

A photograph of three business professionals in an office setting. On the left, an older man with grey hair and a beard, wearing a light blue shirt and dark tie, is looking at a tablet. In the center, a younger man with dark hair and a beard, wearing a grey blazer over a white shirt, is pointing at the tablet. On the right, a woman with long dark hair, wearing a light grey blazer, is also looking at the tablet. The background is a blurred office environment with large windows. A red vertical bar is visible on the left side of the image.

HOW YOU BUY IS AS IMPORTANT AS WHAT YOU BUY

A discussion on Municipal Procurement

September 19, 2019 v1.0

BDO GLOBAL STATISTICS 2018

GLOBAL REVENUE

US\$9
BILLION

10.7%

Increase over 2017

162

countries &
territories



1,591 offices

up by **6%**

GLOBAL
HEADCOUNT

80,087

8.4%

Increase year on year

GLOBAL AVERAGE
PROFESSIONAL
PARTNER
TO STAFF
RATIO

1 TO 10

BDO CANADA

REVENUE

CAD \$650 MILLION

125 offices

475 Partners
3,500 + Personnel
95 Years Experience

MID-MARKET FOCUSED

ADVISORY SERVICES



CONSULTING

Strategy & Operations | Technology | Risk Advisory Services
Human Resources



FINANCIAL ADVISORY

Transaction Advisory | Valuations & Models | Due Diligence | Forensic
Accounting



FINANCIAL RECOVERY

Viability Reviews | Debt Restructuring | Cash-crisis Management
Bankruptcy Services



WEALTH

Financial Assessments | Financial Planning | Wealth Management
Insurance Integration



LEGAL

Incorporations | Partnership Formations | Share & Asset Transactions
M&A, Windups, Liquidations

ASSURANCE & ACCOUNTING



ASSURANCE



ACCOUNTING



BOOKKEEPING



PAYROLL/
CFO SERVICES

TAX



CORPORATE



PERSONAL

BDO CONSULTING



ADVISORY-CENTRIC:

For more than 90 years, BDO Canada has served as a trusted advisor to organizations across North America. As a result, BDO Consulting is a practice that follows this lead and looks first to provide expert advice rather than simply a vast array of available products.



IN-DEPTH INDUSTRY EXPERTISE:

The BDO Consulting practice deploys dedicated industry teams that bring decades of experience into every engagement, ensuring that they understand the unique challenges associated with multiple industry verticals and are able to craft a solution that addresses those specific requirements.



COMPREHENSIVE SERVICES PORTFOLIO:

Whether the client's most pressing challenges align with the implementation of their Go-To-Market strategy, their exposure to increasing risk and regulations, their ability to attract and retain productive personnel or their ability to efficiently leverage technology, the Consulting practice possesses world-class expertise across all of these capacities.

CONSULTING:



Strategy & Operations



Technology



Risk Advisory Services



Human Resources

FINANCIAL ADVISORY | FINANCIAL RECOVERY
WEALTH | LEGAL

BDO CONSULTING - ORGANIZATION

Industry



Energy & Natural Resources

- ▶ Oil & gas
- ▶ Mining
- ▶ Utilities



Financial Services

- ▶ Insurance
- ▶ Credit unions
- ▶ Private equity



Public Sector

- ▶ Federal
- ▶ Provincial
- ▶ Local government
- ▶ Indigenous



Manufacturing & Distribution

- ▶ Process manufacturing
- ▶ Discrete manufacturing
- ▶ Distribution & supply
- ▶ Cannabis



Not-For-Profit

- ▶ Healthcare
- ▶ Charities
- ▶ Associations



General Industry

- ▶ Retail
- ▶ Technology & life sciences
- ▶ Professional services

Consulting Services



Strategy & Operations

- Strategic Planning
- Operational Excellence
- Change Management



Technology

- Technology Advisory Services
- Technology Implementation Services
- Technology Managed Services



Risk Advisory Services

- Risk Advisory
- Security
- Controls Assurance



Human Resources

- HR Operations & Support
- Organizational Effectiveness
- People & Performance

ASSURANCE AND ACCOUNTING

- ▶ Partnership with a firm you know can deliver
- ▶ Almost a century in business
- ▶ 125+ offices across Canada
- ▶ Over 80 offices in Ontario
- ▶ Proven industry experience
- ▶ Over 200 municipalities served across Canada
- ▶ Over 80 in Ontario
- ▶ Innovative solutions
- ▶ Self-serve cloud-based client portal
- ▶ Smart City implementation support
- ▶ Sophisticated audit technology and tools
- ▶ Dedicated professional team
- ▶ Trusted presenter at MFOA training and events
- ▶ Industry-specific teams
- ▶ PSAB professional development

