

## **Category Management and Strategic Sourcing Update**

**Date:** June 15, 2021

**To:** General Government and Licensing Committee

**From:** Chief Financial Officer and Treasurer

**Wards:** All

### **SUMMARY**

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This report is to provide an update to the General Government and Licensing Committee in the second quarter on the contract with Ernst and Young to support Phase 2 of Category Management and Strategic Sourcing as requested by City Council on December 16, 17 and 18, 2020.

Considerable progress of the program has been made since the beginning of Phase 2 in January 2021. The City has achieved confirmed benefits of \$6.36 M through the application of a strategic approach to procurement in 4 months. Currently there are seven new in-progress opportunities leading to additional expected savings of \$31 M, expected to close by January 2022. Five additional opportunities, expected to lead to savings of \$19.7M, are scheduled to be started shortly. In addition to the above, the Category Management and Strategic Sourcing group (CMSS) is working with various City divisions to validate eleven other opportunities.

The City has instituted a category management governance model through the operationalisation of Category Management Leadership Team Meetings and the development of a performance dashboard to measure progress against City's objectives. To enable the City to get optimum value from its suppliers, the City is also developing a Supplier Relationship Management framework to standardize and upgrade its supplier and contract management practices in late Q3 2021.

Overall Purchasing and Materials Management Division and the implementation of Phase 2 is currently on track for having EY complete the contract Deliverables, to identify and start the strategic sourcing initiatives to achieve \$110 million in benefits by May 2022. In addition to position Purchasing and Materials Management to be able to continue with CMSS without the support of EY by the end of the contract, post May 2022.

## RECOMMENDATIONS

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The Chief Financial Officer and Treasurer recommends that:

1. General Government and Licensing Committee receive this report for information.

## FINANCIAL IMPACT

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As this report is for information purposes, the savings related to the actions in this report will be tracked and reported within the quarterly variance reports.

The efforts of the CMSS sourcing projects with the assistance of EY is to achieve an estimated \$110 million dollars in benefits by May, 2022. Benefits achieved from the strategic sourcing events can be in the form of either operating or capital budget cost reduction or cost avoidance. For each strategic sourcing event, CMSS and the Division involved work with Financial Planning to confirm how benefits may be treated in the Division budget. How benefits may be treated will depend on whether it will impact the operating budget or the capital budget, and whether the budget is tax-based or rate-based.

The Chief Financial Officer and Treasurer has reviewed this report and agrees with the financial implications as identified in the Financial Impact section.

## DECISION HISTORY

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At its meeting of December 16, 17 and 18, 2020, City Council adopted, as amended, GL19.2 entitled "Authority to Enter into a Non-competitive Contract with Ernst and Young to Support Category Management and Strategic Sourcing" which authorized the Controller to enter into a contract with Ernst and Young to assist Purchasing and Materials Management Division on implementing Phase 2 of Category Management and Strategic Sourcing with a goal of achieving \$110 million in benefits. Council directed that staff report on the progress of the contract in Q2 and Q4 2021 and at the close out of the contract in 2022. A copy of the decision document can be found at: <http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2020.GL19.2>

## COMMENTS

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Phase 2 of implementing Category Management and Strategic Sourcing is currently on track to meeting the contract obligations and putting the City in a position to be able to continue on with Category Management without the support of a consultant by the end of the contract (end of May 2022). The work being performed by the EY team has met the expectations of the City as well as the traction and progress being made on the fixed deliverables and the strategic sourcing initiatives.

The CMSS team and the Divisions continue to work on identifying the full \$110 million pipeline of strategic sourcing initiatives. This requires close collaboration to ensure that a potential strategic sourcing initiative fits both within the goals of the Division and the timing of getting the new contract in place. The completed \$110 million strategic sourcing pipeline is expected to be identified by end of June.

This report will reflect a progress update in three sections- Strategic Sourcing, Operationalization of Category Management and other Deliverables, and Training and Recruitment to provide the Committee with a detailed update on all the aspects of the CMSS program.

