



Proactive Partner Procurement

Proactive Partner Procurement covers many areas about procurement, trends, teams, cost, profit, methods, processes, and other areas.

We hope Proactive Partner Procurement enhances your leadership, your organization, your procurement, and your team!



For your greater understanding as you review, think, and engage, most procurement teams are more reactive than proactive. There are many reasons for this, with a few being at the top, such as: not enough resources (people, money, skills). Another main factor is executive management does not understand what procurement is and thus, is not behind procurement negatively effecting what procurement can do for sustainable outcomes in an organization in the bottom line through the topline. Finally, another main factor for procurement not being effective is the thought "technology is the answer." Many organizations' embrace technology as the solution without fixing the main problem – people and processes. If we take the time to focus on the solution in the working trenches, discuss process and procedures, fix what needs to be fixed, document and outline the team process, and resolve the human process, we can then formulate technology solutions around the human process.

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As you go through Proactive Partner Procurement, each procurement area and understanding are outlined with the purpose of people first, communications, established processes, sustainable team development, technology supporting the team's unique environment industry and mission vision and goals, with the outcomes of sustainable cost reduction, effective global strategy, compliant processes, and enhanced profit to the organization.

Proactive Partner Procurement is based on rewarding the TEAM - Together Everyone Achieves More - where procurement is rewarded for leading in foundational areas, such as cost, compliance, process, communications, profit, and team building to the client (shareholders, executive team, organization division, department, and unit, suppliers / vendors, partners, and people).

As you go through each section, understand the principles, processes, thoughts, methods, and outcomes outlined in Proactive Partner Procurement are not words. The outcomes have resulted in tens of billions of dollars saved, new companies developed, procurement process and procurement fraud eliminated, reactionary procurement teams becoming proactive, communications enhanced, supply chain risk reduced, and many other amazing outcomes with organizations and teams.





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Section 1: What is Procurement, Cost Reduction, and Procurement Outsourcing (PO)? How Can PO Affect You and Your Organization?

PO #1: Procurement Outsourcing – A Cost Reduction Solution for Companies Procurement Outsourcing Introduction

This procurement outsourcing series outlines what procurement is, what outsourcing is, why procurement outsourcing is growing rapidly among companies around the globe, what the benefits are, the risks, and why more companies are and will utilize procurement outsourcing to solve a range of challenges, with cost reduction as one of the top reasons.

Net Margins and Costs are hurting Companies.

Many companies have not been able to increase revenue, credit is harder to come by for expansion, employees have been downsized to cut costs (less people are doing more work), global competition has increased, raw materials are expected to increase and the bottom line for companies are not what they used to be.

Procurement Outsourcing Provides Solutions and Answers

Because of these challenges and realities, companies are looking for ways innovate, with many of these companies trying to figure out how to stay in business. Even though there are some risks, procurement outsourcing is a viable means to helping companies, with cost reduction being the largest substantiated reason. A few of the many benefits are Compliance; Cost savings; Efficiency improvement; and Overall performance.

Who are some of the larger Procurement Outsourcing Firms?

With companies like IBM, Accenture, General Electric, and Xerox in the procurement outsourcing business, and others getting into the market, this shows a definite need, provided solutions, growth, and opportunity.

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Choose Procurement Outsourcing

As this report will show, procurement outsourcing is growing, companies are becoming more aware of the benefits and risks, the outcomes have been documented and substantiated, and these results are helping company bottom lines. With procurement outsourcing, companies are becoming more competitive, companies are focusing on what they do best, and most importantly, more companies are staying in business.

Procurement Outsourcing

Many companies do not know what procurement outsourcing is and why it is becoming a vital part of their operations. It was only in the 1990's AT Kearney started procurement outsourcing and began selling procurement outsourcing consulting services. Since then, procurement outsourcing is gaining momentum.

The main reason procurement outsourcing started was due to the cost reduction that took place. As procurement outsourcing has continued to mature, cost reduction has increased and continues to be the main reason why companies continue to outsource their procurement. Before a company even understands the procurement, outsourcing benefits, procurement outsourcing needs to be understood, and why it should become a part of a company's regular operating procedure.

What is Procurement Outsourcing?

Procurement outsourcing is the action of a company outsourcing their procurement functions, with the acquisition of goods and services, through a third party. This does not mean that the company loses control, but it utilizes third party services. The outsourced procurement can mean cost reduction, improved efficiency, improved compliance, and enhanced performance. Procurement outsourcing can involve some or all the company's staff, technology, systems, and





vendor management or everything can be directed by the procurement outsourcing firm for the company (Sigaria, Ltd., Procurement Leaders).

PO #2: Procurement Outsourcing Equals Sustainable Cost Reduction Cost Reduction and Benefits

With cost reduction being one of the main driving factors for companies, procurement outsourcing helps meet this need. Even with economic upturns in certain industries and geographical areas, profit margins will remain low, and global competition will continue to increase. In addition, raw materials costs have increased and are expected to continue increasing, and the world economy will continue to affect increased nations, companies, and people. With companies spending more than half on their external goods and services for every dollar earned there is a lot of costs to be reduced (Aberdeen Group, Accenture, and PurchasingData.com).

Other Procurement Outsourcing Benefits

In addition, many companies lack internal staff or no staff to conduct the necessary procurement processes to manage their goods and services. Because of this companies are leaving billions and billions of dollars on the table. For many smaller companies, they cannot afford a purchasing department or at best, they have one person who buys for the company, so little or no cost reduction, vendor negotiation, contracts, and price analysis take place. For larger companies one department does not know what the other departments are doing, leading to increased cost and inefficient goods and services management.

Large Company Outcome Example

One large company example, with annual revenues of more than \$5 billion, had cost over runs, budget problems, compliance issues, little communication, and supply problems. With 252 purchasing personnel across their entire operations and more than \$1 billion per year spend for goods and services, their procurement outsourcing had a lot of potential opportunity for

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procurement outsourcing. What was the outcome? Centralized procurement, better communications, increased production at each location, cost reduction of more than \$50 million per year within two years, staff focus for core competencies, expansion of certain areas, closing of other areas that were a drain on the company's resources, and streamlined purchasing personnel across the organization for greater outcomes in all areas of each region. (ATS)

Small Company Outcome Example

Even small organizations can be helped with their bottom-line costs, efficiency, and best value. We have served many small organizations from \$1M to \$50M gross revenues with great outcomes. Most organizations of this size do not have a procurement department, most do not have a head of purchasing, and most only have one buyer. More than this, the ISM and NAPM in the U.S. conducted a survey and found that most organizations of this size are not conducting bidding, RFPs, and negotiation processes to gain best value.

We served one organization and helped them reduce costs in three areas reducing costs by more than \$3 Million in one year, developed a procurement department for them, created the best practices and SOPs for sustainability, centralized their software, helped them hire a Purchasing Director and two buyers, and increased their revenue.

There are many things that can be done with Procurement Outsourcing for most organizations, whether small, medium, or large.

With all types of companies and organizations there is a greater opportunity to increase the percentage savings. Many of these companies listed below have some type of procurement department and procurement process already taking place.





We have brought about many different outcomes for savings when goods and services have been outsourced with our procurement techniques.

Almost All Goods and Services can be Outsourced.

Procurement outsourcing covers about all goods and services in companies. Some example areas are Office supplies; Computers; Paper; Toner; Fencing; Electricity; Natural gas; Landscaping; Property management; Maintenance; HVAC; Software; Information Technologies; Payroll; Accounting; Legal; Flooring; Fencing; Asphalt; Credit; Banking; Cement; Steel; Financing; Fleet automobiles and trucks; Human resources; Signs; Print; Telecom; Cellular; and many other areas. The bottom line of procurement outsourcing is that if the good and service can be outsourced through a third party (the procurement outsourcing company) providing cost reduction, more compliance, more efficiency and production, and an opportunity to the company to focus on their core competencies, the procurement outsourcing model works well.

PO #3: Procurement Outsourcing Market

What is the Market?

Everest Research Institute, a well-known global consulting and research firm, has successfully predicted continued growth in procurement outsourcing and will continue to grow. It looks good for procurement outsourcing firms, because it is a managed service and performance-based model, which companies are starting to see as a partner relationship. (Everest Research Institute, Everest Group)

IBM one of the largest procurement outsourcing leaders stated, “Challenging economic times and intense global competition have placed increased pressure on company balance sheets. More than ever before, businesses are refocusing on core activities and carefully managing cash. By natural extension, this has led to detailed scrutiny of procurement spending with suppliers—which can equal as much as half of a company’s annual revenue. As pressures





continue to mount, businesses must ensure that they are realizing the optimum values from their procurement spend or they may find themselves at a competitive disadvantage.”

Companies can only reduce so many staff positions to reduce costs, increase revenue so much in a down turned economy, and compete in a highly competitive global market with low net margins. Where do companies find more capital and resources? They find it by reducing costs with the goods and services they are already purchasing, thus the increase demand in procurement outsourcing and projected growth.

This has proven to be true and procurement outsourcing continues to be a best in practice solution for many companies and continues to grow.

Future Growth

The Aberdeen Group Report, one of America’s premier business management research groups, stated that one of the biggest growth areas in Business Process Outsourcing will be procurement outsourcing. This has proven to be true.

This study, which included many companies in a variety of industries found that internal purchasing departments are increasingly seeking the involvement of third-party experts to leverage their abilities to drive down costs. In fact, 40% of the organizations surveyed indicated that they would be outsourcing all or part of their procurement functions in the next two years.

The top four reasons cited for why these companies would engage in procurement outsourcing were:

- 45% pressures to lower procurement transaction costs.
- 41% increased global competition.
- 36% need to gain access to improved pricing.
- 34% pressures to re-focus personnel on more strategic activities.

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From 2007 through now, even despite the global economic downturn, less buyers, conservatism, financial and credit problems, procurement outsourcing continued to grow.

What is Causing Procurement Outsourcing to Grow?

The future is bright and profitable for procurement outsourcing, as companies continue to look for ways to improve performance, bolster bottom line revenues, and lower operating costs. As this industry continues to grow, the traditional functions like fleet maintenance, payroll processing, legal services, and local delivery continue to be expanded. Other areas that had never been outsourced are taking place in record growth, such as recruiting, hiring and human resource management functions. In all reality, anything and everything is being outsourced, because companies continue to refine their missions and business models looking for cheaper, better, and faster.

PO #4: Procurement Outsourcing Benefits

There are Many Benefits to Procurement Outsourcing

There are many benefits that can occur from procurement outsourcing. Some of them are:

- Reduced costs and increase quality.
- Centralized procurement.
- Provide needed goods and/or services.
- New market development.
- Just-In-Time Inventory (JIT).
- Increased supply chain efficiency.
- Best value and remain competitive.
- Government compliance.
- Supplier performance improvement.
- Support day-to-day buying activity.





- Policy/Procedure creation, implementation, validation.
- Transaction automation and processing.
- Focus to core competencies.
- Strong end-user to provider relationship developed.
- Lower procurement related labor costs.
- Overall procurement performance improved.
- Greater control, reporting, and vendor compliance.
- Organization and internal cost performance.
- Data for benchmark analysis, goals, and results.
- Procurement personnel training.
- Hedges future increase of raw materials.
- Procurement department creation and implementation.

Cost of Requisition-to-Order Cycle

A study by Aberdeen measured the costs of the requisition-to-order cycle in many companies. What they found through procurement outsourcing was lower costs through lower transaction costs, as well as from lower absolute costs on the items purchased. Before outsourcing the cost was \$33.00 – after outsourcing, the cost was \$14.15 – a savings of more than 57% in staff resource costs.

Aberdeen’s research found that for each dollar of spend brought under outside procurement management, companies were able to realize cost savings of between 5% and 20%. Keep in mind that this is an average, with larger companies. With smaller and medium sized companies, there is a greater opportunity to increase the percentage savings.





PO #5: What Should Companies Expect Overall in the Future?

What is the Future Market for Procurement Outsourcing?

“Many people are tired of hearing about how terrible things were ...,” as Mark Toon, CEO of EquaTerra, points out in the latest article in Supply Chain & Logistics. His prediction came true from “surviving the downturn to succeeding in the upturn.” Keep in mind that procurement outsourcing affects goods, services, labor, personnel, available resources and currency, sources, suppliers, technology, and many other areas in a company. The expectations became fact as follows:

- Global Sourcing – increased growth due to main desire of reducing costs.
- Social Media – companies need to have policies in place to maximize “their positive impact” (the image of a company affects pricing, talent, and communications, which all works with procurement).
- Talent Acquisition and Retention – salary increase for highest performing talent (talent and team increase revenue and better spend management in most cases).
- Optimization and Renegotiation – to deliver optimum value from company internal processes and existing suppliers’ investments are being made.
- Flexibility – companies are making commercial arrangements to be able to cope with unpredictable demands (there are a lot of changes from markets, demand, credit, natural disasters, energy, and other unpredictable situations).
- Procurement outsourcing – more companies are looking at and moving forward with procurement outsourcing because it is maturing, it is growing, it is the fastest growing outsourcing segment, and many are achieving double digit savings.

PO #6: Companies Starting to Understand Procurement Outsourcing

Understanding Procurement Outsourcing

One of the biggest factors causing procurement outsourcing to grow and continue to grow is an understanding of the benefits. Companies are beginning to see that there are more positive than negative impacts from procurement outsourcing. The fear of a company losing control by

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utilizing procurement outsourcing in their company is fading away. Companies are seeing smarter buying, reduced costs, and continued control of their company. In other words, procurement outsourcing enhances companies and supports their core competencies. Procurement Outsourcing continues to grow in demand.

The amount of procurement outsourcing deals and sourcing deals have grown steadily over the last several years, according to Global Services/Equaterra.

Steady Growth

Who are Some of the Larger Procurement Outsourcing Firms?

Besides IBM, Accenture, and others, others have and are emerging in the marketplace of procurement outsourcing. This includes General Electric / Genpact and Xerox and many others. Other companies are getting involved in providing procurement outsourcing because of the need for companies to reduce their costs due to leaner net margins and global competition.

What are Some of the Risks?

Even though there are risks, a report conducted by AMR research, found that buyers will increase their activities by a ratio of five to one for their near-shoring sourcing. (Purchasing, Page 23). What this means is that companies are choosing Mexico as their number one choice, with Canada in second, and Brazil in third, with Eastern Europe as a potential sourcing location.

The AMR report found the biggest supply chain risks to be:

- Lower consumer spending.
- Supplier product quality failures.
- Volatile energy costs.
- IP infringement.
- Regulatory compliance.





One of the biggest areas of risk for procurement outsourcing, according to Pratibha Verma of Global Services, is “Despite the expansion of procurement outsourcing, the continued lack of standard deal terms suggest that market is still not yet ‘mature’ and yet has a number of risks in it.”

PO #7: Who are Companies Choosing to Conduct their Procurement Outsourcing? Procurement Outsourcing Growing and in Demand

In conclusion, procurement outsourcing is in its infancy, is not understood by many companies for the benefits it brings, and the fear of losing control is a key factor in whether a company engages in the process. There are also some risks because of the current economy and quickly changing global market with lower consumer spending, product quality, energy cost volatility, compliance, and IP infringement.

On the flip side, because of the economic downturn, low net margins, lack of credit, and cost reduction needed by companies, procurement outsourcing has become a viable solution. For this very reason, procurement outsourcing is being reviewed and utilized increasingly because of the cost reduction and savings that occur. With companies able to reduce costs from 5 to more than 20 percent for goods and services, this makes a big difference to a company’s bottom line.

Because of the necessity for companies to survive and reduce costs, procurement outsourcing has grown over the last few years and continues to become more the norm! With procurement outsourcing, companies can focus on what they do best, retain more money for their bottom line, and gain all the benefits of those goods and services outsourced. Procurement outsourcing helps all involved in procurement outsourcing come out ahead – the company needing the outsourcing, the third-party company conducting and managing the outsourcing, and the vendor/supplier who provides the goods and services.





Proactive Partner Procurement Notes

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Section 2: What are Some Procurement Trends? How Does and Will Procurement Affect You? What is Happening and What Could Happen?

Where is procurement, outsourcing, sourcing, supply chain, and purchasing going? What is happening in the marketplace? What are companies thinking at the executive level and what type of actions are they taking?

First off, we will outline a few of our observations about what we are seeing firsthand. Secondly, we will include information from other procurement professionals and procurement firms about their experiences, what they forecast, and what they are seeing.

The summary will be left up to you and how you prepare as best as you can as technology changes at a rapid rate never seen before (AI, Amazon,), markets change (like what is happening with India and their education and business initiatives, growth, and finances), entire nations lose valuable credit ratings and borrowing ability while other nations change in financial power, natural disasters cause more risk to supply chain, and several other areas.

What are We Seeing Firsthand?

There are so many questions, marketplace changes, and unknown factors at this point. As we have witnessed in many organizations this year (from small, mid-sized, to large), we have seen many things take place. Keep in mind that procurement is not just about goods and services, it is about information, about process flow, efficiencies, automation, simplicity, sourcing, vendor relationships, internal organizational communications, a founded and sustainable department and strategy, and human capital (yes, human beings being the most important ASSET in a company).

As you read and ponder just a few of our many first-hand experiences below the intent is not to be negative but to show the massive market need and some pain points. Many companies are

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in trouble and many more are on the edge of financial trouble. We have worked in hundreds of different industries and spend areas over many years in thousands of procurement projects. Our clients range from start-ups, small, medium, and large.

Some of the first-hand areas from small to large organizations have been:

- An \$8 billion global company has been placing all items for bid each year to realize cost savings. The company is exploring whether to outsource IT, Accounting/Finance, Payroll, Human Resources, Software and Hardware Development, because they have been in the red at more than \$100 million.
- As we have all seen in the last few years, school districts across the United States are not making budget and there have been a lot of cuts. We were able to help a small school district by saving them more than 10% for Maintenance, Repair, and Operations, best-in-class lighting pricing was validated, and uniforms and janitorial are next projects. Another school district with more than 100 schools is looking to outsource their diesel, which could result in millions of dollars in savings.
- An \$8.7 billion company wants and needs help in their procurement department, because they only have 6 staff (including the VP of Procurement). Executive management is asking for quarterly miracles to reduce costs, yet they do not have the staff to properly conduct Request for Proposals for sustainable hard cost and soft cost reduction in dozens of areas.
- The first project for a national investment firm yielded 18% in cost reduction in office supplies with a sustainable toner solution. Several other projects are in the works because of the immense potential that exists in many categories.
- Another \$1.5 billion company terminated their Procurement Officer who set up an automated infrastructure, saved \$10 of millions of dollars of sustainable savings, increased efficiencies, and automated their entire procurement supply chain (the company was in the double-digit percentage growth, but the stakeholders wanted more). We spoke with and within two months the company let the COO go. The

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company is now in financial trouble because they let their most brilliant management people go who made the company who they were.

- The U.S. Federal Government is stepping up cutting budget dollars for programs. I learned of one social program where the agency cannot meet the entire month for more many locations and programs across the U.S. This agency, like several others, does not understand how to use procurement effectively to not only reduce cost but continue with sustainable measures. This one agency must come up with tens of millions of dollars by cutting critical staff.
- We reduced payroll services by a little more than 50% and janitorial costs by 12% for a non-profit organization.
- A large food company let one of their C-Level people go about a year ago. He had been with this company for decades and built not only the sales network, production, but also worked in systemizing supply chain and sourcing (in the hundreds of millions of dollars). Another person in the company was transitioned to this position who did not have this skillset and was paid two-thirds less. What was the result? There was a loss of many staff and tens of millions of dollars in losses.
- Core competency is the key to success in any organization! This is what a company provides in goods and/or services to their clients – the area(s) they do best in. We have been in discussion with a large media company where their core competency is news, information, and data to the public. Out of more than \$100 million under spend, 3 people are supposed to manage this, including the Director of Purchasing. As we reviewed their need, they wanted to outsource all their data and servers to the cloud. In other words, they did not want to manage their own servers, computers, network, and data going forward. Not a problem for us, yet to do something right, specified data is needed, and they could not get this data to us because they do not and will not put the resources into procurement.
- Another large organization that works in the bakery space (multi-billion dollars) decided to source their baked goods outside of the U.S. because of the cost. Well, what they did

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not take into effect was quality, what the end client (like Wal-Mart and their Distributors) wanted. This company ended up terminating several people because of the monetary loss from this short-sighted decision to increase profit. A few years later, the company no longer exists! When all was said and done, THEY DID NOT LISTEN!

- On another note, there is the ever-increasing political situation of whose territory is what in the workplace. As less people must do more, we have found what is right for the company will not be agreed to by those who are not team players or with companies that do not have the team environment. One large non-profit told us they were getting best price through their contract, yet they had not conducted an entire office supply Request for Proposal process (more than 1,500 items and a budget of more than \$1,000,000 per year) in more than four years. We reviewed other areas and at a summarized glanced, there is no doubt we could reduce their costs by more than \$10 million over two years without adding extra head count to their purchasing department (our clients look at us a support and benefit to them).
- Resources are a challenging area and will continue to be so as more than 40% of U.S. companies do not receive their goods and services as stated in their contract terms, meaning they are not delivering to their clients on time. With global catastrophes, tight credit terms, larger companies asking to pay their small to mid-sized suppliers Net 60 to Net 120 days, competition, and a host of other areas, having the right and founded vendor and supplier relationships is going to be critical to a company's success.
- A construction company is exploring procurement outsourcing for their fuel, tires, and office supplies. In this economic roller coaster, construction companies must have flexibility in their budgets to realize the commodity price point fluctuations (this causes uncertainty in the marketplace). We are in the process of helping this company lock in fuel rate pricing.
- Being that human capital is a part of procurement as well, it will be a necessity to have the right people in organizations who are: educated; understand and fit into the culture (every company is different); willing to continually learn; able to understand





communications via technology and face-to-face; able to use technology in the real world to enhance their work and the team's work; and team players. On the opposite spectrum, it will be vital for the employer to provide each person with a place of mutual respect, reward, socio-economic benefit, and trust.

- The old thought of not wanting to change must go! It is interesting how some of the prospective clients we meet share with us – “we want and need help.” Yet, when we outline some of the potential areas, outcomes, and how we can help with their sustainable bottom line (without letting people go), some are not willing to change. We met with one organization where we could save several jobs, yet they decided not to and now the entire organization is in jeopardy. On a positive note, another organization did go with changes – we saved many jobs!

How important is a Procurement Department?

As companies have scaled back procurement department staff, not only has cost reduction, cost avoidance, efficiencies, sustainable measures, and outcomes been hampered, but compliance and regulation has become more at risk, vendor relationship, strategic partnership, and management has become disorganized, and turnkey systems have been scaled back or completely done away with.

Procurement Department's, whether run by an organizations staff or outsourced, must be and play a significant role in ALL departments of any organization for greatest sustainable outcomes. Remember, procurement is information and knowledge, the activation of this information and knowledge that bring results, as well as the communications of the most asset – YOU and people in an organization.

There is an ever-widening gap and need for organizations to have more staff in their procurement department, a need for more thorough Request for Proposal processes and cost reductions that are sustainable, increased need for the right partners (vendors / suppliers), help

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with compliance and regulation, systems that allow for simplicity and proactive procurement approaches, training, and so many other areas.

What are Others Saying?

What are others saying about the recent past, present, and future of procurement and the trends involved in procurement? Please take some time below and let the information soak in so that you can apply what relates to you and what does not.

The Next in Procurement

A fear year back, Martin Putters did an excellent job explaining what would happen with procurement as he relates his thoughts like IBM does each year. Some things to give thought to as procurement continues to change with the change of the world.

We affirm several of the same areas (Supply Chain, Risk Management, P2P, Innovation Driven Procurement, Contract Management, SaaS...), from interaction with our global partners, clients, and team, such as risk management (supply chain interruption), listening to clients and partners for customized solutions (the voice of the customer), contract management without the management, and the need for PaaS for automated and turnkey technology solutions (procurement as a service).

Many global changes across technology, AI, marketplaces, raw materials, political, consumer demand, and many other areas driving constant change!

There is Nothing New Under the Sun – Technology Changes!

The thought of technology being THE answer has hurt a lot of organizations!

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Before an organization embraces any type of technology solution, it is a necessity to implement and test the changes and solutions in the trenches, with the people of the organization, and ensure the solution has been embraced and works before automating with technology. To bring a technology solution without solving the human process can bring disaster!

With this said, technology is awesome when brought in after the human process!

Over the short years, a few innovative people realized that it is far more efficient to bundle the efforts and establish a power station to meet the demand of multiple parties; this idea was met with a lot of skepticism. Too much risk! We see the same mechanism at work in the receipt of SaaS solutions. Instead of each organization setting up its own servers and systems, the required functionality is readily available via “plug and play” solutions. Due to an increase of successful examples of this concept, the initial restraint hurries off and organizations make their first serious forays into this domain. Not in the least because of the substantial savings that this model can bring to the table.

Co-Sourcing Aids L’Oréal Indirect Procurement

Dan Berthiaume provided some valuable information about partnering with L’Oréal a few years ago to help them with their procurement outsourcing, supply chain, and purchasing, so that L’Oréal could continue forward to focus on their core competency. Many companies will continue to follow this methodology and strategic plan in the years to come as the global economy and demands on business require this.

Global HBC brand L’Oréal has been employing a collaborative outsourcing model known as “co-sourcing” to reduce costs and increase efficiencies of its indirect procurement activities in France, Germany, Italy, Spain, and the UK. Laszlo Koos, corporate indirect purchasing director of L’Oréal, detailed the indirect procurement program’s evolution, current state and future direction during a session at the recent North American Shared Services & Outsourcing Week hosted by SSON in Orlando.

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Operational Size, Scope Present Unique Challenges

The size and scope of L'Oréal's operations present some unique challenges to effective management of its indirect source-to-pay process. L'Oréal consists of 23 brands across 130 countries with 66,600 employees and generates close to \$27 billion USD in annual revenues. The company had about 1 billion consumers a few years ago, with a continued intent to grow their base.

Indirect Purchase Process Proves Chaotic

L'Oréal started investigating outsourcing and consulting options for a few years back, to help get a handle on the indirect procurement source to pay process, with a focus on the sourcing, rather than transactional, end of the chain. At that time, purchasing reported to the operations department, with three distinct categories of indirect purchasing representing the largest and most diverse portion of L'Oréal's total purchasing activities.

'Co-Sourcing' To the Rescue

L'Oréal engaged advisory services to find an outside solution to help streamline the indirect procurement source-to-pay process in the markets of France, UK, Germany, Spain and Italy. The company examined the two main models of external collaboration, consulting, and outsourcing.

L'Oréal developed the hybrid consulting-outsourcing model known as "co-sourcing." Koos described some of co-sourcing's benefits. "There's no staff to hire, no employees to transfer, no upfront payment," said Koos. "We pay on a gain share of measured savings. It has increased the deployment speed of indirect purchasing." The co-sourcing model went live ten years ago. (Berthiaume, Dan)

More organizations have followed and are engaging core partnerships for greater outcomes in many core business areas!

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E-procurement Trends in the Global Marketplace

Following the e-procurement trends over the past 20+ years highlights some successes but some challenges too. There is no doubt that the Internet is drastically changing the way purchasing is done globally. It has grown and evolved into a complex marketplace with many players offering a variety of e-procurement and business-to-business services.

E-procurement is a catch-all term incorporating many aspects of electronically assisted buying. It can include services such as hosting of databases, catalogue management, managing tenders and auctions on behalf of clients through to a complete outsourced procurement service. One example, it eliminates tedious manual work associated with preparing and submitting large tenders using customized software.

E-procurement Trends in the Private Sector

Externally hosted e-procurement services are clearly part of a growing trend. Some specialize by industry sector, like those serving the oil and gas, pharmaceutical and mining industries all of which have embraced e-procurement more than some other sectors.

Some e-procurement service companies provide the full range of supply network services to support global procurement transactions.

Another e-procurement trend is where large corporations elect to manage their e-procurement in-house. Successful implementations of e-procurement are considered as one of the measures of a world-class purchasing organization. To do this they need to install enterprise-wide software to manage the database and transactions but the big investment in time and money sometimes means that there is not a compelling business case.





E-procurement Trends in the Government Sector

Some governments in mature economies are adopting e-procurement more extensively as it provides structure, audit trails and transparency of transactions. However, governments in emerging markets are often unaware of the benefits that e-procurement can provide. World Bank research has also found some reluctance by governments in adopting a system that is so fully transparent.

Certain basic requirements need to be fulfilled before an e-procurement system can achieve maximum potential in government. These are recommendations by the World Bank which include expanding ICT services, guaranteeing a secure online environment, development of standards and processes, and most importantly, for purchasers to be trained.

E-procurement Trends in Non-Government Organizations (NGOs)

Potentially, the development aid and emergency support sector of the economy can benefit from using electronic procurement services. Savings of up to 10% and more have been achieved on price and there is some evidence available showing savings in processing time. E-procurement allows aid-funded buyers to compare prices quickly and easily, to review specifications and delivery dates from suppliers worldwide.

Sustainable Procurement: Surprising Trends Emerge in New Economic Times

Many organizations' sustainability efforts have been through a period of change and adaptation. In procurement, sustainable procurement many times takes a back seat for the short-term as many organizations focus on ways to stay afloat and weather economic changes and challenges.

