The Journey to Strategic Sourcing: **A Roadmap**

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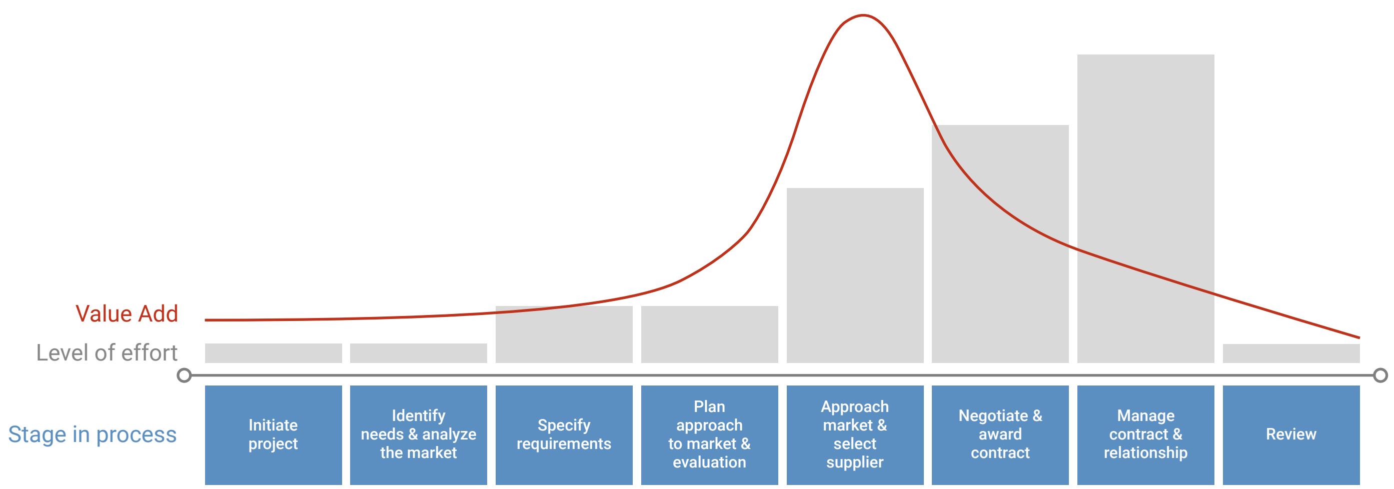
Introduction

In today's competitive business environment, procurement professionals are being challenged to do more with less and find creative ways to cut costs, mitigate risk, improve the quality of contracts and serve internal customers faster. By turning to a more strategic approach to sourcing products and services for your organization, your department can accomplish these goals and more. Making the transition to strategic purchasing is a journey that will take time, effort and management buy-in. However, the benefits are significant, so if you're looking to build a business case to jumpstart your evolution to a more strategic approach, here's a plan of attack that will guide your way.

Tactical vs. Strategic: **A synopsis**

Tactical purchasing is a common method of acquisition that still has its place at nearly every organization. Many corporations prefer to leave the sourcing of low-spend, low-complexity categories up to the departments that need them. For example, a restaurant chain may choose to empower franchisees to purchase their own paper products. Purchasers usually evaluate suppliers on cost and other strictly quantitative measures and don't necessarily work to build relationships with vendors.

Traditional approach to procurement



Source: New Zealand Government

This chart shows a common approach for many organizations, where procurement is brought in mid-way through the purchasing process and mostly adds value in the supplier selection and negotiation stages. There is little effort or value added in the early stages.

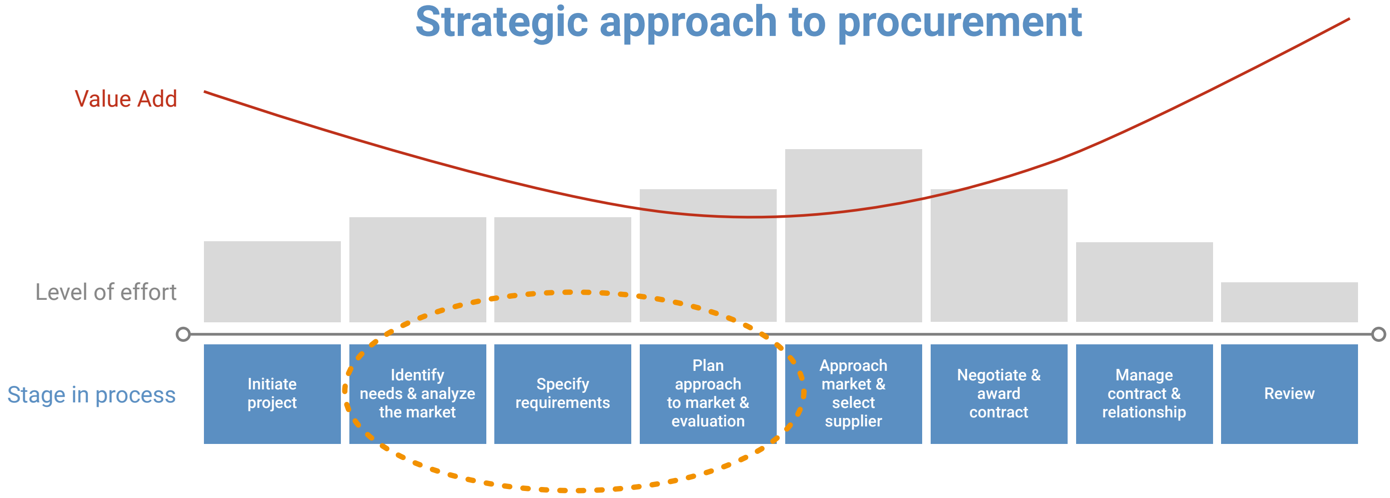
On the other hand, most companies strategically source the direct goods related to their final product, as these are the highest spend and most mission-critical. A strategic sourcing approach considers the direction of the entire organization and leads to decision-making that will support company-wide goals.

