

Advanced Sourcing

Maximizing Savings Identification

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Executive Summary

In going beyond traditional approaches that often remain largely manually-intensive, strategic sourcing today requires a unique set of processes and technology enablers that can develop a more holistic approach to savings identification. Through more frequent use of advanced sourcing techniques, organizations improve their ability to obtain in-depth and measurable supplier responses that translate directly into increased sourcing savings. This report *analyzes* the intentions, performance and strategies of over 140 companies (gathered in April and May 2012), and looks to define the emergence of an "advanced framework" in strategic sourcing being led by Best-in-Class organizations.

Best-in-Class Performance

Best-in-Class enterprises in this study are notable for their superior performance based on key process and technical capabilities that they hold over their peers. These metrics include the following:

- 76% of company's total spending is sourced using a formal strategic sourcing process compared to 29% for Laggards
- 32% of company total spend is sourced based on sustainable sourcing approaches compared to 11% for Laggards
- 16% average yearly savings are identified by the sourcing team compared to 4% for Laggards

Competitive Maturity Assessment

Survey results show that organizations enjoying Best-in-Class performance shared several common characteristics over their peers, including:

- Twice more likely to use sourcing scenario optimization techniques for *what if* bid analysis
- 1.4 times more likely to have commodity councils actively engaged in the sourcing process

Required Actions

In addition to the specific recommendations in Chapter Three of this report, to achieve Best-in-Class performance, companies must:

- Establish a formal strategic sourcing organization with standardized formal processes
- Leverage e-sourcing solutions to drive higher savings and automate manual processes
- Invest more in sourcing sustainability initiatives as an advanced framework that drives long-term impacts on savings

Research Benchmark

Aberdeen's Research Benchmarks provide an in-depth and comprehensive look into process, procedure, methodologies, and technologies with best practice identification and actionable recommendations

How Does Your Performance Compare to the Best-in-Class?



- Compare your processes
- Receive a free, personal PDF scorecard
- Benefit from custom recommendations to improve your performance, based on the research

Take the Assessment

Receive Your Free Scorecard

Table of Contents

Executive Summary.....	2
Best-in-Class Performance.....	2
Competitive Maturity Assessment.....	2
Required Actions.....	2
Chapter One: Benchmarking the Best-in-Class.....	4
Business Context	4
Pressures in Sourcing Today	5
Areas for Improvement: Analysis and Suppliers.....	6
The Maturity Class Framework.....	7
The Best-in-Class PACE Model.....	8
A Look at Next Steps in Strategic Sourcing.....	9
Chapter Two: Benchmarking Requirements for Success.....	11
Competitive Assessment.....	12
Capabilities and Enablers.....	14
Chapter Three: Required Actions	19
Laggard Steps to Success.....	19
Industry Average Steps to Success	20
Best-in-Class Steps to Success.....	20
Appendix A: Research Methodology.....	22
Appendix B: Related Aberdeen Research.....	24

Figures

Figure 1: Importance of Strategic Sourcing.....	4
Figure 2: Benefits of Strategic Sourcing Program	5
Figure 3: Top Pressures Facing a Strategic Sourcing Program	6
Figure 4: Lagging Attributes in Strategic Sourcing Programs.....	7
Figure 5: Strategic Actions - Division in Formal Sourcing Adoption	9
Figure 6: Sourcing Sustainability as Part of the Spend Agenda.....	10
Figure 7: Seven Step Strategic Sourcing Process	14
Figure 8: Advanced Sourcing Strategies Based on Maturity Class.....	15
Figure 9: Spend Analytic Attributes Impacting Strategic Sourcing.....	16
Figure 10: Average Percent of Spend Category Sourced in E-sourcing.....	17
Figure 11: E-sourcing Attributes Automated.....	18

Tables

Table 1: Top Performers Earn Best-in-Class Status.....	7
Table 2: The Best-in-Class PACE Framework	8
Table 3: The Competitive Framework.....	13
Table 4: The PACE Framework Key	23
Table 5: The Competitive Framework Key	23
Table 6: Relationship Between PACE and the Competitive Framework	23

Chapter One: Benchmarking the Best-in-Class

Strategic sourcing has traditionally been defined within a framework of strategic sourcing tools (e.g. reverse auctions, RFx) and followed by manual processes of analysis and data manipulation. Although traditional strategies continue to be used as the core elements for most sourcing organizations, those leading the way have recognized the use of advanced strategic sourcing approaches that can provide a more holistic picture to address sourcing needs. Organizations that can distinguish themselves as Best-in-Class demonstrate a higher rate of identified savings through the use of these advanced sourcing techniques, such as optimization and integration with spend analysis and supplier management, over the reliance on traditional event-driven sourcing approaches alone.

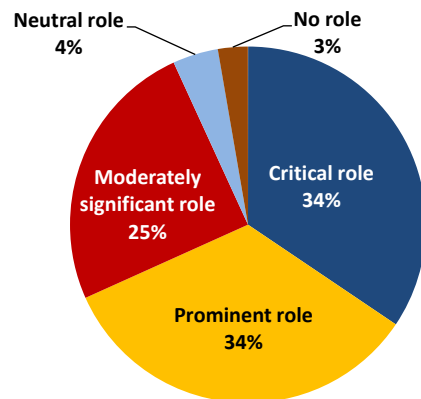
Fast Facts

- ✓ 37% of respondents indicated having a strategic sourcing program in place for more than five years
- ✓ 53% of respondents indicated that aligning sourcing activities and objectives with that of the greater organization is a top strategic action

Business Context

Whether it is compliance, cost- or a supplier-focused initiative, sourcing provides an opportunity to identify true spend requirements for an organization. As a discipline that has become more sophisticated over the past decade, sourcing is also becoming more vital in aligning procurement organizations with the best suppliers and supply channels for delivering the highest possible savings opportunities. But what makes sourcing "strategic" is the ability to adapt and adjust sourcing approaches that reflect these needs in an ever changing and increasingly global and competitive marketplace.

Figure 1: Importance of Strategic Sourcing



(Percentage of survey respondents, n=146)

Source: Aberdeen Group, May 2012

"We develop and prioritize our strategic sourcing pipeline by working closely with stakeholders and category managers in the development of an annual plan of record."

~ Director, Global Supply Chain Services, Fortune 25, Global Technology Company

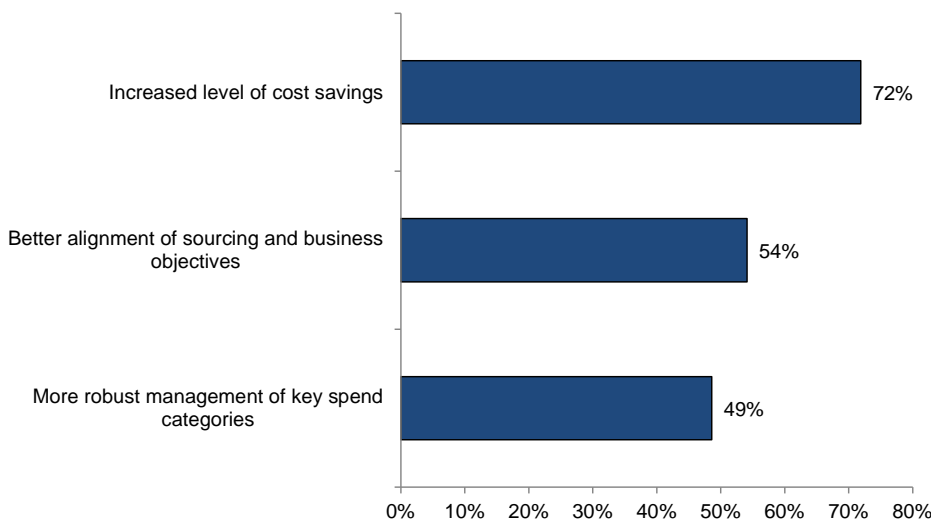
Based on the potential impact that strategic sourcing can have on both direct and indirect spend chains, it is no surprise that Figure 1 shows 68% of survey respondents indicating strategic sourcing plays a prominent to critical role within their organization. Furthermore Figure 2 reflects the benefits of