Risk Management

As time continues in procurement, sustainability efforts have not only proven its core part of business through the last years of economic times and continue to look even more attractive as





organizations try actively to shed and manage risk; an attribute that's core to sustainability and corporate social responsibility (CSR). Sustainable procurement has continued with its leading role in resource waste reduction and renewable sourcing initiatives in all their forms which has the valuable benefit of slashing costs and more importantly, also giving organizations more direct control of future costs.

Everybody knows that if you know the cost of XYZ commodity 5-10 years ahead you have predicted your long-term cost basis - that's just one example of a competitive advantage concept gaining more prominence in the sustainable procurement crucible. In this article, we have identified two major sustainable procurement trends that we think are not only of interest but also useful for you and your organization while you plan to endure and flourish no matter the volatile economic setting ahead.

Green Business

Green business and procurement are an important part of procurement practices, yet in the overall practices, can be difficult to manage with overall best value.

An example "green blind spot" summarized as follows: The sewer-sized pipe in your remote manufacturing operations has been overlooked and gallons of toxic waste pours out into a stream used by other people and animals as drinking water, an unfortunate fact overlooked in a process that over-emphasized the big picture as the only thing that is mattered.

This is an example of a "sustainability blind spot" where good intentions miss a critical issue that could destroy all reputational benefits of the other sustainability efforts combined. This trend continues as organizations continue to develop sustainability programs, reviewing overall costs, benefits, and best value, when reviewing overall resources in supporting a comprehensive sustainability approach.





Length and Complexity of Global Supply Chains

Another continuing trend has to do with the length and complexity of global supply chains and an opportunity to reap large cost savings by considering another important dimension in supply chain decision-making.

Supply chains do not react well to surprises!

Most organizations inherently know that unanticipated events reduce confidence and invariably lead to increases in an organization's costs. Companies who manage their supply chains well are highly aware of this danger and treat sustainability objectives using similar risk management strategies avoiding this possibility of higher costs.

The long-term approach allows suppliers to understand what the company will value in the future and enables them to innovate around these themes.

Some organizations are continuing to use sustainable procurement as a strategic contributor in planning for future profits. They recognize that the time-tested business adage that "if you fail to plan, you plan to fail" still rings true specifically in sustainability efforts.

Impact: Other Nations!

The impact of nations, new alliances, and political impact continues to change the entire procurement landscape and how procurement is engaged!

Many continue to say that volatility in these new economic times is here to stay and sustainability is growing as one of the important tools for countering these unpredictable forces. More, sustainability is being viewed a little less about saving the world and more about outwitting your competitors and stealing market share and making more profits.





Procurement Excellence

Cost and innovation pressure are often reflected in procurement. Companies are forced to set up procurement organizations or to align their procurement practices towards the growing demands. We help companies to ensure that procurement is optimized successfully.

Challenges and Trends

Cost and innovation pressure are continuing to rise across industries. This pressure is often reflected in procurement, which must reduce costs while at the same time providing innovative products. Companies are being forced to align their procurement practices toward this growing demand.

Right Response

Procurement professionals and teams must find the right response to each of these trends. To ensure that procurement is optimized successfully, companies with a good strategic setup consider three factors:

- First, procurement and other areas should pull together and strive for the same targets.
- Second, steps taken must also ensure that costs are reduced in a lasting manner.
- Finally, actions must be fully implemented, and their success monitored. (Roland Berger)

Future Trends

No one can predict the future with one-hundred percent accuracy, but we can look at the present and the past to see that not only has knowledge increased, but so has risk. We have also seen that our global economy is more real than many would like to acknowledge. All we must do is look at the scaling of economies, increase competition, resource lack, poor partner, supplier/vendor, and sourcing management, the cut back of management and procurement departments, credit tightening, cash flow, and a host of other areas.





What We Believe Will Happen in Procurement?

Procurement will play a more substantial role in cost cutting, sourcing, information, partner and supplier/vendor management, compliance, regulation, and sustainability. There will be many more firms engaged in procurement outsourcing in the years to come because there is no extra labor added (in most cases because of the performance-based model) and the incredible market demand and need will continue to grow as it has done for the last 27 years!

The best thing organizations can do is partner with those who customize, listen, provide solutions pertinent to their need, are available on an as need basis, and the long-term relational business.

What are You Doing to Drive Procurement Excellence?





Section 3: What is the Difference between Management and Leadership?

Engaging Other's for Maximized Efforts!

The Human Side of Leadership and Management (Management and Leadership #1)

This section on Management and Leadership is focused on the human side of leadership, management, the difference between the two, and the effects of both. For any organization to not only be best in class, be profitable, run effectively, but also be a place where employees desire to work, there must be leadership. Just because an individual is a manager, executive, and has the title, does not mean they are a leader. In other words, organizations need leaders to fill these positions to ensure a healthy, effective, communicative, team where employees can integrate, operate ethically, and be a social responsibly driven and followed environment inside and outside of the organization. The real fact is that many organizations lack leadership and therefore suffer in all these areas.

What is the Difference between Leadership and Management?

To better identify the difference between management and leadership, it is best to define both. A Forbes article does an excellent job defining Leadership – It is the maximization of other efforts, influenced by a social process, for goal achievement. As far as management, Merriam-Webster outlines as follows: It is when an individual makes decisions and controls their team, department, business, and so forth through their skills.

What Leadership is NOT

Kevin Kruse goes onto say some good points about what Leadership is not. They are as follows:

- Leadership has nothing to do with seniority or one's position in the hierarchy of a company.
- Leadership has nothing to do with titles.
- Leadership has nothing to do with personal attributes.
- Leadership is not management.





What Do Other People Think Leadership Means?

Other notable people go onto say some things about what they think leadership is. Read a few below:

- Peter Drucker: “The only definition of a leader is someone who has followers.”
- Warren Bennis: “Leadership is the capacity to translate vision into reality.”
- Bill Gates: “As we look ahead into the next century, leaders will be those who empower others.”
- John Maxwell: “Leadership is influence – nothing more, nothing less.”

Leadership | Team Integration (Management and Leadership #2)

I would have to say that Kevin Kruse defines leadership the best. He goes onto say: “Leadership is a process of social influence, which maximizes the efforts of others, towards the achievement of a goal.”

Definition Key Elements

- Leadership stems from social influence, not authority or power.
- Leadership requires others, and that implies they do not need to be “direct reports.”
- No mention of personality traits, attributes, or even a title; there are many styles, many paths, to effective leadership.
- It includes a goal, not influence with no intended outcome.

Leadership Styles

To further our understanding about leadership, outlined below are the different Styles. Keep in mind that just because an individual has the title of Executive, Director, and Manager, does not mean they are a leader.





- Autocratic Style – decisions are made without input from those who report to them. The expectation is that each person under their management should follow their orders without explanation.
- Democratic Style – those who report to this person can provide ideas and input, while the final decision is retained by the manager. Individuals are typically communicated to about things that affect their work.
- Laissez-faire Style – this style is a hands-off approach where individuals have little direction provided to them. In other words, they can make decisions and solve problems on their own. (The Saylor Foundation)

What Creates a Healthy Organization? Team Integration?

There are many things that contribute to a healthy organization and the integration of an effective team. The most important asset of any organization: Employees. If the employees are not happy, the environment will not be healthy, and the results will fall short. Management / Leadership must create, enact, and commit to creating this environment. The Saylor Foundation text outlines many areas an organization can make part of their organization, such as: Alternative work arrangements (flextime, compressed work weeks, job sharing, telecommuting, part time); Benefits; Compensation and benefits (wages and salary, piecework and commissions, bonuses, incentives, stock options, profit sharing); Family-friendly programs (dependent care, caring for yourself, unmarried without children, paid parental leave); Job enrichment, redesign, and rotation; and Work/Life quality.

One of the most important ways to create a healthy environment: Each employee must feel and see that they are of value, what they bring to the organization is acknowledged, and they are rewarded in diverse ways for their efforts of participation and excellence.





What Causes an Effective Organization? (Management and Leadership #3) The Importance of Teamwork

Effective organizations that do well with their core competencies and mission must have effective teamwork. For effective teamwork to happen, several factors are met according to The Saylor Foundation. Some of these areas include: Encouragement of each team member by other team members to do their best improves collective results; Greater commitment happens from each team member as each person is satisfied from being on the team; Group performance through collective individual involvement causes greater results than individual performance; Reliance on one another in the team to get things done causes greater efficiency and increased productivity; Rotation of leadership over time causes greater effectiveness amongst the team; and Trust amongst the team causes greater communication.

What are some of the areas that cause organizations to fail with teamwork? It is about management and the lack of leadership and their inability to create the environment for team members to grow and accomplish the organization goals together. Team members in an organization: Fail to cooperate; Have no support from management; Are unwilling to be a part; and Have no delegated authority from management.

How important is Communication in Organizations?

Communication is critical in any organization to become world class. It is not just about management giving direction and orders but leading by example of what they want others to do. Management must know how to communicate, create an atmosphere for staff to communicate, be able to teach communication, and have a communication plan that is used, works, and is continued with. Geraldine Kilbride points out that the “lifeblood” of every organization is communications. She states that seventy-five percent of staff uses their time in interpersonal situations and poor communication is the reason for most organizational problems.





Management & Leadership – Operating Ethically & Social Responsibility

As we have witnessed over the last few decades, many organizations have paid the penalty by losing money, hurting others, and even ceasing to exist. Ethics, which is the ability to discern wrong from right, is a necessity in business. An organization must operate ethically in their finances, practices, human resources, socially, and every other area. To do this, an organization must have internal and external metrics to audit by so that there are benchmarks to ensure ethical business practice. Without a proper system of accountability, human nature will yield unethical business practice.

Ethically and socially responsibility driven organizations benefit more than those that are not – they are better at keeping clients, attracting new clients, obtaining more capital, and recruiting and keeping talented employees.

Leadership Actions

To enact leadership, results, changes, and an environment in any organization, there must be actions by all involved from the top down. It is not just about saying it but doing it! People must see you acting! If you do not, it is just mere words and hot air. The next part of this paper outlines some valuable actions you can take in your organization, your business, and your personal life that will bring the type of change you want.

The Steps of Leadership

As you grow your leadership abilities, what are some of the steps you should be aware of? Below are some insights about leadership and the levels of leadership.

- The higher you go, the longer it takes.
- You never leave the base level.
- Steady plodding brings prosperity.
- The higher you go the higher level of commitment.
- The higher you go, the easier it is to lead.





- The higher you go, the greater the growth.
- You must know where you are at every moment and step of the (your) way.
- Each level of leadership is built line upon line, word upon word, and precept upon precept.
- If you are leading a group of people, you will not be on the same level with everyone.

For your leadership to remain effective, it is essential that you take the other influencers within your team with you to the higher level (Landgraf, Ted).

Difference – Leaders and Followers (Management and Leadership #4)

Another key area with leadership, your team, and maximization of other efforts, is whom you surround yourself with in all areas of life. Why? To be a leader, you need people who are either leaders or people you can develop into leaders. Remember, this is how you will maximize outcomes in your life and other people's lives. So, what are the main differences between leaders and followers?

Followers Tend to React, and Leaders Tend to Initiate

Leaders Do the Following:

- Initiate.
- Lead – communicate with any tool available (phone, email, mail, fax, etc.).
- Spend time planning.
- Anticipate problems – works and finds solutions.
- Invest time with people.
- Prioritizes calendar daily with long-term goals.

Followers Do the Following:

- React.





- Wait for things to happen.
- Look at things as problems, not opportunities.
- Lives day-to-day.
- Spends time with people but does not invest in people.
- Calendar is filled with requests from others (not what they need to do to accomplish their goals). (Landgraf, Ted)

Leadership Vision (Management and Leadership #5)

What is Your Vision? How Important is Vision?

Another critical element of leadership and how management instills an environment in the team is Vision! How do you communicate and give vision to others effectively? In working with people, truth is, “You can seize only what you can see.”

Being an Effective Visionary Leader Means You Must Look Before You Lead

Vision is everything for a leader. It is utterly indispensable, because vision leads the leader and helps the leader communicate the target to others. This vision sparks the fire, the fuel, and the energy within, and draws him or her forward. To understand vision and how vision is a part of a leader’s life, **review these principles below:**

- Vision meets others’ needs – your vision must serve others.
- Vision helps you gather resources – one of the most valuable benefits of vision is that it acts like a magnet (attracting, challenging, and uniting people).
- Vision starts within – If you lack vision, look inside yourself.
- Vision Draws on history – many leaders vision came from key events in their past.
- Vision gives life – “Without vision, the people will perish.”
- Vision comes from listening – you must be able to listen on several levels.





There are three different voices in your mind and intuition you must evaluate as a leader in life. They are:

- The inner voice – this comes from within – vision starts within – it is the knowing of what your life mission is. It is what stirs your heart. It is what you dream about.
- The unhappy voice – Noticing what does not work helps you and gives you inspiration to work and plan from a different angle.
- The successful voice – It takes the TEAM (Together Everyone Achieves More) to be successful. You must have a voice from a good team to succeed.

Be a visionary in all that you do, and watch outcomes increase not just in you, but in those around you! Empower and create leaders! Do not hold yourself back by holding others back to become all that they can become as a leader.

Leaders Extend Influence (Management and Leadership #6) Are You Changing Lives?

A leader extends influence! When you empower others, you change lives! The ability to empower others is one of the keys to personal and professional success. John Craig says, “No matter how much work you can do, no matter how engaging your personality may be, you will not advance far in business if you cannot work through others.”

J. Paul Getty said, “It doesn’t make much difference how much other knowledge or experience an executive possesses; if he is unable to achieve results through people, he is worthless as an executive.”

When you empower people, you not only work with and through others, but you also enable others to reach the highest levels in their personal and business development. Empowering is giving your influence on others for the purpose of personal and team growth. It is seeing





people's potential, sharing your resources with them, and showing them that you believe in them completely. To empower others, you must be able to have the following:

- Position – you cannot empower people who you are not leading.
- Relationship – it takes time and effort to develop relationships – effort is needed if you want to connect with people.
- Respect – Relationships cause people to want to be with you – respect causes them to want to be empowered by you.
- Commitment – people need to know you are going to be there for them.
- Attitude – a servant, humility, giver, secure, and not afraid to change.

How Do You Know IF You are Ready to Influence (Empower) Others?

The questions below will help you set your foundation, plan, and team goals in the proper perspective:

- Am I willing to serve others and not take credit for myself?
- Do I believe in people and feel that they are my organization's most appreciable asset?
- Would I be willing to publicly give my authority and influence on potential leaders?
- Would I be willing to invest time developing people who have leadership potential?
- Do I believe that empowering others can accomplish more than individual achievement?
- Would I be willing to let others work me out of a job?
- Do I want to help those in my team become better than me?
- Would I be willing to hand the leadership baton to the people I empower and root for them?
- Do I allow others freedom of personality and process, or do I have to be in control?
- Do I challenge and inspire others to become the person they want to become?
- Would I be willing to let others get credit for what I taught them?
- Am I only interested in my own life (finances, appearance, present, etc.), or do I see a legacy, and do I see those that I influence helping others over the next several decades?





- Do I actively search for potential leaders to empower? (Landgraf, Ted)

A Leader Sees Others Potential (Management and Leadership #7) Empower Others to their Full Potential!

Another important part to success and leadership is how you empower others to their full potential. Review some of the steps below in this process as you empower others into leadership in their lives. After you have found confidence in yourself (your abilities and who you are as a person and as a leader) and in the persons you would like to empower, you are ready to start the process. Your goal should be to hand over relatively small, simple tasks in the beginning and progressively increase each person's responsibilities and authority. No matter where a person is at, if their passion and desire is to become successful, become a leader, and change their life, you will be able to help them, and they will be able to help themselves.

Evaluate every single person you personally bring into your team (your team / employees). In this process, remember that all people can be a leader and become a success. Your job is to see the potential, find out what they lack to develop their success (Ex: organization skills; time management; communication skills; etc.), and equip them with what they need.

In doing this, look at these areas in their life for proper evaluation:

- Knowledge – think about each person and what they need to know.
- Skill – examine the skill level they are at – have they been in business before? Are they a people person? Have the evaluated other leaders (books, tapes, seminars, etc.)? Have they been in this industry before?
- Desire – without this, no amount of skill and experience will help a person succeed.





What Must You Do?

- Model for them – Even people with knowledge, skill, and desire need to know what is expected of them, and the best way to inform them is to show them. People do what people see!!!
- Give them permission – As a leader and influencer, you may believe that everyone wants to be successful – unfortunately, this is not true. A lot of the failures in a person’s life take place in their mind (before any action in their life). You must help others believe that they can succeed and show them that you want them to succeed. You can do this by helping them expect it (communicate, support, and listen) and by helping them verbalize it (speak what they want, write down what they want, and review every day what they want).
- Give them your authority – Share your power and ability to get things done with them.
- Show your confidence in them publicly – When you transfer authority to the people you empower, you need to tell them that you believe in them, and you need to do it publicly.
- Give each person feedback – Praise, encourage, and tell others about what an excellent job they are doing, give them constructive criticism – communicate.
- Release them – Once the person is ready to go on their own, release them into their success fully. Give them as much freedom as possible as soon as they are ready for it.

If you provide the environment, vision, communications, opportunities, and path for the person to become a leader in their own life, you will see this happen!

Lasting Leadership

How do you create lasting leadership? This is so important, because if leadership is not sustainable, your team and any team involved will fall apart. Below are some things to take into consideration as you develop sustainable leadership in you and every person you influence in life. A leader’s lasting value is measured by succession.

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T R A I N I N G
Steps for Success





Sustainable Leadership

Leaders who leave a legacy for their team do the following:

- Think, act, lead, and support with a long-term view.
- Prepare their team, prepare any successors, and look out for the best interest of the team long-term.
- Create and continue a culture of leadership.
- Create development of leaders from the bottom up – create a succession of leaders.
- Understand and act upon the belief that for success tomorrow (weeks, months, and the year's ahead) pay the price today.
- Know and follow – there is no success without sacrifice.
- Hold team leadership above individual leadership.
- No leader can do it all alone – it is a team effort that brings success in anything we do in life.
- Uphold Integrity. (Landgraf, Ted)

What Leader are You Going to Be?!





Proactive Partner Procurement Notes

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Section 4: How Important is the Procurement Department in Your Organization? Procurement / Purchasing Department Creation: An Important Process and Foundation for Long-term Sustainability!

Each Organization is Unique

Each organization we have worked with over the years is different than others. We have learned to listen, created methodologies that fit each organizations exact challenges and needs, and from this, we have been able to ensure our clients are provided with what is needed (an out-of-box solution does not work in most cases).

One of the most essential functions of an organization is how goods and services are purchased, at what cost, how they are managed, budgeted, and processed. Without these goods and services, an organization cannot service their clients and will not stay in business. In fact, 40% of goods and services are not delivered on time when ordered, thus causing a disruption in the supply chain – this usually causes a delay in an organization’s delivery of goods and services to their client. In other words, an organization’s purchasing department and/or outsourced purchasing department is critical to an organization’s success!

The creation of a procurement / purchasing department is not just about the organizations staff, it is about strategic partnerships that will bring sustainable long-term success. We have partnered with many organizations and their purchasing departments over the years resulting in upper management support, effective organizational strategies, and purchasing departments that provide sustainable support and growth to their organization.

We have had the opportunity to help establish purchasing departments for several clients, whether it was from scratch to enhancing their global centralization. Because we have engaged





several hundred organizations, we have found that there is not one organization alike – each one has unique needs and challenges.

Three Largest Reasons

Many small to medium organizations do not have a purchasing department or, if they do, they are not fully functional, and the results are minimal. Three of the largest reasons for not being fully functional are:

- Lack of resources (finances, budget, and human capital).
- Lack of knowledge (proper training and understanding).
- Lack of executive / upper management support.

Where do Organizations Lack?

Organizations are lacking in many areas and because of this they cannot:

- Effectively centralize.
- Reduce costs.
- Bring sustainable results.
- Implement and continue best practice.
- Oversee compliance.
- Ensure quality.
- Be proactive.
- Effectively communicate to their staff, inter-departmental managers / directors and be results driven.
- Provide vendor management.
- Develop and provide continued strategic partnerships.
- Provide the long-term results needed because they lack many other necessary purchasing functions.





Increasingly small organizations are utilizing procurement outsourcing companies to help them because they do not have a purchasing department due to lack of funds and resources. Many medium to large organizations is utilizing procurement outsourcing companies to bring more results to their bottom line and help enhance their purchasing department's results and organizations bottom line. Another major reason many organizations are starting to utilize procurement outsourcing – no overhead (no staff – hourly, benefits, desk space, etc.).

Purchasing Department Creation

For those organizations who are about to start or grow their purchasing department, below are some steps that can be of help to you as you go through this process. There are many steps beyond these that enhance and grow founded, effective, sustainable, and forward growing purchasing departments that will result in an organization that values what procurement is all about.

How to set up a Purchasing Department

We have found that purchasing goods and services (items or services a company needs to do business), inventory, and receiving, is usually handled by the accounting / finance department, until a company is large enough to support their own purchasing department. When this happens, it is important to set up the organization and the purchasing department by first establishing purchasing Standard Operating Procedures (SOPs). Your SOPs are the foundation to all that will take place and that is why this is one of the most important things your organization will do. We recommend that you customize your needs, goals, compliance issues, communications, etc. to your organization. Also, your SOPs are not just created and implemented once – they will need to be modified to meet your organizations needs as your organization changes.

It is important that a regular review of your SOPs take place by all involved in the purchasing process. Why? This is the gauge about how things are going, whether you are compliant, how

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the purchasing department is doing, the performance of other departments involved with purchasing (finance, receiving, IT, etc.), what your cost savings and cost avoidance is, how vendor management is going, how your procurement software is functioning, and many other components (you can determine what these are).

Each Organization's Steps

As you read each step, keep in mind that each organization's needs are different. This means that you might add some steps, start with steps that are further down the list, or not include some at all. The steps below are listed to provide you with some guidance and ideas.

Step 1 – Mission, Vision, Goal

The most key step you will take is to determine the purchasing department's mission, vision, and goal within the organization, with your vendors, with your customers, and with any other stakeholders as it relates to the purchasing department and the organization.

This is important – if you do not know where you are going, you will end up where you do not want to go.

Step 2 – Upper Management Support

Without upper management support, the purchasing department is doomed even before it starts. Support means many things, such as: Authority; Financial; Encouraged change; Communications encouraged; Empowerment; Open to ideas; Doing what is right for the entire organization; and many other areas. This is a crucial step where support must be defined, established, and created for the proper foundation.

Step 3 – Purchasing Department Staff

Hire the right staff for the department. If you do not have the right person to direct and oversee the purchasing department, it can be disastrous! Ensure all involved with the





purchasing department (CFO, Controller, COO, etc.); interview the person that will oversee the purchasing department. In other words, will this person be good with: Our organization; Our culture; People; Policies; Procedures; Vendor Management; Compliance; Standard Operating Procedures (SOPs) Development; Contracts; Negotiations; Listening; Organization; Project Management; Audit; File Structure; Software; eProcurement; and whatever else you define as important to the new or growing purchasing department of your organization?

Step 4 – Company Spend List

Establish an approved staff list to make company purchases. In other words, who will initiate Purchase Requisitions (PRs), who will sign off approving these PRs, who will sign the Purchase Orders (POs), and who will sign contracts and approve company expenditures on behalf of the company? This may involve setting limits at \$500, \$1,000, \$5,000, or more.

Step 5 – Purchasing Department Policies

Develop purchasing department policies / SOPs. We addressed this in the introduction because it is so important. Without documented expectations, people in the organization and out will be confused, which will cause things to lead to failure.

For example, some organizations have policies that employees cannot accept gifts or favors from vendors that may influence a person's buying decisions. Establish the policies that apply to your organization and the industry you work in.

Step 6 – Company Purchase Procedure

Decide if your organization will conduct purchases without Purchase Orders. If so, set these procedures for purchases that do not require a PO – such as, dollar amount, spend limits, how do PRs integrate with this, will a P-card be used, and will there be other forms of payment.





Step 7 – Blanket Purchase Agreements (BPAs) / Contracts / Spend Limits

Review previous purchases made by the company and establish limits of authorization for set purchase amounts. For instance, managers authorized for purchases up to a limit of \$1,000 would require approval for expenditures beyond that amount from department heads or other upper management personnel. If your organization has purchased a considerable amount from a vendor, set up a BPA so that purchases are more effective, easier, more efficient, and time saving. Review the contracts in place and centralize them. Develop overall procedures about how this will work within the organization.

Step 8 – Purchase Order System

Create a PO system. POs authorize expenditures, but also provide the amounts of the expenditures, or agreed upon price between the purchasing department and the vendor. Because POs authorize expenditures within the amount specified, it allows quicker payment processing for the vendor. POs also allow tracking of expenditures and provide opportunities to reduce spending by arranging contracts with vendors.

Step 9 – Purchase Order Copies / Organization

Calculate the number of POs you will need. You need to determine what is needed. An example would be: One copy would go to the vendor, one to accounting, one to purchasing, another to the person generating the purchase request, and one to receiving.

Step 10 – Receiving Goods

Establish a receiving department. This involves creating receiving SOPs for reconciliation of goods and services against POs, how receiving interacts with purchasing, communications, back orders, inventory management, etc.





Step 11 – Inventory Level

Define the inventory levels of goods (raw materials) needed for the organization to operate efficiently. Use these when scheduling purchases of inventory items. Review the organization's use of inventory over a period of a year and note purchasing trends to establish needed inventory.

Step 12 – Vendor, Supplier, and Partner List

Establish the list of credible vendors. Review accounting vendor reports to verify current vendors. Ensure vendors meet company qualifications, such as providing the necessary documentation and backup. This would consist of W-9s, insurance documents, pricing lists, payment dates and information and find out if any discounts apply if payments are made earlier, such as a 2 percent discount if payment is made within 10 days. Set criteria for qualifying vendors to provide services to the company.

Step 13 – Filing System

Create a filing system based upon vendor name, purchase order number or type of expenditure. How detailed do you want to get? Keep in mind that you should place this in your SOPs so that everyone knows and understands a proper file. This is true in Government. When the Office of Inspector General (OIG) or any other Federal Agency staff audits procurement (the purchasing department), “if it is not in the file, it never happened.” This is critical for Sarbanes-Oxley (SOX) compliance as well in any company.

Step 14 – Upper Management Approval

Meet with the appropriate upper management personnel to receive a sign-off on all SOPs (purchasing department policies and procedures). Make any changes to each area and finalize every document, SOP, and form before instituting. We highly recommend you include all parties in the approval of this because everyone will be using these SOPs, documents, and forms.





Step 15 – Implement SOPs (Policies and Procedures)

Implement policies and procedures by meeting with the appropriate managers and department heads and providing them physical copies of policies and procedures. We would recommend that you provide this initial implementation, provide training, and allow each person to provide you with feedback so that you know they understand.

We would also recommend you have each person sign off for the acceptance, ownership, and implementation of the new SOPs. Finally, we recommend regular training so that people understand procurement, the PR and PO process, how the Request for Proposal (RFP) process works, and anything else pertinent with the entire purchasing department that affects them, affects their position and department, and the receipt of their goods and services.

Step 16 – Purchasing Department Budget & Goals

Determine the number of employees needed to efficiently operate the purchasing department, set budgets, and establish goals. Again, if you do not set all things in order, in place, with the proper foundation, it will not work. The beginning process is one of the most important parts of the equation.

Step 17 – Communications & Meetings

One of the most important aspects in life / business is to be able to communicate, which includes good listening skills. So, why would communications be an important aspect in Purchasing? Doesn't the purchasing department just take orders? No. With the bottom line being more important than ever before, whether in recession or not, the purchasing department is being looked at to provide cost reduction, cost avoidance, and sustainable long-term procurement stability. The purchasing department has many customers that need to be served. They are:

- Who Do You Report To?





- Your Staff (purchasing department).
- Other Departments within the Organization.
- Vendors, Suppliers, and Partners.
- Organization Clients / Customers.
- The Public.
- Other Stakeholders.

Procurement Team Summary

It will be important to conduct regular meetings that enhance communications, feedback, need, challenges, solutions, compliance issues, inter departmental meetings between purchasing, finance, receiving, and others involved in the purchasing process.

The most important process your organization will go through is creating, implementing, and continuing a sustainable purchasing process. As you do this, ask many questions from all involved and do not discount any of your staff's input, because the best ideas are your people.

Finally, continue to implement best practice whereby your sustainable procurement, purchasing department, organizational needs and challenges, and your bottom line are reviewed and addressed for an innovative purchasing team and system. (Landgraf, Ted and Brenner, Laurie).

How Important is the Procurement / Purchasing Department in Your Organization?





Section 5: How Important is Your Team?

Designing Your Team

The team you have now and the teams you will develop in the future, will either do wonderful things or not! As the acronym outlines, TEAM means “Together Everyone Achieves More!”

It all starts with you, how you lead or do not, and what you are willing to do to create greatness or not. Take some time, read, review, contemplate, and apply a few of the thoughts and ideas below for greater and sustainable outcomes for you and your people.

When and How

Establishing any team starts with understanding what, where, when, why, whom and how. The less complex projects, demands, needs, and product/service requests require less of a need for a team.

For understanding how complex the project will be, it starts with the data you gather from the person (s) asking for the project, product, and/or service. Once this is determined, you can then decide whether a team is needed or not.

No: Project Team Example

An example of not needing a team would be a simple need for office supplies for a specific location to a few locations.

