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Global Procurement Strategy for Vehicles at Missions – Collaboration with U.K. CIPMM 2017

Presented by
Missions Procurement Operations (AAO)

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Global Affairs Canada, International Platform Branch (IPB)

- Global Affairs Canada (GAC) is responsible for the conduct of Canada's international relations, including foreign affairs, international trade and commerce, and international development across a network of 178 missions in 112 countries.
- The IPB within GAC supports the operation of all Canadian missions and is the common services point for issues related to procurement, real property, distribution of diplomatic mail, management of locally engaged staff, and foreign service directives.
- GAC procures approximately \$400M per year on goods and services of which half are for mission related procurements for ongoing and critical to mission operations.

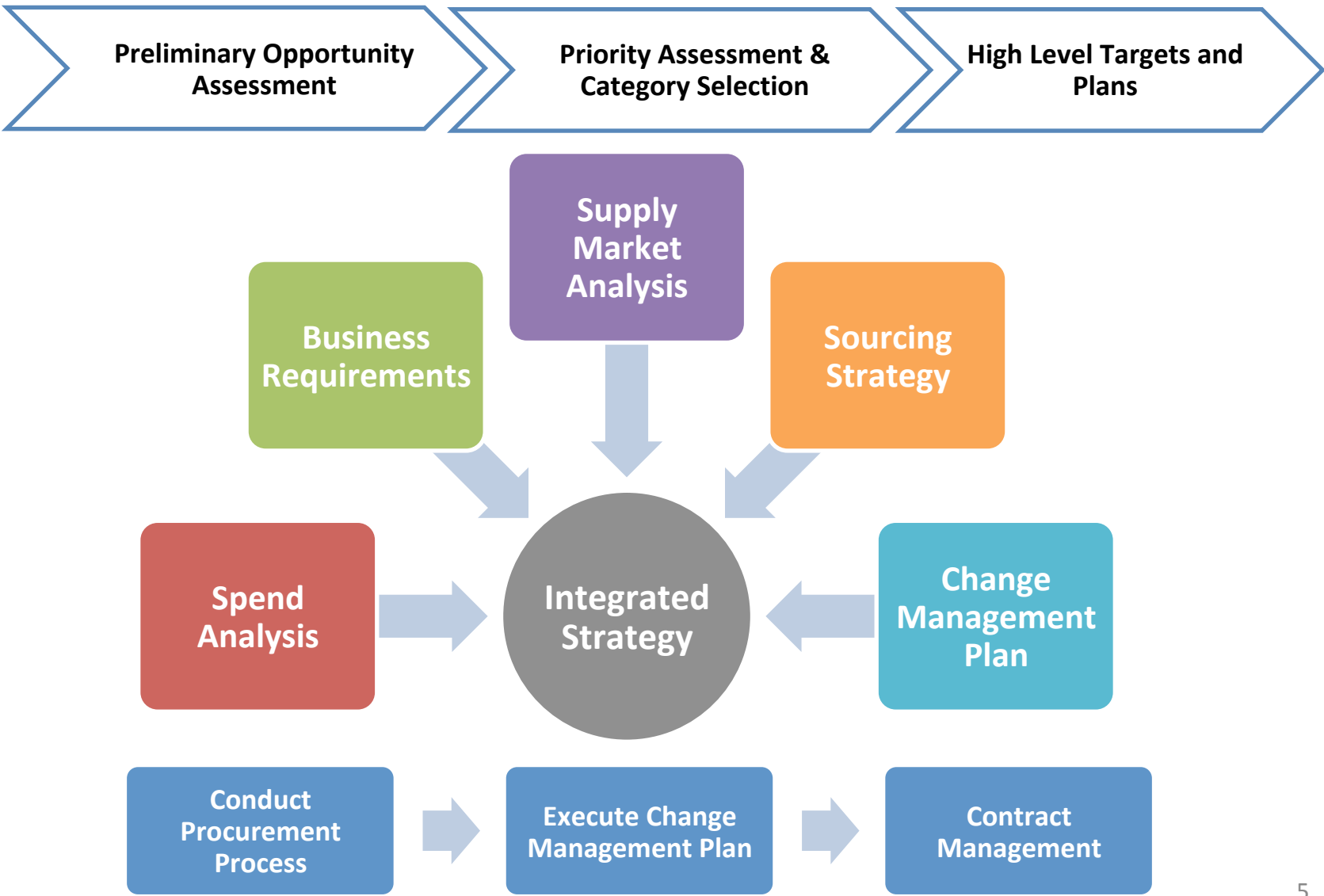
Project Background

- In 2014, Global Affairs Canada (GAC) initiated the commodity review of mission vehicles
- The following main issues were identified:
 - Acquisition process complexity and long procurement-to-delivery lead time resulting in high administrative costs
 - Specification complexity resulting in limited and non-compliant bids
 - Local constraints and requirements resulting in a lack of after service support and incorrect vehicles ordered
 - Low volumes making it difficult to attract interested suppliers and leverage buying power (approx \$2.63M CAD / 81 vehicles purchased per year across the network)