strategic sourcing. With a majority of respondents (66%) having a strategic sourcing program in place for at least three years, 72% of these organizations noted the key benefit of strategic sourcing was increased level of cost savings, followed by better alignment of sourcing and business goals (54%) and better management of key spend categories (49%). These stated benefits demonstrate that strategic sourcing approaches can help organizations move away from tactical short-term cost cutting to value creation that considers wider organizational objectives. But as an ongoing process, strategic sourcing today also requires the flexibility for adjusting to a more uncertain economic future.

Strategic Sourcing Definition

The objective of strategic sourcing is obtain a consolidated view of a commodity and to determine the total cost of that commodity before making a procurement decision based on price alone.

Figure 2: Benefits of Strategic Sourcing Program



Source: Aberdeen Group, May 2012

Pressures in Sourcing Today

Perhaps driven by concerns over diminished returns from repeated sourcing events on the same set of categories or lack of skills to execute on internal strategies in more complex categories, sourcing organizations continue to be pressured to find new approaches for reducing cost and identifying savings. External pressures from global markets are also increasingly adding a new dimension that force organizations to reassess their sourcing efforts. An example of this is how organizations today must reconsider global risk in Europe due to the Euro crisis, or the changing landscapes for low-cost competitiveness shifting from places like China to newer markets such as Vietnam or Indonesia.

Given these pressures, Figure 3 shows organizations indicate that the corporate mandate to reduce cost / increase savings is the leading pressure for 69% of survey respondents. As many organizations reach a level of maturity and saturation point in achieving their goals with mature categories (i.e. low hanging fruit) they may lack knowledge for expanding into more complex ones due to insufficient category knowledge or the inability to

Changing Low-Cost Landscape

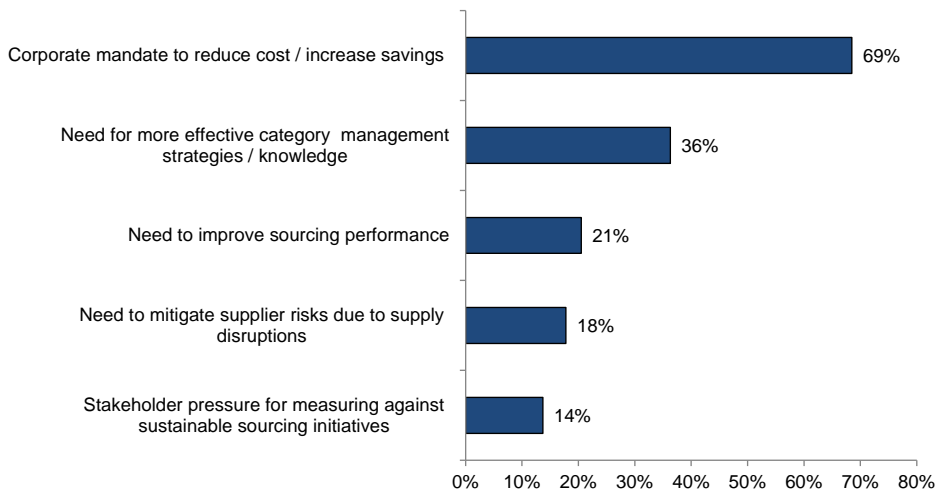
According to the Philippine Department of Labor and Employment countries Vietnam and Indonesia showed the lower monthly minimum wages at \$58 and \$86, compared to China at \$170.

Source:

[www.advisorperspectives.com/
commentaries/saturna_80111.p
hp](http://www.advisorperspectives.com/commentaries/saturna_80111.php)

improve sourcing performance required in this dynamic global environment. Furthermore, organizations today are becoming more aware of sourcing sustainability (i.e. ethical, environmental, social issues) as a critical aspect for sourcing and a theme of the advanced sourcing concept. Making it in the top five pressures, 14% of organizations indicated that measuring against sustainable sourcing initiatives as a top pressure.

Figure 3: Top Pressures Facing a Strategic Sourcing Program



Source: Aberdeen Group, May 2012

Areas for Improvement: Analysis and Suppliers

Mitigating these pressures requires an ability to improve supplier insights and improve sourcing performance. Based on this survey, however, it is clear that barriers to strategic sourcing revolve around the lack of advanced techniques such as supplier optimization and the inability to integrate sourcing initiatives with spend analytics and supplier management. For example, Figure 4 shows only 33% of respondents indicated a capability around supplier risk assessments, 29% indicated optimizing ideal (preferred) suppliers and 27% indicated the use of use of proactive data analytics for future sourcing projects. In recognizing the importance of better understanding the impact critical suppliers have on organizational spend and for improving techniques in these areas, 50% of organizations indicate they plan to implement proactive analytics for future sourcing projects, 50% plan to optimize ideal suppliers, and 43% plan to implement supplier risk assessments.

Sourcing Sustainability

Organizational charters and programs today are demonstrating the cost of products and services are becoming a strategy where the financial well-being is broadened into aspects of performance and an investable concept.

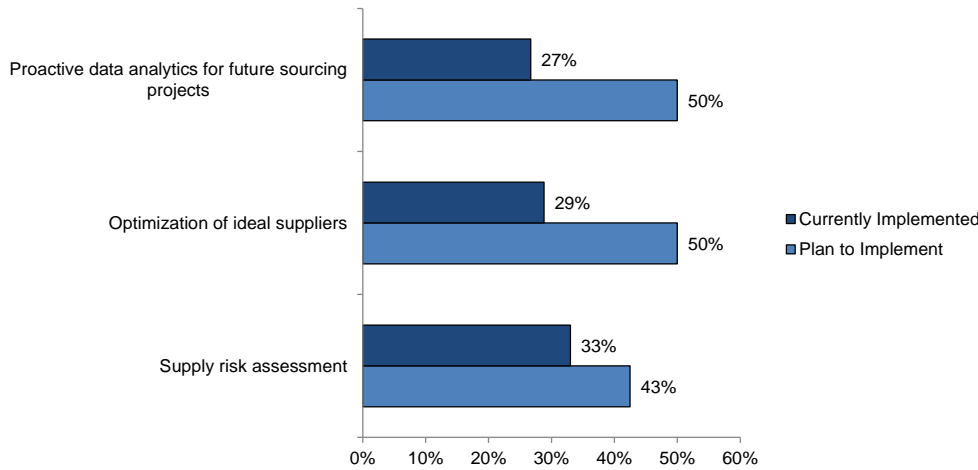
For instance, the Dow Jones Sustainability Index (launched 1999) is the first global index tracking financial and sustainability performance of the largest 2500 companies globally. As the investment world adopts sustainability as a performance goal, organizational strategy and its performance with sustainable approaches is coming more under the watchful eye of global financial markets

As a result of being under more scrutiny, sourcing sustainability must go beyond traditional environmentalism and really include economic, social and cultural aspects to how organizations source their materials and services.

