Global Digest

Strategic Sourcing
Background

CASME RoundTable meetings on the process of strategic sourcing were held in Singapore, Sydney, Hong Kong, New Jersey, Dubai and London during a period from April to November 2016. The following main topics were discussed:

- Procurement structure and approach to strategic sourcing
- Developing category strategies
- Sourcing strategies
- Implementation
- Measuring and communicating value
- Future trends.

This Digest provides the key points, good practices and insight into future trends identified by CASME members around the world. Full notes from each meeting are available on the subscriber-only Resource Centre.

Procurement structure and approach to strategic sourcing

- Strategic sourcing results in the optimisation of the supply base through the application of long-term strategies and goals. It requires high-level planning and structure, while focusing on generating value.
- Programme maturity levels determine the ability to apply a single centralised or global approach to individual categories. Where it is not possible to select a single optimal global supplier, local and regional procurement teams negotiate their own contracts within the framework of the global strategy.
- For successful strategic sourcing, Procurement needs to proactively develop business partnerships with key stakeholders, changing their perceptions and gaining trust, credibility and influence by demonstrating how it can provide value. A proactive approach to managing spend, risk and compliance is necessary, while following structured processes aimed at aligning requirements with the business, making stakeholders aware of available opportunities and sometimes challenging their decisions.
- The best methods being used to accomplish these objectives include:
  - Approaching stakeholders with spend data, benchmarking information and market intelligence
  - Holding regular meetings to fully understand their requirements and objectives
  - Communicating the company’s purchasing policies
  - Assisting with managing contracts and supplier performance
  - Creating a collaborative environment, listening to problems and helping to solve them
  - Developing user-friendly processes and providing end-to-end assistance and training
  - Holding workshops and roadshows to explain Procurement’s role, and using success stories to demonstrate achievements
  - Speaking in the stakeholders’ terminology
  - Attending stakeholders’ departmental meetings
  - Promoting the achievement of their objectives, rather than those of Procurement.
- Mandated involvement by Procurement does not necessarily improve engagement. Early involvement with stakeholders and including them in the sign-off process can help ensure two-way involvement, although one approach may not work for all stakeholders. The personality of each procurement team member should be matched to their stakeholders to ensure effective engagement.
- Standardised practices contribute to Procurement’s reputation but it is also important to demonstrate flexibility when needed, particularly in tactical areas. Standard processes and automation are essential to improve the accuracy of spend data required for category strategies, the lack of which is the most common obstacle to effective strategic sourcing. Streamlined processes allow resources to be reassigned to more strategic activities. The principal foundation of automation is the use of common, consistent, logical and easily understood taxonomy definitions.
Developing category strategies

- Category strategy plans are developed by applying six to eight defined steps, which typically include: understanding the current situation; assessing the internal environment and the external market environment; establishing strategic options; implementing the strategy; providing governance using KPIs, reporting and review processes. These steps require detailed activities such as: gathering and analysing category spend data; assessing business unit requirements and plans; benchmarking providers’ rates; representing suppliers’ perspectives to stakeholders; understanding time to market; establishing business cases and objectives; implementing relevant technology.
- Category plans are typically published for internal review and use standard formats or templates that include recommendations, background information, financial details, the strategic plan and objectives, time frames, risk assessment, legal review and sign-off. These working documents are refreshed at regular intervals to align with business objectives and current market conditions. They vary in length and detail depending on the requirements of the intended audience.
- Effective stakeholder engagement can be enhanced through use of formal change management practices, such as Kotter’s 8 Step Process for Leading Change. Stakeholder mapping enables effective targeting of key personnel and allocation of resources. Senior executive sponsorship is essential.
- Multi-functional and multi-regional teams improve engagement for strategies. Having stakeholders co-present strategies to senior management reinforces solidarity and support for the programme.
- Market information is gathered from sources such as Gartner, IBISWorld and KPMG, or from an internal research group using suppliers’ annual reports and information from professional associations, industry reports and magazines.
- Cost analysis is a key activity and involves the application of cost models to assess both the total cost of ownership (TCO) as well as estimating the suppliers’ cost structures for manufacturing or provision of services.
- An increasing variety of tools are available to assist with category strategy planning, including BravoSolution, Coupa, Curtis Fitch, IBM Procurement, Ivalua, Oracle, Tableau and SAP Ariba. They cover a range of functionalities from contract management to procure-to-pay (P2P). Integration of these solutions with enterprise systems is challenging; however, when achieved, it provides great benefits for Procurement.
- Category strategy plans are typically reviewed with and approved by stakeholders, with final approval by the chief procurement officer (CPO). Sometimes, a procurement approval board comprised of representatives from Procurement, business units and Finance is used to increase visibility, credibility and acceptance.