Yes: Project Team Example

What happens if the request is changed to more than three hundred locations with more than seventy current office suppliers? We will need to dig a little deeper and find out if there is buy-in across the organization. How do we involve key staff for this need to reduce cost, reduce the number of suppliers, and increase quality? A team will need to be selected. In this real case, this





is where we would involve regional management who provide input about their need, specifications, challenges, and desired outcomes.

Team Questions

There are several questions to ask to see if a team should be established.

They are:

- How complex is the project?
- What type of organizational politics do you have to work through for change management / change leadership?
- How many locations are involved?
- What are the products and/or services?
- How critical is the project to your organizations core competency?
- Do you have a plant that manufactures the product, where sourcing and procurement is located at another location?
- Are there many nations / cultures / offices involved?
- Do the products and/or services involve more than one department?
- What is the deadline for the project?
- Do you have internal data about all these items, or do you need to find out what the organization has been purchasing? (Many times, organizations do not have detailed information about brand, item, manufacturer number, quantity ordered over a period, current price, etc.).

Needing a Team Example

An example of needing a team, involved a complex project to implement a paperless team for a multi-hundred-million-dollar organization, with many divisions, several departments, and tens of millions of paper documents per year.





- Review the file titled “33.07 Tribe Hospitality Case Study Story” for more understanding of this project (see below).

As we go through this case study, you will observe the following:

- We discussed who the team would be.
- We selected the team (it grew as the project developed – IT Director; Controller; Chief Financial Officer; Director VGD; Human Resources Director; Purchasing; Logistics / Warehouse / Distribution; Director of Facilities; Imaging Manager (recruited into the organization later); Consultant – Imaging Engineer; Compliance Manager; and Programming Manager).
- We started by outlining this organizations needs and desires for going paperless.
- From these guidelines, we developed with each weekly meeting each new area, guidelines, steps, needs, requirements, and other areas. Over time, a Scope of Work and RFP was outlined.

Team Project Results

This entire project involved millions of dollars, two years of work, and several people in the team. Some of the team players came from internal staff, some from consulting and others from those suppliers that won the award for this Request for Proposal for equipment, engineering, and some software.

If a team works together, the outcomes can be rewarding on all fronts. This project brought about tens of millions of documents becoming paperless each year, reduced cost management, greater compliance, available real time data, disaster recovery for all departments, off site electronic record storage, and interconnection of data for all enterprises of this organization.





When and How

The most important step for any project and whether a team is needed or not, are the questions you ask yourself and the person (group) asking you to provide the needed product and services. Once you have identified the specific needs, you then can determine complexity, organizational politics, importance to core competencies, and Executive Management priority.

This is what we call “the when.”

If a team is needed, “the how” will be identified by the needs you and the requestor have outlined. Many times, an organization will approach internal staff, involve them, and identify responsibilities, accountability, and start the meetings for next step. From this, external team members can develop all the necessary steps based on the project.

Team Building Tips

There are many elements that one should consider when establishing an effective team, as listed by “12 Tips for Team Building”, How to Build Successful Work Teams. 2012.

- Clear Expectations.
- Context.
- Commitment.
- Competence.
- Charter.
- Control.
- Collaboration.
- Communication.
- Creative Innovation.
- Consequences.
- Coordination.





- Cultural Change.

Tribe Hospitality Case Study Story: Example – Team Building Outcomes Initial Needs

Develop, Implement, and Centralize a NEW Procurement Department for a large Native Casino.

On our initial visit with this organization, we listened to their need, what they wanted to do, their status, they asked us questions, and we asked them about their pain, challenges, and where they wanted to go.

From our assessment of their 12-month spend and probing questions about how they wanted to centralize procurement, we concluded that their need was greater than what they shared with us. We designed an outlined of needs assessment and submitted this to them sharing some of our potential solutions based on what they shared and what we saw.

Some of these Areas Included:

- 1) The organization had no purchasing department.
- 2) Staff were buying from vendors with no guidelines.
- 3) Their Purchase Requisitions and Purchase Orders were being done manually.
- 4) They did not have any Standard Operating Procedures (SOPs) for finance, procurement, and shipping/receiving.
- 5) They did not have a proactive department communicating with all the many department directors about goods and services supply.
- 6) There was no compliance and vendor evaluation taking place to ensure vendor accountability.
- 7) There were no contracts in place.
- 8) Their software licenses and contracts were not properly being managed.





- 9) No meetings were taking place to progressively improve their procurement and financial systems (finance, purchasing, and shipping/receiving).
- 10) A host of many other things.

We proposed solutions to all the areas to centralize procurement for them so that they could understand how a centralized, compliant, proactive, and engaged procurement department would benefit their organization.

This several hundred-million-dollar organizations decided to go forward, and we went to work.

Initial Need

Centralize Procurement.

Additional Projects Conducted

From the initial project conducted, we found that the organization was not organized. Some examples were: No meetings for purchase and finance close out, software not licensed properly, purchasing folders were not centralized (they had to be gathered from more than 20 departments, all purchasing files were not complete, there was no vendor list besides for payment purposes only in finance, they had no understanding of cost reduction, the purchasing staff did not understand Request for Proposals and bidding processes, and the several million Lawson software package contained the purchasing module and it was not being utilized).

Again, to summarize, the company did not have any compliance or best practices in place. They were not conducting any Request for Proposals and bids. And, the company was creating Purchase Orders by hand, and did other manual processes.





Important Solutions Step

As stated above, the company knew they needed help, but after our assessment with them, they realized that so much more could be accomplished through centralized procurement. Consensus was reached by both us and the company to observe the company's day-to-day operations and methodologies that were being used to conduct business.

We Observed the Following in the Day-to-Day Operations

- We researched their vendors and began noting different correlations (lack of data, no compliance, evaluation not taking place, supply chain disruption substantial risk, files and contracts missing, and no centralization).
- Researched company manual purchasing process from PR through PO.
- Attended director and upper management meetings.
- Started a weekly meeting between finance, those buying, shipping, and receiving for proactive solutions and ideas.
- Interacted with users for Lawson software in finance, IT, and HR, and documented what was most important – the company's steps, habits, and ways.

It was from all this we understood the company's culture, processes, and steps so that a customized solution would be delivered providing the solution that fit their organization.

Because of observing the day-to-day operations, we implemented the following actions immediately:

- Created and implemented Standard Operating Procedures.
- Vendor analysis, which resulted in vendor management and evaluation – The finance department provided an Excel spreadsheet for all the companies vendors (company name, address, phone, fax, contact person, etc.); We found many companies did not have all the information (even phone and fax); We called every vendor with a phone number and gathered all the specified requirements the company set up with us

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(vendor name, address, phone, fax, email address, website, contact / representative, tax number, DUNS number, product / service they provide, and any notes); From the more than 3,000 vendors the company had, we cut out almost 1,000 that were not in business; For those vendors that did not have a phone number, we had to research to find a phone number so that the data completion could be conducted; After completing the entire vendor list, we now had a centralized list that the entire company could use by knowing what vendor provides what, be able to get contact information much quicker; We worked with the company on a vendor requirements best practice form – this was faxed or emailed to each contact person at each vendor – each vendor had to sign off on this and this form was placed in their folder – this form included such things as W9, Delivery, Purchase Order requirements, Pricing, Compliance, and many other areas; and This centralized list was placed internally in their intranet so that all authorized company staff could view real time all vendors for their sourcing needs.

- Data retrieval for spend history, needs, and planning was conducted from a tracking spreadsheet – later this was automated once the procurement software Lawson system and programmed system was implemented.
- Provided Staff development and training for procurement and finance. We discussed the methodologies and best practices that would be used in the new state of the art purchasing department that would be rolled out throughout the company soon.
- The charter, specifications, methodologies, and goals of the new procurement department were outlined. This strategic plan was routed to all senior leaders, project sponsors, and departments for comments and feedback.
- The associates were empowered to construct a procurement department with the proposed outcomes. Each department contributed and as a result, everyone held the new procurement department in high esteem. The strategic plan was implemented. The tactical pieces started falling into place by having procurement staff hired and daily operations started.





- Weekly status and performance meetings were conducted with all department managers and directors. We established a standalone best practices and lessons learned from all acquisitions and procurement department projects.
- The organization was utilizing Lawson. A manual was created for the procurement department about how to use this software (step by step manual). This reduced the amount of time purchasing staff and all Purchase Request users were taking to create the Purchase Requisitions and Purchase Orders. The impact was felt by more than 50 system users that had to do the ordering of any product and service, which reduced their labor time by more than 50%.
- Then the system was automated for approvals within Outlook for easier management of orders, approvals, disapprovals, compliance, budget control, and forecasting. This system was generated through Lawson, the forms were routed to Outlook, and the approver could either authorize or reject electronically. This organization had more than 3,000 employees, 70 approved requisition staff, 19 department directors, and other authorized staff. This approval system alone reduced labor by more than 2,420 hours per year, increased compliance, greater control resulted in reduce orders of items not approved, and directors were more engaged and proactive with their department budgets.

Next Step – Implementation of Cost Reduction in More than 300 Areas

Total Profit Improvement – More than \$100 Million over the Term of Each Good, Service, and Contract Area

After the cost reduction projects listed above, we embarked on automating the entire system. This meant that we would take tens of millions of paper documents per year and implement an electronic delivery system. The major departments impacted included Finance, IT, HR, Procurement, Admin, Safety, and all other departments. This project involved an IT project manager, programmers, an outside partner (where we conducted an extensive several months RFP process), the head of IT for this organization, and several others.

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Paperless System Project Details

One of the most important things that took place before anything else happened was identifying what this system would do, why, the purpose, was upper management behind this, and were the financial, company staff, and time resources available to make this happen.

Once this was determined, we designated several important tools. Some of these were:

- Weekly meetings where all stakeholders would discuss the project, next steps, challenges, feedback, etc. – communication is KEY.
- Responsibilities were outlined – IT Director covered all software development, specifications, programming, etc.; We oversaw bidding out the imaging organization that would provide the equipment and software systems for integration; Finance setup specifications, input, and project management with anything that had to do with finance (A/P, A/R, Invoices, etc.); A new person would be hired to fill the position to head up this new paperless, imaging, and compliant department; and so forth.

From these initial meetings of all stakeholders, we designed the specifications from all angles to include:

- IT, support, risk management, disaster recovery, and document volume (tens of millions per year).
- Understanding of the engineering of this custom system, roles, responsibilities, timelines.
- The initial Request for Proposal.
- Sourcing of those vendors that could work with this project to bid to.
- Company budget for this project.
- Hiring of internal programmers, integration of documents into Lawson, data security, and many other areas.





The Request for Electronic Data Management System (EDMS) Request for Proposal (RFP) was outlined and agreed upon. It was determined that we needed to have a software engineer develop a separate requirement that relates to the main EDMS RFP, because of the complexity to this project.

We conducted the EDMS bid, the project was awarded, and the work continued for 11 more months. The team and the awarded vendor met every week, continued developing, one IT project manager who oversaw programming, along with two other programmers, restructured some of Lawson (they had to work through more than 50,000 bugs), the company IT Director managed his responsibilities, an EDMS manager was hired and started to integrate into this new department, all other stakeholders stayed on task and completed their projects, and the project was completed with great success.

Final Sustainable Outcomes

Over a five-year period, the company realized savings more than \$100M for hard cost, soft cost, cost avoidance, human capital labor (the overall percentage was 27%), all with sustainable measures.

The approach, as conducted for all clients, resulted in the customized solutions to the company's environment, challenges, and needs. The result not only stopped after we completed these projects, but continued through the education We brought, turnkey and automated software systems, data intelligence for vendor sourcing, and up to date licenses, contracts, and agreements.

The most significant impact to this company was the teamwork that started occurring because of the recommendations being implemented within the company. From the involvement, came ideas, which resulted in applied actions and solutions, and actual ownership. This entire change management process helped the teams in this company to sustain the savings, efficiencies,

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compliance, vendor management and evaluation, continued best practice and SOPs changes as the company continued to excel in growth, more than doubling in revenues, additions of new enterprises, and the train the trainer model.

What TEAM are You Going to Start and Continue With?

TEAM: Together Everyone Achieves More

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Proactive Partner Procurement Notes

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Section 6: How Important are Vendor, Partner, and Strategic Relationships in Business? Partner, Vendor, and Strategic Relationships

It is absolutely a necessity if you want a sustainable business. Partners, vendors, and strategic relationships need to be an integral part of your business, plan, mission, vision, and long-term goals.

Good relationships can make or break a company.

With electronic, high tech, Internet, and outsourced customer service, many companies have lost the understanding that relationships are the foundation of life, let alone the engine that drives a long-term good business. It is absolutely a necessity that if you want a sustainable business, vendors (sourcing partners, suppliers) need to be an integral part of your business, plan, mission, vision, and long-term goals.

Relationship: Starting Point

With the onslaught of changes in the sales world from 40 years ago to now, where it meant something that a person was a PROFESSIONAL SALESPERSON, the Internet and outsourced customer service has not been able to replace the human touch, relational building, and the foundation of business. In other words, the vendor, the client, those that work for and with companies, and the company itself all provide the needed components of any good business. This includes having a good relationship with them.

In this world of cost reduction, competition, global economics, increased raw materials cost, outsourced customer service, and many other challenges, many have lost the importance and understanding that without GOOD vendor partners, you will not have the needed goods and services to provide the foundation and the goods and services you provide to your clients. With that said, there are ways to obtain the best pricing, along with quality, without jeopardizing these great vendor relationships.





Client / Partner / Vendor / Supplier Statement

To better appreciate what we have stated and understand that it is our practice to build relationships, one of our client / partner / vendors stated this:

“We at Geiger worked in putting together a successful national company store program for a large multi-billion-dollar company.”

“Objectives were to reduce overall costs for branded promotional products and logo apparel while at the same time reinforcing the companies brand through consistent use of the company’s identity throughout their various divisions.”

“They made their objectives clear to us from the start and then worked carefully with us to craft a successful program that remains in effect to this day. Cost savings to the company amounted to 15% plus the resulting consistent display of the company’s brand in all regions.”

“Efficiency improved greatly as Geiger acted as the single point of contact company-wide for all issues regarding use and display of logo on branded merchandise and apparel.”

Scott Boyages, Geiger Sales Partner

Client Results

As you read what Geiger had to say, some of the main points and results were:

- The objectives were clear.
- Reduce overall costs.
- Reinforce the client’s brand.
- Create an online store for all locations.
- Provide consistent use of the client’s identity.
- Worked carefully with Geiger.
- Created a successful national program that remains since 2005.

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- Consistent display of the client's brand at all offices (locations).
- Geiger became the vendor partner, instead of more than 50 other vendors (reduced time and cost for billing).
- And quality improved.

Geiger knew what was needed and desired, the goal for the client was met, and the program is still in effect today (since 2005). We practice this same belief, concept, practice, and methodology in all projects that creates a win for the client, the vendor, those that work with us and for us. Our historical and practiced model is a win for all involved and will always be.

Once you have determined how important vendor relationships are to you and your company, there are steps and areas to be aware of that pave the way to good, founded vendor relationships. Inc. Magazine provides some great information. They state, "It's critical at the start of any vendor relationship to communicate your goals, business vision, and your expectations. When a vendor understands how important customer service is to you, for example, they will be encouraged to work harder in that area. Knowing your goals will help them make the best decisions in your favor."

This is what we do in all procurement outsourcing, Request for Proposal, and procurement cost reduction projects. It is important in all projects to clearly identify the specifications, the desired outcomes, and the objectives to all vendors looking to gain your business.

Personable Vendor, Supplier, and Partner Relations

Below are some areas and steps that Inc. Magazine has identified that fit with what we practice. Our belief is the same – maintaining a good relationship built on mutual trust will encourage each vendor to help provide solutions and customer service to you, because you practice the same to them and your clients. The areas that Inc. Magazine prescribes for developing healthy vendor relations are:

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Assign a Dedicated Manager for Relationships

Select a team leader or project manager to keep track of each vendor. This manager should check in with frequent phone calls and site visits to solicit feedback from the vendor.

Be Personable

Utilize phone calls with personal e-mails and site visits to let them know that they are an important part of the team. This person should respond to any vendor questions and concerns promptly and make sure to keep the lines of communication flowing.

Conduct Everything in Writing

When establishing a vendor relationship make sure to put everything—responsibilities, best practices, expected sales volume, payment receipts—in writing. Follow up all verbal communications and requests with e-mails. This will help you avoid any misunderstandings or miscommunications.

Request Regular Progress Reports

Schedule periodic and detailed progress reports from the vendor. These reports will give you a clear insight into how the business is growing, bring to light any glitches or problems early on, and allow you to resolve any issues before they become big problems.

Planning

It is important to respect your vendors' time and resources. Delays on your end or last-minute alterations can affect their profit margins and strain the relationship. Similarly, pay on time and if you cannot, explain to the vendor why, reschedule the payment, and don't flake out again.





Train Vendors to Meet Your Needs

Do not assume that vendors know your company's unique needs. Determine if training might be necessary. The additional expense will be worth it.

Avoid Blaming

It is inevitable that mistakes will happen that may even result in lost business or clients, but don't overreact or jump to conclusions. State the problem without assigning blame and trust that it will be corrected.

Be Reasonable

Low balling your quotes and expecting something for nothing is a bad way to maintain a good vendor relationship.

Loyalty

When you are loyal to your vendor by consistently giving them business and sticking with them through mistakes, misunderstandings or miscommunications, they may return the favor by offering discounts. If you are considering alternative vendors, under no circumstances should you let your current vendor know that. It may seem like an effective way to negotiate for lower prices, but you risk your vendor feeling slighted.

Show Goodwill

Do not get into the habit of asking for outrageous requests or favors from your vendors. But when you do occasionally, show some good will by offering some easier jobs, throwing them more business, giving them referrals, and understanding that they may not always be able to accommodate immediate or unexpected requests.





Be Friendly

Do not be afraid to be friendly with your vendors. Try not to make every communication with them a serious one. The more you get to know their team and the more they think of you as a friend, the better they will be willing to show you when you need it. (Inc. Magazine)

In other words, building good and sustainable vendor relationships can be summed up with: Get to know them with your individualized touch (use technology for communication, but do not forget the phone); Consider each vendor as a person and treat them as a part of your team; and let them know your needs and expectations.

Choosing Partners

What do you do choose the right vendors to supply your company with the necessary goods and services you need? Below are some tips that will help you in your process as you develop your vendor relationships, procure your goods and services, and continue to develop your vendor partners for a successful long-term mutually beneficial relationship.

Choose Carefully

Successful vendor relationships begin by selecting the right vendor partners for your business. There are many areas that make up a good vendor, such as, quality goods and/or services at an optimum price, warranty, customer service, reliability, short and long-term solutions provided, ability to communicate, industry knowledge, green, compliance, and other areas that are important and needed by you as a company. That is why the complete Request for Proposal (RFP)/Bid process is important in maintaining these areas plus whatever other areas is needed by your company. The RFP process provides the expectations for a contract term from the selected vendor you choose and award the business.





Select Solution Providers

To be the best company you can, you must continue to change and be a solution driven company. To be solution driven means proactive not reactive actions to challenges that arise. You need the same with your vendors. Solution providers are always improving things, staying abreast of technology, making their good and/or service better and more efficient, and communicating these changes.

Vendor Tip: As you develop goods and/or services, make your customers aware of these so that they can make the decision about how to incorporate.

Commitment and Promises Kept

It is imperative goods ordered be delivered on-time, customer service delivered, billing is correct and efficient, vendor communication is regular, and all other areas of RFP expectations be fulfilled. When a good is not delivered, the effect can be negative resulting in time, money, and potential loss of customers. An example of wrong goods delivered means more employee hours spent with paperwork, trying to get the good delivered, and increased receiving documentation. As far as billing, the hours in the finance department increase, meaning loss of money. As well, it is vital to meet delivery times to government clients who are buying at the close of a fiscal year. If the deadline is missed, a sale can be lost, which hurts everyone's bottom line and our reputation with that client.

In other words, the myriad of things that are affected are many when a vendor cannot keep their commitments and promises according to the agreed RFP contract.

To reduce the chances of a vendor letting you down, demand that they commit to on-time delivery promises in the written contract. To add commitment to this condition, add to the vendor contract financial penalties in this area if this occurs.





Excellent Support and Customer Service

Good vendors are easy to do business with! Your vendor points of contact, salesperson (people), customer service, support people, and any other vendor team people are easily accessible.

This means you do not have to waste your time going through endless transfers, voice mails, and wait days to hear back from someone after the challenge has become a more fundamental problem.

Again, therefore the RFP process is so important. We go through an intensive process when we are selecting a potential vendor partner that includes history, customer service, and reference checks.

Trust

All successful relationships are built upon mutual trust. It is so important that you partner with vendors that have a good reputation and keep their word. Think about it: If your vendor cannot keep their word, how can you keep your word to your customer? In other words, if your vendor does not provide on-time delivery of the raw materials you ordered to manufacture the good for your client(s), how are you going to deliver on-time?

You must see yourself trusting the vendor as your vendor partner. The RFP process is a process that shows you vendor capability, and can they meet the RFP and Scope of Work specifications. In other words, you are already developing an understanding of which the vendor will be and those vendors that will not through the RFP process.

Personal Relationship

You want vendors who appreciate your business. It is absolutely a necessity that those vendor partners you work with should be a win-win for both you and them. As mentioned above it is

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important to have a central person you can contact for help. This is one of the specifications that are identified in the RFP process as well.

Respect

Treat others the way you want to be treated with integrity, respect, and honesty. In most cases, the way you treat your vendor, they will in turn treat you the same way. View and treat your vendor as your customer and observe how each vendor changes.

Constant Communication

When in doubt, talk it out. What works for interpersonal relationships also serves as a reliable rule of thumb for fostering healthy relationships with your vendors.

Be Professional

Things are going to happen in life. As they do, the best approach you can take is to deal with the problem calmly and factually, to avoid ruining the relationship. Find out what the problem is. Like an onion, you take each peel off one at a time to get to the core reason(s).

As you are doing this, be professional, polite, and listen. Then, you can come to an agreement/solution with your vendor partner.

Partner Summary

It is About People

Without people, you have no client, no vendor, no employees, no goods and/or services, no solutions, no market, no revenue, no partners, and no company. The most asset one has is PEOPLE! People make the engine turn in your company!

It is not money, not goods, not services, not markets, not market command, not consumer demand, not ... any other thing and/or area, but people. It is people that cause the market





demand, buy the goods and/or services, provide the needed goods and/or services, work for and with your company, and provide the currency. Brainy Quote defines currency as, “That which is in circulation, or is given and taken as having or representing value; as, the currency of a country; a specie currency; esp., government or bank notes circulating as a substitute for metallic money.” Currency is the exchange of people’s time for a value placed on their time.

In other words, treat your neighbor the way you would like to be treated. Value people, lead by example, create trust, be honest, communicate, be personable, and ensure that all involved know the expectations of the relationship.

How are You Developing and Sustaining Relationships?

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Section 7: What is the Market for Global Job Outsourcing, BPO, and Procurement Outsourcing?

Job Outsourcing: Global Market Globalization

As globalization increases, the outsourcing of jobs and outsourcing have increased. The areas outlined in this article and knowledge paper are jobs lost, jobs created, globalization, the history of jobs outsourced, why companies are outsourcing these jobs to other countries, some solutions for companies and individuals, and how this present economic time is being compared to the Great Depression.

Job Outsourcing History

In the 1970's American companies began to take advantage of the low-cost labor underdeveloped nations could provide, and as a result, one of the job areas first outsourced was manufacturing. In the 1990's, as free trade opened (e.g., NAFTA, North American Free Trade Agreement), manufacturing jobs were lost in greater number to other nations with lower cost labor. Only 22% of all U.S. private enterprise output is in the manufacturing sector, which means the U.S. is mostly a service driven economy. Outsourcing these manufacturing jobs has benefited these American companies, but not the U.S. workers who lost their manufacturing jobs.

One of the areas that moved the U.S. into a service driven economy is technology. With the Internet, telecommunications, cell phones, and personal computers, what one could not accomplish before, can now do with greater efficiency, less people, and from almost anywhere in the world. This has spawned many new areas of jobs that did not exist 20 years ago. In the late 1990's, imports of the private services sector grew almost 80 percent.

As jobs increased in the technology services area, so did the outsourcing of these jobs. Management of computer networks (information technology and IT) was the first to be outsourced. Then, call centers, where customers call in for help, were outsourced. After this,

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back-office work, such as data entry, billing, accounting, and processing insurance claim, tax returns, and loan applications, were outsourced.

As outsourcing continues to grow, many other areas in the knowledge-based, high tech, and professional services continue to grow. Some of these areas include:

- Software programming.
- Paralegal work.
- Financial investment research.
- X-ray and CAT-scan analysis.
- Tax and consultancy.
- Procurement.
- Data and research.
- Drug testing.
- Hundreds of other areas.

What is the Main Reason for Companies Outsourcing Jobs?

To remain competitive in the Global market, it is imperative for companies to reduce expenses. For example, if a Chinese company can produce the same good or service for the same quality at less cost, they will grow while a U.S. Company that has not remained competitive will decline and most likely cease to be in business.

Some of the other reasons for jobs shifting/being outsourced according to Jeremy Brecher and Tim Costello in "Outsource This?":

- Global jobs deficit allows companies to move work wherever labor is cheapest.
- Foreign governments are desperate for skilled workers.
- Overproduction (companies have little ability to adjust prices to maintain profits, since someone somewhere will produce and sell for less).





- Foreign governments can provide the highest subsidies with the fewest environmental and social protections.

It is all about company economics and overproduction in the global marketplace, where they can get more for their financial and human resources capital.

What are Some Solutions to Job Loss and Outsourcing?

The two main solutions are Fair Globalization and Procurement Outsourcing.

Fair Globalization Solution

One of the arguments against outsourcing jobs is “Outsourcing would not be a problem if there were enough decent jobs.” The fact is jobs will continue to be outsourced because of globalization, competitiveness, and economics. The question and answer are, how can we work with outsourcing whereby companies benefit, there are enough decent jobs (stable, long-term, opportunity, and decent wage), and the U.S. remains competitive in the global markets? It all comes down to a new alternative called “fair globalization.” This means at the center of economic planning is economic security and job creation at the local, national, and global level.

In all reality, outsourcing would not be an issue if there were enough that provided good jobs with higher wages, stable, and long-term employment opportunity, but there is not. There is a major deficit of good jobs worldwide, and “the U.S. is experiencing the longest period of sustained job loss since the Great Depression.” The solution to this cannot be addressed by the U.S. alone through protected jobs and ineffective trade policy. It can only be addressed through fair globalization where all parties work together for the benefit of all – by people around the world at the local, national, regional, and global level. The unfortunate problem is that without fair globalization, there will continue to be the outsourcing of jobs as companies continue to look for ways to remain competitive in this global market.





To further back up that it is not just a U.S. problem with jobs being outsourced, the New York Times suggested, “Economix” called “Should India Worry About Jobs? written by Vikas Bajaj”: *MYSORE, India – American economists and policy makers are not alone in worrying about where jobs will come from in the future. So is the leader of one of India’s biggest technology services organizations.*

S. Gopalakrishnan, the chief executive of Infosys, told me earlier on Wednesday that he worried that over the next 20 years to 30 years, smarter computers and increased automation could do away with many of the back-office jobs that companies have moved to his country to take advantage of lower labor costs and greater economies of scale.

He recalled the example of an outsourcing deal his company took on to enter orders into an electronic system for a customer. When the contract started, Infosys put 300 people on the job, but after a short while it dropped that to just 100 people, even though the workers were processing more orders, faster and more efficiently.

One area that outlines a notable example of a region creating fair globalization is outlined by the Miami Herald.

The U.S. needs to support Fair Globalization.

In this article, Gregory Meeks and Ed Gresser points out what China has done to their benefit for their region:

New powers are rising fast across the Pacific. China has used high-quality industrial investment from Hong Kong, Taiwan, Japan, Korea, and Singapore to become a manufacturing giant. India has combined its technical skills and open society with low-cost telecom channels to become a technology and services power.





The growing strength of Asian economies cannot be reversed. And while those challenges require that we ensure a fair playing field, our response to the two giants must begin by recognizing their accomplishments and committing ourselves to match them.

We need a national competitiveness agenda to ensure continued U.S. leadership in the most sophisticated industries, from improved science and technology education to accelerated broadband deployment. We need more open high-skill immigration and strengthened investment in scientific and research. And we need a safety net that fits a modern economy, with government compensating for the erosion of the business-led social contract, guaranteeing health insurance for all dislocated workers, ensuring portable pensions, and developing experiments in insurance for mortgage payment and college tuition.

The U.S. needs to do the same so that we can setup a fair globalization that is sustainable among those involved.

Procurement Outsourcing Solution

Besides fair globalization, another solution is reducing costs through the cost reduction of goods and services purchased by companies, known as procurement outsourcing. Instead of companies reducing their bottom line by eliminating staff, companies can reduce costs through procurement outsourcing, which, in turn, will reduce the cost of goods and services they are already acquiring.

Net Margins and Costs are Hurting U.S. Companies

Companies are facing several problems; they have not been able to increase revenue, credit is harder to come by for expansion, due to their own outsourcing less people are doing more work, global competition has increased, and the cost of raw materials has increased. The bottom line is companies are not what they used to be due to global overproduction.





Procurement Outsourcing Provides Solutions and Answers

Because of these challenges and realities, U.S. companies are looking for innovative ways to stay in business. Even though there are some risks, procurement outsourcing is a viable means to help companies, with cost reduction being the largest substantiated reason. A few of the benefits are compliance; cost savings; efficiency improvement; and overall performance.

