BENEFIT METHODOLOGY

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Introduction

- Thank you for joining today's training!
- Opening comments
- Introductions
- Ice Breaker

Introduction

The following **ground rules** will help us be as productive as possible during this training, and allow everyone to fully absorb the material being shared.

Please turn off your cell phone ringers **and laptops** during the sessions

Only one conversation at a time; no distracting side conversations

Arrive on time and return from breaks promptly

No idea is a bad idea. No question is a bad question

Actively participate, this is an interactive learning experience

We will use a "bike rack" for questions and issues we need to come back to later

INTRODUCTION TO TOTAL UC BENEFIT

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Contents

- Training Topic Objectives

- Benefit Tracking Background

- Benefit Tracking Tool

- Benefit Tracking Training

Training Topic Objectives

- After today's meeting, you should be able to:

  - Understand the **purpose of tracking Benefit** and the greater Performance Management project
  - Understand the **definition of Total UC Benefit** and how it's calculated
  - **Understand your role** in the Benefit tracking process
  - Be aware of the support available to you

Contents

- Training Topic Objectives

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Vision and Guiding Principles

The team created a vision statement and guiding principles based on measuring and communicating systemwide procurement performance.
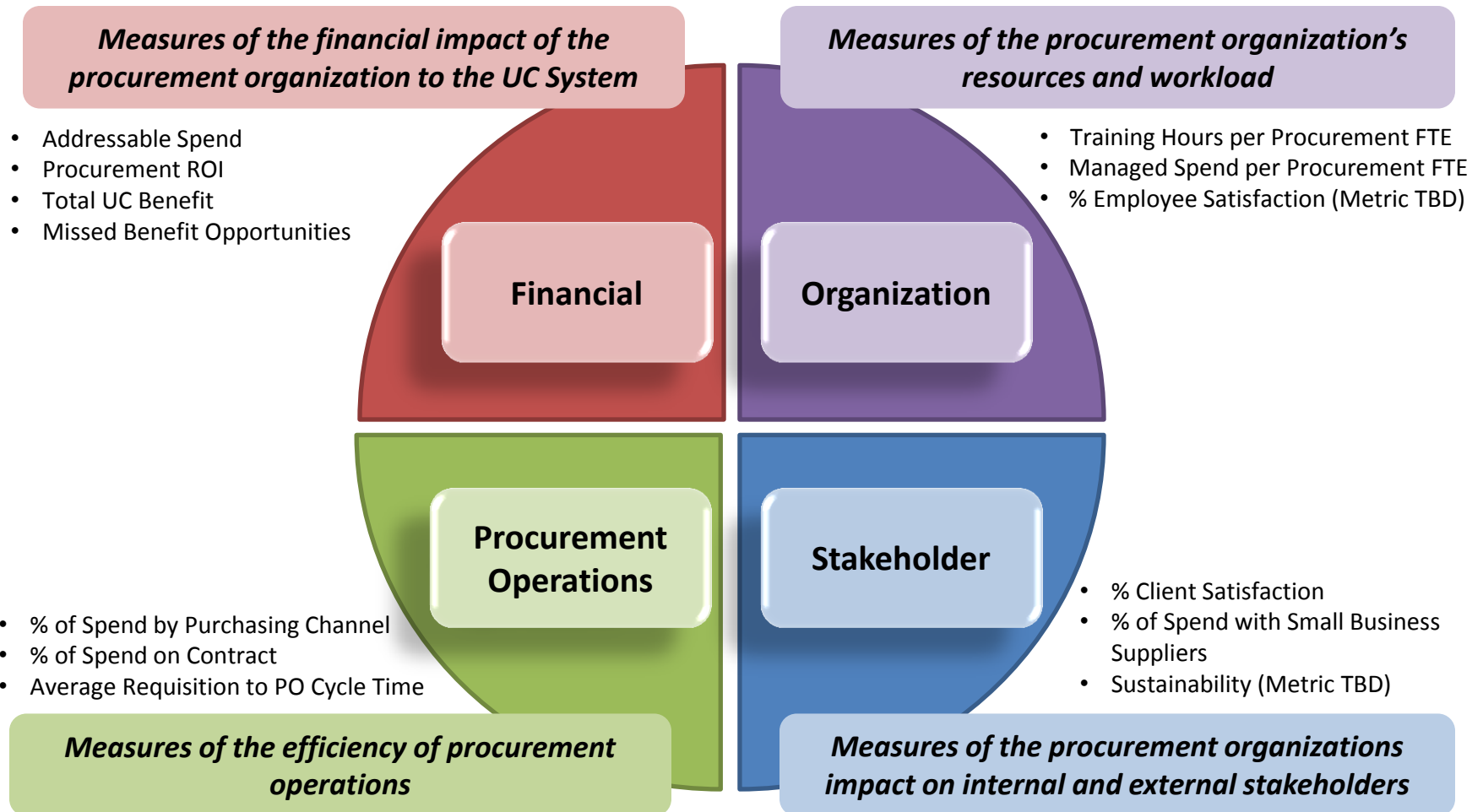
> ***Vision:***
> Build a high performing reporting and decision support function to the UC Procurement Organization and stakeholders, enabled by consistent and verifiable definitions and metrics.

The project will develop a performance management structure that…

1. Provides standard performance definitions and metrics that support comparable and consistent systemwide measurement and tracking

2. Enables accurate and verifiable reporting through simplified process

3. Facilitates valuable, fact-based communication, by ensuring measures are explainable and can be clearly understood by internal and external stakeholders

