Understanding the importance of Procurement in service delivery

Garry Pita – Group Chief Supply Chain Officer
Transnet SOC Ltd
Procurement is an enabler to service delivery across various stakeholder groups

**Organisation**

*How can procurement support an organisation to achieve its desired goals?*

**Supplier Market**

*To what extent can procurement influence the supply market?*

**Customers**

*How can procurement enable an organisation’s customers to thrive?*

**Broader economy**

*What impact can procurement have on the broader South African economy?*
Procurement is an enabler to service delivery across various stakeholder groups

How can procurement support an organisation to achieve its desired goals?

How can procurement enable an organisation’s customers to thrive?

What impact can procurement have on the broader South African economy?

To what extent can procurement influence the supply market?
In order to meet an organisation’s strategic goals, the procurement objectives should be clearly aligned

**Objective**

| Value creation | ▪ Sourcing a commodity with an optimal **Total Cost of Ownership** (TCO)  
▪ Unlocking **savings** through rigorous commodity and market analysis and negotiations |
| Efficiency | ▪ Quicker end to end procurement **turnaround times**  
▪ **Minimal delays** in goods/services reaching business users |
| Quality | ▪ Sourcing of commodities that best **meets the needs** of the business user and drives **business impact** |
| Integration | ▪ **Alignment** between procurement/business users, customers, and suppliers |
| Compliance | ▪ Whilst striving for efficiency, value creation, quality and integration, **adherence to procurement policies** must be maintained |
These internal objectives can be achieved by using systematic processes & templates, frameworks & methodologies, and managing performance

**Systematic processes and standardised templates**

- Ensures compliance
- Improves quality
- Drives efficiency

**Best practice frameworks and methodologies**

- Enhances value creation
- Drives towards a robust solution

**Robust performance management**

- Ensures overall objectives are met
- Identifies exceptions and corrective initiatives
Transnet has developed an operating model which provides direction within supply Chain across the organisation

- Transnet has created an integrated Supply Chain Management operating model which provides guidance to the overall organisational Supply Chain direction

- The iSCM operating model is executed across the Transnet Group with guidance from each of the seven Centre's of Excellences (COE’s)

- Each of the COE’s provide standardization of best practice in addition to assisting in the facilitation of knowledge sharing across all organisational operating divisions
The iSCM operating model was created as a divisional led centre driven hybrid model

The hybrid model will consist of elements of the other models reflecting a balance between centrally driven and divisionally led as well as outsourced functions.

**Highly Centralized**
- Central contract management for strategic suppliers
- Central supplier relationship management to drive greater value
- Greater control on spend
- Consolidated management information

**Highly Decentralized**
- Greater autonomy leading to local supplier relationship management with strategic suppliers
- Limited leverage of spend
- Proliferation of products specifications
- Limited control on demand and spend

**Fully Outsourced**
- Increased risk through limited relationships with strategic suppliers
- Limited visibility on demand

**Partly Outsourced**
- Economies of scale in specific categories where outsourcing can deliver greater value
- Retain control on high risk categories/countries

**Hybrid**
- Hybrid model that suits organisations with complex requirements
- Central governance model to implement and monitor
- Greater control on spend through cross-functional COE
- Reduced risk through interactions with Governance, Risk and SD COE’s
- Can be complicated to manage for non-strategic categories
- May deliver value similar to other models for non-strategic categories
- Option available to outsource categories due to resource constraints and where outsourcing will deliver greater value

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**Strategic Spend**
- Central contract management for strategic suppliers
- Central supplier relationship management to drive greater value
- Greater control on spend
- Consolidated management information

**Non-strategic Spend**
- Proliferation of suppliers and dissemination of buying leverage
- May be useful where volume discounts are not available
- Challenge to drive consistency in source-to-pay processes

**Consolidated Management Information**
- Transfer of procurement responsibility to third party
- Potentially greater leverage through consolidation spend with other customers
- Reduced control on spend and demand management

**In-house Categories**
- Retain in-house categories where outsourcing does not provide an improved deal
- Outsource categories on which outsourcing companies can drive greater benefits
- Flexible model

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Procurement is an enabler to service delivery across various stakeholder groups

- **Supplier Market**
  - To what extent can procurement influence the supply market?

- **Organisation**
  - How can procurement support an organisation to achieve its desired goals?

- **Customer**
  - How can procurement enable an organisation’s customers to thrive?

- **Broader Economy**
  - What impact can procurement have on the broader South African economy?
Procurement has an obligation to the supplier market

What suppliers require?