“Our strategic sourcing pipeline is identified by major spend areas. We first identify risks associated with these areas then look for ROI and consensus on a sourcing objective.”

~ Commodity Manager, East Coast Based Computer Hardware Company

Figure 4: Lagging Attributes in Strategic Sourcing Programs



Source: Aberdeen Group, May 2012

"We are a decentralized organization and do not have a common savings strategy across departments; but we're working on it."

~ Chief Procurement Officer,
Large Western State

The Maturity Class Framework

Aberdeen used the three key performance metrics shown in Table I to distinguish the Best-in-Class from Industry Average and Laggard organizations.

Table I: Top Performers Earn Best-in-Class Status

Definition of Maturity Class	Mean Class Performance
Best-in-Class: Top 20% of aggregate performance scorers	<ul style="list-style-type: none"> 76% - percent of total spending sourced using a formal strategic sourcing process 32% - percent total spending sourced based on sustainable strategic sourcing approaches 16% - average yearly savings identified by sourcing team
Industry Average: Middle 50% of aggregate performance scorers	<ul style="list-style-type: none"> 54% - percent of total spending sourced using a formal strategic sourcing process 21% - percent total spending sourced based on sustainable strategic sourcing approaches 8% - average yearly savings identified by sourcing team
Laggard: Bottom 30% of aggregate performance scorers	<ul style="list-style-type: none"> 29% - percent of total spending sourced using a formal strategic sourcing process 11% - percent total spending sourced based on sustainable strategic sourcing approaches 4% - average yearly savings identified by sourcing team

Source: Aberdeen Group, May 2012

"Since our business is a one-time project based (store displays for retailers/brands), each project is sourced according to its intended target market for sustainable materials, low energy use, recyclability at end of life. As a small company with a dedicated sourcing person, we utilize a vast database of pre-vetted suppliers to identify which are best suited for a particular project."

~ Supply Chain Professional,
Designer and Manufacturer of
Retail Fixtures

Percent of total spending sourced using a formal strategic sourcing process. In an effort to focus on elements directly impacted by sourcing, this year's report focused on what percentage of total spend is sourced using formal strategic sourcing process. Another way to describe this metric is how much spend ends up being sourced through a competitive bidding process.

Percent of total spending sourced based on sustainable strategic sourcing approaches. Another aspect addressed is the ability for organizations to measure and attribute a percentage of spend that leverages sustainable sourcing approaches. As an emerging area, it is clear that organizations focused on these efforts are looking beyond cost, and focusing on one that can capture expanded criteria for measuring an organization's profitability and risks based on economic, ecological and social impacts.

Average yearly savings identified by the sourcing team. The debate over savings identified versus realized is a looming one. The question is what role do formal sourcing processes play in the challenge in the leakage debate? As part of the metrics in this study, it was deemed that addressing the spend leakage challenge, despite being a critical factor for measuring procurement success, is more related to contract capture, savings retention and order execution, and not necessarily savings identification.

"As part of our international approach to low-cost countries we review manufacturing, tax, labor costs on a quarterly basis and also other countries like Vietnam and Eastern Europe to see which is going to be the most cost competitive in the next three to five years. We also engage with suppliers to understand their future plans and utilize their reports and information to validate our own findings."

~ Senior Director, Bay-Area Electrical/Electronic/Mobile

The Best-in-Class PACE Model

Leveraging the modern strategic sourcing program to achieve corporate goals, drive cost savings, and increase the amount of spend managed by the procurement group requires a combination of strategic actions, organizational capabilities, and enabling technologies that are summarized in the PACE Framework in Table 2.

Table 2: The Best-in-Class PACE Framework

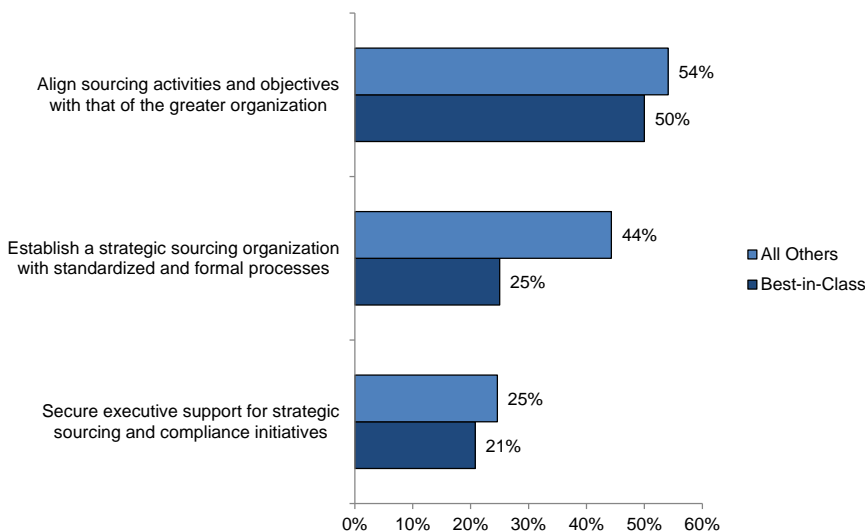
Pressures	Actions	Capabilities	Enablers
<ul style="list-style-type: none"> Corporate mandate to reduce costs / increase savings 	<ul style="list-style-type: none"> Align sourcing activities and objectives with that of the greater organization Establish formal strategic sourcing organization with standardized and formal processes 	<ul style="list-style-type: none"> Commodity councils actively engaged in sourcing process Cross-functional coordination with finance, product, and sourcing groups Ability to collect spend data from multiple sources Ability to enrich spend and supplier data Implemented sustainable sourcing strategies by engaging key suppliers 	<ul style="list-style-type: none"> Spend analysis E-sourcing (RFx) eAuctions Sourcing Optimization Commodity management Contract repository Contract authoring / workflow Supplier performance and risk management Supplier portal / network

Source: Aberdeen Group, May 2012

A Look at Next Steps in Strategic Sourcing

As organizations continue to face new challenges and opportunities in the global landscape, they increasingly need to find ways to stay competitive. One of these mechanisms is by leveraging strategic sourcing technology as an imperative. But in order for technology enablers to be effective, organizations must look to create a common dynamic internally for going to market. This process starts not only with the sourcing strategy, but with organizational alignment.

Figure 5: Strategic Actions - Division in Formal Sourcing Adoption



Source: Aberdeen Group, May 2012

Figure 5 shows the top three strategic actions for all other organizations (the Industry Average and Laggards combined) and Best-in-Class are all focused on organizational dynamics of alignment. For example, both maturity groups are looking to advance continued executive support for strategic sourcing and compliance initiatives at similar rates, but demonstrate that all other companies are slightly more focused on these activities as a means to catch up with their Best-in-Class peers.

But the largest divider between the maturity classes is in the establishment of strategic sourcing with standardized and formal processes, an action all other organizations are 76% more likely to take than the Best-in-Class. Again the Best-in-Class show their maturity in have already standardized formal sourcing process here. For instance, Best-in-Class organizations are 1.4 times more likely to have established standardized formal sourcing process for key categories in indirect spend and 99% more likely to have such processes for direct spend.

"We have a comprehensive total cost of ownership methodology to calculate savings. From a dollar perspective we have historical costs, but depending on the commodity, historical costs may have less relevance due to declining costs overall or other factors that minimize its importance. We use a cradle to cradle analysis that looks at the lifecycle costs of each product / service to ensure we save money upfront, but increase our cost at time of disposal."