Procurement Outsourcing Growth

Procurement outsourcing is growing, companies are becoming more aware of the benefits and risks, the outcomes have been documented and substantiated, and these results are helping company bottom lines. With procurement outsourcing, companies are becoming more competitive, companies are focusing on what they do best, and most importantly, more companies are staying in business.

What is Procurement Outsourcing?

Procurement outsourcing is the action of a company outsourcing their procurement functions, with the acquisition of goods and services, through a third party. This does not mean that the company loses control, but it utilizes third party services. Many times, the third party works in conjunction with the procurement department, with no job loss. The outsourced procurement can mean cost reduction, improved efficiency, improved compliance, and enhanced performance. Procurement outsourcing can involve some or all the company's staff, technology, systems, and vendor management or everything can be directed by the procurement outsourcing firm for the company.

Procurement Outsourcing Equals Cost Reduction

With cost reduction being one of the main driving factors for companies, procurement outsourcing helps meet this need. Even with economic upturns in certain industries and geographical areas, profit margins will remain low, and global competition will continue to increase. In addition, raw materials costs have increased and are expected to continue





increasing, and the world economy will continue to affect more nations, companies, and people. With companies spending more than half on their external goods and services for every dollar earned there is a lot of costs to be reduced.

Other Procurement Outsourcing Benefits

In addition, many companies lack internal staff or no staff to conduct the necessary procurement processes to manage their goods and services. Because of this companies are leaving billions and billions of dollars on the table. For many smaller companies, they cannot afford a purchasing department or at best, they have one person who buys for the company, so little or no cost reduction, vendor negotiation, contracts, and price analysis take place. For larger companies one department does not know what the other departments are doing, leading to increased cost and inefficient goods and services management.

Large Company Outcome Example

One large company example, with annual revenues of more than \$5 billion U.S., had cost over runs, budget problems, compliance issues, little communication, and supply problems. With 252 purchasing personnel across their entire operations and more than \$1 billion per year spend for goods and services, their procurement outsourcing had a lot of potential opportunity for procurement outsourcing. What was the outcome? Centralized procurement, better communications, increased production at each location, cost reduction of more than \$50 million per year within two years, staff focus for core competencies, expansion of certain areas, closing of other areas that were a drain on the company's resources, and streamlined purchasing personnel across the U.S. for greater outcomes in all areas of each region.

Companies are Understanding Procurement Outsourcing

One of the biggest factors causing procurement outsourcing to grow and continue to grow is an understanding of the benefits. Companies are beginning to see that there are more positive than negative impacts from procurement outsourcing. The fear of a company losing control by





utilizing procurement outsourcing in their company is fading away. Companies are seeing smarter buying, reduced costs, and continued control of their company. In other words, procurement outsourcing enhances companies and supports their core competencies.

Investopedia.com defines and outlines “core competency” as:

- It is the main strengths or strategic advantages of a business. Core competencies are the combination of pooled knowledge and technical capacities that allow a business to be competitive in the marketplace. Theoretically, a core competency should allow a company to expand into new end markets as well as provide a significant benefit to customers. It should also be hard for competitors to replicate.
- Explanation: A business just starting out will try to first identify - and then focus on - its core competencies, allowing it to establish a footprint while gaining a solid reputation and brand recognition. Using, and later leveraging, core competencies usually provide the best chance for a company's continued growth and survival, as these factors are what differentiate the company from competitors.

As core competency is reviewed in many other sources to identify what it means, the main thread of understanding identifies the people involved in the company they work with and/or for. People are key to the success of an organization for its core competency to start and continue. Thus, reducing costs by eliminating people to gain bottom line competitiveness can be the demise to the organization. That is why procurement outsourcing/cost reduction is gaining momentum. The amount of procurement outsourcing deals and sourcing deals have grown steadily over the last several years, according to *Equaterra*.

Steady and Increased Growth

What are Some of the Risks of Procurement Outsourcing?

Even though there are risks, a report conducted by AMR research found that buyers will increase their activities by a ratio of five to one for their near-shoring sourcing. What this





means is that companies are choosing Mexico as their number one choice, with Canada in second, and Brazil in third, with Eastern Europe as a potential sourcing location.

The AMR report found the biggest supply chain risks to be:

- Lower consumer spending.
- Supplier product quality failures.
- Volatile energy costs.
- IP infringement.
- Regulatory compliance.

One of the biggest areas of risk for procurement outsourcing, according to Pratibha Verma of *Global Services*, is “Despite the expansion of procurement outsourcing, the continued lack of standard deal terms suggest that market is still not yet ‘mature’ and yet has a number of risks in it.”

What did Some Companies do During the Great Depression to Stay in Business and Even Grow?

During the Great Depression from 1929 to 1933, 15 million jobs were lost, and the unemployment rate was as high as 25 percent in 1933. It was not until 1954 that the stock market regained its pre-Great Depression value. Where are we at now?

Companies are reviewing and implementing some of the same methods that companies utilized during the Great Depression to stay in business. Chris Mayer identifies some areas below:

- They were self-funded (they did not need financing from banks).
- Diversify into other types of goods and services, such as chemicals, oil, food, etc.
- Great leadership (knew how to strategize, organize, and lead people).
- Aware of possibilities and took advantage of them.





- High capital industries where others could not get into business at a low amount of money (no or little competition).
- Intuitive sense (knew what the market and competition was going to do).
- Innovation (to increase profits through wise resource management – necessity is the mother of invention).
- Market expansion.

Now ... Into the Future

In the last few decades, technology, financial resources, and human capital have changed the global community dramatically. As other nations have focused on technology (telecom / IT / Internet), education, manufacturing, and their infrastructure, global markets have shifted. The U.S. has outsourced numerous jobs, and, at the same time, many U.S. jobs have been created.

The bottom line for U.S. companies to remain solid will be their ability to remain competitive, keep costs low, protect their core competency, carefully manage their resources, involve all staff, and increase their market. The overall answer for people and companies is not downsizing people, but is in fair globalization and procurement outsourcing which will create the following:

- Reduced costs.
- Opportunity.
- Technology increase.
- Greater core competency.
- Market share.
- Increased financial resources.
- The bottom line – a solid individual within a solid organization, which creates a solid nation.





Without Solid People as Your Core Competency – There can be No Solid Organization and Nation.

A solid organization through PEOPLE is the only way to create long-term, reputable, and beneficial jobs.

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Section 8: What is the Difference (RFI, RFQ, RFP, RFT)? Why is IT Important?

Knowing the Difference is Critical and Key in ALL Successful Projects!

What is the Difference?

It is important to understand the following terms in the procurement / business world: Request for Information (RFI), Request for Quote (RFQ), Request for Tender (RFT), and Request for Proposal (RFP).

As global business and procurement become more important due to the necessity of lean costs, resource lack, the global market, supply chain disruption, competition, and many other things, the processes behind these four terms have steadily grown in popularity in the business world. The problem in using these terms interchangeably causes improper bidding processes and outcomes – sustainable outcomes become more of the norm by knowing their meaning and application.

Knowing These Terms

To know these terms will help you and your organization with best value, which includes your organization specifications (including cost). Best value can mean different things to different people. Some examples are:

- Cost.
- Warranty.
- Customer service.
- Delivery time.
- Terms.
- Contract.
- RMA.
- Green.
- Compliance.



- Right to audit.
- Online ordering.
- Reporting.
- A host of many other areas.

Many Change Management and Leadership Solutions!

There are many things that can be done to improve your organizations buying power, best value, negotiations, how your suppliers work with you, the relational respect between your organization and your vendors, and the entire supply chain process.

Keep in mind that more than 40% of organizations receive their goods and services after the requested / ship date needed which can interrupt what you do for you clients. Therefore, the proper foundation must be set up – what your organization wants from each good, service, project, RFI, RFQ, RFT, RFP, vendor/supplier, and process.

When you clearly outline each of these areas, understanding, clarity, the right vendor / suppliers / partners, best value, and respect are a few of the many outcomes that take place.

What are These Four Terms and What Do They Mean?

The Four Terms Outlined

- **Request for Information (RFI)** – An open enquiry that spans the market seeking broad data and understanding. RFI's gather information to help in the process of what step to take next and seldom the final stage, but instead are often used in conjunction with the RFQs, RFTs, and RFPs.
- **Request for Quotation (RFQ)** – An opportunity for potential suppliers to competitively cost the final chosen solution(s).
- **Request for Tender (RFT)** – An opportunity for potential suppliers to submit an offer to supply goods or services against a detailed tender.

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- **Request for Proposal (RFP)** – Requirement based request for specific solutions to specific needs, a specific sourcing problem, or an entire new project.

Request for Information (RFI)

An RFI is a solicitation sent to a broad base of potential suppliers for conditioning, gathering information, preparing for an RFP, RFT or RFQ, developing strategy, or building a database about:

- The suppliers.
- Supply market state.
- Supply market dynamics.
- Trends and factors driving change.
- Alternative pricing strategies.
- Supplier competition.
- Breadth and width of product/service offerings, by supplier.
- Supplier strategic focus, business, and product plans.

RFIs may include a detailed list of products/services for which pricing is requested. The pricing should be used for comparative purposes, not as the basis of buying decisions. Through analysis of RFI responses, strategic options, lower cost alternatives, and cost reduction opportunities may be identified.

Request for Quotation (RFQ)

RFQ's are best suited to products and services that are as standardized and as commoditized as possible so that suppliers' quotes can be compared. A few examples are food, toner, paper, toilet paper, janitorial cleaning supplies, and certain raw materials.





An RFQ is a solicitation sent to potential suppliers containing in exact detail a list or description of all relevant parameters of the intended purchase, such as:

- Competencies.
- Human Capital.
- Part descriptions, specifications, and/or numbers.
- Quantities.
- Volumes.
- Description.
- Drawings.
- Quality levels.
- Delivery requirements.
- Contract term.
- Terms and conditions.
- Other value-added requirements or terms.
- Draft contract.

Vendor / Supplier / Partner decisions are typically made following a comparison and analysis of the RFQ responses.

Request for Tender (RFT)

An RFT is an open invitation for suppliers to respond to a defined need as opposed to a request being sent to potential suppliers. The RFT usually requests information required from an RFI. This usually covers not only product and service offerings, but also includes information about the suitability of the business.





It is not unusual for a buyer to put out unclear or vague business requirements for an RFT. This makes it challenging for the supplier to propose a solution. RFTs should only be used when the requirements and the workable solutions for the buyer's needs are clear.

In some cases, an RFT is not a very time or cost-efficient method to source supply due to its lack of defined business requirements and open invitation for suppliers to respond.

Request for Proposal (RFP)

An RFP is a solicitation sent to potential suppliers. Typically, the RFP leaves all or part of the precise structure and format of the response to the discretion of the suppliers. Indeed, the creativity and innovation that suppliers choose to build into their proposals may be used to distinguish one from another.

Effective RFPs typically reflect the strategy and short/long-term business objectives, providing detailed insight upon which suppliers will be able to offer a perspective. While specific data, offerings and quotations may be sought, questions about the following make up a sizable portion of both an RFT and an RFP:

- Specific items on which the suppliers are proposing.
- Business requirements.
- Performance measures.
- Information.
- Ideas / solutions.
- Instructions about how to reply.
- Due date(s).
- Proposal evaluation.
- Provided feedback.
- Selection process.





- Request for cost breakdown (if needed/requested).
- Communication – RFP letter, RFP outline, RFP cover letter, and/or RFP Scope of Work.
- Point of contact for questions.

Those Implementing

To implement these processes requires an organizational infrastructure to support it. If this is not in place, the RFI, RFQ, RFT, and RFP will only be an exercise in vain.

Vendors / Suppliers / Partners

How and if you participate in these processes is the first question you need to address. If you have a company policy, be sure to examine your competitive position and power before you participate.

What is Your Proactive Proposal Process?





Section 9: How Important is the Procurement Proposal Process (RFI RFQ RFP RFT)?

What is a Request for Proposal (RFP)?

This article and guide are designed to answer questions commonly asked by would-be vendors, suppliers, partners, consultants, and/or contractors about responding to a Request for Proposal.

We recognize that each organization has its unique way of doing things; this only reflects some of the procurement best practices, methods, and processes we conduct in our Request for Proposal (RFP) process.

Our intent with this article and guide is to help you submit successful proposals. Unfortunately, we cannot guarantee that if you use our suggestions you will win. Nothing in here is intended to relieve you from forming your own opinions and conclusions about the best way to respond to a Request for Proposal.

The Request for Proposal Process: Request for Proposal versus Invitation for Quote (RFQ)

What is a Request for Proposal?

A Request for Proposal is a formal solicitation document inviting binding proposals for delivery of a service, product, and/or project. The Request for Proposal describes the existing situation and asks proponents to offer their ideas, pricing, information, and data for a solution.

It is used when:

- We want to investigate more efficient and better methods.
- In selection when price is not just the final factor.
- We would like to see what the experts suggest.
- The requirement is complex.





- Would like to see if there is an alternative to the way we usually acquire the product and/or service.

How does an RFP differ from a Quote?

The Request for Proposal differs from the Invitation to Quote in that with a Request for Proposal we evaluate responses against a variety of criteria, as opposed to an Invitation to Quote where the winner is the lowest bidder who meets the specification. In the Request for Proposal, price is just one of the evaluation criteria.

The Request for Proposal differs from the Invitation to Quote in that with a Request for Proposal we evaluate responses against a variety of criteria, as opposed to an Invitation to Quote where the winner is the lowest bidder who meets the specification. In the Request for Proposal, price is just one of the evaluation criteria.

Other criteria could include such factors as the proponent's experience, skills of the proposed project team, appropriateness and creativity of proposed solution, or the proponent's sensitivity to the needs of our company, our team, and clients.

What is a Proponent?

When we invite proposals, the term "proponent" is used to describe an individual or company that submits, or intends to submit, a proposal. This term is used to differentiate between the participants in the process of a Request for Proposal and those participating in another solicitation process where the laws governing the process may be different.





What Steps does the RFP go Through?

The following bullets chart the steps in the process:

- We identify the need (s).
- We may be consulted, and options assessed with the company team.
- Request for Proposal drafted with evaluation criteria.
- The Request for Proposal is issued.
- Proposals are received and evaluated.
- A winner is selected and notified.
- A contract is negotiated and signed.
- Work is performed.

How Long Can the Process Take?

From the time you first see the Request for Proposal, it could be months before a contract is signed. However, the length of the process varies significantly from project to project.

The Request for Proposal will often provide an outline of the anticipated time frame. If the information does not appear in the Request for Proposal, it may be a clever idea to ask what its timetable is for the requirement in question.

The Document: What information do I get form the RFP?

Request for Proposal usually describes most of the following:

- Project background.
- Specific needs outlined.
- Project scope described.
- Parameters provided with submission of solutions.
- The price, unit, part number, and description for each item.
- Give a deadline for the proposal.





- RFP package faxed to you for review and signatures.
- Evaluation – Terms, Conditions, Acceptance, Contract Award.
- Whom questions should be addressed to.

Should I Bid? The Decision...

Is it Worth Our While to Submit a Proposal?

Only you can decide whether to submit a proposal.

What Will Happen If We Do Not?

Should you choose not to participate, your involvement in future projects will not be hindered. Any exceptions to this will be explained in the Request for Proposal. For example, the Request for Proposal may be for the first stage of a project for which competitive offers for subsequent stages will be requested only from respondents to the first stage.

What If We Do Not Agree with All the Terms of the RFP document?

The RFP document outlines the current terms and conditions that all proposals must either comply with or will be evaluated on. Non-compliant, conditional, or counter-offer responses cannot be considered. Some RFPs may allow for alternate solutions to be presented. If this is not explicitly outlined in the document, then proponents should ensure their proposals directly respond to the requirements outlined in the RFP document to be given full consideration.

What If We Win ... Then Decide to Not Go Forward with the Contract? Will We Be Free to Back Out?

No, you will have to decide before the closing date whether you are serious about submitting a proposal. You can amend or withdraw a proposal up until the closing time, but at the stated closing time all proposals become irrevocable.





Other Proponents

How Many Organizations are Invited to Submit a Proposal?

Depending on the estimated value of the project, a company may invite as few as three firms to submit proposals or may invite many more known suppliers of the product or service.

Will You Accept Proposals from Organizations other than Those Invited?

Proposals will usually be accepted from any firm that expresses an interest. Exceptions to this are:

- A requirement where a source list is used, and proposals are invited from qualified firms on a rotational basis.
- Where an open pre-qualification process was held to identify qualified proponents and where only firms successful on that process were subsequently permitted to submit a proposal.

Preparation Time

How Much Time Can We Expect to Spend on Preparing a Proposal?

It is difficult to provide advice on this because so much depends on the complexity of the requirement and the magnitude of the potential contract. Some proposals take as little as half a day to prepare and some can take months!

This is also dependent on whether the proponent has done a proposal before and whether they are utilizing the services of a professional proposal writer.

How do We Make Sure We Hear about Any Changes Made to the RFP Before it Closes?

If there are any changes, we will notify you of this by phone call, by email, and/or eProcurement system.





Project Budget

Does the RFP Provide the Budget?

There are a couple of ways the Request for Proposal can be set up. Usually, the Request for Proposal will describe what is needed and ask you for a solution and for your price to deliver that solution. But on occasion, through the Request for Proposal, will describe the project, tell you the budget, and say, in effect, “How much of our wish list can you provide for this money?”

If Not, Can We Find out How Much Money is Set Aside for the Project?

If the budget is not given in the Request for Proposal, then we will not be letting any firm involved with the RFP know our budget. This is in part because when organizations are looking for creative solutions to their situations, they are often interested in seeing a range of solutions and prices. By releasing a budget figure an organization may limit the options.

Insurance

The contract usually requires contractors to indemnify the organization conducting the RFP against any losses it incurs because of the contractor’s activities in performing the contract.

To ensure that contractors fulfill this indemnity, we require evidence of adequate liability insurance. Arrangement and payment of this insurance are the contractor’s responsibility.

Proposal Preparation

Content: What Makes One Proposal Better than Another?

The proposal that best demonstrates that it meets the specified needs will receive the highest score. Before you start writing, there are two things you should determine: The audience and the message.





The audience is easy to ascertain; proposals are evaluated by the organization represented in the RFP who will be actively involved in the subsequent contract.

The second thing of importance is the message: What exactly are we looking for? Your proposal should not just describe what you would do if successful, it must be able to convince us that:

- You understand its request.
- Its objectives will be achieved by entering a contract with you.

Where Do We Start?

Read all the instructions and explanations. Ensure that you have read all the information in the Request for Proposal, and you understand the request, bid specifications, and concerns.

We Could Offer the Top-of-the-Line Solution or the Bare-Bones Version. Which is Going to Win the Contract?

The evaluation criteria are the keys to your success. They show you how proposals are going to be evaluated so you can propose an appropriate solution.

First, whichever proposal you submit, it must meet all the mandatory criteria. Then the order of importance of the desirable criteria, and their relative weightings, will determine the content of your response.

If you are still unsure of what type of proposal would be best, you can submit more than one.

Format: What Format Should the Proposal Take?

Many Requests for Proposal will include a suggested format, such as the one described below. If so, the suggested format and sequence should be followed to ensure your proposal receives full consideration. If no format is suggested, the following would work for most proposals:

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- Title Page, showing Request for Proposal number and/or title, proponent's name and address, closing date and time, proponent's telephone, email address, point of contact person, and any other pertinent information.
- One-page letter of introduction signed by an authorized signatory for the proponent.
- Table of contents including page numbers. Make sure all the pages are numbered.
- A short one- or two-page summary of the key features of the proposal.
- The body of the proposal.
- The Pricing formula in detail for each item – Description, Item Number, Unit of Measure, Price, etc. (if applicable).
- Any additional information, brochures, warranty overviews, etc. (May take the form of appendices).

Partners

Can We Sub-Contract?

Yes, you are usually free to sub-contract if no conflict of interest is created by your doing so. You must identify all sub-contractors in your proposal and state that you are willing to take responsibility for work performed by the sub-contractor(s).

How Should this Be Addressed in the Proposal?

If you are awarded the contract and later want to change one of the sub-contractors, you will have to get approval before doing so.

Can We Get Together with Another Company to Submit a Joint Proposal?

Yes, if the proposal makes it clear that one of you is going to take overall responsibility for the work done and as long as there is a legal entity with whom we can enter a contract with. Again, this is only permitted where no conflict of interest is created.





Resumes

Should We Include Resumes?

Sometimes the RFP will specifically request résumés. If it does not mention them and the experience and skills of the project team are being evaluated, it would be an innovative idea to include them.

Should Resumes be Customized for Each Proposal?

Yes, to the extent practical. It is up to you to decide how much time and effort to put into proposal preparation. Ideally, résumé's will be in the same typeface as the rest of the proposal and will highlight skills and experience relevant to the project. They should not be too long.

Detail Level

We Have Done Lots of Work for the Company Being Represented. Do We need to Describe Our Company's Experience in Detail, the Way We Would to a New Client?

Yes, you do.

Each proposal must stand-alone and will be assessed on its merits. To ensure fairness to all, information not contained in the proposal will not be considered during evaluation.

How Much Detail Should We Include in Our Proposal?

Evaluations of proposals are not a matter of checking boxes to indicate that a criterion has been addressed or not. Therefore, to address a topic by saying "Yes, I will do this" is insufficient. We want to know how you will do it. The preferred method is to avoid simply paraphrasing our requirement(s).

Below are two examples:

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Example One

Statement in Request for Proposal: Building should be readily accessible by people with physical disabilities.

Response A – Not Recommended

Our building is readily accessible by people with disabilities.

Response B – Recommended

Our building was selected with our clients in mind. We are on a main bus route, the front door of the building is right on the sidewalk in front of the bus stop, and there is a parking lot directly besides the building. The floors inside the building are covered with carpet that is safe and smooth. Although there is a large elevator to the second level, most events take place on the main floor, which has no steps. The security podium at the building entrance is always staffed.

Example Two

Statement in Request for Proposal: Proponents should have extensive experience in this or a related field.

Response A – Not Recommended

Proponent has extensive experience in this field.

Response B – Recommended

The proposed project manager has been a technical writer for twenty-three years.

For nine years he was with Microsoft, responsible for providing technical writing training and advice to staff and clients. He now lectures on Technical Writing at the University of Washington. Lists of his recent publications are attached.





In addition to his lecturing, in the last three years the proposed project manager has completed the following contracts:

Accomplishment #1.

Accomplishment #2.

Accomplishment #3.

Can We Submit Both Ideas?

Yes (unless of course the Request for Proposal specifically allows for only one proposal). Submit the two ideas, as two separate stand-alone proposals so they can be evaluated separately, in the same way as proposals from two different companies would be.

Criteria Evaluation

What Do the Percentages Beside the Evaluation Criteria Mean?

The Evaluation Criteria Can Differ for Each RFP

They show the weighting that will be placed on each criterion during evaluation. If “experience” shows as 25%, it means that points for experience account for 25% of the total mark.

If these percentages are not listed in the RFP Specifications, you can follow the format of pricing, service, warranty (if applicable), and experience.

Is it Possible to Score Nothing at all on a Section and be the Overall Winner?

It could be, but it is unlikely. It depends how the evaluation is conducted. Many times, there will be an “upset” score, so that proposals will have to score a minimum mark on a given section to be further evaluated.





In the example above, where experience is given 25% of the total mark, we may have decided that experience is sufficiently important that it would be unwilling to enter a contract with a company that did not have at least a minimum level of experience. In this case, the available percentage could be 25%, but proposals may have to score at least 15% to receive further consideration.

What are the Mandatory Criteria Versus Desirable Criteria?

Mandatory criteria describe the features your proposal must have, or elements it must contain, to receive further evaluation. We determine whether you have met each criterion is by a simple “yes” or “no.”

Desirable criteria represent those features we would like to see in your proposal. Your score in this section indicates how far your proposal goes towards providing what we are looking for.

Are Evaluation Criteria other than those Identified in the RFP Used?

No. We can only evaluate your proposal in accordance with the criteria and weightings previously provided. However, the Request for Proposal will not usually show a detailed breakdown of how we intend to award points for each of the criteria.

Price: Do We Need to Submit Our Best Price Now, or Will Prices be Negotiated Later in the Process and/or with the Winner?

Because price is being evaluated along with all the other aspects of your proposal, you should put forward your best price now to win the business.

Each RFP project is different because every company and bid are different. There are some Bids that take several negotiations between all proponents of the RFP.





Expenses

Proposal Preparation is Costly – Can We be Reimbursed for Expenses?

No. While we understand that preparing a proposal can be expensive, we believe the Request for Proposal to be the most fair and effective way to solicit ideas and give companies the opportunity to compete for our business. We make every effort to eliminate unnecessary expense to proponents, but we are not able to pay for the preparation of proposals.

Cover Letter

Does the Format of Our Cover Letter Matter?

The cover letter will probably only be about three-quarters of a page long. It should briefly:

- Introduce the company, e.g., “we are a Seattle based plastics manufacturer employing 92 people with 2 plants in Auburn and one in Seattle.
- Highlight the most convincing features of the proposal, based on results rather than process.

The person authorized to sign on behalf of the proponent should sign the cover letter. It should state that you agree to all the terms and conditions of the Request for Proposal and you agree to be bound by statements and representations made in the proposal and to any agreement resulting from the proposal.

Timeframe

How can We Prepare a Schedule with Timelines that are Accurate?

Your schedule can make certain assumptions and highlight the various decision points. A separate explanation could identify the assumptions and explain how different decisions might affect the schedule.





Executive Summary

What Should Be in the Executive Summary?

The executive summary should normally not be more than a couple of pages long and it would explain in simple terms what you are proposing. It should describe both the anticipated results and the process you would follow to achieve these.

The executive summary should contain all the basic elements of your proposal so that anyone not on the evaluation team would be able to read the summary and understand exactly what you are proposing.

The summary should be written in plain English, readily understood by the layperson (or the specified language in the RFP). It would not contain technical details except to the extent these are essential to an understanding of the proposal.

Avoid

Is there Anything We Should Specifically Avoid Doing or Saying?

- Avoid underestimating the evaluators. People evaluating the proposals are knowledgeable in their fields.
- Do not take this opportunity to point out any flaws in our existing program unless it is necessary to do so to describe the benefits of your proposal. Proposals should be upbeat and positive and should be suggesting solutions.
- Do not impose conditions. If you make it too difficult for us to accept your proposal, you can be reasonably sure the proposal will not be accepted.
- Define any acronyms used and refrain from using technical jargon. Your proposal should stand on its substance and not be overly complicated to describe your solution.
- If you are making any assumptions in preparing your proposal, make sure they are clearly stated.





- Do not rely on anyone else to get your proposal in on time. Late proposals cannot be accepted, regardless of the reason for being late.

Checklist

The following checklist will help you make sure you are finished with your Request for Proposal:

- Everyone involved in putting together the proposal has read and understand the requirements.
- You have included any attached pricing lists via email, portal, and/or mail.
- The proposal addresses everything asked for.
- The proposal meets all the mandatory requirements.
- The appropriate number of copies of the proposal has been made.
- The proposal clearly identifies the proponent, the project, and the Request for Proposal subject and/or number.
- The proponent's name and the Request for Proposal number and/or RFP Title appear on the proposal envelope.
- The proposal will be at the closing location before the closing time.
- The proposal is being delivered by hand, courier, mail, portal, or email.
- The cover letter has been signed and attached.

The Proponent's Meeting

Attendance: Do We Have to Go to the Proponent's Meeting?

Not usually. If attendance is mandatory the Request for Proposal will say so. Attendance is optional unless the meeting incorporates a site visit. However, if attendance at the meeting is mandatory you will have to go if you want your proposal to receive consideration.





The RFP will state if there is a proponent meeting. If it is not stated, that means there will be no proponent meeting.

Asking Questions

Can We Ask Questions without having the Competition Find out Who Asked?

Yes. Usually, you will be offered the opportunity to submit questions in writing in advance of the meeting. These questions will be answered at the meeting without identifying the enquirer.

What Sort of Information Should We Expect to get from the Proponent's Meeting?

The proponents' meeting is intended as an information session to ensure you have all the information needed to submit a sound proposal.

You can get clarification on anything that is unclear in the Request for Proposal. If the Request for Proposal does not say so, you can find out if the service was contracted previously or done in-house; you can gain an understanding of the rationale for decisions made; you might get an idea of who else is bidding; and you can ask what the anticipated timeframe is for contract award.

How Can We Make Sure We Ask Enough Questions at the Proponents Meeting to Get the Information Needed, But Not in such a Way We Lose Any Advantage We May Have?

Because it would be too easy to give away your ideas, and with them your competitive edge, by asking questions in the wrong manner, it is a good idea to spend some time in advance of the meeting preparing the questions you are going to ask.

You might think twice about asking questions like "Would the following approach be acceptable?"





Proposal Presentation and Submission

Appearance: Does it Matter How Our Proposal Looks?

There may not be any points allocated to the beauty of the proposal, but first impressions count. You want us to believe that your company is professional and organized, and your proposal should reflect this. It should not be necessary to go to a lot of expense, but care should certainly go into presentation.

Here are some examples or suggestions. None are rules. Although we have tried to identify common approaches, your judgment will always be the best.

