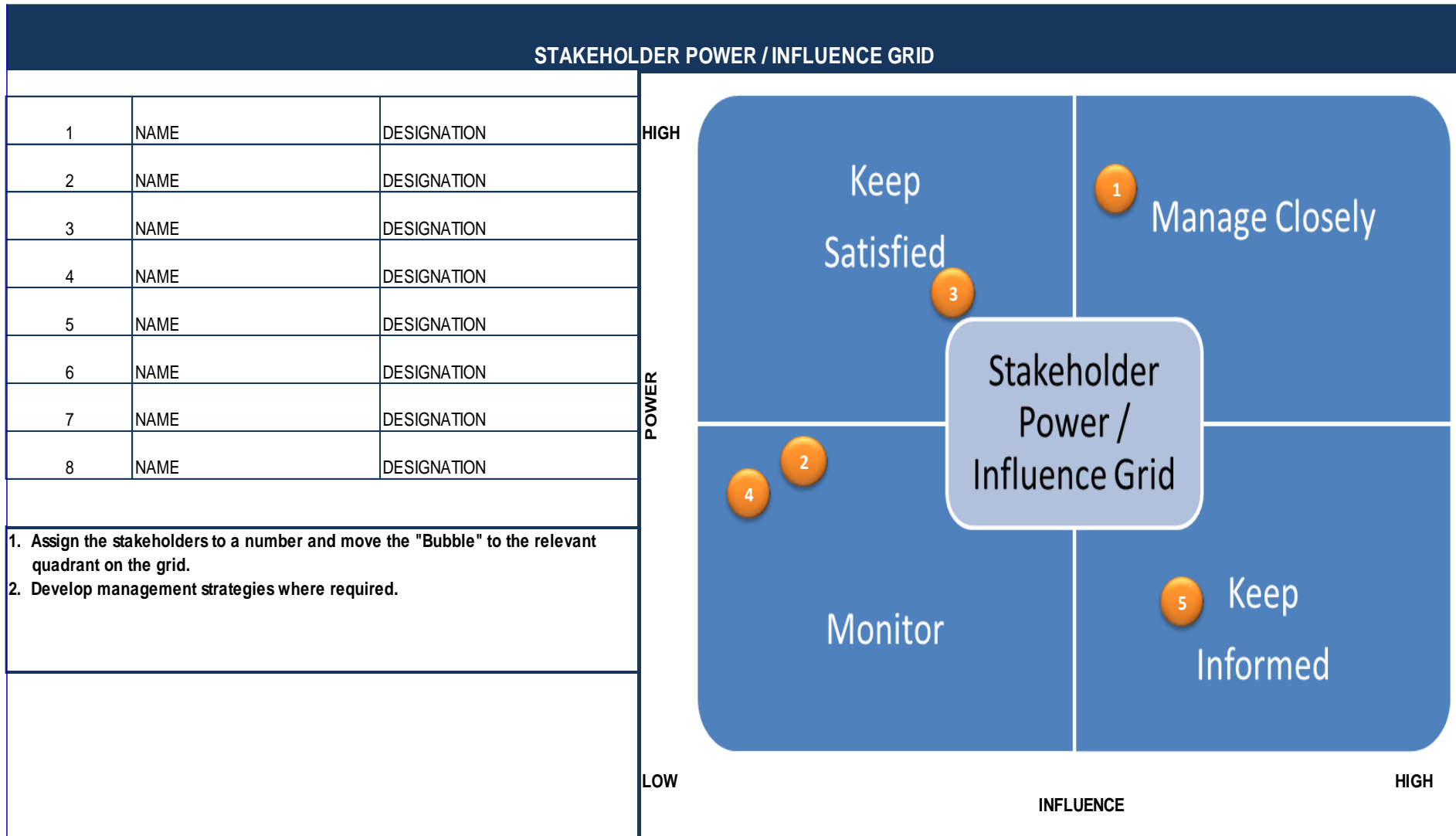
Influence Category	Influence on project
Decision maker	Have the formal authority to directly affect the project's ability to achieve objectives.
Gatekeeper	Able to route, delay or block project communications.
Opinion Leader	Significant informal influence that will indirectly affect the project's ability to achieve objectives.
Minimal	Has no formal or informal influence on the project

Determine the formal power of the project stakeholder as follows:

- **High** power means the person or group has the power of veto and can cancel or significantly change the project,
- **Medium** power indicates that the project could achieve its objectives against this stakeholder's opposition, but it would not be easy,
- **Low** indicates the stakeholder can do little to adversely affect the outcome of the project.

Stakeholder Power / Influence Grid

The stakeholder categorization grid below can be used to understand the correlation of stakeholder power and influence.

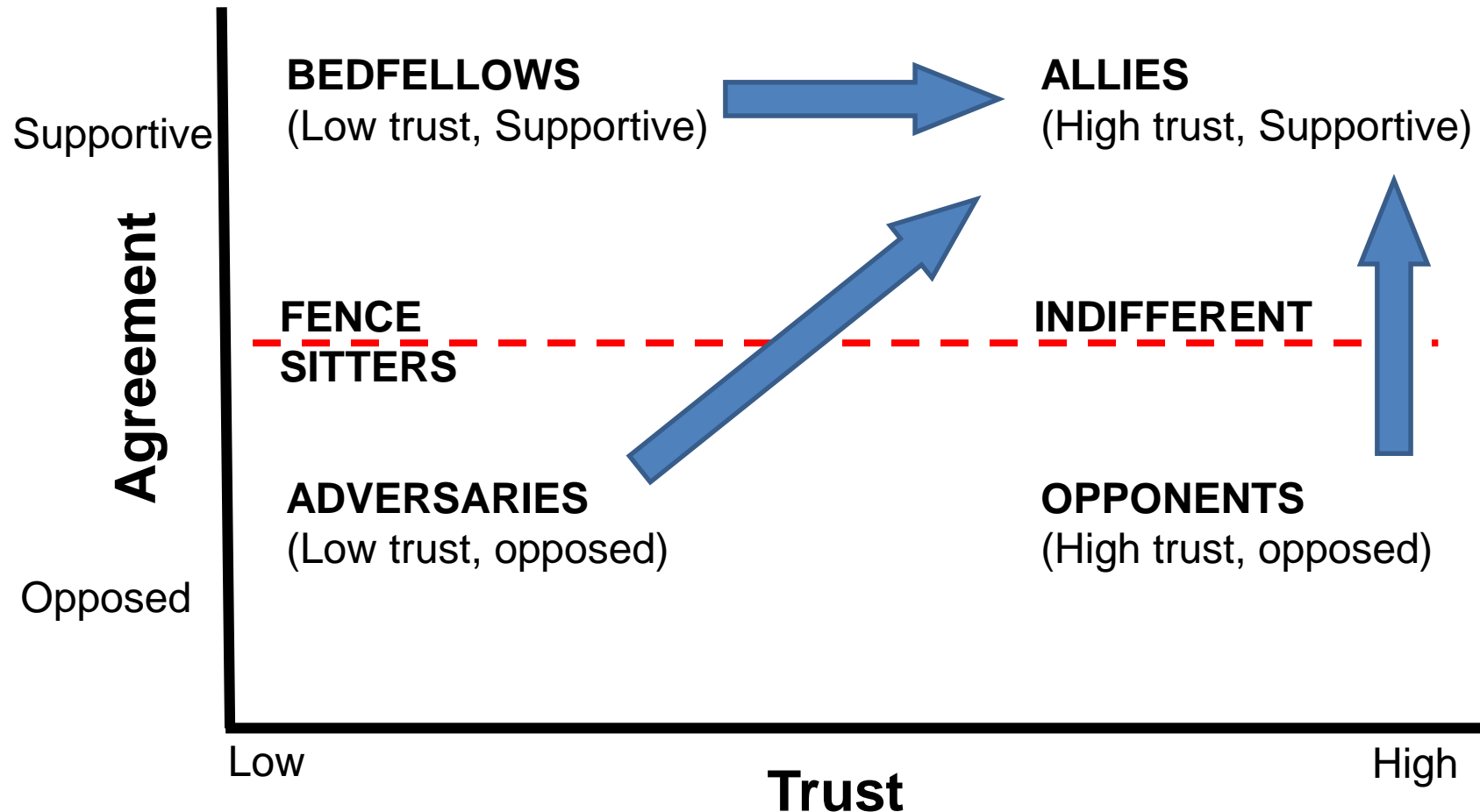


Stakeholder Support

Stakeholder support consists of two dimensions: **agreement** and **trust**.

Based on the level of support across these two dimensions, stakeholders fall into one of six groups as shown in the diagram.

Please refer to the ***SPF Good Practice Guide: Prepare and Engage Stakeholders*** for more detailed information.



Stakeholder Communication Strategy

Communication Strategy-

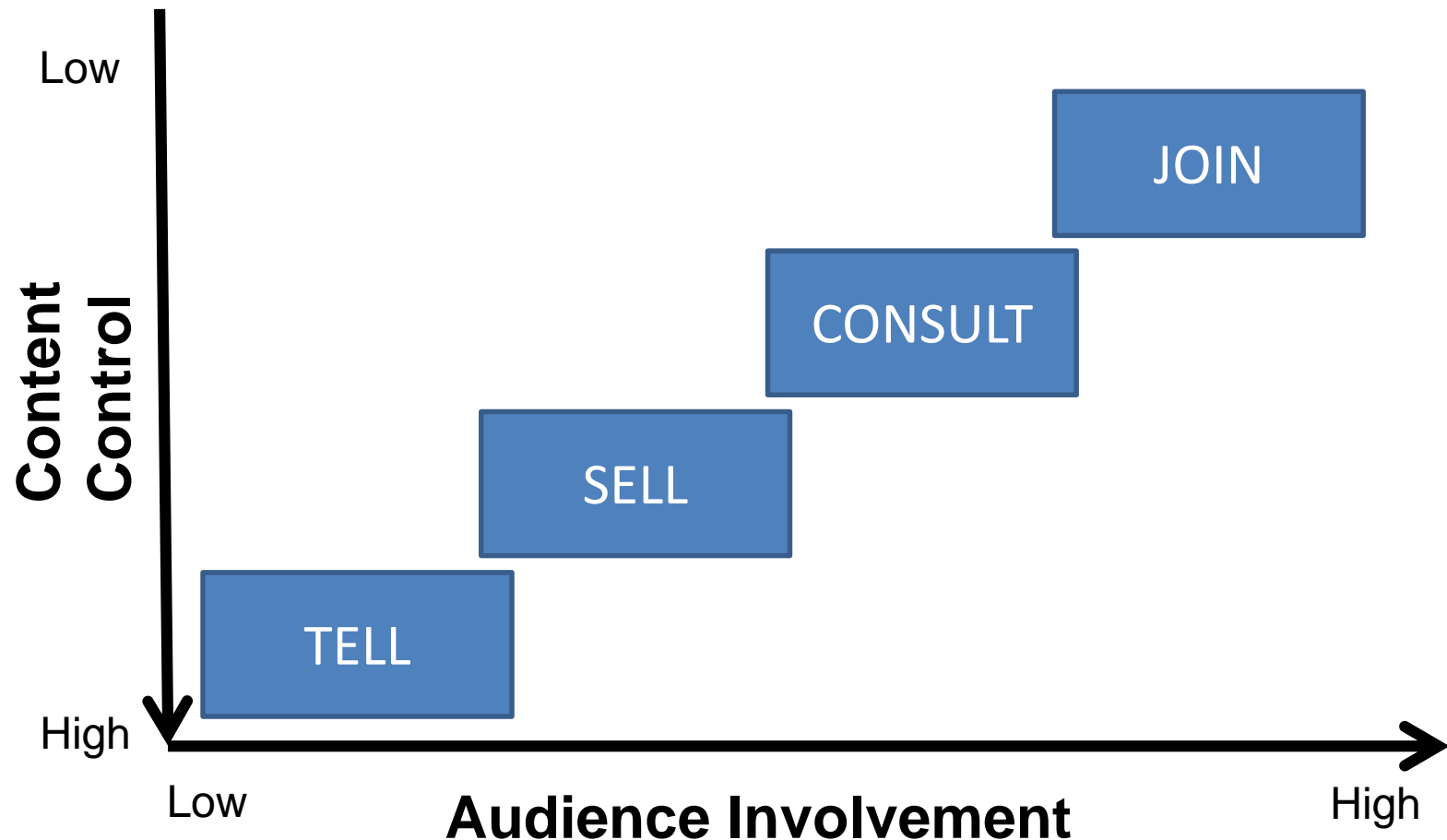
- The stakeholder communication strategy should address the stakeholder commitment level.
- Compare the required commitment level (from the Stakeholder Identification sheet) with the current commitment level (based on the Stakeholder Analysis).
- Prepare a communications strategy to close the gap between current and required commitment and then maintain the required commitment.
- This may include methods of leveraging strong support from powerful stakeholders or means of mitigating the affect of stakeholders opposed to the project.

Stakeholder Communication Strategy

Communications Style –

The communication style to be used depends on the need to control both the message content and the audience involvement as shown in the diagram below.

Please refer to the ***SPF Good Practice Guide: Prepare and Engage Stakeholders*** for more detailed information.



Governance Structure

- CFST's are supported by Programme Managers and Senior Executive Committees (Exco) each with the authorities as assigned by them and defined in the Delegation of Authority.
- The approval level in the DoA is dependent on key variables such as budget amount, complexity and strategic importance of the category/commodity.

Exco / Project Sponsor

- **Decision making body with relevant authority as defined in the Delegation of Authority.**
- **Provides support, guidance and directives as needed.**

Programme Manager

- **Decision making body with relevant authority as defined in the Delegation of Authority.**
- **Responsible for empowering the CFST's and provide support, guidance and directives as needed.**

CFST Project Leader

- **The purpose of the Cross Functional sourcing team is to proactively define sourcing strategies in line with the relevant authorities assigned to them in the individual team charters and Delegation of Authority.**

Sub Team
(Subject
Matter
Expert)

Sub Team
(Subject
Matter
Expert)

Sub Team
(Subject
Matter
Expert)

- **Appointed on a project basis as and when required to provide assistance to the CFST's**

Who is the Project Sponsor?

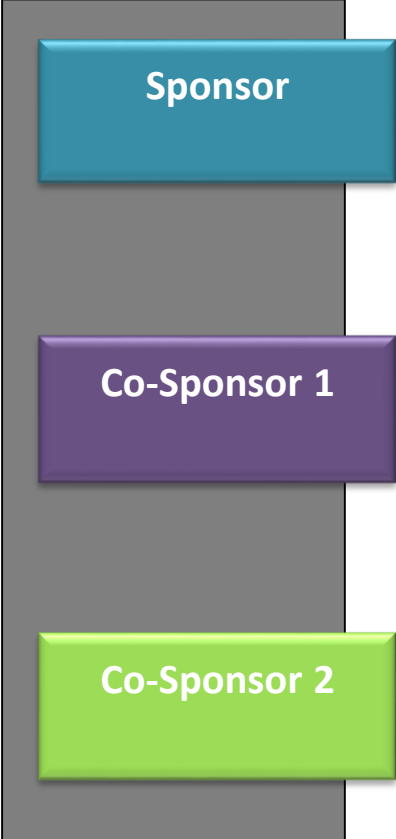
Exco / Project Sponsor

- Decision making body with relevant authority as defined in the Delegation of Authority.
- Provides support, guidance and directives as needed.

- The Project Sponsor should be a Senior Executive of the organisation who:
 - Has a major stake in the success of the project;
 - Is the business manager or responsible for achieving the benefits of the projects;
 - Must be in a position to approve all project expenditure, and make the decisions on all proposals
 - Should be able to resolve any escalation issue



Sponsors and Co-Sponsors

	Names	Role of the Sponsor and Co-Sponsor
	<ul style="list-style-type: none">• [Name] [Designation]	Problem solving leadership – engage with team at regular intervals to further idea analyses and problem solving
	<ul style="list-style-type: none">• [Name] [Designation]	Addressing bottlenecks – assist the team address any obstacles in the value team process and during implementation
	<ul style="list-style-type: none">• [Name] [Designation]	Sign off – sign off on all evaluated ideas/modules and savings targets
		Support implementation – take on overall responsibility for implementation of modules and achievement of savings targets

The Role of the Programme Manager

Programme Manager

- **Decision making body with relevant authority as defined in the Delegation of Authority.**
- **Responsible for empowering the CFST's and provide support, guidance and directives as needed.**

- The Programme Manager should be a Senior Manager in the organisation who will provide the following:
 - Empower the CFST's and provide support, guidance and directives as needed
 - Offer Subject Matter Expert (SME) advice of key issues
 - Have a broader understanding of the other on-going business initiatives and how they can impact or be impacted by the project
 - Facilitate access to key internal and external Stakeholders

The Role of the CFST Project Leader

CFST Project Leader

- The purpose of the Cross Functional sourcing team is to proactively define sourcing strategies in line with the relevant authorities assigned to them in the individual team charters and Delegation of Authority.

PROJECT LEADER

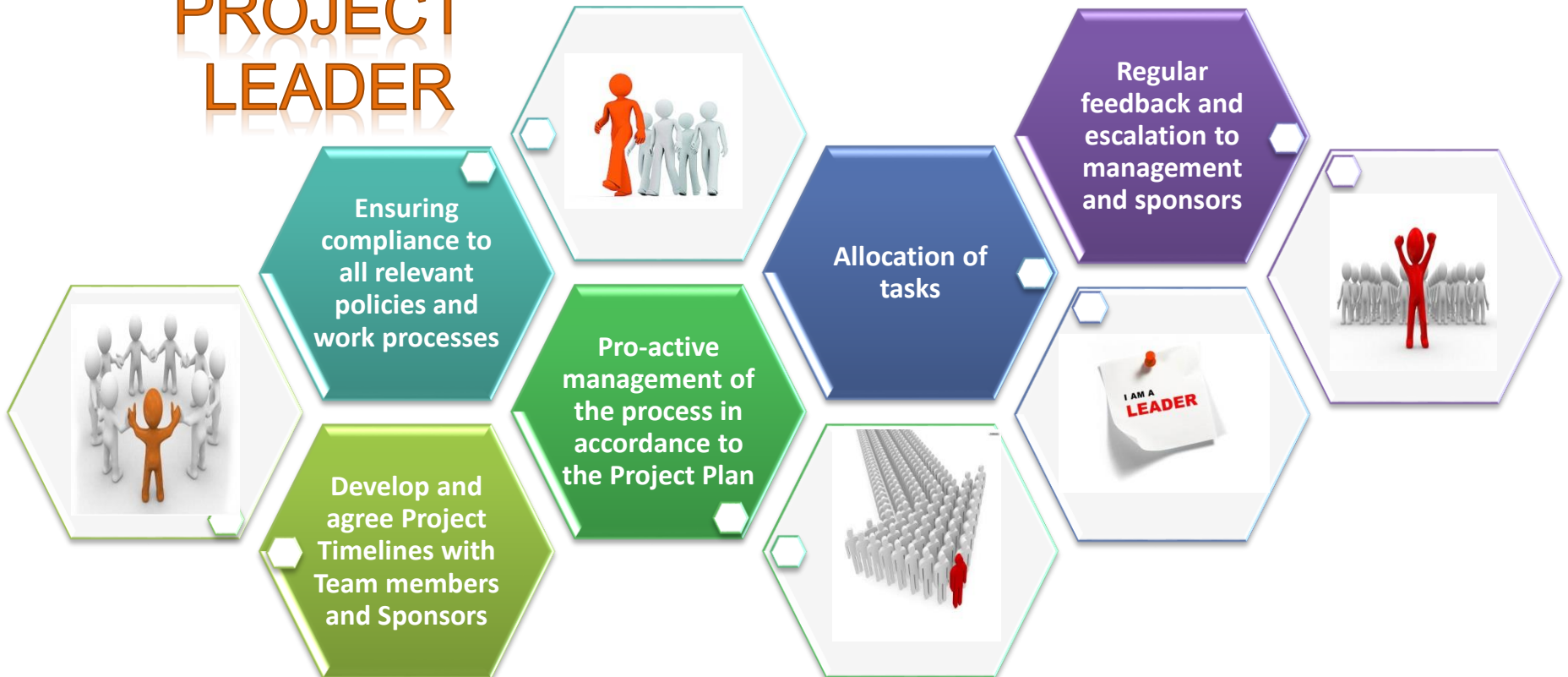
Ensuring compliance to all relevant policies and work processes

Pro-active management of the process in accordance to the Project Plan

Allocation of tasks

Regular feedback and escalation to management and sponsors

Develop and agree Project Timelines with Team members and Sponsors



Governance Structure and Communication Plan

Governance Structure				
Category:			Date:	
Governance body	Objective	Method	Frequency	Members / Action
Exco / Sponsor	Provide progress update to EXCO Communicate risks & Issues Actions to mitigate risks & issues High-level strategic direction	Meeting	Monthly	
Programme Manager	Provide progress update to Programme manager Communicate risks & Issues Actions to mitigate risks & issues High-level project direction			
CFST meeting	Track individual progress Highlight risks Immediate next steps	Meeting	Weekly	
BSC (Bid Specification Committee)	To assess and approve the technical specifications as well as the Special conditions of contract.	Meeting	Scheduled	To be appointed
BEC (Bid Evaluation Committee)	To evaluate the bid responses i.t.o. - Administrative compliance - Functionality - PPPFA To make recommendations to the BAC for approval	Meeting	Scheduled	To be appointed
BAC (Bid Adjudication Committee)	To consider the recommendations made by the BEC To give mandate to negotiate (if applicable) To approve / reject the recommendation	Meeting	Scheduled	To be appointed

2.3

Project Scope

Objective:

- To define the problem statement, the specific boundaries of the project as well as the responsibilities of the project manager and team members.
- To clearly define the project objectives to ensure all stakeholders share a common view of what the project deliverables are.

Output:

- A Project Scope Definition

What should the Problem Statement answer?

A **problem statement** should answer these questions:

- What is the problem?
- What is the current situation?
- Who has the problem or who is the client/customer?
- What is included in the scope of the solution?
- What is out of scope?
- What are the limitations or barriers in dealing with the problem?



Other considerations

- Determine government / departmental objectives to be achieved through Strategic Sourcing for this commodity identified:
 - Identify high-level strategic objective for the department (s) in question by examining the budget, strategic plans and other relevant documents that might shed light on the strategic objectives.
 - Identify specific strategic objective for the commodity chosen, where applicable, e.g. specific interventions, strategic programmes, etc.

A problem statement is a **clear concise description** of the issues that need to be addressed by a problem solving team.

The Problem Statement

Basic question to be resolved

Why have you been brought together? What needs to be achieved?

1 Perspective/context

What is the current situation?

What is the current problems experienced?

2 Key decision makers and stakeholders

Who are the key decision makers and stakeholders whose approval and buy-in is required to make any changes to the current situation?

3 Scope of solution space

Where are we looking for potential solutions? (Nationally, Regionally, Global)

What functions are included?

(Specifications, Production, Operations, Procurement, Maintenance, Disposal etc.)

4 Out of scope

What is deemed “out of scope”, in other words those areas that we will not be looking at or include in the current project, and why?

5 Barriers to impact

What aspects can be identified that will potentially hamper the Sourcing Team?

Scope Definition

Scope Definition for [Commodity]

Sites/Regions/ Departments/ Business Units included in the Scope

[Site List/ Regions/Departments/Business Units]

Anticipated natural supply market for the category:

[Local, Regional, Local Agents, National, International]

Functions included in the analysis:

[Demand, Procurement, Technical, User, Maintenance, Logistics, Disposal]

Exclusions:

[Regions, Sites, Items and or functions excluded]

2.4

Project Plan & Charter

Objective:

- The Project Charter is a statement of the scope, objectives and participants in a project and is a critical document to ensure that everyone involved in the project is aware of its purpose and objectives.
- It outlines the project objectives, identifies the main stakeholders, define the boundaries and stipulates the authority of the project manager.
- It serves as a reference of authority for the future of the project and its management.
- The Project Plan that outlines the duration of activities and the major milestones to be achieved.

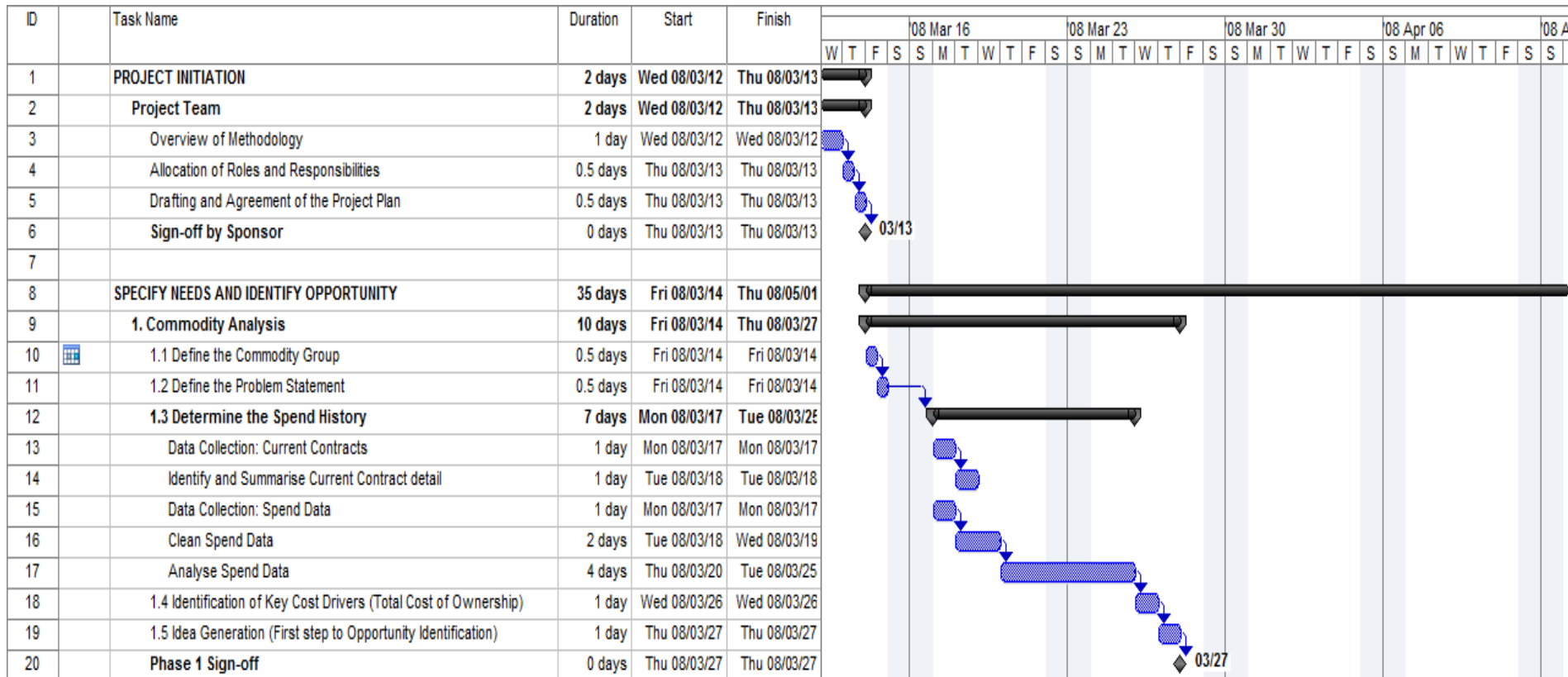
Output:

- A Project Plan & Charter

The Project Plan

By making use of any project management software, update and agree timelines with the Project Team.

The Project Plan needs to be updated weekly, indicating current progress as well as changes to the original plan.



Project Charter

Project Charter – <PROJECT NAME>

Problem Statement

- Define the problem as clear as possible
- What do you want to “fix”

Project Background

Purpose of the Project

- **Purpose** tries to gauge at the reason behind something that is being done.
- Purpose defines the reasoning behind doing a particular thing and what the team plans to achieve from it.
- For example: Project purpose is to stop corruption

Project Boundaries

In Scope

- Clearly define the boundaries of the project

Out of Scope

-

Objectives of the project

- The term **objective** refers to set tasks or goals that the project wishes to accomplish.
- Objectives are more concrete and are clearly defined by certain steps that will eventually allow the project team to fulfil that particular goal.
- Objectives can be termed as small guidelines that help achieve the goal at hand

Anticipated Deliverables

-
-
-

Key milestones (timescales)

-

Risks/Issues

-

Monitoring & Reporting

- Progress Report for weekly / monthly feedback

Assumptions

-

Project Roles & Responsibilities

Programme Manager

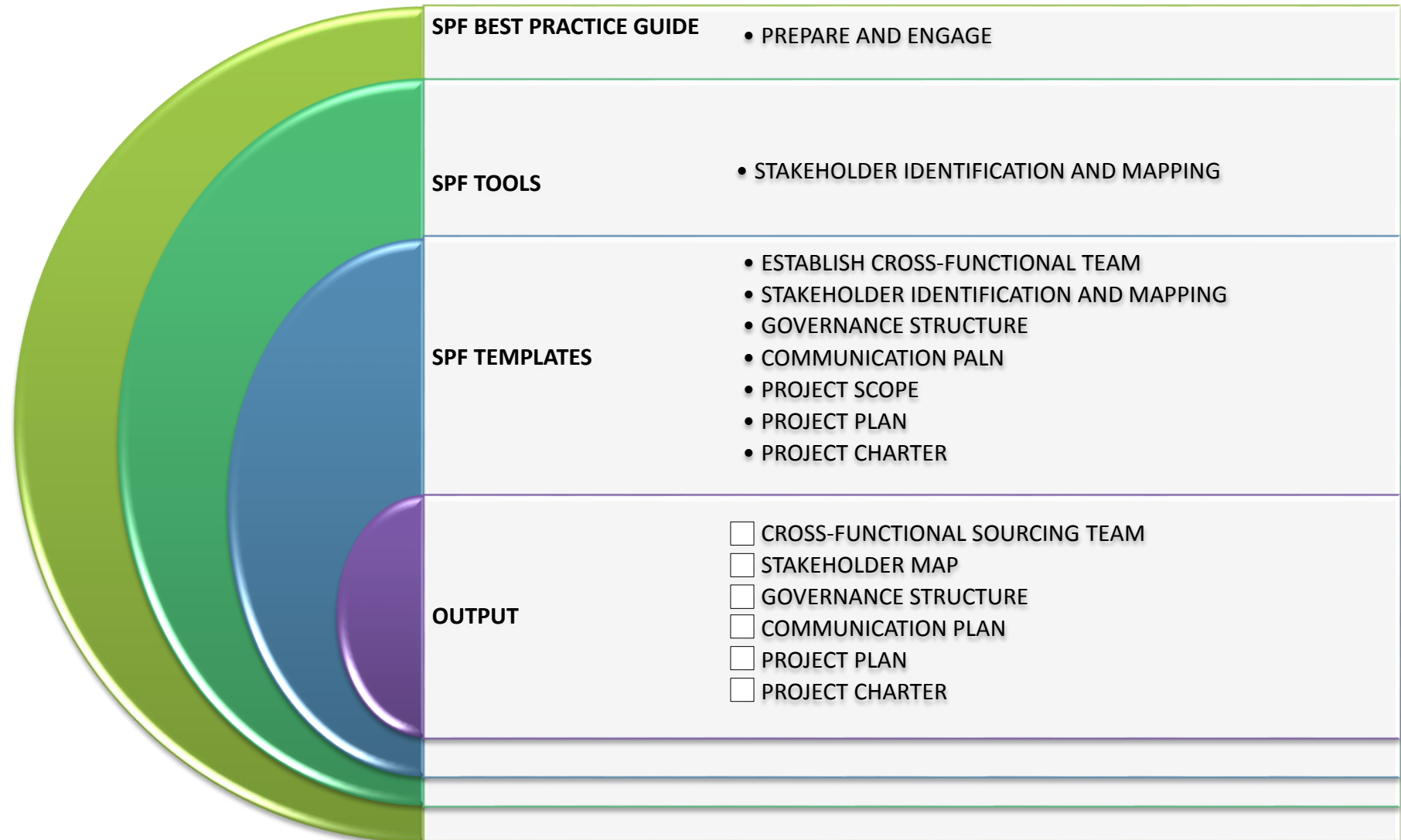
- Champion the project to stakeholders
- Remove roadblocks
- Monitor progress of project
- Consider and allocate resources to support the project (resources, budget)

Project Leader

- Understand & communicate business needs and stakeholder requirements to teams
- Lead team to achieve goals and objectives of the project
- Ensure project aligns with overall objectives
- Track progress of project
- Provide regular project feedback
- Resolve disputes

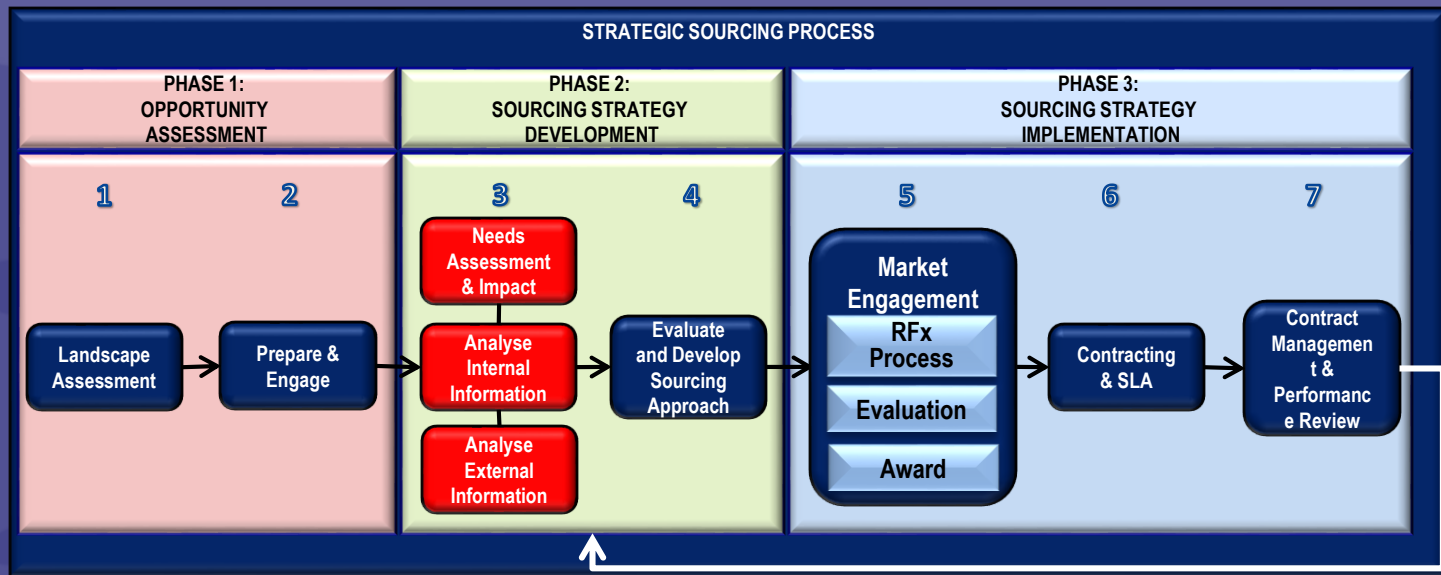
Stage 2 – Prepare & Engage Outcome

Stage 2 – Prepare & Engage



3.

DATA COLLECTION & ANALYSIS



3.1 Needs Assessment & Impact Analysis

3.2 Analyse Internal Information

3.3 Analyse External Information

Objective:

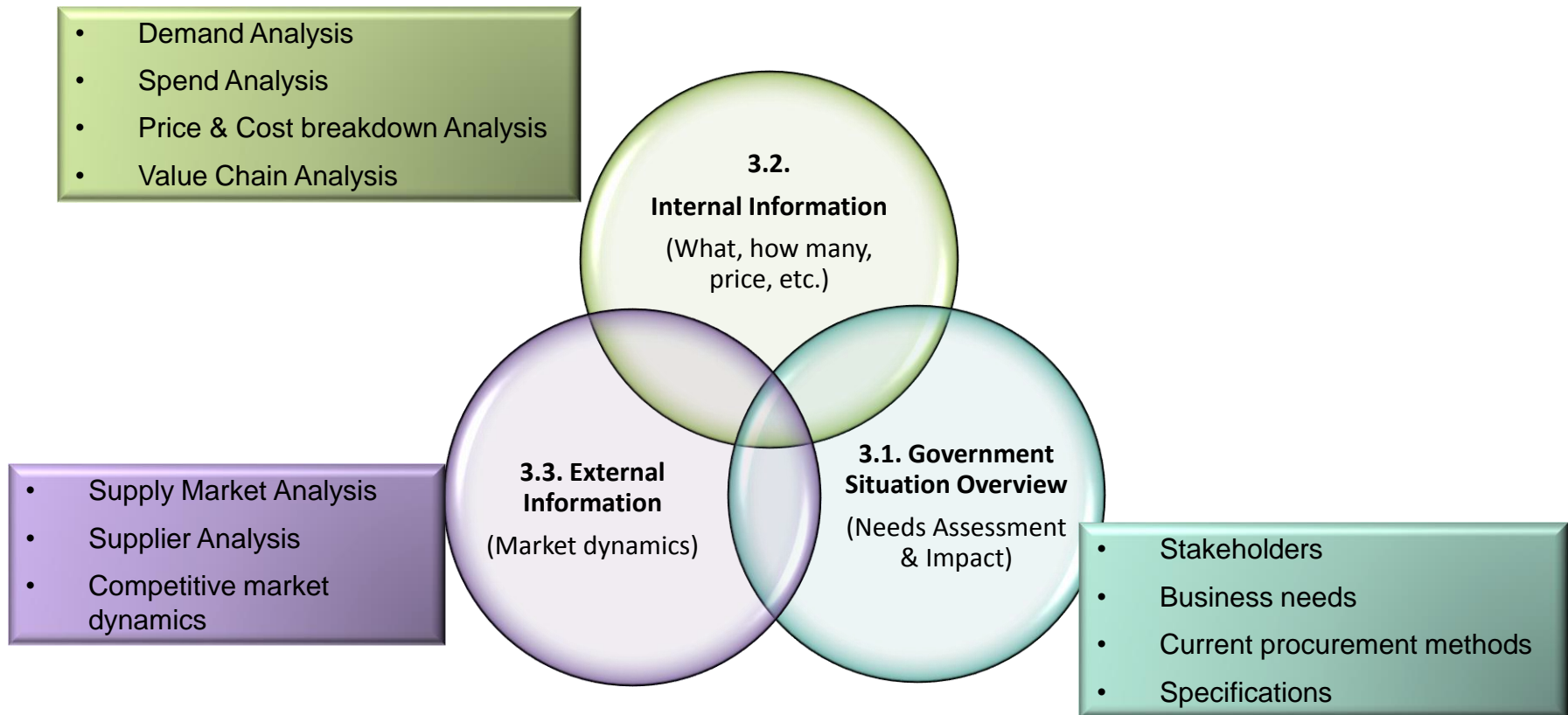
The objective of Stage 3 is to collect information (qualitative and quantitative) in order to construct a view of the commodity in terms of its impact on government, internal requirements, historical trends, future demand, total cost of ownership, external market drivers, value chain and supply chain.

Output:

1. Statement of needs; Specification(s)
2. Historical spend information; Future demand; Value Chain Map
3. Supply Market Dynamics; Supply Chain Map; Potential Suppliers

Data Collection and Analysis - Overview

The following information is required for a concise overview of your commodity / category:



Data Types

Data can be classified as either qualitative or quantitative data.

- **Qualitative data defined:** non-numerical data or data that has not been quantified, such as text materials, and non-text materials such as videos, voice recordings of interviews, pictures, images e.g. process flow diagrams etc.
- **Quantitative data defined:** data consisting of numbers or data that has been quantified, such as tables of figures.



Data Types and Sources

Data can typically be sourced internally (inside the business) or externally (outside the business)

- Internal data sources include:
 - i. Financial Systems
 - ii. Purchasing systems
 - iii. Asset management systems
 - iv. Manual systems
 - v. Hard copy invoices
 - vi. Purchase orders and contracts
- External data sources (see graphic below) includes:

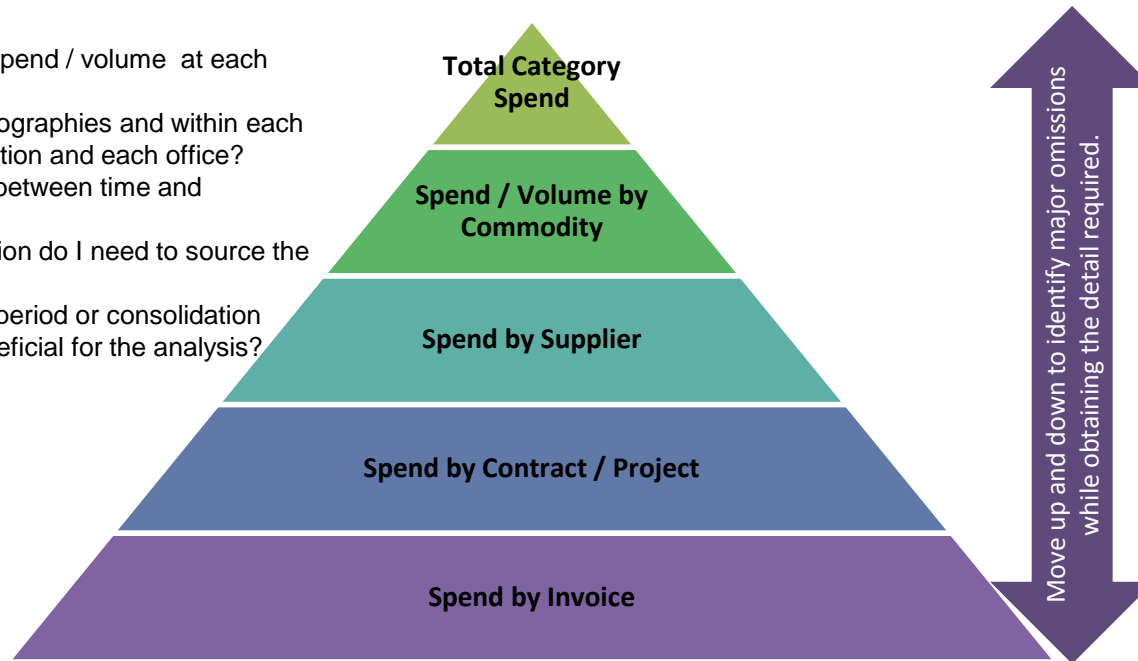


Level of detail required

Data type and source identification

- Define type of data required (qualitative, quantitative), data standards and format.
- Identify sources for the data (e.g. suppliers, purchasing systems, budgets, etc.).
- Decide on the depth/level of spend and volume information required (i.e. invoice level data or consolidated data)
- Gather data, validate and refine/clean data, where applicable.
- Load data into database, or save in desired format in preparation for the generation of information outputs.

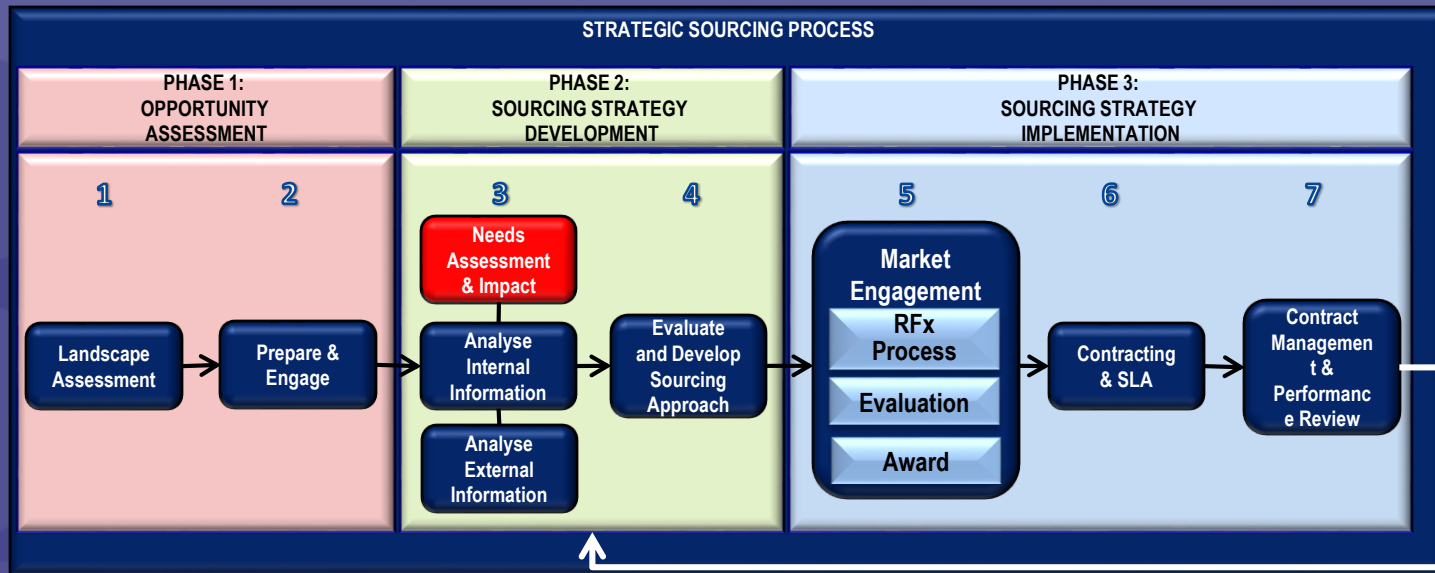
- Does the aggregate spend / volume at each level make sense?
- Have I covered all geographies and within each geography, each location and each office?
- What is the trade-off between time and completeness?
- What further information do I need to source the category?
- What would the item period or consolidation level that is most beneficial for the analysis?



- Does the aggregate spend / volume at each level make sense?
- Have I covered all geographies and within each geography, each location and each office?
- What is the trade-off between time and completeness?
- What further information do I need to source the category?
- What would the item period or consolidation level that is most beneficial for the analysis?

3.1

NEEDS ASSESSMENT & IMPACT



- 3.1.1 Prepare for stakeholder engagements
- 3.1.2 Identify business needs and requirements
- 3.1.3 Obtain and review existing sourcing plans and contracts
- 3.1.4 Collect, document and review technical specifications

Objective:

The objective of Stage 3.1 is to obtain an overall view of the business impact the commodity has on your organisation. It involves a complete business needs assessment based on previous history and future requirements. It further involves the review of existing specifications or developing new specifications.

Output:

- 1. Statement of Needs
- 2. Existing contract review
- 3. Specification(s)

3.1.1

Prepare for Stakeholder Engagements

Objective:

- To fully prepare for stakeholder meetings in order to get maximum value out of the engagements.

Output:

- A stakeholder meeting schedule

Preparing for Stakeholder Engagements

Stakeholders are the individuals and/or groups affected by and capable of influencing the strategic sourcing process. They usually consist of end-user groups, current suppliers, potential suppliers, industry bodies, quality testing bodies, subject matter experts, etc.

Why engage with stakeholders?

- It improves communication to ensure the highest level of trust and accountability.
- It keeps the market and end-user communities informed about supply opportunities and initiatives.
- It assists with managing end-user and supplier relationships during the sourcing process.
- It assists with managing complaints, enquiries and debriefs.
- It provides timely, accurate and relevant information to the market and end-users .
- It is central to a positive view of government and supports supplier participation in the government marketplace.
- Good stakeholder engagement can help an organisation meet their business objectives.
- Collaborative and mutually beneficial relationships can deliver greater levels of innovation and competitive advantage than could be achieved through a traditional transactional purchasing arrangement.

What are the objectives of stakeholder engagement?

- Improve transparency of procurement-related information.
- To map the actions, processes and activities when engaging the supply market.
- To obtain relevant information from the supply market as well as the user community.
- To adopt new ways of engaging with stakeholders, for example, procedures for encouraging innovation and market -based solutions.

Preparing for Stakeholder Engagements

How far does stakeholder engagement go?

- Every staff member is responsible for building and maintaining good relationships, especially with suppliers.
- This applies primarily to procurement staff, project managers and contract managers, but also includes employees who make occasional purchases.
- It is important that stakeholders hear the same message and receive the same fair treatment from every level of the organisation.

Practical advice when engaging with stakeholders.

- State the purpose of the meeting and the outcome you seek.
- Invite the right people.
- Think about preparing a presentation and agenda that is purposeful and “sells” the message.
- Decide on a time limit but be sure to allow adequate time for brainstorming, questions and healthy debates.
- Schedule meetings well in advance.
- Distribute the agenda, meeting objectives and any reading material in advance in order for attendees to prepare.
- Prepare a list of questions to elicit opinions and ideas and to obtain relevant information.
- ALWAYS be on time, dress appropriately and conduct yourself in a professional manner.
- Circulate an attendance register and keep it on record for future engagement and communication purposes.

3.1.2

Identify Business Needs and Requirements

Objective:

- To identify all current requirements and trends.
- To identify any new requirements or opportunities that are currently being explored
- Identify any new regulatory factors that may impact on the commodity

Output:

- A Statement of Needs
- Impact analysis

Identify the Needs

The quality of research and analysis, to identify the business needs will seriously impact upon the quality of the solutions and results you achieve.

Identify the needs through stakeholder consultation

Consider the following:

- What is the purpose of the procurement?
- Who will be impacted by the procurement?
- Who are the key stakeholders and what are their expectations?
- Who are the internal clients /end-users and what are their needs?
- What similarities and difference become apparent between the needs of the various clients/end-users?