Examples of client experience:



Services (non exhaustive)

Year-end compliance:

- Financial audit and reporting
 - Ministry reporting
 - Financial statement presentation
 - Reporting issues and requirements
 - Changes in auditing standards
 - Changes in audit methodology and application
 - Changes in legislation
-

A&A Advisory:

- Asset management plans and Audit of tangible capital assets
 - Audit committee and Board support of the audit and governance functions
 - Special contaminated sites reviews
 - Rural Broadband Studies
 - Fleet Analysis Reporting
 - Valuation analysis (ie. OPP costing analysis)
 - Organizational, operational and strategic reviews and plans
-





MUNICIPAL PROCUREMENT - HOW YOU BUY IS AS IMPORTANT AS WHAT YOU BUY

HOW YOU BUY IS AS IMPORTANT AS WHAT YOU BUY

“How you buy” speaks to procurement maturity;

- ▶ Policies aligned with organizational objectives; trade agreements
- ▶ Processes and technologies to support policies and organizational objectives
- ▶ People / Organizational model
- ▶ Leverage category expertise internal and external
- ▶ Robust supplier relationships - leveraging for innovation
- ▶ Performance monitoring for continuous optimization
- ▶ Long-term procurement strategy aligned with long-term organizational strategy

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[Mike Smee](#) · CBC News · Posted: Jun 27, 2019 4:00 AM ET | Last Updated: June 27



PROCUREMENT IS NOT JUST ABOUT SAVING MONEY

It's also about:

- ▶ Value generation
- ▶ Supporting organizational strategies and objectives - digital transformation
- ▶ Risk management



HOW WELL IS YOUR PROCUREMENT ORGANIZATION PERFORMING?

- ▶ Does your organization have an effective procurement management framework?
- ▶ Are you treading water?
- ▶ How well are you doing vs peers?
- ▶ Are you actively investing in procurement modernization?



FORRESTER - PROCUREMENT MATURITY AS A COMPETITIVE ADVANTAGE

Self-perceived procurement maturity

Below par with competitors	4%
On-par with competitors	31%
Advanced: Generating a competitive advantage	65%

Actual procurement maturity per Forrester Study

Below par with competitors	60%
On-par with competitors	28%
Advanced: Generating a competitive advantage	12%

FORRESTER - STUDY ON PROCUREMENT MATURITY

- ▶ Key findings of Jan 2019 survey of 400+ respondents responsible for procurement decisions
 1. Leaders significantly overestimate true procurement maturity level
 2. C-level support essential for success, however:
 - Low recognition of importance of procurement's ability to generate value (it's much more than basic purchasing)
 - Underestimate impact of procurement in organizational transformation
 3. Technology is an essential enabler

FORRESTER - STUDY ON PROCUREMENT MATURITY

- ▶ Why is Procurement maturity important?
 - Potential to provide significant support for organizational transformation
 - Drive innovation by leveraging supplier relationships
 - Increase agility
 - Reduce costs / total cost of ownership
 - Protect organization from supplier-related risk

HOW TO GAUGE PROCUREMENT MATURITY

1. Procurement maturity evaluation of strategic capabilities
2. Process assessment

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WHERE DO I START?

