



# Procurement Built for Value: Art and Science

**November 5, 2019 | Toronto**  
**CPPC Forum**





With you today

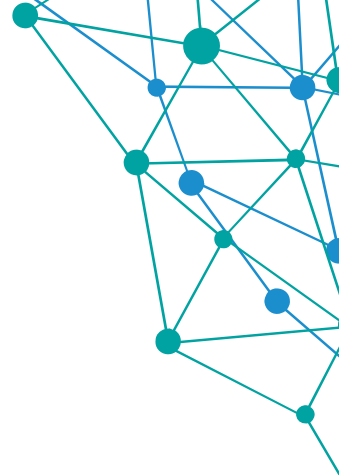


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Services, KPMG Canada



# Topics

- Context for public sector procurement – disruption is the new normal
- Vendor management lifecycle and vendor classification – key considerations
- Procurement from “this side”
- Evaluation criteria and what they really say to bidders
- Fit for purpose terms and conditions
- Key considerations for large-scale, complex procurements
- Win-win buyer-supplier relationships



# Disruption is the new normal

**CEOs are acutely aware of the new technologies, the need to differentiate, and workforce trends at their doorstep, and many are looking to third parties to support their agility and innovation objectives.**



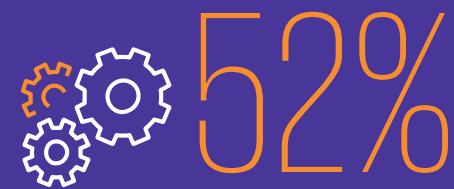
are actively disrupting their sector versus waiting to be disrupted by a competitor as compared to 96% just 1 year prior



expect to see significant return on digital transformation efforts in the next 3 years



plan to upskill more than 40 percent of their staff in digital capabilities to meet the core business needs



view third-party relationships as the only way to achieve agility

Source: KPMG LLP, 2019 Canadian CEO Outlook

# Outsourcing and offshoring



## Top reasons for outsourcing

CANADA

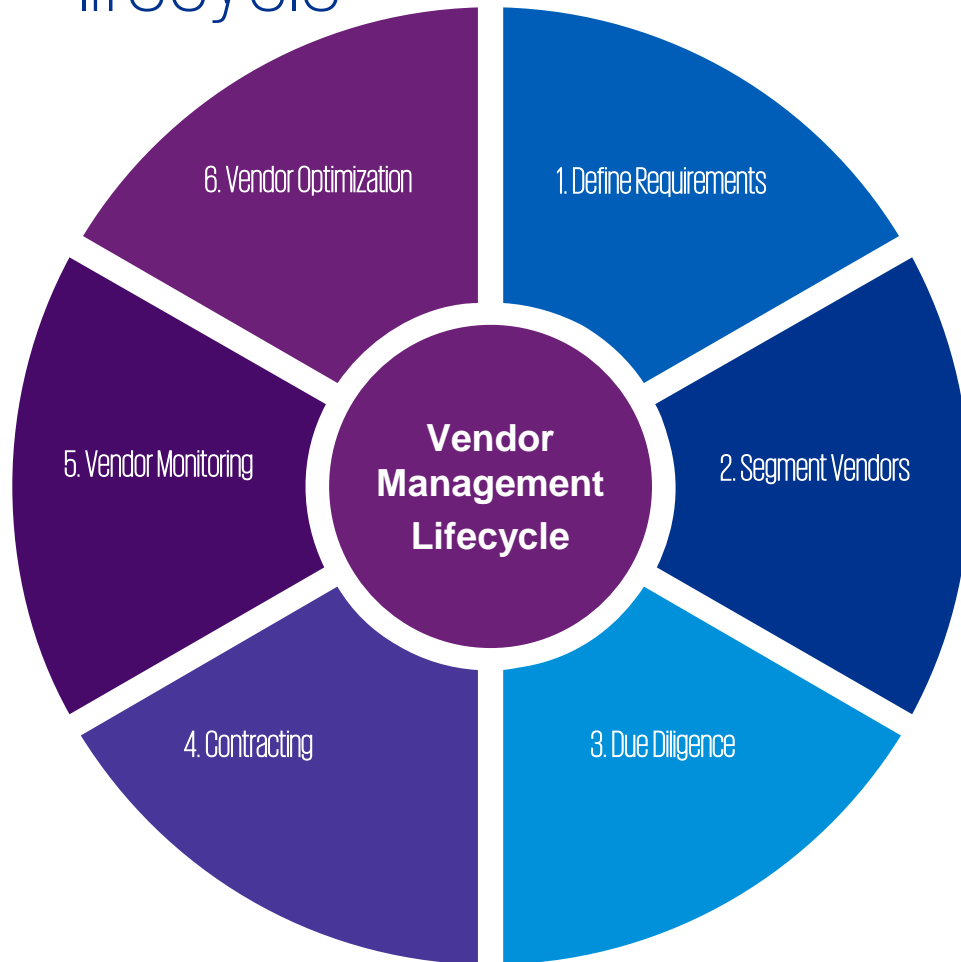


GLOBAL



74%	65%	Provides access to skills no available in-house
35%	37%	Adds scale to the IT organization
33%	34%	Frees resources to focus on core businesses
22%	36%	Saves money
15%	30%	Improves flexibility and use of resources
6%	10%	Enhances the ability to innovate