Project Objectives

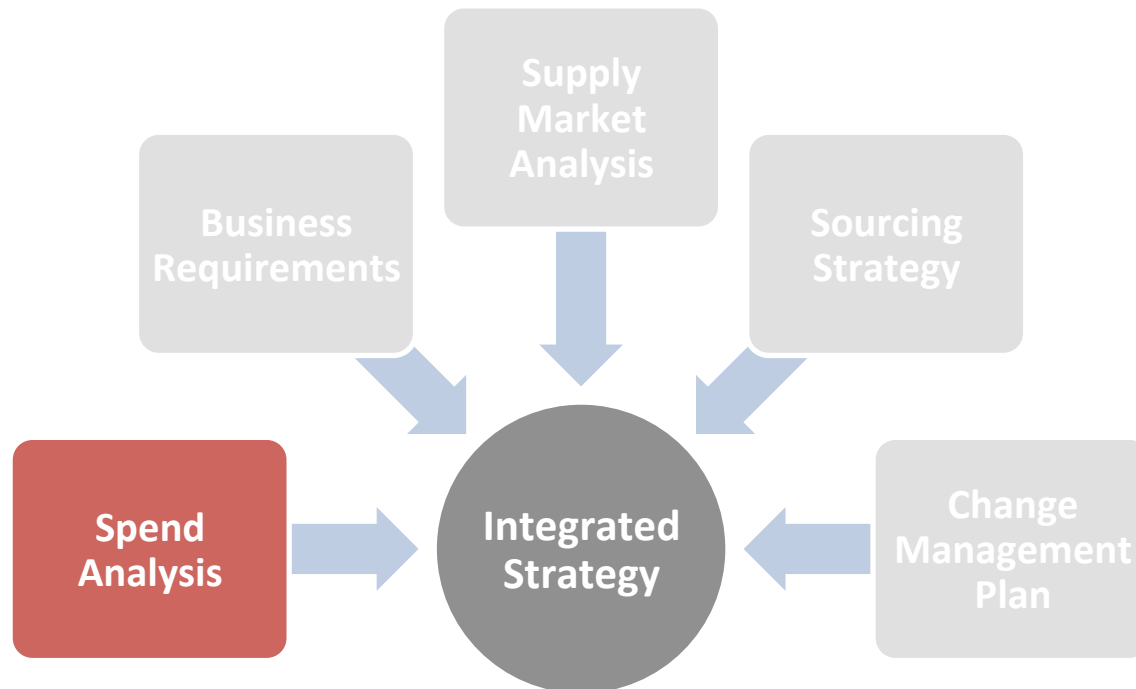
- Reduce administrative costs and simplify the process
- Lower procurement-to-delivery lead times
- Enable flexibility to respond to changing priorities
- Consider local constraints and requirements
- Build stronger relationships with the supplier community
- Improve budget forecasting and expenditure management
- Improve compliance to directives (e.g. fleet management)
- Contribute towards Green Procurement initiatives
- Decrease total cost of ownership
- Increase competition, openness and transparency
- Achieve savings and leverage business volumes by doing joint procurement with U.K. government

Strategic Sourcing Model at GAC





Spend Analysis

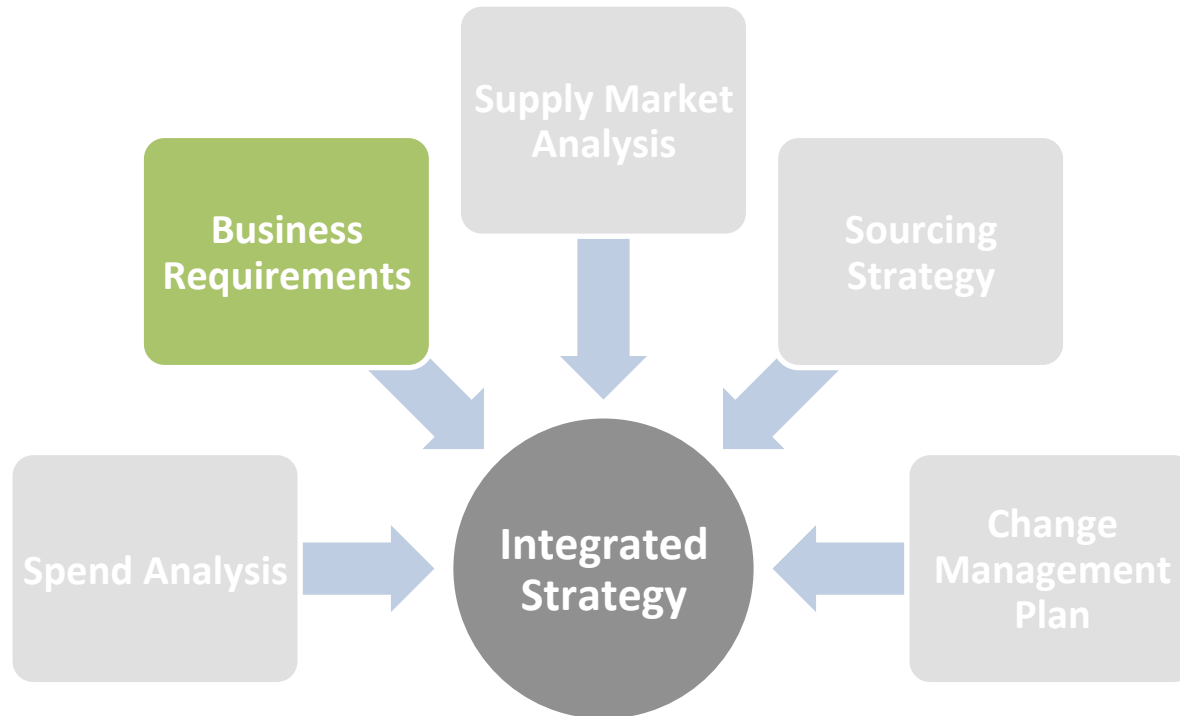


Spend Analysis

- On average \$2.63M CAD (81 units) for Mission vehicles per year are procured vs U.K. annual spend on average £10M British pounds
 - GAC volumes not high enough for economies of scale – emphasis on admin savings
 - Significant opportunity to leverage buying power by doing a joint procurement with U.K.
- There are 346 vehicles (48% of fleet) are 5 years old or older
 - TBS guidelines require 5-7 years and 80,000 to 140,000 kilometers of use before replacement
 - Potentially larger number of units will need to be purchased in coming years
- Majority of vehicle categories purchased were Sedans, SUV and passenger vans with Left Hand Drive vehicles representing 2/3 of fleet
- Analysis conducted indicated standing offers and direct buying to manufacturers provided more stable and predictable pricing in comparison to local solicitations resulting in 30% more savings