PROCUREMENT MATURITY - NINE STRATEGIC LENSES



Governance &
Leadership



Category
Management



Processes &
Technology



Procurement
Strategy



Contract
Management



People



Sourcing



Supplier
Management



Performance
Measurement

PROCUREMENT MATURITY STAGES

	Pre-development	Tactical	Developing	Mature
COMMON CHARACTERISTICS	<ul style="list-style-type: none"> No formal procurement policy or structure. Procurement is a task among many. Functional leadership at low level within the organization. Transactional focus. Typically paper-centric. Minimal technologies in use. Little or no usable procurement reporting. 	<ul style="list-style-type: none"> Procurement policy / guidelines exist. Dedicated procurement function exists. Led at Supervisor or Junior management level. Focus on reducing costs. Minimal technologies, typically limited to Excel. Some limited-use procurement reporting available. Often solicit consumption data from suppliers. 	<ul style="list-style-type: none"> Well defined and rigorous procurement policy and framework. Procurement function led at intermediate management or higher. Contracts in place for high percentage of high value and/or high risk requirements. Procurement information available at commodity and supplier levels. Some procurement technology in use and there is a plan to deploy a procurement technology suite. 	<ul style="list-style-type: none"> Procurement function broadly recognized as a critical success factor. Led at senior management or C-level. High percentage of relevant spend under contract. Dedicated procurement technology is deployed to support full source-to-pay cycle. Key Performance Indicators, benchmarking and other comprehensive metrics in use.
SCORE	0 - 1	>1 - 2	>2 - 3	>3 - 4

PROCUREMENT MATURITY EVALUATION

Contract Management

- It is estimated that between 10-25% of non-payroll OPEX spend is under contract.
- A formal contract management plan is being developed but not yet



Contract Management

Category Management

- Procurement staff are assigned responsibility for projects on the basis of allocating and balancing incoming work vs individual market expertise.
- Sourcing strategies are occasionally based on the thinking "I need to buy



Category Management

2.9

Performance Measurement

- There are no defined performance measures in place for the procurement function.
- Performance measurement, when it occurs, is generally retrospective rather than future-focused.



Performance Measurement

1.2

Sourcing

- Market analysis to gain up-to-date knowledge of the marketplace is generally not undertaken in advance of initiating a procurement project.
- Procurement's involvement in procurement projects is triggered by the



Sourcing

3.0

People

- No formal succession planning, in general. Positions filled when a vacancy arises.
- Procurement staff are required to have appropriate combination of education, experience and professional certification.



People

3.0

Procurement Strategy & Operations

- The procurement lead has identified the need for a structured approach to improvement, but implementation is still in planning stage.
- Challenges may exist in actioning new initiatives with the resources



Procurement Strategy

2.6

Governance & Leadership

- Designated lead for procurement function exists but may not have 100% visibility over procurement throughout the organization.
- Formal policy (or municipal bylaw) in place and updated since 2017.
- Procurement department establishes procurement procedures, which are generally adhered to throughout the organization.
- Adherence to policy relies on standardized processes, education & manual monitoring.
- No formal process for delegation of signing authority.
- Procurement lead is actively establishing regular stakeholder engagement to focus on current and future needs.
- Procurement audits are conducted regularly as a component of bylaw compliance audits.
- Procurement is viewed as an essential resource within the organization, particularly on higher value projects.



Governance & Leadership

2.0

Score 2.5

Score	Stage
0 - 1	Pre-development
>1 - 2	Tactical
>2 - 3	Developing
>3 - 4	Mature

Supplier Management

- The organization has implemented some elements of a supplier management strategy, although it is not comprehensive or widely applied.
- All contracts include specific performance targets, however performance monitoring is selective relying on primarily manual



Supplier Management

Score

3.0

Score

2.4

Processes & Technology

- Standardized procurement processes are in place but Standard Operating Procedures are not published.
- Procurement processes are differentiated by CAPX/OPEX and/or dollar thresholds.
- The organization is in the process of implementing technology to support sourcing processes, but the current plan does not cover the full Source-to-Pay continuum.
- Procurement relies on the G/L Chart of Accounts to generate procurement reports, coding for which is inconsistently applied and often incorrect.
- The process for reconciling purchases with receipts and invoices is labour intensive and inefficient.
- The organization does not track timely payment of supplier invoices and does not take advantage of early payment discounts.
- Procurement operational effectiveness reviews are ad hoc, typically in response to a problem arising.