4. Automates data collection and reporting to the furthest extent possible to reduce error and support efficiency

5. Is goal-driven, dynamic, and scalable – supporting current objectives within the organization, and adaptable to continuous improvement
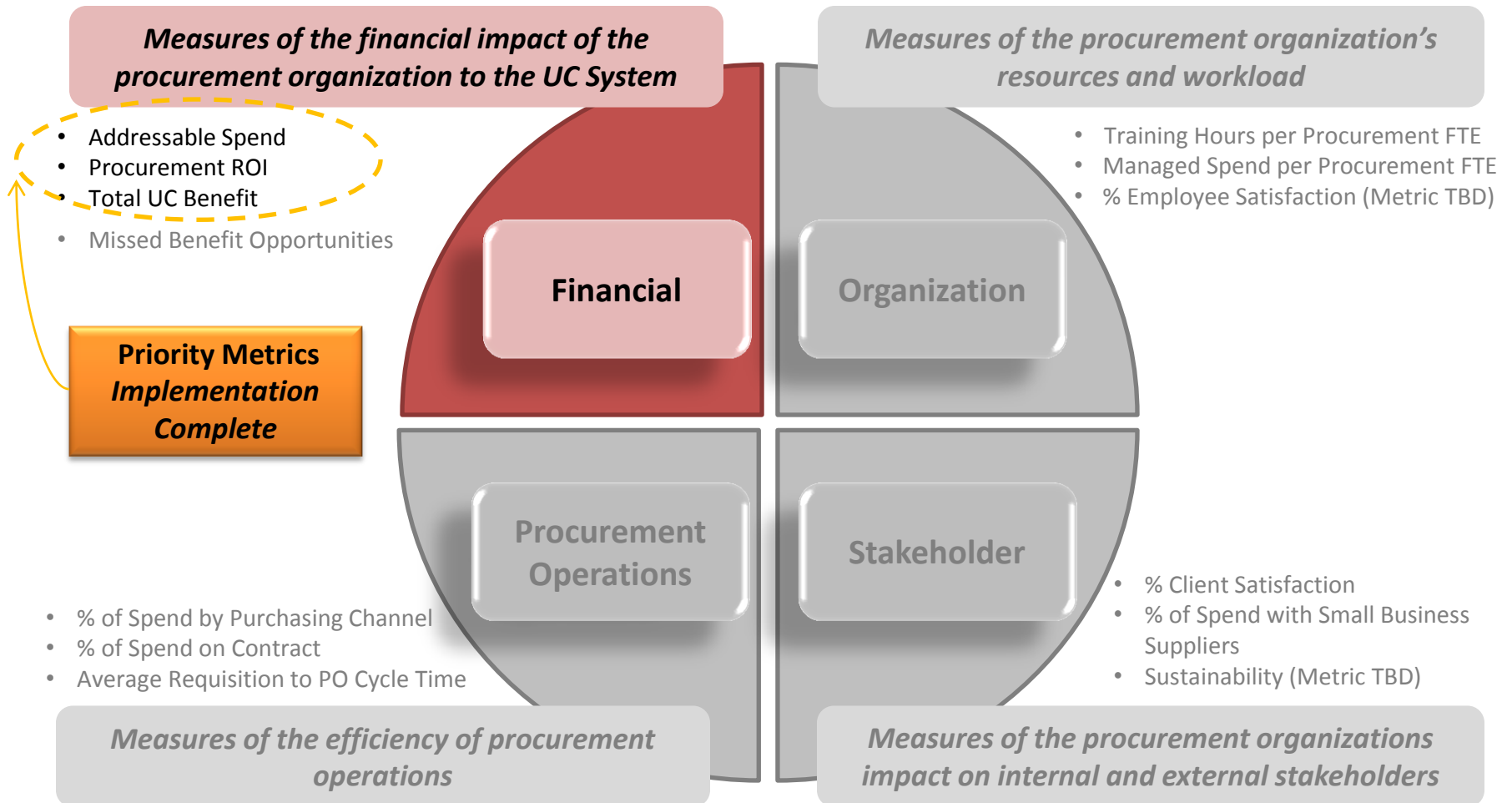
Benefit Tracking Background

The performance management team has identified 13 metrics that will enable systemwide measurement of thee UC procurement organization.

Measures of the financial impact of the procurement organization to the UC System

- Addressable Spend
- Procurement ROI
- Total UC Benefit
- Missed Benefit Opportunities

Measures of the procurement organization's resources and workload

- Training Hours per Procurement FTE
- Managed Spend per Procurement FTE
- % Employee Satisfaction (Metric TBD)

Financial

Organization

Procurement Operations

Stakeholder

- % of Spend by Purchasing Channel
- % of Spend on Contract
- Average Requisition to PO Cycle Time

- % Client Satisfaction
- % of Spend with Small Business Suppliers
- Sustainability (Metric TBD)

Measures of the efficiency of procurement operations

Measures of the procurement organizations impact on internal and external stakeholders

Benefit Tracking Background

Of the 13 metrics, three have been identified as priorities for implementation, one of which is Total UC Benefit.

Measures of the financial impact of the procurement organization to the UC System

- Addressable Spend
- Procurement ROI
- Total UC Benefit
- Missed Benefit Opportunities

Priority Metrics *Implementation Complete*

Financial

Measures of the procurement organization's resources and workload

- Training Hours per Procurement FTE
- Managed Spend per Procurement FTE
- % Employee Satisfaction (Metric TBD)

Organization

Procurement Operations

- % of Spend by Purchasing Channel
- % of Spend on Contract
- Average Requisition to PO Cycle Time

Measures of the efficiency of procurement operations

Stakeholder

- % Client Satisfaction
- % of Spend with Small Business Suppliers
- Sustainability (Metric TBD)

Measures of the procurement organizations impact on internal and external stakeholders

Benefit Tracking Background

Total UC Benefit Definition

Definition: Total **ANNUAL** benefit generated by procurement actions, including cost reduction, cost avoidance, incentives, and revenue.

UOM: $

Purpose: To understand the total benefit achieved through procurement's sourcing, transactional, and other value-add activities.

Calculation:

(Cost Reduction + Cost Avoidance + Incentives + Revenue)

Input	Definition
Cost Reduction	Benefit achieved when procurement action results in a total cost that is lower than baseline cost, and the baseline cost calculation is supported by documented historical price (i.e., previous contract, historical costs, or imputed historical cost).
Cost Avoidance	Benefit achieved when procurement action results in avoidance of additional cost (i.e., maintenance fees, requested price increases, or other ancillary costs).
Incentives	Benefit achieved when procurement action results in new gross incentive (based on volume, compliance/utilization, transaction size, electronic payment, e-commerce, signing bonus, GPO, management fees, etc.).
Revenue	Benefit achieved when procurement action results in new revenue generating projects.