The consultation should aim to ensure that:

- Stakeholders constructively engage and have “buy-in”.
- Stakeholders are able to self-identify their current, predicted and emerging needs.
- The consultation elicits information about individual and collective needs.



Identify the Needs

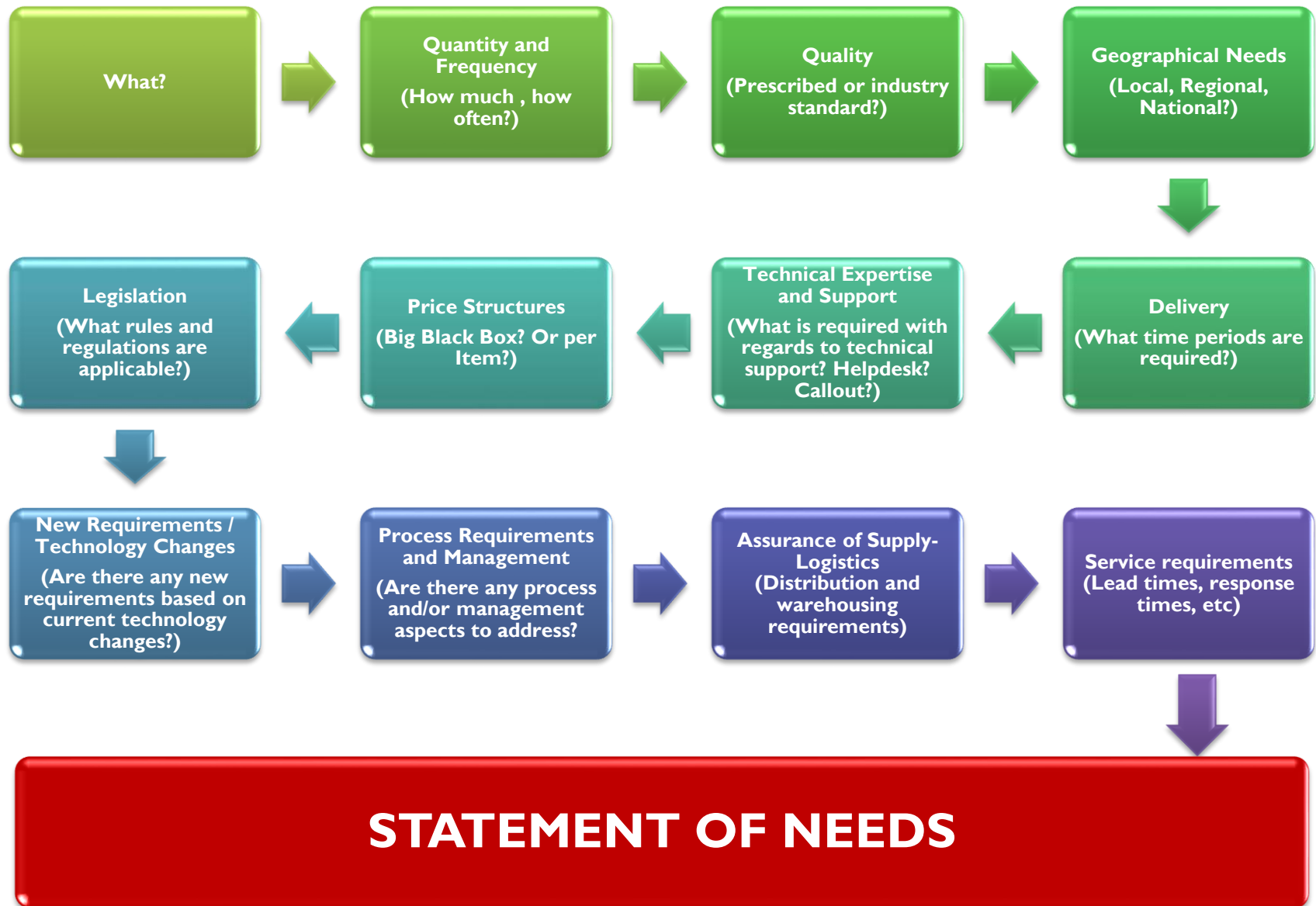
From the consultation it will be important to:

- Distinguish 'needs' from 'wants' and 'desires'
- Remove ambiguity, achieve clarity and obtain consensus
- Bundle needs into related groups
- Prioritise groups and rank them
- Develop and articulate, clear, comprehensive high-level statement of needs
- Obtain stakeholder verification and endorsement of the statement of needs.

The statement of needs will later inform:

- Type and extent of market research and analysis
- Sustainability opportunities, issues, risks – linking social, economic and environmental goals together
- Identify a range of solutions
- Solutions options appraisal
- Development of specifications of requirements detailing the nature and scope of the goods/services that will be required to satisfy the needs
- Development of evaluation criteria and weightings

What information do we need to collect from clients /end-users?



What information do we need to collect from clients /end-users?

Stakeholder Needs Analysis			
STATEMENT OF NEEDS			
Category:		Date:	
Internal Function	Prompt	Requirement	Importance Rating 1 = low, 5 = high
What? Product / Service definition	What do they need	Laundry service to wash linnen used in hospitals To keep linnen hygienical	5
	What must it do?		
	What is it needed for?		
Quantity & Frequency	Quantities to be ordered	Quantity per hospitals are different. Average 800 per Hospital.	4
	How often will orders be placed		
Quality & Reliability	Specification	Laundry must be cleaned with anti-bacterial washing detergents	5
	ISO & Other Standards		
	Other external approvals		
	Warranties		
Geographical Needs	User footprint Nationally / Provincially	The service is needed at all District and Provincial Hospitals	4
	Where is the product /service needed?		
Legislation / Regulatory	Legal, compliance, environmental, ethical issues	Green cleaning materials Local SMME's	4
	Any changes to regulatory landscape		
	Linkage to Strategy		
	Development of BEE suppliers		
Cost / Price Structure	Current & future cost requirements	Competive price, price stability Cost drivers: Electricity, detergents, Water consumption, etc	5
	Cost reductions/containment		
	Price adjustments		
	Cost drivers / elements		
Technical Support	Installation and commissioning	Contact person after hours and emmergencies	3
	After sales support		
	Training required		
Delivery requirements	Daily / Weekly / Monthly / As and when required	Daily at 16h00	5
	Specialised vehicles required, e.g. Refrigerated trucks, off load cranes, etc		

Identify constraints

Identify constraints associated with the sourcing of this commodity and update the risk log if necessary.

Internal Business constraints

- BBBEE procurement targets
- Budget constraints

External Business constraints

- Market constraints
- Manufacturing capacity
- Technology

Self Imposed constraints

- Quality
- Processes
- Procedures
- Policies

Governmental constraints

- Legislation

Determining the impact of the commodity on Government

Consider the following when determining the overall impact of the commodity on your organisation:

- Expenditure impact. The percentage of this commodity's spend compared to the overall spend.
- How much value does your organisation attach to this commodity. Is it core to your service delivery mandate?;
- Product differentiation impact. Differences in quality which are usually accompanied by differences in price; differences in functional features or design.
- Technology impact. How does technology impact procurement of the commodity?
- The impact on your organisation's service delivery mandate if there is a failure in supplying the commodity.

Government Impact	L	M	H
Expenditure Impact	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Business value impact	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Product differentiation impact	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Technology impact	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Impact of supply failure	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Overall Impact on Government	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

3.1.3

Review existing sourcing plans and contracts

Objective:

- To review previous procurement history in order to obtain a view of current contractual obligations
- Obtain feedback from end-users to identify the lessons learned

Output:

- Lessons learned from previous procurement activities
- Current contractual obligations

Review previous procurement activity

- A review of previous procurement, from the identification of needs through supplier selection, performance and results, will greatly inform how you proceed with your project.
- An assessment of rouge or off-contract spend may be an indicator of adherence to compliance, investigate it.
- It provides an opportunity to apply lessons learned:
 - If it is not a new initiative there will be some history of previous procurement activity
 - If it is a new initiative for your organisation, other organisations may have current or recent experience of procuring the commodity – talk to them.
- If a formal review of the previous procurement has been undertaken, obtain a copy of the report. Do not re-invent the wheel.
- Actively seek feedback from everyone involved in the previous procurement to identify the lessons learned. Consider how these lessons can inform and add value to your procurement going forward.
- This may involve people such as
 - The CFO
 - The Head of Supply Chain Unit
 - The Contract Manager
 - The End-user
 - The Supplier
- It may also be helpful to investigate the outcome of other government departments' procurement of similar goods/services. Consider the problems they have encountered and successes they have achieved. How can this inform your thinking?

Review existing sourcing plans and contracts

- Determine if there are any existing sourcing plans for the commodity and if there are any existing contractual arrangements.
- Obtain copies of the sourcing plans and/or contracts.
- Review the existing source plans and/or contracts for the following information:
 - Contract period (Start date and expiry date)
 - Contract terms & conditions
 - Challenges experienced with the terms & conditions of the contract
 - Possible gaps in the T's&C's
 - Who are the current suppliers?
 - How was their performance?
 - Prices and any price adjustments
 - Who are the end-users?
 - Do they still require the product / service?
 - Relevance of specifications of the items /TOR for service rendered
 - Actual volumes/quantities ordered off the contract

3.1.4

Review technical specifications

Objective:

- To identify and review all current specifications.
- To develop new specifications if required
- To provide practical advice when writing specifications

Output:

- Unbiased Specifications

What is a Specification?

What is a specification?

A specification details the requirements of the procurement. It is the basis of all offers and therefore the foundation for a contract. A specification becomes an essential contract management document which is used to ensure that the chosen supplier provides what is specified. It must therefore be clear and accurately defined what is expected for a supplier regarding the outputs or the functional and performance requirements.

What makes a good specification?

A well-structured specification should:

- Foster supplier interest;
- Better engage with the market;
- Facilitate a competitive environment;
- Encourage innovation;
- Apply a high standard in the delivery of requirements; and
- Be clear and simple and avoid onerous or unnecessary requirements.



Before preparing a specification

Before preparing a specification, procurement practitioners should have a clear u

- Customer, user and stakeholder requirements;
- Market information;
- The risk impacting the procurement; and
- The evaluation criteria to be applied and the relative importance of each criteria.

Review all Specifications

Collect, document and review all Specifications

- Determine and document current functional, technical and quality specifications. Note that specifications may include qualitative issues driven by departmental needs, e.g. continuous improvement or reduced time to market.
- Include any assumptions regarding the flexibility and potential change of the specifications.
- Specifications must be prepared for all goods and services that will be procured in order to ensure uniform standards and a solid basis for the objective evaluation of supplier submissions.
- Where no specifications exist, it is the responsibility of the user departments to produce this.

Beware of over specification

Over specification (gold-plating) is one of the most difficult aspects of TCO (Total Cost of Ownership) to determine and control. It is often necessary to interview the stakeholders to determine the flexibility of the specifications. There are three options for dealing with specifications:

- Consolidate (disparate demand to one “standard”)
- Eliminate over-specified material (focus on market available goods or services)
- Revisit application and usage (determine the rationale behind the specification)

WANT...



VS

NEED.....

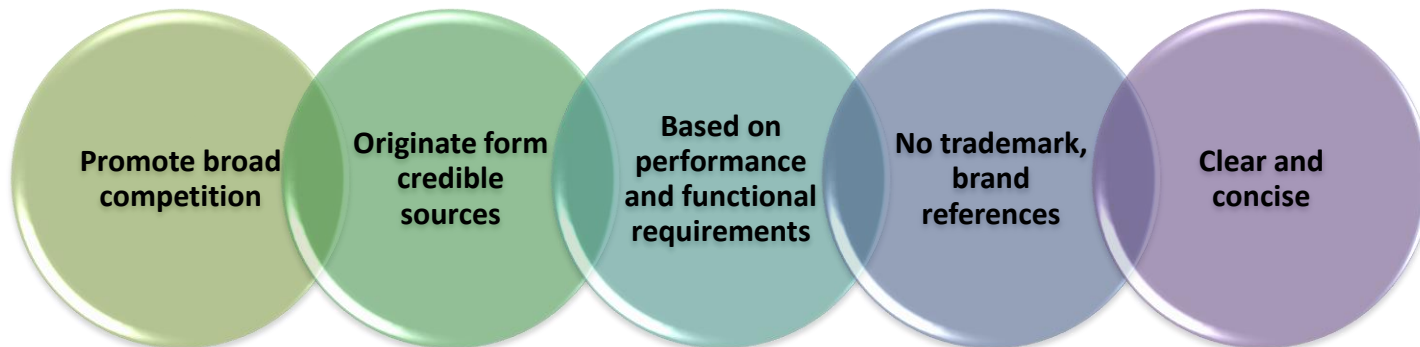


Specifications must be prepared based on the following minimum principles

Specifications – Minimum principles

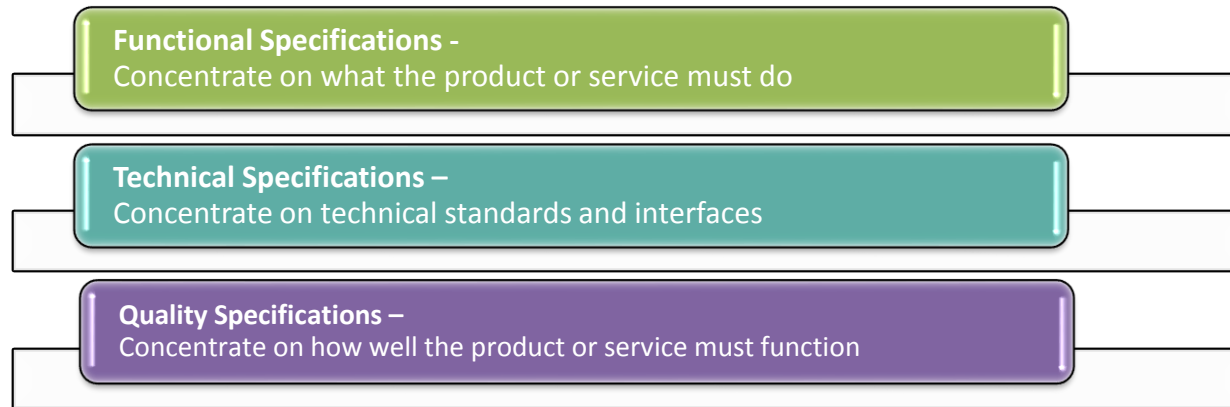
- Standards and specifications must promote the broadest possible competition, while the performance requirements must ensure that the critical elements of performance are achieved.
- As far as possible, standards must originate from credible institutions such as the South African National Standards Authority, International Standards Organisation or institutions accredited by the South African National Accreditation System.
- Specifications should be based on relevant performance and functional requirements rather than design or descriptive characteristics
- Reference to a particular trademark, trade name, patent, design or brand should be avoided. If there is no other way of describing the requirement and you refer to a trademark then you must include the words “or equivalent”.
- Specifications should be clear and precise and should avoid duplication of the same service or performance requirements.

All specifications must be endorsed by the relevant Cross Functional Sourcing Team (CFST) and Bid Specification Committee (BSC) prior to submission to the market.



Determining flexibility of Specifications

Specifications generally fall into 3 categories:



When determining the flexibility of specifications it is useful to determine from your stakeholders:

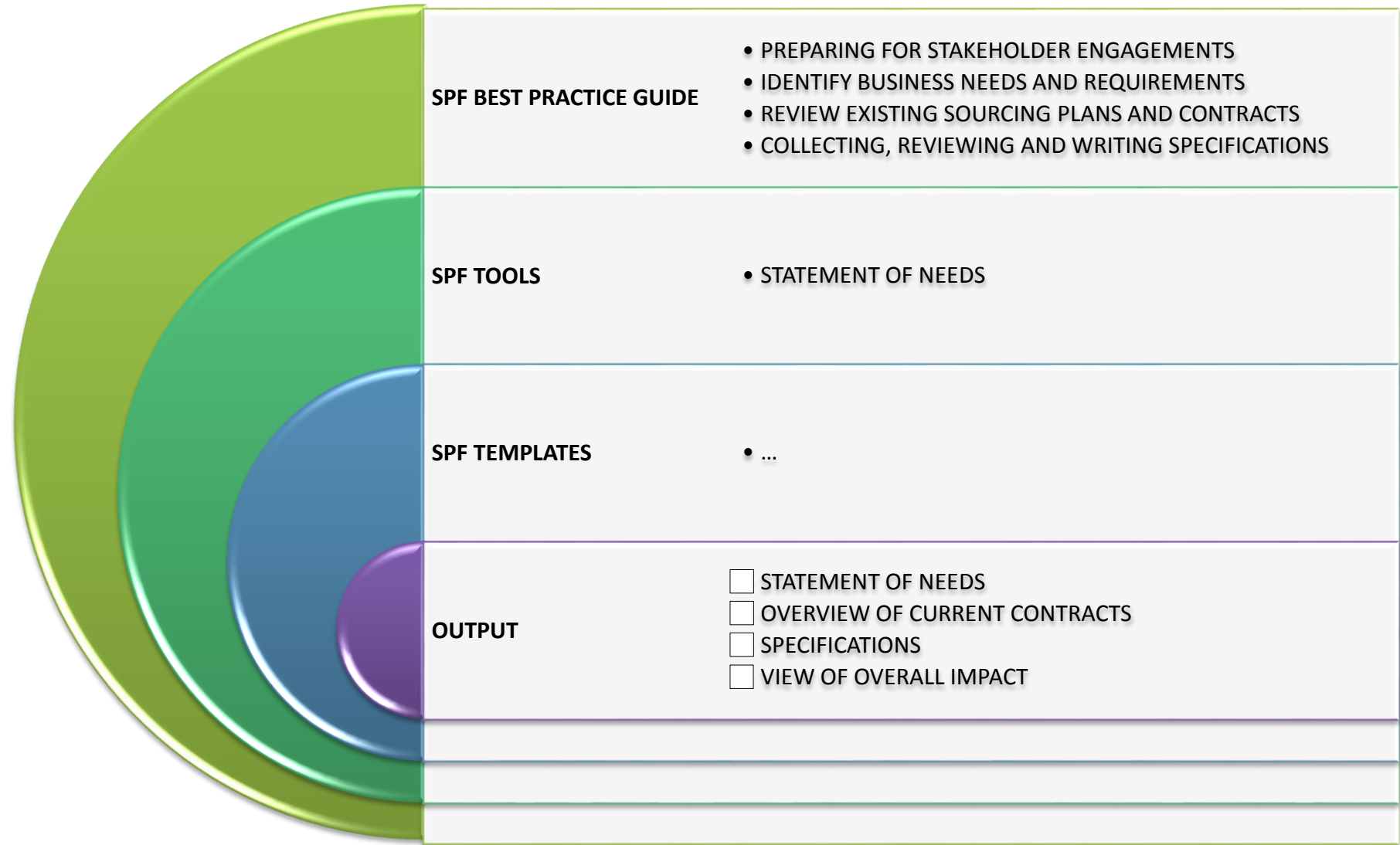
- whether the specifications can change;
- which specifications can change ;
- by how much the specifications can change;
- What process is to be followed to change the specification;
- who is responsible for, and can therefore change the specification; and
- who must know about a change to the specifications .

Sources of information:

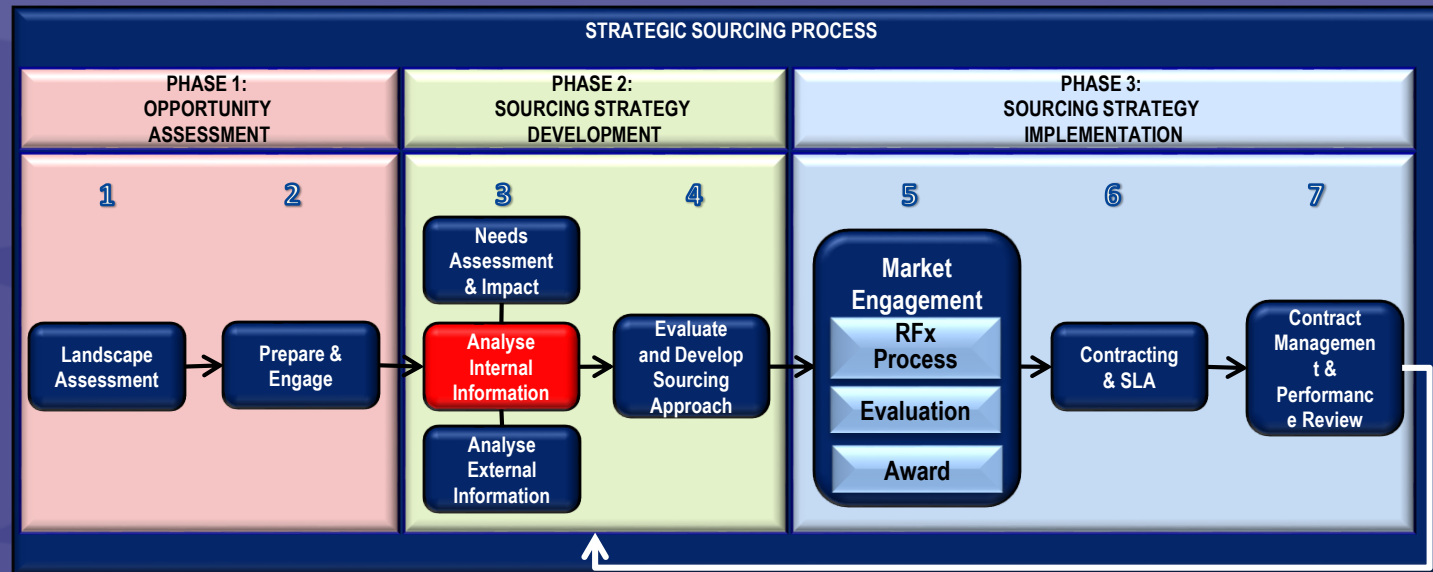
- Obtain from the appropriate sourcing representative;
- Request suppliers to send: technical, functional, and quality specifications for the product / service. (Marketing brochures are often adequate);
- Often, you may need to solicit industry specific examples of how the commodity is used;
- Request end-users to send specifications they have as they are the regular users of the commodity .

Stage 3.1 – Needs Assessment and Impact Outcome

Stage 3.1 – Needs Assessment & Impact



3.2 ANALYSE INTERNAL INFORMATION



- 3.2.1 Spend Analysis, Sourcing & Price History
- 3.2.2 Demand Analysis
- 3.2.3 Price & Cost Analysis
- 3.2.4 Value Chain Analysis

Objective:

The objective of Stage 3.2 is to obtain a clear understanding of your organisation's spend trends for this commodity in terms of Rand value, quantities, by who, with who and how often. It also involves determining future demand in line with strategic objectives. It may involve deconstructing the price to determine cost elements that will impact on future price adjustments. The analysis of the value chain will assist in identifying the internal process from requisition to payment and where the bottlenecks are.

Output:

1. Complete spend profile of the commodity
2. Future demand (quantities and frequency)
3. Price comparison and breakdown of cost elements
4. Value chain map

3.2.1

Spend Analysis

Objective:

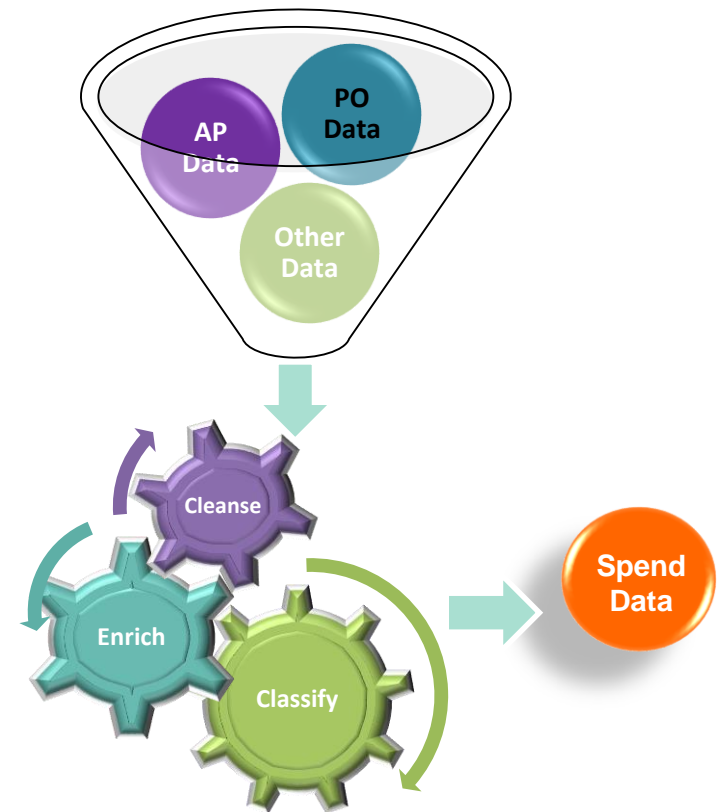
- Spend analysis is in essence a historic view to obtain a clear understanding of your organisation's spend trends for this commodity in terms of Rand value, quantities, by who, with who and how often.

Output:

- A complete spend profile of the commodity

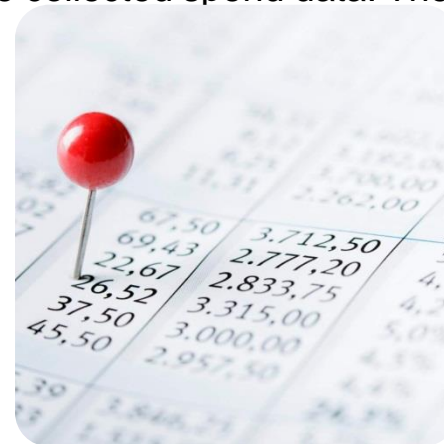
What is Spend Analysis?

1. The success of any organisation's supply management program is largely dependent on the ability to access and interpret its spend data. Spend analysis enables the organisation to consolidate historical spend in order to develop an appropriate sourcing strategy.
2. Spend analysis can be classified as identifying who is buying what, from which suppliers, how often and on what terms. This provides a structured approach for identification and selection of sourcing and cost optimisation opportunities.
3. Spend analysis is conducted using quantitative data and is the process of collecting, cleansing, classifying, enriching and analyzing expenditure data with the purpose of reducing procurement costs, improving efficiency and monitoring compliance.
4. It can also be leveraged in other areas of business such as inventory management, budgeting and planning.
5. There are three core areas of spend analysis - visibility, analysis and process. By leveraging all three, organisations can generate answers to the crucial questions affecting their spending, including:
 - i. What am I really spending?
 - ii. With whom am I spending it?
 - iii. Am I getting what's been promised for that spend?
6. Spend analysis is often viewed as part of a larger domain known as spend management which incorporates spend analysis, commodity management and strategic sourcing.



How can Spend Data be analysed?

1. Once data is collected, it is consolidated into the required format, it is then cleansed to remove any duplicates or errors, grouped, and categorized.
2. These processes are necessary to ensure accurate organization and correlation of spend data and to enable actionable analyses.
 - i. Grouping and categorizing spend data should be done by adopting an internal taxonomy or by adopting an industry-standard classification scheme.
 - ii. Higher-level classification of spend at the category or supplier level is the first step in grouping and categorizing spend data. Examples include:
 - categorizing goods and services that are being procured;
 - determining how many suppliers are being used for specific categories;
 - and how much the organization is spending on specific categories, in total and with each supplier.
 - iii. Item-level detail of spend data enables a precise view of spending with each supplier and for each commodity on an organizational, departmental, project, and buyer basis.
 - iv. Additional enhancements should also be applied to the collected spend data. These include but are not limited to:
 - contract terms,
 - BBBEE status,
 - industry pricing indexes,
 - average selling prices,
 - supplier financial risk scores,
 - performance information,
 - lead times,
 - inflation.



How can Spend Data be analysed?

Spend analysis should answer some key questions:

Overall commodity spend and volumes

- Per grouping / sub-category
- Per user / department/ region
- Per supplier
- Per time periods (e.g. monthly spend and volume)
- How will this change going forward (forecast)?

Main buying departments / Regions

- Identification of user behaviour and potential demand management actions

What is the business split (spend) between the suppliers?

- Identification of major suppliers and opportunities for volume shifting or pooling
- Identification of actual spend against contractual commitments (maverick spending)

How have prices moved over the contract period?

- Identification of key cost drivers and trends

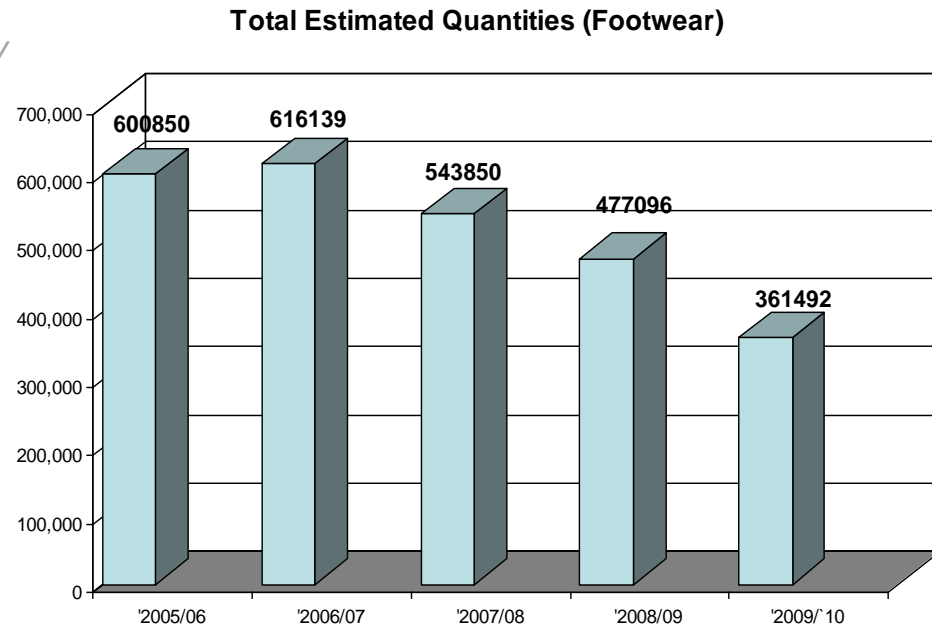
What is the price difference between suppliers for similar items?

- Price benchmarking

Sourcing and Price History

1. Sourcing and Price History Analysis include:
 - i. past purchase quantities,
 - ii. purchase buying patterns, and
 - iii. historical prices and price movements over the previous 2-3 years.
2. Summarize and explain the sourcing/buying patterns of the past 2-3 years, e.g. fertilizer is seasonal; office paper may be monthly, etc.
3. Determine who and what has been the key drivers of the sourcing.
4. Tabulate the quoted prices for the past 2-3 years and present it in graphs for easy visual comparison.
5. Compare these prices (unit prices) to published prices or other acceptable alternative price benchmarks.

Illustrative Example Only



Sourcing and Price History

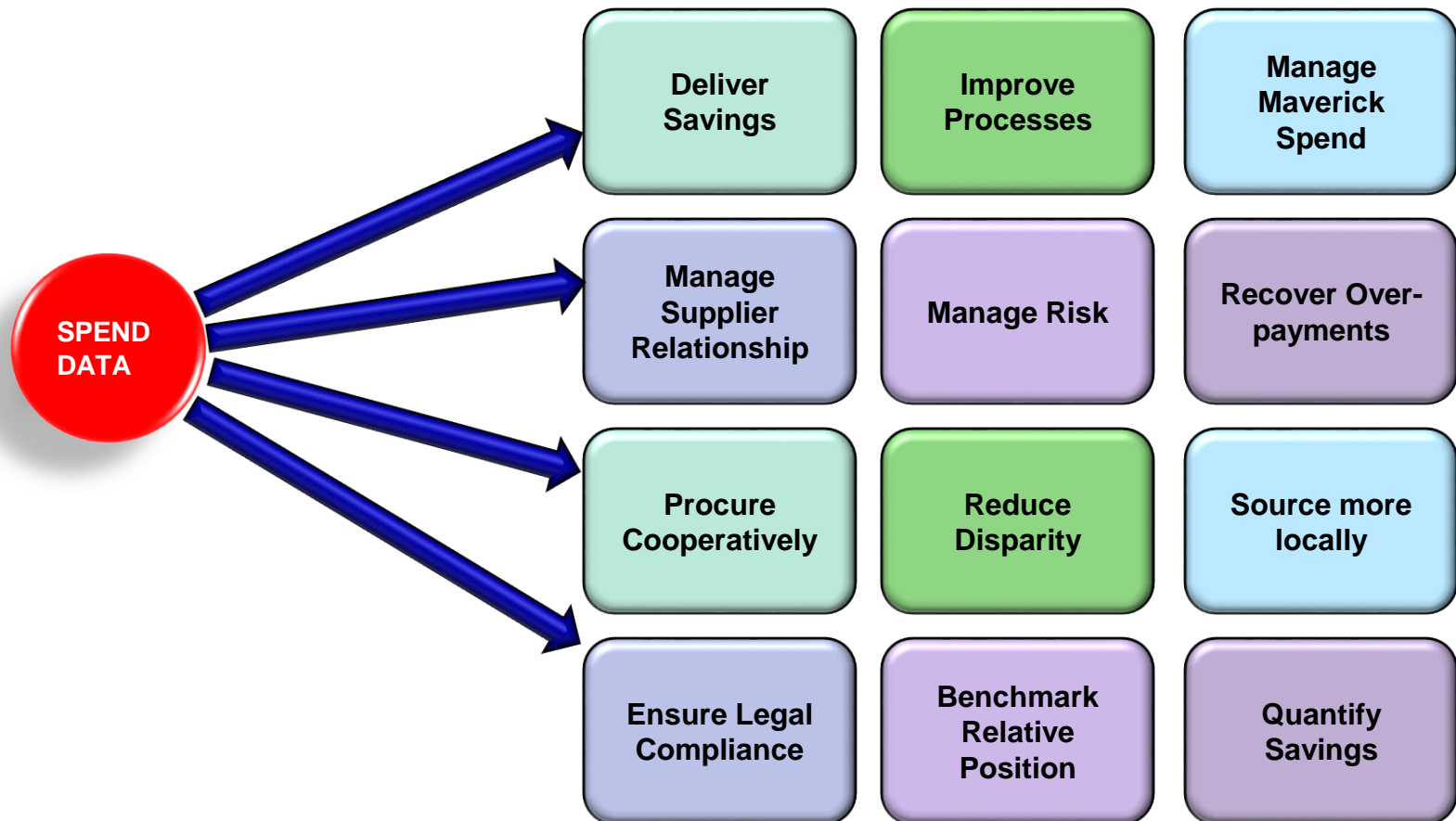
Illustrative Example Only

Example of Sourcing and Price History										
Category							Date			
Item No.	Description	Annual Qty	Unit of meas.	Last price paid	Current Supplier	How long with current Supplier?	Payment Terms	Price increase% over past 12 months	Date of last price increase	Projected next 12 months volumes
1										
2										
3										
4										
5										
6										
7										
Notes: If possible provide sourcing and price history over last 3 years.										

12 Things you can do with Spend Analysis Data

Once you have taken the time to complete a full spend analysis exercise that brings together your Accounts Payable and Purchase Order data, the next step is to start looking at what you can do with all that information.

Some of these points can be achieved with a basic spend analysis, others require additional time and effort, especially in the areas of classification and enrichment of spend data.



3.2.2

Demand Planning

Objective:

- Demand planning is in essence a forward looking instrument to obtain a clear understanding of your organisation's specification and volume requirements to ensure that business needs and service delivery goals can be met and that resources are not being wasted.

Output:

- A complete demand forecast

Demand Planning

- Understanding the specification and volume requirements from the business ensures that needs can be appropriately met and that resources are not being wasted.
- Demand planning is not about reducing volumes , but rather ensuring that volumes are appropriate for meeting the needs and objectives of the organisation.
- Demand planning is done to support the strategic objective of the organisation.
- It is in essence a culmination of understanding the relevant legislation that governs demand management in the Public Sector and the needs analysis to support the strategic objectives of the organization. It leads to the development, management and implementation of a procurement plan. It further assists with compilation of specifications and/or terms of reference and evaluation criteria.



Demand Planning

Demand planning is done at two levels of detail:

1. For strategic planning purposes (done during annual performance planning stage)
2. For commodity specific procurement requirements (during procurement activity stage)

Demand Planning includes the following activities:

- i. Forecasting future needs (for both the first time and repetitive procurement);
- ii. Analysing expenditure based on past spend patterns;
- iii. Determining the specifications;
- iv. Conducting a commodity analysis;
- v. Conducting an industry analysis.
- vi. Identifying the frequency of need;
- vii. Identifying critical delivery dates; and
- viii. Linking the requirement to the budget

Demand Planning – Forecasting techniques

Forecasting techniques:

- There are numerous techniques and methodologies that can be applied to accomplish the goal of forecasting. The techniques and methodologies applied are usually informed by the function of the organisation as well as the type of commodities procured.
- Planning for the future is a critical aspect of managing the organisation and the long-term success is closely aligned to how well it is management and the ability predict its future and develop appropriate strategies to deal with possible future developments.
- Poor forecasts or estimates have proven to lead to poor planning, which results in increased and/or additional costs to the organisation.

Forecasting techniques

Demand forecasting is the activity of estimating the quantity of a product or service that end-users will purchase. Demand forecasting involves techniques including both informal methods, such as educated guesses, and quantitative methods, such as the use of historical data or current data. Demand forecasting may be used in making price decisions, in assessing future usage requirements, or in making decisions on whether to provide for inventory or warehousing facilities.

More information regarding the forecasting techniques can be found on:

http://en.wikipedia.org/wiki/Demand_forecasting

Methods that rely on qualitative assessment

- Forecasting demand based on expert opinion
- Unaided judgment
- Prediction market
- Delphi technique
- Game theory
- Judgmental bootstrapping
- Simulated interaction
- Intentions and expectations surveys
- Conjoint analysis
- jury of executive method

Methods that rely on quantitative data

- Discrete Event Simulation
- Extrapolation
- GMDH
- Reference class forecasting
- Quantitative analogies
- Rule-based forecasting
- Neural networks
- Data mining
- Casual models
- Segmentation

Some other methods

- Time series projection methods this includes:
 - moving average method
 - exponential smoothing method
 - trend projection methods
- Casual methods this includes:
 - chain-ratio method
 - consumption level method
 - end use method

3.2.3

Price and Cost Analysis

Objective:

- Price and should-cost cost analysis are two different approaches to making decisions on the appropriate value of goods or services prior to purchase. These types of analyses are used by government organisations as well as private businesses and consumers to evaluate contract work or goods being considered.

Output:

- Price comparison of the item(s)
- Cost breakdown of item(s)

Price and Cost Analysis

1. Purpose

Cost and price analysis are two different approaches to making decisions on the appropriate value of products or services prior to purchase. These types of analyses are used by government organisations as well as private businesses and consumers to evaluate contract work or goods being considered.

2. What is price analysis?

Price analysis is essentially price comparison. Price analysis is the process of deciding whether the purchase price is fair and reasonable without analyzing any of the separate cost elements that it is composed of. It is basically a process of comparing a price with known indicators of reasonableness.

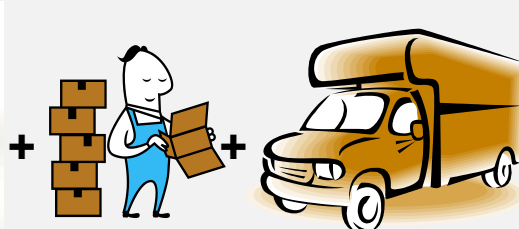
3. What is cost analysis?

Cost analysis is the element-by-element examination of the estimated or actual cost of the item (e.g., labor, materials, etc.) that make up a contractor's total cost proposal or price to determine if they are allowable, directly related to the requirement and ultimately, reasonable. The goal is to form an opinion on whether the proposed cost are in line with what reasonably economical and efficient performance should cost.

**Purchase
price**

= Materials + Labour + Transport + Overheads + Profit

R 575.00 =

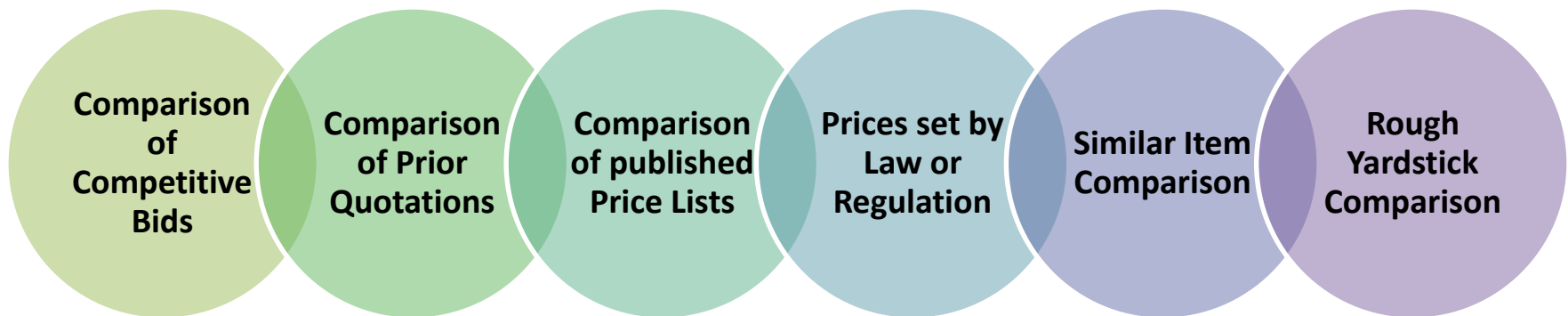


Price Analysis

1. *Price analysis*

- Is effective when applied to items that can be “compared” with other similar items.
- Used to assess whether the price is reasonable.
- Compare with historical prices, market prices, published prices.
- Price analysis can be used to corroborate the conclusions of the cost analysis.
- Perform general internet searches on the item using shopping sites and search engines to get an idea of the market and published prices.
- Contact manufacturers directly for suggested retail prices.
- Get quotes of the same item from competitor brands or manufacturers.
- Get price indices

2. *Price Analysis Techniques*



Cost Analysis

1. *Cost analysis*

- Cost analysis involves determining the **direct** (traceable) and **indirect** (non-direct expenses) costs that make up the purchase price.
- Is useful when the item cannot easily be compared or is considered “unique”.
- When asking for this information, convince your supplier that your intent is not to reduce their profit.
- To understand the cost drivers behind the product/service.
- Identify **direct costs** (costs directly attributable to the final product):
 - E.g. base salary, labour, fringe benefits, materials, transport, warehousing
- Identify **indirect costs** (costs that are not directly associated with the final product):
 - E.g. advertising & marketing, legal fees, travel, rent, office supplies, insurance, taxes, utilities, depreciation, overheads.
- **Profit** is usually included in both the direct and indirect costs. It represents the complexity of the work performed and the risk assumed during the work performed.

3.2.4

Value Chain Analysis

Objective:

- To identify the organisation's primary and support activities that add value to its final service delivery mandate and then analyze these activities to identify opportunities to reduce costs or increase levels of efficiency.

Output:

- Internal Value Chain Map

Value Chain Analysis

1. **Purpose:**

To add value at each step of the process and identify the areas of inefficiencies and bottlenecks

2. **What is Value Chain analysis?**

Value chain analysis (VCA) is a process where a government institution identifies its primary and support activities that add value to its final service delivery mandate and then analyze these activities to reduce costs or increase levels of efficiency.

Value chain represents the **internal activities** of an institution when transforming inputs (goods & service) into outputs (service delivery).

3. **Value Chain analysis should answer some key questions.**

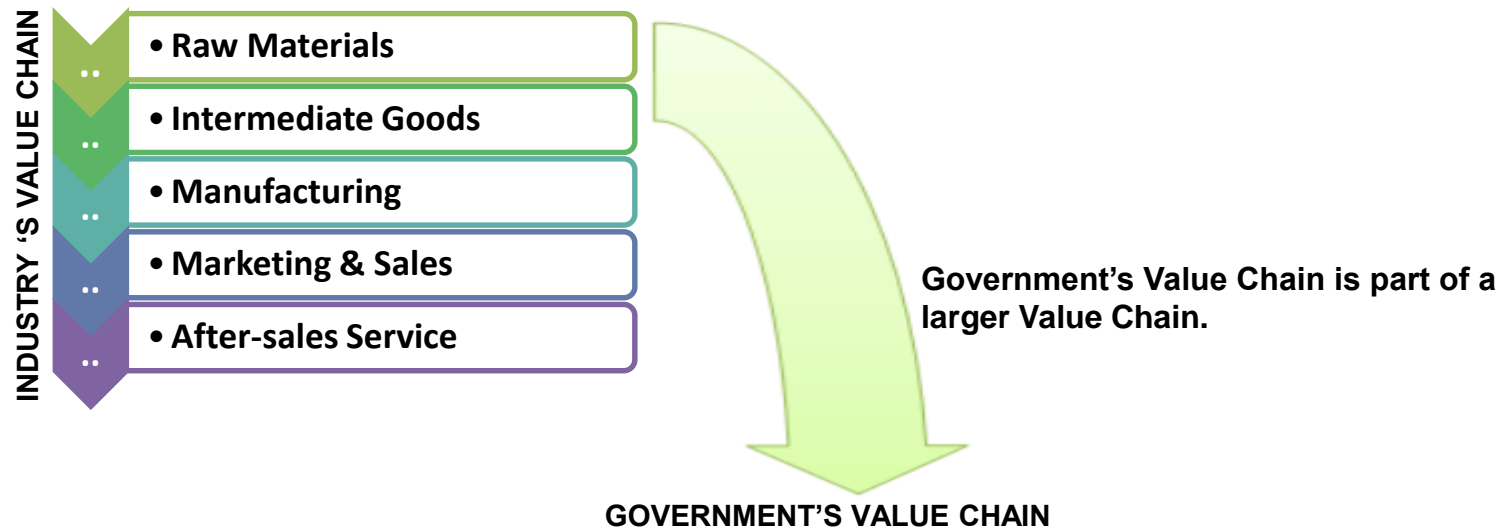
- i. What is the number of individual steps in the value chain and the value that each adds to the process?
- ii. What opportunities are there for reducing or containing cost at each stage of the value chain?
- iii. What opportunities are there to improve efficiency in the process that can lead to indirect cost reduction?
- iv. What scope is there for increasing the value and benefits for government at each stage.
 - Better quality
 - Improved delivery
 - Lower stock levels
 - Can you examine each stage of the chain with the view of maximising the efficiency and operational effectiveness?
 - Where do the bottlenecks occur in the supply chain that hampers efficiency and effectiveness?

It is important to note that Government is mainly a SERVICE value chain and not a PRODUCTION value chain

Value Chain Analysis

Business activities can be grouped under two main headings.

- i. **Primary activities** – those that are directly concerned with obtaining and delivering a product/ service.
- ii. **Support activities** – which whilst they are not directly involved in service delivery, may increase effectiveness and efficiency (e.g. human resource management, Infrastructure, technology, procurement)



Primary Activities



Infrastructure

Human Resource Management

SCM

Technology

Support Activities

Value Chain Analysis

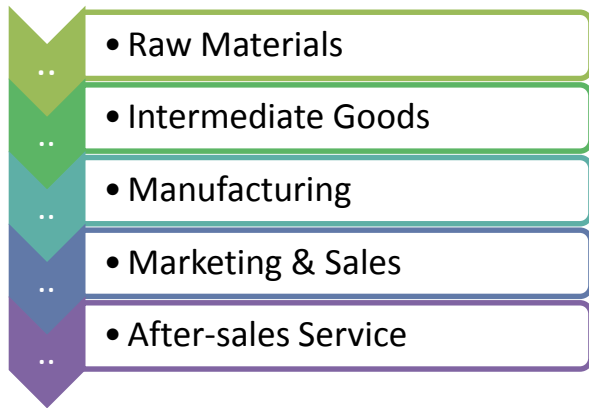
Key questions to ask when building your internal value chain:

- i. Do you really understand each link in the value chain, together with its role, costs and alternatives?
- ii. Have you physically followed each stage in the chain to evaluate what is happening in cost and quality terms?
- iii. What links in the chain are problematic, and why?
- iv. What links in the chain should be improved, and why?
- v. What is the performance level at each stage in the chain?
- vi. What are the cost and value improvement possibilities?
- vii. How can the risks associated with the chain be kept to a minimum?



