The 7th RIGHT

The new urgency of buying in the right WAY ...

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Introduction

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Jonathan Dutton was founding managing director of CIPSA, the peak body for procurement in the region. Since leaving CIPSA in 2013, Jonathan has worked as an independent management consultant. JD is currently working on several projects as well as Interim Sales and Marketing Director for Open Windows based in Melbourne.

Full biography at www.jdconsultancy.com.au

. Thirty years in business management
. A BUYER and a SELLER
  ...worked on both sides of the negotiating table
. Founding CEO of CIPSA 2004-13
The new Open Windows WHITE-PAPER – The 7th RIGHT

- Open Windows - 3rd WHITE-PAPER
  - The 10 Critical Pitfalls in Modern Contract Mgt
  - The 12 Best Practices in Contract Management
  - Webinar Weds 22nd March - through PASA
  - Hard copies on OWS stand outside

- Teresa Nagel – Head of BD, Open Windows
The 7\textsuperscript{th} RIGHT

... buying in the right WAY
But, first, the other SIX ...
The FIVE RIGHTs

Procurement 101

• The five rights:
  • RIGHT goods
  • RIGHT quality
  • RIGHT place
  • RIGHT time
  • RIGHT price

The sixth RIGHT comes a bit later ....

The first responsibility of the professional BUYER is assurance of supply

The IRON triangle of PROJECT MANAGEMENT
The FIVE RIGHTs

- The five rights:
  - RIGHT goods
  - RIGHT quality
  - RIGHT place
  - RIGHT time
  - RIGHT price

The sixth RIGHT comes a bit later....

The SIX rights methodology

The six rights of medication administration are the right medication, the right dose, the right patient, the right route, the right time and the right documentation.
The FIVE RIGHTs

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The SIX rights methodology

The six rights of medication administration are the right medication, the right dose, the right patient, the right route, the right time and the right documentation.
The first RIGHT  The right goods

• The right goods or equipment or service
• To the right SPEC
• And fit for purpose - ready for use

• WANTS –v- NEEDS
• Avoiding bells n whistles

• Part numbers & nomenclature
• GS1 standards & bar codes
• RFID chips & QR codes
The second RIGHT - The right quality

- Not defective
- Complete
- As per sample and/or SPEC

- Australian standards
- ISO standards

- Tested
- Certified
- QA checked
The third RIGHT - The right place

- Delivered
- Carriage paid
- To delivery address

- GOODS inwards
- Receipting – and the 3 WAY match

- Where STORED
- Distribution & supply chain mgt
- Where USED
The fourth RIGHT - The right time

- In good time ...
- Just-in-time (JIT) (JTL) (JBU)

- Buffer stocks
- Stock control & distribution

- 100% on time? 99% 90% 80% ?
- Delays
- Communication is the key
The fifth RIGHT - The right price

- Price agreed
- Market rate?
- A fair exchange of *value* between buyer & seller

- Inclusions
- Exclusions & GST

- Incentives to BUY more
- PVF
- Value – what is it for you?
Delivering the FIVE rights

‘Procurement really needs to do the simple stuff; and get it right. All the time.’

DR NICO REINEKE, McKinsey & Co. & Professor at Wharton Business School, Penn. USA – Melbourne, Oct 2010
Delivering the SIXTH right – the RIGHT source

- The right supplier
- The right supply chain
  - Supply chain mapping – to 17 tiers?
  - Corporate social responsibility
- Risk
- Reputational damage
- Pressure groups
- Pressure from shareholders, govts & consumers
Key factors influencing the RISE of CSR ....

- Consumers have a conscience
- Pressure groups mobilize opinion
- Social media gives power to consumers
- Brands are vulnerable
- Markets react strongly to risky products
- Reputational risk is clear & present ... and costs are high
- Stakeholders demand greater governance of supply
- Governments are touchy
- Carbon Tax forced corporate inertia on CSR issues
- Supply chain due diligence expensive & slow
- Yet, the chain of responsibility is lengthening
- Safety is a growing part of our business culture
- There is unheralded benevolence in big business
“The world’s shoppers are still buying GREEN”
Hilary Clinton
Asking major organisations to commit that their supply chains are free of slavery.

Asking major organisations to commit to use indigenous suppliers.

Asking major organisations to achieve SDGs & work to alleviate poverty through global trade.