## Strategic Sourcing

CMSS has been working with City divisions to identify and execute savings opportunities in five spend categories: Construction and Maintenance, Facilities, Fleet, Refuse Management and, Technology and Cyber Security. During this phase Transportation Services, Toronto Water, Engineering and Construction Services, Parks Forestry and Recreation and Facilities have worked collaboratively with CMSS to identify and execute savings opportunities that have either already resulted in or are expected to lead to significant savings for the City in the near future.

The total current pipeline of opportunities that have been completed, are in progress or are to be started is \$57.83 million which is approximately 53% of the \$110 million aspirational target. An additional \$41.85 million is to be explored further with Divisions. As of Q2 2021 and the preparation of this update report we continue to pursue opportunities to complete the \$110 million target and will report back in Q# 2021 with an update. The table below shows the distribution and expected savings from these opportunities

Table 1: Summary of total operating and capital savings opportunities<sup>1</sup>

| Category                     | Participating divisions                                                       | No. of opportunities | Savings/Cost Avoidance (\$M/Yr.) <sup>1</sup> |             |               |                             |       |
|------------------------------|-------------------------------------------------------------------------------|----------------------|-----------------------------------------------|-------------|---------------|-----------------------------|-------|
|                              |                                                                               |                      | Confirmed <sup>1</sup>                        | In-progress | To be started | To be explored <sup>2</sup> | Total |
| Construction and Maintenance | Engineering and Construction Services, Toronto Water, Transportation Services | 16                   | 4.7                                           | 28.69       | 18.37         | 30.57                       | 82.33 |
| Facilities                   | Corporate Real Estate Management, Parks, Forestry & Recreation                | 4                    | 1.66                                          | 2           | 1.3           | 4.13                        | 9.09  |

|                               |                                              |    |      |       |       |       |                    |
|-------------------------------|----------------------------------------------|----|------|-------|-------|-------|--------------------|
| Fleet                         | Fleet Services                               | 1  | 0    | 0     | 0     | 1.5   | 1.5                |
| Refuse Management             | Solid Waste Management                       | 3  | 0    | 0     | 0     | 3.9   | 3.9                |
| Technology and Cyber Security | Technology Services, Cyber Security Services | 1  | 0    | 0     | 0     | 1.75  | 1.75               |
| Total                         |                                              | 25 | 6.36 | 30.69 | 19.67 | 41.85 | 98.57 <sub>3</sub> |

1 The annual savings/cost avoidance reflects the potential annual average savings factoring the contract terms and contract length.

2 To be explored are opportunities that the CMSS team has identified to possibly conduct a strategic sourcing procurement for however these have not been explored, validated or approved with the respective Divisions at the time of this report. Therefore the estimated benefits included are an estimate based on limited market intelligence and internal data. Should these opportunities move from To Be Explored to In-Progress, the benefits will be updated to reflect an actual estimated amount for the benefits.

3 For any capital based programs, any savings confirmed from a strategic sourcing event savings may be allocated to other capital projects

The table below lists all the opportunities for which we have confirmed benefits so far.

Table 2: Confirmed benefits from completed opportunities:

| Category                                | Division                     | Opportunity name                                                                                                   | Cost Reduction <sup>1</sup> | Cost Avoidance <sup>1</sup> | Confirmed benefits <sup>1</sup>                                     | Part of \$110M |
|-----------------------------------------|------------------------------|--------------------------------------------------------------------------------------------------------------------|-----------------------------|-----------------------------|---------------------------------------------------------------------|----------------|
| Construction and Maintenance            | Toronto Water                | Multi-year contracts for Watermain re-lining program - Pilot                                                       | \$1.3M/Yr. <sup>2</sup>     | 0                           | \$1.3M/Yr. <sup>2</sup>                                             | Yes            |
| Construction and Maintenance            | Transportation Services      | Sourcing of operational maintenance and capital construction services for traffic signals and electrical equipment | 0                           | \$3.4M/Yr.                  | \$3.4M/Yr. (negotiation expected to be completed by the end of May) | Yes            |
| Facilities, Fleet and Refuse Management | Parks, Forestry & Recreation | Provision of arboricultural services at various City of Toronto locations                                          | 0                           | \$1.66M/Yr                  | \$1.66/Yr                                                           | Yes            |
| Total                                   |                              |                                                                                                                    | \$1.3M/Yr.                  | \$5.10/Yr.                  | \$6.36M/Yr.                                                         |                |