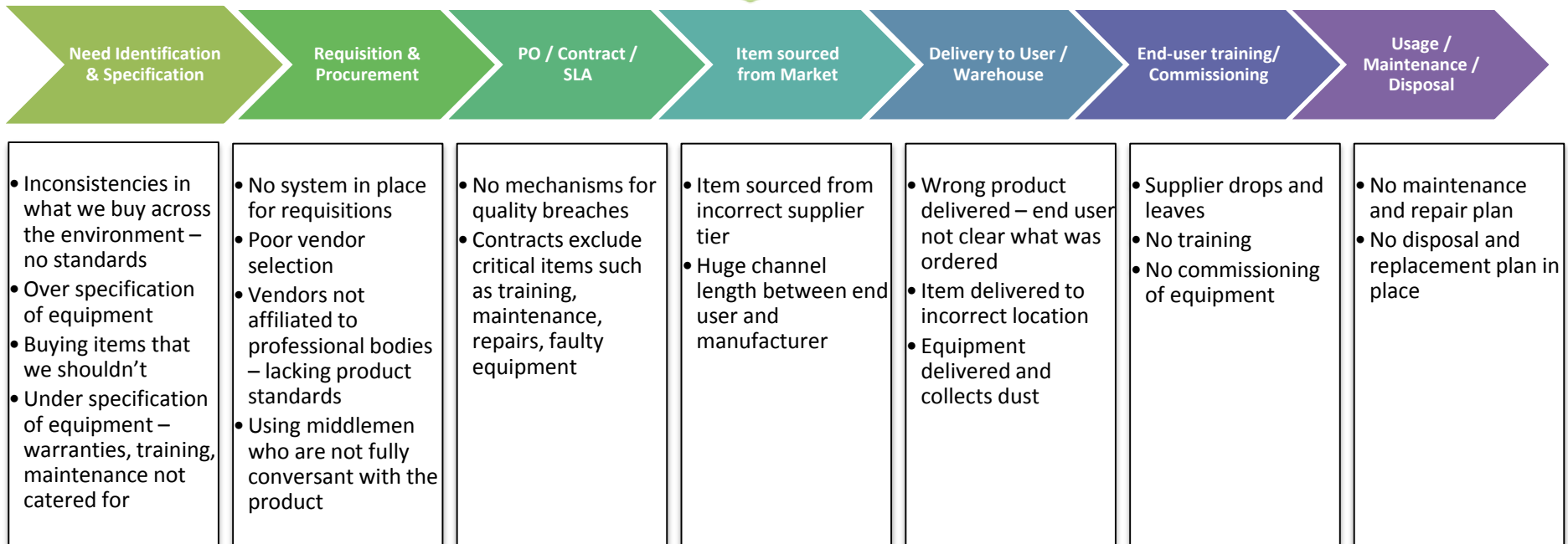
Value Chain Map

INDUSTRY'S VALUE CHAIN



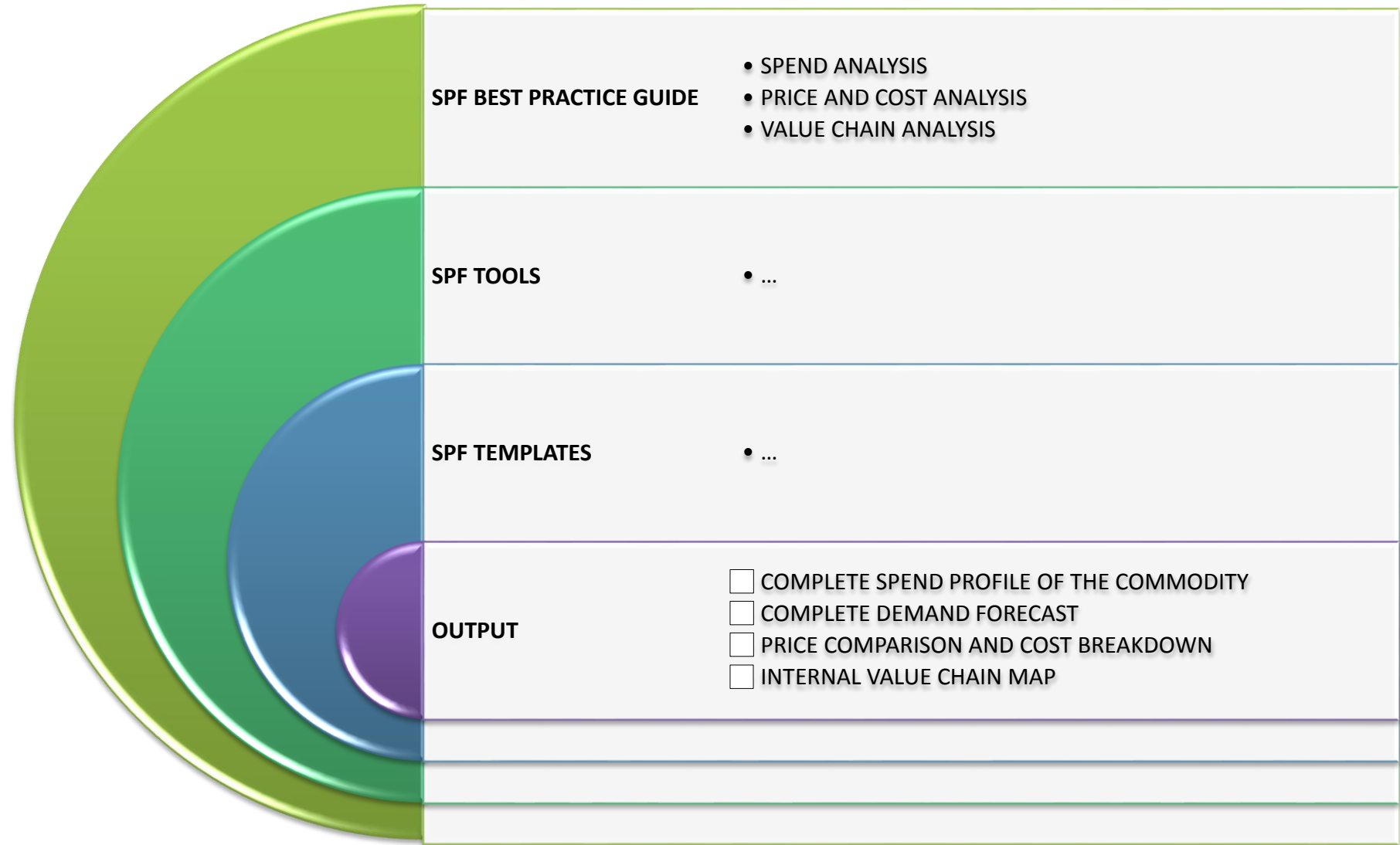
Illustrative Example Only

GOVERNMENT'S VALUE CHAIN

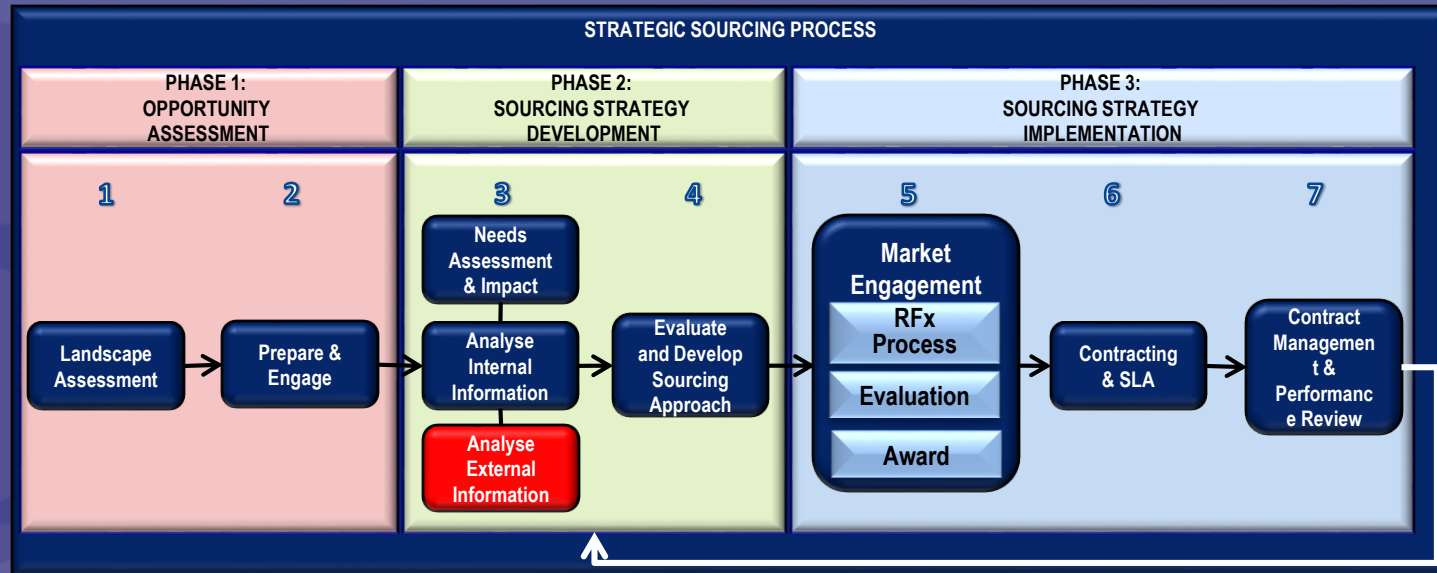


Stage 3.2 – Analyse Internal Information Outcome

Stage 3.2 – Analyse Internal Information



3.3 ANALYSE EXTERNAL INFORMATION



- 3.3.1 Supply Chain Analysis
- 3.3.2 Supply Market Analysis
- 3.3.3 Supplier differentiation assessment
- 3.3.4 Identify potential suppliers

Objective:

The objective of Stage 3.3 is to obtain a clear understanding of external factors that influences the purchasing of the commodity. It involves the analysis of the external supply chain, the market dynamics that shape the industry and who the suppliers are in this industry.

Output:

1. A Supply Chain Map
2. Market Analysis (Porter's 5, PESTLE, SWOT)
3. Suppliers' view of government business (for this commodity)
4. List of potential suppliers

3.3.1

Supply Chain Analysis

Objective:

- The objective of the analysis is to determine which stages of the process can be improved, refined, or made better, to shorten the time it takes to deliver the product to customers without sacrificing the quality of the product or the customer service level of the business.

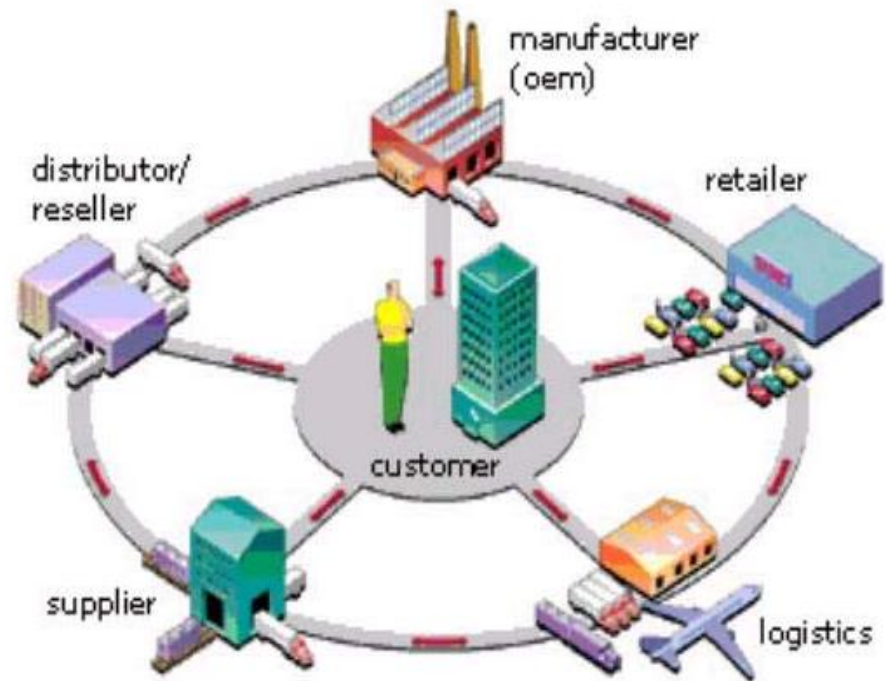
Output:

- External Supply Chain Map

Supply Chain Analysis

What is Supply Chain Analysis

- The supply chain refers to the number of stages or links that can exist in the supply process from primary processes (manufacture, creation of a service) through to final delivery.
- It is an analytical tool that examines the number of elements within a supply chain and seeks to determine where the **key cost drivers** lie (as opposed to Value Chain Analysis that looks at internal value-adding activities).
- The rationale for the approach is that since the price paid and the quality of the product or service is determined by the number of previous transactions (especially if the transactions are inefficient or process “waste”) that there have been in the chain, the scope for cost and value improvement at each stage can be considerable.
- Supply Chain Analysis is one of the key analysis tools which facilitate a better understanding of the dynamics of supply markets to ensure that you identify opportunities to control them.



Supply Chain Analysis

Objectives of Supply Chain Analysis

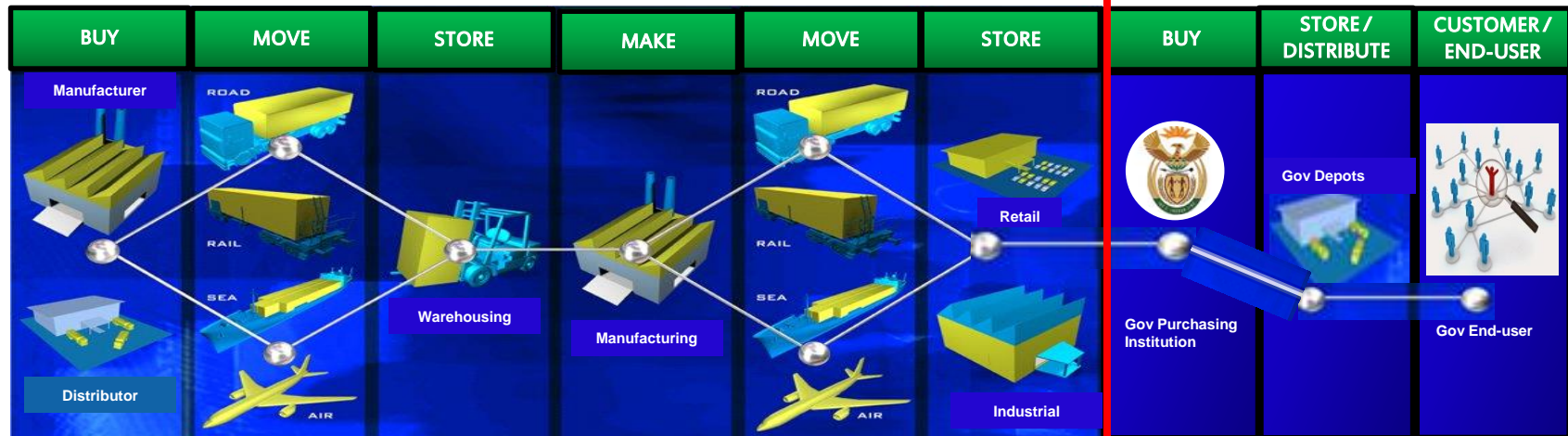
1. The purpose of the analysis is to determine which stages of the process can be improved, refined, or made better, to shorten the time it takes to deliver the product to customers (government end-users) without sacrificing the quality of the product or the customer service.
2. To understand the inter-organisation & intra-organisation value add process.
3. Assess the supply chain's ability and motivation to deliver value to the purchasing organisation.
4. Identify opportunities for cost, value and risk improvement.
5. To ease identification of sources of waste to reduce/remove it (over production, waiting, transport, processing, inventory, defects).
6. To help visualise the types of relationships.
7. To form the basis for procurement strategies.
8. To meet customer requirements (quality, delivery, cost).
9. To identify where in the supply chain the purchasing organization has the greatest leverage.

Supply Chain Analysis

Building the Supply Chain

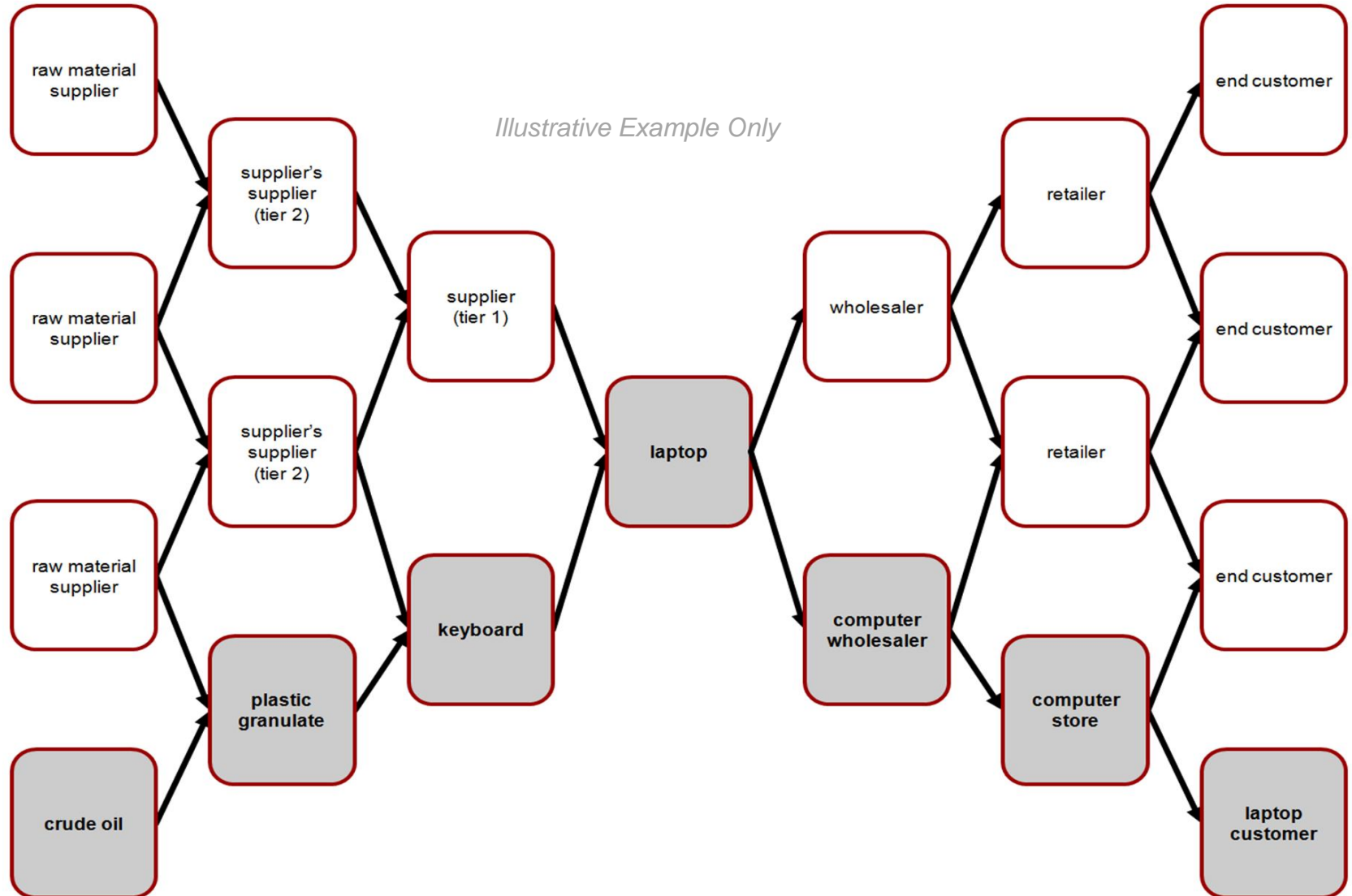
1. Start by constructing a simple linear supply chain.
2. Use your own knowledge of each link in the supply chain and create a flow diagram, constructing a full picture of the supply market applicable to your commodity.
3. As you build your analysis, look for control points (e.g. one supplier with monopoly control over one part of the chain) or important sources of competitive advantage within the chain.
4. Look for evidence of monopolies or dependencies.
5. Many suppliers are conglomerates; therefore look literally for other supply chains to influence.
6. It is not always possible to fully map all the influences in the supply chain. However, it is important to note the nature of the relationship between key players.

Simple linear supply chain








Supply Chain Map

Mapping the Supply Chain for a laptop



Supply Chain Map

Mapping the Supply Chain

SUPPLY CHAIN ANALYSIS				
				
SOURCING	MANUFACTURING	WAREHOUSING	DISTRIBUTION	DELIVERY / RETURN

Illustrative Example Only

3.3.2

Supply Market Analysis

Objective:

Supply market analysis is used in the sourcing process to establish and maintain a competitive advantage while also reducing supply risk. Supply market analysis includes developing a commodity profile, examining cost structures, researching suppliers, and identifying key market indicators.

Output:

- Market dynamics in terms of Porter's Five Forces
- Macro economic impact in terms of PESTLE analysis
- SWOT Analysis

Market Analysis

Objectives of Supply Market Analysis:

To identify:

1. Which supplier(s) offer the most competitive advantage?
2. Are we sourcing from the correct suppliers?
3. Which is the lowest cost producer or supplier?
4. Who is the market leader?
5. What is driving market change?
6. What is driving technology change?

Considerations:

1. Competing suppliers
2. Market structure
3. Individual suppliers
4. Market trends
5. Technical trends
6. Who are the other purchasers?
7. How does our volume or account attractiveness compare?

Market Analysis Structure:

1. Competitive nature – Porter's Five Forces
2. Market difficulty – Portfolio Analysis
3. Size & Potential
 - Growth
 - Investment
 - Profit margins
 - Capacity
4. Main players
 - Current
 - Emerging
 - Ambitious

Market Analysis

Porter's Five Forces

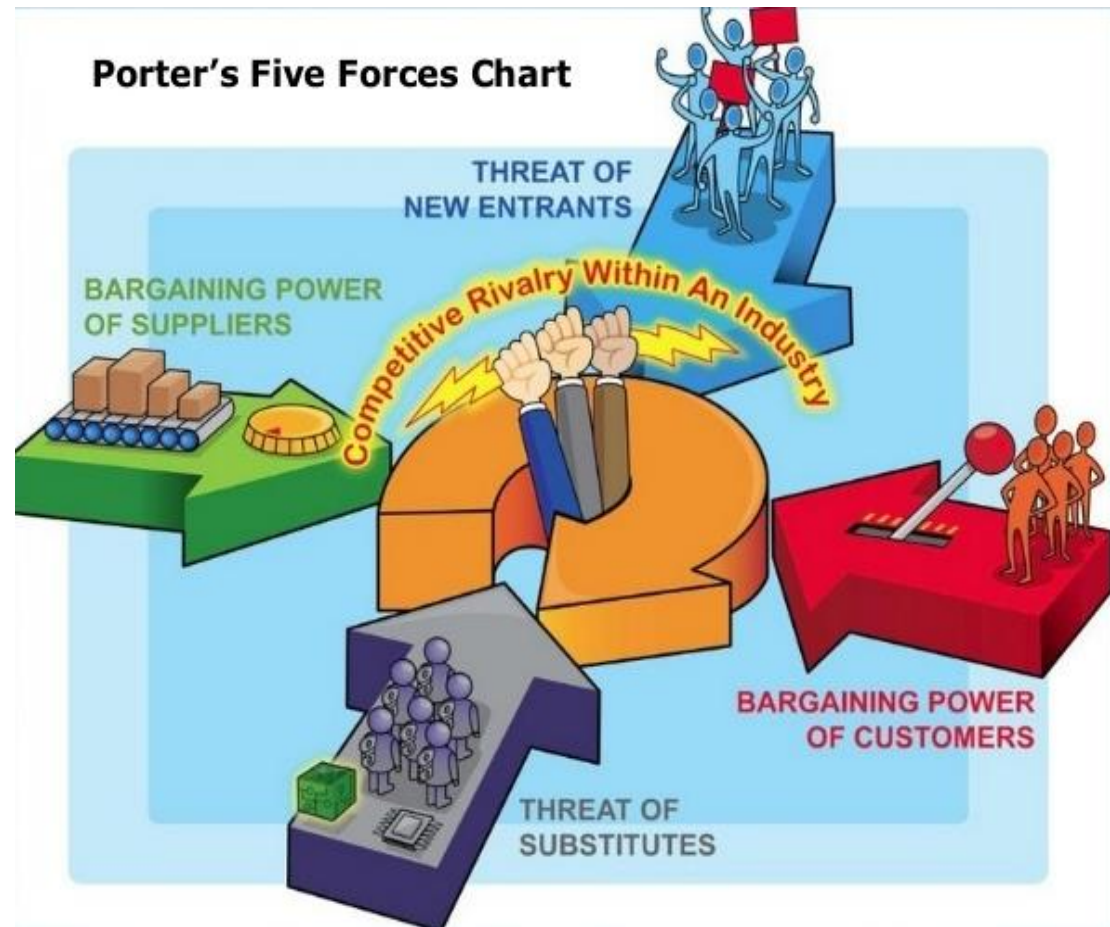
Tools for Market Analysis

1. Porter's Five Forces

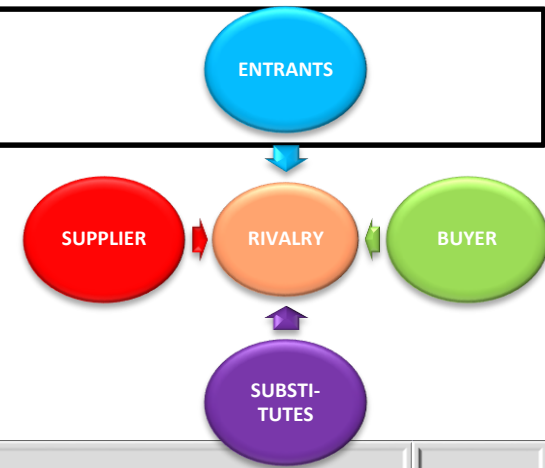
This model helps business managers and strategic procurement managers to look at the 'balance of power' in a market between different types of organisations, and to analyse the attractiveness and potential profitability of an industry sector.

It's a strategic tool designed to give a global overview, rather than a detailed business analysis technique. It helps review the strengths of a market position, based on five key forces.

1. Threat of New Entrants
2. Threat of substitutes
3. Bargaining power of Customers/Buyers
4. Bargaining power of Suppliers
5. Competitive Rivalry



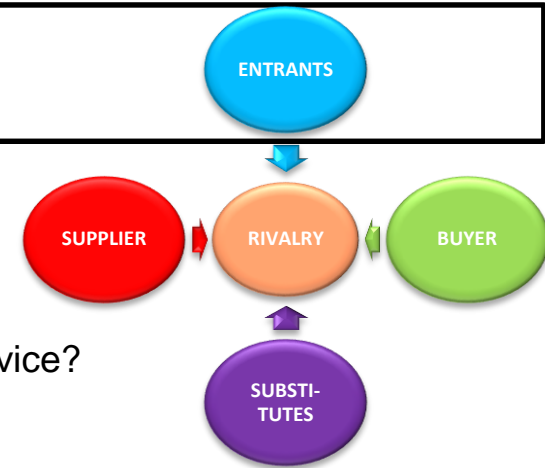
Threat of New Entrants



- It is the level of difficulty for new entrants to enter the supply market.
- Barriers can be real or perceived.
- Barriers can be due to the supply market itself or government driven.

Economies of scale	The minimum volume requirements for profitable operations. If there is a low production cost present in an industry, it creates a barrier to entry because it means that any new entrant has to come in on a large scale (high volumes) in order to compete at the low cost levels already present .	L / H
Product differentiation	Branding, patents, customer knowledge, etc. provide competitive advantages and may create barriers to entry by forcing new entrants to spend extra funds or simply take longer to establish themselves in the market.	L / H
Capital requirements	High initial investments in technology, plant, distribution, etc. may be a barrier to entry as the ability to raise finance and the risks associated capital outlays will deter new entrants.	L / H
Switching costs	When a buyer is satisfied with an existing product or service, it would be difficult to switch that buyer to a new entrant. This may be a barrier to entry as the cost of making the switch will fall on the new entrant. E.g. persuading buyers to switch computer software from MS Windows to Apple has obvious cost and inconvenience implications	L / H
Access to distribution channels	It is not enough to produce a quality product, it must be distributed. These distribution channels may be controlled by existing players in the market that may pose a barrier to entry.	L / H
Experience	Established companies have the advantage of knowing the market, confidence of major buyers, investment in infrastructure, specialist product/service knowledge. It becomes a daunting task for new entrants to gain a foothold in the market.	L / H
Government policy	Government may in some instances create a barrier to entering the market by regulating the industry, e.g. Government regulates the pharmaceutical industry. Is this the case with this industry?	L / H

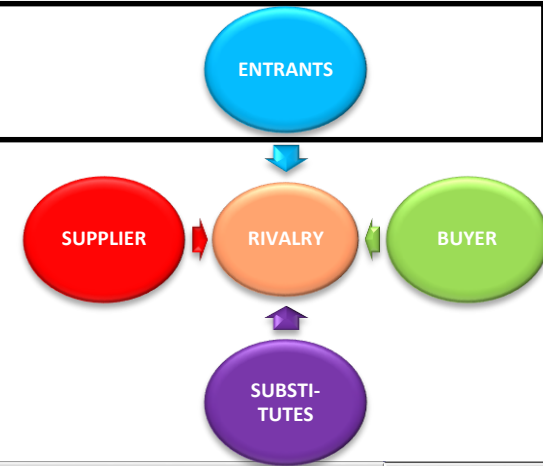
Threat of Substitutes



- These are products or services which are not currently in the supply market but could be used to replace the current product or service.
- These could be new technologies which will replace older technologies.
- What is the likelihood that someone will switch to a competitive product or service?
- If the cost of switching is low, then this poses a serious threat.

Buyer's willingness to substitute	Buyer's willingness to substitute will increase the threat of substitution.	L / H
Relative prices performance of substitutes	Favourable prices of substitute products increase the threat of substitution	L / H
Cost of switching to substitutes	The higher the costs of switching from one product to another, the lower the threat of substitution.	L / H
Technology changes	Can it be outsourced? Or automated?	L / H

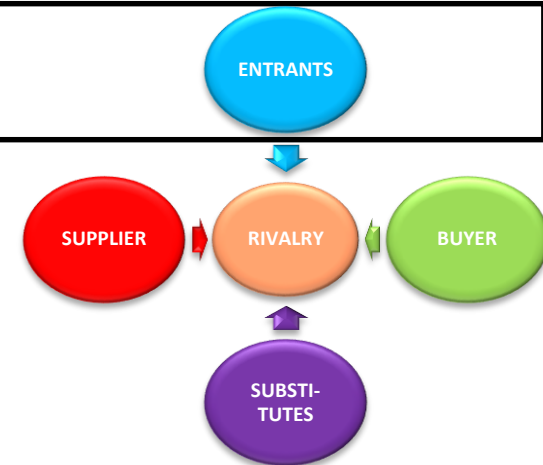
Buyer's Bargaining Power



- This is how much pressure customers (buyers) can place on a business.
- If one customer (buyer) has a large enough impact to affect a company's margins and volumes, then the customer (buyer) hold substantial power.

Buyer volume	Buyer power is likely to be increased when they buy large volumes	L / H
Substitute Products	If the product offered is undifferentiated and can be replaced by substitutes, the buyer power is likely to be increased.	L / H
Price sensitivity	If suppliers have low margins and are price sensitive, the buyer power is likely to be increased	L / H
Switching cost	High switching cost will likely decrease buyer's bargaining power	L / H
Backward integration	The buyer's bargaining power is increased if the buyer is able to backward-integrate and take over the role of the supplier/manufacturer.	L / H
Number of suppliers	A small number of suppliers of a particular product will likely reduce the buyer's bargaining power (monopoly situation).	L / H
Government policy	From the perspective of government as the buyer, government policy can likely increase buyer power	L / H

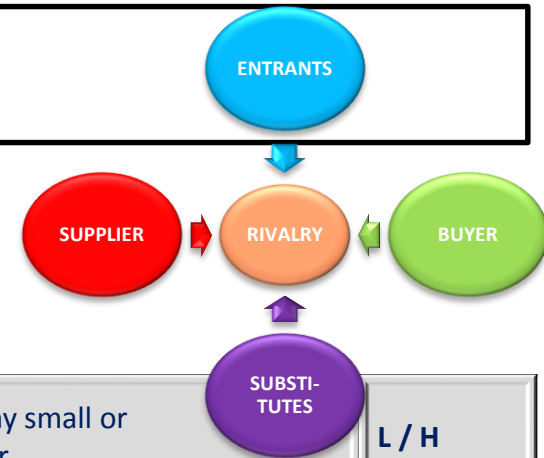
Supplier's Bargaining Power



- This is how much pressure suppliers can place on a business.
- If one supplier has a large enough impact to affect a company's margins and volumes, then it holds substantial power.

No substitutes	If there are no substitutes available it will likely increase the suppliers bargaining power	L / H
Local Manufacturing	If the industry has been designated for local manufacturing, it would likely increase the supplier's bargaining power.	L / H
Value-added services & quality	Value added services and quality increase the supplier power	L / H
Switching cost	If switching to another product is very costly, it will increase the supplier's power	L / H
Product importance	If the product is extremely important to buyers - can't do without it will increase the supplier's power	L / H
Brand reputation	A well-known product will give the supplier an advantage over a lesser known or new product	L / H
Geographical coverage	A wide national footprint will increase the supplier bargaining power.	L / H

Competitive Rivalry








- This describes the intensity of competition between existing firms in an industry.
- Highly competitive industries generally earn low returns because the cost of competition is high.

Structure of competition	The structure of the competition – e.g. rivalry is more intense where there are many small or equally sized competitors; rivalry is less when an industry has a clear market leader.	L / H
Industry cost structure	Industries with high fixed costs encourage competitors to fill unused capacity by cutting prices. The paper, steel and car industries are examples of industries where prices have been cut to achieve basic sales volumes – thus increasing rivalry.	L / H
Market growth	If a market is growing slowly it causes firms to fight for market share. It will be at the expense of another competitor. In a growing market, firms are able to improve revenues because of the expanding market.	L / H
Product differentiation	If there is not much differentiation between players and their products/ services, then competition is based on the best price. This reduces customer loyalty and increases competition.	L / H
Exit barriers	When it is difficult or expensive to exit from an industry (e.g. cost of closing a plant), there is likely to be excess production capacity and therefore, increased rivalry.	L / H
Switching cost	Low switching costs increases rivalry. When a customer can freely switch from one product to another there is a greater struggle to capture customers.	L / H
Strategic objectives	Strategic stakes are high when a firm is losing market position or has the potential for great gains. This intensifies rivalry.	L / H
Storage cost	High storage cost or highly perishable products cause a producer to sell goods as soon as possible. If other producers are trying to unload at the same time, competition for customers intensifies.	L / H

The Level of Impact and Rationale

Slide the red buttons left or right on the line relative to your findings for each of the market forces.

Potential Competitive forces	Level of Impact	Rationale
• Bargaining power of Suppliers	High —————  Low	• No brand reputation or product / service differentiation
• Threat of New Entrants	Low —————  High	• No perceived entry barriers to the market
• Bargaining power of Buyer	Low —————  High	• Commodity represents a significant fraction of overall spend • No preferred supplier groups • No switching cost from one supplier to another
• Threat of Substitutes	Low  ————— High	• No real risk of substitute services • Internet may enhance current service delivery but will not replace the function of Recruitment Agencies in total
• Competitive Rivalry	Low —————  High	• Large number of comparable suppliers • Packaged and Value Added Services

Who holds the Negotiation Power?



Keep notes of the aspects that needs to be included in the negotiation strategy.

Market Analysis

PESTLE ANALYSIS

Tools for Market Analysis

2. PESTLE – an analysis of the political, economic, social, technological, legal and environmental factors in the external environment of an organization, which can affect its activities and performance.

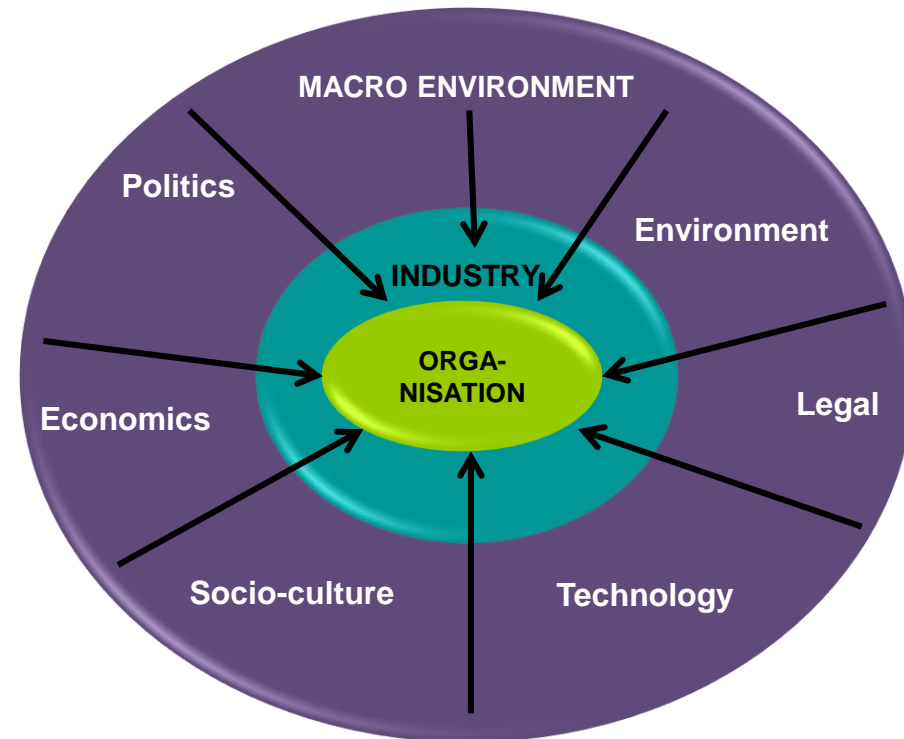
It is a simple and effective tool used in situation analysis to identify the key external (macro environment level) forces that might affect an organization.

These forces can create both opportunities and threats for an organization. For best results it should be done together with a SWOT analysis.

Therefore, the **aim** of doing PESTLE is to:

- find out the current external factors affecting an organization;
- identify the external factors that may change in the future;
- to exploit the changes (opportunities) or defend against them (threats).

The outcome of PEST is an understanding of the overall picture surrounding the organisation.



PESTLE Analysis

Political

- Government type
- Government stability
- Freedom of press, rule of Law, Bureaucracy, Corruption
- Regulation/ De-regulation Trends
- Social / Employment Laws
- Political stability
- Pressure Groups

Economic

- Business Cycle Stage
- Growth, Inflation, Interest Rates, exchange rates
- Unemployment, Labour supply, Labour costs
- Disposable income/ distribution
- Globalization
- Likely economic change

Socio Cultural

- Population growth / Age profile
- Health, Education, Social mobility
- Employment patterns, attitude to work
- Press, public opinion, attitudes and Taboos, Lifestyle choices
- Likely socio-cultural change

Technological

- Impact of emerging technologies
- Impact of internet, and reduced communication costs
- R&D Activity
- Impact of technology transfer
- Likely technology change
- Innovation

Legal

- National employment laws
- International trade regulations and restrictions
- Monopolies and mergers' rules
- Consumer protection
- Health and safety
- Corporate governance

Environmental

- Limited natural resources
- Waste disposal
- Recycling procedures
- Water shortages
- Pollution

PESTLE Analysis Template

Detailed description of the subject / commodity analysed for strategic decision making purposes.

Analysis factor	Notes	Potential Impact (L/M/H)	Impact Status (Increasing Unchanged Decreasing?)	Type of impact (Positive Negative)	Relative Importance (Critical Important Unimportant)
Political - Government Policies	Current Procurement policy gives preference to BBBEE companies	M	U	P	I
Economic - Exchange Rate	ROE is volatile (unstable)	H	I	N	I
Socio-Cultural - Pressure groups	Pressure groups are lobbying for local assembly of the product	M	I	P	I
Technological - Fast changing	The rate at which the technology changes threatens local assembly	H	I	N	I
Legal - None identified	None	L	U	P	U
Environmental - Disposal - Recycling	Must investigate disposal and recycling opportunities / operating procedures	M	I	P	I

Market Analysis

SWOT Analysis

Tools for Market Analysis

3. SWOT Analysis

1. A **SWOT analysis** is a structured planning method used to evaluate the **strengths**, **weaknesses**, **opportunities**, and **threats** involved in a project.
 - **Strengths**: characteristics of the project that give it an advantage over others.
 - **Weaknesses**: characteristics that place the project at a disadvantage relative to others
 - **Opportunities**: elements that the project could exploit to its advantage
 - **Threats**: elements in the environment that could cause trouble for the project
2. SWOT Analysis are **used** as inputs to the generation of potential strategies by asking and answering the following questions.
 - How can we **Use** each Strength?
 - How can we **Stop** each Weakness?
 - How can we **Exploit** each Opportunity?
 - How can we **Defend** against each Threat?

SWOT ANALYSIS



SWOT Analysis

	HELPFUL To achieving the objectives	HARMFUL To achieving the objectives
INTERNAL ORIGIN (attributes of the organisation)	<ul style="list-style-type: none"> • Advantages of proposition? • Competitive advantages? • Resources, Assets, People? • Experience, knowledge, data? • Financial reserves, likely returns? • Location and geographical? • Accreditations, qualifications, certifications? • Processes, systems, IT, communications? • Cultural, attitudinal, behavioural? <p>S</p>	<ul style="list-style-type: none"> • Disadvantages of proposition? • Lack of competitive strength? • Reputation, presence & reach? • Own known vulnerabilities? • Timescales, deadlines and pressures? • Financials? • Gaps in capabilities? • Accreditations, etc? • Cashflow? • Continuity, supply chain robustness? • Effects on core activities, distraction? • Reliability of data, plan predictability? • Morale, commitment, leadership? • Management cover, succession? • Processes and systems, etc? <p>W</p>
EXTERNAL ORIGIN (attributes of the environment)	<ul style="list-style-type: none"> • Market developments? • Competitors' vulnerabilities? • Industry or lifestyle trends? • Technology development and innovation? • Global influences? • New markets, vertical, horizontal? • Niche target markets? • Geographical, export, import? • New Unique selling points? • Tactics: eg, surprise, major contracts? • Business and product development? • Information and research? • Partnerships, agencies, distribution? • Volumes, production, economies? • Seasonal, weather, fashion influences? <p>O</p>	<ul style="list-style-type: none"> • Political effects? • Legislative effects? • Environmental effects? • IT developments? • Competitor intentions - various? • Market demand? • New technologies, services, ideas? • Vital contracts and partners? • Sustaining internal capabilities? • Obstacles faced? • Insurmountable weaknesses? • Loss of key staff? • Sustainable financial backing? • Economy - home, abroad? • Seasonality, weather effects? <p>T</p>

SWOT Analysis Template

	HELPFUL To achieving the objectives	HARMFUL To achieving the objectives																
INTERNAL ORIGIN (attributes of the organisation)	STRENGTHS (Internal Factors) <ul style="list-style-type: none"> What do you do well? <table border="1"> <tr> <td>Our strengths:</td> <td>Ways to exploit:</td> </tr> <tr> <td>1.</td> <td>1.</td> </tr> <tr> <td>2.</td> <td>2.</td> </tr> <tr> <td>3.</td> <td>3.</td> </tr> </table>	Our strengths:	Ways to exploit:	1.	1.	2.	2.	3.	3.	WEAKNESSES (Internal Factors) <ul style="list-style-type: none"> Where are we vulnerable? What should be improved? <table border="1"> <tr> <td>Our weaknesses:</td> <td>Ways to reduce:</td> </tr> <tr> <td>1.</td> <td>1.</td> </tr> <tr> <td>2.</td> <td>2.</td> </tr> <tr> <td>3.</td> <td>3.</td> </tr> </table>	Our weaknesses:	Ways to reduce:	1.	1.	2.	2.	3.	3.
Our strengths:	Ways to exploit:																	
1.	1.																	
2.	2.																	
3.	3.																	
Our weaknesses:	Ways to reduce:																	
1.	1.																	
2.	2.																	
3.	3.																	
EXTERNAL ORIGIN (attributes of the environment)	OPPORTUNITIES (External Factors) <ul style="list-style-type: none"> Where can we create or find a competitive advantage? <table border="1"> <tr> <td>Our opportunities:</td> <td>Ways to exploit:</td> </tr> <tr> <td>1.</td> <td>1.</td> </tr> <tr> <td>2.</td> <td>2.</td> </tr> <tr> <td>3.</td> <td>3.</td> </tr> </table>	Our opportunities:	Ways to exploit:	1.	1.	2.	2.	3.	3.	THREATS (External Factors) <ul style="list-style-type: none"> What obstacles to you face? <table border="1"> <tr> <td>Our threats:</td> <td>Ways to reduce:</td> </tr> <tr> <td>1.</td> <td>1.</td> </tr> <tr> <td>2.</td> <td>2.</td> </tr> <tr> <td>3.</td> <td>3.</td> </tr> </table>	Our threats:	Ways to reduce:	1.	1.	2.	2.	3.	3.
Our opportunities:	Ways to exploit:																	
1.	1.																	
2.	2.																	
3.	3.																	
Our threats:	Ways to reduce:																	
1.	1.																	
2.	2.																	
3.	3.																	

3.3.3

Supplier Differentiation Assessment

Objective:

To assess how much importance suppliers place upon government's business and to understand how suppliers view governments business and how they behave as a result.

Output:

- Supplier's perception of Government's account and strategies to engage with suppliers

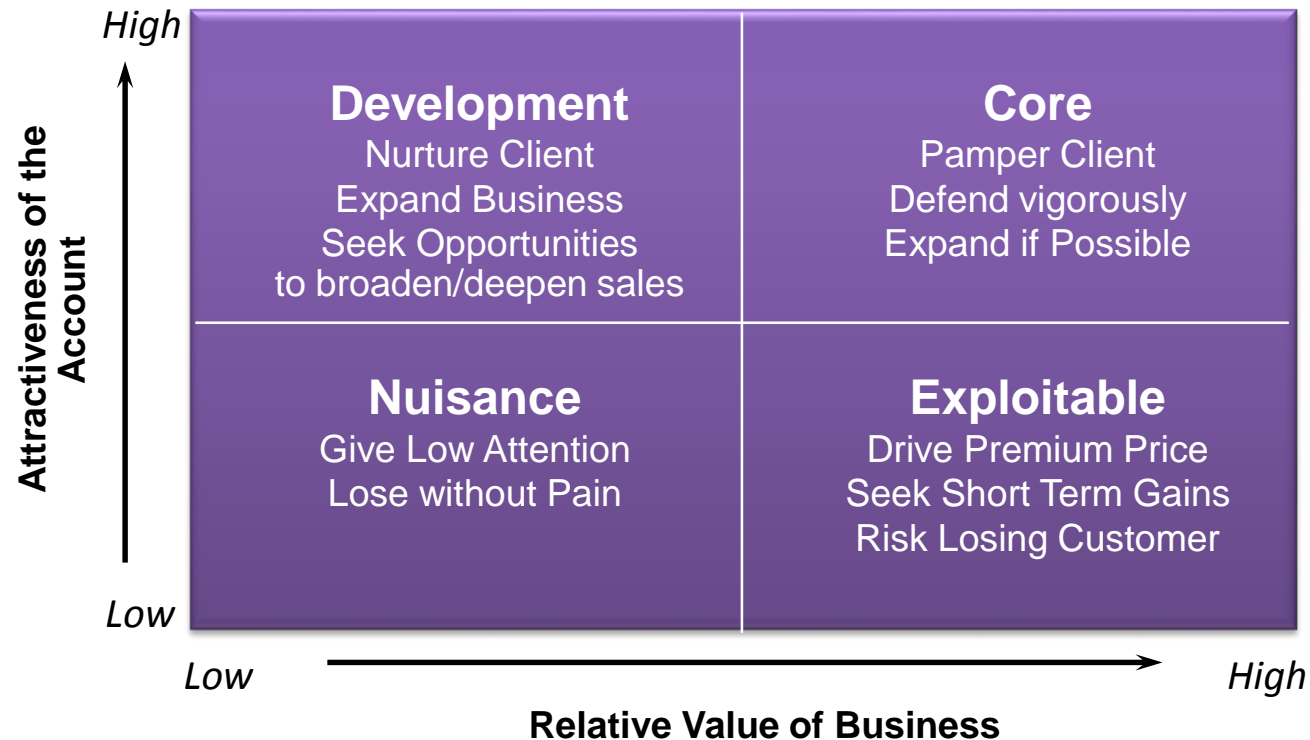
Supplier differentiation assessment

Analyse supplier behaviour

- While the previous market analysis tools looked at how the market functions, this piece of analysis attempts to “**walk in the suppliers shoes**” and understand how suppliers view governments business and how they behave as a result.
- The purpose of this exercise is to assess how much importance **the supplier** places upon government’s business and adds another dimension to the results of the Portfolio Analysis.
- The model can be used in two ways:
 - As a diagnostic tool, assessing **current supplier relationships** and the associated strengths, weaknesses, opportunities and threats;
 - As a decision support tool, assessing the likely position of future/potential suppliers.
- By understanding government’s value to suppliers, different strategies can be developed based on the **willingness or reluctance** of suppliers to meet government’s needs.
- This analysis may identify changes the government department may need to make in order to be seen as a more **attractive customer**. If this happens, there will be more competition amongst suppliers to get your business.
- It is important that you accurately gauge your value as a customer to suppliers as this will determine the extent to which you can influence a market and achieve better procurement outcomes

Positioning the Account according to the Suppliers Perspective

- The model involves assessing two variables:
 - Attractiveness of the government's account
 - Relative value of the government's account
- Positioning is done by making use of a [generic questionnaire](#) taking into account the various factors at play. Answers to the questions are weighted to give an overall score which are used to plot the commodity account in one of the quadrants.