# Procurement is a key element in the vendor management lifecycle



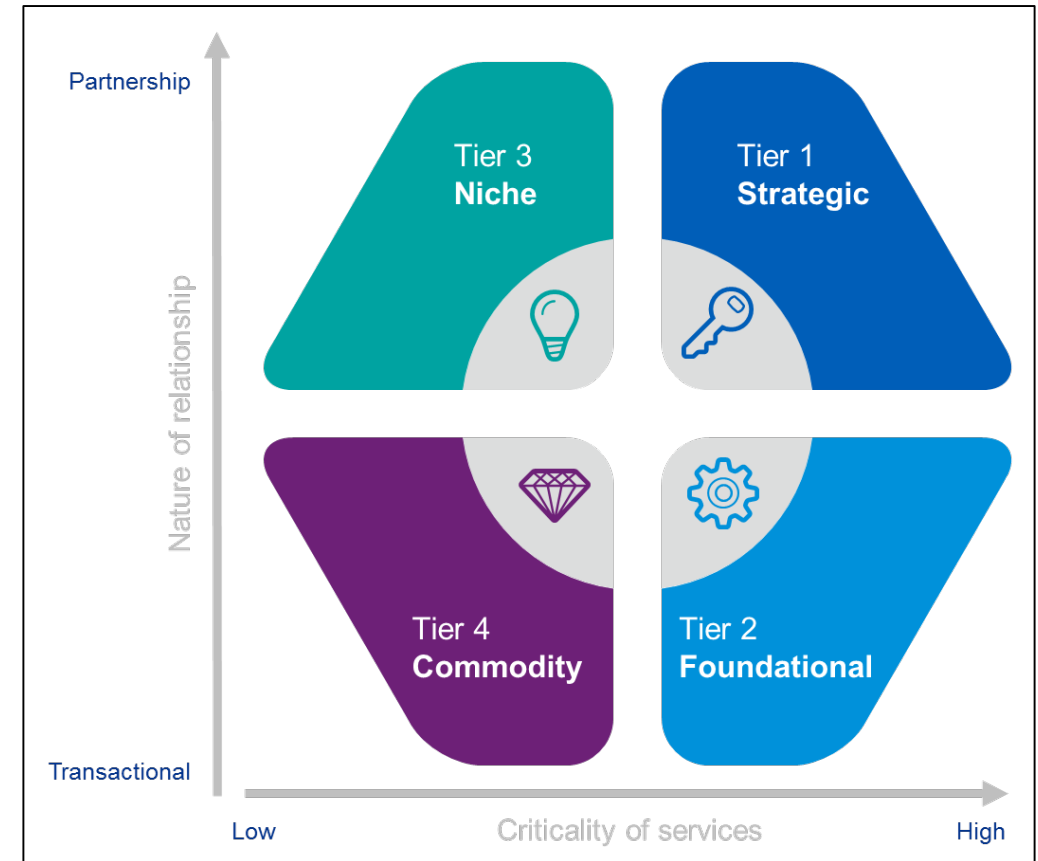
## 6 key phases:

- 1. Define Requirements:** Clearly identify the business requirements and strategic value that the vendor needs to fulfill in their product and/or service offering.
- 2. Segment Vendors:** Involves categorizing vendors based on the relationship that the organization is looking to achieve with the vendor.
- 3. Due Diligence:** Involves performing research on a vendor to identify their risk as a supplier and how this could impact the organization's operations. The level of due diligence performed during this phase will depend on how the vendor is segmented.
- 4. Contracting:** Involves documenting the type of relationship that the organization is looking to have with a vendor in the form of a legal contract. Contracting does not have to occur once per vendor lifecycle but can be an ongoing process to capture developments in the vendor relationship.
- 5. Vendor Monitoring:** Involves monitoring key performance indicators (KPIs) to link vendor performance back to the organization's overall business strategies.
- 6. Vendor Optimization:** Involves a number of tasks to action data coming out of the vendor monitoring phase.

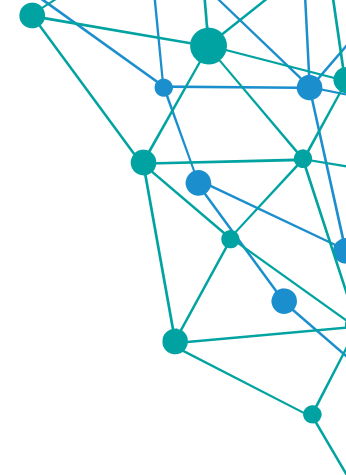
# Vendor Classification

The KPMG vendor classification framework segments vendors into the following four categories:

