

Strategic Sourcing

Companies are continually pressed to improve the efficiency of their external spend. As the global economy becomes more connected a focus on reducing the cost of direct and indirect materials and services emerges as top priority. A firm risks becoming uncompetitive by failing to develop strong competencies in proactively managing procurement costs, Smart companies proactively manage this risk through strategic sourcing.



For strategic sourcing to succeed there is a need for sustained commitment and involvement from all functional participants to make change happen. Our role as change agents is to encourage teams to challenge long held assumptions about service level requirements, product specifications, and the need for spending at a local or individual level. The greatest gains are achieved by those who not only adopt but embed strategic sourcing processes, procedures and results into their organization.

Traditionally, the purchasing function had sole responsibility for the costs of goods and services purchased from outside resources and managed them tactically. Today companies take a more strategic approach, leveraging a cross-functional, enterprise-wide approach. Leaders consider strategic sourcing as a pivotal element of their entire supply chain, one that can influence costs in manufacturing, logistics, and service delivery – even the total cost of ownership measured at their customers' point of use.

Strategic Sourcing Defined

Strategic sourcing is a methodology and set of skills that helps companies analyze how they purchase products and services in order to lower costs, improve profits, and maximize supply chain efficiency. It recognizes that people, including innovative suppliers, are a valuable part of an overall approach that focuses on eliminating non-value-added costs. While most organizations implement strategic sourcing initiatives for the purpose of saving money, strategic sourcing leaders also pursue improving supplier performance and minimizing risk.

It is essential that the procurement organizations have a sophisticated set of sourcing tools within its solution portfolio. We find that companies who have been using basic procurement approaches are rapidly moving to more advanced cost management concepts. These include use of four powerful sourcing strategies that are applied once all the costs of doing business between a supplier and their customer are well understood.

Strategic sourcing differs from conventional purchasing by:

- Emphasizing not just the purchase price but the full life-cycle costs of a product
- Consolidating purchasing power across the supplier relationship, across all buyers
- Tightening supplier relationships to achieve better standardization and improvements in cost, quality, and delivery time
- Simplifying sourcing requirements through common standards, work patterns, and information requirements
- Improving teamwork and purchasing skills through information sharing to meet wider organizational objectives
- Utilizing online technologies to create interactive forums, such as e-RFPs and

Strategic Sourcing with Thomas Group

Strategic sourcing is fundamental to building excellence in the procurement function; companies gain a significant competitive advantage by strengthening their procurement practices and policies. Thomas Group helps clients understand current and future requirements and develop a portfolio of strategic tools to procure required goods and services at the lowest possible cost. We apply analytics and a fact-based approach to negotiate contracts with suppliers, define key performance indicators, and put a process in place to monitor and measure their organization's and their suppliers' performance.



We take a holistic view, applying tools broadly across the purchasing landscape to provide better visibility and control in line with the company's approach to value creation. Our unique approach identifies spend and applies one of four procurement strategies to reduce cost while ensuring quality and service levels:

Strategy 1: A frame agreement. Frame agreements involve consolidating spend on the basis of being able to offer a highly favorable (low) price to customers. Global purchasing organizations often combine spend from corporate divisions in order to negotiate a *best case* price. In the last few years, *outsourcing* has emerged as a form of vendor-sponsored consolidation allowing for economies of scale

Strategy 2: eSourcing. Executed as online auctions which significantly increase operational efficiency and benefits realization. We apply a combination of face-to-face and online negotiation strategies utilizing an array of eSourcing tools including eRFIs/eRFPs and online reverse auctions.

Strategy 3: Employ a proven 7 step methodology.

Implemented over a period of four to six months, the steps are to:

- Develop a category profile
- Generate a supplier portfolio
- Develop a sourcing strategy
- Select an implementation path
- Negotiate with select suppliers
- Operationalize new agreements
- Sustain and build upon initial results

Strategy 4: The mega supplier approach. Here, we extract savings from spend categories with long-term supplier commitments or where there are high switching costs.

Some of the nuances we factor into strategic sourcing include the:

- Addressable vs. Non-Addressable spend
- The belief that *every category of spend is in play*
- A need to take practicality into account such as employee relations, union impact, and risk factors
- The application of standardization to *consolidate* spend

Realized Results

It is particularly important that savings are realized, not just identified. Typically, Thomas Group client cost savings in direct materials range from between 1% and 5%, while greater savings are possible in indirect materials, from 5% to 30% or even more in some instances.

In our initial meetings with purchasing teams, we describe in detail our methodology and provide examples of work completed for clients using case history formats. With high-level data that you may provide, we can respond with a range of savings that may be possible for your company to realize. 