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- Benefit Tracking Training

Benefit Tracking Tool

- A tool called the Benefit Bank has been created to track and report procurement benefit

- A separate training module has been created on how to use the Benefit Bank

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- Benefit Tracking Tool

- Benefit Tracking Training

Benefit Tracking Training

Roles and Responsibilities.

- Depending on your role, today's training will focus on:
  - **How to track Benefit** for sourcing and procurement activities
  - **How to approve** an identified Benefit

- Your role today will be to:
  - **Actively participate** in training and understand **how you're involved** in this initiative

> **Additionally, your role will be to serve as an advocate for consistent, verifiable, and accurate Total UC Benefit**

Benefit Tracking Training

Today's training topics are focused on introducing and refreshing the concepts of Total UC Benefit, and educating campus procurement staff on their role in the tracking process.

Training Topic Name	Training Topic Objectives	Estimated Duration *(hours)*
Benefit Tracking	- Understand the goals Performance Management project - Understand total UC benefit definition - Understand transactional and sourcing activities that generate benefit - Calculate and document benefit using appropriate baseline - Understand role and responsibilities - Understand project phases for benefit data collection, tracking, and reporting in the Benefit Bank	2.0
Approving Benefit	- Review benefit calculations completed by procurement staff and determine accuracy of data - Verify benefit calculations and supporting documentation - Provide on-going performance support and training to procurement staff on benefit calculation	0.5

Benefit Tracking Training

Your role determines which training topics you'll be required to take.

Training Topic Name	Attendees
Benefit Tracking	- All buyers (including strategic sourcing staff) and their managers/supervisors
Approving Benefit	- Any manager/supervisor who will be responsible for reviewing and approving benefit

BENEFIT METHODOLOGY – PART 1

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- Total UC Benefit Definition

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  – Baseline Type

  – Baseline Cost

  – Negotiated Cost

  – Identified Benefit

- Benefit Tracking Process

- Next Steps

- Support and Resources

PART 2

- Training Topic Objectives

- Advanced Sourcing Benefit

- Next Steps

- Support and Resources

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• Audience:
 	
  – Individuals involved in **<u>any</u>** sourcing and procurement activity
 	
  – Benefit approvers
 	
PART 1
	• Audience:
	
	  – Individuals involved in **<u>advanced</u>** sourcing activity
	
	  – Benefit approvers
	
	PART 2

Training Topic Objectives

- After this session, you should be able to:

    - Understand **your role** in Benefit tracking
    - Understand the **definition of Total UC Benefit**
    - Understand procurement activities that generate Benefit
    - **Calculate** and document baseline and Benefit
    - **Understand acceptable documentation** for an identified Benefit >$1,000
    - Know where to go for questions and support

Contents

- **Training Topic Objectives**

- **Total UC Benefit Definition**

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  - Identified Benefit

- **Benefit Tracking Process**

- **Next Steps**

- **Support and Resources**

PART 1

- Training Topic Objectives

- Advanced Sourcing Benefit

- Next Steps

- Support and Resources

PART 2

Total UC Benefit Definition

Total UC Benefit Definition

Definition: Total **ANNUAL** Benefit generated by procurement actions, including cost reduction, cost avoidance, incentives, and revenue.

UOM: $

Purpose: To understand the total Benefit achieved through procurement's sourcing, transactional, and other value-add activities.

Calculation:

(Cost Reduction + Cost Avoidance + Incentives + Revenue)

Input	Definition
Cost Reduction	Benefit achieved when procurement action results in a total cost that is lower than baseline cost, and the baseline cost calculation is supported by documented historical price (i.e., previous contract, historical costs, or imputed historical cost).
Cost Avoidance	Benefit achieved when procurement action results in avoidance of additional cost (i.e., maintenance fees, requested price increases, or other ancillary costs).
Incentives	Benefit achieved when procurement action results in new gross incentive (based on volume, compliance/utilization, transaction size, electronic payment, e-commerce, signing bonus, GPO, management fees, etc.).
Revenue	Benefit achieved when procurement action results in new revenue generating projects.

Total UC Benefit Definition

Total UC Benefit Definition

Definition: Total **ANNUAL** Benefit generated by procurement actions, including cost reduction, cost avoidance, incentives, and revenue.

UOM: $

Purpose: To understand the total Benefit achieved through procurement's sourcing, transactional, and other

- Historically, campus procurement organizations were reporting savings inconsistently over a period of time
    - Example being that if a campus implemented a three year contract that and identified a Benefit over all three years, the total three year Benefit was being reported

- Total UC Benefit is defined as the **annual Benefit**
    - Using the example above, the Benefit should have been averaged for an annual Benefit

- Another form of Benefit is a **one-time Benefit**, which would occur for a single transaction

Revenue   Benefit achieved when procurement action results in new revenue generating projects.

Total UC Benefit Definition

Benefit has been categorized into four types.

Input	Definition
Cost Reduction	Benefit achieved when procurement action results in a total cost that is lower than baseline cost, and the baseline cost calculation is supported by documented historical price (i.e., previous contract, historical costs, or imputed historical cost).
Cost Avoidance	Benefit achieved when procurement action results in avoidance of additional cost (i.e., maintenance fees, requested price increases, or other ancillary costs).
Incentives	Benefit achieved when procurement action results in new gross incentive (based on volume, compliance/utilization, transaction size, electronic payment, e-commerce, signing bonus, GPO, management fees, etc.).
Revenue	Benefit achieved when procurement action results in new revenue generating projects.

- A transaction may achieve multiple types of Benefit
- In order to calculate Benefit, you must first be able to calculate a baseline, which will be discussed in detail in the following slides

Total UC Benefit Definition

Learning checkpoint.

> ### Learning Checkpoint #1: What's The Benefit Type?
>
> Buyer receives a requisition for an IT Hardware purchase. A quote was not associated with the requisition. Buyer searches through previous purchase orders in Spend Analytics and finds that another UC campus made a similar purchase within the past 3 months for $75,000.
>
> Buyer contracts a vendor and negotiates a reduced price of $62,500. **What's the Benefit Type?**

WRITE YOUR ANSWER FOR CHECKPOINT #1 ON THE BENEFIT TRACKING HANDOUT

Total UC Benefit Definition

Learning checkpoint.

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Learning Checkpoint #1: What's The Benefit Type?

