

5.5 The Strategic Procurement Lifecycle

The strategic procurement lifecycle is, in essence, the amalgamation of two concepts, namely the product lifecycle and strategic procurement. This section provides an overview of the subject, and how companies should consider it as an important aspect relating to procurement and acquisition strategies.

5.5.1 Product Lifecycle

Most people today are well aware of the product lifecycle, and how it is consistent with the biological lifecycle. This cycle can be illustrated via the classic “bathtub curve,” which shows that low, introductory sales are to a few innovating customers, while high, mature sales capture the market at large.

Sitting alongside the product lifecycle, we can also envisage a comparative industrial lifecycle, showing how fledgling, high-growth, mature, and declining industries exist within and across economies.

5.5.2 The Strategic Procurement Lifecycle

If we consider the key aspects relating to demand and supply, then we can see how buyers may adjust their positioning regarding sourcing and supply, depending on the lifecycle of the product or industry.

Figure 5-3 below shows a working model of the strategic procurement lifecycle, relating to the relative maturity of the industry from which the product is being purchased.

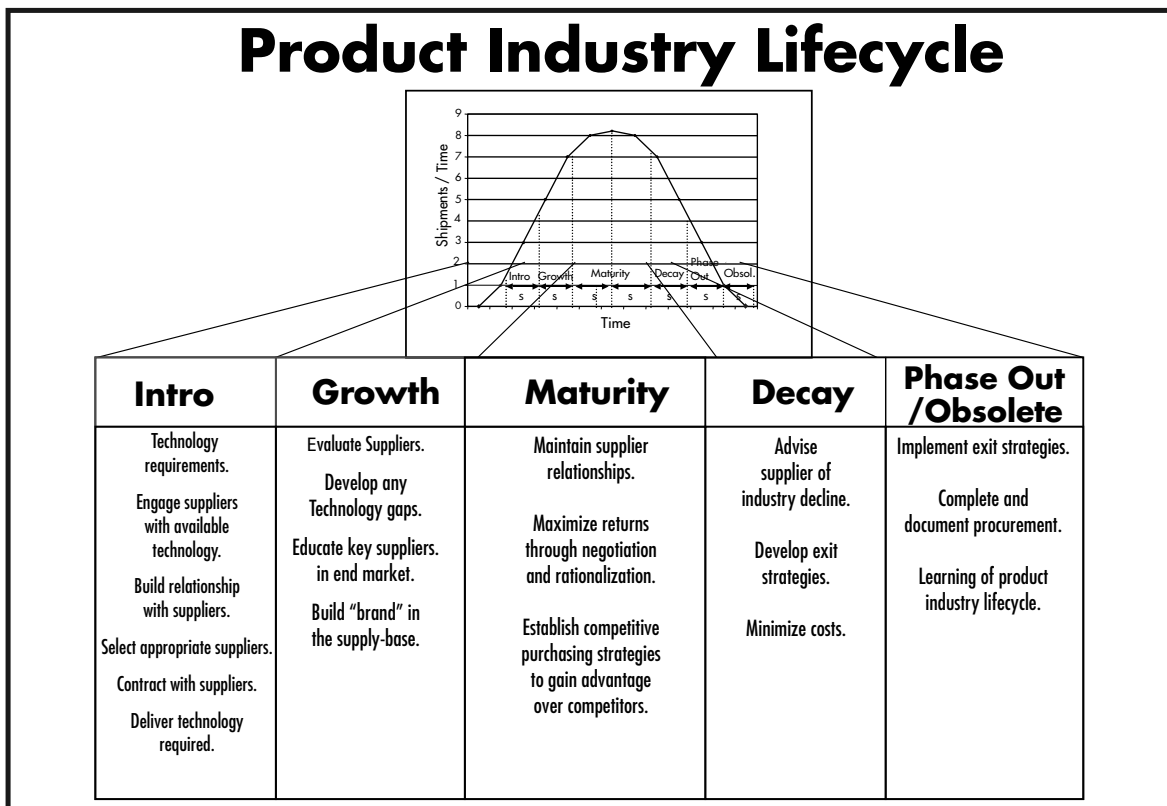


Figure 5-3. The Strategic Procurement Lifecycle

For the BCM, the two dangers in this process are:

- Buying immature products or services that either may not be effective or whose suppliers may become bankrupt, having exhausted their finances before breaking into profitability.

- ▶ Buying obsolete or obsolescent goods that may be difficult to maintain or may not be supported and whose suppliers may become bankrupt through loss of market share.