Cause related buying?
The UN Global Compact – ten principles

The Ten Principles
The UN Global Compact asks companies to embrace, support and enact, within their sphere of influence, a set of core values in the areas of human rights, labour standards, the environment and anti-corruption:

Human Rights
- **Principle 1**: Businesses should support and respect the protection of internationally proclaimed human rights; and
- **Principle 2**: make sure that they are not complicit in human rights abuses.

Labour
- **Principle 3**: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- **Principle 4**: the elimination of all forms of forced and compulsory labour;
- **Principle 5**: the effective abolition of child labour; and
- **Principle 6**: the elimination of discrimination in respect of employment and occupation.

Environment
- **Principle 7**: Businesses should support a precautionary approach to environmental challenges;
- **Principle 8**: undertake initiatives to promote greater environmental responsibility; and
- **Principle 9**: encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption
- **Principle 10**: Businesses should work against corruption in all its forms, including extortion and bribery.

http://www.unglobalcompact.org/aboutthegc/thetenprinciples/
24th April 2013, Savar, Bangladesh; 1,129 people died
Other handy examples

Brand reputational damage can be huge

Sanlua baby powder - Fonterra

Mattel Recalls 2007
Communication Implications for Quality Control, Outsourcing and Consumer Relations

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Delivering the SIXTH right – the RIGHT source

- The right supplier
- The right supply chain

**The SIX rights**
- RIGHT goods
- RIGHT quality
- RIGHT place
- RIGHT time
- RIGHT price
- RIGHT source
The 7th RIGHT (finally) ...

The new urgency of buying in the RIGHT WAY

- The SEVENTH right
  - RIGHT goods
  - RIGHT quality
  - RIGHT place
  - RIGHT time
  - RIGHT price
  - RIGHT source
  ... the RIGHT way

- Right process (Our process)
- Fair process
- Competitive process
- Compliance
- Probity
- Confidence
- Transparency
- Pressure – boards, shareholders, consumers, voters
“Shareholders and citizens alike want their organisations to do the right thing and be transparent enough to be seen to be doing the right thing.”
The right way – not the wrong way

*Key drivers:*

**Commercial**
- RISK reduction – mostly of blow-outs
- No delays, no stuff ups ....

**Legal**
- Compliance
- Probity

**Moral**
- Confidence
- Transparency
- Pressure – boards, shareholders, consumers, voters
Do the commercial ends, justify the purchasing means?
More regulation, not less...

And procurement as an instrument of policy...

- Federal CPR’s .. and PCP’s
- The Indigenous Procurement Policy (IPP)
- Tender thresholds
- Liability management
- Payment schedules v work plans
- Compliance – safety, insurance, standards
Better behaviour, not worse ...

- No supplier bullying
- No spurious payment or rebate demands
- No emotional blackmail
- No coercion
- No fraud
- No corruption
The business benefits of better process

*The Upside of probity & compliance*
The business benefits of better process

*The Upside of probity & compliance*

Less ...
- Risk
- Liability
- Cost
- Delay
- Mistakes

Better Outcomes

More ...
- Quality
- Safety
- Certainty
- Confidence
- Brand strength

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The New Contract Mgt problems
... are the old contract management problems

1. Interminable delays & cost blow-outs!
2. Risky business with heavy liabilities ... and no audit trail
3. Non-compliant contractors & inconsiderate working
4. Unsafe & insecure supply lines
5. Lost contracts, missing paperwork, superficial records
6. System driven process, not process driven systemisation
7. Missed deadlines, decision points ignored, renewals by default
8. Negligible due diligence & supply chain tier management
9. No supplier database and multiple data entry making mistakes
10. Reactive variation paperwork following manual hard-copy tenders
The BENEFITS of Contract Mgt Automation

The Open Windows modular procurement system

1. Visibility on process, probity & compliance
   - Unique design, real-time audit trail, Col register, escalation pathways
2. Never lose a document - ONE place for all paperwork
   - Contracts, tender docs, certificates, compliance, delivery, specs
3. Safer supply lines
   - Compliant contractors, supplier due diligence, built-in risk management
4. Never miss a deadline, delivery, decision point or renewal
   - Programmable eAlerts, Microsoft PROJECT compatible, ONE system
5. Reduced total life–cycle costs …
   - No delays, greater compliance, more efficient process, saves time & money
6. SAVES TIME for busy buyers – so they can work more strategically
   - Single data entry, tender/contract consistency, supplier data input

BETTER, FASTER, CHEAPER, SAFER, GREENER
Why CONTRACT MANAGEMENT feels so relevant today ...