1 The annual savings/cost avoidance reflects the potential annual average savings factoring the contract terms and contract length

2 As this relates to a rate based capital program, savings confirmed will remain in Toronto Water's Capital program and may be used for other capital projects.

For examples, in the case of the completed strategic sourcing events noted in Table 2 above, the completed sourcing events involving Transportation Services with respect to traffic signals and Parks, Forestry and Recreation with respect to Arboricultural services had benefits in the form of cost avoidance, thus avoiding any further impact on the 2021 budget.

With respect to the completed sourcing event for Toronto Water involving watermain relining, the benefits are in the form of cost reduction, however given that the contract is part of Toronto Water's capital program and is rate based, the realization of the cost reduction identified will be retained by Toronto Water as rate based funding for use on other Toronto Water funding requirements.

The realization of the benefits confirmed by the execution of the contracts from strategic sourcing events also depends on how the contracts are ultimately managed.

### **Operationalization of Category Management and other Deliverables**

This section describes CMSS' progress against the deliverables linked to operationalization of category management

CMSS has been working to improve on the reporting of the benefits achieved, rolling out the category management governance and designing a contract management and supplier relationship management process that will assist Divisions in managing their contracts and drive further savings through contract management. Designing a contract management and supplier relationship management process will also assist the City to address various Auditor General Reports with respect to contract management including the Auditor General's Report entitled "Previous Audit Reports – Common Themes and Issues" adopted by Council in June 2020 which noted that one common theme is the City's need to strengthen the oversight and accountability for contracts. These deliverables will help the City establish a standard approach to managing suppliers and contracts. The Table below shows the progress made against operationalization of category management at the City.

Table 3: Progress against the Operationalization of Category Management

| Workstream                       | Deliverable                                    | Status        | Target Completion date | Description of tools and templates developed (for completed deliverables)           |
|----------------------------------|------------------------------------------------|---------------|------------------------|-------------------------------------------------------------------------------------|
| Governance                       | D1 - Refined governance process                | Completed     | Apr' 21                | 1. Meeting agenda<br>2. Meeting template<br>3. Templates for checkpoints 1, 2 and 3 |
|                                  | First series of CMLT sessions                  | Completed     | Apr' 21                |                                                                                     |
| Reporting                        | D2 - Performance dashboard                     | Completed     | May' 21                | 1. Two reporting dashboards<br>2. Metric database for 12 metrics                    |
| Supplier relationship management | D3 - SRM playbook                              | In progress   | Q4, 2021               | -                                                                                   |
|                                  | D4 - SRM training material                     | To be started | Q4, 2021               | -                                                                                   |
| Contract management              | D5 - CM playbook                               | In progress   | Q4, 2021               | -                                                                                   |
|                                  | D6 - CM training material                      | To be started | Q4, 2021               | -                                                                                   |
| Contract compliance analysis     | D7 - – Contract compliance reports             | In progress   | Q3, 2021               | -                                                                                   |
| Category strategy development    | Facilities and solid waste category strategy   | To be started | Q1 22                  | -                                                                                   |
|                                  | Construction and maintenance category strategy | To be started | Q1 22                  | -                                                                                   |
|                                  | Technology category strategy                   | To be started | Q1 22                  | -                                                                                   |

## **Recruitment and Training**

### *Recruitment*

As the Category Management Team continues to mature and continues to hire roles into 2021, dependency on EY will reduce as we move through Phase 2 of the engagement. The main team consists of 15 FTEs, of which 12 are filled (7 permanently filled, 5 temporarily filled) .