~ Director Strategic Initiatives,
California-based University

"Triple Bottom Line"

Sourcing sustainability is becoming one example of the advanced dimension for strategic sourcing where private and public sectors are realizing the impact of sustainability initiatives on what has been being referred to as the "triple bottom line" – or one that can capture an expanded criteria for measuring an organization's profitability and risks based on economic, ecological and social impacts.

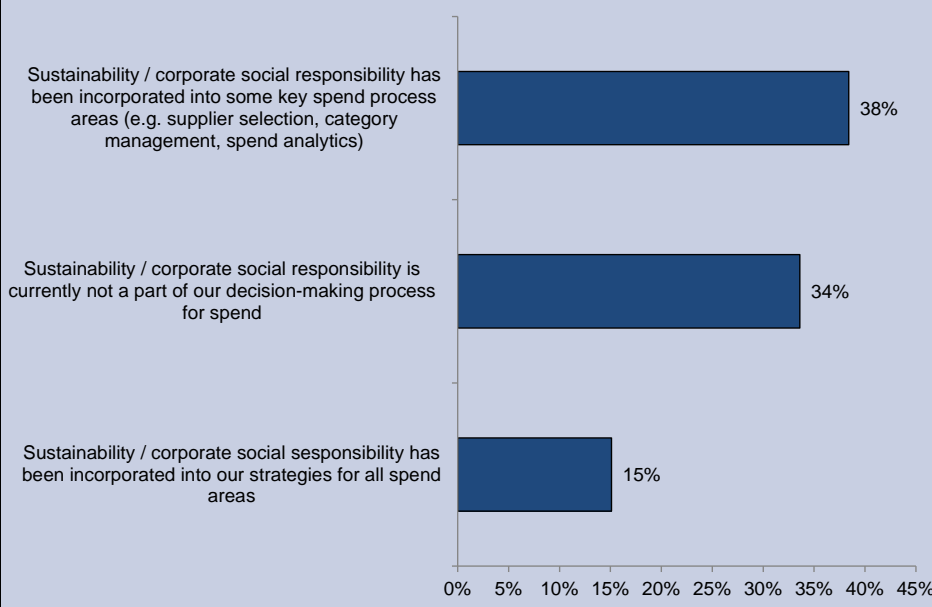
In fact, Aberdeen research [Sustainability Matters: The Corporate Executive's Strategic Agenda](#) (March 2009) demonstrates that 53% of the Best-in-Class indicated integrated sustainability criteria into their RFPs and RFIs, which is 90% more likely than Industry Average and Laggards.

Aberdeen Insights — The Triple Bottom Line and Sourcing

Advancing organizational charters such as sustainable sourcing programs reflect the need and the ability to use "advanced sourcing" techniques that can address non-price factors as part of a strategic sourcing practice, an activity that 63% of Best-in-Class stated in *The State of Strategic Sourcing: Building a Context for the Next Decade* (March 2011) compared to 48% of all other organizations.

While still an emerging area, it is clear that today's Zeitgeist reveals an underlying concern to raise the consciousness of sourcing to address the triple bottom line. However, Figure 6 shows that only 15% of organizations have incorporated sustainability into their spend strategy, while more than a third indicate it is not currently a part of the decision making process for spend today.

Figure 6: Sourcing Sustainability as Part of the Spend Agenda



Source: Aberdeen Group, May 2012

Chapter Two: Benchmarking Requirements for Success

Advanced sourcing is an activity that cannot happen as result of implementing technology alone. In fact, the case study below makes it evident leading organizations take careful and proactive steps to the role out of strategic sourcing over the course of time, and technology comes only after establishing and achieving initial goals through the establishment of a standardized and formal sourcing approach.

Case Study — Almost a Decade of Strategic Sourcing

As a large information leader based in Europe, the company enables legal, tax, finance, and healthcare professionals to be more effective and efficient by providing information through software, services, intelligent tools, and the guidance of subject-matter experts. In 2003, as part of the transformation from a holding company to an operating company, strategic sourcing became part of a larger restructuring initiative that reorganized businesses on a regional basis, with a fundamental split between Europe and North America.

While some basic strategic sourcing had already been conducted in North America, strategic sourcing was not conducted formally or on a consistent basis. So to kick-start the strategic sourcing program in North America, category councils were formed. Category representatives from each business were placed on a team that was chartered to come up with a strategy that would be approved by a governance body of C-level executives from across the organization. Over the course of two years, the sourcing organization delivered some very respectable results all without e-sourcing. For example, based on the early projects, the company in North America achieved 20% to 40% savings based on completed contracts, but also realized that these results were the low-hanging fruit typically achieved in the early stages of strategic sourcing.

In 2006, after going through a pilot phase with a handful of recognized vendors, the company implemented eRFx tools from the same platform being used for spend analysis and contract management. Upon selecting a platform, the North American team also took a much more detailed approach to leverage leading templates and began to focus on strategic categories with the addition of category-focused team members. Since 2007, there had been a steady approach to run a small number of large events (at less than ten per year) by bidding many items and building frame agreements for all the businesses to use Through executive leadership from the strategic sourcing team, the company has realized the importance categories play in success..

continued

Fast Facts

- √ Best-in-Class companies are over 73% more likely than Laggards to have implemented spend analytics
- √ Best-in-Class companies are 2.26 times more likely than Industry Average organizations to have implemented supplier performance and risk

Case Study — Almost a Decade of Strategic Sourcing (continued)

It was recognized early that the benefits of strategic sourcing tend to diminish depending on the category. Savings were easier to maintain in a category like telecom, which is a deflationary market, compared to freight, where there may be additional global pressures such as fuel and labor costs. Also, over the course of time it became clear that speaking the language of finance has been critical for success. For example, while Procurement focuses on cost savings, Finance cares more about variance from budget. Therefore speaking the same language to the right part of the organization became an important aspect to translating the benefits that sourcing could bring to the organization.

Based on the potential challenges in a more unpredictable market, the company today has looked at and experimented with different creative levers to sustain year-over-year savings such as offshoring, changing product specifications, negotiating directly with manufacturers, and then driving savings based on the new sourcing strategy. The sourcing leadership team has also leveraged the use of advanced sourcing techniques in their eSourcing tool that has focused on the following:

- Detailed price breakdowns to understand all the components and drivers of a quoted price
- Multi-round bidding with a lot of items and price components to get more accurate bids, create price competition and drive price compression
- Optimization for developing award scenarios using mixed integer programming to define "what-if" scenarios such as best single supplier, splits over two suppliers, and awards by lot

In the end, the company has estimated that the sourcing effort in concert with the e-sourcing tool has demonstrated a 20 – 25-times return on investment.

Competitive Assessment

Aberdeen Group analyzed the aggregated metrics of surveyed companies to determine whether their performance ranked as Best-in-Class, Industry Average, or Laggard. In addition to having common performance levels, each class also shared characteristics in five key categories: (1) **process** (the approaches they take to execute daily sourcing operations); (2) **organization** (corporate focus and collaboration among stakeholders); (3) **knowledge management** (contextualizing spend data and exposing it to key stakeholders); (4) **technology** (the selection of the appropriate sourcing tools and the effective deployment of those tools); and (5) **performance management** (the ability of the organization to measure its sourcing results to improve its business). These characteristics (identified in Table 3) serve as a guideline for best practices, and correlate directly with Best-in-Class performance across the key metrics.

