

Procurement Excellence

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Why Procurement Excellence?

Small Business



Jobs



Environment



Partner



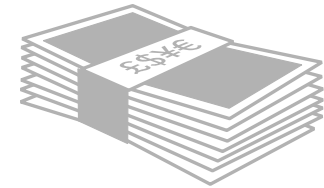
Speed



Skills



Cost



Effort is about more than just being a financial steward

Why now?

Procurement supports:

- Small, women and minority-owned businesses
- Environmentally-friendly purchasing practices
- Financial stewardship

Current situation:

- Procurement is in many cases a challenging process
- \$280M spend (2015) → \$490M (2016 budget)
- Moving into phase of increased capital spend

Now is the time to take action

Effort will support the Port and region during rapid growth phase

Significant Stakeholder Input

50+ Port of Seattle employees interviewed

–Across all divisions and corporate functions

65+ attendees at project kick-off meetings

40 responses to Procurement Excellence survey

7 conversations with Port of Seattle service providers

–Consultant community (American Council of Engineering Companies), Small Business

Many recommendations emerged from these conversations

Strong Employee Support

This is a great opportunity to develop a strategy and use Procurement Excellence as a launching board to execute
-Central Procurement Office

These are exactly the right opportunities for us to be focused on – especially with the growth plans on the horizon
-Capital Development Division

Clear appetite to "change the way we work"

Strong Employee Support

We need to take more of a TCO (Total Cost of Ownership) mindset. My team has recommendations on where it should be applied next

-Aviation Maintenance

I am certain that this process will result in significant recommendations and improvements

-Information & Communication Technology

Clear appetite to "change the way we work"

Transition to Implementation

Phase 1

Diagnostic: 4 weeks

Focused on:

- Fact base
- Process, capability, tool diagnostic
- Opportunity identification, sizing

Phase 2

Implementation: 30 weeks

Focused on:

- Program management
- Support for priority initiatives
- Opportunity realization
- Sustaining the change

Diagnostic complete – now at transition point

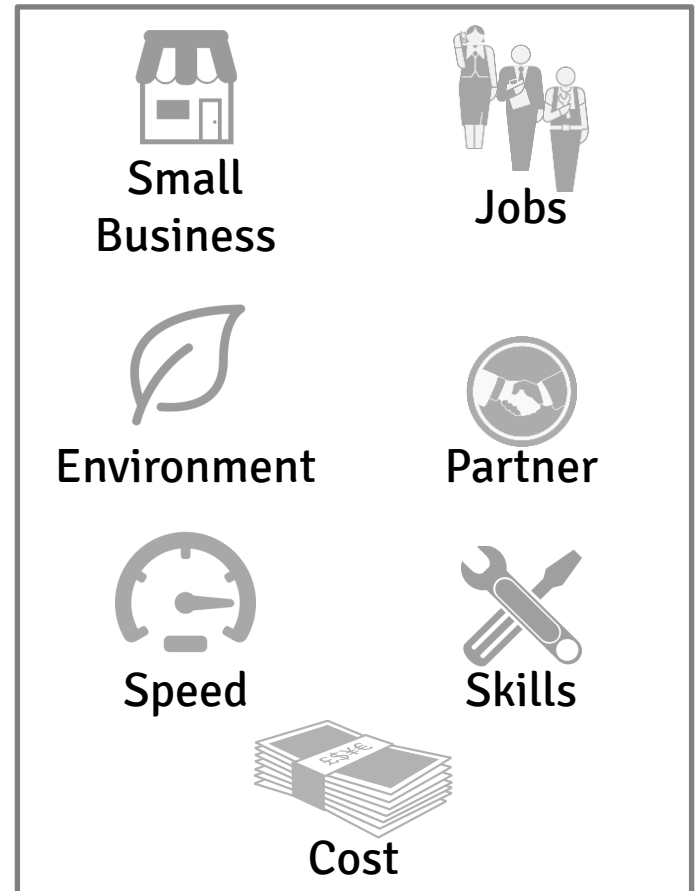
Opportunity Categories & Impacts

Century Agenda

High Performance Org

Capital expenses

Operating expenses



Phase 2 will address each of these categories



Small Business Enterprises (SBE)

Great progress so far...

