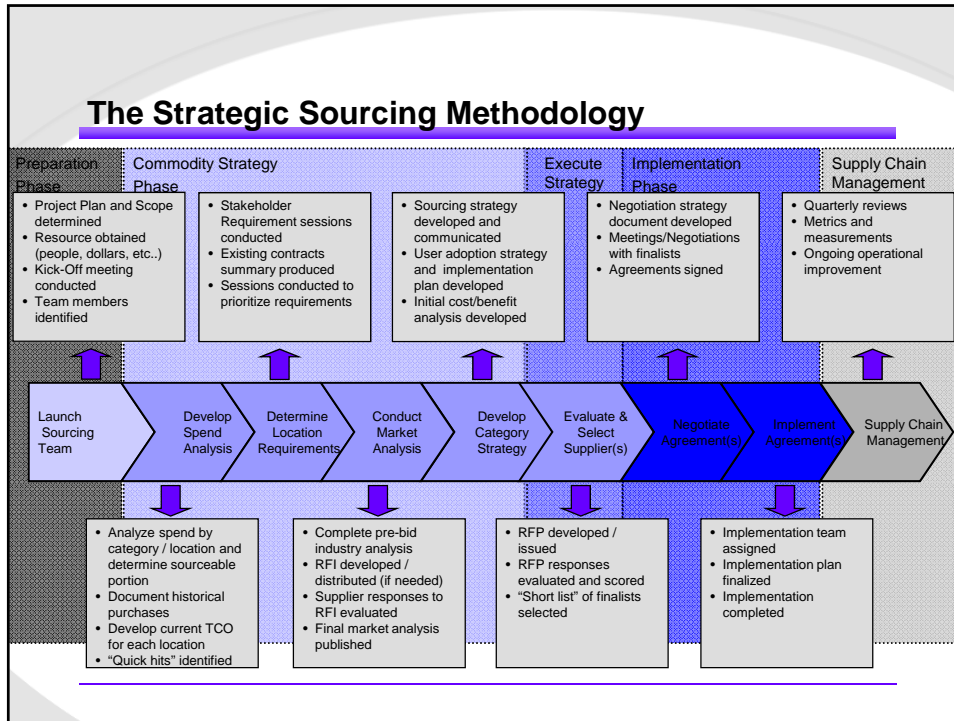


## Topics

- Commodity Strategy
  - Commodity Analysis
  - Strategy Development
  
- Key Performance Indicators and Metrics
  - Executive Dashboard
  - Demo



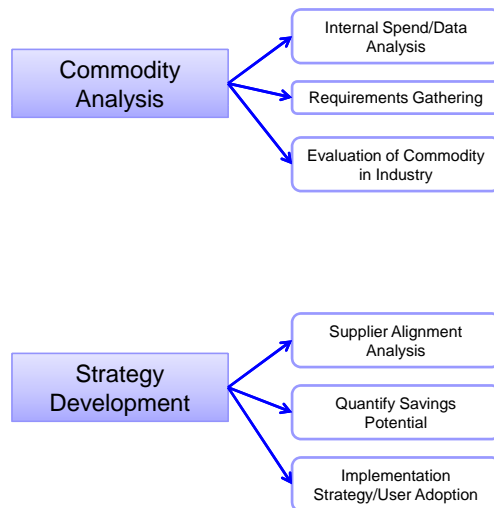
- ### Why a Commodity Strategy Is Important
- Proactive
  - Underpinning for change management
  - Improved Credibility
  - Ensures goals are aligned with market conditions
  - Price/cost reduced by pre-empting price adjustments
  - Target setting easier
  - Ability to determine UC leverage, market opportunity and savings potential
  - Awareness of supplier base and market competitiveness improved

## If You Don't Create a Commodity Strategy...

- Reactive
- Supplier and product base may not reflect current supply market dynamics
- Insufficient knowledge puts buyer in a weaker bargaining position
  - On campus
  - With supplier
- May not be using the optimum supply base
- Remain with existing suppliers
- Not taking advantage of new advances

Commodity Strategy: Summary

## Components of a Commodity Strategy



## Commodity Analysis: Internal Spend/Data Analysis

- Spend Analysis (commodity spend, transaction count, commodity trend, # of suppliers, etc.)
- Product details (SKUs)
- Current Top 10 Suppliers in commodity area
- Identify departments/users that represent top 80% spend
- Subject matter expert (SME) review of data

Commodity Analysis Phase: Internal Spend/Data Analysis

## Coffee Supplier Example

Annual Spend

Supplier	Spend	Transactions	% of Total Spend
COFFEE INC	\$93,482	583	28%
PCT COFFEE	\$70,685	482	22%
TAB SERVICE	\$38,228	141	12%
THE ART OF ESPRESSO	\$27,875	134	8%
COFFEE PLAN	\$19,886	121	6%
JAVA CUPS COFFEE	\$17,942	95	5%
OTHER SUPPLIERS	\$60,130	236	19%