Business Requirements

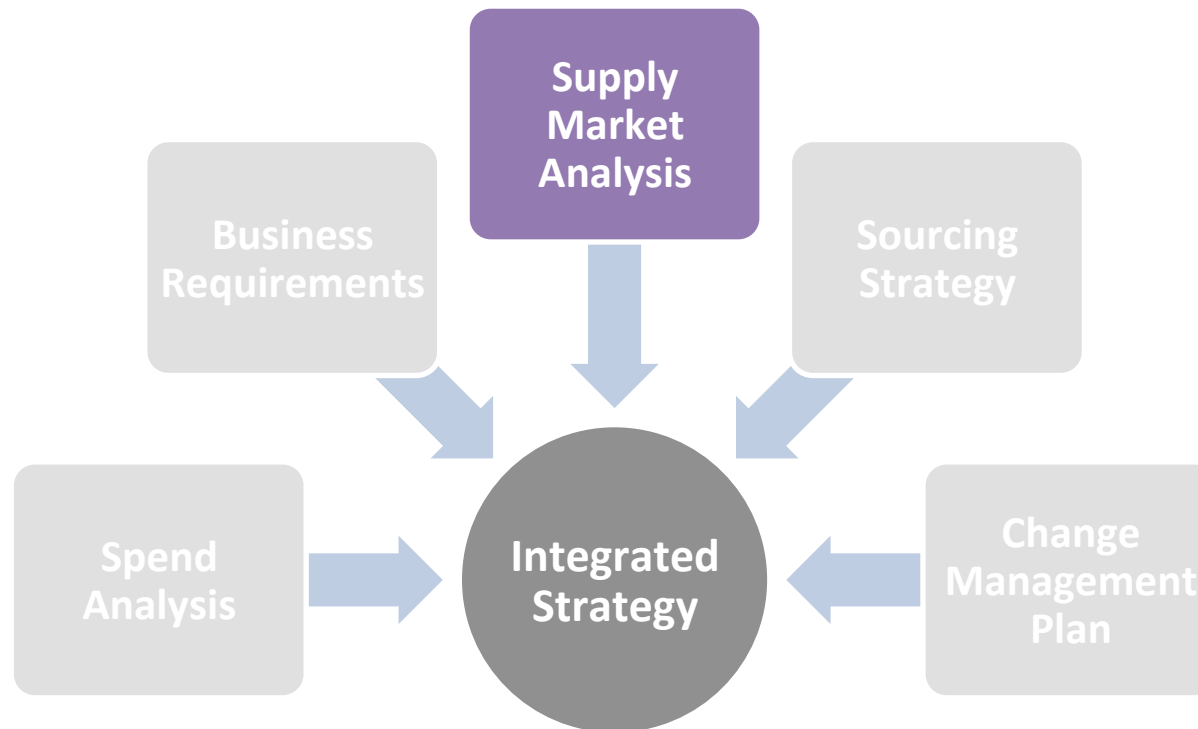


Business Requirements

- Ensured operational requirements and needs were met – local specifications, servicing and warranty available
- Reduced delivery times and increased availability of vehicles from suppliers
- Standardized vehicle categories and specifications
- Streamlined ordering and approval process from end-to-end
- Incorporated standard contracting terms and conditions
- Incorporated environmental (green) requirements
- Ensured the procurement strategy reflected the supply market's capability to deliver



Supply Market Analysis



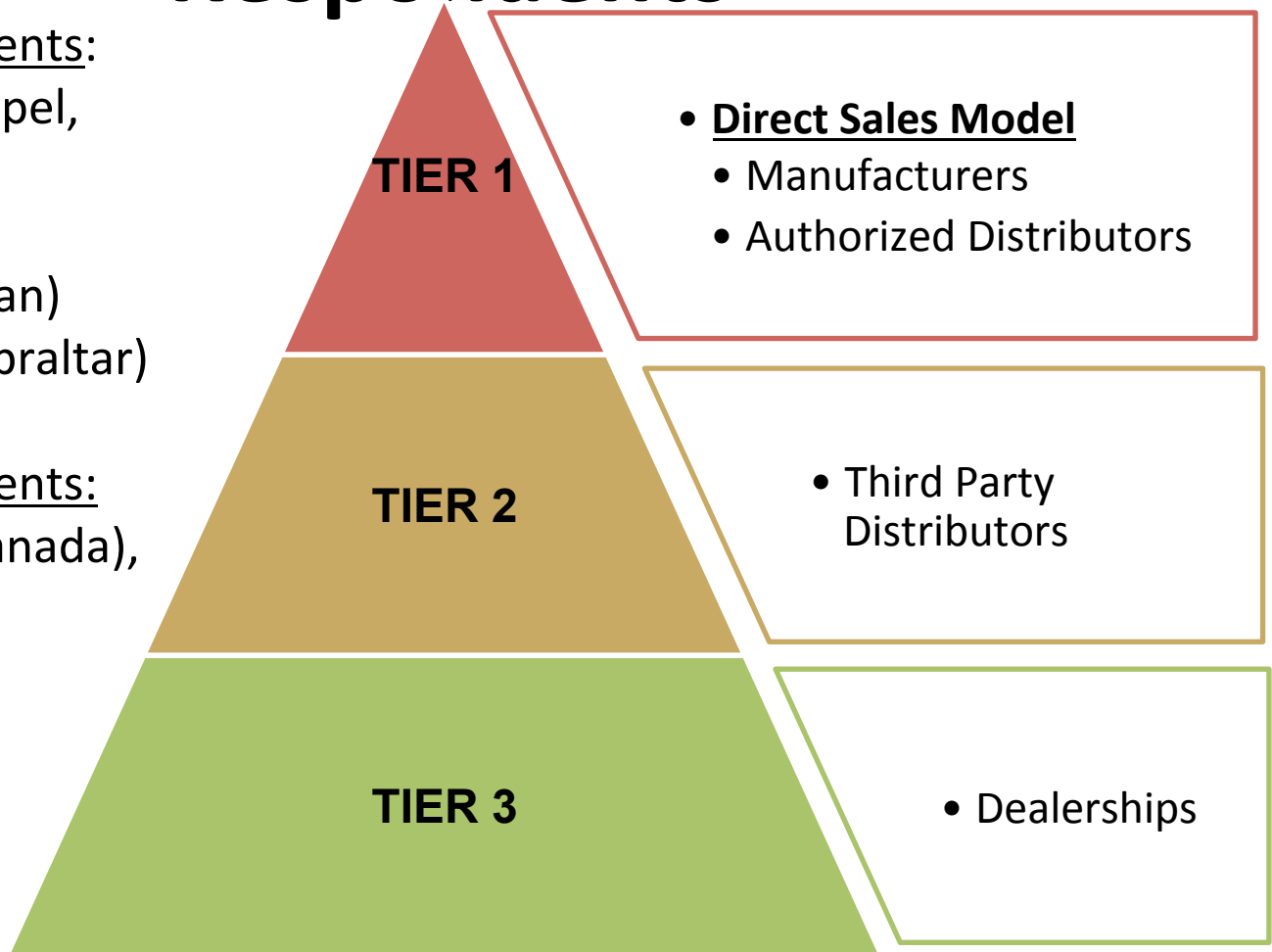
Supply Market Analysis & Key Stakeholder Consultation

