

Global procurement and supply



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GlaxoSmithKline: Sourcing

Complex Professional Services

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April 22, 2018 Introduction GlaxoSmithKline also known as GSK is currently losing millions of the dollars annually in legal process. Normally, GSK always billed the law firms on hourly basis but this was not practical for the company. The team not had to research and innovate new ways to cut the spending through a new procurement process. GSK, GlaxoSmithKline uses an innovative approach to procure outside counsel by trading relationship based selection of law firms to an online reverse auction.

However, the quality of the work, and selecting the right the law firm was a challenging hurdle to jump. GSK was willing to take up the challenge to come up with a better process of handling their spend. GSK is hit with a devastating suit and only has a certain number of days to hire a firm in time to respond. Their managing attorney Sophia Keating grapples with GSK approach to selecting suppliers. GSK employees ensured Sophia that this approach drives down cost and improves the quality of work submitted by the lawyers.

Still skeptical about the process, she still runs process by comparing the competing firms and their bids. Furthermore, it was the decision by Harlow to outsource the services. GSK made strides to come up with the suitable options, and options to meet the criteria of less cost, and quality work.

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However, there were other concerns that could be discussed more broadly to avoid the pitfalls during the process.

This case also describes the process in which this process was made and adopted beyond the implications for law firms and other service providers. Many processes seemed to only be adopted by selecting vendors for a variety of supplies and products but can be used for services also. This procurement process can be incredibly beneficial, especially streamline purchasing and tracking spend. This process can ensure a company pays the best price for goods or services, save time by choosing the most reputable vendors, and minimize order delays and mistakes.

After getting early endorsement from the general counsel, Marty Harlow worked with GSK's global external legal relations team (GELRT) in legal to develop a matter-specific, mini-RFP tool that enables in-house counsel to assess firms' specific qualifications for a particular representation. The other main component of the OCSI is the electronic reverse auction which encourages fee competition among qualified law firms instead of hourly rates. GSK's preferred firm roster work with procurement to draw up a shortlist of firms to invite to an OCSI event.

GSK lawyers use a form-driven process to state as much detail about the matter as possible and these are passed to Harlow's team for submission to firms. This case is very useful in talking about institutional change and how the procurement process can be adopted to many fields and services.

Main Issues

Uncontrollable Spending

The company was spending millions of dollars annually on the spending on the legal matters. It was identified that there was also extra unnecessary cost incurred that could have been avoided through a better process that was more centralized.

" More than a quarter of companies in the U. S. and UK spent over \$5 million annually on litigation costs in 2012, and among healthcare companies that proportion was estimated to be 30%- 40%. Because legal fees had become a prominent line item in company overheads, top management in many companies pressured their general counsel (GC), the chief lawyer of a legal department, to rein in legal spending" (Gardner and Silverstein 2) There were some moments when the company even did not know about the spending on the legal matters, and legal department exceeded the budget sometimes. This was an issue many companies were being affected by, not just GSK.

However, GSK noticed the high costs and need to be able to have a better centralized process. Therefore, it was challenging for the company to manage the spending on the legal matters and find another solid process that could not only cost less, but also provide quality services since quality is very important in the legal work. Relationship Vs. Quality GSK is engaged with the same law firms that they have had long relationships with.

" One involved consolidating the number of firms with which their company regularly worked—sometimes ending long-standing relationships." (Gardner and Silverstein 3) Relationship management is very key is long lasting

business relationships, which has allowed GSK to be very successful with prior legal matters. However, through this process, the company would incur extra cost on the legal matters, because there is no cap on spend since it was tracked hourly.

Since there was no centralized system to track the work and spend, GSK had no idea about the urgent matters and problems of the company. It is very important the firms that are selecting ensure that quality work is being completed without overspending. Cost does not always mean quality. GSK should have to risk quality during their cost for the best legal pursuits. Even though supplier relationship management is great, but it becomes challenges when spend is starting to become uncontrollable and unmanageable.

Building closer relations with your strategic partners will minimize supply chain risks. Having strategic partners whose goals are aligned with business objectives are highly valuable and important to long term success. KPIs There was not performance management in place to determine how the firm is performing. GSK did not have a quantifiable measure that is used to track and assess the status of the firm process. Every area of business especially complex professional services should have specific metrics that should be monitored.

Having metrics will focus more on big picture financial metrics, which was an issue for GSK without the procurement process. The case does not mention how performance of the firms will be tracked. " GELRT leveraged technology to obtain? the information it needed to optimize

financial performance and strengthen strategic planning. Matter management, electronic billing, and reporting systems were already in place within the legal department." (Gardner and Silverstein 6)

There is a lot of information about how GELRT uses technology to acquire information. The system is able to track spending, but there is no system in place to track KPIs. AnalysisThe process of sourcing involves the company to select suppliers for a product or service. The complete an evaluation of the supplier and finally contract with the supplier to deliver the required products or services. While procurement refers to the activity of getting the deliveries from the supplier identified and ensuring that the payments to the supplier are made. GSK adopting procurement process has helped make changes within their spend.

" By 2006-2007, procurement had become heavily involved in the sourcing of many ancillary services. Harlow's tough stance in negotiations saved GSK an estimated \$23 million: \$19 million from Legal Staffing/eDiscovery, \$1 million from Court Reporting, and \$3 million from Medical Records." (Gardner and Silverstein 4) By taking the right initiatives in sourcing and procurement, GSK is able to see the benefits. Having a process in place will save the company time; ensure that one is getting the right solution to meet business needs. A procurement process will ensure you pay the right price and avoid overlooking vital steps that may come back to haunt the firm later.