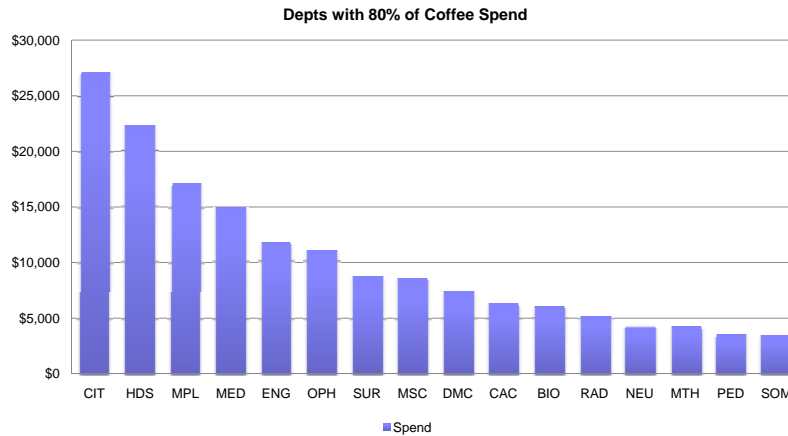
Total Suppliers: 22

Total Spend: \$328,229

Total Trans: 1,792

Commodity Analysis Phase: Internal Spend/Data Analysis

## Top Departments with 80% of Spend Example



Commodity Analysis Phase: Internal Spend/Data Analysis

## Spend Analysis Item Categorization

Through invoice sampling MRO spend is further defined into seven main categories. Over 75% of spend is captured in six clearly defined categories.

(\$s in 000s)

Supplier Category	Estimated Annual Spend				Total <sup>(4)</sup>	% of Spend
	Campuses <sup>(1)</sup>	Laboratories <sup>(2)</sup>	Medical Centers <sup>(3)</sup>	UC Office of the President		
Electrical	\$20,665	\$27,694	\$1,668	\$147	\$50,174	38%
Tools & Hardware	12,809	17,167	1,034	91	31,101	23%
Lighting	5,030	6,742	406	36	12,214	9%
Plumbing Supplies	2,073	2,779	167	15	5,034	4%
HVAC Supplies	644	863	52	5	1,564	1%
Pumps & Compressors	397	531	32	3	963	1%
Other	13,151	17,624	1,061	94	31,931	24%
<b>Total</b>	<b>\$54,770</b>	<b>\$73,400</b>	<b>\$4,420</b>	<b>\$390</b>	<b>\$132,980</b>	<b>100%</b>

“Sourceable” spend is conservatively estimated to be \$50 to \$80 million

- Assuming 80% addressable for non-lab spend only
- Assuming 60% addressable for all spend

Commodity Analysis Phase: Internal Spend/Data Analysis

## Data Collection Challenges

### Balancing Needs and Wants



### Poorly Understood Specifications



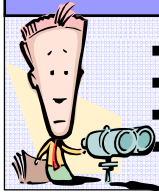
- Technical
- Commercial
- Supplier-driven
- Total cost

### Data Integrity



- Accuracy
- Consistency
- Completeness
- Relevancy

### Unknown Future Requirements



- Product mix changes
- Volume changes
- New technologies
- Product redesign

Commodity Analysis Phase: Internal Spend/Data Analysis

## Commodity Analysis: Requirements Gathering

- Which suppliers are needed by UCSD and why?
- Unique offerings, sole sources, etc.
- UCOP/UCSD agreements currently in place
- Identify key requirements (savings, service, delivery, performance, sustainability, etc.)
- Take into account total cost of ownership

Commodity Analysis Phase: Requirements Gathering

## Commodity Analysis: Evaluation of Commodity in Industry—Industry Capabilities and Trends

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- Top suppliers in the industry and key capabilities
- Competition dynamics
- Identify industry cost and performance drivers (quality, level of technology, flexibility, timeliness, etc.)
- Industry direction and trend (consolidation, pricing, etc.)
- Understand market capability versus business requirements

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Commodity Analysis Phase: Evaluation of Commodity in Industry

## Strategy Development: Supplier Alignment Analysis

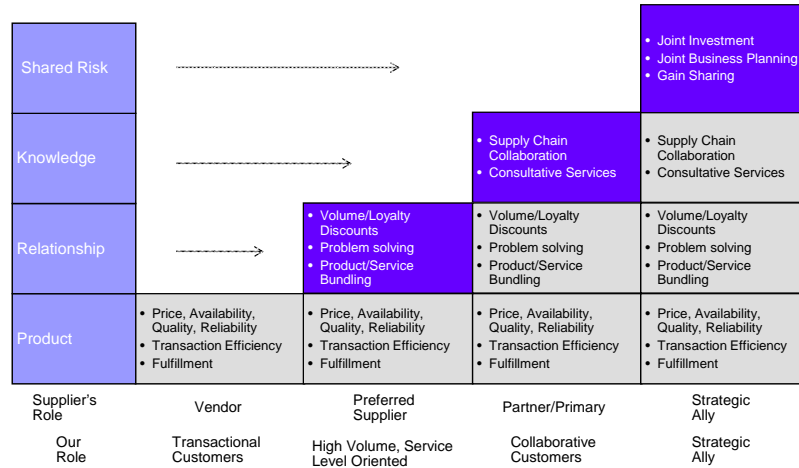
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- Alignment with requirements – customer focus
- Evaluation of bubble chart (spend, potential transactions, difficulty, alignment) – sourcing focus
- What percentage of the commodity spend do the top suppliers represent? – consolidation focus
  - How much of current spend can be realigned to preferred suppliers?
    - Use goal of 80% contracted and sole source, 20% small/disadvantaged businesses.

