

City of Toronto Purchasing & Materials Management Division Program Review

GM16.5
Attachment 1

Final Report
Volume A – Executive Summary

10 August 2016

Background

- ▶ In June 2012 the City engaged KPMG to conduct a shared service review involving the City's Divisions as well as the City's six largest agencies.
- ▶ The Purchasing and Materials Management Division (PMMD) was among the functions prioritized for review.
- ▶ It was recommended that the City undertake centralized category management and strategic sourcing.
- ▶ In June 2013 City Council adopted a motion to proceed with further consultation and due diligence in order to develop a multi-year implementation roadmap. The Shared Services Project was established.
- ▶ This review forms a precursor to a business case for a shared service model. The review identifies alternative organization models and develops an operating model to support the implementation of centralized category management and strategic sourcing.
- ▶ Successful implementation of this initiative will not only help drive down the costs of third party goods and services, but also improve the experience of Divisional clients.

Category Management is the process of strategically managing key spend categories with the objective of lowering Total Cost of Ownership (TCO) while respecting the City's public service mandate

Strategic

- ▶ Strategy incorporates many data sources to include spend analysis, internal tools and market data
- ▶ Key performance indicators and performance measures aligned to business objectives
- ▶ Demand and compliance viewed across all subcategories

Collaborative

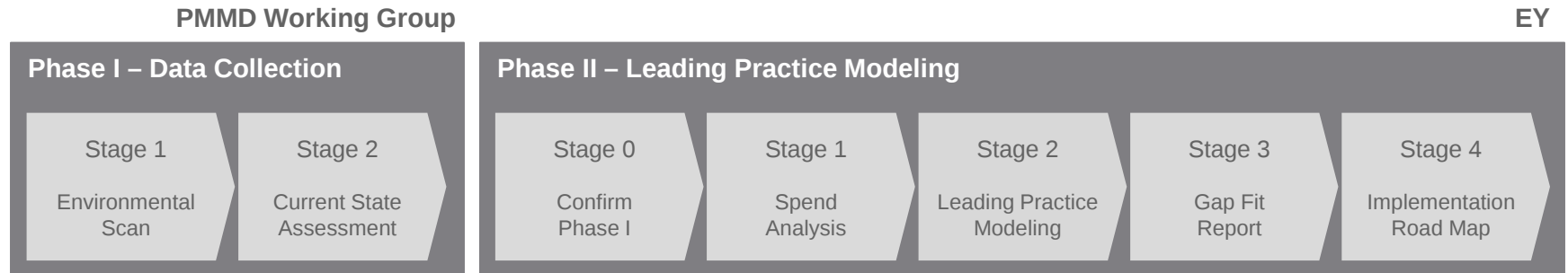
- ▶ Category cross-functional teams develop and deliver against strategy
- ▶ Multiple cross-functional teams may exist for array of subcategories
- ▶ Cross functional teams include stakeholders from across divisions who "own" aspects of the category strategy
- ▶ Governing body provides oversight

Process-driven

- ▶ Category management starts with spend analysis and strategy development
- ▶ Process is iterative as understanding of category increases
- ▶ Category management facilitates the process and delivers against the category strategy

Successful category management requires collaboration between procurement and divisions, as well as a procurement strategy that aligns to the City's vision

The City retained EY to execute a 5 stage process that reviewed PMMD's current state operating model and recommended changes to enable a category management process with the City



Approach and Deliverables

- | | | | | | | |
|---|---|--|---|---|--|---|
| <ul style="list-style-type: none"> ▶ Environmental scan ▶ Analysis of current state | <ul style="list-style-type: none"> ▶ Opportunities to align City and divisional mandates ▶ Potential service menus and service levels ▶ Business relationships | <ul style="list-style-type: none"> ▶ Project governance structure ▶ Agreed timeline ▶ Commentary on Phase I work products | <ul style="list-style-type: none"> ▶ Assessment of spend analysis capabilities ▶ Baseline spend profiles ▶ Maturity assessment ▶ Category management opportunities ▶ Interim category management steps ▶ Knowledge development requirements | <ul style="list-style-type: none"> ▶ Alternative future state service models ▶ Rationale for each model ▶ Implications of each service model ▶ Knowledge development requirements ▶ Interim report | <ul style="list-style-type: none"> ▶ Comparison of current state to preferred service models, including gaps ▶ Recommended changes to achieve future state ▶ Interim report | <ul style="list-style-type: none"> ▶ Proposed future state service model ▶ Business case to support the proposed future state service model ▶ Final report |
|---|---|--|---|---|--|---|

In the initial stages of the project, EY conducted analysis to size the City's spend base, identify data collection and reporting challenges and conduct an assessment against leading procurement practices

Spend Analysis Overview

- ▶ In 2014, the City of Toronto spent **~\$2 billion** on goods and services.
- ▶ 97% of the spend by value (representing 5% of the procurement transactions) was transacted using PMMD managed buying channels, with the balance spent through purchasing cards and Divisional Purchase Orders.
- ▶ Analysis identified several opportunities to leverage enterprise-wide spend and reduce the fragmentation of the spend base across divisions and vendors.

Data Challenges

- ▶ The project team encountered **significant challenges** with data extraction and cleansing.
- ▶ Mitigating data challenges is a critical success factor for Category Management at the City.

Maturity Assessment

- ▶ PMMD demonstrates **basic to developing maturity** across its procurement processes, organization and enabling technologies.
- ▶ Procurement practices are typically reactive and characterized by heavy transactional volume.
- ▶ Stakeholder groups view PMMD as an execution function for transactional activities but not as a provider of value added advice on strategic procurement matters; PMMD staff is generally perceived to lack the processes and skill sets required to execute strategic procurement functions.

The size of the City's spend base and the characteristics of the commodity categories purchased were used to determine the size and structure of the resulting category management organization

Category Management Team Sizing

- ▶ Benchmarks indicate that **16 Full Time Equivalent (FTE) personnel** are required to manage spend categories for a public sector organization of comparable size to the City.
- ▶ In addition to the 16 FTEs, support staff are required to help with sourcing events and for continued data analysis and reporting.