Sourcing strategies

- The development of a sourcing strategy is possibly Procurement’s most important function. Application of techniques such as Porter’s Five Forces, A.T. Kearney’s Purchasing Chessboard, the Kraljic Portfolio Purchasing Model and SWOT analysis, help to assess and analyse business requirements, suppliers’ strengths and their market position, the attractiveness of the business to the market, and approaches that optimise the organisation's competitive position.
- A strategy or innovation coach can be used to help the business consider alternative solutions. This internal or external resource helps challenge requirements or assumptions and is useful in strategic analysis. Peer reviews are also valuable in developing new strategies.
- Benchmarking is a useful tool for measuring suppliers’ consistency within the market and for raising the performance level of other suppliers to ensure competition. The emphasis on competition needs to be balanced with attention to performance, as well as the need to maintain partnerships and obtain value in certain categories. Too much emphasis on cost savings may hinder innovation and creativity.
- E-Procurement tools can be used to support sourcing strategy development, from P2P automation to contract management to e-Auctions. Reverse auctions can be helpful as a negotiation tool in many categories, but may be subject to resistance from both stakeholders and suppliers.
- Risk management is a key component of strategic sourcing, and involves many factors including: compliance with government legislation and industry regulations; potential damage to the company’s reputation and brand image; corporate social responsibility (CSR) and sustainability; ethical sourcing and code of conduct; suppliers’ financial status; suppliers certification for health, safety and industry practices; information security protocols; having back-up plans in place to ensure supply continuity.
- Supplier relationship management (SRM) is usually only implemented with key suppliers that have been selected for inclusion in relation to the criticality, spend level and/or risk they represent. SRM is based on
commitment to a long-term, two-way collaborative relationship and the company becoming a customer of choice with key suppliers.

Implementation

- Organisational collaboration in strategic sourcing may take three to five years to reach process maturity. Savings will be a natural consequence, if time is devoted to the process and focus maintained. Where strategic sourcing has not yet been established, a bottom-up approach may be used to initiate it, but to be successful it needs to be adopted across the entire organisation.

- Procurement teams require highly skilled professionals with a combination of interpersonal skills and business knowledge. A suitable personality is important, as is being open-minded with a positive attitude. When filling vacancies for certain complex categories, such as marketing or construction, it may be quicker to train a category expert in procurement skills than to adequately develop a procurement professional’s category knowledge. This approach may result in greater stakeholder support, especially for categories in which Procurement has only recently become involved.

- To maintain talent in Procurement, it is necessary to attract and develop suitable professionals within or outside the function. In some companies, stakeholders are included in the recruitment and selection processes for new category managers. Physically locating team members within business units is an effective way to promote Procurement within the organisation.

- The most important skills for performing strategic sourcing include: collaboration; communication and presentation delivery; project management; leading and influencing (particularly influencing without authority); negotiation skills; analytical skills; value ideation; motivation to achieve results; tenacity.

- Where additional resources are required to implement strategic sourcing, the business case for incremental headcount is based on the potential return on investment (ROI) of each extra person in terms of cost savings, the number of projects and stakeholders needing management, and the spend volume involved. Some organisations increase the automation of tactical procurement activities to release potential resources, and/or implement a centre of excellence (COE) to streamline the effort of gathering and managing data, as well as to performing analysis and reporting.