- Missions Procurement Operations project team performed an analysis of the automotive marketplace and industry (international, regional, national)
- Identified contacts for the outreach phase of the project (e.g. industry associations, manufacturers, distributors, parent companies, fleet managers)
- Engaged the industry through the RFI and bidders conference to obtain their responses to the procurement strategy and assess their interest, needs, concerns and capabilities
- Held direct consultations with key stakeholders at HQ and abroad, including PSPC and U.K. Foreign Commonwealth Office (FCO)

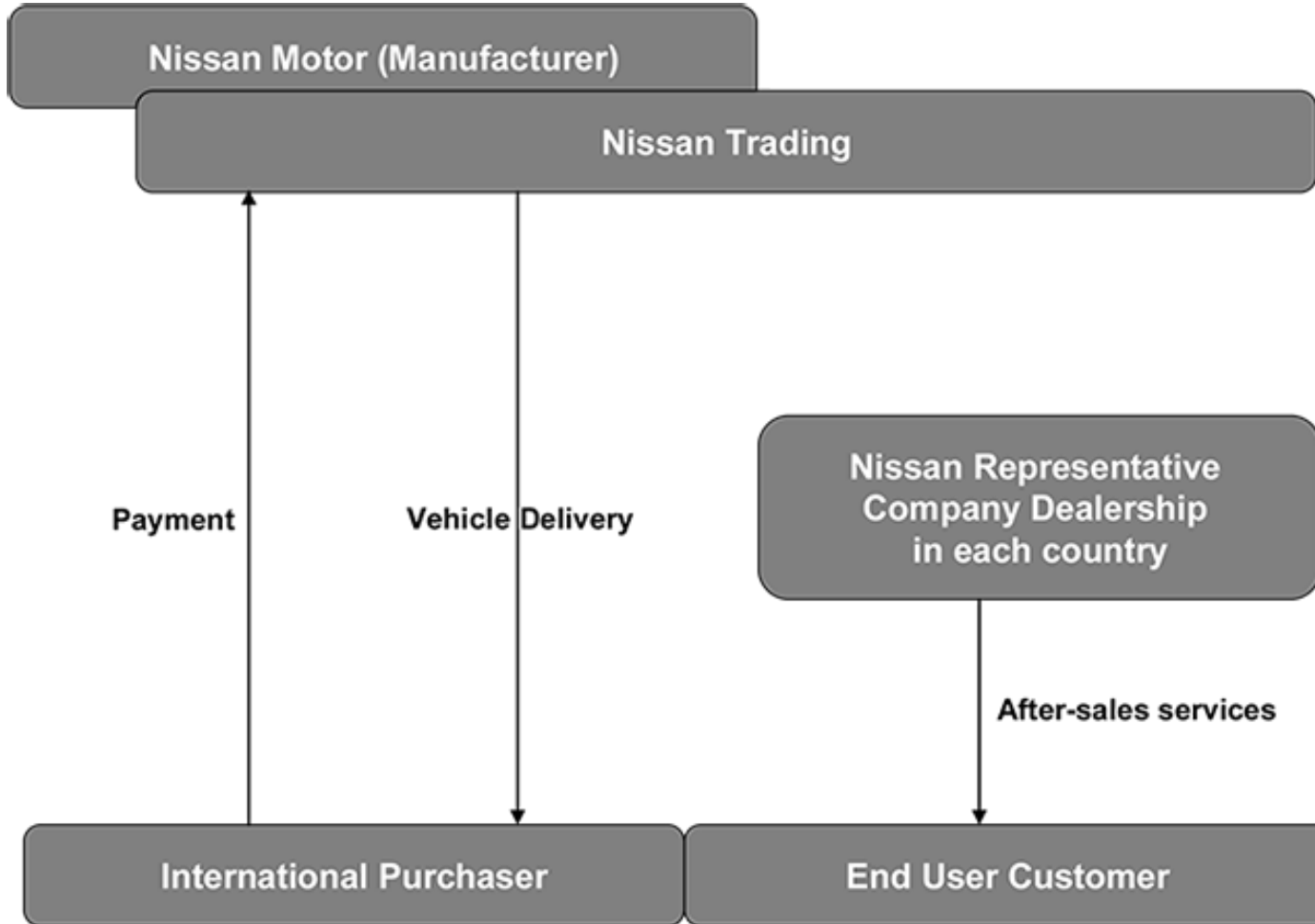
Request for Information Respondents

- Tier 1 Respondents:
- Volkswagen, Opel, (Europe)
- Toyota, Nissan, Mitsubishi (Japan)
- TGS (Toyota Gibraltar)