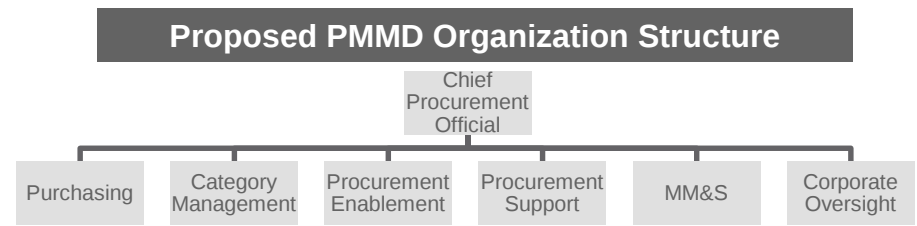
Operating Model Characteristics

- ▶ Analysis suggests that most categories will be managed on a **centre-led** basis.
- ▶ Centre-led categories will be managed by PMMD using cross-functional teams and multi-tiered governance structure to facilitate collaboration and decision making with stakeholder divisions.
- ▶ Categories with spend concentrated to a particular division and requiring significant divisional input for e.g., highway and road construction, water and wastewater related construction and solid waste management to be managed on a **decentralized basis**.
- ▶ Decentralized category management roles will report into specific divisions and have responsibility for executing most process activities. They will be supported by PMMD category management with respect to process training, tools, templates and reporting mechanisms.
- ▶ It is recommended that PMMD be staffed with 10 FTE category management roles with the balance of 6 FTEs staffed across and reporting into four divisions: Toronto Water, Solid Waste Management Fleet Services and Transportation Services.

For sustained Category Management, it is recommended that PMMD separate transactional and strategic activities and reorganize support functions to focus on value added activities

Recommended PMMD organizational changes

- ▶ Create a new category management team to manage categories and lead strategic procurement activities.
- ▶ Consolidate the three purchasing teams of buyers under a single manager to drive tactical sourcing events and coordinate Call and PO Management activities including those in support of Category Management.
- ▶ Enhance the mandate of CPPQA with more value added activities while carving out other activities such as Corporate Oversight. The revised function (titled Procurement Enablement) will drive development of new policies and supplier engagement processes, conduct enhanced performing reporting, manage a help desk including legal support and maintain standards and specifications.
- ▶ Create a new Procurement Support team focusing on the execution of special project such as implementation of e-procurement technology, enablement of shared services and management of continuous improvement initiatives (e.g., those originating from category management activities).
- ▶ The proposed PMMD organizational structure complies with organizational spans of control guidelines identified in recent studies conducted by the City.



In addition to organizational structure changes, there are several considerations and success factors that must be addressed as the Category Management process is implemented across the City

Benefits Driven Approach

- ▶ A strategic sourcing work stream tasked with realization of benefits identified in the business case.
- ▶ Dedicated implementation of a PMO and early identification of performance baselines.
- ▶ Use of metrics and reporting to measure and monitor progress, as well as achieved benefits.

People and Organization Considerations

- ▶ Development of job profiles for new roles and recruiting to close skill gaps.
- ▶ Definition of roles and responsibilities for new processes.
- ▶ Focused change management effort throughout the procurement transformation program.

New Policies and Procedures

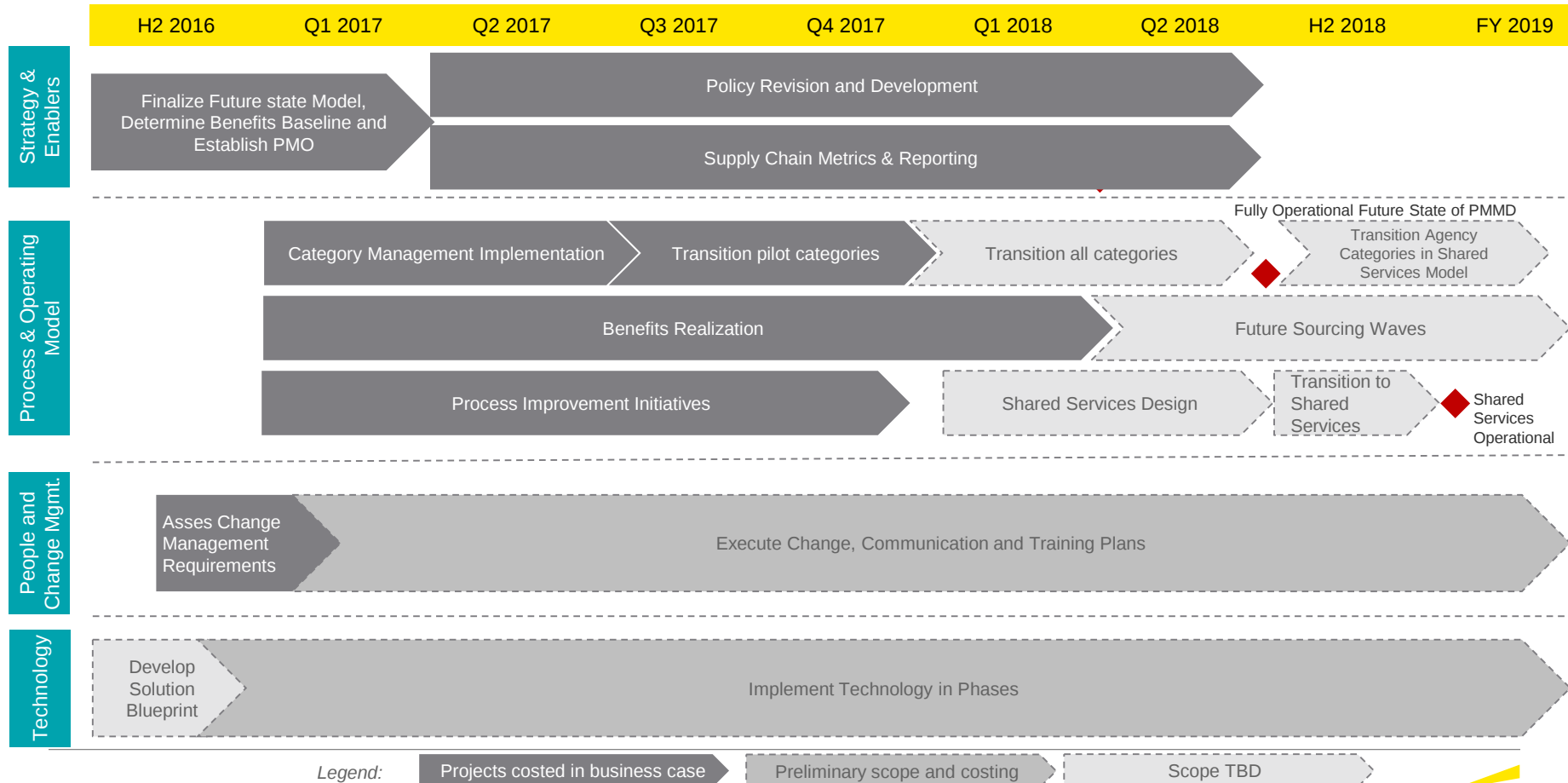
- ▶ Policies that outline the strategic role of PMMD and Category Management.
- ▶ Policies that enable leading procurement practices and use of e-procurement technology.