Solution:

The Benefit type is cost reduction. This is because procurement actions resulted in a reduced price of $62,500 from the original price of $75,000.

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Total UC Benefit Definition

Benefit will be based on a <u>baseline hierarchy</u>, where previously contracted rates, historical costs, and imputed historical costs can be used as a baseline, in that order of preference.

Benefit Type	Rank	Baseline
Cost Reduction	1	**Previously Contracted** – The pricing, terms and peripheral costs in the TCO Baseline are to be as specified in pre-existing Vendor agreements; the current procurement project scope is for a like set of products or services.
	2	**Historical Costs** – The pricing, terms and peripheral costs in the TCO Baseline are to be the average costs for a specific Category or Sub-Category of spend over the 12-month period immediately preceding a sourcing event.
	3	**Imputed Historical Costs** – The pricing, terms and peripheral costs in the TCO Baseline are to be established either by: I. the initial quoted price for a basket of goods, processes and/or services. II. the average of all responsive non-awarded bids from a multi-vendor RFP process III. the budget, index, or other benchmark

Total UC Benefit Definition

There is a fourth type of baseline, unrelated to the hierarchy on the previous slide, which is used to factor a price increase into the baseline.

Benefit Type	Baseline
Cost Avoidance	**Cost Inclusive of Increase –** The pricing, terms and peripheral costs in the TCO Baseline are to established either by: I. the supplier's request for a price increase II. documented trend in market price increase III. other contributing factors to an increased cost

Total UC Benefit Definition

Learning checkpoint.

> **Learning Checkpoint #2: What's The Baseline Type?**
>
> Buyer receives a requisition for temporary accounting personnel. There is an existing agreement for this type of personnel for $38 per hour. **What's the Baseline Type?**

WRITE YOUR ANSWER FOR CHECKPOINT #2 ON THE BENEFIT TRACKING HANDOUT

Total UC Benefit Definition

Learning checkpoint.

> **Learning Checkpoint #2: What's The Baseline Type?**
>
> **Solution:**
>
> The baseline type is previously contracted. This is because there is currently a contract in place for this service.

Total UC Benefit Definition

Learning checkpoint.

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Learning Checkpoint #3: Document the Baseline Cost & Negotiated Cost

Buyer receives a requisition for 1,000 mattresses for dormitory beds. A contract does not exist but another campus recently purchased new dormitory mattresses within the past year. Buyer is able to use the Spend Analytics tool to determine that the price paid was $100 per mattress. Based on the volume, Buyer is able to achieve a purchase price of $90 per mattress.

Which is the Baseline Cost? Which is the Negotiated Cost?

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WRITE YOUR ANSWERS FOR CHECKPOINT #3 ON THE BENEFIT TRACKING HANDOUT

Total UC Benefit Definition

Learning checkpoint.

Learning Checkpoint #3: Document the Baseline Cost & Negotiated Cost

Solution:

The baseline cost is $100,000. This is because the historic price per item was $100, and the anticipated volume is 1,000 mattresses.

The negotiated cost is $90,000. This is because the new price per mattress is $90, and the anticipated volume is 1,000 mattresses.

Total UC Benefit Definition

Perform Benefit calculation.

Calculate the Identified Benefit by subtracting the Negotiated Cost from the Baseline Cost.

Learning Checkpoint #4: Perform Benefit Calculation

Using the previous example, calculate the Identified Benefit for the purchase of 1,000 mattresses? **What's the Identified Benefit?**

WRITE YOUR ANSWER FOR CHECKPOINT #4 ON THE BENEFIT TRACKING HANDOUT

Total UC Benefit Definition

Perform Benefit calculation.

Calculate the Identified Benefit by subtracting the Negotiated Cost from the Baseline Cost.

> ### Learning Checkpoint #4: Perform Benefit Calculation
>
> **Solution:**
>
> The identified Benefit is $10,000, which is equal to the baseline cost minus the negotiated cost, factoring in the anticipated volume.

Total UC Benefit Definition

Using Checkpoint #1 as a starting point, let's discuss what happens if a bid or quote was associated with the requisition.

Historical Price (Checkpoint #1)

– Buyer receives a requisition for an IT hardware purchase.

– Buyer searches Historical Spend and finds a similar purchase within past 12 months. Previous purchase price is $75,000.

– A quote is not associated with this requisition.

– Baseline = $75,000.

– Buyer contacts Vendor A and further negotiates a reduced price of $62,500.

– Baseline ($75,000) – Negotiated Price ($62,500) = Cost Reduction Benefit of $12,500.

Bid Quote Attached

– Buyer receives a requisition for an IT hardware purchase.

– Buyer searches Historical Spend and finds a similar purchase within past 12 months. Previous purchase price is $75,000.

– A quote is also associated with this requisition, for $73,500.

– Baseline is the lowest of the above = $73,500.

– Buyer contacts Vendor A and further negotiates a reduced price of $62,500.

– Buyer also contacts Vendor B and receives a quote for $ 69,000.

– Baseline ($73,500) – Negotiated Price ($62,500) = Cost Reduction Benefit of $11,000.

Total UC Benefit Definition

Learning checkpoint.

Let's take some time to review and answer questions.

Total UC Benefit Definition

Learning checkpoint.

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Learning Checkpoint #5: Putting it All Together!

Buyer receives a requisition for marketing services for a new campus initiative with no associated budget. A similar purchase has not been made in recent UC history. Buyer creates an RFQ in the Sourcing Technology system and receives three responsive quotes: (1) $50,000, (2) $42,000 and (3) $41,000.

The supplier who bid $41,000 was selected for negotiation. The buyer is able to negotiate the price down to $40,000 by offering more favorable payment terms than what was specified in the RFQ. **Please answer the following questions:**

What is the baseline type?
What is the Benefit type?
What is the baseline cost?
What is the negotiated cost?
What is the identified Benefit?

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WRITE YOUR ANSWERS FOR CHECKPOINT #5 ON THE BENEFIT TRACKING HANDOUT

Total UC Benefit Definition

Learning checkpoint.

Learning Checkpoint #5: Putting it All Together!

Solutions:

What is the baseline type? Imputed historical costs. This is because there is no contract or historical purchases from which to baseline.

What is the Benefit type? Cost reduction. This is because procurement actions through negotiation resulted in a reduced cost.

