**STRATEGIC**

**CATEGORY**

**REVIEW**

This document includes a number of components of strategic purchasing review that can also be used in a stand-alone fashion:

* **Project Overview**
* **Spend data**
* **Business Needs**
* **Draft Service Level Agreement**
* **Market Intelligence**
* **Supplier Intelligence**
* **Competitive Advantage Matrix**

### Vulnerability Analysis

* **Supply Positioning**

### Supplier Preference Overview

### Tactical Synthesis

##### Types of Contracts

### Relationship Positioning

### Objectives

* **Evaluation Criteria**

### Solicitation Method & Document

**Project Overview**

Scope

###### Aims

Recommendations and Defined Benefits

### Spend data

*Collect the information relating to the company’s entire spend, detailing:*

* *Items purchased*
* *Suppliers used for each site*
* *Expected annual volume*
* *Current pricing*
* *Total expected annual spend*
* *Current contracts and their renewal/expiry date*

*Massage this information into categories of spend and spend by supplier, for inclusion into the Supply Positioning Grid.*

**Business Needs**

The following business needs have been identified.

|  |  |
| --- | --- |
| **1** | Competitive pricing, proactively reflecting current market and good value. |
| **2** | Efficiency in response time and ease of processing requests, including multiple options for accessing reservations (email, phone, fax) but with a high preference for online access. |
| **3** | Accuracy in booking and reporting information, compliant with individual user profiles.  |
| **4** | Pro-active in recommending value adding and cost savings in response to a rapidly moving market – upgrades, special promotions, group discounts  |
| **5** | Dedicated consultant for our account, with qualified back up. |
| **6** | Reports supplied to our specification, by business unit, location and expense code. |
| **7** | Reports supplied with month actual, and year to date actual, with last year comparisons. |
| **8** | Total management package – accommodation, conferences, leisure, event and product launch requirements. |
| **9** | Assistance with School Travel Policy administration and monitoring. |
| **10** | Preference for suppliers covering school requirements.  |
| **11** | Incremental growth benefits – promotion, volume breaks, rebates, other.  |
| **12** | Measurement of any cost benefits foregone in accepting other than lowest cost recommendation. |

 **Draft Service Level Agreement**

The following areas incorporate agreed service levels; method of monitoring; and ownership.

|  |  |
| --- | --- |
| **1** | Hours of operation  |
| **2** | Emergency support |
| **3** | Communications – promotions, booking confirmations |
| **4** | Domestic reservations procedure  |
| **5** | International reservations procedure |
| **6** | Strategic applications for school  |
| **7** | Dedicated Customer Service Manager (CSM’s) |
| **8** | Key performance indicators (KPI’s) |
| **9** | Management information reports (MIR’s) |
| **10** | Refund procedure |
| **11** | Credit terms – all payments via corporate credit card |
| **12** | Management of complaints & compliments  |
| **13** | Business reviews |
| **14** | Cancellation procedure – minimize risk |
| **15** | Upgrades whenever available |
| **16** | Commitment to our business |

**Market Intelligence**

*Market intelligence focuses on the supply base available within the target market, and may include information from media sources; competitive activity and local or international market trends.* **Supplier Intelligence**

*Supplier intelligence focuses on a supply company as a business entity. Its strategic goals, current performance, ownership, in-house developments, salesperson track record, and business systems are examples of areas to probe. The aim is to build influence and leverage through a deep understanding of what it is that drives supplier decision-making, both corporately and individually at the salesperson level. The process of gathering supplier intelligence is facilitated by the use of checklists, and using technical visits to the Supplier as a means of working simultaneously to a (concealed) commercial agenda.*

### Competitive Advantage Matrix

A primary tool, empowering buyers with flexibility when choosing a suitable approach for a supply market. Specifically used to identify who has the stronger or weaker position within the relationship - the buyer or the seller. The outcome of the matrix will often show the buyer they are in a stronger position than first thought. Providing a series of objectives to manage the buyer’s position, the tool highlights certain characteristics of the supply market and the item required, enabling an objective decision on whether to seek competitive bids from potential suppliers, or to conduct parallel negotiations.

