

Strategic Sourcing Toolkit

Moving your procurement
team from tactical to
strategic

Introduction

Do you feel like you're always busy putting out fires, reacting to the one thing in front of you, and have little time for planning? Wouldn't it be nice to have a long-term, systematic, and holistic approach to your sourcing?

Strategic sourcing procurement is steadily moving away from tactical sourcing and, instead, taking a strategic approach. Sourcewell is proud to collaborate with subject matter experts from your profession to share what it takes to operate strategically to set your institution up for success. No matter the size of agency, buyers can use this toolkit to move from short-term transactions to long-term data and relationships. By having a plan in place, you'll be smarter and more strategic, while maximizing the value of spend with your most critical suppliers.

What is strategic sourcing and why is it important?

Strategic sourcing can be defined as a collaborative, data-driven, and structured process of critically analyzing spending habits, and using this information to make business decisions about acquiring goods and services more effectively and efficiently.

Strategic sourcing helps your college or university with the following:

- Contract gaps.
- Spend management.
- Supplier consolidation.
- Supplier partnerships.
- Value focus, not just price.
- Leadership participation.
- Improved service level.
- Better data.



A guide to strategic sourcing

Becoming strategic requires a change in mindset. Traditionally, purchasing focuses on achieving lowest price. Strategic sourcing believes achieving the highest value ultimately saves dollars in the long-term and is critical to a successful sourcing strategy.

The strategic sourcing lifecycle is broken into six pillars:

- Pillar I: Data analysis
- Pillar II: Gaps & opportunities
- Pillar III: RFP or coop?
- Pillar IV: Contract negotiation and contracting
- Pillar V: Supplier relationship management
- Pillar VI: End of contract



Everything is scalable!

Strategic sourcing is scalable. There is no one-size-fits-all approach; therefore, leading experts separate each pillar within the toolkit by allotted resources. Appendix A explains how to best utilize each pillar based on your resources. You may have limited resources or you may have many. In either case, this toolkit can work for you.



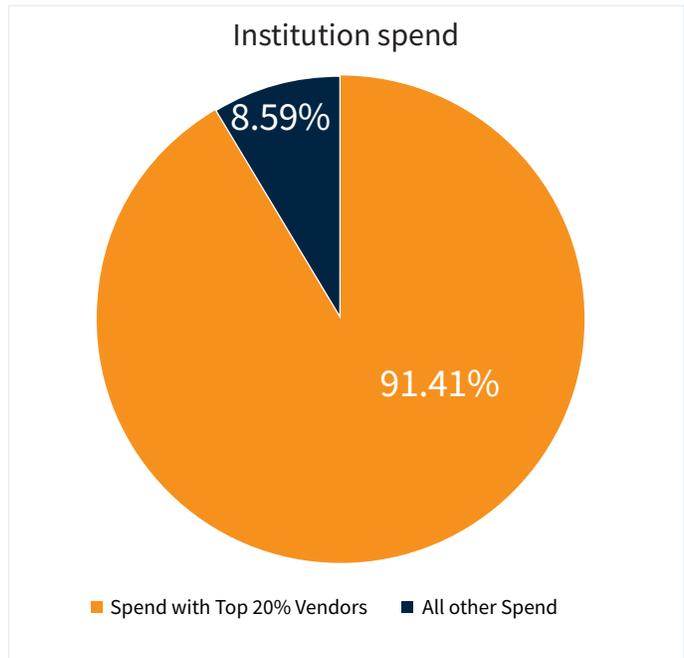
Pillar I: Data analysis cont.

Department scorecards

Department scorecards provide key spend behavior among different departments. Additionally, spend information by supplier, user, and spend method become apparent.

Department scorecards show the following:

- Spend source totals.
- Fiscal year spend trend.
- Top commodity spend.
- Monthly purchase order count and volume.
- Percent of e-procurement platform usage.
- Top users by PO count.
- Top users by PO volume.
- Top suppliers by invoice volume.
- Top suppliers spend with procurement card.
- Top suppliers spend with travel card.
- Airfare totals and booking details.
- Department spend totals.