33% of spend in 2015

- Up from 30% in 2013
- Port Gen program
- Larger set-asides
- 2 recent outreach meetings

40% target by 2020

...But could be doing more

Supplier management

Pre-bid meetings w/ Primes

Data & tools

Supplier database

Bid process

Set-asides, incentives, scoring in consulting and purchasing

Capabilities

SBE liaisons in business units

Procurement processes can support small business

Women and Minority-Owned Business Enterprises (WMBE)



Port is not doing as well as we could

- Not meeting 4% target

Some progress

- Race and gender specific goals on federally funded contracts

More that we need to do through procurement

- Supplier development and management
- Increased outreach
- WMBE liaisons in business units

Procurement processes can support women and minority businesses



Environmental Purchasing

Quick wins to explore

- Utilities: Replace carbon sources with renewable
- Fleet: Accelerate green vehicle purchasing, renewable natural gas
- Goods: Work with vendors on green supplies, delivery
- Design: Apply environmental lens to design process

Strategic actions

- Apply total cost of ownership
- Energy lifecycle cost analysis
- Adjust RFP scoring for environmental considerations

Procurement can drive environmentally-friendly purchasing



Process Improvements

Time lost today due to re-work

- Scope of Work/Technical specs lack needed detail
- Leads to multiple edit & review cycles
- Impacts all procurement categories

Opportunity: Streamline with planning, training

- Central Procurement office reviews earlier in the process
- Scope of Work preparers better educated on needs
- Potential 3-5 days faster execution

One of many process opportunities identified to save time

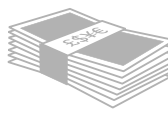


Opportunity to Enhance Capital Process

Opportunities	Potential Phase 2 Activities
Strategic Capital Planning	<ul style="list-style-type: none"> • Formalized, early engagement • Incorporate lessons learned
Lean Design	<ul style="list-style-type: none"> • Dedicated project teams • Formalized expert input at correct times
Total Cost of Ownership (TCO)	<ul style="list-style-type: none"> • Model development and application • Bundling across projects • Strategic vendor management
Change Order Management	<ul style="list-style-type: none"> • Risk sharing • Change order approval and negotiating process



Capex opportunities critical to support growth for Port and region



Total Cost of Ownership

Total cost of ownership = a new way of evaluating project alternatives taking full lifecycle into account when purchasing



Passenger Loading Bridges (PLBs)

- ~30% first cost
- 20+ purchases planned in next 5 years
- Last 10 years: All purchased from one supplier (no discounts)

Actions

- Coordinate across projects
- Negotiate rates based on committed volume
- Competitive bid with selection based on Total Cost of Ownership analysis

Approach is applicable across broad spend base



How we Identified Opportunities

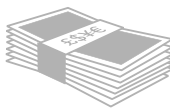
Procurement levers...

...Applied to relevant spend

-  **Supplier management**
-  **Bundling**
-  **Demand management**
-  **Process optimization**
-  **Standardization**
-  **Make or buy**

**\$126M of
operating and
recurring capital
spend**

Phase 2 objective: Train Port staff to apply these levers



Credit Card Fees

Network provider

Fee to Port

Potential Opportunity

VISA



2.76%

- Processed by Wells Fargo
- \$1.4M in '15

2.2 - 2.4%

- Target lower rate
- Save \$200-300k



2.15%

- Utilizing state contract
- \$0.4M in '15

None

- Best in class rate

Opex opportunities likeliest to be realized in the near-term

Results

✓ Reinforce Century Agenda goals

- Increase Small, Women- and Minority-Owned Business performance
- Improve environmentally-friendly purchasing
- Support and create jobs

✓ Increase speed to delivery

- Target 15%+ average reduction in cycle time

✓ Improve stakeholder management

- Internal and external

✓ Enhance capabilities in-house

- Build skills of our staff and become more high performing organization

Save money to re-invest in areas that create jobs

- ✓ • Target \$4M savings within 12 months; \$20M+ steady state impact

Significant value in this effort

Expected Cost Impact

	<u>Opex</u>	<u>Capex</u>	<u>Total</u>
# of initiatives	10	18	28
2016 Budget	\$144M	\$348M	\$492M
2017 impact	\$3-5M	\$2-5M	\$5-10M
Steady state impact	\$5-7M	\$15-28M	\$20-35M

