SAPinsider

This article appeared in the Jan ▪ Feb ▪ Mar 2012 issue of *SAPinsider* (http://sapinsider.wispubs.com) and appears here with permission from the publisher, WIS Publishing.

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6 Steps to **Sourcing Excellence**

by Carolyn Beal, SAP

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The increased emphasis on cost control that has come out of the most recent recession has accelerated the growing trend toward centralized sourcing processes. Companies are seeking to consolidate spend for better visibility while tracking the savings all the way to the bottom line. As **Figure 1** illustrates, savings remains the top priority for chief procurement officers. And in today's market, organizations need to make the most of every dollar saved.

Yet maverick or unauthorized spending still continues to eat into many companies' savings efforts, reducing the bottom-line contribution. According to a recent study, 2.7% of a company's identified cost savings are lost due to savings leakage before hitting the bottom line. Depending on a company's size, that could translate into millions of dollars.[1]

To effectively sustain savings and achieve sourcing excellence, a procurement organization has to keep track of numerous moving pieces. Sourcing teams must be able to develop and manage internal relationships and negotiate prices and contract terms with suppliers, while monitoring numerous spend categories to understand the latest material and service pricing trends.

Here are six steps to help procurement organizations in their quest to maximize savings and profits and become a more valuable partner to the business.

1. Obtain Executive Sponsorship

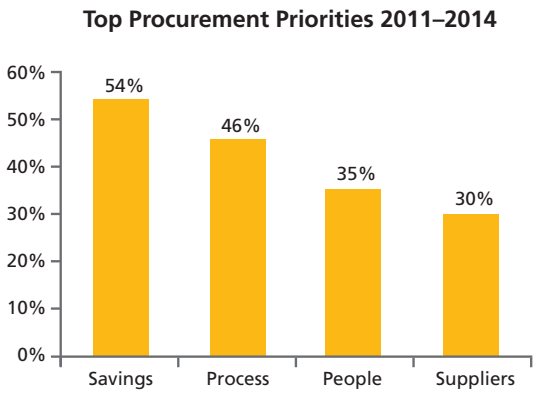
Mandates from executive sponsors work wonders to gain business-level support for sourcing strategies and policies. Without executive buy-in, it can be an uphill battle for the sourcing team to enforce policies and drive preferred technology processes. The executive sponsor can also serve as a liaison with executive management and the board, highlighting the sourcing team's achievements across the business.

2. Collaborate with Key Stakeholders

Meeting stringent savings goals is not something sourcing can do on its own; it requires collaboration with both internal stakeholders and key suppliers. Internally, embedding a member of the sourcing team within a business unit can help sourcing better understand the business's needs, enabling it to make smarter purchasing decisions. And by doing so, sourcing can be viewed as a valuable strategic partner. According to a 2010 report from SAP and Procurement Leaders Network, 50% of professionals described the nature of procurement's collaboration with the business as proactive and consistent; this figure is expected to exceed 95% in the future.[2]

[1] Aberdeen Group, "The State of Strategic Sourcing" (2011).

[2] SAP and Procurement Leaders Network, "Key Drivers for Modern Procurement" (2010).



Source: Ardent Partners Ltd., "CPO Rising 2011: Innovative Ideas for the Decade Ahead"

FIGURE 1 ▲ Cost savings tops a procurement executive's priority list

The increased emphasis on cost control that has come out of the most recent recession has accelerated the growing trend toward centralized sourcing processes.

You can take a similar approach with suppliers. Identify your most strategic suppliers and schedule periodic meetings during which you review the current state of the business and plan how to effectively work together in the future. You might be surprised at the ideas that suppliers can offer to drive efficiencies, leveraging an "outside-in" perspective.

3. Automate Processes

Wherever possible, automate sourcing processes. Even if you have already invested in a sourcing technology, examine what processes you could optimize further with automation. To reduce errors, avoid doing the bulk of the work in spreadsheets and then uploading them into the sourcing system; instead, capture all process steps within the sourcing tool. For example, by objectively structuring supplier questionnaires within a sourcing system, you can move to automated supplier scoring to award contracts.

For those not yet leveraging sourcing technology, the time to invest is now. Without this technology, manual sourcing events such as requests for proposal (RFPs) can be time consuming and burdensome, taking months to execute offline. You also risk missing important compliance mandates by not having a single version of the truth for your sourcing data.

Also, take a page from the sustainability group and "reduce, reuse, and recycle" your information through automation. Why recreate the wheel when developing a sourcing project, creating an RFP, running an online auction, or analyzing spend data? By using templates within a sourcing technology, you can increase productivity, pool information for the team's collective benefit, and be assured that you're using the best strategies each time.

4. Become More Informed

Imagine having the information necessary to make sourcing decisions right at your fingertips. Having insight into data about prior and current sourcing activities and centralizing bidding events, reports, and approvals increases efficiency and ensures that you always know what is happening with suppliers, expenditures, and spend categories. **Figure 2** is an example of a dashboard that provides relevant sourcing information at a glance.

5. Enact Tight Spending Controls and Policies

There is nothing more frustrating than witnessing a wasted effort, such as negotiated savings that are never realized. Organizations that closely watch for off-contract spending have 40% less maverick spending than their peers.[3]

Setting up spending guidelines that are enforced by automated system controls, such as approval workflows, can reduce unauthorized

[3] SAP Benchmarking (2011).