- **Transparency** of the procurement process
- Bid proposals evaluated **fairly**
- **Non-biased** supplier selection

- **Supplier relationship management** (including contract management) to ensure that performance expectations are met on both sides

- Support **local entrepreneurship** and **enterprise development**
- Promote **SMME involvement** and encourage **skills development**

- Providing certainty of **future demand**

- Enhancement of **track record** by being associated with service delivery for a large organisation
Supplier relationship management (SRM) and contract management are means employed to forge a productive partnership with suppliers.

| SRM strategies are informed by the suppliers’ value, volume and risk to the business |
|---|---|---|---|
| High | Low | High | Low |
| Business Risk | Value | Business Risk | Volume |
| Bottle | 1 | Security | 1 |
| Strategic | 2 | Strategic sourcing | 2 |
| Routine | 3 | Automate | 3 |
| Leverage | 4 | Short term contracts | 4 |

Contract management process:

1. Contract administration
2. Contract closure
3. Contract management lifecycle process
4. Develop contract strategy
5. Develop contract exit strategy
6. Increase business value
7. Manage changes within the contract
8. Service delivery / performance management
9. Contract award
10. Establish the form of contract
11. Develop contract management plan

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Supplier Development and Enterprise Development are key enablers to achieving both Government’s and Transnet’s objectives

**Government’s objectives**

- Increase the percentage of the population involved in **quality formal employment opportunities**
- Address wealth distribution disparities in the country by ensuring the participation of previously disadvantaged groups in the economy
- Maintain a healthy balance of payments position by reducing the reliance of South African industries on imports
- Increase the participation of public enterprises in increasing levels of real fixed capital formation
- Develop key skills and capabilities required for specific industries where these do not exist

**Transnet’s Objectives**

- Volume and Revenue Growth
- Creating Capacity
- Operational Efficiency
- Financial Strength
- SHEQ

Promote the
1) Empowerment of previously disadvantaged groups
2) Increase in local content
3) Improvement of skills and create opportunities for sustainable jobs

- Security of Supply
- Reduction in Costs
- Reduction in Working Capital
- Enhanced Preferential Procurement and Enterprise Development
Supplier development is a means to address some of South Africa’s national imperatives

Supplier Development represents the adaptation of economic localisation policies to encourage industrialisation in South Africa

- The Supplier Development Programme is an initiative of the Department of Public Enterprise supported by Transnet to address:
  - an un-transformed manufacturing base
  - a decline in manufacturing capabilities and capacity
  - monopoly structures within the local economy
  - worsening of the gap between rich and poor

- The aim of Supplier Development is:
  - Ensure Transformation of the mainstream economy
  - Increase Capability – develop suppliers to have the know how/ability
  - Increase Capacity – develop suppliers to be able to deliver on requirements
  - Increase Competitiveness – develop suppliers to be able to compete in the South African supply base

- This can be achieved through skills transfer, increasing the local content of items procured as well as building new capability in the local supplier base
Transnet uses a framework to classify commodities and identify their respective SD opportunities

‘Strategic’ Focus Areas:
- Preference and development will be used to transform and grow local industry
- Skills development amongst scarce resources, increasing the quality of jobs
- Transfer of technology and innovation to local suppliers from foreign OEM’s

‘Programmatic’ Focus Areas:
- Creating sustainable new industries
- Development of new technology and innovation
- Active Industrial Policy through CSDP and Programmatic policies outlined by the DPE
- Investment in infrastructure and manufacturing industries
- Skills development amongst scarce resources enhancing the intensity and quality of jobs available in South Africa

‘Enterprise Development’ Focus Areas:
- The focus will be on providing small enterprises with opportunities and preferential trading terms
- Empowering HDI’s to create their own business resulting in quality job creation

‘Focused’ Focus Areas:
- Preferential Procurement and B-BBEE used to develop local industry owned and managed by HDI’s
- Development of quality job creation reducing the lower income inequality and reducing poverty
Procurement is an enabler to service delivery across various stakeholder groups

- How can procurement support an organisation to achieve its desired goals?
- To what extent can procurement influence the supply market?
- What impact can procurement have on the broader South African economy?