Table 3: The Competitive Framework

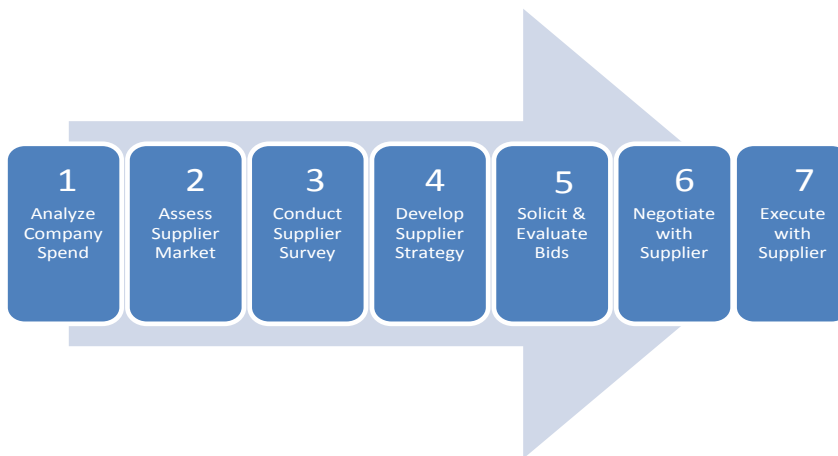
	Best-in-Class	Average	Laggards
Process	Use of sustainable sourcing strategies with key suppliers		
	63%	41%	20%
	Collection of bids based on price and non-price terms		
	77%	62%	37%
Organization	Commodity councils actively engaged in sourcing success		
	63%	33%	15%
Knowledge	Ability to collect spend data from multiple internal sources		
	70%	48%	34%
	Visibility into all enterprise spending across all categories		
	71%	55%	33%
Technology	Spend technology solutions / tools in place:		
	<ul style="list-style-type: none"> ▪ 75% Spend analysis system ▪ 46% eAuctions ▪ 58% Sourcing optimization ▪ 67% Contract Repository ▪ 67% Contract Authoring ▪ 88% Procure-to-Pay ▪ 71% Supplier Performance & Risk ▪ 54% Supplier portal/network 	<ul style="list-style-type: none"> ▪ 63% Spend analysis system ▪ 51% eAuctions ▪ 32% Sourcing optimization ▪ 57% Contract Repository ▪ 43% Contract Authoring ▪ 67% Procure-to-Pay ▪ 50% Supplier Performance & Risk ▪ 42% Supplier portal/network 	<ul style="list-style-type: none"> ▪ 43% Spend analysis system ▪ 22% eAuctions ▪ 17% Sourcing optimization ▪ 33% Contract Repository ▪ 26% Contract Authoring ▪ 54% Procure-to-Pay ▪ 22% Supplier Performance & Risk ▪ 28% Supplier portal/network
Performance	Strategic sourcing performance-tracking capabilities:		
	<ul style="list-style-type: none"> ▪ 54% Ability to track sourcing cycle times ▪ 64% Ability to track supplier performance in sourcing activities 	<ul style="list-style-type: none"> ▪ 25% Ability to track sourcing cycle times ▪ 37% Ability to track supplier performance in sourcing activities 	<ul style="list-style-type: none"> ▪ 20% Ability to track sourcing cycle times ▪ 24% Ability to track supplier performance in sourcing activities

Source: Aberdeen Group, May 2012

Capabilities and Enablers

Best-in-Class companies have demonstrated a strong reliance on specific process, organizational, knowledge management, performance management and technology enablers used to improve spending sourced using a formal strategic sourcing program based on a typical formal step process in Figure 7. The next section examines what capabilities the Best-in-Class are leveraging as part of a formal strategic sourcing process.

Figure 7: Seven Step Strategic Sourcing Process



Source: Aberdeen Group, May 2012

Process: Ability to Collect Non-Price Factors

It is clear that as part of any advanced sourcing process, collecting non-price factors are a critical element for achieving advanced sourcing capabilities. Using non-price factors is essential for obtaining a more holistic understanding of the "total cost picture" and the potential related benefits in awarding a particular supplier such as working on special projects for diversity or sustainability. While many organizations understand this concept, they still may not be putting this into practice.

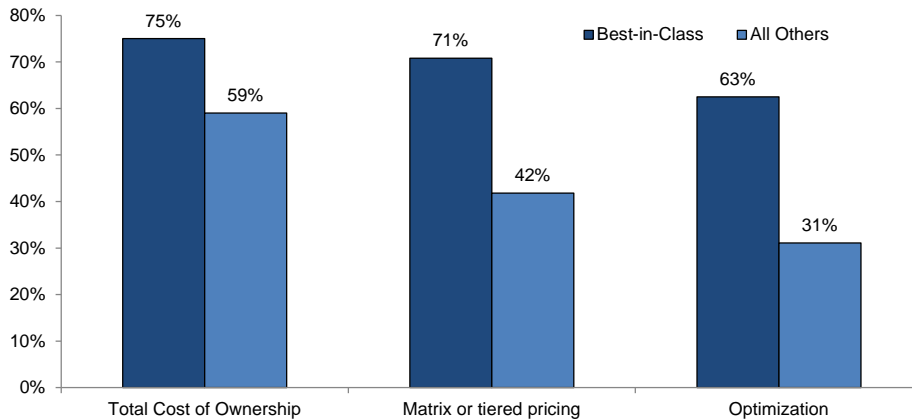
Based on this study, Best-in-Class organizations are 1.1 times more likely than Laggards to have the capability to collect of bids based on both price and non-price terms. What this demonstrates is that leading organizations are able to prevent alienating potential partners (i.e. suppliers) in complex industries like services, where suppliers may vary considerably based on a number of non-price factors such as quality, reliability and terms.

This also shows an increased ability to recognize unique attributes when evaluating suppliers for projects based on relative strengths and the total cost of ownership. Figure 8 shows that the Best-in-Class are more likely to use these advanced techniques that can focus on non-price terms with the largest gaps demonstrated in the use of matrix / tiered pricing (71% for Best-in-Class compared to 42% for all others) and optimization (63% for Best-in-Class compared to 31% for all others)

Sourcing Collaboration

- √ 72% of respondents noted an increased level of cost savings due to collaboration with the top three areas of sourcing collaboration with COO / operations (73%), CFO / Finance (72%) and IT (58%)
- √ Only 28% stated collaboration with the sustainability office, an advanced area that has emerged with its own C-level role known as the Chief Sustainability Officer (CSO)

Figure 8: Advanced Sourcing Strategies Based on Maturity Class



Source: Aberdeen Group, May 2012

Organization: Cross Functional Attributes

It is clear that Best-in-Class organizations also demonstrate leadership in their ability to coordinate both with the lines of business and areas like finance. An example of how this is accomplished is through the use of commodity councils that are perhaps an advanced cross-functional approach. In fact, Best-in-Class organizations are 3.2 times more likely to be using commodity or category councils than their peers. Commodity councils provide organizations with visibility into the products and services purchased by the organization by fully leveraging the total knowledge of the enterprise through enhancing an organization's ability.

Common benefits of commodity councils include:

1. Improved ability to collect available knowledge about a particular market category such as trends and issues through a collective framework of category experts and business unit owners.
2. Establishment of more formal processes for working with suppliers to understand and document what problems and issues exist and preventing the attainment of organizational goals.
3. Improved ability to discuss and share the understanding of the current state of spend through the active use of additional tools and metrics that include spend analysis, supplier performance and contract performance management – which helps to understand the dynamics around savings identification and savings retention.