Any savings can be re-invested in other Port activities

How we will Measure Results

KPI

Small, Women and Minority-Owned Business

Environmental purchasing

Customer service

Cost impact

Source

Small, Women & Minority Business scorecard

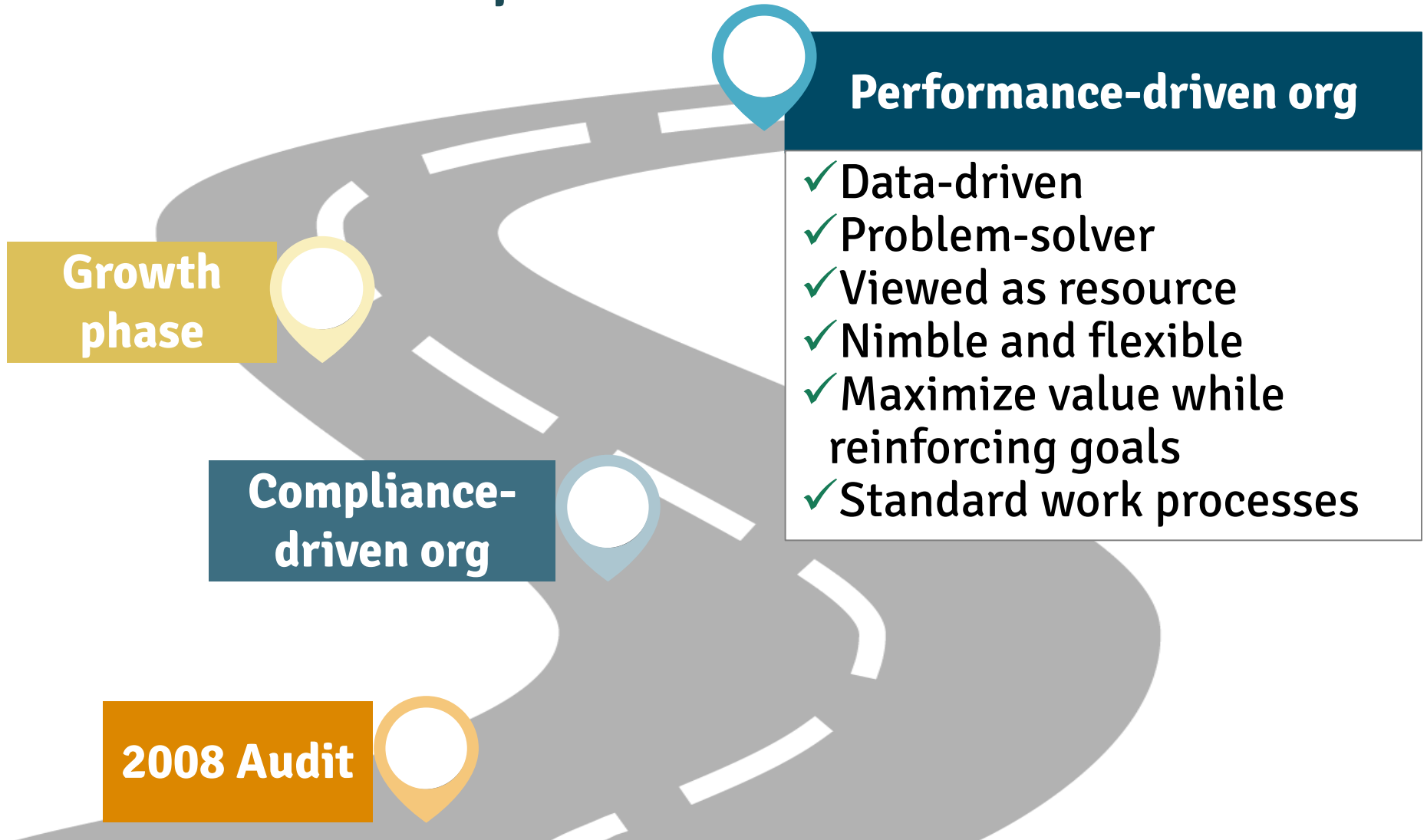
Environmental scorecard

Customer surveys

Finance validation

Additional metrics may be added as needed

End goal: Performance-driven procurement



Phase 2

Request Commission approval

Establish "Procurement Council" to guide effort

Assign Port staff to each priority initiative

Begin implementation of priority initiatives

Periodically report back



Request approval to proceed to Phase 2

A large cruise ship is docked at a pier. In the foreground, a luggage cart is filled with suitcases and bags. A person wearing a high-visibility vest with the logo "CRUISE SEATTLE PORT OF SEATTLE" is pushing the cart. The scene is set outdoors with a cloudy sky and other people visible in the background.

Thank you!
Questions?