Technology Considerations

- ▶ Timely visibility to enterprise-wide spend and compliance data.
- ▶ Efficient and standardized procurement processes with reduced sourcing cycle times.
- ▶ An electronic contracts repository accessible and searchable by authorized staff across the City.
- ▶ Improved workflow functionality throughout the purchasing lifecycle.
- ▶ Ability to consistently evaluate supplier performance and use it to drive procurement decisions.

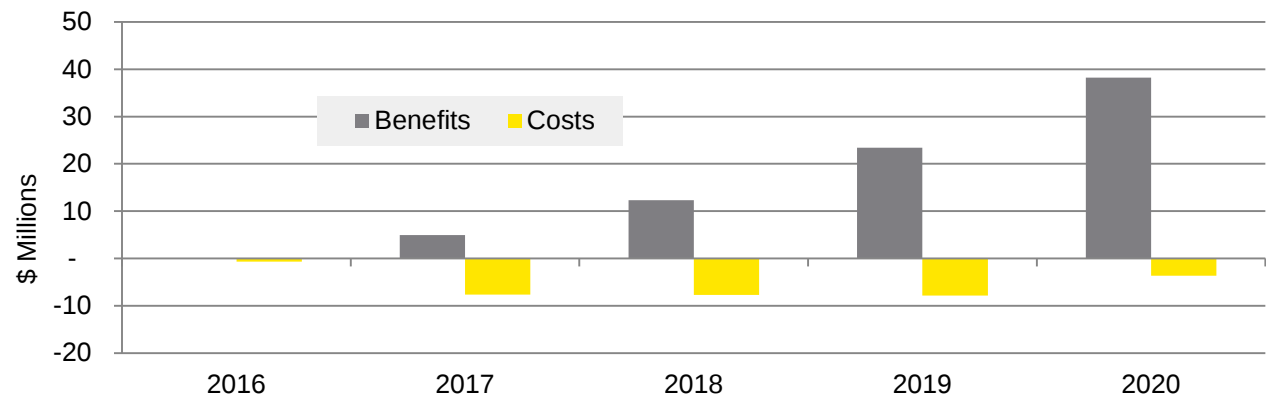
A 2-3 year implementation timeline considers the significant change management and IT efforts required to transition PMMD and the City towards the future state operating model

- ▶ The benefits realization project will drive business case benefits through strategically sourcing key commodity categories while simultaneously being a proof of concept for the category management process design
- ▶ The technology stream below is representative of an e-procurement solution implementation that PMMD is undertaking concurrently through the Supply Chain Transformation program. Components of that program have been scoped independently from the program review that is the subject of this executive summary.



An effective Category Management function and enabling support structure is expected to generate \$34 million in annual recurring savings by 2020

	2016	2017	2018	2019	2020
Benefits					
Sourcing	-	4,932,379	12,330,948	23,428,802	38,225,940
Total Benefits	-	4,932,379	12,330,948	23,428,802	38,225,940
Costs					
Strategy & Enablement	180,000	560,000	100,000	240,000	100,000
Process & Operating Model	-	2,615,593	3,350,783	4,172,693	1,729,427
People & Change Management	-	450,000	180,000	-	-
Technology (Ariba)	500,000	3,979,253	4,071,727	3,449,220	1,801,364
Total Costs	680,000	7,604,846	7,702,510	7,861,913	3,630,791
Net Annual Benefit	(680,000)	(2,672,467)	4,628,439	15,566,889	34,595,149