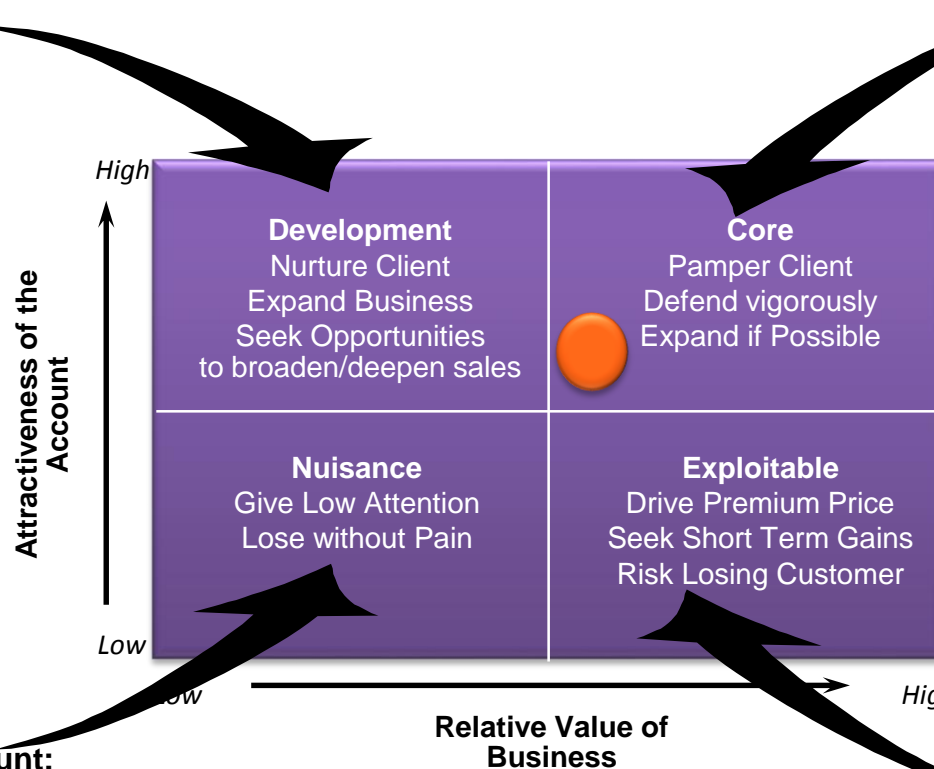
Suppliers View of Government Business

Actions to Consider:

What strategic actions can be taken based on the Suppliers View of the account?

Development Account:

- If government is viewed as having development potential the supplier may be willing to (in the short term) to meet your requirements in order to win more business.
- You may be seen as attractive because of the potential for more valuable business in the future.



Core Account:

- If government is seen as a core part of a supplier's business, it is possible to establish a rewarding business relationship in which both parties continually seek to add value.
- The supplier is keen to meet government's requests, e.g open to efficiency improvements, provide good service, reduce costs, etc.

Nuisance Account:

- The supplier shows little interest in your business.
- Consider sourcing from other suppliers who value your business more highly

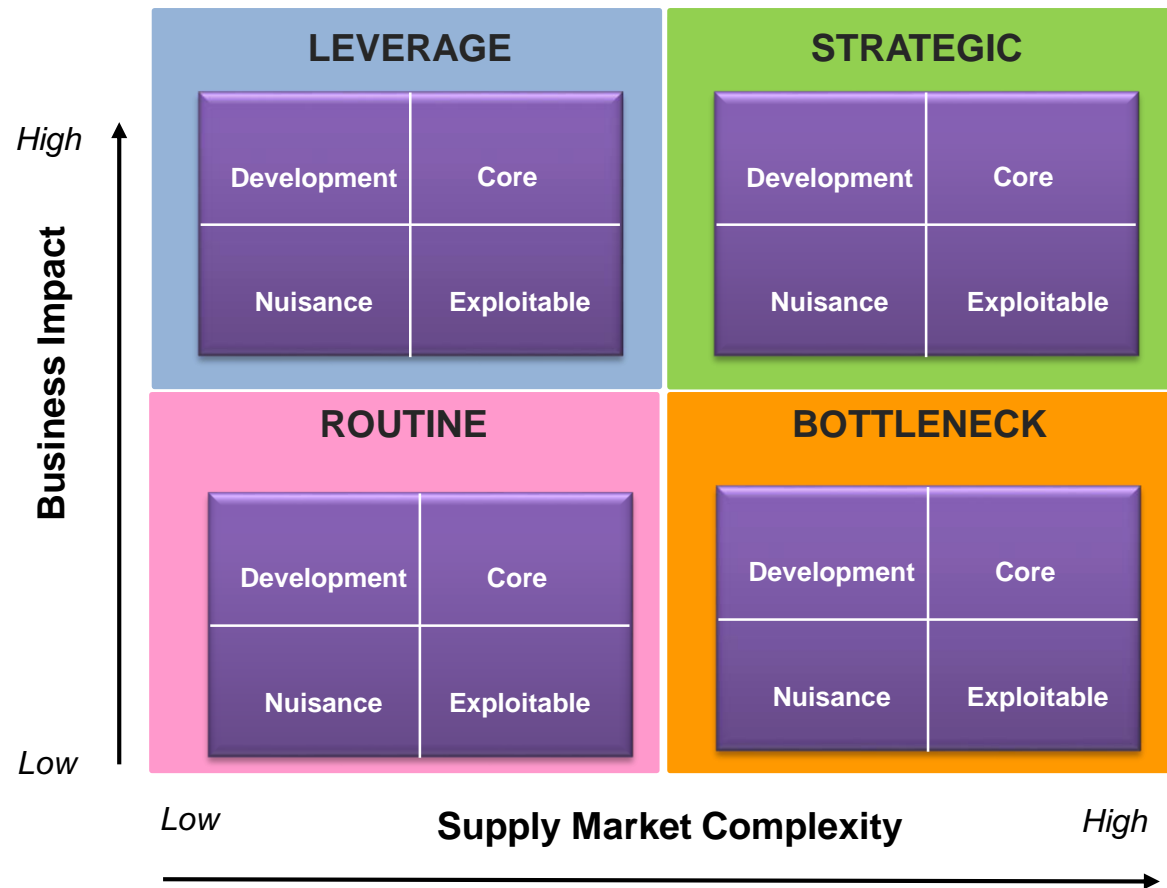
Exploitable Account:

- The supplier may get high volume orders but the account is still unattractive, due to low profitability or factors such as late payment of accounts.
- Where supplier seek price increases, you may want to look for alternative suppliers or try to make the account more attractive by considering more efficient ways to do business.

See the full picture

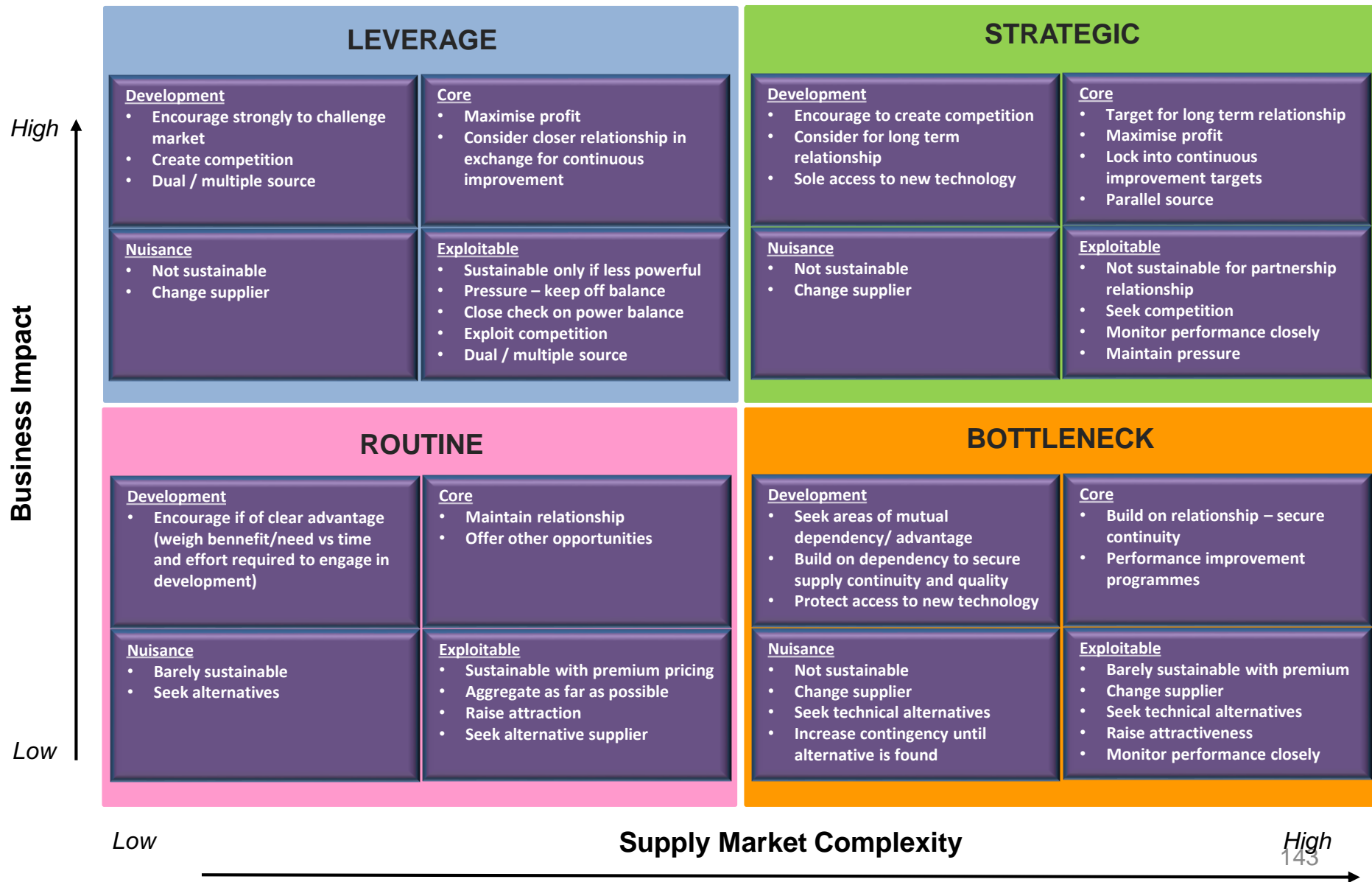
Market Management Matrix:

- In order to understand the full picture you need to combine your findings from the Supply Positioning and Supplier preferencing matrices.
- It is important to identify areas of potential risk, e.g. if a service is deemed to be STRATEGIC to you, but your business is seen as a NUISANCE or EXPLOITABLE, this creates a supply risk.
- You may need to work to change suppliers' perceptions of you as a customer to increase their interest and move you to DEVELOPMENT.



Generic Supplier Management Strategies

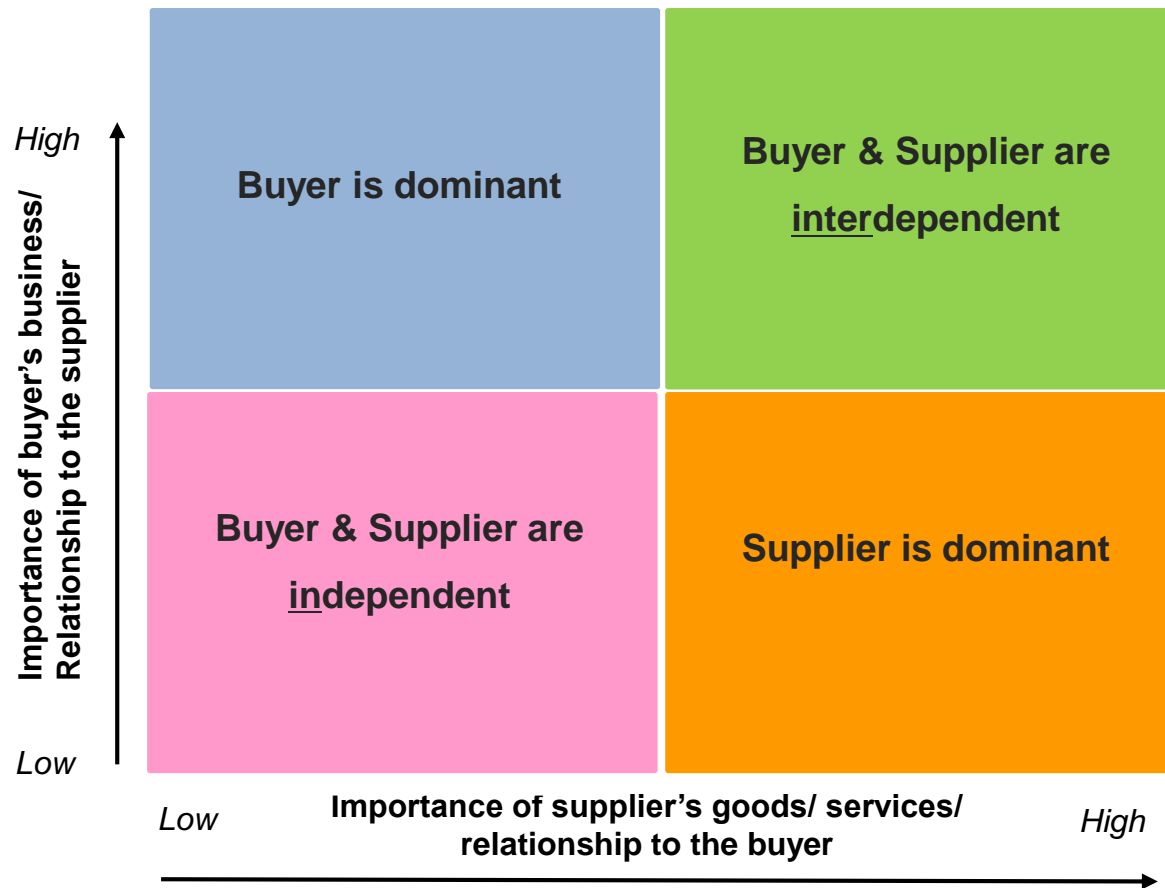
Supplier Management Matrix:



Power and Dependency

Market Management Matrix:

- It can be important to assess the levels of power and dependency between government and individual suppliers.
- You need to be aware of situations where a supplier is highly dependent on your business and vice versa.
- These can be high risk situations. If you are overly dependent upon a supplier you may be vulnerable to exploitation.



3.3.4

Identify Potential Suppliers

Objective:

To assess the supplier “universe” and identify potential suppliers for the specific commodity.

Output:

- List of potential suppliers

Identify the supplier universe...

Where to look?

Current Suppliers



- Central information systems



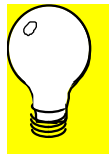
- Accounts payable files



- Mailing lists



- Purchasing files

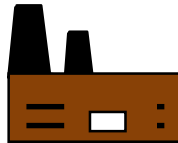


- Corporate knowledge

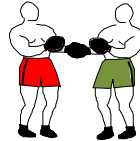
Historical Suppliers



- Past suppliers



- Original equipment manufacturer



- Current suppliers' suppliers

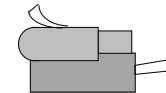


- Trade journals

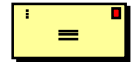


- Library search based on SIC Codes

New Suppliers / New Markets



Vs.



Vs.



McDonald's

Vs.



Syrup

Vs.



Honey.

Identifying Suppliers

- In some cases a large number of suppliers will be easily identified, but in others a real effort will have to be made to trace suppliers. When potential suitable suppliers are being identified, all possible sources of information should be identified.
- The following information sources can be used to trace suppliers:
 - Organisations Supplier Register (Supplier Database) (Current and previous Suppliers)
 - Sales and technical personnel
 - Sales representatives and other visitors
 - Visits to industrial exhibitions and displays
 - Organised trade and industry and other associations
 - Purchase records
 - Trade journals
 - Guides such as the Yellow Pages and telephone directories
 - Catalogues, brochures and price lists
 - Buyers guides and computerised information
 - Advertisements
 - Internet

Identified Suppliers to participate in the tender process

Current Suppliers

Supplier A

Supplier B

Supplier C

.....

Historical Suppliers

Supplier A

Supplier B

Supplier C

.....

New Suppliers / New Markets

Supplier A

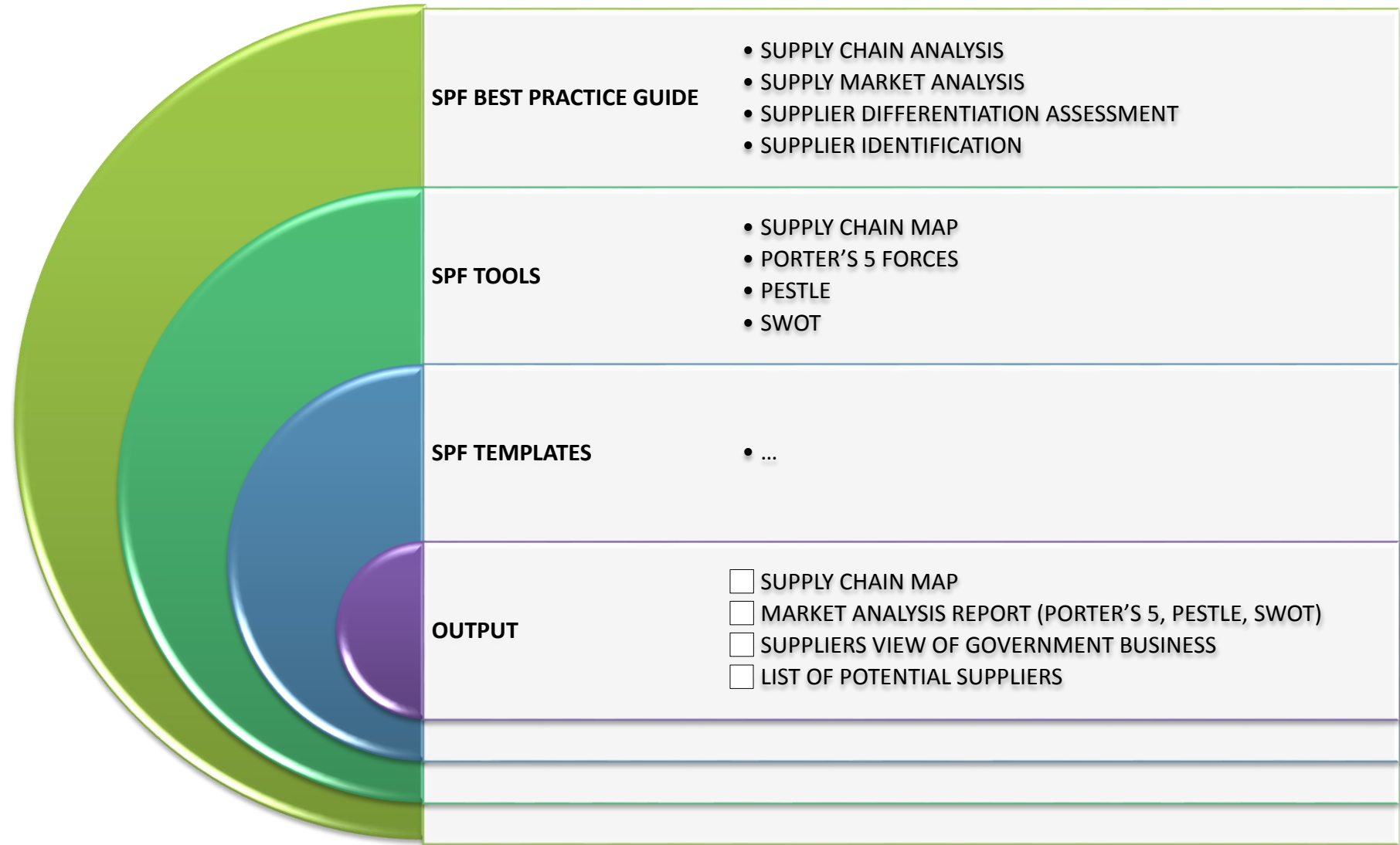
Supplier B

Supplier C

.....

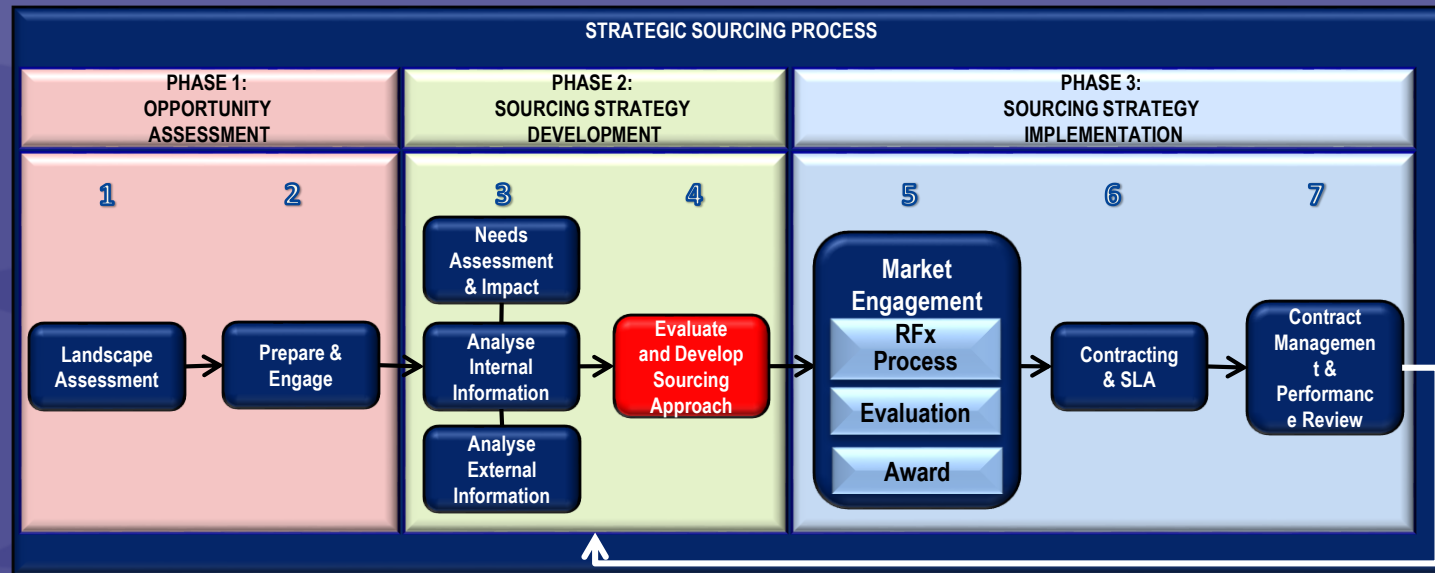
Stage 3.3 – Analyse External Information Outcome

Stage 3.3 – Analyse External Information



4.

EVALUATE AND DEVELOP SOURCING APPROACH



- 4.1 Consolidate understanding of commodity
- 4.2 Risk Analysis
- 4.3 TCO Analysis
- 4.4 Opportunity Analysis & Ideas Generation
- 4.5 Develop the sourcing strategy

- 4.6 Identify the desired supplier relationship
- 4.7 Strategy Suitability Assessment
- 4.8 Define bid evaluations and award criteria
- 4.9 Prepare business case and obtain approval

Objective:

The objective of Stage 4 is to consolidate all the information gathered so far, to identify possible risks associated with the project / commodity and to calculate the total cost of ownership. It further involves the identification of improvement opportunities and generating ideas as to where improvement can be achieved. Identify all possible sourcing options, desired supplier relationship and evaluation criteria. A strategy suitability assessment will identify the sourcing options that will deliver the greatest results and is in line with government procurement and other legislation. The Business case can now be finalised and submitted for approval.

Output:

- 1. Fact Base
- 2. Risk Scorecard
- 3. Estimated TCO
- 4. List of potential ideas
- 5. "Best-fit" sourcing options and solutions
- 6. Proposed supplier relationship type
- 7. Suitable, feasible and acceptable sourcing options
- 8. Evaluation and award criteria
- 9. Approved Business Case

4.1

Consolidate understanding of Commodity

Objective:

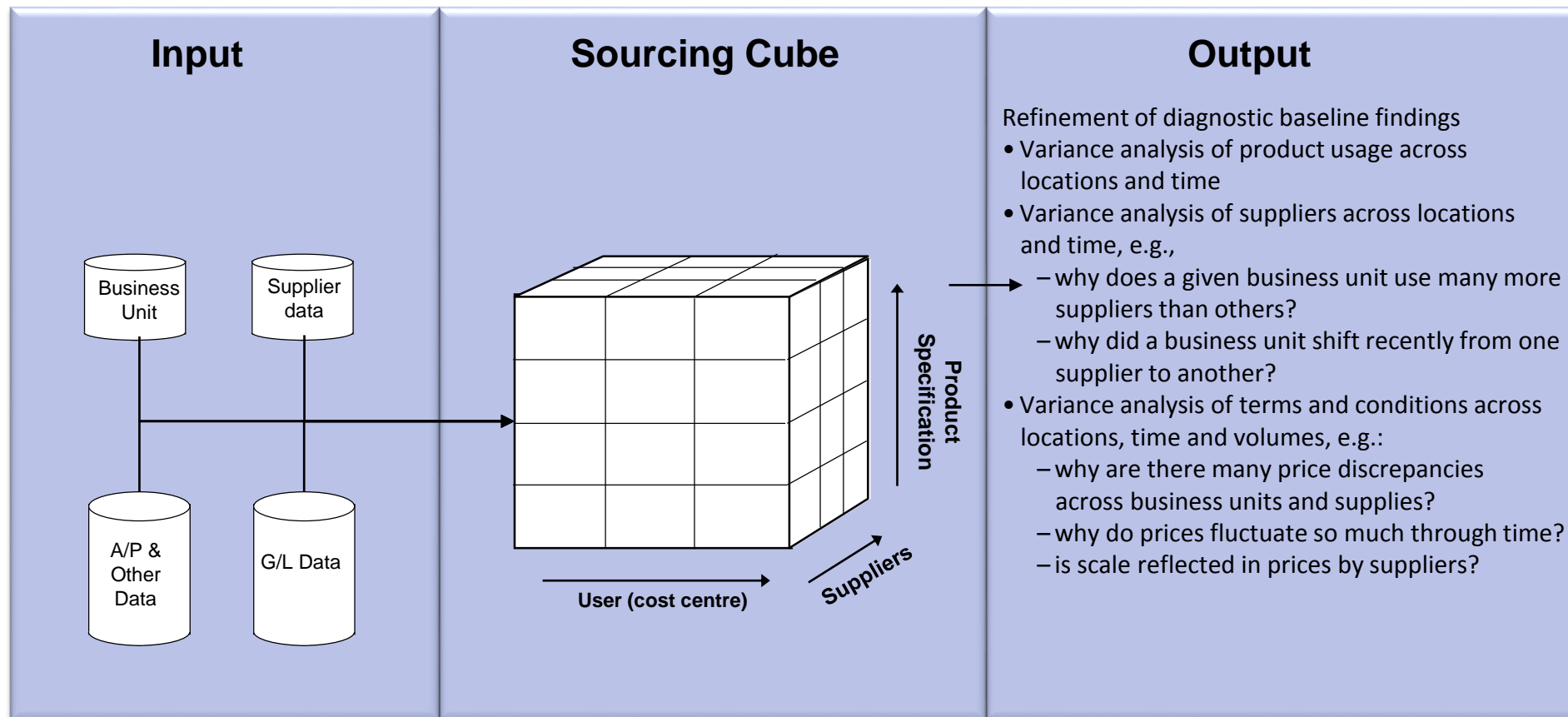
To consolidate all the information gathered so far in order to convert data and opinions into useful information to assist with the decision making process

Output:

- Information fact base

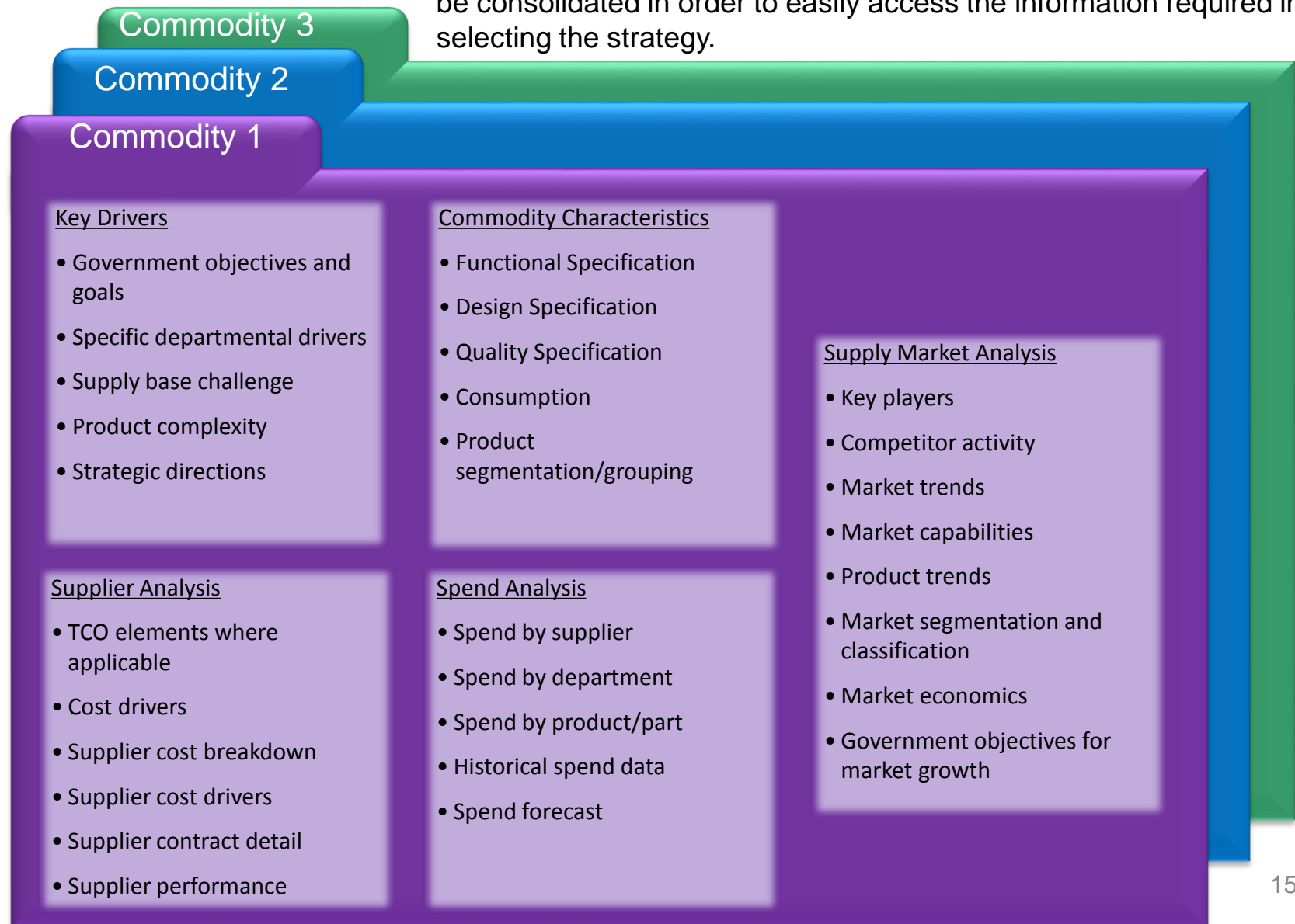
Identify, Transform, Load and Analyse Data

In order to obtain the required outputs, source data is identified in the various systems (input), this data is to be validated, transformed into preferred formats and loaded into the data store (sourcing cube/ database), the data is converted into information providing the required analysis reports (output).



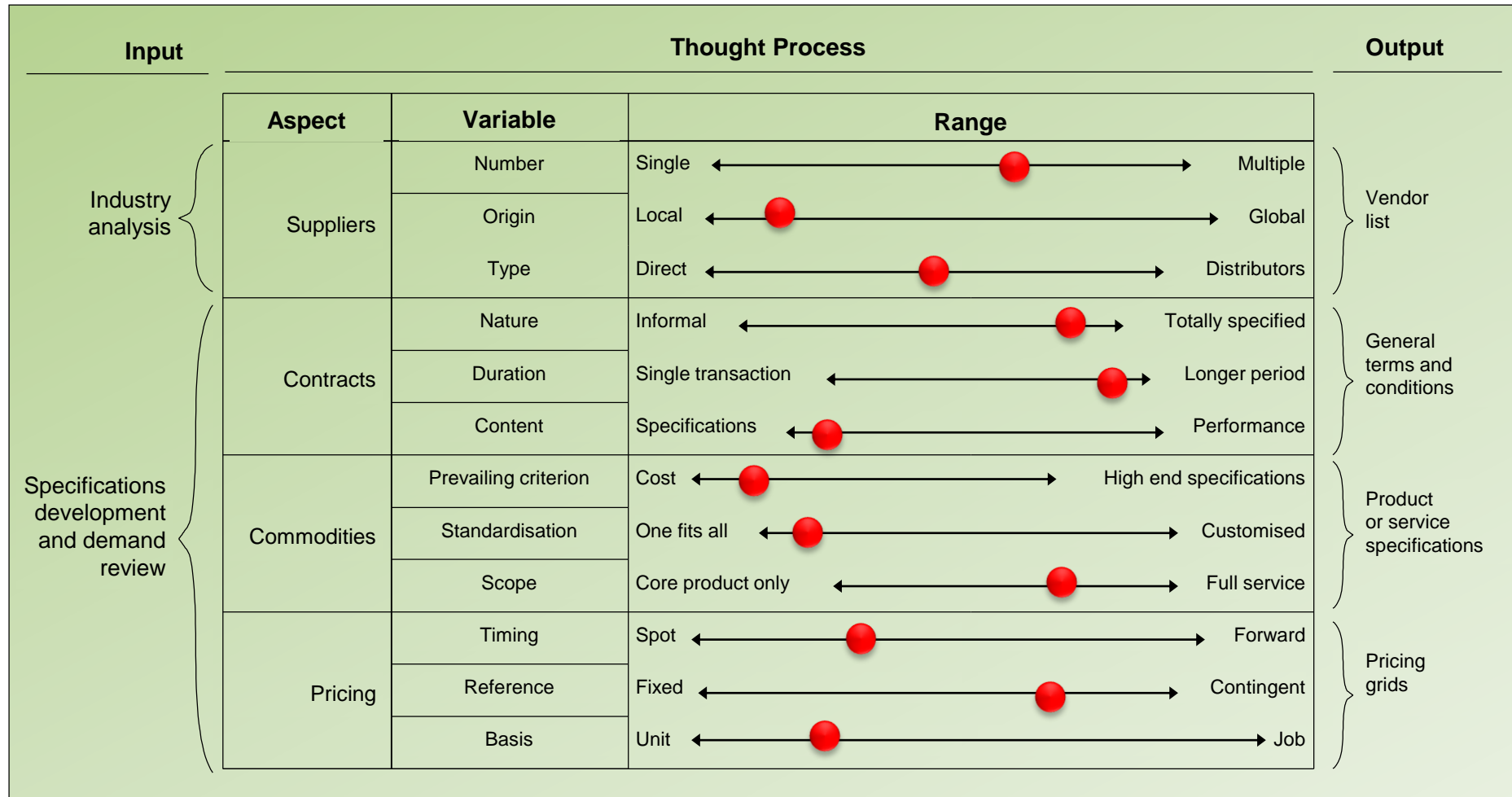
Consolidate Understanding of Commodity into a Fact Base

Information gathered during the data collection and analysis process can be consolidated in order to easily access the information required in selecting the strategy.



Level / Depth of Information Assessment

The development of the Sourcing Strategy must include consideration of all aspects of the current suppliers, contracts, commodities and pricing.



4.2

Risk Analysis

Objective:

To assess and identify any risks associated with the project and develop mitigating actions to minimise possible delays and disruptions.

Output:

- Risk Scorecard and Mitigating Action List

Risk Analysis

- Almost everything we do involves a risk of some kind, for example, stakeholders' needs change, new suppliers appear on the market and factors outside our control could delay the procurement or delivery under the contract.
- Formal risk analysis and risk management can help you to assess these risks and inform what actions to take to minimise disruptions. It will also help you to decide whether the strategies you could use to control risk are cost-effective.
- Whilst your department will probably have its own risk management tool here is a simple explanation of the process.
- The **SWOT** analysis you did earlier will assist in this process:
 - The identification of weaknesses and threats will inform your assessment of risk.
 - The identification of strengths and opportunities will inform solutions or approaches to managing the risks.

Definitions Associated with Risk

Risk

Something with potential to cause harm, loss, damage or delay.

Probability

Likelihood that any of the above is realised.

Impact /Severity

The extent to which our customers, our staff, our business, our suppliers, our environment, etc., are exposed

Risk Rating

- Once you have identified specific threats/risks undertake a risk rating.
- This means identifying, for each threat/risk, the likelihood or probability of it happening and the consequences or impacts if it did happen.
- Your agency will probably have its own risk assessment methodology. However, for the purpose of explaining the process a common type of risk analysis framework is set out below.

Step 1: Look at the probability/likelihood of the risk happening and place this on a scale ranging from:

- 1 = 'rare'
- 2 = 'unlikely'
- 3 = 'possible'
- 4 = 'likely'
- 5 = 'almost certain'

Step 2: Look at the consequences (impact/severity) that will follow if the risk materialises and place on a scale ranging from:

- 1 = 'negligible'
- 2 = 'low'
- 3 = 'moderate'
- 4 = 'high'
- 5 = 'extreme'.

Step 3: Use these two ratings to plot the risk on the matrix. Each risk will be identified by an overall risk rating ranging from green to red. You should focus on risks with red and amber ratings first.

Identify action that will:

- Mitigate the likelihood of the risk happening.
- Minimise the consequences if the risk eventuates.

Risk Rating Matrix

1. Brainstorm all the risk issues with the help of the CFST.
2. Analyse each risk for impact and probability.
3. Score each risk to determine the risk rating.
4. Eliminate those risks that is not worthy of further investigation.

		Probability/Likelihood				
	Low					High
Impact / Severity	Score	1	2	3	4	5
	1	1	2	3	4	5
	2	2	4	6	8	10
	3	3	6	9	12	15
	4	4	8	12	16	20
	5	5	10	15	20	25
High						

Mitigation Matrix

1. Identify possible solutions for each identified risk.
2. Analyse each solution for practicality and cost to the organisation.
3. Score each solution to determine the mitigating rating (residual risk).

	<div> <div>Low</div> <div>Practicality</div> <div>High</div> </div>					
<div>High</div> <div>Business Cost</div> <div>(R and/or Resource)</div> <div>Low</div>	Score	1	2	3	4	5
	1	1	2	3	4	5
	2	2	4	6	8	10
	3	3	6	9	12	15
	4	4	8	12	16	20
	5	5	10	15	20	25

Risk Scorecard Template

Risk Scorecard														
	Low	Probability / Likelihood				High		Low	Practicality				High	
	Score	1	2	3	4	5		Score	1	2	3	4	5	
Low	1	1	2	3	4	5		High	1	1	2	3	4	5
Impact/ Severity	2	2	4	6	8	10		Business Cost (R and or Resource)	2	2	4	6	8	10
	3	3	6	9	12	15			3	3	6	9	12	15
	4	4	8	12	16	20			4	4	8	12	16	20
High	5	5	10	15	20	25		Low	5	5	10	15	20	25
Risk Assessment						Mitigation Strategy								
Risk Statement		Impact / Severity	Probability / Likelihood	Risk Score	Cost Impact		Action Statement		Business Cost	Practicality	Mitigation Score	Positive / Negative		
Resistance from User Departments to participate in arrangement		4	3	12			Include top spend departments in CFST		3	4	12	p		
Lack of data to support strategy (Municipal and Public Entities spend)		3	3	9			Manual data collection		2	3	6	p		
Incorrect assumptions due to spend information lacking at Municipal and Public Entities		4	3	12			Manual data collection to enhance assumptions		2	3	6	p		
Difficulty in dealing with a closed industry system of 4 players that drive pricing		5	3	15			Meetings with industry players/ stakeholders to manage risk		4	5	20	p		
				0							0	0		
				0							0	0		
				0							0	0		
				0							0	0		
				0							0	0		
				0							0	0		

4.3

Total Cost of Ownership (TCO)

Objective:

To determine the direct and indirect costs of a product or service over its full life cycle (from procuring, installing, deploying, operating, upgrading, maintaining and disposal)

Output:

- Estimated total cost of ownership calculation
- <http://www.business.govt.nz/procurement/pdf-library/agencies/guides-and-tools/guide-total-cost-ownership.pdf>
- <http://www.business.govt.nz/procurement/for-agencies/guides-and-tools/procurement-toolkit>

Total Cost of Ownership

What is Total Cost of Ownership?

- Total Cost of Ownership (TCO) is an estimate of the total costs of goods, services or construction works over the whole of their life.
- It's the combination of the purchase price plus all other costs you will incur, less any income you receive.
- For example: the initial purchase price plus installation costs, operating costs and ongoing maintenance less the residual value on disposal.

Why is TCO important?

- The procurement principles encourage us to make balanced procurement decisions. This includes getting the best value for money. It means accounting for all costs and benefits over the lifetime of the goods or services.
- Part of good procurement is achieving the right price. Best value for money is the lowest whole-of-life cost. This involves identifying the initial purchase price and estimating all future costs and returns.
- A procurement decision based on the initial purchase price only rather than the total costs over the whole-of-life, could fail to recognise the real costs to your department.

Total Cost of Ownership

When should I use TCO?

TCO can be used at various stages in procurement:

- in a business case to assess the costs, benefits and risks associated with the procurement
- when assessing different business models, maintenance options or solutions on a comparable cost basis
- to understand the different cost drivers in the life of a procurement
- by a supplier when bidding for a contract to demonstrate the total benefits and value being offered – especially where the initial purchase price is higher than competitors, but the total cost of ownership is lower
- in selecting the best supplier by assessing the comparative whole-of-life costs of competing bids
- in managing the contract to track actual expenses and income against budget
- as part of a benefits realisation exercise.

Total Cost of Ownership

Direct costs

Direct costs are attributed to a specific good or service. In construction, the costs of materials used eg wood, cement, doors, fittings and labour are all direct costs.

Indirect costs

Indirect costs are not attributed to a specific good or service. In manufacturing these include eg rent, taxes, maintenance of equipment.



How do I calculate TCO?

Formulas

- Broadly speaking, the method is to research, estimate and calculate all costs and benefits over the whole-of-life.
- There is no standard formula that is used for all TCO calculations.
- What needs to be taken into account will always depends on the specific nature of the procurement.



TCO Example

TCO of my car

Buying and using a car involves a series of expenses and hopefully some income on re-sale.

To TCO your car you need to identify all possible costs and revenue over the period of your ownership eg:

Expenses:

- initial purchase price
- on-road costs
- ongoing fuel consumption
- insurance
- vehicle licences
- Warrantee
- regular servicing and spares.

Income:

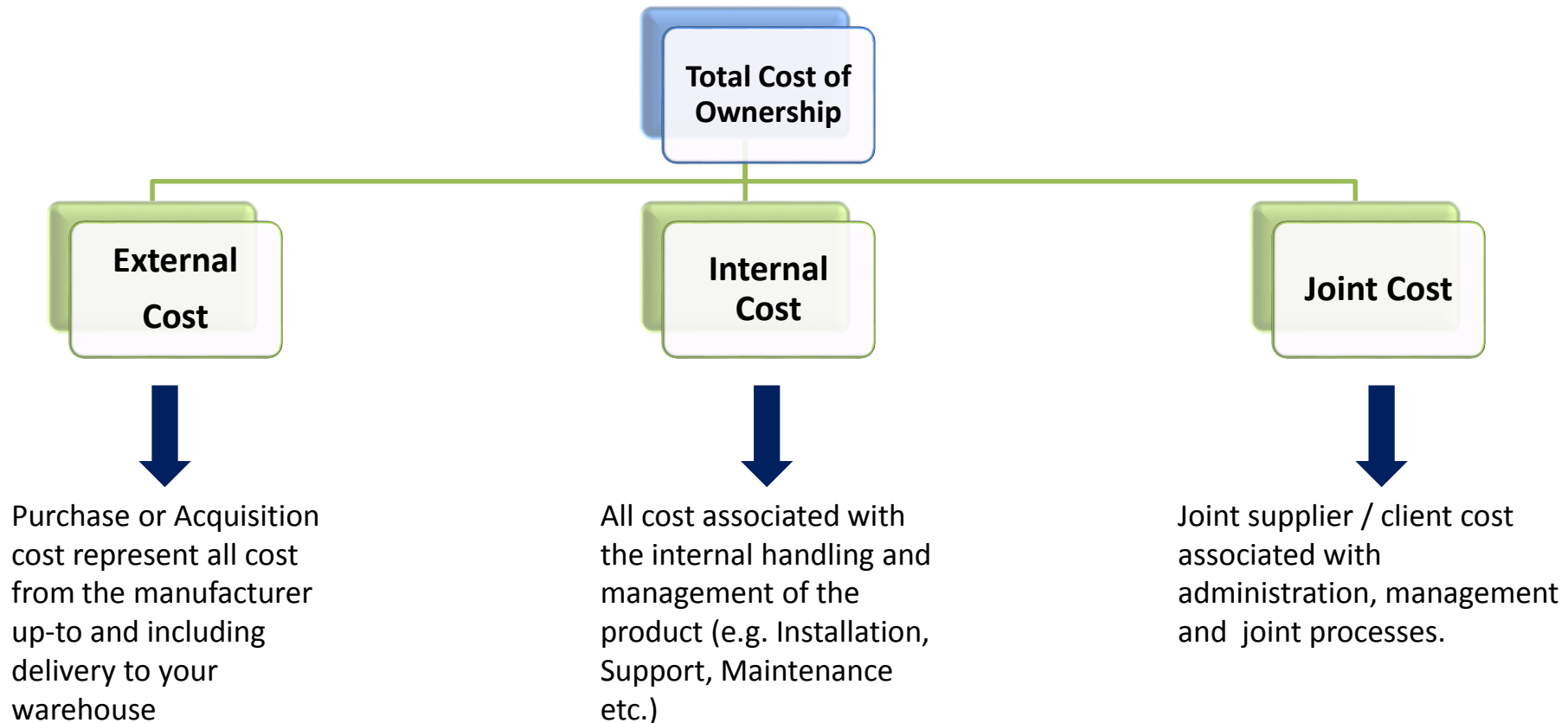
- re-sale price.



VS



The Total Cost of Ownership Framework



Components that contribute to the Total Cost of Ownership

External Costs


- Purchase Price
- Inbound Freight Cost
- Insurance Premiums
- Packaging Cost
- Rate of Exchange
- Duties and Taxes

Internal Costs

- Transportation Cost (internally)
- Warehousing and Storage
- Manufacturing Cost
- Quality Assurance (internal)
- Installation Cost
- Operational Cost
- Training Cost
- Recovery and Disposal

Joint Costs

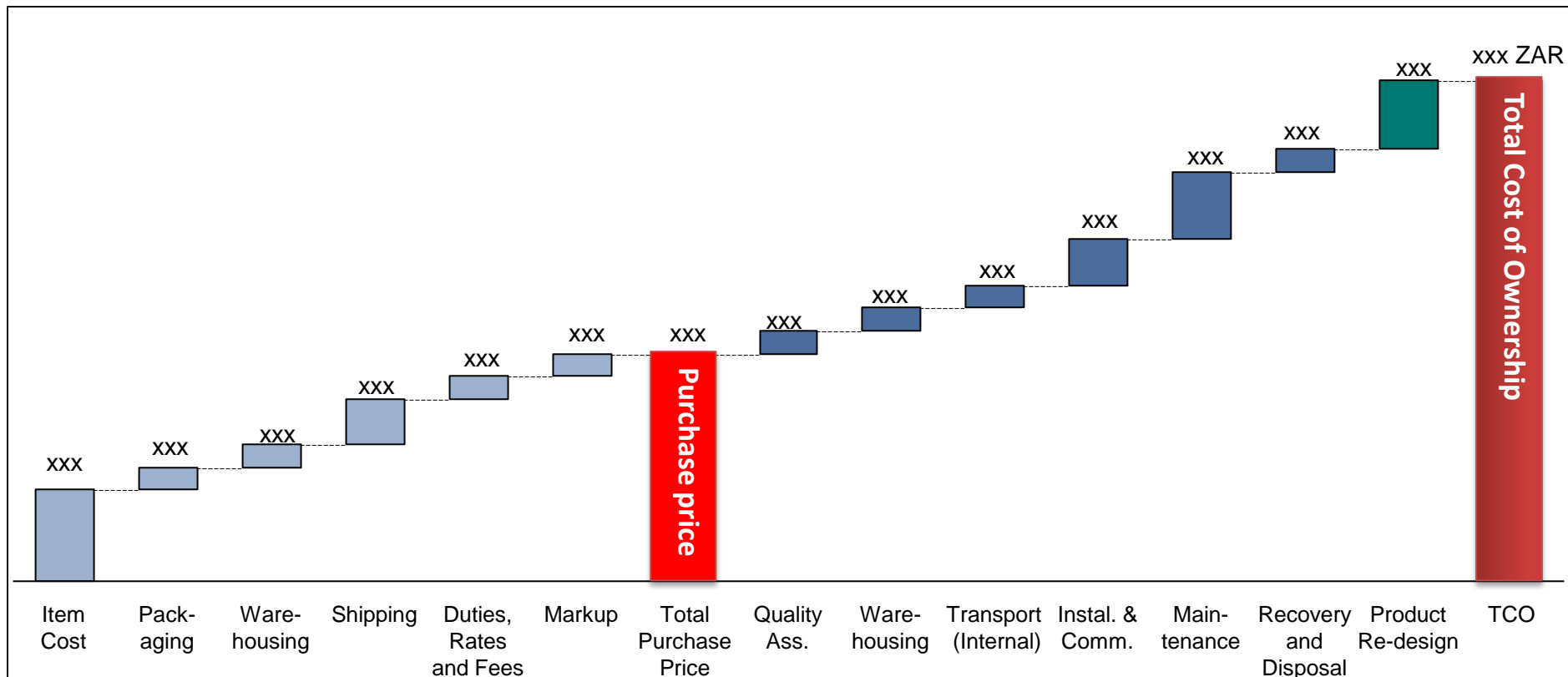
- Redesign and Development
- Other Joint Cost



Only those costs influenced by procurement and ownership of the commodity should be included

Identify the Cost Drivers applicable to your commodity

Use the **Value Chain Analysis** and **Supply Chain Analysis** that you did earlier to complete this exercise.



