

Adopting Strategic Sourcing

A way to look beyond just material costs and maximize the value of procurement for your supply chain.

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ADOPTING STRATEGIC SOURCING.

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When it comes to procurement, many companies focus entirely on measuring the cost of their materials, they simply look at the price that they pay for what they buy. This approach can produce an immediate reduction on cash outflows but can also produce problems that the resources required to resolve them are significantly more expensive than the perceived savings obtained by only focusing on the product price.

The materials bought by only focusing on the price can lead to a reduction in quality, reliability, and responsiveness, and this can easily end up costing more money in the long run, that's why it's important to use strategic sourcing.

Strategic sourcing is an approach that looks beyond just material costs and maximizes the value of procurement for your supply chain.

Suppose one of your suppliers has agreed to reduce their price if you'll let them switch to cheaper raw materials and a less reliable mode of transportation, of course saving money is good, but depending on your business, these changes can actually lead to an increase in your total costs due to:

- need to do more quality inspections
- carrying more inventory to cover for longer lead times
- having to pay a premium to expedite late shipments
- increase in customers returns
- negative impact on your credibility and customer perception
- etc.

Businesses can use strategic sourcing to make their procurement processes less shortsighted and less focused on price. A sourcing plan allows businesses to develop an adaptable system that contributes to the overall value of the business. The process begins with analyzing business needs and historical spending, followed by outlining a strategic plan, and then conducting data collection and market analysis that guides selection of a pool of suppliers.

Once selection and negotiations have taken place, strategic sourcing also involves measuring performance and improving the process on a continual basis. Strategic sourcing is generally practiced by large organizations with many suppliers.

Strategic sourcing process steps

The strategic sourcing process has many variations, but it usually passes through these steps:

1. Analyze product categories, spending patterns, and the processes and departments involved.
2. Develop a sourcing strategy based on business goals.



3. Analyze the supplier market and create a supplier portfolio.
4. Define request for proposal criteria and templates.
5. Negotiate with and select suppliers.
6. Integrate suppliers into existing processes, onboarding any new vendors or outsourcing providers.
7. Track performance metrics and optimize the sourcing plan, as needed.

Benefits

The most obvious advantages of strategic sourcing are:

- ✓ reduced total cost
- ✓ increased understanding of supplier markets helps identify potential risk factors and help businesses develop sourcing plans to mitigate those risks.
- ✓ emphasis on continuous improvement and sustainability
- ✓ increased flexibility and the ability to adapt to external factors.
- ✓ facilitate strong relationships with suppliers and outsourcers
- ✓ identify potential improvements and provide justification for changes to improve efficiency throughout supply chain processes.

Strategic sourcing involves having a broader perspective on procurement decisions, it can reveal ways to reduce your materials' costs, it can also help reduce risk in your supply chain and build stronger, more sustainable relationships with your key suppliers.

Procurement plays a key role in determining how a supply chain will perform. Focusing on material costs often leads to adversarial relationships and lower overall performance. By implementing strategic sourcing, you can help to ensure that you're maximizing the value that you deliver with every dollar you spend in your supply chain and that will make you a better customer and a more successful business leader.

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