Summary of Project Stages and Key Outputs



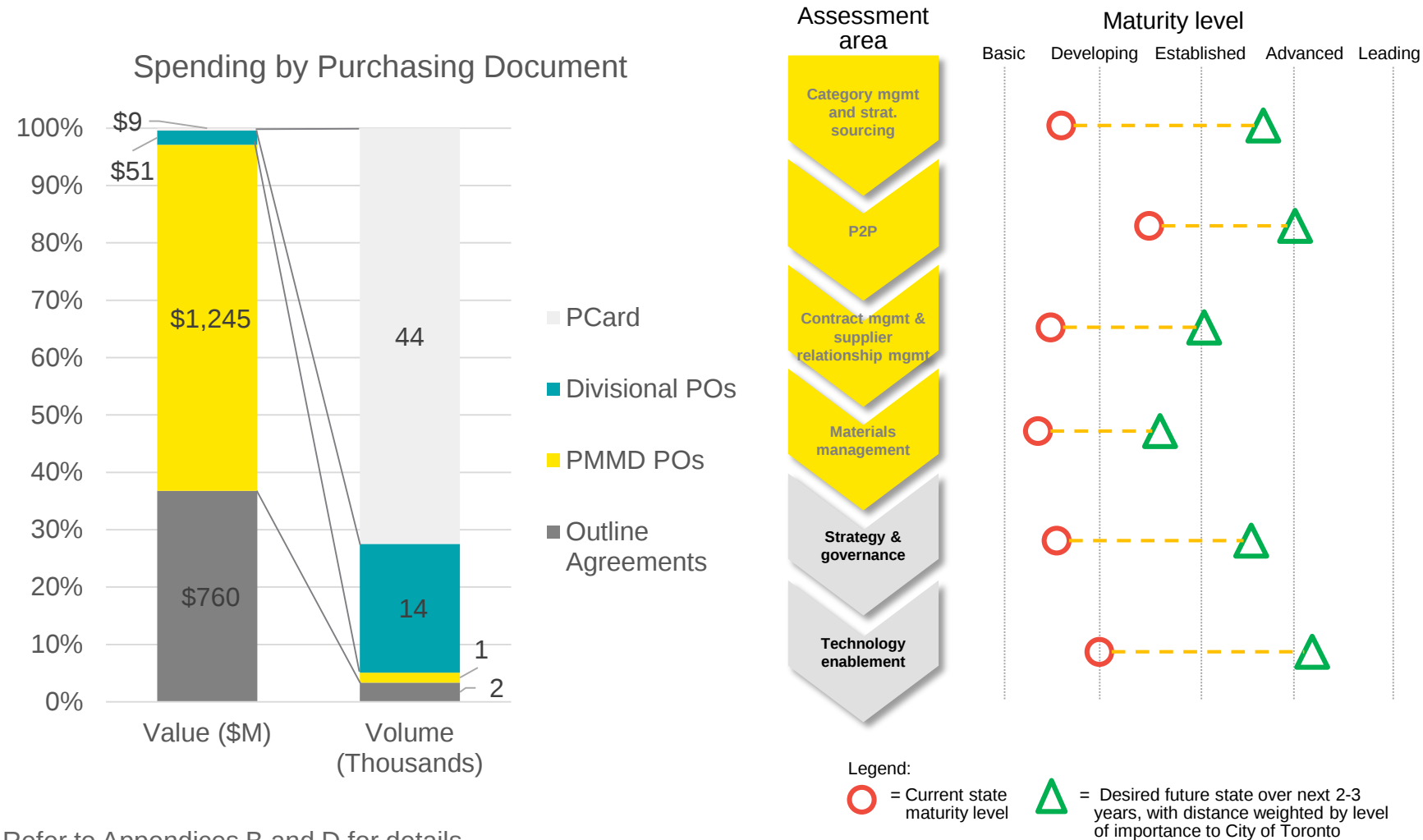
Overview of Stage 1

Spend Analysis

- ▶ We worked with the City to extract, cleanse, map and categorize the spend data using a variety of sources
- ▶ We identified a number of challenges in developing the spend data set, hindering the ability to easily leverage spend data on an ongoing basis – the city plans to implement Ariba to help address this
- ▶ We presented an initial set of outputs and visualizations to assist the project team in identifying categories and spend characteristics for use in designing the future state operating model for category management and strategic sourcing
- ▶ We benchmarked the City's procurement organization against leading practices using EY's Maturity Assessment Model
- ▶ We conducted a variety of stakeholder interviews to better understand current challenges and to identify opportunities to leverage category management and strategic sourcing
- ▶ We prepared an interim high-level roadmap to prepare the City for the transformation to category management and strategic sourcing
- ▶ We identified the knowledge development requirements as input to developing two knowledge transfer sessions delivered in later stages of the project