The BCM should be involved where such purchases are mission-critical.

5.5.3 Implementing the Strategic Procurement Lifecycle

The drive to develop the strategic procurement lifecycle came out of the electronics industry. However, it can be used to good effect in any number of industries in which products purchased are subject to lifecycle trends. These industries can include electronics, IT, pharmaceuticals, software, medical devices, and similar products with a relatively short life before obsolescence.

Application of the strategic procurement lifecycle requires a highly integrated team, which works between those in the organization who drive technology use and those managing the purchasing process. Traditional procurement techniques and timeframes will be invalid. Spot market contracts are likely to be ineffectual for products in decline, for which continuity of supply is paramount. Similarly, a three-month tender and quote process is likely to leave a high-growth company struggling to fulfill orders.

What is required is a pragmatic procurement or purchasing organization working hand in hand with developers and practitioners of products and services. Professionals need to be conversant in the use of those tools that are normally the reserve of technology planners and marketers.

Recognition of product and industry lifecycles is an important facet of procurement for an organization in which product or service delivery is subject to market trends and changes.

Procurement professionals must be adept to adjust the tools used within the procurement lifecycle, to ensure that it beats with the same rhythm as their market drivers.

The strategic procurement lifecycle provides both a conceptual and practical model for keeping procurement in step with demand.

The BCM should provide input to these strategies, be aware of any weaknesses in them, and plan for the failure of them.

5.6 Supplier Strategies

The BCM should be aware of supplier strategies which can include:

- ▶ **Pre-qualification** to establish a database of acceptable, qualified suppliers in order to reduce the tender cycle time.
- ▶ **Bundled requirements** in order to obtain the most advantageous deal because of the high value of the purchase. This may lead to dependence on one or more large suppliers.
- ▶ **Unbundled requirements** in order to enable competition from smaller, specialist vendors and so broaden choice of vendor. This increases contract management effort.
- ▶ **Single supplier** can ease contract management effort and lead to better prices for higher volumes – but possibly at the risk of security of supply.
- ▶ **Multiple suppliers** may ensure greater security of supply and provide more competition at the cost of higher contract management effort and possibly increased unit cost.
- ▶ **Open tender** may lead to bids from unexpected quarters, including overseas companies, making the due diligence and vendor evaluation processes more complex.

- ▶ Set performance levels, monitor supplier performance against them, and act quickly on deviations.
- ▶ Do not have contracts longer than 5 years.
- ▶ Check out the supplier's risk management and continuity arrangements.
- ▶ Include enforceable penalties for non-performance.
- ▶ Consider insuring against failure that cannot be covered in the contract with the supplier.
- ▶ Put in sufficient relationship and contract effort from the customer end.
- ▶ Ensure the supplier can make a profit on the deal!

5.16 ANSI Standard

In July 2014, ASIS released a new standard, ANSI/ASIS SCRM.1-2014 Supply Chain Risk Management: A Compilation of Best Practices (SCRM) to help organizations address operational risks in their supply chains, including risks to tangible and intangible assets.¹⁰

Action Plan

What role should the BCM play in procurement? In dealing with your procurement function, avoid being negative or aggressive – you may need to work together to enlist C-level support for any changes.

- ▶ Provide input into the formulation of supply chain strategy.
- ▶ Ensure RA and BIA are conducted on mission-critical supplies, services, and significant projects.
- ▶ Ensure BC aspects are considered.
- ▶ Understand your procurement cycle time.
- ▶ Review your standard contracts to establish how practical it would be to replace a supplier within the notice period for contract cancellation.
- ▶ Compare your organization's procurement policies, practices, and procedures with those outlined in this chapter.
- ▶ Identify any significant variations.
- ▶ Identify strategic suppliers. Are they treated differently to routine suppliers?
- ▶ Establish what risk management and BC arrangements are required from strategic suppliers and whether such arrangements are included in PQQs, ITTs, RFPs, etc.
- ▶ Identify steps currently taken to ensure security of timely supply to appropriate quality from strategic suppliers.
- ▶ Consider how supply chain risk is currently managed. Identify any weaknesses.
- ▶ Review any audit reports relating to procurement and supply chain issues.
- ▶ Review any quality reports arising from supply chain issues.
- ▶ Review any incidents of supply chain failure and try to establish causes and possible preventative measures.
- ▶ Produce gap analysis from the information above.
- ▶ Review any recent disputes with suppliers. Establish what caused those disputes, how they were handled, and what was involved in their resolution.

- ▶ Develop supply chain gap analysis.