- Use a binding method that works, even if it is only a staple. The pages should not fall out when the evaluation committee reads your proposal.
- Use short paragraphs and leave plenty of white space on each page.
- As much material as possible should look as if it was created specifically for this proposal. Attachments should all be pertinent to the proposal. Keep in mind that too much material can be off-putting to evaluators and can even detract from the parts you want them to focus on.
- Related topics should be kept together, and statements should not be repeated in the proposal (except statements from the executive summary).
- Avoid cross-references to the extent possible, as it can be hard for evaluators to evaluate the proposal if they must frequently jump between sections to get the full picture.
- If you choose to use color to highlight, use it sparingly for greater impact. Any photographs used to illustrate a point should be clear and attractive and not too busy.
- Section headings usually work best if they are the same size as the text or only slightly larger, and it is often best to stick to one typeface throughout the proposal, varying only by using bold face or underline or other formatting. Avoid excessive use of capital letters.





- Always number the pages, preferably with one numbering series from the first to the last page.

How Much Emphasis Should be Placed on Grammar, Spelling, and Layout?

Your proposal should be easy to read and understand.

Use plain language and write in short, clear sentences. You want to make sure the evaluation team gets the right message. Errors can be distracting so although you are not writing a novel and are not being given marks for creative writing, your spelling and grammar should be accurate.

Should We Send Our Proposal Electronically or by Paper?

Unless the Request for Proposal states otherwise, send a printed document, with the requested number of copies. Sometimes we will request the proposal, or a portion of the proposal, to be submitted on a disk or via email, though, so you should read the Request for Proposal carefully for instruction.

In the case of multiple items, we will email the list of items for bidding. If instructed to do so, we expect the attachment to be filled out and sent back to us via email.

How Long Should the Proposal Be?

Only if it takes to provide the information.

Proposal Submission

How Important are the Noted Closing Date and Time?

Absolutely crucial. Proposals received after the closing time will not be evaluated.





Proposal Evaluation

The Steps: How are Proposals Evaluated?

1. Shortly after the closing time, the evaluation team meets to review the proposals. The first thing the team does is make sure each proposal has met all the mandatory criteria. Those not meeting all the mandatory requirements are put aside and will receive no further consideration.
2. Those proposals meeting the mandatory criteria are assessed and given points to indicate how the proposal performs against each of the desirable criteria. Each team member giving a number and the recorder writing down the average of the marks can do this, or it can be done by consensus. Either way, the proposal is discussed in detail and opinions are exchanged as to the extent to which each criterion is met. A scoring sheet like the one provided at the end of this document, although with additional space for comments, is used on the RFP's that require it.
3. After proposals have been evaluated against the desirable criteria a lead proponent may have been identified. Should the lead proponent still prove successful after these checks, it will be determined to be the winner. If the lead proponent fares poorly on the reference checks, the second proponent's references may be checked, and so on.
4. Once a winner is selected, all proponents are notified, and a date is set with the winner to commence discussions relating to the contract and statement of work if applicable.

What is the Evaluation Team Looking For?

The committee will score your proposal against the evaluation criteria shown in the Request for Proposal or according to price, warranty, references, solution provided, the ability of your company, and presentation.

Sometimes the RFP shows broad headings, such as, proponent experience 40%, program content 20%, and price 40%. These headings may be broken down into sub-criteria for assignment of points, but the sub-criteria will only enlarge upon the already-provided criteria.





They will not introduce new categories. The only things that can be evaluated are those criteria identified in the Request for Proposal.

Presentation: Will We Be Given the Opportunity to Make a Presentation to Explain our Proposal?

Not usually. The proposal should contain all the details of your proposed solution so that it can be evaluated without the need for additional information. If presentations are planned, the process is generally described in full in the Request for Proposal.

Consideration: How Do We Know Our Proposal Will Receive Full Consideration?

Make it easy to read and provide all the requested information. There is usually a section of the Request for Proposal that will tell you what must be in your proposal. If not, you should follow the RFP format as stated above.

Before you submit your proposal, make sure everything in this section and everything described under “Evaluation Criteria” is either provided or addressed. All proposals that meet all mandatory criteria will be evaluated in full.

Contract

Negotiation: Who Can We Expect to see During Contract Negotiations?

It all depends on the size of the project and the scope of the project. If the scope of the project is larger and involves more groups, then you would see those needed to conclude a successful RFP.

What if the Parties Cannot Reach Agreement on Contract Terms?

Most Requests for Proposal say that if we cannot reach agreement with the winner within thirty days, we reserve the right to stop negotiations and move on to try to reach an agreement





with the proponent who came in second or to cancel the process. If the RFP does not state this, it is our policy.

Content: Is the Organization Conducting the RFP likely to Select Another Company and then Incorporate Some of the Ideas in the Contract?

This would be contrary to any sound best procurement practice.

Dispute: How are Contract Disputes Resolved?

Dispute Resolution processes are often outlined in the terms of the RFP and contract.

Feedback: How Soon Will We Find Out Who Has Won the Bid?

Whether a winner or not, notifications and outcomes usually take place within a week or two of the award decisions, providing all the approvals are complete to proceed.

Concerns

If a Proponent Has Concerns with the Fairness of the Process Who Should be Communicated To?

If you have concerns with the process you should start by talking with the contact person shown in the Request for Proposal.

How is Your Procurement Proposal Process? Do You Have a System and Process?





Proactive Partner Procurement Notes

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Section 10: Are there Different Cost Reduction, Savings, Efficiency, Best Value, and Change Types? Can they be Sustainable?

Hard Cost Savings versus Soft Cost Savings

There are two ways to reduce costs in organizations: one is through hard cost savings and the other is through soft cost savings. Hard cost savings relate to reducing the cost of a good and service from the current amount being paid to a new contract amount, or a change in process/technology/policy that directly reduces expenses, and process improvements. Soft cost savings relate to those areas that reduce costs through less labor, more efficiency, productivity increase, usable information, better compliance, better work environment, and other related areas.

What many organizations do not realize and accomplish is how to continue sustainable improved cost savings through both hard and soft cost savings. Many try in vain to do this by downsizing people, but only find that morale and loyalty hurts their bottom line long-term. There is an old saying: "Steady plodding brings prosperity." If profits are all about the quarterly results above all other things, not incorporating the long-term sustainable mission, vision, and growth of the organization (cost savings incorporated in this plan), then this organization will encounter a history of highs and lows, may be acquired/parceled out, or even go out of business.

This business generation has been taught that cost reduction takes place through labor. This is only a small part of how to reduce costs (both hard and soft) in an organization. There must be an entire plan that encompasses many areas. Cost savings is not just about the procurement department and a few other departments; it is about the entire organization. We have included some areas about the overall organization, as well as some procurement areas for your review and hope that they help you formulate your own successful cost savings roadmap.





Overall Organizational Area Examples

Below are some areas that can help you improve your bottom line and bring more growth within your overall organization:

- Procurement cost reduction through the Request for Proposal (RFP) process for the goods and services you are already buying.
- Effective communications that motivate staff to share their ideas.
- Executive and upper management support and empowerment to all staff so that they can perform.
- Create an organizational Standard Operating Procedure that outlines expectations and methods about how to improve bottom line costs with growth – such as, when to have meetings, what is covered in meetings, cost cutting ideas, ways to improve on time management, time management education, how to monitor areas for improvement or changing out to another method / solution, doing away with political and bureaucratic organizational areas that inhibit staff from getting done what they need to get done, how to reward everyone for their efforts and results (not just management), and many other areas that the team assembles (this team should include as many people as possible – the core team should include people at all levels in the organization, and the measure of success will be seen in the cost savings, the growth, and most importantly in the staff's attitudes and involvement over time because the environment has become a safe place to excel in).
- Reward staff for cost saving and growth ideas.
- Meetings that deliver results (hold each person responsible for their tasks, with deadlines, and consequences for lack of meeting these deadlines).
- Utilize results-oriented software for each organizational department (many organizations utilize procurement software that is very cumbersome, does not have effective RFP / Bid processes, is not user friendly, was implemented with finance and other areas in mind, is expensive, and has not delivered the expected results).





- Manage vendors effectively (create your expectations, terms and conditions, and vendor performance guidelines and ensure that each vendor understands these with written acceptance) – treat your vendors with respect because they are a vital part of whether you can deliver your goods and services to your customers.
- Create a benchmark for the procurement department, finance department, and warehouse/logistics department whereby each department head works with each other to continually work out challenges, improve systems, become more compliant, and help each other to not only purchase goods and services, receive them, but also pay effectively.
- Attract and hire only those people who fit what the organization is looking for (within the environment – will this person positively influence those in the organization and grow because they fit, or will they take away from it and not enjoy their work?).
- Where applicable by position, allow people to be project driven with deadlines instead of micromanaging people by the hour (it is proven that people will work harder and longer when they are given the opportunity to work in this atmosphere).
- Include IT in all areas for efficient, cost effective, user friendly, and usable systems.
- Where possible, allow staff to telecommute (it is a proven fact that those who can telecommute in their position, not only work longer hours, and get more done, but they stay at their company longer even without a raise – in other words, when given a choice of a higher paying job/or a raise or being able to telecommute, most choose telecommuting).
- Allow those who work in your team to excel and go beyond you!

Procurement RFP & Bid Area Examples

Below are some areas that might your RFP Scope of Work specifications, what you require within your RFP processes, bids, proposals, and negotiations for your organization. These are areas you would add to your bidding processes so that the participating vendors in your RFP process know what you expect in their proposal for your needs. Some of these areas are:

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T R A I N I N G
Steps for Success





- Online ordering that can be tracked, with reports that each location and the corporate office can review for trends, cost savings, items ordered only from the item list (uploaded into vendor website portal), etc.
- The item prices agreed upon and other related items for the designated contract term.
- Current and future inventory needs assessment (includes any future locations beyond the current location list of this RFP / Bid).
- As necessary, several rounds of negotiations will be conducted resulting in three finalists.
- The total solution provided in your proposal is most important (this includes service, history, pricing, commitment, representative dedication, cost, social responsibility, solutions, etc.).
- Provide the status of your company, type, and size.
- If this RFP includes Government Regulation Requirements, outline how your company addresses Green Procurement according to any Government regulation that applies.
- If the Federal Government is involved (Federal Agency or Contractor), outline how your company addresses Buy American according to the Different National Regulations, Clauses, Etc.
- Outline your company recycling program.
- Outline what your service contract includes, service hours, days of the week, turn-around time, and your service ability (specify delivery time from date of order).
- Include all other solutions, cost reduction strategies, and ideas.
- Outline your Return Manufacturer Authorization (RMA) procedures.
- Vendors are expected to closely read the terms and conditions and provide binding signatures as applicable in each document we send to you.
- The successful vendor shall procure and maintain the proper insurance from a carrier licensed to do business in the states specified in this RFP and can obtain insurance in any state that we conduct future business in – A certificate of insurance evidencing said





coverage shall be supplied by the successful vendor upon request, naming our company and each location as an additional insured under the liability policy. The liability policy shall contain a provision that such policy shall not be cancelled until thirty (30) days prior written notice of cancellation has been received by us.

- Vendors shall provide a profile of the company (ownership, office locations, number of employees, company background and history, company qualifications as a superior service provider for this RFP; and resumes for key staff to be responsible for contract performance).
- Pricing shall remain firm for the term of the contract, unless specified otherwise.
- In case of default by the winning vendor, we may procure the good(s) or service(s) from other sources and hold the vendor responsible for any excess cost occasioned thereby.
- Any submission not containing total costs will not be considered (no cost increases for the duration of the contract will be acceptable).
- Awarded Vendor must perform full-service support during normal business hours of 8 AM to 5 PM Monday through Friday within the pricing proposed and deliveries must take place between these same hours.
- All goods must be shipped with the applicable Material Safety Data Sheets (MSDS).
- Vendor must provide full time ongoing customer service support for any questions, challenges, and needs (this must be available at no additional cost).
- Payment will be made on goods and/or services purchased with net 30-day terms from invoice receipt.
- Billing will occur separately for each location, as well as the Corporate Office, unless otherwise stated.
- No fees, freight, re-stocking, maintenance, or charges of any kind will be paid, unless agreed upon for special items.
- The vendor, if a contract is executed, affirms that they are familiar with the conditions under which the RFP outlines and any work / service that is to be provided.





- Include a copy of your contract you would provide to us if you were to win this RFP.
- If you win this award, you will sign our contract as well.
- Shipping costs will be included in all the items listed in the MS Excel spreadsheet and this RFP.
- Approximate annual total for goods and/or services identified are between \$ _____ and \$ _____ (at our current pricing).
- Our corporate office and locations are as follows _____ (as of this RFP letter).
- Detail the process for ordering goods (supplies) including any electronic methods.
- List the main contact person for customer service issues, orders, and questions.
- List the main contact person for any additional needs and on-going pricing.
- Detail your capabilities for reporting (include sample reports).
- Describe your process for issuing credits for billing disputes.
- Detail any additional services, as it relates to the RFP, which would result in any additional charges if any.
- Include your RFP timeline in the RFP Scope of Work Letter you will send out to each vendor participating in this bid (first, second, and possibly third negotiations, when the proposals are due, how you desire to receive each proposal, etc.).

Benefits from Procurement Cost Reduction, RFPs, and Proper Negotiations

Below are some areas and outcomes that come from the procurement cost reduction, procurement outsourcing, and bidding processes we have conducted over the many years. There are many benefits that can occur from our RFP and Procurement Cost Reduction methodologies. Some of them are:

- Reduced costs and increase quality.
- Centralized procurement.
- Provide needed goods and/or services.
- New market development.





- Just-In-Time Inventory (JIT).
- Increased supply chain efficiency.
- Best value and remain competitive.
- Government compliance.
- Supplier performance improvement.
- Support day-to-day buying activity.
- Policy/Procedure creation, implementation, validation.
- Transaction automation and processing.
- Focus to core competencies.
- Strong end-user to provider relationship developed.
- Lower procurement related labor costs.
- Overall procurement performance improved.
- Greater control, reporting, and vendor compliance.
- Organization and internal cost performance.
- Data for benchmark analysis, goals, and results.
- Procurement personnel training.
- Hedges future increase of raw materials.
- Procurement department creation and implementation.

Cost of Requisition-to-Order Cycle

A study by *Aberdeen* measured the costs of the requisition-to-order cycle in many companies. What they found through procurement outsourcing was lower costs through lower transaction costs, as well as from lower absolute costs on the items purchased. Before outsourcing the cost was \$33.00 – after outsourcing, the cost was \$14.15 – a savings of more than 57% in staff resource costs.





Aberdeen's research found that for each dollar of spend brought under outside procurement management, companies were able to realize cost savings of between 5% and 20%. Keep in mind that this is an average, with larger companies. With smaller and medium sized companies, there is a greater opportunity to increase the percentage savings.

Cost Reduction and Avoidance

Below is some great information from eSourcingWiki, along with our input, which summarizes cost reduction and avoidance in an organized, insightful, and understandable way.

Introduction

We utilized eSourcingWiki, because of the great explanation and outline about cost reduction and avoidance (URL listed below for reference). The data, "Defining Cost Reduction and Avoidance" includes seven major points. They are:

- Critical to the sourcing professional's mission of reducing costs and delivering savings is the proper categorization of the several types of cost reduction and their application to the company's operating budgets and profit and loss (P&L) measures.
- Cost reductions come in two distinct categories: "hard" cost savings and "soft" cost avoidance.
- A great deal of supply management's efforts results in cost avoidance, yet this category is more intangible than cost savings.
- Even though many people might find it easy to discount cost avoidance as "phantom" or lesser savings to the company, these are "real" savings nonetheless and, despite the challenge, these savings must be properly quantified.
- Flexible and comprehensive IT systems are critical, as they are the medium that will provide the visibility needed to accurately assess costs and expenditures.
- Cost savings and cost avoidance metrics should be standardized throughout the company, should be clearly defined, and should be available to all personnel so that each area can be tracked.





- The key to success is to create a proper incentive structure for procurement, purchasing, and supply management personnel.

Seven Major Facets

This section discusses the seven major facets of cost reduction and avoidance identified in the introduction in detail.

Proper Categorization is Critical

In any organization if there is no measurement there will be no successful management (with no measurement there is no management). Every member of the procurement / sourcing team needs to measure, using standardized metrics, cost reduction efforts, but before metrics can be applied, the data needs to be normalized. This involves properly categorizing each type of cost reduction. Thus, the first step is to define each type of cost reduction and how it relates, directly or indirectly, to the company's budgets and / or profit and loss measures. Some categories will be obvious, such as material cost reduction or freight reduction; some will be less obvious, such as decreases in process cycle times.

Cost Reductions may be “Hard” or “Soft.”

Hard cost savings are easily defined as and characterized by:

- Year-on-year saving over the constant volume of purchased product/service, actions that can be traced directly to the P&L.
- Direct reduction of expense or a change in process / technology / policy that directly reduces expenses.
- Process improvements that result in real and measurable cost or asset reductions.
- Examination of existing products or services, contractual agreements, or processes to determine potential changes that reduce cost.
- Net reductions in prices paid for items procured when compared to prices in place for the prior 12 months or a change to lower cost alternatives.

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Soft cost avoidance is much more difficult to define. Some suggested areas and definitions include:

- Avoidance is a cost reduction that does not lower the cost of products / services when compared against historical results, but minimizes or avoids entirely the negative impact to the bottom line that a price increase would have caused.
- When there is an increase in output / capacity without increasing resource expenditure, in general, the cost avoidance savings are the amount that would have been spent to handle the increased volume / output.
- Avoidances include process improvements that do not immediately reduce cost or assets but provide benefits through improved process efficiency, employee productivity, improved customer satisfaction, improved competitiveness, etc.; over time, cost avoidance often becomes cost savings.

Cost Avoidance is More Intangible

Some examples include:

- Resisting or delaying a supplier's price increase.
- Purchase price that is lower than the original quoted price.
- Value of additional services at no cost (e.g., free training).
- Long-term contracts with price-protection provisions.
- Introduction of a new product or part number requiring a new material purchase; spend is lower, but savings classified as avoidance due to a lack of historical comparison.

Quantifying Cost Avoidance / Challenging

Some of the challenges faced by a company as they seek to assess cost reduction include:

- Cancellation of net savings due to an increase in the business unit's cost structure.
- Supply management's role in the cost savings allocation decision.





- Chronology of supply management’s involvement and the need for budget cuts.
- Visibility, in terms of systems, people, and metrics.
- Total Cost of Ownership (TCO) concept for purchases of items / services.
- Multi-year issues in cost savings.
- Creating a proper incentive structure for supply management personnel.

Required Flexible IT Systems

Systems, understood as both IT infrastructure and company policies, need to be in place to allow managers to get a realistic handle on what costs are, what areas might benefit from cost reduction efforts, and how company policies are designed to track and execute these savings. Also, processes for executing and tracking cost reduction projects should be in place and available to all personnel.

Company Standardized Metrics

The establishment of clear metrics and definitions helps avoid “fuzzy math” or the arguments over what amount has been saved in each cost savings / avoidance initiative.

Proper Incentive Structure Success

Like all employees, a supply manager will engage in behaviors rewarded by the company. This will create a problem if cost avoidance or cost reduction efforts beyond hard savings do not count toward a procurement / supply manager’s compensation and performance.

A successful company must count cost reduction as savings, clearly laying out how different cost reduction efforts count towards goals, and what their relative weighting or importance is. The share of credit that goes to supply management in cross-functional initiatives needs to be clearly defined and procurement / supply managers need to be recognized for their contribution to improvement projects with “soft” short-term benefits but “hard” long-term savings.





This can be particularly challenging in evaluating actual savings in costs other than the price of a purchased item or service. Usually, items such as freight and duties are accounted for in an applied "overhead" account.

A procurement / supply manager who agrees to pay 5 percent more for an item to achieve a 5% duty savings and a 5% freight savings might be penalized by the performance metric system.

One idea is to provide procurement / supply managers with variable compensation as part of their incentive for meeting various savings goals. Such bonus plans are common for senior management, marketing / sales, and production. Such (uncapped) bonus plans could have an overall positive effect on the company's overall cost reduction goals.

And given the circumstances, who is likely to work harder: a procurement / supply manager who makes \$100K a year regardless of his performance, or a procurement / supply manager with the potential to double their salary if they hit a savings target of 5M?

Types of Cost Reduction and Avoidance

There are many types of cost reduction and avoidance in addition that need to be recognized as valid cost savings. This section presents some examples of cost reduction that can contribute significantly to the organization's bottom line.

Negotiated Discounts Against Material Cost Increases

If the products being sourced are primarily made from a commodity whose average market price or index has increased significantly since the last procurement / sourcing cycle, and a buyer manages to negotiate a price that increases less than the increase in underlying material costs since the last sourcing event, this is a valid cost avoidance.





For example, if a buyer was sourcing gold-plated circuitry, with gold \$649/oz., and the last time the buyer sourced the circuitry gold was roughly \$590/oz., and gold makes up 25% of the cost of production of the gold-plated circuitry, then the buyer should expect the cost of the product to increase by at least 2.5% (on a unit basis). If the cost increase is less than 1%, then the buyer has obtained a cost reduction by way of a successful sourcing event. The formula to measure this type of cost avoidance is:

$$((\text{new raw material cost} - \text{old raw material cost}) / (\text{old raw material cost}) * (\text{material percentage of cost}) - (\text{actual percentage increase})) * (\text{total cost of buy})$$

For our example if the buyer was buying 10M worth of gold-plated circuitry:
 $((649-590) / 590 * 0.25 - 0.01) * 10M = 150,000$

Substitution

If a buyer manages to find another product that performs the same function or can collaborate with a supplier to produce a functionally equivalent specification that is more economical to produce, then the buyer has obtained a cost reduction on behalf of the organization. Substitution cost avoidances are quite easy to calculate.

$$(\text{Original product cost} - \text{new product cost}) * \text{Quantity}$$

For example, if engineering thought the organization needed a Widget Grinder 10000 that cost \$1M, but the buyer was able to determine that the Widget Grinder 8000 that could be obtained for a mere 750K would more than suffice, then the buyer saved the organization:

$$(100000 - 750000) * 1 = 250,000$$





Waived Fees

This form of cost avoidance is quite self-explanatory. For example, if a supplier normally charges an installation fee for a new piece of equipment, but the buyer can negotiate free installation, then this would be an example of cost avoidance of the waived fee variety. Another example would be free training or services. However, this is one example where the cost avoidance is not equal to what the vendor quotes, but what the market average for the service is. Thus, if two days of installation time was included in a purchase, and the average rate for that service from a third-party vendor is 2000 / day, then the buyer saved the organization 4000.

Inventory Reduction

This occurs when the buyer comes up with a strategy to reduce the inventory that the organization needs to hold at any given time. Inventory is associated with a carrying cost and inventory reduction often represents significant cost savings to an organization over time. Inventory can be reduced when a buyer finds a supplier who can handle a shorter lead time or when inventory is turned over to a vendor who specializes in inventory management (Vendor Managed Inventory). In this situation, the cost avoidance is calculated as:

(Number of units of inventory removed * carrying cost per period)

Process Improvement

Processes consume overhead, and overhead costs money. Thus, any significant process improvement could represent significant cost avoidance to an organization. However, unlike the other types of cost avoidance, process improvement cost reductions can be a bit tricky to evaluate.





The key is to look at the average number of units of product or work produced per day, week, or month prior to the improvement. Then, look at the number of units of product or work produced per day, week, or month after the improvement and calculate improved percentage.

If 40 units were produced per day before the improvement and 50 units were produced a day after, then the process improvement was 25%. Then, the cost reduction can be calculated as this percentage of the overall overhead cost attributed to the process since the process is now more effective. Thus, if the cost per day before was 10,000, then the cost avoidance is 2500 since it would take 12,500 to produce as many units as possible under the old system of production.

(Current number of units – old number of units) * operating cost

“Cancellation” of Net Savings

“Cancellation” of net savings can occur as the result of an overall increase in the business unit’s cost structure. Sourcing should not be held accountable for cost increases outside their control, such as increased demand (which generates higher spend) or increased operating costs in overhead or salaries solely under the control of the appropriate unit manager. Furthermore, savings should be calculated on a per-unit basis relative to historical costs, market baselines, or otherwise expected spend levels, depending on the context of the project. Examples:

- A buyer is sourcing an existing product and the buyer expects a cost reduction. Last year widgets cost \$2 each and production required 10 units. This year, the buyer negotiated the cost down to \$1.50, but production ended up ordering 12. If one looks at raw numbers, last year production spent \$20 and this year production spends \$18, a difference of \$2. But this does not represent the true savings of \$6, since production saved \$0.50 per unit on each of the 12 units they bought.
- If the buyer is sourcing a new product, chances are the buyer could still be saving the company money no matter how much the product costs per unit. Measure the cost

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avoidance using the average unit price in the marketplace, as obtained from a respected market analysis firm or other third-party source. (Do not use initial supplier bids since the argument could be made that the suppliers bid high in the expectation of a reverse auction or other sourcing event designed to lower their quoted costs).

- If the products being sourced are primarily made from a commodity whose average market price or index has increased significantly since the last sourcing cycle, measure the cost avoidance relative to the percentage increase. If a buyer was sourcing gold-plated circuitry, with gold \$1649/oz., and the last time the buyer sourced the circuitry gold was roughly \$1590/oz., then the buyer should expect the cost of the product to increase by at least 4% of the raw material cost (unit basis). If the cost increase is less than 4% of the raw material cost, then the buyer has obtained a cost reduction by way of a successful sourcing event.

Supply Management's Role in the Allocation Decision

If the team is cross-functional, then a decision needs to be made up front, by an appropriate manager, with respect to how much of the cost savings will be attributed to supply management and how much to the other business unit(s). This could be an even split, or a weighted split dependent on who is taking the lead and how the work is expected to be split among the team members. There is no fixed rule here, but all parties involved should agree that the split is "fair" before the project gets underway.

Visibility

Visibility here refers to the systems, people, and metrics. The agreed-upon metrics and the data that the cost avoidance metrics are calculated on need to be accessible to the entire organization so that there are no challenges as to their accuracy and validity.





TCO Concept for Purchases Items / Services

TCO is a hard calculation. It includes all the direct cost components that go into the landed cost calculation (unit cost, freight, interim storage, tariffs, etc.), storage costs, and processing costs. The easiest way to approach this calculation in cost reduction metrics is to base the cost on landed costs and then factor in adjustments for any additional costs that are above or below average.

For example, if a buyer was sourcing a food product and only one option is frozen, then the storage costs for all items but the frozen item will be the same, with the frozen item costing more due to increased energy costs of using a freezer over a fridge, and only the landed cost for the frozen item needs to be adjusted. If the buyer worked for a chemical manufacturer, and all but one option can be used as-is without refinement, then the processing costs for all but the option that requires refinement will be the same, and only the landed cost for the product that requires a refinement phase will need to be adjusted. Similarly, when computing savings, a buyer needs to adjust for differences in incurred costs between respective time periods.

It could be argued that this is not a proper TCO, but when it comes to calculating savings, mathematically speaking, it is only the differences in cost between last year's buy and this year's buy that matters, and this simple approach is sufficiently accurate for TCO calculation purposes.

Multi-Year Issues

Sometimes the savings from switching to a new product or new supplier will not be realized until the second or third year of a contract, due to up-front costs associated with new equipment or investments. However, it is important that supply and spend managers be rewarded each year for their contribution to this savings initiative.





Although one may think that one may not be able to accurately calculate savings from such an endeavor until the contract ends, since investment costs have to be amortized, if investment costs are equally amortized over a fixed period, then an organization could adopt a calculation that realized savings each and every year (if losses occurred in the first year, they could be carried over and then the sourcing team could be rewarded as soon as hard savings were realized).

For example, let us consider the scenario where a 3-year contract was signed for gadgets with a new supplier who promised, based on demand estimates of 1000, 1500, and 2000, all the gadgets the organization needed at \$7 each, compared to the \$10 the organization is spending now with the current gadget supplier. However, switching requires an upgrade of the production process, and this is going to cost \$5,100 up front.

At a contract level, the buyer expects to save \$8,400 since instead of spending \$45,000 for 4500 units; the buyer is in fact spending only \$31,500 plus \$5,100, or \$36,600. If, in fact, the actual demands were 900, 1600, and 2200, then the actual savings could be calculated on a unit basis using an amortized fixed cost of \$1,700 a year as follows:

$$\text{Year 1: } (10 * 900) - (7 * 900 + 1700) = 9000 - (6300 + 1700) = 1000$$

$$\text{Year 2: } (10 * 1600) - (7 * 1600 + 1700) = 16000 - (11200 + 1700) = 3100$$

$$\text{Year 3: } (10 * 2200) - (7 * 2200 + 1700) = 22000 - (15400 + 1700) = 4900$$

Or:

$$(\text{Old contract cost}) - (\text{new contract cost} + \text{amortized cost})$$

Alternatively, the organization could estimate total savings up front, amortize savings for the year, and then correct in future years using actual demands versus projected demands. If the





calculation is sound and agreed upon up front, it does not really matter if the sourcing professional is fairly acknowledged for the contributions made.

Defining Cost Avoidance

Cost avoidance is a cost reduction that results from spend that is lower than spend that would have otherwise been required if the cost avoidance exercise had not been undertaken. This accounts for the situations where spend is higher due to higher demand but overall cost per unit is lower, where up-front investments reduce overall spend in one or more categories over a multi-year initiative, and where a process improvement or product replacement resulted in a lower operating cost or cost per unit compared to what the company would have spent had the company not improved the process or replaced the product.

Note: the cost reduction enabled by a process is easily calculable by comparing the average operating cost for a fixed period before the process change with the average operating cost for a fixed period after the process change, and everything that has been mentioned is measurable and calculable.