Stage 1 Key Outputs

Spend Profile and Maturity Assessment



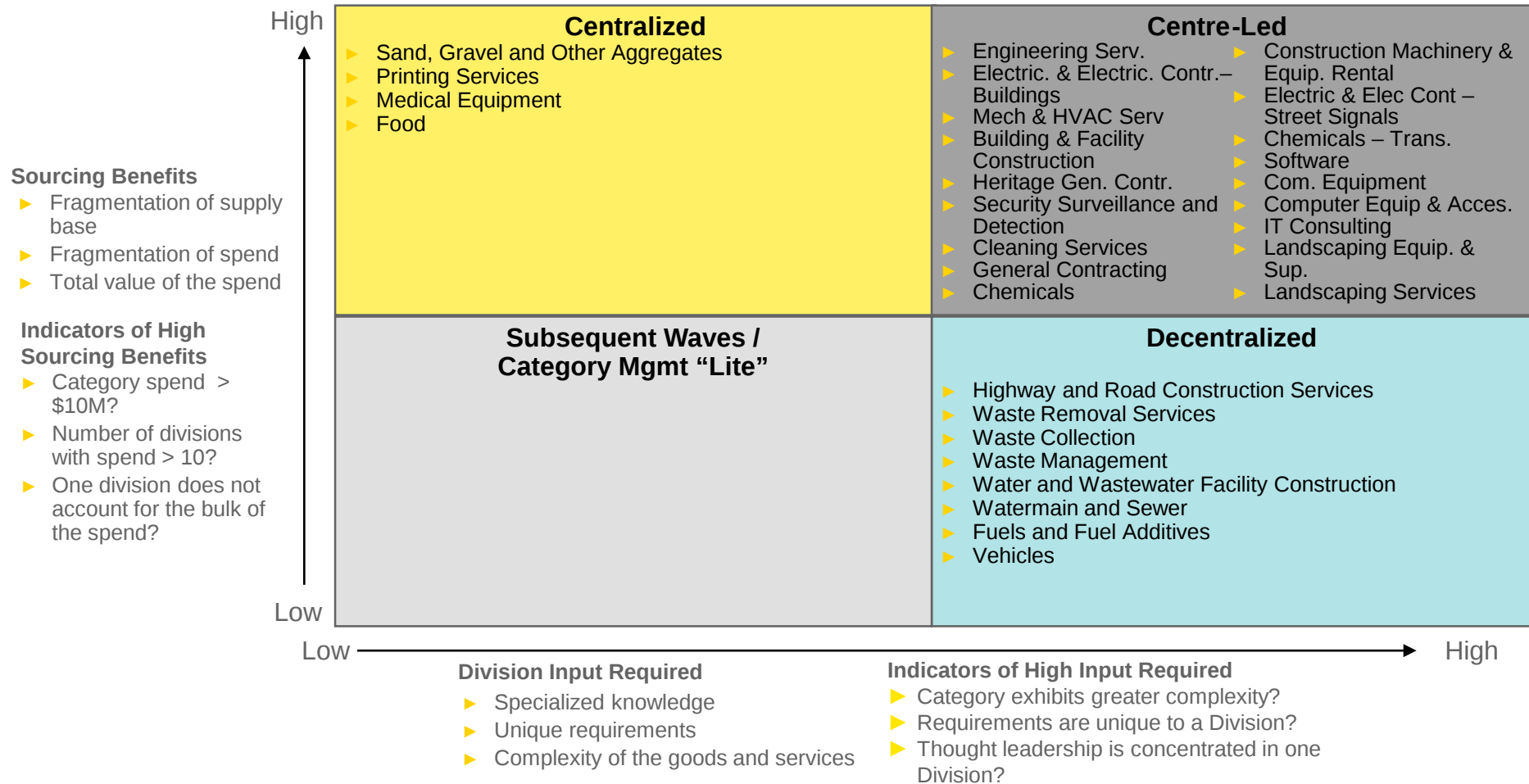
Overview of Stage 2

Leading Practice Modelling

- ▶ We presented a set of conceptual models illustrating the structures available for organizing around category management, highlighting the key features, pros and cons of each
- ▶ We allocated each category to a model based on the spend profile and other criteria
- ▶ We identified the number of category managers for each category