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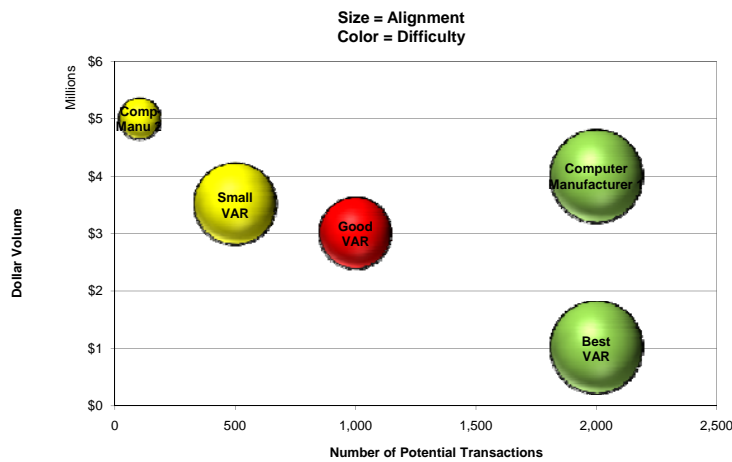
Strategy Development: Supplier Alignment Analysis

## Supplier value framework



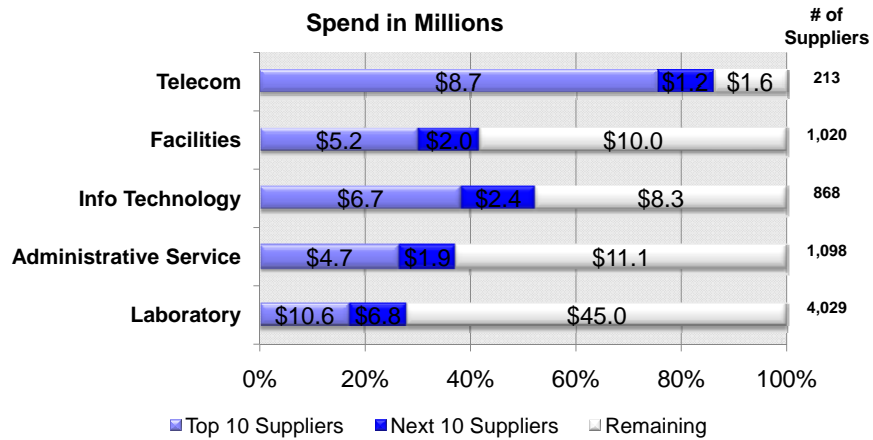
Strategy Development: Supplier Alignment Analysis