Thus, if the organization adopts this open definition of cost avoidance and maintains a document of common examples and their associated metrics, which is updated each time a new type of project is encountered that could result in a cost avoidance, the organization can fully quantify the “hard” and “soft” savings delivered by the sourcing team to the management team.

By doing this, the organization will have clearly defined cost reduction efforts, tied them to savings, defined their relative importance, and defined the share of the credit that will go to supply management in a cross-functional initiative. The organization will also have avoided the problem where the team over concentrates on finding “hard” dollar savings, which is a serious





problem if raw material and energy costs keep rising significantly and the largest savings potential is in the “soft” savings realized by long-term process and product improvements.

Strategies for Identifying Cost Reduction Opportunities

There are many types of types of cost reduction and avoidance opportunities that could be significant to an organization and for which a buyer could get benefit for. In a large organization, there are usually a larger number of opportunities for cost reduction and avoidance because there is a lot more spend, along with other areas.

Analyze the Supply Chain for Cost Reduction

The reality is that unless an organization is best in class, and the harsh reality is that only a few companies are best in class, the organizational supply chain is losing cash in many areas.

Take a simplified PC supply chain for example. Raw materials are mined and shipped to a processing plant where they are refined and shipped to base part manufacturers. These base parts (such as chips, wires, etc.) are then shipped to component manufacturers who produce circuit boards, hard drives, cables, etc. These base components are then shipped to an assembly plant where the PC is assembled. From the assembly plant it is shipped to a central distribution center where it is then shipped to a regional distribution center, store, or consumer’s home, depending on the sophistication of the distribution center. Furthermore, the specifics of the supply chain depend on the suppliers the organization chooses to buy from, the carriers the organization chooses to handle its transportation requirements, and the consumer markets the organization chooses to sell to.

From this example, the following fundamental sources of cost can be derived:

- Labor (incorporate raw material collection, processing, and subsequent part and component handling).





- Parts (incorporate design, component raw materials, and built-in production operations).
- Operations (incorporate part production, handling, and overhead).
- Transportation (incorporate raw materials, parts, components, and finished product).
- Buying (who the organization buys from, where, and when).
- Selling (who the organization sells to, where, and when).

However, from a savings viewpoint, not all of these are equally important, since only some of these will be hemorrhaging cash in the supply chain, despite the absolute value on the cash flow statements. Furthermore, not all these sources of cost are under your control. Labor and selling, if being done right, will not be hemorrhaging cash, and even if they are, procurement only has limited control.

- Labor is defined by market rates. Moreover, companies that pay more for more productive people often have a higher ROI per person than those that pay less.
- Selling is marketing, materials, and labor. The first is generally not under your purview, and again the issue is not cost, but results; the second is covered by buying; and the third was just discussed.

Thus, from a supply chain perspective, the fundamental sources of cost in an organization that are likely ripe with cost reduction opportunities are:

- Parts.
- Operations.
- Transportation.
- Buying (goods and services).



How does a buyer identify associated cost reduction opportunities? The buyer applies tried and true sourcing and procurement methodologies and technologies to each of these areas, analyzes the results, and extracts the most likely opportunities.

We conduct an analysis / assessment for its clients that encompass RFP review, contract review, staff questions, organizational structure (centralized?), culture, industry segment, communication effectiveness, upper management support for procurement, and many other areas. For the generalized purpose of this paper, the buyer can apply the following methodologies and technologies.

- Parts: Design for Supply, Enterprise Cost Management.
- Operations: Manufacturing Intelligence, Supplier Management.
- Transportation: Distribution Network Design, Consolidated Shipments.
- Buying: Strategic Sourcing, Spend Analysis, Award Decision Optimization.

Tackle the Four Fs of Cost Avoidance

Although analyzing the supply chain as discussed in the previous section is a great start, there are cost reduction opportunities beyond the physical aspects of the supply chain. Just like there are four areas where the right technologies, methodologies, and strategies will save a lot of money (cost reduction), there are four areas where the right technologies, methodologies, and strategies will help an organization avoid spending money in the first place. They are the four business Fs of cost avoidance:

- Failure.
- Facility.
- Focus.
- Finance.





Failure

According to **Aberdeen's Global Supply, Visibility, and Performance Benchmark Report**, the average company had an average of two major supply chain disruptions per year and industry average and laggard companies were only able to meet customer-requested ship dates 40% of the time. Every time something goes wrong, it not only costs the organization revenue (lost sales, etc.), but it costs the organization cash as it usually requires expensive action to fix. Thus, an organization that could prevent failure could prevent costly expenditures and revenue loss that, when combined, could easily break six to even eight digits.

How does a buyer prevent failure?

Manage suppliers and manage risks. Do this by investing in visibility, supplier enablement, and risk mitigation strategies. Of course, unlike most of the cost reduction opportunities and measurements that have already been defined, this type of cost avoidance is not easily measurable. However, considering that preventing disruption insures that negotiated savings and reductions are realized, it is worth the effort – no point identifying ten million dollars of cost reductions just to have a supply chain disruption wipe them all out. Most organizations compensate a buyer on realized reductions and savings, not negotiated.

Facility

Facility can be defined as readiness or ease due to skill, aptitude, or practice. In other words, facility defines an organization's level of productivity. As hinted at in the section on types of cost reduction and avoidance, improved productivity is a valid form of cost reduction, and one that is easily measured. Maximizing productivity allows each organizational resource to do more, effectively lowering the overall cost of each product or service offered. There are many ways to improve productivity, but three that are generally applicable to most organizations are collaboration, e-Procurement, and Procure-To-Pay systems. Collaboration systems allow remote groups to work together more effectively and e-Procurement and PtP systems simplify





the actual ordering and payment processes, allowing more time to be spent on the development of strategies to reduce and avoid costs.

Focus

This refers to the organization's market focus and how the organization addresses the market. More specifically, it refers to organizational market and sales cost. Do not just let marketing outsource a campaign, there's no guarantee the agency selected is going to get anywhere near the best prices for print and media production. If the organization needs to bring in an agency to help with messaging, then it should do so especially since it is often a great idea and if the agency has a keen understanding of the target audience. However, it is critical to procurement to make sure service costs are decoupled from the print and media production costs that can be controlled. This allows procurement to determine how much is being paid for the service and to get the best price on production costs, by amalgamating campaigns and strategic sourcing required materials.

Finance

Money is the most expensive asset an organization could have. It needs to be collected, disbursed, protected, taxed, and, often, financed. And financing can really cost the organization a lot of money, even when the organization is not financing it directly.

The fact of the matter is if anyone, anywhere in the supply chain must borrow a lot of money to meet the demands placed upon them, they are probably paying a large financing charge, which is being rolled up into their production costs, and inflating costs throughout the supply chain. Therefore, a buyer should investigate whatever can be done to assist its supplier in mitigating financing costs whenever it has the opportunity, as this could reduce costs in large purchases.

In addition, disbursements can also be costly as well, especially if the organization has mavericks not buying on contract and using the absolute best price that procurement spent a





considerable amount of time negotiating and securing. It's worth having a good contract and compliance management system in place to track contracted costs, track purchases against those contracts, prevent maverick spend, and, most importantly, ensure that suppliers are invoicing at negotiated rates and that accounting is not paying them when they are not, as this can quickly eat away at cost reduction efforts.

Solutions

Implement Best Practices

Sometimes the easiest way for a buyer to find cost reductions is just to run through a list of best practices and see if any might be appropriate for the organization. Below is a list to help you get started.

Look at opportunities for Lean Initiatives.

Process improvements increase productivity which allows a company to generate more revenue with the same resources.

Look for Previously Untouched Indirect Materials and Services Spend Categories

Chances are these categories are ripe with opportunities. They may not be the most profitable opportunities, but they are likely quick hit opportunities.

Leverage New Technologies to Tackle Complex Direct Materials Categories

For example, sourcing enabled PLM, collaboration, design to source, process cost models, and should cost models may all be leverageable to produce cost savings.

Embed Best-in-Class Processes in Technology to Reach a Larger User Base

In most organizations, only a handful of individuals are aware of, and fluent in, best practice processes at any one time. However, once embedded in user-friendly technology, they can be rolled out organization wide with minimal training.





Launch an Aggressive Internal Marketing Campaign on the Benefits of Procurement

Drive visibility and excitement around new procurement initiatives to get everyone on board. This will have a positive effect on maverick spend, allowing more negotiated savings to be captured. Without upper management support, the procurement initiative will not be sustainable.

Refresh Spend Visibility At least Monthly.

Make sure this data is always available to all stake holders.

Take a Total Cost Perspective on Implemented Savings

The organization should have incentives based upon the total value of implemented and captured savings.

Outsource Non-Core Categories

Chances are that the underperforming indirect and services spend categories of one organization, are the core competency of a procurement services provider that constantly scores stellar results in these categories.

Partner with Strategic Suppliers

Do not just beat a supplier up on price – work with the supplier to improve processes and quality and get a bigger bang for the organizational work.

Think and Act Globally

Best-in-class organizations do not think or act local – they right-source on a global scale.





Proper Incentives

Successful companies must count cost reductions as savings. In addition, a company must clearly define recognized cost reduction efforts, tie them to goals, define their relative importance or weighting, and define the share of the credit that will go to the sourcing team in a cross-functional initiative.

Structured Incentive Plan

As mentioned before there is a compelling argument to be made that a sourcing professional's compensation should include a variable compensation component based on meeting or exceeding various savings goals. These types of bonus plans are already common for senior management, marketing/sales, and production and have been shown to yield significant positive benefits when an individual's earning potential is limited only by her own efforts. And given the circumstances, who is likely to work harder: a supply manager who makes \$100K a year regardless of his performance, or a supply manager with the potential to double, or even triple, her salary if she hits a recognized savings target of 5M or more?

This also a good argument to be made for properly structured uncapped compensation packages. This might sound crazy to a manager, like a CFO, whose job it is to reign in expenses, but it is not expenditures that determine a company's success, but profit, and when procurement is involved, this depends soundly on ROI. Arguments might be made to the contrary, but clearly there is sound logic in paying a sourcing professional 500K a year if that sourcing professional can generate 10M in savings that the company would not otherwise have seen. Why? Let us say instead of \$100K / yr. + 4% on all recognized savings the sourcing professional had a fixed compensation structure of \$100K + 20K bonus for hitting a 2.5M savings target or a 40K bonus if he hit a 5M savings target. Given that he cannot earn more than 140K, how hard is he likely to work once he hits 5M? Back to our ROI perspective, it makes much more sense to offer a limitless bonus plan.





With the fixed plan, it costs the organization 140K, but the organization saves 5M for an ROI of \$4.86M. But with the variable plan, the organization spends 500K and saves 10M for an ROI of \$9.5M. The first option sounds more inviting to a penny pincher like Scrooge, but what sane individual in their right mind would seriously turn down the second option with its additional \$4.64M of savings?

Successful companies have known for years that the best performing salespeople are those with the potential to make more than anyone else in the company. Consider that it is a well-known fact that each dollar saved is worth five to ten dollars in sales revenue (with respect to its bottom-line impact), doesn't it just make sense to incentivize sourcing at least as much as sales are incentivized, especially considering what they can do? As an example, HP's first quarter results for the 2006 year - earnings went up 51% even though revenue increased only 5.5%! Why, because "procurement across the board at HP made a substantial contribution to the results"!

Hard Savings vs. Soft Savings: Creating a Spectrum

Most of the information below was taken from Six Sigma, because of the great explanation and outline about Six Sigma, its definition, hard savings, soft savings, and intangible costs (URL listed below for reference). Six Sigma is a process based entirely on what can be measured and quantified. Keeping this in mind, it should be no surprise that companies incorporating Six Sigma into their culture prefer to measure success in terms of hard savings. Corporations nearly always see financial savings as the bottom line and do not like bothering with the intangibles associated with soft savings. Before completely dismissing them when evaluating a potential Six Sigma project, keep in mind that soft savings are more beneficial and "hard" than may first be realized.

Hard savings are traditionally much easier for management to understand and that's why they are so desirable. It is easier to give the green light on a project that results in increased

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revenue/sales, lower overhead costs, and reductions in unit costs.

One way to shift this way of thinking about hard savings versus soft savings is by not thinking of them as hard or soft at all, but as a spectrum. This spectrum has four categories; each labeled individually yet represented as a whole (think 1-4).

A sample project, using this way of thinking, would go as follows:

- Category 1 – this represents a hard savings in the current financial period that is documented on the budget.
 - It must be hard if it is worked into the budget (keep this in mind when putting together your spectrum).
- Category 2 – this may also represent hard savings but it is not something that’s documented in the current financial period and is more of a projection.
 - It might be something involving a balance sheet, etc.
- Category 3 – this begins a gentle shift into soft savings and may point to things like cost avoidances.
 - This is a fantastic way to introduce them, as they will certainly occur softly, but there is no hard and fast documentation for this.
- Category 4 – this is more of a complete intangible and would be measured as soft in a traditional sense.
 - It may deal with safety improvements or something else with no measurable proof and no quantifiers.

The key to really giving these potential improvements a chance is by not always thinking of them as “savings.” This word can prove limiting, and your project may best be served by instead looking at these as “benefits.”





What is Your Proactive Sustainable Cost Reduction and Profit Plan?

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Section 11: Why is Whole Life Cost Analysis Important in ANY Organization? What is Whole Life Cost Analysis and How Can this Impact Your Projects, Products and Services, and Organization?

The best place to start is the meaning. It is the total cost of owning an asset over its entire life. This includes areas such as, depreciation cost, operations cost, building costs, design costs, finance costs, disposal costs, social costs, environmental / sustainable costs, quality costs, and much more.

Identify Cost Areas

As we conduct the Request for Proposal (RFP) / Tender process for each project, product, and service, it is important to identify these areas that influence overall cost. Therefore, the information you gather from your client is important but not as vital as ensuring you heard the information correctly and can outline the needed product, service, or project in written format so that others can understand the specifications.

We would recommend you establish some type of format for whole life cost analysis cost areas as outlined above. This could be done in your Standard Operating Procedures (SOPs) in table format or some other form.

Project Area Examples

An example project for a project for simplicity's sake could be computers. If we conduct an RFP based solely on cost, without our defined best value, specifications, needs, warranty, customer service, support, and other areas, even though a final supplier of lowest cost looks the best, they may not be. The lowest cost computer manufacturer may only have:

- A one-year warranty.
- No support.
- No customer services.
- Lack technical support.





- The manufacture’s history shows a rapid depreciation (use).
- Other areas that should be evaluated (there can be hundreds).

Finally, if we outline all cost areas, we might find that the third supplier finalist is should be awarded the contract based on “Whole Life Cost Analysis”.

Analysis Details Form

Below are details of an outline that will provide you with an example, as seen in the table, for your analysis with projects, product RFPs, and service RFP’s. Each table will be different based on each need.

You will categorize the area, importance from lowest to highest, and cost amount.

- Warranty Cost – What is the cost to only have one year compared to a longer warranty?
- References / History – What is their track record?
- Supply Chain Disruption – What is the impact and cost if they cannot supply your organization?
- Disaster Recovery – What will happen if the supplier loses data that is critical to your organizations need and clients?
- Customer Service – Is it necessary to have 24-hour service or not? How does this affect you if needed?
- Scalable to Company Growth – What is the cost if they cannot grow with your organization and you need to source other suppliers?
- Supplier Staff Retention – Does the Supplier have high turnover? What does this cost your organization if they have to hire new people that serve your organization?
- Right to Audit – How does this work in with price, accountability, contract performance, products manufactured at the supplier’s facilities, etc.?





- Technical Support – How critical is this if your equipment that keeps operations and production going at your plants?
- Green / Sustainable – How does this match your plan and how important is this to your overall plan, retention, and core competencies?
- ISO – Is this important to the functionality and quality of the product you offer your clients?
- Depreciation Cost?
- Operations Cost – How much will the piece of equipment cost to run with maintenance, energy usage, down time, etc.?
- Building Cost – How much will the overall costs and maintenance costs come to for the building? Facility, plant, office, being built? What will be the annual maintenance costs (energy, green, HVAC, etc.)?
- Cost to Your Client – Will there be significant risk for returns of your product that has been manufactured that is supplied to your organizations end user? What will this cost?
- Design Cost?
- Finance Cost?
- Disposal Cost?
- Social Cost?
- Green Cost?
- Quality Cost?
- _____?

It is vital to conduct whole life cost analysis in many projects and transactions, whether business or personal.

What you do not know can cause serious financial problems or even cause an organization to cease!





What is Your Whole Life Cost Analysis Plan and Process?

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Client Facts, Case Studies, and 100% Performance: What Would Your Company Do with Extra Cash Flow?

A growing number of companies are also looking to reduce what they spend on goods and services. Unfortunately, the reality is that many smaller to mid-sized companies and organizations have no purchasing department, have a small purchasing group, or have reduced their procurement staff to where the remaining personnel struggle to perform even basic purchasing functions. This means most companies simply do not have the time, personnel, or resources to write purchasing Request for Proposals (RFPs), obtain multiple bids, and evaluate the myriad of competing vendor options, claims, and exaggerated promises. For these and other reasons, tens of thousands of smaller to mid-size enterprises end up “making do” with the old suppliers and vendors. Too often, this results in paying more, questionable product quality, late deliveries, poor customer service, and less than ideal payment terms.

The Solution

The benefits of working with an outside procurement reduction partner are many and real: Reduced costs; Increased quality; Improved supplier monitoring and performance; Better procurement performance *without* increasing procurement headcount, salaries, and benefits; Greater government compliance; Improved standardization; Customer service; and Improved competitiveness.

Today, most existing procurement cost reduction firm’s fall into two categories:

- Giant firms like IBM, GE, and Accenture whose rates are well beyond the budgets of most companies.
- Small mom and pop companies who generally lack the appropriate level of experience, systems, and expertise, and/or who may specialize in just one cost reduction area such as telecom or energy.





Procurement Cost Reduction and Solutions: Products and Services – Direct and Indirect

We have conducted procurement cost reduction principles and strategies with great success and outcomes on just about every type of product and service imaginable, including: computers, human resources, IT, software, office supplies, green related products, cleaning, janitorial, leases, real estate, timber, MRO, heavy equipment, filters, plastics, steel, high temperature application materials, oil, lubes, fuel, financial, credit cards, shipping, linens, uniforms, sheets, programming, procurement systems, dental, hospital equipment, educational supplies and equipment, furniture, machinery, fleets and vehicles, cement, asphalt, trucks, explosives, landscaping, food, food equipment and supplies, auditing services, professional services, consultants, and many other areas.

Testimonials – Detailed Client Work

Medium Sized Organization: YWCA of Greater Los Angeles Client Summary

We have worked with the YWCA of Greater Los Angeles (YWCA GLA) since July 2007. The difference that they bring to the Greater Los Angeles area, by touching more than 100,000 individual lives each month through their different social programs, exceeds any monetary amount that our company is compensated.

What are Some of the Areas Achieved for the YWCA GLA?

- Procurement cost reduction for many areas.
- Government compliance work.
- Standard Operating Procedure (SOP) improvement for greater efficiency.
- Federal Government Proposal Development/RFP to the U.S. Department of Labor (DOL) National Office of Job Corps.
- Budget Management Proposal planning.
- Community Development Linkages.
- Cost Reduction for soft areas (invoicing, efficiencies, approval processes, software usage, communications, meeting procedures, and other measurable areas).

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- Procurement training.
- And other finance and procurement areas.

Procurement Request for Proposals/Bids Conducted

- Electricity (in process).
- Office Supplies.
- Janitorial.
- Cleaning Supplies.
- Cell Phones.
- Copiers.
- Accelerograph (earthquake measurement equipment).
- Access Control System and Computer Software.
- Electrical.
- Fire Alarm System.
- Security System.
- Doors & Hardware.
- Elevators.
- Fire Extinguishers.
- Fire Protection.
- Food Service Equipment.
- Grease Interceptor.
- HVAC.
- Landscaping / Irrigation.
- Plumbing.
- Roof.
- Storm Drainage System - Pump Vendor.
- Trash & Recycling Service Provider.





- Trash Compactor.
- Window Washing Equipment.
- Window Washing Service.
- Other goods and services.

The savings and profit increase delivered and on-going are in the millions.

Other YWCA of Greater Los Angeles Specialized Projects

- We have been working with their New Urban Campus Building for transition procurements from an old facility. This building is a \$70 Million+ Building Project in the heart of Los Angeles, right next to Staples Center.
- This new facility will be the home for hundreds of at-risk youths from the ages of 16-24 years of age. This building will provide vocational training, education, housing, food, and a way of life that provides this generation hope for a better future.
- Helped them win their Los Angeles Job Corps Center Contract term.
- Corporate contract, agreement, subcontract, and procurement development.
- Procurement compliance.

Small-Mid Sized Company Procurement Cost Reduction Details: One Project – One Client - \$153,000+ Savings / Year – Office Supplies, Toner, & Paper

To illustrate best procurement practice, proposal processes, and sustainable team outcomes, and procurement cost reduction Request for Proposals (RFPs) / Bids, below is a procurement cost reduction office supplies RFP Case Study that we conducted for one of our clients.

Before Project

Some of the details involved in this procurement cost reduction were:

- 1,000 office supply items were purchased annually by our client.

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- Our client was purchasing from more than 20 different vendors (more cost for invoice management, ordering, receiving, payment, etc.).
- Most purchases were conducted offline (not automated).
- The client had corporate offices and various locations in different states (no centralization).
- Lack of compliance and control.
- There was no monitoring of the type of items purchased.
- Bids and quotes were gathered at each location weekly for amounts above \$3,000, which meant hundreds of bids were conducted annually for office supplies.
- No contract for this area of spend in the hundreds of thousands of dollars.
- No benchmarks to measure and rate the vendors.
- No oversight over these office supply vendors.
- There were no corporate approval measures for monitoring costs.
- There was no green program and no recycling of certain items.
- There was no online tracking.
- Invoicing and billing from vendors (some vendors were paid more than once, invoices were sent to the shipping location instead of the corporate office, and a host of other finance billing problems).
- There was no integration of their finance, purchasing, receiving, and warehousing for office supplies management.
- Unacceptable term payments on certain items.
- There was no master list of office supplies, toner, paper, and related items.
- They had delivery problems (back orders, having to wait too long for items, etc.).

After Project

What did We Do?

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- We conducted our no cost assessment over the phone with this prospective client.
- Our confidentiality agreement was signed by the client.
- We provided solutions to our prospective client – some areas that we believed we could reduce their costs and help them improve in other areas.
- Our client selected some procurement cost reduction projects.
- We started with office supplies as our first project.
- We created a Scope of Work (SOW) for our client outlining their needs.
- This SOW provided specifications for the following (be able to order and have items shipped within 24 hours in most cases; cost reduction; compliance; Green program; select one vendor / supplier instead of more than 20; online ordering; better term payments; item control; online list; audit of prices; no back order; better Return Manufacturer Authorization; dedicated vendor finance invoicing specialist; dedicated sales and customer support people for each area; quarterly analysis and review for cost reduction of generic brands for brand named items; order from any of their locations throughout the U.S.; and a host of other areas).
- We assembled the master list of office supplies, toner, paper, and related items from the more than 20 vendors, thus creating a benchmark of items, a history, current pricing, trends, etc.
- We utilized this in our RFP package (contains multiple documents for a step-by-step, easy to follow process).
- From this, we not only compared pricing for each item, but we also reduced hard costs by 45% for the contract, and we were able to get all that they requested from their SOW included in our RFP process.

Result: A procurement cost reduction of 45% with annual savings of \$153,508

Keep in mind that this is only one of many other procurement cost reduction projects we have conducted for this one client.





Large Company Outcome Example

One large company example, with annual revenues of more than \$5 billion U.S., had cost over runs, budget problems, compliance issues, little communication, and supply problems. With 252 purchasing personnel across their entire operations and more than \$1 billion per year spend for goods and services, their procurement outsourcing had a lot of potential opportunity for procurement outsourcing.

What was the outcome?

Centralized procurement, better communications, increased production at each location, cost reduction of more than \$50 million per year within two years, staff focus for core competencies, expansion of certain areas, closing of other areas that were a drain on the company's resources, and streamlined purchasing personnel across the U.S. for greater outcomes in all areas of each region.

The first graph below shows the cycle of this company and the second graph below shows the beginning staff amount and labor costs with the ending staff and labor cost reduction after procurement outsourcing took place.

Large Company – Other Areas Conducted

Many other areas were conducted for this large multi-billion-dollar organization, such as:

- Standard Operating Procedure (SOP) centralization.
- Centralized procurement.
- Sarbanes-Oxley (SOX) compliance.
- JD Edwards improvement.
- Enhanced communications between the corporate shared services office and each plant / operations facility.
- Productivity increased.

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- Payment cycle improved for vendors.
- Request for Proposal (RFP) standardization.
- Vendor management and compliance.
- Many other areas.

**Are You Optimizing Your Bottom Line?
What Can You Do for Your Organization and Team?**

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Section 12: What is Compliance and Regulation Costing You and Your Organization? Compliance and Regulation ... Impacts You!

What is compliance and regulation costing each and individual and the U.S.? What is each of us paying, not only in the price of goods and services, but the long-term financial health of the U.S.?

Compliance and regulation are necessary for protection against fraud, and damage to the environment, ensure fair tax payment and responsible use of Government funds, long-term greed containment, and many other areas. The problem is we have become so overburdened with compliance and regulation that what you do not know can kill your business. If the larger companies / organizations are barely keeping abreast, how are the small and mid-sized businesses doing? If we add in the reality that most jobs are generated by small business, there are few resources available for a sound and founded business economy.

If you take a moment and conduct an internet search about compliance and regulation you will discover the immense amount of information available is staggering. So, with that in mind, we thought we would do something different and list articles that provide different insights about the subject.

Proactive Planning

Our goal is not to discourage you, but to educate you with proper planning, procedures, and forward thinking so that you can at least be proactive with internalized Standard Operating Procedures (SOPs), internal assessment audit tools, best practice, follow up, and continued sustainable systems.

Why would you create, implement, and sustain a proactive approach with compliance and regulation? So that you have less risk, do not pay more penalties in the long-term, do not lose

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money through fraud, decrease your goods and services defect, are not embarrassed publicly, and a host of many other areas. In other words, with a proactive approach, you will reduce your risk and come out ahead being more in line with the regulations set forth while retaining more for your bottom line.

When we say it is worth your time, it is! We have witnessed companies over the years pay millions of dollars, lose human capital, and damage their reputation. Preventive is better, less stressful, less expensive, more productive, and better for your bottom line, than a reactive plan. Plan by reading this short informational paper and then, plan, implement, and sustain your compliance and regulation plan.

Reality

In today's business world, as compliance and regulation become more complex and stringent, by not knowing, to know not know the rules is no justification. In many non-compliant cases, there are financial penalties. There are ways as you improve your bottom line, through our procurement methodologies (at no cost to you until we perform). In other words, we can help reduce costs without jeopardizing quality and best practice and use some of those funds to become more compliant to regulations and laws.

Articles and Information

Please take some time and review the material below. After you have done so, just know that there are solutions to become stronger in compliance and regulation.

The Impact of Regulatory Costs

The article below, even though older, shows how compliance and regulation has increased over time, as you read other articles further into this informational piece.





As Mark Crain points out, “In the face of higher costs of federal regulations, the research shows that small businesses continue to bear a disproportionate share of the federal regulatory burden. The findings are consistent with those in Hopkins (1995) and Crain and Hopkins (2001).”

The research finds that the cost of federal regulations totals \$1.1 trillion; the cost per employee for firms with fewer than 20 employees is \$7,647 (as identified in 2001).

As you will see, the cost has only gone up since 2001.

Highlights

We would recommend you take some time to read the report as it provides a lot more detail of the distribution of regulatory costs for five major sectors of the U.S. economy: manufacturing, trade (wholesale and retail), services, health care, and other (a residual category containing all enterprises not included in the other four). The sector-specific findings reveal that the disproportionate cost burden on small firms is particularly stark for the manufacturing sector. “The compliance cost per employee for small manufacturers is at least double the compliance cost for medium-sized and large firms. In the service sector, regulatory costs differ little from small to larger firms.”

As you review this information, the disproportionality of the burden borne by small firms, identified in previous Advocacy studies, is further validated in this instance. “On a per employee basis, it costs about \$2,400, or 45 percent, more for small firms to comply than their larger counterparts. The 2001 study, using a slightly different methodology, concluded that the disproportionality rate was higher—nearly 60 percent.”

As we fast forward to the present, the numbers have grown more burdensome.





What we found interesting for then were the two top cost drivers. “Environmental and tax compliance regulations are the main cost drivers in determining the severity of the disproportionate impact on small firms. Compliance with environmental regulations costs 364 percent more in small firms than in large firms. The cost of tax compliance is 67 percent higher in small firms than the cost in large firms. Taken together estimates for all sectors, the cost per employee of economic regulations falls most heavily on large firms. The cost per employee of workplace regulations falls most heavily on medium-sized firms.” (Crain, Mark)

Regulation Nation: Drowning in Rules, Businesses Brace for Cost and Time for Compliance

The information below in this article only shows more regulation increase from the previous report to this article written in September 2011. We can only state that from our experience in helping our clients become more compliant with regulation increase, we have witnessed the same scenario. We have seen an increase, less preparation, more audits/assessments, less understanding, more areas to comply to, less resources, and more than anything else a lack of not knowing how to handle this challenging area. The good news is companies can do many things to be more compliant, have sound systems, and not be surprised (which almost always ends up with the business paying monies and utilizing a lot more of their resources).

