

# Implementing strategic sourcing at the University of California

by Richard Edwards 7 minute read



## The story

Adopting a new strategic sourcing model to add value to the University of California's UC procurement team

To deliver on savings targets and make good its promise of bringing both value and revenue to the organisation at large, the University of California's (UC) procurement organisation adopted a new strategic sourcing model.

After winning support for procurement's transformation from finance, the board and the rest of the institution (*see part one, Securing buy-in to solve a \$500m problem*), and a deep dive spend analysis that revealed the organisation's spend was far greater than anticipated (*see part two, The challenges and opportunities of technology implementation*), CPO Bill Cooper and the ten campus procurement heads introduced common governance structures, performance management processes and new technologies to push forward the organisation's aim of achieving \$200m in benefit by 2017. The team then decided that implementing strategic sourcing would be the best way to leverage buying power across all of the university's campuses and transform the way the function manages diverse spend areas. The third and final part of this case study series looks at how the UC achieved this, examining how Cooper and his procurement function built the teams needed, maximised the talent available and leveraged strategic sourcing to deliver both cost-savings and value.

**IN THIS SERIES:**

Securing buy-in to solve a \$500m problem (Part 1)

The challenges and opportunities of technology implementation (Part 2)

## Optimising strategic sourcing

A seven-step strategic sourcing practice was – theoretically – already in place at the organisation but relatively few of the 280 procurement professionals employed by the university were familiar with it. Cooper and UC campus leadership, known as the Procurement Leadership Council (PLC), had to begin the strategic sourcing process almost from scratch.

“Strategic sourcing was another definition, another term, that wasn’t really prevalent in the University of California. Even within procurement, I would say that 60% of our people weren’t familiar with the traditional seven-step strategic sourcing practice.”

Examining the knowledge gained through the UC’s deep dive into spend visibility and seeing how it could be used to generate and deliver continuous value was central to the success of the scheme. This spend analysis was just one part of the five-stage technology framework put in place (*see part two, The challenges and opportunities of technology implementation*) but it created a strong foundation from which to make informed sourcing decisions.

“Once you’ve developed the visibility of your spend, you have to look at how it’s going to be optimised and how you’re going to drive the greatest value,” says Cooper.

Addressing that would be one of procurement’s main challenges.

First, though, the PLC had to ensure it had the requisite expertise able to drive this sourcing practice where it was required most.

## Creating virtual Centres of Excellence

To do so, the first step was the formation of virtual Centres of Excellence (COEs) for category and process management. These would enable the university to bring together teams of specialists – many of whom worked in separate areas – to manage the categories identified by procurement as containing the maximum opportunities to deliver cost savings and value on an ongoing basis.

UC began to establish the centres in late 2013, two years into its five-year improvement programme, drawing talent from different functions into one cross-functional centre. Reporting to the centrally located strategic sourcing director, but ultimately accountable to the PLC, the virtual teams were expanded onto multiple campuses to lead UC's system-wide strategic sourcing, category management and technology solutions.

In the original instance, the decision was made for the COEs or categories to be broken down into four main areas: life sciences; professional services; IT; and MRO and facilities.

“Depending on the size of the category, we took four or five specialists from various places – they might reside on any campus within the system or at the central office,” says Cooper.

“They work as a virtual team to manage that particular category for the rest of the system.”

The simplicity of the system meant those specialists did not have to operate on the same campus but could work together remotely from any site. Those virtual teams then had the responsibility to determine whether the spend in the category could be leveraged across all 11 UC campuses or whether they had a narrower application.

This not only allowed the UC to develop category management with teams of experts who were best-placed to maximise their potential, it also allowed the campuses to reallocate the individuals employed as primary buyers and apply them elsewhere.

“We reduced redundancy [within the system],” says Cooper. “Initially we had some concerns because people were nice and stable in their campuses, [but] as we've grown, the fact that they now have a stronger role and a system-wide role, has allowed them to increase their stature.

“Also, it’s allowed for a professional development ladder that wasn’t available in procurement before. People were previously limited in their buying capabilities and this opened the door to new opportunities.

“This has allowed folks to move up into the system-wide capabilities without leaving their home. This is the great thing about the team being virtual – we don’t care where you’re working, you’re working together as a team supporting the whole. People are getting the benefit of both.”

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## A revenue win

The results of this strategic sourcing approach and the collaborative relationships across the UC campuses formed through the COEs can be exemplified by the work carried out by the Life Sciences COE and the procurement teams at the university’s Berkeley and San Francisco campuses.