## Bubble Chart example – Supplier Alignment



Strategy Development: Supplier Alignment Analysis

## Supplier Consolidation



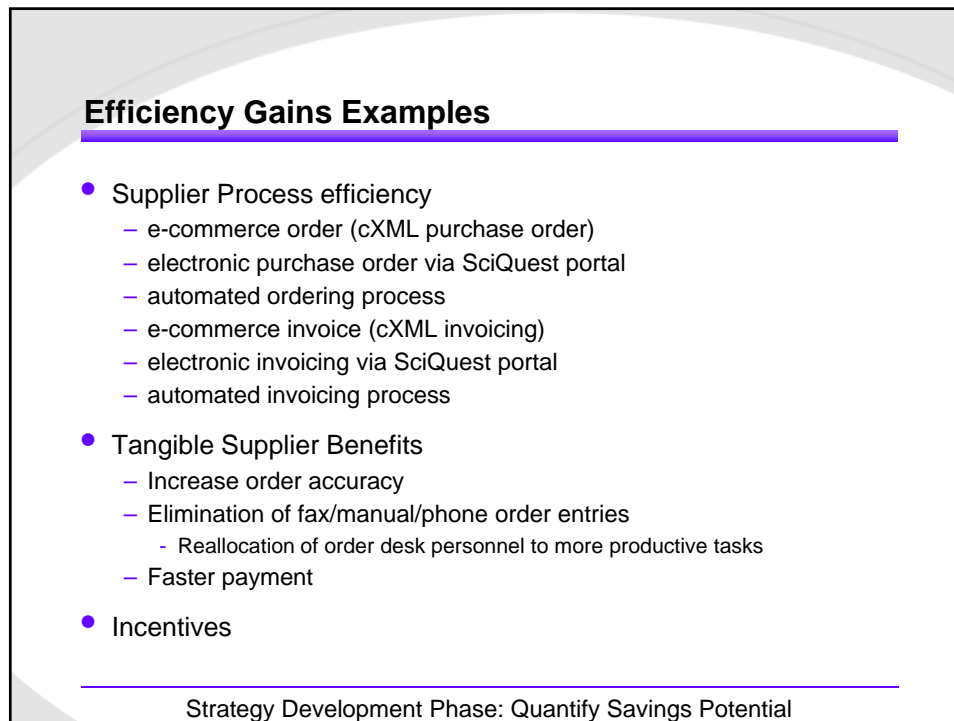
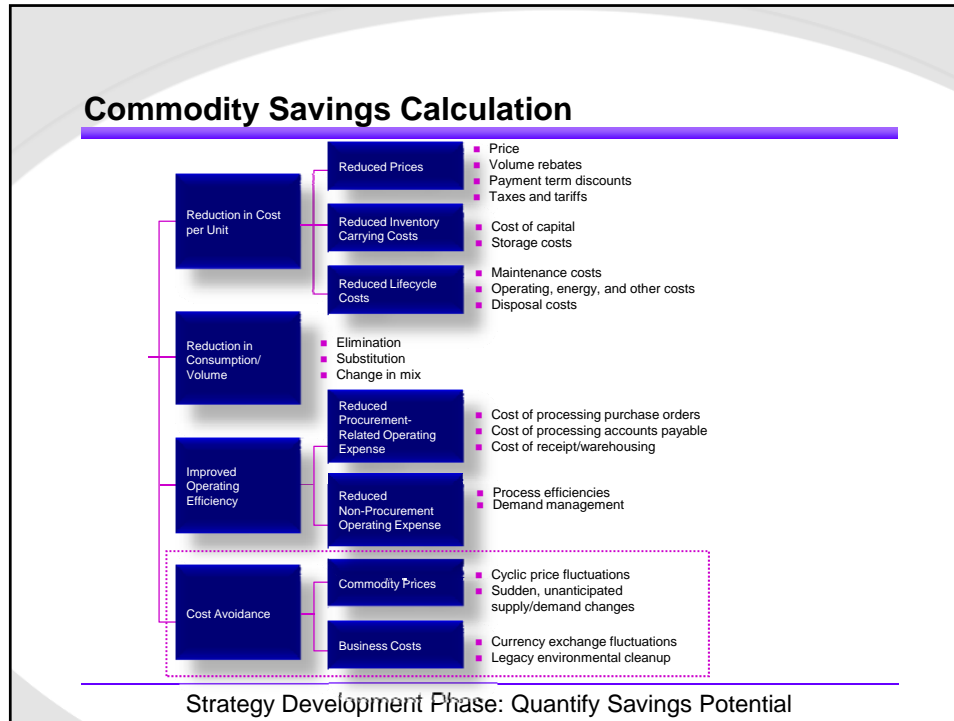
Top 10 suppliers represent less than 20% of total spend in Laboratory and Administrative Services categories.

Strategy Development: Supplier Alignment Analysis

## Strategy Development: Quantify Savings Potential

- Hard dollar
- Soft dollar
- Efficiency gains
- Environmental savings/sustainability improvements

Strategy Development Phase: Quantify Savings Potential

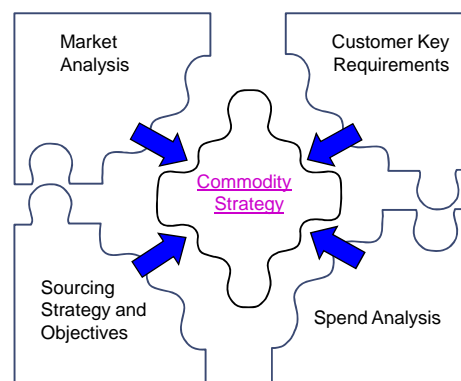


## Strategy Development: Implementation Strategy and User Adoption

- Evaluate viability of successful implementation
  - Can we achieve goal of 80% contract utilization?
- E-Commerce enablement
  - Suppliers' capability
  - Timing of enablement
  - Short-term solution
- Non E-Commerce
  - Supplier Fairs
  - Buyer Training
  - Direct engagement of Dept's
- Communication strategy
  - User conversion strategy
    - Training
    - Supplier presentations
    - Supplier fair
    - Metrics and KPIs
  - Buyer conversion strategy
    - Campus & Professional Buyers
    - Training
    - Metrics and KPIs