Supplier’s Name:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Element |  | **Advantage Buyer** | **Balanced Strength** | **Advantage Supplier** |  |
| Level of competition in the market | High |  |  |  | Low |
| Number of suitable suppliers available | Many |  |  |  | Few |
| Supplier growth rate | High |  |  |  | Low |
| Market growth rate | Low |  |  |  | High |
| Alternative products/services | Exist |  |  |  | None |
| Specification flexibility | High |  |  |  | Low |
| Knowledge of supplier’s pricing policy | High |  |  |  | Low |
| Knowledge of supplier’s cost breakdown | High |  |  |  | Low |
| Our level of attractiveness to supplier | High |  |  |  | Low |
|  |  |  |  |  |  |
| OVERALL ASSESSMENT |  |  |  |  |  |

Supplier’s Name:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Element |  | **Advantage Buyer** | **Balanced Strength** | **Advantage Supplier** |  |
| Level of competition in the market | High |  |  |  | Low |
| Number of suitable suppliers available | Many |  |  |  | Few |
| Supplier growth rate | High |  |  |  | Low |
| Market growth rate | Low |  |  |  | High |
| Alternative products/services | Exist |  |  |  | None |
| Specification flexibility | High |  |  |  | Low |
| Knowledge of supplier’s pricing policy | High |  |  |  | Low |
| Knowledge of supplier’s cost breakdown | High |  |  |  | Low |
| Our level of attractiveness to supplier | High |  |  |  | Low |
|  |  |  |  |  |  |
| OVERALL ASSESSMENT |  |  |  |  |  |

Supplier’s Name:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Element |  | **Advantage Buyer** | **Balanced Strength** | **Advantage Supplier** |  |
| Level of competition in the market | High |  |  |  | Low |
| Number of suitable suppliers available | Many |  |  |  | Few |
| Supplier growth rate | High |  |  |  | Low |
| Market growth rate | Low |  |  |  | High |
| Alternative products/services | Exist |  |  |  | None |
| Specification flexibility | High |  |  |  | Low |
| Knowledge of supplier’s pricing policy | High |  |  |  | Low |
| Knowledge of supplier’s cost breakdown | High |  |  |  | Low |
| Our level of attractiveness to supplier | High |  |  |  | Low |
|  |  |  |  |  |  |
| OVERALL ASSESSMENT |  |  |  |  |  |

Supplier’s Name:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Element |  | **Advantage Buyer** | **Balanced Strength** | **Advantage Supplier** |  |
| Level of competition in the market | High |  |  |  | Low |
| Number of suitable suppliers available | Many |  |  |  | Few |
| Supplier growth rate | High |  |  |  | Low |
| Market growth rate | Low |  |  |  | High |
| Alternative products/services | Exist |  |  |  | None |
| Specification flexibility | High |  |  |  | Low |
| Knowledge of supplier’s pricing policy | High |  |  |  | Low |
| Knowledge of supplier’s cost breakdown | High |  |  |  | Low |
| Our level of attractiveness to supplier | High |  |  |  | Low |
|  |  |  |  |  |  |
| OVERALL ASSESSMENT |  |  |  |  |  |

*The next table provides a series of guidelines to use depending on whether the strength lies with buyer or seller. This section of the competitive advantage matrix incorporates a bid vs. negotiation option. As a guide, if the strength is with the buyer, negotiation is the best form of solicitation. However as the balance of strength changes the most appropriate method is competitive bidding.*

|  |  |  |  |
| --- | --- | --- | --- |
| **AREA** | **Buyer’s****Strength High** |  **Strength Balanced** | **Supplier’s Strength High** |
| Price | Cost reduction available | Search for value added opportunities at the same price | De-emphasise price |
| **Volume** | Multiple source, split to take advantage of price fluctuations, changes & discounts | Dual source | Single source, with qualified backup |
| **Contract** | Long term | Medium term | Short term |
| **Solicitation** | Negotiate | Competitive bidding | Competitive bid &/or search for new sources |

*This tool needs to be considered and balanced with the relationship position you wish to take before implementing.*

Use this table to establish objectives and activities for each of the suppliers in the competitive advantage matrix.