How can I obtain data?

Today, there are bountiful resources and e-procurement platforms that assist with obtaining quotes, managing contracts, creating online catalogs for your stakeholders, managing spend, and collecting data. Depending on your resources, it is important to do an ROI and determine which platform is best for you. You may be able to afford a top-tiered e-procurement platform; however, there are simplified systems that assist with basic data collection.

Other avenues to obtain data include:

- Finance system (ERP).
- Expense reimbursement.
- Procurement cards.
- Bank data.
- Travel spend.
- Travel management company.

Suppliers are more than happy to share information. People too often view their relationship with suppliers as “us versus them” or as an enemy. Relationships are valuable. Let suppliers help you by providing spend information and analysis to understand your institution's spend behaviors better.

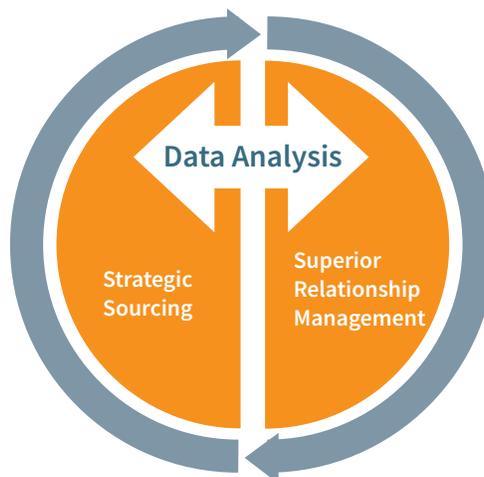
Pillar II: Gaps & opportunities

Overview

The data you collect lends insights to gaps and opportunities, providing specific initiatives for your institution. Use data to identify current contract gaps and contracts soon to be expiring. Determine where spend is increasing and why. List critical suppliers for your supplier relationship management initiatives (more on this in Pillar VI).

Case Study

Through data analysis, one university discovered its moving and relocation contracts were not being utilized and, instead, spend was often outside of these suppliers. Purchasing often granted waivers to utilize other vendors due to some dissatisfaction with these suppliers. The university's strategic sourcing team performed a case study, questioning the suppliers and listening to their campus customers' struggles. As the contract neared expiration, the university negotiated with three local suppliers and did a comparison with a national cooperative contract. Through negotiation, the university was able to preserve the three local suppliers and add three national contracts to provide flexibility for its campus customers and, in the end, create a much more effective and valuable category environment. This example shows how data analysis identified a contract gap and opportunity. The university was not seeing compliance and usage of its awarded suppliers, allowing it to take action resulting in better pricing and higher satisfaction rates among users.



Pillar III: RFP vs. cooperative contract

Overview

Now that gaps and opportunities are determined, decide to conduct your own procurement process or utilize a cooperative contract.

Cooperatives are often used for convenience or in emergencies. Additionally, common utilization of cooperatives is with specific commodities such as office supplies, medical supplies, and facilities maintenance. Strategic sourcing is about value creation. Cooperative contracts assist in building an effective contract portfolio with supplier relationship management. Additionally, cooperative contracts can provide competitive pricing, quality contracts, and customization and flexibility through participating addendums.

See Sourcewell's scorecard for overall evaluation and criteria.



