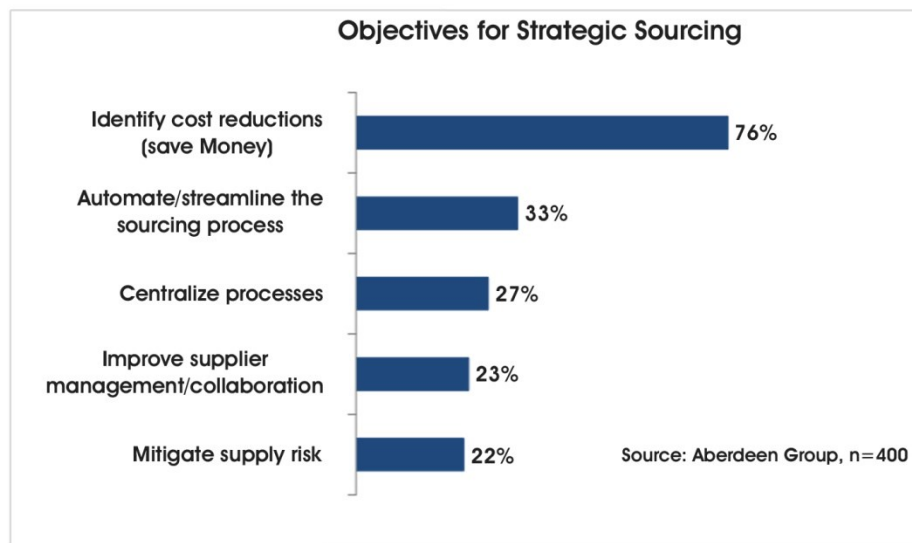ProcurePort
eProcurement OnDemand

# Building the Strategic Sourcing Capability

Value of Strategic Sourcing

- As businesses manage the complexity arising from globalization, currency and commodity risk and economic uncertainty, the procurement function is expected to be a key contributor to value creation. Among the top priorities for procurement and supply chain, continued focus on cost savings is high on the list.

- Strategic sourcing as a capability can deliver the needed cost reductions that directly improve the bottom line.

Objectives for Strategic Sourcing

Objective	Percentage
Identify cost reductions (save Money)	76%
Automate/streamline the sourcing process	33%
Centralize processes	27%
Improve supplier management/collaboration	23%
Mitigate supply risk	22%

Source: Aberdeen Group, n=400

- Of organizations that have adopted "strategic sourcing" in various degrees, a majority perceive it as a high-value function.

The Value of Strategic Sourcing

- Low Value: 5%
- Medium Value: 38%
- High Value: 57%
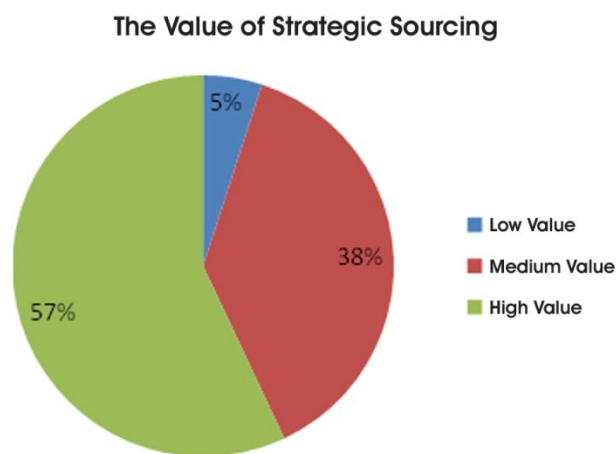
Source: Aberdeen Group, n=400

Key Elements of a Strategic Sourcing Solution

A Strategic Sourcing Solution has four functional components, each aligned with key needs of the procurement process:

1. **Spend analysis:** Software that cleanses, enhances and classifies spending data for the purpose of spend visibility. A spend analysis solution includes analytics and reporting to leverage the enhanced data.
2. **Strategic sourcing:** A solution for creating RFPs and RFIs, soliciting supplier proposals and analyzing the resulting bids. Strategic sourcing solutions generally include reverse auction functionality.
3. **Contract Lifecycle Management (CLM):** An application that facilitates contract authoring, approval, execution and obligations/terms/conditions management.
4. **Supply Base Management (SBM):** A suite of solutions that supports supplier information, risk and performance management with survey tools, scorecards, approval workflow and knowledge management.

Stages of implementation of Strategic Sourcing

Complete implementation of a Strategic Sourcing solution and integration with procurement processes is a multi-year change effort. Sequenced implementation allows the organization to generate savings while building experience and managing the change process.