The purpose of this article is to show you compliance and regulation is not going away. In fact, it is becoming more prevalent than ever before, especially as the U.S. Federal Government, State Governments, County and City Governments need more income. Because of this, it is critical that any long-term business create, plan, prepare, and sustain a sound compliant and regulation plan for all areas in the business.

“From financial services to farming, plumbing to computer repair, business owners say new regulations have them so bogged down in compliance that it is hindering their ability to plan and expand for the coming years.”





"Even though President Obama recently acknowledged the need to minimize regulations, the number appears to be growing. Obama administration regulations on new business rose to 3,573 final rules in 2010, up from 3,503 in 2009 -- the equivalent of about 10 per week. Indeed, the 2010 volume of the Federal Register, the "newspaper" of regulatory agencies, stands at an all-time record-high 81,405 pages composed of final rules, proposed rules, meeting notices and regulatory studies."

"There is something like 180 million words of binding federal law and regulation. It would take a lifetime just to read it," said Philip K Howard, founder of Common Good. Susan Dudley, former administrator of the Office of Information and Regulatory Affairs, noted that regulation has been increasing, but said that uptick has been trending since the last two years of the Bush administration.

"The 'midnight year' of any administration is aggressive, and this administration has picked up at that same pace and continued it in the beginning of the administration," she said. According to House Speaker John Boehner, the Obama administration has publicly listed a total of 219 new regulatory actions under consideration for the upcoming year that would each have an estimated cost of \$100 million or more. That is on top of the conservative Heritage Foundation's estimate, which found that the administration has imposed more than 75 new "major" regulations since 2009 whose annual cost of compliance is \$38 billion.

The U.S. Small Business Administration reports that the average regulatory cost burden on U.S. firms of any size was \$161,000, not including costs passed on to the consumers for the goods and services rendered.

Manufacturing is the industry hit the hardest by regulatory costs, with per-firm costs at \$688,944. But all small businesses pay a steep price -- \$10,585 for every employee.





Howard said that regulations in the U.S. are, at best, "semi-effective" while also "horribly expensive."

"No one has the time to read all the rules. So instead of focusing, for example, on worker safety, which is a particularly useful regulatory goal, it focuses on little detail nits that end up basically tripping everyone up, because they end up spending all their time complying with the nits instead of making the factory safe," he said.

Among the industries facing massive regulations is farming, whether it is dustups over dirt to the fallout from manure.

"It's a big concern; I'm worried they're going to regulate us right out of farming," said Calvin Haile, of Dunnsville, Va., a grain farmer whose five employees must keep check on the runoff to the Chesapeake Bay. "Since we're so close to the bay and you know, we just won't be able to farm profitably and comply with all the regulations, that's my concern for the future."

Steve Baker, a swine farmer and owner of Baker Farms in Shenandoah County, Va., said he is doing what he can to be a responsible business owner. He spent \$15,000 five years ago to build a transfer pump for any pigpen runoff so it flows to a holding tank. He said he chose to do this before regulations came out to deal with runoff water into the Chesapeake Bay. "We want to do what absolutely needs to be done because this is our livelihood, this is what puts a roof over our heads," Baker said.

Americans appear to be concerned by the impact of regulation on business. A poll conducted by the Tarrance Group for Public Notice, an independent, nonprofit group that provides information on how government policy affects financial well-being, found that 74 percent of those surveyed say that the U.S. is creating too many rules. The poll of voters in 10 states taken Sept. 6-8 also found that 47 percent fear the rules will result in job losses while 22 percent think





it will increase the price of goods and services. Seventy percent said they believe increasing the number of regulations on American businesses will result in jobs moving overseas. Howard said he believes in legitimate regulatory goals, but the rules need to be practically applied and enforced.

"You can tell a factory owner that it can't pollute, and it needs to meet certain guidelines for pollution, but if you give them a thousand pages of rules that tell them exactly how to catch the pollution. Chances are they'll waste vast amounts of money catching the pollution in the wrong place and it probably won't be effective," he said. (FoxNews.com)

The Hidden Cost of Regulation/Interpretation

As we have conducted business with the Federal Government, several Federal Contractors, and many companies over the years, the one thing that is consistent – regulation continues to increase in almost all areas, the Federal Acquisition Regulations (FARs), Defense Federal Acquisition Regulations (DFARs), Federal Guides, Federal Policy Handbooks (in certain agencies), the Internal Revenue Service (IRS), and many other areas.

The Office of Inspector General (OIG) who is tasked with auditing Federal Agencies and Federal Contractors has been conducting an increased number of audits to ensure greater compliance. Yet, the problem that plagues the Agencies, the OIG, the Federal Contractors, Companies, and all those involved in the process of each audit is the INTERPRETATION of all these regulations.

From our several years of experience, we have seen new auditors say one thing, whereas the Federal Agency interprets another way. We have witnessed certain Contractor's rebuttal FAR meanings, with expensive legal counsel, skirmish out of policies and procedures that are clear. We have seen Contractor Purchasing System Review (CPSR) Contractor's audit with minimal experience and must be directed by the Federal Agency/Contractor so that they knew what





they were doing. We have seen ethical people and contractors do the right things and end up being penalized, whereas others who have not complied, get away with no penalty or little.

What are we saying?

There will not be hard, fast, cut, and dry rules in certain cases. The rules can be clear, but if the person interpreting rules, who is conducting the audit/assessment, interprets one way, the company/contractor is on the hook.

As you read the information below, written by James Hammerton, you will clearly see the situation and understand that you must prepare, have a plan, and consistently update and monitor your compliance and regulation plan. Even with the best plan, if you get someone who does not know what they are doing (which is happening a lot more), or they are utilizing their power as an auditor to move up the ladder, at least you will have minimized your risk.

Federal Register

The *Federal Register* is the document that compiles all the federal rules and regulations that businesses are required to comply with. As of 2010 the *Federal Register* was 81,405 pages long. Federal regulations serve as a hidden tax on the economy. Costs imposed by regulation do not end up on any Federal budget, nor do they add to the national deficit. However, 81,405 pages of regulations strain the economy by creating huge costs that business are obligated to meet.

It is not just large corporations but the entire economy that ends up bearing the cost of regulation. Complying with regulations is not cheap. The cost of complying with federal regulation increases businesses' expenses by billions of dollars every year. Some of the compliance cost associated with federal regulation comes out of businesses' profits, but much of the costs are passed down to consumers in form of higher prices. Compliance costs associated with regulations cut into businesses' profits, while higher prices increase the day-to-day expenses of all consumers. Because regulations create artificial costs that must be paid by

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both producers and consumers, they cost the economy money and act as a drag on economic growth.

Just how much money are federal regulations costing our economy?

The answer is quite a lot. Every year economist Clyde Wade Crews of the Competitive Enterprise Institute releases a report, entitled “The Ten Thousand Commandments” analyzing federal regulations and their costs. Crews’ analysis found that in 2010 the federal government spent around \$55.4 billion dollars funding federal agencies and enforcing existing regulation. But these costs barely compare to the compliance costs that regulation imposes on the economy. Crews’ report cites the work of economists Nicole V. Crain and W. Mark Crain, whose study of the net cost of regulations determined that in 2009 federal regulation cost businesses and consumers \$1.75 trillion, or 12% of America’s 2009 GDP. As a comparison, in the same year, corporate pre-tax profits for all businesses totaled about \$ 1.46 trillion.

Government regulations are also used by the government to hide spending programs. Instead of creating expensive government initiatives, the government can create new regulations requiring businesses to carry out and bear the cost of the same initiatives. For example, rather than creating, additional, expensive programs incentivizing the use of more fuel-efficient cars, the government creates emission standards that auto manufacturers are forced to meet at prohibitive cost to themselves and to car buyers. Because regulation expenses do not appear on any federal budgets, the government is not held responsible for the actual cost of their regulations. The costs are still there, they are just not as easily traced to the government. However, these costs are born by businesses and passed down to consumers in the form of higher prices.

In his report, Crews suggests pursuing a policy of deregulation as an economic “stimulus.” Crew’s makes a valid point. Removing regulations that constrain the economy would lessen the \$1.75 trillion cost that federal regulation places on the economy, instantly freeing up resources





that businesses could use to invest, expand, create new jobs, and lower prices. Unfortunately, the government seems to be pursuing a policy of increased regulation. Between 2001 and 2011, 38,700 new regulations were added to the Federal Register. Of the over 4000 new regulations that are currently being developed by various government departments and agencies, 224 are estimated to cost the economy more than \$100 million each. And the Obama administration appears to be doubling down on regulation, with massive new regulations in the works at the Environmental Protection Agency, new health care regulations, and a host of yet to be written regulations covering financial services.

Overregulation imposes enormous hidden costs on our economy. It creates huge compliance costs on businesses, which in turn slows economic growth and constrains job creation. As America's mountain of federal rules and regulations continues to grow, the cost on the economy increases. Considering the persistent economic recession and growing national deficit, our nation needs to be pursuing policies that encourage real growth. Unfortunately, Obama's bureaucrats continue to crank out new expensive regulations at an incredible rate. Continued overregulation will only drag the economy down. On the other hand, pursuing a policy of deregulation, would free up the economy to grow and prosper. (Hammerton, James)

Federal Regulations Costly for Small Businesses

Why does small business pay more than medium sized and large companies? Because many costs are fixed, small businesses pay about a third more per employee than larger companies, finds the SBA. **The cost** for small businesses to comply with federal regulations is higher than that of large ones, says a new report from the U.S. Small Business Administration.

Businesses with 20 employees or fewer pay 36 percent more than their larger counterparts (defined as those with 500 or more employees), says the report -- called "The Impact of Regulatory Costs on Small Firms" -- from the SBA's Office of Advocacy. This is because a lot of costs are fixed -- the same whether you have two employees or 2,000. Total annual cost of





following the rules for a small business: \$10,585 per employee, or about \$2,830 more than big business. Businesses with 20 to 499 employees paid about \$7,454 per employee, or about \$300 less than the largest companies.

"That is an unfair burden to place on American small business," said Winslow Sargeant, the SBA's chief counsel for advocacy. The report estimates that 89 percent of all firms in the U.S. employ fewer than 20 workers. By comparison, large firms account for only 0.3 percent of all U.S. firms.

The report says: "If federal regulations place a differentially large cost on small business, this potentially causes inefficiencies in the structure of American enterprises, and the relocation of production facilities to less regulated countries, and adversely affects the international competitiveness of domestically produced American products and services." The SBA adds: "All of these effects, of course, would have negative consequences for the U.S. labor market and national income."

Complying with environmental regulations was the biggest wallop to small business's wallet: It costs 364 percent more for small firms than large ones, or about 4 times more per employee. Small companies spend \$4,101 per employee, compared to \$1,294 at medium-sized companies (20 to 499 employees) and \$883 at the largest companies. The cost of tax compliance is 206 percent higher for small firms. (Rubin, Courtney)

How are You Being Proactive?

- Are you allowing compliance and regulation to grow you and your organization, or is it reactive?
- What is your internal procurement process and compliance audit system? Do you have the plan, system, process, oversight, and expertise?





- What you do not know can cause problems or even cause your business to cease to exist!
- How can we help you today to become best in practice?!

How is Your Compliance?

How Does Your Organization Mirror the Regulations of Your Local, Regional, National, and Global Regulations?





**Section 13: How Important is PDCA in Commercial and Government Compliance and Spend?
PDCA – Plan, Do, Check, and Act – Vital in Proactive Spend, Compliance, and Procurement
U.S. Government Spending, Office of Inspector General (OIG), and Contractor Purchasing
System Review (CPSR)**

For the last few years, and especially now, there has been a lot of emphasis on how Commercial and Government dollars are being spent. Office Inspector General (OIG), other Government Agencies, and Governments are starting to target procurement within Agencies, Federal Contractors, and any Organizations Associated. What this means is that what many did not pay attention to a few years ago, they are now!

Government Agencies in the U.S. and around the globe are being tasked to audit procurement, subcontracts, and other areas to identify if there is responsible use of taxpayer monies being spent (people’s tax dollars).

Because more emphasis is being place on this, we have grown in in helping organizations become stronger in their procurement processes, ensure procurement systems have integrity, and teach procurement staff what procurement is all about.

Experience

We have several years of experience with assessing, auditing, and directing Contractor Purchasing System Reviews (CPSRs). We have directed, enhanced, and innovated policies and procedures for Government Agencies, Native Tribes, Government Contractors, Commercial Organizations, and Other Governments.

Contractor Purchasing Systems Review (CPSR)?

To provide a background and understanding, we have outlined a few areas below more effectively. There is a lot more information and we provide this in our trainings and assessments / audits.

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Federal Acquisition Regulation (FAR)

The FAR is the bible for how Federal Agencies, Federal Contractors, and all others that are associated must abide by. A CPSR is outlined in the FAR, of which in accordance with Federal Acquisition Regulation 44.304 Surveillance, and 44.305 Responsibilities:

- The Contracting Officer must maintain an enough level of surveillance to ensure that the contractor is effectively managing its purchasing program.
- Surveillance must be accomplished in accordance with a plan that covers pertinent phases of a contractor's purchasing system (pre-award, post-award, performance, and contract completion) and pertinent operations that affect the contractor's purchasing and subcontracting.
- The plan should also provide for reviewing the effectiveness of the contractor's corrective actions taken because of previous Government recommendations.
- The Contracting Officer may approve a purchasing system only after determining that the contractor's purchasing policies and practices are efficient and provide adequate protection of the Governments' interests.

CPSR Objective

To provide Regional Government Federal Contracting Leadership with an accurate review of each contractor's purchasing system and a reasonable assurance that purchasing policies follow relevant Government requirements. To enable contractors, with approved purchasing systems, to issue subcontracts and purchase items needed to execute contract requirements without having to obtain approval from the Regional Contracting Officers.

CPSR Scope

To determine the extent to which the contractor's purchasing system demonstrates and ensures compliance with Government policies and contractual terms by assessing the contractor's:





- Management and oversight of the procurement process at the corporate and individual contract levels.
- Use of Government funds through price competition.
- Actions to provide opportunities for small business firms to participate.
- Compliance with cost accounting standards in awarding subcontracts.
- Methods of determining subcontractor responsibility.

Within these five areas that are reviewed, there are many steps that take place from:

- Reviewing procurement files.
- Analyzing contracts/subcontracts.
- Verifying vendor compliance.
- Staff interviews
- Review of certain parts of finance.
- Standard Operating Procedure (SOP) adherence.
- SOP in accordance with the FAR.
- FAR compliance.
- Best value.
- Competitive bidding.
- Many other areas.

Compliance, Process Audit, and Success Tools

We have worked with several U.S. Federal Government Agencies, U.S. Federal Contractors, Other Governments, Tribal Entities, and Global Government Entities.

We have complete tools, training, processes, and system solutions enabling organizations to be compliant, transparent, and proactive, efficient, and cost effective. Some of the areas listed below will provide you with a better understanding of how we conduct some of our work.

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These are just a few of the many tools we utilize to strengthen a purchasing system, ensure better practices, and provide feedback that is solid and logical.

Management and Oversight of The Procurement Process and Operations

Source Documents: Directives, Previous Audit Working Papers, Internal Self-Assessment Audits, Follow-Up Documentation, Internal and External Correspondence, Flow Charts.

Verification: Documents identify and describe the following: Personnel (names and contacts) responsible for the control, review, oversight, control activities, risk management, dissemination of information/communication and monitoring.

Description of the organizational structure that establishes a line of authority, limitations, functional areas of responsibility that includes all purchasing and related activities (receiving, accounting/finance). Purchasing system flowcharts that provide a pictorial view of the process.

Documentation provides evidence of:

- Reviews/audits and self-assessments conducted by the corporate office (dates).
- Reviews/audits and self-assessments conducted by DOL (dates).
- Reviews/audits conducted by firms outside the corporate office (dates).
- Evidence of corrective actions.
- Assessment reports and follow-up corrective action plans.
- Purchasing staff follow Government and corporate policies and procedures.
- Methods established to communicate policies and procedures to staff with purchasing responsibilities.
- Methods established to ensure that policies remain up to date with changing federal regulations.





Purchasing System Information Technology Internal Controls

Source Documents: Purchasing Information Systems Documentation that Supports All Manual and Computerized Purchasing Processes.

Verification - Documents identify or describe the following:

- IT systems function as described in source documents.
- IT security systems in place and functioning.

Staff Training, Qualifications, And Experience

Source Documents: Training Manuals, Job Descriptions and Qualifications, Desk “How to Manuals,” Memorandums, Pamphlets, Bulletins, Resumes of Purchasing Staff.

Verification - Documents identify or describe the following: Employee awareness and training programs for the purchasing staff regarding ethics, procurement integrity, the purchasing process, authority, and responsibility - Documentation provides evidence for the following:

- Job descriptions (roles and responsibilities).
- Staff qualifications are consistent with job descriptions.
- Training courses (include training class topics and dates).

Purchasing Operation Policies and Procedures: Compliance with Government Policies and Contract Terms and Conditions

Source Documents: Policies and Procedures, Directives, Letters, Correspondence.

Verification - Documents identify or describe the following: Administration and Acquisition Planning; and Pre-Award, Award, and Post-Award Contracts

Pre-Award and Award

To determine subcontractor responsibility (FAR 9.1 Responsible Prospective Contractors).

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- Vendor verification.
- Developing and maintaining vendor lists.
- Developing and maintaining bidders' lists.
- Vendor rating system and past performance.
- Debarment/EPLS Certification.
- Obtaining representations and certifications.
- Ensures that purchase orders and subcontracts contain all applicable flow down clauses, terms and conditions, and any other clauses and provisions needed to carry out the requirements of the prime contract.
- Equipment lease versus purchase.
- Contractor's use of Government supply sources (General Services Administration/Defense Logistics Agency).
- Emergency procurements.
- Obtaining services from educational institutions.
- Selecting the proper contract type (firm fixed price, cost reimbursement, time and material, and labor hour).
- Issuing letter subcontracts.
- Cost savings and cost avoidance.

Use of Government Funds Through Price Competition

- Best value.
- Sealed-bidding.
- Preparation of non-competitive single and sole source procurement justifications.
- Completing and conducting a price analysis to determine fair and reasonable pricing.
- Completing and conducting a cost analysis to determine fair and reasonable pricing.
- Request for Quotations (RFQs) oral and written bids (including criteria for award).
- Request for Proposal (RFPs) and/or formal solicitation processes (including criteria for award).
- Advertising procurement opportunities.

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- Purchase order and subcontract file documentation requirements (checklists).

Post-Award Activities

- Subcontract administration (cost, schedule, and performance).
- Processing discrepancy in quantities ordered vs. quantities received.
- Receiving, inspecting, accepting, and returning material.
- Appropriate source inspection requirements (prime contractor and Government) for construction.
- Award notification and notice to proceed.
- Termination for convenience.
- Termination for default.

Small Business Participation and Reporting

- Contract requirements regarding small business subcontracting, including, if applicable, its plan for subcontracting with small, veteran-owned, service-disabled veteran-owned, HUBZone, small disadvantaged, women-owned business concerns, and HBCUs in accordance with FAR 19; 52.219-Small Business and Small - Disadvantaged Business Concerns and Public Law 95-507.
- Recording small business reporting (checklist) for awards that exceed \$100,000.

Subcontractor Responsibility / Subcontract Administration

- Unallowable procurements.
- Prohibits the issuance of cost-plus-a-percentage of cost subcontracts.
- Notification of the Government on award of all auditable subcontracts.
- Notifying the Government of significant subcontract problems that may impact delivery, quality, and price.
- Expediting delivery of subcontract material when the supplier will not meet established delivery date or is delinquent.
- Subcontractor, teaming, and joint ventures.





- Establishes criteria for waiving subcontractor audits.
- Construction contracting including the Davis Bacon Act (FAR 22.403-1 Davis Bacon Act).
- Control of cost reimbursement, time, and material, and labor-hour subcontracts.
- Consultant contract, personal and non-personal, services and agreements.
- Acceptance of gifts, gratuities, subcontractor kickbacks, and conflicts of interest (FAR 52.203-7 Anti-Kickback).
- Reporting fraudulent acts and behavior (ethics hotline/whistleblower).

Administrative Controls

Source Documents: Purchasing Policies and Procedures, Directives, Memorandums, Letters, Correspondence, and Forms.

Verification - Documentation provides evidence that:

- Numerous purchase orders are not issued for small dollar amounts.
- The contractor has effective numerical control documents from the requisitioning stage, through accounting, purchasing, and receipt of products goods and services, and payment.
- The purchasing agent notifies purchase requisitioners of the results of purchasing actions and other matters affecting the purchase.
- Contractor forms are consistent with written procedures.

Accounting for Material Cost

Source Documents - Policies and Procedures, Records.

Verification - Documentation provides evidence that:

- Purchase orders, receiving reports, and payments match.
- Purchased services were or are being performed.
- Miscellaneous costs associated with material purchases are charged directly or as items of indirect costs, such as transportation, and material handling charges.





- Processing of subcontractor invoices.

Purchase Order Discounts, Quantity and Payment

Verification - Documentation provides evidence that:

- Cash discounts, trade discounts, quantity discounts, rebates, freight allowances are obtained (Request to see Records).

Physical Inventory and Adjustments

Documentation provides evidence that:

- Verification of quantities of physical inventories.
- Management has access to records indicating quantities, quality, and location of goods on hand.
- Physical count and book inventories are accounted for and explained.

What Can You Do?

In the next several years, because of all the fraud within the commercial sector and in Government, we will see and experience more audits, Government involvement, and compliance regulation.

It is better to be safe than sorry and ensure that your system is not only in compliance but becomes stronger.

It is less expensive to initiate this before than after.

Plan, Do, Check, and Act (PDCA)!

Contact us today and let us help you in your procurement processes, best practices, compliance, and proactive business operations!





How Does this Section, Principles, Best Practice, Procurement, Processes, and Regulation Affect You and Your Organization Related to the Nation You are Located?

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Section 14: What is Supply Chain Disruption? Why is Supply Chain Critical to You and Your Organization?

Are You Ready? If You are Not, Your Organization and You Could Lose Big Financially or Even Cease to Exist!

Supply chain disruption is becoming a significant issue for many organizations around the globe and especially in the United States. It will become more of a concern as economies change, markets shift, natural disasters take place (like we saw in Japan), geo-political instability, economic disasters, and many other reasons that not only effect nations, but companies, people, and the goods and services that support the chain to the end client.

Be Proactive Not Reactive

Take some time and review some of the statements, articles, findings, and data below. After you have done this, let this information compel you not to react, but to be proactive in your Procurement and Strategy Plan. In other words, utilize the information and begin with a plan that works within your organization so that you are not caught by surprise like many have been in the last few years (some of these companies are no longer around).

Supply Chain Disruption Defined

Before we can act, it is important to understand what supply chain disruption means. To understand this, we must start with Supply Chain Management (SCM). It is where an organization sustains a competitive advantage in the marketplace for their products and services through the integration and management of other organizations (this entire process involves activities, cooperation, relationships, effective business processes, information sharing, and high-performing value systems). In other words, there are a lot of moving parts, relationships, agreements, and components that go into the entire supply chain from the beginning of the necessary raw materials to create the product all the way to the result of the product being sold in the marketplace.





Take for example the cup of coffee I am having right now.

If I think about the Starbucks coffee cup in my hands, I realize how amazing it is, considering all the steps involved getting it to me. When any of us, stop for a moment and look at any product we are using, how it was made, where it was made, the raw materials that went into the manufacturing of the piece, how it was shipped and received, the branding of the product, pricing, and selling of the product, it is an amazing realization of how many people, steps, and processes were necessary for you to have it in your hands.

Now that we understand Supply Chain Management, if we consider the words “Supply Chain Disruption,” we understand it means that there is a disruption in the Supply Chain for any products and services expected to an organization. According to Merriam-Webster, disruption means “to break apart, rupture, to throw into disorder, to interrupt the normal course or unity of.” In other words, if one of the important parts/organizations fall apart in the chain of the supply of the products and services, there will be a cascading effect to the entire organization that provides this core to their clients. Over the last decade we have witnessed so many organizations go out of business. There is no quicker way for a company to go out of business than to not have a product to sell.

Disruption Severities and Origins

As you review the overall information, it is important to not only think in terms of “will it ever happen to us” but to understand the overall areas of severities and origins. A changing area of importance is “supply chain disruption is not covered as often” anymore according to Business Insurance. (John Dempsey). Business insurance for supply chain disruption is becoming more complex, covers less, is cumbersome, and many companies do not get the benefits of what they thought they would get when they file a claim.

Keep in mind that many companies who did not plan are no longer around. To best illustrate how one company becoming inoperative and going out of business, Timothy Mojonier outlines

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the effects of a supplier to one of the largest auto manufacturers in the world – Toyota. Several years ago, a company by the name of Somic who produced 99% of Toyota’s brake valves burnt to the ground by a massive fire causing Toyota to halt all production lines. Fortunately, even though Somic was out of business at this point, they provided the blueprints to Toyota’s other suppliers. Toyota and some of their other suppliers were able to create the machines and start making brake valves. Toyota survived and learned some valuable lessons about critical mission suppliers and risk management.

Think about just this one supplier and realize that hundreds of companies in Japan became non-existent after the Tsunami disaster in 2011. (Mojonnier, Timothy)

As stated by in this article, “... Enterprise Risk Management appears at the top of many corporate agendas. Although most discussions on risk management are confined to financial reporting and internal controls risks associated with the likes of Sarbanes-Oxley, an often-overlooked risk is the probability of an undesirable event occurring that causes extensive supply chain disruption.” We can restate this as more supply chain disruptions have, are, and will occur, some organizations are reviewing their entire approach about how they plan and operate. Handfield, Robert, Blackhurst, Jennifer, Craighead, Christopher, and Elkins, Debra (PhD’s).

Future Supply Chain Risk

There is an old saying that “history always repeats itself.” If we think about this for a moment, we must ask ourselves why? When people do not learn from past mistakes, we repeat the same actions again, usually with the same results. To protect our supply chains, we must mitigate the risk to supply chain disruption. Again, this takes proactive and sustainable plans, contingencies, processes, and procedures we can implement in certain situations, vendor audit, and risk assessment audit, regular updates to our plan, communications, and any other steps for a





healthy and sustainable organization. It requires the diligent monitoring of your strategic and critical suppliers for financial, environmental, geo-political events that impact them.

IP & Data Risk

One of our strategic partners, RDBU, outlines the supply chain risk from a technology and backup standpoint of your most asset – your data (Intellectual Property)!

Data Loss Facts and Figures

Data loss happens more often than we realize, according to many credible research groups. Again, this is a part of your Supply Chain Disruption plan. In all reality, the odds are against you if you do not back up offsite every night. Given enough time, all hardware will ultimately fail. Review the startling statistics below.

Key Causes for Unplanned Downtime (Gartner Group)

- Hardware (25%).
- Software (25%).
- Network (20%).
- Human Error (15%).
- Environmental (14%).
- Other (1%).

Cost of Recreating Your Lost Data

According to RDBU, without adequate backup it takes:

- 19 days and \$17,000 to recreate just 20 MB of lost sales/marketing data.
- 21 days and \$19,000 to recreate just 20 MB of lost accounting data.
- 42 days and \$98,000 to recreate just 20 MB of lost engineering data.





Lack of Proper Planning Not Only Ruins Organizations – It Ruins Individuals

We have known some wonderful individuals who either lost their business and or their lives in September 2001, in New York City. We have witnessed others depend on a sole source for their core competency, and when this source was no longer available, some of these organizations were no longer around as a result. I am thinking about so many companies and individuals I have seen over the years that are no longer around because of this disruption to their supply chain of products and services. With the proper proactive planning, thorough vendor management, consistent monitoring, robust risk assessment, and on-site audits, an organization can weather many storms while many of their peers cannot.

We have helped many of our clients protect their data through simple backup procedures, best practices, disaster recovery programs, and even taking them paperless utilizing offsite data storage.

Global Procurement Study Finds that 80 Percent of Companies Are Vulnerable to a Major Supply Disruption

The article below is very impactful when considering supply chain disruption risk at 80% for companies! The interesting part of this study, by AT Kearney, outlines a movement towards long-term collaboration with suppliers on joint process improvement, value, innovation, and category management.

The goal is not simply lowest price – it is best value, which is a long-term sustainable pricing model (hard cost savings, soft cost savings, cost avoidance, cost sustainability, and customization of all needs from the client, company, and stakeholders taken into consideration). This is our model and approach we apply with all people and organizations globally.





Do You Have a Plan?

2011 was one of the worst years in recorded history for natural disasters. The Japan earthquake and tsunami impacted tens of thousands of companies around the globe and created an estimated loss of \$200 Billion in property, revenue, supply chain disruptions for other companies (products and services from Japan) and clean up so far. Does your company have contingency plans, a disaster recovery plan, and a proactive risk management solution?