Strategic sourcing focuses on more than just price when evaluating suppliers. Instead, the purchaser and its vendors aim to enter long-term and mutually beneficial relationships. Other factors such as total cost of ownership (TCO), risk, quality, and delivery and lead times all go into the evaluation and selection process.

> *"Recently, sourcing professionals have turned their eyes toward strategically sourcing indirect products, as they, too, can be vital to the achievement of business goals."*

Both tactical and strategic approaches to procurement have benefits and challenges. Specific situations may call for one or the other, so even a highly strategic department will have instances where a tactical approach works and vice versa.

Strategic approach to procurement



Source: New Zealand Government

The strategic way of thinking shows procurement involved very early in the purchasing project, adding a high amount of value in the early and late stages and contributing a more even level of effort throughout the whole process.

Benefits of a **strategic approach**

If you're not yet sourcing your indirect products and services strategically, and your processes are working fine as-is, why should you consider transitioning to a more strategic approach? There are significant advantages to examine, including:

- You'll contribute to the **achievement of overall company goals** by aligning purchasing and business strategies.
- Procurement will become **a trusted advisor** to management and internal stakeholders, leading to increased spend management and greater demand influence.
- Category managers can **reduce risk** by diversifying, managing and segmenting suppliers to protect against supply-chain disruptions.
- Aligning purchasing and company goals will foster internal communication and **improve the procurement department's credibility.**
- You'll be able to **prioritize long-term benefits** over short-term gains and save more money over the long run.
- Your department will build a supply base that is **highly invested in mutual success**, which opens the doors to support and flexibility you might not have otherwise had from your vendors.

Is it realistic for every department **to be strategic?**

While strategic sourcing provides a long list of benefits, many small and medium companies simply don't have the human resources or budget to adopt a fully strategic approach. In other organizations (such as manufacturing), the number one priority is to keep multiple, independent production lines running. In these situations, a tactical approach to most procurement needs may make good sense. However, even for an organization that stays with a largely tactical approach, some strategic elements can still be applied. For example, no matter the organization, the management and mitigation of risk should always be a priority.

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Making the transition from **tactical to strategic**

There are several things to keep in mind if you decide to take on the journey of moving from tactical to strategic.

1. Strategic sourcing isn't an endgame, but a continuous process that balances internal and external actions and expertise.

2. Transitioning from a tactical to a strategic department may take 12-18 months, and even longer for complex spend categories. Be sure to manage expectations of management and staff.

3. Start slowly. Making wide-reaching changes too quickly can lead to your team becoming overwhelmed and may disrupt your growth. Identify a few key areas where you can make progress and acknowledge small wins. Then, use that success to get company leadership on board so you can continue to push your efforts.

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Steps to becoming a **strategic procurement department**

There are many benefits of a strategic approach, but there are also many steps on the journey to getting there. Here's a roadmap to help you get started.

Identify a Leader

Affecting change in an organization is never easy. Therefore, a key first step in the transition from tactical to strategic is identifying a leader who is skilled at managing change and who has a strong track record of influencing management and internal stakeholders. This person will need to maintain team engagement, manage the speed of transition and inspire enthusiasm from the entire group, from top management to interns.

Build a Business Case

As with any new business initiative, you'll need to create a business case outlining the benefits, costs, risks and timeline for the transition. We've already discussed the benefits and we've touched on the fact that it could take a year or longer to implement a full plan. You'll also need to analyze costs (will you need additional staff or a new or upgraded Enterprise Resource Planning system?) and risks (will you compromise existing supplier relationships?).