After identifying a system-wide opportunity to combine the use of helium – the cost of which looked likely to increase considerably – between ten campuses and the Lawrence Berkeley National Lab, procurement at the UC successfully negotiated a three-year deal with a prominent gas supplier in November 2015.

This led to an increased benefit of \$500,000 a year and encouraged procurement to look for further opportunities in the liquid gas sector. A rollout that will include nitrogen, iron and carbon dioxide will be

implemented in the near future, and it is estimated to bring with it another \$1.1m in annual benefits.

It is this kind of strategic approach that demonstrates the benefits brought by UC procurement's virtual COEs, with expertise in specific areas on the ground leading to tangible and demonstrable cost savings across the entire campus network.

None of this, of course, would have been possible without procurement enjoying an increased standing across the business and the function earning a right to play a key role in the direction of the institution. However, this was not always the case.

“The great thing about having this system-wide CPO role, reporting to the EVP, is that it allows me to have a seat at the table. We've got a unique position that we have to take advantage of and that's because, unlike any other unit within the organisation, we have the ability to not only deliver revenue but to also create it.

“I tell my boss ‘I know you love your accountants but while your accountants can count your money – I can make you money’. The burning platform has created that.”

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Bringing in younger people brings a vibrancy, you also want that entrepreneurial approach

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## Scoping out talent

The creation of the virtual COEs meant UC's buying organisation is now better placed to identify opportunities and react quickly to leverage influence and deliver cost savings. After building the COE structure for strategic

sourcing, the next step was to take ensure the right talent occupied roles in the teams.

At first, it was anticipated that 60% of the savings identified would come from the COE while 40% would come from campus-level procurement organisations. In reality, the opposite was true.

“Our experience has been that 40% has come from the COEs and 60% has come from the campuses,” says Cooper.

“There’s so much big dollar spend in the campuses, such as research projects and major equipment purchases. That’s growing more and more. We’re still getting those skill sets up at the other campuses and, as they do, our benefit grows each year.”

While some of the expertise needed for these COEs was already within the UC’s talent pool, the PLC recognised a need to hires to fill gaps. With the campus-operated procurement organisations showing the majority of savings, securing the right talent was also an issue.

One of the major issues facing procurement at a campus level was unprecedented rates of attrition, with numerous retirements adding a sense of urgency to the PLC’s drive to bring in fresh talent and ideas.

“To lead the campus organisation, it was imperative that we restructured and brought in some talent,” he says.

“The COEs have been a mix of old and new and are still providing opportunities for folks within the system who have had the capabilities to move up.

“We had people who had been in office 25, 30, 35 years. We have had a lot of turnover with CPOs, with the majority of them retiring.”

The organisation cast its net wide across other functions, both outside of higher education and into the commercial realm, to find new talent.

“As a result, we’ve been able to bring in some talent from the commercial side of the market, people who have state-of-the-art skill sets. We’ve brought in new energy and I think it’s going to get us to where we want to go even quicker in future.”

Attracting people to the function was a challenge, however, with UC unable to compete with private-sector salaries. This meant it was imperative for the university to highlight the benefits of working in the higher education sector to a more youthful workforce in terms of work/life balance and UC's ultimate mission.

"We're doing something that's of major importance worldwide, in terms of education and research," he says.

"Bringing in younger people brings a vibrancy, you also want that entrepreneurial approach. You want to combine that entrepreneurial outlook with the traditional. The reality is that we couldn't tweak anymore, we needed to transform."

This desire to transform and the steps the UC has gone through to achieve this is seeing the necessary skill set enter the function; and there will be more to come.

#### DIVE DEEPER

## Seven-step strategic sourcing process

- 1 – Develop category profile.
- 2 – Develop sourcing strategy.
- 3 – Generate supplier portfolio.
- 4 – Select implementation plan.
- 5 – Negotiate and select suppliers.
- 6 – Implement agreement.
- 7 – Continuous improvement.

#### DIVE DEEPER

## I wish I'd known...

“I’m not sure there was too much we could have done differently. But had we had more investment we possibly could have invested more in communications structures within the campuses, in order to build up trust more quickly.”

***If you would like to learn more/connect, please get in touch with your account manager***

*Image courtesy of University of California, Berkeley campus*

*This article is a piece of independent journalism, written by an experienced journalist and commissioned exclusively by Procurement Leaders.*