External (Purchasing) Cost

Internal Cost

Joint Cost

How do we address Total Cost of Ownership?

Functional excellence

- Exploit buying power
- Increase levels of competitive bidding
- Utilise strategic suppliers
- Pool purchases across departments
- Capture savings in department spend areas

Cross-functional integration

- Alter specifications and reduce variants
- Change processes to allow for product substitution
- Reduce usage/demand for high-cost commodities

Organisational capability building

- Create purchasing/ category specialists
- Redesign Organisational linkages and incentives to ensure ongoing change
- Integrate purchasing to service delivery function

Supplier integration

- Develop integrated strategic partnerships
- Redesign joint operational procedures
- Reassess make vs. buy decisions

4.4

Opportunity Analysis and Ideas generation

Objective:

To identify all possible opportunities where money can be saved and where efficiency improvements can be made. To generate, group, evaluate and quantify these ideas.

Output:

- List of potential cost savings / improvement ideas, evaluated, quantified and prioritised.

Team brainstorming has some simple rules...



Be creative and think outside the box



No war stories



Don't dump an idea



No complaining or griping



No sacred cows



Evaluate ideas after brainstorming



No one "owns" an idea



Use time wisely

Idea killers...

- ☐ "It won't work anyway"
- ☐ "We could never do that with..."
- ☐ "But that's much too expensive"
- ☐ "But we've already been rationalising"
- ☐ "That's my area: you don't understand anything about it"
- ☐ "Are you serious?"
- ☐ "What do you know about technology?"
- ☐ "Yeah, in theory..."
- ☐ "It's simply more difficult in our branch"
- ☐ "It's impossible to change the product (product mix)"

- ☐ "This has been agreed upon differently"
- ☐ "That's all been calculated"
- ☐ "I simply don't believe your figures"
- ☐ "I just know it won't work"
- ☐ "We thought about that 2 years ago"
- ☐ "I'm telling you it just won't work"
- ☐ "The time isn't ripe for that"
- ☐ "Have you ever tried that in another company?"
- ☐ "It's was too expensive to change that"
- ☐ "I know somebody that broke down with that"
- ☐ "We don't have time for that kind of thing"

Identify Opportunities

- From the **Spend** and **TCO analysis**; the depth and possible approaches to sourcing strategies becomes apparent.
- Beware of spending too much time trying to eliminate the last bit of uncertainty
- Be cautious of historical information – by its nature, it is backward looking and demand plans may change significantly depending on business strategy:
 - Volume changes due to aggregation
 - Volume changes through product volume demand changes
 - New categories as a result of emerging technologies
- Various opportunities will become apparent as to where cost can be reduced, whether it be external, internal or joint opportunities.

External Costs

- Reduce Purchase Cost
 - Purchase Price
 - Volumes

Internal Costs

- Demand Management
- Operational Management
- Inventory Management

Joint Costs

- Management & Administration
- Joint process improvements

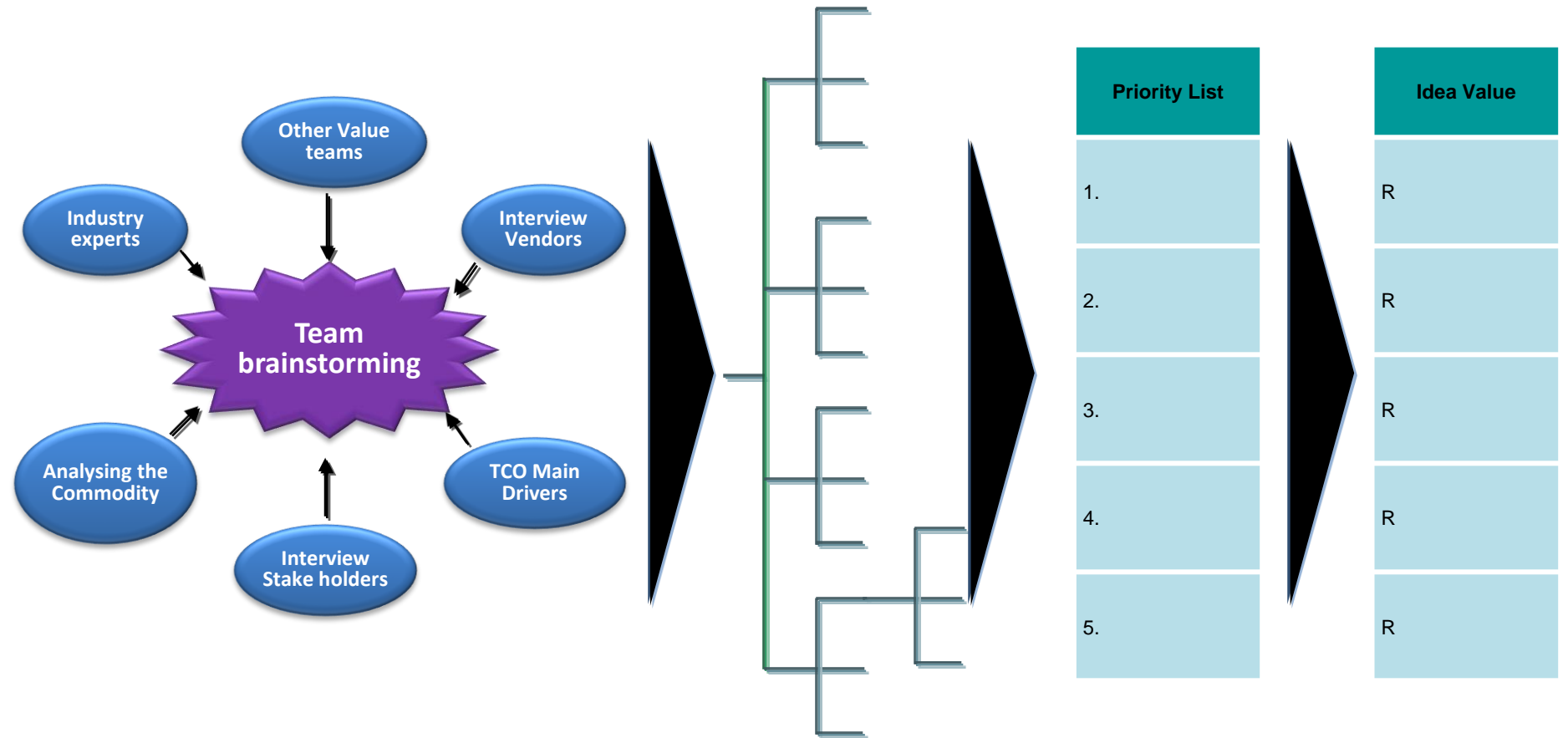
Generate, Group, Evaluate and Quantify Ideas

Generate ideas

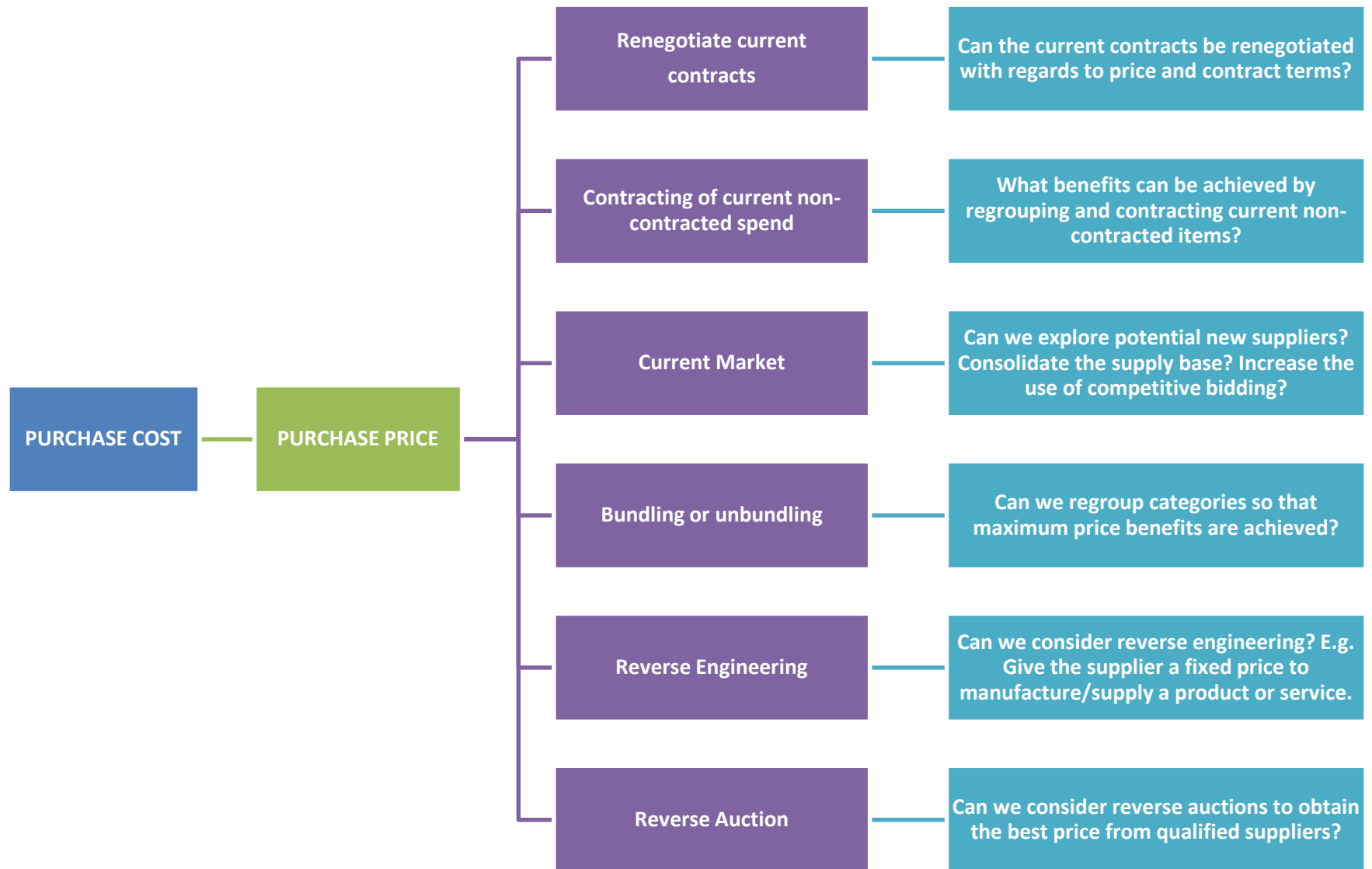
Group ideas & Build Structure

Evaluate Ideas

Quantify ideas

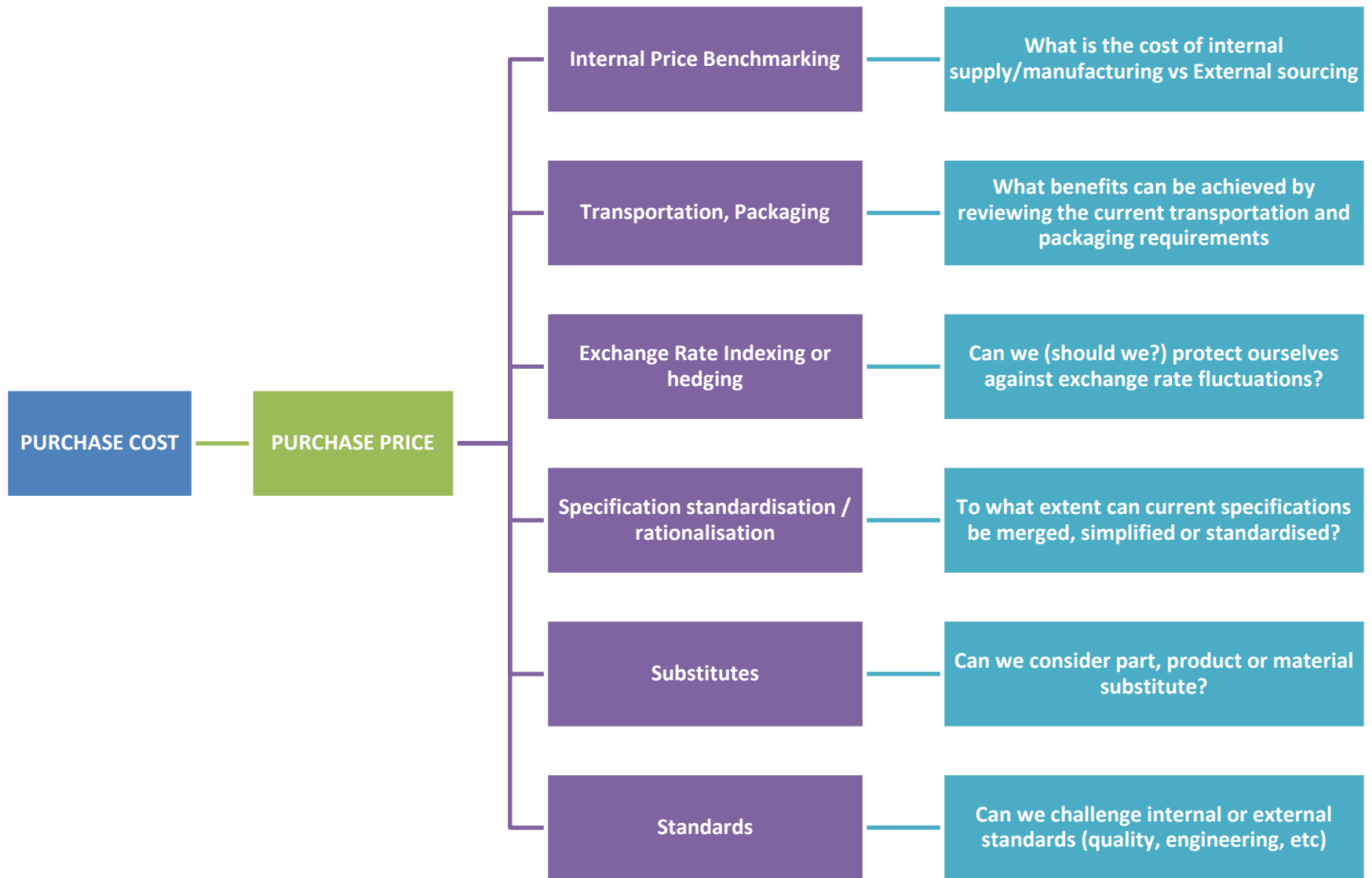


Options to Reduce Purchase Cost (External Cost)



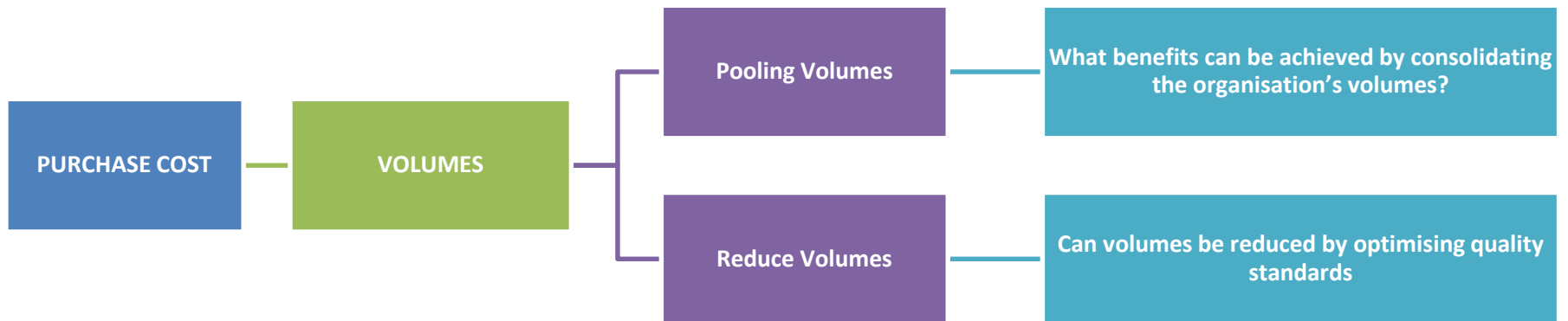
Continue.....

Options to Reduce Purchase Cost (External Cost)...cont.

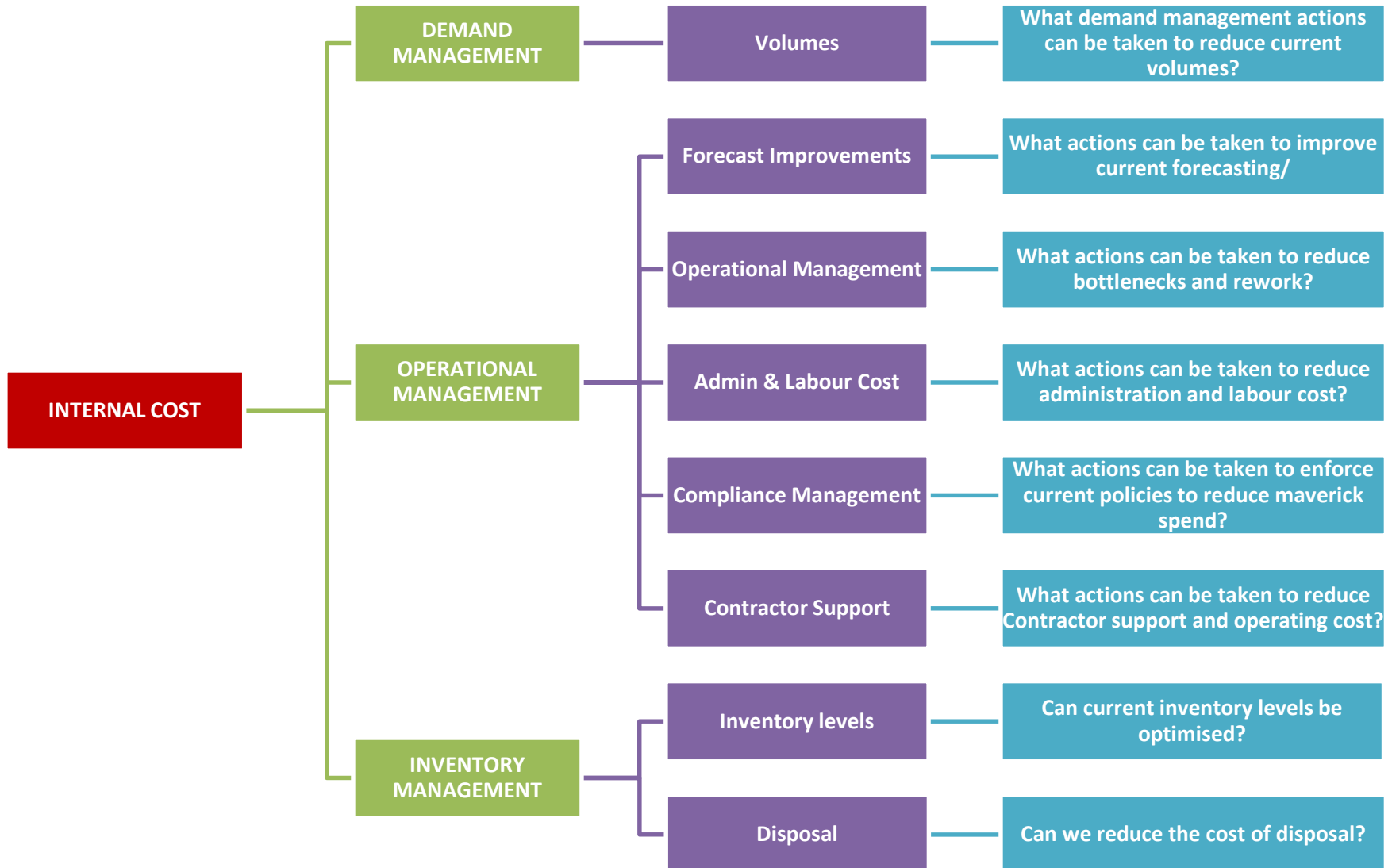


Continue.....

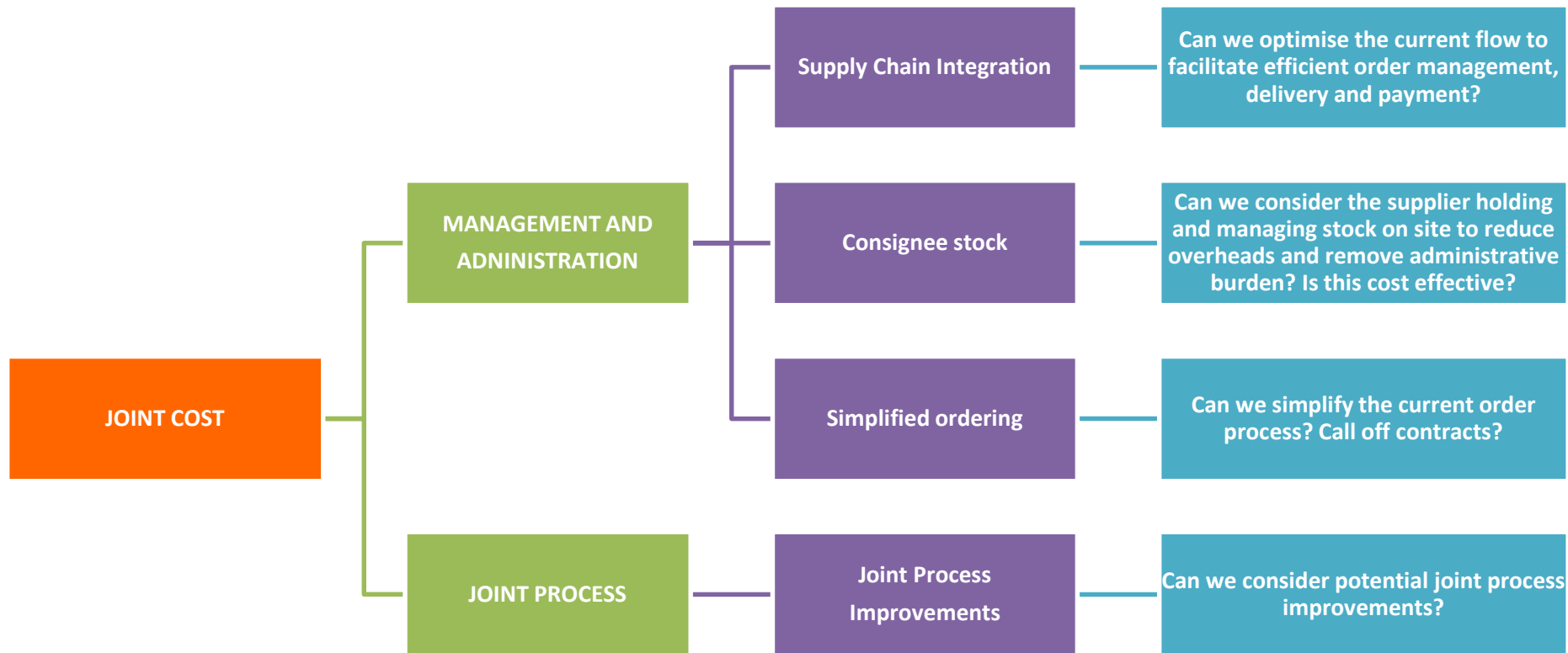
Options to Reduce Purchase Cost (External Cost)...cont.



Options to Reduce Internal Cost



Options to Reduce Joint Cost



Strategic Sourcing – Options Analysis

REDUCTION IN TCO

Reduction in Cost

Pricing Improvements:

- Lower unit price
- Volume rebates
- Payment term discounts
- Exchange rate indexing/hedging

Supply Chain Savings

- Cost of Capital
- Warehousing cost
- Transport cost
- Joint process cost
- Reverse engineering

Reduced Lifecycle Costs

- Maintenance cost
- Operating cost
- Disposal cost

Change in Consumption / Volume

Demand Management

- Volume pooling
- Bundling/unbundling category requirements
- Eliminate/reduce demand
- Reduce consumption
- Encourage substitution
- Change product mix
- Improve forecasting
- Reduce bottlenecks and rework

Specification Review

- Eliminate “gold-plating”
- Simplify specifications
- Standardise specs
- Alternative products
- Redefine engineering/quality standards

Improved Operating Efficiency

Reduced procurement-Related operating expenses

- Simplified ordering
- PO processing
- Accounts payable
- Receipt/warehousing
- Standardised procurement process

Reduced non-procurement related operating expenses

- Other operating and admin efficiencies
- Reduce labour cost
- Policy enforcement
- Reduce contractor support

Inventory Management

- Optimise inventory levels
- Reduce disposal cost
- Consignee stock

IMPROVE SERVICE / PRODUCT QUALITY

Product Performance Monitoring

- Improve re-work / reject rate
- Availability improvement
- Technology change planning
- Obsolescence planning
- Product/service substitutes

Service Performance Monitoring

- Structured metrics and periodic review of contractor performance
 - Lead time
 - Price
 - Quality
 - Inventory levels
 - Reduced waste

SOCIO-ECONOMIC GOALS

Socio-economic Goals

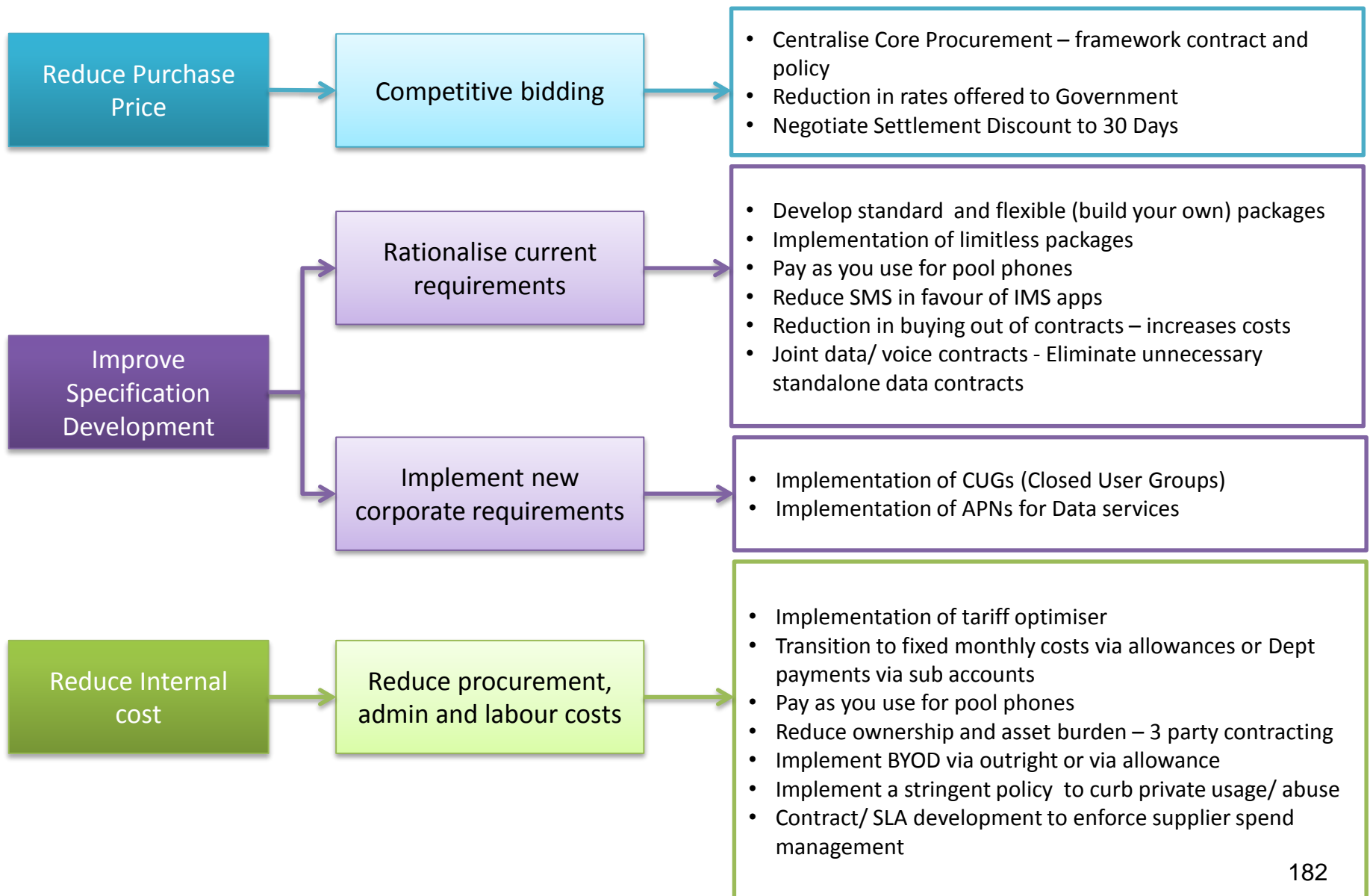
- Structured analysis of BEE spend
- Identify strategic business opportunities for disadvantaged

Green procurement

-
-

Example : Opportunity Tree for Mobile Communication

POTENTIAL OPPORTUNITIES



Initial Cost Savings Ideas

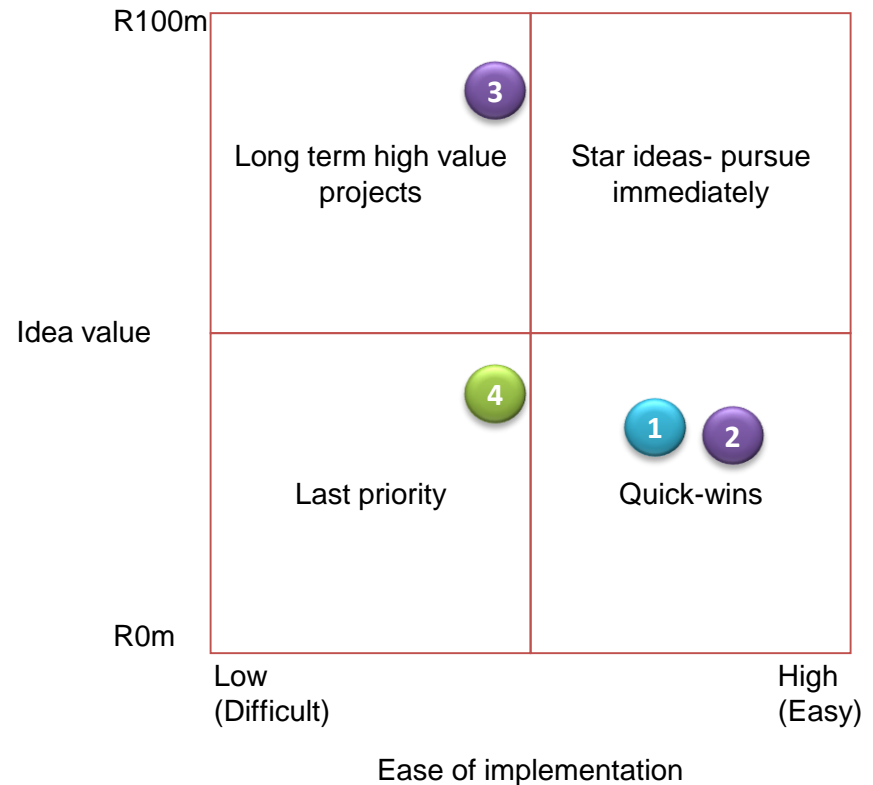
	Potential initiative	Status	Initial savings hypothesis	Ease of capture
1	Competitive Bidding	Procurement is fragmented with very little economies of scale	Savings can be achieved by pooling of requirements and achieving preferential prices with Govt requirements.	High
2	Rationalise current specifications	Current packages procured are outdated	Savings can be achieved by redefining current requirements in terms of std and flexible packages, limitless packages, pay as you use, reduce SMS and implement IMS, reduce buy out of contracts, and joint data/voice contracts.	High
3	Implement new corporate requirements	Current packages procured are not in line with major corporate groups	Savings can be achieved by implementing corporate measures such as CUGs and APNs	Medium
4	Reduce procurement, labour and admin costs	Govt spends between R33m and R99m to procure and administer its cellphone accounts	Savings can be achieved by undertaking various initiatives such as tariff optimiser, transition to fixed costs via allowance, sub account models, pay as you use models, 3 party contracting, BYOD and stringent internal policies and SLAs.	Medium

Evaluate and Prioritise Ideas

Cost saving ideas

- 1 Competitive Bidding
- 2 Rationalise current specifications
- 3 Implement new corporate requirements
- 4 Reduce procurement, labour and admin costs

Idea prioritisation matrix



4.5

Developing the Sourcing Strategy

Objective:

To develop a potential sourcing approach based on the outcome of your research and the placement of the commodity/service on the Supply Positioning Matrix.

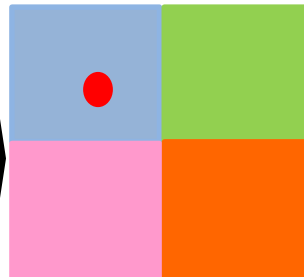
Output:

- “Best-fit” sourcing solutions and approaches

Re-assess the commodity positioning

Taking the results from **Porter's Five Forces Model** (Supply Market Complexity), additional supplier market analyses (**PEST, SWOT**) conducted, and **Government's Needs and Impact analysis**, the sourcing commodity/category can now be re-assessed and re-positioned on the 'Positioning Matrix'.

Government Impact	L	M	H
Expenditure Impact	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Business value impact	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Product differentiation impact	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Technology impact	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Impact of supply failure	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Overall Impact on Government	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

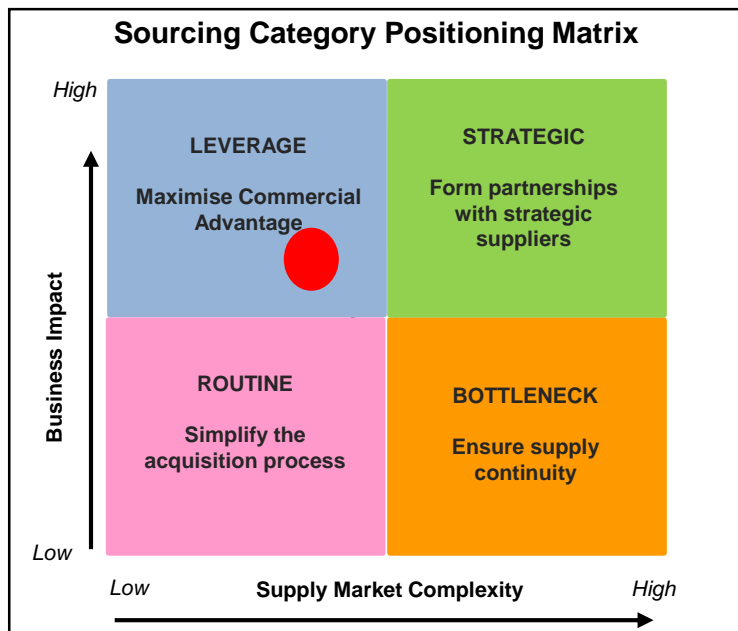


Supply Market Complexity	L	M	H
Internal Rivalry	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
New Entrants (Entry barriers)	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Suppliers' bargaining power	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Buyers' bargaining power	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Substitutes	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Overall complexity	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

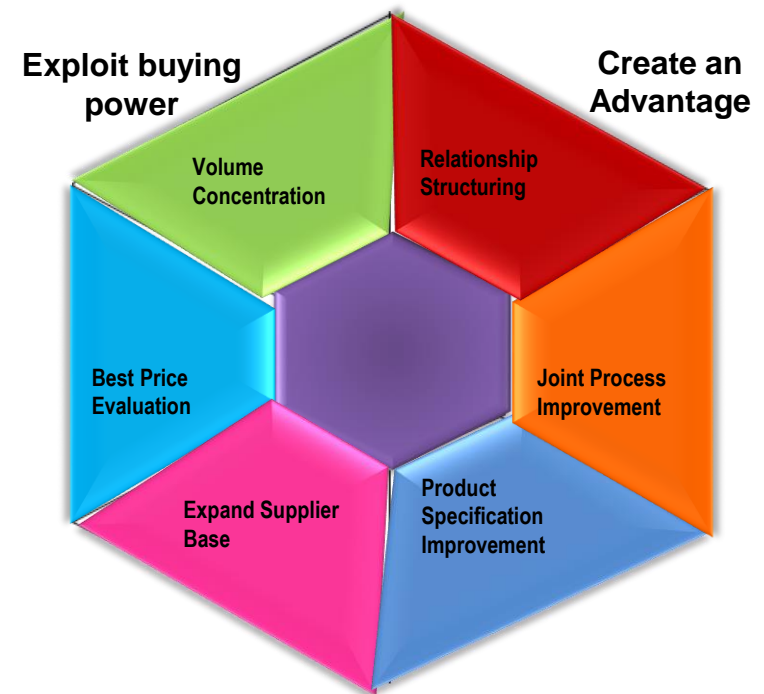
Strategy Approaches from Sourcing Category Position

The outputs from the data collection phase, will be utilised in determining the potential strategy approaches.

Determining Purchasing Power and Criticality



Potential Strategy Approach



Selection of strategies to pursue

“Best-Fit” approaches per category

All aspects are to be explored, irrespective of “best fit”

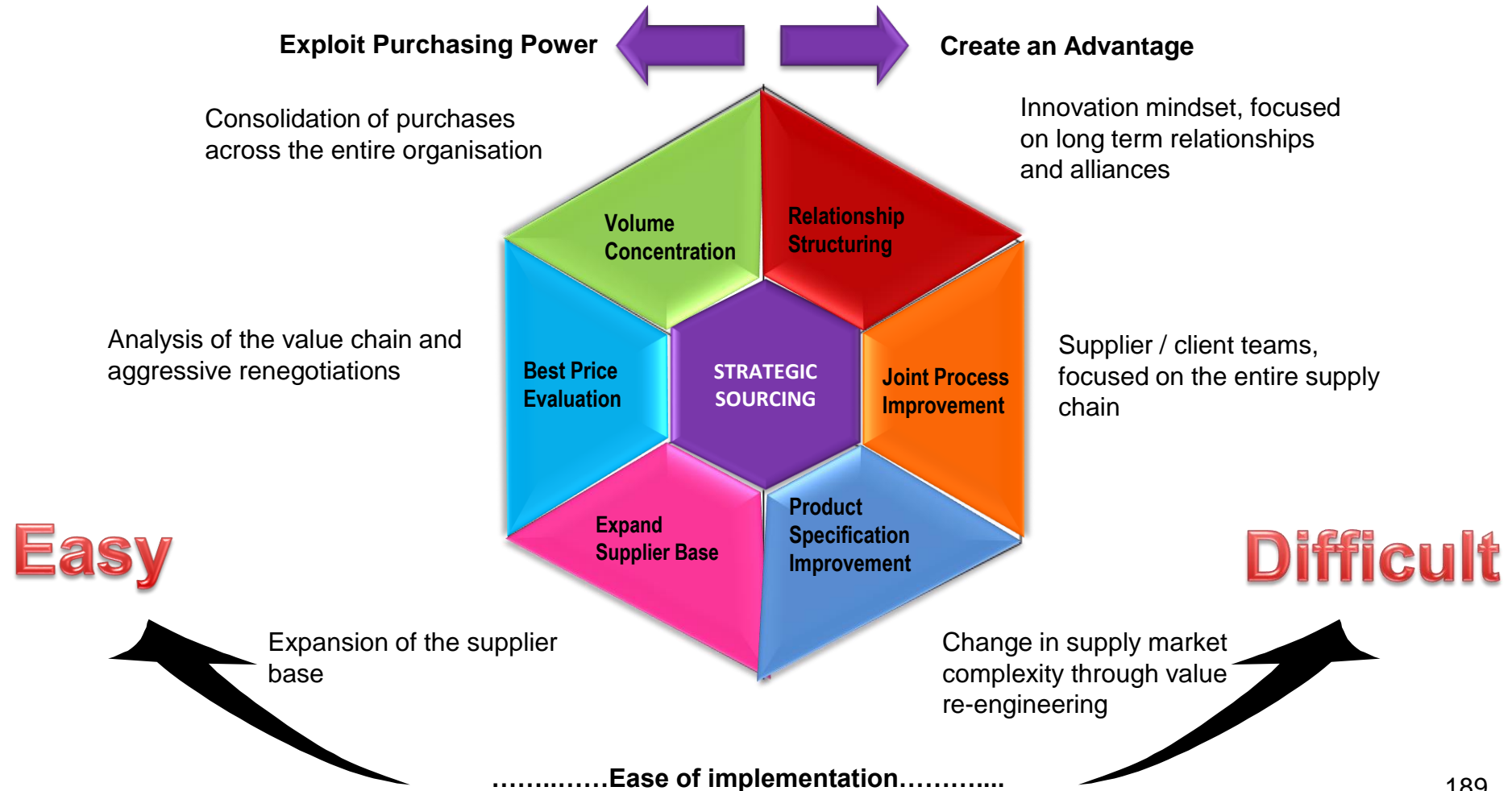
Strategic sourcing category matrix quadrants will deliver varying levels of value (benefits) through applying the various strategic sourcing approaches.

5 = High Value 1 = Low Value

Strategic Sourcing approaches	Type of Buy			
	Non-Critical	Leverage	Bottleneck	Strategic
Volume Concentration	3	5	1	2
Best Price Evaluation	5	5	2	2
Expand Supplier base	2	5	2	2
Product Specs Improvement	1	2	5	4
Joint Process Improvement	2	2	4	4
Relationship Restructuring	1	1	3	5

The Sourcing Gemstone

The potential strategy position in relation to the strategic category position on the matrix will indicate the direction of the type of strategies that may be followed. The left-hand side of the matrix would typically entail the exploitation of buying power-type strategies, while the right-hand side of the matrix typically follows the creation of advantage-type strategies.



Sourcing Approaches

- Supplier rationalisation
- Volume pooling
- Volume redistribution
- Category consolidation
- Standardisation

- Analyse Core Competencies
- Market entry alliances
- Strategic alliances
- Develop key suppliers

- Lowest quoted price or lowest cost
- Formula pricing
- Price Index
- Bundling & Un-bundling
- Reverse engineering
- Internal Price Benchmarking
- Competitive Bidding
- Re-negotiate Contracts
- Long Term Contracts

- Supply chain integration (e.g. logistics)
- Consignee stock and supplier maintenance
- Simplified ordering
- Joint improvement opportunities
- Outsourcing
- Optimize communication

- Expand geographic supply base
- Market protection
- Develop new suppliers
- Identify supply/demand imbalances

- Standardise
- Engineering/quality standard
- Substitution
- Concurrent engineering
- Value engineering
- Examine Life Cycle Cost
- Develop long term contracts



Techniques for Volume Concentration



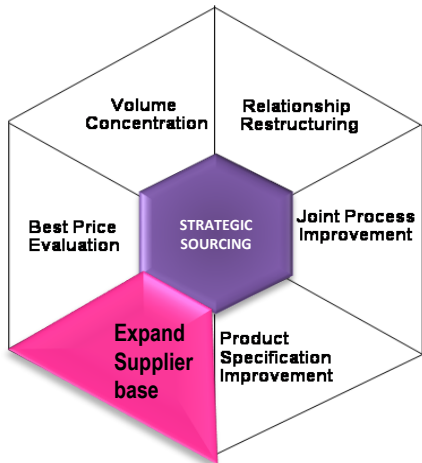
Tactic	Description
Supplier rationalisation	Reducing the number of suppliers is a common technique to maximise the volume on offer and allows resources to be focused on the few preferred suppliers.
Volume pooling	Pulling together the volume of business on offer through supplier rationalisation or consolidation of group wide expenditure can leverage lower prices.
Volume redistribution	Re-allocating business from one supplier (or constantly switching) to another can maintain competitive conflict amongst the supply base.
Category consolidation	Identifying supplier synergy's in the category base can allow greater volumes of business to be offered for tender. This approach will tend to support larger vertically, horizontally and laterally integrated organisations.
Standardisation	Is a tailored/customised product/service necessary? Standardisation opens up competition.

Techniques for Best Price Evaluation



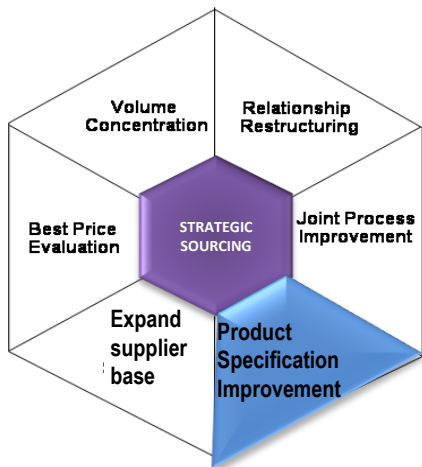
Tactic	Description
Lowest quoted price or lowest cost	Particularly when linked to total acquisition cost and supplier performance metrics/requirements.
Formula pricing	Pricing linked to key input prices or influences such as volume usage.
Price indexing	Commodities can be measured against the highest, lowest and average prices paid in the market place.
Bundling & unbundling	Grouping commodities or de-constructing categories so that maximum price advantage is achieved.
Reverse engineering	This is a technique, also known as target pricing, which involves giving a supplier a fixed price to manufacture, or supply a service.
Internal price benchmarking	In some cases commodity comparison can be made against in-sourcing.
Competitive bidding	Suppliers are invited to formally tender for the business.
Develop long-term contracts	May provide security of supply for buyer and preferential treatment in short supply situations. Supplier is secured the business for competitive pricing.
Renegotiate contracts	Renegotiate price with existing suppliers. Value/supply chain analysis and Purchase Price Cost Analysis are useful tools for challenging individual cost elements.

Techniques for Expanding the Supplier Base



Tactic	Description
Identifying more potential suppliers for the Commodity Group	Increasing the potential population of suppliers will often ensure suppliers with the lowest cost structure, advanced technologies and high quality standards.
Market protection	<p>Dealing internationally exposes the buying organisation directly to currency markets and their inherent volatility. It is therefore preferable to purchase in the buyer's currency.</p> <p>Techniques such as:</p> <p>Exchange rate price indexing. This entails linking purchase prices to a currency range i.e. R1 : \$ 11.3 +/- 5%. Within this range the price cannot change, once outside, the price will be re-negotiated.</p> <p>Exchange rate hedging. To eradicate concerns it is possible to buy foreign currency ahead at pre-determined rates. This offers a level of insurance but is paid for by less favourable exchange rates.</p>

Techniques for Product Specification Improvement



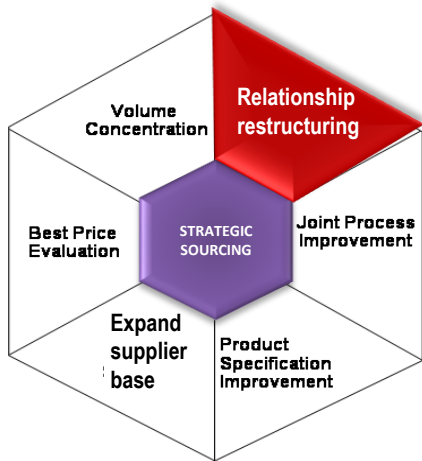
Tactic	Description
Rationalise / standardise	Evaluation of the complexity and diversity of products and services. To what extent can they be merged, simplified or standardised?
Piece part or assembly	Savings can be achieved by assessing the costs of differing levels of assembly. Services can be similarly de-constructed.
Engineering standards	Internal and external standards should be challenged and not considered set in 'stone'.
Part substitution	Technologies are moving at a fast pace, new and different parts can be cheaper and more efficient.
Concurrent engineering	Suppliers that will work closely with design engineers, as 'guest engineers' can offer significant competitive advantage in both time to market and cost.
Value engineering	Value engineering involves analysis of function and cost, suppliers can be the key to cost reduction whilst maintaining the market offering.
Examine life cycle cost	By examining all the costs associated with purchasing and using the product/service, opportunities for redesign may become apparent. E.g., excessive maintenance and repair costs may signal a need for improved quality standards.
Develop long-term contracts	Length of contract will depend on the supply market in question. Consider length of product life cycle and availability of supply. Long term contracts offer the supplier some security and may increase willingness to enter into design/development initiatives.

Techniques for Joint Process Improvement



Tactic	Description
Supply chain integration	Utilising information systems such as Electronic Data Interchange (EDI) and the internet / intranet to dramatically improve the flow of information and facilitate efficient order management, delivery and payment.
Consignee stock and supplier maintenance	Holding supplier stock on site, paid for on usage, managed by the suppliers personnel on site can reduce overhead, and remove an administrative burden.
Simplified ordering	Purchases often carry a high overhead burden that is not commensurate with their worth (i.e. low value items). Call-off contracts and purchasing cards help to minimise overhead.
Joint improvement opportunities	Supplier/buyer team can be engaged to define cost-reduction opportunities. These are then shared 50:50
Outsourcing	This can be to an outsource agency or by engaging existing suppliers to purchase a wider range of supplies (i.e. some that they do not deal in).
Optimise communication	Having a common message between appropriate people within the organisations will reduce confusion and miss-trust.