OVERALL EVALUATION AND CRITERIA

For the Proposed Subject SNOW AND ICE HANDLING EQUIPMENT, SUPPLIES, AND ACCESSORIES

Conformance to RFP Terms and Conditions	50	
Financial Viability and Marketplace Success	75	
Ability to Sell and Deliver Service Nationwide	100	
Marketing Plan	50	
Value-Added Attributes	75	
Warranty	50	
Depth and Breadth of Offered Products and Related Services	200	
Pricing	400	

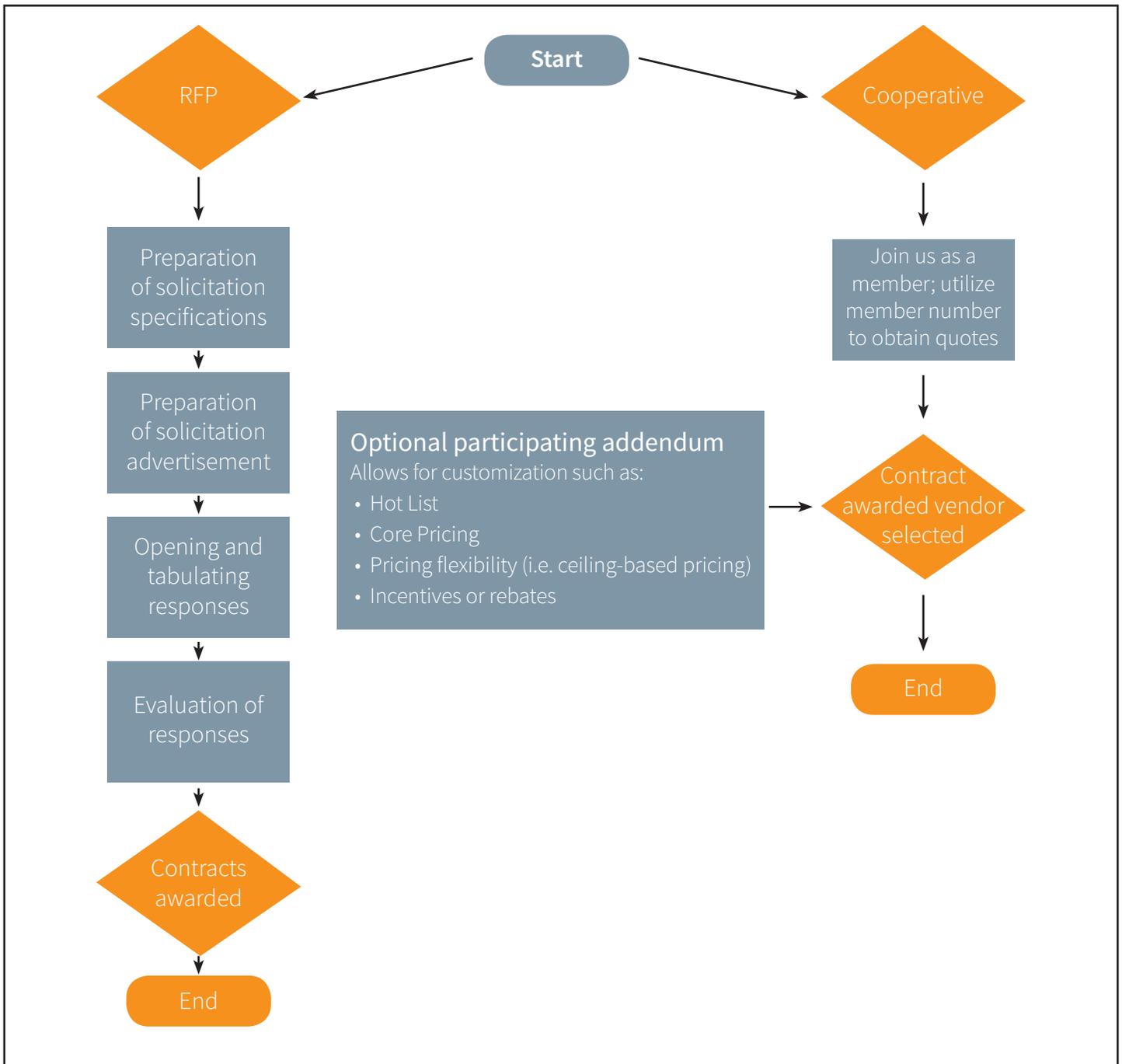
Pillar III: RFP vs. cooperative contract cont.