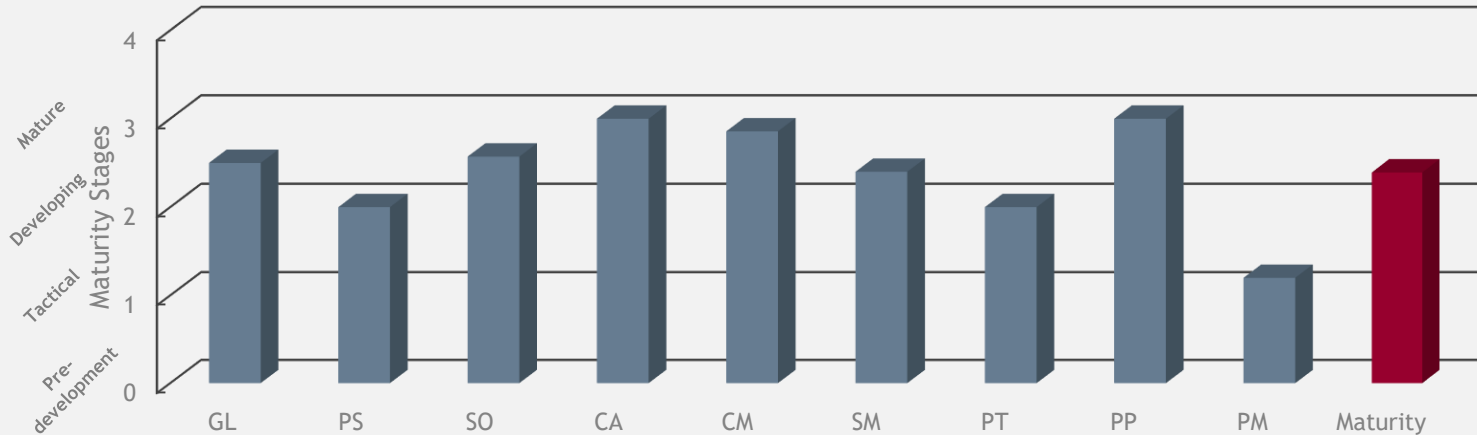
Processes & Technology

Score 2.0

Score	Stage
0 - 1	Pre-development
>1 - 2	Tactical
>2 - 3	Developing
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PROCUREMENT MATURITY ASSESSMENT