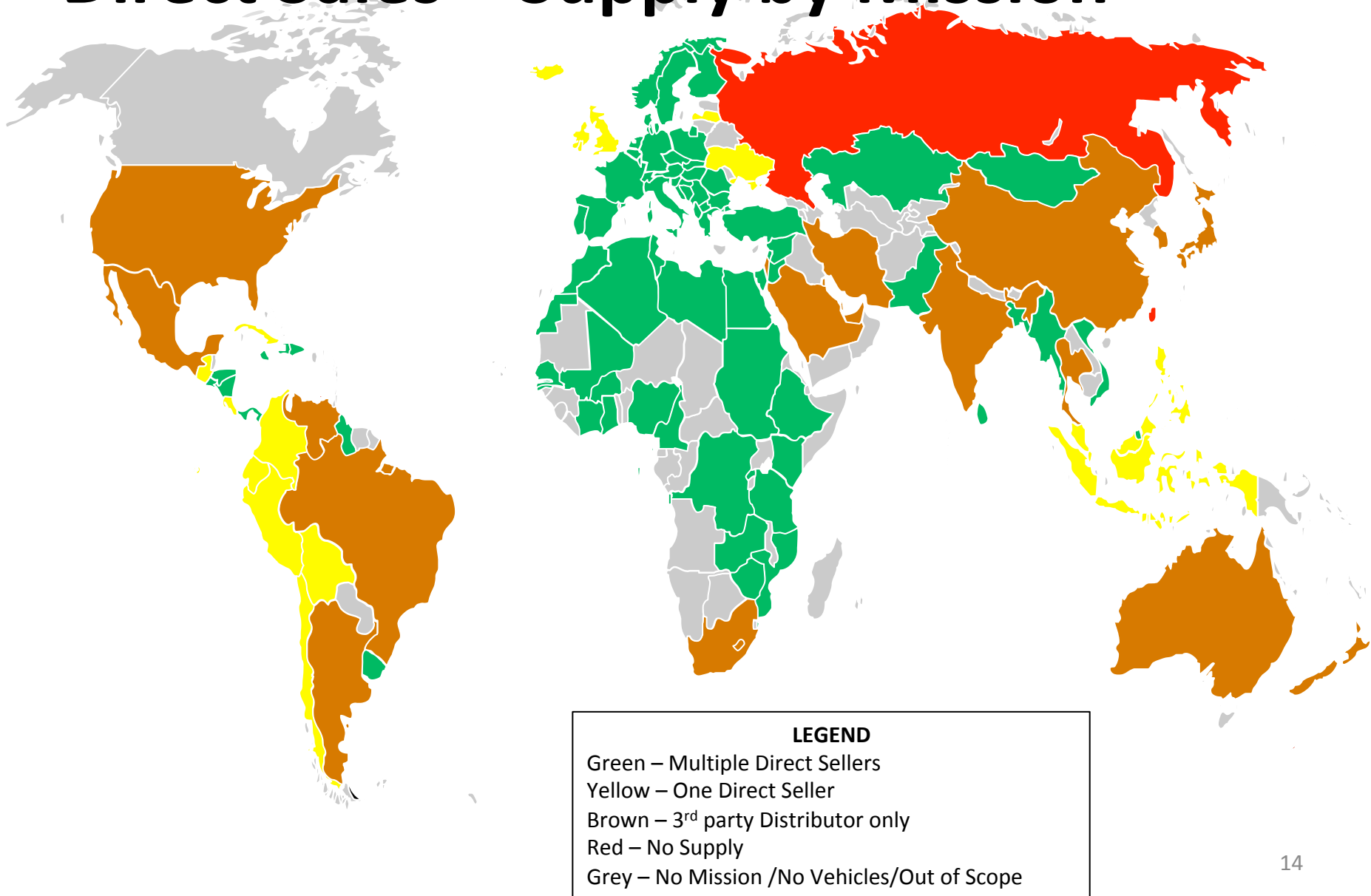
- Tier 2 Respondents:
- Red Orange (Canada), Kjaer Group (Denmark)



Direct Sales – Buying Process



Direct Sales – Supply by Mission





Direct Sales

Benefits / Limitations

Benefits

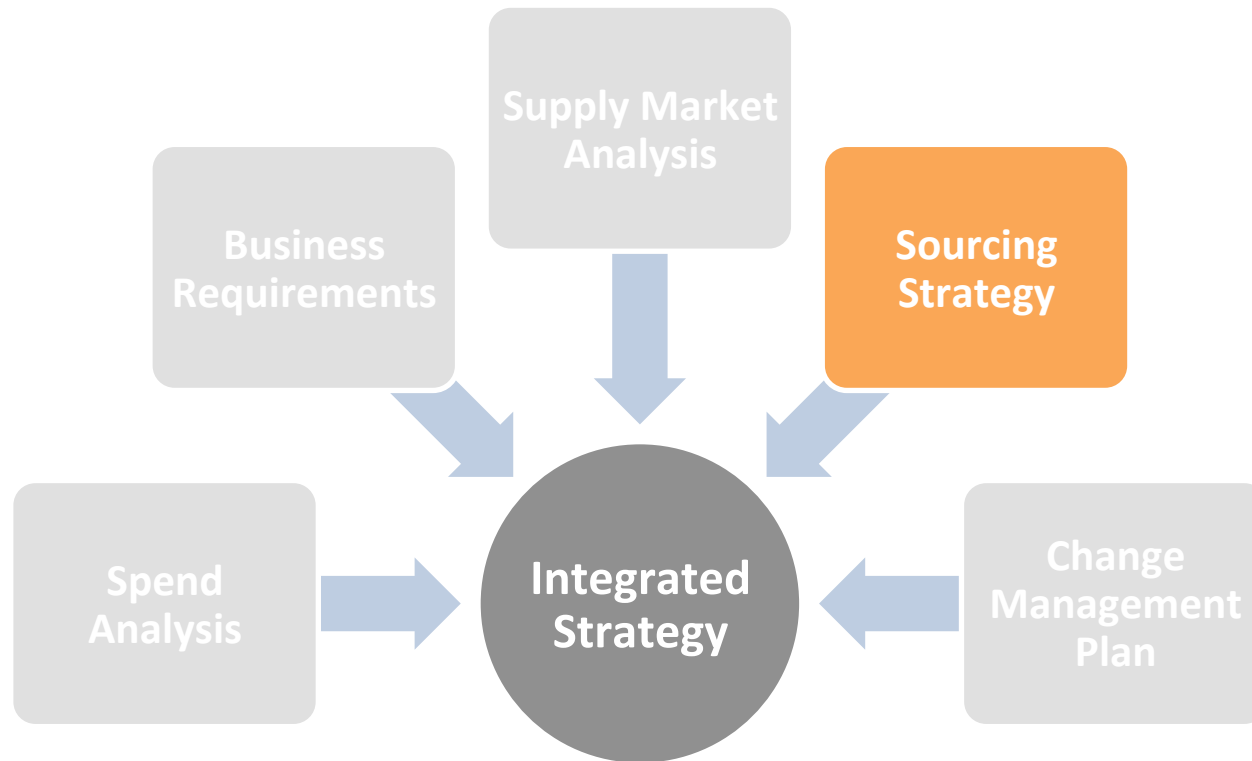
- ✓ Built to spec. and certified to meet country requirements/ regulations
- ✓ Potential to meet over 60% of mission demand from 5-6 suppliers
- ✓ Buying direct offers unit price and possible volume discount savings
- ✓ Delivery based on standard terms (Incoterms 2010) and 100% duty free
- ✓ Supplier capabilities (full warranty, local after sales service, logistics, service hot line, shipment tracking)