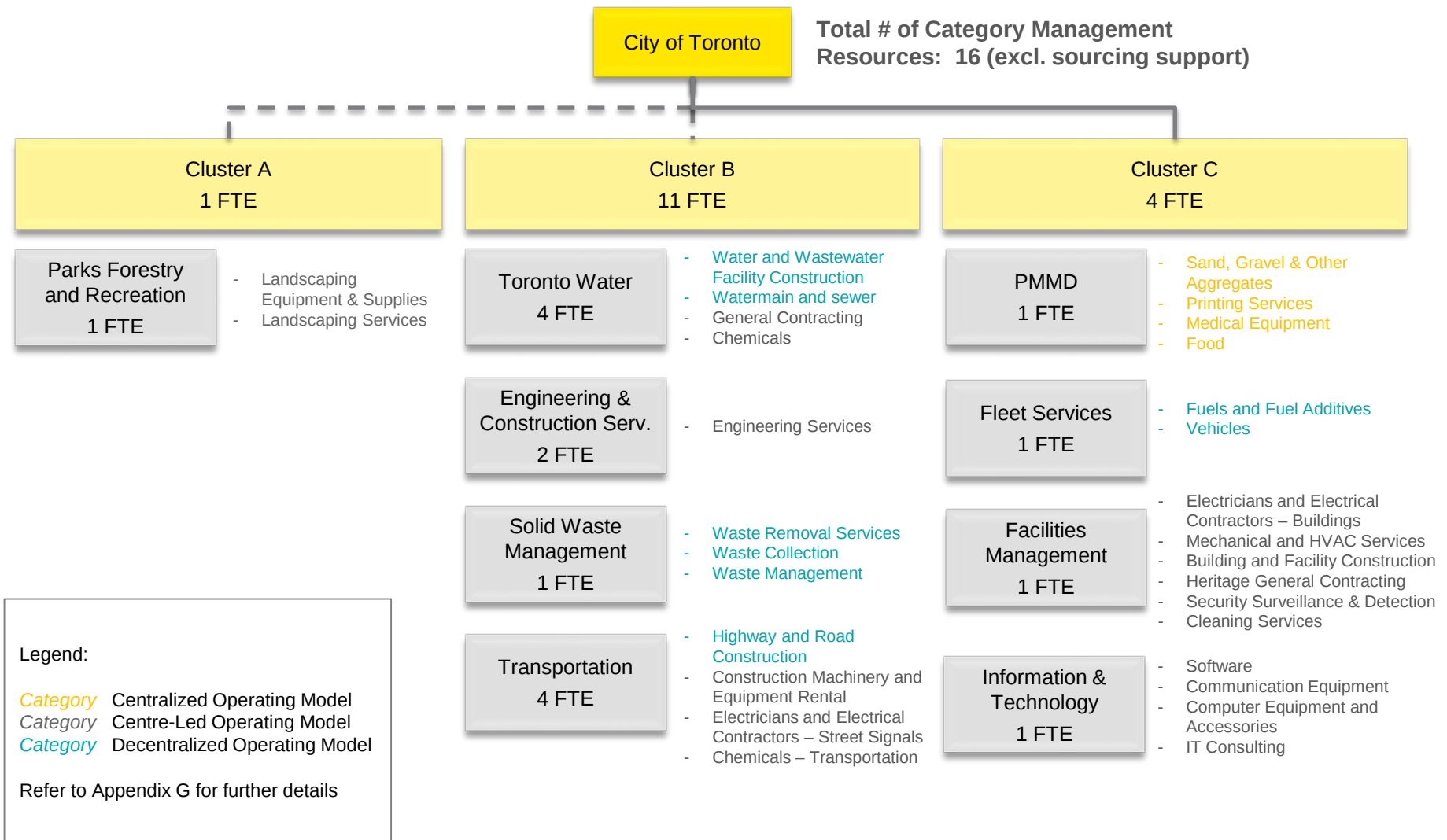
Stage 2 Key Outputs

Category Allocation to Models



Stage 2 Key Outputs

Determination of Category Management Resources



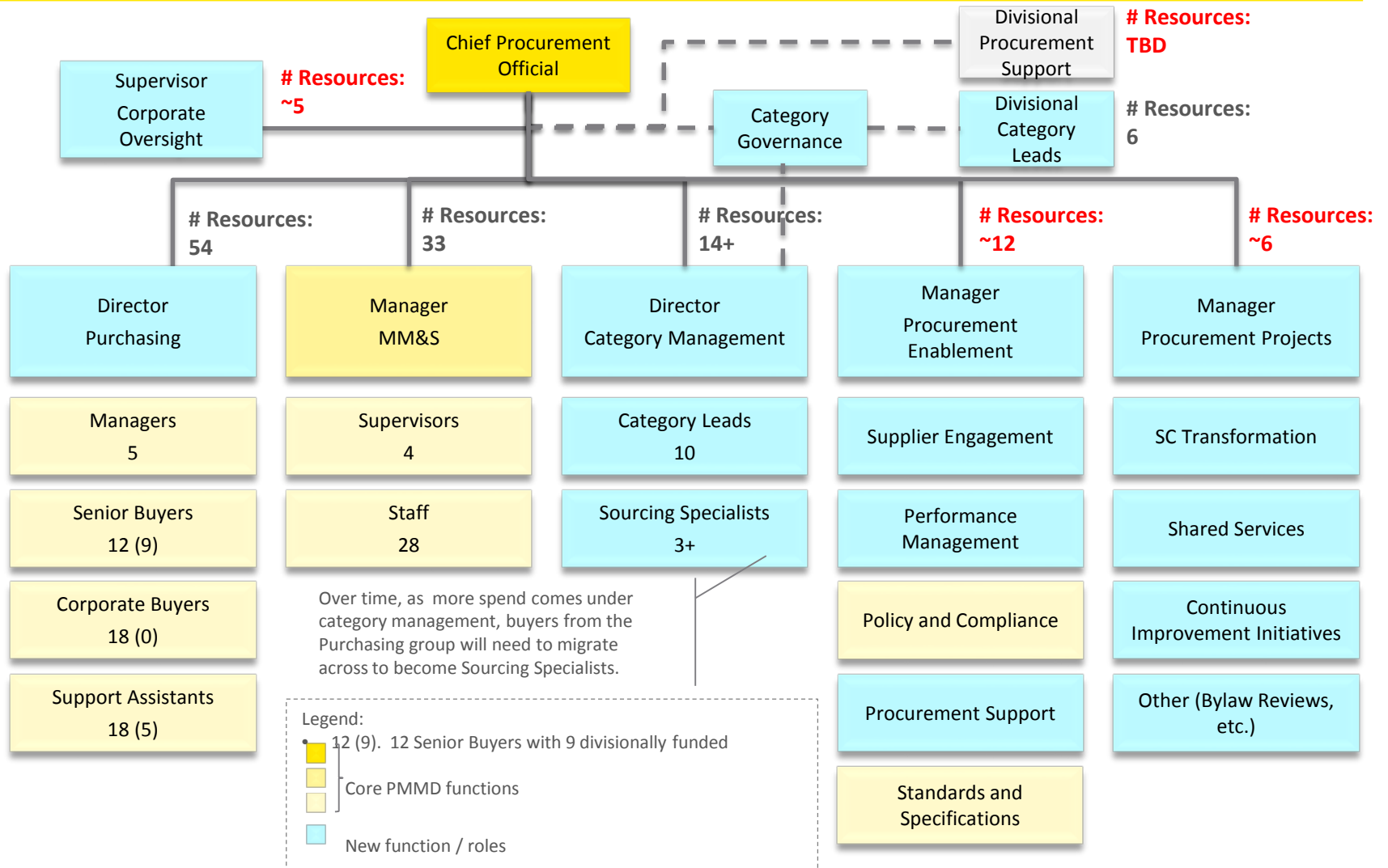
Overview of Stage 3

Gap-Fit Report

- ▶ We developed a future state organization design based on a variety of design considerations:
 - ▶ Impact of proposed category management and strategic sourcing process on job roles
 - ▶ Resource sizing based on spend volume and industry FTE benchmarks
 - ▶ Organizational structure based on span and layers analysis
- ▶ Recommended a proposed governance structure
- ▶ Identified potential metrics suitable for measuring the performance of the future state organization