Advanced Sourcing Approaches

Total Cost of Ownership - a strategic sourcing approach that offers award scenarios by incorporating all elements of cost related to a supplier's offer

Matrix pricing - used when price depends on a factor other than quantity (i.e. delivery date or geographic locations).

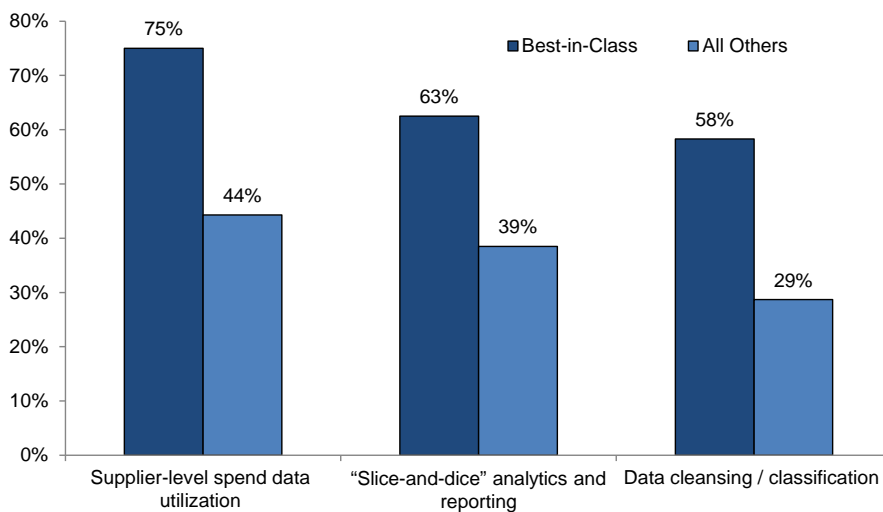
Tiered pricing - used when price depends on purchasing volume

Optimization - used as part of advanced analytical tools to simultaneously negotiate and evaluate complex bid structures against a wide range of interdependent sourcing objectives, variables, constraints and potential scenarios

Knowledge Management: Need for Spend Visibility

Knowledge for executing effectively on sourcing efforts is clearly based on the ability to leverage spend analytics. Figure 9 shows that the Best-in-Class demonstrate advantages in areas that focus on supplier and spend related data. Using these process and technology attributes as part of spend analysis helps define the paradigm for understanding where sourcing needs to focus its efforts.

Figure 9: Spend Analytic Attributes Impacting Strategic Sourcing



Source: Aberdeen Group, May 2012

Gaining knowledge is also based upon the ability to extract data from a wide variety of sources containing spend information including supplier / vendor masters, ERP systems, and / or eProcurement systems. In fact the ability to extract data from all potential spend data sources in the enterprise (which averages at 7.4 according to Aberdeen's research report [Spend Analysis: The Nexus of Spend Management](#)) becomes essential for obtaining a more accurate view of organizational spend. Seventy-four percent (74%) of the Best-in-Class have the ability to collect spend data from multiple sources compared to 45% of all other organizations. Aberdeen research, [Spend Analysis: Pulling Back the Cover on Savings](#) further identifies that organizations leveraging a "fully-automated" system for spend analysis experience an average savings of 11% from their sourcing efforts.

Technology: Automation and Expanded Sourcing

Once formal sourcing processes are established, remaining savings identification efforts should be focused on technology. As shown in Figure 10, it appears that on average the Best-in-Class are demonstrating an edge in the percentage of spend going through an e-sourcing tool for all categories in both direct and indirect spend areas. The largest maturity

"In an MRO industry availability and quality are the two most important business drivers. Sourcing from Asia implicates high risks in most of the core business operations. For that reason we are considering geography, political stability, quality compliance and the type of product for sourcing from low-cost sourcing country."

~ Purchasing & Corporate Senior Manager - Power Authority, Puerto Rico

"Spend analysis provides details on volume and value of suppliers for ongoing relationship negotiation. Sourcing efforts are enhanced by analytics to show where we are leaking savings and drive initiatives to mitigate such risk in future purchases."

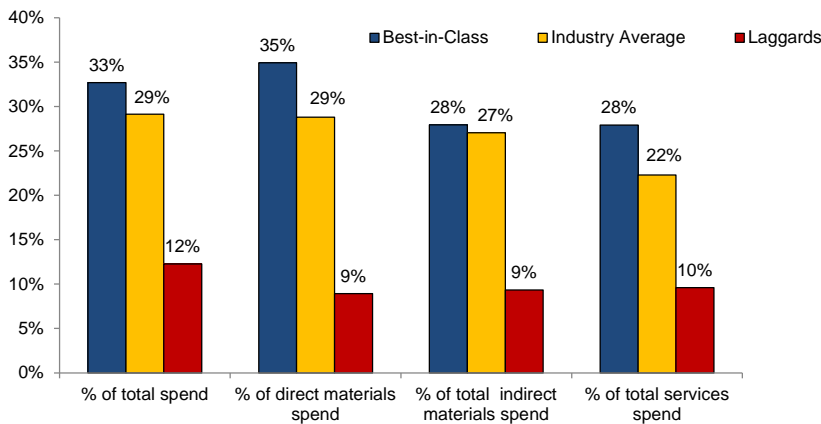
~ Senior Manager Strategic Sourcing, Manufacturing Metal Gift & Premium Items

differentials for direct, indirect materials and services spend is also revealing when looking at specific categories. For example, IT hardware is a mainstay commodity area and typically a low hanging fruit where many organizations have already seen the benefits of using e-sourcing. Based on the survey results, 50% of the Best-in-Class indicated using e-sourcing for IT hardware compared to 33% of Industry Average, but only 7% of Laggards. What is also revealing is the use of e-sourcing for services spend, where Best-in-Class show 3-times the use of automation in comparison to Laggards. A services spend category that showed the largest difference between the maturity classes was travel, where 42% of the Best-in-Class are using an e-sourcing tool compared to 26% of Industry Average and only 4% of Laggards.

"At the moment we do not have a clearly defined method for calculating sourcing savings. The traditional measures such as reduction in price for a SKU is defined as savings, but product substitution is currently under debate."

~ Senior Manager, Australian Gaming Industry Provider

Figure 10: Average Percent of Spend Category Sourced in E-sourcing



Source: Aberdeen Group, May 2012

"Supplier Relationship Management (SRM) such as performance and risk have become tools that are critical for success in our trade relationships. During the strategic sourcing process we also consider the supplier capability to develop the SRM process."

~ Director BPO, Large Healthcare Products & Pharmaceutical Provider

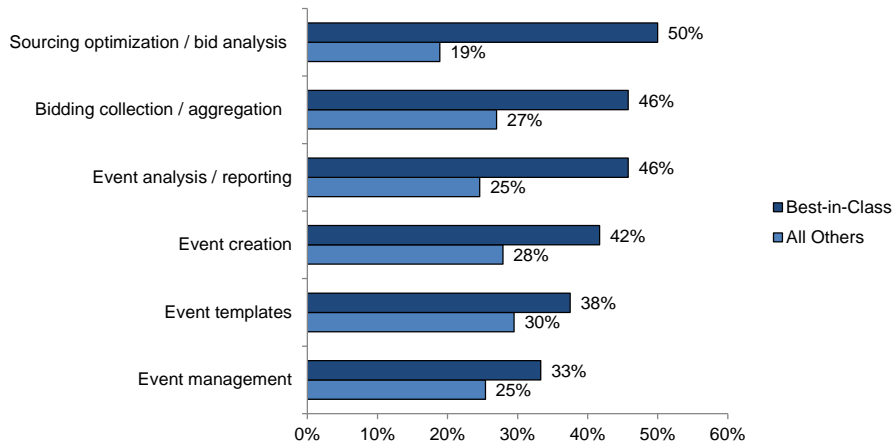
Looking at what feature sets are automated within an e-sourcing platform also provides insights into where the Best-in-Class are demonstrating advantages with their use of e-sourcing technology. Figure 11 shows six key features of e-sourcing tools today.

