



## A guide for CEO's, CFO's and purchasing leaders on the issues and challenges of implementing a strategic sourcing based cost reduction program

### Introduction:

**Sourcing is not optional. All companies must buy, add value and then sell, and must excel at all of them to be successful.** Not surprisingly a strategic approach to sourcing has become a precondition for business success and in some businesses even survival. However, whilst most organizations these days will say they do strategic sourcing, in one form or another, the challenge in many organisations, is how well they do it and to maximise the benefits of strategic sourcing it must become an integral part of the business strategy.

### Between a rock and a hard place:

Under pressure to reduce cost and add value on one side, and collaborate with internal stakeholders in an environment that is often misaligned, unsupportive, and sometimes downright hostile on the other, today's purchasing professionals can find themselves on uncertain ground in dangerous terrain.

*"We want to collaborate with our internal stakeholders, but at the end of the day we cannot tell them to buy into our sourcing strategy."*

Why not? If a company wants to excel on its buy side activities and maximize benefits from a high-performing sourcing process then it must be clear, right from the top of the company, what procurement is there to do. If there is silence, people will draw their own conclusions and nothing will change.

So procurement is under considerable pressure to satisfy three different sets of key stakeholders:

1. Senior Management
2. Internal stakeholders
3. Suppliers

Senior management understandably want hard savings. They are not concerned with a beautifully presented process or new technology platform and quite rightly want demonstrated bottom line savings. Internal stakeholders like operations or production, are not really interested in process or total acquisition cost but are mostly concerned with getting the right goods or service levels without



disruption or risk to themselves. Suppliers are the external customer, and here the challenge is to translate value goals for the buyer into a value proposition that makes sense to the supplier. i.e specifications, volume, cost, service and terms and conditions. To succeed procurements mandate must be clear and must be positioned to negotiate with these groups on equal terms.

Visit the **Buying Magician Blog** to read **“Procurements Dilemma – Leader or Support Function”**  
[www.purchasingpractice.com/blog](http://www.purchasingpractice.com/blog)

### **Critical Success Factors:**

#### **1. Organization**

Leading organizations are seeking to reverse years of inefficient expenditure fragmentation by implementing a centre led approach to streamline procurement into a unified, cohesive force for action. Standardized, structured and fully harmonised processes in sourcing, category management, outsourcing and strategic supplier relationship management are being applied.

If procurement is fragmented across the organization and procurement is not playing a key strategic role, it is certain that procurement and supply chain issues are not being optimized.

#### **2. People**

Without the right people in the right positions you cannot succeed, and as procurement takes a more strategic role in the organization the mix of skills and experience also become more strategic. (See the April edition of Transform).

#### **2. Process**

In many organizations there are as many ways of buying as there are people with the responsibility of conducting procurement. If procurement itself does not have the right tools and workflows necessary to support the overall strategic goals of the organization, it will struggle to articulate its role in the organization. This is where consultancies have helped many organizations get off on the right track. Consultancies would typically help define established best practices in sourcing and initiate the first strategic sourcing projects, after which companies would take over themselves.

The focus of these initiatives is to introduce a company-wide, standardized sourcing and spend management methodology to provide the tools and workflows to fill the gaps in established practices.

#### **3. Communication**

Procurement must communicate the vision, and formulate plans to demonstrate the benefits of the strategic sourcing process. Stakeholders need to be involved at an early stage to secure their involvement and acceptance. Plan for how and when you will tell your stakeholders what you



are doing. This will facilitate early dialogue which in turn will help procurement understand the processes of its stakeholders.

#### **4. Monitoring**

One of the key measures of success will be year on year savings compared to performance targets. However, whilst cost reductions are always a key factor on any CEO's agenda, procurement must be mindful of capturing a broader spectrum of measures that play a vital role in your organizations success. These might include: innovation from suppliers, supply disruption, impact on cash flows and working capital etc

Successful procurement organizations ensure they capture key metrics aligned to their company's success. These metrics also serve to set the correct agenda with their suppliers so that they too are working to an aligned agenda. Once this is achieved both parties can work at optimizing the process.

### **7 Benefits of Strategic Sourcing**

1. Delivers a solution that contributes to the organizations success and minimizes sourcing risk
2. More cost effective supply chain
3. Better supply chain partners and capabilities
4. Improved service levels, supply chain flexibility and responsiveness
5. Improved supply chain visibility and market intelligence
6. Better relationships with internal customers via cross functional working
7. Improved compliance and savings delivery

### **7 Quick Health Check Questions**

Organizations can assess if they are optimizing their sourcing activities:

1. Do you have visibility into your spend and operations?
2. Do you have a clearly defined process to arrive at the appropriate sourcing strategy?
3. Have you engaged all the right stakeholders in the process, at the right time?
4. Are you sourcing everything in your organization that can be strategically sourced?
5. Do you have a compliance plan in place?
6. Are you working with your suppliers to continue to drive savings?
7. Are you tracking your progress and marketing the results to the organization?



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## Grasp the Opportunity

For too many organizations, effective cost management is a priority in a downturn, only to be forgotten when economic growth resumes. But continuously increasing operating efficiency is fundamental to success in both good times and bad and so procurement must be clear about its role in both scenarios and have plans to influence top-line revenues as well as bottom-line savings.

## Conclusion

Achieving operational excellence should be at the heart of corporate strategy in both good economic times and bad, and strategic sourcing can play a key role in this respect. Too often, organizations only respond to cost in a downturn and then resort to axing staff levels and cutting other operating expenses which leave organizations no more efficient than they were before. In contrast, a strategic approach to sourcing ensures that a cost reduction program generates permanent improvements in operating efficiency, while being aligned with business strategy to gain long-term competitive advantage and increase shareholder value.

In our experiences organizations that make the organizational commitment to design, implement, and monitor a strategic sourcing based cost reduction program can achieve dramatic increases in efficiency and lower cost.

## The Opportunity:

Purchasing Practice works with clients to embed a world-class strategic sourcing process that can be applied by the organisation repeatedly...without the help of consultants. Typically a well executed sourcing project results in a fundamental repositioning of the Procurement function within the wider organisation.

We can provide a Strategic Sourcing toolkit to enable capability in:

1. RFX management
2. Spend analysis
3. Project Management
4. Opportunity and portfolio management
5. Contract and Supplier Management



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## **Purchasing Practice –*Corporate Procurement made simple***



Purchasing Practice works with clients on the complexity and barriers associated with implementing world class procurement practices; enabling our clients to gain more control over their third party spend management, processes and supply chains, resulting in enhanced capability to deliver innovative cost effective solutions to their own customers.

We drive superior and sustainable financial performance through top line growth, free cash flow and margin improvement (in private sector companies), and best value and service excellence (in public sector organizations).

**We can help your organization “*make change happen*” in procurement. Our services include:**

**Transformation Management:** We will act as a change agent by working with you to articulate and communicate the need for change, develop an enterprise wide procurement blue print and support you through the implementation process.

**Opportunity Analysis:** By working directly with those staff responsible for committing expenditure, or managing suppliers, we will carry out a rigorous review and present our recommendations

**Sourcing Management:** Using our strategic sourcing service enables clients to realize full value from their supply base through leveraging our proven processes

**Category Management:** We work with clients to analyze spend data, define suitable categories then working on a category by category basis to deliver significant benefits

**Supplier Relationship Management:** We will carry out a rigorous review using proven tools and methodologies to present our recommendations.

Call us on 778 988 1052 or email us at [info@purchasingpractice.com](mailto:info@purchasingpractice.com) to schedule a consultation.