Strategy Development: Implementation Strategy and User Adoption

## How it all comes together



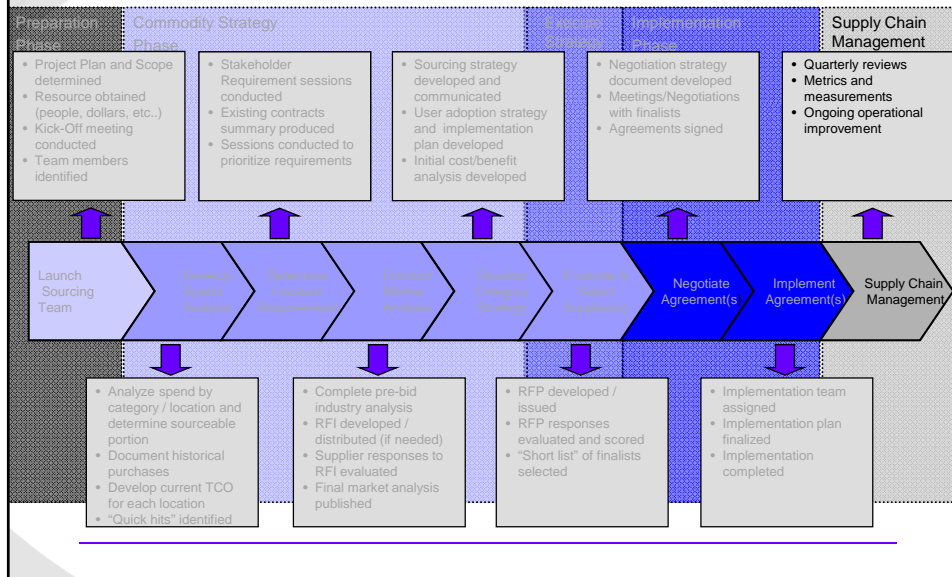
Strategy Development: Implementation Strategy and User Adoption

## Commodity Strategy Summary Example For MRO

- Market assessment and recommendations:
  - UC has large spend across MRO. It is concentrated in Tools/Hardware and Electrical/Lighting. The market has 5-6 large VARs with capabilities that align with our requirements. Product match will have to be determined via bid. 1 large VAR has no interest in engaging in a bid. All other large VARs expressed strong interest.
  - Summary Data
    - UC spend \$54,000,000 (No labs). UCSD Spend \$8,000,000
    - Currently at UCSD 180 suppliers provide MRO products for Tools/Hardware, Electrical, Lighting, Plumbing, HVAC, Pumps, etc
    - Consolidation Potential: 2-4 suppliers with some specialty suppliers in plumbing, HVAC and Pumps/Compressors
    - Savings potential: Category specific but ranges from 8% to 20%+
    - Transactions: 80,000 at \$100 of product per Transaction
    - Supply chain: Consolidated shipping opportunity to drive shipping and sustainability improvements
    - Key issues: Delivery time, returns, copper pricing, steel origin

Strategy Development: Implementation Strategy and User Adoption

## The Strategic Sourcing Methodology



## Metrics and Measurements

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- How we will measure, track and report performance under contractual agreement(s)?
- How to monitor and track long-term, sustained benefits of executing a commodity strategy?
- What actions will result from missing contractual performance?
- [Sample KPIs and Metrics](#)

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Supply Chain Management: KPIs and Metrics