Limitations

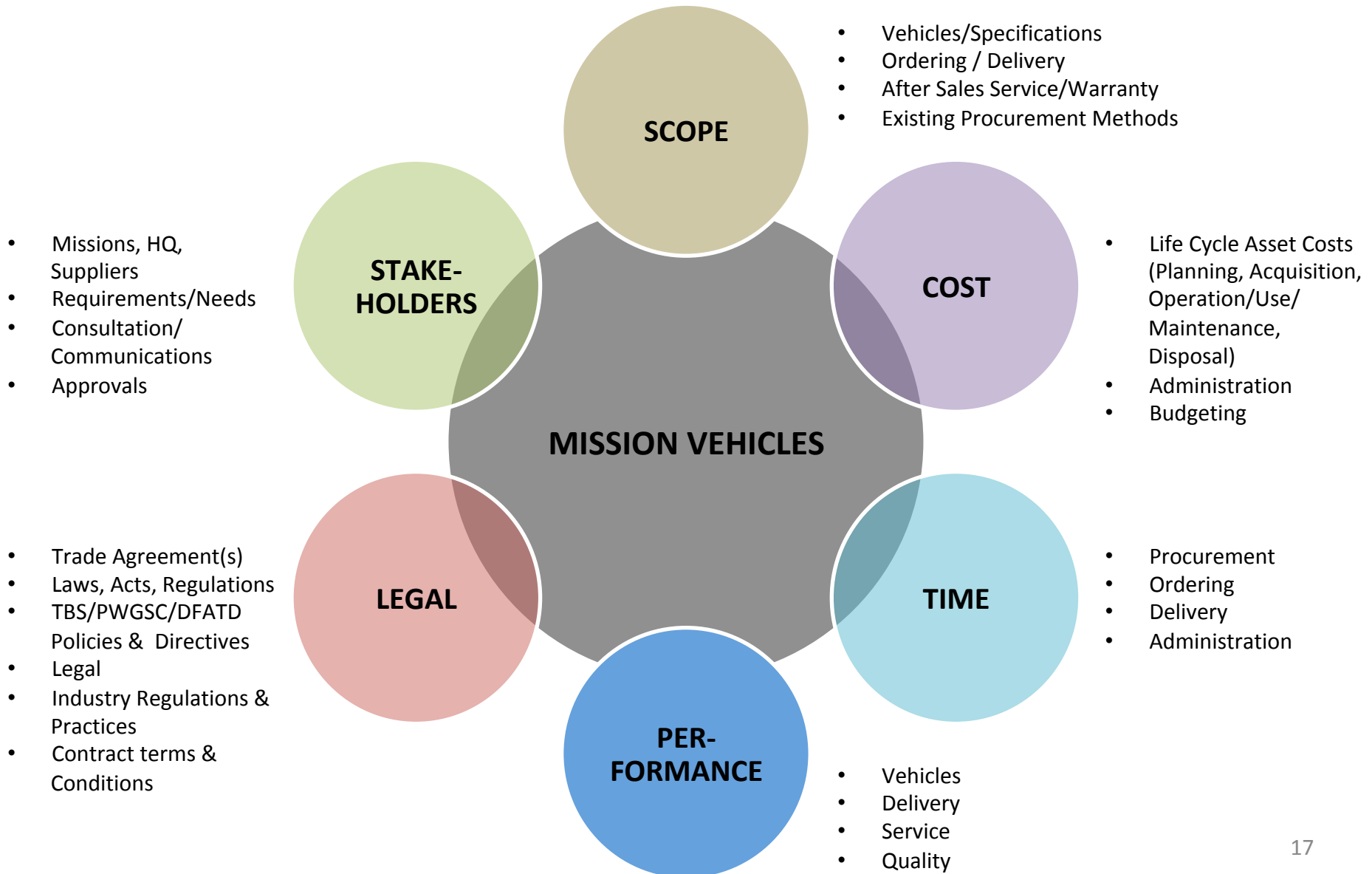
- × Potentially ~40% of demand may not be satisfied by tier 1 suppliers
- × Pricing must be refreshed ~12 months / Long delivery lead times
- × Missions responsible for customs clearance and delivery to Pre-Delivery Inspection/PDI (warranty) location before operating vehicle
- × Risk of ancillary port charges (e.g. demurrage, detention, storage)
- × After sales service/PDI locations may not be close to all mission cities



Sourcing Strategy



Integrated Sourcing Strategy Developed



Current Procurement Methods

The methods of supply available to missions outside of Canada for vehicle acquisition :

1) PWGSC Standing Offers

- Represents 50% (or more) of the current vehicle buying activity

2) Permanent Suppliers List - Request for Quote (RFQ)