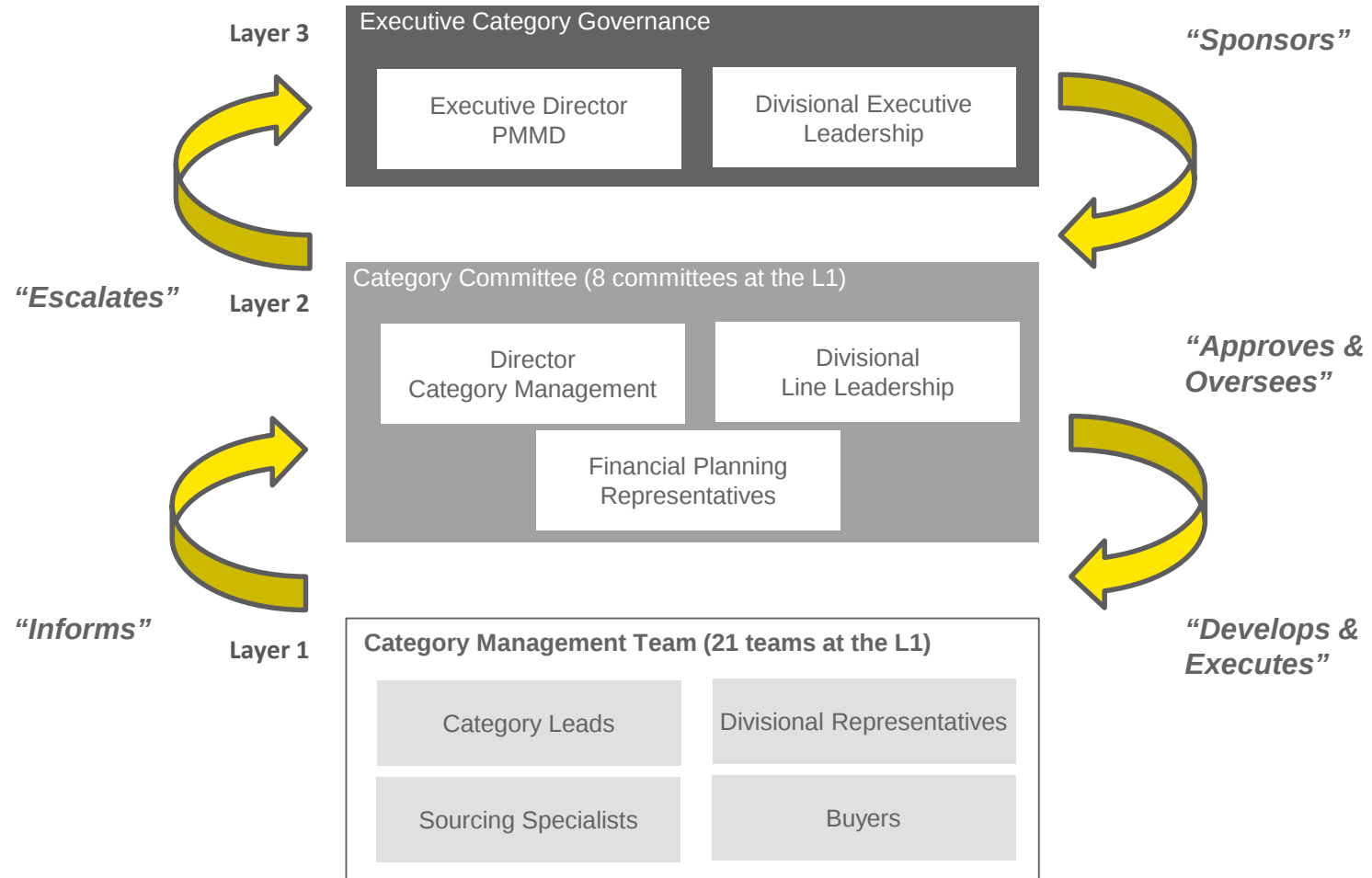
Stage 3 Key Outputs

Future State Organization Design



Stage 3 Key Outputs

Governance Approach

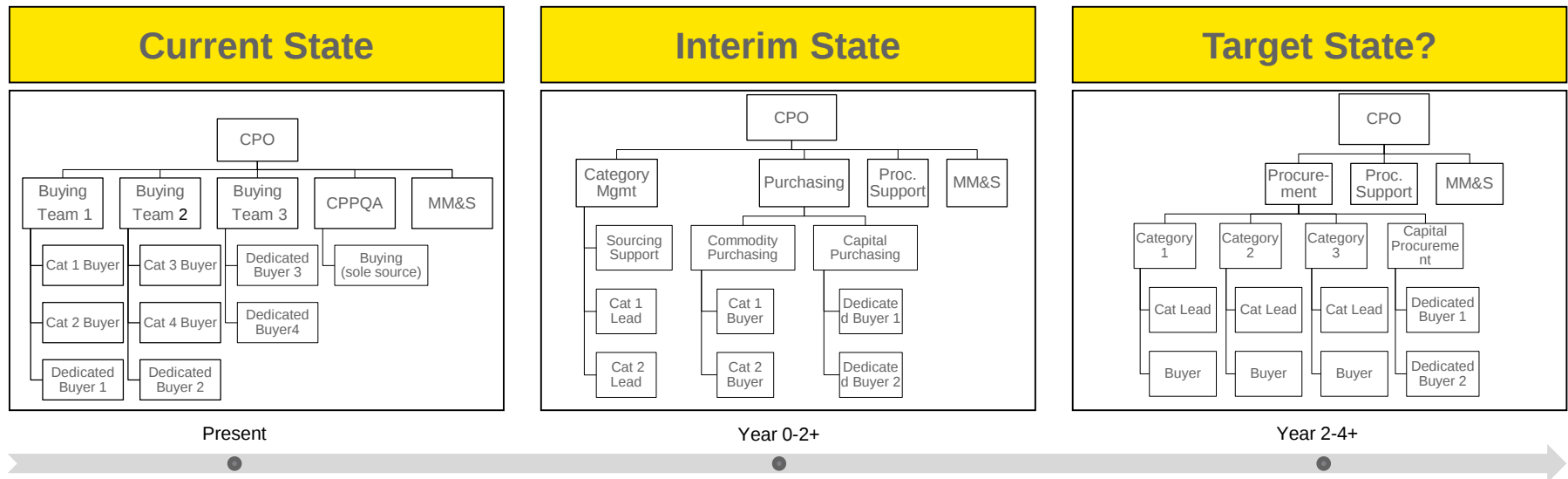


Overview of Stage 4 Implementation Road Map

- ▶ We developed an implementation roadmap with four key workstreams of activity:
 1. Strategy and Enablers
 - ▶ Finalizing the vision
 - ▶ Establishing a PMO to guide the efforts
 - ▶ Development of policy, metrics and reporting
 2. Process and Operating Model
 - ▶ Detailed design, establishment of governance and initial categories
 - ▶ Job profiles and recruiting
 - ▶ Establishment of sourcing waves
 - ▶ CPPQA transition
 - ▶ Establishment of continuous improvement
 3. People and Change Management
 - ▶ Communications and change management assessment
 - ▶ Development of communications, training and change management plans
 4. Technology
 - ▶ Ariba blueprinting and implementation
- ▶ We developed a business case to support the City's procurement transformation