Techniques for Relationship Restructuring



Tactic	Description
Analyse core competencies	Identify the core competency of the organisation and potential suppliers.
Examine make versus buy decisions	Consider the current manner of sourcing, it may be more appropriate to buy a managed service rather than manage this in house and vice versa. This may severely change the relationship with a number of suppliers.
Consider market entry alliances	Consider joint product design and development to maximise benefits for both parties with shared risk and exposure.
Strategic alliance	Long term relationships, focus on lowest cost vs competing supply chains, supplier prices reduce on 1:1 ratio with costs, agreed level of ROI, reductions accelerate as risks and investment costs shared, quality differentiation, concurrent engineering, life cycle contracts.

Ease of Strategy Implementation

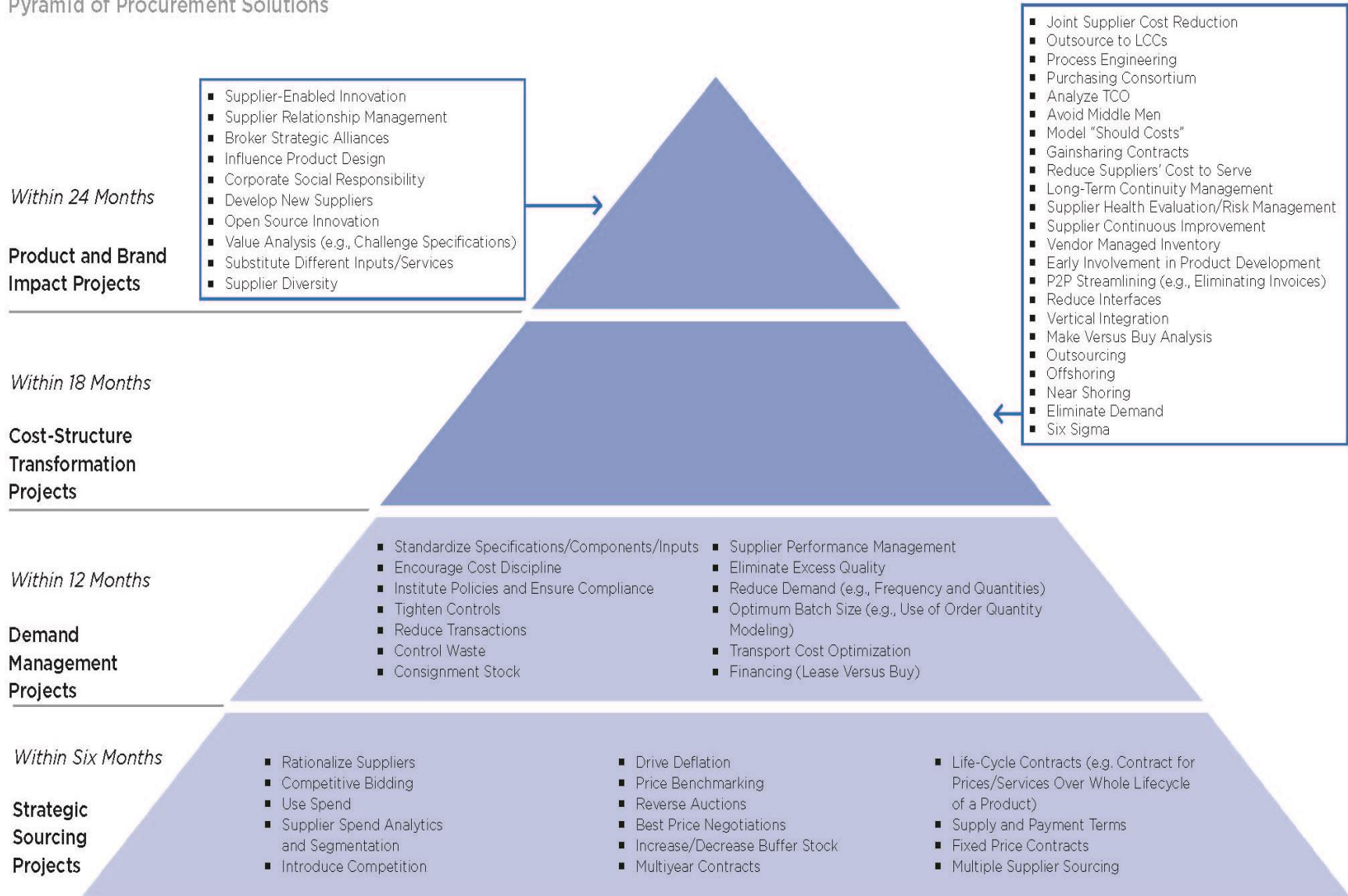
Easy ← **Ease of Implementation** → Difficult

Volume Concentration	Demand Management Actions	Best Price Evaluation	Expand Supplier Base	Product Specs Improvement	Joint Process Improvement	Relationships Restructuring
<ul style="list-style-type: none"> ■ Consolidation of purchased volume to increase negotiation leverage (materials and business units) ■ Consortium buying (e-Markets) 	<ul style="list-style-type: none"> ■ Policy changes that reduce demand for the product/ service or substitute lower price product/ service 	<ul style="list-style-type: none"> ■ Disciplined process for aggressively renegotiating all or selected supplier prices, contracts, and agreements based on competitive bidding or other techniques ■ E-auctioning 	<ul style="list-style-type: none"> ■ Expansion of supplier base on a broader, sometimes international scale ■ E-Sourcing 	<ul style="list-style-type: none"> ■ Changing the relative market complexity of an item through standardisation, substitution, or value engineering 	<ul style="list-style-type: none"> ■ Use of supplier/ customer teams to reengineer key supplier processes, joint processes and the supply chain for mutual advantage and cost reduction 	<ul style="list-style-type: none"> ■ Structuring of long-term supplier/ customer partnerships or alliances to achieve integrated new approaches to the business

Typical Focus for Initial Efforts

Pyramid of Procurement Solutions

Pyramid of Procurement Solutions



Procurement must drive category managers to consider what is possible by providing an inventory of possible procurement solutions.

4.6

Identify the desired supplier relationship

Objective:

To consider the most appropriate supplier relationship that will deliver maximum benefit to the government organisation.

Output:

- Proposed supplier relationship type

Identify the desired Supplier Relationship

- As a result of reactive purchasing, relationships between suppliers and their buying counterparts were reasonably cordial, but frequently adversarial. The interaction between suppliers and buyers was often characterised by highly manipulative tactics by both parties designed to manoeuvre the other side into a position where one's gain would be the other's lost.
- The transformation from purchasing to strategic sourcing resulted in buyers and suppliers beginning to see benefits of more collaborative relationships, where the outcome can result in a mutual beneficial relationship for both parties.
- The nature of the identified sourcing opportunities and selected sourcing strategies will indicate the most appropriate relationship focusing the Commodity manager's time where it will deliver maximum benefit to the organisation.



Three Basic Types of Supplier Relationships



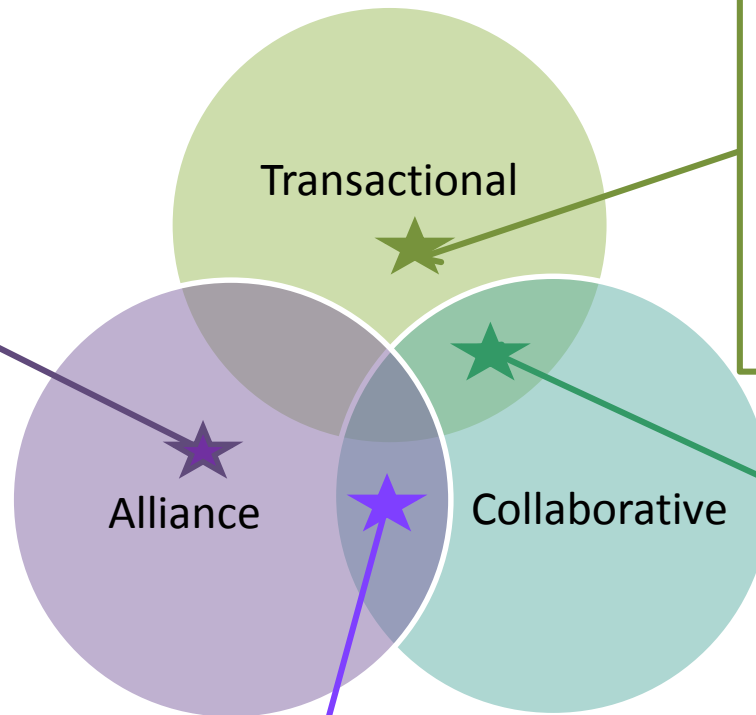
Few buyer-supplier relationships are pure Transactional, Collaborative or Alliances.

A transactional relationship may have one or more collaborative characteristics while a collaborative relationship may have one or more transactional as well as some alliance characteristics.

Supply Relationship Combinations

Strategic Alliance Relationship: (Alliance)

Strategic Alliance relationships will be reserved for a small number of suppliers where high value can be derived from long term strategic collaboration across multiple complex projects. The relationship will feature high levels of strategic collaboration, joint product, process, and cost improvement throughout the extended life cycle of the relationship. Considerable effort and time will be given to manage this relationship. Failure to manage this relationship effectively will have impact to the service delivery of the organisation.



Performance Partner Relationship: (Collaborative / Alliance)

Performance Partnership includes a significant level of supplier relationship management, reflecting that value will be driven by continuous development and improvement throughout the relationship. The relationship will exhibit a high level of cost transparency with shared rewards for driving down cost throughout the life cycle of the relationship.

Commodity Supplier Relationship: (Transactional)

Commodity Supplier is the least complex and most short-term supplier relationship, so that time invested in building and managing a relationship would not add significant value therefore does not required significant resources. Almost all of the value in this type of relationship is driven by the supplier's unit pricing. There will be very limited, if any management of the supplier because such activity is unlikely to add value

Contract Supplier Relationship: (Transactional / Collaborative)

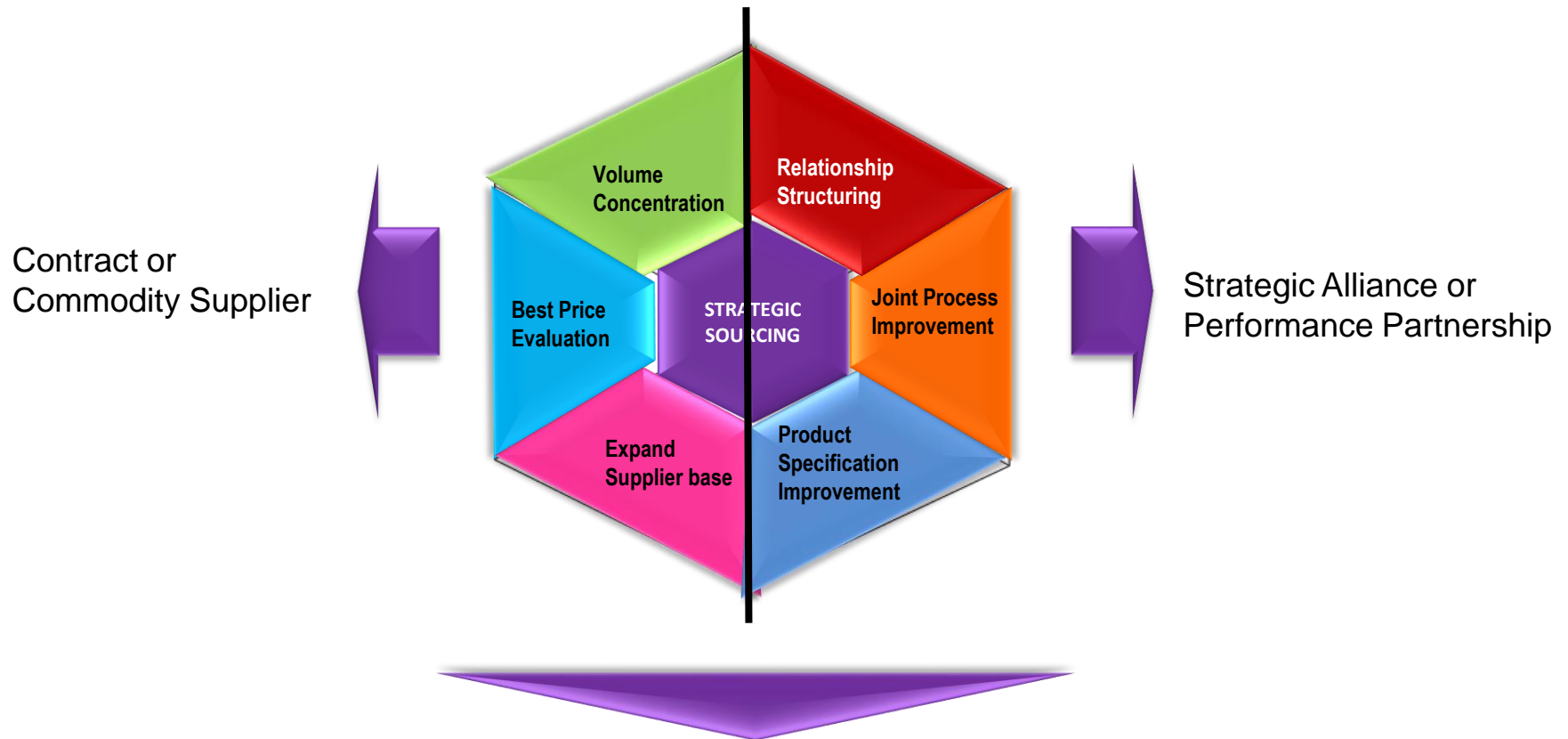
Contract Supplier is a medium term relationship where the value is driven by total cost, continuity of supply and the supplier's performance to required specifications and delivery requirements. Management of the supplier will largely focus on the supplier's performance of its contractual obligations, continuing cost competitiveness and adherence to product quality standards.

Supply Relationship Characteristics

	Collaborative	Alliance
Communication	High potential for problems	Systematic approach to enhance communication
Competitive advantage	Low	High
Connectedness	Independence	Interdependence
Continuous Improvement	Little	A focus
Contributions to new product development	Few	Early supplier involvement
Difficulty of exit	Low	High Impact
Duration	Short	Long
Expediting	Reactive	Proactive
Focus	Price	Total Cost
Level of integration	Little or none	High or total
Level of trust	Low	High
Number of suppliers	A number	One or few
Open books	No	Yes
Quality	Incoming inspection	Designed into system
Resources	Few skilled	Professional
Service	Acceptable	Greatly improved
Shared forecast	No	Yes
Supply disruptions	Possible	Unlikely
Technology Inflows	No	Yes
Type of interaction	Tactical	Strategic synergy

Desired Supplier Relationship

The nature of the opportunity and the sourcing strategy selected will indicate the most appropriate relationship. The Sourcing Gemstone below, illustrates the strategies and the nature of the relationship *usually* required to deliver them.



In very general terms, sourcing strategies that pick up features from the left of the model will be categorised as Commodity or Contract Suppliers and those on the right will result in a Performance Partnership or Strategic Alliance relationship.

4.7

Strategy Suitability Assessment

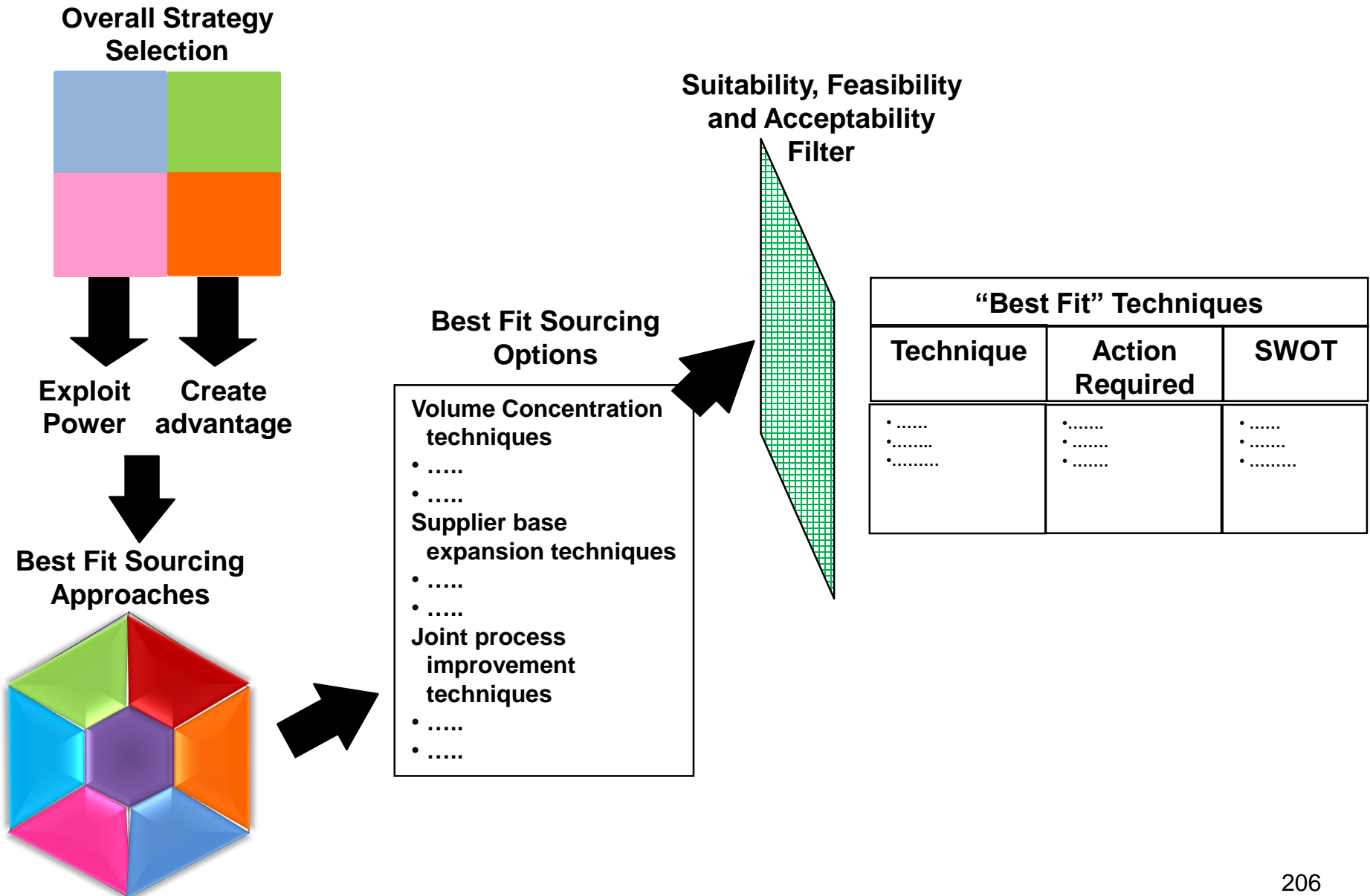
Objective:

To assess all the “best-fit” approaches and testing them for suitability for the government environment, feasibility of successful implementation and the acceptability of the strategy to the stakeholders.

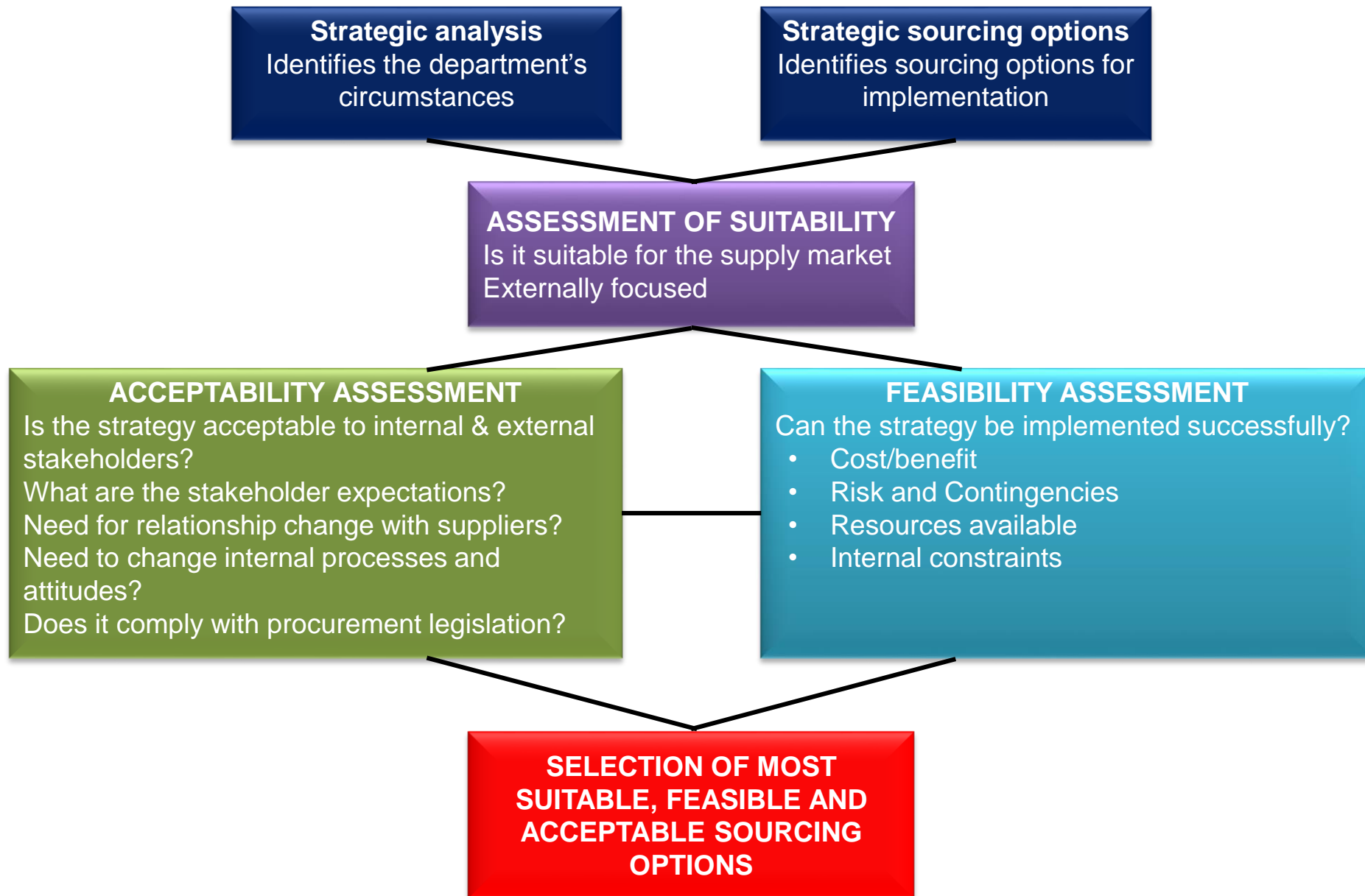
Output:

- List of suitable, feasible and acceptable sourcing options

Strategy Suitability – Government Filter



A framework for the evaluation and selection of sourcing options



Strategy Assessment - Suitability, Feasibility and Acceptability

The selection of sourcing strategies can be supported through a ranking analysis. Ranking should be done in conjunction with all stakeholders to ensure buy-in and a shared focus going forward.

Summarise and rank the findings (1 being more important) of the suitability, feasibility and acceptability analyses:

Sourcing option	Suitability	Feasibility	Acceptability	Rank
Do Nothing	(-) Supplier bargaining power remains strong	(-) Fragmented procurement remains	(-) Not achieving savings possible	(-)(-)(-) 4
Best price analysis	(+) Competitive market place	(+) Minimal cost to implement, significant cost reduction	(-) Stakeholder preferred suppliers likely to be rejected	(+)(+)(-) 2
Volume leverage	(+) Increase supplier market share	(+) High demand	(+) High potential saving	(+)(+)(+) 1
Expand Supplier Base	(-) Limited suppliers	(-) Limited resources to implement	(+) Collaboration relationship with selected supplier	(-)(-)(+) 3

4.8

Define Evaluation Criteria

Objective:

To determine and define evaluation criteria to be used in the final selection and award for suitable suppliers

Output:

- Administrative criteria
- Critical mandatory and optional functional criteria.
- Financial and socio-economic evaluation criteria.

Identification of Evaluation Criteria for the RFB Process

In Government there are usually three types of evaluation criteria:

Administrative Mandatory Evaluation Criteria

- Also known as “Conditions of tender”
- SBD’s MBD’s
- Tax Clearance, etc
- Designated Sector (Local content) requirements

Functional Evaluation Criteria

- Also known as “Performance Qualifying Criteria”
- Critical/ Mandatory
- Not critical/ Optional

PPPFA Evaluation Criteria

- Also known as “Total Points Score”
- 80/20 (Price/BEE)
- 90/10 (Price/BEE)

Administrative Mandatory Evaluation Criteria

Administrative Mandatory Evaluation Criteria

1. Administrative Mandatory Evaluation criteria, sometimes called 'conditions of tender' or 'tender rules' are the requirements or rules that the buyer sets out in the tender document regarding the procedure for lodging an offer.
2. They are scored as 'pass/fail' or 'yes/no'.
3. Each offer must conform to these conditions to be eligible for further evaluation. An offer that fails to meet these conditions can be rejected. It is important to highlight such conditions and provide clear guidance for suppliers on what they must do to meet them.
4. Mandatory conditions could include such items as:
 - hard copy offer received (no fax or e-mail offers being acceptable)
 - offer received on time
 - offer signed
 - supplier name, address and contact details included
 - correct documents submitted e.g. SBD/MBD Documents,
 - separate sealed envelope containing pricing details,
 - correct number of copies included,
 - electronic copy of offer attached in correct format,
 - signed declaration of conflict of interest included, etc.

Administrative Mandatory Evaluation Criteria

Administrative Mandatory Evaluation Criteria

5. A Government Department may decide that failure to meet all conditions results in an offer being rejected.
6. Sometimes, however a degree of discretion is allowed for minor failures such as provision of five copies of the offer instead of six. This can be acceptable if the breach is minor, can quickly be rectified and the nature of the breach does not afford the supplier unfair advantage.
7. The buyer's tender documents must address whether or not late offers will be received. The general rule is that late offers will not be accepted.

Functionality Evaluation Criteria

Functional Evaluation Criteria

Functionality evaluation criteria is also known as “Performance or Quality Criteria”. They may either be:

1. Critical/ Mandatory
2. Not critical / Optional

*See Evaluation Methods
later in Stage 5*

1. CRITICAL / MANDATORY FUNCTIONALITY CRITERIA

- These criteria are so important that it cannot be compromised
- Suppliers MUST comply with these criteria in order to be considered for further evaluation
- Any negotiable aspects cannot be deemed as critical/mandatory evaluation criteria
- Compliance to these criteria should be by means of a “YES” or “NO” answer only, and be backed-up with documentary proof
- If any of these criteria are not met, the supplier will be disqualified and not be considered for further evaluation.

Examples of Critical/Mandatory evaluation criteria

- **Quality:** The supplier must have an accredited Quality System (for e.g. ISO 9000 as amended from time to time)
- **Capacity:** “Manufacturing **facilities** must be capable of producing 1000 tons per year”
- **Accredited Standards:** SABS
- **Technical Specifications:** “The supplier’s equipment must comply with paragraph 1.2 and 2.4 of the technical specifications.”
BUT be careful.....

Specifying 100% compliance to the technical specification as minimum evaluation criteria is setting you up for failure, as it is highly unlikely that all aspects of the specification are deemed as critical and any over-compliance will also be deemed as non-compliance to the original specification and will as such disqualify the supplier from further evaluation.

Functional Evaluation Criteria

Functional Evaluation Criteria

*See Evaluation Methods
later in Stage 5*

2. NON-CRITICAL / WEIGHTED CRITERIA

- These criteria are negotiable and can be weighted according to importance (high weight for more important criteria and a low weight for less important criteria)
- Documentary proof will be required in order for evaluation panel members to determine a score for the criteria (e.g. 0=unacceptable; 1=poor; 2=less than acceptable; 3=good/acceptable; 4= more than acceptable; 5=exceptional; or some similar scoring mechanism)
- The criteria should as far as possible be measurable. Subjectivity should be minimised.
- These criteria should be linked to a minimum threshold that should be achieved in order to be considered for further evaluation.

Examples of Non-critical / Weighted evaluation criteria

- Understanding the requirements
- Quality systems/processes
- Low fuel consumption
- Low environmental impact

List ALL Functional Evaluation Criteria

- Refer to section 3.1.2 (**Statement of Needs**) where you have already started identifying business needs and requirements that can be translated to evaluation criteria.

Illustrative Example Only					
STATEMENT OF NEEDS					
Internal Function	Prompt	Requirement	Evaluation Criteria	Mandatory or Optional?	Weight
What? Product / Service definition	What do they need	Flame retardant blankets for inmates in correctional services facilities	• List the minimum requirement that the bidder must adhere to ito what the product must do.	M	Y/N
	What must it do?				
	What is it needed for?				
Quantity & Frequency	Quantities to be ordered	Quantity per facility is different. Average 800 per facility; 500 facilities Order as and when required	• Capacity / production requirement must meet our demand	O	5
	How often will orders be placed				
Quality & Reliability	Specification	Blankets must be flame retardant Blankets must be 100% wool	• Must comply with SABS /ISO standard (xxx/xxx/xxx) • Capacity/Capability Report • Frequent testing on sample of blankets	M	Y/N
	ISO & Other Standards				
Geographical Needs	User footprint Nationally / Provincially	The service is needed at all correctional facilities	• Supplier must have a National Footprint. • Agent in every province	O	4
	Where is the product /service needed?				
Legislation / Regulatory	Legal, compliance, environmental, ethical issues	Designated sector for local manufacturing (100% local)	• Supplier must comply with the Local Content requirement as stipulated in Instruction Note	M	Y/N
	Linkage to Strategy				
	Development of BEE suppliers				
Delivery requirements	Daily/Weekly/Monthly/ As and when required	Weekly orders will be placed Deliver at the facility store Deliver between 9h00-15h00	• Lead time must be 4 weeks from date of order • Orders must be delivered to store	O	4
	Where/ When/How?				
	Special vehicles required?				
					215

Mandatory Functional Evaluation Criteria

Illustrative Example Only

MANDATORY CRITERIA

STATEMENT OF NEEDS					
Internal Function	Prompt	Requirement	Evaluation Criteria	Mandatory or Optional?	Weight
What? Product / Service definition	What do they need	Flame retardant blankets for inmates in correctional services facilities	<ul style="list-style-type: none"> List the minimum requirement that the bidder must adhere to to what the product must do. 	M	Y/N
	What must it do?				
	What is it needed for?				
Quality & Reliability	Specification	Blankets must be flame retardant Blankets must be 100% wool	<ul style="list-style-type: none"> Must comply with SABS /ISO standard (xxx/xxx/xxx) Capacity/Capability Report Frequent testing on sample of blankets 	M	Y/N
	ISO & Other Standards				
Legislation / Regulatory	Legal, compliance, environmental, ethical issues	Designated sector for local manufacturing (100% local)	<ul style="list-style-type: none"> Supplier must comply with the Local Content requirement as stipulated in Instruction Note 	M	Y/N
	Linkage to Strategy				
	Development of BEE suppliers				



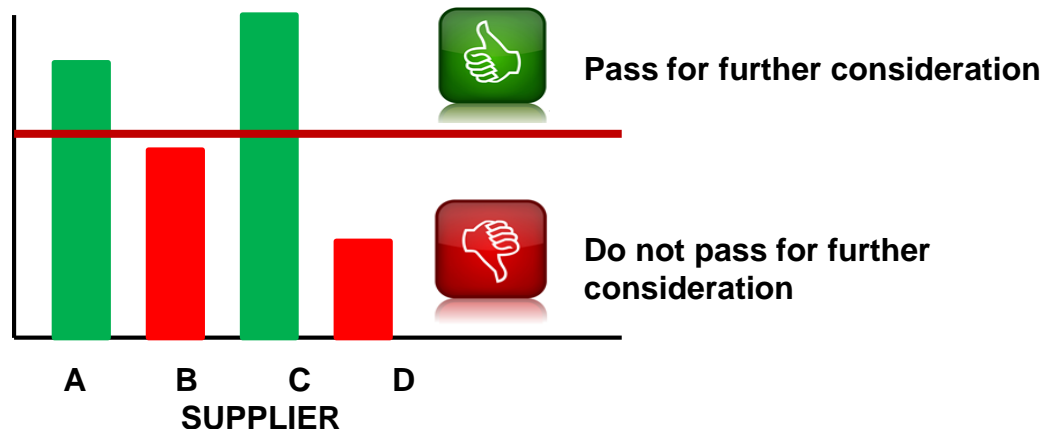
PASS OR DO NOT PASS FOR FURTHER CONSIDERATION

Optional/ Non-critical Functional Evaluation Criteria

Illustrative Example Only

OPTIONAL / NON-CRITICAL CRITERIA

STATEMENT OF NEEDS					
Internal Function	Prompt	Requirement	Evaluation Criteria	Mandatory or Optional?	Weight
Quantity & Frequency	" Quantities to be ordered	Quantity per facility is different. Average 800 per facility; 500 facilities Order as and when required	<ul style="list-style-type: none"> Capacity / production requirement must meet our demand 	O	5
	" How often will orders be placed				
Geographical Needs	" User footprint Nationally / Provincially	The service is needed at all correctional facilities	<ul style="list-style-type: none"> Supplier must have a National Footprint. Agent in every province 	O	4
	" Where is the product /service needed?				
Delivery requirements	" Daily/Weekly/Monthly/As and when required	Weekly orders will be placed Deliver at the facility store Deliver between 9h00-15h00	<ul style="list-style-type: none"> Lead time must be 4 weeks from date of order Orders must be delivered to store 	O	4
	" Where/ When/How?				
	" Special vehicles required?				



PPPFA Evaluation Criteria

Functional Evaluation Criteria

This evaluation criteria is also known as “Price & Preference” evaluation criteria.

Total points out of 100

- Price points are out of 80 / BBBEE preference out of 20 for low value tenders under R1m incl. VAT
- Price points are out of 90 / BBBEE preference out of 10 for high value tenders over R1m
- Effectively this means that lower value tenders will favour those with a better BBBEE score e.g. Emerging enterprises
- Total scores for price and BBBEE preference are added to provide an overall score

1. PRICE POINT CALCULATION

- The lowest cost tender (P_{min}) gets the maximum points (80 or 90).
- The points for all other tenders are calculated against the value of the lowest acceptable tender.
- This is a straight line calculation. The effect is that a tender at double the cost will get zero points for Price. Any bid more than double the lowest price will get negative points.

$$P_s = 80\left(1 - \frac{Pt - P_{min}}{P_{min}}\right)$$

$$P_s = 90\left(1 - \frac{Pt - P_{min}}{P_{min}}\right)$$

Where:

P_s = Total Points scored for comparative prices of the tender or offer

P_t = Comparative Price for tender or offer under consideration

P_{min} = Comparative Price for lowest acceptable tender

PPPFA Evaluation Criteria

Functional Evaluation Criteria

2. BBBEE LEVEL CONTRIBUTION

Tenders under a R1 million (80/20)	
B-BBEE Status Level of Contributor	Number of Pref Points
1	20
2	18
3	16
4	12
5	8
6	6
7	5
8	2
Non Compliant	0

Tenders over a R1 million (90/10)	
B-BBEE Status Level of Contributor	Number of Pref Points
1	10
2	9
3	8
4	5
5	4
6	3
7	2
8	1
Non Compliant	0

Additional Evaluation Criteria

Identify all additional evaluation criteria, e.g.

Commercial

- Client % of Supplier revenue
- Logistics integration
- Standard Commercial terms and conditions
- Warranties and penalties
- Local preference

Other

- Research and Development (R&D)
- Client % of supplier revenue
- Environmental programs
- E-commerce

Social Responsibility

- Economic Empowerment
- BBEE & SMME
- Local Economic Development

Specification / SLA

- Compliance to product specification and service level agreement
- Value added services

Quality

- Quality systems
- Rejections
- Quality control of sub-suppliers
- Implementation of ISO standards
- Preventative maintenance

Cost

- Total Cost of Ownership (Life cycle costing)
- Price stability
- Discount structures

4.9

Prepare Business Case and obtain approval

Objective:

To document the information needed to decide whether to support a proposed sourcing strategy before significant resources are committed.

To obtain approval for proceeding with the implementation of the sourcing strategy.

Output:

- Approved Business Case

Creating a Business Case

What is a Business Case?

- A business case documents the information needed to decide whether to support a proposed sourcing strategy before significant resources are committed to its development and implementation. It assesses the cost and benefits of proceeding with a project.
- A business case assesses whether you need the procurement, the best way to conduct the procurement and how to achieve the best value-for-money outcomes.

Why do I need a Business Case?

A business case :

- provides an audit trail of your decision making process;
- documents the scope of factors impacting the sourcing strategy
- provides a template against which a sourcing strategy outcome can be monitored.

When do I need a business case?

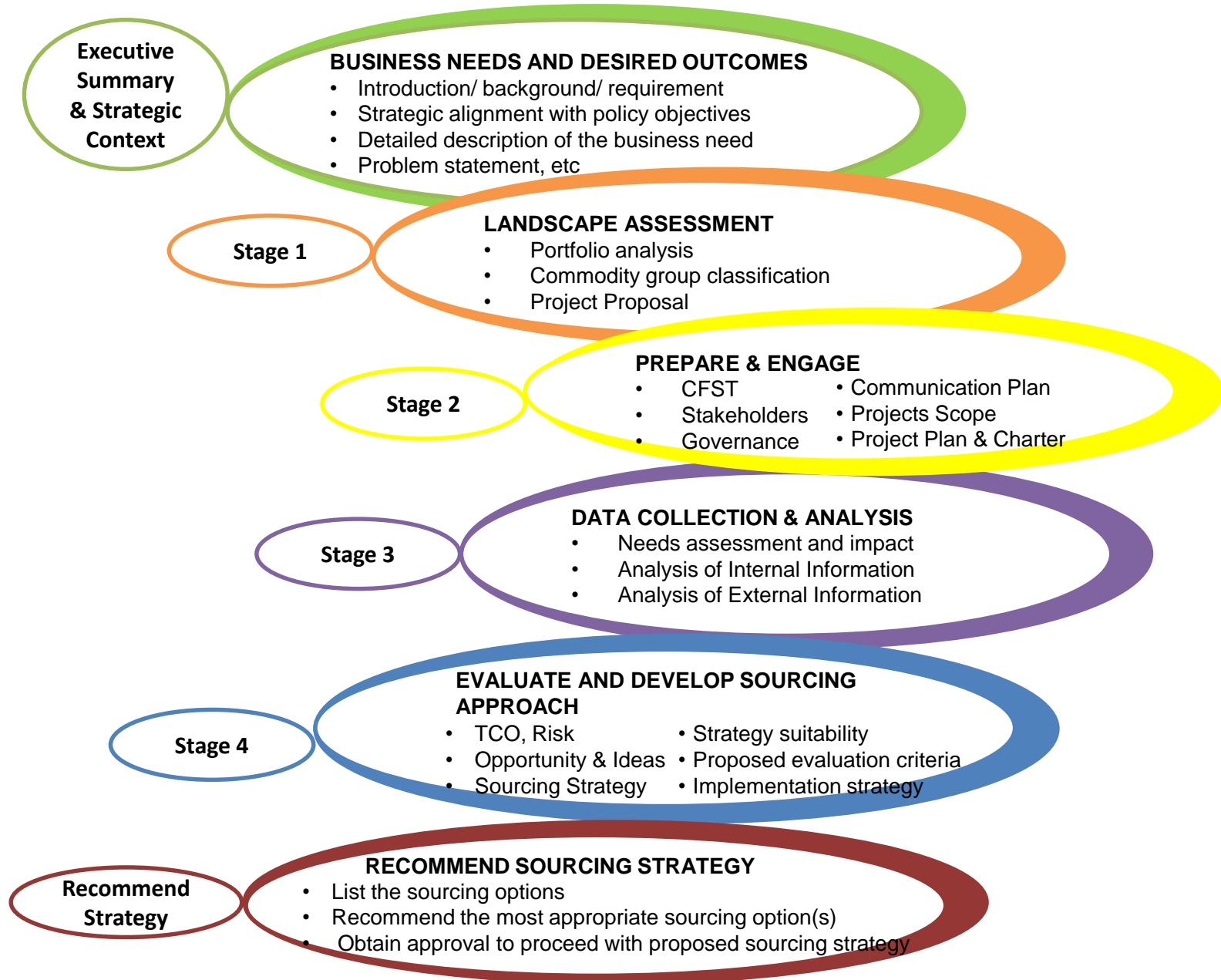
Every sourcing strategy requires a business case, although the scope of the business case depends on the complexity of the procurement. For example:

- A simple , low risk, low value purchase may only need a description of the business need and price;
- A procurement activity with a clear business need, a well understood, competitive market and a standardised good or service may require a few paragraphs on a procurement approval template; and
- A highly complex procurement where the business need is less understood, with diverse levels of market capability and capacity, and varied options for goods and services, would need more in depth documentation to justify the need and to present a range of detailed implementation options.

Prepare Business Case

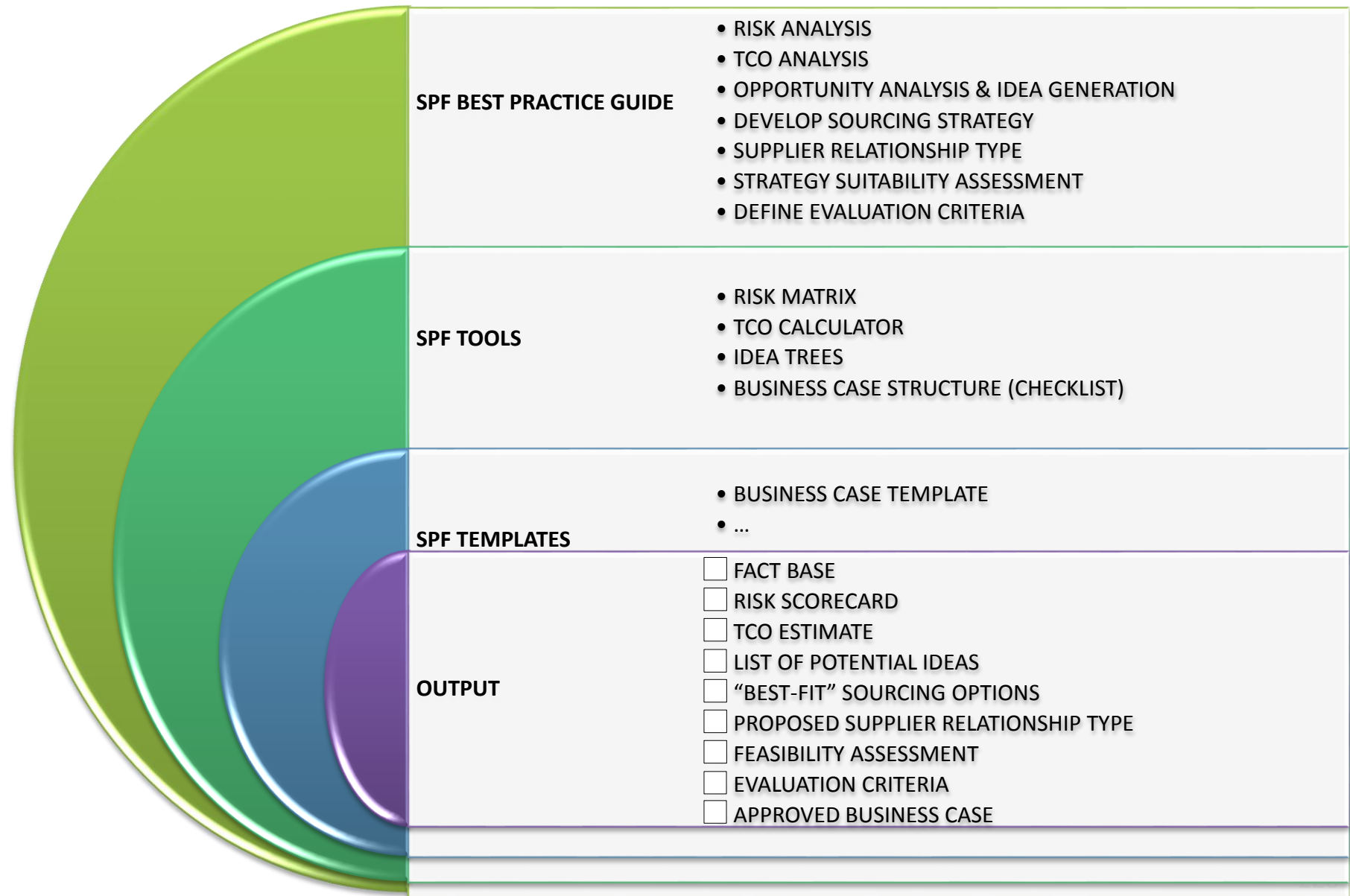
- At this point you have done all the research work that is needed for your business case and have a very good understanding of how you want to proceed.
- Prepare your business case in such a way that the reader understands the methodology and approach you took to get to your final recommendations.
- You can prepare an “Outline / Template document” at the start of the project with the HEADINGS as set out in the methodology and fill in the blanks as you progress through the project. This will assist you in documenting the business case as you progress instead of trying to document everything at the end.
- The Business Case is the one document that pulls together all the key elements from all the stages so far.
 - This should contain a review of all the process evidence of stakeholder engagements, research, analysis findings, ideas generation, etc.
 - A profile of the category with documented impacts and risks
 - Recommended sourcing approach
 - Evidence of alignment with procurement plan and strategic objectives.
- Obtain approval/mandate to test the supply market.

Business Case Structure



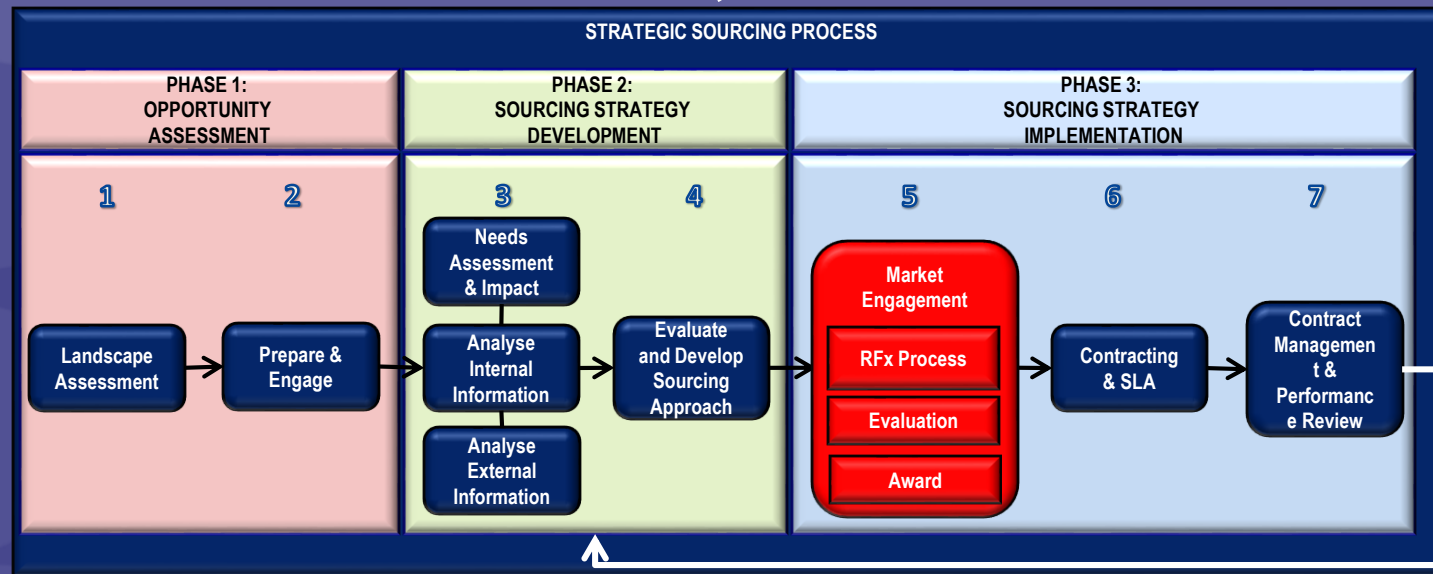
Stage 4 - Evaluate and Develop Sourcing Approach Outcome

Stage 4 – Evaluate and Develop Sourcing Approach



5.

MARKET ENGAGEMENT, EVALUATION AND AWARD



5.1 Plan approach to the market
 5.2 Evaluation model
 5.3(a) RFX User Guide
 5.3(b) Developing an Offer Template
 5.4 Market approach process and timelines

5.5 Market approach
 5.6 Bid Evaluation and Recommendation
 5.7 Develop negotiation plan (if applicable)
 5.8 Negotiate (if applicable)
 5.9 Final recommendation and Award

Objective:

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, in order to select and award the business to the most appropriate supplier(s).

Output:

1. Approved plan endorsed by the cross-functional sourcing team and the project sponsor
2. Evaluation model
3. Appropriate RFX process and well structured bid/offer template..
4. Process flow and timetable for each of the process steps
5. Relevant market approach
6. BEC recommendation, negotiation outcome, approval and award.