The recommended investment order is:

1. Spend analysis — As a service and/or as a solution
2. A strategic sourcing application – with e-auction capability
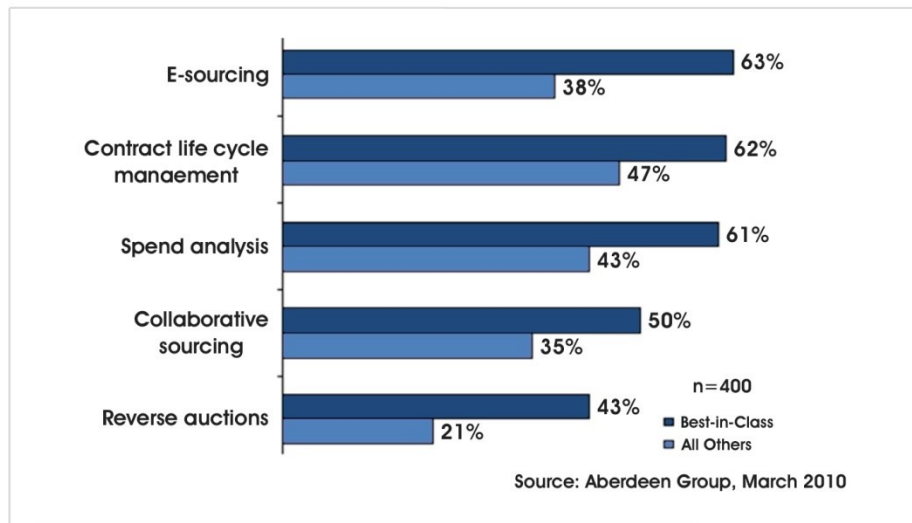3. CLM
4. SBM

Integrating multiple sourcing functions to improve sourcing performance

As the organization advances its sourcing capability, the different components of sourcing should be linked and automated to improve spend visibility and maximize savings.

According to a survey from Aberdeen, best-in-class companies have higher rate of employing e-sourcing, reverse auctions and spend analysis to achieve higher levels of sourcing excellence.

Best-in-Class Technology Solutions Currently Adopted

Technology Solution	Best-in-Class	All Others
E-sourcing	63%	38%
Contract life cycle management	62%	47%
Spend analysis	61%	43%
Collaborative sourcing	50%	35%
Reverse auctions	43%	21%

n=400

■ Best-in-Class
■ All Others

Source: Aberdeen Group, March 2010

Common challenges in implementing and realizing value from Strategic Sourcing

Organization

- No process to set and manage expectations between executive and sourcing team for performance on specific sourcing projects
- Selection of sourcing projects not connected to overall supply strategy or derived from analysis of current spend
- Sourcing process not managed with a change-management program, reducing likelihood of adoption
- Lack of mechanism to document and share best practices, resulting in missed opportunities to create efficiency and capture learnings

Process

- Lack of support for event management, especially during initial events as the organization builds internal sourcing capability
- Insufficient training to both internal and external stakeholders during technology implementation
- Suboptimal supplier participation, either due to technology ease-of-use or inefficiency of bid process
- Poor integration of sourcing technology with organization's current processes

Technology

- Solution not easy to use, leading to low adoption by internal stakeholders – purchasing managers and executives – and suppliers
- Lack of configurability to meet specific sourcing needs
- Lack of advanced capability and features that address the scale needs of sourcing, such as high-SKU events, advanced bid optimization and analysis, project management

Best practices to enable successful adoption of Strategic Sourcing

Organization

- Ensure management review and approval of sourcing plans prior to kick-off
- Mandate by management to use sourcing tool for approved projects, until adoption gains traction
- Team scoring of supplier proposals, to involve stakeholders and achieve objective supplier selection
- Celebrate and communicate wins on cost-savings, supplier participation and other key project success metrics

Process

- For first-time or recent users of Strategic Sourcing, provision services for event management, in addition to basic training on technology. This may be provided either by technology provider or separate service provider.
- To increase supplier participation, enable submission of non-price factors such as quality and service
- Configure the sourcing technology solution to meet needs of sourcing project
- Offer training to both buyers and suppliers in advance
- Increase traceability and efficiency by documenting best practices, operating protocols and managing project archive

Case Study – Benefits of Strategic Sourcing Adoption

Situation

- A Pharmacy Benefit Manager faced the following procurement challenges
  - Lack of capability to implement market-based pricing on tens of thousands of generic and branded drugs, resulting in lost sales and higher costs
  - No mechanism to efficiently drive supplier competition and increase supplier participation

ProcurePort Advantage

- **Configurable** solution to meet procurement and business requirements
  - Integrated with internal ERP system to obtain real-time volume requirements and pricing updates
  - Simplified setup and bid page with customization to maximize user experience and improve bid efficiency
- **Advanced capability** to create efficiency for both buyers and suppliers, including real-time bid analysis, optimization and visibility for participating suppliers and ability to dynamic price updates for thousands of SKUs
- **Easy-to-use** solution was self-run by commodity managers, after initial training by ProcurePort