Stage 4 Key Outputs

Definition of the journey to transform the City's procurement model



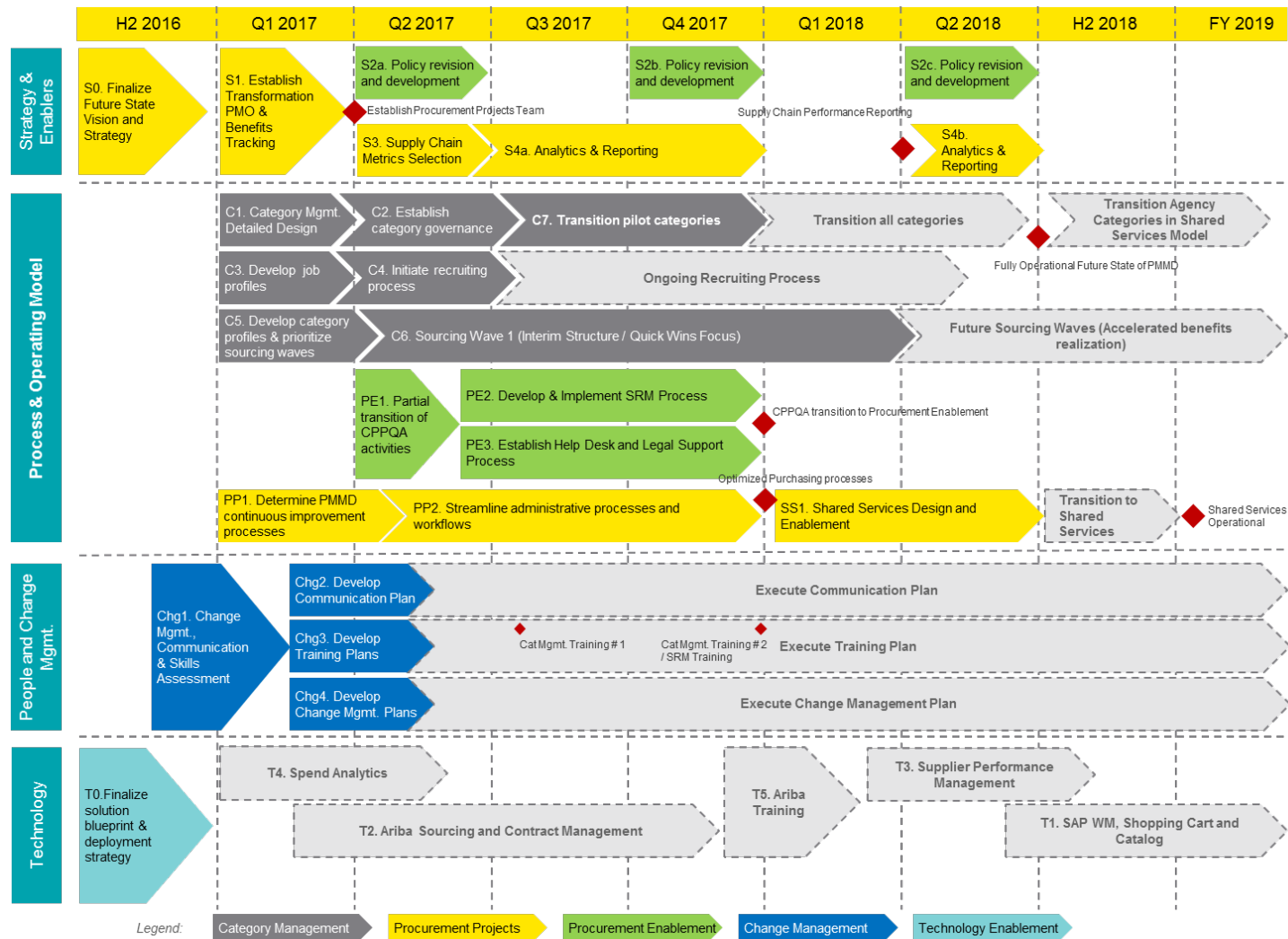
- ▶ Procurement requisitions processed by Buyers
- ▶ Little to no planning around sourcing
- ▶ Culture is one where transactional calls are completed as requested

- ▶ Category managers are slowly added to build sourcing strategies for priority categories
- ▶ Category managers lead sourcing events supported by buyers
- ▶ Eventually buyers begin to take a more significant role in executing the events
- ▶ Culture begins as one where strategic category management is quite distinct from ongoing procurement... and evolves to where category managers and buyers start to work more closely as teams

- ▶ A full slate of category managers is managing all key categories
- ▶ Category managers and buyers work as integrated teams
- ▶ Transactional calls still exist but planned as part of the overall procurement strategy
- ▶ Culture is one where sourcing events are driven from category strategies

Illustrative

Stage 4 Key Outputs Implementation Roadmap

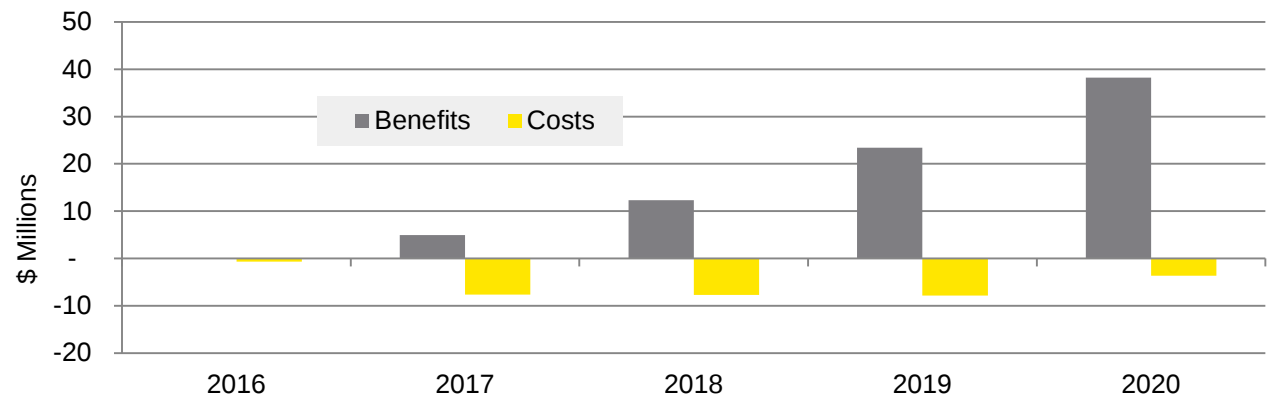


Explanations for each component of the plan can be found in Appendix J

Stage 4 Key Outputs

Business Case

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Refer to Appendix K for details

Next Steps

- ▶ Evaluate the managed services deployment option
- ▶ Align upcoming technology deployment with program review recommendations
- ▶ Seek any further internal approvals to proceed with implementation
- ▶ Finalize future state vision and strategy
- ▶ Establish contracts for external assistance
- ▶ Establish transformation PMO
- ▶ Finalize solution blueprint for Ariba

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