5.1

Determine approach to the market

Objective:

This stage involves deciding on the most appropriate approach to the market.

Output:

- Market approach.
- Approved approach endorsed by the cross-functional sourcing team and the project sponsor

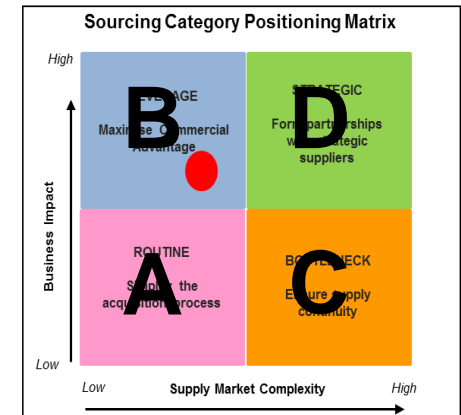
Determine approach to the market – Flash back

Your business case brings together your analysis and thinking to date. It would have resulted in the placement of your commodity in one of the four quadrants on the Sourcing Category Positioning Matrix. This will give you an indication of the market approach you want to follow.

There are several process options that can be considered:

1. Pre-tender supplier engagement, such as EOI (Expression of Interest), RFI (Request for Information)
2. Pre-qualification of suppliers through a RFP (Request for Proposals) in which suppliers will be evaluated on capability and functionality?
3. Open or closed tender?
4. Single stage or multi-stage tender?
5. One or two envelope system?
6. Type of RFx document required (RFI, RFQ, RFP, RFB)?
7. Departure from current procurement policy, with compelling justification?
8. Advertising the opportunity (E-tender portal, industry publications, media)?
9. Will alternative proposals be considered?

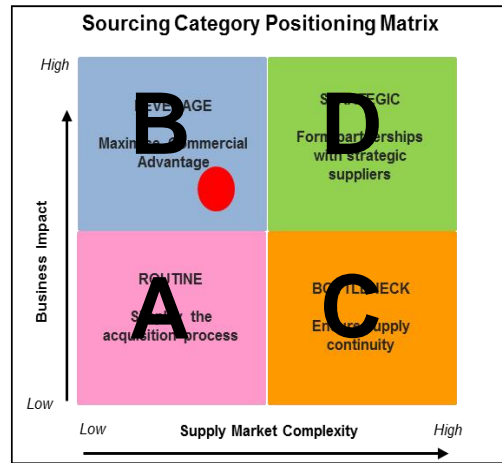
Determining Purchasing Power and Criticality



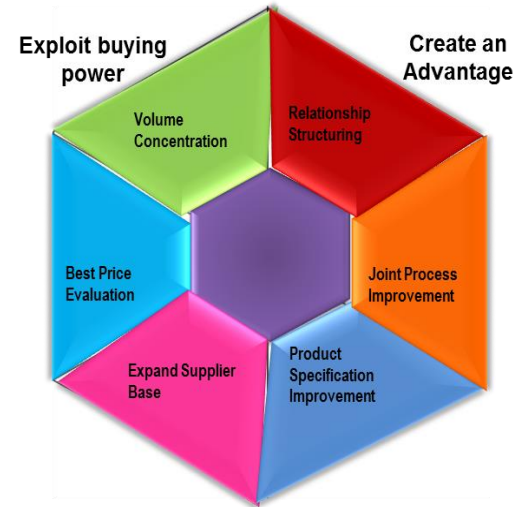
Determine approach to the market

1. What does the matrix propose?

Determining Purchasing Power and Criticality



Potential Strategy Approach



	A ROUTINE	B LEVERAGE	C BOTTLENECK	D STRATEGIC
Strategy	Simplify acquisition process	Maximise commercial advantage	Ensure supply continuity Reduce Risk	Form partnerships with suppliers
Approach	E-sourcing	Competitive open bidding	Contract to manage risk and ensure continuous supply	Strategic Negotiations Supplier Relationship Management

5.2

Evaluation Model

Objective:

The process of developing an evaluation methodology will ensure that the best supplier is selected for the right reasons and at a price that represents value-for-money while achieving government's socio-economic objectives.

Output:

- An effective evaluation model / methodology

Evaluation Stages

In government procurement there are various evaluation stages depending on the nature, scope, value, level of risk and complexity of each procurement. The most common process is as follows:

Administrative Compliance

- Evaluate tender submission for compliance to all submission and administrative requirements.

Step 1: Functional Evaluation

- Evaluate submissions against each functional criteria
- Rate each submission against each criteria.
- Apply the evaluation model and calculate total functional score
- Disqualify bidders below the Functional Threshold

Step 2: Price & Preference Evaluation

- Calculate price points out of 80 or 90
- Apply preference points according to B-BBEE level contribution.
- Add price points and preference points to calculate Total Points

Recommended Bidder

- Select tender with highest total points

This is the very basic evaluation process. There might be variations to this process depending on the level of complexity and departmental internal governance structures.

Functional Evaluation

- Prior to the current preferential procurement regime, functionality criteria could form part of the award stage of the procurement process and it played a decisive role in the determination of a winning bidder.
- Under the **new preferential procurement regime**, functionality criteria have been given a very specific role. In brief, an organ of state must determine whether functionality is relevant to the particular procurement and if so, it must provide for it during the qualification stage of the process.
- Bidders must be required to meet certain minimum scores for functionality and only those bidders who meet such scores must then qualify for further evaluation on the basis of price and preference during the award stage. (Bolton, 2014)
- Not every tender has to use the two step process but it must be clearly stated in the bid invitation if this is the case.
- The evaluation criteria for measuring functionality must be objective and the weighting for each criteria on which technical capability will be judged must be provided.
- Failure to pass the Functionality test will bar a bidder from proceeding further to price and preference assessment.

Preferential Procurement Regulations, 2011

4 No. 34350

GOVERNMENT GAZETTE, 8 JUNE 2011

No. R. 502

8 June 2011

PREFERENTIAL PROCUREMENT POLICY FRAMEWORK ACT, 2000: PREFERENTIAL PROCUREMENT REGULATIONS, 2011

Evaluation of tenders on functionality

4. (1) An organ of state must indicate in the invitation to submit a tender if that tender will be evaluated on functionality.
- (2) The evaluation criteria for measuring functionality must be objective.
- (3) When evaluating tenders on functionality, the-
- (a) evaluation criteria for measuring functionality;
 - (b) weight of each criterion;
 - (c) applicable values; and
 - (d) minimum qualifying score for functionality,
- must be clearly specified in the invitation to submit a tender.
- (4) No tender must be regarded as an acceptable tender if it fails to achieve the minimum qualifying score for functionality as indicated in the tender invitation.
- (5) Tenders that have achieved the minimum qualification score for functionality must be evaluated further in terms of the preference point systems prescribed in regulations 5 and 6.

Method 1: “Highest points score and to specification” evaluation method

- This is the most **basic** methodology also known as the “highest points and to specification” method.
- Offers are evaluated on basic functionality that requires a “**COMPLY**” or “**DO NOT COMPLY**” answer to specification requirements without price being disclosed to the panel.
- The assessment is made on a strict selection of only those offers which meet **ALL prerequisite** requirements. Only those bidders who are clearly able to **FULLY** deliver against the requirements are short listed and will be considered for further evaluation in terms of price and preference.
- Calculate the total points (Price & Preference) scored for each eligible offer. The bidder scoring the highest points in terms of the PPPFA points system is ranked first.
- This methodology is appropriate if any additional quality, over and above the prerequisite requirements, is **not deemed important** – that is, it does not offer greater value for money.
- Use this methodology for simple procurements if the strongest emphasis is on price and preference and if all of the functional criteria have the same importance. It is usually more appropriate for **procurement of goods**.
- This method is not recommended for complex procurements as it does not consider the relative importance of the criteria and the wider aspects of value for money.

Method 1: “Highest points score and to specification” evaluation method

Example of a “Highest points score and to specification” evaluation

Criteria	Bidder A Comply (Y) / Do not comply (N)	Bidder B Comply (Y) / Do not comply (N)	Bidder C Comply (Y) / Do not comply (N)	Bidder D Comply (Y) / Do not comply (N)
Criterion #1	N	Y	N	Y
Criterion #2	Y	Y	N	Y
Criterion #3	Y	Y	Y	Y
PASS / DO NOT PASS	DO NOT PASS FOR FURTHER EVALUATION	PASS FOR FURTHER EVALUATION	DO NOT PASS FOR FURTHER EVALUATION	PASS FOR FURTHER EVALUATION
Price		R100		R104
Price Points (90/10)				
BBBEE		4		8
Total Points				
Ranking				

Method 2: “Simple Rating score” evaluation method

- This is a basic methodology which can be used if all criteria have roughly the same degree of importance.
- Agree a Rating Scale and score each offer against the criteria. Add the total scores for each offer. The highest scored offer is ranked first.
- A Rating Scale sets out the range of scores used by the evaluation panel in scoring against criteria.
- It is important to understand the different types of Rating Scales and decide which is suitable in different procurement scenarios.
- Rating Scales provide a common understanding for the evaluation panel as well as consistency of scoring.

Example Rating Scale

[This example is based on the UK Office of Government Commerce rating scale]

Rating	Definition	Score
Excellent	Exceeds the requirement. Exceptional demonstration by the supplier of the relevant ability, understanding, experience, skills, resource and quality measures required to provide the goods / services. Response identifies factors that will offer potential added value, with supporting evidence.	5
Good	Satisfies the requirement with minor additional benefits. Above average demonstration by the supplier of the relevant ability, understanding, experience, skills, resource and quality measures required to provide the goods / services. Response identifies factors that will offer potential added value, with supporting evidence.	4
Acceptable	Satisfies the requirement. Demonstration by the supplier of the relevant ability, understanding, experience, skills, resource, and quality measures required to provide the goods / services, with supporting evidence.	3
Minor Reservations	Satisfies the requirement with minor reservations. Some minor reservations of the supplier's relevant ability, understanding, experience, skills, resource and quality measures required to provide the goods / services, with little or no supporting evidence.	2
Serious Reservations	Satisfies the requirement with major reservations. Considerable reservations of the supplier's relevant ability, understanding, experience, skills, resource and quality measures required to provide the goods / services, with little or no supporting evidence.	1
Unacceptable	Does not meet the requirement. Does not comply and/or insufficient information provided to demonstrate that the supplier has the ability, understanding, experience, skills, resource & quality measures required to provide the goods / services, with little or no supporting evidence.	0

Method 2: “Simple Rating score” evaluation method

Example of a “Simple Rating Score” evaluation

Highest possible score = Number of Criterion X highest rate
= 3 X 5
= 15 (Highest possible score)

Threshold to be achieved is **60%** or 9 (out of 15)

Criteria	Bidder A Score (0-5)	Bidder B Score (0-5)	Bidder C Score (0-5)	Bidder D Score (0-5)
Criterion #1	2	5	0	4
Criterion #2	5	4	1	3
Criterion #3	1	5	3	4
TOTAL score (out of 15)	8 53.3%	14 93.3%	4 26.6%	11 73.3%
PASS /DO NOT PASS	Do not pass for further evaluation	Pass for further evaluation	Do not pass for further evaluation	Pass for further evaluation

Method 3: “Weighted score” evaluation method

- This is the most common methodology used in public sector procurement.
- It is used when criteria have different levels of importance.
- Start by ranking the criteria in order of importance then decide a weighting for each.
- This is usually a % with the total weightings for all criteria adding to 100%.
- Agree a Rating Scale and score each offer against the criteria to obtain raw scores.
- Multiply the weightings with the raw scores to obtain the weighted scores.
- Add the total weighted scores for each offer.
- The offer with the highest total weighted score is ranked first.

Method 3: “Weighted score” evaluation method

Example of a “Weighted Score” evaluation

Highest possible score = Sum (Criterion weight X highest rate)
 = $[(40 \times 10) + (35 \times 10) + (25 \times 10)] \div 100$
 = $[400 + 350 + 250] \div 100$
 = $1000 \div 100$
 = 10

This example uses a rating scale of 0-10

Threshold to be achieved is **60%** or 6 (out of 10)

Criteria	Weighting	Raw Score (0-10)	Maximum Weighted score	
Criterion #1	40%	0-10	$(40 \times 10) \div 100$	4.0
Criterion #2	35%	0-10	$(35 \times 10) \div 100$	3.5
Criterion #3	25%	0-10	$(25 \times 10) \div 100$	2.5
	100%	TOTAL weighted score (out of 10)	10.00	

Criteria	Weight	Bidder A		Bidder B		Bidder C	
		Raw Score	Weighted score	Raw Score	Weighted score	Raw Score	Weighted score
Criterion #1	40%	6	2.4	4	1.6	8	3.2
Criterion #2	35%	8	2.8	7	2.45	6	2.1
Criterion #3	25%	4	1.0	6	1.5	7	1.75
	100%						
TOTAL WEIGHTED SCORE (out of 10)			6.2 62%		5.55 55.5%		7.05 70.5%
PASS / DO NOT PASS			Pass for further evaluation		Do not pass for further evaluation		Pass for further evaluation

Panel Decision Making Process

This step involves identifying what information is made available to the panel, and at what time and how the panel will reach its final decision. Panel decisions should aim to be based on consensus

Panel Scoring methods

- It is normal to require each member of the evaluation panel to carry out their own initial evaluation of offers and scoring according to the Rating Scale.
- The evaluation panel chair can request that scores are submitted prior to the evaluation panel meeting.
- The chair can collate on an Excel spreadsheet and present to total weighted scores to the panel at the evaluation meeting.
- There are a number of ways that final scores can be reached including:
 1. Mathematical average
 2. Panel moderation
- Discussing individual scores and reaching a team consensus through a moderation process is preferable to mathematical averaging, because it allows a score to be agreed based on consideration of all the evaluation panel members' assessments, observations and opinions.

1. Mathematical Average

- Averaging scores is a mathematical approach.
- Common types of averaging are 'mean', 'median' and 'mode'.
- The mean average is the most commonly used in panel scoring.

Mean average

The '**mean**' is the '**average**', where you add up all the numbers and then divide the total by the number of numbers. For example:

Panel member individual scores: 13, 18, 13, 14, 13, 16, 14, 21, 13 (nine panel members)

To calculate the mean: $(13 + 18 + 13 + 14 + 13 + 16 + 14 + 21 + 13) \div 9 = 15$

Median average

The '**median**' is the '**middle**' value in the list of numbers. To find the median, your numbers have to be listed in numerical order, so you may have to rewrite your list first. Using the same scores as the above exercise as an example:

Panel member scores in numerical order: 13, 13, 13, 13, 14, 14, 16, 18, 21

To calculate the median: there are nine numbers in the list, so the middle one will be $(9 + 1) \div 2 = 10 \div 2 = 5\text{th number}$. So the median = 14

Mode average

The '**mode**' is the value that occurs most often. If no number is repeated, then there is no mode for the list. Using the same scores as the above exercise as an example:

Panel member scores: 13, 13, 13, 13, 14, 14, 16, 18, 21

To calculate the mode: add how many times a number appears. 13 = 4 times, 14 = 2 times, 16, 18 and 21 each = 1 time. Number repeated most = 13

From the above examples the different results for the same range of scores are:

Mean = 15

Median = 14

Mode = 13

2. Panel Moderation

- Panel moderation involves the evaluation panel reviewing the initial individual scores, discussing the individual and collective findings and coming to a consensus as to the appropriate moderated scores to be awarded.
- Only slight adjustments to the original scoring profile are allowed.
- Moderation involves comparing scores for individual criteria as well as comparing scores across all offers.
- The benefits include:
 - having a wider debate as to the relative strengths and weaknesses of each offer;
 - an opportunity for panel members to explain their rationale in awarding specific scores
 - and a common agreement on what is an appropriate score taking into account the views of all panel members.
- The disadvantage is that the process takes longer.



Other elements to reflect on during evaluation

1. Price:

- You will already have determined whether or not price is submitted separately to the response on the functionality. Where it is separate, price is withheld from the panel until the evaluation on functionality and scoring has been completed.
- Depending upon the nature, scope, value, level of risk and complexity of the procurement the team may wish to appoint a financial specialist to separately analyse the price of all qualifying or eligible offers and present a report to the evaluation panel providing a comparative analysis.
- Financial comparisons for competitive bidding usually consider issues such as:
 - whole-of-life costs
 - capital related costs
 - financing / leasing options
 - costs of contracting out
 - costs of transitioning to a new supplier.
- An offer that is priced very low in comparison with others should be scrutinised to determine:
 - whether all costs have been included;
 - whether there is uncertainty in the response to the requirements that involve high-risk;
 - whether the price is 'real' and sustainable;
 - whether a new or innovative solution has been proposed which results in the dramatically different price; or
 - whether the offer includes dumped or subsidised imports that would compete unfairly with domestic products .
- If there are any concerns about the price you should seek clarification from the supplier. However, the supplier must not be allowed to adjust their price in the process.

Other elements to reflect on during evaluation

2. Adjustments to presentation of pricing information

- It may be necessary to make adjustments to the way pricing information in offers is presented to allow prices to be evaluated on a like-for-like basis.
- Such adjustments must only be made for the purpose of the evaluation only. For example, an adjustment may be needed to be able to demonstrate:
 - Firm and variable pricing components;
 - Inclusion or exclusion of extras;
 - Discounts for early payment;
 - Comparison between different packaging units of measure, e.g. box of 12 units versus box of 15 units.
- It is advisable to keep the pricing format as simple as possible by including all the variables as far as possible. Keep adjustments to pricing presentation to a minimum.

3. Required additional information

- Depending upon the nature of the procurement the team may want to decide in advance what additional information the panel should take into account before reaching its decision. This could include:
 - Presentation by short listed suppliers;
 - Site visit to the short listed supplier's premises;
 - Site visit to the short listed supplier's clients' premises;
 - Examination or testing of products or samples from short listed suppliers.
- Any requirement for additional information should be stated up front in the bid invitation.

Other elements to reflect on during evaluation

4. Optional additional information

- The team may decide that the panel should have the option of requesting additional information before reaching its decision. This could include additional process following the initial evaluation on functionality based on the written offers:
 - Reference checks for short listed suppliers where specific clarifications or issues, as determined by the panel, are tested
 - Interviews with short listed suppliers where specific clarifications or issues, as determined by the panel, are tested.

5. Due diligence

- Due diligence may include company information such as ownership, litigation, director's profiles, financial security and past history. This should include referee checks, CIPC records, commercial records and annual returns.
- Referee checking procedures should be substantially the same for all tenderers checked and confidentiality should be assured.
- A due diligence investigation should be undertaken of the preferred supplier for high risk / high value or complex projects to ensure that the supplier has the capacity and stability to fulfil all of the requirements of the contract.
- The due diligence process should, at a minimum, confirm the financial ability, technical ability and capacity of the service provider to deliver the required services. These activities often require professional legal and financial input and advice.

5.3 (a)

RFx Documentation

Objective:

This stage is intended for those that have identified a need to solicit bids from suppliers but may be unclear on the different types of documents, the roles various participants play, and the broad steps in the process.

Output:

- Appropriate RFx document

- RFx is a term used to refer to a family of 'Request For...' documents used to solicit responses of various types from suppliers.
- The three most commonly used documents in this family include:
 - Request for Information (RFI),
 - Request for Proposal (RFP)
 - Request for Quote (RFQ) or Request for Bid (RFB).



What are the differences and when to use each?

RFI

Request for Information

- An **RFI** is generally used when the solution to a business problem is not immediately evident or clearly defined.
- The RFI is used to gather information, NOT to make a selection or an award.
- The SCM Unit works with the Customer to clearly describe the problem, solicit external expertise regarding how to solve the problem and study proposed solutions

RFP

Request for Proposal

- An **RFP** is used when the Customer understands the business problem and what's needed to solve it, including specifications and procedures.
- Price is usually not the determining factor in the evaluation of an RFP.
- Factors such as quality, service, and reputation are also taken into consideration.

RFQ/RFB

Request for Quote/ Bid

- An **RFQ or RFB** is generally used to obtain pricing, delivery information, terms and conditions from suppliers.
- In this case, requestors have a clear understanding of what they need, including requirements and specifications.
- To procure the exact product or service you need, the Customer provides the SCM Unit with as much information as possible, including complete specifications, quantities, and delivery schedule.

5.3 (b)

Developing a Bid / Offer Template

Objective:

This stage is intended to assist procurement practitioners with the development of an “offer” template for their invitation to bid.

Output:

- A well structured bid / offer template

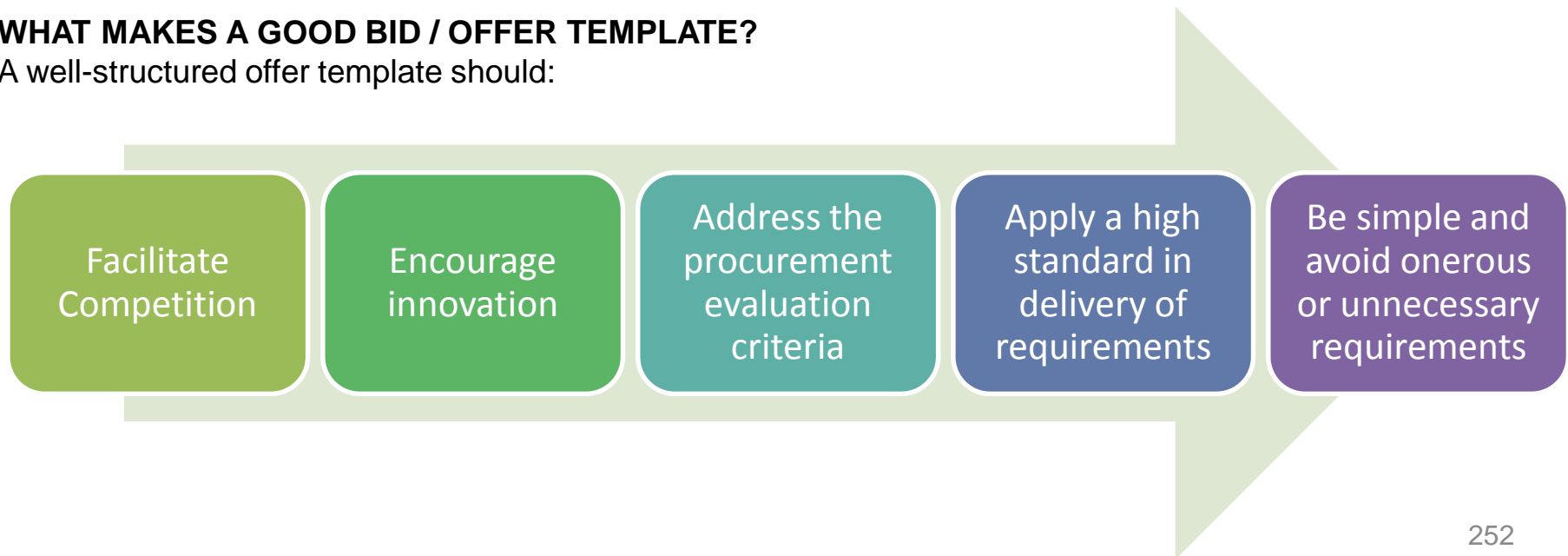
Developing a Bid / Offer Template

WHAT IS AN BID / OFFER TEMPLATE?

- An offer template is a standard form requesting information to be submitted by suppliers in response to an invitation to supply.
- A submitted template becomes an offer and documentary evidence from the supplier to provide the goods and or services as defined by the invitation to supply. If the supplier is successful the completed offer template will form part of the contract.
- The offer template should be simple and easy to understand. It should only seek information from the supplier to undertake a comparative analysis for the purposes of the procurement and to help better understand what the supplier has to offer.

WHAT MAKES A GOOD BID / OFFER TEMPLATE?

A well-structured offer template should:



Before preparing a Bid / Offer Template

Before preparing a bid/offer template:

- The purpose of an offer template is two fold: to provide a level of consistency in reporting to facilitate 'like for like' comparison and to prompt suppliers to suggest how they can add to the value for money outcome.
- The value-adding elements must complement the key requirements and purpose of the procurement.
- Before preparing an offer template, procurement practitioners should have a clear understanding of:
 - the specifications;
 - market capability;
 - the risks impacting the procurement;
 - the evaluation criteria to be applied; and
 - the relative importance of each criteria.

Refer to the **SPF Good Practice Guide – Developing an Offer Template** for more detail as what should be contained in a well structured bid/offer template.

5.4

Market approach process and timelines

Objective:

This stage seeks to assist procurement practitioners with developing a realistic timetable for the procurement process.

Output:

- Process flow and timetable for each of the process steps

Timetable

Things to consider when planning the timetable

This involves identifying each step in the process, assigning responsibilities, ensuring sign-offs and approvals are built in and plenty of time is allowed.

It is advisable to determine the absolute deadline date and work back to establish when the process must start to finalise everything in good time.

It is good practice to include an excerpt from your timeline in the RFX so that suppliers have an indication of when offers will be evaluated and when they may expect to know the outcome.

Don't underestimate how long the overall process will take.

Response timeframes must be reasonable

Suppliers must be given a reasonable timeframe to complete the required tasks and respond to tender opportunities, whether the tender is open or closed. Treasury Regulations require that bids be advertised for a minimum period of 21 days before closure, except in urgent cases when bids may be advertised for shorter period as the accounting officer or accounting authority may determine.

In your planning, consider how long it will take a supplier to:

- obtain the full tender documentation
- read and analyse the documents
- seek clarification, if required
- prepare pricing information
- develop and submit a responsive tender, and
- arrange for the tender to be delivered on time.

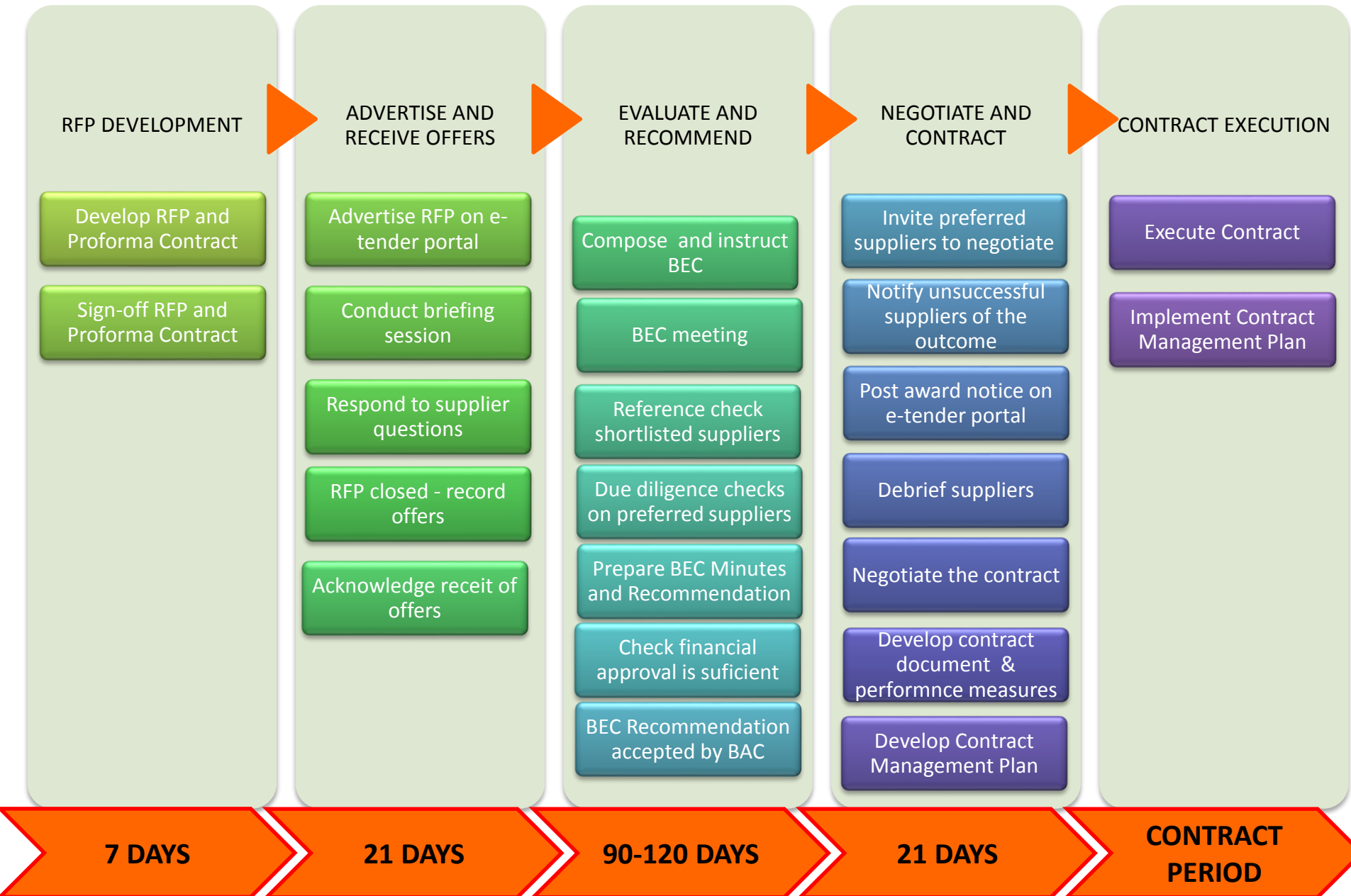
Timetable

You should also consider the nature of the procurement activity and the circumstances of the approach to market, including:

- the goods or services you're purchasing
- the procurement's maximum estimated value over its lifespan
- the risks and their impacts on your department's business
- how simple it is to define the deliverables
- the complexity of the procurement activity
- how much you need to engage with suppliers (you might need supplier briefings for unique or novel purchases)
- how much clarification suppliers might need, and
- the amount of information and level of detail the suppliers need to provide.



Tender Process Flow Chart and estimated Timetable



5.5

Market approach

Objective:

This stage seeks to assist procurement practitioners with deciding the best path to approach the market and identifying the supplier best able to deliver the procurement need.

Output:

- Relevant Market Approach

Market Approach

Approaching the market is predominantly a process to ensure all potential suppliers are treated fairly, have access to similar information and that standards of probity, confidentiality and security are applied in the conduct of all actions between the government organisation and suppliers.

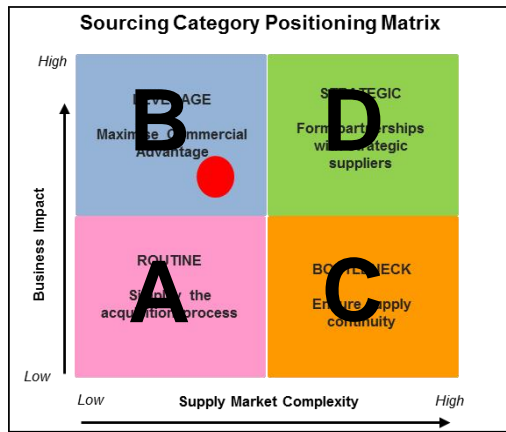
Your organisation must develop and apply an appropriate market approach that:

- minimises cost for suppliers in preparing a bid submission;
- is a familiar and consistent process;
- encourages participation from the market segment relevant to the procurement activity;
- adopts a market engagement strategy that is cost effective for buyer and supplier;
- applies a market approach that eliminates barriers to participation by small, medium and micro enterprises and local businesses;
- engages with potential suppliers in a fair, equitable, transparent, competitive and cost-effective manner;
- has processes in place to ensure the confidentiality and security of bids from suppliers;
- provides sufficient time for potential suppliers to prepare a submission taking into account the complexity of the procurement activity and market factors; and
- makes any material change to a procurement requirement available to all suppliers selected or registered to participate in the procurement process.

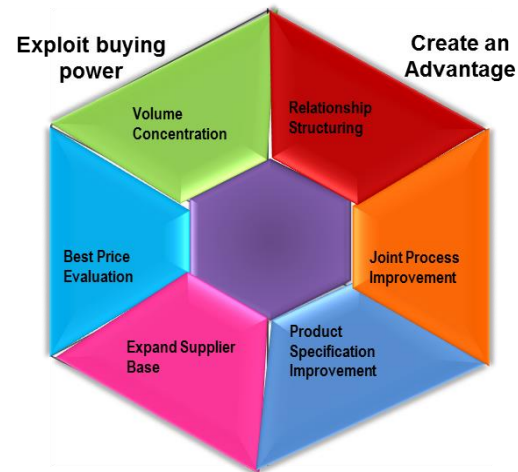
Market Approach

Potential path to market options for each quadrant

Determining Purchasing Power and Criticality



Potential Strategy Approach



	A ROUTINE	B LEVERAGE	C BOTTLENECK	D STRATEGIC
Strategy	Simplify acquisition process	Maximise commercial advantage	Ensure supply continuity Reduce Risk	Form partnerships with suppliers
Approach	<ul style="list-style-type: none"> E-systems Buyer-site Quotes Open competitive bidding 	<ul style="list-style-type: none"> Transversal Contracts Panels of service providers Early supplier engagements Open competitive bidding Reverse Auctions 	<ul style="list-style-type: none"> Early supplier involvement Multi-stage invitation process Reverse Auctions E-systems Direct negotiation Inter-government delivery arrangements 	<ul style="list-style-type: none"> Transversal Contracts Alliance arrangements PPP's Inter-government delivery arrangements Procurement specific designed arrangements Multi-stage engagements

Market Approach

Your organisation must detail requirements that:

- identify the conditions for participation;
- foster innovative or alternative supply solutions, where appropriate;
- structure specifications that have relevance to SMMEs and local businesses, where appropriate;
- detail applicable broader government policy and South African National Standards where relevant;
- adopt an evaluation plan for carrying out supplier selection;
- detail the criteria to be used when evaluating submissions and any criteria weightings, if relevant;
- indicate if the selection process will apply a process for shortlisting; and
- do not adopt processes, technical specifications, conditions or a market engagement strategy that precludes relevant suppliers from participating in the potential supply arrangement.

Your organisation must provide the following minimum information:

- name and address of your organisation;
- headline details of the supply requirement;
- process timelines;
- address/site/method where documentation can be obtained;
- address/site/method where further information will be provided (if relevant);
- address/site/method for receiving submissions; and
- contact details for person(s) managing the market approach.

Market Approach

Management of submissions received

Your organisation must:

- provide a secure, physical submission facility and/or the facility to receive electronic submissions
- allocate responsibility for managing either system to a business unit in the organisation;
- implement a process to inform suppliers of successfully receiving their submission:
 - through the public tender opening process
 - immediately in the case of an electronic system; or
 - within five working days of submission close in the case of a physical receipt facility;
- apply procedures in relation to late submissions

5.6

Bid Evaluation, Negotiation & Award

Bid evaluation, negotiation and award (BENA) are important complementary processes that underpin selection of the most appropriate submission in response to a procurement requirement. The structure of the BENA process should reflect the complexity and scope of the procurement requirement.

Objective:

This stage seeks to assist procurement practitioners evaluating bid submissions according to the defined bid evaluation criteria, shortlisting bidders, negotiating with preferred bidders with the ultimate goal of selecting and awarding to the most suitable bidder to fulfill the procurement requirement.

Output:

- BEC Recommendation Report
- Negotiation plan
- Negotiation Outcome Report
- BAC Approval and Award

Bid Evaluation

CREATING AN EVALUATION PLAN

An evaluation plan defines the process for assessing submissions. An evaluation plan:

- is scaled to reflect the complexity of the procurement;
- guides the development of the evaluation report; and
- provides a record of decisions made during the evaluation process.

An evaluation plan may include:

- the objectives of the procurement;
- a description of the requirement and deliverables, allowing flexibility to respond to market innovation (if relevant);
- evaluation criteria, methodology and scoring (as elaborated on in previous guides)
- governance arrangements for decision making, such as making sure that the Bid Evaluation Committee (BEC) members are notified and appointed in advance;
- roles and responsibilities for managing the evaluation process (the plan needs to detail the evaluation panel structure, any specialist subcommittee structures, any individual specialist inputs, and the capability/expertise of identified persons, etc.)
- communication management, including processes and timelines for communicating with suppliers about the status of their submissions;
- management of submissions (security and confidentiality considerations);
- conflict of interest management;
- record management and reporting arrangements; and
- managing variations to scope in alignment with probity requirements.

Bid Evaluation Process

In government procurement there are various evaluation stages depending on the nature, scope, value, level of risk and complexity of each procurement. The most common process is as follows:

Administrative Compliance

- Evaluate tender submission for compliance to all submission and administrative requirements.

Step 1: Functional Evaluation

- Evaluate submissions against each functional criteria
- Rate each submission against each criteria.
- Apply the evaluation model and calculate total functional score
- Disqualify bidders below the Functional Threshold

Step 2: Price & Preference Evaluation

- Calculate price points out of 80 or 90
- Apply preference points according to B-BBEE level contribution.
- Add price points and preference points to calculate Total Points

Recommended Bidder

- Select tender with highest total points

Refer to section 4.8 for detail on Defining the Evaluation Criteria and section 5.2 on Deciding on the most appropriate Evaluation Model

Other Bid Evaluation Considerations

Detailed evaluation of submissions and clarifications

- Evaluate submissions by applying the evaluation criteria as notified to the market in the invitation documents. Maintain a proper audit trail of evaluation decisions.
- Seek clarification of any matter where that would add to the understanding of a supplier submission.
- This action should not be the catalyst for a supplier to alter their submission.
- A record should be kept of any such clarifications sought.

Alternative submissions

- Where suppliers were invited to submit alternative submissions, these submissions must be evaluated together with conforming submissions.
- Alternative submissions are treated and evaluated in the same way as conforming submissions.
- One should eliminate alternative submissions if they fail to meet mandatory requirements

Evaluation report

- After completing each evaluation stage, complete an interim evaluation report to identify the preferred supplier(s) and any ranking of supplier(s).
- Prepare a final evaluation report at the conclusion of the selection process. The structure of the interim and final report can include (but not be limited to) the following considerations:
 - summary of activities conducted (e.g., site visits, clarifications sought, negotiation etc.) outcomes;
 - financial viability;
 - pricing evaluation outcomes;
 - legal issues;
 - commercial evaluation outcomes;
 - contractual evaluation outcomes;
 - risk;
 - value for money outcomes; and
 - interim probity report (if relevant/necessary).

Negotiations

Negotiation is a process between buyer and supplier that seeks to improve value for money outcomes through discussion. Either party can make an offer or detail a concession in attempting to arrive at an agreement.

The negotiation process can start after shortlisting your preferred supplier(s).

The primary objectives of conducting negotiations are to:

- explore the wider opportunities to improve the overall value for money outcome of the procurement activity; and
- clarify issues and identify further opportunities.



When to conduct negotiations:

Conducting negotiations is particularly relevant for procurement activities with one or more of the following characteristics:

- strategic, high risk or close to core;
- high element of innovation or novelty;
- the activity is a pilot project to better define procurement requirements;
- there is a proposal to allocate risks and ownership at variance from a standard operating position;
- procurement requires access to designated intellectual property in the supplier market; and
- the procurement complexity is generally not of a transactional nature.

The Negotiation process

The negotiation process is based on a structured plan that:

- aligns the capability and authority of the negotiation personnel with the complexity of the procurement activity;
- establishes a process for engaging stakeholders to obtain input and advice as negotiations progress;
- has considered a position on the scope and scale of offers and concessions that the organisation will consider;
- details how issues and propositions are to be assessed and analysed;
- ensures that the process is conducted in a consistent manner; and
- establishes a framework for conducting meetings.

It is important to understand the range of matters that you are willing to consider when carrying out negotiations, including:

- technical matters;
- access to management and ownership of intellectual property;
- risk allocation and responsibilities;
- insurances, indemnities, warranties and guarantees;
- financial matters;
- contractual matters;
- performance objectives;
- benefit sharing and incentives;
- reporting form and structure;
- delivery and implementation commitments;
- items of confidentiality and security; and
- pricing (under exceptional circumstances)

Concluding and documenting the Negotiation process

Concluding negotiations

Ideally, the negotiation process reaches an end when all parties commit to an agreement and proceed to contract execution. However, commencing a negotiation process does not bind the parties to reach an agreed outcome. Either party can withdraw from the negotiations if they conclude that there is no further interest in continuing with the process.

Documenting the negotiation process

A detailed record of each stage of the negotiation process ensures:

- accuracy of details discussed;
- matters agreed to, or subject to further review;
- actions to be taken and by which party;
- offers/concessions made/accepted/modified/rejected; and
- further schedule of planned negotiations.



Selection and Award

Selection and award is the end stage of the sourcing process. It establishes the basis for proceeding to engage with the supplier(s) best able to satisfy the procurement requirements.

The selection and award stage will also involve internal approval steps concerning process compliance and financial commitment prior to establishing a formal agreement between parties and starting the contract management phase of the procurement process.

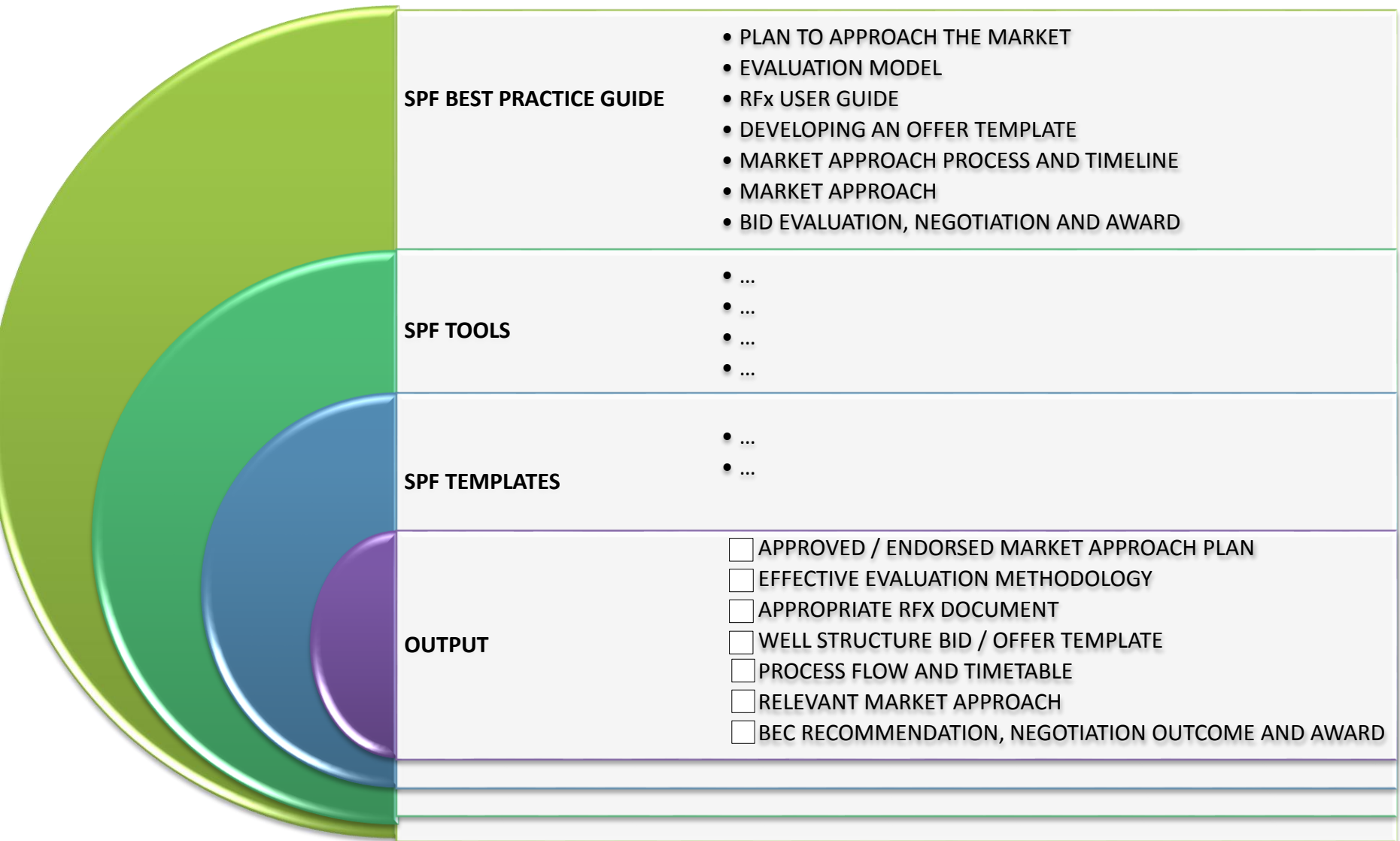
Entering a contract establishes legal obligations on either party. In doing so, the government institution wants to achieve a value for money outcome while committing public funds that demonstrate high standards of probity, due process and transparency in arriving at a decision to proceed.

In closing out this stage of the procurement process, consider the following:

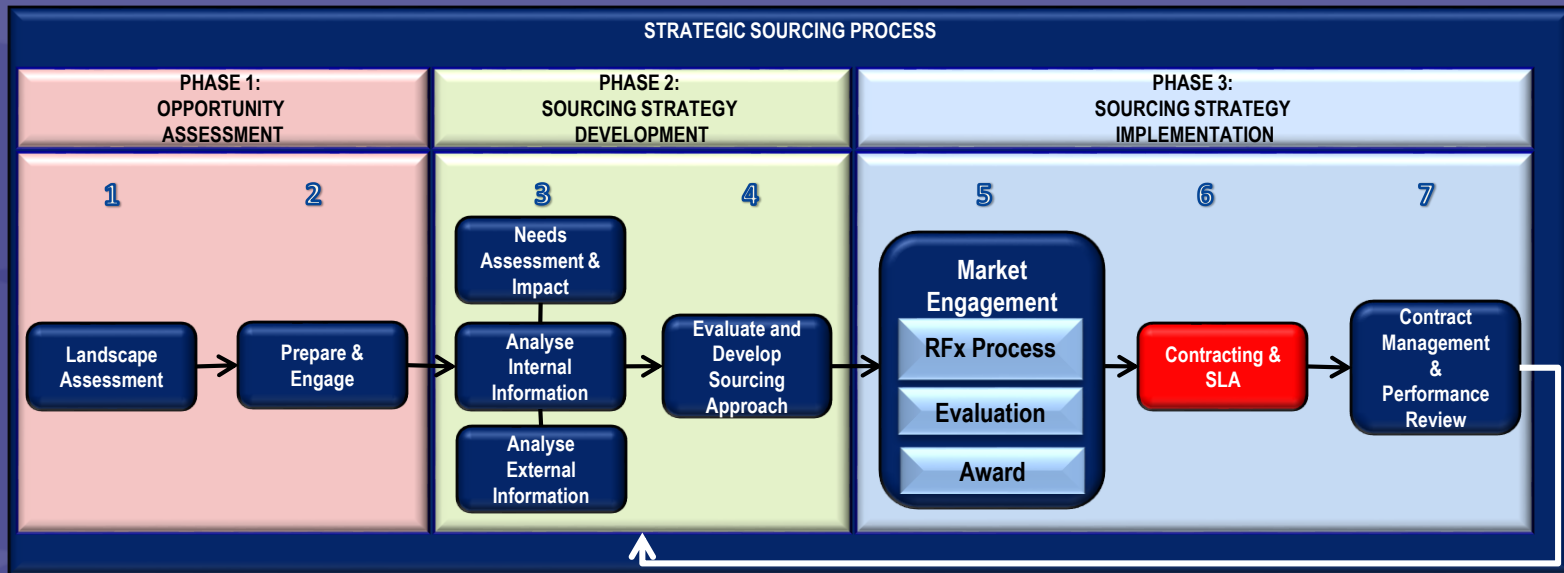
- handover arrangements to the contract manager/contract management team;
- clarify any contractual related matters;
- ensure supplier(s) understand and commit to the agreed contractual terms and conditions;
- schedule any transition in/transition out requirements;
- method and timing of notification to successful and unsuccessful suppliers;
- arrangements for managing and conducting debriefings with suppliers;
- ensure that records of the sourcing process are kept in accordance with the management of public record; and
- publish the final contract award information on the e-tender portal (www.....gov.za)

Stage 5 - Market Engagement, Evaluate and Award Outcome

Stage 5 – Market Engagement, Evaluation & Award



CONTRACTING & SLAs



- 6.1 Develop transition plan
- 6.2 Develop KPI's
- 6.3 Draft SLA

Objective:

This Stage involves setting up the contract and/or Service Level Agreement (SLA), ensuring a smooth transition to the new contractor and deciding on the most appropriate Key Performance Indicators (KPIs)

Output:

- 1. A Transition Plan
- 2. List of Key Performance Indicators
- 3. A Service Level Agreement

6.1

Develop Transition Plan

Objective:

The objective of this stage is to give guidance on how to ensure a smooth transition from the previous contract to the new contract.

Output:

- A Transition Plan

Transition to new Contract

In closing out the previous stage of the procurement process, i.e. the award stage, you had to consider the following in going forward:

- handover arrangements to the contract manager/contract management team;
- clarify any contractual related matters;
- ensure supplier(s) understand and commit to the agreed contractual terms and conditions;
- schedule any transition in/transition out requirements;
- method and timing of notification to successful and unsuccessful suppliers;
- arrangements for managing and conducting debriefings with suppliers;
- ensure that records of the sourcing process are kept in accordance with the management of public record; and
- publish the final contract award information on the e-tender portal (<http://www.etenders.gov.za/>).