Customers

How can procurement enable an organisation’s customers to thrive?
Transnet has defined Customer service as one of the key pillars of its iSCM function

<table>
<thead>
<tr>
<th>Transnet Vision</th>
<th>Transnet Strategic Objectives</th>
<th>iSCM Strategic Objectives</th>
<th>iSCM strategic initiatives to support business objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deliver freight reliably</td>
<td>Financial and socio economic impact</td>
<td>Transformation</td>
<td>Implement and operationalise supplier development strategy to ensure transactions achieve appropriate developmental goals</td>
</tr>
<tr>
<td></td>
<td>Capital planning &amp; execution</td>
<td>Integration</td>
<td>Implement robust capital procurement planning for timely delivery of planned capital execution through demand management</td>
</tr>
<tr>
<td></td>
<td>Volumes and customer satisfaction</td>
<td>Quality</td>
<td>Improve iSCM service levels to internal customers, which in turn would optimise Transnet’s supply chain performance, increasing customer satisfaction</td>
</tr>
<tr>
<td></td>
<td>Operational efficiencies and productivity</td>
<td>Efficiency</td>
<td>Improve reliability of Transnet supply chain to enable efficient and effective outbound services</td>
</tr>
<tr>
<td></td>
<td>Finance and funding</td>
<td>Value creation</td>
<td>Optimise value from sourcing activities, resulting in reduction in required funding and creating value for shareholders</td>
</tr>
<tr>
<td></td>
<td>Regulatory and key stakeholder engagement</td>
<td>Compliance</td>
<td>Proactively manage compliance risk through continuous alignment to government policies, legislation and governance protocols</td>
</tr>
</tbody>
</table>

Customer service is one of the key focus areas of Transnet iSCM
There are several value drivers for customers

- **Price**: High price competitiveness which is based on service provided
- **Quality**: High quality products with minimal variability against requested / sold standard
- **Availability**: Zero tolerance against process / system breakdowns
- **Selection**: Ability to influence process and product requirements to individual and / or tailored needs
- **Functionality**: Ability to simply and efficiently interface with customers on all levels of business interaction
- **Service**: Proactive, ‘can-do’ service mindset constantly available to meet all requests
- **Partnership**: Ability to collaborate on a partnership level and jointly tackle initiatives which are of importance to both parties
- **Brand**: Association / identification with a brand which that is aligned with their individual preferences
Customer service is central to the way Transnet manages its iSCM function

**KPI's for Transnet iSCM**

**Sourcing**
- Total spend
- Opex spend
- Capex spend
- MDS view
- Total savings
- Actual savings

**Governance**
- Number of audit findings
- Number of audit findings resolved
- Number of tenders longer than 6 months
- Number of staff trained (AC members, SCM staff, end users)

**Supply development**
- Number of tenders non-awarded by AC
- Number of tenders referred back by AC
- Approved confinements as a % of total tenders awarded
- Number of condonations granted

**Systems & business integration**
- % of system polluted data
- Time to resolve system requests (Material master)
- Total requests exceeding SLA (Material master)
- Time to resolve system requests (Vendor master)

**Human capital**
- % of positions in the organisational structure not filled
- % of positions filled by contractors
- Average tenure of employees
- Level of absenteeism

**Demand planning**
- Number of transactions per procurement phase
- Value of transactions per procurement phase (current FY budget)

**Value of localisation**
- Value spent on small business promotion
- Value spent on EMEs
- Value spent on QSEs
- Value spent on Black Women Owned
- Value spent on Black Owned
- Value spent Black Youth Owned
- Value spent on Black People living with disabilities
- Value of B-BBEE spend
- Supplier Development training

**Value of technology transfer**
- Total requests exceeding SLA (Vendor master)
- Project status update
- Benefits realisation plan

**Value of skills development**
- Number of jobs created
- Number of jobs preserved
- Value of skills development
- Spend on enterprise development
- Value of rural integration

**Value of skills gap**
- Training undertaken
- % of employee satisfaction
- Team barometer score

**Value of transactions per procurement phase**
- Value of transactions per procurement phase (ETC)
Procurement is an enabler to service delivery across various stakeholder groups.

How can procurement support an organization to achieve its desired goals?

To what extent can procurement influence the supply market?

What impact can procurement have on the broader South African economy?

How can procurement enable an organization’s customers to thrive?

Procurement is a key enabler to service delivery across various stakeholder groups.

Broader economy
Government has developed a number of policies in order to address the challenges faced by South Africa.

<table>
<thead>
<tr>
<th>The National Dilemma</th>
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</thead>
<tbody>
<tr>
<td>Unemployment</td>
</tr>
<tr>
<td>Skills shortage</td>
</tr>
<tr>
<td>Inequality</td>
</tr>
<tr>
<td>Growing population</td>
</tr>
<tr>
<td>Infrastructure shortage</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>The National Agenda</th>
</tr>
</thead>
<tbody>
<tr>
<td>Job creation</td>
</tr>
<tr>
<td>Skills development</td>
</tr>
<tr>
<td>Normalising society and economy</td>
</tr>
<tr>
<td>Local procurement and economic growth</td>
</tr>
<tr>
<td>Infrastructure development</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Government Response</th>
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</thead>
<tbody>
<tr>
<td>New Growth Path</td>
</tr>
<tr>
<td>IPAP I &amp; II</td>
</tr>
<tr>
<td>Local Procurement Accord</td>
</tr>
<tr>
<td>CSDP</td>
</tr>
<tr>
<td>B-BBEE</td>
</tr>
<tr>
<td>SME development</td>
</tr>
<tr>
<td>Overall policy reform</td>
</tr>
<tr>
<td>PPPFA, designation</td>
</tr>
</tbody>
</table>
Over the next 7 years Transnet intends to spend ~R300bn on Capex items and ~R301bn on Opex items