What is the baseline cost? $46,000. This is the average of the responsive non-awarded bids. Alternatively, if there were a budget associated with the requisition, the budget could have been used for the baseline.

What is the negotiated cost? $40,000. This is the negotiated price of the awarded supplier.

What is the identified Benefit? $6,000. This is the baseline cost minus the negotiated price.

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- **Training Topic Objectives**

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- **Next Steps**

- **Support and Resources**

PART 1

- Training Topic Objectives
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- Next Steps
- Support and Resources

PART 2

Benefit Tracking Process

Standard documentation, validation criteria, and reporting across all entities will enable comprehensive measurement of Total UC Benefit generated by the procurement organization.
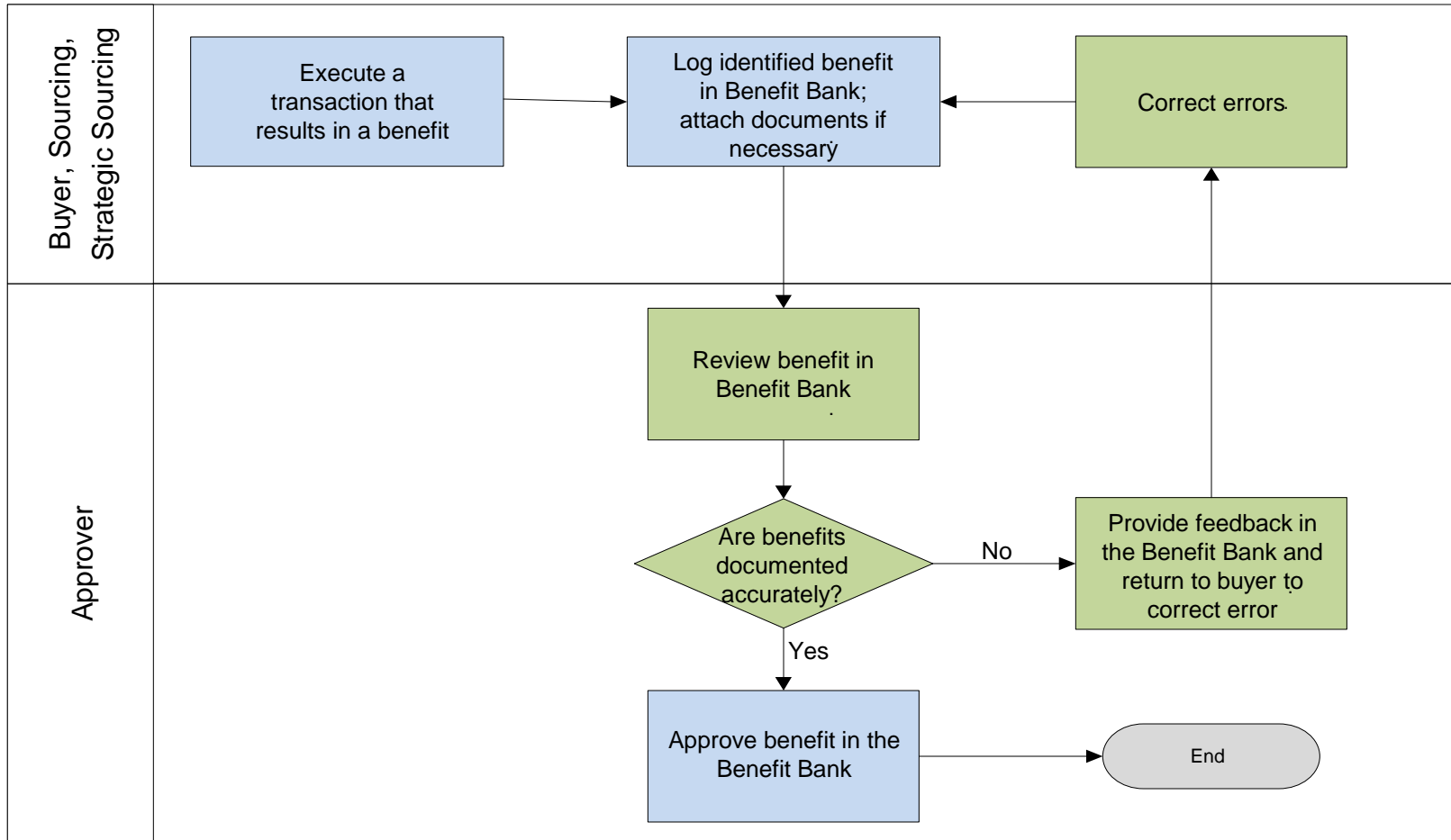
Benefit Tracking Process
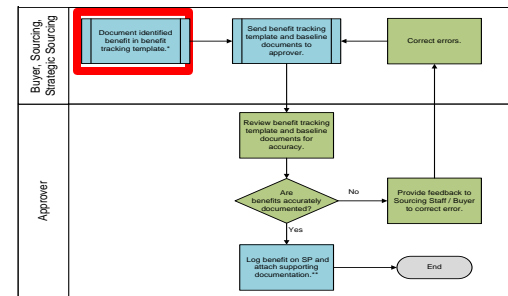
1. As you execute a transaction that achieves a Benefit, you'll log the details into the Benefit Bank as a Transactional Benefit
   - Each Buyer will log their own benefit
   - If a Benefit is >$1,000, additional documentation will be necessary, which can include:
     - Purchase requisition
     - Purchase order
     - Contract
     - Quotes, bids, or proposals
     - Negotiation records
     - Price lists or catalogs

Logging a Benefit as it's achieved is a best practice
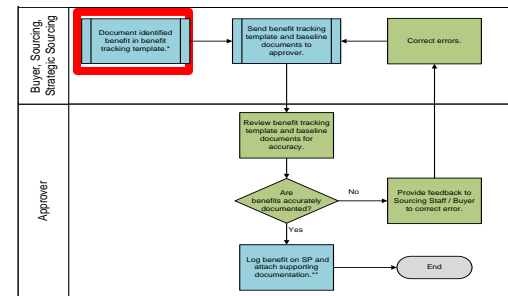
Benefit Tracking Process