### Vulnerability Analysis

A primary tool to identify weak links in the Supply chain, assessing the probability and impact of their failing. The tool highlights the priority areas for corrective action and incorporation into the Strategic category Plan objectives and the risk management tool.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Potential Vulnerability** Area/Description | **Probability**High/Med/Low | **Likely Duration**Time estimate | **Business Impact**Production/sales/reputation | **Priority and Action** |
| Market supply/demand balance |  |  |  |  |
| Lead time |  |  |  |  |
| Service requirements |  |  |  |  |
| Service availability |  |  |  |  |
| Industrial relations |  |  |  |  |
| Financial stability |  |  |  |  |
| Cost structures |  |  |  |  |
| Relationships |  |  |  |  |
| Other |  |  |  |  |

**Supply Positioning**

Where does the selected category fit within the grid and what goals are to be applicable for the future supply arrangement?

**High**

**Low**

**High**

$ RELATIVE VALUE

RISK OR EXPOSURE

|  |  |
| --- | --- |
| **STRATEGIC SECURITY** | **STRATEGIC CRITICAL** |
| Long-term contractsCost insensitiveJoint stock holdingAlternative productsNot volume consciousSecure supply | Medium-term contractsDetailed contractsSupplier analysisControl supplierPrice managementContingency planning |
| **TACTICAL ACQUISITION** | **TACTICAL PROFIT** |
| Systems contractingStockless purchasingConsignment stockEDI or credit cardVendor managed / owned stockStreamline the process | Market exploitationActive sourcingShort-term contractsGood market knowledgeFlexibility, risk takingDrive for profit |

**Low**

Expenditure crosses the XXX and XXX quadrants.

Objectives selected are listed below:

|  |
| --- |
|  |
|  |
|  |
|  |
|  |
|  |

### Supplier Preference Overview

*Do any of these elements make the business unattractive to the supplier:*

* *Payment terms & how we adhere to them*
* *Profitability*
* *Level of rejects or documents required (C of A’s, CAR’s)*
* *Frequency of urgent orders*
* *Frequency of “special” orders / requests*
* *Goal alignment*
* *Relationship*
* *Frequency of visits*
* *Quality of visits*
* *Communication*
* *Quality of information*

*Consider each of the suppliers and determine how they see your business, plot on the grid below.*

**High**

**High**

LEVEL OF ATTRACTIVENESS

**Low**

$ RELATIVE VALUE

|  |  |
| --- | --- |
| **DEVELOPMENT** | **CORE** |
|  |  |
| **NUISANCE** | **EXPLOITABLE** |
| **Low** |  |

|  |  |  |  |
| --- | --- | --- | --- |
| **TACTICAL ACQUISITION** | **TACTICAL PROFIT** | **STRATEGIC SECURITY** | **STRATEGIC CRITICAL** |
| **Nuisance** |
| **VERY HIGH RISK**Change supplier.Offer incentives. | **POS MISMATCH**Accept short term.Change long term. | **LOW ENERGY**Possible mismatch.Seek alternative supplier. | **VERY HIGH RISK**Seek competition.Raise attraction. |
| **Exploitable** |
| **MOD. RISK**Closely monitor service.Change supplier. | **ADVERSARIAL**Monitor into release.Seek competition. | **MOD. RISK**Monitor long-term trends.Seek alternatives. | **CAUTION**Seek competition.Raise mutual dependency. |
| **Development** |
| **POTENTIAL RISK**Raise mutual dependency. | **SUPPLIER DEVELOPMENT**Encourage participation. | **GOOD SUPPLIER INTEREST**Offer incentives.Raise mutual dependency | **POTENTIAL MATCH**Work closely with supplier to develop business. |
| **Core** |
| **GOOD MATCH**Long-term contract.Closer relationship. | **COMPATIBLE**Encourage.Drive profit. | **GOOD MATCH**Maintain long-term contract.Be prepared to offer other opportunities. | **GOOD MATCH**Potential partnership. |

If the level of attraction is high enough to be in Development or Core, what objectives need to be established for the ongoing management of the account?

### Tactical Synthesis

Comparing the information from both the Supply Positioning and the Supplier Preference Overview tools, the buyer can look for compatibility between the conclusions. This comparison blends the objectives of the two tools. When compatibility is not identified, urgent action, starting with contingency planning, is required.

This tool will guide buyers in decisions relating to Source Dependency (the maximum extent the buyer wishes to depend on one source for an important requirement); and Single / Multiple Sourcing (the optimum split of business between two or more suppliers).