Procurement Capabilities Assessment by Category



GL Governance & Leadership

CA Category Management

PT Process & Technology

PS Procurement Strategy

CM Contract Management

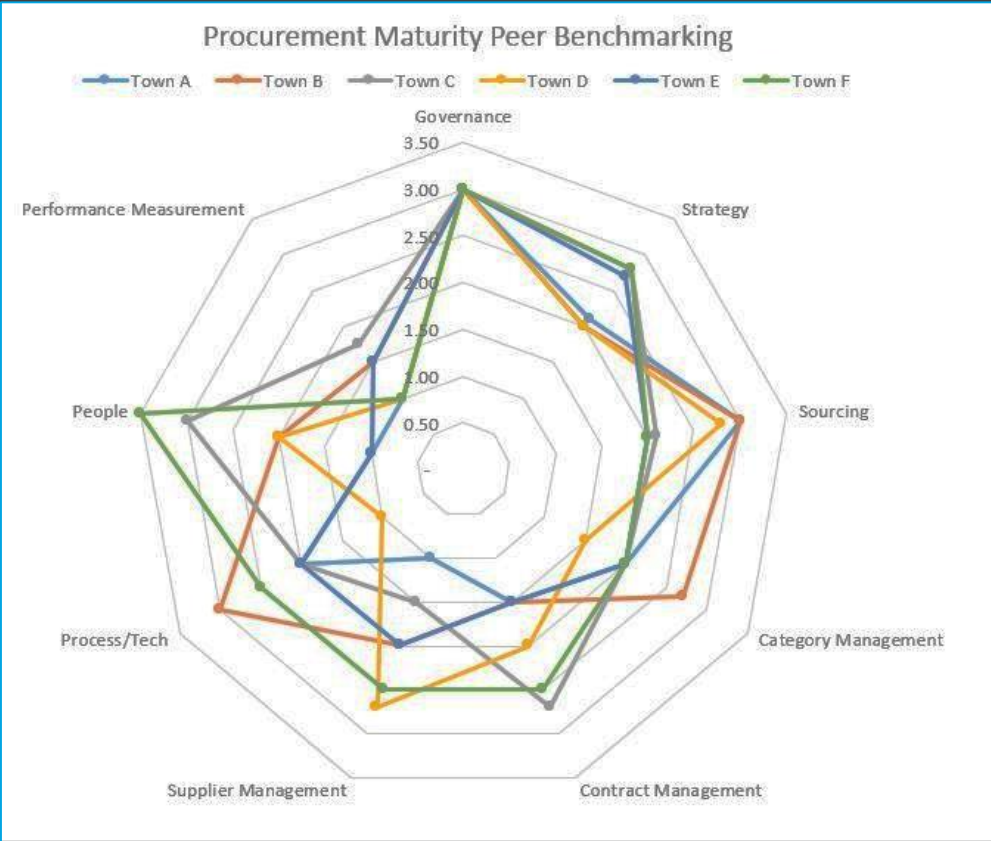
PP People

SO Sourcing

SM Supplier Management

PM Performance Measurement

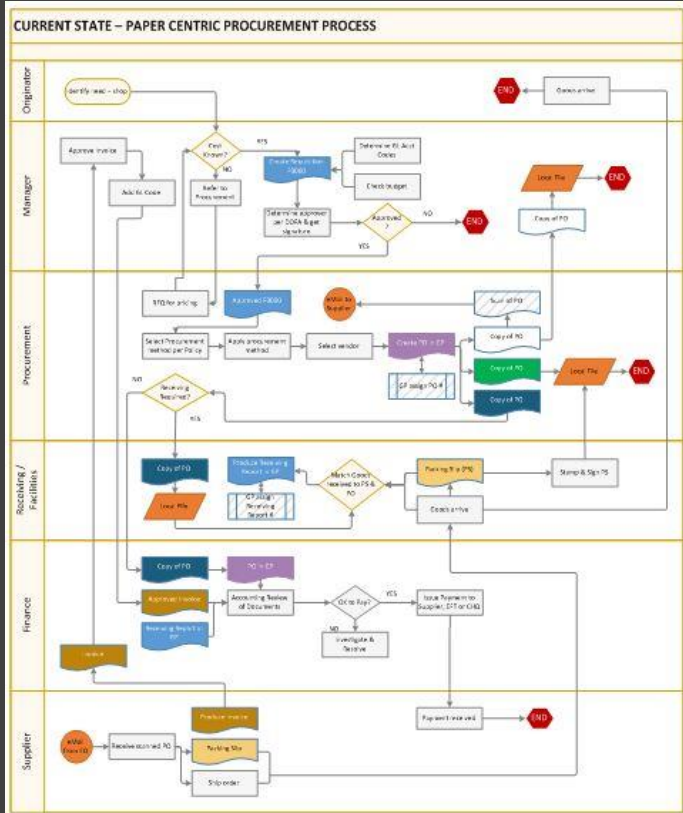
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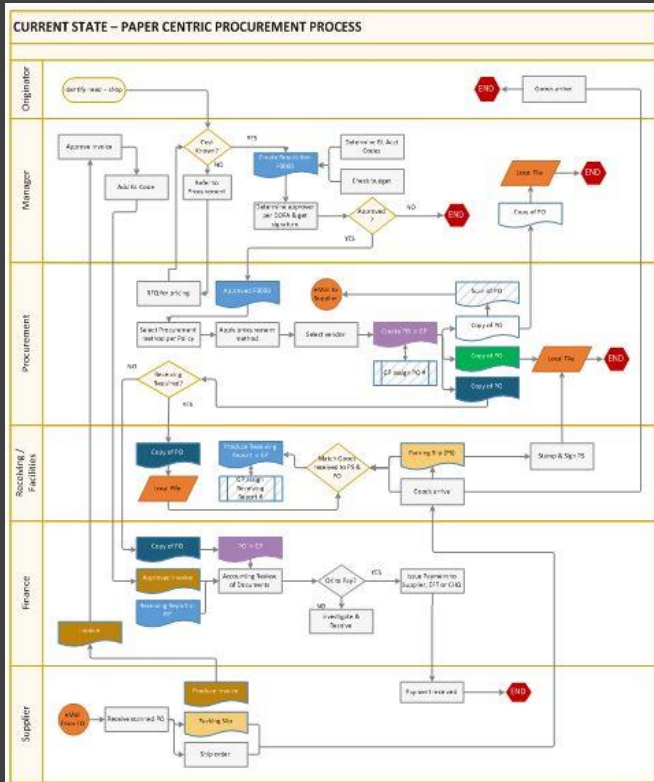
HOW TO GAUGE PROCUREMENT MATURITY

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PROCUREMENT PROCESS OPTIMIZATION