The recruitment of 2 Category Leads and 4 Sourcing Specialists is estimated to be completed in Q3 2021.

As CMSS recruits and on-boards new hires, the EY team is working with the CMSS team to carry out the strategic opportunities identified in achieving the estimated \$110M in benefits. This will help the City maintain or exceed service levels and benefits targets in a resource constrained environment, especially in the context of the recovery phase past the current pandemic.

### *Training*

The training and development of the Category Management team by EY is an ongoing process. The key activities that are performed for each of the strategic sourcing projects are led by the Category Management team within PMMD with EY supporting at arm's length. The intent is to have the team fully trained on all of the functions that EY is currently fulfilling during the Phase 2 period. This will include further training and development of category management strategies, processes, governance and data analytics.

On-the-job coaching and training is being provided to the teams throughout the development and delivery of category management activities. This training provides the necessary hands-on knowledge sharing specific to each opportunity, providing the ability to perform the task more independently in the future. This training is in addition to formal training sessions that are appropriately developed, planned and delivered on an ongoing basis.

The following Table 4 outlines on-the-job training delivered thus far with EY's support.

Table 4: On-the-job training provided by EY to the CMSS team

| # | Topic                                                           | Attendees                                                                    | What is being provided:                                                                                                                                                                                                                                                                                                                    |
|---|-----------------------------------------------------------------|------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1 | Conducting Category Management Leadership Team Sessions (CMLTs) | Category Management team                                                     | <ul style="list-style-type: none"> <li>- Provided a walkthrough of the developed governance process and supported document development for the first Category Management Leadership Team Sessions (CMLTs).</li> <li>- Coached the team to develop documents and conduct the second round of CMLTs with minimal external support</li> </ul> |
| 2 | Calculating baseline and estimating benefits                    | Category Management team + applicable divisional stakeholders                | <ul style="list-style-type: none"> <li>- Coached the team for five projects, during development of project charters</li> </ul>                                                                                                                                                                                                             |
| 3 | Developing negotiation strategy and conducting negotiations     | Category Management team, applicable divisional stakeholders and PMMD Buyers | <ul style="list-style-type: none"> <li>- Coached the team for two projects, prior to conducting supplier negotiations (Watermain relining and Electrical Maintenance Contracts)</li> </ul>                                                                                                                                                 |

Formal training sessions are currently being planned for Q3 2021, with the actual dates to be confirmed. More details will be provided in the next report.

CMSS is also monitoring the level of external support received by the Category Management team to track City's ability to sustain the procurement transformation independently post May 2022. Resource capability is being tracked across six dimensions for each strategic sourcing project, as shown in Table 5 below table.

This table is intended to track the level of support provided by the EY team to the CMSS staff through the various phases of each strategic sourcing project. As the CMSS team member's ramp up on each of the dimensions, the support level from EY will decrease.

Table 5: CMSS Resource Capability

| # | Name                                    | Ability to perform tasks independently (scored on a scale of 10) |
|---|-----------------------------------------|------------------------------------------------------------------|
| 1 | Opportunity identification and kick-off | 4.3                                                              |
| 2 | Overall strategy development            | 3.9                                                              |
| 3 | Negotiations                            | 3.5                                                              |
| 4 | Benefits confirmation                   | 4.4                                                              |
| 5 | Stakeholder management                  | 5.4                                                              |
| 6 | Project management                      | 6.1                                                              |



Currently, CMSS staff is able to conduct stakeholder and project management activities with limited support from EY. Key areas of capability development are around sourcing strategy development, negotiation strategy development, benefits calculations and confirmation and identification of new strategic opportunities. On-the-job, and in planned areas formal training, is being provided to continue skill development. The goal is to have each of the CMSS team members perform as close to 10 on the rating scale by May 2022. In the event they have not achieved a 10 we will continue to work with those individuals without EY to further develop their skills in the necessary areas.

## **CONTACT**

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## **SIGNATURE**

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