- Selective tendering using a permanent source list (above NAFTA \$ threshold; currently CAD \$25,200)

3) Limited Tender - Request for Quote (RFQ)

- Invite only (due to low NAFTA threshold, limited use)

4) Non-competitive

- GCR/NAFTA exception basis only (case by case); limited use

PWGSC Standing Offers



Benefits

- ✓ Competitive pricing based on Government of Canada volume leverage
- ✓ Offers a choice of vehicles with standard features and available options
- ✓ Pre-competed buying tool and simple ordering process



Limitations

- × Canadian specification vehicles only (e.g. country specific issues)
- × Currency conversion impacts
- × Warranty coverage generally not honored (outside of Canada)
- × After sales service support and parts can be unavailable locally
- × Long production and delivery lead times
- × Vehicle logistics issues (e.g. port storage charges, transport damage)
- × Export/Import documents can be difficult to obtain(CDN manufacturers)
- × Limited disposal values

Permanent Suppliers List

Request for Quote



Benefits

- ✓ Generally no delivery lead times (in stock vehicles)
- ✓ Unit price discounts can be obtained
- ✓ May be suitable for low volume or difficult to supply countries
- ✓ Warranty and local after sales service typically available and close



Limitations

- × Lack of flexibility (lowest priced vehicle must always be selected)
- × Lengthy and complex procurement and approval processes
- × Limited opportunity for bulk purchases
- × Difficult to build stronger supplier relationships
- × High administrative cost to missions, HQ and to suppliers
- × Not suitable for some missions (weak or no suitable local supply)
- × Difficult to accurately forecast budgets and spending
- × Large fluctuations in vehicle acquisition price

Implemented Strategy

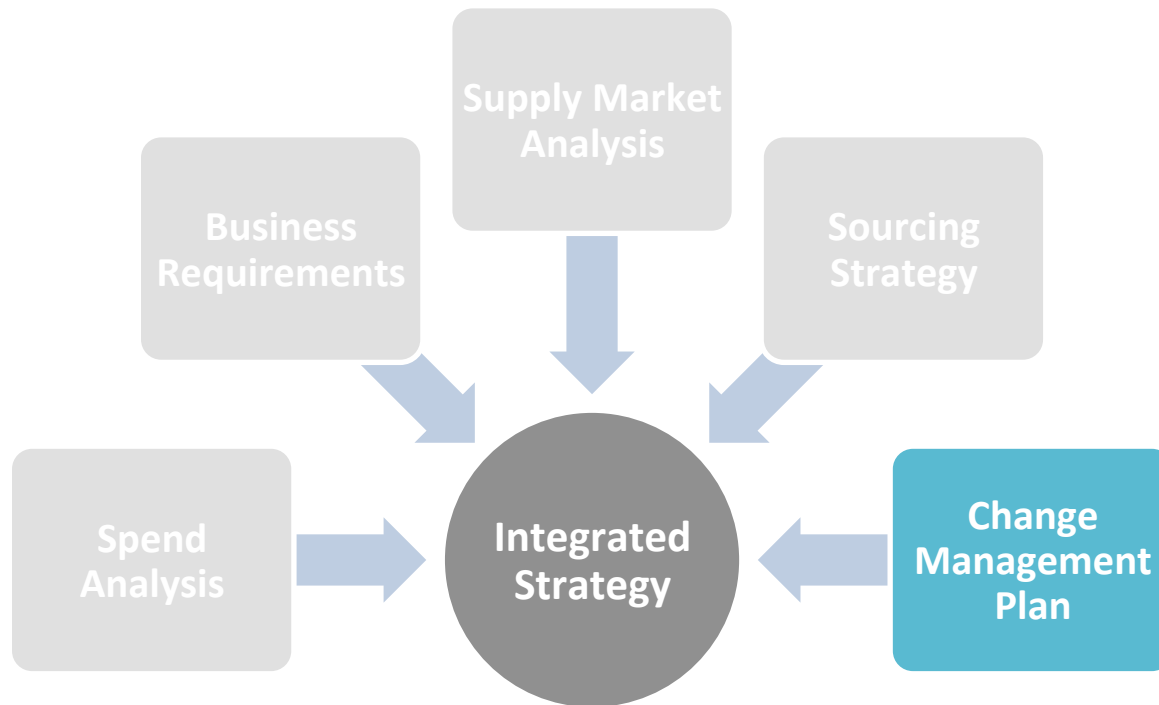
- Established regional standing offers focusing on Tier 1 suppliers
- Arranged into six (6) distinct bidding Regions:
 - Europe, Asia & Pacific, Africa, Latin America & Caribbean, the Middle East, and North America
- Requirements were further divided by six vehicle categories and four sub-categories with minimum mandatory specifications and optional items
- It was mandatory to provide vehicles built/certified for use at destination country with manufacturers' warranty & after sales service
- Standing offers were awarded to the five (5) lowest priced compliant bidders per mission and vehicle category

Joint Procurement Strategy

- Option in the standing offer agreements to allow the Foreign and Commonwealth Office (FCO) of the U.K. to exercise access to the standing offers under the same terms and conditions as GAC
- Trade Agreement and regulatory considerations requiring modifications to our procurement process to ensure both parties are in full compliance
- Opportunity for bulk purchases in future



Change Management



Change Management Plan

- Engaged key stakeholders to inform them of process through biweekly meetings and Broadcast messages
- Updated internal websites for SO method of acquisition
- Procurement vehicle inbox (available EST M-F 8am-5pm) to assist / advise / support with vehicle purchases
- Developed detailed step by step ordering/approval toolkit used by all key stakeholders
- Created a vehicle requirements guide to assist missions in placing orders
- Provided training to procurement staff on the use of the tool



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Vehicles RFSO Results

Solicitation Process

- Posted on Buy and Sell July 12, 2016 (RFP # 15-103444).
- Bidder's conference for each region was conducted
- Received and answered 53 questions during solicitation
 - Requirements / Specifications
 - Ordering and Payment
 - Delivery, Warranty and After-Sales Service
 - Terms & Conditions of resulting contracts
- Solicitation closed on September 14, 2016
- Standing offers were awarded in the fall 2016 into winter 2017
- Received ten (10) bids all from manufacturers/distributors