Time is money. However, value is more than price. It takes time to conduct, process, and award an RFP. Cooperative contracts satisfy the competitive solicitation requirements, eliminating the need to spend time and resources on the process, while offering quality contracts. See Figure 1 to compare the RFP and cooperative processes.

Questions to ask:

- Is there anything you need that a cooperative contract already offers?
- Are different contracts available for one category? If so, compare and evaluate the best option.
- Do you understand your legal authority to use cooperative agreements?

Figure 1. Flow chart of RFP process or use of cooperative contract



Pillar IV: Contract negotiation & execution

Overview

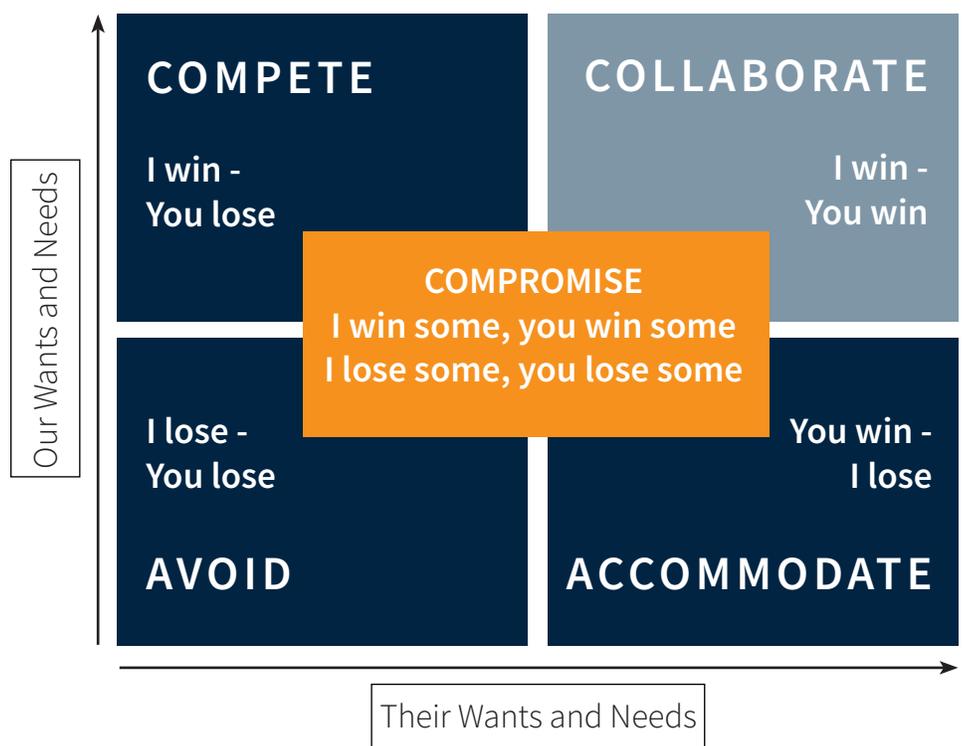
In contract negotiation and execution, you agree to terms and conditions with the awarded supplier. Be sure you clearly understand what you are agreeing to. Ensure the contract follows your core values and delivers what is best for your institution's needs. Keep an open dialogue with the supplier of choice, as this is the start of a positive relationship.

Procurement professionals in strategic sourcing find a collaborative and compromising approach to be most successful and allows you to have open and honest communication. You will develop and build relationships and make critical decisions that are in the best interest of your institution. Suppliers are not the enemy. Working successfully with these suppliers will pay off many times over, and you will see higher satisfaction rates among your campus customers.

Figure 2 shows the most common negotiation styles and approaches, including:

- Competing.
- Avoiding.
- Accommodating or conceding.
- Collaborating or cooperating.
- Compromising.

Figure 2.