## Dashboard

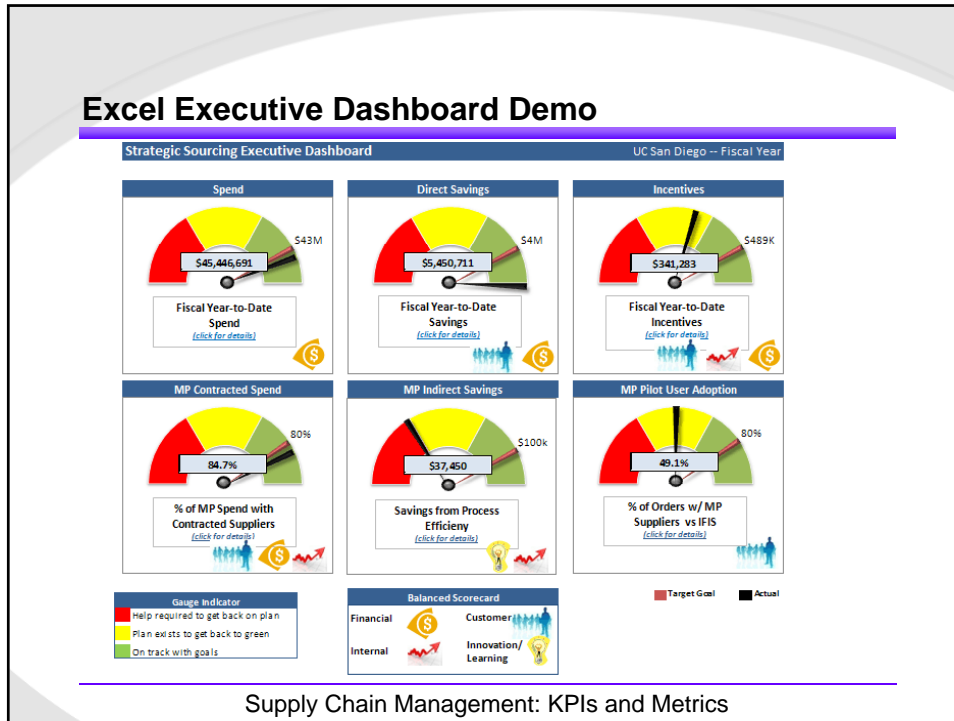
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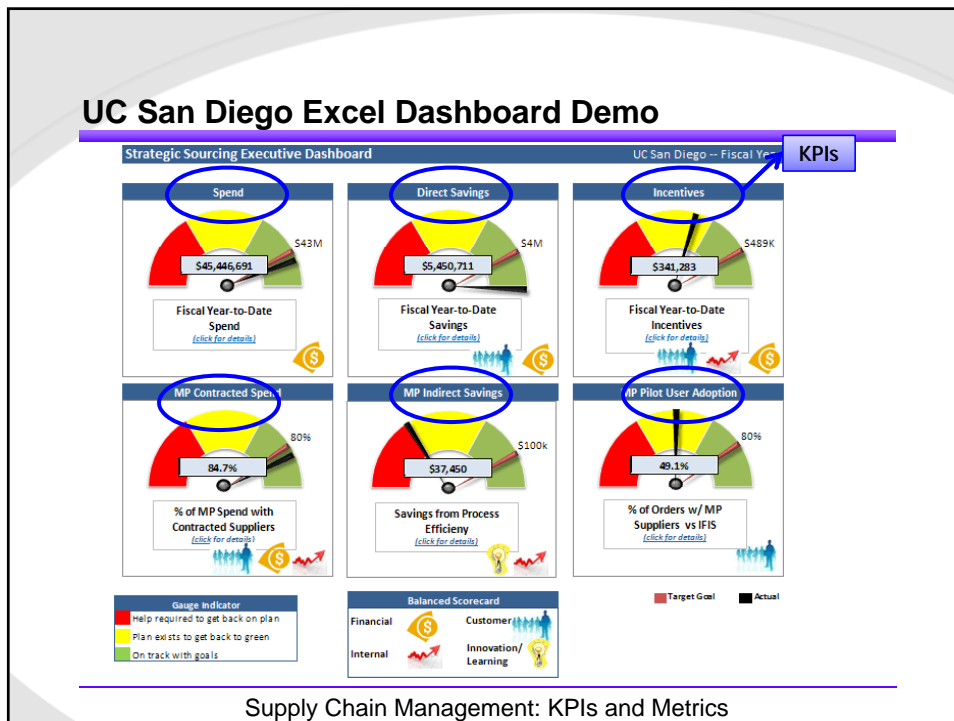
Supply Chain Management: KPIs and Metrics

## Excel Executive Dashboard Demo

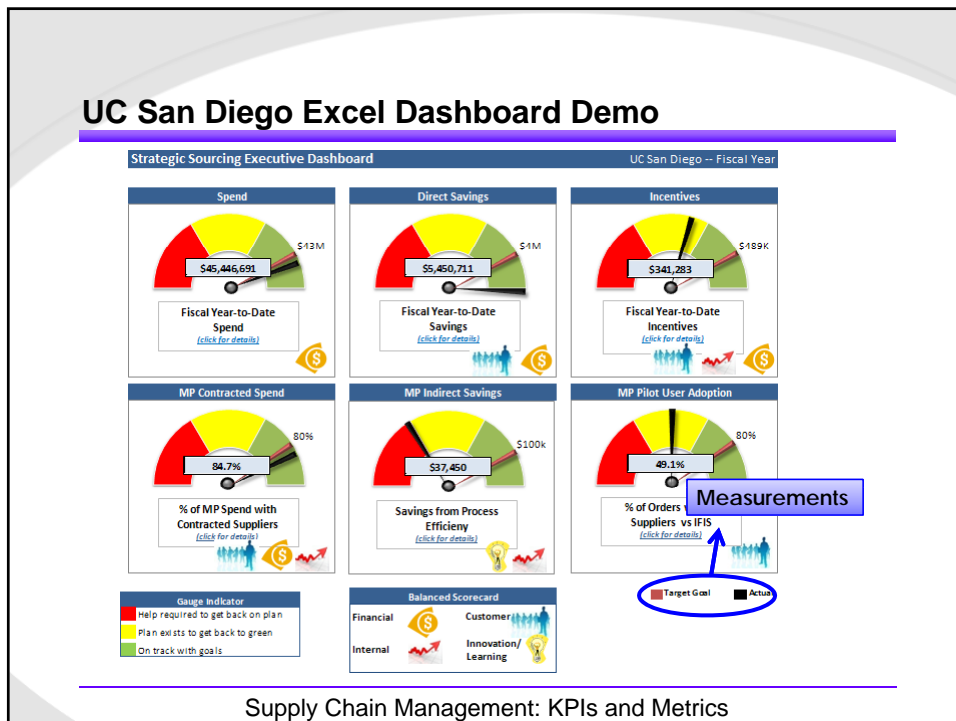
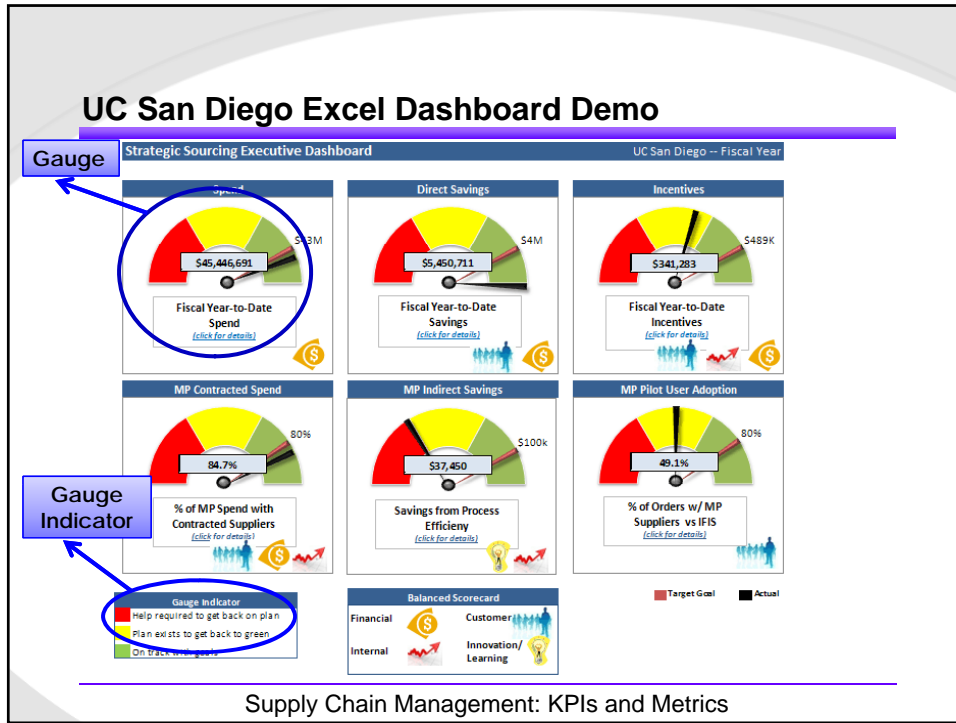