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Supplier Preference→****Supply Positioning↓** | **Element** | **Nuisance** | **Exploitable** | **Development** | **Core** |
| **Tactical Acquisition** | **Contract****Transactions****Inventory****Relations****Bid Process****Risk Level****Action** | Short termPurchase cardStockless or vendor managedTransactionalCompetitiveModerateOffer incentive or change supplier | Short termPurchase cardStockless TransactionalCompetitiveModerateChange supplier | Short termPurchase cardStocklessRaise dependencyCompetitiveLowIncrease business volumes | Long termPurchase card/ EcomVendor managedClose relationshipNegotiationLowIncrease business volume & develop supplier |
| **Tactical Profit** | **Contract****Transactions****Inventory****Relations****Bid Process****Risk Level****Action** | Short termE commerceManagedTransactionalCompetitive & active sourcingModerateIncrease attraction or change supplier | Short termE-commerceManagedAdversarialCompetitive & active sourcingHighIncrease attraction, urgently seek competition or exploit market | Medium termE-commerceVMIDevelopmentNegotiateLowEncourage participation, increase business volume, innovate | Long termE-commerceVMIPartnership, mutualNegotiateLowEncourage participation, maximise business volume, innovate, mutual profitability |
| **Strategic Security** | **Contract****Transactions****Inventory****Relations****Bid Process****Risk Level****Action** | Medium termE-commerce, call offsManagedTransactionalCompetitiveMedium to highOffer incentive or seek alternative product/suppliers | Short termE-commerce, call offsManaged & safetyTransactionalCompetitiveHighRaise level of attraction or seek alternative product/suppliers | Long termE-commerce, call offsJoint stock holdingsDevelopmentNegotiateLowIncrease business volume and encourage participation | Long termE-commerceJoint stock holdingsDevelopmentNegotiateLowIncrease business volume, encourage participation, innovate |
| **Strategic Critical** | **Contract****Transactions****Inventory****Relations****Bid Process****Risk Level****Action** | Medium term, detailedE-commerceManagedPrice management & analysisCompetitiveHighSeek competition or raise level of attraction | Short term, detailedE-commerceManagedCautiousCompetitiveExtremely highUrgently seek competition or raise level of attraction | Medium term, detailedE-commerceManaged & joint holdingsDevelopmentNegotiateModerateWork closely to develop, increase business volume | Medium term, detailedE-commerceManagedStrategic allianceNegotiateModerateWork very closely to drive mutual profitability, innovate |

VMI = Vendor Managed Inventory

##### Types of Contracts

*The Tactical Synthesis suggests an optimum contract duration, however buyers also need to consider what type of contract will best suit the categories and the business. There are several different types of contracts, all with varying degrees of risk to the buyer or seller. The list below outlines contract types for consideration:*

**Fixed Price Arrangements**

1. *Fixed price with economic price adjustment*
2. *Firm fixed price (most common)*
3. *Fixed price re-determination*

*Fixed price arrangements are mostly used where the specifications are well defined and the cost risk is relative low. In these contracts, the seller will produce and deliver products and services. If the cost of the product increases or decreases prior to delivery, this fluctuation cannot be passed onto the buyer.*

**Incentive Arrangements**

1. *Fixed price incentive*
2. *Cost plus incentive fee*

*Utilized to motivate suppliers to improve cost and other stated requirements. Under this arrangement responsibility for cost is shared by both buyer and seller. In a fixed price incentive the ceiling price is agreed to or fixed during negotiations. However in the cost plus incentive the supplier is reimbursed for all allowable costs incurred, up to any agreed ceiling. The supplier’s cost accounting systems must be acceptable to the buyer under such arrangements.*

**Cost Type Arrangements**

1. *Cost reimbursement*
2. *Cost sharing*
3. *Time and materials*
4. *Cost plus fixed fee*
5. *Cost plus award fee*

*When the buyer has agreed to reimburse the supplier for all allowable and allocated costs, as well as paying a fixed fee. Supplier is obligated to provide its “best effort” under these arrangements. Most often used when buying research and development (either product or software), when specifications are incomplete, or when doubt exists that the project can be successfully completed. The general preference for a firm fixed price contract is just the beginning for an analysis of alternative compensation choices. As buyers consider all available compensation types, they must weigh the preference for fixed prices against the risks involved; the time available; the degree of competition involved; the experience with the industry; the apparent soundness of the offered price; the technical and developmental state of the item being purchased; and all the other technical and economic information that affects the purchase transaction. Determining the best compensation agreement for a given situation requires careful analysis of all the factors relevant to the situation.*

### Relationship Positioning

The object is to determine what type of buyer-seller relationship will best serve the buyer’s needs. This will be significantly influenced by the output from Supply Positioning and Supplier Preference Overview. Determine where this supplier and or category of spend should be in the relationship spectrum – from arms length to a close collaboration relationship - and move this information into the Plan objectives.