Measuring and communicating value

- The value of strategic sourcing is demonstrated to stakeholders through the benefits it provides, including: conducting successful negotiations; conducting ethical and sustainable sourcing to protect the company’s reputation; improving supplier performance; ensuring strategic long-term supply needs; solving business problems; contributing to achieving sustainability targets; preventing risk, optimising processes; achieving cost savings and generating value through other means such as innovation, speed to market or improved cash flow.

- Besides cost savings, Procurement monitors ongoing progress against objectives, while managing compliance, collecting spend data and conducting analysis to ensure that strategies are effective and that issues are addressed promptly. Other metrics include: internal efficiencies; resource development; supplier accountability; stakeholder and supplier collaboration; monetary value of improvements through innovation; savings as a percentage of total spend or per full-time equivalent (FTE); percentage of spend covered by contracts; procurement process cycle time; payment terms improvements; percentage of accurate invoices received.

- Dashboards report selected Procurement metrics in a concise and repeatable manner, either for individual contracts or for overall performance. Beyond cost savings, the specific content varies considerably between companies. Scorecards are typically used to measure and report on key suppliers’ performance. Newsletters, business social media, the company intranet, town hall meetings and roadshows are being used to communicate success stories and the impact of completed projects, and promoting the value of Procurement.

- Procurement uses 360° customer satisfaction surveys to evaluate performance. Most effective are those that obtain feedback from multiple stakeholders and suppliers at various organisational levels, including senior management, as this helps to identify problems and improvement opportunities.

- Establishing a governance council, comprised of representatives from stakeholder groups is considered to be good practice and provides input concerning governance from a category perspective. An analysis of roles by those who are responsible, accountable, consulted and informed (RACI) is one of the best methods to use for governance.
• CPOs have a role in promoting Procurement and raising its profile within the business, by actively working with other department leaders and key stakeholders. Sponsorship from senior executives begins with commitment by the CPO to promote the value of Procurement beyond the achievement of cost savings.

Future trends

• Continued emphasis on strategic sourcing will optimise the delivery of cost savings and help focus on new methods of delivering value. Finding opportunities to increase revenue, either through negotiating with suppliers or by introducing innovative solutions, is an entrepreneurial approach to enhancing the value of Procurement. Innovation by and with suppliers will become increasingly important. Emphasis on strategic partnerships will increase involvement in product development and assistance with more complex supply chains, link inbound suppliers with product suppliers and improve overall collaboration.

• Greater appreciation of the strategic value of Procurement will lead to increased engagement in budget and strategy planning meetings. Continued development of Procurement acting in a consultative role for the company will help business units to deliver their key objectives.

• Business globalisation will continue and there will be further emphasis on global diversity of the supply base, which will provide opportunities for close partnerships and innovation.

• Sustained focus on development and deployment of SRM to improve value through increased collaboration between stakeholders and suppliers regarding projects and processes.

• Increasing emphasis on CSR, sustainability, code of conduct, duty of care and demand management will impact negotiations and contract specifications as well as the supplier selection process. The use of key risk indicators (KRIs) will increase as an effective tool to assist in supplier evaluations. Suppliers’ plans to manage risk will be closely examined.

• Efforts to optimise procurement processes through centralisation and automation will remain critical. Purchasing processes will become similar to those of e-Commerce. Technology is raising the expectations of both consumers and companies, with demand for improvements such as faster, more direct deliveries and remote manufacturing requiring Procurement to be flexible and responsive.

• Easier communication will allow Procurement to benefit from real-time data that enables more dynamic spend and market analysis; emphasising the requirements for skills in managing, analysing and optimising big data.

• The trend to outsource selected Procurement categories and processes is likely to continue as companies aim to optimise costs and focus on core their business. Past challenges and failures in outsourcing activities will demand careful analysis, well-matched providers, precise statements of work (SOWs) and strong internal support. There will also be more experimentation using aggregators and brokers to support outsourcing of procurement categories and an increase in consortium buying to consolidate volume.

Resource Centre Links
The following are links to the full meeting notes for each region:

Asia, Hong Kong
Asia, Singapore
Australasia, Sydney
Europe, London
Middle East, Dubai
North America, New Jersey.
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