Supply Chain Management: KPIs and Metrics

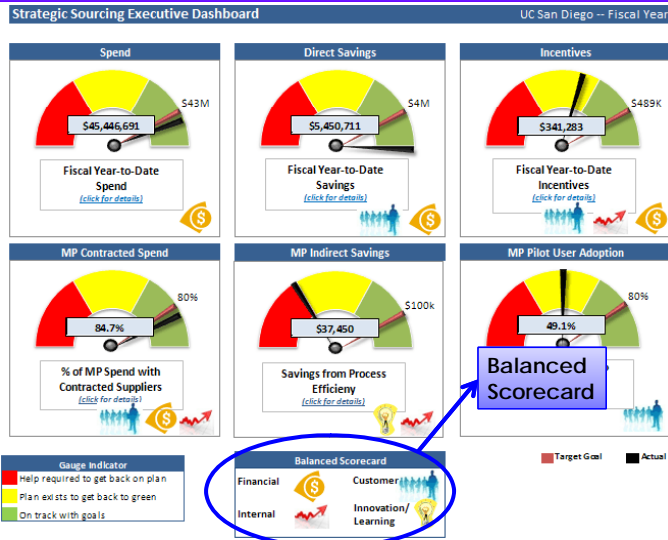
## UC San Diego Excel Dashboard Demo



Supply Chain Management: KPIs and Metrics



## UC San Diego Excel Dashboard Demo



Supply Chain Management: KPIs and Metrics

QUESTIONS?

**UC San Diego Contact Information**

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Commodity Strategy and Spend Analysis

**APPENDICES**

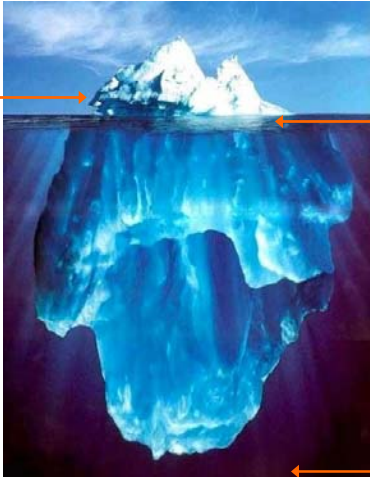
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### Balancing Needs and Wants

Characteristic	Dept 1	Dept 2	Dept 3	Dept 4	Average
■ Quality	4	5	2	3	3.5
■ Reliability	5	5	5	5	5.0
■ Delivery	3	2	3	2	2.5
■ Technical expertise	5	5	2	4	4.0
■ Customer service	4	5	2	3	3.5
■ Innovation	1	1	1	1	1.0
■ Service Levels	3	2	4	3	3.5
■ Price	1	1	3	2	1.7
■ Total Cost of Ownership	4	5	2	3	3.5