The final action above requires that you build on the information covered in this chapter to perform a supply chain gap analysis. Gap analysis is a method to determine the actions necessary to move from a current state to a desired, future state. Also called needs analysis or needs assessment.

Conducting a gap analysis involves:

1. List aspects of the present situation (the “as is” state).
2. Identify factors reflecting the desired (“to be”) state.
3. Compare the two, identifying the gaps between them.
4. Specify the actions necessary to bridge this gap.

Review Appendix A for technical and legal details of contracting, specifications, contract law, etc.

Business Continuity Road Map: Chapter 5

INITIATE LEVEL	FOUNDATION LEVEL	PRACTITIONER LEVEL
<p>Review the material in Chapter 5. How applicable is it to your organization?</p> <p>Consider the maturity of your procurement and supply chain management procedures.</p> <p>Identify the risk controls in place for each of the risk areas identified in Chapter 5.</p> <p>Review your Supply Chain Gap Analysis.</p> <p>Check out the material in Appendix A to see whether any of it could be adapted for your organization.</p> <p>Prepare your strategy, tactics, and plans for discussion of your findings with Procurement, Legal, and user departments, as appropriate.</p>	<p>Discuss your findings and Gap Analysis with your Procurement department. Seek to identify reasons for any variations.</p> <p>Review Intellectual Property (IP) aspects where work is transferred to an external supplier. Do you have ownership of all the IP necessary for a successful, timely transfer to a competitive supplier?</p> <p>Consider whether the type of contract is appropriate to the type of supply.</p> <p>Review alternative dispute procedure.</p> <p>Review contract and ongoing relationship management aspects.</p> <p>Review the lessons at 5.15 above and incorporate them where appropriate.</p> <p>Work with Procurement to implement improvements in procurement policies, processes, and procedures, and in contract and supply chain management.</p>	<p>Consider conducting post-contract reviews to identify level of satisfaction with vendors (or consider reviewing existing post-contract reviews or customer satisfaction surveys).</p> <p>With input from user departments, Procurement, and Legal departments, where appropriate, review contracts, specifications, and service level agreements (SLAs) with strategic suppliers. Discuss the impact of supplier failure and steps that could be taken to alleviate it.</p> <p>Review vendor qualification and evaluation procedures. Include risk management and BC aspects.</p> <p>Encourage RBAM processes.</p> <p>Review the lessons at 5.15 above and incorporate them where appropriate.</p>

Self-Examination Questions

1. Which of these is NOT a generic potential supply chain risk?
 - a. Environmental.
 - b. Social.
 - c. Geopolitical.
 - d. Economic.
 - e. Technological.
2. What is the main reason why BC Managers need to work together with their colleagues in procurement departments?
 - a. To ensure value for money.
 - b. To raise the profile of BCM.
 - c. To ensure continuity of mission-critical supplies and services.
3. Which of the following roles should the BCM NOT be involved in regarding mission critical supplies?
 - a. Recommending dual supplier policies.
 - b. Drafting contracts and service level agreements.
 - c. Developing checklists for vendor evaluation.
 - d. Auditing or reviewing key vendor BCPs.
4. Which of the following should come within the scope of the RA and BIA?
 - a. Identifying strategic and mission critical purchases.
 - b. Vulnerability to supplier failure.
 - c. Over-dependency on a supplier leading to leverage by the supplier.
 - d. Risks associated with best-of-breed supply.
 - e. Risks associated with buying newly developed products.
5. Should the BCM be involved in ensuring RA and BIA form part of the business case?
 - a. No.
 - b. Yes.

Discussion Questions

1. How can I achieve my BCM role in procurement without procurement thinking I'm interfering in their domain and resisting this?
2. Just how much expertise in procurement does the BCM need to fulfil their role?
3. How can the BCM get involved in the business case to ensure risk and impact aspects are fully considered?
4. What should be included in a checklist for the procurement department covering RA, BIA, and BC aspects?
5. Who should be responsible for risk management in procurement and supply chain management?
6. Should you impose risk management and BC requirements throughout your supply chain – including sub-contractors – for strategic supplies?
7. How would you replace a strategic supplier on 30 days' notice with a supplier you had not previously rejected at evaluation?
8. What are the benefits and disadvantages of outsourcing core activities? If the following documents are going to form part of a contract, what should be their order of precedence?
 - ▶ The SLA.
 - ▶ Important ancillary letters to and from the vendor.
 - ▶ The proposal.
 - ▶ The contract document.
 - ▶ The specification, design, or project plan.
 - ▶ Original language versions of documents.