



White Paper

Strategic Sourcing: High Gain, Low Pain

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By Karl Kelton

Optimizing the supply chain requires careful attention to overall strategy, supporting technology, and judicious sourcing. We've heard a lot about the first two, but sourcing is an equally important leg of the supply chain stool – and a way for suppliers to drive out cost, as well as, increase and sustain their relationships with their customers.

Three Legs of the Supply Chain Stool

Optimizing the supply chain is on every manufacturer's mind these days. In the quest to better serve customers, reduce expensive inventory, deal with new technology, and improve the bottom line, many organizations are making sweeping changes to supply chain operations, from strategy to technology. But they should not overlook the opportunities available in the more mundane area of sourcing and procurement – a particularly attractive leg of the supply chain stool for smaller organizations.

OEMs have done a fairly good job of consolidating their supply base; they have both the resources and clout. For their suppliers, however, opportunities for savings in the area of sourcing and procurement are often piecemeal, and their identification takes time. Ironically, the companies without deep pockets to fund more expensive supply chain improvements are the ones who stand to benefit most by paying closer attention to sourcing.

A Cost Center Worth Over 30%

Despite spending 30% or more of annual expenditures on purchased goods and services, there is significant opportunity for companies to improve the way they plan and manage their procurement processes. Our clients in the manufacturing industry tell us that transforming sourcing and procurement capabilities provides substantial bottom-line savings – averaging between 3 and 26% – and can be a strategic contributor to future profitability.

Savings attainable from Strategic Sourcing: 3 – 26%

Illustrative

	Benchmark Savings (Low)	Benchmark Savings (High)
Facilities Management	3%	30%
Printing	8%	33%
IT – Hardware & Software	1%	36%
Credit Cards & P-Cards	1%	5%
IT - Telecom	4%	45%
Professional Services	2%	10%
Travel	4%	25%

These savings are substantiated by the findings of Deloitte’s recent global study of manufacturer supply chains. The practices of nearly 600 manufacturers across North America and Europe, from multi-million dollar operations to multi-billion dollar global giants, were put under the microscope. Emerging clearly from the study was the realization that mastering complexity in all elements of the supply chain – strategy, sourcing and technology – was a major driver of profitability. In fact, surveyed companies who optimized all areas of their supply chains reported profit margins up to 73 percent greater than those of other manufacturers.

What is Strategic Sourcing?

Strategic Sourcing is a collaborative and systematic approach for dramatically reducing "external spend," while improving quality, internal processes and total cost. It is a "high gain/ low pain" alternative to traditional cost reduction initiatives.

Strategic sourcing starts by meticulously defining the requirements for a product or service – every product or service procured, not just raw materials, but office supplies, maintenance, transportation, security services, and others. It continues through the rigorous testing of alignment between current and potential providers of that product or service, and enters a cycle of continuous improvement with the ongoing monitoring of the supplier’s performance versus the defined requirements. It may sound like textbook theory, but it’s actually very straightforward common sense: 1) decide what you need – not what you have, what you’re comfortable with, or what you’ve been used to getting; 2) set up a system for ensuring it’s delivering on spec in all areas, and 3) make changes if it’s not.

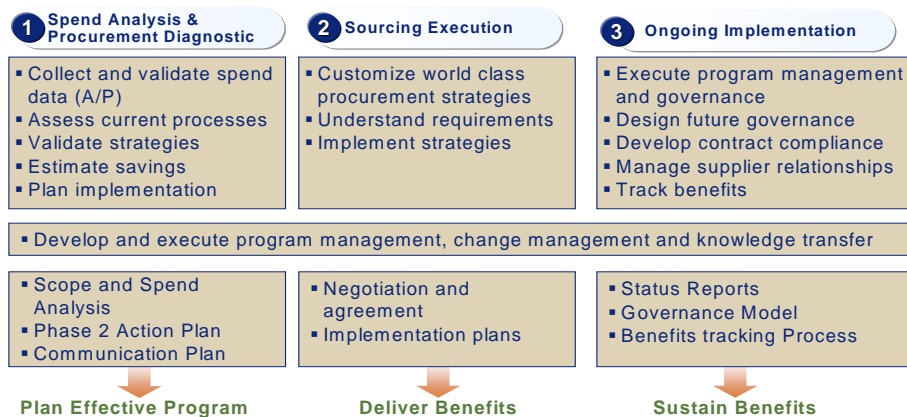
The Benefits of Strategic Sourcing: And a Few Challenges

Strategic sourcing yields substantial bottom-line benefits by reducing the cost of purchased goods and services. Best practices in sourcing and procurement have advanced rapidly in recent years, with technology enabling advancements in the use of collaborative supplier management , auctions, e-procurement, better costing and benchmarking. Once realized, savings are sustained through benefits tracking, supplier relationship management and stronger purchasing capabilities.

Despite the fairly obvious nature of the savings opportunity, many organizations don't have a comprehensive understanding of their total spending on external goods and services. This is usually because procurement departments have not been given a mandate to address a full range of sourcing opportunities in areas such as specifications, total cost of ownership and internal/external collaboration. This is also compounded by fragmented information systems that make the collection and analysis of spend data difficult. So the first step is to establish strategic sourcing as a supported organization priority. Be prepared for change management challenges, however, as this requires an adjustment in thinking. The traditional view of the procurement department is cost controllers who issue requests for proposals and review pricing, versus strategic contributors. Effective strategic sourcing requires cross-functional collaboration and an executive mandate to work across organizational boundaries. Therefore, to increase credibility and ensure support across the organization, a senior person should be given overall responsibility for the strategic sourcing project.

3 Phases to Success

Strategic Sourcing: 3 Phases to success



As with many new program implementations, organizational resistance – not to mention challenges of inertia and staffing – can be overcome by bringing in outside experts. Our strategic sourcing projects have delivered annual savings ranging from 1-45% of spending by employing the category expertise of our specialists, organizational development experience, a rigorous methodology and a focus on sustainability.

We approach strategic sourcing in three phases. The first is an initial diagnostic to provide the business case; the implementation costs are typically funded from benefits. We then move on to the execution phase, during which benefits of electronic catalogs, automated approvals, and streamlined processes are realized. The final phase is the establishment of processes for ongoing implementation, which will ensure that savings are not only sustainable, but that new opportunities will continue to be recognized.

Strategic sourcing is yet another example of how applying strategic thinking to mundane activities can reap significant rewards. And for suppliers, sustainable savings are anything but mundane!



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