Some Specific Aftershocks of the Japan Earthquake / Tsunami

A few examples of the aftershocks and effects to countries, companies, and individuals from supply chain disruption of this natural disaster were:

- Shortages and shutdowns for several global businesses.
- The suspension of as much as 25 percent of the world's production of silicon wafers used to make semiconductors, according to research firm IHS iSuppli in El Segundo, California (enormous impact on the global supply of memory processors, such as Flash memory and DRAM).
- Japan's seven big automakers shutdown production due to growing concern about supply chain interruptions, power shortages and export difficulties.
- General Motors cut production at two U.S. plants due to a shortage of Japanese-made parts.
- A month after the disaster, Toyota said the number of parts at risk for shortages was shrinking, but nevertheless extended its North American production slowdown through early June, according to a Reuters report. (Ellis, Kathleen)

AT Kearney states, "the headlines of the past year have highlighted one supply chain disruption after another, but a majority of companies are not systematically managing risk to avoid disruptions to increasingly global supply chains, according to global management consulting firm A.T. Kearney's latest Assessment of Excellence in Procurement (AEP)."





As the model shows above, “another key finding from the AEP Study is that supply management organizations that once were focused on cost reduction and adversarial relationships with suppliers are now developing long-term category management strategies where collaboration with suppliers on joint process improvement, innovation and new products is delivering top-line value to corporations.”

It is imperative that you work with strategic partners who are experts in cost reduction and procurement for hard cost savings, soft cost savings, cost avoidance, sustainable practice, best practices, and effective risk management. In other words, it is important to you, your core competencies, and long-term business viability that you embrace a holistic business approach. You cannot afford to take a short-term approach focusing on how much revenue an organization can produce this quarter.

Align your organization with experts who take this approach. We have worked with many clients and industries around the globe utilizing holistic best practices for overall long-term improvement and cost savings without ever increasing risk or jeopardizing quality.

Seven Leading Practices

AT Kearney identified seven important leading practices. They are:

1. Leading companies align procurement strategy with the overall goals of the company. These companies also engage more fully with other business functions to address a larger percentage (94 percent) of external spending. As a result, leaders were better prepared to react to the 2008 monetary crisis, delivering greater benefits faster.
2. Leading companies consistently outperform other companies in contributions to top-and-bottom line strategies. By working closely with their suppliers these companies improve their new product development performance, reduce time-to-market for new products, and create new business opportunities—all top-line benefits for their companies.





3. Leading procurement organizations excel at risk management by anticipating, tracking, and planning mitigation strategies covering a wide range of threats.
4. Leading companies use supplier relationship management (SRM) processes more consistently than followers. A structured process drives strategic value through improvements in innovation and growth, better managed risk, and vastly improved supply chains.
5. Another area that distinguishes leaders from other companies is their use of more advanced approaches to tailor their category strategies to each situation.
6. Leading companies are far more advanced in their adoption of technology. They have more control over what they spend because they have technology that allows for more visibility into spending. Most leading companies are fully automated with real-time access to data and are ahead in the adoption of technology to support contract management and compliance.
7. The leading companies are more forward-looking and bolder in their approaches to recruiting and retaining top talent, including establishing relationships with universities and using a systematic approach to manage a more diverse and dispersed workforce.

Taken together, these practices helped the 13 leading companies deliver nearly 60 percent higher returns on their companies' investments in procurement assets. (AT Kearney)

From the above you should note – the deep partnerships they developed with their suppliers (vendors). We have been involved with many clients who were not practicing any vendor management, vendor tracking, vendor evaluation, vendor risk, or utilized any vendor informational data sourcing practice in their organization. We have worked with clients in diverse industries such as banks, non-profits, government, construction, tribes (gaming), and insurance establishing vendor management and relationship and assisting them to become proactive about supply chain disruption and risk management.





An example of this supplier and risk management initiative process we created and implemented together with a large non-profit client listed below, within this organization, is outlined below on the next page.

- Analyzed their supplier list from the purchasing, finance, and logistics point of view.
- Assessed what suppliers were still in business (we started with more than 3,000 and ended up with less than half – their data was outdated).
- Developed a best practice form and procedure (each supplier reviewed and signed this agreement for their understanding about how this organization’s finance, logistics, purchasing, best practice, and other areas worked).
- Created a supplier evaluation process providing a balanced scorecard for each supplier.
- From the data gathered from each supplier, their products and services offerings were placed in a knowledgebase to enable future sourcing, Request for Proposals (RFPs), and all other functions within supplier relationships.
- Implemented a communication and meeting process for finance, logistics, and purchasing ensuring requisition and purchasing life cycles were effective (from this, accountability improved, process efficiency increased, the cost per Purchase Requisition (PR), Purchase Order (PO), Logistics Paperwork, and Invoices decreased, and overall improvement occurred benefiting the entire organization).
- Initiated a best practice risk management program.
- Improved bottom line cost both short and long-term (reduced costs in several categories, increased quality, reduced risk, developed a centralized RFP program meeting specification while reducing the number of hours the purchasing department spent on sourcing).

Note: The total amount of improvement and savings we generated for our client was in the tens of millions of dollars! We shared in their success and invoiced only a small portion of this!





What Does all This Mean?

It brings us back to simplicity in life and business – it is all about people, relationships, strategic partners, long-term mutual beneficial business, vendor management, alignment, and doing what is right for all involved.

Supply Chain Disruption Examples & Solutions

Below are some examples of supply chain disruption that highlight those that made good changes and who did not.

The Classic Supply Chain Disruption Example

As pointed out in the article “Ericsson versus Nokia – the now classic case of supply chain disruption,” a company that “when faced with a supply chain disruption, proactive and reactive supply chain risk management can in fact make or break a company’s existence” is evident in the many companies that are non-existent. We encourage you to review a few highlights of this catastrophe that took place at the Philips Microchip plant in New Mexico that affected both Ericsson and Nokia.

Nokia initiated proactive efforts, while Ericsson did not, costing Ericsson \$400 million.

Dealing with Supply Chain Disruptions

Do you Depend on One Supplier or Several for a Specific Product or Service?

We have helped clients reduce risk by initiating a proactive supplier risk management best practice initiative.

How Much Did the 2011 Japan Earthquake Cost?

Some would estimate its overall costs at more than \$200 Billion (yes, that is a “B” behind it). Risk Management Monitor brings to light some very startling statistics comparing China and





Japan titled “Charting Supply Chain Risk in China – It’s worse Than in Japan.” You can view the data in more detail at Risk Management Monitor.

Entire Countries Disappear Without Notice

On Thursday January 27, 2011, the country of Egypt completely removed itself from the Internet. It is an astonishing and unprecedented move, and one that seemed almost unimaginable for a nation that not only has a strong Internet economy but also relies on its connections to the rest of the world.

Not even a month later February 18, 2011, the country of Libya unplugged itself from the Internet among domestic unrest as protesters stepped up demonstrations against longtime leader Moammar al-Qaddafi, then on August 11, 2011, the British government narrowly backed down from shutting down all social networks in Great Britain to quash civil unrest in that country. These rapid-fire events became a major wake-up-call for companies across the globe transacting commerce over these connections.

Our fragile and vast communications networks are subject to the whims of the governments that provide access to their citizens that use them, however, commerce in the modern age has become increasingly dependent on these connections remaining active. (Wade, Jared – Risk Management Monitor)

Chiquita

It is amazing how weather-related supply chain disruptions cause revenue flow disruptions. We can view Chiquita Brands International 2010 10-K report and see how severely adverse weather conditions hurt their bottom line.

“Our results of operations have been significantly impacted in the past by a variety of weather-related events. For example, because of flooding which affected some of our owned farms in

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Costa Rica and Panama in December 2008, we incurred \$33 million of higher costs, including logistics costs, related to rehabilitating the farms and procuring replacement fruit from other sources.”

“From time to time, we have experienced shipping disruptions, port damage and changes in shipping routes because of weather-related disruptions. While we believe we are adequately insured and would attempt to rehabilitate the farms while procuring replacement fruit from other sources.”

Sustainability Advantage outlined “seven threats to revenue if a company decides to not embrace sustainability strategies.” From these 7, five were identified as reputational risks to revenue (no sustainable strategies). They calculated that any organization with \$500,000,000 revenue could be jeopardizing \$20,250,000 (4%) of that revenue from poor reputation:

- Energy and Carbon Management.
- Water Management.
- Materials and Waste Management.
- Eco-System Damages.
- The Risk to Revenue from Poor Reputations of the Company’s Suppliers (Vendors and Partners).

They went on to find another \$5,000,000 that be at risk due to the risk of revenue from less competitive prices. Their conclusion was: *“Sudden disruptions in the supply chain could threaten another \$500,000. All told, the seven threats to revenue add up to \$25,750,000 (5.2% of today’s revenue)”*.

The above information is very conservative from our many years’ experience with clients.
(Willard, Bob)

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Thailand Flooding/ Effects upon Supply Chain Automotive Disruption

Thailand has been experiencing some of the worst flooding in 26 of its 90 provinces in the last 50 years. This has affected everything, not to mention the automotive industries, where their capacity was 2 million units in 2010.

Supply Chain Disruptions / Long Term Strategy Change

Supply Chain disruptions due to floods have traditionally been the main reason many OEMs stop their assembly lines. Some of the factors that are likely to be considered by OEMs in the future are:

- Analyze Just in Time (JIT) – increase auto parts for any future disruptions.
- Multi-sourcing Strategy – source parts from different suppliers and regions.
- Climatic Supply Chain De-Risking – involves OEMs investments at geographic locations that are least impacted due to natural disasters. (*Vaidya, Vivek*)

Hurricane Katrina Virtually Erases New Orleans from the Map

On August 23, 2005, the third strongest hurricane ever recorded made landfall in the U.S. An estimated 80% of New Orleans was under water, up to 20 feet deep in places. Hurricane Katrina caused an estimated \$75 billion in physical damages. It was the costliest hurricane in history, but it has been estimated that the total economic impact in Louisiana and Mississippi may have exceeded \$150 billion.

Katrina affected about 90,000 square miles. Previously, the region supported one million non-farm jobs, with 600,000 of them in New Orleans, but hundreds of thousands of residents were left unemployed by the hurricane. (11 facts about hurricane Katrina)

Experian, a global information solutions company, reported in a study on the effects of Katrina on over 635,000 businesses that over \$40 Billion in payables were outstanding at the time the





hurricane struck. Commerce in New Orleans came to a complete halt and businesses disappeared overnight. (New Experian Study, 2006)

As you think about these natural disasters, political unrest, insolvent suppliers, and many other risk areas to your organization, risk management is about evaluating future risks, situations, events, and actions in the future and being ready with a plan. Supply Chain Disruption is a critical component of Risk Management. If the Supply Chain for your organization's products and services are disrupted, will you have the necessary components to provide the products and services you offer your clients? "Risk management is a process for identifying, assessing, and prioritizing risks of different kinds. Once the risks are identified, the risk manager will create a plan to minimize or eliminate the impact of negative events, should they occur. A variety of strategies are available, depending on the type of risk and the type of business."

An example of this would be where the city of New Orleans is located as it relates to hurricane Katrina. The city, on average, is six feet below sea level. The Mississippi River, one of the top ten most powerful rivers in the world, ends its journey at the Gulf of Mexico. If we analyze the risk for this city against future hurricanes and flooding, the risk is almost guaranteed that an event will occur again with the same magnitude or higher!

Let us apply this example to your organization.

If your servers, data, and backup systems are in a room that is under some water main pipes, you have a definite risk. One of our clients did have this risk and did not do anything about it – the result was that a water main break occurred, flooded the room, and they lost their entire system and severely impacting their business.

How do some of these examples effect your organization as you evaluate the suppliers in your supply chain?

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We develop long-term relationships with our clients, being that we are a full procurement and financial services firm, we analyze your entire business, need, challenges, pain, and other areas that affect your core competencies. We start with a few steps, projects, using a solid team of experts and solutions for each area one brick at a time.

The most critical initial component is ensuring that your foundation (business, plan, strategy, processes, Standard Operating Procedures (SOPs), best practice) is solid. Once this has been established, your organization will be solid with each action and initiative taken.

Part of this process is the evaluation involves the external elements that can damage, shut down, or even put some of the best organizations out of business. As we partner with each other, this is a necessary part of the process. In other words, many organizations have never set foot at critical supplier offices, warehouses, plants, manufacturing locations, distribution centers, and any other part of the chain. How can they fairly evaluate them?

Validation and due diligence are important to mitigate supply chain disruption and risk. We have helped many clients reduce their risk in their supply chain disruption.

Can America and Other Nations Handle a Disruption?

This article does bring out how vulnerable the U.S and other nations are in this global economy. The U.S. needs to take a closer look at the manufacturer base.

How Do Organizations Prepare?

Like it or not, each continent, country, state/province, organization, department, vendor / supplier, team, stakeholder, and individual is a part of a global manufacturing ecosystem.

Being enabled, available to participate, and adaptable to change is a vital both to an organization's short-term survival and long-term success.





“Managing Supply-Chain Risk for Reward,” a recent study conducted by The Economist's Intelligence Unit, is one of many that illustrate how executives are reconsidering or revisiting the sourcing strategies in their organizations. This study produced some interesting data that we strongly encourage you to utilize in your strategies going forward. A quote from this study says it all:

“It is therefore surprising to discover that many companies continue to underestimate the risks of supply-chain failure. As the economic downturn has shown, the rules of effective supply-chain management can change—if labor disputes, IP protection or utility failure were concerns for companies in the past, they have been well and truly replaced by factors such as currency and energy price fluctuations, doubts about customer confidence, supplier insolvency and protectionism.”

The Economist Survey below show the disruptions global supply chain executives experienced, and how these companies are trying to avoid further disruptions. Keep in mind in the least ten years, there has been many more changes in the global economy, natural disasters, currency fluctuation, scaling of economies in entire countries, and many other areas.

Supply Chain Disruption Plan

As you have reviewed some examples, risks, organizations, and steps others are taking to deal with supply chain disruption globally, you have concluded that it is not a one size fits all solution. Each organization is unique and requires a customized solution to meet their core competencies and minimize risks in the supply chain for their goods and services.

It is not about creating a strategic plan for sustainable supply chain disruption. It is about a continual plan that is implemented and revised as, not only your organization changes internally, but as your external partners and the world itself changes as well.

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In one instant, a natural, economic, or geo-political disaster can wipe out sources of products and services that can leave the best of the best limping or even bankrupt. Waiting another day to do something can be one day too late as many have found out the hard way.

It is not enough to simply review your top suppliers by spend either. In many instances, especially in manufacturing, a tiny supplier will provide an inexpensive part, however that part touches every product you produce. These suppliers typically go unnoticed until they cease to exist which can bring your entire product line to a halt.

If you diversify spend among several suppliers to provide risk mitigation, have you followed the supply chain of each of these suppliers to the OEM? You may find that the several suppliers you buy from all purchase their parts from the same OEM. Have you really mitigated your risk should the OEM cease to exist?

With some of the information you have read (and there is a lot about supply chain disruption), do something, because tomorrow will be too late. There are more natural disasters, political unrest, competition, lack of resources, changes, scaling of economies, and so much more happening than has been witnessed in the history of mankind.

If we can be of any service to you, as we have helped many clients around the globe in many industries with supply chain best practice and risk management of disruption, we encourage you to contact us.

What are You Doing about Your Supply Chain and Are You Ready?





Section 15: How Important is Competitive / Competitor Analysis for You & Your Organization?!

Continual Competitive / Competitor Analysis is Vital for Sustainable Success!

What is Competitive / Competitor Analysis?

Before outlining the different areas, understandings, and importance of competitive analysis, it is critical to understand what competitive analysis means!

Competitive or competitor analysis, as it relates to organizations and competitors, is the assessment of the strengths and weaknesses of current and potential suppliers, partners, and competitors. In other words, competitive analysis is applied in all processes for awarding contracts to suppliers, marketplaces, procurement processes, business development and marketing, and conducting competitor analysis for those suppliers who compete in your geography, industry, market, and resources.

Any analysis you conduct and provide will be both offensive and defensive strategic context to identify opportunities and threats. The data will support effective procurement and strategic formulation, implementation, monitoring, and adjustment throughout the entire competitive analysis process.

Over our many years' experience with clients from less than \$1M to \$1B+ MNC organizations, we have found that the competitive analysis is not conducted or with little thought and feedback. Many organizations end up with projects, products, material, and services that are over budget, less quality, not within specifications, production and growth is hampered (and in some circumstances disrupted), and some of the new markets they are expanding into fail.

EXECUTING the PROPER and CORRECT COMPETITIVE / COMPETITOR ANALYSIS is critical for you and your organizations success!





Facts, Not Opinions

Competitive analysis is an important part of the entire business process, including the procurement / supply chain process. Without the actual tangible data and facts that are gathered, organizations operate on intuition, feelings, impressions, and unsubstantiated thoughts through information shared about their competitors, suppliers, and individuals. The results of this can be catastrophic to your procurement decisions, awarded contracts, new market development, expansion, and winning bids that cause your organization to lose money.

Pre-Competitive Analysis

Before a competitive analysis can be conducted, it is critical to have your internal foundation in place from the organizational direction of executive management, goals, and specifications of each project, whether your procurement request process will be to source new suppliers, respond to other organizations with your proposal, expand into new markets with a new division in your organization, and so forth.

Identifying Questions

After this, what are a few of the many questions you and your team need to address and answer before starting?

- Who is in your team?
- Who is the head person of the project?
- Is procurement going to drive this or will it be another department in your organization and the procurement department will support?
- Do you have enough resources for the project?
- What are the project deadlines?
- Do you have enough internal staff to conduct this with thoroughness or do you need external help?
- Do you have enough expertise in house to write the competitive analysis? Example: Becoming a paperless organization Do you have software engineers that can write

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the Request Process with the right expectations, specifications, etc. for the technical areas?

Below is a common technique that is used in creating a competitive / competitor range.

Competitive Array – Request Process Award Supplier Contract

Refer to our other areas on the Request Process, Team Building, Bidding Type, Proper Bid / Tender Processes, and other areas that are necessary in developing, implementing, seeing through successful Request Processes and Awarded Supplier Contracts, and the other pertinent areas that deal with the beginning to the end of all Request Processes, Projects, and Supply Chain Processes.

Competitive Array – Industry Competitors

A competitor array includes several steps.

- Define your organization, your industry (Nature and scope).
- Identify and define your competitors.
- Outline and explain your customer (What benefits do they expect).
- Outline the key success factors are in your industry/
- Prioritize your key success factors (Give each one a weighting; The sum of all the weightings must add up to one).
- Rate each competitor according to each of the key success factors.
- Multiply each cell in the matrix by the factor weighting.

Example Rating Matrix

Below is a sample matrix that shows the idea about how you can rate and compare each supplier or industry competitor.

Success Factors (Weighting, Competitors, Rating)

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- Sustainability.
- Global Capacity.
- Economies of Scale.
- Best in Practice.
- ISO Certified.
- Right to Audit.
- Extensive Distribution.
- Product and Service Innovation.
- Risk Management.
- Customer Focus.
- History (Reference).
- Stability (Financially Strong).
- Partnership Drive.
- Best Value.
- Solution Driven.
- _____.

In the above examples some areas can be rated higher or lower for each area, depending on the core of the organization, risk, importance, geography, timeline, term, and many other areas.

As the above is only an example, you can add as many competitors (competition / suppliers), as well as rate your own company on each of the key success factors if you are strictly rating competition in the marketplace and how your organization ranks.





Profiling

The strategic rationale of profiling is simple and the knowledge you gain about rivals and/or suppliers offers a legitimate source of competitive advantage. The raw material of competitive advantage consists of offering superior customer value in your organization's chosen market, as well as in your procurement processes. The definitive characteristic of customer value is the adjective, superior. Customer value is defined relative to rival offerings making competitor knowledge an intrinsic component of corporate strategy.

Profiling facilitates strategic objective in four important ways.

- Reveal strategic weaknesses in rivals that the firm may utilize in their favor.
- The proactive stance of profiling allows your organization to anticipate the strategic response of the competition's planned strategies, the strategies of other competing organizations, and changes in the environment.
- The proactive knowledge provides strategic agility.
- Strategy can be implemented more quickly for capitalization of strengths.

Application

Those who apply systematic and advanced competitive / competitor profiling have a significant advantage. It is an absolute necessity to stay one move ahead in this competitive and global economy to not only bring the needed solutions to your organization, provide products, services, and material for your organization's successful operations and growth, as well as expand your organizations into new markets where there are needs that fit into your organizations core competencies.

Competition / Suppliers Profiles

An important part of any procurement process, analysis, evaluation, market expansion, and project are to keep an updated profile about your competitors, your suppliers, and anything else pertinent to supply chain in your organization. Keep in mind that many organizations still

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do not look at the procurement department as part of the organization's growth, but it has everything to do with it. Every department comes to the procurement department for products, services, material, and project's needs, whether for Request Processes, Awarding Contracts, responding to other organizations for winning new business (proposal), and so forth.

Profiles Involve

- Staff (Employee Numbers, Key Employees, and Skill sets; Management strength and style; and Benefits, Employee Morale, Retention, Compensation, and Benefits).
- Marketing (Customer Base, Segments Served, Growth Rate, Market Shares, and Customer Loyalty; Sales Force Success Rate, Advertising Themes, Promotional Mix, Budgets, Ad Agency Usage, and Online Promotional Strategy; Geographical Coverage, Distribution Channels (direct & indirect), Alliances, and Exclusivity Agreements; and Discounts, Allowances, and Pricing).
- Financials (Profitability and Policies (dividends, P-E ratios); Cash Flow, Liquidity, and Financial Ratios; and Growth Methods (organic or acquisition) and Profit Growth Profile).
- Products / Services (Products and Services, Breadth and Depth Offered, and Product / Service Portfolio Balance; Development of New Products / Services, New Product / Service Success Ratio, and Strengths of R&D; Brand Loyalty, Brand Awareness, Brand Portfolio Strengths, and Types of Brands; Licenses, Patents, Trademarks, etc.; and Conformance (Compliance and Regulation)).
- Facilities (plant capacity, capacity utilization rate, age of plant, plant efficiency, capital investment; and location, shipping logistics, and product mix by plant).
- Corporate Marketing Strategies (Marketing Strategies; Objectives; Acquisitions; Growth Plans; Mission Statement (Vision); and Core Value).
- Background (Organizational Structure; Ownership; Corporate Governance and Oversight; Company History (trends, events, key personalities, and dates); Office and Plant Locations; and Online Presences).





Media Scanning

Scanning advertising about your competitor's and suppliers can reveal much about what they believe about their marketing and target market. As each change occurs, you can learn a lot about your suppliers and/or competitors, such as:

- A change in geographical focus or exclusive distribution.
- A new branding strategy.
- A new positioning strategy.
- A new segmentation strategy.
- A new source of sustainable competitive advantage.
- A new strategic direction.
- Insights from recent marketing or product research.
- Line extensions and contractions.
- More extensive distribution.
- More intensive distribution.
- New creative concepts (appeals, tone, and themes, or a new advertising agency).
- New creative objectives.
- New distribution partners.
- New distribution strategy.
- New pricing strategy (penetration, price discrimination, price skimming, product bundling, joint product pricing, discounts, or loss leaders).
- New product offerings.
- New production processes.
- New promotion strategy (push, pull, balanced, short-term sales generation, long term image creation, informational, comparative, affective, reminder).
- New unique selling proposition.
- Problems with previous positions.
- Value migrations within the industry.





Note: Media scanning should only be used, along with your other research and analysis to add to your complete analysis.

Intelligence Professionals

Some firms hire competitor intelligence professionals to obtain this information. The Society of Competitive Intelligence Professionals located online at SCIP.org maintains a listing of individuals who provide these services.

New Competitors

In addition to analyzing current competitors and suppliers, it is necessary to estimate future threats and opportunities as well. The most common sources of new companies and suppliers that can become your competitors are those:

- Already targeting your prime market segment but with unrelated products/services.
- Competing in a related product/service/market.
- From other geographical areas and with related products/services.
- Organized by former employees and/or managers of existing companies.
- Using related technologies.

The entrance of new competitors is likely to take place.

This happens when:

- Competitive rivalry is not intense.
- Gaining a competitive advantage over existing firms is feasible.
- High profit margins in the industry exist.
- There are no major barriers of entry.
- There is future growth potential.



- Unmet demand (insufficient supply and services) is taking place in your industry.

Important Future Steps

Know your organization's core competency, mission, executive management and shareholder lead and plan, listen to all involved in your organization for solutions and new developments, not only understand but be proactive with supplier and competitor profile/analysis, track changes in the environment with facts and analysis, communicate the facts and changes to those in the team for decisions and proactive change management, and own all the steps and actions involved in competitive analysis.

Develop, Implement, and Continue Your Competitive Analysis!





Are You Receiving the Maximum Cost Savings, Profits, and Best Value in Your Organization?

Sum it Up!

To sum up all things from this Steps for Success Guide and you ... Life is short, life happens fast, and you only have one life to live. Embrace each day as a gift to you. Desire, think, say, and act out each day the path and purpose you have in life. Embrace and appreciate the low times and high times. Keep close to the heart always what is most important!

Much favored success to you!

Ted Landgraf





About the Author

Mr. Ted Landgraf: A Profile of a Global Speaker, Empowerer, Trainer, Innovator, Leader, and Strategic Change Agent.

Mr. Landgraf is an experienced global presenter with a passionate and enthusiastic presentation and speaking style, empowering, motivating, and producing lasting change for individuals and organizations.

Hundreds of thousands of people have benefited from his presentations in more than 150 nations over the last 30 years with greater results in cost reduction, best value implementation, improved efficiency, development and delivery of sustainable best practices, profitability growth methods, revenue increase solutions, and team unifying practices.

Mr. Ted Landgraf has created, led, and delivered workshops, presentations, and life changing training's including topics, such as:

- Advanced Procurement Negotiations Strategies Middle East – Bahrain.
- Social Media, Linked In, Marketing, and Uniformed Branding – Several U.S. Locations.
- Gaining Clients, Business Development Processes and Implementation, and Global Marketplace Branding and Revenue Outcomes – Federal Way, Washington.
- Strategic Leader – Strategic Planning, Negotiation, and Conflict Management – Orlando, Florida.
- Leadership Strategy, Team Building, Communicative Processes and Outcomes, Business Goals with Impact and Results, Process Compliance, Success Strategies in the Workplace and Beyond, and Other Leadership Components – U.S., Canada, Europe, Southeast Asia, Africa, Australia, and the Middle East.
- Perfecting the Art of Procurement Negotiation Outcome Strategies, Bottom Line Improvement, and Sustainable Suppliers – Kuala Lumpur, Malaysia.

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- Procurement Compliance, Cost Reduction, and Global Best Practices – Bangkok, Thailand.
- Effective Vendor Spend Management, Tender Strategies, and Cost Reduction – Kuala Lumpur, Malaysia.
- Procurement and Finance Training - Assessment, Audit, Sound Procurement System – Dubai, UAE.
- Advanced Procurement Negotiations and Profit Improvement – Bangkok, Thailand.
- Procurement Audit for Public Sector – Singapore; and
- Procurement Fraud and Internal Best Practices and Audit – Several Southeast Asian Countries.

Mr. Landgraf's Life Changing Training's, Programs, Presentations, and Change Leadership Topics include:

- Advanced Procurement Negotiations.
- Audit, Compliance, & Regulation.
- Business Development, Social Media, and Marketing.
- Commercial Audit – Internal Audit and Best Practice.
- Contractor Purchasing System Review (CPSR).
- Cost Reduction and Supplier Partnership.
- Creating, Developing, and Implementing Cohesive and Sustainable Teams.
- Effective Bid and Tender Strategies for the Oil and Gas Industry.
- Effective Supplier Bid and Tender Strategies (all industries).
- Effective Vendor Spend Management and Strategies.
- Global Strategy and Leadership.
- Government Process Audit – Internal Audit and Best Practice.
- Leadership and Communications.
- Procurement Audit and Procurement System Development.

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- Procurement Cost Reduction.
- Procurement Process and Solutions.
- Strategic Leadership: Strategic Planning, Negotiation, and Conflict.
- Steps for Success (Personal and Business Life); and
- Much More!

Mr. Ted Landgraf has global experience empowering and changing the lives for many executives, leaders, and organizations in more than 150 nations, having increased profits in the tens of billions of dollars with sustainable outcomes.

Mr. Landgraf is a dedicated and highly motivated executive with more than 30 years global Business, Training, Strategic, Procurement, Finance, and Leadership experience in many different industries, from small to Fortune MNC's.

Global Leadership and Executive Profile

- International Trainer: Many Businesses, Individual, and Team Topics in Asia, Europe, North America, South America, Africa, the Middle East, and Australia.
- Best Practice: Creation and implementation of Best Practice, Standard Operating Procedures, Governance, Turnkey System, Contract Templates, Training Systems, and Core Guides for efficient maximization of the team, cost avoidance, cost reduction, and sustainable practices in many organizations around the globe.
- Knowledge Management: Developed comprehensive, in depth set of Intellectual property in business processes, leadership, management, processes, business development, procurement, cost reduction, and other core business areas that are transferrable across all business sectors.





- Local, Regional, National, and Global Strategist: Developed and implemented many business plans for optimum communications, compliance, best value (lowest cost included), supply chain disruption and risk management, and supplier management.
- Turnkey Success Systems: Streamlined entire procurement and finance systems in many organizations (\$10 M to \$100 B +) increasing effective requisition, contract, order, and pay, thus reducing cost and time.
- Global Area Experience: Many Industries (Private, Public, Small, Large, Non-Profit, Local and National Government, Universities).
- Category Results: includes most Indirect Spend and many direct (1,000+ areas).

Mr. Landgraf's clients, partners, and participants include professionals, entrepreneur's, executives, business owners, managers, directors, board members, and many more wonderful people from many diverse backgrounds and experience with more than 1,000 companies.

Do not just take our word ... Take our client's word!





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