‘Corporate Virtualisation’ 2013  The refocus on CORE business

- Organisations now focus more on their point of difference
- Their CORE business, where they are experts, and where they need to succeed
- And, so, OUTSOURCE more, where they are not experts
- And become MORE dependent on their ‘external resources’ … their suppliers

Proxima
See the change

Corporate Virtualisation
A global study of Cost Externalisation 2013

UK Research of 2,000 major GLOBAL firms ....
- Average labour cost 12% Revenues (down 8% since 2009)
- Average non-labour costs 70% Revenues (up 6% since 2009)

70%
Good contract mgt prevents ‘Downstream Dramas’ …

• Late delivery … not just in time (JIT) but JTL or JSU
• Wrong delivery …
• … Doesn’t work
• Cost overruns & blow-outs
• Non-compliance
• Assumptions
• Disasters ….
• Variations
• DISPUTES

Cost ✗
Risk ✗
Dis-benefits ✗
Good contract mgt prevents ‘Downstream Dramas’ ...

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- Disasters …
- Variations

Especially in THREE key scenarios:

1. Long term SERVICE contracts
2. DIRECT supply lines
3. Capital works PROJECTS
The THREE Open Windows white-papers ... and the 4th ...
## The 12 best practices of contract management

<table>
<thead>
<tr>
<th>Control</th>
<th>Interact</th>
<th>Adapt</th>
<th>Plan</th>
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<tbody>
<tr>
<td>1. <strong>Ensure performance</strong> - set, review, and monitor KPIs</td>
<td>5. <strong>Invest in the relationship</strong> - strong SRM at all levels</td>
<td>8. <strong>Gauge issues and risks</strong> - ongoing identification, prioritisation, tracking, and resolution</td>
<td>10. <strong>Forecast demand and supply</strong> - business needs and changes, provider capabilities, etc.</td>
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<tr>
<td>2. <strong>Watch over the finances</strong> - budgets, billing and payment, total cost of contract, and trends.</td>
<td>6. <strong>Orchestrate the CM network</strong> - of your people to act within the contractual frame-work as a cross-functional team</td>
<td>9. <strong>Manage variations</strong> - written, verbal, and behaviour-based (estoppel) variations</td>
<td>11. <strong>Maintain market intelligence</strong> - over your providers and the market as a whole (e.g. prices, technology, market conditions, standards)</td>
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<td>3. <strong>Record keep and report</strong> - real-time audit trails and reporting</td>
<td>7. <strong>Handle disagreements and disputes</strong> - prevent and treat internally and not through third parties</td>
<td></td>
<td>12. <strong>Drive continuous improvement</strong> - within both parties and their interfaces</td>
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The real challenge for PROCUREMENT now ...

- Move the conversation beyond cost savings to VALUE
- Invest in relationships & avoid organisational isolation
- Make business decisions not purchase decisions
- Resist total process, for commercial acumen
- Speed up ...
- Recruit, train and embrace talent
- Play fair and ethically and pay-up quick
- Welcome suppliers and work with them
- Source innovation and creativity not supply lines

Automation helps ...

... It saves time
... And enables talent
... Let’s you refocus on strategy
The Open Windows technology

Increasingly, good procurement process & software, are indivisible.

- MODULAR procurement systems are flexible
- Cloud based SaaS or On-Premise private server platform
- Fully integrated with all leading ERP and P2P systems
- Highly secure systems with supreme data confidentiality
- Quarterly new release cycles ... 8am-5pm service line
- Helps manage contracts – not just ‘oversee’ them
- Reduces total cost, lowers RISK, strengthens compliance
- Improves delivery reliability & supplier performance
- Saves time, offers real-time audit trail, supplier inputs
- Automation enables talent

NINE unique modules

- CATEGORIES
- PROJECTS
- SOURCING
- TENDERS
- PROCESSES
- CONTRACTS
- COMPLIANCE
- BUDGETS
- SRM

Modular Procurement

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Jonathan Dutton  FCIPS FCIM FAIM FRSA GAICD

Interim Sales & Marketing Director – Open Windows

Strategic Procurement Training  An intermediate level management training workshop for procurement professionals
Managing the Buyer  An intermediate level training workshop for sales people and account managers dealing with procurement
Sustainable Procurement & the chain of responsibility  An intermediate training workshop on sustainable procurement

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