1. As you execute a transaction that achieves a Benefit, you'll log the details into the Benefit Bank as a Transaction
   - Each Buyer will log their own benefit

Special Note

- A Benefit is considered **complete** when:
  - A contract is signed
  - A PO is issued
  - Or any an activity takes place that otherwise results in an agreement with a supplier to make a purchase

Logging a Benefit as it's achieved is a best practice

Benefit Tracking Process
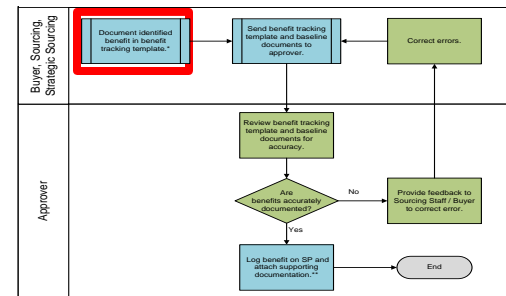
2. In the event a benefit is not logged real time, all benefit must be logged, reviewed and/or approved within 10 business days of the end of the month
   - Buyers must submit benefit with enough time left to allow approvers to perform their review and to allow time for any corrections **within 10 business days of the end of the month**

3. As benefits are logged to the Benefit Bank, approvers will:
   - Review the benefit to ensure it's benefit logged properly
   - Review the baseline and Benefit to ensure it's appropriately applied and calculated
   - Review supporting materials to ensure that all necessary documentation has been provided

Benefit Tracking Process
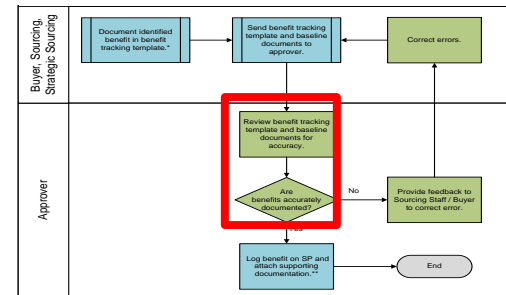
4. If all items and documents are accurate and accounted for, the approver will approve the benefit
   - If clarification or additional documentation is necessary, the approver will return the benefit to the buyer in the tool, along with commentary on what must be corrected

Ultimately, all Benefit for a given month should be approved in Benefit Bank within 10 business days of the end of the month

Benefit Tracking Process

Benefit calculations will be reviewed and approved at three distinct points throughout the Benefit tracking process: locally following initial submittal, periodically for a local quality review, and quarterly for a systemwide quality review.

1 Local Benefit Review
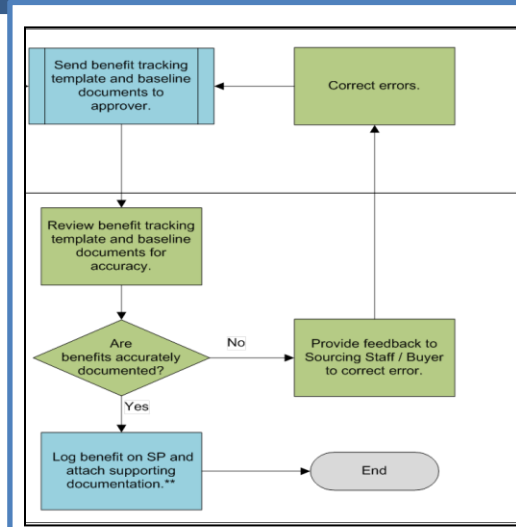
All Benefits reviewed and approved

2 *Periodic Quality Review

Quality Reviewers conduct local quality review as needed.

Document common errors.

Provide feedback and performance support to local approvers.

Random sample of Benefits reviewed

3 Systemwide Quality Review

Local Quality Reviewers convene quarterly to conduct systemwide quality review.

Review common errors identified locally.

Ensure consistent interpretations of Benefit definitions and calculations.

Random sample of Benefits + common errors reviewed

Benefit Tracking Process

Learning checkpoint.

Let's take some time to review and answer questions.

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Next Steps

✓ **Receive training** on how to use **the Benefit Bank**
✓ **Begin logging Benefit** for new transactions

Contents

Support and Resources

- Contact your approver for questions related to Benefit tracking
- Training and support materials can be found on SharePoint here: [Benefit Tracking Support Materials](#)

    - http://www.ucop.edu/procurement-services/procurement-systems/uc-benefit-training.html

BENEFIT METHODOLOGY – PART 2

Contents

Training Topic Objectives

- Part 2 is aimed at buyers who conduct advanced sourcing activities, such as:

  - Procurement of complex commodities or services
  - Multi-part, multi-award RFPs
  - Lengthy negotiations
  - Any event that results in ongoing or annual Benefit

- After this session, you should be able to:

  - Understand **how advanced sourcing activities** can lead to complex Benefit
  - Calculate and document baseline and Benefit in the **Benefit Bank**
  - **Understand acceptable documentation** for an identified Benefit >$1,000
  - Know where to go for questions and support

Attending Part 1 is a prerequisite for attending Part 2.

Contents

Advanced Sourcing Benefit

- In this section, we'll review the learning checkpoints and engage in discussion about the type of activities that would lead to Benefit from advanced sourcing activities

Advanced Sourcing Benefit

Learning checkpoint.

Learning Checkpoint A:

UCSF and UCB entered into a shared agreement for copy paper. The current contracted purchase price for paper is $30 per box and the annual volume is 1,000 boxes.

Through the sourcing effort, Buyer was able to negotiate a new price of $28 per box and signs a 2-year contract beginning January 1, 2014. **Document the following:**

- Campus Impact
- Benefit Type
- Baseline Type
- Baseline Cost
- Negotiated Cost
- Identified Benefit
- Benefit Duration

WRITE YOUR ANSWERS FOR CHECKPOINT A ON THE BENEFIT TRACKING HANDOUT

Advanced Sourcing Benefit

Learning checkpoint.

Learning Checkpoint A:

Solution:

Campus Impact: UCSF, UCB.

Benefit Type: Cost reduction. This is because the cost was reduced from $30 to $28 per box.

Baseline Type: Previously contracted. This is because a contract is in place for $30.

Baseline Cost: $60,000

Negotiated Cost: $56,000

Identified Benefit: $4,000

Benefit Duration: 24 months

Advanced Sourcing Benefit

Learning Checkpoint A: Discussion.