Commodity Analysis Phase: Internal Spend/Data Analysis

### Cost Purchase Price vs Total Cost

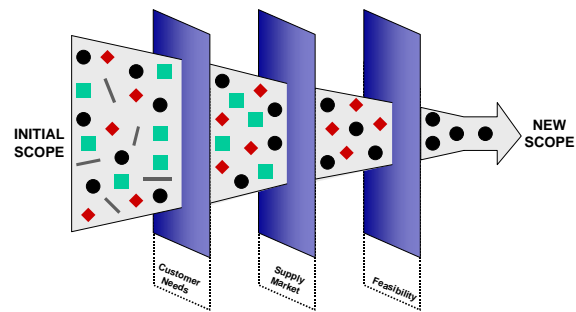


**Purchase Price**

**Total Cost**

- Purchase price
- Policy compliance
- Transaction Costs
- Delivery / Freight / Handling
- Implementation Cost
- Training
- Communication / Marketing
- Productivity
- Risk / Liability
- Cost of Non-Compliance
- Maintenance / Warranty
- Parts / Yield / Useful Life
- Sustainability
- Energy / Water usage
- Packaging
- Chemicals
- Recycling / Disposal
- Inventory / Shelf Life
- Return / Trade-ins

## Scope Setting



Commodity Analysis Phase: Requirements Gathering

## Scope Setting

- Ensure commodity strategy alignment with stakeholder requirements
- Ensure commodity strategy is consistent with market conditions
- Analyze feasibility
- Fine-tune timeframe

Commodity Analysis Phase: Requirements Gathering

## Commodity Strategy Worksheet

### COMMODITY ANALYSIS

- **Internal Spend/Data Analysis**
  - Spend Analysis (include transaction count, commodity trend, etc.)
  - Product details (SKUs)
  - Current UCSD Top Ten Suppliers
  - Identify Departments that represent Top 80% spend
  - Subject Matter Expert (SME) review of data
- **Requirements Gathering**
  - Which suppliers are needed by UCSD and why?
  - Unique offerings, sole sources, etc.
  - UCOP/UCSD agreements currently in place
  - Identify key requirements (service, delivery, performance, etc.)
  - Take into account total cost of ownership
- **Evaluation of commodity in the industry**
  - Top suppliers in the industry and key capabilities
  - Competition dynamics
  - Identify industry cost and performance drivers (quality, level of technology, flexibility, timeliness, etc.)
  - Industry direction and trend (consolidation, pricing, etc.)

### STRATEGY DEVELOPMENT

- **Supplier alignment analysis and consolidation**
  - Evaluation of bubble chart (spend, potential transactions, difficulty, alignment)
  - What percentage of the commodity spend do the top suppliers represent?
  - How much of current spend can be realigned to preferred suppliers?
  - Use goal of 80% contracted and sole source, 20% small/disadvantaged businesses.
  - Is an RFP needed to satisfy requirements?
- **Quantify Savings Potential**
  - Hard dollar, soft dollar, efficiency gains
  - Environmental savings/sustainability improvements
- **Implementation strategy/user adoption of suppliers**
  - E-Commerce enablement
    - Suppliers' capability
    - Timing of enablement
    - Short-term solution
  - Non E-Commerce
    - Communication strategy
      - User conversion strategy
        - Training
        - Supplier presentations, Supplier fair
        - Metrics and KPIs
        - Buyer conversion strategy
        - Training and Metrics and KPIs

## Sample KPIs/Metrics

### Spend

- Commodities Actual to Plan and to Market
  - Budget to Actual Spend Comparison
- Supplier Rationalization
  - Number of Certified Suppliers per Commodity Target
- Usage/Acquisition Cycle
  - Plan to Actual Process Improvement Comparison
- Spend Under Management
  - % of spend that goes to enterprise-wide preferred suppliers

### Process Excellence

- % of On-Time Payments
  - >= 95% on time (Per Relationship Terms) payments
- Compliance & Standardization (Spend through proper channels)
  - >= 95 % Compliance

### Innovation

- Vendor/Supplier Managed Inventory (VMI/SMI) & Consignment (PPS)
  - % of VMI/SMI Related Activities (Impact to be Determined)
- P-Card Usage
  - Number or % of Employees Using Business/Purchasing Cards (Value/Savings Determined by Transactional vs. Paper Cost) in correct channels
- Reverse Auctions
  - Number of and Value of Reverse Auctions (Plans to be Developed by Commodity Teams)

### Supply Chain Management: KPIs and Metrics

## Sample KPIs/Metrics

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- Cycle Time
  - Current Measure =
  - Targeted Measure =
- Purchasing Automation Progress - # or % of orders manually touched by purchasing.
  - Current Measure =
  - Targeted Measure =
- User Adoption Metrics / Total # of requisitions
  - Current measure =
  - Targeted measure =
- User Adoption Metrics / Total PO Dollars
  - Current measure =
  - Targeted measure =
- User Adoption Metrics / Total # of purchase orders
  - Current measure =
  - Targeted measure =
- Catalog Adoption
  - Current measure =
  - Targeted measure =
- Deployment Success
  - % of user community trained on system =
  - # of departments transitioned =

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Supply Chain Management: KPIs and Metrics