Pillar V: Supplier relationship management

Overview

The key first step in creating a supplier relationship management (SRM) process is to determine your top-strategic suppliers to be included in the program. By now, you should have answered the following questions:

- Which suppliers yield the most spend?
- Which suppliers have the highest utilization among your internal customers?
- Which suppliers are critical to the institution's mission?
- Which suppliers have a willingness to truly partner with your institution?
- What is the risk profile of the top suppliers?

After supplier determination, the involved team is included in the final contract discussions and an implementation plan determines ownership of each supplier relationship among team members.

A more robust SRM program may place suppliers into tiers, or categories, based on their strategic importance to the college or university. The following is just one example of a supplier tier structure:

Level 1: Strategic partner

Strategic Partner represents the highest level of supplier designation. Suppliers in this tier involve high transaction and spend volume, affect a vast majority of your organization's departments. The SRM team, including involvement from senior management, actively manages these relationships. Key components of these partnerships include business reviews, performance goals, contract management, and support and relationship management.

Level 2: Strategic supplier

Strategic Suppliers support multiple departments, providing products and services at a level significant enough to warrant management. Conduct business reviews once or twice per year. Goals focus primarily on operational effectiveness. Monitor contract compliance as appropriate.

Level 3: Key supplier

Key suppliers sell goods to departments on your e-procurement platform, or are designated as important. Involvement with these suppliers is limited due to lower activity levels on the e-procurement platform, or overall sales. Conduct business reviews as needed with a focus on transactional and operational efficiencies.

Pillar V: Supplier relationship management cont.

Regardless of the tier, there are several key elements critical to integrating each supplier into the SRM model:

A. Establishment of supplier contacts

As a supplier is integrated into the SRM model, establish the appropriate contact list needed for the SRM program. Contacts may include:

- Technical e-procurement contact.
- Accounts Receivable (AR) contact.
- Supplier main point of contact.
- Customer service contact.
- Sales contact.
- Any additional contacts that will be relevant to the SRM program.

B. Contractual agreements

The SRM team must be familiar with all aspects of the contract being managed. This includes the traditional service levels and KPI's, but should also include how the contract works within an e-procurement platform if applicable.

C. Transaction card payment programs

Be aware of any payment program language included in RFP and institution-wide agreements. Make supplier aware of your preferred payment method as it may affect their eligibility within the SRM program.

D. E-procurement catalog enablement process

If a new supplier catalog is going to be enabled on an e-procurement platform, the enablement process begins upon contract execution. Make the initial call and connection between the supplier and e-procurement partner to ensure proper training and technical requirements needed as a catalog supplier. Next, set up an introductory meeting to begin the relationship with the supplier. Explain the format of future business reviews. Include the following items to be discussed at the initial meeting:

- Introductions.
- SRM model.
- Supplier and institution obligations and expectations.
- Potential future opportunities.
- Best practices for enhancing mutual value.
- Technical capabilities.
- Contract details.
- Contract compliance.
- E-Procurement demo.
- Issue resolution and escalation protocol.

E. Contract announcement

Announce the contract execution and implementation of the supplier in your institution's next newsletter or other communication method. Include a brief summary of the types of goods and/or services provided by the supplier. Explain any specific contract items of importance to internal customers, such as pricing advantages. See below for an example of a contract announcement.

Strategic sourcing news: Vendor X is newest strategic partner

The procurement team is excited to announce Vendor X is our newest strategic partner. Departments can now order desktops, laptops, and netbooks, as well as monitors and peripherals, at exceptional savings. All products on the new agreement are business-class quality and provide users with powerful equipment at exceptional prices.

The new pricing reflects discounts up to 25 percent, a significant improvement over previous discounts. Additionally, the Vendor X contract will be on the agency's e-procurement platform, so purchasing is right at your fingertips. Click here to view products available to you through this contract.

Please reach out to John Smith at 555-555-5555 or jsmith@example.com with additional questions.