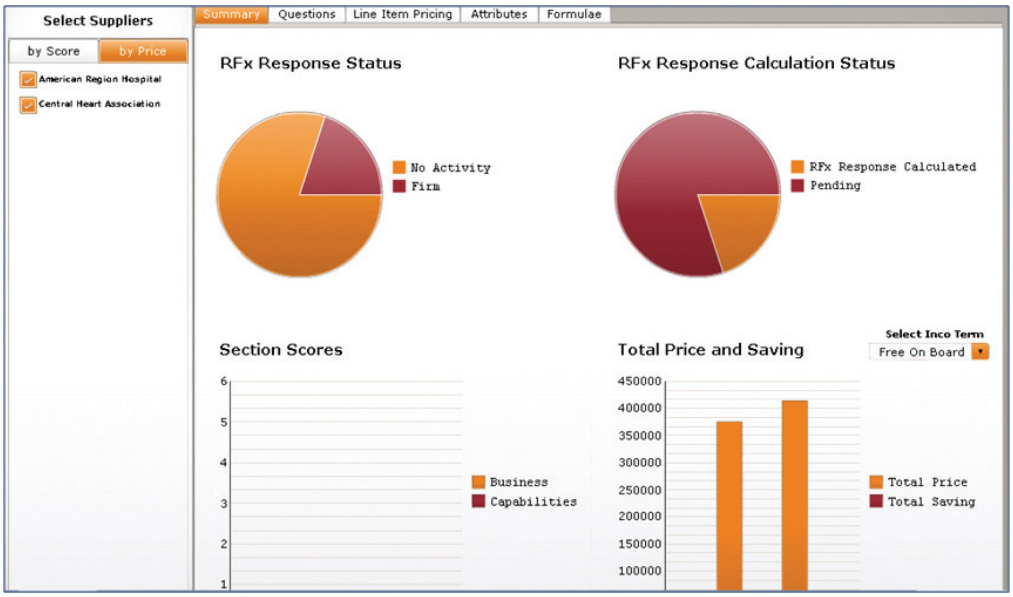


FIGURE 2 ▶ A dashboard within SAP Sourcing OnDemand gives sourcing professionals an at-a-glance view of key data

How SAP Enables Sourcing Excellence

To enable the strategic sourcing process, which includes identifying, analyzing, and selecting suppliers, **SAP Sourcing** and **SAP Sourcing OnDemand** deliver flexible project management capabilities such as a shared, online sourcing project plan and savings-tracking capabilities. Plus, the solutions provide extensive tools and templates to create and manage requests for information (RFIs), requests for quotation (RFQs), requests for proposal (RFPs), and online auctions, which help an organization effectively evaluate suppliers, negotiate terms, and award contracts. And the solutions support strategic sourcing across all categories of spend, including both goods and services.

Internal and external collaboration is key to the strategic sourcing process. SAP Sourcing and SAP Sourcing OnDemand allow you to invite colleagues to provide internal feedback on sourcing activities. For example, stakeholders within the business can help develop an RFP or score a supplier's RFP submission. Externally, suppliers can communicate with your company through an intuitive, user-friendly interface. For example, they can create a profile, submit bids, and receive feedback. What's more, SAP Sourcing and SAP Sourcing OnDemand can integrate with back-end ERP systems, allowing you to compare contracts with supplier invoices to ensure that suppliers are adhering to the negotiated contract terms.

Internal and external collaboration is key to the strategic sourcing process.

spending by ensuring that your staff buys goods and services only from approved suppliers at contracted prices. Examples of these technology-driven workflows include requiring approvals for purchases that are:

- Over a specific amount
- From non-contracted suppliers
- Outside of certain spend categories

6. Take a Category-Driven Approach to Sourcing

The last step in achieving sourcing excellence is expanding the list of spend categories you are managing. By now, most procurement organizations have already segmented out their "low-hanging fruit" spend categories and generated some savings by sourcing them. Now the time is ripe to scrutinize the next layer of more sophisticated spend categories for sourcing potential. Closely examining market information, such as category cost drivers and commodity pricing, as well as supplier financial information will unearth new spend categories that can drive further cost savings to the bottom line.

Learn More

It will take initiative, coordination, and buy-in from your company to follow these six steps to sourcing excellence. But the effort is worth the savings that is added to the bottom line. By leveraging these guidelines, your procurement organization will be equipped to work smarter, source better, and save more to become a more strategic and valuable partner to the business.

For more information, please go to **www.sap.com/sourcing** and **www.sap.com/sourcingondemand.**

Additional Resources...

- "3 Questions to Ensure You're Collaborating Effectively Across Your Supply Chain" by Sarika Garg and Aviraj Bedi (*SAPinsider*, July-September 2010, **sapinsider.wispubs.com**)
- "Reduce Your Procurement Risks with Spend Analytics" by William Newman (*GRC Expert*, Volume 3, Update 2, **www.grcexpertonline.com**)
- The SAPinsider **Procurement and Supplier Management 2012** conference located in Orlando, Florida, March 19-22, 2012 (**www.procurement2012.com**)

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