Procurement policies and procedures allow a business to arrange its buying strategy to its long-term goals and objectives. Procurement helps with a better chance to meet business goals. " This system reminds me of buying

office supplies or landscaping services. Can it really be applied to a complex legal case like this one....?" (Gardner and Silberstein 1) This is what Sophia Keating thought to herself when the idea of a reverse auction process was presented to her.

The vendor selection process initially starts as part of a company's strategy. A procurement process can measure the direct costs and the team timesaving achieved through better management. For example, GSK was very focus on their legal spend, which in turns means you need to select firms that would be able to handle the request in the right budget. The nice thing they had a selection of firms who meet their cost, quality and service requirements needs, but also add some firms who were new.

After they shortlisted their firms, GSK was able to use OCSI for their quotes, terms and minimum service levels. Finally, review their proposals from the reverse auctions and reward the firm with the lowest number. Procurement increases an organization's productivity by providing visibility into transactions. Benchmarking is the process of paralleling what companies are doing with what the best performing company in your industry is doing.

In textbook, Purchasing & Supply Chain Management describes bench making as, " Benchmarking is the continuous measuring of products, services, processes, activities, and practices against a firm's best competitors or those companies recognized as industry or functional leaders." (770) In Exhibit 3 of the case, you able to see how GSK compares with the other Law Firms Self-Assessment. Unfortunately, GSK managing attorney assessment does under perform in a couple areas like

understanding business objectives, involvement of diverse team members, and reactivity and creativity. One of three types of benchmarking, process benchmarking compares operational processes.

Performance benchmarking compares product or services, marketing and sales to determine how to increase profits. Short term benchmarking goals, produce quick results. But it is the long-term goals that help with the direction and strategies of the company that will make it more competitive in the market. Performance management is a performance controlling style that has grown increasingly popular with a variety of companies.

Performance management is the process in which it challenges the company's overall performance and abilities.

It challenges them to bring their best foot and work forward. Performance management usually involve setting goals, then evaluating their progress or work with a reward or penalty depending on how the firm or vendor performs.

Recommendations Run Reverse Auctions A reverse auction is best used to obtain the best rate by embracing competition among firms bidding on price. GSK using this method will allow the law firms to compete with their best idea to win the business and also be within budget.

The idea of reverse because during the auction makes sure the price drops. Price was definitely an issue for GSK previously because there was no way to track the spending. Using the method of reverse auction has a number of advantages. Some of the benefits of reverse auction is the amount of time it takes to make a decision. Before something that could takes months, can

now be shortened into weeks or even days. Also, the bidders are able to see who their competition and how they compare to them.

There is a lot more transparency when it comes reverse auctions. Law firms would calculate their preliminary prices and confirm the very lowest price they would go to secure the business. II. Conduct Routine Performance Reviews Performance management is a mutual agreement about how companies or individuals contribute to an organization's goals. This is what OCSI can do for GSK.

OCSI can act as a process of performance management and appraisals focusing on aligning GSK's workforce, building capabilities, improving employee performance and development, and influencing better business results. GSK should complete annual performance reviews to evaluate the firms' performance. This entails gathering feedback from co-workers and clients into consideration and observations by management. These assessments can be very detailed and elongated to include a review of the previous years' evaluation and an assessment of services.

Many firms may have the company complete an evaluation of their own performance that is then discussed during the evaluation and compared to the official evaluation. Monitoring gives the company an opportunity to make a course correction or adjust a timeline if it is needed so that the vendor will produce the desired outcome of successfully achieving goals. If GSK concludes the vendor has unacceptable performance, monitoring performance enables them to identify the problem early and get an opportunity to rectify before being evaluated incorrectly.

III. Implementing a Performance-Based Incentive

These systems are designed to retain top-performing vendors, motivate the desired performance, and control costs. If a company wants to pay for performance, it must define performance in very specific, objective, quantifiable terms, measure it and track it. Introducing a performance based incentive program with help firm collective help GSK reach their business goals and legal objectives. This really entices firms to align their work with the business goals.

Having a reward for exceptional performance and penalties for poor performance really ensure that money is not being wasted but invested properly. IV. Routinely Fresh Preferred Suppliers It is healthy to refresh suppliers and firms from time to time. If you consolidate your supplier base, it will allow better visibility over the billing process.

It will be easier to track payments leaving the business and going to the suppliers, so any errors will be identified more rapidly. When you deal with less suppliers and vendors, there is less administration and paperwork to handle. This allows more time to focus on other areas of the business. When it comes to decreasing the number of suppliers GSK uses, it is best to control what's best for the business.

Above all, GSK needs to find the best overall fit so that there's a steadiness between the time it takes to achieve their supplier base and the profitability of the business. Conclusion Procurement is should be viewed strategic function working to improve the organization's cost-effectiveness.

Procurement helps streamline processes, reduce service prices and costs, and identifying better firms to do services. It is essential to any business that purchases anything such as products or services. Since GSK buys services like other companies, then the better its procurement function works, the more money it can make.

Typically, businesses buy products or services from multiple vendors. Procurement handles the details of procuring these purchases at optimal prices. Combining your strengths with stakeholder' helps find new progressive solutions to remain successful in business and stay ahead of the competition.

To maintain sustainable supply chain, procurement management has a profitable impact on a company's processes. It helps avoid supply chain risks by better collaborating with vital partners and providing added value to diverse business practices. The bottom line: Performance management is an ongoing practice, not a yearly task.

The success of an organization, if aligned to your organizational goals, will drive business results.

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