In examining the figure it is clear the Best-in-Class are demonstrating advantages in their use of areas that can be considered more advanced. The Best-in-Class are 2 times more likely to be using sourcing optimization and bid analysis as a part of their strategic sourcing processes. A highly-automated aspect to strategic sourcing, sourcing optimization and bid analysis provide a potentially powerful combination of artificial intelligence to understand "what if" scenarios. By providing suppliers with a wider opportunity and freedom to express their bidding and preferences in a more sophisticated response for quotes, Best-in-Class sourcing organizations are better able to establish an enhanced ability to analyze disparate bids from their suppliers.

"The use benefits derived from sourcing automation have allowed us to increase visibility of our activity and improve portfolio management and resource management."

~ Chief Procurement Officer, Global Medical Supplies & Devices Company

Figure 11: E-sourcing Attributes Automated



Source: Aberdeen Group, May 2012

Optimization techniques

Best-in-Class organizations were 1.2 times more likely than Industry Average and 6.3 times more likely than Laggards to be using sourcing scenario optimization tools techniques for “what if” bid analysis

Performance Management: Cycle Times and Performance

Two areas that demonstrate where the Best-in-Class have superior performance-tracking capabilities is in the ability to track sourcing cycle times and the ability to track supplier performance as part of sourcing activities:

- In the case of the former, it was found that 54% of the Best-in-Class are able to track sourcing cycle times compared to 25% of Industry Average and 20% of Laggards. Measuring this component is a critical part of understanding the direct cost reduction benefits from strategic sourcing as part of increased productivity.
- Another area of performance measurement where the Best-in-Class out pace their peers is in the ability to track supplier performance as part of sourcing activities. Again, 64% of the Best-in-Class have this capability compared to 37% of Industry Average and 24% of Laggards. This capability directly points to the use of advanced sourcing techniques that integrate supplier management, an enabler that the Best-in-Class are 1.2 times more likely to have implemented.

Annual events per Year

One measure of how advanced an organization is in strategic sourcing is the number of events run on annual basis. This shows the ability of the organization to create e-sourcing events:

Average Number of eSourcing Events annually:

Best-in-Class: 298

Industry Average: 168

Laggards: 75

Chapter Three: Required Actions

Best-in-Class organizations have demonstrated their ability to perform at a high level across the full scope of strategic sourcing metrics, such as percent of total spending sourced using a formal strategic sourcing process, percent total spending sourced based on sustainable strategic sourcing approaches, and average yearly savings identified by the sourcing team.

In order for companies on the lower levels of the Maturity Framework to achieve Best-in-Class strategic sourcing performance, they must follow these recommended actions:

Laggard Steps to Success

- **Improve the standardization of formal sourcing process for key categories in direct and indirect spend.** One of the core findings of this report pointed to the gap between sourcing organizations that have standardized formal processes and those without. This gap is most evident with the Laggards in comparison to Industry Average, where the latter are 98% more likely to have a formal sourcing process in direct spend and 1.4 times more likely for indirect spend. Creating more standardization for key categories instills predictability into event management and improved sourcing activity and collaboration with suppliers.
- **Increase the use automation in strategic sourcing tools for direct (i.e. use of e-sourcing).** Another area Laggards need to improve on is increasing the automation of strategic sourcing. Automaton improves efficiencies in sourcing cycle times and improves capabilities for spend analysis and insights for advanced activities such as expressive bidding. Industry Average companies demonstrate 50% of their sourcing events are placed online in a sourcing tool compared to 16% for Laggards. A higher number of e-sourcing events throughout the year (168 for Industry Average versus 75 for Laggards) also improves familiarity of the technology for a sourcing team and encourages its use. In this regard, the Industry Average are 1.7 times more likely to use e-sourcing for direct spend and 1.2 times more likely for indirect spend.
- **Implement sustainable sourcing strategies across more categories.** Laggards need to address their ability to look beyond the traditional areas of cost by considering how sustainable sourcing initiatives get incorporated. Thirteen percent (13%) of Industry Average organizations have incorporated sustainability / corporate social responsibility into strategies for all spend areas compared to 8.7% for Laggards. While adoption is still on the upswing for all maturity classes including the Best-in-Class, improving the visibility of the “triple bottom line” is important for expanding an

Supporting Technologies

The Best-in-Class also show a larger deployment of solutions that connect with eSourcing attributes most critical for identifying sourcing strategy such as spend analysis and supplier management:

- √ Best in Class are 75% more likely than Laggards to use Spend Analysis technology
- √ Best-in-Class are 2.2 times more likely than Laggards to use supplier performance and risk technology

organization's sourcing criteria related to economic, ecological and social impacts.

Industry Average Steps to Success

- **Improve the usage of optimization tools and techniques.** When doing a sourcing analysis, the potential combinations of outcomes based on sourcing goals can be countless. The question at hand is, "*How will I award my business to suppliers?*" One of the keys to the using advanced sourcing techniques is establishing optimization tools in strategic sourcing. Optimization allows organizations to establish complex bid structures against a wide range of interdependent sourcing objectives, variables, constraints and potential scenarios. Best-in-Class companies are 1.2 times more likely than Industry Average to use sourcing scenario optimization tools and techniques such as "what if" bid analysis in their strategic sourcing efforts.
- **Develop the ability to enrich spend and supplier data.** Spend analysis is increasingly becoming a transforming source of information for not only building insight into spend, but also intelligence around suppliers and the impact of that spend. As an increasingly important part of spend analysis, spend and supplier data enrichment become a critical aspect for enhancing insights for strategic sourcing initiatives and represents an opportunity for organizations to shift from a tactical view of their supplier data to a strategic one. Best-in-Class companies are over 81% more likely than the Industry Average to conduct enrichment activities for spend and supplier data.
- **Improve supplier assessment capabilities for strategic sourcing efforts.** The process of evaluating and approving potential suppliers by factual and measurable assessments is critical to ensuring a portfolio of "first class" suppliers for sourcing activities. The Best-in-Class are 38% times more likely than Industry Average companies to leverage supplier assessments as part of the formal sourcing process. As supplier evaluations become more complex due to the deluge market and supplier information being generated today, improving the usage of supplier risk and performance technology also helps automate these efforts, an enabler the Best-in-Class are 42% more likely to be using than the Industry Average.

"If we are calculating sourcing savings for a new requirement, we are looking at the average cost of shortlisted offers to have a reference price. The selected offer is then subtracted from the average cost of the shortlisted offers."

~ Management Consultant, UK
Based Strategic Sourcing
Consultancy

Best-in-Class Steps to Success

- **Increase the use of automation for indirect sourcing.** The Best-in-Class were more likely to use automation of strategic sourcing tools for areas of direct (50%) spend compared to indirect (38%) spend. To improve the control of spend related to operating goods and services and put strategic sourcing at parity with direct

spend, Best-in-Class organizations need to increase their use of e-sourcing for complex spend categories that are currently not enabled, where in some organizations makes up more than 50% of total spend. For example, 42% of the Best-in-Class strategically source legal services but only 17% indicated using an e-sourcing tool for this category.