Benefit	Baseline	Situation	Result	Calculation	Identified Benefit
Cost Reduction	Previously Contracted	The current contracted purchase price for paper was $30 per box while the annual volume is 1,000 boxes for two years	Through the sourcing effort the new negotiated price is $28 per box	[(Baseline Price) – (New Price)] * (Total Volume)	($30-$28)*2,000 = $4,000 identified Benefit

Advanced Sourcing Benefit

Learning checkpoint.

> **Learning Checkpoint B:**
>
> A buyer currently purchases wire with two variations of similar specification from the same supplier at different prices, and 100,000 rolls of each are purchased each year.
> - Spec A = $8 per roll last year
> - Spec B = $5 per roll last year
>
> The procurement organization leveraged volume and works with the incumbent supplier to standardize the specification, resulting in a lower price of $4 dollar per roll on a two-year contract. There is a one-time switching cost of $100,000 **Document the following:**
>
> - Benefit Type
> - Baseline Type
> - Baseline cost
> - Negotiated Cost
> - Identified Benefit
> - Benefit Duration

WRITE YOUR ANSWERS FOR CHECKPOINT B ON THE BENEFIT TRACKING HANDOUT

Advanced Sourcing Benefit

Learning checkpoint.

> **Learning Checkpoint B:**
>
> **Solution:**
>
> **Benefit Type:** Cost reduction. This is because the price of two specifications were reduced to one lower cost.
>
> **Baseline Type:** Historical costs. This is because the prices for each spec were from last year's purchases.
>
> **Baseline Cost:** $2,600,000
>
> **Negotiated Cost:** $1,700,000
>
> **Identified Benefit:** $900,000
>
> **Benefit Duration:** 24 months

Advanced Sourcing Benefit

Learning Checkpoint B: Discussion.

Benefit	Baseline	Situation	Result	Calculation	Identified Benefit
Cost Reduction	Previously Contracted	The current contracted purchase price for paper was $30 per box while the annual volume is 1,000 boxes for two years	Through the sourcing effort the new negotiated price is $28 per box	[(Baseline Price) – (New Price)] * (Total Volume)	($30-$28)*2,000 = $4,000 identified Benefit
Cost Reduction	Historical Costs	Currently purchases wire with two variations of similar specification from same supplier at different prices. Spec A = $8 per roll ; Spec B = $5 per roll 100,000 rolls of each are purchased each year. One-time switching cost of $100,000	Through the sourcing effort specification is standardized and volume is leveraged in negotiations for lower price of $4 dollars with same supplier on a two year contract	(Baseline price for existing part – price for optimized spec part) * (Annual volume) – (Annual Transition Switching Costs)	[($8 - $4) * 200,000] + [($5 - $4) * 200,000] – $100,000 = $900,000

Advanced Sourcing Benefit

Learning checkpoint.

> **Learning Checkpoint C:**
>
> A programmatic change recommended by procurement eliminated the need for a specialized office maintenance services contract that cost $1M/year. The contract was for 5 years, and year 1 had just been completed. **Calculate the Benefit.**

WRITE YOUR ANSWERS FOR CHECKPOINT B ON THE BENEFIT TRACKING HANDOUT

Advanced Sourcing Benefit

Learning checkpoint.

> **Learning Checkpoint C:**
>
> **Solution:**
>
> The identified Benefit is $4 million. This is because procurement action resulted in the avoidance of $1 million per year over the remaining four years of the contract.

Advanced Sourcing Benefit

Learning Checkpoint C: Discussion.

Benefit	Baseline	Situation	Result	Calculation	Identified Benefit
Cost Reduction	Previously Contracted	The current contracted purchase price for paper was $30 per box while the annual volume is 1,000 boxes for two years	Through the sourcing effort the new negotiated price is $28 per box	[(Baseline Price) – (New Price)] * (Total Volume)	($30-$28)*2,000 = $4,000 identified Benefit
Cost Reduction	Historical Costs	Currently purchases wire with two variations of similar specification from same supplier at different prices. Spec A = $8 per roll ; Spec B = $5 per roll 100,000 rolls of each are purchased each year. One-time switching cost of $100,000	Through the sourcing effort specification is standardized and volume is leveraged in negotiations for lower price of $4 dollars with same supplier on a two year contract	(Baseline price for existing part – price for optimized spec part) * (Annual volume) – (Annual Transition Switching Costs)	[($8 - $4) * 200,000] + [($5 - $4) * 200,000] – $100,000 = $900,000
Cost Avoidance	Previously Contracted	Procurement action resulted in the elimination of specialized office maintenance services.	The services cost $1M/year. There are 4 years left in the contract	($ Annual Reduction) x (Remaining years in contract)	$1M * 4 = $4M

Advanced Sourcing Benefit

Learning checkpoint.

Learning Checkpoint D:

There is a documented baseline, but the supplier has requested a price increase. Due to an increase in raw material costs, supplier is requesting a 3% cost increased (based on indexed changes) on $500K in annual spend.

Sourcing initiatives maintain the price at the current levels vs. the stated indexed cost increase for the next year. **Document the following:**

- Benefit Type
- Baseline Type
- Baseline cost
- Negotiated Cost
- Identified Benefit
- Benefit Duration

WRITE YOUR ANSWERS FOR CHECKPOINT D ON THE BENEFIT TRACKING HANDOUT

Advanced Sourcing Benefit

Learning checkpoint.

> ## Learning Checkpoint D:
>
> **Solution:**
>
> **Benefit Type:** Cost avoidance. This is because procurement action resulted in the avoidance of a supplier's price increase.
>
> **Baseline Type:** Cost inclusive of increase. This is because the supplier requested a price increase.
>
> **Baseline Cost:** $515,000
>
> **Negotiated Cost:** $500,000
>
> **Identified Benefit:** $15,000
>
> **Benefit Duration:** 12 months

Advanced Sourcing Benefit

Learning Checkpoint D: Discussion.