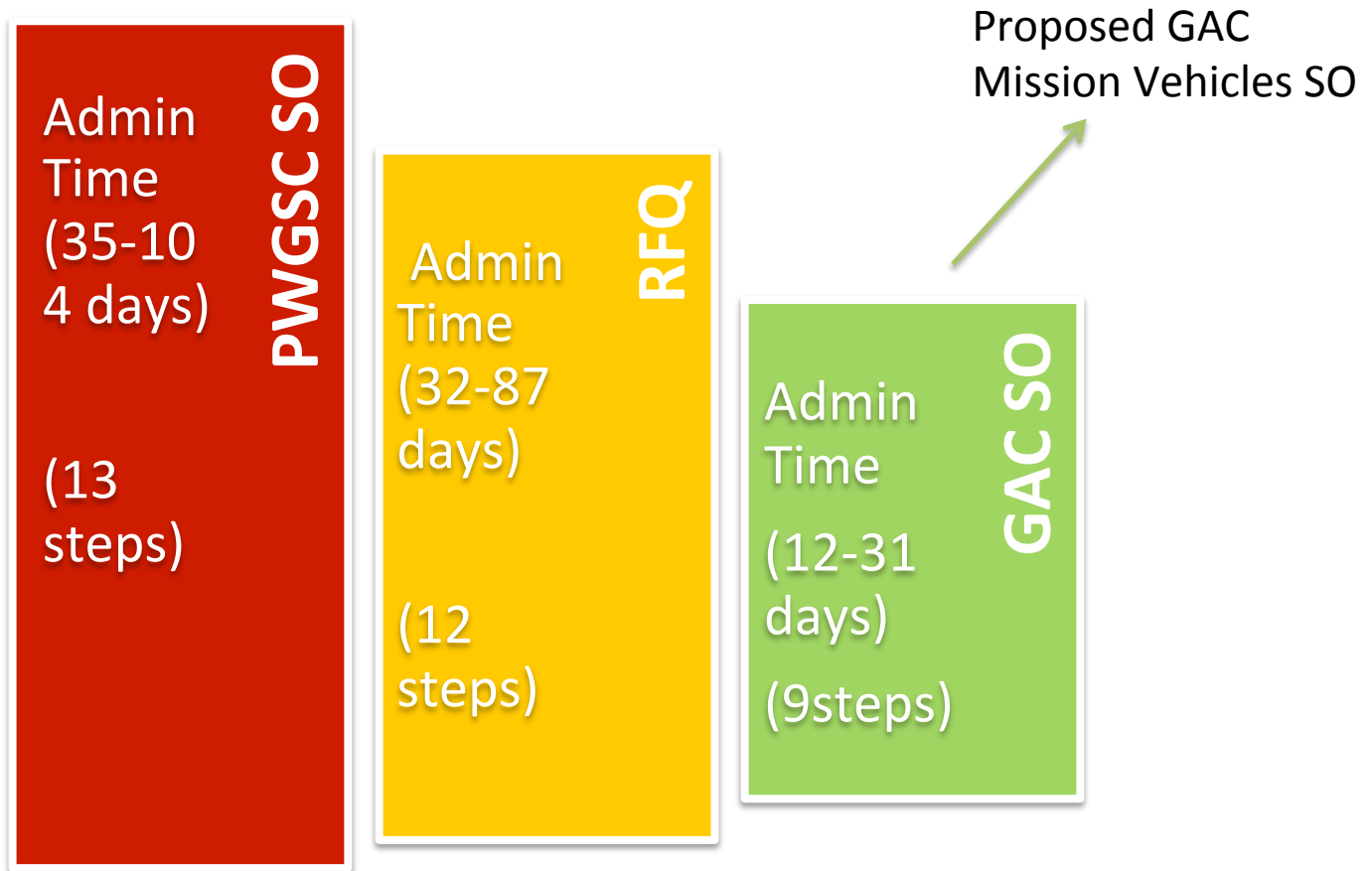
Bids Received

- Europe
 - Opel Vauxhall (delivers to 26 of 29 countries)
 - Renault (delivers to 8 countries; and Mexico)
 - Skoda (delivers to 10 countries)
 - Volvo (delivers to 29 countries; and U.S.A.)
- North America:
 - Volvo (same supplier as Europe; delivers to all of the U.S.A.);
 - Ford Mexico (delivers to Mexico);
- Africa, Middle East, Asia & Pacific, Latin Am & Carib:
 - Ford distributor (based in USA; delivers to 54 of 78 countries)
 - GM distributor (based in U.S.A; Chev/Isuzu/JAC; 67 countries)
 - Toyota Japan, Toyota distributor/TGS (delivers to 42 countries)
 - Nissan Japan (delivers to 49 countries)

Key Accomplishments

- Reduced total cost of ownership based on integrated sourcing strategy
- 1st Joint procurement with UK-FCO to leverage business volumes
- Reduced unit cost up to 50% in some cases
- Standardized specifications and greater flexibility in choice of supplier resulting greater industry response
- Simplified ordering process resulting in administrative savings and improved procurement-to-delivery lead times by 30% or more
- Established standing offers with pre-determined pricing
- Local constraints and requirements met (warranties, after sales support, and vehicles built and certified for destination country)

Administrative Savings



Lessons Learned and Best Practices

- Collaborate and establish cross-functional project team that includes all key stakeholders at the onset to ensure requirements meet client needs, market capability and early buy-in
- Seek senior management support and provide updates on results
- Engage market place to ensure requirements can be met
- Joint procurement initiatives work best on standardized goods or services
- Ensure highest level of compliance followed to ensure all parties to joint procurement procedure and regulatory obligations are met
- Assess solutions based on total cost of ownership approach
- Allow for 18 to 24 months to complete the strategic sourcing process



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Questions?