- **Continue to invest in diverse skills and capabilities on the strategic sourcing teams.** While technologies are enablers, the skills required for effective strategic sourcing and supplier management continue to point to additional knowledge and experiences that focus on deep category and global/regional understanding of categories.. These include deeper training in cross-functional areas such as finance, market risk and specialized training related to what the underlying business sells. In recognizing this need for getting a global perspective, 25% of Best-in-Class indicated improving training on understanding geographical assessments of supply needs and risks.

"Spend analysis plays a key role and is a starting point to identifying all of our strategic sourcing efforts."

~ Senior Manager Strategic Sourcing, Recognized Images and Media Creation Outlet

Aberdeen Insights - Final Thoughts

As a discipline, strategic sourcing demonstrates the need to evolve in how processes and technology can address buying requirements. The days of *three bids and a cloud of dust* are long gone and becoming replaced by advanced approaches. Some of these approaches include digging deeper into eSourcing tools that take advantage of strategic sourcing approaches (i.e. matrix pricing, tiered pricing, optimization) - all approaches that take a more sophisticated approach to identifying cost and the analysis for deciding on awarding bids to suppliers. The other aspect that has become increasingly prominent is the ability to get a 360-degree view of supplier and spend data. Aberdeen predicts that although cost and time savings will remain a key factor to buying teams, growing importance on issues such as supplier governance and spend visibility are at the top of the list. As a primary step in any technology planning for strategic sourcing, it is also evident that leading organizations are integrating sourcing with spend analysis and supplier management as part of their savings identification efforts.

Ultimately, these are becoming critical elements as more pressure is being put on organizations to identify alternative approaches for finding savings such as sustainable sourcing. In this regard, Aberdeen predicts that sustainable sourcing will also increasingly become a vital area for organizations which goes beyond a global marketing approach to a business imperative of the supply chain that only increases the importance of strategic sourcing within the organization.

Appendix A: Research Methodology

Between April and May 2012, Aberdeen examined the use, the experiences, and the intentions of more than 140 organizations using strategic sourcing in a diverse set of enterprises. Aberdeen supplemented this online survey effort with telephone interviews with select survey respondents, gathering additional information on sourcing strategies, experiences, and results.

Responding enterprises included the following:

- **Job title:** The research sample included respondents with the following job titles: Manager (40%); Director (28%); VP / EVP / SVP (4%); C-level / executive office (3%), Consultants (8%), and Others (7%).
- **Department / function:** The research sample included respondents from the following departments or functions: procurement, sourcing or supply chain (61%); finance/admin (2%); corporate management (3%); operations (5%); IT (2%); and others (2%).
- **Industry:** The research sample included respondents from the following industries: health/medical/dental (11%); industrial equipment/products (10%); financial services (8%); education (6%); consumer packaged goods (5%); and 28 others.
- **Geography:** The majority of respondents (55%) were from North America. Remaining respondents were from the following regions; Europe (25%); Asia / Pacific (10%); Middle East and Africa (3%); and South / Central America (3%).
- **Company size:** 25% of respondents were from very large enterprises (annual revenues above US \$5 billion); 27% were from large enterprises (annual revenues between \$1 billion and \$5 billion); 22% were from midsize-large enterprises (annual revenues between \$50 million and \$1 billion); and 17% of respondents were from small businesses (annual revenues of \$50 million or less).
- **Headcount:** 67% of respondents were from large enterprises (1,000+ employees); 17% were from midsize enterprises (headcount between 101 and 1000 employees); and 14% of respondents were from small businesses (headcount between 1 and 100 employees).

Study Focus

Responding executives completed an online survey that included questions designed to determine the following:

- √ The degree to which strategic sourcing is deployed in their retail operations and the financial implications of the technology
- √ The structure and effectiveness of existing strategic sourcing implementations
- √ Current and planned use of strategic sourcing to aid operational and promotional activities
- √ The benefits, if any, that have been derived from strategic sourcing initiatives

The study aimed to identify emerging best practices for strategic sourcing, and to provide a framework by which readers could assess their own management capabilities.

Table 4: The PACE Framework Key

Overview
<p>Aberdeen applies a methodology to benchmark research that evaluates the business pressures, actions, capabilities, and enablers (PACE) that indicate corporate behavior in specific business processes. These terms are defined as follows:</p> <p>Pressures — external forces that impact an organization’s market position, competitiveness, or business operations (e.g., economic, political and regulatory, technology, changing customer preferences, competitive)</p> <p>Actions — the strategic approaches that an organization takes in response to industry pressures (e.g., align the corporate business model to leverage industry opportunities, such as product / service strategy, target markets, financial strategy, go-to-market, and sales strategy)</p> <p>Capabilities — the business process competencies required to execute corporate strategy (e.g., skilled people, brand, market positioning, viable products / services, ecosystem partners, financing)</p> <p>Enablers — the key functionality of technology solutions required to support the organization’s enabling business practices (e.g., development platform, applications, network connectivity, user interface, training and support, partner interfaces, data cleansing, and management)</p>

Source: Aberdeen Group, May 2012

Table 5: The Competitive Framework Key

Overview	
<p>The Aberdeen Competitive Framework defines enterprises as falling into one of the following three levels of practices and performance:</p> <p>Best-in-Class (20%) — Practices that are the best currently being employed and are significantly superior to the Industry Average, and result in the top industry performance.</p> <p>Industry Average (50%) — Practices that represent the average or norm, and result in average industry performance.</p> <p>Laggards (30%) — Practices that are significantly behind the average of the industry, and result in below average performance.</p>	<p>In the following categories:</p> <p>Process — What is the scope of process standardization? What is the efficiency and effectiveness of this process?</p> <p>Organization — How is your company currently organized to manage and optimize this particular process?</p> <p>Knowledge — What visibility do you have into key data and intelligence required to manage this process?</p> <p>Technology — What level of automation have you used to support this process? How is this automation integrated and aligned?</p> <p>Performance — What do you measure? How frequently? What’s your actual performance?</p>

Source: Aberdeen Group, May 2012

Table 6: Relationship Between PACE and the Competitive Framework

PACE and the Competitive Framework – How They Interact
<p>Aberdeen research indicates that companies that identify the most influential pressures and take the most transformational and effective actions are most likely to achieve superior performance. The level of competitive performance that a company achieves is strongly determined by the PACE choices that they make and how well they execute those decisions.</p>

Source: Aberdeen Group, May 2012

Appendix B: Related Aberdeen Research

Related Aberdeen research that forms a companion or reference to this report includes:

- [Strategic Sourcing in the Euro-Area: Nordics on the Rise](#); September 2011
- [The Year of the Supplier: Perspectives on Supplier Management in 2011](#); May 2011
- [The State of Strategic Sourcing](#); April 2011
- [Effective eProcurement: Assessing Options for the New "Economic Normal"](#); November 2010
- [Strategic Sourcing: The 2010 Guide to Driving Savings and Procurement Performance](#); March 2010
- [Contract Lifecycle Management in EMEA](#); August 2008
- [Strategic Sourcing in EMEA](#); May 2008
- [Procurement in Europe: Room for Further Improvement](#); December 2008
- [The Advanced Sourcing & Negotiation Benchmark Report: The Art & Science of the Deal](#); January 2007

Information on these and any other Aberdeen publications can be found at www.aberdeen.com.

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