Benefit	Baseline	Situation	Result	Calculation	Identified Benefit
Cost Reduction	Previously Contracted	The current contracted purchase price for paper was $30 per box while the annual volume is 1,000 boxes for two years	Through the sourcing effort the new negotiated price is $28 per box	[(Baseline Price) – (New Price)] * (Total Volume)	($30-$28)*2,000 = $4,000 identified Benefit
Cost Reduction	Historical Costs	Currently purchases wire with two variations of similar specification from same supplier at different prices. Spec A = $8 per roll ; Spec B = $5 per roll 100,000 rolls of each are purchased each year. One-time switching cost of $100,000	Through the sourcing effort specification is standardized and volume is leveraged in negotiations for lower price of $4 dollars with same supplier on a two year contract	(Baseline price for existing part – price for optimized spec part) * (Annual volume) – (Annual Transition Switching Costs)	[($8 - $4) * 200,000] + [($5 - $4) * 200,000] – $100,000 = $900,000
Cost Avoidance	Previously Contracted	Procurement action resulted in the elimination of specialized office maintenance services.	The services cost $1M/year. There are 4 years left in the contract	($ Annual Reduction) x (Remaining years in contract)	$1M * 4 = $4M
Cost Avoidance	Cost Inclusive of Increase	Due to increase in raw material cost, current supplier has requested a 3% cost increase (based on indexed changes) on $500K in annual spend	The sourcing initiative maintains price at current levels vs. stated indexed cost increase	(Avoided Increase % Reduction) x (Annual Cost)	(3%)($500K) = $15K

Advanced Sourcing Benefit

Benefit/Baseline Examples: Strategic Sourcing.

	Benefit Type	Example	Cost Reduction	Cost Avoidance
1	**Purchase Price Reduction**	Reduction in baseline purchase price for same specification with same/similar supplier	X	
2	**Specification Changes**	Benefit from substituting equivalent or similar specifications with lower price. Factors in transition switching cost based on degree of supplier and / or specification change	X	
3	**Contract Compliance**	Benefit obtained based on resolution of pricing variance from negotiated contract pricing; Resolution has made systemic or sustainable correction to compliance issue	X	
4	**SLA / Maintenance Contract Changes**	Benefit from change in SLA and/or change in maintenance requirements, not due to demand reduction	X	
5	**Usage /Volume Reduction/Demand Management**	Elimination or reduction in the use of a good or service	X	
6	**Cost of Quality**	Reduction in the cost associated with quality management	X	
7	**Market Adjustment**	Adjustment in price changes through the sourcing initiatives for categories where pricing is tied to market index or measured historical trend		X
8	**Purchasing Process Improvement**	Change in purchasing process, resulting in lower cost to buy	X	
9	**Operational Process Improvement**	Redirection of FTE time given a streamlined or consolidated processes	X	

Advanced Sourcing Benefit

Learning checkpoint.

Learning Checkpoint E:

Negotiations have resulted in a new three year contract with a textbook supplier will result in highly competitive prices at campus bookstores system wide. Research conducted by campus bookstores shows that revenue for 10 bookstores will increase by $15,000 each year for each bookstore. **What is the Benefit Type? What is the Identified Benefit?**

WRITE YOUR ANSWERS FOR CHECKPOINT E ON THE BENEFIT TRACKING HANDOUT

Advanced Sourcing Benefit

Learning checkpoint.

> **Learning Checkpoint E:**
>
> **Solution:**
>
> **Benefit Type:** Revenue. This is because procurement action resulted in the generation of revenue for campus bookstores.
>
> **Identified Benefit:** $450,000. This is determined by multiplying: $15,000 * 10 bookstores * 3 years.

Advanced Sourcing Benefit

Learning checkpoint.

Learning Checkpoint F:

UCM is implementing a P-card program and has selected a P-card supplier for a two year contract. The supplier is offering a rebate of .5% on spend up to and including $500,000, and a rebate of 1.0% on any spend above $500,000 during a year. The thresholds reset at the end of each year.

The projected level of spend on P-cards is $500,000 for year one and $1,000,000 for year two. **Document the following:**

- Benefit Type
- Baseline Type
- Baseline cost
- Negotiated Cost
- Identified Benefit
- Benefit Duration

WRITE YOUR ANSWERS FOR CHECKPOINT F ON THE BENEFIT TRACKING HANDOUT

Advanced Sourcing Benefit

Learning checkpoint.

> **Learning Checkpoint F:**
>
> **Solution:**
>
> **Benefit Type:** Incentive. This is because the supplier incentivizes use of their product through rebates.
>
> **Baseline Type:** Historical costs. This is because there was no P-card program in place, therefore there was no historical "cost."
>
> **Baseline Cost:** $0
>
> **Negotiated Cost:** $10,000. This determined by calculating by adding the rebates for Year 1 and Year 2: (.5% * 500,000) + (.5% * 500,000 + 1% * 500,000).
>
> **Identified Benefit:** $10,000
>
> **Benefit Duration:** 24 months

Advanced Sourcing Benefit

Learning checkpoint.

> **Learning Checkpoint G:**
>
> UCR is purchasing a fleet of 10 security vehicles for their campus. The total price for the 10 vehicles is $150,000, plus another $15,000 in taxes.
>
> The buyer is able to reduce the total cost by getting the dealer to "wrap-up" the taxes into the purchase price of the vehicles. **What is the Identified Benefit? What is the Benefit Type?**

WRITE YOUR ANSWERS FOR CHECKPOINT F ON THE BENEFIT TRACKING HANDOUT

Advanced Sourcing Benefit

Learning checkpoint.

> **Learning Checkpoint G:**
>
> **Solution:**
>
> **Identified Benefit:** $15,000
>
> **Benefit Type:** Cost reduction. This is because the total price of the vehicles has been reduced.

Advanced Sourcing Benefit

Benefit Tracking Process

- The Benefit tracking process **is the same** for advanced sourcing activities as the transactional benefit process

Advanced Sourcing Benefit

Learning checkpoint.

> **Let's take some time to review and answer questions.**

Contents

Next Steps

✓ **Receive training** on how to use **the Benefit Bank**
✓ **Begin logging Benefit** for new benefits from sourcing activity

Contents

Support and Resources

- Contact your approver for questions related to Benefit tracking

- Training and support materials can be found on SharePoint here: [Benefit Tracking Support Materials](#)

    - http://www.ucop.edu/procurement-services/procurement-systems/uc-benefit-training.html