Begin the SRM process once the integrated suppliers understand the SRM model

A. Quarterly or annual business reviews

Business reviews form the cornerstone of the overall relationship with the supplier. Business reviews allow an opportunity to discuss concerns, goals, accomplishments, and initiatives from each party. Time must be set aside to build on these relationships, which will ultimately speed up any issue resolutions and allow both parties to view the other party's roadmaps.

Business reviews may include the following items:

- Old business/takeaways.
- E-procurement platform updates.
- Supplier provided data.
- Institution provided data.
- Scorecard.



Pillar V: Supplier relationship management cont.

The supplier scorecard is a great starting point for managing the supplier relationship. It follows SMART goal setting and helps keep both parties accountable.



B. Escalation and issue resolution

Successful relationships with key suppliers rely on assistance with the resolution of issues. Leveraging a positive relationship between the SRM team and supplier can quickly resolve a situation and result in a positive outcome. Without vital relationships, problems may remain unresolved for extended periods and cause unnecessary strain among department and/or supplier relationships.

C. Contract compliance

The SRM team measures contract compliance. Items typically measured include:

- Freight/shipping.
- Ordering channel optimization.
- Invoicing accuracy.
- Catalog maintenance.
- Pricing and payment.
- Key Performance Indicators monitored.
- Service Level Agreements monitored.

Again, a strong and positive supplier relationship allows the SRM team to quickly address and resolve contract compliance issues.

D. Incentive compliance

Some suppliers will contractually agree to provide incentives such as volume rebates or discounts. Upon agreement of both parties, the SRM team will track and measure the incentive(s) to ensure accurate reporting. Utilizing the assistance of a business analyst may be necessary.

Pillar VI: End of contract

Overview

Know when your contracts are nearing the end of their term. Ask yourself the following questions:

- Have your requirements changed?
- How did the supplier(s) perform?
- Should you extend? Resolicit? Use a cooperative?
- Has the market changed?

Follow-up with your internal customers. Share feedback on contract savings and ask for their input on experience in utilizing these contracts. Soliciting feedback will strengthen internal relationships. Quarterly surveys are best, but—at a minimum—annual surveys should be distributed and accounted for within your institution.

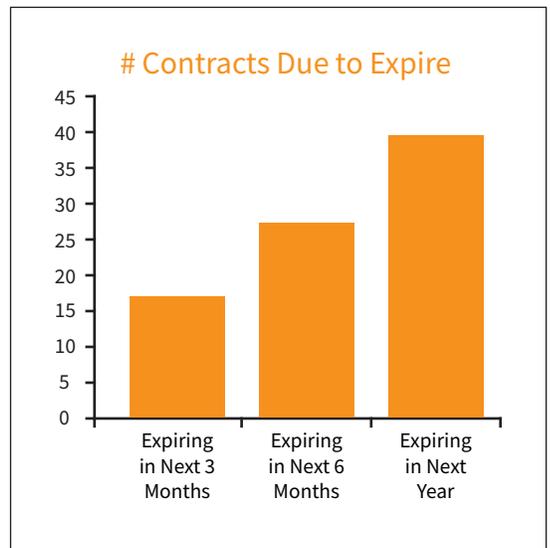
Ask internal customers to rate the following:

- Satisfaction with supplier contract, including responsiveness, accessibility, pricing, etc.
- Satisfaction with e-Procurement platform.
- Satisfaction with procurement department.

Asking questions helps your team learn more about your suppliers, the tools you utilize, and the work within your team. It identifies areas for improvement and shows what is working well. Be open to feedback, constructive criticism, and be sure to act on what others are asking of you. Solicit feedback through a variety of mechanisms, including:

- Face-to-face outreach.
- Open houses/open forums.
- Town Halls.
- Email surveys.

After scoring the supplier, its contract, and reviewing peer feedback, determine next steps to take with the contract.