Transition involves focusing on both the **contract and the **people**.**

Transition Considerations

TRANSITION OF CONTRACT

- **Review Requirements** - Review both the existing and planned contracts, including the transition requirements.
- **Outline Responsibilities** – Transition success depends on clearly defined and communicated roles and responsibilities.
- **Communicate Frequently** – Establish lines of communication between client, current contractor and newly awarded contractor.
- **Create a Transition Management Plan** – Consider and document all factors involved in the planned transition

TRANSITION OF PEOPLE

- **Personnel Transition** – How will staff get up to speed with the new contractor's operations?
- **Recruitment** – If staff need to be recruited, then which ones and how long will it take?
- **Retention** – A smooth transition should ideally lead to a smooth contract lifecycle.

Now that handover arrangements are done it is important to determine **key performance indicators** and to finalise **service level agreement** matters in order to ensure that your personnel as well as your supplier(s) understand and commit to the agreed contractual terms and conditions.

6.2

Develop Key Performance Indicators

Objective:

The objective of this stage is to give guidance on what to consider when defining key performance indicators (KPIs) to ensure that contract obligations and service levels are achieved.

Output:

- List of Key Performance Indicators (KPIs)

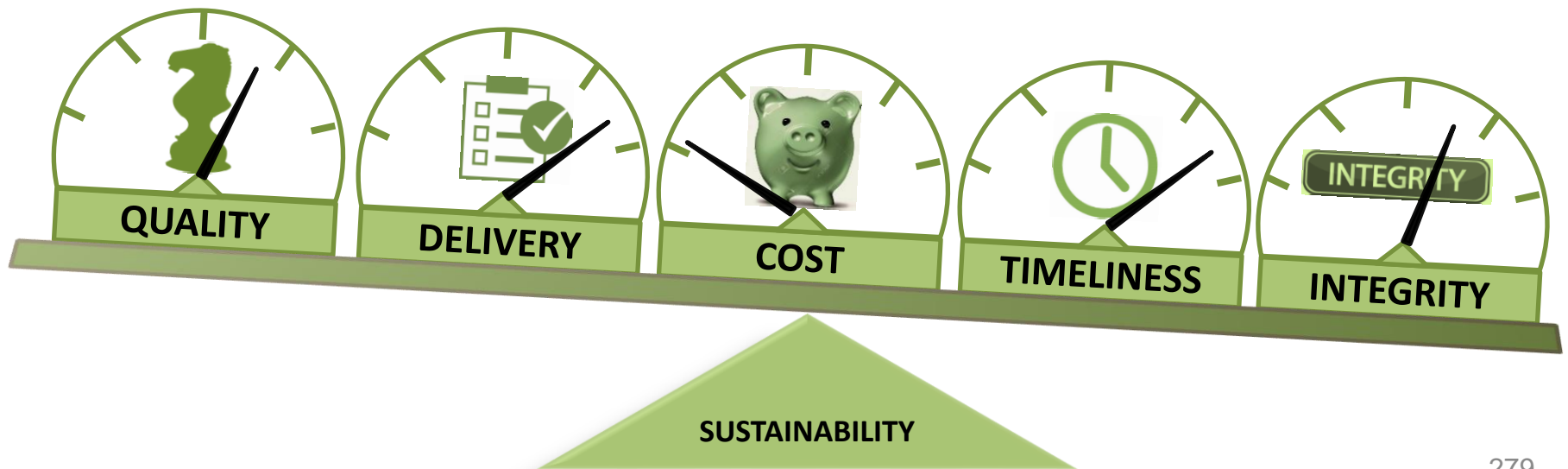
What are Key Performance Indicators (KPIs)

- Key performance indicators (KPIs) are management tools designed to monitor supplier performance and help meet the goals, objectives and service levels of the contract.
- The KPIs must help point you in a direction, improve performance levels, identify breakdowns in a process and are a driver of continuous improvement
- KPIs should be relevant to your department and should be simple to use.
- KPIs shouldn't be about hours of gathering data.



Major Groups of KPIs

- The goals of KPIs can be divided into five major groups according to their purpose: receive savings (Cost), increase quality (Quality), improve delivery (Delivery), timeliness of actions (Timeliness), improved transparency (Integrity) and improved productivity (Systems Productivity).
- All groups are tightly bound together and it's important to understand that these are like an octopus: if you are setting up your KPIs from only one of the groups, you don't want to harm any of the others because it might decrease supply sustainability.



What you should avoid when setting up new KPIs

1. Focusing on cost savings can lead to late delivery or low quality
2. Only set up what you can deliver
3. The greatest output is achieved by balancing all KPIs
4. Misusing KPIs can damage business processes
5. Different stakeholders may have conflicting KPIs



Key Performance Indicators that can be used

No.	INDICATOR NAME	HOW IT CAN IMPROVE PERFORMANCE	DESCRIPTION	PERFORMANCE CATEGORY
1	Product Price Variance	Prices paid are in alignment with benchmarked prices	Percentage price variance between contract unit price and benchmark unit price for products	Cost
2	Effective Contract Utilisation	Efficient procurement mechanisms are being used	Percentage by value of purchases made under simple purchase orders, annual contracts, and multi-year contracts	Cost
3	Expiration Management	Good supply chain practices are being used, including inventory management, demand management, and the timely supply of good quality products	Annual Rand value of expired products or percentage value of expired products	Quality
4	Supplier Performance	A. Supplier delivers the correct goods	Percentage of orders in compliance with contract criteria	Quality
		B. Supplier delivers goods on time	Percentage of orders delivered on time	Timeliness
5	Procurement Cycle time	There are no delays in executing procurements	Percentage of procurements completed (placed) within standard time guidelines	Timeliness
6	Payment Processing time	There are no delays in processing payments to suppliers	Percentage of supplier payments made within the 30 day payment period	Timeliness
7	Emergency procurement	Good supply planning practices are being used	Percentage, by value and number, of purchase orders or contracts issued as emergency orders	Systems Productivity
8	Procurement Cost	Level of efficiency of operations in the procurement unit	Ratio of annual procurement unit cost-to-value of annual purchases	Systems Productivity
10	Transparent Price Information	The level of product pricing information that is available to the public	Percentage of products with prices posted on publicly accessible websites	Integrity

6.3

Draft the Service Level Agreement (SLA)

Objective:

The objective of this stage is to give guidance on how to draft a Service Level Agreement (SLA) that is clear, concise and easy to manage.

Output:

- A Sound Service Level Agreement

What is a Service Level Agreement?

A Service Level Agreement (or SLA) is the part of a contract which defines exactly what services a service provider will provide and the required level or standard for those services.

The SLA is generally part of an outsourcing, contracted or managed services agreement, or can be used in facilities management agreements and other agreements for the provision of services.



What should be included in an SLA?

A properly drafted and well thought out SLA should have the following elements:

- It will state the business objectives to be achieved in the provision of the services.
- It will describe in detail the service deliverables.
- It will define the performance standards the customer expects.
- It will provide an ongoing reporting mechanism for measuring the expected performance standards.
- It will provide a remedial mechanism and compensation regime where performance standards are not achieved, whilst incentivising the service provider to maintain a high level of performance.
- It will provide a mechanism for review and change to the service levels over the course of the contract.
- Ultimately it will give the customer the right to terminate the contract where performance standards fall consistently below an acceptable level.

Main elements of a good SLA

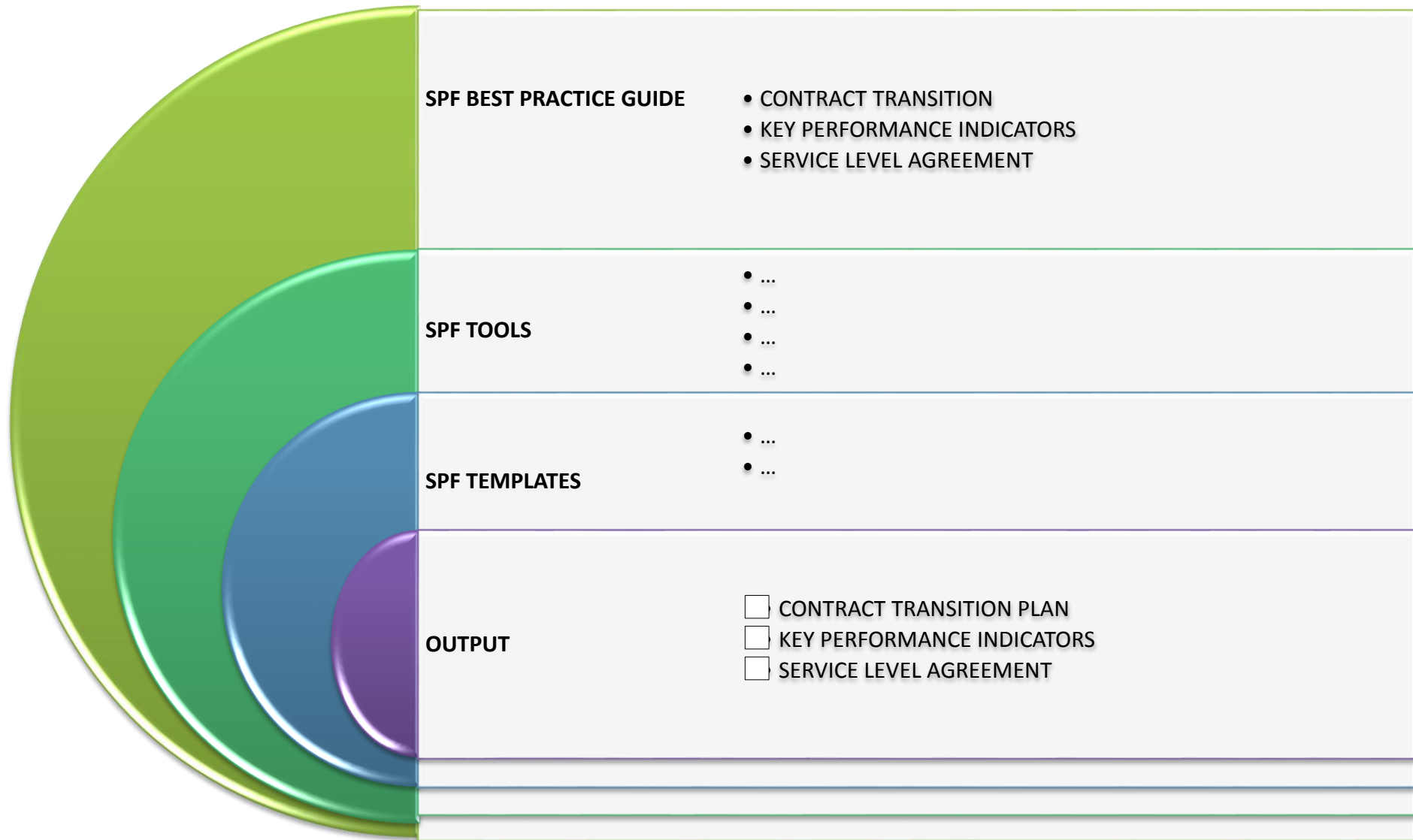
1. **Overall objectives:** The SLA should set out the overall objectives for the services to be provided.
2. **Description of the Services:** The SLA should include a detailed description of the services. Each individual service should be defined i.e. there should be a description of what the service is, where it is to be provided, to whom it is to be provided and when it is required.
3. **Performance Standards:** Then, taking each individual service in turn, the customer should state the expected standards of performance. This will vary depending on the service.
4. **Service Penalties:** In order for the SLA to have any “bite”, failure to achieve the service levels needs to have a consequence for the service provider. This is most often achieved through the inclusion of a service penalty regime.
5. **Critical Failure:** Service penalties are useful in getting the service provider to improve its performance, but what happens when service performance falls well below the expected level? The solution is to include a right for the customer to terminate the agreement if service delivery becomes unacceptably bad. So the SLA should include a level of critical service level failure, below which the service provider has this termination right.

Main elements of a good SLA

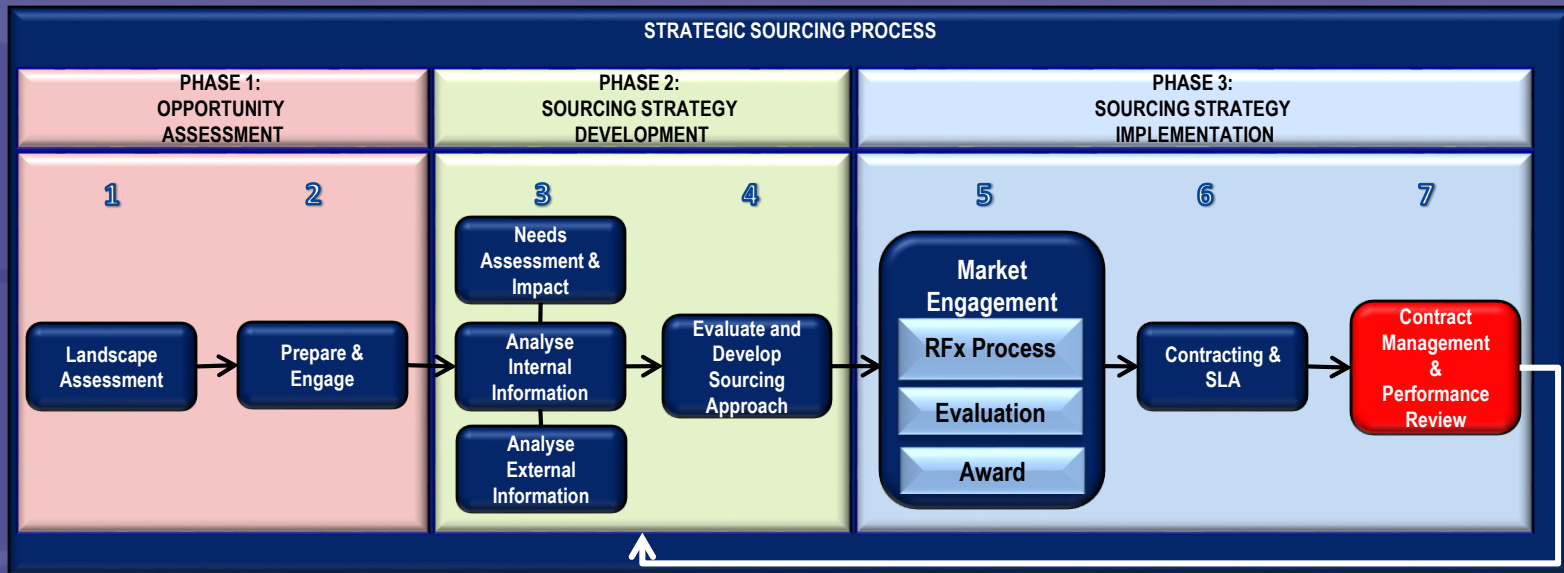
1. **Overall objectives:** The SLA should set out the overall objectives for the services to be provided.
2. **Description of the Services:** The SLA should include a detailed description of the services. Each individual service should be defined i.e. there should be a description of what the service is, where it is to be provided, to whom it is to be provided and when it is required.
3. **Performance Standards:** Then, taking each individual service in turn, the customer should state the expected standards of performance. This will vary depending on the service.
4. **Service Penalties:** In order for the SLA to have any “bite”, failure to achieve the service levels needs to have a consequence for the service provider. This is most often achieved through the inclusion of a service penalty regime.
5. **Critical Failure:** Service penalties are useful in getting the service provider to improve its performance, but what happens when service performance falls well below the expected level? The solution is to include a right for the customer to terminate the agreement if service delivery becomes unacceptably bad. So the SLA should include a level of critical service level failure, below which the service provider has this termination right.

Stage 6 - Contracting and SLA Outcome

Stage 6 – Contracting and SLA



CONTRACT MANAGEMENT & PERFORMANCE REVIEW



- 7.1 Contract Management, Administration and Close-out
- 7.2 Supplier Performance Assessment
- 7.3 Benefits Tracking
- 7.4 Review Sourcing Strategy

Objective:

This Stage involves contract management activities and various contract administration tasks. This stage includes continuous supplier performance monitoring and the tracking of benefits. This stage concludes the Sourcing Process but not before the sourcing strategy has been reviewed to determine the success and lessons learned.

Output:

1. Contract Management Plan, Contract File and Close-out Report
2. Supplier Performance Dashboard
3. Savings/Benefits Dashboard
4. Sourcing Strategy Review Report

7.1

Contract Management, Administration and Close-out

Objective:

Contract management covers all the activities at the commencement of, during and after the contract period. It is the process that ensures both parties to a contract fully meet their respective obligations as effectively as possible, in order to continually deliver both the business and operational objectives required from the contract.

Output:

- Contract Management Plan
- Contract File
- Close-out Report

What is Contract Management?

Contract management covers all the activities at the commencement of, during and after the contract period. It is the process that ensures both parties to a contract fully meet their respective obligations as effectively as possible, in order to continually deliver both the business and operational objectives required from the contract.

This means actively tracking and monitoring delivery and costs, managing risks, and actively managing the relationships between the department and the supplier.



Key Activities in Contract Management?

Contract management activities can be broadly grouped in three areas:

1. **Service Delivery Management:** The objective is to ensure that the service is being delivered as agreed, to the required level of performance and quality.
2. **Relationship Management:** The objective is to keep the relationship between the two parties open and constructive, aiming to resolve or ease tensions and identify problems early.
3. **Contract Administration:** The objective is to formally handle the governance of the contract and changes to the contract documentation.

Why is Contract Management important?

Contract management ensures delivery of desired procurement outcomes.

It considers a broad range of factors such as:

- Driving continuous improvement;
- Value preservation and additional value creation;
- Performance management;
- Risk mitigation, role clarity, and the value of supplier relationship; and
- Quality assurance.

Contract management ensures that a contract delivers what has been specified, within defined timelines, in accordance with stated performance standards, without defect and delivered at the agreed price/cost.

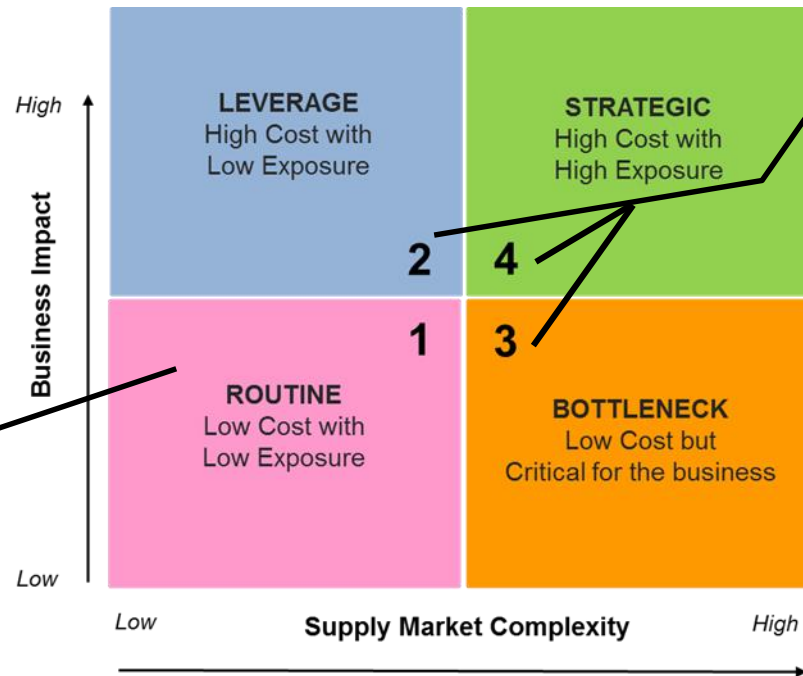


Benefits of Contract Management

Contract management is a process undertaken to:

- ensure timely delivery of goods and services;
- achieve the full benefits of the procurement process and contract;
- minimise costs associated with risks arising during the term of the contract;
- improve the benefits flowing to customers and suppliers;
- promote innovation and continuous improvement;
- create additional benefits for both parties through good relationships; and
- achieve value for money in the procurement of goods and services.

Contract Management Matrix



Contract Management requirements in these quadrants may include:

- The identification of contract management and implementation arrangements in the Evaluation and Development of the Sourcing Approach stage (Stage 4);
- The assignment of a dedicated Contract Manager;
- The development and maintenance of a Contract Management Plan; and
- The establishment of an Oversight Committee for purchases of a high value

Contract Management requirements may include:

- The identification of contract management and implementation arrangements in the Evaluation and Development of the Sourcing Approach stage (Stage 4);
- Issue Purchase Order and Simplified Terms and Conditions;
- The assignment of a dedicated Purchase Order Administrator;
- Ensure that goods and/or services are delivered as agreed;
- Address and resolve any issues as required; and
- Process payments in line with the Treasury Instructions and department requirements.

Contract Management Plan

The Contract Management Plan (CMP) is an important contract management tool. The CMP is generally developed or commenced for high complexity and/or high value/impact procurements during the procurement planning phase and addresses the key issues related to managing the contract and achieving the specified objectives.

In particular, the CMP:

- outlines the objectives and outcomes of the contract and how the contract should be managed;
- identifies the role, responsibility and obligation of each party;
- identifies the strategic objectives of the contract and the key success factors;
- identifies any specific performance measurement and reporting requirements;
- outlines the approach for dealing with contract variations; and
- addresses the tasks necessary to ensure a successful contract outcome and to minimise risk.



Records Maintenance

Appropriate records must be established and maintained to ensure an audit trail, and to assist others involved in the contract to understand the arrangements that have been put in place and how they have progressed.

An important component of contract management is the maintenance of comprehensive and accurate records in relation to:

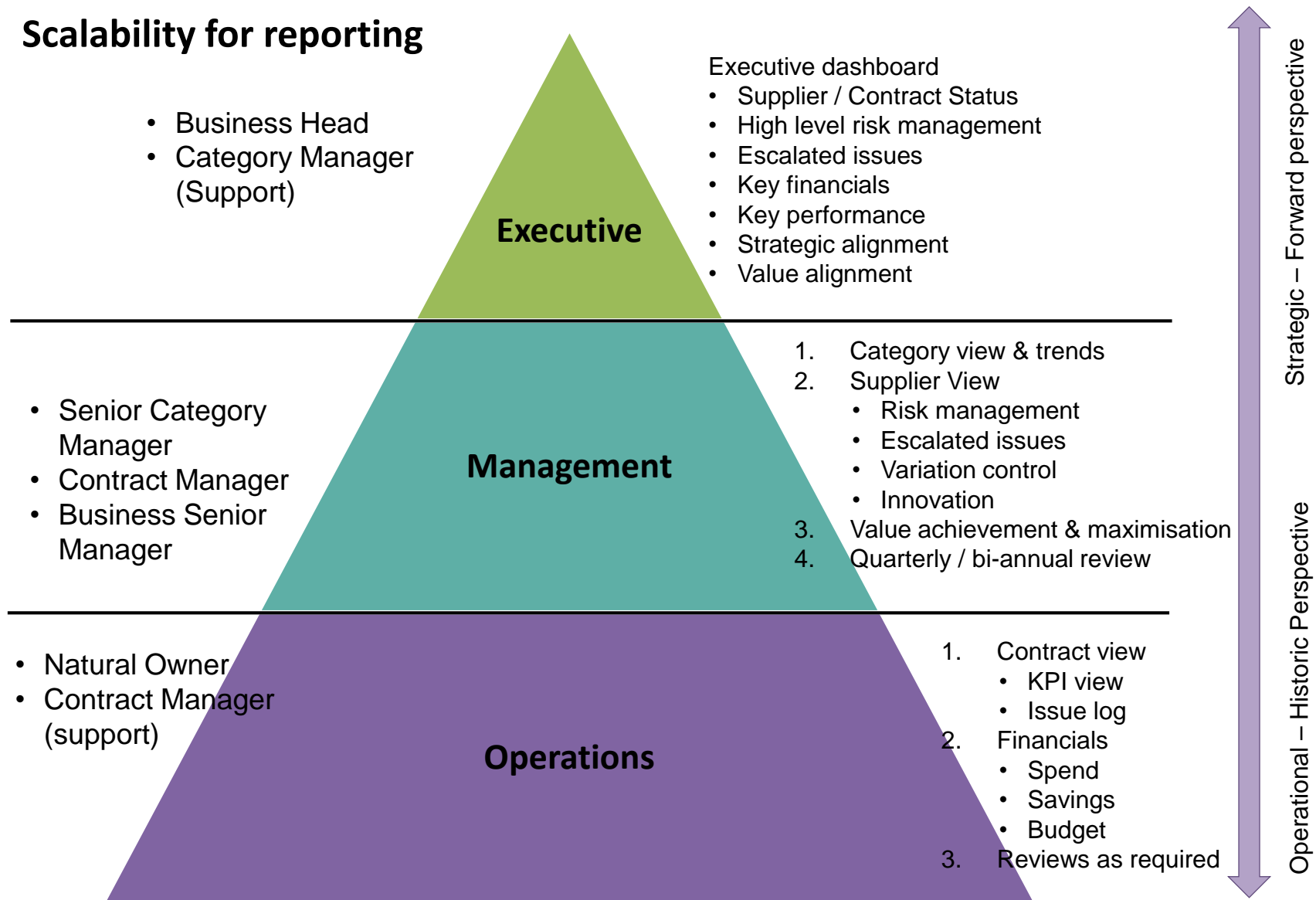
- Responsibilities of both parties;
- Claims;
- Payments;
- Negotiations (and agreed changes);
- Price adjustments;
- Poor/incorrect service delivery;
- Other significant events/activities; and
- Contract variations.

Records maintenance is also important to enable compliance with reporting requirements. The relevant treasury may require regular or ad-hoc reports on various aspects of department contracts, including:

- Supplier information;
- Contract value;
- Usage;
- Savings;
- Performance;
- Improvement opportunities; and
- Service delivery.

Reporting

Scalability for reporting



Contract Close-Out

The contract close-out process is usually a simple but detailed administrative procedure. The purpose is to verify that both parties to the contract have fulfilled their contractual obligations and there are not responsibilities remaining. In addition, contract close-out is the time to assess the success of the contract and determine if there are any lessons learned for future contracting.

To initiate the close-out process, the department should first determine that the contractor has satisfactorily performed all required contractual obligations. A contract is ready for close out when:

- All deliverables, including reports have been delivered and accepted by the department. Contract managers should compare actual performance against performance measures, goals and objectives to determine whether all required work has been completed;
- Final payment has been made;
- All monitoring issues have been resolved;
- All property inventory and ownership issues are resolved including disposition of any equipment or licenses purchased under the contract;
- Final acceptance from the Project Manager has been received (if applicable);
- Contractor is aware of and in compliance with records retention requirements and a plan has been developed for contract file maintenance; and
- Any deficiencies found as part of the closeout process are documented and communicated to all appropriate parties.



7.2

Supplier Performance Assessment

Objective:

The objective is to provide information about simple, practical tools for developing supplier performance monitoring strategies. It explains the concept of supplier performance monitoring and provides helpful hints on when and how it should be implemented.

Output:

Supplier Performance Report

Why is Supplier Performance Monitoring Important?

Managing and monitoring a supplier's performance is one of the tools that can be used in meeting the principles of Government's procurement objectives. Sound supplier performance monitoring and management strategies offer the following opportunities:

- Assist departments to reduce internal transaction costs associated with procurement;
- Contribute to effective risk management;
- Contribute towards the development of strategic relationships with suppliers;
- Assist in developing supplier capability;
- Assist in the development of supply chain management strategies; and
- Improve supplier and purchaser performance.



What is effective Supplier Performance Assessment?

Effective supplier performance monitoring and management requires the contract manager to:

- regularly check the supplier's progress;
- conduct regular random inspections;
- check that all conditions and clauses in the contract are acted upon;
- advise the supplier in writing if dissatisfied with any aspect of performance under the contract;
- act immediately if a problem occurs and involve senior representatives of both the procurer and supplier to solve any identified problems as soon as appropriate;
- develop effective mechanisms for obtaining feedback from stakeholders about the procurement;
- keep adequate, written records of all dealings with the supplier and of the administration of the contract
- perform regular inspections of work to ensure compliance with any applicable legislation, contract conditions, quality provisions; or workplace health and safety.

Useful performance monitoring and management tools and techniques

1. Setting key performance indicators
2. Regular procurer – supplier meetings
 - Progress review meetings
 - Technical review meetings
 - Longer- term reviews and audits
3. Contract-specific audits
4. Spot checks and inspections
5. Contract reports
6. Non-conformance reports from the field



Dealing with poor performance

There are a number of strategies for dealing with a supplier's poor performance. These include:

- progress meetings and reviews;
- agreed problem-solving mechanisms and dispute resolution processes;
- enforcing the terms of the contract, including through legal action; and
- as a last resort, terminating the contract and seeking damages from the supplier.

Checklist for dealing with poor performance

Once a problem with the supplier's performance has been identified, the contract manager might consider the following questions:

- Is the supplier aware of the problem?
- Is there a clear failure to perform?
- Has the department contributed to the failure in any material way?
- How important is this supplier?
- Have the goods or services been accepted?
- Has the contract been substantially completed?
- What are the conditions of contract?
- Does the contract provide for a dispute resolution mechanism?
- Can a solution be negotiated?
- What is the cost of resolution?



Supplier Performance Checklist

The following checklists are not exhaustive. They are intended to provide a starting point for the types of issues that should be monitored if a supplier's performance is to be effectively managed. Officers should add to these lists with additional monitoring issues that are appropriate to the nature of the procurement being undertaken.

Delivery

Consider whether the supplier:

- ☐ delivers on time
- ☐ meets due date without expediting
- ☐ offers a competitive lead time
- ☐ delivers correct items and quantities
- ☐ provides accurate documentation and information
- ☐ responds to emergency delivery requirements.

Pricing

Consider the following factors:

- ☐ competitiveness
- ☐ price stability
- ☐ volume or other discounts
- ☐ manner in which price changes are introduced

Customer Service

Consider the following factors for each supplier:

- ☐ compliance with contract terms and conditions
- ☐ supplier representatives have sincere desire to serve
- ☐ provides feedback to the procuring organisation from factory or manufacturer
- ☐ effectiveness of sales support
- ☐ market insight
- ☐ training provided on equipment or products
- ☐ support on professional or technical matters
- ☐ administrative efficiency (including order acknowledgment and accurate invoicing)
- ☐ adherence to their company policies
- ☐ adherence to their company quality systems.

Product

Consider these aspects relating to the product or service being procured:

- ☐ meets specifications
- ☐ reliability/durability
- ☐ product or contract service quality
- ☐ quality and availability of documentation, instructions, technical manuals
- ☐ packaging suitability, environmental aspects.

7.3

Benefits Tracking

Objective:

Accurate benefits tracking (reporting of savings and improved efficiencies) will be increasingly beneficial as there is a growing requirement to fully understand the significant part to be played by procurement in supporting the delivery of services at a time when resources are clearly constrained. This guide aims to help government departments to identify, measure and report on the savings and benefits of procurement activities

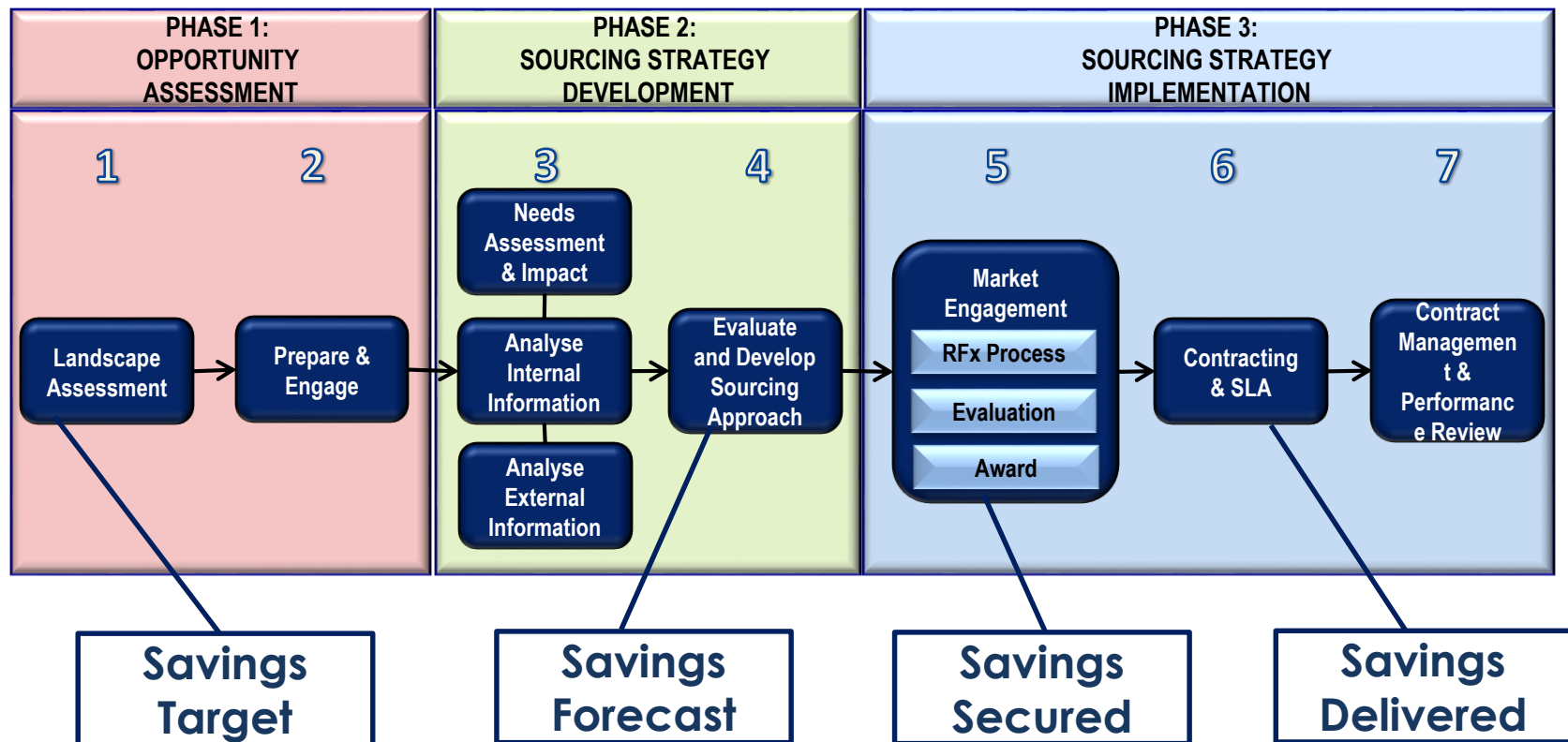
Output:

Savings/Benefits Report

Benefits Tracking in Procurement

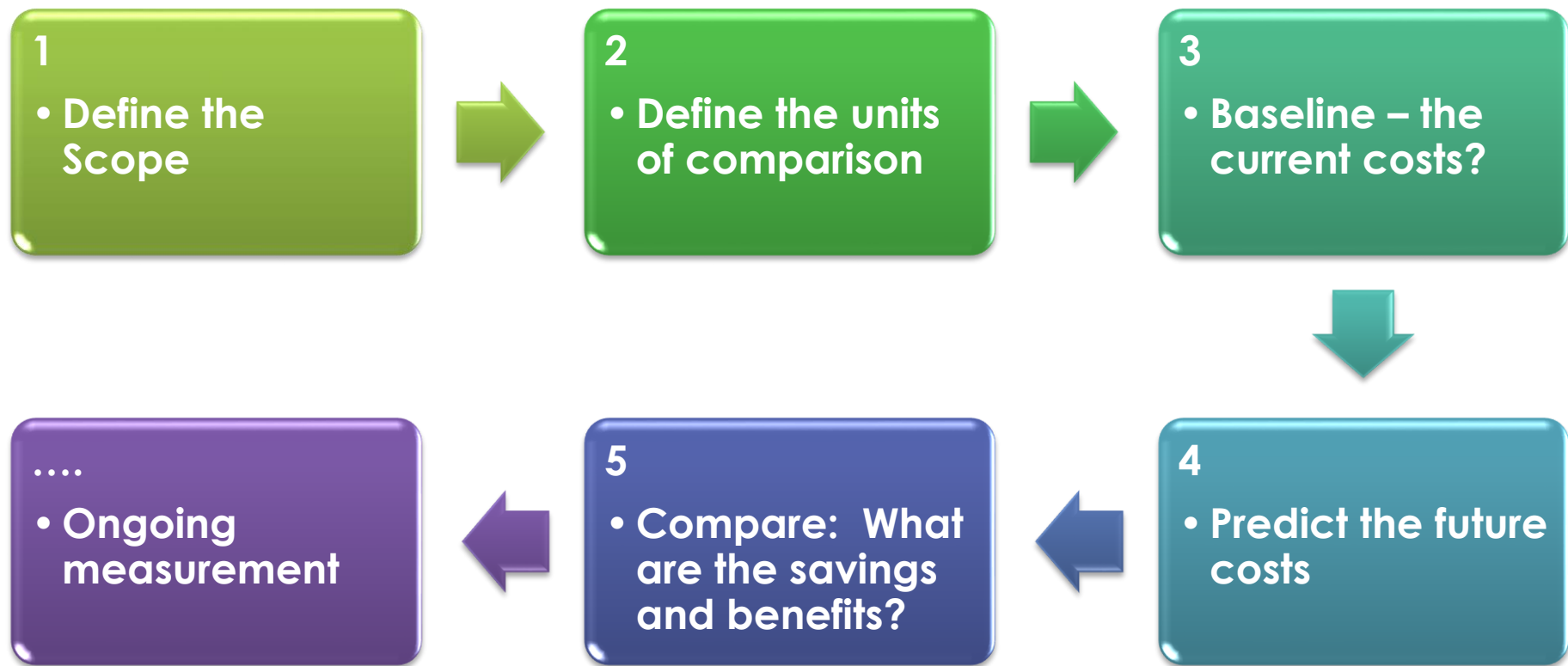
At various stages of the procurement process one can have various levels of accuracy of savings

1. **Savings target** – at the beginning of the project
2. **Savings forecast** - more realistic overview of what savings and benefits may be achievable after market research.
3. **Savings secured** - once the contract is awarded, those benefits/savings are secured
4. **Savings delivered** - they are based on actual, bottom line savings

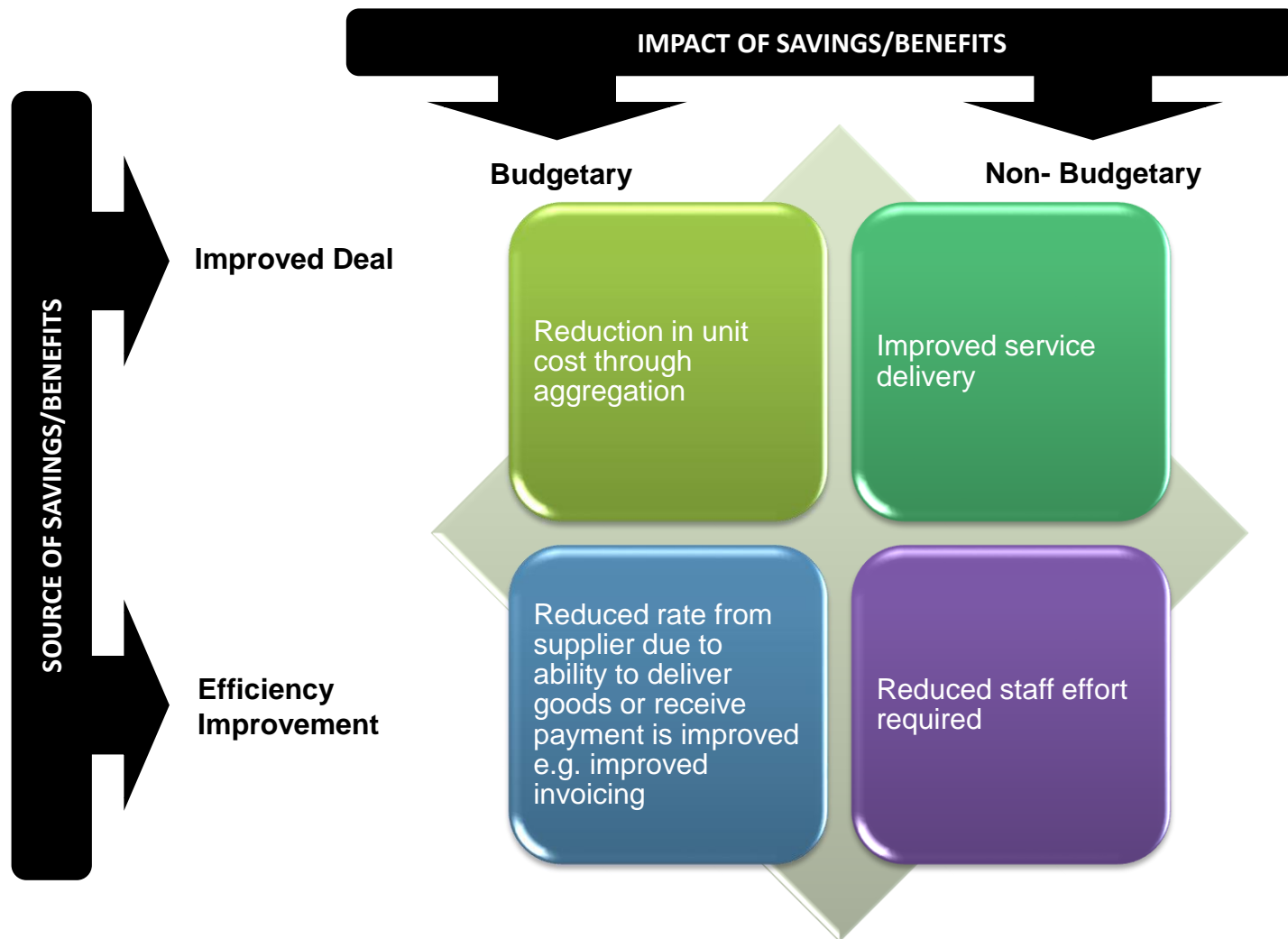


THE SAVINGS & BENEFITS MEASUREMENT PROCESS

The five-step measurement process is simple, robust and auditable. Here is how it works:



SOURCES AND IMPACTS OF SAVINGS AND BENEFITS



7.4

Review the Sourcing Strategy

Objective:

A review provides an opportunity to check if the anticipated benefits have been achieved, and if there are opportunities for improvements in what we do and how we do it. Reviews are a way of communicating the value of the procurement to the responsible Minister and to the South African taxpayer.

Output:

Sourcing Strategy Review Report

Conducting the Review

Reviews must be conducted in an open manner. Departments must be prepared to learn in order to get most value from a review. Participants must be prepared to make constructive criticism. It is only in this way that real lessons will be learned or improvements to policy or business objectives made.

If the review is to add real value its recommendations need to be implemented by the department and key stakeholders. This may involve realigning policy settings or changing business systems or processes. Recommendations must be sufficiently robust for the department to be able to act upon them.

Analysis

Analysis of the information gathered involve comparing what actually happened against that which was predicted. It will examine what was done well and what was done badly. The data obtained from the information gathering is brought together and coherent, useful and supportable recommendations are formulated.

Who do you involve in the review?

Who should be involved will depend upon the nature of the review and when the review is being undertaken. Usually the senior 'business owner' or 'sponsor' of the initiative, under review, is ultimately responsible for the review. Team members conducting the review will typically include:

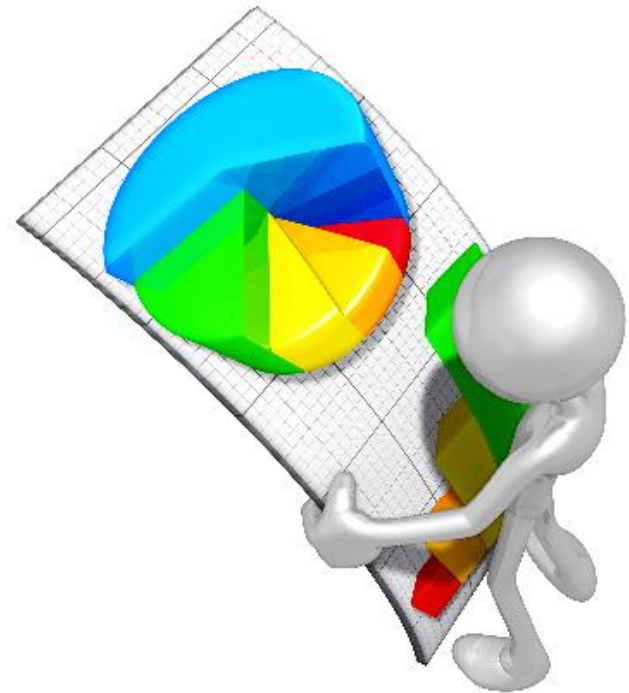
- people with working knowledge of the procurement process
- people with working knowledge of the policy/business area under review
- people with relevant specialist or technical knowledge of the procurement initiative
- people involved in using the outcomes or receiving the benefits of the initiative.



Different Types of Review

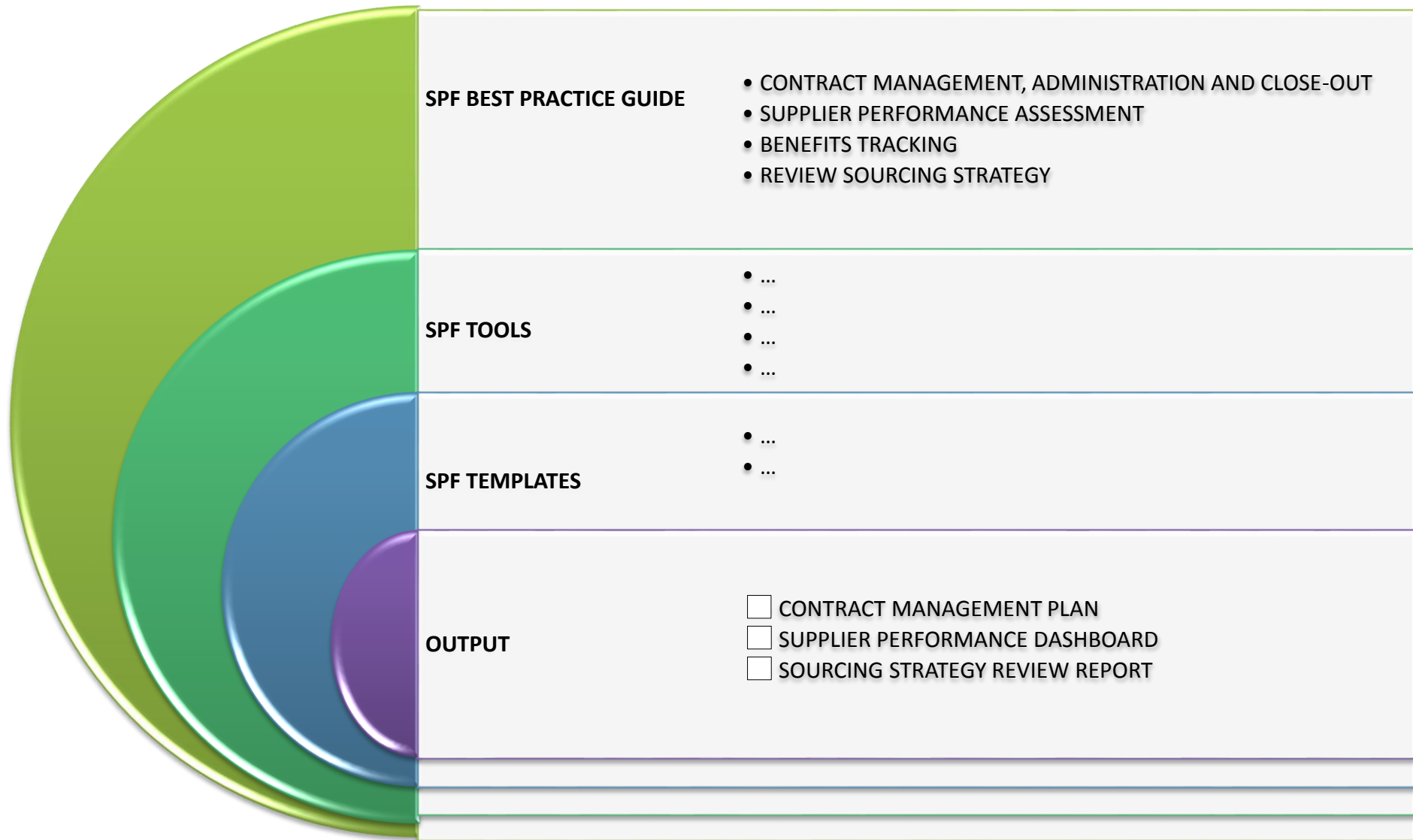
Reviews can occur at different stages in the procurement and even after the contract has been completed. Deciding what to review and when to review should be part of your procurement plan. The type and depth of review will depend on the nature, scope, value, level of risk and complexity of the procurement.

1. Review on award of contract
2. Regular reviews - contract implementation
3. Post implementation review
 - i. *Post Implementation Review timing*
 - ii. *Key sources of information*
 - iii. *Reporting the results*
 - iv. *Common problems*



Stage 7 - Sourcing Strategy Review Outcome

Stage 7 – Sourcing Strategy Review



STRATEGIC PROCUREMENT CONTACTS



ESTELLE SETAN
CHIEF DIRECTOR:STRATEGIC PROCUREMENT
TEL: 012 315 5919
estelle.setan@treasury.gov.za

GRAHAM LOUW
DIRECTOR:STRATEGIC PROCUREMENT
TEL: 012 315 5073
graham.louw@treasury.gov.za

BALEKILE NGALO
DEPUTY DIRECTOR:STRATEGIC PROCUREMENT
TEL: 012 395 6533
Balekile.ngalo@treasury.gov.za