Look at your total spend, then break it up into products and services that are strategically important and those that are not. This will guide your implementation and roll out process. An ERP system will be useful here and can show you the big picture, which can encourage long-term, strategic thinking as you build your case.

Once you've gathered and organized all your information and key points, combine everything in a cohesive, concise document so that upper management has time to read and fully appreciate your vision for the project. Getting the backing of top management is often a critical key to success.

Need more help building a business case? Harvard Business Press offers an inexpensive e-book on **Developing a Business Case.**

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Assemble a Team

Assuming you get the go-ahead from management, put together your "dream team" to lead the charge. You've already identified a leader, so now you need to build around him or her. The team should be cross-functional and represent all areas of the company that can help contribute to your initiative's success. This could include finance, accounting, operations, product development, marketing, sales or any other department you determine should have a seat at the table.

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Develop a Strategic Sourcing Plan

While you've already created a business case, which outlined your reasoning for transitioning to a strategic approach, you now need to create a strategic sourcing plan. This plan will outline everything from current suppliers and processes to your short- and long-term objectives and more. This will likely be the most time-intensive portion of this project and is an area you shouldn't skimp on. It's important to have clear objectives, measurable goals and clear accountability from all stakeholders. There are excellent resources available to help you map out this plan, including **Strategic Sourcing Plans Made Easier with a Take-Away Outline** from The Institute for Supply Management (ISM).

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Implement

Now comes the fun part – implementing your plan! As mentioned earlier, you may wish to start slowly by first rolling out a test program with one category, area of spend or part of the business. As you start to see the effects of this pilot, you'll notice areas to adjust the plan and you'll be able to fix mistakes on a smaller scale. After you've given the pilot group some time to work out the kinks and show measurable results, take your learnings and roll out the plan to other units, in order of strategic importance or size of spend.

Be sure you have a plan in place for non-strategic buys. Not everything you purchase will be appropriate for this new approach and you want procurement staff and internal customers to understand how those will be handled. Communication will be key to helping everyone recognize what does and doesn't fall under the new strategic approach.

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Monitor and Revise

Observe the new processes closely and keep a constant line of communication open with key stakeholders. Be flexible, patient and willing to adjust this new process as it is exceedingly rare for a plan to be implemented and maintained exactly as it was written. This is where your leader, who was chosen because he or she is skilled at managing change and maintaining team engagement, will truly be able to showcase their expertise in these areas. Schedule team/council meetings at regular intervals, document learnings and adjustments and keep upper management in the loop regarding your process.

> *"Be flexible, patient and willing to adjust"*

What should a **strategic department focus** on?

As your department starts to benefit from strategic improvements and better relationships, you may notice that there is now time to focus on key strategic areas that will allow the department to continue to drive value and achieve goals beyond cost savings. Staff can shine the spotlight on objectives such as risk mitigation, cost avoidance, streamlined processes and greater innovation. Here are some other objectives of strategic sourcing departments:

Strategic Process	Action Items
Supplier Optimization	Ongoing improvement process of evaluating your supply base and replacing average vendors with better ones
Risk Management	Identify, analyze, evaluate and monitor risks (financial, operational) to mitigate adverse effects
Vendor Relationships and Development	Spend time with suppliers to implement contract standards and improvements and to discover new capabilities or products that will improve quality and/or lower costs
Technology Implementation	Monitor and update technological solutions that lower costs, increase efficiencies and productivity, and reduce cycle times
Enterprise-wide Contracts	Consolidate spend and contract with a limited supply base to serve needs across the company, providing more favorable terms and reducing time spent on negotiating and renewing numerous contracts
Forecasting	Study and document foreseeable changes in price, availability and risk to provide a competitive advantage

Advocate for **Transformation**

With heightened business competition and profit margins ever slimmer, staying with the status quo – even if it seems to be working well – may not be acceptable to management and/or shareholders. If your company is under pressure to cut costs and generally do more with less, you may need to advocate for a transformation to your company's approach to indirect purchasing, rather than simply maintaining the current circumstances and employing incremental improvements year over year.

You need to look ahead to adopting approaches and processes that will drive your department and organization to be best in class. Becoming strategic in purchases of all varieties – both direct and indirect – is one way that your procurement department can establish itself as newly relevant in this ever-more-competitive business environment.

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About ProcurementIQ

Recognized as a trusted and independent source of procurement research, ProcurementIQ offers a comprehensive library of data and analysis on over 1,000 categories. With an extensive online portfolio valued for its depth and scope, ProcurementIQ equips procurement professionals with the insight necessary to make better, faster purchasing decisions. ProcurementIQ is a division of IBISWorld and serves a wide range of public and private organizations from its US headquarters in Los Angeles.

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