Savings by how they were achieved



Conclusion

Simplify successful strategic sourcing into two words: data and relationships. Data tells the story and drives the direction of your team. When shared properly, it changes behavior of those you work with. Successful relationships with suppliers yield great contracts, improved service, process efficiencies, spend consolidation, and executive attention. Successful relationships with internal customers drive realization of contract savings opportunities. It will achieve cost reductions beyond anticipated expectations and change spend behavior. Both contract users and suppliers will begin to feel a more positive experience and as though they are the “customer of choice.”



Achieve sustained value through strategic sourcing. Remember, whether you are from a large or small institution, everyone can scale this model to best fit their needs and ultimately drive change and see success.

If you have additional questions on how to move from tactical to strategic sourcing, we are here to help. Please reach out to Katie Alba, membership development administrator at Sourcewell. She will assist in connecting you to other thought leaders in strategic sourcing that have already paved the path to a strategic sourcing system.

Sourcewell is a self-supporting government organization partnering with education, government, and nonprofits to boost student and community success. Sourcewell strives to be a trailblazer and market leader with a track record of innovation and growth across all services.

We value our relationship with you and are committed to understanding your needs and providing comprehensive solutions that will make you successful today and long into the future. We wish you the best as you begin to move your institution toward a strategic sourcing model and look forward to continuing to serve you in your journey.



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Appendix A.

	Limited resources	Moderate resources	Significant resources
Pillar I: Data analysis	Request spend information from suppliers. Implement affordable, user-friendly e-procurement platform to easily extract and manipulate spend data.	Obtain data from supplier as possible. Focus limited resources regarding internal data analysis on those commodities with high impact.	Hire or designate an in-house analyst or business intelligence team member. This team member analyzes all spend in an ongoing fashion, ensures compliance, maintains spend under management, and creates new business questions. Predictive analytics incorporate market conditions and changing agency environment.
Pillar II: Gaps & opportunities	Standard commodities are well known and should be point of focus. Limited resources often compel agencies to be reactive with remaining commodities.	Basic data analysis will highlight gaps in contract portfolio.	Data analyses fully indicate high spend areas without a contract. Data and initiatives are used to push spend behavior activity.
Pillar III: RFP or coop?	Cooperative contracts provide access to most goods and services. Concentrate contract usage within one cooperative for easier contract and supplier relationship management.	Conduct an RFP for specialized good and services. Perform basic comparisons between cooperatives offering the same, or similar, solutions.	Treat all contracts, including usage of cooperative contracts, as sourcing events. Apply the same spend and category analysis to identify what is most important in this solution (i.e. pricing, other KPI's, spend under contract opportunities. Ask, "what are we trying to achieve with this solution." If the decision is to use a cooperative contract, thorough differentiation between cooperative contracts is key.
Pillar IV: Contract negotiation & execution	Limited advantage with limited resources. Often eligible only for incentives as provided by the cooperative or individual contracts.	Data provides opportunity to "hot list" high volume or items of high importance in both an RFP or cooperative solution.	Opportunity to drive pricing, incentives and other items of importance through win-win negotiations, both with RFP or cooperative. Perform extensive benchmarking and market analysis prior to negotiations.
Pillar V: Supplier relationship mgmt	Establish chain of command to help resolve business issues. Utilize supplier scorecard to manage and evaluate the supplier relationship.	Identify a small subset of critical suppliers and meet with them on a regular basis. Focus can be on performance metrics.	Robust program in place to identify and execute against mutual, high-value opportunities. This extends beyond pricing and performance metrics, to include achieving spend management, supplier market share, innovation and agency initiatives.
Pillar VI: End of contract	Stay with new or extended contract within preferred cooperative.	Re-evaluate the needs in this space. Do another RFP or cooperative "bake-off" as appropriate.	Perform in-depth data work to determine needs and requirements in this contract space. Use data to create a new sourcing event, leading to either an RFP of cooperative.