Results from Strategic Sourcing Adoption

- ProcurePort Sourcing Suite utilized to source 50,000 to 60,000 SKUs monthly
- The Pharmacy Manager realized annualized savings for individual categories, ranging from 5% to 50% in procurement costs depending on the category
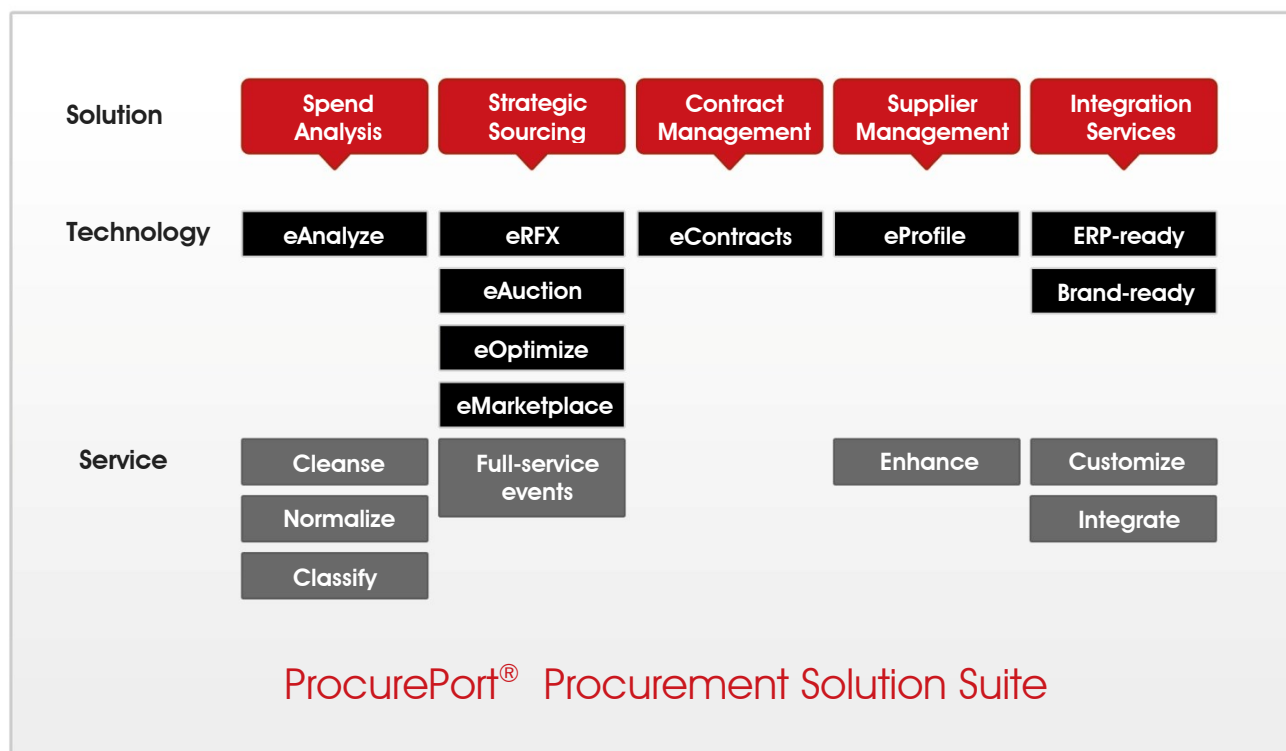
Summary

- Strategic Sourcing enables the procurement function to deliver significant and sustainable cost-savings, a key priority for most organizations today. To successfully implement Strategic sourcing, the procurement organization has to combine sourcing automation technology, process and change-management.
- The right sourcing technology can provide the advanced capabilities and ease-of-adoption that enables the organization to realize a return on their Strategic Sourcing initiatives and support the long-term transition to procurement excellence.

About ProcurePort®

- ProcurePort is a leader in providing cloud hosted e-procurement solutions and strategic sourcing services. The ProcurePort® Procurement Solution Suite provides an easy to use, powerful, comprehensive and proven e-sourcing toolkit for organizations of any size.

- ProcurePort's consulting services and flexible deployment options, enable organizations across a range of industries to improve spend management, automate processes and achieve procurement excellence.

- ProcurePort's on-demand e-procurement solutions are cloud hosted in a Tier IV SSAE 16 Type II compliant data center, providing the highest level of data security and confidentiality.

	Spend Analysis	Strategic Sourcing	Contract Management	Supplier Management	Integration Services
Solution					
Technology	eAnalyze	eRFX	eContracts	eProfile	ERP-ready
		eAuction			Brand-ready
		eOptimize			
		eMarketplace			
Service	Cleanse	Full-service events		Enhance	Customize
	Normalize				Integrate
	Classify				

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