### 7 year forecasted spend

<table>
<thead>
<tr>
<th>Year</th>
<th>Capital Expenditure</th>
<th>Operating Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012/13</td>
<td>31.2</td>
<td>31.4</td>
</tr>
<tr>
<td>2013/14</td>
<td>37.3</td>
<td>33.1</td>
</tr>
<tr>
<td>2014/15</td>
<td>38.8</td>
<td>37.4</td>
</tr>
<tr>
<td>2015/16</td>
<td>48.0</td>
<td>40.3</td>
</tr>
<tr>
<td>2016/17</td>
<td>56.3</td>
<td>45.9</td>
</tr>
<tr>
<td>2017/18</td>
<td>47.4</td>
<td>53.7</td>
</tr>
<tr>
<td>2018/19</td>
<td>41.1</td>
<td>59.3</td>
</tr>
<tr>
<td>Total</td>
<td>300.2</td>
<td>301.1</td>
</tr>
</tbody>
</table>

### Comments

- Over the next 7 years, Transnet is expected to spend ~ R600bn
- This lays the foundation and provides Transnet with the ability to leverage our spend for the purposes of SD and economic growth
- Within each of the respective expenditure categories different SD opportunities exist and Transnet aims to prioritise these opportunities in order to ensure maximum SD value extraction

Source: MDS Consol document; Transnet Shareholders compact; Team analysis
Due to this spend, the Rail industry will fundamentally shift within 7 years

<table>
<thead>
<tr>
<th>The Rail industry currently looks as follows...</th>
<th>...however in 7 years it would have changed to...</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="Image" alt="Local content" /></td>
<td><img src="Image" alt="Local content" /></td>
</tr>
<tr>
<td>Local content</td>
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</tr>
<tr>
<td>Rail industry components are made up of a high percentage of international content</td>
<td>At least 60-80% of the Rail industry components will be local in nature and of a global standard</td>
</tr>
<tr>
<td><img src="Image" alt="Technical capability" /></td>
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</tr>
<tr>
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</tr>
<tr>
<td>Local capability largely in maintenance, repair and assembly</td>
<td>Items designed and manufactured locally</td>
</tr>
<tr>
<td>SA mainly produces mechanical components</td>
<td>Components will be of a high complexity (e.g. electrical)</td>
</tr>
<tr>
<td><img src="Image" alt="Jobs" /></td>
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</tr>
<tr>
<td>Jobs</td>
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</tr>
<tr>
<td>Low level of job creation as focus is placed on assembly</td>
<td>Manufacturing capability will create numerous jobs particularly focusing on HDI’s1</td>
</tr>
<tr>
<td>Low level of skills as a result of low complexity items</td>
<td></td>
</tr>
<tr>
<td><img src="Image" alt="Small business" /></td>
<td><img src="Image" alt="Small business" /></td>
</tr>
<tr>
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</tr>
<tr>
<td>Limited small business development due to historical small scale procurement and low levels of localised production</td>
<td>A large number of transformed small businesses will develop to produce international quality products while growing sustainably</td>
</tr>
</tbody>
</table>

1 Historically Disadvantaged Individuals as per the B-BBEE Act 2003

Source: Team analysis
In summary, procurement is an integral element to service delivery across various stakeholder groups.

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<tr>
<td>Procurement can be an effective driver of various organisational goals (e.g. Value creation, Efficiency, Quality, Integration, Compliance)</td>
<td>Procurement can be the ‘organisational face’ with the ability to fundamentally shape the supplier market (e.g. Supplier and Enterprise development)</td>
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</tr>
<tr>
<td>Procurement can influence all key areas which customers value (e.g. Price, Quality, Availability, Selection, Functionality, Service, Partnership, Brand)</td>
<td>Procurement can be an economic stimulus and a driver of government objectives / policy</td>
</tr>
</tbody>
</table>

**PROCUREMENT IS A KEY ENABLER TO SERVICE DELIVERY ACROSS VARIOUS STAKEHOLDER GROUPS?**
Thank You

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