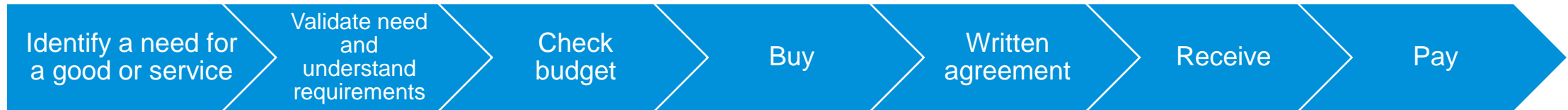
1. **Tier 1 – Strategic:** A vendor that plays a strategic and essential role in the delivery of services that could not be easily replaced. The relationship is or is expected to be of a long term.
2. **Tier 2 – Foundational:** A vendor that provides important and/or critical, products and/or services. Contracts may be multi-year (2-3 years) in length and tend to be more transactional in nature.
3. **Tier 3 – Niche:** A vendor that offers a service or product that is not widely available in the marketplace but is important to the organization. The need for or dependence on the vendor is driven more by organizational requirements than by the excellence of the vendor's offerings.
4. **Tier 4 – Commodity:** A vendor who offers products/services that are readily available from a larger number of sources at competitive prices. The vendor may be a distributor of products/services and not a developer. Switching from one provider to another is not complex or risky.



# Most procurement processes are more geared toward “things” than “services”



## Traditional Procurement



Source: Adapted from Procurement Guideline for Publicly Funded Organizations in Ontario, BPS Supply Chain Secretariat

## Innovation Procurement



Source: Adapted from BPS Primer on Innovation Procurement-Interim



# How helpful do you think this will be?

[Sent: Wednesday, October 16, 2019 3:48 PM](#)

[To: Lee, Lydia <lydialee1@kpmg.ca>](#)

**Subject:** RE: Opportunity #XXXX

Hi Lydia,

For the debrief:

We cannot talk about price.

We cannot talk about where you scored. We do not compare bids.

We cannot talk about the scoring but we can talk about your strengths and weaknesses of your proposal.

Thanks

Contract and Procurement Analyst

# Rated evaluation criteria - How are they interpreted?

Corporate status

Is the organization in trouble and does it need a credible advisor to get them out of a jam?

Compliance with our requirements

Is the client interested in hearing what the vendor thinks, or do they just want a specific solution?

Experience with engagements of similar scope, size and complexity

Has the client already got a preferred vendor in mind?

Team members capabilities

Does the client want an outcomes based approach or do they prefer to body shop?

Acceptance of Terms & Conditions

Does the client have a partnership mindset or buyer-supplier mindset?

Price

$\geq 30\%$  signals preference for lowest bid over quality of proposal submission

# Terms and conditions - critical success factors for a strategic business relationship

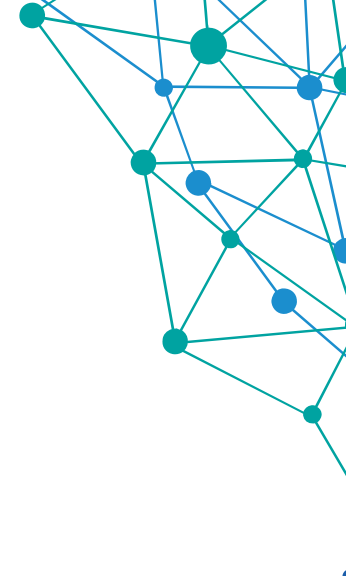


Terms and conditions set out the precise nature of the relationship between the purchaser and supplier. The extent to which a purchaser is willing to negotiate terms and conditions with a supplier establishes a more strategic business partnership (non-commodity products or services), and bodes well for a positive and collaborative working relationship.

To what extent does your organization:

- Use the most recent version of your GPO's Terms and Conditions?
- Allow a bidder to mark track changes in a proposal submission?
- Rate a bidder's acceptance of specific language in Terms and Conditions?
- Consider a balance between organizational needs and the supplier's commercial needs?
- Refer to the contract terms and conditions once the work has initiated?

# Key considerations for large-scale procurements



## During the procurement:

- The more prescriptive the procurement, the more precise you need to be on your requirements – ask an independent, objective party to review your RFP
- Collaborating on requirements and approach can significantly reduce risk of cost and time overruns
- Vendors have invested IP in leading practice methodologies for a reason – they work!
- Be specific with feedback to unsuccessful bidders so they can improve for future clients

## After the contract:

- Relationship and ongoing governance (strategic, operational) are key to proactive risk mitigation and keeping the relationship positive
- Both parties want staffing predictability and stability
- Consider third party risk assessment of the ongoing work to focus on positive, shared outcomes and support risk mitigation

# Buyer-supplier relationships can be win-win

## What do buyers want?

- Buyers want to realize true business benefit for customers and staff
- Buyers continuously learn how to apply the right procurement approach to fit the contracting situation
- Buyers need to achieve ROI and value for money
- Buyers segment vendor relationships based on relative strategic importance
- Buyers want to work with a trusted ecosystem of suppliers



## What do suppliers want?

- Suppliers want to add real value, not just support transactions
- Suppliers view deals (and subsequent engagements) as development opportunities for their staff to grow and learn
- Suppliers need to make a reasonable profit to stay committed to you
- Good references are gold for suppliers because success breeds future success
- Suppliers want to work with clients as true partners



Thank you!