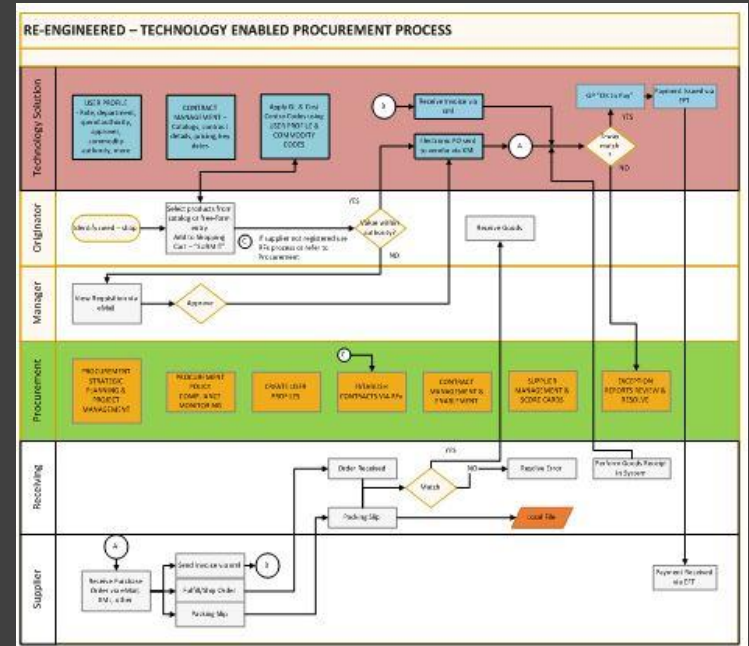
PROCUREMENT PROCESS OPTIMIZATION



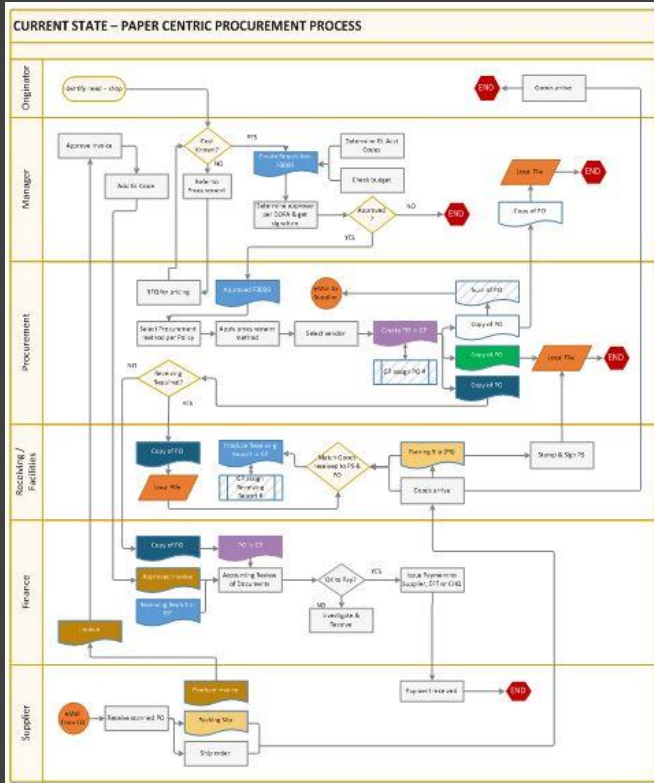
PROCESS TOUCHPOINTS

← OLD = 32

NEW = 8 →



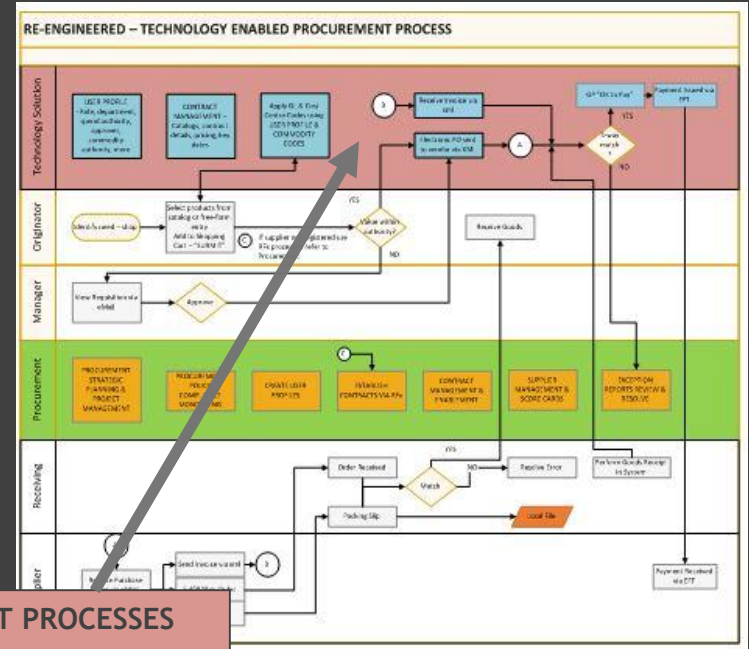
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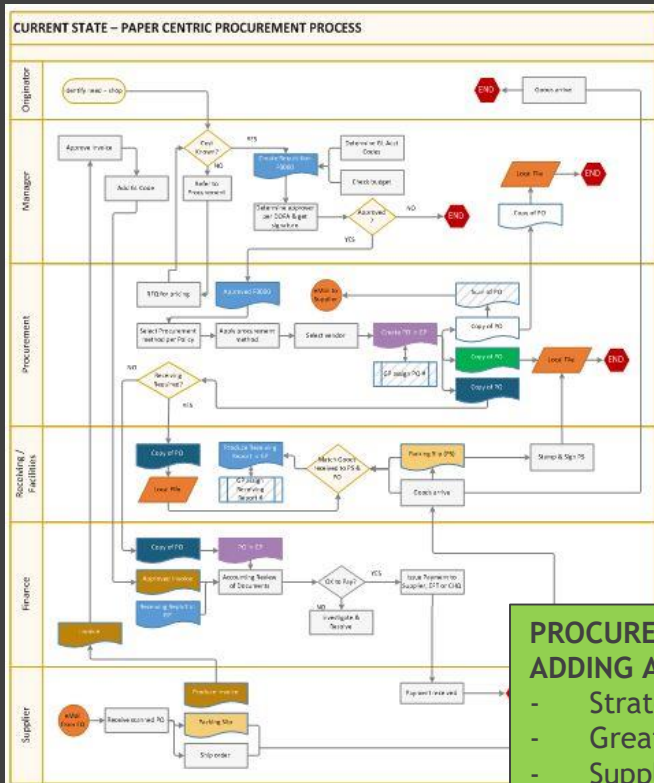
NEW = 8



PROCUREMENT PROCESSES AUTOMATED

- Eliminate redundancies
- Workflow approvals
- Compliance by default

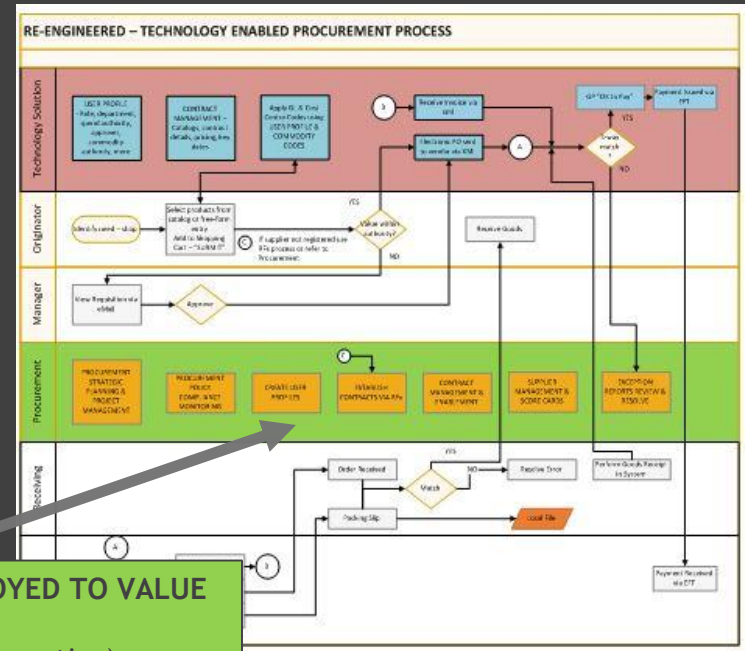
PROCUREMENT PROCESS OPTIMIZATION



PROCESS TOUCHPOINTS

← **OLD = 32**

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PROCUREMENT RESOURCES REDEPLOYED TO VALUE ADDING ACTIVITIES:

- Strategic planning (pro-active vs reactive)
- Greater percent of spend under contract
- Supplier performance management
- Contract management
- Category management

BDO FINDINGS

- ▶ Top issues identified by municipalities
- ▶ Key obstacles
- ▶ Funding challenges
- ▶ Emerging trends in other sectors