### Objectives

*There are two different levels of objectives in the Strategic Purchasing Flow:*

* *Objectives for suppliers to achieve over a pre-defined period.*
* *Objectives for the Strategic Plan to address and present to suppliers as part of the solicitation method, to enable suppliers to present their position on each of the requirements.*

*Consider the business needs and what objectives can be established for this category?*

1. *Short term*
2. *Medium term*
3. *Long term*

*What type of contract is most suitable for the suppliers with this category?*

*Finally revisit how you currently purchase (the transaction methodology) and determine if this is how you should continue to transact with this supplier for this category of spend.*

*List the objectives you can set for your chosen spend category. (Transfer all objectives from previous tools to this sheet).*

|  |
| --- |
| **SHORT TERM** |
|  |
|  |
|  |
|  |
|  |
|  |
|  |

|  |
| --- |
| **MEDIUM TERM** |
|  |
|  |
|  |
|  |
|  |

### Evaluation Criteria

From your objectives sheet formulate criteria the Supplier will be judged on and apply weightings appropriate to the priorities and needs of the business.

|  |  |
| --- | --- |
| **Criteria** | Weighting |
|  |  |
| **CUSTOMER SERVICE** |  |
|  |  |
| **QUALITY** |  |
|  |  |
| **COST** |  |
|  |  |
| **RELATIONSHIP** |  |
|  |  |
|  |  |
|  |  |
|  |  |
|  |  |
|  |  |
|  |  |
|  |  |
|  |  |
|  |  |
|  |  |

### Solicitation Method & Document

*There are several methods available to present your solicitation document or invitation to bid to prospective suppliers.*

* *Negotiate*
* *E-commerce*
* *Facsimile*
* *Mail*
* *Meet with supplier*
* *Industry forum*

*Select the most appropriate methodology of providing the invitation to bid to the supplier.*

*From the criteria listed above, what information will the supplier need to provide to satisfy or answer the criteria.*

|  |  |
| --- | --- |
| **Criteria** | **Required response** |
| **CUSTOMER SERVICE** |  |
| Efficient response time | * Return phone calls within half an hour of message being left.
* Response to emails within an hour of being sent (giving time for email to be received and responded to)
 |
| Dedicated consultants with back ups | * Dedicated domestic consultant with direct phone number plus after hours back up contact number
* Ability to provide international services
* Dedicated account executive
 |
| Total package (accommodation, conference facilities, leisure) | * Ability to provide all 3 services without any charge back/service fee.
* Ability to book any hotels within the Group without additional costs incurred.
* Ability to handle all aspects of conferencing – accommodation, meals and venue preparation.
 |
| Single source supplier for all requirements | * Preferred one supplier for local requirements Ability to negotiate from one country to the other to get best available price.
 |
| QUALITY |  |
| Accuracy in booking confirmation, billing and reporting information | * No errors and no availability issues.
* Quality process to ensure accurate billing and documentation.
* Live confirmation of booking.
 |
| COST |  |
| Price | * Agreed contract cost every time.
* Ability to access “specials”, even if they are published after booking has been made.
 |
| Firm fixed price | * Longest fixed term possible.
 |
| 2 year contract | * No increases, whether margin improvement or CPI.
 |
| RELATIONSHIP |  |
| Proactive recommendation of ongoing cost reductions and/or value adding | * Willingness to offer suggestions on other ways of gaining cost savings, particularly conferencing.
* Consultants to adhere to travel policy and question any violations.
 |
| Reports supplied by our cost centre (electronically) | * Monthly reports to reflect new staff.
 |
| Reports supplied with year on year comparisons (electronically) | * Quarterly reports reflecting detailed allocation of spend – room night, meals, mini bar, incidentals.
 |
| Value added service/synergistic opportunities | * Updates on additional ways to save costs
* Loyalty programs.
* VIP services.
* Corporate leisure consultant – for staff/private use at same discount levels.
 |