TOP ISSUES IDENTIFIED BY MUNICIPALITIES

- ▶ Insufficient human resources
- ▶ Absence of modern procurement technology
- ▶ Reporting - Limited access to timely and useful information
- ▶ Access to Category Expertise

Canadian eProcurement SaaS provider:

- Slow adoption - Only 40% of Ontario municipalities using
- Of all users only 1/4 using full functionality
- Implementation held back by:
 - Higher priorities
 - Fear of vendor push-back

KEY ORGANIZATIONAL OBSTACLES TO PROCUREMENT TRANSFORMATION

- ▶ Lack of support at Municipal Council.
- ▶ Recognizing that “Procurement” is not “Purchasing”. Strategic vs Tactical. Lack of understanding at executive levels.
- ▶ Procurement needs frequently seen as low priority.
- ▶ Investment in Procurement not a priority for politicians/voters.

FUNDING CHALLENGES - HOW CAN I FUND PROCUREMENT TRANSFORMATION?

The Business Case:

- ▶ Identify how you buy - Procurement Diagnostic and Process Optimization analysis.
- ▶ Identify what you buy - via detailed Spend analysis.
- ▶ Determine what percentage of spend is under contract.
- ▶ Use market data to develop procurement strategies and savings targets for all relevant spend categories. Execute.
- ▶ Develop relevant value-based Key Performance Indicators.
- ▶ Benchmark with like organizations and track performance.

HOW CAN I FUND PROCUREMENT TRANSFORMATION?

Case Study - Optimization of Wireless and Managed Telecom Services

- Municipality with 1,000 devices / \$50K per month.
- Savings over 20%
 - Value adding features:
 - Track personal use & recover from employees. Demonstrated due diligence.
 - Monthly mobile charges review and allocated to business units.
 - Ongoing transparency & visibility to identify trends; track top users
 - Get old devices out of the field - security & confidentiality
 - Savings to increase with growth of Internet of Things devices, (e.g. Traffic lights, parking meters)

NEW TRENDS IN PROCUREMENT MANAGEMENT

ATTRIBUTION: ARDENT PARTNERS - JUNE 2019

- ▶ As Procurement's role has changed, so too has the way it must be treated within the organization. The short-term, measurable results like savings are here to stay, but **increasingly, the Procurement organization is charged with improving profitability, time-to-market, innovation and risk management.**
- ▶ Typically, the Procurement organization reports up through Finance. The emerging trend is to have the Chief Procurement Officer report to the CEO or COO to **ensure that Procurement is seen to be part of "the business" rather than part of "support".**
- ▶ **The rising importance of supplier relationships.** The procurement department and the entire organization get a profound strategic advantage from innovative suppliers who know their market best and can use that knowledge to help identify better ways to achieve desired outcomes.
- ▶ **The rising importance of risk management.** Building risk mitigation into sourcing strategies. With the increase in external spend comes an increase in risk exposure due to external factors.



KEY TAKE-AWAY

As Forrester Research claims, your procurement operation is probably underperforming in a number of key areas that have the potential to generate significant benefits. There has never been a better time to run a diagnostic evaluation of your procurement framework to identify, quantify and prioritize ways to achieve procurement excellence.

BDO ADVISORY TEAM

Ian Brennan
Vice President



Ian Brennan is the Vice President of Procurement Advisory Services and the National Procurement Practice Lead for BDO. Ian, along with his team of professional procurement practitioners, strives to deliver procurement projects within a proven process that delivers the business outcomes the organization is seeking.

Ian has over 24 years of procurement and supply chain experience. Ian has worked in the retail, services, manufacturing sectors and has been providing procurement consulting services for over 10 years.

Professional Affiliations and Designations

- ▶ Certified Supply Chain Management Professional (CSCMP)

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BDO ADVISORY TEAM

Stephen Whittaker
Manager



Stephen Whittaker focuses on Procurement Modernization, P2P/S2P (eProcurement) system evaluation, selection, and project management in addition to leading client RFx initiatives.

Prior to joining BDO Stephen spent over 10 years as Director of Procurement Services with the University of Toronto where he was responsible for leading procurement transformational initiatives including the implementation of SAP supply chain modules; P2P; pCard; project management for complex RFPs; policy development & compliance monitoring.

Professional Affiliations and Designations

- ▶ Professional Logistician (P.Log)

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Thank you.

Questions?